Chapter I

Overview

Developments during 2003-04

1.1 The overall performance of the Indian economy during 2003-04 was characterised by a high real GDP growth rate of 8.2 per cent - the highest growth rate in 15 years and also the second highest growth rate among the emerging market economies after China. The growth in GDP was primarily driven by the turnaround in agriculture, also aided by broad-based industrial growth and a continued robust growth in the services sector. The inflation situation, by and large, remained stable during the year. The revised fiscal deficit of the Centre for 2003-04 at 4.8 per cent of GDP was lower than the budget estimates by 0.8 percentage points. Substantial forex inflows on account of sustained buoyancy of exports, invisibles and portfolio investments led to strengthening of the balance of payments position as reflected in the increase in foreign exchange reserves to US $ 113 billion at end-March 2004. Against the above backdrop, the financial sector witnessed stable and easy conditions. Non-food credit of scheduled commercial banks (SCBs) showed a pick-up during the later half of 2003-04, in line with the resurgence in industrial growth. Non-interest income of SCBs also showed a rising trend. The SCBs continued to hold Government securities substantially in excess of the stipulated requirements in view of the attractive risk-free yields, and their income profile continued to be driven by treasury operations. There was a notable reduction in the ratio of non-performing assets (NPAs) to advances in response to various initiatives, such as improved risk management practices and greater recovery efforts, driven, *inter alia,* by the recently enacted Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

1.2 Co-operative banks recorded a higher growth in deposits and advances, and some improvement in both the asset quality and profitability. There was a marked recovery in the sanctions and disbursements of development finance institutions. There was an improvement in the performance of the NBFCs as well. The Reserve Bank carried forward financial sector reforms during 2003-04 through a number of measures relating to deregulation, technological upgradation, tightening of prudential norms, and refinement of regulatory and supervisory oversight.

Macro Environment

1.3 Overall real GDP growth for 2003-04 at 8.2 per cent was much higher than the 4.0 per cent growth witnessed in 2002-03, facilitated primarily by a surge in agricultural GDP of over 9.1 per cent due to a healthy recovery from the drought of 2002-03. Industrial production continued its broad-based expansion with all the major components of industrial production witnessing growth rates in excess of 5.0 per cent. The services sector growth at 8.5 per cent continued to play an important role in propelling the GDP growth above the trend level, and consistently witnessed a growth rate higher than 7.0 per cent in all the four quarters of 2003-04. The annual rate of inflation (WPI, point-to-point), which was at 6.9 per cent in first week of May 2003, declined to 3.8 per cent by August 23, 2003. However, firming up of international crude oil and steel prices and their pass-through effect on domestic inflation coupled with increase in prices of fruits, edible oil and cotton textiles pushed up the WPI inflation to 6.6 per cent by January 10, 2004. The inflation rate, however, came down to 4.6 per cent by the end-March 2004. For the year 2003-04 as a whole, inflation (in terms of WPI), on an average basis, was two percentage points higher at 5.4 per cent than 3.4 per cent recorded in 2002-03.

1.4 Robust growth of merchandise exports and services, substantial capital inflows and record accretion to foreign exchange were the high points of the external sector developments in 2003-04. The current account surplus, at 1.4 per cent of GDP, continued for the third year in a row. Foreign investments, both direct and portfolio, which are mostly in the nature of non-debt creating flows, increased to an all time high of 3.0 per cent of GDP. India attracted the highest portfolio investment in Asia after Korea. These developments

resulted in a record accretion of foreign exchange of US $ 36.9 billion during the year with the foreign exchange reserves touching US $ 113 billion at end-March 2004 – the sixth largest in the world.

1.5 Liquidity conditions remained comfortable during the year. Broad money (M_3) increased by 16.6 per cent during 2003-04 compared with a growth of 12.7 per cent (net of the impact of the merger) in 2002-03; this was higher than the projected growth of 14.0 per cent. The large monetary expansion occurred despite a bullet redemption of the Resurgent India Bonds (RIBs) in October 2003. Domestic credit decelerated in step with food credit which declined due to lower food stocks and sustained higher offtake. There was, however, a sustained increase in credit flow to the commercial sector in the second half of 2003-04 reflecting the acceleration in industrial production. The flow of resources from non-banks, including issuance of shares and debentures, Euro issues, commercial papers (CP) and by way of external commercial borrowings (ECB) and assistance by financial institutions (FIs) improved substantially although it remained modest in comparison with bank credit.

1.6 The weighted average call money rates declined to 4.37 per cent in March 2004 from 5.86 per cent in March 2003. Similarly, the cut-off yields on 91-day and 364-day Treasury Bills also declined to 4.38 per cent and 4.45 per cent, respectively, in March 2004 from 5.89 per cent each in March 2003. The weighted average discount rate on commercial papers of 61 to 90 day maturity declined to 5.19 per cent in March 2004 from 6.53 per cent in March 2003. The market repo rate at 3.7 per cent was lower than the overnight call money rate in April 2004. The yields on Government securities with a five year and ten year residual maturity declined to 4.78 and 5.15 per cent in March 2004 from 5.92 and 6.21 per cent, respectively, in March 2003.

1.7 The term deposit rates of public sector banks (PSBs) for maturities up to one year moved down to 3.75-5.25 per cent by April 2004 from a range of 4.00-6.00 per cent in March 2003. Similarly, the interest rates on term deposits over one year had declined to 5.00-5.75 per cent from a range of 5.25-7.00 per cent during the period. Overall, there has been a considerable flattening of the term structure of deposit rates during the last three years.

1.8 Despite a fall in deposit rates and lowering of the cost of funds, the range of prime lending rates (PLRs) of PSBs remained sticky. In view of the downward stickiness of PLRs, the scheme of Benchmark PLR (BPLR) was mooted in the monetary and credit policy Statement of April 2003 to address the need for transparency in banks' lending rates as also to reduce the complexity involved in pricing of loans. For a smooth implementation of the new system by banks, as announced in the mid-term Review of November 2003, the Indian Banks' Association (IBA) issued a circular to its member banks outlining broad parameters to be followed by banks for the computation of BPLR. Almost all commercial banks have since announced their BPLR in place of the earlier system of tenor-linked PLR. The range of BPLR for PSBs is lower at 10.25-11.5 per cent as compared with their earlier PLR range of 10.0-12.25 per cent. PSBs have reduced their rates by 25 to 100 basis points while announcing their BPLR. The compression in the range of PLRs of foreign and private sector banks is more evident, moving from a wide range of 6.75-17.5 per cent in March 2003 to 10.5-14.85 per cent by March 2004. As at end-March 2004, public sector banks' median (representative) lending rate for the demand and term loans (at which maximum business is contracted), in the range of 11.0-12.75 per cent and 11.0-13.25 per cent, respectively, exhibited some moderation as compared with their corresponding levels of 11.5-14.0 per cent and 12.0-14.0 per cent, respectively, in March 2003.

1.9 Under the circumstances, the overall stance of the Reserve Bank's monetary and credit policy during 2003-04 continued to focus on the provision of adequate liquidity to meet credit growth and support investment demand in the economy while continuing with the preference for soft and flexible interest rates, along with a vigil on movements in the price level.

Scheduled Commercial Banks

1.10 The strong macroeconomic environment in 2003-04, supported by monetary and financial policies, helped to restore the growth momentum and improve financial performance of the Indian banks. Access to credit was marked by record growth in bank credit to the priority sector including agriculture, small industries, and other priority sectors such as, housing. High growth was also exhibited by some non-priority sectors,

especially, the retail sector. Despite low interest rates, the sharp increase in non-interest income and containment of overall expenditure enabled banks to maintain the high growth of profits witnessed in recent years. The operating profits of commercial banks increased by 29.5 per cent in 2003-04 as against a growth of 36.3 per cent in 2002-03. Their net profits grew by 30.4 per cent over and above the strong performance recorded in 2002-03. The ratio of operating profit to assets of SCBs improved further to 2.7 per cent from 2.4 per cent in 2002-03 (Table I.1). Notably, the increase in net profit was the highest for PSBs with a growth rate of 35 per cent, followed by foreign banks and private sector banks, which recorded growth rates of 23 per cent and 18 per cent, respectively.

1.11 In 2003-04, aggregate deposits recorded robust growth of 17.5 per cent accompanied by high growth of demand deposits at 32 per cent and of time deposits at 15 per cent. Banks continued

Table I.1: Select Financial Sector Indicators: 2002-03 *vis-a-vis* 2003-04

Financial entity		Indicator	2002-03	2003-04
1		2	3	4
1. Scheduled Commercial Banks	a)	Growth in Major Aggregates (per cent)		
		Aggregate Deposits	13.4*	17.5
		Non-food Credit	18.6*	18.4
		Investment in Government Securities	27.3	25.1
	b)	Financial Indicators (as percentage of total assets)		
		Operating Profits	2.4	2.7
		Net Profits	1.0	1.1
		Spread	2.8	2.9
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	8.8	7.2
		Net NPAs	4.4	2.9
2. Urban Co-operative Banks	a)	Growth in Major Aggregates (per cent)		
		Deposits	9.1	7.5
		Credit	4.5	3.4
	b)	Financial Indicators (as percentage of total assets) @		
		Operating Profits	1.5	1.8
		Net Profits	-1.1	0.6
		Spread	2.0	2.1
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	19.0	17.6
		Net NPAs	13.0	11.1
3. All-India Financial Institutions	a)	Growth in Major Aggregates (per cent)[1]		
		Sanctions	-31.3	65.8
		Disbursements	-30.5	24.5
	b)	Financial Indicators (as percentage of total assets)[2]		
		Operating Profits	1.4	1.3
		Net Profits	0.9	0.9
		Spread	0.7	0.2
	c)	Non-Performing Assets (as percentage of advances)[2]		
		Net NPAs	10.6	—
4. Non-banking Financial Companies[3]	a)	Growth in Major Aggregates (per cent)		
		Public Deposits	6.8	—
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	0.9	—
	c)	Non-Performing Assets (as percentage of advances)		
		Net NPAs	2.7	—

* Adjusted for merger. @ Relates to scheduled urban co-operative banks.
1. Comprise IDBI, IFCI, IIBI, IDFC, SIDBI, IVCF, ICICI Venture, TFCI, LIC, UTI, and GIC.
2. Comprise following nine FIs, *viz.*, IDBI, IFCI, IIBI, IDFC, Exim Bank, TFCI, SIDBI, NABARD and NHB.
3. Data for NBFCs are available for the year 2002-03.

to hold a large part of their assets in Government securities during the year 2003-04. As at end-March 2004, the banking sector held 41.3 per cent of its net demand and time liabilities in SLR securities as against the statutory minimum requirement of 25 per cent. The share of investments in 'non-approved securities' in total assets of SCBs, however, declined in view of the tightening of norms relating to the private placement market. Within the loan portfolios, the term loan component increased for all the bank groups and accounted for about 90 per cent of expansion in term-deposits reflecting an improvement in asset-liability management.

1.12 In 2003-04, the private sector banks witnessed sharp growth in their deposits, especially demand deposits and hence, expanded their balance sheets. However, they also registered the sharpest growth in investments in Government securities. The rate of increase in income was the highest for the foreign banks followed by PSBs, new private sector banks, and old private sector banks. On the other hand, expenditure containment driven largely by the decline in interest expenditure, was evident for all bank groups. The trend of rising non-interest income was most pronounced in the case of PSBs as also in foreign banks. However, trading profit comprised the biggest component of non-interest income in case of PSBs and private sector banks, while fee-based income contributed the most to the non-interest income component of the foreign banks.

1.13 The Capital to Risk Weighted Assets Ratio (CRAR) of the banking sector improved further to 12.9 per cent in 2003-04 from 12.7 per cent in 2002-03. While CRAR increased for PSBs and old private sector banks, it declined in respect of new private sector banks and foreign banks. Only two banks, accounting for a negligible 0.5 per cent of the assets of the SCBs, could not satisfy the stipulated 9.0 per cent capital adequacy ratio.

1.14 The gross and net NPAs of SCBs declined in absolute terms for the second year in succession, notwithstanding the changeover to the 90 day delinquency norm. The decline in NPAs was brought about by a sharp increase in recovery, a modest increase in additions and write-offs of bad assets. Reflecting significant provisions, the net NPAs registered sharper decline during 2003-04. While the decline was witnessed across all bank groups, it was more pronounced in the case of private sector banks especially the new private sector banks. Foreign banks recorded the lowest gross and net NPAs position. Improved risk management practices, greater recovery efforts, SARFAESI Act, 2002 and Corporate Debt Restructuring have contributed to the resolution of NPAs during 2003-04.

1.15 The indicator of management soundness, *i.e.,* the ratio of operating expenses to total expenditure declined for PSBs, old private sector banks and foreign banks but increased marginally for new private sector banks. Comparative efficiency of Indian banks is evident from this ratio ranging between 24-35 per cent, much lower than the international benchmark of 60 per cent. The rationalisation of manpower following the VRS has sharply curtailed the wage bill of PSBs and brought down its share in total expenses to around 17 per cent in 2003-04.

Co-operative Banks

1.16 Co-operative banks showed a higher growth of assets during 2003-04 than in 2002-03. The policy induced changes in the composition of assets of Urban Co-operative Banks (UCBs), especially, growth in the investment in Government securities, led to a significant improvement in both the asset quality and profitability of scheduled UCBs. The net profit of the scheduled UCBs showed a substantial growth of 40.4 per cent, while the net losses for some of UCBs declined sharply. Tier I capital increased considerably from a negative Rs.10 crore in 2002-03 to a positive of Rs.297 crore in 2003-04. Tier II capital also recorded a modest increase of 21.2 per cent. NPAs declined both in absolute and percentage terms.

1.17 The performance of rural co-operatives remained below potential. Profitability of the state co-operative banks increased marginally during 2002-03. On the other hand, central co-operative banks as a whole continued to register losses during 2002-03. The NPAs of rural co-operatives continued to remain high – with the NPAs of the central co-operative banks being relatively higher than that of the state co-operative banks.

Financial Institutions

1.18 After a gap of two years, there was a reversal of the declining trend in growth of

financial assistance sanctioned and disbursed by All-India Financial Institutions (AIFIs) during 2003-04. Significantly, LIC has emerged as the biggest term lending institution with its disbursements exceeding the combined disbursements of IDBI, IFCI, IDFC, IIBI and SIDBI. However, the net flow of resources from major AIFIs continued to be negative after adjusting the gross flow for repayments. The change in the operating environment coupled with increased competition, sluggish capital market hindering mobilisation efforts and availability of alternative modes of finance to the corporates, the legacy of non-performing assets and organisational restructuring being faced by these institutions, *inter alia,* have led to the declining share of business for the AIFIs.

1.19 The balance sheet of select FIs, as a group, showed a growth of 7.3 per cent during 2003-04 over the growth of 5.6 per cent during 2002-03. Broad trends in the components of liabilities remained more or less the same with bonds and debentures contributing to nearly half the liabilities of the AIFIs. However, on the assets side there was a compositional shift away from loans and advances towards investments and holding of more liquid assets. Both the income and expenditure of the FIs declined leading to an unchanged profit ratio for the FIs. The CRAR remained much higher for all FIs except IFCI and IIBI, for whom there was a sharp deterioration in the asset quality and erosion of capital base. The net NPAs of AIFIs increased during 2003-04 on account of increase in cost overruns of projects and slippages in standard assets.

1.20 The resource mobilisation by mutual funds increased more than nine-fold during 2003-04. While the private sector mutual funds registered a phenomenal growth, the UTI also faced a turnaround and reported a positive mobilisation. The growth in resource mobilisation by the mutual funds was mainly on account of debt-oriented mutual funds.

Non-Banking Financial Companies

1.21 The number of non-banking financial companies (NBFCs) declined for the second year in succession, reflecting mergers, closures and cancellation of licenses. The number of public deposit accepting companies also came down because of conversion to non-public deposit accepting activities. The broad profile of the NBFC sector during 2002-03 remained more or less the same in terms of the activity-wise distribution of assets. Although the assets of the NBFC sector declined marginally, the public deposits held by NBFCs, the focus of the regulatory oversight, witnessed a moderate increase with reduced regional concentration and lowered interest rates offered on them. In terms of prudential indicators, only a few reporting NBFCs (6.3 per cent) failed to achieve the stipulated minimum CRAR of 12 per cent. Indeed, almost three-fourth of them reported a CRAR of above 30 per cent. Although the gross NPAs reported a steady decline, the net NPAs witnessed a marginal increase as at end-September 2003 on account of recourse to lower provisioning.

1.22 During 2002-03, there was a turnaround in the financial performance of NBFCs from the losses witnessed during the previous two years. The decline in income was more than compensated by a fall in expenditure. This was mainly due to a sharper decline in the interest expenses of the NBFCs on account of softening of the interest rates. Among the components of income, the fee based income increased moderately although it continued to constitute a small part (7.4 per cent) of their income.

1.23 The enactment of the SARFAESI Act, 2002, the initiation of the Financial Companies Regulation Bill and the deliberations of the Working Group on the Development Financial Institutions is expected to impact positively on the functioning of the NBFC sector.

Developments during 2004-05

1.24 The broad based growth momentum continued for the first quarter of 2004-05. GDP growth at 7.4 per cent was higher by about two percentage points over the growth recorded in the first quarter of 2003-04. Output of major *Kharif* crops is expected to be lower this year as compared with the corresponding level of 2003-04. However, *Rabi* crop production is expected to be favourable. Seasonal (June-September) rainfall was excess/normal in 23 out of 36 meteorological sub-divisions and the remaining 13 sub-divisions registered deficient rainfall. While 56 per cent of the meteorological districts received excess/normal rainfall, the remaining 44 per cent received deficient/scanty rainfall. While the prospects are still somewhat unclear,

the current assessments clearly indicate that agricultural growth of 3.0 per cent, projected earlier, is unlikely to materialise. Industrial growth as indicated by the Index of Industrial Production (IIP) has registered higher growth of 7.9 per cent during April-September 2004 as compared with 6.2 per cent growth during April-September 2003. There are signs of sustained growth in the production of basic goods, capital goods, intermediate goods and consumer durables. Thus, the prospects for growth in industrial output have improved. Further, exports continued to remain buoyant and recorded a growth of 24.4 per cent in US dollar terms during April-September 2004 as against 8.1 per cent during April-September 2003. While the CSO estimate of GDP for the first quarter is consistent with the earlier projected growth of 6.5 to 7.0 per cent for the full fiscal year, the deficient rainfall in some parts of the country and its impact on *Kharif* crop impart a downward bias to this growth projection. In addition, the higher oil prices tend to have an adverse impact on GDP growth. At the same time, the improved prospects for growth in industrial output and continued buoyancy in exports are likely to have a positive impact on growth. On the whole, while the picture is not very clear, it may be reasonable to place the overall GDP growth during 2004-05 in the range of 6.0 per cent to 6.5 per cent as against the earlier expectation of 6.5 per cent to 7.0 per cent, assuming that the combined downside risks of high and uncertain oil prices, and sudden changes in international liquidity environment remain manageable.

1.25 Money supply (M_3) expansion in 2004-05 up to October 29, 2004 was lower at 6.6 per cent (Rs.1,32,428 crore) [6.4 per cent (Rs.1,28,859 crore), net of conversion] as compared with 8.9 per cent (Rs.1,53,474 crore) in the corresponding period of 2003-04. On an annual basis, growth in M_3 at 14.1 per cent (13.9 per cent, net of conversion) was, however, higher than 12.1 per cent during 2003-04. Annual inflation, as measured by variations in the wholesale price index (WPI), on a point-to-point basis, which rose from 4.6 per cent at end-March 2004 to 8.7 per cent by end-August 2004 declined to 7.1 per cent by October 30, 2004. On an average basis, annual inflation based on WPI was 6.3 per cent as on October 30, 2004 as compared with 5.0 per cent a year ago. While WPI inflation increased sharply on the back of a rise in international oil and metal prices, the CPI inflation witnessed only a moderate increase. On an annual average basis, inflation as reflected in CPI was 3.6 per cent in September 2004 as against 3.9 per cent a year ago. However, CPI inflation could be impacted by WPI inflation with a lag. On current assessment, assuming that there would be no further major supply shock and liquidity conditions remain manageable, the point-to-point year-end inflation based on WPI for the year 2004-05 could be placed around 6.5 per cent as against 5.0 per cent as projected in the annual policy Statement of May 2004.

1.26 The growth rate in aggregate deposits of SCBs was lower at 7.5 per cent (7.2 per cent, net of conversion) up to October 29, 2004 as compared with 9.0 per cent in the corresponding period of 2003-04, mainly attributable to reduction in non-resident Indian (NRI) deposits with the banking system. On an annual basis, growth in aggregate deposits at 15.8 per cent (15.6 per cent net of conversion) was, however, higher than that of 11.8 per cent during 2003-04. During 2004-05 (up to October 29, 2004), credit by SCBs increased by 17.5 per cent (Rs.1,47,491 crore) [13.7 per cent (Rs.1,14,809 crore), net of conversion] which was substantially higher than the increase of 4.5 per cent (Rs.33,088 crore) in the corresponding period of 2003-04. Food credit increased by Rs.3,751 crore as against a decline of Rs.13,459 crore in 2003-04 reflecting a turnaround of about Rs.17,210 crore. During the same period, non-food credit posted a robust increase of 17.9 per cent (Rs.1,43,741 crore) [13.8 per cent (Rs.1,11,059 crore) net of conversion] as compared with an increase of 6.8 per cent (Rs.46,539 crore) in the corresponding period of 2003-04. The incremental non-food credit-deposit ratio was substantially higher at 127.8 per cent during 2004-05 (up to October 29, 2004) as against 40.4 per cent in the corresponding period of 2003-04. The detailed information on sectoral deployment of credit available from banks reveals that over two-third of credit flow during 2004-05 (up to August 2004) was on account of retail, housing and other priority sector loans. There has been a revival of investment activity in 2004-05 with some evidence of expansion and scaling up of production plans. Credit needs of industry, therefore, are likely to gain further momentum.

1.27 In recent years, investment in Government and other approved securities by SCBs has been much in excess of the required

SLR of 25 per cent. As at end-March 2004, such excess of SLR securities at Rs.2,67,328 crore constituted 16.3 per cent of NDTL of banks. However, during 2004-05 (up to October 29, 2004), the investment in Government and other approved securities of SCBs at Rs.28,955 crore (net of conversion effect) was lower than that of Rs.84,031 crore in the corresponding period of 2003-04 partly on account of pick-up in credit demand. Consequently, commercial banks excess holding of SLR securities was reduced to Rs.2,59,083 crore or 14.5 per cent of NDTL in 2004-05 (up to October 29, 2004). Since demand by the commercial sector is expected to remain buoyant during 2004-05, lower demand by banks for Government securities has implications for Government market borrowing programme.

1.28 During 2004-05 (April to October 31, 2004), financial markets have remained generally stable though interest rates have displayed some upward movement, particularly at the longer end. The average call money rate, 91-day and 364-day Treasury Bill rates and the yield on Government securities with one year, 10 year and 20 year residual maturity exhibited upward movements. The weighted average discount rate on commercial paper of 61 to 90 day maturity increased from 5.1 per cent in April 2004 to 5.4 per cent by end-October 2004. The market repo rate increased from 3.7 per cent to 4.7 per cent with an increase in daily volume during the same period. The typical interest rate on three-month certificates of deposit increased from 4.96 per cent in March 2004 to 4.75 per cent by mid-October 2004. The PSBs, however, reduced the deposit rates of over one year from 5.0-6.0 per cent to 4.75-5.75 per cent as on October 29, 2004. The BPLRs of public sector and foreign banks were in the range of 10.25-11.0 per cent and 11.0-13.0 per cent in October 2004 as against 10.25-11.5 per cent and 11.0-14.85 per cent, respectively, in April 2004. In contrast, the BPLRs for private sector banks moved from a range of 10.5-13.0 per cent in April 2004 to a range of 9.75-13.0 per cent by October 2004. The representative (median) lending rates on demand and term loans (at which maximum business is contracted) of public sector banks were in the range of 8.25-12.5 per cent in September 2004 as against 11.0-12.75 per cent in March 2004.

1.29 On the external front, merchandise export growth in the first half of 2004-05 has been robust and well above the target of 16 per cent in US dollar terms set for the year. India's exports during April-September 2004 increased by 24.4 per cent in US dollar terms as compared with 8.1 per cent in the corresponding period of 2003-04. Imports rose faster by 34.3 per cent as against an increase of 21.0 per cent in the corresponding period of 2003-04. Oil imports increased by 57.8 per cent as compared with 6.4 per cent, while non-oil imports increased by 25.8 per cent as against 27.4 per cent. The overall trade deficit widened to US $ 12.7 billion from US $ 7.4 billion in the corresponding period of 2003-04. The higher trade deficit during 2004-05, in substantial part, reflects the high oil imports bill in the wake of the hardening of international prices and also the growth in import demand emanating from a pick-up in economic activity as reflected in higher capital goods imports. During the first quarter of 2004-05, a widening trade deficit was more than offset by the surplus under invisibles leading to a current account surplus. Net capital flows has been at US $ 5.6 billion in the first quarter of 2004-05, comparable with the flows of around US $ 6 billion registered in the first quarter of 2003-04. The net capital flows in the 2004-05 has been driven mainly by foreign direct investment, commercial borrowings, and short-term trade credits. As a result, the net accretion to foreign exchange reserves, excluding valuation effects, amounted to US $ 7.5 billion during April-June 2004.

1.30 Against the backdrop of these developments in different sectors of the economy during the first half of 2004-05, the overall monetary policy stance for the second half of 2004-05 is to be (i) provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability; (ii) consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability and maintaining the momentum of growth; and (iii) to consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations.

Chapter II

Policy Developments in Commercial Banking*

2.1 As financial institutions expand and become increasingly complex under the impact of deregulation, innovations and technological upgradation, the role of supervision and regulation becomes critical for the stability of the system. The choices before the financial institutions and their regulators are changing dramatically, with the need for supervisory rules and guidelines to evolve with the changing financial conditions, as also with the changing risk appetite and risk management approaches. The most important challenge before the supervisors is developing an approach to regulation that would work in a world of plurality, diversity and dynamism. During the past decade, the process of financial transformation in India has also been marked by wide-ranging changes in the policy environment.

2.2 Management of the financial sector over the years has been oriented towards maintaining a balance between efficiency and stability, while pursuing gradual economic integration with the rest of the world. In India, financial sector reforms have sought to strengthen the regulatory and supervisory framework and to bring it at par with international best practices, along with suitable country-specific adaptations. This has also been the guiding principle in the approach to the New Basel Accord. During 2003-04, improvements in management of risk and non-performing assets (NPAs) were sought to be achieved through the issuance of comprehensive guidelines on credit, market, country and operational risks to banks, and through the implementation of several regulatory changes. The changes in supervision included progress towards risk-based and consolidated supervision. Steps were also taken to improve credit delivery and to strengthen the technological and legal infrastructure so as to enhance efficiency of the financial system.

2.3 Against this backdrop, the present Chapter provides an overview of the policy initiatives in the Indian commercial banking sector during 2003-04 and in 2004-05 so far (up to October 2004). The changes in the overall thrust of monetary and credit policy are presented first in Section 2. This also includes a discussion on steps for improvement in credit delivery. Section 3 presents a review of the measures initiated in the area of prudential regulation, followed by Section 4 on developments regarding management of non-performing assets. Section 5 deals with developments in supervision and supervisory policy, which is followed in Section 6 by a discussion on the evolving consultative approach to policy formulation. Changes in money, Government securities and foreign exchange markets, technological developments and upgradation of legal infrastructure are presented in the subsequent Sections of 7, 8 and 9, respectively.

2. Monetary and Credit Policy

2.4 The policy statements of the Reserve Bank, announced twice during a year, were known as the *Credit Policy Statements* till 1992 - the year which marked the initiation of financial sector reforms. With the move towards a more market oriented financial system and operating procedures for monetary policy, the policy was renamed as the *Monetary and Credit Policy* so as to highlight the growing linkages between the two. Apart from credit pricing and credit delivery, regulatory policies were also recognised to be important for channelling the flow of credit. In the succeeding years, the Reserve Bank policy statements became increasingly comprehensive discerning the links between monetary policy, credit policy and regulatory regime in a dynamic situation involving overall structural transformation of the real sector, the financial sector and the opening of the economy. Recognising the overall interplay of these factors, the Reserve Bank policy statement since 2004-05 has been renamed as the *Annual Policy Statement*.

* The primary focus of the Chapter is on policy developments during 2003-04; nevertheless, wherever necessary, references are made to the recent policy developments.

2.5 Although the policy objectives of the Reserve Bank have remained broadly unchanged over the years, there is some change in emphasis from time to time. In addition to the traditional objectives of growth and price stability, a third objective that has been gaining importance in the post reform period is that of financial stability. While in the short run, there may exist some trade-offs between the stated objectives, in the long run, the complementarities among them become more pronounced.

2.6 The focus on growth and stability continued to be reflected in the overall stance of monetary policy in recent years. The overall stance of monetary policy for 2003-04 and reiterated in the mid-term review of monetary and credit policy 2003-04 included: (i) provision of adequate liquidity to meet credit growth and support investment demand in the economy while continuing a vigil on movements in the price level; and (ii) to continue with the stance of a preference for a soft and flexible interest rate environment within the framework of macroeconomic stability. But monetary management in 2003-04 was confronted with an increase in the volatility of inflation rate as well as a continued abundance of liquidity. Recognising these, as well as factoring in the prospects for the real sector, inflationary expectations and international developments, especially the hardening of oil and commodity prices, the policy stance for 2004-05 was fine-tuned: (i) to provide adequate liquidity to meet credit growth and support investment and export demand in the economy while keeping a very close watch on the movements in the price level; and (ii) while continuing with the *status quo,* to pursue an interest rate environment that is conducive to maintaining the momentum of growth, and macroeconomic and price stability. The annual policy Statement of 2004-05 emphasised, barring the emergence of any adverse and unexpected developments in the various sectors of the economy and assuming that the underlying inflationary situation does not turn adverse, the above-mentioned stance would be maintained. Though monetary management in the first half of 2004-05 was conducted broadly in conformity with the monetary policy stance announced in the annual policy Statement of 2004-05, monetary management faced severe challenges on two counts: (i) overhang of liquidity; and (ii) acceleration in headline WPI inflation beyond the anticipated level with implications for inflationary expectations. While capital inflows were not at the level of the previous year, the carry forward of liquidity into the current fiscal year was over Rs.81,000 crore. The liquidity balance was complicated further by a sharp increase in reserve money in the previous year emanating largely from build-up of excess cash balances by commercial banks towards the close of the year, in fact in the last week of March 2004. As the overall assessment of the inflation scenario revealed that it was largely supply induced, it was necessary to balance the pros and cons of using monetary policy instruments as a means for stabilising inflationary expectations. Given the large informal sector and the fact that the vast majority of population is not hedged against inflation, determined efforts were needed to contain inflationary expectations while carefully assessing the facts and reasons on an ongoing basis for appropriate policy responses and communicating the assessments and policy responses from time to time. Subsequent to the announcement of the annual policy Statement of 2004-05 in May 2004, a number of calibrated responses were taken to moderate inflationary expectations and reiterate the importance of stability in financial market conditions, while ensuring that appropriate liquidity is maintained in the system. Consistent with the developments during the first half of 2004-05, barring the emergence of any adverse and unexpected developments in the various sectors of the economy and keeping in view the inflationary situation, the overall stance of monetary policy for the second half of 2004-05 was formulated as: provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability; consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth; and to consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations.

2.7 The policy statements as well as mid-term reviews of the Reserve Bank have been focusing on the structural and regulatory measures to strengthen the financial system. The policy measures have been guided by the objectives of increasing operational efficacy of monetary policy, redefining the regulatory role of the Reserve Bank, strengthening prudential norms, and developing technological and institutional infrastructure.

With a paradigm shift from micro-regulation to prudential regulation and macro-management, the monetary and credit policy 2003-04 placed emphasis on promoting financial stability through developing sound risk management systems and enhancing transparency and accountability while continuing the stance stated earlier. The annual policy Statement of 2004-05 in particular has placed greater emphasis on the need to enhance the integration of various segments of the financial market, improve credit delivery system, nurture the conducive credit culture and improve the quality of financial services. In view of the above, structural and regulatory measures aimed at increasing the operational effectiveness of monetary policy, redefining the regulatory role of the Reserve Bank, strengthening the prudential and supervisory norms and developing the institutional infrastructure have gained prominence. The Reserve Bank is continuously working towards consolidating the gains of financial sector reforms by further broadening the consultative process. While the emphasis, at this stage, is on reinforcing corporate governance within financial institutions, the focus is also on enhancing the credit delivery mechanism and facilitating ease of transactions by the common person.

Statutory Pre-emptions

2.8 There has been a distinct shift in the monetary policy framework and operating procedures from direct instruments of monetary control to market-based indirect instruments. Consequently, a phased reduction in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) has taken place since 1991, thereby releasing the resources pre-empted earlier by reserve requirements.

Cash Reserve Ratio

2.9 The CRR of scheduled commercial banks (SCBs) which was 15 per cent of net demand and time liabilities (NDTL) between July 1, 1989 and October 8, 1992 was brought down in phases to 4.5 per cent on June 14, 2003. On a review of the macroeconomic situation, the CRR was increased by one-half of one percentage point of the NDTL in two stages - to 4.75 per cent effective September 18, 2004 and further to 5.0 per cent effective October 2, 2004. Also in line with the recommendations of the Internal Group on Liquidity Adjustment Facility (LAF) (December 2003), the remuneration on eligible cash balances under CRR has been delinked from the Bank Rate and placed at a rate lower than the repo rate, at 3.5 per cent effective September 18, 2004. However, the Reserve Bank would continue to pursue its medium-term objective of reducing CRR to its statutory minimum of three per cent. The Reserve Bank chose to increase the CRR, partly for absorbing liquidity in the system, but more importantly for signalling the Reserve Bank's concern at the unacceptable levels of inflation so that inflationary expectations are moderated while reiterating the importance of stability in financial market conditions.

Statutory Liquidity Ratio

2.10 The Statutory Liquidity Ratio has been progressively brought down from the peak rate of 38.5 per cent in February 1992 to the statutory minimum of 25.0 per cent in October 1997. Commercial banks, however, hold SLR securities well in excess of the statutory prescription in response to attractive risk-free yields. The banking system held SLR securities to the extent of 41.3 per cent of its NDTL as at end-March 2004.

Interest Rate Structure

2.11 Prior to the reforms, direct monetary controls coupled with administered lending and deposit rates created distortions in both supply and demand for credit. The structure of administered interest rates has since been almost totally dismantled. Banks now have sufficient flexibility to decide their deposit and lending rate structures and manage their assets and liabilities accordingly. At present apart from savings account and NRE deposits on the deposit side and export credit and small loans on the lending side, all other interest rates are deregulated.

Bank Rate and Repo Rate

2.12 With the gradual liberalisation of interest rates by the mid-1990s, the Reserve Bank was able to reactivate the Bank Rate as a signalling device in April 1997 by linking rates on various standing facilities to the same. Bank Rate was used to signal the stance of policy in association with other supporting instruments. In the recent period, given

the surplus liquidity conditions in the financial market, coupled with the fact that discretionary liquidity was being provided at the reverse repo rate[1] as and when required, the importance of the Bank Rate as a signalling rate declined. It is desirable that the liquidity injections take place at a single rate. Accordingly, the Internal Group on LAF suggested that the Bank Rate, under normal circumstances, be aligned to the reverse repo rate, and accordingly the entire liquidity support including refinance could be made available at the reverse repo rate/Bank Rate. The Bank Rate/reverse repo rate would, therefore, provide the upper bound to the interest rate corridor. The Group also suggested that the Reserve Bank may continue to announce the Bank Rate independently. On a review of macroeconomic developments, the Bank Rate, which was reduced from 6.25 per cent to 6.0 per cent on April 29, 2003, was left unchanged in the mid-term Review of the annual policy for 2004-05.

2.13 The LAF, which has been increasingly emerging as the principal operating instrument of monetary policy, allows the Reserve Bank to manage market liquidity on a daily basis while helping the short-term money market interest rates to move within a corridor thereby imparting stability and facilitating the emergence of a short-term rupee yield curve. Taking into account recommendations of the Internal Group on LAF and the suggestions from the market participants and experts, the revised LAF scheme came into effect from March 29, 2004. The scheme outlined: (i) 7-day fixed rate repo to be conducted daily in place of daily LAF auctions and (ii) overnight fixed rate reverse repo to be conducted daily, on weekdays. Also the 14-day repo, which was reintroduced through an announcement made on November 5, 2001, conducted at fortnightly intervals, was being continued for some time in order to enable market participants to meet their prior commitments. With a view to enhancing further the effectiveness of LAF and to facilitate liquidity management in a flexible manner, the mid-term Review of annual policy for 2004-05 proposed that the LAF scheme would be operated with overnight fixed rate repo and reverse repo with effect from November 1, 2004, and accordingly, auctions of 7-day and 14-day repo (reverse repo in international parlance) have been discontinued from November 1, 2004. With effect from October 29, 2004, it has been decided to adopt the international usage of 'Repo' and 'Reverse Repo' terms under LAF operations. Accordingly, absorption of liquidity by the Reserve Bank in the LAF window is being termed as 'reverse repo' and injection of liquidity as 'repo'.

2.14 Under the revised LAF Scheme, the Reserve Bank continues to have the discretion to conduct overnight repo/longer term repo/reverse repo auctions at fixed rate or at variable rates, and has the discretion to change the spread between the repo rate and the reverse repo rate as and when appropriate keeping in view the market conditions and other related factors. On an assessment of the prevailing situation, overnight fixed rate repo at 4.5 per cent under LAF has been introduced in addition to the existing overnight fixed rate reverse repo at 6.0 per cent with effect from August 16, 2004. In view of the current macroeconomic and overall monetary conditions, it has been decided to increase the fixed repo rate by 25 basis points from 4.50 per cent to 4.75 per cent effective from October 27, 2004. The spread between the repo rate and the reverse repo rate, which was reduced by 50 basis points from 200 basis points to 150 basis points with effect from March 29, 2004, has further been reduced by 25 basis points from 150 basis points to 125 basis points with effect from October 27, 2004. Accordingly, the fixed reverse repo rate under LAF continues to remain at 6.0 per cent.

Deposit Rates

2.15 Prescriptions of interest rates on all term deposits, including conditions of premature withdrawal, and offering of the uniform rate irrespective of size of deposits have been dispensed with. At present, on the deposit side, only savings deposit rate (which is at 3.5 per cent per annum currently) and NRI deposit rate are being prescribed by the Reserve Bank. Banks are otherwise free to offer interest rates on deposits of any maturity above 15 days for regular deposits and 7 days for wholesale deposits (over Rs.15 lakh) from residents. In the

[1] In the international parlance, while 'repo' denotes injection of liquidity by the central bank against eligible collateral, 'reverse repo' denotes absorption of liquidity by the central bank against eligible collateral. On the contrary, in the Indian context 'repo' denotes liquidity absorption by the Reserve Bank and 'reverse repo' denotes liquidity injection.

mid-term Review of annual policy for 2004-05 banks have been allowed to reduce the minimum tenor of retail domestic term deposits (under Rs.15 lakh) from 15 days to 7 days, at their discretion. Banks, however, would continue to have the freedom to offer differential rates of interest on wholesale domestic term deposits of Rs.15 lakh and above as earlier. There are, however, interest rate ceilings prescribed for foreign currency denominated deposits and rupee deposits from non-resident Indians (NRIs), and such ceilings will have to continue as part of managing external debt flows, especially the short-term flows.

2.16 In view of the implications for the interest rate structure and the high fiscal cost of the small savings schemes, the Union Government constituted an Advisory Committee to advise on the Administered Interest Rates and Rationalisation of Saving Instruments (Chairman: Dr. Rakesh Mohan)[2] on January 24, 2004. While the Committee was in favour of continuing with most of the small saving schemes, given their popularity in the rural and semi-urban areas, it recommended discontinuance of a few saving instruments offered by the Government where investments are primarily motivated by tax benefits available under Section 88 and Section 10 of the Income Tax Act. The Committee, however, preferred to continue with the PPF Scheme in its present form. After considering alternative benchmarks and a fixed illiquidity premium of 50 basis points, the Committee decided to continue with average yields on Government securities as the most suitable benchmark in line with the suggestion made by the Reddy Committee[3]. A few recommendations of the Committee in respect of introduction of a Senior Citizens' Savings Scheme and discontinuation of the Deposit Scheme for Retiring Employees and 6.5 per cent Saving Bonds 2003 (non-taxable) have already been implemented by the Central Government with certain modifications.

2.17 Since banks have been given freedom to determine interest rates on deposits and advances and the extant guidelines cover only certain operational matters, there have been requests from various quarters for rationalisation of the operational guidelines relating to deposits. A Working Group was constituted to review the whole range of the regulations, instructions and guidelines governing the interest rate structure, (Chairman : Shri H. N. Sinor), with representation from select banks, Indian Banks' Association (IBA) and the Reserve Bank. The Group's Report was examined by the Reserve Bank and based on its recommendations, instructions were issued to banks on February 13, 2004 effecting the following changes in the extant guidelines: (i) all aspects concerning renewal of overdue deposits to be decided by individual banks subject to their Boards laying down a transparent, non-discretionary and non-discriminatory policy in this regard and (ii) decisions on margin on advances against term deposits and interest payable on maturity proceeds of deposit accounts of deceased depositors also to be left to the discretion of individual banks subject to their Boards laying down a transparent policy in this regard.

NRI Deposit Scheme

2.18 The deposit schemes available to the NRIs have been streamlined and currently three schemes, *viz.*, Foreign Currency (Non-Resident) Account (Banks) [FCNR(B)] Scheme, Non-Resident (External) Rupee [NRE] Account Scheme and the Non-Resident (Ordinary) [NRO] Account Scheme are under operation (Box II.1). Fresh deposits under Non-Resident (Non-Repatriable) Rupee [NRNR] Account Scheme or the Non-Resident (Special) Rupee [NRSR] Account Scheme were discontinued with effect from April 1, 2002, and existing deposits were to continue only up to the date of maturity. On maturity of the existing deposits under the NRNR Account Scheme and NRSR Account Scheme, the maturity proceeds would be credited to the account holder's NRE Account and NRO Account, respectively.

2.19 Banks in India were offering FCNR(B) deposits in foreign currency and NRE deposits in domestic currency to the NRIs. While the interest rates on the former were linked to LIBOR/SWAP rates, interest rates on the latter were at par with domestic deposit rates. Given the fact that NRE deposits are fully repatriable, in order to provide consistency in the interest rates offered to NRIs,

[2] Government of India (2004), 'Report of the Advisory Committee to Advise on the Administered Interest Rates and Rationalisation of Savings Instruments', *Reserve Bank of India Bulletin*, August.

[3] Government of India (2001), 'Report of the Expert Committee to Review the System of Administered Interest Rates and other Related Issues', September 17.

Box II.1: Features of Various Deposit Schemes Available to NRIs

Particulars	FCNR(B) Account	NRE Account	NRO Account
Type of Account	Term Deposits only	Savings, Current, Recurring, Fixed Deposits	Savings, Current, Recurring, Fixed Deposits
Eligibility	NRIs (Individuals/entities of Bangladesh/Pakistan nationality/ownership require prior approval of the Reserve Bank)	NRIs (Individuals/entities of Bangladesh/Pakistan nationality/ownership require prior approval of the Reserve Bank)	Any person resident outside India (other than a person resident in Nepal and Bhutan) (Individuals/entities of Bangladesh/Pakistan nationality /ownership as well as erstwhile OCBs require prior approval of the Reserve Bank)
Currency in which account is denominated	Pound Sterling, US Dollar, Japanese Yen and Euro	Indian Rupees	Indian Rupees
Rate of Interest	Subject to cap: LIBOR minus 25 basis points except in case of Japanese Yen where the cap would be based on the prevailing LIBOR rates	Subject to cap: **Fixed Deposits**: Should not exceed LIBOR/SWAP rates for US Dollar of corresponding maturity plus 50 basis points. **Savings Bank accounts**: Should not exceed LIBOR/ SWAP rate for six months maturity on US Dollar deposits plus 50 basis points.	**Fixed Deposits**: Banks are free to determine interest rates. **Savings Bank accounts**: Same as domestic savings bank accounts of resident Indians.
Repatriability	Repatriable	Repatriable	Not repatriable except for the following in the accounts: 1. Current income. 2. Up to US $ 1 million per calendar year for any bonafide purpose out of the balances in NRO account/sales proceeds of assets. Immovable property should have been held for a period not less than ten years. 3. If the immovable property acquired out of rupee funds is sold after being held for less than ten years, remittance can be made, if the sale proceeds were held for the balance period in NRO account (Savings/Term Deposit) or in any other eligible investment, provided such investment is traced to the sale proceeds of the immovable property.

Notes: 1. When a person resident in India leaves India for Nepal and Bhutan for taking up employment or for carrying on business or vocation or for any other purposes indicating his intention to stay in Nepal and Bhutan for an uncertain period, his existing account will continue as a resident account. Such account should not be designated as Non-resident (Ordinary) Rupee Account (NRO).

2. ADs may open and maintain NRE/FCNR(B) accounts of persons resident in Nepal and Bhutan who are citizens of India or of Indian origin, provided the funds for opening these accounts are remitted in freely convertible foreign exchange. Interest earned in NRE/FCNR (B) accounts can be remitted only in Indian Rupees to NRIs and Person of Indian Origin (PIO) resident in Nepal and Bhutan.

3. In terms of Regulation 4(4) of the Notification No.FEMA 5/2000-RB dated May 3, 2000, ADs may open and maintain Rupee accounts for a person resident in Nepal/Bhutan.

an interest rate ceiling linked to the LIBOR/SWAP rates was prescribed on NRE deposits in stages during 2003-04. The ceiling on interest rates on fresh (and renewals of) term deposits for one to three years under the NRE scheme was placed at 250 basis points above the LIBOR/SWAP rates for the US dollar of corresponding maturity, effective July 17, 2003. The spread over LIBOR/ SWAP rates was reduced to 100 basis points, effective September 15, 2003 and further to 25 basis points effective October 18, 2003. NRE deposit rates were placed at LIBOR/SWAP rates

effective April 17, 2004 in pursuance of the recommendations of the Internal Group on External Liabilities of Scheduled Commercial Banks which proposed alignment of NRE term deposit rates with international rates. Further, the NRE savings deposit rate was capped at a maximum of LIBOR/SWAP rates for six months' maturity on US dollar deposits effective April 17, 2004. No lien of any type, direct or indirect, is permitted against the balances in NRE savings accounts. In the mid-term Review of annual policy for 2004-05, the ceiling on NRE interest rates was raised to LIBOR/SWAP rates of US dollar of corresponding maturities plus 50 basis points. However, the ceiling on FCNR(B) deposit rates continue to be at LIBOR/SWAP rates of corresponding maturities minus 25 basis points. With a view to bringing NRE accounts at par with the domestic deposits, the Union Budget 2004-05 proposed the withdrawal of tax exemptions on interest earned from a NRE account and interest paid by banks to a non-resident or to a not-ordinarily resident on deposits in foreign currency with effect from April 1, 2005.

2.20 As part of the ongoing liberalisation of foreign exchange payments, supported by the steady accumulation of foreign exchange reserves in the face of strong capital inflows, a number of measures were undertaken in 2003-04 to further liberalise the payments regime for individuals (Box II.2).

Box II.2: Channels of Remittance to India

While bulk of the inward remittances to India takes place through banking channels, two schemes, *viz.*, Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA), have recently gained momentum on account of their speed and ease of operation.

MTSS is an approved method of transferring remittances from abroad to beneficiaries in India. Only personal remittances such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible. The system envisages a tie-up between reputed money transfer companies abroad and agents in India who have to be an Authorised Dealer, Full Fledged Money Changer, registered NBFC or International Air Transport Association (IATA) approved travel agent with a minimum net worth of Rs.25 lakh. The Indian agent requires the Reserve Bank approval to enter into such an arrangement. Remittances up to Rs.50,000 can be paid in cash, while any amounts in excess of this amount have to be necessarily paid by cheque/demand draft. The system does not envisage the repatriation of such inward remittances. Currently, there are 14 overseas principals who have tie-ups with 39 Indian entities. Collateral equal to 3 days' drawings or US $ 50,000 (whichever is higher) is placed by the overseas principals to indemnify the Indian agents against possible defaults. Limits have been placed on the maximum amount permissible per remittance as well as the number of remittances allowed to be received by each beneficiary. The agents have to maintain clear audit trails of all transactions undertaken by them. An amount of US $ 837 million was received through this arrangement during January-December 2003 as against US $ 555 million during 2002, an increase of 51 per cent.

Rupee Drawing Arrangements (RDA) are entered into by banks in India with Private Exchange Houses in the Gulf Region, Singapore and HongKong for channelising inward remittances. Authorised Dealers need the prior approval of the Reserve Bank to enter into RDA with Exchange Houses and open vostro accounts in their name. Inward remittances under the scheme are normally personal remittances from NRIs in the above countries. Trade remittances up to Rs.2 lakh per transaction can also be funded through these arrangements. Under RDA, banks may enter into arrangements under Designated Depository Agency (DDA), Non-Designated Depository Agency, or Speed Remittance procedures.

Under DDA procedure, the Exchange House issues rupee drafts to the beneficiary and at the end of each day arrives at the total drawings and deposits their daily collections on the next working day in the DDA account (this account is a designated account opened in the name of the drawee bank by the Exchange House with a bank acceptable to the drawee bank at a centre mutually agreed upon). Auditors are appointed by the bank to ensure that daily drawings are deposited by the Exchange House in the DDA account on the next working day. The funds so deposited are transferred to the nostro account of the bank within the float period. Interest earned on the funds till the date of transfer to the nostro account accrues to the Exchange House. No collateral security is to be placed by the Exchange House under this kind of arrangement in the normal course.

Under Non-DDA procedure, the Exchange House directly credits the nostro account of the bank with the total of daily drawings. As no auditors are appointed to oversee the transfers to the nostro accounts, collateral deposits equivalent to one month projected drawings are insisted upon (15 days cash and 15 days bank guarantee).

Under Speed Remittance, the Exchange House sends instructions electronically to the bank with complete details of the beneficiary and funds their rupee account through the bank's nostro account well in advance before issuing payment instructions. On verification of data and availability of balance in the vostro account, the bank issues drafts in favour of the beneficiary or directly credits the beneficiary's account. No payments are made unless clear funds are available in the account. A collateral deposit equivalent to 15 days' drawings is prescribed for operation of this arrangement.

Currently, there are 29 banks which have entered into 188 Rupee Drawing Arrangements with Exchange Houses. Remittances received through these arrangements have increased by 14.3 per cent from US $ 4,670 million in 2002 (January-December) to US $ 5,337 million in 2003.

2.21 Under the Liberalised Remittance Scheme for resident individuals as a part of liberalisation, general powers have been granted to resident individuals to freely remit up to US $ 25,000 per calendar year for any permissible current or capital account transactions or a combination of both. They are free to acquire and hold immovable property or share or any other asset outside India without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with a bank outside India for making remittances under the Scheme without prior approval of the Reserve Bank. The foreign currency accounts may be used for putting through all transactions connected with or arising from remittances eligible under this Scheme.

Facilities to Non-Resident Indians

2.22 Students going abroad for higher studies have been treated as non-residents for availing facilities towards release of foreign exchange. Residents were also allowed greater flexibility towards resource mobilisation from overseas through the NRI channel. General permission has been granted to resident individuals to borrow amounts not exceeding US $ 250,000 or its equivalent from close relatives abroad. The loan should be interest-free and have a minimum maturity period of one year.

2.23 Moreover, a number of measures were undertaken to achieve greater integration between current and capital account transactions in respect of NRIs. Authorised Dealers (ADs) are now permitted to grant rupee loans to NRIs as per policy laid down by the bank's Board of Directors, other than for purpose of (a) the business of chit fund, or (b) Nidhi Company, or (c) agricultural or plantation activities or in real estate business, or construction of farm houses, or (d) trading in Transferable Development Rights (TDRs), or (e) investment in capital market including margin trading and derivatives.

2.24 The close relatives (as defined under Section 6 of the Companies Act, 1956) of the NRI borrower in India are allowed to repay the instalment of housing loans, interest and other charges if any, through their bank account directly to the borrower's loan account with the authorised dealer/housing finance institution.

2.25 Deposits by NRIs with persons other than authorised dealers/authorised banks out of inward remittances from overseas or by debit to NRE/FCNR(B) Accounts shall henceforth not be permissible.

Lending Rates

2.26 Lending rates were deregulated in October 1994 and banks were required to announce a prime lending rate (PLR), taking into account the cost of funds and transaction cost with the approval of their Boards. Further, the system of tenor linked prime lending rates (TPLRs) was introduced in April 1999 to provide more operational flexibility to banks. However, lending rates across banks tended to vary widely with banks charging higher spreads over their PLRs to non-prime borrowers. Despite a fall in deposit rates and lowering of the cost of funds, the range of PLRs of public sector banks remained sticky downwards. In addition, multiplicity of PLRs imparted additional complexities to pricing of loans. In the interest of customer protection and to have greater degree of transparency in regard to actual interest rates charged to borrowers, banks were advised to provide information on maximum and minimum interest rates charged alongside their PLRs which were placed on the Reserve Bank website on a quarterly basis effective from June 2002. In order to address the downward stickiness of PLRs and wide disparity in charging interest to different category of borrowers, a scheme of Benchmark PLR (BPLR) was mooted by the Reserve Bank in the monetary and credit policy 2003-04 for ensuring transparency in banks' lending rates as also to reduce the complexity involved in pricing of loans. While arriving at their BPLR, banks were advised to take into account: (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirements of provisioning/capital charge and profit margin. As all lending rates could be determined with reference to the BPLR, taking into account term premia and/or risk premia, the system of tenor-linked PLR was proposed to be discontinued.

2.27 The issues relating to the implementation of the system of BPLR were discussed with select banks and the IBA. It was clarified that since lending rates for working capital and term loans could be determined with reference to the BPLR by taking into account term premia and/or risk premia, a need for multiple PLRs might not be compelling. It was also clarified that banks have

the freedom to price their loan products based on time-varying term premia and relevant transaction costs. Banks could price floating rate products by using market benchmarks in a transparent manner. For smooth implementation of the new system by banks, the IBA issued a circular on November 25, 2003 to its member banks outlining broad parameters to be followed by banks for the computation of BPLR.

2.28 Almost all commercial banks have adopted the new system of BPLR and the rates have been lower in the range of 25-200 basis points from their earlier levels of PLRs[4]. Banks have also been advised to align the pricing of credit to assessment of credit risk so as to improve credit delivery and institutionalise a credit culture.

2.29 The only lending rates that are being regulated are those pertaining to exports, small loans of up to Rs.2 lakh, and the differential rate of interest (DRI) scheme (Box II.3).

Credit Delivery

2.30 The Reserve Bank has initiated a number of measures to improve the credit delivery system particularly for agriculture, exports, small-scale industry (SSI) and infrastructure. Selective credit controls have been dispensed with and micro-regulation of credit delivery has been discontinued. There is greater freedom to both banks and borrowers in matters relating to credit. There exists, however, concern on two areas of credit delivery, *viz.*, the priority sector lending and flow of credit to the needy and deserving on a timely basis.

2.31 The widening of the scope of priority sector lending alongwith interest rate deregulation has made priority sector lending far more flexible than before. There is a general consensus that the real issue in credit-delivery is timely availability of credit rather than its cost.

2.32 Regional rural banks (RRBs) are an important instrument for purveying rural credit. In order to strengthen RRBs, weak RRBs were recapitalised, lending to non-target group was relaxed, deposit and lending rates were deregulated. The Reserve Bank has constituted Empowered Committees in its Regional Offices with members drawn from NABARD, sponsor banks, conveners of State Level Bankers' Committees (SLBCs) and State Governments to ensure that the RRBs adhere to good governance and comply with prudential regulations. The Committees would also focus on operational issues and provide clarifications on regulatory issues. State Governments are being requested to remove discrimination between RRBs and co-operative banks in matters of stamp duty, mortgage fee, *etc.* State Governments are also being requested to accord approval for merger of RRBs within the State, sponsored by the same bank, as and when approached with such proposals. Sponsor banks are advised to provide support to their RRBs in matters relating to efficient management, training of staff, computerisation and networking of their activities.

Priority Sector Lending

2.33 A target of 40 per cent of net bank credit has been stipulated for lending to the priority sector by domestic scheduled commercial banks, both in the public and private sectors. Within this, sub-targets of 18 per cent and 10 per cent of net bank credit, respectively, have been stipulated for lending to agriculture and weaker sections of the population. A target of 32 per cent of net bank credit has been stipulated for lending to the priority sector by foreign banks. Of this, the aggregate credit to SSI sector should not be less than 10 per cent of the net bank credit and that to the export sector should not be less than 12 per cent of the net bank credit. A few changes were announced in the mid-term Review of annual policy for 2004-05 relating to priority sector lending by SCBs (Box II.4). The limit on advances under priority sector for dealers in agricultural machinery has been increased from Rs.20 lakh to Rs.30 lakh and for distribution of inputs for allied activities from Rs.25 lakh to Rs.40 lakh. All private sector banks have been urged to formulate special agricultural credit plans from the year 2005-06, targeting an annual growth rate of at least 20-25 per cent of credit disbursements to agriculture. The composite loan limit for SSI entrepreneurs has been enhanced from Rs.50 lakh to Rs.1 crore. In order to encourage securitisation of loans to SSI sector, investment by banks in securitised assets pertaining to SSI sector to be treated as their direct lending to SSI sector under priority sector, provided the pooled assets represent loans to SSI sector which are reckoned under priority sector and the securitised loans are originated by banks/FIs. At present, banks' direct finance for housing up to Rs.10 lakh

[4] Also see Table III.34 of the Report.

Box II.3: Interest Rate Structure for All Rupee Advances Including Term Loans of Commercial Banks

Types of Advances	Rate of Interest (Per cent per annum)
I. (a) Up to and inclusive of Rs.2 lakh	Not exceeding Benchmark Prime Lending Rate (BPLR)
(b) Over Rs.2 lakh	Banks are free to determine interest rates subject to BPLR and spread guidelines. Banks may, however, offer loans at below BPLR to exporters or other creditworthy borrowers including public enterprises based on a transparent and objective policy approved by their Boards.
II. Export Credit*	
1. Pre-shipment Credit	
(a) (i) Up to 180 days	Not exceeding BPLR minus 2.5 percentage points
(ii) Beyond 180 days and up to 270 days	Banks are free to determine rates of interest subject to BPLR and spread guidelines.
(b) Against incentives receivable from Government covered by ECGC Guarantee (up to 90 days)	Not exceeding BPLR minus 2.5 percentage points
2. Post-shipment Credit	
(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding BPLR minus 2.5 percentage points
(b) Usance Bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)	Not exceeding BPLR minus 2.5 percentage points
(i) Up to 90 days (may be extended for a maximum period of 365 days for eligible exporters under the Gold Card Scheme)	Not exceeding BPLR minus 2.5 percentage points
(ii) Beyond 90 days and up to 6 months from the date of shipment	Banks are free to determine interest rates subject to BPLR and spread guidelines.
(c) Against incentives receivable from Government, covered by ECGC Guarantee (up to 90 days)	Not exceeding BPLR minus 2.5 percentage points
(d) Against undrawn balances (up to 90 days)	Not exceeding BPLR minus 2.5 percentage points
(e) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	Not exceeding BPLR minus 2.5 percentage points
III. Deferred credit for the period beyond 180 days	Banks are free to determine rates of interest subject to BPLR and spread guidelines.
IV. Export Credit not otherwise specified (ECNOS)	
(a) Pre-shipment credit	Banks are free to determine rates of interest subject to BPLR and spread guidelines.
(b) Post-shipment credit	Banks are free to determine rates of interest subject to BPLR and spread guidelines.
V. DRI Advances	4.0 per cent
VI. Loans covered by participation in refinancing schemes of term lending institutions	Free to charge interest rates as per stipulations of the refinancing agencies without reference to BPLR

VII. Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of following loans:

(a) Loans for purchase of consumer durables;

(b) Loans to individuals against shares and debentures/bonds;

(c) Other non-priority sector personal loans;

(d) Advances/overdrafts against domestic/NRE/FCNR(B) deposits with the bank, provided that the deposit/s stands/stand either in the name(s) of the borrower himself/borrowers themselves, or in the names of the borrower jointly with another person;

(e) Finance granted to intermediary agencies (excluding those of housing) for on lending to ultimate beneficiaries and agencies providing input support;

(f) Finance granted to housing finance intermediary agencies for on lending to ultimate beneficiaries;

(g) Discounting of Bills;

(h) Loans/Advances/Cash Credit/Overdrafts against commodities subject to Selective Credit Control.

* Effective from May 1, 2004 to April 30, 2005. Since these are ceiling rates, banks are free to charge any rate below the ceiling rates.

Box II.4: Major Policy Announcements in the Mid-Term Review of Annual Policy for the year 2004-05

1. Monetary Measures

- Bank Rate was kept unchanged at 6.0 per cent; the repo rate was increased by 25 basis points to 4.75 per cent from 4.50 per cent effective October 27, 2004. The fixed reverse repo rate under LAF continues to remain at 6.0 per cent.
- Revised LAF was made operative with overnight fixed rate repo and reverse repo, and accordingly, auctions of 7-day and 14-day repo (reverse repo in international parlance) were discontinued from November 1, 2004.

2. Interest Rate Policy

- Ceiling interest rates on NRE deposits was raised by 50 basis points from the existing level of US dollar LIBOR/ SWAP rates of corresponding maturities.
- Banks to fix the ceiling on interest rates on FCNR(B) deposits on monthly basis.
- Minimum tenor of retail domestic term deposits (under Rs.15 lakh) can be reduced from 15 days to 7 days at the discretion of the banks.

3. Credit Delivery Mechanism

- The restrictive provisions of service area approach dispensed with, except for Government sponsored programme.
- The limit on advances under priority sector for dealers in agricultural machinery and for distribution of inputs for allied activities were enhanced from Rs.20 lakh to Rs.30 lakh and from Rs.25 lakh to Rs.40 lakh, respectively.
- Banks advised to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under special agricultural credit plans (SACP) by March 2007.
- Private sector banks urged to formulate SACPs from the year 2005-06.
- The composite loan limit for SSI entrepreneurs enhanced from Rs.50 lakh to Rs.1 crore.
- Investment by banks in securitised assets pertaining to SSI sector to be treated as their direct lending to SSI sector under the priority sector, subject to conditons.
- Banks with the approval of their Boards, allowed to extend direct finance to housing sector up to Rs.15 lakh under priority sector lending.
- Banks enabled to finance distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security.
- In view of the expertise gained by NBFCs in the area, bank could extend finance to NBFCs against second hand assets financed by them.

4. Money Market

- With effect from the fortnight beginning January 8, 2005, non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 30 per cent of their average daily lending in call/notice money market during 2000-01.
- The minimum maturity period of CP reduced from 15 days to 7 days with immediate effect, issuing and paying agents to report issuance of CP on the NDS by the end of the day effective from a future date, and a Group to be constituted to suggest rationalisation and standardisation of processing, settlement and documentation of CP issuance.

5. Government Securities Market

- Capital Indexed Bonds to be introduced during the year 2005-06 in consultation with the Government.
- To reduce the counter party risk, settlement of OTC derivatives through CCIL to be operationalised by March 2005.

6. Foreign Exchange Market

- General permission was given to ADs to issue guarantees/letters of comfort and letters of undertaking up to US $ 20 million per transaction for a period up to one year for import of all non-capital goods permissible under Foreign Trade Policy (except gold) and up to three years for import of capital goods, subject to prudential guidelines.
- 100 per cent Export Oriented Units (EOUs) and units set up under EHTPs, STPs and BTPs schemes to be permitted to repatriate the full value of export proceeds within a period of twelve months.
- The limit for outstanding forward contracts booked by importers/exporters increased, based on their past performance, from 50 per cent to 100 per cent of their eligible limit. However, the contracts booked in excess of 25 per cent of the eligible limits would be on deliverable basis.

7. Prudential Measures

- The risk weight in the case of housing loans and consumer credit increased from 50 per cent to 75 per cent and from 100 per cent to 125 per cent, respectively.
- Effective, March 31, 2005, an asset in respect of FIs would be classified as doubtful, if it remained in the sub-standard category for 12 months. FIs are permitted to phase out the consequent additional provisioning over a four-year period.
- Banks have been urged to make persistent efforts in obtaining consent from all their borrowers in order to establish an efficient credit information system.
- To constitute a Working Group on avoidance of conflicts of interest.
- To constitute a Working Group for evolving a framework for participation of banks in commodity futures market and examine the role of banks in providing loans against warehouse receipts.
- On the basis of the recommendation of the Working Group on Development Finance Institutions, approach for supervision of DFIs and large NBFCs proposed.
- With a view to smoothening the process of transition of RNBCs an approach to comply with Reserve Bank's direction on their investment portfolio proposed.

8. Payment and Settlement System

- The national settlement system (NSS) would be introduced in a phased manner and is expected to be operationalised in early 2005.
- The per transaction limits existing for Electronic Clearing System (ECS) and Electronic Fund Transfer (EFT) would be dispensed with, effective November 1, 2004.
- Central Board of Direct Taxes would grant refunds up to Rs.25,000 through ECS facility at select centres.
- High Powered Committee constituted for streamlining the systems and procedures in regard to transmission of data pertaining to excise duty and service tax.

in rural and semi-urban areas is treated as priority sector lending. In order to further improve flow of credit to the housing sector, banks, with the approval of their Boards, may extend direct finance to housing sector up to Rs.15 lakh, irrespective of location, as part of their priority sector lending. With a view to bringing in urban poor into formal financial system, banks were enabled to advance loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security.

2.34 Domestic scheduled commercial banks, that have shortfalls in the priority sector or agricultural lending targets, are allocated amounts for contribution to Rural Infrastructure Development Fund (RIDF) established with NABARD. However, in the event of failure to attain the stipulated targets and sub-targets by foreign banks, they are required to make good the shortfall by depositing for a period of one year, an equivalent amount with the Small Industries Development Bank of India (SIDBI) at rate of interest as may be decided by the Reserve Bank from time to time. The details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates payable on these deposits, period of deposits, *etc.*, are decided every year after the announcements in the Union Budget (Box II.5).

Credit to Agriculture

2.35 The declining share of agriculture in capital formation relative to its share in real GDP in recent years has been a cause of concern exacerbated by the declining credit-deposit ratio of the rural branches of SCBs. Additionally, several SCBs have been reporting shortfalls in lending to the priority sector including agriculture.

Box II.5: Rural Infrastructure Development Fund (RIDF)

The RIDF was established with NABARD in 1995-96 for assisting the State Governments and State-owned Corporations in expeditious completion of on-going projects relating to minor and medium irrigation, soil conservation, watershed management and other forms of rural infrastructure (such as rural roads and bridges, market yards, *etc.*). Subsequently, the RIDF was extended on a year-to-year basis by announcements in the Union Budget. In the Interim budget 2004-05, it was decided to set up a new fund in place of the RIDF to be named as Lok Nayak Jai Prakash Narayan Fund (LNJPNF). The LNJPNF set up with a corpus of Rs.50,000 spread over three years and comprising of three components *viz.*, finance for infrastructure development through State Governments, refinance for investments in agriculture, commercial infrastructure and selective cofinancing, and development measures and risk management, would replace the RIDF. However, the Union budget 2004-05 announced the revival of RIDF with revised guidelines.

The domestic scheduled commercial banks having shortfall in lending to the priority sector/agriculture targets are allocated amounts for contribution to RIDF.

The Fund has completed its ninth year of operation. Initially, irrigation projects were given a major thrust, while rural roads and bridges received priority from RIDF II onwards. Since then, many other activities such as rural drinking water schemes, soil conservation, rural market yards, rural health centres and primary schools, mini hydel plants, Shishu Shiksha Kendras, Anganwadis, system improvement under power sector, *etc.* were added to the list of eligible activities under RIDF. From RIDF V onwards, the ambit of RIDF was also extended to projects undertaken by Panchayat Raj Institutions and projects in social sector covering primary education, health and drinking water.

With a view to encouraging the flow of credit to agriculture, since RIDF VII, the interest rate on banks' contributions to RIDF has been linked inversely to the extent of shortfall in the agricultural lending *vis-à-vis* the stipulated target of 18 per cent. As regards interest received on loans granted out of RIDF VII, RIDF VIII and RIDF IX, NABARD retains a margin of 0.5 per cent and the balance interest spread earned is credited to the Watershed Development Fund.

In terms of the announcement made in the Union Budget for 2004-05, RIDF X has been established with NABARD with a corpus of Rs.8,000 crore[5]. The domestic scheduled commercial banks, (public and private sector banks) which reported shortfall in lending to the priority sector (40 per cent target) and/or agricultural sector (18 per cent target) as on the last reporting Friday of March 2004 have been advised to contribute for the corpus of RIDF X.

The banks will be paid interest on their contribution to the RIDF X at rates of interest inversely related to the shortfall in agricultural lending *vis-à-vis* the target of 18 per cent, as given in the table below.

Sr. No.	Shortfall in lending to agriculture in terms of percentage to Net Bank Credit	Rate of interest on the deposit (Per cent per annum)
1	Less than 2 percentage points	Bank Rate* (6 per cent at present)
2	2 and above, but less than 5 percentage points	Bank Rate minus 1 per cent
3	5 and above, but less than 9 percentage points	Bank Rate minus 2 per cent
4	9 percentage points and above	Bank Rate minus 3 per cent

*Bank Rate prevailing at the time of sanction of loans to State Governments by NABARD.

[5] For details of loans sanctioned and disbursed under RIDF, also see Table IV.25.

2.36 The Reserve Bank constituted an Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Shri V.S. Vyas), which submitted its Report in June 2004.[6] The recommendations made by the Committee are important in the context of expanding outreach of banks and improving flow of credit to the agriculture sector. While some of the recommendations of the Committee are being examined, other recommendations have been accepted for immediate implementation by banks (Box II.6).

Box II.6: Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System: Recommendations and Action Taken

The recommendations of the Committee that have been accepted by the Reserve Bank and advised to the banks for implementation are as under:

- Banks may waive margin/security requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh.
- Investment by banks in securitised assets representing direct (indirect) lending to agriculture may be treated as their direct (indirect) lending to agriculture under the priority sector.
- Loans to storage units, including cold storage units, which are designed to store agricultural produce/products, irrespective of their location, would be treated as indirect agricultural finance under the priority sector.
- Non-performing asset (NPA) norms for all direct agricultural advances, including direct agricultural term loans, may be modified with a view to aligning the repayment dates with the harvesting of crops.
- Micro-finance institutions (MFIs) would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.
- Banks may explore the possibilities like entering into tie-ups with major tractor and farm machinery manufacturers for financing the agriculturists in a cost-effective manner.
- The controlling authorities of banks may review the lapses, if any, in implementing the recommendations of the R. V. Gupta Committee relating to simplification of documentation, delegation of more powers to the branch managers, *etc.*, and take steps to rectify the situation.
- Banks should pay attention to their systems and procedures to make their lending cost-effective and also consider measures to save the borrower of avoidable expenses for getting a loan sanctioned.
- Banks may provide a separate flexible revolving credit limit to small borrowers of production and investment loans for meeting temporary shortfalls in family cash flows and also to evolve suitable credit products/packages.
- Banks may adopt measures to reduce the information gap about procedures. Application forms for loan products should contain a comprehensive checklist of documents/ information to be furnished as also procedural requirements to be complied with for availing of loans.
- Banks may explore financing of oral leessees on the basis of Joint Liability Group and SHG approach models through pilot projects until such time the State Governments address issues of legalising tenancy.
- Banks may address various issues such as delays/refusal to open savings account of SHGs, large number of branch visits required to access credit, inadequate credit support extended by banks, delays in renewal of credit limits and impounding of SHG savings as collateral for loans, *etc.* to make the access to financial services smooth and client-friendly.
- Banks may work in consort with the State Governments and finance various agronomic and water management development projects, wherever feasible.
- Banks may consider posting technical staff at their head/ controlling offices, placing top level executives in charge of rural credit and effecting rural posting of officers for a minimum of three to five years, absorbing more agricultural graduates for staffing rural branches of commercial banks.
- Banks may explore the possibilities of routing credit through post offices, outsourcing loan appraisal and monitoring *etc.,* to facilitators, subject to guidelines approved by their Boards of Directors.
- Banks may, based on their commercial judgement and the policies adopted by them, consider financing good working PACS.
- Banks may consider using low cost ATMs running on diesel generator sets for cash dispensation in rural areas. Wherever volume of business justifies it, computers in rural bank branches may be networked for a free flow of intra-branch and inter-bank information. Banks must formulate a time-bound programme for using IT in rural branches.
- Banks may design, with the approval of their Boards, an appropriate incentive structure for prompt repayment of their dues. Further, they may review and revise their project appraisal procedures to overcome some of the supply side factors contributing to non-recovery of loans.
- Banks may increasingly consider associating with contract farming, subject to availability of proper legal and regulatory framework in different states.
- The system of Special Agricultural Credit Plans (SACP) may be continued and may also be made applicable to private sector banks.
- The restrictive provisions of Service Area Approach may be dispensed with for lendings outside Government-sponsored schemes.
- Banks may raise credit to small and marginal farmers to 40 per cent of disbursements under SACP by the end of the Tenth Plan period.
- Ceilings on lending to dealers of agricultural machinery, cattle and poultry feeds and inputs of production may be reviewed in view of the need to enhance the availability of agricultural machinery, implements, inputs, *etc.*

Certain other recommendations of the Advisory Committee are being examined by the Reserve Bank in consultation with NABARD, IBA, Government of India and other concerned agencies.

[6] The Report is available on the Reserve Bank website.

2.37 The Government announced a package of measures on June 18, 2004 aimed at doubling agricultural credit in three years with a credit growth of 30 per cent for 2004-05. Pursuant to the announcement, the Reserve Bank and the IBA issued guidelines to commercial banks, while NABARD issued similar guidelines to co-operative banks and the RRBs. These guidelines include: (i) debt restructuring and provision of fresh loans to farmers affected by natural calamities; (ii) one-time settlement for small and marginal farmers; (iii) fresh finance for farmers whose earlier debts have been settled through compromise or write-offs; and (iv) relief measures for farmers indebted to non-institutional lenders. While the progress so far has been encouraging, banks have been urged to keep up the momentum.

Credit to Small-Scale Industries

2.38 Credit to SSIs is crucial from the point of view of the contributions made by small industries to GDP, to exports and to employment generation. Realising the critical role of small industries in the economy, the Reserve Bank has been addressing the issue of adequate supply of credit to this sector. The Reserve Bank Working Group on Flow of Credit to the SSI Sector (Chairman: Dr. A.S. Ganguly) submitted its Report in April 2004. A list of recommendations of the Group together with responses thereto has been put in the public domain (Box II.7). In order to enable banks to determine appropriate pricing of loans to small and medium enterprises (SMEs), Credit Information Bureau of India Ltd. (CIBIL) would work out a mechanism, in consultation with the Reserve Bank, SIDBI and IBA, for developing a system of proper credit records.

2.39 Following the announcement made in the annual policy Statement of 2004-05, a Special Group was constituted by the Reserve Bank (Chairman: Shri G. Srinivasan) to formulate a mechanism for restructuring of debt of medium enterprises on the lines of the Corporate Debt Restructuring (CDR) Scheme for large industries. The Group comprises representatives from SIDBI and commercial banks, and is expected to submit its Report shortly.

Export Credit

2.40 The Reserve Bank's initiatives towards simplification of procedures for export credit delivery were well accepted by the market as reflected in the survey on exporters' satisfaction conducted with the help of National Council of Applied Economic Research (NCAER) during 2001-02.

2.41 The Government (Ministry of Commerce and Industry) in consultation with the Reserve Bank, had indicated in the Exim Policy 2003-04 that a Gold Card Scheme would be worked out by the Reserve Bank for creditworthy exporters with good track record for easy availability of export credit on best terms. Accordingly, in consultation with select banks and exporters, a Gold Card Scheme has been drawn up. The salient features of the Scheme are: (i) all creditworthy exporters, including those in small and medium sectors with good track record would be eligible for issue of Gold Card by individual banks as per the criteria laid down by the latter; (ii) banks would clearly specify the benefits they would be offering to Gold Card holders; (iii) requests from card holders would be processed quickly by banks within a prescribed time-frame; (iv) 'in-principle' limits would be set for a period of 3 years with a provision for stand-by limit of 20 per cent to meet urgent credit needs; (v) card holders would be given preference in the matter of granting of pre-shipment credit in foreign currency; and (vi) banks would consider the waiver of collaterals and exemption from ECGC guarantee schemes on the basis of card holder's creditworthiness and track record. As indicated in the annual policy Statement of 2004-05, guidelines on Gold Card Scheme for creditworthy exporters with good track record, for easy availability of export credit, were issued to banks. Most of the public sector banks and many private sector and foreign banks have since announced such schemes.

Infrastructure Lending

2.42 An area where banks and FIs play an important role is that of infrastructure financing (Box II.8). Financing of infrastructure projects is characterised by large capital outlays, long gestation periods and high leverage ratios. In order to facilitate the free flow of credit to infrastructure projects, several policy measures have been taken by the Reserve Bank. In April 1999, the Reserve Bank introduced new guidelines relating to the financing of infrastructure projects, such as, the criteria for

Box II.7: Working Group on Flow of Credit to Small-Scale Industries Sector

The recommendations of the Working Group on Flow of Credit to Small-Scale Industries (SSI) Sector were examined by the Reserve Bank and on September 4, 2004, the Reserve Bank put out a list of recommendations which have been classified further as (i) those accepted with immediate effect, (ii) requiring further examination and (iii) which pertain to Government of India and other institutions.

The following recommendations have been accepted with immediate effect:

- A full-service approach to cater to the diverse needs of the SME sector may be achieved through extending banking services to recognised SME clusters by adopting a 4-C approach *viz.*, Customer focus, Cost control, Cross sell and Contain risk. A cluster based approach to lending may be more beneficial for: (i) dealing with well-defined and recognised groups; (ii) availability of appropriate information for risk assessment and (iii) monitoring by the lending institutions.
- Corporate-linked SME cluster models need to be actively promoted by banks and FIs. Banks linked to large corporate houses can play a catalytic role in promoting this model. Financing of SMEs linked to large corporates, covering suppliers, ancillary units, dealers, *etc.* would also enhance competitiveness of the corporates as well as the SME participants.
- Successful micro credit management models should be made use of by SIDBI and Lead Banks with a view to encourage the adoption of their work practices in other States.
- New instruments need to be explored for promoting rural industry and improve the flow of credit to rural artisans, industries and rural entrepreneurs.
- Higher working capital limits need to be taken into account while extending credit to such units located in hilly terrain and frequent flood areas with poor transportation system.

The recommendations of the Working Group that need further examination include:

- The need to have a dedicated National level SME Development Fund to play a catalytic role in the advancement of the SME sector. SIDBI may promote a NBFC (non-public deposit taking) exclusively for undertaking venture and other development financing activities for SMEs. Banks could also contribute to the corpus created by SIDBI (on risk sharing basis) or alternatively, set up their own venture financing instruments.
- The traditional sources of credit flow to the SME sectors (through public sector banks, Specialised SSI Branches, *etc.*) are unlikely to improve their services, at least, in the short and medium term. While public sector banks have inherent problems in extending credit to many SMEs due to historical reasons, it is necessary to explore ways to overcome such traditional problems:

a. Banks could promote and finance Special Purpose Vehicles (SPVs) in the form of micro credit agencies dedicated to servicing SME clusters. Banks could extend wholesale financial assistance to Non-Governmental Organisations (NGOs)/Micro Finance Intermediaries (MFIs) and work out innovative models for securitisation of the MFI receivable portfolio on the pattern of models in vogue in USA and other countries. Such SPVs may be extended necessary support through various fiscal/taxation measures by the Government.

b. Such micro credit intermediaries as in the form of NBFCs (funded by individual or a group of banks but not permitted to accept public deposits) could credit-rate and risk assess, and serve as instruments for extending quick credit to SME clusters, accredited to them.

c. Large banks can directly extend credit and banking services to (i) SMEs linked to large corporates and (ii) to identified SME clusters which are credit-rated. The micro credit intermediary (SME-specific NBFC) funded by banks (individually or in groups) could be an alternate source to speed up credit access to stand alone clusters of product/service specific SMEs. Recognising the acute problems faced by SMEs, for tiny and village industry sectors, particularly in the North Eastern region of the country, special instruments, besides NBFCs, *etc.* need to be tailored, dedicated and funded.

- A uniform target in priority sector lending (including SSI) at 40 per cent of net bank credit for all domestic and foreign banks has been recommended with a view to providing a level playing field for all banks. To ensure active participation in the faster development of the priority sector, the following suggestions were made:

a. The tenure of the deposits representing shortfall in lending to the priority sector by foreign banks with SIDBI, be increased to a period of three years in order to enable SIDBI to better manage disbursal to SME sector.

b. Risk sharing mechanisms between foreign banks and SIDBI needs to be worked out: (i) on credit extended to the SME sector by SIDBI and (ii) interest rate payable by SIDBI to foreign banks on priority sector lending shortfall deposits, may be pegged at a rate which does not act as an incentive for the foreign banks to keep the deposit with SIDBI, rather than directly meeting the credit needs of the SME sector.

The third list comprises recommendations such as those relating to definition of SME sector, role of Credit Guarantee Fund Trust for Small Industry (CGTSI), repealing of State Finance Corporation (SFC) Act and privatisation of SFCs, rating mechanism for industrial clusters, conversion of Technology Bureau of Small Enterprises into an independent Technology Bank are under consideration of the Ministry of Small Scale Industries (MoSSI), Government of India and other agencies such as SIDBI, CGTSI, CIBIL and IBA.

Box II.8: Financing Infrastructure: The Role of Banks and Financial Institutions

Governments, donors and the private sector including commercial lenders are the major source of funding for infrastructure. For the Government, the source of funds comprise of own-revenues and borrowings. In the case of developing countries, the creditworthiness of the State and local Governments and the low level of efficiency of the entities delivering infrastructure services are the major issues in their ability to access the capital markets. Some countries in which the credit markets are not well developed, or in which local Governments have limited access to credit, infrastructure banks have been created to allow local Governments to finance infrastructure investments.

Donors constitute the next major group for financing infrastructure. It has been estimated that US $ 4 billion of housing and infrastructure is financed by donors in developing countries each year which forms roughly 3-4 per cent of the total investment financing. For developing countries, the Government and donors need to work together to ensure a selection of economically efficient projects and technologies.

Private equity financing takes place when the private sector has ownership or partnership interest in the infrastructure. This can involve some kind of build-operate-transfer (BOT) arrangement, in which the private sector builds and then operates for some period, after which the facility is transferred to the Government. BOT arrangement has been tried in India in financing construction and maintenance of roads and bridges. An alternative to BOT arrangement is concessions, where a private firm contracts with the Government to operate or expand an existing component of the infrastructure. Concessions have been more common than BOT arrangements, and perhaps, offer much greater potential. The advantages of private equity financing include: (i) access to resources that otherwise would be unavailable; (ii) lowering the public sector's risk of making bad investments; (iii) innovations, *viz.*, service delivery agency.

The main consideration for banks and FIs in financing infrastructure projects lies in the creditworthiness of the borrowing entities and the viability of projects. Poor creditworthiness of local Government institutions/public sector undertakings entrusted with the responsibility for creating and maintaining infrastructure services, and inadequate user charges/taxes, make it difficult for the banks and FIs to fund the infrastructure especially in the developing countries. The credit enhancement of infrastructure projects by Governments through full guarantees has been resorted to in many countries. However, credit enhancement should not be used as a substitute for due diligence. Fiscal incentives in the form of tax-exemptions and regulatory relaxations provided to banks and other financial institutions by Central Banks may act as a catalyst to encourage flow of credit to the infrastructure sector. This should be combined with creation of an enabling lending environment by the Government by undertaking critical reforms in the infrastructure sector.

Financing mechanisms need to provide appropriate incentives and support for reforms to ensure long-term sustainability of investments and improve efficiency of resource utilisation. The mechanisms also need to use limited public resources to help leverage additional resources from the private sector and community. Innovative financing structures including credit enhancement techniques can reduce the cost of funding infrastructure services and mitigate the risks by distributing them across various stakeholders.

References :

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financing, the types of financing, the appraisal, the regulatory compliance/concerns, the administrative arrangements and the inter-institutional guarantees.

2.43 In view of the critical importance of the infrastructure sector as also the high priority being accorded to this sector, certain relaxations relating to regulatory and prudential aspects were allowed to banks since 1999-2000 to boost credit flow to this sector. These measures, *inter alia*, included: (i) enhancing the scope of definition of infrastructure lending, (ii) relaxing the prudential single borrower exposure limit from 15 per cent to 20 per cent of capital funds in respect of infrastructure companies providing infrastructure facilities, (iii) assigning a concessional risk weight of 50 per cent on investment in securitised paper satisfying certain conditions pertaining to an infrastructure facility, (iv) permitting lending to SPVs in the private sector, registered under Companies Act, for directly undertaking viable infrastructure projects subject to certain conditions and (v) lending to promoters, with certain safeguards and where appropriate, for acquiring a controlling stake in existing infrastructure companies.

2.44 In the annual policy Statement of 2004-05, it was proposed to further expand the scope of definition of infrastructure lending by including the following projects/sectors relating to

Box II.9: Definition of Infrastructure Lending

Any credit facility in whatever form extended by lenders (*i.e.*, banks, FIs or NBFCs) to an infrastructure facility as specified below falls within the definition of 'infrastructure lending'. In other words, it is a credit facility provided to a borrower company engaged in developing or operating and maintaining, any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature:

(i) a road, including toll road, a bridge or a rail system;

(ii) a highway project including other activities being an integral part of the highway project;

(iii) a port, airport, inland waterway or inland port;

(iv) a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;

(v) telecommunication services whether basic or cellular, including radio paging, domestic satellite service (*i.e.*, a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;

(vi) an industrial park or special economic zone;

(vii) generation or generation and distribution of power;

(viii) transmission or distribution of power by laying a network of new transmission or distribution lines;

(ix) construction relating to projects involving agro-processing and supply of inputs to agriculture;

(x) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;

(xi) construction of educational institutions and hospitals.

agricultural sector and social infrastructure: (i) construction relating to projects involving agro-processing and supply of inputs to agriculture; (ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and (iii) construction of educational institutions and hospitals (Box II.9). With a view to providing a boost to infrastructure lending, as per the guidelines issued on June 11, 2004, banks have been allowed to raise long-term bonds with a minimum maturity of five years to the extent of their exposure of residual maturity of more than five years to the infrastructure sector. It is intended that banks should have first provided assistance to such infrastructure projects before raising resources through bonds. Keeping in view the importance of infrastructure financing at the State level, in consultation with the State Finance Secretaries, a Working Group on Credit Enhancement by State Governments for Financing Infrastructure has been constituted with members drawn from the Central Government, State Governments, select banks, FIs and the Reserve Bank. The Group is examining the instruments of credit enhancement which the State Governments could offer to improve the rating/borrower capability of State PSUs/SPVs in order to attract institutional financing for infrastructure projects.

2.45 In view of the expertise gained by NBFCs in financing second hand assets and to encourage credit dispensation, in the mid-term Review of annual policy for 2004-05, banks were allowed to extend finance to NBFCs against second hand assets financed by them, provided suitable loan policies duly approved by the banks' Boards are put in place.

2.46 With a view to further developing the corporate debt market, a Group was constituted with members from the Reserve Bank, Securities and Exchange Board of India (SEBI) and other market participants. The Group *inter alia,* would examine the issues relating to primary issuance as well as growth of secondary market; regulatory aspects for the development of Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS); and trading, settlement and accounting of corporate debt securities. The Group is expected to submit its Report in January 2005.

3. Prudential Regulation

2.47 Regulation of financial institutions, particularly of banks, is important from the point of view of financial system stability, which not only helps the institutions to perform better but also improves the overall performance of the economy (Box II.10). A key element of the ongoing financial sector reforms has been strengthening of the prudential and supervisory framework, which has been done on an ongoing basis through developing sound risk management systems and enhancing transparency and accountability. With a paradigm shift from micro-regulation to

Box II.10: Special Nature of Banks

Over the last two decades, the theory of finance has offered significant contributions to the understanding of banks and identifying the specific aspects that qualify them as special financial intermediaries. Banks have historically developed comparative advantage *vis-à-vis* other types of intermediaries over different functions (such as liquidity and payment services, credit supply, and information provision). Banks are 'special' as they not only accept and deploy large amounts of uncollateralised public funds in a fiduciary capacity, but also leverage such funds through credit creation. Banks thus, have a fiduciary responsibility. The deployment of funds mobilized through deposits involves banks in financing economic activity and providing the lifeline for the payments system. The banking system is something that is central to a nation's economy; and that applies whether the banks are local-based or foreign-owned. A World Bank study examines the way banking and non-banking finance interact during different stages of economic development, producing various efficiency/ stability configurations.

The owners or shareholders of the banks have only a minor stake and the considerable leveraging capacity of banks (more than ten to one) puts them in control of very large volume of public funds inspite of their own stake being very small. In a sense, therefore, the owners act as trustees and as such must be fit and proper for the deployment of funds entrusted to them. The sustained stable and continuing operations depend on the public confidence in individual banks and the banking system. The speed with which a bank under a run can collapse is incomparable with any other organisation. For a developing economy, there is much less tolerance for downside risks among depositors many of whom place their life savings in the banks. Hence from a moral, social, political and human angle, there is an onerous responsibility on the regulator. Concentrated shareholding in banks controlling huge public funds does pose issues related to the risk of concentration of ownership because of the moral hazard problem and linkages of owners with businesses. Hence diversification of ownership is desirable as also ensuring fit and proper status of such owners and directors. However, with diversified ownership, there is, perhaps, an even greater concern over corporate governance and professional management in order to safeguard depositors' interest and ensure systemic stability. The regulatory and supervisory framework therefore has to ensure that banks have adequate capital to cushion risks that are inevitable in their operations, follow prudent and transparent accounting practices and are managed in accordance with the best practices for risk management. Banks are, thus, regarded as special type of financial intermediaries that need a differentiated treatment by regulatory authorities including special protective measures from competition in the risk of failure.

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prudential regulation and macro-management, the emphasis is on strengthening prudential norms by the adoption of appropriate international benchmarks. A review of the progress made on the implementation of the recommendations of the Reports of the 11 Advisory/Technical Groups constituted by the Standing Committee on International Financial Standards and Codes was considered by a panel of advisers. Taking into account the suggestions of the panel, a revised draft report is being placed in the public domain. The important elements of prudential supervision of Indian banks are discussed below.

Ownership and Governance of Banks

2.48 The largest banks in India are still in the public sector, and these control over 75 per cent of the total banking sector assets. Competition has been infused by allowing new private sector banks, a more liberal entry of foreign banks and a gradual deregulation of the banking sector. A number of initiatives have been taken relating to ownership and governance of banks.

2.49 The guidelines issued in February 3, 2004 on acknowledgement of transfer/allotment of shares in private sector banks would be applicable for any acquisition of shares of five per cent and above of the paid-up capital of a private bank. The objective is to put in place a mechanism which ensures that shareholders whose aggregate holdings above the specified thresholds meet the fitness and propriety tests before grant of acknowledgement of transfer of shares. In determining whether the applicant

(including all entities connected with the applicant) is 'fit and proper' to hold the position of a shareholder at the lowest threshold of five per cent and above, the Reserve Bank takes into account all relevant factors, including among other criteria, the applicant's integrity, reputation and track record in financial matters and compliance with tax laws, which are necessary to protect the interests of the depositors and integrity of the financial system.

2.50 The underlying principles of the draft comprehensive policy framework for ownership and governance in private sector banks which was put in the public domain on July 2, 2004 for discussion and feedback *inter alia* were to ensure that the ultimate ownership and control of private sector banks is well diversified, important shareholders (*i.e.*, shareholding of five per cent and above) are 'fit and proper' as laid down in the guidelines dated February 3, 2004, and the directors and the CEO who manage the affairs of the bank are 'fit and proper' as laid down in the circular dated June 25, 2004, and observe sound corporate governance principles. The draft policy on ownership and governance of private banks is in line with the international best practices. Based on the responses received and dialogues with various stakeholders, a second draft on the policy framework has been finalised and would be placed in public domain shortly.

Foreign Direct Investment (FDI) in Banking

2.51 Foreign investment in banking is governed by the FDI policy of Government of India. In case of a nationalised bank, a ceiling of 20 per cent on all types of foreign investment in the paid up capital has been stipulated in terms of the provisions of Banking Companies (Acquisition & Transfer of Undertakings) Acts, 1970/80. In respect of investment by NRIs in the private sector banks, the policy restricted NRI investments to 40 per cent and FDI to 20 per cent, subject to the condition that the combination of NRI investment and FDI should also be within the overall prescribed ceiling of 40 per cent foreign equity in the sector. Foreign Institutional Investors (FIIs) were allowed to acquire 24 per cent in addition to the 40 per cent limit.

2.52 With liberalisation of the FDI regime, FDI in the banking sector was brought under the automatic route. In terms of the Government of India announcement dated May 21, 2001, FDI up to 49 per cent from all sources was permitted in private sector banks under the automatic route, subject to conformity with the guidelines issued by the Reserve Bank from time to time. The foreign investment includes, *inter alia,* shares issued in IPOs, private placements, ADRs/GDRs and acquisition of shares from existing shareholders with Foreign Investment Promotion Board (FIPB) approval. Issue of shares under automatic route is not available to those foreign investors who have financial or technical collaboration in the same or allied field; such cases in fact require FIPB approval.

2.53 With a view to further liberalising foreign investment in the banking sector, the Government announced an increase in the FDI limit in private sector banks from 49 per cent to 74 per cent under automatic route including investment by FIIs subject to guidelines issued by the Reserve Bank from time to time (March 5, 2004). Foreign investment in private sector banks from all sources would be permissible up to a composite ceiling of 74 per cent of the paid-up capital of the bank. This would include FDI, investments under Portfolio Investment Scheme (PIS) by FIIs, NRIs and shares acquired prior to September 16, 2003 by OCBs, IPOs, private placements, GDRs/ADRs and acquisition of shares from existing shareholders. However, the FII investment limit cannot exceed 49 per cent, within the aggregate foreign investment ceiling of 74 per cent of the paid up capital and at all times, at least 26 per cent of the paid up capital would have to be held by residents. Detailed guidelines in this regard are under consideration of the Reserve Bank.

Exposure Norms

2.54 The Reserve Bank has prescribed regulatory limits on banks' exposure to individual and group borrowers in India to avoid concentration of credit, and has advised the banks to fix limits on their exposure to specific industries or sectors (real estate, capital market, *etc.*) for ensuring better risk management. In addition, banks were also required to observe certain statutory and regulatory exposure limits in respect of advances against investments in shares, debentures and bonds.

Credit Exposures to Individual /Group Borrowers

2.55 Taking into account the international best practices, it has been decided to adopt the concept of capital funds as defined under capital adequacy standards for determining exposure ceiling

uniformly by both domestic and foreign banks, effective from March 31, 2002. Banks have been allowed to assume single/group borrower credit exposure up to 15 per cent and 40 per cent of capital funds, respectively, with respective additional allowance of 5 per cent and 10 per cent of capital funds for exposure to the infrastructure sector. In addition, it has been decided in June 2004 that banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further five per cent of capital funds (*i.e.*, 20 per cent for single borrower and 45 per cent for group borrowers). In respect of exposure to infrastructure, banks could consider additional sanctions up to five per cent and 10 per cent as indicated above, over and above the limits of 20 per cent and 45 per cent, respectively. The exposure limits will be applicable even in case of lending under consortium arrangements, wherever formalised. While computing the extent of above-stated borrower exposures *vis-à-vis* respective limits, the exemptions allowed pertain to: (i) credit facilities (including funding of interest and irregularities) granted to weak/sick industrial units under rehabilitation packages; (ii) borrowers to whom limits are allocated directly by the Reserve Bank, for food credit; (iii) principal and interest that are fully guaranteed by the Government of India and (iv) loans and advances granted against the security of bank's own term deposits.

Unhedged Foreign Currency Exposure of Corporates

2.56 To ensure a policy that explicitly recognises and takes account of risks faced by banks arising out of foreign exchange exposure of their clients, foreign currency loans above US $ 10 million (or such lower limits as may be deemed appropriate *vis-à-vis* the banks' portfolios of such exposures), would be extended only on the basis of a well laid out policy with regard to hedging of such foreign currency loans. Further, the policy for hedging framed by the bank's Boards could exclude the following: (i) forex loans that are extended to finance exports, provided the customers have uncovered receivables to cover the loan amount and (ii) forex loans that are extended for meeting forex expenditure. A recent study of select banks revealed that though most banks have adopted policies mandated by their Boards, banks often rely on 'natural hedge' available with their customers. Further, information on the total exposure of the corporate clients was also not readily available with banks. In view of the systemic risk, banks are being encouraged to obtain information from their large borrowers on their unhedged forex exposures, so that the banks, in turn, can assess the risk of their own exposure to such corporates on an on-going basis.

Margin on Advances against Shares/Issue of Guarantees

2.57 With effect from January 3, 2004, the margin requirement on all advances/financing of IPOs/issue of guarantees by banks has been raised from 40 per cent to 50 per cent. Further, banks have been advised to maintain a minimum cash margin of 25 per cent (within the overall margin of 50 per cent) in respect of guarantees issued by banks. However, with effect from May 18, 2004, when the equity market slipped sharply, the margins have been restored *status quo ante* and margin requirement on all advances against shares/financing of IPOs/issue of guarantees has been reduced to 40 per cent. In respect of guarantees issued by banks for capital market operations, banks have been advised to maintain a minimum cash margin of 20 per cent (within the overall margin of 40 per cent).

Bank Finance to Employees to buy Shares of their Own Companies

2.58 The instruction that banks could provide finance up to Rs.50,000 or six months' salary, whichever is less, to assist employees to buy shares of their own companies has been reviewed in view of several companies offering Employee Stock Options (ESOPs) and employee quota in their IPOs as also introduction of robust system of assessing risks in many banks. Banks have been advised on February 6, 2004 that while extending finance to employees for purchasing shares of their own companies either under ESOP or IPO, they may take their own decision subject to extant regulations including margin requirement on IPO financing. However, all such financing should be treated as part of the banks' exposure to capital market within the overall ceiling of 5 per cent of banks' total outstanding advances, as on March 31 of the previous year. Further, these instructions would not be applicable to banks extending financial assistance to their own employees for acquisition of shares under ESOP/IPO. The issue of declaration of dividends by banks has also been revisited (Box II.11).

Box II.11: Declaration of Dividend by Banks

The policy approach adopted with regard to payment of dividends by banks has been reviewed by the Reserve Bank and it was decided in April 2004 that the regulatory focus on payment of dividend should shift from 'dividend rate' to 'dividend payout ratio'. The criteria for declaration of dividend was revised by the Reserve Bank and as per the revised guidelines, banks are required to fulfil certain criteria for becoming eligible for the declaration of dividend *viz.*, the bank should have CRAR of at least 11 per cent in preceding two completed years and the accounting year for which it proposes to declare dividend, and carrying net NPA less than 3 per cent. In addition, the bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949, the prevailing regulations/guidelines issued by the Reserve Bank, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to Statutory Reserves and Investment Fluctuation Reserves.

Banks, which qualify to declare dividend are eligible to pay dividend without obtaining the prior approval of the Reserve Bank, subject to compliance with the following: (i) the dividend payout ratio does not exceed 33.33 per cent, (ii) the proposed dividend should be payable out of the current year's profit, (iii) dividend payout ratio is calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year', (iv) in case the profit for the relevant period includes any extra-ordinary profits/income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio ceiling of 33.33 per cent; and (v) the financial statements pertaining to the financial year for which the bank is declaring a dividend be free of any qualifications by the statutory auditors, which have an adverse bearing on the profits during the year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

Banks, which comply with all the above conditions but desire to declare dividend higher than 33.33 per cent are required to obtain prior approval of the Reserve Bank for declaration of such higher dividend and such requests would be considered by the Reserve Bank on a case-to-case basis. Banks satisfying the above criteria are also eligible to declare interim dividend out of the relevant accounting period's profit without prior approval of the Reserve Bank. However, the cumulative interim dividend(s) should be within the prudential cap on dividend payout ratio (*viz.*, 33.33 per cent) computed for the relevant accounting period. For declaration and payment of interim dividends beyond the prescribed ceiling, the Reserve Bank's prior approval has to be sought.

In case any bank does not meet the criteria prescribed, it should obtain the prior approval of the Reserve Bank before declaring any dividend. The requests received from these banks would be considered by the Reserve Bank on a case-to-case basis.

All banks declaring dividends should report details of dividend declared during the accounting year as per the prescribed proforma. The revised guidelines have been made applicable from the accounting year ended March 31, 2004 onwards.

Limits on Exposure to Unsecured Guarantees and Unsecured Advances

2.59 The instruction that banks have to limit their commitment by way of unsecured guarantees in such a manner that 20 per cent of the bank's outstanding unsecured guarantees plus the total of outstanding unsecured advances do not exceed 15 per cent of total outstanding advances has been withdrawn to enable banks' Boards to formulate their own policies on unsecured exposures. Simultaneously, all exemptions allowed for computation of unsecured exposures stand withdrawn. However, with a view to ensuring uniformity in approach and implementation, the expression 'unsecured exposure' is defined as an exposure where the realisable value of the security is not more than 10 per cent, *ab-initio,* of the outstanding exposure and the term 'security' means tangible security properly charged to the bank. Further, the unsecured 'substandard' assets would attract additional provision of 10 per cent, *i.e.*, a total of 20 per cent on the outstanding balance; however, the provisioning requirement for unsecured 'doubtful' assets would remain unchanged at 100 per cent.

Guidelines on KYC Norms for Existing Accounts

2.60 Banks have been advised to complete the KYC procedures in respect of all existing accounts in a phased manner by December 2004. In order to ensure timely completion of the procedures, it has been decided in June 2004 that banks may limit the application of KYC procedures to existing accounts where the credit or debit summation for the financial year ended March 31, 2003 is more than Rs.10 lakh or where unusual transactions are suspected. They may, however, ensure that KYC procedures are applied to all existing accounts of trusts, companies/firms, religious/charitable organizations and other institutions or where the accounts are opened through a mandate or power of attorney.

Consolidated Accounting and Supervision

2.61 In terms of guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision, banks have *inter alia* been advised that as a prudential measure aimed at better risk management and avoidance of concentration of credit risks, in addition to adherence to prudential limits on exposures assumed by banks, banks should also adhere to the following prudential limits on single and group borrower exposures: capital market exposures (not to exceed 2 per cent of its total on-balance-sheet assets, excluding intangible assets and accumulated losses, as on March 31 of the previous year); within the total limit, investment in shares, convertible bonds and debentures and units of equity oriented mutual funds should not exceed 10 per cent of consolidated bank's net worth and exposures by way of unsecured guarantees and unsecured advances (as formulated by the Boards of the banks).

Inter-Regulatory Working Group on Financial Conglomerates

2.62 An analysis of consolidated prudential returns for the half-year ended March 31, 2003 revealed that banks complied with regulatory requirements both on an individual basis and on a group-wide basis. In this context, the Reserve Bank constituted a Working Group to examine the framework for the complementary supervision of financial conglomerates. The major recommendations of the Working Group on Financial Conglomerates include: (i) identifying financial conglomerates for focused regulatory oversight; (ii) capturing intra-group transactions and exposures amongst 'group entities' within the identified financial conglomerates and large exposures of the group to outside counter parties; (iii) identifying a designated entity within each group to furnish group data to the principal regulator for the group; and (iv) formalising a mechanism for inter-regulatory exchange of information. The Working Group further recommended that segments under the jurisdiction of the Reserve Bank, SEBI, IRDA and NHB would be subjected to complementary regulation. The framework could later be extended to the segment covered by the Pension Fund Regulatory and Development Authority consequent upon its formation. The new reporting framework would track: (i) any unusual movement in respect of intra-group transactions manifested in major markets; (ii) build up of any disproportionate exposure (both fund based and non-fund based) of any entity to other group entities; (iii) any group-level concentration of exposure to various financial market segments and outside counterparties; and (iv) direct/indirect cross-linkages amongst group entities. Individual intra-group transactions beyond threshold levels (Rs.1 crore for fund based transactions and Rs.10 crore for others) would be included in the reporting format, supplemented by including exposure ceilings in respect of intra-group exposures. Pending the evolution of a legal framework for inter-regulatory coordination, three regulators, *viz.*, the Reserve Bank, SEBI and IRDA could sign a Memorandum of Understanding (MoU) to provide sanctity to the proposed framework. The Report of the Group was placed on the Reserve Bank website, and following actions were initiated: (i) twenty four conglomerates have been identified and the first report based on the format recommended by the Group is under compilation; (ii) a nodal cell has been established at the Reserve Bank for smooth implementation of the framework. A Technical Committee with representatives from all three regulators has been interacting and addressing issues arising out of the reporting requirements.

Working Group on Conflicts of Interest in the Indian Financial Services Sector

2.63 There is increasing concern internationally about the impact of the conflicts of interest in the financial sector. Legislative and regulatory measures have been adopted by different countries to ensure that conflicts of interest are not allowed to compromise the interest of stakeholders and public at large. These measures are intended to have positive impact on investor confidence, efficacy of the regulatory framework and, above all, the credibility of those associated with the financial services. Accordingly, in consultation with Chairman, SEBI and Chairman, IRDA, a Working Group on avoidance of conflicts of interest has been constituted with a view to identify the sources and nature of potential conflicts of interest, the international practices to mitigate this problem, the existing mechanisms prevalent in India, and make recommendations for avoidance of such conflicts of interest. The Group would submit its Report by February 2005.

Capital Adequacy/Risk Weights

2.64 In view of the management of cross border capital flows following oil-crisis and international debt crisis, the 1988 Basel Accord prescribed a common minimum capital standard to banking industry of Group of Ten (G-10) to be achieved by 1992. With a view to adopting the Basle Committee framework on capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, the Reserve Bank decided in April 1992 to introduce a Risk Asset Ratio system for banks (including foreign banks) in India as a capital adequacy measure. Essentially, under the above system the balance sheet assets, non-funded items and other off-balance sheet exposures are assigned weights according to the prescribed risk weights and banks have to maintain unimpaired minimum capital funds equivalent to the prescribed ratio on the aggregate of the risk weighted assets and other exposures on an ongoing basis.

Basel II Developments

2.65 The Basel Committee on Banking Supervision (BCBS) released the International Convergence of Capital Measurement and Capital Standards on June 26, 2004 which is expected to be implemented by the end of 2006 (Box II.12). The main objective for revision in the 1988 Accord was to develop a framework that would further strengthen the soundness and stability of the international banking system by promoting adoption of stronger risk management practices by the banking industry. Since well-established risk management system is a pre-requisite for implementation of advanced approaches under Basel II, banks have been advised to undertake a self-assessment of the existing risk management systems, and to concurrently initiate appropriate measures to upgrade them to match up to the minimum standards prescribed under Basel II. Further, in view of the complexities involved in migrating to Basel II, a Steering Committee comprising members from banks, IBA and the Reserve Bank has been constituted. The Steering Committee would form sub-groups for purposes of assisting it on various matters. On the basis of the inputs received from the Steering Committee, the Reserve Bank would prepare draft guidelines for implementation of Basel II norms and place them in public domain.

2.66 In the annual policy Statement of April 2002, banks have been advised to adopt the Basel norm for capital charge for market risk. As a further step in this direction, the Reserve Bank issued draft guidelines on computing capital charge for market risk to select banks seeking their comments. With a view to ensuring smooth transition to Basel II norms, it was proposed in the annual policy Statement of 2004-05 to phase the implementation of capital charge for market risk over a two-year period (Box II.13).

Investment Fluctuation Reserve

2.67 In order to be better positioned to meet the interest rate risk, banks have been advised in May 2002 to build up an Investment Fluctuation Reserve (IFR) within five years which should be a minimum of 5 per cent of their investments in 'Held for Trading' (HFT) and 'Available for Sale' (AFS) categories. Banks have been urged, in December 2003, to achieve the stipulated five per cent of their investment portfolio within a period of five years. Banks are also free to build up a higher percentage of IFR up to 10 per cent of their AFS and HFT investments. As at end-March 2004, banks had built up IFR up to 3.0 per cent.

2.68 In view of representations received from banks to review the existing guidelines of classification of investments to bringing them in alignment with international practices and current state of risk management practices in India, an Internal Group to review the existing guidelines is being set up by the Reserve Bank. With the recent trends in interest rates, some of the risks have crystallised. However, there has been some cushion for banks given the conservative accounting norms which do not permit banks to recognise unrealised gains in their portfolio, while requiring them to provide for any known depreciation in their value. On September 2, 2004, banks have been permitted to exceed the present limit of 25 per cent of total investments under Held to Maturity (HTM) category provided the excess comprised only of SLR securities, and the total SLR securities held in the HTM category was not more than 25 per cent of their Demand and Time Liabilities (DTL) as on the last Friday of the second preceding fortnight. To enable the above, as a one-time

Box II.12: Basel II: A Revised Framework

Central bank governors and the heads of bank supervisory authorities in the G-10 countries endorsed the revised new capital adequacy framework commonly known as Basel II. The Committee's first round of proposals for revising the capital adequacy framework came out in June 1999, which was followed by additional proposals for consultation in January 2001 and April 2003 and quantitative impact studies related to its proposals. The Committee expects its members to move forward with the appropriate adoption procedures in their respective countries, so that the revised framework is available for implementation as on year-end 2006.

Although the framework has been developed keeping in mind the internationally active banks, supervisory authorities worldwide are being encouraged to consider adopting this revised Framework at such time as consistent with their broader supervisory priorities. Each national supervisor should consider carefully the benefits of the revised Framework in the context of its domestic banking system when developing a timetable and approach for implementation. Given the resource and other constraints, these plans may extend beyond the Committee's implementation dates, and also implementation of Basel II in the near future may not be the first priority for supervisors in several non-G10 countries. The IMF and World Bank are of the view that future financial sector assessments would not be conducted on the basis of adoption of or compliance with the revised Framework, but would be based on the country's performance relative to the chosen standards. Supervisors are being encouraged to consider implementing key elements of the supervisory review and market discipline components of the new Framework even if the Basel II minimum capital requirements are not fully implemented by the implementation date. The Accord Implementation Group (AIG) of the Basel Committee on Banking Supervision (BCBS) is entrusted to promote consistency in the Framework's application by encouraging supervisors to exchange information on implementation approaches.

The revised Framework continued to be based on three pillar (minimum capital requirements, supervisory review, and market discipline) approach. In the revised framework, some of the key elements of the 1988 capital adequacy framework have been retained, including the general requirement for banks to hold total capital equivalent to at least 8 per cent of their risk-weighted assets; the basic structure of the 1996 Market Risk Amendment regarding the treatment of market risk; and the definition of eligible capital. An attempt has, however, been made to arrive at significantly more risk-sensitive capital requirements – to institute internal ratings-based (IRB) approach in place of the broad brush standardised approach of 1988 Accord, that are conceptually sound and at the same time pay due regard to particular features of the present supervisory and accounting systems in individual member countries. A range of options for determining the capital requirements for credit risk and operational risk have been provided.

The need for banks and supervisors to give appropriate attention to the second (supervisory review) and third (market discipline) pillars of the revised Framework has also been highlighted. The interactions between regulatory and accounting approaches at both the national and international level can have significant consequences for the measures of capital adequacy and for the costs associated with the implementation of these approaches. In the most recent consultations, issues such as changes in the approach to the treatment of expected losses and unexpected losses and to the treatment of securitisation exposures, changes in the treatments of credit risk mitigation and revolving retail exposures, have been incorporated. The need for banks using the advanced IRB approach to incorporate the effects arising from economic downturns into their loss-given-default (LGD) parameters has also been highlighted. It is, however, necessary to ensure that the Framework keeps pace with market developments and advances in risk management practices.

The new capital adequacy framework (Basel II) also raises a variety of implementation challenges for both supervisors and banks. Taking this into account, the Financial Stability Institute (FSI), in coordination with BCBS, developed a Basel II Implementation Assistance Questionnaire to identify Basel II implementation plans and to determine corresponding capacity building needs in the non-BCBS supervisory community. Out of the 107 jurisdictions in Africa, Asia, the Caribbean, Latin America, the Middle East and non-BCBS Europe, 88 non-BCBS jurisdictions intend to adopt Basel II. Therefore, taking into account the 13 BCBS member countries, more than 100 countries worldwide will be implementing Basel II. With regard to the timeframe for adopting the new capital adequacy framework, Basel II would be implemented widely across regions during 2007-09. One of the major drivers for moving to Basel II in non-BCBS jurisdictions seems to be the intended implementation of this framework locally by foreign controlled banks or local branches of foreign banks. For Pillar 1 - minimum capital requirements - the foundation internal ratings-based (IRB) approach is envisaged to be the most used methodology for calculating capital requirements for credit risk (in terms of banking assets moving to Basel II) closely followed by the (simplified) standardised approach. As regards allocating capital for operational risk, the basic indicator approach is anticipated to be widely employed across regions. The challenge regarding Pillar 2 implementation relates to acquiring and upgrading the human and technical resources necessary for the review of banks' responsibilities under Pillar 1. An additional area of concern is the coordination of home and host supervisors in the cross-border implementation of Basel II. With regard to Pillar 3, the primary challenge seems to be that of aligning supervisory disclosures with international and domestic accounting standards.

Reference:

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Box II.13: Capital Charge for Market Risk

As per the capital adequacy requirements laid out by the Basel Committee on Banking Supervision (BCBS), banks are required to build capital for market risks in addition to their credit risk. The market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The market risk positions subject to capital charge requirement include: (i) risks pertaining to interest rate related instruments and equities in the trading book; and (ii) foreign exchange risk (including open position in precious metals) throughout the bank (both banking and trading books). The BCBS had issued the 'Amendment to the Capital Accord to incorporate market risks' in January 1997 which provided a detailed account of the methodology to set capital requirements for market risks.

In India, as an initial step towards prescribing capital charge for market risks, banks have been advised to: (i) assign an additional risk weight of 2.5 per cent on the entire investment portfolio; (ii) assign a risk weight of 100 per cent on the open position limits on foreign exchange and gold; and (iii) build up Investment Fluctuation Reserve up to a minimum of five per cent of the investments held in Held for Trading and Available for Sale categories in the investment portfolio. In May 2003, the Reserve Bank issued draft guidelines on computing capital charge for market risks, on the lines of the Basel Committee framework, and based on the feedback received from select banks, it was decided in June 2004 that banks should maintain capital charge for market risks in a phased manner over a two-year period: (a) Capital for market risks on securities included in the trading book by March 31, 2005, and (b) capital for market risks on securities included in the Available for Sale category by March 31, 2006. Trading book for the purpose of these guidelines would include: (i) securities included under the Held for Trading category, (ii) securities included under the Available for Sale category, (iii) open gold position limits, (iv) open foreign exchange position limits, (v) trading positions in derivatives; and (vi) derivatives entered into for hedging trading book exposures.

The Basel Committee has suggested two broad methodologies for computation of capital charge for market risks, *viz.*, the standardised method and the banks' internal risk management models method. As banks in India are still in a nascent stage of developing internal risk management models, it has been decided that, to start with, banks may adopt the standardised method. Under the standardised method there are two principal methods of measuring market risk, a 'maturity' method and a 'duration' method. As 'duration' method is a more accurate method of measuring interest rate risk, it has been decided to adopt standardised duration method to arrive at the capital charge. Accordingly, banks are required to measure the general market risk charge by calculating the price sensitivity (modified duration) of each position separately.

Apart from managing the market risks in their books on an ongoing basis, *i.e.*, at the close of each business day, banks would also be required to maintain strict risk management systems to monitor and control intra-day exposures to market risks. To begin with, capital charge for market risks is applicable to banks on a global basis. At a later stage, this would be extended to all groups where the controlling entity is a bank.

measure, banks could shift SLR securities to the HTM category any time, once more, during the current accounting year. Such shifting should be done at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer should be fully provided for. The non-SLR securities held as part of HTM may remain in that category. No fresh non-SLR securities would be permitted to be included in the HTM category. All other prudential norms applicable to securities included under the HTM category would continue to apply. Consistent with international standards that do not place any cap on HTM category, such a move was considered advisable taking into account the statutory nature of the 25 per cent SLR while ensuring prudence and transparency in valuation on transfer to HTM. While the earlier prescription was relatively more conservative, the recent changes recognised the dynamic interface with the interest rate cycles. Whereas the Reserve Bank recognises the need for continuing to build up IFR, banks have been advised to prepare themselves to implement the capital charge for market risk as envisaged under Basel II norms in a phased manner by end-March 2006.

Risk Weight for Retail Finance

2.69 In the recent past, the growth of housing and consumer credit has been very strong. The fast growing housing and consumer credit sectors also represent some degree of higher penetration, but the quality of lending needs to be ensured. As a temporary counter cyclical measure, the mid-term Review of annual policy for 2004-05 increased the risk weight from 50 per cent to 75 per cent in the case of housing loans and from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards.

Risk Weight for Exposure to PFIs

2.70 Guidelines issued in October 1998 prescribed risk weights on investment in bonds/debentures of select Public Financial Institutions (PFIs) at 20 per cent. Banks were also advised

that exposures to corporates, which are guaranteed by select PFIs, would tantamount to exposure on those PFIs for capital adequacy purposes and would consequently attract a risk weight of 20 per cent. Since the financial positions of PFIs are divergent, preferential treatment to PFIs for capital adequacy purposes on a privileged basis is not justified. Accordingly, banks have been advised on June 15, 2004 that with effect from April 1, 2005, exposures to all PFIs would attract a uniform risk weight of 100 per cent towards credit risk.

Income Recognition, Asset Classification and Provisioning

2.71 In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts. The endeavour of the Reserve Bank is to move to a policy of income recognition that is more objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of an objective criteria which would ensure a uniform and consistent application of the norms. Also, the provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof. Banks have been urged to ensure that while granting loans and advances, realistic repayment schedules may be fixed on the basis of cash flows/fluidity with borrowers so as to facilitate prompt repayment by the borrowers and improvement in the record of recovery in advances.

Buyback of Illiquid Securities by Government

2.72 The Union Budget, 2003-04 announced that if banks declare the premium received under the Government of India Debt Buyback Scheme for illiquid securities as business income, for income tax purposes they would be allowed additional deduction to the extent such income is used for provisioning of their NPAs. In order to enable banks to take benefits of the structure of tax incentives for the premium received, banks were exempted from the requirement of appropriating the profit on sale of securities from the HTM category to the capital reserve account, as a one-time measure, in respect of identified securities which are sold to the Government of India under the above scheme of Government of India's Debt Buyback Programme.

Revised NPA Norm for Agricultural Advances

2.73 In terms of earlier guidelines, all specified direct agricultural advances were treated as NPA when interest and/or instalment of principal remain unpaid after it has become due for two harvest seasons but for a period not exceeding two half years. However, in the case of longer duration crops, the prescription of not exceeding two-half years was considered to be inadequate. In order to align the repayment dates with harvesting of crops, it has been decided on June 2004 effective September 30, 2004, *viz.*, loans granted for short duration and long duration crops would be treated as NPA if the instalment of principal or interest thereon remains overdue for two crop seasons and one crop season, respectively. In respect of agricultural loans other than those specified and term loans given to non-agriculturists, identification of NPAs would be done on the same basis as non-agricultural advances, which at present, is the 90 days delinquency norm.

Provisioning Norms

2.74 As per the earlier guidelines, banks were advised to make a provision of 50 per cent in respect of the secured portion of NPAs included in 'doubtful for more than three years' category irrespective of its age, till it is identified as a loss asset. On a review, it has been decided in June 2004 to introduce a graded higher provisioning on the secured portion of NPAs under this category as on March 31, 2004, ranging from 60 per cent to 100 per cent over a period of three years in a phased manner, with effect from March 31, 2005. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement would be 100 per cent. The provisioning requirement for unsecured portion of NPAs under the above category will continue to be 100 per cent.

Accounting Standards

2.75 Based on the recommendations made by the Working Group to recommend steps to eliminate/reduce gaps in compliance by banks with the Accounting Standards (Chairman: Shri N.D. Gupta), detailed guidelines were issued on March 29, 2003 relating to certain accounting standards[7]. The Working Group had also made recommendations in respect of Accounting Standards 24 (discontinuing operations), 26 (intangible assets) and 28 (impairment of assets). In April 2004, guidelines were issued to ensure banks' compliance with these accounting standards and banks have been advised to ensure that there are no qualifications by the auditors in their financial statements for non-compliance with any accounting standard.

Empanelment of Statutory Auditors

2.76 Keeping in view the vast changes that have taken place in the size and complexity of operations of public sector banks as also the fact that the eligibility norms for empanelment of audit firms for appointment as their statutory auditors had remained unchanged for almost two decades without any major changes, a Working Group was set up to examine the extant norms and practices followed for appointment of statutory auditors of public sector banks and suggest modifications, if necessary. These recommendations were accepted by the Reserve Bank and were to be made applicable from the year 2004-05. However, on receipt of request from the Institute of Chartered Accountants of India, the implementation thereof has been deferred by one year.

Risk Management

2.77 With a view to furthering compliance with the Core Principles for Effective Banking Supervision, the Reserve Bank had issued guidelines on country risk management and provisioning in February 2003. The guidelines on country risk management were applicable only in respect of countries, where a bank has net funded exposure of two per cent or more of its total assets. The guidelines were reviewed taking into account the experience of banks in implementing the guidelines and were extended to countries where a bank has net funded exposure of one per cent or more of its total assets, to be effective from year ending March 31, 2005.

Banks' Investment in Non-SLR Securities

2.78 It has been emphasised by the Reserve Bank that banks should observe prudence in order to contain the risk arising out of non-SLR investment portfolio, in particular through the private placement route. For this purpose, detailed prudential guidelines on the subject have been issued in November 2003, which *inter alia* address aspects of coverage, regulatory requirements, listing and rating requirements, fixing of prudential limits, internal assessments, role of Boards, disclosures and trading and settlement in debt securities.

2.79 The guidelines cover banks' investments in non-SLR securities issued by corporates, banks, FIs and State and Central Government sponsored institutions, SPVs, *etc.* The guidelines apply to investments both in the primary as well as secondary market. The guidelines are, however, not applicable to investments in securities issued directly by Central and State Governments, which are not reckoned for SLR purposes, and investment in equity shares. With a view to operationalising the guidelines and to ensure smooth transition, certain clarifications and modifications were issued in December 2003. However, a study of select banks revealed that banks continue to have significant share of unlisted and unrated investments in their non-SLR portfolio. Accordingly, banks have been urged to prepare themselves to comply with the prudential requirements within the prescribed timeframe.

[7] AS 5: Net Profit or Loss for the period, prior period items and changes in accounting policies; AS 9: Revenue recognition; AS 15: Accounting for retirement benefits in the financial statements of employers; AS 17: Segment reporting; AS 18: Related party disclosures; AS 22: Accounting for taxes on income; AS 23: Accounting for Investments in Associates in Consolidated Financial Statements; AS 25: Interim Financial Reporting; and AS 27: Financial Reporting of Interests in Joint Ventures.

4. NPA Management by Banks

One-Time Settlement/Compromise Scheme

2.80 In May 2003, the time limit for processing of applications received under the revised guidelines for compromise settlement of chronic NPAs of public sector banks, up to Rs.10 crore was extended to December 31, 2003. Based on the requests received for further extending the time limit for operation of the guidelines and in consultation with Government of India, the time limit for receiving applications was further extended up to July 31, 2004.

Lok Adalats

2.81 With the enactment of Legal Services Authority Act, 1987, *Lok Adalats* were conferred a judicial status and have since emerged as a convenient method for settlement of disputes between banks and small borrowers. The Reserve Bank has issued guidelines to commercial banks and FIs advising them to make increasing use of *Lok Adalats*. Government has recently revised the monetary ceiling of cases to be referred to *Lok Adalats* organised by Civil Courts from Rs.5 lakh to Rs.20 lakh.

2.82 The number of cases filed by commercial banks with *Lok Adalats* stood at 485,046 involving an amount of Rs.2,433 crore. The number of cases decided was 205,032 involving an amount of Rs.974 crore, and the recoveries effected in 159,316 cases stood at Rs.328 crore as on March 31, 2004.

Debt Recovery Tribunals

2.83 The Recovery of Debts Due to Banks and Financial Institutions Act was enacted in 1993 to provide for the establishment of tribunals for expeditious adjudication and recovery of debts due to banks and FIs and for matters connected therewith and incidental thereto. The amendments made in 2000 to the above Act and the Rules framed thereunder have strengthened the functioning of DRTs. On the recommendations of the Reserve Bank, Government has since set up a working group headed by Additional Secretary (FS), Government of India to improve the functioning of DRTs.

2.84 As on June 30, 2004, out of 63,600 cases (involving Rs.91,926 crore) filed with DRTs by the banks, 27,956 cases (involving Rs.25,358 crore) have been adjudicated by them. The amount recovered so far through the adjudicated cases is placed at Rs.7,845 crore.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

2.85 The Act provides, *inter alia* for enforcement of security interest for realisation of dues without the intervention of courts or tribunals. The Security Interest (Enforcement) Rules, 2002 has also been notified by Government to enable Secured Creditors to authorise their officials to enforce the securities and recover the dues from the borrowers. The Supreme Court in its judgement dated April 8, 2004 in M/s. Mardia Chemicals has upheld the constitutional validity of the Act and its provisions except that a subsection 2 of Section 17 by the secured creditor, in case the borrower wants to appeal against the secured creditor's notice under Section 13 (4) of the Act. It has declared Section 17 (2) as unconstitutional and violative of Article 14 of the Constitution of India. In the wake of this judgement, many banks have pointed out practical difficulties likely to arise in speeding up the recovery of NPAs. The suggestion of banks, IBA and other organisations in this regard are being examined to carry out necessary amendments in the Act. In the Union Budget 2004-05, the Government has proposed to amend the relevant provisions of the Act to appropriately address the Supreme Court's concerns regarding a fair deal to borrowers while, at the same time, ensuring that the recovery process is not delayed or hampered.

2.86 As on June 30, 2004, 27 public sector banks had issued 61,263 notices involving outstanding amount of Rs.19,744 crore, and had recovered an amount of Rs.1,748 crore from 24,092 cases.

Corporate Debt Restructuring

2.87 The Scheme of Corporate Debt Restructuring (CDR) started in 2001 with a view to put in place a mechanism for timely and transparent restructuring of corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, was further fine-tuned in February 2003 based on the recommendations made by a

Working Group under Shri Vepa Kamesam. A recent review of the operation of the Scheme revealed that nearly one-third of the units assisted under the Scheme improved their financial position. However, issues relating to proper identification and successful implementation of packages along with other operational aspects need to be addressed from a systemic point of view. Accordingly, a Special Group has been constituted to review the performance of the CDR mechanism and suggest measures to make it more effective. The Group is expected to submit its Report by December 2004.

2.88 The number of cases and value of assets restructured under the CDR mechanism stood at 94 and Rs.64,017 crore, respectively, as on June 30, 2004. The major beneficiaries were iron & steel, refinery, fertilisers and telecommunication industries, accounting for more than two-third share of value of assets restructured.

Asset Reconstruction Companies (ARCs)

2.89 To solve the problem of bad loans, several institutions have initiated steps towards establishment of ARCs, which takeover non-performing loans of banks and FIs at a discounted rate, and manage and dispose such assets. The Reserve Bank has granted certificate of registration (CoR) to three ARCs so far out of which ARCIL has already started its operations. So far ARCIL has acquired NPAs worth Rs.9,631 crore from banks and FIs at a price of Rs.2,089 crore. In order that ARCs have a sound capital base and a stake in the management of the NPAs acquired, the requirement of owned funds for commencement of business has been stipulated as not less than 15 per cent of the assets acquired or Rs.100 crore, whichever is less.

Credit Information on Defaulters and Role of Credit Information Bureau

2.90 The development of an efficient credit information system is considered critical for the development of a sound financial system. Dissemination of credit information covering data supplied on suit-filed defaulters in the financial system is being undertaken by CIBIL with effect from March 2003, and the data can be accessed on CIBIL's website. The Reserve Bank had issued instructions to banks and FIs on October 1, 2002, and February 10, 2003, respectively, to obtain the consent of all their borrowers for pooling of data for development of a comprehensive credit information system. In order to give further thrust in the matter of operationalisation of CIBIL, the Reserve Bank advised banks/FIs to review the measures taken at their Board level and report compliance to the Reserve Bank about the same. It was reported by a major nationalised bank that they have submitted credit information relating to 80 per cent of their eligible borrowers after obtaining necessary consents. Banks have been urged to make persistent efforts in obtaining consent from all their borrowers, in order to establish an efficient credit information system, which would help in enhancing the quality of credit decisions and improving the asset quality of banks, apart from facilitating faster credit delivery. Further, with a view to strengthening the legal mechanism and facilitating credit information bureaus to collect, process and share credit information on borrowers of bank/FIs, a draft Credit Information Companies Regulation Bill, 2004 covering registration, responsibilities of the bureaus, rights and obligations of the credit institutions and safeguarding of privacy rights is under active consideration of the Government.

2.91 Following the recommendations of Working Group on Wilful Defaulters (Chairman: Shri S.S. Kohli), with a view to making the scheme of wilful defaulters effective, the banks/FIs were issued a revised definition of 'wilful defaulters' on May 30, 2002. Reserve Bank issued further guidelines on July 29, 2003 to banks/FIs who are required to form a Committee of higher functionaries headed by the Executive Director for classification of borrowal accounts as wilful defaulters, and create a redressal mechanism in the form of Committee headed by Chairman and Managing Director for giving a hearing to borrowers who represent that they have been wrongly classified as wilful defaulters. On representation by the borrowers who were classified as 'wilful defaulters' that the redressal mechanism should precede the classification as 'wilful defaulter', it has been further clarified vide circular dated June 17, 2004, that the classification of the defaulter as wilful and the mechanism for redressal of the grievance of the borrower concerned is to be carried out thoroughly through two distinct processes, *viz.*, (i) identification of default as 'wilful' based on the

prescribed norms through a Committee approach; and (ii) suitably advising the borrower about the proposal to classify him as wilful defaulter along with the reasons therefor. The concerned borrower would be provided reasonable time (say, 15 days) for making representation against such decision, if he so desires, to the Committee headed by the Chairman and Managing Director. A final declaration as 'wilful defaulter' would be made only after a view is taken by the Committee on specific representation.

5. Supervision and Supervisory Policy[8]

Board for Financial Supervision

2.92 A number of supervisory initiatives were taken by the Board for Financial Supervision (BFS) to strengthen its oversight over the financial system in the light of the fast changing economic and financial landscape. The BFS held 12 meetings during 2003-04.

2.93 Several important issues were discussed in the meetings of BFS during 2003-04 including investments and advances, internal controls, NPAs, provisioning, disclosure and ratings. As regards advances/investments of banks, the major areas of concern included: (i) the need for obtaining proper security and transparency in application of interest rates for housing loans; (ii) fixing the limit on exposure of banks with respect to gross advances rather than capital funds as is being done presently; (iii) the case for exclusion of new economy businesses, like information technology, services sector, retail trade, while applying the 15 per cent ceiling on unsecured advances; (iv) the systemic impact of cross-holdings of subordinated debt and equities across banks and financial institutions; and (v) impact on financial position of banks of marking to market cent-per-cent of investments.

2.94 For placing better internal controls in the banks, it was considered that the time allowed for reconciliation of outstanding entries for making provisions be reduced from one year to six months. With a view to reducing the burden on the banks, it was also contemplated to categorise the multiple guidelines issued to the banks into three groups, *viz.*, structure required in the banks, internal reporting system in the banks and reporting to the regulator. The need to revise the zero-risk weight for exposure to the State Government undertakings and State Government guarantees in case of defaults and the need to separate out defaulters with outstanding above Rs.10 crore from the list of defaulters with outstanding amounts of Rs.1 crore and above, were also highlighted. The need to examine the adequacy of provisions for pension, gratuity and other terminal benefits for bank employees in the light of a recent revision by LIC in the premium rates was also brought out. It has also been decided to allow banks to disclose their provision for NPAs not reported in the previous year separately, if these did not reflect the performance of the present management, after due assessment by an independent auditor appointed by the Reserve Bank.

2.95 Apart from these, detailed instructions were issued to ensure safety, integrity and confidentiality of inspection findings/scrutiny reports used by the Inspecting Officers, and to draft the inspection reports in a manner that would lend itself to a better and timely compliance. Principal Inspecting Officers were advised to submit a separate note on the quality of compliance with the guidelines on 'Know Your Customer' (KYC), and to examine circular trading in securities, if any, carried out by banks. The coverage of items reported under the OSMOS returns have been fine tuned in line with the changes in regulatory and supervisory guidelines by introducing additional returns related to the consolidated prudential norms, risk based supervision and returns for capturing supervisory data daily from off-shore banking units (OBUs).

2.96 A Risk Based Supervision (RBS) Manual had been drafted and finalised keeping in view international best practices and customised to suit the Indian conditions, the institutional mechanism to monitor the progress of the banks in preparedness for RBS was being monitored continuously, and risk based supervision is

[8] While the policy measures are discussed in this Chapter with respect to fiscal 2003-04 (April-March) and 2004-05 (so far), the supervisory details are discussed over the period covering July 2003-June 2004, since the Reserve Bank accounting year spans over July-June.

being taken up on a pilot basis from the year 2004. The recommendations of the report of 'Consultative Group on the role of Directors of Bank and Financial Institutions' regarding corporate governance were conveyed to banks for implementation. Initially, consolidated financial statements and consolidated prudential reporting has been mandated for all groups where the controlling entity is a bank. In due course, the banks in mixed conglomerates would be brought under consolidated supervision. Certain changes were made in the method of awarding ratings under CAMELS and CALCS model for Indian and foreign banks, respectively, such as, increase the marks for fraud monitoring and prevention.

2.97 The Sub-Committee (Audit) set up by the BFS (with two non-official Members of BFS headed by the Vice-Chairman of BFS) in January 1995 to lay down and review the policies governing audit of banks, *etc.* continued to function during the year. The Sub-Committee (Audit) of the BFS held four meetings during the year. The recommendations of a Working Group set up to review the eligibility norms for empanelment of audit firms as statutory auditors and other audit related issues were firmed up for implementation from 2004-05. The format of the report of half-yearly review of accounts of public sector banks has been revised and, in June 2003, listed banks have been advised to adopt the revised format for quarterly financial results with 'limited review', as required by the SEBI. In pursuance of the recommendations of the Committee on Legal Aspects of Bank Frauds (Chairman: Dr. N.L. Mitra), banks have been also advised to include specific reporting of suspected frauds or fraudulent activity to the Chief Executive Officer of the bank and the Reserve Bank in the terms of appointment of external auditors. A structured questionnaire calling for information from the public sector banks on the performance of their Statutory Central Auditors (SCAs) containing *inter alia,* detailed observations/recommendations on continuance or otherwise of their statutory auditors has been introduced during the year 2003-04 with a view to assessing the performance of the statutory central auditors more objectively.

2.98 The Board reviewed the monitoring done with regard to bank frauds and housekeeping in public sector banks including reconciliation of entries in inter-branch accounts, inter-bank accounts (including nostro accounts) and balancing of the books of accounts. The banks have been advised to ensure that each and every desk in the branches certifies that there was no laxity in implementing the laid down systems and procedures. Similarly, in the area of reconciliation of entries in inter-branch and inter-bank as well as balancing of books of account, considerable improvement has been ensured through continuous monitoring by the BFS. With a view to strengthen the consultative process in financial regulation, a Standing Technical Advisory Committee on Financial Regulation was constituted in November 2003 (Box II.14).

Corporate Governance

2.99 The matter regarding the application submitted by a bank for granting acknowledgement for effecting transfer of 33.55 per cent of share capital of the bank in favour of four companies belonging to a Group was discussed by the BFS in detail. Based on the information available and having taken into account all relevant factors, the Board felt that it was not possible to be satisfied about 'fit and proper' status of the applicants; and the Reserve Bank advised the bank that it was unable to grant acknowledgement for transfer of shares that was applied for. Subsequently, the Group entered into an agreement for sale of shares to seven individuals. The matter is being examined by the Reserve Bank in consultation with the Independent Advisory Committee set up as per the guidelines of February 3, 2004.

Disclosure of Penalties, etc. Imposed by the Reserve Bank

2.100 In view of the added emphasis on the role of market discipline under Basel II and with a view to enhancing further transparency, banks have been advised on October 19, 2004 that all cases of penalty imposed by the Reserve Bank as also strictures/directions on specific matters including those arising out of inspection should be placed in the public domain. The issue of disclosure of imposition of penalties on banks and findings of the Reserve Bank inspections were reviewed by the BFS and it was decided that monetary penalty imposed by the Reserve Bank should be disclosed in the balance sheets.

Box II.14: Standing Technical Advisory Committee on Financial Regulation

The Standing Technical Advisory Committee on Financial Regulation was constituted on November 20, 2003 in order to strengthen the consultative process among banks, market participants and regulators of financial markets, more particularly, in the context of carrying forward India's prudential regulatory system in line with the best international practices. The Committee has a broad based representation of chief executives of select banks in public, private and foreign sector as also from the financial institutions, NBFCs, apart from academics in the field of banking. The Committee would initially function for two years from the date of its first meeting, and would meet as often as may be necessary, but ordinarily once in two months.

The terms of reference of the Committee include the following: (a) to review current regulatory regime with a view to help the Reserve Bank in simplifying and rationalising it, in particular to move towards clearer as well as unambiguous regulatory prescriptions and enhance internal control systems; (b) to consider the existing regulatory practices on prudential norms and disclosure standards for banks and non banks regulated by the Reserve Bank and recommend measures for progressive alignment with international best practices consistent with India's needs; (c) to advise on the changes needed from time to time, in the regulatory framework in the light of the emerging diversification of business mix of the financial services industry; (d) to help analyse, as appropriate, harmonisation of regulatory and prudential norms for the various entities in the financial services sector in alignment with prescriptions of other regulators; (e) to explore appropriate regulatory responses to developments in the banking and financial markets; (f) to outline the steps to be taken by the Reserve Bank and banking entities in the context of Basel II norms; (g) to suggest measures for strengthening corporate governance in institutions regulated by the Reserve Bank; and (h) to tender advice on any other specific issue relevant to the regulation of financial sector either referred to it by the Reserve Bank or considered appropriate by the Committee.

Since its constitution, the Committee's assistance and views have been sought on a wide range of topical regulatory issues. The benefits of the members' views are also being sought on further measures to deregulate some of the existing prescriptions.

On the basis of the advice of the Committee, a User Committee comprising of nominees of SBI, Bank of Baroda, Union Bank of India, ICICI Bank Ltd., HSBC, IBA, Fixed Money Market and Derivatives Association (FIMMDA), Primary Dealers Association of India (PDAI) and Foreign Exchange Dealers Association of India (FEDAI) has been set up. All regulatory departments would refer circulars to the User Committee for their views. The nominees are required to promptly respond to the draft circular with their suggestions so as to ensure clarity of the circulars to its users.

As regards disclosure of serious findings of the Reserve Bank during the inspection, each case would be examined by BFS to decide whether any finding was required to be publicised in depositors' interest and public interest. If so, the bank will be given an opportunity for a hearing before decision is taken to place the finding in public domain after taking into account the response and corrective action taken. Both monetary penalties and adverse findings which have been decided to be placed in public domain will be disclosed through the websites of the Reserve Bank and concerned bank. These will also have to be disclosed in the annual reports. In the case of foreign banks, disclosure may be made in the balance sheet of Indian operations.

Prompt Corrective Action

2.101 The Prompt Corrective Action (PCA) scheme was reviewed by the BFS, and it was decided to continue the scheme in the present form. A few banks which have come under the trigger zones were advised to take necessary preventive action. There has been improvement in the working of some of these banks.

Supervisory Rating of Banks

2.102 Certain changes were made in the method of awarding ratings under CAMELS and CALCS model for Indian and foreign banks, respectively. Weights given for fraud monitoring by banks has been increased by reallocation of marks under the paragraph 'systems and control' and 'systems' for Indian and foreign banks, respectively with a view to ensuring better compliance. For awarding marks for the component 'earnings' under CAMELS model, it had been decided to consider profit before tax (PBT) instead of profit after tax (PAT) to avoid the impact of a large amount of tax or refund of tax in a particular year and the banks have been advised accordingly.

Monitoring of Frauds

2.103 Occurrence and delay in disposal of large value frauds continued to receive the attention of the BFS. To ensure concerted action by banks and FIs, progress in respect of large value frauds of Rs.10 crore and above relating to the period prior to 2000 were followed up since 2001. Due to continuous follow up there has been considerable

improvement in completion of staff side action. It has now been decided to follow up all such cases relating to the period after 2000 also. Further, age-wise quarterly data on pending staff side cases of all frauds in public sector banks was being collected since June 30, 2003 for better monitoring. A review of the data reported by public sector banks showed that there had been considerable improvement over the period.

2.104 Based on a suggestion by the Central Bureau of Investigation (CBI) and Central Vigilance Commission (CVC) all the Indian commercial banks have been advised in January 2004, to appoint a Special Committee of the Board to monitor large value frauds involving amounts of Rs.1 crore and above. Frauds involving amounts of less than Rs.1 crore will continue to be monitored by the Audit Committee of the Board (ACB) in banks, as per the earlier practice. All the banks have reported constitution of Special Committees.

2.105 In view of the large number of vigilance cases handled and keeping in view the changing scenario in the banking industry, CVC has accepted the representation made by the IBA and has decided that only such vigilance cases in which an officer of the level of Scale V and above is involved need to be referred to the Commission for advice. Vigilance cases involving an officer in Scale IV and below are allowed to be handled by the banks themselves. The modified arrangement is expected to enable expeditious disposal of the references made to CVC, as also to provide a conducive environment for the staff in public sector banks to perform their duties consistent with normal commercial judgements.

2.106 A 'Technical Paper on Bank Frauds' which brought out various issues like legal definition of frauds, international legal framework, delay in closure of cases, recent measures taken based on the recommendations of Dr. N L Mitra Committee Report, *etc.* was reviewed by the BFS. With a view to have an integrated approach and give focused attention to monitoring of frauds not only in commercial banks, but entire financial system, Frauds Wing of the Department of Banking Supervision has been hived off and a separate Fraud Monitoring Cell has been constituted headed by a Chief General Manager with effect from June 1, 2004. The Cell will monitor and follow up frauds perpetrated in commercial banks, financial institutions, local area banks, urban co-operative banks, non-banking financial companies, *etc.*

2.107 A change in the policies and procedures of the Reserve Bank was mooted with a view to empowering the common person and safeguarding his rights in undertaking legitimate transactions. Accordingly, a Standing Committee was constituted on Procedures and Performance Audit on Public Services (Chairman: Shri S.S. Tarapore) to undertake procedures and performance audit on public services and regulatory clearances in the Reserve Bank and to co-ordinate with the *Ad-hoc* Committees on Customer Services set up by banks. The Committee has since submitted four reports relating to individuals covering: (i) foreign exchange transactions; (ii) Government transactions; (iii) banking operations relating to deposit accounts and other facilities; and (iv) currency management (non-business), which have been placed on the Reserve Bank website alongwith the action taken reports of the Reserve Bank (Box II.15).

6. Consultative Process in Policy Formulation

2.108 In order to ensure timely and effective implementation of the measures, the Reserve Bank has been adopting a consultative approach before introducing policy measures. A consultative approach not only enables benchmarking the financial services against international best standards in a transparent manner, but also provides useful lead time to market players for smooth adjustment with regulatory changes.

Resource Management Discussions

2.109 The Resource Management Discussion meetings are held every year prior to the Monetary and Credit Policy announcements with select banks. These meetings mainly focus on perception and outlook of the bankers on economy, liquidity condition, credit outflow, development of different markets and direction of interest rates along with their expectations from the policy and suggestions in this respect. During 2003-04 these meetings were conducted with 10 banks (including two foreign banks and two private sector banks) during March 11-17, 2004. The feedback received from these meetings was taken into consideration while formulating the annual policy for 2004-05.

Box II.15: Standing Committee on Procedures and Performance Audit on Public Services

The recommendations of the Committee which have already been implemented by the Reserve Bank are detailed below:

Report on Exchange Control Relating to Individuals

- The name of Exchange Control Department changed to Foreign Exchange Department effective January 31, 2004.
- Simplified application cum declaration form introduced for drawal of foreign exchange.
- FAQs and printed pamphlets on important facilities issued.

Report on Government Transactions Relating to Individuals

- Citizens' charter revamped and displayed in the Reserve Bank's public departments with brochures, available with all offices.
- Applications standardised for savings bonds containing features and subscribers' rights with regard to services thereunder introduced in all offices/agencies.
- Regional Offices to organise customer meets and customer service orientation training for staff and conduct on the spot verification of arrangements provided by agency banks.
- New Delhi and Chennai offices to implement, on pilot basis, issue of post-dated interest warrants in the case of senior citizens.

Report on Banking Operations

- *Ad hoc* Committees/CEOs of banks advised to take necessary action for adoption of IBA's model deposit policy by all banks.
- Banks to constitute a Customer Service Committee of the Board at the Apex level, to address issues such as formulation of deposit policy for the bank, establishment of product approval process, operation of deceased depositor's accounts, survey of depositor satisfaction and the triennial audit of customer services.
- Banks advised to include in their deposit policy that changes in any instruction on the operation of the senior citizens' deposit accounts should be confirmed to the depositor within a month.
- Banks to remove unfair practices in respect of despatch of cheque books through courier, to avoid inscrutable entries in pass books/statement of accounts, not to include in the account opening form information collected for purposes other than KYC.
- *Ad hoc* committees to examine the working of enquiry counters in the banks.
- Banks to examine the recommendation for appointment of Quality Assurance Officers in their banks. *Ad hoc* Committees of banks are to take necessary action in this regard.
- Regional offices to constitute a Group on Customer Service for ongoing monitoring of the quality of the customer service provided by the banks in their region.
- Incognito visits by the Reserve Bank officers to bank branches to assess the level of customer services. The Reserve Bank to consider giving weightage to depositors' complaints while evaluating a bank's performance.
- Banks to develop a comprehensive and transparent policy on collection of cheques and interest compensation for delayed collection in line with the instructions issued by the Reserve Bank from time to time. Changes, if any, in the policy to be intimated to the customers promptly.

Report on Currency Management

- Banks and Regional Offices to ensure compliance regarding recommendations of the Report on services to common persons.
- Revised draft citizen's charter put on the Reserve Bank website and circulated among Reserve Bank offices/banks.
- Note refund rules with simplified explanations put on the Reserve Bank website.
- Currency chest agreement is being revised.
- The bank branches maintaining small coin depot advised to freely accept uncurrent coins.

Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets (TAC)

2.110 The Technical Advisory Committee under the Chairmanship of Deputy Governor of the Reserve Bank has emerged as a key consultative mechanism among the regulators and various market players. The Committee has been crystallising the synergies of experts across various fields of the financial market and thereby acting as a facilitator for the Reserve Bank in steering reforms in money and Government securities markets. As a matter of convention, the members of this Committee are nominated in their individual capacity representing different segments of the economy *viz.*, Government, academicians, practising economists, banks, financial institutions, credit rating agencies, stock exchanges, trade bodies such as FIMMDA, PDAI, *etc.*

2.111 Keeping in view the inter-linkages among money, Government securities and foreign exchange markets with implications for monetary policy operations, the Committee has been reconstituted recently by widening its scope

to include the foreign exchange market. The Committee advises the Reserve Bank on an ongoing basis, regarding the development of healthy and vibrant money, foreign exchange and Government securities markets. The Committee meets at least once every quarter.

National Payments Council

2.112 Reforms in the payment and settlement system are being overseen by the National Payments Council (NPC), which is the apex policy-making body in the arena. The NPC is chaired by a Deputy Governor, and consists of representatives from banks, the National Stock Exchange (NSE), the Securities and Exchange Board of India (SEBI), and a non-banking finance company. The NPC took several policy initiatives during 2003-04 including extension of Structured Financial Messaging Solution (SFMS) facilities over the Internet, removal of the limit on electronic modes of funds transfers, and extension of RTGS facilities to primary dealers.

7. Money, Government Securities and Foreign Exchange Markets

Money Market

2.113 Development of an efficient and vibrant money market constitutes an integral part of financial liberalisation and is considered a pre-requisite for efficient transmission of monetary policy. With a view to developing money market instruments, institutions and operating procedures and preserving the integrity of money market, the Reserve Bank has taken a number of measures in recent years.

a) Call/Notice Money Market

Progress towards Pure Inter-Bank Call Money Market

2.114 To accelerate the process of moving towards a pure inter-bank call/notice money market, the limit on lendings by non-bank participants was reduced successively from 75 per cent (June 14, 2003) to 60 per cent (December 7, 2003), to 45 per cent (June 26, 2004), and further to 30 per cent to be effective January 8, 2005 of their average daily lending in call/notice money market in 2000-01. In case a particular non-bank institution face genuine difficulties in deploying its excess liquidity, the Reserve Bank could consider providing temporary permission to lend a higher amount in call/notice money market for a specific period, on a case by case basis.

Participation of Primary Dealers

2.115 With a view to developing the repo market as also to ensure balanced development of various segments of money market, primary dealers (PDs) have been allowed to borrow with effect from February 7, 2004, on average in a reporting fortnight, up to 200 per cent of their net owned funds (NOF) as at end-March of the preceding financial year. However, any PD having a genuine difficulty in adhering to the limit may approach the Reserve Bank for appropriate reasonable dispensation with full justification for extension of period of compliance sought.

2.116 As stipulated in the Fiscal Responsibility and Budget Management Act 2003, the participation of the Reserve Bank in the primary issues of Government securities will stand withdrawn from April 1, 2006, warranting a review of processes and technological infrastructure consistent with market advancements. The Reserve Bank's intervention directly in the market or through PDs on a real time basis may become necessary in due course. Keeping the above in view, it has been proposed in the mid-term Review of annual policy for 2004-05 to constitute a Study Group for strengthening OMO framework. In addition to this, a sub-group (Chairman: Dr. R.H. Patil) of the Technical Advisory Committee on money, foreign exchange and Government securities markets (TAC) has been constituted with a view to evaluate the role of PDs in the Government securities market with particular emphasis on their obligation and ability to cope with emerging risk and possible diversification of their balance sheets.

Reciprocal Line Facility

2.117 Lending/borrowing in call/notice money market now include transactions under Reciprocal Line Facility from the fortnight beginning February 7, 2004 and this should not exceed the prudential limits specified for this purpose.

b) Term Money Market

2.118 One of the main reasons for non-development of a deep and liquid term money market in India is the absence of a vibrant repo market. Inability of participants to clearly formulate interest rate expectations over a medium-term horizon also affects the volumes in the term money segment. This has resulted in market participants locking their funds short. Skewness in liquidity among participants has also been observed. Besides, corporates' preference for 'cash' credit rather than for 'loan' credit generally forces banks to deploy a large amount in call/notice money market rather than in term money market to meet sudden demand from corporates.

c) Certificates of Deposit (CDs)

2.119 This segment of the financial market witnessed increasing activity following the issuance of guidelines on investments by banks in non-SLR debt securities, reduction in stamp duty on CDs, a ban on premature closure of CDs and greater opportunity for secondary market trading. These developments have led to greater demand for investment in CD by mutual funds particularly in the wake of their improved funds position. In order to improve their access to the market, some of the top rated banks have begun to get their CDs rated.

d) Commercial Paper (CP)

2.120 With a view to developing the CP market, a status paper was placed on the Reserve Bank website to be discussed with market participants as well as in the TAC. Taking into account the suggestions and market response, the following measures were announced in the mid-term Review of anuual policy for 2004-05: (i) the minimum maturity period of CP is reduced from 15 days to 7 days with immediate effect; (ii) issuing and paying agents (IPAs) would report issuance of CP on the negotiated dealing system (NDS) platform by the end of the day (The date of commencement of reporting to be finalised in consultation with market participants); and (iii) with a view to moving towards the settlement on a T+1 basis, a Group comprising market participants would be constituted to suggest rationalisation and standardisation in respect of processing, settlement and documentation of CP issuance.

e) Collateralised Borrowing and Lending Obligation (CBLO)

2.121 CBLO has been operationalised as a money market instrument by CCIL on January 20, 2003. The maturity of CBLO varies from one day to one year. The regulatory provisions and accounting treatment of CBLO are the same as those applicable to other money market instruments. CBLO has been exempted from CRR subject to banks maintaining minimum CRR of 3 per cent. The daily average turnover in CBLO segment increased from Rs.47 crore in April 2003 to about Rs.2,500 crore in April 2004 and further to Rs.8,466 crore in October 2004. The total membership of the CBLO segment stood at 79 in October 2004. With a view to encouraging further development of this segment, the Reserve Bank has effected automated value-free transfer of securities between market participants and the CCIL.

f) Interest Rate Futures (IRFs)

2.122 In order to enable banks to hedge their interest rate risk, the Reserve Bank allowed banks and primary dealers to transact in exchange traded interest rate futures in June 2003. While PDs were allowed to hold trading as well as hedging positions in Interest Rate Futures (IRFs), banks were allowed only to hedge their underlying Government securities in AFS and HFT categories. Accordingly, the National Stock Exchange (NSE) introduced futures on notional 10-year Government security, 3-month Treasury Bill and 10-year Government zero coupon in June 2003. Activity in the IRF market, however, has not picked up mostly because of valuation problems and subdued activity of banks in the IRF market.

2.123 The SEBI revisited issues pertaining to introduction of new futures contracts in consultation with the Fixed Income Money Market and Derivatives Association of India (FIMMDA). On January 5, 2004, the SEBI permitted trading of IRFs contract on an underlying 10-year coupon-bearing notional bond which would be priced on the basis of the yield-to-maturity (YTM) of a basket comprising bonds with maturity ranging from 9 to 11 years. The product is awaiting launch by the exchanges.

Committee on Rupee Interest Rate Derivatives

2.124 The Reserve Bank set up an Internal Working Group on Derivatives in September 2003 which recommended, *inter alia*, (i) harmonisation of regulations between OTC interest rate derivatives and exchange traded interest rate derivatives; and (ii) permission to those banks to hold trading positions in IRF market which have adequate internal risk management and control systems and robust operational framework subject to certain conditions. The recommendations of the Working Group are under examination after further discussion in TAC.

Government Securities Market

2.125 The Reserve Bank, in consultation with market participants, has taken significant steps to broaden and deepen the Government securities market. Such measures include *inter alia* the issuance of uniform accounting norms for repo and reverse repo transactions, extension of repo facility to gilt account holders, facility for anonymous screen-based order-driven trading system for Government securities on stock exchanges, introduction of exchange-traded interest rate derivatives on the National Stock Exchange (NSE), relaxation in regulation relating to sale of securities by permitting sale against an existing purchase contract, facilitating the roll over of repos and switch over to the Delivery versus Payments (DvP) III mode of settlement.

Reporting on NDS Platform

2.126 The Reserve Bank has extended the facility of settlement in Government securities transactions over NDS-CCIL System besides the settlement under Delivery verses Payment (DvP) system to all market participants. All Government securities transactions (both outright and repo) are being settled compulsorily through CCIL only, and any transaction in Government securities settled by the banks outside the NDS-CCIL system are not being accepted by the Reserve Bank since April 1, 2003.

2.127 With a view to improving transparency and strengthening efficiency in the market, the Reserve Bank has been making continuous improvement in its software such that NDS members could report all their call/notice/term money trades over NDS including such trades with non-NDS members. It was made mandatory for all NDS members to report all their call/notice money market deals on NDS with effect from the fortnight beginning May 3, 2003. Deals done outside NDS should be reported within 15 minutes on NDS, irrespective of the size of the deal or whether the counterparty is a member of the NDS or not. As indicated in the annual policy Statement of 2004-05, a Working Group (Chairman: Dr.R.H. Patil) has reviewed the performance of NDS in the context of its operational efficiency and recommended an anonymous electronic screen based order matching trading system on the NDS. The Report of the Group has been placed in the public domain for wider dissemination.

Capital Indexed Bonds

2.128 Capital Indexed Bonds (CIBs) as a type of inflation indexed bonds were initially introduced in December 1997. In addition to inflation risk hedging capabilities, the CIBs provide risk diversification benefits to the investors and the issuers alike. In view of the lukewarm response from the market, there were no further issuances of CIB. A discussion paper on CIB was placed on the website of the Reserve Bank as well as Government of India on May 24, 2004 for comments so as to reintroduce a modified CIB. In this regard, market conventions for secondary market trading and settlement of the bonds are being finalised in consultation with Fixed Income Money Market and Derivatives Association of India (FIMMDA) and Primary Dealers Association of India (PDAI). Suitable modifications in the PDO-NDS trading, clearing and settlement system are being undertaken. The CIBs are expected to be introduced during 2005-06 in consultation with the Government.

Separate Trading for Registered Interest and Principal of Securities (STRIPS)

2.129 Operational and prudential guidelines on STRIPS are being formulated. Dates for consolidation of coupon strips (March 25/ September 25 and May 30/November 30) would be aligned with coupon payment dates in future issuances. Towards this, the coupon payment dates of 6.01 per cent Government Stock 2028, issued on August 7, 2003, were aligned to March 25/September 25. Primary Dealers who meet

certain financial criteria would be authorised to undertake stripping and reconstitution of securities. The Public Debt Office of the Reserve Bank would act as a registry of stripped bonds. The necessary enabling legal provisions will come into effect with the passage of the Government Securities Bill to be introduced in the Parliament soon. The system requirements specifications for launch of the STRIPS have been finalised and the requisite software modules are being developed to accommodate STRIPS in the PDO-NDS.

Transactions in Government Securities-Relaxation of Guidelines

2.130 In view of frequent representations to review the extant stipulations which did not permit any sale transaction in a Government security without the seller actually holding the security in its portfolio, and in view of institutional arrangements such as settlement of Government security transactions through the CCIL, which has reduced the settlement risk, revised guidelines on transactions in Government securities were announced. These have come into effect from April 2, 2004. These relaxations facilitate further deepening of the Government securities market through improved liquidity. Further, repo rollover would facilitate non-banks to move away from the call/notice money market and also enable banks to reduce their dependence on the call money market.

2.131 In accordance with the above announcement, it has now been decided to permit sale of a Government security already contracted for purchase, provided: (i) the purchase contract is confirmed prior to the sale, (ii) the purchase contract is guaranteed by CCIL or the security is contracted for purchase from the Reserve Bank, and (iii) the sale transaction would settle either in the same settlement cycle as the preceding purchase contract, or in a subsequent settlement cycle so that the delivery obligation under the sale contract would be met by the securities acquired under the purchase contract. To facilitate operationalisation of the proposal, it has also been decided to shift the settlement of Government securities transactions carried through CCIL to the DvP-III mode so that each security is deliverable/receivable on a net basis for a particular settlement cycle as against the earlier system of gross settlement of securities under the DvP-II mode. So far as purchase of securities from the Reserve Bank through OMO is concerned, no sale transactions should be contracted prior to receiving the confirmation of the deal/advice of allotment from the Reserve Bank. As a corollary to the above changes, it has been advised that ready forward (repo) transactions in Government securities, which are settled under the guaranteed settlement mechanism of CCIL, may be rolled over, provided the security prices and repo interest rate are renegotiated on roll over. It was further clarified that the purchase contract referred to above would include the second (repurchase) leg of a repo transaction. A monthly review of the working of the above arrangements has been proposed.

Settlement of Over the Counter (OTC) Derivatives through CCIL

2.132 A central counterparty based clearing arrangement for OTC derivatives apart from extending the benefits of netting, reduces counterparty risk. As indicated in the annual policy Statement of 2004-05, in order to strengthen the OTC derivatives market and to mitigate the risks involved, it was agreed 'in principle' to allow a clearing arrangement for OTC derivatives through CCIL. CCIL has since developed the pricing and risk models for this process, which are being fine-tuned on the basis of market feedback. The clearing arrangement is expected to be operationalised by March 2005.

Turnover Tax

2.133 A small tax at the rate of 0.15 per cent of the value of security was proposed on transactions in securities on stock exchanges in the Union Budget for 2004-05. Later, it has been clarified that the proposed transaction tax on securities purchases would apply only to trades where securities are delivered.

Market Stabilisation Scheme

2.134 Following the recommendations of the Report of the *Working Group on Instruments of Sterilisation* (December 2003), and with a view to strengthen the Reserve Bank in its ability to conduct exchange rate and monetary management operations in a manner that would maintain stability in the foreign exchange market and enable

it to conduct monetary policy in accordance with its stated objectives, the Government of India signed a Memorandum of Understanding (MoU) with the Reserve Bank on March 25, 2004 detailing the rationale and operational modalities of the Market Stabilisation Scheme (MSS) exclusively for sterilisation operations. The scheme has come into effect from April 1, 2004. The ceiling on the outstanding amount under MSS was fixed initially at Rs.60,000 crore which, however, was subject to an upward revision based on the liquidity assessment. The ceiling was enhanced to Rs.80,000 crore on August 26, 2004 on account of the emerging liquidity situation. The threshold level of the ceiling for further review is placed at Rs.70,000 crore. An indicative schedule for the issuance of Treasury Bills/dated securities under the MSS for the first quarter of the 2004-05 (April 1, 2004-June 30, 2004) was announced to provide transparency and stability in the financial markets. It was proposed to sterilise an aggregate of Rs.35,500 crore (face value) through issuances of Treasury Bills/dated securities under the MSS during the first quarter of 2004-05. A schedule for the second quarter (July 1, 2004 - September 30, 2004) was issued on June 29, 2004 which indicated issuances of Rs.36,500 crore (inclusive of rolling over of Rs.19,500 crore under 91-day Treasury Bills maturing during the quarter. The indicative calendar for the third quarter (October 1, 2004 – December 31, 2004) was announced on September 29, 2004 for MSS issuances of Rs.25,500 crore (including of rollover of Rs.16,955 crore under 91-day Treasury Bills maturing during the quarter). Taking into account all the relevant factors indicating changes in the emerging liquidity situation, it was decided not to conduct the auctions of both 91-day and 364-day Treasury Bills under the MSS on November 10, 2004. The outstanding amount of securities issued under the MSS amounted to Rs.55,686 crore (face value) as on November 13, 2004 comprising Rs.16,705 crore of 91-day Treasury Bills, Rs.13,981 crore of 364-day Treasury Bills and dated securities amounting to Rs.25,000 crore.

Foreign Exchange Market

Issue of Guarantee for Trade Credits: Liberalisation

2.135 In order to promote investment activity and to further liberalise the procedures relating to trade credits on imports, the mid-term Review of annual policy for 2004-05 proposed to accord general permission to ADs to issue guarantees/ letters of comfort and letters of undertaking up to US $ 20 million per transaction for a period up to one year for import of all non-capital goods permissible under Foreign Trade Policy (except gold) and up to three years for import of capital goods, subject to prudential guidelines.

Export Oriented Units: Relaxation of Time Limit for Export Realisation

2.136 In line with the announcement made in Government's Foreign Trade Policy in September 2004, the mid-term Review of anuual policy for 2004-05 also announced that 100 per cent EOUs and units set up under EHTPs, STPs and BTPs schemes would be permitted to repatriate the full value of export proceeds within a period of twelve months.

Booking of Forward Contracts: Relaxation

2.137 In order to further liberalise the process of booking forward contracts, the limit for outstanding forward contracts booked by importers/exporters was increased, based on their past performance, from 50 per cent to 100 per cent of their eligible limit. However, the contracts booked in excess of 25 per cent of the eligible limits would be on deliverable basis.

Forex Market Group

2.138 In order to review comprehensively the initiatives taken by the Reserve Bank so far in the foreign exchange market and identify areas for further improvements, an internal Group would be constituted to consult with market participants and the TAC and submit its Report within three months.

Survey on Impact of Trade Related Measures

2.139 In view of the substantial relaxation and simplification of procedures in the recent period, a fresh survey for evaluation of the impact of the measures taken by the Reserve Bank to reduce the transaction cost for exports, is being undertaken.

8. Legal Reforms in the Banking Sector

2.140 Development of suitable legal framework is a prerequisite for strengthening the banking sector by way of removing the operational constraints during the process of financial sector reforms. The Reserve Bank has suggested various legislative amendments which are under consideration of the Government of India.

2.141 The Industrial Development Bank (Transfer of Undertaking and Repeal) Bill, 2003 was passed on December 8, 2003. It provides for the transfer and vesting of the undertaking of the Industrial Development Bank of India in a company to be formed and registered under the Companies Act, 1956 to carry on banking business and for matters connected therewith or incidental thereto and also for the repeal of the Industrial Development Bank of India Act, 1964. Industrial Development Bank has started functioning as a banking company with effect from October 1, 2004.

2.142 The Sick Industrial Companies (Special Provisions) Repeal Bill, 2001 was passed on December 11, 2003 and has become an Act of Parliament (Act No.1 of 2004). The Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) has been repealed and it envisages dissolution of the Board for Industrial and Financial Reconstruction (BIFR) and Appellate Authority for Industrial and Financial Reconstruction (AAIFR) and all proceedings pending before BIFR and AAIFR prior to their dissolution shall stand abated.

Bills transmitted to the Government

2.143 The need to provide greater operational flexibility to the Reserve Bank has been under the consideration of Government of India for some time. In this regard, the Government of India has called for the Reserve Bank's comments on the draft of the Reserve Bank of India (Amendment) Bill, which is in the process of being finalised.

2.144 A Draft Bill to provide for the regulation and supervision of payment systems in India by the Reserve Bank has been forwarded to the Government of India for their consideration. The important aspects of the Payment & Settlement Systems Bill, 2002 include, according power to the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns and documents.

2.145 As indicated in the annual policy Statement of 2004-05, the Reserve Bank would set up a Board for Payment and Settlement Systems (BPSS) that would lay down the policies for the regulation and supervision of the payment and settlement systems encompassing the domestic and cross-border systems. The constitution of the Board would help ensure a more effective regulation and supervision of the various payment and settlement systems in the country. The draft regulation to set up the BPSS has been transmitted to the Government for notification in the Gazette.

2.146 The Government Securities Bill 2003 proposes to replace the Public Debt Act, 1944 (PD Act) and aims to meet market requirements such as pledged hypothecation of Government securities, enhancing limit for summary disposal and facilitating the use of technology in the Government securities market.

2.147 Based on the recommendations of the Siddiqui Committee and Iyer Committee, a draft Bill on Credit Information Bureau was transmitted to the Government. The proposed draft Bill, which is now titled as 'Credit Information Companies Regulation Bill', 2004 is to provide for establishment of credit information companies and to facilitate efficient distribution of credit and other related matters. The Bill envisages that all banks, FIs and other institutions as specified by the Reserve Bank, which are termed, as 'credit institutions' in the Bill should compulsorily become a member of at least one Credit Information Company. The functions of such Credit Information Companies would be to collect from banks, FIs and other specified institutions data pertaining to credit information of their constituents and process and preserve such data and share the same with specified users for specified purposes on payment of prescribed fees and subject to other conditions as stipulated in the Bill. One of such credit information company known as Credit Information Bureau (India) Ltd. (CIBIL) has already come into existence and has commenced functions of collecting, processing preserving and disseminating such data to its

member credit institutions. However, in absence of specific legislation, functions of the CIBIL at present is limited only to such data where disclosure is permissible under the existing legal framework —these data pertain to suit filed accounts and such accounts wherein the constituents of the credit institution have already given their requisite consent for disclosure of such information.

2.148 Based on the decision taken by the Reserve Bank in the light of recommendations of the joint team consisting of the representatives of the Ministry of Finance, the Reserve Bank and the DICGC, an outline of the proposed Bill '*Bank Deposit Insurance Corporation*' has already been transmitted to the Government of India. The outline amongst others provides for registration of banks as insured banks, insurance of deposits of such insured banks, charging of risk based premium for such insurance, winding up and liquidating of insured banks on application by the Reserve Bank, dropping the existing credit guarantee functions of the Corporation, enabling the new Corporation to complete the residuary functions of the old Corporation in relation to its obligations already assumed towards the credit institutions pursuant to credit guarantees issued by the old Corporation under Credit Guarantee Schemes, and to empower the new Corporation to make suitable recommendations to the Reserve Bank for restoring the health of insured banks or for their resolution, *i.e.*, liquidating/merger, if the Corporation considers it necessary to do so.

2.149 As desired by the Government, the draft legislation on 'The Factoring of Debts due to Industrial and Commercial Undertakings Bill, 2002' has been revised and transmitted to the Government. Besides defining certain expressions like factored debt, assignment, *etc.*, the proposed legislation, in brief, provides for (i) the rights and liabilities of the parties involved in a factoring transaction (ii) notice, mode of assignment of factored debts, *etc.*, with a view to overcoming the present legal impediments in the growth of factoring business and help in the promotion of an efficient and viable factoring operation which in turn will help to mitigate the problem of delayed payments to industrial and commercial undertakings, especially SSI units.

9. Technological Developments

2.150 Computerisation of banking has received high importance in recent years. While the new private sector banks, the foreign banks and a few old private sector banks have already put in place 'Core Banking solutions', the public sector banks are adopting similar systems. Although all the public sector banks have already crossed the 70 per cent level of computerisation of their business, the direction from the Central Vigilance Commission (CVC), to achieve 100 per cent computerisation, has resulted in renewed vigour in these banks towards fulfilment of this requirement which could go a long way to better customer service. Networking in banks has also been receiving focussed attention during recent times. As part of the INdian FInancial NETwork - INFINET, the terrestrial lines are being augmented, with increased data transfer capabilities.

Payment and Settlement Systems

2.151 Payment and settlement systems serve an important role in the economy as the main arteries of the financial sector. It has been the endeavour of the Reserve Bank to improve the efficiency of the financial system by ensuring safe, secure and effective payment and settlement systems for the country. India has a myriad of payment systems, while settlement systems in the country have generally tended to fall in the category of deferred net settlement (DNS) systems which entail some element of risk. With a view to providing a less riskier system which would also comply with the requirements of the Core Principles for Systemically Important Payment Systems (SIPS) of the Bank for International Settlements (BIS), the Reserve Bank implemented the Real Time Gross Settlement System (RTGS) during the year 2003-04 (Box II.16). The impetus given towards retail payment systems also continued, with a new facility being made available – the Special Electronic Funds Transfer (SEFT) System, covering about 127 centres of the country.

2.152 In view of the substantial progress made in the payment and settlement system as envisioned in the 'Payment System Vision Document 2001-04', the Reserve Bank has taken steps to draft a document on 'Payment and Settlement Systems Vision for 2005-08' under the guidance of the National Payment Council. The draft document would be placed in the

Box II.16: RTGS in India

The Real Time Gross Settlement (RTGS) System was implemented by the Reserve Bank on March 26, 2004, after a comprehensive audit and review of the software, also by conducting extensive training of users at commercial banks. The RTGS provides for an electronic based settlement of inter-bank and customer based transactions, with intra-day collateralised liquidity support from the Reserve Bank to the participants of the system. The RTGS system has also been enabled for straight through processing (STP) of customer transactions without manual intervention. The system which was initially started with four banks, besides the Reserve Bank, as participants, now has about 94 participants, comprising of scheduled commercial banks and primary dealers, with average daily turnover of about Rs.24,000 crore. As on November 19, 2004, 51 banks offer RTGS payment services through 1,451 branches located in 152 cities and towns. This coverage is expected to increase to 3,000 branches in 275 centres by the year-end. The coverage will be extended to about 500 centres comprising commercially important centres, capital market intensive centres and e-commerce centres.

The RTGS System will be fully integrated with the Accounting System of the Reserve Bank and other settlement services such as Deferred Net Settlement (DNS) Systems, the settlement of which would be performed as RTGS transactions through a facility for Multi Lateral Net Settlement batch processing.

The RTGS System has several unique features. It is a single, all-India system, with the settlement being effected in Mumbai. The payments are settled transaction by transaction. The settlement of funds is final and irrevocable. The settlement is done in real time; the funds settled can be further used immediately. It is a fully secure system, which uses digital signatures and PKI based encryption, for safe and secure message transmission. It provides for intra-day collateralised liquidity support for the member-banks to smoothen the temporary mismatches of fund flows and thereby ensuring smooth settlements. Under the RTGS System, inter-bank transactions; customer based inter-bank transactions and net clearing transactions can be settled. Both high value and retail payments can be effected through the RTGS system. Thus it provides less risk-based funds transfers for both banks and for their customers, apart from providing for more efficient funds management at the treasuries of banks.

public domain for feedback and discussions, and would be implemented from April 2005.

2.153 With a view to helping banks efficiently manage their funds as also to eliminate avoidable movement of funds around various centres for settlement purposes, a national settlement system (NSS) would be introduced in a phased manner by linking up different clearing houses managed by the Reserve Bank and other banks for centralised settlement at one place. It would also help the Reserve Bank closely monitor the liquidity position of banks. In the first phase, the settlement for various clearings in the four metro cities would be accounted for under the NSS. The NSS is expected to be operationalised in early 2005.

2.154 The Indian retail payment system is characterised by a substantial number of funds transfers being effected through the cheque clearing system (constituting the MICR and Non-MICR Clearings). In addition, other technologically advanced and secure systems such as the Electronic Clearing Service (ECS-Debit and Credit Clearing), Electronic Funds Transfer (EFT), the Special EFT and card based systems (credit, debit, ATM and smart cards) are also gaining increased usage by customers of banks (Table II.1). While ECS-Credit and ECS-Debit systems are for bulk payments and are akin to the automated clearing houses (ACH) elsewhere, the EFT and SEFT systems are for individual one-to-one credit transfer based transactions. To provide for transfer of funds electronically across a large number of bank branches in the country as a forerunner to the nation-wide funds transfer system (NEFT), the SEFT System was introduced from April 1, 2003. SEFT is a system with the settlement being centralised at Mumbai and providing for same day funds settlement with multiple settlements during the day. SEFT covers 2,312 branches of 29 banks situated in 127 cities across the country. This scheme facilitated the introduction of the T+2 settlement system by the capital markets. Growth in these modes of payment services has been significant during the current year too. While ECS (credit) tranfers recorded a transactions volume of 198.64 lakh during the period April 2004-October 2004, ECS (debit) recorded a volume of 75.95 lakh transactions and SEFT volume rose to 1.71 lakh- all of which indicate increasing customer acceptance for electronic modes of funds movement.

2.155 It has been decided to remove the existing limit per transaction for ECS and EFT with effect from November 1, 2004 so as to facilitate the usage of these facilities on a larger scale and to take care of the various segments of the financial sector, including the securities markets.

Table II.1: Transactions through Electronic Payment Methods (2003-04)

Type	Volume of transactions (000's)	Growth in volume over previous year (per cent)	Value of transactions (Rs. crore)	Growth in value over previous year (per cent)
1	2	3	4	5
ECS-Credit	20,315	8.3	9,676	41.0
ECS-Debit	7,874	73.5	2,241	116.9
EFT	775	109.5	15,711	575.2
SEFT	82	n.a. @	2,305	n.a. @
Credit Cards	97,405	118.6	17,268	128.6
Debit Cards	86,379	138.6	18,513	132.2
Smart Cards	1,717	101.0	89	(-56)

@ SEFT was introduced with effect from April 1, 2003.

2.156 In recent years, plastic cards (credit, debit and smart cards) have gained greater acceptance and momentum as a medium of financial transactions. The volume and value of transactions undertaken using these cards have increased significantly (Box II.17). A significant feature is the proliferation and increasing usage of debit cards as compared to the growth of credit cards. Automated Teller Machine (ATM) cards are also slowly but steadily on the rise highlighting the need for optimising investments made by banks. Banks were therefore advised to share their ATMs and during the year under review, many banks have joined together in small clusters to share their ATM networks. In order to facilitate inter-operability among these clusters at national level, the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad, has set up a National Financial Switch (NFS) to facilitate apex level connectivity of other switches established by banks. The number of ATMs by the public sector banks nearly doubled from 3,473 as at the end of March 2003 to 6,748 as at the end of March 2004.

2.157 Rapid developments in technology and financial markets have led to innovations in retail payments modalities. The share of e-payments in both domestic and cross-border retail payments is increasing both in terms of number and value. It is, hence, important to ensure financial integrity of the electronic money issuers as also the security of their operations (Box II.18). Reserve Bank's concerns also include conduct of monetary policy and oversight of payment system. A Working Group on Risk Mitigation Mechanism for the Indian Retail Payment Systems has been constituted by the Reserve Bank with members from various banks and the Indian Banks' Association. The Group is in the process of formulating strategies required for achieving the objectives, and is expected to submit its Report by November 2004.

Box II.17: Credit Cards in India

The usage of cards by customers of banks in India has been in vogue since the mid-eighties although large-scale usage has been witnessed only during the last decade. The first entrant in the card sector was the credit card, which has witnessed large-scale acceptance as a medium of usage at many Points of Sale (PoS), across different merchant establishments.

As at the end of October 2004, 112.02 lakh credit cards have been issued by banks to their customers. Almost all the categories of banks issue credit cards, with the largest shares being accounted for by three large banks in the country - ICICI Bank, Citibank and State Bank of India. Most of the card based payment authorisations take place in an online mode, with the reach covering about 10 lakh merchant establishments across the country. Credit cards have found greater acceptance in terms of usage in the major cities of the country, with the four major metropolitan cities accounting for the bulk of the transactions.

Issue of credit cards by banks are subject to their own internal prudential norms such as income recognition and asset classification. The Reserve Bank has introduced various liberalisation measures such as the permission for banks to issue international credit cards to resident Indians. While impressing upon banks to take appropriate remedial measures to guard against accumulation of non-performing loans, the Reserve Bank has suggested that banks should observe the code of ethics formulated by the Indian Banks' Association for engaging recovery agents to collect credit card overdues. Recently, it has been decided to constitute a Working Group to look into the regulatory and customer protection aspects and suggest measures for card usage in a safe, secure and customer friendly manner.

Apart from being a source of revenue for banks, credit cards play an important role in the country in reducing the cost of currency management, increasing the safety of transactions, providing for traceability of transactions, *etc.*

Banks have been issuing other types of cards also like Debit cards, ATM cards and smart cards. In recent years, the growth of debit cards issuance and usage have gained greater momentum. As at the end of October 2004, banks in India had issued 378.52 lakh cards.

Box II.18: e-Banking: Regulation and Supervision

Areas of concern for the Reserve Bank are regulation of: (i) Issuance of e-money, (ii) Status of issuers of e-money – which financial market participants could be allowed to issue e-money and (iii) the prudential norm to be followed for preserving effectiveness of monetary policy and integrity of the e-money. Several working groups have been constituted by the Reserve Bank with a view to address the regulatory issues relating to electronic money from time to time. Report of the Working Group on Electronic Money (Chairman: Shri Zarir J. Cama) submitted in July 2002 identified areas of concern from the point of view of the central bank in the context of more widespread use of e-money so that the conduct of monetary policy is not impaired and at the same time, the integrity of the instrument (*i.e.*, e-money) is also preserved. Some of the suggestions made by the Group include multipurpose e-money to be issued only by authorised banks on a credit basis and should be strictly regulated and closely monitored; ensure redeemability in order to preserve the unit of account function of money as well as to control money supply in the economy; reporting of monetary statistics for the purposes of monetary policy and protection against criminal abuse, such as money laundering.

The Working Group on Internet Banking set up by the Reserve Bank focussed on technology and security issues, legal issues as well as regulatory and supervisory issues. Recommendations of the Group are to be implemented in a phased manner. The Reserve Bank guidelines on 'Risks and Controls in Computers and Telecommunications' will also be applicable to internet banking.

The policy response of the Reserve Bank relating to technical security includes: designating a network and database administrator; a security policy; Information Systems Auditing; use of logical access control techniques; use of proxy server type of firewall and PKI (Public Key Infrastructure) as the most favoured technology.

In regard to the legal framework the rights and obligations on the part of the respective participants (customers, merchants, issuers and operators) in an e-money scheme must be clearly defined and disclosed, and be enforceable under all relevant jurisdictions. Moreover, Information Technology Act (2000) and subsequent amendments have granted explicit recognition to electronic modes of payment.

Issues of policy concerns for the future include risk of a run on the e-money system dependent on ability of the system to detect fraud and operational problems; difficulties of judging and foreseeing the weak spots in cryptography based security system; problems in backup facilities in networked payment products; safeguards against anti-competitive practices and antitrust concerns which endanger payment system stability; outsourcing, disclosures and customer education, contingency planning, *etc.* Apart from these, several cross border issues and law-enforcement issues are also important for the effective regulation of the system.

Facilities for Paper based Clearing

2.158 Cheque clearing continued to be the largest mode of settlement in terms of volumes of processing. During the year under review, 12 more centres (Rajkot, Allahabad, Gwalior, Jodhpur, Varanasi, Kozhikode, Thrissur, Bhubaneshwar, Nashik, Raipur, Jabalpur and Vishakapatnam) commenced MICR based clearing using state-of-the-art reader sorter based processing capabilities, taking the total number of MICR centres to 39. The Working Group on Cheque Truncation and e-cheques (Chairman: Dr. R. B. Barman) recommended an image based cheque truncation at the presenting bank. A pilot cheque truncation project is being planned to be implemented covering the National Capital Territory of Delhi and its nearby areas. The system would entail the physical cheques being truncated within the presenting bank to derive maximum efficiency. Settlement would be generated on the basis of the current structure of the MICR fields. Electronic images would be used for payment processing. Grey Scale technology for image capture would be used for imaging. The preservation period of paper instruments would be one year and that of the electronic images would be eight years. A Centralised Agency per clearing location would act as an image warehouse for the banks. Minimum entry norms for Warehouse Agency recommended are technical competency, efficiency orientation and size of resources.

Online Tax Accounting System (OLTAS)

2.159 A measure aimed at providing better facilities for the Government tax collection and for tax payers was the introduction of the On Line Tax Accounting System (OLTAS) with a network of various banks authorised for collection of tax receipts. The Reserve Bank and the Tax Information Repository at the National Securities Depository Ltd. (NSDL) are also part of the OLTAS. Data is captured from the challans submitted by tax payers tendered at the designated bank branches and transmitted electronically to the repository. The collection and transmission of data on tax collections have thus been made efficient on a T+1 cycle basis. The OLTAS works in a fully secured environment, with data being transmitted

using encryption facilities and digital signatures for enhanced security. The system, in live operations from July 1, 2004 is performing well. Under the OLTAS, 15 offices of the Reserve Bank, and 11,699 authorised branches of 31 agency banks transmit daily data on income/corporate tax collected by them to the tax information network (TIN) hosted by NSDL. The income tax challan form has also been simplified and made into a single copy challan. In order to simplify the refund procedures and ensure better customer service, the Reserve Bank has suggested to the Central Board of Direct Taxes (CBDT) to do away with advice based refunds. CBDT has accepted the suggestion for grant of refunds up to Rs.25,000 through Electronic Clearing System (ECS) facility at select centres in respect of individual tax payers. With the proposal for ECS based Income Tax Refunds, the entire processing for income tax payers would get a fillip.

Online Indirect Taxes Accounting System: Status

2.160 At the request of the Central Board of Excise and Customs (CBEC), a system similar to OLTAS has been envisaged for streamlining the present systems and procedures in regard to transmission of data pertaining to excise duty and service tax. The Reserve Bank has constituted a High Powered Committee on Online Indirect Taxes Accounting System (OLITAS) (Chairman: Shri J.N. Nigam) with members drawn from the Government, IBA, State Bank of India, reputed information technology companies, and NSDL.

Chapter III

Developments in Commercial Banking

3.1 During the year 2003-04, the strong macroeconomic environment and supporting monetary and financial policies had a favourable impact on business growth and financial performance of commercial banks. The balance sheets of banks witnessed further strengthening due to the robust growth of deposits on the liabilities' side accompanied by strong growth of loans and advances, and investment on the assets side. The record growth in bank credit in the priority sector including agriculture, small industries and other sectors including housing, and also in non-priority sectors including the consumer credit reflected an improvement in access to credit. There was a significant improvement in the asset quality and profitability of commercial banks with a continuing focus on integrated risk management systems to monitor credit, market and operational risks, recovery management and corporate governance practices. The capital to risk-weighted assets ratio (CRAR) showed further improvements across various banks. A notable achievement was that despite the switch over to the 90-day delinquency norm with effect from March 2004, gross non-performing assets declined in absolute terms for a second year in succession. Despite sluggish income growth consequent upon the lower interest rates prevailing, the momentum of the high growth of profits witnessed in recent years was sustained during 2003-04 mainly driven by the substantial increase in non-interest income and a significant containment in the overall expenditure, primarily, interest expenditure (Table III.1).

2. Assets and Liabilities of Scheduled Commercial Banks[1]

3.2 The size of the balance sheet of scheduled commercial banks (SCBs) recorded stronger growth during 2003-04; the growth rate of aggregate assets at 16.2 per cent was higher by nearly 6 percentage points over the growth of 2002-03. The ratio of assets of SCBs to GDP at factor cost at current price increased to 71 per cent, an increase of 2.5 percentage points over 2002-03, implying further deepening of the financial sector. On the liabilities side, deposits continued to account for about four-fifths of banks' total liabilities. On the assets side, the shares of two major components, *i.e.*, loans and advances, and investment, in total assets of SCBs remained more or less similar to the position recorded in 2002-03 (Table III.2). The share of loans and advances in the balance sheet

Table III.1: Changes in the Income Expenditure Profile of Scheduled Commercial Banks

(Amount in Rs. crore)

Indicator	2002-03		2003-04	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Income (a+b)	**21,313**	**14.1**	**11,422**	**6.6**
a) Interest Income	13,785	10.9	3,286	2.3
b) Other Income	7,528	31.3	8,136	25.7
2. Expenditure (a+b+c)	**15,812**	**11.3**	**6,229**	**4.0**
a) Interest Expenses	6,080	6.9	-6,029	-6.4
b) Operating Expenses	4,388	13.0	5,463	14.4
c) Provisions and Contingencies	5,344	29.3	6,795	28.8
3. Operating Profits	**10,845**	**36.3**	**11,989**	**29.5**
4. Net Profits	**5,501**	**47.5**	**5,194**	**30.4**

[1] The assets and liabilities of scheduled commercial banks are analysed primarily on the basis of end-March audited annual accounts. During 2003-04 one private sector bank, *viz.*, Development Credit Bank shifted from old private sector bank to new private sector banks, with statistical implications for the balance sheet and financial performance of new private sector banks and the old private sector banks.

of SCBs increased marginally accompanied by an increase in the share of term loans. The share of investments in total assets of SCBs declined, *albeit*, marginally, while there was an increase in the share of investment in Government securities. The share of investment in non-approved securities witnessed a decline reflecting the stringent norms imposed on non-SLR investments. The investment component of the balance sheet grew at 15.6 per cent during 2003-04, lower by 2.5 percentage points when compared with the record growth of the year 2002-03.

Bank-group wise position

3.3 Among bank groups, public sector banks (PSBs) continued to account for the major component of balance sheet of SCBs though their market share in deposits, advances, and investments was somewhat contained and that of private sector banks increased during 2003-04 (Table III.3). Bank-group wise consolidated balance sheets are provided in Appendix Tables III.1.(A) to III.1(C). All bank groups witnessed double-digit asset growth (Table III.4).

Intra-year Variations[2]

3.4 The trends in major banking aggregates of SCBs indicated a stronger growth of deposits, robust growth of credit particularly non-food credit, and a continued growth in investments during 2003-04 (Table III.5).

Table III.2: Consolidated Balance Sheet of Scheduled Commercial Banks

(As at end-March) (Amount in Rs.crore)

Item	2003		2004	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
Total Liabilities	**16,99,197**	**100.0**	**19,75,020**	**100.0**
1. Capital	21,594	1.3	22,348	1.1
2. Reserves and Surplus	76,288	4.5	94,240	4.8
3. Deposits	13,55,654	79.8	15,75,143	79.8
3.1 Demand Deposits	1,64,366	9.7	2,03,142	10.3
3.2 Savings Bank Deposits	3,02,303	17.8	3,73,677	18.9
3.3 Term Deposits	8,88,984	52.3	9,98,324	50.5
4. Borrowings	87,469	5.1	96,490	4.9
5. Other Liabilities and Provisions	1,58,192	9.3	1,86,798	9.5
Total Assets	**16,99,197**	**100.0**	**19,75,020**	**100.0**
1. Cash and balances with RBI	86,123	5.1	1,13,246	5.7
2. Balances with banks and money at call and short notice	75,113	4.4	82,223	4.2
3. Investments	6,93,753	40.8	8,02,066	40.6
3.1 In Government Securities (a+b)	5,36,214	31.6	6,39,144	32.4
a. In India	5,32,976	31.4	6,36,267	32.2
b. Outside India	3,238	0.2	2,877	0.1
3.2 In other approved Securities	19,281	1.1	18,100	0.9
3.3 In non-approved Securities	1,38,258	8.1	1,44,822	7.3
4. Loans and Advances	7,39,553	43.5	8,64,143	43.8
4.1 Bills purchased & discounted	58,813	3.5	67,231	3.4
4.2 Cash Credit, Overdrafts, *etc.*	3,54,768	20.9	3,71,836	18.8
4.3 Term Loans	3,25,972	19.2	4,25,076	21.5
5. Fixed Assets	20,278	1.2	21,403	1.1
6. Other Assets	84,378	5.0	91,940	4.7

Note :Scheduled commercial banks' data for 2002-03 are as reported in the balance sheets of banks for 2003-04 and hence may not tally with those reported in the *Report on Trend and Progress of Banking in India, 2002-03*, to the extent the figures for 2002-03 have been revised by some banks.

Source :Balance sheets of respective banks.

[2] This sub-section is based on the statutory returns submitted by scheduled commercial banks under Section 42 (2) of the Reserve Bank of India Act, 1934.

Table III.3: Major Components of Balance Sheet - Share of Bank Groups

(As at end-March) (per cent)

Bank-group	Assets		Deposits		Advances		Investment	
	2003	2004	2003	2004	2003	2004	2003	2004
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public Sector Banks	75.6	74.5	79.6	77.9	74.2	73.2	78.6	78.0
Nationalised Banks	46.5	46.7	50.8	50.4	48.6	47.7	46.5	47.1
State Bank Group	29.1	27.8	28.8	27.5	25.6	25.5	32.2	30.9
Private Sector Banks	17.5	18.6	15.3	17.0	18.8	19.8	15.5	16.8
Old Private Sector Banks	6.2	6.1	6.7	6.7	6.7	6.5	5.8	5.9
New Private Sector Banks	11.3	12.5	8.5	10.4	12.1	13.3	9.7	10.9
Foreign Banks	6.9	6.9	5.1	5.1	7.1	7.0	5.9	5.2

Deposits

3.5 Aggregate deposits of SCBs increased by 17.5 per cent in 2003-04, which was higher than the growth rate of 13.4 per cent (adjusted for the merger effect) recorded in 2002-03 (Appendix Table III.2). The greater requirement for transaction balances due to buoyant economic conditions, growth of non-food credit during the later part of the year and various other developments in financial markets pertaining *inter alia,* to developments in mutual funds segment and increased activity in capital market including disinvestments and FII inflows, had induced a high growth of demand deposits during 2003-04. Demand deposits of SCBs increased substantially by 32.1 per cent during the year as against an increase of 11.3 per cent in 2002-03, while time deposits grew by 15.2 per cent during 2003-04 compared with 13.7 per cent growth rate (adjusted for merger effect) in 2002-03 (Chart III.1).

Table III.4: Growth of Balance Sheet: Bank Group-wise

(As at end-March) (per cent)

Items	2003			2004		
	Public Sector Banks	Private Sector Banks	Foreign Banks	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4	5	6	7
1. Capital	0.6	-6.6	25.8	3.8	3.7	3.3
2. Reserves and Surplus	21.7	21.6	28.4	29.1	22.0	14.5
3. Deposits	12.4	11.4	2.1	15.4	29.6	15.1
3.1 Demand Deposits	7.6	6.6	7.1	11.0	72.4	50.8
3.2 Savings Bank Deposits	18.3	17.1	22.2	19.6	53.3	40.1
3.3 Term Deposits	11.5	10.3	-2.4	14.4	19.4	-1.1
4. Borrowings	-14.4	15.8	-12.8	28.5	-4.2	10.8
5. Other Liabilities and Provisions	9.4	7.2	24.5	26.7	23.9	47.9
Total Liabilities/ Assets	**11.2**	**11.0**	**2.7**	**16.6**	**23.6**	**16.8**
1. Cash and balances with RBI	-8.7	45.0	12.6	26.1	32.5	59.7
2. Balances with banks and money at call and short notice	-28.1	-52.7	-59.7	32.1	37.0	52.2
3. Investments	20.1	9.9	16.2	17.3	25.6	1.9
3.1 In Government Securities	25.4	16.5	27.6	21.2	31.5	6.1
3.2 In other approved Securities	-11.2	-14.7	-8.8	-4.7	-17.7	11.0
3.3 In non-approved Securities	6.6	-1.5	-8.9	6.6	13.8	-11.1
4. Loans and Advances	14.4	18.9	7.6	14.8	23.0	16.0
Of which : Term Loans	22.8	26.1	6.0	31.9	26.0	25.3
5. Fixed Assets	1.5	1.3	-2.9	6.7	5.7	-10.8
6. Other Assets	-3.6	44.4	34.0	8.5	5.6	44.5

Source: Balance Sheets of respective banks.

Table III.5: Select Banking Indicators

(Amount in Rs. crore)

Indicator	Outstanding as on March 19, 2004	Financial Year Flows (per cent)	
		2002-03	2003-04
1	2	3	4
1. Aggregate Deposits (a+b)	15,04,416	16.1 (13.4)	17.5
a) Demand Deposits	2,25,022	11.3	32.1
b) Time Deposits	12,79,394	16.9 (13.7)	15.2
2. Bank Credit (a+b)	8,40,785	23.7 (16.1)	15.3
a) Food Credit	35,961	-8.3	-27.3
b) Non-food Credit	8,04,824	26.9 (18.6)	18.4
3. Investments in Government securities	6,54,758	27.3	25.1

Note : Figures in bracket exclude the impact of mergers since May 3, 2002.
Source : Section 42(2) Returns of commercial banks.

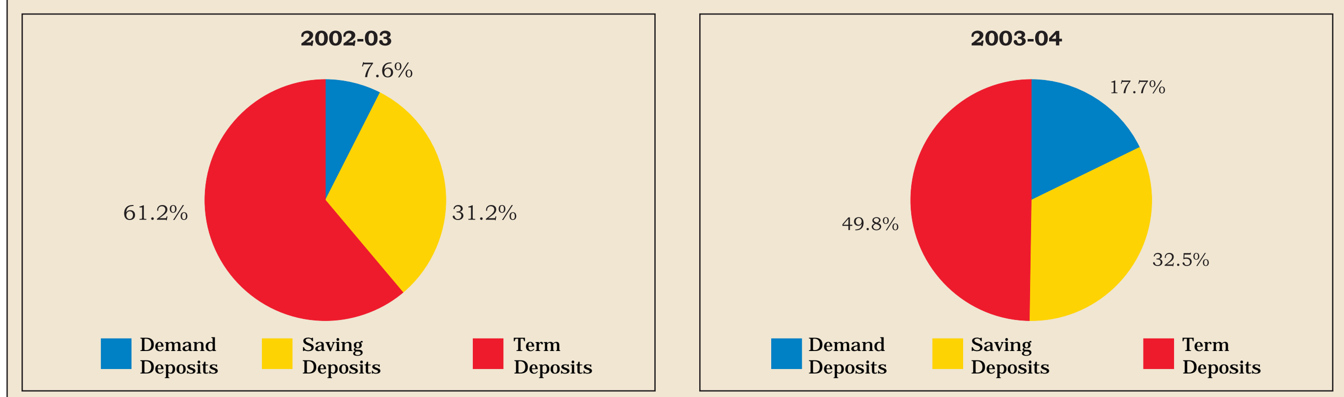
3.6 Across bank groups, the expansion of deposits in 2003-04 was highest at 29.6 per cent for private sector banks followed by 15.4 per cent for PSBs, and 15.1 per cent for foreign banks. The rate of expansion in demand and saving deposits was highest for private sector banks followed by foreign banks and PSBs. Regarding term deposits too, the private sector banks recorded the highest growth followed by the PSBs. For foreign banks, however, there was a decline in the growth of term deposits due to payouts of maturing deposits.

Bank Credit

3.7 Bank credit recorded robust growth during 2003-04 amidst the contraction in food credit owing to lower procurement and higher off-take and a sustained growth of non-food credit due to the turnaround in the macroeconomic environment and increase in foreign currency credit demand reflecting relatively lower cost of funds *vis-à-vis* Rupee loans. The initial sluggishness in non-food credit demand during the year was reversed by an upsurge from mid-August 2003, backed mainly by growth of priority sector loans, housing, retail and industrial credit. Gross bank credit increased by 15.3 per cent during 2003-04 compared with an increase of 16.1 per cent (net of merger effect) recorded in 2002-03. The growth of bank credit was supported by sustained increase in non-food credit, which increased by 18.4 per cent during 2003-04, almost similar to the growth rate of 18.6 per cent (adjusted for the merger effect) recorded in 2002-03.

3.8 In 2003-04, the balance sheet of SCBs showed that term loans accounted for a major share of 79 per cent of increase in outstanding loans and advances. The improvement in asset-liability management was evident from the fact that the expansion in term loans accounted for about 90 per cent of expansion in term-deposits.

Chart III.1: Component-wise Accretion in Deposits of Scheduled Commercial Banks



The bank group-wise analysis indicated that the expansion in loans and advances component of banks' assets registered an almost stable growth for PSBs but recorded sharp increases for private sector banks and foreign banks. The growth of term loans was high for all bank groups. Reflecting the improvement in asset-liability management, PSBs and private sector banks had expanded term loans consistent with the expansion of term deposits. For foreign banks, however, the expansion in term loans was met by expansion of demand and saving deposits.

Sectoral Deployment of Gross Bank Credit

3.9 Credit to agriculture and rural sector has been accorded top priority in the Common Minimum Programme of the Government of India. In the Budget 2004-05, Government of India has announced that the flow of credit to agriculture should be doubled in three years. Accordingly, all banks have been advised to step up agricultural credit. In 2003-04, the sectoral deployment of credit was associated with some positive developments. The growth of non-food credit was mainly driven by loans to priority sector, housing and infrastructure (Table III.6, Appendix Table III.3).

3.10 The credit flow to the priority sector from select SCBs (which account for about 90 per cent of gross bank credit) increased by 24.7 per cent, which was higher by about 8 percentage points over the growth rate (adjusted for merger effect) recorded in 2002-03. On an incremental basis, the flow of credit to priority sector accounted for about 55 per cent of the variation in net bank credit during the year, higher by about 20 percentage points when compared with 2002-03. During 2003-04, the growth of credit to the priority sector has been driven by the increase in lending to agriculture sector, small scale industries (SSI) and the other priority sector. The flow of credit to agriculture increased substantially by 23 per cent in 2003-04 as against an increase of 18 per cent in 2002-03. Bank credit to SSI also increased sharply by 9 per cent in 2003-04 as against an increase of 6 per cent in 2002-03. The spurt in other priority sector lending could be attributed to inclusion of investment made by banks in the mortgage backed securities (MBS) under direct lending to housing within the priority sector and the increase in the ceiling for lending for housing to Rs.10 lakhs in rural area. Anecdotal evidence suggests increases in credit lines to small transport operators.

3.11 The flow of credit to medium and large industries recorded lower growth during 2003-04 as compared with 2002-03. Industrial credit decelerated due to greater dependence of large corporates on internal sources as well as alternative sources of external financing. Credit to infrastructure sector, however, increased by 41.6 per cent in 2003-04 on top of a 35.3 per cent increase in 2002-03. Banks' lending to wholesale trade posted a robust growth during the year. Banks' lending to non-bank financial companies showed a decline in 2003-04. The flow of credit to various other sectors including retail loans recorded stronger growth of 23.7 per cent during

Table III.6: Sectoral Deployment of Non-food Gross Bank Credit: Flows

(Variations over the year)

(Amount in Rs. crore)

Sector	2002-03@		2003-04	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Priority sectors	28,540	16.3	52,225	24.7
2. Industry (Medium and Large)	28,011	16.3	12,042	5.1
of which: Infrastructure	5,224	35.3	10,927	41.6
3. Housing	12,308	55.1	15,394	42.1
4. Non-banking financial companies	4,399	45.6	2,675	18.9
5. Wholesale trade (other than food procurement)	1,939	9.5	2,289	10.1
6. Other sectors	9,481	11.5	23,742	23.7
Total (1 to 6)	**84,678**	**17.5**	**1,08,367**	**17.5**
of which: Export Credit	6,424	14.9	8,485	17.2

@ Excluding the impact of merger of ICICI with ICICI Bank.

Note: Data are provisional and relate to select scheduled commercial banks which account for 85-90 per cent of bank credit of all scheduled commercial banks.

2003-04 as compared to growth rate of 11.5 per cent recorded in 2002-03. Thus, retail banking, mainly, in the form of housing and personal loans attracted an increasing share of banks' loan portfolio.

Housing Loans

3.12 Fiscal 2003-04 witnessed an increase in the share of housing loans in non-food gross bank credit to 7.1 per cent in March 2004, higher by a percentage point from 2002-03. Although the growth rate of housing loans at 42 per cent for 2003-04 was substantially high, it was lower by 13 percentage points compared with the growth rate of 55 per cent recorded in 2002-03 (Box III.1).

Consumer Credit

3.13 The retail banking portfolio encompasses deposit and asset linked products as well as other financial services offered to individuals for a variety of personal consumption and investment purposes. Retail banking is increasingly viewed

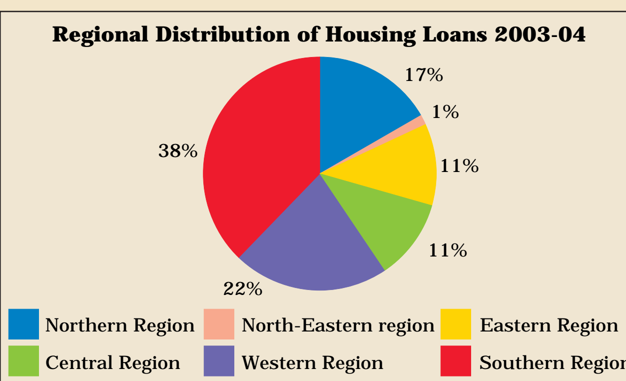
Box III.1: Housing Finance

Housing finance in developing countries is a social good in view of its backward and forward linkages with other sectors of the economy. In India, growth of housing finance segment has accelerated in recent years in response to the several supporting policy measures taken and the supervisory incentives instituted. The Reserve Bank has been promoting the housing sector through minimum disbursement targets linked to incremental deposits and also by prescribing lower capital adequacy requirements. Direct finance to the housing sector up to Rs.15 lakh is treated as part of priority sector lending. The limit on housing loans for repairing damaged houses has been raised to Rs.1 lakh in rural and semi-urban areas and to Rs.2 lakh in urban areas. Banks have the freedom to stipulate lending rates without reference to their benchmark prime lending rates in respect of loans extended to individuals for acquiring residential properties.

Government of India too has been according considerable importance to the housing sector in rural areas. Housing in the rural areas, both of agriculturists and non-agriculturists, combines the business as well as dwelling needs and thereby leads to overall rural development. With a view to supplementing the efforts of Government of India, State Governments, National Housing Bank (NHB) and banking sector in augmenting the resources for the rural housing segment, NABARD included rural housing as an eligible activity for extension of refinance (investment credit) to the eligible banks since April 2001. Housing finance is available for construction of new as well as repairs/ renovation of existing houses in rural areas subject to various terms and conditions including *security/margin requirement* as per RBI/NHB guidelines issued from time to time. In case land is acquired, the land cost may be reckoned as margin money. Otherwise cost of land is not included in the project cost.

During the period 1993-2004, outstanding housing loans by scheduled commercial banks and housing finance companies grew at a trend rate of 23 per cent, higher than the trend growth rate of 14.8 per cent recorded in respect of scheduled commercial banks' non-food credit during the same period. The share of housing loans in total non-food credit of scheduled commercial banks has increased from about 3 per cent in 1992-93 to about 7 per cent in 2003-04.

Unlike many other countries, asset impairment on account of housing finance constitutes a very small portion. As at end-March 2004, the impaired credit (*i.e.*, net NPAs) was 1.4 per cent of outstanding advances. However, with growing competition in the housing finance market, there has been a growing concern over its likely impact on the asset quality.



Expressing concerns about the high growth witnessed in the housing segment the Reserve Bank has, as a temporary measure, put in place risk containment measures and increased the risk weight from 50 per cent to 75 per cent in the case of housing loans.

Although scheduled commercial banks as well as housing finance companies have led the robust growth in credit to housing sector since the late 1990s, the housing needs of the poor and low income groups have remained unaddressed (EPW, May 2004). As per the 10th Five Year Plan, around 90 per cent of the shortage in housing is experienced by the economically weaker sections of society. One of the reasons for low financing to weaker sections is the clause of margin. Margin is the proportion of the loan to be brought in by the borrowers. The clause is considered to be a constraining factor for the weaker section to access the housing loans. In order to solve this problem, NHB is promoting a separate entity India Mortgage Credit Guarantee Corporation (IMCGC). IMCGC will guarantee the payment of principal and interest by the borrower to lender, *i.e.*, banks, housing finance companies. IMCGC will also mitigate the risk perception of banks and housing finance companies and enable them to expand further credit in housing sector. However, due to non-availability of clear land titles in rural areas, and the difficulties in risk assessment due to irregular income behaviour in rural areas, growth of housing finance in rural areas has been constrained.

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by banks as an attractive market segment with opportunities for growth. The expansion of the retail banking segment can be attributed to the growing middle class with high disposable income, wider choices of consumer durables available to be financed by the banks, increased acceptance of credit cards and increased demand for housing loans spurred by attractive tax breaks (Box III.2).

Box III.2: Consumer Credit

Across the globe, retail lending has been the most spectacular innovation in the commercial banking sector in recent years. Retail loans comprise consumer credit for specific purpose and credit for general use. The surge in credit to the retail segment across developing as well as developed economies has occurred due to commercial banks shifting from traditional banking activities to a broad-based lending portfolio. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment owing to financial market reform, and several micro-level demand and supply side factors. Technology induced innovative financial products have facilitated strengthening of balance sheets and income structures of banks. Technology has enabled a significant reduction in cost of external finance for borrowers, while banks have benefited from product innovations, and lower transaction cost associated with collection, processing and use of information. This, in its wake, has offered banks better techniques for risk management and pricing of products.

The surge in retail lending, however, has certain limitations. Retail lending may accentuate indebtedness of households, with implications for sustainability of private consumption and saving in the medium to longer horizon. Rapid increase in retail loans may impinge on bank credit for investment activities with implications for economic growth. Several cross section studies suggest that retail lending may, however, pose various risks with implications for banks' asset quality.

In the Indian context, retail lending has been the mainstay and a key profit driver for banks in the recent times with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2004. The overall impairment of the retail loan portfolio worked out to 2.5 per cent and compares favourably with the Gross NPA ratio for the entire loan portfolio, which is placed at 7.4 per cent. Within the retail segment, the housing loans, which formed nearly 48 per cent of total retail portfolio, had the least gross asset impairment at 1.9 per cent while consumer durables segment had the highest gross asset impairment at 6.3 per cent. Apart from diversification objective, various factors have influenced banks' lending to the retail sector in India. These relate to falling interest rates, fiscal incentives from the Government, various reform measures pertaining to the Securitisation Act (SARFAESI), the repealing of Urban Land Ceiling Act and the rationalisation of stamp duty structure, low default rate, low credit off-take from the commercial and corporate sector, lowering of costs of housing, consumer durables and automobiles due to competition, and technological innovations relating to increasing use of credit/debit cards[3], ATMs, direct debits and phone banking etc. While retail banking has always been prevalent in various forms (for instance, co-operative banks, some of whom are over a century old, have always had the retail thrust), for the last few years it has become synonymous with mainstream banking for many banks. While new generation private sector banks (ICICI Bank, accounting for nearly 30 per cent of the domestic retail growth) have invested in creating and sustaining a retail brand, their public sector counterparts too, have not lagged behind. Leveraging their vast branch network and outreach, public sector banks like State Bank of India (SBI) whose retail segment constitutes 20 per cent of the total advances have aggressively forayed to garner a larger slice of the retail pie. The retail lending of SBI grew by Rs.8,803 crore in 2003-04 as against an increase of Rs.6,641 in 2002-03. There are, however, various concerns as to whether retail lending has emerged as an efficient channel for improving access to credit and promoting broad-based development. At present, retail lending is largely confined to urban and metropolitan regions. Expressing concerns about the high growth witnessed in the consumer credit segments the Reserve Bank has, as a temporary measure, put in place risk containment measures and increased the risk weight from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards (mid-term Review of annual policy, 2004-05).

Table : Retail Portfolio of Banks
(As at end-March 2004)

Items	Amount Outstanding (Rs. crore)	Impaired Credit as per cent of outstanding Loans	Net NPAs as per cent of out-standing loans
(i) Housing Loan	89,449	1.9	1.4
(ii) Consumer Durables	6,256	6.6	4.0
(iii) Credit Card Receivables	6,167	6.3	2.4
(iv) Other Personal Loans	87,170	2.6	1.6
(v) Total Retail Loans [(i) +(ii)+(iii)+(iv)]	1,89,041	2.5	1.6
(vi) Total Loans & Advances	8,59,092	7.4	2.8

Data pertains to Domestic operations.

Source: RBI's Off-site Supervisory Returns.

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[3] Also see Chapter II: Box II.17.

3.14 The typical products offered in the retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by banks. The loan values typically range between Rs.20,000 to Rs.100 lakh. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 15 years. Credit cards is another rapidly growing sub segment of this product group.

3.15 An important characteristic of retail banking assets is the comparatively low loan values. In order to appraise such loans, banks are using more refined credit assessment methods. These include credit scoring techniques, automated application processing, behavioral scoring models and income surrogate models (Box III.3). In addition, banks are also using data sharing as a means of improving the selection of customers and reduction of credit losses. In the absence of full fledged Credit Bureaus, the negative data sharing extends to sharing of data on hot listed credit cards besides using banks' own internal black lists.

Export Credit

3.16 In 2003-04, export credit grew by 17 per cent as against an increase of 15 per cent in 2002-03. The share of export credit in net-bank credit improved only marginally to 7.6 per cent in 2003-04 as against 7.4 per cent in 2002-03 notwithstanding higher export growth during the year (Chart III.2). The export credit refinance limit showed a declining trend during May-November, 2003 (Appendix Table III.4). The outstanding export credit refinance availed remained negligible during 2003-04.

Industry-wise Deployment of Credit

3.17 In 2003-04, industrial credit expanded by 5.9 per cent, which was lower than 13.6 per cent growth recorded in 2002-03. The credit off-take by the industrial sector remained relatively subdued amidst buoyancy in industrial activity and stronger corporate balance sheet reflecting, *inter alia*, increased recourse of the corporate sector to internal sources of financing as well as external commercial borrowings. The demand for credit for financing fixed investments remained lower on account of existing excess

Box III.3: Credit Scoring

The rapid advancement in information technology has enabled banks to adopt various sophisticated tools for processing of information and financial engineering in order to better manage risks of their credit portfolios. Credit scoring is one such technique, which is being increasingly utilised by banks for assessing informationally opaque borrowers. Some cross country evidence shows that over 75 per cent of mortgage lenders and over 90 per cent of credit card lenders in United States use credit scores when making their lending decisions. In developing economies, banks have started using the credit scoring technique in a big way, especially for retail lending including housing loans and credit cards.

A credit score is essentially a statistical number that indicates the level of risk associated with the borrowers. Higher/lower credit score reflects lower/higher level of risks of borrowers. Banks use credit score for risk based pricing strategy, which entails differential interest rates and other lending terms based on the risk profile and creditworthiness of borrowers.

Banks and financial institutions use a variety of credit scoring models for analysis of borrowers' creditworthiness. Credit Reporting Agencies (CRA) use different scoring models for different purposes. For instance, housing finance and car loans could employ a model different from that used for credit cards and other retail loans including personal consumption. There is still no general legal obligation on CRAs to provide credit scores to individuals. However, some credit service companies sell credit scores and advice for improving these for a fee.

Credit scoring models use complex formula taking into account a variety of information culled out from borrowers' credit report, payment history, and credit applications, and collections, foreclosures, lawsuits, and other collection items. Typically, information pertaining to borrowers' occupation, length of employment, asset ownership including home and car, amount of credit or debt, types of credit, new credit, and the number of credit checks, and runs among several others are used by scoring models.

Credit scoring models have long been shrouded in secrecy pertaining to types of information used and measurement of borrowers' risks. From lenders' perspective, there are various concerns relating to limits to disclosure and transparency. On the other hand, from borrowers' perspective there are legal concerns relating to data protection.

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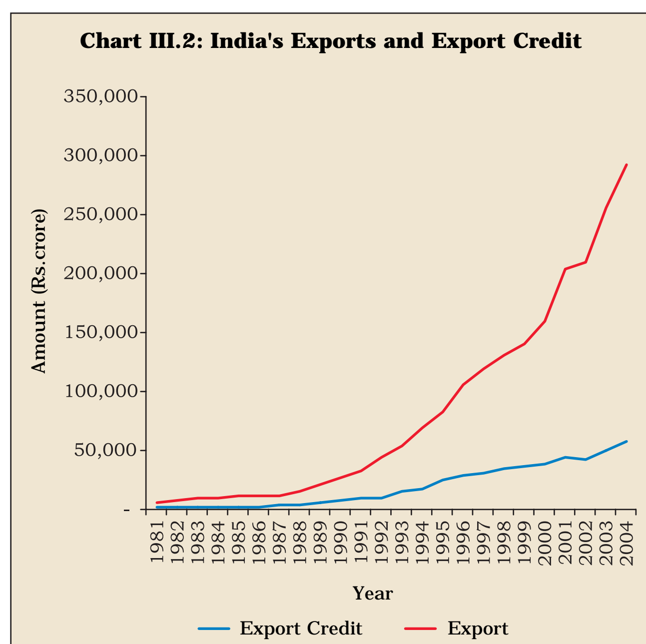

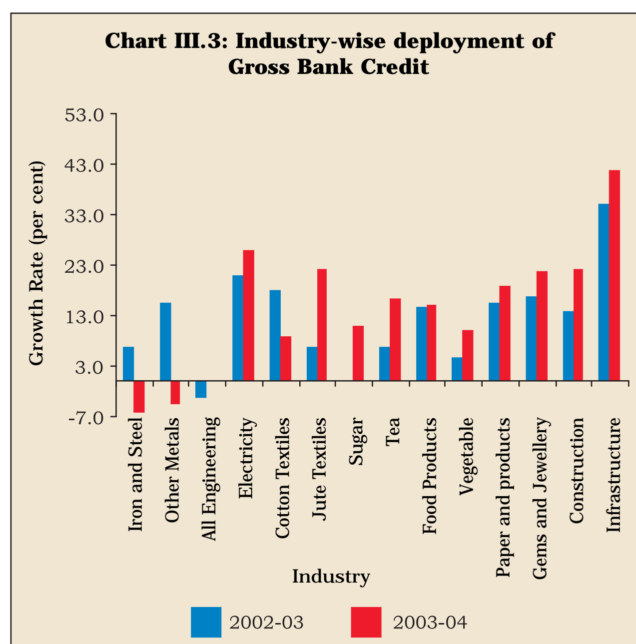

capacities. However, there was a distinct change in the pattern of growth of non-food credit across various industries. The industry-wise deployment of bank credit was induced by loans to infrastructure sector, agro-based industries, exports, wholesale trade and tourism. The increase in credit flow was highest for infrastructure sectors including power, telecommunications, roads and ports. In 2003-04, the flow of credit to the infrastructure sector recorded an expansion of 41.6 per cent with large increments in all the three infrastructure segments - power, telecom and 'roads and ports'. There was increase in credit flow to agro-based industries such as sugar, tea, vegetable oil, paper and food processing. Other industries which recorded increase in credit flow in 2003-04 were electricity, tobacco products, 'gems and jewellery' and construction (Chart III.3, Appendix Table III.5).

Bank Credit to Sick/Weak Industries

3.18 There has been a decline in the number of SSI-sick and non-SSI sick / weak industrial units financed by SCBs in recent years. The quantum of bank loans locked up in sick / weak industries increased from Rs.26,065 crore as at end-March 2002 to Rs 34,816 crore as at end-March 2003, recording an increase of 33.6 per cent. The share of bank loans to sick units in total bank loans increased from 4.4 per cent as at end-March 2002 to 4.8 per cent as at end-March 2003. Across broad category of sick units, non-SSI sick units accounted for a major share of total sick loans, followed by sick SSI and non-SSI weak units (Appendix Table III.6).

Lending to Sensitive Sectors

3.19 During 2003-04, banks' lending to capital market, real estate and commodities sector increased in absolute terms. However, the exposure of SCBs to sensitive sectors accounted for only 3 per cent of aggregate bank loans and advances. Banks' lending to capital market remained negligible at 0.4 per cent of outstanding loans and advances. The share of credit to real estate and commodities sectors in outstanding loans and advances of SCBs was 1.6 per cent and 1.2 per cent, respectively. Real estate sector accounted for the major share of 51.6 per cent of total loans to sensitive sectors followed by commodities and capital markets segments, respectively (Table III.7 and Appendix Table III.7). Among bank groups, PSBs continued to account for about 60 per cent of the total exposure of SCBs to sensitive sectors.

Other Investments

3.20 Besides loans and advances, banks provide financial support to the corporate sector in the form of non-SLR investments, which includes commercial paper, shares, bonds, and debentures issued by the private corporate sector and public sector undertakings (PSUs)

Table III.7 : Lending to Sensitive Sectors by Scheduled Commercial Banks
(As at end-March)

(Amount in Rs. crore)

Advances to	2003	2004
	1	2
1. Capital market	2,484 (10.5)	3,333 (12.2)
2. Real Estate	12,464 (52.6)	14,170 (51.6)
3. Commodities	8,735 (36.9)	9,952 (36.2)
Total (1+2+3)	**23,683 (100.0)**	**27,455 (100.0)**

Note : Figures in brackets are percentage to total.

(Table III.8). The investment in bonds and debentures continued to be the major component of banks' non-SLR investments, though its share in total non-SLR investments declined during the year. In absolute terms, there was a sharp increase in banks' finance to mutual funds. The share of banks' investment in mutual funds in total non-SLR investments increased to 8.6 per cent in 2003-04 from 4.7 per cent in 2002-03.

Certificates of Deposit (CDs)

3.21 The outstanding amount of CDs issued by SCBs increased from Rs.1,188 crore on April 4, 2003 to Rs.4,461 crore by mid-March 2004 (Appendix Table III.8). The typical discount rate for CDs with a 3-month maturity declined from 7.2 per cent at mid-April 2003 to 5.5 per cent at end-August 2003 and further to 5.0 per cent by mid-March 2004. During 2004-05 (upto October 15, 2004), it further softened to 4.75 per cent. The outstanding amount of CDs continued to increase to Rs.4,837 crore upto October 15, 2004. The growth of CDs has been on account of a number of factors including the issuance of guidelines by the Reserve Bank on investments by banks in non-SLR debt securities, reduction in stamp duty on CDs effective March 1, 2004, ban on premature closure of CDs and greater opportunity for secondary market trading. These developments have led to greater demand for investment in CDs by mutual funds particularly in the wake of their improved funds position. An encouraging development that ensued has been that some of the top rated banks have been getting their CDs rated for better access to the market even when such ratings are not mandatory under the extant guidelines.

Table III.8: Scheduled Commercial Banks' Select Non-SLR Investments
(As at end-March)

(Rs. crore)

	Instrument	2003	2004
	1	2	3
1.	Commercial Paper	4,007 (3.0)	3,770 (2.7)
2.	Units of UTI and other Mutual Funds	6,317 (4.7)	11,808 (8.6)
3.	Investment in shares issued by	10,206 (7.6)	9,696 (7.0)
	of which :		
	a) Public sector undertakings	1,430 (1.1)	1,272 (0.9)
	b) Private corporate sector	7,589 (5.7)	7,395 (5.4)
4.	Investments in bonds/debentures issued by	1,13,169 (84.6)	1,12,370 (81.6)
	of Which :		
	a) Public sector undertakings	46,854 (35.0)	48,646 (35.3)
	b) Private corporate sector	32,973 (24.7)	27,903 (20.3)
Total (1+2+3)		**1,33,699 (100.0)**	**1,37,644 (100.0)**

Notes: 1. Figures in brackets are percentages to total.
2. Data excludes RRBs. Data are based on statutory Section 42 (2) returns submitted by scheduled commercial banks.

Commercial Paper

3.22 Easy liquidity conditions prompted companies to mobilise funds through commercial papers (CPs). The issuance of CPs picked up from mid-November 2003 on account of increased interest by mutual funds and banks in the wake of the guidelines by the Reserve Bank barring investments in non-SLR debt securities with original maturity upto one year with the exception of CDs and CPs. Furthermore, the reduction in stamp duty on CPs also buoyed up the market. The discount rates on CP eased from a range of 5.25-8.15 per cent in April 2003 to 4.70-6.50 per cent in March 2004. During 2004-05 (upto mid-November 2004), the discount rates ranged in between 5.10-6.23 per cent. The weighted average discount rate (WADR) also declined from 6.20 per cent in April 2003 to 5.11 per cent in March 2004 before increasing to 5.54 per cent in mid-November 2004. The spread of the WADR between the prime-rated and medium-rated companies narrowed from 162 basis points in April 2003 to 73 basis points in March 2004. As on mid-November 2004, the spread has further declined to 30 basis points. During the current financial year upto mid-November 2004 the most preferred maturities of CPs were 'up to 90 days' and '181 days & above'. During the current financial year (up to mid-November 2004), the share of manufacturing and other companies in the amount of CPs raised stood lower at 40 per cent (44 per cent in 2003-04), while finance/leasing companies and financial institutions accounted for 55 per cent and 5 per cent respectively, from 38 per cent and 18 per cent in 2003-04.

Forward Rate Agreements (FRAs) / Interest Rate Swaps (IRS)

3.23 There has been a sharp increase in the volume in FRAs/IRS market during the current financial year so far. FRAs/IRS transactions, both in terms of number of contracts and outstanding notional principal amount, rose from 9,363 contracts amounting to Rs.2,42,983 crore as on April 4, 2003 to 19,867 contracts for Rs.5,18,260 crore as on March 19, 2004. During the current financial year up to the fortnight ended October 15, 2004, the number of contracts and notional amount have increased to 30,101 and Rs.7,99,032 crore, respectively. There has been a significant increase in the number and amount of contracts. Also, the participation in the market has been broad based and include select PSBs, PDs, foreign and private sector banks. In a majority of these contracts, NSE-MIBOR, LIBOR and MIFOR were used as the benchmark rates. The other benchmark rates used were secondary market yields of Government of India securities having residual maturity of 1 year, primary cut-off yield on 364-day Treasury Bills, *etc.*

Credit to Government

3.24 In recent years, scheduled commercial banks' investment in government and other approved securities has been much in excess of the required statutory liquidity ratio (SLR) of 25 per cent. As at end-March 2004, investments in SLR securities constituted 41.3 per cent of net demand and time liabilities (NDTL) of banks as against 41.5 per cent as at end-March 2003.

3.25 The rate of expansion of investment in Government securities for PSBs was 21.2 per cent for 2003-04, lower by about 4 percentage points over 2002-03. Private sector banks' investments in Government securities increased sharply by 31.5 per cent in 2003-04 as against an increase of 16.5 per cent recorded in 2002-03. The increasing preference of private banks for Government securities reflected their efforts toward improving capital to risk weighted assets ratio. Foreign banks, however, recorded a substantially lower growth of investment at 6 per cent in 2003-04 as compared with an increase of 27.6 per cent in 2002-03.

Credit-Deposit Ratio

3.26 The credit-deposit ratio (C-D ratio) is one of the most widely used banking indicators for analysing the role of banks in promoting productive sectors and contributing to economic growth. In a bank-based financial system, the C-D ratio assumes greater significance as an aggregative measure for gauging the effectiveness of credit delivery system. Higher C-D ratio implies for greater credit orientation of banks. In the Indian context, however, the C-D ratio has shown a downward trend over the years. Although the deployment of credit and the time path of C-D ratio, in general, is influenced by the structural transformation of the economy, the role of credit culture and

banks' lending policy have a considerable impact on the size of the ratio (Box III.4).

3.27 According to the data available from the Basic Statistical Returns (BSR), the C-D ratio (as per sanctions) of SCBs at end-March 2004 was 58.7 per cent as against 59.2 per cent at end-March 2003. The total flow of resources, as reflected in the credit *plus* investment to deposit (IC-D) ratio (as per utilisation) had increased to 66.4 per cent at end-March 2003 from 65.6 per cent at end-March 2002. Region-wise, the C-D ratio (as per sanctions) showed an increase for all regions with the exception of Western region (Appendix Table III.9).

3.28 The C-D ratio though useful as an aggregate measure provides limited information about the credit orientation of banks and the access of diverse economic agents to bank credit. In this context, the alternative measures of credit market concentration have been explored by several studies for gauging the effectiveness of credit delivery system and thereby providing critical inputs for policy formulation (Box III.5).

Trends in Major Banking Indicators – 2004-05

3.29 During 2004-05 (up to October 29, 2004), aggregate deposits of scheduled commercial banks rose by 7.5 per cent (7.2 per cent, net of conversion of IDBI) as compared with an increase of 9.0 per cent in the corresponding period of the previous year. The lower deposit growth this year could be mainly attributed to reduction in non-resident Indian (NRI) deposits with the banking system. On an annual basis, the growth in aggregate deposits at 15.8 per cent (15.6 per cent, net of conversion of IDBI) was, however, higher than that of 11.8 per cent during 2003-04. During 2004-05 (up to October 29), scheduled commercial banks' credit increased by 17.5 per cent (13.7 per cent, net of conversion of IDBI) which was substantially higher than the increase of 4.5 per cent in the corresponding period of 2003-04. Food credit increased by Rs.3,751 crore as against a decline of Rs.13,459 crore in the previous year reflecting a turn-around of about Rs.17,210 crore. Non-food credit posted a robust increase of 17.9 per cent (13.8 per cent,

Box III.4: Credit Culture

There is growing realisation that though macroeconomic stability is necessary, several sufficient conditions assume importance for achieving sustained and rapid economic progress. Regarding various indicators of sufficient conditions, economists attach critical importance to an effective credit delivery system, which ensures better access to credit for various productive activities. About two decades ago, across countries it was believed that better access to credit could be achieved through a wide network of formal credit institutions. During the 1990s, economists while drawing lessons from the performance of formal credit institutions and the informal credit agencies have recognised that better access to credit can be achieved with an appropriate credit culture.

Conceptually, there are four basic types of credit cultures adopted by banks. These pertain to value driven, immediate-performance driven, production driven, and un-focused credit culture. The key determinants of the credit culture are the management's commitment, credit discipline, priority-based incentives, risk-managed lines of business, as well as a clear, consistent and candid communication strategy. An effective credit delivery process entails a process for ordering and integrating priorities, culture, strategy and controls. This is possible by establishing corporate priorities, choosing a credit culture, determining the credit risk strategy and implementing risk controls (Strischek, 2003). In a competitive environment, such a strategy entails that the credit culture should be dynamic in nature.

In the Indian context, the issue of credit culture has generated an animated discussion (Reddy, 2004 and Mohan, 2003, 2004). An examination of various issues pertaining to banks' lending policy indicated that banks should adopt prudent risk management strategies rather than risk aversion strategies in order to contribute to an effective credit delivery system. Broadly, the discussion on credit culture has surfaced amidst concerns pertaining to the underlying trends in credit-deposit ratio and rural credit, high investments in Government securities, the prevalence of category-wise lending policy, downward inflexibility of lending rates among several other developments. In this context, studies have suggested that banks should devise appropriate lending policies to ensure the success of the gradual deregulation and financial market reforms undertaken.

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net of conversion of IDBI) during 2004-05 (up to October 29) as compared with an increase of 6.8 per cent in the corresponding period of 2003-04. The incremental non-food credit-deposit ratio was as high as 127.8 per cent (102 per cent, net of conversion of IDBI) during 2004-05 (up to October 29) as against 41 per cent in the corresponding period of the 2003-04.

Box III.5: Credit Market Concentration

Finance literature suggests that portfolio diversification is desirable for minimising credit portfolio risk, improving asset quality, and optimising efficiency in allocation of resources for productive activities. From a policy perspective, with increasing concern for financial stability across countries, measures of portfolio diversification of banks have received considerable importance. Applied models of financial stability have integrated alternative measures of credit market concentration pertaining to institutional structure of banking sector, regional and sectoral deployment of credit for evaluating and analysing the underlying nature of market competition and the stability of financial system in various countries. Measures of credit market concentration have been used for gauging the competitive efficiency of credit delivery system.

On an empirical plane, various approaches have been adopted. The extent of competition in the banking industry in a country is analysed in terms of participation of different bank groups such as public sector banks, domestic private banks and foreign banks. Several studies have used Hirschman and Herfindhal Index (HHI)[4] of market concentration for analysing credit market concentration (BOE, Quarterly Bulletin, 2004). The World Bank database on regulation and supervision provides useful information about concentration of banking sector across countries. The study shows that among 121 countries, there were as many as 102 countries, which had five big banks accounting for more than fifty per cent of deposits. On the other hand, there were 112 countries out of 129 countries, which had five big banks accounting for more than fifty per cent of assets (Table A). According to the study, five largest banks in India accounted for about 41 per cent of banks' deposit and 44 per cent of assets. India's position was ranked better than that of Brazil, Chile, Mexico, Malaysia and France (Table B).

Table A: Bank Concentration in World
Share of Five Big Banks in Deposits and Assets
(Cross-country Distribution)

Category Greater or equal to (in per cent)	Deposits	Assets
	No. of Banks	
30	116	125
45	107	113
50	102	112
70	71	75
80	52	58
90	35	38

Source: *World Bank Database on Regulation and Supervision 2003*

Table B: Share of Five Largest Banks

(per cent to total)

Countries	Deposits	Assets
Brazil	63	54
Chile	62	61
France	70	60
Germany	21	20
India	**41**	**44**
Japan	46	46
Malaysia	57	56
Mexico	80	80
Philippines	46	43
United Kingdom	24	23
United States	29	30

Source: *World Bank Database on Regulation and Supervision 2003*

In the Indian context, an empirical analysis of credit market concentration brings forth certain useful insights. The competitive nature of the banking sector has witnessed a significant improvement due to the increasing participation of domestic private sector and foreign banks. The share of public sector banks in aggregate deposits has come down from 92 per cent in 1990-91 to 78 per cent in 2003-04 while the share of domestic private sector banks has improved from four per cent in 1990-91 to 15 per cent in 2003-04. In terms of bank credit, the share of public sector banks has come down from 92 per cent in 1990-91 to 74 per cent in 2003-04. The share of domestic private sector banks in bank credit has increased from three per cent in 1990-91 to 19 per cent in 2003-04 while the share of foreign banks has increased from four per cent in 1990-91 to seven per cent in 2003-04. Greater competition has offered customers a wider range of options both in terms of parking funds with banks as well as borrowing in a cost-effective manner.

The HHI index estimated using industry-wise deployment of credit shows a decline from the range of 1300 in 1991-92 to the range of 800 in 2003-04, thereby, suggesting an improvement in banks' credit portfolio diversification and decline in credit market concentration. The HHI index measure based on sectoral deployment of credit also shows that credit concentration has reduced over the period 1991-92 to 2003-04.

Reference:

Bank of England (2004), 'Banking Concentration in UK', *Financial Stability Review*, June, Article 7.

World Bank Database on Regulation and Supervision 2003.

[4] HFI index = $\sum_{i=1}^{n} S^2$, where S is the share of bank credit of an industry/activity in total bank credit during time period t. Higher value of HFI over the years suggests increasing concentration and conversely lower value of HFI over the years shows improvement in credit allocations to different sectors.

3.30 In recent years, the impetus to credit growth has emanated from non-agriculture non-industrial sectors, particularly, housing, small transport operators and retail loans. The detailed information on sectoral deployment of credit available from banks reveals that over two-thirds of credit flow during the current financial year (up to August 2004) have been on account of retail, housing and other priority sector loans. More recent information available points to a revival of industrial credit. Among industries, discernible increase is observed in petroleum, infrastructure, electricity, construction, metal & metal products, drugs & pharmaceuticals, gems & jewellery and automobiles.

3.31 While credit expanded, scheduled commercial banks' investments in bonds/ debentures/shares of public sector undertakings and private corporate sector, commercial paper *etc.,* increased by 2.9 per cent up to October 29, 2004 as compared with a decline of 0.6 per cent. The total flow of resources from scheduled commercial banks to the commercial sector increased substantially by 16.4 per cent (12.7 per cent, net of conversion of IDBI) up to October 29, 2004 as compared with the increase of 5.9 per cent in the corresponding period of the previous year. The year-on-year growth in resource flow was also higher at 27.1 per cent (23.1 per cent, net of conversion of IDBI) as against 13.8 per cent a year ago. Scheduled commercial banks' investments in instruments issued by financial institutions (FIs) and mutual funds this year increased by Rs.154 crore as against an increase of Rs.7,570 crore in October 2003. The total flow of resources to the commercial sector including capital issues, global depository receipts (GDRs)/American depository receipts (ADRs) and borrowings from banks and FIs increased by Rs.1,65,809 crore up to October 29, 2004 as compared with Rs.66,857 crore in the corresponding period of 2003-04.

3.32 During 2004-05 (up to October 29, 2004), scheduled commercial banks' investment in government and other approved securities at Rs.28,955 crore (Rs 16,762 crore, net of conversion of IDBI) was lower than that of Rs.84,031 crore in the corresponding period of 2003-04 partly on account of pick-up in credit demand. Consequently, commercial banks' excess holding of SLR securities was reduced to Rs.2,59,083 crore or 14.5 per cent of net demand and time liabilities(NDTL). Notwithstanding this reduction, the effective SLR investment at 39.5 per cent of NDTL for the banking system as a whole, continues to be high relative to the statutory minimum of 25 per cent. As credit demand is expected to remain buoyant during 2004-05, lower demand by banks for Government securities has implications for government market borrowings programme.

3.33 On an assessment of macro economic and monetary aggregates, the mid-term Review of annual policy Statement for the year 2004-05 indicated that the growth in aggregate deposits would be Rs.2,18,000 crore as projected in the annual policy Statement 2004-05 while non-food bank credit including investments in bonds/ debentures/shares of public sector undertakings and private corporate sector, commercial paper (CP) *etc.,* is expected to increase by around 19.0 per cent, higher than 16.0-16.5 per cent projected earlier; the higher credit expansion could be accommodated without putting undue pressure on money supply because of lower borrowing of the Government from the banking sector; in the eventuality of Government borrowings being larger, unwinding of MSS would facilitate such borrowings.

Role of Banks as Authorised Dealers

3.34 In 2003-04, the total turnover including purchase and sale of foreign exchange by authorised dealers declined by 1.5 per cent. In the inter-bank segment, both purchase and sale operations remained subdued due to a stronger Indian rupee. The merchant segment witnessed an increase in purchase operations and a decline in sale operations in tandem with the movements in the imports and exports. (Table III.9). The inter-bank to merchant turnover ratio hovered in the range of 2.9 per cent to 3.9 during the year, indicating orderly market conditions.

International Banking Statistics

3.35 International banking statistics (IBS) assume critical importance as they provide information about the integration of a country's financial sector with rest of the world. The Reserve Bank has been compiling and disseminating IBS on the lines of the reporting system devised by the Bank for International Settlements (BIS). The data on IBS of India, presented under locational banking statistics (LBS) and consolidated banking statistics (CBS),

Table III.9: Composition of Foreign Exchange Turnover of Authorised Dealers

(Amount in US $ million, ratios in per cent)

Year	Merchant		Inter-Bank		Total	
	Purchase	Sale	Purchase	Sale	Purchase	Sale
1	2	3	4	5	6	7
1997-98	97,937	1,11,989	5,58,019	5,38,103	6,55,956	6,50,091
	(14.9)	(17.2)	(85.1)	(82.8)	(100.0)	(100.0)
1998-99	1,18,097	1,34,587	5,40,752	5,34,294	6,58,849	6,68,881
	(17.9)	(20.1)	(82.1)	(79.9)	(100.0)	(100.0)
1999-2000	1,23,747	1,28,294	4,66,042	4,65,844	5,89,789	5,94,139
	(21.0)	(21.6)	(79.0)	(78.4)	(100.0)	(100.0)
2000-01	1,33,214	1,48,018	5,90,638	5,62,379	7,23,852	7,10,397
	(18.4)	(20.8)	(81.6)	(79.2)	(100.0)	(100.0)
2001-02	1,34,966	1,37,420	6,04,678	6,10,295	7,39,644	7,47,715
	(18.2)	(18.4)	(81.8)	(81.6)	(100.0)	(100.0)
2002-03	1,65,544	1,63,664	6,24,151	6,31,380	7,89,695	7,95,044
	(21.0)	(20.6)	(79.0)	(79.4)	(100.0)	(100.0)
2003-04	1,96,553	1,53,961	6,01,993	6,08,833	7,98,546	7,62,794
	(24.6)	(20.2)	(75.4)	(79.8)	(100.0)	(100.0)

Note: Figures in brackets are shares in total turnover.

are supplied to the BIS, which are included in their quarterly publications.

3.36 During 2003-04, international liabilities of banks increased by 10 per cent, as against an increase of 17 per cent in 2002-03 driven by the accretion to non-resident external rupee (NRE) deposits and sizeable foreign currency borrowings. The foreign currency borrowings witnessed a sharp growth of 82 per cent during the year (Table III.10). The surge in NRE accounts recorded in 2002-03 also continued in 2003-04. The foreign currency borrowing showed a sizeable expansion due to various liberalisation measures relating to the capital account for facilitating residents' foreign currency requirement for productive purposes. In particular, the surge in foreign currency

Table III.10: International Liabilities of Banks Classified According to Type

(Amount in Rs. crore)

Liability type	Amount outstanding as at end-March		
	2002	2003	2004
1	2	3	4
1. Deposits and Loans	1,20,604	1,45,930	1,78,994
of which:			
Foreign Currency Non-Resident Bank [FCNR (B)] scheme	39,636	43,989	45,386
Foreign currency Borrowings*	5,514	18,411	33,598
Non-resident External Rupee (NRE) Account	33,233	53,124	75,938
Non-Resident Non Repatriable (NRNR) Rupee Deposits	27,181	15,207	7,335
2. Own Issues of Securities Bonds (including IMD/RIBs)	43,582	44,087	27,720
3. Other Liabilities	7,150	10,475	14,017
of which:			
ADRs/GDRs	1,862	3,833	6,396
Equities of banks held by non-residents	547	556	1,379
Capital/remittable profits of foreign banks in India and other unclassified international liabilities	4,741	6,086	6,242
Total International Liabilities	**1,71,336**	**2,00,493**	**2,20,730**

* Inter-bank borrowings in India and from abroad, external and commercial borrowings of banks.

Table III.11: International Assets of Banks Classified According to Type

(Amount in Rs. crore)

Asset type	Amount outstanding as at end-March		
	2002	2003	2004
1	2	3	4
1. Loans and Deposits	95,794	97,657	1,08,527
Of which:			
Loans to Non-Residents*	5,218	4,634	4,281
Foreign Currency Loans to Residents **	19,561	36,859	44,079
Outstanding Export Bills drawn on Non-Residents by Residents	15,190	19,242	20,609
Nostro Balances@	55,642	36,708	39,282
2. Holdings of Debt Securities	952	1,027	858
3. Other Assets @@	4,629	5,890	6,380
Total International Assets	**1,01,375**	**1,04,574**	**1,15,765**

* Includes Rupee loans and foreign currency (FC) loans out of non-residents deposits.

** Includes loans out of FCNR(B) deposits, PCFCs, FC lending to and FC deposits with Banks in India *etc.*

@ Including balances in term deposit with non-resident banks (including FCNR funds held abroad).

@@ Capital supplied to and receivable profits from foreign branches/subsidiaries of Indian banks and other unclassified international assets.

borrowing of banks may be on account of the more flexibility given to banks to source foreign borrowings. In January 2003, the Reserve Bank provided further flexibility to banks to source foreign currency funds for granting pre-shipment credit in foreign currency/export bills rediscounting (PCFC/EBR) to exporters. Banks are allowed to use funds generated through buy-sell swaps in domestic forex markets for granting such loans subject to Aggregate Gap Limit approved by the Reserve Bank. There was also a significant expansion in ADRs/GDRs and equities of banks held by non-residents. The expansion in flows under ADRs/GDRs may be attributed to the improvement in the investment climate and lower cost of funds overseas. In terms of currency composition, international liabilities were predominantly in US dollars followed by Indian Rupees, given the large size of Rupee non-resident deposits.

3.37 Banks' international assets, on the other hand, marginally increased by 3.2 per cent during 2002-03 to reach the level of Rs.1,04,574 crore at end-March 2003 which further increased by 10.7 per cent (about Rs.11,000 crore) during 2003-04 (Table III.11). Loans and deposits continued to be the major component accounting for about 93 per cent of total international assets. As regards the components of loans and deposits the foreign currency loans to residents increased by 20 per cent during the year 2003-04 over the top of increase of 88 per cent during the year 2002-03. The *nostro* balances of the reporting banks, which reflect the domestic residents' preference of foreign currency, increased slightly during the year 2003-04 compared with a decline of 34 per cent in 2002-03.

3.38 The consolidated claims of banks, based on immediate country risk, as at end-March 2004 were mainly concentrated on the US, Hong Kong and the UK together accounting for about 54 per cent of total international claims (Table III.12). The distribution of consolidated international claims of banks on various countries, other than India, according to residual maturity revealed that banks continued to prefer to invest/lend for short-term purposes particularly in the 'up to 6 months' period whose share in total claims has increased by 4.5 percentage points to 70.2 per cent during 2003-04 (Table III.13). As regards the sectoral distribution of these claims, the reporting banks preferred to invest/lend in/to 'bank' sector and 'non-bank private' sector.

Table III.12: Consolidated International Claims of Banks on Countries other than India
(based on CBS Statements- Immediate Country risk basis)

(Amount in Rs. crore)

Country	Amount outstanding as at end		
	June 2002	March 2003	March 2004
1	2	3	4
Total Consolidated International Claims	**94,644**	**91,061**	**78,124**
	(100.0)	**(100.0)**	**(100.0)**
Of Which:			
United States of America	20,940	20,446	19,915
	(22.1)	(22.5)	(25.5)
Hong Kong	14,317	13,416	12,353
	(15.1)	(14.7)	(15.8)
United Kingdom@	12,140	12,779	9,879
	(12.8)	(14.0)	(12.6)
Germany	3,689	3,281	4,593
	(3.9)	(3.6)	(5.9)
Singapore	6,080	5,776	3,729
	(6.4)	(6.3)	(4.8)
Italy	3,362	2,832	1,735
	(3.6)	(3.1)	(2.2)
France	2,582	2,461	1,684
	(2.7)	(2.7)	(2.2)

@ Excluding Guernsey, Isle of Man and Jersey

Notes: 1. Figures in brackets are percentage to total.

2. The country wise CBS was compiled based on country of ultimate risk till March 2002. The data from the quarter ended June 2002 onwards; adopt country of immediate risk based classification. Hence, the data for June 2002 are presented instead of March 2002.

Table III.13: Maturity (Residual) Classification of Consolidated International Claims of Banks - Amount Outstanding
(based on CBS Statements - Immediate country risk basis)

(Amount in Rs. crore)

Residual Maturity	Amount outstanding as at end		
	June 2002	March 2003	March 2004
1	2	3	4
Up to 6 months	61,842	59,831	54,879
	(65.3)	(65.7)	(70.2)
6 months to 1 year	10,502	6,412	3,798
	(11.1)	(7.0)	(4.9)
1 year to 2 years	3,916	4,247	2,872
	(4.1)	(4.7)	(3.7)
Over 2 years	14,197	18,861	14,948
	(15.0)	(20.7)	(19.1)
Unallocated	4,185	1,710	1,627
	(4.4)	(1.9)	(2.1)
Total	**94,644**	**91,061**	**78,124**
	(100.0)	**(100.0)**	**(100.0)**

Notes: 1. Unallocated residual maturity comprises maturity not applicable (*i.e.*, equities) and maturity information not available from reporting bank branches.

2. Figures in brackets are percentages to total.

3. The country wise CBS was compiled based on country of ultimate risk till March 2002.The data from the quarter ended June 2002 onwards, adopt country of immediate risk based classification. Hence, the data for June 2002 are presented instead of March 2002.

Commercial Bank Survey

3.39 A quarterly profile of the commercial bank survey is able to capture the shifts in funds flows. Liquidity in the banking system surged in the first quarter of 2003-04, essentially because of the seasonal down turn in credit demand and continued capital flows. Banks drew down their *nostro* balances and borrowed overseas to fund foreign currency loans to residents. Net outflows were recorded under the FCNR(B) scheme as the alignment of interest rates with international rates took effect. With subdued credit demand from the commercial sector and greater access to relatively cheaper overseas funds, surplus liquidity led to an expansion of bank reserves in the first quarter of 2003-04, despite the cut in CRR in mid-June 2003. Banks' gilt portfolios rose sharply as the borrowing programme gathered momentum and the Reserve Bank engaged in sizeable open market sales. Repayments of food credit and relatively weak demand from industry kept credit to the commercial sector at moderate levels. Subdued credit off-take led to banks' expanding their exposure to the commercial sector through non-SLR investments. *Nostro* balances were built up by some banks in the second quarter in anticipation of RIB redemption on October 1, 2003. Banks' overseas borrowings picked up strongly in consonance with the growth of foreign currency loans to residents. The FCNR(B) scheme continued to record outflows. Net bank reserves declined as the surplus liquidity was absorbed by LAF auctions.

3.40 During the third quarter of 2003-04, deposit mobilisation revived in consonance with the recovery in real activity. This was also reflected in a strong non-food credit demand evident since August. Banks unwound *nostro* positions as most of the redemption proceeds of the RIBs were switched into domestic currency/non-resident deposit schemes. Overseas borrowings by banks rose in response to liberalisation in borrowing limits relating to Tier-I capital. Bank reserves rose significantly, driven by the surplus liquidity resulting from the slack in demand for funds by the Government. The slowdown in call/term borrowing from financial institutions reflected a further scaling down of non-bank lendings in the call/notice money market. Non-food credit off-take continued to strengthen in the final quarter. This, along with other factors such as inflows on account of ONGC disinvestment, FIIs inflows and inflows under Exchange Earners Foreign currency (EEFC) accounts continued to swell demand deposits. Time deposits also witnessed a spurt reflecting a switch back from mutual funds to bank deposits as well as temporary parking of mutual funds in bank deposits because of a downturn in the stock markets. The rise in banks' investments in Government securities in the last quarter reflected repo operations conducted under the LAF. The growth of foreign currency loans to residents remained steady in all quarters. The large accretions in the capital account of banks reflected their building up of investment fluctuation reserves as well as adherence to prudential guidelines relating to the capital adequacy ratio.

3.41 In the first two quarters of 2004-05, deposit accretion moderated due to reduced capital inflows. Food credit picked up in the first quarter of 2004-05 reflecting higher procurement although there was a seasonal down turn in the second quarter. There was also a sustained increase in the non-food credit off-take reflecting in part the strengthening of industrial activity. Investment in Government paper declined in view of the upturn in interest rates and the revival of credit demand (Table III.14 and Appendix Table III.10).

Table III.14: Operations of Scheduled Commercial Banks

(Amount in Rs. crore)

Items	Outstanding as on March 19, 2004	2002-03				2003-04				2004-05	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Aggregate Deposits of Residents	14,29,080	52,675	32,201	37,518	23,773	65,724	32,455	60,154	82,398	56,865	23,402
Demand Deposits	2,25,022	4,717	-4,535	11,654	5,405	11,366	-5,950	18,496	30,822	-12,155	4,260
Time Deposits of Residents	12,04,058	47,958	36,735	25,864	18,368	54,359	38,406	41,658	51,577	69,020	19,142
Call/Term Funding from Financial Institutions	24,670	6,448	792	227	2,142	2,526	2,253	4,822	2,431	5,409	541
Credit to the Government	6,54,758	47,047	18,716	22,680	23,798	35,534	45,333	18,342	32,133	40,056	-10,392
Credit to the Commercial Sector	10,02,479	22,805	20,342	39,481	27,881	10,400	5,466	40,775	54,800	35,075	42,679
Food Credit	35,961	7,030	-7,645	-1,415	-2,468	586	-12,601	-1,113	-391	8,562	-6,335
Non-food Credit	8,04,824	7,522	19,945	32,541	39,439	3,091	15,186	48,992	57,819	29,523	46,715
Net Credit to Primary Dealers	1,946	2,854	5,837	959	-5,886	5,557	-779	-4,649	-2,276	-678	977
Investments in Other Approved Securities	22,830	-1,233	-459	-965	-306	-13	-407	50	-928	-184	3,918
Other Investment (in non-SLR Securities)	1,36,918	6,633	2,664	8,361	-2,898	1,178	4,068	-2,505	577	-2,148	-2,596
Net Foreign Currency Assets of Commercial Banks	-58,531	2,748	-15,136	-8,992	-9,120	1,235	1,855	6,815	196	-7,711	4,233
Foreign Currency Assets	33,833	4,718	-14,412	-7,955	-5,345	-377	3,264	-4,066	3,931	-3,507	3,320
Non-resident Foreign Currency Repatriable Fixed Deposits	75,336	1,655	669	-265	-403	-2,103	-1,273	-13,916	122	1,139	-169
Overseas Foreign Currency Borrowings	17,028	315	55	1,302	4,178	491	2,682	3,035	3,613	3,065	-744
Net Bank Reserves	76,895	-2,943	11,055	-1,619	-5,700	20,149	-14,272	6,394	-1,199	10,392	-3,621
Capital Account	1,03,108	15,152	-742	-1,815	1,625	15,349	-1,826	2,464	581	16,199	119
Other items (net)	1,18,743	-4,618	2,726	15,619	9,318	-16,283	5,500	4,887	520	-661	8,837

Notes: 1. Q1 refers to the quarter ending June and so on.
2. Data relate to last reporting Friday for each quarter.
3. Deposits have been adjusted for the full impact of the mergers while credit has been adjusted for the initial impact of the same during May 2002-April 2003.

Maturity Profile of Assets and Liabilities of Banks

3.42 The maturity structure of assets and liabilities of commercial banks showed a combination of various concerns of banks pertaining to business expansion, liquidity management, cost of funds, return on assets, asset quality, and also risk appetite in an industrial upturn. In general, the major components of balance sheet, including deposits, borrowings, advances and investments for all bank groups encompassed a non-linear portfolio structure across the spectrum of maturity. Furthermore, for all bank groups, the maturity structure of loans, and advances depicted synchronicity with that of deposits. However, there is some difference between the maturity structure of deposits and that of investments across banks. PSBs hold a greater part of their investment in higher maturity bucket, in particular, in the more than five-year maturity bucket as compared with private sector and foreign banks, which hold a major portion of investment in the upto one-year maturity bucket (Table III.15).

Bank Stock Prices

3.43 The stock markets, which had remained subdued since February 2000, witnessed a broad-based rally during 2003-04. The rally, which began since end-May 2003, continued almost uninterrupted till February 2004. This rally was caused by various factors like a good monsoon, encouraging corporate results, strong macroeconomic fundamentals, heavy investments by institutional investors especially by Foreign Institutional Investors (FIIs), positive trends in international markets and sector specific factors. The stock markets witnessed a sharp decline during March 2004-July 2004 on account of several domestic and international factors including profit booking by market players on year-end considerations, diversion of funds to primary market due to certain attractive IPOs, uncertainty regarding the outcome of the general elections and its effects on the reform process, slowdown in institutional investments, a rise in domestic inflation and rising international crude oil prices. However, a revival was witnessed subsequently.

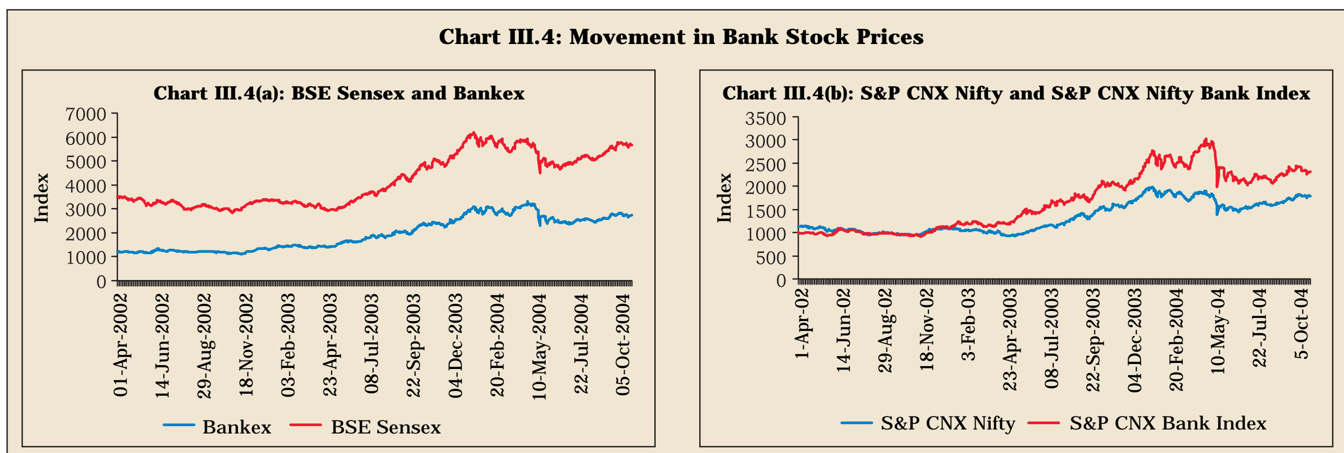
3.44 In line with the uptrend in the market during 2003-04 the banking sector stocks too displayed buoyancy. The Bankex closely mirrored the BSE Sensex during 2003-04 [Chart III.4(A) and Chart III.4(B)]. In April 2004, Bankex outstripped the BSE Sensex. In May 2004, in the

Table III.15: Bank Group-wise Maturity Profile of Select Liabilities/Assets

(per cent)

Asset/Liability	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
I. Deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	34.2	34.4	49.4	51.2	53.4	50.7	53.4	46.2
b) Over 1 year to 3 years	44.7	37.8	39.2	37.1	41.9	42.9	42.6	45.6
c) Over 3 years to 5 years	9.4	11.7	5.3	4.4	1.9	4.0	3.9	0.7
d) Over 5 years	11.7	16.1	6.1	7.3	2.8	2.4	0.1	7.5
II. Borrowings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	74.9	82.4	82.9	89.7	45.7	46.4	87.4	85.3
b) Over 1 year to 3 years	14.9	14.0	13.2	5.3	39.2	36.4	12.4	11.9
c) Over 3 years to 5 years	5.5	2.6	2.1	2.8	6.6	8.3	0.0	2.5
d) Over 5 years	4.7	1.0	1.8	2.2	8.5	8.9	0.2	0.3
III. Loans & Advances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	39.3	40.0	43.5	40.5	36.1	35.4	64.7	57.3
b) Over 1 year to 3 years	35.2	33.0	36.1	36.1	29.6	31.0	22.1	16.3
c) Over 3 years to 5 years	11.7	12.1	8.8	10.3	12.9	12.5	5.9	7.7
d) Over 5 years	13.8	14.9	11.6	13.1	21.4	21.1	7.3	18.7
IV. Investments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	12.3	10.4	18.9	18.0	44.9	45.0	46.6	45.8
b) Over 1 year to 3 years	13.7	11.8	14.6	10.2	29.0	27.3	24.8	30.7
c) Over 3 years to 5 years	15.8	14.5	9.6	10.4	6.3	6.6	12.4	8.5
d) Over 5 years	58.2	63.3	56.9	61.4	19.8	21.1	16.2	15.0

Source: Balance sheets of respective banks.



wake of uncertainties created after general election, however, the Bankex declined more sharply than the BSE Sensex. The banking sectors scrips have been in the limelight especially since 2001-02. The progress of the banking sector reforms along with factors like relaxation in the foreign direct investment (FDI) norms for private sector banks in May 2001, improved financial performance of banks, sharp fall in the interest rates, which boosted the market value of banks' portfolio of Government securities and banks' trading profits in treasury transactions were some of the reasons behind the rally in banking scrips. The market expectations regarding disinvestment of PSBs and greater autonomy to banks also contributed to the boom. Notwithstanding the sharp correction in May 2004, the underlying fundamentals of banking sector scrips remain strong as evident from the good annual results brought out by most of the banks. The banking sector scrips revived subsequently in line with the trend in domestic stock markets, notwithstanding the concerns over possibility of hardening of interest rates that could put pressure on the earnings through 'other income' of the banks. Factors like the Supreme Court verdict upholding the validity of the new Securitisation Law, paving the way for higher recoveries in the banking sector and relaxations permitted in the rules governing the investment portfolio of banks helped in generating buying interest in the banking sector scrips.

3.45 In 2003-04, there was a strong market preference for bank scrips as evident from the sharp increases in turnover in respect of public sector and private sector banks (Table III.16). The share of public sector banks' turnover in total market turnover increased to 10.7 per cent in 2003-04 from 2.7 per cent in 2002-03. All public sector banks, which are listed in the NSE, recorded substantial increase in their stock prices. The major gainers in terms of average daily prices included Bank of Baroda, Canara Bank, Corporation Bank, Indian Overseas Bank, Oriental Bank of Commerce and Punjab National Bank. The private sector banks, which are listed in the NSE, also recorded significant gains in their stock prices (Table III.17). The most active scrips, in terms of daily turnover, were State Bank of India, Syndicate Bank, ICICI Bank, Bank of Baroda and Bank of India.

Table III.16: Turnover Details of Bank Shares at the NSE

(Amount in Rs. crore)

Category	2002-03		2003-04	
	Amount	Per cent to total turnover	Amount	Per cent to total turnover
1	2	3	4	5
Public Sector Banks	16,406.5	2.7	11,766.1	10.7
Private Sector Banks	4,262.2	0.7	22,496.5	2.0
Total	20,668.6	3.4	1,40,112.6	12.7
Total Turnover	**6,17,988.6**		**10,99,535.0**	

Source : National Stock Exchange.

Table III.17: Share Prices of Banks at the NSE

(Average Daily Closing Prices in Rs.)

Name of the Bank	2001-02	2002-03
1	2	3
Public Sector Banks		
Allahabad Bank	13.5 *	21.5
Andhra Bank	17.0	41.1
Bank of Baroda	59.3	162.1
Bank of India	31.2	55.2
Canara Bank	61.5 +	119.2
Corporation Bank	120.9	207.0
Dena Bank	10.8	22.3
Indian Overseas Bank	12.9	30.4
Oriental Bank of Commerce	46.7	197.9
Punjab National Bank	56.1 @	190.3
Syndicate Bank	14.6	29.8
Union Bank of India	20.0 #	42.6
Vijaya Bank	12.4	34.0
State Bank of India	250.7	469.5
State Bank of Bikaner and Jaipur	–	290.0
State Bank of Travancore	–	275.3
Private Sector Banks		
Bank of Rajasthan Ltd.	15.3	29.0
City Union Bank Ltd.	30.9	56.3
Federal Bank Ltd.	87.1	188.8
Jammu and Kashmir Bank Ltd.	95.2	281.0
Karnataka Bank Ltd.	61.2	89.3
Karur Vysya Bank Ltd.	194.7	276.1
Laxmi Vilas Bank Ltd.	65.9	98.4
South Indian Bank Ltd.	36.5	56.2
United Western Bank	22.8	28.1
Vysya Bank Ltd.	258.3	429.7
Bank of Punjab Ltd.	13.9	24.0
Centurion Bank Ltd.	8.7	13.7
Global Trust Bank Ltd.	18.9	22.0
HDFC Bank Ltd.	217.6	302.2
ICICI Bank Ltd.	137.4	211.9
IDBI Bank Ltd.	18.9	35.9
IndusInd Bank Ltd.	15.9	28.8
UTI Bank Ltd.	38.9	88.6

* From November 29, 2002. + From December 23, 2002.
@ From April 26, 2002. # From September 24, 2002.
Note : Averages are calculated using daily closing prices.
Source : National Stock Exchange.

3. Financial Performance of Scheduled Commercial Banks

3.46 In 2003-04, the performance of the banking sector exhibited several improvements. The momentum of high growth in the profitability of SCBs was maintained. Profits of SCBs increased substantially over and above the strong performance of 2002-03 (Table III.18). But the sources of increase in income and profits during 2003-04 were different from those of 2002-03. The high growth of operating profit was achieved mainly due to a substantial increase in non-interest income (or other income) and a significant containment of expenditure in general coupled with a decline in interest expenses on deposits in particular. Although interest income recorded a low growth, it still made a positive contribution to banks' overall earnings. Bank group-wise important financial indicators are given in Appendix Table III.11 and Appendix Table III.12 (A) to (G).

Income

3.47 Due to the softer interest rate regime, the total income of SCBs witnessed a slowdown with a growth rate of 6.6 per cent in 2003-04 compared with a record growth rate of 14 per cent in 2002-03. The sluggish growth of income was evident for all bank groups. Among bank groups, the rate of increase in income was highest for the foreign banks group followed by PSBs, new private sector banks and old private sector banks. The bottomline of certain PSBs also improved owing to the fact that the Reserve Bank allowed banks to recognise income on accrual basis in respect of some categories of projects under implementation which had time overruns.

Interest Income

3.48 The interest income from core activities including loans and advances and investments in outstanding terms remained the dominant component, accounting for 78.4 per cent of total income of SCBs. On an incremental basis, however, the contribution of interest income to total income during 2003-04 was 29 per cent compared with 64.5 per cent in 2002-03 (Chart III.5). The growth rate of interest income at 2.4 per cent in 2003-04 was substantially lower when compared with the growth rate of 10.8 per cent in 2002-03. Among the components of interest income, both income on advances and investments posted a lower growth in 2003-04 when compared with 2002-03.

Other Income

3.49 With the diversification of banks' portfolio non-interest income or 'other income' has evolved as an increasingly important source of income for banks. The share of non-interest income in banks' total income has increased continuously

Table III.18: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Year	2001-02		2002-03		2003-04	
	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets
1	2	3	4	5	6	7
1 Income (a+b)	1,51,032	9.8	1,72,345	10.1	1,83,767	9.3
a) Interest Income	1,26,958	8.3	1,40,742	8.3	1,44,028	7.3
b) Other Income	24,074	1.6	31,603*	1.9	39,739	2.0
2 Expenditure (a+b+c)	1,39,456	9.1	1,55,268	9.1	1,61,496	8.2
a) Interest Expended	87,516	5.7	93,596	5.5	87,567	4.4
b) Operating Expenses	33,679	2.2	38,067	2.2	43,530	2.2
Of which:						
Wage bill	21,785	1.4	23,610	1.4	26,164	1.3
c) Provisions and Contingencies	18,261	1.2	23,605	1.4	30,400	1.5
3 Operating Profit	29,837	1.9	40,682	2.4	52,671	2.7
4 Net Profit	11,576	0.8	17,077	1.0	22,271	1.1
5 Spread (1a-2a)	39,441	2.6	47,146	2.8	56,462	2.9

Note : The number of scheduled commercial banks in 2001-02 and 2002-03 and 2003-04 were 97, 93 and 90, respectively.
* Includes profit on shares of ICICI Bank Ltd. held by erstwhile ICICI Ltd.

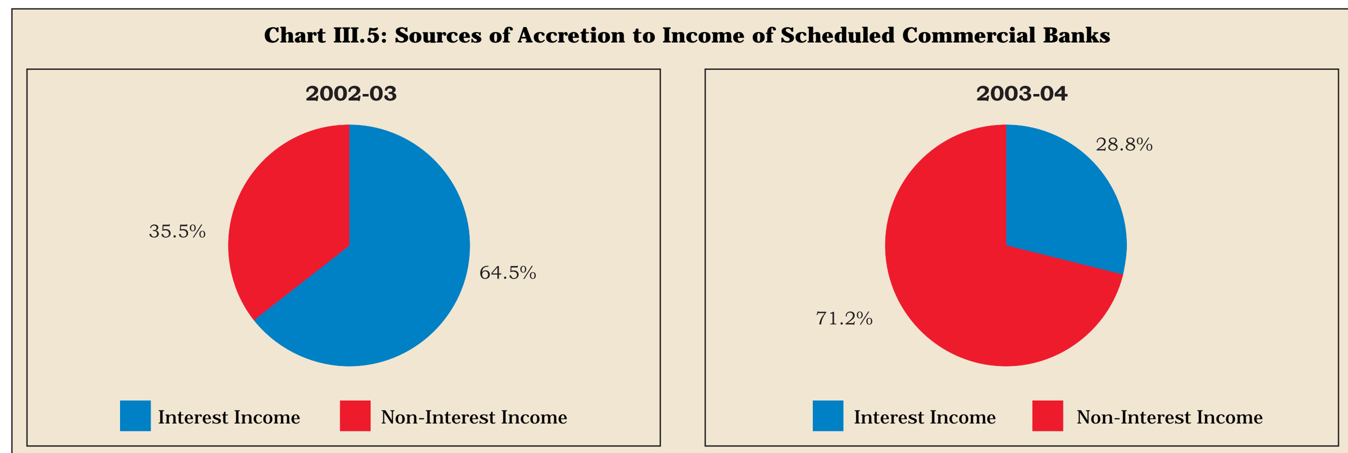
from nine per cent in 1992-93 to 21.6 per cent in 2003-04 (Chart III.6). During 2003-04, on an incremental basis, the non-interest income accounted for about 71 per cent of total income as compared with 35.5 per cent in 2002-03.

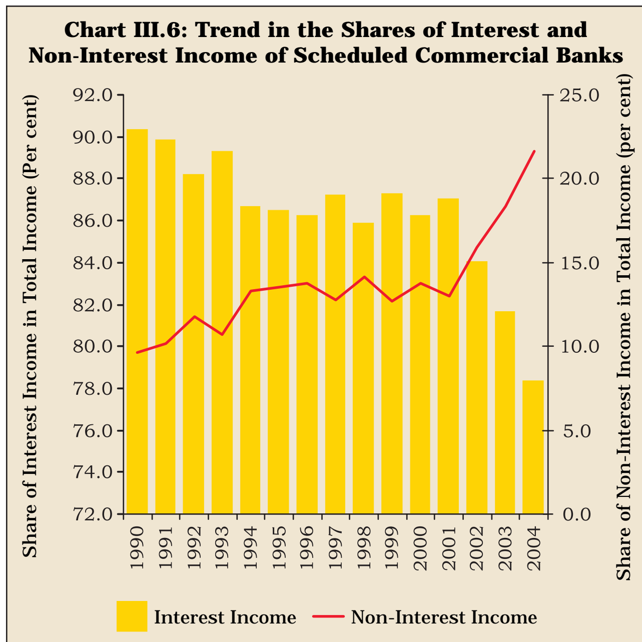
3.50 The composition of non-interest income of SCBs showed that fee income, trading income on investments, income from foreign exchange operations and miscellaneous income accounted for about 30 per cent, 49 per cent, 9 per cent and 12 per cent, respectively. Within non-interest income category, the share of fee-income has come down while the share of trading income including profit (loss) from investment has increased over the years (Chart III.7). It is worth mentioning here that international evidence indicates that non-interest income tends to be more volatile than traditional interest income (Box III.6).

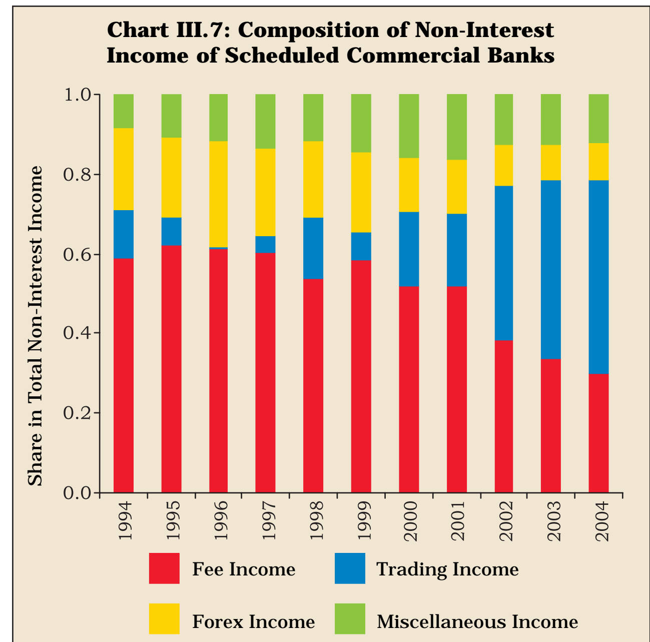
Expenditure

3.51 The expenditure of SCBs showed substantial containment during 2003-04. The growth rate of expenditure at 4 per cent in 2003-04 was much lower than 11.3 per cent recorded in 2002-03. Expenditure containment driven largely by the decline in interest expenses was evident for all bank groups. The decline in interest expenses was sharper for foreign banks when compared with other bank groups.

Chart III.5: Sources of Accretion to Income of Scheduled Commercial Banks







Interest Expenditure

3.52 For SCBs, interest expenditure on deposits accounted for about 54.2 per cent of total expenditure in 2003-04, lower by 6 percentage points when compared with 2003-04. The ratio of interest expenditure to total assets of SCBs declined to 4.4 per cent in 2003-04 from 5.5 per cent in 2002-03. For PSBs, the ratio of interest expenses to total assets declined to 4.5 per cent in 2003-04 from 5.4 per cent in 2002-03. The ratio of interest expenditure to assets of new private sector banks declined to 4.7 per cent in 2003-04 from 6.4 per cent in 2002-03 while for old private sector banks, it has declined to 5 per cent in 2003-04 from 6 per cent in 2002-03.

Operating Expenses

3.53 Operating expenses comprise broadly wage expenses and non-wage expenses such as rent, taxes, establishment expenses, advertisement, directors' fees and allowances and legal charges. During 2003-04, the operating expenses of scheduled commercial banks grew at 14.3 per cent, which was higher by 1.2 percentage points over the growth rate recorded in 2002-03. The stability in growth of operating expenses relative to assets was evident in 2003-04 since the ratio of operating expenses to assets remained more or less at the same level, *albeit* with a marginal decline compared with 2002-03. Across bank groups, the ratio of operating expenses to assets declined for public sector banks, old private sector banks and foreign banks but increased marginally for new private sector banks during 2003-04 when compared with 2002-03. From a cross-country perspective, the comparative efficiency of Indian banks is evident since the ratio of operating expenses to total expenses of Indian banks is in the range of 24-35 per cent much lower than the international benchmark of 60 per cent.

Wage Bill

3.54 The wage bill of scheduled commercial banks increased by 10.8 per cent in 2003-04 as against an increase of 8.4 per cent in 2002-03. However, the share of wage bills in operating expenses of SCBs declined to 60 per cent in 2003-04 from 62 per cent in 2002-03. Among bank groups, the more technology-intensive new private sector and foreign banks have a lower proportion of the wage bill in operating expenses as compared with old private sector and public sector bank groups. In 2003-04, the share of wage expenses in operating expenses was highest at 69 per cent for public sector banks and 59 per cent for old private sector banks. The share of wage expenses in operating expenses was 23.4 per cent and 32.1 per cent for new private sector banks and foreign banks, respectively, in 2003-04.

Box III.6: Diversification and Stability of Banks' Income

During the last decade, banks have steadily shifted away from traditional sources of revenue such as interest earning loans and advances and investment activities toward various non-traditional non-interest income sources, which include fee income, commission and service charges, net profit from sale (or purchase) of investments, gains from foreign exchange transactions and various other types of miscellaneous receipts. Information technology, and an increasingly liberalised financial sector have facilitated the growth of banks' non-interest income. Increasing recourse to non-traditional sources of income enable banks to derive diversification gains in terms of lower portfolio risk. Non-interest income is also likely to be less dependent on overall business conditions than traditional interest income, so that an increased reliance on non-interest income reduces the cyclical variation in banks' revenues and profits. Non-interest income activities enable banks to reap the benefits of economies of scale and scope through expanded business opportunities and reduce operating cost as also to spread out such costs across various activities. The potential gains from non-interest income notwithstanding, several studies have debated whether there has been significant improvement in stability of banks' income and profitability due to the changing composition of banks' earnings. Empirical studies for Europe and US banks suggest that non-interest income has been more volatile than traditional interest income. Using applied portfolio analysis, these studies have shown that due to positive correlation between interest and non-interest income, the volatility of aggregate income and profitability of banks has accentuated over the years.

In the Indian context, the share of non-interest income in banks' total income has increased from nine per cent in the 1991-92 to 22 per cent in 2003-04. Across bank groups, public sector and domestic private sector banks have recorded accelerated growth of non-interest income. In terms of components of non-interest income, the income from fees and commissions, which accounted for about 70 per cent to 97 per cent of total non-interest income across various bank groups in 1991-92, has declined to about 25 per cent to 30 per cent in 2003-04. Thus, other components of non-interest income including investment banking and treasury operations have witnessed rapid growth over the years.

An analysis of volatility of the income of various bank groups suggests that during the period 1994-2004, the standard deviation of the ratio of interest income to assets was highest for private sector banks followed by foreign banks, SBI group and the nationalised banks. The standard deviation of the ratio of interest income to assets was greater than that of the ratio of non-interest income to assets of all bank groups. However, the standard deviation of the ratio of net interest income to assets was lower than that of the ratio of non-interest income to assets for all bank groups with the exception of nationalised banks. The correlation between interest income and non-interest income was negative for all bank groups; it was substantially high for nationalised banks and lower for Indian private sector banks. The correlation between net interest income and non-interest income was, however, positive for all bank groups with the exception of nationalised banks.

Variability of Interest Income and Non-Interest Income of Bank Groups: 1994-2004

	Interest Income-Assets Ratio	Net Interest Income-Assets Ratio	Non-Interest Income-Assets Ratio	Correlation Between Interest Income and Non-Interest Income	Correlation Between Net Interest Income and Non-Interest Income
SBI Group	6.18	10.60	10.90	-0.25	0.40
Nationalised Banks	5.73	13.98	10.87	-0.80	-0.01
Indian Private Sector Banks	17.99	18.43	23.07	-0.19	0.10
Foreign Banks	7.10	9.66	46.01	-0.63	0.54
Scheduled Commercial Banks	6.10	11.18	11.29	-0.75	0.39

Note: Standard deviation (in per cent) and correlation coefficients are based on first difference of logarithm transformed data series.

References:

Davis, E.P., and Klaus T., 'The Changing Structure of Banks' Income – An Empirical Investigation', European Central Bank.

Smith, R., and Wood, G., (2002), 'Non-interest income and Total income Stability', Bank of England, *Working Paper,* no.198.

Stiroh, K.J., (2002), 'Diversification in Banking: is Non-interest Income the Answer?' Federal Reserve Bank of New York, *Staff Paper*, No. 154.

Provisions and Contingencies

3.55 The major items on provisions and contingencies consist of provisions for loan losses, provisions for depreciation in value of investments and provisions for taxes. The growth of provisions in recent years has been influenced by various policy incentives. The Union Budget 2002-03 raised the allowance for deduction by banks against provisions made for bad and doubtful debts from five per cent of their total income to 7.5 per cent. Due to the impact of 90-day delinquency norm the provisions and contingencies expenditure maintained a high growth at 28.8 per cent in 2003-04 when compared with a growth of 29.3 per cent recorded in 2002-03.

Operating Profits

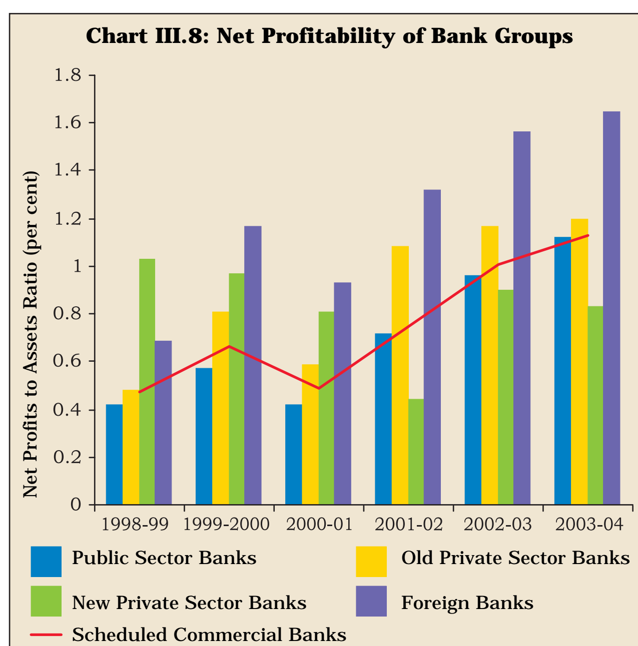
3.56 During 2003-04 the SCBs continued to maintain a robust momentum in profits. Operating profit, the structural measure of profitability, increased by 29.5 per cent in 2003-04 as against an increase of 36.3 per cent recorded in 2002-03. Among bank groups, the operating profits of PSBs and foreign banks increased by 32.8 per cent and 33.8 per cent, respectively, in 2003-04. The rate of increase in operating profits of private sector banks was relatively lower at 13.4 per cent in 2003-04 as compared with 55.7 per cent recorded in 2002-03.

3.57 In recent times, treasury operations have emerged as a major profit centre for Indian banks. Forex incomes, although not as large as treasury income, have also been contributing significantly to bank's operating profits in recent years, despite the pressure on margins and the thinning of inter-bank spreads (Table III.19, Appendix Table III.13). A bank group wise analysis indicates that a major share of the profits of PSBs and private sector banks was on account of trading income while in the case of foreign banks foreign exchange transactions accounted for a major share in profits.

Net Profit

3.58 Net profits of SCBs increased by 30.4 per cent in 2003-04, as against a rise of 47.5 per cent in 2002-03. In 2003-04, among the bank groups, the increase in net profits was the highest for PSBs with a growth rate of 34.6 per cent, followed by foreign banks and Indian private sector banks, which recorded a growth rate of 23 per cent and 18 per cent, respectively (Chart III.8). This was due to the large gains on non-interest incomes, in particular, the profits booked on sale/purchase of investments.

Chart III.8: Net Profitability of Bank Groups



3.59 Within PSBs group, all banks except one reported profitability (the net profit as percentage of total assets) above half per cent. In fact, 26 PSBs recorded net profitability of 0.75 per cent, of which 21 banks reported net-profitability of a percentage point in 2003-04.

3.60 International experience suggests that bank profitability was high in 2003 in major countries except Germany and Japan. There were, however, diverse developments across countries pertaining to profitability, cost conditions and provisioning (Table III.20). From a cross country perspective, the profitability of India's banking sector remained in the high profitability of 1 per cent and above category.

Table III.19: Bank Group-wise break-up of Major Income

(Amount in Rs. crore)

Bank Group	Trading Income		Forex Income		Operating Profit	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7
Scheduled Commercial Banks	**13,211**	**19,532**	**2,824**	**3,754**	**40,682**	**52,671**
Public Sector Banks	9,890	15,410	1,672	1,884	29,717	39,475
Nationalised Banks	7,215	10,482	1,035	1,192	18,486	25,111
State Bank Group	2,675	4,928	638	692	11,231	14,364
Old Private Sector Banks	1,466	1,476	123	117	2,804	3,196
New Private Sector Banks	1,351	2,034	140	385	4,432	5,013
Foreign Banks	504	612	888	1,368	3,728	4,987

Notes : 1. Trading Income - Net profit on sale/purchase operations of investment.
2. Forex Income - Net Profit on foreign exchange transactions.

Table III.20: Profitability of Major Banks

(As per cent of total assets)

Country	Pre-tax profits		Provisioning expenses		Net interest margin		Operating costs	
	2002	2003	2002	2003	2002	2003	2002	2003
1	2	3	4	5	6	7	8	9
United States (11)	1.7	2.0	0.7	0.4	3.1	3.0	3.5	3.4
Canada (5)	0.6	1.0	0.6	0.2	2.1	2.0	2.8	2.8
Japan (11)	-0.5	0.1	0.6	0.2	1.0	0.6	1.0	0.8
United Kingdom (5)	1.1	1.2	0.4	0.3	2.0	1.8	2.2	2.1
Sweden (4)	0.7	0.8	0.1	0.1	1.5	1.4	1.4	1.4
Germany (4)	0.1	-0.2	0.4	0.3	0.8	0.8	1.7	1.7
France (3)	0.5	0.6	0.2	0.2	0.8	0.9	1.5	1.6
Italy (5)	0.5	0.8	0.6	0.5	2.3	2.1	2.4	2.5
Spain (3)	1.1	1.3	0.6	0.4	2.7	2.4	2.4	2.1
Memo:								
India *	0.8	1.0	1.2	1.4	2.6	2.8	2.2	2.2

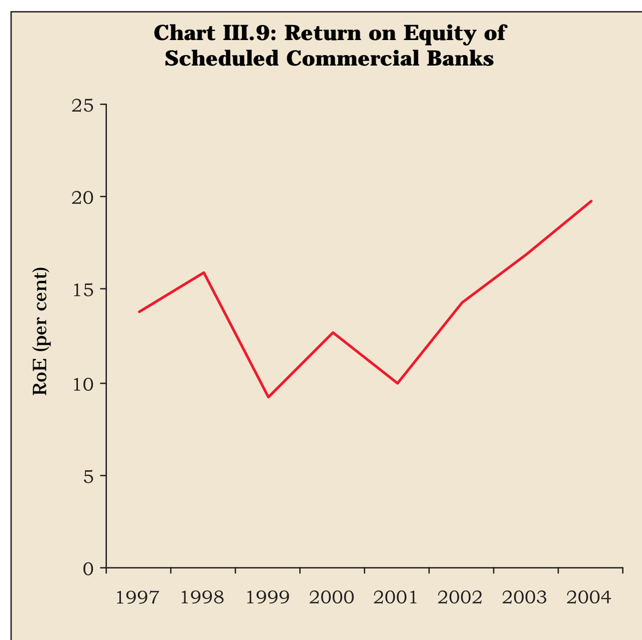
* Pertain to 97 scheduled commercial banks in 2002 and 93 for 2003. Financial year is April-March. The profit figure refers to net profits.

Notes : 1. Figures are percentage to total assets.
2. Figures in brackets indicate number of major banks included.

Source : BIS Annual Report, 2004.

Return on Equity

3.61 The return on equity (RoE) indicator of banks provides information about the conduct of business by banks in the interest of shareholders. The RoE of the banking system was high at 19.8 per cent as at end-March 2004 as against 16.9 per cent as at end-March 2003 (Chart III.9). The high RoE in the banking industry may be conducive to attracting capital. However, actual success of banks in tapping capital market would be contingent on the individual bank's stability and vibrancy.



Off-Balance Sheet Activities

3.62 Off-balance sheet activities of SCBs, comprising fees, commissions and brokerage, profit (loss) on sale/purchase of investments and forward exchange contracts, guarantees, acceptances and endorsements, rose sharply by 51.3 per cent in 2003-04. Accordingly, the share of off-balance sheet operations in terms of total liabilities increased to 89.3 per cent in 2003-04, recording a jump of about 20 percentage points over 2002-03. Out of this, forward exchange contracts accounted for 65.5 per cent. Among bank groups, foreign banks were particularly active in off-balance sheet activities with the result that the ratio of their off-balance sheet activity to total liabilities rose from 483 per cent in 2002-03 to 653 per cent in 2003-04 (Appendix Table III.14).

Cost of Funds

3.63 In the recent period, a notable feature of the banking sector has been the low cost of funds in the enabling macroeconomic environment. The cost of funds across bank groups declined in the range of 70-150 basis points in 2003-04. The decline in cost of funds in 2003-04 was

Table III.21: Bank Group-wise Cost of Funds and Returns

(per cent)

Variable/ Bank Group	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
Cost of Funds	6.1	5.0	6.6	5.3	4.4	3.7	5.3	3.8
Return on Advances	9.0	7.9	9.7	8.8	10.3	8.8	10.3	8.3
Return on Investments	9.2	8.5	9.2	8.1	8.2	6.2	7.7	8.2

Notes : 1. Cost of funds = (Interest Paid on Deposits+Interest Paid on Borrowings)/(Deposits+Borrowings).
2. Return on Advances = Interest Earned on Advances / Advances.
3. Return on Investments = Income on Investment / Investment.

accompanied by a more or less a similar decline in return on advances, implying that the benefits of low interest rates have percolated to banks' borrowers (Table III.21).

Spread

3.64 The spread or the net interest income, defined as the difference between interest income and interest expenses, constitutes an important indicator of efficiency of banks since it drives a wedge between interest received by depositors and the interest charged to borrowers on their loans. The spread of SCBs recorded a sustained growth; it increased by 19.8 per cent in 2003-04 as against an increase of 19.5 per cent in 2002-03. Most bank groups had recorded a double-digit increase in the spread. The increase in spreads of private sector and foreign banks was sharper than that of PSBs.

3.65 Financial parameters of various banks across bank groups of public sector, private sector and foreign banks are given in Appendix Tables III.15(A) to III.15(I), Appendix Tables III.16(A) to III.16(H) and Appendix Tables III.17(A) to III.17(H), respectively.

Investment Fluctuation Reserve

3.66 In line with the policy approach, banks have accelerated their efforts toward building up of the Investment Fluctuation Reserve (IFR). As at end-March 2004, the IFR ratio (IFR defined as a percent of investments under available for sale (AFS) and held for trade (HFT) categories, taken together) for SCBs increased sharply to reach three per cent from the level of 1.8 per cent in 2002-03. The progress on building up of IFR is evident for all bank groups. However, the record of progress has been highest for PSBs, followed by foreign banks and old private sector banks. The new private sector banks lagged behind other bank groups. While banks are required to build up an IFR portfolio of a minimum of five per cent of their investments by 2007, it is observed that three banks within PSBs have already achieved the target and 20 banks have built up IFR ratio of 3.0 per cent or more, perhaps reflecting their concerns of cushioning their investment portfolios against adverse interest rate movements (Table III.22 and Appendix Table III.18).

Table III.22: Bank Group-wise Investment Fluctuation Reserves (IFR)
(As at end-March 2004)

(Amount in Rs. crore)

Bank Group	Investment		IFR	IFR/ (AFS+ HFT) (per cent)
	Available for Sale (AFS)	Held for Trading (HFT)		
1	2	3	4	5=4/ (3+2)
Scheduled Commercial Banks	**6,18,794**	**20,433**	**18,920**	**3.0**
Public Sector Banks	4,87,876	5,503	15,192	3.1
Nationalised Banks	2,84,441	3,411	8,825	3.1
State Bank Group	2,03,436	2,091	6,368	3.1
Old Private Sector Banks	38,178	1,248	1,108	2.8
New Private Sector Banks	62,401	5,557	1,561	2.3
Foreign Banks	30,339	8,126	1,059	2.8

4. Non-performing Assets

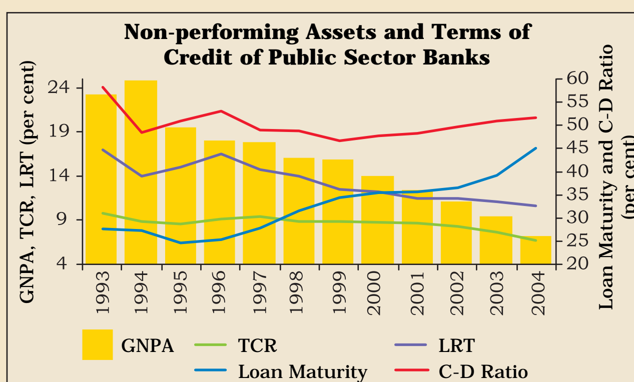
3.67 The level of non-performing loans is recognised as a critical indicator for assessing banks' credit risk, asset quality and efficiency in allocation of resources to productive sectors. Reflecting the success of financial sector reforms, regulatory and supervisory process, in particular, banks have made substantial progress in cleaning up the NPAs from their balance sheets (Box III.7).

Box III.7: Determinants of Non-Performing Assets of Indian Banks

A common perspective is that banks' non-performing loans are influenced by structural nature of the economy. The structural nature of India's financial market has undergone significant changes due to financial sector reforms. Government intervention in the credit market has eased significantly. There has been shift in emphasis from direct instruments to indirect instruments of monetary management. Statutory pre-emption of banks' funds has been reduced through lowering of CRR and SLR. Interest rates have been deregulated in order to facilitate price discovery and foster market mechanism. Banks have been given freedom to charge lending rates. Rapid advances in information technology has contributed to significant reduction in transaction costs, facilitated greater diversification of portfolio, and improvements in credit delivery of banks. Prudential norms in line with international standards have been put in place for promoting and enhancing efficiency of banks. The process of institution building has been strengthened with several measures in the areas of debt recovery, asset reconstruction and securitisation, besides specific initiatives through recapitalisation to enhance the capital base of banks, and one-time settlement for resolution of NPAs. The implementation of SARFAESI Act, and Corporate Debt-Restructuring (CDR) has facilitated resolution of NPAs.

Various studies have shown that NPAs have two components; the overhang component and the incremental component (Jalan, 2002, Munniappan, 2002). The overhang component arises due to infirmities in structural and institutional environment while the increment component arises from factors internal to banks' management and credit culture. At the international level, several studies have identified a range of factors influencing NPAs of banks. Some have argued that the problem of NPAs could be due to plain bad luck attributing to business cycle, and unanticipated shocks such as business failures of producing firms, and disruption of activities due to various calamities. Another viewpoint is that the problem of NPAs may be due to bad management by banks (Caprio, and Klingebiel, 2000). According to the latter view, in an increasingly competitive financial market, economic factors have evolved as the key influences on banks' non-performing loans. In this context, various studies have underscored the role of banks' lending policy in general and the 'terms of credit' defined over, *inter alia,* cost, maturity, and collateral in influencing the movement of banks non-performing loans (Reddy, 2004, Mohan, 2003,2004, Sergio, 1996, McGoven,1993, Christine, 1995, Bloem and Gorterl 2001). In the Indian context, during the period 1993-2004, the ratio of banks' gross non-performing loans to advances has declined from about 24-25 per cent to 7-8 per cent amidst significant improvement in the lending terms. A comparative position of gross NPAs to advances ratio and the terms of credit variables including maturity (share of term loans in total advances), interest cost of deposits, operating expenses to asset ratio, total expenses to assets ratio, lending rates and credit-deposit ratio of public sector banks during the last ten years provide useful insights. There is evidence that, for the public sector banks, the gross NPA ratio has declined from 23 per cent in 1992-93 to 7.8 per cent in 2003-04. The prime-lending rate of interest of banks has declined by 500-750 basis points during period 1992-93 to 2003-04. The maturity terms of loans, defined as the ratio of term loans to advances, has improved from about 30 per cent to about 45 per cent. The credit orientation of banks, measured by credit-deposit ratio, which declined during the period 1993-99, has improved in the recent years. The proportion of secured loans has remained at high level, reflecting the stability in banks' approach to risk management. Besides, bank size induced risk element has moderated with stronger balance sheets. Rajaraman and Vasishtha (2002) in an empirical study provided evidence of significant bivariate relationship between operating inefficiency indicator and problem loans of India's public sector banks. Das and Ghosh (2003) made an empirical analysis of non-performing loans of India's public sector banks relating to various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicators. An empirical analysis suggests that besides supporting policy environment, banks have to devise appropriate lending terms taking account the cost of credit, cost of funds, maturity of loans, credit orientation among other factors so as to induce lower defaults on borrowers.

Non-performing Assets and Terms of Credit of Public Sector Banks



Note: GNPA: Gross Non-performing assets to gross advances ratio; TCR: Total Expenses to Assets Ratio; LRT: Lending Rate of Interest; Loan Maturity: the share of term loans in total loans (Right Y-axis); C-D Ratio: Credit-Deposit Ratio (Right Y-axis).

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3.68 In 2003-04, there was a remarkable improvement in the asset quality of SCBs. Despite the switchover to 90-day delinquency norm with effect from March 2004, the gross NPAs of SCBs declined in absolute terms for a second year in succession. The gross NPAs of SCBs declined by 5.6 per cent in 2003-04 as against a decline of 3.0 per cent in 2002-03. Due to significant provisioning, the net NPAs declined substantially by 24.7 per cent during 2003-04 as against a decline of 8 per cent in 2002-03 (Table III.23 to III.26). The decline in NPAs is evident across bank groups. The bank-wise gross/net NPAs as percentage to advances/assets are provided in Appendix III.19(A) to 19(F). During 2003-04, reductions outpaced additions in the NPAs account. For SCBs, the decline in gross NPAs was accompanied by the decline in doubtful and loss assets by 8.8 per cent and 15.0 per cent, respectively.

3.69 The ratio of net-NPAs to net advances of SCBs declined from 4.4 per cent in 2002-03 to 2.9 per cent in 2003-04. All bank groups witnessed a decline in the ratio of net NPAs to net advances in 2003-04. Among bank groups, the old private sector banks had the highest net NPAs ratio at 3.8 per cent followed by public sector banks, new private banks and foreign banks.

Sector-wise NPAs

3.70 Sector-wise NPAs of individual public and private sector banks are presented in Appendix Table III.20(A) and III.20(B). During 2003-04, the share of NPAs in the priority sector to total NPAs of public sector banks increased marginally. However, there was decline in the share of NPAs of agriculture sector and small-scale industries but an increase in the share of other priority

Table III.23: Bank Group-wise Gross and Net NPAs of Scheduled Commercial Banks

(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to total Assets		Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2001	5,58,766	63,741	11.4	4.9	5,26,328	32,461	6.2	2.5
2002	6,80,958	70,861	10.4	4.6	6,45,859	35,554	5.5	2.3
2003	7,78,043	68,717	8.8	4.0	7,40,473	32,671	4.4	1.9
2004	9,02,026	64,786	7.2	3.3	8,62,643	24,617	2.9	1.2
Public Sector Banks								
2001	4,42,134	54,672	12.4	5.3	4,15,207	27,977	6.7	2.7
2002	5,09,368	56,473	11.1	4.9	4,80,681	27,958	5.8	2.4
2003	5,77,813	54,090	9.4	4.2	5,49,351	24,867	4.5	1.9
2004	6,61,975	51,538	7.8	3.5	6,31,383	18,860	3.0	1.3
Old Private Sector Banks								
2001	39,738	4,346	10.9	5.1	37,973	2,771	7.3	3.3
2002	44,057	4,851	11.0	5.2	42,286	3,013	7.1	3.2
2003	51,329	4,550	8.9	4.3	49,436	2,740	5.5	2.6
2004	57,908	4,392	7.6	3.6	55,648	2,140	3.8	1.8
New Private Sector Banks								
2001	31,499	1,617	5.1	2.1	30,086	929	3.1	1.2
2002	76,901	6,811	8.9	3.9	74,187	3,663	4.9	2.1
2003	94,718	7,232	7.6	3.8	89,515	4,142	4.6	2.2
2004	1,19,511	5,963	5.0	2.4	1,15,106	2,717	2.4	1.1
Foreign Banks								
2001	45,395	3,106	6.8	3.0	43,063	785	1.8	0.8
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8
2003	54,184	2,845	5.3	2.4	52,171	921	1.8	0.8
2004	62,632	2,894	4.6	2.1	60,506	900	1.5	0.7

Notes : Constituent items may not add up to the totals due to rounding off.
Source : 1. Balance sheets of respective banks.
2. Returns submitted by respective banks.

Table III.24: Bank Group-wise Movements in Non-performing Assets - 2003-04

(Amount in Rs.crore)

Particular	Scheduled Commercial Banks (90)	Public Sector Banks (27)	Old Private Sector Banks (20)	New Private Sector Banks (10)	Foreign Banks (33)
1	2	3	4	5	6
Gross NPAs					
As at end-March 2003	68,698	54,090	4,291	7,492	2,826
Addition during the year	24,122	18,133	1,417	3,311	1,261
Reduction during the year	28,034	20,685	1,316	4,840	1,193
As at end-March 2004	64,786	51,538	4,392	5,963	2,894
Net NPAs					
As at end-March 2003	32,657	24,867	2,547	4,335	907
As at end-March 2004	24,617	18,860	2,140	2,717	900
Memo:					
Gross Advances	9,02,026	6,61,975	57,908	1,19,511	62,632
Net Advances	8,61,643	6,31,383	55,648	1,15,106	60,506
Ratio:					
Gross NPAs/Gross Advances	7.2	7.8	7.6	5.0	4.6
Net NPAs/Net Advances	2.9	3.0	3.8	2.4	1.5

Notes : 1. Figures in brackets indicates the number of banks in that category for the year 2003-04.
2. Data for Gross and Net Advances excludes ING Bank.
Source: Balance sheets of respective banks.

sectors. The share of NPAs on account of public sector undertakings declined while the share of NPAs of non-priority sectors increased during 2003-04. For private sector banks, the share of NPAs on account of agriculture sector was lower when compared with 2002-03. However, there

Table III.25: Classification of Loan Assets of Scheduled Commercial Banks–Bank Group-wise

(Amount in Rs.crore)

Bank Group/ Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total Advances
	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2001	4,94,716	88.6	18,206	3.3	37,756	6.8	8,001	1.4	63,963	11.4	5,58,679
2002	6,09,972	89.6	21,382	3.1	41,201	6.1	8,370	1.2	70,953	10.4	6,80,925
2003	7,09,260	91.2	20,078	2.6	39,731	5.1	8,971	1.2	68,780	8.8	7,78,040
2004	8,37,130	92.8	21,026	2.3	36,247	4.0	7,625	0.8	64,898	7.2	9,02,027
Public Sector Banks											
2001	3,87,360	87.6	14,745	3.3	33,485	7.6	6,544	1.5	54,774	12.4	4,42,134
2002	4,52,862	88.9	15,788	3.1	33,658	6.6	7,061	1.4	56,507	11.1	5,09,369
2003	5,23,724	90.6	14,909	2.6	32,340	5.6	6,840	1.2	54,089	9.4	5,77,813
2004	6,10,435	92.2	16,909	2.6	28,756	4.3	5,876	0.9	51,541	7.8	6,61,975
Old Private Sector Banks											
2001	35,166	88.7	1,622	4.1	2,449	6.2	413	1.0	4,484	11.3	39,650
2002	39,262	89.0	1,834	4.2	2,668	6.0	348	0.8	4,850	11.0	44,112
2003	46,761	91.1	1,474	2.9	2,772	5.4	321	0.6	4,567	8.9	51,328
2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
New Private Sectpr Banks											
2001	29,905	94.9	963	3.1	620	2.0	11	0.0	1,594	5.1	31,499
2002	70,010	91.1	2,904	3.8	3,871	5.0	41	0.1	6,816	8.9	76,826
2003	87,487	92.4	2,700	2.9	3,675	3.9	856	0.9	7,231	7.6	94,718
2004	1,13,560	95.0	1,966	1.6	3,665	3.1	321	0.3	5,952	5.0	1,19,512
Foreign Banks											
2001	42,285	93.1	876	1.9	1,202	2.6	1,033	2.3	3,111	6.9	45,396
2002	47,838	94.5	856	1.7	1,004	2.0	920	1.8	2,780	5.5	50,618
2003	51,288	94.7	995	1.8	944	1.7	954	1.8	2,893	5.3	54,181
2004	59,619	95.2	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632

Table III.26: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances
(As at end-March)

(Number of banks)

Net NPAs/ Net Advances	2000	2001	2002	2003	2004
1	2	3	4	5	6
Public Sector Banks	**27**	**27**	**27**	**27**	**27**
Up to 10 per cent	22	22	24	25	27
Above 10 and up to 20 per cent	5	5	3	2	-
Above 20 per cent	-	-	-	-	-
Old Private Sector Banks	**24**	**23**	**22**	**21**	**20**
Up to 10 per cent	18	16	17	19	18
Above 10 and up to 20 per cent	5	4	3	1	2
Above 20 per cent	1	3	2	1	-
New Private Sector Banks	**8**	**8**	**8**	**9**	**10**
Up to 10 per cent	8	8	8	8	9
Above 10 and up to 20 per cent	-	-	-	1	-
Above 20 per cent	-	-	-	-	1
Foreign Banks	**42**	**42**	**40**	**36**	**33**
Up to 10 per cent	31	31	26	28	27
Above 10 and up to 20 per cent	7	6	5	4	2
Above 20 per cent	4	5	9	4	4

was an increase in the shares of NPAs on account of small-scale industries and other priority sector as well as their overall NPAs for the priority sector. The share of non-priority sector NPAs in total NPAs of private sector banks was lower than that of 2002-03.

Movements in Provisions for Non-performing Assets

3.71 The impact of switch over to the 90-day delinquency norms was evident from the record growth in provisions made toward NPAs. The amount of provisions held against NPAs increased by 40 per cent in 2003-04 as against an increase of 21 per cent in 2002-03. During the year, a major part of total provisions of SCBs was accounted for by PSBs, which recorded sharp increases on account of loan loss provisions, both in percentage terms and also as a ratio to total expenses. As at end-March 2004, the cumulative provisions of SCBs accounted for 56.6 per cent of gross NPAs, which was higher by 10 percentage points over end-March 2003 (Table III.27). As at end-March 2004, the cumulative provisions as percentage of gross NPAs was highest for foreign banks followed by public sector banks, new private sector banks, and old private sector banks. In

Table III.27: Bank Group-wise Movements in Provisions for Non-performing Assets - 2003-04

(Amount in Rs.crore)

Particular	Scheduled Commercial Banks (90)	Public Sector Banks (27)	Old Private Sector Banks (20)	New Private Sector Banks (10)	Foreign Banks (33)
1	2	3	4	5	6
Provision for NPAs					
As at end-March 2003	32,254	25,876	1,579	3,102	1,697
Add : Provision made during the year	18,473	14,648	934	2,136	755
Less : Write-off, write back of excess during the year	14,031	10,875	444	2,052	661
As at end-March 2004	36,696	29,649	2,069	3,187	1,791
Memo:					
Gross NPAs	64,786	51,538	4,392	5,963	2,894
Ratio:					
Cumulative Provision to Gross NPAs (per cent)	56.6	57.5	47.1	53.4	61.9

Note : Figures in brackets indicates the number of banks in that group for the year 2003-04.
Source : Balance sheet of respective banks.

Table III.28: Bank Group-wise Movements in Provisions for Depreciation on Investment - 2003-04

(Amount in Rs. crore)

Particular	Scheduled Commercial Banks (90)	Public Sector Banks (27)	Old Private Sector Banks (20)	New Private Sector Banks (10)	Foreign Banks (33)
1	2	3	4	5	6
As at end-March 2003	4,818	2,952	123	1,687	55
Add : Provision made during the year	1,451	1,251	75	-276	401
Less: Write-off, write back of excess during the year	1,343	1,200	45	87	11
As at end-March 2004	4,925	3,003	153	1,324	445

Note : Figures in brackets indicates the number of banks in that group for the year 2003-04.
Source : Balance sheets of respective banks.

2003-04, the PSBs accounted for the bulk of write-offs and write back of excess provisions of SCBs.

Movements in Provisions for Depreciation in Investment

3.72 Public sector banks increased their provisions for depreciation in investments during the year by an amount exceeding the write-back. New private sector banks, on the other hand, unwound their provisions reflecting possibly the greater proportion of investments in the AFS and HFT categories (Table III.28).

Incremental Non-performing Assets

3.73 The ratio of incremental NPA to assets, and advances, which signifies the inter-temporal measure of asset quality, remained negative and showed further improvement for most bank groups in 2003-04 (Table III.29 and III.30).

5. Capital Adequacy

3.74 From the perspective of regulatory and supervisory process, the capital to risk weighted assets ratio (CRAR) constitutes the most important indicator for assessing soundness and solvency of banks. The overall CRAR of SCBs improved marginally to 12.9 per cent in 2003-04 from 12.7 per cent in 2002-03. In 2003-04, all but two commercial banks complied with the regulatory minimum CRAR of 9 per cent. Global Trust Bank and Centurion Bank, which did not comply with the regulatory minimum, accounted for a negligible 0.5 per cent of total assets of scheduled commercial banks in 2003-04. CRAR of five largest banks, which accounted for about 41 per cent of total assets of scheduled commercial banks, showed a further improvement in 2003-04 (Chart III.10).

3.75 Among bank groups, CRAR as at March 2004 was higher than the March 2003 levels for public sector banks and old private sector banks while it declined marginally in respect

Table III.29: Bank Group-wise Incremental Gross and Net NPAs

(Amount in Rs. crore)

Bank Group	Incremental Gross NPAs		Incremental Net NPAs	
	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5
Scheduled Commercial Banks	**-2,144**	**-3,931**	**-2,883**	**-8,053**
Public Sector Banks	-2,383	-2,552	-3,091	-6,007
Nationalised Banks	123	-1,334	-1,918	-4,178
State Bank Group	-2,506	-1,218	-1,173	-1,829
Old Private Sector Banks	-301	-159	-273	-600
New Private Sector Banks	421	-1,269	479	-1,425
Foreign Banks	119	49	1	-21

Source : Balance sheets of respective banks.

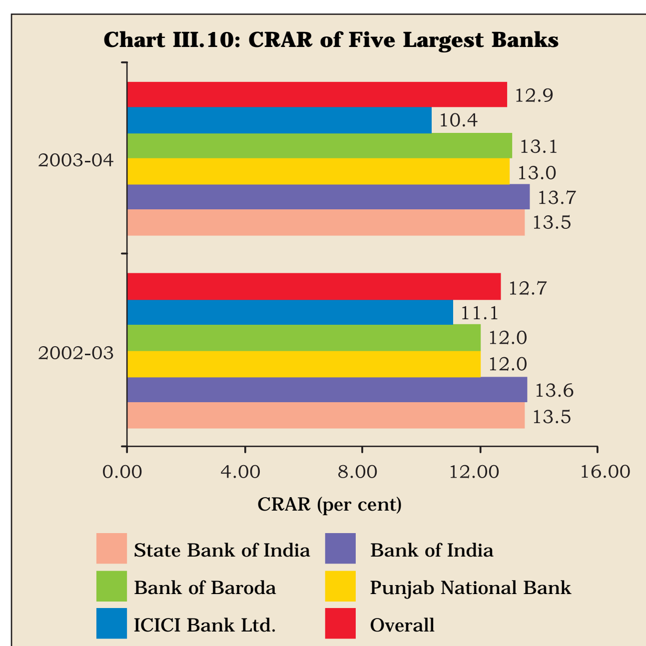
Table III.30: Bank Group-wise Incremental Ratio of Gross and Net NPAs

(Per cent)

Bank Group	Incremental Ratio of Gross NPAs to				Incremental Ratio of Net NPAs to			
	Gross Advances		Total Assets		Net Advances		Total Assets	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**-2.2**	**-3.2**	**-1.3**	**-1.4**	**-3.0**	**-6.6**	**-1.8**	**-2.9**
Public Sector Banks	-3.5	-3.0	-1.8	-1.4	-4.5	-7.3	-2.4	-3.2
Nationalised Banks	0.3	-2.5	0.1	-1.0	-4.4	-8.3	-2.3	-3.2
State Bank Group	-11.0	-4.0	-5.5	-2.2	-4.8	-5.8	-2.6	-3.3
Old Private Sector Banks	-4.1	-2.4	-2.6	-1.0	-3.8	-9.7	-2.3	-3.8
New Private Sector Banks	2.1	-5.7	2.4	-2.3	3.1	-5.6	2.7	-2.6
Foreign Banks	3.4	0.6	3.6	0.2	0.0	-0.3	0.0	-0.1

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Chart III.10: CRAR of Five Largest Banks



of new private sector banks and foreign banks (Table III.31). Bank-wise details of CRAR are given in Appendix Table III.21 (A) to 21(C). The distribution of CRAR across bank groups is provided in Table III. 32.

Equity Capital

3.76 During 2003-04, four public sector banks, namely UCO bank, Indian Overseas Bank, Vijaya Bank and Bank of Maharashtra, floated equity issues to the extent of Rs.950 crore. With these, the total amount of capital raised by PSBs through equity issues reached Rs.8,224 crore till end-March 2004. The Government shareholding in PSBs, which have raised equity capital, presently ranges from a low of 57.2 per cent to a high of 75 per cent. Within private sector banks group, the ICICI bank issued debt issues amounting to Rs.1,251 crore during 2003-04.

Table III.31: Bank Group-wise CRAR
(As at end-March)

(per cent)

Bank Group	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
Scheduled Commercial Banks	11.5	11.3	11.1	11.4	12.0	12.7	12.9
Public Sector Banks	11.6	11.3	10.7	11.2	11.8	12.6	13.2
Nationalised Banks	10.3	10.6	10.1	10.2	10.9	12.2	13.1
State Bank Group	14.0	12.3	11.6	12.7	13.3	13.4	13.4
Old Private Sector Banks	12.3	12.1	12.4	11.9	12.5	12.8	13.7
New Private Sector Banks	13.2	11.8	13.4	11.5	12.3	11.3	10.2
Foreign Banks	10.3	10.8	11.9	12.6	12.9	15.2	15.0

Source: Off-site supervisory returns submitted by banks.

Table III.32: Distribution of Scheduled Commercial Banks by CRAR

(No. of banks)

Bank Group	2002-03				2003-04			
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
Nationalised Banks	-	-	1	18	-	-	1	18
State Bank Group	-	-	-	8	-	-	-	8
Old Private Sector Banks	-	-	1	20	-	-	-	20
New Private Sector Banks	2	-	1	6	1	1	-	8
Foreign Banks	-	-	-	36	-	-	-	33
Total	**2**	-	**3**	**88**	**1**	**1**	**1**	**87**

Recent Trends- First half of 2004-05

3.77 During the first half of 2004-05, scheduled commercial banks showed sustained performance. The CRAR of scheduled commercial banks stood at 13.4 per cent in the first half of 2004-05 as compared with 13.2 per cent in the first half of 2003-04. Among bank groups, the CRAR of public sector banks in the first half of 2004-05 was similar to that of the first half of 2003-04. The CRAR of new private sector banks showed an improvement to 13.5 per cent in the first half of 2004-05 when compared with 11.3 per cent in the first half of 2003-04. The CRAR of old private sector banks and foreign banks stood at 13.7 per cent and 14 per cent, respectively, in the first half of 2004-05 as against 14.4 per cent and 14.9 per cent, respectively, in the first half of 2003-04 (Table III.33).

3.78 The net NPAs to net advances ratio of scheduled commercial banks improved to 2.5 per cent in the first half of 2004-05 as against 4 per cent in the comparable period of 2003-04. The net NPAs ratio showed improvement for all the bank groups. The annualised net profit to assets ratio of scheduled commercial banks was 1.1 per cent in the first half of 2004-05 as compared with 1.3 per cent in the first half of 2003-04. Among bank groups, public sector banks, new private sector banks and foreign banks more or less maintained their profitability while old private sector banks had shown a decline in their net profit ratio. Net interest income to assets ratio of scheduled commercial banks showed an improvement in the first half of 2004-05 when compared to the first half of 2003-04. The operating expenses to assets ratio of scheduled commercial banks in the first half of 2004-05 was similar to the position of the first half of 2003-04.

6. Regional Spread of Banking

3.79 The total number of branches of SCBs as at end-June 2004 stood at 67,097 comprising 32,207 rural branches, 15,028 semi-urban branches and 19,837 urban and metropolitan branches. The branch rationalisation policy impacted on the share of rural branches, which declined marginally to 48.0 per cent as at end-June 2003 from 48.4 per cent as at end-June 2002. There was a marginal rise in the share of urban and metropolitan branches from 29.2 per cent in 2002-03 to 29.6 per cent in 2003-04 (Appendix Table III.22).

3.80 In line with the regional distribution of income, the Southern region accounted for the highest percentage of bank branches, followed by Eastern Region, Northern Region, Western Region and North-Eastern region. The Southern region experienced the opening of the maximum number of branches during 2003-04. The Northern region also experienced a significant increase in the number of branches opened during the year, particularly in Punjab, Haryana and Delhi (Appendix Table III.23).

3.81 The credit -deposit ratio of western and southern regions remained higher than the all-India level. Across states, five states including Tamilnadu, Maharashtra, Andhra Pradesh, Karnataka, and Delhi and Chandigarh-the Union territory, had credit-deposit ratio higher than all-India level. These States/Union Territory accounted for about 52 per cent of

Table III. 33: Scheduled Commercial Banks – Performance Indicators

(Per cent)

Bank Group	2002-03				2003-04				2004-05	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11
Operating Expenses/Total Assets*										
Scheduled Commercial Banks	2.2	2.3	2.2	2.3	2.2	2.3	2.3	2.1	2.3	2.3
Public Sector Banks	2.3	2.3	2.2	2.4	2.2	2.3	2.2	2.2	2.2	2.3
Old Private Sector Banks	2.0	2.1	2.1	1.9	2.0	2.2	2.1	1.6	2.1	2.1
New Private Sector Banks	1.9	2.0	2.1	1.8	2.2	2.3	2.0	1.7	2.4	2.4
Foreign Banks	2.7	2.9	2.9	2.7	2.6	2.7	3.3	2.4	2.9	3.0
Net Interest Income/Total Assets*										
Scheduled Commercial Banks	2.9	2.9	2.8	2.6	3.1	2.9	3.1	2.5	3.1	3.1
Public Sector Banks	3.0	3.1	2.9	2.8	3.2	3.0	3.2	2.8	3.1	3.2
Old Private Sector Banks	2.6	2.4	2.8	2.0	2.7	2.7	2.8	1.9	2.9	3.0
New Private Sector Banks	1.7	1.5	1.7	1.6	2.0	2.1	2.1	1.5	2.5	2.6
Foreign Banks	3.5	3.6	3.6	2.7	4.0	3.0	3.8	3.0	3.7	3.4
Net Profit/Total Assets*										
Scheduled Commercial Banks	1.0	1.0	1.2	0.9	1.3	1.3	1.2	1.0	1.2	1.1
Public Sector Banks	0.9	0.9	1.1	0.9	1.2	1.2	1.2	1.1	1.2	1.1
Old Private Sector Banks	1.2	1.1	1.6	0.7	1.6	1.5	1.5	0.2	0.9	0.5
New Private Sector Banks	1.0	1.0	1.2	0.3	1.2	1.4	1.3	0.6	1.2	1.2
Foreign Banks	1.5	1.3	1.5	2.0	2.5	1.8	0.9	1.4	1.8	1.2
Gross NPAs to Gross Advances**										
Scheduled Commercial Banks	11.2	11.1	10.9	8.8	9.8	9.7	9.3	7.3	7.4	6.6
Public Sector Banks	11.6	11.6	11.2	9.4	10.2	10.0	9.6	8.1	8.1	7.3
Old Private Sector Banks	12.3	12.8	12.5	8.9	9.8	10.1	10.1	7.7	7.9	7.6
New Private Sector Banks	11.3	11.3	11.4	7.6	10.4	10.4	9.6	4.8	4.9	3.9
Foreign Banks	5.6	5.5	5.6	5.2	5.4	5.3	5.2	4.9	4.7	4.3
Net NPAs to Net Advances**										
Scheduled Commercial Banks	5.7	5.5	5.1	4.5	4.6	4.0	3.7	3.0	2.8	2.5
Public Sector Banks	6.0	5.8	5.2	4.7	4.7	4.0	3.6	3.1	3.0	2.7
Old Private Sector Banks	8.1	8.3	7.8	5.8	6.2	6.1	5.7	3.9	3.8	3.8
New Private Sector Banks	5.2	5.0	5.1	4.5	4.6	4.4	4.0	2.4	2.4	1.8
Foreign Banks	1.9	1.9	2.0	1.7	1.7	1.5	1.3	1.5	1.4	1.0
CRAR**										
Scheduled Commercial Banks	12.3	12.5	12.8	12.7	13.0	13.2	13.5	12.9	13.6	13.4
Public Sector Banks	11.9	12.3	12.6	12.6	13.0	13.3	13.8	13.2	13.5	13.2
Old Private Sector Banks	13.3	13.1	13.4	12.8	13.5	14.4	15.0	13.7	14.3	13.7
New Private Sector Banks	12.9	12.6	12.8	11.3	11.3	11.3	11.2	10.6	12.8	13.5
Foreign Banks	13.2	13.0	13.5	15.2	14.7	14.9	14.8	15.0	14.7	14.0

* Annualised to ensure comparability between quarters.
** Position as at the end of the quarter.
Note: Data for March and June 2004 are provisional.
Source: DSB returns submitted by banks covering domestic operations.

aggregate deposits and 67 per cent of aggregate bank credit.

3.82 The credit-deposit ratio of rural areas has shown an uptrend since 1999-2000. It has increased from 39 per cent in 1999-2000 to 44 per cent in 2003-04. The rise in rural credit-deposit ratio is, however, attributed to declining share of rural deposits in aggregate deposits at the all India level. The pick up in growth of credit to agriculture sector notwithstanding, the share of rural credit in the all-India gross bank credit has shown a declining trend. This is because rural areas account for a lower share of various loans including retail loans from banks.

7. Interest Rates of Scheduled Commercial Banks

3.83 The impact of the interest rate policy was significantly evident in the interest rate structure of deposits but was somewhat muted in case of lending rates. The deposit rates across all maturities have come down during 2003-04; the degree of moderation being similar across the tenors. The deposit rates of PSBs, which were ranging from 4.0-7.0 per cent by March 2003, declined to 3.75-6.00 per cent by March 2004 and further to 3.50-5.75 per cent during 2004-05 (up to October 2004) (Table III.34). The lending rate showed some decline but not as much as the deposit rates. The spread (difference between deposit and lending interest rates) did not vary much in 2003-04 as compared with 2002-03 (Chart III.11).

Chart III.11: Deposit and Lending Rates of Interest

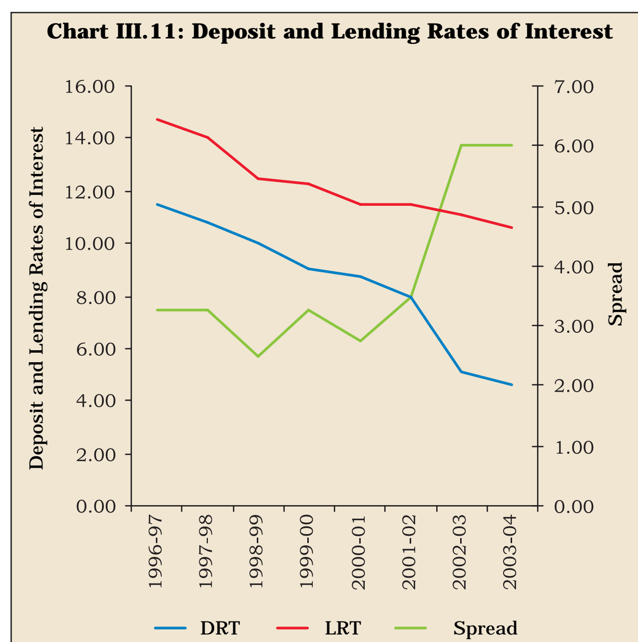


Table III.34: Structure of Interest Rates

(Per cent)

Interest Rate	March 2002	March 2003	March 2004	October 2004
1	2	3	4	5
I. Credit Markets				
1. Deposit Rate				
Public Sector Banks	4.25-8.75	4.00-7.00	3.75-6.00	3.50-5.75
Private Sector Banks	5.00-10.00	3.50-8.00	3.00-7.00	3.00-6.75
Foreign Banks	4.25-10.00	3.00-8.50	2.75-8.00	3.00-7.00
2. Lending Rate				
Public Sector Banks	10.00-12.50	9.00-12.25	10.25-11.50	10.25-11.00
Private Sector Banks	10.00-15.50	7.00-15.50	10.50-13.00	9.75-13.00
Foreign Banks	9.00-17.50	6.75-17.50	11.00-14.85 *	11.00-13.00 *
II. Money Markets				
3. Call Borrowing (Average)	6.97	5.86	4.37	4.63
4. Commercial papers				
WADR 61-90 day	9.46	6.53	5.19	5.52 ***
WADR 91-180 day	8.11	6.45	4.73	5.61 ***
Range	7.41-10.25	6.00-7.75	4.70-6.50	5.10-6.23
5. Certificates of deposit				
Range	5.00-10.03	5.00-7.10	3.87-5.16	4.00-5.75 **
Typical Rate				
3 Months	7.38	–	4.96	4.75 **
12 Months	10.00	5.25	5.16	5.75 **
6. Treasury Bills				
91-day	6.13	5.89	4.38	5.37
364-day	6.16	5.89	4.45	5.69
III. Debt market				
7. Government Securities Market				
5-Year	6.75	5.92	4.72	5.89
10-Year	7.30	6.13	5.17	5.98

* Except for Barclays bank which is offering BPLR of 17.50 per cent.
** As on October 15, 2004.
*** As on November 15, 2004.
Note: Figures for Prime Lending Rates for March and October 2004 are BPLR.

Domestic Deposit Rates

3.84 Reduction in the deposit rates across all maturities had a favourable impact over the costs of funds of the banking sector. While the deposit rate up to one year declined from 4.00-6.00 per cent in March 2003 to 3.75-5.25 per cent in March 2004, the decline in deposit rate for over 1-year was more pronounced from 5.25-7.00 per cent to 5.00-6.00 per cent (Table III.35). Deposit rates of private sector as well as foreign banks also declined during 2003-04. The deposit rates have moderated further.

Lending Rates

3.85 The Reserve Bank has been taking several initiatives to foster transparency and competition in credit market and also been disseminating information on lending rates of banks on its website (www.rbi.org.in) since June 2002. Further, in order to enhance transparency in banks' pricing of the loan products, the monetary and credit policy, 2003-04 advised banks to announce a benchmark PLR (BPLR) taking into account (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, with the approval of their Boards to ensure that the PLR truly reflects the actual cost. Indian Banks' Association (IBA) has since advised its member banks to announce BPLR keeping in view the operational requirements. As on April 2004, almost all commercial banks adopted the new system of benchmark PLR (BPLR). The BPLR announced by banks have generally been set at 25-200 basis points below their erstwhile PLRs.

8. Regional Rural Banks

Mobilisation and Deployment of Funds

3.86 Regional Rural Banks (RRBs) play a key role in rural institutional financing in terms of geographical coverage, clientele outreach, business volume and contribution to the development of the rural economy. During 2003-04, in line with macroeconomic trends, aggregate deposits of RRBs increased by 17.9 per cent as against an increase of 11.9 per cent in 2002-03. The demand deposits recorded stronger growth at 25 per cent in 2003-04 as against the growth of 14 per cent in 2002-03. Time deposits expanded by 16 per cent in 2003-04 as against an increase of 11 per cent in 2002-03. On the assets side, bank credit recorded robust growth at 17 per cent in the 2003-04 as compared with

Table III.35: Movements in Deposit and Lending Interest Rates

(per cent)

Interest Rates	March 2002	March 2003	March 2004	October 2004
1	2	3	4	5
I. Domestic Deposit Rates				
Public Sector Banks				
a) Up to 1 year	4.25-7.50	4.00-6.00	3.75-5.25	3.50-5.00
b) 1 year up to 3 years	7.25-8.50	5.25-6.75	5.00-5.75	4.75-5.50
c) Over 3 years	8.00-8.75	5.50-7.00	5.25-6.00	5.00-5.75
Private Sector Banks				
a) Up to 1 year	5.00-9.00	3.50-7.50	3.00-6.00	3.00-6.00
b) 1 year up to 3 years	8.00-9.50	6.00-8.00	5.00-6.50	5.00-6.75
c) Over 3 years	8.25-10.00	6.00-8.00	5.25-7.00	5.25-6.50
Foreign Banks				
a) Up to 1 year	4.25-9.75	3.00-7.75	2.75-7.75	3.00-5.75
b) 1 year up to 3 years	6.25-10.00	4.15-8.00	2.25-8.00	3.50-7.00
c) Over 3 years	6.25-10.00	5.00-9.00	3.25-8.00	3.50-7.00
II. Prime Lending Rates				
Public Sector Banks	10.00-12.50	9.00-12.25	10.25-11.50	10.25-11.00
Private Sector Banks	10.00-15.50	7.00-15.50	10.50-13.00	9.75-13.00
Foreign Banks	9.00-17.50	6.75-17.50	11.00-14.85 *	11.00-13.00*

* Except for Barclays bank which is offering BPLR of 17.50 per cent.
Note: Figures for Prime Lending Rates for March and October 2004 are BPLR.

18.5 per cent in 2002-03. In the monetary and credit policy 2002-03 it was announced that RRBs should maintain their entire SLR holdings in the form of Government and other approved securities by converting existing deposits with sponsor banks into approved securities by March 2003. Accordingly, RRBs had expanded their investment in SLR securities by 334 per cent in 2002-03. During 2003-04, RRBs continued to maintain a high growth of investment in SLR securities funded by an increase in deposit liabilities and a draw down of inter bank assets. RRBs had expanded their investment by 39 per cent, mainly, due to the growth of investment in Government securities at 60.6 per cent on the top of the high base in 2002-03 (Table III.36).

Financial Performance of RRBs

3.87 The data in respect of 196 RRBs for 2002-03 and 2003-04 indicate that there has been an overall decline in the number of loss-making RRBs in 2003-04. The performance of the loss-making RRBs witnessed a sharp upturn during 2003-04. On the expenditure front, loss-making RRBs witnessed decline in the interest expenses as well as operating expenses (Table III.37).

Table III.36: Important Banking Indicators of Regional Rural Banks

(Outstanding as on)

(Amount in Rs. crore)

	Item	March 29, 2002	March 28, 2003	March 26, 2004	Variations	
					2002-03	2003-04
1		2	3	4	5 (3-2)	6 (4-3)
1	**Liabilities to the Banking System**	**188**	**179**	**205**	**-9** (-4.8)	**26** (14.5)
2	**Liabilities to Others**	**44,873**	**50,190**	**58,798**	**5,317** (11.8)	**8,608** (17.2)
	2.1 Aggregate Deposits (a+b)	43,220	48,346	57,010	5,126 (11.9)	8,664 (17.9)
	(a) Demand Deposits	7,716	8,802	11,019	1,086 (14.1)	2,217 (25.2)
	(b) Time Deposits	35,504	39,544	45,991	4,040 (11.4)	6,447 (16.3)
	2.2 Borrowings	12	131	3	119 (991.7)	-128 -(97.8)
	2.3 Other Demand & Time Liabilities*	1,641	1,713	1,785	72 (4.4)	72 (4.2)
3	**Assets with the Banking System**	**18,509**	**15,091**	**12,993**	**-3,418** (-18.5)	**-2,098** (13.9)
4	**Bank Credit**	**18,373**	**21,773**	**25,481**	**3,400** (18.5)	**3,708** (17.0)
5	**Investments (a+b)**	**6,772**	**12,524**	**17,444**	**5,752** (84.9)	**4,920** (39.3)
	a. Government Securities	1,915	8,311	13,349	6,396 (334.0)	5,038 (60.6)
	b. Other Approved Securities	4,857	4,213	4,095	-644 (-13.3)	-118 -(2.8)
6	**Cash Balances**	**472**	**515**	**571**	**43** (9.1)	**56** (10.9)
Memo :						
a	Cash Balance-Deposit Ratio	1.1	1.1	1.0		
b	Credit-Deposit Ratio	42.5	45.0	44.7		
c	Investment/Deposit Ratio	15.7	25.9	30.6		
d	Investment+Credit/Deposit Ratio	58.2	70.9	75.3		

* Includes Participation Certificates issued to others.

Note: Figures in brackets are percentage variations.

Table III.37: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

	Particulars	2002-03			2003-04			Variation
		Loss Making [40]	Profit Making [156]	RRBs [196]	Loss Making [33]	Profit Making [163]	RRBs [196]	Col. 7 Over Col. 4
1		2	3	4	5	6	7	8 = (7)-(4)
A.	**Income (i+ii)**	**774**	**5,157**	**5,931**	**609**	**5,635**	**6,244**	**313** (5.27)
	i) Interest income	727	4,775	5,501	553	4,985	5,538	37 (0.7)
	ii) Other income	48	383	430	56	650	706	275.7 (64.1)
B.	**Expenditure (i+ii+iii)**	**989**	**4,418**	**5,407**	**793**	**4,682**	**5,475**	**68** (1.3)
	i) Interest expended	567	2,946	3,513	421	2,939	3,360	-153 -(4.4)
	ii) Provisions and contingencies	66	124	190	90	196	286	96 (50.3)
	iii) Operating expenses	356	1,348	1,703	282	1,547	1,829	126 (7.37)
	of which : Wage Bill	321	1,159	1,480	248	1,260	1,508	28 (1.9)
C.	**Profit**							
	i) Operating Profit/Loss	-149	863	715	-94	1,149	1,055	340 (47.6)
	ii) Net Profit/Loss	-215	739	525	-184	953	769	244 (46.6)
D.	**Total Assets**	**10,282**	**53,332**	**63,614**	**8,892**	**61,386**	**70,278**	**6,664** (10.5)
E.	**Financial Ratios** (as percentage of total assets)							
	i) Operating Profit	-1.4	1.6	1.1	-1.1	1.9	1.5	
	ii) Net Profit	-2.1	1.4	0.8	-2.1	1.6	1.1	
	iii) Income	7.5	9.7	9.3	6.8	9.2	8.9	
	iv) Interest income	7.1	9.0	8.6	6.2	8.1	7.9	
	v) Other Income	0.5	0.7	0.7	0.6	1.1	1.0	
	vi) Expenditure	9.6	8.3	8.5	8.9	7.6	7.8	
	vii) Interest expended	5.5	5.5	5.5	4.7	4.8	4.8	
	viii) Operating expenses	3.5	2.5	2.7	3.2	2.5	2.6	
	ix) Wage Bill	3.1	2.2	2.3	2.8	2.1	2.1	
	x) Provisions and Contingencies	0.6	0.2	0.3	1.0	0.3	0.4	
	xi) Spread (Net Interest Income)	1.5	3.4	3.1	1.5	3.3	3.1	

Note : Figures in brackets indicate percentage change.
Source : NABARD.

Purpose-wise Outstanding Loans and Advances

3.88 The composition of credit extended by RRBs continued to be broadly the same. While the shares of agricultural and non-agricultural loans are broadly equal, there has been a marginal bias in favour of the latter (Table III.38).

9. Priority Sector Lending

Public Sector Banks

3.89 The outstanding priority sector advances of PSBs increased by 21 per cent in 2003-04 as against an increase of 18.6 per cent during 2002-03. The share of priority sector

Table III.38: Purpose-wise break-up of Outstanding Advances by RRBs
(As at end-March)

(Amount in Rs.crore)

Purpose	2002	2003
1	2	3
1. Short-term loans (crop loans)	4,883	6,495
2. Term loans (for agriculture and allied activities)	3,522	3,766
3. Indirect Advances	N.A.	N.A.
I. Total (Agriculture) (1 to 3)	**8,405**	**10,261**
	(45.2)	**(46.3)**
4. Rural Artisans etc.	671	695
5. Other Industries	226	330
6. Retail Trade etc.	2,984	3,264
7. Other purposes	6,343	7,608
II. Total (Non-agriculture) (4 to 7)	**10,224**	**11,897**
	(54.8)	**(53.7)**
Total (I+II)	**18,629**	**22,158**
	(100.0)	**(100.0)**

N.A. Not Available.
Note : Figures in brackets are percentage to the total.
Source : NABARD.

advances in net bank credit of PSBs increased to 44 per cent in 2003-04 from 42.5 per cent in 2002-03. The growth of priority sector advances of PSBs was fuelled by the surge in the loans and advances to various other priority sectors and robust growth of credit to the agriculture sector. Advances to agriculture constituted 15.4 per cent of Net Bank Credit (NBC) as on the last reporting Friday of March 2003 (Appendix Table III.24). The share of advances to other priority sectors in net bank credit of PSBs increased to 17 per cent in 2003-04 from 15 per cent in 2002-03. PSBs had significantly increased their advances to weaker sections. The share of advances to weaker sections in net bank credit PSBs had increased to 7.4 per cent in 2003-04 from 6.7 per cent in 2002-03. The bank-wise details of advances to agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Tables III.25 (A) and 25(B).

Private Sector Banks

3.90 Private sector banks had maintained their increasing propensity of lending to priority sector. The share of advances to priority sector in net bank credit of private sector banks had increased to 47.4 per cent in 2003-04 from 44.4 per cent in 2002-03. In absolute terms, credit to agriculture, small-scale industries and other priority sectors had increased. The share of other priority sector category was the highest at 23.1 per cent of NBC, followed by advances to agriculture and small-scale industries. Their lending to agriculture sector had increased to 12.3 per cent of their net bank credit in 2003-04, higher by a percentage point over the 2002-03. (Appendix Table III.26). Bank-wise details of advances to priority sector, agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Table III.27 (A) and 27(B).

Foreign Banks

3.91 Foreign banks operating in India are required to achieve the target of 32.0 per cent of NBC for the priority sector with sub-targets of 10.0 per cent of NBC for small-scale industries and 12.0 per cent of NBC for exports. Lending to the priority sector by foreign banks constituted 34.8 per cent of NBC as on the last reporting Friday of March 2004, of which the shares of export credit and small scale industries as percentage to NBC were 18.7 per cent and 10.4 per cent, respectively (Appendix Table III.28).

Differential Rate of Interest (DRI) Scheme

3.92 The outstanding advances of PSBs under the DRI Scheme at the end of March 2004 amounted to Rs.315 crore under 3.7 lakh borrowal accounts, forming 0.1 per cent of the total advances outstanding as at the end of the 2002-03, which is less than the target of 1.0 per cent.

Special Agricultural Credit Plan (SACP)

3.93 The PSBs have been preparing Special Agricultural Credit Plans (SACP) since 1994-95 with self-set targets for disbursements to agriculture during a year. During the period 1994-95 to 2003-04, credit disbursements by the PSBs to the agriculture sector have increased from Rs.8,255 crore in 1994-95 to Rs.42,211 crore in 2003-04. Consequent upon the announcements made in the mid-term Review of annual policy Statement 2004-05, all private sector banks have been advised to formulate

Special Agricultural Credit Plans from the year 2005-06, targeting an annual growth rate of at least 20-25 per cent over the previous years of credit disbursements to agriculture sector.

Government Sponsored Schemes

3.94 The total number of *Swarozgaris* assisted under the Swarnajayanti Gram Swarozgar Yojana (SGSY) during 2003-04 was 8,75,690. Bank credit amounting to Rs.1,275.5 crore and Government subsidy amounting to Rs.698 crore were disbursed under this scheme. Of the *Swarozgaris* assisted, 4,01,142 (45.8 per cent) belonged to scheduled castes and scheduled tribes, while 4,62,230 (52.8 per cent) were women and 8,316 (1.0 per cent) were physically handicapped. Under the Swarna Jayanti Shahari Rozgar Yojana (SJSRY), as against 74,652 applications sanctioned during 2003-04, disbursements amounting to Rs.176.7 crore were made in 69,412 cases till March 31, 2004. The total number of applications sanctioned under the Scheme of Liberation and Rehabilitation of Scavengers (SLRS) during 2003-04 was 9,456. As against this, disbursements amounting to Rs.13.2 crore were made in 7,673 cases during 2003-04.

Kisan Credit Card Scheme

3.95 Kisan Credit Cards (KCC) Scheme[5], introduced in 1998-99, has emerged as an important tool for banks to provide adequate and timely credit to the agriculture sector. Flexibility and simplification in procedures are the hallmarks of the KCC scheme. Under the Scheme, banks extend revolving credit to farmers. The rate of interest on KCC loans is the same as those for crop loans and security / margin norms are as per the instructions issued by Reserve Bank/NABARD from time to time. Till March 2004, commercial banks had issued 132.43 lakh KCCs. The PSBs had surpassed their target of 30 lakh cards by issuing 30.94 lakh KCCs during 2003-04.

Lead Bank Scheme

3.96 The main focus of Lead Bank Scheme has been on enhancing the proportion of bank finance to the priority sector and also to promote banks' role in overall development of the rural sector. As at end-March 2004, the Lead Bank Scheme covered 587 districts including the six new districts formed due to reorganization/ bifurcation of the existing districts. The scheme has been modified recently to include term loans for agriculture and allied activities and a reasonable component to meet the consumption needs, besides the existing facility of providing crop loans.

Micro Finance

3.97 In 2003-04, micro finance under Self Help Groups-Bank linkage programme continued to receive an increasing support from banks, rural banks, and co-operatives. Due to low cost, and near zero NPAs associated with micro finance, commercial banks showed increasing interest in extending financial support to Self Help Groups (SHGs). On cumulative basis, the number of Self Help Groups receiving financial support from commercial banks increased to 5,38,422 in 2003-04 from 3,61,061 in 2002-03, with an increase of 49 per cent. The cumulative loans from increased to Rs.2,254.8 crore in 2003-04 from Rs.1,149.5 crore in 2002-03, recording an increase of 96 per cent. Commercial banks maintained their dominant share while accounting for 58 per cent of total finance to SHGs by banks, regional rural banks, and co-operatives.

10. Local Area Banks

3.98 As at end-March 2004, five banks were functional. They were Coastal Local Area Bank Ltd., Vijayawada, Capital Local Area Bank Ltd., Phagwara, South Gujarat Local Area Bank Ltd., Navsari, Krishna Bhima Samruddhi Local Area Bank Ltd., Mehboobnagar, and the Subhadra Local Area Bank Ltd., Kohlapur. South Gujarat Local Area Bank which had suffered net losses in consecutive years and witnessed a significant decline in its capital and reserves, was merged with Bank of Baroda on June 25, 2004.

3.99 The performance of local area banks reveals that the smaller banks had a very high credit deposit ratio of over 100 per cent (Table III.39). Larger local area banks like Capital Local Area

[5] Also see Chapter IV: Box IV.4 of the Report.

Table III.39: Performance of Local Area Banks
(As at end-March 2004)

(Amount in Rs. crore)

Name of the Local Area Bank	Deposits	Advances	C-D ratio (per cent)
1	2	3	4
1. Coastal Local Area Bank Ltd.	32	19	60.3
2. Capital Local Area Bank Ltd.	110	66	60.0
3. South Gujarat Local Area Bank Ltd.	9	9	100.4
4. Krishna Bhima Samruddhi Local Area Bank Ltd.	5	6	129.6
5. Subhadra Local Area Bank	1	3	255.5

Bank Ltd. and Coastal Local Area Bank Ltd. had moderately high capital adequacy ratio. There had been a decline in net profits for the group as a whole in 2003-04 (Table III.40). This was primarily due to the quantum increase in the losses of South Gujarat Local Area Bank during 2003-04. While this concern has been addressed by merging the bank with Bank of Baroda, the two existing smaller banks, *viz.*, The Subhadra Local Area Bank Ltd., which suffered net losses in the very first year of its operation and Krishna Bhima Samruddhi Local Area Bank Ltd., whose profits remained low and virtually stagnant during 2003-04, raise concerns about their sustainability.

11. Diversification in Banking Activities

Insurance business by banks

3.100 On a review of the matter of banks' entry into insurance business, it has been decided that banks need not obtain prior approval of the Reserve Bank for engaging in insurance agency

Table III.40: Financial Performance of Local Area Banks
(As at end-March)

(Amount in Rs. crore)

Particulars	2003	2004	Variation of Col.(3) over Col. (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**17.1**	**19.6**	**2.5**	14.5
i) Interest income	12.7	15.4	2.7	21.0
ii) Other income	4.4	4.2	-0.2	-4.3
B. Expenditure (i+ii+iii)	**16.9**	**19.4**	**2.6**	15.1
i) Interest expended	7.7	8.6	0.9	11.6
ii) Provisions and contingencies	2.5	2.8	0.4	14.3
iii) Operating expenses	6.7	8.1	1.3	19.4
of which :				
Wage Bill	2.4	2.7	0.3	12.4
C. Profit				
i) Operating Profit /Loss (-)	2.7	3.0	0.3	10.5
ii) Net Profit / Loss (-)	0.2	0.1	-0.1	-31.8
D. Spread (Net Interest Income)	**5.0**	**6.8**	**1.8**	35.5
E. Total Assets	**146.2**	**199.5**	**53.3**	36.4
F. Financial Ratios				
(as percentage of Total Assets)				
i) Operating Profit	1.8	1.5		
ii) Net Profit	0.2	0.1		
iii) Income	11.7	9.8		
iv) Interest income	8.7	7.7		
v) Other Income	3.0	2.1		
vi) Expenditure	11.6	9.7		
vii) Interest expended	5.3	4.3		
viii) Operating expenses	4.6	4.0		
ix) Wage Bill	1.7	1.4		
x) Provisions and Contingencies	1.7	1.4		
xi) Spread (Net Interest Income)	3.4	3.4		

Source: Based on Off-site returns.

business or referral arrangement without any risk participation subject to their complying with IRDA regulations and certain other conditions. However, banks intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in the insurance companies for providing infrastructure and services support would continue to obtain prior approval of the Reserve Bank.

Withdrawal of Stock-invest Scheme

3.101 On a review of Stock-invest Scheme, it has been observed that use of Stock-invests as a mode of payment for application for allotment of shares/debentures in the primary market has declined substantially and the allotment period under primary issues has considerably reduced over the period due to several measures taken by SEBI. Considering these, the Stock-invest Scheme was withdrawn effective November 5, 2003.

Diversification in banking activities

3.102 State Bank of India was given approval to set up an Information Technology subsidiary. The bank was also given approval for setting up a wholly owned subsidiary company - SBI Mutual Fund Trustee Company Pvt. Ltd. - and also for contributing Rs.10 lakh to the equity of the company. ICICI Bank Ltd. was given 'in principle' approval for setting up a wholly owned subsidiary company to undertake insurance broking business subject to certain conditions. It was also conveyed 'No objection' for offering non-discretionary investment advisory services to its clients subject to certain conditions.

Portfolio investment

3.103 Various banks were given permission for investing in equity of their joint ventures, Asset Reconstruction Companies, National Multi-Commodity Exchange of India Ltd., National Commodity and Derivative Exchange Ltd., etc.

Banks' Investments in Mutual Funds

3.104 As regards banks' investments in mutual funds, equity oriented mutual fund schemes are included in the 5 per cent ceiling for capital market exposure. Generally, investment policy of individual bank lays down the limit on investment in mutual funds with reference to total investments or total assets and, provides other risk management practices like investing only in rated mutual funds, investment horizon, *etc.,* Investments in mutual fund schemes form part of overall non-SLR portfolio of banks. Available data show that at a system level, banks' total exposure to mutual funds is minimal relative to total investment portfolio of the banks. As on June 30 2004, banks' investments in mutual fund schemes stood at Rs.13,539 crore accounting for 1.59 per cent of total investments.

12. Banks' Liquidation and Amalgamations

Liquidation of Banks

3.105 There were 77 banks under liquidation as on December 31, 2003. The matter regarding early completion of liquidation proceedings is being pursued with Official / Court Liquidators.

Amalgamation / Merger of Banks

3.106 The South Gujarat Local Area Bank Ltd, which was set up on October 10, 2000, was showing several adverse features. In view of the above, a recommendation was made by the Reserve Bank to Government of India to place the bank on a moratorium under Section 45 (1) of Banking Regulation Act, 1949. In exercise of the powers conferred by sub-section (2) of Section 45 of the Act (*ibid)*, the Government of India issued orders of moratorium in respect of the bank for the period from the close of business on November 13, 2003 up to and inclusive of August 12, 2004. In the meantime, Reserve Bank transmitted a draft scheme of Amalgamation of the bank with Bank of Baroda to the Government of India. Subsequently, Government of India sanctioned the Scheme of amalgamation of South Gujarat Local Area Bank Ltd. with Bank of Baroda in terms of sub-Section (7) of Section 45 of the Act (*ibid)*, vide its Notification dated June 24, 2004. The Scheme of Amalgamation has come into force with effect from June 25, 2004.

3.107 The financial position of Global Trust Bank Ltd. (GTB)[6], which was granted a license

[6] Also see Chapter VII.

in September 1994 as a part of the policy to set up new private sector banks, started weakening in 2002 due to problem assets arising from very high exposure to capital market. The GTB was instructed to adopt a prudential policy of containing growth of risk weighted assets, to make maximum recoveries of NPAs, to reduce its high capital market exposure to the prudential limit, provide against impairment of assets out of the operating profits and to take immediate steps to augment the capital. The bank reported some progress in making recoveries and also the attempts underway to have equity infusion. However, it was not able to finalise a programme of capital augmentation till June 2004 through domestic sources as advised. Later, the bank submitted in July 2004, a proposal received from an overseas equity investor fund for recapitalisation of the bank, which was not found acceptable by the Reserve Bank on prudential and other considerations. As the financial position of the bank was deteriorating progressively and the solvency of the bank was being seriously affected, the Reserve Bank had to place the bank under moratorium on July 24, 2004 to protect the interests of small depositors of the bank and in the interest of the banking system. A firm proposal for merger of the bank was received from Oriental Bank of Commerce (OBC). OBC's perception on the issue was examined by the Reserve Bank, keeping in view, its financial parameters, its retail network and synergies as well as strategic advantages. Taking into account the interests of OBC and depositors of GTB, as well as the bank's strengths and weaknesses, GTB was merged with OBC with effect from August 14, 2004 under the powers vested with the Reserve Bank under the Banking Regulations Act, 1949 through a scheme sanctioned by the Government of India.

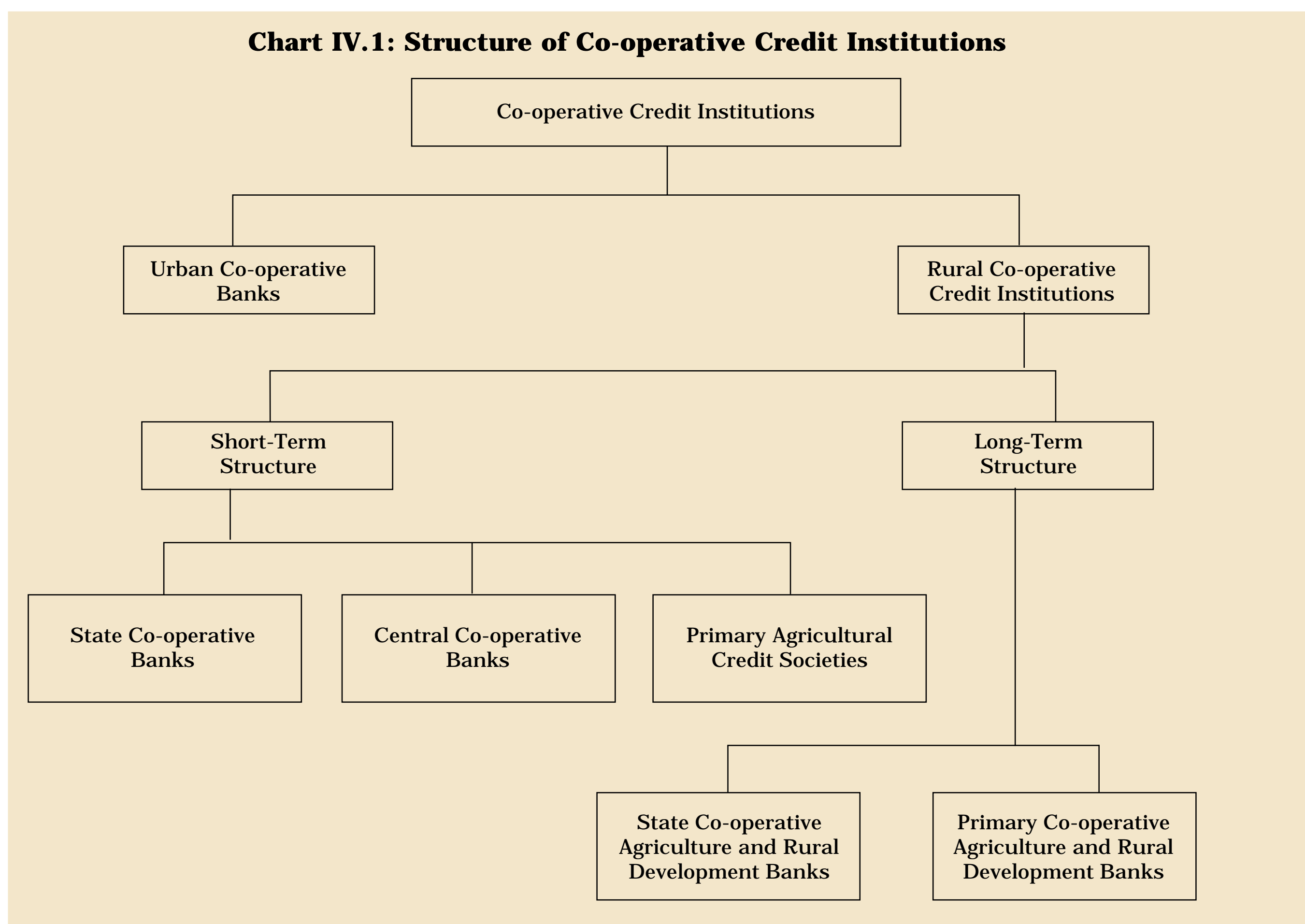
Chapter IV

Developments in Co-operative Banking

4.1 The co-operative banking system, with two broad segments of urban and rural co-operatives, forms an integral part of the Indian financial system. With a wide network and extensive coverage, these institutions have played an important developmental role in enlarging the ambit of institutional credit by way of inculcating banking habits among the poor and those in remote areas. In recent times, co-operative banks have tried to improve credit delivery through some financial innovations.

4.2 The structure of co-operative banking[1] that has evolved over more than fifty years highlights the dual role of members as lenders and borrowers. The co-operative credit structure in the country can be divided into two broad segments: the urban co-operative banks and the rural co-operative credit institutions (Chart IV.1). While the urban co-operative banking system has a single tier comprising the Primary Co-operative Banks (commonly known as urban co-operative banks – UCBs), the rural co-operative credit system is

Chart IV.1: Structure of Co-operative Credit Institutions



[1] Under the Banking Regulation Act, 1949 only Urban Co-operative Banks (UCBs), State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) are qualified to be called as banks in the co-operative sector. The discussion in this Chapter also covers issues relating to other credit co-operatives *viz.*, Primary Agricultural Credit Societies (PACS) and the long-term structure of rural credit co-operatives. Data on scheduled urban co-operative banks relate to 2003-04, while those for others pertain to 2002-03.

divided into long-term and short-term co-operative credit institutions which have a multi-tier structure. The short-term co-operative credit institutions have a three-tier structure comprising State Co-operative Banks (StCBs), Central Co-operative Banks (CCBs), and Primary Agricultural Credit Societies (PACSs) which are not banks but only societies. The long-term co-operative credit institutions have generally a two tier structure comprising the State Co-operative Agriculture and Rural Development Banks (SCARDBs) and the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). Long-term co-operative credit institutions have a unitary structure in some States, while in other States they have a mixed structure (unitary and two-tier). The States not having long-term co-operative credit entities are served by the State Co-operative Banks apart from being serviced by the branches of Regional Rural Banks (RRBs) and the rural/semi-urban branches of commercial banks. However, in the State of Andhra Pradesh, the co-operative structure is integrated combining both short-term and long-term structures.

4.3 The regulation and supervision of co-operative banks poses several challenges in view of the large number of such banks, as also the multiple controls by supervisors, including the Reserve Bank, the State Governments and NABARD. The co-operatives are at present under the control of State Governments in all matters relating to registration, membership, election, financial assistance, loaning powers, business operations, loan recovery and audit. Some aspects relating to banking activities are regulated and supervised by the Reserve Bank of India/NABARD. While urban co-operative banks come under the supervisory jurisdiction of the Reserve Bank, rural co-operatives are regulated by the NABARD. There is thus no clear demarcation of regulatory powers, which at times has resulted in cross directives from the controlling agencies, thereby undermining the working of co-operatives.

4.4 Despite several years of operational experience, financial performance of a number of co-operative banks is still below their potential (Appendix Table IV.1). The infusion of elements of good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, commitment to better customer service, and focus on newly-emerging business areas like micro finance, is expected to strengthen the co-operative banks The Reserve Bank is in favour of a consultative approach to developing a regulatory framework and a revival plan in order to ensure a vibrant future for the co-operative sector, and thus encouraging systemic stability of the overall financial sector.

2. Urban Co-operative Banks

4.5 Urban Co-operative Banks (UCBs) play an important role as financial intermediaries in urban and semi-urban areas catering to the needs of the non-agricultural sector, particularly small borrowers. In the context of the current economic scenario and problems faced by the co-operative banking sector, several initiatives were taken in consultation with the federations and associations of co-operative banks. These include: deferring the application of 90 day NPA norm for small loans and gold loans up to Rs.1 lakh by two years, giving additional time for meeting the prescribed provisioning requirements for assets classified in doubtful category and permission to transfer Government and other approved securities up to 25 per cent to held to maturity (HTM) category. The Reserve Bank has taken several initiatives to address the procedural and regulatory issues. The consultative process has already been put in place with respect to the UCBs in the form of a Standing Advisory Committee. As stated in the mid-term Review of annual policy 2004-05, a vision document for the future role of UCBs is being evolved to ensure depositors' interests and avoid contagion, while providing useful service to local communities. In regard to structural issues, the Reserve Bank would be encouraging growth of strong and viable entities within the sector through consolidation. Further, the Reserve Bank would continue to pursue with the State and Central Governments regarding the issues that arise in their jurisdiction.

4.6 The number of UCBs increased to 2,105 including 179 banks under liquidation at end-June 2004 compared with 1,106 in 1966 – the year in which the UCBs were brought under the purview of Banking Regulation Act 1949 (As Applicable to Co-operative Societies (AACS)). These include 80 salary earners banks, 112 Mahila banks and 25 SC/ST banks. State-wise

Table IV.1: Distribution of Urban Co-operative Banks : State-wise
(As at end-March 2004)

Sr. No.	Name of the State	No. of banks	No. of branches including Head Office cum-branch	Extension Counters
1	2	3	4	5
1	Andhra Pradesh	133	299	10
2	Assam/Manipur/Meghalaya/Sikkim/ Nagaland/Tripura/Arunachal Pradesh	19	26	0
3	Bihar/Jharkhand	5	5	1
4	Gujarat	328	1,091	3
5	Jammu & Kashmir	4	17	4
6	Karnataka	300	1,052	18
7	Kerala	63	344	0
8	Madhya Pradesh	81	108	4
9	Maharashtra & Goa	639	4,333	23
10	New Delhi	16	60	2
11	Orissa	13	50	4
12	Punjab/Haryana/Himachal Pradesh	17	48	1
13	Rajasthan	42	161	7
14	Tamil Nadu & Pondicherry	134	180	2
15	Uttar Pradesh & Uttaranchal	80	306	14
16	West Bengal	52	86	2
	TOTAL	**1,926**	**8,166**	**95**

distribution of branches shows that around 80 per cent of the UCBs are concentrated in five States *viz.*, Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu (Table IV.1). Only nine UCBs had a deposit size of more than Rs.1,000 crore, while most of the UCBs (about 60 per cent) had a deposit size of less than Rs.25 crore (Table IV.2)

4.7 Of the 8,166 branches of UCBs, 883 were unit banks *i.e.,* banks which function as Head Office-cum-Branches. The Centre-wise distribution shows that Ahmedabad, Bangalore, Hyderabad and Nagpur had the highest number of unit banks (Table IV.3).

Table IV.2: Distribution of Urban Co-operative Banks : Deposit size-wise
(As on March 31, 2004)

Deposit size	No. of banks
1	2
Less than Rs.10 crore	544
Rs.10-25 crore	401
Rs.25-50 crore	225
Rs.50-100 crore	177
Rs.100-250 crore	127
Rs.250-500 crore	38
Rs.500-1,000 crore	18
Above Rs.1,000 crore	9
Total	**1,539 #**

Data in respect of 387 banks not available.

Table IV.3: Distribution of Unit Banks: Centre-wise
(As at end-March 2004)

Sr. No.	Regional Office	Unit Banks
1	2	3
1	Ahmedabad	170
2	Bangalore	168
3	Bhopal	60
4	Bhubaneswar	4
5	Chandigarh	10
6	Chennai	60
7	Guwahati	15
8	Hyderabad	107
9	Jaipur	20
10	Jammu	1
11	Kolkata	32
12	Lucknow	53
13	Mumbai	51
14	Nagpur	110
15	New Delhi	0
16	Patna	4
17	Thiruvananthapuram	18
	Total	**883**

4.8 The minimum demand and time liabilities that a co-operative bank should have, to qualify for inclusion in Second Schedule has been enhanced to Rs.250 crore from Rs.100 crore through the Government of India Notification dated October 30, 2003. During 2003-04 (July-June), one UCB *viz.*, Pravara Sahakari Co-operative Bank Limited, Loni, Dist. Ahmednagar was included in the Second Schedule, while two UCBs from Gujarat *viz.*, Charotar Nagarik Sahakari Bank Limited, Anand and Visnagar Nagarik Sahakari Bank Limited, Visnagar, Gujarat were excluded consequent upon their liquidation. As a result, at end-March 2004, there were 55 scheduled UCBs spread over Andhra Pradesh, Goa, Gujarat, Karnataka, Maharashtra and Uttar Pradesh.

4.9 During 2003-04, scheduled UCBs witnessed several positive developments pertaining to balance sheet, profit and income, and asset quality (Table IV.4). The deposits and advances of scheduled UCBs continued to grow during 2003-04. The policy induced changes in the composition of assets of UCBs, especially, the growth of investments in Government securities, led to a significant improvement in both the asset quality and profitability of scheduled UCBs. The net profit of the scheduled UCBs showed a substantial growth of 40.4 per cent, while the net loss of UCBs declined by 69.1 per cent. Tier I capital of scheduled UCBs as a group increased considerably to Rs.297 crore in 2003-04 from a negative Rs.10 crore in 2002-03. It may be noted that the negative Tier I capital shown for the year ended March 2003 was on account of the combined effect of negative Tier I capital in respect of (i) Madhavpura Mercantile Co-operative Bank Ltd., (ii) Charminar Co-operative Urban Bank Ltd., (iii) Vasavi Co-operative Urban Bank Ltd., (iv) Bombay Mercantile Co-operative Bank Ltd., (v) Janata Sahakari Bank Ltd., (vi) Mapusa Urban Co-operative Bank Ltd. and (vii) Rupee Co-operative Bank Ltd. on the aggregate position. Tier II capital also recorded a modest increase of 21.7 per cent. Non-performing assets declined both in absolute as well as percentage terms. The decline in net NPAs was higher due to increased provisioning.

Regulation and Supervision of UCBs

4.10 UCBs are registered as societies under the Co-operative Societies Act of the respective State Governments, and UCBs that have a multi State presence are registered under the Multi State Co-operative Societies Act administered by the Government of India. While registration, administration, amalgamation and liquidation of UCBs are governed by the provisions of the

Table IV.4: Key Financial Indicators of Scheduled UCBs

(As at end-March)

(Amount in Rs. crore)

Items	2003	2004	Variation (in per cent)
1	2	3	4
Number of Scheduled UCBs	56	55	–
Paid up capital	608	707	16.2
Reserves (excluding loan loss provisions)	2,195	2,488	13.4
Tier I capital	-10	297	–
Tier II capital	434	529	21.7
Deposits	36,024	39,305	9.1
Investment in Government and other approved securities	10,806	13,954	29.1
Loans and Advances	22,941	23,962	4.5
Gross NPAs	6,927	6,892	-0.5
Net NPAs	3,827	3,509	-8.3
Net Profit	354	497	40.4
Net Loss	326	101	-69.1
Accumulated Losses	2,276	2,320	1.9

Note: Based on UCB returns. Reserves include statutory reserves and other reserves and provisions not in the nature of outside liabilites.

State Co-operative Societies Acts, banking related functions are governed by the provisions of Banking Regulation Act, 1949 (AACS).

4.11 An Ordinance to amend the Banking Regulation Act, 1949 and DICGC Act, 1961 was promulgated on September 24, 2004 to enable the Reserve Bank to issue licence to Multi State Co-operative Societies to carry on banking business. This was in response to developments following the Supreme Court judgement dated October 29, 2003 that the Reserve Bank could not issue banking licences to a society registered under the Multi State Co-operative Societies Act (MSCS Act), 2002. The Supreme Court ruling raised doubts about the legality of the licences issued to the existing multi State UCBs by the Reserve Bank under the Banking Regulation Act, 1949. This amendment would enable the Reserve Bank to issue licences to co-operative societies registered under the Multi State Co-operative Societies Act, 2002. The multi State co-operative banks have also become 'eligible banks' under Section 2(gg) of the DICGC Act so that their deposits can be insured by the Deposit Insurance Credit Guarantee Corporation in the interest of the small depositors.

4.12 The Reserve Bank since 2000-01 has sought to align the regulatory regime for the UCBs with that of commercial banks by introducing several measures relating to prudential norms, capital adequacy, asset classification, provisioning norms, individual and group exposure norms, ALM framework, *etc.*

4.13 The Reserve Bank constituted a Screening Committee of eminent external experts in June 2001 to examine the various factors influencing the viability of proposed banks including the background and credit-worthiness of promoters of proposed new UCBs, and the environment/ business projections submitted by the promoters. During 2003-04, 118 proposals for setting up of new UCBs were placed before the Committee for consideration. Three UCBs, which were granted 'in principle' approval during 2002-03, were issued banking licences during 2003-04. However, the Committee recommended that for all newly proposed UCBs, it should be made mandatory to come into being through a process of graduation on the strength of demonstrated and verifiable track record. Subsequently, it has been decided to consider issuance of fresh licences only after a comprehensive policy on UCBs is put in place.

4.14 During 2003-04, 104 licences were issued for opening new branches to 86 UCBs. According to the detailed guidelines issued by the Reserve Bank to UCBs on opening of Extension Counters (ECs), only those UCBs which are not classified as Grade III/IV can open ECs within the premises of educational institutions, big offices, factories and hospitals, of which the UCB is the principal banker provided the nearest branch of the bank is beyond 10 kms from the concerned institution. The eligibility for opening ECs for UCBs in Grade I/II requires that the own funds should not be less than the minimum required for opening of new branch at the place where the proposed EC is to be opened, and also subject to compliance with CRR/SLR, priority sector lending targets, other provisions of Banking Regulation Act, 1949 (AACS) and other instructions issued by the Reserve Bank. Further, only those UCBs that show net profits for the last three years and have net NPAs below 7 per cent can offer safe deposit locker facility subject to provisions of adequate security arrangements. While scheduled UCBs, which satisfy the eligibility criteria have been permitted to open ECs and obtain *post facto* approval from the Reserve Bank, non-scheduled UCBs require prior permission of the Reserve Bank for opening an EC.

4.15 The Board for Financial Supervision (BFS) of the Reserve Bank has been playing a critical role in enhancing the quality of regulation of urban co-operative banks on the basis of its deliberations and guidance while considering the inspection summaries of scheduled UCBs placed before the Board as well as other matters referred to it (Box IV.1).

Know Your Customer Guidelines

4.16 UCBs have also been subjected to 'Know Your Customer' (KYC) norms. These guidelines relate to identification of depositors, and require the banks to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities, and scrutiny/monitoring of large value cash transactions. UCBs were advised that the information collected from customers as part of KYC guidelines was confidential and not to be used for cross selling of services of various products by the banks. UCBs desirous of collecting information about customers for

Box IV.1: The Role of BFS in the Regulation of Co-operative Banks

The Board for Financial Supervision (BFS) suggested in March 2004 that till such time that appropriate regulatory/legislative framework be put in place, no fresh licences for setting up of UCBs should be issued. The suggestion was accepted and incorporated in the annual policy Statement 2004-05 announced on May 18, 2004.

Apart from this, the BFS has proposed a graded response to the issue of granting banking licences to existing unlicensed banks based on their eligibility criteria. Further BFS directed that only financially strong scheduled UCBs should be allowed to keep the deposits of non-scheduled UCBs to avoid contagion effect of failure of one UCB on other UCBs. The need for framing a 'Prompt Corrective Action' mechanism based on certain financial trigger points was also underscored by the Board, and as directed by the Board, a paper on Escalatory Framework of Supervisory Action is under preparation. In case of several scheduled UCBs whose financials were weak, the Board directed that the concerned State Governments be advised to infuse capital in the banks to the extent required to meet the prescribed CRAR level. If capital funds are not infused within the prescribed time, the banks which had placed deposits with these banks (having solvency problem) would require to treat these deposits as NPAs.

Supervisory ratings based on CAMELS ratings, as applicable to commercial banks was introduced, initially for the scheduled UCBs with effect from March 2003, on an experimental basis. Simplified rating model for large non-scheduled urban co-operative banks based on CAEL parameters has been introduced from March 2004.

purposes other than KYC requirements could do so separately by obtaining customers' approval for making use of such information.

Priority Sector Lending

4.17 According to the targets prescribed, the UCBs are required to extend 60 per cent of total loans and advances for lending to the priority sector and of the total priority sector advances, at least 25 per cent (or 15 per cent of the total loans and advances) should be extended to weaker sections. In order to ensure that credit is available to all segments of the Small-Scale Industry (SSI) sector, (classified on the basis of investment in plant and machinery), certain sub-targets have also been specified (Table IV.5).

4.18 As at end-March 2003[2], UCBs had extended Rs 42,633 crore to the priority sector constituting 62.1 per cent of total loans and advances (Table IV.6). Segment-wise break up shows that the highest percentage of priority sector advances was extended to cottage and small-scale industries followed by housing, and small business enterprises.

Refinance Facilities

4.19 During 2003-04 (April-March), four UCBs were sanctioned refinance to the tune of Rs.466.89 lakh under Section 17(2)(bb) read with Section 17(4)(C) of the Reserve Bank of India Act, 1934.

Entering into Insurance Business

4.20 Scheduled UCBs having a minimum net worth of Rs.100 crore and complying with exposure norms and connected lending have been allowed to act as corporate agents to undertake insurance business without risk participation after obtaining the approval of the Reserve Bank.

Standing Advisory Committee on Urban Co-operative Banks

4.21 The Standing Advisory Committee on UCBs constituted by the Reserve Bank is a high

Table IV.5: Sub-targets for Priority Sector Lending by UCBs

Sr. No.	Category	Investment in plant and machinery	Per cent to total SSI advances
1	2	3	4
1.	Cottage industries, khadi & village industries, artisans and tiny industries	Upto Rs. 5 lakh	40
2.	Cottage industries, khadi & village industries, artisans and tiny industries	Between Rs. 5 lakh and Rs. 25 lakh	20
3.	Other SSI units	Between Rs. 25 lakh and Rs. 100 lakh	40

[2] The data on priority sector advances of UCBs are available upto end-March 2003.

Table IV.6: Priority Sector and Weaker Section Advances: Segment-wise
(As on March 31, 2003)

(Amount in Rs. crore)

Segments	Priority Sector Advances	Weaker Section Advances
1	2	3
1. Agriculture and Allied Activities	2,143 (5.0)	668 (6.3)
2. Cottage and SSI	9,252 (21.7)	1,373 (12.8)
3. Road and Water Transport Operators	2,876 (6.8)	614 (5.7)
4. Private Retail Trade (Essential Commodities)	3,444 (8.1)	866 (8.1)
5. Retail Trade (others)	3,702 (8.7)	1,108 (10.4)
6. Small Business Enterprises	6,043 (14.2)	1,441 (13.5)
7. Professional & Self Employed	5,134 (12.0)	1,605 (15.0)
8. Educational Loans	1,228 (2.9)	403 (3.8)
9. Housing Loans	6,835 (16.0)	2,287 (21.4)
10. Consumption Loans	1,975 (4.6)	326 (3.1)
Total	**42,633** (100.0)	**10,690** (100.0)
Percentage to total advances	**62.1**	**15.6**

Note: Figures in brackets are percentages to respective advances.

powered body chaired by a Deputy Governor and comprising members from Central and State Governments, IBA, DICGC, NABARD and federations of UCBs to give expert advice on policy matters pertaining to UCBs. The Committee had recommended in December 2002, that there should be representation of non-member depositors on the Board of UCBs so as to protect the interests of such depositors, as the proportion of non-member deposits to total deposits is very high in the UCBs. Accordingly, State Governments have been requested to consider amending their respective State Co-operative Societies Act so as to give representation to the non-member depositors on the Board of UCBs. With a view to reinforcing the consultative process in a more constructive manner, to address the structural/ regulatory and supervisory issues relating to UCBs and facilitating the process of formulating future approaches for this sector, it has been decided that the Committee would meet on a quarterly basis in future.

Ban on Loans to Directors and Interested Companies

4.22 The overall ceiling on loans to directors, their relatives, and concerns in which they are interested was brought down to five per cent of bank's demand and time liabilities in December 2002. A few instances, however, of an undue concentration of advances in the hands of a few borrowers, including directors and their relatives, were brought to the notice of the Reserve Bank. The Joint Parliamentary Committee (JPC), which probed the 'stock market scam and matters relating thereto' recommended that a complete ban be imposed on granting of loans and advances to the directors and their relatives or the concerns in which they are interested. Accordingly, a complete ban on sanction of loans and advances by UCBs to their directors and their relatives and the firms/ concerns in which they are interested has been imposed effective October 1, 2003.

Investments in Government Securities

4.23 UCBs have been advised to step up their SLR investments in Government securities and other approved securities. In order to mitigate the risk arising out of dealing in such securities, it has been prescribed that UCBs should build up Investment Fluctuation Reserve (IFR), out of realised gains on sale of investments and subject to available net profit, of a minimum of five per cent of the investment portfolio in available for sale and held to maturity categories within a period of five years.

Non-SLR Investments by UCBs

4.24 Draft guidelines on UCBs' investments in non-SLR debt securities was placed on the website for comments/suggestions from UCBs. Based on the feedback received, final guidelines were issued in April 2004. The guidelines cover investments in bonds issued by public sector undertakings, unsecured redeemable bonds floated by nationalised banks, bonds/shares issued by AIFIs and units of Unit Trust of India (UTI) and apply to both primary market and secondary market. As per the guidelines, UCBs are not permitted to invest in non-SLR debt securities of original maturity of less than one year. The Board of Directors should fix prudential limits in each category of investments and the aggregate investments in non-SLR debt securities including units of UTI should not exceed 10 per cent of the deposits as on March 31 of the previous year. UCBs' investments in units of UTI should not exceed five per cent of the incremental deposits of the previous year.

Bill Discounting

4.25 UCBs have been issued detailed guidelines/safeguards on purchasing/ negotiating/discounting/rediscounting of genuine commercial bills. Banks have been advised to clearly lay down a bills discounting policy approved by their Board of Directors, which should be consistent with their policy of sanctioning of working capital limits.

Concurrent Audit

4.26 All the scheduled UCBs and other UCBs that have deposits above Rs.50 crore were advised in December 1996 to introduce systems of concurrent audit. As recommended by the JPC on 'Stock Market Scam and Matters Relating Thereto', concurrent audit has been made mandatory for all the UCBs. UCBs have been advised to report serious irregularities, if any, pointed out by the Concurrent Auditors to the Reserve Bank together with details of the action taken to rectify the same.

90 day NPA Norm

4.27 In line with the international best practices and to ensure greater transparency, the period for recognition of loan impairment has been reduced from 180 days to 90 days with effect from March 31, 2004 except for gold loans and small loans up to Rs.1 lakh, which continue to be governed by 180 day loan impairment norm.

Reduction of NPAs

4.28 In view of representations received from UCBs/Federations, the time period for receiving and processing of applications for settlement of NPAs up to Rs.10 crore under one-time settlement has been extended up to July 2004 and October 2004, respectively. Registrar of Co-operative Societies of all the States have been advised to issue suitable instructions enabling UCBs to take recourse to Securitisation Act for recovery of NPAs.

4.29 In respect of NPAs included in 'doubtful for more than three years' category on or after April 1, 2004, a higher provisioning requirement of 100 per cent in place of 50 per cent earlier has been prescribed with effect from March 1, 2005. On receipt of requests from Federation/ Association of UCBs for granting more time to restructure their accounts and meet stricter prudential norms, it has been decided to grant more time to UCBs for: (i) adopting a graded higher provisioning according to the age of NPAs for the NPAs outstanding as on March 31, 2006, and (ii) a provisioning requirement of 100 per cent for NPAs classified as 'doubtful for more than three years' category.

Identification of NPAs and Provision thereagainst

4.30 It was observed that UCBs wait till the end of financial year to make provisions against NPAs which distorts the quantum of net NPAs as on any date other than the date of annual closure of accounts. UCBs have, therefore, been advised that apart from identifying NPAs on an ongoing basis, they should make provisions for the same at the end of each quarter.

Off-site Surveillance (OSS) System for UCBs

4.31 A revised set of off-site surveillance returns were prescribed for scheduled UCBs effective from the quarter-ended March 2004 to obtain relevant information on areas of supervisory concern, strengthen MIS systems within the scheduled UCBs and to sensitise their managements about the prudential concerns of the supervisory authority and thereby help in self regulation. The content and structure of OSS returns have been modified to reduce the volume of data submission, while enlarging the breadth and depth of information being obtained from UCBs. The UCBs now have to submit eight returns including one annual return from the quarter ended April 2004.

4.32 The scope of OSS has been extended to cover non-scheduled UCBs with a deposit base of Rs.100 crore and above from the quarter-ended June 2004. The remaining non-scheduled UCBs would be brought under OSS in a phased manner. A revised application software developed by the Reserve Bank has been installed in all the UCBs covered under OSS enabling them to submit all the regulatory and supervisory returns in electronic format. The accuracy of data submission by UCBs is ensured through validation checks built in the application package. The application package also enables Regional Offices to capture the data received from UCBs electronically and the data gets replicated in the server installed in Central Office over the INFINET.

Prompt Corrective Action

4.33 As a framework for initiating prompt corrective action, a system of gradation of UCBs based on critical financial parameters *viz.*, capital adequacy, net non-performing advances and profitability has been introduced. Gradation is communicated to problem banks to enable them to formulate action plans for corrective action (Box IV.2). Only UCBs having strong financials are allowed to declare dividend.

Banks under Directions

4.34 Reserve Bank issues directions under Section 35A in respect of banks, which are in serious financial difficulty. The directions may be issued either as a consequence of findings of the inspection report or due to sudden developments like a run on the bank, *etc.* The directions may include restriction on deposit taking, withdrawal of deposits with or without a ceiling, further expansion of loans, restriction on incurring expenditure other than minimum establishment expenses required for day to day running of the bank, *etc.* The banks placed under directions are monitored and the restrictions may be gradually removed depending upon the ability of banks to rectify the inadequacies (Appendix Table IV.2).

Reconstruction Schemes

4.35 The reconstruction schemes approved by the Reserve Bank in the recent past, in respect of a few UCBs, which landed into financial difficulty, have not been progressing as intended. Accordingly, it has been announced in the annual policy Statement for the year 2004-05 that only such reconstruction schemes would be considered, which envisage recapitalisation by the stakeholders *viz.*, the shareholders/co-operative institutions/ Government to the extent of achieving the prescribed capital adequacy norms, without infusion of liquidity through settlement of insurance claims by DICGC, and schemes that lay a clear road map for reducing the NPA level to a tolerable limit within a stipulated time-frame.

Administration of UCBs under liquidation

4.36 Keeping a constant vigil on the UCBs, the Reserve Bank took measures as cancellation of licences and rejection of licence applications to eliminate financially unviable entities from the urban banking sector. Also, the Registrars of Co-operative Societies (RCS) were asked to initiate liquidation proceedings in a few banks (Appendix Table IV.3). Further, the liquidators appointed by the RCS in a few banks were found to be directly linked with other UCBs in the area. It was also noticed by DICGC that the claim list submitted in respect of UCBs under liquidation contained several inadequacies. In order to overcome such shortcomings, RCS of all the States were requested to frame criteria for appointment of liquidators with suitable qualifications. Further, certification by a Chartered Accountant of the deposit claim list forwarded by UCBs under liquidation/amalgamation/merger/restructure has been introduced.

Other Supervisory Initiatives

4.37 In order to reduce UCBs' exposure to the capital market, the margin requirement on

Box IV.2: Grading of UCBs Based on Critical Financial Parameters

For regulatory purposes, a system of grading has been adopted under which UCBs are being classified into four categories (Grade I/II/III/IV). The criteria for classification is as follows.

Sound banks having no supervisory concerns are classified as Grade I. Banks meeting any one of the following parameters are classified under Grade II (problem banks): (i) CRAR of one per cent below the prescribed norms, or (ii) net NPAs of 10 per cent or more, but below 15 per cent, or (iii) incurred a net loss for the previous financial year, or (iv) defaults in the maintenance of CRR/SLR in the previous financial year and/ or there is more or less a continuous default in maintenance of CRR/SLR during the current year.

Banks meeting any two of the following conditions are classified under Grade III: (i) CRAR of less than below 75 per cent of the minimum prescribed but 50 per cent or above the level required; (ii) net NPA of 10 per cent or more, but less than 15 per cent; (iii) incurred net losses for two years out of the last three years. Banks meeting the following conditions are classified under Grade IV: (i) CRAR of less than 50 per cent of the prescribed limit and (ii) net NPA at 15 per cent or more or incurred net losses for the last three consecutive years.

As at end-June 2004, the financial position of 732 UCBs were not considered satisfactory and were categorised under Grade III/IV (Table). While, 307 banks have been classified as Grade II (where slight deterioration in the financial condition is noticed), 529 banks are in Grade III (where the financial condition has deteriorated requiring supervisory action *viz.*, ban on declaration of dividend, ban on opening of branches, *etc.*), and 203 banks in Grade IV (where the financial condition has worsened to such an extent requiring drastic supervisory action *viz.*, imposition of directives, amalgamation, reconstruction, liquidation, *etc.*).

Table: Centre-wise Gradation of UCBs

Centres	Number of banks				Total
	Grade I	Grade II	Grade III	Grade IV	
1	2	3	4	5	**6**
Ahmedabad	132	53	93	50	**328**
Bangalore	105	58	115	20	**298**
Bhopal	24	18	25	15	**82**
Bhubaneswar	1	5	4	2	**12**
Chandigarh	11	0	2	4	**17**
Chennai	31	22	66	14	**133**
Guwahati	6	1	6	6	**19**
Hyderabad	44	21	56	13	**134**
Jaipur*	27	5	6	2	**40**
Jammu	2	2	0	0	**4**
Kolkata	30	9	6	6	**51**
Lucknow	57	3	12	8	**80**
Mumbai	303	61	68	31	**463**
Nagpur	75	41	38	22	**176**
New Delhi	12	0	3	1	**16**
Patna	5	0	0	0	**5**
Thiruvananthapuram	15	8	29	9	**61**
Total	**880**	**307**	**529**	**203**	**1,919**

* One UCB non-functional.
Note : Gradation in respect of 6 UCBs not determined.

advances against shares/debentures has been increased to 50 per cent with effect from January 5, 2004.

4.38 UCBs have been advised not to open Constituents' Subsidiary General Ledger (CSGL) Accounts of other UCBs, and to settle all their Government securities transactions compulsorily through Clearing Corporation of India Limited (CCIL). UCBs are advised to open demat account with a depository participant for holding public sector undertakings' (PSU) securities.

4.39 It has been the endeavour of the Reserve Bank to develop the urban co-operative banking sector on sound lines in order to provide security to depositors as well as bridge the financing gaps for SSIs, SMEs and small borrowers. Though the supervisory standards of these banks have been streamlined in recent years to bring them on par with the commercial banks, it is sometimes argued that these standards which are designed primarily for the commercial banks may not be suitable for the co-operative credit structure. International comparison of the existing regulatory framework for co-operative banking sector in a few major countries also indicates that in order to ensure overall smooth functioning of the financial system, it may be necessary to inculcate sound financial discipline in these institutions (Box IV.3).

Box IV.3: Regulation of Co-operative Banks: International Comparison

The origin of co-operative principles can be traced to 1800 - the early stage of Europe's industrial revolution. At first, the philosophy of equality, equity and self-help was confined mainly to the area of retail trade. The ideas of self-help, self-responsibility and self-administration deployed by a few men of vision like Raiffeisen and Schulze in Germany, spread very rapidly through Europe and rest of the world with the result that there are now more than 60,000 credit co-operatives operating in more than 100 countries.

At present, a majority of co-operative banks in Europe have acquired universal bank status, providing a full range of financial services to all types of customers (members and clients alike) as opposed to focusing on serving members with a specific product range. In some member states of the European Community, co-operative banks have been eminently successful *viz.*, the Credit Agricole in France, Raiffeisen and People's Banks in Germany, Rabobank Nederland in the Netherlands and Austrian Raiffeisen banks. Co-operative banks with the universal bank status are subject to banking supervisory legislation in common with their commercial and savings bank competitors. The universal bank status accorded to co-operative banks entails that they are the only players in the banking market to have expanded their global market share in most European countries during the past two decades. The European Association of Co-operative Banks, created in 1970, functions as spokesperson for co-operative banks to the European Community (EC) authorities and comprises of member organisations from all the EC member states, Austria, the Czech Republic, Finland, Hungary, Sweden and Poland.

In the United States, co-operative banks, known as credit unions (CUs), with certain unique characteristics have evolved as increasingly competitive and customer-oriented providers of financial services to more than 68 million people. Like banking companies, CUs in the United Sates have a dual charter system - Federal or State. State-chartered credit unions are examined and supervised by state agencies, while federally chartered credit unions are examined and supervised by the National Credit Union Administration (NCUA), an agency of the federal government. The NCUA also examines state-chartered, federally insured institutions. In addition to chartering, supervising, examining, and insuring federal credit unions, the NCUA insures the accounts of state-chartered credit unions that voluntarily exercise the option to be federally insured, or are required by state law to be so. The credit union industry in the US has many tiers: credit unions, local chapters and State leagues of CUs, corporate credit unions, a national credit union 'bankers' bank', and national trade associations. Regulatory structures consist of a federal agency, a liquidity branch of that agency, and State regulators. A corporate credit union (CCU) is a credit union, providing investment, settlement, and liquidity services for its members. A CCU also serves as a bankers' bank for credit unions, accepting deposits and lending to them when loan demand is high. CCUs also provide their members with cheque clearing, automated clearing house processing, and other services, and function as a credit union clearing house. Charters generally establish rules for application requirements, purpose, membership, branching, and regulatory supervision. State-chartered CUs are examined and supervised by State agencies, while federally chartered CUs are examined and supervised by the NCUA. NCUA aids in CUs' insurance, liquidity and liquidation through its two operations National Credit Union Share Insurance Fund (NCUSIF) and the Central Liquidity Facility (CLF). The NCUA also examines State-chartered federally insured institutions.

The strength of the US credit union system, both State and Federal, depends on preserving the basic principle of dual chartering. Dual chartering system means that credits unions should have a meaningful choice between two strong and distinct charters: State or Federal. Credit union's ability to choose, to pass judgment on a charter by voting creates a healthy competition between charters creating an incentive for regulators (both State and Federal) to maximise efficiency in their examinations, reduce costs, and take innovative approaches to regulation while maintaining high standards for safety and soundness. These examination efficiencies and innovative approaches in turn, once proven successful, spread throughout the system. The concept of dual chartering also provides an invaluable safety valve for the credit union system.

Credit co-operatives of one form or another existed in some Australian states as far back as 1905. The first State Co-operative Act in Australia was passed in 1923 and was amended by a more flexible Small Loans Act in 1941. In 1946, the first of modern credit unions was registered in Sydney. During the formative period, most credit unions were parish or community oriented organisations. However, the co-operative concept of promoting thrift was quickly embraced by industry and employer groups, and the present movement is a mix of industry based credit unions, affinity based credit unions and community credit unions.

In Australia, it was decided to implement the recommendations of the Financial System Inquiry, 'The Wallis Report' which suggested a single prudential regulator for all deposit taking institutions including CUs, building societies and banks. The rationale was that all deposit taking institutions should provide the same level of safety to consumers. In July 1999, all Australian CUs moved from the State based Financial Institutions (FI) Scheme to the new national system of prudential and corporate regulation under the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). Consequently, CUs are supervised on the same basis as all other financial institutions, including banks. Under the new corporate regulatory system, credit unions became companies limited by shares under the corporation law. Every member of a credit union became a shareholder with one vote. Credit unions are thus similar to companies limited by shares and bound by the principles of mutuality, developed by the Credit Union Movement. Since July 1999 all CUs became public companies governed by the Corporations Act and regulated by the ASIC. The CUs operate within the regulatory framework and prudential supervision of the APRA. This structure provides high prudential standards for risk management, capital adequacy and disclosure.

References:

Ravoet, G. (1994), 'The Challenge Facing European Co-operative Banks', The World of Co-operative Enterprise, Plunkett Foundation.

Thomas, T. (1994), 'The Future Development of Co-operative Banks', The World of Co-operative Enterprise, Plunkett Foundation.

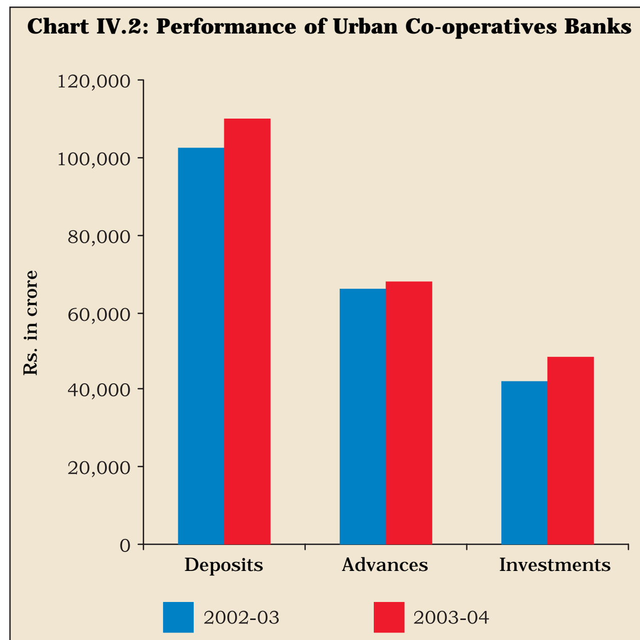
Official websites of National Credit Union Administration, USA, Australian Prudential Regulatory Authority, and Australian Institute of Credit Union Directors.

Resource Mobilisation and Deployment

4.40 The deposits and advances of the UCBs in 2003-04 increased by 8 per cent and 3 per cent, respectively, over 2002-03 and stood at Rs.1,10,256 crore and Rs.67,930 crore, respectively, as at end-March 2004. The paid up capital at Rs.3,267 crore as on March 31, 2004 showed an increase of 11 per cent over that in end-March 2003 (Chart IV.2).

4.41 When the UCBs were brought under the purview of the Banking Regulation Act, 1949 (AACS) in 1966, there were 1,106 UCBs having own funds to the tune of Rs.58 crore, and their deposits and advances amounted to Rs.153 crore and Rs.167 crore, respectively. As on March 31, 2004, there were 1,924 banks whose own funds amounted to Rs.12,348 crore. Their deposits and advances registered a substantial rise and stood at Rs.1,10,256 crore and Rs.67,930 crore, respectively. The region-wise financial position of UCBs displayed wide regional diversity (Table IV.7).

Chart IV.2: Performance of Urban Co-operatives Banks



Investments

4.42 The SLR investments of all the UCBs increased to Rs.45,299 crore from Rs.38,739 crore as at end-March 2004 registering an increase of 17 per cent over end-March 2003 partly due to a switch in deployment of funds from non-SLR investments. The non-SLR investments in bonds of public sector institutions/All India Financial Institutions (AIFIs), shares of AIFIs and units of UTI declined to Rs.2,921 crore as at end-March 2004 from Rs.3,349 crore as at end-March 2003.

Table No. IV.7: Financial Indicators of Urban Co-operative Banks : Region-wise

(As at end-March 2004)

(Amount in Rs. crore)

Region	Share capital	Free Reserves	Deposits	Advances	Investments	CD Ratio
1	2	3	4	5	6	7
Ahmedabad	440	1,584	16,279	9,703	8,305	59.6
Bangalore	355	1,018	8,353	5,372	3,277	64.3
Bhopal	47	77	1,159	613	532	52.9
Bhubaneswar	22	38	606	345	313	56.8
Chandigarh	24	40	568	325	246	57.2
Chennai	146	162	3,132	2,121	1,342	67.7
Guwahati	8	8	276	135	121	48.8
Hyderabad	111	145	2,113	1,379	924	65.2
Jaipur	59	84	1,052	612	442	58.1
Jammu	4	4	184	112	52	60.5
Kolkata	96	107	1,750	929	969	53.1
Lucknow	138	262	2,310	1,442	781	62.4
Mumbai	1,468	4,957	60,725	37,424	25,842	61.6
Nagpur	239	399	8,628	5,628	3,615	65.2
New Delhi	36	83	850	308	415	36.3
Patna	3	7	30	17	15	56.4
Thiruvananthapuram	71	105	2,240	1,467	1,029	65.5
Total	**3,267**	**9,082**	**1,10,256**	**67,930**	**48,220**	**61.6**

Non-Performing Assets

4.43 The gross non-performing advances declined by 5 per cent to Rs.11,922 crore at end-March 2004 from Rs.12,509 crore as at end-March 2003. Net NPAs declined by 12 per cent to Rs.5,683 crore from Rs.6,428 crore during the same period (Table IV.8). In percentage terms, gross NPAs declined to 17.6 per cent from 19.0 per cent and net NPAs declined to 11.1 per cent from 13.0 per cent for the period under consideration. In absolute terms, however, the Gross and Net Non-Performing Investments have increased by 13 per cent and 14 per cent, respectively, *i.e.,* to Rs.365 crore from Rs.324 crore and to Rs.276 crore from Rs.242 crore, respectively, for the same period.

Table IV.8: Gross Non-Performing Assets of Urban Co-operative Banks

(Amount in Rs. crore)

Year (as at end-March)	No. of Reporting UCBs	Gross NPAs (Rs.crore)	Gross NPA as a percentage of total Advances
1	2	3	4
2000	1,748	4,535	12.2
2001	1,942	9,245	16.1
2002	1,937	13,706	21.9
2003	1,941	12,509	19.0
2004	1,926	11,922	17.6

Financial Performance of Scheduled UCBs

4.44 The size of scheduled UCBs declined during 2003-04 reflecting contraction of the UCB sector and a moderate decline in their numbers. The composition of liabilities remained broadly the same with modest decline in the share of deposits (Table IV.9). On the asset side, the share of investments increased while the share of loans and advances declined. This was in line with the trend witnessed in 2002-03 and in consonance with developments in the other segments of the financial sector.

4.45 The scheduled UCBs registered an increase in net profit due to a sharper decline in expenditure *vis-à-vis* income (Table IV.10). Interest income continued to decline as a proportion of total income. This was reflective of the changing asset composition and was in tune with the trends witnessed in the banking sector. The share of interest expenditure as well as operating expenditure increased while the provisions and contingencies nearly halved in absolute terms. Bank-wise details on the major indicators of financial performance of the scheduled UCBs are given in Appendix Table IV.4 and IV.5.

Table IV.9: Liabilities and Assets of Scheduled Urban Co-operative Banks *

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Item	2003	2004
1	2	3	4
1.	Capital	627 (1.2)	698 (1.2)
2.	Reserves	7,451 (14.3)	7,656 (13.6)
3.	Deposits	36,683 (70.2)	39,274 (69.8)
4.	Borrowings	571 (1.1)	642 (1.1)
5.	Other Liabilities	6,949 (13.3)	7,986 (14.2)
	Total Liabilities	**52,281 (100.0)**	**56,256 (100.0)**
1.	Cash	2,834 (5.4)	3,060 (5.4)
2.	Balances with Banks	2,186 (4.2)	2,207 (3.9)
3.	Money at call and short notice	306 (0.6)	424 (0.8)
4.	Investments	13,819 (26.4)	16,796 (29.9)
5.	Loans and Advances	23,854 (45.6)	24,044 (42.7)
6.	Other Assets	9,281 (17.8)	9,727 (17.3)
	Total Assets	**52,281 (100.0)**	**56,256 (100.0)**

* Data comprises of 50 audited and 5 unaudited banks for 2003-04 and 57 banks for 2002-03.

Notes : 1. Figures in brackets are percentages to total liabilities/assets

2. Components may not add-up to the aggregate figures due to rounding-off.

Source : Balance sheet of respective banks.

Table IV.10: Financial Performance of Scheduled Urban Co-operative Banks
(As at end-March)

(Amount in Rs. crore)

Item	2003	2004	Variation of (3) over (2)	
			Absolute	Percen-tage
1	2	3	4	5
A. Income (i+ii)	**5,291 (100.0)**	**4,995 (100.0)**	**-295**	**-5.6**
i) Interest Income	4,418 (83.5)	4,100 (82.1)	-318	-7.2
ii) Other Income	872 (16.5)	896 (17.9)	23	2.6
B. Expenditure (i+ii+iii)	**5,846 (100.0)**	**4,646 (100.0)**	**-1,200**	**-20.5**
i) Interest Expended	3,380 (57.8)	2,902 (62.6)	-474	-14.0
ii) Provisions and Contingencies	1,349 (23.1)	653 (14.1)	-695	-51.6
iii) Operating Expenses	1,118 (19.1)	1,086 (23.4)	-31	-2.8
of which : Wage Bill	563 (9.6)	594 (12.8)	29	5.2
C. Profit				
i) Operating Profit	**793**	**1,003**	**210**	**26.4**
ii) Net Profit	**-555**	**350**	**905**	**-163.0**
D. Total Assets	**52,281**	**56,256**	**3,976**	**7.6**

* Data comprises of 50 audited and 5 unaudited banks for 2003-04 and 57 banks for 2002-03.

Notes : 1. Figures in brackets are percentage shares in respective totals.
2. Components may not add-up to the aggregate figures due to rounding off.

Source : Balance sheet of respective banks.

3. Rural Co-operatives

4.46 The short-term rural co-operative credit system in India comprising State co-operative banks (StCBs) at the apex (State) level, central co-operative banks (CCBs) at the intermediate (district) level and primary agricultural co-operative Societies (PACS) at the grassroot (village) level, is designed essentially to provide for short-term credit needs for production purposes. StCBs and CCBs have over the years grown substantially in terms of coverage and outreach, and at end-March 2003, their number stood at 30 and 367, respectively. Most of the StCBs and CCBs were established prior to March 1, 1966, the date from which the Banking Regulation Act, 1949 was made applicable to the co-operative banks. Of these, only 13 StCBs and 73 CCBs have been granted licence by the Reserve Bank since 1966. The financial position of most of the StCBs and CCBs does not show any perceptible improvement. The accumulated losses of CCBs have increased to Rs.4,442 crore in 2002-03 from Rs.3,217 crore in 2000-01. The percentage of recovery to demand for StCBs and CCBs declined to 79 per cent and 61 per cent, respectively, in 2002-03 from 84 per cent and 67 per cent, respectively, in 2000-01. As on March 31, 2003, the gross NPAs to gross credit of StCBs and CCBs increased to 18 per cent and 22 per cent, respectively, from 12.7 per cent and 18.3 per cent, respectively, as at end-March 2001. Many of these short term rural co-operatives did not meet the minimum capital and reserve requirements stipulated under Section 11(1) of the Banking Regulation Act, 1949 (AACS).

4.47 State co-operative agriculture and rural development banks (SCARDBs) and primary co-operative agriculture and rural development banks (PCARDBs) which constitute the long-term rural co-operative credit structure, have negligible resource base of their own, and mostly raise resources through borrowings. Their poor recovery performance has affected their ability particularly at the primary level to cater to the credit needs of new and non-defaulting members. This has also resulted in low paid-up share capital, which constrains their borrowing capacity, and the consequent limited resources have inevitably led to low business levels.

4.48 Subsequent to the announcement made in the Union Budget 2004-05, Government of India has appointed a Task Force on Co-operatives under the Chairmanship of Prof. A. Vaidyanathan. The terms of reference include (i) to recommend an implementable action plan for reviving the Rural Co-operative Banking Institutions, taking into consideration, *inter alia*, the main recommendations made by various committees in this regard; (ii) to suggest an appropriate regulatory framework and the amendments, which may be necessary for the purpose, in the relevant laws; (iii) to make an assessment of the financial assistance that the Co-operative Banking Institutions will require for revival, the mode of such assistance, its sharing pattern and phasing; and (iv) to suggest any other measures required for improving the efficiency and viability of Rural

Co-operative Credit Institutions. The Task Force is expected to submit its report shortly.

Prudential Guidelines on Investment in Non-SLR Debt Securities

4.49 In order to streamline the investments made by StCBs and the CCBs, and to contain the risk arising out of their non-SLR investment portfolio, prudential guidelines on investment in non-SLR debt securities were issued in February 2004 on similar lines as those issued to scheduled commercial banks.

Inter-Branch Adjustment Accounts- Provisioning for Net Debit Balances

4.50 It was observed from the various financial indicators of the StCBs and CCBs that the number and amount of outstanding debit entries in the Inter-Branch Adjustment Accounts and the amount involved thereunder were increasing over the years. In order to put in place the best international accounting standards, it was decided to prescribe prudential provisioning norms for net debit balances outstanding in their Inter Branch Accounts in a phased manner. These instructions were issued in January 2004.

Licensing of State Co-operative Banks / Central Co-operative Banks

4.51 No StCB or CCB has been granted licence during 2003-04 under Section 22 of the Banking Regulation Act, 1949 (AACS) and the total number of licensed StCBs and CCBs stood at 13 and 73, respectively.

4.52 The licence applications of four CCBs, *viz.*, Sibsagar DCCB Ltd. (Assam), Madhepura-Supaul DCCB Ltd., Darbhanga DCCB Ltd. (Bihar) and Raigad DCCB Ltd. (Chattisgarh) have been rejected during the year under review, taking the total number of such cases to seven.

State Co-operative Banks

Scheduling of StCBs

4.53 No StCB was included during 2003-04 in the Second Schedule under Section 42 of the Reserve Bank of India Act, 1934. The total number of scheduled StCBs remained unchanged at 16 as on March 31, 2004.

4.54 The composition of the liabilities of the StCBs in terms of major components (*viz.*, capital, reserves, deposits, borrowings and other liabilities) remained broadly unaltered between end-March 2002 and end-March 2003 (Table IV.11). The recovery performance of StCBs as a proportion of demand at the all-India level declined to 79 per cent in 2002-03 from 82 per cent in 2001-02. Among the various States/Union Territories, the recovery performance in Rajasthan and Sikkim improved considerably, while it declined significantly in Andhra Pradesh and Arunachal Pradesh. The States where StCBs achieved more than 90 per cent recovery during 2002-03 include Gujarat, Haryana, Kerala, Madhya Pradesh, Punjab, Rajasthan and Tamil Nadu.

Table IV.11: Composition of Liabilities and Assets of State Co-operative Banks

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Item	2002	2003
1	2	3	4
1	Capital	832 (1.5)	812 (1.4)
2	Reserves	5,880 (10.2)	6,348 (11.9
3	Deposits	36,191 (63.0)	36,658 (63.4)
4	Borrowings	11,673 (20.3)	11,365 (19.7)
5	Other Liabilities	2,902 (5.0)	2,579 (4.6)
	Total Liabilities	**57,478** **(100.0)**	**57,762** **(100.0)**
1	Cash and Bank Balance	3,576 (6.2)	3,693 (6.4)
2	Investments	16,825 (29.3)	17,210 (29.8)
3	Loans and Advances	32,678 (56.8)	32,798 (56.7)
4	Other Assets	4,399 (7.7)	4,061 (7.1)
	Total Assets	**57,478** **(100.0)**	**57,762** **(100.0)**

Notes : 1. Figures in brackets are percentages to total liabilities/assets.
2. 'Reserves' include credit balance in Profit and Loss Account shown separately by some of the banks.
3. Data for StCBs in the States of Rajasthan, Delhi, Jammu & Kashmir, Manipur, Bihar and Arunachal Pradesh not yet received.
4. Data for 2003 are provisional.

Source: NABARD.

Financial Performance of StCBs

4.55 There was a decline in overall income and expenditure of StCBs during 2002-03. However, the net profit increased mainly due to increase in miscellaneous income and reduction in wage bill (Table IV.12). Out of 24 reporting StCBs, 21 have earned profits aggregating to Rs.463 crore, while 3 made losses amounting to Rs.29 crore.

Central Co-operative Banks

4.56 The composition of the liabilities of Central co-operative banks (CCBs) remained broadly unaltered between end-March 2002 and end-March 2003 (Table IV.13). Deposits continued to account for nearly two-thirds of the total liabilities, while reserves recorded a growth of 19.7 per cent.

4.57 At the all-India level, recovery performance of CCBs declined to 61 per cent for the year 2002-03 from 66 per cent during 2001-02. A few States such as, Chattisgarh and Himachal Pradesh, registered improvement in recovery performance, while the recovery performance in Andhra Pradesh, Bihar, Jammu & Kashmir, Jharkhand, Karnataka, Orissa and Tamil Nadu declined considerably. Punjab and Uttaranchal achieved more than 80 per cent recovery during 2002-03 (Appendix Table IV.6).

Table IV.12: Financial Performance of State Co-operative Banks
(As at end-March)

(Amount in Rs. crore)

Item	2002	2003	Variation of (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**5,809 (100.0)**	**5,572 (100.0)**	**-237**	**-4.1**
i) Interest Income	5,508 (94.8)	5,229 (93.8)	-279	-5.1
ii) Other Income	301 (5.2)	343 (6.2)	42	14.0
B. Expenditure (i+ii+iii)	**5,632 (100.0)**	**5,137 (100.0)**	**-495**	**-8.8**
i) Interest Expended	4,192 (74.4)	3,978 (77.5)	-214	-5.1
ii) Provisions and Contingencies	1,024 (18.2)	700 (13.6)	-324	-31.6
iii) Operating Expenses	416 (7.4)	458 (8.9)	43	10.3
of which : Wage Bill	304 (5.4)	284 (5.5)	-20	-6.6
C. Profit				
i) Operating Profit	1,201	1,135	-66	-5.5
ii) Net Profit	177	435	258	145.8
D. Total Assets	**57,478**	**57,762**	**284**	**0.5**

Notes : 1. Figures in brackets are percentage to total liabilities/assets.
2. 'Reserves' include credit balance in Profit and Loss Account shown separately by some of the banks.
3. Data for StCBs in the States Rajasthan, Delhi, Jammu & Kashmir, Manipur, Bihar and Arunachal Pradesh not yet received.
4. Data for 2002-03 are provisional.

Source: NABARD.

Table IV.13: Composition of Liabilities and Assets of Central Co-operative Banks
(As at end-March)

(Amount in Rs. crore)

Sr. No.	Item	2002	2003
1	2	3	4
1	Capital	3,424 (3.2)	3,569 (3.1)
2	Reserves	10,717 (9.9)	12,829 (11.2)
3	Deposits	68,181 (63.3)	72,344 (63.0)
4	Borrowings	18,820 (17.5)	19,243 (16.7)
5	Other Liabilities	6,523 (6.1)	6,848 (6.0)
	Total Liabilities	**1,07,665 (100.0)**	**1,14,833 (100.0)**
1	Cash and Bank Balance	7,206 (6.7)	7,704 (6.7)
2	Investments	28,958 (26.9)	29,813 (26.0)
3	Loans and Advances	59,316 (55.1)	63,198 (55.0)
4	Other Assets	12,185 (11.3)	14,118 (12.3)
	Total Assets	**1,07,665 (100.0)**	**1,14,833 (100.0)**

Notes : 1. Figures in brackets are percentage shares to the respective total.
2. 'Reserves' include credit balance in Profit and Loss Account shown separately by some of the banks.
3. Data for CCBs in the States of Jammu & Kashmir, and Bihar not yet received.
4. Data for 2002-03 are provisional.

Source : NABARD.

Financial Performance of CCBs

4.58 CCBs as a whole continued to register losses during 2002-03 as well (Table IV.14 & IV.15). Interest income accounted for nearly 95 per cent of the total income, while interest expenditure accounted for nearly two-thirds of total expenditure. During 2002-03, out of 339 reporting CCBs, 234 made profits amounting to Rs.734 crore, while 105 CCBs made losses to the tune of Rs.859 crore. The deterioration in the overall profitability of CCBs could be attributed to higher expenses for provisions and contingencies.

Table IV.14: Financial Performance of Central Co-operative Banks
(As at end-March)

(Amount in Rs. crore)

Item	2002	2003	Variation of (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**11,546**	**11,808**	**262**	**2.3**
	(100.0)	**(100.0)**		
i) Interest Income	10,911	11,188	277	2.5
	(94.5)	(94.8)		
ii) Other Income	635	620	-15	-2.4
	(5.5)	(5.2)		
B. Expenditure (i+ii+iii)	**11,579**	**11,933**	**354**	**3.1**
	(100.0)	**(100.0)**		
i) Interest Expended	7,693	7,711	18	0.2
	(66.5)	(64.6)		
ii) Provisions and Contingencies	2,065	2,286	221	10.7
	(17.8)	(19.2)		
iii) Operating Expenses	1,821	1,936	115	6.3
	(15.7)	(16.2)		
of which : Wage Bill	1,402	1,441	39	2.8
	(12.1)	(12.1)		
C. Profit				
i) Operating Profit	**2,031**	**2,162**	**131**	**6.5**
ii) Net Loss	**-34**	**-125**	**–**	**–**
D. Total Assets	**1,07,665**	**1,14,833**	**7,168**	**6.7**

Notes : 1. Figures in brackets are percentage shares to the respective totals.
2. 'Reserves' include credit balance in Profit and Loss Account shown separately by some of the banks
3. Data for CCBs in the States of Jammu & Kashmir and Bihar not yet received.
4. 2002-03 data provisional

Source : NABARD.

Primary Agricultural Credit Societies

4.59 PACS as the grassroot level arm of short-term co-operative credit, mediate directly with individual borrowers, grant short-term to medium-term loans and also undertake distribution and marketing functions. There were 1,12,309 PACS as on March 31, 2003 with about 120 million members. A large number of PACS, however, face severe financial problems primarily due to significant erosion of own funds, deposits, and low recovery rates. Various policies have been adopted to improve the financial health of the PACS. NABARD, in particular, has been extending funds to develop the infrastructure of PACS.

NPA Position

4.60 The NPAs assets of rural co-operative banks remained high. The asset quality of the higher tier, *i.e.,* StCBs was, however, relatively better than that of the lower tier, *i.e.,* CCBs (Table IV.16).

Table IV.15: Select Financial Ratios of Co-operative Banks
(As at end-March)

(Per cent)

Item	Scheduled UCBs		StCBs		CCBs	
	2003	2004	2002	2003	2002	2003
1	2	3	4	5	6	7
Operating Profit	1.5	1.8	2.1	2.0	1.9	1.9
Net Profit	-1.1	0.6	0.3	0.9	–	-0.1
Income	10.1	8.9	10.1	9.7	10.7	10.3
Interest Income	8.5	7.3	9.6	9.1	10.1	9.8
Other Income	1.7	1.6	0.5	0.6	0.6	0.6
Expenditure	11.2	8.6	9.8	8.9	10.8	10.4
Interest Expended	6.5	8.3	7.3	6.9	7.2	6.7
Operating Expenses	6.5	5.2	0.7	0.8	1.7	1.7
Wage Bill	1.1	1.1	0.5	0.5	1.3	1.3
Provisions and Contingencies	2.6	1.2	1.8	1.2	1.9	2.0
Spread (Net Interest Income)	2.0	2.1	2.3	2.2	3.0	3.0

Note : Figures are percentage to Total Assets of concerned group.

Table IV.16: Composition of Gross NPAs
(As on March 31, 2003)

(Amount in Rs. crore)

Asset Quality	StCBs	CCBs
1	2	3
Substandard Assets	3,535	7,603
Doubtful Assets	2,443	5,060
Loss Assets	306	1,199
Total NPAs	6,284	13,862
Percentage of NPAs to loans outstanding	18.0	22.0

4.61 Poor recovery performance continues to be a growing area of concern in the case of co-operative credit structure. During 2002-03 both the short-term and long-term credit have witnessed a fall in the rate of recovery.

4.62 In order to address the problem of large NPAs being faced by the rural credit co-operatives, NABARD has issued guidelines to co-operative banks on One-Time Settlement (OTS) scheme for NPAs on the lines of Reserve Bank's guidelines to commercial banks. The guidelines provide for a simplified non-discretionary and non-discriminatory mechanism for compromise settlement of NPAs of Rs.10 lakh and below for individual borrowers and Rs.10 crore and below in respect of institutions under all categories of loans and advances. The scheme remained operative initially till September 30, 2003 but was further extended up to July 31, 2004 for acceptance of cases for OTS for NPAs under all loans and up to October 31, 2004 for completion of process of settlement. Finally, co-operative banks were given discretion to formulate OTS scheme for amounts of NPAs beyond the above cut-off level and date with the approval of Board of Directors and the Registrar of Co-operative Societies.

Long-Term Rural Co-operatives

4.63 The long-term co-operative credit structure consists of State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). Total number of SCARDBs is placed at 20, while that of PCARDBs is placed at 768.

Performance

4.64 Important performance parameters of SCARDBs and PCARDBs as on March 31, 2002 and March 31, 2003 are given in Table IV.17.

4.65 The share capital of SCARDBs increased at a higher rate of 8 per cent compared with the growth of 4 per cent for PCARDBs. The deposits of both the term-lending rural co-operatives declined during 2002-03 – the decline in deposits of PCARDBs (13.3 per cent) being steeper than that for SCARDBs (4.4 per

Table IV.17: Performance of Long-term Co-operative Credit Structure

(Amount in Rs. crore)

Item	SCARDBs		PCARDBs	
	2002	2003	2002	2003
1	2	3	4	5
Number	20	20	768	768
Share Capital	676	732	856	891
Of which: from State Government	89	90	122	128
Reserves	1,808	2,159	1,637	1,839
Deposits	571	546	256	222
Borrowings	14,845	15,910	10,334	11,217
Loans and advances (issued)	2,746	2,964	2,045	2,151
Loans and Advances (outstanding)	14,147	15,385	9,982	10,775

Notes: 1. Data for 2003 are provisional.
2. The assets and liabilities of Maharashtra SCARDB have been bifurcated between the Apex Bank and DCARMDBs in Maharashtra as on October 1, 2001, with the shift to the federal structure.

Table IV.18: Working Results - SCARDBs and PCARDBs

Agency/year	Total Number	Profit-making		Loss-making	
		Number	Amount (Rs. crore)	Number	Amount (Rs. crore)
1	2	3	4	5	6
SCARDBs					
2000-01	19	10	90	9	129
2001-02	20	9	86	11	180
2002-03	20	8	61	12	163
PCARDBs					
2000-01	732	273	49	459	165
2001-02	768	191	47	577	294
2002-03	768	226	54	542	330

Note : Data are provisional.

cent). On the other hand, loans and advances issued by SCARDBs and PCARDBs increased by 7.9 per cent and 5.8 per cent, respectively. The loans and advances outstanding of SCARDBs increased to Rs.15,385 crore (March 31, 2003) from Rs.14,147 crore (March 31, 2002), showing a growth rate of 8.8 per cent. Similarly, the outstanding loans and advances of PCARDBs increased by 7.9 per cent to Rs.10,775 crore (March 31, 2003) from Rs.9,982 crore (March 31, 2002).

Working Results

4.66 A comparative position of working results of SCARDBs and PCARDBs for three years *viz.*, 2000-01 to 2002-03 reveals that while the total number of SCARDBs has remained more or less static, those of PCARDBs have increased by 36 in 2001-02 (Table IV.18).

4.67 The performance of most of the profit earning SCARDBs showed further improvement, while that of most of the loss making SCARDBs deteriorated further. The performance of the co-operative banks during 2002-03 varied widely across the States. While profit making PCARDBs improved their performance during 2002-03, losses declined in case of many States. The net margin earned by the SCARDBs and PCARDBs continued to be negative at 1.5 per cent and 1.8 per cent, respectively. Ten of the 20 SCARDBs had positive net margins and the remaining ten registered negative net margins. PCARDBs in three States recorded positive net margins, while these in nine States registered negative net margins.

4.68 The profitability of SCARDBs during 2002-03 showed a downward trend as compared with 2001-02, while accumulated losses of both SCARDBs and PCARDBs were on the increase (Table IV.19).

Non-Performing Assets

4.69 The prudential norms of income recognition, asset classification, provisioning were made applicable to SCARDBs/PCARDBs from 1997-98. The NPAs were estimated at Rs.3,134 crore for SCARDBs and Rs.3,569 crore for PCARDBs forming 21.1 per cent and 33.1 per cent of total loans outstanding, respectively, as on March 31, 2003. The NPAs to loans ratio of SCARDBs increased during 2002-03 after showing a decline in 2001-02, while that of PCARDBs continued to rise over the level in 2001-02 (Table IV.20).

Table IV.19: Accumulated losses of SCARDBs and PCARDBs

(Rs. crore)

Year	SCARDBs	PCARDBs
1	2	3
2000-01	907	1,157
2001-02	492*	1,944
2002-03	654	2,325

* Accumulated Losses of 29 DCARMDBs in Maharashtra, which were branches of Maharashtra SCARDB under the unitary structure in 2000-01, now included under PCARDBs in 2001-02 on conversion to federal structure as on October 1, 2001.

Table IV.20: Non-performing Assets of SCARDBs and PCARDBs
(as percentage to loans outstanding)

Agency	2001	2002	2003
1	2	3	4
SCARDBs	20.5	18.5	21.1
PCARDBs	24.3	30.3	33.1

Note: Data in respect of DCARMDBs in Maharashtra not available.

Recovery performance

4.70 Recovery performance of SCARDBs and PCARDBs deteriorated during 2002-03. At the state level, the recovery performance of SCARDBs showed improvements in the states of Jammu & Kashmir and Pondicherry, while for PCARDBs recovery improved only in case of Orissa. The SCARDBs of Haryana, Kerala, Punjab, Pondicherry, Rajasthan, Uttar Pradesh and West Bengal States registered a recovery of above 60 per cent. The average recovery of 201 out of 768 PCARDBs was more than 60 per cent of total demand. However, the average recovery for the entire sector declined to 44 per cent at the end of June 2003 as compared with 48 per cent in end June 2002 (Table IV.21).

Management of Co-operatives

4.71 The phenomenon of supersession of elected Boards of Management continued in many SCARDBs and PCARDBs during the year (Table IV.22).

Co-operative Development Fund

4.72 Co-operative Development Fund (CDF) was constituted by NABARD in the year 1992-93 under the provision of Section 45 of NABARD Act 1981 for strengthening the co-operative credit institutions with emphasis on infrastructure development at primary level, human resource development, improved MIS, *etc.*

Table IV.21: Percentage of Recovery to Demand
(As at end-June)

Agency	2001	2002	2003
1	2	3	4
SCARDBs	58	55	49
PCARDBs	53	48	44

Table IV.22: Elected Boards under Supersession
(As at end-March)

Particulars	SCARDBs	PCARDBs
1	2	3
a. Total number of Institutions	20	768
b. No. of Institutions where Boards are under supersession	8	378
c. Percentage of Boards under supersession	40	49

4.73 During the year 2003-04, a sum of Rs.4.86 crore have been sanctioned and Rs.4.38 crore disbursed to co-operative credit institutions for purposes such as infrastructure development of PACS, computerisation of MIS, purchase of motorcycles for field staff, reimbursement of training expenditure to Agricultural Co-operative Staff Training Institute (ACSTI)/Junior Level Training Centre (JLTC) and as prize money to best performing co-operative credit institutions. Of this, an amount of Rs.75 lakh was sanctioned to 25 StCBs, 15 SCARDBs, National Federation of State Co-operative Banks Ltd. (NAFSCOB), National Co-operative Agriculture and Rural Development Banks' Federation (NCARDBF) and National Centre for Management Development in Agriculture and Rural Development Banking (NCMDARDB) for computerising their MIS against which Rs.56 lakh was disbursed.

Development Action Plan / Memorandum of Understanding

4.74 The mechanism of preparation of institution specific Development Action Plans (DAPs) by co-operative banks introduced in 1994-95 as a measure for institutional strengthening was continued during 2003-04. Memoranda of Understanding (MoU) were executed between the NABARD, State Governments and banks for obtaining proper commitments for taking necessary action to achieve the business targets in DAPs. At the apex level, all 21 StCBs and 10 SCARDBs executed annual MoU for 2003-04. The implementation of DAPs and compliance to MoUs covenants were monitored by the NABARD along with the representatives from State Governments and the Reserve Bank through Monitoring and Review Committees set up at State and district level. The process of Organisation Development Intervention also continued during the year, and

in the initial phase, 134 co-operative banks have been covered. This has been instrumental in bringing about perceptible paradigm shift and change in the mindset and attitude of the staff as well as management.

4.75 An impact evaluation study was conducted by the NABARD Regional Offices, and the findings of the study reveal that DAP/MoU exercise had brought about awareness in banks at senior management level of the need to conduct the business of banks in a more professional manner. Banks have also become cost conscious and cost of management as a percentage to working capital had declined in most of the banks. The DAP/MoU process helped banks in diversification of loan business particularly in financing for non-farm sector (NFS), rural housing, SHGs *etc.*, and mobilisation of low cost deposits. Further, the process also contributed to the increase of per employee productivity. Achievement of targets under DAP was found to be in the range of 85 per cent to 100 per cent in owned funds, deposits, loans issued, loans outstanding and working funds.

4. NABARD and the Co-operative Sector

4.76 National Bank for Agriculture and Rural Development (NABARD) is the apex institution entrusted with a pivotal role in policy planning and providing refinancing facilities to rural financial institutions to augment their resource base. In order to strengthen the effectiveness of NABARD, as also to enable it to effectively leverage its equity and mobilise additional resources for investment credit, the Government of India and the Reserve Bank contributed a cumulative amount of Rs.550 crore and Rs.1,450 crore, respectively. With these contributions, the effective capital base of NABARD amounted to Rs.2,000 crore at end-March 2004. NABARD has also been permitted to issue capital gains tax exemption bonds since 2000-01.

4.77 More than 50 per cent of the rural credit is disbursed by the co-operative banks and Regional Rural Banks (RRBs). NABARD is responsible for regulating and supervising the functions of co-operative banks and RRBs. In this direction NABARD has been taking various initiatives in association with Government of India and the Reserve Bank to improve the health of co-operative banks and Regional Rural Banks.

Policy Initiatives by NABARD

4.78 The Board of Supervision (BoS) for StCBs, CCBs and RRBs constituted by NABARD in 1999 to provide guidance and direction to the Bank on matters relating to supervision, met six times during 2003-04. The issues deliberated by the Board of Supervision included *inter alia* review of insolvent StCBs and CCBs, prescription of 'trigger points' for taking supervisory/regulatory action against certain StCBs and CCBs, sponsor bank-wise review of RRBs' performance, review of follow-up action taken in respect of banks recommended for regulatory action. The BoS recommended the introduction of a Common Accounting System for StCBs and CCBs in order to bring about symmetry in their financial statements and transparency through additional disclosures. The recommendations are being examined.

General Line of Credit to NABARD

4.79 The Reserve Bank has been providing General Lines of Credit (GLC) to NABARD under Section 17(4E) of the Reserve Bank of India Act 1934, to enable the latter to meet the short-term credit requirements of scheduled commercial banks, StCBs and RRBs. For the year 2003-04 (July-June), the Reserve Bank sanctioned an aggregate credit limit of Rs.6,500 crore comprising Rs.5,650 crore under GLC-I and Rs.850 crore under GLC-II at rates of interest of 6 per cent and 6.25 per cent, respectively. The GLC limit was renewed at Rs.5,200 crore for the year 2004-05, with GLC-I at Rs.5,000 crore and GLC-II at Rs.200 crore at rates of interest of 6 per cent and 6.25 per cent, respectively.

Amendment of the NABARD Act, 1981

4.80 The NABARD Act, 1981 was amended in September 2003 enabling it to refinance CCBs directly. The Scheme is proposed to be implemented selectively in respect of CCBs complying with Section 11(1) of the Banking Regulation Act, 1949 (AACS) and certain other conditions.

Resources of NABARD

4.81 The net accretion to the (outstanding) resources of NABARD including RIDF deposits at Rs.5,818 crore during 2003-04 showed a quantum jump of over 11.6 per cent over 2002-03 (Table IV.23). The net accretion to reserves and

Table IV.23: Net Accretion in the Resources of NABARD
(As at end-March)

(Amount in Rs. crore)

Type of Resource	2003	2004
1	2	3
Capital	–	–
Reserves and Surplus	693	972
NRC (LTO) Fund	222	125
NRC (Stabilisation) Fund	222	26
Deposits	-20	-28
Bonds and Debentures	2,624	3,181
Borrowings from Central Government	-243	-26
Borrowings from RBI	-708	-1,598
Foreign Currency Loans	52	-5
Corporate Borrowings	0	2,500
RIDF Deposits	2,434	-70
Other Liabilities	-370	673
Other Funds	67	68
Total	**4,973**	**5,818**

Source: NABARD.

surplus amounted to Rs.972 crore in 2003-04, compared with Rs.693 crore in 2002-03. However, deposits with NABARD (including the RIDF deposits raised from banks) witnessed a decline in 2003-04 as compared with 2002-03. As a result, reliance on market borrowings through the issuance of bonds and debentures increased substantially in 2003-04, while borrowings from the Central Government declined. Other borrowings from commercial banks also increased.

Rural Infrastructure Development Fund

4.82 RIDF was set up with NABARD under the initiative of the Central Government in 1995-96[3] to provide loans to State Government for financing rural infrastructure projects. Since then, nine tranches of allocations have been made towards the Fund. The commercial banks make contributions towards the Fund in accordance with the shortfall in their priority/ agriculture sector lending. Since 1999-2000 (RIDF-V), the scope has been widened to enable utilisation of loan by Panchayati Raj Institutions (PRIs), Self-Help Groups (SHGs), Non-Government Organisations (NGOs), *etc.*

4.83 During 2003-04, deposits received under RIDF was Rs.2,159 crore from commercial banks. At end-March 2004, the cumulative deposits stood at Rs.18,305 crore (Table IV.24). Deposits amounting to Rs.2,229 crore were redeemed during the year.

4.84 As at end-March 2004, the total corpus of the fund under the tranches I to X of the RIDF aggregated to Rs.42,000 crore. The cumulative amounts sanctioned and disbursed under the different tranches till end-March 2004 stood at Rs.34,678 crore and Rs.21,067 crore respectively (Table IV.25). The amount of loans sanctioned and funds disbursed under different tranches of RIDF as on July 16, 2004 aggregated Rs.35,174 crores and Rs.21.742 crore, respectively.

4.85 Out of the total sanction of Rs.34,678 crore, States in the southern region availed of

Table IV.24: Deposits Mobilised under Rural Infrastructure Development Fund

(Amount in Rs. crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	RIDF IX	Total
1	2	3	4	5	6	7	8	9	10	11
1995-96	350	–	–	–	–	–	–	–	–	350
1996-97	842	200	–	–	–	–	–	–	–	1,042
1997-98	188	670	149	–	–	–	–	–	–	1,007
1998-99	140	500	498	200	–	–	–	–	–	1,338
1999-00	67	539	796	605	300	–	–	–	–	2,307
2000-01	–	161	413	440	850	790	–	–	–	2,654
2001-02	–	155	264	–	689	988	1,495	–	–	3,591
2002-03	–	–	188	168	541	816	731	1,413	–	3,857
2003-04	–	–	–	–	261	503	257	681	457	2,159
Total	**1,587**	**2,225**	**2,308**	**1,413**	**2,641**	**3,097**	**2,483**	**2,094**	**457**	**18,305**

Source: NABARD.

[3] Also see Box II.5 of the Report.

Table IV.25: Loans Sanctioned and Disbursed under RIDF
(As on March 31, 2004)

(Amount in Rs. crore)

RIDF	Year	Corpus	Loans Sanctioned	Loans Disbursed	Loan disbursed as percentage of loans sanctioned
1	2	3	4	5	6
I	1995	2,000	1,911	1,761	92.2
II	1996	2,500	2,659	2,398	90.2
III	1997	2,500	2,718	2,444	89.9
IV	1998	3,000	2,913	2,266	77.8
V	1999	3,500	3,514	2,712	77.2
VI	2000	4,500	4,550	3,274	72.0
VII	2001	5,000	4,893	2,769	56.6
VIII	2002	5,500	6,083	2,450	40.3
IX	2003	5,500	5,438	994	18.3
X	2004	8,000	–	–	–
Total		**42,000**	**34,678**	**21,067**	**60.8**

Source: NABARD.

sanctions totalling Rs.9,939 crore and among the States in the zone Andhra Pradesh had availed the highest amount of Rs.4,480 crore. The States in the central zone have availed sanctions totalling Rs.7,127 crore. Within this zone, Uttar Pradesh had availed the highest amount of Rs.3,136 crore. The five States of the northern zone had availed Rs.6,138 crore and Rajasthan stood first in the zone by availing Rs.1,807 crore. States in the western zone had availed Rs.5,450 crore. Maharashtra had availed the highest amount of Rs.2,804 crore within the zone. States in the eastern zone had availed an amount of Rs.4,643 crore, with West Bengal availing the maximum sanction of Rs.2,487 crore. Total sanctions to the north eastern region was Rs.1,381 crore and Assam had availed the highest amount of Rs.645 crore (Appendix Table IV.7).

4.86 With the disbursement of Rs.3,922 crore during the year (2003-04), the cumulative disbursements under RIDF as on March 31, 2004 amounted Rs.21,067 crore. Andhra Pradesh had availed the highest amount of loan of Rs.2,817 crore. States in the north-eastern region had availed Rs.733 crore. Within north eastern region, Assam had availed the highest amount of Rs.295 crore.

4.87 The interest rate on RIDF loans has been reduced from 13 per cent under RIDF I to 6.5 per cent per annum under RIDF IX. The scope of the projects eligible for RIDF loans has been enlarged by including innovative projects such as information technology enabled services and new activities such as system improvement and mini-hydel under power sector, construction of primary/ secondary school building and primary health centre, rain water harvesting structures, *etc.*

4.88 Rural roads and bridges continued to account for 46.8 per cent of RIDF loans sanctioned under various tranches followed by irrigation sector 35.4 per cent. Projects covered during 2003-04 included soil conservation, watershed development, drainage improvement, flood protection, forest management, rural drinking water supply, system improvement in power sector, buildings for primary health centers and primary/ secondary schools, Anganwadis, Shishu Siksha Kendra, rural libraries, riverine fisheries, *etc.*

4.89 During 2003-04, 20,178 projects involving a loan amount of Rs.5,438 crore were sanctioned under RIDF-IX. Rural roads and bridges accounted for 13.1 per cent of the number of projects and 30.3 per cent of the loan amount sanctioned during 2003-04. Irrigation projects accounted for 62.1 per cent of the number of projects and 42.6 per cent of the loan amount sanctioned.

Credit from NABARD

4.90 NABARD provides short-term credit facilities to StCBs for financing seasonal agricultural operations (SAO), marketing of crops, fisheries activities, production/procurement and marketing activities of co-operative weavers societies, financing of rural artisans through PACS and purchase and distribution of fertilizers, *etc.* During the year 2003-04, a new line of credit for

Table IV.26: NABARD's Credit to StCBs, State Government and RRBs

(Amount in Rs. crore)

Category	2003 (July-June)				2004 (July-June)			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks								
a. Short-term	7,430	7,910	8,238	5,185	8,524	8,719	8,918	4,985
b. Medium-term	880	18	130	356	288	576	302	630
Total (a+b)	**8,310**	**7,928**	**8,368**	**5,540**	**8,812**	**9,294**	**9,220**	**5,615**
2. State Governments Long-term	61	28	74	441	40	85	67	460
3. Regional Rural Banks								
a. Short-term	1,406	1,097	1,487	869	1,433	989	1,245	613
b. Medium-term	3	0	12	24	0	0	15	8
Total (a+b)	**1,409**	**1,097**	**1,499**	**892**	**1,433**	**989**	**1,260**	**621**
Grand Total (1+2+3)	**9,779**	**9,053**	**9,940**	**6,874**	**10,284**	**10,369**	**10,547**	**6,696**

Source: NABARD.

financing of agricultural, allied and marketing activities was introduced. Besides medium-term loans are also provided to StCBs and RRBs and for converting short-term to medium-term loans and for other approved agricultural purposes. NABARD also provides long-term loans to State Governments for contributing to the share capital of co-operative credit institutions.

4.91 During 2003-04, NABARD sanctioned total credit aggregating to about Rs.8,812 crore to State co-operative banks, which was higher by about 6 per cent over the sanctioned amount in 2002-03. The outstanding credit extended by NABARD to StCBs and State Governments at around Rs.6,075 crore was also higher than that in 2002-03 (Table IV.26). A major part of the outstanding refinance was for short-term purposes (Rs.4,819 crore or 82 per cent). Seasonal agricultural operations (SAO) amounted for bulk (94 per cent) of outstanding refinance to StCBs.

4.92 During 2003-04, NABARD sanctioned around Rs.288 crore for conversion of short-term loans to medium-term loans due to crop failure on account of drought, which was however, lower than that of Rs.880 crore sanctioned in 2002-03. NABARD also sanctioned long-term loans to nine State Governments amounting to around Rs.39 crore as contributions to the share capital of co-operative credit institutions.

4.93 Considering the declining trend of interest rates in the economy, the co-operative banks were given the option of repayment of entire refinance outstanding above seven per cent without any prepayment charges to NABARD. Weak StCBs were given the option of resetting interest rate on the high cost of outstanding refinance at an uniform rate of eight per cent, provided that they enter into a MoU with NABARD for implementation of DAPs. NABARD's interest rate structure for term loans effective from February 13, 2004, is presented in Table IV.27.

Table IV.27: NABARD's Structure of Interest Rates for Term Loans

Size of limit	Rate of interest to ultimate beneficiaries	Rate of Interest on Refinance	
		Commercial banks SCARDBs	RRBs/ StCBs/
1	2	3	4
Upto Rs.50,000	Rate of interest to the beneficiaries is to be determined by the Banks subject to guidelines laid down by the Reserve Bank of India.	5.75	5.75
Above Rs.50,000 and Upto Rs.2 lakh		6.50	6.50
Above Rs.2 lakh*		6.50	6.50

* 6.75 per cent for NFS, 7.00 per cent for all purpose other than Minor Irrigation, Dryland Farming, Land & Wasteland Development, SGSY, SHGs, SC/ST Action Plan, Organic farming, Contract Farming under AEZ, Aromatic & Medicinal Plants, Rural Housing; 5.75 per cent for all categories of loans disbursed in North-Eastern regions; and 7.5 per cent on Interim finance to SCARDBs.

4.94 Two major innovations in the field of rural credit delivery in the nineties are the Kisan Credit Card (KCC) Scheme and the Self-Help Group (SHG)-bank linkage programme. As a pioneering credit delivery innovation, Kisan Credit Card Scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner (Box IV.4).

Box IV.4: Kisan Credit Card

In the Union Budget for 1998-99, an announcement was made for formulation of a model Scheme by NABARD for issue of Kisan Credit Cards (KCC) to farmers. The details of the model Scheme were circulated by the Reserve Bank to commercial banks and by NABARD to co-operative banks and RRBs in August 1998, with instructions to introduce the same in their respective area of operation. The KCC Scheme has since been stabilised as a major source of crop loans, but the investment credit requirement of the farmers *viz.*, allied and non-farm activities, remained outside the ambit of the scheme entailing additional cost and time, and procedural inconvenience. Keeping this in view, NABARD revised the KCC Scheme as the 'Scheme to cover term loans for agriculture and allied activities under Kisan Credit Card Scheme' on October 4, 2004.

Beneficiaries covered under the Scheme are issued with a credit card and a pass book or a credit card cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period, a passport size photograph of holder, *etc.*, which may serve both as an identity card and facilitate recording of transactions on an ongoing basis. The borrower is required to produce the card cum pass book whenever he/she operates the account. Term credit as well as short term/working capital credit facilities are provided through the KCC, and three separate records are maintained in the passbook for (i) short term credit/crop loans, (ii) working capital credit for allied activities, and (iii) term credit. Short term credit/crop loan is in the form of a revolving cash credit facility involving any number of drawals and repayments within the limit fixed on the basis of operational land holding, cropping pattern and scale of finance. The entire production credit needs for full year plus ancillary activities related to crop production are considered while fixing limits. Sub-limits may be fixed at the discretion of banks. The quantum of limits for term and working capital credit is based on unit cost of asset proposed to be acquired by the farmers, the allied activities already being undertaken on the farm, and the bank's judgement of farmer's repayment capacity. The validity of the KCC has been extended from three years to five years. While short term as well as working capital credit is repayable in 12 months, the terms loan is be repaid within a maximum period of five years, depending on the type of activity/investment as per the existing guidelines. Conversion/reschedulement of loans is also permissible in case of damage to crops due to natural calamities. Security, margin, rate of interest and prudential norms are applicable as per RBI/NABARD stipulations.

Major benefits of KCC are minimum paper work and simplification of documentation for drawal of funds from the bank leading to reduction in work load for branch staff. Besides these, other benefits are improvement in recycling of funds and better recovery of loans, reduction in transaction cost to the banks and better Banker-Client relationships.

GIC has agreed that the crop loans disbursed for eligible crops under the Crop Insurance Scheme will be covered under the CCIS, now under Rashtriya Krishi Bima Yojana (RKBY). However, the banks are expected to maintain all back up records relating to compliance with 'RKBY' and its seasonality discipline, cut-off date for submitting declarations and end use, *etc.* as in the case of normal crop loans.

The KCC Scheme is being implemented in all the States and Union Territories by all commercial banks, RRBs, state co-operative banks / central co-operative banks/PACS and scheduled primary co-operative banks. Up to March 31, 2004, these agencies had together issued 414 lakh cards indicating a wider acceptability of the KCC. A summary position of the progress made by various agencies is given in Table.

Table: Agency-wise, Year-wise Number of Kisan Cards (up to March 31, 2004)

(cards in lakh)

Year	Co-operative Banks	RRBs	Commercial Banks	Total
1998-99	1.56	0.06	6.22	7.84
1999-2000	35.95	1.73	13.66	51.34
2000-01	58.14	6.48	23.90	86.52
2001-02	54.36	8.34	30.71	93.41
2002-03	45.79	9.64	27.00	82.43
2003-04	48.78	12.74	30.94	92.25
Total	**242.68**	**38.99**	**132.43**	**414.00**
Share in Total (per cent)	59.0	9.0	32.0	100.0

The National Council of Applied Economic Research (NCAER) conducted a national impact assessment survey of KCC scheme. The study has brought out several advantages of the KCC scheme which include *inter alia*, an increase in the flow of credit to the agriculture sector, a substantial reduction in the exclusive borrowing from the informal sector for short-term credit needs, a significant saving in time spent on availment of short-term agricultural loans and an overall reduction in cost of credit delivery. The survey indicates that the KCC scheme has had a positive impact on the cost of borrowings with a reduction in interest cost in both the formal and informal sector. The survey identified areas where further fine-tuning is needed, *viz.*, restrictions imposed on the issuance of KCCs by security conscious banks; restrictions of the use of KCCs only at card issuing branches; non-availability of incentives/rewards to borrowers for timely repayments; low credit limits to meet the farmers' requirements and low awareness level regarding the provision of the personal accident insurance scheme. With a view to further improving the flow of credit to agricultural sector under the scheme, IBA has been advised to look into these suggestions and take remedial action.

4.95 Going by the remarkable progress achieved since inception of the Scheme and the fact that the co-operative banks and RRBs in most of the States have achieved/overachieved the targets, it can be assumed that most of the 'eligible farmers' have now been brought under the KCC fold. Banks have been advised to bring new farmers, including defaulters under KCC Scheme.

5. Issues in Micro Credit

4.96 The Reserve Bank had issued guidelines to banks in February 2000 for mainstreaming micro credit and enhancing the outreach of micro credit providers. These guidelines *inter alia* stipulated that micro credit extended by banks to individual borrowers directly or through an intermediary would be reckoned as part of their priority sector lending. In order to give banks freedom for lending under micro finance, specific models for micro-finance were not stipulated. However, the Reserve Bank has been supporting the SHG-bank linkage programme of NABARD initiated in 1991-92.

4.97 The SHG-bank linkage programme has now emerged as the major micro-finance programme in the country and is being implemented by commercial banks, Regional Rural Banks and co-operative banks. While 563 districts in all the States/UTs have been covered under this programme, 560 banks including 48 commercial banks, 196 RRBs and 316 co-operative banks along with 3,024 NGOs are now associated with the SHG-bank linkage programme. The number of SHGs linked to banks aggregated to 1,079,091 as on March 31, 2004. This translates into an estimated 16.7 million poor families being brought within the fold of formal banking services as on March 31, 2004. Ninety per cent of the groups linked with banks are exclusively women groups. Cumulative disbursement of bank loans to these SHGs stood at Rs.3,904 crore as on March 31, 2004 with an average loan of Rs.36,179 per SHG and Rs.2,412 per family.

4.98 The Reserve Bank had set up four groups in October 2002 to look into issues relating to structure and sustainability, funding, regulations and capacity building of Micro-Finance Institutions (MFIs). Pursuant to the Groups' recommendations, the mid-term Review of monetary and credit policy for 2003-04 announced that (i) banks should provide adequate incentives to their branches for financing the SHGs making the procedures absolutely simple and easy, (ii) the group dynamics of working of the SHGs be left to themselves and need neither be regulated nor formal structures be imposed or insisted upon and (iii) the approach to micro-financing of SHGs should be totally hassle-free and that it may include consumption expenditures.

4.99 Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Shri V.S. Vyas), it has been announced in the annual policy Statement for 2004-05 that in order to protect the interests of depositors, MFIs would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.

4.100 Having gone through the phases of (i) pilot testing during 1992 to 1995, (ii) mainstreaming during 1996 to 1998 and (iii) expansion from 1998 onwards, the SHG-bank linkage programme assumed the shape of a micro finance movement in many parts of the country during the year 2003-04 and made inroads into the other areas. Considering the overwhelming sucess of the programme, NABARD set a target of covering one third of the rural poor through linkage of 10 lakh SHGs under the SHG-bank linkage programme by year 2008. A sustained campaign of creating awareness and intensive efforts at building capacity of NGOs, Government agencies and banks in dealing with the SHGs followed. The target was realised by end of March 31, 2004, much ahead of the schedule, reflecting the acceptance of the approach by all stakeholders including the rural poor.

4.101 A massive expansion of the programme was witnessed during 2003-04 with credit linkage of 3.62 lakh new SHGs by the banking system. The growth rate was 41 per cent over 2002-03, increasing the cumulative number of such SHGs to 10.8 lakh. The banks extended loans of Rs.1,856 crore during 2003-04, registering a growth of 81 per cent over 2002-03, cumulatively aggregating to Rs.3,904 crore. In addition, it is estimated that presently SHGs manage their owned funds of the order of Rs.650 crore. The average size of the SHG loans increased to Rs.36,179 from an average of Rs.28,560 showing a deepening of the credit access among the SHGs. The programme continued to enlist massive mobilisation of the rural poor women (90 per cent) into the self-managed, doorstep based micro finance

Table IV.28: Model-wise Linkage Position
(As on March 31, 2004)

(Amount in Rs. crore)

Model	Type	Number of SHGs	Bank loan
1	2	3	4
I	SHGs formed and financed by banks	2,17,624 (20)	549.87 (14)
II	SHGs formed by NGOs / Government agencies, *etc.* and financed by banks	7,77,326 (72)	3,164.72 (81)
III	SHGs financed by banks using NGOs' formal agencies as financial intermediaries	84,141 (8)	189.62 (5)
	Grand Total	**10,79,091**	**3,904.21**

Note: Figures in bracket are percentages to the total.

movement. The number of poor families benefiting through SHGs increased to over 167 lakh as on March 31, 2004 from 116 lakh as on March 31, 2003 registering a growth of 44 per cent.

Model-wise Trends

4.102 Three models have emerged under the SHG-bank linkage programme over the years, which are detailed in Table IV.28. Bulk of the finance extended by the banks is under Model II where the bank-branch finances SHGs promoted by a facilitating agency such as NGOs, Government agencies, farmers' clubs, *etc.* The share of the three models in total linkage did not undergo substantial change over 2002-03. However, the trends clearly indicate that Model II seems to be most acceptable format in the SHG-bank linkage programme.

Agency-wise Trends

4.103 In terms of participation of different banking agencies under the programme, during 2003-04, the co-operative banks increased their share of SHGs financed to 13 per cent as on March 31, 2004 from 11 per cent as on March 31, 2003. The total number of SHGs financed by co-operatives rose from 78,959 by the end of March 2003 to 1,34,671 as at end-March 2004, reflecting the significant interest being evinced by co-operative sector (Table IV.29).

Progress over the Years

4.104 The SHG-bank linkage programme has been positioned in the banking system as a commercial proposition, with advantages of lower transaction costs, near zero NPAs and generation of goodwill among the rural clientele for the bank branches leading to other quantifiable benefits in business expansion. All the 48 commercial banks and 196 RRBs now participate in the programme in addition to 316 out of total 368 CCBs. A summary of progress under SHG bank linkage programme made from 1992-93 to 2003-04 is presented in Table IV.30.

Table IV.29: Agency-wise Linkage Position
(As at end-March)

(Amount in Rs. crore)

Agency	Number of SHGs		Bank loan	
Cumulative position	2003	2004	2003	2004
1	2	3	4	5
Commercial Banks	3,61,061 (50)	5,38,422 (49)	1,150 (56)	2,255 (58)
Regional Rural Banks	2,77,340 (39)	4,05,998 (38)	727 (36)	1,278 (33)
Credit Co-operative Banks	78,959 (11)	1,34,671 (13)	172 (8)	371 (9)
Total	**7,17,360**	**1,079,091**	**2,049**	**3,904**

Note: Figures in bracket are percentages to the total.

Table IV.30: SHG-Bank Linkage Programme
(As on March 31, 2004)

Year	Total SHGs financed by banks			Bank Loan			Refinance		
	During the Year		Cumulative	During the year		Cumulative	During the year		Cumulative
	Number	Growth (per cent)	Number	Amount (Rs. crore)	Growth (per cent)	Amount (Rs. crore)	Amount (Rs. crore)	Growth (per cent)	Amount (Rs. crore
1	2	3	4	5	6	7	8	9	10
1998-99	32,995	–	32,995	57	–	57	52	–	52
1999-00	81,780	148	1,14,775	136	138	193	98	88	150
2000-01	1,49,050	82	2,63,825	288	112	481	251	156	401
2001-02	1,97,653	33	4,61,478	545	89	1,026	396	58	796
2002-03	2,55,882	29	7,17,360	1,022	87	2,049	622	57	1,419
2003-04	3,61,731	41	10,79,091	1,856	81	3,904	705	13	2,124

4.105 With increasing number of NGOs and Government development agencies realising the benefits of delivering various social sector services through the SHG mechanism, the task of promotion of a large number of quality SHGs has been made easy. The total number of the SHG Promoting Agencies (NGOs and Government agencies) associated in the programme rose to 3,024 as on March 31, 2004 from 2,800 as on March 31, 2003. Besides, other informal arrangements such as Farmers' Clubs promoted by banks, rural volunteers, *etc.* were also operationalised for promotion of quality SHGs to ensure rapid expansion of the programme in backward regions.

4.106 On account of the head start made by the programme in the southern States and also some major initiatives by the State Governments, the programme has gained the shape of a movement. However, during 2003-04, the programme expanded rapidly in the non-southern States with credit linkage of over 1.51 lakh SHGs as compared with 1.09 lakh SHGs linked in 2002-03. The expansion of the programme was significant in States, which were identified by NABARD for intensive interventions such as Assam (195 per cent), Uttaranchal (100 per cent), Bihar (92 per cent), Orissa (63 per cent), Madhya Pradesh (62 per cent), and Jharkhand (37 per cent).

4.107 As a part of the strategy to widen partner institutions, NABARD stepped up its capacity building support to partner institutions by way of financial assistance for promotion of quality SHGs to NGOs, RRBs, CCBs, Farmers' Clubs and Rural Volunteers working as Self Help Promoting Institutions (SHPIs), initiating district level dialogues, enlisting partner support, besides investing significantly in training and awareness building among the stakeholders, dissemination of best practices, *etc.* The amount of cumulative grant support sanctioned aggregated Rs.15 crore covering 785 NGOs for promotion of 1,15,279 SHGs as on March 31, 2004 as against the cumulative grant of Rs.10 crore sanctioned to 564 NGOs for 78,011 SHGs as on March 31, 2003. Realising the need for providing need based training to different segments of the stakeholders, NABARD conducted/supported various training/sensitisation and exposure programmes covering more than 1.59 lakh members of SHGs, over 26,000 bank officials, about 7,300 NGO staff, about 5,900 officials of Government agencies, and about 300 trainers during 2003-04.

Other Initiatives

4.108 New initiatives taken include *inter alia*:

- A pilot project aimed at building synergy between the Gramin Bank approach with the SHG Bank Linkage Programme in tribal area of Orissa State, in association of an NGO and Kalahandi Gramin Bank.
- A Pilot Project for expanding the outreach and quality of services of the rural banks using IT enabled services has been initiated with Sri Vishakha Gramin Bank in Andhra Pradesh.
- A Pilot Project on 'Computer Munshi' to be implemented through an NGO for piloting a self-sustaining mechanism to prepare

SHG accounts and ensure better tracking of the SHGs.

- A Pilot Project for financing mid-segment clients comprising small/tenant farmers/ oral lessees (traders) through Joint Liability Groups (Box IV.5).

- Building collaboration with the Post Office network in Tamil Nadu for financing 200 SHGs. These initiatives are expected to set to direction for further expansion of access to banking services for identified client groups.

Box IV.5: Smoothening Credit Flow to Small Borrowers through Joint Liability Group Approach

The micro-finance approaches have succeeded in reaching out to a large number of rural poor. However, there is need to address the issues of sustainable access to credit for the mid-segment of the rural society. This segment primarily comprises of small and marginal farmers and artisans, whose credit needs, are often larger in size and longer in duration than the micro-credit being purveyed through the SHG-bank linkage programme. This segment of borrowers also represent bulk of the loan accounts at the branch level and contribute to larger share of transaction cost in view of small average loans outstanding. In addition, there are large number of tenant farmers/oral lessees, who cannot offer tangible collaterals and thus do not fit into the traditional financing approaches of the banking system. With an increasing number of such prospective borrowers, it was considered urgent to address the entire range of issues concerning extension of credit to them. After a consultative process during 2003-04, a Pilot Project was initiated by NABARD to explore the potential of replication of Joint Liability Group (JLG) approach successfully adopted by Bank for Agriculture and Agricultural Co-operatives of Thailand, with suitable indigenisation of the methodology to meet the local requirements.

Objectives of the pilot project of NABARD

The Pilot Project on financing JLGs aims to evolve supplementary credit technologies to facilitate smoother flow of quality credit to mid segment credit takers by assisting establishment and financing of JLGs. Apart from this, the aim is also to build mutual trust and confidence between bankers and small clients using different models of JLGs as collateral enhancers and collateral substitutes and make a comparative assessment of its usefulness in the context of Indian banking.

General Features of JLG

A Joint Liability Group to be established under the pilot project is an assembly of 5-10 member clients (new or existing) for a bank, informally recognised by the bank as a group. The JLG members offer an undertaking to the bank that enables them to jointly receive such amounts as deemed eligible by the bank for pursuing individual or joint activities-as found suitable by the group. The main purpose of JLG is to facilitate mutual loan guaranteeing and execution of joint liability agreement making them severally and jointly liable for payment of interest and repayment of loans obtained from the bank. The management of the JLG will be kept simple with little or no financial administration within the group. The members of JLG normally live in the same neighbourhood or in the same village and are from the same socio- economic background and environment. They may be mostly engaged in the same production activities and are expected to know and trust each other well.

The Project has been launched in the later half of the year 2003-04 in eight RRBs and one SCARDB. The initial results have been quite encouraging as could be seen from the experience of the Pandyan Grama Bank in Tamil Nadu which extended credit in the form of small loans to over 500 clients for fisheries, agriculture, petty trade, *etc.*, by financing 105 JLGs with loans of over Rs.1 crore. The initial assessment suggests the possibility of scaling up credit flow to the agriculture sector to quality clients in JLGs. It could also serve as a credit tool for reaching segments of the agrarian population who do not have ownership rights or till leased lands. The flexibility of the system, simplicity of documentation and cheaper credit seems to entice the potential borrower to this approach. However, the borrower selection for JLGs, needs to be made with caution and the process of education of clients needs to be given due attention, for the scheme to be effective.

Chapter V

Financial Institutions

5.1 The role of financial institutions has been under discussion in recent years. Although setting up of the development finance institutions (DFIs) was an important feature in the overall development of the financial system; with the emergence of the capital market as an important source of finance in the late 1980s and early 1990s, and the renewed role of banks in term-financing, DFIs have been increasingly exposed to greater competition. Liberalisation of the financial sector, with its associated processes of decontrol, deregulation and globalisation, has led to increased competition for financial intermediaries across different segments. The competitive pressures have come into the business domain of FIs on account of the entry of new players. Moreover, with the initiation of financial sector reforms in the early 1990s, access of FIs to assured sources of long-duration/concessional funds from the Government, particularly 'SLR bonds' that were subscribed to by banks and insurance companies, has been gradually phased out. FIs at present are overwhelmingly dependent on market borrowings - wholesale and retail, domestic and foreign - for their resource mobilisation. As a consequence, DFIs are required to raise funds from the capital market. With the removal of administrative controls on the interest rate structure, it has become increasingly difficult for DFIs to raise long-term funds. This in turn has affected their ability to offer competitive rates to their borrowers.

5.2 Apart from the competitive pressure for raising resources, the role of DFIs as an exclusive source of development finance has diminished as other intermediaries especially banks have also entered into long-term and high risk project financing. Therefore, FIs are increasingly facing competition not only in terms of raising resources but also in the deployment of funds. In short, the change in the operating environment coupled with the legacy of high non-performing assets has led to serious financial stress on the term lending financial institutions.

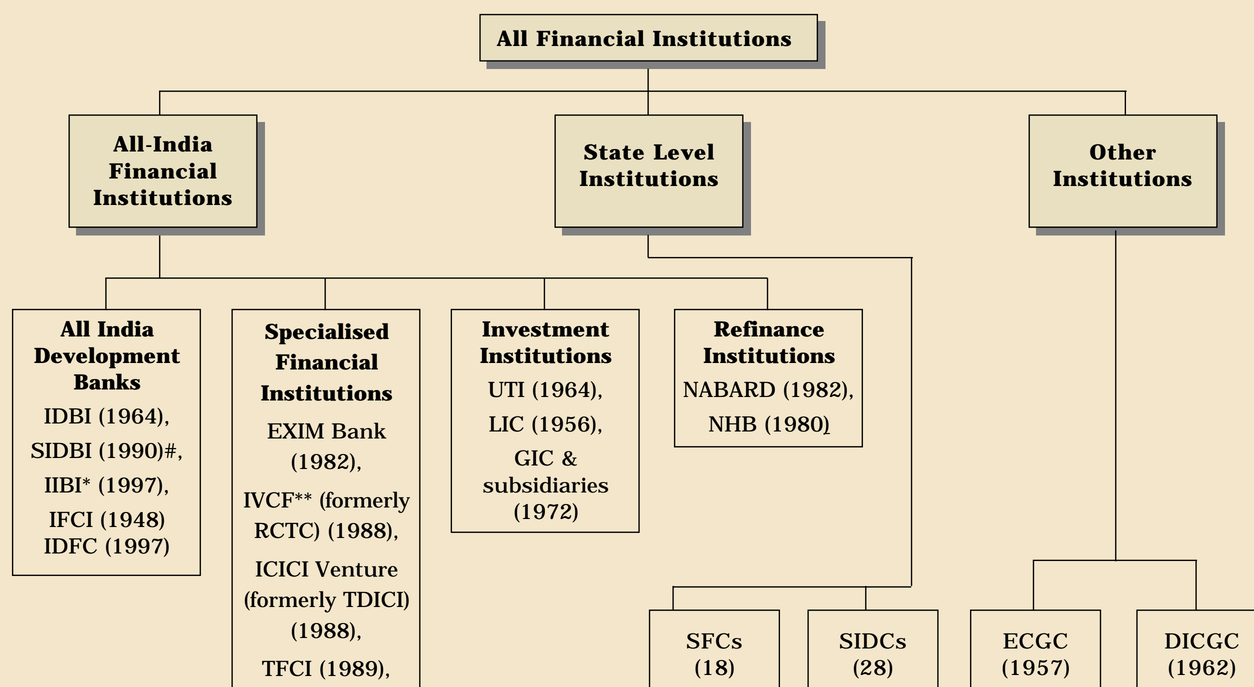
5.3 The financial institutions in India can be broadly classified into three categories, *viz.*, All-India Financial Institutions (AIFIs), State level institutions and other institutions (Chart V.1). On the basis of functions and activities, the AIFIs have four segments; (i)all-India development banks, (ii) specialised financial institutions, (iii) investment institutions and (iv) refinance institutions. The State level institutions comprise State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs). Other financial institutions include Export Credit Guarantee Corporation of India (ECGC) Ltd. and Deposit Insurance and Credit Guarantee Corporation (DICGC). Out of 17 AIFIs, the Reserve Bank regulates and supervises only nine. Out of these nine, six FIs, *viz.*, Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI) Ltd., Industrial Investment Bank of India (IIBI) Ltd., Tourism Finance Corporation of India (TFCI) Ltd., Infrastructure Development Finance Company (IDFC) Ltd. and EXIM Bank are 'Term Lending Institutions', while the remaining three FIs, *viz.*, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) are termed as 'Refinance Institutions' for regulatory and supervisory purposes.

2. Policy Initiatives for Financial Institutions

5.4 The Reserve Bank regulates and supervises nine AIFIs[1] under Section 5 of the Reserve Bank of India Act, 1934. The FIs are currently on the transition path as recommended by the Narasimham Committee II, by making endeavours, to convert themselves either into a bank or NBFC. The focus of the policy initiatives by the Reserve Bank and the Government has been on financial as well as organisational restructuring to facilitate their transition into universal banks. As a corollary, the Reserve

[1] IFCI Limited, IDBI, EXIM Bank, IIBI Limited, TFCI Limited, IDFC Limited, NABARD, NHB and SIDBI.

Chart V.1: Organisational Structure of Financial Institutions



* The erstwhile Industrial Reconstruction Bank of India (IRBI), established in 1985 under the IRBI Act, 1984, was renamed as Industrial Investment Bank of India Ltd. (IIBI) with effect from March 27, 1997.

** IVCF-IFCI Venture Capital Funds Ltd.

SIDBI is termed as the 'Refinancing institution', for regulatory and supervisory purpose.

Notes: 1. Figures in brackets under respective institutions indicate the year of incorporation.
2. Figures in the brackets under SFCs/SIDCs indicate the number of institutions in that category.
3. IDBI became IDBI Ltd. on October 1, 2004.

Bank has been harmonising its various policy measures for banks and FIs in such a manner that FIs, on becoming banks, are in a position to fully integrate themselves into the banking system. The Reserve Bank initiated various regulatory and supervisory initiatives including facilitating organisational restructuring of the FIs during 2003-04. Policy initiatives for select AIFIs laid emphasis on asset classification and provisioning, disclosures, consolidated accounting and supervision, infrastructure financing and measures to facilitate market developments.

5.5 To examine the supervisory and regulatory issues relating to term lending and refinancing institutions and improve the flow of resources to them, the Reserve Bank announced the setting up of a Working Group on Development Financial Institutions which submitted its Report in May 2004 (Box V.1).

Regulatory Initiatives

Asset Classification and Provisioning Norms: Refinement

5.6 FIs were advised that with effect from end-March 2006, an asset should be classified as a non-performing asset (NPA) if the interest and/ or instalment of principal remain overdue for more than 90 days. As regards the additional provision arising as on March 31, 2006 on account of the modification in the norms, FIs would have the option to phase out the required provisioning over a period of three years beginning from the year ending March 31, 2006, subject to at least one fourth of the additional required provision being made in each year.

Prudential Norms for Classification of Doubtful Assets of FIs

5.7 With a view to moving closer to international best practices and ensuring

Box V.1: Report of the Working Group on Development Financial Institutions

In order to address the regulatory and supervisory issues and enhance the flow of credit, the Reserve Bank of India in its mid-term Review of monetary and credit policy 2003-04 announced the setting up a Working Group on Development Financial Institutions (Chairman: N. Sadasivan)[2]. The broad objectives of the Working Group were to review the experience and prospects of DFIs for transformation into banks and to assess the financial position and recommend a regulatory framework for the existing financial institutions.

The Working Group observed that in the pre-reform period, DFIs faced little competition in the area of long-term finance as funds were available to them at cheaper rates from multilateral and bilateral agencies duly guaranteed by the Government. The reforms in the financial sector have changed the operational environment for the DFIs. Along with the changed operating environment for banks in a globalised scenario, the regulatory framework for FIs has undergone a significant change. While on the supply side, the access of DFIs to low-cost funds has been withdrawn, on the demand front, they have to compete with banks for long-term lending. Out of nine select all India financial institutions being regulated and supervised by the Reserve Bank at present, three institutions, *viz.*, NABARD, NHB and SIDBI extend indirect financial assistance by way of refinance. The financial health of these three institutions is sound as their exposures are to other financial intermediaries, which in certain cases are also supported by State Government guarantees. Of the remaining six institutions, two niche players, *viz.*, EXIM Bank and IDFC Ltd. are also healthy. The remaining four institutions that have been operating as providers of direct assistance, are all in poor financial health. The major recommendations by the Group are:

- The role of DFIs as exclusive providers of development finance has diminished during the 1990s with the emergence of a well-diversified banking system operating efficiently and acquiring skills in extending long-term finance. The banks should be permitted to raise long-term finance through development bonds to enable them to extend high-risk project finance.
- As a result of the exposure of DFIs to certain sectors with cyclical downturn, DFIs have accumulated large NPAs. To overcome this, Government should undertake a social cost-benefit analysis, on the basis of which Government should decide which sectors need development finance and which institutions can continue as DFIs. The rest of the DFIs should be converted either to a bank or a regular NBFC as recommended by the Narasimham Committee II.
- The Group identified that the main problems of SFCs were the centralised decision making, lack of corporate culture, high transaction cost and poor appraisal skills. The SFCs, according to the Group have lost their relevance. The Group is uncertain regarding the revival of financially sick SFCs and recommended phasing out of SFCs.
- Since long-term project finance is a risky proposition for any financial intermediary whose portfolio is almost exclusively comprised of project financing, the DFIs should consciously scale down the proportion of project financing by resorting to diversified products, before transformation into banks. Highly illiquid asset profile may be risky from the systemic point of view.
- DFIs seeking transformation should restructure themselves like a company with a large and diversified share holding. DFIs, converted into banks, could be accorded certain exemptions/relaxations for a period of three to five years after conversion.
- The Group also emphasised on the need for ongoing monitoring of the business and strategic plan till the DFIs are fully integrated into the banking system.
- The regulatory framework needs further strengthening and should be so designed so as to ensure financial soundness of DFIs and overall systemic stability.
- The Group recommended that risk weightage for certain categories of investments such as bonds of public financial institutions should be raised from the present level of 20 per cent to 100 per cent as such investments involve substantial credit risk.
- DFIs, *viz.*, NABARD, NHB, EXIM Bank and SIDBI work as instruments of public policy and the Reserve Bank may continue to regulate the financial and other related aspects of these institutions.

On the basis of recommendations of the Working Group and the feedback received thereon, the Reserve Bank in its mid-term Review of annual policy Statement 2004-05 proposed: i) the Reserve Bank would continue to supervise NABARD, SIDBI, NHB and EXIM Bank, ii) the Reserve Bank would supervise DFIs accepting public deposits while DFIs and large NBFCs not accepting public deposit but having asset size of Rs.500 crore and above would be subjected to limited off-site supervision.

convergence of the norms applicable to the FIs with those of banks, the Reserve Bank in its mid-term Review of annual policy Statement for the year 2004-05 proposed that in respect of FIs, an asset would be classified as doubtful, if it remained in the sub-standard category for 12 months with effect from March 31, 2005. FIs are permitted to phase out the consequent additional provisioning over a four-year period.

Slippage of Non-performing Assets – Preventive Measures

5.8 In pursuance of the directions of the Board for Financial Supervision (BFS), the Reserve Bank

[2] Also see Box VI.2 of the Report.

had constituted an in-house Group to identify and recommend the measures that could be instituted by the banks to prevent the slippage of the accounts from the 'sub-standard' category to the 'doubtful' category. Based on the recommendations of the Group, the Reserve Bank issued guidelines to banks and the same guidelines were extended to FIs. Accordingly, FIs were advised to place these guidelines before their Boards and take appropriate action for implementing the recommended measures, to the extent considered necessary, in keeping with the spirit of the guidelines. The introduction of a 'Special Mention' category for asset classification is for internal control and follow-up purposes only and this, however, would not constitute an additional category under the extant asset classification norms of the Reserve Bank.

Revised Guidelines for Compromise Settlement of Chronic NPAs up to 10 crore

5.9 Under the revised guidelines for One Time Settlement (OTS) of chronic NPAs up to Rs.10 crore, the last date for receipt of applications from borrowers was extended up to July 31, 2004 from the close of business on September 30, 2003 and the date of completion of processing of applications was also extended up to October 31, 2004 from December 31, 2003 in consultation with the Government of India.

Guidelines on Investment by the FIs in Debt Securities

5.10 FIs have been investing in the debt securities issued by companies on private placement basis from time to time. In order to provide greater transparency to such issuances and to protect the interest of investors in such securities, Securities and Exchange Board of India (SEBI) guidelines state that any listed company assuring debt securities on a private placement basis shall be required to comply with certain conditions relating to full disclosures (initial and continuing), Listing agreement with the exchanges, credit rating of not less than investment grade, appointment of a debenture trustee, issuance and trading of the debt securities in demat form, trading in stock exchanges and between Qualified Institutional Investors (QIIs) and High Networth Individuals (HNIs), and standard denomination of Rs.10 lakh. If the intermediaries registered with SEBI associate themselves with the issuance of private placement of unlisted debt securities, they will be held accountable for such issues. They will also be required to furnish periodical reports to SEBI in such format as may be decided by SEBI.

5.11 SEBI has also directed the stock exchanges to make necessary amendments to the listing agreement, bye-laws, rules and regulations for the immediate implementation, as may be applicable and also disseminate its guidelines on the website for easy access to the investors and to the listed companies/member brokers/clearing members of the Exchange.

5.12 The investment by FIs in debt instruments issued by corporate entities - in primary as well as secondary market - increased substantially in the recent past. The Reserve Bank, therefore, issued draft guidelines in November 2003 which sought to address the risks arising from investment in non-Government debt securities, particularly through private placement. On receipt of the feedback from the FIs, the final guidelines on the subject were issued in January 2004. These guidelines mainly covered various aspects relating to coverage, effective date and transition time, regulatory requirements, internal assessment systems, prudential limits, the role of Board of Directors, reporting requirements, disclosures, and trading and settlement in debt securities. These guidelines apply to the FIs' investment in debt instruments, both in the primary market (public issue as also private placement) as well as the secondary market, issued by companies, banks, FIs and State and Central Government sponsored institutions, Special Purpose Vehicles (SPVs), Central or State Public Sector Undertakings, with or without Government guarantee; units of debt-oriented schemes of Mutual Funds, *i.e.*, the schemes where the major part of the corpus is invested in debt securities; and capital gains bonds and the bonds eligible for priority sector status. The guidelines, however, do not apply to Government securities and the units of Gilt Funds; securities which are in the nature of advance under the extant prudential norms of the Reserve Bank; units of the equity oriented schemes of Mutual Funds; units of the 'Balanced Funds', venture capital funds and the money market mutual funds; Commercial Paper (CP); and Certificates of Deposit (CDs) (Box V.2).

Box V.2: Guidelines on Investments in non-Government Debt Securities

The Reserve Bank issued guidelines to FIs on investments in non-Government debt securities both in the primary (public issue and private placements) and secondary market with a view to address risks arising from investments in non-Government debt securities especially through private placements. The guidelines have been in force since April 1, 2004.

Considering the time required by the issuers of debt securities to get their existing unlisted debt issues listed on the stock exchanges, the following transition time is being provided:

a) Investment in units of mutual fund schemes where the entire corpus is invested in non-Government debt securities would be outside the purview of the above guidelines till December 31, 2004; thereafter, such investments would also be subject to the guidelines.

b) Investment in units of such schemes of mutual fund as have an exposure to unlisted debt securities of less than 10 per cent of the corpus of the scheme would be treated on par with listed securities for the purpose of the prudential limits prescribed under these guidelines from January 1, 2005. Hence, till December 31, 2004, investments in such units would attract prudential limits.

c) Investments in existing unlisted securities, issued on or before November 30, 2003, were permitted up to March 31, 2004. In case, the issuers have applied to the stock exchange(s) for listing of such unlisted securities and the security is rated as minimum investment grade, investment in such unlisted securities can be permitted till December 31, 2004.

d) Regarding unlisted securities issued after November 30, 2003, investments are permitted up to December 31, 2004, subject to a ceiling of 10 per cent of the incremental investments in the categories covered under these guidelines over the corresponding figure of outstanding investments as on November 30, 2003.

e) With effect from January 1, 2005 only those FIs would be eligible to make fresh investments (up to the prescribed prudential limits) in the unlisted securities whose investments in such securities are within the prudential limits prescribed.

Investment by FIs are permitted only in rated debt securities with a minimum investment grade rating from an external rating agency, operating in India, as identified by the IBA/FIMMDA. FIs cannot invest in debt securities of original maturity of less than one-year other than CPs and CDs, which are covered under the Reserve Bank guidelines. The FIs need to undertake usual due diligence in respect of investments in debt securities including the securities which do not attract these guidelines. The FIs should ensure that all fresh investments in debt securities are made only in listed debt securities of companies, which comply with the requirements of the relevant SEBI guidelines. The unlisted debt securities in which the FIs are allowed to invest up to the limits specified should be rated and issuer company should follow disclosure requirements as prescribed by the SEBI for listed companies.

The FIs should follow the same standards as for their credit appraisal before investing in debt securities, irrespective of the fact that the proposed investments may be in rated securities. FIs should not solely depend on the ratings of external rating agencies but strengthen their internal rating systems including building up of a system of regular (quarterly or half-yearly) tracking of the financial position of the issuer.

FIs are permitted to invest in the unlisted debt securities to the limit of not exceeding 10 per cent of their total investment in debt securities, which fall within the ambit of these guidelines, as on March 31 (June 30 in case of NHB) of the previous year. However, investment in Security Receipts (SRs) issued by Securitisation/Reconstruction Companies registered with the Reserve Bank in terms of the provisions of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS) which are rated at or above the minimum investment grade will not be reckoned as 'unlisted debt securities' for the purpose of monitoring compliance. FIs, with exposure to investments in debt securities in excess of the above prudential limit as on March 31, 2003 (June 30, 2003 in case of NHB), should not make any fresh investment in such securities till the prudential limit is complied with.

The Boards of FIs would have to put in place a monitoring system to ensure that the prudential limits prescribed under these guidelines are scrupulously complied with, including the system for addressing the breaches, if any, due to rating migration. Boards of the FIs are expected to review, twice a year, total turnover (investment and divestment) during the reporting period; compliance with the Reserve Bank-mandated prudential limits as also those prescribed by the Board for such investments; rating migration of the issuers/securities held in the books of the FIs and consequent diminution in the portfolio quality; and extent of non-performing investments in the fixed income category.

In order to help in the creation of a central database on private placement of debt, the investing FIs are expected to file a copy of all offer documents with the Credit Information Bureau (India) Ltd. (CIBIL). When the FIs themselves raise debt through private placement, they need to file a copy of the offer document with CIBIL. Any default relating to payment of interest / repayment of instalment in respect of any privately placed debt needs to be reported to CIBIL by the investing FIs along with a copy of the offer document. The FIs should also report to the Reserve Bank such particulars in respect of their investments in unlisted securities as may be prescribed by the Reserve Bank from time to time.

The FIs need to disclose the details of the issuer composition of investments made through private placement and the non-performing investments in the 'Notes on Accounts' of the balance sheet, with effect from the year ending March 31, 2004 (June 30, 2004 in case of NHB) in the prescribed format.

As per the SEBI guidelines, all trades, with the exception of the spot transactions, in a listed debt security, would have to be executed only on the trading platform of a stock exchange. In addition to complying with the SEBI guidelines, the FIs would have to ensure that all spot transactions in listed and unlisted debt securities are reported on the NDS and settled through the Clearing Corporation of India Limited (CCIL) from the date to be notified by the Reserve Bank.

Guidelines Relating to Issuance of Commercial Paper (CP)

5.13 In order to provide further flexibility to both issuers and investors in the CP market, it has been decided that non-bank entities including corporates may provide unconditional and irrevocable guarantee for credit enhancement of the CP issue subject to (i) the issuer fulfilling the eligibility criteria prescribed for issuance of CP; (ii) the guarantor having a credit rating at least one notch higher than the issuer by an approved credit rating agency; and (iii) the offer document for CP disclosing the net worth of the guarantor company, the names of the companies to which the guarantor has issued similar guarantees, the extent of the guarantees offered by the guarantor company, and the conditions under which the guarantee will be invoked. Further banks are permitted to invest in CPs guaranteed by non-bank entities provided their exposure remains within the regulatory ceiling as prescribed by the Reserve Bank for unsecured exposures.

Risk Weight for Exposure to Public Financial Institutions (PFIs)

5.14 Since December 1998, FIs were advised that their investments in the bonds/ debentures of certain PFIs would attract a uniform risk weight of 20 per cent. In pursuance of the annual policy Statement 2004-05, it has been decided that exposures to all PFIs will attract a risk weight of 100 per cent with effect from April 1, 2005.

3. Supervision and Audit

Consolidated Accounting and Consolidated Supervision

5.15 In the light of comments received on the draft guidelines and on the basis of a review, a set of final guidelines were issued on consolidated accounting and consolidated supervision. The guidelines which came into force on April 1, 2003 (July 1, 2003 in case of NHB), comprise three components in the supervisory framework, *viz.*, (i) Consolidated Financial Statements (CFS); (ii) Consolidated Prudential Returns (CPR); and (iii) application of prudential regulations like capital adequacy, large exposures and liquidity gaps on group-wide basis in addition to the solo prudential norms applicable to the parent FIs/subsidiaries. The publication of the CFS as per the Accounting Standard (AS) 21 of the Institute of Chartered Accountants of India (ICAI) is mandatory for the listed FIs in terms of the Listing agreement and the guidelines have made such publication mandatory even by the non-listed FIs since April 1, 2003.

Asset Liability Management (ALM) - Guidelines

5.16 The ALM guidelines have been in operation since April 2000, and with the stabilisation of the ALM system, the FIs have been advised to submit data to the Reserve Bank regarding the liquidity and interest rate gaps as a part of the extant off-site surveillance system at quarterly intervals, with effect from the quarter ended June 30, 2003.

On-site Inspection and Off-site Surveillance System

5.17 The Reserve Bank continued to undertake on-site inspection of nine FIs under section 45N of the Reserve Bank of India Act, 1934. The inspections are conducted annually. During the year 2003-04, the supervisory process for all nine FIs with reference to their position as on March 31, 2003, (except NHB) was initiated and completed including submission of memoranda to the BFS.

5.18 Keeping in view the regulatory changes that have taken place since the introduction of Prudential Supervisory Reporting System (PSRS) in July 1999, and also based on the suggestions received from the FIs, the FID-OSMOS was modified with effect from September 2003. The FIs now submit the off-site returns using the modified software module provided to them for this purpose. The review of the performance of the FIs based on the off-site returns submitted by them is presented to the BFS on a quarterly basis.

4. Other Policy Developments

Trading of Government of India Securities on Stock Exchanges

5.19 To encourage wider participation of all classes of investors in the secondary market for Government securities, the trading in Government of India dated securities at the stock exchanges through a nation-wide, anonymous, order-driven, screen-based system was introduced on January 16, 2003. However,

participation in this segment was negligible on account of availability of alternative investment avenues with better returns like small savings instruments and savings bonds and with more tax efficient features, like units of mutual funds. Participation of wholesale entities was also adversely affected by lack of liquidity on the exchanges. As announced in the annual policy Statement 2004-05, a Working Group on Screen Based Trading in Government Securities (Chairman: Dr.R.H. Patil) was formed to study and recommend methods to improve liquidity on the Government securities trading platform of stock exchanges, in particular to improve market access for retail and mid-segment investors. As liquidity on the exchange based trading platform improves, it will provide the market participants with another efficient trading platform. The Report of the Group has been placed in the public domain for wider dissemination.

5. Review of Operations

Financial Assistance: Sanctions and Disbursements.

5.20 The declining trend observed in financial assistance sanctioned and disbursed by AIFIs during 2001-02 and 2002-03 was reversed during 2003-04, aided by substantial improvements recorded by investment institutions and to an extent, by specialised FIs (Table V.1 and Chart V.2). Bulk of the total sanctions and disbursements was made by Life Insurance Corporation of India (LIC) which were Rs.21,974 crore and Rs.15,782 crore, respectively, in 2003-04 as compared with Rs.4,333 crore and Rs.6,206 crore in the 2002-03. The disbursement by the LIC was higher than the combined disbursements of IDBI, IFCI, IDFC, IIBI and SIDBI. This possibly reflects its strategic shift from merely investing in bonds of public and private sector corporates into active lending. In percentage terms, LIC accounted for 46 per cent of the total sanctions and 49 per cent of the total disbursements by AIFIs during 2003-04. Another noteworthy development is the steep increase in sanctions and disbursements by the IDBI to the infrastructure sector by 288.2 per cent and 45.2 per cent respectively, during 2003-04, accounting for 43.9 per cent and 34.0 per cent of its total sanctions and disbursements respectively, during this period.

Table V.1: Financial Assistance by Financial Institutions

(Year: April-March)

(Amount in Rs. crore)

	Institution	2002-03		2003-04		Percentage variation during 2003-04	
		S	D	S	D	S	D
	1	2	3	4	5	6	7
A.	All-India Development Banks (IDBI, IFCI, SIDBI, IIBI, IDFC)	22,272	17,225	23,407	14,057	5.1	-18.4
B.	Specialised Financial Institutions (IVCF, ICICI Venture, TFCI)	475	490	484	441	1.8	-10.1
C.	Investment Institutions (LIC, GIC#, UTI)	5,965	7,902	23,705	17,402	297.4	120.2
D.	**Total Assistance by All-India FIs (A+B+C)**	**28,713**	**25,618**	**47,597**	**31,900**	**65.8**	**24.5**

S Sanctions. D Disbursements.

\# Data include GIC and its subsidiaries.

Notes : 1. Data are provisional for all institutions.

2. For IFCI, treasury operations, conversion of loans into equity/preference shares/debentures as well as differential interest on account of NPV loss consequent upon restructuring of loan accounts are not reflected in data on sanctions and disbursements, effective April 1, 2003.

3. With the repeal of UTI Act, UTI has discontinued submission of data on sanctions and disbursements since November 2002. Hence, data of UTI for 2002-03 is for seven months only, *i.e.,* from April 2002 to October 2002.

Source : Respective FIs, IDBI for GIC and its former subsidiaries and SIDCs, and SIDBI for SFCs.

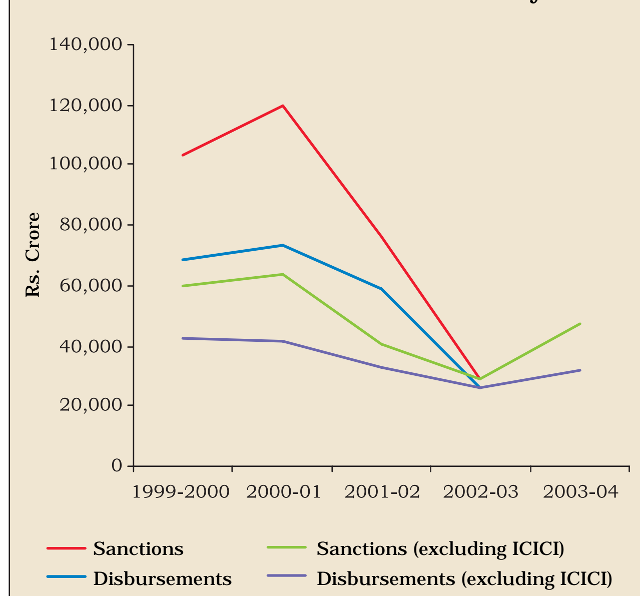


Table V.2: Resource Flow from All-India Development Banks to Corporate Sector

(Amount in Rs. crore)

Item	2002-03	2003-04
1	2	3
Sanctions	22,272	23,407
Disbursements	17,225	14,057
Credit (1+2+3+4)	-6,021	-2,845
1. Investments in stocks / shares / bonds / debentures of industrial concerns / commercial concerns	-766	-151
2. Loans and advances to industrial/ commercial concerns*	-3,804	-2,525
3. Bills of Exchange and Promissory Notes / discounted and re-discounted	-1,546	-191
4. Others (Non-Funded Assistance)	95	22

* Loans and Advances to Overseas Industrial Concerns under the Lines of Credit/Buyers' Credit Programmes have been excluded.

5.21 The financial assistance consists of project finance and non-project finance. While term loans, underwriting and direct subscription, and deferred payment guarantees constitute project finance, non-project finance comprises equipment finance, corporate loans, equipment leasing, investment/ direct subscription to shares and debentures/ bonds. There has been a significant increase in project finance, particularly loans (rupee and foreign currency loans) from investment institutions, particularly LIC, during 2003-04 (Appendix Table V.1). Further, there was a discernible moderation in the contraction of flow of credit to commercial sector from all-India development banks during 2003-04 (Table V.2). Strengthening of industrial growth on account of a boost to a spectrum of manufacturing industries reflecting an improvement in domestic and external demand conditions and reduction in excise duties on a host of intermediate inputs may have contributed to an increase in project finance sanctioned and disbursed by the FIs.

5.22 The change in the operating environment has also necessitated realignment of FIs' asset portfolio. As the margins have become thin, it has become necessary to provide a wider range of products and services with value-added features. While project financing continues to be the main product for major FIs, various innovative products have been developed to suit the clients' varied requirements. In view of the large investment requirements of the infrastructure segment, infrastructure funding has become a major growth area while the share of traditional economy sectors has gone down. At the same time, FIs like IDBI have entered into funding of working capital and the short-term requirement of their existing borrowers. Although sanctions and disbursements to corporate sector by the all-India development banks recorded improvement, the net flow of resources from them to the corporate sector continued to be negative during 2003-04 possibly due to the emergence of other alternative sources of project finance and on account of higher redemption by the corporate sector.

5.23 One encouraging development in 2003-04 is a substantial increase in sanctions and disbursements to infrastructure sector by IDFC. IDFC has broadened its areas of coverage. From an initial focus on power, roads, ports and telecommunications; other sectors, such as, energy, information technology, integrated transportation, urban infrastructure, health care, food & agri-business infrastructure, education infrastructure and tourism are being increasingly catered to. Sanctions by IDFC increased by 148.5 per cent to Rs.5,727 crore in 2003-04 from Rs.2,304 crore in 2002-03 and disbursement increased by 184.7 per cent to Rs.2,704 crore in 2003-04 from Rs.950 crore in 2002-03. The infrastructure sectors that witnessed substantial growth in disbursements from the IDFC were energy (308 per cent), telecommunication (172 per cent), transportation (81 per cent) and urban infrastructure (2,260 per cent) (Appendix Table V.2).

Assets and Liability Structure of FIs

5.24 The balance sheet of select FIs, as a group, showed a growth of 7.3 per cent during 2003-04 over the previous year (Table V.3). Broad trends in liabilities remained more or less the same. Bonds/debentures continued to be the largest component due to their in-built flexibility and their tradability. The share of deposits witnessed a decline as FIs, anticipating reversal of trends in the interest rates, reduced their deposit liabilities in the shorter end of the maturity spectrum. Borrowings, however, remained at the same level.

5.25 On the assets side, there was a compositional shift away from loans and advances towards investments and holding of more liquid assets. Loans and advances, the biggest component, registered a decline in its share partly on account of a decline in disbursements, despite an increase in sanctions due to increased provisioning and higher pre/repayments by borrowers. The share of investments, on the other hand, rose significantly partly due to the strong and broad-based rally in the capital markets in 2003-04, reflecting the increase in equity prices and a rise in market capitalisation.

Sources and Uses of Funds

5.26 The total sources and deployment of funds of FIs increased substantially by 26.6 per cent during 2003-04 as against a decline of 2.1 per cent during 2002-03. Both internal and external funds registered a rise during the year under review. Reflecting the substantial improvement in the industrial climate, fresh deployments registered an increase in its share in the total. Repayment of past borrowings also rose perceptibly on account of substitution of earlier high cost debt with the cheaper debt in view of the falling interest rates. Other deployments recorded a fall due, *inter alia*, to a decrease in interest payments (Table V.4 and Appendix Table V.3).

5.27 The share of fresh deployments is more or less equal to that of internal funds, whereas the combined share of repayments of past borrowings and other deployments equaled that of external and other sources of funds. This highlights the fact that while the internal funds are being used for the purpose of fresh deployments, including fresh investment, external and other sources of funds are being utilised for repayments of past debt (Appendix Table V.3).

Table V.3: Composition of Liabilities and Assets of Financial Institutions

(Amount in Rs. crore)

Item	Outstanding as at the end-March		Distribution (per cent)	
	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5
Liabilities	**1,83,714**	**1,97,064**	**100.0**	**100.0**
Capital	6,784	6,784	3.7	3.4
Reserves	18,221	20,151	9.9	10.2
Bonds and Debentures	89,640	97,512	48.8	49.5
Deposits	20,144	20,699	11.0	10.5
Borrowings	21,862	23,722	11.9	12.0
Other Liabilities	27,062	28,196	14.7	14.3
Assets	**1,83,714**	**1,97,064**	**100.0**	**100.0**
Cash	8,027	15,308	4.4	7.8
Investments	21,726	32,047	11.8	16.3
Loans and Advances	1,36,819	1,33,061	74.5	67.5
Bills Discounted/Rediscounted	1,605	1,218	0.9	0.6
Fixed Assets	2,975	1,816	1.6	0.9
Other Assets	12,562	13,614	6.8	6.9

Note: 1. Data include IDBI, IFCI, TFCI, IDFC, IIBI, Exim Bank, NABARD, NHB and SIDBI.
2. Data are provisional.

Source: Balance Sheets of respective FIs.

Table V.4: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources/Deployment of Funds	2002-03		2003-04	
	Amount	Share (per cent)	Amount	Share (per cent)
1	2	3	4	5
Sources of Funds	**95,562**	**100.0**	**1,20,936**	**100.0**
Internal	49,048	51.3	75,537	62.5
External	32,280	33.8	41,706	34.5
Others	14,234	14.9	3,694	3.0
Deployment of Funds	**95,562**	**100.0**	**1,20,936**	**100.0**
Fresh Deployments	52,028	54.4	73,173	60.5
Repayment of Past Borrowings	17,478	18.3	26,237	21.7
Other Deployments	26,056	27.3	21,525	17.8
of which: Interest Payments	10,733	11.2	10,326	8.5

* IDBI, IFCI, IIBI, IDFC, TFCI, NABARD, NHB, SIDBI and Exim Bank.
Source: Respective FIs.

Financial Assets of All-India Financial Institutions

5.28 Greater acceleration in the accretion to financial assets of the AIFIs during 2003-04 could be attributed to the substantial recovery registered in the overall economic activity. However, growth in financial assets of AIFIs was substantially lower than that of scheduled commercial banks. The financial assets of IFCI and IIBI recorded an absolute decrease over the previous year on account of the continued losses. Maximum (absolute) increase in financial assets was observed in the case of NABARD, followed by IDBI, EXIM Bank, IDFC and NHB [Table V.5, Appendix Table V.4(A) and Appendix Table V.4(B)].

Table V.5: Financial Assets* of All-India Financial Institutions and Banks
(As at end-March)

(Amount in Rs. crore)

	2003	2004	Variation during 2003-04
1	2	3	4
A. All-India Financial Institutions	1,80,740	1,95,247	14,507 (8.0)
B. Scheduled Commercial Banks#	14,01,682	16,39,595	2,37,913 (17.0)
C. Total (A+B)	**15,82,422**	**18,34,842**	**2,52,420 (16.0)**
Memo:			
FIs' assets as percentage of total assets	11.4	10.6	
SCBs' assets as percentage of total assets	88.6	89.4	

* Include investment, loans and advances, money market assets, deposits, cash in hand and balances with banks and other assets excluding fixed assets.
\# As per returns under Section 42 of the Reserve Bank of India Act, 1934 and include cash in hand and balances with the banking system, investments, bank credit and dues from banks. Hence, it does not include non-SLR investments, foreign currency assets and bank reserves.
Note : Figures in brackets are precentage changes.

Financial Performance of Financial Institutions

5.29 AIFIs as a group continued to post poor performance during the year ended March 2004. The spread (net interest income) and the operating profits declined marginally both in absolute terms and also as a ratio to the total assets. However, in line with the trend witnessed by banks and other segments of the financial sector, non-interest income registered sharp increase. The IFCI and IIBI continued to incur operating losses indicating that these FIs are earning less than what they have to pay to their lenders. Barring these two institutions, all other institutions registered positive operating and net profits. A sharp fall in the provisions for tax boosted net profits, in spite of a decline in the operating profits (Table V.6).

5.30 The IFCI which recorded an improvement in return on assets and net profit per employee during 2002-03, suffered deterioration during the year under review (Appendix Table V.5), mainly attributable to their restructuring package. In line with the recommendations of McKinsey & Co, IFCI is moving towards segregating its non-performing

Table V.6: Financial Performance of Select All India Financial Institutions@

(Amount in Rs. crore)

Item	2002-03	2003-04	Variation during 2003-04	
			Amount	Percentage
1	2	3	4	5
1. Income (a+b)	**15,763**	**14,783**	**-981**	**-6.6**
a) Interest Income	13,169	11,314	-1,855	-16.4
b) Non-interest Income	2,595	3,469	874	25.2
2. Expenditure (a+b)	**13,182**	**12,241**	**-941**	**-7.7**
a) Interest expenditure	11,825	10,918	-907	-8.3
b) Other Expenses	1,358	1,323	-34	-2.6
Of which : Wage Bill	391	502	111	22.0
c) Provisions for Taxation	960	730	-230	-31.5
3. Profit				
Operating Profit (PBT)	2,581	2,542	-40	-1.6
Net Profit (PAT)	1,621	1,811	190	10.5
4. Financial Ratios*				
Operating Profit (PBT)	1.4	1.3		
Net Profit (PAT)	0.9	0.9		
Income	8.7	7.5		
Interest Income	7.2	5.7		
Other Income	1.4	1.8		
Expenditure	7.2	6.2		
Interest Expenditure	6.5	5.5		
Other Operating Expenses	0.7	0.7		
Wage Bill	0.2	0.3		
Provisions	0.5	0.4		
Spread (Net Interest Income)	0.7	0.2		

@ Includes IDBI, IFCI, TFCI, IDFC, IIBI, Exim Bank, NABARD, NHB and SIDBI.
* as percentage of Total Assets.

Notes: 1. Operating Profit refers to profit before Provisions for Taxation/Tax (PBT).
2. Net Profit refers to profits after Tax Provisions (PAT).
3. IDBI data are provisional.

Source: Annual Accounts of respective FIs.

assets with the ultimate objective of hiving these off to an asset reconstruction company and focusing on further strengthening the quality of the existing portfolio.

Performance of FIs' Scrips/Stocks

5.31 Out of the nine FIs under the Reserve Bank's regulatory domain, two FIs (*viz.*, IDBI and IFCI) are listed on the BSE and NSE. The performance of stocks of IDBI and IFCI reveals that both the stocks passed through a lackluster phase during 2002-03. During 2003-04, both the stocks performed well from April 2003 to January 2004 in line with the rally witnessed in the BSE Sensex. However, some corrections were witnessed in case of both the scrips after January 2004. During the current year (from May 2004 to August 2004), the IDBI scrip outperformed the BSE Sensex while the IFCI scrip witnessed a downtrend. The uptrend in the IDBI scrip may be attributed to the restructuring proposal by the Government (Chart V.3).

Prime Lending Rate (PLR)

5.32 In line with the general softening trend of interest rates during 2003-04, the long-term PLR of IDBI declined during the year under review. Moreover, the short-term PLR was merged with the medium-term PLR. IDBI has also recently initiated a series of pro-active measures to garner new business as well as retain and win back well-performing clients to improve the quality of its asset portfolio. As part of this endeavour, the IDBI has brought down its PLR. Further, IDBI is offering a graded reduction in rupee interest rates, based on credit rating, to existing borrowers in its portfolio with a view to broadly aligning their interest rates with the prevalent interest rate regime. In the case of IFCI, there was no change in the PLR structure (Table V.7).

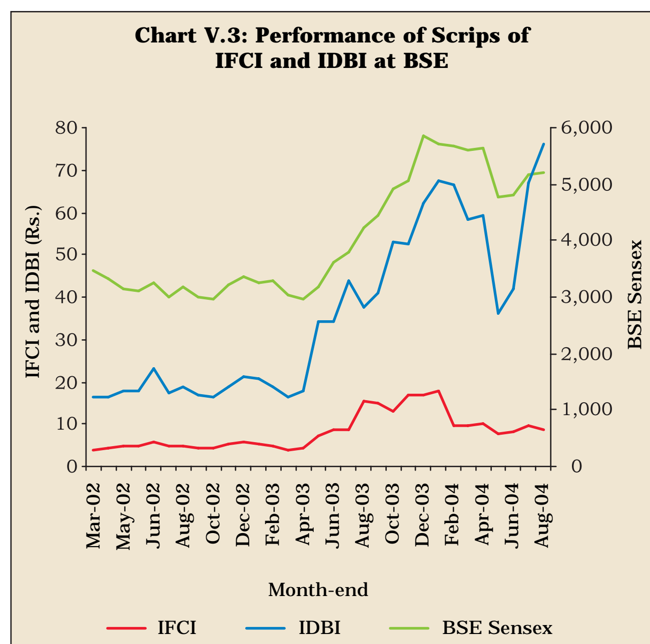


Table V.7: Lending Rate Structure of Major Financial Institutions

(Per cent per annum)

Effective from	PLR	IDBI	IFCI
1	2	3	4
Mar-2002	Long-term PLR	11.5	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5
Jul-2002	Long-term PLR	10.7	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5
Mar-2003	Long-term PLR	10.2	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5
Jul-2003	Long-term PLR	9.6	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5
Mar-2004	Long-term PLR	8.9	12.5
	Medium-term PLR	10.3	—
	Short-term PLR*	—	12.5

* Merged with medium term PLR in the case of IDBI.

Capital Adequacy

5.33 The performance of the select FIs in respect of the maintenance of a minimum capital to risk weighted assets ratio (CRAR) is presented in Table V.8. It is seen that except IFCI and IIBI, all the other FIs had a CRAR much above the stipulated norm of 9 per cent as at the end-March 2004. In the case of IFCI, high NPAs - arising out of large-scale slippage from standard assets to the NPAs category, thereby negating the effect of additional provisioning led to the squeezing of cash flow. This in turn resulted in restructuring of liabilities. Further, their continued losses, *inter alia*, led to mismatches in assets and liabilities, resulting in erosion of IFCI's capital. Similarly, in the case of IIBI, rising NPAs and provisioning thereof, coupled with the problem of declining profitability, were some of the factors behind the negative CRAR.

Non-Performing Assets

5.34 The net NPAs of AIFIs continued to increase during 2003-04 on account of time and cost overruns in projects, slippages in the standard assets, increase in legal expenses relating to NPAs, impairment of major assets of the assisted units, contraction of credit portfolio, *etc.* (Table V.9 and Appendix Table V.6).

Table V.8: Capital Adequacy Ratio* of Select Financial Institutions
(As at end-March)

(Per cent)

Institution	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
IDBI	13.7	12.7	14.5	15.8	17.9	18.7	18.3
IFCI	11.6	8.4	8.8	6.2	3.1	0.95	-17.0
IIBI	12.8	11.7	9.7	13.9	9.2	-11.0	-20.1
IDFC	N.A.	235.5	119.7	85.5	56.7	51.3	36.9
Exim Bank	30.5	23.6	24.4	23.8	33.1	26.9	23.5
TFCI	16.4	15.4	16.2	18.6	18.5	19.8	22.8
SIDBI	30.3	26.9	27.8	28.1	45.0	44.0	51.6
NABARD	52.5	53.3	44.4	38.5	36.9	39.1	39.4
NHB	16.7	17.3	16.5	16.8	22.1	22.3	31.9

* Net of provisioning and write offs.
Source: Respective balance sheets of FIs.

Table V.9: Net Non-Performing Assets*

(As at end-March)

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs / Net Loans (per cent)	
	2003	2004	2003	2004
1	2	3	4	5
Term Lending Institutions	**12,818**	**13,632**		
IDBI	7,157	8,693	15.8	21.1
IFCI	4,559	3,865	29.5	32.3
IIBI	915	800	34.7	38.0
IDFC	3	0	0.1	0.0
EXIM Bank	184	129	2.3	1.3
TFCI	153	145	20.4	21.1
Refinance Institutions	**473**	**227**		
SIDBI	472	226	3.8	2.4
NABARD	1	1	0.0	0.0
NHB	0	0	0.0	0.0

Source: Off-site Returns submitted by FIs.

Management of NPAs

5.35 During 2003-04, NPAs of the nine FIs grew at a lower rate than the previous year. FIs have been making concerted efforts to effectively address the problem of NPAs through various ways including recourse to compromise and negotiated settlements, rescheduling/ restructuring of loans, recovery under the SARFAESI Act, 2002; implementing OTS schemes; establishing Asset Reconstruction Companies (ARCs) and recovery through Debt Recovery Tribunals (DRTs). Up to March 31, 2004, 653 cases were considered involving an amount of Rs.9,448 crore, of which an amount of Rs.844 crore was recovered under various schemes.

Mobilisation of Resources by way of Bonds/ Debentures by Select AIFIs

5.36 During the year 2003-04, total resources mobilised by way of issue of rupee bonds/ debentures (including private placement and public issue) by select AIFIs aggregated Rs.23,419 crore as against Rs.14,144 crore during the previous year ended March 2003 (Table V.10). Taking advantage of the lower interest rates as in the previous year, FIs such as IDBI, NABARD, SIDBI, NHB and IDFC have raised substantial amounts during the current year. However, IFCI and IIBI (since September 18, 2003) due to their deteriorating financial position were not permitted to raise fresh borrowings from the market. Since IFCI has been reinvesting the amounts arising out of its treasury operations and financial restructuring package with banks, FIs and provident funds; it has been able to effectively reduce its cost of borrowings. As a consequence, IFCI witnessed a decline in its outstanding borrowings at the end-March 2004 as compared to end-March 2003. IIBI and TFCI also have been able to reduce their outstanding borrowings. The total outstanding borrowings of all the FIs, however, increased to Rs.1,05,677 crore as at the end of March 2004 as against Rs.90,060 crore as at the end of March 2003 which is around 53.6 per cent of the total asset base of FIs (Table V.10 and Appendix Table V.7).

5.37 Of the total resources raised by the FIs, private placements continued to be the major mode of mobilising the resources which involved less transaction costs and also less time in terms of raising resources. Resource mobilisation by IDBI both from public issues and private placement market increased during 2003-04 as compared with the previous year. However, IDBI's reliance on the private placement market for funds requirements increased substantially as compared with the public issues during 2003-04 (Table V.11). IFCI relied solely on the private placement market for raising resources.

Table V.10: Resources Raised by Way of Rupee Bonds/Debentures* by Select All-India Financial Institutions

(Amount in Rs. crore)

Institution	Resources raised		Outstandings (end-March)	
	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5
IDBI	5,009	10,477	41,798	46,967
IFCI	267	–	20,203	17,564
IIBI	44	176	2,566	2,281
EXIM Bank	2,505	2,025	5,424	11,920
NABARD	2,988	5,334	8,702	11,883
NHB	1,877	2,526	4,675	6,958
SIDBI	961	1,429	4,692	5,428
TFCI	93	102	600	426
IDFC	400	1,350	1,400	2,250
Total	**14,144**	**23,419**	**90,060**	**1,05,677**

* Includes only rupee resources and does not include foreign currency borrowings. Data are provisional.

– indicates nil.

Source: Respective FIs.

5.38 The weighted average interest rate of resources raised by the FIs eased during 2003-04 while the weighted average maturity of the instruments issued was elongated for most FIs (Table V.12 and Appendix Table V.8).

Money Market Operations of Financial Institutions

5.39 The average amount of resources raised by the FIs by way of money market instruments declined to Rs.6,035 crore (25.6 per cent of limits) for 2003-04 from Rs.6,467 crore (25.4 per cent of limits) for 2002-03 (Table V.13). During 2003-04, term deposits were the most preferred instruments followed by commercial papers (CPs), inter-corporate deposits (ICDs), certificates of deposit (CDs) and term money.

Reserve Bank's Assistance to FIs

5.40 The practice of advancing loans by the Reserve Bank of India to industrial and agricultural financial institutions from the Long

Table V.11: Resources Raised through Public Issues/Private Placement/Bonds/Debentures by Major Development Finance Institutions

(Amount in Rs.crore)

Type of Issuance	IDBI		IFCI		Total	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7
Public Issue	2,216 (42.4)	2,930 (29.7)	0.0 (0.0)	0.0 (0.0)	2,216 (35.8)	2,930 (28.9)
Private Placement	3,008 (57.6)	6,942 (70.3)	965 (100.0)	267 (100.0)	3,973 (64.2)	7,209 (71.1)
Total	**5,224 (100.0)**	**9,872 (100.0)**	**965 (100.0)**	**267 (100.0)**	**6,189 (100.0)**	**10,139 (100.0)**

Note: Figures in brackets indicate percentage share in total resource mobilisation.

Table V.12: Weighted Average Cost/Maturity of Resources Raised by way of Rupee Bonds/ Debentures by Select All-India Financial Institutions

Institution	Weighted Average Cost (Per cent)		Weighted Average Maturity (Years)	
	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5
IDBI	8.5	6.5	4.3	5.1
IIBI	9.6	8.7	8.7	18.0
IFCI	9.6	8.2	2.2	3.2
TFCI	8.5	8.6	10.0	10.0
EXIM Bank	8.9	5.9	6.1	6.7
IDFC	7.6	5.6	5.6	5.9
SIDBI	6.5	4.9	2.3	2.8
NABARD	6.1	5.4	5.4	5.4
NHB	6.4	5.4	4.0	3.2

Note: Data are provisional.
Source: Respective FIs.

Term Operations (LTO) funds before transferring the surplus profit of the Reserve Bank to the Government of India was discontinued subsequent to an announcement made in the Union Budget for 1992-93. Accordingly, from the year 1992-93, the Reserve Bank has been making only token contributions to these funds (Table V.14).

5.41 During 2003-04 (July-June), no long-term assistance was sanctioned by the Reserve Bank to any financial institution. While there were no outstanding long-term borrowings with any institution under the NIC (LTO) funds as at end-June 2004, the outstanding credit to NHB under the NHC (LTO) Fund stood at Rs.50 crore as at end-June 2004. Out of total Rs.175 crore, outstanding as at end June 2003, NHB repaid Rs.125 crore to the Reserve Bank during May 2004.

5.42 The Reserve Bank sanctioned *ad hoc* borrowing limits for 12 months (July to June) aggregating Rs.180 crore to SFCs during 2003-04 at Bank Rate. These limits have been extended by a maximum period of six months. These short-term financial accommodations were backed by the pledge of *ad hoc* bonds issued by the SFCs and guaranteed by the respective State Governments/Union Territories. However, as at end-June 2004, there was no outstanding medium/short term credit to SFCs.

5.43 Major FIs, *viz.*, IDBI, IFCI, SIDBI are engaged in venture capital funding activities to promote entrepreneurship and support them during critical phases of venture. FIs also

Table V.13: Money Market Operations of Select All-India Financial Institutions

(Amount in Rs. crore)

Instrument	2002-03	2003-04
1	2	3
Term Deposits	1,548	2,206
Term Money	373	245
Inter-corporate Deposits	3,078	1,329
Certificates of Deposit	504	408
Commercial Paper	964	1,847
Total	**6,467**	**6,035**
Percentage of limits	**25.6**	**25.4**

Table V.14: Reserve Bank's Assistance to Financial Institutions

(Amount in Rs. crore)

Type of Assistance (outstanding)	June 30, 2003	June 30, 2004
1	2	3
Long Term Credit [NHC(LTO) Fund]		
NHB	175	50
Medium / Short Term Credit		
SFCs	17	–
Total	**192**	**50**

encourage commercial applications of indigenous technologies or adaptation of imported technologies, development of innovative products and services, holding substantial potential for growth and bankable ventures but involving higher risk including those in the information technology (IT) Sector. Similarly, FIs have been assigned to provide need based assistance for technological development. Government of India introduced the Technology Upgradation Fund Scheme (TUFS) for textile and jute industries in April 1999, which is in operation up to March 2007. The Scheme is intended to provide induction of state-of-the-art or near state-of-the art technology in textile industry. IDBI and SIDBI are nodal agencies for assistance under TUFS for textile industry (non-SSI) and textile industry (SSI), respectively while IFCI is the nodal agency for the jute industry.

6. Restructuring of Financial Institutions

Transformation into Universal Banking

5.44 With the blurring of functions between banks and FIs, the business model of a bank is being increasingly accepted for FIs also. Accordingly, there is a move to restructure FIs like IDBI and IFCI. The merger of the ICICI with ICICI Bank on March 30, 2002 was the beginning of the conversion of DFIs into universal banks as a solution to their problems. Universal banks would engage not only in traditional banking, but also investment banking and other financial activities. Since the merger of ICICI with ICICI Bank, similar moves are underway to transform the other principal DFIs in the country, *viz.*, IFCI and IIBI. In the Union Budget 2004-05, it was indicated that IFCI will be restructured through transfer of its impaired assets to an asset reconstruction company and by effecting merger with a large public sector bank.

5.45 In view of the changing operating environment following initiation of reforms since the early 1990s, Government of India decided to transform IDBI into a commercial bank without eschewing its traditional development finance obligations. The migration to the new business model of commercial banking, with its access to low-cost current/savings bank deposits, would not only enable it to overcome most of the limitations of the current business model of development finance but also simultaneously help in diversifying its client/ asset base by offering various retail liability products. Towards this end, the IDBI (Transfer of Undertaking and Repeal) Act 2003 was enacted in December 2003 which became effective since July 2, 2004. The Act provides for repeal of IDBI Act, corporatisation of IDBI (with majority Government holding) and transformation into a commercial bank. On July 29, 2004, the proposal to merge IDBI and IDBI Bank was accorded in-principle approval. IDBI became IDBI Ltd. on October 1, 2004 and being a ‘scheduled bank’ under the Reserve Bank of India Act, 1934, IDBI Ltd. can formally enter the portals of banking business over and above the business currently being transacted.

5.46 In this connection, the Government of India has already approved the IDBI’s proposal to set up a Stressed Asset Stabilisation Fund (SASF) wherein stressed assets of IDBI worth Rs.9,000 crore would be transferred by IDBI to SASF against transfer of equivalent amount of 20 year bonds issued by the Government of India in favour of SASF on cash/budget neutral basis. Apart from significantly improving the quality of IDBI’s portfolio, the measure may facilitate recovery from the earmarked NPAs over an elongated time-frame.

5.47 The Board of Directors of IFCI has approved, in principle, its merger which is expected to facilitate progress towards universal banking. IFCI has also continued to give renewed thrust on expanding the advisory service business during the year. It may be mentioned that the Government of India has already decided to take over certain liabilities of IFCI and correspondingly, the Reserve Bank has provided certain regulatory, relaxations for restructured liabilities of IFCI.

5.48 Given the need to achieve global scales of production, funding of expansion and diversification programmes of the existing corporates have also been identified as a key business objective. As competition has created pressure on margins and disintermediation has altered the scope of term lending, FIs have accorded priority to fee-based activities like merchant banking and corporate advisory services.

5.49 The SARFAESI Act enacted in 2002 has provided an enabling legal/regulatory environment for dealing with NPAs by term-lending institutions. Under the Act, FIs can now

attach assets of defaulting borrowers without having the requirement of approaching the court for recovery of NPAs. Given the problem of NPAs faced by FIs, the role of Securitisation Companies/Asset Management Companies/ Asset Reconstruction Companies which buy the assets of banks and FIs with substantial amount of NPAs, becomes important (Box V.3 and Box V.4).

7. Other Developments

5.50 The Union Budget 2004-05, presented on July 8, 2004, has spelt out a number of positive measures for financial sector participants. The focused pursuit of infrastructure development through pooled investment of Rs.40,000 crore by the proposed Inter-Institutional Group (IIG), comprising IDBI and select FIs and banks, is expected to stimulate their business volumes.

Corporate Debt Restructuring Mechanism

5.51 Corporate Debt Restructuring (CDR) system was developed in India based on the international experience. Detailed guidelines were issued for implementation by banks and FIs in 2001. The objective of the framework has been to ensure timely and transparent mechanism for restructuring the corporate debt of viable entities, outside the purview of Board for Industrial and Financial Reconstruction (BIFR), Debt Recovery Tribunals (DRTRs) and other legal proceedings. The CDR system effectively became operational from March 2002 with the execution of Inter Creditor Agreement (ICA) on February 25, 2002

Box V.3: Functioning of Asset Management Companies: International Experience

Asset management companies/asset reconstruction companies (AMCs/ARCs) have been set up in various countries to solve the problem of bad loans. AMCs take over non-performing assets (NPAs) of banks at discounted rate and manage and dispose of such assets.

The word 'asset reconstruction company' is a typical Indian word - the global equivalent of which is asset management companies and owes its origin to Narasimham Committee I which envisaged the setting up of a central Asset Reconstruction Fund. The money contributed by the Central Government to ARF was sought to be used by banks to clean up their balance sheets by writing-off the non-performing loans. This idea of ARF did not work as Government opted to recapitalise weak public sector banks to manage their own NPAs. Narasimham Committee II recommendations submitted in 1998, however, reiterated its proposal in the form of ARCs. The Union Budget 1998-99, thus encouraged a few banks with high NPAs to set up ARCs on an experimental basis and subsequently set up a task force in July 1998 to study possible modalities and prepare an operating plan for establishing ARCs in India. To provide the necessary legal backing for ARCs, the Government passed the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. Similarly, a way out of the current dilemma, faced by the financial institutions in respect of shortage of resources, is to resort to ARCs as an asset reconstruction device to sell off the NPAs of the FIs.

Similar entities had already been successful in Malaysia, Korea and several other countries in the world. AMCs used broadly two approaches: i) restructuring of the debt/ borrowing and ii) the outright sale of the loan/underlying assets. The experience of AMCs suggests that a prompt disposal of assets enables them to achieve their objective. In the aftermath of the East Asian financial crisis, Indonesia, Korea, Malaysia, and Thailand each established a centralized AMC to purchase, restructure, and dispose of NPLs from banks and other financial institutions, and instituted informal mechanisms for corporate debt restructuring. Nearly seven years since the onset of the crisis, some of these 'crisis-created' institutions have already ceased operations. Likewise over the next two years, a couple of the AMCs will reach the end of their mandates. Major factors facilitating the successful functioning of an AMC are strong political will, supportive legal structure, efficient market environment, adequate governance, realistic asset pricing and speedy disposal of acquired assets.

In Thailand, the Government set up the Thai Asset Management Corporation (TAMC) which buys bad loans of state banks. TAMC has restructured debts worth Bt 753.33 billion in its first three years of operation which represent 96.7 per cent of its total distressed assets. China initially had four financial asset management companies (AMCs) to take over a total of 1.4 trillion Yuan (US $168 billion) of non-performing loans. Till June 2004, these four AMCs disposed of NPAs with 45.7 per cent assets-disposal ratio and 20.7 per cent as cash-recovery ratio. In addition to this, six licenses have been issued further to other companies allowing them to be involved in asset management. In Taiwan, AMCs promoted by international investors participate in the auctions and submit bids to acquire NPAs after carrying out negotiations with financial institutions directly.

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Box V.4: Regulatory Environment for ARCs in India

In India, the enactment of SARFAESI Act, 2002 enabled lending agencies (banks and financial institutions) to foreclose and sell underlying assets without court intervention. The existing framework envisages non-Government supported multiple ARCs/securitisation companies, which may be set up by the lenders, NPA investors or corporates. The SARFAESI Act permits an ARC to commence operations with a minimum net-owned funds of Rs. two crore. Directions require an ARC to maintain a capital adequacy ratio of 15 per cent of its risk-weighted assets. However, financial assets held in trusts shall not be subject to capital adequacy requirements. An ARC may issue bonds and debentures for meeting its funding needs but cannot mobilise deposits. ARCs can acquire financial assets by way of simple agreement from the banks/FIs subject to some terms and conditions or by an issuance of bonds and debentures to the originating banks/FIs. All the rights of the lender vest in the ARC after acquiring the assets and become party to all the contracts/deeds/ agreement etc. ARCs are also allowed to function as a manager of collateral assets taken over by the lenders under security enforcement rights available to them as a recovery agent for any bank/institution. Since the date of acquisitions of assets, ARCs are given a resolution time frame of maximum five years. As per the Act, to discharge its function of asset reconstruction, an ARC can undertake i) enforcement of security interest, ii) takeover or change the management of the borrower, iii) undertake sale or lease of the borrowers' business and iv) enter into settlements and reschedule the debt. However, as per the SARFAESI, for enforcement of security interest, at least 75 per cent of the secured creditors need to agree to exercise this right.

For speedier resolution of NPAs, financial assets due from a single debtor to various banks/ FIs may be considered for acquisition. Similarly, financial assets having linkages to the same collateral may be considered for acquisition to ensure relatively faster and easy realisation. As per the guidelines, the valuation process should be uniform for assets of same profile and a standard valuation method should be adopted to ensure that the valuation of the financial assets is done in a scientific and objective manner. Valuation may be done internally and or by engaging an independent agency, depending upon the value of the assets involved. The acquired assets may be sold by inviting quotations from persons dealing in such assets, by inviting tenders from the public, by holding public auctions or by private treaty. While there is no restriction on ARCs to acquire assets which are considered to be unrevivable, as per the guidelines to banks, ARCs will normally not takeover such assets and will act as an agent for recovery on a fee basis for these assets.

Three ARCs, *viz.*, Asset Reconstruction Company (India) Ltd. (ARCIL), Asset Care Enterprise (ACE) Ltd. and ASERC (India) Ltd. have been registered. ACE Ltd. and ASERC Ltd. are yet to start their operations. ARCIL has bought assets worth Rs.9,631 crore from the banks and financial institutions at a price of 2,089 crore. IDBI has transferred 11 cases with aggregate principal outstanding of Rs.239 crore to ARCIL. Up to March 31, 2004, IFCI's Board of Directors had approved the offer made by ARCIL to acquire 4 NPA accounts with an aggregate net outstanding of Rs.173 crore at a discounted value of Rs.83 crore. As on March 31, 2004, ARCIL had given further proposals for acquiring 16 more NPAs (principal amount outstanding in IFCI's portfolio of Rs.334 crore, for which offers received amounted to Rs.146 crore) which were under consideration. IIBI and SIDBI have also been exploring the option of selling their NPAs to ARCs.

One of the important issues in respect of ARCs in India is that of difference in stamp duty rates on the assignment of financial assets across the States which, in turn, impacts the transaction costs. Another issue is the appropriate number of securitisation companies/AMCs required in the present environment since too many companies can lead to the problems relating to debt aggregation and impede the process of asset reconstruction. To prevent entry of non-serious players and orderly functioning of ARCs, the registration process needs to emphasise upon ARCs promoted by reputed parties with adequate financial backing. The functioning of ARCs also depends on the willingness of lender banks and financial institutions to transfer NPAs to the ARCs. In the case of India, security enforcement seems to be a key resolution strategy for securitisation companies and ARCs because majority of the NPAs belong to doubtful and bad debts category. Therefore, to dispose of these assets and improve recovery levels, market trading of such acquired assets is essential. In order to ensure a sound capital base and a stake in the management of the NPAs acquired, the requirement of owned fund for commencement of business has been stipulated as not less than 15 per cent of the assets acquired or Rs.100 crore, whichever is less. A Report by Asian Development Bank (February 2004)[3] suggested further policy changes required for the proper functioning of ARCs. The major recommendations were: i) amending SARFAESI Act to enable a single party to control an ARC, subject to safeguards to be regulated by the Reserve Bank against 'warehousing' of NPAs, ii) allowing single party including foreign entities to subscribe to entire 100 per cent of security receipts of a scheme, iii) ensuring and clarifying that asset managers are permitted to undertake all activities for asset reconstruction under SARFAESI Act.

References:

Technical Assistance (TA) No. 3943-IND, Developing the Enabling Environment for and Structuring Asset Reconstruction Companies in India, Final Report, Volume I, February 2004 available at the website of Ministry of Finance, Government of India.

[3] The Asian Development Bank, in consultation with Ministry of Finance, appointed PricewaterhouseCoopers and two law firms Amarchand & Mangaldas and Blake Dawson Waldron Lawyers to carry out an engagement for 'Developing the Enabling Environment for and Structuring Asset Reconstruction Companies in India'.

by 49 FIs which includes public sector banks (34) and private sector banks (15). Over a period, the membership increased from 49 to 65 members, after Asset Reconstruction Company of India Ltd. (ARCIL) and Assets Care Enterprise (ACE) joined the CDR System.

5.52 With a view to making the operations of the CDR mechanism more efficient and in order to further simplify the mechanism, a High Level Group (Chairman: Shri Vepa Kamesam) consisting of Bankers and others was set up, pursuant to the announcement by the Finance Minister in the Union Budget 2002-03. Based on the recommendations made by Group and in consultation with the Government of India, the Reserve Bank has since revised the scheme of corporate debt restructuring. The revised guidelines were issued in February 2003 in supersession of the earlier guidelines.

5.53 The main features of the revised guidelines are the introduction of two types of restructuring under the CDR System. Accounts which are classified as 'Standard' and 'Sub-standard' would be restructured under the first category (Category-I) whereas accounts classified as 'doubtful' would be restructured under second category (Category-II). CDR will have a three-tier structure consisting of CDR Standing Forum and its Core Group (the policy-making body), CDR Empowered Group (the functional group deciding on the restructuring of cases referred to CDR mechanism) and the CDR Cell (the secretariat to the CDR system). Other notable changes in the scheme relate to broadening of eligibility criteria to include suit-filed cases provided the proposal to restructure is supported by 75 per cent of the lenders by value; eligibility of large erstwhile BIFR cases to be decided by CDR Core Group, composition and enhancement of the scope of the Core Group, additional functions to CDR Empowered Group, flexibility in sanction of additional assistance as part of restructuring package, availability of exit option out of the package, restructuring of 'Doubtful Assets' cases under category–II scheme, discretion to join CDR System on a case-by-case basis to institutions like UTI, LIC, GIC, and foreign lenders who have financed from outside the country.

5.54 As on June 30, 2004, the CDR Standing Forum has met six times, Core Group 14 times, and Empowered Group 53 times. Of the 135 applications received, CDR cell has referred all the cases to the Empowered Group within the stipulated time of 30 days. The Empowered Group approved final schemes in respect of 94 cases in which aggregate assistance by financial system amounted to Rs.64,017 crore, 30 cases were rejected/closed and remaining 11 cases with aggregate outstanding assistance of Rs.2,677 crore are under various stages of consideration.

Mutual Funds

5.55 The Resource mobilisation by mutual funds increased more than nine-fold during 2003-04 mainly due to a large increase in resource mobilisation by the private sector mutual funds and a net inflow in UTI in contrast to a net outflow during the corresponding period of the previous year (Table V.15 and Appendix Table V.9). Bulk of the resources mobilised by the mutual funds is by way of money market schemes (52.5 per cent) and debt instruments (27.3 per cent) while mobilisation in equity oriented schemes accounts for just over 15.4 per cent (Table V.16). In the secondary market, although traditionally, mutual funds were seen to be net sellers in equity and net buyers in debt, there has been a reversal of the trend in 2003-04 with the mutual funds turning out to be net buyers of equities and debt to the tune of

Table V.15: Resource Mobilisation by Mutual Funds

(Amount in Rs. crore)

Mutual Fund	2002-03	2003-04
1	2	3
I. Public Sector	1,895	3,762
II. Unit Trust of India	-9,434	1,050*
III. Private Sector	12,122	42,873
Total (I+II+III)	**4,583**	**47,684**

* Data for 2003-04 relate to UTI Mutual Fund for the period February 1, 2003 to March 31, 2004, being the first year of operation after the bifurcation of erstwhile UTI into UTI Mutual Fund and Specialised Undertaking of the Unit Trust of India.

Notes: 1. Data are provisional and compiled on the basis of information received from respective mutual Funds.
2. For UTI, the figures are net sales (with premium), including re-investment sales, and for other mutual funds, figures represent net sales under all schemes.
3. Data exclude amounts mobilised by off-shore funds and through roll-over schemes.

Table V.16: Net Resource Mobilisation by Mutual Funds : By Types of Schemes

(Amount in Rs. crore)

Type of Scheme	2000-01	2001-02	2002-03*	2003-04
1	2	3	4	5
Money Market Schemes	2,564	3,291	5,005	24,576
	(28.1)	(45.9)	(119.3)	(52.5)
Government Securities	-312	1,563	-691	2,232
	-(3.4)	(21.8)	-(16.5)	(4.8)
Debt Instruments	4,839	8,210	1,467	12,795
	(53.0)	(114.4)	(35.0)	(27.3)
Equity Oriented Schemes	-745	-534	43	7,219
	-(8.2)	-(7.4)	(1.0)	(15.4)
Others	2,782	-5,355	-1,628	-13
	(30.5)	-(74.6)	-(38.8)	(0.0)
Total	**9,128**	**7,175**	**4,196**	**46,809**

* Since the bifurcation of UTI into UTI Mutual Fund (registered with SEBI as UTI II) and Specialised Undertaking of the Unit Trust of India (UTI-I), data for UTI-I are only up to January 2003.

Notes : 1. Net resource mobilisation is arrived at after netting out the repurchases/redemption from the gross resource mobilisation.

2. Figures in parentheses pertain to the share of the particular scheme in the total net resource mobilisation.

Source: Securities and Exchange Board of India.

Rs.1,308 crore and Rs.22,701 crore, respectively. The debt oriented schemes accounted for the largest share of assets under management of the mutual funds (45 per cent) followed by money market schemes (30 per cent) and equity oriented schemes (18 per cent). During the year 2003-04, the Net Asset Value (NAV) of both equity and debt oriented schemes of all the mutual funds witnessed significant improvement as expected on account of bullish trends in the prices of equity as well as debt securities.

Policy Developments relating to Mutual Fund

5.56 Several measures were undertaken during 2003-04 to further improve the operations and governance of the mutual funds. These include, *inter alia*, applicability of investment limits prescribed by SEBI (Mutual Fund) Regulations, 1996 to all debt securities, stipulating the minimum number of investors in each mutual fund, permitting mutual funds in the securities market only upon quoting the unique client code, mandatory completion of the certification process by all existing personnel of mutual funds/AMCs. Guidelines were issued for the participation of mutual funds in derivatives trading, making it mandatory for investors in mutual fund schemes to mention their bank account numbers in their applications/requests for redemptions, adopting a uniform cut-off time for applying NAVs both for subscriptions and redemptions of mutual funds, and permitting mutual funds to invest in foreign securities up to 10 per cent of their net assets, *etc.*

Chapter VI

Non-Banking Financial Companies

6.1 It is well recognised that the role of Non-Banking Financial Companies (NBFCs) as financial intermediaries is distinct from that of the banks. Most of the NBFCs have a well-defined business profile serving a *niche clientele* in a cost effective manner. However, a few of them have highly diversified portfolios. The liability side of their balance sheets also reflects a mixed composition driven mainly by their unique innovative schemes, interest rate premia and large-scale mobilisation efforts. The proliferation of NBFCs in the decade of 1990s left a regulatory gap, which was bridged with the amendment of the Reserve Bank of India Act, 1934 in January 1997. This has been followed by issuance of several regulations aimed at alignment of the regulatory environment of the NBFCs with that of the banks and ensuring protection to depositors. Subsequent regulatory initiatives covered areas of compulsory registration, prudential regulations, investment norms, disclosure standards, strengthening of supervisory oversight, *etc*. The tightening of regulatory and supervisory framework for NBFCs has also been coterminous with the rapid product development and diversification, sweeping changes in technology along with trends indicating consolidation in the financial sector.

6.2 The improvements are visible in terms of the soundness indicators, like capitalisation, asset quality, business performance and sustainability. While concentration of deposit holding in terms of types of NBFCs has not exhibited major changes, indicators of size-wise distribution and regional spread of public deposits improved considerably. However, such improvements have been accompanied by a reduction in the size of the balance sheet of the NBFC sector corresponding with the consolidation of the sector on account of mergers, closures and cancellation of certificates of registration and conversion into non-public deposit accepting activities. However, profitability and efficiency indicators of the NBFC sector improved marking a turnaround after the losses recorded for the two successive years of 2000-01 and 2001-02.

2. Non-Banking Financial Companies Regulated by the Reserve Bank

6.3 The NBFCs as defined in the Reserve Bank of India Act, 1934 are broadly classified into different categories on the basis of their principal activities. The Reserve Bank regulates and supervises the NBFCs in terms of Chapter III B of the Reserve Bank of India Act, 1934. The Reserve Bank has put in place a set of directions to regulate the activities of NBFCs under its jurisdiction. The directions are aimed at controlling the deposit acceptance activity of NBFCs in the four categories of Equipment Leasing (EL), Hire Purchase (HP), Loan and Investment Companies and deposits and business activities of Residuary Non-Banking Companies (RNBCs). Besides, the Reserve Bank has prescribed prudential norms for all the NBFCs. RNBCs are classified as a separate category as their business, which has evolved over the years, does not conform to any of the other defined classes of NBFC businesses. Certain other types of non-banking financial entities are either partially regulated by the Reserve Bank or are outside the purview of the Reserve Bank regulation.

6.4 The regulatory jurisdictions over the various types of NBFCs are clarified in Table VI.1.

3. Registration

6.5 The Reserve Bank of India (Amendment) Act, 1997 made it obligatory for NBFCs to apply to the Reserve Bank for a certificate of registration (CoR). The statutory requirement for minimum net owned funds[1] (NOFs) for

[1] Net owned funds (NOFs) of NBFCs is the aggregate of paid-up capital and free reserves, netted by (i) the amount of accumulated balance of loss, (ii) deferred revenue expenditure and other intangible assets, if any, and further reduced by investments in shares of (a) subsidiaries, (b) companies in the same group and (c) other NBFCs, and loans and advances to (a) subsidiaries and (b) companies in the same group in excess of 10 per cent of owned fund.

Table VI.1: Regulatory Authorities of NBFCs

	Type of NBFCs	Name of the Regulatory Authority
	1	2
1.	Equipment Leasing Companies (EL)	Reserve Bank of India
2.	Hire Purchase Finance Companies (HP)	Reserve Bank of India
3.	Loan Companies	Reserve Bank of India
4.	Investment Companies	Reserve Bank of India
5.	Residuary Non-Banking Companies (RNBCs)	Reserve Bank of India
6.	Miscellaneous Non-Banking Companies (Chit Funds)	Reserve Bank of India* and Registrars of Chits of the concerned States
7.	Mutual Benefit Finance Companies (Nidhis and Potential Nidhis)	Department of Company Affairs of GoI#
8.	Micro Finance Companies	Department of Company Affairs of GoI#
9.	Housing Finance Companies	National Housing Bank
10.	Insurance Companies	Insurance Regulatory and Development Authority
11.	Stock Broking Companies	Securities and Exchange Board of India
12.	Merchant Banking Companies	Securities and Exchange Board of India

* deposit taking activity only # Government of India

registration, was stipulated at Rs.25 lakh for the then existing NBFCs and Rs.2 crore for new NBFCs seeking grant of CoR on or after April 21, 1999. The three-year period provided in the Reserve Bank of India (Amendment) Act, 1997 for the NBFCs to attain the minimum NOFs necessary for registration expired on January 9, 2000. The further three-year period granted by the Reserve Bank, at its discretion, as per the Act, also came to a close on January 9, 2003.

6.6 As at the end of June 2004, a total of 38,050 applications were received for grant of CoR. Of these, the Bank has approved 13,671 applications, including 584 applications of companies authorised to accept/hold public deposits (Table VI.2).

Table VI.2: Certificates of Registration Issued to NBFCs

End-June	All NBFCs	NBFCs accepting Public Deposits
1	2	3
1999	7,855	624
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,849	710
2004	13,671	584

Note : The reduction in number is due to cancellation of CoRs/conversion of deposit taking companies to non-deposit taking companies and other reasons.

6.7 All NBFCs holding public deposits whose CoRs have been either rejected or cancelled cannot accept fresh deposits or renew maturing deposits and have to continue repaying the deposits on due dates and dispose off their financial assets within three years from the date of application/cancellation of the CoR. Thus, there has been a fall in the number of operating NBFCs reflecting mergers, closures and cancellation of licenses. Besides, the number of public deposit accepting companies also came down because of conversion to non-public deposit-accepting activities.

4. Supervision

6.8 Supervisory oversight by the Reserve Bank over NBFCs encompassed a four-pronged strategy including a) on-site inspection, based on the CAMELS methodology, b) off-site monitoring supported by state-of-the-art technology, c) market intelligence, and d) exception reports of statutory auditors.

6.9 For closer monitoring of the linkages of NBFCs including RNBCs with capital market, a system of quarterly reporting which was subsequently changed to monthly reporting for companies having public deposits of Rs.50 crore and above, was put in place. In case of large exposures to the capital market, the companies were also required to submit funds flow statements.

6.10 With a view to addressing issues relating to systemic risk and monitoring the affairs of financial conglomerates, the Reserve Bank put in place a reporting framework for such entities. Entities having significant presence in more than one financial segments under the jurisdiction of specified regulators (RBI, SEBI, IRDA, *etc.*) have been covered under this framework. NBFCs subject to this reporting discipline are required to submit returns at periodic intervals on their intra-group relationships.

6.11 Recently, a quarterly reporting arrangement has been introduced for NBFCs not accepting/holding public deposits and having assets size of Rs.500 crore and above as on March 31, 2004.

6.12 During the period July 2003 to June 2004, 705 registered NBFCs (368 deposit taking and 337 non-deposit taking companies) were inspected. In addition to the inspections, the Reserve Bank also conducted 372 snap scrutinies during the same period.

5. Policy Developments

6.13 The consolidation of policy initiatives with respect to the NBFCs continued during 2003-04. A few important measures undertaken included, i) streamlining of returns related to Asset-Liability Management (ALM) and exposure to capital market, ii) alignment of interest rates, iii) simplification of the procedures for collection of interest on the Government securities, iv) alignment of regulatory norms with the banking sector with respect to exposure to infrastructure projects, v) procedural change in nomination facilities, vi) issuance of 'Know Your Customer' (KYC) policy, vii) allowing NBFCs to take up insurance agency business, viii) legislative initiatives in the form of follow up of Financial Companies Regulation Bill (FCRB) and ix) issuance of guidelines for Securitisation Companies and Reconstruction Companies.

6.14 Major changes effected during July 2003-June 2004 in the policies applicable to NBFCs are outlined below.

Interest Rates

6.15 Interest rate policies for the NBFC sector has been guided with the objective of alignment of interest rates for the NBFC sector with that of the banking sector. Important components of interest rate policy include (a) The maximum rate of interest that NBFCs (including *Nidhi* companies and Chit Fund companies) can pay remained unchanged at 11.0 per cent per annum (effective March 4, 2003); (b) the minimum rate of interest payable by the RNBCs also remained unchanged at five per cent per annum (to be compounded annually) on the amount of deposits made in lump sum or at monthly or longer intervals and three and one-half per cent per annum (to be compounded annually) on the amount deposited under daily deposit schemes (effective April 1, 2003); (c) keeping in view the prevailing interest rates on fresh repatriable deposits accepted from non resident Indians in the entire financial system, the rate of interest which the NBFCs and Miscellaneous Non-Banking Companies (MNBCs) could pay on such deposits was aligned with that payable by the scheduled commercial banks (SCBs) on these deposits effective from September 17, 2003. As and when the interest rate for NRE deposits is revised by the Reserve Bank for scheduled commercial banks, that rate would *ipso-facto* be applicable to NRI deposits on repatriation basis accepted by NBFCs and MNBCs also. With effect from April 24, 2004, NBFCs are not allowed to accept fresh NRI deposits except renewing the deposits already accepted.

Asset Liability Management

6.16 The ALM guidelines issued in June 2001 were made fully operational as on March 31, 2002. The first ALM Return as on September 2002 was submitted by NBFCs to the Reserve Bank by October 31, 2002. Thereafter returns are being submitted regularly on a half-yearly basis.

Transactions in Government Securities: Collection of Interest on Government Securities

6.17 NBFCs and RNBCs have already been directed to dematerialise Government securities. A few Government securities and Government guaranteed bonds that have not yet been dematerialised by the issuers and are held in physical form for the time being are withdrawn by NBFCs for the purpose of collection of interest from the safe custody of their designated bankers and re-deposited with the banks after the needful has been done. To avoid the process of withdrawal and re-depositing these securities, NBFCs/RNBCs were advised to authorise their designated banks as agents by exercising a

Power of Attorney in favour of them for collection of interest on due dates on these securities held in the physical form and lodged for safe custody.

Amendments to NBFC Regulations: Exposure to Infrastructure Projects

6.18 Prudential norms applicable to NBFCs were amended and aligned with those applicable to banks and FIs, in particular those exposures pertaining to infrastructure projects.

Nomination Rules Under Section 45QB of the Reserve Bank of India Act, 1934 for NBFC Deposits

6.19 The Reserve Bank in consultation with the Government of India, decided that NBFCs may adopt the Banking Companies (Nomination) Rules, 1985 made under Section 45ZA of the Banking Regulation Act, 1949. Accordingly, depositor/s of NBFCs are permitted to nominate one person, to whom, the NBFCs can return the deposit in the event of death of the depositor/s. NBFCs were advised in July 2003 to accept nominations made by the depositors in the forms similar to the one specified under the said rules, *viz.*, Form DA1 for the purpose of nomination, and Form DA2 and DA3 for cancellation of nomination and variation of nomination, respectively.

'Know Your Customer' Guidelines

6.20 Know Your Customer (KYC) guidelines for NBFCs were issued on January 6, 2004. The guidelines are akin to those issued to commercial banks covering, *inter alia*, (i) customer identification; (ii) KYC procedure for existing customers; (iii) ceiling for and monitoring of cash transactions; (iv) internal control system; (v) internal audit/inspection; (vi) record keeping; and (vii) training of staff and management. The Board of Directors of the NBFCs have been advised to formulate policies and procedures to operationalise and ensure observance of these guidelines in respect of all new customers. The NBFCs have also been advised to complete the identification process in respect of the existing customers by June 30, 2004. These guidelines are applicable to all NBFCs including MNBCs (Chit Fund Companies) and RNBCs.

Insurance Agency Business by NBFCs

6.21 NBFCs may take up, without approval of the Reserve Bank, insurance agency business on fee basis and without risk participation subject to certain conditions. It was clarified that the prohibition from collection of premium from the insured by the NBFCs relates only to its insurance agency business. It does not relate to insurance of the assets in which the NBFCs have insurable interest for the purpose of lease or hire purchase or hypothecation of loans to the lessees, hirers and the loanees. However, NBFCs intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in the insurance companies, would continue to obtain the prior approval of the Reserve Bank as envisaged in earlier guidelines dated June 9, 2000.

Financial Companies Regulation Bill (FCRB), 2000

6.22 The Standing Committee on Finance of the Parliament has submitted its recommendations to the Government of India, on the FCRB. The Government has, in turn, called for the comments of the Reserve Bank on the recommendations of the Standing Committee. In view of the recent developments in the financial sector, the provisions of FCRB are being revisited.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act)

6.23 The Government enacted the SARFAESI Act to enable banks and FIs to realise long-term assets, manage problem of liquidity, asset liability mismatches and improve recovery by exercising powers to take possession of securities, sell them and reduce non-performing assets by adopting measures for recovery or construction. In the light of the Supreme Court judgement in the Mardia Chemicals Ltd., certain amendments to the SARFAESI Act were necessitated. Certain other incidental changes have also been proposed taking suggestions received in this regard from several quarters. The Reserve Bank has so far granted CoR to three Asset Reconstruction Companies (ARCs) *viz.*, Asset Reconstruction Company of India Limited (ARCIL), Assets Care Enterprise Limited (ACEL) and ASREC (India) Limited (ASREC). ARCIL has begun its operations and has acquired assets of book value of Rs.9,631 crore at a price of Rs.2,089 crore and has issued security receipts worth Rs.2,102 crore. ACEL is yet to commence its operations. The proposed merger of IFCI, one of its main sponsors, could be the probable cause

for the delay. The third company, ASREC (India) has been granted CoR on October 11, 2004[2]. In order to ensure that the ARCs have a sound capital base and a stake in the management of the NPAs so acquired by them, the Reserve Bank has increased the requirement of minimum owned fund for commencement of business by these companies to an amount not less than 15 per cent of the assets acquired or to be acquired or Rs.100 crore whichever is less, on an aggregate basis.

Liberalisation of Bank Finance to NBFCs

6.24 In view of the expertise gained by NBFCs in financing second hand assets and to encourage credit dispensation, bank financing to NBFCs was liberalised. Henceforth, banks were allowed to extend finance to NBFCs against second hand assets financed by them, provided suitable loan policies duly approved by the banks' Boards are put in place.

Phasing out of Public Deposits

6.25 At present, NBFCs accepting public deposits are regulated and supervised by the Reserve Bank. Over a period, the dependence of the NBFCs (other than RNBCs) on public deposits as part of their overall resources has declined. The deposits of NBFCs declined from Rs.6,500 crore in 2000-01 (17.2 per cent of their total liabilities) to Rs.3,400 crore in 2003-04 (12.7 per cent of the total liabilities). The number of deposit taking NBFCs has also declined from 996 in 1997 to 577 by September 2004. Internationally, acceptance of public deposits is restricted to banks, and non-banks including NBFCs raise resources from institutional sources or by accessing the capital market. NBFCs are encouraged to move in this direction in line with international practices. The Reserve Bank will be holding discussions with NBFCs in regard to their plan of action for voluntarily phasing out of their acceptance of public deposits and regulations on banks' lending to NBFCs will be reviewed by the Reserve Bank as appropriate.

Primary Dealers (PDs)

6.26 The Primary Dealers (PDs) system has been in vogue in India for the last nine years. PDs serve as important intermediaries to promote activity in the Government securities market, especially in the development of the secondary market. The main objective of promoting PDs is to make the Government securities market vibrant, liquid and broad based and to ensure development of underwriting and market making capabilities for Government securities outside the Reserve Bank. PDs obligations include an annual bidding commitment, underwriting the primary issuance and offering two-way quotes. In return, PDs have access to Subsidiary General Ledger (SGL), current accounts, collateralised liquidity support and liquidity support through LAF scheme from the Reserve Bank. PDs also have access to the call money market as borrowers and lenders.

6.27 With the merger of SBI Gilts Ltd. and DFHI Ltd. recently, the number of PDs in the system came down from 18 to 17. PDs largely deal in Government securities and other interest rate products and support the borrowing programme of the Government of India and State Governments. For financing their securities holdings, they depend on short term funding thereby incurring an inherent mismatch. PDs are a systemically important segment of the financial system in view of their number, their market share in Government securities market and their participation in money market. Since PDs are highly leveraged in general, regulatory oversight thereon is desirable. Central banks across the world, typically, review the performance of the PDs and make continuation of their operations performance based.

6.28 The off-site supervisory returns required to be submitted by the PDs were rationalised during the year. Six returns were discontinued and three returns were revised. A new quarterly return on major financial indicators and various ratios was introduced from the quarter ended December 31, 2003.

6.29 With a view to enabling PDs to manage their exposure to interest rate risk, they were allowed to deal in exchange traded interest rate derivatives in a phased manner. In the first phase, they were permitted to transact only in interest rate futures on notional bonds and Treasury bills for the purpose of hedging the risk in their underlying investment portfolio. Subsequently, based on the feedback received, they were permitted to trade in these products subject to prudential guidelines and appropriate disclosures.

[2] Also refer to Box V.4 of the Report.

6.30 Operational guidelines were issued to PDs for Portfolio Management Services (PMS). PDs would require prior approval of the Reserve Bank and registration with Securities and Exchange Board of India (SEBI) before undertaking PMS activity. They are permitted to offer PMS services only to entities not regulated by the Reserve Bank. Prudential guidelines were also issued to PDs on their investment in non-Government securities. PDs are prohibited from investing in unrated debt securities and investments in unlisted instruments is limited to 10 per cent of the non-Government securities portfolio.

6.31 The revised 'capital adequacy standards and risk management guidelines' for PDs were issued in January 2004. Minimum holding period under Value-at-Risk (VaR) measure was reduced from 30 days to 15 days. This reduced market capital charge enabled PDs to hold higher portfolio. The reporting for capital adequacy was standardised. Some off-balance sheet items (such as, underwriting commitments), not included earlier, were included for reckoning of the risk weighted assets and capital adequacy. Guidelines relating to issue of Subordinated Debt Instruments under Tier II and Tier III capital have also been issued.

6.32 A cap of 200 per cent of their NOFs (as at the period ending March of the preceding financial year) was fixed on PDs borrowings in the call market in February 2004.

6.33 PDs need to have a sound capital base so as to absorb the adverse shocks in the event of upward movement of yields. Therefore, in June 2004, prudential guidelines were issued on dividend distribution policy with focus on payout ratio and capital adequacy. Dividend payout ratio for the PDs, having Capital to Risk Weighted Assets Ratio (CRAR) at 20 per cent or above in all the four quarters of the previous year, was capped at 50 per cent while for others, the dividend payout rate was capped at 33.33 per cent. A PD is not permitted to declare dividend if the CRAR in any of the four quarters has been below the minimum prescribed CRAR of 15 per cent.

6.34 In order to evaluate the role of PDs in the Government securities market and to undertake a comprehensive examination of the entire range of issues relating to the PDs with particular emphasis on their role and obligation, ability to cope with emerging risk and possible diversification of their balance sheet in general and the structure of their balance sheet in the context of changing financial environment, a sub-group of the Technical Advisory Committee (TAC) on Money, Foreign Exchange and Government Securities Markets was formed (Chairman: Dr. R.H. Patil). The Report of the sub-group is being placed before the TAC for advice to enable further action.

6.35 The Fiscal Responsibility and Budget Management Act stipulates that, with effect from April 1, 2006, the Reserve Banks participation in primary issues of Government securities will stand withdrawn. Consequently, open market operations (OMO) will become a more active instrument, warranting a review of processes and technological infrastructure consistent with market advancements. The Reserve Bank's intervention directly in the market or through PDs on a real time basis may become necessary. A Study Group would be constituted for strengthening the OMO framework to address these emerging needs and equip the Reserve Bank as well as the market participants appropriately.

6. Business Profile of the NBFC Sector

6.36 A broad business profile of the NBFC sector as at the end-March 2002 and end-March 2003, based on the periodic returns submitted by deposit accepting/holding companies is presented in Table VI.3 and Chart VI.1[3]. As at end-March 2002, the total outstanding public deposits of the 910

Table VI.3: Business Profile of the NBFC Sector

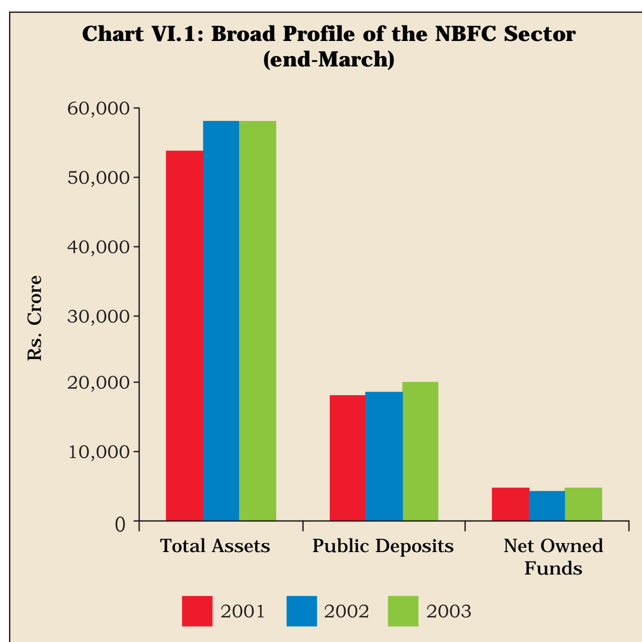
(As at end-March)

(Amount in Rs. crore)

Item	2002		2003	
	NBFCs	*of which* RNBCs	NBFCs	*of which* RNBCs
1	2	3	4	5
Number of reporting companies	910	5	875	5
Total Assets	58,290	18,458 (31.7)	58,071	20,362 (35.1)
Public Deposits	18,822	12,889 (68.5)	20,100	15,065 (75.0)
Net Owned Funds	4,383	111	4,950	809

Note: Figures in brackets indicate percentages to total.

[3] The data, however, are not strictly comparable across the years in view of differences in the total number of reporting companies.



deposit holding companies (both registered and unregistered) aggregated Rs.18,822 crore, equivalent to 1.6 per cent of the outstanding deposits (Rs.12,05,930 crore) of scheduled commercial banks (excluding Regional Rural Banks). As at end-March 2003, the quantum of outstanding public deposits reported by 875 companies stood at Rs.20,100 crore, equivalent to 1.5 per cent of the aggregate deposits (Rs.13,55,880 crore) of scheduled commercial banks.

6.37 The aggregate assets of the NBFC sector declined marginally due to the reduction of Rs.3,815 crore in the assets of Loan Companies. However, this was partially offset by increase for other categories of NBFCs, *viz.*, (i) Equipment Leasing and Hire Purchase Companies (Rs.1,754 crore), (ii) RNBCs (Rs.1,904 crore), (iii) Investment Companies (Rs.132 crore) and (iv) MNBCs (Rs.14 crore), respectively.

Profile of public deposits of different categories of NBFCs

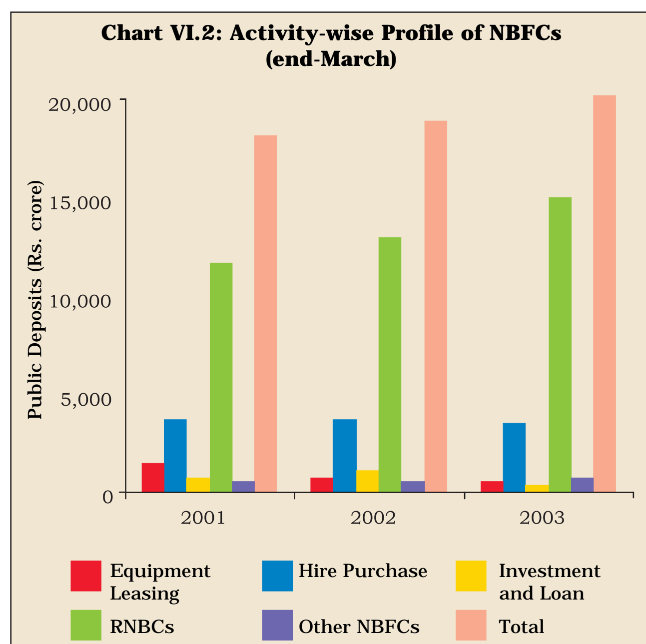
6.38 The profile of public deposits of different categories of NBFCs is provided in Table VI.4. At the disaggregated level, public deposits with the RNBCs and other NBFCs increased by 16.9 per cent and 24.2 per cent, respectively, during 2002-03 as compared with 2001-02. It may also be observed that the size of public deposits of Equipment Leasing Companies, Investment and Loan Companies has significantly declined by 23.5 per cent and 68.0 per cent, respectively, during the same period. However, since their shares in total deposits held by the NBFCs are small, their impact on the volume of public deposits of NBFCs was negligible (Chart VI.2). RNBCs hold a large share of public deposits. The total volume of public deposits of NBFCs in fact rose by 6.8 per cent during 2002-03.

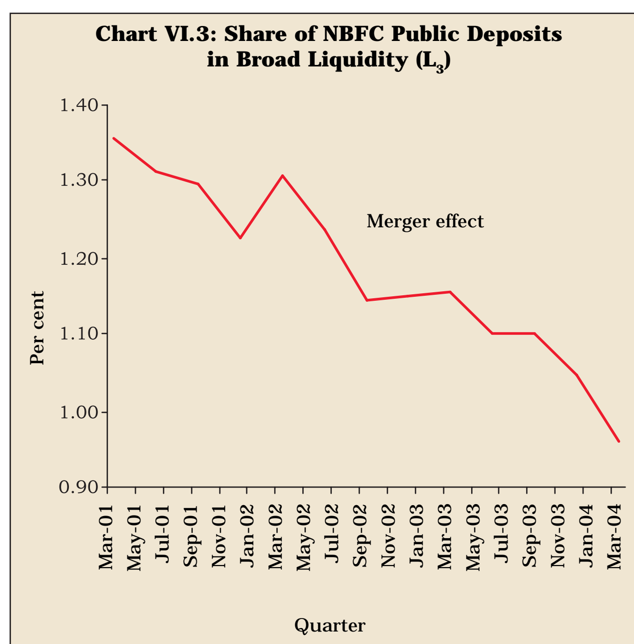
Table VI.4: Profile of Public Deposits of Different Categories of NBFCs
(As at end-March)

(Amount in Rs. crore)

Nature of Business	Number of NBFCs		Public Deposits		Percentage Variation (Col. (5) over Col. (4))
	2002	2003	2002	2003	
1	2	3	4	5	6
1. Equipment Leasing (EL)	56	58	668 (3.5)	511 (2.5)	-23.5
2. Hire Purchase (HP)	463	439	3,709 (19.7)	3,539 (17.6)	-4.6
3. Investment and Loan (IL)	231	173	1,029 (5.5)	329 (1.6)	-68.0
4. RNBCs	5	5	12,889 (68.5)	15,065 (75.0)	16.9
5. Other NBFCs*	155	200	528 (2.8)	656 (3.3)	24.2
Total	**910**	**875**	**18,822** **(100.0)**	**20,100** **(100.0)**	**6.8**

* Includes Miscellaneous Non-Banking Companies, unregistered and un-notified *Nidhis*, *etc.*
Note: Figures in brackets indicate percentages to total.





Size-wise classification of NBFC holdings

6.39 The size of public deposits held by NBFCs shows wide variation. Range-wise analysis of public deposits held by them is given in Table VI.5. It may be observed that number of NBFCs holding public deposits in the range of Rs.20 crore and above came down to 35 as at end-March 2003 from 42 NBFCs at end-March 2002. However, these NBFCs accounted for more than 80 per cent of total public deposits held by all the NBFCs in both the years.

6.40 The Reserve Bank publishes quarterly data on broad liquidity (L_3) encompassing monetary liabilities of the banking sector, postal deposits, term liabilities of financial institutions and public deposits of NBFCs on the recommendations of the Working Group on “Money Supply: Analytics and Methodology of Compilation” (Chairman: Dr. Y. V. Reddy, 1998). In view of the data lags, the Working Group recommended that estimates of NBFC public deposits could be generated on the basis of returns received from all NBFCs with public deposits of Rs.20 crore and above. The share of public deposits of all NBFCs continued to stagnate at around 1.0 per cent of L_3. Based on such lead data, NBFC public deposits recorded a marginal decline of 0.9 per cent during 2003-04 (Chart VI.3).

Table VI.5: Range of Deposit held by NBFCs (Excluding RNBCs)
(As at end-March)

(Amount in Rs. crore)

Deposit range	No. of NBFCs		Amount of deposit		Per cent	
	2002	2003	2002	2003	2002	2003
1	2	3	4	5	6	7
1. Less than 0.5	518	491	83	65	1.4	1.3
2. 0.5 - 2	237	233	234	225	3.9	4.5
3. 2 - 10	97	90	416	360	7.0	7.1
4. 10 - 20	11	21	160	284	2.7	5.6
5. 20 - 50	14	12	396	364	6.7	7.2
6. 50 and above	28	23	4,644	3,737	78.3	74.3
Total	**905**	**870**	**5,933**	**5,035**	**100.0**	**100.0**

7. Region-wise Composition of Deposits held by NBFCs[4]

6.41 The regional spread of the deposits held by NBFCs showed significant improvement (Table VI.6). The share of Eastern Region in the total deposits of the NBFCs declined significantly from 42.8 per cent in March 2002 to 38.0 per cent in March 2003. On the other hand, the Central Region accounting for 27.7 per cent of the aggregate public deposits as at end-March 2002 has shown a sharp increase in its share to 38.6 per cent as at end-March, 2003. The public deposits held by NBFCs in four metropolitan centres of Mumbai, New Delhi, Kolkata and Chennai has declined sharply to 59.2 per cent as at end-March 2003 from 69.8 per cent as at end-March 2002

8. Interest Rate and Maturity Pattern of Public Deposits with NBFCs

6.42 The interest rates offered by the NBFCs declined sharply in line with the easy interest rate environment. There was a significant rise in the quantum and percentage of public deposits in the interest rate range of upto 10 per cent and 10 to 12 per cent during the year 2002-03 (Chart VI.4). Deposits in the interest rate range of 10 to 12 per cent now constitute the largest component in the portfolio. On the other hand, public deposits in

Chart VI.4: Distribution of Interest Rate on Deposits by NBFCs (end-March)

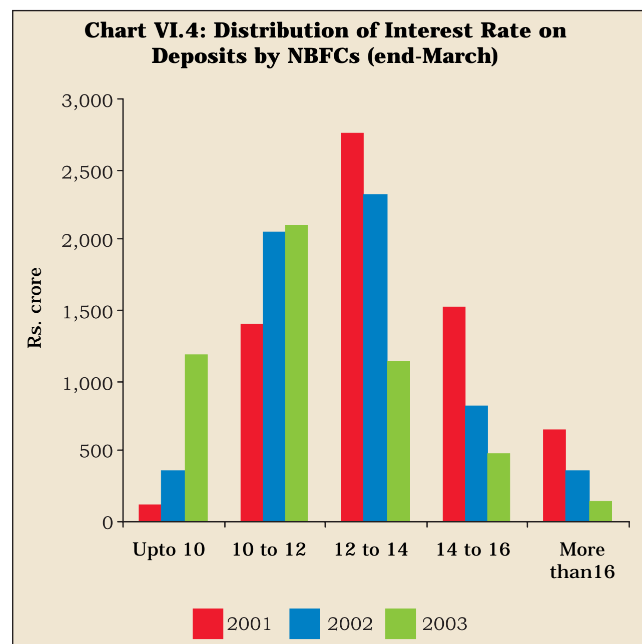


Table VI.6: Region-wise break-up of Public Deposits held by Registered and Unregistered NBFCs
(As at end-March)

(Amount in Rs. crore)

Region	2002						2003					
	NBFCs			*of which* RNBCs			NBFCs			*of which* RNBCs		
	No.	Amount	Per cent	No.	Amount	Per cent	No.	Amount	Per cent	No.	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern	271	554	2.9	–	–	–	271	543	2.7	–	–	–
North-Eastern	3	4	–	–	–	–	1	2	–	–	–	–
Eastern	21	8,051	42.8	3	7,812	60.6	21	7,634	38.0	3	7,422	49.3
Central	94	5,207	27.7	2	5,077	39.4	83	7,752	38.6	1	7,640	50.7
Western	70	1,467	7.8	–	–	–	63	687	3.4	–	–	–
Southern	451	3,538	18.8	–	–	–	436	3,482	17.3	1	3	–
Total	**910**	**18,821**	**100.0**	**5**	**12,889**	**100.0**	**875**	**20,100**	**100.0**	**5**	**15,065**	**100.0**
Metropolitan cities												
Mumbai	52	1,445	7.7	–	–	–	45	672	3.3	–	–	–
Chennai	317	3,183	16.9	–	–	–	318	3,162	15.7	–	–	–
Kolkata	21	8,051	42.8	3	7,812	60.6	18	7,625	37.9	3	7,422	49.3
New Delhi	111	460	2.4	–	–	–	108	443	2.2	–	–	–
Total	**501**	**13,139**	**69.8**	**3**	**7,812**	**60.6**	**489**	**11,902**	**59.2**	**3**	**7,422**	**49.3**

– Nil/Negligible.

[4] The region-wise analysis is based on the number of deposit-holding/accepting NBFCs (including RNBCs) that reported data to the Reserve Bank for the years ending March 31, 2002 and March 31, 2003.

Table VI.7: Distribution of Public Deposits of NBFCs (Excluding RNBCs) according to Rate of Interest
(As at end-March)

(Amount in Rs. crore)

Interest Range (Per cent)	Amount of deposits		Percentage to total deposits	
	2002	2003	2002	2003
1	2	3	4	5
Upto 10	358	1,174	6.0	23.3
10-12	2,055	2,101	34.6	41.7
12-14	2,326	1,137	39.2	22.6
14-16	833	475	14.1	9.4
More than 16	361	148	6.1	3.0
Total	**5,933**	**5,035**	**100.0**	**100.0**

interest rates range of 12 to 14 per cent, 14 to 16 per cent and more than 16 per cent declined. The public deposits in interest rate range of 12 to 14 per cent declined significantly from 39.2 per cent as at end-March 2002 to 22.6 per cent as at end-March 2003 (Table VI.7).

6.43 The maturity-wise analysis of public deposits held by NBFCs is presented in Table VI.8.

6.44 The broad trends indicate that outstanding public deposits with NBFCs (other than RNBCs) declined from Rs.5,933 crore as at end-March 2002 to Rs.5,035 crore at end-March 2003. The overall decline of Rs.898 crore (15.1 per cent) was evenly distributed in all the maturity buckets ranging from 'Less than one year' to 'five years and above'.

6.45 In the declining interest rate scenario, the interest rate differential between banks and NBFCs has narrowed over the years (Table VI.9).

Table VI.8: Maturity Pattern of Public Deposits held by NBFCs (Excluding RNBCs)
(As at end-March)

(Amount in Rs. crore)

Maturity Period	Amount of Deposits		Percentage to total Deposits	
	2002	2003	2002	2003
1	2	3	4	5
Less than 1 year	1,483	1,203	25.0	23.9
1 - 2 years	1,419	1,241	23.9	24.6
2 - 3 years	2,198	1,927	37.0	38.3
3 - 5 years	779	619	13.1	12.3
5 years and above	54	45	0.9	0.9
Total	**5,933**	**5,035**	**100.0**	**100.0**

Table VI.9: Maximum/Ceiling Interest Rates on Banks and NBFC Deposits
(as at end-March)

(Per cent)

Interest Rate	2000	2001	2002	2003	2004
1	2	3	4	5	6
1. Maximum interest rate on public sector bank deposits of 1-3 year maturity	10.5	9.5	8.5	6.75	6.75
2. Ceiling interest rate for NBFCs	16.0	14.0	12.5	11.0	11.0
3. Spread (2-1)	5.5	4.5	4.0	4.25	4.25

9. Asset Profile of NBFCs

6.46 The asset profile of NBFCs during 2001-02 and 2002-03 indicates that out of the 905 reporting companies, 62 NBFCs, with an asset size of Rs.50 crore and above, accounted for 92.2 per cent of the total assets in 2002 (Table VI.10). The share of assets of the companies in this range has remained unchanged though their number has changed marginally. Out of 870 reporting companies (excluding RNBCs), 64 companies having an asset size of Rs.50 crore and above accounted for same percentage, *i.e.*, 92.2 per cent of the total assets of NBFC sector as at end-March 2003. The number of companies in all the categories has decreased excepting the companies in the asset range of Rs.50-Rs.100 crore. The overall asset size of these companies has decreased from Rs.39,833 crore as on March 31, 2002 to Rs.37,709 crore as on March 31, 2003. The asset size of majority of the companies in each category has shown a decreasing trend during 2003, with the exception of those in the

Table VI.10: Asset Profile of NBFCs (Excluding RNBCs)
(As at end-March)

(Amount in Rs. crore)

Range of Assets	No. of Reporting Companies		Assets		Percentage to Total Assets	
	2002	2003	2002	2003	2002	2003
1	2	3	4	5	6	7
Less than 0.25	51	62	5	6	0.0	0.0
0.25 - 0.50	88	77	33	28	0.1	0.1
0.50 - 2	383	354	416	388	1.0	1.0
2 - 10	247	245	1,076	1,131	2.7	3.0
10 - 50	74	68	1,594	1,399	4.0	3.7
50 - 100	19	19	1,341	1,315	3.4	3.5
100 - 500	23	28	5,962	6,492	15.0	17.2
Above 500	20	17	29,406	26,950	73.8	71.5
Total	**905**	**870**	**39,833**	**37,709**	**100.0**	**100.0**

range of Rs.100-Rs.500 crore. The reason for the reduction in the asset size of many of the companies may be attributed to conversion of a few large sized deposit taking companies to non-deposit taking companies and also for the possible reason of utilisation of their assets to liquidate their high cost deposit liabilities.

10. Distribution of Assets of NBFCs According to Activity

6.47 The major portion of the assets of NBFCs (excluding RNBCs) are in the form of equipment leasing and hire purchase assets. The two together constituted 39.9 per cent of the total assets of NBFCs as at end-March 2003 whereas the loans and Inter-Corporate Deposit (ICD) portfolio accounted for 35.3 per cent of their total assets (Table VI.11).

11. Borrowings by NBFCs

6.48 The borrowings by NBFCs (excluding RNBCs) at end-March 2002 and end-March 2003 indicate that the total borrowings have registered a marginal increase of Rs.480 crore during 2002-03 (Table VI.12). Funds raised through issue of debentures which constituted 17.4 per cent of the total borrowings at end-March 2002, increased to 21.9 per cent as at end-March 2003. The resources raised through 'Other Sources' also increased from 14.8 per cent as at end-March 2002 to 21.0 per cent as at end-March 2003. The Central/State Governments ceased to be a major source of funding for the sector with the reliance on this source declining by almost 50 per cent during the period under review.

Table VI.11: Activity-wise Distribution of Assets of NBFCs (Excluding RNBCs)
(As at end-March)

(Amount in Rs. crore)

Activity	Amount		Percentage to total	
	2002	2003	2002	2003
1	2	3	4	5
Loans & Inter-corporate deposits	13,710	13,296	34.4	35.3
Investments	4,334	4,338	10.9	11.5
Hire Purchase	13,202	13,031	33.1	34.6
Equipment Leasing	3,112	2,011	7.8	5.3
Bills	673	450	1.7	1.2
Other assets	4,802	4,583	12.1	12.2
Total	**39,833**	**37,709**	**100.0**	**100.0**

12. Liabilities and Assets of Major NBFCs

6.49 Lead data on the performance of the major NBFCs (other than RNBCs) holding public deposits of Rs.20 crore and above accounting for three-fourth of sectoral assets based on returns introduced on the basis of the Working Group on "Money Supply: Analytics and Methodology of Compilation" (Chairman: Dr. Y.V. Reddy, 1998) is given in the Table VI.13. The

Table VI.12: Classification of Borrowings by NBFCs (excluding RNBCs)
(As at end-March)

(Amount in Rs. crore)

Source	Outstanding		Percentage to total	
	2002	2003	2002	2003
1	2	3	4	5
Money borrowed from Central/State Governments @	3,353	1,570	14.0	6.4
Money borrowed from foreign sources*	670	694	2.8	2.8
Inter-corporate borrowings	1,996	2,074	8.3	8.5
Money raised by issue of convertible or secured debentures including those subscribed by banks	4,180	5,352	17.4	21.9
Borrowings from banks	7,918	8,074	33.0	33.0
Borrowings from Financial Institutions	1,546	885	6.4	3.6
Commercial Paper	781	678	3.3	2.8
Others #	3,555	5,153	14.8	21.0
Total	**24,000**	**24,480**	**100.0**	**100.0**

@ Mainly by State-Government owned companies.
* The amount received from foreign collaborators as well as from institutional investors (Asian Development Bank, International Finance Corporation, *etc.*). The major amount is in infrastructure and leasing companies.
\# Includes security deposits from employees and caution money, allotment money, borrowings from mutual funds, Directors, *etc.*

Table VI.13: Assets and Liabilities of Companies holding Public Deposits of Rs.20 crore and above
(As at end-March)

(Amount in Rs. crore)

Item	2003		2004	
	Amount	Share to total (per cent)	Amount	Share to total (per cent)
1	2	3	4	5
Liabilities				
Paid-up capital	1,693	6.4	1,100	5.2
Free Reserve (adj. for loss)	1,325	5.0	1,324	6.3
Public Deposits (i+ii)	3,686	14.0	3,233	15.3
(i) Public Deposits less than 1-year maturity	1,542	5.9	1,452	6.9
(ii) Public Deposits more than 1-year maturity	2,144	8.1	1,781	8.4
Convertible debentures	3,755	14.2	3,140	14.9
Other Borrowings (i+ii+iii)	8,675	32.9	7,601	36.1
(i) From Banks	6,785	25.7	6,130	29.1
(ii) Inter-Corporate Deposits	1,428	5.4	1,449	6.9
(iii) Foreign Government	462	1.8	22	0.1
Other Liabilities	7,222	27.4	4,685	22.2
Total Liabilities	**26,355**	**100.0**	**21,083**	**100.0**
Assets				
Investment (i+ii+iii)	2,696	10.2	1,113	5.3
(i) Government Securities	492	1.9	358	1.7
(ii) Corporate sector-shares, bonds, debentures	2,025	7.7	626	3.0
(iii) Others	179	0.7	130	0.6
Loans and Advances	8,576	32.5	8,588	40.7
Other Financial Assets (i+ii+iii)	10,255	38.9	8,619	40.9
(i) Hire Purchase	8,571	32.5	7,648	36.3
(ii) Equipment Leasing	1,546	5.9	916	4.3
(iii) Bills Discounting	139	0.5	55	0.3
Other Assets	4,828	18.3	2,763	13.1
Total Assets	**26,355**	**100.0**	**21,083**	**100.0**

Note: The sharp decline in the component of Other Borrowings from Foreign Government in the Liabilities and in the component of Corporate sector - shares, bonds, debentures in the Investment is due to conversion of some major NBFCs into non-deposit taking activities as well as portfolio shift in case of some other NBFCs.

structure of assets and liabilities of major NBFCs reveals a marginal increase in share of public deposits during 2003-04 accompanied by larger recourse to bank loans, partly driven by the softening of the lending rates. In terms of deployment of funds, only loans and advances recorded a marginal increase in contrast to decline in the other areas of business.

13. Income Expenditure Statement of NBFCs

6.50 The profitability analysis of the NBFCs indicates that both income and expenditure of these companies registered decline during 2002-03 (Table VI.14). Income witnessed a decline of 5.1 per cent, largely due to a drop in fund-based income. Total expenditure of NBFCs declined by Rs.830 crore (15.6 per cent) mainly due to a sharp contraction in financial expenditure by Rs.540 crore. The decline in financial expenditure, in turn, was on account of a significant decline in interest expenses. While the other components of expenditure also declined, the decline in 'other expenditure' was larger than the decline in 'operating expenditure'. This resulted in a turnaround with the NBFCs recording net profit of Rs.339 crore in 2002-03 as against a net loss of Rs.212 crore in 2001-02 (Chart VI.5).

Table VI.14: Financial Performance of NBFCs (Excluding RNBCs)

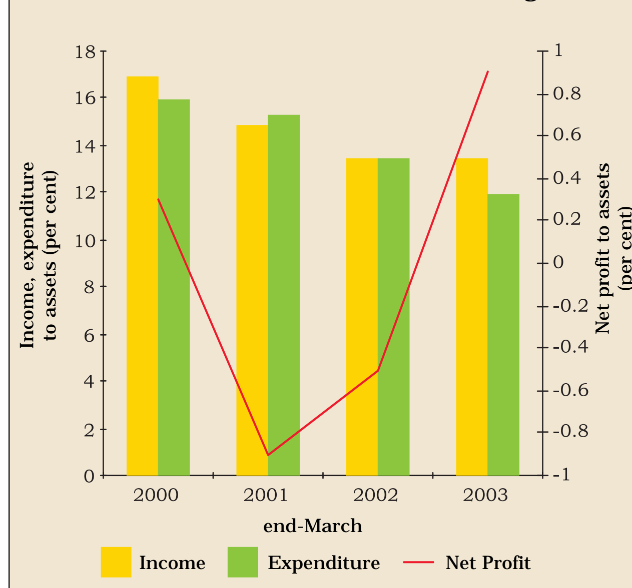
(Amount in Rs. crore)

Item	2001-02	2002-03	Percentage Variation Col (3) over Col (2)
1	2	3	4
A. Income (i+ii)	**5,357**	**5,084**	-5.1
(i) Fund based	5,005	4,709	-5.9
(ii) Fee based	352	375	6.5
B. Expenditure (i+ii+iii)	**5,321**	**4,491**	-15.6
(i) Financial	3,297	2,757	-16.4
(ii) Operating	1,225	1,100	-10.2
(iii) Other	799	634	-20.7
C. Tax Provisions	**248**	**254**	2.4
D. Net Profit	**-212**	**339**	
E. Total Assets	**39,833**	**37,709**	**5.3**
F. Financial Ratios			
(as per cent of total assets)			
(i) Income	13.4	13.5	
(ii) Fund Income	12.6	12.5	
(iii) Fee Income	0.9	1.0	
(iv) Expenditure	13.4	11.9	
(v) Financial Expenditure	8.3	7.3	
(vi) Operating Expenditure	3.1	2.9	
(vii) Other Expenditure	2.0	1.7	
(viii) Tax Provisions	0.6	0.7	
(ix) Net Profit	-0.5	0.9	

14. Interest Cost to Total Income

6.51 Interest expended by NBFCs declined from 25.6 per cent of the total income as at end-March 2002 to 19.2 per cent of the total income as at end-March 2003 reflecting the soft interest conditions prevailing in the economy. The non-interest expenses incurred also decreased from 73.7 per cent of the total income to 69.2 per cent of the total income for the period under review (Table VI.15 and Chart VI.6). This reflected a decline in the operating expenses including wages and establishment cost.

Chart VI.5: Performance of NBFCs (excluding RNBCs)



15. Net Owned Funds (NOFs) of NBFCs

6.52 The NOFs of reporting NBFCs (Table VI.16) indicate that the number of companies in most of the NOFs ranges has decreased. However, the ratio of public deposits to the NOFs maintained by these companies has remained stable in 2002 and 2003 with the exception of companies in the range of NOFs between Rs.0.25 crore to Rs.2.0 crore, Rs.2.0 crore to Rs.10 crore and Rs.50 crore to Rs.100 crore.

16. Capital Adequacy Ratio

6.53 The capital adequacy norms were made applicable to NBFCs in 1998. The norms relating to Capital to Risk-weighted Assets Ratio (CRAR) stipulate that every NBFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital that shall not be less than (a) 10 per cent on or before March 31, 1998; and (b) 12 per cent on or before March 31, 1999, of its aggregate risk-weighted

Table VI.15: Interest cost to Total Income

(Amount in Rs. crore)

	Total Income	Total Cost	Per cent total cost to Total Income	Interest Cost	Per cent to Total Income	Non-Interest Cost to total Income	Per cent to Total Income
1	2	3	4	5	6	7	8
2001-02	5,357	5,321	99.3	1,371	25.6	3,950	73.7
2002-03	5,084	4,491	88.3	974	19.2	3,517	69.2

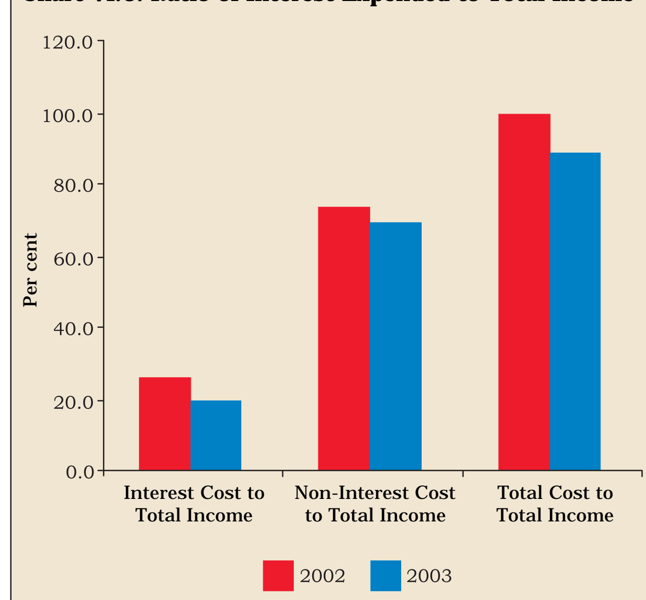
Table VI.16: Net Owned Funds *vis-à-vis* Public Deposits of NBFCs (Excluding RNBCs)

(As at end-March)

(Amount in Rs. crore)

Range of Net owned funds	2002				2003			
	No. of Reporting Companies	Net Owned Fund	Public Deposits	Public Deposits as multiple of NOFs	No. of Reporting Companies	Net Owned Fund	Public Deposits	Public Deposits as Multiple of NOFs
1	2	3	4	5	6	7	8	9
Upto 0.25	214	-1,351	1,120	-	208	-1,356	843	-
0.25 - 2	515	314	267	0.9	497	309	369	1.2
2 - 10	113	470	302	0.6	110	461	467	1.0
10 - 50	38	798	718	0.9	30	677	447	0.7
50 -100	11	798	846	1.1	10	639	255	0.4
100-500	14	3,243	2,680	0.8	15	3,411	2,654	0.8
Total	**905**	**4,272**	**5,933**	**1.4**	**870**	**4,141**	**5,035**	**1.2**

Chart VI.6: Ratio of Interest Expended to Total Income



assets and of risk-adjusted value of off-balance sheet items. The total of Tier II capital, at any point of time, shall not exceed 100 per cent of Tier I capital. Capital adequacy improved marginally with 93.7 per cent (out of 605) NBFCs (excluding nidhis, potential nidhis and MNBCs) achieving more than 12 per cent capital adequacy ratio as on March 2003, in contrast to 93.5 per cent (out of 663) NBFCs achieving the same level as on March 2002 (Table VI.17).

17. Non-Performing Assets of NBFCs

6.54 The gross and net non-performing assets of the reporting NBFCs has experienced a steady decline in recent years (Table VI.18). Lower provisioning for the half-year ended at September 2003 led to a marginal increase in net NPAs of the NBFCs.

Table VI.17: CRAR of Reporting NBFCs*

(As at end-March)

CRAR Range (per cent)	2002					2003				
	EL	HP	LC/IC	RNBC	**Total**	EL	HP	LC/IC	RNBC	**Total**
1	2	3	4	5	6	7	8	9	10	11
Less than 12	10	17	15	1	**43**	11	13	13	1	**38**
12-15	1	8	1	-	**10**	-	2	1	1	**4**
15-20	4	32	9	1	**46**	3	27	3	-	**33**
20-30	9	54	11	1	**75**	9	52	13	1	**75**
Above 30	32	334	121	2	**489**	37	321	96	1	**455**
Total	**56**	**445**	**157**	**5**	**663**	**60**	**415**	**126**	**4**	**605**

* Excluding MBFCs, MBCs and MNBs.

Table VI.18: Non-Performing Assets of NBFCs*

(per cent of credit exposure)

Period	Gross NPAs	Net NPAs
1	2	3
March 1999	10.2	7.0
September 1999	7.7	4.4
March 2000	9.9	9.5
September 2000	10.0	6.3
March 2001	11.5	5.6
September 2001	12.0	5.8
March 2002	10.6	3.9
September 2002	9.7	4.3
March 2003	8.8	2.7
September 2003	8.2	2.9

* Excluding MBFCs, MBCs and MNBCs.

18. Profile of RNBCs

6.55 Residuary non-banking companies (RNBCs) are a class of NBFCs which accept deposits from public and are required to invest 80 per cent of their deposits in the prescribed categories stipulated by the Reserve Bank from time to time and the remaining 20 per cent at their discretion. Over a period, their deposits have grown substantially, with just two companies accounting for more than 80 per cent of total public deposits held by all NBFCs. The RNBCs usually raise deposits through various schemes either as fixed tenure deposits or as recurring deposits/daily deposits. The deposits raised by RNBCs are required to be invested in the approved pattern as prescribed by the Reserve Bank (Box VI.1). The aggregate liabilities to the depositors of the RNBCs as at end-March 2003 increased by 16.9 per cent to Rs.15,065 crore from Rs.12,889 crore as at end-March 2002. A broad profile of RNBCs indicates that their total assets increased by 10.3 per cent during 2002-03. The aggregate NOFs of the RNBCs significantly increased from Rs.111 crore to Rs.809 crore during 2002-03 due to internal accruals and infusion of capital. Such large increase in NOFs consequently led to a decrease of the ratio of aggregate deposits to NOFs. The net profit of these companies decreased by 37.0 per cent mainly on account of increase in financial cost during 2002-03 by 11.1 per cent, in the absence of any discernible improvements in their income (Table VI.19).

Investment Pattern of RNBCs

6.56 The investment pattern maintained by RNBCs points to a compositional shift with a

Box VI.1: Maintenance of Directed Investments by RNBCs

In order to rationalise the pattern of the directed investments and address the systemic risk, and with a view to protecting depositors' interest, the level of investments of RNBCs in Government securities was increased, and rating and listing requirements in respect of other approved investments were introduced in June 2004.

The Reserve Bank has recently reviewed the current regulations on investments by RNBCs and modified them to reduce the overall systemic risk and impart greater liquidity and safety to the investments of RNBCs and thus enhance protection available to the depositors.

The salient features of the modified directions are given below:

- RNBCs may invest only in (i) the FDs and CDs of SCBs; and (ii) CDs of specified FIs provided such CDs are rated not less than AA+ or its equivalent by an approved credit rating agency, with exposure to one SCB/specified FIs not exceeding one per cent of the Aggregate Liabilities to the Depositor (ALD) of the bank as on March 31 of the previous account year.
- RNBCs should invest in Central and State Government securities issued by the Governments in the course of their market borrowing programme an amount which shall not be less than 15 per cent of the outstanding ALD.
- Investment in debt securities should be confined to those having minimum AA+ or equivalent grade rating and listed on one of the stock exchanges.
- The investment in units of mutual funds should be in those fund schemes only which are debt oriented, subject to the aggregate investment in the mutual funds not exceeding 10 per cent and in a single mutual fund not exceeding two per cent of ALD.
- From April 1, 2005 RNBCs will be permitted to make investments as per their discretion upto 10 per cent of the ALD as at the second preceding quarter or one time their NOFs, whichever is lower and from April 1, 2006 this limit would stand abolished.

However, RNBCs represented that the restriction on discretionary investments would affect their viability and also requested for some modifications in other prudential stipulations. With a view to smoothening the process of transition of RNBCs to compliance with the Reserve Bank's directions, the following approach has now been proposed:

Investments of RNBCs in certificates of deposit of financial institutions which have a minimum rating of AA+ at the time of investment will be reckoned as eligible securities as long as they have minimum investment grade rating.

Current account balances of RNBCs with commercial banks would be considered as eligible investments.

The investments of RNBCs in bonds and debentures of companies which meet stipulated listing and rating requirements at the time of investment will be considered as ineligible investments if they migrate to below the investment grade rating.

Table VI.19: Profile of RNBCs
(As at end-March)

(Amount in Rs. crore)

Item	2002	2003	
	Amount	Amount	Variation of Col. (3) over Col. (2) (per cent)
1	2	3	4
A. No. of RNBCs	5	5	–
B. Net Owned Funds	111	809	628.8
C. Aggregate Liability to Depositors (ALD)	12,889	15,065	16.9
D. Assets (i to v)	18,458	20,362	10.3
(i) Unencumbered approved securities	4,080	6,129	50.2
(ii) Fixed deposits with banks	1,830	1,470	-19.7
(iii) Bonds or debentures or commercial papers of a Govt. company/ public sector bank/public financial institution/ corporation	6,265	6,553	4.6
(iv) Other investments	529	912	72.4
(v) Other Assets	6,169	6,040	-2.1
E. Income*	1,785	1,801	0.9
F. Total Expenses (i+ii+iii)	1,376	1,435	4.3
(i) Financial Cost	1,091	1,212	11.1
(ii) Operating Cost	93	105	12.9
(iii) Other cost	193	118	-38.9
G. Tax	41	134	226.8
H. Net profit	368	232	-37.0

* Comprises of only fund based income.

marked increase in investments in unencumbered approved securities while the investments in banks' fixed deposits and subscription to bonds and debentures declined. There was thus, an improvement in the risk profile of the investment portfolio of the RNBCs (Table VI.20).

19. Primary Dealers

6.57 During 2003-04, PDs continued to be significant players in the Government securities market. All the PDs recorded a profit during 2003-04 and the overall profit of the PDs increased by 7.8 per cent over 2002-03 (Appendix Table VI.1). The share of Government securities in total assets of PD system continued to be around 80 per cent.

Table VI.20: Investment Pattern of RNBCs
(As at end-March)

(Amount in Rs. crore)

Item	2002	2003
1	2	3
Aggregate Liabilities to the Depositors (ALD)	12,889 (100.0)	15,065 (100.0)
Unencumbered approved securities	4,080 (31.6)	6,129 (40.7)
Fixed Deposits with banks	1,830 (14.2)	1,470 (9.8)
Bonds or debentures or commercial papers of a Govt. company/public sector bank/ public financial institution/corporation	6,265 (48.6)	6,553 (43.5)
Other investments	714 (5.6)	913 (6.0)

Note : Figures in bracket are percentage to ALD.

6.58 The overall financial strength of PDs (Table VI.21) has improved as is evident from the increase in NOFs from Rs.5,055 crore as at end-March 2003 to Rs.6,015 crore as at end-March 2004, due to the capitalisation of profits and induction of fresh capital. Despite higher net profits during the year, the return on net worth was lower on account of a substantial increase in the net worth of the PD system. PDs performance, in terms of return on assets, was lower when compared with the performance in 2002-03 mainly due to lower earnings of interest income and trading profit.

6.59 PDs continued to maintain capital to risk weighted assets ratios far in excess of the minimum capital requirement of 15 per cent of aggregate risk weighted assets, including credit risk and market risk (Appendix Table VI.2). The CRAR as at end-March 2004, increased from 29.7 per cent to 42.7 per cent on account of reduction in the holding period under Value at Risk measure from 30 to 15 days, of largely static assets and higher capital funds.

Table VI.21: Select Indicators of the Primary Dealers
(As at end-March)

(Amount in Rs. crore)

Item	2002	2003	2004
1	2	3	4
Number of PDs	18	18	17
Total Capital Funds	4,371	5,055	6,015
CRAR (per cent)	38.4	29.7	42.7
Total Assets (net of current liabilities and provisions)	15,305	17,378	17,135
Of which: Government Securities	12,217	14,573	14,094
Government Securities as percentage of total Assets	80	84	82
Return on Average Assets	8.4	6.6	5.9
Return on Average Net Worth	38.7	24.2	20.4
Liquidity Support Limit	4,000 (normal)	3,000 (normal)	2,250 (normal)
	2,000 (back-stop)	1,500 (back-stop)	2,250 (back-stop)

Note: Figures for 2004 does not include SBI Gilts Ltd.

6.60 For 2003-04, the liquidity support limits for PDs was fixed at Rs.4,500 crore, the same as in 2002-03. As stated in the Monetary and Credit Policy 2003-04, the ratio of the normal and back-stop facilities for PDs was changed to 1:1 from 2:1 in 2002-03. With effect from March 29, 2004, the normal and back-stop liquidity support facilities were merged into a single facility to be made available at a single rate, *viz.*, the reverse repo rate[5]. The liquidity support for 2004-05 has been fixed at Rs.3,000 crore.

6.61 For 2003-04, bidding commitment in Treasury Bill auctions for all PDs taken together was fixed at 121.8 per cent of the issue amount indicated to be raised. The total bids received from them at Rs.99,279 crore accounted for 157.8 per cent of the total treasury bills issues of Rs.62,921 crore thereby outstripping the bidding commitment. For dated securities auctions, the bidding commitments for all PDs taken together, were originally fixed at Rs.1,31,000 crore. Subsequently, the bidding commitments were reduced to Rs.98,200 crore due to reduction in the market-borrowing programme of the Government. The actual bids tendered by them (Rs.1,10,953 crore) were at 110.9 per cent of the amounts notified. The success ratio at auctions, as against the prescribed 40 per cent was at 66.6 per cent for treasury bills and 45.1 per cent for dated securities as against 62.6 per cent and 45.3 per cent, respectively, in 2002-03. PDs offered Rs.1,00,000 crore for underwriting the primary issues during the year, out of which bids for Rs.49,150 crore were accepted by the Reserve Bank. The share of total primary purchases of treasury bills by the PDs was higher in 2003-04 at 67 per cent as against 65 per cent during 2002-03. For dated securities, the same was, however, lower during 2003-04 at 50.1 per cent as against 63.0 per cent in 2002-03, reflecting a more aggressive interest in the primary market for dated securities by other investors.

20. Other Developments

Developments Pertaining to Working Group on Development Financial Institutions

6.62 In order to address the regulatory and supervisory issues relating to the existing term lending and refinancing institutions and for improving the flow of resources to them, the Reserve Bank in mid term Review of monetary and credit policy 2003-04 set up a Working Group, for examining, within the broader framework of NBFCs, various regulatory and supervisory aspects including access to short term resources for the DFIs as a separate category. With regard to NBFCs, the Working Group had the specific mandate to advise whether NBFCs with large sized liabilities should automatically be brought under the separate category of NBFCs as applicable to DFIs; and to review the status of RNBCs and identify where they have characteristics of DFIs and suggest mechanisms by which the companies under this category could move into one of the definable categories of NBFCs including that of the DFIs (Box VI.2).

Road Map for RNBCs

6.63 The mid-term Review of annual policy Statement for the year 2004-05 has drawn a roadmap for the RNBCs with an intention to focus on improvements in the functioning of RNBCs. The measures envisaged are expected to ensure that the depositors are served appropriately and systemic risks are avoided. The measures include: (i) transparency of operations, especially in the connected lending relationships; (ii) corporate governance standards including professionalisation of the Boards and ensuring 'fit and proper' criteria in consonance with the

[5] Also refer to Footnote 1 of Chapter II of the Report.

Box VI.2: The Working Group on Development Financial Institutions – Recommendations relating to NBFCs[6]

The Working Group on Development Financial Institutions (Chairman: Shri N. Sadasivan) looked in to the aspects of regulations with respect to RNBCs and NBFCs and submitted its Report on May 10, 2004. Specifically, the group was to look into i) whether NBFCs with large sized liabilities should automatically be brought under the separate category of NBFCs, as applicable to DFIs; ii) to review the status of Residuary Non-Banking Companies (RNBCs) and identify areas of similarities with DFIs and accordingly, suggest mechanisms, by which the companies under this category could move into one of the definable categories of NBFCs.

The Working Group observed that while non-public deposit taking NBFCs are slated to be excluded from the purview of the Reserve Bank regulations, there is a need to focus on all large sized NBFCs from the angle of their systemic significance. The Group recommended that for this purpose the Reserve Bank should put in place as an initial measure, a system of periodical collection of all information relevant to the systemic concerns pertaining to large sized non-public deposit taking companies. The information system may include, besides submission of annual financials, quarterly reporting of specific details of the company's assets and liabilities which focus on their linkages to the market, inter-corporate/inter-company and capital market exposures and all other sensitive information. This system may also be specified for public deposit taking companies to the extent required. Taking cognisance of the recommendations made by the Working Group, the Reserve Bank has introduced a quarterly reporting arrangement for NBFCs not accepting/ holding public deposits and having assets size of Rs.500 crore and above as on March 31, 2004.

With respect to RNBCs, the Working Group held that while the regulation of RNBCs by the Reserve Bank needs to be viewed in the historical perspective of evolution of such companies and the concerns of the Reserve Bank to protect the interest of depositors, there was a need for revisiting the existing regulatory structure in the current context. With regard to conversion of RNBCs to the category of DFIs, the Working Group was of the view that there is no commonality of characteristics between the RNBCs and DFIs, and that the transformation of RNBCs into the DFI mould would be neither feasible nor desirable. As regards the prospect of RNBCs transforming into other categories of NBFCs, namely, equipment leasing (EL), hire purchase (HP), loan and investment company, the Working Group found that it may be possible for RNBCs to convert their asset profile to these categories. Any such conversion would involve the companies submitting themselves to the regulations relating to the liabilities, especially NOFs related restrictions on quantum of public deposits. However, the working group noted that in case the RNBCs move on to any NBFC category, immediate compliance by them with the applicable regulations on public deposits would not be possible and regulatory relaxations would be required.

The Working Group was of the view that continuation of RNBCs in their current mould is not desirable because the scope that exists now for unrestricted growth of deposits in RNBCs, poses serious concerns relating to the depositors' interest. A cap in terms of NOFs may be fixed for mobilisation of public deposits by RNBCs. The cap would be in terms of public deposits, as opposed to all deposits, which are covered by the extant regulations. The cap on RNBCs' access to public deposits may be stipulated, as an initial measure, at a level of 16 times the NOFs, along with a direction that the RNBCs will ultimately have to conform to the norms for raising of public deposits as applicable for NBFCs in general *i.e.*, a ceiling of 4 times or 1.5 times of NOFs, as applicable. The Group is of the view that the time for such transition should preferably be not more than 5 years, although extension of time may be warranted by, among other reasons, the future cash flows arising out of the deposit contracts already entered into by the respective RNBCs and the nature of the fixed costs built into their operations. The progressive reduction of the cap on deposits in terms of NOFs may be accompanied by a commensurate progressive increase in the discretion to be allowed to the RNBCs for deployment of funds so that on completion of transition period, the RNBCs would comply with the norms for raising public deposits, while enjoying the freedom to use the deposits and other funds in the manner applicable to other NBFCs.

As regards the recommendations on the asset side of the portfolio of RNBCs, the Working Group was of the view that unlisted and unrated bonds issued by any company/ institution, including PFIs, should not be part of the investments. Further, investments in unlisted but rated bonds and debentures should be only to an extent of five per cent of their total investments in debt securities. Suitable caps would be fixed by the Reserve Bank for exposures to capital market, real estate, unlisted but rated securities and units of equity oriented mutual funds.

Keeping in view the conscious policy of moving away from an administered interest rate regime, the Working Group suggested the removal of the floor rate on interest to be offered by the RNBCs. As the rate of return on assets of RNBCs are expected to increase substantially, the Working Group suggested that the benefits of higher yields should be passed on to the depositors in the form of lower interest to compensate for the service charges levied at the time of maturity. The Working Group was of the view that the commission structure and the agency agreements for the collection of instalments should be uniform. There should also be clauses built in the agency agreements to prevent the practice of discontinuity of the deposits.

standards in banks; (iii) avoiding untenable rates of commission to agents; (iv) adherence to 'know your customer' rules through systems consistent with their business but subject to regulator's close oversight; and (v) customer service in terms of clear indication of the identifiable contact with the field agents so that matters such as unclaimed deposits are appropriately addressed. Detailed guidelines in regard to action to be taken by RNBCs on the above would be issued subsequently.

[6] Also refer to Box V.1 of the Report.

Chapter VII

Financial Stability

7.1 Financial stability has evolved as an increasingly important goal of policy across countries with the experience of recurring financial crises in different countries during the 1990s. It is being increasingly recognised that financial stability is crucial for sustained economic growth but this cannot be achieved without strong financial systems[1]. Even with sound macroeconomic management, weak financial systems can destabilise the economy, making it more vulnerable to domestic and external shocks. There is a growing realisation that though price stability is a necessary condition for sustainable economic growth, it is not a sufficient one as it, in itself, is dependent on the stability of the financial system. In most countries, financial stability is considered as a concurrent objective of policy. It has been viewed that unlike price stability, financial stability is difficult to quantify, *viz.,* setting out an explicit targeting framework for achieving policy objectives. Nevertheless, several central banks have focused increasingly on financial stability, which is evident from various Reports produced on the subject on regular basis in recent years (Annex VII.1).

7.2 The Reserve Bank in its annual policy Statement for 2004-05 states:

'As the financial sector matures and becomes more complex, the process of deregulation must continue, but in such a manner that all types of financial institutions are strengthened and financial stability of the overall system is safeguarded. As deregulation gathers force, the emphasis on regulatory practice has to shift towards effective monitoring and assurance of implementation of regulations. In order to achieve these regulatory objectives, corporate governance within financial institutions must be strengthened, and internal systems need to be developed to ensure this shift in regulatory practice. Furthermore, as financial institutions expand and grow more complex, it is also necessary to ensure that the quality of service to customers, especially the common person, is focused on and improved'.

7.3 The pursuit of financial stability has emerged as the central plank of financial sector reforms in India. The Committee on the Financial System, 1992 (Chairman: Shri M. Narasimham) recognised financial stability as the *sine qua non* of rapid and sustainable economic progress. In the Indian context, the role of financial stability has been recognised, *inter alia*, from three principal perspectives[2]. Stability of the financial system has critical influence on price stability and sustained growth, which constitute the principal objectives of policy[3]. A stable financial system facilitates efficient transmission of monetary policy actions. From the perspective of regulation and supervision, safeguarding depositors' interest, and ensuring stability of financial system, in particular, the banking sector, is the mandate of the Reserve Bank.

7.4 Against this backdrop, this Chapter aims at providing a review and analysis of various policy initiatives undertaken under the aegis of reform of the financial sector toward achieving financial stability. Since the Chapter is introduced for the first time in this Report, it is designed to provide a conceptual backdrop on financial stability covering a historical overview as well as recent developments. The Chapter primarily focuses on the activities of the Reserve Bank relating to the policies, instruments, norms and tools applied to detect, prevent and manage systemic instability. The Chapter is organised in to nine sections with a discussion on definitions and approaches to financial stability and central banks' concerns in Section 2. The policy approach adopted is discussed in Section 3, followed by an analysis of prudential norms in

[1] Financial Stability Institute, Bank for International Settlements, Switzerland.
[2] Government of India, (1991), Report of the Committee on the Financial System (Chairman : M. Narasimham).
[3] Jalan, B., (2002), 'Finance and Development: Which Way Now?', RBI Bulletin, January.
Reddy, Y.V., (2004), 'Financial Stability: the Indian Experience', RBI Bulletin, October.

Section 4. Development of markets is reviewed in Section 5, and payment system and technology in Section 6. The architecture of regulation and supervision is outlined in Section 7, and measures towards crisis prevention and management are discussed in Section 8. The empirical assessment of financial stability based on a review of macroprudential indicators is provided in Section 9. The conclusions are outlined in Section 10.

2. Financial Stability: Approaches

7.5 Unlike monetary stability there is no universally accepted definition of financial stability. A stable financial system entails the capacity to prevent financial crises from occurring, or, when they do occur, to contain the effects thereof and to prevent them from spilling over into the real economy[4]. Unsafe financial institutions and markets interfere with production, consumption and investment, and therefore defeat national goals of all-round economic growth and development. Fragilities in the financial system could arise mainly on account of weak fundamentals, inadequate institutions, and asymmetric information. Preventing disruptions to the national payment system is key to the whole process[5].

7.6 The numerous definitions of financial stability take into consideration the country specific concerns pertaining to policies, institutions, markets and macroeconomic objectives. Broadly, however, there are two major perspectives on financial stability: one related to the prevention or containment of financial crises, and the other towards the development of strong and healthy institutions. Most definitions view financial stability through the prism of financial crises[6]. According to the crisis perspective, financial instability is manifested through banking failures, intense asset price volatility or a collapse of market liquidity, and ultimately in disruption of the payment and settlement system. This approach to financial stability entails identification of the sources of financial crises and gearing policies and institutions to overcome various deficiencies of the financial system. On the other hand, the perspective of sound and healthy financial systems focuses on a set of standards and codes and prudential norms, which ensure soundness, safety, stability and efficiency of financial institutions.

7.7 Despite several approaches to financial stability, some approaches seem to have found greater acceptance as they provide an encompassing framework for understanding various facets of financial stability. It is generally agreed that financial markets, institutions (*i.e.,* intermediaries), instruments, and regulatory constraints constitute the major elements of the financial system. Deriving from this general perspective, it is postulated that financial stability encompasses three pillars: stable institutions, stable markets, and stable prices[7]. Financial markets cannot function adequately in the absence of an appropriate institutional framework especially in a situation of rapid increase in the pace of globalisation. A commonly agreed approach entails that 'institutions' comprise a set of 'rules, enforcement mechanisms, and organisations that shape the functioning of markets'[8]. From the perspective of geo-political dimensions, financial stability entails stability in the external as well as the domestic environment. The stability of external environment assumes importance in the context of globalisation, and increasing integration of economies fostered by increasing cross border capital flows and rapid advances in information technology. The experience of the 1990s shows that instability in the global environment can be amplified due to the contagion effect of a crisis occurring in a particular country. There is a considered view that the primary responsibility for crisis prevention has to be that of the country itself[9].

[4] South African Reserve Bank (2004), Financial Stability Review, March.

[5] Reserve Bank of India, Report on Currency and Finance, 1998-99.

[6] Haldane, A., and Saporta, V., (2004), 'Financial Stability and Macroeconomic Models', Financial Stability Review, Bank of England, June 2004.

[7] Crocket, A., (1997), 'Why is Financial Stability a Goal of Public Policy', Bank for International Settlements, Policy Paper No. 1.

[8] G-20 (2004), 'Globalisation and Institution Building', Country Case Studies, March.

[9] Jalan, B., (2002), 'Bank of England Seminar on International Financial Architecture', at the symposium of Central Bank Governors hosted by the Bank of England in London on July 5, 2002.

3. Stance of Reform

7.8 In India, reform of the financial sector has served the country in terms of aiding growth while at the same time avoiding crises, enhancing efficiency of financial intermediaries and imparting resilience to the system. The approach towards financial sector reforms is based on *panchasutra* or five principles; gradualism entailing cautious and appropriate sequencing of reform measures, mutually reinforcing norms, complementary reforms across sectors (most importantly monetary, fiscal and external sectors) based on extensive consultations with the stakeholders at each stage, development of financial institutions and development of markets[10]. Although there is a broad commonality in the objectives and instruments of reform for all types of financial intermediaries, the pace and sequencing in each segment of the financial sector is being determined keeping in view its state of development.

7.9 The financial system in India comprises commercial banks including public sector, private sector, and foreign banks, co-operatives, development finance institutions (DFIs) and various other institutions in the areas of insurance, mutual funds, and Government securities. Commercial banks occupy a predominant place in the financial system and the payment system. Banks are 'special'; as financial intermediaries critical for mobilising public savings and for deploying them to provide safety and return to the savers[11]. The deployment of funds mobilised through deposits involves banks in financing economic activity and providing the lifeline for the payment system[12]. Given the overwhelming dominance of banks in the financial system and their systemic importance, reform measures were first introduced for commercial banks and subsequently extended to other financial intermediaries such as DFIs, Non-banking Financial Companies (NBFCs), co-operative banks and the insurance sector.

7.10 The reform agenda for the banking and financial sector has been driven mainly by the Reports of two Committees set up by the Government of India, the Committee on the Financial System, 1991 (Chairman: Shri M. Narasimham)[13] and the Committee on Banking Sector, 1998 (Chairman: Shri M. Narasimham)[14]. Several Committees, Advisory Groups, Working Groups, and Technical Groups set up by the Government of India and the Reserve Bank have facilitated the reform process through their various recommendations and suggestions (Annex VII.2). The reform of banking sector has encompassed measures pertaining to competition, development of prudential norms, markets, institutions and the legal environment, and improvements in supervisory process[15]. The major stance of the policy environment is to create an enabling environment with greater operational flexibility and functional autonomy for banks with a view to enhancing their efficiency, productivity and profitability[16].

Competition

7.11 It is generally agreed that a competitive financial system facilitates mobilisation of savings and allocation of resources consistent with market forces and thus, enhances efficiency of institutions. In a competitive financial market characterised by lower barriers to entry, financial intermediaries benefit from the economies of scale and scope due to financial innovations and the lower cost of production of financial services[17]. Furthermore, a competitive financial system limits the problems of adverse selection and moral hazard, which affect efficiencies of financial intermediaries.

10 Reddy, Y.V., (2002), 'Monetary and Financial Sector Reforms: A Practitioner's Perspective', RBI Bulletin, May.
Reddy, Y.V., (2004), 'Financial Stability in India', RBI Bulletin, October.

11 Chapter II of the Report, Box II.10: Special Nature of Banks.

12 Mohan, R., (2004), 'Ownership and Governance of Private Sector Banks in India', RBI Bulletin, October.

13 Government of India, (1991), Report of the Committee on the Financial System (Chairman : M. Narasimham).

14 Government of India, (1998), Report of the Committee on Banking Sector, (Chairman : M. Narasimham).

15 Mohan, R., (2004), 'Financial Sector Reforms', RBI Bulletin, October.
Reserve Bank of India, Report on Currency and Finance, 2001-02.

16 Reddy,Y.V., (2002), 'Monetary and Financial Sector Reforms in India: A Practitioner's Perspective', RBI Bulletin, May.

17 Canoy, M.; Dijk, M. van.; Lemmen, J.; Mooij, R. de and Weigand, J., (2001), 'Competition and Financial Stability', CPB Netherlands Bureau for Economic Policy Analysis, CPB Document, No. 015, December.

7.12 In India, concerted efforts have been made towards the development of a multi-institutional structure in the financial sector and the emphasis has been on the increased efficiency of institutions through competition, irrespective of ownership. Competition has been infused into the financial system principally through deregulation in interest rates, granting of functional autonomy to banks and allowing greater participation of private sector and foreign banks[18]. As part of the deregulation process, there has been a significant easing of control over the credit market. The statutory pre-emption of banks' funds has eased with the lowering of CRR and SLR. All interest rates with the exception of savings deposit rates and Non-resident external deposits have been deregulated.

7.13 The enabling environment for inducing competitiveness in the banking industry has taken two major forms. With the amendment to Banking Companies (Acquisitions and Transfer of Undertakings) Act 1970/1980, public sector banks have been allowed to access the capital market to augment their capital base. The shareholding of Government in public sector banks has been substantially reduced. At present Government shareholding in public sector banks cannot be reduced beyond a minimum of 51 per cent so that the Government remains the dominant majority shareholder. Within the current provisions of the Banking Regulation Act, barriers to entry have been relaxed[19]. New private banks and foreign banks have been granted licenses in order to allow the financial system to benefit from better technology, specialised skills, better risk management practices, greater portfolio diversification and deepening of the financial market[20]. Keeping in view the rigours of intensifying competition on the one hand, and tightening of prudential regulations on the other, the Reserve Bank revised the entry norms for new private sector banks in January 2001. Guidelines were set out to ensure an arm's-length relationship between investing companies and promoter groups to prevent connected lending. Guidelines were also issued for the conversion of NBFCs to scheduled banks.

7.14 The Union Budget 2002-03 announced the intention to permit foreign banks, depending on their size, strategies and objectives, to choose to operate either as branches of their overseas parent, or, as subsidiaries in India. In March 2004, the Government of India issued notification while raising foreign direct investment (FDI) limit in the private banks up to a maximum of 74 per cent under the automatic route, including the investment made by foreign institutional investors (FIIs). According to the Government's notification, foreign banks are permitted to have either branches or subsidiaries only. They may operate in India through one of the three channels *viz.*, (i) branch/es; (ii) a wholly owned subsidiary; or (iii) a subsidiary with aggregate foreign investment up to a maximum of 74 per cent in a private bank.

4. Prudential Norms

7.15 A strong and resilient financial system and orderly evolution of financial markets are key prerequisites for financial stability and rapid economic progress on sustainable basis[21]. It is recognised that increased competition in the financial system heightens the need for prudential regulation and supervision to ensure financial stability[22]. In a highly competitive financial market, banks may engage in riskier operations due to the pressure of profit margins. The higher level of risks may fuel bank failures and impinge on the confidence of the public in the financial system. In this context, the need for prudential regulation and supervision arises in various ways; to allow only viable banks to operate, to limit excessive risk taking by owners and managers of banks, to establish appropriate accounting, valuation, and reporting rules to achieve market discipline, and to provide corrective measures and restrictions on activities of weak institutions[23].

[18] Reserve Bank of India, Report on Currency and Finance, 1999-2000.
[19] Reserve Bank of India, Report on Trend and Progress of Banking in India, 1998-99.
[20] Reddy, Y.V., (2004), 'Financial Stability: Indian Experience', RBI Bulletin, July.
[21] Report on Currency and Finance, 1999-2000, Reserve Bank of India.
[22] Jalan, B., (1999), 'Towards a more Vibrant Banking System', RBI Bulletin, January.
[23] International Monetary Fund, (1998), 'Toward a Framework for Financial Stability', World Economic and Financial Surveys, January.

7.16 In the Indian context, a major element of financial sector reforms has been the adoption of a set of prudential measures relating to capital adequacy, income recognition, asset classification and provisioning, exposure norms, disclosures, investment and risk management as well as asset-liability management aimed at imparting strength to the banking system as well as ensuring safety and soundness through greater transparency, accountability and credibility. In keeping with the vision of developing an internationally competitive and sound domestic banking system, the deepening and broadening of prudential norms have been the core of the approach to financial sector reforms. The calibration of the convergence with international standards is conditioned by the specific realities of the domestic situation[24].

7.17 Prudential norms are being continuously monitored and refined keeping in view the financial innovations, the maturity and development of financial markets and the emerging challenges to financial stability. In this regard, banks have been encouraged to build risk-weighted components of their subsidiaries into their own balance sheets and to assign additional capital. Risk weights are being constantly refined to take cognisance of additional sources of risk, including market risks. The concept of 'past due' in the identification of non-performing assets (NPAs) has been dispensed with, and the 90-day delinquency norm has been adopted for the classification of NPAs with effect from March 2004. Taking cognisance of increasing exposure of banks arising out of high growth of credit in the retail segment, including housing and consumer sectors in the recent years, the Reserve Bank in its mid-term Review of annual policy Statement for 2004-05 announced higher risk containment measures. A comparative position of prudential norms as applicable to different segments of financial sector is provided in Annex VII.3.

Capital Adequacy

7.18 A strong capital base of banks is essential for ensuring sustained growth of banks' business and for absorbing unexpected losses[25]. The capital to risk weighted assets ratio (CRAR) based on Basel Capital Accord I has evolved as the widely accepted method of measuring soundness and solvency of banks. The CRAR system requires banks to hold different categories (tiers) of capital against assets and off-balance sheet items with different risk weights. With a view to adopting the Basel norms, the Reserve Bank decided in April 1992 to introduce the CRAR system for banks (including foreign banks). Initially, the CRAR was fixed at 8 per cent at par with the international benchmark. With greater deepening of the financial sector in the 1990s, the focus shifted to having tighter prudential norms, and the CRAR was raised to 9 per cent in March 2000.

Recapitalisation of Banks

7.19 As part of the prudential regulation and supervision, banks were required to meet the capital adequacy norms to avoid sudden pressures on their balance sheets. However, due to past bad lending, some banks found it difficult to maintain adequate capital. Drawing upon lessons from the recapitalisation practices in various other countries, the Government of India contributed over Rs.22,000 crore over the period 1992-93 to 2002-03 towards recapitalisation of nationalised banks to help them meet capital adequacy norms in line with the international standards. Due to improvements in profits, some of the public sector banks have returned the capital to the Government[26].

7.20 With the amendment to the Banking Companies (Acquisition and Transfer of Undertakings) Act in 1994, several PSBs have raised capital both in India and abroad through Global Depository Receipts. Several public sector banks have also raised subordinated debt through the private placement route for inclusion under tier-II capital. Government of India in the 'Common Minimum Programme' (May 2004) has announced that competition in the financial sector will be expanded and the public sector banks will be given full managerial autonomy.

[24] Reddy, Y.V., (2001), 'Financial Sector Reforms: An Update', RBI Bulletin, April.

[25] International Monetary Fund, (1998), 'Toward a Framework for Financial Stability', World Economic and Financial Surveys, January.

[26] Reserve Bank of India, Report on Trend and Progress of Banking in India, 2002-03.

Ownership of Financial Institutions

7.21 The approach of various regulatory regimes in addressing the issue of ownership in banks, both its nature as well as concentration, has been largely consistent in thrust and direction (Box VII.1). The criticality of the ownership structure of banks for financial stability arises in the context of the concentrated shareholding in banks controlling huge public funds, and the risk of concentration of ownership leading to potential problems of moral hazard and linkages of owners with businesses. For a developing economy, there is also much less tolerance for downside risks among depositors many of whom place their life savings in the banks. Hence from a moral, social, political and human angle, there is a more onerous responsibility on the regulator[27].

7.22 In India, the objective of promoting diversified ownership has been pursued for all types of banks. Government ownership has been reduced for several public sector banks. In order to promote diversified ownership of private sector banks, guidelines were issued by the Reserve Bank in February 2004 in regard to acquisition/transfer of shares of a private sector bank which would take the aggregate shareholding of an individual or a group to an equivalent of five percent or more of the paid up capital of the bank. While this requirement already existed, transparency was imparted by the guidelines. In July 2004, a comprehensive policy framework for ownership and governance in private sector banks has been placed in the public domain by the Reserve Bank in the form of draft guidelines, for wider public debate. The draft guidelines focuses on 'fit and proper' status of owners and directors[28], corporate governance, and professional management, which form important concerns for regulators entrusted with the tasks

Box VII.1: Regulatory Guidelines on Ownership in Banks – International Experience

Most of the countries with the exception of a few smaller developing ones, do not have an explicit statutory cap on the maximum shareholding by a single person/entity in a bank. The case of Canada is unique in the sense that there are differential criteria for smaller and bigger banks; while banks with less than Canadian $ 5 billion in assets do not have a limit, those with a bigger asset size have the maximum cap of 20 per cent (voting) and 30 per cent (non-voting). In the absence of an explicit cap, ownership concentration is regulated through a layered threshold structure. Any person/entity wishing to acquire shareholding in a bank beyond the specified thresholds would be required to seek regulatory notification/approval for the same. The minimum thresholds vary across a wide scale from one per cent to even 25 per cent in certain cases. Further, beyond the minimum thresholds a set of qualifying thresholds (indicatively 5 per cent, 10 per cent, 15 per cent, 20 per cent, 33 per cent and 50 per cent) are prescribed. The breach of the said thresholds triggers regulatory notifications/approvals.

The thresholds for a majority of the countries are measured in terms of absolute holding percentages. For a few countries like Singapore, Switzerland, New Zealand, these are in terms of voting rights.

The above structure applies to direct as well as indirect control by a person singly or jointly through a group of associates or related parties. For acquisition of shares beyond the specified thresholds, acquirers need to provide comprehensive information to the authorities, including the intent of purchase, terms and conditions, if any, manner of acquisition, source of funds, and the like. Additionally, in case of body corporates, they may also be required to provide details of their promoters, shareholding pattern and other group entities.

The regulators make an assessment on a case to case basis subject to a number of considerations including the overall sectoral impact of the transaction and the satisfaction of 'fit and proper' principles by the person(s) acquiring the stake. An indicative list of criteria considered by the approving authority includes:

- The nature and sufficiency of the financial resources of the applicant(s) as a source of continuing financial support for the bank;
- The soundness and feasibility of the plans of the applicant or applicants for the future conduct and development of the business of the bank;
- The business record and experience of the applicant or applicants or, if the applicant or any of the applicants is a body corporate, its reputation for being operated in a manner that is consistent with the standards of good character and integrity;
- The impact of any integration of the businesses and operations of the applicant or applicants with those of the bank on the conduct of those businesses and operations; and
- Overall impact on the sectoral competitiveness.

Reference:

Barth, J.R. and Levine, R., (2001), *'Regulations and Supervision Around the World, A New Database'*, World Bank Working Paper 2588, World Bank, Washington D.C.

World Bank Database 2003.

[27] Mohan, R., (2004), 'Ownership and Governance in Private Sector Banks in India', RBI Bulletin, October.

[28] Chapter II on Policy Developments: Recommendations of the Consultative Group of Directors of Banks and FIs (Chairman: A.S. Ganguly).

of protecting depositors' interest and safeguarding institutions for ensuring stability of the financial system. Based on the feedback received, a second draft of the guidelines would be prepared and put in public domain for further discussion.

Management of Non-Performing Assets

7.23 Banks provide loans and advances subject to borrowers' promise for payment of the principal and interest in the future. In this process, banks are exposed to various types of risks including credit risk arising from non-performing loans and defaults of borrowers[29]. Moreover, with increasing globalisation and diversified ownership where credit rating agencies constantly review the strength of banks, managing the level of NPAs assumes importance[30].

7.24 The Reserve Bank along with the Government, has initiated several institutional measures to contain the levels of NPAs. Notable among these include Debt Recovery Tribunals, *Lok Adalats* (people's courts) and Asset Reconstruction Companies (ARCs). Settlement Advisory Committees were formed at regional and head office level of commercial banks. Corporate Debt Restructuring (CDR) mechanism was institutionalised in 2001 to provide a timely and transparent system for restructuring of large corporate debts with the banks and financial institutions. The CDR mechanism has been revised based on the announcement in the Union Budget 2002-03. While several measures, as mentioned above, have been undertaken towards preventing the accumulation of NPAs, in the absence of creditor rights, the problem tended to persist. In order to address this aspect, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was enacted in April 2002. The Act empowers secured creditors to enforce any security interest credited in its favour without any intervention of court or tribunal. A set of guidelines has been issued to financial entities, so that the process of instituting ARCs proceeds on smooth lines. Several institutions have initiated steps towards establishment of ARCs. The Reserve Bank has given license to three ARCs out of which one has started functioning[31].

Asset Classification and Provisioning

7.25 In India, the asset classification for provisioning against NPAs is based on a four-tier system; standard assets, substandard assets, doubtful assets and loss assets. Appropriate provisioning norms have been stipulated for all these categories of assets. During 2002-03 and 2003-04, there has been a concerted endeavour to align provisioning norms to the international best practices as well as to respond to emerging trends in the portfolio structure of banks. The most notable development was implementation of the 90 day delinquency norm effective March 2004. In regard to other major developments, as a major step toward tightening prudential norms, banks were advised in May 2002, that effective March 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months as against the prevailing norm of 18 months. Banks have been permitted to phase the additional provisioning consequent upon the reduction in the transition period from sub-standard to doubtful assets from 18 months to 12 months over a four year period, commencing from the year ending March 2005, with a minimum of 20 per cent each year. In another initiative toward tightening provisioning norms, banks have been advised to make 100 per cent provision for the net debit position in their inter-branch accounts in respect of unreconciled entries outstanding for more than six months, with effect from March 31, 2004, as against the existing period of one year.

7.26 In June 2004, the Reserve Bank took a major decision of encouraging banks to adopt graded higher provisioning[32]. The Reserve Bank

[29] (a) Chapter III; Box III.7: Determinants of Non-Performing loans of Indian Banks.
(b) Report on Trend and Progress of Banking in India, 2002-03.

[30] (a) G-20 (2003), 'Globalisation: The Role of Instititution Building in the Financial Sector'.
(b) Mohan, R., (2004), 'Globalisation : The Role of Instititution Building in the Financial Sector : The Indian Case', RBI Bulletin, February.

[31] Chapter V; Box V.4: Regulatory Environment for ARCs in India.

[32] Mid-term Review of annual policy Statement 2004-05, Reserve Bank of India.

introduced a graded higher provisioning on secured portion of NPAs as on March 31, 2004, ranging from 60 per cent to 100 per cent over a period of three years in a phased manner, with effect from March 31, 2005. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement would be 100 per cent. The provisioning requirement for unsecured portion of NPAs under the above category will continue to be 100 per cent as hitherto.

7.27 In an open economy environment, several banks have witnessed significant internationalisation of their balance sheets arising from cross border capital flows and international banking operations. In order to guard against the risks associated with country exposures, banks have been advised to make provisions, with effect from March 31, 2003, on the net funded country exposures on a graded scale ranging from 0.25 to 100 per cent, depending upon the risk categories prescribed in the country risk management (CRM) guidelines. They are also required to disclose, as a part of the 'Notes on Accounts' to the balance sheet as on March 31 each year, their category-wise country risk exposures and the extent of aggregate provisions held against them.

7.28 A significant feature of the changing financial landscape has been the increased blurring of the distinction between banks and development finance institutions due to deregulation of the financial sector and wide ranging financial innovations. Banks have shown increasing interest in providing long-term finance to the corporate sector through project financing. Such changes in the structure of banks' credit portfolio necessitated alignment of income recognition and provisioning norms. Accordingly, banks were advised in May 2002 that they should not recognise income on accrual basis in respect of (a) the projects where financial closure had been achieved and formally documented, (b) projects sanctioned before 1997 with original project cost of Rs.100 crore or more, where financial closure was not formally documented and (c) projects sanctioned before 1997 with original project cost of less than Rs.100 crore, where financial closure was not formally documented. In February 2003, banks have been advised to recognise income on accrual basis in respect of these three categories of projects under implementation, which are classified as 'standard'.

7.29 The Reserve Bank's thrust on adequate level of provisions is reflected in the fact that the cumulative level of provisioning for the scheduled commercial banks works out to 70.6 per cent of gross NPAs as at end-March 2004. This achievement is notable in comparison with the internationally prescribed benchmark of 50 per cent provisioning against NPAs.

Valuation of Investments

7.30 In order to make the valuation of the banks' investment portfolio reflective of the purpose, commercial banks have been urged to classify their entire investment portfolio, with effect from September 30, 2000 (from March 31, 2001, in the case of select FIs) under three categories, *viz.*, 'Held to Maturity (HTM)', 'Available for Sale (AFS)' and 'Held for Trading (HFT)'. Investments under AFS are to be marked to market at the year-end or at more frequent intervals. Investments under HFT category are to be marked to market monthly or at more frequent intervals. Guidelines were also issued for the classification of investments, shifting of investments among the three categories, valuation of the investments, methodology for booking profit/ loss on sale of investments and providing for depreciation.

7.31 Amidst the concerns of rising trends in interest rates in the recent times, with their implications for banks' investment portfolio, the Reserve Bank allowed banks, as a one-time measure, to exceed the ceiling of 25 per cent of investments under HTM category by shifting some of their investments in SLR securities from the HFT/AFS categories to HTM category at the lowest of the acquisition cost or prevailing market value or book value subject to a maximum of 25 per cent of SLR securities to be held in HTM[33]. Consistent with international standards that do not place any cap on HTM category, such a move was considered advisable taking into account the statutory nature of the 25 per cent SLR while ensuring prudence and transparency in valuation on transfer to HTM.

[33] Mid-term Review of annual policy Statement 2004-05, Reserve Bank of India.

Capital Charge for Market Risk

7.32 Banks hold broadly two major types of assets: loans and advances, and investment in SLR and non-SLR securities. While loans and advances involve credit risk, investments primarily involve market risk due to changes in interest rates and yields. In 1997, the Basel Committee on Banking Supervision (BCBS) issued the 'Amendment to the Capital Accord to incorporate Market Risks' containing comprehensive guidelines to provide explicit capital charge for market risks, *i.e.*, the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The market risk positions subject to capital charge requirement are the risks pertaining to interest rate related instruments and equities in the trading book; and foreign exchange risk (including open position) throughout the bank (both banking and trading books).

7.33 In the Indian context, banks hold a sizeable portion of investment in SLR and non-SLR securities, which are sensitive to changes in interest rates. The market risk of banks' portfolio emerged as an important concern of the regulatory process in the wake of the soft interest rates in 2002-03 and 2003-04. In the annual policy Statement of April 2002, the Reserve Bank advised banks to adopt the Basel norm for capital charge for market risk and issued draft guidelines in June 2004 on computing capital charge for market risk to select banks, seeking their comments. With a view to ensuring smooth transition to Basel II norms, the annual policy Statement 2004-05 proposed to phase the implementation of capital charge for market risk over a two year period: banks would be required to maintain capital charge for market risk in respect of their trading book exposures (including derivatives) by March 31, 2005 and banks would be required to maintain capital charge for market risk in respect of the securities included under AFS category by March 31, 2006.

7.34 Furthermore, in order to provide a cushion for managing the market risk, the Reserve Bank introduced a system of Investment Fluctuation Reserve (IFR) in 2002. Banks have been advised to ensure that the building up of the IFR of 5 per cent of their investments in HFT and AFS categories is achieved earlier, though they have time up to March 2007. The Reserve Bank in the annual policy Statement 2004-05 allowed banks to build up higher percentage of IFR upto 10 per cent of portfolio depending on the size and composition of their portfolio, and the concurrence of their Boards.

7.35 Banks have been urged to prepare themselves to comply with the prudential requirements in regard to their investment in non-SLR securities by the end-December 2004 (mid-term Review of annual policy Statement 2004-05).

Market Discipline

Accounting Standards

7.36 The need for high quality accounting standards is to ensure that information contained in the financial statements is accurate, timely and comprehensive, so that it is particularly useful for markets and stakeholders. The endeavour of the Reserve Bank is to eliminate/reduce gaps in compliance by banks, FIs and NBFCs with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI). Detailed guidelines have been issued from time to time to ensure banks' compliance with these accounting standards, as also to operationalise consolidated accounting practices.

7.37 The Reserve Bank has been making continuous efforts to ensure convergence of its supervisory norms and practices with the international best practices. In regard to Accounting Standards (AS), a Working Group (Chairman: Shri N.D. Gupta) was constituted to recommend steps to eliminate/reduce gaps in compliance by banks with AS as issued by ICAI. The Working Group examined compliance by banks with the AS 1 to 22, which were already in force for the accounting period commencing from April 1, 2001, as also AS 23 to 28, which were to come into force for subsequent periods. The Working Group observed, that out of Accounting Standards which are already in force, *viz.*, AS 1 to 22, banks in India were generally complying with most of the AS, with an exception of eight AS resulting in qualifications in the financial statements. These pertain to AS 5 (net profit or loss for the period, prior period items and changes in accounting policies), AS 9 (revenue recognition), AS 11 (accounting for the effect of changes in foreign exchange rates), AS 15 (accounting for retirement

benefits in the financial statements of employers), AS 17 (segment reporting), AS 18 (related-party disclosures), AS 21 (consolidated financial statements), and AS 22 (accounting for taxes on income). In view of the above and also with a view to eliminate gaps in compliance with the AS, the Working Group made certain recommendations for compliance by banks with the concerned accounting standards. In March 2003, the Reserve Bank issued detailed guidelines on the basis of the Group's recommendations for the guidance of banks.

7.38 The Reserve Bank constituted a Standing Committee on Procedures and Performance Audit on Public Services (Chairman: S. S. Tarapore)[34] in November 2003. The Committee submitted four Reports, *viz.*, Foreign Exchange Transactions, Government Transactions Relating to Individuals, Banking Operations and Currency Management. The Reserve Bank has implemented some of the recommendations of the Standing Committee in the areas of foreign exchange, Government transactions, banking operations, and the currency management[35].

Transparency and Disclosure

7.39 The stability of a financial system can be achieved only when institutions and markets function on the basis of informed decisions. Minimising the adverse selection and moral hazard problem of banks and other financial intermediaries requires production and reporting of adequate information. Adequate disclosure of information should act as a deterrent to excessive risk-taking since it enables the market to discipline banks. The disclosure also acts to protect borrowers and lenders from abusive practices and make them more aware of the costs and commitments in financial contracts.

7.40 In India, the banking system has witnessed greater levels of transparency and standards of disclosure. The range of disclosures have gradually been expanded over the years and presently includes a host of indicators relating to capital adequacy (Tier I and Tier II capital separately), NPAs, Government shareholding, movements in NPAs, exposure to sensitive sectors (capital market, real estate and commodities), movements in provisions for NPAs and investments as also information on corporate debt restructuring. These are being further enhanced to incorporate asset-liability management, risk management policies, concentrations, connected lending, evaluation of investment in subsidiaries, various performance measures and indicators thereof. Banks are providing information on various indicators in the form of notes to accounts and schedules in their balance sheets.

7.41 Guidelines in regard to Fair Practices Code for Lenders were framed and the banks/ all-India FIs have been advised to adopt these guidelines[36]. Banks and FIs have the freedom of enhancing the scope of the guidelines without sacrificing the spirit underlying them. The Board of Directors should also lay down the appropriate grievance redressal mechanisms within the organisation to resolve disputes arising in this regard. A periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism may be submitted to the Board at regular intervals.

7.42 The Reserve Bank has been taking several steps from time to time to enhance the transparency in banks' operations by prescribing comprehensive requirements for disclosure in tune with the international best practices. The Reserve Bank is empowered to impose penalties on a commercial bank under the provision of Section 46(4) of the Banking Regulation Act, 1949, for contraventions of any of the provisions or non-compliance with any other requirements of the Act; order, rule or condition specified by the Reserve Bank under the Act. The imposition of penalty on a bank is decided after a due process of advising the bank and seeking its explanation so as to afford a reasonable opportunity to the bank for being heard. In view of the added emphasis on the role of market discipline under Basel II and with a view to enhancing further transparency, banks have been advised on October 19, 2004 that all cases of penalty imposed by the Reserve Bank as also strictures/directions on specific matters

[34] Chapter II; Box II.15: Standing Committee on Procedures and Performance Audit on Public Services.

[35] The details of recommendations implemented are provided in the mid-term Review of annual policy Statement 2004-05.

[36] Annual Report 2002-03, Box X.7.

including those arising out of inspection will be placed in the public domain with effect from November 1, 2004.

Corporate Governance

7.43 Corporate governance is becoming crucial for banks and FIs to promote effective risk management and financial stability. In the financial system, corporate governance assumes importance in order to determine the health of the system and its ability to survive economic shocks. The health of the financial sector largely depends on the capacity of individual institutions to identify, measure, monitor and control their respective risks. Under corporate governance, banks articulate corporate values, codes of conduct and standards of appropriate behaviour, *etc.* and have systems and controls to ensure compliance with them. The Board sets the strategic objectives and corporate values of banks and specify transparent lines of responsibility and accountability, which are communicated throughout the organisation. The Board and the top management meet at specified intervals for timely exchange of information on the bank's financial condition and management practices. It is, therefore, possible to identify different sets of players in the corporate governance system. There is a dynamic balance among them that determines the prevailing corporate governance system depending on the stage of institutional development and the historical development.

7.44 The governance of banks is an outcome of a complex of legal, regulatory, and supervisory policies. It is necessary to promote effective systems of internal management and risk control with strict accountability of owners, directors and senior management, including prevention of insider abuse and financial crime and control of connected lending. The Reserve Bank has responsibility for corporate governance in the banking sector. As part of the on going financial sector reforms, the Boards of banks and FIs have been given greater autonomy to lay down guidelines and procedures to enhance transparency and disclosure, to contain risk and for asset-liability management. Further, interaction with market participants has been intensified both at informal level and formal fora, like advisory committees.

7.45 The Reserve Bank constituted a Consultative Group of Directors of Banks and Financial Institutions (Chairman: Dr. A. S. Ganguly) in October 2001 to address the issues relating to corporate governance. The Group recommended various measures, benchmarked against international best practices as enunciated by the Basel Committee on Banking Supervision, to make the supervisory role of the Boards of banks and FIs more effective. The report of the Group was examined by the Board for Financial Supervision (BFS) and based on its recommendations, action to be taken by public and private sector banks were grouped separately and advised to the banks in June 2002. These included due diligence procedures for appointment of directors on the boards of private sector banks, and role and responsibilities of independent/non-executive directors.

7.46 The Securities and Exchange Board of India (SEBI) had constituted a Committee on Corporate Governance (Chairman: Shri Kumar Mangalam Birla), which submitted its Report in May 1999. The recommendations of the Committee were forwarded to the Reserve Bank with a request to consider issuing appropriate guidelines to banks with a view to harmonising the existing requirements with the SEBI Committee requirements. Banks, which have issued shares to the public and are listed on stock exchanges, have been advised to form committees to look into redressal of shareholders' complaints and to provide un-audited financial results on a half yearly basis to their shareholders with a summary of significant developments. It was observed that the procedures in regard to appointment and removal of external auditors are more stringent in banks than those recommended by the SEBI Committee.

7.47 The Joint Parliamentary Committee (JPC) on Stock Market Scam observed that it is imperative for the banks to follow strategies and techniques basic to the tenets of sound corporate governance. These include inducting capable and experienced directors, efficient management, coherent strategy and business plan, and clear lines of responsibility and accountability. The JPC also endorsed the recommendations of the Advisory Group on Banking Supervision (Chairman: Shri M. S. Verma) submitted in January 2001 and desired

that the same be implemented expeditiously. Banks have to assign priority to strengthen their Management Information System (MIS) and internal control mechanisms to comply with these requirements.

5. Development of Markets

7.48 The financial system serves the economy, *inter alia*, by providing liquidity for easy exchange of assets, a mechanism for risk sharing while allowing savers to hold varied assets. Borrowers in the system have a wider choice for raising funds suited to their productive activities. Thus, the economic function of financial markets can be seen in three dimensions: time, risk and information[37]. Financial markets and institutions work together to achieve these core functions of the financial system. Financial markets provide a direct mechanism while financial intermediaries provide an indirect mechanism for matching the needs of savers and borrowers[38].

7.49 In India, development of financial markets has been pursued essentially for bringing about a transformation in the structure, efficiency, and stability of markets as also facilitating integration of markets. The emphasis has been put on strengthening price discovery, easing of restrictions on flows or transactions, lowering of transaction costs, and enhancing liquidity. During post-reform period, the structure of financial market has witnessed a remarkable change in terms of the types, the number and the spectrum of maturity of financial instruments traded in various segments of money, gilts and foreign exchange markets.

Money Market

7.50 The money market is generally expected to perform three broad functions: providing an equilibrating mechanism to even out demand for and supply of short-term funds, a focal point for central bank's intervention for influencing liquidity and general level of interest rates in the economy, and reasonable access to providers and users of short-term funds to fulfil their borrowing and investment requirements at an efficient market clearing price. The money market instruments mainly comprise call money, certificates of deposit (CDs), Treasury Bills, other short-term Government securities transactions, such as, repos, bankers' acceptances/ commercial bills, commercial papers (CPs), and inter-corporate funds. While inter-bank money markets and central bank lending *via* repo operations or discounting provide liquidity to banks, other money market instruments, such as, commercial bills and CPs provide liquidity to the commercial sector. In India, as in many other developing countries, the evolution of the money market and its structure has been integrated into the overall deregulation process of the financial sector.

7.51 The Reserve Bank is the most important constituent in the money market. By virtue of implications for the conduct of monetary policy, the money market comes within the direct purview of the Reserve Bank's regulation. The primary aim of the Reserve Bank's operations in the money market is to ensure that the liquidity and short-term interest rates are maintained at levels consistent with the monetary policy objectives. The Reserve Bank influences liquidity and interest rates through a number of operating instruments, *viz.*, cash reserve requirements of banks, conduct of open market operations (OMOs), repo transactions, changes in the Bank Rate, and at times through foreign exchange swap operations[39].

7.52 The evolution of the money market in India could be traced to the late 1980s when the Working Group on Money Market (Chairman: Shri N.Vaghul) made a series of recommendations for developing various segments of the money market[40]. Initially, under the reform process, the changes in the money

[37] Merton, R., (1990), 'Continous Time Finance', Blackwell, Cambridge.

[38] Canoy, M, M. van Dijk, J. Lemmen, R. de Mooij and J. Weigand, (2001), 'Competition and Financial Stability', CPB Netherlands Bureau for Economic Policy Analysis, CPB Document, No. 015, December.

[39] Reddy, Y.V., (2002), 'Developing Bond Markets in Emerging Economies: Issues and Indian Experience', Keynote Address at the Asian Conference, jointly hosted by FIMMDA, PDAI, and Thai BDC at Bangkok on March 11, 2002.

[40] Reserve Bank of India, Annual Report, 2003-04, Box V.1: Evolution of Money Markets.

market structure were brought in through a gradual shift from a regime of administered interest rates to a market-based pricing of assets and liabilities, development of infrastructure, and introduction of new instruments. The reform of money market also focused on greater and wider participation of other financial institutions for deepening of the market. Accordingly, primary/satellite dealers, mutual funds and other participants in the bills rediscounting market and corporates (through primary dealers) besides banks, LIC and UTI, were allowed to participate in the call money market. While banks and primary dealers were allowed two-way operations, other non-bank entities participated only as lenders.

7.53 In recent years, the Reserve Bank's approach has been to foster balanced development of different segments of the money market, introduce new instruments, reduce dependence of participants on uncollateralised exposures, facilitate price discovery in the short-end and upgrade the payment system infrastructure[41]. Accordingly, the Reserve Bank's strategy has focused on developing pure call/ notice money market, instituting full-fledged Liquidity Adjustment Facility, developing infrastructure, promoting transparency, and various measures pertaining to instruments for non-bank participants.

7.54 With a view to transforming the call/ notice money market into a pure inter-bank market with participation of banks and primary dealers (PDs) only, a phased exit of non-banks from the call/notice money market was started in May 2001. Accordingly, the average daily lending in a reporting fortnight in call/notice money market has been reduced from 75 per cent in June 2003 to 30 per cent of their average daily lending in call/notice money market during 2000-01, with effect from January 8, 2005. With effect from February 7, 2004, PDs have been permitted to borrow up to 200 per cent of their net owned funds (NOFs), as at end-March of the preceding financial year, on average, in a reporting fortnight. Any PD facing genuine difficulty in adhering to the limit was permitted to approach the Reserve Bank for extension of period of compliance.

7.55 The traditional refinance support on fixed terms has been replaced while moving to a full-fledged Liquidity Adjustment Facility (LAF) since 2000. The LAF has been in operation, comprising repo and reverse repo operations through auctions. It has emerged as a primary instrument for modulating day-to-day liquidity conditions with a view to equilibrating the liquidity and keeping the short-term interest rates within an informal corridor. The repo market is being developed with lending as well as borrowing operations. A revised LAF scheme was operationalised in April 2004. The LAF scheme has been operated with overnight fixed rate repo and reverse repo from November 1, 2004. From October 29, 2004, a switchover to the international usage of the terms 'repo' and 'reverse repo' has been effected.

7.56 The development of the payment system infrastructure was strengthened with the introduction of the Negotiated Dealing System (NDS) in February 2002, formation of the Clearing Corporation of India Ltd. (CCIL) in 2001, and the implementation of real time gross settlement (RTGS) system in March 2004. The NDS enables screen-based electronic dealing and reporting of transactions in money market instruments, secondary market transactions in Government securities and facilitates dissemination of information on trades with a minimum time lag. It also permits paperless settlement of transactions in Government securities given the electronic connectivity with CCIL and the delivery *verses* payment settlement system at the Public Debt Office (PDO) of the Reserve Bank. The CCIL acts as a central counterparty through novation and provides guaranteed settlement with risk management systems put in place to limit settlement risks. The RTGS system embodies instantaneous settlement of transactions on a gross basis thereby completely obviating the need for any clearing arrangement in the transaction.

7.57 Large exposures to call/notice money borrowings, which are uncollateralised by nature, carry potential danger of systemic instability arising out of defaults. It also impedes the development of other segments of the money market and constrains the Reserve Bank's ability

[41] Reserve Bank of India, Report on Currency and Finance, 1999-2000.

to influence short-term interest rates. In this regard, the Reserve Bank instituted prudential limits of exposure to the call/notice money market for banks from October 2002 keeping in view the potential risk of systemic instability arising out of defaults due to large recourse to the uncollateralised money market segment. Rupee funds raised under the Reciprocal Line Facility were exempted from these limits. This exemption was phased out from the fortnight beginning February 7, 2004.

7.58 In order to achieve transparency, effective the fortnight beginning May 3, 2003, reporting of call/notice money market transactions on the NDS was made mandatory, irrespective of whether executed on the NDS or outside and whether the counterparty is a member of the NDS or not. Necessary changes in the software and dissemination of data to NDS members was executed in July 2003.

7.59 Measures have also been taken to make various other money market instruments (such as CDs, CPs, *etc.*) freely accessible to non-bank participants. These measures were intended to improve depth, efficiency and transparency in money market operations.

7.60 As part of developing new instruments, a major initiative pertains to Collateralised Borrowing and Lending Obligation (CBLO), which was operationalised as a money market instrument through CCIL on January 20, 2003. With a view to developing the market for the CBLO, the Reserve Bank allowed certain exemptions in the form of CRR. Furthermore, securities lodged in the gilt accounts of the bank maintained with the CCIL under the Constituents' Subsidiary General Ledger (CSGL) facility and remaining unencumbered at the end of any day can be reckoned for SLR purposes. The wider usage of the instrument is expected to receive impetus from the establishment of real time connectivity between the PDO and the CCIL and value-free transfer of securities between market participants and the CCIL.

Government Securities Market

7.61 The role of Government securities market in promoting stability of financial systems derives from stable prices and stable markets. As a debt manager to the Government, the development of a deep and liquid market for Government securities is of critical importance to the Reserve Bank in facilitating price discovery and reducing the cost of Government debt. Such markets also provide an effective transmission mechanism for monetary policy, facilitate the introduction and pricing of hedging products and serve as benchmarks for other debt instruments. As the monetary authority, the Reserve Bank has a stake in the development of debt markets. Liquid markets imply a more transparent and correct valuation of financial assets, facilitate better risk management and are, therefore, extremely useful for the Reserve Bank as a regulator of the financial system.

7.62 Efforts towards development of the Government securities market have focused on three areas: institutional measures, innovations through instruments, and enabling measures[42]. During the 1990s, the approach to development of Government securities market focussed on removal of structural bottlenecks, introduction of new players and instruments, free pricing of financial assets, relaxation of quantitative restrictions, and improvement in trading, clearing and settlement practices. Reforms also encompassed regulatory and legal changes, technological upgradation and refinement of the market microstructure.

7.63 In recent years, the approach to development of Government securities market has focused more on financial stability aspects: greater transparency, risk free settlement, deep liquidity, and broad-based participation. Significant steps taken by the Reserve Bank in the recent period pertain to elongation of maturity, development of new benchmark Government securities by consolidating new issuances in key maturities, enhancing fungibility and liquidity by reissuances of existing loans, promoting retailing of Government securities, introduction of floating rate bonds, announcement of a core calendar and enhanced transparency of the central Government's borrowing programme.

[42] Mohan, R., (2004), 'Financial Sector Reforms in India, Policies and Performance Analysis', RBI Bulletin, October.

Mohan, R., (2004), 'A Decade of Reform in the Government Securities Market and the Agenda for the Future, Key note Address, FIMMDA-PDAI Conference, Dubai, RBI Bulletin, November.

7.64 The NDS system was established in February 2002 for ensuring greater efficiency and transparency in operations as well as facility risk free settlement. This paved the way for establishment of the CCIL and compulsory dematerialisation of Government securities. Almost all market participants have joined NDS and Subsidiary General Ledger (SGL) transactions at the PDO, Mumbai are now on electronic mode through NDS. Similarly, bids in LAF, Treasury Bills and Central Government dated securities auctions are being received electronically through NDS, which have resulted in reducing auction bid processing time. Measures were introduced on May 20, 2002 to accelerate the process of holding of securities in the dematerialised mode and to reduce the scope for trading in government securities in physical form and possible irregularities through non-delivery. In connection with dematerialisation of securities through CSGL and to eliminate possibility of 'excess' securities being created, specific action points were drawn up for a system of more frequent and effective reconciliation of Government loans.

7.65 As part of developing a vibrant Government securities market, Treasury Bills of varying maturities, *viz.*, 14-day, 91-day, 182-day, 364-day have been introduced. The 14-day Treasury Bills are designed to enable State Governments to park their excess liquidity. At present, auctions are held only for 91-day and 364 day Treasury Bills. Innovations have been introduced with respect to long-term bonds as well. These include zero coupon bonds, capital indexed bonds and floating rate bonds. For the first time, a 10-year bond was issued (on July 17, 2002) with put and call option exercisable on or after 5 years from the date of issue. The issuance of two 30-year Government bonds in August and October 2002 provided additional flexibility to market participants. Operational and prudential guidelines on Separate Trading for Registered Interest and Principal of Securities (STRIPS) were formulated. PDs which meet certain laid down financial criteria were authorised to undertake stripping and reconstitution of securities. Since April 1, 2003, all transactions in Government securities in the PDO, Mumbai are now being settled through CCIL, which has resulted in significantly reduced funding requirement for every member and mitigation of liquidity risk.

7.66 Buying and selling of Government securities through the stock exchanges, *viz.*, National Stock Exchange (NSE), Mumbai Stock Exchange (BSE) and Over the Counter Exchange of India (OTCEI) was allowed with effect from January 16, 2003 on an anonymous screen-based order-driven basis to facilitate countrywide access and wider participation in the Government securities markets. This measure was aimed at reducing time and cost in trade execution by matching orders on a strict price and time priority, and enhancing the operational and informational efficiency of the market as well as its transparency, depth and liquidity.

7.67 During 2003-04, various efforts have been made in the areas of retailing, widening of the market, hedging market risk, consolidation of debt market and reduction of payment risks in Government securities segment. A Working Group (Chairman: Dr. R.H. Patil) reviewed the performance of NDS in the context of its operational efficiency and recommended an anonymous electronic screen based order matching trading system on the NDS. The Report of the Group has been placed in the public domain for wider discussion. In order to evaluate the role of PDs in the Government securities market with particular emphasis on their obligation and the ability to cope with emerging risks and possible diversification of their balance sheets, a Working Group (Chairman: Dr. R.H. Patil) was constituted. The Report of the Group is being placed before the Technical Advisory Committee for advice to enable further action. With the withdrawal of the Reserve Bank's participation in primary issues of Government securities by April 2006 as stipulated in the Fiscal Responsibility and Budget Management Act, the OMOs would warrant a review of processes and technological infrastructure consistent with market developments. The Reserve Bank's intervention directly in the market or with PDs on real time basis may become necessary. In view of this, the Reserve Bank in its mid-term Review of annual policy Statement for 2004-05 proposed to set up a Study Group for strengthening open market operations framework to address the emerging needs and equip the Reserve Bank as well as market participants in the light of the enactment of Fiscal Responsibility and Budget Management (FRBM) Act.

Foreign Exchange Market

7.68 In an open economy environment, the foreign exchange market has assumed critical importance for stability of the financial system since banks' balance sheets are being influenced by the foreign capital inflows and various other external transactions. The Indian forex market has widened and deepened such the 1990s on account of implementation of various measures recommended by the High Level Committee on Balance of Payments in 1993 (Chairman: Dr. C.Rangarajan), the Expert Group on Foreign Exchange Markets in India in 1995 (Chairman: Shri O.P.Sodhani) and the Committee on Capital Account Convertibility in 1997 (Chairman: Shri S.S.Tarapore). With the transition to a market determined exchange rate system in March 1993 and the subsequent gradual liberalisation of restrictions on various external transactions, ensuring orderly conditions in the forex market in India has become one of the key objectives. The Reserve Bank has undertaken various measures towards development of spot as well as forward segments of foreign exchange market.

7.69 The CCIL was allowed operations with transactions in Rupee/US dollar foreign exchange spot and forward deals in November 2002, with a view to provide authorised dealers a transparent dealing system while allowing them to access to the automatic foreign exchange order matching system and helping to significantly improve the efficiency and transparency of the foreign exchange market in India.

7.70 In recent years, forex flows, especially due to increasing capital flows, have posed various challenges for liquidity management since these have implications for the conduct of domestic monetary policy and exchange rate management. The impact of such a domestic monetary policy depends largely on the kind of exchange rate regime that the authorities follow. In the context of large forex inflows that India has been experiencing, the Reserve Bank has been reviewing the operational aspects of inflow of forex, *i.e.*, the extent of forex market intervention and consequent build up of reserves, and the need for and extent of sterilisation required. The Reserve Bank's policy measures and operational practices have ensured that appropriate liquidity is maintained in the system consistent with the objective of price stability.

7.71 The Reserve Bank's approach towards ensuring stability of forex market has been evident on various occasions. During the late 1990s, in particular, 1997-98, the forex market remained stable despite the Asian crisis. The forex market exhibited orderly conditions during 2001-02 and 2002-03 despite the September 11 development in the US, international oil price movement in the external front and various domestic developments arising from border tensions, natural calamities such as cyclone and earthquake, and monsoon failure. During 2002-03 and 2003-04, forex market again attested to stability and orderly conditions in the wake of redemption of Resurgent India Bonds (RIBs) and the surge in capital flows. The capital account recorded sustained inflows despite large outflows in the form of policy-induced pre-payments of multilateral debts as well as the one-shot redemption of RIBs. The Reserve Bank put in place an appropriate mechanism to ensure the smooth redemption of RIBs in close consultation with the State Bank of India (SBI), which floated the instrument in 1998. Finally, the payments obligation on account of redemption of RIBs of US dollar 5.5 billion was discharged on October 1, 2003 without any adverse impact either on Indian financial market or on foreign exchange reserves. While the Reserve Bank made available the foreign currency requirements of SBI on the date of redemption, SBI had built up adequate rupee resources to fund foreign currency purchases from the Reserve Bank. In order to smoothen the impact of the redemption over time, Reserve Bank had contracted forward foreign currency assets which took care of a major portion of the requirements. The balance requirements were met out of the foreign exchange reserves.

7.72 During 2003-04, the net inflows were the highest ever, and posed challenges for the Reserve Bank's monetary management, especially, sterilised intervention. In this context, the Reserve Bank, in consultation with the Government of India, introduced the Market Stabilisation Scheme (MSS) as an additional instrument for liquidity and monetary management. A Memorandum of Understanding

(MoU) detailing the rationale and operational modalities of the MSS was signed between the Government of India and the Reserve Bank on March 25, 2004. In order to enable the Reserve Bank to address the overhang of liquidity, the Government raised the ceiling of MSS from Rs. 60,000 crore to Rs. 80,000 crore. The intention of MSS has been essentially to differentiate the liquidity absorption of a more enduring nature by way of sterilisation from the day-to-day normal liquidity management operations. In order to provide transparency and stability to the financial markets, to begin with, an indicative schedule for issuance of Treasury Bills/dated securities for Rs.35,500 crore under MSS for the quarter April-June 2004 was released on March 25, 2004. Keeping in view the emerging liquidity situation, the auctioning of both 91-day and 364-day Treasury Bills under the MSS was discontinued from November 10, 2004. The outstanding amount of securities comprising 91-day and 364-day Treasury Bills and dated securities issued under MSS as on November 13, 2004 amounted to Rs. 55,686 crore (face value).

7.73 As the volume under MSS rose, the visible liquidity under LAF declined. The reduction of liquidity under LAF helped in stabilising the yield curve at the shorter end. This was evident from the CBLO rates, market repo rates and overnight call money rates inching closer to the LAF repo rate. It was, however, noticed that there was some bunching of liquidity due to the 7-day minimum tenor of LAF repo which imparted volatility to short-term rates, particularly around the time of primary auctions of Government securities. Accordingly, overnight fixed rate repo under LAF was introduced in August 2004, in place of overnight variable rate repo which was discontinued in April 2004. While the excess liquidity has come down with the combined effect of slowdown in capital inflows and better domestic absorption on account of higher credit demand, it still remains substantial at around Rs. 69,466 crore as on November 16, 2004.

6. Payment System and Technology

7.74 Payment and settlement systems constitute the backbone of the financial economy. The objective of an efficient payment system is to minimise systemic risk. Moreover, operating in a globally competitive environment requires a high level of technological development. The oversight of payment system is an essential function of central banks, aiming to ensure the smooth functioning of payment system and seeking to contribute to financial stability. The payment system is also important for the integration of financial markets, which in turn facilitates transmission of monetary policy impulses. The payment system influences the speed, financial risk, reliability and cost of domestic and international transactions.

7.75 The Reserve Bank has made concerted efforts at developing a safe, secure and efficient payment and settlement system to enhance financial stability. In the process of improving the overall efficiency of the payment and settlement systems in the country, the Reserve Bank, apart from performing the regulatory and oversight functions, has also undertaken promotional and institutional activities.

7.76 Information technology (IT) has made a major presence in the Indian banking sector. IT has changed the contours of three major functions of financial intermediaries: access to liquidity, transformation of assets and monitoring of risks. While the driving force behind all the initiatives towards development of the payment system has been technology, it has been ensured that all the other major covenants of a safe, efficient and secure payment and settlement systems are fully met with.

7.77 A holistic approach has been adopted towards designing and development of a modern, robust, efficient, secure and integrated payment and settlement system taking into account certain aspects relating to potential risks, legal framework and the impact on the operational framework of monetary policy. The approach to the modernisation of the payment and settlement system in India has been three-pronged: (a) consolidation, (b) development, and (c) integration. The consolidation of the existing payment systems revolves around strengthening computerised cheque clearing, expanding the reach of Electronic Clearing Services (ECS) and Electronic Funds Transfer (EFT) by providing for systems with the latest levels of technology. The critical elements in the developmental strategy are the opening of new clearing houses, interconnection of clearing houses through the INFINET; optimising the deployment of resources by banks through RTGS System, NDS, Centralised Funds Management

System (CFMS); and the Structured Financial Messaging System (SFMS). While integration of the various payment products with the systems of individual banks is the thrust area, it requires a high degree of standardisation within a bank and seamless interfaces across banks.

7.78 Recognising the need for providing a safe, sound and robust platform to facilitate the absorption of technology by banks, the Reserve Bank set up the Institute for Development and Research in Banking Technology (IDRBT) in 1996, which is an autonomous centre for providing essential core networking functions for banks. The IDRBT has set up the country's financial communication backbone called the INFINET (INdian FInancial NETwork) – which is a Wide Area Network based on Satellite communication (using VSATs) and terrestrial lines. The network has been in operation since 1999 and is available for the exclusive use of banks and financial institutions, as a Closed User Group. With the benefits ushered in by the INFINET, more products have been introduced by the Reserve Bank, using the INFINET backbone. The National Payments Council (NPC), constituted in May 1999, is entrusted with the task of laying down the broad policy parameters for designing and developing an integrated state-of-the-art, robust payment and settlement systems for the country.

7.79 The Payment systems can be subject to various types of risks, *e.g.*, credit risk, liquidity risk, legal risk, operational risk and systemic risk. To reduce risks in Deferred Net Settlement System (DNSS), the RTGS has been operationalised by the Reserve Bank. RTGS is a large value funds transfer system whereby financial intermediaries can settle inter-bank transfers for their own account as well as for their clients[43]. The final settlement of inter-bank funds transfers on a continuous, transaction-by-transaction basis takes place throughout the processing day. It is a fully secure system using digital signature, and public key infrastructure (PKI) based encryption for safe and secure message transmission. More than 75 per cent of the value of inter-bank settlements, which were earlier settled through the multilateral DNSS based inter-bank clearing is now settled under the RTGS. DNSS was an alternative followed in many places for managing large value payment. Under DNSS, the participant banks' individual payment messages are netted and the net amount is settled at a specified time, typically at the end of the day. There were two major drawbacks in such a system: (i) the settlement risk was carried by the counter parties till the end of the day until the settlement was completed, and (ii) there was a systemic risk in the sense that if a party defaulted, the transactions needed to be unwound, and recalculated and/or reverted to gross obligations. Even though DNSS is less demanding in terms of liquidity needs as the final net obligations are smaller than the underlying gross obligations, large payments are preferred to be made *via* RTGS mechanism because of the lower risk.

7.80 The stand-alone version of RTGS system, after elaborate testing was put under a trial run. An external group of experts evaluated the policies, procedures, accounting and technology aspects of the system. The Reserve Bank commenced implementation of the RTGS system in a phased manner. As a first stage, a demonstrable version of the RTGS system was implemented in June 2003, and hands-on practice was given to the officials of 104 banks. The live operations of RTGS system commenced on March 26, 2004 with the participation of 4 select banks. This system is fully linked with the integrated accounting system of the Reserve Bank. As RTGS services will be offered by banks through their branch network, it is essential that banks should put in place necessary connectivity between their branches and the payment system gateway through which banks will interact with the RTGS system.

7.81 As on November 19, 2004, there were a total of 94 direct participants including banks, with 1,451 branches located in 152 cities and towns, conducting transactions on the RTGS. The coverage is expected to increase to 3,000 branches in 275 centers by December 2004. With a view to helping banks to efficiently manage their funds and to eliminate avoidable movements of funds around various centers for settlement purpose, the Reserve

[43] Chapter II, Box II.16: RTGS in India

Bank is likely to introduce a National Settlement System (NSS) in a phased manner. It will link up different clearing houses managed by the Reserve Bank and other banks at one centralised place. It is likely to be operationalised in early 2005. The RTGS arrangement also enables banks to ensure transfer of funds instantaneously among the member banks of the system all over the country through electronic transfer mechanism availing the benefit of pooling of funds at different centres for optimum utilisation. Recognising the critical importance of the back-up/disaster recovery management systems, two geographically dispersed sites were identified as back up/disaster recovery during 2003-04 and data centres are being set up at these locations. The RTGS system provides for an electronic based settlement of inter-bank and customer-based transactions, with intra-day collateralised liquidity (IDL) support from the Reserve Bank to the participants of the system. The RTGS system has also been enabled for straight through processing (STP) of customer transaction without manual transaction.

7.82 At present, all retail payment systems, both paper-based and electronic-based, are settled on a deferred net settlement basis. Such settlement has credit, liquidity and operational risks that could lead to settlement failures. In order to put in place an appropriate risk mitigation mechanism for the retail payment systems as also to examine the operational implications of such a mechanism, a Working Group with representatives from the Reserve Bank, Indian Banks' Association (IBA) and banks has been constituted by the Reserve Bank.

7.83 It was indicated in the annual policy Statement 2004-05 that the Reserve Bank would set up a Board for Payment and Settlement Systems (BPSS) that would lay down the policies for the regulation and supervision of the payment and settlement systems encompassing the domestic and cross-border systems. The constitution of the Board will ensure more effective regulation and supervision of the various payment and settlement systems in the country. The draft regulation to set up the BPSS has been transmitted to the Government for notification in the Gazette.

7.84 In order to facilitate large scale usage of ECS and EFT schemes for large value money transfers and to meet the requirements of various segments of the financial sector including the securities markets, the existing per transaction limits for ECS and EFT have been dispensed with effective November 1, 2004.

7.85 In recent years, plastic cards (credit, debit and smart cards) have gained greater acceptance and momentum as a medium of financial transactions[44]. Banks are issuing either their own cards or cards under affiliation with international card issuing institutions. The volume and value of transactions undertaken using these cards have increased significantly. While recognising the popularity of cards, regulatory and customer protection measures assume importance. Accordingly, it has been proposed to constitute a Working Group to look into the regulatory and customer protection aspects and suggest measures for card usage in a safe, secure and customer friendly manner.

7. Architecture of Regulation and Supervision

7.86 The Reserve Bank is entrusted with the supervision of India's banking system under the provisions of the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. The Reserve Bank regulates select FIs and NBFCs under Chapter III-B of the Reserve Bank of India Act. Consequent upon amendments to Chapters III-B, III-C and V, through the Reserve Bank of India (Amendment) Act in 1997, the Reserve Bank introduced a comprehensive regulatory framework in respect of NBFCs, including compulsory registration in terms of the amended Section 45-IA[45].

7.87 Under the provisions of the Reserve Bank of India Act, 1934, and the Banking Regulation Act, 1949, the Reserve Bank enjoys a range of powers to direct banks to submit quarterly Monitorable Action Plans, to call for progress reports on targets pertaining to various indicators of banks' balance sheet and profit and loss accounts such as capital, profitability, NPAs, inter-branch, inter-bank and *nostro* accounts, borrowal accounts, *etc.* The Reserve Bank is

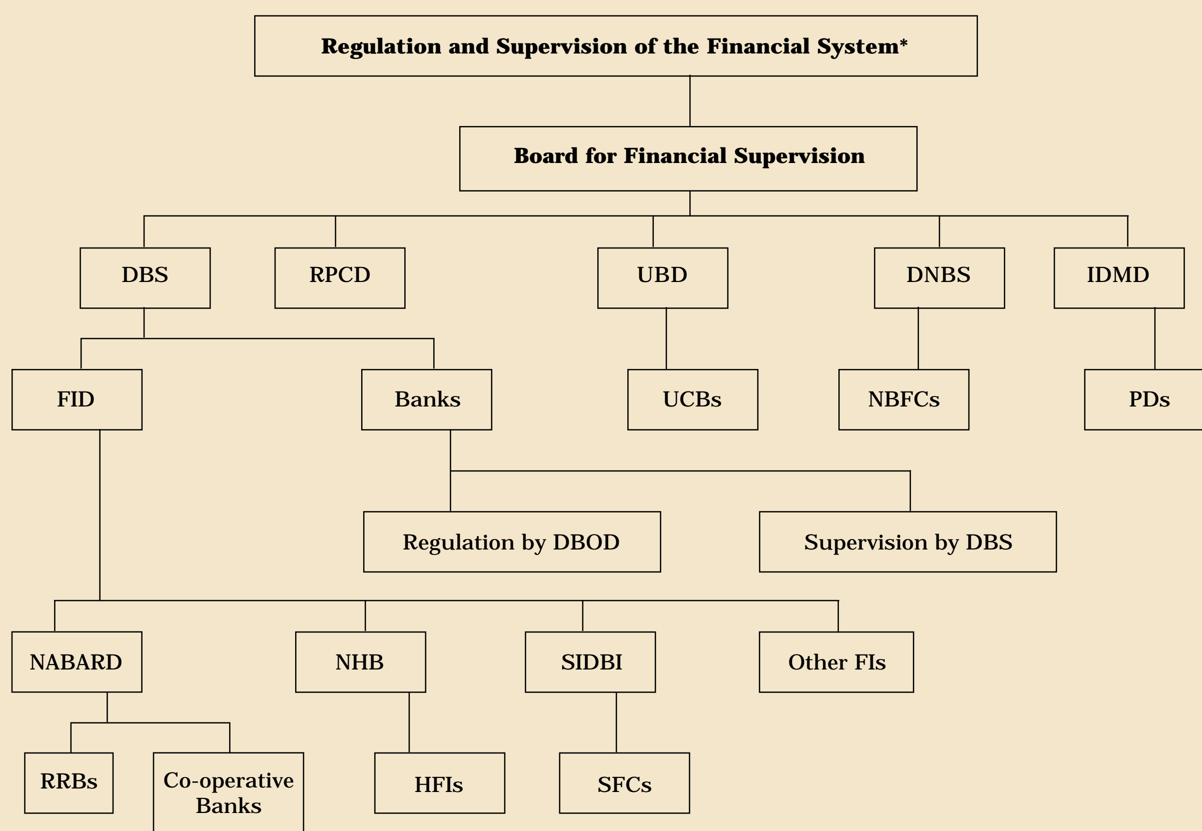
[44] Also see Chapter II, Box II.7: Credit Cards in India.
[45] Reserve Bank of India, Annual Report, 2000-01.

empowered to put caps on allocation of credit to certain sectors including the priority sector for promoting broad-based development, and to put restrictions on lending to the sensitive sectors. The Reserve Bank is vested with the power of control over banks' management by way of ban on recruitment and opening of branches, and changes in the management of banks by removal of the Chief Executive Officer or Directors of the Board. In addition, the Reserve Bank appoints additional Directors/Observers to oversee the functioning of private sector banks so as to prevent its affairs from being conducted in a manner detrimental to the interest of depositors. The Reserve Bank also exercises powers in extreme cases to place private sector banks under moratorium or initiate winding up proceedings. The architecture of regulation and supervisory process is set out in Chart VII.1.

Board for Financial Supervision

7.88 The Board for Financial Supervision (BFS) was constituted in November 1994, as a committee of the Central Board of Directors of the Reserve Bank of India[46]. The primary objective of BFS is to undertake supervision of the financial sector comprising commercial banks, financial institutions, non-banking financial companies, co-operative banks, and primary dealers. The Board is chaired by the Governor and the Deputy Governors of the Reserve Bank are ex-officio Members. One of the Deputy Governors is nominated as Vice-Chairman. Further, four Directors from the Central Board are co-opted as Members generally for a term of two years. The Board is required to meet normally once in a month. During the meetings, it deliberates upon inspection reports and other supervisory

Chart VII.1: Architecture of Regulation and Supervision



* The chart outlines the supervisory purview of the Reserve Bank of India.
Note: DBS, RPCD, UBD, DNBS, IDMD and FID are the respective regulating/supervising Departments of the Reserve Bank.

46 Chapter II: Policy Developments

issues placed before it by the supervisory departments. The BFS is assisted by the Department of Banking Supervision (DBS) of the Reserve Bank and it gives directions on the regulatory and supervisory issues of various supervised entities. Some of the initiatives taken by BFS include restructuring of the system of bank inspections, introduction of off-site surveillance, strengthening of the role of statutory auditors, and strengthening of the internal defence mechanism of supervised institutions.

Surveillance and Monitoring

7.89 During the pre-reform era, the regulatory /supervisory framework in India bordered on micro management of banks through on-site annual inspection of banks. The only off-site data that were being collected were the published balance sheets and profit and loss accounts of commercial banks. The Committee on the Financial System (Chairman: M. Narasimham) and other committees, which examined the supervisory practices followed by the Reserve Bank and recommended setting up of an off-site monitoring function to strengthen the financial sector supervision. In its very first meeting, the BFS approved a new system of Surveillance and Monitoring based on a combination of on-site inspection and off-site surveillance system. Under the new approach, the off-site surveillance system was incorporated for (i) establishing a system for in-house monitoring of banks and other credit institutions based on a prudential supervisory reporting framework; (ii) building a 'Memory' on all supervised institutions and setting up a market intelligence and surveillance unit (MISU); (iii) restructuring the system of bank inspections in terms of focus, process, reporting and follow up, strengthening the statutory audit of banks and enlarging the role of auditors in the supervisory process including using them as agents; and (iv) strengthening the internal defences within the supervised institutions such as corporate governance, internal control and audit functions, and management information and risk control systems, as an extension of the task of supervision.

On-site Supervision

7.90 Prior to 1992, there were financial inspections once in four years and annual financial reviews for the public sector banks. In case of private sector banks and foreign banks, financial inspections were carried out once in 18 months to 24 months. In order to obviate the long interval between two actual inspections, the two streams of inspections were synthesised into one annual financial inspection (AFI) applicable to all banks, which was implemented in 1992. The scope of AFI was broadened and CAMELS/CALCS model (Capital adequacy, Asset quality, Management, Earnings appraisal, Liquidity and Systems and controls) was introduced for inspection of banks. A system of rating the performance of banks on the basis of on-site inspection has been introduced. Banks are awarded a scale of 'A' through 'D' in descending order of performance.

7.91 While inspection of the overseas operations of branches of Indian banks is left largely to the parent banks, a system of evaluation visits covering all branches functioning at different financial centres has been instituted as a part of the initiatives taken to strengthen cross border supervision. Besides periodical visits and meetings with overseas supervisors, formal MOUs for exchange of supervisory information are being worked out as, part of the process of implementation of Basel Committee's core principles on cross border supervisory co-operation. Portfolio appraisals of the International Divisions of Indian banks having foreign branches are also conducted by the DBS annually. In these appraisal exercises conducted at the banks' corporate offices and controlling divisions of foreign operations, asset quality, operating results, *etc.* of the foreign branches and the host country regulators' perceptions are also assessed and periodically discussed with the banks' International Divisions for rectification of the functional gaps, if any.

Consolidated Supervision

7.92 The *Core Principles for Effective Banking Supervision* issued by the Basel Committee on Banking Supervision (BCBS) have underscored this requirement of consolidated supervision as an independent principle. Keeping in view the development of the financial sector, there has been an increased focus on empowering supervisors to undertake consolidated supervision of bank groups and monitoring of

systemically important institutions during 2002-03 and 2003-04. The Reserve Bank set up a multi-disciplinary Working Group in November 2000 (Chairman: Shri Vipin Malik) to examine the feasibility of introducing consolidated accounting and other quantitative methods to facilitate consolidated supervision. On the basis of the recommendations of the Working Group, guidelines on consolidated supervision were issued to banks for implementation with effect from the year ended March 2003. Banks were advised to ensure strict compliance commencing from the year ended March 31, 2003. The components of consolidated supervision to be implemented by the Reserve Bank include Consolidated Financial Statements (CFSs) for public disclosure and Consolidated Prudential Reports (CPRs) for supervisory assessment of risks which may be transmitted to banks or other supervised entities by other Group members. Moreover, there would be application of certain prudential regulations like capital adequacy and large exposures/risk concentration on group basis. Initially, consolidated supervision has been mandated for all groups where the controlling entity is a bank.

7.93 Supervision at consolidated level for banks having subsidiaries/associates/joint ventures have been introduced, under which banks are expected to submit half-yearly consolidated prudential returns and annual consolidated financial statements including consolidated balance sheets and profits and loss accounts. There has also been a move towards Risk Based Supervision (RBS), following international best practices and recommendations of the BCBS[47]. Alongside on-site AFI, 8 banks were identified last year for RBS on a pilot basis and based on the experience gained from the pilot study, 15 more banks have been identified for RBS during the current inspection cycle.

7.94 The financial landscape in India has been increasingly witnessing the entry of some of the bigger banks into other financial segments like merchant banking, insurance, *etc.* which has made them financial 'conglomerates'. Financial liberalisation has also led to emergence of several new players with diversified presence across major segments and possibility of some of the non-banking institutions in the financial sector acquiring large enough proportions to have a systemic impact. From a regulatory perspective, the above developments have led to an appreciation of the limitations of the segmental approach to supervision in addressing the following potential risks associated with conglomeration. The risks could be on account of the moral hazard associated with the 'Too-Big-To-Fail' position of many financial conglomerates, contagion or reputation effects on account of the 'holding out' phenomenon and concerns about regulatory arbitrage, non-arm's length dealings, *etc.* arising out of intra-group transactions and exposures, both financial and non-financial. Therefore, as a proactive stance to address these issues so that the gains on financial stability are further strengthened, the Reserve Bank in the mid-term Review of monetary and credit policy 2003-04 announced the setting up of a Working Group on Financial Conglomerates (Convenor: Smt. Shyamala Gopinath), in consultation with the Chairman, Securities and Exchange Board of India (SEBI) and Chairman, Insurance Regulatory and Development Authority (IRDA), to have a special monitoring system for Systemically Important Financial Intermediaries (SIFIs). The Group, in its Report submitted in June 2004, suggested criteria for identifying financial conglomerates, a monitoring system for capturing intra-group transactions and exposures amongst such conglomerates and a mechanism for inter-regulatory exchange of information in respect of conglomerates. Twenty four conglomerates have been identified for the purpose and the first Report based on the format recommended by the Group is under compilation. A nodal cell has been established at the Reserve Bank for smooth implementation of the framework. A Technical Committee with representatives from all three regulators has been interacting and addressing issues arising out of the reporting requirements.

Off-site Monitoring and Surveillance System (OSMOS)

7.95 The objectives of setting up an off-site supervision process are to provide information about the health of banks on regular basis to the supervisory authority, to build a database for analysis and monitoring of institutions, to capture systemic trends in banking and to

[47] Also see Chapter II, Box II.12: Basel II: A Revised Framework.

support policy initiatives. For a large banking sector, on-site monitoring and inspections entail substantial cost and supervisory resources. In this regard, off-site monitoring is useful for saving cost and optimum allocation of supervisory resources. As part of crisis management, off-site supervision is used as a framework for Early Warning System (EWS) and as a trigger for on-site inspections of vulnerable institutions. The Reserve Bank instituted a computerised off-site prudential supervisory reporting system for banks in 1995. Since then, the scope and coverage of off-site surveillance has widened while evolving as a powerful tool of the supervisory process for capturing various facets of efficiency and risk management of banks.

7.96 In 1995, when off-site prudential supervisory returns were first introduced, these returns were christened 'DSB' returns. Initially, seven returns for Indian banks and five returns for foreign banks were prescribed. Over the years, with a view to enhancing market discipline through increased disclosure and transparency, the list of returns has expanded. At present, there are 23 returns submitted by banks. These returns cover, *inter alia*, the areas of assets, liabilities, exposures, capital adequacy, operating results, asset quality, large credits, connected lending, ownership and control, consolidated prudential reports, risk based supervision reports, balance sheet analysis, report of operations of subsidiaries/associates/ joint ventures, as also returns on liquidity and interest rates sensitivity both for Indian and foreign currencies. The coverage of these returns is modified periodically so as to capture the relevant data on emerging supervisory concerns. A time span of 21 days from the end of the period for technologically advanced new private and foreign banks and one-month time from the end of the period for public sector banks and old private sector banks was prescribed for submission of the returns. The OSMOS system has stabilised over a period of time and provided various benefits. As the OSMOS database has the geographical reach and technical capacity, it is envisaged that the work relating to preparation of risk profile under risk-based supervision would be greatly facilitated.

7.97 This macro approach to financial supervision has helped policy makers to refine their regulatory as well as monetary policy stance so as to achieve the fine balance between growth and financial stability. For instance, over the last couple of years, the major supervisory concern has been to deal with the potential interest rate risk of the banking sector. Based on the data collected on the maturity patterns of banks' assets and liabilities, the book and market value of the investments, the impact of rising bond yields on the banks' balance sheets after taking in to account the cushion available both for the system as a whole, and for the individual banks could be compiled regularly. Outliers in the system on the basis of their capacity to withstand interest rate shock were sensitised to take corrective actions.

Urban Co-operative Banks

7.98 The Urban Co-operative Banks (UCBs) form an important constituent of the co-operative credit system[48]. The UCBs meet the financing needs of the urban sector, particularly, non-agricultural small borrowers. Co-operative banks perform all the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities. The UCBs come under multiple regulatory structure comprising Registrar of Co-operative Societies of States, Central Government and the Reserve Bank. The Reserve Bank has regulatory and supervisory authority for bank-related operations under certain provisions of the Banking Regulation Act, 1949 (as applicable to the Co-operative Societies). UCBs are included in the Second Schedule of the Reserve Bank of India Act, 1934, provided their net demand and time liabilities are at least Rs.100 crore and subject to certain other related criteria.

7.99 Keeping in view the challenges arising from the functioning of UCBs for the financial system, the Reserve Bank appointed a High Power Committee (Chairman: Shri K. Madhava Rao) in May 1999 to review the performance of UCBs and to suggest necessary measures to strengthen this sector. The Committee emphasised the need for preserving the co-operative character of UCBs, reducing the

[48] Also see 'Chapter IV: Developments in Co-operative Banking' of the Report.

systemic risks to the financial system, ensuring depositors' interest and putting in place strong regulatory norms at the entry level so as to sustain the operational efficiency of UCBs in a competitive environment. Based on the recommendations, various measures have been undertaken to strengthen the existing UCB structure particularly in the experience of an increasing number of weak banks and alignment of urban banking sector with the other segments of banking sector for the application of prudential norms and removing the irritants of a dual control regime.

7.100 To safeguard the interest of depositors, in the light of developments in the urban co-operative banking sector in 2001-02, the Reserve Bank has undertaken a series of measures directed towards strengthening the financial position of the UCBs during 2002-03 and 2003-04. These measures include applying capital adequacy standards, prescribing an asset-liability management framework, enhancing the proportion of holding of Government and other approved securities for the purpose of SLR stipulation, and restriction on bank finance against the security of corporate shares and debentures[49].

7.101 In June 2002, the UCBs were advised that it was mandatory for them to hold a proportion of their SLR assets in the form of Government and other approved securities. UCBs were advised to effect purchase/sale transactions in Government securities necessarily through the SGL account with the Reserve Bank or CSGL accounts with the designated agencies or dematerialised accounts with other banks/ depositories. They are required to route such transactions through the NDS/CCIL system. They are also required to make fresh investments in permitted instruments such as PSU bonds, bonds/equity of specified All-India Financial Institutions, infrastructure bonds issued by FIs, and units of UTI only in dematerialised form. UCBs have been prohibited from dealing with brokers as counter-parties, and advised to have their transactions in Government securities subjected to concurrent audit every quarter, and confirm to the Reserve Bank that the investments as reported by the UCB are, in fact, owned by it.

7.102 To strengthen the supervisory system, the Reserve Bank extended the Off-site Surveillance System (OSS) to all non-scheduled UCBs having deposit size of Rs.100 crore and above. A supervisory reporting system was introduced for the scheduled primary (urban) co-operatives banks with effect from March 31, 2001, as a first step towards setting up of a system for OSS of all UCBs. The OSS reporting system comprises a set of eight returns as against the earlier set of 10 returns. As the reporting system has stabilised in respect of the scheduled UCBs, the same has been extended to all non-scheduled UCBs having deposit size of Rs.100 crore and above. In order to facilitate smooth transition/operationalisation of the new set of returns for the non-scheduled UCBs covered under the OSS reporting system, the period of one month for submission of the returns would be implemented gradually from the quarter ended December 2004 onwards. Prudential concerns monitored through these returns include aspects relating to solvency, liquidity, capital adequacy, asset quality/ portfolio risk profile, connected or related lending and concentration of exposures of the supervised institutions. A collateral objective of the reporting system is to sensitise the management of banks to concerns of the supervisory authority and thereby also help in self-regulation.

7.103 The overall ceiling on loans and advances (both secured and unsecured) to all directors of UCBs, their relatives and concerns in which they are interested was brought down from the earlier ceiling of 10 per cent of the bank's demand and time liabilities to 5 per cent. Following recommendations of the Joint Parliamentary Committee and with a view to preventing certain irregularities which surfaced in the case of some UCBs, a total ban has been imposed with effect from October 1, 2003, on grant of loans and advances to directors of UCBs, their relatives and concerns in which they have interest.

7.104 The Reserve Bank has also directed that UCBs should undertake usual due diligence in respect of investments in non-SLR securities. Presently, regulations of the Reserve Bank preclude banks from extending credit facilities for certain purposes. Banks should ensure that

[49] Reserve Bank of India, Report on Trend and Progress of Banking in India, 2000-01.

such activities are not financed by way of funds raised through the non-SLR securities. UCBs must not invest in un-rated debt securities except bonds of nationalised banks, unlisted securities, unlisted shares of AIFIs and privately placed debt securities. The debt securities shall carry a credit rating of not less than investment grade from a credit rating agency registered with the SEBI. UCBs should not invest in non-SLR debt securities of original maturity of less than one year.

7.105 The Reserve Bank introduced a new system of grading of co-operative banks in April 2003. The new system of grading is based on their CRAR, level of net NPAs, record of losses and compliance with regulatory environment. Similarly, a system of supervisory rating for UCBs under the CAMELS model has been introduced. Initially it was implemented in the context of scheduled UCBs but subsequently its simplified version was made applicable to non-scheduled UCBs since March 2004.

7.106 A vision document for the future role of UCBs is being evolved to ensure depositors' interests and avoid contagion while providing useful service to the local communities. In regard to structural issues, the Reserve Bank would be encouraging growth of strong and viable entities within the sector through consolidation. Further, the Reserve Bank would continue to pursue with the Central and State Governments regarding the issues that arise in their jurisdiction.

Development Finance Institutions (DFIs)

7.107 Along with the changed operating environment for banks in the globalised scenario, the regulatory framework for DFIs has undergone a significant change[50]. On the one hand, the access of DFIs to low-cost long-term funds, particularly non-SLR bonds, has been withdrawn, whereas on the other hand, they have to compete with banks for long-term lending. With the removal of control on interest rate structure, it has become a challenging task for the DFIs to raise long-term funds. DFIs have reacted to these developments by raising funds at competitive rates from the market through public issues and increasingly, through private placements, resulting in an overall increase in their cost of funds. Faced with rising resource cost, increased competition and decline in asset quality, DFIs have responded by diversifying into para-banking activities (*i.e.*, merchant banking, advisory services). As a consequence, there was general decline in their term-lending operations, while their short-term lending and non-fund based operations have increased. A major restructuring in the financial sector is evident in the recent conversion of two DFIs into banks, *viz.*, ICICI and IDBI. Consequently, these two banks have come under the purview of the Reserve Bank's regulatory and supervisory process as commercial banks.

7.108 All India financial institutions are being covered by on-site supervisory process (CAMELS standards) on the lines in vogue for banks since 1995[51]. Taking into account the developmental functions and supervisory function exercised by some of these institutions – NABARD supervises State/Central Co-operative Banks and Regional Rural Banks, National Housing Bank (NHB) regulates and inspects housing finance companies, and IDBI inspects state financial corporations-a modified approach for supervisory assessment of these institutions has been introduced. The Working Group (Chairman: Shri Y.H. Malegham) has recommended measures in this regard.

7.109 On a review of the credit exposures of the term lending institutions in 1997, the Reserve Bank prescribed credit exposure limits for them in respect of their lending to individual/group borrowers. Accordingly, credit exposure norms as a prudential measure were prescribed for all-India term-lending and refinancing institutions. The norms aimed at better risk management and avoidance of concentration of credit risks, and limit a term lending institution's exposures to an individual borrower and group borrowers. The credit exposure to single borrower shall not exceed 15 per cent of capital funds of the FIs. However, the exposure may exceed by additional five percentage points (*i.e.,* up to 20 per cent) provided the additional credit exposure is on account of infrastructure projects. The credit exposure to the borrowers belonging to a group

[50] Also refer Chapter V: Financial Institutions of the Report.

[51] Reserve Bank of India,Report on Trend and Progress of Banking in India, 2000-01.

shall not exceed 40 per cent of capital funds of the FI. However, the exposure may exceed by an additional 10 percentage points (*i.e.,* up to 50 per cent) provided the additional credit exposure is on account of infrastructure projects.

Non-Banking Financial Companies (NBFCs)

7.110 With regard to NBFCs, the Reserve Bank had limited powers to regulate the asset side of the balance sheet of these entities until 1997. In order to strengthen the regulatory framework, the Reserve Bank of India (Amendment) Act, was promulgated in 1997. The legislative focus was primarily aimed at moderating their deposit mobilisation activity by linking the quantum of deposit acceptance to their net owned funds. The salient features of the amended provisions pertain to the revised entry point norms, compulsory registration with the Reserve Bank, maintenance of certain percentage of liquid assets in the form of unencumbered approved securities, creation of a reserve policy and transferring certain proportion (not less than 20 per cent) of profits every year. In order to buttress the regulatory measures, the supervisory framework consists of a four-pronged mechanism comprising (i) on-site inspection on the CAMELS pattern, *viz.*, capital adequacy, assets, management, earnings, liquidity, systems and procedures; (ii) off-site monitoring through periodic control returns from NBFCs using state-of-the-art information technology; (iii) an effective market intelligence network; and (iv) a system of submission of exception reports by statutory auditors of NBFCs. For NBFCs, the system of on-site examination is structured on the basis of CAMELS approach and the same is akin to the supervisory model adopted for the banking system. A comprehensive Inspection Manual has been brought out for the use of Inspecting Officers. Appropriate supervisory framework, wherever necessary with the assistance of external chartered accountant firms, has been evolved for on-site inspection of all NBFCs holding public deposits. In order to bring NBFCs in line with international practices, the Reserve Bank intends to initiate a consultative process with the NBFCs with regard to their plan of action for voluntariliy phasing out of their acceptance of public deposits[52].

7.111 Recently, the Reserve Bank has envisaged a road map for Residuary Non-Banking Companies (RNBCs) with a view to smoothening the process of transition of these institutions to compliance with the Reserve Bank's directions[53]. In order to ensure that the depositors are served appropriately and systemic risks are avoided, the Reserve Bank intends to focus on improvements in the functioning of RNBCs, including transparency of operations, corporate governance, 'Know Your Customer', *etc.*[54]

8. Crisis Prevention

7.112 In order to ensure that banks' financial position does not deteriorate beyond redemption, it is essential that corrective actions must be taken when banks have adequate cushion of capital and their financial position is still satisfactory. This is important since low or negative capital base and adverse financial conditions may induce banks to try measures such as, offering very high interest rates on deposits to fund high risk borrowers. The Basel Committee had also endorsed the need of supervisors taking timely corrective action when banks fail to meet CRAR or other prudential requirements.

Prompt Corrective Action

7.113 The Reserve Bank issued draft guidelines in 2003 on a scheme of Prompt Corrective Action (PCA) towards building a safe and sound banking system, backed by a strong supervisory regime[55]. The response has been dictated by two major considerations, *i.e.*, to identify problem banks at an early stage and to monitor the behaviour of troubled banks in an attempt to prevent failure or to limit losses or contagion. The PCA measures ensure that regulators are properly equipped to anticipate problems in complex and integrated financial systems, detect fragilities, take prompt corrective action to deal with distressed institutions, and minimise opportunities for regulatory arbitrage by financial intermediaries.

[52] Also see Chapter VI: Non-Banking Financial Companies

[53] Reserve Bank's annual policy Statement 2004-05, and the mid-term Review of annual policy Statement 2004-05.

[54] Also see Chapter VI, Box VI.1: Maintenance of Directed Investments by RNBCs.

[55] Reserve Bank of India, 'Discussion Paper on Prompt Corrective Action', available at www.rbi.org.in.

7.114 The system of PCA is based on various trigger points and mandatory and discretionary responses by the supervisors. A schedule of corrective actions has been worked out based on three parameters *i.e.*, CRAR, asset quality (Net NPAs) and profitability (Return on Assets-RoA). Trigger points have been proposed under each of the three parameters, taking into account the practicality of implementation of certain measures in the Indian context. For CRAR, three trigger points have been proposed-CRAR of greater than or equal to 6 per cent, but less than 9 per cent; greater than or equal to 3 per cent but less than 6 per cent; and less than 3 per cent. For Net NPAs, two trigger points have been proposed - greater than 10 per cent but less than 15 per cent; and 15 per cent and above. For RoA, the trigger point has been set at less than 0.25 per cent. For every trigger point, a set of mandatory and discretionary PCAs has been laid down. A discussion paper on PCA has been put on the Reserve Bank's web-site for wider circulation, inviting suggestions and comments from banks and others. On a review of the PCA scheme, the BFS decided to continue the scheme in its present form. A few banks coming under the trigger zones were advised to take necessary corrective actions. Thereafter, some of these banks have recorded improvements in their functioning.

Exposure Norms

7.115 Safeguarding against excessive risk exposures to firms, sectors, or countries is an important concern of regulators. Depositors' confidence and thus the stability of the banking system are closely tied to the quality and liquidity of the banks' assets. As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the Reserve Bank has advised the banks to fix limits on their exposure to specific industry or sectors and has prescribed regulatory limits on banks' exposure to individual and group borrowers in India.

7.116 Taking into account international best practices, the exposure ceiling has been fixed in relation to bank's capital funds as defined under capital adequacy standards (Tier I and Tier II Capital) since April 2002. The exposure ceiling is applicable for both domestic and foreign banks. The exposure ceiling limits applicable from April 1, 2002, as computed above would be 15 per cent of capital funds in case of single borrower and 40 per cent in the case of a borrower group. Banks may in exceptional circumstances, with the approval of their Boards, consider the enhancement of the exposure to a borrower upto a further 5 per cent of capital funds (20 per cent of capital funds for single borrower and 45 per cent of capital funds for group borrowers) subject to the borrower consenting to the banks making appropriate disclosures in their respective annual reports. In respect of exposure to infrastructure, banks may consider additional sanctions upto 5 per cent and 10 per cent over and above the limits of 20 per cent and 45 per cent, respectively. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against/investments in shares, debentures and bonds.

Credit Exposure on Derivative Products

7.117 Credit exposures on derivative products have important ramifications for banks. Therefore, it is crucial that these are measured appropriately. As per the instructions, prior to March 31, 2003, exposures by way of non-funded credit limits were captured at 50 per cent of such limits or outstandings, whichever is higher. Besides, the exposure of banks on derivative products, such as, Forward Rate Agreements (FRAs) and Interest Rate Swaps (IRS) was captured for computing exposure by applying the conversion factors to notional principal amounts as per the original exposure method. With effect from April 1, 2003, in addition to reckoning non-fund based limits at 100 per cent, banks have been advised to include forward contracts in foreign exchange and other derivative products at their replacement cost value in determining individual / group borrower exposure. As per the paper of the Basel Committee on Banking Supervision on International Convergence of Capital Measurement and Capital Standards, 1988, there are two methods to assess the exposure on account of credit risk in derivative products, *viz.,* (i) Original Exposure Method and (ii) Current Exposure Method. Banks and FIs have been encouraged to follow the Current Exposure Method, which is more accurate in measuring credit exposure of a derivative product. In case a bank is not in a position to

adopt the Current Exposure Method, it may follow the Original Exposure Method. However, banks have been advised that their endeavour should be to move over to the Current Exposure Method in course of time. Banks have been advised to adopt, effective from April 1, 2003, either of the above two methods, consistently for all derivative products, in determining individual/group borrower exposure. Banks would not be required to calculate potential credit exposure for single currency floating/ floating interest rate swaps. The credit exposure on single currency floating/floating interest rate swaps are to be evaluated solely on the basis of their marked-to-market value.

Frauds

7.118 In order to prevent frauds in banks, the Reserve Bank has been advising banks, from time to time, about the major fraud prone areas and the safeguards necessary for prevention of frauds. The Reserve Bank has also been circulating to banks, the details of frauds of an ingenious nature not reported earlier so that banks could introduce necessary safeguards by way of appropriate procedures and internal checks. Banks have also been advised about the details of unscrupulous borrowers and related parties who have perpetrated frauds on banks so that banks could exercise caution while dealing with them. To facilitate this ongoing process, the Reserve Bank has devised a reporting system for banks to provide full information about frauds and the follow-up action taken thereon on time on a quarterly basis. A software on 'Frauds Reporting and Monitoring System' has since been developed and the banks have been imparted requisite training to use the module for reporting. Reserve Bank has also notified banks that the failure in this regard is subject to penal action as prescribed under provisions of the Banking Regulation Act, 1949.

Know Your Customer

7.119 As per the guidelines on 'Know Your Customer' (KYC), banks are required to carry out due diligence of customers before opening any deposit account. This is a measure taken to combat money laundering and financing of terrorism in the country. In August 2002, the Reserve Bank advised urban co-operative banks to complete an appropriate KYC procedure by December 2004 for establishing identity by means of suitable documents and to ensure that adoption of such a procedure does not lead to denial of access to banking services for the general public. Banks have been directed to limit the application of KYC procedures to existing accounts where the credit or debit summation for the financial year ended March 31, 2003 is more than Rs.10 lakh or where unusual transactions are suspected. KYC procedures are applied to all existing accounts of trusts, companies, firms, religious, charitable organisations and other institutions or where the accounts are opened through a mandate or power of attorney. In December 2002, banks were advised to review the accounts opened prior to August 2002, for compliance with the KYC norms and take necessary steps to complete the work in respect of all accounts in a phased manner by December 2004[56]. Recently, the Reserve Bank imposed penalty on a foreign bank for violating KYC norms.

Credit Information Bureau (India) Ltd.

7.120 Credit Information Bureau (India) Ltd. (CIBIL) was set up in 2001 to compile and disseminate credit information. An efficient credit information system enhances the quality of credit decisions and improves the asset quality of banks apart from facilitating faster credit delivery. Banks/FIs have been advised to obtain the consent of all their borrowers for dissemination of credit information to enable CIBIL to compile and disseminate credit information. It was reported by a major nationalised bank that they had submitted credit information relating to 80 per cent of their eligible borrowers after obtaining necessary consents. Banks have been urged to make persistent efforts in obtaining consent from all of their borrowers, in order to establish an efficient credit information system, which would help in enhancing the quality of credit decisions and improving the asset quality of banks, apart from facilitating faster credit delivery.

[56] Reserve Bank of India (2004), ' Guidelines on Know Your Customers', Master Circulars.

Managing Troubled Banks

7.121 Over the years, the banking sector in India has weathered several changes in the domestic as well as external environment. The banking sector has shown significant resilience in the face of adverse shocks given the concerted efforts of the regulatory and supervisory authorities. Internationally, mergers and amalgamations is a common strategy adopted to restructure/strengthen banks. Mergers and amalgamations are not new to the Indian banking system too. However, it is pertinent to note that a majority of such mergers have been undertaken by banks voluntarily for strategic purposes (Box VII.2).

7.122 During 2002-03 and 2003-04, the Reserve Bank's approach to successfully averting possible crises arising from certain troubled private sector banks, *viz.*, the Centurion Bank and the Global Trust Bank (GTB) has been noteworthy. Centurion Bank Ltd. was set up in 1995 under the revised guidelines for entry of new banks in private sector and was promoted by a non-banking financial company and its associates, in association with Keppel Bank of Singapore, Asian Development Bank (ADB) and International Finance Corporation (IFC). The reverse merger of the promoting non-banking financial company with the bank in 1998 failed to strengthen the bank as was expected. Deterioration in the asset quality and adverse developments due to high capital market exposure led to poor financial results and the bank reported losses in 2002 and the bank's capital adequacy slipped to 1.95 per cent as on March 31, 2003. It was clear that the bank's fragile solvency needed augmentation with fresh capital infusion which was proving difficult with the erosion in the bank's net worth. Realising that a successful programme of capital restructuring would revive the bank the Reserve Bank sought to assure all the stakeholders in the interim through a press release that the bank had ability to earn operating profits but the net loss was on account of the additional requirements for provisions towards NPAs. The release which mentioned that the Reserve Bank

Box VII.2: Banks Amalgamated since Nationalisation of Banks in India

Sr. No.	Name of Transferor Bank	Name of Transferee Bank	Date of Amalgamation
1.	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2.	National Bank of Lahore Ltd.	State Bank of India	February 20, 1970
3.	Miraj State Bank Ltd.	Union Bank of India	July 29, 1985
4.	Lakshmi Commercial Bank Ltd.	Canara Bank	August 24, 1985
5.	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6.	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1986
7.	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8.	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9.	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10.	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11.	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12.	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13.	New Bank of India	Punjab National Bank	September 4, 1993
14.	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
15.	Bari Doab Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
16.	Punjab Co-operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
17.	Bareilly Corporation Bank Ltd.	Bank of Baroda	June 3, 1999
18.	Sikkim Bank Ltd.	Union Bank of India	December 22, 1999
19.	Times Bank Ltd.	HDFC Bank Ltd.	February 26, 2000
20.	Bank of Madura Ltd.	ICICI Bank Ltd.	March 10, 2001
21.	Benares State Bank Ltd.	Bank of Baroda	June 20, 2002
22.	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
23.	South Gujarat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
24.	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004

encourages the bank to make due provisions to clean its balance sheet and was issued simultaneously with the publication of the annual results of the bank for 2001-02 showing a net loss, had a sobering effect which helped the bank to carry on with efforts to secure fresh capital.

7.123 In April 2003, the bank received a proposal from a group of investors for restructuring of capital through a combination of writing down of the capital to reckon the erosion, fresh subscription through rights issue and additional investment from a bank which was exiting Indian operations. The proposal was examined carefully to weigh the resultant benefits and to ensure complete regulatory compliance and was found acceptable. The restructuring programme went through smoothly and the bank was able to achieve CRAR of 9 per cent by September 2004 and report a net profit of Rs.8.41crore.

7.124 The Reserve Bank had granted licence to Global Trust Bank (GTB) Ltd. in September 1994 as a part of the policy to set up new private sector banks. The bank was promoted by a group of professionals led by Dr. Jayanta Madhab and Shri Ramesh Gelli, the then Chairman of Vysya Bank Ltd. with the participation of International Finance Corporation (IFC) and Asian Development Bank (ADB) as associates. The financial position of GTB started weakening in 2002 due to very high exposure to capital market which had turned into problem assets. After it came to the notice of the Reserve Bank that the bank had incurred huge net loss in 2002, it was put under close monitoring. The bank was instructed to adopt a prudential policy of containing growth of risk weighted assets, to make maximum recoveries of NPAs, to reduce its high capital market exposure to the prudential limit, provide against impairment of assets out of the operating profits and to take immediate steps to augment the capital.

7.125 The bank reported some progress in making recoveries and also the attempts underway to have equity infusion. However, it was not able to finalise a programme of capital augmentation till June 2004 through domestic sources as advised. Later, the bank submitted in July 2004, a proposal received from an overseas equity investor fund for recapitalisation of the bank. The proposal was not found acceptable by Reserve Bank on prudential and other considerations.

7.126 As the financial position of the bank was deteriorating progressively and the solvency of the bank was being seriously affected, the Reserve Bank had to place the bank under moratorium on July 24, 2004 to protect the interests of the large body of small depositors of the bank and in the interest of the banking system. A firm proposal for merger of the bank was received from Oriental Bank of Commerce (OBC). OBC's perception on the issue was examined by the Reserve Bank, keeping in view, its financial parameters, its retail network and synergies as well as strategic advantages. Taking into account the interests of OBC and depositors of GTB, as well as the bank's strengths and weaknesses, GTB was merged with OBC with effect from August 14, 2004 under the powers vested with the Reserve Bank under the Banking Regulations Act, 1949 through a scheme sanctioned by the Government of India.

Mitigating Conflicts of Interest

7.127 There is an increasing concern internationally about the impact of the conflicts of interest in the financial sector. Legislative and regulatory measures have been adopted by different countries to ensure that conflicts of interest are not allowed to compromise the interest of stakeholders and public at large. These measures are intended to have positive impact on investors' confidence, efficacy of the regulatory framework and, above all, the credibility of those associated with the financial services. Accordingly, in consultation with Chairman, SEBI and Chairman, IRDA, the Reserve Bank has proposed to constitute a Working Group on avoidance of conflicts of interest. The Working Group will identify the sources and nature of potential conflicts of interest, the international practices to mitigate this problem, the existing mechanisms in India in this regard and make recommendations for avoidance of such conflicts of interest.

Deposit Insurance

7.128 There is international recognition of deposit insurance system as a component of a sound financial safety net for protecting less financially sophisticated depositors from the loss of their deposits when banks fail and thus,

its contribution of financial stability. According to a World Bank Study, almost all countries have either explicit or implicit deposit insurance system.[57]

7.129 India is the second country to institute a Deposit Insurance Scheme way back in 1961 in the wake of failure of a few banks. The deposit insurance system is designed to provide protection to small depositors who lack adequate financial skills and do not have the wherewithal to monitor banks. Since such depositors can cause run on banks on the basis of even unsubstantiated rumours, the deposit insurance also contributes to the stability of the banks and the financial system. In India, the Deposit Insurance System is mandatory and covers all commercial banks and all 'eligible' cooperative banks, with the exception of certain co-operative banks in some States, which do not comply with the provisions of the DICGC Act, 1961 relating to 'eligible banks'. Some co-operative banks have become ineligible for deposit insurance cover due to their opting to get registered under certain Acts which have been enacted in the context of the new policy on co-operatives (which envisages more autonomy to the co-operative banks) but do not comply with the 'eligibility' criteria laid down in the DICGC Act, 1961. Deposit Insurance cover has not yet been extended to the co-operative banks in certain States *viz.,* Meghalaya, Mizoram, Arunachal Pradesh, Chhattisgarh and Nagaland and three Union Territories *viz*, Lakshadweep, Chandigarh, and Dadra and Nagar Haveli for reasons including the inadequate legal framework and other formalities.

7.130 Under the deposit insurance system, all deposits with the exceptions of deposits of foreign Governments, deposits of State/Central Governments, inter-bank deposits, and deposits held abroad, are insured by DICGC. The insurance cover is provided to deposits held in the same right and in the same capacity, and presently, the limit is Rs.1 lakh. Banks are charged premium on total assessable deposits. The premium is payable half yearly and is currently eight paise per Rs.100 of assessable deposits and is slated to increase to 10 paise per Rs.100 of assessable deposits from the year 2005-06. With the existing limit, there is a high degree of protection available to small depositors; 95.4 per cent of deposit accounts (up from 79 per cent in 1961) and 66 per cent of assessable deposits (up from 25 per cent in 1961) are fully protected. This is way ahead of the IMF's recommended limits of 80-90 per cent and 20 per cent respectively.

7.131 With a view to educating the small depositors, DICGC has taken steps to increase public awareness of the deposit insurance scheme by sending relevant written material to the insured banks for them to display in all branches at all places where depositor interaction is involved. DICGC has also hosted its own website (www.dicgc.org.in) for providing information to the public. The Corporation is working on a new law to replace the existing DICGC Act 1961 so as to make it an effective instrument for dealing with distressed banks in the Indian financial set up.

9. Assessment of Financial Stability

7.132 Since financial stability is a much broader concept, there is no common framework for the empirical analysis. Several central banks and international financial institutions have attempted compilation of a set of Financial Soundness Indicators (FSIs) to monitor the health and soundness of financial institutions and markets, and of their corporate and household counterparts. Under the FSIs, two sets of indicators have been identified by the IMF *viz.,* core set and encouraged set. This avoids a one-size-fits-all approach, and provides a degree of flexibility in the selection of indicators that are most relevant to assessing vulnerabilities in country-specific circumstances. Aggregated micro-prudential indicators and other indicators notably macroeconomic indicators that support the assessment and monitoring of the strengths and vulnerabilities of financial systems form a major component of FSIs.

7.133 As part of the initiatives in adopting best international practices for monitoring the stability of financial system in India, the Reserve Bank has been compiling Macro-Prudential

[57] Barth, J.R. and Levine, R. (2001), '*Regulations and Supervision Around the World, A New Database*', World Bank Working Paper 2588, World Bank, Washington, D.C.

Indicators (MPIs) since March 2000[58]. The review of MPIs covers the areas of capital adequacy, asset quality, risk management, management soundness, earnings and profitability, liquidity, interest rate, maturity structure of assets and liabilities, and various indicators pertaining to major segments of financial markets such as debt, forex, capital market segments, besides macroeconomic indicators such as growth, inflation, interest rate, exchange rate, *etc.* The MPI review is accompanied by a review of developments in the global environment.

7.134 The MPI review is prepared on a half-yearly basis. The review of MPIs covers commercial banks, financial institutions and co-operatives. The MPIs comprise both aggregated micro-prudential indicators (AMPIs) of the health of individual financial institutions and macroeconomic indicators (MEIs) associated with financial system soundness. As part of the efforts to disseminate these FSIs, the Reserve Bank has started publishing the core set of indicators in its various publications. The empirical approach to AMPIs encompasses analysis of the indicators during the period under review as compared with the previous/ comparable periods and trend analysis for providing a balance of short-term and medium term perspectives. It may be noted that several indicators, which form a part of the review of MPIs, have already been discussed in the earlier Chapters.[59] Accordingly, an empirical assessment of financial stability in India based on a synoptic view of the institutional structure of financial markets (Appendix Table VII.1) and select MPIs, accompanied by a backdrop of global financial environment is set out below.

Financial Stability Review in India

7.135 Global growth is gaining momentum and most of the macroeconomic risks which could pose a threat to financial stability are receding. As per the IMF forecast, world GDP growth in 2004 is likely to be the highest in 30 years. Despite this, there are certain global risks which need to be managed. As the prospects for the global economy depend to a great extent on the US economy's performance, persistent twin deficits in the US continue to be a cause for concern for global financial stability. A major part of the US Government debt is held by the central banks of the Asian economies, particularly, China and Japan. Therefore, increased inter-dependence between US and the Asian economies may have serious implications for the global financial stability. Beside this, uncertainty about the quality of assets of banks in the UK and Japan and the sustainability of the current pattern of global capital flows to emerging markets pose potential risks to the global financial stability (Box VII.3)[60].

Indian Context

Macro Economic Environment

7.136 During 2003-04, the domestic economic outlook remained bright with the real GDP growth rate surpassing the 8 per cent level, and the growth being broad-based across agriculture, industry and services. Industrial growth also recorded a better performance across all sub sectors. The inflation rate has remained under control. A cause for concern, however, was the persistence of high fiscal deficit. The external sector exhibited sustained improvement in terms of external trade, reserve accumulation and stability in external debt indicators. However, the accumulation of forex reserves remained a matter of concern for the monetary and exchange rate management. In this context, the operationalisation of MSS enabled the Reserve Bank to manage liquidity.

Financial Markets

7.137 Financial markets witnessed easy liquidity conditions generated by persistent capital inflows. Interest rates continued to soften

[58] The methodology for the compilation of MPIs is broadly in line with the IMF Occasional paper on Macro-prudential Indicators of Financial System Soundness (No.192, April 2000). The scope and coverage of MPIs were enhanced in the review from the half-year ended March 2002 onwards with the introduction of certain additional indicators in line with the approach outlined in the IMF paper on 'Financial Soundness Indicators: Analytical Aspects and Country Practices' (Occasional Paper No.212 of 2002).

[59] Also see Chapter III, Chapter IV, Chapter V and Chapter VI.

[60] International Monetary Fund,(2004), 'Global Financial Stability Report', June.

Box VII.3: Global Financial Stability Report, September 2004

As per the Global Financial Stability Report released by the IMF in September 2004, the global financial system, especially the health of financial intermediaries, has been further strengthened by the broadening economic recovery over the past six months. Financial intermediaries, banks and non-banks alike, have strengthened their balance sheets and are capable of absorbing considerable shocks in the future. The Report positively assesses that in the short run there does not seem to be any major systemic threat to the global financial system. In the recent years, two major positive developments, *viz.*, a strong capital base going into the recession and a paradigm shift in risk management among the major banks have taken place. This has made the market players well prepared to face long expected tightening of monetary policy. Further, the global financial system is capable of absorbing the financial shocks. In the recent period, the gradually strengthening recovery of the world economy, as well as a steep yield curve, has sharply increased profitability within the financial sector and thus enhanced financial stability. As a result of economic recovery, there are robust increases in revenues accompanied by a sharp fall in corporate default rates and in non-performing loans which provide a strong cushion of comfort for the financial sector. Presently, financial markets are adjusting with equanimity to the on going tightening of interest rate.

The Report however foresees some medium term risks. The most immediate risk is that market participants may develop a sense of complacency, seeing how smoothly financial markets have adjusted to the initial moves to higher policy rates. This may be reflected in the low volatility observed in major stock and bond markets. Therefore in search for yield, market participants may tend to engage in indiscriminate risk behaviour. Secondly, since the correlation between the US treasury yield and the bond yield in Euro and emerging markets is high, the spillover effect of any spike in U.S. yields may be widely felt in these regions. This raises doubts whether other regions are ready to absorb higher market interest rates. Global current account imbalances pose a continued risk, even though it is difficult to forecast how or when the financing of the current account deficits or the adjustment of the imbalances could become disorderly. Global geopolitical risks continue to exist and could quickly heighten risk aversion among international investors to the detriment of asset markets especially those with weak credit quality or limited liquidity. Oil prices may increase further contributing to inflation concerns and potentially hurting financial markets and the economic recovery.

Since the Federal Reserve and other central banks have managed the initial phase of transition towards high interest rate successfully, the Report suggests that the role of these banks is to guide market expectations in executing planned adjustment program. The countries should use current comfortable conjectural situation to address the weaknesses in their respective financial systems. The countries where loss making banking sector exists, consolidation process should be facilitated to run it profitably. The Report also highlights the long term issues such as challenge being faced by many countries, of improving the adequacy of pension provisions to cope with rising dependency ratio. Since pension funds are long-term institutional investors, the growing size of pension funds and focus on their asset liability management should strengthen their role in supporting financial stability. Any change in the asset allocation of the pension funds may have a large impact on different asset classes and financial markets particularly of smaller size.

across the various segments of the financial markets. Money market rates were stable, ruling essentially at sub-repo levels. The yield curve flattened during the first half of the year but steepened later in the wake of rising inflation, hardening of international interest rates and profit booking by investors. Excess supply conditions in the foreign exchange market put upward pressure on the Indian rupee *vis-à-vis* the US dollar, pushing down forward *premia* across the board. Equity markets revived during 2003-04, attracting large foreign institutional investor inflows especially as valuations remained attractive *vis-à-vis* other Asian countries. The growing integration of domestic markets with international markets posed interest rate risks as several leading central banks reversed their easy monetary policy stance of the last two years. A second set of concerns emanated from the exchange rate risks, which could result from possible currency realignments, necessitated by the correction of the US macroeconomic imbalances.

Corporate Profitability and Credit Off-take

7.138 With close to 6.5 per cent growth in industrial production, corporate sector reported robust growth in sales and profits during March 2004. Buoyed by the falling interest rates, bottom lines of listed companies for manufacturing companies improved during 2003-04. Interest cost accounted for about 50 per cent of gross profits of manufacturing companies till December 2002. Since then, this ratio has fallen steeply and in March 2004, it stood at 39 per cent. An indicator of the falling interest burden is the fact that total interest outgo of the corporate sector actually declined in absolute terms by 7 per cent in 2003-04 despite the fact that sales grew by 16 per cent. Also, this growth was on top of the 23 per cent

growth in sales recorded in 2002-03. Better cost management and rising productivity coincided with demand spurt in almost all the sectors of the industry. Rising income levels, aided by good monsoons led to a buying spree in consumer products, which created a backward flow of demand. Reflecting this uptrend, credit off-take from the banking system by commerce and industry remained stronger in 2003-04.

7.139 Further, there was an increase in non-bank sources of commercial finance. Firstly, subscription by mutual funds to commercial paper and debentures accelerated during 2003-04. Secondly, there was an increasing recourse to external sources by companies in view of the lower offshore interest rates prevailing and the strength of the rupee against the US dollar.

Aggregated Micro-Prudential Indicators (AMPIs)

Capital Adequacy

7.140 The analysis of capital adequacy in the MPI review covers trends in aggregated CRAR of commercial banks, UCBs, FIs, and NBFCs complemented with frequency distribution of CRAR, the CRAR of five largest banks, and the CRAR of banks not complying with the regulatory minimum, and aggregate analysis of risk profile of assets of various institutions.

7.141 Other than the scheduled UCBs the financial sector was well placed with respect to the capital requirements. The aggregated capital ratios of scheduled commercial banks at 12.9 per cent as at end-March 2004 (12.7 per cent as at end-March 2003) witnessed an increasing trend for the fourth year in succession. This would enable banks to meet the requirements under the new guidelines related to capital charge for market risk. The CRAR of the majority of the scheduled commercial banks, with an exception of two banks, were well above the regulatory stipulation.

7.142 At an aggregate level, growth in capital of SCBs continued to outstrip the growth in risk-weighted assets of banks for the seventh consecutive half-year, ending March 2004. The share of risk weighted assets (RWAs) with high-risk weight declined to 40.2 per cent of the total risk weighted assets as at March 2004 from 41.7 per cent as at March 2003. The details of risk profile of assets and off-balance sheet of SCBs are provided in Appendix Tables VII.2, VII.3 and VII.4.

7.143 The CRAR of the scheduled UCBs is a cause for concern. As against the stipulated ratio of nine per cent, the CRAR of scheduled UCBs declined to 3.0 per cent as at end-March 2004 from 5.3 per cent as at end-March 2003. As regards the FIs, the aggregated CRAR stood at a high of 22.0 per cent as at the end of March 2004, almost at the same level of 22.4 per cent as at end-March 2003. The erosion of capital for two large term lending institutions (IIBI, and IFCI) due to high level of NPAs coupled with persistent financial loss is a matter of concern.

7.144 For the NBFCs (having asset size more than Rs.10 crore), the CRAR as at September 2003 was 19.2 per cent, well above the regulatory minimum of 12.0 per cent. The CRAR at this level was somewhat lower than 21.9 per cent as at March 2003 but higher than 14.8 per cent as at September 2002. The CRAR of PDs showed an increasing trend and stood at 42.7 per cent as at March 2004 as against 29.8 per cent as at March 2003.

Asset Quality

7.145 The asset quality is analysed in terms of range of indicators including sectoral and industrial credit concentration, credit utilisation ratio, exposure to sensitive sectors, retail credit, currency denomination of credit, non-performing loans, credit to sick and weak industries, connected lending, leverage ratios, off-balance sheet exposure, and corporate profitability.

7.146 Gross NPAs of the commercial banks recorded a decline of 2.6 per cent in 2003-04 as against a decline of 3.3 per cent in 2002-03. The net NPAs fell by 12.8 per in 2003-04 as against a decline of 9.3 per cent in 2002-03. The decline in the gross and net NPAs of scheduled commercial banks was witnessed despite the changeover to 90 days norm reflecting the impact of several initiatives undertaken. This is also indicative of higher profits resulting in higher provisioning and write-offs.

7.147 Gross NPAs to assets ratio of SCBs declined to 7.6 per cent as at end-March 2004 from 9.3 per cent as at end March 2003. The net NPAs to assets ratio of SCBs declined to 3.0 per cent as at end-March 2004 from 4.6 per cent as at end March 2003. The gross and net NPAs ratios of the scheduled urban co-operative banks declined to

27.4 per cent and 16 per cent, respectively as at end March 2004 from 30.5 per cent and 24 per cent, respectively, as at end March 2003. The cause for concern, however, was the poor and deteriorating asset quality of FIs. While gross NPAs stood at 16.4 per cent as at end March 2004 increasing from 14.3 per cent as at March 2003 and, net NPAs ratio rose to 10.5 per cent as at end March 2004 from 9.7 per cent as at end March 2003. The poor asset quality was driven by very high NPA ratios of the term lending institutions. Gross NPAs ratio of NBFCs declined to 8.8 per cent as at March 2003 from 10.6 per cent as at end March 2002. Gross NPAs ratio of NBFCs showed a further decline to 8.2 per cent as at September 2003. The net NPAs ratio of NBFCs declined to 2.7 per cent as at end March 2003 from 3.9 per cent as at end March 2002. The net NPAs ratio of NBFCs showed a further decline to 2.6 per cent as at September 2003.

Leverage Ratio

7.148 Leverage Ratio (*i.e.*, assets to equity ratio) of SCBs declined to 16.9 per cent in 2003-04 as against 17.4 per cent in 2002-03. The leverage ratio of FIs showed an increase to 5.2 per cent as at end March 2004 from 4.7 per cent as at end March 2003; the increase was mainly due to erosion of the capital and reserves coupled with increase in asset base in respect of certain FIs. The leverage ratio of NBFCs came down to 9.5 per cent as at end March 2003 from 10.0 per cent as at September 2002 before increasing marginally to 10.1 per cent as at the end of September 2003. The leverage ratio of the PDs decreased marginally to 2.5 per cent as at end March 2004 as compared to 2.9 per cent as at end March 2003.

Earnings and Profitability

7.149 In the analysis of earnings and profitability, the MPI review covers return on assets, return on equity, profit margin, operating costs, and structural profitability indicators such as interest spread. The earnings and profitability indicators showed positive developments for the financial system as a whole except in the case of FIs and scheduled UCBs. The return on total assets of SCBs improved to 1.2 per cent as at end March 2004 from 1 per cent as at end-March 2003. The return on equity (RoE) of the commercial banking system at 19.8 per cent as at end March 2004 was higher than 17.6 per cent as at end-March 2003. The return on total assets of UCBs was negative at 3.6 per cent as at end March 2004 as against a negative 0.1 per cent as at end March 2003. Continued negative returns for term lending institutions, with limited recourse to low cost funds, has brought the return on total assets for FIs down to the negative level. The return on total assets was negative at 0.2 per cent as at end March 2004 as against a positive performance at 0.8 per cent as at end March 2003. The RoE was also negative at 1.2 per cent as at end March 2004 as against a positive performance of 3.8 per cent as at end March 2003. The return on total assets of the PDs declined to 5.9 per cent as at end March 2004 from 6.6 per cent as at end March 2003 due to increased volatility in securities market.

Risk Management

7.150 The analysis of market risks reflects on interest rate risks, foreign exchange risks, and the risks arising from the exposure of banks and financial institutions to commodities and capital market.

Interest Rate Risk

7.151 Given the significant share of investments especially in Government securities in the assets portfolio of commercial banks, the interest rate sensitivity of their balance sheets is critical. The Reserve Bank conducts periodic sensitivity analysis of banks' investment portfolio, based on the Standardised Duration Approach suggested by the BIS. Along with this, the Reserve Bank also estimates the cushion available in terms of unrealised gains on banks' investments portfolio and assesses their ability to withstand the impact of rising yields on their balance sheets. Banks have been sensitised about the need to take adequate measures to address the interest rate sensitivity of their portfolio.

Currency Risk

7.152 The annual policy Statements and mid-term Reviews of the Reserve Bank continue to express concern over unhedged foreign currency borrowings by corporates, which could impact their overall financial status leading to instability in the financial system under severe

uncertainties. Recognising such potential risks, the Reserve Bank in its mid-term Review of monetary and credit policy in October 2001 stressed the importance of banks' monitoring of large unhedged foreign currency exposures of corporates. Further, in the mid-term Review of monetary and credit policy in November 2003, banks have been advised to adopt a policy, which explicitly recognises and takes account of risks arising out of foreign exposures of their clients. Accordingly, banks have been advised that all foreign currency loans above US dollar 10 million or such lower limits as may be deemed appropriate *vis-à-vis* the banks' portfolio of such exposures could be extended by them on the basis of a well laid out policy of their Boards except in cases of export finance and loans extended for meeting forex expenditure. Banks were advised to ensure hedging of significant but avoidable risks to corporate balance sheets on account of their forex exposures, which might also possibly impact the quality of banks' assets.

7.153 During 2003-04, an appreciation of the rupee *vis-à-vis* US dollar coupled with soft global interest rates resulted in increased recourse to external commercial borrowings by the Indian corporate sector. Also, the excess supply conditions and related expectations in the foreign exchange market pushed down rupee dollar forward premia. In this scenario, the foreign currency positions of the importers and other corporates going in for external commercial borrowings (ECBs), has remained largely unhedged. In the current scenario of hardening of overseas interest rates and the consequent effect on the exchange rate, the corporate balance sheets may be affected rendering the banking sector vulnerable to credit risk on account of the unhedged exposure of their clients. Further, in view of the systemic risk, banks have been encouraged to obtain information from their large borrowers on their unhedged forex exposures, so that the banks, in turn, can assess the risk of their own exposure to such corporates on an on-going basis.

Commodity Risk

7.154 Banks in India generally do not actively trade in commodities. However, certain banks have been allowed to trade in precious metals subject to fulfilment of specified prudential norms. The exposure of the banking system to precious metals is miniscule and is not a cause for systemic concern.

Equity Risk

7.155 The exposure of banks to capital market was at 1.8 per cent of total advances, well below the stipulated five per cent limit. However, the developments in the stock market on May 17, 2004, particularly the sharp decline in the banking sector indices, had induced regulatory actions. On May 17, 2004, the stock market in India witnessed turbulent conditions on account of uncertainties related to the formation of new Government at the Centre. Rising international oil prices and apprehensions of rise in international interest rates also contributed to the sudden reversal in market sentiment. The market ended the day with a net loss of 11 per cent in market capitalisation compared with the previous day's close. However, orderly conditions were restored quickly and the Reserve Bank actively monitored the situation such that there is no transmission of panic from equity market to other markets. The Reserve Bank operated by intervening in forex market. Once it was clear that there was no spillover into other markets, it was ensured that the payment and settlement systems were not affected. The Reserve Bank operated at three different levels. First, the Reserve Bank assured a backstop facility to settlement banks. Second, the Reserve Bank issued a statement indicating adequate availability of liquidity both in Rupee and foreign exchange market. Third, the margin requirement on all advances against shares/financing of IPOs/issue of guarantees by banks was reduced from 50 per cent to 40 per cent. These measures had a soothing effect on the markets and financial stability was maintained.

Liquidity

7.156 The existence of excess liquidity in the financial system as a whole can be seen from the high absorption of liquidity under LAF through repos throughout 2003-04. The average level of daily repos was Rs.36,235 crore during 2003-04. The ratio of liquid assets to total assets of banks increased to 42.7 per cent as at end-March 2004 from 41.6 per cent as at end-March 2003. In the case of FIs, the proportion of short term borrowings to total borrowings for the FIs declined to 5.9 per cent as at end-March 2004

from 6.9 per cent as at end-March 2003, indicating the comfortable liquidity position.

10. Conclusion

7.157 Financial sector reforms adopted in the 1990s have enhanced the strength of banks and financial institutions in India. The reform measures adopted have ensured that their asset quality and profitability have improved. A striking feature of these institutions has been their improved resilience to the domestic and the external environment.

7.158 Developing countries differ so much in size, nature and structure of the economy, level of development and socio-political conditions that there may not be a set of well defined structured issues in respect of financial stability. In India the vulnerability to real sector shocks has potential to significantly affect financial stability. The major sources of such shocks in India are very sharp increases in oil prices and extraordinary monsoon failures with consequent impact on the agriculture sector. In sum, it needs to be appreciated that the weight to financial stability in India appears to be higher than in many other countries.

Annex VII.1: Reports on Financial Stability by Various Central Banks and International Financial Institutions *(Contd.)*

Name of the Bank	Periodicity	Broad Issue Covered
Bank of England	Biannual, Started in 1997.	Financial stability conjuncture and outlook, strengthening financial infrastructure, financial stability and macroeconomy, issues in emerging market economies, financial market developments in UK, accounting and financial stability, assessing operational risks, various theme-based articles.
Sveriges Riksbank, Sweden	Biannual, Started in 1997.	Assessment of the international financial stability, performance of major banking groups, analysis of developments in the financial infrastructure - the system of instruments and technical and administrative systems, research articles on various themes or issues related to financial stability where the Riksbank wishes to clarify its policy.
Norges Bank, Norway	Biannual, Started in 2002, published together with the Inflation Report.	International developments and Norwegian securities markets, macroeconomic developments, households and enterprises, financial institutions, statistics, current research at Norges Bank on financial stability.
Oesterreichische Nationalbank (OeNB), Austria	Biannual, Started in 2000.	Regular analysis of developments in Austrian financial system and international developments with an impact on financial stability, studies offering in-depth insights into specific topics related to financial stability.
Banco de España, Spain	Biannual, Started in 2002.	Banking risks, profitability of deposit institutions, solvency, and research articles on financial stability.
Banco Central do Brasil, Brazil	Annual, Started in 2002.	Financial market evolution (analysis of developments in both national and international financial markets), national financial system supervision, payment system, financial system organization, prudential regulation and selected studies.
Bank of Israel, Israel	Annual, Started in 2003.	Future challenges and risks, developments in the environment in which the financial system operates in Israel and world wide, developments relating to the stability of the major components of the financial system-the financial markets, the banking system and institutional investors-and the developments in credit and the public's financial assets, central features of the financial system: the structure of the financial sector-banks and institutional investors-and the main changes to the financial infrastructure.
Swiss National Bank, Switzerland	Annual, Started in June 2003.	Focuses on various issues pertaining to two vital elements in the system, the banking sector and the financial market infrastructure.

Annex VII.1: Reports on Financial Stability by Various Central Banks and International Financial Institutions *(Concld.)*

Name of the Bank	Periodicity	Broad Issue Covered
South African Reserve Bank	Biannual, Started in 2003.	Focuses on a range of issues pertaining to banking sector and regulatory and supervisory process against the backdrop of international developments.
Bank de France	Biannual, Started in 2003.	Reviews developments affecting financial institutions, markets, and their infrastructure from cyclical and structural perspective, theme-based research articles on financial stability.
National Bank of Poland	Started in 2001.	Analysis of functions of banks and financial institutions, developments in markets, select articles.
National Bank of Belgium	Annual, Started in 2002.	Macro-prudential review is complimented with some thematic articles on domestic and international financial stability.
Reserve Bank of Australia	Biannual, Started in 2002.	Assesses current conditions of financial system and potential risks to financial stability, theme-based articles.
Hong Kong Monetary Authority	Biannual, Started in 2003.	Analyses factors affecting Hong Kong's financial and monetary stability.
Denmark's Nationalbank	Annual, Started in 2002.	The two-part report: first part analyses the development in financial stability, with emphasis on the banking institutions and the second part of the report includes articles on current topics.
Central Bank and Financial Services Authority of Ireland	A separate chapter in Annual Report until 2004, First Report on Financial Stability in September 2004.	Analyses financial stability issues and developments theme based research articles.
Bank of Canada	Annual, Started in 2002.	Developments in financial system and analysis of policy directions, articles on select issues.
Latvia National bank	Biannual, Started in 2003.	Analyses and assesses the performance of Latvian financial system.
Central Bank of the Russian Federation	Annual, Started in 2001.	Monitoring macroeconomic, markets, and other imbalances, analysis of financial state and economic performance of principal institutions.
IMF	Biannual, Started in 2001.	Issues in global financial stability, macroeconomic policies and stability, international financial architecture, financial systems of developed and emerging economies, research articles as Box item.
BIS-FSI	Biannual, Started in 2001.	Issues in global financial stability, international banking, international financial architecture, banking sectors of developed and emerging economies, research articles as Box item.

Annex VII.2: List of Select Committees/Working Groups Set up by the Reserve Bank and Government of India *(Contd.)*

Reports	Year of Submission
Working Group on the Banking Arrangements for Implementation of Value Added Tax	September 2004
Advisory Committee to Advise on the Administered Interest Rates and Rationalisation of Saving Instruments	July 2004
Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System	June 2004
Recommendations and Action Taken for Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities From the Banking System	June 2004
Working Group on Monitoring of Financial Conglomerates	June 2004
Working Group on Development Financial Institutions	May 2004
Committee on Procedures and Performance Audit on Public Services	2004
Internal Group on External Liabilities of Scheduled Commercial Banks	May 2004
Advisory Committee on Flow of Credit to Agriculture	May 2004
Working Group on Flow of Credit to SSI Sector	May 2004
Working Group on Instruments of Sterilisation	December 2003
Internal Group on Liquidity Adjustment Facility	December 2003
Working Group on Cheque Truncation and E-cheques	July 2003
Technical Monitoring Group on Foreign Direct Investment: First Action Taken Report	June 2003
Working Group on Introduction of Credit Derivatives in India	March 2003
Advisory Committee on Ways and Means Advances to State Governments	January 2003
Working Group on Rupee Derivatives	November 2002
Committee on Computer Audit	December 2002
Committee on Payment Systems	October 2002
Review Group on the Working of the Local Area Bank Scheme	September 2002
Working Group for Suggesting Operational and Prudential Guidelines on STRIPS (Separately Traded Registered Interest and Principal of Securities)	July 2002
Technical Group on Statistics of International Trade in Services	March 2002

Annex VII.2: List of Select Committees/Working Groups Set up by the Reserve Bank and Government of India *(Contd.)*

Reports	Year of Submission
Working Group on Electronic Money	July 2002
Working Group on Economic Indicators	June 2002
Consultative Group of Directors of Banks / Financial Institutions	April 2002
Working Group to Examine the Role of Credit Information Bureaus in Collection and Dissemination on Suit-Filed Accounts and Defaulters	January 2002
Working Group on Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision	December 2001
Expert Committee to Review the System of Administered Interest Rates and Other Related Issues	September 2001
Committee on Banking Sector Reforms (Narasimham Committee II)-Action taken on the Recommendations	October 2001
Informal Group on STRIPS	October 2001
Inter-Departmental Group to Study the Rationalisation of Current Account Facility with Reserve Bank of India	May 2001
Expert Committee on Legal Aspects of Bank Frauds	August 2001
Standing Committee on International Financial Standards and Codes	May 2002
Technical Group on Market Integrity	May 2002
Advisory Group on Fiscal Transparency	July 2001
Advisory Group on Data Dissemination	May 2001
Advisory Group on Bankruptcy Laws	May 2001
Advisory Group on Securities Market Regulation	May 2001
Advisory Group on Corporate Governance	March 2001
Internet Banking	June 2001
Standing Technical Committee of RBI and SEBI on Review of the RBI Guidelines on Bank Financing of Equities	April 2001
Technical Group on Phasing Out of Non-banks from Call/Notice Money Market	March 2001
Core Group on Voluntary Disclosure Norms for State Governments	January 2001
Interim Report of the Advisory Group on Bankruptcy Laws	January 2001
Advisory Group on International Accounting and Auditing	January 2001

Annex VII.2: List of Select Committees/Working Groups Set up by the Reserve Bank and Government of India *(Concld.)*

Reports	Year of Submission
Advisory Group on Payment and Settlement Systems	September 2000
Advisory Group on Insurance Regulation	September 2000
Advisory Group on Banking Supervision	September 2000
Advisory Group on Transparency in Monetary and Financial Policies	September 2000
Working Group on Discounting of Bills by Banks	September 2000
Task Force to Study the Co-operative Credit System and Suggest Measures for its Strengthening	August 2000
Internal Group to Review the Guidelines Relating to Commercial Paper	March 2000
Expert Committee for Recommending changes in the Legal frame work concerning Banking System	February 2000
In-house Working Group On Asset Securitisation	December 1999
High Power Committee on Urban Co-operative Banks	December 1999
Working Group on Reforms in Deposit Insurance in India	November 1999
Informal Group on Valuation of Banks Investments Portfolio	November 1999
Working Group for setting up Credit Information Bureau in India	November 1999
Committee for Redesigning of Financial Statements of Non-Banking Financial Companies	October 1999
Working Group on Restructuring Weak Public Sector Banks	October 1999
Working Group for Working Out Modalities on Dissemination of Information in Electronic Form	September 1999
Sub-group on Repurchase Agreements (Repos)	August 1999
Committee on Technology Upgradation in the Banking Sector	July 1999
Technical Committee on State Government Guarantees	May 1999
Working Group for Harmonising the Role and Operations of DFIs and Banks	January 1999
Working Group of EURO	November 1998
Working Group on Money Supply: Analytics and Methodology of Compilation.	June 1998
Committee on Banking Sector	1998
Committee on Capital Account Convertibility	June 1997
Expert Group on Foreign Exchange Markets in India	1995
High Level Committee on Balance of Payments	April 1993
Committee on the Financial System	December 1991

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
1.	**Advances**			
	A. Non Performing Advances			
	Identification of NPAs	Same as commercial banks, except Gold loans, small loans both up to Rs. 1 lakh and State Government guaranteed accounts.	Same as commercial banks, except State Government guaranteed accounts.	Relaxed payment delinquency norm at present, would be on par with commercial banks by March 2006.
	B. Income Recognition			
	Not recognizing income on NPA unless realised .	Same as commercial banks.	Same as commercial banks.	Same as commercial banks, except where State Co-operative Act provides for recognition of income on NPA, matching provision is to be made.
	C. Asset Classification			
	All advances have to be classified into four asset classification categories.	Same as commercial banks.	Same as commercial banks.	Same as commercial banks.
	D. Provisioning			
	i. Provisioning norms for standard assets and NPAs in all categories.	Same as commercial banks.	Same as commercial banks.	Same as commercial banks, except no provisions for standard assets. Lower provisioning requirements for doubtful assets. Entire loss asset to be written off.
	ii. Provisioning norms for sale of financial assets to Securitisation Company (SC)/ Reconstruction Company (RC).	Same as commercial banks. However, the write off will be as per provisions of Co-operative Societies Act.	Not applicable.	Not applicable.
2.	**Investments**			
	(i) Classification The entire investment portfolio of the banks (including SLR securities and non-SLR securities) should be classified under three categories, *viz.*, 'Held to Maturity' (HTM), 'Available for Sale' (AFS), and 'Held for Trading' (HFT).	Same as commercial banks.	Three-Tier classification of investment portfolio has not been extended to RRBs.	Investments in approved securities bifurcated into two categories : (i) Permanent (ii) Current

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
	(ii) Valuation (a) HTM : • Marking to market not necessary, unless book value is more than face value, where premium is to be amortised over the period remaining to maturity. • provision for diminution in value, which is not temporary.	(a) Same as commercial banks.	(a) The SLR investments are required to be categorized under HTM category.	Approved securities : (i) Permanent depreciation : No (ii) Current : Valued at lower of cost or market value and depreciation to be provided for. Other investments : Same as current investments.
	(b) AFS : • Marking to market, at least at quarterly intervals. • Net appreciation in each classification to be ignored, net depreciation to be provided for.	(b) At year end or more frequent intervals.	(b) Not applicable	
	(c) HFT : • Marking to market at monthly or more frequent. Net appreciation in each classification to be ignored, net depreciation to be provided for.	(c) Same as commercial banks.	(c) Not applicable.	
	(iii) Non Performing Investments Identification of Non-performing investment	Same as commercial banks.	Not applicable.	Relaxed norm at present, would be on par with commercial banks by March 2006.
	(iv) Income Recognition Not reckoning income on non-performing investment	Same as commercial banks.	Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(v) Provisions on Investments (a) Where the interest/ principal is in arrears, the banks should make appropriate provisions for the depreciation in the value of the investment.	(a) Same as commercial banks.	(a) Not applicable.	(a) RBI has not issued any guidelines to StCBs/ DCCBs in this regard.

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
	(b) Banks to build up an Investment Fluctuation Reserve of a minimum of 5 per cent *viz.*, "Held for Trading" and "Available for Sale", within a period of 5 years ending March 31, 2006.	(b) UCBs with deposits of Rs. 100 crore and above, are required to build up IFR of a minimum of 5 per cent of their portfolio. Building up of IFR for banks with deposits less than Rs. 100 crore is optional.	(b) Not applicable.	(b) Not applicable.
3.	**Capital to Risk-Weighted Assets Ratio (CRAR)**			
	(i) Minimum of 9 per cent of Risk Weighted Assets on an on- going basis	Minimum of 9 per cent of Risk Weighted Assets on an on- going basis.	CRAR has not been made applicable to RRBs as yet.	CRAR has not been made applicable to StCBs/ DCCBs as yet.
	(ii) Capital for Market Risks Banks are required to maintain capital for market risks in respect trading book.	UCBs provide for market risk on all Government and other approved securities at an uniform rate.	Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(iii) Capital Adequacy for Subsidiaries Required to maintain capital for subsidiaries.	UCBs as co-operative societies, are not permitted by the Co-operative Societies Act, to set up subsidiaries. Therefore, CRAR norms for subsidiaries have not been made applicable to them.	Not applicable.	StCBs/ DCCBs are not allowed to float subsidiaries.
4.	**Exposure Norms**			
	(i) Exposures to : (a) Individual borrowers : • 15 per cent of the capital funds. • 20 per cent, if exposure is on infrastructure sector.	20 per cent of capital funds.	15 per cent of owned funds.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(b) Group of borrowers : • 40 per cent of the capital funds. • 50 per cent, if exposure is on infrastructure sector.	50 per cent of capital funds. Infrastructure sub ceiling has not been made applicable to UCBs (since the banks are expected to meet credit needs of small borrowers).	40 per cent of owned funds.	

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
	In addition to the above, in exceptional circumstances, banks may assume an additional exposure up to 5 per cent of capital funds with the approval of Board.			
	ii) Components of Exposure	Same as commercial banks, except instructions on underwriting, *etc.*	Same as commercial banks.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(iii) Sensitive Sector Exposure (a) Ceiling for capital market exposure With sub-ceiling on convertible bonds and debentures and units of equity oriented mutual funds. (b) Unsecured Exposures No limit.	(a) The instructions issued to commercial banks are not made applicable to UCBs since they are not allowed to invest in corporate shares and debentures. (b) Limit prescribed on unsecured advances and guarantees.	Same as commercial banks.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
5.	**Asset Liability Management**			
	Limits on mismatches (negative gap) in cash flows during 1-14 days and 15-28 days buckets.	Same as commercial banks applicable to scheduled UCBs.	Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
6.	**Call Money Operations**			
	(i) Lendings of Scheduled Commercial Banks (StCBs) in the call/ notice money market, subject to a limit. (ii) Limits prescribed on borrowings by StCBs.	(i) UCBs are free to lend in the call/ notice money market without any limit. (ii) Limits prescribed on the borrowings of UCBs in call/ notice money market.	(i) Not applicable. ii) Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
7.	**Consolidated Supervision**			
	Required to prepare consolidated financial statements and adhere to certain prudential regulations on group basis.	UCBs are not permitted by RBI/ Co-operative Societies Act to set up subsidiaries.	Not applicable, since RRBs do not have subsidiaries.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Concld.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
8.	**Provisioning For Country Risk Exposure**			
	Provisioning requirement on bank's net funded exposure on any country exceeding 1 per cent of its total assets. In accordance with country risk rating.	Not applicable.	Not applicable.	StCBs/ DCCBs are not operating outside their respective area of operations.
9.	**Disclosure Requirements**			
	Banks are required to disclose information relating to the following areas in the "Notes on Accounts" to the Balance Sheet. i. Capital Adequacy ii. Asset Quality iii. Profitability Ratios iv. Maturity pattern of certain Assets & Liabilities and Lending to Sensitive Sector.	The UCBs having deposits in excess of Rs. 100 crore are required to make disclosures in their balance sheets similar to commercial banks except Maturity pattern of certain assets and liabilities.	Same as commercial banks, except capital adequacy. However, the details of disclosure vary.	Banks are required to disclose information relating to the following areas in the "Notes on Accounts" to the Balance Sheet. i. Non –SLR investments.

Chapter VIII

Perspectives

8.1 The reform process in the financial sector has been taken forward with the primary objective of having a strong and resilient banking system. Considerable progress has been made in strengthening the regulatory and supervisory norms with a view to inducing greater accountability and market discipline amongst the participants. This has enabled the Indian banking system to acquire strength, efficiency, and vibrancy necessary to meet global competition. The most significant achievement in the banking sector has been the marked improvement in financial health of banks in terms of capital adequacy, profitability and asset quality with an increasing focus on risk management. The Reserve Bank has made persistent efforts towards adoption of international benchmarks as appropriate to Indian conditions, improvement in management practices and corporate governance, and upgradation of technological infrastructure. While certain changes in the legal infrastructure are yet to be effected, the developments so far have brought the Indian financial system closer to global standards. From the mid-1990s, public sector banks had to face competition from the more customer-focused private sector entrants. This, competitive pressure induced public sector banks to revitalize their operations. After almost a decade of financial reforms, the banking sector in India is distinctly better placed in terms of its strength, efficiency and modernisation.

8.2 The reform process has changed the relationship between the Reserve Bank and commercial banks from one of micro regulation to that of macro management. With the focus on deregulation and liberalisation coupled with enhanced responsibilities for banks, the banking sector is faced with several challenges. Consistent with the shift to functioning in a competitive economy and to the adoption of prudential best practices, the major challenges facing the banking sector are the deployment of funds in quality assets and the management of revenues and costs. Concurrently, the issues of corporate governance and appropriate disclosures for enhancing market discipline have received regulatory attention for ensuring increased transparency and greater accountability.

8.3 Credit growth during the first half of 2004-05, traditionally a slack season for credit off-take, has been one of the highest in recent years. Inspite of a rapid acceleration in non-food credit growth caused by lending to the retail segment, the pick up in non-food credit appears to be broad-based. Improvement in credit delivery mechanisms has been the focus of recent policy measures. In the Union Budget 2004-05, the Central Government announced a broad outline of programmes for doubling the flow of credit to agriculture in three years with a credit growth of 30 per cent for 2004-05. The flow of credit to agriculture may lead to greater credit penetration by replacing non-institutional sources of finance.

8.4 Over the past few years there has been a steady decline in interest rates largely reflecting sustained reduction in inflation rates and inflationary expectations. Such reductions in interest rates occurred in an environment where credit growth remained sluggish. Consequently, there was a favourable impact on banks' balance sheets in terms of increased operating profits from treasury operations given the asset concentration in favour of Government securities in excess of the requirement of statutory liquidity ratio (SLR). For example, treasury income of the banking sector increased from Rs.9,541 crore in 2001-02 to Rs.19,532 crore in 2003-04 and constituted 32.0 per cent and 37.1 per cent of operating profit in the corresponding years. This in turn enabled banks to make larger loan loss provisions. Consequently, the net NPA ratio has declined from 5.5 per cent in 2001-02 to 2.9 per cent by 2003-04. While a declining interest rate scenario has positive spin offs for the banking sector, given that interest rates had touched historically low levels by 2003-04, there does not appear to be any further scope for similar trends to be observed during 2004-05. In future, therefore, an increasing proportion of banks' income would emanate from the traditional business of lending. Banks now have a

diversified credit portfolio with increasing shares of lending to housing, consumer credit and credit to other priority sectors such as small transport operators. The flow of credit to agriculture also continues to remain robust given the enabling policy environment which has emphasised credit delivery. In this direction, vehicles of rural credit delivery through Kisan Credit Cards (KCC) and increasing linkage of bank credit and self help groups (SHGs), have proved effective. As regards industrial credit, greater thrust is placed on lending to small and medium enterprises (SMEs), especially the small scale industries (SSIs).

8.5 In order to enable the banks to determine appropriate pricing of loans to small and medium enterprises, development of a system of proper credit records would be very helpful. For this purpose, the Credit Information Bureau of India Ltd. (CIBIL) would work out appropriate mechanisms in consultation with the Reserve Bank, SIDBI and IBA. The Reserve Bank has also exhorted banks to make persistent efforts in obtaining consent from all their borrowers, in order to establish an efficient credit information system. This would help in enhancing the quality of credit decisions and improving the asset quality of banks, apart from facilitating faster credit delivery. As the risk profile of bank lending is more diversified and banks are expanding their loan books, it is essential that banks pay adequate attention to quality of lending so that credit expansion could be on a sustained trajectory building upon higher profitability while ensuring financial stability.

8.6 Keeping in view these requirements, as well as the increasing focus on credit delivery mechanisms, the Reserve Bank initiated various measures in its mid-term Review of annual policy for 2004-05. These measures include raising of limits for direct finance to the housing sector, raising of the composite loan limit for small-scale industries, removal of the restrictive provisions of service area approach, enhancing limits on advances under the priority sector for dealers in agricultural machinery and distribution of inputs for allied activities and allowing banks to extend finance to Non-Banking Financial Companies (NBFCs) against second hand assets financed by them subject to the approval of the policies by the banks' Boards.

Infrastructure Financing

8.7 The Reserve Bank has announced several policy measures in the recent years to facilitate infrastructure financing. These measures included enlarging the scope of the definition of infrastructure lending, permitting banks to raise long-term bonds with a minimum maturity of five years to the extent of their exposure of residual maturity of more than five years to the infrastructure sector, *etc.* It is intended that banks should first provide assistance to such infrastructure projects before raising resources through bonds. The Reserve Bank has already set up a Working Group to examine the instruments for credit enhancement which the State Governments can offer to improve creditworthiness and borrowing capability of State Public Sector Undertakings (PSUs)/Special Purpose Vehicles (SPVs) to attract institutional financing for infrastructure projects.

Risk Management

8.8 Growth in the economy has been leading to a natural expansion of the credit portfolio to fund the increasing demand for industrial growth and new plans of corporate expansion. The demand for higher levels of infrastructure financing has also followed this growth. In this context, to ensure a healthy growth in the credit portfolio, integrated risk management systems to address all relevant risks need to be evolved alongside selection of appropriate risk management models.

8.9 With a view to building up of adequate reserves to guard against any possible reversal of interest rate environment in future due to unexpected developments, the Reserve Bank advised banks in January 2002, to build up an Investment Fluctuation Reserve of a minimum of 5.0 per cent of the investment in held for trading and available for sale categories within a period of 5 years. Taking cognisance of hardening of inflation and an environment subject to unanticipated changes because of unforeseen domestic and external developments, the banking system, in particular, has to recognise interest rate cycles and strengthen risk management processes to cope with eventualities so that financial stability could be maintained and interest rate movements could be passed in a non-disruptive manner.

Basel II Developments

8.10 The process of benchmarking prudential norms applicable to Indian banks with

international best practices has been carried forward. The Basel Committee on Banking Supervision, after a protracted consultative process, issued the framework of New Capital Accord (Basel II) in June 2004, which is expected to be implemented in many jurisdictions by end-2006. An important pre-requisite for implementation of advanced approaches under Basel II is a well-established risk management system in banks. Risk management comprises various risks that a financial institution has to manage *viz.*, credit risk, operational risk, market risk, including interest rate risk and forex risk. Basel II aligns the capital measurement framework with sound contemporary practices in banking, promotes improvements in risk management, and is intended to enhance financial stability.

8.11 As Indian banks gear up for migration to Basel II, the progress made by banks in this direction is being monitored by the Reserve Bank with reviews at quarterly intervals. However, as a logical step before migration to capital adequacy norms under Basel II, banks have been mandated to maintain capital charge for market risk. Banks would need to chalk out development strategies to ensure full compliance with capital requirements arising out of implementation of Basel II. The Reserve Bank on its part is making efforts to formulate policies to deal with risks arising on account of operations of large and complex financial institutions and issues relating to the adoption of Basel II in the form of supervisory and regulatory challenges. Banks have also been advised to undertake a self assessment of their existing risk management systems taking into account the three major risks covered under Basel II and to concurrently initiate appropriate measures to upgrade them to meet the minimum standards prescribed under Basel II. In view of complexities involved in migrating to Basel II, a Steering Committee comprising members from banks, Indian Banks' Association and the Reserve Bank has been constituted to prepare guidelines for implementation of Basel II.

Corporate Governance in Banking Sector

8.12 New private banks and foreign banks have been granted licences in order to allow the financial system to benefit from greater competition through better technology, specialised skills, better risk management practices, greater portfolio diversification relating to treasury operations and deepening of the financial markets. The concentrated shareholding in banks controlling substantial amount of public funds poses the risk of concentration of ownership given the moral hazard problem and linkages of owners with businesses. Corporate governance in banks has therefore, become a major issue. Diversified ownership becomes a necessary postulate so as to provide balancing stakes. As the ownership of banks gets broad-based, the importance of institutional and individual shareholders will increase. In such a scenario, banks will need to put in place a proper code for corporate governance for benefiting all stakeholders of a corporate entity.

8.13 Simultaneously, in the interest of diversified ownership of banks, the Reserve Bank intends to ensure that no single entity or group of related entities have shareholding or control, directly or indirectly, in any bank in excess of 10 per cent of the paid up capital of the private sector banks. Any higher levels of acquisition will be with the prior approval of the Reserve Bank and in accordance with the guidelines notified on February 3, 2004. In the draft guidelines circulated in July 2004, the Reserve Bank has proposed for discussion and feedback a comprehensive framework of policy relating to ownership and governance in Indian private sector banks. The broad principles underlying the framework of policy relating to ownership and governance of private sector banks would have to ensure that the ultimate ownership and control of private sector banks is well diversified. A revised discussion paper is being issued after consideration of comments and feedback received. Further, Banks have to ensure that important shareholders (*i.e.*, shareholding of 5 per cent and above) are 'fit and proper', as laid down in the guidelines dated February 3, 2004 on acknowledgement for allotment and transfer of shares and the directors and the CEO who manage the affairs of the bank are 'fit and proper' and observe sound corporate governance principles. To ensure that shareholders and directors on Board are 'fit and proper', banks in the private sector should undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based

upon qualification, expertise, track record, integrity and other 'fit and proper' criteria.

Risk-Based Supervision

8.14 With increased deregulation, globalisation and greater competition from within the country, cross border dealings have exposed banks to greater risk. Diversification into non-traditional products like insurance, derivatives, *etc.*, has added to the complexity of banking business. Internet banking, e-commerce, e-money, *etc.*, have added new dimensions to risks in the banking sector. Accordingly, there is a need for enlarged focus on risk-based supervision in order to improve risk sensitivity of the supervisory approach. However, stabilising risk-based supervision, as an effective supervisory mechanism, may be a challenging task and long-term drawn out process. A significant development during 2003-04 was a successful pilot programme run for risk-based supervision, aimed at allocating supervisory resources in accordance with the risk profile of banks.

8.15 In order to sensitise banks to explicitly recognise and take into account the risks arising out of forex exposures of their clients, banks were advised that henceforth, foreign currency loans of US $ 10 million and above, or such lower limits as may be deemed appropriate *vis-à-vis* the banks' portfolio of such exposures, can be extended only on the basis of a well laid down policy of their Boards with regard to hedging of such loans. The country risk management guidelines have also been reviewed to encompass country exposures of more than one per cent of a bank's assets. The information on the total exposure of the corporate clients is not readily available with banks. The banks are being encouraged to obtain information from their large borrowers on their unhedged forex exposures, so that the banks, in turn, can assess the risk of their own exposure to such corporates on an on-going basis.

8.16 With a view to containing risks arising out of non-SLR investment portfolio of banks, in particular through the private placement route, the guidelines, *inter alia,* addressing the aspects of coverage, regulatory listing as well as rating requirements, fixing prudential limits, internal assessments, role of the Boards, disclosures and trading and settlement were issued to banks. The guidelines on non-SLR investments were issued to banks giving a transition period up to end-December 2004 for compliance. However, a study of select banks revealed that banks continue to have significant share of unlisted and unrated investments in their non-SLR portfolio. Therefore, banks have been urged to prepare themselves to comply with the prudential requirements within the prescribed timeframe.

8.17 The prudential norms on income recognition, asset classification and provisioning thereon were introduced first during 1992-93, as per the recommendations of the Narasimham Committee. The norms have placed the identification of non-performing assets (NPAs) and provisioning for them on an objective platform and the endeavour has since been to make them comparable with the international norms. The enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 would help in the recovery of NPAs. Since the chances/ extent of recovery of an asset reduces over a period of time, it is essential that banks expedite recovery of NPAs. With effect from March 31, 2005, the Reserve Bank would introduce a graded higher provisioning requirement according to the age of NPAs, which are included under 'doubtful for more than three years' category.

Technology in Banking

8.18 Technology has been the key driver of the revolutionary changes in the Indian financial sector with the increasing demand for interconnectivity, internet banking and Automated Teller Machine (ATM) centres. Net banking, phone banking, mobile banking, ATMs and bill payments are the new facilities that banks are using not only to attract customers but also to help them reduce their total operating costs. The introduction of computerisation in the banking sector has led to considerable improvements in the functioning of clearing house mechanism, which facilitates the exchange of instruments, and processing of payment instructions at a central point among the participating banks. Clearing houses have gradually extended their range of activities to automate by electronic means the settlement of payment transactions. The Reserve Bank framed a set of guidelines known as Uniform Regulations

and Rules for the bankers' clearing houses to provide a uniform framework for the conduct of clearing throughout the country and have been adopted individually by the general body of each clearing house in the country. The momentum achieved needs to be sustained.

8.19 Most public sector banks with their extensive branch networks are still in the process of making a shift over from the ledger book accounting practices to computer-balanced spreadsheets and from cashier-dispensed currency to ATMs. However, the transformation towards computerised functioning in public sector banks is beginning to set in and the response is becoming evident. The Reserve Bank has been playing a key role in the development of a modern, state-of-the-art payment and settlement system in India. Accordingly, the modernisation of the system has been accorded high priority in the financial sector reforms. The thrust of these reforms has been towards greater consolidation, development and integration of the payment and settlement systems in India. In view of the substantial progress made in payments and settlement system as envisioned in the 'Payments System Vision Document 2001-04,' the Reserve Bank has initiated measures to draft a document on 'Payments System Vision Document 2005-08' under the guidance of the National Payments Council.

8.20 Technology has become a strategic and integral part of banking, driving banks to acquire and implement world-class systems that enable them to provide products and services in large volumes at a competitive cost with better risk management practices. There is a need to undertake extensive computerisation across bank branches as banks that adopt the latest in technology would have an edge over others in terms of productivity. Customers' awareness has necessitated banks to deliver tailor-made products through multiple channels, allowing customers access to the bank round the clock.

8.21 In accordance with the recommendations of the Working Group on Cheque Truncation and E-cheques, the Reserve Bank decided that an Image based Cheque Truncation Pilot Project should be initiated for the Bankers' Clearing House of the National Capital Region of Delhi and its nearby areas. The pilot project is expected to be made operational in the early part of 2005. In this context, some steps need to be taken by the banks relating primarily to the procurement and/or outsourcing of truncation capabilities and adopting related changes in systems and procedures. Banks may also form a Policy Group, Implementation Group and nominate Nodal Officers for the purpose. In order to further promote other types of electronic modes of funds transfer *viz.,* Electronic Clearing Service (ECS) and Electronic Fund Transfer (EFT), the Reserve Bank announced that the service charges on banks for ECS and EFT transactions would be waived for the period up to March 31, 2006. In order to facilitate large scale usage of the ECS and EFT schemes for large value money transfers and to meet the requirements of various segments of the financial sector including the securities markets, the Reserve Bank, in mid-term Review of annual policy for 2004-05, has dispensed with the existing per transaction limits for ECS and EFT effective November 1, 2004.

Payment and Settlement System

8.22 A significant development during 2003-04 was the commencement of Real Time Gross Settlement (RTGS) System as a facility for quick, safe and secure electronic mode of funds transfer. The technological infrastructure for the smooth and secure functioning of the payment system was strengthened with the implementation of RTGS system, the Special Electronic Funds Transfer system and the Online Tax Accounting System. RTGS System has also enabled 'Straight Through Processing' at the banks' end for putting through customer transactions. The Negotiated Dealing System (NDS) enabled an improvement in Liquidity Adjustment Facility (LAF) auctions by providing in a timely fashion, all the parameters such as issue, duration, type of auctions, the opening and closing time, *etc.* To improve the performance of NDS as a trading platform in Government securities, a new order matching system (NDS-OM) has been recommended by the Working Group on Screen Based Trading in Government Securities. NDS-OM would have substantial advantages like anonymity, better access, quicker trade execution, improved pre and post trade transparency, reduction in trading costs, more efficient price discovery, straight through processing and improved market liquidity. Currently trial runs of the new module are being conducted. The Clearing Corporation of India

Limited (CCIL), which offers a multilateral netting mechanism, has provided time and cost benefits to banks.

8.23 The Reserve Bank of India has made several efforts in setting up a safe, secure and efficient communications network for the exclusive use of the banking sector. INFINET is already being used by a large number of banks for funds and non-funds based message transfers. INFINET is one of the few networks in the world which use the latest in technology and security called 'Public Key Infrastructure'. For such communication systems to be effective, there is a need for an effective security policy which offers a shared vision of how the controls in workplace should be implemented with the objective of protecting data, information and eventually, the economic value of the organisation. There is a need for creating a culture of security by launching training programmes in these areas. These efforts need to be supported by surveillance, monitoring, auditing to detect unusual usage patterns and deficiencies. As the connectivity expands, there is a greater need for security features that guard against the spread of e-contagions.

Transparency

8.24 The relationship between the Reserve Bank and market participants has changed through the expansion and reinforcement of the consultative processes for formulating prudential regulations. To further this consultative process and with the specific goal of making the regulatory guidelines more user friendly, a Users' Consultative Panel has been constituted comprising representatives of select banks and market participants. The panel provides feedback on regulatory instructions at formulation stage to avoid ambiguities and operational glitches. The Reserve Bank has operationalised a mailbox in October 2004, where the clarifications issued to individual banks on various prudential aspects would be posted for benefit of all users. This mailbox can be accessed on the Reserve Bank website. Further, to strengthen the consultative process and to place such a process on a continuing basis, a Standing Technical Advisory Committee on Financial Regulation was constituted in November 2003. The Committee consists of experts drawn from academia, financial markets, banks, non-bank financial institutions and credit rating agencies. The purview of the Committee includes examination of the issues referred to it and advising the Reserve Bank on regulations on an on-going basis covering banks and non-bank financial institutions and other market participants.

Issues in Co-operative Banking

8.25 Issues arising out of multiplicity of supervisory authorities continue to pose challenges in the co-operative banking sector. The Reserve Bank has repeatedly drawn the attention of the Government to the impact of multiple supervisory authorities on the performance of the co-operative banks. Co-operative banks are also subject to other difficulties ranging from members' apathy, imprudent investment decisions, low recovery rates, weak financial position and failure to modernise systems and procedures. Beside these, reconciling democratic character and financial discipline among these institutions is a challenge. Failure of a few co-operative banks has adverse implications for rest of the co-operative banks. A vision document is being evolved for the future role of Urban Co-operative Banks (UCBs) which must ensure depositors' interests and avoid contagion while providing useful service to the local communities. The Reserve Bank would be encouraging growth of strong and viable entities through consolidation in the co-operative sector and sensitising the State and Central Governments regarding the issues that arise in their jurisdiction.

8.26 The Reserve Bank has initiated several measures to mitigate the systemic implications of various risks prevailing in the co-operative sector. In its annual policy Statement 2004-05, the Reserve Bank announced that it would consider issuance of fresh licences only after a comprehensive policy on UCBs, including an appropriate legal and regulatory framework for the sector, is put in place. The Reserve Bank advised UCBs to classify an asset as doubtful with effect from March 31, 2005 if it remained in the sub-standard category for 12 months. Banks were however permitted to phase the consequent additional provisioning over a four-year period commencing from the year ending March 2005 with a minimum of 20 per cent each year.

8.27 The Reserve Bank has received requests from banks and Federations/ Associations of UCBs for giving some more time to restructure the accounts of UCBs and progressively meet the stricter prudential norms. In response, the Reserve Bank allowed the phasing of additional provisioning over a five-year period commencing from the year ending March 2005 instead of four years. Further, the banks have been permitted to make a minimum of 10 per cent of the required provision in each of the first two years and the balance in equal instalments over the subsequent three years. In October 2004, an ordinance to amend Banking Regulation Act, 1949 has been promulgated to enable the Reserve Bank to issue licences to Multi State Co-operative Societies to carry on banking business. The Deposit Insurance Cover for deposits in the UCBs registered under the Multi-State Co-operative Societies Act has also been extended. The Government has appointed a Task Force (Chairman: Prof. A. Vaidyanathan) to propose an action plan for reviving the rural co-operative banking institutions and suggest an appropriate regulatory framework for these institutions. The Task Force is expected to submit its Report shortly.

8.28 Regional Rural Banks (RRBs) are another source of credit in rural areas. Several measures have been initiated to strengthen RRBs in the form of recapitalisation of weak RRBs, relaxing lending to non-target group and deregulating deposit and lending rates. The Reserve Bank has also constituted Empowered Committees in its Regional Offices with members drawn from NABARD, sponsor banks, conveners of SLBCs and State Governments to ensure that the RRBs adhere to good governance and comply with prudential regulations. The Committees would also focus on operational issues and provide clarifications on regulatory issues. The Reserve Bank in its mid-term Review of annual policy for 2004-05, has raised concerns about discrimination between RRBs and co-operative banks in matters of stamp duty, mortgage fee *etc.* State Governments are also being requested to accord approval of merger of RRBs within the State, sponsored by the same bank, as and when approached with such proposals. Sponsor banks have been advised to provide support to their RRBs in matters relating to efficient management, training of staff, computerisation and networking of their activities.

Consolidation in the Financial Sector

8.29 The Indian banking sector is gradually heading towards consolidation of core competencies of different financial intermediaries and to universal banking, with banks being permitted to diversify into long-term finance and the DFIs into working capital. The universal banking may lead to greater economic efficiency in the form of lower cost, higher output and better products, but there is a need for caution in moving towards such a system by banks and FIs.

8.30 Consolidation in the financial sector has started encompassing development financial institutions, public sector banks and non-bank financing companies. The need is to design the consolidation process so as to achieve and harness convergence between the reforms undertaken in real sector, external sector and the financial sector. The Indian Banks' Association, the bankers' apex body, has recently set up a committee to look into the intricacies of mergers and acquisitions in the banking sector.

8.31 NBFCs encompass an extremely heterogeneous group of intermediaries. They differ in various attributes *viz.*, size, nature of incorporation and regulation, as well as the basic functionality of financial intermediation. While regulation of banks has been in place for a long time, the regulation of NBFCs started when the Reserve Bank of India Act was amended in 1963 to provide for the regulation of the deposit acceptance activities of these entities. Internationally, acceptance of public deposits is restricted to banks, and non-banks including NBFCs raise resources from institutional sources or by accessing capital market. NBFCs are being encouraged to move in this direction in line with international practices. The Reserve Bank would be holding discussions with NBFCs in regard to their plan of action for voluntarily phasing out their acceptance of public deposits and regulations on banks' lending to NBFCs will be reviewed by the Reserve Bank.

8.32 Residuary Non-Banking Companies (RNBCs) fall under the sub-category of NBFCs with limited supervision of the Reserve Bank. RNBCs are allowed to tap resources from banks, financial institutions and corporates though in practice they have focussed primarily on public

deposits. Given the discretionary portfolio of the RNBCs, the scope for unrestricted growth in RNBCs may pose serious threat to depositors' safety. As such, revisiting the existing regulatory structure for the RNBCs is of critical importance in the context of their historical evolution.

8.33 Since RNBCs have little commonalities in terms of objectives and workings of Development Financial Institutions (DFIs), attempts would need to be made to transform them into one of the definable categories of NBFCs. In order to impart greater liquidity and safety to investments of RNBCs, the Reserve Bank has prescribed rationalisation of the pattern of directed investment. This aims to reduce the overall systemic risk and thereby enhance the protection available to depositors. RNBCs have been advised to reduce their discretionary investment to 10 per cent of their deposits by April 2005 and completely dispense with it from April 2006. With a view to smoothening the process of transition of RNBCs an approach to comply with the Reserve Bank's directions has been proposed in the mid-term Review of annual policy for 2004-05. Under this approach, investments of RNBCs in certificates of deposit of financial institutions which have a minimum rating of AA+ at the time of investment would be reckoned as eligible securities as long as they have minimum investment grade rating; current account balances of RNBCs with commercial banks would be considered as eligible investments; and the investments of RNBCs in bonds and debentures of companies which meet stipulated listing and rating requirements at the time of investment would be considered as ineligible investments if they migrate to below the investment grade rating. In order to ensure that depositors are served appropriately and systemic risks are avoided, the Reserve Bank has focused on transparency of operations, corporate governance standards, adherence to 'know your customer' rules and customer services, *etc*.

Financial Stability

8.34 The critical challenge at this juncture is to improve the allocative efficiency of resources and at the same time, guard against the risks of disruptive financial imbalances. The mandate of financial stability, in the Indian context, thus has to be seen in the broadest sense of the term, calling for a three-pronged strategy of ensuring uninterrupted financial transactions; maintaining a level of confidence in the financial system amongst all the participants and stakeholders; and ensuring orderly conditions in the financial markets to guard against potential adverse effects on real economic activity. The growing integration of financial markets, especially the increasing inter-linkages between domestic financial markets and the foreign exchange market, while desirable for economic efficiency, tends to heighten the risk of contagion. Accordingly, early warning indicators, pre-emptive measures and special defence mechanisms need to be instituted for ensuring financial stability in the face of increasing uncertainties in the global financial scenario. Recognising the increasing concern about the impact of the conflicts of interest in the financial sector, a Working Group on avoidance of conflicts of interest has been constituted to identify sources and nature of potential conflicts of interest and make recommendations for avoidance of such conflicts.

Regulatory Role of the Reserve Bank

8.35 Recognising the strengths of risk management systems that have been put in place by the banks, the Reserve Bank has extended further flexibility to banks on their loan policies. This is evident from the recent policy measures announced by the Reserve Bank regarding credit exposure limits and unsecured exposures. Recently, banks fulfilling certain criteria have been granted the freedom to pay dividends without the prior approval of Reserve Bank, provided the dividend pay out ratio does not exceed 33.3 per cent. In the present scenario, the Reserve Bank has laid stress on greater responsibility of banks to safeguard depositors' interest and promotion of systemic stability through monitoring of banks to ensure that they have adequate capital to cushion risk and that they follow prudent and transparent accounting practices.

8.36 The Reserve Bank has been focusing on developing a competitive operating environment in the financial sector in terms of markets, institutions, products and practices. Increasing market orientation of the financial system helps in improving allocative efficiency of resources.

At the same time, however, it exposes both public sector and private sector financial intermediaries to various risks, necessitating prudential regulation and supervision. The litmus test of regulatory design in a competitive environment is to strengthen financial stability while at the same time, minimising the costs of financial regulation. As the process of deregulation deepens, regulatory initiatives have to be reoriented towards more pro-active supervision of the financial system. It is in this context that the Reserve Bank's supervisory strategy has been to move away from micro-prescription oriented on-site supervision to risk-based supervision. A key element of a market-oriented risk-based supervisory strategy is to develop sound corporate governance practices, which would minimise the need for process-focused supervision. The Reserve Bank, therefore, has been emphasising corporate governance and better risk assessment within banks and financial institutions, both public and private.

8.37 Greater transparency and better communication can make the process of evolution and implementation of policy more effective. Therefore, the Reserve Bank has adopted a consultative approach through formal institutional structures such as the Board for Financial Supervision, the newly-formed Standing Committee on Financial Regulation, the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets and also through specific working groups and committees as well as formal and informal consultations with the regulated entities, external experts and professionals.

Conclusion

8.38 The imperative of improving risk management systems of banks must be seen as much from the angle of financial stability as from the process of economic development. Improved risk assessment systems are expected to enable banks to take greater exposures to sectors such as agriculture and small-scale industries in which collateral valuations often pose difficulties. This is all the more important as the pattern of credit demand has been changing in recent years. Demand for bank credit from large corporates has been decelerating because of financial restructuring, improvements in productivity, optimisation of inventory cycles, better cash flow management, increased access to external commercial borrowings and improved internal generation of funds. With better risk assessment capabilities, banks should be able to shed their risk averse attitude and extend more finance to hitherto unbanked segments of agriculture, industry and services. Lending to retail segments, including housing and other non-priority sector personal loans is increasing, fast. In this context, it is important that banks Boards undertake an assessment of the risks involved. Adequate risk management techniques should be put in place to enable banks cope with risks of debt finance supported boost in consumer spending. Indian banks, especially public sector banks, have significantly cleaned up their balance sheets and are in a much better position to capitalise on this opportunity. However, banks' lending policies should address the new risks that emerge.

8.39 With revival in industrial credit off-take, the impact of large credit increase has implications for macroeconomic management. It is also important to ensure that the credit quality does not deteriorate. In view of the strong growth in housing and consumer credit witnessed in recent years, the mid-term Review of annual policy for 2004-05 has proposed to put in place temporary risk-containment measures on housing and consumer loans. Risk weights were increased from 50 per cent to 75 per cent in the case of housing loans and from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards. However, it is for banks' Boards to exercise due diligence and put in place risk containment measures. This will help in keeping debt-financed growth in consumption orderly while helping asset formation in the economy.

8.40 In order to enhance transparency in banks' pricing of the loan products, in the monetary and credit policy 2003-04 banks were advised to announce a Benchmark Prime Lending Rate (BPLR) taking into account actual cost of funds, operating expenses and a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, with the approval of their Boards to ensure that the PLR truly reflects the actual cost. The BPLR guidelines were modified suitably in consultation with banks and Indian Banks' Association so as to evolve an operationally

flexible system. As of now, almost all commercial banks have adopted the new system of benchmark PLR.

8.41 In order to support broad-based improvement in customer service in respect of various banking services, banks have been advised to constitute *ad hoc* Committees to undertake procedures and performance audit on public services rendered by them. The Committees would look into simplification of procedures and practices with a view to safeguarding the interests of common persons, review the systems in place for providing service to the customers in respect of meeting their demands for fresh/good notes and coins of all denominations, exchanging soiled notes, adjudicating mutilated notes, and accepting coins and notes either for transactions or in exchange, as also the regulations and procedures prescribed by the Reserve Bank that impinge on customer service of banks. Banks were advised to submit reports thereon to the Reserve Bank to enable the Standing Committee (Chairman: Shri S.S.Tarapore) to review the existing policies and procedures. The Standing Committee has submitted four Reports, on Foreign Exchange Transactions, Government Transactions Relating to Individuals, Banking Operations and Currency Management. Some of the recommendations of the Committee have already been implemented by the Reserve Bank.

8.42 The Reserve Bank is currently examining various policy options for further strengthening the financial sector. A well-calibrated deregulation process is currently underway. As the process of strengthening financial sector unfolds, it would have to take into account factors such as emerging market structure in banking sector after the likely mergers and acquisitions, restructuring of development financial institutions and appropriate timing of the entry of foreign banks so as to be co-terminus with the transition to greater capital account convertibility while being consistent with continuing obligation under the WTO commitments. This has underscored the need for adoption of international standards and global benchmarks in the progress towards globalisation, particularly in the banking sector, given its systemic importance in the overall economy.

Annex: Chronology of Major Policy Developments

Announcement Date		Measures
		A) Scheduled Commercial Banks (SCBs)
2003		
April	8	• The ceiling on banks' credit/non-credit facilities to Indian Joint Ventures/Wholly Owned Subsidiaries abroad increased from 5 per cent of the unimpaired Tier I capital to 10 per cent of banks' unimpaired capital funds (Tier I and Tier II capital).
	23	• The final guidelines on Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 issued. These pertain to registration, owned funds, permissible business, operational structure for giving effect to the business of securitisation and asset reconstruction, deployment of surplus funds, internal control system, prudential norms, disclosure requirements, *etc.* In addition to the guidelines and directions, which are mandatory, guidance notes of a recommendatory nature were also issued covering aspects relating to acquisition of assets, issue of security receipts, *etc.*
	24	• The concessions/credit relaxations to borrowers/customers in the State of Jammu & Kashmir extended upto March 31, 2004.
	29	• All SCBs, excluding Regional Rural Banks (RRBs), to maintain a Cash Reserve Ratio (CRR) of 4.5 per cent of Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning June 14, 2003.
		• The maturity period of fresh NRE deposits to be 1 to 3 years with immediate effect. This would also apply to NRE deposits renewed after their present maturity.
May	5	• Broad guidelines on Fair Practices Code issued regarding applications for loans and their processing, loan appraisal and terms/conditions, disbursement of loans including changes in terms and conditions, post disbursement supervision, *etc.*
	7	• Effective March 31, 2003, while Investment Fluctuation Reserve (IFR) would continue to be treated as Tier II capital, it would not be subject to the ceiling of 1.25 per cent of the total risk-weighted assets.
	23	• The time period for receipt of applications under the One Time Settlement (OTS) Scheme extended from April 30, 2003 to September 30, 2003, and for processing of applications from October 31, 2003 to December 31, 2003.
June	26	• Additional instructions issued in respect of dishonoured instruments for want of funds. These include procedure for return/despatch of dishonoured cheques, information on dishonoured cheques, and dealing with incidence of frequent dishonour, *etc.* Banks, with the approval of their respective Boards, to adopt appropriate procedures for dealing with dishonoured cheques and for preventing any scope for collusion of the staff of the bank or any other person, with the drawer of the cheque.
July	17	• Banks were exempted from the requirement of appropriating the profit on sale of securities from Held to Maturity (HTM) category to 'Capital Reserve Account', as a one-time measure. This exemption would be applicable only in respect of the identified securities which are sold to the Government of India under the scheme of Government of India's Debt Buyback Programme. • Interest rate on fresh repatriable non-resident external (NRE) deposits for one to three years not to exceed 250 basis points above the LIBOR/ SWAP rates for US dollar of corresponding maturity. The premium to be subsequently reduced to 100 basis points effective September 15, 2003 and to 25 basis points effective October 18, 2003.
	29	• Revised guidelines issued to banks to identify and report instances of wilful default. A grievance redresssal mechanism was to be created for giving a hearing to borrowers classified as wilful defaulters.
August	18	• Detailed operational guidelines for the process of take-over of bank branches in rural and semi-urban centres issued.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2003		
August	21	• Regarding the computation of NDTL for the purpose of maintenance of CRR/SLR, the liability in respect of arrangement with the correspondent banks to be reckoned by the banks in the manner prescribed in the notification.
September	11	• Banks, which are registered with SEBI as Depository Participants, to provide the facility of Depository Services to their customers at Extension Counters.
	13	• The guidelines for accounting legal expenses in suit-filed accounts issued. As per the guidelines, to be effective from March 31, 2004, the legal expenses incurred by banks in respect of suit-filed accounts to be debited to the profit and loss account at the time of incurrence, and the amount recovered to be recognised in the profit and loss account of the year in which the recovery is made. For the purpose of monitoring the recovery of such expenses from the borrowers, banks to keep a memorandum control account.
	16	• Overseas Corporate Bodies (OCBs) in India derecognised as an eligible 'class of investor' under various routes/schemes available under the extant Foreign Exchange Management Regulations.
	26	• A new credit facility '*Swarojgar Credit Card* (SCC) Scheme', introduced for fishermen, rickshaw owners, self employed persons, *etc.*, to provide adequate and timely credit (working capital or block capital, or both) from the banking system in a flexible, hassle-free and cost-effective manner.
October	10	• Banks prohibited from borrowing from their Off-shore Banking Units (OBUs) and the exposures of an OBU in the Domestic Tariff Area (DTA) to be restricted to the amount a corporate in the DTA can borrow from an OBU under the scheme of External Commercial Borrowings (ECBs), subject to FEMA regulations. The aggregate of such exposures not to exceed 25 per cent of the bank's total liabilities as at the close of business of the previous working day, at any point of time.
	15	• The Special Purpose Vehicles (SPVs) not to be treated as investment companies subject to the following conditions: (a) functioning as holding companies, special purpose vehicles, *etc.* with not less than 90 per cent of their total assets as investment in shares held for the purpose of holding ownership stake, (b) not trading in these shares except for block sale, (c) not undertaking any other financial activities, and (d) not holding/accepting public deposits. Accordingly, such SPVs not to be considered as NBFCs for the limited purpose of being eligible for bank finance for PSU disinvestments of Government of India.
	18	• Authorised Dealers (ADs) operating in Special Economic Zones (SEZs) allowed to raise the ECBs in compliance with the Government of India guidelines, subject to the following conditions: (a) units in SEZs shall raise ECBs for their own requirement, and (b) they would not transfer or on-lend any borrowed funds to their sister concern or any other unit in DTA.
	20	• Banks to ensure smooth and expeditious disposal of educational loan applications without insisting on collateral security for loans up to Rs.4 lakh.
	21	• Banks to determine rates of interest on advances without reference to PLR and regardless of the size of loan.
November	3	• Banks to increase the limit on dispensation of collateral requirements for loans to SSI units from the existing level of Rs.15 lakh to Rs.25 lakh (with the approval of the appropriate authority in the banks), on the basis of good track record and financial position of the units. • Banks to provide adequate incentives to their branches in financing the Self-Help Groups (SHGs) and establish linkages with them. • A special monitoring system proposed for Systemically Important Financial Intermediaries (SIFIs) to encompass a reporting system on financial matters of common interest to the Reserve Bank, the SEBI and the IRDA, for the reporting of intra-group transactions and the exchange of relevant information.
	4	• Education loans up to the ceiling of Rs.7.5 lakh for studies in India, and Rs.15 lakh for studies abroad to be reckoned under priority sector advances.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2003		
November	6	• Foreign banks operating in India permitted to remit net profits/surplus (net of tax) earned out of their Indian operations in the normal course of business, on a quarterly basis, to their Head Offices. The remittances were allowed without prior approval of the Reserve Bank subject to certain conditions.
December	3	• Banks were encouraged to build IFR upto 10 per cent of their investments in 'Held for Trading' (HFT) and 'Available for Sale' (AFS) categories with the approval of their Boards, against the minimum requirement of 5 per cent.
	8	• SHGs to be considered for financing under the Prime Minister's *Rozgar Yojana* (PMRY) subject to certain conditions.
	12	• An Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System constituted under the Chairmanship of Prof. V.S. Vyas, Director, Central Board of the Reserve Bank.
	16	• A Working Group on Flow of Credit to the SSI sector constituted under the Chairmanship of Dr. A.S. Ganguly, Director, Central Board of the Reserve Bank.
	27	• Each commercial bank to constitute an *ad hoc* Committee to undertake procedures and performance audit on public services rendered by it. Each *ad hoc* Committee was expected to complete its work in six months from the date of its constitution and submit its Report to the Committee on Procedures and Performance Audit on Public Services of the Reserve Bank.
2004		
January	3	• The margin requirement on all advances against shares/financing of IPOs/issue of guarantees by banks raised from 40 per cent to 50 per cent. Further, a minimum cash margin of 25 per cent (within the overall margin of 50 per cent) in respect of guarantees issued for capital market operations was also prescribed.
	15	• Banks to furnish data on priority sector lending on a quarterly basis, as on the last reporting Friday of each quarter, to the Reserve Bank within a fortnight from the end of the particular quarter. Public sector and private sector banks, however, to continue to submit the sector-wise provisional data on priority sector advances on a half-yearly basis as on the last reporting Friday of March and September.
	16	• Banks not to deduct tax at source while making payment of interest on the 8 per cent Savings (Taxable) Bonds 2003. This stipulation was also made applicable to UTI Bank, IDBI Bank, HDFC Bank and Stock Holding Corporation of India Ltd.
	19	• All branches of banks maintaining currency chests in the country to provide customer services to the public more actively and vigorously with respect to (i) meeting the demands for fresh/good quality notes and coins of all denominations, (ii) exchanging soiled notes, (iii) adjudicating mutilated notes, and (iv) accepting coins and notes either for transactions or in exchange.
	24	• All public and private sector banks to issue instructions and ensure that the currency chests and small coin depots maintained by their branches remit old coins of value up to Re.1 made from Cupro-Nickel alloy and Aluminium to the Mints with prior consultation with the Mints.
	29	• Banks to ensure that note counting machines are provided in sufficient numbers at branches for instilling confidence regarding numerical accuracy of the notes issued.
February	3	• Detailed guidelines issued towards streamlining the procedure for obtaining acknowledgement for allotment or transfer of shares, and removing uncertainties for investors including foreign investors in this regard. • Private sector banks to ensure, through an amendment to the Articles of Association, that no transfer takes place of any acquisition of shares of 5 per cent or more of the total paid-up capital of the bank without a prior acknowledgement by the Reserve Bank. Boards of private sector banks to take the guidelines into account while seeking acknowledgement for transfer or allotment of shares.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
February	5	• The last date for receipt of applications from banks for OTS of chronic NPAs of banks upto Rs.10 crore extended to July 31, 2004.
	6	• The restriction on banks to provide finance upto Rs.50,000 or six months' salary, whichever is less, to assist employees to buy shares of their own companies, withdrawn. However, it was clarified that these advances would form part of the bank's capital market exposure.
	13	• Banks free to decide on all aspects relating to renewal of overdue deposits subject to non-discretionary and non-discriminatory policy laid down by their Boards. Similarly, decisions on margin on advances against term deposit and interest payable on maturity proceeds of deposit account of deceased depositors left to the discretion of the individual bank's Board.
	17	• *Ad hoc* Committees set up by banks to submit suitable recommendations for modification/ rationalisation of the existing guidelines on the provision of customer service in banks in respect of foreign exchange transactions, Government and public debt transactions, banking operations and currency management.
	23	• Prudential guidelines on banks' investment in non-SLR debt securities issued to contain risks arising out of non- SLR investment portfolio of banks, in particular through private placement. Investment in non-SLR securities of original maturity of less than one year and also in unrated debt securities and unlisted shares of AIFIs were prohibited. These guidelines need to be fully complied with by March 31, 2004.
March	15	• Guidelines towards bringing about a certain minimum level of uniformity with regard to the content and coverage of the Best Practices Codes (BPC) in banks issued.
	18	• The cut-off date for lapsing of sanctions and completion of disbursements under the Prime Minister's *Rozgar Yojana* extended to September 30, 2004.
	25	• Banks to furnish data under *Swarnajayanti Gram Swarozgar Yojana* (SGSY), *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY) and Scheme for Liberation and Rehabilitation of Scavengers (SLRS) on a monthly basis with effect from April 2004.
	26	• Banks to forward to the Reserve Bank a report on the performance of the statutory central auditors in a prescribed proforma communicated to them for eliciting information on the performance of their statutory auditors. Banks also to prepare information regarding statutory branch auditors in the same format for their internal use and adverse features, if any, observed against any statutory branch auditor may be communicated to the Reserve Bank every year along with the report on the performance of their statutory auditors.
	29	• The minimum owned fund not to be less than 15 per cent, on an aggregate basis, of the total financial assets acquired or to be acquired by the Securitisation/Reconstruction Company or Rs.100 crore, whichever is lower. The NOFs to be maintained irrespective of whether the assets are transferred to a trust set up for the purpose of securitisation or not. The Securitisation/ Reconstruction Company should continue to hold the owned fund level until the realisation of the assets and redemption of security receipts issued against such assets.
April	10	• Revised norms with regard to cheque Drop Box facility, delivery of cheque books over the counter and statement of accounts/pass book issued in pursuance with the recommendations of the Committee on Procedures and Performance Audit on Public Service (Chairman: Shri S. S. Tarapore).
	19	• Banks to achieve the State/Union Territory-wise physical targets for sanctions and disbursements of loans under PMRY by end-March 2005 for the purpose of the meeting the quarterly targets.
	22	• Banks to inform their account holders, at least one month in advance of any change in the prescribed minimum balance and the charges levied in case the minimum balance is not maintained. • Non-resident ordinary accounts could be held by non-residents jointly with residents.
	23	• The eligibility criteria (inclusive of fulfilment of norms related to CRAR, NPA and compliance with other regulations) for declaration of dividend without prior approval of the Reserve Bank modified. Norms were also laid down for the quantum of dividend payable (with a ceiling placed at 33 1/3 per cent dividend payout ratio) along with prescription of the methods of compilation.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
April	30	• Banks (excluding RRBs and LABs) to review at regular intervals policies and practices relating to information system (IS) audit appropriate to its level of computerisation and in tune with industry best practices and guidelines issued by the Reserve Bank. • Banks (excluding RRBs) to ensure strict compliance with the three accounting standards (No. 24, 26 and 28) relating to discounting operations, intangible assets and impairment of assets, respectively, as recommended by the Working Group (Chairman: Shri N. D. Gupta).
May	8	• The subsidy under SJSRY to be a back-ended subsidy with a lock-in period of 2 years.
	12	• Banks to strictly maintain the confidentiality of information provided by the customer for 'Know Your Customer' (KYC) compliance.
	15	• Banks to ensure that their branches do not open current accounts of entities which enjoy credit facilities (fund based or non-fund based) without specifically obtaining a no-objection certificate from lending banks.
	18	• The requirement of margin/security for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh waived. The NPA norms for longer duration crops tightened. • The margin requirement on all advances against shares/financing of IPOs/issue of guarantees by banks reduced from 50 per cent to 40 per cent. Further, a minimum cash margin of 20 per cent prescribed for banks (within the margin of 40 per cent) in respect of guarantees issued for capital market operations.
June	11	• Banks to raise long term bonds with a minimum maturity of five years.
	15	• The risk weight on exposure to Public Financial Institutions (PFIs) raised to 100 per cent from March 31, 2005.
	17	• The extant limits on unsecured exposures by banks withdrawn and banks allowed to set their own limits for unsecured exposures. Unsecured exposures redefined to attract 20 per cent provisioning. • The guidelines issued on country risk management to cover countries where a bank has net funded exposure of one per cent or more of its total assets with effect from the year ending March 31, 2005.
	18	• A road map for migration to Basel II to be drawn by the end of 2004 and banks to make a quarterly review of the progress made.
	21	• Graded higher provisioning requirement according to the age of NPAs introduced for NPAs under 'doubtful for more than three years' category with effect from March 31, 2005. • The process of identifying wilful defaulters and the mechanism relating to redressal of grievances to be treated as two distinct processes. The borrower to be suitably advised before being classified as a wilful defaulter. • Boards of banks/FIs to oversee furnishing of requisite information of all borrowers to Credit Information Bureau (India) Limited (CIBIL) and report compliance with the same to the Reserve Bank. CIBIL to have a sufficiently diversified ownership structure with no single entity owning more than 10 per cent of its paid-up capital. • Banks to fully adhere to 'Know Your Customer' (KYC) policy adopted by their Boards: i) for opening new accounts, ii) for the existing accounts, where any wrong-doing is suspected or where the summation of the credit/debit transactions is more than Rs.10 lakh, and iii) in respect of all accounts belonging to trusts, intermediaries or those operated through a mandate or power of attorney. • The vigilance procedure in public sector banks modified such that only such vigilance cases in which an officer of the level of Scale V and above is involved, to be referred to the Central Vigilance Commission for advice.
	24	• Guidelines issued for increasing the flow of credit to agriculture including (i) debt restructuring and provision of fresh loans to farmers affected by natural calamities; (ii) one time settlement for small and marginal farmers; (iii) fresh finance for farmers whose earlier debts have been settled through compromise or write-off; and (iv) relief measures for farmers indebted to non-institutional lenders.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
June	24	• Boards of banks, under exceptional circumstances, to raise single or group exposure limit by 5 per cent of capital funds. • Banks to provide for capital charge for market risk in respect of trading book exposures (including derivatives) effective March 31, 2005. Capital charge also to be introduced for securities under 'Available for Sale' (AFS) category with effect from March 31, 2006.
	25	• 'Fit and proper' criteria for directors of private sector banks issued.
July	6	• The types of instruments that are to be included in the prudential limit of bank's aggregate investment in Tier II bonds were widened.
	12	• Prudential norms on income recognition, asset classification and provisioning with respect to agricultural advances modified with a view to align the repayment dates with harvesting of crops. Effective September 30, 2004 a loan granted for short duration crops to be treated as NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. A loan granted for long duration (with crop season longer than one year) crops will be treated as NPA, if the instalment of principal or interest thereon remains unpaid for one crop season beyond the due date.
	20	• Banks debarred from prescribing any minimum annual turnover for issuance of Gold Card since the objective of the scheme was to cover all credit worthy exporters, including the SME segment. • Investment by banks in the mortgage backed securities (MBS) to be classified as direct lending to housing within the priority sector lending, subject to certain conditions.
	23	• Additional measures introduced relating to wilful defaulters including prohibition on additional facilities, debarment from institutional finance for floating new ventures for a period of five years, initiation of legal proceedings and foreclosure and also criminal proceedings wherever necessary, adoption of a proactive approach for a change of management of the wilfully defaulting borrower unit, incorporation of a covenant in the loan agreement barring borrowing companies to induct a person who is a director on the Board of a company which has been identified as a wilful defaulter, *etc*.
	26	• Banks to take appropriate steps to increase the flow of credit to priority sector, agriculture and weaker sections so as to achieve the stipulated targets and also observe the directives on interest rates on loans. • On the application of the Reserve Bank under Sub-Section (1) of Section 45 of the Banking Regulation Act, 1949, the Government of India made an Order of Moratorium in respect of the Global Trust Bank Ltd. under Sub-Section (2) of the said Section for the period from the close of business on the July 24, 2004 and inclusive of October 23, 2004. The Government of India also issued directions to the said banking company under paragraph (2) thereof authorising payment of certain liabilities and obligations. In order to effect an amalgamation of the Global Trust Bank Ltd. with Oriental Bank of Commerce, the Reserve Bank, in exercise of the powers conferred on it by Sub-Section (4) of the said Section, prepared a scheme and forwarded it, in draft, to each of the aforesaid banking companies for suggestions and objections, if any, in terms of clause (a) of Sub-Section (6) of Section 45 *ibid* by August 7, 2004. • The Action Taken Report on the advisory committee (Chairman: Prof. V.S. Vyas) on flow of credit to agriculture and related activities from the banking system outlined a few recommendations for immediate implementation.
	29	• Banks to insist on a declaration from the account-holder, for opening of current accounts, stating that he/she is not enjoying any credit facility with any other commercial bank or a declaration giving particulars of credit facilities enjoyed by him/her with any other commercial bank(s). Banks also to ascertain whether he/she is a member of any other co-operative society/bank; if so, the full details thereof.
August	3	• The monetary ceiling of the cases to be referred to the Lok Adalats, organised by Civil Courts were enhanced from Rs.5 lakh to Rs.20 lakh with immediate effect.
	17	• Banks to convert all their equity holding into dematerialised form by the end of December 2004.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
August	26	• Banks to ensure that the schedule of interest/instalment payable on advances on rural housing granted to agriculturists under '*Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme*' are linked to crop cycles.
	28	• Banks to initiate action at their level to get the Master Policy under Personal Accident Insurance Scheme (PAIS) for KCC holders renewed for a period of one year, on the existing terms and conditions.
September	1	• Banks to take remedial measures suggested by the Group on Frauds in the area of Housing Finance.
	2	• Banks permitted to exceed the 25 per cent limit under HTM category provided that the excess comprises only SLR securities and the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL. To enable the above, banks allowed to shift SLR securities to the HTM category. However, no fresh non-SLR securities permitted to be included in the HTM category. • 'Yes Bank Limited' included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from August 21, 2004.
	4	• Banks (including RRBs) to implement a few recommendations of the Working Group on Flow of Credit to SSI Sector (Chairman: Dr. A. S. Ganguly) as indicated in the Action Taken Report.
	10	• Banks to open branches having no interface with customers, and which will attend exclusively to data processing, verification and processing of documents, issuance of cheque books, demand drafts etc. on requests received from other branches and other functions incidental to banking business. The licence for such branches to be issued under the 'Service Branch' category.
	11	• The CRR of SCBs (excluding RRBs) increased by one-half of one percentage point of their Net Demand and Time Liabilities (NDTL) in two stages - 4.75 per cent effective September 18, 2004 and 5.0 per cent effective October 2, 2004.
	20	• Banks to look into the existing mechanism for vigilance management in their institution and to remove the loopholes, if any, in regard to fixing of staff accountability and completion of staff side action in all the fraud cases within the prescribed time limit, which would act as a deterrent, with a view to reducing the incidence of frauds. They were also to bring to the notice of the Special Committee of the Board constituted to monitor large value frauds, the actions initiated in this regard.
	30	• The international usage of the term 'Repo' and 'Reverse Repo' under LAF operations to be adopted with effect from October 29, 2004. Accordingly, the current 'Repo' operation where Reserve Bank of India absorbs liquidity will be termed 'Reverse Repo' and the current 'Reverse Repo' operation where RBI injects liquidity will be termed 'Repo'.
October	1	• General permission for conversion of ECB into equity was granted provided: i) the activity of the company is covered under automatic route, ii) the foreign equity after such conversion falls within the sectoral cap and iii) prescribed pricing guidelines are complied with. The reporting requirements in this regard were also prescribed.
	4	• Guidelines for implementing the revised Model KCC Scheme of NABARD to take care of the investment credit requirements of farmers *viz.* allied and non-farm activities, were issued.
	7	• The Senior Citizens Savings Scheme (SCSS), 2004 being implemented through post offices also to be operated through all the branches of PSBs which are operating 'PPF Scheme, 1968'.
	14	• Industrial Development Bank of India Limited included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from October 11, 2004.
	15	• Banks to implement a few more recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) accepted for implementation. These include, financing development of wasteland and fallow land, improve staffing in the rural areas to promote retail lending to agriculture, relying on village functionaries for credit disbursal, use of individual volunteers, farmers' clubs or NGOs/SHGs as direct selling

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
October		agents, building synergy between good working primary agricultural credit societies and commercial banks, use of IT in rural branches, working out appropriate incentive structure for prompt repayment, make the rates of interest on small loans reasonable and improve the efficiency of credit delivery to small borrowers, association with contract farming, *etc.* • Guidelines relating to the process of issue of Subordinated Debt Instruments under Tier II and Tier III Capital were issued.
	19	• The details of the levy of penalty on a bank to be put in the public domain in the interests of the investors and depositors. The strictures or directions on the basis of inspection reports or other adverse findings also to be placed in the public domain.
	26	• Investments made by banks in securitised assets representing direct lending to the SSI sector to be treated as their direct lending to SSI sector under priority sector provided it satisfies the following conditions: (i) the pooled assets represent direct loans to SSI sector which are reckoned under priority sector; and (ii) the securitised loans are originated by banks/financial institutions. • In order to improve flow of credit to small and marginal farmers, the banks to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under Special Agricultural Credit Plans (SACP) by March 2007. Data in respect of lending to small and marginal farmers to be furnished separately in the half-yearly statements on disbursements under SACP. All private sector banks also to formulate SACP targets from the year 2005-06, with an annual growth rate of at least 20-25 per cent of credit disbursements to agriculture. • Banks (including RRBs and LABs) with the approval of their Boards, allowed to extend direct finance to housing sector up to Rs.15 lakh irrespective of location, as part of their priority sector lending. • In order to facilitate smooth flow of credit to SSIs, the composite loan limit for SSI entrepreneurs enhanced from Rs.50 lakh to Rs.1 crore. • Public sector banks to furnish data on lending to agriculture on a monthly basis (as on the last reporting Friday of each month) commencing from October 2004, in the prescribed format on or before the seventh day of the following month to which the data pertains. • Banks (excluding RRBs) to advance loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors. Such loans to urban poor may be classified under weaker sections within the priority sector. • The minimum maturity period of CP reduced from 15 days to 7 days with immediate effect. • The limit on advances under priority sector increased for dealers in agricultural machinery including drip/sprinkler irrigation systems from Rs.20 lakh to Rs.30 lakh and for distribution of inputs for allied activities from Rs.25 lakh to Rs.40 lakh. • Effective from the fortnight beginning January 08, 2005, non-bank participants allowed to lend, on average in a reporting fortnight, only up to 30 per cent of their average daily lending in call/notice money market during 2000-01.
	27	• With effect from November 1, 2004 agency banks to pay their own tax liabilities (TDS, Corporation Tax etc.) to Government Account through their own branch only. Such payments should be indicated in the scrolls separately so as to distinguish them from other transactions. It was reiterated that the banks are not entitled for 'Turnover Commission' on transactions of the above type.
November	1	• Banks to formulate a comprehensive and transparent policy covering the three aspects, *viz.*, (i) Immediate credit of local/outstation cheques (ii) Time frame for collection of local/outstation cheques and (iii) Interest payment for delayed collection and the existing instructions in this regard stands withdrawn.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
November	1	• Banks allowed to reduce the minimum tenor of domestic/ NRO term deposits at their discretion, even below Rs.15 lakh from 15 days to 7 days. • The requirement of invocation of State Government guarantee for deciding the asset classification and provisioning requirements de-linked and subjected to the same norms as applicable to exposures not guaranteed by the State Governments. • The interest rates offered by the banks (including RRBs) on NRE deposits for one to three years maturity contracted with effect from November 1, 2004 not to exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturity plus 50 basis points. • With effect from November 1, 2004, banks allowed to fix the interest rates on FCNR(B) deposits also on the basis of LIBOR/ SWAP rates as prevailing on the last working day of the preceding month. The ceiling on interest rates, however, will continue to be the LIBOR/ SWAP rate minus 25 basis points, as hitherto except in the case of Yen deposits, where banks have the freedom to set the FCNR(B) deposit rates which may be equal to or less than the LIBOR.
		B) Urban Co-operative Banks (UCBs)/Regional Rural Banks (RRBs)
2003		
April	29	• All UCBs to introduce mandatory concurrent audit with immediate effect.
May	14	• Advances up to Rs.20 lakh per dealer, in drip irrigation/sprinkler irrigation systems and agricultural machinery, to be classified under 'Indirect Finance to Agriculture' as a part of priority sector lending. Direct housing loans up to Rs.10 lakh in rural and semi-urban areas to be reckoned for priority sector lending.
	17	• Non-scheduled UCBs permitted to place deposits with strong scheduled UCBs.
	22	• Gold loans and small loans upto Rs.1 lakh exempted from the 90 days NPA norm. The 180 days norm to be applicable up to March 31, 2007 as per the guidelines issued on September 4, 2004.
June	13	• Primary (Urban) Co-operative Banks to submit half yearly statements showing the progress made by them in deployment of credit to minority communities effective from March 31, 2003 within 15 days from the close of the half year ending March 31 and September 30.
July	8	• Primary (Urban) Co-Operative Banks which are not a member of NDS–CCIL system, to undertake their transactions in Government securities through gilt account/demat account maintained with NDS members.
September	5	• The number of statements to be submitted by UCBs under off-site surveillance (OSS) returns reduced from 10 to 8. Out of eight returns, one return to be submitted annually and the remaining seven returns to be submitted on a quarterly basis.
	19	• UCBs which have not been classified by the Reserve Bank as Grade II, III or IV to declare dividend, provided the dividend pay-out does not impair the bank's liquidity position. Banks classified as Grade II, however, need to obtain prior permission from the concerned Regional Office of the Reserve Bank to declare dividend. • UCBs to net off all entries representing clearing differences 'receivable' against entries representing clearing differences 'payable', of amounts less than Rs.500 which are outstanding in the Clearing Adjustment Accounts for more than three years as on March 31, 2003.
October	18	• The interest rates on fresh repatriable -NRE deposits of one to three years not to exceed 25 basis points (as against 250 basis points announced on July 17, 2003 and 100 basis points on September 15, 2003) above the LIBOR/SWAP rates for US dollar of corresponding maturity. The changes in interest rates to be applicable to repatriable NRE deposits renewed after their present maturity period.
	21	• UCBs permitted to open demat account with a depository participant to hold PSU securities.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
January	5	• State/Central Co-operative Banks/RRBs to segregate the debit and credit entries in Inter-Branch Account pertaining to the period upto March 31, 2001 and outstanding as on March 31, 2004 and arrive at a net position. In the case of a net debit, provisioning to be made from the year-ended March 2004. • The margin on all advances against shares raised to 50 per cent with immediate effect with no change in the quantum of loan that can be granted. • RRBs to review the existing systems and controls and plug the lacunae therein to prevent occurrence of frauds in the housing, consumer and retail finance portfolios.
	17	• Primary (urban) co-operative banks to desist from the practice of stapling of note packets, and also to refrain from issuing Ashoka Pillar series notes.
February	11	• UCBs debarred from opening CSGL Accounts of other UCBs. Account, if any, already opened, to be closed immediately.
March	10	• Master circular on guidelines on credit exposure norms and statutory and other restrictions on loans and advances issued to primary (urban) co-operative banks. • Master circular on Board of Directors for primary (urban) co-operative banks issued covering areas concerning the constitution and role of the Board, loans and advances and payment of fees and allowances to directors, *etc.*
	11	• The list containing the claims of depositors forwarded by Administrators/Liquidators of UCBs under liquidation/amalgamation/merger/ restructuring to be certified by a Chartered Accountant appointed by the Reserve Bank.
	16	• Master circular on interest rates on rupee deposits for primary (urban) co-operative banks issued. The areas covered include; i) rate of interest payable on current, saving and term deposit accounts; ii) premature withdrawal of term deposits; iii) guidelines on credit exposure norms and statutory/other restrictions on loans; iv) recurring deposit for reinvestment in term deposit; and v) margin on advances against term deposits and exemptions.
	20	• UCBs to report serious irregularities, pointed out by the concurrent auditors and action taken to rectify the same.
	26	• As part of the KYC compliance, a time bound action plan prescribed to ensure verification of the identity and address of the customer on the basis of reliable documents, in respect of all the old accounts.
	29	• The relaxation in respect of Service Area obligations granted to 97 RRBs for a further period of one year from April 1, 2004, *i.e.*, up to March 31, 2005. The existing arrangement with regard to financing of beneficiaries under SGSY and the priority sector to be continued till March 31, 2005.
April	15	• Comprehensive guidelines issued for investment in non-SLR securities.
May	20	• The exemption granted to RRBs from 'mark-to-market' norms in respect of the SLR securities extended for one more year, *i.e.*, up to 2004-05.
	24	• The primary (urban) co-operative banks to exercise due caution with regard to valuation while sanctioning loans and advances against mortgage of house property.
	26	• The off-site surveillance system for primary (urban) co-operative banks, already in place for the scheduled UCBs, extended to all non-scheduled UCBs having deposit size of Rs.100 crore and above.
	29	• Strict confidentiality to be maintained of information provided by the customer for KYC compliance.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
July	13	• No application for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934 to be considered till a proper legislative framework is put in place for the primary (urban) co-operative banks.
	28	• The non-scheduled primary (urban) co-operative banks (UCBs) to obtain a certificate from the statutory auditors/chartered accountants, stating that no deposit has been placed with any ineligible bank during the year.
August	6	• Graded higher provisioning for the RRBs according to the age of NPAs in 'doubtful for more than three years' category, introduced with effect from March 31, 2005.
	7	• For the loans and advances (both secured and unsecured) sanctioned by the UCBs, the directors and relatives not eligible to stand as surety/guarantor.
	18	• The balance in the credit of the Subsidy Reserve Fund Account under the credit linked Capital Investment Subsidy Scheme for Construction/Renovation/ Expansion of Rural Godowns not to form a part of Demand and Time Liability (DTL) for the purpose of computation of SLR/ CRR.
	19	• The Gilt Account holders not entitled to undertake any sale transaction unless the security sold is actually held in the Gilt Account of the constituent.
September	2	• UCBs permitted to exceed the 25 per cent limit under HTM category provided the excess comprises only SLR securities and the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL. To enable the above, UCBs allowed to shift SLR securities to the HTM category. However, no fresh non-SLR securities permitted to be included in the HTM category.
	11	• CRR of Scheduled State Co-operative Banks, Scheduled Primary (Urban) Co-operative Banks and Regional Rural Banks increased by one–half of one percentage point of their NDTL in two stages, 4.75 per cent effective September 18, 2004 and 5.0 per cent effective October 2, 2004.
	27	• Additional provisioning to be phased over a five-year period commencing from the year ending March 31, 2005 instead of four years for advances identified as 'doubtful for more than three years'.
October	20	• UCBs provided with a list indicating the Banks to follow similar practices as the illustrative best practices followed by well-managed banks in the urban banking sector provided by the Reserve Bank as examples. UCBs, however, are free to put in place any other practices, which would result in better customer service, and business development.
	27	• RRBs permitted to undertake insurance business as corporate agent *without risk participation* subject to their fulfilling certain terms and conditions related to net worth, gross NPAs, profit-ability, compliance with IRDA regulations, prudential norms and directions of the Reserve Bank, *etc.*
November	1	• The interest rates offered by the State and District Central Co-operative Banks on NRE deposits for one to three years maturity contracted with effect from November 1, 2004 not to exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturity plus 50 basis points. • UCBs allowed to reduce the minimum tenor of domestic/ NRO term deposits at their discretion, even below Rs.15 lakh from 15 days to 7 days.
	6	• Banks/FIs reiterated to take immediate steps to ensure submission of periodical data to CIBIL and progress reports to RBI.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
C) Financial Institutions (FIs)		
2003		
May	5	• Broad guidelines on Fair Practices Code issued.
	30	• Revised guidelines issued for compromise settlement of chronic NPAs. The last date for receipt of applications under the revised OTS Scheme extended from April 30, 2003 to September 30, 2003 and the date for completion processing of the applications from October 31, 2003 to December 31, 2003.
June	20	• The submission of the monthly concurrent audit report discontinued with immediate effect. With effect from the half-year ended March 31, 2003, major irregularities observed in the concurrent audit report of the treasury transactions to be incorporated in the half-yearly reviews of the investment portfolio and submitted to the Regional Offices of the Reserve Bank.
July	1	• Government of India dated securities allowed to be traded on the automated system of the NSE, BSE and OTCEI. FIs allowed to open demat accounts with a Depository Participant (DP) for this purpose in addition to their SGL accounts with the Reserve Bank and value free transfer of securities between SGL/CSGL and demat accounts were enabled.
	17	• The guidelines on preventing slippage of NPAs to be placed before the Board of Directors of the FIs, and initiate appropriate action for implementing the recommended measures, to the extent considered necessary.
	29	• Revised guidelines issued to FIs to identify and report instances of wilful default. A grievance redresssal mechanism to be created for giving a hearing to borrowers classified as wilful defaulters.
August	1	• Final guidelines on Consolidated Accounting and Consolidated Supervision issued.
	6	• Non-bank entities, including corporates, allowed to provide unconditional and irrevocable guarantee for credit enhancement for issue of CPs subject to certain conditions.
November	4	• Draft guidelines on investment by FIs in debt securities issued covering the following aspects: i) the need for strengthening the internal rating systems of FIs; ii) prudential limits on the exposure through debt securities; iii) review by the Board of directors of FIs; and iv) public disclosures in the 'Notes on Accounts' to the balance sheet.
	15	• FIs to adopt 90 days norm for recognition of loan impairment with effect from the year ending March 31, 2006. However, FIs permitted to phase out the required provisioning over a period of three years beginning from the year ending March 31, 2006, with a minimum of one-fourth of the additional provisioning to be made each year.
2004		
January	8	• Effective April 1, 2004, FIs prohibited from investing in unrated debt securities and in debt securities of original maturity of less than one year other than CPs and CDs.
February	17	• The last date for receipt of applications for OTS of chronic NPAs of banks upto Rs.10 crore extended to July 31, 2004.
July	26	• FIs to strictly adhere to the single/group borrower prudential exposure ceilings *i.e.*, 15 per cent and 40 per cent, respectively and the additional limits of 5 per cent and 10 per cent, respectively for exposure to infrastructure. FIs could, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower upto a further 5 per cent of capital funds subject to the borrower consenting to the FIs making appropriate disclosures in their Annual Reports.
August	3	• Effective March 31, 2005, graded higher provisioning according to the age of NPAs in 'doubtful for more than three years' category introduced.
	30	• FIs permitted to make fresh investments in equity instruments and hold them in demat form with immediate effect. All outstanding investments in equity in paper-based form to be converted into demat form by the end of December 2004.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
November	1	• With effect from March 31, 2005, in respect of FIs, an asset to be classified as doubtful asset, if it remained in the sub-standard category for 12 months. FIs permitted to phase out the consequent additional provisioning over a four-year period, commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.
		D) Non-Banking Financial Companies (NBFCs)
2003		
July	28	• NBFCs to adopt the Banking Companies (Nomination) Rules 1985 made under Section 45ZA of the Banking Regulation Act, 1949. Accordingly, depositors of NBFCs permitted to nominate one person to whom the NBFCs can return the deposit in the event of death of the depositor/s.
	31	• NBFCs to maintain an exclusive CSGL account or demat account to hold Government securities for the purpose of compliance with SLR, and separate CSGL or demat account where Government securities in excess of statutory requirement held for trading purpose.
August	1	• Prudential norms for NBFCs amended in line with the norms governing banks and FIs. The norms *inter alia* relate to, 1) Period of non-performing assets; 2) Infrastructure loans; 3) Restructuring or reschedulement or renegotiation; 4) Treatment of restructured standard and sub-standard accounts; 5) Funded interest; 6) Income recognition norms; 7) Provisioning; 8) Eligibility for upgradation of restructured sub-standard infrastructure loans; 9) Conversion of debt into equity or debentures; 10) Applicability of restructuring and other norms to loans other than infrastructure loans; and 11) Internal adjustment.
	28	• An NBFC, which is a securitisation/reconstruction company, registered with the Reserve Bank under Section 3 of the SARFAESI Act, 2002, exempted from provisions of Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934. Section 45-IA defines requirement of registration and net owned fund, section 45-IB deals with maintenance of percentage of assets in unencumbered approved securities, and section 45-IC deals with reserve funds of NBFCs.
September	17	• The rate of interest on NRI deposits for one to three years on repatriable basis payable by NBFCs, Miscellaneous Non-Banking Companies (MNBCs) and Residuary Non-Banking Companies (RNBCs) linked to the interest rate on NRE deposits payable by scheduled commercial bank.
November	3	• All new loans granted by banks to NBFCs for the purpose of on-lending to the SSI sector to be reckoned under the priority sector lending.
2004		
January	5	• KYC guidelines for NBFCs issued on lines similar to those prescribed for SCBs. In addition to personal introduction, documentary evidence to be used in the identification of a new customer. For the existing customers, NBFCs to ensure that gaps and missing information in compliance of KYC guidelines on customer identification procedure were filled up and completed before June 30, 2004. NBFCs to keep record of transactions of Rs.10 lakh and above in a separate register maintained at branch as well as at the Registered Office.
February	10	• NBFCs registered with the Reserve Bank permitted to take up insurance agency business on a fee basis and without risk participation provided they: i) obtain requisite permission from the IRDA and comply with its regulations for acting as 'composite corporate agent' with insurance companies, ii) do not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by NBFCs, and iii) disclose that there is no 'linkage' either direct or indirect between the provision of financial services offered by NBFCs to its customers and use of the insurance products. The premium to be paid by the insured directly to the insurance company without routing through the NBFC. The risks, if any, involved in insurance agency not to get transferred to the business of the NBFC.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
March	11	• A master circular on lending to NBFCs issued covering detailed guidelines on i) eligibility criteria for NBFCs for bank finance, and ii) activities undertaken by NBFCs that are not eligible for bank credit. Banks also prohibited from entering into lease agreements departmentally with equipment leasing companies as well as other NBFCs engaged in equipment leasing. Banks also prohibited from granting bridge loans.
April	24	• NBFCs prohibited to accept fresh NRI deposits with effect from April 24, 2004, but allowed to renew the deposits already accepted.
May	17	• NBFCs/RNBCs to authorise designated banks for collection of interest on due dates, on securities held in physical form, lodged for safe custody with the designated banks.
June	15	• NBFCs exposure to PFIs to attract the risk-weight of 100 per cent. The definition of infrastructural loans also expanded.
	22	• The investment pattern prescribed for RNBCs rationalised for imparting liquidity and safety to the investments of RNBCs and for enhancing depositors' protection. Other measures included: i) phasing out of discretionary investment of RNBCs by April 1, 2004, ii) restriction of investments in specified financial institutions to only CD instruments of rating AA+ and above, iii) additional investment of 15 per cent of the deposits in securities issued by the Central and State Governments, in the course of their market borrowing programme, iv) investment in bonds and debentures to be limited to listed securities of rating AA+ and above, v) investments in mutual funds restricted to only debt oriented schemes with a sub limit of 2 per cent in any one fund, and vi) exposure to a single SCB restricted to one per cent of aggregate deposit liabilities of the SCB and to a single specified FI to one per cent of the deposits of the RNBCs.
July	24	• NBFCs which were granted certificate of registration (CoR) in the non-public deposit taking category to meet the minimum NOFs requirement of Rs.2 crore for being eligible to apply to RBI for accepting public deposits.
October	5	• The minimum lock-in-period was retained within which a NBFC, RNBC or MNBC shall not repay a public deposit (in case of NBFC) or deposit (in case of RNBC and MNBC) or grant any loan against such deposits. It was also decided to stratify the NBFCs, MNBCs and RNBCs for the purpose of permission to prepay the deposits (after the lock-in period) into two categories, *viz.*, 'problem NBFCs, MNBCs, and RNBCs' and normally run companies'. Accordingly, different set of norms issued for the two groups as per the prepayment norms and the interest rates to be paid on the deposits.
November	13	• A quarterly reporting arrangement introduced for NBFCs not accepting/holding public deposits and having assets size of Rs.500 crore and above as on March 31, 2004.
		E) Primary Dealers (PDs)
2003		
April	3	• Operational guidelines issued to Clearing Corporation of India Ltd. (CCIL) for a limited purpose Government securities lending scheme. The CCIL permitted to enter into an arrangement with any of its members for borrowing Government securities for the purpose of handling securities shortage in settlement of transactions in Government securities subject to the operational guidelines.
	10	• Operational guidelines issued to PDs for Portfolio Management Services (PMS). PDs will require prior approval of the Reserve Bank and registration with SEBI before undertaking PMS activity. They are permitted to offer PMS services only to entities not regulated by the Reserve Bank.
	29	• Collateralised Borrowing and Lending Obligations (CBLO) borrowings exempted from CRR subject to the bank maintaining the statutory minimum CRR of 3.0 per cent. Securities lodged in the gilt account of the bank maintained with CCIL under CSGL facility for CBLO remaining unencumbered at the end of any day reckoned for SLR purposes by the concerned bank.
June	3	• PDs permitted to transact only in interest rate futures on notional bonds and T-bills for the limited purpose of hedging the risk in their underlying investment portfolio subject to prudential guidelines and appropriate disclosures with a view to enabling management of exposure to interest rate risk.

Annex: Chronology of Major Policy Developments *(Concluded)*

Announcement Date		Measures
2003		
June	11	• PDs permitted to hold trading positions in interest rate futures.
September	22	• The returns submitted by the PDs rationalized. Six returns were discontinued and three returns were revised.
2004		
January	7	• Revised guidelines on Capital Adequacy Standards and Risk Management issued.
	29	• A new quarterly return (PDR-IV) on major financial indicators and various ratios introduced from the quarter ended December 31, 2003.
March	8	• Prudential guidelines on investment in non-Government securities issued.
	29	• Under revised guidlines relating to sale of Governent securities, PDs to sell a security against an existing confirmed purchase contract provided the contract is guaranteed for settlement by a central counter party like CCIL or counter party to that contract is Reserve Bank. Certain safeguards were prescribed for compliance with the guidelines. To facilitate settlement under the revised guidelines, settlement of Government securities transactions changed to the DVP – III mode so that each security is deliverable/receivable on a net basis for a particular settlement cycle as against the current system of gross settlement of securities under the DVP – II mode. These changes also facilitated the roll over of repurchase transactions.
June	3	• Guidelines on dividend distribution based on payout ratio linked to CRAR issued.
July	23	• In the context of the increased quantum of issuance of Treasury bills under the 'Market Stabilisation Scheme', the success ratio requirement of 40 per cent of bidding commitment in Treasury Bill auctions for PDs to be monitored on a half yearly basis. Each PD to achieve the required level of success ratio in each half year (April to September and October to March) separately.
August	24	• PDs to hold all their equity investments only in dematerialised form by the end of December 2004.
October	15	• Guidelines on issue of subordinated debt instruments under Tier II and Tier III capital issued.
	26	• The fixed repo rate increased by 25 basis points to 4.75 per cent from the present 4.50 per cent points under LAF of the Reserve Bank. With effect from October 27, 2004, the spread between the repo rate and the reverse repo rate reduced by 25 basis points, from 150 basis points to 125 basis points. Accordingly, the fixed reverse repo rate under LAF will continue to remain at 6.0 per cent. The switchover to the international usage of the terms 'repo' and 'reverse repo' was effected from October 29, 2004. To enhance further the effectiveness of LAF and to facilitate liquidity management in a flexible manner, the auctions of 7-day and 14-day repo (reverse repo in international parlance) will stand discontinued with effect from November 1, 2004. Accordingly, the LAF Scheme would be operated through overnight fixed rate repo and reverse repo with effect from November 1, 2004.
November	13	• All PDs to ensure that whenever defaults (in maintaining sufficient balances in the current and/ or SGL accounts to meet their commitments arising out of transactions) take place, they should immediately report the details of such defaults to the Reserve Bank.

Appendix Table III.1(A): Consolidated Balance Sheet of Public Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Public Sector Banks				Nationalised Banks				State Bank Group			
	2003		2004		2003		2004		2003		2004	
	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
1. Capital	14,175.38	1.10	14,675.56	1.00	13,139.58	1.66	13,639.76	1.48	1,035.80	0.21	1,035.80	0.19
2. Reserves and Surplus	51,407.17	4.00	64,548.91	4.39	29,310.15	3.71	37,835.43	4.10	22,097.02	4.47	26,713.48	4.86
3. Deposits	10,79,167.36	83.96	12,26,837.56	83.38	6,88,081.00	87.00	7,93,946.95	86.10	3,91,086.36	79.09	4,32,890.61	78.81
3.1 Demand Deposits	1,26,650.68	9.85	1,41,223.07	9.60	69,999.20	8.85	77,727.56	8.43	56,651.48	11.46	63,495.51	11.56
3.2 Savings Bank Deposits	2,67,173.81	20.79	3,21,016.66	21.82	1,79,250.82	22.66	2,14,311.31	23.24	87,922.99	17.78	1,06,705.35	19.43
3.3 Term Deposits	6,85,342.87	53.32	7,64,597.83	51.96	4,38,830.98	55.48	5,01,908.08	54.43	2,46,511.89	49.85	2,62,689.75	47.83
4. Borrowings	22,425.00	1.74	30,735.81	2.09	10,832.44	1.37	13,920.38	1.51	11,592.56	2.34	16,815.43	3.06
5. Other Liabilities and Provisions	1,18,235.70	9.20	1,34,629.83	9.15	49,575.88	6.27	62,828.05	6.81	68,659.82	13.89	71,801.78	13.07
Total Liabilities	**12,85,410.61**	**100.00**	**14,71,427.67**	**100.00**	**7,90,939.05**	**100.00**	**9,22,170.57**	**100.00**	**4,94,471.56**	**100.00**	**5,49,257.10**	**100.00**
1. Cash and balances with RBI	65,166.59	5.07	84,241.76	5.73	46,054.46	5.82	58,079.66	6.30	19,112.13	3.87	26,162.10	4.76
2. Balances with banks and money at call and short notice	57,731.97	4.49	57,448.65	3.90	22,794.24	2.88	30,115.15	3.27	34,937.73	7.07	27,333.50	4.98
3. Investments	5,45,635.87	42.45	6,25,677.68	42.52	3,22,301.60	40.75	3,77,903.75	40.98	2,23,334.27	45.17	2,47,773.93	45.11
3.1 In Government Securities (a+b)	4,32,243.22	33.63	5,10,231.77	34.68	2,44,174.72	30.87	2,96,022.58	32.10	1,88,068.50	38.03	2,14,209.19	39.00
a. In India	4,29,089.65	33.38	5,07,451.67	34.49	2,41,402.53	30.52	2,93,445.42	31.82	1,87,687.12	37.96	2,14,006.25	38.96
b. Outside India	3,153.57	0.25	2,780.10	0.19	2,772.19	0.35	2,577.16	0.28	381.38	0.08	202.94	0.04
3.2 In other approved Securities	18,164.82	1.41	17,137.45	1.16	12,367.80	1.56	11,784.71	1.28	5,797.02	1.17	5,352.74	0.97
3.3 In non-approved Securities	95,227.83	7.41	98,308.46	6.68	65,759.08	8.31	70,096.46	7.60	29,468.75	5.96	28,212.00	5.14
4. Loans and Advances	5,48,436.62	42.67	6,32,739.70	43.00	3,59,232.74	45.42	4,12,223.90	44.70	1,89,203.88	38.26	2,20,515.80	40.15
4.1 Bills purchased & discounted	41,897.95	3.26	47,926.01	3.26	24,273.05	3.07	26,938.87	2.92	17,624.90	3.56	20,987.14	3.82
4.2 Cash Credit, Overdrafts, *etc.*	2,91,680.91	22.69	2,99,612.46	20.36	1,94,231.10	24.56	1,99,723.35	21.66	97,449.81	19.71	99,889.11	18.19
4.3 Term Loans	2,14,857.76	16.72	2,85,201.23	19.38	1,40,728.59	17.79	1,85,561.68	20.12	74,129.17	14.99	99,639.55	18.14
5. Fixed Assets	10,592.99	0.82	11,527.56	0.78	7,667.66	0.97	8,178.06	0.89	2,925.33	0.59	3,349.50	0.61
6. Other Assets	57,846.57	4.50	59,792.32	4.06	32,888.35	4.16	35,670.05	3.87	24,958.22	5.05	24,122.27	4.39
Total Assets	**12,85,410.61**	**100.00**	**14,71,427.67**	**100.00**	**7,90,939.05**	**100.00**	**9,22,170.57**	**100.00**	**4,94,471.56**	**100.00**	**5,49,257.10**	**100.00**

Source : Balance Sheets of respective banks.

Appendix Table III.1(B): Consolidated Balance Sheet of Private Sector Banks

(As at end-March)

(Amount in Rs. crore)

Item	Private Sector Banks				Old Private Sector Banks				New Private Sector Banks			
	2003		2004		2003		2004		2003		2004	
	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
1. Capital	2,921.06	0.98	3,028.14	0.82	648.77	0.62	632.71	0.52	2,272.29	1.18	2,395.43	0.97
2. Reserves and Surplus	15,974.60	5.38	19,490.78	5.31	5,646.58	5.38	6,657.97	5.52	10,328.02	5.37	12,832.81	5.20
3. Deposits	2,07,173.56	69.73	2,68,549.30	73.12	91,431.25	87.11	1,05,331.32	87.27	1,15,742.31	60.23	1,63,217.98	66.19
3.1 Demand Deposits	23,274.15	7.83	40,134.73	10.93	8,515.54	8.11	9,793.11	8.11	14,758.61	7.68	30,341.62	12.31
3.2 Savings Bank Deposits	26,160.41	8.80	40,093.07	10.92	13,673.97	13.03	16,983.84	14.07	12,486.44	6.50	23,109.23	9.37
3.3 Term Deposits	1,57,739.00	53.09	1,88,321.50	51.28	69,241.74	65.97	78,554.37	65.08	88,497.26	46.05	1,09,767.13	44.52
4. Borrowings	42,139.95	14.18	40,365.62	10.99	2,385.75	2.27	2,129.85	1.76	39,754.20	20.69	38,235.77	15.51
5. Other Liabilities and Provisions	28,916.90	9.73	35,842.34	9.76	4,843.91	4.62	5,948.58	4.93	24,072.99	12.53	29,893.76	12.12
Total Liabilities	**2,97,126.07**	**100.00**	**3,67,276.18**	**100.00**	**1,04,956.26**	**100.00**	**1,20,700.43**	**100.00**	**1,92,169.81**	**100.00**	**2,46,575.75**	**100.00**
1. Cash and balances with RBI	16,398.85	5.52	21,725.57	5.92	5,243.57	5.00	6,268.68	5.19	11,155.28	5.80	15,456.89	6.27
2. Balances with banks and money at call and short notice	11,035.63	3.71	15,115.47	4.12	5,210.51	4.96	6,092.27	5.05	5,825.12	3.03	9,023.20	3.66
3. Investments	1,07,322.85	36.12	1,34,801.05	36.70	39,995.94	38.11	47,461.51	39.32	67,326.91	35.04	87,339.54	35.42
3.1 In Government Securities (a+b)	73,166.95	24.62	96,239.45	26.20	28,479.35	27.13	35,286.32	29.23	44,687.60	23.25	60,953.13	24.72
a. In India	73,082.81	24.60	96,142.62	26.18	28,395.21	27.05	35,202.78	29.17	44,687.60	23.25	60,939.84	24.71
b. Outside India	84.14	0.03	96.83	0.03	84.14	0.08	83.54	0.07	–	–	13.29	0.01
3.2 In other approved Securities	960.93	0.32	790.68	0.22	882.58	0.84	690.94	0.57	78.35	0.04	99.74	0.04
3.3 In non-approved Securities	33,194.97	11.17	37,770.92	10.28	10,634.01	10.13	11,484.25	9.51	22,560.96	11.74	26,286.67	10.66
4. Loans and Advances	1,38,948.68	46.76	1,70,895.56	46.53	49,433.92	47.10	55,789.52	46.22	89,514.76	46.58	1,15,106.04	46.68
4.1 Bills purchased & discounted	11,113.67	3.74	12,868.58	3.50	5,321.15	5.07	5,192.51	4.30	5,792.52	3.01	7,676.07	3.11
4.2 Cash Credit, Overdrafts, *etc.*	38,467.33	12.95	45,392.98	12.36	23,661.51	22.54	25,892.78	21.45	14,805.82	7.70	19,500.20	7.91
4.3 Term Loans	89,367.68	30.08	1,12,634.00	30.67	20,451.26	19.49	24,704.23	20.47	68,916.42	35.86	87,929.77	35.66
5. Fixed Assets	7,499.41	2.52	7,925.96	2.16	1,528.16	1.46	1,514.19	1.25	5,971.25	3.11	6,411.77	2.60
6. Other Assets	15,920.65	5.36	16,812.57	4.58	3,544.16	3.38	3,574.26	2.96	12,376.49	6.44	13,238.31	5.37
Total Assets	**2,97,126.07**	**100.00**	**3,67,276.18**	**100.00**	**1,04,956.26**	**100.00**	**1,20,700.43**	**100.00**	**1,92,169.81**	**100.00**	**2,46,575.75**	**100.00**

Source: Balance sheets of respective banks.

Appendix Table III.1(C): Consolidated Balance Sheet of Foreign Banks
(As at end-March)

(Amount in Rs. crore)

Item	2003		2004	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
1. Capital	4,497.80	3.86	4,644.53	3.41
2. Reserves and Surplus	8,906.28	7.63	10,200.61	7.48
3. Deposits	69,313.07	59.41	79,756.42	58.51
3.1 Demand Deposits	14,441.43	12.38	21,784.27	15.98
3.2 Savings Bank Deposits	8,969.17	7.69	12,567.56	9.22
3.3 Term Deposits	45,902.47	39.35	45,404.59	33.31
4. Borrowings	22,904.41	19.63	25,388.82	18.63
5. Other Liabilities and Provisions	11,039.22	9.46	16,325.34	11.98
Total Liabilities	**1,16,660.78**	**100.00**	**1,36,315.72**	**100.00**
1. Cash and balances with RBI	4,557.40	3.91	7,278.23	5.34
2. Balances with banks and money at call and short notice	6,344.91	5.44	9,658.47	7.09
3. Investments	40,794.22	34.97	41,586.88	30.51
3.1 In Government Securities (a+b)	30,803.82	26.40	32,672.29	23.97
a. In India	30,803.82	26.40	32,672.29	23.97
b. Outside India	–	–	–	–
3.2 In other approved Securities	155.09	0.13	172.22	0.13
3.3 In non-approved Securities	9,835.31	8.43	8,742.37	6.41
4. Loans and Advances	52,167.76	44.72	60,507.40	44.39
4.1 Bills purchased & discounted	5,800.96	4.97	6,436.90	4.72
4.2 Cash Credit, Overdrafts, *etc.*	24,619.97	21.10	26,830.23	19.68
4.3 Term Loans	21,746.83	18.64	27,240.27	19.98
5. Fixed Assets	2,185.53	1.87	1,949.51	1.43
6. Other Assets	10,610.96	9.10	15,335.23	11.25
Total Assets	**1,16,660.78**	**100.00**	**1,36,315.72**	**100.00**

Source: Balance sheets of respective banks.

Appendix Table III.2: Important Banking Indicators - Scheduled Commercial Banks

(Amount in Rs. crore)

Item	Outstanding as on March 19, 2004	Variations							
		Financial Year				April - September			
		2002-03		2003-04		2003-04		2004-05 P	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
1. Gross Demand and Time Liabilities (2 to 6)	**17,31,657**	**2,13,470**	**16.8**	**2,46,013**	**16.6**	**1,00,377**	**6.8**	**92,953**	**5.4**
2. Aggregate Deposits (a+b)	**15,04,416**	**1,77,493**	**16.1**	**2,23,563**	**17.5**	**94,803.9**	**7.4**	**81,237**	**5.4**
		(1,47,822)	(13.4)						
a. Demand deposits	2,25,022	17,241	11.3	54,733	32.1	5,415.3	3.2	-7,895	-3.5
b. Time deposits	12,79,394	1,60,252	16.9	1,68,830	15.2	89,388.6	8.0	89,131	7.0
		(1,30,581)	(13.7)						
3. Other Borrowings #	**24,670**	**9,609**	**317.3**	**12,032**	**95.2**	**4,779.4**	**37.8**	**5,950**	**24.1**
4. Other Demand and Time Liabilities	**1,48,084**	**17,923**	**16.0**	**18,278**	**14.1**	**2,628.3**	**2.0**	**3,618**	**2.4**
5. Borrowings from the RBI	–	**-3,537**	**-97.8**	**-79**	**-100.0**	**-78.2**	**-98.7**	**3**	–
6. Inter-bank Liabilities	**54,487**	**8,444**	**15.7**	**-7,859**	**-12.6**	**-1,834.5**	**-2.9**	**2,148**	**3.9**
7. Bank Credit (a+b)	**8,40,785**	**1,39,493**	**23.7**	**1,11,570**	**15.3**	**6,262.4**	**0.9**	**78,465**	**9.3**
		(94,949)	(16.1)						
a. Food Credit	35,961	-4,499	-8.3	-13,518	-27.3	-12,014.4	-24.3	2,228	6.2
b. Non-food Credit	8,04,824	1,43,992	26.9	1,25,088	18.4	18,276.8	2.7	76,237	9.5
		(99,448)	(18.6)						
8. Investments (a+b)	**6,77,588**	**1,09,276**	**24.9**	**1,30,042**	**23.8**	**80,446.1**	**14.7**	**33,397**	**4.9**
a. Government securities	6,54,758	1,12,241	27.3	1,31,341	25.1	80,866.4	15.4	29,663	4.5
b. Other approved securities	22,830	-2,964	-10.9	-1,299	-5.4	-420.3	-1.7	3,734	16.4
9. Cash in hand	**7,898**	**1,322**	**21.2**	**331**	**4.4**	**802.9**	**10.6**	**447**	**5.7**
10. Balances with the RBI	**68,997**	**-4,068**	**-6.5**	**10,662**	**18.3**	**4,995.4**	**8.6**	**6,327**	**9.2**
11. Inter-Bank Assets	**48,179**	**6,156**	**11.6**	**10,840**	**-18.4**	**1,308.7**	**2.2**	**5,230**	**10.9**
a. Credit-Deposit Ratio (%)	55.9		78.6		49.9		6.6		96.6
b. Non-food Credit-Deposit Ratio (%)	53.5		81.1		56.0		19.3		93.8
c. Investment-Deposit Ratio (%)	45.0		61.6		58.2		84.9		41.1

P Provisional. – Not applicable.

\# Other than from RBI/IDBI/NABARD/EXIM Bank.

Notes: 1. Figures in brackets exclude the impact of mergers since May 3, 2002.

2. Revised in line with the new accounting standards and consistent with the methodology suggested by the Working Group on Money Supply : Analytics and Methodology of Compilation (June 1998). The revision is in respect of pension and provident funds with commercial banks which are classified as other demand and time liabilities and includes those banks which have reported such changes so far.

Appendix Table III.3: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sector	Outstanding as on				Variation	
	March 19, 2004 @	March 21, 2003 @	March 21, 2003 *	March 22, 2002 *	2003-04 @ (2-3)	2002-03 * (4-5)
1	2	3	4	5	6	7
I. Gross Bank Credit (1+2)	**7,64,383**	**6,69,534**	**6,16,906**	**5,36,727**	**94,849**	**80,179**
1. Public Food Procurement Credit	35,961	49,479	49,479	53,978	-13,518	-4,499
2. Non-food Gross Bank Credit	7,28,422	6,20,055	5,67,427	4,82,749	1,08,367 (100.0)	84,678 (100.0)
A. Priority Sectors ##	2,63,834	2,11,609	2,03,799	1,75,259	52,225 (48.2)	28,540 (33.7)
a) Agriculture	90,541	73,518	71,609	60,761	17,023 (15.7)	10,848 (12.8)
b) Small Scale Industries	65,855	60,394	60,486	57,199	5,461 (5.0)	3,287 (3.9)
c) Other Priority Sectors	1,07,438	77,697	71,704	57,299	29,741 (27.4)	14,405 (17.0)
B. Industry (Medium and Large)	2,47,210	2,35,168	2,00,335	1,72,324	12,042 (11.1)	28,011 (33.1)
C. Wholesale Trade (other than food procurement)	24,867	22,578	22,398	20,459	2,289 (2.1)	1,939 (2.3)
D. Other Sectors	1,92,511	1,50,700	1,40,895	1,14,707	41,811 (38.6)	26,188 (30.9)
of which :						
a) Housing	51,981	36,587	34,654	22,346	15,394	12,308
b) Consumer Durables	8,274	7,219	6,904	7,015	1,055	-111
c) Non-Banking Financial Companies	16,802	14,127	14,052	9,653	2,675	4,399
d) Loans to Individuals against Shares and debentures/bonds	2,020	2,001	1,762	1,520	19	242
e) Real Estate Loans	5,577	5,894	3,098	2,596	-317	502
f) Other non-priority sector personal loans	35,165	27,905	26,089	23,402	7,260	2,687
g) Advances against fixed deposits	26,346	22,708	22,701	21,243	3,638	1,458
h) Tourism and tourism related hotels	3,269	2,428	1,806	1,540	841	266
II. Export Credit [included under item I(2)]	**57,687**	**49,202**	**49,402**	**42,978**	**8,485** (7.8)	**6,424** (7.6)
III. Net Bank Credit (including inter-bank participations)	**7,63,855**	**6,68,576**	**6,16,085**	**5,35,063**	**95,279**	**81,022**

The data in this statement may not agree with those quoted elsewhere in the report as the data bases are different.

@ Including the impact of the merger of ICICI with ICICI Bank (not comparable with other figures).

* Excluding the impact of the merger of ICICI with ICICI Bank.

Notes : 1. Data are provisional and relate to 49 selected scheduled commercial banks (48 SCBs for March 2001) which account for about 90 per cent of bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank, other approved financial institutions and inter-bank participations. Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

2. Figures in brackets are proportions to incremental non-food gross bank credit.

Appendix Table III.4: RBI Accommodation 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)
2002						
March	9,085.89	3,193.94	1,056.27	422.35	10,142.16	3,616.29
2003						
January	5,010.90	7.97	399.66	–	5,410.56	7.97
February	5,037.34	9.41	399.66	–	5,437.00	9.41
March	5,048.26	84.51	399.66	–	5,447.92	84.51
April	5,137.70	7.20	399.66	–	5,537.36	7.20
May	4,827.80	2.98	399.66	–	5,227.46	2.98
June	4,866.00	2.91	399.66	–	5,265.66	2.91
July	4,827.02	2.97	399.66	–	5,226.68	2.97
August	4,726.66	2.73	399.66	–	5,126.32	2.73
September	4,632.52	2.25	399.66	–	5,032.18	2.25
October	4,672.50	7.07	399.66	–	5,072.16	7.07
November	4,640.62	1.00	399.66	–	5,040.28	1.00
December	4,707.36	1.07	399.66	–	5,107.02	1.07
2004						
January	4,822.60	–	399.66	–	5,222.26	–
February	4,761.57	–	399.66	–	5,161.23	–
March	4,664.42	–	399.66	–	5,064.08	–
April	4,893.62	–	399.66	–	5,293.28	–
May	5,051.83	420.00	399.66	399.00	5,451.49	819.00
June	4,464.44	–	399.66	–	4,864.10	–
July	4,321.96	–	399.66	–	4,721.62	–
August	4,305.84	116.00	399.66	–	4,705.50	116.00
September	4,459.58	1.00	399.66	–	4,859.24	1.00

@ Others include Collateralised Lending Facility (withdrawn effective October 5, 2002).

Note: Total limits under normal and back-stop facility merged into a single facility effective from March 29, 2004.

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

(Amount in Rs. crore)

Industry	Outstanding as on				Variation	
	March 19, 2004 @	March 21, 2003 @	March 21, 2003 *	March 22, 2002 *	2003-04 @ (2-3)	2002-03 * (4-5)
1	2	3	4	5	6	7
Industry	**3,13,065**	**2,95,562**	**2,60,821**	**2,29,523**	**17,503**	**31,298**
(Total of Small, Medium and Large)						
1. Coal	1,165	1,334	1,325	1,409	-169	-84
2. Mining	1,635	1,769	1,776	1,593	-134	183
3. Iron and Steel	26,295	28,065	21,425	20,042	-1,770	1,383
4. Other Metals and Metal Products	8,168	8,556	7,513	6,496	-388	1,017
5. All Engineering	26,348	26,272	23,414	24,199	76	-785
of which : Electronics	8,421	7,831	6,237	5,941	590	296
6. Electricity	14,090	11,173	11,300	9,343	2,917	1,957
7. Cotton Textiles	17,166	15,762	13,863	11,744	1,404	2,119
8. Jute Textiles	1,051	860	786	737	191	49
9. Other Textiles	15,941	15,075	14,058	13,455	866	603
10. Sugar	6,363	5,726	5,024	5,028	637	-4
11. Tea	1,222	1,052	1,053	986	170	67
12. Food Processing	9,872	8,577	8,360	7,285	1,295	1,075
13. Vegetable Oils and vanaspati	3,219	2,919	2,853	2,729	300	124
14. Tobacco and Tobacco Products	891	756	756	861	135	-105
15. Paper and Paper Products	5,990	5,049	4,326	3,741	941	585
16. Rubber and Rubber Products	2,593	2,662	2,498	2,246	-69	252
17. Chemicals, Dyes, Paints etc.	30,629	31,805	27,831	25,988	-1,176	1,843
of which :						
a) Fertilisers	6,249	6,923	6,293	5,463	-674	830
b) Petro-Chemicals	7,221	7,735	7,007	6,663	-514	344
c) Drugs and Pharmaceuticals	8,667	7,892	7,492	6,393	775	1,099
18. Cement	5,689	6,431	5,180	4,224	-742	956
19. Leather and Leather Products	3,167	2,940	2,927	2,852	227	75
20. Gems and Jewellery	9,178	7,533	7,542	6,456	1,645	1,086
21. Construction	5,978	4,891	4,551	4,000	1,087	551
22. Petroleum	12,266	14,743	12,021	11,320	-2,477	701
23. Automobiles including trucks	5,302	5,629	4,707	4,454	-327	253
24. Computer Software	3,029	2,611	2,531	1,665	418	866
25. Infrastructure	37,224	26,297	20,033	14,809	10,927	5,224
a) Power	19,655	15,042	10,752	7,373	4,613	3,379
b) Telecommunications	8,408	5,779	4,110	3,972	2,629	138
c) Roads and Ports	9,161	5,476	5,171	3,464	3,685	1,707
26. Other Industries	58,594	57,075	53,168	41,861	1,519	11,307

@ Including the impact of the merger of ICICI with ICICI Bank (not comparable with other figures).

* Excluding the impact of the merger of ICICI with ICICI Bank.

Note : Data are provisional and relate to select scheduled commercial banks.

Appendix Table III.6: Viability Position of Sick/Weak Industrial Units
(As at end-March)

(Amount in Rs. crore)

Type of Industrial Unit	SSI Sick Units				Non–SSI Sick/Weak Units				Total			
	Number		Amount Outstanding		Number		Amount Outstanding		Number		Amount Outstanding	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Potentially viable units	4,493	3,626	416.41	624.71	343	385	3,707.93	7,690.16	4,836	4,011	4,124.34	8,314.87
	(2.5)	(2.2)	(8.6)	(10.9)	(10.5)	(11.3)	(17.5)	(26.4)	(2.7)	(2.3)	(15.8)	(23.9)
2. Non-viable units	1,67,574	1,62,791	4,146.74	4,868.62	1,777	1,936	7,533.02	9,902.25	1,69,351	1,64,727	11,679.76	14,770.87
	(94.5)	(96.9)	(86.1)	(85.3)	(54.5)	(57.0)	(35.5)	(34.0)	(93.8)	(96.1)	(44.8)	(42.4)
3. Viability not decided	5,269	1,563	255.80	213.01	1,141	1,075	10,004.69	11,517.48	6,410	2,638	10,260.49	11,730.49
	(3.0)	(0.9)	(5.3)	(3.7)	(35.0)	(31.7)	(47.1)	(39.6)	(3.5)	(1.5)	(39.4)	(33.7)
4. Total	1,77,336	1,67,980	4,818.95	5,706.34	3,261	3,396	21,245.64	29,109.89	1,80,597	1,71,376	26,064.59	34,816.23
5. Units under nursing Programme	621	993	88.98	382.32	172	157	1,761.19	2,398.69	793	1,150	1,850.17	2,781.01
5 as percentage of 1	13.8	27.4	21.4	61.2	50.1	40.8	47.5	31.2	16.4	28.7	44.9	33.4

Note : Figures in brackets are percentages to total.

Appendix Table III.7: Bank group-wise Lending to Sensitive Sectors
(As at end-March)

(Amount in Rs. crore)

Advances to	Nationalised Banks			State Bank Group			Public Sector Banks		
	2003	**2004**	**Variation**	**2003**	**2004**	**Variation**	**2003**	**2004**	**Variation**
1	2	3	4	5	6	7	8	9	10
1. Capital Market	959.08	1,117.33	16.50	73.18	81.32	11.12	1,032.26	1,198.65	16.12
	(0.27)	(0.27)		(0.04)	(0.04)		(0.19)	(0.19)	
2. Real Estate	7,231.26	7,704.70	6.55	756.61	853.29	12.78	7,987.87	8,557.99	7.14
	(2.01)	(1.87)		(0.40)	(0.39)		(1.46)	(1.35)	
3. Commodities	5,120.60	5,607.55	9.51	990.61	1,049.05	5.90	6,111.21	6,656.60	8.92
	(1.43)	(1.36)		(0.52)	(0.48)		(1.11)	(1.05)	
Total Advances to	**13,310.94**	**14,429.58**	**8.40**	**1,820.40**	**1,983.66**	**8.97**	**15,131.34**	**16,413.24**	**8.47**
Sensitive Sectors	**(3.71)**	**(3.50)**		**(0.96)**	**(0.90)**		**(2.76)**	**(2.59)**	

Advances to	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2003	**2004**	**Variation**	**2003**	**2004**	**Variation**	**2003**	**2004**	**Variation**	**2003**	**2004**	**Variation**
1	11	12	13	14	15	16	17	18	19	20	21	22
1. Capital Market	660.17	822.88	24.65	206.69	279.86	35.40	584.51	1,032.12	76.58	2,483.63	3,333.51	34.22
	(0.74)	(0.71)		(0.42)	(0.50)		(1.12)	(1.71)		(0.34)	(0.39)	
2. Real Estate	2,701.66	3,269.72	21.03	1,066.84	1,230.51	15.34	707.81	1,111.36	57.01	12,464.18	14,169.58	13.68
	(3.02)	(2.84)		(2.16)	(2.21)		(1.36)	(1.84)		(1.69)	(1.64)	
3. Commodities	1,062.08	1,592.89	49.98	1,326.93	1,490.13	12.30	235.18	212.02	-9.85	8,735.40	9,951.64	13.92
	(1.19)	(1.38)		(2.68)	(2.67)		(0.45)	(0.35)		(1.18)	(1.15)	
Total Advances to	**4,423.91**	**5,685.49**	**28.52**	**2,600.46**	**3,000.50**	**15.38**	**1,527.50**	**2,355.50**	**54.21**	**23,683.21**	**27,454.73**	**15.92**
Sensitive Sectors	**(4.94)**	**(4.94)**		**(5.26)**	**(5.38)**		**(2.93)**	**(3.89)**		**(3.2)**	**(3.18)**	

Notes : 1. Figures in brackets are percentage to total loans and advances of the concerned bank group.
2. The variation indicate the percentage variation in 2003-04 over 2002-03.

Source : Balance sheets of respective banks.

Appendix Table III.8: Issue of Certificates of Deposit by Scheduled Commercial Banks

(Amount in Rs. crore)

Fortnight ended	Total Outstanding	Rate of Interest @	Fortnight ended	Total Outstanding	Rate of Interest @
1	2	3	4	5	6
2003			**2004**		
January 10	1,199	4.37 - 6.61	January 9	4,457	3.87 - 5.31
24	1,226	4.60 - 7.00	23	4,419	3.57 - 6.11
February 7	1,214	4.75 - 6.50	February 6	4,826	3.92 - 5.06
21	1,125	3.00 - 7.50	20	4,856	3.75 - 6.00
March 7	928	5.25 - 7.10	March 5	4,831	3.59 - 5.75
21	908	5.00 - 7.10	19	4,461	3.87 - 5.16
April 4	1,188	5.25 - 7.40	April 2	4,626	3.75 - 5.16
18	1,485	5.25 - 7.00	16	4,813	4.64 - 6.00
May 2	1,660	5.00 - 6.26	30	4,725	3.50 - 4.45
16	1,947	5.25 - 6.25	May14	4,703	4.08 - 4.61
30	1,996	3.94 - 7.00	28	4,860	1.09 - 4.73
June 13	2,227	3.99 - 7.00	June11	5,065	4.70 - 5.00
28	2,183	3.74 - 6.50	25	5,438	3.96 - 6.75
July 12	2,242	4.45 - 6.25	July 9	5,529	4.14 - 6.75
26	2,466	5.25 - 6.75	23	5,478	4.02 - 6.75
August 8	2,741	4.25 - 6.75	August 6	4,605	4.30 - 6.75
22	2,961	4.75- 5.68	20	4,480	4.50 - 5.00
September 5	3,024	4.50 - 5.61	September 3	4,842	4.50 - 5.75
19	3,098	4.25 - 6.00	17	5,112	4.09 - 5.09
October 3	3,154	3.75 - 6.75	October 1	5,164	3.50 - 5.50
17	3,243	4.50 - 7.00	15	4,837	4.00 - 5.75
31	3,321	4.25 - 6.50			
November 14	3,511	4.50 - 7.00			
28	3,666	3.75 - 6.10			
December 13	3,643	4.00 - 6.00			
26	3,830	3.75 - 6.00			

@ Effective interest rate range per annum.

Appendix Table III.9: Region/State-wise Credit-Deposit Ratio and Investment *plus* Credit-Deposit Ratio of Scheduled Commercial Banks

(Per cent)

Sr. No.	Region/State/ Union Territory	Credit-Deposit Ratio							Investment *plus* Credit-Deposit Ratio @			
		2001		2002		2003		2004	2002		2003	
		As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Utili-sation
1	2	3	4	5	6	7	8	9	10	11	12	13
1	**NORTHERN REGION**	**54.7**	**52.5**	**56.2**	**55.0**	**56.0**	**55.5**	**56.9**	**61.2**	**60.0**	**61.0**	**60.5**
	Haryana	41.0	54.0	43.7	55.0	44.0	58.3	47.9	51.9	63.1	50.5	64.8
	Himachal Pradesh	21.3	25.7	23.4	32.5	24.8	37.7	29.7	36.3	45.4	36.5	49.4
	Jammu & Kashmir	34.5	33.5	36.8	40.9	36.5	39.0	39.2	46.0	50.1	46.4	48.8
	Punjab	41.1	42.3	41.8	43.9	41.5	43.4	43.4	47.0	49.2	47.0	49.0
	Rajasthan	46.6	49.6	48.4	55.4	50.8	55.3	57.2	67.3	74.3	71.8	76.3
	Chandigarh	99.4	99.3	102.8	102.3	109.7	107.6	142.0	102.8	102.3	109.7	107.6
	Delhi	66.1	57.6	67.6	59.1	65.8	59.2	61.2	67.7	59.2	65.9	59.3
2	**NORTH-EASTERN REGION**	**27.6**	**32.0**	**27.2**	**53.2**	**27.4**	**48.2**	**29.8**	**45.2**	**71.2**	**46.2**	**67.0**
	Arunachal Pradesh	14.5	22.1	15.8	27.4	16.6	22.1	17.3	22.7	34.3	31.3	36.8
	Assam	32.1	38.1	31.7	70.3	29.3	61.6	30.8	49.3	87.9	46.0	78.3
	Manipur	40.1	40.7	26.4	27.3	29.8	30.0	29.0	58.9	59.8	64.1	64.3
	Meghalaya	17.1	17.3	18.3	24.3	29.0	31.8	36.9	34.0	40.0	46.1	48.9
	Mizoram	24.1	29.0	26.4	36.2	27.5	30.5	38.4	48.5	58.4	57.3	60.4
	Nagaland	12.4	13.6	12.8	18.1	13.2	13.3	16.8	48.1	53.3	54.7	54.7
	Tripura	21.7	21.7	21.5	21.6	26.1	23.7	25.5	33.6	33.7	40.6	38.2
3	**EASTERN REGION**	**36.7**	**36.6**	**37.6**	**41.4**	**39.6**	**42.8**	**42.1**	**48.6**	**52.4**	**51.1**	**54.3**
	Bihar	20.7	20.7	21.3	21.9	23.1	23.7	25.6	38.3	38.9	39.2	39.8
	Jharkhand	28.0	30.6	25.1	31.0	25.1	30.9	27.4	27.1	33.0	28.4	34.2
	Orissa	40.2	41.6	44.5	51.4	48.2	56.9	54.3	68.2	75.1	72.5	81.2
	Sikkim	14.4	14.5	16.0	22.5	17.1	19.3	23.3	29.9	36.4	29.7	31.9
	West Bengal	44.5	43.4	45.8	49.2	47.9	50.0	49.3	53.7	57.2	56.7	58.9
	Andaman & Nicobar Islands	16.3	27.5	18.5	57.2	20.3	49.7	25.0	18.5	57.2	20.3	49.7
4	**CENTRAL REGION**	**32.7**	**36.9**	**33.9**	**38.4**	**33.3**	**38.6**	**35.9**	**44.8**	**49.3**	**44.6**	**49.9**
	Chhatishgarh	38.5	49.9	44.0	54.2	35.1	43.8	39.8	46.6	56.8	40.1	48.7
	Madhya Pradesh	47.6	52.5	46.6	50.3	46.6	51.7	47.7	60.5	64.3	60.6	65.8
	Uttar Pradesh	28.3	31.9	29.9	34.3	30.6	36.0	33.2	41.7	46.1	42.4	47.8
	Uttaranchal	21.7	23.9	23.7	26.0	19.4	21.4	20.4	25.3	27.6	24.7	26.7
5	**WESTERN REGION**	**75.5**	**74.8**	**79.7**	**71.3**	**81.0**	**71.5**	**72.0**	**83.5**	**75.1**	**84.4**	**74.9**
	Goa	26.1	27.3	25.3	28.2	24.2	27.8	21.8	29.2	32.1	28.5	32.2
	Gujarat	48.5	53.6	44.1	54.7	44.8	56.0	43.3	50.9	61.5	50.7	61.9
	Maharashtra	86.4	83.5	92.3	77.5	93.7	77.4	81.4	95.3	80.5	96.3	80.1
	Dadra & Nagar Haveli	14.3	135.2	20.9	189.0	22.9	168.7	19.6	20.9	189.0	22.9	168.7
	Daman & Diu	13.3	75.3	9.9	79.4	9.2	66.1	9.7	9.9	79.4	9.2	66.1
6	**SOUTHERN REGION**	**66.6**	**66.8**	**64.6**	**68.9**	**66.3**	**71.2**	**68.1**	**72.9**	**77.1**	**74.3**	**79.2**
	Andhra Pradesh	64.5	64.9	61.9	67.7	62.4	69.3	66.0	74.0	79.7	73.1	80.1
	Karnataka	61.0	61.8	61.6	68.9	62.3	71.1	62.9	68.4	75.7	69.0	77.8
	Kerala	43.3	42.3	43.3	43.7	42.8	43.6	47.3	51.3	51.7	50.8	51.6
	Tamil Nadu	90.6	90.6	85.4	88.5	90.7	93.1	89.6	91.9	95.1	97.8	100.2
	Lakshadweep	10.4	11.8	7.9	9.6	4.6	5.9	7.4	7.9	9.6	4.6	5.9
	Pondicherry	33.5	35.8	32.3	39.2	32.0	39.6	33.9	32.3	39.2	32.0	39.6
	ALL INDIA	**56.7**	**56.7**	**58.4**	**58.4**	**59.2**	**59.2**	**58.7**	**65.6**	**65.6**	**66.4**	**66.4**

@ Banks' State-wise investment represent their holdings of State-level Securities, such as, State Government loan and shares, bonds, debentures etc. of Regional Rural Banks, Co-operative institutions, State Electricity Boards, Municipal Corporations, Municipalities and Port Trusts, State Financial Corporations, Housing Boards, State Industrial Development Corporations, Road Transport Corporations and other Government and quasi-Government bodies.

All India investment *plus* credit-deposit ratio is worked out by excluding investments in Central Government and other securities, not mentioned above.

Notes: 1. Deposits and Credit (as per place of sanction and utilisation) data for 2001, 2002 and 2003 are based on BSR-1 and 2 surveys as on 31st March.

2. The investment figures are based on BSR-5 survey as on March 31, 2002 and 2003.

3. CD-ratio for 2004 are based on BSR-7 survey as on 31st March 2004.

Appendix Table III.10: Commercial Bank Survey

(Amount in Rs. crore)

Variable	Outstanding as on March 19, 2004	Variations							
		Financial year				April-September			
		2002-03		2003-04		2003-04		2004-05	
		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)	**14,29,080**	**1,75,838 (1,46,167)**	**17.4 (14.4)**	**2,40,732**	**20.3**	**98,180**	**8.3**	**80,267**	**5.6**
C.I.1 Demand Deposits	2,25,022	17,241	11.3	54,733	32.1	5,415	3.2	-7,895	-3.5
C.I.2 Time Deposits of Residents (C.I.2.1 + C.I.2.2)	12,04,058	1,58,596	18.5	1,86,000	18.3	92,764	9.1	88,161	7.3
C.I.2.1 Short-term Time Deposits	5,41,826	71,368	18.5	83,700	18.3	41,744	9.1	39,673	7.3
C.I.2.1.1 Certificates of Deposits (CDs)	6,911	-1,499	-67.1	6,177	840.9	1,106	150.6	-3,780	-54.7
C.I.2.2 Long-term Time Deposits	6,62,232	87,228	18.5	1,02,300	18.3	51,020	9.1	48,489	7.3
C.II Call/Term Funding from Financial Institutions	**24,670**	**9,609**	**317.3**	**12,032**	**95.2**	**4,779**	**37.8**	**5,950**	**24.1**
Sources									
S.I Domestic Credit (S.I.1 + S.I.2)	**16,57,237**	**2,67,294**	**23.3**	**2,42,782**	**17.2**	**96,732**	**6.8**	**1,07,417**	**6.5**
S.I.1 Credit to the Government	6,54,758	1,12,241	27.3	1,31,341	25.1	80,866	15.4	29,663	4.5
S.I.2 Credit to the Commercial Sector (S.I.2.1 + S.I.2.2 + S.I.2.3 + S.I.2.4 + S.I.2.5)	10,02,479	1,55,053	21.1	1,11,441	12.5	15,866	1.8	77,754	7.8
S.I.2.1 Food Credit	35,961	-4,499	-8.3	-13,518	-27.3	-12,014	-24.3	2,228	6.2
S.I.2.2 Non-food Credit	8,04,824	1,43,992	26.9	1,25,088	18.4	18,277	2.7	76,237	9.5
S.I.2.3 Net Credit to Primary Dealers	1,946	3,765	1,148.9	-2,147	-52.5	4,778	116.7	299	15.4
S.I.2.4 Investments in Other Approved Securities	22,830	-2,964	-10.9	-1,299	-5.4	-420	-1.7	3,734	16.4
S.I.2.5 Other Investments (in non-SLR Securities)	1,36,918	14,759	12.4	3,317	2.5	5,245	3.9	-4,744	-3.5
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1 - S.II.2 - S.II.3)	**-58,531**	**-30,501**	**80.0**	**10,101**	**-14.7**	**3,090**	**-4.5**	**-3,478**	**5.9**
S.II.1 Foreign Currency Assets	33,833	-22,994	-42.5	2,752	8.9	2,887	9.3	-186	-0.6
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	75,336	1,656	1.8	-17,170	-18.6	-3,376	-3.6	970	1.3
S.II.3 Overseas Foreign Currency Borrowings	17,028	5,851	431.0	9,820	136.2	3,173	44.0	2,322	13.6
S.III Net Bank Reserves (S.III.1 + S.III.2 - S.III.3)	**76,895**	**792**	**1.2**	**11,072**	**16.8**	**5,876**	**8.9**	**6,771**	**8.8**
S.III.1 Balances with the RBI	68,997	-4,068	-6.5	10,662	18.3	4,995	8.6	6,327	9.2
S.III.2 Cash in Hand	7,898	1,322	21.2	331	4.4	803	10.6	447	5.7
S.III.3 Loans and Advances from the RBI	0	-3,537	-97.8	-79	-100.0	-78.0	-98.7	3	–
S.IV Capital Account	**1,03,108**	**14,221**	**19.7**	**16,568**	**19.1**	**13,523**	**15.6**	**16,318**	**15.8**
S.V. Other items (net) (S.I + S.II + S.III - S.IV - C.I - C.II)	**1,18,743**	**37,917**	**44.0**	**-5,377**	**-4.3**	**-10,783**	**-8.7**	**8,176**	**6.9**
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	1,31,056	12,072	10.9	8,458	6.9	-544	-0.4	1,297	1.0
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	8,254	6,054	443.2	834	11.2	1,635	22.0	-2,782	-33.7

Notes : 1. Data are provisional.
2. Figures in parentheses exclude the impact of mergers since May 3, 2002.
3. Time deposits and broad money include India Millennium Deposits (IMDs) aggregating Rs.25,662 crore since November 17, 2000 and the impact of redemption of the Resurgent India Bonds (RIBs) of Rs. 22,693 Crore since October 1, 2003.

Appendix Table III.11: Bank Group-wise Important Financial Indicators *(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 & Contin-gencies	Spread (NII)
								Total	*Of which* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2001-02	29,836.59	11,576.06	1,51,031.88	1,26,957.71	24,074.17	1,39,455.82	87,516.25	33,679.04	21,785.42	18,260.53	39,441.46
	(1.94)	(0.75)	(9.83)	(8.26)	(1.57)	(9.08)	(5.70)	(2.19)	(1.42)	(1.19)	(2.57)
2002-03	40,681.94	17,077.22	1,72,345.02	1,40,742.48	31,602.54	1,55,267.80	93,596.27	38,066.81	23,610.14	23,604.72	47,146.21
	(2.39)	(1.01)	(10.14)	(8.28)	(1.86)	(9.14)	(5.51)	(2.24)	(1.39)	(1.39)	(2.77)
2003-04	52,670.77	22,270.93	1,83,767.24	1,44,028.37	39,738.87	1,61,496.31	87,566.84	43,529.63	26,163.97	30,399.84	56,461.53
	(2.67)	(1.13)	(9.30)	(7.29)	(2.01)	(8.18)	(4.43)	(2.20)	(1.32)	(1.54)	(2.86)
Public Sector Banks											
2001-02	21,676.54	8,304.85	1,17,252.36	1,00,710.96	16,541.40	1,08,947.51	69,153.77	26,422.05	19,045.38	13,371.69	31,557.19
	(1.88)	(0.72)	(10.15)	(8.72)	(1.43)	(9.43)	(5.99)	(2.29)	(1.65)	(1.16)	(2.73)
2002-03	29,717.24	12,295.46	1,28,464.38	1,07,232.05	21,232.33	1,16,168.92	69,852.59	28,894.55	20,444.88	17,421.78	37,379.46
	(2.31)	(0.96)	(9.99)	(8.34)	(1.65)	(9.04)	(5.43)	(2.25)	(1.59)	(1.36)	(2.91)
2003-04	39,474.72	16,546.37	1,37,601.81	1,09,496.25	28,105.56	1,21,055.44	65,764.53	32,362.56	22,389.92	22,928.35	43,731.72
	(2.68)	(1.12)	(9.35)	(7.44)	(1.91)	(8.23)	(4.47)	(2.20)	(1.52)	(1.56)	(2.97)
Nationalised Banks											
2001-02	12,956.86	4,855.36	72,489.56	61,964.93	10,524.63	67,634.20	42,597.86	16,934.84	12,316.55	8,101.50	19,367.07
	(1.83)	(0.69)	(10.27)	(8.78)	(1.49)	(9.58)	(6.03)	(2.40)	(1.74)	(1.15)	(2.74)
2002-03	18,486.13	7,783.94	79,597.73	66,368.04	13,229.69	71,813.79	42,645.95	18,465.65	13,062.10	10,702.19	23,722.09
	(2.34)	(0.98)	(10.06)	(8.39)	(1.67)	(9.08)	(5.39)	(2.33)	(1.65)	(1.35)	(3.00)
2003-04	25,111.20	10,927.65	85,712.03	68,539.86	17,172.17	74,784.38	40,369.38	20,231.45	14,068.36	14,183.55	28,170.48
	(2.72)	(1.18)	(9.29)	(7.43)	(1.86)	(8.11)	(4.38)	(2.19)	(1.53)	(1.54)	(3.05)
State Bank Group											
2001-02	8,719.68	3,449.49	44,762.80	38,746.03	6,016.77	41,313.31	26,555.91	9,487.21	6,728.83	5,270.19	12,190.12
	(1.94)	(0.77)	(9.96)	(8.62)	(1.34)	(9.20)	(5.91)	(2.11)	(1.50)	(1.17)	(2.71)
2002-03	11,231.11	4,511.52	48,866.65	40,864.01	8,002.64	44,355.13	27,206.64	10,428.90	7,382.78	6,719.59	13,657.37
	(2.27)	(0.91)	(9.88)	(8.26)	(1.62)	(8.97)	(5.50)	(2.11)	(1.49)	(1.36)	(2.76)
2003-04	14,363.52	5,618.72	51,889.78	40,956.39	10,933.39	46,271.06	25,395.15	12,131.11	8,321.56	8,744.80	15,561.24
	(2.62)	(1.02)	(9.45)	(7.46)	(1.99)	(8.42)	(4.62)	(2.21)	(1.52)	(1.59)	(2.83)

Appendix Table III.11: Bank Group-wise Important Financial Indicators *(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 & Contin-gencies	Spread (NII)
								Total	*Of which* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Old Private Sector Banks											
2001-02	2,515.78	1,004.48	10,945.65	8,725.23	2,220.42	9,941.17	6,496.57	1,933.30	1,179.28	1,511.30	2,228.66
	(2.70)	(1.08)	(11.74)	(9.36)	(2.38)	(10.66)	(6.97)	(2.07)	(1.26)	(1.62)	(2.39)
2002-03	2,804.43	1,231.74	11,278.83	8,919.79	2,359.04	10,047.09	6,327.22	2,147.18	1,297.85	1,572.69	2,592.57
	(2.67)	(1.17)	(10.75)	(8.50)	(2.25)	(9.57)	(6.03)	(2.05)	(1.24)	(1.50)	(2.47)
2003-04	3,195.91	1,446.48	11,551.33	9,120.37	2,430.96	10,104.85	5,981.87	2,373.55	1,395.97	1,749.43	3,138.50
	(2.65)	(1.20)	(9.57)	(7.56)	(2.01)	(8.37)	(4.96)	(1.97)	(1.16)	(1.45)	(2.60)
New Private Sector Banks											
2001-02	2,130.66	774.62	9,869.86	7,821.87	2,047.99	9,095.24	5,812.69	1,926.51	436.45	1,356.04	2,009.18
	(1.22)	(0.44)	(5.66)	(4.48)	(1.17)	(5.21)	(3.33)	(1.10)	(0.25)	(0.78)	(1.15)
2002-03	4,432.13	1,725.98	20,567.23	15,633.01	4,934.22	18,841.25	12,361.45	3,773.65	828.76	2,706.15	3,271.56
	(2.31)	(0.90)	(10.70)	(8.13)	(2.57)	(9.80)	(6.43)	(1.96)	(0.43)	(1.41)	(1.70)
2003-04	5,012.74	2,035.00	21,602.01	16,421.42	5,180.59	19,567.01	11,548.19	5,041.08	1,178.41	2,977.74	4,873.23
	(2.03)	(0.83)	(8.76)	(6.66)	(2.10)	(7.94)	(4.68)	(2.04)	(0.48)	(1.21)	(1.98)
Foreign Banks											
2001-02	3,513.61	1,492.11	12,964.01	9,699.65	3,264.36	11,471.90	6,053.22	3,397.18	1,124.31	2,021.50	3,646.43
	(3.10)	(1.32)	(11.44)	(8.56)	(2.88)	(10.12)	(5.34)	(3.00)	(0.99)	(1.78)	(3.22)
2002-03	3,728.14	1,824.04	12,034.58	8,957.63	3,076.95	10,210.54	5,055.01	3,251.43	1,038.65	1,904.10	3,902.62
	(3.20)	(1.56)	(10.32)	(7.68)	(2.64)	(8.75)	(4.33)	(2.79)	(0.89)	(1.63)	(3.35)
2003-04	4,987.40	2,243.08	13,012.09	8,990.33	4,021.76	10,769.01	4,272.25	3,752.44	1,199.67	2,744.32	4,718.08
	(3.66)	(1.65)	(9.55)	(6.60)	(2.95)	(7.90)	(3.13)	(2.75)	(0.88)	(2.01)	(3.46)

Notes:
1. The number of Scheduled Commercial Banks in 2001-02, 2002-03 and 2003-04 were 97, 93 and 90 respectively.
2. The number of Foreign Banks in 2001-02, 2002-03 and 2003-04 were 40, 36 and 33 respectively.
3. The number of Old Private Sector Banks in 2001-02, 2002-03 and 2003-04 were 22, 21 and 20 respectively.
4. The number of New Private Sector Banks in 2001-02, 2002-03 and 2003-04 were 8, 9 and 10 respectively.
5. Figures in brackets are percentages to Total Assets.
6. NII - Net Interest Income.
7. Scheduled Commercial Banks data for 2002-03 are as reported in the balance sheets for 2003-04 and hence may not tally with those reported in the Report on Trend and Progress of Banking in India, 2002-03, to the extent the figures for 2002-03 have been revised by some banks.

Source : Balance sheets of respective banks.

Appendix Table III.12(A): Financial Performance of Scheduled Commercial Banks

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col. (2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**1,72,345.02 (100.00)**	**1,83,767.24 (100.00)**	**11,422.22**	**6.63**
	i) Interest Income	1,40,742.48 (81.66)	1,44,028.37 (78.38)	3,285.89	2.33
	of which: Interest on Advances	68,570.10	70,050.92	1,480.82	2.16
	Income on Investments	62,411.17	65,797.84	3,386.67	5.43
	ii) Other Income*	31,602.54 (18.34)	39,738.87 (21.62)	8,136.33	25.75
	of which: Commission & Brokerage	10,594.54	11,825.01	1,230.47	11.61
B.	**Expenditure (i+ii+iii)**	**1,55,267.80 (100.00)**	**1,61,496.31 (100.00)**	**6,228.51**	**4.01**
	i) Interest Expended	93,596.27 (60.28)	87,566.84 (54.22)	-6,029.43	-6.44
	of which: Interest on Deposits	82,642.58	77,605.39	-5,037.19	-6.10
	ii) Provisions and Contingencies	23,604.72 (15.20)	30,399.84 (18.82)	6,795.12	28.79
	of which: Provision for NPAs	12,725.12	17,366.17	4,641.05	36.47
	iii) Operating Expenses	38,066.81 (24.52)	43,529.63 (26.95)	5,462.82	14.35
	of which: Wage Bill	23,610.14	26,163.97	2,553.83	10.82
C.	**Profit**				
	i) Operating Profit	**40,681.94**	**52,670.77**	**11,988.83**	**29.47**
	ii) Net Profit @	**17,077.22**	**22,270.93**	**5,193.71**	**30.41**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**47,146.21**	**56,461.53**	**9,315.32**	**19.76**
E.	**Total Assets**	**16,99,197.46**	**19,75,019.58**	**2,75,822.12**	**16.23**

* for 2002-03 includes, profit on sale of shares of ICICI Bank Ltd. held by erstwhile ICICI Limited.

@ Before Extra Ordinary Item of Standard Chartered Bank of Rs.6.5 crore for the year 2002-03.

Note : Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(B): Financial Performance of Public Sector Banks

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col. (2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**1,28,464.38 (100.00)**	**1,37,601.81 (100.00)**	**9,137.43**	**7.11**
	i) Interest Income	1,07,232.05 (83.47)	1,09,496.25 (79.57)	2,264.20	2.11
	of which: Interest on Advances	49,132.22	49,934.15	801.93	1.63
	Income on Investments	50,062.58	53,171.52	3,108.94	6.21
	ii) Other Income	21,232.33 (16.53)	28,105.56 (20.43)	6,873.23	32.37
	of which: Commission & Brokerage	7,279.22	7,809.58	530.36	7.29
B.	**Expenditure (i+ii+iii)**	**1,16,168.92 (100.00)**	**1,21,055.44 (100.00)**	**4,886.52**	**4.21**
	i) Interest Expended	69,852.59 (60.13)	65,764.53 (54.33)	-4,088.06	-5.85
	of which: Interest on Deposits	66,621.00	62,213.56	-4,407.44	-6.62
	ii) Provisions and Contingencies	17,421.78 (15.00)	22,928.35 (18.94)	5,506.57	31.61
	of which: Provision for NPAs	9,349.37	14,188.89	4,839.52	51.76
	iii) Operating Expenses	28,894.55 (24.87)	32,362.56 (26.73)	3,468.01	12.00
	of which: Wage Bill	20,444.88	22,389.92	1,945.04	9.51
C.	**Profit**				
	i) Operating Profit	**29,717.24**	**39,474.72**	**9,757.48**	**32.83**
	ii) Net Profit	**12,295.46**	**16,546.37**	**4,250.91**	**34.57**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**37,379.46**	**43,731.72**	**6,352.26**	**16.99**
E.	**Total Assets**	**12,85,410.61**	**14,71,427.67**	**1,86,017.06**	**14.47**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12 (C): Financial Performance of Nationalised Banks

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col. (2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**79,597.73 (100.00)**	**85,712.03 (100.00)**	**6,114.30**	**7.68**
	i) Interest Income	66,368.04 (83.38)	68,539.86 (79.97)	2,171.82	3.27
	of which: Interest on Advances	33,134.49	33,684.10	549.61	1.66
	Income on Investments	30,148.18	32,268.55	2,120.37	7.03
	ia) Interest on Recapitalisation Bonds	1,855.72	1,855.72		
	ii) Other Income	13,229.69 (16.62)	17,172.17 (20.03)	3,942.48	29.80
	of which: Commission & Brokerage	3,336.17	3,604.78	268.61	8.05
B.	**Expenditure (i+ii+iii)**	**71,813.79 (100.00)**	**74,784.38 (100.00)**	**2,970.59**	**4.14**
	i) Interest Expended	42,645.95 (59.38)	40,369.38 (53.98)	-2,276.57	-5.34
	of which: Interest on Deposits	40,556.74	38,185.77	-2,370.97	-5.85
	ii) Provisions and Contingencies	10,702.19 (14.90)	14,183.55 (18.97)	3,481.36	32.53
	of which: Provision for NPAs	5,762.92	8,988.97	3,226.05	55.98
	iii) Operating Expenses	18,465.65 (25.71)	20,231.45 (27.05)	1,765.80	9.56
	of which: Wage Bill	13,062.10	14,068.36	1,006.26	7.70
C.	**Profit**				
	i) Operating Profit	**18,486.13**	**25,111.20**	**6,625.07**	**35.84**
	ia) Operating Profit *(exclusive of income from recapitalisation bonds)*	16,630.41	23,255.48	6,625.07	39.84
	ii) Net Profit	**7,783.94**	**10,927.65**	**3,143.71**	**40.39**
	iia) Net Profit *(exclusive of income from recapitalisation bonds)*	5,928.22	9,071.93	3,143.71	53.03
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**23,722.09**	**28,170.48**	**4,448.39**	**18.75**
E.	**Total Assets**	**7,90,939.05**	**9,22,170.57**	**1,31,231.52**	**16.59**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(D): Financial Performance of State Bank Group

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col. (2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**48,866.65 (100.00)**	**51,889.78 (100.00)**	**3,023.13**	**6.19**
	i) Interest Income	40,864.01 (83.62)	40,956.39 (78.93)	92.38	0.23
	of which: Interest on Advances	15,997.73	16,250.05	252.32	1.58
	Income on Investments	19,914.40	20,902.97	988.57	4.96
	ii) Other Income	8,002.64 (16.38)	10,933.39 (21.07)	2,930.75	36.62
	of which: Commission & Brokerage	3,943.05	4,204.80	261.75	6.64
B.	**Expenditure (i+ii+iii)**	**44,355.13 (100.00)**	**46,271.06 (100.00)**	**1,915.93**	**4.32**
	i) Interest Expended	27,206.64 (61.34)	25,395.15 (54.88)	-1,811.49	-6.66
	of which: Interest on Deposits	26,064.26	24,027.79	-2,036.47	-7.81
	ii) Provisions and Contingencies	6,719.59 (15.15)	8,744.80 (18.90)	2,025.21	30.14
	of which: Provision for NPAs	3,586.45	5,199.92	1,613.47	44.99
	iii) Operating Expenses	10,428.90 (23.51)	12,131.11 (26.22)	1,702.21	16.32
	of which: Wage Bill	7,382.78	8,321.56	938.78	12.72
C.	**Profit**				
	i) Operating Profit	**11,231.11**	**14,363.52**	**3,132.41**	**27.89**
	ii) Net Profit	**4,511.52**	**5,618.72**	**1,107.20**	**24.54**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**13,657.37**	**15,561.24**	**1,903.87**	**13.94**
E.	**Total Assets**	**4,94,471.56**	**5,49,257.10**	**54,785.54**	**11.08**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(E): Financial Performance of Old Private Sector Banks

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col. (2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**11,278.83** **(100.00)**	**11,551.33** **(100.00)**	**272.50**	**2.42**
	i) Interest Income	8,919.79 (79.08)	9,120.37 (78.96)	200.58	2.25
	of which: Interest on Advances	4,802.66	4,890.85	88.19	1.84
	Income on Investments	3,692.65	3,830.53	137.88	3.73
	ii) Other Income	2,359.04 (20.92)	2,430.96 (21.04)	71.92	3.05
	of which: Commission & Brokerage	511.09	518.22	7.13	1.40
B.	**Expenditure (i+ii+iii)**	**10,047.09** **(100.00)**	**10,104.85** **(100.00)**	**57.76**	**0.57**
	i) Interest Expended	6,327.22 (62.98)	5,981.87 (59.20)	-345.35	-5.46
	of which: Interest on Deposits	6,076.75	5,668.46	-408.29	-6.72
	ii) Provisions and Contingencies	1,572.69 (15.65)	1,749.43 (17.31)	176.74	11.24
	of which: Provision for NPAs	768.55	821.66	53.11	6.91
	iii) Operating Expenses	2,147.18 (21.37)	2,373.55 (23.49)	226.37	10.54
	of which: Wage Bill	1,297.85	1,395.97	98.12	7.56
C.	**Profit**				
	i) Operating Profit	**2,804.43**	**3,195.91**	**391.48**	**13.96**
	ii) Net Profit	**1,231.74**	**1,446.48**	**214.74**	**17.43**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**2,592.57**	**3,138.50**	**545.93**	**21.06**
E.	**Total Assets**	**1,04,956.26**	**1,20,700.43**	**15,744.17**	**15.00**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(F): Financial Performance of New Private Sector Banks

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**20,567.23** **(100.00)**	**21,602.01** **(100.00)**	**1,034.78**	**5.03**
	i) Interest Income	15,633.01 (76.01)	16,421.42 (76.02)	788.41	5.04
	of which: Interest on Advances	9,244.19	10,180.65	936.46	10.13
	Income on Investments	5,520.13	5,391.69	-128.44	-2.33
	ii) Other Income *	4,934.22 (23.99)	5,180.59 (23.98)	246.37	4.99
	of which: Commission & Brokerage	1,372.50	1,865.00	492.50	35.88
B.	**Expenditure (i+ii+iii)**	**18,841.25** **(100.00)**	**19,567.01** **(100.00)**	**725.76**	**3.85**
	i) Interest Expended	12,361.45 (65.61)	11,548.19 (59.02)	-813.26	-6.58
	of which: Interest on Deposits	6,394.35	6,827.92	433.57	6.78
	ii) Provisions and Contingencies	2,706.15 (14.36)	2,977.74 (15.22)	271.59	10.04
	of which: Provision for NPAs	1,908.58	1,457.80	-450.78	-23.62
	iii) Operating Expenses	3,773.65 (20.03)	5,041.08 (25.76)	1,267.43	33.59
	of which: Wage Bill	828.76	1,178.41	349.65	42.19
C.	**Profit**				
	i) Operating Profit	**4,432.13**	**5,012.74**	**580.61**	**13.10**
	ii) Net Profit	**1,725.98**	**2,035.00**	**309.02**	**17.90**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**3,271.56**	**4,873.23**	**1,601.67**	**48.96**
E.	**Total Assets**	**1,92,169.81**	**2,46,575.75**	**54,405.95**	**28.31**

* for 2002-03 includes, profit on sale of shares of ICICI Bank Ltd. held by erstwhile ICICI Limited.

Note : Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(G): Financial Performance of Foreign Banks

(Amount in Rs. crore)

	Item	2002-03	2003-04	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**12,034.58** **(100.00)**	**13,012.09** **(100.00)**	**977.51**	**8.12**
	i) Interest Income	8,957.63 (74.43)	8,990.33 (69.09)	32.70	0.37
	of which: Interest on Advances	5,391.03	5,045.27	-345.76	-6.41
	Income on Investments	3,135.81	3,404.10	268.29	8.56
	ii) Other Income	3,076.95 (25.57)	4,021.76 (30.91)	944.81	30.71
	of which: Commission & Brokerage	1,431.73	1,632.21	200.48	14.00
B.	**Expenditure (i+ii+iii)**	**10,210.54** **(100.00)**	**10,769.01** **(100.00)**	**558.47**	**5.47**
	i) Interest Expended	5,055.01 (49.51)	4,272.25 (39.68)	-782.76	-15.48
	of which: Interest on Deposits	3,550.48	2,895.45	-655.03	-18.45
	ii) Provisions and Contingencies	1,904.10 (18.65)	2,744.32 (25.48)	840.22	44.13
	of which: Provision for NPAs	698.62	897.82	199.20	28.51
	iii) Operating Expenses	3,251.43 (31.84)	3,752.44 (34.84)	501.01	15.41
	of which : Wage Bill	1,038.65	1,199.67	161.02	15.50
C.	**Profit**				
	i) Operating Profit	**3,728.14**	**4,987.40**	**1,259.26**	**33.78**
	ii) Net Profit *	**1,824.04**	**2,243.08**	**419.04**	**22.97**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**3,902.62**	**4,718.08**	**815.46**	**20.90**
E.	**Total Assets**	**1,16,660.78**	**1,36,315.72**	**19,654.94**	**16.85**

* Before Extra Ordinary Item of Standard Chartered Bank of Rs.6.5 crore for the year 2002-03.

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.13: Break-up of Income of Public Sector Banks

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Trading Income		Forex Income		Operating Profit	
		2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	336.95	504.71	26.29	43.11	515.83	876.25
2	Andhra Bank	394.93	406.31	18.51	20.06	754.83	930.17
3	Bank of Baroda	631.52	1,017.53	138.27	169.56	1,716.62	2,485.30
4	Bank of India	857.54	946.08	142.39	212.73	2,030.00	2,241.87
5	Bank of Maharashtra	215.94	307.38	23.93	20.34	520.58	676.49
6	Canara Bank	640.09	1,206.67	132.97	151.75	1,997.37	2,858.71
7	Central Bank of India	242.06	618.05	33.70	22.91	923.85	1,528.93
8	Corporation Bank	266.27	223.84	39.60	26.97	852.52	907.05
9	Dena Bank	240.06	441.31	18.83	24.19	493.82	710.59
10	Indian Bank	272.80	465.47	55.00	58.32	590.25	802.46
11	Indian Overseas Bank	244.32	481.23	55.40	55.97	794.14	1,325.20
12	Oriental Bank of Commerce	372.13	504.22	47.04	59.05	1,163.06	1,533.03
13	Punjab & Sind Bank	189.90	144.22	28.12	21.52	280.84	149.61
14	Punjab National Bank	672.28	1,236.37	95.08	106.02	2,317.30	3,120.86
15	Syndicate Bank	277.58	500.87	31.47	35.56	618.78	1,054.25
16	UCO Bank	354.61	351.30	22.79	14.23	624.04	948.41
17	Union Bank of India	475.14	435.37	99.73	118.48	1,303.92	1,483.08
18	United Bank of India	305.96	347.63	3.95	5.73	556.02	613.30
19	Vijaya Bank	225.09	343.64	21.67	25.31	432.36	865.64
	Nationalised Banks	**7,215.17**	**10,482.20**	**1,034.74**	**1,191.81**	**18,486.13**	**25,111.20**
20	State Bank of India	1,694.59	3,073.45	463.57	503.04	7,775.40	9,553.46
21	State Bank of Bikaner & Jaipur	106.65	227.34	23.70	25.08	440.84	681.36
22	State Bank of Hyderabad	206.99	411.51	41.17	45.12	757.95	1,014.21
23	State Bank of Indore	182.75	226.22	20.49	11.55	421.00	532.23
24	State Bank of Mysore	99.27	155.03	22.68	18.18	352.75	424.92
25	State Bank of Patiala	142.85	365.67	27.99	36.18	739.54	1,003.75
26	State Bank of Saurashtra	111.78	200.09	12.10	15.15	288.63	452.76
27	State Bank of Travancore	130.22	268.68	25.94	37.42	455.00	700.83
	State Bank Group	**2,675.10**	**4,927.99**	**637.64**	**691.72**	**11,231.11**	**14,363.52**
	Public Sector Banks	**9,890.27**	**15,410.19**	**1,672.38**	**1,883.53**	**29,717.24**	**39,474.72**

Trading Income - Net Profit on Sale of Investment.
Forex Income - Net Profit on Exchange Transaction.
Source: Balance sheets of respective banks.

Appendix Table III.14: Off-Balance Sheet Exposure of Scheduled Commercial Banks
(As at end-March)

(Amount in Rs. crore)

Item	State Bank Group			Nationalised Banks			Public Sector Banks		
	2003	2004	Variation	2003	2004	Variation	2003	2004	Variation
1	2	3	4	5	6	7	8	9	10
1. Forward exchange contract	79,193.34 (16.02)	93,167.56 (16.96)	17.65	1,84,993.26 (23.39)	2,20,017.43 (23.86)	18.93	2,64,186.60 (20.55)	3,13,184.99 (21.28)	18.55
2. Guarantees given	17,977.70 (3.64)	19,619.33 (3.57)	9.13	35,578.04 (4.5)	43,225.99 (4.69)	21.50	53,555.74 (4.17)	62,845.32 (4.27)	17.35
3. Acceptances, endorsements, *etc.*	44,791.49 (9.06)	43,976.88 (8.01)	-1.82	44,057.06 (5.57)	66,389.75 (7.2)	50.69	88,848.55 (6.91)	1,10,366.63 (7.5)	24.22
Total Contingent Liabilities	**1,41,962.53 (28.71)**	**1,56,763.77 (28.54)**	**10.43**	**2,64,628.36 (33.46)**	**3,29,633.17 (35.75)**	**24.56**	**4,06,590.89 (31.63)**	**4,86,396.94 (33.06)**	**19.63**

Item	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2003	2004	Variation	2003	2004	Variation	2003	2004	Variation	2003	2004	Variation
1	11	12	13	14	15	16	17	18	19	20	21	22
1. Forward exchange contract	72,662.83 (37.81)	1,53,266.21 (62.16)	110.93	21,656.62 (20.63)	23,885.38 (19.79)	10.29	4,33,973.73 (372.00)	6,65,410.76 (488.14)	53.33	7,92,479.78 (46.64)	11,55,747.34 (58.52)	45.84
2. Guarantees given	15,638.70 (8.14)	17,397.12 (7.06)	11.24	3,798.94 (3.62)	4,031.26 (3.34)	6.12	17,347.79 (14.87)	17,574.63 (12.89)	1.31	90,341.17 (5.32)	1,01,848.33 (5.16)	12.74
3. Acceptances, endorsements, *etc.*	77,658.22 (40.41)	1,82,957.13 (74.2)	135.59	4,605.08 (4.39)	4,959.12 (4.11)	7.69	1,11,645.70 (95.7)	2,07,404.09 (152.15)	85.77	2,82,757.55 (16.64)	5,05,686.97 (25.6)	78.84
Total Contingent Liabilities	**1,65,959.75 (86.36)**	**3,53,620.46 (143.41)**	**113.08**	**30,060.64 (28.64)**	**32,875.76 (27.24)**	**9.36**	**5,62,967.22 (482.57)**	**8,90,389.48 (653.18)**	**58.16**	**11,65,578.50 (68.6)**	**17,63,282.64 (89.28)**	**51.28**

Notes : 1. Figures in brackets are percentages to total liabilities of the concerned bank-group.
2. The variations indicate the percentage variation in 2003-04 over 2002-03.

Source : Balance sheets of respective banks.

Appendix Table III.15(A): Select Financial Parameters of Public Sector Banks
(As at end-March 2004)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Fund	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	Return on Assets	Business per employee (Amount in Rs. lakh)	Profit per employee
		Tier I	Tier II	Total							
1	2	3	4	5	6	7	8	9	10	11	12
	Nationalised Banks										
1	Allahabad Bank	6.26	6.26	12.52	2.37	8.33	2.34	2.73	1.34	215.00	2.46
2	Andhra Bank	8.17	5.54	13.71	0.93	8.83	2.69	3.69	1.72	277.35	3.54
3	Bank of Baroda	8.47	5.44	13.91	2.99	7.43	2.08	3.00	1.20	252.51	2.43
4	Bank of India	7.47	5.54	13.01	4.50	7.19	2.22	2.78	1.25	266.72	2.35
5	Bank of Maharashtra	7.03	4.85	11.88	2.46	8.07	1.70	2.48	0.95	268.65	2.16
6	Canara Bank	7.81	4.85	12.66	2.89	7.92	2.34	3.23	1.34	297.58	2.97
7	Central Bank of India	6.23	6.20	12.43	5.57	8.94	1.70	2.70	0.98	181.51	1.58
8	Corporation Bank	16.52	3.60	20.12	1.80	8.58	2.01	3.53	1.96	365.56	4.98
9	Dena Bank	5.19	4.29	9.48	9.40	8.33	2.97	3.41	1.11	274.00	2.23
10	Indian Bank	7.66	5.16	12.82	2.71	7.93	2.22	2.39	1.21	189.00	1.85
11	Indian Overseas Bank	6.74	5.75	12.49	2.85	8.31	1.64	2.93	1.08	232.51	2.10
12	Oriental Bank of Commerce	9.87	4.60	14.47	0.00	8.90	1.90	4.10	1.70	416.00	5.10
13	Punjab & Sind Bank	6.38	4.68	11.06	9.62	8.29	1.66	0.97	0.06	205.08	0.09
14	Punjab National Bank	7.01	6.09	13.10	0.98	8.12	1.95	3.26	1.08	228.22	1.88
15	Syndicate Bank	6.75	4.74	11.49	2.58	7.35	1.85	2.51	1.67	240.31	1.62
16	UCO Bank	6.08	5.80	11.88	3.65	8.05	1.63	2.47	1.13	249.00	1.79
17	Union Bank of India	6.47	5.85	12.32	2.87	8.42	1.55	2.77	1.22	286.48	2.78
18	United Bank of India	15.04	2.00	17.04	3.75	8.41	2.05	2.49	1.25	169.00	1.76
19	Vijaya Bank	8.37	5.74	14.11	0.91	8.88	2.40	3.96	1.91	249.39	3.73
	State Bank Group										
20	State Bank of India	8.34	5.19	13.53	3.48	7.99	1.99	2.50	0.94	210.56	1.77
21	State Bank of Bikaner & Jaipur	9.03	3.90	12.93	1.24	8.54	2.67	3.70	1.49	169.82	2.44
22	State Bank of Hyderabad	8.42	5.87	14.29	0.65	7.77	2.48	3.56	1.25	265.86	2.87
23	State Bank of Indore	8.31	4.08	12.39	0.00	8.53	2.94	4.34	1.73	230.77	3.45
24	State Bank of Mysore	7.18	4.35	11.53	2.96	7.94	2.56	3.19	1.28	162.81	1.82
25	State Bank of Patiala	9.87	3.69	13.56	0.00	8.01	2.67	4.26	1.60	305.24	3.69
26	State Bank of Saurashtra	10.99	3.54	14.53	0.00	8.98	2.94	4.16	1.38	193.16	2.40
27	State Bank of Travancore	6.23	5.13	11.36	1.39	8.17	2.21	3.29	1.02	271.78	2.16

Note : Figures reported in this Table may not exactly tally with the data reported in Appendix Tables III.15 (B) to III.15 (I) due to conceptual differences.
Source : Balance sheets of respective banks.

Appendix Table III.15(B): Gross Profit/Loss as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	1.34	1.28	1.21	1.65	1.84	2.52
2	Andhra Bank	1.35	1.83	1.22	2.03	3.06	3.44
3	Bank of Baroda	1.81	1.79	1.64	1.85	2.25	2.92
4	Bank of India	1.31	1.23	1.30	2.02	2.66	2.64
5	Bank of Maharashtra	1.11	1.52	1.26	1.93	2.09	2.10
6	Canara Bank	1.99	1.70	1.70	2.30	2.43	2.87
7	Central Bank of India	0.85	1.02	1.00	1.34	1.62	2.41
8	Corporation Bank	2.05	2.54	2.70	2.64	3.24	3.11
9	Dena Bank	1.46	1.36	0.43	1.78	2.45	3.21
10	Indian Bank	-0.76	0.10	0.23	1.01	1.67	2.05
11	Indian Overseas Bank	0.58	0.68	1.01	1.74	1.93	2.80
12	Oriental Bank of Commerce	2.06	2.06	1.97	2.84	3.42	3.74
13	Punjab & Sind Bank	0.86	0.83	0.77	1.19	1.94	1.00
14	Punjab National Bank	1.77	1.52	1.49	2.02	2.69	3.05
15	Syndicate Bank	0.77	1.03	1.05	1.12	1.80	2.23
16	UCO Bank	0.18	0.75	0.78	1.52	1.79	2.17
17	Union Bank of India	0.99	1.12	1.31	1.96	2.55	2.54
18	United Bank of India	0.27	0.43	0.64	1.04	2.29	2.37
19	Vijaya Bank	1.05	0.98	1.25	1.56	2.27	3.60
	Nationalised Banks	**1.22**	**1.30**	**1.29**	**1.83**	**2.34**	**2.72**
20	State Bank of India	1.55	1.61	1.26	1.74	2.07	2.34
21	State Bank of Bikaner & Jaipur	1.58	1.91	1.93	2.52	2.45	3.36
22	State Bank of Hyderabad	2.07	2.65	2.43	2.71	2.90	3.31
23	State Bank of Indore	2.31	2.06	2.10	3.48	3.70	4.08
24	State Bank of Mysore	1.75	1.96	1.47	2.27	3.11	3.09
25	State Bank of Patiala	2.34	2.83	2.79	3.25	3.47	3.73
26	State Bank of Saurashtra	1.92	2.15	1.36	2.36	2.52	3.53
27	State Bank of Travancore	1.39	1.47	1.59	1.95	2.39	2.92
	State Bank Group	**1.63**	**1.74**	**1.42**	**1.94**	**2.27**	**2.62**
	Public Sector Banks	**1.37**	**1.46**	**1.34**	**1.88**	**2.31**	**2.68**

Appendix Table III.15(C): Net Profit/Loss as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	0.77	0.35	0.18	0.32	0.59	1.34
2	Andhra Bank	0.78	0.76	0.59	0.97	1.63	1.72
3	Bank of Baroda	0.81	0.86	0.43	0.77	1.01	1.14
4	Bank of India	0.37	0.31	0.42	0.73	1.12	1.19
5	Bank of Maharashtra	0.43	0.59	0.24	0.68	0.89	0.95
6	Canara Bank	0.47	0.43	0.43	1.03	1.24	1.34
7	Central Bank of India	0.41	0.36	0.10	0.31	0.54	0.98
8	Corporation Bank	1.29	1.39	1.33	1.31	1.58	1.73
9	Dena Bank	0.74	0.37	-1.49	0.06	0.57	1.04
10	Indian Bank	-3.64	-1.81	-1.03	0.11	0.53	1.04
11	Indian Overseas Bank	0.23	0.15	0.38	0.65	1.01	1.08
12	Oriental Bank of Commerce	1.23	1.14	0.75	0.99	1.34	1.67
13	Punjab & Sind Bank	0.53	0.52	0.10	0.17	0.03	0.06
14	Punjab National Bank	0.80	0.75	0.73	0.77	0.98	1.08
15	Syndicate Bank	0.65	0.79	0.83	0.79	1.00	0.92
16	UCO Bank	-0.33	0.16	0.12	0.52	0.59	0.99
17	Union Bank of India	0.51	0.29	0.40	0.71	1.08	1.22
18	United Bank of India	0.09	0.16	0.09	0.52	1.26	1.22
19	Vijaya Bank	0.27	0.41	0.50	0.81	1.03	1.71
	Nationalised Banks	**0.37**	**0.44**	**0.33**	**0.69**	**0.98**	**1.18**
20	State Bank of India	0.46	0.78	0.51	0.70	0.83	0.90
21	State Bank of Bikaner & Jaipur	0.90	0.97	0.76	1.06	1.13	1.49
22	State Bank of Hyderabad	0.85	0.82	0.82	1.02	1.15	1.24
23	State Bank of Indore	0.63	0.72	0.78	1.27	1.76	1.73
24	State Bank of Mysore	0.49	0.58	0.27	0.64	1.02	1.28
25	State Bank of Patiala	0.93	1.06	1.12	1.34	1.51	1.60
26	State Bank of Saurashtra	0.40	1.18	0.16	0.88	0.81	1.38
27	State Bank of Travancore	0.40	0.53	0.67	0.73	0.90	1.02
	State Bank Group	**0.51**	**0.80**	**0.55**	**0.77**	**0.91**	**1.02**
	Public Sector Banks	**0.42**	**0.57**	**0.42**	**0.72**	**0.96**	**1.12**

Appendix Table III.15(D): Operating and Net Profit before and after Adjustment of Interest of Recapitalisation Bonds - Nationalised Banks

(Rs. crore)

Sr. No.	Name of the Bank	Operating Profit		Net Profit		After adjustment *			
						Operating Profit		Net Profit	
		2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
1	Allahabad Bank	515.83	876.25	165.99	463.38	441.93	802.35	92.09	389.48
2	Andhra Bank	754.83	930.17	402.99	463.50	702.80	878.14	350.96	411.47
3	Bank of Baroda	1,716.62	2,485.30	772.78	967.00	1,702.09	2,470.77	758.25	952.47
4	Bank of India	2,030.00	2,241.87	851.00	1,008.32	1,870.80	2,082.67	691.80	849.12
5	Bank of Maharashtra	520.58	676.49	222.02	304.55	450.05	605.96	151.49	234.02
6	Canara Bank	1,997.37	2,858.71	1,018.89	1,338.00	1,919.95	2,781.29	941.47	1,260.58
7	Central Bank of India	923.85	1,528.93	305.52	618.11	747.98	1,353.06	129.65	442.24
8	Corporation Bank	852.52	907.05	415.99	504.14	845.95	900.48	409.42	497.57
9	Dena Bank	493.82	710.59	114.19	230.50	468.92	685.69	89.29	205.60
10	Indian Bank	590.25	802.46	188.83	405.75	234.63	446.84	-166.80	50.13
11	Indian Overseas Bank	794.14	1,325.20	416.10	512.76	670.11	1,201.17	292.07	388.73
12	Oriental Bank of Commerce	1,163.06	1,533.03	456.95	686.07	1,152.10	1,522.07	445.99	675.11
13	Punjab & Sind Bank	280.84	149.61	4.43	8.89	215.11	83.88	-61.30	-56.84
14	Punjab National Bank	2,317.30	3,120.86	842.20	1,108.69	2,262.63	3,066.19	787.53	1,054.02
15	Syndicate Bank	618.78	1,054.25	344.13	434.13	494.21	929.68	219.56	309.56
16	UCO Bank	624.04	948.41	207.49	435.42	409.46	733.83	-7.09	220.84
17	Union Bank of India	1,303.92	1,483.08	552.69	712.05	1,276.11	1,455.27	524.88	684.24
18	United Bank of India	556.02	613.30	305.19	315.08	383.32	440.60	132.49	142.38
19	Vijaya Bank	432.36	865.64	196.56	411.31	382.27	815.55	146.47	361.22
	Total	**18,486.13**	**25,111.20**	**7,783.94**	**10,927.65**	**16,630.41**	**23,255.48**	**5,928.22**	**9,071.93**

* Adjusted for interest on recapitalisation bonds.

Appendix Table III.15(E): Interest Income as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	9.15	9.36	9.39	9.18	9.16	7.69
2	Andhra Bank	9.11	9.16	9.20	9.69	8.89	8.25
3	Bank of Baroda	9.23	8.83	9.09	8.40	7.98	7.22
4	Bank of India	8.51	8.51	8.93	8.01	7.77	6.83
5	Bank of Maharashtra	9.31	9.64	8.96	9.31	8.36	6.84
6	Canara Bank	9.68	8.91	8.45	8.83	8.16	7.04
7	Central Bank of India	9.29	9.06	9.03	8.85	8.88	7.99
8	Corporation Bank	9.04	9.57	9.16	8.24	8.00	7.55
9	Dena Bank	10.05	9.40	9.58	9.07	8.79	7.83
10	Indian Bank	7.60	8.07	7.91	7.58	7.16	6.81
11	Indian Overseas Bank	9.40	9.07	9.22	8.95	8.47	7.93
12	Oriental Bank of Commerce	9.97	10.02	10.19	9.43	9.72	8.05
13	Punjab & Sind Bank	9.30	9.50	9.23	9.20	8.86	8.52
14	Punjab National Bank	9.60	9.52	9.23	9.12	8.68	7.60
15	Syndicate Bank	9.45	8.97	9.89	9.08	8.35	6.53
16	UCO Bank	8.16	8.39	8.32	8.10	8.00	7.07
17	Union Bank of India	9.19	9.47	9.58	9.05	8.43	7.74
18	United Bank of India	8.44	8.70	8.99	8.93	8.73	8.02
19	Vijaya Bank	9.01	9.36	9.51	9.53	8.76	8.06
	Nationalised Banks	**9.15**	**9.06**	**9.09**	**8.78**	**8.39**	**7.43**
20	State Bank of India	8.59	8.49	8.28	8.56	8.27	7.47
21	State Bank of Bikaner & Jaipur	9.42	8.95	9.12	8.76	8.00	7.77
22	State Bank of Hyderabad	9.30	9.56	9.19	8.67	7.91	7.22
23	State Bank of Indore	9.98	8.92	8.63	9.02	8.68	8.02
24	State Bank of Mysore	10.14	9.66	9.72	9.38	9.15	7.68
25	State Bank of Patiala	9.38	9.40	9.38	8.66	8.26	7.02
26	State Bank of Saurashtra	9.41	9.25	8.95	8.99	7.90	7.62
27	State Bank of Travancore	9.40	9.32	9.08	8.82	8.32	7.25
	State Bank Group	**8.79**	**8.67**	**8.47**	**8.62**	**8.26**	**7.46**
	Public Sector Banks	**9.01**	**8.92**	**8.85**	**8.72**	**8.34**	**7.44**

Appendix Table III.15(F): Interest Expended as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	6.34	6.50	6.29	6.23	5.92	4.56
2	Andhra Bank	6.20	6.49	6.74	6.95	5.84	4.87
3	Bank of Baroda	6.22	5.98	6.03	5.75	5.23	4.20
4	Bank of India	5.90	6.19	6.15	5.40	5.10	4.24
5	Bank of Maharashtra	6.02	6.57	6.03	6.57	5.64	4.44
6	Canara Bank	6.51	6.27	5.62	6.31	5.39	4.34
7	Central Bank of India	6.32	6.09	5.96	5.93	5.56	4.64
8	Corporation Bank	6.55	6.84	6.21	5.59	4.99	4.24
9	Dena Bank	7.09	6.94	7.08	6.72	5.97	5.16
10	Indian Bank	6.68	6.45	6.05	5.83	4.84	3.96
11	Indian Overseas Bank	7.09	6.61	6.31	6.21	5.50	4.55
12	Oriental Bank of Commerce	6.87	7.11	7.27	6.42	6.15	4.50
13	Punjab & Sind Bank	6.91	7.15	6.72	6.90	6.20	5.23
14	Punjab National Bank	6.03	6.54	6.02	5.97	5.06	4.06
15	Syndicate Bank	6.51	5.94	6.01	5.59	4.84	3.51
16	UCO Bank	6.01	6.05	5.90	5.77	5.47	4.34
17	Union Bank of India	6.52	6.73	6.45	6.04	5.50	4.77
18	United Bank of India	6.44	6.59	6.60	6.29	5.77	5.00
19	Vijaya Bank	6.15	6.33	6.28	6.52	5.39	4.58
	Nationalised Banks	**6.37**	**6.40**	**6.19**	**6.03**	**5.39**	**4.38**
20	State Bank of India	5.86	5.84	5.63	5.95	5.62	4.73
21	State Bank of Bikaner & Jaipur	6.19	5.95	5.84	5.59	4.93	4.23
22	State Bank of Hyderabad	5.77	6.21	5.88	5.74	5.05	4.48
23	State Bank of Indore	6.05	5.93	5.79	6.05	5.45	4.54
24	State Bank of Mysore	6.56	6.26	6.39	6.33	5.74	4.38
25	State Bank of Patiala	5.85	5.62	5.16	4.88	4.58	3.96
26	State Bank of Saurashtra	5.92	6.05	6.02	6.01	5.11	4.47
27	State Bank of Travancore	7.20	7.06	6.35	6.24	5.58	4.40
	State Bank Group	**5.94**	**5.91**	**5.68**	**5.91**	**5.50**	**4.62**
	Public Sector Banks	**6.21**	**6.22**	**5.99**	**5.99**	**5.43**	**4.47**

Appendix Table III.15(G): Net Interest Income (Spread) as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	2.82	2.86	3.10	2.95	3.24	3.13
2	Andhra Bank	2.91	2.68	2.45	2.75	3.05	3.37
3	Bank of Baroda	3.01	2.85	3.06	2.65	2.75	3.02
4	Bank of India	2.61	2.33	2.78	2.62	2.67	2.59
5	Bank of Maharashtra	3.29	3.07	2.93	2.73	2.72	2.40
6	Canara Bank	3.17	2.64	2.83	2.52	2.76	2.69
7	Central Bank of India	2.97	2.96	3.07	2.92	3.32	3.35
8	Corporation Bank	2.49	2.73	2.95	2.65	3.02	3.31
9	Dena Bank	2.97	2.46	2.51	2.35	2.82	2.67
10	Indian Bank	0.92	1.61	1.86	1.75	2.32	2.85
11	Indian Overseas Bank	2.31	2.46	2.91	2.74	2.97	3.38
12	Oriental Bank of Commerce	3.10	2.90	2.92	3.02	3.57	3.55
13	Punjab & Sind Bank	2.38	2.35	2.51	2.30	2.67	3.29
14	Punjab National Bank	3.57	2.99	3.21	3.15	3.62	3.54
15	Syndicate Bank	2.94	3.04	3.87	3.49	3.51	3.03
16	UCO Bank	2.15	2.35	2.42	2.33	2.53	2.73
17	Union Bank of India	2.66	2.73	3.13	3.01	2.93	2.98
18	United Bank of India	2.00	2.10	2.39	2.64	2.97	3.02
19	Vijaya Bank	2.86	3.03	3.23	3.01	3.37	3.48
	Nationalised Banks	**2.77**	**2.66**	**2.90**	**2.74**	**3.00**	**3.05**
20	State Bank of India	2.72	2.65	2.66	2.61	2.65	2.74
21	State Bank of Bikaner & Jaipur	3.23	3.00	3.28	3.16	3.07	3.54
22	State Bank of Hyderabad	3.53	3.35	3.32	2.94	2.86	2.75
23	State Bank of Indore	3.92	2.99	2.84	2.97	3.23	3.48
24	State Bank of Mysore	3.58	3.39	3.33	3.04	3.41	3.30
25	State Bank of Patiala	3.53	3.78	4.22	3.78	3.69	3.06
26	State Bank of Saurashtra	3.49	3.20	2.93	2.99	2.79	3.15
27	State Bank of Travancore	2.20	2.27	2.73	2.57	2.75	2.85
	State Bank Group	**2.85**	**2.76**	**2.79**	**2.71**	**2.76**	**2.83**
	Public Sector Banks	**2.80**	**2.70**	**2.86**	**2.73**	**2.91**	**2.97**

Appendix Table III.15(H): Provisions & Contingencies as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	0.57	0.93	1.03	1.32	1.25	1.19
2	Andhra Bank	0.58	1.07	0.63	1.07	1.43	1.73
3	Bank of Baroda	1.00	0.94	1.20	1.08	1.23	1.78
4	Bank of India	0.93	0.92	0.87	1.29	1.55	1.45
5	Bank of Maharashtra	0.68	0.93	1.02	1.26	1.20	1.15
6	Canara Bank	1.52	1.26	1.27	1.27	1.19	1.53
7	Central Bank of India	0.43	0.65	0.90	1.03	1.08	1.44
8	Corporation Bank	0.76	1.15	1.37	1.33	1.66	1.38
9	Dena Bank	0.71	0.99	1.92	1.72	1.88	2.17
10	Indian Bank	2.88	1.92	1.26	0.91	1.13	1.01
11	Indian Overseas Bank	0.36	0.54	0.63	1.09	0.92	1.72
12	Oriental Bank of Commerce	0.83	0.93	1.22	1.85	2.08	2.07
13	Punjab & Sind Bank	0.33	0.31	0.67	1.02	1.91	0.94
14	Punjab National Bank	0.97	0.76	0.76	1.25	1.71	1.97
15	Syndicate Bank	0.12	0.24	0.22	0.33	0.80	1.31
16	UCO Bank	0.51	0.60	0.66	0.99	1.19	1.17
17	Union Bank of India	0.48	0.83	0.91	1.25	1.47	1.32
18	United Bank of India	0.18	0.27	0.55	0.52	1.03	1.15
19	Vijaya Bank	0.77	0.57	0.76	0.75	1.24	1.89
	Nationalised Banks	**0.85**	**0.86**	**0.95**	**1.15**	**1.35**	**1.54**
20	State Bank of India	1.09	0.82	0.75	1.04	1.24	1.44
21	State Bank of Bikaner & Jaipur	0.69	0.94	1.17	1.46	1.32	1.88
22	State Bank of Hyderabad	1.22	1.83	1.62	1.69	1.75	2.07
23	State Bank of Indore	1.68	1.34	1.32	2.21	1.94	2.35
24	State Bank of Mysore	1.26	1.38	1.19	1.63	2.09	1.81
25	State Bank of Patiala	1.41	1.78	1.66	1.91	1.96	2.13
26	State Bank of Saurashtra	1.52	0.98	1.20	1.49	1.71	2.15
27	State Bank of Travancore	0.99	0.93	0.92	1.21	1.49	1.90
	State Bank Group	**1.11**	**0.94**	**0.87**	**1.17**	**1.36**	**1.59**
	Public Sector Banks	**0.95**	**0.89**	**0.92**	**1.16**	**1.36**	**1.56**

Appendix Table III.15(I): Operating Expenses as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Allahabad Bank	2.67	2.89	2.98	2.86	3.27	2.76
2	Andhra Bank	2.83	2.27	2.24	2.17	2.44	2.44
3	Bank of Baroda	2.31	2.22	2.54	2.20	2.16	2.12
4	Bank of India	2.37	2.51	2.93	2.19	2.16	2.06
5	Bank of Maharashtra	3.06	2.76	2.84	2.23	2.07	1.74
6	Canara Bank	2.56	2.48	2.51	2.21	2.13	1.91
7	Central Bank of India	3.11	3.00	3.06	2.72	2.67	2.46
8	Corporation Bank	1.81	1.81	1.73	1.63	1.79	1.97
9	Dena Bank	2.54	2.44	3.19	2.44	2.54	2.25
10	Indian Bank	2.61	2.68	2.79	2.40	2.13	2.71
11	Indian Overseas Bank	2.75	2.74	2.89	2.50	2.30	2.14
12	Oriental Bank of Commerce	1.97	1.74	1.94	1.64	1.71	1.57
13	Punjab & Sind Bank	2.57	2.82	2.98	2.77	2.85	3.99
14	Punjab National Bank	2.97	2.82	2.95	2.47	2.39	2.32
15	Syndicate Bank	3.41	3.13	3.81	3.24	3.15	2.44
16	UCO Bank	2.87	2.65	2.73	2.67	2.48	1.99
17	Union Bank of India	2.51	2.47	2.62	2.18	1.99	1.86
18	United Bank of India	2.40	2.39	2.52	3.33	2.44	2.60
19	Vijaya Bank	2.80	2.97	3.07	2.61	2.92	2.07
	Nationalised Banks	**2.63**	**2.57**	**2.76**	**2.40**	**2.33**	**2.19**
20	State Bank of India	2.65	2.41	2.63	2.07	2.11	2.27
21	State Bank of Bikaner & Jaipur	3.24	2.85	3.07	2.58	2.50	2.60
22	State Bank of Hyderabad	2.90	2.42	2.45	1.88	1.73	1.74
23	State Bank of Indore	3.40	3.07	2.72	2.28	2.18	2.16
24	State Bank of Mysore	3.57	3.41	3.68	3.03	2.89	2.69
25	State Bank of Patiala	2.41	2.34	2.62	2.05	1.86	1.67
26	State Bank of Saurashtra	3.00	2.56	2.88	2.48	2.15	2.12
27	State Bank of Travancore	2.22	2.37	2.48	2.02	1.93	1.88
	State Bank Group	**2.70**	**2.46**	**2.66**	**2.11**	**2.11**	**2.21**
	Public Sector Banks	**2.66**	**2.53**	**2.72**	**2.29**	**2.25**	**2.20**

Appendix Table III.16(A): Select Financial Parameters of Private Sector Banks
(As at end-March 2004)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Fund	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	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
	Old Private Sector Banks										
1	Bank of Rajasthan Ltd.	8.35	2.83	11.18	2.99	7.63	2.69	2.78	0.82	199.93	1.67
2	Bharat Overseas Bank Ltd.	9.76	6.49	16.25	2.26	8.27	1.32	2.37	1.25	370.00	3.41
3	Catholic Syrian Bank Ltd.	6.95	4.28	11.23	4.65	8.64	2.87	2.98	1.31	182.16	1.96
4	City Union Bank Ltd.	10.73	2.63	13.36	6.37	8.99	2.16	3.83	1.86	286.80	4.09
5	Dhanalakshmi Bank Ltd.	8.63	4.93	13.56	6.68	8.33	2.54	2.92	0.71	248.63	1.32
6	Federal Bank Ltd.	6.26	5.22	11.48	2.89	9.01	2.25	3.30	0.90	327.00	2.14
7	Ganesh Bank of Kurundwad Ltd.	7.88	4.06	11.94	10.59	8.29	2.02	0.89	0.86	126.21	0.81
8	ING Vysya Bank Ltd.	6.14	4.91	11.05	2.60	7.76	3.05	2.20	0.45	324.34	1.15
9	Jammu & Kashmir Bank Ltd.	12.98	3.90	16.88	1.48	8.72	1.73	3.60	1.92	345.00	6.00
10	Karnataka Bank Ltd.	10.45	2.58	13.03	4.98	8.45	2.69	3.29	1.34	320.23	3.10
11	Karur Vysya Bank Ltd.	15.10	2.01	17.11	2.32	9.79	1.12	3.24	2.43	330.00	5.65
12	Lakshmi Vilas Bank Ltd.	8.49	5.30	13.79	5.40	8.30	2.52	2.64	1.19	276.00	2.11
13	Lord Krishna Bank Ltd.	10.20	6.48	16.68	6.05	8.38	3.43	2.43	1.33	308.94	2.37
14	Nainital Bank Ltd.	14.28	4.26	18.54	0.00	9.04	1.69	2.66	1.58	124.56	1.91
15	Ratnakar Bank Ltd.	13.54	3.11	16.65	5.58	8.64	1.57	1.84	1.12	198.36	1.58
16	Sangli Bank Ltd.	11.00	2.68	13.68	6.56	8.40	1.90	1.75	0.64	95.70	0.62
17	SBI Commercial & International Bank Ltd.	28.76	1.67	30.43	18.31	8.65	4.48	5.68	3.67	570.69	17.12
18	South Indian Bank Ltd.	5.80	5.52	11.32	4.55	7.35	2.54	2.61	1.00	306.00	2.39
19	Tamilnad Mercantile Bank Ltd.	17.36	3.71	21.07	5.00	10.65	1.35	3.37	1.59	292.43	3.69
20	United Western bank Ltd.	5.33	4.80	10.13	8.95	7.55	2.17	2.17	0.43	290.00	0.96
	New Private Sector Banks										
21	Bank of Punjab Ltd.	7.74	4.90	12.64	4.69	7.83	3.05	2.37	0.85	444.54	2.53
22	Centurion Bank Ltd.	3.08	1.33	4.41	4.43	10.42	1.97	0.38	-3.16	392.84	-9.46
23	Development Credit Bank Ltd.	8.75	5.39	14.14	4.87	7.60	1.91	1.16	0.37	480.45	1.21
24	Global Trust Bank Ltd.	0.00	0.00	0.00	27.99	4.92	2.24	-0.01	-11.28	624.95	-66.70
25	HDFC Bank Ltd.	8.03	3.63	11.66	0.16	7.28	1.37	2.56	1.45	866.00	9.39
26	ICICI Bank Ltd.	6.09	4.27	10.36	2.21	7.83	2.70	2.09	1.31	1,010.00	12.00
27	IDBI Bank Ltd.	5.84	4.54	10.38	0.83	7.25	2.07	2.80	1.02	1,080.31	8.20
28	IndusInd Bank Ltd.	8.91	3.84	12.75	2.72	8.29	2.90	3.74	1.74	1,079.95	14.98
29	Kotak Mahindra Bank Ltd.	14.64	0.61	15.25	0.17	8.81	2.91	3.86	2.40	354.28	10.25
30	UTI Bank Ltd.	6.44	4.77	11.21	1.29	8.08	2.75	3.49	1.42	808.00	8.07

Note: Figures reported in this Table may not exactly tally with the data reported in Appendix Tables III.16(B) to III.16 (H) due to conceptual differences.

Source : Balance sheets of respective banks.

Appendix Table III.16(B): Gross Profit/Loss as Percentage of Total Assets – Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	-0.30	0.46	1.33	1.69	2.42	2.19
2	Bharat Overseas Bank Ltd.	1.11	1.26	1.98	2.53	2.02	2.02
3	Catholic Syrian Bank Ltd.	0.22	0.95	1.63	2.60	2.89	2.86
4	City Union Bank Ltd.	1.76	3.18	2.70	2.92	3.06	3.69
5	Dhanalakshmi Bank Ltd.	0.96	1.89	1.46	2.68	3.02	2.74
6	Federal Bank Ltd.	0.61	1.78	2.12	3.01	2.88	2.89
7	Ganesh Bank of Kurundwad Ltd.	0.54	0.81	0.42	1.14	1.65	0.89
8	ING Vysya Bank Ltd.	0.81	1.35	1.13	1.91	2.11	1.98
9	Jammu & Kashmir Bank Ltd.	2.29	2.20	2.14	3.14	3.30	2.96
10	Karnataka Bank Ltd.	1.48	1.41	2.04	3.23	2.73	3.12
11	Karur Vysya Bank Ltd.	1.98	2.91	2.61	3.17	3.20	3.02
12	Lakshmi Vilas Bank Ltd.	1.29	2.40	2.30	2.72	2.50	2.38
13	Lord Krishna Bank Ltd.	1.06	1.41	1.08	2.93	2.76	1.85
14	Nainital Bank Ltd.	1.90	1.69	1.58	1.77	1.51	2.41
15	Ratnakar Bank Ltd.	1.10	1.46	1.75	3.69	2.74	1.70
16	Sangli Bank Ltd.	0.99	1.14	1.08	1.51	1.11	1.41
17	SBI Commercial & International Bank Ltd.	2.33	3.19	1.34	1.86	2.78	5.31
18	South Indian Bank Ltd.	0.98	1.80	2.05	2.64	2.84	2.61
19	Tamilnad Mercantile Bank Ltd.	2.42	2.36	2.78	2.82	2.87	3.34
20	United Western Bank Ltd.	1.63	2.96	0.88	2.99	2.31	1.86
	Old Private Sector Banks	**1.21**	**1.82**	**1.75**	**2.70**	**2.67**	**2.65**
21	Bank of Punjab Ltd.	1.97	1.69	1.73	2.46	2.53	2.13
22	Centurion Bank Ltd.	1.01	1.25	0.98	0.35	0.64	0.34
23	Development Credit Bank Ltd.	1.27	1.89	1.62	2.47	1.35	1.00
24	Global Trust Bank Ltd.	2.01	3.29	2.12	2.03	0.48	-1.09
25	HDFC Bank Ltd.	2.90	2.21	2.44	2.29	2.33	2.38
26	ICICI Bank Ltd.	1.78	1.88	1.47	0.52	2.41	1.89
27	IDBI Bank Ltd.	1.13	1.85	1.39	1.85	2.02	2.19
28	IndusInd Bank Ltd.	1.79	2.39	2.00	2.47	3.28	2.95
29	Kotak Mahindra Bank Ltd.	–	–	–	–	4.16	2.18
30	UTI Bank Ltd.	1.74	1.74	1.23	2.83	2.09	2.84
	New Private Sector Banks	**1.78**	**2.11**	**1.74**	**1.22**	**2.31**	**2.03**
	Private Sector Banks	**1.42**	**1.95**	**1.74**	**1.74**	**2.44**	**2.24**

Appendix Table III.16(C): Net Profit/Loss as Percentage of Total Assets – Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	-1.84	0.30	0.74	0.84	1.12	0.82
2	Bharat Overseas Bank Ltd.	0.74	0.06	0.95	1.08	1.17	1.25
3	Catholic Syrian Bank Ltd.	0.02	0.25	0.38	1.07	1.17	1.31
4	City Union Bank Ltd.	0.87	1.30	1.16	1.28	1.27	1.79
5	Dhanalakshmi Bank Ltd.	0.28	0.71	0.40	0.53	0.71	0.71
6	Federal Bank Ltd.	0.03	0.61	0.69	0.81	0.86	0.90
7	Ganesh Bank of Kurundwad Ltd.	0.08	0.14	0.22	0.50	0.66	0.61
8	ING Vysya Bank Ltd.	0.40	0.50	0.38	0.64	0.75	0.45
9	Jammu & Kashmir Bank Ltd.	1.14	1.14	1.32	1.77	2.01	1.92
10	Karnataka Bank Ltd.	0.87	0.71	0.68	1.17	1.19	1.26
11	Karur Vysya Bank Ltd.	1.19	1.90	1.70	2.12	2.02	2.27
12	Lakshmi Vilas Bank Ltd.	0.79	1.14	1.02	1.06	1.07	1.07
13	Lord Krishna Bank Ltd.	0.16	0.61	0.36	1.14	1.24	1.01
14	Nainital Bank Ltd.	0.75	0.86	0.53	0.87	0.99	1.43
15	Ratnakar Bank Ltd.	0.78	0.70	0.67	1.00	1.30	1.04
16	Sangli Bank Ltd.	0.34	0.34	0.38	0.58	0.65	0.61
17	SBI Commercial & International Bank Ltd.	1.64	1.70	-6.65	0.46	-1.45	3.67
18	South Indian Bank Ltd.	0.17	0.58	0.80	0.95	0.95	0.91
19	Tamilnad Mercantile Bank Ltd.	1.43	1.32	1.37	1.29	1.35	1.59
20	United Western Bank Ltd.	0.95	1.16	-0.27	0.50	0.46	0.43
	Old Private Sector Banks	**0.48**	**0.81**	**0.59**	**1.08**	**1.17**	**1.20**
21	Bank of Punjab Ltd.	1.53	1.04	0.93	0.92	0.74	0.76
22	Centurion Bank Ltd.	0.69	0.66	0.12	-2.26	-0.75	-2.96
23	Development Credit Bank Ltd.	0.90	0.87	0.76	0.81	0.78	0.32
24	Global Trust Bank Ltd.	1.36	1.44	0.85	0.55	-3.56	-11.28
25	HDFC Bank Ltd.	1.89	1.02	1.35	1.25	1.27	1.20
26	ICICI Bank Ltd.	0.91	0.87	0.82	0.25	1.13	1.31
27	IDBI Bank Ltd.	0.90	1.35	0.39	0.79	0.90	1.02
28	IndusInd Bank Ltd.	0.60	0.70	0.47	0.50	0.91	1.74
29	Kotak Mahindra Bank Ltd.	–	–	–	–	2.09	1.35
30	UTI Bank Ltd.	0.79	0.76	0.80	0.93	0.98	1.15
	New Private Sector Banks	**1.03**	**0.97**	**0.81**	**0.44**	**0.90**	**0.83**
	Private Sector Banks	**0.68**	**0.88**	**0.70**	**0.66**	**1.00**	**0.95**

Appendix Table III.16(D): Interest Income as Percentage of Total Assets – Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	9.54	10.04	10.20	9.41	7.71	5.95
2	Bharat Overseas Bank Ltd.	9.45	8.63	8.54	7.94	7.21	7.05
3	Catholic Syrian Bank Ltd.	10.98	10.53	10.48	9.68	8.98	8.29
4	City Union Bank Ltd.	10.59	11.40	10.08	9.51	8.91	8.65
5	Dhanalakshmi Bank Ltd.	10.31	10.24	10.45	9.59	8.98	7.82
6	Federal Bank Ltd.	10.64	11.60	10.42	10.28	9.11	7.89
7	Ganesh Bank of Kurundwad Ltd.	11.01	10.95	10.61	10.04	9.39	8.29
8	ING Vysya Bank Ltd.	9.55	8.88	8.76	8.61	7.89	7.00
9	Jammu & Kashmir Bank Ltd.	9.23	8.38	8.46	9.21	8.50	7.17
10	Karnataka Bank Ltd.	10.09	10.07	9.79	9.57	8.76	8.02
11	Karur Vysya Bank Ltd.	10.82	11.16	10.88	9.44	8.35	9.11
12	Lakshmi Vilas Bank Ltd.	9.95	9.62	9.61	9.53	8.48	7.48
13	Lord Krishna Bank Ltd.	12.38	9.37	8.75	8.36	8.37	6.39
14	Nainital Bank Ltd.	10.31	9.54	9.72	9.55	8.78	8.20
15	Ratnakar Bank Ltd.	10.26	9.91	10.18	9.39	8.79	7.99
16	Sangli Bank Ltd.	9.01	8.36	9.11	8.00	7.65	6.77
17	SBI Commercial & International Bank Ltd.	11.44	9.40	10.17	8.07	8.30	8.08
18	South Indian Bank Ltd.	11.18	10.55	10.36	9.39	8.62	7.35
19	Tamilnad Mercantile Bank Ltd.	10.05	10.14	10.24	10.12	9.99	10.56
20	United Western Bank Ltd.	8.55	8.70	8.29	9.59	7.99	6.48
	Old Private Sector Banks	**9.92**	**9.66**	**9.53**	**9.36**	**8.50**	**7.56**
21	Bank of Punjab Ltd.	8.80	8.23	9.11	9.35	8.24	7.02
22	Centurion Bank Ltd.	12.71	8.50	9.29	11.57	10.97	9.41
23	Development Credit Bank Ltd.	9.14	8.02	9.84	9.01	8.14	6.54
24	Global Trust Bank Ltd.	9.45	9.22	9.48	9.91	7.04	4.92
25	HDFC Bank Ltd.	8.65	5.80	8.06	7.16	6.62	6.02
26	ICICI Bank Ltd.	7.79	7.06	6.29	2.07	8.77	7.10
27	IDBI Bank Ltd.	8.63	9.38	10.80	7.66	7.54	5.67
28	IndusInd Bank Ltd.	9.62	7.97	8.42	6.96	7.50	6.54
29	Kotak Mahindra Bank Ltd.	–	–	–	–	8.42	4.96
30	UTI Bank Ltd.	9.53	7.25	8.26	8.20	7.47	6.57
	New Private Sector Banks	**9.19**	**7.60**	**8.17**	**4.48**	**8.13**	**6.66**
	Private Sector Banks	**9.65**	**8.74**	**8.87**	**6.18**	**8.26**	**6.95**

Appendix Table III.16(E): Interest Expended as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	7.78	7.69	7.13	6.73	4.76	3.70
2	Bharat Overseas Bank Ltd.	7.41	6.48	5.74	5.59	4.73	4.02
3	Catholic Syrian Bank Ltd.	9.01	8.18	7.75	7.36	6.67	5.45
4	City Union Bank Ltd.	8.72	8.38	7.17	7.06	6.37	5.64
5	Dhanalakshmi Bank Ltd.	8.15	7.74	8.10	7.34	6.46	4.98
6	Federal Bank Ltd.	9.56	9.23	7.73	7.55	6.33	5.10
7	Ganesh Bank of Kurundwad Ltd.	8.95	8.55	8.52	8.28	7.91	7.16
8	ING Vysya Bank Ltd.	8.30	7.65	7.05	6.91	6.00	5.15
9	Jammu & Kashmir Bank Ltd.	5.73	5.66	5.66	6.23	5.36	4.25
10	Karnataka Bank Ltd.	7.71	8.08	7.52	7.76	7.09	6.00
11	Karur Vysya Bank Ltd.	7.91	7.50	7.21	6.22	5.61	4.93
12	Lakshmi Vilas Bank Ltd.	7.64	7.03	7.07	7.36	6.34	5.30
13	Lord Krishna Bank Ltd.	10.72	7.97	7.31	7.59	6.95	5.09
14	Nainital Bank Ltd.	6.20	5.71	5.91	5.68	5.08	4.33
15	Ratnakar Bank Ltd.	7.14	7.09	7.11	6.50	6.10	5.26
16	Sangli Bank Ltd.	6.26	5.79	5.96	5.58	5.46	4.14
17	SBI Commercial & International Bank Ltd.	10.06	7.42	8.95	7.30	6.16	5.33
18	South Indian Bank Ltd.	8.71	7.88	7.49	7.02	6.28	5.19
19	Tamilnad Mercantile Bank Ltd.	7.10	7.26	6.95	6.77	6.40	6.33
20	United Western Bank Ltd.	6.25	6.32	6.33	7.62	6.00	4.77
	Old Private Sector Banks	**7.77**	**7.33**	**7.02**	**6.97**	**6.03**	**4.96**
21	Bank of Punjab Ltd.	6.86	5.92	6.09	7.03	5.94	4.38
22	Centurion Bank Ltd.	9.54	6.96	7.56	9.09	7.95	5.74
23	Development Credit Bank Ltd.	7.09	6.21	7.64	6.87	6.52	4.76
24	Global Trust Bank Ltd.	8.43	6.72	7.36	8.70	6.75	6.04
25	HDFC Bank Ltd.	5.27	3.19	4.83	4.51	3.92	2.86
26	ICICI Bank Ltd.	6.09	5.52	4.24	1.50	7.44	5.60
27	IDBI Bank Ltd.	6.75	7.37	8.74	5.50	5.00	3.12
28	IndusInd Bank Ltd.	7.76	6.27	6.58	5.36	5.64	4.44
29	Kotak Mahindra Bank Ltd.	–	–	–	–	4.03	2.03
30	UTI Bank Ltd.	7.68	5.89	7.35	6.81	5.82	4.23
	New Private Sector Banks	**7.21**	**5.64**	**6.03**	**3.33**	**6.43**	**4.68**
	Private Sector Banks	**7.56**	**6.58**	**6.54**	**4.60**	**6.29**	**4.77**

Appendix Table III.16(F): Net Interest Income (Spread) as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	1.76	2.35	3.07	2.69	2.95	2.25
2	Bharat Overseas Bank Ltd.	2.05	2.15	2.80	2.34	2.48	3.03
3	Catholic Syrian Bank Ltd.	1.97	2.34	2.72	2.32	2.32	2.84
4	City Union Bank Ltd.	1.87	3.03	2.91	2.45	2.53	3.02
5	Dhanalakshmi Bank Ltd.	2.16	2.49	2.34	2.25	2.53	2.84
6	Federal Bank Ltd.	1.09	2.37	2.69	2.72	2.78	2.79
7	Ganesh Bank of Kurundwad Ltd.	2.06	2.40	2.09	1.77	1.48	1.13
8	ING Vysya Bank Ltd.	1.25	1.24	1.71	1.70	1.89	1.85
9	Jammu & Kashmir Bank Ltd.	3.49	2.71	2.81	2.98	3.13	2.92
10	Karnataka Bank Ltd.	2.38	1.99	2.28	1.81	1.67	2.02
11	Karur Vysya Bank Ltd.	2.91	3.66	3.67	3.22	2.74	4.18
12	Lakshmi Vilas Bank Ltd.	2.31	2.59	2.55	2.17	2.13	2.18
13	Lord Krishna Bank Ltd.	1.66	1.41	1.44	0.77	1.42	1.30
14	Nainital Bank Ltd.	4.11	3.83	3.81	3.87	3.70	3.87
15	Ratnakar Bank Ltd.	3.12	2.82	3.07	2.89	2.70	2.73
16	Sangli Bank Ltd.	2.75	2.57	3.14	2.42	2.19	2.63
17	SBI Commercial & International Bank Ltd.	1.38	1.98	1.22	0.78	2.15	2.76
18	South Indian Bank Ltd.	2.46	2.66	2.87	2.37	2.33	2.16
19	Tamilnad Mercantile Bank Ltd.	2.96	2.88	3.29	3.35	3.58	4.24
20	United Western Bank Ltd.	2.30	2.38	1.96	1.97	1.99	1.71
	Old Private Sector Banks	**2.15**	**2.33**	**2.51**	**2.39**	**2.47**	**2.60**
21	Bank of Punjab Ltd.	1.95	2.31	3.03	2.32	2.30	2.65
22	Centurion Bank Ltd.	3.17	1.54	1.73	2.48	3.01	3.66
23	Development Credit Bank Ltd.	2.05	1.81	2.20	2.14	1.62	1.77
24	Global Trust Bank Ltd.	1.02	2.50	2.11	1.21	0.29	-1.12
25	HDFC Bank Ltd.	3.38	2.60	3.24	2.65	2.70	3.16
26	ICICI Bank Ltd.	1.70	1.54	2.05	0.57	1.33	1.50
27	IDBI Bank Ltd.	1.87	2.02	2.06	2.16	2.54	2.55
28	IndusInd Bank Ltd.	1.86	1.70	1.84	1.60	1.86	2.10
29	Kotak Mahindra Bank Ltd.	–	–	–	–	4.38	2.93
30	UTI Bank Ltd.	1.86	1.36	0.91	1.38	1.64	2.34
	New Private Sector Banks	**1.98**	**1.95**	**2.14**	**1.15**	**1.70**	**1.98**
	Private Sector Banks	**2.09**	**2.16**	**2.33**	**1.58**	**1.97**	**2.18**

Appendix Table III.16(G): Provisions & Contingencies as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	1.53	0.16	0.59	0.86	1.31	1.37
2	Bharat Overseas Bank Ltd.	0.37	1.20	1.02	1.45	0.85	0.77
3	Catholic Syrian Bank Ltd.	0.20	0.70	1.25	1.53	1.72	1.55
4	City Union Bank Ltd.	0.89	1.88	1.54	1.64	1.79	1.90
5	Dhanalakshmi Bank Ltd.	0.68	1.18	1.06	2.15	2.30	2.02
6	Federal Bank Ltd.	0.58	1.17	1.43	2.20	2.02	1.99
7	Ganesh Bank of Kurundwad Ltd.	0.46	0.67	0.20	0.64	0.99	0.28
8	ING Vysya Bank Ltd.	0.41	0.85	0.75	1.27	1.36	1.54
9	Jammu & Kashmir Bank Ltd.	1.15	1.06	0.83	1.37	1.29	1.05
10	Karnataka Bank Ltd.	0.61	0.70	1.36	2.06	1.55	1.86
11	Karur Vysya Bank Ltd.	0.79	1.01	0.91	1.04	1.17	0.75
12	Lakshmi Vilas Bank Ltd.	0.50	1.26	1.28	1.65	1.44	1.31
13	Lord Krishna Bank Ltd.	0.90	0.79	0.72	1.79	1.52	0.84
14	Nainital Bank Ltd.	1.15	0.83	1.04	0.91	0.52	0.98
15	Ratnakar Bank Ltd.	0.33	0.76	1.07	2.69	1.43	0.67
16	Sangli Bank Ltd.	0.66	0.81	0.70	0.93	0.46	0.80
17	SBI Commercial & International Bank Ltd.	0.69	1.48	7.99	1.40	4.23	1.64
18	South Indian Bank Ltd.	0.81	1.23	1.26	1.69	1.89	1.70
19	Tamilnad Mercantile Bank Ltd.	0.99	1.04	1.41	1.52	1.52	1.75
20	United Western Bank Ltd.	0.68	1.80	1.16	2.49	1.85	1.43
	Old Private Sector Banks	**0.73**	**1.01**	**1.15**	**1.62**	**1.50**	**1.45**
21	Bank of Punjab Ltd.	0.44	0.65	0.80	1.54	1.79	1.36
22	Centurion Bank Ltd.	0.32	0.59	0.86	2.60	1.39	3.30
23	Development Credit Bank Ltd.	0.37	1.02	0.86	1.66	0.57	0.68
24	Global Trust Bank Ltd.	0.65	1.85	1.27	1.47	4.03	10.18
25	HDFC Bank Ltd.	1.01	1.19	1.10	1.04	1.06	1.18
26	ICICI Bank Ltd.	0.88	1.01	0.65	0.28	1.28	0.59
27	IDBI Bank Ltd.	0.23	0.50	1.00	1.06	1.12	1.17
28	IndusInd Bank Ltd.	1.19	1.69	1.53	1.98	2.36	1.21
29	Kotak Mahindra Bank Ltd.	–	–	–	–	2.07	0.82
30	UTI Bank Ltd.	0.95	0.98	0.43	1.90	1.11	1.69
	New Private Sector Banks	**0.75**	**1.14**	**0.93**	**0.78**	**1.41**	**1.21**
	Private Sector Banks	**0.74**	**1.07**	**1.04**	**1.07**	**1.44**	**1.29**

Appendix Table III.16(H): Operating Expenses as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	3.25	3.23	3.04	3.02	2.59	2.15
2	Bharat Overseas Bank Ltd.	2.14	2.12	2.21	2.16	1.93	2.13
3	Catholic Syrian Bank Ltd.	2.80	2.96	2.71	2.56	2.66	2.73
4	City Union Bank Ltd.	2.06	1.99	1.80	1.68	1.52	1.41
5	Dhanalakshmi Bank Ltd.	2.17	2.15	2.42	2.68	2.84	2.48
6	Federal Bank Ltd.	1.88	2.33	1.98	1.89	1.82	1.87
7	Ganesh Bank of Kurundwad Ltd.	2.41	2.19	2.14	2.07	2.24	2.26
8	ING Vysya Bank Ltd.	1.90	1.98	1.80	2.42	2.91	2.62
9	Jammu & Kashmir Bank Ltd.	1.78	1.51	1.30	1.59	1.55	1.38
10	Karnataka Bank Ltd.	1.89	1.84	1.58	1.68	1.52	1.46
11	Karur Vysya Bank Ltd.	2.24	2.29	2.33	2.10	1.69	2.21
12	Lakshmi Vilas Bank Ltd.	3.08	2.78	2.50	2.47	2.26	2.08
13	Lord Krishna Bank Ltd.	2.33	1.82	1.85	2.21	2.28	2.06
14	Nainital Bank Ltd.	2.69	2.67	2.65	2.55	2.81	2.99
15	Ratnakar Bank Ltd.	2.90	3.23	2.84	3.12	2.58	2.48
16	Sangli Bank Ltd.	3.03	2.80	2.92	2.87	2.82	2.75
17	SBI Commercial & International Bank Ltd.	1.25	1.14	1.45	1.20	1.50	1.63
18	South Indian Bank Ltd.	2.51	2.53	2.21	1.84	1.86	2.09
19	Tamilnad Mercantile Bank Ltd.	2.25	2.14	1.90	1.99	1.97	2.23
20	United Western Bank Ltd.	2.02	1.94	1.83	1.96	2.10	1.71
	Old Private Sector Banks	**2.26**	**2.17**	**1.99**	**2.07**	**2.05**	**1.97**
21	Bank of Punjab Ltd.	1.99	2.07	2.45	2.88	2.92	3.26
22	Centurion Bank Ltd.	3.60	2.00	2.42	3.84	4.68	5.10
23	Development Credit Bank Ltd.	2.36	1.82	1.82	1.95	2.23	2.41
24	Global Trust Bank Ltd.	1.82	1.64	1.73	2.32	2.31	2.21
25	HDFC Bank Ltd.	2.04	1.46	1.98	1.76	1.90	1.91
26	ICICI Bank Ltd.	1.19	1.27	1.70	0.60	1.88	2.05
27	IDBI Bank Ltd.	1.59	1.39	2.08	2.15	2.61	1.97
28	IndusInd Bank Ltd.	1.41	1.13	1.19	0.93	1.19	1.44
29	Kotak Mahindra Bank Ltd.	–	–	–	–	3.57	2.40
30	UTI Bank Ltd.	1.30	0.98	1.20	1.44	1.65	1.74
	New Private Sector Banks	**1.74**	**1.42**	**1.75**	**1.10**	**1.96**	**2.04**
	Private Sector Banks	**2.07**	**1.83**	**1.87**	**1.44**	**1.99**	**2.02**

Appendix Table III.17(A): Select Financial Parameters of Foreign Banks
(As at end-March 2004)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Fund	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	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
	Foreign Banks										
1	ABN-AMRO Bank N.V.	11.49	1.99	13.48	0.88	6.61	3.29	3.11	1.84	891.45	15.22
2	Abu Dhabi Commercial Bank Ltd.	12.07	2.15	14.22	27.39	8.35	0.43	0.70	0.50	1,407.67	12.68
3	American Express Bank Ltd.	10.34	0.40	10.74	5.68	9.89	7.12	3.24	-0.69	284.91	-1.67
4	Antwerp Diamond Bank	36.28	16.94	53.22	0.00	5.26	0.89	2.97	1.18	1,723.61	32.85
5	Arab Bangladesh Bank Ltd.	109.91	1.43	111.34	0.37	4.31	4.70	6.26	3.67	221.45	12.90
6	Bank Internasional Indonesia	133.80	0.14	133.94	72.15	5.28	0.18	0.09	-0.33	326.47	-1.56
7	Bank of America NA	15.68	7.24	22.92	0.00	5.57	1.62	2.08	1.26	1,747.56	24.12
8	Bank of Bahrain & Kuwait B.S.C.	19.46	1.60	21.06	17.73	5.94	2.16	1.27	0.12	784.00	1.00
9	Bank of Ceylon	44.23	1.03	45.26	21.85	4.99	2.16	2.89	0.36	637.48	2.66
10	Bank of Nova Scotia	13.11	0.67	13.78	9.07	5.06	1.76	2.19	0.64	1,678.52	9.96
11	Bank of Tokyo-Mitsubishi Ltd.	22.11	10.67	32.78	0.10	6.84	6.99	8.41	6.96	582.27	48.58
12	Barclays Bank PLC	34.85	2.31	37.16	0.00	4.25	16.57	16.31	5.20	270.79	211.40
13	BNP Paribas	13.42	8.28	21.70	2.70	7.08	1.77	1.41	-0.44	921.94	-3.99
14	Chinatrust Commercial Bank	37.91	2.07	39.98	5.76	10.61	1.13	4.86	1.15	800.45	7.69
15	Chohung Bank	52.89	1.54	54.43	0.80	5.54	2.42	4.75	1.93	744.38	29.62
16	Citibank N.A.	8.79	2.32	11.11	1.40	8.17	3.18	4.42	3.55	1,666.92	28.33
17	Calyon Bank (Credit Agricole Indosuez)	23.39	1.12	24.51	1.01	7.18	-0.81	-0.24	0.51	1,006.21	8.63
18	Credit Lyonnais	13.30	8.40	21.70	2.60	8.40	2.40	1.70	0.70	1,401.56	9.41
19	Deutsche Bank AG	9.32	5.10	14.42	0.00	4.76	9.57	8.00	3.17	1,099.23	65.23
20	Development Bank of Singapore Ltd.	54.53	0.96	55.49	0.00	6.94	0.66	2.79	-1.69	1,669.70	-27.60
21	HSBC Ltd.	11.17	3.37	14.54	0.70	6.50	3.24	3.55	0.91	820.91	6.32
22	ING Bank N.V.	56.91	0.00	56.91	0.09	1.77	3.08	0.67	-0.05	0.00	-5.21
23	JPMorgan Chase Bank	32.99	1.84	34.83	0.00	7.43	4.11	5.12	2.34	259.33	28.74
24	Krung Thai Bank Public Co. Ltd.	114.54	1.44	115.98	0.00	5.76	0.28	1.64	1.37	291.03	7.12
25	Mashreqbank psc	53.15	1.56	54.71	0.00	9.33	0.67	1.72	1.76	865.85	50.53
26	Mizuho Corporate Bank Ltd.	35.41	0.68	36.09	0.00	7.15	1.09	3.10	2.41	527.80	16.05
27	Oman International Bank S.A.O.G.	16.25	0.23	16.48	61.37	5.00	1.58	-0.22	-0.49	1,233.79	-5.61
28	Societe Generale	30.20	2.51	32.71	1.37	4.22	2.87	2.73	2.14	1,017.00	25.40
29	Sonali Bank	59.94	0.61	60.55	1.47	4.11	12.68	6.64	3.34	74.54	2.57
30	Standard Chartered Bank	7.11	3.76	10.87	0.52	9.08	2.52	4.95	1.74	780.11	13.37
31	State Bank of Mauritius Ltd.	33.73	1.35	35.08	4.64	6.04	2.95	4.65	1.33	1,523.00	20.00
32	Sumitomo Mitsui Banking Corporation	42.85	9.45	52.30	12.78	8.44	1.15	4.62	-13.71	297.32	-70.55
33	UFJ Bank Ltd.	120.61	1.08	121.69	0.00	5.25	1.20	3.86	1.75	535.72	17.35

Note : Figures reported in this Table may not exactly tally with the data reported in Appendix Tables III.17(B) to III.17(H) due to conceptual differences.
Source : Balance sheets of respective banks.

Appendix Table III.17(B): Gross Profit/Loss as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	3.68	3.05	3.51	3.68	3.13	3.38
2	Abu Dhabi Commercial Bank Ltd.	2.43	2.50	1.35	0.90	0.69	0.70
3	American Express Bank Ltd.	1.79	2.74	1.81	3.80	3.37	2.95
4	Antwerp Diamond Bank	–	–	–	–	1.09	2.29
5	Arab Bangladesh Bank Ltd.	6.15	6.08	7.09	6.40	5.26	6.93
6	Bank Internasional Indonesia	-6.39	-9.75	-6.89	0.22	-2.93	0.04
7	Bank of America NA	3.95	5.02	3.36	3.56	2.71	2.34
8	Bank of Bahrain & Kuwait B.S.C.	0.67	1.74	1.49	2.72	2.23	1.23
9	Bank of Ceylon	7.51	6.34	4.91	5.49	2.58	2.98
10	Bank of Nova Scotia	4.44	3.11	2.19	2.70	3.19	1.95
11	Bank of Tokyo-Mitsubishi Ltd.	-27.32	-2.92	9.22	3.04	3.19	8.05
12	Barclays Bank PLC	2.00	-0.55	-0.09	4.51	8.42	8.42
13	BNP Paribas	2.24	2.27	1.36	-0.60	0.06	1.18
14	Chinatrust Commercial Bank	0.35	1.11	2.03	4.20	4.23	4.58
15	Chohung Bank	6.65	7.23	8.38	6.45	7.44	4.05
16	Citibank N.A.	4.00	3.41	3.55	3.97	3.44	4.17
17	Calyon Bank (Credit Agricole Indosuez)	0.64	-0.14	0.01	0.50	1.24	-0.27
18	Credit Lyonnais	4.63	4.10	3.49	2.26	1.43	1.56
19	Deutsche Bank AG	4.48	5.19	5.72	4.39	5.93	5.88
20	Development Bank of Singapore Ltd.	2.85	3.01	2.93	3.49	4.45	1.95
21	HSBC Ltd.	1.96	2.41	2.84	2.50	2.25	3.05
22	ING Bank N.V.	1.17	6.44	-2.44	0.06	-4.86	0.67
23	JPMorgan Chase Bank	4.14	5.83	10.32	8.29	5.19	3.75
24	Krung Thai Bank Public Co. Ltd.	6.22	3.57	4.94	4.38	2.75	1.66
25	Mashreqbank psc	0.05	0.41	0.41	3.26	4.01	1.84
26	Mizuho Corporate Bank Ltd.	1.42	-0.25	1.62	1.10	1.23	2.96
27	Oman International Bank S.A.O.G.	0.04	-0.20	-0.64	-2.05	-1.34	-0.17
28	Societe Generale	2.63	0.73	0.60	-0.05	0.58	2.61
29	Sonali Bank	12.89	4.11	5.87	3.66	2.15	6.35
30	Standard Chartered Bank	1.09	3.45	3.15	3.84	3.80	4.01
31	State Bank of Mauritius Ltd.	3.21	3.79	3.80	4.56	4.12	5.22
32	Sumitomo Mitsui Banking Corporation	3.15	2.74	2.49	3.30	4.33	4.62
33	UFJ Bank Ltd.	5.24	3.02	1.95	3.34	2.51	3.86
	Foreign Banks	**2.32**	**3.24**	**3.05**	**3.10**	**3.20**	**3.66**
	Scheduled Commercial Banks	**1.45**	**1.66**	**1.53**	**1.94**	**2.39**	**2.67**

Appendix Table III.17(C): Net Profit/Loss as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	2.20	1.58	0.40	1.72	1.56	1.84
2	Abu Dhabi Commercial Bank Ltd.	0.32	0.52	0.44	0.47	0.17	0.49
3	American Express Bank Ltd.	0.25	1.02	-0.62	0.27	-0.90	-0.69
4	Antwerp Diamond Bank	–	–	–	–	0.36	1.18
5	Arab Bangladesh Bank Ltd.	3.15	2.80	3.50	2.82	2.73	4.08
6	Bank Internasional Indonesia	-14.41	-8.10	-2.95	0.24	2.11	-0.22
7	Bank of America NA	1.99	2.70	1.25	1.72	1.74	1.26
8	Bank of Bahrain & Kuwait B.S.C.	0.71	0.90	0.81	1.25	1.06	0.12
9	Bank of Ceylon	2.33	2.62	0.95	0.02	0.27	0.36
10	Bank of Nova Scotia	2.20	1.46	1.06	1.00	0.78	0.57
11	Bank of Tokyo-Mitsubishi Ltd.	-4.29	4.87	7.57	4.08	3.27	6.96
12	Barclays Bank PLC	0.33	-2.10	1.35	1.78	2.87	5.20
13	BNP Paribas	1.06	0.94	0.33	-0.94	-0.53	-0.44
14	Chinatrust Commercial Bank	-0.26	0.25	0.63	1.00	2.12	1.15
15	Chohung Bank	3.68	0.50	3.15	3.42	2.47	1.92
16	Citibank N.A.	0.92	1.44	1.46	1.51	1.55	1.93
17	Calyon Bank (Credit Agricole Indosuez)	-0.64	-9.83	-1.62	0.99	0.36	0.51
18	Credit Lyonnais	1.74	1.58	0.19	0.31	0.60	0.70
19	Deutsche Bank AG	1.11	1.10	1.71	2.24	2.92	3.17
20	Development Bank of Singapore Ltd.	1.31	1.44	1.58	2.02	2.01	-1.31
21	HSBC Ltd.	0.58	0.96	1.26	0.87	0.72	1.55
22	ING Bank N.V.	0.03	-4.00	-3.97	-0.44	-12.92	-0.05
23	JPMorgan Chase Bank	1.87	2.87	5.06	3.18	3.10	2.34
24	Krung Thai Bank Public Co. Ltd.	4.31	0.26	2.22	0.02	-0.72	1.38
25	Mashreqbank psc	-2.73	-3.60	-3.10	1.59	3.25	1.76
26	Mizuho Corporate Bank Ltd.	0.16	-2.85	-3.30	-1.45	0.31	2.41
27	Oman International Bank S.A.O.G.	-2.85	-8.98	-4.41	-4.47	-1.83	-0.39
28	Societe Generale	-3.17	0.02	0.04	-2.29	-1.58	2.04
29	Sonali Bank	6.69	2.14	3.05	1.41	1.23	3.36
30	Standard Chartered Bank	0.04	1.81	1.51	2.02 *	2.92 *	1.74
31	State Bank of Mauritius Ltd.	1.81	1.48	1.05	0.85	1.05	1.33
32	Sumitomo Mitsui Banking Corporation	1.56	0.25	-1.95	-3.13	-7.05	-13.71
33	UFJ Bank Ltd.	1.02	0.14	0.25	0.05	0.31	1.88
	Foreign Banks	**0.69**	**1.17**	**0.93**	**1.32**	**1.56**	**1.65**
	Scheduled Commercial Banks	**0.47**	**0.66**	**0.49**	**0.75**	**1.01**	**1.13**

* Ratio calculated before Extra Ordinary Item.

Appendix Table III.17(D): Interest Income as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	9.24	8.05	10.18	10.16	7.92	7.18
2	Abu Dhabi Commercial Bank Ltd.	8.59	10.98	6.54	10.03	9.65	8.35
3	American Express Bank Ltd.	10.55	11.11	8.39	8.60	10.05	8.99
4	Antwerp Diamond Bank	–	–	–	–	4.61	4.06
5	Arab Bangladesh Bank Ltd.	6.81	7.23	7.77	6.19	4.65	4.78
6	Bank Internasional Indonesia	12.84	9.87	5.16	4.27	4.48	3.61
7	Bank of America NA	12.63	11.76	10.31	9.13	6.99	5.48
8	Bank of Bahrain & Kuwait B.S.C.	10.29	10.15	9.96	8.55	8.12	5.77
9	Bank of Ceylon	11.21	8.60	8.45	8.32	6.86	5.14
10	Bank of Nova Scotia	11.40	8.07	8.79	8.73	9.67	4.52
11	Bank of Tokyo-Mitsubishi Ltd.	10.23	13.02	10.53	8.62	9.70	6.55
12	Barclays Bank PLC	12.15	11.20	7.31	4.60	2.83	2.19
13	BNP Paribas	8.81	9.60	9.68	7.54	9.11	5.93
14	Chinatrust Commercial Bank	7.60	12.44	10.70	13.35	11.17	10.01
15	Chohung Bank	8.81	8.80	9.86	7.11	10.38	4.72
16	Citibank N.A.	12.52	10.53	9.00	8.89	7.84	7.70
17	Calyon Bank (Credit Agricole Indosuez)	12.00	11.46	7.02	5.95	8.28	8.42
18	Credit Lyonnais	13.82	13.22	12.32	10.44	8.44	7.73
19	Deutsche Bank AG	9.72	10.13	9.77	8.17	5.67	3.50
20	Development Bank of Singapore Ltd.	11.69	8.34	8.92	7.92	10.58	4.86
21	HSBC Ltd.	8.30	7.84	8.29	7.83	7.08	5.58
22	ING Bank N.V.	10.48	16.88	4.84	4.65	9.82	1.77
23	JPMorgan Chase Bank	8.56	5.17	8.43	6.32	4.78	5.43
24	Krung Thai Bank Public Co. Ltd.	7.92	9.20	9.46	8.71	6.90	5.77
25	Mashreqbank psc	10.78	9.90	8.36	11.18	12.19	10.02
26	Mizuho Corporate Bank Ltd.	10.75	7.75	10.64	8.39	8.40	6.84
27	Oman International Bank S.A.O.G.	8.53	8.39	6.36	4.42	4.11	4.00
28	Societe Generale	14.51	9.94	7.38	7.57	5.62	4.03
29	Sonali Bank	5.66	1.84	3.71	3.54	4.00	3.92
30	Standard Chartered Bank	10.74	10.51	9.12	8.12	7.80	7.35
31	State Bank of Mauritius Ltd.	7.50	8.08	9.03	9.27	6.10	6.78
32	Sumitomo Mitsui Banking Corporation	10.19	12.42	10.88	12.97	10.23	8.44
33	UFJ Bank Ltd.	11.35	9.05	8.38	9.62	6.11	5.25
	Foreign Banks	**10.27**	**9.93**	**9.27**	**8.56**	**7.68**	**6.60**
	Scheduled Commercial Banks	**9.18**	**8.97**	**8.88**	**8.26**	**8.28**	**7.29**

Appendix Table III.17(E): Interest Expended as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	5.94	4.83	6.24	5.49	4.01	2.94
2	Abu Dhabi Commercial Bank Ltd.	6.67	8.88	5.56	9.11	8.78	7.52
3	American Express Bank Ltd.	7.78	7.20	5.77	5.78	6.62	5.25
4	Antwerp Diamond Bank	–	–	–	–	1.24	1.06
5	Arab Bangladesh Bank Ltd.	1.32	1.41	1.16	0.69	0.77	0.77
6	Bank Internasional Indonesia	10.09	7.10	2.35	1.70	1.06	0.72
7	Bank of America NA	8.22	7.11	7.03	6.20	4.47	3.18
8	Bank of Bahrain & Kuwait B.S.C.	9.18	8.60	8.32	7.37	6.40	4.71
9	Bank of Ceylon	4.67	3.61	4.58	3.90	3.80	3.11
10	Bank of Nova Scotia	8.16	5.48	6.57	6.32	6.83	3.11
11	Bank of Tokyo-Mitsubishi Ltd.	6.59	6.68	4.30	3.92	4.45	1.73
12	Barclays Bank PLC	8.57	8.83	5.77	3.67	2.00	0.53
13	BNP Paribas	5.67	6.90	7.07	5.66	6.26	3.32
14	Chinatrust Commercial Bank	4.33	8.50	6.48	7.14	4.20	3.16
15	Chohung Bank	1.62	0.92	1.65	0.97	3.24	0.99
16	Citibank N.A.	7.08	5.97	5.02	5.13	4.08	3.12
17	Calyon Bank (Credit Agricole Indosuez)	9.17	8.99	5.56	4.96	5.98	5.55
18	Credit Lyonnais	10.20	9.70	9.22	8.90	7.16	6.09
19	Deutsche Bank AG	4.79	5.12	4.63	4.41	3.03	2.66
20	Development Bank of Singapore Ltd.	8.68	5.02	6.06	4.83	5.11	2.23
21	HSBC Ltd.	5.61	5.09	5.33	5.21	4.20	2.85
22	ING Bank N.V.	6.91	10.66	3.34	3.71	7.81	1.31
23	JPMorgan Chase Bank	9.49	4.40	5.48	3.01	1.25	1.32
24	Krung Thai Bank Public Co. Ltd.	0.44	1.41	1.18	0.68	0.34	0.49
25	Mashreqbank psc	8.43	7.67	7.26	8.96	8.76	7.61
26	Mizuho Corporate Bank Ltd.	5.99	6.00	7.65	6.18	5.74	2.32
27	Oman International Bank S.A.O.G.	9.09	8.85	6.87	6.38	5.83	4.35
28	Societe Generale	11.73	8.85	6.09	6.38	3.66	2.15
29	Sonali Bank	2.48	0.90	1.42	2.00	2.90	2.48
30	Standard Chartered Bank	7.17	6.27	5.38	4.61	3.93	3.12
31	State Bank of Mauritius Ltd.	4.72	4.96	5.95	6.57	3.61	3.80
32	Sumitomo Mitsui Banking Corporation	5.84	8.46	7.16	8.03	4.89	2.28
33	UFJ Bank Ltd.	5.72	4.81	4.49	5.36	2.73	0.71
	Foreign Banks	**6.79**	**6.01**	**5.64**	**5.34**	**4.33**	**3.13**
	Scheduled Commercial Banks	**6.41**	**6.25**	**6.03**	**5.70**	**5.51**	**4.43**

Appendix Table III.17(F): Net Interest Income (Spread) as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	3.30	3.22	3.94	4.67	3.90	4.23
2	Abu Dhabi Commercial Bank Ltd.	1.93	2.09	0.98	0.92	0.87	0.83
3	American Express Bank Ltd.	2.78	3.91	2.61	2.82	3.43	3.74
4	Antwerp Diamond Bank	–	–	–	–	3.36	2.99
5	Arab Bangladesh Bank Ltd.	5.49	5.82	6.61	5.50	3.89	4.01
6	Bank Internasional Indonesia	2.75	2.77	2.81	2.57	3.42	2.88
7	Bank of America NA	4.41	4.65	3.28	2.93	2.52	2.30
8	Bank of Bahrain & Kuwait B.S.C.	1.11	1.55	1.64	1.18	1.72	1.06
9	Bank of Ceylon	6.54	4.98	3.87	4.43	3.06	2.03
10	Bank of Nova Scotia	3.24	2.60	2.21	2.41	2.84	1.41
11	Bank of Tokyo-Mitsubishi Ltd.	3.64	6.34	6.23	4.70	5.25	4.82
12	Barclays Bank PLC	3.58	2.37	1.55	0.94	0.83	1.67
13	BNP Paribas	3.14	2.70	2.61	1.88	2.85	2.61
14	Chinatrust Commercial Bank	3.27	3.93	4.22	6.21	6.97	6.85
15	Chohung Bank	7.19	7.87	8.21	6.14	7.15	3.73
16	Citibank N.A.	3.44	4.55	3.98	3.76	3.76	4.58
17	Calyon Bank (Credit Agricole Indosuez)	2.83	2.48	1.46	0.99	2.30	2.87
18	Credit Lyonnais	3.63	3.52	3.10	1.54	1.28	1.63
19	Deutsche Bank AG	4.93	5.00	5.14	3.76	2.65	0.84
20	Development Bank of Singapore Ltd.	3.01	3.33	2.85	3.10	5.47	2.64
21	HSBC Ltd.	2.69	2.75	2.96	2.63	2.88	2.73
22	ING Bank N.V.	3.56	6.22	1.50	0.94	2.01	0.46
23	JPMorgan Chase Bank	-0.92	0.77	2.95	3.30	3.53	4.12
24	Krung Thai Bank Public Co. Ltd.	7.48	7.79	8.28	8.03	6.56	5.28
25	Mashreqbank psc	2.35	2.23	1.11	2.22	3.43	2.41
26	Mizuho Corporate Bank Ltd.	4.75	1.76	2.98	2.21	2.66	4.52
27	Oman International Bank S.A.O.G.	-0.57	-0.47	-0.51	-1.96	-1.72	-0.36
28	Societe Generale	2.78	1.09	1.29	1.19	1.96	1.88
29	Sonali Bank	3.18	0.94	2.29	1.55	1.10	1.44
30	Standard Chartered Bank	3.57	4.24	3.74	3.51	3.87	4.23
31	State Bank of Mauritius Ltd.	2.78	3.12	3.08	2.70	2.50	2.98
32	Sumitomo Mitsui Banking Corporation	4.35	3.96	3.72	4.94	5.35	6.16
33	UFJ Bank Ltd.	5.63	4.24	3.89	4.27	3.37	4.55
	Foreign Banks	**3.47**	**3.92**	**3.63**	**3.22**	**3.35**	**3.46**
	Scheduled Commercial Banks	**2.78**	**2.73**	**2.85**	**2.57**	**2.77**	**2.86**

Appendix Table III.17(G): Provisions & Contingencies as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	1.47	1.47	3.11	1.96	1.57	1.54
2	Abu Dhabi Commercial Bank Ltd.	2.11	1.98	0.91	0.43	0.52	0.21
3	American Express Bank Ltd.	1.54	1.73	2.42	3.53	4.26	3.64
4	Antwerp Diamond Bank	–	–	–	–	0.73	1.11
5	Arab Bangladesh Bank Ltd.	3.00	3.28	3.58	3.58	2.53	2.85
6	Bank Internasional Indonesia	8.02	-1.65	-3.93	-0.01	-5.03	0.26
7	Bank of America NA	1.96	2.32	2.12	1.84	0.97	1.08
8	Bank of Bahrain & Kuwait B.S.C.	-0.04	0.84	0.68	1.48	1.17	1.11
9	Bank of Ceylon	5.17	3.73	3.95	5.48	2.30	2.62
10	Bank of Nova Scotia	2.24	1.65	1.13	1.71	2.41	1.38
11	Bank of Tokyo-Mitsubishi Ltd.	-23.03	-7.78	1.64	-1.03	-0.08	1.09
12	Barclays Bank PLC	1.68	1.55	-1.43	2.73	5.55	3.21
13	BNP Paribas	1.18	1.32	1.02	0.35	0.59	1.61
14	Chinatrust Commercial Bank	0.62	0.86	1.40	3.21	2.11	3.43
15	Chohung Bank	2.97	6.73	5.23	3.02	4.97	2.13
16	Citibank N.A.	3.08	1.98	2.09	2.45	1.89	2.24
17	Calyon Bank (Credit Agricole Indosuez)	1.27	9.69	1.64	-0.49	0.87	-0.78
18	Credit Lyonnais	2.90	2.51	3.30	1.95	0.83	0.86
19	Deutsche Bank AG	3.37	4.09	4.02	2.15	3.01	2.71
20	Development Bank of Singapore Ltd.	1.54	1.58	1.35	1.47	2.44	3.27
21	HSBC Ltd.	1.38	1.45	1.58	1.63	1.53	1.49
22	ING Bank N.V.	1.14	10.43	1.53	0.50	8.05	0.72
23	JPMorgan Chase Bank	2.26	2.96	5.25	5.11	2.09	1.41
24	Krung Thai Bank Public Co. Ltd.	1.90	3.31	2.73	4.35	3.47	0.28
25	Mashreqbank psc	2.78	4.02	3.52	1.67	0.76	0.08
26	Mizuho Corporate Bank Ltd.	1.26	2.59	4.92	2.55	0.92	0.55
27	Oman International Bank S.A.O.G.	2.89	8.78	3.76	2.41	0.48	0.22
28	Societe Generale	5.80	0.71	0.57	2.24	2.16	0.57
29	Sonali Bank	6.20	1.97	2.82	2.25	0.91	2.99
30	Standard Chartered Bank	1.05	1.64	1.64	1.82	0.89	2.27
31	State Bank of Mauritius Ltd.	1.40	2.31	2.75	3.72	3.07	3.89
32	Sumitomo Mitsui Banking Corporation	1.59	2.49	4.44	6.43	11.37	18.34
33	UFJ Bank Ltd.	4.22	2.88	1.70	3.29	2.20	1.99
	Foreign Banks	**1.63**	**2.08**	**2.12**	**1.78**	**1.63**	**2.01**
	Scheduled Commercial Banks	**0.98**	**1.00**	**1.03**	**1.19**	**1.39**	**1.54**

Appendix Table III.17(H): Operating Expenses as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	2.08	1.83	2.58	3.62	3.47	4.43
2	Abu Dhabi Commercial Bank Ltd.	0.97	1.10	0.44	0.49	0.79	0.56
3	American Express Bank Ltd.	4.52	6.38	6.58	5.49	6.33	7.27
4	Antwerp Diamond Bank	–	–	–	–	2.60	1.39
5	Arab Bangladesh Bank Ltd.	1.95	2.08	2.40	1.89	2.23	2.30
6	Bank Internasional Indonesia	12.25	15.03	11.49	3.85	7.27	2.97
7	Bank of America NA	1.94	3.26	1.60	1.76	1.42	1.55
8	Bank of Bahrain & Kuwait B.S.C.	1.82	1.75	1.75	1.39	1.71	1.92
9	Bank of Ceylon	1.99	1.54	1.58	1.29	1.55	1.54
10	Bank of Nova Scotia	1.55	1.43	0.96	1.07	1.36	1.03
11	Bank of Tokyo-Mitsubishi Ltd.	33.47	14.70	4.45	4.88	4.70	3.46
12	Barclays Bank PLC	3.60	3.67	2.81	1.87	1.94	1.80
13	BNP Paribas	2.19	2.32	2.82	3.59	4.01	2.92
14	Chinatrust Commercial Bank	3.01	3.30	2.79	3.34	3.72	3.33
15	Chohung Bank	2.80	2.43	2.30	1.75	2.43	1.74
16	Citibank N.A.	3.53	3.88	3.15	3.52	3.32	3.41
17	Calyon Bank (Credit Agricole Indosuez)	2.99	3.78	2.27	1.62	1.96	2.20
18	Credit Lyonnais	1.80	2.07	1.73	2.06	2.55	2.31
19	Deutsche Bank AG	3.42	3.89	3.90	3.43	2.89	2.00
20	Development Bank of Singapore Ltd.	2.18	1.70	1.58	1.53	2.36	1.15
21	HSBC Ltd.	2.80	2.35	2.61	2.63	2.94	2.46
22	ING Bank N.V.	4.41	6.82	6.52	3.40	10.55	2.87
23	JPMorgan Chase Bank	11.11	5.60	5.36	7.24	2.72	3.38
24	Krung Thai Bank Public Co. Ltd.	5.00	4.65	4.41	4.33	4.25	3.90
25	Mashreqbank psc	3.53	3.39	2.05	1.88	2.05	1.28
26	Mizuho Corporate Bank Ltd.	3.98	2.63	2.58	2.14	2.65	2.61
27	Oman International Bank S.A.O.G.	1.54	1.25	1.25	1.18	1.36	1.07
28	Societe Generale	2.56	2.83	2.81	2.83	2.99	2.01
29	Sonali Bank	5.77	3.28	5.13	6.66	6.06	7.17
30	Standard Chartered Bank	5.11	3.29	3.04	2.22	1.98	2.26
31	State Bank of Mauritius Ltd.	1.23	0.92	0.84	1.19	1.21	1.08
32	Sumitomo Mitsui Banking Corporation	2.44	2.38	2.09	3.02	2.29	2.69
33	UFJ Bank Ltd.	2.00	2.41	3.27	1.85	1.66	1.89
	Foreign Banks	**3.59**	**3.22**	**3.05**	**3.00**	**2.79**	**2.75**
	Scheduled Commercial Banks	**2.67**	**2.50**	**2.64**	**2.19**	**2.24**	**2.20**

Appendix Table III.18: Investment Fluctuation Reserves (IFR) of Public Sector Banks

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	2003				2004			
		Investment		IFR	IFR as percentage to (AFS+HFT)	Investment		IFR	IFR as percentage to (AFS+HFT)
		AFS	HFT			AFS	HFT		
1	2	3	4	5	6	7	8	9	10
1	Allahabad Bank	8,854.60	91.46	123.81	1.38	11,421.04	0.00	330.65	2.90
2	Andhra Bank	7,801.39	275.76	201.94	2.50	7,540.01	225.15	388.26	5.00
3	Bank of Baroda	27,049.53	3.40	567.55	2.10	34,727.58	2.71	1,042.54	3.00
4	Bank of India	12,728.43	64.62	341.76	2.67	16,842.33	737.59	541.76	3.08
5	Bank of Maharashtra	9,183.70	24.11	183.75	2.00	9,875.25	0.00	327.75	3.32
6	Canara Bank	23,295.86	415.11	468.15	1.97	27,140.27	404.12	978.15	3.55
7	Central Bank of India	17,927.71	0.00	250.39	1.40	22,884.74	52.62	587.04	2.56
8	Corporation Bank	8,662.18	273.41	231.45	2.59	8,818.68	53.43	444.00	5.00
9	Dena Bank	5,904.31	133.86	0.00	–	7,296.04	123.90	0.00	–
10	Indian Bank	8,226.05	0.00	140.00	1.70	9,653.91	0.00	442.88	4.59
11	Indian Overseas Bank	15,267.41	62.65	256.14	1.67	15,380.31	0.00	481.14	3.13
12	Oriental Bank of Commerce	11,212.95	0.00	240.50	2.14	14,108.95	26.37	625.50	4.43
13	Punjab & Sind Bank	4,265.67	0.04	44.02	1.03	4,690.34	0.00	59.02	1.26
14	Punjab National Bank	24,292.77	379.23	500.13	2.03	30,811.31	587.14	964.97	3.07
15	Syndicate Bank	10,115.33	485.99	213.23	2.01	13,704.40	259.13	418.91	3.00
16	UCO Bank	9,260.08	179.73	126.61	1.34	12,731.06	87.30	329.61	2.57
17	Union Bank of India	15,363.90	344.72	314.00	2.00	17,450.43	292.89	540.00	3.04
18	United Bank of India	9,087.75	476.28	0.00	–	10,350.67	516.06	0.00	–
19	Vijaya Bank	6,503.23	0.00	130.48	2.01	9,013.47	42.70	322.44	3.56
	Nationalised Banks	**2,35,002.85**	**3,210.37**	**4,333.91**	**1.82**	**2,84,440.79**	**3,411.11**	**8,824.62**	**3.07**
20	State Bank of India	1,31,525.24	9,655.59	2,271.15	1.61	1,50,093.51	1,667.78	4,371.16	2.88
21	State Bank of Bikaner & Jaipur	7,206.93	53.51	145.63	2.01	7,843.34	30.03	295.25	3.75
22	State Bank of Hyderabad	10,446.41	92.07	240.00	2.28	13,906.05	12.44	467.52	3.36
23	State Bank of Indore	3,578.42	596.47	110.47	2.65	4,206.30	27.76	220.47	5.21
24	State Bank of Mysore	3,783.81	16.17	80.00	2.11	4,448.03	11.92	156.00	3.50
25	State Bank of Patiala	7,251.32	151.47	297.58	4.02	8,652.03	282.25	402.87	4.51
26	State Bank of Saurashtra	4,100.63	6.65	82.90	2.02	5,282.00	59.25	176.90	3.31
27	State Bank of Travancore	6,372.61	0.00	135.04	2.12	9,004.44	0.00	277.56	3.08
	State Bank Group	**1,74,265.37**	**10,571.93**	**3,362.77**	**1.82**	**2,03,435.70**	**2,091.43**	**6,367.73**	**3.10**
	Public Sector Banks	**4,09,268.22**	**13,782.30**	**7,696.68**	**1.82**	**4,87,876.49**	**5,502.54**	**15,192.35**	**3.08**

Note : AFS : Available for sale , HFT: Held for trading.
Source : Balance sheets of respective banks.

Appendix Table III.19(A): Non-Performing Assets as percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
	Nationalised Banks	**5.44**	**5.21**	**4.66**	**3.85**	**2.95**	**2.69**	**2.16**	**1.40**
1	Allahabad Bank	8.26	8.08	6.56	4.09	4.87	4.68	3.16	1.05
2	Andhra Bank	2.31	2.50	2.35	2.28	1.07	1.13	0.84	0.44
3	Bank of Baroda	6.61	6.33	5.45	4.68	2.92	2.70	2.22	2.07
4	Bank of India	5.76	5.33	4.99	4.40	3.59	3.30	3.00	2.43
5	Bank of Maharashtra	4.60	4.22	3.84	2.96	2.61	2.23	1.84	0.89
6	Canara Bank	3.23	2.93	3.02	3.14	2.02	1.79	1.77	1.38
7	Central Bank of India	6.88	6.42	5.68	4.88	3.87	3.23	2.74	2.01
8	Corporation Bank	2.46	2.49	2.50	2.48	0.87	1.07	0.76	0.86
9	Dena Bank	10.77	10.59	8.02	6.70	7.15	6.51	4.95	3.99
10	Indian Bank	8.86	7.19	4.61	3.04	3.57	2.99	2.13	0.98
11	Indian Overseas Bank	5.39	5.13	4.61	3.33	3.03	2.70	2.22	1.22
12	Oriental Bank of Commerce	2.16	2.95	3.37	2.95	1.47	1.41	0.66	0.00
13	Punjab & Sind Bank	7.66	7.94	8.60	8.02	4.73	4.73	4.41	3.85
14	Punjab National Bank	5.45	5.68	5.78	4.56	2.95	2.48	1.77	0.44
15	Syndicate Bank	3.80	4.08	4.12	3.37	1.89	2.12	2.03	1.13
16	UCO Bank	4.67	4.25	3.91	3.38	2.38	2.31	2.00	1.72
17	Union Bank of India	5.28	5.46	4.68	4.02	3.08	3.02	2.45	1.45
18	United Bank of India	6.57	5.34	3.95	2.96	2.80	2.38	1.67	1.16
19	Vijaya Bank	4.17	3.73	2.65	1.62	2.50	2.31	1.08	0.42
	State Bank Group	**5.11**	**4.39**	**3.48**	**2.91**	**2.35**	**2.00**	**1.58**	**1.09**
20	State Bank of India	5.03	4.45	3.59	3.11	2.17	1.96	1.64	1.33
21	State Bank of Bikaner & Jaipur	5.15	3.77	3.23	2.39	2.95	2.21	1.57	0.53
22	State Bank of Hyderabad	5.84	4.06	2.83	2.26	3.01	1.89	1.21	0.25
23	State Bank of Indore	3.95	3.25	2.60	2.04	2.46	1.56	1.21	0.00
24	State Bank of Mysore	6.17	6.03	4.96	3.74	3.58	3.49	2.41	1.35
25	State Bank of Patiala	4.85	3.62	2.51	1.87	2.35	1.47	0.75	0.00
26	State Bank of Saurashtra	6.62	4.73	3.09	1.56	3.06	2.17	1.43	0.00
27	State Bank of Travancore	5.23	4.41	3.34	2.76	3.42	2.58	1.47	0.64
	Public Sector Banks	**5.31**	**4.89**	**4.21**	**3.50**	**2.72**	**2.42**	**1.93**	**1.28**

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(B): Non-Performing Assets as percentage of Advances - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
	Nationalised Banks	**12.16**	**11.01**	**9.72**	**8.21**	**7.01**	**6.01**	**4.74**	**3.13**
1	Allahabad Bank	17.66	16.94	13.65	8.66	11.21	10.55	7.07	2.37
2	Andhra Bank	6.13	5.26	4.89	4.60	2.95	2.45	1.79	0.93
3	Bank of Baroda	14.11	12.39	11.02	10.52	6.77	5.68	4.81	4.95
4	Bank of India	10.25	9.37	8.55	7.86	6.72	6.01	5.36	4.50
5	Bank of Maharashtra	12.35	10.44	9.55	7.70	7.41	5.81	4.83	2.46
6	Canara Bank	7.48	6.22	5.96	6.33	4.84	3.89	3.59	2.89
7	Central Bank of India	16.06	14.70	13.06	12.55	9.72	7.98	6.74	5.57
8	Corporation Bank	5.40	5.19	5.27	5.03	1.98	2.31	1.65	1.80
9	Dena Bank	25.31	24.11	17.86	14.82	18.29	16.31	11.82	9.40
10	Indian Bank	21.76	17.86	12.39	7.98	10.07	8.28	6.15	2.71
11	Indian Overseas Bank	11.81	11.35	10.29	7.40	7.01	6.32	5.23	2.85
12	Oriental Bank of Commerce	5.21	6.57	6.94	5.87	3.59	3.21	1.44	0.00
13	Punjab & Sind Bank	18.45	18.19	19.25	18.16	12.27	11.68	10.85	9.57
14	Punjab National Bank	11.71	11.38	11.58	9.35	6.69	5.27	3.80	0.95
15	Syndicate Bank	7.87	8.35	8.34	7.33	4.07	4.53	4.29	2.58
16	UCO Bank	11.64	9.59	8.24	6.93	6.30	5.65	4.38	3.65
17	Union Bank of India	11.20	10.77	8.96	7.59	6.86	6.26	4.91	2.87
18	United Bank of India	21.51	16.16	12.15	9.07	10.47	7.94	5.52	3.75
19	Vijaya Bank	10.00	9.39	6.18	3.44	6.22	6.02	2.61	0.91
	State Bank Group	**12.73**	**11.23**	**8.68**	**6.98**	**6.27**	**5.45**	**4.12**	**2.71**
20	State Bank of India	12.93	11.95	9.34	7.75	6.03	5.64	4.49	3.45
21	State Bank of Bikaner & Jaipur	12.91	9.36	8.15	5.36	7.83	5.77	4.16	1.25
22	State Bank of Hyderabad	14.08	10.08	7.28	5.60	7.83	4.96	3.26	0.65
23	State Bank of Indore	9.16	7.18	5.53	3.99	5.91	3.58	2.66	0.00
24	State Bank of Mysore	12.83	12.07	10.14	7.76	7.88	7.36	5.19	2.96
25	State Bank of Patiala	9.66	6.94	4.80	3.71	4.92	2.94	1.49	0.00
26	State Bank of Saurashtra	14.57	10.18	7.32	3.68	6.87	4.95	3.53	0.00
27	State Bank of Travancore	11.38	9.41	6.67	5.63	7.75	5.72	3.05	1.39
	Public Sector Banks	**12.37**	**11.09**	**9.36**	**7.79**	**6.74**	**5.82**	**4.53**	**2.98**

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(C): Non-Performing Assets as percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
	Old Private Sector Banks	**5.14**	**5.20**	**4.34**	**3.64**	**3.28**	**3.23**	**2.61**	**1.77**
1	Bank of Rajasthan Ltd.	8.22	6.92	4.34	2.81	3.28	3.61	2.46	0.86
2	Bharat Overseas Bank Ltd.	3.33	3.91	3.30	2.53	1.76	1.87	1.56	1.12
3	Catholic Syrian Bank Ltd.	6.31	5.47	5.24	4.07	4.22	3.45	3.01	2.05
4	City Union Bank Ltd.	6.96	6.31	5.92	5.25	3.91	3.72	3.78	3.09
5	Dhanalakshmi Bank Ltd.	7.96	7.73	7.03	5.59	6.00	5.80	4.98	3.27
6	Federal Bank Ltd.	7.28	6.29	4.33	3.97	5.55	4.39	2.52	1.47
7	Ganesh Bank of Kurundwad Ltd.	6.77	8.80	9.56	8.20	4.84	6.53	6.27	4.63
8	ING Vysya Bank Ltd.	2.12	1.91	1.77	1.41	2.03	1.89	6.27	4.63
9	Jammu & Kashmir Bank Ltd.	1.91	1.61	1.51	1.35	0.92	0.82	0.76	0.65
10	Karnataka Bank Ltd.	4.81	4.81	5.81	5.66	2.93	2.59	3.09	2.19
11	Karur Vysya Bank Ltd.	3.88	4.42	4.14	3.37	2.52	3.03	2.25	1.29
12	Lakshmi Vilas Bank Ltd.	5.62	7.71	6.60	5.67	3.66	5.00	3.93	2.86
13	Lord Krishna Bank Ltd.	7.27	6.07	4.54	3.66	5.36	4.72	3.12	2.60
14	Nainital Bank Ltd.	1.71	1.81	1.43	1.13	0.00	0.00	0.00	0.00
15	Ratnakar Bank Ltd.	4.72	5.34	5.31	4.76	3.12	3.40	3.13	2.37
16	Sangli Bank Ltd.	4.70	4.07	4.13	4.05	2.20	1.93	2.15	2.13
17	SBI Commercial & International Bank Ltd.	15.52	12.94	14.76	14.16	10.23	8.14	6.23	4.51
18	South Indian Bank Ltd.	4.93	5.12	4.53	3.55	3.36	3.38	2.83	2.06
19	Tamilnad Mercantile Bank Ltd.	6.66	7.59	7.21	6.28	2.58	2.75	3.59	2.06
20	United Western Bank Ltd.	5.92	7.58	7.50	7.23	4.41	5.55	5.01	4.70
	New Private Sector Banks	**2.05**	**3.90**	**3.76**	**2.42**	**1.18**	**2.10**	**2.16**	**1.10**
21	Bank of Punjab Ltd.	1.59	2.36	3.96	3.06	0.93	1.22	3.01	2.28
22	Centurion Bank Ltd.	2.63	5.56	6.75	6.24	1.21	2.44	3.07	1.94
23	Development Credit Bank Ltd.	4.18	5.14	5.89	3.92	3.20	3.57	4.37	2.20
24	Global Trust Bank Ltd.	2.52	5.89	11.95	18.28	1.62	3.83	8.45	8.73
25	HDFC Bank Ltd.	0.94	0.94	0.87	0.79	0.13	0.14	0.14	0.07
26	ICICI Bank Ltd.	2.07	4.82	4.71	2.43	0.78	2.48	2.60	1.10
27	IDBI Bank Ltd.	2.44	1.85	1.45	0.98	1.83	1.03	0.65	0.48
28	IndusInd Bank Ltd.	3.03	4.09	2.69	1.72	2.57	3.60	2.30	1.41
29	Kotak Mahindra Bank Ltd.	–	–	0.70	0.34	–	–	0.06	0.06
30	UTI Bank Ltd.	2.10	1.96	1.17	1.14	1.68	1.29	0.83	0.46
	Private Sector Banks	**3.65**	**4.36**	**3.97**	**2.82**	**2.27**	**2.49**	**2.32**	**1.32**

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(D): Non-Performing Assets as percentage of Advances - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
	Old Private Sector Banks	**10.94**	**11.01**	**8.86**	**7.58**	**7.30**	**7.13**	**5.54**	**3.84**
1	Bank of Rajasthan Ltd.	17.20	15.73	11.39	9.14	7.62	8.86	6.80	2.99
2	Bharat Overseas Bank Ltd.	7.58	8.77	6.75	4.99	4.14	4.38	3.30	2.26
3	Catholic Syrian Bank Ltd.	14.24	14.88	13.01	8.84	9.99	9.91	7.89	4.65
4	City Union Bank Ltd.	13.69	13.20	12.11	10.36	8.18	8.20	8.16	6.37
5	Dhanalakshmi Bank Ltd.	14.77	15.29	13.18	11.43	11.55	11.94	9.71	7.03
6	Federal Bank Ltd.	12.84	11.88	8.21	7.44	10.09	8.59	4.95	2.89
7	Ganesh Bank of Kurundwad Ltd.	13.63	18.08	18.42	17.32	10.12	14.08	12.90	10.59
8	ING Vysya Bank Ltd.	4.70	4.64	3.61	2.65	4.77	4.59	3.55	2.60
9	Jammu & Kashmir Bank Ltd.	4.97	3.62	3.11	3.03	2.46	1.88	1.59	1.49
10	Karnataka Bank Ltd.	10.58	10.43	12.99	11.93	6.93	5.88	7.34	4.96
11	Karur Vysya Bank Ltd.	7.14	8.97	7.46	5.83	4.73	6.30	4.16	2.28
12	Lakshmi Vilas Bank Ltd.	9.61	13.42	11.47	10.15	6.46	9.10	7.11	5.37
13	Lord Krishna Bank Ltd.	16.74	12.32	8.96	8.32	12.92	9.85	6.33	6.05
14	Nainital Bank Ltd.	7.92	8.68	6.11	4.00	0.00	0.00	0.00	0.00
15	Ratnakar Bank Ltd.	11.03	12.88	11.96	10.63	7.58	8.60	7.42	5.58
16	Sangli Bank Ltd.	13.21	11.80	12.45	11.79	6.61	5.95	6.87	6.53
17	SBI Commercial & International Bank Ltd.	30.38	32.72	38.48	41.28	22.56	23.38	20.85	18.31
18	South Indian Bank Ltd.	10.12	10.05	9.27	7.59	7.10	6.87	5.96	4.54
19	Tamilnad Mercantile Bank Ltd.	14.69	16.47	16.06	13.79	5.99	6.63	8.66	4.97
20	United Western Bank Ltd.	12.00	14.08	13.58	13.14	9.22	10.72	9.50	8.96
	New Private Sector Banks	**5.13**	**8.86**	**7.64**	**5.11**	**3.09**	**4.94**	**4.63**	**2.41**
21	Bank of Punjab Ltd.	3.88	5.49	9.23	6.20	2.31	2.93	7.17	4.69
22	Centurion Bank Ltd.	7.34	12.66	15.88	12.96	3.52	6.09	7.92	4.43
23	Development Credit Bank Ltd.	7.84	9.29	9.56	8.19	6.13	6.61	7.76	4.87
24	Global Trust Bank Ltd.	5.70	13.52	25.84	44.88	3.75	9.23	19.77	27.99
25	HDFC Bank Ltd.	2.81	3.18	2.22	1.86	0.45	0.50	0.37	0.16
26	ICICI Bank Ltd.	5.42	10.23	8.72	4.70	2.19	5.48	5.21	2.21
27	IDBI Bank Ltd.	6.84	3.89	2.62	1.71	5.24	2.21	1.20	0.84
28	IndusInd Bank Ltd.	6.13	7.41	4.94	3.30	5.25	6.59	4.25	2.72
29	Kotak Mahindra Bank Ltd.	–	–	1.20	0.94	–	–	0.11	0.17
30	UTI Bank Ltd.	4.64	5.18	3.16	2.88	3.76	3.46	2.26	1.20
	Private Sector Banks	**8.37**	**9.64**	**8.07**	**5.84**	**5.44**	**5.73**	**4.95**	**2.84**

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(E) : Non-Performing Assets as percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
1	ABN-AMRO Bank N.V.	1.45	2.11	1.92	2.03	0.62	0.81	0.92	0.56
2	Abu Dhabi Commercial Bank Ltd.	1.17	3.28	2.75	3.94	0.27	2.18	1.39	2.35
3	American Express Bank Ltd.	4.59	6.98	8.19	6.90	2.24	3.35	3.26	2.11
4	Antwerp Bank Ltd.	–	–	0.00	0.00	–	–	0.00	0.00
5	Arab Bangladesh Bank Ltd.	0.96	1.01	0.84	0.11	0.49	0.35	0.28	0.05
6	Bank Internasional Indonesia	33.75	40.44	33.19	30.66	6.42	6.19	3.25	2.32
7	Bank of America NA	1.33	1.63	0.70	0.51	0.45	0.46	0.04	0.00
8	Bank of Bahrain and Kuwait B.S.C.	7.44	5.80	7.28	10.20	5.91	4.79	5.75	7.84
9	Bank of Ceylon	26.79	19.98	19.76	14.92	20.01	13.40	12.29	6.83
10	Bank of Nova Scotia	1.72	2.34	7.08	7.64	1.34	1.76	5.41	5.87
11	Bank of Tokyo-Mitsubishi Ltd.	2.94	0.00	1.12	0.79	0.00	0.00	0.05	0.07
12	Barclays Bank PLC	0.00	0.42	0.40	0.35	0.00	0.31	0.00	0.00
13	BNP Paribas	1.30	1.59	3.31	3.00	0.25	0.67	1.97	1.18
14	Chinatrust Commercial Bank	2.79	1.25	0.38	6.78	2.13	0.00	0.00	4.07
15	Chohung Bank	0.54	0.46	0.48	0.33	0.38	0.26	0.24	0.17
16	Citibank N.A.	0.65	0.50	0.98	1.33	0.34	0.21	0.58	0.72
17	Calyon Bank (Credit Agricole Indosuez)	15.19	10.51	12.55	5.13	0.46	0.11	0.12	0.07
18	Credit Lyonnais	3.64	4.12	3.21	2.51	1.76	2.14	1.64	0.97
19	Deutsche Bank AG	2.74	1.26	0.70	0.24	0.47	0.13	0.00	0.00
20	Development Bank of Singapore Ltd.	0.00	0.07	7.48	0.00	0.00	0.00	5.92	0.00
21	HSBC Ltd.	2.76	2.33	2.08	1.65	0.38	0.93	0.40	0.27
22	ING Bank N.V.	9.12	4.82	11.80	1.00	0.86	3.62	0.00	0.91
23	JPMorgan Chase Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
24	Krung Thai Bank Public Co. Ltd.	0.00	8.62	0.00	0.00	0.00	7.76	0.00	0.00
25	Mashreqbank psc	12.67	3.81	4.60	3.57	2.92	0.00	0.00	0.00
26	Mizuho Corporate Bank Ltd.	9.29	9.44	8.12	8.40	2.00	3.08	0.46	0.00
27	Oman International Bank S.A.O.G.	45.09	25.14	30.34	35.17	7.17	3.04	2.05	2.02
28	Societe Generale	4.23	1.92	2.50	2.61	2.07	0.14	0.00	0.32
29	Sonali Bank	0.33	0.79	1.13	0.93	0.33	0.00	0.75	1.27
30	Standard Chartered Bank	3.42	1.59	1.46	1.40	0.64	0.18	0.14	0.24
31	State Bank of Mauritius Ltd.	9.52	9.19	11.41	4.27	8.24	7.06	8.80	2.80
32	Sumitomo Mitsui Banking Corporation	12.35	24.89	37.55	39.62	4.04	9.38	9.74	4.21
33	UFJ Bank Ltd.	10.91	13.51	5.39	0.00	5.83	6.88	4.15	0.00
	Foreign Banks	**3.04**	**2.41**	**2.44**	**2.12**	**0.77**	**0.81**	**0.79**	**0.66**

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(F): Non-Performing Assets as percentage of Advances - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		2000-01	2001-02	2002-03	2003-04	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
1	ABN-AMRO Bank N.V.	2.84	3.43	3.25	3.15	1.22	1.34	1.59	0.88
2	Abu Dhabi Commercial Bank Ltd.	7.80	18.89	17.53	38.78	1.92	13.43	9.67	27.39
3	American Express Bank Ltd.	11.92	14.56	19.29	16.47	6.05	7.56	8.69	5.68
4	Antwerp Bank Ltd.	–	–	0.00	0.00	–	–	0.00	0.00
5	Arab Bangladesh Bank Ltd.	7.72	3.91	4.49	0.68	4.09	1.35	1.50	0.34
6	Bank Internasional Indonesia	100.00	91.23	64.62	97.07	50.75	61.40	15.18	69.57
7	Bank of America NA	2.03	2.68	1.03	0.84	0.68	0.80	0.05	0.00
8	Bank of Bahrain and Kuwait B.S.C.	13.26	13.23	13.77	21.90	11.51	11.40	11.26	17.73
9	Bank of Ceylon	39.09	31.87	36.08	37.91	34.15	23.88	25.98	21.85
10	Bank of Nova Scotia	2.61	3.58	11.02	11.48	2.04	2.72	8.64	9.07
11	Bank of Tokyo-Mitsubishi Ltd.	5.15	0.00	2.76	2.18	0.01	0.00	0.13	0.21
12	Barclays Bank PLC	0.00	43.58	64.01	65.36	0.00	36.06	0.00	0.00
13	BNP Paribas	3.21	3.60	6.17	6.56	0.64	1.54	3.77	2.70
14	Chinatrust Commercial Bank	4.86	2.60	0.65	9.25	3.75	0.00	0.00	5.76
15	Chohung Bank	1.31	0.84	0.98	1.60	0.91	0.47	0.48	0.81
16	Citibank N.A.	1.35	0.93	1.94	2.52	0.71	0.40	1.17	1.40
17	Calyon Bank (Credit Agricole Indosuez)	28.68	25.21	34.89	43.39	1.21	0.36	0.51	1.00
18	Credit Lyonnais	6.89	7.09	6.70	6.42	3.47	3.84	3.59	2.63
19	Deutsche Bank AG	6.71	3.52	2.49	0.97	1.23	0.38	0.00	0.00
20	Development Bank of Singapore Ltd.	0.00	0.16	12.65	0.00	0.00	0.00	10.37	0.00
21	HSBC Ltd.	6.64	5.51	5.09	4.20	0.96	2.27	1.03	0.70
22	ING Bank N.V.	40.02	32.79	44.13	N.A.	5.94	26.82	0.00	N.A.
23	JPMorgan Chase Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
24	Krung Thai Bank Public Co. Ltd.	0.00	37.82	0.00	0.00	0.00	35.43	0.00	0.00
25	Mashreqbank psc	40.18	17.87	31.32	41.31	13.40	0.00	0.00	0.00
26	Mizuho Corporate Bank Ltd.	13.47	13.26	11.99	11.93	3.24	4.75	0.76	0.00
27	Oman International Bank S.A.O.G.	78.79	85.46	91.50	96.50	37.12	41.53	42.13	61.39
28	Societe Generale	13.80	6.71	13.89	10.21	7.27	0.52	0.00	1.36
29	Sonali Bank	4.17	2.95	6.49	5.49	4.35	0.00	4.52	7.98
30	Standard Chartered Bank	7.59	3.44	3.17	2.91	1.53	0.40	0.31	0.52
31	State Bank of Mauritius Ltd.	18.39	17.46	17.67	6.91	16.18	14.02	14.20	4.64
32	Sumitomo Mitsui Banking Corporation	55.79	37.63	49.40	58.01	19.12	18.52	20.21	12.79
33	UFJ Bank Ltd.	16.60	22.20	10.88	0.00	9.61	12.69	8.60	0.00
	Foreign Banks	**6.84**	**5.38**	**5.25**	**4.62**	**1.82**	**1.89**	**1.76**	**1.49**

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.20(A): Sector-wise Non-performing Assets of Public Sector Banks
(As at end-March 2004)

(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	
1	2	3	4	5	6	7	8	9 (3+5+7)	10	11	12	13 (15-9-11)	14	15 (9+11+13)
	Nationalised Banks	**4,739.71**	**13.55**	**6,557.38**	**18.74**	**5,407.70**	**15.46**	**16,704.78**	**47.74**	**390.14**	**1.12**	**17,894.78**	**51.14**	**34,989.70**
1	Allahabad Bank	255.16	17.99	189.54	13.36	319.49	22.52	764.19	53.87	18.46	1.30	635.81	44.82	1,418.46
2	Andhra Bank	106.47	17.30	116.47	18.93	127.93	20.79	350.87	57.02	8.13	1.32	256.37	41.66	615.37
3	Bank of Baroda	509.60	13.41	624.60	16.44	377.35	9.93	1,511.55	39.79	3.34	0.09	2284.06	60.12	3,798.95
4	Bank of India	556.07	16.11	659.22	19.10	444.81	12.89	1,660.10	48.10	62.46	1.81	1728.84	50.09	3,451.40
5	Bank of Maharashtra	204.72	21.45	202.64	21.23	184.36	19.32	591.72	62.00	0.01	0.00	362.73	38.00	954.46
6	Canara Bank	424.80	13.64	435.73	13.99	450.17	14.45	1,310.70	42.08	4.17	0.13	1800.12	57.79	3,114.99
7	Central Bank of India	459.78	14.87	683.39	22.10	581.42	18.80	1,724.59	55.78	21.14	0.68	1346.19	43.54	3,091.92
8	Corporation Bank	95.70	13.25	75.80	10.50	162.94	22.57	334.44	46.32	15.26	2.11	372.31	51.57	722.01
9	Dena Bank	165.45	11.15	298.34	20.10	186.76	12.59	650.56	43.84	21.69	1.46	811.76	54.70	1,484.01
10	Indian Bank	164.38	14.09	342.89	29.40	282.64	24.23	789.91	67.73	9.20	0.79	367.21	31.48	1,166.32
11	Indian Overseas Bank	142.16	9.19	373.58	24.15	181.49	11.73	697.23	45.06	20.78	1.34	829.20	53.59	1,547.22
12	Oriental Bank of Commerce	129.52	10.67	307.86	25.36	146.42	12.06	583.80	48.10	5.07	0.42	624.86	51.48	1,213.73
13	Punjab & Sind Bank	129.12	10.73	155.61	12.93	123.23	10.24	407.96	33.90	20.29	1.69	775.26	64.42	1,203.51
14	Punjab National Bank	474.05	10.15	928.17	19.87	576.95	12.35	1,979.17	42.38	65.12	1.39	2625.84	56.23	4,670.13
15	Syndicate Bank	223.85	14.11	304.87	19.22	275.37	17.36	804.09	50.69	49.31	3.11	732.74	46.20	1,586.14
16	UCO Bank	177.03	12.21	159.49	11.00	288.70	19.91	625.22	43.11	14.57	1.00	810.57	55.89	1,450.36
17	Union Bank of India	290.91	12.40	483.40	20.60	398.17	16.97	1,172.48	49.96	1.25	0.05	1173.10	49.99	2,346.83
18	United Bank of India	139.48	18.25	155.57	20.36	224.08	29.32	519.13	67.93	48.19	6.31	196.86	25.76	764.18
19	Vijaya Bank	91.45	23.46	60.21	15.45	75.42	19.35	227.07	58.27	1.70	0.44	160.94	41.30	389.71
	State Bank Group	**2,500.59**	**16.50**	**2,280.54**	**15.04**	**2,354.42**	**15.53**	**7,135.55**	**47.07**	**220.09**	**1.45**	**7,802.97**	**51.48**	**15,158.61**
20	State Bank of India	2,124.26	17.95	1,741.07	14.71	1,899.50	16.05	5,764.83	48.70	109.06	0.92	5,963.02	50.38	11,836.91
21	State Bank of Bikaner & Jaipur	60.14	12.43	97.45	20.15	79.83	16.51	237.42	49.09	8.36	1.73	237.88	49.18	483.66
22	State Bank of Hyderabad	26.85	3.88	73.22	10.59	58.56	8.47	158.63	22.94	33.54	4.85	499.18	72.20	691.35
23	State Bank of Indore	49.70	18.66	35.41	13.29	61.02	22.91	146.13	54.86	4.59	1.72	115.64	43.41	266.36
24	State Bank of Mysore	61.66	11.98	100.32	19.50	54.96	10.68	216.94	42.16	4.27	0.83	293.32	57.01	514.53
25	State Bank of Patiala	72.53	14.40	81.38	16.16	80.21	15.93	234.12	46.49	40.17	7.98	229.32	45.54	503.61
26	State Bank of Saurashtra	39.96	19.94	33.75	16.84	26.00	12.97	99.71	49.75	18.08	9.02	82.64	41.23	200.43
27	State Bank of Travancore	65.49	9.90	117.94	17.82	94.34	14.26	277.77	41.97	2.02	0.31	381.97	57.72	661.76
	Public Sector Banks	**7,240.30**	**14.44**	**8,837.92**	**17.62**	**7,762.11**	**15.48**	**23,840.33**	**47.54**	**610.23**	**1.22**	**25,697.75**	**51.24**	**50,148.31**

Note : Data is based on domestic operations of respective banks.

Source : Based on off-site returns.

Appendix Table III.20(B): Sector-wise Non-Performing Assets of Private Sector Banks
(As at end-March 2004)

(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	
1	2	3	4	5	6	7	8	9 (3+5+7)	10	11	12	13 (15-9-11)	14	15 (9+11+13)
	Old Private Sector Banks	**288.43**	**6.55**	**858.89**	**19.52**	**654.57**	**14.87**	**1,801.90**	**40.94**	**8.32**	**0.19**	**2,590.90**	**58.87**	**4,401.12**
1	Bank of Rajasthan Ltd.	16.64	7.01	22.63	9.54	26.40	11.12	65.67	27.67	0.00	0.00	171.64	72.33	237.32
2	Bharat Overseas Bank Ltd.	6.73	9.48	13.27	18.69	10.90	15.36	30.90	43.53	0.00	0.00	40.10	56.47	71.00
3	Catholic Syrian Bank Ltd.	3.52	2.01	39.07	22.29	47.22	26.94	89.80	51.24	0.00	0.00	85.44	48.76	175.24
4	City Union Bank Ltd.	5.58	3.33	46.74	27.92	16.50	9.86	68.82	41.11	0.00	0.00	98.60	58.89	167.42
5	Dhanalakshmi Bank Ltd.	1.04	0.76	28.58	20.93	55.17	40.40	84.79	62.09	0.00	0.00	51.76	37.91	136.55
6	Federal Bank Ltd.	45.82	7.63	83.93	13.97	126.17	21.00	255.92	42.60	8.27	1.38	336.56	56.02	600.75
7	Ganesh Bank of Kurundwad Ltd.	1.99	7.22	1.88	6.82	2.72	9.87	6.60	23.95	0.00	0.00	20.96	76.05	27.56
8	ING Vysya Bank Ltd.	39.36	21.09	30.69	16.45	25.11	13.46	95.16	51.00	0.00	0.00	91.43	49.00	186.59
9	Jammu & Kashmir Bank Ltd.	6.81	2.38	50.68	17.69	52.93	18.47	110.42	38.54	0.00	0.00	176.09	61.46	286.51
10	Karnataka Bank Ltd.	40.20	6.72	107.55	17.97	36.13	6.04	183.87	30.72	0.00	0.00	414.59	69.28	598.47
11	Karur Vysya Bank Ltd.	4.49	1.88	67.88	28.37	15.05	6.29	87.42	36.54	0.00	0.00	151.81	63.46	239.23
12	Lakshmi Vilas Bank Ltd.	9.76	4.50	45.91	21.17	43.80	20.20	99.46	45.87	0.00	0.00	117.37	54.13	216.83
13	Lord Krishna Bank Ltd.	0.96	1.01	9.02	9.47	3.45	3.62	13.43	14.09	0.00	0.00	81.86	85.91	95.29
14	Nainital Bank Ltd.	1.47	15.19	1.39	14.42	3.91	40.54	6.77	70.15	0.00	0.00	2.88	29.85	9.65
15	Ratnakar Bank Ltd.	3.37	8.67	8.55	22.02	7.95	20.48	19.87	51.17	0.00	0.00	18.96	48.83	38.84
16	Sangli Bank Ltd.	20.08	24.90	14.48	17.96	5.09	6.31	39.65	49.16	0.05	0.06	40.95	50.77	80.66
17	SBI Commercial & International Bank Ltd	0.00	0.00	0.57	0.83	0.00	0.00	0.57	0.83	0.00	0.00	68.68	99.17	69.25
18	South Indian Bank Ltd.	23.60	7.19	126.58	38.56	62.10	18.92	212.29	64.67	0.00	0.00	115.96	35.33	328.25
19	Tamilnad Mercantile Bank Ltd.	19.07	5.97	87.86	27.51	42.99	13.46	149.92	46.94	0.00	0.00	169.46	53.06	319.38
20	United Western Bank Ltd.	37.95	7.35	71.63	13.87	70.97	13.75	180.55	34.97	0.00	0.00	335.79	65.03	516.34
	New Private Sector Banks	**170.69**	**2.87**	**403.52**	**6.78**	**105.82**	**1.78**	**680.03**	**11.43**	**66.26**	**1.11**	**5,204.90**	**87.46**	**5,951.19**
21	Bank of Punjab Ltd.	0.61	0.41	11.40	7.69	4.10	2.76	16.11	10.86	0.00	0.00	132.19	89.14	148.30
22	Centurion Bank Ltd.	0.00	0.00	0.00	0.00	8.43	3.81	8.43	3.81	0.00	0.00	212.98	96.19	221.41
23	Development Credit Bank Ltd	0.73	0.34	53.66	25.36	24.06	11.37	78.45	37.07	0.00	0.00	133.16	62.93	211.61
24	Global Trust Bank Ltd.	45.69	3.47	155.18	11.79	0.00	0.00	200.87	15.26	0.00	0.00	1,115.83	84.74	1,316.70
25	HDFC Bank Ltd.	0.00	0.00	24.60	7.59	0.00	0.00	24.60	7.59	0.00	0.00	299.40	92.41	324.00
26	ICICI Bank Ltd.	78.30	2.57	99.53	3.27	1.46	0.05	179.28	5.88	66.26	2.17	2802.05	91.94	3,047.59
27	IDBI Bank Ltd.	11.81	9.26	10.02	7.86	30.39	23.83	52.22	40.94	0.00	0.00	75.32	59.06	127.54
28	IndusInd Bank Ltd.	28.72	11.07	19.07	7.35	32.58	12.56	80.37	30.99	0.00	0.00	178.99	69.01	259.36
29	Kotak Mahindra Bank Ltd.	0.13	0.64	0.00	0.00	4.80	24.07	4.93	24.72	0.00	0.00	15.02	75.28	19.96
30	UTI Bank Ltd.	4.71	1.71	30.06	10.94	0.00	0.00	34.77	12.66	0.00	0.00	239.95	87.34	274.72
	Private Sector Banks	**459.12**	**4.43**	**1,262.41**	**12.19**	**760.39**	**7.35**	**2,481.93**	**23.97**	**74.58**	**0.72**	**7,795.81**	**75.30**	**10,352.32**

Note: Data is based on domestic operations of respective banks.

Source: Based on off-site returns.

Appendix Table III.21(A): Capital Adequacy Ratio - Public Sector Banks

(Per cent)

Sr.No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7
	Nationalised Banks					
1	Allahabad Bank	11.51	10.50	10.62	11.15	12.52
2	Andhra Bank	13.36	13.40	12.59	13.62	13.71
3	Bank of Baroda	12.10	12.80	11.32	12.65	13.91
4	Bank of India	10.57	12.23	10.68	12.02	13.01
5	Bank of Maharashtra	11.66	10.64	11.16	12.05	11.88
6	Canara Bank	9.64	9.84	11.88	12.50	12.66
7	Central Bank of India	11.18	10.02	9.58	10.51	12.43
8	Corporation Bank	12.80	13.30	17.90	18.50	20.12
9	Dena Bank	11.63	7.73	7.64	6.02	9.48
10	Indian Bank	Negative	Negative	1.70	10.85	12.82
11	Indian Overseas Bank	9.15	10.24	10.82	11.30	12.49
12	Oriental Bank of Commerce	12.72	11.81	10.99	14.04	14.47
13	Punjab & Sind Bank	11.57	11.42	10.70	10.43	11.06
14	Punjab National Bank	10.31	10.24	10.70	12.02	13.10
15	Syndicate Bank	11.45	11.72	12.12	11.03	11.49
16	UCO Bank	9.15	9.05	9.64	10.04	11.88
17	Union Bank of India	11.42	10.86	11.07	12.41	12.32
18	United Bank of India	9.60	10.40	12.02	15.17	17.04
19	Vijaya Bank	10.61	11.50	12.25	12.66	14.11
	State Bank Group					
20	State Bank of India	11.49	12.79	13.35	13.50	13.53
21	State Bank of Bikaner & Jaipur	12.35	12.39	13.42	13.18	12.93
22	State Bank of Hyderabad	10.86	12.28	14.03	14.91	14.29
23	State Bank of Indore	11.26	12.73	12.78	13.09	12.39
24	State Bank of Mysore	11.50	11.16	11.81	11.62	11.53
25	State Bank of Patiala	12.60	12.37	12.55	13.57	13.56
26	State Bank of Saurashtra	14.48	13.89	13.20	13.68	14.53
27	State Bank of Travancore	11.09	11.79	12.54	11.30	11.36

Source : Balance sheets of respective banks.

Appendix Table III.21(B): Capital Adequacy Ratio - Private Sector Banks

(Per cent)

Sr.No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7
	Old Private Sector Banks					
1	Bank of Rajasthan Ltd.	5.73	10.57	12.07	11.29	11.18
2	Bharat Overseas Bank Ltd.	12.68	14.43	15.09	13.87	16.25
3	Catholic Syrian Bank Ltd.	5.94	6.08	9.57	10.58	11.23
4	City Union Bank Ltd.	13.33	13.59	13.97	13.95	13.36
5	Dhanalakshmi Bank Ltd.	10.02	9.69	11.23	10.45	13.56
6	Federal Bank Ltd.	11.33	10.29	10.63	11.23	11.48
7	Ganesh Bank of Kurundwad Ltd.	9.14	9.11	10.08	10.44	11.94
8	ING Vysya Bank Ltd.	12.24	12.05	11.57	9.81	11.05
9	Jammu & Kashmir Bank Ltd.	18.82	17.44	15.46	16.48	16.88
10	Karnataka Bank Ltd.	11.04	11.37	12.96	13.44	13.03
11	Karur Vysya Bank Ltd.	15.16	15.56	16.90	17.01	17.11
12	Lakshmi Vilas Bank Ltd.	10.45	10.21	11.54	11.35	13.79
13	Lord Krishna Bank Ltd.	11.25	12.90	16.50	12.82	16.68
14	Nainital Bank Ltd.	15.11	15.81	14.88	20.93	18.54
15	Ratnakar Bank Ltd.	11.56	10.00	13.60	14.05	16.65
16	Sangli Bank Ltd.	12.13	11.47	11.64	14.94	13.68
17	SBI Commercial & International Bank Ltd.	24.32	19.85	22.10	21.19	30.43
18	South Indian Bank Ltd.	10.41	11.17	11.20	10.75	11.32
19	Tamilnad Mercantile Bank Ltd.	18.02	17.59	18.02	18.54	21.07
20	United Western Bank Ltd.	11.94	9.59	9.79	10.17	10.13
	New Private Sector Banks					
21	Bank of Punjab Ltd.	9.81	11.02	12.82	13.59	12.64
22	Centurion Bank Ltd.	9.31	9.61	4.16	1.95	4.41
23	Development Credit Bank Ltd.	11.34	11.28	11.49	10.08	14.14
24	Global Trust Bank Ltd.	13.68	12.71	11.21	0.00	0.00
25	HDFC Bank Ltd.	12.19	11.09	13.93	11.12	11.66
26	ICICI Bank Ltd.	19.64	11.57	11.44	11.10	10.36
27	IDBI Bank Ltd.	11.80	11.72	9.59	9.56	10.38
28	IndusInd Bank Ltd.	13.24	15.00	12.51	12.13	12.75
29	Kotak Mahindra Bank Ltd.	–	–	–	25.97	15.25
30	UTI Bank Ltd.	11.37	9.00	10.65	10.90	11.21

Source : Balance sheets of respective banks.

Appendix Table III.21(C): Capital Adequacy Ratio - Foreign Banks

(Per cent)

Sr.No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7
	Foreign Banks					
1	ABN-AMRO Bank N.V.	10.09	11.42	13.17	12.57	13.48
2	Abu Dhabi Commercial Bank Ltd.	10.61	10.05	10.42	10.14	14.22
3	American Express Bank Ltd.	10.09	9.59	10.71	10.93	10.74
4	Antwerp Diamond Bank	–	–	–	92.69	53.22
5	Arab Bangladesh Bank Ltd.	123.00	96.34	138.51	105.64	111.34
6	Bank Internasional Indonesia	59.92	103.78	123.07	103.99	133.94
7	Bank of America NA	12.93	13.03	21.07	21.08	22.92
8	Bank of Bahrain and Kuwait B.S.C.	12.30	11.83	17.03	17.19	21.06
9	Bank of Ceylon	29.07	36.49	30.94	32.29	45.26
10	Bank of Nova Scotia	9.67	9.97	10.12	13.38	13.78
11	Bank of Tokyo-Mitsubishi Ltd.	17.62	15.51	15.36	30.40	32.78
12	Barclays Bank PLC	17.75	26.97	63.56	45.68	37.16
13	BNP Paribas	9.55	9.92	9.66	10.74	21.70
14	Chinatrust Commercial Bank	25.56	28.27	40.11	36.96	39.98
15	Chohung Bank	38.00	35.00	27.65	37.17	54.43
16	Citibank N.A.	10.62	11.24	11.04	11.30	11.11
17	Calyon Bank (Credit Agricole Indosuez)	11.82	11.60	11.23	20.04	24.51
18	Credit Lyonnais	9.70	10.60	10.30	20.90	21.70
19	Deutsche Bank AG	10.68	12.67	14.55	17.35	14.42
20	Development Bank of Singapore Ltd.	18.14	15.93	13.31	15.98	55.49
21	HSBC Ltd.	10.30	12.37	10.92	18.10	14.54
22	ING Bank N.V.	21.15	15.00	12.47	20.72	56.91
23	JPMorgan Chase Bank	45.86	43.79	85.88	72.95	34.83
24	Krung Thai Bank Public Co. Ltd.	197.74	148.99	167.65	119.88	115.98
25	Mashreqbank psc	9.04	10.54	20.54	39.38	54.71
26	Mizuho Corporate Bank Ltd.	25.29	18.38	11.14	18.50	36.09
27	Oman International Bank S.A.O.G.	11.08	14.21	18.86	14.62	16.48
28	Societe Generale	13.95	13.93	12.85	32.63	32.71
29	Sonali Bank	24.91	88.14	113.64	46.86	60.55
30	Standard Chartered Bank	9.50	9.60	9.28	10.56	10.87
31	State Bank of Mauritius Ltd.	35.23	30.78	46.78	31.74	35.08
32	Sumitomo Mitsui Banking Corporation	18.54	19.40	20.96	35.49	52.30
33	UFJ Bank Ltd.	36.17	34.91	29.44	67.68	121.69

Source : Balance sheets of respective banks.

Appendix Table III.22: Bank Group and Population Group-wise Distribution of Commercial Bank Branches in India

Bank Group	No. of Banks#	Number of Branches									
		As on June 30, 2003 @					As on June 30, 2004 @				
		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	1	4,073 (45.4)	2,445 (27.3)	1,433 (16.0)	1,015 (11.3)	8,966 (100.0)	4,064 (45.4)	2,443 (27.3)	1,433 (16.0)	1,007 (11.3)	8,947 (100.0)
2. Associates of SBI	7	1,412 (31.1)	1,577 (34.8)	834 (18.4)	711 (15.7)	4,534 (100.0)	1,409 (30.9)	1,582 (34.7)	840 (18.4)	727 (15.9)	4,558 (100.0)
3. Nationalised Banks	19	13,646 (41.4)	7,090 (21.5)	6,653 (20.2)	5,572 (16.9)	32,961 (100.0)	13,631 (41.1)	7,145 (21.6)	6,723 (20.3)	5,631 (17.0)	33,130 (100.0)
4. Indian Private Sector Banks	30	1,113 (20.4)	1,688 (31.0)	1,405 (25.8)	1,239 (22.8)	5,445 (100.0)	1,111 (19.4)	1,749 (30.5)	1,514 (26.4)	1,363 (23.8)	5,737 (100.0)
5. Foreign Banks in India	32	0 (–)	0 (–)	25 (11.7)	188 (88.3)	213 (100.0)	0 (–)	0 (–)	28 (13.0)	187 (87.0)	215 (100.0)
6.Regional Rural Banks	196	12,000 (82.7)	2,104 (14.5)	383 (2.6)	19 (0.1)	14,506 (100.0)	11,992 (82.6)	2,108 (14.5)	391 (2.7)	19 (0.1)	14,510 (100.0)
7. Non-Scheduled Commercial Banks (Local Area Banks)	5	5 (27.8)	7 (38.9)	6 (33.3)	0 (–)	18 (100.0)	5 (23.8)	8 (38.1)	8 (38.1)	0 (0.0)	21 (100.0)
Total	**290**	**32,249** **(48.4)**	**14,911** **(22.4)**	**10,739** **(16.1)**	**8,744** **(13.1)**	**66,643** **(100.0)**	**32,212** **(48.0)**	**15,035** **(22.4)**	**10,937** **(16.3)**	**8,934** **(13.3)**	**67,118** **(100.0)**

As on June 30, 2004.
@ Population group-wise classification of branches is based on 1991 Census.
– Negligible.

Notes : 1. Figures in bracket indicate percentage to total in each group.
2. Number of branches exclude administrative offices.
3. Data for June 2003 are revised.

Appendix Table III.23: Region/State/Union Territory-wise Distribution of Commercial Bank Branches @

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 the end of June	
		2003	2004	July 2002 to June 2003	*of which:* at unbanked centres	July 2003 to June 2004	*of which:* at unbanked centres	2003	2004
1	2	3	4	5	6	7	8	9	10
1.	**NORTHERN REGION**	**10,836**	**10,988**	**178**	**7**	**165**	**1**	**13**	**13**
	Chandigarh	184	192	9	0	8	0	5	5
	Delhi	1,505	1,554	48	1	58	0	10	10
	Haryana	1,591	1,618	33	0	27	0	13	13
	Himachal Pradesh	786	786	5	0	0	0	9	9
	Jammu & Kashmir	838	845	11	0	9	0	13	13
	Punjab	2,606	2,645	39	6	40	0	9	9
	Rajasthan	3,326	3,348	33	0	23	1	17	17
2.	**NORTH-EASTERN REGION**	**1,864**	**1,867**	**10**	**0**	**4**	**0**	**22**	**22**
	Arunachal Pradesh	66	66	0	0	0	0	20	20
	Assam	1,214	1,217	8	0	3	0	22	23
	Manipur	77	76	0	0	0	0	36	37
	Meghalaya	180	180	0	0	0	0	15	15
	Mizoram	78	78	0	0	0	0	13	14
	Nagaland	70	70	0	0	0	0	26	27
	Tripura	179	180	2	0	1	0	23	24
3.	**EASTERN REGION**	**11,776**	**11,828**	**61**	**0**	**60**	**0**	**19**	**19**
	Andaman & Nicobar Islands	32	32	1	0	0	0	13	14
	Bihar	3,555	3,560	10	0	6	0	21	21
	Jharkhand	1,462	1,473	6	0	12	0	*	*
	Orissa	2,231	2,245	12	0	18	0	17	17
	Sikkim	49	49	1	0	0	0	12	13
	West Bengal	4,447	4,469	31	0	24	0	19	19
4.	**CENTRAL REGION**	**13,503**	**13,570**	**85**	**1**	**95**	**0**	**20**	**20**
	Chhattisgarh	1,035	1,039	7	0	4	0	*	*
	Madhya Pradesh	3,442	3,456	24	0	19	0	19	19
	Uttar Pradesh	8,170	8,210	43	1	62	0	20	21
	Uttaranchal	856	865	11	0	10	0	*	*
5.	**WESTERN REGION**	**10,362**	**10,412**	**129**	**0**	**94**	**1**	**14**	**14**
	Dadra & Nagar Haveli	12	12	1	0	0	0	17	18
	Daman & Diu	16	16	0	0	0	0	10	10
	Goa	328	334	2	0	8	0	5	5
	Gujarat	3,668	3,677	45	0	28	0	14	14
	Maharashtra	6,338	6,373	81	0	58	1	15	15
6.	**SOUTHERN REGION**	**18,302**	**18,453**	**381**	**37**	**223**	**3**	**13**	**13**
	Andhra Pradesh	5,267	5,300	71	3	42	0	15	15
	Karnataka	4,814	4,851	70	0	54	1	11	11
	Kerala	3,382	3,441	157	34	66	0	10	10
	Lakshadweep	9	9	0	0	0	0	9	9
	Pondicherry	84	84	3	0	1	0	14	15
	Tamil Nadu	4,746	4,768	80	0	60	2	13	13
	ALL INDIA	**66,643**	**67,118**	**844**	**45**	**641**	**5**	**16**	**16**

@ Including the branches of non-scheduled commercial banks (Local Area Banks).

* As the population data of Jharkhand, Chhattisgarh and Uttaranchal are not separately available and included in Bihar, Madhya Pradesh and Uttar Pradesh States respectively, average population per bank branch for Bihar, Madhya Pradesh and Uttar Pradesh include the number of bank branches in Jharkhand, Chhattisgarh and Uttaranchal respectively.

Notes : 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 2003 are revised.

Appendix Table III.24: Advances to the Priority Sector by Public Sector Banks

(As on the last reporting Friday)

Sector	No. of Accounts (in lakh)					Amount Outstanding (Rs. crore)				
	June 1969	March 2001	March 2002@	March 2003@	March 2004@	June 1969	March 2001	March 2002 @	March 2003@	March 2004@
1	2	3	4	5	6	7	8	9	10	11
I. Agriculture	1.7	188	161	168	177	162	53,571	63,082	73,507	86,187
						(5.4)	(15.7)	(15.9)	(15.4)	(15.4)
i) Direct	1.6	185	157	164	174	40	38,137	44,908	51,799	61,957
						(1.3)	(11.2)	(11.3)	(10.8)	(11.1)
ii) Indirect	0.1	3	4	4	3	122	15,434	18,174	21,708	24,230
						(4.0)	(4.5)	(4.6)	(4.5)	(4.3)
II. Small-scale industries	0.5	20	22	17	16	257	48,400	49,743	52,988	58,278
						(8.5)	(14.2)	(12.5)	(11.1)	(10.4)
III. Other priority sector advances	0.4	80	83	79	88	22	40,791	53,712	71,448	94,959
						(0.7)	(12.0)	(13.5)	(15.0)	(17.0)
IV. Total priority sector advances #	2.6	288	269	268	286	441	1,49,116	1,71,185	2,03,095	2,45,672
						(14.6)	(43.7)	(43.1)	(42.5)	(44.0)
V. Net Bank Credit	–	–	–	–	–	3,016	3,41,291	3,96,954	4,77,899	5,58,849

@ Data are provisional.

\# Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro processing sector, self-help group and venture capital.

Note : Figures in brackets represent percentages to net bank credit.

Appendix Table III.25(A): Advances of Public Sector Banks to Agriculture and Weaker Section

(As on the last reporting Friday of March 2004)

(Amount in Rs crore)

Sr. No.	Name of the bank	Direct agricultural advances		Indirect agricultural advances		Total agricultural advances		Weaker Section		Total Priority Sector advances	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
1	2	3	4	5	6	7	8	9	10	11	12
1	Allahabad Bank	2,169.96	13.93	721.28	4.63	2,891.24	18.56	1,575.24	10.11	7,032.50	45.16
2	Andhra Bank	1,806.38	14.38	285.41	2.27	2,091.79	16.65	1,242.63	9.89	5,198.23	41.38
3	Bank of Baroda	2,801.51	11.53	1,147.05	4.72	3,948.56	16.24	1,914.96	7.88	11,774.33	48.44
4	Bank of India	3,859.00	13.84	859.00	3.08	4,718.00	16.92	2,393.00	8.58	13,271.00	47.60
5	Bank of Maharashtra	855.85	7.57	471.93	4.17	1,327.78	11.74	530.15	4.69	4,538.33	40.12
6	Canara Bank	4,727.00	10.61	1,818.00	4.08	6,545.00	14.69	2,626.00	5.89	19,580.00	43.93
7	Central Bank of India	2,655.53	11.82	1,671.22	7.44	4,326.75	19.25	2,090.08	9.30	11,031.53	49.09
8	Corporation Bank	591.09	5.08	524.02	4.50	1,115.11	9.58	329.62	2.83	5,080.68	43.63
9	Dena Bank	619.40	6.58	1,124.23	11.94	1,743.63	18.52	343.07	3.64	4,204.33	44.65
10	Indian Bank	1,801.55	14.71	412.45	3.37	2,214.00	18.08	1,230.78	10.05	5,971.11	48.75
11	Indian Overseas Bank	2,575.60	14.18	790.93	4.35	3,366.53	18.53	1,971.64	10.86	8,283.45	45.61
12	Oriental Bank of Commerce	1,244.00	6.32	1,166.00	5.92	2,410.00	12.25	765.87	3.89	8,423.73	42.80
13	Punjab National Bank	6,490.39	13.94	2,856.82	6.14	9,347.21	20.08	5,036.30	10.82	22,964.49	49.33
14	Punjab & Sind Bank	799.31	12.77	407.09	6.51	1,206.40	19.28	379.13	6.06	3,104.69	49.62
15	Syndicate Bank	2,405.77	14.38	318.60	1.90	2,724.37	16.29	1,692.13	10.12	7,373.94	44.09
16	Union Bank of India	3,139.64	10.88	1,419.14	4.92	4,558.78	15.80	1,906.72	6.61	13,727.01	47.57
17	United Bank of India	786.00	9.23	520.00	6.11	1,306.00	15.34	475.00	5.58	3,292.00	38.67
18	UCO Bank	1,509.00	7.80	867.00	4.48	2,376.00	12.29	831.00	4.30	8,103.00	41.90
19	Vijaya Bank	863.12	8.22	566.18	5.39	1,429.30	13.62	656.96	6.26	4,709.12	44.87
	Nationalised Banks	**41,700.10**	**11.38**	**17,946.35**	**4.90**	**59,646.45**	**16.27**	**27,990.28**	**7.64**	**1,67,663.47**	**45.74**
20	State Bank of India	12,529.93	9.43	4,462.96	3.36	16,992.89	12.79	9,572.16	7.20	51,406.59	38.69
21	State Bank of Bikaner & Jaipur	1,211.68	14.39	164.55	1.95	1,376.23	16.35	577.10	6.86	4,130.80	49.07
22	State Bank of Hyderabad	1,298.36	11.62	305.82	2.74	1,604.18	14.36	488.93	4.38	4,559.95	40.82
23	State Bank of Indore	1,030.35	15.71	166.03	2.53	1,196.38	18.24	416.50	6.35	3,146.25	47.97
24	State Bank of Mysore	755.37	13.26	111.00	1.95	866.37	15.21	571.82	10.04	2,303.45	40.43
25	State Bank of Patiala	1,762.00	14.12	605.00	4.85	2,367.00	18.97	1,251.00	10.03	5,690.00	45.61
26	State Bank of Saurashtra	832.51	15.30	140.28	2.58	972.79	17.88	227.65	4.18	2,341.38	43.04
27	State Bank of Travancore	836.82	8.41	327.66	3.29	1,164.48	11.70	493.20	4.95	4,429.86	44.50
	State Bank Group	**20,257.02**	**10.52**	**6,283.30**	**3.26**	**26,540.32**	**13.78**	**13,598.36**	**7.06**	**78,008.28**	**40.50**
	Public Sector Banks	**61,957.12**	**11.08**	**24,229.65**	**4.33**	**86,186.77**	**15.41**	**41,588.64**	**7.44**	**2,45,671.75**	**43.94**

Notes : 1. Data are provisional
2. NBC - net bank credit.
3. Indirect Agircultural advance taken to the extent of 4.5 per cent.

Source: Data furnished by respective banks.

Appendix Table: III.25(B): Non-Performing Assets in Advances to Weaker Section under Priority Sector - Public Sector Banks

(As at end-March 2004)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Section		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
1	Allahabad Bank	1,630.45	298.74	18.32
2	Andhra Bank	1,309.81	82.68	6.31
3	Bank of Baroda	2,086.09	336.83	16.15
4	Bank of India	1,673.81	444.06	26.53
5	Bank of Maharashtra	527.71	159.32	30.19
6	Canara Bank	2,625.00	421.18	16.04
7	Central Bank of India	587.17	204.51	34.83
8	Corporation Bank	355.82	51.29	14.41
9	Dena Bank	408.95	79.80	19.51
10	Indian Bank	828.83	191.74	23.13
11	Indian Overseas Bank	1,971.64	70.94	3.60
12	Oriental Bank of Commerce	503.19	50.17	9.97
13	Punjab & Sind Bank	379.09	0.00	0.00
14	Punjab National Bank	4,224.60	992.24	23.49
15	Syndicate Bank	1,692.13	208.13	12.30
16	UCO Bank	735.23	150.55	20.48
17	Union Bank of India	903.35	197.70	21.89
18	United Bank of India	475.00	65.00	13.68
19	Vijaya Bank	694.76	77.68	11.18
20	State Bank of Bikaner & Jaipur	683.91	71.81	10.50
21	State Bank of Hyderabad	955.23	43.82	4.59
22	State Bank of India	6,986.25	2,182.60	31.24
23	State Bank of Indore	416.50	26.73	6.42
24	State Bank of Mysore	571.82	51.86	9.07
25	State Bank of Patiala	1,371.41	172.22	12.56
26	State Bank of Saurashtra	663.33	44.03	6.64
27	State Bank of Travancore	231.58	30.86	13.33
	Total	**35,492.66**	**6,706.49**	**18.90**

Source: Data furnished by respective banks.

Appendix Table III.26 : Advances to the Priority Sector by Private Sector Banks

(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March 2002@		March 2003@		March 2004@	
	Amount	Percentage to Net bank credit	Amount	Percentage to Net bank credit	Amount	Percentage to Net bank credit
1	2	3	4	5	6	7
Priority Sector Advances #	**25,709**	**40.9**	**36,705**	**44.4**	**52,861**	**47.4**
Of which :						
I. Agriculture	8,022	8.5	11,873	11.2	17,652	12.3
II. Small-scale industries	8,613	13.7	6,857	8.2	7,897	7.1
III. Other priority sectors	9,074	14.4	17,602	22.1	25,834	23.1

@ Data are provisional.

\# Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro-processing sector, self-help group and venture capital.

Note : Indirect agriculture is reckoned upto 4.5 per cent of Net Bank Credit for calculation of percentage of Agriculture.

Appendix Table III.27(A): Advances of Private Sector Banks to Agriculture and Weaker Section
(As on the last reporting Friday of March 2004)

(Amount in Rs crore)

Sr. No.	Name of the bank	Direct agricultural advances		Indirect agricultural advances		Total agricultural advances		Weaker Section		Total Priority Sector advances	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
1	2	3	4	5	6	7	8	9	10	11	12
1	Bank of Rajasthan Ltd	64.55	3.05	222.92	10.53	287.47	13.58	53.52	2.53	861.95	40.73
2	Bharat Overseas Bank Ltd	35.62	1.64	45.77	2.10	81.39	3.74	11.85	0.54	393.90	18.11
3	Catholic Syrian Bank Ltd	64.32	6.64	28.20	2.91	92.52	9.55	0.00	0.00	644.52	66.50
4	City Union Bank Ltd	40.00	2.28	84.57	4.83	124.57	7.11	11.17	0.64	624.84	35.68
5	Dhanalakshmi Bank Ltd	70.19	4.50	48.62	3.11	118.81	7.61	25.80	1.65	370.43	23.72
6	Federal Bank Ltd	340.22	13.24	40.11	1.56	380.33	14.80	211.70	8.24	2,453.10	95.48
7	Ganesh Bank of Kurundwad Ltd	30.13	2.84	0.00	0.00	30.13	2.84	11.82	1.11	63.65	5.99
8	ING Vysya Bank Ltd	425.66	7.07	273.97	4.55	699.63	11.61	123.09	2.04	2,665.70	44.25
9	Jammu & Kashmir Bank Ltd.	164.21	142.85	754.98	656.79	919.19	799.64	261.98	227.91	2,726.49	2,371.89
10	Karnataka Bank Ltd	355.21	15.08	234.37	9.95	589.58	25.03	98.49	4.18	1,929.44	81.90
11	Karur Vysya Bank Ltd	259.11	1.88	238.61	1.73	497.72	3.62	140.51	1.02	1,540.06	11.19
12	Lakshmi Vilas Bank Ltd	163.40	0.90	58.83	0.32	222.23	1.22	66.72	0.37	815.06	4.48
13	Lord Krishna Bank Ltd	17.04	0.25	188.78	2.74	205.82	2.99	8.81	0.13	497.45	7.22
14	Nainital Bank Ltd	27.30	0.58	4.80	0.10	32.10	0.68	9.17	0.19	136.57	2.88
15	Ratnakar Bank Ltd	21.06	0.33	33.59	0.52	54.65	0.85	5.55	0.09	134.33	2.10
16	Sangli Bank Ltd	54.42	0.78	59.58	0.85	114.00	1.63	19.97	0.28	194.91	2.78
17	SBI Commercial & International Bank Ltd	12.72	0.27	66.00	1.42	78.72	1.69	0.00	0.00	80.61	1.73
18	South Indian Bank Ltd	287.43	7.55	53.87	1.41	341.30	8.96	110.05	2.89	1,705.66	44.78
19	Tamilnad Mercantile Bank Ltd	191.43	9.75	63.11	3.21	254.54	12.96	26.36	1.34	1,014.77	51.66
20	United Western Bank Ltd	228.06	12.54	136.26	7.49	364.32	20.03	187.64	10.32	1,313.11	72.20
21	Bank of Punjab Ltd	61.26	6.02	335.82	33.00	397.08	39.02	0.31	0.03	777.55	76.41
22	Centurion Bank Ltd	22.69	9.41	171.76	71.23	194.45	80.63	56.95	23.62	626.43	259.77
23	Development Credit Bank Ltd	13.90	0.96	212.07	14.60	225.97	15.56	0.16	0.01	1,054.63	72.60
24	Global Trust Bank Ltd.	19.63	6.04	256.45	78.92	276.08	84.97	0.00	0.00	727.92	224.02
25	HDFC Bank Ltd.	1,290.65	218.97	1,658.70	281.42	2,949.35	500.39	0.00	0.00	5,696.49	966.47
26	ICICI Bank Ltd.	3,132.31	5,286.60	1,073.57	1,811.93	4,205.88	7,098.53	25.14	42.43	14,456.71	24,399.51
27	IDBI Bank Ltd.	41.00	1.21	621.00	18.33	662.00	19.54	0.00	0.00	2,781.00	82.09
28	IndusInd Bank Ltd.	245.26	11.47	572.92	26.78	818.18	38.25	0.00	0.00	1,935.60	90.49
29	Kotak Mahindra Bank Ltd.	102.58	2.87	61.63	1.72	164.21	4.59	0.00	0.00	823.28	23.02
30	UTI Bank Ltd.	936.41	10.53	1,333.14	14.99	2,269.55	25.52	28.73	0.32	3,814.70	42.89
	Total	**8,717.77**	**7.81**	**8,934.00**	**8.00**	**17,651.77**	**15.81**	**1,495.49**	**1.34**	**52,860.86**	**47.35**

Notes : 1. Data are provisional.

2. NBC - net bank credit.

3. Indirect Agricultural advance taken to the extent of 4.5 per cent.

Source : Data furnished by respective banks.

Appendix Table: III.27(B): Non-Performing Assets in Advances to Weaker Section under Priority Sector - Private Sector Banks
(As at end-March 2004)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Section		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
1	Bank of Rajasthan Ltd	34.48	10.92	31.67
2	Bharat Overseas Bank Ltd	11.99	0.91	7.59
3	Catholic Syrian Bank Ltd	11.74	3.11	26.49
4	City Union Bank Ltd	12.00	0.94	7.83
5	Dhanalakshmi Bank Ltd	19.70	5.12	25.99
6	Federal Bank Ltd	236.86	28.40	11.99
7	Ganesh Bank of Kurundwad Ltd	–	–	–
8	ING Vysya Bank Ltd	47.14	3.09	6.55
9	Jammu & Kashmir Bank Ltd.	226.32	31.76	14.03
10	Karnataka Bank Ltd	96.30	6.07	6.30
11	Karur Vysya Bank Ltd	154.17	8.79	5.70
12	Lakshmi Vilas Bank Ltd	45.16	1.74	3.85
13	Lord Krishna Bank Ltd	8.81	2.08	23.61
14	Nainital Bank Ltd	9.17	0.53	5.78
15	Ratnakar Bank Ltd	24.31	3.82	15.71
16	SBI Commercial & International Bank Ltd	–	–	–
17	Sangli Bank Ltd.	21.02	3.89	18.51
18	South Indian Bank Ltd	63.24	17.71	28.00
19	Tamilnad Mercantile Bank Ltd	6.85	0.42	6.13
20	United Western Bank Ltd	199.14	26.17	13.14
21	Bank of Punjab Ltd	–	–	–
22	Centurion Bank Ltd	–	–	–
23	Development Credit Bank Ltd	2.58	0.05	1.94
24	Global Trust Bank Ltd	–	–	–
25	HDFC Bank Ltd	–	–	–
26	ICICI Bank Ltd	20.15	0.00	0.00
27	IDBI Bank Ltd	–	–	–
28	IndusInd Bank Ltd	–	–	–
29	Kotak Mahindra Bank Ltd.	–	–	–
30	UTI Bank Ltd	28.73	0.00	0.00
	Total	**1,279.86**	**155.52**	**12.15**

– Nil

Source: Data furnished by respective banks.

Appendix Table III.28: Advances to the Priority Sector by Foreign Banks
(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March 2002		March 2003@		March 2004@	
	Amount	Percentage to Net bank credit	Amount	Percentage to Net bank credit	Amount	Percentage to Net bank credit
1	2	3	4	5	6	7
Priority Sector Advances #	**13,414**	**34.0**	**14,848**	**33.9**	**18,276**	**34.8**
Of which:						
I. Export credit	6,948	18.0	8,195	18.7	9,809	18.7
II. Small-scale industries	4,561	12.0	3,809	8.7	5,438	10.4

@ Provisional.

\# Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro-processing sector, self-help group and venture capital.

Appendix Table IV.1: Progress of Co-operative Credit Movement in India

(Amount in Rs. crore, ratio in per cent)

Sr. No.	Type of Institution	Item	2000-01	2001-02	2002-03	2003-04 P
1	2	3	4	5	6	7
1	Urban Co-operative Banks (UCBs)	Number	1,618	1,854	1,941	1,926
		Owned Funds	10,826	13,797	9,830	12,348
		Deposits	80,840	93,069	1,01,546	1,10,256
		Borrowings	2,069	N.A.	1,590	1,484
		Working Capital	1,03,042	1,15,596	1,11,746	N. A.
		Loans Outstanding	54,389	62,060	64,880	67,930
		C-D Ratio	67	67	64	62
2	State Co-operative Banks (StCBs)	Number	30	30	30	31
		Owned Funds	5,837	6,712	7,159	N.A.
		Deposits	32,626	36,191	36,658	43,394
		Borrowings	11,693	11,672	11,365	12,416
		Working Capital	49,490	54,262	57,651	N.A.
		Loans Issued	34,307	34,663	38,642	39,320
		Loans Outstanding	29,861	32,678	32,798	35,111
		Recovery Performance (as per cent to demand)	84	82	79	N.A.
		C-D Ratio	92	90	89	81
3	District Central Co-operative Banks (DCCBs)	Number	367	368	367	365
		Owned Funds	12,180	14,141	16,398	N.A.
		Deposits	61,745	68,181	72,344	78,326
		Borrowings	16,935	18,820	19,243	20,882
		Working Capital	87,821	99,424	1,01,252	N.A.
		Loans Issued	45,016	55,915	64,665	48,709
		Loans Outstanding	52,478	59,316	63,198	66,696
		Recovery Performance (as per cent to demand)	67	66	61	N.A.
		C-D Ratio	85	87	87	85
4	State Co-operative Agriculture and Rural Development Banks (SCARDBs)	Number	20 @	20 @	20 @	20 @
		Owned Funds	3,034	2,484	2,892	N.A.
		Deposits #	536	571	546	480
		Borrowings	13,413	14,846	15,910	16,891
		Working Capital	16,896	18,955	20,613	N.A.
		Loans Issued	2,586	2,746	2,964	2,812
		Loans Outstanding	12,553	14,147	15,385	16,357
		Recovery Performance (as per cent to demand)	58	55	49	N.A.
5	Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)	Number	732	768	768	768
		Owned Funds	1,628	2,494	2,730	N.A.
		Deposits #	210	256	222	341
		Borrowings	8,294	10,334	11,217	10,680
		Working Capital	10,838	12,290	15,458	N.A.
		Loans Issued	1,865	2,045	2,151	2,057
		Loans Outstanding	8,295	9,982	10,775	11,378
		Recovery Performance (as per cent to demand)	53	48	44	N.A.

P Provisional.

@ Maharashtra SCARDB came under Federal structure as on October 1, 2001 with Maharashtra SCARDB of Apex level and 29 DCARMDBs at ground level.

Deposits of SCARDBs and PCARDBs includes advance repayment by LDBs.

Source : NABARD.

Appendix Table IV.2: Urban Co-operative Banks working under directions of the Reserve Bank of India *(Continued)*

Sr. No.	Name of Urban Co-operative Bank	Date
1	2	3
	Andhra Pradesh	
1	Prudential Co-op. Urban Bank Ltd.	August 28, 2002-March 21, 2003
2	Bellampally Co-op. Urban Bank Ltd.	January 27, 2003
3	Vasavi Co-op. Urban Bank Ltd.	March 7, 2003
4	Srinivasa Padamavathi Co-op. Urban Bank Ltd.	August 12, 2003
5	Hyderabad Co-op. Urban Bank Ltd.	August 26, 2003
6	Bobbili Co-op. Urban Bank Ltd.	January 27, 2004
7	Sri Bharathi Co-op. Urban Bank Ltd.	January 27, 2004
8	Srikalahasti Co-op. Urban Bank Ltd.	January 28, 2004
9	Palakol Co-op. Urban Bank Ltd.	February 12, 2004
	Assam	
10	Nagaon Urban Co-op. Bank Ltd., Nagaon	May 28, 2003
	Gujarat	
11	Natpur Co-op. Bank Ltd., Nadiad	January 16, 2002
12	Petlad Commercial Co-op. Bank Ltd., Petlad	May 28, 2002
13	Shree Vikas Co-op. Bank Ltd., Surat	July 31, 2002
14	Anand Peoples Co-op. Bank Ltd., Anand	August 30, 2002
15	Suryapur Co-op. Bank Ltd., Surat	September 4, 2002
16	Co-op. Bank of Ahmedabad Ltd., Ahmedabad	September 21,2002
17	Janata Co-op. Bank Ltd., Nadiad	September 24, 2002
18	Pragati Co-op. Bank Ltd., Ahmedabad	September 26, 2002
19	Baroda Mercantile Co-op. Bank Ltd., Baroda	October 10, 2002
20	Sind Mercantile Co-op. Bank Ltd., Ahmedabad	October 10, 2002
21	United Mercantile Co-op. Bank Ltd., Nadiad	October 10, 2002
22	Shree Patni Co-op. Bank Ltd., Baroda	October 23, 2002
23	Sabarmati Co-op. Bank Ltd., Ahmedabad	November 9, 2002
24	Shree Vitthal Co-op. Bank Ltd., Dehgam	December 23, 2002
25	Talod Janta Sahakari Bank Ltd., Talod	February 5, 2003
26	Karamsad Urban Co-op. Bank Ltd., Karamsad	February 11, 2003
27	Navsari People's Co-op. Bank Ltd., Navasari	March 12, 2003
28	Textile Processors' Co-op. Bank Ltd., Ahmedabad	March 17, 2003
29	Shreenathji Co-op. Bank Ltd., Nadiad	March 22, 2003
30	Shree Janata Sahakari Bank Ltd., Radhanpur	April 8, 2003
31	Sheth B.B. Shroff Bulsar People's Co-op. Bank Ltd., Valsad	April 17, 2003
32	Nadiad Mercantile Co-op Bank Ltd., Nadiad	April 23, 2003
33	Shri Swaminarayan Co-op. Bank Ltd., Vadodara	December 19, 2003
34	Sarvodaya Nagrik Sahakari Bank Ltd., Visnagar.	January 3, 2004
	Karnataka	
35	Bangalore Mercantile Co-op. Bank Ltd., Bangalore	October 8, 2001
36	Bedkihal Urban Co-op. Bank Ltd., Bedkihal	April 30, 2002
37	Harugeri Urban Co-op.Bank Ltd. Harugeri	June 23, 2003

Appendix Table IV.2: Urban Co-operative Banks working under directions of the Reserve Bank of India *(Concluded)*

Sr. No.	Name of Urban Co-operative Bank	Date
1	2	3
38	Hiriyur Urban Co-op.Bank Ltd. Hiriyur	June 28, 2003
39	Onake Obavva Mahila Co-op. Bank Ltd., C'durga	September 11, 2003
40	Mahalingpur Urban Co-op.Bank Ltd. Mahalingpur	October 31, 2003
41	S.S.K. Co-op Bank Ltd., Hubli	December 24, 2003
42	Maratha Co-op Bank Ltd., Hubli	February 3, 2004
	Madhya Pradesh	
43	Nagarik Sahakari Bank Mydt. Dhamtari (C.G)	October 10, 2001
44	Mitra Mandal Sahakari Bank Ltd., Indore	March 19, 2003
45	Khargone Mahila Nagarik Sahakari Bank, Mydt. Khargone	February 20, 2004
	Maharashtra	
46	Shri Mahavir Co-op Bank Ltd., Kolhapur	
47	Yashwant Sahakar Bank Ltd., Phaltan	April 1, 2000 & December 20, 2003
48	Raghuvanshi Co-op Bank Ltd., Mumbai	August 29, 2002
49	Bombay Mercantile Co-op Bank Ltd., Mumbai (operational instructions)	September 26, 2002 & November 12, 2002
50	Mapusa Urban Co-op Bank Ltd., Goa	August 16, 2002
51	Lord Balaji Co-op Bank Ltd., Sangli	January 24, 2003
52	Ichalkaranji Jiveshwar SBL, Kolhapur	May 14, 2003
53	Jai Hind Co-op Bank Ltd., Mumbai	October 18, 2003 & January 19, 2004
54	Krishna Valley Co-op Bank Ltd., Sangli	December 20, 2003
55	Nashik Peoples Co-op Bank Ltd., Nashik	June 4, 2004 & June 23, 2004
	New Delhi	
56	Jai Lakshmi Co-op. Bank Ltd.	March 21, 2002
	Orissa	
57	Urban Co-operative Bank, Bhubaneswar	January 22, 2004
58	Urban Co-operative Bank, Chatrapur	July 6, 2004
	Rajasthan	
59	Sriganganagar Urban Co-op. Bank Ltd., Sriganganagar	August 12, 1998
60	Lok Vikas Urban Co-op. Bank Ltd., Jaipur	January 7, 2000
	Uttar Pradesh	
61	Manasarovar Urban Co-operative Bank Ltd., Lucknow	December 24, 1997
62	Nagariya Sahakari Bank Ltd., Varanasi	July 10, 1999
63	Indian Co-operative Development Bank Ltd., Meerut	July 15,1999
64	City Co-operative Bank Ltd., Lucknow	March 22, 2001
65	Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad	May 20, 2002
	West Bengal	
66	Bantra Co-operative Bank Ltd.	November 12, 2001
67	Rahuta Co-operative Bank Ltd.	May 4, 2002
68	Kasundia Co-operative Bank Ltd.	January 15, 2004

Appendix Table IV.3: Banks Under Liquidation - Cancellation of Licence

Sr. No.	Name of Urban Co-operative Bank	Date
1	2	3
	Andhra Pradesh	
1	Dhana Co-op Urban Bank Ltd.	April 7, 2003
2	Narasaraopet Co-op Urban Bank Ltd.	September 16, 2003
3	Manikanta Co-op Urban Bank Ltd.	July 16, 2003
4	Vasundhara Co-op Urban Bank Ltd.	September 1, 2003
5	Neelagiri Co-op Urban Bank Ltd.	September 26, 2003
6	Trinity Co-op Urban Bank Ltd.	November 28, 2003
7	Vijaya Co-op Urban Bank Ltd.	January 28, 2004
8	Kalyan Co-op Urban Bank Ltd.	January 19, 2004
9	Mahalakshmi Co-op Urban Bank Ltd.	January 19, 2004
10	S.S.G.Yogeswara Co-op Urban Bank Ltd.	March 3, 2004
11	Sai Co-op Urban Bank Ltd.	June 1, 2004
12	Sri Satya Sai Co-op Urban Bank Ltd.	June 19, 2004
	Gujarat	
13	Santram Co-operative Bank Ltd., Nadiad	June 2, 2003
14	The Bhavnagar Welfare Co-operative Bank Ltd.,Bhavnagar	June 2, 2003
15	The Janata Commercial Co-operative Bank Ltd., Dholka	June 2, 2003
16	The General Co-operative Bank Ltd., Ahmedabad	June 2, 2003
17	The Visnagar Nagarik Sahakari Bank Ltd., Visnagar	July 11, 2003
18	The Charotar Nagarik Sahakari Bank Ltd., Anand	July 28, 2003
19	The Nayaka Mercantile Co-operative Bank Ltd., Kheda	August 14, 2003
20	Petlad Nagrik Sahakari Bank Ltd., Petlad.	March 13, 2004
21	Baroda Peoples Co-op Bank Ltd., Baroda.	May 22, 2004
22	Ujjavar Co-op Bank Ltd., Ahmedabad.	June 6, 2004
23	Classic Co-op Bank Ltd., Ahmedabad.	June 10, 2004
24	Co-operative Bank of Umreth Ltd., Umreth.	June 9, 2004
25	Diamond Jubilee Co-op Bank Ltd., Surat.	June 19, 2004
26	Matar Nagrik Sahakari Bank Ltd., Matar,	June 9, 2004
	Karnataka	
27	Sri Mouneshwar Co-op Bank Ltd.	April 23, 2003
28	Raibag Urban Co-op Bank Ltd.	September 17, 2003
29	Cauvery Urban Co-op Bank Ltd, Bangalore	February 11, 2004
30	Karnataka Contractors Co-op Bank Ltd., Bangalore	February 12, 2004
	Madhya Pradesh	
31	Citizen Co-op Bank Ltd., Damoh	September 16, 2003
32	Shree Co-op Bank Ltd., Indore	February 10, 2004
	Maharashtra	
33	Solapur Merchants Co-op Bank Ltd. Solapur	June 20, 2003
	Tamil Nadu	
34	Madurai Urban Co-op Bank Ltd.	August 22, 2003

Appendix Table IV.4: Bank-wise Major Indicators of Financial Performance as Proportion to Assets of Scheduled Urban Co-operative Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Operating Profit		Net Profit		Interest Income	
		2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8
1	A P Mahesh Co-op Urban Bank Ltd.	7.73	2.03	2.57	1.20	13.58	9.36
2	Abhyudaya Co-op Bank Ltd.	3.07	4.77	0.67	0.71	9.84	8.85
3	Ahmedabad Mercantile Co-op Bank Ltd.	3.54	2.89	0.73	0.65	11.62	8.78
4	Akola Janata Commercial Co-op Bank Ltd.	1.97	1.86	0.51	0.84	10.60	9.02
5	Akola Urban Co-op Bank Ltd.	1.57	1.97	0.66	0.66	13.89	11.63
6	Amanath Co-op Bank Ltd.#	0.44	0.27	0.44	0.27	8.90	6.46
7	Bassein Catholic Co-op Bank Ltd.	2.21	2.53	1.28	1.55	9.64	9.01
8	Bharat Co-op Bank (Mumbai) Ltd.	2.57	2.36	0.97	1.01	10.50	9.38
9	Bharati Sahakari Bank Ltd.	1.08	2.34	0.32	0.62	10.45	8.13
10	Bombay Mercantile Co-op Bank Ltd.	1.28	1.41	1.28	1.29	5.73	4.28
11	Charminar Co-op Urban Bank Ltd.#	-2.30	0.89	-3.03	-0.76	3.54	4.06
12	Citizencredit Co-op Bank Ltd.	1.58	1.03	1.01	0.95	8.05	6.86
13	Co-operative Bank of Ahmedabad	-2.97	-0.36	-6.92	-4.69	6.81	6.54
14	Cosmos Co-op Bank Ltd.	3.17	3.44	1.07	2.24	9.41	8.48
15	Dombivli Nagari Sahakari Bank Ltd.	2.19	2.97	0.87	0.81	9.81	9.37
16	Goa Urban Co-op Bank Ltd.	2.73	1.19	0.44	0.60	8.99	7.29
17	Greater Bombay Co-op Bank Ltd.	2.38	2.54	1.41	1.19	9.53	6.85
18	Ichalkaranji Janata Sahakari Bank Ltd.	1.70	0.87	0.85	0.37	9.61	8.51
19	Indian Mercantile Co-op Bank Ltd.	1.71	2.16	1.71	2.16	9.47	8.80
20	Jalgaon Janata Sahakari Bank Ltd.	1.76	0.50	0.58	0.34	8.27	8.22
21	Janakalyan Sahakari Bank Ltd.	1.83	1.68	0.46	0.41	8.96	7.38
22	Janalaxmi Co-op Bank Ltd.	2.31	2.51	0.43	0.63	11.60	10.17
23	Janata Sahakari Bank Ltd.	0.18	0.44	-1.33	0.32	6.90	5.40
24	Kalupur Commercial Co-op Bank Ltd.	4.16	3.46	1.75	1.14	10.86	8.27
25	Kalyan Janata Sahakari Bank Ltd.	2.60	1.98	0.51	0.77	8.13	6.91
26	Kapol Co-op Bank Ltd.	1.51	1.30	0.89	0.93	7.82	7.91
27	Karad Urban Co-op Bank Ltd.	1.75	1.26	0.83	0.35	9.09	8.74
28	Khamgaon Urban Co-op Bank Ltd.	1.25	0.63	0.41	0.07	14.09	12.06
29	Madhavpura Mercantile Co-op Bank Ltd.#	0.00	-1.74	0.00	-1.74	1.21	0.97
30	Mahanagar Co-op Bank Ltd.	1.30	2.01	0.31	0.76	9.91	9.30
31	Mandvi Co-op Bank Ltd.	1.00	0.90	0.54	0.53	9.10	8.89
32	Mapusa Urban Co-op Bank of Goa Ltd.	-1.95	-3.56	-4.19	-3.90	5.12	2.98
33	Mehsana Urban Co-op Bank Ltd.	3.46	2.11	0.87	0.90	14.13	11.24
34	Nagar Urban Co-op Bank Ltd.#	2.18	2.66	1.07	0.73	13.80	9.77
35	Nagpur Nagrik Sahakari Bank Ltd.	2.35	2.42	0.54	0.54	9.35	8.53
36	Nasik Merchant's Co-op Bank Ltd.	2.10	2.52	0.60	0.79	10.63	8.52
37	New India Co-op Bank Ltd.	2.78	2.38	1.95	1.87	9.87	8.57
38	North Kanara G.S.B. Co-op Bank Ltd.	1.71	1.89	0.98	1.15	9.62	8.79
39	Nutan Nagarik Sahakari Bank Ltd.	3.11	2.36	1.97	1.66	10.10	8.24
40	Parsik Janata Sahakari Bank Ltd.	3.01	3.29	1.68	1.71	9.13	8.20
41	Pravara Sahakari Bank Ltd.	3.27	2.12	0.44	0.39	11.79	10.48
42	Punjab & Maharashtra Co-op Bank Ltd.	1.70	1.64	1.29	1.11	10.20	8.90
43	Rajkot Nagrik Sahakari Bank Ltd.	2.22	2.17	1.12	1.06	7.84	6.17
44	Rupee Co-op Bank Ltd.	-1.54	0.23	-7.47	-1.51	6.43	5.37
45	Sangli Urban Co-op Bank Ltd.	1.85	1.26	0.33	0.33	9.23	7.99
46	Saraswat Co-op Bank Ltd.	2.10	2.32	0.57	1.04	7.95	6.76
47	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	1.03	2.72	0.04	1.25	9.15	8.86
48	Shamrao Vithal Co-op Bank Ltd.	2.13	2.62	0.96	0.96	10.08	9.25
49	Shikshak Sahakari Bank Ltd.	0.69	1.87	-1.92	0.73	8.88	7.69
50	Solapur Janata Sahakari Bank Ltd.	1.70	2.08	0.52	0.54	11.77	10.94
51	Surat People's Co-op Bank Ltd.	3.42	3.15	1.08	1.29	10.72	9.32
52	Thane Bharat Sahakari Bank Ltd.	1.77	1.90	0.97	0.80	9.39	8.11
53	Thane Janata Sahakari Bank Ltd.	2.20	2.19	1.57	1.45	10.17	9.01
54	Vasavi Co-operative Urban Bank Ltd.#	-2.35	1.84	-14.38	1.84	12.07	10.52
55	Zoroastrian Co-op Bank Ltd.	1.93	2.64	0.48	0.44	9.70	8.83
	TOTAL	**1.52**	**1.78**	**-1.06**	**0.62**	**8.45**	**7.29**

Appendix Table IV.4: Bank-wise Major Indicators of Financial Performance as Proportion to Assets of Scheduled Urban Co-operative Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Interest Expended		Provision & Contingencies	
		2002-03	2003-04	2002-03	2003-04
1	2	9	10	11	12
1	A P Mahesh Co-op Urban Bank Ltd.	9.17	5.65	5.17	0.83
2	Abhyudaya Co-op Bank Ltd.	5.29	4.33	2.40	4.05
3	Ahmedabad Mercantile Co-op Bank Ltd.	6.57	4.46	2.82	2.24
4	Akola Janata Commercial Co-op Bank Ltd.	8.40	6.94	1.46	1.02
5	Akola Urban Co-op Bank Ltd.	12.42	10.47	0.91	1.31
6	Amanath Co-op Bank Ltd.#	7.15	5.95	0.00	0.00
7	Bassein Catholic Co-op Bank Ltd.	6.55	5.84	0.93	0.98
8	Bharat Co-op Bank (Mumbai) Ltd.	6.00	5.11	1.60	1.35
9	Bharati Sahakari Bank Ltd.	7.64	6.64	0.76	1.72
10	Bombay Mercantile Co-op Bank Ltd.	4.52	3.03	0.00	0.12
11	Charminar Co-op Urban Bank Ltd.#	4.62	2.12	0.72	1.66
12	Citizencredit Co-op Bank Ltd.	5.85	4.87	0.57	0.08
13	Co-operative Bank of Ahmedabad	7.62	4.36	3.95	4.33
14	Cosmos Co-op Bank Ltd.	6.98	6.14	2.11	1.20
15	Dombivli Nagari Sahakari Bank Ltd.	6.11	5.00	1.33	2.16
16	Goa Urban Co-op Bank Ltd.	6.57	5.27	2.29	0.59
17	Greater Bombay Co-op Bank Ltd.	7.45	5.18	0.97	1.35
18	Ichalkaranji Janata Sahakari Bank Ltd.	7.87	7.28	0.84	0.51
19	Indian Mercantile Co-op Bank Ltd.	7.01	5.66	0.00	0.00
20	Jalgaon Janata Sahakari Bank Ltd.	7.02	6.36	1.18	0.16
21	Janakalyan Sahakari Bank Ltd.	7.71	7.11	1.37	1.27
22	Janalaxmi Co-op Bank Ltd.	8.02	7.10	1.88	1.88
23	Janata Sahakari Bank Ltd.	6.47	5.05	1.52	0.12
24	Kalupur Commercial Co-op Bank Ltd.	6.00	3.94	2.41	2.32
25	Kalyan Janata Sahakari Bank Ltd.	5.59	4.61	2.09	1.20
26	Kapol Co-op Bank Ltd.	6.43	5.40	0.62	0.37
27	Karad Urban Co-op Bank Ltd.	7.65	6.43	0.92	0.91
28	Khamgaon Urban Co-op Bank Ltd.	12.15	10.80	0.84	0.55
29	Madhavpura Mercantile Co-op Bank Ltd.#	2.47	2.50	0.00	0.00
30	Mahanagar Co-op Bank Ltd.	6.53	5.55	0.99	1.25
31	Mandvi Co-op Bank Ltd.	7.18	6.51	0.46	0.37
32	Mapusa Urban Co-op Bank of Goa Ltd.	5.82	4.54	2.25	0.34
33	Mehsana Urban Co-op Bank Ltd.	9.84	7.81	2.59	1.21
34	Nagar Urban Co-op Bank Ltd.#	11.09	7.45	1.11	1.93
35	Nagpur Nagrik Sahakari Bank Ltd.	7.05	6.21	1.81	1.89
36	Nasik Merchant's Co-op Bank Ltd.	6.82	5.46	1.50	1.74
37	New India Co-op Bank Ltd.	5.01	4.33	0.83	0.51
38	North Kanara G.S.B. Co-op Bank Ltd.	6.69	5.88	0.73	0.74
39	Nutan Nagarik Sahakari Bank Ltd.	6.65	4.86	1.14	0.70
40	Parsik Janata Sahakari Bank Ltd.	5.52	4.40	1.33	1.58
41	Pravara Sahakari Bank Ltd.	8.10	8.07	2.83	1.73
42	Punjab & Maharashtra Co-op Bank Ltd.	7.08	5.96	0.41	0.53
43	Rajkot Nagrik Sahakari Bank Ltd.	5.43	4.71	1.10	1.11
44	Rupee Co-op Bank Ltd.	6.79	5.63	5.92	1.74
45	Sangli Urban Co-op Bank Ltd.	6.68	6.41	1.52	0.93
46	Saraswat Co-op Bank Ltd.	5.39	4.12	1.53	1.28
47	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	6.44	5.15	1.00	1.47
48	Shamrao Vithal Co-op Bank Ltd.	6.66	5.84	1.17	1.66
49	Shikshak Sahakari Bank Ltd.	8.81	6.56	2.61	1.13
50	Solapur Janata Sahakari Bank Ltd.	7.96	6.85	1.18	1.54
51	Surat People's Co-op Bank Ltd.	6.20	5.02	2.34	1.86
52	Thane Bharat Sahakari Bank Ltd.	7.39	5.98	0.80	1.10
53	Thane Janata Sahakari Bank Ltd.	6.55	5.36	0.63	0.74
54	Vasavi Co-operative Urban Bank Ltd.#	11.36	6.37	12.02	0.00
55	Zoroastrian Co-op Bank Ltd.	6.25	4.88	1.45	2.20
	TOTAL	**6.46**	**5.17**	**2.58**	**1.16**

Appendix Table IV.4: Bank-wise Major Indicators of Financial Performance as Proportion to Assets of Scheduled Urban Co-operative Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	Operating Expenses		Spread	
		2002-03	2003-04	2002-03	2003-04
1	2	13	14	15	16
1	A P Mahesh Co-op Urban Bank Ltd.	3.24	2.74	4.41	3.71
2	Abhyudaya Co-op Bank Ltd.	2.40	2.63	4.55	4.52
3	Ahmedabad Mercantile Co-op Bank Ltd.	1.66	1.66	5.05	4.33
4	Akola Janata Commercial Co-op Bank Ltd.	5.67	5.15	2.46	2.09
5	Akola Urban Co-op Bank Ltd.	1.64	1.38	1.48	1.16
6	Amanath Co-op Bank Ltd.#	2.06	2.40	1.75	0.50
7	Bassein Catholic Co-op Bank Ltd.	1.49	1.63	3.09	3.16
8	Bharat Co-op Bank (Mumbai) Ltd.	2.68	2.76	4.49	4.27
9	Bharati Sahakari Bank Ltd.	1.90	1.68	2.82	1.50
10	Bombay Mercantile Co-op Bank Ltd.	2.53	2.12	1.21	1.25
11	Charminar Co-op Urban Bank Ltd.#	1.23	1.20	-1.08	1.94
12	Citizencredit Co-op Bank Ltd.	1.75	1.56	2.20	1.99
13	Co-operative Bank of Ahmedabad	3.35	2.86	-0.81	2.18
14	Cosmos Co-op Bank Ltd.	1.65	1.75	2.43	2.34
15	Dombivli Nagari Sahakari Bank Ltd.	1.73	1.64	3.70	4.37
16	Goa Urban Co-op Bank Ltd.	2.49	2.92	2.42	2.02
17	Greater Bombay Co-op Bank Ltd.	2.65	2.35	2.08	1.67
18	Ichalkaranji Janata Sahakari Bank Ltd.	1.96	2.10	1.74	1.23
19	Indian Mercantile Co-op Bank Ltd.	1.76	2.63	2.45	3.15
20	Jalgaon Janata Sahakari Bank Ltd.	2.44	2.75	1.24	1.86
21	Janakalyan Sahakari Bank Ltd.	1.72	1.82	1.25	0.27
22	Janalaxmi Co-op Bank Ltd.	6.38	6.69	3.58	3.07
23	Janata Sahakari Bank Ltd.	1.60	1.43	0.43	0.34
24	Kalupur Commercial Co-op Bank Ltd.	1.22	1.20	4.86	4.33
25	Kalyan Janata Sahakari Bank Ltd.	1.82	1.70	2.55	2.30
26	Kapol Co-op Bank Ltd.	4.03	3.69	1.39	2.50
27	Karad Urban Co-op Bank Ltd.	3.22	3.12	1.44	2.31
28	Khamgaon Urban Co-op Bank Ltd.	1.67	1.64	1.93	1.25
29	Madhavpura Mercantile Co-op Bank Ltd.#	2.78	0.22	-1.25	-1.54
30	Mahanagar Co-op Bank Ltd.	2.93	2.93	3.38	3.75
31	Mandvi Co-op Bank Ltd.	2.20	2.20	1.92	2.38
32	Mapusa Urban Co-op Bank of Goa Ltd.	2.38	2.29	-0.70	-1.56
33	Mehsana Urban Co-op Bank Ltd.	1.11	1.66	4.30	3.43
34	Nagar Urban Co-op Bank Ltd.#	1.99	1.94	2.70	2.31
35	Nagpur Nagrik Sahakari Bank Ltd.	4.75	2.06	2.20	2.32
36	Nasik Merchant's Co-op Bank Ltd.	2.05	1.88	3.81	3.07
37	New India Co-op Bank Ltd.	3.02	3.14	4.86	4.24
38	North Kanara G.S.B. Co-op Bank Ltd.	1.93	1.78	2.93	2.91
39	Nutan Nagarik Sahakari Bank Ltd.	2.91	2.73	3.45	3.38
40	Parsik Janata Sahakari Bank Ltd.	1.69	1.63	3.60	3.80
41	Pravara Sahakari Bank Ltd.	1.88	1.89	3.70	2.41
42	Punjab & Maharashtra Co-op Bank Ltd.	2.29	2.29	3.12	2.93
43	Rajkot Nagrik Sahakari Bank Ltd.	1.11	1.09	2.41	1.46
44	Rupee Co-op Bank Ltd.	1.42	1.30	-0.36	-0.26
45	Sangli Urban Co-op Bank Ltd.	2.68	2.54	2.55	1.58
46	Saraswat Co-op Bank Ltd.	2.20	1.95	2.57	2.64
47	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	1.95	1.80	2.71	3.71
48	Shamrao Vithal Co-op Bank Ltd.	2.42	2.25	3.42	3.41
49	Shikshak Sahakari Bank Ltd.	1.53	1.45	0.07	1.13
50	Solapur Janata Sahakari Bank Ltd.	2.38	2.28	3.81	4.10
51	Surat People's Co-op Bank Ltd.	2.21	2.28	4.51	4.30
52	Thane Bharat Sahakari Bank Ltd.	2.11	1.68	2.00	2.12
53	Thane Janata Sahakari Bank Ltd.	2.21	2.19	3.62	3.65
54	Vasavi Co-operative Urban Bank Ltd.#	3.19	2.32	0.71	4.15
55	Zoroastrian Co-op Bank Ltd.	1.74	1.63	3.45	3.95
	TOTAL	**2.14**	**1.93**	**1.99**	**2.12**

Unaudited for 2003-04.
Source: Balance sheet of respective banks.

Appendix Table IV.5: Bank-wise Select Financial Parameters of Scheduled Urban Co-operative Banks

(As at end-March 2004)

(Per cent)

Sr. No.	Name of the Bank	CRAR	Interest Income/ Working Fund	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	Return on Assets	Average Cost of Deposits	Business per employee	Profit per employee
								Amount in Rs. lakh	
1	2	3	4	5	6	7	8	9	10
1	A P Mahesh Co-op Urban Bank Ltd.	41.53	9.63	1.08	2.09	1.23	8.54	102.43	1.20
2	Abhyudaya Co-op Bank Ltd.	37.18	9.10	2.90	4.90	0.70	6.10	187.57	1.22
3	Ahmedabad Mercantile Co-op Bank Ltd.	45.82	8.98	0.24	2.96	0.67	7.94	140.00	4.96
4	Akola Janata Commercial Co-op Bank Ltd.	10.84	9.33	1.62	1.93	0.87	9.11	145.43	0.92
5	Akola Urban Co-op Bank Ltd.	11.95	8.54	2.20	1.98	0.90	9.36	208.77	0.96
6	Amanath Co-op Bank Ltd.#	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
7	Bassein Catholic Co-op Bank Ltd.	31.70	9.01	0.99	2.71	1.55	7.50	284.12	6.17
8	Bharat Co-op Bank (Mumbai) Ltd.	16.05	9.73	0.88	2.44	1.17	6.69	220.52	1.78
9	Bharati Sahakari Bank Ltd.	11.00	8.70	2.69	2.47	0.66	9.30	204.32	3.07
10	Bombay Mercantile Co-op Bank Ltd.	-13.14	6.88	3.08	1.80	1.47	5.80	90.00	1.00
11	Charminar Co-op Urban Bank Ltd.#	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
12	Citizencredit Co-op Bank Ltd.	16.90	7.03	0.62	0.98	1.04	5.92	280.83	2.42
13	Co-operative Bank of Ahmedabad	-17.94	9.09	0.45	-0.69	-0.69	7.02	14,131.57	-642.67
14	Cosmos Co-op Bank Ltd.	16.40	9.05	3.04	3.71	2.24	8.23	312.80	5.69
15	Dombivli Nagari Sahakari Bank Ltd.	13.71	10.17	0.34	3.25	0.88	7.08	257.69	1.63
16	Goa Urban Co-op Bank Ltd.	16.82	7.74	2.22	1.25	0.64	6.74	154.42	0.80
17	Greater Bombay Co-op Bank Ltd.	17.81	7.37	3.47	2.73	1.28	8.11	250.00	3.00
18	Ichalkaranji Janata Sahakari Bank Ltd.	12.80	8.58	1.76	0.37	10.57	9.38	148.45	0.46
19	Indian Mercantile Co-op Bank Ltd.	15.82	9.27	1.73	2.27	2.27	6.76	138.90	2.43
20	Jalgaon Janata Sahakari Bank Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
21	Janakalyan Sahakari Bank Ltd.	10.16	7.57	3.31	1.72	0.41	8.79	389.61	1.26
22	Janalaxmi Co-op Bank Ltd.	12.00	3.60	0.31	2.70	0.60	9.17	143.44	0.72
23	Janata Sahakari Bank Ltd.	-10.56	7.07	1.85	0.43	0.42	7.77	235.58	0.70
24	Kalupur Commercial Co-op Bank Ltd.	51.22	9.13	0.37	3.82	1.43	8.11	286.00	4.00
25	Kalyan Janata Sahakari Bank Ltd.	11.43	7.55	1.51	2.16	0.87	7.67	197.57	3.41
26	Kapol Co-op Bank Ltd.	20.37	8.00	2.52	1.42	0.94	7.07	131.52	1.12
27	Karad Urban Co-op Bank Ltd.	15.25	9.04	2.03	1.19	0.37	7.90	107.89	0.28
28	Khamgaon Urban Co-op Bank Ltd.	8.69	8.27	1.01	0.05	9.56	78.68	153.21	0.06
29	Madhavpura Mercantile Co-op Bank Ltd.#	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
30	Mahanagar Co-op Bank Ltd.	15.44	10.03	1.28	1.93	0.90	7.29	159.30	0.97
31	Mandvi Co-op Bank Ltd.	16.81	8.97	0.72	0.97	0.96	7.71	274.07	1.31
32	Mapusa Urban Co-op Bank of Goa Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
33	Mehsana Urban Co-op Bank Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
34	Nagar Urban Co-op Bank Ltd.#	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
35	Nagpur Nagrik Sahakari Bank Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
36	Nasik Merchant's Co-op Bank Ltd.	27.23	8.97	1.40	2.65	0.83	7.74	155.76	1.10
37	New India Co-op Bank Ltd.	42.59	8.59	1.28	2.38	2.53	5.74	180.09	3.06
38	North Kanara G.S.B. Co-op Bank Ltd.	16.48	9.13	0.79	1.97	1.27	7.29	322.21	2.88
39	Nutan Nagarik Sahakari Bank Ltd.	45.68	8.34	1.77	2.40	1.67	7.33	135.94	2.24
40	Parsik Janata Sahakari Bank Ltd.	28.72	8.45	1.16	3.09	1.77	5.94	160.22	2.75
41	Pravara Sahakari Bank Ltd.	9.35	10.95	1.67	0.41	0.50	9.69	160.82	0.45
42	Punjab & Maharashtra Co-op Bank Ltd.	14.43	9.74	1.17	1.79	1.22	8.07	270.85	2.29
43	Rajkot Nagrik Sahakari Bank Ltd.	34.07	7.39	2.15	2.51	1.48	8.27	313.90	3.75
44	Rupee Co-op Bank Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
45	Sangli Urban Co-op Bank Ltd.	14.56	8.85	2.45	1.40	0.37	8.62	69.64	0.19
46	Saraswat Co-op Bank Ltd.	12.16	8.06	1.94	1.24	1.04	6.48	371.00	3.00
47	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	28.22	9.80	0.89	3.01	1.25	7.42	172.50	2.05
48	Shamrao Vithal Co-op Bank Ltd.	12.58	9.59	1.43	2.70	1.01	7.65	395.98	2.74
49	Shikshak Sahakari Bank Ltd.	7.42	8.44	2.40	2.05	0.80	8.49	209.52	1.26
50	Solapur Janata Sahakari Bank Ltd.	13.17	11.60	0.27	2.20	0.57	9.07	166.31	0.67
51	Surat People's Co-op Bank Ltd.	27.03	9.77	1.19	2.42	11.01	7.08	218.17	2.58
52	Thane Bharat Sahakari Bank Ltd.	13.85	8.26	1.49	2.17	0.82	7.85	192	1.0
53	Thane Janata Sahakari Bank Ltd.	20.22	9.04	0.73	2.40	1.45	6.81	328.91	3.69
54	Vasavi Co-operative Urban Bank Ltd.#	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
55	Zoroastrian Co-op Bank Ltd.	19.02	9.01	0.33	2.69	2.64	6.36	298.90	6.15

Unaudited.

N.A. - Not Available

Appendix Table IV.6: Recovery Performance of Rural Co-operative Banks
(As per cent of demand)

Sr. No.	State / Union Territory	StCBs		CCBs		SCARDBs		PCARDBs	
		2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
1	Andaman & Nicobar	78	67	–	–	–	–	–	–
2	Andhra Pradesh	65	46	66	33	–	–	–	–
3	Arunachal Pradesh	39	19	–	–	–	–	–	–
4	Assam	20	25	–	–	10	9	–	–
5	Bihar	12	20	29	24	16	6	–	–
6	Chandigarh	62	62	–	–	–	–	–	–
7	Chattisgarh	96	87	57	66	53	31	70	64
8	Delhi	71	75	–	–	–	–	–	–
9	Goa	60	66	–	–	–	–	–	–
10	Gujarat	91	91	62	63	42	33	–	–
11	Haryana	100	100	79	79	88	88	62	63
12	Himachal Pradesh	71	69	75	79	56	56	66	63
13	Jammu & Kashmir	34	43	44	36	37	43	–	–
14	Jharkhand	–	–	21	19	–	–	–	–
15	Karnataka	90	86	65	60	26	22	29	26
16	Kerala	93	95	76	77	85	80	56	51
17	Madhya Pradesh	93	94	61	62	46	44	61	56
18	Maharashtra	70	69	54	52	13	25	30	22
19	Manipur	5	9	–	–	7	2	–	–
20	Meghalaya	36	39	–	–	–	–	–	–
21	Mizoram	39	54	–	–	–	–	–	–
22	Nagaland	19	27	–	–	–	–	–	–
23	Orissa	84	78	58	52	8	7	21	36
24	Pondicherry	69	78	–	–	57	60	–	–
25	Punjab	96	94	87	89	90	88	66	66
26	Rajasthan	88	95	77	75	64	64	44	25
27	Sikkim	43	76	–	–	–	–	–	–
28	Tamil Nadu	99	97	80	64	46	33	43	36
29	Tripura	29	31	–	–	51	40	–	–
30	Uttar Pradesh	75	71	49	53	86	71	–	–
31	Uttaranchal	–	–	82	81	–	–	–	–
32	West Bengal	83	85	75	78	61	61	60	53
	All India	**82**	**79**	**66**	**61**	**55**	**49**	**48**	**44**

– No bank in the State/Union Territory or not available.
Source: NABARD.

Appendix Table IV.7: State-wise Sanctions and Disbursements under Rural Infrastructure Development Fund (RIDF)

(As on March 31, 2004)

(Rs. crore)

Sr. No.	State	RIDF-I		RIDF-II		RIDF-III		RIDF-IV		RIDF-V		RIDF-VI		RIDF-VII		RIDF-VIII		RIDF-IX		Total	
		Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements	Loan Sanctions	Disbursements
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1	Andhra Pradesh	227.09	215.13	337.23	307.71	281.53	251.61	286.82	255.14	380.00	317.01	562.71	453.84	626.39	434.13	909.56	415.08	868.20	167.69	4,479.53	2,817.34
2	Arunachal Pradesh	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.10	19.96	88.50	71.52	69.41	30.31	0.00	0.00	15.12	0.00	198.13	121.79
3	Assam	0.00	0.00	63.29	61.44	16.07	15.75	64.72	47.85	185.77	112.58	49.57	42.16	0.00	0.00	76.23	15.25	189.75	0.00	645.40	295.03
4	Bihar	22.17	12.63	0.00	0.00	57.96	26.93	0.00	0.00	0.00	0.00	0.00	0.00	78.76	22.91	218.93	41.20	84.52	0.14	462.34	103.81
5	Chattisgarh	79.12	77.91	9.80	5.64	57.07	57.99	65.32	58.28	34.09	28.35	50.86	39.83	84.42	53.49	281.30	88.07	432.88	20.21	1,094.86	429.77
6	Goa	6.85	6.85	0.00	0.00	0.00	0.00	8.93	8.70	0.00	0.00	19.09	8.97	15.79	9.91	16.10	10.29	0.00	0.00	66.76	44.72
7	Gujarat	150.90	145.47	127.00	114.34	153.74	134.86	119.76	84.49	248.84	158.52	554.75	340.82	40.90	12.27	283.82	214.78	899.21	240.95	2,578.92	1,446.50
8	Haryana	26.70	19.33	61.06	62.16	74.98	62.43	56.25	45.98	99.07	70.07	67.43	51.16	227.95	111.22	270.87	111.10	153.62	36.35	1,037.93	569.80
9	Himachal Pradesh	14.23	14.23	52.96	52.83	51.12	49.43	87.81	77.94	109.72	101.66	130.89	109.33	176.19	121.34	196.85	82.66	119.67	36.87	939.44	646.29
10	Jammu & Kashmir	6.14	6.04	0.00	0.00	35.95	20.87	107.47	87.60	110.88	90.82	161.52	110.78	216.80	117.96	175.64	62.03	153.82	16.07	968.22	512.17
11	Jharkhand	0.00	0.00	0.00	0.00	4.35	2.48	118.50	0.00	91.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49.13	0.00	263.40	2.48
12	Karnataka	172.63	158.79	195.21	180.08	171.29	161.75	172.34	166.12	173.18	162.16	301.08	256.21	236.77	143.06	246.49	66.18	250.31	13.19	1,919.30	1,307.54
13	Kerala	95.93	86.26	86.91	73.14	89.29	73.87	64.00	52.12	126.77	105.35	175.87	124.57	191.76	90.33	196.55	84.43	91.75	4.02	1,118.83	694.09
14	Madhya Pradesh	161.32	137.12	239.47	233.03	200.32	204.06	176.63	144.02	228.87	170.12	292.79	202.74	311.05	174.46	575.23	223.24	277.46	79.02	2,463.14	1,567.81
15	Maharashtra	186.81	169.87	231.66	204.27	254.31	240.23	301.98	250.68	350.28	308.21	439.17	264.50	529.73	151.82	443.09	30.30	67.03	0.00	2,804.06	1,619.88
16	Manipur	1.75	0.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	8.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.08	0.96
17	Meghalaya	3.39	3.39	0.00	0.00	7.06	7.06	9.33	9.05	35.10	29.16	30.49	19.72	18.30	7.59	18.39	3.68	15.52	0.87	137.58	80.52
18	Mizoram	2.38	2.37	0.00	0.00	0.00	0.00	0.00	0.00	54.17	53.35	3.76	3.76	7.33	7.33	2.00	2.00	13.50	9.58	83.14	78.39
19	Nagaland	1.38	1.38	0.00	0.00	0.00	0.00	0.72	0.00	16.52	14.36	61.49	21.56	0.95	0.95	6.68	4.47	12.43	4.00	100.17	46.72
20	Orissa	169.50	162.05	147.03	141.03	199.98	172.04	149.89	109.39	134.62	78.78	106.86	62.07	153.25	81.57	246.83	76.35	122.84	15.48	1,430.80	898.76
21	Punjab	60.50	60.50	62.50	62.05	88.85	84.77	96.00	72.06	102.79	90.10	236.65	190.11	239.98	185.25	210.17	124.77	288.18	77.37	1,385.62	946.98
22	Rajasthan	123.51	116.86	151.50	129.23	158.48	139.98	65.18	42.92	132.00	111.33	253.75	243.39	435.12	280.07	346.75	210.19	140.27	43.33	1,806.56	1,317.30
23	Sikkim	0.00	0.00	0.00	0.00	0.00	0.00	21.29	20.41	8.72	8.73	4.55	4.10	5.48	5.09	4.89	2.58	3.30	0.00	48.23	40.91
24	Tamil Nadu	0.00	0.00	245.79	218.86	209.40	185.55	178.68	142.97	245.86	213.87	253.04	216.83	353.11	308.06	387.97	251.62	547.73	125.93	2,421.58	1,663.69
25	Tripura	0.00	0.00	0.00	0.00	0.00	0.00	21.70	19.18	43.94	19.26	35.40	10.88	6.79	0.00	50.13	19.51	0.00	0.00	157.96	68.83
26	Uttar Pradesh	295.72	281.89	491.65	407.12	414.48	389.15	474.97	372.26	348.94	275.62	247.72	168.15	338.50	178.87	322.71	94.05	201.24	17.58	3,135.93	2,184.69
27	Uttaranchal	0.00	0.00	0.00	0.00	21.68	2.43	50.80	6.47	4.98	0.00	0.00	0.00	53.96	16.19	75.43	51.42	226.62	37.25	433.47	113.76
28	West Bengal	102.52	81.84	155.82	144.82	170.54	161.06	213.74	192.76	222.29	172.42	413.23	256.87	474.41	224.63	520.73	164.63	213.41	47.61	2,486.69	1,446.64
	TOTAL	**1,910.54**	**1,760.87**	**2,658.88**	**2,397.75**	**2,718.45**	**2,444.30**	**2,912.83**	**2,266.39**	**3,513.92**	**2,711.79**	**4,549.50**	**3,273.87**	**4,893.10**	**2,768.81**	**6,083.34**	**2,449.88**	**5,437.51**	**993.51**	**34,678.07**	**21,067.17**

Source: NABARD.

Appendix Table V.1: Financial Assistance - Sanctioned and Disbursed by All Financial Institutions

(Amount in Rs. crore)

Institution	Loans*				Underwriting and Direct Subscription				Others				Total				Percentage variation over 2002-03	
	2002-03		2003-04		2002-03		2003-04		2002-03		2003-04		2002-03		2003-04			
	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 to 5)	**19,862.4**	**15,393.5**	**20,730.4**	**11,184.7**	**1,312.9**	**684.4**	**459.9**	**680.8**	**1,097.0**	**1,147.5**	**2,217.2**	**2,192.2**	**22,272.3**	**17,225.4**	**23,407.5**	**14,057.7**	**5.1**	**-18.4**
1. IDBI	5,463.8	6,342.6	5,549.8	3,973.6	320.8	155.2	81.0	435.5	113.6	117.1	–	–	5,898.2	6,614.9	5,630.8	4,409.1	-4.5	-33.3
2. IFCI	1,563.8	1,295.0	1,391.6	275.5	396.2	484.9	–	2..7	–	–	–	–	1,960.0	1,779.9	1,391.6	278.2	-29.0	-84.4
3. IDFC	1,768.2	915.0	5,352.9	2,466.4	535.9	34.3	373.9	237.6	–	–	–	–	2,304.1	949.3	5,726.8	2,704.0	148.5	184.8
4. SIDBI	10,903.5	6,789.4	8,246.3	4,414.2	–	–	–	–	–	–	–	–	10,903.5	6,789.4	8,246.3	4,414.2	-24.4	-35.0
	(878.1)	(668.1)	(758.2)	(526.7)	–	–	–	–	–	–	–	–	(878.1)	(668.1)	(758.2)	(526.7)		
5. IIBI	163.1	51.5	189.8	55.0	60.0	10.0	5.0	5.0	983.4	1,030.4	2,217.2	2,192.2	1,206.5	1,091.9	2,412.0	2,252.2	99.9	106.3
B. Specialised Financial Institutions (6 to 8)	**93.6**	**101.4**	**193.8**	**161.0**	**303.3**	**319.1**	**83.8**	**74.8**	**78.2**	**69.7**	**206.7**	**205.0**	**475.1**	**490.2**	**484.3**	**440.8**	**1.8**	**-10.1**
6. IVCF	1.5	1.5	–	–	–	–	–	–	–	–	–	–	1.5	1.5	–	–	–	–
7. ICICI Venture	14.2	13.4	133.8	126.0	303.3	317.1	83.8	74.8	72.0	63.5	162.2	160.5	390.5	394.0	379.8	361.3	-2.7	-8.3
8. TFCI	77.9	86.5	60.0	35.0	–	2.0	–	–	6.2	6.2	44.5	44.5	84.1	94.7	104.5	79.5	24.6	-8.3
C. Investment Institutions (9 to 11)	**1,057.9**	**686.6**	**15,718.9**	**4,830.5**	**4,907.2**	**7,215.8**	**7,986.3**	**12,571.2**	**–**	**–**	**–**	**–**	**5,965.1**	**7,902.4**	**23,705.2**	**17,401.7**	**297.4**	**120.2**
9. LIC	524.4	265.0	15,232.0	4,328.7	3,808.3	5,940.8	6,742.0	11,452.9	–	–	–	–	4,332.7	6,205.8	21,974.0	15,781.6	407.2	154.3
10. UTI	–	–	–	–	307.4	414.7	–	–	–	–	–	–	307.4	414.7	–	–	–	–
11. GIC @	533.5	421.6	486.9	501.8	791.5	860.3	1,244.3	1,118.3	–	–	–	–	1,325.0	1,281.9	1,731.2	1,620.1	30.7	26.4
D. Total Assistance by All-India Financial Institutions (A+B+C)	**21,013.9**	**16,181.5**	**36,643.1**	**16,176.2**	**6,523.4**	**8,219.3**	**8,530.0**	**13,326.8**	**1,175.2**	**1,217.2**	**2,423.9**	**2,397.2**	**28,712.5**	**25,618.0**	**47,597.0**	**31,900.2**	**65.8**	**24.5**
E. State level Institutions (15 to 16)	**2,773.7**	**2,692.9**	**1,133.8**	**856.8**	**5.9**	**11.1**	**…**	**…**	**–**	**–**	**…**	**…**	**2,779.6**	**2,704.0**	**1,133.8**	**856.8**	**–**	**–**
12. SFCs	1,855.9	1,454.0	1,133.8	856.8	…	…	–	–	…	…	1,855.9	1,454.0	1,133.8	856.8	–	–		
13. SIDCs	917.8	1,238.9	…	…	5.9	11.1	…	…	–	–	…	…	923.7	1,250.0	…	…	–	–
F. Total Assistance by All Financial Institutions (D+E)	**23,787.6**	**18,874.4**	**37,776.9**	**17,033.0**	**6,529.3**	**8,230.4**	**8,530.0**	**13,326.8**	**1,175.2**	**1,217.2**	**2,423.9**	**2,397.2**	**31,492.1**	**28,322.0**	**48,730.8**	**32,757.0**	**54.7**	**15.7**

S Sanctions. D Disbursements. – Nil. … Not available.

* Loans include rupee loans, foreign currency loans and guarantees.

@ Data include GIC and its subsidiaries.

Notes: 1. All data are provisional.

2. Figures in parentheses represent inter-institutional flows. This involves adjustment in regard to IDBI/SIDBI's refinance to SFCs' and SIDCs' seed capital as also loans to and subscriptions to shares and bonds of financial institutions.

3. Others item (Cols.10 to 13) include short-term/bridge loans in case of IVCF and UTI.

Source: Respective financial institutions, IDBI for GIC and its former subsidiaries and SIDCs, SIDBI for SFCs.

Appendix Table V.2: Sanctions and Disbursements by IDFC

(Amount in Rs. crore)

Sector	Sanctions		Disbursements	
	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5
Energy	1,095	2,209	203	828
Telecommunication	70	1,266	416	1,130
Transportation	962	1,635	318	576
Urban Infrastructure	0	287	2	54
Health Infrastructure	78	104	0	78
Food & Agri-business Infrastructure	0	50	0	15
Education Infrastructure	0	19	0	13
Tourism	0	158	0	0
India Development Fund	1,000	0	10	10
Total	**2,304**	**5,727**	**950**	**2,704**
Growth (per cent)		**148.5**		**184.7**

Source: Infrastructure Development Finance Company.

Appendix Table V.3: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources/ Deployment of Funds	2002-03										2003-04									
	Quarter ended								Total (April - March)		Quarter ended								Total (April - March)	
	June - 02		September - 02		December - 02		March - 03				June - 03		September - 03		December - 03		March - 04			
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Sources of Funds																				
i) Internal	10,285	56.1	12,000	53.7	6,573	35.9	20,190	55.1	49,048	51.3	18,618	65.4	22,088	63.7	17,647	69.0	17,183	53.3	75,537	62.5
ii) External	4,465	24.4	6,586	29.5	8,101	44.3	13,128	35.9	32,280	33.8	8,286	29.1	12,263	35.4	7,041	27.5	14,115	43.8	41,706	34.5
iii) Other Sources	3,577	19.5	3,744	16.8	3,620	19.8	3,293	9.0	14,234	14.9	1,547	5.5	329	0.9	900	3.5	918	2.9	3,694	3.0
Total Sources of Funds (i+ii+iii)	**18,327**	**100.0**	**22,330**	**100.0**	**18,294**	**100.0**	**36,611**	**100.0**	**95,562**	**100.0**	**28,451**	**100.0**	**34,680**	**100.0**	**25,588**	**100.0**	**32,217**	**100.0**	**1,20,936**	**100.0**
Deployment of Funds																				
i) Fresh Deployments	6,145	33.5	12,145	54.4	9,283	50.7	24,455	66.8	52,028	54.4	17,387	61.1	20,710	59.7	13,809	54.0	21,267	66.0	73,173	60.5
ii) Repayment of past borrowings	3,836	20.9	5,649	25.3	3,009	16.4	4,984	13.6	17,478	18.3	5,990	21.1	9,723	28.0	6,354	24.8	4,170	12.9	26,237	21.7
iii) Other Deployments	8,346	45.6	4,536	20.3	6,002	32.9	7,172	19.6	26,056	27.3	5,074	17.8	4,246	12.3	5,425	21.2	6,780	21.1	21,525	17.8
of which: Interest Payments	3,020	16.5	2,759	12.4	2,784	15.2	2,170	5.9	10,733	11.2	2,702	9.5	2,715	7.8	2,375	9.3	2,535	7.9	10,326	8.5
Total Deployment of Funds (i+ii+iii)	**18,327**	**100.0**	**22,330**	**100.0**	**18,294**	**100.0**	**36,611**	**100.0**	**95,562**	**100.0**	**28,451**	**100.0**	**34,680**	**100.0**	**25,588**	**100.0**	**32,217**	**100.0**	**1,20,936**	**100.0**

* Financial Institutions comprise IDBI, IFCI, IIBI, IDFC, TFCI, NABARD, NHB, SIDBI and Exim Bank.
Share - As per cent of total of that category.
Source : Respective FIs.

Appendix Table V.4(A): Financial Assets of Financial Institution
(As at end-March)

(Amount in Rs. crore)

Institution	1991	1999	2000	2001	2002	2003	2004*
1	2	3	4	5	6	7	8
A. All-India Financial Institutions							
1. IDBI	22,701	67,703	70,576	68,822 (-2.5)	65,444 (-4.9)	61,831 (-5.5)	66,322 (7.3)
2. ICICI@	7,084	58,793	65,571	73,676 (12.4)	@	@	@
3. IFCI	5,835	23,151	22,800	21,808 (-4.4)	20,723 (-5.0)	21,127 (2.0)	18,165 (-14.0)
4. IIBI	818	3,773	4,004	4,232 (5.7)	4,089 (-3.4)	3,183 (-22.2)	2,849 (-10.5)
5. EXIM Bank	1,984	5,642	6,995	7,362 (5.3)	8,051 (9.4)	12,269 (52.4)	15,456 (26.0)
6. SIDBI	5,317	15,127	16,388	16,909 (3.2)	17,458 (3.2)	17,427 (-0.2)	19,140 (9.8)
7. NABARD	12,664	26,635	33,082	38,655 (16.8)	44,454 (15.0)	50,642 (13.9)	55,642 (9.9)
8. NHB	969	5,352	6,251	6,836 (9.4)	6,872 (0.5)	9,802 (42.6)	11,344 (15.7)
9. TFCI	–	902	985	862 (-12.5)	872 (1.2)	791 (-9.3)	710 (-10.2)
10. IDFC	–	2,310	2,457	2,901 (18.1)	3,252 (12.1)	3,668 (12.8)	5,619 (53.2)
Total of A (1 to 10)	**57,372**	**2,09,388**	**2,29,109**	**2,42,062 (5.7)**	**1,71,215 (-29.3)**	**1,80,740 (5.6)**	**1,95,247 (8.0)**
B. State Level Institutions							
11. SFCs ##	6,412	10,437	12,218	12,692 (3.9)	12,712 (0.2)	12,712 (0.0)	12,712 (0.0)
12. SIDCs #	3,637	11,192	12,300	12,300 (0.0)	12,300 (0.0)	12,300 (0.0)	12,300 (0.0)
Total of B (11+12)	**10,049**	**21,629**	**24,518**	**24,992 (1.9)**	**25,012 (0.1)**	**25,012 (0.0)**	**25,012 (0.0)**
C. Investment Institutions							
13. UTI	23,164	71,526	75,102	85,426 (13.7)	64,223 (-24.8)	64,223 (0.0)	64,223 (0.0)
14. LIC	29,040	1,31,780	159,949	1,92,482 (20.3)	2,44,448 (27.0)	2,44,448 (0.0)	2,44,448 (0.0)
15. GIC and its subsidiaries	6,362	23,717	26,834	29,824 (11.1)	41,867 (40.4)	41,867 (0.0)	41,867 (0.0)
Total of C (13 to 15)	**158,566**	**2,27,023**	**2,61,885**	**3,07,766 (17.5)**	**3,50,540 (13.9)**	**3,50,538 (0.0)**	**3,50,538 (0.0)**
D. Other Institutions							
16. DICGC	1,744	5,251	5,607	6,311 (12.6)	6,933 (9.9)	7,786 (12.3)	7,786 (0.0)
17. ECGC	244	1,038	1,347	1,643 (22.0)	1,663 (1.2)	1,737 (4.4)	1,737 (0.0)
Total of D (16+17)	**1,988**	**6,289**	**6,954**	**7,954 (14.3)**	**8,596 (8.1)**	**9,523 (10.8)**	**9,523 (0.0)**
E. Grand Total (A+B+C+D)	**1,27,975**	**4,64,329**	**5,22,466**	**5,82,774**	**5,55,363**	**5,65,813**	**5,80,320**

@ Merged with ICICI Bank Ltd.
# Figures repeated for SIDCs since 2001 and for SFCs for 2003.
Figures in respect of two States repeated for 2001-02.
* Figure for B is repeated for 2003 and 2004 and that for C and D are repeated for 2004.

Notes: 1. Data pertain to the accounting year of the respective financial institutions. As far as IFCI is concerned, the accounting was changed to financial year since 1993-94. Figures pertaining to NHB and UTI are at-end June.
2. Figures in brackets indicate percentage change over the previous year.

Appendix Table V.4(B): Financial Assets of Banks and Financial Institutions*
(As at end-March)

(Amount in Rs. crore)

Institution	1991	1999	2000	2001 P	2002 P	2003 P	2004 P *
1	2	3	4	5	6	7	8
I. Banks (3+4)*	**2,32,786**	**7,61,326**	**8,88,781** (16.7)	**10,50,276** (18.2)	**12,69,034** (20.8)	**14,50,854** (14.3)	**16,88,767** (16.4)
1. Scheduled Commercial Banks**	2,22,613	7,26,129	8,51,100	10,09,150	12,23,008	14,01,682	16,39,595
2. Non-Scheduled Commercial Banks***	77	–	–	–	–	–	–
3. Total Commercial Banks (1+2)	2,22,690	7,26,129	8,51,100	10,09,150	12,23,008	14,01,682	16,39,595
4. State Co-operative Banks+	10,096	35,197	37,681	41,126	46,026	49,172	49,172 >>
II. Financial Institutions (5 to 8) ++	**1,27,975**	**4,64,329**	**5,22,466** (12.5)	**5,82,774** (11.5)	**5,55,363** (-4.7)	**5,65,813** (1.9)	**5,80,320** (2.6)
5. Term-lending Institutions# (All-India)	57,372	2,09,388	2,29,109	2,42,062	1,71,215	1,80,740	1,95,247
6. State Level Institutions@	10,049	21,629	24,518	24,992	25,012	25,012 >>	25,012 >>
7. Investment Institutions$	58,566	2,27,023	2,61,885	3,07,766	3,50,540	3,50,538 >>	3,50,538 >>
8. Other Institutions~	1,988	6,289	6,954	7,954	8,596	9,523 >>	9,523 >>
III. Aggregate(I+II)	**3,60,761**	**12,25,655**	**14,11,247** (15.1)	**16,33,050** (15.7)	**18,24,397** (11.7)	**20,16,667** (10.5)	**22,69,087** (12.5)
IV. Percentage Share:							
a) I to III	64.5	62.1	63.0	64.3	69.6	71.9	74.3
b) II to III	35.5	37.9	37.0	35.7	30.4	28.1	25.7

P Provisional.

>> Figures repeated.

* Include the following items: (i) Cash in hand and balances with the Reserve Bank, (ii) Asset with the Banking System (iii) Investments, (iv) Bank Credit (Total loans, cash credits, overdrafts and bills purchased and discounted) and (v) Dues from banks.

** As per returns under Section 42 of the RBI Act, 1934 and since 1991 relate to reporting Friday of March, except the ICICI Bank Ltd. for which the data relate to end-March 2001-2002.

*** As per returns under Section 27 of the Banking Regulation Act,1949. Data are in respect of last Friday of March.

+ The data since 1990 are in respect of Last Reporting Friday of March.

++ Figures pertain to the accounting year of the respective financial institution.

Term lending institutions include IDBI, NABARD, ICICI, IFCI, EXIM BANK , IIBI, NHB and IDFC. For the year 2001-02, the data are excluding ICICI as it was merged with the ICICI Bank Ltd.

@ State level institutions include SFCs and SIDCs.

$ Investment institutions include UTI, LIC and GIC and its subsidiaries.

~ Other institutions include DICGC and ECGC.

Note: Figures in brackets indicate percentage change over the previous year.

Appendix Table V.5: Select Financial Parameters of Financial Institutions
(As at end-March 2004)

(Per cent)

Sr. No.	Financial 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)
1	2	3	4	5	6	7
1	IDBI	7.7	3.1	2.9	0.5	0.12
2	IFCI	4.3	1.3	-1.9	-16.9	-5.34
3	IIBI	10.0	0.3	-4.9	10.0	-0.49
4	Exim Bank	6.4	0.8	2.4	1.7	1.20
5	NABARD	8.0	0.1	3.6	2.8	0.28
6	NHB	8.1	0.4	2.2	2.2	2.35
7	SIDBI	7.3	0.5	3.5	2.0	0.27
8	TFCI	11.8	0.9	3.1	1.6	0.39
9	IDFC	8.4	4.4	5.4	5.2	2.06

Source: Balance Sheet of respective FIs.

Appendix Table V.6: Net Non-Performing Assets of Financial Institutions

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Institution	Standard		Sub-standard		Doubtful Assets		Net NPAs		Ratio of Net NPAs/Net Loans	
		2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
1	2	3	4	5	6	7	8	9	10	11	12
	Term Lending Institutions										
1	IDBI	38,043	32,520	2,840	2,896	4,318	5,797	7,157	8,693	15.8	21.1
2	IFCI	10,896	8,116	820	899	3,739	2,966	4,559	3,865	29.5	32.3
3	IIBI	1,721	1,304	339	274	576	526	915	800	34.7	38.0
4	EXIM Bank	7,990	10,046	120	76	64	53	184	129	2.3	1.3
5	TFCI	593	539	32	30	121	115	153	145	20.4	21.1
6	IDFC	2,657	4,419	3	0	0	0	3	0	0.1	0.0
	Refinancing Financial Institutions										
7	SIDBI	11,836	9,249	89	29	383	197	472	226	3.8	2.4
8	NABARD	45,359	48,789	1	1	0	0	1	1	0.0	0.0
9	NHB	5,888	6,580	0	0	0	0	0	0	0.0	0.0

Source : Balance Sheet of respective FIs.

Appendix Table V.7: Resources Raised by Way of Rupee Bonds/Debentures* by Select All-India Financial Institutions

(Amount in Rs. crore)

Institution/Year	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
IDBI									
Resources raised	5,959	9,834	13,171	15,819	8,495	7,727	8,405	5,009	10,477
Outstandings	26,033	29,503	35,286	41,748	46,443	46,929	45,464	41,798	46,967
IIBI									
Resources raised	–	365	797	1,223	689	458	210	44	176
Outstandings	–	1,241	1,856	1,799	2,084	2,140	2,956	2,566	2,281
IFCI									
Resources raised	1,637	4,051	3,366	3,544	1,783	1,634	651	267	–
Outstandings	11,270	14,640	18,018	20,173	20,092	19,966	19,788	20,203	17,564
TFCI									
Resources raised	122	232	234	158	104	109	48	93	103
Outstandings	264	448	586	711	753	661	627	600	426
EXIM									
Resources raised	173	–	–	500	800	300	625	2,505	2,025
Outstandings	817	817	817	1,275	2,050	2,026	3,067	5,424	11,920
IDFC									
Resources raised	–	–	–	500	–	250	250	400	1,350
Outstandings	–	–	–	500	500	750	1,000	1,400	2,250
SIDBI									
Resources raised	150	350	50	50	357	822	1,224	961	1,429
Outstandings	1,592	1,984	1,876	2,002	2,437	3,319	5,215	4,692	5,428
NABARD									
Resources raised	84	265	164	354	569	1,472	2,548	2,988	5,334
Outstandings	1,045	1,245	1,370	1,632	2,141	3,614	6,078	8,702	11,883
NHB									
Resources raised	23	525	325	475	667	500	238	1,877	2,526
Outstandings	1,724	3,005	3,464	4,069	4,795	5,232	4,678	4,675	6,958
Total Resources raised	**8,147**	**15,622**	**18,106**	**22,623**	**13,464**	**13,271**	**14,199**	**14,144**	**23,419**
Total Outstandings	**42,745**	**52,883**	**63,273**	**73,909**	**81,295**	**84,638**	**88,874**	**90,060**	**1,05,677**

* Resources raised includes instruments such as CDs, CPs, ICDs, Term Deposits and Term Money Borrowing in respect of some FIs.

Source: Returns received from respective FIs.

Appendix Table V.8: Weighted Average Cost/Maturity of Resources Raised by Way of Rupee Bonds/Debentures* by Select All-India Financial Institutions

[Weighted Average Cost (in per cent); Weighted Average Maturity (in years)]

Institution/Year	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
IDBI									
Weighted Average Cost	15.8	15.7	12.3	13.5	12.1	11.2	9.8	8.5	6.5
Weighted Average Maturity	2.4	2.7	3.0	4.9	5.1	3.9	2.6	4.3	5.1
IIBI									
Weighted Average Cost	–	–	–	–	–	13.2	10.6	9.6	8.7
Weighted Average Maturity	–	–	–	–	–	5.6	9.6	8.7	18.0
IFCI									
Weighted Average Cost	15.9	16.1	13.0	13.9	12.9	12.5	11.1	9.6	8.2
Weighted Average Maturity	4.5	8.3	5.3	5.7	7.0	6.5	6.8	2.2	3.2
TFCI									
Weighted Average Cost	15.7	16.8	14.1	14.1	12.5	11.8	10.5	8.5	8.6
Weighted Average Maturity	3.7	6.1	4.6	5.7	5.2	9.0	5.9	10.0	10.0
EXIM									
Weighted Average Cost	12.5	12.5	12.5	12.9	12.5	12.2	10.8	8.9	5.9
Weighted Average Maturity	8.4	7.4	6.4	5.6	4.2	3.6	6.4	6.1	6.7
IDFC									
Weighted Average Cost	–	–	–	12.5	..	10.9	9.0	7.6	5.6
Weighted Average Maturity	–	–	–	5.0	..	5.0	5.0	5.6	5.9
SIDBI									
Weighted Average Cost	14.0	15.3	12.3	12.4	9.7	9.8	7.5	6.5	4.9
Weighted Average Maturity	10.0	5.7	10.0	10.0	2.6	1.3	1.0	2.3	2.8
NABARD									
Weighted Average Cost	14.0	11.1	9.8	11.2	10.6	9.5	8.0	6.1	5.4
Weighted Average Maturity	10.0	8.3	8.2	8.0	5.4	3.0	3.0	5.4	5.4
NHB									
Weighted Average Cost	14.0	13.4	10.5	11.2	11.1	10.2	8.7	6.4	5.4
Weighted Average Maturity	10.0	6.7	8.9	9.0	9.5	5.8	7.4	4.0	3.2

.. Resources not raised.

* Includes only rupee resources and does not include foreign currency borrowings.

Note : Data are provisional.

Source : Returns received from respective FIs.

Appendix Table V.9: Resource Mobilisation by Mutual Funds

(Amount in Rs. crore)

Year (April-March)	Public Sector Mutual Funds				Private Sector Mutual Funds	Grand Total (5+6)
	Bank-sponsored	FI-Sponsored	Unit Trust of India	Total (2+3+4)		
1	2	3	4	5	6	7
1995-96	113 (4)	235 (3)	-6,314 (1)	-5,966 (8)	133 (11)	-5,833 (19)
1996-97	6 (3)	137 (2)	-3,043 @ (1)	-2,900 (6)	864 (17)	-2,037 (23)
1997-98	237 (2)	203 (3)	2,875 (1)	3,315 (6)	749 (15)	4,064 (21)
1998-99	-88 (2)	547 (3)	170 (1)	629 (6)	2,067 (16)	2,695 (22)
1999-2000	336 (6)	295 (3)	4,548 (1)	5,179 (10)	16,937 (27)	22,117 (37)
2000-01	248 (6)	1,273 (3)	322 (1)	1,843 (10)	9,292 (27)	11,135 (37)
2001-02	863 (6)	407 (3)	-7,284 (1)	-6,014 (10)	16,134 (27)	10,120 (37)
2002-03 P	1,033 (4)	862 (3)	-9,434 (1)	-7,539 (8)	12,122 (26)	4,583 (34)
2003-04 P	2,635 (4)	1,127 (2)	1,050 * (1)	4,812 (7)	42,873 (24)	47,684 (31)

P Provisional. @ Exclude re-investment sales.

* Data pertain to period February 1, 2003 to March 31, 2004 being first year of operation after the bifurcation of erstwhile UTI into UTI Mutual Fund and Specialised undertaking of Unit Trust of India.

Notes : 1. For UTI, the figures are net sales (with premium) under all domestic schemes and for other mutual funds, figures represent net sales under all ongoing schemes.

2. Data exclude amount mobilised by off-shore funds and through roll-over schemes.

3. Data within parentheses relate to the number of mutual funds which mobilised resources during the year.

Source: UTI and respective Mutual Funds.

Appendix Table VI.1: Performance of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of Primary Dealer	Year	Income				Expenditure			Profit Before Tax	Profit After Tax	Return on Net worth (per cent)
			Interest Income*	Trading Profit	Other Income	Total Income	Interest Expenses	Other Expenses	Total Expen-diture			
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Securities Trading Corporation of India	2002-03	278.85	202.82	4.21	485.88	145.94	8.94	154.88	331.00	208.13	24.14
		2003-04	277.07	176.19	2.68	455.94	139.38	12.98	152.36	303.58	193.90	19.30
2	Discount & Finance House of India Ltd.	2002-03	185.61	112.94	1.58	300.13	89.00	5.67	94.67	205.46	129.89	19.72
		2003-04	212.65	164.30	2.13	379.08	94.58	7.91	102.49	276.59	177.57	16.87
3	Gilt Securities Trading Corporation Ltd.	2002-03	92.63	55.93	0.26	148.82	57.03	3.77	60.80	88.02	55.26	19.69
		2003-04	85.44	67.27	1.58	154.29	44.96	3.89	48.85	105.44	67.42	20.15
4	ICICI Securities Ltd.	2002-03	129.89	123.18	52.26	305.33	87.12	68.84	155.96	149.36	102.95	30.70
		2003-04	112.39	133.72	75.04	321.15	62.05	79.74	141.79	179.36	143.90	36.66
5	SBI Gilts Ltd. #	2002-03	85.19	76.06	0.27	161.52	49.92	3.60	53.52	108.00	67.90	26.72
		2003-04	–	–	–	–	–	–	–	–	–	–
6	PNB Gilts Ltd.	2002-03	126.51	101.79	1.80	230.10	70.69	9.40	80.09	150.01	92.51	20.86
		2003-04	121.89	113.30	2.75	237.94	61.63	7.66	69.29	168.65	106.96	19.76
7	JP Morgan Securities (India) Pvt. Ltd.	2002-03	28.59	23.77	0.79	53.15	12.14	5.01	17.15	36.00	22.69	13.00
		2003-04	39.69	20.49	0.36	60.54	18.90	5.57	24.47	36.07	22.94	6.16
8	ABN AMRO Securities (India) Pvt. Ltd.	2002-03	32.76	(2.42)	8.95	39.29	16.30	22.78	39.08	0.21	0.86	0.67
		2003-04	20.58	14.08	15.01	49.67	7.31	14.79	22.10	27.57	17.65	12.15
9	Kotak Mahindra Capital Company Ltd.	2002-03	32.64	31.88	24.61	89.13	16.74	24.52	41.26	47.88	30.99	16.93
		2003-04	38.70	49.94	47.91	136.55	20.19	31.65	51.84	84.71	57.95	23.49
10	DSP Merrill Lynch Ltd.	2002-03	37.63	58.21	162.31	258.15	21.75	99.97	121.72	136.42	84.56	27.85
		2003-04	34.34	44.68	227.98	307.00	16.08	120.54	136.62	170.38	111.28	30.14
11	Deutsche Securities (India) Pvt. Ltd.	2002-03	25.53	43.71	0.17	69.41	12.27	4.27	16.54	52.86	33.10	21.00
		2003-04	26.53	40.01	0.69	67.23	13.26	5.95	19.21	48.02	30.71	18.95
12	IDBI Capital Market Services Ltd.	2002-03	201.24	294.16	8.55	503.95	122.87	13.69	136.56	367.39	228.15	51.00
		2003-04	186.57	224.51	27.64	438.72	106.14	16.69	122.83	315.89	200.67	34.57
13	Corpbank Securities Ltd.	2002-03	72.29	36.48	0.44	109.21	41.96	1.66	43.62	65.59	41.48	23.41
		2003-04	70.15	44.00	0.41	114.56	39.44	1.85	41.29	73.27	46.98	23.33
14	HSBC Primary Dealership (India) Pvt. Ltd.	2002-03	13.50	18.67	0.78	32.95	5.70	2.89	8.59	24.36	15.34	22.00
		2003-04	13.64	13.75	0.13	27.52	5.84	3.44	9.28	18.24	11.70	15.01
15	Bank of America Securities (India) Pvt. Ltd.	2002-03	8.93	10.77	0.15	19.85	3.94	2.65	6.58	13.26	8.25	13.00
		2003-04	15.90	3.77	0.30	19.97	2.83	3.74	6.57	13.40	8.16	3.34
16	Standard Chartered UTI Securities (India) Pvt. Ltd.	2002-03	19.10	7.07	0.21	26.38	10.85	2.02	12.87	13.52	7.20	12.64
		2003-04	12.49	14.81	0.10	27.40	5.98	1.75	7.73	19.67	12.58	19.36
17	BoB Capital Markets Ltd.	2002-03	14.10	12.65	1.12	27.87	7.55	4.50	12.05	15.82	9.30	9.42
		2003-04	29.33	2.24	0.04	31.61	11.74	2.14	13.88	17.73	11.37	10.68
18	Citicorp Capital Market Ltd.	2002-03	1.17	0.03	–	1.20	0.04	0.45	0.49	0.71	0.43	0.80
		2003-04	8.87	4.30	3.27	16.44	4.49	2.39	6.88	9.56	6.03	5.12
	TOTAL	**2002-03**	**1,386.16**	**1,207.70**	**268.46**	**2,862.32**	**771.81**	**284.63**	**1,056.43**	**1,805.87**	**1,138.99**	**24.20**
		2003-04	**1,306.23**	**1,131.36**	**408.02**	**2,845.61**	**654.80**	**322.68**	**977.48**	**1,868.13**	**1,227.77**	**20.41**

* includes Discount Income.

\# merged with Discount & Finance House of India Ltd.

Appendix Table VI.2: Select Assets and Liabilities of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of Primary Dealer	Capital Funds (Paid up Capital plus Reserves and Surplus)		CRAR (per cent)		Stock of Government Securities & Treasury bills		Total Assets (Net of current Liabilities & Provisions)	
		2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9	10
1	Securities Trading Corporation of India	923.21	1,004.61	21.74	54.21	2,602.40	2,391.58	3,235.32	2,936.73
2	Discount & Finance House of India Ltd.	702.77	1,052.36	40.05	58.60	1,389.79	2,093.68	1,600.38	2,215.90
3	Gilt Securities Trading Corporation Ltd.	280.65	334.56	42.33	72.59	1,029.35	1,191.00	1,062.21	1,207.97
4	ICICI Securities Ltd.	351.08	392.49	27.96	21.16	1,497.35	1,520.10	2,190.94	2,259.63
5	SBI Gilts Ltd. #	273.95	–	36.05	45.84	610.34	–	603.73	–
6	PNB Gilts Ltd.	472.45	541.33	18.89	41.91	839.05	1,403.81	1,171.11	1,520.91
7	JP Morgan Securities (India) Pvt. Ltd.	192.02	372.67	39.00	80.41	313.15	398.61	419.98	669.79
8	ABN AMRO Securities (India) Pvt. Ltd.	127.58	145.23	35.94	42.34	231.38	326.60	301.23	425.19
9	Kotak Mahindra Capital Company Ltd.	196.09	246.68	33.00	38.78	260.98	469.98	403.06	506.29
10	DSP Merrill Lynch Ltd.	317.84	369.23	49.70	47.80	706.25	388.42	1,003.07	657.66
11	Deutsche Securities (India) Pvt. Ltd.	174.90	162.02	42.00	35.74	340.93	402.30	433.90	657.33
12	IDBI Capital Market Services Ltd.	515.37	580.48	40.36	22.12	2,592.82	1,814.04	2,736.55	2,238.26
13	Corpbank Securities Ltd.	177.19	201.41	15.49	54.30	1,030.17	743.92	1,043.37	756.61
14	HSBC Primary Dealership (India) Pvt. Ltd.	71.56	77.94	52.00	79.60	469.70	214.92	450.96	212.73
15	Bank of America Securities (India) Pvt. Ltd.	65.95	244.65	191.41	118.27	54.55	55.00	92.09	244.76
16	Standard Chartered UTI Securities (India) Pvt. Ltd.	56.93	64.99	40.32	41.64	441.40	217.61	472.18	216.69
17	BoB Capital Markets Ltd.	102.02	106.42	144.60	46.46	108.94	216.55	102.02	215.26
18	Citicorp Capital Market Ltd.	53.43	117.73	1,033.30	90.70	54.24	245.69	56.38	193.70
	Total	**5,054.99**	**6,014.80**	**1,904.14**	**992.47**	**14,572.79**	**14,093.81**	**17,378.48**	**17,135.41**

Merged with Discount & Finance House of India Ltd.

Source: Capital Funds, Stock of G-Secs and Total Assets from Audited Reports from PDs, CRAR from PDR III of March 2004.

Appendix Table VII.1: Indian Financial System - At a Glance

(Amount in Rs. crore)

Institution	As at end-March	Total Assets	Deposits	Advances	GNPLs	Investments
1	2	3	4	5	6	7
Scheduled Commercial Banks #	2003	16,46,983 (75.9)	13,25,049 (85.3)	7,39,125 (70.0)	68,714 (56.1)	6,85,242 (83.6)
	2004	19,09,300 (78.0)	15,37,140 (87.1)	8,59,936 (73.1)	63,252 (53.1)	7,96,008 (84.5)
Financial Institutions	2003	1,82,304 (8.4)	16,755 (1.1)	1,45,231 (13.7)	20,800 (17.0)	19,893 (2.4)
	2004	1,99,958 (8.2)	13,716 (0.8)	1,45,091 (12.3)	23,785 (20.0)	30,305 (3.2)
Scheduled Urban Co-operative Banks	2003	49,653 (2.3)	35,351 (2.3)	22,644 (2.1)	6,910 (5.6)	16,282 (2.0)
	2004	47,930 (2.0)	36,351 (2.1)	22,469 (1.9)	6,158 (5.2)	17,463 (1.9)
Non-Banking Financial Companies	2003	58,701 (2.7)	20,100 (1.3)	33,371 (3.2)	2,629 (2.1)	19,402 (2.4)
	2004	– (-)	– (-)	– (-)	– (-)	– (-)
Regional Rural Banks	2003	63,190 (2.9)	50,098 (3.2)	22,158 (2.1)	3,199 (2.6)	33,063 (4.0)
	2004	– (-)	– (-)	– (-)	– (-)	– (-)
State Co-operative Banks	2003	57,445 (2.6)	36,398 (2.3)	32,736 (3.1)	6,285 (5.1)	17,020 (2.1)
	2004	– (-)	– (-)	– (-)	– (-)	– (-)
District Central Co-operative Banks	2003	1,11,377 (5.1)	70,414 (4.5)	61,044 (5.8)	13,862 (11.3)	29,133 (3.6)
	2004	– (-)	– (-)	– (-)	– (-)	– (-)
Total	**2003**	**21,69,653 (100.0)**	**15,54,165 (100.0)**	**10,56,309 (100.0)**	**1,22,399 (100.0)**	**8,20,035 (100.0)**
	2004	**24,47,901 (100.0)**	**17,64,217 (100.0)**	**11,76,805 (100.0)**	**1,19,170 (100.0)**	**9,42,394 (100.0)**

Data relate to domestic operations only.

– Not available.

Notes: 1. Figures for March 2004 are provisional.

2. Figures in brackets are percentages to the total.

3. Wherever figures for 2004 are not available, previous year's figures have been taken into account for the purpose of aggregation.

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
1.	**Advances**			
	A. Non Performing Advances			
	Identification of NPAs	Same as commercial banks, except Gold loans, small loans both up to Rs. 1 lakh and State Government guaranteed accounts.	Same as commercial banks, except State Government guaranteed accounts.	Relaxed payment delinquency norm at present, would be on par with commercial banks by March 2006.
	B. Income Recognition			
	Not recognizing income on NPA unless realised .	Same as commercial banks.	Same as commercial banks.	Same as commercial banks, except where State Co-operative Act provides for recognition of income on NPA, matching provision is to be made.
	C. Asset Classification			
	All advances have to be classified into four asset classification categories.	Same as commercial banks.	Same as commercial banks.	Same as commercial banks.
	D. Provisioning			
	i. Provisioning norms for standard assets and NPAs in all categories.	Same as commercial banks.	Same as commercial banks.	Same as commercial banks, except no provisions for standard assets. Lower provisioning requirements for doubtful assets. Entire loss asset to be written off.
	ii. Provisioning norms for sale of financial assets to Securitisation Company (SC)/ Reconstruction Company (RC).	Same as commercial banks. However, the write off will be as per provisions of Co-operative Societies Act.	Not applicable.	Not applicable.
2.	**Investments**			
	(i) Classification The entire investment portfolio of the banks (including SLR securities and non-SLR securities) should be classified under three categories, *viz.*, 'Held to Maturity' (HTM), 'Available for Sale' (AFS), and 'Held for Trading' (HFT).	Same as commercial banks.	Three-Tier classification of investment portfolio has not been extended to RRBs.	Investments in approved securities bifurcated into two categories : (i) Permanent (ii) Current

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
	(ii) Valuation			
	(a) HTM : ● Marking to market not necessary, unless book value is more than face value, where premium is to be amortised over the period remaining to maturity. ● provision for diminution in value, which is not temporary.	(a) Same as commercial banks.	(a) The SLR investments are required to be categorized under HTM category.	Approved securities : (i) Permanent depreciation : No (ii) Current : Valued at lower of cost or market value and depreciation to be provided for. Other investments : Same as current investments.
	(b) AFS : ● Marking to market, at least at quarterly intervals. ● Net appreciation in each classification to be ignored, net depreciation to be provided for.	(b) At year end or more frequent intervals.	(b) Not applicable	
	(c) HFT : ● Marking to market at monthly or more frequent. Net appreciation in each classification to be ignored, net depreciation to be provided for.	(c) Same as commercial banks.	(c) Not applicable.	
	(iii) Non Performing Investments Identification of Non-performing investment	Same as commercial banks.	Not applicable.	Relaxed norm at present, would be on par with commercial banks by March 2006.
	(iv) Income Recognition Not reckoning income on non-performing investment	Same as commercial banks.	Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(v) Provisions on Investments			
	(a) Where the interest/ principal is in arrears, the banks should make appropriate provisions for the depreciation in the value of the investment.	(a) Same as commercial banks.	(a) Not applicable.	(a) RBI has not issued any guidelines to StCBs/ DCCBs in this regard.

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
	(b) Banks to build up an Investment Fluctuation Reserve of a minimum of 5 per cent *viz.*, "Held for Trading" and "Available for Sale", within a period of 5 years ending March 31, 2006.	(b) UCBs with deposits of Rs. 100 crore and above, are required to build up IFR of a minimum of 5 per cent of their portfolio. Building up of IFR for banks with deposits less than Rs. 100 crore is optional.	(b) Not applicable.	(b) Not applicable.
3.	**Capital to Risk-Weighted Assets Ratio (CRAR)**			
	(i) Minimum of 9 per cent of Risk Weighted Assets on an on- going basis	Minimum of 9 per cent of Risk Weighted Assets on an on- going basis.	CRAR has not been made applicable to RRBs as yet.	CRAR has not been made applicable to StCBs/ DCCBs as yet.
	(ii) Capital for Market Risks Banks are required to maintain capital for market risks in respect trading book.	UCBs provide for market risk on all Government and other approved securities at an uniform rate.	Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(iii) Capital Adequacy for Subsidiaries Required to maintain capital for subsidiaries.	UCBs as co-operative societies, are not permitted by the Co-operative Societies Act, to set up subsidiaries. Therefore, CRAR norms for subsidiaries have not been made applicable to them.	Not applicable.	StCBs/ DCCBs are not allowed to float subsidiaries.
4.	**Exposure Norms**			
	(i) Exposures to : (a) Individual borrowers : • 15 per cent of the capital funds. • 20 per cent, if exposure is on infrastructure sector.	20 per cent of capital funds.	15 per cent of owned funds.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(b) Group of borrowers : • 40 per cent of the capital funds. • 50 per cent, if exposure is on infrastructure sector.	50 per cent of capital funds. Infrastructure sub ceiling has not been made applicable to UCBs (since the banks are expected to meet credit needs of small borrowers).	40 per cent of owned funds.	

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Contd.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
	In addition to the above, in exceptional circumstances, banks may assume an additional exposure up to 5 per cent of capital funds with the approval of Board.			
	ii) Components of Exposure	Same as commercial banks, except instructions on underwriting, *etc.*	Same as commercial banks.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
	(iii) Sensitive Sector Exposure (a) Ceiling for capital market exposure With sub-ceiling on convertible bonds and debentures and units of equity oriented mutual funds. (b) Unsecured Exposures No limit.	(a) The instructions issued to commercial banks are not made applicable to UCBs since they are not allowed to invest in corporate shares and debentures. (b) Limit prescribed on unsecured advances and guarantees.	Same as commercial banks.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
5.	**Asset Liability Management**			
	Limits on mismatches (negative gap) in cash flows during 1-14 days and 15-28 days buckets.	Same as commercial banks applicable to scheduled UCBs.	Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
6.	**Call Money Operations**			
	(i) Lendings of Scheduled Commercial Banks (StCBs) in the call/ notice money market, subject to a limit. (ii) Limits prescribed on borrowings by StCBs.	(i) UCBs are free to lend in the call/ notice money market without any limit. (ii) Limits prescribed on the borrowings of UCBs in call/ notice money market.	(i) Not applicable. ii) Not applicable.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.
7.	**Consolidated Supervision**			
	Required to prepare consolidated financial statements and adhere to certain prudential regulations on group basis.	UCBs are not permitted by RBI/ Co-operative Societies Act to set up subsidiaries.	Not applicable, since RRBs do not have subsidiaries.	RBI has not issued any guidelines to StCBs/ DCCBs in this regard.

Annex VII.3: Prudential Norms - A Comparative Statement as on 30 June 2004 *(Concld.)*

Sr. No.	Norms as applicable to commercial banks, *viz.*, public sector, private sector and foreign banks	As applicable to UCBs	As applicable to RRBs	As applicable to StCBs/ DCCBs
8.	**Provisioning For Country Risk Exposure**			
	Provisioning requirement on bank's net funded exposure on any country exceeding 1 per cent of its total assets. In accordance with country risk rating.	Not applicable.	Not applicable.	StCBs/ DCCBs are not operating outside their respective area of operations.
9.	**Disclosure Requirements**			
	Banks are required to disclose information relating to the following areas in the "Notes on Accounts" to the Balance Sheet. i. Capital Adequacy ii. Asset Quality iii. Profitability Ratios iv. Maturity pattern of certain Assets & Liabilities and Lending to Sensitive Sector.	The UCBs having deposits in excess of Rs. 100 crore are required to make disclosures in their balance sheets similar to commercial banks except Maturity pattern of certain assets and liabilities.	Same as commercial banks, except capital adequacy. However, the details of disclosure vary.	Banks are required to disclose information relating to the following areas in the "Notes on Accounts" to the Balance Sheet. i. Non –SLR investments.

List of Select Abbreviations

AAIFR	Appellate Authority for Industrial and Financial Reconstruction
ABS	Asset Backed Security
ACB	Audit Committee of the Board
ACSTI	Agricultural Co-operative Staff Training Institute
AD	Authorised Dealer
ADR	American Depository Receipt
AFI	Annual Financial Inspection
AFS	Available For Sale
AIFI	All-India Financial Institution
ALD	Aggregate Liabilities to the Depositor
ALM	Asset-Liability Management
AMC	Asset Management Company
AMPI	Aggregated Micro-Prudential Indicators
APRA	Australian Prudential and Regulation Authority
ASIC	Australian Securities and Investment Commission
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Limited
AS	Accounting Standard
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BFS	Board for Financial Supervision
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements
BOE	Bank of England
BPLR	Benchmark Prime Lending Rate
BPSS	Board for Payment and Settlement Systems
BSE	Mumbai Stock Exchange
BSR	Basic Statistical Return
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
CBDT	Central Board of Direct Taxes
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Consolidated Banking Statistics
CCB	Central Co-operative Bank
CCIL	Clearing Corporation of India Ltd.
CCU	Corporate Credit Union
CD	Certificate of Deposit
C-D Ratio	Credit Deposit Ratio
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CFMS	Centralised Funds Management System
CFS	Consolidated Financial Statement
CGFTSI	Credit Guarantee Fund Trust for Small Industries
CIB	Capital Indexed Bond
CIBIL	Credit Information Bureau of (India) Limited
CLF	Collateralised Lending Facility
CMP	Common Minimum Programme
CoR	Certificate of Registration
CP	Commercial Paper
CPI	Consumer Price Index
CPI-IW	Consumer Price Index for Industrial worker
CPR	Consolidated Prudential Return
CRA	Credit Reporting Agency

CRAR	Capital to Risk-weighted Assets Ratio
CRISIL	Credit Rating and Investment Services (India) Limited
CRR	Cash Reserve Ratio
CSGL	Constituent Subsidiary General Ledger
CVC	Central Vigilance Commission
DAP	Development Action Plan
DCCB	District Central Co-operative Bank
DDA	Designated Depository Agency
DFHI	Discount and Finance House of India
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DNSS	Deferred Net Settlement System
DRAT	Debt Recovery Appellate Tribunal
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal
DTL	Demand and Time Liability
D*v*P	Delivery *versus* Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing
ECGC	Export Credit Guarantee Corporation
ECS	Electronic Clearing Service
EDP	Electronic Data Processing
EFT	Electronic Funds Transfer
EL	Equipment Leasing
EOU	Export Oriented Unit
ESOP	Employee Stock Option
EWS	Early Warning System
EXIM Bank	Export Import Bank of India
FCCB	Foreign Currency Convertible Bond
FCNR	Foreign Currency Non-Resident
FCNR (B)	Foreign Currency Non-Resident (Banks)
FCRB	Financial Companies Regulation Bill
FDI	Foreign Direct Investment
FEDAI	Foreign Exchange Dealers Association of India
FEMA	Foreign Exchange Management Act
FI	Financial Institution
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIPB	Foreign Investment Promotion Board
FRA	Forward Rate Agreement
FSI	Financial Soundness Indicator
GCS	Gold Card Scheme
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GIC	General Insurance Corporation
GLC	General Line of Credit
GTB	Global Trust Bank
HFT	Held for Trading
HHI	Hirschman and Herfindhal Index
HNI	High Networth Individual
HP	Higher Purchase
HTM	Held to Maturity
IBA	Indian Banks' Association
IBS	International Banking Statistics
ICAI	Institute of Chartered Accountants of India
ICD	Inter Corporate Deposit
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company
IDRBT	Institute for Development and Research in Banking Technology
IFCI	Industrial Finance Corporation of India
IFR	Investment Fluctuation Reserve

IIBI	Industrial Investment Bank of India Limited
IIP	Index of Industrial Production
IMCGC	India Mortgage Credit Guarantee Corporation
IMF	International Monetary Fund
INFINET	INdian FInancial NETwork
IPO	Initial Public Offering
IRAC	Income Recognition and Asset Classification
IRB	Internal Rating Based
IRF	Interest Rate Future
IRS	Interest Rate Swap
IT	Information Technology
JLG	Joint Liability Group
JPC	Joint Parliamentary Committee
KCC	Kisan Credit Card
KYC	Know Your Customer
L_3	Broad Liquidity Aggregate
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LBS	Locational Banking Statistics
LIBOR	London Inter-Bank Offered Rate
LIC	Life Insurance Corporation of India
LNJPF	Lok Nayak Jai Prakash Naryanan Fund
M_3	Broad Money
MBC	Mutual Benefit Company
MBFC	Mutual Benefit Financial Company
MBS	Mortgage Backed Security
MEI	Macro Economic Indicator
MFI	Micro Finance Institution
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MISU	Market Intelligence and Surveillance Unit
MNBC	Miscellaneous Non-Banking Company
MOSSI	Ministry of Small-Scale Industry
MoU	Memorandam of Understanding
MPI	Macro Prudential Indicator
MSCS	Multi State Co-operative Society
MSS	Market Stabilisation Scheme
MTSS	Money Transfer Service Scheme
NABARD	National Bank for Agriculture and Rural Development
NAFSCOB	National Federation of State Co-operative Banks Limited
NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NCAER	National Council of Applied Economic Research
NCARDBF	National Co-operative Agriculture and Rural Development Banks' Federation
NCMDARDB	National Centre for Management Development in Agriculture and Rural Development Banking
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
NDS	Negotiated Dealing System
NDTL	Net Demand and Time Liability
NEFT	National Electronic Fund Transfer
NFS	National Financial Switch
NGO	Non-Government Organisation
NHB	National Housing Bank
NIBM	National Institute of Bank Management
NMCE	National-level Multi Commodity Exchange
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPC	National Payment Council
NPL	Non-Performing Loan
NRE	Non-Resident External
NRI	Non-Resident Indian

NRNR	Non-Resident Non-Repatriable
NRO	Non-Resident Ordinary Accounts
NRSR	Non-Resident Special Rupee
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
NSS	National Settlement System
OBC	Oriental Bank of Commerce
OBU	Off-shore Banking Unit
OCB	Overseas Corporate Body
OLTAS	Online Tax Accounting System
OMO	Open Market Operation
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-Site Surveillance System
OTC	Over the Counter
OTCEI	Over the Counter Exchange of India
OTS	One Time Settlement
PAC	Public Accounts Committee
PACS	Primary Agricultural Credit Society
PAT	Profit After Tax
PBT	Profit Before Tax
PCA	Prompt Corrective Action
PCARDB	Primary Co-operative Agricultural and Rural Development Bank
PCFC	Pre-shipment Credit in Foreign Currency
PD	Primary Dealer
PDAI	Primary Dealers Association of India
PIS	Portfolio Investment Scheme
PLR	Prime Lending Rate
PSB	Public Sector Bank
PSRS	Prudential Supervisory Reporting System
PSU	Public Sector Undertaking
QIB	Qualified Institutional Buyer
QII	Qualified Institutional Investor
QIS	Quantitative Impact Study
RBS	Risk Based Supervision
RCS	Registrar of Co-operative Societies
RFC	Resident Foreign Currency
RIB	Resurgent India Bond
RIDF	Rural Infrastructural Development Fund
RNBC	Residuary Non-Banking Company
RoA	Return on Asset
RoE	Return on Equity
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Asset
SACP	Special Agricultural Credit Plan
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SASF	Stressed Asset Stabilisation Fund
SCARDB	State Co-operative Agricultural and Rural Development Bank
SCB	Scheduled Commercial Bank
SGL	Subsidiary General Ledger
SEBI	Securities and Exchange Board of India
SEFT	Special Electronic Funds Transfer
SFC	State Financial Corporation
SFMS	Structured Financial Messaging System
SGSY	Swarn Jayanti Gram Swarojgar Yojna
SHG	Self Help Group
SHPI	Self-Help Promoting Institution
SICA	Sick Industrial Companies Act
SIDBI	Small Industries Development Bank of India
SIDC	Small Industries Development Corporation
SIPS	Systemically Important Payment System
SJSRY	Swarna Jayanti Shahari Rozgar Yojana

SLBC	State Level Bankers' Committee
SLR	Statutory Liquidity Ratio
SLRS	Scheme of Liberation and Rehabilitation of Scavengers
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
StCB	State Co-operative Bank
STCI	Securities Trading Corporation of India Limited
STP	Straight Through Processing
STRIPS	Separate Trading for Registered Interest and Principal of Securities
TAMC	Thai Asset Management Company
TFCI	Tourism Finance Corporation of India
TIN	Tax Information Network
TUFS	Technology Upgradation Fund Scheme
UBD	Urban Banks Department
UCB	Urban Co-operative Bank
UTI	Unit Trust of India
VaR	Value-at-Risk
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
WADR	Weighted Average Discount Rate
WPI	Wholesale Price Index
YTM	Yield to Maturity