A Monthly Newsletter of Indian Institute of Banking & Finance (Rs. 40/- per annum)

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Committed to professional excellence

# IIBF VISION

Volume No. : 2 Issue No. : 10 May 2010

## Monetary Policy

### RBI Credit Policy April 2010

*Monetary measures :*

1. Cash Reserve Ratio (CRR) raised by 25 bps to 6% from April 24th expected to suck out Rs.12,500 crore of liquidity.
2. Repo rate raised by 25 bps to 5.25%.
3. Reverse repo rate hiked by 25 bps to 3.75%.
4. Bank rate retained at 6%.

*Financial market measures :*

1. Interest rate futures on 2-year and 5-year notional coupon bearing securities and 91-day treasury bills introduced.
2. Recognized stock exchanges allowed to introduce plain vanilla currency options on spot / dollar rupee exchange rate.
3. Reporting platform for secondary market transactions in CDs and CPs introduced.
4. A working group formed to list modalities of a single-point reporting mechanism for all OTC interest rate and forex derivative transactions.

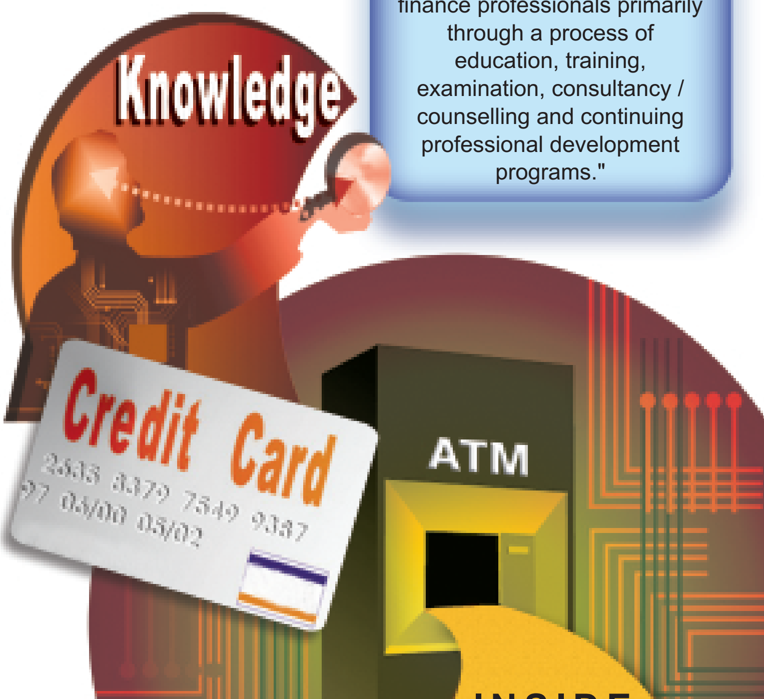
*Regulatory measures :*

1. Preparation of a discussion paper on foreign banks by September 2010.
2. Putting out a discussion paper on banking licenses to private sector players by July 2010.
3. Constituting a working group to recommend a road map for the introduction of a holding company structure for banks.
4. Core investment companies (CICs) having an asset size of Rs.100 crore to register with RBI.

*Key objectives :*

1. RBI targets inflation at 3% in the medium Term.
2. Economic growth projection seen at 8% for 2010-11.
3. FY10 GDP growth seen at 7.2-7.5%.
4. Inflation pegged at 5.5% for 2010-2011.

The mission of the Institute is "to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs."




INSIDE

# Top Stories

### Banks get two more years to meet IFRS norms

The government has given two more years i.e. up to April 2013, to banks and non-banking finance companies (NBFCs) to align their accounting practices with the International Financial Reporting Standards (IFRS). Regional Rural Banks (RRBs) and urban co-operative banks (UCBs) with a net worth lower than Rs.200 crore have been allowed to follow the current accounting standards, saving them from compliance costs. All companies listed on NSE and BSE and those with a net worth higher than Rs.500 crore will have to submit IFRS-compliant financial statements on April 1, 2011.

### Finance Sector legislations to be reviewed

The proposed Financial Sector Legislative Reforms Commission (FSLRC) will review three crucial legislations *viz* : Reserve Bank of India Act, 1934, the Insurance Act, 1938 and the Securities Contract Regulation Act, 1956. The FSLRC will take into account all the legislative gaps and rewrite the legislations to suit present times. Another key concern to the market participants is the definition of the financial products such as securities and derivatives, which are defined variedly in separate legislations.

### Banks seek lower risk weight on home loans

Banks have requested the RBI to lower the risk weight on housing loans to 35% for loans up to Rs.30 lakh. Further, bankers want loans up to Rs.30 lakh (instead of the present Rs.20 lakh) to be treated as priority sector lending. At present, the risk weight on housing loans up to Rs.30 lakh is 50%, while for more than Rs.30 lakh, it is 100% if the loan to value (LTV) ratio is not more than 75%. In case LTV is more than 75%, the risk weight increases to 100%. A reduction in risk weight will help lower interest rates on home loans up to Rs.30 lakh. It'll also help banks conserve capital since most of their home loans are from middle and low-income segments where the disbursement amount was less than Rs.30 lakh. There is also an anomaly in classification of home loans - those below Rs.20 lakh fell under priority sector lending, a status which is not available for loans between Rs.20 lakh and Rs.30 lakh.

### Banks not to be hit much by new rate system

The move to the daily average method of computing interest accounts from April 1 will not materially impact banks' profitability, says CRISIL. The cost of deposits for banks will increase by 10-20 bps depending on the share and pattern of current and savings accounts (Casa). However, this will not impact their profitability or lead to any significant change in the share of Casa. The new method of interest computation will increase the effective interest rate on savings balances, particularly for salary-account holders, by atleast 10-25%. The impact of the increased interest outgo on banks will be limited due to the existing low interest rates on savings at 3.5% and the relatively low share of savings deposits, varying between 15 and 25%, in the overall deposit base of the banks.

# Banking Development

### Collateral Gains for SMEs

All units of micro and small enterprises (MSMEs) can get loans up to Rs.10 lakh without any collateral from banks; following RBI's acceptance of the recommendation of the Credit Guarantee Fund Trust for Micro and Small Enterprises. The Trust makes good any default by a small entrepreneur and the guarantee is provided for a small fee.

### Financial Inclusion

RBI has changed its stance on allowing commercial consideration to drive financial inclusion. Apart from NGOs, now even profit-oriented organizations will be allowed to become banking correspondents (BCs). This will open the doors for microfinance companies registered as NBFCs.

### Taking the micro-view

A task force created by the government has recommended that all banks should achieve a 20% year-on-year growth in credit to MSMEs to ensure enhanced credit flow. Further, all banks should achieve a 15% annual growth in the number of micro enterprise accounts. RBI has, however, not issued any directives to banks; it has merely asked them to keep these recommendations in mind.

### The Base Effect

Though 'base rate' makes it difficult for large business houses to get cheap loans, they will now be able to raise more funds from banks through the issue of bonds. RBI has allowed banks to invest in corporate bonds that are yet to be listed. Presently, any investment in unlisted bonds is subject to a ceiling of 10% of investment in non-government bonds. The only condition is that if these bonds are not eventually listed under the specified time-frame, the investment ceiling for unlisted bonds would apply.

### Short-term securities allowed in IRFs

The RBI has allowed trading in Interest Rate Futures (IRFs) on securities with short-term maturities such as two-year and five-year securities and 91-day treasury bills. The RBI-SEBI Standing Technical Committee will finalize the product design and operational modalities for introduction of these products on the exchanges. At present, only 10-year G-secs are available for trading under exchange-traded IRFs. The introduction of these securities is expected to fill the gap in the interest rate futures market.

### Options trading in currency futures get nod

In a move to help importers, exporters and commodity traders, hedge currency risks, the RBI has allowed options trading in the currency futures market. Recognised stock exchanges are now permitted to introduce plain-vanilla currency options on the spot US dollar / rupee exchange rate for residents.

### RBI moots reporting platform for CP, CD

To promote transparency in the secondary market for short term instruments, the RBI plans to introduce a reporting platform for deals in Commercial Papers (CPs) and Certificate of Deposits (CDs). Fixed Income Money Market and Derivatives Association of India (FIMMDA) will develop a platform similar to its existing one for corporate bonds. Eventually, once the reporting system comes into effect, a settlement mechanism, similar to the one for OTC market in corporate bonds, may be put in place.

### Making phone banking more secure

Banks will have to soon put in place an additional authentication cover for their debit and credit card customers transacting over phone. Taking forward its efforts to tackle identity frauds in non-branch banking transactions, the RBI has asked all banks to put in place (by next year) a system where credit and debit card customers will need to provide an additional password for IVR (Interactive Voice Response) transactions. The customers will thus need to key in an additional password on their phone, besides the currently prevalent details like card number, date of birth, card issue or expiry date and in some cases a telephonic password.

### Withdraw and face penalty

Banks can now penalise borrowers who prematurely withdraw fixed-deposits to take advantage of increasing deposit rates. The freedom of premature borrowing was creating an asset-liability mismatch, as banks were tied to fixed rates on some of their loans. The relaxation will reassure banks that there won't be a run on their old low-cost deposits if interest rates rise.

### Business Correspondent model gaining momentum

Increase in the recruitment of business correspondents (BCs) is generating a lot of employment for rural youth, including women. "The BCs are generally offered a fixed pay of Rs.3,500/- to Rs.5,000 a month depending on the location of work. There is also a component of transaction fee (such as commission) to motivate them" says Mr. Asit Pal, Executive Director, Corporation Bank. According to Mr. R. Bhaskaran, CEO, Indian Institute of Banking & Finance (IIBF) Mumbai, "Estimates on BC requirement in near future vary from one million to 1.5 million; in view of which, we have also started a certificate course for increasing the employability of BCs." Whilst appointing BCs, banks prefer unemployed rural youth and women having SSC qualification and are tied to their locality.

### Banks studying options to lend under 'base rate' regime

Banks, which have managed to get RBI's approval in fixing base rates, have now started looking at various methods of lending under the new benchmark. One bank is looking at the possibility of charging a negative premium on loans below a certain term. For instance, if it uses the marginal cost of one-year deposits as the benchmark for fixing the base rate, a negative premium will be charged for all loans that have tenure of less than 12 months. If the proposal is approved, companies will be able to access loans for nine months at, say, 7%, even if the base rate is 8%. Based on the current average cost of funds, it is felt that the base rate will be around 8.5-9%. The challenge will be to convert existing term and home loans, which are of higher tenure, to the base rate because the customer has to agree to the conversion.

### CD interest plunges despite key rate hikes

Certificate of Deposit (CD) rates have plunged sharply despite the RBI's all round 25 bps hike in its lean season Credit Policy. One-year CD rates fell to 6.44% from the March average of 6.7%. Banks raised nearly Rs.5,000 crore through this route. However, traders say that the fall in rates was largely on account of foreign institutional investors' (FIIs) interest in bank CDs. FII preference, though was mostly for PSB CD offerings, and that too for short-dated CDs, up to a maximum maturity of six months. The preference was in view of better yields than Treasury bills. Besides, PSU banks are seen to have an implicit sovereign guarantee cover.

### Retail, Corporate borrowings surge

With the economy gaining momentum, both companies and individuals are clearly borrowing more. The growth in non-food credit nudged the 17% mark for 2009-10 (uptil March 26, 2010) crossing the 16% target set by the RBI. In all, scheduled commercial banks (SCBs) lent Rs.4.62 lakh crore during the year to corporate and retail borrowers. The rise in total credit for the year was around 16.75%. A spurt in both deposits and loans towards the end of the year is not uncommon as banks close their balance sheets for the fiscal year.

**Banks let old customers to switch to cheaper rates**

The contrast between the old and new rates became glaring last year when the liquidity situation substantially improved and banks started soliciting new customers at teaser rates of 8-8.5%. This however kept out existing customers who had opted for floating rates earlier; they were not offered the lower rates in the last one-and-a-half year and paid in an interest band of 10-11%.

**RRBs can be viable businesses**

Good profits, huge business-per-branch, comfortable level of low-cost deposit ratios and other such positive traits are not the hallmarks of only public sector and private banks. Some RRBs in the country too have done well, on many of these parameters than their counterparts in the commercial banking sector. Interestingly, RRBs have more low-cost deposit accounts. Of the 9.35 crore deposit accounts with RRBs, 7.47 crore are low-cost deposits accounts. There were 15,181 branches of RRBs at the end of March 2009. Dr. N. K. Thingalaya, Economist, suggests further consolidation amidst RRBs, especially where they are confined to narrow operational areas with little scope for expansion. In the case of larger RRBs - which have emerged bigger than some of the old generation private banks - there is scope for scaling up operations.

**Indian Bank to become zero net NPA bank**

Indian Bank, which has crossed a business of Rs.1.5 lakh crore, aims to become a zero net NPA bank by March 2011, as asserted by its newly-appointed CMD, Shri. T. M. Bhasin. "The task can be achieved with additional focus on recovery", he said, adding that "reduction in NPA means double benefit-recovery of bad loans and recovery from technically written-off accounts."

**Private banks see rise in credit growth**

Private sector banks have managed a 70 bps increase in credit growth in the 12 months to March 26, outshining their public sector and foreign competitors which saw a decline in their growth rates. However, the gap between the previous year's credit figures for both PSBs and foreign lenders has narrowed. This indicates that the banking industry is seeing a revival in demand for loans. The pace of credit growth for private sector banks increased to 11.7% in the period, compared to 11% a year earlier. Foreign banks continued to squeeze their loan books but the pace of shrinkage has declined.

**NPAs of PSBs rise in March-Dec' 09**

Net NPAs of PSBs grew 23% between March and December last year, as global economic downturn and drought conditions in the country affected the asset quality. PSBs have reported an increase in net NPA to Rs.25,610 crore as at end December 2009 from Rs.20,801 crore in end March 2009. Net NPAs of PSBs stood at Rs.18,009 crore as at end March 2008.

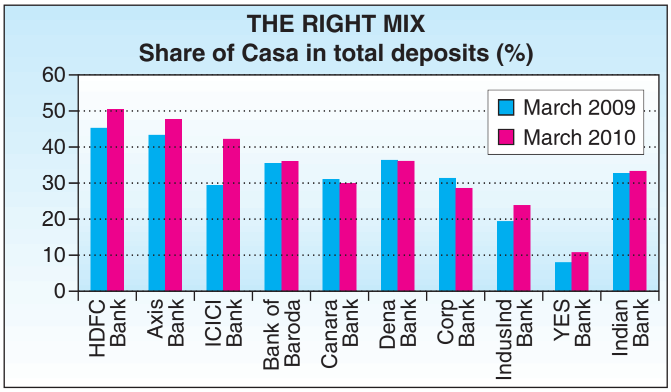
**NPAs - At a glance** (In Rs. crore)

| Bank Name | Mar. 08 | Mar. 09 | Dec. 09 |
|---|---|---|---|
| State Bank of India | 7252 | 8850 | 10201 |
| Canara Bank | 898 | 1350 | 1721 |
| IDBI Bank | 925 | 949 | 1554 |
| Punjab National Bank | 754 | 264 | 842 |
| Bank of India | 557 | 834 | 1457 |
| Indian Overseas Bank | 339 | 946 | 1428 |
| Bank of Maharashtra | 254 | 272 | 649 |
| Syndicate Bank | 621 | 631 | 835 |
| United Bank of India | 306 | 525 | 704 |
| UCO Bank | 1092 | 813 | 657 |
| ICICI Bank | 3476 | 4488 | 4178 |

Source : Business Line

**Banks see rise in CASA share**

Abundant liquidity in the system along with excess cash with companies and individuals have resulted in a build-up in current account and savings account (Casa) balances in banks (see Graph).




Source : Business Standard

# Economy

**Indian expatriates' remittances go up despite global slowdown**

Remittances by Indian expatriates rose by over $1 billion to $27.51 billion (around Rs.1,22,420 crore) during April-September 2009, unfazed by the global financial meltdown. The remittances increased from $26.37 billion during the same period in the previous year, as India provided much better returns.

## Forex

**RBI dollar reference rate**

The RBI has fixed the reference rate for the US currency at Rs.44.42 per Dollar and the single European unit at Rs.59.39 per Euro from Rs.44.45 per Dollar and Rs.59.67 per Euro, respectively. The exchange rates of Great Britain's Pound and Japanese Yen against the rupee have been quoted as Rs.67.7560 per Pound and Rs.47.28 per 100 Yen, respectively, based on the reference rate for the US dollar and middle rates of the cross currency quotes.

**Forex reserves up $932 million**

Forex reserves went up by $932 million to $280.03 billion during the week ended April 9 due to revaluation of currencies. Foreign currency assets went up by $933 million to $255.66 billion.

## Commodities Markets

**NSEL to introduce e-silver**

For attracting small investors to invest in metals, the National Spot Exchange Limited (NSEL), promoted by Financial Technologies group, will be introducing e-silver in the market. For the first time in India, retail investors can buy silver in a demat form or take physical delivery even for lower denominations.

## Mutual Funds

**Cash-rich banks park money in MFs**

Flush with funds, banks have again started pumping money into mutual funds (MFs). Presumably, this is happening due to no credit demand and because MFs offer returns that are not subject to tax deduction. Although RBI frowns upon banks investing in MFs, it has not issued any ban. The government has also continued with fiscal incentives in MFs. The surplus liquidity is reflected in the average amount of Rs.75,000 crore that banks place with RBI every day on an average under its reverse-repo window. The repo rate of 3.5% acts as a floor for money market rates and is also an indicator of returns that MFs can earn. However, given the tax advantage, it makes more sense for banks to park money in MFs, which then lend in the money market or invest in short-term commercial paper issued by corporates.

## Regulators Speak...

**RBI gives more leeway to banks on debt recast**

Banks have been given more flexibility in rescheduling or restructuring loans given to projects that have been delayed due to legal disputes or extraneous factors such as absence of government approvals. Loans to infrastructure companies, delayed due to legal disputes by up to four years from the scheduled completion date (as against the earlier two years) will now be treated as standard assets. In case of delays due to extraneous factors, a project loan will be treated as a standard asset for delays up to three years (instead of the earlier two years). For non-infrastructure projects, where RBI had permitted banks to treat a project loan as a standard asset for delays up to six months from the date of the commencement of commercial operations, the limit has been extended up to one year.

**SEBI extends KYC deadline**

Besieged by requests from broking houses struggling to collect know-your customer (KYC) details from clients, SEBI has extended its deadline for client compliance to June 30 (from the earlier March 31, 2010). Last December, SEBI has asked that clients trading in the derivatives segment of the stock market submit documentary evidence of their annual income or their net worth to their brokers. The acceptable documents included copies of income-tax returns or salary slips or audited annual accounts; and for net worth, copies of "net worth certificate" issued by a chartered accountant or bank, copies of fixed deposit receipts, mutual fund holding statements, bank statements and so on.

**Reserve Bank reopens MSS window**

After almost two years, the RBI has announced the augmentation scheme Market Stabilisation Scheme (MSS) to suck out liquidity from the system to keep inflation under check. RBI has fixed a ceiling for the MSS outstanding at Rs.50,000 crore for 2010-2011. In 2007-08, the RBI had built up Rs.2,50,000 crore of MSS which was majorly liquidated over next two years to provide liquidity to the system after the global financial crisis. The ceiling of Rs.50,000 crore will be reviewed when the outstanding amount reaches the threshold limit of Rs.35,000 crore.

**RBI issues draft norms on securitization transactions**

The RBI has issued draft guidelines regarding the minimum holding period and minimum retention requirement for securitization transactions. The guidelines propose that the loan-seller should hold the loan in its books for atleast one year and retain a minimum 10% of the securitized amount if the loan is with original maturity of two years. Further, if the loan is for two years, the originator should hold the loan in its books for at least nine months and it should subscribe to at least 5% of the securitized amount. In case of the latter, the two-year period will start from the date of full disbursement of loan or date of first instalment of loan. The aim behind the guidelines is to develop an orderly and healthy securitization market, to ensure greater alignment of the interests of the originators and the investors, as also to encourage the development of the securitization activity.

**CRR more effective policy tool**

The RBI has said that the CRR as a policy tool is more effective for transmission and monetary policy than policy rates, and it would continue to use the former as a tool, in small steps and in a non-disruptive manner. "If pricing is not going to achieve what you want, then why deny using quantity instruments, if (the) need arises? That's really the pragmatism with which we are looking at CRR now" said Dr. Subir Gokarn, Deputy Governor, RBI. The apex bank has raised key interest rates and CRR by 25 bps each, with further rises likely, as it moves to return the monetary policy towards pre-crisis settings and battles near double-digit inflation.

**RBI may extend deadline for 70% provision coverage ratio**

The RBI may give some banks more time to meet the 70% provision coverage ratio which they are scheduled to achieve by September 2010. RBI Deputy Governor Ms. Shyamala Gopinath has said that they are considering the matter on a case-to-case basis. It is being said that small banks and even some large banks such as SBI, ICICI Bank and Canara Bank will find it a challenge to achieve the provision coverage ratio in the next six months.

**RBI to extend provision cover norm on case-to-case basis**

The RBI had not issued an extension to all banks to achieve 70% provision cover and would treat banks' requirements on a case-to-case basis, said RBI Deputy Governor Dr. K. C. Chakrabarty. "We have not extended the deadline as we still have some time left. If some banks have a problem in meeting the requirement, we may consider their request on a case-to-case basis," informed Dr. Chakrabarty.

## Spotlight

**India Post plans feasibility study for setting up bank**

The Indian Postal Department may soon not just be delivering posts, but may well have its own bank. India Post is in the process of conducting a feasibility study on setting up Post Bank of India a long-awaited dream as affirmed by Mr. A. S. Prasad, Deputy Director General Financial Services. The department has got response from eight entities for its request for proposal. "We are examining the request and should soon be able to finalise the responses; following which we may send it to the government. We may either have a bank by March 2012 or not have it at all", says Prasad.

**Students can now enjoy interest holiday**

Education loans are set to become cheaper with the government planning to pay the interest for the duration of the academic programme, for which the student has taken the loan popularly known as the moratorium period. This will help reduce the students' EMI significantly. The proposed interest rate subsidy from the government will also benefit banks which have been complaining of defaults and non-payments on education loans. It is estimated that around 2-3% of education loans have turned sticky. So far, PSBs have given Rs.32,000 crore education loans to 16,98,601 students. Typically, a student starts paying EMI a year after completing his / her studies. A one year moratorium is aimed at giving students time to search a job.

**Tax Sops on education loan interest extended to all streams**

The government has extended tax concession on interest paid for educational loans to all streams of studies including vocational courses; thus benefiting students from all economic strata opting for higher studies, from this academic session. The concession was till now restricted for graduate and post-graduate courses in engineering, medicine, management and post-graduate courses in applied sciences or pure sciences including mathematics and statistics.

**Quantitative restrictions on imports may be back**

Nine years after being forced to remove quantitative restrictions on imports under WTO, India proposes bringing changes in the domestic law enabling it to protect its industries against import surges. The Standing Committee of Parliament has more or less approved a provision in a bill to amend the Foreign Trade (Development and Regulation) Act. The committee was informed by the commerce ministry that the quantitative restrictions (QR) provisions are available to all members of the World Trade Organisation (WTO). For availing this facility, the country is required to have an enabling Domestic

Law. India had to remove QRs on over 700 items in 2001 after it lost a case in WTO against the US which had challenged these restrictions on import of large number of industrial and agricultural items. Under the QR mechanism, a country can impose a restriction on imports up to a limit on items which are sensitive to its domestic industries.

## International News

**BoE keeps record stimulus in place, holds rate**

The Bank of England (BoE) kept its bond-purchase programme unchanged for a third month, as it tries to sustain the economy's recovery from the deepest recession since World War-II. The Monetary Policy Committee, led by Governor Mr. Mervyn King, held the target for its asset buying plan at £200 billion ($304 billion). The bank has also kept its benchmark interest rate at a record low of 0.5%. BoE officials have suspended comment on policy before the May 6 election as Prime Minister Mr. Gordon Brown and challenger Mr. David Brown and challenger Mr. David Cameron bicker on how long to keep up economic stimulus before curbing a budget deficit on par with Greece. While the recession ended in the fourth quarter, the British Chambers of Commerce say that the recovery is still "very fragile".

**Exim Bank inks co-operation pact with development banks of BRIC countries**

During the recently concluded BRIC (Brazil, Russia, India, China) Summit in capital city of Brasilia, Brazil, Exim Bank of India entered into a Memorandum of Co-operation (MoC) with three major development banks of Brazil, Russia and China. Mr. T. C. A. Ranganathan, CMD, Exim Bank of India signed the MoC with Chairmen / Presidents of development banks of other BRIC countries.

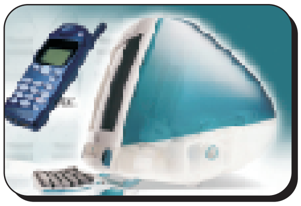
## New Appointments

**EXIM Bank's new CMD**

Mr. T. C. A. Ranganathan has been appointed as the Chairman and Managing Director of Export-Import Bank of India (EXIM Bank). Earlier, he was working as the Managing Director of State Bank of Bikaner and Jaipur.

**Indian Bank's new CMD**

Mr. T. M. Bhasin has taken over as the Chairman & Managing Director of Indian Bank.



## Products & Alliances

**IDBI Bank, Venture Infotek tie up**

IDBI Bank has selected Venture Infotek, a transaction management company, as a technology partner to launch its Internet Payment gateway services. "We have over 100 Web Merchants to whom Venture Infotek is providing end-to-end services on their gateway" avers the IDBI Bank GM, Mr. Murali Mohan. Venture Infotek recently acquired Technonet Technologies, a payment gateway service provider, and has enhanced its payment gateway platform of Eazy2pay to comply with all the latest Visa, MasterCard and RBI guidelines related to e-commerce.

**PNB, Chevrolet tie up**

The second largest state-owned lender, PNB, has signed an MoU with Chevrolet Sales India, for financing their passenger cars across India. This association will help both the partners to reach out to wider markets and make auto loans convenient and easy for prospective car owners. The bank will offer car loan up to 90% of "on road cost", for tenure ranging up to seven years, at very competitive rates. This facility will be available at all the branches of the bank and all dealerships of Chevrolet sales in India.

**SBI lights up clean technology initiative with wind farm launch**

With global entities like International Finance Corporation (IFC) keen on funding clean energy projects in India, SBI has taken the lead role in cutting down the carbon foot-print. The bank has kickstarted its initiative with inaugurating its first wind-farm project in Coimbatore (TamilNadu). The 15-mw project, supplied by Suzlon Energy, consists of 10 unis of Suzlon's S-82 and 1.5-mw wind turbine generators. These generators were earlier installed across Gujarat, Maharashtra and TamilNadu. The project forms an important part of SBI's strategy to reduce its carbon footprint and sensitize clients on the need for adopting efficient processes. The electricity generated from the wind turbines will power various SBI facilities and operations across the three states.

## Financial Basics

**Callable Certificate Of Deposit**

An FDIC insured certificate of deposit (CD) that contains a call feature similar to other types of callable fixed-income

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securities. Callable CDs can be redeemed (called away) by the issuing bank prior to their stated maturity, usually within a given time frame, and at a preset call price. A bank adds a call feature to a CD so it does not have to continue paying a higher rate to the CD holder if interest rates drop. Callable CDs are often redeemed at a premium to their purchase price as an incentive for investors to take the call risk.

## Glossary

### Securitization

Securitization is one entity selling a part of its loans portfolio to another. Technically, it is pooling together of loans into standard marketable bonds, which helps banks free more capital which can then be used for its lending business. Once converted, the loans are no longer assets of the bank, although the bank may continue to service the loans for the investors.

### Provision Coverage Ratio

The key relationship in analyzing asset quality of the bank is between the cumulative provision balances of the bank as on a particular date to gross NPAs. Provision coverage ratio refers to the percentage of the loan amount that the bank has set aside as provisions to meet an eventuality where the loan might have to be written off. A high ratio suggests that additional provisions to be made by the bank in the coming years would be relatively low (if gross non-performing assets do not rise at a faster clip).

## News From the Institute

### Special programme on Risk Intelligence for Central Bank of India

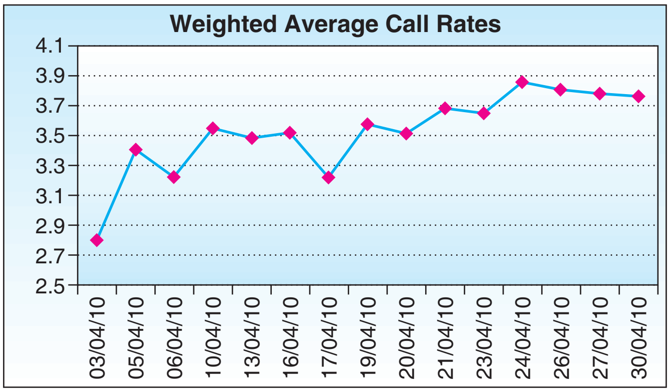
A programme on Risk Intelligence was arranged by the institute in association with Deloitte, during April for the senior executives of Central Bank of India which was attended by 5 General Managers and 9 Deputy General Managers. The programme provided insights into the various dimensions of risk faced by banks.

## Important Rates / Ratios

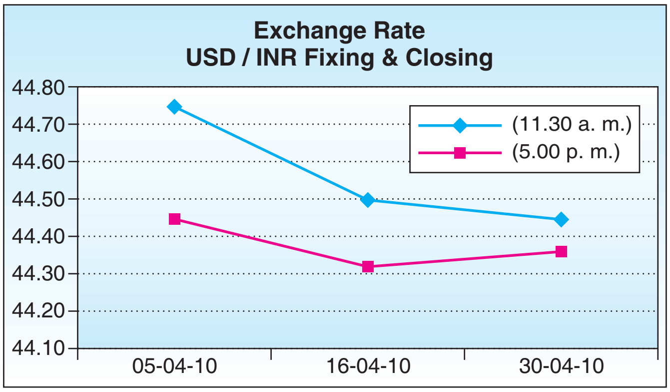
| | |
|---|---|
| Bank Rate | 6.00% |
| Repo Rate | 5.25% |
| Reverse Repo Rate | 3.75% |
| CRR | 6.00% |
| SLR | 25.00% |

Source : Reserve Bank of India

## Markets Roundup




Source : CCIL Newsletters, April 2010




Source : Fedai

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