Banking Awareness PDF for All Bank Exams

Topic 1: Reserve Bank of India & its Functions

The **Reserve Bank of India (RBI)** is India's central banking institution, which controls the monetary policy of the Indian rupee.

➢ The Reserve Bank of India was established on **April 1, 1935** in accordance with the provisions of the Reserve Bank of India Act, **1934 (recommendations of Hilton Young Commission).**

➢ The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in **1937.** The Central Office is where the Governor sits and where policies are formulated.

➢ Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India. **RBI was nationalised on 1 January 1949.**

➢ The RBI has four zonal offices at **Chennai, Delhi, Kolkata and Mumbai.**

List of Members:

➢ The general superintendence and direction of the RBI is entrusted with the 21-member central board of directors:

➢ The governor; 4 Deputy Governors; 2 Finance Ministry representatives (usually the Economic Affairs Secretary and the Financial Services Secretary); 10 government-nominated directors to represent important elements of India's economy; and 4 directors to represent local boards headquartered at **Mumbai, Kolkata, Chennai and New Delhi.**

➢ Each of these local boards consists of 5 members who represent regional interests, the interests of co-operative and indigenous banks.

Subsidiaries of RBI Fully owned:

- Deposit Insurance and Credit Guarantee Corporation of India (DICGC),
- Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL),
- Reserve Bank Information Technology Private Limited (ReBIT),
- Indian Financial Technology and Allied Services (IFTAS), Reserve Bank Innovation Hub (RBIH).

Functions of RBI

- **Issuance of currency:** RBI is the authority in India to issue currency notes (called bank notes) under signatures of Governor. (One rupee note called currency note is issued by the Central Govt. & signed by Finance Secretary). The stock of currency is distributed with the help of currency chests spread all over the country.
- **Banker to Govt.:** RBI transacts govt. business & manages public debt. SBI or any other bank is appointed Agent where RBI does not have office. It provides Ways & Means advances to Govt.
- **Bankers' bank:** It keeps a part of deposits of commercial banks (as CRR) & acts as lender of last resort by providing financial assistance to banks. It provides export credit refinance, Liquidity Adjustment Facility & MSF.
- **Controller of Banks:** An controller of banks by including the banks in 2nd Schedule of the Act. It issues directions, carries inspection (on-site as well as off-site) & exercises management control.
- **Controller of credit:** RBI can fix interest rates (including Bank Rate) & exercise selective credit controls. Various tools such as change in cash reserve ratio, stipulation of margin on securities, directed credit guidelines etc. are used for this purpose. It also carries sale & purchase of securities which are known as open market operations.
- **Maintenance of external value:** RBI is responsible also for maintaining external value of Indian currency as well as the internal value. Foreign exchange reserves are held by RBI & it has a wide power to regulate foreign exchange transactions under Foreign Exchange Management Act.

Important Facts of RBI

- RBI is not expected to perform the function of accepting deposits from the general public.
- Prime lending rate is decided by the individual banks.
- RBI decides the following rates namely; Bank rate, repo rate, reverse repo rate & cash reserve ratio.
- The quantitative instruments of RBI are – bank rate policy, cash reserve ratio & statutory liquidity ratio.
- The objective of monetary policy is to control inflation; discourage hoarding of commodities & encourage flow of credit into neglected sector.
- When RBI is lender of the last resort, it means that RBI advances credit against eligible securities.
- GOI decides the quantity of coins to be minted.
- The method which is used currently in India to issue currency note – minimum reserve system. For issuing notes, RBI is required to hold the minimum reserves of Rs. 200 crores of which note less than Rs. 115 crores is to be held in gold.

Topic 2: Policy Rates decided by the RBI

Current Policy rates as on 1 September 2021

- **Policy Repo Rate:** 6.50%
- **Reverse Repo Rate:** 6.25%
- **Marginal Standing Facility Rate:** 6.75%
- **Bank Rate:** 6.75%
- **Fixed Reverse Repo Rate:** 3.35%
- **CRR:** 4.50%
- **SLR: 18.00%**
- **Base Rate:** 8.95% - 10.10%
- **MCLR (Overnight):** 7.95% - 8.50%
- **Savings Deposit Rate: 2.70% - 3.00%**
- **Term Deposit Rate > 1 Year:** 6.00% - 7.25%

- **Repo Rate:** Repo rate is the rate of interest which is levied on Short-Term loans taken by commercial banks from **RBI**. Whenever the banks have any shortage of funds they can borrow it from RBI.
- **Reverse Repo Rate:** This is exact opposite of Repo rate. Reverse repo rate is the rate at which commercial banks charge on their surplus funds with RBI. RBI uses this tool when it feels there is too much money floating in the banking system.
- **SLR Rate:** Statutory Liquidity Ratio is the amount a commercial bank needs to maintain in the form of cash, or gold or Govt. approved securities (Bonds) before providing credit to its customers. It is determined as the %age of total Net Demand & Time Liabilities (NDTL).
- **Bank Rate:** It is defined in Sec 49 of RBI Act 1934 as the 'standard rate at which RBI is prepared to buy or rediscount bills of exchange or other commercial papers eligible for purchase under this act'.
- **Cash Reserve Ratio:** CRR refers to the ratio of bank's cash reserve balances with RBI with reference to the bank's net demand & time liabilities to ensure the liquidity & solvency of the scheduled banks.
- **MSF**: It was introduced w.e.f. May 09, 2011, by RBI. **Eligibility:** Scheduled Commercial Banks having Current Account & SGL Account with RBI. **Amount: 1% of NDTL**

A Brief on LAF (Liquidity Adjustment Facility)

- It was introduced by RBI during June, 2000 in phases, to ensure smooth transition & keeping pace with technological upgradation.
- **Tenor:** Reverse Repo auctions (for absorption of liquidity) & Repo auctions (for injection of liquidity) are conducted on a daily basis (except Saturdays).
- **Cap:** 0.25% of NDTL w.e.f. 01.04.14.

Topic 3: Banking Regulation Act 1949|Schedule Banks| Other Types of Banks

a) Passed as the Banking Companies Act 1949 (came into force wef 16.3.49 & changed to Banking Regulation Act 1949 w.e.f. 01.03.66, it was made applicable to J & K in 1956 (and now applicable throughout India).

b) The Act is not applicable to primary agricultural credit societies, cooperative land mortgage banks & non-agricultural primary credit societies.

SCHEDULED BANK

a) As per Sec 2 (e) of RBI Act, a scheduled bank means a bank who is included in 2nd schedule of RBI Act 1934.

b) A scheduled bank should satisfy the conditions which include paid-up capital & reserves requirement of not less than Rs. 5 lac, satisfaction of RBI that the affairs will not be conducted by the bank in a way to jeopardize the interests of the depositor. (Commercial, Rural & many State Coop Banks are classified as Scheduled Banks).

c) A bank that is not included in the 2nd Schedule of RBI is called **Non-scheduled Bank**.

Total No. of Banks as per RBI Website

- **Total PSBs: 12**
- **Total Private Sector Banks: 21**
- **Payments Banks: 6 & Small Finance Banks: 11**
- **Regional Rural Banks: 43**
- **Foreign Banks: 45**
- **State Co-operative Banks: 34 (According to RBI website)**
- **Small finance Bank: 12**
- **List of Payment Bank: 6**
- **List of Financial Institutions in India: 4**
- **List of foreign banks having banking presence in India**

Topic 4: What are the different types of accounts that can be opened in a Bank?

There are mainly three types of deposits accounts in banks.

They are
➢ Demand Deposits
➢ Time Deposits
➢ Non- Resident Deposits

DEMAND DEPOSITS

1. **Savings Accounts**
   - A savings account allows you to accumulate interest on funds you've saved for future needs. Interest rates can be compounded on a daily basis.
   - Savings accounts vary by monthly service fees, interest rates, method used to calculate interest, and minimum opening deposit.
   - In these type of accounts, we have salary or student account etc.

2. **Current Accounts**
   - Current Accounts are basically meant for businessmen and are never used for investment or savings.
   - These deposits are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day.

- Most of the current account are opened in the names of firm / company accounts.
- No interest paid by banks on these accounts. On the other hand, banks charges certain service charges, on

➢ Small accounts are valid for a period of 12 months initially which may be extended by another 12 months if the person provides proof of having applied for an Officially Valid Document.

such accounts.
- In this type of account do not contain any fixed maturity as these are on continuous basis accounts. Overdraft facility is available in this account.

3. **No Frill Accounts:**
- Banks were advised in November 2005 to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balance as well as charges that would make such accounts accessible to vast sections of population.
- No frill account is a type of bank account, with low / Zero balance requirement with extra-features removed. • RBI came up with this No-frill concept, because poor people cannot open regular bank accounting having requirements like Rs.5000/- minimum balance etc.

Basic Savings Bank Deposit Account (BSBDA) :
- According to the RBI guidelines August 2012, Basic Savings Bank Deposit (BSBD) account has been created under the Financial Inclusion, which has a zero minimum balance requirement, can be opened by people who do not want to be bothered with maintaining any minimum balance.
- A BSBD account does not require customers to maintain any monthly average balance. KYC Norms is applicable to these accounts.
- Since BSBD is a type of savings account, the eligibility of a customer to open this account and interest rates offered by it are the same as savings bank accounts.
- The customer cannot have any other savings bank account, if he/she has a basic savings bank deposit account in a bank. An individual is eligible to have only one 'Basic Savings Bank Deposit Account' in one bank.
- If the customer already has a savings bank account, the same will have to be closed within **30 days of opening a**

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➢ Small Accounts can only be opened at CBS linked branches of banks or at such branches where it is possible to manually monitor the fulfilments of the conditions

4. **Current Account Savings Account (CASA) :**
- CASA deposit is the amount of money that gets deposited in the current and savings accounts of bank customers. It is the cheapest and major source of funds for banks. The savings accounts portion pays more interest compared to current accounts.
- A CASA operates like a normal bank account in which funds may be utilized at any time. Because of this flexibility, a CASA has a lower interest rate than a term deposit because the bank does not have a guarantee that all the funds are available to lend for a specific period of time.
- These deposits can move out of banks' books anytime, leading to assetliability mismatches. While in case of term deposits, banks are almost certain that the depositor may not withdraw money before the maturity of the deposit and may also renew the deposit on maturity.

CASA Ratio:
- The CASA ratio shows how much deposit in a bank has in the form of current and saving account deposits in the total deposit.
- A higher CASA ratio means higher portion of the deposits of the bank has come from current and savings deposit, which is generally a cheaper source of fund. Hence, higher the CASA ratio better the net interest margin, which means better operating efficiency of the bank.
- Net interest margin is difference between total interest

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- These are best if you wish to create a fund for your child's education or marriage of your daughter or buy a car without loans or save for the future.
- The RD interest rates paid by banks in India are usually the same as payable on Fixed Deposits, except when specific rates on FDs are paid for particular number of days.
- Recurring Deposit accounts are normally allowed for maturities ranging from 6 months to 120 months (10 Yrs).

Escrow Accounts
- This is a temporary account as it operates until the completion of a transaction process, which is implemented after all the conditions between the buyer and the seller are settled.
- An escrow account is a temporary pass through account held by a third party during the process of a transaction between two parties.
- An escrow account is an arrangement for safeguarding the seller against its buyer from the payment risk for the

- These accounts can be opened in single or joint names. Nomination facility is also available.

2. **Fixed Deposits Accounts:**
   - All Banks in India (including SBI, PNB, ICICI Bank, Yes Bank etc.) offer fixed deposits schemes with a wide range of tenures for periods from 7 days to 10 years.
   - These are also popularly known as FD accounts. However, in some other countries these are known as "Term Deposits" or "Bond".
   - The term "fixed" in Fixed Deposits (FD) denotes the period of maturity or tenor. Therefore, the depositors are supposed to continue such Fixed Deposits for the length of time for which the depositor decides to keep the money with the bank.
   - In case of urgent need, depositor can close the account prematurely by paying penalty. Penalty and Interest rate varies from different banks.

NON- RESIDENT DEPOSIT ACCOUNTS

This type of account only applicable for Non- Resident Indians. They are

a) NRO (Non-Resident Ordinary Rupees) Account
b) NRE (Non-Resident External Rupees) Account
c) FCNR (Foreign Currency Non-Resident) Account

Other Accounts Nostro Accounts:

- Nostro accounts are generally held in a foreign country (with a foreign bank), by a domestic bank (from our perspective, our bank).
- It obviates that account is maintained in that foreign currency. For example, SBI account with HSBC in U.K.

Vostro Accounts

- Vostro accounts are generally held by a foreign bank in our country (with a domestic bank). It generally maintained in Indian Rupee (if we consider India)
- For example, HSBC account is held with SBI in India.

Loro Accounts

- Loro accounts are generally held by a third party bank, other than the account maintaining bank or with whom account is maintained.
- For example, BOI wants to transact with HSBC, but doesn't have any account, while SBI maintains an account with HSBC in U.K. Then BOI could use SBI account. In this case, for SBI this account is known as Nostro account and for BOI it is known as Loro Account.

goods or services sold by the former to the latter.

- Escrow Accounts are legally permitted in India and for that you should be either an Advocate or a C.A. or a person of a high repute or a banker or a person on both the parties to the dispute or the transactions are ready to keep the money in Escrow with that person.
- For this, no certificate from any person, authority or RBI is required. RBI has also permitted Banks (Authorised Dealer Category I) to open escrow accounts on behalf of Non-Resident corporates for acquisition / transfer of shares/ convertible shares of an Indian company.

Gilt Accounts

- Accounts maintained by investors with the Primary dealers for holding their Government securities and Treasury bills in the demat form are known as Gilt accounts.
- A "Gilt Account" means an account opened and maintained for holding Government securities, by an entity or a person including 'a person resident outside India' with a "Custodian" permitted by the Reserve Bank of India to open and maintain Constituent Subsidiary General Ledger Account with the Public Debt Office of the Reserve Bank of India.
- However, in case of a 'Person resident outside India, the activities in the operations/maintenance of Gilt Account shall be governed by the Foreign Exchange Management Act, 2000 and the regulations framed.

Inactive Accounts:

- If you have a current or a savings bank account and have not done any transactions or debit through it for more than 12 months, then it will be classified as an inactive account.

Dormant Account

- And if you don't do any transactions or debit from a bank account for 24 months, then it will be classified as dormant.
- As per Reserve Bank of India (RBI) guidelines, an account becomes dormant if a customer does not initiate transactions such as withdrawal of cash at a branch or Automated Teller Machine (ATM), payment by cheque, transfer of funds through Internet banking, phone banking or ATMs. Note: Both debit and credit transactions are considered for re-classifying accounts as inactive/dormant. However, these transactions have to be initiated by you or some third party.

Individual Retirement Accounts (IRAs) :

- IRAs, or individual retirement accounts, allow you to save independently for your retirement.
- These plans are useful if your employer doesn't offer retirement benefits or you want to save more than your employer-sponsored plan allows.
- These accounts come in two types: the traditional IRA and Roth IRA.
- The Roth IRA is popular because the funds can be withdrawn tax-free in many situations. Others prefer traditional IRAs because these contributions are tax-deductible.
- Both accounts have contribution limits and other requirements you may need to discuss with your tax advisor before choosing your account.

- **Demand liabilities:** Current deposits, Demand liabilities portion of saving deposits, margins held against LC/LG, Balances in overdue FD, cash certificate & RD, Outstanding TTs, MTs & DDs, Unclaimed deposits, Credit balance in CC a/c & Deposits held as security for loan payable on demand.
- **Time liabilities:** FDs, cash certificate, cumulative & RDs, time liabilities portion of saving bank deposits, staff security deposits, margins against LC not payable on demand, deposit held as securities for advances & India Dev Bonds.

Topic 5: Negotiable Instrument Act & Cheques

- In India the Negotiable Instruments Act was passed during 1881 which came into force wef **March 01, 1882**.

Demat Account (Dematerialized Account) :

- In India's banking terminology, the term DEMAT Account refers to a deposit made at an Indian financial institution that can be used for investing in shares of stocks and other financial assets.
- DEMAT is short for "Dematerialized" and such accounts require that an investor open an account with an investment broker linked to a savings or other funded account.
- Securities are held electronically in a DEMAT Account, thereby eliminating the need for physical paper certificates. This feature helps prevent problems such as: loss, forgery or theft of the certificates and makes the process of buying and selling securities much more efficient.

Exchange Earners' Foreign Currency Account (EEFC) :

- Exchange Earners' Foreign Currency Account (EEFC) is an account maintained in foreign currency with an Authorised Dealer Category - I bank i.e. a bank authorized to deal in foreign exchange.
- It is a facility provided to the foreign exchange earners, including exporters, to credit 100 per cent of their foreign exchange earnings to the account, so that the account holders do not have to convert foreign exchange into Rupees and vice versa, thereby minimizing the transaction costs.
- All categories of foreign exchange earners, such as individuals, companies, etc., who are resident in India, may open EEFC accounts.
- An EEFC account can be held only in the form of a current account. No interest is payable on EEFC accounts
- SEZ Units cannot open EEFC Accounts. However, a unit located in a Special Economic Zone can open a Foreign Currency Account with an Authorised Dealer in India.

An Act to define and Law relating to negotiable instruments which are Promissory Notes, Bills of Exchange and cheques (as per section 13). Various other paper instruments like a Banker's cheque, Payment order, Payable 'At Par' cheques (Interest/Dividend warrants, refund orders, gift cheques etc.), are also used to cater to the specific payment needs. The statutory basis for these instruments was provided by the **Negotiable Instruments Act, 1881 (NI Act).**

Bank Holidays are declared by Central/State Governments/ Union Territory under the Negotiable Instruments (NI) Act, 1881. Some of the important sections of the Act:

➢ Section 4 - Promissory note
➢ Section 5 - Bill of exchange
➢ Section 6 – Cheque
➢ Section 15 – Endorsement

Promissory Note

A "promissory note" is an instrument in writing (not being a bank-note or a currency-note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument. Bank notes are frequently referred to as promissory notes, a promissory note made by a bank and payable to bearer on demand.

A promissory note is a written agreement to pay a specific amount to specific party at a future date or on demand. Conditions:

➢ It must be in writing.
➢ It must contain an unconditional promise to pay.
➢ It should be signed by the maker.
➢ The payment should be made to a certain person.
➢ The certainty of the amount payable should be there.
➢ It should be stamped.

Bill of exchange

A Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.
The bill of exchange is defined as written order for payment issued by the creditor to his debtor.

Conditions:

➢ Bills of exchange must be in writing.
➢ Bills of exchange are not a request to pay and an order to pay.
➢ The order must be signed by the drawer, i.e. the maker.
➢ The order must be for the payment of money only.

Cheque and its Different Types

Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument.

1. **Bearer Cheque or open Cheque:** When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment.
2. **Order Cheque:** When the word "bearer" appearing on the face of a cheque is cancelled & when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).
3. **Crossed Cheque:** Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like " & CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.
4. **Ante-Dated Cheque:** If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "ante-dated cheque". Such a cheque is valid upto 3 months from the

A cheque is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued.

Parts of a Cheque

The four main items on a cheque are:-

- **Drawer,** the person or entity who makes the cheque (The person who issue the cheque or hold the account with bank).
- **Payee,** the recipient of the money (A person whose name is mentioned in the cheque or to whom the drawee makes payment. If drawer has drawn the cheque in favour of self, then drawer is payee)
- **Drawee,** the bank or other financial institution where the cheque can be presented for payment. (The Person who is directed to make the payment against cheque)
- Amount, the currency amount

History of Cheques in India

- The Cheque was introduced in India by the Bank of Hindustan. **In 1881,** the Negotiable Instruments Act was enacted in India. The NI Act provided a legal framework for non-cash paper payment instruments in India.
- **In 1938,** the Calcutta Clearing Banks' Association, which was the largest bankers' association at that time, adopted clearing house.
- **Until 1 April 2012**, cheques in India were valid for a period of six months from the date of their issue, before the Reserve Bank of India issued a notification reducing their validity to three months from the date of issue.

date of the cheque.

5. **Post-Dated Cheque:** If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. It cannot be honoured earlier than the date on the cheque.
6. **Stale Cheque:** If a cheque is presented for payment after 3 months from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank.
7. **A self-cheque:** It is written by the account holder as pay self to receive the money in the physical form from the branch where he holds his account.
8. "**A truncated cheque**" means a cheque which is truncated during the course of a clearing cycle, either by the clearing house or by the bank whether paying or receiving payment, immediately on generation of an electronic image for transmission. *The* expression "clearing house" means the clearing house managed by the RBI or a clearing house recognised as such by the RBI.'

There are three parties to the cheque

- Drawer or Maker
- The bank - on whom the cheque is drawn (i.e. the bank with whom the account is maintained by the drawer)
- Payee – Payee is the person whose name is mentioned on the chequeto whom or to whose order the money is directed to be paid.
- **ENDORSEMENT:** As per Section 15, endorsing means signing on the face or backside of an instrument (or even on a paper called Allonge or stamped paper), for the purpose of negotiating (transferring to next person) a negotiable instrument.

A Brief on Crossing of a Cheque

- Crossing of a cheque means two parallel transverse lines on the face with or without words, such as '& Co', 'not-negotiable', 'payee's account only' etc. The words without lines will not constitute crossing. Such instruments should not be paid as drawer's mandate is not clear.
- Crossing is **applicable** in case of **cheques & demand draft** only & does not cover BOE or promissory note.

What are the Types of Crossing?

- **General crossing (sec 123):** General crossing is where a cheque bears across its face two parallel transverse lines

- It is payable to order on demand (85-A NI Act). It cannot be issued as payable to bearer (Sec. 31 RBI Act).
- If a bank fails to honour a bank draft, it renders itself liable for damages. Similarly, omission of signatures or wrong signatures can also make the bank liable.
- By prior arrangement, the paying bank could be a different bank also.

Topic 6: Financial Inclusion & the initiatives launched to achieve it

Financial inclusion involves

1) Give formal banking services to poor people in urban & rural areas.
2) Promote habit of money-savings, insurance, pension-investment among poor-people.
3) Help them get loans at reasonable rates from normal banks. So. they don't become victims in the hands of local moneylender.

No Frill Account

- 'No Frills 'account is a basic banking account. Such account requires either nil minimum balance or very low minimum balance. Charges applicable to such accounts are low.
- The RBI in 2005-06 called upon Indian banks to design a 'no frills account' – a no precondition, low 'minimum balance maintenance' account with simplified KYC (Know Your Customer) norms.

(with or without words such as "& co" or any abbreviation. (Words not important, lines are).

- **Special crossing (sec 124):** Where a cheque bears across its face, name of bank, either with or without the words not-negotiable (lines are not important, the addition of name of the bank is important), that addition shall be deemed as special crossing & the cheque be considered to be crossed specially to banker.
- **Special Crossing in favour more than one bank:** As per Section 127, if a cheque is crossed specially to more than one bank (unless one bank is acting as collecting agent to another), the payment shall be refused. A cheque crossed to two or more branches of the same bank is considered to be crossed to one bank only.
- **Not negotiable crossing:** As per Section 130, a person taking a cheque crossed generally or specially bearing the words 'not negotiable' shall not have not be capable of giving a better title to the cheque than that, which ther p erson from whom he took it, had.

Demand Drafts

- Demand draft is defined as per Section 85 (a) of NI Act 1881 as an order to pay money drawn by one office of a bank upon another office of the same bank for a sum of money payable to order on demand.

- But all the existing 'No-frills' accounts opened were converted into BSBDA in compliance with the guidelines issued by RBI in 2012.

What is BSBDA (Basic Savings & Bank Deposit A/c)?

In 2012, RBI introduced BSBDA. Some important points are:

- This account shall not have the requirement of any minimum balance.
- The services available in the account will include: deposit & withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Govt. agencies & departments;
- While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.
- Facility of ATM card or ATM-cum-Debit Card.

Business Correspondent

- The business correspondent is nothing but a bank-in-person, who is authorised to collect small ticket deposits and extend small credit on behalf of the banks. A BC also does the following activities: Recovering the principal interest of small value deposits.

- The RBI has allowed banks to appoint entities and individuals as agents for providing basic banking services in remote areas where they can't practically start a branch. These agents are called Business Correspondents.
- Business Correspondents are hence instrumental in facilitating financial inclusion in the country.
- As per the RBI guidelines the products provided by BCs are: Small Savings Accounts, Fixed Deposit and Recurring Deposit with low minimum deposits, Remittance to any BC customer, Micro Credit and General Insurance.
- The BC model allows banks to provide door-step delivery of services especially 'cash in – cash out' transactions at a location much closer to the rural population, thus addressing the last-mile problem.

Topic 7: All about the Priority Sector Lending Norms (Updated)

It means provide credit to the needy sectors of the society. The sectors are:

- Agriculture
- Education
- Export
- Social Infrastructure
- Micro & Small Enterprises
- Housing
- Weaker Sections
- Renewable Energy

Targets under PSL

Domestic and Foreign Banks (with 20 branches and above):

- Total Priority Sector: 40% of Adjusted Net Bank

Credit or Off-Balance Sheet Exposure, whichever is higher.

- Agriculture: 18% of ANBC or Off-Balance Sheet Exposure, whichever is higher.
- Micro Enterprises: 7.5% of ANBC or Off-Balance Sheet

Small Finance Banks:

- Total Priority Sector: 75% of ANBC.
- Agriculture: 18% of ANBC or Off-Balance Sheet Exposure, whichever is higher.
- Micro Enterprises: 7.5% of ANBC or Off-Balance Sheet
- Exposure, whichever is higher.
- Advances to Weaker Sections: 12% of ANBC or Off-Balance Sheet Exposure, whichever is higher.

Categorization of MSME according to MSME ACT 2006

- The government has given a new turnover based classification of MSMEs. As per this new classification, the MSMEs are categorized in term of business turnover. This is in place of the previous classification based on investment made in plant & machineries if they are operating in the manufacturing sector & investment in equipment for service sector companies. As per the new classification, the same turnover based criteria applied for all type of MSMEs including those operating in the services sector.
- It was the Micro, Small & Medium Enterprises Development (MSMED) Act which was notified in 2006 that defined the three tier of micro, small & medium enterprises & set investment limits.

Table: Classification of MSMEs

Classification	Micro	Small	Medium
Manufacturing Enterprises & Enterprises rendering Services	Investment in Plant & Machinery or Equipment: Not more than Rs.1	Investment in Plant & Machinery or Equipment: Not more than Rs.10	Investment in Plant & Machinery or Equipment: Not more than Rs.50

Exposure, whichever is higher.
- Advances to Weaker Sections: 12% of ANBC or Off-Balance Sheet Exposure, whichever is higher.

Foreign Banks (with less than 20 branches):
- Total Priority Sector: 40% of Adjusted Net Bank Credit or Off-Balance Sheet Exposure, with specific allocations.
- Agriculture, Micro Enterprises, Advances to Weaker Sections: Not applicable.

Regional Rural Banks:
- Total Priority Sector: 75% of ANBC, with specific considerations.
- Agriculture: 18% of ANBC or Off-Balance Sheet Exposure, whichever is higher.
- Micro Enterprises: 7.5% of ANBC or Off-Balance Sheet Exposure, whichever is higher.
- Advances to Weaker Sections: 15% of ANBC or Off-Balance Sheet Exposure, whichever is higher.

	crore & **Annual Turnover ; not more than Rs. 5 crore**	crore & **Annual Turnover ; not more than Rs. 50 crore**	crore & **Annual Turnover ; not more than Rs. 250 crore**

Other Targets under PSL
- Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare & upto 2 hectares are considered as Small Farmers.
- SCB having any shortfall in lending to priority sector shall be allocated amounts for contribution to Rural Infrastructure Development Fund with NABARD.
- Export credit will be allowed up to 32% of ANBC for Foreign banks with less than 20 branches in India.
- For Education, banks can provide loans to individuals for educational purposes including vocational courses uptoRs. 10 lakh for studies in India & Rs. 20 lakh for studies abroad.

Non-achievement of Priority Sector targets
- Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to RIDF established with NABARD & other Funds with NABARD/NHB/SIDBI, as decided by the Reserve Bank from time to time.
- The interest rates on banks' contribution to RIDF or any other Funds, tenure of deposits, etc. shall be fixed by Reserve Bank of India from time to time.

RBI revises priority sector lending norms for RRBs

Salient features of the guidelines:-
- **Targets:** 75% of total outstanding to the sectors eligible for classification as priority sector lending.
- **Categories of the Priority Sector:** Medium Enterprises, Social Infrastructure & Renewable Energy will form part of the Priority Sector, in addition to the existing categories, with a cap of 15% of total outstanding.
- **Agriculture:** 18% of total outstanding should be advanced to activities mentioned under Agriculture.
- **Small & Marginal Farmers:** A target of 8% of total outstanding has been prescribed for Small & Marginal Farmers within Agriculture.
- **Micro Enterprises:** A target of 7.5 % of total outstanding has been prescribed for Micro Enterprises.
- **Weaker Sectors:** A target of 15 % of total outstanding has been prescribed for Weaker Sections.
- **Monitoring:** Priority Sector Lending will be monitored on a quarterly as well as annual basis.

Topic 8: Financial Market| Important Points on Money Market, Capital Market & their Instruments

MONEY MARKET

It is a market for short-term debt securities, such as **commercial paper, repos, negotiable certificates of deposit**, & Treasury Bills with a **maturity of one year or less.**

CAPITAL MARKETS IN INDIA

It is the **market for long term funds**. It refers to all the facilities

Terms relating to Money Market

Call Money	Money **lent or borrowed** for **one day**
Notice Money	Money **lent or borrowed** for a period of **2-14 days.**
Term Money	Money **lent or borrowed** for **15 days to 1 year.**
Yield to maturity	**Expected rate of return** on an existing security purchased for the market.
Coupon Rate	**Specified interest rate** on a **fixed maturity security fixed at the time of issue.**

CALL/NOTICE MONEY MARKET OPERATIONS

- Under call money market, funds are transacted on overnight basis & under notice money market, for 2 days to 14 days.
- Participants include banks (excluding RRBs) & Primary Dealers (PDs), both as borrowers & lenders. Non-bank institutions are not permitted in the call/notice money market with effect from August 6, 2005.
- Calculation of interest payable is based on FIMMDA's (Fixed Income Money Market & Derivatives Association of India) Handbook of Market Practices.

INSTRUMENT OF GOVT. BORROWING

- To meet the temporary receipt & expenditure mismatch, govt. obtains over draft from RBI under Ways & Means Advances. For short term liquidity, it issues cash management bills, treasury bills of 91 days, 182 days & 364 days maturity. For long term funds, it uses dated securities in the form of bonds/long term loans.

TREASURY BILLS

- These are the instruments (in the form of promissory notes) of short term borrowing by the Central govt., first issued in India in 1917.
- TBs can be purchased by any one (including individuals) except State govt.
- Minimum amount of face value Rs. 25000 & in multiples thereof

& institutional arrangements for **borrowing** & lending **medium & long term funds**.

Money Market	Capital Market
Regulated by RBI	**Regulated by SEBI**

Major money market Instruments

- **Certificate of Deposit (CD)**
- **Commercial Paper (CP)**
- **Inter Bank Participation Certificates**
- **Inter Bank term Money**
- **Treasury Bills**
- **Bill Rediscounting**
- **Call/Notice Money**

- **Maturity: 91 days, 182 days & 364 days.**
- **Treasury bills are zero coupon securities.** They are issued at a discount & redeemed at face value at maturity.

Cash Management Bills (CMB)

- CMB introduced on 11.08.11, is a short-term security to be sold by Govt. of India to raise temporary money for cash management needs.
- **The tenure is less than 91 days** but the **notified amount & date of issue depends upon the temporary cash requirement of the Govt.**
- It **is issued at discount to the face value** through auctions, as in the case of the Treasury Bills.

DATED SECURITIES

- These are **long term securities & carry a fixed or floating coupon (interest rate) paid on the face value, payable at fixed time periods (half-yearly).**
- The **tenor of dated securities** can be up to **40 years.**
- **Public Debt Office of RBI** acts as the **registry/depository of Govt. securities &** deals with the **issue, interest payment & repayment** of principal at maturity.

WAYS & MEANS ADVANCES (WMAs)

- WMAs were introduced as per an agreement between RBI & Govt.
- WMAs are temporary overdrafts by RBI to govt. (Central & State) under Section 17(5) of RBI Act. WMSs replaced the earlier ad hoc T-Bills system.
- WMAs bridge the time interval of mismatch between govt. expenditure & receipts.
- **Duration:** 10 consecutive working days for Central Govt. & 14 days for State Govt.

OTHER MONEY MARKET INSTRUMENTS

CERTIFICATE OF DEPOSIT

This scheme was introduced in July 1989, **to enable the banking system to mobilize bulk deposits from the market,** which they can attract **at competitive rates of interest.**

Who can issue	Scheduled commercial banks (except RRBs) & All India Financial Institutions within their 'Umbrella limit'.
CRR/SLR	Applicable on the issue price in case of banks
Investors	Individuals (other than minor), corporations, companies, trusts, funds, associations etc.
Maturity	Min: **7 days, Max : 12 Months** (in case of FIs minimum 1 year & maximum 3 years).
Amount	Min: Rs. 1 lac, beyond which in multiple of Rs. 1 lac
Int. Rate	Market related. Fixed or floating
Loan	Against collateral of CD not permitted
Nature	**Usance Promissory note.** Can be issued in Dematerialisation form only wef June 30, 2002

COMMERCIAL PAPER

(b) Sanctioned working capital limit by bank/s or all-India financial institution/s;

(c) The borrower accounts are classified as a Standard Asset by financing bank/s/ institution/s & '

(d) Minimum credit rating from SEBI approved credit rating agency (CRA) is A3.

iv. Maturity: Min 15 days & max upto one year

v. Amount: Min Rs. 5 lakh or multiples thereof.

Collateralised Borrowing & Lending Obligation (CBLO)

- CBLO, an RBI approved money market instrument, is developed by CCIL for the benefit of the entities phased out from interbank call money market or given restricted participation in terms of ceiling on call borrowing & lending transactions & who do not have access to the call money market.
- It is a discounted instrument available in electronic book entry form for the maturity period ranging from 7 days to 90 Days (can be up to one year as per RBI guidelines).

CAPITAL MARKETS IN INDIA

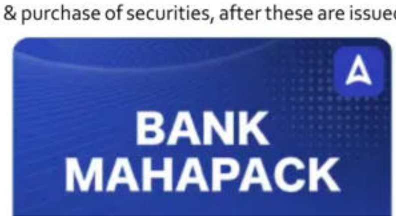
a) It refers to all the facilities & institutional arrangements for borrowing & lending medium & long-term funds.

b) It is segregated into **(i) gilt edged market & (ii) the industrial securities market.**

c) The **gilt edged market refers to the market for govt. & semi-govt. securities** which are traded in the market in stable value & are sought after by banks & other institutions.

d) The **industrial securities market** refers to the **market for shares & debentures of old as well as new companies.** This market is further divided as primary market & secondary market.

- The primary market refers to the setup which helps the industry to raise funds by issuing different types of securities, which are issued directly to the investors, both individual & institutions.
- The secondary market refers to the network for subsequent sale & purchase of securities, after these are issued.



i. CP introduced during 1990, is a short term money market instrument issued as an unsecured **usance promissory note** & privately placed.
ii. **Who can issue Commercial paper (CP):** Companies, primary dealers (PDs) & all-India financial institutions (FIs).
iii. A company is eligible to issue CP if:
(a) Its tangible net worth, as per latest audited balance sheet, is not less than Rs. 4 crore.

INDIAN DEPOSITORY RECEIPTS (IDRs)

IDR is an instrument in the form of a Depository Receipt created by the Indian depository in India against the underlying equity shares of the issuing company. In an IDR, foreign companies would issue shares, to an Indian companies would issue shares, to an Indian Depository which would in turn issue depository receipts to investors in India.

Topic 9: All about the DICGC (Deposit Insurance & Credit Guarantee Corporation of India)

1. **Which banks are insured by the DICGC?**
All commercial banks including branches of foreign banks functioning in India, local area banks & regional rural banks are insured by the DICGC.
2. **What does the DICGC insure?**

It insures all deposits such as savings, fixed, current, recurring, etc. except the following types of deposits.
(i) Deposits of foreign Govt.s;
(ii) Deposits of Central/State Govt.s;
(iii) Inter-bank deposits;
(iv) Deposits of the State Land Development Banks with the State co-operative bank;
(v) Any amount due on account of any deposit received outside India
(vi) Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India.

3. **What is the maximum deposit amount insured by the DICGC?**
The DICGC insures principal and interest upto a maximum amount of Rs. 5 lakhs.
4. HQ: **Mumbai** | Chairman, DICGC | **Dr. M.D. Patra**

Topic 10: NPAs & SARFAESI Act

It means once the borrower has failed to make interest or principal payments for 90 days, the loan is considered to be a non-performing asset.

Criteria for classification of loan as NPA

Farm Credit within Agriculture loans: A loan will be treated as an NPA if installment of the principal or interest remains unpaid beyond the due date for (a) two crop seasons in case of short duration crops (maturing within one year) & (b) one crop season for long duration crops (maturing after one year). This would also be applicable, mutatis mutandis, to agricultural term loans. In other agriculture loans, the 90 days norm would be applicable.

SARFAESI Act & Rules

- **SARFAESI Act (The Securitization & Reconstruction of**
- The SARFAESI Act is an Indian law which allows banks and other financial institution to auction residential or commercial properties to recover loans. It gives powers of "Seize and Desist" to banks.
- Banks can give a notice in writing to the defaulting borrower requiring it to discharge its liabilities within 60 days. If the borrower fails to comply with the notice, then banks are allowed to take possession of the collateral property and sell it without the permission of a court under this act.
- This law allowed the creation of **Asset Reconstruction Companies (ARC)** and allowed banks to sell their non-performing assets to ARCs. The first asset reconstruction company (ARC) of India, ARCIL, was set up under this act.

Conditions:

➢ SARFAESI is effective only for secured loans where bank can enforce the underlying security eg. Hypothecation, pledge and mortgages. This law does not apply to unsecured loans, loans below Rs.100,000 or where remaining debt is below 20% of the original principal.
➢ The Debt has been classified under Non-Performing Assets by the banks.
➢ This act is not applicable to an Agricultural land.

The assets portfolio of the banks is required to be classified as
(1) Standard assets (2) sub-standard assets
(3) Doubtful assets (4) loss assets.

- Standard asset is one that does not disclose any problems & which does not carry more than normal risk attached to the business.
- An asset which has been classified as NPA for a period not exceeding 12 months is considered as sub-standard asset.
- Doubtful asset is one which has remained NPA for a period exceeding 12 months.
- An asset which is considered uncollectible & loss has been identified by the bank or internal or external auditors or the RBI inspection & the loss has not been written off is regarded as loss asset.

What is pledge: U/s 172 of Indian Contracts Act, pledge is bailment (delivery) of goods as security for payment of a loan. Only goods (movable assets excluding actionable claims (Sec 2(7) of Sales of Goods Act) can be pledged.

Topic 11: A Brief on ATMs in India

1. **What is an Automated Teller Machine (ATM)?**

A. Automated Teller Machine is a computerized machine that provides the customers of banks the facility of accessing their account for dispensing cash & to carry out other financial &

Financial Assets & Enforcement of Security Interest Act, 2002)

non-financial transactions without the need to actually visit their bank branch.

2. What is White Label ATMs (WLAs)?

A. ATMs set up, owned & operated by non-banks are called White Label ATMs. Non-bank ATM operators are authorized under Payment & Settlement Systems Act, 2007 by the Reserve Bank of India.

3. Is there any time limit for the card issuing banks for recrediting the customer's account for a failed ATM/WLA transaction?

A. As per the RBI instructions, banks have been mandated to resolve customer complaints by re-crediting the customer's account within 5 working days from the date of complaint.

4. Are the customers eligible for compensation for delays beyond 5 working days?

A. Yes. Effective from July 1, 2011, banks have to pay compensation of Rs. 100/- per day for delays in re-crediting the amount beyond 5 working days from the date of receipt of complaint for failed ATM transactions.

Topic 12: Currency System in India

- Money as a means of payment consists of coins, paper money & withdrawable bank deposits.
- **Legal tender:** As per provisions of coinage Act 1906, bank notes, currency notes & coins (Rs. 1 & above) are legal tender for unlimited amount. The subsidiary coins (below Re 1) are legal tenders for sum not exceeding Re 1. Issue of 1, 2 & 3 paise coins discontinued wef Sep 16, 1981.
- **Currency chests are operated by RBI** so that they can provide good quality currency notes to the public. However, RBI has appointed commercial banks to open & monitor currency chests on behalf of RBI. The cash kept in currency chests is considered to be kept in RBI.
- The bank branches are also **authorised to establish Small Coin Depots to stock small coins.** The Small Coin Depots also distribute small coins to other bank branches in their area of operation.

What are soiled, mutilated & imperfect banknotes?

- **Government note:** means any note issued by Central Government or supplied by the Central Government to the Bank & issued by the Bank, provided the liability for the payment of the value in respect of such note has devolved on & been taken over by the Bank.
- **Imperfect Note:** means any note, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated note.
- **Mutilated note:** means a note of which a portion is missing or which is composed of more than two pieces.
- **Mismatched note:** means a mutilated note which has been formed by joining a half note of any one note to a half note of another note.
- **Soiled note:** means a note which, has become dirty due to usage & also includes a two piece note pasted together wherein both the pieces presented belong to the same note, & form the entire note.

Pre-2005 series Banknotes

The banknotes issued before 2005 MG series are called pre-2005 series banknotes, which do not have the year of printing on the reverse side. On Jan 23, 2014, RBI decided to withdraw, from circulation, these notes as they have fewer security features.

1. These notes shall continue to be legal tender. The notes are only being withdrawn from circulation.
2. These notes can be exchanged at select bank branch till 30.06.16.

Currency Quick Facts				
Den.	**Letter**	**Colour**	**Motif**	**Dimension**
10	-	Chocolate Brown	Sun Temple, Konark	63 mm x120 mm
20	-	Greenish yellow	Ellora Caves	63 mm x150 mm
50	-	Fluorescent Blue	Hampi with Chariot	66 mm x140 mm
200	H	Bright Yellow	Sanchi Stupa	66 mm x150 mm
500	-	Stone Grey	Red Fort	66mm x150mm

Topic 13: A close look at the Prompt Corrective Action (PCA)

What is PCA as per RBI? All Misconceptions Cleared

- RBI clarified that the PCA framework is not intended to constrain normal operations of the banks for the general public.
- Under RBI's supervisory framework, it uses various measures/tools to maintain sound financial health of banks. PCA framework is one of such supervisory tools.
- It involves monitoring of certain performance indicators of the banks as an early warning exercise & is initiated once such thresholds as relating to capital, asset quality etc. are breached.
- Its objective is to facilitate the banks to take corrective measures including those prescribed by the Reserve Bank, in a timely manner, in order to restore their financial health.
- It provides an opportunity to the Reserve Bank to pay focussed attention on such banks by engaging with the management more closely in those areas.
- The PCA framework is, thus, intended to encourage banks to eschew certain riskier activities & focus on conserving capital so that their balance sheets can become stronger.

Salient Features of revised PCA Framework for Banks

A. Capital, asset quality & profitability continue to be the key areas for monitoring in the revised framework.

B. Indicators to be tracked for Capital, asset quality & profitability would be:

a) **CRAR/ Common Equity Tier I ratio:** CET ratio – the percentage of core equity capital, net of regulatory adjustments, to total risk weighted assets as defined in RBI Basel III guidelines

b) **Net NPA ratio:** NNPA ratio – the percentage of net NPAs to net advances

c) **Return on Assets:** ROA – the percentage of profit after tax to average total assets

C. Leverage would be monitored additionally as part of the PCA framework.

D. Breach of any risk threshold (as detailed under) would result in invocation of PCA.

E. The PCA framework would apply without exception to all banks operating in India including small banks & foreign banks operating through branches or subsidiaries based on breach of risk thresholds of identified indicators.

F. A bank will be placed under PCA framework based on the audited Annual Financial Results & the Supervisory Assessment made by RBI.

Topic 14: All about the Products of NPCI

- National Payments Corporation of India (NPCI) is an umbrella organization for all retail payments system in India. It was incorporated in December 2008 & the Certificate of Commencement of Business was issued in April 2009.
- The authorized capital was pegged at Rs 300 crore & paid up capital was Rs 100 crore.
- Biswamohan Mahapatra| Non-Executive Chairman & Dilip Asbe- MD & CEO

A Brief on BHIM

- Bharat Interface for Money is an app that lets you make simple, easy & quick payment transactions using Unified Payments Interface (UPI). This can be done using just Mobile number or Virtual Payment Address (VPA). Currently it is available in 13 languages.
- Virtual Payment Address (VPA) is a unique identifier which you can use to send & receive money on UPI.
- **With BHIM, you can' t pay more than Rs. 1 Lakh in a transaction.**
- **Daily limit for BHIM app transaction is Rs. 100000 per day.**

A Brief on UPI- 2016

- Unified Payments Interface is an instant payment system developed by NPCI. UPI is built over the IMPS infrastructure & allows you to instantly transfer money between any two parties' bank accounts.
- UPI-PIN is a 4-6 digit pass code you create/set during first time registration with this App.
- The upper limit per UPI transaction is Rs. 1 Lakh.

Immediate Payment Service (IMPS): It was launched in 2010. IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones.

Overview of *99# Service: *99# service launched by NPCI, which works on Unstructured Supplementary Service Data (USSD) channel. This service was launched in 2014. Banking customers can avail the service by dialing *99#, a "Common number across all Telecom Service Providers (TSPs)" on their mobile phone & transact through an interactive menu displayed on the mobile screen.

Overview of *99*99# Service: *99*99# is a USSD (Unstructured Supplementary Service Data) based value added service from NPCI that facilitates the customers to check the status of his/her Aadhaar number seeding/linking in the bank account. The service works across all GSM service providers & brings together the diverse ecosystem partners such as Banks & TSPs (Telecom Service Providers).

MMID: MMID stands for Mobile Money Identifier. MMID is a 7-digit code issued by the bank to their customers for availing IMPS.

A Brief on QSAM *99*99# service, is alternatively known as QSAM (Query Service on Aadhaar Mapper). Using this service, a person can check the Aadhaar seeding/linking status in his/her bank account.

A Brief on NACH

- NPCI implemented "National Automated Clearing House (NACH)" for Banks, Financial Institutions, Corporates & Govt., is a web based solution to facilitate interbank, high volume, electronic transactions which are repetitive & periodic in nature.
- NACH System can be used for making bulk transactions towards distribution of subsidies, dividends, interest, salary, pension etc. for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium etc.
- NACH's Aadhaar Payment Bridge (APB) System, developed by NPCI has been helping the Govt. & Govt. Agencies in making the Direct Benefit Transfer scheme a success.

BBPS: Bharat Bill Payment System (BBPS) will function as a tiered structure for operating the bill payment system in the country under a single brand image. NPCI will function as the authorized Bharat Bill Payment Central Unit (BBPCU), which will be responsible for setting business standards, rules & procedures for technical & business requirements for all the participants.

Topic 15: Small Finance Banks & its Headquarters

- **The objective is** to further financial inclusion by (a) provision of savings vehicles, (b) supply of credit to small business units; small & marginal farmers; micro & small industries; & other unorganised sector entities, through high technology-low cost operations.

- **It** shall primarily undertake basic banking activities of acceptance of deposits & lending to unserved & underserved sections including small business units, small & marginal farmers, micro & small industries & unorganised sector entities. The minimum paid-up equity capital is **Rs. 200 crores.**
- The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall at least be 40 % & gradually brought down to 26 % within 12 years from the date of commencement of business of the bank.

Headquarters of the Small Finance Banks

- Au Finance Small Finace Bank Ltd., Jaipur
- Capital Small Finace Bank Ltd., Jalandhar
- Fincare Small Finace Bank Ltd., Bengaluru
- Equitas Small Finace Bank, Chennai
- ESAF Small Finace Bank Ltd., Registered Office- Chennai, Corporate Office- Thrissur (Kerala)
- Jana Small Finace Bank Limited, Bengaluru
- North East Small Finace Bank, Guwahati
- Suryoday Small Finace Bank Ltd., Navi Mumbai
- Ujjivan Small Finace Bank Ltd., Bengaluru
- Utkarsh Small Finace Bank Ltd., Varanasi
- Shivalik Small Finance Bank Limited, New Delhi
- Unity Small Finance Bank Limited, New Delhi

Topic 16: Payments Banks & its Headquarters

- The objective is to further financial inclusion by providing (i) small savings accounts (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities & other users.
- **Scope of activities:** Acceptance of demand deposits. It will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.
- It cannot undertake lending activities. Apart from amounts maintained as CRR on its outside demand & time liabilities, it will be required to invest minimum **75% of its "demand deposit balances" in SLR eligible. The minimum paid-up equity capital shall be Rs. 100 crore.**
- The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall at least be **40 %** for the first five years from the commencement of its business.

Headquarters of the Payment Banks

- India Post Payment Bank – New Delhi
- Airtel Payment Bank Limited- Registered Office- New Delhi, Corporate Office- Gurugram, Haryana
- Paytm Payment Bank Limited- Noida, UP
- Jio Payment Bank – Mumbai
- Fino Payment Bank Limited- Navi Mumbai
- NSDL Payment Bank Limited- Mumbai

Topic 17: What are the Risks in Banking Sector?

- **Credit risk:** It usually occurs because of inadequate income or business failure. Credit risk signifies a decline in the credit assets' values before default that arises from the deterioration in a portfolio or an individual's credit quality.
- **Market risk:** Basel Committee on Banking Supervision defines market risk as the risk of losses in on- or off-balance sheet positions that arise from movement in market prices. Market risk is the most prominent for banks present in investment banking.
- **Operational risk:** Basel Committee on Banking Supervision defines operational risk "as the risk of loss resulting from inadequate or failed internal processes, people & systems or from external events. Operational risk, the risk in all banking transactions
- **Liquidity risk:** Liquidity risk is the risk of a bank not being able to have enough cash to carry out its day-to-day operations.
- **Reputational risk—when banks lose the public's trust:** It is the risk of damage to a bank's image & public standing that occurs due to some dubious actions taken by the bank.
- **Business Risk:** Business risk is the risk arising from a bank's long-term business strategy. It deals with a bank not being able to keep up with changing competition dynamics, losing market share over time, & being closed or acquired.

Topic 18: What are the BASEL-3 Norms & a brief on the 3 Pillars of Basel?

The **Bank for International Settlements (BIS)** is an international financial institution owned by central banks which fosters international monetary and financial cooperation and serves as a bank for central banks.

The BIS was established in 1930 by an intergovernmental agreement between Germany, Belgium, France, the United Kingdom, Italy, Japan, the United States and Switzerland.

The BIS is owned by 60 central banks, representing countries from around the world that together account for about **95% of world GDP.**

The BIS carries out its work through its meetings, programmes and through the **Basel Process,** hosting international groups pursuing global financial stability and facilitating their interaction.

It also provides banking services, but only to central banks and other international organizations. It is based in Basel, Switzerland, with representative offices in Hong Kong and Mexico City.

Basel Committee on Banking Supervision (BCBS)

- The **Basel Committee** on Banking Supervision is an international committee formed to develop standards for banking regulation; it is made up of central bankers from 27 countries and the European Union.

- The present Chairman of the Committee is Stefan Ingves,

Also, the quantity and quality of capital under Basel II were

Governor of the central bank of **Sweden (Sveriges Riksbank). Niel Esho** is the current Secretary General of the Basel Committee. The Committee's Secretariat is located at the Bank for International Settlements (BIS) in Basel, Switzerland. However, the BIS and the Basel Committee remain two distinct entities.

Goals

- BCBS does not issue binding regulation; rather, it functions as an informal forum in which policy solutions and standards are developed.
- The Basel Committee formulates broad supervisory standards and guidelines and recommends statements of best practice in banking supervision in the expectation that member authorities and other nations' authorities will take steps to implement them through their own national systems.
- It mainly focuses on risks to banks and the financial system are called Basel accord.
- **India has accepted Basel accords for the banking system. Basel Accord has given us three Basel Norms which are Basel I, II and III.**

Basel I:

In 1988, BCBS introduced capital measurement system called Basel capital accord, also called as Basel 1. It focused almost entirely on credit risk. It defined capital and structure of risk weights for banks. The minimum capital requirement was fixed at 8% of Risk Weighted Assets (RWA). RWA means assets with different risk profiles. For example, an asset backed by collateral would carry lesser risks as compared to personal loans, which have no collateral. India adopted Basel 1 guidelines in 1999.

Basel II:

In J**une 2004**, Basel II guidelines were published by BCBS, which were considered to be the refined and reformed versions of Basel I accord. The guidelines were based on three parameters, which the committee calls it as pillars. They are ➢ Capital Adequacy Requirements: Banks should maintain a minimum capital adequacy requirement of 8% of risk assets. ➢ Supervisory Review: According to this, banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that a ba nk faces, viz. credit, market and operational risks. ➢ Market Discipline: This need increased disclosure requirements. Banks need to mandatorily disclose their CAR, risk exposure, etc to the central bank. Basel II norms in India and overseas are yet to be fully implemented.

Basel III:

In 2010, Basel III guidelines were released. These guidelines were introduced in response to the financial crisis of 2008. A need was felt to further strengthen the system as banks in the developed economies were under-capitalized, over-leveraged and had a greater reliance on short-term funding.

deemed insufficient to contain any further risk. Basel III norms aim at making most banking activities such as their trading book activities more capital-intensive. The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.

Presently Indian banking system follows Basel II norms. The Reserve Bank of India has extended the timeline for full implementation of the Basel III capital regulations by a year **to March 31, 2019.**

Three Pillars of Basel 3

- **Pillar 1: Minimum Regulatory Capital Requirements based on Risk Weighted Assets (RWAs):** Maintaining capital calculated through credit, market & operational risk areas (mainly that capital which can absorb risk.)
- **Pillar 2: Supervisory Review Process:** Regulating tools & frameworks for dealing with peripheral risks that bank face.
- **Pillar 3: Market Discipline:** Increasing the disclosures that banks must provide to increase the transparency of banks

Important Facts related to BASEL 3

- Minimum Ratio of Total Capital To RWAs--10.50%
- Minimum Ratio of Common Equity to RWAs--4.50% to 7.00%
- Tier I capital to RWAs--6.00%
- Core Tier I capital to RWAs--5.00%
- Capital Conservation Buffers to RWAs--2.50%
- Leverage Ratio--3.00%
- Countercyclical Buffer--0% to 2.50%

Topic 19: Most Important Miscellaneous Banking Terms

- **ACU:** Asian Clearing Union (ACU) was established with its head-quarters at Tehran, Iran, on December 9, 1974.
- **Moral Suasion:** Moral Suasion is just as a request by the RBI to the commercial banks to take so & so action & measures in so & so trend of economy. RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation.
- **Bouncing of a cheque:** Where an account does not have sufficient balance to honour the cheque issued by the customer, the cheque is returned by the bank with the reason "funds insufficient" or "Exceeds arrangement". This is known as 'Bouncing of a cheque'.
- **Demat Account:** The term "demat", in India, refers to a dematerialised account for individual Indian citizens to trade in listed stocks or debentures.

- **Capital Adequacy Ratio (CAR)**: Capital adequacy ratio measures the amount of a bank's capital expressed as a %age of its credit exposure. Globally, the capital adequacy ratio has been developed to ensure banks can absorb a reasonable level of losses before becoming insolvent. Indian banks are expected to maintain a minimum capital adequacy ratio of 9 % (Rs 9 as capital for every Rs 100 in loan or asset).

A Brief on Nationalization of Banks

- Nationalisation of Imperial Bank of India & its conversion into State Bank of India in July 1955.
- Conversion of 8 major State-associated banks into subsidiary banks of SBI in 1959.
- Nationalisation of 14 Indian scheduled banks in July 1969.
- Nationalisation of 6 more banks in April 1980 & New Bank of

of asset)

- **Balance of Trade:** The value of a country's exports minus the value of its imports. Unless specified as the balance of merchandise trade, it normally incorporates trade in services, including earnings (interest, dividends, etc.) on financial assets.
- **Balance of Payments:** A list of all of a country's international transactions for a given time period, usually one year.
- **NOSTRO Account:** A Nostro account is maintained by an Indian Bank in the foreign countries.
- **VOSTRO Account:** Vostro account is maintained by a foreign bank in India with their corresponding bank.
- **BCBS:** Basel Committee on Banking Supervision is an institution created by the Central Bank governors of the Group of Ten nations.
- **What is STRIPS:** Separate Trading for Registered Interest & Principal Securities.
- The CORE word in CBS stands for Centralized Online Realtime Exchange.
- **Cross Selling:** Cross-selling stands for offering to the existing & new customers, some additional banking products, with a view to expand banking business, reduce the per customer cost of operations & provide more satisfaction & value to the customer.

Important Terms related to Mutual Funds

- **Asset Management Company:** A company formed & registered under the Companies Act 1956 & approved as such by the SEBI to manage the funds of a mutual fund. Under an agreement (with the trustees of the Mutual Fund), an AMC undertakes to formulated mutual funds schemes, distribute income as per agreement.
- **Close-ended scheme:** A scheme where funds are raised for a fixed period. The scheme is wound up after that period & funds are returned with capital appreciation to unit holders. Normally, a close-ended scheme is listed on a stock exchange.
- **Net asset value:** The price of value of one share of a fund. It is calculated by summing the quoted values of all the securities held by the fund, adding in cash & any accrued income & subtracting liabilities & dividing the result by the number of shares outstanding.
- **Open ended scheme:** A scheme is the one which continuously offers its units & buys them back from investors.

- Nationalisation of 6 more banks in April 1980 & New Bank of India merged into Punjab National Bank.

Topic 20: How the amount can be transferred from one Bank A/c to the other?

Real Time Gross Settlement (RTGS)

The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting).

Processing or Service Charges for RTGS Transactions

Parameters	RTGS
Minimum Transfer Value	Rs. 2 lakh
Payment Option	Online and Offline
Maximum Transfer Value	No limit
Transfer Time	Immediate
Service Time	Available 24×7
Inward Transaction Charges	No charges
Details Required	Account No. and IFSC Code
Beneficiary Registration	Yes

National Electronic Funds Transfer (NEFT)

- **National Electronic Funds Transfer (NEFT)** is a nation-wide payment system facilitating one-to-one funds transfer. NEFT is an electronic fund transfer system that operates on a **Deferred Net Settlement (DNS)** basis which settles transactions in batches.
- Under this transfer, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the transfer. However, NEFT has no limit - either minimum or maximum - on the amount of funds transferred.
- In case of Individuals who do not have a bank, account can also deposit cash using NEFT. However, such cash remittances are restricted to a maximum of Rs. 50,000 per transaction.
- The NEFT system also facilitates one-way cross-border transfer of funds from India to Nepal and it is known as the Indo-Nepal Remittance Facility Scheme. However, the remittances are restricted to a maximum of Rs. 50,000 per transaction in this type of scheme.

Processing or Service Charges for NEFT Transactions

Parameters	NEFT
Minimum Transfer Value	Rs. 1
Payment Option	Online and Offline
Maximum Transfer Value	No limit
Transfer Time	Up to 30 minutes
Service Time	Available 24×7
Inward Transaction Charges	No charges
Details Required	Account No. and IFSC Code
Beneficiary Registration	Yes

Immediate Payment Service (IMPS)

IMPS is an innovative real time inter-bank electronic funds

b) EEFC A/c

- Exchange Earners' Foreign Currency Account (EEFC) is an a/c maintained in foreign currency with Authorised Dealer.
- It is a facility provided to foreign exchange earners, including exporters, to credit 100% of their foreign exchange earnings to the a/c, so that the account holders do not have to convert foreign exchange into Rupees, thereby minimizing the transaction costs.
- All categories of foreign exchange earners, such as individuals, companies, etc. who are resident in India, may open EEFC accounts.
- It can be held only in the form of a current account. No interest is payable on EEFC accounts.

ACCOUNTS FOR NRI/PIO: Non-Resident Ordinary transfer system in India. Banks are allowed to set their own limit for IMPS.

- IMPS offers an inter-bank electronic fund transfer service through mobile phones. Unlike NEFT and RTGS, the service is available 24/7 throughout the year including bank holidays.
- This service is offered by National Payments Corporation of India (NPCI) that empowers customers to transfer money instantly through banks and RBI authorized Prepaid Payment Instrument Issuers (PPI) across India.
- QSAM (Query Service on Aadhaar Mapper) – This service helps user in knowing their Aadhaar Seeding status with their bank account.
- Both banked as well as un-banked customer can avail IMPS. However, unbanked customer can initiate IMPS transaction using the services of Pre-Paid Payments instrument issuer (PPI).

Processing or Service Charges for IMPS Transactions

- The maximum transfer limit of funds through IMPS is **Rs. 5 lakh.** However, it may vary from bank to bank. while the minimum limit usually is **Rs. 1.** However, the limit may vary from bank to bank.
- IMPS charges are largely subject to the amount which is being transferred along with the bank's policies. However, the regular IMPS charges range from **Rs. 2.50 to Rs. 25 for amounts of Rs. 10,000 to Rs. 5 lakh.**

Topic 21: What are the types of Accounts that can be opened by Foreign (Person) in India?

a) NRO A/c (Foreign Tourist)

- Foreign tourists during their short visit to India can open a Non-Resident (Ordinary) Rupee (NRO) account (Current / Savings) with any Authorised Dealer bank dealing in foreign exchange.
- Can be opened up to a maximum period of 6 months.
- All payments to residents exceeding INR 50,000 can be made only by means of cheques / pay orders / DDs.

ACCOUNTS FOR NRI/PIO: Non-Resident Ordinary Rupee Account (NRO Account)

- NRO accounts may be opened / maintained in the form of current, savings, recurring or fixed deposit accounts.
- Interest rates offered by banks on NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.
- Account should be denominated in Indian Rupees.
- NRI/PIO may remit from the balances held in NRO account an amount not exceeding USD one million per financial year, subject to payment of applicable taxes.
- The limit of USD 1 million per financial year includes sale proceeds of immovable properties held by NRIs/PIOs.

Non-Resident (External) Rupee Account (NRE Account)

- NRE account may be in the form of savings, current, recurring or fixed deposit accounts.
- Account will be maintained in Indian Rupees.
- Accrued interest income & balances held in NRE accounts are exempt from Income tax.
- Authorised dealers/authorised banks at their discretion allow for a period not more than two weeks, overdrawings in NRE savings bank accounts, up to a limit of Rs. 50,000.
- Loans up to Rs.100 lakh can be extended against security of funds held in NRE Account either to the depositors or third parties.

(B) Account

- FCNR (B) accounts are only in the form of term deposits of 1 to 5 years
- Account can be in any freely convertible currency.
- Loans up to Rs.100 lakh can be extended against security of funds held in FCNR (B) deposit either to the depositors or third parties.
- The interest rates are stipulated by the Department of Banking Operations & Development, RBI.

Topic 22: A Brief on CAMELS rating for Domestic Banks?

- RBI's 1995 working group headed by Sh. S. Padmanabhan suggested method for rating.
- RBI rates the banks on a 5 point scale of A to E, widely on the lines of international CAMELS rating model for domestic banks & CALCS model for foreign banks.

6) If one is not satisfied with the decision passed by the BO, one can approach the appellate authority who is the Deputy Governor of the RBI.

Topic 24: NBFC OMBUDSMAN SCHEME

- RBI introduced an Ombudsman Scheme for customers of Non-Banking Financial Companies (NBFCs).
- The Scheme is an expeditious & cost free apex level mechanism for resolution of complaints of customers of NBFCs, relating to certain services rendered by NBFCs.
- It is being introduced under Section 45 L of RBI Act, 1934, with effect from February 23, 2018.
- The NBFC Ombudsman is a senior official appointed by RBI to redress customer complaints against NBFCs for deficiency in certain services covered under the grounds of complaint specified under Clause 8 of the Scheme.
- As on date, four NBFC Ombudsman have been appointed with their offices located at Chennai, Kolkata, New Delhi & Mumbai.

CAMELS Rating for Domestic Banks

C	Capital adequacy ratio
A	Asset quality
M	Management Effectiveness
E	Earning (i.e. profitability)
L	Liquidity (asset-liability management)
S	System & controls

Rating parameters for foreign banks

C	Capital adequacy ratio
A	Asset quality
L	Liquidity
C	Compliance
S	System & controls

Topic 23: BANKING OMBUDSMAN SCHEME 2006

The Scheme enables a bank customer for filing of complaints relating to certain services rendered by banks.

1) The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.
2) All Scheduled Commercial Banks, Regional Rural Banks & Scheduled Primary Co-operative Banks are covered under the Scheme.
3) The Banking Ombudsman does not charge any fee for filing & resolving customers' complaints.
4) The maximum compensation which a BO can help a complainant to get is Rs. 20 lakhs.
5) If a complaint is not settled by an agreement within a period of one month, the BO proceeds further to pass an award. Before passing an award, the BO provides reasonable opportunity to the complainant & the bank, to present their case.

- The compensation amount, if any, which can be awarded by NBFC Ombudsman, for any loss suffered by complainant, is limited to the amount arising directly out of the act or omission of the NBFC or rupees one million, whichever is lower.
- Note: NBFC Ombudsman may award compensation not exceeding rupees 0.1 million to the complainant for causing mental agony & harassment.
- Appellate Authority is vested with a Deputy Governor-in-Charge of the department of the RBI implementing the Scheme.

Topic 25: What is Base Rate, MCLR & Other rates of Lending?

Base Rate

- RBI decided that banks should switch over to Base Rate system w.e.f. 1.7.2010.
- Banks may determine their actual lending rates w.r.t. Base Rate.
- No loan can be sanctioned below base rate.
- Exempted accounts: The following loans could be priced without reference to Base Rate: (a) DRI loans (b) loans to banks' own employees (c) loans to banks' depositors against their own deposits.

Marginal Cost Based Lending Rate

- RBI introduced MCLR w.e.f. 1.4.2016 to determine Base Rate by banks to improve the efficiency of monetary policy transmission.
- All rupee loans sanctioned & credit limits renewed w.e.f. 01.04.16 to be priced w.r.t. MCLR. It will be internal benchmark.
- The MCLR comprises of (a) Marginal cost of funds; (b) Negative carry on account of CRR; (c) operating costs; (d) Tenor premium.

- Marginal Cost of funds (MCF): It has 2 components (a) Marginal cost of borrowings (b) return on networth.
- By using MCF, it will be calculated as: Required CRR × (marginal cost) / (1-CRR)

- The scheme of reverse mortgage has been introduced for the benefit of senior citizens owning a house but having inadequate income to meet their needs. Some important features of reverse mortgage are:
- A homeowner who is above 60 years of age is eligible for reverse mortgage loan. It allows him to turn the equity in his home into one lump sum or periodic payments mutually agreed by the borrower & the banker.
- NO REPAYMENT is required as long as the borrower lives, Borrower should pay all taxes relating to the house & maintain the property as his primary residence.
- The amount of loan is based on several factors: Borrower's age, Value of the property, Current interest rates & The specific plan chosen.
- **As per the scheme formulated by National Housing Bank (NHB), the maximum period of the loan period is 15 years.** The residual life of the property should be at least 20 years. Where the borrower lives longer than 15 years, periodic

- Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans & advances, acquisition of shares/stocks/bonds/debentures/securities issued by Govt. or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit fund business.
- NBFCs lend & make investments & hence their activities are akin to that of banks; however there are a few differences as given below:
  - a) NBFC cannot accept demand deposits;
  - b) NBFCs do not form part of the payment & settlement system & cannot issue cheques drawn on itself;
  - c) Deposit insurance facility of Deposit Insurance & Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Types of NBFC

I. Asset Finance Company (AFC) : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipment's, moving on own power and general purpose payments will not be made by lender. However, the borrower can continue to occupy.

Topic 27: What is Mortgages & Pledge?

Mortgages: It is used for creating charge against immovable property which includes land, buildings or anything that is attached to the earth or permanently fastened to anything attached to the earth (However, it does not include growing crops or grass as they can be easily detached from the earth). It is defined in **Section 58 of the Transfer of Property Act 1882.**

Example: When mortgage is created is when someone takes a Housing Loan / Home Loan. In this case house is mortgaged in favour of the bank / financer but remains in possession of the borrower, which he uses for himself or even may give on rent.

Pledge:
It is used when the lender (pledge) takes actual possession of assets (i.e. certificates, goods). Such securities or goods are movable securities. In this case the pledgee retains the possession of the goods until the pledgor (i.e. borrower) repays the entire debt amount.
In case there is default by the borrower, the pledgee has a right to sell the goods in his possession and adjust its proceeds towards the amount due (i.e. principal and interest amount).

Example: Gold /Jewellery Loans, Advance against goods/stock, Advances against National Saving Certificates etc

industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

II. **Investment Company (IC) :** IC means any company which a financial institution is carrying on as its principal business the acquisition of securities.

III. **Loan Company (LC) :** LC means any company which a financial institution is carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

IV. Infrastructure Finance Company (IFC) : IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs. 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.

Deposits in NBFC:
- Presently, the maximum rate of interest an NBFC can offer is 12.5%. The interest may be paid or compounded at rests not shorter than monthly rests.
- NBFCs are allowed to accept / renew public deposits for a minimum period of 12 months & maximum period of 60 months. They cannot accept deposits repayable on demand.
- The deposits with NBFCs are not insured.
- The repayment of deposits by NBFCs is not guaranteed by RBI.

V. Systemically Important Core Investment Company (CIC-ND-SI) : CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions: -
- It holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;
- Its asset size is Rs.100 crore or above and
- It accepts public fund

VI. Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

VII. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI) : NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:
- loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs.1,00,000 or urban and semi-urban household income not exceeding Rs.1,60,000;
- loan amount does not exceed Rs. 50,000 in the first cycle and Rs.1,00,000 in subsequent cycles;
- total indebtedness of the borrower does not exceed Rs.1,00,000;
- tenure of the loan not to be less than 24 months for loan

- **Commercial Bank Money -** Commercial bank money or the demand deposits are claims against financial institutions which can be used for purchasing goods & services.
- **Reserve Money (M 0)**

Currency in circulation + Bankers' 'deposits with the RBI + 'Other' deposits with the RBI = Net RBI 'credit to the Govt. + RBI credit to the commercial sector + RBI's claims on banks + RBI's net is foreign assets + Government's currency liabilities to the public - RBI's net non-monetary liabilities.

M1=Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI
M2=M1 + Savings deposits of office savings banks.
M3=M1+ Time deposits with the banking system
= Net bank credit to the Govt.
M4=M3 +All deposits with post office savings banks (excluding National Savings Certificates)

- **Bhartiya Reserve Bank Note Mudran Private Limited (BRBNMPL):** RBI established BRBNMPL in February 1995 as a wholly-owned subsidiary to augment the production of bank notes in India & to enable bridging of the gap between supply & demand for bank notes in the country.

Topic 30: What are the Different types of Banking?

- **Para banking-** When Bank provides banking services except the general banking facility.
- **Narrow Banking-** When banks invest its money in Govt. securities instead investing in market to avoid risk.

amount in excess of Rs.15,000 with prepayment without penalty;

➢ loan to be extended without collateral;
➢ aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
➢ loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

Topic 29: What are the types of Money?

- **Commodity Money** - Commodity money value is derived from the commodity out of which it is made. The commodity itself represents money, & the money is the commodity.
- **Representative Money** - is money that includes token coins, or any other physical tokens like certificates, that can be reliably exchanged for a fixed amount/quantity of a commodity like gold or silver.
- **Fiat Money** - Fiat money, also known as fiat currency is the money whose value is not derived from any intrinsic value or any guarantee that it can be converted into valuable commodity (like gold). Instead, it derives value only based On Govt. order (fiat)

- **Offshore Banking-** Bank which accept currency of all countries.
- **Green banking-** Promoting environmental-friendly practices & reducing your carbon footprint from your banking activities.
- **Retail Banking-** Retail banking refers to the division of a bank that deals directly with retail customers.
- **Wholesale banking-**Wholesale banking is the provision of services by banks to organisations such as Mortgage Brokers, large corporate clients, mid-sized companies, sreal estate developers & investors, international trade finance businesses etc.
- **Universal Banking:** R H Khan committee & recommended the concept of Universal Banking. It means allowing FIs & banks to undertake all types of banking or development financing activity, subject to compliance of statutory & other requirements of RBI, Govt. & related legal Acts.
- **Islamic Banking:** An Islamic bank is a deposit-taking banking institution whose scope of activities excluding borrowing & lending on the basis of interest.

Topic 31: What are the important codes that are used in Banking?

IFSC (Indian Financial System Code)

- Indian Financial System Code is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system.
- This is an 11 digit code with the first 4 alpha characters representing the bank, The 5th character is 0 (zero) & the last 6 characters representing the bank branch.

MICR – Magnetic ink character Recognition

- MICR is 9-digit numeric code that uniquely identifies a bank branch participating in electronic clearing scheme.
- Used to identify the location of a bank branch.
- City (3) Bank (3) Branch (3)
- It is allotted to a bank branch is printed on the MICR band of cheques. MICR used for electronic credit system.

SWIFT Code: Society for Worldwide Interbank financial tele-communication

- India was 74th Nation to join SWIFT Network.
- SWIFT Code is a standard format of bank Identifier code.
- This code is used particularly in International transfer of money between banks.
- A majority of FOREX related message are sent to correspondent banks abroad through SWIFT.
- SWIFT Code consist 8 or 11 character when code is 8 digit, it is referred to primary office.
  1. Bank code: 4 Digit
  2. Country code: 2 Digit
  3. Location code: 2 Digit
  4. Branch code (optional): 3 Digit

Topic 32: Important Banking Abbreviations

1. **PSBs:** Public Sector Banks
2. **SNBCs:** Schedule Non- Commercial Banks
3. SENSEX: Sensitive Index of Stock Exchange

19. **CRISIL:** Credit Rating & Investment Services India Limited
20. **CIBIL:** Credit Information Bureau Of India Limited
21. **NAV:** Net Asset Value
22. **ICRA:** Indian Credit Rating Agency
23. **CARE:** Credit Analysis & Research Limited
24. **WMAs:** Ways & Means Advances
25. **ALM:** Asset Liability Management
26. **INFINET** Indian Financial Network
27. **OLTAS** - On-line Tax Accounting System (OLTAS) for Direct Taxes
28. **TIN** - Tax Information Network (TIN)
29. **CDR-** Corporate Debt Restructuring
30. **CAD-** Capital Account Deficit
31. **REITs**: Real Estate Investment Trusts
32. **InvITs**: Infrastructure Investment Trusts
33. **ALM**- Asset Liability Management
34. **ASBA**: Application Supported by Blocked Amount
35. **PIN:** Personal Identification Number
36. **DTAA** – Double Taxation Avoidance Agreement
37. **EFSF** – European Financial Stability Facility
38. **FINO-** Financial Inclusion Network Operation
39. **FIPB** – Foreign Investment Promotion board
40. **FSLRC**– Financial Sector Legislative Reforms Commission
41. **CRAR:** Capital to Risk-weighted Assets Ratio
42. **LCR:** Liquidity Coverage Ratio
43. **TARC** - Tax Administration Reform Commission
44. **FRBMA:** Fiscal Responsibility & Budget Management Act
45. **AMFI-** Association of Mutual Fund in India.
46. **TIEA** – Tax Information exchange Agreement
47. **GAAR** - General anti avoidance rule
48. **GSLV** - Geo-Synchronous Launch Vehicle
49. **PPP** – Public Private Partnership & Purchasing Power parity
50. **PSLV** – Polar Satellite Launch vehicle
51. **ASSOCHAM**-Associated Chambers of Commerce & Industry of India.
52. **BCSBI**-Banking Codes & Standards Board of India.
53. **BIS**-Bank for International Settlements.
54. CDS-Credit Default Swap

3. **SENSEX:** Sensitive Index of Stock Exchange
4. **KYC:** Know Your Customer
5. **RTGS:** Real Time Gross Settlement
6. **EFT:** Electronic Fund Transfer
7. **LIBOR:** London Interbank Offered Rate
8. **MIBOR:** Mumbai Interbank Offered Rate
9. **MIBID:** Mumbai Interbank Bid Rate
10. **FIIs:** Foreign Institutional Investments
11. **BIRD:** Bankers Institute of Rural Development
12. **BPLR:** Benchmark Prime Lending Rate
13. **SWOT:** Strength, Weaknesses, Opportunities & Threats
14. **FERA:** Foreign Exchange Regulatory Act
15. **FEMA:** Foreign Exchange Management Act
16. **CASA:** Current & Saving Account
17. **NDTL:** Net Demand & Time Liabilities
18. **NASDAQ:** National Association For Securities Dealers Automated Quotations

54. **CDS**-Credit Default Swap.
55. **CEPA**-Comprehensive Economic Partnership Management.
56. **FIMMDA**-Fixed Income Money MARKETS & Derivatives Association.
57. **FPI**-Foreign Portfolio Investment.
58. **IBRD**-International Bank for Reconstruction & Development.
59. **UIDAI**-Unique Identification Development Authority of India.
60. **PMGSY-** Pradhan Mantri Gram Sadak Yojana
61. **PMEGP-** PM's Employment Generation Programme
62. **NRDWP-** National Rural Drinking Water Programme
63. **PMKK-** Pradhan Mantri Kaushal Kendras
64. **SANKALP-** Skill Acquisition & Knowledge Awareness for Livelihood Promotion programme
65. **STRIVE-** Skill Strengthening for Industrial Value Enhancement

66. **NTA-** National Testing Agency
67. **ICDS-** Integrated Child Development Services
68. **TIES-** Trade Infrastructure for Export Scheme
69. **FIPB-** Foreign Investment Promotion Board
70. **CERT**-Fin- Computer Emergency Response Team for our Financial Sector
71. **IRFC-** Indian Railway Finance Corporation Limited
72. **FFO-** Further Fund Offering

Topic 33: The HQ of NATIONALIZED/PSBs BANKS

- **Allahabad Bank**-Kolkata
- **Bank of India** -Mumbai
- **Bank of Maharashtra** -Pune
- **Canara Bank** -Bangalore
- **Central Bank of India** -Mumbai
- **Corporation Bank** -Mangalore
- **Indian Bank**- Chennai
- **Indian Overseas Bank**- Chennai
- **Oriental Bank of Commerce**- Gurugram
- **Punjab National Bank**- New Delhi
- **Punjab & Sind Bank**- New Delhi
- **State Bank of India**- Mumbai
- **Syndicate Bank**- Manipal (Karnataka)
- **UCO** Bank- Kolkata
- **Union Bank of India**- Mumbai
- **United Bank of India**- Kolkata
- **Andhra Bank**- Hyderabad
- **Bank of Baroda**- Vadodra

Topic 34: Financial Regulations | Institutions | Organizations

Chit Funds	Respective State Govt.s
Insurance companies	IRDA
Housing Finance Companies	NHB
Venture Capital Fund /	SEBI
Merchant Banking companies	SEBI
Stock broking companies	SEBI
Nidhi Companies	Ministry of corporate affairs, Govt. of India

- Small Industries Development Bank of India (SIDBI in short) was established in the year 1990 (Date: 2nd April 1990) under the Small Industries Development Bank of India Act 1989 as a subsidiary of Industrial Development Bank of India.
- Chairman & MD: **Sivasubramanian Ramann | Head Quarters: Lucknow.**
- Chairman & Managing Director: Sivasubramanian Ramann

Securities & Exchange Board of India (SEBI)

- It is the regulator for the securities market in India. SEBI was initially established as a non statutory body in April 1988, to regulate the working of stock exchange. Later it was given a statutory status on April 1992 via SEBI Act, 1992.
- **Chairman- Madhabi Puri Buch | Head Quarters: Mumbai**

REGIONAL RURAL BANK (RRB):

- Regional rural bank were set up by an ordinance in 1975, later replaced by RRB Act, 1976 as pre banking commission recommendation in 1975.
- Father of RRBs is M.Swaminathan.
- The Govt. Of India Had Appointed A Working Group On Rural Banks Under The Chairmanship Of Mr. M. Narasimham In 1975. First RRB were Set up On 2nd Oct.
- Share Holder Contribution: Govt. Of India 50% Sponsor Bank 35% State Govt. 15%.

EXIM BANK:

- Export-Import (EXIM) Bank of India is the principal financial institution in India for coordinating the working of institutions engaged in financing export & import trade.
- It is a statutory corporation wholly owned by the Govt. of India.
- It was established on January 1, 1982 for the purpose of financing, facilitating & promoting foreign trade of India.
- **MD- Harsha Bangari |Headquarters : Mumbai**

National Bank for Agriculture & Rural Development

- Established on 12th July 1982 on the recommendation of CRAFICARD committee (also called as SivaramanComittee)
- For Agricultural finance, It is the apex organization.
- **Chairman: Mr. Shaji K V | Head Quarters: Mumbai**
- Rural Infrastructure Development Fund (RIDF) is operated by NABARD, instead in April 1995.
- NABARD is the "Micro-Finance Regulatory Authority"

NATIONAL HOUSING BANK(NHB)

- It is the apex institution of housing finance in India, was set up as wholly owned subsidiary of RBI.
- The bank started its operations from July 1988.
- NHB is a subsidiary bank of Reserve Bank of India.
- National Housing Bank was established under section 6 of National Housing Bank Act (1987).
- **HQ: of NHB is in New Delhi| CMD: Shri Sarada Kumar Hota, Managing Director**

ECGC

- Export Credit Guarantee Corporation of India. This organisation provides risk as well as insurance cover to the Indian exporters.| **Shri. M Senthilnathan, Chairman cum Managing Director, ECGC Ltd. | Head Quarters : Mumbai**

Indian Banks' Association (IBA)

- **Indian Banks' Association (IBA)** set up in 1946 with 22 members to discuss issues of common interests. Over the years, IBA emerged as the Voice of Indian Banking Industry. IBA adopts a consultative approach to give its views on any issue pertaining to banking sector.
- **Chairman, IBA | Shri AK Goel (Union Bank of India) | HQ: Mumbai.**

Topic 35: Financial Inclusion Schemes in India

The Government of India has been introducing several exclusive schemes for the purpose of financial inclusion. These schemes intend to provide social security to the less fortunate sections of the society. After a lot of planning and research by several financial experts and policymakers, the government launched schemes keeping financial inclusion in mind. These schemes have been launched over different years. Let us take a list of the financial inclusion schemes in the country:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Atal Pension Yojana (APY)
- Pradhan Mantri Vaya Vandana Yojana (PMVVY)
- Stand Up India Scheme
- Pradhan Mantri Mudra Yojana (PMMY)
- Pradhan Mantri Suraksha Bima Yojana (PMSBY)
- Sukanya Samriddhi Yojana
- Jeevan Suraksha Bandhan Yojana
- Credit Enhancement Guarantee Scheme (CEGS) for

Topic 36: List of Mergers in the Indian Banking Industry

The Bank which acquired	The Bank which got Merged	Year of Merger
Union Bank of India	Andhra Bank & Corporation Bank	2020
Canara Bank	Syndicate Bank	2020
Punjab National Bank	Oriental Bank of Commerce & United Bank of India	2020
Indian Bank	Allahabad Bank	2020
Bank of Baroda	Dena Bank & Vijaya Bank	2019
State Bank of India	5 SBI's Associate Banks & Bharatiya Mahila Bank	2017
Kotak Mahindra Bank	ING Vysya Bank	2016
ICICI Bank	Bank of Rajasthan	2010
State Bank of India	State Bank of Indore	2009
State Bank of India	State Bank of Saurashtra	2008
HDFC Bank	Centurion Bank of Punjab	2008
Centurion Bank of Punjab	Lord Krishna Bank	2007
Indian Overseas Bank	Bharat Overseas Bank	2007
IDBI Bank	United Western Bank Ltd.	2006
Federal Bank	Ganesh Bank of Kurundwad	2006
Centurion Bank	Bank of Punjab (BoP)	2005
IDBI Bank Limited	IDBI Limited	2005
Oriental Bank of Commerce	Global Trust Bank (GTB)	2004
Bank of Baroda	Benares State Bank	2002
ICICI Bank Limited	ICICI Limited	2002
ICICI Bank	Bank of Madura	2001
HDFC Bank	Times Bank	2000
Union Bank of India	Sikkim Bank	1999
State Bank of India	Kashinath State Bank	1995
Bank of India	Bank of Karad	1994

Scheduled Castes (SCs)
Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives
Varishtha Pension Bima Yojana (VPBY)

Punjab National	Bank New Bank of India	1993
State bank of India	Bank of Cochin	1985

- In India, RBI is engaged in printing of all notes & production of coins is handled by Government under The Coinage Act, 1906.
- RBI determines what volume of currency is required at a particular time.
- The production of bank notes, coins, non-judicial stamps, postage stamps & other govt. documents is managed by Security Printing & Minting Corporation of India Limited (SPMCIL). It was established in 2006.

A brief on the Printing Presses

a) The first printing press of **India Currency Note Press (CNP)** was established in 1928 for printing bank notes in India. This press is located in Nashik, Maharashtra.
b) **Bank Note Press (BNP)** has two branches located in Mysore, Karnataka & Dewas, Madhya Pradesh. Currently both CNP & BNP print Indian currency.
c) Currency is also printed by RBI which has two printing presses & owned **by Bhartiya Reserve Bank Note Mudran Limited.** These are located in Mysore, Karnataka & Salboni, West Bengal.
d) **Indian security Press** is located in Nashik & **Security Printing Press** is located in Hyderabad.
e) Currency denomination is printed in 15 Languages.
f) "1 rupee" denomination printed under the control of Government of India.
g) Plastic Currency issued first by Australia
h) Currency paper is imported from Dubai.

A brief on the Minting of Coins

a) Security Printing & Minting Corporation of India Limited (SPMCIL) comprises four mint:
   - India Government Mint, Mumbai
   - India Government Mint, Kolkata
   - India Government Mont, Hyderabad
   - India Government Mint, Noida
b) The main objectives of these mints is to produce coins, medals & awards, as per the requirements of India.
c) Mumbai mint is known for producing standardized weights & measures.
d) Noida is known as the first mint in the country to produce stainless steel coins.

Points to Remember

- Special kind of paper is required for the printing of bank notes & non-judicial stamps. This paper is produced in special Security Paper Mill which was established in 1968 at **Hoshangabad**, Madhya Pradesh.
- **2 currency note printing presses** owned by GOI & 2 are owned by RBI, through the Bharatiya Reserve Bank Note Mudran Ltd. (BRBNML). **GOI presses** are at **Nasik (Western India) & Dewas (Central India). RBI presses** are at **Mysore (Southern India) & Salboni (Eastern India).**
- Coins are minted in four mints owned by GOI which are located at Mumbai, Hyderabad, Calcutta & NOIDA.

Topic 39: What is the Mudra Scheme?

a) MUDRA stands for Micro Units Development & Refinance Agency Ltd.
b) Financial institution set up by GOI for development & refinancing micro units enterprises.
c) The purpose is to provide funding to the non-corporate small business sector through various Last Mile Financial Institutions like Banks, NBFCs & MFIs.
d) It be responsible for refinancing all Last Mile Financiers such as Non-Banking Finance Companies, Societies, Trusts, Section 8 Companies, Co-operative Societies, Small Banks, Scheduled Commercial Banks & Regional Rural Banks.
e) Under the aegis of Pradhan Mantri MUDRA Yojana (PMMY), MUDRA has already created its initial products / schemes. The financial limit for these schemes are:
   - **Shishu: covering loans upto Rs. 50,000/-**
   - **Kishor: covering loans above Rs. 50,000/- & upto 5 lakhs**
   - **Tarun: covering loans above Rs. 5 lakhs to 10 lakhs**
f) Pradhan Mantri Mudra Yojana is a GoI scheme, which enables a small borrower to borrow from banks, MFIs, NBFCs for loans upto 10 lakhs for non-farm income generating activities. Generally, loans upto 10 lakhs issued by banks under Micro Small Enterprises is given without collaterals.
g) **Aditya Kanthy, MD & CEO, MUDRA.**

Topic 40: Important Financial, Economics & Budget Terms

- **Fiscal Responsibility & Budget Management Act:** The Act is an attempt to make the Government adhere to a phased plan to reduce fiscal deficit, which denotes an excess of expenditure over revenue.
- **Securities Transaction Tax:** It is a tax on all transactions done over the stock exchanges involving securities such as shares, derivatives, & equity-linked mutual funds.
- **Capital Gains Tax:** It is a tax on the gains that ensue when an asset is sold for a price higher than what it was bought for.
- **Current Account Deficit:** It is a trade measure that shows the value of a country's imports of goods & services to be higher than the value of its exports.
- **Bear market:** A period during which the majority of securities prices in a particular market (such as the stock market) drop substantially.

- **Bull market**: A period during which the majority of securities prices in a particular market (such as the stock market) rise substantially.
- **Primary Deficit:** The primary deficit is the fiscal deficit minus interest payments. It tells how much of the Government's borrowings are going towards meeting expenses other than interest payments.
- **Fiscal policy:** It is the government actions with respect to aggregate levels of revenue & spending. Fiscal policy is implemented though the budget & is the primary means by which the government can influence the economy.
- **Fiscal Deficit:** When the government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money form the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the fiscal deficit.
- **Revenue Deficit:** The difference between revenue expenditure & revenue receipt is known as revenue deficit. It shows the shortfall of government's current receipts over current expenditure.
- **Capital Budget:** It consists of capital receipts & payments. It includes investments in shares, loans & advances granted by the central Government to State Governments, Government companies, corporations & other parties.

Topic 41: History of Banking Sector in India

- The first 'Presidency bank' was the Bank of Bengal established in Calcutta on June 2, 1806 with a capital of Rs.50 lakh. The bank was given powers to issue notes in 1823.
- Bank of Bombay was the second Presidency bank set up in 1840 with a capital of Rs.52 lakh, & the Bank of Madras the third Presidency bank established in July 1843 with a capital of Rs.30 lakh.
- With the collapse of the Bank of Bombay, the New Bank of Bombay was established in January 1868.
- The first Indian owned bank was the Allahabad Bank set up in Allahabad in 1865, the second, Punjab National Bank was set up in 1895 in Lahore, & the third, Bank of India was set up in 1906 in Mumbai. All these banks were founded under private ownership.
- Swadeshi Movement of 1906 provided a great impetus to joint stock banks of Indian ownership & many more Indian commercial banks such as Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, & Bank of Mysore were established between 1906 & 1913.
- The presidency banks were amalgamated into a single bank, the Imperial Bank of India, in 1921. It also functioned as a central bank prior to the establishment RBI. The Imperial Bank of India performed three set of functions, viz., commercial banking, central banking & the banker to the government.

The Government, therefore, first implemented the exercise of nationalisation of the Imperial Bank of India with the objective of "extension of banking facilities on a large scale, more particularly in the rural & semi-urban areas, & for diverse other public purposes". The Imperial Bank of India was converted into the State Bank of India in 1955 with the enactment of the State Bank of India Act, 1955.

- ADRs - American Depository Receipts
- CAGR - Compounded Annual Growth Rate
- CDSL - Central Depositary Services (India) Limited
- ECS - Electronic Clearing Scheme
- GETFs - Gold Exchange Traded Funds
- IFCI - Industrial Financial Corporation of India
- IPO - Initial Public Offering
- NSC - National Savings Certificate
- OTCEI - Over the Counter Exchange of India Limited
- NISM: National Institute of Securities Market
- SIP: Systematic Investment Plan
- SWP: Systematic Withdrawal Plan
- AAY: Antyodaya Anna Yojana
- CAA&A: Controller of Aid Accounts & Audit
- CFPI: Consumer Food Price Index
- CIRP: Corporate Insolvency Resolution Process
- CLSS: Credit Linked Subsidy Scheme
- DARE: Department of Agricultural Research & Education
- DGCI&S: Directorate General of Commercial Intelligence & Statistics
- DGFT: Directorate General of Foreign Trade
- DIPAM: Department of Investment & public Asset Management
- DIPP: Department of Industrial Policy & Promotion
- DISCOMS: Distribution Companies
- EBRD: European Bank for Reconstruction & Development
- EFTA: European Free Trade Association
- EIB: European Investment Bank
- e-NAM: Electronic National Agriculture Market
- EPCG: Export Promotion on Capital Goods
- GCC: Gulf Cooperation Council
- IBC: Insolvency & Bankruptcy Code
- LFPR: Labour Force Participation Rate
- Mo: Reserve Money
- M3: Broad money
- MDGs: Millennium Development Goals
- NAREDCO: National Real Estate Development Council
- NCLT: National Company Law Tribunal
- NICRA: National Innovations on Climate Resilient Agriculture
- PMAY: Pradhan Mantri Awas Yojana
- PMFBY: Pradhan Mantri Fasal Bima Yojana
- PMKSY: Pradhan Mantri Krishi Sinchayee Yojana

- POL: Petroleum Oil & Lubricants
- RMSA: Rashtriya Madhyamik Shiksha Abhiyan
- SSA: Sarva Shiksha Abhiyaan
- SUUTI: Specified Undertaking for Unit Trust of India
- UDAY: Ujjwal Discom Assurance Yojna
- UDISE: Unified District Information System for Education

Topic 43: Miscellaneous Banking Terms

- **Net Interest Margin:** Net interest margin is the net interest income divided by average interest earning assets.
- **Bulk Deposits:** a) It means single Rupee term deposits of Rupees one crore & above for Scheduled Commercial Banks other than RRBs. b) For RRBs, it is the Single Rupee term deposits of Rupees fifteen lakhs & above.
- **LIBOR:** It is the average weighted interest rate on inter-bank loans provided by banks, that participate in the London interbank market & offer funds in different currencies for different time periods (from 1 day to 1 year).
- **DRI Loans** DRI scheme provides bank loan at a concessional rate of interest of 4% per annum for productive / self employment ventures. SC/ST, minorities & physically handicapped persons are targeted under this scheme to boost financial inclusion.
- **Amortization:** It is the reduction of an amount at regular intervals over a certain time period. It mainly refers to the reduction of debt by regular payment of loan installments during the life of a loan. It also describes the accounting process of writing off an intangible asset.
- **Derivative:** A derivative instrument derives its value from an underlying product. There are basically three derivatives
  - **a) Forward Contract-** A forward contract is an agreement between two parties to buy or sell an agreed amount of a commodity or financial instrument at an agreed price, for delivery on an agreed future date. **Future Contract-** Is a standardized exchange tradable forward contract executed at an exchange.
  - **b) Options-** An option is a contract which grants the buyer the right, but not the obligation, to buy (call option) or sell (put option) an asset, commodity, currency or financial instrument at an agreed rate (exercise price) on or before an agreed date (expiry or settlement date). The buyer pays the seller an amount called the premium in exchange for this right. This premium is the price of the option.
  - **c) Swaps-** Is an agreement to exchange future cash flow at pre-specified Intervals. Typically one cash flow is based on a variable price & other on affixed one.
- **CASA Deposit:** Deposit in bank in current & Savings account.
- **Liquid Assets:** Liquid assets consists of: cash, balances with RBI, balances in current accounts with banks, money at call & short notice, inter-bank placements due within 30 days & securities under "held for trading" & "available for sale" categories excluding securities that do not have ready market.
- **ALCO:** Asset-Liability Management Committee (ALCO) is a strategic decision making body, formulating & overseeing the function of asset liability management (ALM) of a bank.
- **Consortium Financing:** It occurs for transactions that might not take place with a single lender. Several banks agree to jointly supervise a single borrower with a common appraisal, documentation & follow-up & own equal shares in the transaction.

A Brief on Insolvency & Bankruptcy Board of India

a) It was established on 1st October, 2016 under the Insolvency & Bankruptcy Code, 2016 (Code).

b) It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates & amends the laws relating to reorganization & insolvency resolution of corporate persons, partnership firms & individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit & balance the interests of all the stakeholders.

c) It is a unique regulator: regulates a profession as well as processes.

d) It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities & Information Utilities.

- **Moratorium Period:** Moratorium period or EMI holiday period refers to a particular duration in the loan tenure when the borrower is not required to pay EMIs. This holiday period is mostly available for salaried individuals. Although the borrower is not required to pay EMIs, the loan amount would still continue to incur interest during this period.