A Monthly Newsletter of Indian Institute of Banking & Finance (Rs. 40/- per annum)
(ISO 9001 : 2000 CERTIFIED ORGANISATION)

IIBF VISION

Committed to professional excellence

Volume No. : 2 Issue No. : 12 July 2010

Top Stories

SBI sets base rate at 7.5%, other PSBs at 8%

State Bank of India (SBI) has fixed its base rate at 7.5%; even as other public sector banks (PSBs) including Punjab National Bank (PNB), Allahabad Bank, Union Bank of India & Bank of Baroda (BoB) have opted for a slightly higher rate of 8%. From 1st of July, 2010, the new base rate has replaced the existing lending mechanism based on the Benchmark Prime Lending Rate (BPLR).

Shri. Damodaran to head RBI panel on improving customer services

In a bid to improve customer service at banks, the Reserve Bank of India (RBI) has instituted a committee to look into interest rates and bank fees & charges. The committee, headed by former Securities and Exchange Board of India (SEBI) Chairman Mr. M. Damodaran, will look into the services offered by banks to retail and small borrowers, including pensioners, and suggest a mechanism to expedite grievance redressal. In its annual policy statement for 2010-11, RBI has stated that the issue of treating customers fairly is assuming critical importance. Thus, in order to re-visit the issue of fair treatment to customers, the Damodaran committee has been instituted to examine the structure and efficacy of the grievance redressal mechanism, and suggest measures for expeditious resolution of complaints. The panel will also examine international experiences in this regard. The committee will also examine the structure and legal framework of the banking Ombudsman scheme and recommend steps to make it more effective and responsive. It will also suggest ways to further involve the bank boards in customer service.

Variable pay for PSB employees on cards

PSB employees could soon get incentives to perform better and acquire new skill sets. A committee instituted by the Finance Ministry and headed by Bank of Baroda's (BoB's) former Chairman Dr. A. K Khandelwal, has

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

INSIDE

recommended 15-20% variable component in the salary package, along with removal of the existing upper limit for the remuneration. This will enthuse the employees to constantly upgrade their knowledge levels and skill-sets.

If the committee's recommendations are accepted, each bank will be free to fix its salary structure as per its financial strength and also reward the highly skilled personnel with out-of-turn promotions. The proposals are aimed at infusing a greater degree of professionalism in India's banking industry, which is on the cusp of a make over with the steady globalization of the financial sector.

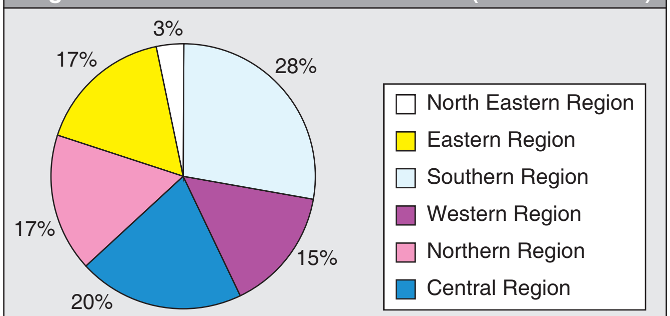
The return of brick and mortar - Top banks in expansion mode

Banks in India are once again in expansion mode and opening more branches. The table below shows the increase in the number of branches in the banking industry and the chart shows the regional distribution of Bank Branches.

PSU Banks	No. of branches	Increase in 2009-10
State Bank of India	12,550	1,100
Punjab National Bank	5,000	335
Central Bank of India	3,560	42
Bank of India	3,207	186
Bank of Baroda	3,129	155
Canara Bank	3,046	314
Private Banks	**No. of branches**	**Increase in 2009-10**
ICICI Bank*	2,000	580
HDFC Bank	1,725	313
Axis Bank	1,035	200
*ICICI Bank's figures are for the period till May 2010		

Source : Business Line

Regional Distribution of Bank Branches (End-June 2009)



Source : Business Line

SBI adopts strategies to woo customers

SBI has implemented the concept of Super Circle of Excellence (SCE) to focus on select branches for high growth, improved efficiency, high quality of customer service; and also to act as a forum for sharing best practices. As on March 2010, there were 661 branches in SCE, out of which 331 are under 16 dedicated SCE regions and 330 selected on the basis one-per region, facilitated by SCE co-ordinator.

The branches have been selected on a twin track approach, i.e., one subset comprising cluster of branches in metro and large urban centres to meet the burgeoning competition and other subset consisting of branches selected on the basis of one per region, aiming to transplant best practices from high-performing branches to other outlets across the country. The SCE branches are primarily focusing on growth in retail business.

Daily interest boosts savings account balances

The RBI's directive to banks to pay interest on savings bank (SB) deposits on a daily product basis seems to have boosted SB balances. Mr. J. M. Garg, CMD of Corporation Bank, has stated that since term deposit rates are still low, people continue to keep their money in SB accounts. Now they are assured of an interest rate of 3.5% whether they maintain the balance for one day or 10 days. Thus, the tendency to shift to short-term deposits has come down. The bank has seen a growth of 33% in SB deposits on a year-on-year basis.

Central Banking Developments

Minimum value of short-term NCDs fixed at Rs.5 crore

RBI has issued final guidelines regarding the regulation of short term non-convertible debentures (NCDs) i.e. of maturity up to one year. As per these guidelines - which will come into effect on August 2 - the minimum face value of short-term NCDs should be Rs.5 lakh with a maturity of at least 90 days. The exercise date of any put or a call option attached to the NCDs should also not fall within 90 days from the date of issue. An issuer of short term NCD would need to have a tangible net worth of over Rs.4 crore and would need to obtain credit rating for the securities.

RBI to have core banking platform

With commercial banks (CBs) racing ahead to put all their operations on the core banking solution (CBS) platform, the RBI too has decided to follow suit. RBI is planning to have its own CBS platform whereby there will be a single general ledger for the entire bank encompassing all departments and regional offices. Further, the proposed CBS platform will track accounts for Commercial Banks, Financial Institutions, Government (State and Central) and loans accounts, and provide remittance and letter of credit to its customers.

The RBI's CBS will account for receipts and payments through cash transactions over the counter, inward and outward clearing physical instruments (cheque / demand drafts / payment orders / interest warrants), National Electronic Funds Transfer / National Electronic Clearing

Service / Real Time Gross Settlement - e-banking channel, and other international payment channels.

RBI enables online tracking of applications

As per RBI's directives, applications made by the public to its various departments can be tracked on the RBI website, through the Application Tracking System (ATS). Through this facility, after the applicants register themselves on the website, they can submit an online application, attach related documents, view it and track its movement. The ATS, however, cannot be used for tracking complaints made under the Banking Ombudsman Scheme or any other complaints.

Banks need approval to deal with politically exposed people

RBI has asked banks to obtain senior management approval to continue business relationships with an existing customer who has subsequently become a politically exposed person (PEP). RBI avers that banks should conduct customer due diligence (CDD) on such people and should also apply enhanced CDD on customers who are close relatives of PEPs, and accounts of which a PEP is the ultimate beneficial owner. Thus, RBI has reiterated its stand that banks have to conduct proper know your customer (KYC) to avoid being used for money laundering and financing of terrorism.

RBI has also reiterated that the bank should not open accounts where it is unable to apply proper CDD measures. In fact, RBI has even advised banks to close down the account(s) of such customers, if it exists. If the bank is not satisfied with the true identity of the account holder, it should notify the financial intelligence unit about the same.

Bank-led mobile service can promote financial inclusion

According to Dr. D. Subbarao, Governor, RBI has a 'clear preference' for the bank-led model in mobile banking. "For starters, we want our financial inclusion to be more than just a remittance facility," he said, adding that only banks can offer services such as deposit insurance, access to affordable credit and payment system. A bank-led model is anytime safer and more sustainable - given the concerns about money-laundering and financing terrorism. "The mobile service providers should collaborate with banks to provide value-added services," he further said. While financial inclusion can become a 'viable business model', presently, only 5% of the 6 lakh habitations in the country have a commercial bank.

RBI directive for fair settlement of NPAs

In order to ensure fair and transparent compromise settlements of non-performing assets (NPAs) the RBI has ruled that the officer / authority sanctioning a compromise/ one-time settlement should append a certificate stating that the compromise settlements are in conformity with RBI guidelines. The directive comes following serious concerns being expressed in different quarters and by the Debt Recovery Tribunals over the manner in which compromise settlements are being effected by banks.

RBI to keep farm loans outside base rate

RBI has assured banks that it will keep agriculture loans outside the base rate ambit; thus allowing banks to extend these loans at interest rates lower than the base rate. Presently, a bank is eligible to avail a maximum 2% interest rate subvention if it lends to the farm sector at 7%. However if the base rate becomes 8%, then banks will not be able to lend to the farm sector at 7% and hence will not be eligible for the subvention.

RBI bars bonds with daily put & call options

The RBI has terminated the practice of issuing bonds with daily put and call options. These bonds were sold by corporate to mutual funds (MFs) to take advantage of low rates in the short-term money markets. As per RBI's revised guidelines, no entity can issue bonds for less than 90 days or can offer a put and call option before 90 days. Several companies, especially oil companies and NBFCs have been issuing bonds with put and call option, wherein the borrower can repay he bond and the subscriber can recall the money on a daily basis. Interest rates on such bonds are reset daily.

RBI has further put two more riders for borrowers. First, only those corporate whose accounts are classified as a 'Standard' account - one where all debts are serviced in time by their bankers - can float short-term bonds. Secondly, banks can invest in short-term bonds of only those corporate who have been sanctioned working capital limits by a bank.

Banking Developments

The Size of Financial Exclusion

The statistics on financial exclusion in India are still disheartening. Out of the 600,000 habitations in the country, only 5% i.e. about 30,000, have a commercial bank branch. Just about 40% of the population across the country have bank accounts, and this ratio is much lower in the north-east of the country. The proportion of people having any kind of life insurance cover is as low as 10%, and the proportion having non-life insurance is an abysmally low 0.6%. People having debit cards comprise only 13% and those having credit cards is a marginal 2%.

Banks step up efforts to strengthen Tier-I capital

With asset stresses expected to mount this year, a clutch of banks have accelerated efforts to strengthen capital, particularly, Tier-I. However, while doing so, banks are looking to push up their general reserves. Tier-I comprises paid-up equity and general reserves. Although perpetual bonds are also permitted as Tier-I capital, only a few banks are actually using this method. Banks now need to raise their risk capital, since most of them are compliant with the regulatory capital requirements. Current regulatory requirements prescribe a capital-to-risk weighted asset ratio of 9% (6% Tier-I and 3% Tier-II in the form of subordinated debt issuances).

Regulators Speak...

IRDA issues draft norms on distance marketing of insurance

Insurance Regulatory and Development Authority (IRDA) has issued an exposure draft on guidelines on distance marketing and sale process verification of insurance products. Accordingly, every tele-caller will be trained by the insurers or brokers either in-house or at an institute accredited by IRDA for pre-licence training of agents. The training shall be for duration of not less than 25 hours in matters related to regulations, disclosures, ethical conduct of business and specific rules for callers. The callers shall clear the post-training assessment or test to be conducted by the respective insurers or brokers. Also the insurers or brokers shall maintain a register of all persons engaged by them for the purpose of tele-calling.

Monetary-tightening pace to remain moderate - RBI

RBI Deputy Governor Dr. Subir Gokarn has said that the RBI will continue with its moderate monetary-tightening pace. "Commodity prices seem to be softening and further clarity on inflation will be achieved after seeing how the monsoon pans out in the country. Liquidity is expected to come back to the system on government spending. We have kept our pace moderate because we think this is consistent with the domestic situation and with the global economy still going through some turbulence. This stance will continue unless dramatic changes (take place) in either environment," avers Dr. Gokarn.

RBI tightens regulations on NBFCs accepting deposits

In a bid to ensure effective supervision of the large number of NBFCs the RBI has refused to consider fresh approvals to NBFCs for accepting deposits. Capital, liquidity and leverage requirements for those already permitted to accept deposits, have also been tightened. According to RBI Deputy Governor Ms. Usha Thorat, high rates of interest charged by NBFCs have also attracted attention. "For lending to MFIs included in the priority sector, there should be a cap on the interest rates charged to the ultimate borrower" said Ms. Thorat, adding "Efforts at financial inclusion can be sustained only if the delivery models are viable and interest rate caps can be a deterrent. From a regulatory perspective, we emphasize on transparency creating better awareness, customer education and effective grievance redressal systems". Emphasizing the need for greater financial inclusion and stability in the country, Ms. Thorat said that achieving financial inclusion in a country like India requires a high level of penetration by the formal financial system. Further, financial literacy has to be an integral part of financial inclusion.

Base rate will not raise borrowing cost

RBI has stated that the base rate system will not increase the effective cost of borrowing, as projected by the corporate lobby. "It is unlikely; because corporate have access to multiple sources of funds and hence the effective borrowing rates will be determined by market competition" opines RBI ED, Mr. Deepak Mohanty. He further says, that deregulation in lending rates will promote financial inclusion and improve the efficiency of financial intermediation of banks. "This will draw borrowers away from the informal financial sector and towards the formal financial sector and facilitate credit penetration". Mr. Mohanty pointed out that the base rates will mirror banks' relative efficiency and cost structure. While lending rates tend to be sticky, it is expected that the base rate system will show greater flexibility and strengthen both the interest rate and credit channels of monetary transmission.

Faceless banking can be intimidating : Dr. Subbarao

Dr. D Subbarao, Governor, RBI has reminded banks that "Technology cannot substitute brick and mortar branches; an absence of the human touch can be intimidating". Exhorting a need to guard against "technology barriers" between banks and customers and asking banks to ensure that the poor are not driven away from banking due to the user-unfriendly technology interface, the Governor avers that banks should train their frontline staff, managers and business correspondents (BCs) on the human side of banking.

No immediate concern over Rupee volatility

Investors need not worry about the immediate volatility in the exchange value of Rupee vis-à-vis the US Dollar in the wake of China allowing Yuan to appreciate against the American currency, says the RBI Deputy Governor, Dr. Subir Gokarn. “When hedging opportunity is available and relatively accessible, we don't need to worry about the short-term impact of volatility,” he said, adding “There are implications for exchange movement at this point and also for capital movements across countries as investors respond to this change.” The RBI is evaluating the possible impact of China's move, especially on the rupee exchange rate and trade and capital flows.

Co-operative Banks

New real estate exposure norms for urban co-op banks

RBI has revised the norms for urban co-operative banks (UCBs) for giving loans to the housing and real estate (RE) segment. Working capital loans to small contractors against hypothecation of construction material are exempted from the existing norms that allow UCBs to use 15% of the total deposits for giving loans for housing and commercial real estate. RBI has now fine-tuned the rule for aggregate limit for housing finance; as per which UCBs can use up to 15% of deposits to provide housing, real estate and CRE loans.

Forex

Banks cut proprietary trades in forex as volatility mounts

Banks have reduced proprietary trades in foreign exchange in view of the extreme volatility in recent days. Several treasury heads are squaring off their forex position by the end of the day to avoid any risk on their books. Over the past few days, the Rupee has witnessed wide swings of 50 to 80 paise in a single day against the Dollar. The wild swings are largely due to the precipitous fall of the Euro vis-a-vis the Dollar. The flight of investment into the Dollar has resulted in most currencies (including Asian currencies) weakening against the greenback. Typically, whenever there is volatility of this scale in the Rupee-Dollar exchange rate, RBI begins to unload millions of Dollars that it holds in its reserves. This time around however, RBI's intervention has been very subdued. Forex dealers feel that since the Dollar is strengthening globally, RBI has chosen not to intervene to support the Rupee.

Insurance

Skip jargon; keep it simple, IRDA tells insurers

To demystify insurance products and fill the information gap, the IRDA has asked insurers to use easy-to-follow language. "Insurers should keep key feature documents in mind while coming up with new breeds of products such as unit-linked insurance plans (Ulips). Spurred by competition triggered by this opportunity, the market has seen a plethora of new products. This has raised new concerns regarding availability of information to prospects and policyholders" says IRDA, adding "However, even the educated population do not understand complex legal language. Thus it is crucial to provide product information in simple language. Further, insurers should bring out key feature documents in a simple language for various products. This document will have the same legal sanction as a comprehensive policy document."

Insurers can retain price deals with allies

Promoters of insurance companies, who have cut deals with their foreign partners to sell equity at fixed price, will now be able to stick to the contract. IRDA has clarified that RBI's pricing guidelines for equity shares will not apply to insurance companies. RBI's guidelines in this regard are applicable to Indian companies in sectors other than the financial sector. However, provisions of the said circular continue to be not applicable to the insurance sector.

Capital Markets

United Stock Exchange gets RBI nod for currency futures

United Stock Exchange (USE), the country's newest stock exchange, is set to launch trading in currency futures on its platform by next month. Mr. T. S. Narayanasami, MD & CEO of USE has stated that “the exchange has got RBI's final approval for currency futures and the bourse is set to go live by mid-July.” USE will become the third exchange after NSE and MCX-SX to offer trading in four currency pairs including the Rupee v/s Dollar, Euro, Yen and the British Pound. According to Mr. Narayanasami, USE's entry will add to the liquidity since it has 27 banks on board as shareholders which can “contribute their full might by taking proprietary position on the platform.”

Mutual Funds

From June 2010, MF products being sold only by certified agents : SEBI

SEBI has announced that MF distributors and agents will now need a National Institute of Securities Market (NISM) certificate to sell policies. W.e.f June 1, associated person, i.e, distributors, agents, or any person engaged in the sale of MF products, is required to have a valid certification from NISM. The move seems intended to assure quality service to investors and bring the unorganized segment under its loop to curb mis-selling.

International News

ECB warns of more bank losses of $239 billion

European Central Bank (ECB) has warned that Euro-zone banks may suffer up to €195 billion ($239 billion) in a "second wave" of potential loan losses over the next 18 months due to the financial crisis. It has also disclosed its increased purchases of Euro Zone Government bonds. As the Euro recouped losses but remained on the back foot after a cut in Spain's credit rating and China warned that the global economy remained vulnerable to sovereign debt risks. Spain assured investors it would reform its rigid labour market even if employers and trade unions do not agree.

ECB has acknowledged that Euro zone debt tensions may force it to delay a phasing-out of cheap lending operations designed to help banks through the financial crisis. After the Lehman Brothers' collapsed in September 2008, the ECB began offering Euro Zone banks unlimited, flat rate loans in a bid to revive inter-bank lending and keep credit flowing to the real economy. ECB governing council member Mr. Alex Weber, President of Germany's powerful Bundesbank, urged a tight cap on the bond buying programme and said the extraordinary steps taken to ease the Euro zone debt crisis posed a risk to price stability.

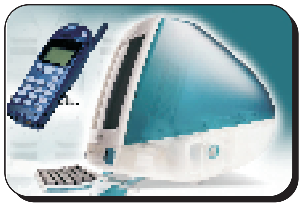
New Appointments

Mr. Bhatt to take over as IBA chief

Shri. Om Prakash Bhatt, Chairman, SBI has taken over as the new Chairman of the Indian Banks' Association (IBA). It is after four years that Chairman of the country's largest bank will also be at the helm of IBA.

ICICI Bank's new ED

ICICI bank has appointed Mr. Rajiv Sabharwal as a whole time director of the bank. Mr. Sabharwal has been designated as an Executive Director (ED) w.e.f June 24.



Products & Alliances

Vijaya Bank, United India Pact

Vijaya Bank and United India Insurance Company have signed an MoU for distributing the latter's general insurance products at the Bangalore based lender's branches. The non-life insurance products of United India Insurance Company will be marketed through Vijaya Bank's 1,160 branches, as reported by Mr. Albert Tauro, CMD, Vijaya Bank.

Bank of India's mobile-based remittance facility

Bank of India (BoI) has recently launched mobile-based remittance facility through BCs, whereby remitters can send remittance to their relatives over mobile phone. Recipients can collect their money from the BCs engaged by the bank. The bank plans to engage 15,000 BCs and is also looking to include 1 crore unbanked people in its fold, for which it will reach to about 30,000 villages in the next three years. It is also targeting credit outlay of Rs.11,500 crore to approximately 66 lakh households and insurance coverage for the account holders under group insurance scheme.

Karur Vysya bank ties up with UTI

Karur Vysya Bank (KVB) has signed a MoU with Unit Trust of India (UTI) to distribute the MF products of the latter through its branch network. KVB has been trying to provide a wide range of financial services under one roof and is already marketing the MF products of six other leading MFs.

Lakshmi Vilas Bank ties up with LIC

Lakshmi Vilas Bank (LVB) has entered into a strategic partnership for bancassurance with Life Insurance Corporation of India (LIC). This tie-up will give access to a wide range of LIC-products, to the bank's customers across India. As the corporate agent for LIC, LVB will now offer LIC's best-in-class products to customers.

News From the Institute

Important Notice to the Candidates for the CAIIB Examination

The Institute will be launching the modified structure for CAIIB examination from December, 2010 onwards. For this purpose the Institute has completely revised and restructured the syllabus for the CAIIB Examination in consultation with all its stake holders.

Revised (2010) Syllabus

Candidates to the new CAIIB examination will have to write two compulsory papers and one optional paper. The list of compulsory papers and elective papers are given below. Among the eleven elective papers the candidate will have to choose one elective paper.

I. COMPULSORY PAPERS

1. Advanced Bank Management
2. Bank Financial Management

II. OPTIONAL PAPERS (Select one)

1. Corporate Banking
2. Rural Banking
3. International Banking
4. Retail Banking
5. Co-operative Banking
6. Financial Advising
7. Human Resources Management
8. Information Technology
9. Risk Management
10. Central Banking
11. Treasury Management

The course content has been carefully developed so as to be relevant to the modern banking workspace and SBUs of the banks particularly in an era of vertical based banking operations.

To be eligible for the award of CAIIB a candidate must pass both the compulsory papers and the elective subject of the candidate's choice. The elective has to be chosen at the time of registering /applying for CAIIB examination. Electives have been developed with the objective of giving appropriate specialization to the candidates. Candidates may therefore choose those electives that are relevant to their current and or immediate prospective job profile. Electives contain, in addition to the knowledge inputs certain managerial inputs also. The new pattern of CAIIB is aimed at imparting contemporary knowledge on banking and also promoting specialization.

The details of the syllabus and course content, examination rules can be viewed at http://www.iibf.org.in.

All the coursewares for the compulsory and elective subjects are under print and will be published by end of July 2010. The translation of the courseware in Hindi is underway and in due course the candidate should be able to download the same from the Institutes portal.

January 2011 Exam

The revised syllabus is being introduced from Dec. 2010 / Jan. 2011 examination.

Therefore both (a) Candidates enrolling first time for the CAIIB examination and (b) candidates who desire to re-enrol for CAIIB examination i.e. after having availed four (4) permissible consecutive attempts and not completing examination will have to submit their applications under the Revised (2010) Syllabus. These candidates cannot apply for the previous syllabus. In fact the institute will not accept any new application under the old pattern. Accordingly the old pattern examination will cease to exist after Dec 2011.

It is recommended that candidates who had enrolled for CAIIB for December 2009 examination and have completed two attempts in the CAIIB examination as of June 2010 without passing any paper so far may consider applying under the new syllabus instead of enrolling for 2nd block of 2 attempts under the old syllabus.

For Candidates already enrolled for CAIIB examination under old syllabus :

- The present time limit of four consecutive attempts for passing the examination will continue.
- Candidates can however move to the Revised Syllabus even before availing all four (4) permissible consecutive attempts.
- Candidates will not get credit for subject/s passed, if any, under the old syllabus as the course has been completely revamped and re-structured.
- No new candidate for the old syllabus will be enrolled effective from November 2010. New candidates necessarily need to enroll for revised syllabus only.

For those who have already passed CAIIB.

In order to address the needs of continuous professional developments, candidates who are already CAIIB, can appear for elective subjects of their choice. On passing the same the candidate will be given a certificate on the given elective as a post CAIIB qualification However as the Examination of all elective papers will be conducted simultaneously, candidates can apply for only one elective paper at a time. In due course the institute will link such additional qualifications for the award of its Associate Membership to the candidates.

For details of syllabus, application forms and dates of examination etc., visit http://www.iibf.org.in.

Revised Study material for CAIIB (2010)

The study material for CAIIB is being published by Macmillan India Ltd. For details visit us www.iibf.org.in.

R. K. Talwar Memorial Lecture

The fourth R. K. Talwar memorial lecture will be organized by the Institute on 28th July 2010 at the SBI auditorium, Nariman Point, Mumbai 400 021. The lecture will be delivered by Dr. Rakesh Mohan, on “The Future of Financial Regulation : Some Reflections”.

Registered with the Registrar of Newspapers for India under No. : 69228 / 98 ● Regn. No. : MH / MR / South - 42 / 2010 - 12
Licence to Post WPP License No. MR / Tech / WPP - 15 / South / 2010 - 12 Mumbai ● Post at Mumbai Patrika Channel Sorting Office Mumbai - 1 on 25th to 28th of every month.

Financial Basics

Base Rate

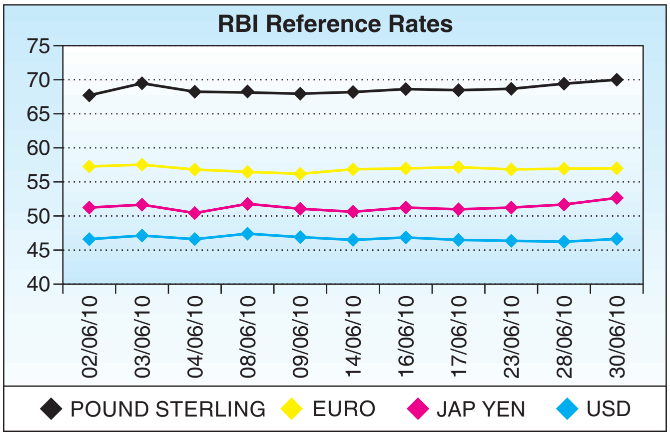
The current system of applying BPLR linked rates to loans and advances, in force since 2003, was intended to bring transparency to lending rates. However, over the years the banks started to lend much below the BPLR because of various reasons. RBI has advised banks to switch over to the system of Base Rate with effect from July 1, 2010. As the very name suggests banks are prohibited from lending at rates below their declared base rate under any circumstances except some special categories like ST agricultural loans, export credit where there are interest concessions granted by GOI and loans granted to a corporate post restructuring. Other exemptions include loans under DRI Scheme, advances against bank's own Term Deposit receipts and loans granted to its bank's own employees. The number of components for calculating the base rate have also been pruned down from those applicable to BPLR and include cost of deposits / funds, negative carry on CRR and SLR reserves, unallocable overhead cost and average return on Net worth. At the same time the banks have been given the freedom to choose any other methodology for calculating the base rate which is transparent and disclosed publicly. During the first six months i.e., before 31/12/2010, banks have the freedom to change the methodology. Once decided this rate is to be reviewed at least at quarterly intervals. Banks are to determine their actual lending rates on loans and advances with reference to the Base Rate and by including such other customer specific charges as considered appropriate.

Glossary

Subvention

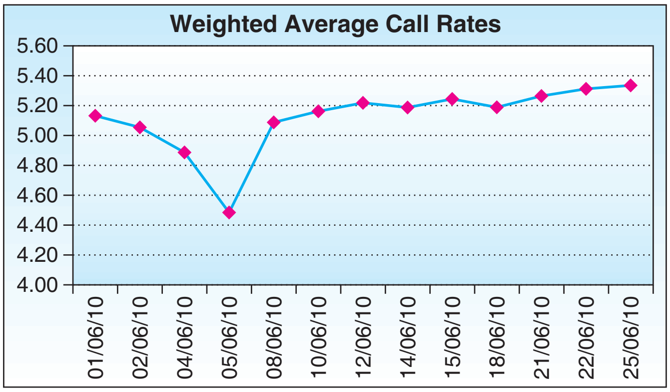
An endowment or a subsidy, as that given by a government. Cost of funds carries interest or burden. Subvention is method by which government absorbs part of this burden for specific relief or promotion.

Market Roundup



Source : Reserve Bank of India (RBI)

- Rupee remained range bound against USD, Euro & Japanese Yen with only minor fluctuations.
- Rupee appreciated 0.19% against Dollar during the month after touching a low of Rs.47.28 on June 8th.
- However, Sterling Pound strengthened against rupee and closed at Rs.70.07 on month end.



Source : CCIL Newsletters, June 2010

- Call rates hovered slightly above 5% most of the days.
- Comfortable Liquidity seen the rates going below 5% on 5 days.

Printed by Shri R. Bhaskaran, **published by** Shri R. Bhaskaran on behalf of Indian Institute of Banking & Finance, and **printed at** Quality Printers (I), 6-B, Mohatta Bhavan, 3rd Floor, Dr. E. Moses Road, Worli, Mumbai-400 018 and **published from** Indian Institute of Banking & Finance, 'The Arcade', World Trade Center, 2nd Floor, East Wing, Cuffe Parade, Mumbai - 400 005.

Editor : Shri R. Bhaskaran.

To,

INDIAN INSTITUTE OF BANKING & FINANCE
'The Arcade', World Trade Center, 2nd Floor, East Wing, Cuffe Parade,
Mumbai - 400 005.
Tel. : 2218 7003 / 04 / 05 ● Fax : 91-22-2218 5147 / 2215 5093
Telegram : INSTIEXAM ● Email : iibgen@bom5.vsnl.net.in
Website : www.iibf.org.in