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IIBF VISION

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Top Stories

Basel-III norms

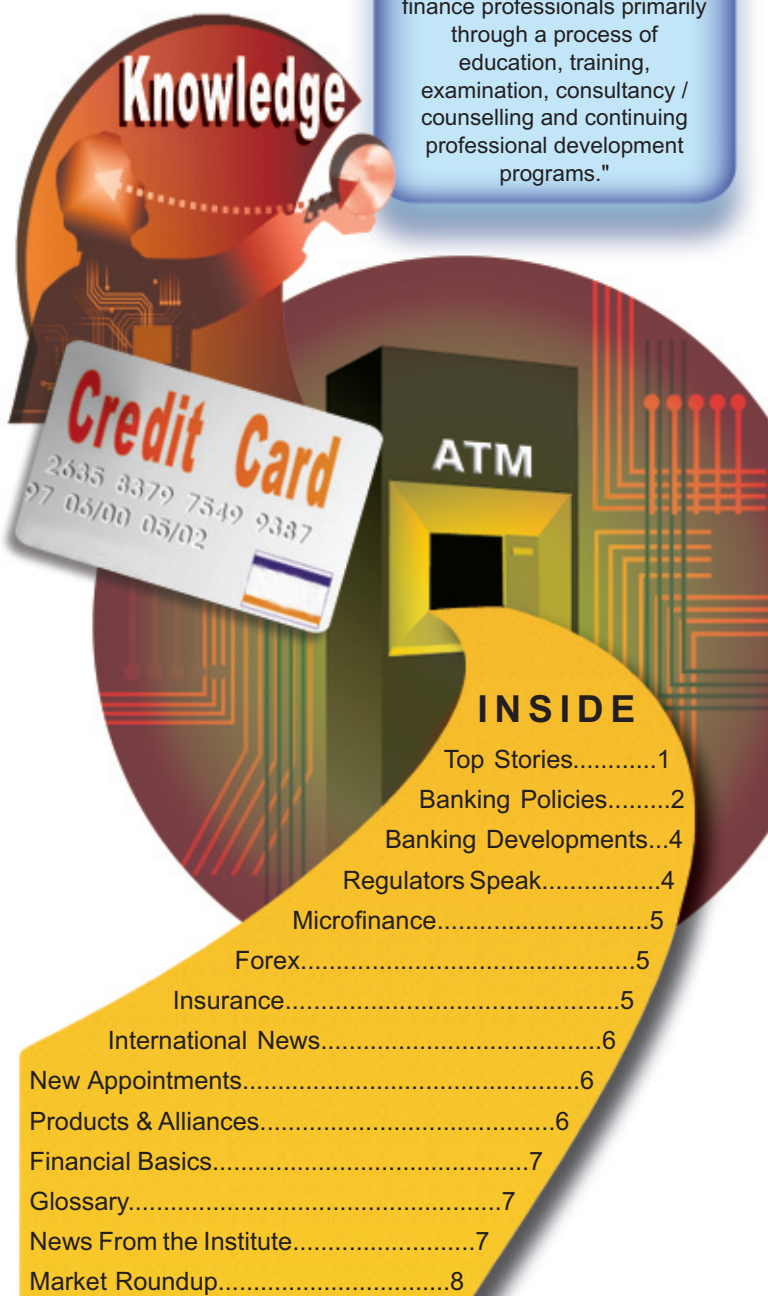
The New bank capital rules agreed by global regulators on September 13, 2010 brought relief to world's banks. The new requirement known as Basel-III will demand banks hold top quality capital totaling 7% of their risk bearing assets. The new capital ratio represents a substantial increase from the current requirement of 2%, with the following highlights :

- These are the rules written by Basel Committee on Banking Supervision (BCBS) to assess risk and determine relationship of capital with risks.
- The predominant component of capital is common equity and retained earnings.
- The Tier-I capital that includes common equity and perpetual preferred stock will be raised from 2% to 4.5% in phases starting from January 2013 to be completed by January 2015
- In addition banks have to set aside another 2.5% as a contingency for future stress
- The new norms are based on renewed focus of Central Bankers on macro prudential stability as global regulators are determined to ensure financial stability of the system as a whole rather than micro regulation of any individual bank
- Indian banks are not likely to be impacted by the new rules as the capital to risk weighted assets ratio of the Indian banking system stood at 13.4% with Tier-I at 9.3%
- There may be some negative impact arising from shifting some deductions from Tier-I and Tier-II capital to common equity

BCs open maximum accounts in Andhra Pradesh

Andhra Pradesh has benefitted the most from the Business Correspondence (BC) model floated by the

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



INSIDE

Top Stories.....	1
Banking Policies.....	2
Banking Developments...4	
Regulators Speak.....	4
Microfinance.....	5
Forex.....	5
Insurance.....	5
International News.....	6
New Appointments.....	6
Products & Alliances.....	6
Financial Basics.....	7
Glossary.....	7
News From the Institute.....	7
Market Roundup.....	8

Banking Policies and Developments

Centre (as part of its financial inclusion plans to provide banking solutions to the rural mass). Out of the 7.5 million new accounts opened all over India in 2009-10 by BCs, 75% were in Andhra Pradesh.

State Bank of Indore branches to operate as SBI's

All branches of State Bank of Indore will now function as branches of State Bank of India (SBI). Customers, including depositors of State Bank of Indore, have received a go-ahead to operate their accounts as customers of SBI with effect from 27th August, 2010.

RBI clears merger of Bank of Rajasthan with ICICI Bank

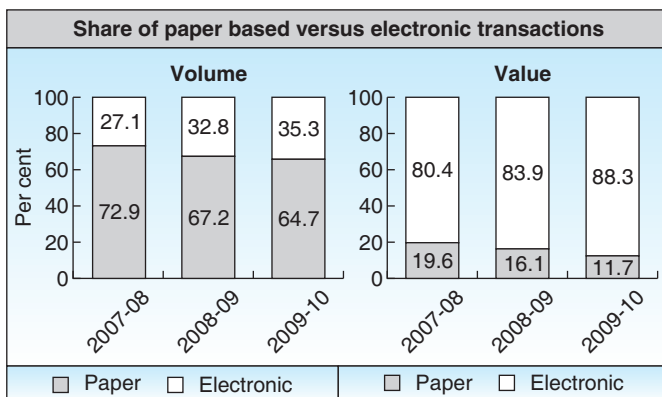
The RBI has approved the merger of Bank of Rajasthan (BoR) with ICICI Bank. Following the sanction of the Scheme of Amalgamation of Bank of Rajasthan with ICICI Bank, all branches of BoR have begun functioning as branches of ICICI Bank with effect from August 13. With the addition of 468 BoR branches, ICICI Bank's network has increased to 2,484 branches.

Credit Suisse gets licence for branch in Mumbai

Credit Suisse has received the RBI's licence to establish a branch in Mumbai. The permit enables Credit Suisse to expand its range of services to the Indian market. The branch will accept deposits and use its balance sheet to provide financing to clients, complementing the capabilities of Credit Suisse's NBFC in India. The licence also permits the bank to deal in G-secs, other domestic fixed income products and foreign exchange.

Electronic payments on the rise : RBI report

As per chart, the use of electronic means (in place of paper) for making payments has gone up sharply in the last three years. In terms of value, the share of electronic transactions has gone up from 80.4% in 2007-08 to 88.3% in 2009-10.



Source : RBI Annual Report 2009-10

RBI extends interest subsidy scheme

The RBI has extended the interest subsidy of 2% on rupee export credit to additional sectors like textiles, handicrafts, leather manufacturers, jute manufacturers and engineering goods. The scheme has become available from April 1, 2010 to March 31, 2011. Banks have been asked to link their applicable interest rates for all tenors of rupee export credit advances to the base rates with respect to fresh advances, subject to the floor rate of 7%. The scheme was introduced in November 2008.

RBI processing 18 foreign bank applications for licence

The RBI is processing applications of 18 foreign banks that want to set up branches and representative offices in India. "As on June 30, 2010, more than 300 foreign bank branches are present in the country" said Minister of State for Finance Mr. Namo Narain Meena. Responding to a query on whether this trend would adversely affect domestic banks, the minister added that the RBI is preparing a discussion paper on the impact and would take some time before coming up with the final recommendations on granting new licences to banks.

RBI keen on implementing its outreach programme

Dr. Subir Gokarn, Deputy Governor, RBI has stated that the RBI is keen on effective implementation of its 'outreach programme', evolved under the financial inclusion scheme. The programme is aimed at gaining first-hand knowledge of the needs and requirements of villagers for ameliorating their economic status, educating their children, developing the habit of saving so they can be self-sufficient, and extending banking services to remote hamlets.

CDS to be allowed only on corporate bonds, says RBI

The RBI has asserted that the **Credit Default Swap (CDS)** market should be developed in a calibrated and orderly fashion with focus on real sector linkages and emphasis on creation of robust risk management architecture to deal with various risks as have been evident in the recent financial crisis. RBI has proposed the introduction of plain vanilla OTC single-name CDS for corporate bonds for resident entities subject to appropriate safeguards. It was proposed that to begin with, all CDS trades be reported to a centralised trade reporting platform and in due course they be brought on to a central clearing platform.

RBI changes securities portfolio norms

RBI had said that if the value of sales and transfers of securities to / from held to maturity (HTM) category exceeds 5% of the book value of investments held

in HTM category at the beginning of the year, bank should discuss the market value of the investments held in the HTM category. Also, it should indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'notes to accounts' in banks' audited annual financial statements.

RBI allows NBFCs to trade in currency futures

The RBI has permitted NBFCs to participate in currency futures through exchanges only for the purpose of hedging their underlying forex exposures. Now NBFCs can trade in currency futures on all the four pairs US Dollar-Rupee; Pound Sterling- Rupee; Japanese Yen Rupee and Euro-Rupee. The NSE started trading in futures for the first time in August 2008. When the currency futures in the Dollar-Rupee pair were introduced in 2008, it was a huge success as a product, with daily turnover being around \$5.2 billion (approximately Rs.240 crore). But the other pairs could not do as well as the Dollar-Rupee pair. It remains to be seen, how the volumes would swell in the daily trading in the currency futures with the NBFCs coming into the market.

RBI fiat to banks on e-payment products

RBI has stated that electronic payment products such as Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), National Electronic Clearing Service (NECS) and Electronic Clearing Service (ECS) have been growing in terms of acceptability and coverage. Thus, it is essential that the member banks uphold the credibility of the systems and comply with the procedural guidelines issued by the RBI from time to time. The member banks are required to afford credits received through the systems to the destination account holders within the prescribed time-frame. In case it is not possible to afford credit due to valid reasons, such amounts have to be returned as per the laid down procedure.

Banks asked to study retail trading platform for G-Secs

In order to revive retail investors' interest in the Government securities (G-secs) market, the RBI has asked banks to examine the feasibility of facilitating buying and selling of these securities via a separate trading platform. Apparently, the idea of a separate online trading platform connected to banks' core banking system, for retail investors has been mooted so that transactions in G-secs can be put through seamlessly.

RBI's income comes down

RBI's total annual income has declined nearly 46% from Rs.60,732 crore in July 2009 to Rs.32,884 crore in June 2010. The slip has been attributed to a 51% decrease in income from foreign sources to Rs.25,103 crore and a

22% dip in income from domestic sources to Rs.7,782 crore. Net interest income has declined 46.96% to touch Rs.31,747.88 crore - mainly due to a sharp decrease in yields. Total expenditure has increased 2.25% to Rs.8,403.12 crore due to a 24.7% increase in procurement of bank notes. Resultantly, the cost to income ratio has nearly doubled from 14% to 26%.

Foreign currency exposure

RBI has asked commercial banks to carefully assess risks of unhedged foreign currency exposure of their corporate clients. In its annual report for 2009-10, the central bank says that some bank borrowers could be affected due to adverse exchange rate movements. However, it did not expect delinquency from restructured assets to increase significantly. In 2008, RBI had allowed banks to treat restructured assets as standard assets - a one-time leeway given to the banks during the global financial crisis. According to RBI data, restructured advances constituted 3% of the total gross loans, as on March 31. RBI has also cautioned commercial banks regarding the decline in profitability and asset quality. "The economic slowdown led to deceleration in the growth of the balance sheet of the banking system. This could have a lagged effect on credit quality and profitability. Asset quality could be impacted to some extent if there are slippages in some of the accounts which were restructured under the special dispensation," says the RBI, adding "While the resilience of the commercial banks to credit and interest rate shock has improved over time, the liquidity scenario analysis shows some potential risk. Bank margins might face pressure from mark to market impact on the investment portfolio, increased provisioning requirement and calculation of savings rate interest on daily basis". Yields on government bonds are on the rise amidst tight liquidity conditions coupled with RBI's efforts to tighten monetary policy to tackle inflation. RBI had asked banks to make higher provisions for non performing assets and to reach a provisioning coverage ratio of 70% by September this year. Although most banks have reached the RBI mandated norms, some of the bigger banks have asked for an extension.

Number of RRBs down to 82 from 196 : RBI

The total number of Regional Rural Banks (RRBs) stands at 82 as on end-March 2010 following the process of their amalgamation initiated by the government in 2005. In order to strengthen and consolidate RRBs, in 2005, the government had initiated the process of amalgamation in a phased manner. Consequently, the total number of RRBs has reduced from 196 to 82 as on March 31, 2010.

Banking Developments

Banks fall short of target in lending to minorities in 2009-10

As per the finance ministry data, public sector banks (PSBs) have fallen short of their lending targets to minority segments in 2009-10. In that too, lending has been far deficient in affluent states like Gujarat, Maharashtra and Delhi, vis-a-vis that in the North-Eastern states, Punjab, Himachal Pradesh and Jammu & Kashmir. According to government rules, banks were required to give about 15% of priority sector loans to minorities in the year ended March 2010, but they could manage only 13%.

Total payment and settlement turnover rises by 15.6%

The total turnover under various payment and settlement systems has registered a growth of 15.6% in terms of value during 2009-10, as compared with 13.3% during 2008-09. According to the RBI annual report, till June 30, 2010, 40 banks have been granted approval for providing mobile banking facility.

PSBs account for 50.5% of credit in FY09

As per RBI report, nationalized banks have accounted for 50.5% of the total credit given out by scheduled commercial banks (SCBs) in the country, at over Rs.14,36,769 crore in 2008-09.

Bank capital infusion to hinge on financial inclusion on ranking

Capital infusion in banks can also serve as a function of how serious they are about implementing the programmes for financial inclusion. The finance ministry will rank the banks on the index of financial inclusion and use it as one of the criteria while providing them fresh capital. The scope of the soon-to-be-launched financial inclusion index would be expanded to include financial inclusion performance rating for banks themselves. The index was originally intended to rank various geographical areas on the basis of access to financial services.

Banks log 26.5% growth in net profit

The banking sector seems to be gaining momentum - going by the April-June quarter net interest income (NII) and net profit numbers of 39 listed lenders. A 20% plus credit growth, led by state-owned banks, and over 100 basis points (bps) decline in cost of deposits, have seen listed banks reporting one of the best quarterly growth in NII at 46.5%. Net Profit grew at a relatively slower pace of 26.45%, due to a 14.5% decline in other income and a 39% rise in provisions and contingencies.

Banks liquidity improves on new deposits, government spending

In recent times, banks have not borrowed from the RBI's repo window under the liquidity adjustment facility (LAF). In fact, they have been parking funds - to the tune of Rs.2500 crore - with the RBI through the reverse repo window. Contrastingly, the RBI had injected Rs.34,000 crore in July and Rs.47,000 crore in June on an average daily basis. This sudden shift towards surplus liquidity from a situation where banks were borrowing from the RBI is mainly due to government spending, deposit raising by banks and capital inflows into the equity market.

Dena Bank to appoint 800 BCs

Dena Bank is set to appoint 800 banking correspondents in 1,800 villages as affirmed by Mr. R. L. Rawal, CMD, Dena Bank. 'Business Correspondents' are small businessmen or individuals - used in unbanked areas, to provide basic banking services on behalf of the bank.

Credit Bureaus rush in sensing opportunity

Banks will soon have greater choice in selecting their source of information as more credit bureaus seek a share of the growing number of financial product users in India, the world's second fastest growing major economy after China.

Regulators Speak...

RBI against securitization for profit booking

RBI wants banks and non-banking finance companies (NBFCs) to undertake securitization only for risk transfer, and not for profit booking. Ms. Shyamala Gopinath, Deputy Governor, RBI avers that the apex bank wants to have sustainable securitization. "We cannot have markets growing on the basis of arbitrage. We need securitization; we need to make bank assets liquid. But then, it has to be a true risk transfer. If the credit enhancement itself is excessive, then it is not true transfer of risk."

Securitization guidelines to be finalized soon

RBI will soon be finalizing guidelines on securitization after receiving feed-back from the banks and NBFCs on the draft guidelines issued in April. Ms. Shyamala Gopinath, Deputy Governor of RBI says, "Initially, we did not ask for feedback from NBFCs but later we did. NBFCs have asked for a differential kind of treatment saying their loans are short-term and their recovery method is also different."

IRDA has 'open mind' on scrapping motor pool

The IRDA has an "open mind" on the abolition of the 'motor pool' arrangement, as stated by the IRDA

Chairman, Mr. J. Hari Narayan in response to a query if it's time to do away with the 'motor pool' considering that private sector insurance companies are coming forward to underwrite 'commercial vehicles third party' risks.

RBI worried over quality of CPs; to revise rules

With the number of CP (Commercial Papers) issuances having ballooned, RBI has expressed concern over the quality of credit in these papers. Ms. Shyamala Gopinath, Deputy Governor, RBI says : "We are in the process of revising the guidelines on CP issues and would like to discuss this matter with market participants. We want only rated CPs to be issued." Ms. Gopinath says that CP issuances are bound to go up with the base rate kicking in. Further, it's good that banks are investing in these CPs since it's a market instrument and corporates could access the CP markets directly. In recent months CPs have emerged as an instrument of choice for raising short-term funds as they allow lenders and borrowers to bypass RBI's stricture on not lending below the Base Rate. The amount of issuances has bloated from Rs.83,165 crore in April to Rs.1,07,755 crore in the first fortnight of July, as base rates fell in place in the first week of July.

NBFC supervision needs to be stepped up

The RBI feels a need for the supervisory regime of NBFCs to be strengthened for a more robust assessment of the underlying risks. "The key underpinnings while developing (new) products and markets will be able to ensure that the process of dis-intermediation away from banks is genuine and the risks are clearly and transparently captured in a prudential framework in areas where both banks and NBFCs are involved," RBI has said in its annual report for 2009-10. Any takeover or merger involving deposit taking NBFCs now requires the prior approval of RBI. In addition, the management of the merged entity must comply with the "fit and proper" criteria of RBI.

Microfinance

Quantitative Performance of Self Help Group Bank Linkage Program (SBLP) (Amount Rs. Crore)

Parameter		2006-07	2007-08	2008-09
Savings of SHGs	No. of SHGs	4160584	5009794 (20.4%)	6121147 (22.2%)
	Amount	3512.71	3785.39 (7.8%)	5545.62 (46.5%)
Bank Loan Disbursement	No. of SHGs	1105749	1227770 (11%)	1609586 (31.1%)
	Amount	6570.69	8849.26 (34.7%)	12253.51 (38.5%)
Bank Loan Outstanding	No. of SHGs	2894505	3625941 (25.3%)	4224338 (16.5%)
	Amount	12366.49	166999.91 (37.5%)	22679.84 (33.4%)

Source : The Bharat Microfinance Report Side by Side 2009

Forex

Volatile capital flow rises to 58% of forex reserves

The ratio of volatile capital flows defined to include cumulative portfolio inflows and short-term debt to the country's forex reserves increased to 58.1% in March 2010 compared to last year's 47.9%. Reserve Bank of India (RBI) data says that, the ratio of short-term debt to the foreign exchange reserves declined from 146.5% in March 1991 to 12.5% in March 2005, but increased to 12.9% in 2006 .However, with expansion in the coverage of short-term debt, the ratio increased o 14.8% in March 2008, to 17.2% in March 2009 and 18.8% in March 2010.

Benchmark Rates for FCNR(B) / NRE Deposits applicable for the month of September 2010

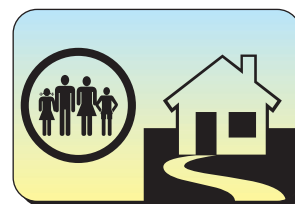
LIBOR / SWAP For NRE Deposits					
Currency	LIBOR		SWAPS		
	1 Year	2 Years	3 Years		
USD	0.84306	0.6650	0.9490		
LIBOR / SWAP For FCNR(B) Deposits					
Currency	LIBOR		SWAPS		
	1 Year	2 Years	3 Years	4 Years	5 Years
USD	0.84306	0.665	0.949	1.270	1.572
GBP	1.46266	1.2340	1.5050	1.7850	2.0400
EUR	1.38688	1.259	1.394	1.563	1.732
JPY	0.66875	0.416	0.435	0.468	0.521
CAD	1.87167	1.342	1.564	1.806	2.039
AUD	5.41750	4.670	4.710	4.890	4.980

Source : Fedai

Foreign Exchange Reserves

Item	As on August 20, 2010	As on August 20, 2010
	Rs.Crore	US \$ Mn.
1	2	3
Total Reserves	13,15,884	282,549
a) Foreign Currency Assets	11,94,167	256,369
b) Gold	89,564	19,278
c) SDRs	23,157	4,971
d) Reserve Position in the IMF	8,996	1,931

Source : RBI



Insurance

No plans to cap charges on traditional products : IRDA

The Insurance Regulatory and Development Authority (IRDA) has no plans to cap the charges levied by life

insurance companies on traditional products. The regulator has also assured that it would approve new unit linked insurance plans (Ulips) on time so that insurers can sell them from September 1 onwards.

New India seeks to use banking correspondents

New India Assurance has suggested to the IRDA that it and all insurance companies - be allowed to use BCs to service the insurance sector also. New India Assurance India's largest public sector non life insurance company- has plans to micro insurance in a big way, owing to the large profitability involved in the same, as revealed by CMD, Mr. M. Ramadoss. It is against this backdrop that the use of banking correspondents to sell (and service) insurance attains significance.

International News

BoE continues bond-stimulus push

The Bank of England (BoE) has kept its bond stimulus plan in place and left its benchmark interest rate at a record low as officials sustained emergency aid for the economy during the biggest budget squeeze since World War-II. The nine member Monetary Policy Committee, led by Mr. Mervyn King, Governor, held the target for the bond holdings at £200 billion (\$318 billion).

BoE, ECB keep rates unchanged

The BoE has retained its key interest rate at a record low level of 0.50% amid fears of renewed recession and rising inflation in Britain despite a recent upturn in growth. BoE's Monetary Policy Committee (MPC) has voted to maintain the official bank rate paid on commercial bank reserves at 0.5%. The bank has also agreed against altering its quantitative easing policy, under which it has pumped £200 billion of new money into the economy. The European Central Bank kept its main interest rate at a record low of 1.0%. The ECB has also kept the marginal lending rate and the deposit rate, unchanged at 1.75% and 0.25%, respectively.

European banks see hazards as bad debts fall

Concerns about new banking regulations and a shaky economic recovery have tempered optimism over improving results from more of Europe's top banks. The results mostly show higher-than-expected profits, thanks to shrinking bad debts. The faster-than-expected fall in bad debts are outweighing slump in investment banking income following

Greece's economic crisis, a sharp contrast to the first quarter when the investment banking drove record results. Analysts say that the decline in bad debts was good news but they would rather see profits driven by improvements in revenue.

New Appointments

Federal Bank gets new MD & CEO

Mr. Shyam Srinivasan will be the new Managing Director (MD) and CEO of The Federal Bank Ltd.

Mr. Somasundaram takes over at Lakshmi Vilas Bank

Mr. P. R. Somasundaram has been appointed as Managing Director (MD) and Chief Executive Officer (CEO) of The Lakshmi Vilas Bank Ltd.



Products & Alliances

Banks sign MoU with UIDAI for Aadhar

Indian Bank and Corporation Bank have signed a Memorandum of Understanding (MoU) with Unique Identification Authority of India (UIDAI) to act as registrar for its flagship project, Aadhar. Accordingly, the banks would enrol customers for issuing a 16-digit unique identification number by collecting biometric and demographic details as per UID norms.

PNB World Travel & Platinum Debit cards

Punjab National Bank (PNB), in association with MasterCard, has launched two new products to meet customer expectations - viz. World Travel Card and Platinum Debit Card.

StanChart's facility

Standard Chartered Bank has launched "Preferred Banking" facility for the emerging affluent segment. The facility offers a combination of savings, borrowing, protection and investments with a rewards programme.

United Bank signs MoU with Ashok Leyland

United Bank of India has entered into a MoU with Ashok Leyland Ltd., a leading manufacturer of commercial vehicles. United Bank will extend finance to the eligible customers of Ashok Leyland for procuring different kinds of commercial vehicles being manufactured by the Company.

Vijaya Bank signs MoU with Toyota Kirloskar

Vijaya Bank has signed a MoU with Toyota Kirloskar Motor Pvt. Ltd. (TKM) for furthering its auto financing activities.

DSPBR MF tie up with Central Bank of India

DSP Black Rock Investment Managers has signed a distribution agreement with Central Bank of India as part of the strategy to increase their retail presence. Central Bank of India will distribute DSPBR MF schemes through its network of branches spread across the country.

Financial Basics

Five Against Bond Spread - FAB

A spread in the futures markets created by taking offsetting positions in futures contracts for five-year treasury bonds and long-term (15-30 year) treasury bonds. A FAB spread is created by either buying a futures contract on five-year treasury bonds and selling one long term treasury bonds or vice versa. Investors speculating on interest rate fluctuations will enter into this type of spread in hopes of under or overpriced treasuries.

Glossary

Motor Pool

The 'motor pool' arrangement collects all the 'commercial vehicles third party damage' premiums into the pool and distributes the excess of claims over the premiums across all the non-life insurance companies in the country, in accordance with a formula. Since the total claim has always exceeded the total premium collected, all companies have had to bear 'pool losses', regardless of whether or not they underwrite commercial vehicles and third party damage risks.

Credit Default Swap

A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. For example, the buyer of a credit swap will be entitled to the par value of the bond by the seller of the swap, should the bond default in its coupon payments.

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 as already announced (For details 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 <http://www.iibf.org.in>.

Courseware for DRA candidates

Apart from English "Handbook on Debt Recovery" is also available in following languages viz. Assamese, Bengali, Hindi, Marathi, Malayalam, Kannada and Tamil.

Virtual classes

The Institute has arranged Virtual classes (Live Interactive Virtual Education) for those who are preparing for the forthcoming JAIIB / DB&F / CAIIB examinations. For details please visit www.iibf.org.in.

Certificate Course in Project Finance

The 12th Batch of Certificate Course in Project Finance in collaboration with IFMR, Chennai will commence from 22nd November 2010 to 27th November 2010. For details please visit www.iibf.org.in.

Contact classes

Contact classes will be conducted by the Zonal Offices for the forthcoming JAIIB & CAIIB exams. For details please visit www.iibf.org.in and contact zonal offices.

Train the Trainers Program

Train the trainers program for BC / BF was held on 5th and 6th September 2010 for Syndicate Bank at Bangalore and another training will be held on 20th and 21st September 2010 for Dena Bank at Ahmedabad.

Special Programme on Risk Intelligence for United Bank of India

A programme on Risk Intelligence was arranged by the Institute in association with Deloitte on 20th August 2010 at Kolkata. 20 Senior Executives of United Bank of India attended. The programme provided insights into various dimensions of risk faced by banks.

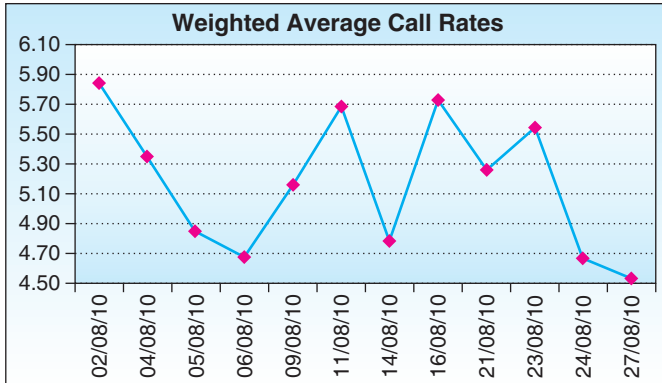
Advanced Management Program

The first batch of Advanced Management Program at Hyderabad will commence from 4th October 2010 at the Institute of Public Enterprise(IPE), Hyderabad. For details visit www.ipeindia.org.



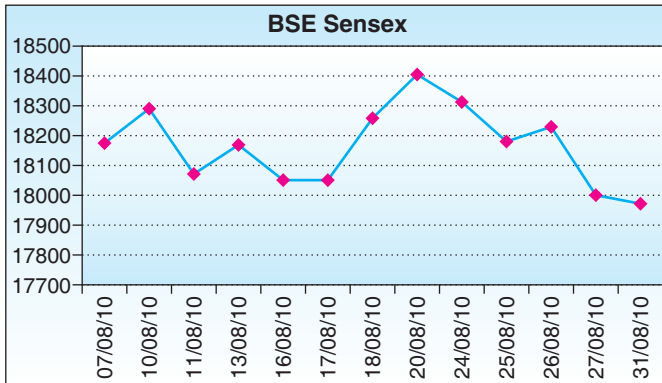
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Market Roundup

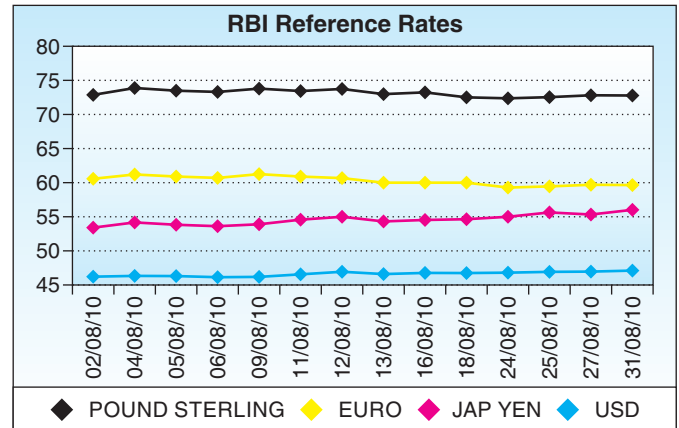


Source : CCIL Newsletters, August 2010

- Call rates hovered between 4.53 and 5.84
- The liquidity eased towards month end.

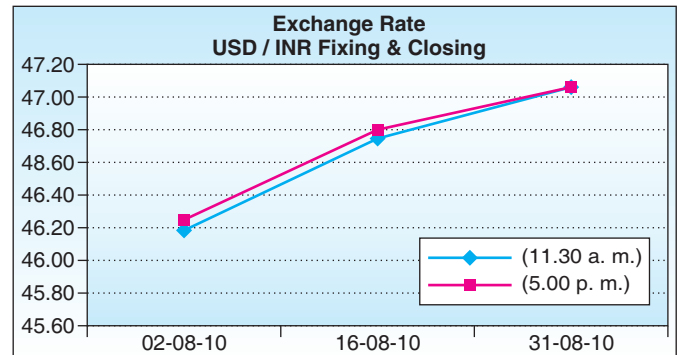


Source : CCIL Newsletters, August 2010



Source : Reserve Bank of India (RBI)

- Against dollar, rupee exhibited mixed trends
- As at August 09, currency has been appreciating in the wake of strong portfolio flows - \$3.5 bn during July. Indian Rupee rose to near six weeks high on Aug 09.
- Rupee dips again on dollar purchases for buying oil
- Finally, during the month, Rupee depreciated 1.92% against dollar closing at Rs.47.08
- Rupee is, as usual, erratic against pound sterling



Source : Fedai

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