HIGHLIGHTS AFTER SECOND BI-MONTHLY

DESCRIPTION	RATES
Repo Rate	6.5 %
Reverse Repo Rate	6.0 %
Marginal Standing Facility (MSF)	7.0 %
Bank Rate	7.0 %
Cash Reserve Ratio	4 %
Statutory liquidity Ratio (SLR)	21.25 %
Base Rate -	9.30 to 9.70%
Saving Deposit Rate	4 %
Term Deposit Rate	7 to 7.5 %

SMART FACTS

- Dollar , Pound , Yen , Euro are called Hard Currency . Hard currency is accepted for settling international transactions , so it may always be in demand in the international market .
- Banking Codes and standards Board of India (bcsbi) is an independents and autonomous body formed by the joint efforts of RBI and bank. It acts as a watch dogs to monitor banking practices adopted by member banks inorder to ensure quality service to customers.
- As of August 2011 , 38 foreign banks representing 24 countries are operating in india .
- Demat Account refers to Dematerialized account for individual Indian Citizens to trade in listed Stocks / Debenture in electronic form as required for investors by SEBI . It is opended by the investors while registering with an investment broker and is held electronically rather than physical possession of Certificates .

CURRENT ACCOUNT CAN BE OPENED BY –

1. Individual single / jointly
2. Sole Proprietors
3. Partnerships firms
4. HUFs (Hindu Undivided Family)
5. Statutory bodies

6. Limited Companies
7. Clubs , Societies , Educational Institute
8. Partnership firms .

FIXED DEPOSIT CAN BE OPENED BY –

- Individual single / jointly
- On behalf of a minor
- By illiterate person to be operated under thumb impression
- In the name of club , society , Educational Institute , etc .

RECURRING DEPOSIT CAN BE OPENED BY –

- Individual single / jointly
- In the name of club , society , Educational Institute , etc .
- On behalf of a minor

- Both IBRD and IDA share the same staff and head quarter and report to the same president . A country must be a member of IBRD before joining IDA .
- All member of IMF are also member of IBRD members and vice versa .

BANKING SYSTEM IN INDIA

The history of modern banking system in India can be traced to Bank of Hindustan (1770) the first bank established in India at Kolkata under European managements . Other banks set-up were Bank of Bengal (1806) , Bank of Bombay (1840) and the Bank of Madras (1843) – These were called "Presidency Banks " While the Oudh commercial bank (1881) was the first bank with limited managed by an Indian board , it was the Punjab National Bank (1894) which was the first purely Indian Bank , Today Punjab Bank is the oldest existing bank of India .

MEANING OF BANK

Bank is a lawful organisation, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.

ROLE OF BANKING

Banks provide funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation. Let us know about the role of banking.

- It encourages savings habit amongst people and thereby makes funds available for productive use.
- It acts as an intermediary between people having surplus money and those requiring money for various business activities.
- It facilitates business transactions through receipts and payments by cheques instead of currency.
- It provides loans and advances to businessmen for short term and long-term purposes.
- It also facilitates import-export transactions.
- It helps in national development by providing credit to farmers, small-scale industries and self-employed
- people as well as to large business houses which lead to balanced economic development in the country.
- It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles, etc.

BANK – HEADQUARTER – TAGLINE

BANKS	HEAD QUARTERS	TAGLINES
Allahabad Bank	Kolkata	A TRADITION OF TRUST
Andhra Bank	Hyderabad	FOR ALL YOUR NEEDS
Bank Of Baroda	Mumbai	INDIA’S INTERNATIONAL BANK
Bank Of India	Mumbai	RELATIONSHIP BEYOND BANKING
Bank Of Maharashtra	Pune	ONE FAMILY ONE BANK
Canara Bank	Bengaluru	TOGETHER WE CAN
Central Bank Of India	Mumbai	CENTRAL TO YOU SINCE 1911
Corporation Bank	Mangalore	PROSPERITY FOR ALL
Dena Bank	Mumbai	TRUSTED FAMILY BANK
IDBI Bank	Mumbai	BANKING FOR ALL

Indian Bank	Chennai	YOUR TECH-FRIENDLY BANK
Indian Overseas Bank	Chennai	GOOD PEOPLE TO GROW WITH
OBC	New Delhi	WHERE EVERY INDIVIDUAL IS COMMITTED
PNB	New Delhi	THE NAME YOU BANK UPON
SBI	Mumbai	PURE BANKING NOTHING ELSE,WITH YOU- ALL THE WAY
Syndicate Bank	Manipal	YOUR FAITHFUL AND FRIENDLY FINANCIAL PARTNER
UCO Bank	Kolkata	HONOURS YOUR TRUST
Union Bank Of India	Mumbai	GOOD PEOPLE TO BANK WITH
United Bank Of India	Kolkata	THE BANK THAT BEGINS WITH “U”
Vijaya Bank	Bengaluru	A FRIEND YOU CAN BANK UPON
State Bank Of Mysore	Bengaluru	WORKING FOR A BETTER TOMORROW
State Bank Of Hyderabad	Hyderabad	YOU CAN ALWAYS BANK ON US
State Bank Of Patiala	Patiala	BLENDING MODERNITY WITH TRADITION
State Bank Of Travancore	Thiruvananthapuram	A LONG TRADITION OF TRUST

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with Providing refinance to lending institutions in rural areas Bringing about or promoting institutional development and Evaluating, monitoring and inspecting the client banks Besides this pivotal role, NABARD also:

- Acts as a coordinator in the operations of rural credit institutions
- Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development
- Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development
- Acts as regulator for cooperative banks and RRBs
- Some of the milestones in NABARD's activities are:
- District Rural Industries Project (DRIP) has generated employment for 23.34 lakh persons with 10.95 lakh units in 105 districts.
- It was setup with an initial capital of Rs. 100 cr. which is enhanced to 4,000 cr. in 2013 fully subscribed by the Government of India and RBI.

SUBSIDIARIES OF NABARD

1. **Nab cons**
2. **NABARD Financial Services Limited, [NABFINS]**
3. **Agri. Business Finance (AP) Limited (ABFL)**
4. **ABFL**

BANKERS INSTITUTE OF RURAL DEVELOPMENT (BIRD)

Established in 1983, at Lucknow , is an autonomous institute promoted and funded by NABARD. BIRD was established primarily to cater to the training needs of RRB personnel. The Institute, has, since 1st April 1992, been catering to the training and information needs of rural bankers through its topical training programs/seminar . The Institute's mandate also includes Research and Consultancy in the related areas

FUNCTIONS OF COMMERCIAL BANKS

The functions of commercial banks are of two types.

(A) Primary functions

(B) Secondary functions.

A..Primary functions

The primary functions of a commercial bank includes:

1. Accepting deposits; and
2. Granting loans and advances.

ACCEPTING DEPOSITS

The most important activity of a commercial bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow alongwith the interest earned. If the rate of interest is higher, public feels motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

GRANT OF LOANS AND ADVANCES

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.

LOANS

A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in instalments. Loans are generally granted against the security of certain assets. A loan is normally repaid in instalments. However, it may also be repaid in lump sum.

ADVANCES

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

TYPES OF ADVANCES

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

CASH CREDIT

Cash credit is an arrangement whereby the bank allows the borrower to draw amount upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per terms and conditions agreed with the customers.

OVERDRAFT

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit may be allowed either on the security of assets, or on personal security, or both.

DISCOUNTING OF BILLS

Banks provide short-term finance by discounting bills, that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

B..SECONDARY FUNCTIONS

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows:

- Issuing letters of credit, travellers cheque, etc.
- Undertaking safe custody of valuables, important documents and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange dealings.
- Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order and demand draft.
- Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.
- Collecting and supplying business information.
- Providing reports on the credit worthiness of customers.

NON BANKING FINANCIAL COMPANIES (NBFC)

A Non-Banking Financial Company (NBFC) is a company a) registered under the Companies Act. 1956, b) its principal business is lending, investments in various types of shares/stocks/bonds/debentures/securities, leasing, hire-purchase, insurance business, chit business, and c) its principal business is receiving deposits under any scheme or arrangement in one lump sum or in instalments. However, a Non-Banking Financial Company does not include any institution whose principal business is agricultural activity, industrial activity, trading activity or sale/purchase/construction of immovable property. (Section 45 I (c) of the RBI Act, 1934) . One key aspect to be kept in view is that the financial activity of loans/advances as stated in 45 I (c) , should be for activity other than its own. In the absence of this provision, all companies would have been NBFCs.

NBFCs whose asset size is of Rs.100 cr or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability in our country.

The Reserve Bank of India regulates and supervises Non-Banking Financial Companies which are into the business of (i) lending (ii) acquisition of shares, stocks, bonds, etc., or (iii) financial leasing or hire purchase. The Reserve Bank also regulates companies whose principal business is to accept deposits. (Section 45I (c) of the RBI Act, 1934)
The Reserve Bank has been given the powers under the RBI Act 1934 to register, lay down policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs that meet the 50-50 criteria of principal business. The Reserve Bank can penalize NBFCs for violating the provisions of the RBI Act or the directions or orders issued by RBI under RBI Act. The penal action can also result in RBI cancelling the Certificate of Registration issued to the NBFC, or prohibiting them from accepting deposits and alienating their assets or filing a winding up petition.

LEAD BANK SCHEME

To bring about all round development of the rural areas of the country a committee of Mr. Gardgil and Mr. FF Nariman recommended in 1969 that the reponsiblity of fiancial development of different districts of the country may be given to various big banks. Accordingly after consulting the public sector banks operating in the country the Reserve Bank of India assigned different districts to different public sector banks. The bank that was assigned the reponsibility to carry out all round financial development of a district, in co-ordination with the district government authorities became the lead bank for the district. To carry out the development the lead bank cordinates with the district authorities through the District Level Cordination Committee (DLCC) prepares an annual plan and implements the same through the banks operating in the district. It also collects and analyses statistical data of development taking place in the district.

While all the lead banks in the country are public sector banks, the lead bank of one district in Rajasthan viz. Mewar is ICICI Bank.

REGIONAL RURAL BANKS

The M.Narisaman committee in 1975 after studying the impact of the Lead Bank Scheme recommended the establishment of rural banks in each district that may be dedicated to rural development. The first Gramin Banks started functioning on 2nd October 1975 under an ordinance and subsquently the Regional Rural Banks Act was passed in 1976. The management of Regional Rural banks was with a public sector bank generally the lead bank of the district. The Regional Rural Bank operates within a given geographical area. The Capital for these banks was contributed by the Central Government (50%), the Sponsor Bank (35%) and the State Government (15%). Initially around 186 Gramin Bank established all over India but now in keeping with the government directive to merge the gramin banks there were 57 gramin banks .

FINANCIAL INCLUSION

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the „sine qua non" (an essential condition) of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

1. PUBLICITY**-** Wide pulicity of the utility of financial service are being done to apprise the rural foik are the important of banks.

2. BASIC SAVING BANK DEPOSIT ACCOUNTS**-**These accounts are opened on relaxed KYC norms and need not have any balance in them. These accounts were formerly called No frill accounts but were renominated as basic saving bank deposit account by the RBI in September 2012. The main features of the account are

i. The „Basic Savings Bank Deposit Account" should be considered a normal banking service available to all.
This account shall not have the requirement of any minimum balance.

iii. The services available in the account will include deposit and withdrawal of cash at bank branch as welt as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments;

iv. 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; and-

v. Facility of ATM card or ATM-cum-Debit Card;

• The above facilities are to be provided without any charges. Further, no charges will be levied for non-operation/activation of imperative „Basic Savings Bank Deposit Account".

• Banks are free to evolve other requirements including pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.

• The „Basic Savings Bank Deposit Account" is subject to RBI instructions on Know Your Customer (KYC) / Anti-Money Laundering (AMI) for opening of bank accounts issued from time to time. If such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a „Small Account" and would be subject to conditions stipulated for such accounts.

• Holders of „Basic Savings Bank Deposit Account" will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/ she will be required to close it within 30 days from the date of opening a „ Basic Savings Bank Deposit Account".
• The existing basic banking „no-frills" accounts should be converted to „Basic Savings Bank Deposit Account".

3. KISAN CREDIT CARD**-** The banks are providing credit cards to the farmers having land on basis of the annual produce of their land. They amount available in the credit card (appropriately named Kisan Credit Card) can be drawn by the farmer any time as per his needs and has to be repaid after reaping the crop in the next cropping season. Interest as applicable to agriculture loan are charged on loans given from Kisan Credit Cards. These cards are normally valid for five years.

4. GENERAL PURPOSE CREDIT CARD**-**Small consumption loans are given to landless people through general purpose credit card having limits up to Rs. 15,000 and carrying an interest rate of 4%. This loan can be used by the beneficiaries for opening small business.

5. BUSINESS CORRESPONDENTS**-** As banks were unable to open branches immediately in all villages they adopted the Business Correspondent model from Jan 2006. In this model persons living near the respective villages who may be educated are used as banks commission agents to provide door step banking to the villagers. These persons could be retired employees of banks, post offices, Railway,Armed forces etc. are could even be NGOs or SHGs. They carry with them a hand held computer and through the use of Electronic Smart Card allow withdrawal up to Rs. 10,000 from Saving Bank Accounts or Kisan Credit Cards. They can also open deposit accounts and deposit money in the accounts. The Business Correspondents goes back to his base bank every day updates his computer, submits the relevant accounts.

6. ELECTRONIC BANKING- To facility financial inclusion banks are also adopting Electronic Banking through the use of biometric Atm and mobile banking.

7. ULTRA SMALL BRANCHES**-** In villages serviced by the business correspondent, an officer of the base branch visits the village once in a week and attends to the banking functions that could not be carried out by the business correspondent. He also accepts small loan applications and sanctions them on the spot.

MICRO FINANCE AND MICRO CREDIT

Micro credit is giving a small loan to a person. However if the person is trained for the project for which he is taking the loan and financial untilization and then given the loan it is called Micro Finance.
Micro Finance = Micro Credit + Financial and Project Literacy

DICGC (BANK COVER INSURANCE FOR THERE CUSTOMER)

WHICH BANKS ARE INSURED BY THE DICGC?

Commercial Banks: All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by the DICGC.

WHAT DOES THE DICGC INSURE?

In the event of a bank failure, DICGC protects bank deposits that are payable in India. The DICGC insures all deposits such as savings, fixed, current, recurring, etc. except the following types of deposits.

(i) Deposits of foreign Governments;

(ii) Deposits of Central/State Governments;

(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.

WHAT IS THE MAXIMUM DEPOSIT AMOUNT INSURED BY THE DICGC?

Each depositor in a bank is insured upto a maximum of Rs.1,00,000 (Rupees One Lakh) for both principal and interest amount held by him in the same capacity.

DOES THE DICGC INSURE JUST THE PRINCIPAL ON AN ACCOUNT OR BOTH PRINCIPAL AND ACCRUED INTEREST?

The DICGC insures principal and interest upto a maximum amount of Rs. One lakh.

ARE DEPOSITS IN DIFFERENT BANKS SEPARATELY INSURED?

Yes. If you have deposits with more than one bank, deposit insurance coverage limit is applied separately to the deposits in each bank.

RURAL SELF EMPLOYMENT TRAINING INSTITUTE (RSETI)

These Institutes have been established by the Government of India in almost all districts of the country. These Institutes train the rural youth for agriculture and non-agricultural activities is through residential training of 6 to 10 days. All the expenses of these Institute are brone by the Government of

India while it is generally manned by officers of the lead bank. The youth trained by these Institutes are given credit by the banks and this will amount to Micro Finance.

FINANCIAL LITERACY AND COUNSELLING CENTRE (FLCC)

A working group under Shri. C.P. Swarnkar was constituted on 10th May 2007 to examine the procedures and processes of disbursement of agricultural loans. This group found that rural people were quiet ignorant of the types of agricultural credit facilities available to them. The group recommended the formation of Financial Literacy and Counselling Centre (FLCC) at different rural locations to help the farmers obtain credit facilities easily. These centres are generally manned by retired officers of the banks who are well versed with rural landing.

PRIORITY SECTOR CREDIT

The National Credit Council in July 1968 and the Reserve Bank of India informal study group on statastics relating to advances to priority sector in 1971, recommended that some part of the total credit given by banks should be set a side for priority sector. In terms of the directive of Reserve Bank of India domestic commercial banks, urban cooperative banks and foreign banks with 20 or more branches have to provide 40% of their adjusted net bank credit every year to the priority sector. Out of this 18% have to be set aside to agriculture credit. Foreign banks with less than 20 branches have to provide 32% of their credit to the priority sector .

DESCRIPTION OF THE CATEGORIES UNDER PRIORITY SECTOR

1. AGRICULTURE

1.1. DIRECT AGRICULTURE

Loans to individual farmers [including SHGs or (JLGs),] engaged in Agriculture and Allied Activities. Loans to others [corporates, partnership firms and institutions] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) up to an limit of Rs. 2 crore per borrower (these loans above Rs.2 cr are indirect agriculture loans) for :

(i) Short-term crop loans. This will include traditional/non-traditional plantations, horticulture and allied activities,

(ii) Medium & long-term loans for purchase of agricultural and machinery, loans for irrigation and other developmental activities at farm and development loans for allied activities),
(iii) Loans for pre-harvest and post-harvest activities viz.spraying, weeding, harvesting, sorting and transporting of their own farm produce.
(iv) Loans to farmers up to Rs. 50 lakh against pledge / hypothecation of agri. produce (including warehouse receipts) for a period up to 12 months. Such loans to others are indirect agriculture loans,
(v) Loans to small/marginal farmers for purchase of land for agricuture \
(vi) Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral,
(vii) Export credit for exporting their own farm produce.

1.2. INDIRECT AGRICULTURE

1. Loans to corporates, partnership firms and institutions engaged in Agriculture and Allied Activities more than Rs.2 crore Loans upto Rs.5 crore to Producer Companies set up exclusively by only small and marginal farmers for agricultural/allied activities.
2. Other indirect agriculture loans
(i) Loans up to Rs.5 crore per borrower to dealers / sellers of fertilizers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs.
(ii) Loans for setting up of Agriclinics and Agribusiness Centres.
(iii) Loans to Custom Service Units to maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis.
(iv) Loans for construction/running of storage facilities” (warehouse, market yards, godowns and silos), including cold storage units to store agriculture produce/products, irrespective of location.
Loan to MSE storage unit will be classified under loans to MSE.

2. MICRO AND SMALL ENTERPRISES INCLUDE:

(a) Manufacturing Enterprises (Investment in P&M): Micro max Rs.25 lac. Small Enterprises - Above Rs.25 lac up to Rs. 5 cr.
(b) Service Sector Enterprises: Micro Enterprises - Max Rs. 10 lakh. Small Enterprises - Above 10 lakh up to Rs. 2 crore.

(A) DIRECT FINANCE -

1. Need based loans to Manufacturing Enterprises and loans up to Rs.5 cr to service enterprises.
2. Food/agro processing if units satisfy investment criteria.
3. Export credit to MSE units for export by them.

4. All loans to Khadi and Village Industries Sector will be classified under sub-target of 60 % for micro enterprises within MSE sector.

(B) INDIRECT FINANCE -

(i) Loans to persons assisting decentralised sector in supply of inputs & marketing of outputs of artisans, village cottage industries.
(ii) Loans to producers in the decentralised sector viz. artisans, village and cottage industries.

3. EDUCATION: Loans to individuals including vocational courses max Rs.10 lakh for studies in India and Rs. 20 lakh abroad.

4. MICRO CREDIT: Provision of credit and other financial services and products of amounts up to Rs.50,000.

5. HOUSING

(i) Loans up to Rs. 25 lakh irrespective of location, to individuals for purchase / construction of a dwelling unit per family, excluding loans sanctioned by banks to their own employees,
(ii) Loans for repairs to damaged dwelling units up to Rs. 2 lakh in rural and semi-urban areas and up to Rs. 5 lakh in urban and metropolitan areas.
(iii) Loan to a governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of loan component of Rs. 5 lakh per dwelling unit,
(iv) Loan to a non-governmental agency approved by NHB for refinance for construction / reconstruction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of Rs. 10 lakh per dwelling unit.

6. OTHERS

1. Loans up to Rs. 50,000 provided directly by banks to individuals;
2. Loans to distressed persons [other than farmers] max Rs. 50,000 per borrower to prepay their debt to non-institutional lenders.
3. Loans to SHGs / JLGs for agricultural and allied activities. Other loans to SHGs / JLGs up to Rs. 50,000 to be part of Micro Credit.
4. Loans sanctioned to State Sponsored Organisations for SC/ST for purchase and supply of inputs to and / or the marketing of the outputs of the beneficiaries of these organisations.

WEAKER SECTIONS: 10% of total credit to this section(a) Small and marginal farmers; (b) Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000/-; (c) SC/ST and women; (d) Education loans to persons having monthly income not exceeding Rs.5000 (e) Loans to Self Help Groups; (f) Loans to distressed farmers indebted to non-institutional lenders; (g) Loans to distressed persons other than farmers not exceeding Rs.50,000/- per borrower to prepay their debt to non-institutional lenders; (h) Persons from minority communities as may be notified by Govt. of India.

COMMON GUIDELINES FOR PRIORITY SECTOR LOANS

Banks should comply with the following common guidelines for all categories of advances under the priority sector.

1. SERVICE CHARGES : IMo loan related and adhoc service charges/ inspection charges should be levied on loans up to Rs. 25,000/-.

2. RECEIPT, SANCTION/REJECTION/DISBURSEMENT REGISTER: A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.

SMALL AND MARGINAL FARMERS: Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a land-holding of more than 1 hectare but less than 2 hectares are considered as Small Farmers. For the purpose of priority sector loans „small and marginal farmers" include landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within above limits prescribed for "Small and Marginal Farmer".

CROP LOAN

The crop loan is provided to meet all expenses involved in raising a particular crop including various agronomic practices.

ELIGIBILITY:-

Farmers cultivating owned/Registered leased lands hare croppers.

RATE OF INTEREST:-Above Rs. 1,00,000/ 10% to 15%

RBI & MONETARY POLICY

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.
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.

MAIN FUNCTIONS

1. **Monetary Authority**
2. **REGULATOR AND SUPERVISOR OF THE FINANCIAL SYSTEM**
3. **MANAGER OF FOREIGN EXCHANGE**
4. **ISSUER OF CURRENCY**
5. **Developmental role**
6. **Related Functions**
7. **Monetary policy**

The main objectives of Monetary Policy in India are:

- Maintaining price stability
- Ensuring adequate flow of credit to the productive sectors of the economy to support economic growth
- Financial stability

DIRECT INSTRUMENTS

CASH RESERVE RATIO (CRR)

The share of net demand and time liabilities that banks must maintain as cash balance with the Reserve Bank.
Currently it is 4 %

STATUTORY LIQUIDITY RATIO (SLR)

Statutory Liquidity Ratio (SLR) is a term used in the regulation of banking in India. It is the amount which a bank has to maintain in the form of cash, gold or approved securities balance in current account with other commercial bank. The quantum is specified as some percentage of the total demand and time liabilities of a bank. This percentage is fixed by the Reserve Bank of India. Presently the SLR is 21.5%.

INDIRECT INSTRUMENTS

LIQUIDITY ADJUSTMENT FACILITY (LAF)

Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

OPEN MARKET OPERATIONS (OMO)

Outright sales/purchases of government securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.

MARKET STABILISATION SCHEME (MSS)

This instrument for monetary management was introduced in 2004. Liquidity of a more enduring nature arising from large capital flows is absorbed through sale of short-dated government securities and treasury bills. The mobilised cash is held in a separate government account with the Reserve Bank.

REPO/REVERSE REPO RATE

These rates under the Liquidity Adjustment Facility (LAF) determine the corridor for short-term money market interest rates. In turn, this is expected to trigger movement in other segments of the financial market and the real economy.

TERM REPO'S UNDER LIQUIDITY ADJUSTMENT FACILITY

On Oct 08, 2013, RBI decided to conduct auctions for Term Repos of 7-day and 14-day tenor, for a notified amount, through variable rate auction mechanism. The details are as under:

• Term Repo under the Liquidity Adjustment Facility (LAF) for 14 days and 7 days tenors will be introduced for banks (scheduled commercial banks other than RRBs) in addition to the existing daily LAF (repo and reverse repo) and MSF.

• Term repo auctions will be conducted on CBS (E-KUBER) platform through electronic bidding as is done in the case of OMO auctions.
• The total amount of liquidity injected through term repos would be limited to 0.50% of NDTL of the banking system.
• The 14 day term repo would be conducted every reporting Friday and the 7 day term repo would be conducted on every non-reporting Friday.
• In case the notified amount for the 14-day term repo is not fully subscribed, a 7-day term repo would be conducted on the following Friday for the remaining un-subscribed amount. In case of full subscription in 14-day term repo, there will be no 7 day term repo auction on following Friday.
• Banks would be required to place their bids with the term repo rate that they are willing to pay to RBI, for the tenor of the repo expressed in percentage terms up to two decimal places.
• Once the bidding time is over, all the bids would be arranged in descending order of the term repo rates quoted and the cut-off rate would be arrived at the rate corresponding to the notified amount of the auction. Successful bidders would be those, who have placed their bids at or above the cut-off rate.
• No bids would be accepted at or below prevailing Repo Rate under LAF.
• On the day prior to the auction, RBI will announce the amount to be auctioned under term repo along with its tenor. The minimum bid amount for the auction would be Rs.1 cr and multiples thereof.
• The reversal of term repo would take place at the „start of day" on the day of completion of the term.
• The eligible collateral for term repo will remain the same as daily LAF repo and MSF i.e. for Central Government Securities on 10% discount and State Government Securities 20% discount.
• All other terms and conditions as applicable to LAF operations will also be made applicable to term repo, mutatis mutandis. These conditions will, however, be subject to review on a periodic basis.

BANK RATE

It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. It also signals the medium-term stance of monetary policy.

NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, 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 Scheme.
For being part of the NEFT funds transfer network, a bank branch has to be NEFT- enabled.

Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account.
Individuals, firms or corporates maintaining accounts with a bank branch can receive funds through the NEFT system. It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.
The NEFT system also facilitates one-way cross-border transfer of funds from India to Nepal. This is known as the **Indo-Nepal Remittance Facility Scheme**. A remitter can transfer funds from any of the NEFT-enabled branches to Nepal, irrespective of whether the beneficiary in Nepal maintains an account with a bank branch in Nepal or not.
There is no limit - either minimum or maximum - on the amount of funds that could be transferred using NEFT. However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances and remittances to Nepal.
There is no restriction of centres or of any geographical area within the country. The NEFT system takes advantage of the core banking system in banks. Accordingly, the settlement of funds between originating and receiving banks takes places centrally at Mumbai, whereas the branches participating in NEFT can be located anywhere across the length and breadth of the country.
Presently, NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays.

REAL TIME GROSS SETTLEMENT (RTGS) SYSTEM

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). **'Real Time'** means the processing of instructions at the time they are received rather than at some later time.**'Gross Settlement'** means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable. RBI has operationalized a new ISO 20022 complaint RTGS system october 19-2-2013.
The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is Rs.2 lakh. There is no upper ceiling for RTGS transactions.

Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within two hours of receiving the funds transfer message.

The remitting bank receives a message from the Reserve Bank that money has been credited to the receiving bank. Based on this the remitting bank can advise the remitting customer that money has been delivered to the receiving bank.

It is expected that the receiving bank will credit the account of the beneficiary instantly. If the money cannot be credited for any reason, the receiving bank would have to return the money to the remitting bank within 2 hours. Once the money is received back by the remitting bank, the original debit entry in the customer's account is reversed.

The RTGS service window for customer's transactions is available from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 13.30 hours on Saturdays for settlement at the RBI end. However, the timings that the banks follow may vary depending on the customer timings of the bank branches.

With a view to rationalize the service charges levied by banks for offering funds transfer through RTGS system, a broad framework has been mandated as under:

INWARD TRANSACTIONS

Free, no charge to be levied.

OUTWARD TRANSACTIONS

Rs. 2 lakh to Rs. 5 lakh - not exceeding Rs. 30 per transaction

Above Rs. 5 lakh - not exceeding Rs. 55 per transaction

DEMAT ACCOUNT

A DeMat account is one that allows you to buy, sell as well as transact without the need of any paperwork. DeMat accounts are very safe, convenient and secure.

WHAT IS THE MEANING OF DEMAT ACCOUNT?

DeMat is nothing but a dematerialized account. If one has to save money or make cheque payments, then he/she needs to open a bank account. Similarly, one needs to open a DeMat account if he/she wants to buy or sell stocks. Thus, DeMat account is similar to a bank account wherein the actual money is being replaced by shares. In order to open a DeMat account, one needs to approach the Depository Participants [DPs].

In India, a DeMat account is a type of banking account that dematerializes paper-based physical stock shares. The DeMat account is used to avoid holding of physical shares: the shares are bought as well as sold through a stock broker. In this case, the advantage is that one does not need any physical evidence for possessing these shares. All the things are taken care of by the DPs.

This account is very popular in India. Physically only 500 shares can be traded as per the provision given by SEBI. From April 2006, it has become mandatory for any person holding a DeMat account to possess a Permanent Account Number (PAN).

MARGINAL STANDING FACILITY - SCHEME

As announced in the Monetary Policy for the year 2011-12, a new Marginal Standing Facility (MSF) is being introduced with effect from May 9, 2011.
The Scheme will be operationalized on the lines of the existing Liquidity Adjustment Facility - Repo Scheme (LAF - Repo). The salient features of the Scheme are as under:

This facility is effective from May 9, 2011.

ELIGIBILITY

All Scheduled Commercial Banks having Current Account and SGL Account with Reserve Bank, Mumbai will be eligible to participate in the MSF Scheme.

TENOR AND AMOUNT

Under the facility, the eligible entities can avail overnight, up to one per cent of their respective Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding fortnight. But for the intervening holidays, the MSF facility will be for one day except on Fridays when the facility will be for three days or more, maturing on the following working day. In the event, the banks' SLR holdings fall below the statutory requirement up to one per cent of their NDTL, banks will not have the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility in terms of notification issued under sub section (2A) of Section 24 of the Banking Regulation Act, 1949.

TIMING

The Facility will be available on all working days in Mumbai, excluding Saturdays between 3.30 P.M. and 4.30 P.M.

RATE OF INTEREST

The rate of interest on amount availed under this facility will be 100 basis points above the LAF repo rate, or as decided by the Reserve Bank from time to time.

DISCRETION TO RESERVE BANK

The Reserve Bank will reserve the right to accept or reject partially or fully, the request for funds under this facility.

MECHANICS OF OPERATIONS

- The requests will be submitted electronically in the Negotiated Dealing System (NDS). Eligible members facing genuine system problem on any specific day, may submit physical requests in sealed cover in the box provided in the Mumbai Office, Reserve Bank of India, to the Manager, Reserve Bank of India, Securities Section, Public Accounts Department (PAD), Mumbai Office by 4.30 P.M.
- The NDS provides for submission of single or multiple applications by the member. However, as far as possible only one request should be submitted by an applicant.
- The MSF will be conducted as "Hold-in-Custody" repo, similar to LAF - Repo.
- On acceptance of MSF requests, the applicant's RC SGL Account will be debited by the required quantum of securities and credited to Bank's RC SGL Account. Accordingly, the applicant's current account will be credited with the MSF application amount. The transactions will be reversed in the second leg. In case the second leg falls on a holiday, the reversal date will be the next working day.
- The MSF transactions between Reserve Bank and counter parties which would involve operation of the RC SGL Account would not require separate SGL forms.
- Pricing of all securities including Treasury Bills will be at face value for MSF operations by Reserve Bank. Accrued interest as on the date of transaction will be ignored for the purpose of pricing of securities.

MINIMUM REQUEST SIZE

Requests will be received for a minimum amount of Rs. One crore and in multiples of Rs. One crore thereafter.

ELIGIBLE SECURITIES

MSF will be undertaken in all SLR-eligible transferable Government of India (GoI) dated Securities/Treasury Bills and State Development Loans (SDL).

MARGIN REQUIREMENT

A margin of five per cent will be applied in respect of GoI dated securities and Treasury Bills. In respect of SDLs, a margin of 10 per cent will be applied. Thus, the amount of securities offered on acceptance of a request for Rs.100 will be Rs.105 (face value) of GoI dated securities and Treasury Bills or Rs.110 (face value) of SDLs.

SETTLEMENT OF TRANSACTIONS

The settlement of all applications received under the MSF Scheme will take place on the same day after the closure of the window for acceptance of applications.

SLR AND SECURITIES HELD IN REPO SGL ACCOUNT

The extant instructions issued by the Department of Banking Operations and Development (DBOD) of the Reserve Bank will apply on the securities offered by scheduled commercial banks for MSF operations.

BASEL COMMITTEE

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. The Committees Secretariat is located at the Bank for International Settlements (BIS) in Basel, Switzerland.

FEATURES OF BASEL II NORMS

Basel II Norms are considered as the reformed & refined form of Basel I Accord. The Basel II Norms primarily stress on 3 factors, viz. Capital Adequacy, Supervisory Review and Market discipline. The Basel Committee calls these factors as the Three Pillars to manage risks.

PILLAR I: CAPITAL ADEQUACY REQUIREMENTS

Under the Basel II Norms, banks should maintain a minimum capital adequacy requirement of 8% of risk assets. For India, the Reserve Bank of India has mandated maintaining of 9% minimum capital adequacy requirement. This requirement is popularly called as Capital Adequacy Ratio (CAR) or Capital to Risk Weighted Assets Ratio (CRAR).

PILLAR II: SUPERVISORY REVIEW

Banks majorly encounter with 3 Risks, viz. Credit, Operational & Market Risks. Basel II Norms under this Pillar wants to ensure that not only banks have adequate capital to support all the risks, but also to encourage them to develop and use better risk management techniques in monitoring and managing their risks. The process has four key principles:

- Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for monitoring their capital levels.
- Supervisors should review and evaluate bank‟s internal capital adequacy assessment and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios.
- Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.
- Supervisors should seek to intervene at an early stage to prevent capital from falling below minimum level and should require rapid remedial action if capital is not mentioned or restored.

PILLAR III: MARKET DISCIPLINE:

Market discipline imposes banks to conduct their banking business in a safe, sound and effective manner. Mandatory disclosure requirements on capital, risk exposure (semiannually or more frequently, if appropriate) are required to be made so that market participants can assess a bank‟s capital adequacy. Qualitative disclosures such as risk management objectives and policies, definitions etc. may be also published. \

BASEL III

The Reserve Bank released, guidelines outlining proposed implementation of Basel III capital regulation in India. These guidelines are in response to the comprehensive reform package entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" of the Basel Committee on Banking Supervision (BCBS) issued in December 2010.

The major highlights of the draft guidelines are:

MINIMUM CAPITAL REQUIREMENTS

- Common Equity Tier 1 (CET1) capital must be at least 5.5% of risk-weighted assets (RWAs);
- Tier 1 capital must be at least 7% of RWAs; and
- Total capital must be at least 9% of RWAs.

CAPITAL CONSERVATION BUFFER

- The capital conservation buffer in the form of Common Equity of 2.5% of RWAs. A such minimum Capital Adequacy ratio for banks will be 11.5% after full application of the capital conservation buffer by 31 March 2018.

TRANSITIONAL ARRANGEMENTS

- It is proposed that the implementation period of minimum capital requirements and deductions from Common Equity will begin from January 1, 2013 and be fully implemented as on March 31, 2018.
- Capital conservation buffer requirement is proposed to be implemented between March 31, 2014 and March 31, 2018.
- The implementation schedule indicated above will be finalized taking into account the feedback received on these guidelines.
- Instruments which no longer qualify as regulatory capital instruments will be phased-out during the period beginning from January 1, 2013 to March 31, 2022.

ENHANCING RISK COVERAGE

- For OTC derivatives, in addition to the capital charge for counterparty default risk under Current Exposure Method, banks will be required to compute an additional credit value adjustments (CVA) risk capital charge.

Leverage Ratio

- The parallel run for the leverage ratio will be from January 1, 2013 to January 1, 2018, during which banks would be expected to strive to operate at a minimum Tier 1 leverage ratio of 5%. The leverage ratio requirement will be finalized taking into account the final proposal of the Basel Committee.

KNOW YOUR CUSTOMER

The Reserve Bank of India (RBI) has advised banks to follow „KYC guidelines‟, wherein certain personal information of the account-opening prospect or the customer is obtained. The objective of doing so is to enable the Bank to have positive identification of its customers. This is also in the interest of customers to safeguard their hard earned money.
The KYC guidelines of RBI mandate banks to collect three proofs from their customers. They are-

1. Photograph
2. Proof of identity
3. Proof of address

WHAT IS KYC?

Know Your Customer - KYC enables banks to know/ understand their customers and their financial dealings to be able to serve them better

WHO IS A CUSTOMER OF THE BANK?

For the purpose of KYC Policy, a Customer is defined as:

- A person or entity that maintains an account and/or has a business relationship with the Bank;
- One on whose behalf the account is maintained (i.e. the beneficial owner);
- Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors, etc. as permitted under the law, and
- Any person or entity connected with a financial transaction, which can pose significant reputation or other risks to the Bank, say, a wire transfer or issue of a high value demand draft as a single transaction

CAMEL RATING OF BANKS

CAMEL model of rating was first developed in the 1970s by the 3 federal banking supervisors of the U.S (the Federal Reserve, the FDIC and the OCC) as part of the Regulators‟ "Uniform Financial

Institutions Rating System", to provide a convenient summary of bank condition at the tirfie of its on-site examination.

C- Capital Adequacy

A- Asset Quality

M- Management Quality

E- Earnings

L- Liquidity

S- Sensitivity to Market Risk / System and control

RBI plans to change system in order to make the process more forward-looking. Indian financial sector would be evaluated under a dynamic risk-based mechanism, an aspect the present CAMELS rating system lacked. RBI proposes to replace CAMELS with INROADS (Indian Risk-Oriented and Dynamic Rating System) from the next round of annual financial inspection.

For foreign banks in INDIA the rating model is a modified version called CACS , CACS means

C - Capital Adequacy

A - Asset Quality

C - Compliance

S - System and control

MONEY & ITS TYPES

Money is a thing that is usually accepted as payment for goods and services as well as for the repayment of debts.

TYPES OF MONEY

COMMODITY MONEY -

Commodity money value is derived from the commodity out of which it is made. The commodity itself represents money and the money is the commodity. For instance, commodities that have been used as mediums of exchange include gold, silver, copper, salt, peppercorns, rice, large stones, etc.

REPRESENTATIVE MONEY -

Representative Money 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 government order (fiat).

COMMERCIAL BANK MONEY -

Commercial bank money or the demand deposits are claims against financial institutions which can be used for purchasing goods and services.

NARROW AND BROAD MONEY

Money supply, like money demand, is a stock variable. The total stock of money in circulation among the public at a particular point of time is called money supply. RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4.

THEY ARE DEFINED AS FOLLOWS -

M1 = CU + DD
M2 = M1 + Savings deposits with Post Office savings banks
M3 = M1 + Net time deposits of commercial banks
M4 = M3 + Total deposits with Post Office savings organisations (excluding National Savings Certificates)

where, CU is currency (notes plus coins) held by the public and DD is net demand deposits held by commercial banks. The word „net" implies that only deposits of the public held by the banks are to be included in money supply.

The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply.

M1 and M2 are known as narrow money. **M3 and M4 are known as broad money**.These gradations are in decreasing order of liquidity. M1 is most liquid and easiest for transactions whereas M4 is least liquid of all. M3 is the most commonly used measure of money supply. It is also known as aggregate monetary resources.

ANTI MONEY LAUNDERING

PREVENTION OF MONEY LAUNDERING ACT, 2002

Prevention of Money Laundering Act in Indian Law was passed in 2002, to prevent money-laundering and to provide for confiscation of property derived from money-laundering. The main objective of this act are to prevent money-laundering as well as to provide for confiscation of property either derived from or involved in, money-laundering.

SALIENT FEATURES

PUNISHMENT FOR MONEY-LAUNDERING **:** The act prescribes that any person found guilty of money-laundering shall be punishable with rigorous imprisonment from three years to seven years. He could also be liable to fine of upto Rs. 5 lakh.

POWERS OF ATTACHMENT OF TAINTED **:** Property Appropriate authorities, appointed by the Government of India, can provisionally attach property believed to be „proceeds of crime‟ for 90 days. Such an order is required to be confirmed by an independent adjudicating authority.

ADJUDICATING AUTHORITY : It is the authority appointed by the Central Government. It decides whether any of the property attached or seized is involved in money-laundering.

APPELLATE TRIBUNAL **:** It is the body appointed by Government of India. It has given the power to hear appeals against the orders of the adjudicating authority and any other authority under the act. Orders of the tribunal can be appealed in appropriate High Court (for that jurisdiction) and finally to the Supreme Court.

SPECIAL COURTS **:** The trial for the offences mentioned in the act are conducted by a special court, also called „PMLA Court‟. The Central Government (in consultation with the Chief Justice of the High Court), designates a Session Court as Special Court Any appeal against order passed by PMLA court can directly be filed in the High Court (for that jurisdiction).

BURDEN OF PROOF : A person, who is accused of having committed the offence of money-laundering, has to prove that alleged proceeds of crime are in fact lawful property.

MONEY LAUNDERING OCCURS IN THREE STAGES

- Placement: refers to the initial point of entry for funds derived from any criminal activities.
- Layering: refers to the creation of a complex network of transactions which attempts to obscure the link between the

- initial entry point and the end of the laundry cycle
- Integration: refers to the return of funds to the legitimate economy for later extraction.

INFLATION

Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every rupee you own buys a smaller percentage of a good or service.
The value of a rupee does not stay constant when there is inflation. The value of a rupee is observed in terms of purchasing power, which is the real, tangible goods that money can buy. When inflation goes up, there is a decline in the purchasing power of money. For example, if the inflation rate is 2% annually, then theoretically a Re 1 pack of gum will cost Rs 1.02 in a year. After inflation, your money can‟t buy the same amount of goods it could beforehand.

DIFFERENCE BETWEEN WPI AND CPI

WPI and CPIs differ in terms of their weighting pattern. First, food has a larger weight in CPI ranging from 46 per cent in CPI-IW to 69 per cent in CPI-AL whereas it has a weight of only 27 per cent in WPI. The CPIs are, therefore, more sensitive to changes in prices of food items. Second, the fuel group has a much higher weight in the WPI (14.2 percent) than the CPIs (5.5 to 8.4 per cent). As a result, movement in international crude prices has a greater bearing on WPI than on the CPIs. Third, services are not covered under WPI while they are, to different degrees, covered under CPIs. Consequently, service price inflation has a greater influence on CPIs. In general, revision of base in every 5 years is an accepted principle in major developed and emerging countries.

MONEY MARKET IN INDIA

The money market is the market in which short term funds are borrowed and lent. The lending money market institutions are -

- Government of India and other sovereign bodies
- Banks and Development Financial Institutions
- PSUs [Public Sector Undertakings]
- Private sector organizations
- The Government /Quasi government owned non-corporate entities.

Large numbers of instruments that are traded in the money market are issued by Government of India, State governments and other statutory bodies. Instruments that are issued by the Development

Financial Institutions [DFI] and banks carry the highest credit ratings amongst non-government issuers mainly due to their connection with the Indian Government.

INSTRUMENTS OF MONEY MARKET

CALL MONEY **-** Call or notice money is an amount borrowed or lent on demand for a very short period. If the period is greater than one day and up to 14 days it is called Notice money; otherwise the amount is known as Call money. No collateral security is needed to cover these transactions.
The call market enables the banks and institutions to even out their day-to-day deficits and surpluses of money. Co-operative banks, commercial banks and primary dealers are allowed to borrow and lend in this market for adjusting their cash reserve requirements.
This is a completely inter-bank market. Interest rates are market determined. In view of the short tenure of these transactions, both borrowers and lenders are required to have current accounts with Reserve Bank of India.

TREASURY BILLS - These are the lowest risk category instruments for the short term. RBI issues treasury bills [T-bills] at a prefixed day and for a fixed amount. There are 3 types of treasury bills.
-91-day T-bill: maturity is in 91 days, it is auctioned on every Friday of every week and the notified amount for auction is Rs. 100 crores.
-182-day T-bill: maturity is in 182 days, it is auctioned on every alternate Wednesday, which is not a reporting week and the notified amount for auction is Rs. 100 crores.
-364-day T-bill: maturity is 64 days, it is auctioned on every alternate Wednesday which is a reporting week and the notified amount for the auction is Rs. 500 crores.

CERTIFICATES OF DEPOSITS **-** After treasury bills, the next lowest risk category investment option is Certificate of Deposit (CD) issued by banks and Financial Institutions (FI). Allowed in 1989, CDs were one of RBI‟s measures to deregulate the cost of funds for banks and FIs. A CD is a negotiable promissory note, secure and short term, of up to a year, in nature.
A CD is issued at a discount to the face value, the discount rate being negotiated between the issuer and the investor. Although RBI allows CDs up to one-year maturity, the maturity most quoted in the market is for 90 days.

COMMERCIAL PAPERS **-** Commercial papers [CPs] are negotiable short-term unsecured promissory notes with fixed maturities, issued by well-rated organizations. These are generally sold on discount basis. Organizations can issue CPs either directly or through banks or merchant banks [called as dealers]. These instruments are normally issued in the multiples of five crores for 30/45/60/90/120/180/270/364 days.

INTER-CORPORATE DEPOSITS - An Inter-Corporate Deposit or ICD is an unsecured loan extended by one corporate to another. Existing mainly as a refuge for low rated corporate, this market allows funds surplus corporate to lend to other corporate.
A better rated corporate can borrow from the banking system and lend in this market. As the cost of funds for a corporate is much higher than a bank, the rates in this market are higher than those in other markets. ICDs are unsecured, and therefore the risk inherent is high. The ICD market is not well organized with very little information available about transaction details.

READY FORWARD CONTRACTS - These are transactions in which two parties agree to sell and repurchase the same security. Under such an agreement the seller sells specified securities with an agreement to repurchase the same at a mutually decided future date and price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller on an agreed date in future at a predetermined price.
Such a transaction is called **Repo when viewed from the prospective of the buyer of securities that is the party acquiring fund**. It is called **reverse repo when viewed from the prospective of supplier of funds**.

COMMERCIAL BILLS - Bills of exchange are negotiable instruments drawn by the seller or drawer of the goods on the buyer or drawee of the good for the value of the goods delivered. These bills are called **trade bills**. **These trade bills are called commercial bills when they are accepted by commercial banks**. If the bill is payable at a future date and the seller needs money during the currency of the bill then the seller may approach the bank for discounting the bill.

PASS THROUGH CERTIFICATES - This is an instrument with cash flows derived from the cash flow of another underlying instrument or loan. The issuer is a Special Purpose Vehicle (SPV), which only

receives money, from a multitude of, may be several hundreds or thousands, underlying loans and passes the money to the holders of the PTCs. This process is called **securitization**.
Legally speaking PTCs are promissory notes and hence tradable freely with no stamp duty payable on transfer. Most PTCs have 2-3 year maturity because the issuance stamp duty rate makes shorter duration PTCs unviable.

DATED GOVERNMENT SECURITIES - These are securities issued by the Government of India and State Governments. The date of maturity is specified in the securities therefore they are known as **dated securities**. The Government borrows funds through the issue of long term dated securities, the lowest risk category instruments in the economy. They are issued through auctions conducted by RBI, where RBI decides the coupon or discount rate based on the response received. Most of these securities are issued as fixed interest bearing securities, although the government sometimes issues zero coupon instruments and floating rate securities.

MONEY MARKET CONCEPTS

ISSUED CAPITAL**:** that part of a company‟s capital that has been subscribed to by shareholders. It is a broader concept than paid up capital.

PAID UP CAPITAL**:** It is that part of the issued capital of a company, paid up by the shareholders (promoters). It is that part, invested by the promoters. Therefore, an issued capital may or may not be a paid up capital.

AUTHORIZED CAPITAL: It is the amount of share capital fixed in the Memorandum of an Association and the Articles of the Association of a company as required by the Company‟s act. They are also known as **nominal capital**.

REPO OPERATIONS**:** In order to absorb and to neutralize excess liquidity from the system and even to out call money rates a system of announcing calendar of Repos auctions on a monthly basis was introduced with effect from January 13,1997.

FIXED RATE REPOS**:** The fixed rate repo was introduced with effect from November 29,1997. The repo rate and the period of repo is announced by the RBI in the evening of the previous day.

NET ASSET VALUE (NAV) **:** The investment efficiency of the mutual fund can be measured in terms of the NAV values and Net Sales. NAV is the indicator of the investment performance and it indicates the amount each unit holder will get per unit on redemption or winding up of mutual fund. Net Sales given by the difference between the total sales and total repurchases of the units of a fund.

FLOATING RATE NOTE **:** It adopts a reference rate of interest which reflects the market rate of interest. The interest rate of FRN then in certain percentage points over the reference rate or benchmark rate.

STOCK-INVEST**:** Under this scheme a provision of special payment system for investors in the primary market. Stockinvest is a non-negotiable bank instrument and its validity is for four months from the date of the issue.

ZERO -CUPON BONDS: It is issued at a discount to face value. No interest is paid during the period of the bond. But at the time of maturity full payment or bullet payment of the face value would be done.

DEEP-DISCOUNT BONDS: It was first introduced by IDBI in June 1994 followed by ICICI. It is similar to zero-coupon bonds with longer maturity.

JUMBOO LOT: It is issued in primary and secondary market to reduce the paper work connected with the processing. The certificates are issued in bulk.

BOOK BUILDING: This is the first draft or preliminary prospectus, which carries the information of the company and the project.

DABBA TRADING**:** The illegal badla trading, banned since 1993, has resurfaced in the form of Dabba Trading, a modified form of CFTS. It is based on bucketing system. It is an illegal practice where a stockbroker executes a customer‟s trade without taking it to a stock exchange with the hope of earning profit in future. The Dabba trader keeps record in a separate book. The trades to be settled on Friday.
SEBI has conducted raids on large scale on dabba trading and investigations are on. These trading have intensified the speculative nature of the market. Therefore, despite the fact that market has a cash market with T + 1 rolling settlement and derivatives market with four types of options and futures products, a huge amount of illegal mode is also adopted in the transactions of stock market.

NEGOTIABLE INSTRUMENTS

DEFINITION OF NEGOTIABLE INSTRUMENT

According to section 13 of the Negotiable Instruments Act, 1881, a negotiable instrument means "promissory note, bill of exchange, or cheque, payable either to order or to bearer".

TYPES OF NEGOTIABLE INSTRUMENTS

According to the Negotiable Instruments Act, 1881 there are just three types of negotiable instruments i.e., promissory note, bill of exchange and cheque. However many other documents are also recognized as negotiable instruments on the basis of custom and usage, like hundis, treasury bills, share warrants, etc., provided they possess the features of negotiability. In the following sections, we shall study about Promissory Notes (popularly called pronotes), Bills of Exchange (popularly called bills), Cheques and Hundis (a popular indigenous document prevalent in India), in detail.

PROMISSORY NOTE

Suppose you take a loan of Rupees Five Thousand from your friend Ramesh. You can make a document stating that you will pay the money to Ramesh or the bearer on demand. Or you can mention in the document that you would like to pay the amount after three months. This document, once signed by you, duly stamped and handed over to Ramesh, becomes a negotiable instrument. Now Ramesh can personally present it before you for payment or give this document to some other person to collect money on his behalf. He can endorse it in somebody else‟s name who in turn can endorse it further till the final payment is made by you to whosoever presents it before you. This type of a document is called a Promissory Note.

BILL OF EXCHANGE

Suppose Rajiv has given a loan of Rupees Ten Thousand to Sameer, which Sameer has to return. Now, Rajiv also has to give some money to Tarun. In this case, Rajiv can make a document directing Sameer to make payment up to Rupees Ten Thousand to Tarun on demand or after expiry of a specified period. This document is called a Bill of Exchange, which can be transferred to some other person‟s name by Tarun.
Section 5 of the Negotiable Instruments Act, 1881 defines a bill of exchange as „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‟.

CHEQUES

Cheque is a very common form of negotiable instrument. If you have a savings bank account or current account in a bank, you can issue a cheque in your own name or in favour of others, thereby directing the bank to pay the specified amount to the person named in the cheque.
Therefore, a cheque may be regarded as a bill of exchange; the only difference is that the bank is always the drawee in case of a cheque.

The Negotiable Instruments Act, 1881 defines a cheque as a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. Actually, a cheque is an order by the account holder of the bank directing his banker to pay on demand, the specified amount, to or to the order of the person named therein or to the bearer.

TYPES OF CHEQUE

OPEN CHEQUE: A cheque is called „Open" when it is possible to get cash over the counter at the bank. The holder of an open cheque can do the following:

1. Receive its payment over the counter at the bank,
2. Deposit the cheque in his own account
3. Pass it to someone else by signing on the back of a cheque.

CROSSED CHEQUE: Since open cheque is subject to risk of theft, it is dangerous to issue such cheques. This risk can be avoided by issuing another types of cheque called „Crossed cheque". The payment of such cheque is not made over the counter at the bank. It is only credited to the bank account of the payee. A cheque can be crossed by drawing two transverse parallel lines across the cheque, with or without the writing „Account payee" or „Not Negotiable".

BEARER CHEQUE: A cheque which is payable to any person who presents it for payment at the bank counter is called „Bearer cheque". A bearer cheque can be transferred by mere delivery and requires no endorsement.

ORDER CHEQUE: An order cheque is one which is payable to a particular person. In such a cheque the word „bearer" may be cut out or cancelled and the word „order" may be written. The payee can transfer an order cheque to someone else by signing his or her name on the back of it.

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 date of the cheque.

POST-DATED CHEQUE

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque.

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.

A SELF CHEQUE

A self cheque 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.

HUNDIS

A Hundi is a negotiable instrument by usage. It is often in the form of a bill of exchange drawn in any local language in accordance with the custom of the place. Sometimes it can also be in the form of a promissory note. **A hundi is the oldest known instrument used for the purpose of transfer of money without its actual physical movement**. The provisions of the Negotiable Instruments Act shall apply to hundis only when there is no customary rule known to the people.

BALANCE OF TRADE (BOT)

When the difference in the value of imports and exports of only physical goods or visible items, is taken into account, it is called Balance of Trade or Net Exports.

Balance of trade may be

(i) **Surplus or Favourable** In this situation, exports are greater than imports,

(ii) **Deficit or Unfavourable** In this situation, imports are greater than exports,

(iii) **Equilibrium in Balance of Trade** In this situation, total value of goods exported is equal to the total value of goods imported by a country.

BALANCE OF PAYMENTS (BOP)

When the difference in the value of imports and exports of all the three items i.e., visible, invisible and capital transfers, is taken into account, it is called Balance of Payments (BoP). Balance of Payments (BoP) is thus an overall record of all economic transactions of a country in a given period, with rest of the world.

Balance of Payments (BoP) account broadly comprises of the following components (i) Current account transaction and (ii) Capital account transaction.

CAPITAL ACCOUNT

Following are the principal forms of capital account transactions

1.FOREIGN INVESTMENT **:** It has two sub-components

(i) FOREIGN DIRECT INVESTMENT (FDI) referring to the purchase of assets in the rest of the world, which allows control over that assets.

Example Purchase of a firm by TATA in the rest of the world.

(ii) PORTFOLIO INVESTMENT referring to purchase of an asset in the rest of the world, without any control over that asset. Portfolio investment into India also consists of Foreign Institutional Investment (FII).

Example Purchase of some shares of a company by TATA in the rest of the world.

2. LOANS **:** It has two sub-components

(i) COMMERCIAL BORROWINGS referring to borrowing by a country (including government and the private sector), from the international money market. This involves market rate of interest without considerations of any concession,

(ii) BORROWINGS AS EXTERNAL Assistance referring to borrowing by a country with considerations of assistance. It involves lower rate of interest compared to that prevailing in the open market.

3. BANKING CAPITAL TRANSACTIONS **:** referring to transactions of external financial assets and liabilities of Commercial Banks and Cooperative Banks operating as authorised dealers in foreign exchange. These transactions include NRI deposits.

4. RESERVE ACCOUNT **:** The official reserve account records the change in stock of reserve assets (also known as foreign exchange reserves) at the country‟s monetary authority.

5. NET ERRORS AND OMISSIONS **:** This is the last component of the Balance of Payments and principally exists to correct any possible errors made in accounting for the three other accounts. They are often referred to as balancing items‟.

• All capital transactions causing flow of foreign exchange into the country are recorded as positive items in the capital account of BoP.

EXAMPLE Loans from rest of the world, foreign direct investment or portfolio investment by the non-residents in our country.

• All capital transactions causing flow of foreign exchange out of the country are recorded as negative items in the capital account of BoP.
• While FDI and portfolio investments are non-debt creating capital transactions, borrowings are debt-creating capital transactions.

SIGNIFICANCE OF CURRENT ACCOUNT DEFICIT

CAD measures the dependence of an economy on the capital inflows from abroad, to cover its current requirements. If dependence high, it can create problem, because the inflow of long term capital is uncertain and there is obligation to service the long term capital in the form of interest payments, dividend payments and return of principal amount, in case it is borrowing and not the investment. ;
The dependency level is judged on the basis of CAD as percentage to gross domestic product of a country (and not by amount of CAD). In case of India, it is around 4.8% currently which is significantly higher than about 1.3% in 2007-08. There area no. of causes for higher demand foreign currency including import of oil and gold while the supply could not keep pack due to declining exports.
In normal circumstances, the increasing CAD would have been funded by inflow of foreign capital in the form of FDI and/or FII, but due to various reasons including policy paralysis, political uncertainty, sliding industrial output and a weakening economy, that did not happen.
This demand-supply mismatch of foreign currencies particularly of US dollars, is the basic reason of US currency becoming more expensive.

FOREIGN INVESTMENT

FOREIGN DIRECT INVESTMENT (FDI) - It refers to direct investment in the productive capacities of a country by someone from outside the country. Such an investment can be in the form of setting up a new plant or through purchase of shares of a company, where the shareholding gives the foreign entity control over the business of the company. IMF defines control in such a case as, holding 10 % or more of ordinary shares or voting power in an incorporated firm. A foreign company can set up its business in India in two ways, by setting up a company under the Companies Act or by setting up an unincorporated entity like liaison office, project office or branch office.
Two concepts associated with FDI are Greenfield and Brownfield investment

GREENFIELD INVESTMENT It‟s a form of foreign direct investment, where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

BROWNFIELD INVESTMENT It happens, when a company or government entity purchases or leases existing production facilities to launch a new production activity.

FOREIGN INSTITUTIONAL INVESTMENT (FII) These are investments by entities from outside the country into the financial assets like debts and shares of companies from a different country, in which they are incorporated. FIIs are required to register with SEBI (Securities and Exchange Board of India) and any foreign individual wanting to invest into India has to co^pie through one of these FIIs.

PARTICIPATORY NOTES (P-Notes) These are financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India to invest in Indian securities. Indian-based brokerages buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors.

GLOBAL DEPOSITORY RECEIPTS (GDRs) These are equity instruments issued in international markets like London, Luxembourg etc. Indian companies use GDRs to raise capital from abroad. GDRs are designated in dollars, euros etc.

AMERICAN DEPOSITORY RECEIPTS (ADRs) These are the equity instruments issued to American retail and institutional investors. They are listed in New York, either on Nasdaq or New York Stock Exchange.
Indian Depository Receipts (IDRs) These are similar to ADR/GDR. They are used by non-Indian companies in the Indian stock markets for issuing equity to Indian investors.

FOREIGN INSTITUTIONAL INVESTORS [FII]

[FII] that invest in the Indian capital markets. These flows are large in magnitude and have a great impact on capital market and the exchange rate.
However, there is also the danger that if FIIs pull out, the stock markets could crash which in turn can adversely impact the economy. This danger is not only on account of the impact of share prices but also because of the impact on exchange rate, which can adversely affect foreign trade and consequently the price level in the country.

DIFFERENCE BETWEEN FDI AND FII

In order to remove the ambiguity that prevails on what is Foreign Direct Investment (FDI) and what is Foreign Institutional Investment (FII) the Finance Minister in his budget speech of 2013 clarified as under--

“I propose to follow the international practice and lay down a broad principle that where an investor has a stake of 10% or less in a company, it will be treated as FII and, where an investor has a stake of more than 10%, it will be treated as FDI. A committee will be constituted to examine the application of the principle and to work out the details expeditiously.

• FIIs will be allowed to participate in the exchange traded currency derivative segment to the extent of their rupee exposure in India.

• FIIs will also be permitted to use there investment in corporate bonds and Government securities as collateral to meet their margin requirements.

CAPITAL MARKET IN INDIA

A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year,as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market includes the stock market (equity securities) and the bond market (debt).

The capital market has 3 components - the equity market, the debt market, and the derivative market. It consists of all those connected with issuing and trading in equity shares and also medium and long term debt instruments, namely, bonds and debentures. It is well accepted that tenures less than one year are considered as short term; while tenures more than one year and up to three years may be taken as medium term while more than three years can be considered as long term.

Both equity and debt market have 2 segments - the primary market dealing with new issues of equity and debt instruments and the secondary market which facilitates trading in equity and debt instruments thereby imparting liquidity to the instruments and making it possible for people with different liquidity preferences to participate in the market.

The capital market operations are regulated by the Securities and Exchange Board of India [SEBI].

SEBI [SECURITIES AND EXCHANGE BOARD OF INDIA]

ESTABLISHMENT OF SEBI

The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

PREAMBLE

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "…..to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"

PRIMARY MARKET

The primary market is that part of the capital market that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers.

SECONDARY MARKET

The secondary market, also known as the **aftermarket**, is the financial market where previously issued securities and financial instruments such as stock, bonds, options and futures are bought and sold.The term "secondary market" is also used to refer to the market for any used goods or assets, or an alternative use for an existing product or asset where the customer base is the second market (for example, corn has been traditionally used primarily for food production and feedstock but a "second" or "third" market has developed for use in ethanol production).

SENSEX

Sensex is an index based on shares traded on the BSE. The Sensex and Nifty are the barometers of the Indian markets. The indices are composite in nature in that they cover a large segment of industries.

COMMODITY MARKET

Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts.

BULL MARKET

A bull market is associated with increasing investor confidence, and increased investing in anticipation of future price increases (capital gains). A bullish trend in the stock market often begins before the general economy shows clear signs of recovery.

BEAR MARKET

A bear market is a general decline in the stock market over a period of time. It is a transition from high investor optimism to widespread investor fear and pessimism.

BLUE CHIP (STOCK MARKET)

According to the New York Stock Exchange, a blue chip is stock in a corporation with a national reputation for quality, reliability and the ability to operate profitably in good times and bad. **The most popular index which follows US blue chips is the Dow Jones Industrial Average**. The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

RIGHTS ISSUE

A rights issue is basically when a company offers existing shareholders a right to purchase additional shares of the company at a given price, which is at a discount to the prevailing market price of the stock, to make the offer enticing for the shareholder and to ensure that the rights offer is fully subscribed to.

PREFERENCE SHARES

Preference shares are those shares which are given preference as regards to payment of dividend and repayment of capital. Preference shareholders are given preference over equity shareholders as in the case of winding up of the company, their capital is paid back first and then the equity shareholders are paid. Preference shareholders cannot exercise their voting rights on all the matters. They can vote only on the matters affecting their own interest.

DEBENTURES

A debenture is a document which either creates a debt or acknowledges it. Debenture issued by a company is in the form of a certificate acknowledging indebtedness. The debentures are issued under the Company's Common Seal. Debentures are one of a series issued to a number of lenders. The date of repayment is specified in the debentures. Debentures are issued against a charge on the assets of the Company. Debentures holders have no right to vote at the meetings of the companies.

MUTUAL FUND

A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors to buy stocks, bonds, short-term money market instruments, and/or other securities.

CROSS SELLING

Cross-selling stands for being able to offer to the existing bank customers, some additional banking products, with a view to expand banking business, reduce the per customer cost of operations and provide more satisfaction and value to the customer. For instance, when a bank is in a position to sell to a deposit customer (say saving bank or term deposit), a loan product such as housing loan, credit card, personal loan or vice-versa, this would result into additional business and lead to low per customer cost and higher per customer earning.

JOINT VENTURE

A Joint Venture (JV) is a cooperative enterprises entered into by two or more business entities. Sometimes the joint venture creates a separate corporation, limited liability company, or partnership. In other cases, the individual entities retain their individuality and they operate under a joint venture agreement. In any case, the parties in the JV share in the management, profits, and losses, according to a joint venture agreement (contract).

AMALGAMATION

Amalgamation is a restructuring phenomenon in which two or more companies are liquidated and a new company is formed to acquire business. In simpler terms, it means that a new company is formed that buys the business of minimum two companies.

PUBLIC FINANCE

Budget System‟ was introduced in India on 7th April, 1860. James Wilson the first Indian Finance Member delivered the budget speech expounding the Indian financial policy as an integral whole for the first time.

The financial year for the Union and the State Governments in India is from April to March. Each financial year is, therefore, spread over two calendar years. The period of financial year as from April to March was introduced in India from 1867. Prior to that, the financial year in India used to commence on 1st May and ended on 30th April (L.K. Jha Committee‟s Report of the Committee On Change in Financial Year).

Although the Indian Constitution does not mention the term „Budget‟, it provides that the President shall in respect of every financial year cause to be laid before both the Houses of Parliament, the House of People (Lok Sabha) and the Council of States (Rajya Sabha), **a statement of the estimated receipts and expenditure of the Government for that year**. This statement known as the „Annual Financial Statement‟ is the main fiscal or budgetary document of the Government.

Budget has been described in **Article-112** of the Indian Constitution as Annual Financial Statement.

Article-110 describes Money Bill

TYPES OF FUND

CONSOLIDATED FUND:

This is the most important of all the government funds. All revenues raised by the government, money borrowed and receipts from loans given by the government flow into the consolidated fund of India. All government expenditure is made from this fund, except for exceptional items met from the Contingency Fund or the Public Account. Importantly, no money can be withdrawn from this fund without Parliament‟s approval.

CONTINGENCY FUND:

As the name suggests, any urgent or unforeseen expenditure is met from this fund. The Rs 500-crore fund is at the disposal of the President. Any expenditure incurred from this fund requires a subsequent approval from Parliament and the amount withdrawn is returned to the fund from the consolidated fund.

PUBLIC ACCOUNT

This fund is to account for flows for those transactions where the government is merely acting as a banker, for instance, provident funds, small savings and so on. These funds do not belong to the government. They have to be paid back at some time to their rightful owners. Because of this nature of the fund, expenditures from it are not required to be approved by Parliament.

REVENUE DEFICIT:

The excess of disbursements over receipts on revenue account is called revenue deficit. This is an important control indicator. All expenditure on revenue account should ideally be met from receipts on revenue account; the revenue deficit should be zero. When revenue disbursement exceeds receipts, the government would have to borrow. Such borrowing is considered regressive as it is for consumption and not for creating assets. It results in a greater proportion of revenue receipts going towards interest payment and eventually, a debt trap. The FRBM Act, which we will take up later, requires the government to reduce fiscal deficit to zero by 2008-09.
RECEIPTS in the capital account of the consolidated fund are grouped under three broad heads - public debt, recoveries of loans and advances, and miscellaneous receipts.

FISCAL DEFICIT:

When the government‟s non-borrowed receipts (revenue receipts plus loan repayments received by the government plus miscellaneous capital receipts, primarily disinvestment proceeds) fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the fiscal deficit.

PRIMARY DEFICIT:

The revenue expenditure includes interest payments on government‟s earlier borrowings. The primary deficit is the fiscal deficit less interest payments. A shrinking primary deficit would indicate progress towards fiscal health.
The Budget document also mentions the deficit as a percentage of the GDP.

RU-PAY CARD

A) RuPay is the Indian domestic card payment network set up by National Payments Corporation of India (NPCI) at the behest of banks in India. The RuPay project had been conceived by Indian Banks Association (IBA) and had the approval of Reserve Bank of India (RBI).

B) National Payments Corporation of India (NPCI) has a plan to provide a full range of card payment services including the RuPay ATM, RuPay Micro-ATM, Debit, Prepaid and Credit Cards which will be accepted in India and abroad, across various channels like POS, Internet, IVR and mobile etc.

C) All Public Sector Undertakings (PSU) banks set to join RuPay system by the end of year 2012.

D) The government of India had launched India's first domestic payment card network, RuPay, to compete with Visa Inc and Mastercard Inc.

The Main Objective of the RuPay payment network project is to reduce the overall transaction cost and develop products appropriate for financial inclusion.

BANKING ABBREVIATION

- NABARD - National Bank for Agricultural & Rural Development
- RTGS - Real Time Gross Settlement
- NPA - Non Performing Asset
- ASBA - Account Supported by Blocked Amount
- BIFR - Board for Industrial and Financial Reconstruction
- CAMELS - Capital Adequacy, Asset Quality, Management Earnings, Liquidity, Systems & Controls
- BCSBI - Banking Codes & Standard Board of India
- BIS – Bank for International Settlement
- BCBS – Basel Committee on Banking Supervision
- BOP - Balance of Payment
- BOT - Balance of Trade
- BPLR – Benchmark Prime Lending Rate
- CCIL – Clearing Corporation of India Ltd.
- CIBIL - Credit Information Bureau of India Ltd.
- CRISIL - Credit Rating Information Services of India Ltd.
- CBLO - Collateralised Borrowing & Lending Obligation
- CPI - Consumer Price Index
- ADR – American Depository Receipts
- GDR – Global Depository Receipts
- ALM - Asset Liability Management
- ARC – Asset Reconstruction Companies
- FINO - Financial Inclusion Network Operation
- CTT - Commodities Transaction Tax
- CRM - Customer Relationship Management
- KYC - Know Your Customer

- SLR - Statutory Liquidity Ratio
- CRR - Cash Reserve Ratio
- MSF - Marginal Standing Facility
- REPO - Repurchase Option
- NBFC - Non Banking Finance Companies
- OSMOS - Off-Site Monitoring & Surveillance
- IFSC - Indian Financial System Code
- BSE - Bombay Stock Exchange
- NSE - National Stock Exchange
- SWIFT - Society for Worldwide Interbank Financial Tele communication
- FSLRC – Financial Sector Legislative Reforms Commission
- LAF – Liquidity Adjustment Facility
- DRT – Debt Recovery Tribunals.
- KCC – Kisan Credit Card
- KVIC – Khadi and Village Industries Corporation
- KYC – Know your customer
- LAMPS – Large Sized Adivasi Multipurpose societies
- LERMS – Liberalised Exchange Rate Management System
- LIC – Life Insurance Corporation of India
- MCA – Ministry of Company affairs
- MIS – Management Information System
- MICR – Magnetic Ink Character Recognition
- NABARD – National Bank for Agriculture and Rural Development
- NBFC – Non Banking Finance Companies
- NEFT – National Electronic Funds Transfer
- NPA – Non Performing assets
- NRE – Non Resident External account
- NRI – Non Resident Indian
- NSE – National Stock Exchange
- OLTAS – Online tax accounting system
- OMO – Open market operations
- PACS – Primary Agricultural Credit Societies
- PDO – Public Debt Office
- PIN – Personal Identification Number
- QIB – Qualified Institutional Buyers

- RBI – Reserve Bank of India
- RDBMS – Relational Database Management System
- REC – Rural ElectrificationCorporation
- RFC – Resident Foreign Currency
- RIDF – Rural Infrastructure Development Fund
- RRB – Regional Rural Bank
- RTGS – Real Time Gross Settlement
- RWA – Risk Weighted Assets
- SBI – State Bank of India
- SCB – Scheduled Commercial Bank
- SDR – Special Drawing Rights
- SEBI – Securities and Exchange Board of India
- SFMS - Structured Financial Messaging Services
- SHG – Self Help Group
- SIDBI – Small Industries Development Bank of India
- SIDC – State Industrial Development Corporation
- SJSRY –Swarna Jayanthi Shahari Rozgar Yojana
- SLR – Statutory Liquidity Ratio
- SLRS – Scheme for Liberation and Rehabilitation of Scavangers
- SMERA – SME rating agency of India Limited
- SSI – Small Scale Industries
- SME – Small and Medium Industries
- SSSBE – Small Scale Service and Business Enterprises
- UTI – Unit Trust of India
- WPI – Wholesale Price Index
- YTM – Yield to maturity
- LAB – Local Area Banks
- ALM – Asset Liability Management
- ANBC – Adjusted Net Bank Credit
- ASBA – Applications supported Bank accounts
- BOE – Bill of Exchange
- CASA – Current and savings accounts
- CBLO – Collateralised Bank Lending Obligations
- CIBIL – Credit Information Bureau of India Limited
- DPG – Deferred Payment Guarantee

- DPN – Demand Promissory Note
- DRAT – Debt Recovery Appellate tribunal
- DRI – Differential Rate of Interest
- DSCR – Debt Service Coverage Ratio
- EDI – Electronic Data Interchange
- EMI – Equated Monthly Instalments
- EPS – Earnings Per Share
- ESOP – Employee Stock Options
- FEDAI – Foreign Exchange Dealers Association of India
- FFMC – Full Fledged Money Changers
- FOB – Free on Board
- LIBOR – London Inter Bank Operations Rate
- MIBOR – Mumbai Inter Bank Operations Rate
- MOU – Memorandum of Understanding
- MCA – Ministry of Company Affairs
- NPV – Net Present Value
- OCB – Overseas Corporate Bodies
- POA – Power of Attorney
- RKBY – Rashtriya Krishi Bima Yojana
- SEBI – Securities and Exchange Board of India
- LAF – Liquidity Adjustment Facility
- IDBI – Industrial Development Bank of India
- BCSBI – Banking Codes and Standards Board of India
- IRDA – Insurance Regulatory Development Authority
- DICGC – Deposit Insurance and Credit Guarantee Corporation
- SPV – Special Purpose Vehicle
- CRISIL – Credit Rating Information Services of India Limited
- ICRA – Investment Information and Credit Rating Agency of India Limited
- CARE – Credit Analysis and Research Limited
- MCX – Multi Commodity Exchange
- CCIL – Clearing Corporation of India Limited
- OTCEI – Over the Counter Exchange of India
- EFT – Electronic Funds Transfer
- ARF – Asset Reconstruction Fund
- MSS – Market Stabilisation Scheme

- CRAR – Capital to Risk Assets Ratio
- FSDC – Financial Stability and Development Council
- SCARDB – State Cooperative Agriculture and Rural Development Banks
- LERMS – Liberalised Exchange Rate Management System
- BOT – Balance of Trade
- CAC – Capital account convertibility

BANKING TERMS

ACCOUNT AGREEMENT: The contract governing your open-end credit account, it provides information on changes that may occur to the account.

ACCOUNT HISTORY: The payment history of an account over a specific period of time, including the number of times the account was past due or over limit.

ACCOUNT HOLDER: Any and all persons designated and authorized to transact business on behalf of an account. Each account holder's signature needs to be on file with the bank. The signature authorizes that person to conduct business on behalf of the account.

ACQUIRING BANK: In a merger, the bank that absorbs the bank acquired.

ACCRUED INTEREST: Interest due from issue date or from the last coupon payment date to the settlement date. Accrued interest on bonds must be added to their purchase price.

ADJUSTABLE-RATE MORTGAGES (ARMS): Also known as variable-rate mortgages. The initial interest rate is usually below that of conventional fixed-rate loans. The interest rate may change over the life of the loan as market conditions change. There is typically a maximum (or ceiling) and a minimum (or floor) defined in the loan agreement. If interest rates rise, so does the loan payment. If interest rates fall, the loan payment may as well.

ARBITRAGE: Buying a financial instrument in one market in order to sell the same instrument at a higher price in another market.

ADVERSE ACTION: Under the Equal Credit Opportunity Act, a creditor's refusal to grant credit on the terms requested, termination of an existing account, or an unfavorable change in an existing account.

ADVERSE ACTION NOTICE: The notice required by the Equal Credit Opportunity Act advising a credit applicant or existing debtor of the denial of their request for credit or advising of a change in terms considered unfavorable to the account holder.

AER: Annual earnings rate on an investment.

AFFIDAVIT: A sworn statement in writing before a proper official, such as a notary public.

ALTERATION: Any change involving an erasure or rewriting in the date, amount, or payee of a check or other negotiable instrument.

AMORTIZATION: The process of reducing debt through regular installment payments of principal and interest that will result in the payoff of a loan at its maturity.

ANYTIME BANKING: With introduction of ATMs, Tele-Banking and internet banking, customers can conduct their business anytime of the day and night. The 'Banking Hours' is not a constraint for transacting banking business.

ANYWHERE BANKING : Refers to banking not only by ATMs, Tele-Banking and internet banking, but also to core banking solutions brought in by banks where customer can deposit his money, cheques and also withdraw money from any branch connected with the system. All major banks in India have brought in core banking in their operations to make banking truly anywhere banking.

ANNUAL PERCENTAGE RATE (APR): The cost of credit on a yearly basis, expressed as a percentage.

ANNUAL PERCENTAGE YIELD (APY): A percentage rate reflecting the total amount of interest paid on a deposit account based on the interest rate and the frequency of compounding for a 365-day year.

ANNUITY : A life insurance product which pays income over the course of a set period. Deferred annuities allow assets to grow before the income is received and immediate annuities (usually taken from a year after purchase) allow payments to start from about a year after purchase.

APR: The annual percentage rate of interest, usually on a loan or mortgage, usually displayed in brackets and representing the true cost of the loan or mortgage as it shows any additional payments beyond the interest rate.

APPLICATION**:** Under the Equal Credit Opportunity Act (ECOA), an oral or written request for an extension of credit that is made in accordance with the procedures established by a creditor for the type of credit requested.

APPRAISAL: The act of evaluating and setting the value of a specific piece of personal or real property.

ASK PRICE**:** The lowest price at which a dealer is willing to sell a given security.

ASSET-BACKED SECURITIES (ABS): A type of security that is backed by a pool of bank loans, leases, and other assets. Most ABS are backed by auto loans and credit cards – these issues are very similar to mortgage-backed securities.

AT-THE-MONEY**:** The exercise price of a derivative that is closest to the market price of the underlying instrument.

ATM: ATMs are Automatic Teller Machines, which do the job of a teller in a bank through Computer Network. ATMs are located on the branch premises or off branch premises. ATMs are useful to dispense cash, receive cash, accept cheques, give balances in the accounts and also give mini-statements to the customers.

AUTHORIZATION: The issuance of approval, by a credit card issuer, merchant, or other affiliate, to complete a credit card transaction.

AUTOMATED CLEARING HOUSE (ACH): A computerized facility used by member depository institutions to electronically combine, sort, and distribute inter-bank credits and debits. ACHs process electronic transfers of government securities and provided customer services, such as direct deposit of customers' salaries and government benefit payments (i.e., social security, welfare, and veterans' entitlements), and preauthorized transfers.

AUTOMATED TELLER MACHINE (ATM): A machine, activated by a magnetically encoded card or other medium that can process a variety of banking transactions. These include accepting deposits and loan payments, providing withdrawals, and transferring funds between accounts.

AUTOMATIC BILL PAYMENT: A checkless system for paying recurring bills with one authorization statement to a financial institution. For example, the customer would only have to provide one authorization form/letter/document to pay the cable bill each month. The necessary debits and credits are made through an Automated Clearing House (ACH).

AVAILABILITY DATE: Bank's policy as to when funds deposited into an account will be available for withdrawal.

AVAILABILITY POLICY: Bank's policy as to when funds deposited into an account will be available for withdrawal.

AVAILABLE BALANCE: The balance of an account less any hold, uncollected funds, and restrictions against the account.

AVAILABLE CREDIT: The difference between the credit limit assigned to a cardholder account and the present balance of the account.

BANKING: Accepting for the purpose of lending or investment of deposits of money from Public, Repayable on demand or otherwise and withdraw able by cheques, drafts, order, etc.

BANK OMBUDSMAN: Bank Ombudsman is the authority to look into complaints against Banks in the main areas of collection of cheque / bills, issue of demand drafts, non-adherence to prescribed hours of working, failure to honour guarantee / letter of credit commitments, operations in deposit accounts and also in the areas of loans and advances where banks flout directions / instructions of RBI. This Scheme was announced in 1995 and is functioning with new guidelines from 2007. This scheme covers all scheduled banks, the RRBs and co-operative banks.

BANCASSURANCE: Bancassurance refers to the distribution of insurance products and the insurance policies of insurance companies which may be life policies or non-life policies like home insurance - car insurance, medi-policies and others, by banks as corporate agents through their branches located in different parts of the country by charging a fee.

BANKER'S LIEN: Bankers lien is a special right of lien exercised by the bankers, who can retain goods bailed to them as a security for general balance of account. Bankers can have this right in the absence of a contract to the contrary.

BASEL-II: The Committee on Banking Regulations and Supervisory Practices, popularity known as Basel Committee, submitted its revised version of norms in June, 2004. Under the revised accord the capital requirement is to be calculated for credit, market and operational risks. The minimum requirement continues to be 8% of capital fund (Tier I & II Capital) Tier II shall continue to be not more than 100% of Tier I Capital.

BRICK & MORTAR BANKING: Brick and Mortar Banking refers to traditional system of banking done only in a fixed branch premises made of brick and mortar. Now there are banking channels like ATM, Internet Banking, tele banking etc.

BUSINESS OF BANKING : Accepting deposits, borrowing money, lending money, investing, dealing in bills, dealing in Foreign Exchange, Hiring Lockers, Opening Safe Custody Accounts, Issuing Letters of Credit, Travelers' Cheques, doing Mutual Fund business, Insurance Business, acting as Trustee or doing any other business which Central Government may notify in the official Gazette.

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'.

BASIS POINT: One hundredth of 1%. A measure normally used in the statement of interest rate e.g., a change from 5.75% to 5.81% is a change of 6 basis points. Bear Markets: Unfavorable markets associated with falling prices and investor pessimism.

BID-ASK SPREAD: The difference between a dealers's bid and ask price.

BID PRICE: The highest price offered by a dealer to purchase a given security.

BLUE CHIPS: Blue chips are unsurpassed in quality and have a long and stable record of earnings and dividends. They are issued by large and well-established firms that have impeccable financial credentials.

BOND: Publicly traded long-term debt securities, issued by corporations and governments, whereby the issuer agrees to pay a fixed amount of interest over a specified period of time and to repay a fixed amount of principal at maturity.

BOOK VALUE: The amount of stockholders' equity in a firm equals the amount of the firm's assets minus the firm's liabilities and preferred stock.

BROKER: Individuals licensed by stock exchanges to enable investors to buy and sell securities.

BROKERAGE FEE: The commission charged by a broker.

BULL MARKETS: Favorable markets associated with rising prices and investor optimism.

CALL OPTION: The right to buy the underlying securities at a specified exercise price on or before a specified expiration date.

CALLABLE BONDS: Bonds that give the issuer the right to redeem the bonds before their stated maturity.

CAPITAL GAIN: The amount by which the proceeds from the sale of a capital asset exceed its original purchase price.

CAPITAL MARKETS: The market in which long-term securities such as stocks and bonds are bought and sold.

CERTIFICATE OF DEPOSITS (CDS): Savings instrument in which funds must remain on deposit for a specified period and premature withdrawals incur interest penalties.

CERTIFICATE OF DEPOSIT:. Certificate of Deposits are negotiable receipts in bearer form which can be freely traded among investors. This is also a money market instrument,issued for a period ranging from 7 days to f one year .The minimum deposit amount is Rs. 1 lakh and they are transferable by endorsement and delivery.

CHEQUE: Cheque is a bill of exchange drawn on a specified banker ordering the banker to pay a certain sum of money to the drawer of cheque or another person. Money is generally withdrawn by clients by cheques. Cheque is always payable on demand.

CHEQUE TRUNCATION: Cheque truncation truncates or stops the flow of cheques through the banking system. Generally truncation takes place at the collecting branch, which sends the electronic image of the cheques to the paying branch through the clearing house and stores the paper cheques with it .

CLOSED-END (MUTUAL) FUND: A fund with a fixed number of shares issued, and all trading is done between investors in the open market. The share prices are determined by market prices instead of their net asset value.

COLLATERAL: A specific asset pledged against possible default on a bond. Mortgage bonds are backed by claims on property. Collateral trusts bonds are backed by claims on other securities. Equipment obligation bonds are backed by claims on equipment.

COMMERCIAL PAPER: Short-term and unsecured promissory notes issued by corporations with very high credit standings.

COMMON STOCK: Equity investment representing ownership in a corporation; each share represents a fractional ownership interest in the firm.

COMPOUND INTEREST: Interest paid not only on the initial deposit but also on any interest accumulated from one period to the next.

CONTRACT NOTE: A note which must accompany every security transaction which contains information such as the dealer's name (whether he is acting as principal or agent) and the date of contract.

CONTROLLING SHAREHOLDER: Any person who is, or group of persons who together are, entitled to exercise or control the exercise of a certain amount of shares in a company at a level (which differs by jurisdiction) that triggers a mandatory general offer, or more of the voting power at general meetings of the issuer, or who is or are in a position to control the composition of a majority of the board of directors of the issuer.

CONVERTIBLE BOND: A bond with an option, allowing the bondholder to exchange the bond for a specified number of shares of common stock in the firm. A conversion price is the specified value of the shares for which the bond may be exchanged. The conversion premium is the excess of the bond's value over the conversion price.

CORPORATE BOND: Long-term debt issued by private corporations.

COUPON: The feature on a bond that defines the amount of annual interest income.

COUPON FREQUENCY: The number of coupon payments per year.

COUPON RATE: The annual rate of interest on the bond's face value that a bond's issuer promises to pay the bondholder. It is the bond's interest payment per dollar of par value.

COVERED WARRANTS: Derivative call warrants on shares which have been separately deposited by the issuer so that they are available for delivery upon exercise.

CREDIT RATING: An assessment of the likelihood of an individual or business being able to meet its financial obligations. Credit ratings are provided by credit agencies or rating agencies to verify the financial strength of the issuer for investors.

COLLECTING BANKER: Also called receiving banker, who collects on instruments like a cheque, draft or bill of exchange, lodged with himself for the credit of his customer's account.

CONSUMER PROTECTION ACT: It is implemented from 1987 to enforce consumer rights through a simple legal procedure. Banks also are covered under the Act. A consumer can file complaint for deficiency of service with Consumer District Forum for amounts upto Rs.20 Lacs in District Court, and for amounts above Rs.20 Lacs to Rs.1 Crore in State Commission and for amounts above Rs.1 Crore in National Commission.

CO-OPERATIVE BANK **:** An association of persons who collectively own and operate a bank for the benefit of consumers / customers, like Saraswat Co-operative Bank or Abhyudaya Co-operative Bank and other such banks.

CO-OPERATIVE SOCIETY **:** When an association of persons collectively own and operate a unit for the benefit of those using its services like Apna Bazar Co-operative Society or Sahakar Bhandar or a Co-operative Housing Society.

CORE BANKING SOLUTIONS (CBS)**:** Core Banking Solutions is a buzz word in Indian banking at present, where branches of the bank are connected to a central host and the customers of connected branches can do banking at any breach with core banking facility.

CREDITWORTHINESS: It is the capacity of a borrower to repay the loan / advance in time along with interest as per agreed terms.

CROSSING OF CHEQUES**:** Crossing refers to drawing two parallel lines across the face of the cheque. A crossed cheque cannot be paid in cash across the counter, and is to be paid through a bank either by transfer, collection or clearing. A general crossing means that cheque can be paid through any bank and a special crossing, where the name of a bank is indicated on the cheque, can be paid only through the named bank.

CUSTOMER**:** A person who maintains any type of account with a bank is a bank customer. Consumer Protection Act has a wider definition for consumer as the one who purchases any service for a fee like purchasing a demand draft or a pay order. The term customer is defined differently by Laws, softwares and countries.

CURRENT ACCOUNT**:** Current account with a bank can be opened generally for business purpose. There are no restrictions on withdrawals in this type of account. No interest is paid in this type of account.

CURRENCY BOARD**:** A monetary system in which the monetary base is fully backed by foreign reserves. Any changes in the size of the monetary base have to be fully matched by corresponding changes in the foreign reserves.

CURRENT YIELD: A return measure that indicates the amount of current income a bond provides relative to its market price. It is shown as: Coupon Rate divided by Price multiplied by 100%.

CUSTODY OF SECURITIES: Registration of securities in the name of the person to whom a bank is accountable, or in the name of the bank's nominee; plus deposition of securities in a designated account with the bank's bankers or with any other institution providing custodial services.

DEBIT CARD: A plastic card issued by banks to customers to withdraw money electronically from their accounts. When you purchase things on the basis of Debit Card the amount due is debited immediately to the account. Many banks issue Debit-Cum-ATM Cards.

DEBTOR: A person who takes some money on loan from another person.

DEMAND DEPOSITS: Deposits which are withdrawn on demand by customers. E.g. savings bank and current account deposits.

DEMAT ACCOUNT: Demat Account concept has revolutionized the capital market of India. When a depository company takes paper shares from an investor and converts them in electronic form through the concerned company, it is called Dematerialization of Shares. These converted Share Certificates in Electronic form are kept in a Demat Account by the Depository Company, like a bank keeps money in a deposit account. Investor can withdraw the shares or purchase more shares through this demat Account.

DERIVATIVE CALL (PUT) WARRANTS: Warrants issued by a third party which grant the holder the right to buy (sell) the shares of a listed company at a specified price.

DERIVATIVE INSTRUMENT: Financial instrument whose value depends on the value of another asset.

DISCOUNT BOND: A bond selling below par, as interest in-lieu to the bondholders.

DISHONOUR OF CHEQUE: Non-payment of a cheque by the paying banker with a return memo giving reasons for the non-payment.

DEFAULT RISK: The possibility that a bond issuer will default ie, fail to repay principal and interest in a timely manner.

DIVERSIFICATION: The inclusion of a number of different investment vehicles in a portfolio in order to increase returns or be exposed to less risk.

DURATION**:** A measure of bond price volatility, it captures both price and reinvestment risks to indicate how a bond will react to different interest rate environments.

EARNINGS: The total profits of a company after taxation and interest.

EARNINGS PER SHARE (EPS): The amount of annual earnings available to common stockholders as stated on a per share basis.

EARNINGS YIELD**:** The ratio of earnings to price (E/P). The reciprocal is price earnings ratio (P/E).

E-BANKING **:** E-Banking or electronic banking is a form of banking where funds are transferred through exchange of electronic

signals between banks and financial institution and customers ATMs, Credit Cards, Debit Cards, International Cards, Internet Banking and new fund transfer devices like SWIFT, RTGS belong to this category.

EFT - (ELECTRONIC FUND TRANSFER)**:** EFT is a device to facilitate automatic transmission and processing of messages as well as funds from one bank branch to another bank branch and even from one branch of a bank to a branch of another bank. EFT allows transfer of funds electronically with debit and credit to relative accounts.

EITHER OR SURVIVOR: Refers to operation of the account opened in two names with a bank. It means that any one of the account holders have powers to withdraw money from the account, issue cheques, give stop payment instructions etc. In the event of death of one of the account holder, the surviving account holder gets all the powers of operation.

ELECTRONIC COMMERCE (E-COMMERCE**):** E-Commerce is the paperless commerce where the exchange of business takes place by Electronic means.

ENDORSEMENT**:** When a Negotiable Instrument contains, on the back of the instrument an endorsement, signed by the holder or payee of an order instrument, transferring the title to the other person, it is called endorsement.

BOUNCING OF A CHEQUE: Where the name of the endorsee or transferee is not mentioned on the instrument.

ENDORSEMENT IN FULL**:** Where the name of the endorsee or transferee appears on the instrument while making endorsement.

EQUITY: Ownership of the company in the form of shares of common stock.

EQUITY CALL WARRANTS: Warrants issued by a company which give the holder the right to acquire new shares in that company at a specified price and for a specified period of time.

EX-DIVIDEND (XD): A security which no longer carries the right to the most recently declared dividend or the period of time between the announcement of the dividend and the payment (usually two days before the record date). For transactions during the ex-dividend period, the seller will receive the dividend, not the buyer. Ex-dividend status is usually indicated in newspapers with an (x) next to the stock's or unit trust's name.

EXECUTION OF DOCUMENTS: Execution of documents is done by putting signature of the person, or affixing his thumb impression or putting signature with stamp or affixing common seal of the company on the documents with or without signatures of directors as per articles of association of the company.

FACE VALUE/ NOMINAL VALUE: The value of a financial instrument as stated on the instrument. Interest is calculated on face/nominal value.

FIXED-INCOME SECURITIES: Investment vehicles that offer a fixed periodic return.

FIXED RATE BONDS: Bonds bearing fixed interest payments until maturity date.

FLOATING RATE BONDS: Bonds bearing interest payments that are tied to current interest rates.

FACTORING: Business of buying trade debts at a discount and making a profit when debt is realized and also taking over collection of trade debts at agreed prices.

FOREIGN BANKS: Banks incorporated outside India but operating in India and regulated by the Reserve Bank of India (RBI),. e..g., Barclays Bank, HSBC, Citibank, Standard Chartered Bank, etc.

FORFEITING: In International Trade when an exporter finds it difficult to realize money from the importer, he sells the right to receive money at a discount to a forfaiter, who undertakes inherent political and commercial risks to finance the exporter, of course with assumption of a profit in the venture.

FORGERY: when a material alteration is made on a document or a Negotiable Instrument like a cheque, to change the mandate of the drawer, with intention to defraud.

FUNDAMENTAL ANALYSIS**:** Research to predict stock value that focuses on such determinants as earnings and dividends prospects, expectations for future interest rates and risk evaluation of the firm.

FUTURE VALUE**:** The amount to which a current deposit will grow over a period of time when it is placed in an account paying compound interest.

FUTURE VALUE OF AN ANNUITY: The amount to which a stream of equal cash flows that occur in equal intervals will grow over a period of time when it is placed in an account paying compound interest.

FUTURES CONTRACT**:** A commitment to deliver a certain amount of some specified item at some specified date in the future.

GARNISHEE ORDER**:** When a Court directs a bank to attach the funds to the credit of customer's account under provisions of Section 60 of the Code of Civil Procedure, 1908.

GENERAL LIEN**:** A right of the creditors to retain possession of all goods given in security to him by the debtor for any outstanding debt.

GUARANTEE**:** A contract between guarantor and beneficiary to ensure performance of a promise or discharge the liability of a third person. If promise is broken or not performed, the guarantor pays contracted amount to the beneficiary.

HEDGE: A combination of two or more securities into a single investment position for the purpose of reducing or eliminating risk.

HOLDER**:** Holder means any person entitled in his own name to the possession of the cheque, bill of exchange or promissory note and who is entitled to receive or recover the amount due on it from the parties. For example, if I give a cheque to my friend to withdraw money from my bank,he becomes holder of that cheque. Even if he loses the cheque, he continues to be holder. Finder cannot become the holder.

HOLDER IN DUE COURSE **:** A person who receives a Negotiable Instrument for value, before it was due and in good faith, without notice of any defect in it, he is called holder in due course as per Negotiable Instrument Act. In the earlier example if my friend lends some money to me on the basis of the cheque, which I have given to him for encashment, he becomes holder-in-due course.

HYPOTHECATION: Charge against property for an amount of debt where neither ownership nor possession is passed to the creditor. In pledge, possession of property is passed on to the lender but in hypothecation, the property remains with the borrower in trust for the lender.

IDENTIFICATION: When a person provides a document to a bank or is being identified by a person, who is known to the bank, it is called identification. Banks ask for identification before paying an order cheque or a demand draft across the counter.

INDEMNIFIER: When a person indemnifies or guarantees to make good any loss caused to the lender from his actions or others' actions.

INDEMNITY: Indemnity is a bond where the indemnifier undertakes to reimburse the beneficiary from any loss arising due to his actions or third party actions.

INCOME: The amount of money an individual receives in a particular time period.

INDEX FUND: A mutual fund that holds shares in proportion to their representation in a market index, such as the S&P 500.

INITIAL PUBLIC OFFERING (IPO): An event where a company sells its shares to the public for the first time. The company can be referred to as an IPO for a period of time after the event.

INSIDE INFORMATION: Non-public knowledge about a company possessed by its officers, major owners, or other individuals with privileged access to information.

INSIDER TRADING: The illegal use of non-public information about a company to make profitable securities transactions

INSOLVENT: Insolvent is a person who is unable to pay his debts as they mature, as his liabilities are more than the assets . Civil Courts declare such persons insolvent. Banks do not open accounts of insolvent persons as they cannot enter into contract as per law.

INTEREST WARRANT: When cheque is given by a company or an organization in payment of interest on deposit , it is called interest warrant. Interest warrant has all the characteristics of a cheque.

INTERNATIONAL BANKING: involves more than two nations or countries. If an Indian Bank has branches in different countries like State Bank of India, it is said to do International Banking.

INTRODUCTION: Banks are careful in opening any account for a customer as the prospective customer has to be introduced by an existing account holder or a staff member or by any other person known to the bank for opening of account. If bank does not take introduction, it will amount to negligence and will not get protection under law.

INTRINSIC VALUE: The difference of the exercise price over the market price of the underlying asset.

INVESTMENT: A vehicle for funds expected to increase its value and/or generate positive returns.

INVESTMENT ADVISER: A person who carries on a business which provides investment advice with respect to securities and is registered with the relevant regulator as an investment adviser.

IPO PRICE: The price of share set before being traded on the stock exchange. Once the company has gone Initial Public iffering, the stock price is determined by supply and demand.

JHF ACCOUNT : Joint Hindu Family Account is account of a firm whose business is carried out by Karta of the Joint family, acting for all the family members.. The family members have common ancestor and generally maintain a common residence and are subject to common social, economic and religious regulations.

JOINT ACCOUNT: When two or more individuals jointly open an account with a bank.

JUNK BOND: High-risk securities that have received low ratings (i.e. Standard & Poor's BBB rating or below; or Moody's BBB rating or below) and as such, produce high yields, so long as they do not go into default.

KARTA: Manager of a Hindu Undivided Family (HUF) who handles the family business. He is usually the eldest male member of the undivided family.

KIOSK BANKING: Doing banking from a cubicle from which food, newspapers, tickets etc. are also sold.

KYC NORMS: Know your customer norms are imposed by R.B.I. on banks and other financial institutions to ensure that they know their customers and to ensure that customers deal only in legitimate banking operations and not in money laundering or frauds.

LAW OF LIMITATION: Limitation Act of 1963 fixes the limitation period of debts and obligations including banks loans and advances. If the period fixed for particular debt or loan expires, one cannot file a suit for is recovery, but the fact of the debt or loan is not denied. It is said that law of limitation bars the remedy but does not extinguish the right.

LEASE FINANCING: Financing for the business of renting houses or lands for a specified period of time and also hiring out of an asset for the duration of its economic life. Leasing of a car or heavy machinery for a specific period at specific price is an example.

LETTER OF CREDIT: A document issued by importers bank to its branch or agent abroad authorizing the payment of a specified sum to a person named in Letter of Credit (usually exporter from abroad). Letters of Credit are covered by rules framed under Uniform Customs and Practices of Documentary Credits framed by International Chamber of Commerce in Paris.

LIMITED COMPANIES ACCOUNTS: Accounts of companies incorporated under the Companies Act, 1956 . A company may be private or public. Liability of the shareholders of a company is generally limited to the face value of shares held by them.

LEVERAGE RATIO: Financial ratios that measure the amount of debt being used to support operations and the ability of the firm to service its debt.

LIBOR: The London Interbank Offered Rate (or LIBOR) is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market (or interbank market). The LIBOR rate is published daily by the British Banker's Association and will be slightly higher than the London Interbank Bid Rate (LIBID), the rate at which

banks are prepared to accept deposits.

LIMIT ORDER: An order to buy (sell) securities which specifies the highest (lowest) price at which the order is to be transacted.

LIMITED COMPANY: The passive investors in a partnership, who supply most of the capital and have liability limited to the amount of their capital contributions.

LIQUIDITY: The ability to convert an investment into cash quickly and with little or no loss in value.

LISTING: Quotation of the Initial Public Offering company's shares on the stock exchange for public trading.

LISTING DATE: The date on which Initial Public Offering stocks are first traded on the stock exchange by the public

MARGIN CALL: A notice to a client that it must provide money to satisfy a minimum margin requirement set by an Exchange or by a bank / broking firm.

MARKET CAPITALIZATION**:** The product of the number of the company's outstanding ordinary shares and the market price of each share.

MARKET MAKER**:** A dealer who maintains an inventory in one or more stocks and undertakes to make continuous two-sided quotes.

MARKET ORDER**:** An order to buy or an order to sell securities which is to be executed at the prevailing market price.

MONEY MARKET**:** Market in which short-term securities are bought and sold.

MARGINAL STANDING FACILITY RATE**:** MSF scheme has become effective from 09th May, 2011 launched by the RBI. Under this scheme, Banks will be able to borrow upto 1% of their respective Net Demand and Time Liabilities. The rate of interest on the amount accessed from this facility will be 100 basis points (i.e. 1%) above the repo rate. This scheme is likely to reduce volatility in the overnight rates and improve monetary transmission.

MANDATE: Written authority issued by a customer to another person to act on his behalf, to sign cheques or to operate a bank account.

MATERIAL ALTERATION: Alteration in an instrument so as to alter the character of an instrument for example when date, amount, name of the payee are altered or making a cheque payable to bearer from an order one or opening the crossing on a cheque.

MERCHANT BANKING **:** When a bank provides to a customer various types of financial services like accepting bills arising out of trade, arranging and providing underwriting, new issues, providing advice, information or assistance on starting new business, acquisitions, mergers and foreign exchange.

MICRO FINANCE: Micro Finance aims at alleviation of poverty and empowerment of weaker sections in India. In micro finance, very small amounts are given as credit to poor in rural, semi-urban and urban areas to enable them to raise their income levels and improve living standards.

MINOR ACCOUNTS**:** A minor is a person who has not attained legal age of 18 years. As per Contract Act a minor cannot enter into a contract but as per Negotiable Instrument Act, a minor can draw, negotiate, endorse, receive payment on a Negotiable Instrument so as to bind all the persons, except himself. In order to boost their deposits many banks open minor accounts with some restrictions.

MOBILE BANKING : With the help of M-Banking or mobile banking customer can check his bank balance, order a demand draft, stop payment of a cheque, request for a cheque book and have information about latest interest rates.

MONEY LAUNDERING**:** When a customer uses banking channels to cover up his suspicious and unlawful financial activities, it is called money laundering.

MONEY MARKET: Money market is not an organized market like Bombay Stock Exchange but is an informal network of banks, financial institutions who deal in money market instruments of short term like CP, CD and Treasury bills of Government.

MORATORIUM: R.B.I. imposes moratorium on operations of a bank; if the affairs of the bank are not conducted as per banking

norms. After moratorium R.B.I. and Government explore the options of safeguarding the interests of depositors by way of change in management, amalgamation or take over or by other means.

MORTGAGE: Transfer of an interest in specific immovable property for the purpose of offering a security for taking a loan or advance from another. It may be existing or future debt or performance of an agreement which may create monetary obligation for the transferor (mortgagor).

MUTUAL FUND**:** A company that invests in and professionally manages a diversified portfolio of securities and sells shares of the portfolio to investors.

NABARD**:** National Bank for Agriculture & Rural Development was setup in 1982 under the Act of 1981. NABARD finances and regulates rural financing and also is responsible for development agriculture and rural industries.

NEGOTIATION**:** In the context of banking, negotiation means an act of transferring or assigning a money instrument from one person to another person in the course of business.

NET ASSET VALUE**:** The underlying value of a share of stock in a particular mutual fund; also used with preferred stock.

NON-FUND BASED LIMITS**:** Non-Fund Based Limits are those type of limits where banker does not part with the funds but may have to part with funds in case of default by the borrowers, like guarantees, letter of credit and acceptance facility.

NON-RESIDENT**:** A person who is not a resident of India is a non-resident.

NON-RESIDENT ACCOUNTS: Accounts of non-resident Indian citizens opened and maintained as per R.B.I. Rules.

NOTARY PUBLIC: A Lawyer who is authorized by Government to certify copies of documents .

NPA ACCOUNT: If interest and instalments and other bank dues are not paid in any loan account within a specified time limit, it is being treated as non-performing assets of a bank.

OFF BALANCE SHEET ITEMS: Those items which affect the financial position of a business concern, but do not appear in the Balance Sheet E,g guarantees, letters of credit . The mention "off Balance Sheet items" is often found in Auditors Reports or Directors Reports.

OFFER FOR SALE: An offer to the public by, or on behalf of, the holders of securities already in issue.

OFFER FOR SUBSCRIPTION: The offer of new securities to the public by the issuer or by someone on behalf of the issuer.

ONLINE BANKING: Banking through internet site of the bank which is made interactive.

OPEN-END (MUTUAL) FUND: There is no limit to the number of shares the fund can issue. The fund issues new shares of stock and fills the purchase order with those new shares. Investors buy their shares from, and sell them back to, the mutual fund itself. The share prices are determined by their net asset value.

OPEN OFFER: An offer to current holders of securities to subscribe for securities whether or not in proportion to their existing holdings.

OPTION: A security that gives the holder the right to buy or sell a certain amount of an underlying financial asset at a specified price for a specified period of time.

OVERSUBSCRIBED: When an Initial Public Offering has more applications than actual shares available. Investors will often apply for more shares than required in anticipation of only receiving a fraction of the requested number. Investors and underwriters will often look to see if an IPO is oversubscribed as an indication of the public's perception of the business potential of the IPO company.

PASS BOOK: A record of all debit and credit entries in a customer's account. Generally all banks issue pass books to Savings Bank/Current Account Holders.

PAR BOND: A bond selling at par (i.e. at its face value).**Par Value:** The face value of a security.

PERPETUAL BONDS: Bonds which have no maturity date.

PLACING: Obtaining subscriptions for, or the sale of, primary market, where the new securities of issuing companies are initially sold.

PERSONAL IDENTIFICATION NUMBER (PIN): Personal Identification Number is a number which an ATM card holder has to key in before he is authorized to do any banking transaction in a ATM .

PLASTIC MONEY: Credit Cards, Debit Cards, ATM Cards and International Cards are considered plastic money as like money they can enable us to get goods and services.

PLEDGE: A bailment of goods as security for payment of a debt or performance of a promise, e.g pledge of stock by a borrower to a banker for a credit limit. Pledge can be made in movable goods only.

POST-DATED CHEQUE: A Cheque which bears the date which is subsequent to the date when it is drawn. For example, a cheque drawn on 8th of February, 2007 bears the date of 12th February, 2007.

POWER OF ATTORNEY: It is a document executed by one person - Donor or Principal, in favour of another person, Donee or Agent - to act on behalf of the former, strictly as per authority given in the document.

PORTFOLIO: A collection of investment vehicles assembled to meet one or more investment goals.

PREFERENCE SHARES: A corporate security that pays a fixed dividend each period. It is senior to ordinary shares but junior to bonds in its claims on corporate income and assets in case of bankruptcy.

PREMIUM (WARRANTS): The difference of the market price of a warrant over its intrinsic value.

PREMIUM BOND: Bond selling above par.

PRESENT VALUE: The amount to which a future deposit will discount back to present when it is depreciated in an account paying compound interest.

PRESENT VALUE OF AN ANNUITY: The amount to which a stream of equal cash flows that occur in equal intervals will discount back to present when it is depreciated in an account paying compound interest.

PRICE/EARNINGS RATIO (P/E): The measure to determine how the market is pricing the company's common stock. The price/earnings (P/E) ratio relates the company's earnings per share (EPS) to the market price of its stock.

PRIVATIZATION: The sale of government-owned equity in nationalized industry or other commercial enterprises to private investors.

PROSPECTUS: A detailed report published by the Initial Public Offering company, which includes all terms and conditions, application procedures, IPO prices etc, for the IPO

PUT OPTION: The right to sell the underlying securities at a specified exercise price on of before a specified expiration date.

PREMATURE WITHDRAWALS: Term deposits like Fixed Deposits, Call Deposits, Short Deposits and Recurring Deposits have to mature on a particular day. When these deposits are sought to be withdrawn before maturity , it is premature withdrawal.

PRIME LENDING RATE (PLR): The rate at which banks lend to their best (prime) customers.

PRIORITY SECTOR ADVANCES : consist of loans and advances to Agriculture, Small Scale Industry, Small Road and Water Transport Operators, Retail Trade, Small Business with limits on investment in equipments, professional and self employed persons, state sponsored organisations for lending to SC/ST, Educational Loans, Housing Finance up to certain limits, self-help groups and consumption loans.

PROMISSORY NOTE: Promissory Note is a promise / undertaking given by one person in writing to another person, to pay to that person , a certain sum of money on demand or on a future day.

PROVISIONING: Provisioning is made for the likely loss in the profit and loss account while finalizing accounts of banks. All banks are supposed to make assets classification and make appropriate provisions for likely losses in their balance sheets.

PUBLIC SECTOR BANK: A bank fully or partly owned by the Government.

RATE OF RETURN: A percentage showing the amount of investment gain or loss against the initial investment.

REAL INTEREST RATE**:** The net interest rate over the inflation rate. The growth rate of purchasing power derived from an investment.

REDEMPTION VALUE: The value of a bond when redeemed.

REINVESTMENT VALUE**:** The rate at which an investor assumes interest payments made on a bond which can be reinvested over the life of that security.

RELATIVE STRENGTH INDEX (RSI**):** A stock's price that changes over a period of time relative to that of a market index such as the Standard & Poor's 500, usually measured on a scale from 1 to 100, 1 being the worst and 100 being the best.

REPURCHASE AGREEMENT**:** An arrangement in which a security is sold and later bought back at an agreed price and time.

RESISTANCE LEVEL: A price at which sellers consistently outnumber buyers, preventing further price rises.

Return: Amount of investment gain or loss.

RESCHEDULING OF PAYMENT**:** Rearranging the repayment of a debt over a longer period than originally agreed upon due to financial difficulties of the borrower.

RESTRICTIVE ENDORSEMENT**:** Where endorser desires that instrument is to be paid to particular person only, he restricts further negotiation or transfer by such words as "Pay to Ashok only". Now Ashok cannot negotiate the instrument further.

RIGHT OF APPROPRIATION: As per Section 59 of the Indian Contract Act, 1972 while making the payment, a debtor has the right to direct his creditor to appropriate such amount against discharge of some particular debt. If the debtor does not do so, the banker can appropriate the payment to any debt of his customer.

RIGHT OF SET-OFF **:** When a banker combines two accounts in the name of the same customer and adjusts the debit balance in one account with the credit balance in other account, it is called right of set-off. For example, debit balance of Rs.50,000/- in overdraft account can be set off against credit balance of Rs.75,000/- in the Savings Bank Account of the same customer, leaving a balance of Rs.25,000/- credit in the savings account.

RIGHTS ISSUE**:** An offer by way of rights to current holders of securities that allows them to subscribe for securities in proportion to their existing holdings.

RISK-AVERSE, RISK-NEUTRAL, RISK-TAKING**:**Risk-averse describes an investor who requires greater return in exchange for greater risk.Risk-neutral describes an investor who does not require greater return in exchange for greater risk.

SAFE CUSTODY: When articles of value like jewellery, boxes, shares, debentures, Government bonds, Wills or other documents or articles are given to a bank for safe keeping in its safe vault, it is called safe custody.. Bank charges a fee from its clients for such safe custody.

SAVINGS BANK ACCOUNT**:** All banks in India are having the facility of opening savings bank account with a nominal balance. This account is used for personal purposes and not for business purpose and there are certain restrictions on withdrawals from this type of account. Account holder gets nominal interest in this account.

SENIOR BOND**:** A bond that has priority over other bonds in claiming assets and dividends.

SETTLEMENT**:** Conclusion of a securities transaction when a customer pays a broker/dealer for securities purchased or delivered, securities sold, and receive from the broker the proceeds of a sale.

SHORT HEDGE: A transaction that protects the value of an asset held by taking a short position in a futures contract.

SHORT POSITION**:** Investors sell securities in the hope that they will decrease in value and can be bought at a later date for profit.

SHORT SELLING**:** The sale of borrowed securities, their eventual repurchase by the short seller at a lower price and their return to the lender.

SPECULATION**:** The process of buying investment vehicles in which the future value and level of expected earnings are highly uncertain.

STOCK SPLITS**:** Wholesale changes in the number of shares. For example, a two for one split doubles the number of shares but does not change the share capital.

SUBORDINATED BOND**:** An issue that ranks after secured debt, debenture, and other bonds, and after some general creditors in its claim on assets and earnings. Owners of this kind of bond stand last in line among creditors, but before equity holders, when an issuer fails financially.

SUBSTANTIAL SHAREHOLDER**:** A person acquires an interest in relevant share capital equal to, or exceeding, 10% of the share capital.

SUPPORT LEVEL: A price at which buyers consistently outnumber sellers, preventing further price falls.

TELLER : Teller is a staff member of a bank who accepts deposits, cashes cheques and performs other banking services for the public.

TIME HORIZON: The duration of time an investment is intended for.

TRUST DEED: A formal document that creates a trust. It states the purpose and terms of the name of the trustees and beneficiaries.

UNDERWRITING : is an agreement by the underwriter to buy on a fixed date and at a fixed rate, the unsubscribed portion of shares or debentures or other issues. Underwriter gets commission for this agreement.

UNIVERSAL BANKING : When Banks and Financial Institutions are allowed to undertake all types of activities related to banking like acceptance of deposits, granting of advances, investment, issue of credit cards, project finance, venture capital finance, foreign exchange business, insurance etc. it is called Universal Banking.

VALUATION: Process by which an investor determines the worth of a security using risk and return concept.

VIRTUAL BANKING: Virtual banking is also called internet banking, through which financial and banking services are accessed via internet's World Wide Web. It is called virtual banking because an internet bank has no boundaries of brick and mortar and it exists only on the internet.

WARRANT: An option for a longer period of time giving the buyer the right to buy a number of shares of common stock in company at a specified price for a specified period of time.

WHOLESALE BANKING: Wholesale banking is different from Retail Banking as its focus is on providing for financial needs of industry and institutional clients.

WINDOW DRESSING: Financial adjustments made solely for the purpose of accounting presentation, normally at the time of auditing of company accounts.

YIELD (INTERNAL RATE OF RETURN): The compound annual rate of return earned by an investment

YIELD TO MATURITY: The rate of return yield by a bond held to maturity when both compound interest payments and the investor's capital gain or loss on the security are taken into account.

ZERO COUPON BOND: A bond with no coupon that is sold at a deep discount from par value

Today's piece focuses on NPAs and Asset Classification. Every banker worth his salt should have the basic knowledge of the second most important aspect of banking – giving loans and then whatever happens when a loan turns bad!!

Why second most important? 'Cause accepting deposits is the most important function of banks! If you don't have the money, how will you give the loans?
I'm gonna straight away start with NPAs and not waste any of our precious study time!

1. WHAT ARE NPAS?

NPA stands for Non-Performing Assets. Loans given by Banks are its assets. Banks have the right to receive the amount back from the loan taker – right? – thus, 'Loans and Advances' given by banks are their assets.

When such asset does not perform it becomes an NPA. Simple enough?!

2. WHAT IS MEANT BY LOANS/ASSETS NOT PERFORMING?

When we talk from a Bank's point of view, what is a loan account supposed to do?

It is supposed to given the Bank regular instalments of principal and interest on such principal. Thus for a Bank, a loan account is 'functioning' or 'performing' its required task when it is regularly receiving credits of the instalment amounts.

When the credits stop – i.e., when the customer stops paying instalments – the loan account stops 'functioning or performing'.

3. AND WHEN DOES IT BECOME AN NPA?

Such a non-performing loan account is 'officially' denoted or classified as NPA when the account has remained non-performing for a period of more than 90 days.

That is the loan account has not received any credit towards instalment (interest and/or principal) for more than 90 days – which automatically means – the**interest/principal** is **OVERDUE for a period more than 90 days**.

Guys, please note and remember the phrase, 'overdue for a period more than 90 days' – important to appreciate the word 'overdue'.

When you get October month's telephone bill (which you have to pay by 1st December 2014) in the first week of November, the amount is said to be due. When that amount of October month's telephone bill is still unpaid till January 2015 it is said to be overdue!

Same way - when instalment is 'overdue' only then do the Banks classifies them as NPAs. They give time till 90 days and wait and watch and even hope that the customer pays something – and when 90 days are up the account becomes an NPA automatically.

So – overdue for more than 90 days.

4. WHY DO THE BANKS 'HOPE' FOR THE CUSTOMER TO PAY BACK?

Because, any asset becoming bad is the asset owner's loss, right?

Thus if a loan account goes bad – defunct – NPA – it is the Bank's loss!

And trust me the officers in charge of the loans and advances and the branch managers lose a lot of hair when audit season comes and they have to deal with large NPAs – not a good sight!

5. WHAT HAPPENS WHEN ACCOUNTS BECOME NPA?

First – it is the starting sign that things could get worse – I'll explain in the next point!

Bookishly though – the implications of an account being classified as an NPA are these:

(i) BANKS CANNOT CREDIT INCOME TO THEIR PROFIT AND LOSS ACCOUNT IN WITH CORRESPONDING DEBIT OF THE NPA LOAN ACCOUNT UNLESS ANY RECOVERY TAKES PLACE.

Bank's income is the 'interest amount' it receives on loans – and Banks practice charging interest to the loan account and crediting their Profit and Loss account when the interest becomes 'due'. Since the loan account has become NPA, now the Banks cannot 'due' anymore interest charges.

Sort of like, after being classified as an NPA, the telephone company cannot send the customer anymore bills for due amount!

But if the customer pays 'any amount', i.e., after the loan amount becoming NPA, if the customer pays any amount to its credit – then such an amount can be taken as an income for the bank and credited to its P & L A/c.

(ii) PROVISION WILL HAVE TO BE MADE – WHICH REDUCES THE BANKS PROFITS.

Banking norms mandate that when there is possibility that loss can happen in future, provision for the loss is to be made in the present.

Think – if you had a child who's very intelligent and ambitious and wants to go to USA to become an astronaut in future – you will needs funds when the time comes.

So you start putting some money aside/provisioning for the future NASA astronaut from today – which means your saving/the real income is getting less today, because you made a provision for an expense/loss you think will most definitely happen in the future!

Same thing, the Banks now know that the customer has not paid for more than 90 days now – but what if the customer does not pay at all and the outstanding amount is Rs.10,00,000!

It's a Rs.10,00,000 loss to the Bank in the future!

And according to provisioning norms, the Banks will have to create a provision for this 'possible loss' and provision is made against income (try to understand with the NASA example).

So this would mean that a Bank's profits will become less due to the heavy provisioning on NPA accounts.

And when profits decrease – loan officers/ branch manager/ regional managers/ zonal managers all face the heat from GMs/AGMs/DGMs/MDs and the shareholders and the stock markets! Phew!

(iii) ALL THE LOAN ACCOUNTS OF THE SAME CUSTOMER, IN THE OTHER BRANCHES OF THE SAME BANK WILL BE CLASSIFIED AS NPAS TOO (EVEN IF THEY ARE REGULAR AND INSTALMENTS ARE BEING CREDITED TO THEM!)

Too bad, huh?

Imagine if a customer has loan accounts in 5 branches of the same bank and all are over crores – that is the real life scenario – 'cause businesses take large loans. The bank gets NPAs in all those 5 accounts!

And there are many such customers!

6. ASSET CLASSIFICATION?

Asset classification, in other words loan classification, is an important thing to learn along with NPAs…exams may not have these, but it is a sure thing in interviews!

So this table for your pleasure reading!

Asset Classified as	% of Provisioning required	Period…	Important points
1. Standard Asset	Separate rates are prescribed for different types of loans such as	NOT APPLICABLE	Are those assets which are 'regular' and have no defaulting in instalment payments – they are the good assets!

	0.25%, 1%... (WHY RISK? MAKE A PROVISION JUST IN CASE THEY GO WRONG!)		
2. Sub Standard Assets **- Secured** **- Unsecured**	**- 15%** **- 25%**	Has been classified as NPA for a period not exceeding 12 months	i.e., these accounts have spent 1 – 12 months after being classified as NPA and has remained NPA during the said period. Secured are those which are secured against any security/ECGC/DICGC…
3. Doubtful Assets which are doubtful **- upto 1 year** **- above 1 year and upto 3 years** **- above 3 years**	**- 25%** **- 40%** **-100%**	Are those assets which has remained sub-standard for more than 12 months	Thus, sub –standard is NPA from 1-12 months. Doubtful is sub-standard for more than 12 months.
4. Loss Assets	- 100%	NOT APPLICABLE	Loss assets are those which have been 'classified' as loss assets by the Bank/Internal Auditors of the Bank/External or Statutory Auditors/RBI inspectors…

Name of the Banks	Head	Year of Establishment	Head Office
Allahabad Bank	Rakesh Sethi	24 April, 1865	Kolkata, West Bengal
Andhra Bank	Suresh N. Patel	20 November, 1923	Hyderabad, Andhra

			Pradesh
Bank of Baroda	P.S. Jayakumar	20 July, 1908	Vadodara, Gujarat
Bank of India	Arun Tiwari	7 September, 1906	Mumbai, Maharashtra
Bank of Maharashtra	Sushil Muhnot	16 September, 1935	Pune, Maharashtra
Bank of Rajasthan	Merged with ICICI	1943	Udaipur, Rajasthan
Canara Bank	Rakesh Sharma	1906	Bengaluru, Karnataka
Central Bank of India	Rajeev Rishi	21 December, 1911	Mumbai, Maharashtra
Corporation Bank	Jai Kumar Garg	12 March, 1906	Mangalore, Karnataka
Dena Bank	Ashwani Kumar	26 May, 1938	Mumbai, Maharashtra
Federal Bank	Shyam Srinivasan	1945	Kerala
HDFC Bank	Aditya Puri	August, 1994	Mumbai, Maharashtra
ICICI Bank	Chanda Kochhar	Jun, 1994	Mumbai, Maharashtra
IDBI Bank	MS Raghavan,	July, 1964	Mumbai, Maharashtra
Indian Bank	Mahesh Kumar Jain	15 August, 1907	Chennai, Tami l Nadu
Indian Overseas Bank	R. Koteeswaran	10 February, 1937	Chennai, Tami l Nadu
J & K Bank	Mushtaq Ahmad	1 October, 1938	Sri Nagar, J & K
Karur Vysya Bank	K Venkataraman	1916	Karur, Tamil Nadu

Lakshmi Vilas Bank	Parthasarathi Mukherjee	3 November, 1926	Karur, Tamil Nadu
Oriental Bank of Commerce	Animesh Chauhan	19 February, 1943	Gurgaon, Haryana
Punjab and Sind Bank	Jatinder Bir Singh	24 June, 1908	New Delhi, India
Punjab National Bank	Usha Ananthasubramanian	19 May, 1894	New Delhi, India
State Bank of India	Arundhati Bhattacharya	1 July, 1955	Mumbai, Maharashtra
State Bank of Hyderabad	Shri Santanu Mukherjee	8 August, 1941	Hyderabad, Andhra Pradesh
State Bank of Mysore	Sharad Sharma	2 October, 1913	Bengaluru, Karnataka
State Bank of Patiala	S. A. Ramesh Rangan,	1917	Patiala, Punjab
State Bank of Travancore	Vacant	12 September, 1945	Trivandrum, Kerala
South Indian Bank	V.A Joseph	1929	Thrissur, Kerala
Syndicate Bank	S K Jain,	1925	Manipal, Karnataka
UCO Bank	Arun Kaul,	6 January, 1943	Kolkata, West Bengal
Union Bank of India	Arun Tiwari	11 November, 1919	Mumbai, Maharashtra
United Bank of India	Archana Bhargava	1950	Kolkata, West Bengal
Vijaya Bank	Kishore Kumar Sansi	1931	Bengaluru, Karnataka
Yes Bank	Rana Kapoor	2004	Mumbai, Maharashtra

COMMEMORATIVE COINS ISSUED BY RBI

Date	Coin Issued
Jan 28, 2016	The Government of India has minted Rs 10 coins to commemorate the occasion of "125th birth anniversary of Dr. B. R. Ambedkar" which the Reserve Bank of India will shortly put into circulation.
Sep 03, 2015	RBI to issue Rs 5 Coins to commemorate "Golden Jubilee of Indo-Pak War 1965"
Aug 28, 2015	RBI's Monetary Museum unveils Special Display of Mysore Coins
Jul 30, 2015	Rs 10 coins issued to commemorate "International Day of Yoga"
Apr 16, 2015	Issue of Rs 10 coins to commemorate the occasion of "Centenary commemoration of Mahatma Gandhi's return from South Africa"
Mar 20, 2015	RBI to issue Rs 5 Coins to commemorate 125th Birth Anniversary of Jawaharlal Nehru
Mar 05, 2015	Issue of Rs 5 coins to commemorate the occasion of "Centenary of Komagata Maru Incident"
Sep 30, 2014	Issue of Rs 5 coins to commemorate the occasion of "125th Birth Anniversary of Maulana Abul kalam Azad"
Apr 04, 2014	Issue of Rs 5 coins to commemorate the occasion of "Acharya Tulsi Birth Centenary"
Aug 29, 2013	Issue of Rs 10 coins to commemorate the occasion of "Silver Jubilee of Shri Mata Vaishno Devi Shrine Board"
Jul 15, 2013	Issue of Rs5 coins to commemorate the occasion of "60th year of India Government Mint, Kolkata"
	Issue of Rs 5 coins to commemorate the occasion of "150th Birth Anniversary of Swami Vivekananda"
Jun 17, 2013	Issue of Rs5 coins to commemorate the occasion of "150th Birth Anniversary of Motilal Nehru"
Apr 26, 2013	Issue of Rs 5 coins to commemorate the occasion of "Silver Jubilee of Shri Mata Vaishno Devi Shrine Board"

Jan 24, 2013	Issue of Rs 5 coins to commemorate the occasion of 150 years of Kuka Movement
Mar 30, 2012	Issue of coins to commemorate the occasion of "150th year of the Comptroller and Auditor General of India"
Feb 21, 2012	Issue of coins to commemorate the occasion of "Shahid Bhagat Singh Birth Centenary"

Credit Rating Agencies evaluate the evaluates credit worthiness of an individual, business or governments after studying their financial status, industrial risks and market conditions. These agencies work on the request of companies.

At present four credit Ration Agencies are working in the country. Credit Rating Information Services of India Limited (CRISIL) , Investment Information and credit Rating Agency of India Ltd.(ICRA) ,Credit Analysis and Research Ltd.. (CARE) and Duff Falps Credit Rating Private Ltd. (DCR India) . CRISIL is the first Credit Rating Agency of the country which started its functioning since January 1988.

Investment Grades of Credit Rating Agencies in India

Investment Grades	**CRISIL**	**Credit Rating ICRA**	**CARE**
Long Term Debentures			
Highest Safety	AAA	LAAA	CARE AAA
High Safety	AA	LAA	CARE AA
Adequate Safety	A	LA	CARE A
Inadequate Safety	BB	LBB	CARE BB
High Risk	B	LB	CARE B
Mid Term Debentures			
Highest Safety	FAAA	MAAA	CARE AAA
High safety	FAA	MAA	CARE AA
Adequate safety	FA	MA	CARE A

Inadequate Safety	FB	MB	CARE BB
High Risk	FC	MC	CARE B
Short Term Debentures			
Highest safety	P1	A1	PR1
High safety	P2	A2	PR2
Adequate Safety	P3	A3	PR3
Inadequate Safety	P4	A4	PR4
High Risk	-	-	-

Types of NBFCs by their Principle Business

Non- Banking financial Companies (NBFCs)	Principal Business
Equipment Leasing Company (EL)	Equipment leasing of financing of such activity
Hire Purchase Finance Company (HP)	Hire purchase transaction or purchasing or such transaction.
Investment Company (IC)	Acquisition of securities and trading in such securities to earn a profit
Loan Company (LC)	Making loans or advances for any activity other than its own; EL/HP; housing Finance
Residuary Non- Banking Companies (RNBCs)	Receives deposits under any scheme or arrangement , by whatever name called, in one lump-sum or in installment by way of contributions or subscriptions or by sale or units or certificates or other instruments , or in any manner
Mutual Benefit Financial Companies (MBFC) i.e. Nidhi Company	Any company which is notified by the central Government as a Nidhi Company under section 620A of the companies Act, 1956. It is a NBFC doing the business of

	lending and borrowing with its members or shareholders.
Miscellaneous Non- Banking Company (MNBC) i.e. Chit fund Company	Managing . conducting or supervising as a promoter , foreman or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that every one of them shall subscribe a certain amount in installments over a definite period and that every one such subscribers shallin turn, as determined by lot or by auction or bye tender or in such manner as may be provided for in the arrangement . be entitled to the prize amount.

Organization	Establishments Year
Imperial Bank of India (Now State Bank of India)	1921
Reserve bank of India (Nationalisation of RBI took place on January 1,1949)	April 1,1935
Industrial Finance Corporation of India (IFCI)	1948

State bank of India (SBI)	July 1,1955
Unit Trust of India (UTI)	February 1, 1964
IDBI	July 1964
NABARD	July 12, 1982
IRBI (Now it has been renamed as IIBIL since March 6, 1997	March 20, 1985
SIDBI	1990
EXIM Bank	January 1, 1982
National Housing Bank (NHB)	July 1988
Life Insurance Corporation (LIC)	September 1956
General Insurance Corporation (GIC)	November , 1972
Regional Rural banks (RRBs)	October 2, 1975
Risk Capital and Technology Finance Corporation Ltd.	March 1975
Technology Development & Information Co. of India Ltd.	1989
Infrastructure Leasing & Financial Services Ltd.	1988
Housing Development Finance Corporation Ltd. (HDFC)	1977

One of the major functions of RBI (Reserve bank of India) is to control inflation and liquidity in the economy. Today I am going to discuss various tools with RBI that directly impacts the money supply in the economy.

CASH RESERVE RATIO

CRR is the minimum percentage of deposits with commercial banks that they need to deposit with central bank of RBI.

IMPACT OF INCREASED CRR

POSITIVE IMPACT - It is a quick fix to control inflation. By increasing CRR, commercial banks need to deposit more money with RBI. Thus commercial banks left with less money. Now loans become dearer, so people have less money. As

LESS MONEY WITH COMMERCIAL BANKS → **Less money with people → Lower demand for goods and services → Lower prices**

Higher CRR simply sucks money from the economy.

IMPACT OF DECREASED CRR

MORE MONEY WITH COMMERCIAL BANKS → **More money with people → Higher demand for good sand services → Higher prices**

CRR should be aligned with supply and production levels. If people are producing more then they deserve to spend more. Decreased CRR provides a short term fix as it increases demand for short term.

STATUTORY LIQUIDITY RATIO

This is the percentage of liabilities and time deposits that commercial banks need to keep with them in form of cash, gold or government approved securities.

Impact of increase in SLR

COMMERCIAL BANKS NEED TO KEEP MORE LIQUID FUNDS → **Provides less loans to people → Lower demand for good sand services → Lower prices**

Impact on decrease in SLR

COMMERCIAL BANKS NEED TO KEEP LESS LIQUID FUNDS → **Provides more loans to people → Higher demand for good sand services → Higher prices**

REPO AND REVERSE REPO RATES

Repo rate

It is the rate at which RBI lends money to commercial banks against securities in case commercial banks fall short of funds.

Reverse Repo Rate

Rate at which RBI borrows money from commercial banks.

IMPACT

If commercial banks get more money they will lend more money to people which will lead more demand in economy. Thus prices will increase.

BANK RATE

It is a rate at which RBI lends money to commercial banks **without any security**.

Impact

When bank rate is increased interest rate also increases which have negative impact on demand thus prices increases.

MARGINAL STANDING FUNDING

By this mechanism commercial banks can get loans from RBI for their emergency needs. Commercial banks can take loan only upto 1% of their liabilities and time deposits.

OPEN MARKET OPERATIONS

Buying and selling government securities and bonds in order to manage liquidity in the economy.

Impact of purchasing securities

More money in economy → More demand → Higher growth rate

Impact of selling

Less money in economy → Less demand → Lower prices

CONCLUSION

Many economist says effect of "More demand" is higher growth rate while some says higher prices. While it is actually state of economy. Money supply should be aligned with production rate.

TYPES OF CHEQUES

SECTION 6 OF THE NEGOTIABLE INSTRUMENT ACT defines a cheque as, "A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand."

In simple words,

A cheque is a kind of bill of exchange or an unconditional order in writing, addressed by customer with signature to the bank to pay a certain amount to the bearer or as per order.

Bills of Exchange - It is written and signed order directing the person named in it to pay a certain amount of money only to, or to the order of a certain person or to the bearer.

PARTIES TO CHEQUE

DRAWER - The person who signs the cheque and order for payment

DRAWEE - It is always bank on which cheque is drawn and is ordered to pay the amount of cheque.

PAYEE - The person to whom the cheque is payable. (In many cases, drawer and payee can be the same person.)

TYPES OF CHEQUES

(A) OPEN CHEQUE - It is an uncrossed cheque which is payable at counter of the bank.

It can be Bearer Cheque or Order Cheque .

BEARER CHEQUE - When a cheque is payable to a person whose name appears on the cheque or to the bearer i.e. to the person who presents the cheque to the bank for encashment, is called bearer cheque. It can be transferred by mere delivery and do not need endorsement.

ORDER CHEQUE - When a cheque is payable to person named in the cheque or to his order, is called Order Cheque.When the word Bearer is cancelled , the cheque becomes the order cheque. It can be transferred only by endorsement and delivery.

(B) CROSSED CHEQUE - It is the cheque on which two parallel transverse lines are drawn across the top left , with or without the word :

(i) ' & Co.'

(ii) Not Negotiable

(iii) A/c Payee

It can not be encashed at the counter of the bank , can only be credited to the account of the payee.

(C) STALE CHEQUE - The validity of cheque is for three months. It cheque is not presented within the three months, it got expired and becomes the Stale Cheque or Out-dated cheque.

Earlier the validity of cheque was for six months, it has been reduced to three months, with effect from April 1, 2012.

(D) ANTE- DATED CHEQUE - A cheque contains the date on which it is drawn. If it bears a prior date or back date, it is called Ante-Dated cheque. Bank will honour this cheque until it exceed the three months, i.e. stale period of cheque.

(E) POST-DATED CHEQUE - If the cheque bears the date later than the date on which it is drawn, is called Post-Dated Cheque. This cheque can not be honoured before the date written on it.

(F) MULTILATED CHEQUE - A cheque which is torn into pieces is called Multilated cheque.

CROSSING OF CHEQUES

Crossing of Cheques means to draw two lines transverse parallel on left hand corner of the cheque.It directs the bank to deposit the money directly into the account and not to be pay cash at the bank counter.

MODES OF CROSSING

Below are the modes of crossing of cheques and the effect of crossing of cheques:

(1) GENERAL CROSSING - When a cheque bears two transverse parallel lines at the left hand of its top corner. Words such as 'and company' or any other abbreviation (such as & co.) may be written between these two parallel lines, either with or without words 'not negotiable', is called General Crossing.

EFFECT - Payment can be paid through bank account only, and should not be made at counter of paying bank.

(2) SPECIAL CROSSING - When a cheque bears the name of the bank in between the two parallel lines, with or without the words 'not negotiable' is called Special Crossing.

EFFECT - The bank will pay to the banker whose name is written in between the crossing lines.

(3) RESTRICTIVE CROSSING / ACCOUNT PAYEE CROSSING - In this, crossing of cheques is done by writing Account Payee or Account Payee only in between the crossing lines.

EFFECT - Payment will be credited to the account of payee named in the cheque.

(4) DOUBLE CROSSING - When a cheque bears two special crossing, is called Double Crossing. In this second bank act as agent of the first collecting banker. It is made when the banker in whose favour the cheque is crossed does not have branch where the cheque is paid.

CHEQUE TRUNCATION SYSTEM (CTS) - EXPLAINED

China recently hosted the signing in ceremony of the Asian Infrastructure Investment Bank to bride the gap between infrastructure finance and development. The signing in ceremony took place in Beijing with 50 countries becomes its founding members.
This multilateral finance institution is different from other world financial institutions as AIIB will only fund the financial assistance for infrastructure development in Asian countries .This step by china is also seen as to challenge the **hegemony of IMF ,World Bank and Asian Development Bank which are dominated by America ,Europeans and japan**

As of now 50 countries has signed the Article of Agreement as founding members of Asian Infrastructure Investment Bank including Australia, Austria, Azerbaijan, Bangladesh, Brazil, Brunei Darussalam, Cambodia, China, Egypt, Finland, France, Georgia, Germany, Iceland**, India**, Indonesia, Iran, Israel, Italy, Jordan, Kazakhstan, Republic of Korea, Kyrgyz Republic, Lao PDR, Luxembourg, Maldives, Malta, Mongolia, Myanmar, Nepal, Netherlands, New Zealand, Norway, Oman, Pakistan, Portugal, Qatar, Russia, Saudi Arabia, Singapore, Spain, Sri Lanka, Sweden, Switzerland, Tajikistan, Turkey, the United Arab Emirates, the United Kingdom, Uzbekistan, and Vietnam .

America ,Japan opted to stay out ,not to join AIIB

THE AIIB, MAIN FOCUS ON :

Development of infrastructure and other productive sectors in Asia, including energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection and urban development etc.

The AIIB head quartered will be located at Beijing, Mr. Jin Liqun appointed as president designate of the AIIB and have initial authorized capital stock of $100 billion. The voting rights will be based on country's economy not on contribution. China will be 26.06 percent of voting rights followed by India which will have 7.5percent and Russia with 5.92 percent.

With the establishment of AIIB gives a big boost in infrastructure development of Asian countries as they can now avail loans from their Asian counterpart as against to World Bank or IMF which provide loans with stringent conditions.

Government of India recently launched the Sovereign gold bond scheme aimed at discouraging people to invest in physical gold and encouraging them to invest in demat gold bonds to reduce the import of gold.

Objectives of Sovereign Gold Bond scheme

To reduce the demand of gold as India is biggest importer of gold .

To encourage people to invest in demat gold bonds.

Features Of Sovereign Gold Bond Scheme

In this scheme prices of gold bond is linked to actual gold prices prevailing in market that time and interest of 2 to 3% will be given by government.When one best buys a gold bond by depositing money he is issued a certificate by RBI on the behalf of Government of India which is equivalent to 10gm of physical gold .Prices of this gold bond is linked to prices of gold in market that time. **Gold bond will be issue in denomination of 2gm,5gm,10gm or other denominations. There is cap on maximum value of bonds allotted to per person should be 500gm.**

The tenor of gold bonds could be between 5 to 7 years, One can also take loans by pledging these gold bonds to bank. These bonds are easily traded on commodity exchanges .In first installment government has decided to issue bonds for 13,500 crore equivalent to 50 tonnes of gold .

KYC for gold bonds is same as when we buy 50,000Rs above gold .Need identification proof like PAN card or Id card.

CAPITAL GAIN TAX IS SAME AS FOR PHYSICAL GOLD.

GOLD MONETIZATION SCHEME

In other scheme launched by government of India known as Gold Monetization scheme in which a person can deposit his or her ideal gold in any foam with authorized dealer which would be melted and stored in bullion .Minimum of 30gms of gold can be deposited

Objective of Gold Monetization Scheme :-

To mobilize the ideal gold in country and put it to productive use .

To give customers a opportunity to earn interest on ideal gold .

In this scheme a person can deposit his or her ideal gold in any foam like jewellery to authorized dealer or bank which is melted and stored as bullion. Banks will pay interest on deposited gold. Both principal and interest will be value in gold .On maturity customer can take in foam of gold or in cash .Minimum deposit period will be 1 yr and thereafter multiples of one year.