

## AUDITORS' REPORT

**Chhajed & Doshi**  
Chartered Accountants

We have audited the attached Balance Sheet of Deposit Insurance Fund, Credit Guarantee Fund and General Fund of the Corporation as at 31<sup>st</sup> March 2004 and also the Revenue Accounts of the said three Funds attached thereto for the year ended on that date.

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on the accounts maintained and produced for our audit.

We conducted our audit in accordance with Auditing Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence and supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used, significant estimates made by the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that:

- i) We have obtained all information and explanations, which to the best of our information and belief were necessary for the purpose of audit and found them to be satisfactory.
- ii) In our opinion the said Balance Sheets and Revenue Accounts have been drawn up and set out in the manner prescribed by the Deposit Insurance and Credit Guarantee Corporation Act, 1961.
- iii) The said Balance Sheets and the Revenue Accounts of the Corporation comply with the applicable mandatory Accounting Standards.
- iv) In our opinion and to the best of the information and according to the explanations given to us, the said accounts, read together with significant accounting policies and the other notes thereon, contain all necessary particulars and are properly drawn up so as to exhibit a true and correct view:
  - (a) in case of the said Balance Sheets, which are full and fair of the state of affairs of the Corporation as at 31<sup>st</sup> March 2004; and
  - (b) in case of the said Revenue Accounts of the surplus of the Corporation for the year ended 31<sup>st</sup> March, 2004.

Dated: May 25, 2004

For **CHHAJED & DOSHI**  
Chartered Accountants

Place : MUMBAI  
Membership No. 10279

K. K. Daftary, Partner

**DEPOSIT INSURANCE AND  
(Established under the Deposit Insurance  
(Regulation 18 –  
Balance Sheet as at the close  
I - DEPOSIT INSURANCE FUND**

(Rupees in lakh)

<i>Previous Year</i>		<b>LIABILITIES</b>	<i>Deposit Insurance Fund</i>		<i>Credit Guarantee Fund</i>	
<i>Deposit Insurance Fund</i>	<i>Credit Guarantee Fund</i>					
<i>Amount</i>	<i>Amount</i>		<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
83,100.00	—	1. Fund : (Balance at the end of the year)		87,100.00		
368,681.69	126,170.84	2. Surplus :				
99,663.97	13,180.01	Balance at the beginning of the year	468,345.66		139,350.85	
		Transferred from Revenue Account	35,396.13	503,741.78	11,717.44	151,068.29
231.60	45.95	3. (a) Investment Reserve :	902.09		101.72	
		Balance at the beginning of the year				
670.49	55.77	Less / Add : Transferred to/from Revenue Account	211.41	690.69	242.76	344.48
25,841.02	10,345.67	(b) Investment Fluctuation Reserve at the beginning of the year	25,170.53		10,289.89	
670.49	55.77	Less : Transferred to Investment Reserve	—	25,170.53	—	10,289.89
600.33	—	4. Insured deposits remaining unclaimed		862.31		—
51,736.90	—	5. Estimated liability in respect of claims intimated but not admitted		123,624.79		—
		6. Other liabilities				
17,680.20	34.71	i) Sundry Creditors	734.03		34.63	
110,847.63	90,649.71	ii) Provision for Income Tax	132,103.56		98,552.45	
6.71	—	iii) Sundry Deposit Account	8.17		—	
—	195.15	iv) Provision for Debtors	—	132,845.76	78.87	98,665.95
<b>758,390.05</b>	<b>240,622.04</b>	<b>TOTAL</b>		<b>874,035.85</b>		<b>260,368.61</b>

As per our report of even date.

**For M/s. Chhajed & Doshi**  
Chartered Accountants

**K.J. Udeshi**  
Chairperson

**Shyamala Gopinath**  
Director

**Sudesh Kumar**  
Director

**Ajay Shah**  
Director

**M.G.Bhide**  
Director

**K. K. Daftary**  
Partner

**Mumbai**  
25<sup>th</sup> May 2004.

**CREDIT GUARANTEE CORPORATION**  
**and Credit Guarantee Corporation Act, 1961)**  
**Form 'A')**  
**of business on 31 March 2004**  
**AND CREDIT GUARANTEE FUND**

(Rupees in lakh)

<i>Previous Year</i>		<b>ASSETS</b>	<i>Deposit Insurance Fund</i>		<i>Credit Guarantee Fund</i>	
<i>Deposit Insurance Fund</i>	<i>Credit Guarantee Fund</i>		<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
<i>Amount</i>	<i>Amount</i>					
13.41	34.62	1. Balance with Reserve Bank of India		36.14		52.75
—	—	2. Cash in Transit		—		—
		3. Investment in Central Government Securities (at cost)		707,908.55		168,016.84
		<b>D.I. Fund</b>				
		<b>C.G.Fund</b>				
3,123.03	1,290.76	Treasury bills	322966215.50		35526435.50	
596,821.85	146,634.58	Dated Securities : <u>70467889278.08</u>	<u>16766157979.53</u>			
(561,692.66)	(138,017.21)	Face Value	65660854300.00		15539900500.00	
(703,338.75)	(166,138.93)	Market Value	83450526457.49		19205580392.95	
17,107.50	4,461.38	4. Interest accrued on Investment		19,228.58		4,836.46
		5. Other Assets				
63.53	82.36	i) Sundry Debtors				78.87
		ii) Advance Income Tax & Tax deducted at source pending final assessment				
141,260.73	88,118.34			<u>146,862.58</u>	<u>146,862.58</u>	<u>87,383.69</u>
						<u>87,462.55</u>
<b><u>758,390.05</u></b>	<b><u>240,622.04</u></b>	<b>TOTAL</b>		<b><u>874,035.85</u></b>		<b><u>260,368.61</u></b>

**P.C.Ghosh**  
Director

**M.M. Chitale**  
Director

**S. Doreswamy**  
Director

**Ranjana Kumar**  
Director

**N. H. Siddiqui**  
Executive Director

**Anand Sinha**  
Chief General Manager

**J. K. Dash**  
Dy. Gen. Manager

**DEPOSIT INSURANCE AND  
(Form  
Revenue Account for the  
I - DEPOSIT INSURANCE FUND**

(Rupees in lakh)

<i>Previous Year</i>		<b>EXPENDITURE</b>	<i>Deposit Insurance Fund</i>	<i>Credit Guarantee Fund</i>
<i>Deposit Insurance Fund</i>	<i>Deposit Insurance Fund</i>		<i>Credit Guarantee Fund</i>	
<i>Amount</i>	<i>Amount</i>		<i>Amount</i>	<i>Amount</i>
		To Claims -		
18,643.04	13.59	Paid during the year (net of recoveries against excess payment in earlier years)	18,125.10	—
		<i>Add</i> : Estimated liability in respect of claims at the end of the year	123,624.79	—
51,736.90	—		141,749.89	—
70,379.94	13.59			
		<i>Less</i> : Estimated liability in respect of claims at the end of the previous year	51,736.90	—
118,676.97	4.74		90,012.99	—
-48,297.03	8.85			
64,628.71	—	<i>Add</i> : Excess provision written back (as per contra)	3,832.79	—
16,331.68	8.85	Net Claims	93,845.78	—
—	—	To Sundry balances written off	0.06	3.50
		To Balance of Fund at the end of the year (as per Actuarial Valuation)	87,100.00	—
83,100.00	—			
158,018.75	21,782.74	To Net surplus carried down	56,652.06	19,620.18
<b>257,450.43</b>	<b>21,791.59</b>	<b>TOTAL</b>	<b>237,597.90</b>	<b>19,623.68</b>
		To Provision for taxation Current year	20,323.93	7,038.74
57,907.53	7,657.96			
447.25	944.77	To Provisions & Contingencies - Others - Income tax for earlier years	932.00	864.00
99,663.97	13,180.01			
		To Balance carried to Balance Sheet	35,396.13	11,717.44
<b>158,018.75</b>	<b>21,782.74</b>	<b>TOTAL</b>	<b>56,652.06</b>	<b>19,620.18</b>

As per our report of even date.

**For M/s. Chhajed & Doshi**  
*Chartered Accountants*

**K.J. Udeshi**  
*Chairperson*

**Shyamala Gopinath**  
*Director*

**Sudesh Kumar**  
*Director*

**Ajay Shah**  
*Director*

**M.G.Bhide**  
*Director*

**K. K. Daftary**  
*Partner*

**Mumbai**  
25<sup>th</sup> May 2004.

**CREDIT GUARANTEE CORPORATION  
'B')**

**year ended 31st March 2004  
AND CREDIT GUARANTEE FUND**

(Rupees in lakh)

<i>Previous Year</i>		<b>INCOME</b>	<i>Deposit Insurance Fund</i>		<i>Credit Guarantee Fund</i>	
<i>Deposit Insurance Fund</i>	<i>Credit Guarantee Fund</i>		<i>Deposit Insurance Fund</i>		<i>Credit Guarantee Fund</i>	
<i>Amount</i>	<i>Amount</i>		<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
56,290.00	2.00	By Balance of Fund at the beginning of the year		83,100.00		—
70,681.92	—	By Deposit Insurance premium (including interest on overdue premium)		77,063.48		—
—	21.30	By Guarantee Fees (including interest on overdue Guarantee fees)		—		—
285.23	3,659.53	By Recoveries in respect of Deposit Insurance claims settled / guarantee claims paid		1,319.52		2,101.83
64,628.71	—	By Excess provision for claims written back (per contra)		3,832.79		—
65,564.57	14,700.52	By Income from Investment				
—		a) Interest on Investment	66,448.92		15,885.47	
—		b) Profit/Loss on Sale / Redemption of Securities	(+) 3674.88		(+) 268.20	
		c) Transferred from / to Investment Reserve	211.41	70,335.21	(-) 242.76	15,910.92
—	3,406.00	By Interest on Refund of Income Tax		1,946.91		1,494.58
	2.24	By Other Receipts				
		By Excess provision written back				116.35
<b>257,450.43</b>	<b>21,791.59</b>	<b>TOTAL</b>		<b>237,597.90</b>		<b>19,623.68</b>
158,018.75	21,782.74	By Net Surplus brought down		56,652.06		19,620.18
<b>158,018.75</b>	<b>21,782.74</b>	<b>TOTAL</b>		<b>56,652.06</b>		<b>19,620.18</b>

**P.C.Ghosh**  
Director

**M.M. Chitale**  
Director

**S. Doreswamy**  
Director

**Ranjana Kumar**  
Director

**N. H. Siddiqui**  
Executive Director

**Anand Sinha**  
Chief General Manager

**J. K. Dash**  
Dy. Gen. Manager

**DEPOSIT INSURANCE AND**  
**(Established under the Deposit Insurance**  
**Regulation 18 –**  
**Balance Sheet as at the close**  
**II — GENERAL**

(Rupees in lakh)

<i>Previous Year Amount</i>	<b>LIABILITIES</b>	<i>Amount</i>	<i>Amount</i>
	<b>CAPITAL : (Authorised, issued and Paid up)</b>		
5,000.00	Provided by the Reserve Bank of India as per Section 4 of the Deposit Insurance and Credit Guarantee Corporation Act, 1961		5,000.00
	<b>RESERVES :</b>		
	<b>A) General Reserve</b>		
2,014.08	Balance at the beginning of the year	2,229.61	
215.53	Add - Surplus transferred from Revenue Account	178.98	2,408.60
	<b>B) Investment Reserve</b>		
1.42	Balance at the beginning of the year	2.14	
0.72	Transferred from Investment Fluctuation Reserve	—	
—	Transferred from Revenue Account (Provision for diminution of Securities)	1.59	3.73
	<b>C) Investment Fluctuation Reserve</b>		
1,637.05	Balance at the beginning of the year	1,636.33	
0.72	Less : Transferred to Investment Reserve	—	1,636.33
	<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
185.65	Outstanding Employees' Cost	185.47	
16.78	Outstanding Expenses	154.80	
4.62	Sundry Creditors		10.13
261.48	Provision for Income Tax	367.01	
2.29	Other Deposits (FRO)	2.62	720.04
<b>9,338.90</b>	<b>TOTAL</b>		<b>9,768.69</b>

As per our report of even date.

**For M/s. Chhajed & Doshi**  
*Chartered Accountants*

**K.J. Udeshi**  
*Chairperson*

**Shyamala Gopinath**  
*Director*

**Sudesh Kumar**  
*Director*

**Ajay Shah**  
*Director*

**M.G. Bhide**  
*Director*

**K. K. Daftary**  
*Partner*

**Mumbai**  
25<sup>th</sup> May 2004.

**CREDIT GUARANTEE CORPORATION**  
**and Credit Guarantee Corporation Act, 1961)**  
**Form 'A'**  
**of business on 31st March 2004**  
**FUND**

(Rupees in lakh)

<i>Previous Year Amount</i>	<b>ASSETS</b>	<i>Amount</i>	<i>Amount</i>
	<b>1. CASH</b>		
0.06	i) In hand	0.05	
3.22	ii) With Reserve Bank of India	<u>5.58</u>	5.63
	<b>2. Investments in Central Government Securities (At cost)</b>		
200.19	Treasury Bills	202.12	
8,600.27	Dated Securities	8,570.48	
90.00	Dated Securities deposited with CCIL (Face Value : 84,90.36) (Market Value : 101,53.47)	<u>380.00</u>	9,152.60
201.66	<b>3. Interest accrued on investments</b>		206.77
	<b>4. Other Assets</b>		
19.68	Furniture, Fixtures & Equipment (Less depreciation)	19.83	
3.09	Stock of Stationery		2.47
2.03	Pre-paid expenses		1.56
1.54	Sundry Debtors	1.84	
89.89	Advances for staff expenses/allowances receivable from Reserve Bank of India, etc.	85.73	
117.27	Advance Income Tax and TDS	247.28	
10.00	Margin Deposit with CCIL	<u>45.00</u>	403.70
<u>9,338.90</u>	<b>TOTAL</b>		<u>9,768.69</u>

**P.C.Ghosh**  
Director

**M.M. Chitale**  
Director

**S. Doreswamy**  
Director

**Ranjana Kumar**  
Director

**N. H. Siddiqui**  
Executive Director

**Anand Sinha**  
Chief General Manager

**J. K. Dash**  
Dy. Gen. Manager

**DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION**  
**(Form 'B')**  
**Revenue Account for the year ended 31st March 2004**  
**II — GENERAL FUND**

(Rupees in lakh)

Previous Year Amount	EXPENDITURE	Amount Rs. P.	Amount Rs. P.	Previous Year Amount	INCOME	Amount Rs. P.	Amount Rs. P.
428.17	To Payment to / Reimbursement of Staff Cost		378.68		<b>By Income from investment</b>		
0.04	To Directors & Committee members fees		0.48	1010.74	a) Interest on Investment*	964.29	
	To Directors & Committee members Travelling			(-) 0.77	b) Profit(Loss) on Sale / Redemption of Securities	9.03	
1.04	& Others Allowances/Expenses		0.70				973.32
84.22	To Rent, Taxes, Insurances, Lighting, etc.		71.19		<b>By Miscellaneous Receipts</b>		
65.58	To Establishment, travelling & halting allowances		49.99		- Share of recoveries under GOI - Credit Guarantee Scheme - SSI	0.24	
6.32	To Printing, Stationery & Computer consumables		11.65		- Interest on Advances to Staff	6.58	
11.53	To Postage, telegrams & telephones		12.11		- Others	-	6.82
0.61	To Auditors' Fees		0.57	1.10			
12.64	To Legal Charges		8.31	37.22			
	<b>To Misc. Expenses</b>						
—	- Professional charges	122.91					
3.92	- Service Contract / Maintenance	1.72					
3.77	- Books, Newspaper, Periodicals	1.63					
0.97	- Book Grant	1.07					
0.29	- Repair of office property	0.33					
1.41	- Transaction Charges - CCIL	3.15					
78.37	- Others	21.92	152.74				
	- Depreciation		9.20				
	To Balance being excess of Income over expenditure for the year c/d		284.52				
340.76							
<b>1049.85</b>	<b>TOTAL</b>		<b>980.14</b>	<b>1,049.85</b>	<b>TOTAL</b>		<b>980.14</b>
—	To Expenditure over income b/d		—		By Balance being excess of Income over expenditure for the year c/d		284.52
—	To Provision for Income Tax			340.76			
	- Earlier Years		4.00				
125.23	- Current Year		101.53				
215.53	To General Reserve Account		178.98				
<b>340.76</b>	<b>TOTAL</b>		<b>284.52</b>	<b>340.76</b>	<b>TOTAL</b>		<b>284.52</b>

As per our report of even date.

\* Net of Rs.1.59 lakhs transferred to Investment Reserve

**For M/s. Chhajed & Doshi**  
Chartered Accountants

**K.J. Udeshi**  
Chairperson

**Shyamala Gopinath**  
Director

**Sudesh Kumar**  
Director

**Ajay Shah**  
Director

**K. K. Daftary**  
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Executive Director

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Chief General Manager

**J. K. Dash**  
Dy. Gen. Manager

Mumbai  
25<sup>th</sup> May 2004.

## SIGNIFICANT ACCOUNTING POLICIES

### 1. General

The financial statements are prepared by following going concern concept on the historical cost basis and conform to the statutory provisions and practices prevailing in the country.

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, particularly in respect of claims under Deposit Insurance. Actual results could differ from these estimates.

### 2. Recognition of Income & Expenditure

- i) Items of income and expenditure are generally accounted for on accrual basis unless otherwise stated.
- ii) Receipts towards deposit insurance premia and guarantee fees are generally appropriated as revenue income on receipt of relevant statements of deposits and guaranteed advances and in cases, where such statements are not received till the finalisation of accounts, ad-hoc payments, if any, made by the participating credit institutions are recognised as income, if considered adequate, when compared with the previous years' records. Unadjusted amounts are carried forward under the head 'Sundry Creditors'.
- iii) Pending the assessment of the guarantee fees due from the banks/credit institutions, which have opted out of the Credit Guarantee Schemes in respect of the claims lodged by them after their opting out is accounted on receipt basis.
- iv) Unrealised amount of deposit insurance premia and guarantee fee is not recognised as income, unless the relevant statements are received from the participating credit institutions.
- v) Penal interest for delay in payment of guarantee fee and insurance premia is accounted as income up to the date of last such payment by the credit institutions and

interest on outstanding amount of premia/guarantee fee is not recognised as income.

- vi) The recovery (including penal interest) by way of subrogation rights in respect of deposit insurance claims settled/Guarantee Claims paid is accounted in the year in which it is received. Likewise, recoveries in respect of claims settled and subsequently found not eligible are accounted for when realised/adjusted.
- vii) Interest on investment is accounted on accrual basis.
- viii) Provision for year end liability in respect of claims is made on the basis of events taking place up to the date of Balance Sheet, to the extent of information available till the time of finalization of accounts and retained till the full and final settlement.
- ix) Adequate provision for the liability towards fund balances as at the end of the year is made on the basis of actuarial valuation.
- x) The claims for refund of guarantee fees and of repayments against claims settled are accounted for on such refund claims being admitted by the Corporation. The year end liability towards such refund claims (including cases falling under Agricultural Rural Debt Relief Scheme, 1990) and its impact on the actuarial valuation of fund balances as at the close of the year remain undetermined.
- xi) Claims for reimbursement from RBI against certain establishment expenses, such as, salaries and allowances are accounted on claim receipt basis.

### 3. Investments

- i) All investments are current investments and held as stock-in-trade. The same are valued scrip-wise at cost or market value whichever is lower. For the purpose of valuation rates provided by the Fixed Income Money Market and Derivatives Association of India (FIMMDA) and Primary Dealer Association

of India (PDAI) are taken as market rates as per the guidelines of RBI as applicable to banks/financial institutions.

- ii) Provision for diminution in the value of securities is not deducted from investments in the balance sheet but such provision is retained by way of accumulation to Investment Reserve Account in conformity with the prescribed proforma of statement of accounts.
- iii) Inter fund transfer of securities is made at cost price.

#### **4. Fixed Assets**

- i) Fixed assets are stated at cost less depreciation.
- ii) Depreciation on asset is provided in the following manner :
  - a) Computer & Computer accessories, electronic communication equipment and electrical office equipment -32 per cent on Straight Line method.
  - b) Furniture & fixtures and other office equipment - 20 per cent on Straight Line method.
  - c) Depreciation on addition to the assets is provided for the full year if in use over six months and no depreciation is provided on assets sold/disposed of during the year.
  - d) In the case of assets provided to officers under "Furnishing of Officers' Residence" Scheme, depreciation as per the procedure prescribed by RBI is provided each year in the month of June on the value of the assets acquired under the said scheme till the end of preceding year. Depreciation on the said assets is provided on written down value at 20 per cent on furniture and fixtures and 32 per cent on electronic, electrical equipment/ apparatus and on computers.

#### **5. Employees' Cost**

Employees' cost such as salaries, allowances, contribution to PF and Gratuity Fund is being incurred

as per the arrangement with Reserve Bank of India, since all the staff of the Corporation is on deputation from the Reserve Bank of India.

#### **6. Segment Reporting**

The Corporation is at present primarily engaged in providing Deposit Insurance to Banks / Credit Institutions at a uniform rate of premium irrespective of location of the Bank / Institution. Thus in the opinion of the management, there is no distinct reportable segment either Business or Geographical.

#### **7. Taxation**

Liability in respect of taxation is provided for in accordance with the provisions of the Income Tax Act, 1961 and rules framed there under.

Deferred Tax Asset and Liability are measured using the tax rates and tax laws that have been enacted or substantively enacted as on the Balance Sheet date and recognized if material.

#### **8. Prior period income/expenditure**

- (i) Income and expenditure over Rs.25,000/- in each case pertaining to prior period items arising in current period on account of errors and omissions are considered as prior period credits/debits.
- (ii) Prepaid expenses are not recognised unless the amount involved exceeds Rs.1,000/- in each case.

#### **NOTES TO ACCOUNTS**

- 1. Contingent Liabilities not provided for: Income tax liability disputed in appeals for Assessment Years 1988-89 to 1994-95 Rs. 505.59 lakhs.
- 2. Share in recoveries by way of subrogation right in respect of a re-constructed bank, has been deposited by way of Securities amounting to Rs. 1,500 lakhs held in joint CSDL A/c and balance of Rs. 0.42 lakh is held in the bank account jointly with the re structured bank, in accordance with the Scheme of Reconstruction and will be accounted for in the year of realization.
- 3. Income from Investments of Deposit Insurance Fund is net of Rs.184.13 lakhs for excess profit

booked on sale of securities during the year 2002-03.

4. Net Claims of Deposit Insurance Fund for the year includes Rs. 1,833.68 lakhs pertaining to Previous Year.
5. There is no material deferred tax liability or asset hence not recognized.
6. The operation of the DICGC cells located at Kolkata, Nagpur and Chennai is under the control

of RPCD of Reserve Bank of India at all these places. The employees' cost has been provided in the General Fund on adhoc basis pending receipt of claims from respective RBI offices.

7. The Computerised records of all the insured banks in respect of Deposit Insurance Fund were updated and reconciled as on 31.3.2004.
8. The figures of Previous Year have been recasted or rearranged to make them comparable with those of current year.

## AN OUTLINE OF FUNCTIONS AND ACTIVITIES

### INTRODUCTION :

1.1 Insurance of bank deposits is intended to give a measure of protection to depositors, particularly small depositors, from the risk of loss of their savings arising from bank failures. Such protection by infusing confidence in the minds of the public, contributes to the growth of banking system by assisting in development of banking habits and mobilisation of resources by the banks which in turn can be utilised for purposes accorded national priority. Establishment of the Deposit Insurance Corporation came in the wake of certain bank failures in the fifties and early sixties and consequent efforts to restore the confidence of the depositing public in the banking system by safeguarding their interests.

1.2 The introduction of Credit Guarantee Schemes by the erstwhile Credit Guarantee Corporation of India Ltd., was part of a series of measures taken since the late sixties aimed at encouraging the commercial banks to cater to the credit requirements of the hitherto neglected sectors, particularly the weaker sections of society. In the wake of the social control measures initiated in 1968 followed by nationalisation of major commercial banks, the banks were required to ensure an increased flow of credit to smaller borrowers who found it difficult to have access to institutional credit. While there was an increasing awareness among banks of the need to provide more credit to such borrowers, certain practical difficulties, largely stemming from hesitation on the part of the credit institutions to venture into new and riskier fields of lending as also their inhibition, particularly at the grassroot level, to lend except against easily realisable security, were encountered. The Credit Guarantee Corporation of India Ltd., was thus visualised as an agency to provide a simple but wide-ranging system of guarantees for loans granted by credit institutions to such small and needy borrowers.

1.3 With a view to integrating the above twin and cognate functions the two organisations were merged in July 1978 and the Corporation was renamed as the Deposit Insurance and Credit Guarantee Corporation.

### DEPOSIT INSURANCE SCHEME :

#### Institutional Coverage

2. The Deposit Insurance Scheme was introduced with effect from 1 January 1962. The Scheme provides

automatic coverage for deposits with all commercial banks (including regional rural banks and local area banks) received in India. Following an amendment to the Deposit Insurance and Credit Guarantee Corporation Act in 1968, similar coverage is also extended in respect of deposits with co-operative banks in such of the States/Union Territories as have passed the necessary enabling legislation amending their local Co-operative Societies Acts. In terms of geographical coverage, the benefit of deposit insurance now stands extended to the entire banking system leaving uncovered only co-operative banks in such of the States/Union Territories as have yet to pass the necessary legislation.

#### Extent of Insurance Cover

3. Under the Scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of his deposits held by him in the same right and capacity in all branches of that bank upto a monetary ceiling of Rs. 1,00,000/-

#### Insurance Premium

4. The consideration for extension of insurance coverage to banks is payment of an insurance premium. The premium at the rate of 5 paise per annum per hundred rupees is collected at half yearly intervals. (it has since been raised to 8 paise and 10 paise per annum per hundred rupees with effect from the years 2004-05 and 2005-06 respectively). The banks are required to bear this fee so that the protection of insurance is available to the depositors free of cost. Penal interest @8% above Bank Rate is charged on overdue premium.

#### Payment of Insurance Claims

5.1 When a bank goes into liquidation the Corporation pays to every depositor, through the liquidator, the amount of deposits upto Rs.1,00,000/-. When a bank is reconstructed or amalgamated with another bank and the scheme of reconstruction or amalgamation does not entitle the depositor to get credit for the full amount of his deposit, the Corporation pays to each depositor the difference between the full amount of his deposit (or Rs.1,00,000/- whichever is less) and the amount actually received by him under the scheme of reconstruction/ amalgamation.

5.2 After settling a claim, the liquidator/transferee bank is required to repay to the Corporation, by virtue of the rights of subrogation, recoveries effected by him/it from assets of the insured bank in liquidation/amalgamation.

## **CREDIT GUARANTEE SCHEMES :**

### **Extension of Guarantee Support**

6.1 The erstwhile Credit Guarantee Corporation of India Ltd., was operating three credit guarantee schemes pertaining to advances to certain specified categories of small borrowers and with the transfer of this undertaking to the Deposit Insurance Corporation in July 1978, the Deposit Insurance Corporation took over those credit guarantee functions also. The three credit guarantee schemes which were formulated by the Credit Guarantee Corporation of India Ltd. and continued by the Corporation, were intended to provide the necessary incentive to financial institutions for extending needbased credit to small borrowers (including farmers) engaged in non-industrial activities.

6.2 A credit guarantee scheme for small-scale industries sponsored and formulated by the Government of India and administered by the Credit Guarantee Organisation (Reserve Bank of India) had been in operations since July 1960. In pursuance of the recommendations of a Working Group constituted by the Government in 1979, it was decided to integrate all credit guarantee schemes under one organisation. Accordingly, this scheme was cancelled by the Government of India in March 1981 and the Corporation, in its place introduced a new scheme with effect from 1 April 1981 covering advances to small scale industries by commercial banks and other financial institutions. The Corporation was also entrusted with the responsibility of discharging the obligations arising out of claims accruing under the cancelled scheme, upto the date of cancellation, as an agent of the Government. With the integration of credit guarantee functions relating to small scale industries, the Corporation has been providing guarantee support to a substantial amount of credit granted to the priority sectors.

6.3 Effective from 1 April 1989 and pursuant to the recommendations of the Expert Committee, 1987, the scope of the credit guarantee schemes was enlarged to cover the entire gamut of priority sector advances as defined by the Reserve Bank of India. However, at the request of some participating credit institutions, the Corporation allowed exclusion of certain categories of

advances guaranteed by Central/ State Governments, ECGC etc. from total priority sector advances for the purpose of payment of guarantee fee and consequently these advances ceased to get Corporation's guarantee cover.

### **Aims, Description and Coverage**

7.1 Corporation's various credit guarantee schemes in operation till end of March 1992 were as indicated below:

- (i) Small Loans Guarantee Scheme, 1971.
- (ii) Small Loans (Financial Corporations) Guarantee Schemes, 1971.
- (iii) Service Co-operative Societies Guarantee Scheme, 1971.
- (iv) Small Loans (Small Scale Industries) Guarantee Schemes, 1981.
- (v) Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982.
- (vi) Small Loans (Co-operative Banks) Guarantee Schemes, 1984.

7.2 With the termination of the Schemes at (ii), (iii) and (v) above with effect from 1 April 1992, the Corporation operated the following three schemes.

- (i) The Small Loans Guarantee Scheme, 1971, which came into force on 1 April 1971, covered credit facilities granted by commercial banks including regional rural banks to the priority sector (other than small scale industries) as defined by Reserve Bank and this included farmers and agriculturists, small road and water transport operators, retail traders, small business enterprises, professional and self-employed persons and educational, housing and consumption loans.
- (ii) The Small Loans (Small-Scale Industries) Guarantee Scheme, 1981 was introduced from 1 April 1981 and it covered credit facilities granted by commercial banks including regional rural banks, co-operative banks, State Financial Corporations and State Development Agencies to small-scale industries units for acquisition of or repairs to or replacement of fixed assets or equipment and for working capital requirements for production and marketing of products.

- (iii) The Small Loans (Co-operative Banks) Guarantee Scheme, 1984 covered credit facilities granted by eligible primary (urban) co-operative banks to the priority sector as defined by Reserve Bank, including activities allied to agriculture, road and water transport operators, retail traders, small business enterprises, professional and self-employed persons and educational, housing and consumption loans. All eligible licensed primary (urban) co-operative banks as defined in clause (gg) of Section 2 of the DICGC Act, 1961 as well as eligible unlicensed primary (urban) co-operative banks recommended by the Reserve Bank of India as eligible, could participate in the Scheme.

The salient features of various schemes are tabulated in the Annexure.

#### **Guarantee Fee**

8. The consideration for extension of the guarantee cover was the payment of guarantee fee at the stipulated rates calculated on the balances outstanding under the priority sector advances (except certain specified categories) and paid yearly in advance by the credit institutions. The fee rate was 2.50 per cent per annum for the Small Loans Guarantee Scheme, 1971 only. The regional rural banks were however, allowed to pay the fee at half the normal rate (i.e. @ 1.25 per cent per annum) for first five years from the date of their joining the Scheme. The guarantee fee rate for two other schemes viz., Small Loans (Co-operative Banks) Guarantee Scheme, 1984 and Small Loans (SSI) Guarantee Scheme, 1981, was 1.50 per cent per annum. The fee was required to be paid regularly and in advance on an annual basis in order to keep the guarantee in force. Penal interest @ 8% above Bank Rate was charged on overdue guarantee fee.

#### **GUARANTEE COVER - KEY CHARACTERISTICS**

##### **Automatic Bulk Coverage**

9.1 The guarantee covered was available to those credit institutions which join the schemes by entering into necessary agreements with the Corporation and paying the fee regularly at the prescribed rates. The schemes are operated on an automatic bulk coverage basis under which all eligible advances got automatically covered right from the date of their first disbursement without requiring the credit institutions to make a prior application to the Corporation for covering

each credit facility. Therefore, it was not open to participating credit institutions to exclude any eligible credit facility from the purview of guarantee cover.

##### **Benefit confined to "Priority Sector" borrowers**

9.2 The guarantee schemes were meant to provide cover for advances granted to small borrowers in the priority sector who without such support may have found it difficult to have access to institutional credit. To ensure that the benefits thereof did not gravitate to more affluent persons, several stipulations had been made in the guarantee schemes, such as ceilings on amount of credit as in the case of retail traders, the value of equipment as in the case of business enterprises and of plant and machinery in the case of small-scale industrial units. Besides, absolute limits had been placed on the Corporation's claim liability.

##### **Invocation of Guarantee**

10. The Corporation had revised the conditions for invocation of guarantee with effect from 1.4.1995. The conditions were as follows :

- (i) The participating credit institutions should lodge the claims only after the outstanding amount in the account is written off in the books of account of the institution under orders of the competent authority.
- (ii) The Corporation's guarantee shall cover only the principal amount sanctioned by the credit institution and in the case of cash credit/ overdraft and other revolving credit facilities, amount outstanding upto the regular limit sanctioned under each type of credit facility.
- (iii) No claim shall be admitted from credit institution in respect of accounts where recovery received from borrowers (excluding adjustment of subsidy) in a particular account is less than 25% of the total debits in the account on the date of write off, except under exceptional circumstances as under :
  - (a) When borrower has expired ;
  - (b) When any natural calamity has affected the area;
  - (c) any other ground which may merit exception depending upon the circumstances brought to the notice of the Corporation in general, for a particular area or category of borrowers;

- (iv) The claims should be lodged with the Corporation within a year from the date of write-off of the amount in the books of credit institution.
- (v) The condition of observance of 3 years lock- in-period for lodgement of claims has been deleted in respect of all claims which fell due for lodgement on or after 1st April 1995.

The Corporation paid 50% of the principal amount in default subject to certain absolute limits stipulated in the schemes in regard to different categories of eligible activities. To smaller borrowers, relatively higher cover was provided by the Corporation. After payment of the claims, the claimant institutions were required to continue effective steps to recover the dues and remit to the Corporation its share of the recoveries effected less expenses incurred for such recoveries, by virtue of the right of subrogation. Since 22 February 1994, credit institutions had been

delegated powers to take decisions in matters like change/release of security/surety, waiver of legal action, compromise and scaling down of dues and write-off and they were not required to obtain the Corporation's prior approval. The proposals involving staff accountability, frauds, misappropriation etc., had, however, to be referred to the Corporation for its prior approval. On invocation of a guarantee and payment of a claim in respect of a borrower, the Corporation's guarantee cover was not available for any other credit extended to that borrower till the amount due to the Corporation on account of the claim already settled had been repaid.

#### **Termination of Credit Guarantee Schemes**

11. All the credit institutions have opted out of the Schemes consequent upon the modification in their terms and conditions in April 1995. The Corporation is therefore not operating these schemes now.



**ANNEXURE**  
**CREDIT GUARANTEE SCHEMES – SALIENT FEATURES**

Schemes (1)	Eligible participants (2)	Category of Borrowers (3)	Guarantee fee (4)	\$Guarantee cover (5)
<b>A) SMALL BORROWERS</b>				
<b>I) Small Loans Guarantee Scheme, 1971</b>	Commercial Banks (including Regional Rural Banks)	<b>(i) Transport Operators</b>	2.5% p.a. uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually. (In case of RRBs the rate of guarantee fee is 1.25% p.a. for first five years of their joining this Scheme).	50% of the amount in default or Rs. 1,50,000/- whichever is lower.
		<b>(ii) Retail Traders</b>	— do —	50% of the amount in default or Rs.25,000/- whichever is lower.
		<b>(iii) Professional &amp; Self-employed Persons &amp; Business Enterprises</b>	— do —	50% of the amount in default or Rs.50,000/- whichever is lower.
		<b>(iv) Farmers &amp; Agriculturists- Direct Finance</b>		
		1) For raising crops	— do —	50% of the amount in default or Rs. 10,000/- whichever is lower.
		2) For developmental activities	— do —	50% of the amount in default or Rs. 20,000/- whichever is lower.
		3) For conversion of crop loans upto a maximum of 3 conversions under special circumstances	— do —	50% of the amount in default or Rs. 30,000/- (i.e. Rs. 10,000 x 3) whichever is lower.
		4) For allied activities		
		i) Pisciculture	— do —	50% of the amount in default or Rs. 37,500/- whichever is lower.
		ii) Sericulture	— do —	50% of the amount in default or Rs. 18,750/- whichever is lower.
		iii) Animal Husbandry	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
		iv) Poultry Farming	— do —	50% of the amount in default or Rs. 22,500/- whichever is lower.
		v) Dairy Farming	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
(With overall ceiling of Rs. 60,000/- for more than one activity)				
\$ With effect from 1.4.1995 the Corporation's guarantee shall cover only the principal amount sanctioned by the credit institution and in the case of cash credit/overdraft and other revolving credit facilities, amount outstanding upto the regular limit sanctioned under each type of credit facility.				

(Contd.)

**ANNEXURE (Contd.)**

(1)	(2)	(3)	(4)	(5)
	<p><b>(v) Indirect Finance to Agriculture</b> As per RBI definition of priority sector except advances for construction and running of cold storage and to custom service units which will be covered under Small Loans (SSI) Guarantee Scheme, 1981.</p>	<p>2.5% p.a. uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually. (In case of RRBs the rate of guarantee fee is 1.25% p.a for first five years of their joining this Scheme).</p>		<p>50% of the amount in default or Rs. 60,000/- whichever is lower per borrowing constituent/ institution.</p>
	<p><b>(vi) Education</b> Credit facilities to individuals for educational purposes granted by eligible credit institutions under special schemes introduced by them for the purpose.</p>		— do —	<p>50% of the amount in default.</p>
	<p><b>(vii) State Sponsored Organisations for SCs/STs</b> Advances sanctioned by State sponsored Organisations for SC/ST for the specific purpose of purchase and support of inputs to and/or the marketing of the outputs of the beneficiaries of these organisations.</p>		— do —	<p>50% of the amount in default or Rs. 60,000/- whichever is lower (per borrowing constituent/ institution).</p>
	<p><b>*(viii) Housing-Direct Finance</b> (a) Loans upto Rs. 2 lakh for construction of houses granted to all categories of borrowers.</p>		— do —	<p>50% of the amount in default.</p>
	<p>(b) Loans upto Rs. 25,000/- for repairs to damaged houses granted to all categories of borrowers.</p>		— do —	— do —
	<p><b>*(ix) Housing Indirect Finance</b> i) Assistance given to any government agency for the purpose of constructing house exclusively for the benefit of SC/ST and low-income group and where loan component does not exceed Rs.2 lakh per housing unit.</p>		— do —	<p>50% of the amount in default or Rs. 60,000/- whichever is lower (per borrowing constituent/ institution).</p>
	<p>ii) Assistance to any government agency for slum clearance and rehabilitation of slum dwellers where loan component does not exceed Rs. 2 lakh per housing unit.</p>		— do —	— do —
	<p>* All Housing Loans have been excluded with effect from 1.4.1995 for the purposes of guarantee cover and computation of guarantee fee payable to the Corporation.</p>			

(Contd.)

**ANNEXURE (Contd.)**

(1)	(2)	(3)	(4)	(5)
		(x) <b>Consumption</b> Pure consumption loans granted, consumption loans granted under the Consumption Credit Scheme.	— do —	50% of the amount in default.
<b>II) Small Loans (Co-operative Banks) Guarantee Scheme, 1984</b>	Primary Urban Co-operative Banks	<b>i) Transport Operators</b>	1.5% p.a. uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually.	50% of the amount in default or Rs. 1,50,000/- whichever is lower.
		<b>ii) Retail Traders</b>	— do —	50% of the amount in default or Rs. 25,000/- whichever is lower.
		<b>iii) Business Enterprises &amp; Professional &amp; Self -employed Persons</b>	— do —	50% of the amount in default or Rs. 50,000/- whichever is lower.
		<b>iv) Educational Loans</b>	— do —	50% of the amount in default.
		<b>v) Consumption Loans to individuals upto Rs. 500/-</b>	— do —	— do —
		<b>*vi) Housing Loans not exceeding Rs. 25,000/- to</b>		
		a) Individuals	— do —	50% of the amount in default.
		b) Government Agency	— do —	50% of the amount in default or Rs. 60,000/- whichever is lower per borrowing constituent/ institution.
		<b>vii) Activities allied Agriculture</b>		
		i) Pisciculture	— do —	50% of the amount in default or Rs. 37,500/- whichever is lower.
		ii) Sericulture	— do —	50% of the amount in default or Rs. 18,750/- whichever is lower.
		iii) Animal Husbandry	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
		iv) Poultry Farming	— do —	50% of the amount in default or Rs. 22,500/- whichever is lower.
		v) Dairy Farming	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
		vi) Purchase of bullock carts, camel carts, pack animals etc.	— do —	50% of the amount in default or Rs. 10,000/- whichever is lower.
		(With overall ceiling of Rs. 60,000/- for more than one activity)		
* All Housing Loans have been excluded with effect from 1.4.1995 for the purposes of guarantee cover and computation of guarantee fee payable to the Corporation.				

(Contd.)

**ANNEXURE (Concl.d.)**

(1)	(2)	(3)	(4)	(5)	
<b>B) SMALL SCALE INDUSTRIES</b>					
<b>Small Loans (Small Scale Industries) Guarantee Scheme, 1981</b>	Commercial Banks(including RRBs),Co-operative Banks, State Financial Corporations and State Development Agencies	i) Small Scale Industrial Units (including ancillary units) to whom credit facilities not exceeding Rs. 2 lakh per borrowing constituent in the aggregate extended.	1.5% p.a uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually.	50% of the amount in default or Rs. 20 lakh (apportioned separately and equally viz., Rs. 10 lakh for term loans and Rs. 10 lakh for working capital) whichever is lower.	
		ii) Small Scale Industrial units in backward areas with credit facilities without any limit.	— do —	— do —	
		iii) Small Scale Industrial units (including ancillary units) in other than backward areas having total credit facilities exceeding Rs. 2 lakh.	— do —	50% of the amount in default or Rs. 20 lakh (apportioned separately and equally viz., Rs.10 Lakh for term loans and Rs. 10 lakh for working Capital)whichever is lower.	
		<b>Indirect finance to SSI</b>			
		i) Agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.	— do —	(a) 50% of the amount in default or Rs. 60,000/- whichever is lower in respect of credit facilities not exceeding Rs. 2 lakh per borrowing constituent in the aggregate. (b) 50% of the amount in default or Rs. 60,000/- whichever is lower in respect of credit facilities exceeding Rs. 2 lakh per borrowing constituent in the aggregate.	
		ii) Government sponsored Corporation/organisations providing funds to the weaker section in the priority sector (provided they are not covered by Government or any other guarantee).	— do —	— do —	
		iii) Loans for construction and running of cold storage.	— do —	50% (as stated above) of the amount in default or Rs. 20 lakh (Rs.10 lakh each for working capital and term loans)whichever is lower.	
		iv) Advances to custom service units managed by individuals, institutions or organisation who maintain a fleet of tractors, bulldozers, well boring equipment, threshers, combines etc. and undertake work from farmers on contract basis.	— do —	— do —	
		<b>(v) Industrial Estates</b>			
		Loans for setting industrial estate.	— do —	— do —	