# UNIT 10 COMMERCIAL BANKING

**Structure**



## 10.0 OBJECTIVES

After going through this unit, you will be able to:

- discuss the principles of banking;
- describe the main functioning of banks as financial intermediaries;
- explain the coexistence of deposits and lending; and
- analyse the basic features of, and trends in, commercial banking in India.

## 10.1 INTRODUCTION

The banking sector is a vital cog in the machinery of any modern economy. It is one of the major financial pillars of the financial system. Banks are one of the oldest of financial intermediaries in the financial system. They play a crucial role in the mobilisation of deposits and disbursal of credit in of credit to various sectors of the economy. A well-functioning banking system efficiently deploys mobilised savings in productive sectors and a solvent banking system ensures that the bank is capable of meeting its obligations to the depositors. In India, the banking sector is the dominant form of financial institution and accounts for more than half the assets of the financial sector.

This Unit is devoted to the study of the commercial banking system, both from a theoretical perspective and from the perspective of commercial banking in India. The next section deals with the principles of banking where the functioning of banks is explained. The role of banks is analysed and the theoretical foundations of the banking process is provided. The subsequent section attempts to discuss the simultaneous existence of deposits as well as lending is explored, and the working of the banking process under conditions of uncertainty is discussed. The final section in the main body of the Unit deals with commercial banking in India: its evolution, its achievements, and the changes it has been undergoing in recent years.

## 10.2 PRINCIPLES OF BANKING

Usually commercial banks are simple business or commercial concerns, which like other concerns are engaged in providing services in exchange for a price. The services that banks provide are financial services. Banks are a type of depository institutions. Depository institutions, as the name suggests, are financial intermediaries that accept deposits. These deposits represent the liabilities (debt) of the deposit-accepting institutions. With the funds raised through deposits and other funding sources, depository institutions make direct loans to various entities and make investments in securities. The income of depository institutions comes from two sources: the income generated from the loans they make and the securities they buy.

A depository institution aims to earn a positive spread between the assets it invests in (lending and securities) and the costs of its funds (deposits and sources). This spread is known as spread or margin. Depository institutions face several types of risks like credit risks, default risks and so on. You will read more about these risks in Block 4. The basic difference between banks and other depository institutions is that banks can, lending process, create credit and increase the money supply in the economy. The fundamental difference that banks have with other financial or depository institutions are as follows: (a) the banks provide transactions services (you can and do make payments by cheques; you can't pay using your membership in thrift and credit societies) and thus banks participate in the economy's payment mechanism; (b) their deposit liabilities constitute a major part of the nation's money supply (you will read more about this in Unit 13 in Block 4); and (c) as has been mentioned above, and this is the fundamental difference that banks have with other financial institutions in terms of processes and outcomes, banks can, as a whole, create deposits or credit, and thus *increase* the money supply. We shall elaborate on this a bit presently; you will get the details in Unit 13.

To come back to the point we made in the first paragraph, banks provide financial services to consumers in exchange for in return for payment of some kind, such as interest, discount, fees, commissions, and so on. Like other firms, their objective is to make profits. However, there is one difference (this is a difference of degree rather than of kind) between banks and other profit-seeking business firms, banks have to pay much more attention to balancing profitability with liquidity. While all business firms have to deal with liquidity constraints, banks have to pay particular attention in this regard because of the nature of their liabilities. The basic fact is that banks deal with other people's money, of which a substantial portion is repayable on demand. That is why for banks liquidity management is as important as profitability management.

Commercial banks are required to hold 'voluntarily' a part of their deposits in the form of ready cash. This is called cash reserves. The ratio of cash reserves to deposits is called the reserve ratio, or cash reserve ratio. Usually the Central Bank of the country prescribes the
reserve ratio that all banks must maintain. Otherwise, left to themselves, banks would be tempted to not hold the necessary ratio and indulge in excess lending. The Central Bank of a nation is also the lender of the last resort: in times of genuine difficulties, the Central Bank supplies reserves to banks. The legal reserve requirement that the Central Bank prescribes for the commercial banking system has two objectives: first, it is aimed at making deposits safe and liquid and secondly, through it the Central Bank aims to control the amount of chequeing deposits or bank money which the commercial banks are able to create. This system of modern banking in which banks are required to maintain a fraction of their deposit liabilities as reserves is known as fractional reserve banking.

We mentioned above that the feature that distinguishes banks from other financial institutions is that while other financial institutions can only transfer funds, banks can not only transfer funds but also actually *create* credit. Thus banks are not *merely* financial intermediaries. Banks are said to create deposits along with credit, or we may put it by saying that every loan given by a bank creates a deposit. This has led to the important concept of credit multiplier. The consequence of credit creation by banks is that credit creation increases the money supply and since the changes in the supply of money influences the aggregate price level, nominal national income, and other macroeconomic variables, credit activities by banks influences the level of economic activity. Since banks can create credit they can encourage investment for some time without a prior increase in saving.

We now briefly discuss the way banks can create money through the process of lending. You will get the details in Unit 13. There are several definitions of money, but however narrow or broad, all definitions agree that other than currency, demand deposits are part of the money stock. Now, loan giving by banks create checqueable deposits they add to the supply of money. To put it in a nutshell, the money-creating power of banks arises from the fractional reserve system of modern banking, and that certain liabilities (demand deposits) are accepted by the public as money.

**Check Your Progress 1**

1. What is the basic difference between banks and non-bank financial intermediaries?
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2. In what way are banks as firms different from other business firms?
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3. Briefly explain banks create money by giving loans.
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## 10.3 COEXISTENCE OF DEPOSITS AND LENDING

In the previous section we mentioned that banks provide various types of services. They permit depositors to keep deposits with them, and they lend out to lenders. So they are providing two types of services to distinct group of people. What is interesting about the simultaneous existence of these two types of services is that lending is to a large extent dependent on deposits. Thus banks largely use other people's money to lend to third parties. The deposits that the first group makes are the bank's liabilities. The same liabilities the banks are able to turn into assets when they lend to the borrowers.

A potential problem can arise in this scheme of things. If all depositors were to ask for their money back at the same time, and the banks find that they are unable to return those deposits, there would be a crisis. Sometimes, when there is news of one bank failing to return its depositors' deposits, that is there panic, and depositors in other banks wish to withdraw their deposits as well. Let us look at this a little closely because we have said that (a) banks have deposits and lending at the same time and (b) deposits are an input into 'producing' loans, if we look at banks as firms and loans as the 'output' of banks. To maximise profits, a bank must convert the reserves generated by deposits into loans. In doing so the bank converts liquid assets (deposits) into less liquid assets (loans). Since in converting deposits into loans lowers the level of liquidity, there is the possibility that the bank will not have enough liquid assets to meet its depositors' demands. Banks have to solve this problem and avoid panics. Let us see how banks achieve this.

Banks can lend out from deposits of depositors because all depositors do not withdraw all their deposits at the same time. Of course, there is always the uncertainty as to whether it will actually happen or not. Banks deal with this uncertainty with the help of the Law of Large Numbers. Applied to banking, this law suggests that if individual withdrawal decisions are independent and there is a large number of depositors, the bank can estimate accurately, how much it can afford to lend out and still cover the withdrawal of its many depositors. This stems from considering the probability of an event as the relative frequency if there are a very large number of repeated trials. For example, we know the probability of getting heads with one toss of a coin is ½. If you were to toss the coin eight times, it is possible that you get six heads. But if were to toss it 80, 000 times (!), you would probably get close to 40, 000 heads. Similarly, if the number of depositors went up, the bank can accurately predict how many depositors will make what amount of withdrawals in a given time period. With a single depositor the amount to be withdrawn in uncertain. But averaging over a very large number of depositors, the bank can arrive at the expected value of withdrawal.

We have been talking about the total withdrawals and average withdrawals. However there is wide variation in individual propensity to withdraw. Some depositors are more likely to withdraw than others. Some depositors bring their balance close to zero, while others have large balances. If banks have greater knowledge about the likelihood of withdrawals, they would be in a better position to lend. To obtain information about how often depositors will withdraw funds, banks sort depositors. By offering different options, rates and schemes to depositors, banks help depositors to self-select into different categories in terms of choosing different types of accounts in banks.

The application of the law of large numbers, we assumed that withdrawals were independent of each other. However, there can be situations due to changing economic environment when many depositors withdraw deposits at the same time. For example, when there is a recession, many depositors may deplete their saving accounts. When recession is severe and turns into a depression, a bank may be drained of its reserves, and in some instances, be left illiquid. A bank is illiquid when it lacks sufficient assets to meet the immediate demands of its creditors or depositors. A bank can respond to low reserves in three ways. First it can liquidate some of its assets. But since this is not always feasible and is a limited option, banks have to constantly monitor their reserves. Secondly, banks can borrow from each other to obtain funds on a short-term basis. Finally, they can seek the assistance of the central bank in its role as the lender of the last resort.

Sometimes it happens, and has happened in a few episodes in history, that a failure of one bank to honour its deposits leads the general public to fear that their own banks may not be able to honour their deposits. If this feeling gains ground, depositors will try to withdraw their deposits. This situation is called a general bank panic.

Certain features of commercial banking make even otherwise healthy banks vulnerable to bank panics. First, banks operate on a fractional reserve system. Each bank maintains only a small fraction of its deposits in reserves. Thus banks actually do not have cash at any moment to meet the request for withdrawal by customers. Second, a very large portion of bank liabilities is in the form of deposits *payable on demand*. But if a large number of depositors want to withdraw their deposits, banks will not be able to honour their withdrawals. Banks may try to get out of this situation by selling off their assets but if too many banks try to do this at the same time, it may drive down the prices of securities. There might be a scramble for funds as many banks try to sell off their assets. This decline in the prices of securities may cause even healthy banks to fail. This accentuates the banking panic as depositors worry about the financial viability of their banks as the value of the banks' assets plummets.

One bank may face insolvency if its total liabilities exceed the value of its assets. But the danger is that often failure of one insolvent bank spreads to other banks in the banking system, and the rush for funds by banks may set off failures that might otherwise not occur. Therefore, bank panics are a problem because of their effect on otherwise healthy banks.

**Check Your Progress 2**

1. Explain how banks can keep a small amount as reserves and lend out the whole of the rest of the deposits.
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2. In what way can banks respond to low reserves?
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3. What is a bank panic? How does it occur? How can it affect even otherwise healthy banks?
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## 10.4 TRENDS IN COMMERCIAL BANKING IN INDIA

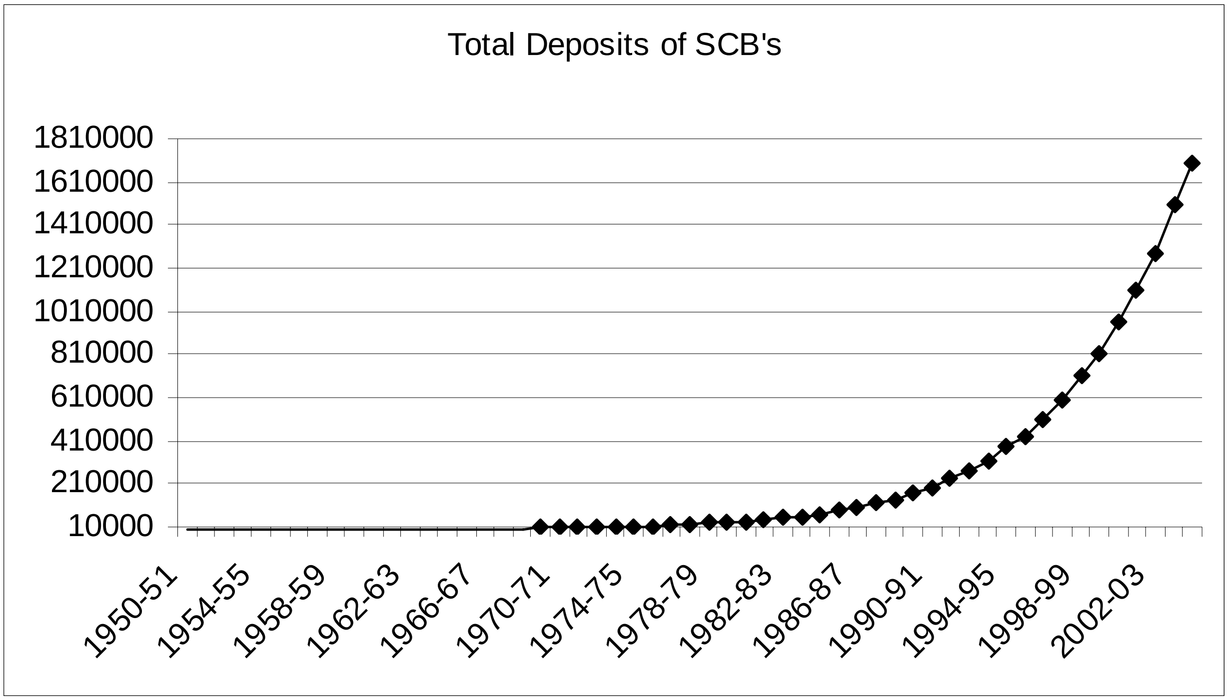
Financial systems evolve over a period of time and are influenced by the politico – economic environment. Commercial banking in India has evolved by responding to the changing needs of business and economy. The boundaries for this evolution were set by Reserve Bank of India and the Government of India. The last major development in India has been the financial sector reforms which started in the early 1990's. We now have a globalised financial system. Interest rates are mostly determined by market forces and there are very few restrictions on the operations of commercial banks. Thus commercial banks are now in a competitive business environment.

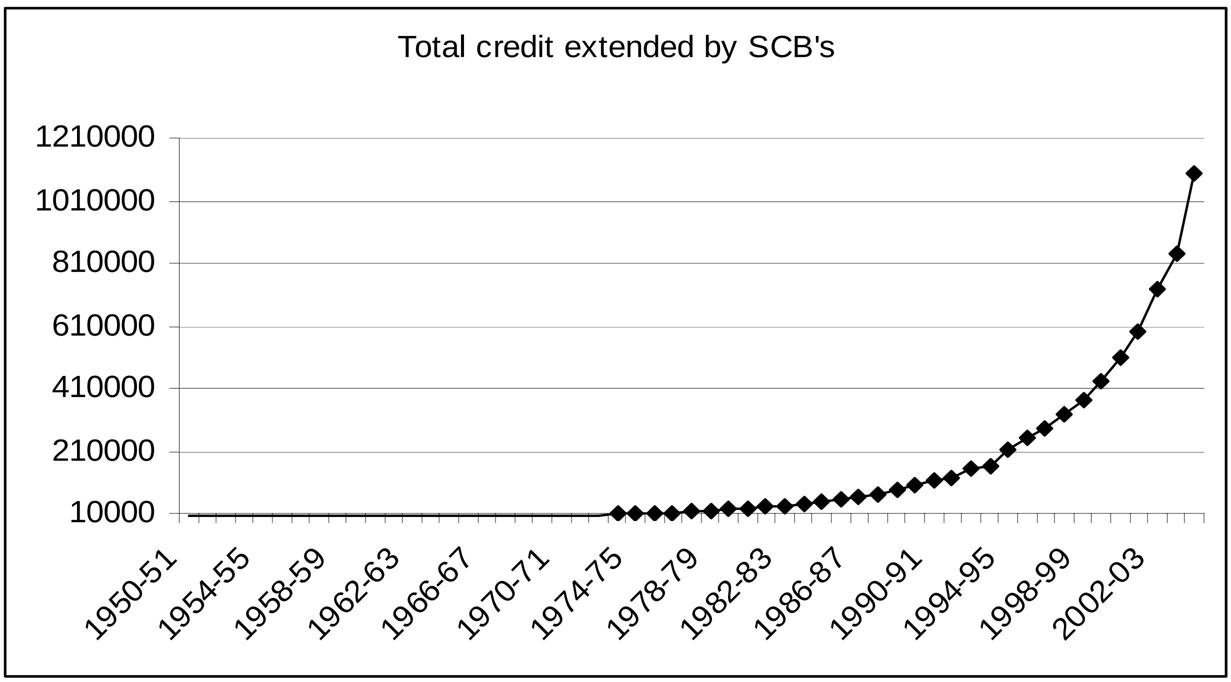
**Commercial Banking in India- A Historical Perspective**

Independent India inherited a rather under-developed financial system. The securities and capital market were not well organized and intermediaries and institutional infrastructure were noticeably absent. Consequently commercial bank lending was restricted to security and collateral based loans. This changed when banks had to respond to the requirements of the Five Year Plans.

Up to the late eighties, the government pursued the goals of accelerated economic growth with social justice through the "Five Year Plans" and adopted the "mixed economy "model. These plans envisaged huge investments for accelerated development. However, bank credit was a scarce commodity. Deposits were the key to a bank's success and assets were excess in supply. Further, the plans entailed substantial government spending. Thus there was a need for alignment of the financial system with the priorities of government's economic policy. Consequently, RBI exercised increasing control over distribution of credit and finance. Interest rates on deposits and loans were dictated by RBI. And the flow of credit from commercial banks was artificially channelled to the desired sectors. In 1969, 14 major banks were nationalised.

| COMMERCIAL BANKS AT A GLANCE | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **1969** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** |
| Number of Commercial Banks | 89 | 300 | 301 | 298 | 300 | 297 | 292 |
| (a) Scheduled Commercial Banks | 73 | 299 | 301 | 297 | 296 | 293 | 288 |
| (b) Non-Scheduled Commercial Banks | 16 | 1 | — | 2 | 5 | 4 | 4 |
| Number of Bank Offices in India | 8262 | 66408 | 67157 | 67868 | 67937 | 68195 | 68500 |
| (a) Rural | 1833 | 32864 | 32859 | 32852 | 32585 | 32503 | 32283 |
| (b) Semi-Urban | 3342 | 14266 | 14462 | 14841 | 14843 | 14962 | 15135 |
| (c) Urban | 1584 | 10593 | 10841 | 10994 | 11193 | 11328 | 11566 |
| (d) Metropolitan | 1503 | 8685 | 8995 | 9181 | 9316 | 9402 | 9516 |
| Aggregate deposits of SCB's (Rs crore) | 4646 | 605410 | 722203 | 851593 | 989141 | 1131188 | 1311761 |
| (a) Demand deposits | 2104 | 102513 | 117423 | 145283 | 159407 | 169103 | 187837 |
| (b) Time deposits | 2542 | 502897 | 604780 | 706310 | 829734 | 962085 | 1123924 |
| Scheduled Commercial Banks | | | | | | | |
| Total Credit (Rs Crore) | 3599 | 324079 | 368837 | 454069 | 529271 | 609053 | 746432 |
| Investments in India (Rs. crore) | 1361 | 218705 | 254594 | 311697 | 367184 | 437482 | 541750 |
| Per capita Deposit (Rs.) | 88 | 6270 | 7359 | 8542 | 9770 | 11008 | 12253 |
| Per capita Credit (Rs.) | 68 | 3356 | 3759 | 4555 | 5228 | 5927 | 7275 |
| Deposits as % of GNP (current prices) | 15.5 | 49.4 | 50.3 | 53.5 | 56 | 54.4 | 58.8 |
| Share of Priority Sector in Total Advances (%) | 14 | 34.6 | 35.3 | 35.4 | 31 | 34.8 | 35.1 |
| Credit-Deposit Ratio (per cent) | 77.5 | 53.5 | 51.1 | 53.3 | 53.5 | 53.8 | 56.9 |
| Investment-Deposit Ratio (per cent) | 29.3 | 36.1 | 35.3 | 36.6 | 37.1 | 38.7 | 41.3 |

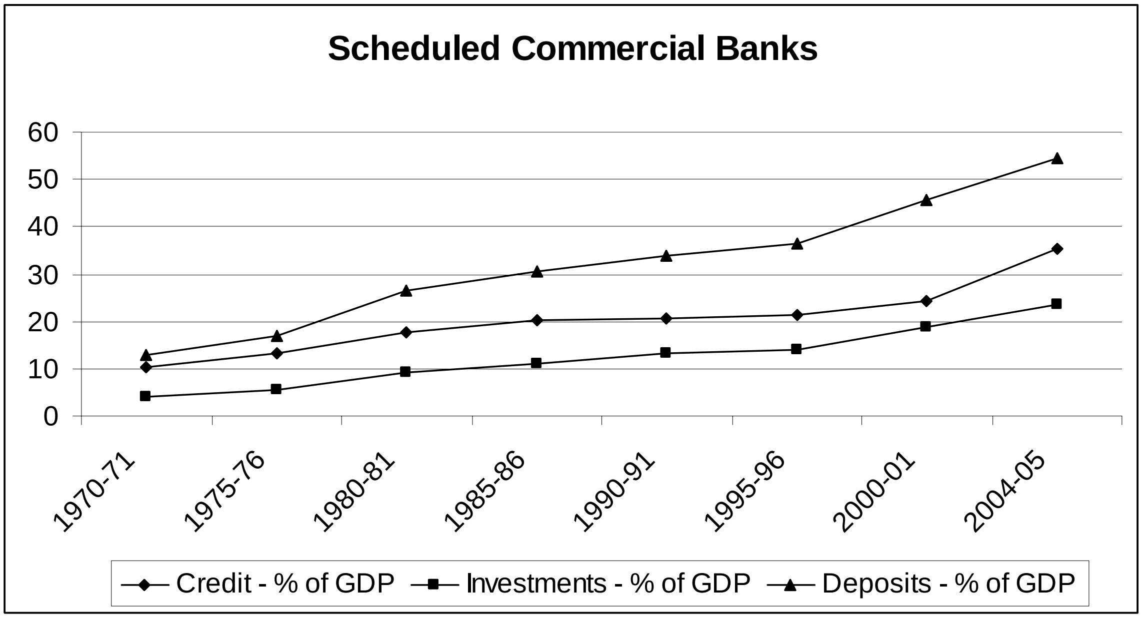


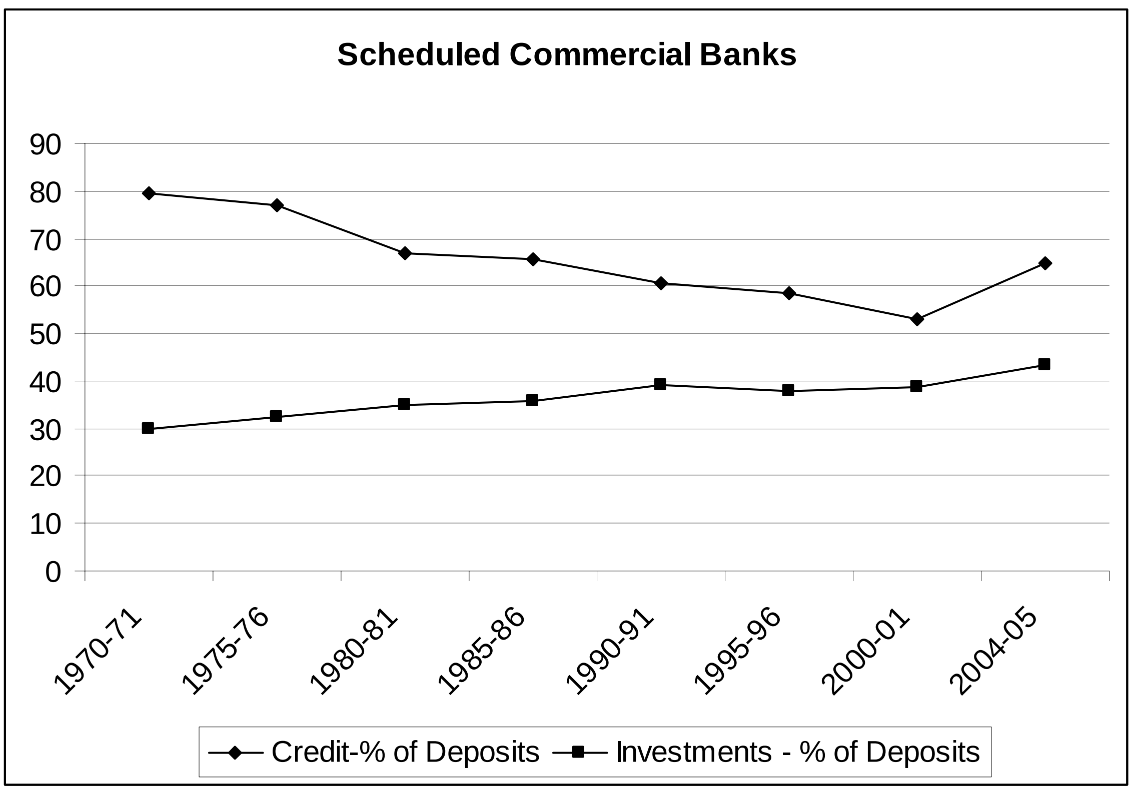

**Effects of Nationalisation:**

Nationalisation of banks changed the whole scenario completely. The Government of India and RBI started playing an even more dominant role; profit motive was replaced by emphasis on "development". While this resulted in certain desirable developments it also created many problems. Some of the desirable effects were :

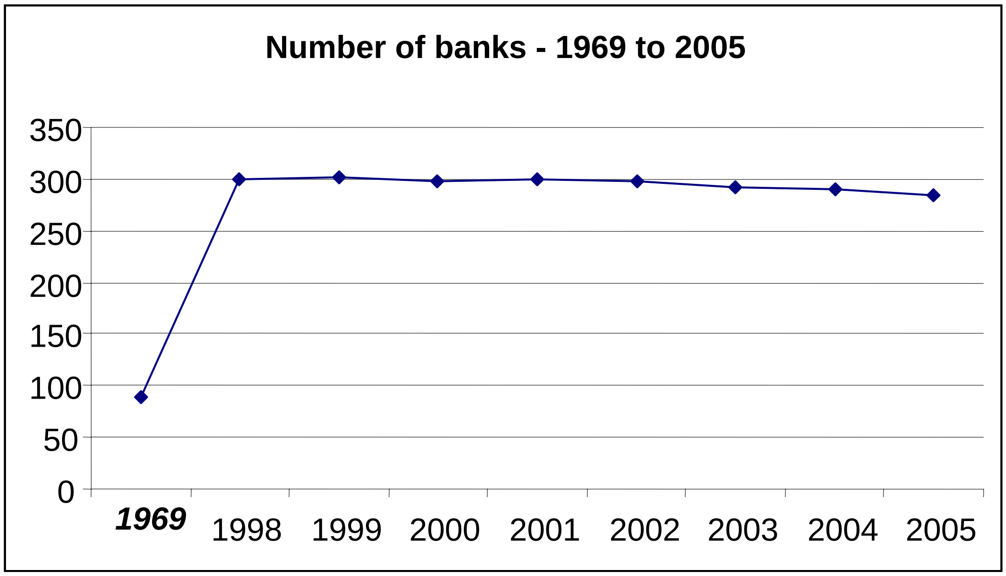
- **Growth of Banking habit:** Since 1969 there has been an explosive growth in banking.

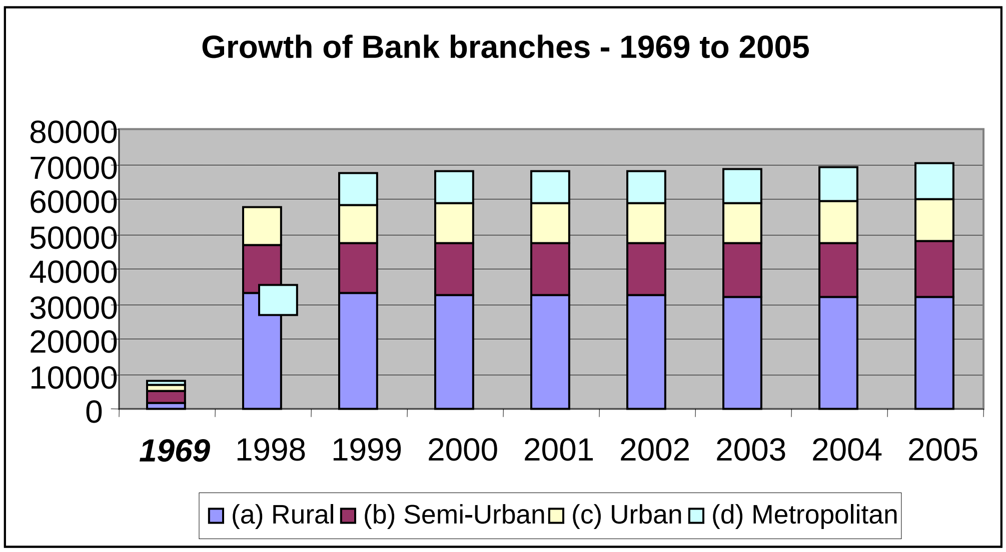



Deposit to GDP ratio increased from about 12% in 1970-71 to about 55 % in 2004-05. And the Credit to GDP ratio increased from about 5 % in 1970-71 to about 25% in 2004-05.

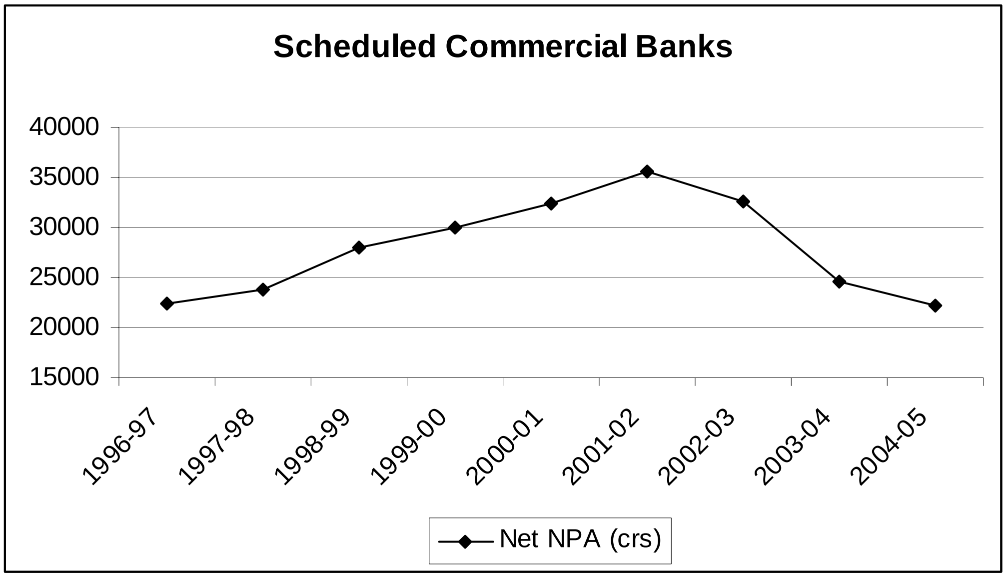



- **Spatial spread of banking** : As shown below, there has been an explosive growth in the number of banks and branches of banks.




- **Build up of Non-Performing Assets:** Bureaucratization of decision making led to deterioration of quality of assets. The net NPA's of Public Sector banks reached Rs 20,285 crore out of Rs 22,340 crore for the SCB's as a whole. While NPA's in SCB's formed 8.1% of the advances, they were 9.2 % of advances in the Public Sector Banks.




- **Lack of Competition:** Bureaucratization of decision making also led to a mind-set and orientation which did not lay emphasis on efficiency and profits. Thus in the scenario lack of competition, over-staffing and low capitalization became order of the day.

**Recent Developments**

The Balance-of-Payments crisis of early 1990s precipitated matters. The country had to carry out extensive structural reforms to put back the economy on rails. Along with structural changes of the economy, financial sector reforms were also taken up. The following are the more important developments in the recent past which have had a significant role in shaping of the commercial banking sector.

**Deregulation of Interest rates:**

Till recently, banks were told by RBI what rates of interest to pay on deposits and what rate to charge on loans. Such a system bred complacency among bankers as pricing of products is a crucial factor in any business. When all suppliers are made to charge the same price, competition is almost non-existent. Moreover, in a directed regime, there is no scope for product innovation. With deregulation, banks find themselves in a competitive environment.

**End of Directed lending:**

Directions on sectoral allocations of loans, restrictions & controls over lending have been done away with. Now banks can acquire assets as per their requirements and business plans. Priority sector lending, however, remains. Thus banks are required to lend 40% of their total loan portfolio to certain specified priority sectors.

**Entry of Private Sector Banks:**

Till the 1990's no new banks were allowed to be set up. But as part of the reforms, new banks were allowed in the early 1990s. These banks have invested heavily in technology, thereby increasing efficiency. This gave a great impetus to the development of technology suited to banking in India. These efficient banks have quickly grabbed a significant market share bringing in much required competition.

**Introduction of Prudential Norms**

Prudential norms in the form of Income recognition, Assets classification and provisioning for losses, have been introduced. Commercial banks in India cleaned up their balance sheets with adoption of these norms. Consequently, the balance sheets of banks have become of international standards.

**Basel Norms:**

Based on the recommendations of the Basel Committee (1988), banks are required to maintain a specified minimum amount of capital relative to their assets. This is known as capital adequacy ratio (CAR). Presently banks are required to maintain a CAR equal to or more than 9% of their risk weighted assets, though under the new CAR norms known as Basle II, the amount of capital that banks will need to keep will go up.

Higher capital is expected to give strength to banks in times of stress. In India, we had very low capitalizations of banks. Since the Indian economy has become increasingly globalised, banks have been made to conform to international standards. As of now all banks have been able to successfully attain this standard. RBI has in fact gone ahead and increased the ratio to 9%.

**Entry of Foreign Banks:**

From a very minor share of business, foreign banks now have a sizeable presence. RBI has been fairly liberal in allowing establishment of branches of Foreign Banks. Moreover Foreign banks have been allowed to open wholly owned subsidiaries in India. With the expected implementation of WTO initiatives, the presence of foreign banks is only going to increase.

**Globalization of the Indian economy.**

Banking follows business. A globalized economy results in cross-border flow of capital and trade payments. As Indian companies spread their wings, Indian banks have to gear up to meet their requirements. India, therefore, requires a globalized banking system.

**Enhanced liquidity in the banking system:**

Liberalization, allowing FDI and FII, and India becoming a hot favourite emerging market destination have resulted in huge amounts of foreign exchange flows into the country. Under normal circumstances, when the currency is floating freely, the exchange rate adjusts itself to make necessary corrections. However, RBI, perhaps with the desire to restrict volatility of the rupee and maintain a week rupee, has been absorbing these excessive forex flows. However, when RBI buys US dollars it pays rupees. Consequently, except for brief periods, huge liquidity over hangs have been seen in the banking system.

There has been a more than healthy growth of deposits. Moreover, till 2005-06, credit off-take had been very slow. All these developments have resulted in funds not being a constraint for banks.

Almost 80% of the business is still controlled by Public Sector Banks (PSBs). PSBs are still dominating the commercial banking system. Shares of the leading PSBs are already listed on the stock exchanges.

The RBI has given licences to new private sector banks as part of the liberalisation process. The RBI has also been granting licences to industrial houses. Many banks are successfully running in the retail and consumer segments but are yet to deliver services to industrial finance, retail trade, small business and agricultural finance.

The PSBs will play an important role in the industry due to its number of branches and foreign banks facing the constrait of limited number of branches. Hence, in order to achieve an efficient banking system, the onus is on the Government to encourage the PSBs to be run on professional lines.

Prudential norms were introduced for income recognition, asset classification, provisioning for delinquent loans and for capital adequacy. In order to reach the stipulated capital adequacy norms, substantial capital was provided by the Government to PSBs.

Government pre-emption of banks' resources through statutory liquidity ratio (SLR) and cash reserve ratio (CRR) brought down in steps. Interest rates on the deposits and lending sides almost entirely were deregulated.

New private sector banks were allowed to promote and encourage competition. PSBs were encouraged to approach the public for raising resources. Recovery of debts due to banks and the Financial Institutions Act, 1993 was passed, and special recovery tribunals set up to facilitate quicker recovery of loan arrears.

Bank lending norms liberalised and a loan system to ensure better control over credit introduced. Banks asked to set up asset liability management (ALM) systems. RBI guidelines issued for risk management systems in banks encompassing credit, market and operational risks.

## Consequences of the Recent Developments

**Changing business environment:**

Bankers who have grown up in a protected business environment suddenly find themselves in a totally different situation. They now have to take decisions like any other business; a difficult proposition for the top management who have grown in an environment of dictated pricing and directed lending. They now have to get into actually marketing their products and services; product development and pricing. They have to develop business plans and ensure maximization of shareholders wealth.

### Competition

Competition is a necessary consequence of a free market. The new players have swiftly carved out a huge market share. They have been able to do this mainly by competitive and by aggressively exploring the personal segment; housing loans, vehicle loans and personal loans. As funds are no longer scarce, the competition is mainly in asset acquisition. Asset quality and proper pricing seem to be the key now.

### Technology up gradation

Manual systems have become unable to handle the volume of business and the complications of modern-day banking, its data requirement etc. So for efficient and cost-effective delivery of banking products, it have become essential for banks to invest in high-end technology. All banks have started this process but it is not and easy task and will take a lot of time.

### Human resources management

While human recourses management is crucial in any business venture, it has become critical in the Indian banking system. Most of the senior people, who take crucial decisions, have to be reoriented to the new requirements. This is not an easy task in the public sector. Further, reorienting the staff to the high-tech systems will definitely be a big challenge. It is also evident that technology introduction will leave banks with a large number of surplus staff.

### Capital requirements

Globally there is a move to adopt Basel II norms. These norms are a shift from the older version wherein the central banks specified the risk weights for all classes of assets; uniform for all banks. The move is to integrate all risks faced by banks, and keep aside suitable capital. Moreover, to give credence to the fact not all assets in a class carry the same risk and encourage banks to manage their risk better, the new norms lay stress on internal ratings or risk management. Banks are required to put in place systems that will result in proper assessment of risk carried by each asset. And, based on these internal assessments, they will have to maintain the required capital to risk-weighted ratio. While this is, in principle a good development, it is a big challenge to Indian banks both in terms of investment and development of necessary skills.

### Risk management

Apart form the regulatory requirement of setting up a risk rating system risk management has become a necessary response to the competitive business environment. As margins have been squeezed out by competition, risk based pricing has become inevitable. In this, the inherent delinquency is taken into account so that except in exceptional circumstances, bank normal margins will take care of normal losses. In addition to this, and more important, with better estimation of risk, a bank can be very aggressive in pricing of loans. More dependable the estimation of the risk less would be the need to keep high-risk margins.

**Check Your Progress 3**

1. Give a brief historical perspective of banking in India since Independence.

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2. List four consequences of bank nationalisation in 1969 and 1980.

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3. State some recent developments in Indian banking policy since the early 1990s and list their consequences.

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## 10.5 LET US SUM UP

This Unit discussed commercial banking. It dealt with the topic both theoretically as well as from an Indian perspective. The Unit began by discussing the principles of banking. We saw that banks are financial intermediaries and yet different from other financial intermediaries because they can create money through lending. Moreover, banks are business firms but they are different from other firms in that they have to keep a greater check on their liquidity position as they deal with other people's money.

We next went on to understand the simultaneous coexistence of deposits and lending. We understood how the modern banking system is a fractional reserve system. We looked at the process of credit creation and understood how banks can lend even though they keep a small part of deposits as reserves. We understood the law of large numbers and saw that its application is the reason why all depositors do not withdraw their deposits at the same time. We also grasped the meaning of bank failures, of bank panics and saw why they are such potential problems.

The Unit finally looked at trends in Indian banking. We saw how commercial banking has evolved and grown over time, and looked at the trends in banking. We understood the effects of nationalisation and saw the recent reforms and changes in the banking system, and their impact.

## 10.6 KEY WORDS

**Bank Panic**: A period during which banks throughout the banking system face an increase desire for currency by depositors, which leads to a widespread withdrawal of deposits from the banking system.

**Commercial Bank**: a depository institution which is relatively unrestricted in its ability to make loans, and which is legally allowed to accept deposits.

**Direct Finance:** finance that occurs when savers lend funds directly to borrowers.

**Disintermediation**: phenomenon of depositors withdrawing funds from financial intermediaries in favour of direct finance.

**Fractional Reserve Banking**: a banking system in which bank reserves equal only a fraction of outstanding demand deposits.

**Law of Large Numbers**: this law implies that if individual withdrawal decisions are independent of each other, as the number of depositors gets larger the average fraction of deposits withdrawn by all depositors gets closer and closer to the probability that one depositor withdraws his or her deposits.

## 10.7 SOME USEFUL BOOKS

Benton, E.G, (1976) *Financial Intermediaries, An Introduction*, Houghton, Boston

Bhole, L.M. (2004), *Financial Institutions and markets,* 4th edition, Tata-McGraw-Hill, New Delhi.

Johnson, H J, (1993) *Financial Institutions and Markets,* McGraw-Hill, New York.

## 10.8 ANSWERS/ HINTS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress 1**

1. See Section 10.2 and answer.
2. See Section 10.2 and answer.
3. See Section 10.2 and answer.

**Check Your Progress 2**

1. See Section 10.3 and answer.
2. See Section 10.3 and answer.

3. See Section 10.3 and answer.

**Check Your Progress 3**

1. See Section  10.4  and answer.
2. See Section  10. 4 and answer.
3. See Section 10. 4  and answer.