



Consolidating towards
Strategic **growth**



Saraswat
Bank

THE SARASWAT CO-OPERATIVE BANK LTD. (A SCHEDULED BANK)



Shri Ekanath Keshav Thakur (1941 – 2014)

We, the Board of Directors, Management and Staff of Saraswat Bank condole the sad demise of our beloved Chairman, Shri Ekanath Keshav Thakur.

Shri Thakur was a Member of Parliament, Rajya Sabha and was elected unopposed from the State of Maharashtra. He was also the President of Maharashtra Chamber of Commerce, Industry and Agriculture. He also held the position of Hon. Secretary and Chief Executive Officer of Indian Education Society.

Shri Thakur started his career as a Probationary Officer with State Bank of India in 1966. He was President, State Bank Officers' Association and All Bank Officers' Federation. He was appointed Director on the Central Board of State Bank of India in 2001. Shri Thakur was the Director of Saraswat Bank for last over twenty years. He was a true visionary and a leader in the Co-operative Banking Sector in India. Under his leadership, the Bank has grown by leaps and bounds making it the Number One Co-operative Bank in India. He was instrumental in making Saraswat Bank a truly modern bank.

We, at Saraswat Bank, join the bereaved family in mourning the sad demise of our beloved Chairman, Shri Thakur and pray to God Almighty for granting eternal peace to the departed soul.

THE SARASWAT CO-OPERATIVE BANK LIMITED

(A SCHEDULED BANK)

- **REGISTERED OFFICE & CORPORATE CENTER** : Saraswat Bank Bhavan,
953, Appasaheb Marathe Marg,
Prabhadevi, Mumbai 400 025.
Website: www.saraswatbank.com
- **DATE OF ESTABLISHMENT** : September 14, 1918.
- **NO. AND DATE OF RBI LICENCE** : ACD-MH-220-P, dated 27.08.1980.
- **AREA OF OPERATION** : ALL INDIA
- **AUDIT CLASSIFICATION** : 'A' (Since 1933, i.e. the year in which
we were registered as a Bank)

ANNUAL REPORT 2013-14

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NOTICE

The Ninety-Sixth Annual General Meeting of the Members of The Saraswat Co-operative Bank Ltd., will be held on Tuesday, 9th September, 2014 at 4.00 p.m. at Pracharya B.N.Vaidya Sabhagruha, 2nd Floor, Raja Shivaji Vidya Sankul, Patkar Guruji Chowk, Hindu Colony, Dadar (East), Mumbai - 400 014 to transact the following business concerning the Bank: -

1. To consider and approve the Annual Accounts, which consist of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account, for the year ended 31st March, 2014.
2. To appropriate net profit and declare dividends on Equity Shares and Preference Shares as recommended by the Board of Directors for the year ended 31st March, 2014.
3. To approve amendments to Bank's Bye-law No. 6 & 25.
4. To appoint Statutory Auditors for the financial year 2014-15 and to authorize the Board of Directors to fix their remuneration. The Board of Directors recommends M/s Kulkarni & Khanolkar, Chartered Accountants, 13-14,

Bell Building, Sir P.M. Road, Fort, Mumbai - 400 001, for appointment as Statutory Auditors.

5. To place for consideration and adoption, the Annual Report and Audited Accounts of Saraswat Infotech Ltd. (Bank's wholly-owned subsidiary company, registered under Companies Act, 1956), which consists of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account for the year ended 31st March, 2014.
6. To grant Leave of Absence to the members of the Bank other than to those whose names appear in the Attendance Register of this 96th Annual General Meeting.

By Order of the Board of Directors

Sd/-

S.K.Banerji

Managing Director

Mumbai, 14th August 2014

Note:

- The printed Annual Report of the Bank consisting of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account for the year ended 31st March, 2014 is enclosed to this Notice.
- The printed Annual Report consisting of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account for the year ended 31st March, 2014 of Saraswat Infotech Ltd., Bank's wholly-owned subsidiary, is also enclosed to this Notice.
- If there is no quorum for the Meeting at the appointed time, in terms of Bye-law No. 48, the Meeting shall stand adjourned to 5.00 p.m., on the same day and the Agenda of the Meeting shall be transacted at the same venue irrespective of the Rule of Quorum.
- Dividend, when declared, will be paid on or after 16th September, 2014, to those shareholders whose shares are fully paid as on 31st March, 2014 and whose names are on the record of the Bank as on 31st March, 2014.
- If any member desires to have information in connection with the Accounts, he/she is requested to address a letter to the Managing Director of the Bank, to reach his office at The Saraswat Co-operative Bank Ltd., Saraswat Bank Bhavan, Plot No. 953, Appasaheb Marathe Marg, Prabhadevi, Mumbai – 400 025, not later than 5th September, 2014, so that the required information may be made available at the Annual General Meeting.

TO SERVE YOU BETTER:

1. Shareholders are hereby requested to kindly verify their names and addresses on the Annual Report sent to them. Change in address, if any, may kindly be intimated by post or by e-mail to the Share Department of the Bank for updating Bank's records. E-mail address of the Share Department is **incharge_share@saraswatbank.com**
2. Shareholders are requested to avail of nomination facility by submitting prescribed Nomination Form, as required under Section 36 of the Multi-State Co-operative Societies Act, 2002 and Bye-law No. 19.
3. Shareholders having Current / Savings Bank / Cash Credit accounts with the Bank and desirous of crediting their dividends to their accounts are once again requested to record their standing instructions with the Share Department.
4. **Kindly dispatch Form- A on Page No. 93 requesting to send Annual Report electronically to our Share Department.**

Unclaimed Dividend

Notice is hereby given that dividend for the year ended 31st March, 2011 (90th Dividend) if not drawn on or before 30th September, 2014, will be forfeited by the Bank and credited to Reserve Fund in terms of Bye-law No. 68A.

BOARD OF DIRECTORS

Shri E. K. Thakur, B.A. (Hons.), C.A.I.I.B.
Chairman
 (upto 6th August, 2014)

Shri S. B. Samant, B.Com., L.L.M., F.C.A.
Chairman
 (from 14th August, 2014)

Shri S.S. Sanzgiri, B.A.
Vice-Chairman

DIRECTORS

Late Shri M. K. Mantri, M.A.
 (upto 23rd May, 2014)

Shri S. N. Sawaikar, M.Com., DMA, C.A.I.I.B.

Shri P. N. Joshi, M.A.

Shri K. V. Rangnekar, M.A.

Shri G. E. Thakur, B.E. (Civil), DFM
 (from 6th December, 2013)

Shri H. M. Rathi, B.Com.

Dr. (Mrs.) Anuradha P. Samant, M.B.B.S.

Shri N. R. Warekar, B.Com., C.A.I.I.B.
 (upto 6th December, 2013)

Shri S. S. Dawra, M.A., M.B.A., I.A.S. (Retired)

Shri A.G. Joshi, M.Sc., D.B.M., C.A.I.I.B.

Late Shri Jagdish Pai K. L., B.Com.
 (upto 1st December, 2013)

Shri A. A. Pandit, B.Com., F.C.A., D.B.F.

Shri S. V. Saudagar, B.Com., F.C.A., D.I.S.A.

Shri S. S. Shirodkar, Dip. (Indl. Electronics), P.G.D.M.

Shri S. K. Banerji, B.Sc. (Hons.), D.B.M., LL.M., FIIBF.
Managing Director

STATUTORY AUDITORS

M/s Kulkarni & Khanolkar, Chartered Accountants

LEGAL ADVISORS

Shri A. V. Sabnis, LL.B.

Shri K. M. Naik, B.A., LL.B.

Shri S. N. Inamdar, B.Com., LL.B.

M/s Little and Company

Govind Desai Associates

Shri Shekhar Naphade, B.A., LL.B.

BANKERS

State Bank of India,

Bank of India,

HDFC Bank Ltd.,

Wells Fargo Bank N.A.,

Standard Chartered Bank Ltd.,

ICICI Bank Ltd.

— WHOLLY-OWNED SUBSIDIARY —

SARASWAT INFOTECH LIMITED

Shri E. K. Thakur, B.A. (Hons.), C.A.I.I.B.
Chairman
 (upto 6th August, 2014)

Shri S. K. Sakhalkar, M.Com., PGD (I.R.), PGD (Comp. Sc.)
Managing Director & Chief Executive Officer

Shri D. M. Chandgadkar, M.Com., LL.B., C.A.I.I.B., A.C.S.
Chief Domain Officer

PERFORMANCE HIGHLIGHTS

(₹ in crore)

Particulars	FOR THE YEAR ENDED		
	31-03-14	31-03-13	% change
Total Income	2,646.78	2,551.14	3.75
Total Expenditure	2,235.14	2,068.79	8.04
Gross Profit	411.64	482.35	-14.66
Less: Provisions	237.05	329.44	-28.04
Profit Before Tax and Exceptional Items	174.59	152.91	14.18
Less: Income Tax	27.02	31.18	-13.34
Profit after Tax and before Exceptional Items	147.57	121.73	21.23
Less: Exceptional Items	0.48	9.64	-95.02
Net Profit after Tax and Exceptional Items	147.09	112.09	31.22
	AT THE YEAR END		
Own Funds	2,141.81	1,961.31	9.20
Share Capital	167.69	126.91	32.13
Reserves and Surplus	1,974.12	1,834.40	7.62
Deposits	23,939.51	21,144.33	13.22
Current	1,130.05	965.83	17.00
Savings	4,793.19	4,416.18	8.54
Term	18,016.27	15,762.32	14.30
Advances	15,470.05	15,023.42	2.97
Secured	15,432.56	14,971.29	3.08
Unsecured	37.49	52.13	-28.08
Total Business	39,409.56	36,167.75	8.96
Priority Sector	6,350.41	6,465.78	-1.78
% to Advances	41.05	43.04	-
Small Scale Industries	2,229.91	2,241.60	-0.52
Small Businessmen and Traders	2,120.56	2,131.73	-0.52
Other Priority Sectors	1,999.94	2,092.45	-4.42
Working Capital	28,132.79	24,511.12	14.78
Investments	7,804.74	6,444.03	21.12
Borrowings and Refinance	820.56	406.90	101.66
Net NPAs (%)	0.00	0.00	0.00
Capital Adequacy (%)	12.11	11.15	
Number of Members			
Regular *	1,75,242	1,72,282	
Nominal	5,97,958	5,78,363	
Number of Branches	267	229	
Number of Employees	4,351	3,906	
Productivity per Employee	9.06	9.26	
Profit per Employee (₹ in lac)	3.38	2.87	
Return on Average Assets (%)	0.55	0.46	
Net Interest Margin (%)	2.79	3.30	

* Shareholders holding fifty shares and above

THE SARASWAT CO-OPERATIVE BANK LIMITED

REPORT OF THE BOARD OF DIRECTORS

Dear Members,

Your Directors have great pleasure to present the Ninety-sixth Annual Report on the business and the operations of your Bank together with the Audited Accounts for the year ended 31st March, 2014.

1. THE GLOBAL ECONOMY AND INDIA

Growth in advanced economies is still some distance from a full fledged recovery. In the United States (US) itself, the economy which had shown recovery during FY 2013-14, contracted sharply at a much steeper pace i.e. by 2.9 per cent in the first quarter of this financial year. Drags to the first quarter growth are on account of lower household consumption, lower consumer spending and weak export growth. Growth numbers are expected to improve in the subsequent quarters. The situation in Euro zone is no better, where the fears of deflation have surfaced. The European Central Bank (ECB) has cut the deposit rate from 0 per cent to – 0.10 per cent recently. The latest GDP numbers stand at 0.2 per cent for Q1 of FY 2014-15. The Japanese economy advanced 1.6 per cent in Q1 of FY 2014-15, after decelerating for three previous quarters, on unexpected surge in capital spending. As regards China, growth seems to have moderated, with a gradual transition to a more market based economy.

As regards the Emerging Market Economies (EMEs), growth remained subdued as high inflation, pressure on exchange rates, tight Monetary Policy and tightening of financial conditions acted as a drag on the path of growth acceleration. The volatility unleashed in the second and third quarter of FY 2013-14 after the tapering indication by the US Federal Reserve (FED) has now subsided. Further, ECB's Policy of lower rates along with easing in Japan may also reduce the impact of the FED's tapering on global liquidity. Geo-political risks emanating in Iraq, Ukraine and their consequent impact on the global

crude oil prices remain a major source of concern.

To sum up, the global financial markets after major turmoil are showing early signs of improved stability and pick-up is taking place after a significant deceleration. Pent-up demand, lower interest rates for a foreseeable period and an easing of uncertainty are the factors which predict that the next stage of international growth will be stronger than seen so far.

The Indian Economy in FY 2013-14:

India's GDP growth remained at 4.7 per cent for FY 2013-14, which is marginally better than 4.5 per cent figure clocked for FY 2012-13. The growth numbers were sub 5 per cent for the second consecutive year. Primarily, this was driven by better agricultural output of 4.7 per cent vis-à-vis 1.4 per cent last year. Industrial growth contracted by 0.1 per cent, reflecting subdued investment and consumption demand. The services sector grew at 6.2 per cent.

The Indian economy during FY 2013-14 was characterized by a persistently elevated level of inflation, sharp industrial contraction, exchange rate volatility and worsening Current Account Deficit (CAD). During May 2013, as the possibility of the US Federal Reserve tapering its bond purchase programme surfaced, a cascading effect was felt with large-scale capital outflows from all financial markets. This led to heightened Rupee volatility and unsustainable Current Account Deficit (CAD). As an immediate measure to shield from the exchange rate volatility emanating from the tapering by the US FED, RBI introduced several measures and policies aimed at attracting capital flows and facilitating overseas borrowings. Measures include moderating outflows and encouraging forex inflows through liberalized External Commercial Borrowings (ECB) and Foreign Currency Non Resident or FCNR (B) deposits. With revival of portfolio flows, India's forex reserves touched USD 304.22 billion as on 31st March, 2014. Policy measures were also undertaken by Reserve

Bank of India to curb the gold imports which helped in reducing the Current Account Deficit (CAD). The CAD which had deteriorated to 4.7 per cent of the GDP narrowed down to 1.7 per cent of the GDP. With a lower CAD and build up of foreign exchange reserves, the Rupee which had touched a historical low of 68.80 per US Dollar during the turmoil stabilized to 59.89 per US Dollar on 31st March, 2014. Reserve Bank of India also announced unprecedented measures like capping Repo borrowing to 0.5 per cent of NDTL and increasing MSF rate by 200 bps to 10.25 per cent, which led to a sudden surge in bond yields despite repo rate being unchanged.

Price Situation and Reserve Bank of India:

On the domestic side, inflation remained the dominant macro risk. Consumer Price Index (CPI) averaged around 9.5 per cent throughout the year, even touching an all-time high of 11.16 per cent during November 2013, on the back of elevated food and fuel inflation.

Reserve Bank of India calibrated its Monetary Policy stance in line with macro-economic conditions. In the early part of the fiscal, considering easing inflation, Reserve Bank of India reduced the repo rate by 25 basis points from 7.50 per cent to 7.25 per cent. In the second half of the year as concerns over elevated inflation levels rose, Reserve Bank of India responded by hiking the repo rate by 75 bps to counter the elevated inflation and exchange rate depreciation.

Fiscal Situation:

The fiscal deficit during the year 2013-14 was 4.5 per cent of the GDP, narrower than 4.8 per cent a year earlier. The numbers show continued fiscal consolidation. Though expenses on subsidies, interest payments and pensions overshoot the budgeted target, their impact was absorbed by lower planned expenditure.

Financial Markets:

Indian stock markets which had closed at 18,835.77 as on 31st March, 2013 showed upward trend in the second half of FY 2013-14, as Foreign Institutional Investors (FII) flocked towards equities buoyed by Reserve Bank of India measures to boost the Rupee

and revive growth. The momentum of inflows picked up sharply towards year-end, when hopes of a stable Government at the Centre looked realistic. The markets moved nearly 3,500 points up and closed at 22,339.97 as on 31st March, 2014.

Exceptional Policy measures during June 2013-August 2013 followed by monetary tightening by Reserve Bank of India took its toll on the debt markets. The 10-year benchmark yield opened at 7.99 per cent, then sky-rocketed to 9.45 per cent during August 2013, and finally closed at 8.80 per cent as on 31st March, 2014.

Overall Assessment :

The domestic economic activity has remained sluggish with contracting industrial production and weak investment demand. External sector risks have receded because of timely policy interventions, although there is a need to work towards reducing structural current account imbalances. With the twin deficits viz. fiscal deficit and current account deficit within control and the Rupee regaining lost ground, the focus now will shift to addressing supply side constraints, which will help in reviving the investment cycle and moderating inflationary expectations. Domestically, with a strong Government at the Centre, the next level of reforms, better policy implementation, stronger governance and initiation of concrete steps by the new Government will be the deciding factors. Further progress on fiscal consolidation in the Budget, a predictable tax and policy regime, and low and stable inflation rates will be the key anchors for the economic progress, going forward. Barring failed monsoon and crude oil prices, Indian economy is expected to grow at 5 – 5.2 per cent in FY 2014 -15.

2. MAJOR DEVELOPMENTS IN THE BANKING AND FINANCIAL SECTOR IN INDIA

During the past year, the Reserve Bank of India has introduced several new policies and reforms that will affect the Banking and Financial Sector. Some of the major developments are as follows:

- **Approval of new Banking Licences in Private Sector:** IDFC and Bandhan Financial Services Private Ltd. have been selected by the Reserve Bank of India to set up commercial banks, from a

group of twenty-five aspirants. IDFC and Bandhan Financial Services Private Ltd. were granted “in-principle” approval by the High Level Advisory Committee set up by Reserve Bank of India. The “in-principle” approval granted will be valid for a period of eighteen months during which the applicants have to comply with all the regulatory requirements stipulated by the Reserve Bank of India. The Department of Posts is also in talks with the Government of India for similar banking licence.

- **Extension for implementation of the Basel III norms:** Following industry-wide concerns about asset quality and the consequential impact on the performance and profitability of banks, the Reserve Bank of India has extended the transitional period for full implementation of Basel III Capital Regulations in India up to 31st March, 2019, vis-à-vis the earlier stipulated 31st March, 2018. This will also align full implementation of Basel III in India closer to the internationally agreed date of 1st January, 2019.
- **Reserve Bank of India panel recommends buffers of up to 2.5 per cent of risk weighted assets:** A Reserve Bank of India panel has recommended banks to set aside up to 2.5 percent of risk weighted assets as a ‘Counter-Cyclical Capital Buffer’ (CCCB) to help remain solvent during times of stress. It is also expected to curb indiscriminate lending during spells of excessive growth.
- **Guidelines of restructuring of advances:** As per guidelines issued by Reserve Bank of India in May 2013, loans that are restructured from 1st April, 2015 onwards would be classified as non-performing. General Provision on standard accounts restructured after 1st June, 2013 was increased to 5 per cent. The General Provision required on standard accounts restructured prior to 1st June, 2013 has been increased to 3.5 per cent from 31st March, 2014 and would further increase to 4.25 per cent and 5 per cent from 31st March, 2015 and 31st March 2016 respectively.
- **Framework on Re-vitalising Distressed Assets in the Economy:** During January 2014, Reserve Bank of India has issued the said framework outlining an action plan for early recognition of financial distress, prompt steps for resolution and fair recovery for lenders, which will be effective from 1st April, 2014. Accounts have to be categorised as ‘Special Mention Accounts’ based on the period of overdues of principal and interest. Further, reporting of credit information of large borrowers to the proposed Central Repository of Information on Large Credits (CRILC), formation of Joint Lenders Forum (JLF) and Corrective Action Plan by JLF will be mandatory.
- **Discussion paper on structure of banking system in India:** Reserve Bank of India released a discussion paper on the structure of the banking system in India. The paper addresses various issues such as financial inclusion, providing specialised services, expanding competition, etc. The paper suggests to have continuous licensing for entry of new banks as against block licensing.
- **First All-Women Bank starts operations:** The Government of India has launched the country’s first All-Women Bank, called ‘Bharatiya Mahila Bank’ (BMB) on 19th November, 2013. BMB will offer loans to women for various activities such as education, housing, setting up of food and catering business, day-care centres, and SMEs. BMB will be an universal bank that will undertake multifarious banking activities including financial services such as insurance, mutual funds and commercial/investment banking.
- **Banks are free to open branches in Tier-1 cities:** Banks have been given freedom to open branches in Tier-1 cities without Reserve Bank of India’s prior approval. However, the freedom is linked to the number of branches a bank would open in an un-banked or under-banked centre. The number of branches opened in Tier-I centres cannot exceed the total number of branches opened in Tier-II to Tier-VI centres and all centres

in the North Eastern States & Sikkim. It was also specified that at least 25 per cent of total new branches opened in a year should be in unbanked rural Tier V and Tier VI centres.

➤ **Updated guidelines on Stress Testing:** Reserve Bank of India issued updated guidelines on stress testing. Banks would have to carry out stress tests for credit risk and market risk to assess their ability to withstand shocks. As per these guidelines, banks will be classified into three categories based on size of risk weighted assets.

➤ **Introduction of cash-settled Interest Rate Futures (IRF):** Reserve Bank of India has launched cash-settled contracts to help investors hedge interest rate risks while investing in Government securities. Reserve Bank of India has allowed IRF contracts in 91-day Treasury bills and other Government securities. IRF is a more transparent alternative to the current over-the-counter interest rate swaps.

➤ **Other Measures**

- **Reserve Bank of India launches new RTGS system:** Reserve Bank of India introduced the revamped Real-Time Gross Settlement (RTGS) system on 19th October, 2013 to facilitate online real time settlements of payments. The other features are advanced liquidity and queue management features, gridlock resolution mechanism, hybrid settlement facility, facility to accept future value dated transactions and options to process multi-currency transactions.

- **Withdrawal of old series of banknotes prior to 2005:** Reserve Bank of India has stipulated that all older series banknotes issued prior to 2005 will be completely withdrawn from circulation w.e.f. 1st January, 2015. The reason behind the withdrawal is that they have fewer security features compared to bank notes printed from 2005.

- **ATM transactions without bank account:** In another effort towards financial inclusion, RBI has given in-principle approval for establishing a new payment system to facilitate fund transfers from bank account holders to those without accounts through Automated Teller Machines (ATMs).
- **Investment limit for foreign investors raised to \$10 billion:** In order to attract more US dollars on a long-term basis into Government bonds, the RBI has hiked the investment limit for foreign investors (viz. sovereign wealth funds, pension funds and foreign central banks) from USD 5 billion to USD 10 billion.

3. MAJOR DEVELOPMENTS IN THE URBAN CO-OPERATIVE BANKING SECTOR

➤ **Scheduled Bank status to Urban Co-operative Banks (UCBs):** Reserve Bank of India has allowed Urban Co-operative Banks (UCBs) with total deposits of over ₹ 750 crore to graduate to the Scheduled Bank category. If UCBs fulfil certain listed criteria viz. continuous net profits for three years, CRAR at 12 per cent and gross NPAs less than 5 per cent, they will be eligible for inclusion in the second schedule. All the PSBs, RRBs, Private Sector Banks and Foreign Banks are part of the second schedule.

➤ **Well-managed UCBs permitted to undertake intra-day short selling of Government Securities:** Reserve Bank of India has permitted well managed Urban Co-operative Banks, who are members of NDS-OM and have regular concurrent audit of their treasury operations, to undertake intra-day short selling of Government Securities.

➤ **Guidelines to invest in Security Receipts (SR) issued by Securitisation Company/ Reconstruction Company (SC/RC):** Reserve Bank of India has issued guidelines to Urban Co-operative Banks (UCBs) to invest in Security Receipts issued by SC/RC in respect of financial assets sold by them to the SC/RC.