Development Banks are those banks which are in the promotion & development of industry, agriculture and other key sectors. These banks differ from Commercial banks in one sense that they don’t mobilize savings of the people but invest the resources in a productive manner. Additionally, these banks provide all the developmental services, so as to accelerate the growth of the economy.

In one sense, the operations of this institution are not different from others being characterized by either lending or investment or both. However, in another sense, the development financing institution is created to fulfil a vitally different need. Its raison d’etre is to further the cause of development. The nature of its banking activity has to be such as would assist that process. It is a chosen instrument for facilitating and stimulating economic growth. The traditional commercial banks, on the other hand, were guided more or less by commercial considerations, though the character of commercial banking has changed a great deal in recent years towards a developmental role.
The task of a development finance institution is complex and the course of its journey tortuous. However, glorious the ideal of development, those charged with its realization need to be imbued with vision as they steer along their path, facing many impediments.

A development bank has the opportunity to promote enterprises, i.e. to conceive investment proposals and to stimulate others to purpose them or itself to carry them through from conception to realization. In principle, a development bank is well suited to assume this kind of role. Yet enterprise creation is fraught with costs and risks which a development bank cannot neglect. Development banks can prudently undertake them only when they have the requisite financial strength, technical expertise and the managerial skill to deal with them effectively.

In India, the process of institutionalize industrial development financing dates back to 1948 went the first development bank, IFCI, was established. Since, then development banking in India has seen a sea change. A network of development banks have came into operation in industry, agriculture and international trade both at the national and the state levels. They have been playing a catalytic role in the economic development of the country. The scale and scope of their activities have been broad based so as to be in tune with national objectives.
All financial institutions comprise All India Development Banks, viz.,

- Industrial Development Bank of India (IDBI)
- Industrial Finance Corporation of India Ltd. (IFCI)
- Industrial Credit and Investment Corporation of India Ltd. (ICICI)
- Small Industrial Development Bank of India (SIDBI)
- Industrial Investment Bank of India (IIBI)
- Infrastructure Development Finance Company (IDFC)
- **Specialized Financial Institutions, viz.,**
  - Risk Capital and Technology Finance Corporation Limited (RCTC).
  - Technology Development and Information Company of India Ltd. (TDICI)
  - Tourist Finance Corporation of India Ltd. (TFCI).
- **Investment Institutions, viz.,**
  - Unit Trust of India (UTI)
  - Life Insurance Corporation of India (LIC)
  - General Insurance Corporation of India (GIC).
- **Subsidiaries and State Level Institutions, viz.,**
  - State Financial Corporations (SFCs)
  - State Industrial Development Corporations (SIDCs)

In addition, a number of financial institutions are in the Private Sector viz., Mutual Funds, Insurance.

The main objective of a development bank is to serve as an agent of development in various sectors, viz., industry, agriculture and international trade.

Their first and foremost task is to accelerate the growth of the economy. In addition, they are assigned a special role in:

- Planning, promoting and developing industries to fill the gaps in the industrial structure.
- Co-ordinating the working at institutions engaged in financing, promoting or developing, industries, agriculture or trade.
- Providing technical and administrative assistance.
- Undertaking marketing and investment research and surveys.

Looking ahead, Development Banks’ aspires to be the undisputed leaders in financial services in India, with a position of Market Leader in everyone of their major activities. In view of the institutions successes in achieving business and strategic goals in the past, we can justifiably look forward to the future with a considerable degree of optimism.
DEVELOPMENT BANKS

The importance of commercial and development banks in the process of economic development has been stressed from time to time by economic thinkers and progressive bankers in the country. Commercial development banks play a very important role in our economy; in fact, it is difficult to imagine how our economic system could function efficiently without many of their services. They are the heart of our financial structure, since they have the ability in cooperation with the Reserve Bank of India, add to the money supply of the nation and create additional purchasing power. Bank’s lending investments and related activities facilitate the economic processes of production, distribution and consumption. Economic development is a continue process. Broadly, these are two schools though on the concept of development. According to some, economic development is both the widening flow of production and the deepening flow of income. Others are the opinion that it is the presence of various facilities that induce further development. In fact, economic development is a socio-economic political puzzle. For it exists within the limits set by the economic environment. Economic development is deliberately organized or left to the action of private enterprise. As such economic development is quite a weighty issue, Ragnar Nurkse advocated the idea of balanced growth as against the
concept of rapid growth, achieved through the action of individual entrepreneurs, producing recurrent waves of industrial process.

The success of economic development depends essentially on the extent of mobilization of resources (both internal and external) and investment; and on the operational efficiency and economic discipline displayed by the various segments of the economy. At a time when the prospect of foreign aid and assistance are dim, one has to rely upon internal resources for economic development. It has, therefore, been rightly emphasized that the rate of investment to a large extent depends upon the mobilization of internal savings. The mobilized savings are employed in a productive manner, so that the economy may be on the move. Since independence, and more particularly since the commencement of planned development, the economy has moved rapidly forward in several directions.
THE ROLE OF BANKS

diagram
**DEFINITION**

Development bank has been defined as “A bank whose main objective is to promote industrial development, encourage industrial ownership and mobilize financial, managerial and entrepreneurial resources so as to increase long-term wealth and well-being.”

**William Diamond and Shirley Bosky** consider Industrial financial and development corporations as ‘Development Banks’.

**Dr. Desai** defines development banks as “a financial institution concerned with providing all types of financial assistance to enterprises in the form of loans, underwriting, investment, guarantee operations and promotional activities to accelerate the process of sustainable socio-economic development and faster growth and cooperation”.

**Dr. K.V. Prabhakar** observes, “a development bank is a multi-purpose institution which shares entrepreneurial risks changes its approach in tune with the industrial climate and encourage new industrial projects to bring about speedier economic growth.”

The concept is inter-related with industrial development, entrepreneurship, leadership vision and efficient management. Truly, during the last century, industrialization has been given the highest priority in development. The concept also lays equal emphasis on mobilization of resources both from savings, borrowings and
investment, improve managerial and encourage entrepreneurship for the accelerated process of economic growth and all round development.

Development is a synonymous with industrial development which is inter-alia linked with the economy. Thus, development bank is the kingpin in the process of economic growth. In short, all financial institutions which are development oriented may be called as a development bank. The development bank is essentially a multipurpose financial institution with development outlook.

SOME OTHER CONCEPTS OF DEVELOPMENT BANK

“It may be said with a claim to generality that a ‘development bank’ which deserves its name legitimately, will give priority to development objectives, while other selection criteria, though not excluded at all, will clearly range second to the aims of development policies.”

- H.E. Bachem

“The development role of a development bank is precisely that mix of functions or task which called for linking the words ‘development and ‘bank’ together and which justified governments is sponsoring and financing them.”

- William Diamond

“Financial Institution need not be passive instruments of economic activity. With dynamic management and an adequately permissive
environment of available opportunities and of favourable policies, they can be active engine of economic development.”

- William Diamond

“A development bank is like a living organism that reacts to its socio-economic environment and its success depends on reacting most aptly to that environment.”

- A.C. Kheradjou

“There should be a determined and conscientious effort on the part of the Development Financing Institutions (DFIs) as well as those entitles that are interested in DFIs, to search out for the methods by which they can participate effectively in the task of rural mobilization for national progress. DFIs can undertake programmes of action oriented research as to how best they can contribute to the strengthening of inter-sectoral linkages between industry and agriculture.”

- C.S. Krishna Moorthi

“There is a convincing reason for planning institutions as well as for development banks to evaluate especially the use of power for productive purpose with regard to the contribution which the output of an angry using project, directly or indirectly, makes to agreed development goals.”

- H.D. Krukenberg
“The future industrialization of Asian countries rests in large measure in their own hands i.e. in mobilizing domestic resources… Although external borrowing is necessary, it should be noted that the higher the average level of domestic savings, the lighter will be the burden of external debt.”

- Masao Fujioka

CHARACTERISTICS OF DEVELOPMENT BANKS

The creation of development banks has been one of the most widespread and highly useful effort to solve the problem of industrial and agriculture development. And, the working of development banks depends on the synthesis of the skills of various disciplines like finance, economics, engineering, accountancy law etc. In recent years, development banks’ have extended their professional services to other sectors for promotion sustainable economic growth. In some countries, emphasis is being laid on to expand investment in social infrastructure, in particular public health and education, both to promote economic growth in the longer term. Social infrastructure is vital not only for humanitarian reasons, but also for economic growth and development.

To pursue development goals, the bank will need to build on their multilateral character. More specially, development banks modify the environment in which they work, as well as provide
finance for it. The distinctive characteristic of D.B. Lingers around promotion or ‘motivate’ ‘encourage’ and ‘stimulate’; and their public declarations and policy statement generally express their intentions to ‘encourage, stimulate or promote’ development in one sector or another entrepreneurial function. In other words, the development banks are institutional entrepreneurs engaged in the process of enterprise creation.

Thus, the characteristics of development banks are: visionary, promoter, technical competent, mobiliser of resources, innovator, creative, leader as well as entrepreneur. In a way, banks play a catalytic role in development.

A development bank, which has a high level of administrative ability, innovative ideas, vision about economic development, technical capability, trained professional and dedicated management team, effective communication, organizational ability; prudent capacity stands a much better chance of success in the process of development. Some of the characteristics of a development bank are:

- It is a multi-purpose specialized financial institution.
- It strives to promote economic development.
- It provides refinance to other financial institutions.
- It provides a package of services from indefication to management.
- It arranges for package of incentives to entrepreneurs.
- It brings in institutional innovations to accelerate the process of development.
- It is a visionary institution.
- It is a link that spur all round development.

In the post world war people development banks have emerged as a model agency of economic development. The development banks have made their way in many economic activities. They made their presence felt in areas where development is a key issue.

Broadly, the development banks are classified according to types of economic activity. The classification of development banks are set out in the following chart:
DEVELOPMENT BANKS

diagram
According to the above classification, development banks are grouped into seven categories: big industries, investment, insurance and credit guarantee, export-import trade, capital market, agriculture and housing development banks are also classified into two groups:

- All India Institutions
- State Level Institutions (on the basis of area of operation).

This apart, commercial banks, mutual funds, merchant banks, financial companies, leasing companies, technical consultancy organizations extend support to development in their unique way.

- Commercial banks provide development finance, venture capital, extension work entrepreneurship development and management consultancy.
- Mutual funds provide easy accessibility to the investing public.
- Merchant banks provide professional advice and services to industry for raising resources from the market, acquisition of assets on lease and mergers/take-ones of existing units.
- Finance companies offer the entire range of financial services to individuals and corporates.
- Leasing companies operate four types of lease, viz.,
  - Operating Lease
  - Financial Lease
Sale and Lease back transaction and
The leveraged lease.
- Technical Consultancy Organisations (TCOs) cater to the consultancy needs of small and medium industry and also for the new entrepreneur.
- Management institutions sponsored by development banks are engaged in developing and upgrading the managerial ability and managerial talents of the practicing managers.
- STEPS interface between science and Technology institutes and industry.
- Entrepreneurial development institutes sponsored by financial institutions are engaged in the crucial task of entrepreneurship development and research.

**EVOLUTION OF DEVELOPMENT BANKS IN INDIA**

Success in the implementation of programmes for planned industrial development depends, to a large extent, on the availability of adequate financial resources for a wide variety of projects. Since Commercial Banks in India, patterned on the British model of banking, had traditionally confined themselves to financing working capital requirements of trade and industry, it was felt necessary to set up financial institutions to ensure an adequate flow of assistance to industrial projects. Historically speaking, the idea of establishing
special institution for the provision of finance for industry was put fourth in strong terms, as far back as 1931 by the Central Banking Enquiry committee. The committee recommended the certain of provincial industrial credit. Corporations and an All India Institution for the purpose of meeting the financial requirements of industries of regional and national importance respectively. Very little action was taken on this recommendations till the beginning of 1945. In pursuance of the suggestions of the general purposes sub-committee appointed by the Department of planning and Development of the Central Government that the question of adequate arrangements for the provision of Industrial finance be examined by the Finance Department, in consultation with the Reserve Bank of India in May, 1945. The study proceeded on the basis that specialized institutions should be set up both at the All India and the regional levels. It also indicated, fairly elaborately, the respective fields of operations of All India and regional institutions. The proposal for establishing an All India institution went through several stages and modifications were made in the direction of broadening the institutions range of functions. The first step towards building up a structure of development finance institutions was taken with the establishment in 1948 of the Industrial Finance Corporation of India (IFCI) with a view to providing medium and long term credit
to units in the corporate sector and industrial co-operatives.

**FUNCTIONS OF DEVELOPMENT BANKS**

The functions of development banks have been attuned to the needs of industry. Small Scale Industries (SSI) including traditional ones and agriculture. The principal functions common to all development banks are:

- Promoting investment of public and private capital for development.
- Mobilising resources and judiciously use productively.
- Providing technical assistance to help prepare finance and carry out development projects programmes.
- Co-operating with the government, Reserve Bank of India with development banks and other organisations that are concerned with the investment of development of funds.
- Promoting institutional infrastructure to accelerate the process of economic development.
- Train entrepreneurs and professional managers, and
- Undertaking other activities and providing other services as are necessary to foster economic growth.

**ROLE OF DEVELOPMENT BANKING**

Development banking in India has witnessed a sea charge having undergone radical transformation in its structure and
organization as well as in the scope and contents of business operations.

In the following pages an attempt is made to examine the role of development banks in the process of change in which the exploitation of resources, the direction of investment, the orientation of technological development and institutional change accelerate economic growth. Economic growth poverty alleviation and proper management of natural resources must be viewed as mutually interdependent facts of ultimate development goal.

**Role Concept**

The term role is often used in different context especially that of acting. Role is the set of expectations behaviour of individual and/or organization. Expectations about role playing are closely associated with a group norms and culture of a group. In India, development banks have developed a distinctive culture and thus they stand distinct from all other financial institute. The technique of role-playing can be adopted for various purposes and the nature of the technique would differ for different purposes. The main focus here is on role clarity, effectiveness and improved fit between the institution and the role. By sharing common role problems, development banks may develop alternating solutions which result in better performance.
Financial Sector

Financial Sector development is not an end in itself. It is to promote and sustain productive activities in various economic sectors by providing needed financial products and services. For the financial system to perform this function adequately and effectively, individual institutional efficiency alone would not suffice. There should also be a conductive policy environment, political stability, political will and entrepreneurship. In addition, financial institution should have adequate autonomy to bring in initiative and innovations to growth. More importantly the financial institutions should be flexible in establishing backward and forward linkages for all round growth of the economy,

Development Goals

The overriding objective of the development bank is to promote the development of industry, agriculture, trade as well as capital market. Development in this sense implies a steady improvement of living standards achieved through increase in income, improvement in social conditions, and protection of this natural environment. Economic growth is fundamental to development.

Economic growth, while important has not been seen as an end in itself, in line with perception the Asian Development Bank (ADB) has become increasingly aware that its efforts should
contribute to overall development expansion of social infrastructure, poverty alleviation and conservation of the natural resources receive more attention, as the ADB seeks to help improve that living standards and quality of life generally. Faced by this showing adversity, the ADB has sought to respond appropriately by extending the scope of its activities beyond the confines of the traditional approach.

**Need to Act wise Capital Market**

All the development banks established in the country since independence are expected to encourage and promote healthy growth of the capital market with a view to its mobilizing private savings into industrial securities. The respective charter of IFCI, IDBI, ICICI, SFCs/ SIDCS, LIC and UTI enjoin on them supporting issues of industrial securities through underwriting and/ or direct subscription.

It was expected that the mere support of the financial institutions to the equity issues would act as an indicator that such industrial ventures were support worthy in view of the through investment appraisal by the institutions extending underwriting support.

Over the last two decades, however, the experience of the institutions in regard to their underwriting operation has been
somewhat different. The mere fact that an issue has been underwritten by the institutions no longer provides an assurance to the investor that the industrial security is worth purchasing. In reality what has happened is that whenever the major term lending institutions are involved an impression prevails in the market that the industrial security being issued is not necessarily attractive from the point of weight of the private investors but that institutions have offered the underwriting supported in the national interest, as an exercise for toning up the entire financing plan for the project.

The trends in sanctions and disbursements against underwriting direct subscriptions to equity and debentures in relation to the trends in equity and debenture capital raised from the market indicate that institutional support to the capital market is growing over time. The institutions, therefore, are obliged to absorb growing proportion of the issues coming to the market with their underwriting assistance.

**Development of Backward Areas**

Industrial dispersal coupled with development of relatively less developed areas has been the integral policy of the national development plans as also the lending policies of the financial institutions. But a specific incentive frame work designed exclusively for the development of identified backward areas was adopted by
the institutions only since the beginning of 1970s.

As you are aware, there are a number of fiscal concessions for investment in backward areas which are important for attracting investment in the earlier neglected areas. The financial institutions offer concessions in terms of lower interest rates, longer moratorium period, easier repayment schedule and more favourable treatment in regard to promoters distribution and debt equity norms. During the last decade, there has been a substantial support in assistance sanctioned to units in backward areas which increased from Rs. 143 crore during 1974-75 to Rs. 842 crore in 1979-80 and further to Rs. 21,888 crore in 1997-98. Of the total institute assistance of Rs. 3,63,184 crore, the share of units in backward areas was at Rs. 1,18,786 crore and disbursement amounted to Rs. 82,069 crore. Share of units in backward areas was Rs. 31,925 crore in the year 2007-08.

With a view to making the national policy for development of backward areas more purposeful and effective, Planning Commission had set up a high powered committee called the ‘National Committee on Development of Backward Areas,' which submitted its report in October, 1980. Recognising the inadequacies of existing incentive framework. The committee was in favour of giving focal attention to the growth of certain identified centres
around which further growth of certain identified centres needs to be accelerated. To begin with, the committee recommended adoption of 100 suitable locations as growth centres (70 of which would be in industrially backward states) each under the change of a developmental authority that would be created to provide a package of services, infrastructure and incentives conducive to healthy growth of industries within the defines boundaries of the growth centre. The committee has accorded a central role to IDBI in the development of these growth centres. It is envisaged that IDBI would actively help the growth centres in a number of ways, including their planning and financing.

**Fostering Role**

India has a well unit structure of term financing institutions, popularly known as development banks at the national and state levels. Meeting the vital long term financial and developmental needs of industry and agriculture in the country. And the recently set up Housing Bank will cater to the needs of housing development in the country. The development banks along with other financial institutions are playing a catalytic role in the accelerated development of the Indian Economy.

The development banks have played a unique role in the economic development of India. They have emerged as the
backbone of the Indian Financial System.

Along with their rapidly growing size of the capital markets the institutional operations in regard to underwriting and direct subscriptions have also been expanding.

The statutes of IDBI and IFCI have been amended so as to broaden the area of their activities. In view of the growing importance of service industry and in particular informatics, the institutions have been enabled by the amendments to assist such services as consultancy in engineering, technical, financial, management and marketing areas, enterprises providing medical and health services and units providing service relating to information technology, telecommunication or electronics as also research and development activity. Suitable amendments have also been made in the statutes of the State Financial Corporations to enlarge the scope of their activities. IDBI has already introduced the Venture Capital Funds Scheme for commercialising indigenous R&D and Commercial adoption of imported technology to domestic uses.

**Quantitative**

Quantitatively, the development banking institutions have outgrown their supplementary character of gap fillers. Today, the development banking institutions provide a varied types of financial assistance, guidance and support to industrial enterprise.
The remarkable growth of financial assistance to Indian industry is assessed by the trend in the volume of assistance sanctioned. The sanctions were Rs. 304 crore during the formative stage (1964-70), rose to Rs. 738 crore in 1970-75. It rose sharply to Rs. 26,555 crore in 1985-90. During the year 2005-08, the development banking institutions extended assistance of Rs. 2,02,910 crore, accounting for 64.8 percent of the total assistance till and March, 2008. It touched an all time record of Rs. 26,308 crore in 2000-01 and Rs. 82,212 crore in 2007-08.

Cumulatively, project loans aggregated to Rs. 50,149 crore (61%), followed by direct subscription Rs. 11,674 crore (14.2 %), Equipment leasing Rs. 2,877 crore (3.50%), refinance Rs. 411 crore (4.9%). What is more 71 percent of the total sanctions has been claimed by private sector.

The figures cited above are amply indicative of the important role of the development banks in industrial financing in India. They, however, do not disclose the real impact of their financial operations in quantitative terms. In other words, in an assessment of their quantitative role certain important dimension merits consideration. In the first place, while assessing their role one has to consider the facts of economic life in India, particularly, during the last decade. Inspite of the fact that the conditions in the investment
market have been, as is well known, by and large unfavourable, the development banks have been able to push up investment in the private sector.

**Stimulating Role**

The relevance of development banks in India has a promotional functions. It should be construed sizeable assistance from institutions has been given special focus by setting up a small Industries Development Bank of India (SIDBI). The SIDBI will provide the focal point for accelerating the flow of financial services commensurate with the growing requirements of the small scale sector. In addition to operating the on-going schemes, new schemes one being devised to cater to the needs of the small sector with special attention to the needs of tiny and rural industries.

**Catalyst in Social Change**

The development banks, as financial institutions, are only a catalyst in social change. With training programmes, they try to impress upon their staff that banks are for the people and that in a country in which the people are poor; a major objective of the bank is to associate itself with all the programmes for the amelioration of the conditions of life of the weaker sections. Training has been redesigned to meet the ever growing and changing growth needs of bank personal and to prepare them to meet the emerging challenges
of the future. New methods of assessing training needs, new processes of involving the critical functionaries in the training areas, system to evaluate the effectiveness of training and systems to take training to the branches these are some of the new development in the banks training system.

The viability and excellence of an organization depend upon the competence of its people. Having regret to this, the banks have introduced a Human Resources Development system. The HRD is a continuous process, which enable every individual, as a member of a team, to realize and activate his potential so as to effectively contribute to the achievement of the organizational goals. Banks also believe in building a culture of collaboration and team work at all, lends. To achieve these objectives, appropriate systems have been designed by the banks. A comprehensive and scientific manpower plan has been evolved. With the help of which it is now possible to assess not only the present manpower needs but also forecast future requirements. To enable our managers to perform optionally, a new performance appraisal system has been designed and introduced. This system, in addition to bringing about clarity in respect of rates, provides timely feedback and promotes a healthier superior-subordinate relationship in the bank. A career plan model which helps in systematically building up skills and capabilities
through a proper placement policy, has also been evolved.

The Indian financial scene, particularly that development banking, has thus undergone a profound transformation during the last one and a half decades. Banks are now expected to play a leading role in bringing about economic and social change. With a wide expansion of branches, banking is now closer to the masses; and the policies of the banks are increasingly oriented towards helping the weakest of the weaker sections of society. The evolution of the banks’ policies in the field of rural credit, financing of small scale industries and other weaker sections, the initiative taken under the lead bank scheme in accepting the challenges of banking development in the most difficult areas of the country, in preparing comprehensive development oriented district credit plans for sustained development, and the numerous other innovative banking schemes introduced by their offices are not worthy features of the operations of the banks.

**Task Ahead**

Development banking is a very sensitive industry which is constantly under the public gaze. Better customer service, whether in the urban or rural areas, whether to the depositor or to the borrower, and the productivity of banks are the most vital factors to which this industry has to pay closer attention if it is to discharge its
responsibilities in a satisfactory manner. However, the tasks before the banks are still unfinished and gigantic. With the greater emphasis on agriculture, the development of backward areas, on integrated rural development and the development of small and tiny industries in the XI Five Year Plan, the banking system is expected to play a crucial role by the development of its funds in rural areas, particularly in assisting agriculture, rural industries, and the small scale sector on a preferential basis. Moreover, in view of the government’s aim of full employment to all able bodied persons, the banks is to be required to improve the flow of credit under self employment schemes. The working groups set up by the Government have made several recommendations to improve the flow of bank credit to the weaker sections under the programmes envisaged under the seventh plan and commercial banks will no doubt put forth their very best efforts to achieve these socially desirable goals. They have all along been in the required of all the programmes which help the common man and have actively associated themselves with the financing of schemes under the Antyodaya Programme. Block level plans have been drawn up under the Integrated Rural Development Programme with a view to assisting in the fulfillment of the objective of providing full employment to the rural poor. The widening network of the bank’s
branches has taken them nearer and nearer to the masses, and given them increasing opportunities of ameliorating their living conditions. Simultaneously, banks play a catalytic role in increasing industrial production and exports and accelerate the process of economic development, without compromising on productivity and profitability.

INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

The Industrial Development Bank of India (IDBI) has had a pioneering role in fulfilling its mission of promoting industrial growth in tune with national plans and priorities. It support was instrumented in establishing a well developed, diversified and efficient industrial structure in the country. Since inception, the Bank has, besides meeting the increasing and diverse financial requirements of industry added a qualitative dimension to the process of industrial development in the country.

The critical role played by IDBI in encouraging industrial development is reflected in its flows of assistance over the years.

EARLY BEGINNING / ESTABLISHMENT

Established on July 1, 1964, the IDBI has been operating for more than two decades as the apex national development bank in the field of industrial finance in India. During the first twelve years, it operated as a wholly owned subsidiary of the Reserve Bank of India.
(RBI). Backed by the financial support, experience and authority of the RBI, the IDBI took several measure, which included the introduction of new schemes and the widening of their scope for assistance on concessional terms to projects in less developed areas, new and small entrepreneurs etc. It also strengthened the institutional structure by evolving new arrangements for ensuring better coordination among development finance institutions and undertook several promotional activities. In view of the manifold increase in its activities and its diverse responsibilities, legislation was enacted in 1975 to reconstitute it as wholly owned undertaking of the Government of India and making the ‘Principal financial institution for coordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industry for assisting the development of such institutions and for providing credit and other facilities for the development of industry and for matters connected therewith’". Under the legislation, the various responsibilities which the RBI has earlier shouldered vis-a-vis industrial financing institutions in the country were rested in the reconstituted IDBI. The act becomes effective from February 16, 1976.

The IDBI’s statute enables it to have a considerable operational flexibility. It can finance all type of industrial concern
engaged or to be engaged in the manufacture, processing or preservation of goods; or in the mining, transport, generation and distribution of power; or in fishing, providing share facilities for fishing; or in the hotel industry; or in the maintenance, repair, testing or servicing of machinery or vehicles or vessels or motor boats or trailers or tractors. There are no restrictive provisions in the IDBI Act regarding the nature and type of security to be obtained from the assisted concerns. Also no upper or lower limit for assistance to any concern or of the size of concern itself has been prescribed through, for operational reasons. Certain criteria are generally kept in view.

IDBI set up the Small Industries Development Funds (SIDF) to provide a special focus to the needs of the SSI sector. The operations under the SIDF were transferred in 1990 into the Banks’ wholly owned subsidiary, the Small Industrial Development Bank of India (SIDBI).

The IDBI is vested with the responsibility of coordinating the working of institutions engaged in financing, promoting or developing industries. It has evolved an appropriate machinery for this purpose. The appraisal and supervision of projects assisted on a consortium basis are coordinated to avoid duplication work and delays.

Today, IDBI is one of India’s largest banks. It has essayed a significant role in the country’s industrial and economic progress for
over 40 years – first as a Development Financial Institution and now as a full service commercial bank.

Post the October 2004 merger of the erstwhile IDBI Bank with its parent company (IDBI Ltd.), IDBI is now a universal bank. The merger was aimed at consolidating business across the value chain and reaping the benefits of economies of scale, thus enabling it to offer an array of customer-friendly services to its existing and prospective clients, both within the geographical boundaries of India and, in due course, abroad. The subsequent merger of erstwhile The United Western Bank Ltd. (UWB) with the Bank in October 2006 has significantly improved its reach and strengthened its customer and product portfolio.

Headquartered in Mumbai, the commercial capital of the country, IDBI today rides on the back of a robust business strategy, a highly competent and dedicated workforce and a state-of-the-art information technology platform, to structure and deliver personalized and innovative banking services and customized financial solutions to its clients across convenient delivery channels. The Bank currently boasts of a balance sheet and business size (deposits plus advances) of more than Rs. 1,00,000 crore each and major Government shareholding (around 53%).
As of August 21, 2007 IDBI’s delivery channels comprised 453 Branches and 536 ATMs spread across 256 centres - clear evidence of its efforts to spread its wings across the country.

Even as it remains strongly focused on profitability, IDBI practices inclusive banking. It has a diversified customer profile, including blue-chip companies, small and medium-sized business high net-worth individuals, retail customers, trusts, self-help groups and so on.

The new generation State-owned Bank has a strong brand equity and a wide customer base of over five million.

IDBI’s financial strength has been recognised by international credit rating agencies. Moody’s has assigned IDBI a long-term foreign currency debt rating of ‘Baa2’, which is one notch higher than the sovereign rating and reflects strong Government ownership and control, a solid capital base and IDBI’s importance as a leading financial institution in India, Standard and Poor’s and Fitch has assigned the Bank a ‘BBB’- rating, at par with the sovereign rating, which reflects IDBI’s strong market position as one of India’s leading financial institutions, with consistent profitability and sound capitalization.

The ratings for its rupee resources viz. Long-Term Bonds, Fixed Deposits and Short-Term Borrowings by CRISIL, ICRA and
Fitch also reflect high safety with respect to timely payment of interest and principal.

A strong capital base (capital adequacy ratio: 13.73%, well above the regulatory minimum of 9%) ensures that it is well placed for growth of business and ready to adequately address the prospective enhanced Base I-II capital requirements.

In a recent study undertaken jointly by The Financial Express, a pan-India business daily and Ernest & Young, a consultancy firm, the Bank has secured top ranking for ‘strength and soundness’ based on FY 06 results.

IDBI, which has consistently earned profits since its inception, has a committed and competent human capital to power its aggressive growth plans. What’s more, professionals like accountants, engineers, economists and experts in IT, law, management, agriculture and treasury operations or part to its HR talent pool.

IDBI has ring-fenced itself with a state-of-the-art data centre and a disaster-recovery site to ensure business continuity (prevention of loss, damage or destruction of customers’ data, information or records) in the event of a disaster.

IDBI has been a robust nation-builder. It has exerted a deterministic influence on the development of modern India by
moving beyond the realm of mere financial intermediation, helping to erect reputed institutions like the Export-Import Bank of India (Exim Bank), the SIDBI, the National Stock Exchange of India (NSE), Credit Analysis & Research Ltd. (CARE) etc. along with assisting the development of a new generation of entrepreneurs by setting up institutions like the Entrepreneurship Development Institute of India (EDII).

**PURPOSE AND OBJECTIVES OF IDBI**

The main object in setting up IDBI is to bridge the gap between the supply and demand of finance by providing direct financial assistance to industrial concerns and to bring into existence an apex institution to coordinate the activities of the other financial institutions providing term finance to industries including banks. The IDBI has been set up as part of a recognized and integrated structure of industrial financing in the country to meet the needs of rapid industrialization.

More than two decades have elapsed since this institution was setup. This is too short a period in the history of development bank. But even in this brief span, the bank has established itself as an apex development bank. Its attention till the middle of 1970 was concentrated on strengthening its organization from work, establishing viable links with the other financial institutions, providing
financial assistance to the strategic sectors of industry and coordinating and supplementing the activities of the other term financing institutions- tasks which are basic for the evolution of an all India apex development bank. Having attained a degree of maturity in its after June, 1970, entered into a new phase of its career- a phase of innovative activities in a variety of fields, particularly related to initiating and promoting industrialization over a wide front in the light of the country’s development objectives.

**Vision Statement**

“To be trusted partner in progress by leveraging quality human capital and setting global standards of excellence to build the most valued financial conglomerate.”

**Preamble**

IDBI Bank Ltd. is committed to creating long term economic value for all its stakeholders, including shareholders, depositors, customers, employees and the society as a whole. IDBI Bank Ltd. is committed to maintaining high standards of ethical and professional conduct in all its corporate activities.

This code of Conduct and Ethics outlines and overall standards that shall guide the actions of IDBI Bank Ltd. and its Directors, officers and employees.
1- National Interest

IDBI Bank Ltd. shall continue to be committed in all its actions to benefit the economic development of the nation and shall not engage in any activity that would adversely affect such objective.

2- Financial Reporting and Records

IDBI Bank Ltd. shall continue to prepare and maintain its accounts fairly and accurately in accordance with the accounting and financial reporting standards which represent the generally accepted guidelines, principles, standards, laws and regulations of the country. Internal accounting and audit procedures shall fairly and accurately reflect all of IDBI Bank Ltd. business transactions and disposition of assets.

3- Corporate Disclosure Practices

IDBI Bank Ltd. shall continue to abide by the corporate disclosure practices as specified by the appropriate external regulatory authorities.

4- Competition

IDBI Bank Ltd. shall market its products and services on its own merits.

5- Equal-Rights

IDBI Bank shall continue to provide equal opportunities to all its employees and all qualified applicants for employment without
regard to their race, caste, religion, colour, ancestry, marital status, sex, age, nationality, disability etc. Applicable laws, rules, and guidelines of Government of India/ any other Competent Authority in this regard shall also be observed for this purpose. Employees of IDBI Bank Ltd. shall be treated with dignity and in accordance with the IDBI Bank Ltd. policy to maintain a work environment free of sexual harassment, whether physical, verbal or psychological. Employee policies and practices shall be administered on a non-discriminatory basis in all matters relating to recruitment, training, compensation, benefits, promotion, transfers and all others terms and conditions of employment.

6- **Prohibited Business**

IDBI Bank Ltd. shall not enter into any kind of business with any company/organization/entity, of which may any of its director is a proprietor, partner, director, a manager, employee or guarantor or in which one or more directors of IDBI Bank Ltd. together hold substantial interest.

Substantial interest, in relation to any company/organization/entity, means any beneficial interest held by one or more of the directors of IDBI Bank Ltd. or by any relative of such director, whether singly or taken together, in the shares of the company organization/entity, the aggregate amount paid up on which either
exceeds five lakh of rupees or 5% of its paid-up share capital, whichever is lesser.

7- **Quality of Products and Services**

IDBI Bank Ltd. shall continue to be committed to creating new industry standards of excellence in customer service. IDBI Bank Ltd. shall provide innovative and superior quality customer service consistent with the requirements of the customers for their satisfaction.

8- **Corporate Opportunity**

A Director/ Officer/ Employee must not deprive IDBI Bank Ltd. of an opportunity that belongs to IDBI Bank Ltd. for his/ her own/ other’s advantage, if he/she is in a position of diverting the corporate opportunity for own benefit or to others to the detriment of IDBI Bank Ltd. A Director/ Officer/ Employee must not compete with IDBI Bank Ltd. in respect of any business transaction.

9- **Health, Safety and Environment**

IDBI Bank Ltd. shall strive to provide a safe and healthy working environment at its work places and comply, in the conduct of its business affairs, with all regulations regarding the preservation of the environment of the territories it operates in.

10- **Corporate Social Responsibility**

IDBI Bank Ltd. shall continue be committed to be a good
corporate citizen not only in compliance with all relevant regulating laws and regulations but also by actively assisting in the improvement of the quality of life of the people in the communities in which it operates with the objective of making them self reliant.

11- Public Representation of the Company & the Group

IDBI Bank Ltd. honours the information requirements of the public and its stakeholders. All its external communication will be only by officials/ directors authorized for the purpose.

The information for the public constituents and stakeholders, duly approved by the Compliance Officer or other authorized official, as the case may be, shall be disseminated through any of the following media:

- The accredited newspaper publications;
- Web casting on the official site;
- Press handouts and press releases;
- Audio and audio-visuals prepared for the specific purpose.

12- Use of IDBI Bank Ltd. Name Logo/ Trademarks

A Director/ Officer/ Employee shall not use the name of IDBI Bank Ltd., its logo or trademark for personal benefit or for the benefit of persons/ entities not forming part of the IDBI Group.

13- Shareholders

IDBI Bank Ltd. is committed to enhance shareholder value and
shall comply with all regulations and laws that govern shareholders’ rights. The Board of Directors’ of IDBI Bank Ltd. shall duly and fairly inform its shareholders about all relevant aspects of the organization business and disclose such information in accordance with the respective regulations and agreements. Every employee shall also be responsible for implementation of and compliance with this code.

14- Ethical Standards

A Director/ Employee of IDBI Bank Ltd. shall conduct all the dealings on behalf of IDBI Bank Ltd. with professionalism, honesty, integrity and high moral and ethical standards. Every Director/ Officer/ Employee of IDBI Bank Ltd. shall be responsible for the implementation of and compliance with the code in his/ her professional environment, be fair and take action not to discriminate, honour confidentiality and strive to achieve more specific professional responsibilities.

15- Insider Trading

Insider Trading involves the improper use of non-public price sensitive information when dealing in securities. Specified employees are prohibited from engaging in insider trading as detailed in the Code of Conduct for Prevention of Insider Trading.
16- **Conduct of Staff**

To uphold the image and dignity of the institution, it is desirable that every director/ officer/ employee of IDBI Bank Ltd. should demonstrate a high degree of conduct and integrity, as under:

(a) a sense of fair play, impartiality and promptness in disposing of cases and show courtesy and consideration in public dealings;

(b) keeping in mind the objective of IDBI Bank Ltd., to contribute his/ her mite through integrity, dedication and competence;

(c) restrain from participating or assisting in any activity, which is detrimental to the interest of IDBI Bank Ltd. or is in competition to the interest of IDBI Bank Ltd.

(d) not use or influence by virtue of the position held in the bank for obtaining favours of any kind for himself/ herself or any members of family or friends or equivalent person with any constituent/ borrower/ client/ customer;

(e) be cost conscious and plug all wastes and leakages, to remain competitive;

(f) not to be negligent or show lack of devotion to duty any time and

(g) not to show any favouritism or commit any irregularity in
inviting tenders an awarding contracts or cultivate too much friendship with the Bank’s contractors/ suppliers.

17- **Regulatory Compliance**

A Director/ officer/ employee shall, in his business conduct, comply with all applicable laws and regulations.

18- **Securities Transactions and Confidential Information**

A Director/ officer/ employee of IDBI Bank Ltd. and their family members shall not derive any benefit or assist others to derive any benefit from the access to and possession of information about IDBI Bank Ltd. which is not in the public domain and thus constitutes insider information. The Director/ officers/ employee of IDBI Bank Ltd. shall maintain confidentiality of all price sensitive information. Unpublished price sensitive information would be disclosed only to those within the company who need the information to discharge their duty.

19- **Conflict of Interest**

The Directors/ officers/ employees of IDBI Bank Ltd. shall always conduct themselves in an honest and ethical manner and in the best interest of the Bank. Towards this, the directors, officers and employees of IDBI Bank Ltd. shall endeavour to avoid situations that may lead to an actual or potential conflict between person’s private interest and the interest of the Bank, including its affiliates.
and subsidiaries. While it may be difficult to list all the situations of conflict of interest, the following are illustrative examples of some of the situations, which may constitute a Conflict of interest:

- a Director/ officer/ employee engages in any business, relationship or activity which might detrimentally conflict with the business of IDBI Bank Ltd.
- a Director/ officer/ employee receives improper personal benefits as a result of his official position in the Bank.
- a Director/ officer/ employee is in a position to make, influence or benefit from the decisions relating to the transactions.

If such and other instances of conflict of interest exist due to any historical reasons, adequate disclosures by the interested employees should be made to the management.

20- **Gifts and Donations**

The Director/ officer/ employee of IDBI Bank Ltd. shall not solicit or accept any gifts/ donations of more than modest value from a constituent of IDBI Bank Ltd or from any subordinate employee or from existing/ potential clients or third parties having business dealings with IDBI Bank Ltd.
21- Gender Friendly Workplace

As a good corporate citizen, IDBI Bank Ltd. is committed to a gender friendly workplace. IDBI Bank Ltd. demands, demonstrates and promotes professional behaviour and respectful treatment of all employees.

22- Prohibition against participation in politics and standing for election

No employee shall take an active part in politics or in any political demonstration, or stand for election as member of a Municipal Council, district Board or any other Local Body or any Legislative Body.

23- Protection of Bank’s Assets

The assets of IDBI Bank Ltd. shall not be misused but employed for conducting the business for which they are duly authorized.

24- Ethics and Compliance Committee

The Ethics and Compliance Committee comprising few independent directors of the Board, an Executive Director, Chief Vigilance Officer of IDBI Bank Ltd. and the Compliance Officer and any other officer so nominated, will oversee the compliance of the Code of Conduct and Ethics.
SUBSIDIARIES

1- Small Scale Industries Development Bank of India (SIDBI)

SIDBI, a wholly owned subsidiary of IDBI, is a statutory corporation set up in April 1990 under a special enactment of Parliament viz. SIDBI Act 1989. The objectives of SIDBI are to serve as the Principal Financial institution for promotion, financing and development of industry in the small scale sector and to coordinate the functions of the institutions engaged in promoting financing or developing industry in the small scale sector.

2- IDBI Investment Management Company Ltd. (IIMCO)

IIMCO, a wholly owned subsidiary of IDBI with a paid up capital of Rs. 5 crore. The Asset Management Company for the IDBI Mutual Fund. IDBI contributed Rs. 25 crore towards the trust corpus. The Fund has level a growth schemes, viz., I-NIT 95, with dual involvement plans having a target amount Rs. 150 crore. The scheme which closed on May 6, 1995 has attracted subscriptions of about Rs. 190 crore (provisional).

3- IDBI Capital Market Services Limited

IDBI Capital Market Limited (ICMS) was established in December 1993 as a wholly owned subsidiary of the Bank to offer a
broad range of financial products and services. Currently, business activities of ICMS include Bond Trading, Retail distribution, Broking, Client Asset Management, Depositary Services, Merchant Banking, Investment Banking Private Equity, etc. ICMS has set up a portal for retail equity trading under the brand-name ‘idbipaisabuilder’ for providing three in one service (demat, trading and fund settlement). To enhance its retail reach across the country and also to tap fast growing internet trading accounts, ICMS has tied up with select Public Sector Banks for settlement of trading through the Bank’s Depository Participants (DP) and Bank Accounts. The product range on the portal has been recently enhanced to include derivatives. This would open up the on-line trading portal to a large customer base of these banks. ICMS is also the process of tying up with other Public Sector Banks for this facility. It would offer equity trading as also investment in Mutual Funds (MFs) and Initial Public Offerings (IPOs) through these tie-ups. ICMS has also made an entry into Investment Banking and Private Equity business. However, in terms of RBI guidelines, the primary dealership operations have been hived off by ICMS to a new company viz. IDBI Gilts Ltd., another wholly owned subsidiary of IDBI Ltd.

In view of excellence in various services to its customers, the company received the CNBCTV 18 award as best National Financial
Advisor 2008 – Institutional for the second consecutive year.

The abridged Balance Sheet and Profit and Loss Account of IDBI Capital are given in table 1.1 and Table 1.2.

**Table 1.1**

**IDBI Capital Market Services Ltd.**

**Abridged Balance Sheet**

(Rs. in crore)

<table>
<thead>
<tr>
<th>As at March 31</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid up Capital</td>
<td>200.0</td>
<td>200.0</td>
<td>167.90</td>
<td>157.90</td>
<td>157.90</td>
</tr>
<tr>
<td>Reserves and Surplus</td>
<td>380.5</td>
<td>305.3</td>
<td>264.39</td>
<td>204.84</td>
<td>206.30</td>
</tr>
<tr>
<td>Borrowings</td>
<td>1656.60</td>
<td>398.3</td>
<td>252.79</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Current Liabilities and Provisions</td>
<td>425.3</td>
<td>136.9</td>
<td>44.34</td>
<td>23.35</td>
<td>30.37</td>
</tr>
<tr>
<td>Deferred Tax Liability</td>
<td>-</td>
<td>-</td>
<td>1.96</td>
<td>2.22</td>
<td>1.53</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>2662.4</td>
<td>1040.5</td>
<td>731.38</td>
<td>388.31</td>
<td>396.10</td>
</tr>
<tr>
<td>Total Assets</td>
<td>2662.4</td>
<td>1040.5</td>
<td>731.38</td>
<td>388.31</td>
<td>396.10</td>
</tr>
</tbody>
</table>
### Table 1.2

**IDBI Capital Market Services Ltd.**

**Abridged Profit & Loss A/c**

(Rs. in crore)

<table>
<thead>
<tr>
<th>For the Year ended March 31</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>438.7</td>
<td>1.9</td>
<td>125.67</td>
<td>40.80</td>
<td>35.23</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>122.8</td>
<td>76.2</td>
<td>74.18</td>
<td>58.49</td>
<td>33.06</td>
</tr>
<tr>
<td><strong>Profit/ (Loss) Before Tax</strong></td>
<td>315.9</td>
<td>(74.3)</td>
<td>51.49</td>
<td>(17.69)</td>
<td>2.17</td>
</tr>
<tr>
<td><strong>Profit/ (Loss) After Tax</strong></td>
<td>200.7</td>
<td>(74.3)</td>
<td>46.29</td>
<td>(18.16)</td>
<td>2.26</td>
</tr>
</tbody>
</table>

---

4- **IDBI Bank Ltd.**

IDBI has obtained in-principal approval from RBI for setting up a bank in the private sector for rendering commercial banking services. A new company IDBI Bank Ltd. has been incorporated in September, 1994 with an initial subscribed equity capital of Rs. 100 crore (presently paid up Rs. 10 crore) entirely contributed by IDBI. The Bank is expected to commence operations in the next few months.
5- **IDBI Home finance Limited**

IDBI Home finance Ltd. (IHFL), incorporated as a public limited company has, in a short span of time, created a niche for itself in the highly competitive Home Loan segment since its acquisition of Tata Home Finance Ltd. in September 2003. During the Financial Year 2006-07, IHFL's outstanding loan portfolio increased by Rs. 630 crore, from Rs. 1,517 crore to Rs. 2,147 crore, registering a growth of 42%.

The abridge Balance Sheet and Profit and Loss Account of IDBI Home finance are given in Tables 1.3 and 1.4.
Table 1.3
IDBI Home Finance Ltd.
Abridged Balance Sheet
(Rs. in crore)

<table>
<thead>
<tr>
<th>As at March 31</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid up Capital</td>
<td>50.0</td>
<td>80.0</td>
<td>109.98</td>
<td>129.98</td>
<td>144.98</td>
</tr>
<tr>
<td>Reserves and Surplus</td>
<td>4.4</td>
<td>9.1</td>
<td>16.97</td>
<td>30.26</td>
<td>43.94</td>
</tr>
<tr>
<td>Borrowings</td>
<td>446.0</td>
<td>847.7</td>
<td>1560.82</td>
<td>2157.16</td>
<td>2544.40</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>500.4</td>
<td>936.8</td>
<td>1687.77</td>
<td>2317.40</td>
<td>2733.32</td>
</tr>
<tr>
<td>Loans</td>
<td>485.2</td>
<td>922.6</td>
<td>1516.93</td>
<td>2146.95</td>
<td>2710.40</td>
</tr>
<tr>
<td>Net Fixed Assets</td>
<td>5.3</td>
<td>4.7</td>
<td>5.60</td>
<td>5.41</td>
<td>4.53</td>
</tr>
<tr>
<td>Net Current Assets</td>
<td>9.4</td>
<td>9.2</td>
<td>164.31</td>
<td>162.89</td>
<td>14.51</td>
</tr>
<tr>
<td>Defer Tax Asset</td>
<td></td>
<td>0.2</td>
<td>0.88</td>
<td>2.12</td>
<td>3.86</td>
</tr>
<tr>
<td>Misc. Expenditure</td>
<td>0.5</td>
<td>0.1</td>
<td>0.05</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>Total Assets</td>
<td>500.4</td>
<td>936.8</td>
<td>1687.77</td>
<td>2317.40</td>
<td>2733.32</td>
</tr>
</tbody>
</table>
## Table 1.4

**IDBI Homefinance Ltd.**

**Abridged Profit & Loss A/c**

(Rs. in crore)

<table>
<thead>
<tr>
<th>For the Year ended March 31</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Income</strong></td>
<td>44.6</td>
<td>54.9</td>
<td>100.4</td>
<td>169.6</td>
<td>253.5</td>
</tr>
<tr>
<td><strong>Interest Expenses</strong></td>
<td>32.8</td>
<td>36.9</td>
<td>71.5</td>
<td>132.1</td>
<td>194.9</td>
</tr>
<tr>
<td><strong>Net Interest Income</strong></td>
<td>11.8</td>
<td>18.0</td>
<td>28.9</td>
<td>37.5</td>
<td>58.6</td>
</tr>
<tr>
<td><strong>Fees and Other Charges</strong></td>
<td>4.9</td>
<td>8.5</td>
<td>9.4</td>
<td>9.3</td>
<td>9.6</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.25</td>
<td>3.01</td>
</tr>
<tr>
<td><strong>Net Total Income</strong></td>
<td>16.7</td>
<td>26.5</td>
<td>38.3</td>
<td>54.1</td>
<td>71.2</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>11.4</td>
<td>15.2</td>
<td>18.1</td>
<td>21.1</td>
<td>24.7</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td>0.9</td>
<td>1.0</td>
<td>1.65</td>
<td>3.4</td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Profit / (Loss) Before Tax</strong></td>
<td>4.4</td>
<td>10.3</td>
<td>18.5</td>
<td>29.6</td>
<td>41.5</td>
</tr>
<tr>
<td><strong>Profit/(Loss) After Tax</strong></td>
<td>3.4</td>
<td>7.9</td>
<td>14.4</td>
<td>23.1</td>
<td>29.9</td>
</tr>
</tbody>
</table>
6- **IDBI Intech Limited**

IDBI Intech Limited (IDBI Intech) was set up as a wholly-owned subsidiary of the Bank in March 2000 to undertake Information Technology (IT) related activities. IDBI Intech as part of its business strategy is currently into providing support to Banking Application Software, Data Centre Service, Call Centre, Transaction Processing, Credit Card Processing, Cheque Truncation, BPO activities etc.

During the year, the company has undertaken various major IT initiatives such as completion of IT integration of 230 branches of the erstwhile The United Western Bank Limited with IDBI Bank’s Core Banking Application, migration and integration of Project Finance Legacy with Bank’s Core Banking application, Launched ATM & Branch locator facility via SMS and Biometric ATM for rural customers, developed on-line application for education loan, submission of information for tax savings and bilingual pay slips, implemented Anti money laundering application and developed an application for monitoring of application received under Right to Information (RTI) Act. IDBI Intech has got the ISO 9001:2000 Certification in August 2007. It is now in the final phase of implementing ISO 27001 standard for strengthening information security.

The abridged Balance Sheet and Profit & Loss Account of IDBI
Intech are given in Table 1.5 and Table 1.6 respectively.

**Table 1.5**

**IDBI Intech Ltd.**

**Abridged Balance Sheet**

(Rs. in crore)

<table>
<thead>
<tr>
<th>As at March 31</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid up Capital</td>
<td>13.13</td>
<td>13.13</td>
<td>13.13</td>
</tr>
<tr>
<td>Reserve &amp; Surplus</td>
<td>-</td>
<td>-</td>
<td>0.61</td>
</tr>
<tr>
<td>Deferred Tax Liabilities</td>
<td>-</td>
<td>-</td>
<td>0.09</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>13.13</td>
<td>13.13</td>
<td>13.83</td>
</tr>
<tr>
<td>Net Fixed Assets</td>
<td>-</td>
<td>1.77</td>
<td>1.68</td>
</tr>
<tr>
<td>Net Current Assets</td>
<td>-</td>
<td>4.42</td>
<td>12.15</td>
</tr>
<tr>
<td>Deferred Tax Assets</td>
<td>2.07</td>
<td>2.13</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated Losses</td>
<td>11.06</td>
<td>4.81</td>
<td>-</td>
</tr>
<tr>
<td>Total Assets</td>
<td>13.13</td>
<td>13.13</td>
<td>13.83</td>
</tr>
</tbody>
</table>

**Table 1.6**
IDBI Intech Ltd.

Abridged Profit & Loss A/c

(Rs. in crore)

<table>
<thead>
<tr>
<th>As at March 31</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>0.27</td>
<td>7.68</td>
<td>21.56</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>4.13</td>
<td>3.24</td>
<td>13.73</td>
</tr>
<tr>
<td>Profit/(Loss) Before Tax</td>
<td>(3.86)</td>
<td>4.44</td>
<td>7.83</td>
</tr>
<tr>
<td>Profit /(Loss) After Tax</td>
<td>(3.81)</td>
<td>6.55</td>
<td>5.35</td>
</tr>
</tbody>
</table>

7- IDBI Gilts Limited

IDBI Gilts Limited (IDBI Gilts) was set up a wholly-owned subsidiary of the Bank to undertake Primary Dealer (PD) Business with an authorized capital of Rs. 200 crore and subscribed & Paid up capital of Rs. 100 crore. The PD business was undertaken by IDBI Gilts Ltd. on surrender of the NBFC & PD Licence by IDBI Capital. The company was incorporated in December, 2006 and obtained Certificate for Commencement of Business in February, 2007.

The Reserve Bank of India (RBI) granted the necessary

The company presently focuses on Bond trading, under writing in auctions of primary issuance of Government dated securities and treasury bills.

The abridged Balance Sheet and Profit & Loss Account of IDBI Gilts are given in Table 1.7 and Table 1.8 respectively. As on March 31, 2008, IDBI Gilts capital adequacy ratio was 30.10%, while its debt-equity ratio was 2.97.
### IDBI Gilts Ltd.

**Abridged Balance Sheet**

(Rs in crore)

<table>
<thead>
<tr>
<th></th>
<th>As at March 31</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paid up Capital</strong></td>
<td></td>
<td>5.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Reserves and Surplus</strong></td>
<td></td>
<td>-</td>
<td>0.93</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td></td>
<td>-</td>
<td>299.38</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td></td>
<td>5.00</td>
<td>400.31</td>
</tr>
<tr>
<td><strong>Net Fixed Assets</strong></td>
<td></td>
<td>-</td>
<td>1.06</td>
</tr>
<tr>
<td><strong>Defer Tax Asset (Net)</strong></td>
<td></td>
<td>-</td>
<td>0.32</td>
</tr>
<tr>
<td><strong>Net Current Assets</strong></td>
<td></td>
<td>5.00</td>
<td>398.93</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td>5.00</td>
<td>400.31</td>
</tr>
</tbody>
</table>

**Table 1.8**
### IDBI Gilts Ltd.

#### Abridged Profit & Loss A/c

(Rs in crore)

<table>
<thead>
<tr>
<th>For the year ended March 31</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest &amp; Discount Income</td>
<td>15.36</td>
</tr>
<tr>
<td>Interest &amp; Finance Charges</td>
<td>14.01</td>
</tr>
<tr>
<td>Net Interest &amp; Discount Income</td>
<td>1.35</td>
</tr>
<tr>
<td>Sale of Securities (Incl. Closing Stock)</td>
<td>35,994.53</td>
</tr>
<tr>
<td>Other Income</td>
<td>0.58</td>
</tr>
<tr>
<td>Purchase of Securities</td>
<td>35,990.55</td>
</tr>
<tr>
<td>Total Income</td>
<td>5.91</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>4.49</td>
</tr>
<tr>
<td>Profit/ (Loss) Before Tax</td>
<td>1.42</td>
</tr>
<tr>
<td>Provisions (Incl. FBT &amp; Deferred Tax)</td>
<td>0.49</td>
</tr>
<tr>
<td>Profit/ (Loss) After Tax</td>
<td>0.93</td>
</tr>
</tbody>
</table>

**IDBI AS A GROWTH ACCELERATOR**
- World’s tenth largest development financial institution with an asset base of over Rs. 34,000 crores.
- India’s largest financial institution with cumulative loan sanctions of more than Rs. 7,50,000 crores.
- Highest volume of forex funds mobilized for Indian Industry from the US, European and Asian Capital Markets.
- Highest credit rating for an international debt issue (BBB + by Japan Bond Research Institute) obtained by an Indian borrower.
- World class balance sheet. Capital adequacy ratio 13.44% performing assets 92%.

IDBI assessed the domestic capital market for the first time with the public issue of unsecured bonds. It also introduced new instruments each as Floating Rate Bonds. Fixed Deposits. Term Money Bonds, Certificates of Deposit tailored to meet the needs of diverse investor groups.

The driving force behind the Bank’s success story has been its pool of dedicated professionals. IDBI has been its pool of dedicated professionals. IDBI has been taking steps for their skill up-gradation and human resource development has been an important facet of the Bank’s operational strategy. IDBI set up Jawaharlal Nehru Institute of Development Banking (JNIDB) in 1991 to provide
research based training and develop study materials relevant to
development banking.

**IDBI – A SUBSIDIARY OF THE RESERVE BANK**

The IDBI was set up as a wholly owned subsidiary of the Reserve Bank with a common Board of Directors for a variety of reasons. The IDBI is in a sense a lender to the last resort and its role with regard to term finance in some respects akin to that of the Reserve Bank in the field of short term finance. Secondly, with the passage time, the operations of the IDBI were expected to assume considerable dimension which would require to be regulated within the framework of proper monetary and credit management. There was also a need to co-ordinate the national credit policy with pace and pattern of investment activity – a task which falls within the proper sphere of responsibility of the Reserve Bank. This arrangement has the advantage of bringing together, under one unified setup, the entire range of financial and credit institutions. It is only thus that a unified and integrated approach in the field of the financial system can be evolved. Thirdly, the RBI had for a long time been helping to control and State Governments in evolving an appropriate structure of financial institutions and had, in particular played a dynamic role in setting up a complex of institutions.

In the words of the Finance Minster, “The Reserve Bank, is
today the institution, which can most appropriately guide Development Bank of this kind. The RBI is and I hope it will continue to be free from the pressure of political or other influences. It is in a position to take purely objective view of our needs. I have no doubt that under the auspices and with the assistance of the Reserve Bank, the IDBI will be able to discharge its fairly onerous burdens satisfactorily.

It was therefore, deemed desirable to have an institution legally separate from the Reserve Bank but more closely associated with it to guide, supervise and undertake the entire range of activities relating to industrial finance. Indeed, the close association of the IDBI with the Reserve Bank has helped the IDBI to a significant extent in over coming the problems of organization and personnel, facilitating its refinancing, rediscounting and other operations with the banks and the SFCs. and evolving a structure of policies appropriate to the emerging monetary and economic situation. This feature of the evolving patter and structure of FIs in India has added a new dimension to the theory and practice of central banking.

**RESTRUCTURING OF IDBI**

From the very beginning, IDBI demonstrated its usefulness as
the apex institution in the country in the sphere of medium and long
term finance. The Finance Ministry of the Government of India,
however, felt that IDBI had failed to serve as an effective
development bank and had not sufficiently accelerated the process
of industrialization of the country. The causes for the ineffectiveness
of IDBI according to the Finance Ministry were:

(i) its close association with RBI both having a common
board of directors.

(ii) The Governors and the Deputy Governors were
incapable of shouldering the responsibility cast of
them, and

(iii) The management of RBI had made IDBI a slave of
procedures.

The Government of India delinked IDBI from RBI and made it
an autonomous corporation from February 1976. IDBI recorded an
impressive performance in its operations after it became
autonomous.

**NARASINHAM COMMITTEE (1991) ON IDBI**

The IDBI, as the apex institution in the field of industrial
finance, was playing a dominant role since its inception, and
specially since 1976 when it has taken over by the government. The
IDBI's sanctions and disbursements constituted about 36 percent of
the total sanctions and 40 percent of all disbursement, of all term lending institutions. IDBI was performing two functions:

(i) Direct financing like other DFI, and

(ii) Indirect financing through the system of refinance

This was the basic difference between IDBI and other DFIs.

A major recommendation of the Narasimham Committee was that there should be competitive efficiency among banks and DFIs. For instance, all the term lending institutions like IFCI, ICICI, IDBI, etc. should compete

(i) for funds from the market and

(ii) in providing lending facilities to the corporate borrowers.

A pre-condition for bringing about such competitive efficiency was the restoration of “a level playing field” between different DFIs. To facilitate the process, the Narsimham Committee proposed that IDBI should give up its direct financing function and perform only apex promotional and refinancing role in respect of other institutions like IFCI, SFCs. SIDBI etc. The direct lending function should be entrusted to a separate finance company, specially set up for this purpose.

The Government of India rejected Narasimham Committee’s recommendation. The Government, however, amended IDBI Act
1964 with a view to restructure IDBI’s Share Capital and empower IDBI to raise equity from the capital market.

**Note:** At several places computer typed Z in place of S. It should be treated as S.