

## Developments in Commercial Banking

### 3. Financial Performance of Scheduled Commercial Banks

2.26 An analysis of the financial performance of SCBs is carried out using a set of financial ratios computed from the income and expenditure and the balance sheets statements of the banks.

2.27 A profitability analysis of the SCBs indicates that the profits of these banks have shown a decline during the year 1998-99. The operating profits of SCBs declined by 4.4 per cent from Rs.14,640.2 crore in 1997-98 to Rs.13,992.3 crore in 1998-99. Accordingly, the ratio of operating profits to total assets declined from 1.84 per cent in 1997-98 to 1.47 per cent in 1998-99 (Chart II.4). The decline in profitability of SCBs can be attributed, *inter alia*, to both the increase in interest expended and the operating losses incurred by nine of these banks. The ratio of net profit to total assets showed a somewhat lesser decline of 0.33 percentage points from 0.82 per cent in 1997-98 to 0.49 per cent in 1998-99, owing to decline in provisions and contingencies of these banks (Chart II.5). The ratio of provisions and contingencies to total assets marginally declined to 0.98 per cent during 1998-99 from 1.02 per cent in 1997-98.

**Table II.5: Consolidated Balance Sheet of Public Sector Banks as on March 31, 1998 and 1999**

Item	(Amount in Rs. crore)											
	Public Sector Bank Group				Nationalised Bank Group				State Bank Group			
	As on March 31, 1998		As on March 31, 1999		As on March 31, 1998		As on March 31, 1999		As on March 31, 1998		As on March 31, 1999	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Liabilities</b>												
1. Capital	16,070.59	2.47	14,405.63	1.87	15,034.79	3.61	13,369.83	2.76	1,035.80	0.44	1,035.80	0.36
2. Reserves & Surplus	24,698.36	3.80	27,446.60	3.56	13,698.68	3.29	15,277.32	3.15	10,999.68	4.72	12,169.28	4.26
3. Deposits	531,723.09	81.87	636,860.16	82.67	358,120.25	85.95	417,583.17	86.20	173,602.84	74.56	219,276.99	76.70
3.1 Demand Deposits	79,916.12	12.30	89,375.33	11.60	44,639.33	10.71	50,158.34	10.35	35,276.79	15.15	39,216.99	13.72
3.2 Savings Bank Deposits	123,301.47	18.98	145,133.62	18.84	84,537.35	20.29	99,214.83	20.48	38,764.12	16.65	45,918.79	16.06
3.3 Term Deposits	328,505.50	50.58	402,351.21	52.23	228,943.57	54.95	268,210.00	55.37	99,561.93	42.76	134,141.21	46.92
4. Borrowings	14,015.50	2.16	18,367.41	2.38	5,068.66	1.22	8,150.32	1.68	8,946.84	3.84	10,217.09	3.57
5. Other Liabilities and Provisions	62,996.40	9.70	73,241.09	9.51	24,738.48	5.94	30,036.47	6.20	38,257.92	16.43	43,204.62	15.11
<b>Total Liabilities</b>	<b>6,49,503.94</b>	<b>100.00</b>	<b>7,70,320.89</b>	<b>100.00</b>	<b>4,16,660.86</b>	<b>100.00</b>	<b>4,84,417.11</b>	<b>100.00</b>	<b>2,32,843.08</b>	<b>100.00</b>	<b>2,85,903.78</b>	<b>100.00</b>
<b>Assets</b>												
1. Cash and balances with RBI	59,846.13	9.21	68,522.04	8.90	40,340.09	9.68	45,142.81	9.32	19,506.04	8.38	23,379.23	8.18
2. Balances with banks and money at call and short notice	47,865.92	7.37	71,018.23	9.22	25,737.26	6.18	31,774.95	6.56	22,128.66	9.50	39,243.28	13.73
3. Investments	227,093.08	34.96	276,802.19	35.93	154,389.68	37.05	181,629.92	37.49	72,703.40	31.22	95,172.27	33.29
3.1 In Govt. Securities (a+b)	155,765.79	23.98	190,982.95	24.79	103,120.91	24.75	120,634.70	24.90	52,644.88	22.61	70,348.25	24.61
a. In India	153,907.88	23.70	188,939.00	24.53	101,415.76	24.34	118,775.99	24.52	52,492.12	22.54	70,163.01	24.54
b. Outside India	1,857.91	0.29	2,043.95	0.27	1,705.15	0.41	1,858.71	0.38	152.76	0.07	185.24	0.06
3.2 In other approved Securities	27,065.14	4.17	25,560.77	3.32	18,022.48	4.33	17,306.52	3.57	9,042.66	3.88	8,254.25	2.89
3.3 In non-approved Securities	44,262.15	6.81	60,258.47	7.82	33,246.29	7.98	43,688.70	9.02	11,015.86	4.73	16,569.77	5.80
4. Loans and Advances	259,646.96	39.98	297,350.28	38.60	162,221.57	38.93	188,925.16	39.00	97,425.39	41.84	108,425.12	37.92
4.1 Bills purchased & discounted	24,007.24	3.70	24,961.76	3.24	14,026.54	3.37	15,032.26	3.10	9,980.70	4.29	9,929.50	3.47
4.2 Cash Credit, Overdrafts, etc.	158,195.93	24.36	170,173.78	22.09	98,615.24	23.67	106,600.26	22.01	59,580.69	25.59	63,573.52	22.24
4.3 Term Loans	77,443.79	11.92	102,214.74	13.27	49,579.79	11.90	67,292.64	13.89	27,864.00	11.97	34,922.10	12.21
5. Fixed Assets	8,251.14	1.27	9,402.84	1.22	6,439.24	1.55	6,813.59	1.41	1,811.90	0.78	2,589.25	0.91
6. Other Assets	46,800.71	7.21	47,225.31	6.13	27,533.02	6.61	30,130.68	6.22	19,267.69	8.27	17,094.63	5.98

**Total Assets** **6,49,503.94** **100.00** **7,70,320.89** **100.00** **4,16,660.86** **100.00** **4,84,417.11** **100.00** **2,32,843.08** **100.00** **2,85,903.78** **100.00**

**Table II.6: Consolidated Balance Sheet of Private Sector Banks as on March 31, 1998 and 1999**

(Amount in Rs. crore)

Item	All Private Sector Bank Group				Old Private Sector Bank Group				New Private Sector Bank Group			
	As on March 31, 1998		As on March 31, 1999		As on March 31, 1998		As on March 31, 1999		As on March 31, 1998		As on March 31, 1999	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Liabilities</b>												
1. Capital	1,589.01	1.97	1,729.07	1.66	440.90	0.80	505.54	0.77	1,148.11	4.44	1,223.53	3.18
2. Reserves & Surplus	3,599.50	4.45	4,221.49	4.06	2,746.86	5.00	3,058.22	4.67	852.64	3.30	1,163.27	3.02
3. Deposits	69,515.78	86.02	86,832.03	83.53	47,778.11	86.92	56,018.70	85.63	21,737.67	84.11	30,813.33	79.97
3.1 Demand Deposits	7,926.60	9.81	11,040.83	10.62	4,996.34	9.09	6,221.59	9.51	2,930.26	11.34	4,819.24	12.51
3.2 Savings Bank Deposits	7,133.35	8.83	9,352.20	9.00	6,388.70	11.62	7,808.59	11.94	744.65	2.88	1,543.61	4.01
3.3 Term Deposits	54,455.83	67.39	66,439.00	63.91	36,393.07	66.21	41,988.52	64.18	18,062.76	69.89	24,450.48	63.46
4. Borrowings	1,908.97	2.36	5,522.07	5.31	1,140.83	2.08	2,423.94	3.71	768.14	2.97	3,098.13	8.04
5. Other Liabilities and Provisions	4,197.57	5.19	5,649.29	5.43	2,859.19	5.20	3,416.68	5.22	1,338.38	5.18	2,232.61	5.79
<b>Total Liabilities</b>	<b>80,810.83</b>	<b>100.00</b>	<b>1,03,953.95</b>	<b>100.00</b>	<b>54,965.89</b>	<b>100.00</b>	<b>65,423.08</b>	<b>100.00</b>	<b>25,844.94</b>	<b>100.00</b>	<b>38,530.87</b>	<b>100.00</b>
<b>Assets</b>												
1. Cash and balances with RBI	7,639.40	9.45	8,622.28	8.29	5,385.03	9.80	5,868.64	8.97	2,254.37	8.72	2,753.64	7.15
2. Balances with banks and money at call and short notice	5,955.81	7.37	8,690.65	8.36	4,093.92	7.45	5,345.03	8.17	1,861.89	7.20	3,345.62	8.68
3. Investments	26,492.54	32.78	36,493.76	35.11	17,766.17	32.32	22,138.50	33.84	8,726.37	33.76	14,355.26	37.26
3.1 In Govt. Securities (a+b)	17,249.31	21.35	22,293.56	21.45	11,709.55	21.30	14,198.78	21.70	5,539.76	21.43	8,094.78	21.01
a. In India	17,120.53	21.19	22,189.17	21.35	11,580.77	21.07	14,094.39	21.54	5,539.76	21.43	8,094.78	21.01
b. Outside India	128.78	0.16	104.39	0.10	128.78	0.23	104.39	0.16	-	-	-	-
3.2 In other approved Securities	1,383.58	1.71	1,539.41	1.48	1,317.76	2.40	1,348.51	2.06	65.82	0.25	190.90	0.50
3.3 In non-approved Securities	7,859.65	9.73	12,660.79	12.18	4,738.86	8.62	6,591.21	10.07	3,120.79	12.08	6,069.58	15.75
4. Loans and Advances	35,206.15	43.57	42,791.52	41.16	24,143.61	43.92	27,751.25	42.42	11,062.54	42.80	15,040.27	39.03
4.1 Bills purchased & discounted	7,415.88	9.18	8,869.61	8.53	4,034.04	7.34	4,300.39	6.57	3,381.84	13.09	4,569.22	11.86
4.2 Cash Credit, Overdrafts, etc.	18,864.63	23.34	21,796.93	20.97	13,331.47	24.25	14,975.72	22.89	5,533.16	21.41	6,821.21	17.70
4.3 Term Loans	8,925.64	11.05	12,124.98	11.66	6,778.10	12.33	8,475.14	12.95	2,147.54	8.31	3,649.84	9.47
5. Fixed Assets	2,417.23	2.99	2,801.99	2.70	1,324.22	2.41	1,346.30	2.06	1,093.01	4.23	1,455.69	3.78
6. Other Assets	3,099.70	3.84	4,553.75	4.38	2,252.94	4.10	2,973.36	4.54	846.76	3.28	1,580.39	4.10
<b>Total Assets</b>	<b>80,810.83</b>	<b>100.00</b>	<b>1,03,953.95</b>	<b>100.00</b>	<b>54,965.89</b>	<b>100.00</b>	<b>65,423.08</b>	<b>100.00</b>	<b>25,844.94</b>	<b>100.00</b>	<b>38,530.87</b>	<b>100.00</b>

**Table II.7: Consolidated Balance Sheet of Foreign Banks in India as on March 31, 1998 and 1999**

(Amount in Rs. crore)

Item	Foreign Bank Group			
	As on March 1998		As on March 1999	
	Amount	% to total	Amount	% to total
1	2	3	4	5
<b>Liabilities</b>				
1. Capital	1,779.75	2.73	2,072.01	2.70
2. Reserves & Surplus	5,705.87	8.77	5,125.37	6.69
3. Deposits	42,829.30	65.79	47,453.36	61.93
3.1 Demand Deposits	7,499.43	11.52	9,156.35	11.95
3.2 Savings Bank Deposits	3,040.93	4.67	3,878.46	5.06
3.3 Term Deposits	32,288.94	49.60	34,418.55	44.92
4. Borrowings	9,856.03	15.14	16,359.00	21.35
5. Other Liabilities and Provisions	4,926.76	7.57	5,613.39	7.33
<b>Total Liabilities</b>	<b>65,097.71</b>	<b>100.00</b>	<b>76,623.13</b>	<b>100.00</b>
<b>Assets</b>				

1.	Cash and balances with RBI	4,104.96	6.31	4,240.34	5.53
2.	Balances with banks and money at call and short notice	6,489.44	9.97	9,207.67	12.02
3.	Investments	18,381.05	28.24	26,337.46	34.37
3.1	In Govt. Securities (a+b)	13,700.68	21.05	16,878.30	22.03
	a. In India	13,700.68	21.05	16,878.30	22.03
	b. Outside India	-	-	-	-
3.2	In other approved Securities	310.87	0.48	304.80	0.40
3.3	In non-approved Securities	4,369.50	6.71	9,154.36	11.95
4.	Loans and Advances	29,313.43	45.03	29,506.75	38.51
4.1	Bills purchased & discounted	2,862.49	4.40	3,234.49	4.22
4.2	Cash Credit, Overdrafts, etc.	10,948.17	16.82	11,706.85	15.28
4.3	Term Loans	15,502.77	23.81	14,565.41	19.01
5.	Fixed Assets	2,092.41	3.21	2,295.62	3.00
6.	Other Assets	4,716.42	7.25	5,035.29	6.57
	<b>Total Assets</b>	<b>65,097.71</b>	<b>100.00</b>	<b>76,623.13</b>	<b>100.00</b>

## Box II.2: Credit-Deposit Ratio of Scheduled Commercial Banks

In recent times, there has been a considerable amount of discussion on the usefulness of credit-deposit ratio (C-D ratio) as a measure of allocation of funds by banks. Credit extended by commercial banks could be in terms of any or combinations of the following: cash credit, overdrafts, demand loans, purchase or discounting of commercial bills and instalment or hire purchase credit. Deposits, on the other hand, consist mainly of demand deposits and term deposits. The C-D ratio provide an indication of the extent of credit deployment for every unit of resource raised.

Total credit extended by scheduled commercial banks showed an increase of around 12 times between 1969 and 1984. The credit-deposit ratio, however, fell by around 7 percentage points to 70.7 per cent by 1984 from 77.4 per cent in 1969. This is reflective of the deployment of resources in increasing measure to meet the statutory liquidity ratio and the cash reserve requirements (Chakravarty Committee, 1985). Subsequently, it declined to 60.7 per cent by 1990 and then to 55.6 per cent by 1995.

Recent trends in the C-D ratio of SCBs indicate that the ratio has declined from 50.3 per cent, as on March 1998 to 47.9 per cent in March 1999. In terms of bank-group, over the period from March 1998 to March 1999, while the ratio has remained at 45.3 per cent for nationalised banks, it has witnessed a significant decline for the State Bank Group (from 56.1 per cent to 49.5 per cent). Other bank groups have also posted moderate to noticeable decline in the C-D ratio over the same period.

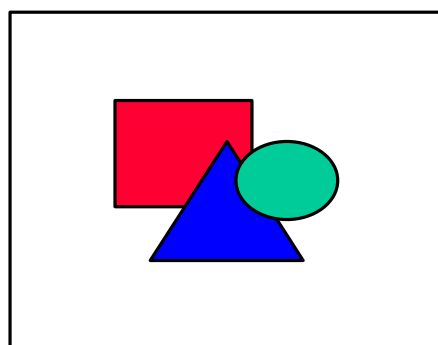
Several indicators of credit deployment have been used in the literature. Of this, the oft-quoted ratio has traditionally been the credit-deposit ratio. It, however, needs to be recognized that the C-D ratio does not serve as a reliable indicator of the trends in mobilisation of deposits and deployment of credit. First, while the amounts of both deposit accretion and credit expansion could be very small, the ratio could be high, giving a misleading picture of the C-D ratio. Secondly, with the introduction of new capital adequacy norms, it is not credit deployment *per se*, but the quality of credit that has become of prime concern to banks. Excessive demand for credit might often lead to adverse selection, resulting in banks resorting to what is popularly referred to as 'credit rationing'. The need to ration credit to doubtful borrowers has been triggered by the necessity on the part of the banks to reduce their quantum of non-performing assets. Finally, to the extent that the C-D ratio does not take into account banks' investment in approved securities other than that in governments, and other marketable instruments, it fails to provide a complete picture of the resource deployment by banks.

The introduction of prudential norms has induced a search for newer ratios that can adequately capture the deployment of resources. Of this, the most used has been the credit and investment in Government securities to deposit ratio, which internalizes the SLR requirements. But as financial markets have widened, and as financial reforms have been undertaken to improve the exposure of banks to marketable debt securities and equities, it has become increasingly clear that it is necessary to view credit and investments in marketable instruments, not all of

which are officially approved, as the flow of banks funds to private sector. Such flows in relation to deposits provide insights about the extent of bank financing out of every unit of resource mobilised.

2.28 The intermediation cost of SCBs measured in terms of the ratio of operating expenses to total assets showed only a negligible increase from 2.63 per cent in 1997-98 to 2.65 per cent in 1998-99. The increasing competition in the banking industry has led to a decline in the 'spread' of SCBs, i.e. net interest income. The spread of SCBs declined from 2.95 per cent in 1997-98 to 2.78 per cent in 1998-99 ([Table II.8](#)).

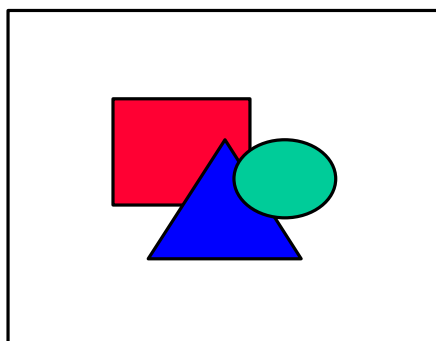
2.29 As a result of the increase in competition among the bank groups and the diversification of activities of banks, the net profit structure of various bank groups has been undergoing changes. An analysis of the net profits structure of SCB groups shows that the share of State Bank of India and its seven Associated Banks (henceforth SBI Group) in the total net profits of SCBs, which was 19.3 per cent in 1991-92, increased to 37.8 per cent in 1997-98 and moved down to 31.5 per cent in 1998-99 ([Chart II.6](#)). The share of nationalised banks in the total net profits of SCBs declined from 43.9 per cent in 1991-92 to 39.5 per cent in 1997-98 and further to 38.5 per cent in 1998-99. As regards foreign banks, their net profits as a proportion to total net profits of SCBs declined from 30.4 per cent in 1991-92 to 9.7 per cent in 1997-98; and then improved substantially to 14.9 per cent in 1998-99. The private sector banks, both old and new, have shown substantial improvements in their shares of net profits. The share of private sector banks in the total net profits of SCBs has shown a more than two-fold increase from 6.4 per cent in 1991-92 to 15.2 per cent in 1998-99 ([Chart II.6](#)).



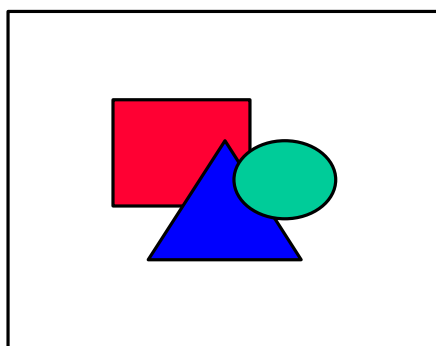
### Public Sector Banks

2.30 The banking sector in India has been characterised by the predominance of public sector banks (PSBs) with more than 80 per cent share in the total assets of SCBs. An analysis of the combined performance of 27 PSBs shows that the operating profits of these banks increased by 2.96 per cent from Rs.10,273.7 crore in 1997-98 to Rs.10,577.5 crore in 1998-99. The ratio of operating profit to total assets, however, showed a decline from 1.58 per cent in 1997-98 to 1.37 per cent in 1998-99. Similarly, the ratio of net profits to total assets of PSBs also, declined from 0.77 per cent in 1997-98 to 0.42 per cent in 1998-99. The net profits of some of the large-sized PSBs like the State Bank of India, the Bank of India, and the Punjab National Bank came under pressure during the year and this has affected the overall net profits of PSBs ([Table II.9](#)). The net profit ratio of these PSBs was below the SCBs average of 0.49 per cent. A disaggregated analysis of PSBs, indicates that the net profits ratio of 14 PSBs was above the average net profit ratio of SCBs. The ratio of intermediation cost to total assets of PSBs (i.e. operating expenses) at

2.65 per cent during 1998-99 almost remained unchanged as compared with last year (2.66 per cent). The 'spread' of public sector banks has shown a marginal decline from 2.91 per cent in 1997-98 to 2.81 per cent in 1998-99 ([Table II.9](#)).



2.31 To enable the public sector banks to perform in a more competitive manner, the Government of India has adopted the policy of providing autonomous status to these banks subject to certain benchmarks. The criteria for grading a bank and considering it eligible for autonomous status were set out in the Union Budget presented in March 1998<sup>2</sup>. Based on these criteria, the eligibility for autonomous status is indicated in column (8) of [Table II.10](#). So far, as at end-March 31, 1999 as many as 17 (out of 27) PSBs have become eligible for autonomous status of various banks. Appendix [Tables II.4 \(A\)](#), [II.4 \(B\)](#), [II.4 \(C\)](#), [II.4 \(D\)](#), [II.4 \(E\)](#), [II.4 \(F\)](#), [II.4 \(G\)](#), [II.4 \(H\)](#), [II.4 \(I\)](#) present bank-wise data in respect of certain financial parameters for public sector banks.



**Table II.8: Financial Performance of Scheduled Commercial Banks for the years 1997-98 and 1998-99**

Item	1997-98	1998-99	(Rs. crore)	
			Variation of	
			Absolute	Percentage
1	2	3	4	5
<b>A. Income (i+ii)</b>	<b>85,856.98</b>	<b>1,00,077.61</b>	<b>14,220.63</b>	<b>16.56</b>
	(100.00)	(100.00)		
i) Interest Income	73,750.62	87,370.07	13,619.45	18.47
	(85.90)	(87.30)		

ii) Other Income	12,106.36 (14.10)	12,707.54 (12.70)	601.18	4.97
<b>B. Expenditure (i+ii+iii)</b>	<b>79,355.14</b> <b>(100.00)</b>	<b>95,418.11</b> <b>(100.00)</b>	<b>16,062.97</b>	<b>20.24</b>
i) Interest Expended	50,299.42 (63.39)	60,904.99 (63.83)	10,605.57	21.08
ii) Provisions and Contingencies	8,138.31 (10.26)	9,332.81 (9.78)	1,194.50	14.68
iii) Operating Expenses	20,917.41 (26.36)	25,180.31 (26.39)	4,262.90	20.38
<i>of which : Wage Bill</i>	14,091.65 (17.76)	16,649.19 (17.45)	2,557.54	18.15
<b>C. Profit</b>				
i) Operating Profit	14,640.15	13,992.31	-647.84	-4.43
ii) Net Profit	6,501.84	4,659.50	-1,842.34	-28.34
<b>D. Total Assets</b>	<b>7,95,412.48</b>	<b>9,50,897.97</b>	<b>1,55,485.49</b>	<b>19.55</b>
<b>E. Financial Ratios (per cent) \$</b>				
i) Operating Profit	1.84	1.47	-0.37	-
ii) Net Profit	0.82	0.49	-0.33	-
iii) Income	10.79	10.52	-0.27	-
iv) Interest Income	9.27	9.19	-0.08	-
v) Other Income	1.52	1.34	-0.18	-
vi) Expenditure	9.98	10.03	0.05	-
vii) Interest Expended	6.32	6.40	0.08	-
viii) Operating Expenses	2.63	2.65	0.02	-
ix) Wage Bill	1.77	1.75	-0.02	-
x) Provisions and Contingencies	1.02	0.98	-0.04	-
xi) Spread (Net Interest Income)	2.95	2.78	-0.17	-

Notes : 1. \$ Ratios to Total Assets.

2. Figures in brackets are percentage shares to the respective total.

**Table II.9: Financial Performance of Public Sector Banks for the years 1997-98 and 1998-99**

Item	1997-98	1998-99	(Rs. crore)	
			Variation of	
			Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
<b>A. Income (i+ii)</b>	<b>67,706.58</b> <b>(100.00)</b>	<b>78,867.07</b> <b>(100.00)</b>	<b>11,160.49</b>	<b>16.48</b>

i) Interest Income	59,076.17 (87.25)	69,474.31 (88.09)	10,398.14	17.60
ii) Other Income	8,630.41 (12.75)	9,392.76 (11.91)	762.35	8.83
<b>B. Expenditure (i+ii+iii)</b>	<b>62,676.91</b> <b>(100.00)</b>	<b>75,608.98</b> <b>(100.00)</b>	<b>12,932.07</b>	<b>20.63</b>
i) Interest Expended	40,173.57 (64.10)	47,839.75 (63.27)	7,666.18	19.08
ii) Provisions and Contingencies	5,244.05 (8.37)	7,319.41 (9.68)	2,075.36	39.58
iii) Operating Expenses	17,259.29 (27.54)	20,449.82 (27.05)	3,190.53	18.49
<i>of which : Wage Bill</i>	12,623.44 (20.14)	14,839.66 (19.63)	2,216.22	17.56
<b>C. Profit</b>				
i) Operating Profit	10,273.72	10,577.50	303.78	2.96
ii) Net Profit	5,029.67	3,258.09	-1,771.58	-35.22
<b>D. Total Assets</b>	<b>6,49,503.94</b>	<b>7,70,320.89</b>	<b>1,20,816.95</b>	<b>18.60</b>
<b>E. Financial Ratios (per cent) \$</b>				
i) Operating Profit	1.58	1.37	-0.21	-
ii) Net Profit	0.77	0.42	-0.35	-
iii) Income	10.42	10.24	-0.18	-
iv) Interest Income	9.10	9.02	-0.08	-
v) Other Income	1.33	1.22	-0.11	-
vi) Expenditure	9.65	9.82	0.17	-
vii) Interest Expended	6.19	6.21	0.02	-
viii) Operating Expenses	2.66	2.65	-0.01	-
ix) Wage Bill	1.94	1.93	-0.01	-
x) Provisions and Contingencies	0.81	0.95	0.14	-
xi) Spread (Net Interest Income)	2.91	2.81	-0.10	-

Notes : 1. \$ Ratios to Total Assets.

2. Figures in brackets are percentage shares to the respective total.

### Nationalised Banks

2.32 The nationalised banks (19) form a predominant part of PSBs. During 1998-99, the assets of the nationalised banks constituted the largest share of 62.9 per cent in the total assets of the PSBs and 50.9 per cent of the total assets of the entire SCBs. An analysis of the financial performance of nationalised banks indicates that the operating profits of these banks increased by 7.0 per cent from Rs.5,541.4 crore in 1997-98 to Rs.5,929.4 crore in 1998-99. The ratio of

operating profits to total assets declined marginally by 0.11 percentage point from 1.33 per cent in 1997-98 to 1.22 per cent in 1998-99. The decline in net profits can be attributed to the decline in the net profits of some of the large-sized banks as discussed earlier. The net profit ratio of nationalised banks has declined from 0.62 per cent in 1997-98 to 0.37 per cent in 1998-99 ([Table II.11](#)). The intermediation cost of nationalised banks showed a marginal decrease from 2.65 per cent in 1997-98 to 2.63 per cent in 1998-99. The 'spread' of nationalised banks was at 2.79 per cent during 1998-99 as against 2.78 per cent during 1997-98.

### State Bank of India and Associates

2.33 The State Bank of India and its 7 Associated banks constitute the second largest segment of the PSBs. During the year 1998-99, the total assets of the State Bank of India and its 7 Associated Banks accounted for 37.1 per cent of the assets of the PSBs. As a proportion to the total assets of the entire SCB sector, the total assets of the SBI group constituted 30.1 per cent in 1998-99. As regards the flow of assets, the total assets of SBI group have shown an increase of 22.8 per cent from Rs.2,32,843.1 crore as on March 31, 1998 to Rs.2,85,903.8 crore as on March 31, 1999.

2.34 An analysis of the financial performance of the SBI group indicates that the operating profits of SBI group recorded a decline of 1.78 per cent from Rs.4,732.3 crore in 1997-98 to Rs.4,648.1 crore in 1998-99. The ratio of operating profit to total assets also declined by 0.40 percentage points from 2.03 per cent in 1997-98 to 1.63 per cent in 1998-99. ([Table II.12](#)). The ratio of provisions and contingencies to total assets increased by 0.13 percentage point from 0.98 per cent in 1997-98 to 1.11 per cent in 1998-99. As a result, the ratio of net profits to total assets showed a decline of 0.55 percentage point from 1.06 per cent in 1997-98 to 0.51 per cent in 1998-99. The ratio of 'intermediation cost' to total assets was 2.70 per cent during 1998-99 as against 2.68 per cent during 1997-98. The 'spread' of SBI group during the year 1998-99 showed a substantial decline from 3.14 per cent in 1997-98 to 2.85 per cent in 1998-99.

### Indian Private Sector Banks

2.35 With a view to infusing more competition in the banking sector, the policy of providing autonomous status to the public sector banks, as discussed earlier, has been further supplemented by the policy of encouraging the setting up of more private sector banks. So far, in addition to the 25 old private sector banks, as many as 9 new private sector banks have been established.

**Table II.10: Public Sector Banks - List of Banks Eligible for Autonomous Status as on March 31, 1999**

Name of the Bank	(Amount in Rs. crore)						
	Net Profit as on			CRAR	% of net NPA's to net advances as on 31.3.1999	Net owned funds	Banks Eligible for Autonomy
	March 31, 1997	March 31, 1998	March 31, 1999				
1	2	3	4	5	6	7	8
State Bank of India	1,349.25	1,861.20	1,027.80	12.51	7.18	10,402.30	xxx
State Bank of Bikaner & Jaipur	40.48	90.48	91.88	12.26	10.45	419.35	



State Bank of Hyderabad	52.45	97.12	111.53	10.65	8.78	496.09	xxx
State Bank of Indore	17.06	27.71	31.04	12.35	10.10	193.93	
State Bank of Mysore	40.24	50.54	33.58	10.23	10.55	242.49	
State Bank of Patiala	59.03	143.01	101.20	12.47	8.23	657.70	xxx
State Bank of Saurashtra	108.29	126.41	25.36	14.35	7.70	412.12	xxx
State Bank of Travancore	40.25	63.30	43.27	10.27	10.80	381.10	
Allahabad Bank	64.30	129.21	135.00	10.38	12.54	849.07	
Andhra Bank	35.70	75.25	90.04	11.02	4.26	491.57	xxx
Bank of Baroda	276.53	461.35	421.44	13.30	7.70	2,898.44	xxx
Bank of India	360.02	364.51	201.14	10.55	7.28	2,406.66	xxx
Bank of Maharashtra	47.19	56.29	51.89	9.76	8.72	478.25	xxx
Canara Bank	147.40	203.02	225.06	10.96	7.09	2,412.81	xxx
Central Bank of India	150.83	174.89	146.25	11.88	9.79	1,722.92	
Corporation Bank	125.13	166.87	192.03	13.20	1.98	974.60	xxx
Dena Bank	72.91	105.04	110.09	11.14	7.67	696.69	xxx
Indian Bank	-389.09	-301.50	-778.50	Neg.	21.67	-283.25	
Indian Overseas Bank	104.51	113.06	55.34	10.15	7.30	718.63	xxx
Oriental Bank of Commerce	180.25	210.00	230.12	14.10	4.50	1,231.48	xxx
Punjab & Sind Bank	20.00	65.09	60.45	10.94	10.48	373.80	
Punjab National Bank	237.71	477.35	372.12	10.79	8.96	1929.75	xxx
Syndicate Bank	66.96	82.66	142.58	9.57	3.93	698.40	xxx
UCO Bank	-176.23	-96.22	-67.77	9.63	10.83	830.30	
Union Bank of India	215.68	250.10	160.22	10.09	8.70	1,682.62	xxx
United Bank of India	-113.64	9.62	14.70	9.60	14.70	562.93	
Vijaya Bank	18.96	23.31	30.23	10.00	6.72	410.15	xxx

Note: Based on the eligibility criteria prescribed by the government, the banks eligible for autonomous status have been identified at our end and are denoted by 'xxx' in the last column (8).

**Table II.11: Financial Performance of Nationalised Banks for the years 1997-98 and**

**1998-99**

Item	1997-98	1998-99	(Rs. crore)	
			Variation of	
			Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
<b>A. Income (i+ii)</b>	<b>42,835.47</b>	<b>49,517.66</b>	<b>6,682.19</b>	<b>15.60</b>
	<b>(100.00)</b>	<b>(100.00)</b>		
i) Interest Income	37,867.33	44,348.16	6,480.83	17.11
	(88.40)	(89.56)		
ii) Other Income	4,968.14	5,169.50	201.36	4.05
	(11.60)	(10.44)		
<b>B. Expenditure (i+ii+iii)</b>	<b>40,265.57</b>	<b>47,725.23</b>	<b>7,459.66</b>	<b>18.53</b>
	<b>(100.00)</b>	<b>(100.00)</b>		
i) Interest Expended	26,269.42	30,856.91	4,587.49	17.46
	(65.24)	(64.66)		
ii) Provisions and Contingencies	2,971.48	4,137.01	1,165.53	39.22
	(7.38)	(8.67)		
iii) Operating Expenses	11,024.67	12,731.31	1,706.64	15.48
	(27.38)	(26.68)		
<i>of which : Wage Bill</i>	7,952.95	9,346.79	1,393.84	17.53
	(19.75)	(19.58)		
<b>C. Profit</b>				
i) Operating Profit	5,541.38	5,929.44	388.06	7.00
i.a) Operation profits exclusive of income from recapitalisation bonds	3,839.45	3,969.58	130.13	3.39
ii) Net Profit	2,569.90	1,792.43	-777.47	-30.25
ii.a) Net Profit exclusive of income from recapitalisation bonds	867.97	-167.43	-1,035.40	-119.29
<b>D. Total Assets</b>	<b>4,16,660.86</b>	<b>4,84,417.11</b>	<b>67,756.25</b>	<b>16.26</b>
<b>E. Financial Ratios (per cent) \$</b>				
i) Operating Profit	1.33	1.22	-0.11	-
i.a) Operating Profits exclusive of recapitalisation bonds	0.92	0.82	-0.10	-
ii) Net Profit	0.62	0.37	-0.25	-
ii.a) Net Profits exclusive of recapitalisation bonds	0.21	-0.03	-0.24	-
iii) Income	10.28	10.22	-0.06	-
iv) Interest Income	9.09	9.15	0.06	-
v) Other Income	1.19	1.07	-0.12	-
vi) Expenditure	9.66	9.85	0.19	-
vii) Interest Expended	6.30	6.37	0.07	-
viii) Operating Expenses	2.65	2.63	-0.02	-
ix) Wage Bill	1.91	1.93	0.02	-
x) Provisions and Contingencies	0.71	0.85	0.14	-
xi) Spread (Net Interest Income)	2.78	2.79	0.01	-
xi.a) Spread exclusive of recapitalisation bonds	2.38	2.38	0.00	-

Notes : 1. \$ Ratios to Total Assets.

2. Figures in brackets are percentage shares to the respective total.

**Table II.12: Financial Performance of State Bank of India and its Associates for the years 1997-98 and 1998-99**

Item	1997-98	1998-99	(Rs. crore)	
			Variation of	
			Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
<b>A. Income (i+ii)</b>	<b>24,871.11</b>	<b>29,349.41</b>	<b>4,478.30</b>	<b>18.01</b>
	<b>(100.00)</b>	<b>(100.00)</b>		
i) Interest Income	21,208.84	25,126.15	3,917.31	18.47
	(85.28)	(85.61)		
ii) Other Income	3,662.27	4,223.26	560.99	15.32
	(14.72)	(14.39)		
<b>B. Expenditure (i+ii+iii)</b>	<b>22,411.34</b>	<b>27,883.75</b>	<b>5,472.41</b>	<b>24.42</b>
	<b>(100.00)</b>	<b>(100.00)</b>		
i) Interest Expended	13,904.15	16,982.84	3,078.69	22.14
	(62.04)	(60.91)		
ii) Provisions and Contingencies	2,272.57	3,182.40	909.83	40.04
	(10.14)	(11.41)		
iii) Operating Expenses	6,234.62	7,718.51	1,483.89	23.80
	(27.82)	(27.68)		
<i>of which : Wage Bill</i>	4,670.49	5,492.87	822.38	17.61
	(20.84)	(19.70)		
<b>C. Profit</b>				
i) Operating Profit	4,732.34	4,648.06	-84.28	-1.78
ii) Net Profit	2,459.77	1,465.66	-994.11	-40.41
<b>D. Total Assets</b>	<b>2,32,843.08</b>	<b>2,85,903.78</b>	<b>53,060.70</b>	<b>22.79</b>
<b>E. Financial Ratios (per cent) \$</b>				
i) Operating Profit	2.03	1.63	-0.40	-
ii) Net Profit	1.06	0.51	-0.55	-
iii) Income	10.68	10.27	-0.41	-
iv) Interest Income	9.11	8.79	-0.32	-
v) Other Income	1.57	1.48	-0.09	-
vi) Expenditure	9.63	9.75	0.12	-
vii) Interest Expended	5.97	5.94	-0.03	-
viii) Operating Expenses	2.68	2.70	0.02	-
ix) Wage Bill	2.01	1.92	-0.09	-
x) Provisions and Contingencies	0.98	1.11	0.13	-
xi) Spread (Net Interest Income)	3.14	2.85	-0.29	-

Notes : 1. \$ Ratios to Total Assets.

2. Figures in brackets are percentage shares to the respective total.

In 1998-99, the combined assets of these banks (*old* as well as *new*) constituted a share of 10.9 per cent in the total assets of all the SCBs. An analysis of the financial performance of private sector banks indicates that the new private sector banks have performed well above the average of SCBs with the exception of 'spread'.

### Old Private Sector Banks

2.36 The old private sector banks constitute an important part of the private sector banks<sup>3</sup>. In the total assets of private sector banks, the old private sector banks constituted a predominant share of 62.9 per cent during 1998-99. However, in the total assets of the entire SCBs sector, the old private sector banks accounted for a share of only 6.9 per cent during 1998-99. An analysis of financial performance of the old private sector banks indicates that their performance during the year 1998-99 was below the average of SCBs with the exception of intermediation cost.

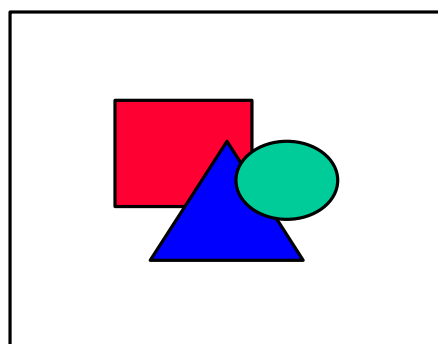
2.37 The old private sector banks registered a substantial decline in their operating profits. The combined operating profits of these banks declined by 26.9 per cent from Rs.1,082.3 crore in 1997-98 to Rs.790.9 crore in 1998-99. As a ratio to total assets, the operating profits of old private sector banks showed a substantial decline from 1.97 per cent in 1997-98 to 1.21 per cent in 1998-99. Among other factors, the increase in both interest expended and operating expenses led to a fall in operating profits. The operating profit ratio of old private sector banks during the year was lower than the average of SCBs operating profit ratio 1.47 per cent. The intermediation cost ratio of old private sector banks was at 2.27 per cent during 1998-99 compared with 2.31 per cent in the previous year. However, the spread of old private sector banks is narrowing down in recent years. The spread of old private sector banks has declined from 2.57 per cent in 1997-98 to 2.16 per cent in 1998-99 ([Table II.13](#)). Bank-wise details of financial indicators of private sector banks (*old* and *new*) are given in Appendix [Tables II.5 \(A\)](#), [II.5 \(B\)](#), [II.5 \(C\)](#), [II.5 \(D\)](#), [II.5 \(E\)](#), [II.5 \(F\)](#), [II.5 \(G\)](#), [II.5 \(H\)](#)

### New Private Sector Banks

2.38 New private sector banks, though small in number, constitute a significant share (37.1 per cent) in the total assets of all private sector banks. The operating profits of these banks declined by 7.47 per cent from Rs.739.6 crore in 1997-98 to Rs.684.3 crore in 1998-99. The ratio of operating profit to total assets showed a decline of 1.08 percentage points from 2.86 per cent in 1997-98 to 1.78 per cent in 1998-99. However, the operating profit ratio of these banks still remained higher than the average operating profit ratio of 1.47 per cent for SCBs in 1998-99.

2.39 The ratio of intermediation cost to total assets of new private sector banks also declined from 1.76 per cent in 1997-98 to 1.74 per cent in 1998-99. During both the years, the intermediation cost of these banks remained the lowest as compared to the total as well as the sub-groups of SCBs ([Chart II.7](#)). A notable feature of the operating cost of these banks is the smaller share of wage-bill as compared to other sub-groups of SCBs. During 1998-99, the wage-bill constituted a share of 17.9 per cent in the operating expenses of new private sector bank group, and such share makes a sharp contrast to the share of 62.1 per cent for old private sector bank group, 73.4 per cent for nationalised bank group, and 71.2 per cent for SBI group. The

'spread' of new private sector bank group declined from 2.23 per cent in 1997-98 to 1.98 per cent in 1998-99 ([Table II.14](#)).



**Table II.13: Financial Performance of Old Indian Private Sector Banks for the years 1997-98 and 1998-99**

Item	1997-98	1998-99	(Rs. crore)	
			Variation of	
			Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
<b>A. Income (i+ii)</b>	<b>6,437.80</b>	<b>7,361.03</b>	<b>923.23</b>	<b>14.34</b>
	<b>(100.00)</b>	<b>(100.00)</b>		
i) Interest Income	5,496.15	6,497.75	1,001.60	18.22
	(85.37)	(88.27)		
ii) Other Income	941.65	863.28	-78.37	-8.32
	(14.63)	(11.73)		
<b>B. Expenditure (i+ii+iii)</b>	<b>5,995.12</b>	<b>7,050.04</b>	<b>1,054.92</b>	<b>17.60</b>
	<b>(100.00)</b>	<b>(100.00)</b>		
i) Interest Expended	4,083.77	5,087.73	1,003.96	24.58
	(68.12)	(72.17)		
ii) Provisions and Contingencies	639.65	479.93	-159.72	-24.97
	(10.67)	(6.81)		
iii) Operating Expenses	1,271.70	1,482.38	210.68	16.57
	(21.21)	(21.03)		
<i>of which : Wage Bill</i>	769.92	919.95	150.03	19.49
	(12.84)	(13.05)		
<b>C. Profit</b>				
i) Operating Profit	1,082.33	790.92	-291.41	-26.92
ii) Net Profit	442.68	310.99	-131.69	-29.75
<b>D. Total Assets</b>	<b>54,965.89</b>	<b>65,423.08</b>	<b>10,457.19</b>	<b>19.02</b>
<b>E. Financial Ratios (per cent) \$</b>				

i) Operating Profit	1.97	1.21	-0.76	-
ii) Net Profit	0.81	0.48	-0.33	-
iii) Income	11.71	11.25	-0.46	-
iv) Interest Income	10.00	9.93	-0.07	-
v) Other Income	1.71	1.32	-0.39	-
vi) Expenditure	10.91	10.78	-0.13	-
vii) Interest Expended	7.43	7.78	0.35	-
viii) Operating Expenses	2.31	2.27	-0.04	-
ix) Wage Bill	1.40	1.41	0.01	-
x) Provisions and Contingencies	1.16	0.73	-0.43	-
xi) Spread (Net Interest Income)	2.57	2.16	-0.41	-

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Notes : 1. \$ Ratios to Total Assets.

2. Figures in brackets are percentage shares to the respective total.