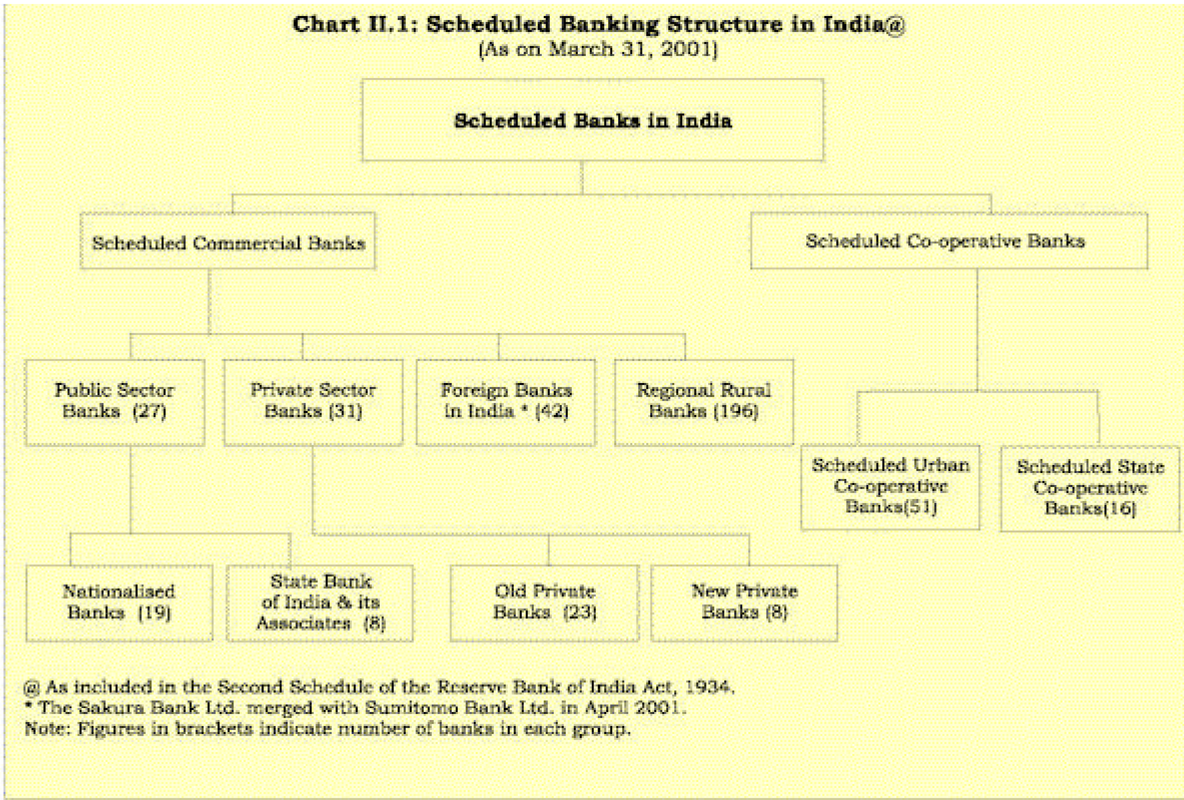
Chapter II

Developments in Commercial Banking

The scheduled banking structure in India consists of banks that are listed in the Second Schedule of the Reserve Bank of India Act, 1934. These scheduled banks comprise commercial banks, regional rural banks, urban co-operative banks and state co-operative banks. As at end-March 2001, 100 commercial banks, 196 regional rural banks, 51 urban co-operative banks and 16 state co-operative banks were operative in India as scheduled banks (Chart II.1). This chapter discusses the operations and performance of commercial banks (including public sector, private sector and foreign banks), and regional rural banks in India for the financial year 2000-01.

2.2 During the year 2000-01, the Indian banking sector continued to respond to the emerging challenges of increased competition and uncertainties. While the prudential and supervisory norms are being brought in conformity with international best practices to further strengthen the stability of the banking system, the ongoing reforms provide greater operational flexibility to commercial banks. In their business strategy, commercial banks exhibited a greater emphasis on product diversification, customer orientation, thrust towards retail banking, adoption of information technology for improved service, better management information systems and risk management, and strategic mergers and acquisitions across bank groups. The major policy measures pertaining to commercial banks during the year are given in Annexure. The overall financial performance of the scheduled commercial banks (SCBs), excluding RRBs, during the year under review, however, was marked by a decline in net profits reflecting higher operating expenses, a deceleration in 'other income' and higher provisions and contingencies. The increase in operating expenses was largely due to allocations for voluntary retirement scheme (VRS). Among the major financial parameters of the banking sector, the growth in income during 2000-01 was 14.9 per cent while that in expenditure was 16.7 per cent. Growth in other income decelerated to 8.8 per cent from 23.5 per cent in the previous year while operating expenditures accelerated to 23.9 per cent from 8.8 per cent, thereby affecting the net profits of the banking sector (Table II.1).



2. 3 In the total assets of all SCBs, excluding RRBs, public sector banks (PSBs) continued to have a dominant share of 79.5 per cent as at end-March 2001 with nationalised banks accounting for 48.4 per cent and the State Bank of India (SBI) and its seven associate banks accounting for 31.1 per cent. The share of private sector banks in the total assets of SCBs stood at 12.6 per cent, with that of old and new private banks being 6.5 per cent and 6.1 per cent, respectively. Foreign banks accounted for the remaining 7.9 per cent (Chart II.2).

1. Reserve Bank Standing Liquidity Facilities

2. 4 The Reserve Bank has been providing accommodation to SCBs in the form of standing liquidity facilities on certain specific considerations. These comprise Collateralised Lending Facility (CLF), export credit refinance to banks and liquidity support to Primary Dealers (PDs). The Liquidity Adjustment Facility (LAF), introduced since June 5, 2000, has emerged as an effective and flexible instrument for influencing liquidity on a day-to-day basis. It could be made more effective only when it becomes the primary instrument of liquidity adjustment and the standing liquidity facilities are gradually replaced with the LAF. The replacement of these facilities has to be structured in stages over a reasonable period so that the transition to LAF as the primary instrument does not cause any serious operational problems for banks and PDs to adjust their asset-liability positions smoothly.

2.5 In the first stage, effective June 5, 2000, the Additional Collateralised Lending Facility (ACLF) to banks and Level II support to PDs were replaced by variable rate repo auctions with the same day settlement. Stage II envisages replacement of Collateralised Lending Facility (CLF) and Level I support to PDs by variable rate repo auctions. As this has to be achieved through various stages, a package of measures was announced in the annual Policy Statement in April 2001 encompassing changes in operating procedures of LAF, a strategy for smooth transition of call money market to pure inter-bank market and a comprehensive programme for rationalisation of liquidity support available to the system as also a set of complementary measures in money and government securities markets. In this stage, the total entitlement under standing liquidity facilities (CLF and export credit refinance) was split into normal facility (constituting two-third) and the back-stop facility (constituting one-third) with effect from May 5, 2001. While liquidity under normal facility is available at the Bank Rate, back-stop facility is provided at a variable daily rate linked to liquidity adjustment facility (LAF) operations/ National Stock Exchange (NSE) - Mumbai Inter-Bank Offer Rate (MIBOR).

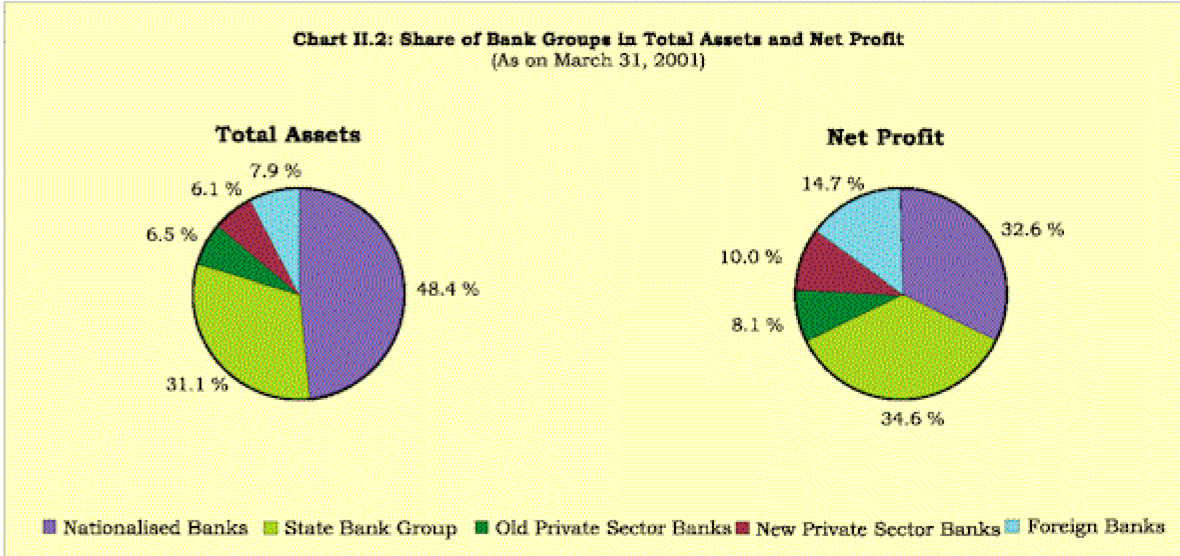


Chart II.2: Share of Bank Groups in Total Assets and Net Profit
(As on March 31, 2001)

Table II.1: Bank Group-wise Important Financial Indicators

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses: Total	Operating Expenses: *Of which* Wage Bill	Provisions & Contin-gencies	Spread (NII)
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
1998-99	13,810.69	4,490.34	1,00,062.00	87,312.04	12,749.96	95,571.66	60,904.99	25,346.32	16,649.52	9,320.35	26,407.05
	(1.45)	(0.47)	(10.52)	(9.18)	(1.34)	(10.05)	(6.41)	(2.67)	(1.75)	(0.98)	(2.78)
1999-2000	18,306.57	7,245.25	1,14,930.47	99,183.88	15,746.59	1,07,685.22	69,040.58	27,583.32	18,442.49	11,061.32	30,143.30
	(1.66)	(0.66)	(10.40)	(8.97)	(1.42)	(9.74)	(6.25)	(2.50)	(1.67)	(1.00)	(2.73)
2000-01	19,747.04	6,424.10	1,32,078.24	1,14,951.13	17,127.11	1,25,654.14	78,151.87	34,179.33	23,205.53	13,322.94	36,799.26
	(1.52)	(0.50)	(10.20)	(8.88)	(1.32)	(9.70)	(6.04)	(2.64)	(1.79)	(1.03)	(2.84)
Public Sector Banks											
1998-99	10,560.79	3,253.85	78,850.36	69,417.42	9,432.94	75,596.51	47,839.75	20,449.82	14,839.66	7,306.94	21,577.67
	(1.37)	(0.42)	(10.24)	(9.01)	(1.22)	(9.82)	(6.21)	(2.66)	(1.93)	(0.95)	(2.80)
1999-2000	13,042.29	5,116.18	90,911.01	79,413.68	11,497.33	85,794.83	55,374.47	22,494.25	16,394.67	7,926.11	24,039.21
	(1.46)	(0.57)	(10.21)	(8.92)	(1.29)	(9.63)	(6.22)	(2.53)	(1.84)	(0.89)	(2.70)
2000-01	13,792.95	4,316.94	1,03,498.93	90,983.98	12,514.95	99,181.99	61,692.75	28,013.23	20,929.17	9,476.01	29,291.23
	(1.34)	(0.42)	(10.05)	(8.84)	(1.22)	(9.63)	(5.99)	(2.72)	(2.03)	(0.92)	(2.84)
Nationalised Banks											
1998-99	5,912.73	1,788.19	49,500.95	44,291.27	5,209.68	47,712.76	30,856.91	12,731.31	9,346.79	4,124.54	13,434.36
	(1.22)	(0.37)	(10.22)	(9.15)	(1.08)	(9.85)	(6.37)	(2.63)	(1.93)	(0.85)	(2.77)
1999-2000	7,203.15	2,437.00	56,896.43	50,234.01	6,662.42	54,459.43	35,477.41	14,215.87	10,468.28	4,766.15	14,756.60
	(1.30)	(0.44)	(10.27)	(9.06)	(1.20)	(9.83)	(6.40)	(2.57)	(1.89)	(0.86)	(2.66)
2000-01	8,053.33	2,095.09	64,126.52	56,967.11	7,159.41	62,031.43	38,789.64	17,283.55	13,142.78	5,958.24	18,177.47
	(1.28)	(0.33)	(10.23)	(9.09)	(1.14)	(9.90)	(6.19)	(2.76)	(2.10)	(0.95)	(2.90)
State Bank Group											
1998-99	4,648.06	1,465.66	29,349.41	25,126.15	4,223.26	27,883.75	16,982.84	7,718.51	5,492.87	3,182.40	8,143.31
	(1.63)	(0.51)	(10.27)	(8.79)	(1.48)	(9.76)	(5.94)	(2.70)	(1.92)	(1.11)	(2.85)

	(1.74)	(0.80)	(10.11)	(8.67)	(1.44)	(9.32)	(5.91)	(2.46)	(1.76)	(0.94)	(2.76)
2000-01	5,739.62	2,221.85	39,372.41	34,016.87	5,355.54	37,150.56	22,903.11	10,729.68	7,786.39	3,517.77	11,113.76
	(1.42)	(0.55)	(9.77)	(8.44)	(1.33)	(9.22)	(5.68)	(2.66)	(1.93)	(0.87)	(2.76)

Table II.1: Bank Group-wise Important Financial Indicators

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses		Provisions & Contingencies	Spread (NII)
								Total	*Of which* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Old Private Sector Banks											
1998-99	792.15	311.46	7,362.14	6,493.40	868.74	7,050.68	5,087.73	1,482.26	919.95	480.69	1,405.67
	(1.21)	(0.48)	(11.24)	(9.92)	(1.33)	(10.77)	(7.77)	(2.26)	(1.41)	(0.73)	(2.15)
1999-2000	1,333.42	591.68	8,282.11	7,065.08	1,217.03	7,690.43	5,362.85	1,585.84	1,017.48	741.74	1,702.23
	(1.82)	(0.81)	(11.33)	(9.66)	(1.66)	(10.52)	(7.33)	(2.17)	(1.39)	(1.01)	(2.33)
2000-01	1,479.97	522.84	9,091.21	8,052.11	1,039.10	8,568.37	5,931.92	1,679.32	1,037.49	957.13	2,120.19
	(1.75)	(0.62)	(10.75)	(9.52)	(1.23)	(10.13)	(7.01)	(1.98)	(1.23)	(1.13)	(2.51)
New Private Sector Banks											
1998-99	684.28	397.05	4,130.49	3,540.88	589.61	3,733.44	2,776.94	669.27	119.97	287.23	763.94
	(1.78)	(1.03)	(10.72)	(9.19)	(1.53)	(9.69)	(7.21)	(1.74)	(0.31)	(0.75)	(1.98)
1999-2000	1,243.85	569.42	5,407.46	4,478.31	929.15	4,838.04	3,326.60	837.01	163.36	674.43	1,151.71
	(2.11)	(0.97)	(9.18)	(7.60)	(1.58)	(8.21)	(5.64)	(1.42)	(0.28)	(1.14)	(1.95)
2000-01	1,368.97	639.41	7,504.26	6,444.25	1,060.01	6,864.85	4,759.12	1,376.17	248.85	729.56	1,685.13
	(1.74)	(0.81)	(9.53)	(8.18)	(1.35)	(8.71)	(6.04)	(1.75)	(0.32)	(0.93)	(2.14)
Foreign Banks											
1998-99	1,773.47	527.98	9,719.01	7,860.34	1,858.67	9,191.03	5,200.57	2,744.97	769.94	1,245.49	2,659.77
	(2.32)	(0.69)	(12.69)	(10.27)	(2.43)	(12.00)	(6.79)	(3.59)	(1.01)	(1.63)	(3.47)
1999-2000	2,687.01	967.97	10,329.89	8,226.81	2,103.08	9,361.92	4,976.66	2,666.22	866.98	1,719.04	3,250.15
	(3.24)	(1.17)	(12.47)	(9.93)	(2.54)	(11.31)	(6.01)	(3.22)	(1.05)	(2.08)	(3.92)
2000-01	3,105.15	944.91	11,983.84	9,470.79	2,513.05	11,038.93	5,768.08	3,110.61	990.02	2,160.24	3,702.71
	(3.05)	(0.93)	(11.77)	(9.30)	(2.47)	(10.84)	(5.66)	(3.05)	(0.97)	(2.12)	(3.64)

Notes:
1. The numbers of scheduled commercial banks (excluding RRBs) in 1998-99, 1999-2000 and 2000-01 were 105, 101 and 100, respectively.
2. The numbers of foreign banks in 1998-99, 1999-2000 and 2000-01 were 44, 42 and 42, respectively.
3. The numbers of old private banks in 1998-99, 1999-2000 and 2000-01 were 25, 24 and 23, respectively.
4. The numbers of new private banks in 1998-99, 1999-2000 and 2000-01 were 9, 8 and 8, respectively.
5. Figures in brackets are percentages to Total Assets.
6. NII - Net Interest Income.
7. Scheduled commercial banks data for 1999-2000 are as reported in the balance sheets for 2000-01 and hence may not tally with those reported in the *Report on Trend and Progress of Banking in India* 1999-2000, to the extent the figures for 1999-2000 have been revised by some banks.

2.6 In order to further strengthen LAF, a pure inter-bank call/notice money market coupled with the growth of a deep and liquid repo/reverse repo market for non-bank participants, was envisaged. Accordingly, effective May 5, 2001, non-banks are permitted to lend, up to 85 per cent of their average daily lending during 2000-01 in a reporting fortnight.

2.7 With full-fledged LAF and the gradual discontinuation of segmented standing facilities at pre-determined interest rates, the Reserve Bank would gain greater flexibility in the daily liquidity management.

Export Credit Refinance

2.8 During 2000-01, the export credit refinance limits of banks decreased from Rs.10,579 crore (30.6 per cent of outstanding export credit eligible for refinance at Rs.34,576 crore) as on March 24, 2000 to Rs.7,192 crore (18.5 per cent of outstanding export credit eligible for refinance at Rs.38,765 crore) as on March 23, 2001 (Appendix Table II.1). The general trend in utilisation of export credit refinance by banks was, on an average, downward, except during August to November 2000, when the utilisation ranged higher between 80 per cent and 96 per cent, owing to tight liquidity conditions.

2.9 Effective from the fortnight beginning May 5, 2001, scheduled commercial banks are provided export credit refinance to the extent of 15.0 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight. The existing refinance limit as on May 4, 2001 as per the old formula will constitute the minimum limit available to a bank up to March 31, 2002. During the period April-September 2001, it ranged between Rs. 1,135 crore (12.4 per cent of the limits) and Rs. 4,973 crore (69.8 per cent of the limits). Utilisation of this facility remained low on account of improvement in overall liquidity conditions during the period.

Collateralised Lending Facility

2.10 The CLF limits of banks decreased from Rs.3,028 crore as on March 24, 2000 to Rs.657 crore as on March 23, 2001. The daily average utilisation of CLF ranged between Rs.171 crore (13.0 per cent of the limits) and Rs.487 crore (74.1 per cent of the limits). For the period April-October 2001, it ranged between Rs.45 crore (6.9 per cent of the limits) and Rs.239 crore (36.4 per cent of the limits).

Special Facilities

2.11 In the wake of liquidity crisis faced by a few co-operative banks, the Reserve Bank announced, as a temporary measure, a special collateralised liquidity facility for short periods to co-operative banks. Five co-operative banks had approached the Reserve Bank for special liquidity facility during May 14 - June 13, 2001. An amount of Rs. 149.38 crore was sanctioned, out of which Rs. 45 crore was availed and repaid. A private sector bank approached the Reserve Bank with a request for special liquidity support for a short period to tide over its temporary liquidity mismatches. The Reserve Bank after an assessment of the bank's overall assets position, extended a temporary and special collateralised credit facility of Rs.463.50 crore for 81 days ending June 30, 2001.

2. Assets and Liabilities Structure of Scheduled Commercial Banks

2.12 The assets and liabilities of SCBs are analysed on the basis of two sources of data, *viz*., audited balance sheets of banks and returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934. As per the balance sheet data during the year 2000-01, the assets of SCBs, excluding RRBs, increased by 17.1 per cent compared with a growth of 16.3 per cent during 1999-2000. The shares of investments and loans and advances in total assets of SCBs were 38.0 per cent and 40.6 per cent, respectively. During the year under review, the liability structure of SCBs underwent marginal changes. On the liabilities side, capital of SCBs in total liabilities declined from 1.7 per cent at end-March 2000 to 1.5 per cent at end-March 2001, and reserves and surplus declined marginally from 3.9 per cent to 3.8 per cent. The share of deposits in total liabilities increased to 81.5 per cent from 81.1 per cent over the year. Bank group-wise details of the consolidated balance sheets are presented in Tables II.2 , II 3, II 4 II.5. As per Section 42(2) returns, the ratio of cash and balances with RBI to aggregate deposits of SCBs declined to 6.8 per cent as on the last reporting Friday of March 2001, from 7.7 per cent in the comparable period of the previous year, reflecting the reduction in cash reserve ratio of banks during the year (Table II.6).

Deposits

2.13 The aggregate deposits of SCBs during 2000-01(reported under Section 42(2) of the Reserve Bank Act) registered a growth rate of 18.4 per cent (Rs.1,49,274 crore) as compared with that of 13.9 per cent (Rs.99,319 crore) in 1999-2000. This higher growth rate of deposits in 2000-01 can partly be attributable to the inflow of deposits (Rs. 25,662 crore) under the India Millennium Deposits (IMD) scheme. The growth rate of deposits, excluding the IMD inflows, was 15.2 per cent. Both, demand and time deposits recorded higher growth rates of 11.9 per cent and 19.5 per cent, respectively, during 2000-01 as compared with the growth of 8.5 per cent in demand deposits and 15.0 per cent in time deposits in the previous year (Table II.6).

Table II.2: Consolidated Balance Sheet of Scheduled Commercial Banks

(Amount in Rs.crore)

Item	As on March 31, 2000		As on March 31, 2001	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
Liabilities				
1. Capital	18,435.19	1.67	19,094.70	1.47
2. Reserves & Surplus	43,451.85	3.93	48,646.77	3.76
3. Deposits	8,96,695.70	81.11	10,55,233.47	81.49
3.1 Demand Deposits	1,28,490.43	11.62	1,39,685.99	10.79
3.2 Savings Bank Deposits	1,87,977.20	17.00	2,18,716.01	16.89
3.3 Term Deposits	5,80,228.07	52.49	6,96,831.47	53.81
4. Borrowings	45,140.85	4.08	55,421.01	4.28
5. Other Liabilities and Provisions	1,01,740.79	9.20	1,16,578.00	9.00
Total Liabilities	**11,05,464.38**	**100.00**	**12,94,973.95**	**100.00**
Assets				
1. Cash and balances with RBI	84,927.75	7.68	84,503.53	6.53
2. Balances with banks andmoney at call and short notice	81,218.30	7.35	1,05,899.62	8.18
3. Investments	4,12,081.46	37.28	4,91,907.84	37.99
3.1 In Govt. Securities (a+b)	2,86,523.54	25.92	3,52,679.30	27.23
a. In India	2,84,619.10	25.75	3,50,638.83	27.08
b. Outside India	1,904.44	0.17	2,040.47	0.16
3.2 In other approved Securities	25,009.00	2.26	23,947.68	1.85
3.3 In non-approved Securities	1,00,548.92	9.10	1,15,280.86	8.90
4. Loans and Advances	4,44,124.64	40.18	5,25,682.94	40.59
4.1 Bills purchased & discounted	42,357.14	3.83	50,223.79	3.88
4.2 Cash Credit, Overdrafts, etc.	2,43,823.72	22.06	2,85,747.26	22.07
4.3 Term Loans	1,57,943.78	14.29	1,89,711.89	14.65
5. Fixed Assets	15,294.44	1.38	16,208.90	1.25
6. Other Assets	67,817.79	6.13	70,771.12	5.47
Total Assets	**11,05,464.38**	**100.00**	**12,94,973.95**	**100.00**

Source:Balance sheets of respective banks

Table II.3: Consolidated Balance Sheet of Public Sector Banks

(Amount in Rs.crore)

Item	Public Sector Banks				Nationalised Banks				State Bank Group			
	As on March 31, 2000		As on March 31, 2001		As on March 31, 2000		As on March 31, 2001		As on March 31, 2000		As on March 31, 2001	
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	14,233.68	1.60	14,547.08	1.41	13,197.88	2.38	13,511.28	2.16	1,035.80	0.31	1,035.80	0.26
2. Reserves & Surplus	31,818.73	3.57	35,358.25	3.43	17,334.98	3.13	18,998.94	3.03	14,483.75	4.31	16,359.31	4.06
3. Deposits	7,37,280.53	82.78	8,59,376.33	83.45	4,80,992.51	86.79	5,47,258.83	87.30	2,56,288.02	76.19	3,12,117.50	77.47
3.1 Demand Deposits	1,02,423.38	11.50	1,11,138.18	10.79	57,008.07	10.29	60,638.84	9.67	45,415.31	13.50	50,499.34	12.53
3.2 Savings Bank Deposits	1,71,129.96	19.22	1,96,906.73	19.12	1,15,932.31	20.92	1,33,047.88	21.22	55,197.65	16.41	63,858.85	15.85
3.3 Term Deposits	4,63,727.19	52.07	5,51,331.42	53.54	3,08,052.13	55.58	3,53,572.11	56.40	1,55,675.06	46.28	1,97,759.31	49.09
4. Borrowings	19,425.33	2.18	20,084.40	1.95	8,864.93	1.60	8,679.36	1.38	10,560.40	3.14	11,405.04	2.83
5. Other Liabilities and Provisions	87,841.78	9.86	1,00,403.53	9.75	33,815.42	6.10	38,443.71	6.13	54,026.36	16.06	61,959.82	15.38
Total Liabilities	**8,90,600.05**	**100.00**	**10,29,769.59**	**100.00**	**5,54,205.72**	**100.00**	**6,26,892.12**	**100.00**	**3,36,394.33**	**100.00**	**4,02,877.47**	**100.00**
Assets												
1. Cash and balances with RBI	70,791.53	7.95	69,866.39	6.78	45,577.96	8.22	45,341.37	7.23	25,213.57	7.50	24,525.02	6.09
2. Balances with banks												
And money at call and short notice	64,807.92	7.28	82,851.54	8.05	32,892.16	5.94	35,958.21	5.74	31,915.76	9.49	46,893.33	11.64
3. Investments	3,33,192.09	37.41	3,94,107.33	38.27	2,12,123.51	38.28	2,36,915.01	37.79	1,21,068.58	35.99	1,57,192.32	39.02
3.1 In Govt. Securities (a+b)	2,37,188.78	26.63	2,91,556.16	28.31	1,45,642.03	26.28	1,66,991.57	26.64	91,546.75	27.21	1,24,564.59	30.92
a. In India	2,35,358.41	26.43	2,89,592.62	28.12	1,44,132.59	26.01	1,65,317.70	26.37	91,225.82	27.12	1,24,274.92	30.85
b. Outside India	1,830.37	0.21	1,963.54	0.19	1,509.44	0.27	1,673.87	0.27	320.93	0.10	289.67	0.07
3.2 In other approved Securities	23,521.23	2.64	22,318.71	2.17	15,966.52	2.88	15,065.56	2.40	7,554.71	2.25	7,253.15	1.80
3.3 In non-approved Securities	72,482.08	8.14	80,232.46	7.79	50,514.96	9.11	54,857.88	8.75	21,967.12	6.53	25,374.58	6.30
4. Loans and Advances	3,54,071.19	39.76	4,14,627.96	40.26	2,24,818.43	40.57	2,64,237.43	42.15	1,29,252.76	38.42	1,50,390.53	37.33
4.1 Bills purchased & discounted	27,872.87	3.13	34,124.56	3.31	16,088.07	2.90	17,953.87	2.86	11,784.80	3.50	16,170.69	4.01
4.2 Cash Credit, Overdrafts, etc.	2,00,180.77	22.48	2,32,719.96	22.60	1,24,693.75	22.50	1,47,912.93	23.59	75,487.02	22.44	84,807.03	21.05
4.3 Term Loans	1,26,017.55	14.15	1,47,783.44	14.35	84,036.61	15.16	98,370.63	15.69	41,980.94	12.48	49,412.81	12.26
5. Fixed Assets	10,019.73	1.13	10,456.26	1.02	7,126.45	1.29	7,411.10	1.18	2,893.28	0.86	3,045.16	0.76
6. Other Assets	57,717.59	6.48	57,860.11	5.62	31,667.21	5.71	37,029.00	5.91	26,050.38	7.74	20,831.11	5.17
Total Assets	**8,90,600.05**	**100.00**	**10,29,769.59**	**100.00**	**5,54,205.72**	**100.00**	**6,26,892.12**	**100.00**	**3,36,394.33**	**100.00**	**4,02,877.47**	**100.00**

Source:Balance sheets of respective banks

Table II.4: Consolidated Balance Sheet of Private Sector Banks

(Amount in Rs.crore)

Item	All Private Banks				Old Private Banks				New Private Banks			
	As on March 31, 2000		As on March 31, 2001		As on March 31, 2000		As on March 31, 2001		As on March 31, 2000		As on March 31, 2001	
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	1,796.68	1.36	1,877.63	1.15	546.84	0.75	603.91	0.71	1,249.84	2.12	1,273.72	1.62
2. Reserves & Surplus	5,958.65	4.51	6,999.27	4.28	3,369.73	4.61	3,948.28	4.67	2,588.92	4.39	3,050.99	3.87
3. Deposits	1,10,038.63	83.33	1,36,666.66	83.65	63,357.08	86.64	73,746.28	87.17	46,681.55	79.21	62,920.38	79.87
3.1 Demand Deposits	15,428.81	11.68	16,651.86	10.19	7,424.70	10.15	7,594.76	8.98	8,004.11	13.58	9,057.10	11.50
3.2 Savings Bank Deposits	12,015.46	9.10	16,180.25	9.90	9,001.15	12.31	10,345.25	12.23	3,014.31	5.11	5,835.00	7.41
3.3Term Deposits	82,594.36	62.55	1,03,834.55	63.55	46,931.23	64.18	55,806.27	65.96	35,663.13	60.52	48,028.28	60.97
4. Borrowings	6,863.13	5.20	8,519.00	5.21	1,821.22	2.49	1,942.23	2.30	5,041.91	8.56	6,576.77	8.35
5. Other Liabilities and Provisions	7,396.75	5.60	9,317.77	5.70	4,028.07	5.51	4,363.92	5.16	3,368.68	5.72	4,953.85	6.29
Total Liabilities	**1,32,053.84**	**100.00**	**1,63,380.33**	**100.00**	**73,122.94**	**100.00**	**84,604.62**	**100.00**	**58,930.90**	**100.00**	**78,775.71**	**100.00**
Assets												
1. Cash and balances with RBI	10,206.33	7.73	10,732.70	6.57	6,362.48	8.70	5,783.83	6.84	3,843.85	6.52	4,948.87	6.28
2. Balances with banks and money at call and short notice	10,280.91	7.79	12,571.98	7.69	4,941.59	6.76	6,157.93	7.28	5,339.32	9.06	6,414.05	8.14
3. Investments	49,225.58	37.28	62,037.05	37.97	25,712.37	35.16	30,007.96	35.47	23,513.21	39.90	32,029.09	40.66
3.1 In Govt. Securities (a+b)	30,675.57	23.23	37,812.62	23.14	16,356.59	22.37	20,033.36	23.68	14,318.98	24.30	17,779.26	22.57
a. In India	30,601.50	23.17	37,736.69	23.10	16,282.52	22.27	19,957.43	23.59	14,318.98	24.30	17,779.26	22.57
b. Outside India	74.07	0.06	75.93	0.05	74.07	0.10	75.93	0.09	-	-	-	-
3.2 In other approved Securities	1,239.19	0.94	1,262.82	0.77	1,195.15	1.63	1,177.29	1.39	44.04	0.07	85.53	0.11
3.3 In non-approved Securities	17,310.82	13.11	22,961.61	14.05	8,160.63	11.16	8,797.31	10.40	9,150.19	15.53	14,164.30	17.98
4. Loans and Advances	54,195.73	41.04	68,058.44	41.66	31,927.50	43.66	37,972.82	44.88	22,268.23	37.79	30,085.62	38.19
4.1 Bills purchased & discounted	9,884.39	7.49	11,027.34	6.75	4,443.74	6.08	4,996.77	5.91	5,440.65	9.23	6,030.57	7.66
4.2 Cash Credit, Overdrafts, etc.	28,446.37	21.54	34,922.64	21.38	17,320.19	23.69	19,950.57	23.58	11,126.18	18.88	14,972.07	19.01
4.3 Term Loans	15,864.97	12.01	22,108.46	13.53	10,163.57	13.90	13,025.48	15.40	5,701.40	9.67	9,082.98	11.53
5. Fixed Assets	2,972.01	2.25	3,469.07	2.12	1,333.35	1.82	1,433.73	1.69	1,638.66	2.78	2,035.34	2.58
6. Other Assets	5,173.28	3.92	6,511.09	3.99	2,845.65	3.89	3,248.35	3.84	2,327.63	3.95	3,262.74	4.14
Total Assets	**1,32,053.84**	**100.00**	**1,63,380.33**	**100.00**	**73,122.94**	**100.00**	**84,604.62**	**100.00**	**58,930.90**	**100.00**	**78,775.71**	**100.00**

Source: Balance sheets of respective banks

Table II.5: Consolidated Balance Sheet of Foreign Banks in India

(Amount in Rs.crore)

Item	As on March 31, 2000		As on March 31, 2001	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
Liabilities				
1. Capital	2,404.83	2.90	2,669.99	2.62
2. Reserves & Surplus	5,674.47	6.85	6,289.25	6.18
3. Deposits	49,376.54	59.63	59,190.48	58.13
3.1 Demand Deposits	10,638.24	12.85	11,895.95	11.68
3.2 Savings Bank Deposits	4,831.78	5.83	5,629.03	5.53
3.3 Term Deposits	33,906.52	40.94	41,665.50	40.92
4. Borrowings	18,852.39	22.77	26,817.61	26.34
5. Other Liabilities and Provisions	6,502.26	7.85	6,856.70	6.73
Total Liabilities	**82,810.49**	**100.00**	**1,01,824.03**	**100.00**
Assets				
1. Cash and balances with RBI	3,929.89	4.75	3,904.44	3.83
2. Balances with banks and money at call and short notice	6,129.47	7.40	10,476.10	10.29
3. Investments	29,663.79	35.82	35,763.46	35.12
3.1 In Govt. Securities (a+b)	18,659.19	22.53	23,310.52	22.89
a. In India	18,659.19	22.53	23,309.52	22.89
b. Outside India	-	-	1.00	0.00
3.2 In other approved Securities	248.58	0.30	366.15	0.36
3.3 In non-approved Securities	10,756.02	12.99	12,086.79	11.87
4. Loans and Advances	35,857.72	43.30	42,996.54	42.23
4.1 Bills purchased & discounted	4,599.88	5.55	5,071.89	4.98
4.2 Cash Credit, Overdrafts, etc.	15,196.58	18.35	18,104.66	17.78
4.3 Term Loans	16,061.26	19.40	19,819.99	19.46
5. Fixed Assets	2,302.70	2.78	2,283.57	2.24
6. Other Assets	4,926.92	5.95	6,399.92	6.29
Total Assets	**82,810.49**	**100.00**	**1,01,824.03**	**100.00**

Source:Balance sheets of respective banks

2.14 During 2001-02 so far, (up to October 19, 2001), aggregate deposits recorded a growth rate of 9.0 per cent (Rs.86,682 crore) as compared with 9.5 per cent (Rs.77,160 crore) in the corresponding period of the previous year.

Table II.6 : Important Banking Indicators - Scheduled Commercial Banks

(Amount in Rs.crore)

Item	March 26, 1999	March 24, 2000	March 23, 2001	Oct. 20, 2000	Oct. 19, 2001*	Variationsduring the financial year: 1999-2000 over March 26	Variationsduring the financial year: 2000-01* over March 24	Variations during April-October: 2000 over March 24	Variations during April-October: 2001* over March 23
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
1 Total Demand and Time Liabilities @	**8,20,443**	**9,48,358**	**12,09,149**	**10,26,448**	**11,33,480**	**1,27,915**	**1,85,122**	**78,090**	**75,669**
2 Aggregate Deposits (a+b)	**7,14,025**	**8,13,344**	**9,62,618**	**8,90,504**	**10,49,300**	**99,319**	**1,49,274**	**77,160**	**86,682**
						(13.9)	(18.4)	(9.5)	(9.0)
a. Demand Deposits	1,17,423	1,27,366	1,42,552	1,30,934	1,42,283	9,943	15,186	3,568	-269
						(8.5)	(11.9)	(2.8)	(-0.2)
b. Time Deposits	5,96,602	6,85,978	8,20,066	7,59,570	9,07,017	89,376	1,34,088	73,592	86,951
						(15.0)	(19.5)	(10.7)	(10.6)
2a Certificates of Deposit	3,717	1,227	771	1,695	N.A.	-2,490	-456	468	-
						(-67.0)	(-37.2)	(38.1)	-
2b Aggregate Deposits (excl.Certificates of Deposit)	7,10,308	8,12,117	9,61,847	8,88,809	10,49,300	1,01,809	1,49,730	76,692	87,453
						(14.3)	(18.4)	(9.4)	(9.1)
3 Borrowings from RBI	**2,894**	**6,491**	**3,896**	**6,225**	**4,623**	**3,597**	**-2,595**	**-266**	**727**
						(124.3)	**(-40.0)**	**(-4.1)**	**(18.7)**
4 Liability to Banks	**45,204**	**53,838**	**77,088**	**55,073**	**55,554**	**8,634**	**23,250**	**1,235**	**-21,534**
						(19.1)	**(43.2)**	**(2.3)**	**(-27.9)**
5 Bank Credit (a+b)	**3,68,837**	**4,35,958**	**5,11,434**	**4,78,126**	**5,44,125**	**67,121**	**75,476**	**42,168**	**32,691**
						(18.2)	(17.3)	(9.7)	(6.4)
a. Food Credit	16,816	25,691	39,991	33,845	50,280	8,875	14,300	8,154	10,289
						(52.8)	(55.7)	(31.7)	(25.7)
b. Non-food credit	3,52,021	4,10,267	4,71,443	4,44,281	4,93,845	58,246	61,176	34,014	22,402
						(16.5)	(14.9)	(8.3)	(4.8)
6 Investments (a+b)	**2,54,594**	**3,08,944**	**3,70,160**	**3,34,403**	**4,15,545**	**54,350**	**61,216**	**25,459**	**45,385**
						(21.3)	(19.8)	(8.2)	(12.3)
a. Govt. Securities	2,23,217	2,78,456	3,40,035	3,03,958	3,84,663	55,239	61,579	25,502	44,628
						(24.7)	(22.1)	(9.2)	(13.1)
b. Other Approved Sec.	31,377	30,488	30,125	30,445	30,882	-889	-363	-43	757
						(-2.8)	(-1.2)	(-0.1)	(2.5)
7 Cash Balances (a+b)	**67,910**	**62,749**	**65,202**	**77,856**	**78,671**	**-5,161**	**2,453**	**15,107**	**13,469**
						(-7.6)	(3.9)	(24.1)	(20.7)
a. Cash in hand	4,362	5,330	5,658	5,826	6,967	968	328	496	1,309
						(22.2)	(6.2)	(9.3)	(23.1)
b. Balances with RBI	63,548	57,419	59,544	72,030	71,704	-6,129	2,125	14,611	12,160
						(-9.6)	(3.7)	(25.4)	(20.4)
Memorandum Items :									
A Credit-Deposit (CD) Ratio	51.7	53.6	53.1	53.7	51.9				
B Incremental CD Ratio	38.7	67.6	50.6	54.7**	37.7 **				
C Reserve-Deposit Ratio	9.5	7.7	6.8	8.7	7.5				
D Investment/Deposit Ratio	35.7	38.0	38.5	37.6	39.6				
E Investment+Credit/Deposit Ratio	87.3	91.6	91.6	91.2	91.5*				

* Provisional. N.A. Not Available

@ Excluding borrowings from RBI/IDBI/NABARD.

** Over end-March.

Notes: 1. Figures in brackets are percentage variations.
2. Incremental Credit deposit ratio is calculated as ratio of increase in credit to increase in deposits during the financial year.
3. Constituent items may not add up to the totals due to rounding off.

Certificates of Deposit

2.15 The outstanding amount of Certificates of Deposit (CDs) issued by scheduled commercial banks declined from Rs.1,273 crore as on April 21, 2000 to Rs.872 crore as on May 5, 2000. Consequent upon the reduction in the minimum maturity period of CDs to 15 days, with effect from May 3, 2000, CD market picked up and the outstanding amount of CDs issued by SCBs peaked to Rs.1,695 crore as on October 20, 2000. However, as on October 5, 2001, outstanding amount of CDs declined to Rs.823 crore.

2.16 Reflecting the trends in other segments of money market, the typical discount rates (for 3 months maturity) on CDs, which had declined from 11.0 per cent as on April 7, 2000 to 8.5 per cent as on June 16, 2000, started rising and ranged between 10.0 per cent and 10.5 per cent during August - November 2000. Thereafter, reflecting easy liquidity condition, following IMD flows, the discount rates declined from 10.25 percent during the fortnight ended November 17, 2000 to 8.5 per cent in the fortnight ended March 23, 2001 and the outstanding amount of CDs declined gradually to Rs.771 crore as on March 23, 2001. The typical discount rate on CDs with a maturity of one year increased from 10.25 per cent as on March 23, 2000 to 10.50 per cent as on October 20, 2000 and remained there till March 23, 2001. Discount rates on CDs in general, which ranged between 6.3 - 14.1 percent as on October 20, 2000, ranged between 5.5 - 11.0 per cent as on March 23, 2001 (Appendix Table II.2). As on October 5, 2001, the discount rate on CDs ranged between 6.0 per cent and 9.3 per cent.

Bank Credit

2.17 During the year under review, credit extended by SCBs recorded a growth of 17.3 per cent (Rs.75,476 crore), on top of the rise of 18.2 per cent recorded in the previous year. Food credit showed an increase of 55.7 per cent during 2000-01 as compared with the increase of 52.8 per cent during 1999-2000. Non-food credit increased by 14.9 per cent (Rs.61,176 crore) in 2000-01 as compared with the rise of 16.5 per cent in 1999-2000. The credit-deposit ratio in terms of outstandings, moved down marginally to 53.1 per cent as on March 23, 2001from 53.6 per cent as on March 24, 2000. Non-food credit adjusted for non-SLR investments of banks, including bills rediscounted with financial institutions, recorded a growth rate of 16.1 per cent to Rs.5,48,071 crore as at end-March 2001 on top of the growth of 17.8 per cent in the previous year. The (adjusted) non-food credit-deposit ratio in terms of outstandings, was 56.9 per cent as at end-March 2001 as compared with 58.1 per cent as at end-March 2000 (Table II.6 and Table II.7).

2.18 During 2001-02 (upto October 19, 2001) bank credit registered a lower growth of 6.4 per cent (Rs. 32,691 crore) than that of 9.7 per cent (Rs.42,168 crore) in the comparable period of the previous year. Food credit increased by 25.7 per cent (Rs. 10,289 crore) as against an increase of 31.7 per cent (Rs. 8,154 crore) recorded during the comparable period of 2000-01. Non-food credit growth at 4.8 per cent (Rs. 22,402 crore) was lower than that of 8.3 per cent (Rs. 34,014 crore) during the same period of 2000-01. Growth in non-food credit adjusted for SCBs non-SLR investments was lower at Rs. 25,947 crore upto October 19, 2001 as compared with Rs. 37,535 crore during the corresponding period of the previous year, showing a year-on-year growth rate of 12.3 per cent as on October 19, 2001 as against 19.3 per cent as on October 20, 2000. Bank credit (adjusted)- deposit ratio, on the basis of outstandings, was placed lower at 59.5 per cent as on October 19, 2001 as against 61.2 per cent on October 20, 2001.

Investment

2.19 Investments of SCBs in government and other approved securities increased by 19.8 per cent (Rs.61,216 crore) in 2000-01 as compared to a rise of 21.3 per cent (Rs.54,350 crore) in 1999-2000 (Table II.6). On an incremental basis, investment by SCBs in government and other approved securities was equal to 41.0 per cent of their deposits during 2000-01. As on March 23, 2001, SCBs were holding excess investment of about Rs.1,06,000 crore in SLR eligible securities over the statutory prescription of 25 per cent. The investment-deposit ratio, on an outstanding basis, increased to 38.5 per cent as on March 23, 2001 from 38.0 per cent as on March 24, 2000.

2.20 The investments of scheduled commercial banks in government and other approved securities increased by 12.3 per cent (Rs. 45,385 crore) during 2001-02 (upto October 19, 2001) as compared with a rise of 8.2 per cent (Rs. 25,459 crore) in the comparable period of 2000-01. The investment-deposit ratio, on an outstanding basis, increased to 39.6 per cent as on October 19, 2001 from 37.6 per cent as on October 20, 2000.

Table II.7: Scheduled Commercial Banks' Investment in Non-SLR Securities Issued by the Non-Financial Commercial Sector

(Rs.crore)

Outstanding as on	March 27, 1998	March 26, 1999	March 24, 2000	March23, 2001
1	2	3	4	5
1. Commercial Paper	2,443	4,006	5,037	6,984
2. Bonds/Debentures/Preference Shares Issued by	28,545	42,026	53,607	65,460
a) Public Sector Units (PSUs)	18,767	24,169	30,620	38,453
b) Private Corporate Sector	9,778	17,857	22,988	27,006
3. Equity Shares *	1,472	2,343	2,834	3,171
Total	**32,460**	**48,375**	**61,478**	**75,615**

Memorandum Item:				
Loans to Corporates against shares	44	64	20	15

* Issued by PSU and private corporate sector.

Notes: 1. Constituent figures may not add up to totals due to rounding off.
2. Data are based on special fortnightly returns received from SCBs.

Total Flow of Resources to Commercial Sector

2.21 During 2000-01, bank credit increased by Rs. 75,476 crore (17.3 per cent). While food credit increased by Rs.14,300 crore, non-food credit posted a growth of Rs. 61,176 crore (14.9 per cent). Investments by banks in CPs, shares/ bonds/debentures of PSUs and private corporate sector along with bills rediscounted with financial institutions recorded a growth of Rs.14,713 crore (23.8 per cent) as against Rs.13,067 crore (26.8 per cent) in the previous year. Together with these investments, the increase in total flow of resources to commercial sector excluding food credit from SCBs amounted to Rs.75,888 crore (16.1 per cent) in the financial year 2000-01 as compared with the increase of Rs.71,313 crore (17.8 per cent) in the previous year. SCBs' investments in instruments issued by financial institutions and mutual funds increased by Rs. 1,703 crore during 2000-01 as compared with Rs. 3,660 crore in the previous year. Including resource flow through capital issues, GDRs and financial institutions, the commercial sector could raise Rs.1,65,056 crore during 2000-01 compared with Rs.1,60,381 crore in 1999-2000.

2.22 During 2001-02, including non-food credit, investments by banks in CPs, shares/ bonds/debentures of PSUs and private corporate sector, alongwith bills rediscounted with financial institutions and resource flows through capital issues, GDRs and financial institutions, the commercial sector could raise Rs. 67,923 crore upto October 19, 2001, which was lower than the flow of Rs. 81,199 crore in the corresponding period of 2000-01.

Commercial Bill Market

2.23 There was some improvement in activity relating to bill rediscounting during 2000-01. The outstanding amount of commercial bills rediscounted by commercial banks with various financial institutions at Rs.1,013 crore at the end of March 2001 was higher than that of Rs.439 crore during the previous year. The outstanding amount of bills rediscounted was Rs. 1,370 crore in August 2001.

Forward Rate Agreements / Interest Rate Swaps

2.24 There have been sharp increases in volumes in Forward Rate Agreements (FRAs)/ Interest Rate Swaps (IRS) market during 2000-01. The available data indicate that FRAs/IRS transactions, both in terms of number of contracts and outstanding notional principal amount, increased from 216 contracts amounting to Rs.4,249 crore as on March 24, 2000 to 1,521 contracts for Rs.21,504 crore as on March 23, 2001. During the current financial year 2001-02, this market has expanded further to 2,537 contracts amounting to Rs.41,309 crore as on September 7, 2001. Though there is a significant increase in the number and amount of contracts, participation in the market continued to be restricted mainly to foreign and private sector banks, PDs and all-India financial institutions. In a majority of these contracts, NSE-MIBOR was used as a benchmark rate.

Sectoral Deployment of Bank Credit

2.25 The sectoral deployment of gross bank credit during 2000-01 reflects deceleration in credit growth to industry (medium and large) to 10.5 per cent (Rs.15,518 crore) in 2000-01 as compared to 12.9 per cent (Rs.16,803 crore) in the previous year. A similar deceleration was evident in the case of credit to wholesale trade also (6.1 per cent in 2000-01 as against 20.4 per cent in 1999-2000). The growth in credit to 'other sectors' also slowed down to 18.8 per cent in 2000-01 from 19.8 per cent in the previous year. Among other sectors, while the credit to housing, non-banking financial companies, loans to individuals against shares/bonds, non-priority personal loans, advances against fixed deposits and tourism and tourism related hotels decelerated, the credit to real estate sector accelerated. The credit to priority sector registered a growth of 17.1 per cent (2000-01) as against 15.0 per cent (1999-2000). Within the priority sector, credit to other priority sector increased substantially by 34.2 per cent (Rs. 11,858 crore) followed by agriculture by 17.0 per cent (Rs. 7,541 crore) while credit to small scale industries decelerated to 6.0 per cent (Rs.3,188 crore). Export credit recorded a rise of Rs. 4,203 crore (10.7 per cent) and formed 9.3 per cent of the net bank credit during 2000-01 in comparison with a rise of Rs. 3,227 crore (9.0 per cent) during the previous year, constituting 9.8 per cent of the net bank credit (Table II.8).

Industry-wise Deployment of Credit

2.26 The industry-wise credit growth during 2000-01 was the highest in infrastructure at 56.7 per cent (Rs. 4,106 crore), followed by petroleum at 29.0 per cent (Rs. 2,603 crore), gems and jewellery at 21.7 per cent (Rs. 1,175 crore), electricity at 15.5 per cent (Rs. 1,152 crore) and cotton textiles at 13.4 per cent (Rs. 1,562 crore). On the other hand, credit deployment to seven industries (out of 26 industries) showed declines during 2000-01; the major declines were in 'other textiles' at Rs.991 crore (7.6 per cent) and drugs and pharmaceuticals at Rs.304 crore (5.3 per cent). Industrial credit as a percentage of net bank credit decreased to 46.8 per cent in 2000-01 from 50.3 per cent in 1999-2000. The growth in credit to industry decelerated to 9.3 per cent (Rs.18,706 crore) in 2000-01 from 11.8 per cent (Rs.21,134 crore) in 1999-2000 (Table II.9).

Bank Credit to Sick/Weak Industries

2.27 The number of sick/weak industrial units financed by SCBs declined to 3,07,399 as at end-March 2000 from 3,09,013 a year ago. As at the end of March 2000, the outstanding bank credit to these industrial units increased by 21.5 per cent to Rs. 23,656 crore. At this level, bank credit to sick/weak industries as a proportion of the bank credit to the total industrial sector stood at 11.9 per cent as at end-March 2000, as against 10.9 per cent as at end-March 1999 (Appendix Table II.3).

Credit-Deposit Ratio

2.28 As per BSR data[1] the credit-deposit (C-D) ratio of SCBs as on March 31, 2001 (as per sanctions)[2] stood at 58.5 per cent as compared with 56.0 per cent as at end-March 2000. The total flow of resources as reflected in the credit and investment to deposit (IC-D) ratio showed an increase (as per utilisation) for the northern and western regions as at end-March 2000. The IC-D ratio was highest for the western region (78.6 per cent), followed by the southern (75.5 per cent) and the northern (54.8 per cent) regions (Appendix Table II.4).

Table II.8 : Sectoral Deployment of Gross Bank Credit by Major Sectors

(Amount in Rs.crore)

Sectors	Outstanding as on					Variations during			
	March 26, 1999	March 24, 2000	March 23, 2001	July 28, 2000	July 27, 2001	Financial year 1999-2000	2000-01	April-July 2000	2001
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
I. Gross Bank Credit (1+2)	**3,42,012**	**4,00,818**	**4,69,153**	**4,19,532**	**4,80,648**	**58,806**	**68,335**	**18,714**	**11,495**
1. Public Food Procurement Credit	16,816	25,691	39,991	33,182	51,027	8,875	14,300	7,491	11,036
2. Non-Food Gross Bank Credit (A+B+C+D)	3,25,196	3,75,127	4,29,162	3,86,350	4,29,621	49,931 [100.0]	54,035 [100.0]	11,223	459
A. Priority Sectors	**1,14,611**	**1,31,827**	**1,54,414**	**1,35,480**	**1,54,156**	**17,216 (34.5)**	**22,587 (41.8)**	**3,653**	**-258**
(i) Agriculture	39,634	44,381	51,922	45,528	52,076	4,747 (9.5)	7,541 (14.0)	1,147	154
(ii) Small Scale Industries	48,483	52,814	56,002	52,040	53,241	4,331 (8.7)	3,188 (5.9)	-774	-2,761
(iii) Other Priority Sectors	26,494	34,632	46,490	37,912	48,839	8,138 (16.3)	11,858 (21.9)	3,280	2,349
B. Industry (Medium & Large)	**1,30,516**	**1,47,319**	**1,62,837**	**1,52,626**	**1,60,175**	**16,803 (33.7)**	**15,518 (28.7)**	**5,307**	**-2,662**
C.Wholesale Trade (other than Food procurement)	**13,965**	**16,818**	**17,845**	**17,006**	**16,567**	**2,853 (5.7)**	**1,027 (1.9)**	**188**	**-1,278**
D.Other Sectors	**66,104**	**79,163**	**94,066**	**81,238**	**98,723**	**13,059 (26.2)**	**14,903 (27.6)**	**2,075**	**4,657**
of which :									
(i) Housing	11,404	14,100	16,143	14,237	17,891	2,696 (5.4)	2,043 (3.8)	137	1,748
(ii) Consumer durables	3,090	3,855	5,566	4,561	6,793	765	1,711	706	1,227

(iii) Non-banking financial companies	6,082	7,178	7,810	7,138	7,491	1,096 (2.2)	632 (1.2)	-40	-319
(iv) Loans to individuals	1,625	2,146	1,697	2,175	1,454	521 (1.0)	-449 (-0.8)	29	-243
(v) Real Estate Loans	1,625	1,644	1,766	1,596	1,912	19 (0.0)	122 (0.2)	-48	146
(vi) Other non-priority sector personal loans	12,289	15,409	18,064	15,101	18,415	3,120 (6.2)	2,655 (4.9)	-308	351
(vii) Advances against Fixed Deposits	15,106	18,876	19,942	19,126	19,383	3,770 (7.6)	1,066 (2.0)	250	-559
(viii) Tourism and tourism related hotels	612	900	996	1,048	1,473	288 (0.6)	96 (0.2)	148	477
II.Export Credit (included under item I.2)	**35,891**	**39,118**	**43,321**	**39,708**	**38,217**	**3,227**	**4,203**	**590**	**-5,104**
III.Net Bank Credit (including inter-bank participation)	**3,39,477**	**3,98,205**	**4,67,206**	**4,17,697**	**4,78,903**	**58,728**	**69,001**	**19,492**	**11,697**
Memorandum Item : Export Sector credit as per cent to NBC	10.6	9.8	9.3	9.5	8.0				

Notes: 1. Data are provisional and relate to selected scheduled commercial banks (49 banks from March 2001 onwards) which account for about 90-95 per cent of bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank, other approved financial institutions and inter- bank participations. Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

2. Figures in brackets are percentage to variation in non-food gross bank credit.

3. Data on priority sector does not include eligible investments and also differs from that published elsewhere in the Report.

Table II.9 : Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

	Industry	**Outstanding as on**					**Variations during**			
							Financial year		**April-July**	
		March 26, 1999	**March 24, 2000**	**March 23, 2001**	**July 28, 2000**	**July 27, 2001**	**1999-2000**	**2000-01**	**2000**	**2001***
1		2	3	4	5	6	7	8	9	10
							(3-2)	(4-3)	(5-3)	(6-4)
	Industry (Total of Small, Medium and Large Scale)	**1,78,999**	**2,00,133**	**2,18,839**	**2,04,666**	**2,13,416**	**21,134**	**18,706**	**4,533**	**-5,423**
1	Coal	1,114	1,126	1,034	1,038	788	12	-92	-88	-246
2	Mining	1,360	1,240	1,303	1,307	1,210	-120	63	67	-93
3	Iron & Steel	18,291	18,799	19,406	18,700	19,414	508	607	-99	8
4	Other Metals and Metal Products	5,918	6,294	6,351	6,219	6,060	376	57	-75	-291
5	All Engineering	21,513	23,069	23,397	22,891	21,922	1,556	328	-178	-1,475
	of which : Electronics	*(4,872)*	*(5,133)*	*(5,291)*	*(5,475)*	*(5,593)*	*(261)*	*(158)*	*(342)*	*(302)*
6	Electricity	6,813	7,438	8,590	8,435	8,503	625	1,152	997	-87
7	Cotton Textiles	10,430	11,682	13,244	11,940	12,098	1,252	1,562	258	-1,146
8	Jute Textiles	844	894	844	732	729	50	-50	-162	-115
9	Other Textiles	12,000	13,003	12,012	13,497	12,507	1,003	-991	494	495
10	Sugar	3,338	3,832	4,682	4,269	4,629	494	850	437	-53
11	Tea	825	1,034	1,058	993	1,016	209	24	-41	-42
12	Food Processing	4,750	5,986	6,354	5,899	6,660	1,236	368	-87	306
13	Vegetable Oils and *Vanaspati*	2,710	2,958	2,876	2,667	2,649	248	-82	-291	-227
14	Tobacco and Tobacco Products	1,005	993	963	877	714	-12	-30	-116	-249
15	Paper and Paper Products	2,938	3,143	3,468	3,056	3,518	205	325	-87	50
16	Rubber and Rubber products	2,014	2,063	2,195	2,060	2,191	49	132	-3	-4
17	Chemicals, Dyes, Paints, etc.	19,929	23,440	24,065	24,672	24,674	3,511	625	1,232	609
	of which :									
	i) Fertilisers	3,577	4,577	5,233	5,232	5,218	1,000	656	655	-15
	ii) Petro-chemicals	4,748	6,185	6,115	6,824	6,347	1,437	-70	639	232
	iii) Drugs & Pharmaceuticals	5,323	5,693	5,389	5,589	6,156	370	-304	-104	767
18	Cement	2,746	3,624	3,842	3,808	3,648	878	218	184	-194
19	Leather and Leather products	2,542	2,664	2,764	2,522	2,953	122	100	-142	189
20	Gems and Jewellery	4,124	5,406	6,581	5,734	6,616	1,282	1,175	328	35
21	Construction	2,569	2,736	3,175	2,780	3,592	167	439	44	417
22	Petroleum	5,516	8,969	11,572	9,278	7,855	3,453	2,603	309	-3,717
23	Automobiles including trucks	3,128	4,028	4,409	4,109	4,310	900	381	81	-99
24	Computer Software	747	1,022	1,223	1,015	1,353	275	201	-7	130
25	Infrastructure	5,945	7,243	11,349	8,922	11,554	1,298	4,106	1,679	205
	Of which :									
	i) Power	2,109	3,289	5,246	4,192	5,650	1,180	1,957	903	404
	ii) Telecommunications	2,273	1,992	3,644	2,622	3,498	-281	1,652	630	-146
	iii) Roads and Ports	1,563	1,962	2,459	2,108	2,406	399	497	146	-53
26	Other Industries	35,890	37,447	42,082	37,246	42,253	1,557	4,635	-201	171
	Memorandum Item : Industrial Credit as proportion to Net Bank Credit	52.7	50.3	46.8	49.0	44.6				

* Provisional.

Notes : 1. Data relate to selected scheduled commercial banks which account for about 90-95 per cent of bank credit of all scheduled commercial banks.

2. No sign is indicated for positive variations.

Lending to Sensitive Sectors

2.29 The overall exposure of SCBs to the sensitive sector comprising capital market, real estate and commodities[3] stood at Rs.22,318 crore which was 4.3 per cent of total loans and advances as at end-March 2001. Lending to the commodities sector accounted for the largest share of advances of banks within the sensitive sectors (42.0 per cent), followed by real estate (36.8 per cent) and the capital market (21.2 per cent). New private sector banks had an exposure at 11.0 per cent, of their total loans and advances to the sensitive sectors, followed by old private banks (7.7 per cent), nationalised banks (4.3 per cent), foreign banks (4.2 per cent) and the State Bank group (2.0 per cent) (Table II.10).

Stock Prices of Indian Banks

2.30 As on March 31, 2001, there were 11 public sector banks and 19 private sector banks listed for trading on the National Stock Exchange. Movements in bank share prices are given in Table II.11. The share of bank scrips in the total turnover of NSE declined to 1.0 per cent in 2000-01 from 3.7 per cent in 1999-2000 (Table II.12).

Table II.10: Lending to Sensitive Sectors
(As at end-March 2001)

(Rs. crore)

Bank-group	Advances to			Total
	Capital Market	Real Estate	Commodities	
1	2	3	4	5
1. Public Sector Banks	**1,479.34**	**5,622.42**	**7,196.18**	**14,297.94**
	(0.36)	(1.36)	(1.74)	(3.45)
Nationalised Banks	1,362.82	4,268.15	5,719.81	11,350.78
	(0.52)	(1.62)	(2.16)	(4.30)
State Bank Group	116.52	1,354.27	1,476.37	2,947.16
	(0.08)	(0.90)	(0.98)	(1.96)
2. Private Sector Banks	**2,280.48**	**2,060.57**	**1,883.23**	**6,224.28**
	(3.35)	(3.03)	(2.77)	(9.15)
Old Private Sector Banks	535.22	1,184.02	1,210.83	2,930.07
	(1.41)	(3.12)	(3.19)	(7.72)
New Private Sector Banks	1,745.26	876.55	672.40	3,294.21
	(5.80)	(2.91)	(2.23)	(10.95)
3. Foreign Banks in India	**973.15**	**523.79**	**298.89**	**1,795.83**
	(2.26)	(1.22)	(0.70)	(4.18)
Scheduled Commercial Banks (1+2+3)	**4,732.97**	**8,206.78**	**9,378.30**	**22,318.05**
	(0.90)	**(1.56)**	**(1.78)**	**(4.25)**

Note: Figures in brackets are percentage to total loans and advances of the concerned bank-group.

Table II.11: Changes in Share Prices of Banks

	Name of the Bank	Closing Price (Rs.) 1999-2000	Closing Price (Rs.) 2000-01	Percentage Change in Share Price
1		2	3	4
Public Sector Banks				
1	Bank of Baroda	46.00	60.45	31.41
2	Bank of India	15.65	11.40	-27.16
3	Corporation Bank	76.40	110.10	44.11
4	Dena Bank	11.30	8.75	-22.57
5	Indian Overseas Bank	*	7.75	-
6	Oriental Bank of Commerce	36.85	39.80	8.01
7	State Bank of Bikaner & Jaipur	270.00	276.50	2.41
8	State Bank of India	204.75	201.05	-1.81
9	State Bank of Travancore	210.00	240.00	14.29
10	Syndicate Bank Ltd.	10.00	8.90	-11
11	Vijaya Bank	*	7.15	-
	Private Sector Banks			
12	Bank of Punjab Ltd.	14.20	14.55	2.46
13	The Bank of Rajasthan Ltd.	18.40	12.30	-33.15
14	Centurion Bank Ltd.	17.90	11.45	-36.03
15	City Union Bank Ltd.	19.15	23.80	24.28
16	The Federal Bank Ltd.	53.00	45.85	-13.49
17	Global Trust Bank	82.35	35.70	-56.65
18	HDFC Bank	257.20	228.35	-11.22
19	ICICI Bank	267.05	166.50	-37.65

21	IndusInd Bank Ltd.	27.80	14.00	-49.64
22	The Jammu & Kashmir Bank Ltd.	36.15	37.30	3.18
23	The Karur Vysya Bank Ltd.	185.55	273.65	47.48
24	The Karnataka Bank Ltd.	*	70.30	-
25	The Laxmi Vilas Bank Ltd.	38.50	48.55	26.10
26	The Nedungadi Bank Ltd.	108.40	92.00	-15.13
27	The South Indian Bank Ltd.	17.50	22.05	26.00
28	United Western Bank Ltd.	28.50	32.00	12.28
29	UTI Bank Ltd.	39.70	24.95	-37.15
30	Vysya Bank Ltd.	125.30	121.35	-3.15

* Banks got listed in the year 2000-01.

Note : Closing Price figures are of the last trading day of the financial year.

Source : National Stock Exchange.

3. Financial Performance of Scheduled Commercial Banks

2.31 The performance of SCBs at the disaggregated bank group levels in terms of important financial parameters *viz*., operating profit, net profit, income, interest income, other income, expenditure, interest expended, operating expenses, wage bill, provisions and contingencies and spread is analysed in this section.

Table II.12: Turnover details of Bank shares

(Rs. crore)

Item	Turnover	
	1999-2000	2000-01
1	2	3
All Banks	30,982	13,992
Top 5 Banks	29,600	12,226
NSE Total (incl.bank shares)	8,39,051	13,39,511
Per cent of all Banks to NSE Total	3.69	1.00
Per cent of Top 5 Banks to All Banks	95.54	87.38

Source: National Stock Exchange.

2.32 The financial performance of SCBs during 2000-01 has been characterised by a marked decline in net profits on account of higher provisions, despite an improvement in the operating profits of SCBs [Table II.1 and Appendix Table II.5 (A)].

Operating Profit

2.33 The operating profits of SCBs in 2000-01 increased by 7.9 per cent to Rs.19,747 crore as on March 31, 2001. Operating profits of PSBs increased by 5.8 per cent to Rs.13,793 crore driven by 11.8 per cent increase in the operating profits of nationalised banks to Rs.8,053 crore, while those of the State Bank group declined by 1.7 per cent to Rs.5,740 crore in 2000-01. The profits of old private banks increased by 11.0 per cent to Rs.1,480 crore and that of new private banks by 10.1 per cent to Rs.1,369 crore in 2000-01. Foreign banks registered a 15.6 per cent increase in operating profits to Rs.3,105 crore in 2000-01 [Appendix Tables II.5 (A) to (G)].

2.34 Over the year, the ratio of operating profit to total assets, however, recorded a decline for all bank groups. In case of SCBs, the ratio declined from 1.66 per cent in 1999-2000 to 1.52 per cent in 2000-01. The State Bank group recorded a decline from 1.74 per cent to 1.42 per cent in 2000-01and new private sector banks from 2.11 per cent to 1.74 per cent (Table II.13).

2.35 The net profits of SCBs declined by 11.3 per cent to Rs.6,424 crore in 2000-01. Among the bank groups, only new private sector banks recorded an increase of 12.3 per cent in net profits. Net profit of public sector banks and foreign banks declined by 15.6 per cent and 2.4 per cent, respectively [Appendix Tables II.5 (A) to (G)].

2.36 The ratio of net profit to total assets of SCBs declined from 0.66 per cent in 1999-2000 to 0.50 per cent in 2000-01. In the case of PSBs, the ratio declined from 0.57 per cent to 0.42 per cent and within that for the State Bank group from 0.80 per cent to 0.55 per cent. The ratio for individual PSBs excluding two loss making banks are furnished in Chart II.3. In the case of private banks, for new banks, the ratio declined from 0.97 per cent to 0.81 per cent and for the old banks from 0.81 per cent to 0.62 per cent. In respect of foreign banks, the ratio declined from 1.17 per cent to 0.93 per cent (Table II.13 and Chart II.4).

2.37 In order to shore up the profitability amidst increasing competition, particularly private sector banks have resorted among others to mergers and acquisitions in the recent past in consonance with the trends witnessed in developed as well as emerging market economies (Box II.1).

Income

2.38 The income of SCBs recorded an increase of 14.9 per cent to Rs.1,32,078 crore in 2000-01. PSBs recorded an increase of 13.9 per cent in their income to Rs.1,03,499 crore. The State Bank group and nationalised banks recorded a 15.8 per cent and 12.7 per cent increases in income, respectively. New and old private sector banks, respectively, recorded 38.8 per cent and 9.8 per cent increase in income and foreign banks income rose by 16.0 per cent [Appendix Tables II.5 (A) to (G)].

2.39 With the higher increase in total assets (17.1 per cent) than in income (14.9 per cent) the ratio of income to total assets of SCBs declined from 10.40 per cent in 1999-2000 to 10.20 per cent in 2000-01. There was a general decline in this ratio among bank groups during 2000-01 excepting in case of the new private sector banks where the ratio increased from 9.18 per cent in 1999-2000 to 9.53 per cent in 2000-01 (Table II.13).

Interest Income

2.40 The interest income of SCBs increased by 15.9 per cent to Rs.1,14,951 crore in 2000-01. Among the individual bank groups, new private sector banks recorded the highest increase of 43.9 per cent followed by the State Bank group (16.6 per cent), foreign banks (15.1 per cent), old private sector banks (14.0 per cent) and nationalised banks (13.4 per cent) [Appendix Tables II.5 (A) to (G)]. Among individual bank groups, foreign banks had the highest proportion of interest earned on advances/bills in interest income, whereas the proportion of interest income from investments was highest in the case of new private sector banks.

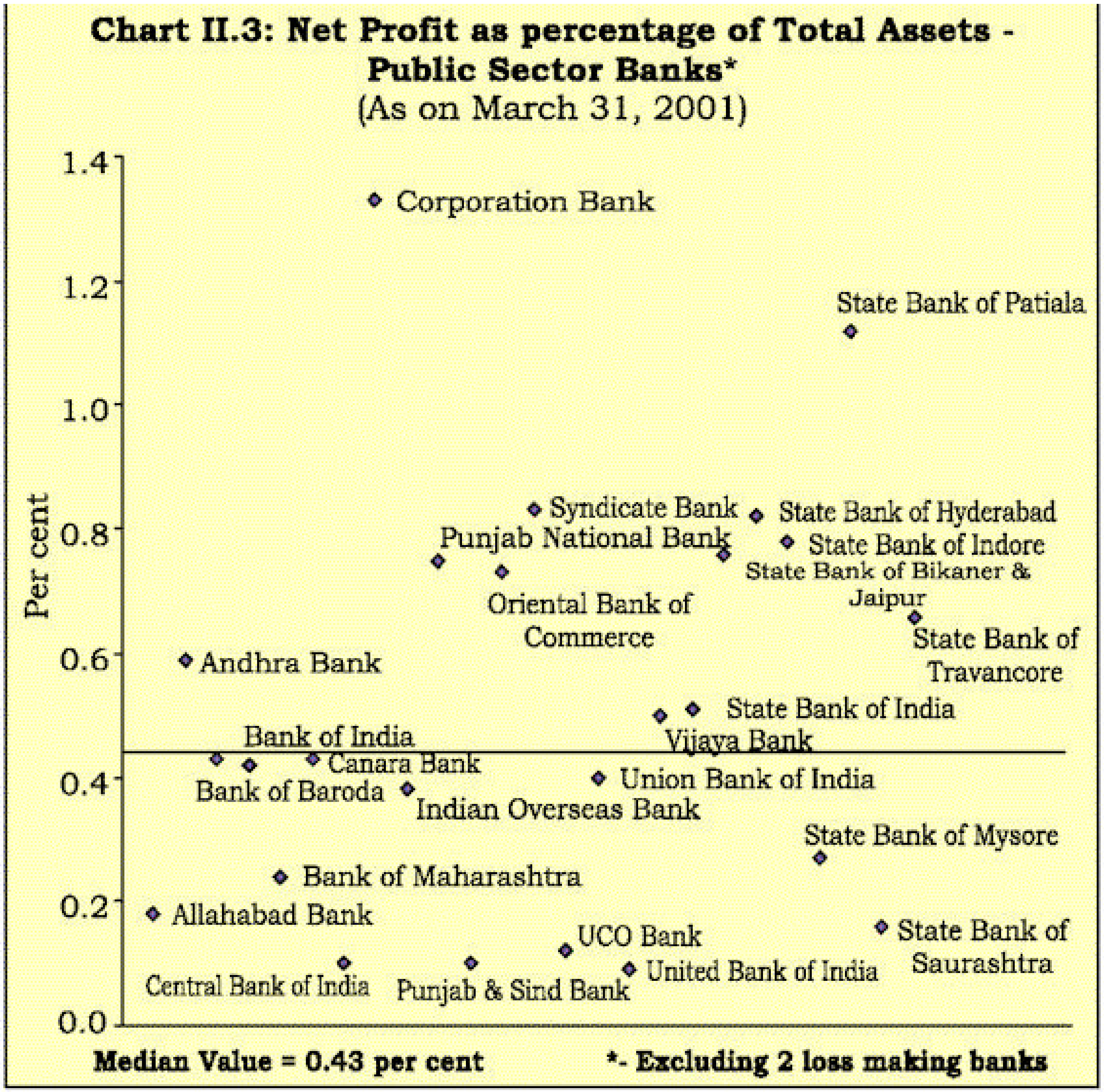


Chart II.3: Net Profit as percentage of Total Assets - Public Sector Banks*
(As on March 31, 2001)
Per cent
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
Corporation Bank
State Bank of Patiala
Syndicate Bank
State Bank of Hyderabad
Punjab National Bank
State Bank of Indore
State Bank of Bikaner & Jaipur
Oriental Bank of Commerce
State Bank of Travancore
Andhra Bank
State Bank of India
Bank of India
Vijaya Bank
Canara Bank
Bank of Baroda
Union Bank of India
Indian Overseas Bank
State Bank of Mysore
Bank of Maharashtra
Allahabad Bank
UCO Bank
State Bank of Saurashtra
United Bank of India
Central Bank of India
Punjab & Sind Bank
Median Value = 0.43 per cent
*- Excluding 2 loss making banks

Chart II.4: Ratio of Net Profit to Total Assets

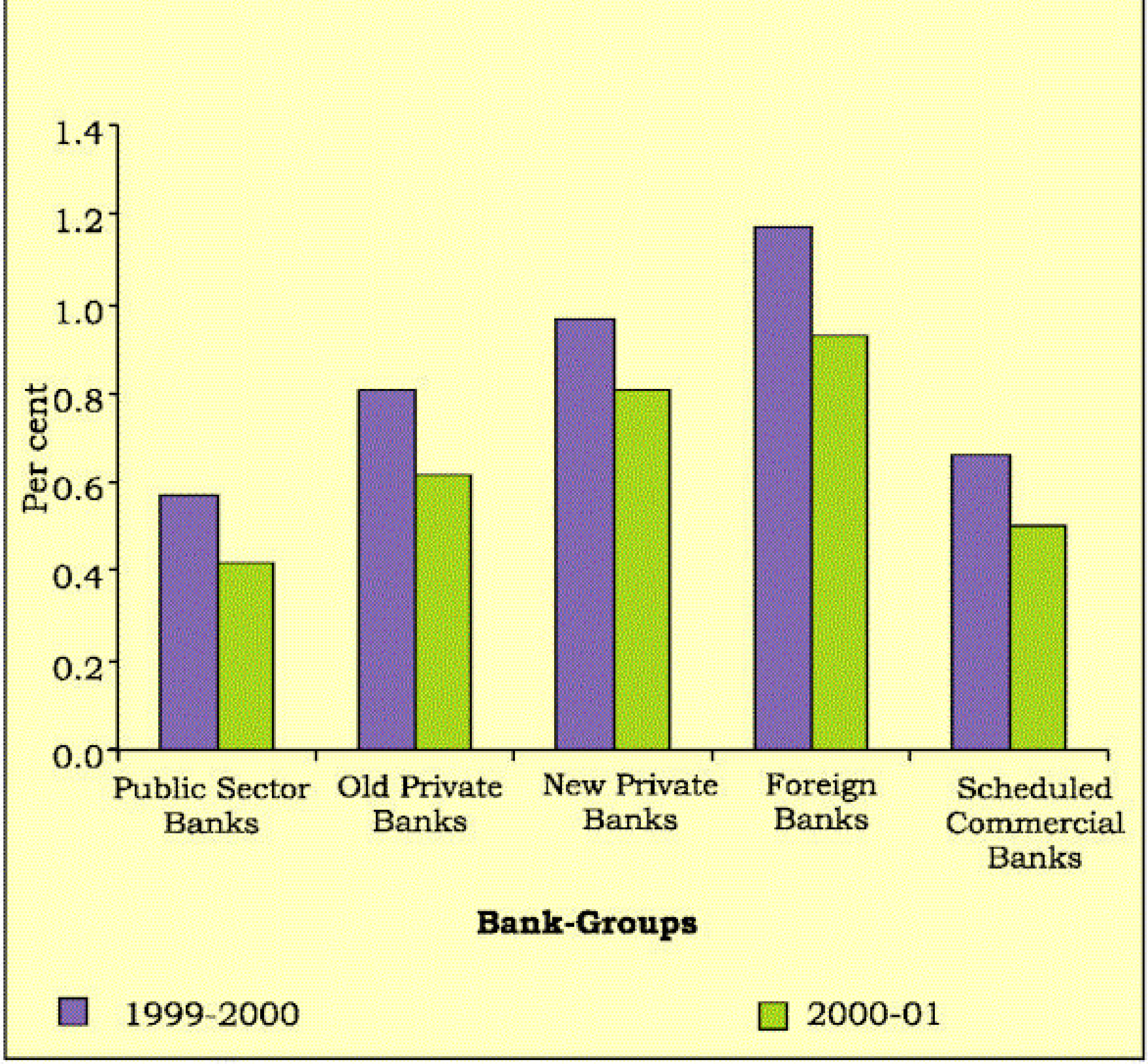


Table II.13: Bank Group-wise Select Indicators of Financial Performance

(As percentage of Total Assets)

Bank Group/ Year	Operating Profit	Net Profit	Income	Interest Income	Other Income	Expen-diture	Interest Expended	Operating Expenses Total	Operating Expenses *of which* Wage Bill	Provisions and Cont-ingencies	Spread
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
1999-2000	1.66	0.66	10.40	8.97	1.42	9.74	6.25	2.50	1.67	1.00	2.73
2000-01	1.52	0.50	10.20	8.88	1.32	9.70	6.04	2.64	1.79	1.03	2.84
Public Sector Banks											
1999-2000	1.46	0.57	10.21	8.92	1.29	9.63	6.22	2.53	1.84	0.89	2.70
2000-01	1.34	0.42	10.05	8.84	1.22	9.63	5.99	2.72	2.03	0.92	2.84
Nationalised Banks											
1999-2000	1.30	0.44	10.27	9.06	1.20	9.83	6.40	2.57	1.89	0.86	2.66
2000-01	1.28	0.33	10.23	9.09	1.14	9.90	6.19	2.76	2.10	0.95	2.90
State Bank Group											
1999-2000	1.74	0.80	10.11	8.67	1.44	9.32	5.91	2.46	1.76	0.94	2.76
2000-01	1.42	0.55	9.77	8.44	1.33	9.22	5.68	2.66	1.93	0.87	2.76
Old Private Sector Banks											

2000-01	1.75	0.62	10.75	9.52	1.23	10.13	7.01	1.98	1.23	1.13	2.51
New Private Sector Banks											
1999-2000	2.11	0.97	9.18	7.60	1.58	8.21	5.64	1.42	0.28	1.14	1.95
2000-01	1.74	0.81	9.53	8.18	1.35	8.71	6.04	1.75	0.32	0.93	2.14
Foreign Banks											
1999-2000	3.24	1.17	12.47	9.93	2.54	11.31	6.01	3.22	1.05	2.08	3.92
2000-01	3.05	0.93	11.77	9.30	2.47	10.84	5.66	3.05	0.97	2.12	3.64

2.41 The ratio of interest income to total assets of SCBs declined from 8.97 per cent in 1999-2000 to 8.88 per cent in 2000-01. The ratio declined in respect of PSBs from 8.92 per cent to 8.84 per cent, the State Bank group from 8.67 per cent to 8.44 per cent, old private banks from 9.66 per cent to 9.52 per cent and foreign banks from 9.93 per cent to 9.30 per cent (Table II.13). The ratio increased for nationalised banks from 9.06 per cent to 9.09 per cent and for new private banks from 7.60 per cent to 8.18 per cent (Chart II.5).

Box II.1: Mergers and Acquisitions in Banking: International Experiences and Indian Evidence

The banking system in many emerging economies is fragmented in terms of the number and size of institutions, ownership, profitability and competitiveness of banks, use of modern technology and other related structural features. Very often, three or four large commercial banks co-exist with a large number of smaller urban and rural banks, or under the influence of the public sector. In general, few commercial banks, even larger ones, are listed on the stock exchange. Profitability varies widely, with some banks earning high returns but operating very inefficiently, and other banks competing fiercely for a narrow segment of the market. Likewise, while some commercial banks in the emerging economies are at the cutting edge of technology and financial innovation, many are still struggling with the basic operations such as credit risk assessment and liquidity management. Finally, recent banking crises have weakened banking systems in a number of countries, and banks in some countries remain on the brink of insolvency.

In this context, bank mergers have been considered as a possible avenue for improving the structure and efficiency of the banking industry. It is possible to categorise the motivations for bank mergers into four *viz.*, cost benefits (economies of scale, organisational efficiency, funding costs and risk diversification), revenue benefits (economies of scope, enhancing monopoly rents), economic conditions (mergers after crises or after the upswing of the business cycle); and other motives (private managerial benefits, defence against takeovers, etc.).

Cross-country experience of bank mergers is suggestive of significant cost and revenue benefits from bank consolidation. *Market-driven* consolidation is a relatively new phenomenon and has been mainly observed in Central European economies. In Hungary, for instance, some 40 institutions are presently competing in the retail and corporate markets. At the same time, Belgium's KBC and ABN Amro merged their Hungarian operations to exploit market synergies. After the large number of bankruptcies of private banks, in Poland and Czech Republic the number of commercial banks declined significantly, with no dominant bank in the corporate sector.

In other economies and especially in Asia, *government-led* consolidation has gained credence, motivated by the need to strengthen capital adequacy and the financial viability of many smaller banks affected by the 1997-98 crisis. The clearest example of this approach is Malaysia's Danamodal, a special purpose institution established with the twin objectives of recapitalising the banks and facilitating consolidation and rationalisation of the banking system. In Philippines, a range of incentives is being offered to the merging banks, including better access to rediscount facilities and temporary relief from certain prudential requirements. In Indonesia, four of the seven state banks existing before the crisis were consolidated into a new state bank (Bank Mandiri). In addition, eight private banks that had been taken over by the Indonesian Bank Restructuring Agency (IBRA) were merged during 2000 into a new institution.

In Latin America, bank mergers arose as a response to inefficient banking structures. In Argentina, bank consolidation has been driven largely by the domestic and external financial liberalisation launched in the early 1990s, and the progressive tightening of prudential regulations. Bank consolidation in Mexico, on the other hand, took place in response to the lack of capital after the 1995 banking crisis.

In view of the global phenomenon of consolidation and convergence, the Report of the Committee on Banking Sector Reforms (Chairman: Shri. M.Narasimham) had suggested mergers among strong banks, both in the public and private sectors and even with financial institutions and NBFCs. The phenomenon of mergers in the banking sector is a relatively recent one in India. There was one merger in the early nineties, *i.e.*, New Bank of India with Punjab National Bank. There has been a spate of mergers in the recent past, *viz.*, 20th Century Finance with Centurion Bank, HDFC Bank with Times Bank and ICICI Bank with Bank of Madura. The table below presents the number of mergers in the banking sector in India over the last three years.

Table: Mergers in Banking Sector in India: 1999 to 2001

Name of the Merging Entity	Name of the Merged Entity	Date of Merger	Post Merger Status (in per cent)		
			CRAR	Net NPA Ratio	Return on Assets
20th Century Finance	Centurion Bank	January 1998	8.45*	4.67*	0.82*
Bareilly Corporation Bank	Bank of Baroda	June 1999	12.10	6.95	0.85
Sikkim Bank	Union Bank of India	December 1999	11.42	7.97	0.29
Times Bank	HDFC Bank	February 2000	12.19	1.01	1.84
Bank of Madura	ICICI Bank	March 2001	11.57**	2.19**	0.82**

* As at end-March 1999. ** As at end-March 2001. All other ratios are as at end-March 2000.

What is important is that the systems for internal controls and risk management are put in place in order to take speedy decisions for offering a wide range of products through multiple delivery channels. In the ultimate analysis, therefore, the success of consolidation efforts will depend on how effectively the banking industry is able to put in place firewalls against financial crises, while blending risks with returns.

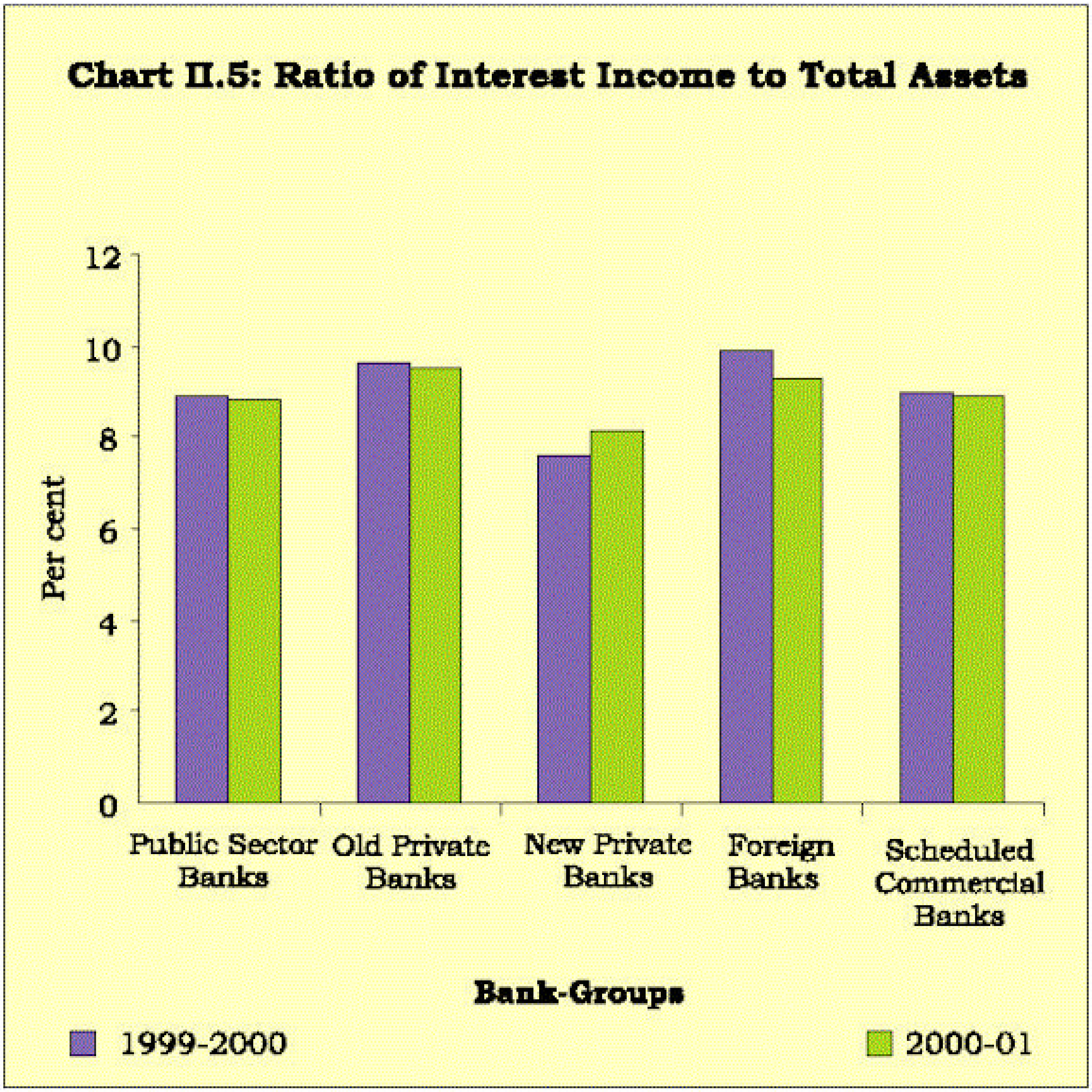
References:

Hawkins, J. and P.Turner (1999), 'Bank Restructuring in Practice: An Overview', in *Bank Restructuring in Practice*, Bank for International Settlements, Switzerland.

Reserve Bank of India, *Annual Report* 1999-2000, Mumbai.

Other Income

2.42 Other income of SCBs registered an increase of 8.8 per cent to Rs.17,127 crore in 2000-01. Among the bank groups, foreign banks recorded the highest increase of 19.5 per cent followed by new private sector banks (14.1 per cent), the State Bank group (10.8 per cent) and nationalised banks (7.5 per cent). On the other hand, old private sector banks recorded a decline of 14.6 per cent to Rs.1,039 crore in other income in 2000-01[Appendix Tables II.5 (A) to (G)].



2.43 Commission, exchange and brokerage constituted around 52.0 per cent of the other income of SCBs, with the proportion being highest in case of PSBs at 52.5 per cent. There was a decline in the ratio of other income to total assets among all bank groups during 2000-01. The ratio of other income to total assets of SCBs declined from 1.42 per cent in 1999-2000 to 1.32 per cent in 2000-01. In the case of PSBs, the ratio declined from 1.29 per cent to 1.22 per cent, the State Bank group from 1.44 per cent to 1.33 per cent, nationalised banks from 1.20 per cent to 1.14 per cent, old private sector banks from 1.66 per cent to 1.23 per cent, new private banks from 1.58 per cent to 1.35 per cent and for foreign banks from 2.54 per cent to 2.47 per cent (Table II.13).

Expenditure

2.44 The expenditure of SCBs registered an increase of 16.7 per cent to Rs.1,25,654 crore in 2000-01. Among the bank groups, new private sector banks recorded the highest increase (41.9 per cent) to Rs.6,865 crore, followed by the State Bank group (18.6 per cent) to Rs.37,151 crore, foreign banks (17.9 per cent) to Rs.11,039 crore, nationalised banks (13.9 per cent) to Rs.62,031 crore and old private sector banks (11.4 per cent) to Rs. 8,568 crore [Appendix Tables II.5 (A) to (G)].

2.45 The ratio of expenditure to total assets of SCBs declined marginally from 9.74 per cent in 1999-2000 to 9.70 per cent in 2000-01. In the case of PSBs, the ratio remained unchanged at 9.63 per cent. For the State Bank group, the ratio fell from 9.32 per cent to 9.22 per cent, old private sector banks from 10.52 per cent to 10.13 per cent and for foreign banks from 11.31 per cent to 10.84 per cent. For the nationalised banks and new private banks, the ratio increased from 9.83 per cent to 9.90 per cent and from 8.21 per cent to 8.71 per cent, respectively (Table II.13).

Interest Expended

2.46 The interest expended by SCBs increased by 13.2 per cent to Rs.78,152 crore in 2000-01. Among the bank groups, new private sector banks exhibited the highest increase of 43.1 per cent and nationalised banks recorded the lowest increase of 9.3 per cent [Appendix Tables II.5 (A) to (G)]. The interest on deposits comprised a substantial portion of interest expended, touching a high of 94.6 per cent for both PSBs and old private banks in 2000-01 and a low of 63.4 per cent for foreign banks in 2000-01. The foreign bank group had a relatively high share of interest expended on borrowings from the Reserve Bank at 29.6 per cent in 2000-01 compared with 2.3 per cent for PSBs.

2.47 The ratio of interest expended to total assets of SCBs declined from 6.25 per cent in 1999-2000 to 6.04 per cent in 2000-01. The decline in this ratio was seen in all the bank groups during 1999-2000, except in the case of new private banks in whose case the ratio increased from 5.64 per cent in 1999-2000 to 6.04 per cent in 2000-01 (Table II.13).

Operating Expenses

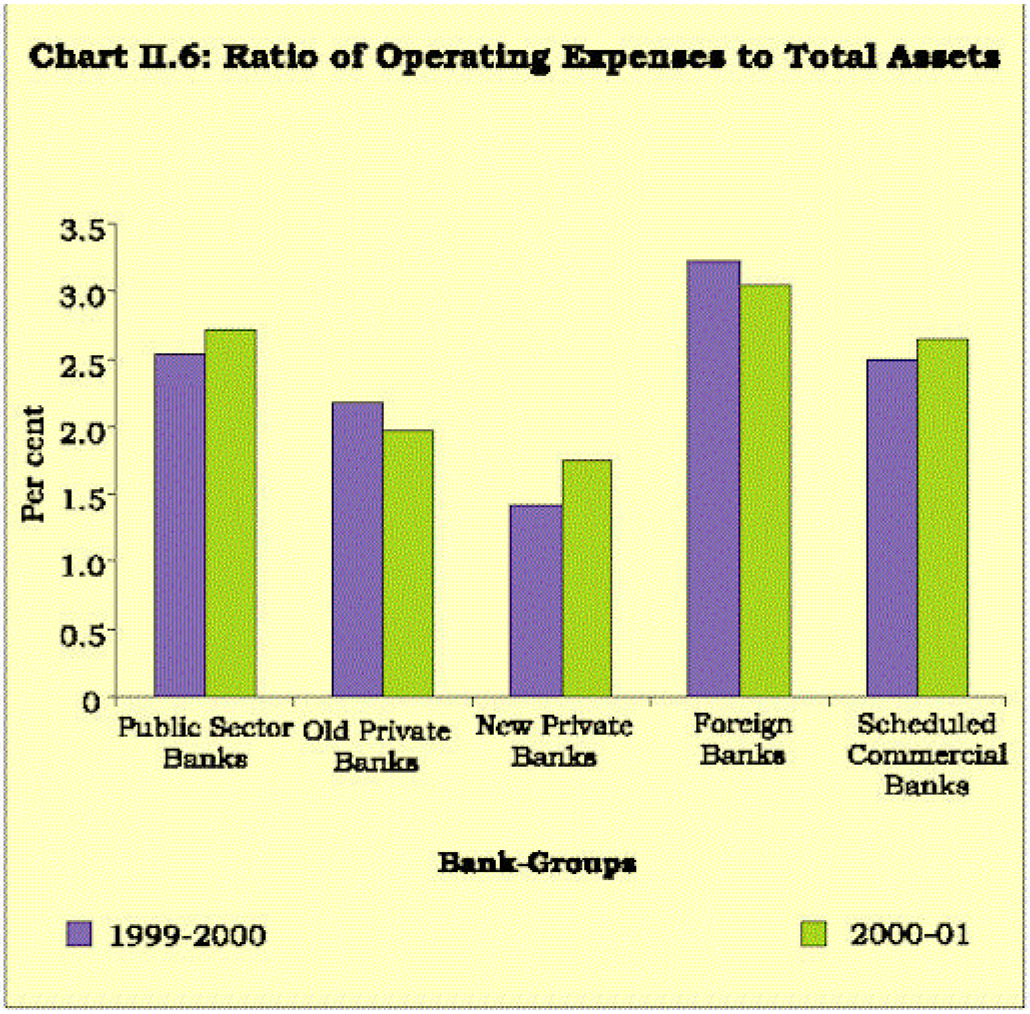
2.48 The operating expenses of SCBs showed an increase of 23.9 per cent to Rs.34,179 crore in 2000-01. Among the bank groups, the new private sector banks registered the highest percentage increase (64.4 per cent), followed by the State Bank group (29.6 per cent), nationalised banks (21.6 per cent), foreign banks (16.7 per cent) and old private sector banks (5.9 per cent) [Appendix Tables II.5 (A) to (G)].

2.49 The ratio of operating expenses to total assets of SCBs increased from 2.50 per cent in 1999-2000 to 2.64 per cent in 2000-01. The ratio increased from 2.53 per cent to 2.72 per cent in the case of PSBs, from 2.57 per cent to 2.76 per cent for nationalised banks, from 2.46 per cent to 2.66 per cent for the State Bank group and from 1.42 per cent to 1.75 per cent for new private sector banks. The ratio declined from 2.17 per cent in 1999-2000 to 1.98 per cent in respect of old private sector banks and from 3.22 per cent to 3.05 per cent for foreign banks (Table II.13 and Chart II.6).

Wage Bill

2.50 The wage bill of SCBs increased by 25.8 per cent to Rs.23,206 crore in 2000-01. Among the bank groups, new private sector banks showed the highest increase (52.3 per cent) followed by the State Bank group (31.4 per cent), while old private banks recorded the lowest increase of 2.0 per cent [Appendix Tables II.5 (A) to (G)].

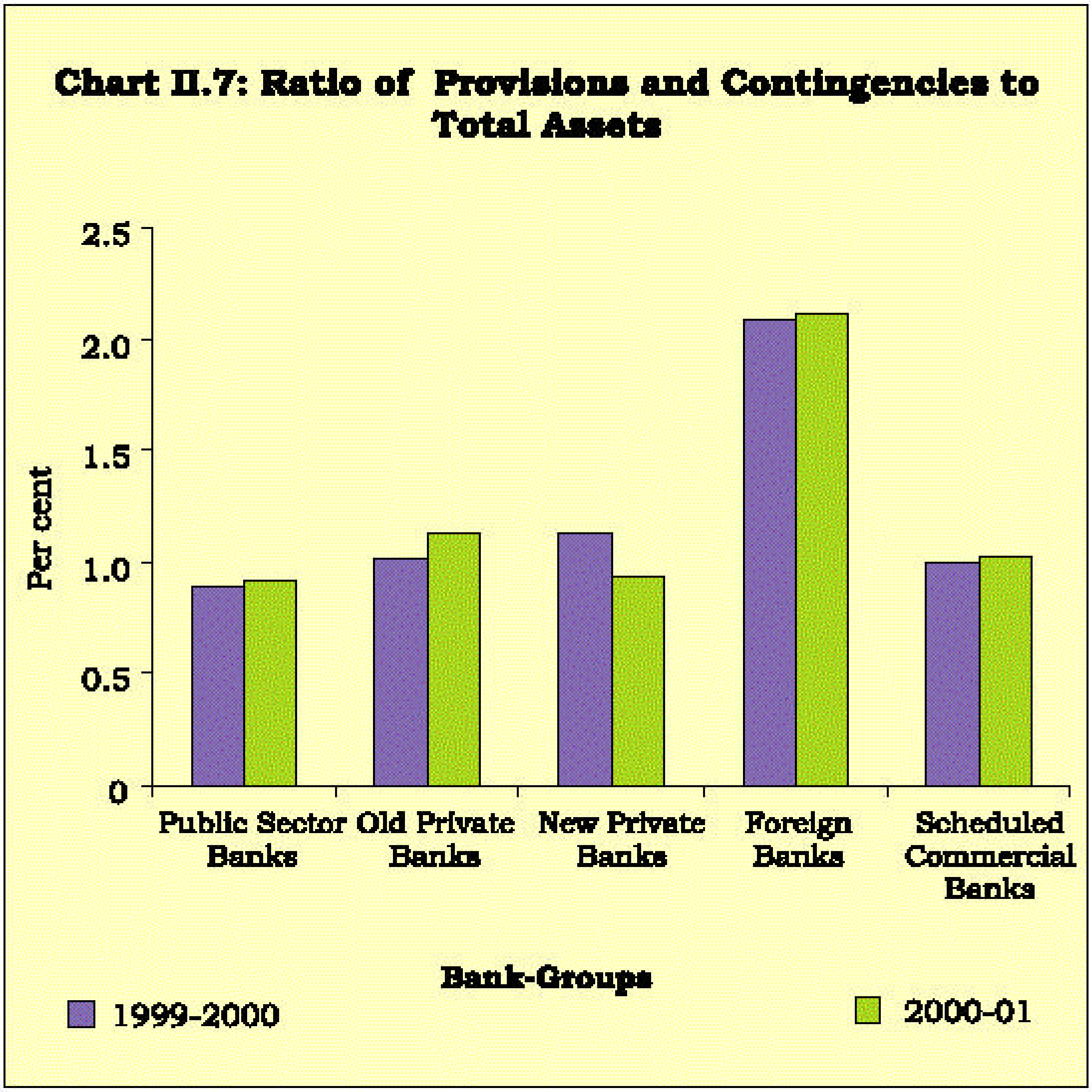
2.51 The ratio of wage bill to total assets increased for all bank groups, excepting old private sector banks and foreign banks. The ratio of wage bill to total assets of SCBs increased from 1.67 per cent in 1999-2000 to 1.79 per cent in 2000-01. The ratio increased from 0.28 per cent to 0.32 per cent in the case of new private sector banks. In the case of foreign banks, the ratio decreased from 1.05 per cent to 0.97 per cent and in the case of old private banks from 1.39 per cent to 1.23 per cent (Table II.13).



Provisions and Contingencies

2.52 The provisions and contingencies of SCBs increased by 20.5 per cent to Rs.13,323 crore in 2000-01. Among the bank groups, old private sector banks showed the highest increase (29.0 per cent), followed by foreign banks (25.7 per cent), nationalised banks (25.0 per cent), the State Bank group (11.3 per cent) and new private sector banks (8.2 per cent) [Appendix Tables II.5 (A) to (G)].

2.53 The ratio of provisions and contingencies to total assets of SCBs increased nominally from 1.00 per cent in 1999-2000 to 1.03 per cent in 2000-01. For the nationalised banks the ratio increased from 0.86 per cent to 0.95 per cent and for old private sector banks from 1.01 per cent to 1.13 per cent, from 2.08 per cent to 2.12 per cent for foreign banks. The ratio declined from 0.94 per cent to 0.87 per cent in the case of State Bank group and from 1.14 per cent to 0.93 per cent for new private sector banks (Table II.13 and Chart II.7).

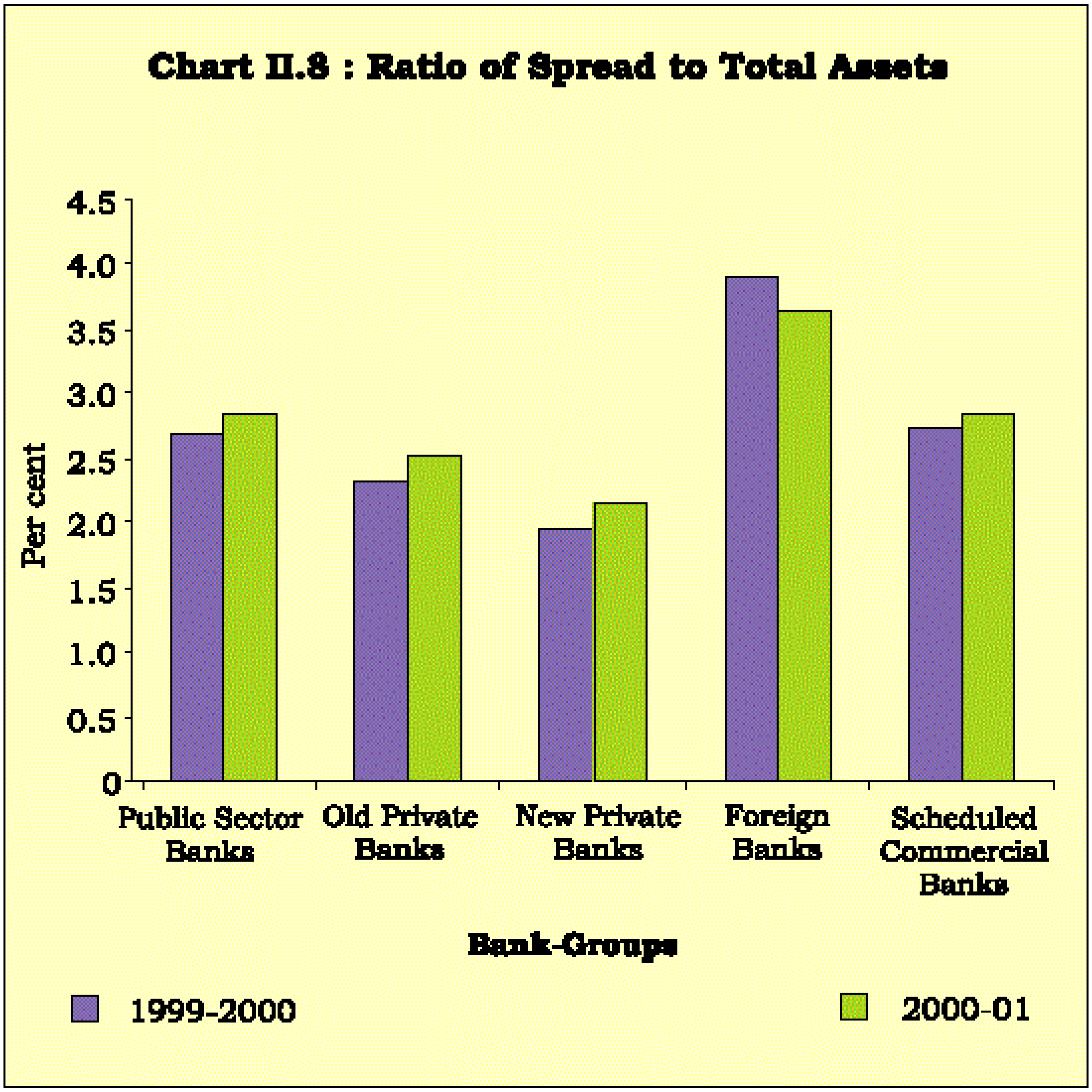


Spread

2.54 There was an increase in the spread (net interest income) among most bank groups during the year 2000-01. The ratio of spread to total assets of SCBs increased from 2.73 per cent in 1999-2000 to 2.84 per cent in 2000-01. In the case of nationalised banks, the ratio increased from 2.66 per cent to 2.90 per cent and for new private sector banks from 1.95 per cent to 2.14 per cent (Table II.13 and Chart II.8). Foreign banks showed a decline in spread from 3.92 per cent to 3.64 per cent. In the case of State Bank group the ratio remained unchanged at 2.76 per cent. The bank-wise details of the select financial parameters of public sector banks, private sector banks and foreign banks are furnished in Appendix Tables II.6(A) to (I), II.7(A) to (H) and II.8(A) to (H), respectively.

Off-Balance Sheet Activities of Scheduled Commercial Banks

2.55 Off-balance sheet activities of SCBs comprising forward exchange contracts, guarantees, acceptances and endorsements, etc., increased by 28.9 per cent over the 1999-2000 levels to Rs.7,52,976 crore. As a result, the ratio of contingent liabilities to total liabilities of SCBs increased by 5.3 percentage points to 58.2 per cent in 2000-01. Forward exchange contracts which account for the highest share of contingent liabilities increased by 30.5 per cent to Rs.5,53,597 crore in 2000-01. The share of forward exchange contracts in total liabilities increased by 4.4 percentage points over the previous year to 42.8 per cent. Acceptances, endorsements, etc., increased by 37.6 per cent to Rs.1,27,930 crore in 2000-01, taking its share in total liabilities up to 9.9 per cent (Table II.14). Among bank groups, nationalised banks recorded the highest proportional increase in contingent liabilities (42.2 per cent), followed by foreign banks (31.2 per cent). Foreign banks continued to maintain the highest contingent liabilities both in absolute terms (Rs.3,71,807 crore) and as a percentage of total liabilities (363.2 per cent) (Chart II.9).



4. Non-Performing Assets

2.56 The gross non-performing assets (NPAs) of the SCBs increased to Rs.63,883 crore at end-March 2001, from Rs.60,408 crore a year ago. Net NPAs as at end-March 2001 amounted to Rs.32,468 crore compared with Rs. 30,073 crore, as at end-March 2000 (Table II.15). Bank group-wise also, gross NPAs increased for PSBs, private sector banks and foreign banks to Rs.54,773 crore, Rs. 6,039 crore and Rs.3,071 crore, respectively, as at end-March 2001 over the levels of Rs.53,033 crore, Rs.4,761 crore and Rs.2,614 crore, respectively, at end-March 2000.

2.57 The ratios of gross and net NPAs to total assets as well as gross and net advances, however, declined for all bank groups other than private sector banks. The ratio of gross NPAs to total assets of SCBs declined from 5.5 per cent in 1999-2000 to 4.9 per cent in 2000-01 while the ratio of net NPAs declined from 2.7 per cent to 2.5 per cent. The ratio of gross NPAs to gross advances declined from 12.7 per cent in 1999-2000 to 11.4 per cent in 2000-01. The ratio of net NPAs to net advances declined from 6.8 per cent to 6.2 per cent over the year (Chart II.10). Bank-wise details of NPA ratios of PSBs and private sector banks are given in Appendix Tables II.9(A) to (D). Sector-wise NPAs of individual public and private sector banks are presented in Appendix Table II.10 (A) and (B).

Public Sector Banks

2.58 The gross NPAs of PSBs as at end-March 2001 at Rs.54,773 crore showed an increase of 3.3 per cent over the year. The share of PSBs in total NPAs of SCBs declined from 87.8 per cent as at end-March 2000 to 85.7 per cent as at end-March 2001. The ratio of gross NPAs to total assets of PSBs declined from 6.0 per cent to 5.3 per cent during 2001 and that of net NPAs to total assets from 2.9 per cent to 2.7 per cent. The ratio of gross NPAs to gross advances decreased from 14.0 per cent to 12.4 per cent and that of net NPAs to net advances from 7.4 per cent to 6.7 per cent over the year. The decline in the NPAs ratios of PSBs was facilitated by the rise in assets in standard category from 86.0 per cent in 1999-2000 to 87.6 per cent in 2000-01 (Table II.16). As at end-March 2001, 22 out of the 27 PSBs had net NPAs up to 10 per cent of net advances, while five banks had net NPAs in excess of 10 per cent (Table II.17).

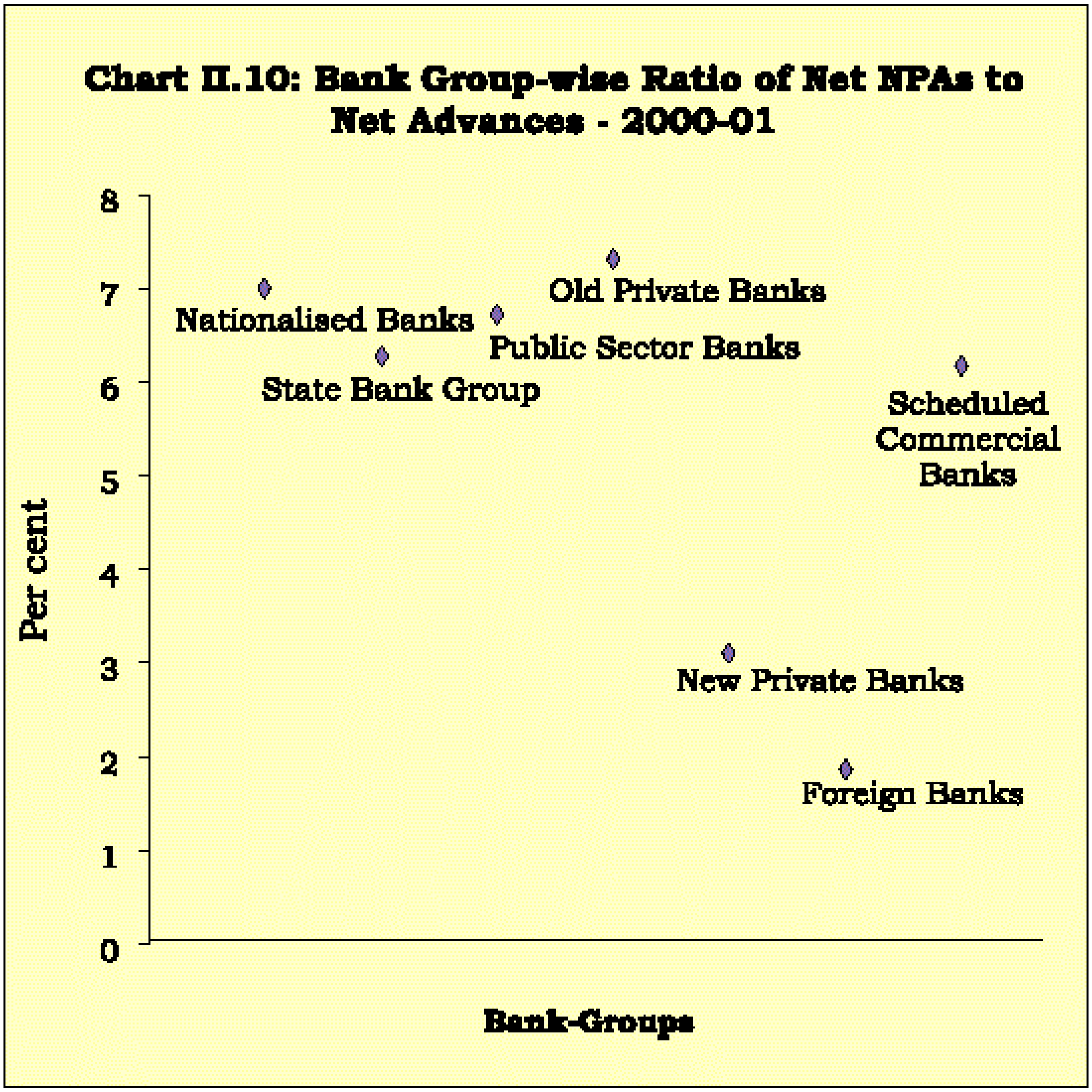


Chart II.10: Bank Group-wise Ratio of Net NPAs to Net Advances - 2000-01

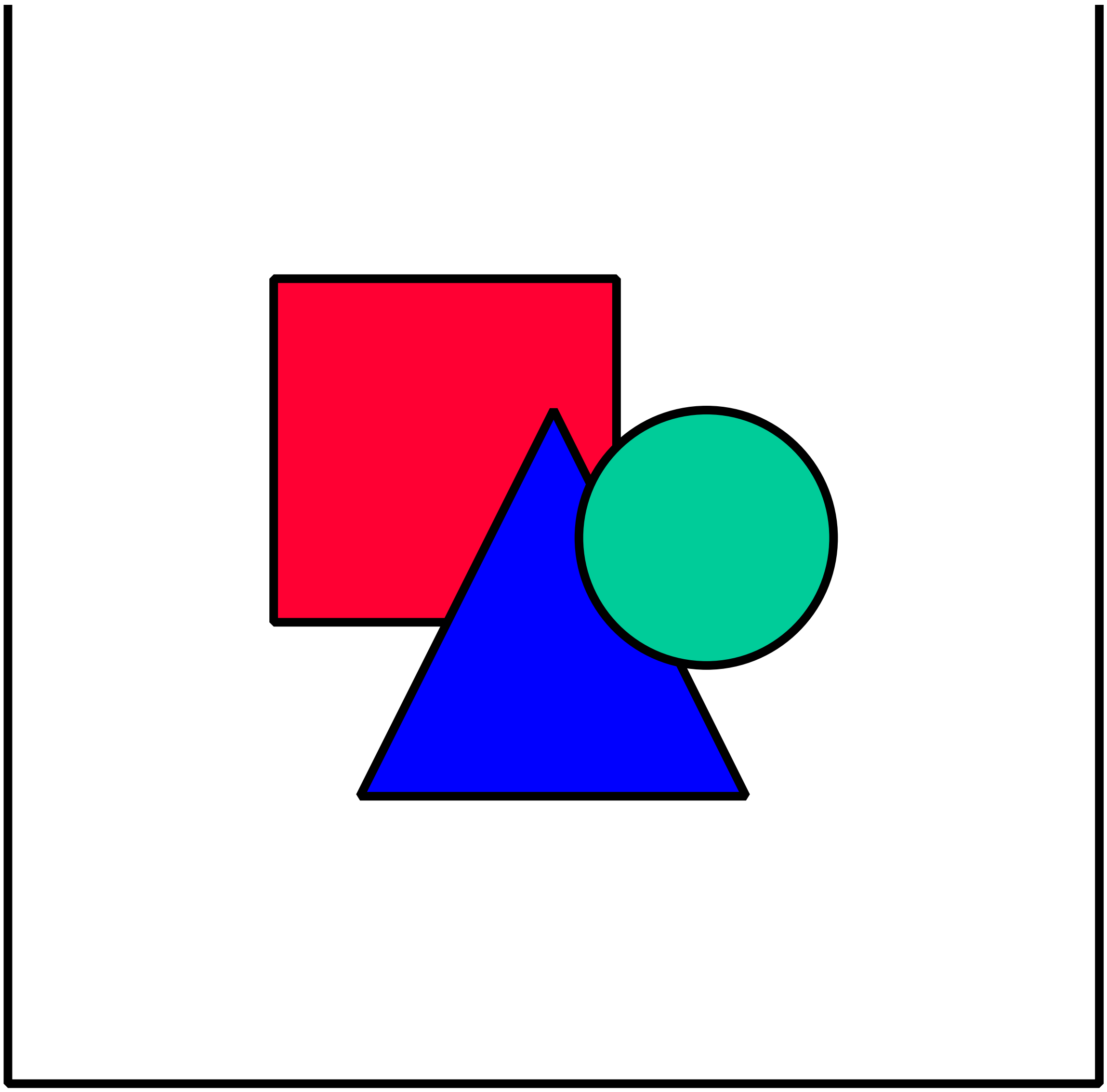


Table II.14 : Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Rs. crore)

Item	State Bank Group			Nationalised Banks			Public Sector Banks		
	1999-2000	2000-01	variations	1999-2000	2000-01	variations	1999-2000	2000-01	variations
1	2	3	4	5	6	7	8	9	10
1. Forward exchange contracts	57,037.23 (16.96)	61,945.87 (15.38)	8.61 -1.58	85,157.77 (15.37)	1,37,619.48 (21.95)	61.61 6.59	1,42,195.00 (15.97)	1,99,565.35 (19.38)	40.35 3.41
2. Guarantees given	17,616.79 (5.24)	17,336.27 (4.30)	-1.59 -0.93	25,220.83 (4.55)	26,656.95 (4.25)	5.69 -0.30	42,837.62 (4.81)	43,993.22 (4.27)	2.70 -0.54
3. Acceptances, endorsements, etc.	22,798.69 (6.78)	25,122.48 (6.24)	10.19 -0.54	26,264.07 (4.74)	30,054.08 (4.79)	14.43 0.06	49,062.76 (5.51)	55,176.56 (5.36)	12.46 -0.15
Total Contingent Liabilities	**97,452.71** **(28.97)**	**1,04,404.62** **(25.91)**	**7.13** **-3.06**	**1,36,642.67** **(24.66)**	**1,94,330.51** **(31.00)**	**42.22** **6.34**	**2,34,095.38** **(26.29)**	**2,98,735.13** **(29.01)**	**27.61** **2.72**

Item	New Pvt. Sec. Banks			Old Pvt. Sec. Banks			Foreign Banks			All SCBs		
	1999-2000	2000-01	variations	1999-2000	2000-01	variations	1999-2000	2000-01	variations	1999-2000	2000-01	variations
1	11	12	13	14	15	16	17	18	19	20	21	22
1. Forward Exchange contracts	34,377.90 (58.34)	40,888.84 (51.91)	18.94 -6.43	14,807.98 (20.25)	18,451.56 (21.81)	24.61 1.56	2,32,934.24 (281.29)	2,94,690.71 (289.41)	26.51 8.13	4,24,315.12 (38.38)	5,53,596.46 (42.75)	30.47 4.37
2. Guarantees given	5,741.21 (9.74)	7,087.08 (9.00)	23.44 -0.75	2,566.27 (3.51)	2,954.36 (3.49)	15.12 -0.02	15,877.91 (19.17)	17,414.72 (17.10)	9.68 -2.07	67,023.01 (6.06)	71,449.38 (5.52)	6.60 -0.55
3. Acceptances, endorsements, etc.	6,606.45 (11.21)	9,806.00 (12.45)	48.43 1.24	2,741.06 (3.75)	3,246.43 (3.84)	18.44 0.09	34,539.87 (41.71)	59,701.10 (58.63)	72.85 16.92	92,950.14 (8.41)	1,27,930.09 (9.88)	37.63 1.47
Total Contingent Liabilities	**46,725.56** **(79.29)**	**57,781.92** **(73.35)**	**23.66** **-5.94**	**20,115.31** **(27.51)**	**24,652.35** **(29.14)**	**22.56** **1.63**	**2,83,352.02** **(342.17)**	**3,71,806.53** **(365.15)**	**31.22** **22.98**	**5,84,288.27** **(52.85)**	**7,52,975.93** **(58.15)**	**28.87** **5.29**

Notes : 1. Figures in brackets are percentages to Total Liabilities.
2. The variations relating to the 'amounts' indicate the percentage variation in 2000-01 over 1999-2000.
3. The variations relating to the 'percentage to Total Liabilities given in brackets' indicate the simple change in such figures during 2000-01 as compared to 1999-2000.

Table II.15: Gross and Net NPAs of Scheduled Commercial Banks - Bank Group-wise

(As at end-March)

(Amount in Rs. crore)

Bank Groups/Years	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to total Assets		Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
1998	3,52,697	50,815	14.4	6.4	3,25,522	23,761	7.3	3.0
1999	3,99,436	58,722	14.7	6.2	3,67,012	28,020	7.6	2.9
2000	4,75,113	60,408	12.7	5.5	4,44,292	30,073	6.8	2.7
2001	5,58,766	63,883	11.4	4.9	5,26,329	32,468	6.2	2.5
Public Sector Banks								
1998	2,84,971	45,653	16.0	7.0	2,60,459	21,232	8.2	3.3
1999	3,25,328	51,710	15.9	6.7	2,97,789	24,211	8.1	3.1
2000	3,79,461	53,033	14.0	6.0	3,52,714	26,187	7.4	2.9
2001	4,42,134	54,773	12.4	5.3	4,15,207	27,969	6.7	2.7
All Private Sector Banks								
1998	36,753	3,186	8.7	3.9	35,411	1,863	5.3	2.3
1999	43,049	4,655	10.8	4.5	39,731	2,943	7.4	2.8
2000	58,220	4,761	8.2	3.6	56,035	3,031	5.4	2.3
2001	71,237	6,039	8.5	3.7	68,059	3,699	5.4	2.3
Old Private Sector Banks								
1998	25,580	2,794	10.9	5.1	24,353	1,572	6.5	2.9
1999	28,979	3,784	13.1	5.8	26,017	2,332	9.0	3.6
2000	35,404	3,815	10.8	5.2	33,879	2,393	7.1	3.3
2001	39,738	4,420	11.1	5.2	37,973	2,770	7.3	3.3
New Private Sector Banks								
1998	11,173	392	3.5	1.5	11,058	291	2.6	1.1
1999	14,070	871	6.2	2.3	13,714	611	4.5	1.6
2000	22,816	946	4.1	1.6	22,156	638	2.9	1.1
2001	31,499	1,619	5.1	2.1	30,086	929	3.1	1.2
Foreign Banks in India								
1998	30,972	1,976	6.4	3.0	29,652	666	2.2	1.0
1999	31,059	2,357	7.6	3.1	29,492	866	2.9	1.1
2000	37,432	2,614	7.0	3.2	35,543	855	2.4	1.0
2001	45,395	3,071	6.8	3.0	43,063	800	1.9	0.8

Notes: 1. Constituent items may not add up to the totals due to rounding off.
2. Figures for 2001 are provisional.

Source: 1. Balance sheets of respective banks.
2. Returns submitted by respective banks.

Private Sector Banks

2.59 As at end-March 2001, the gross NPAs of all private sector banks stood at Rs.6,039 crore with an increase of 26.8 per cent during the year. The private sector bank group witnessed an increase in the ratios of gross NPAs to total assets and gross NPAs to gross advances. The ratio of gross NPAs to gross advances increased to 8.5 per cent and that to total assets increased to 3.7 per cent. The ratio of net NPAs to net advances remained unchanged at 5.4 per cent as also the ratio of net NPAs to total assets (2.3 per cent).

Old Private Sector Banks

2.60 The gross NPAs of old private banks increased by 15.9 per cent to Rs.4,420 crore as at end-March 2001 from Rs.3,815 crore as at end-March 2000, while net NPAs increased by 15.8 per cent to Rs.2,770 crore from Rs.2,393 crore during the same period. The ratio of gross NPAs to total assets remained unchanged at 5.2 per cent for old private sector banks as also the ratio of net NPAs to total assets at 3.3 per cent. The ratio of gross NPAs to gross advances increased from 10.8 per cent to 11.1 per cent and that of net NPAs to net advances increased from 7.1 per cent to 7.3 per cent. Out of the 23 old private banks functioning as at end-March 2001, 16 banks had net NPAs up to 10 per cent of net advances, 4 banks had net NPAs between 10 and 20 per cent of net advances and 3 banks had net NPAs in excess of 20 per cent (Table II.17).

New Private Sector Banks

2.61 Gross NPAs of new private sector banks increased by 71.1 per cent to Rs.1,619 crore as at end-March 2001 from Rs.946 crore as at end-March 2000, while net NPAs increased by 45.6 per cent to Rs.929 crore from Rs. 638 crore. The ratio of gross NPAs to total assets increased from 1.6 per cent to 2.1 per cent. The ratio of gross NPAs to gross advances increased from 4.1 per cent to 5.1 per cent and the ratio of net NPAs to net advances from 2.9 per cent to 3.1 per cent. All eight new private sector banks had net NPAs within 10 per cent of net advances as at end-March 2001 (Table II.17).

Foreign Banks

2.62 The gross NPAs of foreign banks increased by 17.5 per cent to Rs.3,071 crore during 2000-01, while net NPAs declined by 6.4 per cent to Rs.800 crore. The ratios of both gross and net NPAs to total assets declined during the year under review. The ratio of gross NPAs to gross advances declined from 7.0 per cent to 6.8 per cent, and the ratio of net NPAs to net advances from 2.4 per cent to 1.9 per cent. The proportion of standard assets increased to 93.1 per cent from 93.0 per cent a year ago. Out of 42 foreign banks, 31 had net NPAs up to 10 per cent, 6 between 10 per cent and 20 per cent and 5 had net NPAs in excess of 20 per cent (Table.II 17). Bank-wise details of NPAs of foreign banks are given in Appendix Tables II.9 (E) and (F).

Incremental Non-Performing Assets

2.63 The incremental gross NPAs, as percentage of incremental gross advances and incremental total assets, increased for all bank groups during 2000-01, except for State Bank group. In absolute terms, the incremental gross NPAs was higher at Rs. 3,475 crore in 2000-01 as compared to Rs.1,686 crore in 1999-2000, while incremental net NPAs increased from Rs.2,053 crore in 1999-2000 to Rs.2,394 crore in 2000-01 (Table II.18). As percentage of incremental advances, the incremental gross NPA ratio of SCBs rose from 2.2 per cent in 1999-2000 to 4.2 per cent in 2000-01, with the same for PSBs increasing from 2.4 per cent to 2.8 per cent. In net terms, the incremental net NPA ratio increased from 2.7 per cent in 1999-2000 to 2.9 per cent in 2000-01 (Table II.19). As ratio to incremental assets, while the incremental gross NPA for SCBs increased from 1.1 per cent to 1.8 per cent in 2000-01; over the same period, the incremental net NPA ratio has remained unchanged at 1.3 per cent.

Table II.16 : Classification of Loan Assets of Scheduled Commercial Banks

(As at end-March)

(Amount in Rs. crore)

Bank Groups/Years	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total Advances
	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
1998	3,01,881	85.6	17,428	4.9	27,146	7.7	6,242	1.8	50,815	14.4	3,52,696
1999	3,40,714	85.3	19,928	5.0	31,350	7.8	7,444	1.9	58,722	14.7	3,99,436
2000	4,14,917	87.2	19,594	4.1	33,688	7.1	7,558	1.6	60,840	12.8	4,75,757
2001	4,94,716	88.6	18,206	3.3	37,756	6.8	8,001	1.4	63,963	11.4	5,58,679
Public Sector Banks											
1998	2,39,318	84.0	14,463	5.1	25,819	9.1	5,371	1.9	45,653	16.0	2,84,971
1999	2,73,618	84.1	16,033	4.9	29,252	9.0	6,425	2.0	51,710	15.9	3,25,328
2000	3,26,783	86.0	16,361	4.3	30,535	8.0	6,398	1.7	53,294	14.0	3,80,077
2001	3,87,360	87.6	14,745	3.3	33,485	7.6	6,544	1.5	54,774	12.4	4,42,134
All Private Sector Banks											
1998	33,567	91.3	1,766	4.8	1,077	2.9	343	0.9	3,186	8.7	36,753
1999	38,394	89.2	2,657	6.2	1,591	3.7	407	0.9	4,655	10.8	43,049
2000	53,317	91.5	2,137	3.7	2,355	4.0	439	0.8	4,931	8.5	58,248
2001	65,071	91.5	2,585	3.6	3,069	4.3	424	0.6	6,078	8.5	71,149
Old Private Sector Banks											
1998	22,786	89.1	1,402	5.5	1,068	4.2	324	1.3	2,794	10.9	25,580
1999	25,195	86.9	1,920	6.6	1,463	5.0	401	1.4	3,784	13.1	28,979
2000	31,447	88.8	1,577	4.5	2,061	5.8	347	1.0	3,985	11.2	35,432
2001	35,166	88.7	1,622	4.1	2,449	6.2	413	1.0	4,484	11.3	39,650

New Private Sector Banks											
1998	10,781	96.5	365	3.3	9	0.1	19	0.2	392	3.5	11,173
1999	13,199	93.8	737	5.2	128	0.9	6	0.0	871	6.2	14,070
2000	21,870	95.9	560	2.5	294	1.3	92	0.4	946	4.1	22,816
2001	29,905	94.9	963	3.1	620	2.0	11	0.0	1,594	5.1	31,499
Foreign Banks in India											
1998	28,996	93.6	1,198	3.9	250	0.8	528	1.7	1,976	6.4	30,972
1999	28,702	92.4	1,238	4.0	507	1.6	612	2.0	2,357	7.6	31,059
2000	34,817	93.0	1,096	2.9	798	2.1	721	1.9	2,615	7.0	37,432
2001	42,285	93.1	876	1.9	1,202	2.6	1,033	2.3	3,111	6.9	45,396

Notes: 1. Figures are provisional.
2. NPAs consist of assets including (i) Sub-standard, (ii) Doubtful, and (iii) Loss Assets. An asset becomes (i) Sub-standard when it is classified as NPA for a period not exceeding two years, (ii) Doubtful when it remains NPA for a period exceeding two years, and (iii) Loss, when loss is identified either by a bank or an internal or external auditors or under RBI inspection, but not written off.
3. Constituent items may not add up to the totals due to rounding off.
4. The figures furnished in this table may not tally with the data given in table II.15 due to different sources of data collection

Source : 1. Returns submitted by respective banks.
2. Balance sheets of respective banks

Table II.17: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(No. of banks)

Net NPAs/Net Advances	End-March				
	1997	1998	1999	2000	2001
Public Sector Banks	**27**	**27**	**27**	**27**	**27**
1. Upto 10 per cent	17	17	18	22	22
2. Above 10 and up to 20 per cent	9	9	8	5	5
3. Above 20 per cent	1	1	1	-	-
Old Indian Private Sector Banks	**25**	**25**	**25**	**24**	**23**
1. Upto 10 per cent	22	21	17	18	16
2. Above 10 and up to 20 per cent	3	4	5	5	4
3. Above 20 per cent	-	-	3	1	3
New Indian Private Sector Banks	**9**	**9**	**9**	**8**	**8**
1. Upto 10 per cent	9	9	9	8	8
2. Above 10 and up to 20 per cent	-	-	-	-	-
3. Above 20 per cent	-	-	-	-	-
Foreign Banks in India @	**39**	**42**	**41**	**42**	**42**
1. Upto 10 per cent	36	34	27	31	31
2. Above 10 and up to 20 per cent	1	6	11	7	6
3. Above 20 per cent	2	2	3	4	5

@ No. of banks having nil NPAs for 1997, 1998, 1999, 2000 and 2001 was 16, 14, 9, 8 and 6, respectively.

5. Capital to Risk-Weighted Assets Ratio (CRAR)

2.64 As at end-March 2001, 23 out of the 27 PSBs (consisting of eight banks in the State Bank group and 15 nationalised banks) had capital in excess of 10 per cent of risk-weighted assets. Among the remaining four nationalised banks, two had CRAR between 9 per cent and 10 per cent, one had CRAR between 4 per cent and 9 per cent and one had negative CRAR (Table II. 20).

2.65 Of the 23 old private banks, 16 banks had CRAR in excess of 10 per cent, four had CRAR between 9 and 10 per cent, one had CRAR between 4 and 9 per cent while two had negative CRAR. Thus, the number of old private banks having CRAR in excess of 10 per cent decreased from 18 in the previous year to 16 in 2000-01. The number of new private sector banks having CRAR in excess of 10 per cent continued to remain at seven in 2000-01 with one bank having CRAR between 9 per cent and 10 per cent. The number of foreign banks having CRAR above 10 per cent increased to 38 from 37 in the previous year (Table II.20). Bank-wise details of CRAR of individual bank groups are given in Appendix Tables II.11 (A) to (C).

Table II.18: Bank Group-wise Incremental Gross and Net NPAs

(Rs. crore)

Bank Group	Incremental Gross NPAs		Incremental Net NPAs	
	1999-2000	2000-01	1999-2000	2000-01
1	2	3	4	5
Scheduled Commercial Banks	**1,686.0**	**3,475.3**	**2,053.0**	**2,393.9**

Public Sector Banks	1,322.0	1,739.8	1,975.9	1,781.2
Nationalised Banks	190.3	920.4	1,640.7	1,088.5
State Bank Group	1,132.2	819.4	335.2	692.7
Old Private Sector Banks	31.0	604.8	61.0	377.0
New Private Sector Banks	75.0	673.9	27.0	290.7
Foreign Banks	257.0	456.7	-11.0	-55.0

Table II.19: Bank Group-wise Incremental Ratio of Gross and Net NPAs

(Per cent)

Bank Group	Incremental Ratio of Gross NPAs to				Incremental Ratio of Net NPAs to			
	Gross Advances		Total Assets		Net Advances		Total Assets	
	1999-2000	2000-01	1999-2000	2000-01	1999-2000	2000-01	1999-2000	2000-01
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**2.2**	**4.2**	**1.1**	**1.8**	**2.7**	**2.9**	**1.3**	**1.3**
Public Sector Banks	2.4	2.8	1.1	1.3	3.6	2.9	1.6	1.3
Nationalised Banks	0.6	2.2	0.3	1.3	4.8	2.7	2.3	1.5
State Bank Group	5.3	3.8	2.2	1.2	1.6	3.2	0.7	1.0
Old Private Sector Banks	0.5	14.0	0.4	5.3	0.8	9.2	0.8	3.3
New Private Sector Banks	0.9	7.8	0.4	3.4	0.3	3.7	0.1	1.5
Foreign Banks in India	4.0	5.7	4.1	2.4	-0.2	-0.7	-0.2	-0.3

2.66 The measurement of operational risk has emerged as an important aspect in the calculation of capital as per the new capital adequacy framework of the Basel Committee on Banking Supervision (BCBS). In the context of increasing globalisation, enhanced use of technology, product innovations and growing complexity in operations, the Reserve Bank agrees, as a general principle, with the Basel Committee's proposal to assign explicit capital charge for operational risk (Box II.2).

6. Equity Capital and Subordinated Debt

2.67 Three banks *viz.*, Andhra Bank, Indian Overseas Bank and Vijaya Bank raised capital amounting to Rs.361.20 crore, through initial public offerings (IPO) in the market during the year 2000-01. The Ganesh Bank of Kurundwad Ltd., was granted permission to issue shares on rights basis for Rs. 0.41 crore. The Vysya Bank Ltd., was granted permission to issue preferential shares to its foreign collaborators amounting to Rs.42.49 crore.

Table II.20: Distribution of Scheduled Commercial Banks by CRAR

(No. of banks)

Bank-group	Capital Risk-weighted Assets Ratio (CRAR)							
	1999-2000				2000-01			
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
State Bank Group	-	-	-	8	-	-	-	8
Nationalised Banks	1	-	4	14	1*	1	2	15
Old Private Sector Banks	2	2	2	18	2*	1	4	16
New Private Sector Banks	-	-	1	7	-	-	1	7
Foreign Banks	-	-	5	37	-	-	4	38
Total	**3**	**2**	**12**	**84**	**3**	**2**	**11**	**84**

* Negative

2.68 During 2000-01, eleven public sector banks raised subordinated debt to augment their capital. These are Bank of India (Rs.200 crore), Bank of Maharashtra (Rs. 50 crore), Canara Bank (Rs. 300 crore), Central Bank of India (Rs. 250 crore), Indian Overseas Bank (Rs. 125 crore), Punjab and Sind Bank (Rs. 60 crore), Punjab National Bank (Rs. 240 crore), Union Bank of India (Rs. 100 crore), UCO Bank (Rs. 150 crore), United Bank of India (Rs. 140 crore) and Bank of Baroda (Rs. 600 crore).

Return of Capital

2.69 During 2000-01, Andhra Bank returned Rs. 47.95 crore capital to the Government of India.

Box II.2: Measurement of Operational Risk

Operational risk, as defined by the Basel Committee is "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events". The definition excludes strategic and reputational risk, but includes legal risk. Operational risks can broadly be classified in the following categories:

Information Technology Risk – System failure, internet virus, inaccurate data, poor quality of communication, etc. *Human Resources Risk* – Recruitment procedures, incompetent staff, holiday policy, etc.

Loss to Assets Risk – Risk that damages assets and interrupts business. The damage could be due to fire, flood or earthquake.

Relationship Risk – Changes in regulatory requirements, claims, customer satisfaction, lawsuits, etc.

There are three approaches in the assessment of capital requirements for operational risk *viz. Basic Indicator Approach, Standardised Approach* and *Internal Measurement Approach*.

Under *Basic Indicator Approach,* operational risk capital is allocated using a single indicator as a proxy for an institution's overall operational risk exposure. Gross income is proposed as the indicator, with each bank holding capital for operational risk equal to a fixed percentage, multiplied by its individual amount of gross income.

Under the *Standardised Approach,* bank's activities are divided into a number of standardised business units and business lines, as given by the Bank for International Settlements (BIS). Within each business line, regulators specify a broad indicator that is intended to reflect the size or volume of a bank's activity in the area. The indicator serves as a rough proxy for the amount of operational risk within each of these business lines. Within each business line, the required capital is calculated by multiplying an indicator, such as gross income or asset size of the business line, by a fixed percentage. The total capital charge is the simple sum of the required capital across each business line.

In the case of *Internal Measurement Approach,* bank's internal loss data are used and the method to calculate the required capital is uniformly set by supervisors. Banks activities are categorised into number of business lines and a broad set of operational loss types is defined and applied across business lines. Within each business line/ loss type combination, the supervisor specifies an Exposure Indicator (EI) **-** a proxy for the size of a particular business line's operational risk exposure. In addition to EI, for each business line/loss type combination, banks measure, based on their internal loss data, a parameter representing the probability of the occurrence of loss event (PE) as well as a parameter representing the loss given that event (LGE). Expected Loss (EL) is arrived at by the multiplication of EI, PE and LGE. Given the scaling factor r(i,j) (defined as the maximum amount of loss per holding period within a certain confidence interval) for each business line (i) and risk type (j) this translates the expected loss into capital charge as =Si Sj [?(i,j) * SEI (i,j) *PE (i,j) *LGE (i,j)].

Quantification of operational risk poses a major computational challenge to policy makers. Modeling operational risk in financial institutions is still in its infancy. But the process is likely to gather momentum in the future. As it stands at present, several methods have been employed including appropriate statistical distributions to estimate operational VaR. However, unlike market risk, the operational VaR is not easily obtainable. The difficulty lies in identifying the right statistical distribution that determine the severity and the frequency of a particular category of operational loss. In order to approximate the severity of operational loss, methods, like Extreme Value Theory (EVT) and Monte Carlo simulation can be fruitfully employed to calculate the operational VaR.

On the measurement of operational risk the Reserve Bank is of the view that "until a scientific method to measure the operational risk across countries is evolved, the Basel Committee should consider prescribing a lower capital charge of 15 per cent of the gross income or 10 per cent of the current capital requirement to align capital to the underlying risk profile. National supervisors may, however, be given discretion to prescribe higher capital charge towards operational risk in case of banks, which may be considered as 'outliers'.

References:

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Augmentation of Capital Funds - Private Sector Banks

2.70 Pursuant to the guidelines issued in January 1993, the minimum capital requirement for setting up banks in the private sector was prescribed at Rs. 100 crore. Upon review of the position of the capital funds of old private sector banks in 1998-99, it was indicated that old private sector banks having networth of less than Rs. 50 crore were to attain the level of Rs. 50 crore by March 31, 2001. Accordingly, three old private sector banks having networth of less than Rs.50 crore, and 7 banks whose capital funds ranged above Rs. 50 crore but less than Rs.100 crore were advised to prepare action plans for augmenting capital funds to the level of Rs.100 crore.

2.71 The guidelines for entry of new banks in the private sector were revised in January 2001, so as to make the issue of licenses selective and restrict to the applicants who can meet the prudential requirements and provide efficient customer service. The guidelines are given in Chapter I.

7. Indian Banks' Branches Abroad

2.72 Nine Indian banks (8 in public sector and one in the private sector) are operating branches abroad. During the year 2000-01 the number of Indian branches abroad stood at 94. The number of representative offices of Indian banks abroad stood at 14. The number of wholly owned subsidiaries of Indian banks abroad and joint ventures abroad stood at 15 and 5, respectively.

8. Foreign Banks' Branches in India

2.73 Foreign banks are allowed to operate in India through branches. There are 41 foreign banks from 21 countries operating in India with 194 branches as on June 30, 2001. While 5 banks have 10 or more branches, 17 are one branch banks. Twelve foreign banks have 367 ATMs located both at branches and off-sites. The branches of foreign banks are spread over 25 centres in 16 States/Union Territories. Consequent upon acquisition of the issued share capital of ANZ Grindlays Bank Ltd. from Australia and New Zealand Banking Group, Australia by Standard Chartered Bank plc, London, the name of ANZ Grindlays Bank Ltd., operating with 41 branches in India, has been changed to Standard Chartered Grindlays Bank. Further, as a result of a global merger between two Japanese banks *viz*., Sakura Bank and Sumitomo Bank Ltd., Indian operations of Sakura Bank have been merged with Sumitomo Bank and the latter is operating in India as a new entity *viz*., Sumitomo Mitsui Banking Corporation since April 2001. As on June 30, 2001, 24 banks from 12 countries had representative offices in India of which 22 were in Mumbai and one each in New Delhi and Chennai.

9. Regional Rural Banks

Mobilisation and Deployment of Funds

2.74 The outstanding deposits mobilised by Regional Rural Banks (RRBs) registered an increase of 23.2 per cent to Rs.37,027 crore in 2000-01 with demand deposits rising by 27.3 per cent. The credit extended by RRBs increased by 23.0 per cent to Rs.15,579 crore in 2000-01 and investments by 25.6 per cent to Rs.7,546 crore. The credit-deposit ratio was at 42.1 per cent in 2000-01, while investment-deposit ratio increased marginally to 20.4 per cent (Table II.21).

Purpose-wise Disbursement of Loans and Advances

2.75 The loans and advances disbursed by RRBs for agriculture accounted for 47.5 per cent of total advances as on March 31, 2000. The term loans for agriculture and allied activities at Rs.3,339 crore accounted for 53.6 per cent of agricultural advances while the share of crop loans constituted 46.0 per cent. Non-agricultural advances *viz*., advances to rural artisans, village and cottage industries, retail trade and self-employed, etc., and others accounted for 52.5 per cent of total loans and advances as at end-March 2000

(Table II.22).

Financial Performance of RRBs

2.76 Of the 196 RRBs, the audited results for 2000-01 are available for 192 banks. The performance of RRBs during 2000-01 is indicative of an improvement in profitability. The operating profits increased by 33.2 per cent to Rs.715 crore and the net profits by 37.0 per cent to Rs.589 crore (Table II.23). The ratio of operating profits to total assets increased from 1.27 per cent to 1.47 per cent and that for net profits from 1.01 per cent to 1.21 per cent. The increase in profitability could be attributed to rise in interest income coupled with lower operating expenses.

Table II.21: Important Banking Indicators of RRBs

(Amount in Rs.crore)

	Item	March 26, 1999	March 24, 2000	March 24, 2001	Variations 1999-2000	2000-2001
	1	2	3	4	5	6
					(3-2)	(4-3)
1	**Liabilities to the Banking System**	**151**	**183**	**177**	**32**	**-6**
					(21.2)	**(-3.3)**
2	**Liabilities to Others**	**26,319**	**31,306**	**38,696**	**4,987**	**7,390**
					(18.9)	**(23.6)**
	2.1 Aggregate Deposits (a+b)	25,428	30,051	37,027	4,623	6,976
					(18.2)	(23.2)
	(a) Demand Deposits	4,688	5,105	6,499	417	1,394
					(8.9)	(27.3)
	(b) Time Deposits	20,740	24,946	30,528	4,206	5,582
					(20.3)	(22.4)
	2.2 Borrowings	8	52	24	44	-28
					(550.0)	(-53.8)
	2.3 Other Demand & Time Liabilities*	883	1,203	1,645	320	442
					(36.2)	(36.7)
3	**Assets with the Banking System**	**11,319**	**13,454**	**16,973**	**2,135**	**3,519**
					(18.9)	**(26.2)**
4	**Bank Credit**	**11,016**	**12,663**	**15,579**	**1,647**	**2,916**
					(15.0)	**(23.0)**
5	**Investments (a+b)**	**5,007**	**6,009**	**7,546**	**1,002**	**1,537**
					(20.0)	(25.6)
	a.Government Securities	1,191	1,223	1,588	32	365
					(2.7)	(29.8)
	b. Other Approved Securities	3,816	4,786	5,958	970	1,172
					(25.4)	(24.5)
6	**Cash Balances**	**300**	**343**	**441**	**43**	**98**
					(14.3)	**(28.6)**
Memorandum Items :						
a	Cash Balance-Deposit Ratio	1.18	1.14	1.19		
b	Credit-Deposit Ratio	43.32	42.14	42.07		
c	Investment/Deposit Ratio	19.69	20.00	20.38		
d	Investment+Credit/Deposit Ratio	63.01	62.13	62.45		

* Includes Participation Certificates issued to others.

Note : Figures in brackets are percentage variations.

Non-performing Assets

2.77 The NPAs of RRBs declined considerably during 2000-01. The share of NPAs in total assets of RRBs declined from 23.2 per cent as at end-March 2000 to 19.2 per cent as at end-

March 2001, largely due to an increase in the share of assets in standard category from 76.8 per cent in end-March 2000 to 80.8 per cent as at end-March 2001 (Table II.24).

Recapitalisation

2.78 A total sum of Rs.2,188 crore has been infused as additional capital support to 187 out of 196 RRBs through six phases of recapitalisation of the loss-making RRBs till January 2000. Out of 187 RRBs, 158 RRBs have been fully recapitalised and 29 RRBs partially. Further, while 7 RRBs are yet to be taken up for recapitalisation, 2 profit-making RRBs do not need any capital support. During the year 2000-01, recapitalisation exercise was not taken up by the Government of India and no budgetary allocation has been made for the year 2001-02.

Table II.22: Purpose-wise Disbursements of Loans and Advances of RRBs

(Rs. crore)

Purpose		As at end-March	
		1999	**2000***
1		2	3
1.	Short term (crop loans)	2,240.00	2,864.74
2.	Term loan for agriculture and allied activities	3,159.00	3,339.14
3.	Indirect Advances	61.00	23.00
I	**Total Agriculture (1 to 3)**	**5,460.00**	**6,226.88**
		(48.1)	**(47.5)**
4.	Rural artisans, village and cottage industries	722.00	772.64
5.	Other Industries	387.00	663.86
6.	Retail trade and Self-employed, etc.	2,495.00	2,072.85
7.	Other purposes	2,292.00	3,372.61
II	**Total Non-Agriculture (4 to 7)**	**5,896.00**	**6,881.96**
		(51.9)	**(52.5)**
Total (I+II)		**11,356.00**	**13,108.84**
		(100.0)	**(100.0)**

* Purpose-wise break-up in respect of 194 RRBs.
Note : Figures in brackets are percentages to the total.
Source: NABARD.

10. Local Area Banks

2.79 With a view to providing an institutional mechanism for promoting rural and semi-urban savings as well as provision of credit for viable economic activities in local areas, Local Area Banks (LAB) were established in the private sector. The related guidelines were announced by the Reserve Bank in 1996. The Reserve Bank has given 'in-principle ' approval for setting up of seven LABs in the private sector. Of these, licenses were issued to five LABs, *viz*., (1) Coastal Local Area Bank Limited, Vijayawada in the districts of West Godavari, Krishna and Guntur in Andhra Pradesh (2) Capital Local Area Bank Limited, Phagwara in the districts of Kapurthala, Jalandhar and Hoshiarpur in Punjab, (3) Krishna Bhima Samurdhi Local Area Bank Ltd., Mehboobnagar in the districts of Raichur and Gulbarga in Karnataka and Mehboobnagar district in Andhra Pradesh, (4) Vinayak Local Area Bank Ltd., Sikar in the districts of Jhunjhunu, Sikar and Churu in Rajasthan and (5) South Gujarat Local Area Bank Ltd., Navsari in the districts of Surat, Navsari and Bharuch in Gujarat. These LABs have since commenced banking business.

11. Regional Spread of Banking

2.80 Banks were given freedom to open the new branches and close unviable branches subject to the stipulations laid down by the Reserve Bank. The total number of branches of commercial banks increased to 65,800 as at end-June 2001 from 65,556 as at end-June 2000. As at end-June 2001, rural branches accounted for the highest share (49.6 per cent) of branches of commercial banks in India, followed by semi-urban branches (22.1 per cent), urban branches (15.5 per cent) and metropolitan branches (12.8 per cent) (Appendix Table II.12). State-wise and region-wise distribution of branches of commercial banks are given in Appendix Table II.13.

Table II.23: Financial Performance of Regional Rural Banks

(Rs. crore)

Item	1999-2000			2000-01			Variation
	Loss Making [34]	Profit Making [162]	All RRBs [196]	Loss Making [25]	Profit Making [167]	RRBs [192]	Col. (7) over Col. (4)
1	2	3	4	5	6	7	8
A. Income (i+ii)	**463.97**	**3,694.21**	**4,158.18**	**381.57**	**4,374.74**	**4,756.31**	**598.13** (14.38)
i) Interest income	423.27	3,522.20	3,945.47	358.70	4,169.37	4,528.07	582.60 (14.77)
ii) Other income	40.70	172.01	212.71	22.87	205.37	228.24	15.53 (7.3)
B. Expenditure (i+ii+iii)	**577.52**	**3,150.69**	**3,728.21**	**451.07**	**3,716.20**	**4,167.27**	**439.06** (11.78)
i) Interest expended	369.35	2,195.24	2,564.59	298.41	2,603.33	2,901.74	337.15 (13.15)
ii) Provisions and contingencies	11.59	95.40	106.99	15.94	110.45	126.39	19.40 (18.13)
iii) Operating expenses	196.58	860.05	1,056.63	136.72	1,002.42	1,139.14	82.51 (7.81)
of which : Wage Bill	176.18	739.42	915.60	122.24	860.28	982.52	66.92 (7.31)
C. Profit							
i) Operating Profit/Loss	**-101.96**	**638.92**	**536.96**	**-53.56**	**768.99**	**715.43**	**178.47** (33.24)
ii) Net Profit/Loss	**-113.55**	**543.52**	**429.97**	**-69.50**	**658.54**	**589.04**	**159.07** (37.00)
D. Total Assets	**6,233.52**	**36,191.42**	**42,424.94**	**5,086.75**	**43,482.66**	**48,569.41**	**6,144.47** (14.48)
E. Financial Ratios $							
i) Operating Profit	-1.64	1.77	1.27	-1.05	1.77	1.47	0.21
ii) Net Profit	-1.82	1.50	1.01	-1.37	1.51	1.21	0.20
iii) Income	7.44	10.21	9.80	7.50	10.06	9.79	-0.01
iv) Interest income	6.79	9.73	9.30	7.05	9.59	9.32	0.02
v) Other Income	0.65	0.48	0.50	0.45	0.47	0.47	-0.03
vi) Expenditure	9.26	8.71	8.79	8.87	8.55	8.58	-0.21
vii) Interest expended	5.93	6.07	6.05	5.87	5.99	5.97	-0.07
viii) Operating expenses	3.15	2.38	2.49	2.69	2.31	2.35	-0.15
ix) Wage Bill	2.83	2.04	2.16	2.40	1.98	2.02	-0.14
x) Provisions and Contingencies	0.19	0.26	0.25	0.31	0.25	0.26	0.01
xi) Spread (Net Interest Income)	0.87	3.67	3.25	1.19	3.60	3.35	0.09

$ Ratios to Total Assets.
Note: Figures in brackets are percentage variations.
Source: NABARD.

12. Interest Rates of Scheduled Commercial Banks

Interest Rate Policy

2.81 With progressive deregulation of interest rates, banks now have considerable flexibility to decide their deposit and lending rate structures and manage their assets and liabilities with greater efficiency. On the lending side, banks are free to prescribe their own lending rates including the Prime Lending Rate (PLR). On the deposit side, banks have been given the freedom to offer a fixed rate or a floating rate subject to the approval of their Boards.

Table II.24: Classification of Loan Assets of all RRBs
(As Percentage to Total Assets)

(Per cent)

Category	As at end-March					
	1996	1997	1998	1999	2000	2001
1	2	3	4	5	6	7
1. Standard Assets	**56.9**	**63.2**	**67.2**	**72.2**	**76.8**	**80.8**

2. Non-Performing Assets	43.1	36.8	32.8	27.8	23.2	19.2
Sub-standard	9.3	8.2	8.5	8.1	7.1	N.A.
Doubtful	28.0	24.0	20.4	17.0	14.0	N.A.
Loss	5.8	4.6	3.9	2.7	2.1	N.A.

N.A. Not available.
Source: NABARD

Deposit Rates

2.82 The minimum maturity period for term deposits has been reduced to 7 days from 15 days in respect of wholesale deposits of Rs.15 lakh and above. Banks are permitted to formulate fixed deposit schemes specifically meant for senior citizens offering them higher and fixed rates of interest than normal deposits of any size. The ceiling on FCNR(B) deposits rates has been brought down to LIBOR/SWAP rates for corresponding maturity from LIBOR/ SWAP rates plus 0.50 per cent. Movement in the domestic term deposits as well as on NRE deposits, during April 2000 to October 2001 is given in Table II.25.

Prime Lending Rate

2.83 The concept of Tenor Linked Prime Lending Rates (TPLRs) was introduced in April 1999 to give SCBs more operational flexibility. Keeping in view the international practice and to provide further operational flexibility to commercial banks in deciding their lending rates, PLR was converted into a benchmark rate and accordingly the requirement of PLR being the floor rate for loans above Rs. 2 lakh was relaxed. Effective from April 19, 2001, commercial banks have been allowed to lend at sub-PLR rate for loans above Rs.2 lakh. Movement in the PLRs of SCBs during April 2000 to October 2001 is given in Table II.25.

Interest Rates on Export Credit

2.84 Effective May 5, 2001, the rupee export credit interest rate structure was changed by prescribing ceiling rates linked to the relevant PLRs of banks. This was expected to introduce healthy competition and provide exporters a greater choice to avail of banking services in terms of interest rate, quality of service and transaction costs.

2.85 Considering the special circumstances arising out of recent global developments and consequent implications of the same for Indian trade, the Reserve Bank effected a reduction in ceiling rate on export credit by 1 percentage point across the board on September 26, 2001, which will remain valid up to March 2002 (Table II.26).

Table II.25: Prime Lending Rates and Interest Rates on Deposits of Scheduled Commercial Banks

(per cent per annum)

Category of Banks	**Range of PLR**		
	April 2000	**April 2001**	**October 2001**
Public Sector Banks	11.25 - 12.50	10.00 - 13.00	10.00 - 12.50
Private Sector Banks	10.25 - 16.00	10.25 - 15.50	10.50 - 15.50
Foreign Banks	9.75 - 17.50	9.00 - 17.50	8.80 - 17.50
	Range of Domestic Term Deposit Rates		
Public Sector Banks	5.00 - 11.00	4.00 - 10.00	4.25 - 9.25
Private Sector Banks	5.00 - 12.50	5.00 - 11.00	5.00 - 10.50
Foreign Banks	4.00 - 12.00	4.25 - 12.00	4.25 - 12.00
	Range of NRE Deposit Rates		
Public Sector Banks	6.00 - 11.00	6.75 - 11.00	6.50 - 10.50
Private Sector Banks	7.25 - 13.00	8.00 - 12.00	7.00 - 11.50
Foreign Banks	8.00 - 12.00	7.50 - 12.00	6.00 - 12.00

13. Diversification in Banks' Operations

Banks' entry into Insurance

2.86 The Government of India Notification specifying insurance as a permissible form of business under Section 6(1)(0) of the Banking Regulation Act, 1949, was issued on August 3, 2000. Based on the above, detailed guidelines were issued by Reserve Bank on August 9, 2000. Since then, State Bank of India has been permitted to set up a life insurance subsidiary on risk participation basis with 74 per cent equity holding. Jammu & Kashmir Bank Ltd., and Vysya Bank Ltd., have been accorded approval to contribute 25 per cent and 49 per cent, respectively, to the equity of insurance joint ventures on risk participation basis. Punjab National Bank and Vijaya Bank were permitted to make strategic investment to the extent of 15 per cent and 8 per cent, respectively, in the life and non-life insurance joint venture and in a distribution and services company. Citibank, American Express, Standard Chartered Bank, HSBC, ABN-Amro, HDFC Bank and Deutsche Bank have been given 'in principle' approval to act as corporate agents of insurance companies for distribution of insurance products on fee basis. All these approvals have been granted subject to the banks obtaining necessary clearance from Insurance Regulatory and Development Authority (IRDA).

Clearing Corporation

2.87 A clearing corporation known as Clearing Corporation of India Ltd. (CCIL) for clearing and settlement of government securities and foreign exchange transactions has been set up by SBI (chief promoter) and co-promoted by Bank of Baroda, HDFC Bank, ICICI, IDBI, and LIC in April 2001 with an authorised as well as paid-up capital of Rs.50 crore. While SBI and the co-promoters are participating to the extent of 51 per cent in the equity of the Corporation, the balance 49 per cent equity will be contributed by other banks, financial institutions, primary dealers and mutual funds. SBI has been permitted to invest 26 per cent in the equity of the Corporation amounting to Rs.13 crore whereas Bank of Baroda and HDFC Bank have been permitted to invest Rs.2.5 crore each. Permission has also been accorded to Central Bank of India to subscribe Rs.2 crore in the equity of CCIL, Rupees one crore each by Punjab National Bank and Oriental Bank of Commerce and Rs.50 lakh each by Citibank, Bank of India, Canara Bank, Corporation Bank and Union Bank of India.

Table II.26: Bank Rate, Export Credit Rate and PLR

(Per cent)

Effective date	Bank Rate	Export Credit: Pre-shipment: Upto 180 days	Export Credit: Pre-shipment: Beyond 180 days and Upto 270 days	Export Credit: Post-shipment: Upto 90 days (Not exceeding)	Export Credit: Post-shipment: Beyond 90 days Upto 6 Months	PLR (Public Sector Banks)
1	2	3	4	5	6	7
March 2, 1999	8.0	10.0	13.0	10.0	12.0	12.0 - 14.0
April 2, 2000	7.0	-	-	-	-	11.25 - 12.5
July 22, 2000	8.0	-	-	-	-	-
February 17, 2001	7.5	-	-	-	-	11.5 - 13.0
March 2, 2001	7.0	-	-	-	-	10.0 - 13.0
May 5, 2001	-	PLR *minus* 1.5	PLR *plus* 1.5	PLR *minus* 1.5	PLR *plus* 1.5	-
September 26, 2001	-	PLR *minus* 2.5	PLR *plus* 0.5	PLR *minus* 2.5	PLR *plus* 0.5	10.0 - 12.5
October 23, 2001	6.5	-	-	-	-	-

- indicates no change.

14. Developments in Retail Banking

2.88 The retail banking portfolio encompasses deposit and asset-linked products as well as other financial services offered to individuals for personal consumption. Retail banking is increasingly viewed by banks as an attractive market segment with opportunities for growth with profits. The products offered in the retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loan values could typically range between Rs. 20 thousand and Rs.100 lakh. The loans are generally for duration of 5 to 7 years with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment of this product group.

2.89 The growth in retail banking has been facilitated by growth in banking technology and automation of banking processes to enable extension of reach and rationalisation of costs. ATMs have emerged as an alternative banking channel which facilitate low-cost transactions *vis-à-vis* traditional branches. It also has the advantage of reducing the branch traffic and enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread. The increased use of ATMs by foreign banks and private sector banks has helped these banks to compete with PSBs by enabling them to expand their reach and to contain costs. The use of ATM technology is quite low in the case of PSBs and the old private sector banks. Given the fact that the PSBs are in the process of rationalisation of staff strength, introduction of ATMs would help facilitate improved customer service by these banks. Some of the factors which inhibit the rapid growth of the ATMs are absence of a shared payments network, the high cost of ATM cards and machines and poor telecommunication infrastructure.

Internet Banking in India - Guidelines

2.90 Economic integration within and across countries, deregulation, advances in telecommunications, and the growth of the Internet and wireless communication technologies are dramatically changing the structure and nature of financial services. Notwithstanding the rudimentary stage of internet banking in India, in order to promote safety and soundness for e-banking activities, as a precautionary measure, the Reserve Bank constituted a Working Group on Internet Banking and issued guidelines to the banks (Box II.3).

15. Priority Sector Lending

2.91 Priority sector lending[4] continued to be an important aspect of lending to agriculture, small scale industries, transport operators, etc. Bank group-wise credit extended to these sectors is discussed below. Sector-wise breakup of priority sector advances of public sector banks are detailed in Appendix Table II.14. Bank-wise details of advances to agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Table II.15 (A) and (B).

Public Sector Banks

2.92 The outstanding priority sector advances of PSBs increased by 14.7 per cent to Rs.1,46,546 crore as on the last reporting Friday of March 2001. At this level, the advances formed 43.0 per cent of the net bank credit (NBC) as on last reporting Friday of March 2001. Total agricultural advances of PSBs increased by Rs. 7,495 crore to Rs.53,685 crore as on the last reporting Friday of March 2001 comprising 15.7 per cent of NBC.

Private Sector Banks

2.93 The total priority sector advances extended by private sector banks as on the last reporting Friday of March 2001 amounted to Rs.21,550 crore (constituting 38.2 per cent of NBC) as compared with Rs.18,019 crore a year ago. The share of small scale industries was the highest at 14.4 per cent of NBC, followed by advances to 'other priority sector' (14.2 per cent) and agriculture (9.6 per cent) (Appendix Table II.16). Bank-wise details of advances to priority sector, agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Table II.17 (A) and (B).

Box II.3: Working Group on Internet Banking in India

With the growing spread of internet and the forays being made by banks in the field of internet banking, the Reserve Bank of India had constituted a Working Group to examine the different issues relating to internet banking and recommend technology, security, legal and operational standards keeping in view international best practices. The terms of reference of the Working Group were related to the examination of different aspects of internet banking from regulatory and supervisory perspective and to recommend appropriate standards for adoption in India. In its report, the Working Group has classified the internet banking products into 3 types, based on the levels of access granted, which are detailed below:

Information only systems

General-purpose information like interest rates, branch locations, product features, FAQs, loan and deposit calculations etc., are provided on the bank's website. There exist facilities for downloading various types of application forms. The communication is normally done through e-mail. There is no interaction between the bank's application systems and the customer. No identification or authentication of customers is done. In this case, the possibility of any hacking or an unauthorised person getting into the production system of the bank through the internet does not exist.

Electronic Information Transfer System

These systems provide customer-specific information in the form of account balances, transaction details, statement of accounts, etc. The information is still largely of the 'read only' format. Identification and authentication of the customer is through password. The information is fetched from the bank's application systems either in batch mode or off-line. In this case also, the application systems cannot be directly accessed through the internet.

Fully Electronic Transactional System

These systems allow bi-directional transactional capabilities. Transactions can be submitted by the customers for on-line update. These systems require high degree of security and control. In such an environment, web server and the application systems are linked over secure infrastructure, which comprise the basic requirements in terms of technology covering computerisation, networking and security; inter-bank payment gateway and legal infrastructure for introduction of internet banking involving a fully Electronic Transactional System.

The recommendations cover the risks associated with internet banking, the technology and security standards for internet banking, legal issues relating to this new type of activity and the regulatory and supervisory concerns of the central bank. The recommendations of the Group have been accepted and the Reserve Bank has issued necessary guidelines to banks for implementation in a phased manner.

Reference:

Reserve Bank of India (2001), 'Report of the Working Group on Internet Banking in India' June.

Foreign Banks

2.94 The foreign banks operating in India have to allocate a target of 32 per cent of NBC for the priority sector with sub-sectoral targets of 10 per cent of NBC for SSI and 12 per cent of NBC for exports. The foreign banks' lending to the priority sector as on the last reporting Friday of March 2001 constituted 34 per cent of NBC, with loans to exports (20.0 per cent of NBC) increasing to Rs. 6,863 crore in March 2001 from Rs.6,372 crore in March 2000 (Appendix Table II.18)

Advances to Weaker Sections

2.95 The total outstanding advances to weaker sections provided by PSBs increased by Rs.3,660 crore over the level prevailing in March 2000 to Rs. 24,805 crore (7.3 per cent of NBC) as on the last reporting Friday of March 2001.

Differential Rate of Interest (DRI) Scheme

2.96 The outstanding advances of PSBs under the DRI scheme as at end-March 2001 formed 0.12 per cent of the total advances as at end-March 2000.

Special Agricultural Credit Plans

2.97 PSBs were advised to prepare Special Agricultural Credit Plans for increasing the credit flow to agriculture on an annual basis. During 2000-01, the disbursements to agriculture under this Plan were Rs.24,654 crore as against the projection of Rs.25,893 crore. During 2001-02, the target for disbursements has been set at Rs.30,818 crore.

Swarnjayanti Gram Swarozgar Yojana

2.98 The Swarnjayanti Gram Swarozgar Yojana (SGSY), a restructured poverty alleviation programme launched by the Government of India from April 1999, has subsumed IRDP and its allied schemes *viz*., Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS). The scheme aims at establishing a large number of micro enterprises in the rural areas of the country. SGSY is a holistic programme covering all aspects of self-employment such as organisation of the poor into Self Help Groups, training, credit, technology, infrastructure and marketing. During 2000-01, beneficiaries under the scheme number about 10.3 lakh (as at end- March 2001). Bank credit to the tune of Rs. 1,44,510 lakh along with Government subsidy amounting to Rs. 69,472 lakh were disbursed.

Lead Bank Scheme

2.99 As at end of March 31, 2001, Lead Bank Scheme covered 576 districts in the country. During November 2000, three new States *viz*., Jharkhand, Uttaranchal and Chhattisgarh have been created by bifurcation of the existing states of Bihar, Uttar Pradesh and Madhya Pradesh, respectively. Consequent upon creation of the above states, the SLBC convenorship of all the six states (new as well as existing) has been assigned to some of the public sector banks by the Central Government in consultation with the Reserve Bank.

16. Supervisory Developments

2.100 The position of the Indian banking system and its regulation and supervision *vis-à-vis* the principles laid down by the Basel Committee on Banking Supervision was assessed by the Advisory Group on Banking Supervision (Chairman: Shri M.S.Verma). The Group submitted its Report in May 2001. The major recommendations of the Group are detailed in Box II.4.

Foreign Branches of Indian Banks

2.101 As part of new initiatives, new supervisory reporting system called DSB-O returns was introduced from the quarter ended June 2000, replacing the RALOO returns. The DSB-O returns consists of a set of seven returns showing the quarter-wise data on assets and liabilities, off-balance sheet exposure, inter-branch and inter-bank reconciliation, structural liquidity, problem credits and investments, large exposures, country exposure, profitability and frauds. The detailed analysis of DSB-O returns carried out by the Reserve Bank brought to light the various parameters of the performance of overseas branches. The supervisory concerns that emerged out of these analyses were communicated to the banks for necessary corrective action. Based on the analyses of DSB-O returns as also reports on portfolio appraisals on the functioning of foreign branches, the Reserve Bank held meetings with the individual banks to discuss the performance of their foreign branches, problems faced by them and strategic plans for the near future. The Reserve Bank received quarterly reports from the banks on the overseas sectors detailing changes in the regulatory framework, pending issues relating to both host country and home country supervision, business environment and perception of new opportunities, credit and control areas and compliance of audit/ inspection. Significant developments were noted and monitored.

Box II.4: Advisory Group on Banking Supervision

The Advisory Group on Banking Supervision (Chairman: Shri M.S. Verma) sought to: (i) study the present status of applicability and relevance and compliance in India of the relevant standards and codes; (ii) study the feasibility of compliance and the time-frame within which this can be achieved given the prevailing legal and institutional practices in India; (iii) compare the levels of adherence in India *vis-à-vis* industrialised countries and also emerging economies particularly to understand India's position and to prioritise actions on some of the more important codes and standards; and (iv) chalk out a course of action for achieving the best practices.

The recommendations of the Group can broadly be classified under seven broad categories, *viz*., (i) Corporate Governance; (ii) Internal Control; (iii) Risk Management; (iv) Loan Accounting; (v) Transparency and disclosures; (vi) Financial Conglomerates; and (vii) Cross-border Banking Supervision.

With regard to the current status in India, the Group was of the view that, given the level of complexity and development of the Indian banking sector, the level of compliance with the standards and codes is of a high order. Wherever there are significant gaps, these can be remedied within a reasonable time-frame and, as such, are not causes for immediate concern provided that necessary amendments to laws, wherever required, are put in place without delay.

Corporate Governance

Given the predominantly public sector character of the banking sector, the Group felt that the nature of a bank's ownership should not be a critical factor affecting the type and quality of corporate governance. The quality of corporate governance should be the same in all types of banking organisations, irrespective of their ownership.

In the short run, it needs to be ensured that the directors on the boards of banks are conversant with complex issues such as risk management that banks need to tackle and that they are not over-committed elsewhere. While setting accountability standards for bank boards, the Group felt that there was a need for enhanced transparency and disclosures in respect of various aspects of boards' constitution and functioning.

Management Information System (MIS)

The quality of MIS is an area of potential risk both from the point of view of internal control and regulatory oversight. It would, therefore, be necessary to strengthen the MIS and data collection machinery in banks to ensure integrity and reliability of data. This is also necessary for banks to move towards more sophisticated means of managing the risks inherent in their functioning.

Risk Management

The Group recommended greater orientation of the banks' managements and their boards towards a better understanding of risks and their management. Further more, in the view of the Group, it was desirable that some of the more capable and better-equipped banks could take the lead in expediting the process of transition from elementary levels of risk management to levels of greater sophistication and act as forerunners so that they could act as models for other banks to follow.

Loan Accounting

Over a period of time, the formulae-based system of classification of assets and provisioning will have to give way to a more realistic assessment of the realisability of assets, relying on a risk assessment-based system. However, a system of provisioning based on risk assessment as regards the realisability of a debt and the value of collaterals can take root only if the present lacunae in the relevant legal provisions and the system itself, which make it debtor-friendly, are removed.

Transparency and Disclosure

At present, all banks irrespective of their size, scope and complexity of operations, are required to make the same credit risk disclosures. There is need for introducing the concept of materiality in the matter of disclosures. Among other things, banks should be asked to disclose qualitative information on their credit risk management and control policies and practices in the Management's 'Notes to the balance sheet'. Banks should also be advised to disclose information about significant concentrations of credit risk, business segment-wise general and specific provisions, movement in provisions and cumulative provisions held against impaired assets. There is also need for disclosures on transactions with affiliated and related parties and large shareholders.

Internal Control

Boards of most banks, particularly public sector banks would need to undergo an attitudinal change towards the operational risks faced by banks, that they have a better and firmer say in the maintenance and improvement of internal control systems in the banks. In-depth discussions on periodic reports on internal controls systems of banks between the management and their boards should be institutionalised. The Reserve Bank may consider taking steps, so that on-site inspections are individualised and more bank-specific in its approach. The Reserve Bank may also consider leveraging the findings/reports of the external auditors of banks by even engaging them for specific area audit/inspection of banks and utilise their reports for supervisory oversight as is done by some other regulators.

Supervision of Conglomerates

The Reserve Bank should ensure that fitness, propriety or other qualification tests can be applied to managers and directors of other unregulated entities in a conglomerate if there is any possibility of their exercising a material or controlling influence on the operations of regulated entities. It would be desirable to put in place arrangements for applying fitness, qualification and propriety tests on all shareholders with shareholdings beyond a specified threshold. Suitable legal provisions would need to be introduced in the Banking Regulation Act, in order to empower the Reserve Bank in this regard.

In order to ensure co-ordination amongst the supervisors of the different entities in the conglomerate, introduction of the concept of 'primary supervisor' may be considered. Designating one of the supervisors as the primary supervisor will substantially improve much needed coordination between different supervisors (regulators) and adds to the scope and quality of the overall supervision of the conglomerate.

Cross-border Banking Supervision

Provision of unhindered and unqualified access to information to the home supervisor may be made a condition for permitting a bank to open offices abroad. Country-wise analyses will have to be made to ensure reciprocity between home and host supervisors in sharing information on certain qualitative aspects of the business undertaken by branches and subsidiaries of banking organisations outside the jurisdiction of their respective home supervisors.

Effective supervision of financial conglomerates, which would become a part of the banking sector in the near future, would require that supervisory coordination is based on formal arrangements which may include appointment of separate coordinators and, where considered necessary, primary regulators, for each group. The methods of supervision would have to become increasingly risk-based with greater reliance on the Boards of banks themselves and the external auditors. Supervision which moves along this direction would pave the way for a healthy and sound banking system.

Reference:

Reserve Bank of India (2001), *'Report of the Advisory Group on Banking Supervision'*, June

17. Frauds/Robberies

2.102 During the calendar year 2000, commercial banks reported 3,072 cases of frauds involving an amount of Rs. 672.59 crore.

Eight cases of frauds involving an amount of Rs.1.59 crore were reported by the banks in their overseas branches during the same period. These cases were followed up with the banks for necessary remedial measures and fixing staff accountability. During the year 2000-01 (July-June), 48 Caution Advices were issued to commercial banks/financial institutions in respect of firms/companies observed to have committed serious irregularities in their borrowal accounts. During the year 2000-01, 94 cases of robberies/ dacoities involving an amount of Rs. 3.44 crore were reported by public sector banks.

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[1] Banking Statistical Returns (BSR)

[2] Data for 2001 is available only for sanctions.

[3] Commodities include cash crops, edible oils, agricultural produce and other sensitive commodities.

[4] The definition of priority sector lending has been expanded during the year to include *inter alia*, bank finance to agriculture through (i) non-banking financial companies and (ii) finance for distribution of inputs for activities allied to agriculture up to Rs. 15 lakh (raised from Rs 5 lakh).