Table III.11: International Assets of Banks Classified According to Type

(Amount in Rs. crore)

Asset type	Amount outstanding as at end-March		
	2002	2003	2004
1	2	3	4
1. Loans and Deposits	95,794	97,657	1,08,527
Of which:			
Loans to Non-Residents*	5,218	4,634	4,281
Foreign Currency Loans to Residents **	19,561	36,859	44,079
Outstanding Export Bills drawn on Non-Residents by Residents	15,190	19,242	20,609
Nostro Balances@	55,642	36,708	39,282
2. Holdings of Debt Securities	952	1,027	858
3. Other Assets @@	4,629	5,890	6,380
Total International Assets	**1,01,375**	**1,04,574**	**1,15,765**

* Includes Rupee loans and foreign currency (FC) loans out of non-residents deposits.

** Includes loans out of FCNR(B) deposits, PCFCs, FC lending to and FC deposits with Banks in India *etc.*

@ Including balances in term deposit with non-resident banks (including FCNR funds held abroad).

@@ Capital supplied to and receivable profits from foreign branches/subsidiaries of Indian banks and other unclassified international assets.

borrowing of banks may be on account of the more flexibility given to banks to source foreign borrowings. In January 2003, the Reserve Bank provided further flexibility to banks to source foreign currency funds for granting pre-shipment credit in foreign currency/export bills rediscounting (PCFC/EBR) to exporters. Banks are allowed to use funds generated through buy-sell swaps in domestic forex markets for granting such loans subject to Aggregate Gap Limit approved by the Reserve Bank. There was also a significant expansion in ADRs/GDRs and equities of banks held by non-residents. The expansion in flows under ADRs/GDRs may be attributed to the improvement in the investment climate and lower cost of funds overseas. In terms of currency composition, international liabilities were predominantly in US dollars followed by Indian Rupees, given the large size of Rupee non-resident deposits.

3.37 Banks' international assets, on the other hand, marginally increased by 3.2 per cent during 2002-03 to reach the level of Rs.1,04,574 crore at end-March 2003 which further increased by 10.7 per cent (about Rs.11,000 crore) during 2003-04 (Table III.11). Loans and deposits continued to be the major component accounting for about 93 per cent of total international assets. As regards the components of loans and deposits the foreign currency loans to residents increased by 20 per cent during the year 2003-04 over the top of increase of 88 per cent during the year 2002-03. The *nostro* balances of the reporting banks, which reflect the domestic residents' preference of foreign currency, increased slightly during the year 2003-04 compared with a decline of 34 per cent in 2002-03.

3.38 The consolidated claims of banks, based on immediate country risk, as at end-March 2004 were mainly concentrated on the US, Hong Kong and the UK together accounting for about 54 per cent of total international claims (Table III.12). The distribution of consolidated international claims of banks on various countries, other than India, according to residual maturity revealed that banks continued to prefer to invest/lend for short-term purposes particularly in the 'up to 6 months' period whose share in total claims has increased by 4.5 percentage points to 70.2 per cent during 2003-04 (Table III.13). As regards the sectoral distribution of these claims, the reporting banks preferred to invest/lend in/to 'bank' sector and 'non-bank private' sector.

Table III.12: Consolidated International Claims of Banks on Countries other than India
(based on CBS Statements-Immediate Country risk basis)

(Amount in Rs. crore)

Country	Amount outstanding as at end		
	June 2002	March 2003	March 2004
1	2	3	4
Total Consolidated International Claims	**94,644** **(100.0)**	**91,061** **(100.0)**	**78,124** **(100.0)**
Of Which:			
United States of America	20,940 (22.1)	20,446 (22.5)	19,915 (25.5)
Hong Kong	14,317 (15.1)	13,416 (14.7)	12,353 (15.8)
United Kingdom@	12,140 (12.8)	12,779 (14.0)	9,879 (12.6)
Germany	3,689 (3.9)	3,281 (3.6)	4,593 (5.9)
Singapore	6,080 (6.4)	5,776 (6.3)	3,729 (4.8)
Italy	3,362 (3.6)	2,832 (3.1)	1,735 (2.2)
France	2,582 (2.7)	2,461 (2.7)	1,684 (2.2)

@ Excluding Guernsey, Isle of Man and Jersey

Notes: 1. Figures in brackets are percentage to total.

2. The country wise CBS was compiled based on country of ultimate risk till March 2002. The data from the quarter ended June 2002 onwards; adopt country of immediate risk based classification. Hence, the data for June 2002 are presented instead of March 2002.

Table III.13: Maturity (Residual) Classification of Consolidated International Claims of Banks - Amount Outstanding
(based on CBS Statements - Immediate country risk basis)

(Amount in Rs. crore)

Residual Maturity	Amount outstanding as at end		
	June 2002	March 2003	March 2004
1	2	3	4
Up to 6 months	61,842 (65.3)	59,831 (65.7)	54,879 (70.2)
6 months to 1 year	10,502 (11.1)	6,412 (7.0)	3,798 (4.9)
1 year to 2 years	3,916 (4.1)	4,247 (4.7)	2,872 (3.7)
Over 2 years	14,197 (15.0)	18,861 (20.7)	14,948 (19.1)
Unallocated	4,185 (4.4)	1,710 (1.9)	1,627 (2.1)
Total	**94,644** **(100.0)**	**91,061** **(100.0)**	**78,124** **(100.0)**

Notes: 1. Unallocated residual maturity comprises maturity not applicable (*i.e.*, equities) and maturity information not available from reporting bank branches.

2. Figures in brackets are percentages to total.

3. The country wise CBS was compiled based on country of ultimate risk till March 2002.The data from the quarter ended June 2002 onwards, adopt country of immediate risk based classification. Hence, the data for June 2002 are presented instead of March 2002.

Commercial Bank Survey

3.39 A quarterly profile of the commercial bank survey is able to capture the shifts in funds flows. Liquidity in the banking system surged in the first quarter of 2003-04, essentially because of the seasonal down turn in credit demand and continued capital flows. Banks drew down their *nostro* balances and borrowed overseas to fund foreign currency loans to residents. Net outflows were recorded under the FCNR(B) scheme as the alignment of interest rates with international rates took effect. With subdued credit demand from the commercial sector and greater access to relatively cheaper overseas funds, surplus liquidity led to an expansion of bank reserves in the first quarter of 2003-04, despite the cut in CRR in mid-June 2003. Banks' gilt portfolios rose sharply as the borrowing programme gathered momentum and the Reserve Bank engaged in sizeable open market sales. Repayments of food credit and relatively weak demand from industry kept credit to the commercial sector at moderate levels. Subdued credit off-take led to banks' expanding their exposure to the commercial sector through non-SLR investments. *Nostro* balances were built up by some banks in the second quarter in anticipation of RIB redemption on October 1, 2003. Banks' overseas borrowings picked up strongly in consonance with the growth of foreign currency loans to residents. The FCNR(B) scheme continued to record outflows. Net bank reserves declined as the surplus liquidity was absorbed by LAF auctions.

3.40 During the third quarter of 2003-04, deposit mobilisation revived in consonance with the recovery in real activity. This was also reflected in a strong non-food credit demand evident since August. Banks unwound *nostro* positions as most of the redemption proceeds of the RIBs were switched into domestic currency/non-resident deposit schemes. Overseas borrowings by banks rose in response to liberalisation in borrowing limits relating to Tier-I capital. Bank reserves rose significantly, driven by the surplus liquidity resulting from the slack in demand for funds by the Government. The slowdown in call/term borrowing from financial institutions reflected a further scaling down of non-bank lendings in the call/notice money market. Non-food credit off-take continued to strengthen in the final quarter. This, along with other factors such as inflows on account of ONGC disinvestment, FIIs inflows and inflows under Exchange Earners Foreign currency (EEFC) accounts continued to swell demand deposits. Time deposits also witnessed a spurt reflecting a switch back from mutual funds to bank deposits as well as temporary parking of mutual funds in bank deposits because of a downturn in the stock markets. The rise in banks' investments in Government securities in the last quarter reflected repo operations conducted under the LAF. The growth of foreign currency loans to residents remained steady in all quarters. The large accretions in the capital account of banks reflected their building up of investment fluctuation reserves as well as adherence to prudential guidelines relating to the capital adequacy ratio.

3.41 In the first two quarters of 2004-05, deposit accretion moderated due to reduced capital inflows. Food credit picked up in the first quarter of 2004-05 reflecting higher procurement although there was a seasonal down turn in the second quarter. There was also a sustained increase in the non-food credit off-take reflecting in part the strengthening of industrial activity. Investment in Government paper declined in view of the upturn in interest rates and the revival of credit demand (Table III.14 and Appendix Table III.10).

Table III.14: Operations of Scheduled Commercial Banks

(Amount in Rs. crore)

Items	Outstanding as on March 19, 2004	2002-03				2003-04				2004-05	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Aggregate Deposits of Residents	14,29,080	52,675	32,201	37,518	23,773	65,724	32,455	60,154	82,398	56,865	23,402
Demand Deposits	2,25,022	4,717	-4,535	11,654	5,405	11,366	-5,950	18,496	30,822	-12,155	4,260
Time Deposits of Residents	12,04,058	47,958	36,735	25,864	18,368	54,359	38,406	41,658	51,577	69,020	19,142
Call/Term Funding from Financial Institutions	24,670	6,448	792	227	2,142	2,526	2,253	4,822	2,431	5,409	541
Credit to the Government	6,54,758	47,047	18,716	22,680	23,798	35,534	45,333	18,342	32,133	40,056	-10,392
Credit to the Commercial Sector	10,02,479	22,805	20,342	39,481	27,881	10,400	5,466	40,775	54,800	35,075	42,679
Food Credit	35,961	7,030	-7,645	-1,415	-2,468	586	-12,601	-1,113	-391	8,562	-6,335
Non-food Credit	8,04,824	7,522	19,945	32,541	39,439	3,091	15,186	48,992	57,819	29,523	46,715
Net Credit to Primary Dealers	1,946	2,854	5,837	959	-5,886	5,557	-779	-4,649	-2,276	-678	977
Investments in Other Approved Securities	22,830	-1,233	-459	-965	-306	-13	-407	50	-928	-184	3,918
Other Investment (in non-SLR Securities)	1,36,918	6,633	2,664	8,361	-2,898	1,178	4,068	-2,505	577	-2,148	-2,596
Net Foreign Currency Assets of Commercial Banks	-58,531	2,748	-15,136	-8,992	-9,120	1,235	1,855	6,815	196	-7,711	4,233
Foreign Currency Assets	33,833	4,718	-14,412	-7,955	-5,345	-377	3,264	-4,066	3,931	-3,507	3,320
Non-resident Foreign Currency Repatriable Fixed Deposits	75,336	1,655	669	-265	-403	-2,103	-1,273	-13,916	122	1,139	-169
Overseas Foreign Currency Borrowings	17,028	315	55	1,302	4,178	491	2,682	3,035	3,613	3,065	-744
Net Bank Reserves	76,895	-2,943	11,055	-1,619	-5,700	20,149	-14,272	6,394	-1,199	10,392	-3,621
Capital Account	1,03,108	15,152	-742	-1,815	1,625	15,349	-1,826	2,464	581	16,199	119
Other items (net)	1,18,743	-4,618	2,726	15,619	9,318	-16,283	5,500	4,887	520	-661	8,837

Notes: 1. Q1 refers to the quarter ending June and so on.
2. Data relate to last reporting Friday for each quarter.
3. Deposits have been adjusted for the full impact of the mergers while credit has been adjusted for the initial impact of the same during May 2002-April 2003.

Maturity Profile of Assets and Liabilities of Banks

3.42 The maturity structure of assets and liabilities of commercial banks showed a combination of various concerns of banks pertaining to business expansion, liquidity management, cost of funds, return on assets, asset quality, and also risk appetite in an industrial upturn. In general, the major components of balance sheet, including deposits, borrowings, advances and investments for all bank groups encompassed a non-linear portfolio structure across the spectrum of maturity. Furthermore, for all bank groups, the maturity structure of loans, and advances depicted synchronicity with that of deposits. However, there is some difference between the maturity structure of deposits and that of investments across banks. PSBs hold a greater part of their investment in higher maturity bucket, in particular, in the more than five-year maturity bucket as compared with private sector and foreign banks, which hold a major portion of investment in the upto one-year maturity bucket (Table III.15).

Bank Stock Prices

3.43 The stock markets, which had remained subdued since February 2000, witnessed a broad-based rally during 2003-04. The rally, which began since end-May 2003, continued almost uninterrupted till February 2004. This rally was caused by various factors like a good monsoon, encouraging corporate results, strong macroeconomic fundamentals, heavy investments by institutional investors especially by Foreign Institutional Investors (FIIs), positive trends in international markets and sector specific factors. The stock markets witnessed a sharp decline during March 2004-July 2004 on account of several domestic and international factors including profit booking by market players on year-end considerations, diversion of funds to primary market due to certain attractive IPOs, uncertainty regarding the outcome of the general elections and its effects on the reform process, slowdown in institutional investments, a rise in domestic inflation and rising international crude oil prices. However, a revival was witnessed subsequently.

3.44 In line with the uptrend in the market during 2003-04 the banking sector stocks too displayed buoyancy. The Bankex closely mirrored the BSE Sensex during 2003-04 [Chart III.4(A) and Chart III.4(B)]. In April 2004, Bankex outstripped the BSE Sensex. In May 2004, in the

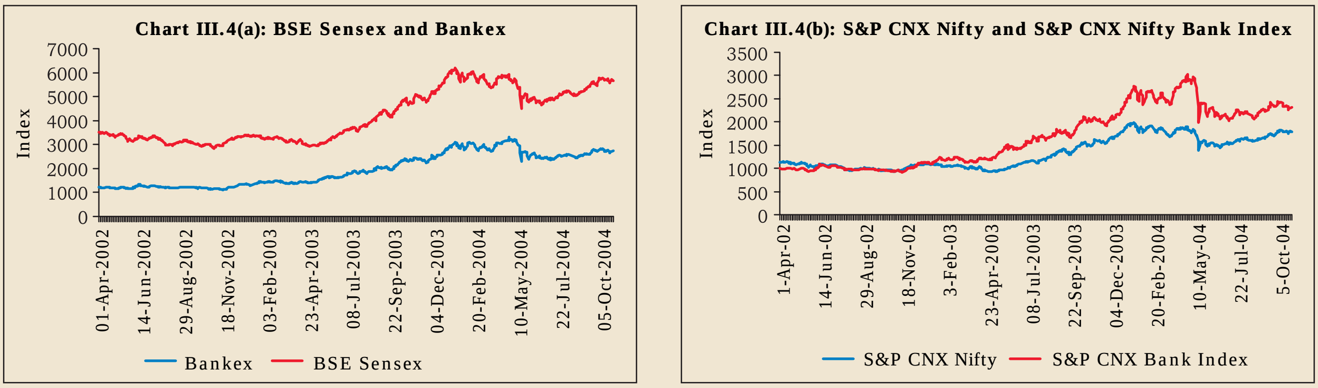
Table III.15: Bank Group-wise Maturity Profile of Select Liabilities/Assets

(per cent)

Asset/Liability	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
I. Deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	34.2	34.4	49.4	51.2	53.4	50.7	53.4	46.2
b) Over 1 year to 3 years	44.7	37.8	39.2	37.1	41.9	42.9	42.6	45.6
c) Over 3 years to 5 years	9.4	11.7	5.3	4.4	1.9	4.0	3.9	0.7
d) Over 5 years	11.7	16.1	6.1	7.3	2.8	2.4	0.1	7.5
II. Borrowings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	74.9	82.4	82.9	89.7	45.7	46.4	87.4	85.3
b) Over 1 year to 3 years	14.9	14.0	13.2	5.3	39.2	36.4	12.4	11.9
c) Over 3 years to 5 years	5.5	2.6	2.1	2.8	6.6	8.3	0.0	2.5
d) Over 5 years	4.7	1.0	1.8	2.2	8.5	8.9	0.2	0.3
III. Loans & Advances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	39.3	40.0	43.5	40.5	36.1	35.4	64.7	57.3
b) Over 1 year to 3 years	35.2	33.0	36.1	36.1	29.6	31.0	22.1	16.3
c) Over 3 years to 5 years	11.7	12.1	8.8	10.3	12.9	12.5	5.9	7.7
d) Over 5 years	13.8	14.9	11.6	13.1	21.4	21.1	7.3	18.7
IV. Investments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	12.3	10.4	18.9	18.0	44.9	45.0	46.6	45.8
b) Over 1 year to 3 years	13.7	11.8	14.6	10.2	29.0	27.3	24.8	30.7
c) Over 3 years to 5 years	15.8	14.5	9.6	10.4	6.3	6.6	12.4	8.5
d) Over 5 years	58.2	63.3	56.9	61.4	19.8	21.1	16.2	15.0

Source: Balance sheets of respective banks.

Chart III.4: Movement in Bank Stock Prices



wake of uncertainties created after general election, however, the Bankex declined more sharply than the BSE Sensex. The banking sectors scrips have been in the limelight especially since 2001-02. The progress of the banking sector reforms along with factors like relaxation in the foreign direct investment (FDI) norms for private sector banks in May 2001, improved financial performance of banks, sharp fall in the interest rates, which boosted the market value of banks' portfolio of Government securities and banks' trading profits in treasury transactions were some of the reasons behind the rally in banking scrips. The market expectations regarding disinvestment of PSBs and greater autonomy to banks also contributed to the boom. Notwithstanding the sharp correction in May 2004, the underlying fundamentals of banking sector scrips remain strong as evident from the good annual results brought out by most of the banks. The banking sector scrips revived subsequently in line with the trend in domestic stock markets, notwithstanding the concerns over possibility of hardening of interest rates that could put pressure on the earnings through 'other income' of the banks. Factors like the Supreme Court verdict upholding the validity of the new Securitisation Law, paving the way for higher recoveries in the banking sector and relaxations permitted in the rules governing the investment portfolio of banks helped in generating buying interest in the banking sector scrips.

3.45 In 2003-04, there was a strong market preference for bank scrips as evident from the sharp increases in turnover in respect of public sector and private sector banks (Table III.16). The share of public sector banks' turnover in total market turnover increased to 10.7 per cent in 2003-04 from 2.7 per cent in 2002-03. All public sector banks, which are listed in the NSE, recorded substantial increase in their stock prices. The major gainers in terms of average daily prices included Bank of Baroda, Canara Bank, Corporation Bank, Indian Overseas Bank, Oriental Bank of Commerce and Punjab National Bank. The private sector banks, which are listed in the NSE, also recorded significant gains in their stock prices (Table III.17). The most active scrips, in terms of daily turnover, were State Bank of India, Syndicate Bank, ICICI Bank, Bank of Baroda and Bank of India.

Table III.16: Turnover Details of Bank Shares at the NSE

(Amount in Rs. crore)

Category	2002-03		2003-04	
	Amount	Per cent to total turnover	Amount	Per cent to total turnover
1	2	3	4	5
Public Sector Banks	16,406.5	2.7	1,17,616.1	10.7
Private Sector Banks	4,262.2	0.7	22,496.5	2.0
Total	20,668.6	3.4	1,40,112.6	12.7
Total Turnover	**6,17,988.6**		**10,99,535.0**	

Source : National Stock Exchange.

Table III.17: Share Prices of Banks at the NSE

(Average Daily Closing Prices in Rs.)

Name of the Bank	2002-03	2003-04
1	2	3
Public Sector Banks		
Allahabad Bank	13.5*	21.5
Andhra Bank	17.0	41.1
Bank of Baroda	59.3	162.1
Bank of India	31.2	55.2
Canara Bank	61.5+	119.2
Corporation Bank	120.9	207.0
Dena Bank	10.8	22.3
Indian Overseas Bank	12.9	30.4
Oriental Bank of Commerce	46.7	197.9
Punjab National Bank	56.1@	190.3
Syndicate Bank	14.6	29.8
Union Bank of India	20.0#	42.6
Vijaya Bank	12.4	34.0
State Bank of India	250.7	469.5
State Bank of Bikaner and Jaipur	–	290.0
State Bank of Travancore	–	275.3
Private Sector Banks		
Bank of Rajasthan Ltd.	15.3	29.0
City Union Bank Ltd.	30.9	56.3
Federal Bank Ltd.	87.1	188.8
Jammu and Kashmir Bank Ltd.	95.2	281.0
Karnataka Bank Ltd.	61.2	89.3
Karur Vysya Bank Ltd.	194.7	276.1
Laxmi Vilas Bank Ltd.	65.9	98.4
South Indian Bank Ltd.	36.5	56.2
United Western Bank	22.8	28.1
Vysya Bank Ltd.	258.3	429.7
Bank of Punjab Ltd.	13.9	24.0
Centurion Bank Ltd.	8.7	13.7
Global Trust Bank Ltd.	18.9	22.0
HDFC Bank Ltd.	217.6	302.2
ICICI Bank Ltd.	137.4	211.9
IDBI Bank Ltd.	18.9	35.9
IndusInd Bank Ltd.	15.9	28.8
UTI Bank Ltd.	38.9	88.6

* From November 29, 2002. + From December 23, 2002.
@ From April 26, 2002. # From September 24, 2002.
Note : Averages are calculated using daily closing prices.
Source : National Stock Exchange.

3. Financial Performance of Scheduled Commercial Banks

3.46 In 2003-04, the performance of the banking sector exhibited several improvements. The momentum of high growth in the profitability of SCBs was maintained. Profits of SCBs increased substantially over and above the strong performance of 2002-03 (Table III.18). But the sources of increase in income and profits during 2003-04 were different from those of 2002-03. The high growth of operating profit was achieved mainly due to a substantial increase in non-interest income (or other income) and a significant containment of expenditure in general coupled with a decline in interest expenses on deposits in particular. Although interest income recorded a low growth, it still made a positive contribution to banks' overall earnings. Bank group-wise important financial indicators are given in Appendix Table III.11 and Appendix Table III.12 (A) to (G).

Income

3.47 Due to the softer interest rate regime, the total income of SCBs witnessed a slowdown with a growth rate of 6.6 per cent in 2003-04 compared with a record growth rate of 14 per cent in 2002-03. The sluggish growth of income was evident for all bank groups. Among bank groups, the rate of increase in income was highest for the foreign banks group followed by PSBs, new private sector banks and old private sector banks. The bottomline of certain PSBs also improved owing to the fact that the Reserve Bank allowed banks to recognise income on accrual basis in respect of some categories of projects under implementation which had time overruns.

Interest Income

3.48 The interest income from core activities including loans and advances and investments in outstanding terms remained the dominant component, accounting for 78.4 per cent of total income of SCBs. On an incremental basis, however, the contribution of interest income to total income during 2003-04 was 29 per cent compared with 64.5 per cent in 2002-03 (Chart III.5). The growth rate of interest income at 2.4 per cent in 2003-04 was substantially lower when compared with the growth rate of 10.8 per cent in 2002-03. Among the components of interest income, both income on advances and investments posted a lower growth in 2003-04 when compared with 2002-03.

Other Income

3.49 With the diversification of banks' portfolio non-interest income or 'other income' has evolved as an increasingly important source of income for banks. The share of non-interest income in banks' total income has increased continuously

Table III.18: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Year	2001-02		2002-03		2003-04	
	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets
1	2	3	4	5	6	7
1 Income (a+b)	1,51,032	9.8	1,72,345	10.1	1,83,767	9.3
a) Interest Income	1,26,958	8.3	1,40,742	8.3	1,44,028	7.3
b) Other Income	24,074	1.6	31,603*	1.9	39,739	2.0
2 Expenditure (a+b+c)	1,39,456	9.1	1,55,268	9.1	1,61,496	8.2
a) Interest Expended	87,516	5.7	93,596	5.5	87,567	4.4
b) Operating Expenses	33,679	2.2	38,067	2.2	43,530	2.2
Of which:						
Wage bill	21,785	1.4	23,610	1.4	26,164	1.3
c) Provisions and Contingencies	18,261	1.2	23,605	1.4	30,400	1.5
3 Operating Profit	29,837	1.9	40,682	2.4	52,671	2.7
4 Net Profit	11,576	0.8	17,077	1.0	22,271	1.1
5 Spread (1a-2a)	39,441	2.6	47,146	2.8	56,462	2.9

Note : The number of scheduled commercial banks in 2001-02 and 2002-03 and 2003-04 were 97, 93 and 90, respectively.
* Includes profit on shares of ICICI Bank Ltd. held by erstwhile ICICI Ltd.

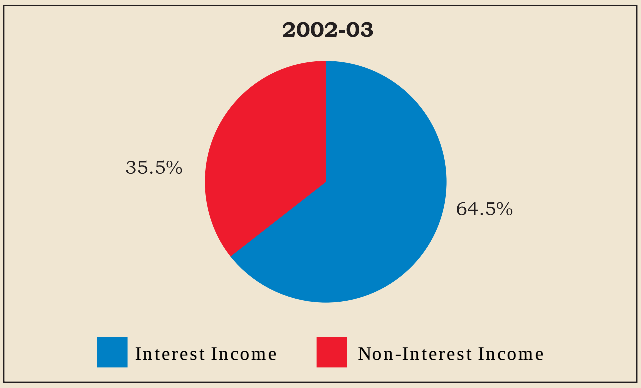
from nine per cent in 1992-93 to 21.6 per cent in 2003-04 (Chart III.6). During 2003-04, on an incremental basis, the non-interest income accounted for about 71 per cent of total income as compared with 35.5 per cent in 2002-03.

3.50 The composition of non-interest income of SCBs showed that fee income, trading income on investments, income from foreign exchange operations and miscellaneous income accounted for about 30 per cent, 49 per cent, 9 per cent and 12 per cent, respectively. Within non-interest income category, the share of fee-income has come down while the share of trading income including profit (loss) from investment has increased over the years (Chart III.7). It is worth mentioning here that international evidence indicates that non-interest income tends to be more volatile than traditional interest income (Box III.6).

Expenditure

3.51 The expenditure of SCBs showed substantial containment during 2003-04. The growth rate of expenditure at 4 per cent in 2003-04 was much lower than 11.3 per cent recorded in 2002-03. Expenditure containment driven largely by the decline in interest expenses was evident for all bank groups. The decline in interest expenses was sharper for foreign banks when compared with other bank groups.

Chart III.5: Sources of Accretion to Income of Scheduled Commercial Banks



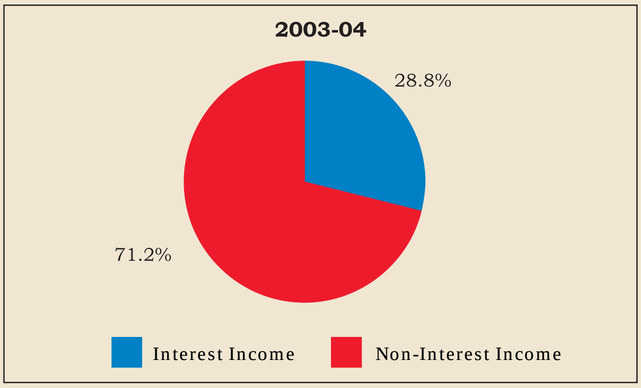


Chart III.6: Trend in the Shares of Interest and Non-Interest Income of Scheduled Commercial Banks

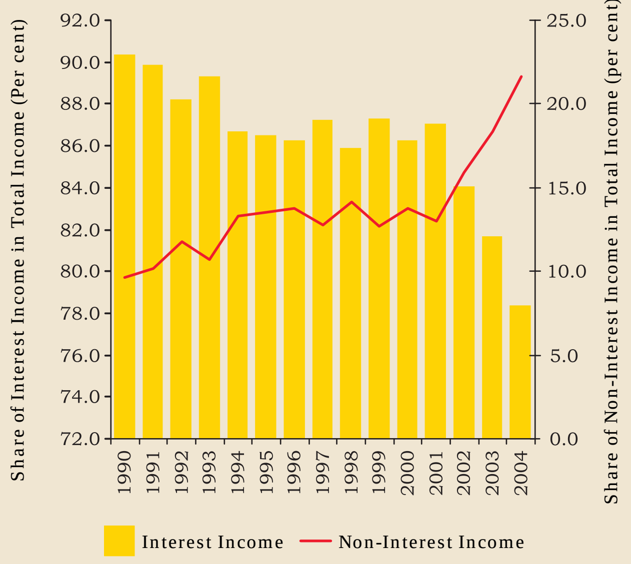
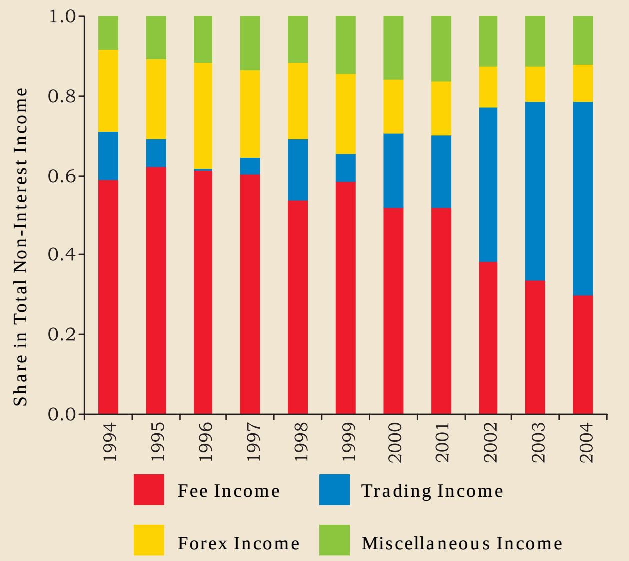


Chart III.7: Composition of Non-Interest Income of Scheduled Commercial Banks



Interest Expenditure

3.52 For SCBs, interest expenditure on deposits accounted for about 54.2 per cent of total expenditure in 2003-04, lower by 6 percentage points when compared with 2003-04. The ratio of interest expenditure to total assets of SCBs declined to 4.4 per cent in 2003-04 from 5.5 per cent in 2002-03. For PSBs, the ratio of interest expenses to total assets declined to 4.5 per cent in 2003-04 from 5.4 per cent in 2002-03. The ratio of interest expenditure to assets of new private sector banks declined to 4.7 per cent in 2003-04 from 6.4 per cent in 2002-03 while for old private sector banks, it has declined to 5 per cent in 2003-04 from 6 per cent in 2002-03.

Operating Expenses

3.53 Operating expenses comprise broadly wage expenses and non-wage expenses such as rent, taxes, establishment expenses, advertisement, directors' fees and allowances and legal charges. During 2003-04, the operating expenses of scheduled commercial banks grew at 14.3 per cent, which was higher by 1.2 percentage points over the growth rate recorded in 2002-03. The stability in growth of operating expenses relative to assets was evident in 2003-04 since the ratio of operating expenses to assets remained more or less at the same level, *albeit* with a marginal decline compared with 2002-03. Across bank groups, the ratio of operating expenses to assets declined for public sector banks, old private sector banks and foreign banks but increased marginally for new private sector banks during 2003-04 when compared with 2002-03. From a cross-country perspective, the comparative efficiency of Indian banks is evident since the ratio of operating expenses to total expenses of Indian banks is in the range of 24-35 per cent much lower than the international benchmark of 60 per cent.

Wage Bill

3.54 The wage bill of scheduled commercial banks increased by 10.8 per cent in 2003-04 as against an increase of 8.4 per cent in 2002-03. However, the share of wage bills in operating expenses of SCBs declined to 60 per cent in 2003-04 from 62 per cent in 2002-03. Among bank groups, the more technology-intensive new private sector and foreign banks have a lower proportion of the wage bill in operating expenses as compared with old private sector and public sector bank groups. In 2003-04, the share of wage expenses in operating expenses was highest at 69 per cent for public sector banks and 59 per cent for old private sector banks. The share of wage expenses in operating expenses was 23.4 per cent and 32.1 per cent for new private sector banks and foreign banks, respectively, in 2003-04.

Box III.6: Diversification and Stability of Banks' Income

During the last decade, banks have steadily shifted away from traditional sources of revenue such as interest earning loans and advances and investment activities toward various non-traditional non-interest income sources, which include fee income, commission and service charges, net profit from sale (or purchase) of investments, gains from foreign exchange transactions and various other types of miscellaneous receipts. Information technology, and an increasingly liberalised financial sector have facilitated the growth of banks' non-interest income. Increasing recourse to non-traditional sources of income enable banks to derive diversification gains in terms of lower portfolio risk. Non-interest income is also likely to be less dependent on overall business conditions than traditional interest income, so that an increased reliance on non-interest income reduces the cyclical variation in banks' revenues and profits. Non-interest income activities enable banks to reap the benefits of economies of scale and scope through expanded business opportunities and reduce operating cost as also to spread out such costs across various activities. The potential gains from non-interest income notwithstanding, several studies have debated whether there has been significant improvement in stability of banks' income and profitability due to the changing composition of banks' earnings. Empirical studies for Europe and US banks suggest that non-interest income has been more volatile than traditional interest income. Using applied portfolio analysis, these studies have shown that due to positive correlation between interest and non-interest income, the volatility of aggregate income and profitability of banks has accentuated over the years.

In the Indian context, the share of non-interest income in banks' total income has increased from nine per cent in the 1991-92 to 22 per cent in 2003-04. Across bank groups, public sector and domestic private sector banks have recorded accelerated growth of non-interest income. In terms of components of non-interest income, the income from fees and commissions, which accounted for about 70 per cent to 97 per cent of total non-interest income across various bank groups in 1991-92, has declined to about 25 per cent to 30 per cent in 2003-04. Thus, other components of non-interest income including investment banking and treasury operations have witnessed rapid growth over the years.

An analysis of volatility of the income of various bank groups suggests that during the period 1994-2004, the standard deviation of the ratio of interest income to assets was highest for private sector banks followed by foreign banks, SBI group and the nationalised banks. The standard deviation of the ratio of interest income to assets was greater than that of the ratio of non-interest income to assets of all bank groups. However, the standard deviation of the ratio of net interest income to assets was lower than that of the ratio of non-interest income to assets for all bank groups with the exception of nationalised banks. The correlation between interest income and non-interest income was negative for all bank groups; it was substantially high for nationalised banks and lower for Indian private sector banks. The correlation between net interest income and non-interest income was, however, positive for all bank groups with the exception of nationalised banks.

Variability of Interest Income and Non-Interest Income of Bank Groups: 1994-2004

	Interest Income-Assets Ratio	Net Interest Income-Assets Ratio	Non-Interest Income-Assets Ratio	Correlation Between Interest Income and Non-Interest Income	Correlation Between Net Interest Income and Non-Interest Income
SBI Group	6.18	10.60	10.90	-0.25	0.40
Nationalised Banks	5.73	13.98	10.87	-0.80	-0.01
Indian Private Sector Banks	17.99	18.43	23.07	-0.19	0.10
Foreign Banks	7.10	9.66	46.01	-0.63	0.54
Scheduled Commercial Banks	6.10	11.18	11.29	-0.75	0.39

Note: Standard deviation (in per cent) and correlation coefficients are based on first difference of logarithm transformed data series.

References:

Davis, E.P., and Klaus T., 'The Changing Structure of Banks' Income – An Empirical Investigation', European Central Bank.

Smith, R., and Wood, G., (2002), 'Non-interest income and Total income Stability', Bank of England, *Working Paper*, no.198.

Stiroh, K.J., (2002), 'Diversification in Banking: is Non-interest Income the Answer?' Federal Reserve Bank of New York, *Staff Paper*, No. 154.

Provisions and Contingencies

3.55 The major items on provisions and contingencies consist of provisions for loan losses, provisions for depreciation in value of investments and provisions for taxes. The growth of provisions in recent years has been influenced by various policy incentives. The Union Budget 2002-03 raised the allowance for deduction by banks against provisions made for bad and doubtful debts from five per cent of their total income to 7.5 per cent. Due to the impact of 90-day delinquency norm the provisions and contingencies expenditure maintained a high growth at 28.8 per cent in 2003-04 when compared with a growth of 29.3 per cent recorded in 2002-03.

Operating Profits

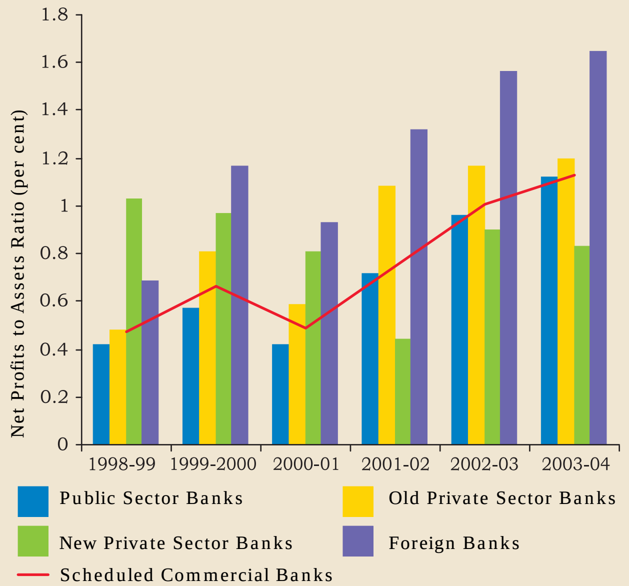
3.56 During 2003-04 the SCBs continued to maintain a robust momentum in profits. Operating profit, the structural measure of profitability, increased by 29.5 per cent in 2003-04 as against an increase of 36.3 per cent recorded in 2002-03. Among bank groups, the operating profits of PSBs and foreign banks increased by 32.8 per cent and 33.8 per cent, respectively, in 2003-04. The rate of increase in operating profits of private sector banks was relatively lower at 13.4 per cent in 2003-04 as compared with 55.7 per cent recorded in 2002-03.

3.57 In recent times, treasury operations have emerged as a major profit centre for Indian banks. Forex incomes, although not as large as treasury income, have also been contributing significantly to bank's operating profits in recent years, despite the pressure on margins and the thinning of inter-bank spreads (Table III.19, Appendix Table III.13). A bank group wise analysis indicates that a major share of the profits of PSBs and private sector banks was on account of trading income while in the case of foreign banks foreign exchange transactions accounted for a major share in profits.

Net Profit

3.58 Net profits of SCBs increased by 30.4 per cent in 2003-04, as against a rise of 47.5 per cent in 2002-03. In 2003-04, among the bank groups, the increase in net profits was the highest for PSBs with a growth rate of 34.6 per cent, followed by foreign banks and Indian private sector banks, which recorded a growth rate of 23 per cent and 18 per cent, respectively (Chart III.8). This was due to the large gains on non-interest incomes, in particular, the profits booked on sale/purchase of investments.

Chart III.8: Net Profitability of Bank Groups



3.59 Within PSBs group, all banks except one reported profitability (the net profit as percentage of total assets) above half per cent. In fact, 26 PSBs recorded net profitability of 0.75 per cent, of which 21 banks reported net-profitability of a percentage point in 2003-04.

3.60 International experience suggests that bank profitability was high in 2003 in major countries except Germany and Japan. There were, however, diverse developments across countries pertaining to profitability, cost conditions and provisioning (Table III.20). From a cross country perspective, the profitability of India's banking sector remained in the high profitability of 1 per cent and above category.

Table III.19: Bank Group-wise break-up of Major Income

(Amount in Rs. crore)

Bank Group	Trading Income		Forex Income		Operating Profit	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7
Scheduled Commercial Banks	**13,211**	**19,532**	**2,824**	**3,754**	**40,682**	**52,671**
Public Sector Banks	9,890	15,410	1,672	1,884	29,717	39,475
Nationalised Banks	7,215	10,482	1,035	1,192	18,486	25,111
State Bank Group	2,675	4,928	638	692	11,231	14,364
Old Private Sector Banks	1,466	1,476	123	117	2,804	3,196
New Private Sector Banks	1,351	2,034	140	385	4,432	5,013
Foreign Banks	504	612	888	1,368	3,728	4,987

Notes : 1. Trading Income - Net profit on sale/purchase operations of investment.
2. Forex Income - Net Profit on foreign exchange transactions.

Table III.20: Profitability of Major Banks

(As per cent of total assets)

Country	Pre-tax profits		Provisioning expenses		Net interest margin		Operating costs	
	2002	2003	2002	2003	2002	2003	2002	2003
1	2	3	4	5	6	7	8	9
United States (11)	1.7	2.0	0.7	0.4	3.1	3.0	3.5	3.4
Canada (5)	0.6	1.0	0.6	0.2	2.1	2.0	2.8	2.8
Japan (11)	-0.5	0.1	0.6	0.2	1.0	0.6	1.0	0.8
United Kingdom (5)	1.1	1.2	0.4	0.3	2.0	1.8	2.2	2.1
Sweden (4)	0.7	0.8	0.1	0.1	1.5	1.4	1.4	1.4
Germany (4)	0.1	-0.2	0.4	0.3	0.8	0.8	1.7	1.7
France (3)	0.5	0.6	0.2	0.2	0.8	0.9	1.5	1.6
Italy (5)	0.5	0.8	0.6	0.5	2.3	2.1	2.4	2.5
Spain (3)	1.1	1.3	0.6	0.4	2.7	2.4	2.4	2.1
Memo:								
India *	0.8	1.0	1.2	1.4	2.6	2.8	2.2	2.2

* Pertain to 97 scheduled commercial banks in 2002 and 93 for 2003. Financial year is April-March. The profit figure refers to net profits.

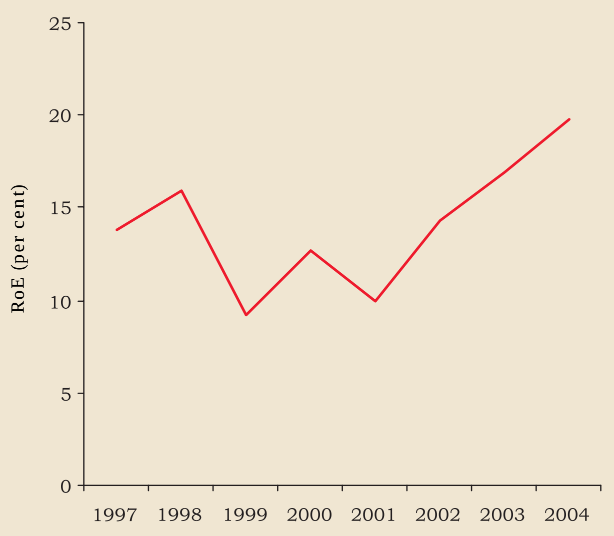
Notes : 1. Figures are percentage to total assets.
2. Figures in brackets indicate number of major banks included.

Source : BIS Annual Report, 2004.

Return on Equity

3.61 The return on equity (RoE) indicator of banks provides information about the conduct of business by banks in the interest of shareholders. The RoE of the banking system was high at 19.8 per cent as at end-March 2004 as against 16.9 per cent as at end-March 2003 (Chart III.9). The high RoE in the banking industry may be conducive to attracting capital. However, actual success of banks in tapping capital market would be contingent on the individual bank's stability and vibrancy.

Chart III.9: Return on Equity of Scheduled Commercial Banks



Off-Balance Sheet Activities

3.62 Off-balance sheet activities of SCBs, comprising fees, commissions and brokerage, profit (loss) on sale/purchase of investments and forward exchange contracts, guarantees, acceptances and endorsements, rose sharply by 51.3 per cent in 2003-04. Accordingly, the share of off-balance sheet operations in terms of total liabilities increased to 89.3 per cent in 2003-04, recording a jump of about 20 percentage points over 2002-03. Out of this, forward exchange contracts accounted for 65.5 per cent. Among bank groups, foreign banks were particularly active in off-balance sheet activities with the result that the ratio of their off-balance sheet activity to total liabilities rose from 483 per cent in 2002-03 to 653 per cent in 2003-04 (Appendix Table III.14).

Cost of Funds

3.63 In the recent period, a notable feature of the banking sector has been the low cost of funds in the enabling macroeconomic environment. The cost of funds across bank groups declined in the range of 70-150 basis points in 2003-04. The decline in cost of funds in 2003-04 was

Table III.21: Bank Group-wise Cost of Funds and Returns

(per cent)

Variable/ Bank Group	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
Cost of Funds	6.1	5.0	6.6	5.3	4.4	3.7	5.3	3.8
Return on Advances	9.0	7.9	9.7	8.8	10.3	8.8	10.3	8.3
Return on Investments	9.2	8.5	9.2	8.1	8.2	6.2	7.7	8.2

Notes : 1. Cost of funds = (Interest Paid on Deposits+Interest Paid on Borrowings)/(Deposits+Borrowings).
2. Return on Advances = Interest Earned on Advances / Advances.
3. Return on Investments = Income on Investment / Investment.

accompanied by a more or less a similar decline in return on advances, implying that the benefits of low interest rates have percolated to banks' borrowers (Table III.21).

Spread

3.64 The spread or the net interest income, defined as the difference between interest income and interest expenses, constitutes an important indicator of efficiency of banks since it drives a wedge between interest received by depositors and the interest charged to borrowers on their loans. The spread of SCBs recorded a sustained growth; it increased by 19.8 per cent in 2003-04 as against an increase of 19.5 per cent in 2002-03. Most bank groups had recorded a double-digit increase in the spread. The increase in spreads of private sector and foreign banks was sharper than that of PSBs.

3.65 Financial parameters of various banks across bank groups of public sector, private sector and foreign banks are given in Appendix Tables III.15(A) to III.15(I), Appendix Tables III.16(A) to III.16(H) and Appendix Tables III.17(A) to III.17(H), respectively.

Investment Fluctuation Reserve

3.66 In line with the policy approach, banks have accelerated their efforts toward building up of the Investment Fluctuation Reserve (IFR). As at end-March 2004, the IFR ratio (IFR defined as a percent of investments under available for sale (AFS) and held for trade (HFT) categories, taken together) for SCBs increased sharply to reach three per cent from the level of 1.8 per cent in 2002-03. The progress on building up of IFR is evident for all bank groups. However, the record of progress has been highest for PSBs, followed by foreign banks and old private sector banks. The new private sector banks lagged behind other bank groups. While banks are required to build up an IFR portfolio of a minimum of five per cent of their investments by 2007, it is observed that three banks within PSBs have already achieved the target and 20 banks have built up IFR ratio of 3.0 per cent or more, perhaps reflecting their concerns of cushioning their investment portfolios against adverse interest rate movements (Table III.22 and Appendix Table III.18).

Table III.22: Bank Group-wise Investment Fluctuation Reserves (IFR)

(As at end-March 2004)

(Amount in Rs. crore)

Bank Group	Investment		IFR	IFR/ (AFS+ HFT) (per cent)
	Available for Sale (AFS)	Held for Trading (HFT)		
1	2	3	4	5=4/ (3+2)
Scheduled Commercial Banks	**6,18,794**	**20,433**	**18,920**	**3.0**
Public Sector Banks	4,87,876	5,503	15,192	3.1
Nationalised Banks	2,84,441	3,411	8,825	3.1
State Bank Group	2,03,436	2,091	6,368	3.1
Old Private Sector Banks	38,178	1,248	1,108	2.8
New Private Sector Banks	62,401	5,557	1,561	2.3
Foreign Banks	30,339	8,126	1,059	2.8

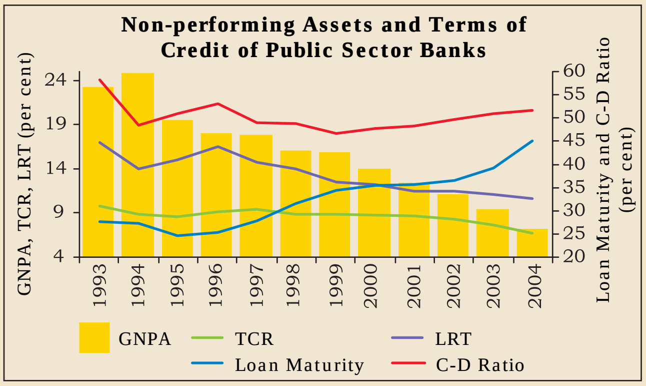
4. Non-performing Assets

3.67 The level of non-performing loans is recognised as a critical indicator for assessing banks' credit risk, asset quality and efficiency in allocation of resources to productive sectors. Reflecting the success of financial sector reforms, regulatory and supervisory process, in particular, banks have made substantial progress in cleaning up the NPAs from their balance sheets (Box III.7).

Box III.7: Determinants of Non-Performing Assets of Indian Banks

A common perspective is that banks' non-performing loans are influenced by structural nature of the economy. The structural nature of India's financial market has undergone significant changes due to financial sector reforms. Government intervention in the credit market has eased significantly. There has been shift in emphasis from direct instruments to indirect instruments of monetary management. Statutory pre-emption of banks' funds has been reduced through lowering of CRR and SLR. Interest rates have been deregulated in order to facilitate price discovery and foster market mechanism. Banks have been given freedom to charge lending rates. Rapid advances in information technology has contributed to significant reduction in transaction costs, facilitated greater diversification of portfolio, and improvements in credit delivery of banks. Prudential norms in line with international standards have been put in place for promoting and enhancing efficiency of banks. The process of institution building has been strengthened with several measures in the areas of debt recovery, asset reconstruction and securitisation, besides specific initiatives through recapitalisation to enhance the capital base of banks, and one-time settlement for resolution of NPAs. The implementation of SARFAESI Act, and Corporate Debt-Restructuring (CDR) has facilitated resolution of NPAs.

Various studies have shown that NPAs have two components; the overhang component and the incremental component (Jalan, 2002, Munniappan, 2002). The overhang component arises due to infirmities in structural and institutional environment while the increment component arises from factors internal to banks' management and credit culture. At the international level, several studies have identified a range of factors influencing NPAs of banks. Some have argued that the problem of NPAs could be due to plain bad luck attributing to business cycle, and unanticipated shocks such as business failures of producing firms, and disruption of activities due to various calamities. Another viewpoint is that the problem of NPAs may be due to bad management by banks (Caprio, and Klingebiel, 2000). According to the latter view, in an increasingly competitive financial market, economic factors have evolved as the key influences on banks' non-performing loans. In this context, various studies have underscored the role of banks' lending policy in general and the 'terms of credit' defined over, *inter alia*, cost, maturity, and collateral in influencing the movement of banks non-performing loans (Reddy, 2004, Mohan, 2003,2004, Sergio, 1996, McGoven,1993, Christine, 1995, Bloem and Gorterl 2001). In the Indian context, during the period 1993-2004, the ratio of banks' gross non-performing loans to advances has declined from about 24-25 per cent to 7-8 per cent amidst significant improvement in the lending terms. A comparative position of gross NPAs to advances ratio and the terms of credit variables including maturity (share of term loans in total advances), interest cost of deposits, operating expenses to asset ratio, total expenses to assets ratio, lending rates and credit-deposit ratio of public sector banks during the last ten years provide useful insights. There is evidence that, for the public sector banks, the gross NPA ratio has declined from 23 per cent in 1992-93 to 7.8 per cent in 2003-04. The prime-lending rate of interest of banks has declined by 500-750 basis points during period 1992-93 to 2003-04. The maturity terms of loans, defined as the ratio of term loans to advances, has improved from about 30 per cent to about 45 per cent. The credit orientation of banks, measured by credit-deposit ratio, which declined during the period 1993-99, has improved in the recent years. The proportion of secured loans has remained at high level, reflecting the stability in banks' approach to risk management. Besides, bank size induced risk element has moderated with stronger balance sheets. Rajaraman and Vasishtha (2002) in an empirical study provided evidence of significant bivariate relationship between operating inefficiency indicator and problem loans of India's public sector banks. Das and Ghosh (2003) made an empirical analysis of non-performing loans of India's public sector banks relating to various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicators. An empirical analysis suggests that besides supporting policy environment, banks have to devise appropriate lending terms taking account the cost of credit, cost of funds, maturity of loans, credit orientation among other factors so as to induce lower defaults on borrowers.



Note: GNPA: Gross Non-performing assets to gross advances ratio; TCR: Total Expenses to Assets Ratio; LRT: Lending Rate of Interest; Loan Maturity: the share of term loans in total loans (Right Y-axis); C-D Ratio: Credit-Deposit Ratio (Right Y-axis).

References:

Bhide, M.G., Prasad, A., and Ghosh, S., (2002), 'Banking Sector Reforms: A Critical Overview', *Economic and Political Weekly*, February 2.

Caprio, G., Jr. and Klingebiel , D., (1996) 'Bank Insolvency: Bad Luck, Bad Policy, or Bad Banking?' Annual World Bank Conference on Development Economics 1996, *Policy Research Working Paper*, 1620, World Bank.

Das, A., and S. Ghosh, (2003), 'Determinants of Credit Risk', paper presented at the *Conference on Money, Risk and Investment* held at Nottingham Trent University in November 2003

Fuentes, R., and Carlos M., (2003), 'Institutional Arrangements, Credit Market Development and Loan Repayment in Chile', School of Business and Economics, Universidad de Chile.

Mohan, R., (2003), 'Transforming Indian Banking: In Search of a Better Tomorrow', *RBI Bulletin*, January.

Mohan, R., (2004), 'Finance for Industrial Growth', *RBI Bulletin*, March.

Muniappan, G., (2002), 'The NPA Overhang, Magnitude, Solutions and Legal Reforms', *RBI Bulletin*, May.

Reddy, Y.V., (2004), 'Credit Policy, Systems, and Culture', *RBI Bulletin*, March.

Sergio, M., (1996), 'Non-performing bank loans: Cyclical Patterns and Sectoral Risk', *Review of Economic Conditions in Italy*. Rome, June, Issue 1.

3.68 In 2003-04, there was a remarkable improvement in the asset quality of SCBs. Despite the switchover to 90-day delinquency norm with effect from March 2004, the gross NPAs of SCBs declined in absolute terms for a second year in succession. The gross NPAs of SCBs declined by 5.6 per cent in 2003-04 as against a decline of 3.0 per cent in 2002-03. Due to significant provisioning, the net NPAs declined substantially by 24.7 per cent during 2003-04 as against a decline of 8 per cent in 2002-03 (Table III.23 to III.26). The decline in NPAs is evident across bank groups. The bank-wise gross/net NPAs as percentage to advances/assets are provided in Appendix III.19(A) to 19(F). During 2003-04, reductions outpaced additions in the NPAs account. For SCBs, the decline in gross NPAs was accompanied by the decline in doubtful and loss assets by 8.8 per cent and 15.0 per cent, respectively.

3.69 The ratio of net-NPAs to net advances of SCBs declined from 4.4 per cent in 2002-03 to 2.9 per cent in 2003-04. All bank groups witnessed a decline in the ratio of net NPAs to net advances in 2003-04. Among bank groups, the old private sector banks had the highest net NPAs ratio at 3.8 per cent followed by public sector banks, new private banks and foreign banks.

Sector-wise NPAs

3.70 Sector-wise NPAs of individual public and private sector banks are presented in Appendix Table III.20(A) and III.20(B). During 2003-04, the share of NPAs in the priority sector to total NPAs of public sector banks increased marginally. However, there was decline in the share of NPAs of agriculture sector and small-scale industries but an increase in the share of other priority

Table III.23: Bank Group-wise Gross and Net NPAs of Scheduled Commercial Banks

(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	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								
2001	5,58,766	63,741	11.4	4.9	5,26,328	32,461	6.2	2.5
2002	6,80,958	70,861	10.4	4.6	6,45,859	35,554	5.5	2.3
2003	7,78,043	68,717	8.8	4.0	7,40,473	32,671	4.4	1.9
2004	9,02,026	64,786	7.2	3.3	8,62,643	24,617	2.9	1.2
Public Sector Banks								
2001	4,42,134	54,672	12.4	5.3	4,15,207	27,977	6.7	2.7
2002	5,09,368	56,473	11.1	4.9	4,80,681	27,958	5.8	2.4
2003	5,77,813	54,090	9.4	4.2	5,49,351	24,867	4.5	1.9
2004	6,61,975	51,538	7.8	3.5	6,31,383	18,860	3.0	1.3
Old Private Sector Banks								
2001	39,738	4,346	10.9	5.1	37,973	2,771	7.3	3.3
2002	44,057	4,851	11.0	5.2	42,286	3,013	7.1	3.2
2003	51,329	4,550	8.9	4.3	49,436	2,740	5.5	2.6
2004	57,908	4,392	7.6	3.6	55,648	2,140	3.8	1.8
New Private Sector Banks								
2001	31,499	1,617	5.1	2.1	30,086	929	3.1	1.2
2002	76,901	6,811	8.9	3.9	74,187	3,663	4.9	2.1
2003	94,718	7,232	7.6	3.8	89,515	4,142	4.6	2.2
2004	1,19,511	5,963	5.0	2.4	1,15,106	2,717	2.4	1.1
Foreign Banks								
2001	45,395	3,106	6.8	3.0	43,063	785	1.8	0.8
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8
2003	54,184	2,845	5.3	2.4	52,171	921	1.8	0.8
2004	62,632	2,894	4.6	2.1	60,506	900	1.5	0.7

Notes : Constituent items may not add up to the totals due to rounding off.
Source : 1. Balance sheets of respective banks.
2. Returns submitted by respective banks.

Table III.24: Bank Group-wise Movements in Non-performing Assets - 2003-04

(Amount in Rs.crore)

Particular	Scheduled Commercial Banks (90)	Public Sector Banks (27)	Old Private Sector Banks (20)	New Private Sector Banks (10)	Foreign Banks (33)
1	2	3	4	5	6
Gross NPAs					
As at end-March 2003	68,698	54,090	4,291	7,492	2,826
Addition during the year	24,122	18,133	1,417	3,311	1,261
Reduction during the year	28,034	20,685	1,316	4,840	1,193
As at end-March 2004	64,786	51,538	4,392	5,963	2,894
Net NPAs					
As at end-March 2003	32,657	24,867	2,547	4,335	907
As at end-March 2004	24,617	18,860	2,140	2,717	900
Memo:					
Gross Advances	9,02,026	6,61,975	57,908	1,19,511	62,632
Net Advances	8,61,643	6,31,383	55,648	1,15,106	60,506
Ratio:					
Gross NPAs/Gross Advances	7.2	7.8	7.6	5.0	4.6
Net NPAs/Net Advances	2.9	3.0	3.8	2.4	1.5

Notes : 1. Figures in brackets indicates the number of banks in that category for the year 2003-04.
2. Data for Gross and Net Advances excludes ING Bank.

Source: Balance sheets of respective banks.

sectors. The share of NPAs on account of public sector undertakings declined while the share of NPAs of non-priority sectors increased during 2003-04. For private sector banks, the share of NPAs on account of agriculture sector was lower when compared with 2002-03. However, there

Table III.25: Classification of Loan Assets of Scheduled Commercial Banks–Bank Group-wise

(Amount in Rs.crore)

Bank Group/ Year	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											
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
2002	6,09,972	89.6	21,382	3.1	41,201	6.1	8,370	1.2	70,953	10.4	6,80,925
2003	7,09,260	91.2	20,078	2.6	39,731	5.1	8,971	1.2	68,780	8.8	7,78,040
2004	8,37,130	92.8	21,026	2.3	36,247	4.0	7,625	0.8	64,898	7.2	9,02,027
Public Sector Banks											
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
2002	4,52,862	88.9	15,788	3.1	33,658	6.6	7,061	1.4	56,507	11.1	5,09,369
2003	5,23,724	90.6	14,909	2.6	32,340	5.6	6,840	1.2	54,089	9.4	5,77,813
2004	6,10,435	92.2	16,909	2.6	28,756	4.3	5,876	0.9	51,541	7.8	6,61,975
Old Private Sector Banks											
2001	35,166	88.7	1,622	4.1	2,449	6.2	413	1.0	4,484	11.3	39,650
2002	39,262	89.0	1,834	4.2	2,668	6.0	348	0.8	4,850	11.0	44,112
2003	46,761	91.1	1,474	2.9	2,772	5.4	321	0.6	4,567	8.9	51,328
2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
New Private Sectpr Banks											
2001	29,905	94.9	963	3.1	620	2.0	11	0.0	1,594	5.1	31,499
2002	70,010	91.1	2,904	3.8	3,871	5.0	41	0.1	6,816	8.9	76,826
2003	87,487	92.4	2,700	2.9	3,675	3.9	856	0.9	7,231	7.6	94,718
2004	1,13,560	95.0	1,966	1.6	3,665	3.1	321	0.3	5,952	5.0	1,19,512
Foreign Banks											
2001	42,285	93.1	876	1.9	1,202	2.6	1,033	2.3	3,111	6.9	45,396
2002	47,838	94.5	856	1.7	1,004	2.0	920	1.8	2,780	5.5	50,618
2003	51,288	94.7	995	1.8	944	1.7	954	1.8	2,893	5.3	54,181
2004	59,619	95.2	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632