

Table III.26: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances
(As at end-March)

(Number of banks)

Net NPAs/ Net Advances	2000	2001	2002	2003	2004
1	2	3	4	5	6
Public Sector Banks	27	27	27	27	27
Up to 10 per cent	22	22	24	25	27
Above 10 and up to 20 per cent	5	5	3	2	-
Above 20 per cent	-	-	-	-	-
Old Private Sector Banks	24	23	22	21	20
Up to 10 per cent	18	16	17	19	18
Above 10 and up to 20 per cent	5	4	3	1	2
Above 20 per cent	1	3	2	1	-
New Private Sector Banks	8	8	8	9	10
Up to 10 per cent	8	8	8	8	9
Above 10 and up to 20 per cent	-	-	-	1	-
Above 20 per cent	-	-	-	-	1
Foreign Banks	42	42	40	36	33
Up to 10 per cent	31	31	26	28	27
Above 10 and up to 20 per cent	7	6	5	4	2
Above 20 per cent	4	5	9	4	4

was an increase in the shares of NPAs on account of small-scale industries and other priority sector as well as their overall NPAs for the priority sector. The share of non-priority sector NPAs in total NPAs of private sector banks was lower than that of 2002-03.

Movements in Provisions for Non-performing Assets

3.71 The impact of switch over to the 90-day delinquency norms was evident from the record growth in provisions made toward NPAs. The amount of provisions held against NPAs increased by 40 per cent in 2003-04 as against

an increase of 21 per cent in 2002-03. During the year, a major part of total provisions of SCBs was accounted for by PSBs, which recorded sharp increases on account of loan loss provisions, both in percentage terms and also as a ratio to total expenses. As at end-March 2004, the cumulative provisions of SCBs accounted for 56.6 per cent of gross NPAs, which was higher by 10 percentage points over end-March 2003 (Table III.27). As at end-March 2004, the cumulative provisions as percentage of gross NPAs was highest for foreign banks followed by public sector banks, new private sector banks, and old private sector banks. In

Table III.27: Bank Group-wise Movements in Provisions for 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
Provision for NPAs					
As at end-March 2003	32,254	25,876	1,579	3,102	1,697
<i>Add : Provision made during the year</i>	18,473	14,648	934	2,136	755
<i>Less : Write-off, write back of excess during the year</i>	14,031	10,875	444	2,052	661
As at end-March 2004	36,696	29,649	2,069	3,187	1,791
<i>Memo:</i>					
Gross NPAs	64,786	51,538	4,392	5,963	2,894
<i>Ratio:</i>					
Cumulative Provision to Gross NPAs (per cent)	56.6	57.5	47.1	53.4	61.9

Note : Figures in brackets indicates the number of banks in that group for the year 2003-04.

Source : Balance sheet of respective banks.

Table III.28: Bank Group-wise Movements in Provisions for Depreciation on Investment - 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
As at end-March 2003	4,818	2,952	123	1,687	55
Add : Provision made during the year	1,451	1,251	75	-276	401
Less: Write-off, write back of excess during the year	1,343	1,200	45	87	11
As at end-March 2004	4,925	3,003	153	1,324	445

Note : Figures in brackets indicates the number of banks in that group for the year 2003-04.

Source: Balance sheets of respective banks.

2003-04, the PSBs accounted for the bulk of write-offs and write back of excess provisions of SCBs.

Movements in Provisions for Depreciation in Investment

3.72 Public sector banks increased their provisions for depreciation in investments during the year by an amount exceeding the write-back. New private sector banks, on the other hand, unwound their provisions reflecting possibly the greater proportion of investments in the AFS and HFT categories (Table III.28).

Incremental Non-performing Assets

3.73 The ratio of incremental NPA to assets, and advances, which signifies the inter-temporal measure of asset quality, remained negative and showed further improvement for most bank groups in 2003-04 (Table III.29 and III.30).

5. Capital Adequacy

3.74 From the perspective of regulatory and supervisory process, the capital to risk weighted assets ratio (CRAR) constitutes the most important indicator for assessing soundness and solvency of banks. The overall CRAR of SCBs improved marginally to 12.9 per cent in 2003-04 from 12.7 per cent in 2002-03. In 2003-04, all but two commercial banks complied with the regulatory minimum CRAR of 9 per cent. Global Trust Bank and Centurion Bank, which did not comply with the regulatory minimum, accounted for a negligible 0.5 per cent of total assets of scheduled commercial banks in 2003-04. CRAR of five largest banks, which accounted for about 41 per cent of total assets of scheduled commercial banks, showed a further improvement in 2003-04 (Chart III.10).

3.75 Among bank groups, CRAR as at March 2004 was higher than the March 2003 levels for public sector banks and old private sector banks while it declined marginally in respect

Table III.29: Bank Group-wise Incremental Gross and Net NPAs

(Amount in Rs. crore)

Bank Group	Incremental Gross NPAs		Incremental Net NPAs	
	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5
Scheduled Commercial Banks	-2,144	-3,931	-2,883	-8,053
Public Sector Banks	-2,383	-2,552	-3,091	-6,007
Nationalised Banks	123	-1,334	-1,918	-4,178
State Bank Group	-2,506	-1,218	-1,173	-1,829
Old Private Sector Banks	-301	-159	-273	-600
New Private Sector Banks	421	-1,269	479	-1,425
Foreign Banks	119	49	1	-21

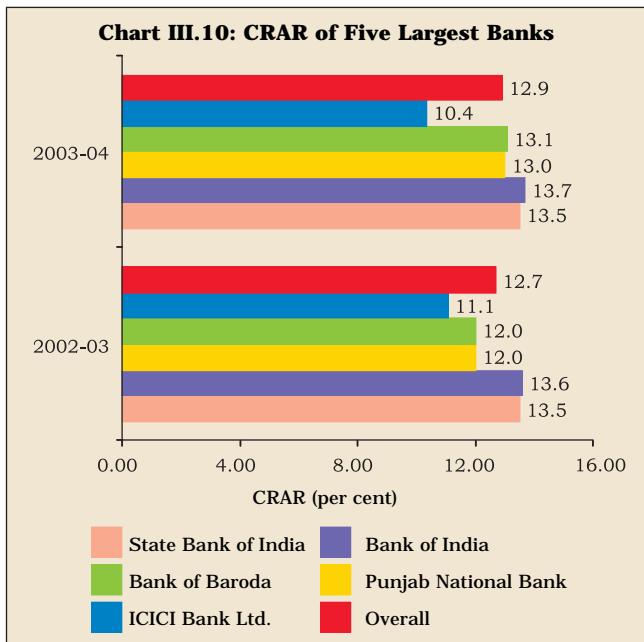
Source : Balance sheets of respective banks.

Table III.30: 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	
	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
Scheduled Commercial Banks	-2.2	-3.2	-1.3	-1.4	-3.0	-6.6	-1.8	-2.9
Public Sector Banks	-3.5	-3.0	-1.8	-1.4	-4.5	-7.3	-2.4	-3.2
Nationalised Banks	0.3	-2.5	0.1	-1.0	-4.4	-8.3	-2.3	-3.2
State Bank Group	-11.0	-4.0	-5.5	-2.2	-4.8	-5.8	-2.6	-3.3
Old Private Sector Banks	-4.1	-2.4	-2.6	-1.0	-3.8	-9.7	-2.3	-3.8
New Private Sector Banks	2.1	-5.7	2.4	-2.3	3.1	-5.6	2.7	-2.6
Foreign Banks	3.4	0.6	3.6	0.2	0.0	-0.3	0.0	-0.1

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.



of new private sector banks and foreign banks (Table III.31). Bank-wise details of CRAR are given in Appendix Table III.21 (A) to 21(C). The distribution of CRAR across bank groups is provided in Table III. 32.

Equity Capital

3.76 During 2003-04, four public sector banks, namely UCO bank, Indian Overseas Bank, Vijaya Bank and Bank of Maharashtra, floated equity issues to the extent of Rs.950 crore. With these, the total amount of capital raised by PSBs through equity issues reached Rs.8,224 crore till end-March 2004. The Government shareholding in PSBs, which have raised equity capital, presently ranges from a low of 57.2 per cent to a high of 75 per cent. Within private sector banks group, the ICICI bank issued debt issues amounting to Rs.1,251 crore during 2003-04.

Table III.31: Bank Group-wise CRAR
(As at end-March)

(per cent)

Bank Group	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
Scheduled Commercial Banks	11.5	11.3	11.1	11.4	12.0	12.7	12.9
Public Sector Banks	11.6	11.3	10.7	11.2	11.8	12.6	13.2
Nationalised Banks	10.3	10.6	10.1	10.2	10.9	12.2	13.1
State Bank Group	14.0	12.3	11.6	12.7	13.3	13.4	13.4
Old Private Sector Banks	12.3	12.1	12.4	11.9	12.5	12.8	13.7
New Private Sector Banks	13.2	11.8	13.4	11.5	12.3	11.3	10.2
Foreign Banks	10.3	10.8	11.9	12.6	12.9	15.2	15.0

Source: Off-site supervisory returns submitted by banks.

Table III.32: Distribution of Scheduled Commercial Banks by CRAR

(No. of banks)

Bank Group	2002-03				2003-04			
	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
Nationalised Banks	-	-	1	18	-	-	1	18
State Bank Group	-	-	-	8	-	-	-	8
Old Private Sector Banks	-	-	1	20	-	-	-	20
New Private Sector Banks	2	-	1	6	1	1	-	8
Foreign Banks	-	-	-	36	-	-	-	33
Total	2	-	3	88	1	1	1	87

Recent Trends- First half of 2004-05

3.77 During the first half of 2004-05, scheduled commercial banks showed sustained performance. The CRAR of scheduled commercial banks stood at 13.4 per cent in the first half of 2004-05 as compared with 13.2 per cent in the first half of 2003-04. Among bank groups, the CRAR of public sector banks in the first half of 2004-05 was similar to that of the first half of 2003-04. The CRAR of new private sector banks showed an improvement to 13.5 per cent in the first half of 2004-05 when compared with 11.3 per cent in the first half of 2003-04. The CRAR of old private sector banks and foreign banks stood at 13.7 per cent and 14 per cent, respectively, in the first half of 2004-05 as against 14.4 per cent and 14.9 per cent, respectively, in the first half of 2003-04 (Table III.33).

3.78 The net NPAs to net advances ratio of scheduled commercial banks improved to 2.5 per cent in the first half of 2004-05 as against 4 per cent in the comparable period of 2003-04. The net NPAs ratio showed improvement for all the bank groups. The annualised net profit to assets ratio of scheduled commercial banks was 1.1 per cent in the first half of 2004-05 as compared with 1.3 per cent in the first half of 2003-04. Among bank groups, public sector banks, new private sector banks and foreign banks more or less maintained their profitability while old private sector banks had shown a decline in their net profit ratio. Net interest income to assets ratio of scheduled commercial banks showed an improvement in the first half of 2004-05 when compared to the first half of 2003-04. The operating expenses to assets ratio of scheduled

commercial banks in the first half of 2004-05 was similar to the position of the first half of 2003-04.

6. Regional Spread of Banking

3.79 The total number of branches of SCBs as at end-June 2004 stood at 67,097 comprising 32,207 rural branches, 15,028 semi-urban branches and 19,837 urban and metropolitan branches. The branch rationalisation policy impacted on the share of rural branches, which declined marginally to 48.0 per cent as at end-June 2003 from 48.4 per cent as at end-June 2002. There was a marginal rise in the share of urban and metropolitan branches from 29.2 per cent in 2002-03 to 29.6 per cent in 2003-04 (Appendix Table III.22).

3.80 In line with the regional distribution of income, the Southern region accounted for the highest percentage of bank branches, followed by Eastern Region, Northern Region, Western Region and North-Eastern region. The Southern region experienced the opening of the maximum number of branches during 2003-04. The Northern region also experienced a significant increase in the number of branches opened during the year, particularly in Punjab, Haryana and Delhi (Appendix Table III.23).

3.81 The credit -deposit ratio of western and southern regions remained higher than the all-India level. Across states, five states including Tamilnadu, Maharashtra, Andhra Pradesh, Karnataka, and Delhi and Chandigarh-the Union territory, had credit-deposit ratio higher than all-India level. These States/Union Territory accounted for about 52 per cent of

Table III. 33: Scheduled Commercial Banks – Performance Indicators

(Per cent)

Bank Group	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
Operating Expenses/Total Assets*										
Scheduled Commercial Banks	2.2	2.3	2.2	2.3	2.2	2.3	2.3	2.1	2.3	2.3
Public Sector Banks	2.3	2.3	2.2	2.4	2.2	2.3	2.2	2.2	2.2	2.3
Old Private Sector Banks	2.0	2.1	2.1	1.9	2.0	2.2	2.1	1.6	2.1	2.1
New Private Sector Banks	1.9	2.0	2.1	1.8	2.2	2.3	2.0	1.7	2.4	2.4
Foreign Banks	2.7	2.9	2.9	2.7	2.6	2.7	3.3	2.4	2.9	3.0
Net Interest Income/Total Assets*										
Scheduled Commercial Banks	2.9	2.9	2.8	2.6	3.1	2.9	3.1	2.5	3.1	3.1
Public Sector Banks	3.0	3.1	2.9	2.8	3.2	3.0	3.2	2.8	3.1	3.2
Old Private Sector Banks	2.6	2.4	2.8	2.0	2.7	2.7	2.8	1.9	2.9	3.0
New Private Sector Banks	1.7	1.5	1.7	1.6	2.0	2.1	2.1	1.5	2.5	2.6
Foreign Banks	3.5	3.6	3.6	2.7	4.0	3.0	3.8	3.0	3.7	3.4
Net Profit/Total Assets*										
Scheduled Commercial Banks	1.0	1.0	1.2	0.9	1.3	1.3	1.2	1.0	1.2	1.1
Public Sector Banks	0.9	0.9	1.1	0.9	1.2	1.2	1.2	1.1	1.2	1.1
Old Private Sector Banks	1.2	1.1	1.6	0.7	1.6	1.5	1.5	0.2	0.9	0.5
New Private Sector Banks	1.0	1.0	1.2	0.3	1.2	1.4	1.3	0.6	1.2	1.2
Foreign Banks	1.5	1.3	1.5	2.0	2.5	1.8	0.9	1.4	1.8	1.2
Gross NPAs to Gross Advances**										
Scheduled Commercial Banks	11.2	11.1	10.9	8.8	9.8	9.7	9.3	7.3	7.4	6.6
Public Sector Banks	11.6	11.6	11.2	9.4	10.2	10.0	9.6	8.1	8.1	7.3
Old Private Sector Banks	12.3	12.8	12.5	8.9	9.8	10.1	10.1	7.7	7.9	7.6
New Private Sector Banks	11.3	11.3	11.4	7.6	10.4	10.4	9.6	4.8	4.9	3.9
Foreign Banks	5.6	5.5	5.6	5.2	5.4	5.3	5.2	4.9	4.7	4.3
Net NPAs to Net Advances**										
Scheduled Commercial Banks	5.7	5.5	5.1	4.5	4.6	4.0	3.7	3.0	2.8	2.5
Public Sector Banks	6.0	5.8	5.2	4.7	4.7	4.0	3.6	3.1	3.0	2.7
Old Private Sector Banks	8.1	8.3	7.8	5.8	6.2	6.1	5.7	3.9	3.8	3.8
New Private Sector Banks	5.2	5.0	5.1	4.5	4.6	4.4	4.0	2.4	2.4	1.8
Foreign Banks	1.9	1.9	2.0	1.7	1.7	1.5	1.3	1.5	1.4	1.0
CRAR**										
Scheduled Commercial Banks	12.3	12.5	12.8	12.7	13.0	13.2	13.5	12.9	13.6	13.4
Public Sector Banks	11.9	12.3	12.6	12.6	13.0	13.3	13.8	13.2	13.5	13.2
Old Private Sector Banks	13.3	13.1	13.4	12.8	13.5	14.4	15.0	13.7	14.3	13.7
New Private Sector Banks	12.9	12.6	12.8	11.3	11.3	11.3	11.2	10.6	12.8	13.5
Foreign Banks	13.2	13.0	13.5	15.2	14.7	14.9	14.8	15.0	14.7	14.0

* Annualised to ensure comparability between quarters.

** Position as at the end of the quarter.

Note: Data for March and June 2004 are provisional.

Source: DSB returns submitted by banks covering domestic operations.

aggregate deposits and 67 per cent of aggregate bank credit.

3.82 The credit-deposit ratio of rural areas has shown an uptrend since 1999-2000. It has increased from 39 per cent in 1999-2000 to 44 per cent in 2003-04. The rise in rural credit-deposit ratio is, however, attributed to declining

share of rural deposits in aggregate deposits at the all India level. The pick up in growth of credit to agriculture sector notwithstanding, the share of rural credit in the all-India gross bank credit has shown a declining trend. This is because rural areas account for a lower share of various loans including retail loans from banks.

7. Interest Rates of Scheduled Commercial Banks

3.83 The impact of the interest rate policy was significantly evident in the interest rate structure of deposits but was somewhat muted in case of lending rates. The deposit rates across all maturities have come down during 2003-04; the degree of moderation being similar across the tenors. The deposit rates of PSBs, which were ranging from 4.0-7.0 per cent by March 2003, declined to 3.75-6.00 per cent by March 2004 and further to 3.50-5.75 per cent during 2004-05 (up to October 2004) (Table III.34). The lending rate showed some decline but not as much as the deposit rates. The spread (difference between deposit and lending interest rates) did not vary much in 2003-04 as compared with 2002-03 (Chart III.11).

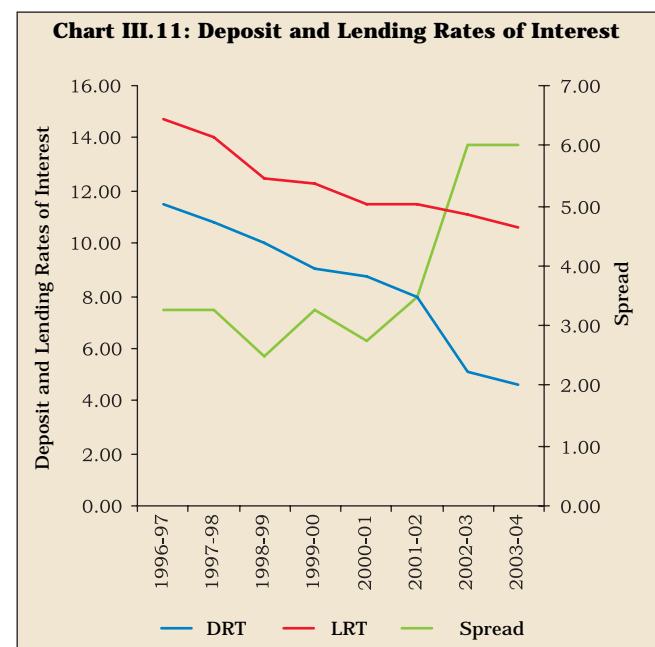


Table III.34: Structure of Interest Rates

(Per cent)

Interest Rate	March 2002	March 2003	March 2004	October 2004
1	2	3	4	5
I. Credit Markets				
1. Deposit Rate				
Public Sector Banks	4.25-8.75	4.00-7.00	3.75-6.00	3.50-5.75
Private Sector Banks	5.00-10.00	3.50-8.00	3.00-7.00	3.00-6.75
Foreign Banks	4.25-10.00	3.00-8.50	2.75-8.00	3.00-7.00
2. Lending Rate				
Public Sector Banks	10.00-12.50	9.00-12.25	10.25-11.50	10.25-11.00
Private Sector Banks	10.00-15.50	7.00-15.50	10.50-13.00	9.75-13.00
Foreign Banks	9.00-17.50	6.75-17.50	11.00-14.85 *	11.00-13.00 *
II. Money Markets				
3. Call Borrowing (Average)	6.97	5.86	4.37	4.63
4. Commercial papers				
WADR 61-90 day	9.46	6.53	5.19	5.52 ***
WADR 91-180 day	8.11	6.45	4.73	5.61 ***
Range	7.41-10.25	6.00-7.75	4.70-6.50	5.10-6.23
5. Certificates of deposit				
Range	5.00-10.03	5.00-7.10	3.87-5.16	4.00-5.75 **
Typical Rate				
3 Months	7.38	-	4.96	4.75 **
12 Months	10.00	5.25	5.16	5.75 **
6. Treasury Bills				
91-day	6.13	5.89	4.38	5.37
364-day	6.16	5.89	4.45	5.69
III. Debt market				
7. Government Securities Market				
5-Year	6.75	5.92	4.72	5.89
10-Year	7.30	6.13	5.17	5.98

* Except for Barclays bank which is offering BPLR of 17.50 per cent.

** As on October 15, 2004.

*** As on November 15, 2004.

Note: Figures for Prime Lending Rates for March and October 2004 are BPLR.

Domestic Deposit Rates

3.84 Reduction in the deposit rates across all maturities had a favourable impact over the costs of funds of the banking sector. While the deposit rate up to one year declined from 4.00-6.00 per cent in March 2003 to 3.75-5.25 per cent in March 2004, the decline in deposit rate for over 1-year was more pronounced from 5.25-7.00 per cent to 5.00-6.00 per cent (Table III.35). Deposit rates of private sector as well as foreign banks also declined during 2003-04. The deposit rates have moderated further.

Lending Rates

3.85 The Reserve Bank has been taking several initiatives to foster transparency and competition in credit market and also been disseminating information on lending rates of banks on its website (www.rbi.org.in) since June 2002. Further, in order to enhance transparency in banks' pricing of the loan products, the monetary and credit policy, 2003-04 advised banks to announce a benchmark PLR (BPLR) taking into account (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, with the approval of their Boards to ensure that

the PLR truly reflects the actual cost. Indian Banks' Association (IBA) has since advised its member banks to announce BPLR keeping in view the operational requirements. As on April 2004, almost all commercial banks adopted the new system of benchmark PLR (BPLR). The BPLR announced by banks have generally been set at 25-200 basis points below their erstwhile PLRs.

8. Regional Rural Banks

Mobilisation and Deployment of Funds

3.86 Regional Rural Banks (RRBs) play a key role in rural institutional financing in terms of geographical coverage, clientele outreach, business volume and contribution to the development of the rural economy. During 2003-04, in line with macroeconomic trends, aggregate deposits of RRBs increased by 17.9 per cent as against an increase of 11.9 per cent in 2002-03. The demand deposits recorded stronger growth at 25 per cent in 2003-04 as against the growth of 14 per cent in 2002-03. Time deposits expanded by 16 per cent in 2003-04 as against an increase of 11 per cent in 2002-03. On the assets side, bank credit recorded robust growth at 17 per cent in the 2003-04 as compared with

Table III.35: Movements in Deposit and Lending Interest Rates

(per cent)

Interest Rates	March 2002	March 2003	March 2004	October 2004
1	2	3	4	5
I. Domestic Deposit Rates				
Public Sector Banks				
a) Up to 1 year	4.25-7.50	4.00-6.00	3.75-5.25	3.50-5.00
b) 1 year up to 3 years	7.25-8.50	5.25-6.75	5.00-5.75	4.75-5.50
c) Over 3 years	8.00-8.75	5.50-7.00	5.25-6.00	5.00-5.75
Private Sector Banks				
a) Up to 1 year	5.00-9.00	3.50-7.50	3.00-6.00	3.00-6.00
b) 1 year up to 3 years	8.00-9.50	6.00-8.00	5.00-6.50	5.00-6.75
c) Over 3 years	8.25-10.00	6.00-8.00	5.25-7.00	5.25-6.50
Foreign Banks				
a) Up to 1 year	4.25-9.75	3.00-7.75	2.75-7.75	3.00-5.75
b) 1 year up to 3 years	6.25-10.00	4.15-8.00	2.25-8.00	3.50-7.00
c) Over 3 years	6.25-10.00	5.00-9.00	3.25-8.00	3.50-7.00
II. Prime Lending Rates				
Public Sector Banks	10.00-12.50	9.00-12.25	10.25-11.50	10.25-11.00
Private Sector Banks	10.00-15.50	7.00-15.50	10.50-13.00	9.75-13.00
Foreign Banks	9.00-17.50	6.75-17.50	11.00-14.85 *	11.00-13.00 *

* Except for Barclays bank which is offering BPLR of 17.50 per cent.

Note: Figures for Prime Lending Rates for March and October 2004 are BPLR.

18.5 per cent in 2002-03. In the monetary and credit policy 2002-03 it was announced that RRBs should maintain their entire SLR holdings in the form of Government and other approved securities by converting existing deposits with sponsor banks into approved securities by March 2003. Accordingly, RRBs had expanded their investment in SLR securities by 334 per cent in 2002-03. During 2003-04, RRBs continued to maintain a high growth of investment in SLR securities funded by an increase in deposit liabilities and a draw down of inter bank assets. RRBs had expanded their investment by 39 per cent, mainly, due to the

growth of investment in Government securities at 60.6 per cent on the top of the high base in 2002-03 (Table III.36).

Financial Performance of RRBs

3.87 The data in respect of 196 RRBs for 2002-03 and 2003-04 indicate that there has been an overall decline in the number of loss-making RRBs in 2003-04. The performance of the loss-making RRBs witnessed a sharp upturn during 2003-04. On the expenditure front, loss-making RRBs witnessed decline in the interest expenses as well as operating expenses (Table III.37).

Table III.36: Important Banking Indicators of Regional Rural Banks
(Outstanding as on)

(Amount in Rs. crore)

Item	March 29, 2002	March 28, 2003	March 26, 2004	Variations	
				2002-03	2003-04
1	2	3	4	5 (3-2)	6 (4-3)
1 Liabilities to the Banking System	188	179	205	-9	26
2 Liabilities to Others	44,873	50,190	58,798	5,317	8,608
2.1 Aggregate Deposits (a+b)	43,220	48,346	57,010	5,126	8,664
(a) Demand Deposits	7,716	8,802	11,019	1,086	2,217
(b) Time Deposits	35,504	39,544	45,991	4,040	6,447
2.2 Borrowings	12	131	3	119	-128
2.3 Other Demand & Time Liabilities*	1,641	1,713	1,785	72	72
3 Assets with the Banking System	18,509	15,091	12,993	-3,418	-2,098
4 Bank Credit	18,373	21,773	25,481	3,400	3,708
5 Investments (a+b)	6,772	12,524	17,444	5,752	4,920
a. Government Securities	1,915	8,311	13,349	6,396	5,038
b. Other Approved Securities	4,857	4,213	4,095	(334.0)	(60.6)
6 Cash Balances	472	515	571	43	56
				(9.1)	(10.9)
<i>Memo :</i>					
a Cash Balance-Deposit Ratio	1.1	1.1	1.0		
b Credit-Deposit Ratio	42.5	45.0	44.7		
c Investment/Deposit Ratio	15.7	25.9	30.6		
d Investment+Credit/Deposit Ratio	58.2	70.9	75.3		

* Includes Participation Certificates issued to others.

Note: Figures in brackets are percentage variations.

Table III.37: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Particulars	2002-03			2003-04			Variation
	Loss Making [40]	Profit Making [156]	RRBs [196]	Loss Making [33]	Profit Making [163]	RRBs [196]	
1	2	3	4	5	6	7	8 = (7)-(4)
A. Income (i+ii)	774	5,157	5,931	609	5,635	6,244	313 (5.27)
i) Interest income	727	4,775	5,501	553	4,985	5,538	37 (0.7)
ii) Other income	48	383	430	56	650	706	275.7 (64.1)
B. Expenditure (i+ii+iii)	989	4,418	5,407	793	4,682	5,475	68 (1.3)
i) Interest expended	567	2,946	3,513	421	2,939	3,360	-153 (-4.4)
ii) Provisions and contingencies	66	124	190	90	196	286	96 (50.3)
iii) Operating expenses of which : Wage Bill	356	1,348	1,703	282	1,547	1,829	126 (7.37)
	321	1,159	1,480	248	1,260	1,508	28 (1.9)
C. Profit							
i) Operating Profit/Loss	-149	863	715	-94	1,149	1,055	340 (47.6)
ii) Net Profit/Loss	-215	739	525	-184	953	769	244 (46.6)
D. Total Assets	10,282	53,332	63,614	8,892	61,386	70,278	6,664 (10.5)
E. Financial Ratios							
(as percentage of total assets)							
i) Operating Profit	-1.4	1.6	1.1	-1.1	1.9	1.5	
ii) Net Profit	-2.1	1.4	0.8	-2.1	1.6	1.1	
iii) Income	7.5	9.7	9.3	6.8	9.2	8.9	
iv) Interest income	7.1	9.0	8.6	6.2	8.1	7.9	
v) Other Income	0.5	0.7	0.7	0.6	1.1	1.0	
vi) Expenditure	9.6	8.3	8.5	8.9	7.6	7.8	
vii) Interest expended	5.5	5.5	5.5	4.7	4.8	4.8	
viii) Operating expenses	3.5	2.5	2.7	3.2	2.5	2.6	
ix) Wage Bill	3.1	2.2	2.3	2.8	2.1	2.1	
x) Provisions and Contingencies	0.6	0.2	0.3	1.0	0.3	0.4	
xi) Spread (Net Interest Income)	1.5	3.4	3.1	1.5	3.3	3.1	

Note : Figures in brackets indicate percentage change.

Source : NABARD.

Purpose-wise Outstanding Loans and Advances

3.88 The composition of credit extended by RRBs continued to be broadly the same. While the shares of agricultural and non-agricultural loans are broadly equal, there has been a marginal bias in favour of the latter (Table III.38).

9. Priority Sector Lending**Public Sector Banks**

3.89 The outstanding priority sector advances of PSBs increased by 21 per cent in 2003-04 as against an increase of 18.6 per cent during 2002-03. The share of priority sector

Table III.38: Purpose-wise break-up of Outstanding Advances by RRBs
(As at end-March)

(Amount in Rs.crore)

Purpose	2002	2003
1	2	3
1. Short-term loans (crop loans)	4,883	6,495
2. Term loans (for agriculture and allied activities)	3,522	3,766
3. Indirect Advances	N.A.	N.A.
I. Total (Agriculture) (1 to 3)	8,405	10,261
	(45.2)	(46.3)
4. Rural Artisans etc.	671	695
5. Other Industries	226	330
6. Retail Trade etc.	2,984	3,264
7. Other purposes	6,343	7,608
II. Total (Non-agriculture) (4 to 7)	10,224	11,897
	(54.8)	(53.7)
Total (I+II)	18,629	22,158
	(100.0)	(100.0)

N.A. Not Available.

Note : Figures in brackets are percentage to the total.

Source : NABARD.

advances in net bank credit of PSBs increased to 44 per cent in 2003-04 from 42.5 per cent in 2002-03. The growth of priority sector advances of PSBs was fuelled by the surge in the loans and advances to various other priority sectors and robust growth of credit to the agriculture sector. Advances to agriculture constituted 15.4 per cent of Net Bank Credit (NBC) as on the last reporting Friday of March 2003 (Appendix Table III.24). The share of advances to other priority sectors in net bank credit of PSBs increased to 17 per cent in 2003-04 from 15 per cent in 2002-03. PSBs had significantly increased their advances to weaker sections. The share of advances to weaker sections in net bank credit PSBs had increased to 7.4 per cent in 2003-04 from 6.7 per cent in 2002-03. The 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 Tables III.25 (A) and 25(B).

Private Sector Banks

3.90 Private sector banks had maintained their increasing propensity of lending to priority sector. The share of advances to priority sector in net bank credit of private sector banks had

increased to 47.4 per cent in 2003-04 from 44.4 per cent in 2002-03. In absolute terms, credit to agriculture, small-scale industries and other priority sectors had increased. The share of other priority sector category was the highest at 23.1 per cent of NBC, followed by advances to agriculture and small-scale industries. Their lending to agriculture sector had increased to 12.3 per cent of their net bank credit in 2003-04, higher by a percentage point over the 2002-03. (Appendix Table III.26). 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 III.27 (A) and 27(B).

Foreign Banks

3.91 Foreign banks operating in India are required to achieve the target of 32.0 per cent of NBC for the priority sector with sub-targets of 10.0 per cent of NBC for small-scale industries and 12.0 per cent of NBC for exports. Lending to the priority sector by foreign banks constituted 34.8 per cent of NBC as on the last reporting Friday of March 2004, of which the shares of export credit and small scale industries as percentage to NBC were 18.7 per cent and 10.4 per cent, respectively (Appendix Table III.28).

Differential Rate of Interest (DRI) Scheme

3.92 The outstanding advances of PSBs under the DRI Scheme at the end of March 2004 amounted to Rs.315 crore under 3.7 lakh borrowal accounts, forming 0.1 per cent of the total advances outstanding as at the end of the 2002-03, which is less than the target of 1.0 per cent.

Special Agricultural Credit Plan (SACP)

3.93 The PSBs have been preparing Special Agricultural Credit Plans (SACP) since 1994-95 with self-set targets for disbursements to agriculture during a year. During the period 1994-95 to 2003-04, credit disbursements by the PSBs to the agriculture sector have increased from Rs.8,255 crore in 1994-95 to Rs.42,211 crore in 2003-04. Consequent upon the announcements made in the mid-term Review of annual policy Statement 2004-05, all private sector banks have been advised to formulate

Special Agricultural Credit Plans from the year 2005-06, targeting an annual growth rate of at least 20-25 per cent over the previous years of credit disbursements to agriculture sector.

Government Sponsored Schemes

3.94 The total number of *Swarozgaris* assisted under the Swarnajayanti Gram Swarojgar Yojana (SGSY) during 2003-04 was 8,75,690. Bank credit amounting to Rs.1,275.5 crore and Government subsidy amounting to Rs.698 crore were disbursed under this scheme. Of the *Swarozgaris* assisted, 4,01,142 (45.8 per cent) belonged to scheduled castes and scheduled tribes, while 4,62,230 (52.8 per cent) were women and 8,316 (1.0 per cent) were physically handicapped. Under the Swarna Jayanti Shahari Rozgar Yojana (SJSRY), as against 74,652 applications sanctioned during 2003-04, disbursements amounting to Rs.176.7 crore were made in 69,412 cases till March 31, 2004. The total number of applications sanctioned under the Scheme of Liberation and Rehabilitation of Scavengers (SLRS) during 2003-04 was 9,456. As against this, disbursements amounting to Rs.13.2 crore were made in 7,673 cases during 2003-04.

Kisan Credit Card Scheme

3.95 Kisan Credit Cards (KCC) Scheme⁵, introduced in 1998-99, has emerged as an important tool for banks to provide adequate and timely credit to the agriculture sector. Flexibility and simplification in procedures are the hallmarks of the KCC scheme. Under the Scheme, banks extend revolving credit to farmers. The rate of interest on KCC loans is the same as those for crop loans and security / margin norms are as per the instructions issued by Reserve Bank/NABARD from time to time. Till March 2004, commercial banks had issued 132.43 lakh KCCs. The PSBs had surpassed their target of 30 lakh cards by issuing 30.94 lakh KCCs during 2003-04.

Lead Bank Scheme

3.96 The main focus of Lead Bank Scheme has been on enhancing the proportion of bank finance to the priority sector and also to promote

banks' role in overall development of the rural sector. As at end-March 2004, the Lead Bank Scheme covered 587 districts including the six new districts formed due to reorganization/bifurcation of the existing districts. The scheme has been modified recently to include term loans for agriculture and allied activities and a reasonable component to meet the consumption needs, besides the existing facility of providing crop loans.

Micro Finance

3.97 In 2003-04, micro finance under Self Help Groups-Bank linkage programme continued to receive an increasing support from banks, rural banks, and co-operatives. Due to low cost, and near zero NPAs associated with micro finance, commercial banks showed increasing interest in extending financial support to Self Help Groups (SHGs). On cumulative basis, the number of Self Help Groups receiving financial support from commercial banks increased to 5,38,422 in 2003-04 from 3,61,061 in 2002-03, with an increase of 49 per cent. The cumulative loans from increased to Rs.2,254.8 crore in 2003-04 from Rs.1,149.5 crore in 2002-03, recording an increase of 96 per cent. Commercial banks maintained their dominant share while accounting for 58 per cent of total finance to SHGs by banks, regional rural banks, and co-operatives.

10. Local Area Banks

3.98 As at end-March 2004, five banks were functional. They were Coastal Local Area Bank Ltd., Vijayawada, Capital Local Area Bank Ltd., Phagwara, South Gujarat Local Area Bank Ltd., Navsari, Krishna Bhima Samruddhi Local Area Bank Ltd., Mehboobnagar, and the Subhadra Local Area Bank Ltd., Kohlapur. South Gujarat Local Area Bank which had suffered net losses in consecutive years and witnessed a significant decline in its capital and reserves, was merged with Bank of Baroda on June 25, 2004.

3.99 The performance of local area banks reveals that the smaller banks had a very high credit deposit ratio of over 100 per cent (Table III.39). Larger local area banks like Capital Local Area

⁵ Also see Chapter IV: Box IV.4 of the Report.

Table III.39: Performance of Local Area Banks
(As at end-March 2004)

Name of the Local Area Bank	Deposits	Advances	C-D ratio
			(per cent)
1	2	3	4
1. Coastal Local Area Bank Ltd.	32	19	60.3
2. Capital Local Area Bank Ltd.	110	66	60.0
3. South Gujarat Local Area Bank Ltd.	9	9	100.4
4. Krishna Bhima Samruddhi Local Area Bank Ltd.	5	6	129.6
5. Subhadra Local Area Bank	1	3	255.5

Bank Ltd. and Coastal Local Area Bank Ltd. had moderately high capital adequacy ratio. There had been a decline in net profits for the group as a whole in 2003-04 (Table III.40). This was primarily due to the quantum increase in

the losses of South Gujarat Local Area Bank during 2003-04. While this concern has been addressed by merging the bank with Bank of Baroda, the two existing smaller banks, viz., The Subhadra Local Area Bank Ltd., which suffered net losses in the very first year of its operation and Krishna Bhima Samruddhi Local Area Bank Ltd., whose profits remained low and virtually stagnant during 2003-04, raise concerns about their sustainability.

11. Diversification in Banking Activities

Insurance business by banks

3.100 On a review of the matter of banks' entry into insurance business, it has been decided that banks need not obtain prior approval of the Reserve Bank for engaging in insurance agency

Table III.40: Financial Performance of Local Area Banks
(As at end-March)

Particulars	2003	2004	Variation of Col.(3) over Col. (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	17.1	19.6	2.5	14.5
i) Interest income	12.7	15.4	2.7	21.0
ii) Other income	4.4	4.2	-0.2	-4.3
B. Expenditure (i+ii+iii)	16.9	19.4	2.6	15.1
i) Interest expended	7.7	8.6	0.9	11.6
ii) Provisions and contingencies	2.5	2.8	0.4	14.3
iii) Operating expenses of which : Wage Bill	6.7	8.1	1.3	19.4
C. Profit				
i) Operating Profit /Loss (-)	2.7	3.0	0.3	10.5
ii) Net Profit / Loss (-)	0.2	0.1	-0.1	-31.8
D. Spread (Net Interest Income)	5.0	6.8	1.8	35.5
E. Total Assets	146.2	199.5	53.3	36.4
F. Financial Ratios (as percentage of Total Assets)				
i) Operating Profit	1.8	1.5		
ii) Net Profit	0.2	0.1		
iii) Income	11.7	9.8		
iv) Interest income	8.7	7.7		
v) Other Income	3.0	2.1		
vi) Expenditure	11.6	9.7		
vii) Interest expended	5.3	4.3		
viii) Operating expenses	4.6	4.0		
ix) Wage Bill	1.7	1.4		
x) Provisions and Contingencies	1.7	1.4		
xi) Spread (Net Interest Income)	3.4	3.4		

Source: Based on Off-site returns.

business or referral arrangement without any risk participation subject to their complying with IRDA regulations and certain other conditions. However, banks intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in the insurance companies for providing infrastructure and services support would continue to obtain prior approval of the Reserve Bank.

Withdrawal of Stock-invest Scheme

3.101 On a review of Stock-invest Scheme, it has been observed that use of Stock-invests as a mode of payment for application for allotment of shares/debentures in the primary market has declined substantially and the allotment period under primary issues has considerably reduced over the period due to several measures taken by SEBI. Considering these, the Stock-invest Scheme was withdrawn effective November 5, 2003.

Diversification in banking activities

3.102 State Bank of India was given approval to set up an Information Technology subsidiary. The bank was also given approval for setting up a wholly owned subsidiary company - SBI Mutual Fund Trustee Company Pvt. Ltd. - and also for contributing Rs.10 lakh to the equity of the company. ICICI Bank Ltd. was given 'in principle' approval for setting up a wholly owned subsidiary company to undertake insurance broking business subject to certain conditions. It was also conveyed 'No objection' for offering non-discretionary investment advisory services to its clients subject to certain conditions.

Portfolio investment

3.103 Various banks were given permission for investing in equity of their joint ventures, Asset Reconstruction Companies, National Multi-Commodity Exchange of India Ltd., National Commodity and Derivative Exchange Ltd., etc.

Banks' Investments in Mutual Funds

3.104 As regards banks' investments in mutual funds, equity oriented mutual fund schemes are included in the 5 per cent ceiling for capital

market exposure. Generally, investment policy of individual bank lays down the limit on investment in mutual funds with reference to total investments or total assets and, provides other risk management practices like investing only in rated mutual funds, investment horizon, etc., Investments in mutual fund schemes form part of overall non-SLR portfolio of banks. Available data show that at a system level, banks' total exposure to mutual funds is minimal relative to total investment portfolio of the banks. As on June 30 2004, banks' investments in mutual fund schemes stood at Rs.13,539 crore accounting for 1.59 per cent of total investments.

12. Banks' Liquidation and Amalgamations

Liquidation of Banks

3.105 There were 77 banks under liquidation as on December 31, 2003. The matter regarding early completion of liquidation proceedings is being pursued with Official / Court Liquidators.

Amalgamation / Merger of Banks

3.106 The South Gujarat Local Area Bank Ltd, which was set up on October 10, 2000, was showing several adverse features. In view of the above, a recommendation was made by the Reserve Bank to Government of India to place the bank on a moratorium under Section 45 (1) of Banking Regulation Act, 1949. In exercise of the powers conferred by sub-section (2) of Section 45 of the Act (*ibid*), the Government of India issued orders of moratorium in respect of the bank for the period from the close of business on November 13, 2003 up to and inclusive of August 12, 2004. In the meantime, Reserve Bank transmitted a draft scheme of Amalgamation of the bank with Bank of Baroda to the Government of India. Subsequently, Government of India sanctioned the Scheme of amalgamation of South Gujarat Local Area Bank Ltd. with Bank of Baroda in terms of sub-Section (7) of Section 45 of the Act (*ibid*), vide its Notification dated June 24, 2004. The Scheme of Amalgamation has come into force with effect from June 25, 2004.

3.107 The financial position of Global Trust Bank Ltd. (GTB)⁶, which was granted a license

⁶ Also see Chapter VII.

in September 1994 as a part of the policy to set up new private sector banks, started weakening in 2002 due to problem assets arising from very high exposure to capital market. The GTB was instructed to adopt a prudential policy of containing growth of risk weighted assets, to make maximum recoveries of NPAs, to reduce its high capital market exposure to the prudential limit, provide against impairment of assets out of the operating profits and to take immediate steps to augment the capital. The bank reported some progress in making recoveries and also the attempts underway to have equity infusion. However, it was not able to finalise a programme of capital augmentation till June 2004 through domestic sources as advised. Later, the bank submitted in July 2004, a proposal received from an overseas equity investor fund for recapitalisation of the bank, which was not found acceptable by the

Reserve Bank on prudential and other considerations. As the financial position of the bank was deteriorating progressively and the solvency of the bank was being seriously affected, the Reserve Bank had to place the bank under moratorium on July 24, 2004 to protect the interests of small depositors of the bank and in the interest of the banking system. A firm proposal for merger of the bank was received from Oriental Bank of Commerce (OBC). OBC's perception on the issue was examined by the Reserve Bank, keeping in view, its financial parameters, its retail network and synergies as well as strategic advantages. Taking into account the interests of OBC and depositors of GTB, as well as the bank's strengths and weaknesses, GTB was merged with OBC with effect from August 14, 2004 under the powers vested with the Reserve Bank under the Banking Regulations Act, 1949 through a scheme sanctioned by the Government of India.