Table III.33: Movements in Provisions for Depreciation on Investment – Bank Group-wise

(Amount in Rs. crore)

Particulars	Scheduled Commercial Banks (87)	Scheduled Commercial Banks (88)#	Nationalised Banks (19)	State Bank Group (8)	Public Sector Banks (27)	Public Sector Banks (28)#	Old Private Sector Banks (20)	New Private Sector Banks (9)	Foreign Banks (31)
1	2	3	4	5	6	7	8	9	10
Provision for Depreciation on Investment As at end-March 2004	4,620	4,684	1,043	1,853	2,897	2,960	152	1,134	437
Add : Provision made during the year	7,504	7,504	1,998	4,308	6,306	6,306	660	107	431
Less : Write-off, write back of excess during the year	3,742	3,763	1,070	1,587	2,657	2,677	443	563	80
As at end-March 2005	8,381	8,425	1,972	4,574	6,546	6,590	369	678	788
Memo : Investment Portfolio (AFT+HFT)	4,97,163	5,03,720	2,23,963	1,71,181	3,95,144	4,01,701	20,943	42,495	38,581
Cumulative Provision to Investment Portfolio	1.7	1.7	0.9	2.7	1.7	1.6	1.8	1.6	2.0

: Including the impact of conversion of a non-banking entity into a banking entity.

Note : Figures in brackets indicate the number of banks in that group for the year 2004-05.

Source : Balance sheets of respective banks.

Investment Fluctuation Reserve (IFR)

3.84 As treasury profits are sensitive to fluctuations in interest rates, banks have been advised to set aside a part of this income as investment fluctuation reserve (IFR). The IFR, created as a revaluation reserve, is a below-the-line item and is a charge on net profit. Banks which maintained CRAR of at least 9 per cent of the risk-weighted assets for both credit and market risks for both 'available for sale' (AFS) and 'held for trade' (HFT) categories were allowed to treat the IFR in excess of the 5 per cent of the investment portfolio as Tier-I capital. In terms of recent guidelines, banks fulfilling the above conditions would be allowed effective March 31, 2006 to treat the entire balance under the IFR as Tier-I capital and transfer the balance in the IFR from 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit and Loss Account (also see Chapter 2).

3.85 At end-March 2005, the IFR ratio (IFR defined as a percentage of investments under AFS and HFT categories) for SCBs increased sharply to 4.4 per cent from 3.0 cent at end-March 2004. However, the increase in IFR ratio was not as much due to increase in the absolute amount of IFR as due to transfer of an additional amount of securities from the trading book to the 'held to maturity' category in excess of 25 per cent of total investments. The increase was evident across all bank groups. However, the IFR stood highest for old private sector banks and PSBs, followed by new private banks and foreign banks. While banks are required to build up an IFR portfolio of a minimum of five per cent of their investments in the trading book by 2007, 16 banks within the PSB group have already achieved the target (Table III.34, and Appendix Table III.29).

Capital Adequacy

3.86 The overall CRAR of SCBs at 12.8 per cent at end-March 2005 was more or less at the previous year's level (12.9 per cent). The ratio continued to be significantly above the stipulated minimum even after satisfying the new requirements pertaining to the capital charge for market risk (Table III.35). Tier-I component showed some improvement during the year despite the fact that there was a portfolio shift away from the SLR securities to the credit during the current year. The sharp increase in the credit portfolio coupled with the higher risk weight made applicable for housing and consumer loans led to a significant rise in the risk weighted assets by 33.4 per cent. However, banks' capital base kept pace with the sharp rise in risk-weighted assets. This, to an extent, was achieved by increased access to the domestic and international capital markets (see also Section 6).

3.87 The CRAR has increased steadily over the years. While most of the increase between end-March 1998 and end-March 2002 resulted from increase

Table III.34: Investment Fluctuation Reserves – Bank Group-wise
(As at end-March 2005)

(Amount in Rs. crore)

Bank Group	Investment		Investment Fluctuation Reserve (IFR)	IFR as percentage to (AFS+HFT)
	Available for sale (AFS)	Held for Trading (HFT)		
1	2	3	4	5
Scheduled Commercial Banks	**4,80,055 (4,86,105)**	**14,032 (14,539)**	**21,732 (22,124)**	**4.4 (4.4)**
Public Sector Banks	3,99,853	1,819	18,124	4.5
Nationalised Banks	2,23,261	672	10,449	4.7
State Bank Group	1,70,541	639	7,284	4.3
Other Public Sector Bank	6,050	507	392	6.0
Old Private Sector Banks	20,642	301	966	4.6
New Private Sector Banks	31,536	7,913	1,469	3.7
Foreign Banks	34,075	4,507	1,565	4.1

Note : Figures within parentheses include the impact of conversion of a non-banking entity into a banking entity.
Sources : 1. DSB Returns (Domestic and Provisional)
2. Balance sheets of respective banks.

in Tier-II component, the mix of Tier-I and Tier-II capital has remained broadly stable thereafter with Tier-I component being roughly two-thirds of total CRAR (Chart III.22). To maintain the CRAR, banks have relied mainly on retained earnings, although some banks have tended to supplement their retained earnings with capital issues.

Table III.35: Scheduled Commercial Banks – Component-wise CRAR
(As at end-March)

(Amount in Rs. crore)

Item / Year	2003	2004	2005
1	2	3	4
A) Capital Funds (i + ii)	1,07,058	1,25,249	1,65,928
i) Tier-I Capital	71,416	78,550	1,08,949
of which:			
Paid up Capital	21,594	22,348	25,905
Reserves	57,648	65,948	91,320
Unallocated/Remittable Surplus	4,194	4,983	6,937
Deductions for Tier-I Capital	11,646	14,403	15,031
ii) Tier-II Capital	35,643	46,699	56,979
of which:			
Discounted Subordinated Debt	18,482	20,011	26,291
Investment Fluctuation Reserve	9,635	18,920	21,732
B) Risk-weighted Assets	8,44,402	9,69,886	12,96,223
of which:			
Risk-weighted Loans and Advances	5,65,799	6,59,921	9,19,544
C) CRAR (A as per cent of B)	12.7	12.9	12.8
of which: Tier-I	8.5	8.1	8.4
Tier-II	4.2	4.8	4.4

Source: Off-site returns submitted by banks.

3.88 Among bank groups, the CRAR of new private sector banks improved significantly which brought them closer to other bank groups. Within the public sector banks, the CRAR of nationalised banks registered a marginal improvement during the year. The CRAR of the State Bank group, old private sector banks and foreign banks declined (Table III.36).

Chart III.22: CRAR of Scheduled Commercial Banks
(As at end-March)

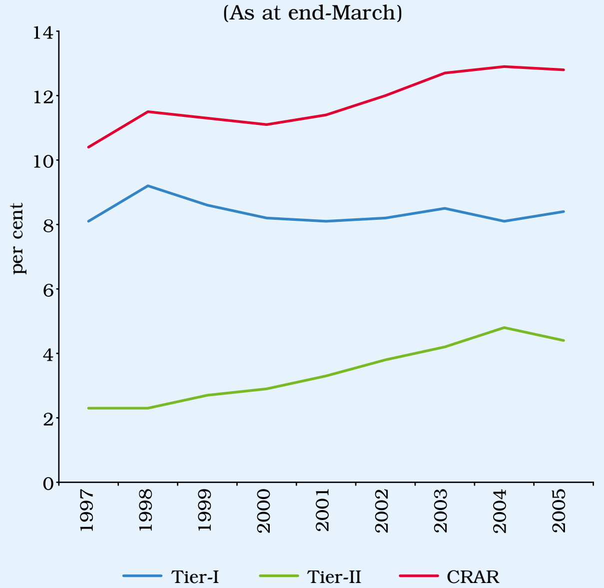


Table III.36: Captial Adequacy Ratio – Bank Group-wise
(As at end-March)

(Per cent)

Bank Group	1998	1999	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	11.5	11.3	11.1	11.4	12.0	12.7	12.9	12.8
Public Sector Banks	11.6	11.3	10.7	11.2	11.8	12.6	13.2	12.9
Nationalised Banks	10.3	10.6	10.1	10.2	10.9	12.2	13.1	13.2
State Bank Group	14.0	12.3	11.6	12.7	13.3	13.4	13.4	12.4
Old Private Sector Banks	12.3	12.1	12.4	11.9	12.5	12.8	13.7	12.5
New Private Sector Banks	13.2	11.8	13.4	11.5	12.3	11.3	10.2	12.1
Foreign Banks	10.3	10.8	11.9	12.6	12.9	15.2	15.0	14.0

Source : Off-site returns submitted by banks.

3.89 The CRAR of five largest banks, which accounted for 39.6 per cent of total assets of SCBs behaved in a divergent manner. While CRAR of three SCBs witnessed a moderate to sharp increase, that of two other banks registered a significant decline (Chart III.23).

3.90 At the individual bank level, barring two banks in the old private sector group, accounting for a negligible 0.3 per cent of the total assets of the SCBs, the CRAR of all other banks was above the minimum capital requirement of nine per cent (Table III.37 and Appendix Table III.30).

6. Banks' Operations in the Capital Market

3.91 In an increasingly market oriented environment, banks need to continuously raise capital to sustain the growth in their operations. Several banks, therefore, accessed the capital

Chart III.23: CRAR of Five Largest Banks
(As at end-March)

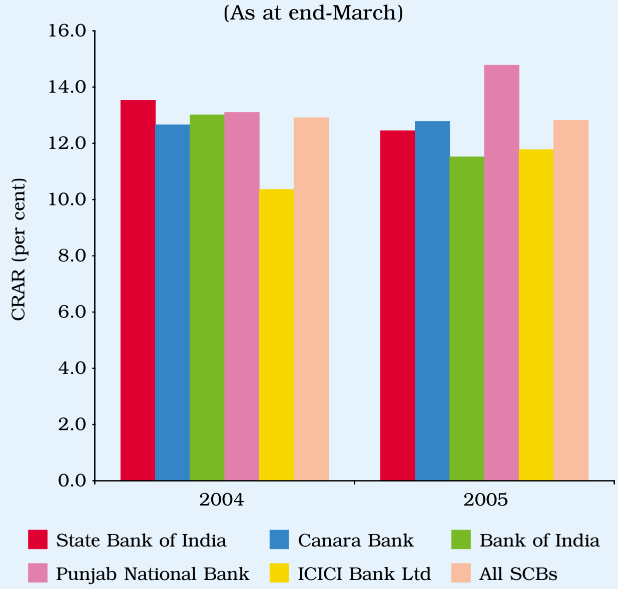


Table III.37: Distribution of Scheduled Commercial Banks by Capital Adequacy Ratio
(As at end-March)

(Number of banks)

Bank Group	2004				2005			
	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	–	–	2	17
State Bank Group	–	–	–	8	–	–	–	8
Other Public Sector Bank	–	–	–	–	–	–	–	1
Old Private Sector Banks	–	–	–	20	1	1	3	15
New Private Sector Banks	1	1	–	8	–	–	2	7
Foreign Banks	–	–	–	33	–	–	1	30
Total	**1**	**1**	**1**	**87**	**1**	**1**	**8**	**78**

– : Nil/Negligible.

Table III.38: Public Issues by the Banking Sector

(Amount in Rs. crore)

Year	Public Sector Banks		Private Sector Banks		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8
2003-04	1,104	–	–	1,352	1,104	1,352	2,456
2004-05	3,336	–	4,108	1,478	7,444	1,478	8,922

– : Nil/Negligible.

market during 2004-05 to strengthen their capital base.

Resources raised by Banks from the Primary Capital Market

3.92 Scheduled commercial banks, both in public and private sectors, raised large resources from the domestic and international capital markets. Total resource mobilisation by banks through public issues (excluding offer for sale) in the domestic capital market increased sharply by 263.3 per cent during 2004-05. Encouraged by a firm trend in the prices of the banking sector scrips in the secondary market and satisfactory financial results, seven banks raised Rs.7,444 crore from the equity market during 2004-05. This included two equity issues aggregating Rs.3,336 crore (including premium) by public sector banks and five equity issues aggregating Rs.4,108 crore by private sector banks (Table III.38).

3.93 Two public sector banks accessing the capital market were Punjab National Bank and Dena Bank (Table III.39). Five private sector banks which floated equity issues during the year were ICICI Bank (Rs.3500 crore), ING Vysya Bank (Rs.307 crore), Karnataka Bank Ltd. (Rs.162 crore), Centurion Bank (Rs.91 crore) and South Indian Bank Ltd. (Rs.48 crore). Besides, two private sector banks (UTI Bank and Centurion Bank) also raised Rs.1,472 crore by way of GDR issues in the international market during the year.

Table III.39: Resources Raised by Public Sector Banks through Public Issues – 2004-05

(Amount in Rs. crore)

Name of the Bank	Face Value (Rs.)	Issue Price (Rs.)	Size of issue (Rs. crore)		
			Amount	Premium	Total
1	2	3	4	5	6
Dena Bank	10	27	80	136	216
Punjab National Bank	10	390	80	3,040	3,120
Total					**3,336**

3.94 Some banks also raised resources from the private corporate debt market. IDBI Bank and ICICI Bank together raised Rs.2,456 crore by way of debt issues during the year. This consisted of two issues by IDBI (for Rs.2,390 crore) and three issues by ICICI (for Rs.1,478 crore). During the year, State Bank of India for the first time entered the international capital market with its Medium Term Note (MTN) on December 1, 2004, issuing bonds for US $ 400 million with a tenor of five years.

3.95 Resources raised by banks through debt issues in the private placement market also increased sharply by 59.3 per cent during the year (Table III.40).

Performance of Banking Stocks in the Secondary Market

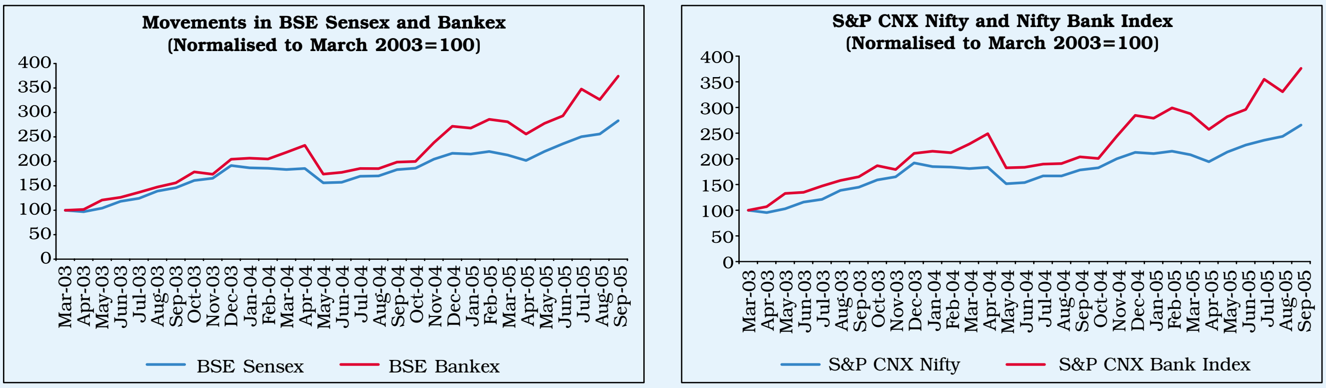
3.96 The stock markets in India witnessed buoyant conditions in the last two years on the back of strong FII inflows, driven mainly by robust macroeconomic fundamentals and improvement in corporate profitability. Recovering from the sharp decline witnessed on May 17, 2004, the BSE Sensex touched a peak of 6,915 on March 8, 2005, before closing 6,493 at end-March 2005. The rally in stock markets continued in the current year with the BSE Sensex closing at an all-time high level of 8999.96 on October 4, 2005. However, subsequently the BSE Sensex declined by about 10 per cent to 7920.80 by October 24, 2005 due

Table III.40: Resources Raised by Banks through Private Placements

(Amount in Rs. crore)

Category	2003-04		2004-05	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
Private Sector Banks	63	2,895	34	5,604
Public Sector Banks	16	3,728	21	4,948
Total	**79**	**6,623**	**55**	**10,552**

Chart III.24: Movements in Bank Stocks and Stock Markets



to profit-taking at higher levels, slowdown in FII investments and downward movements in major international markets.

3.97 In line with the general uptrend, banking sector stocks also remained firm. Apart from favourable macroeconomic fundamentals, bank stocks were driven up by some sector-specific developments. The progress of the banking sector reforms along with improvement in bank's balance sheets resulted in increased interest in bank stocks. These also benefited from several other positive factors such as the implementation of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, permission to foreign banks to acquire up to 75 per cent in the weaker private sector banks and the news about the Union Cabinet's approval to amend the Banking Regulation Act, 1949 to lift the 10 per cent voting rights cap in private sector banks and to amend the law to enable banking companies to issue preference shares. Satisfactory financial performance by public sector and new private sector banks despite rise in interest rates was another factor that led to increased interest in bank stocks. Some bank stocks attracted buying interest in anticipation of a takeover or merger.

Table III.41: Return on Banking Stocks*

Year	BSE Sensex	BSE 500	BSE Bankex
1	2	3	4
2002-03	-12.1	-8.0	16.2
2003-04	83.4	109.4	118.6
2004-05	16.1	21.9	28.6
2005-06 (April-September 2005)	33.0	28.8	33.2

* : Percentage variations in indices measured on a point-to-point basis.

3.98 Market participants, in general, revised upward their expectations of future earnings by banks. Reflecting this, the banking sector stocks outperformed the market during 2004-05 and during the current financial year up to September 30, 2005) (Table III.41).

3.99 The rise in the bank stocks was more pronounced in the latter half of the year [Chart III.24].

3.100 While the banking sector outperformed FMCG and PSU sectors, it underperformed the IT, consumer durables and capital good sectors (Table III.42).

Table III.42: Return on Bank Stocks *vis-à-vis* Other Sectoral Stocks *

(Per cent)

Year	Sensex	BSE 500	Sectoral Indices					
			Bankex	FMCG	IT	PSU	Capital Goods	Consumer Durables
1	2	3	4	5	6	7	8	9
2002-03	-12.1	-8.0	16.2	-23.5	-20.4	10.1	26.4	15.1
2003-04	83.4	109.4	118.6	31.3	29.2	148.1	147.3	68.4
2004-05	16.1	21.9	28.6	11.6	59.5	8.1	39.9	50.5

* : Percentage variations in indices measured on a point-to-point basis.

Table III.43: Performance of Bank Stocks – Risk and Return

Indices	Returns*		Volatility@	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
Bankex	118.6	28.6	24.0	17.1
BSE Sensex	83.4	16.1	23.0	11.2

* : Percentage variations in indices on a point-to-point basis.
@ : Defined as coefficient of variation.
Note : Data pertain to CNX Bank Index, which is being calculated on a weekly basis.

3.101 The volatility (measured by co-efficient of variation) of bank stocks declined during the year, although banking stocks were somewhat more volatile than the market in general (Table III.43).

3.102 At a disaggregated level, the scrips of all private sector banks and a majority of public sector banks witnessed gains. Among the public sector banks, the major gainers during 2004-05 were: Allahabad Bank (139.7 per cent), Union Bank of India (92.3 per cent), Indian Overseas Bank (87.4 per cent), Punjab National Bank (69.7 per cent), Vijaya Bank (62.2 per cent) and Andhra Bank (52.8 per cent). Among the private sector banks, the major gainers during 2004-05 included Federal Bank (94.0 per cent), UTI Bank (81.1 per cent), IndusInd Bank (69.9 per cent) and Bank of Rajasthan (56.8 per cent). The price/earnings (P/E) ratio of both public and private sector banks ranges widely. At end-March 2005, while the P/E ratio of public sector banks ranged between 6.17 and 15.0, that of private sector banks ranged widely with some banks having negative P/E multiple (Table III.44).

3.103 Bank stocks now constitute a significant portion of market capitalisation of the Indian equity market, even though there was some slide in their share at end-March 2005 in comparison with end-March 2004 (Table III.45).

Shareholding Pattern in Public Sector Banks

3.104 Ownership in public sector banks is now well diversified. As at end-March 2005, the holding by general public in six banks ranged between 40 and 49 per cent and in 12 banks between 30 and 49 per cent. Only in four banks, the Government holding was more than 90 per cent (Table III.46 and Appendix Table III.31).

3.105 In recent years, general public has shown a keen interest in bank stocks. Foreign Institutions (Non-resident) [FI(NR)], in particular, have been buying heavily in some private sector bank stocks. As at end-March 2005, there were fifteen banks (nine public sector banks, four new private sector banks and two old private sector banks) in which

Table III.44: Share Prices and Price/Earnings Ratios of Bank Stocks at BSE

Name of the Bank	Average Daily Closing Prices (Rs.)		P/E Ratios	
			End-March	
	2003-04	2004-05	2004	2005
1	2	3	4	5
Public Sector Banks				
Allahabad Bank	21.5	51.5	2.4	6.2
Andhra Bank	41.1	62.8	4.4	8.3
Bank of Baroda	162.1	191.1	7.4	9.5
Bank of India	55.2	67.7	4.5	14.8
Canara Bank	119.2	163.6	4.4	7.4
Corporation Bank	206.8	297.6	8.0	12.4
Dena Bank	22.3	28.9	2.9	15.0
Indian Overseas Bank	30.4	57.0	6.0	6.4
Oriental Bank of Commerce	197.8	276.9	8.5	8.2
Punjab National Bank	190.3	322.9	8.0	8.8
Syndicate Bank	29.8	44.2	4.3	6.3
Union Bank of India	42.6	81.9	3.4	7.2
Vijaya Bank	34.0	55.2	6.5	7.3
State Bank of India	455.9	542.5	8.7	8.0
Private Sector Banks				
Bank of Rajasthan Ltd.	29.0	45.5	5.8	17.3
City Union Bank Ltd.	56.3	75.9	2.9	4.4
Federal Bank Ltd.	62.9	122.0	6.1	11.2
Jammu and Kashmir Bank Ltd.	281.0	329.8	5.9	15.3
Karnataka Bank Ltd.	36.1	52.9	4.0	5.8
Karur Vysya Bank Ltd.	276.1	360.6	4.0	7.0
Laxmi Vilas Bank Ltd.	98.4	136.9	–	–
South Indian Bank Ltd.	56.9	56.9	3.1	35.1
United Western Bank	28.2	34.8	3.2	-1.4
Vysya Bank Ltd.	131.7	129.3	18.3	-36.7
Bank of Punjab Ltd.	23.9	25.5	6.7	-5.4
Centurion Bank Ltd.	13.7	11.5	-4.9	62.2
Global Trust Bank Ltd.	22.0	17.2	–	–
HDFC Bank Ltd.	302.0	437.4	21.2	25.3
ICICI Bank Ltd.	212.0	309.7	11.1	14.4
IDBI Bank Ltd.	35.9	52.3	8.1	8.3
IndusInd Bank Ltd.	28.8	48.9	3.4	7.1
UTI Bank Ltd.	88.5	160.3	12.2	19.8

– : Not Available/Not Applicable.
Source: Money Line Telerate and Prowess Database.

Table III.45: Relative Share of Bank Stocks – Turnover and Market Capitalisation

(Per cent)

Year	Share of turnover of bank stocks in total turnover	Share of capitalisation of bank stocks in total market capitalisation
1	2	3
2003-04	4.96	9.09
2004-05	7.35	8.64

Note: Data for turnover and market capitalisation of banks relate to CNX banks.

Table III.46: Private Shareholding in Public Sector Banks*
(As on March 31, 2005)

Category	Number of Banks
1	2
Up to 10 per cent	4
More than 10 and up to 20 per cent	–
More than 20 and up to 30 per cent	5
More than 30 and up to 40 per cent	6
More than 40 and up to 49 per cent	6

– : Nil/Negligible.
* : Including 19 nationalised banks, State Bank of India and IDBI Ltd.

FI (NR) holding was more than 10 per cent. In one bank, FI (NR) holding was more than 70 per cent (Table III.47).

Table III.47: Foreign Financial Institutions (Non-resident) Shareholding in Indian Banks
(As on March 31, 2005)

Category	Number of Banks		
	Public Sector Banks	New Private Sector Banks	Old Private Sector Banks
1	2	3	4
Nil	14	3	15
Up to 10 per cent	5	2	3
More than 10 and up to 20 per cent	9	–	1
More than 20 and up to 30 per cent	–	1	1
More than 30 and up to 40 per cent	–	–	–
More than 40 and up to 50 per cent	–	2	–
More than 50 and up to 60 per cent	–	–	–
More than 60 and up to 70 per cent	–	–	–
More than 70 and up to 80 per cent	–	1	–

– : Nil/Negligible.

7. Technological Progress in Banks

3.106 Several banks have been positioning themselves as a one-stop shop financial service provider with a fairly exhaustive range of products, including deposit products, loans, credit cards, debit cards, depository (custody services), investment advice, bill payments and various transactional services. These apart, banks have also been entering into the business of selling third-party products such as mutual funds and insurance to the retail customers. To provide their customers greater flexibility and convenience as well as to reduce servicing costs, banks have been investing to computerise their branches and in new delivery channels such as ATMs, phone banking, internet banking and mobile banking.

Table III.48: Computerisation in Public Sector Banks
(As on March 31, 2005)

(Per cent)

	1	2
i)	Branches already Fully Computerised#	60.0
ii)	Branches Under Core Banking Solution	11.0
iii)	Fully Computerised Branches (i + ii)	71.0
iv)	Partially Computerised Branches	21.8

: Other than branches under Core Banking Solution.

3.107 As on March 31, 2005, public sector banks had incurred an expenditure of Rs.9,487 crore on computerisation and development of communication networks (Appendix Table III.32). Computerisation of banking business has received high importance in recent years. While new private sector banks, foreign banks and a few older private sector banks have already put in place "core banking solutions", public sector banks are adopting similar systems. The directive by the Central Vigilance Commission (CVC) to achieve 100 per cent computerisation has resulted in renewed vigour in these banks towards fulfilment of this requirement which could go a long way to improve customer service. All PSBs, except eight, had achieved 100 per cent fully/partially computerisation of their branches. As at end-March 2005, more than 90 per cent branches of public sector banks were fully or partially computerised (Table III.48 and Appendix Table III.33).

3.108 Out of 27 public sector banks, as many as nine public sector banks had 100 per cent computerised branches. Nineteen banks had more than 50 per cent computerised branches (Table III.49).

Table III.49: Computerisation of Branches – Public Sector Banks*
(As on March 31, 2005)

Extent of Computerisation	Number of Banks
1	2
Nil	–
Up to 10 per cent	1
More than 10 and up to 20 per cent	1
More than 20 and up to 30 per cent	3
More than 30 and up to 40 per cent	–
More than 40 and up to 50 per cent	3
More than 50 and up to 60 per cent	3
More than 60 and up to 70 per cent	1
More than 70 and up to 80 per cent	2
More than 80 and up to 90 per cent	2
More than 90 and less than 100 per cent	2
Fully Computerised	9
Total	**27**

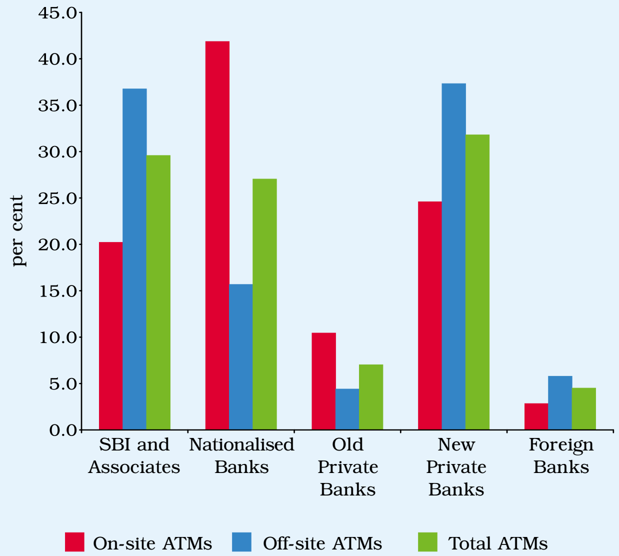
– : Nil/Negligible.
* : Excluding other public sector bank.

Table III.50: Branches and ATMs of Scheduled Commercial Banks
(As at end-March 2005)

Bank Group	Number of Branches					Number of ATMs			Per cent of Off-site ATMs to total branches
	Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total	
1	2	3	4	5	6	7	8	9	10
Total (i to v)	**20,170**	**13,218**	**11,046**	**9,292**	**53,726**	**7,654**	**9,988**	**17,642**	**18.6**
i) Nationalised Banks	13,588	7,291	6,935	5,813	33,627	3,205	1,567	4,772	4.7
ii) State Bank Group	5,480	4,080	2,334	1,767	13,661	1,548	3,672	5,220	26.9
iii) Old Private Sector Banks	994	1,499	1,150	868	4,511	800	441	1,241	9.8
iv) New Private Sector Banks	108	348	589	640	1,685	1,883	3,729	5,612	221.3
v) Foreign Banks	–	–	38	204	242	218	579	797	239.3

– : Nil/Negligible.

Chart III.25: ATMs – Bank Group-wise Share
(As at end-March 2005)



3.109 Total number of ATMs installed in the country was 17,642 at end-March 2005. New private sector banks constituted the largest share of ATMs, followed by the SBI group, nationalised banks, old private sector banks and foreign banks. While nationalised banks and old private sector banks had more on-site ATMs than off-site ATMs, SBI group, new private sector banks and foreign banks had more off-site ATMs than on-site ATMs (Chart III.25).

3.110 Off-site ATMs as percentage to total branches was the highest in the case of foreign banks, followed by new private sector banks, SBI group, old private sector banks and nationalised banks (Table III.50 and Appendix Table III.34).

3.111 Although cash continues to be used heavily in retail transactions in India, the use of cheques and several other payment instruments such as credit cards, debit cards and smart cards, on the whole, has been increasing in recent years. The use of payment cards, both in volume and value terms, more than doubled in 2004-05. The use of electronic payments in the form of ECS, EFT and SEFT is also on increase (Table III.51).

Table III.51: Retail Electronic and Card-based Payments

(Value in Rs. crore)

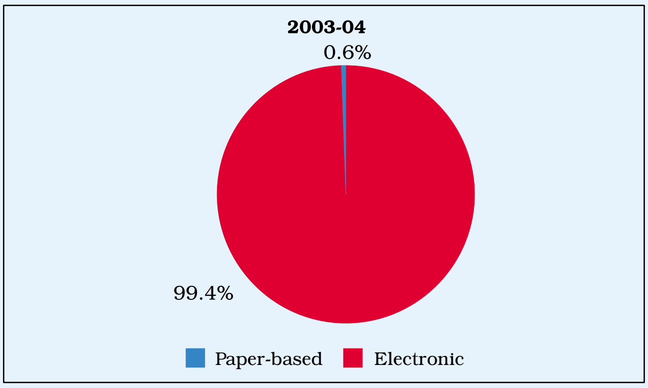
Year	Retail Electronic@		Card-based #		Total	
	Volume	Value	Volume	Value	Volume	Value
1	2	3	4	5	6	7
2000-01	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2001-02	17,770	6,123	N.A.	N.A.	17,770	6,123
2002-03	23,660	10,222	N.A.	N.A.	23,660	10,222
2003-04	29,046	29,933	1,85,501	35,870	2,14,547	65,803
2004-05	57,071	79,479	3,62,040	77,120	4,19,111	2,30,500

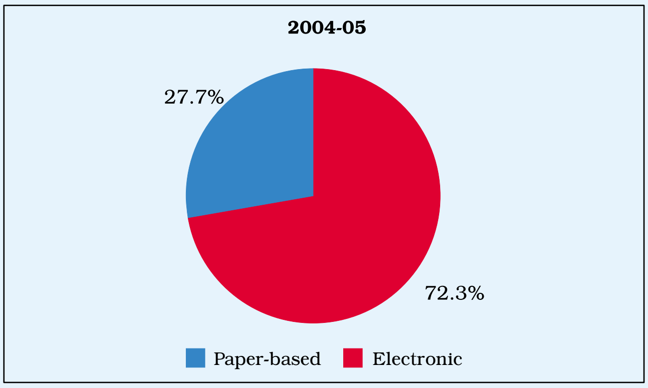
N.A. : Not Available.
@ : ECS (Debit and Credit), EFT and SEFT.
\# : Credit cards, debit cards and smart cards.
Note : Volume represents number of transactions.

Table III.52: Paper-based *versus* Electronic Transactions

Year	Volume (in million)			Value (Rs. crore)		
	Paper-based	Electronic	Total	Paper-based	Electronic	Total
1	2	3	4	5	6	7
2002-03	1,014	173	1,187	1,34,24,313	37,536	1,34,61,849
2003-04	1,023	224	1,247	1,15,94,976	67,352	1,16,62,328
2004-05	1,125	432	1,557	1,10,47,052	42,24,746	1,52,71,798

Chart III.26: Paper-based *versus* Electronic Transactions-Relative Flows (Value)





3.112 As a result of sharp increase in RTGS and other electronic transactions, the proportion of electronic transactions both in volume and value terms has increased sharply (Table III.52 and Chart III.26). Electronic payments are cheaper as they have lower production cost than paper-based instruments. They can also be carried out faster in comparison with paper-based transactions. The increased use of electronic payments has thus increased the efficiency of the payment system.

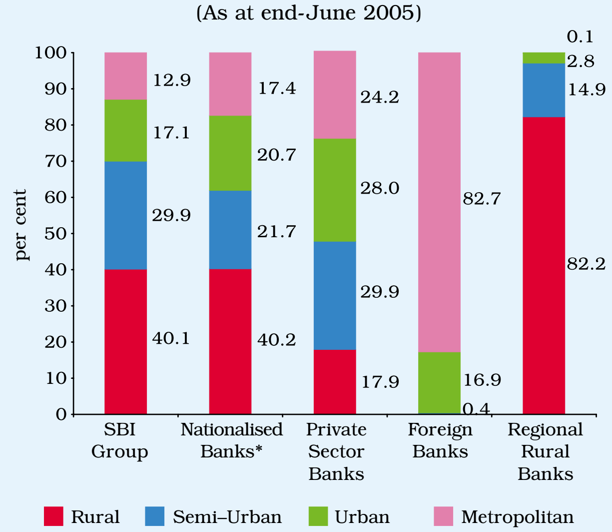
8. Regional Spread of Banking

3.113 The total number of branches of SCBs at end-June 2005 was 68,316 comprising 32,091 rural branches, 15,387 semi-urban branches and 20,838 urban and metropolitan branches. The share of rural branches declined further to 47.0 per cent during 2004-05 from 47.7 per cent of the previous year. In recent years, a number of new branches have been opened in urban and metropolitan area, while the share of semi-urban branches has remained more or less unchanged. As a result, the share of urban and metropolitan branches in total branches has increased, while that of rural branches declined (Chart III.27 and Appendix Table III.35).

3.114 The share of top hundred centres in aggregate deposits and gross bank credit increased during 2004-05, reflecting the increase in share of offices and branches. The share of top hundred centers in credit was higher than their shares in deposits, implying that deposits raised in other centres were deployed to meet the high credit demand at these centers (Table III.53).

3.115 The Southern region continued to account for the highest percentage of existing bank

Chart III.27: Bank Group-wise Distribution of Branches of Scheduled Commercial Banks
(As at end-June 2005)



* : includes data for Other Public Sector Bank.

Chart III.28: Regional Distribution of Bank Branches

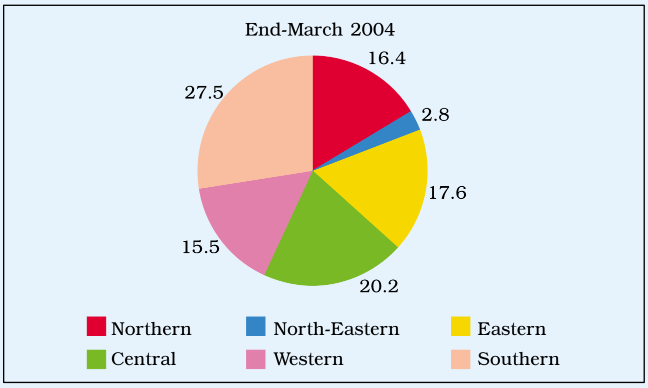


Table III.53: Share of Top Hundred Centres in Aggregate Deposits and Gross Bank Credit

(Per cent)

As at end-March	Deposits		Credit	
	Offices	Amount	Offices	Amount
1	2	3	4	5
1999	21.5	59.1	21.1	73.5
2000	21.9	59.0	21.5	74.7
2001	22.3	58.9	21.9	75.3
2002	22.5	59.1	22.1	77.0
2003	22.7	61.0	22.4	75.9
2004	23.1	63.6	22.9	75.5
2005	23.8	65.3	23.7	76.0

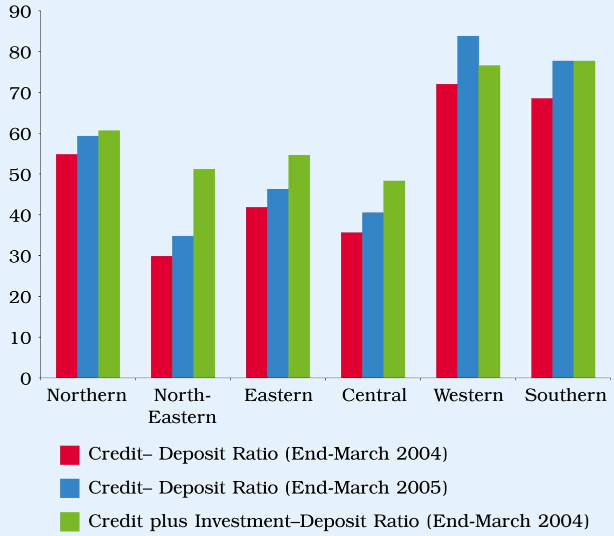
branches. Also, most of the new branches during 2004-05 were opened in the Southern region. In terms of existing bank branches, Southern region was followed by the Central region, the Eastern region, the Northern region and the Western region. No significant change was observed in the average population served per bank branch in various regions during 2004-05 (Chart III.28 and Appendix Table III.36).

3.116 The all-India C-D ratio (in terms of credit limit sanctioned) increased sharply during 2004-05 as against a marginal decline in the previous year. In line with the all-India trend, the C-D ratio increased in several States such as Maharashtra, Rajasthan, Karnataka, Kerala, Andhra Pradesh, Orissa and Madhya Pradesh. Among the major States, the C-D ratios of Tamilnadu, Maharashtra, Andhra Pradesh, Karnataka, and Rajasthan were above the all-India level (Appendix Table III.37). The C-D ratios (in terms of utilisation) for States were generally higher at end-March 2004 than their respective levels in terms of sanctions. The shortfall in C-D ratio in terms of utilisation *vis-à-vis* limit sanctioned was the highest in the case of Maharashtra. Among the major regions, the C-D ratio as well as the investment plus credit-deposit ratio of Western and Southern regions at end-March 2004 were well above the all-India level (Chart III.29).

Foreign Banks' Operations in India

3.117 The total number of foreign banks operating in India stood at 31 with 245 branches as on September 30, 2005. These banks originated from 19 countries. While four banks have 10 or more branches, 12 banks were operating only with one branch each. The branches of foreign banks are spread over 35 centres in 17 States/Union territories. Approval was conveyed to the existing foreign banks to open

Chart III.29: Region-wise Credit-Deposit and Investment *plus* Credit-Deposit Ratios of Scheduled Commercial Banks



12 additional branches in India out of which one branch has been opened so far.

3.118 Foreign banks have also set up representative offices in India. As on September 30, 2005, 27 banks from 13 countries operated representative offices in India. Banco de Sabadell SA opened its office in August 2004. At present, 58 banks have presence in India either through branches or representative offices.

3.119 Under Section 44 A of the Banking Regulation Act, 1949, the Indian branches of Sumitomo Mitsui Banking Corporation (SMBC) merged with Indian branches of Standard Chartered Bank. As a result, Sumitomo Mitsui Banking Corporation was excluded from the Second Schedule of the Reserve Bank of India Act,1934 on March 1, 2005 in terms of Section 42(6) (b) of the Reserve Bank of India Act,1934.

Indian banks' operations abroad

3.120 As on October 20, 2005, fourteen Indian banks - nine from the public sector and five from the private sector - had operations overseas spread across 42 countries with a network of 101 branches (including 6 offshore units), 6 joint ventures, 17 subsidiaries and 30 representative offices. Bank of Baroda had the highest overseas presence, followed by State Bank of India and Bank of India (Table III.54).

Table III.54: Overseas Operations of Indian Banks
(As on October 20, 2005)

(Number of banks)

Name of the Bank	Branch	Subsidiary	Representative Office	Joint Venture Bank	Total
1	2	3	4	5	6
Bank of Baroda	39	7	3	1	50
State Bank of India	24	5	8	3	40
Bank of India	20	1	3	1	25
Punjab National Bank	1	–	4	1	6
Indian Bank	3	–	–	–	3
Indian Overseas Bank	5	1	–	–	6
UCO Bank	4	–	–	–	4
Canara Bank	1	1	2	–	4
Syndicate Bank	1	–	–	–	1
Bharat Overseas Bank	1	–	–	–	1
ICICI Bank Ltd.	2	2	6	–	10
IndusInd Bank Ltd.	–	–	2	–	2
Bank of Punjab Ltd.	–	–	1	–	1
HDFC Bank Ltd.	–	–	1	–	1
Total	**101**	**17**	**30**	**6**	**154**

– : Nil/Negligible.

3.121 Approval was given to State Bank of India to acquire majority equity stake and management control in Indian Ocean International Bank Ltd. (IOIB), Mauritius. The bank acquired 51 per cent stake in IOIB on April 19, 2005. The bank is in the process of taking management control of IOIB.

9. Customer Service in Banks

3.122 Although deregulation and liberalisation in the banking sector have resulted in enhanced efficiency and systemic resilience, they have also raised legitimate concerns with regard to the quality of customer service provided by banks. The Reserve Bank has been initiating measures from time to time to ensure improvement in the standards of customer service and grievance redressal in banks. The constitution of the Standing Committee on Procedures and Performance Audit on Public Services (Chairman: Shri S.S.Tarapore) and *Ad hoc* Committees on Customer Services set up by banks are aimed at providing a mechanism to bring improvement in customer service with an emphasis on transparency and simplification of procedures. On the basis of the recommendations of the Committee on banking operations as also taking cognisance of the representations received against commercial banks, several measures have been implemented by the Reserve Bank in recent times. These include introduction of drop box facility for cheques and facility for acknowledgement of cheques through regular collection counters; delivery of cheque books over the counters on request; issue of statement of accounts at monthly intervals with details of various transactions; informing the existing account holders at least one month in advance of any change in the minimum balance in savings accounts and charges for non-maintenance thereof; and agreeing to the request for opening of non-resident ordinary (NRO) accounts jointly with residents.

3.123 A study in the Reserve Bank on complaints received against commercial banks located in the jurisdiction of the concerned Regional Offices of the Reserve Bank was carried out for the period January 1, 2003 to June 25, 2005. The complaints have been categorised into seven broad heads, *viz.*, deposit account related, remittance/ collection facility, loans/advances (general and housing loan) credit cards related, activities of direct selling agents (DSAs), harassment in recovery of loans, and general/others. Although

Table III.55: Complaints Received against Scheduled Commercial Banks
(January 1, 2003 to June 25, 2005)

Bank group	Total No. of complaints received	Category-wise break up of complaints							
		Deposits Account related	Remittance/ collection facilities	Loans/Advances		Credit Cards related	Activities of Direct Selling Agents	Harassment in recovery of loan	General/ Others
				General	Housing Loan				
1	2	3	4	5	6	7	8	9	10
Scheduled Commercial Banks	**13,503 (100.0)**	**2,459 (18.2)**	**1,621 (12.0)**	**2,480 (18.4)**	**254 (1.9)**	**1,195 (8.8)**	**55 (0.4)**	**623 (4.6)**	**4,816 (35.7)**
Public Sector Banks	9,006 (66.7)	1,801 (20.0)	1,255 (13.9)	1,779 (19.8)	146 (1.6)	239 (2.7)	3 (0.0)	413 (4.6)	3,370 (37.4)
Nationalised Banks	5,675 (42.0)	1,085 (19.1)	724 (12.8)	1,142 (20.1)	102 (1.8)	62 (1.1)	1 (0.0)	262 (4.6)	2,297 (40.5)
State Bank Group	3,331 (24.7)	716 (21.5)	531 (15.9)	637 (19.1)	44 (1.3)	177 (5.3)	2 (0.1)	151 (4.5)	1,073 (32.2)
Old Private Sector Banks	694 (5.1)	111 (16.0)	70 (10.1)	160 (23.1)	18 (2.6)	1 (0.1)	– (0.0)	13 (1.9)	321 (46.3)
New Private Sector Banks	2,216 (16.4)	398 (18.0)	217 (9.8)	342 (15.4)	63 (2.8)	321 (14.5)	36 (1.6)	99 (4.5)	740 (33.4)
Foreign Banks in India	1,587 (11.8)	149 (9.4)	79 (5.0)	199 (12.5)	27 (1.7)	634 (39.9)	16 (1.0)	98 (6.2)	385 (24.3)

– : Nil/Negligible.

Note : 1. Figures within brackets in Col.2 represent percentage share of the concerned bank group to total.
2. Figures within brackets in Col. 3 to Col. 10 represent percentage share of the nature of complaints against the total complaints of concerned bank group.

in absolute terms, number of complaints received against public sector banks were the largest, average complaints per branch for public sector banks was much lower ranging from 0.08 to 0.28, as against 0.00 to 2.68 for private sector banks and 0.10 to 16.06 in the case of foreign banks (Table III.55 and Appendix Table III.38). Majority of complaints were in the category of loans and advances (general) (18.4 per cent), followed by deposit accounts related (18.2 per cent). This trend was observed across all bank groups, except foreign banks against which most of the complaints related to credit cards.

10. Regional Rural Banks

3.124 Regional Rural Banks (RRBs) form an integral part of the Indian banking system with focus on serving the rural sector. There are 196 RRBs operating in 26 States across 518 districts with a network of 14,446 branches as on March 31, 2004. Majority of the branches of RRBs are located in rural areas. RRBs combine the local feel and familiarity with rural problems, which the co-operatives possess, and the degree of business organisation as well as the ability to mobilise deposits, which the commercial banks possess. RRBs are specialised rural financial institutions for catering to the credit requirements of the rural sector. In the context of recent focus of the Government of India on doubling the flow of credit to the agricultural sector, it is felt that the RRBs could be used as an effective vehicle for credit delivery in view of their rural orientation. As indicated in the Mid-Term Review of Annual Policy Statement for 2004-05, RRBs have to adhere to good governance practices and comply with prudential regulations. In view of their importance as purveyors of rural credit, the Union Budget, 2004-05, emphasised that the sponsor banks would be accountable for the performance of their RRBs. Sponsor banks have been advised by the Reserve Bank to provide support to their sponsored RRBs in matters relating to efficient management, training of staff, computerisation and networking of their activities.

Mobilisation and Deployment of Funds

3.125 Aggregate deposits of RRBs increased by 9.0 per cent during 2004-05 as compared with

Table III.56: Regional Rural Banks – Important Indicators

(Amount in Rs. crore)

Item	As on			Variations	
	March 28, 2003	March 26, 2004	March 31, 2005	2003-04	2004-05
1	2	3	4	5	6
1. Liabilities to the Banking System	179	205	538	26 (14.5)	333 (162.4)
2. Liabilities to Others	54,858	63,391	69,749	8,533 (15.6)	6,358 (10.0)
2.1 Aggregate Deposits (a+b)	48,346	57,010	62,143	8,664 (17.9)	5,133 (9.0)
a) Demand Deposits	8,802	11,019	17,330	2,217 (25.2)	6,311 (57.3)
b) Time Deposits	39,544	45,991	44,813	6,447 (16.3)	-1,178 (-2.6)
2.2 Borrowings	4,799	4,595	5,524	-204 (-4.3)	929 (20.2)
2.3 Other Demand and Time Liabilities*	1,713	1,785	2,082	72 (4.2)	297 (16.6)
3. Assets with the Banking System	15,091	12,993	21,897	-2,098 (-13.9)	8,904 (68.5)
4. Bank Credit	21,773	25,481	31,803	3,708 (17.0)	6,322 (24.8)
5. Investments (a+b)	12,524	17,444	23,200	4,920 (39.3)	5,756 (33.0)
a) Government Securities	8,311	13,349	16,911	5,038 (60.6)	3,562 (26.7)
b) Other Approved Securities	4,213	4,095	6,289	-118 (-2.8)	2,194 (53.6)
6. Cash Balances	515	571	966	56 (10.9)	395 (69.2)
Memo:					
a) Cash Balance-Deposit Ratio	1.1	1.0	1.6		
b) Credit-Deposit Ratio	45.0	44.7	51.2		
c) Investment/Deposit Ratio	25.9	30.6	37.3		
d) Investment+Credit/Deposit Ratio	70.9	75.3	88.5		

* : including Participation Certificates issued to others.
Note : Figures in brackets are percentage variations.

17.9 per cent in 2003-04. While demand deposits recorded a very strong growth, time deposits declined sharply. Credit growth, however, accelerated to 24.8 per cent in 2004-05 from 17.0 per cent in the previous year. The outstanding deposits (Rs.62,143 crore) were almost twice the outstanding credit (Rs.31,803 crore) at end-March 2005. Reflecting the impact of high growth in credit coupled with low growth in deposits, liabilities of RRBs to the banking sector registered a sharp increase. Investment of RRBs in SLR securities continued to grow at a high rate of 33.1 per cent over and above the increase of 39.0 per cent in the previous year mainly due to the growth of investment in other approved securities. This was in contrast to the preceding year when increase in investment was mainly on account of investments in Government securities (Table III.56). The total assets of RRBs increased by 10.8 per cent during 2004-05.

Financial Performance of RRBs

3.126 Data in respect of 196 RRBs indicate that the number of loss-making RRBs declined in 2004-05. During 2004-05, 167 RRBs earned net profits amounting to Rs.904 crore, while 29 RRBs incurred losses to the tune of Rs.154 crore (Table III.57). Despite higher net interest income ratio, operating profit as well as net profit of RRBs as a percentage of their total assets declined marginally during 2004-05 on account

Table III.57: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Particulars	2003-04			2004-05			Variation Col. (7) over Col. (4)
	Loss Making [33]	Profit Making [163]	RRBs [196]	Loss Making [29]	Profit Making [167]	RRBs [196]	
1	2	3	4	5	6	7	8
A. Income (i+ii)	**609**	**5,635**	**6,244**	**628**	**5,509**	**6,137**	**-107 (-1.7)**
i) Interest income	553	4,985	5,538	587	5,089	5,676	138 (2.5)
ii) Other income	56	650	706	41	420	461	-245.0 (-34.7)
B. Expenditure (i+ii+iii)	**793**	**4,682**	**5,475**	**782**	**4,605**	**5,387**	**-88 (-1.6)**
i) Interest expended	421	2,939	3,360	424	2,737	3,161	-199 (-5.9)
ii) Provisions and contingencies	90	196	286	51	208	259	-27 (-9.4)
iii) Operating expenses	282	1,547	1,829	307	1,660	1,967	138 (7.6)
of which :							
Wage Bill	248	1,260	1,508	246	1,280	1,526	18 (1.2)
C. Profit							
i) Operating Profit/Loss	**-94**	**1,149**	**1,055**	**-103**	**1,112**	**1,009**	**-46 (-4.4)**
ii) Net Profit/Loss	**-184**	**953**	**769**	**-154**	**904**	**750**	**-19 (-2.5)**
D. Total Assets	**8,892**	**61,386**	**70,278**	**9,780**	**68,086**	**77,866**	**7,588 (10.8)**
E. Financial Ratios #							
i) Operating Profit	-1.1	1.9	1.5	-1.1	1.6	1.3	
ii) Net Profit	-2.1	1.6	1.1	-1.6	1.3	1.0	
iii) Income	6.8	9.2	8.9	6.4	8.1	7.9	
iv) Interest income	6.2	8.1	7.9	6.0	7.5	7.3	
v) Other Income	0.6	1.1	1.0	0.4	0.6	0.6	
vi) Expenditure	8.9	7.6	7.8	8.0	6.8	6.9	
vii) Interest expended	4.7	4.8	4.8	4.3	4.0	4.1	
viii) Operating expenses	3.2	2.5	2.6	3.1	2.4	2.5	
ix) Wage Bill	2.8	2.1	2.1	2.5	1.9	2.0	
x) Provisions and Contingencies	1.0	0.3	0.4	0.5	0.3	0.3	
xi) Spread (Net Interest Income)	1.5	3.3	3.1	1.7	3.5	3.2	

: Ratios to Total Assets.
Note : 1. Figures within [ ] brackets represent number of RRBs.
2. Figures within parenthesis in col. 8 represent percentage variation over the year.
Source : NABARD.

of a sharp decline of 34.7 per cent in other income during the year.

Purpose-wise Outstanding Loans and Advances

3.127 The composition of credit extended by RRBs underwent a major shift during 2004-05 in favour of agricultural loans. The shares of agricultural and non-agricultural loans are now broadly equal, unlike in the past when there was a marginal bias in favour of the non-agricultural loans (Table III.58). Within agricultural loans, short-term loans (crop loans) witnessed a higher increase during 2004-05, as a result of which their share in total agricultural loans increased to 66.3 per cent from 65.4 per cent in the previous year.

Table III.58: Outstanding Advances – Purpose-wise Classification
(As at end-March)

(Amount in Rs. crore)

Purpose	2003	2004	2005
I Agriculture (1 to 3)	**10,261 (46.3)**	**11,722 (44.9)**	**16,710 (50.8)**
1. Short-term loans (crop loans)	6,495	7,664	10,980
2. Term loans (for agriculture and allied activities)	3,766	4,058	5,730
3. Indirect Advances	–	–	–
II Non-agriculture (4 to 7)	**11,897 (53.7)**	**14,393 (55.1)**	**16,161 (49.2)**
4. Rural Artisans etc.	695	715	713
5. Other Industries	330	433	580
6. Retail Trade etc.	3,264	3,607	4364
7. Other purposes	7,608	9,638	10,504
Total (I+II)	**22,158**	**26,115**	**32,871**

– : Nil/Negligible.

Table III.59: Profile of Local Area Banks
(As at end-March 2005)

(Amount in Rs. crore)

Bank	Assets		Deposits		Advances	
	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7
1. Capital Local Area Bank Ltd.	129	179	110	151	66	90
2. Coastal Local Area Bank Ltd.	41	45	32	36	19	20
3. Krishna Bhima Samruddhi Local Bank Ltd.	10	17	5	8	6	12
4. Subhadra Local Area Bank Ltd.	7	12	1	5	3	8

Note: South Gujarat Local Area Bank was merged with Bank of Baroda on June 25, 2004

11. Local Area Banks

3.128 Four local area banks (LABs) were functional at end-March 2005. They were Coastal Local Area Bank Ltd, Vijayawada; Capital Local Area Bank Ltd., Phagwara, Navsari; Krishna Bhima Samruddhi Local Area Bank Ltd., Mehboobnagar; and the Subhadra Local Area Bank Ltd., Kolhapur. 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. These banks have a very small base of assets, deposits and advances (Table III.59).

3.129 The smaller LABs continued to exhibit a very high credit-deposit (C-D) ratio of over 100 per cent. Although the C-D ratio Coastal Local Area Bank Ltd. and Capital Local Area Bank Ltd. declined, it remained high at 54.8 per cent and 59.5 per cent, respectively.

3.130 The income and expenditure of the LABs registered a moderate growth. However, higher growth of income, especially interest income coupled with near stagnant interest expenditure led to a significant increase in the operating profit and net profit (Table III.60).

Table III.60: Financial Performance of Local Area Banks

(Amount in Rs. crore)

Indicator	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**19.6**	**21.3**	**1.7**	**8.7**
i) Interest income	15.4	17.3	1.9	12.3
ii) Other income	4.2	4.0	-0.2	-4.8
B. Expenditure (i+ii+iii)	**19.5**	**20.4**	**0.9**	**4.6**
i) Interest expended	8.6	8.7	0.1	1.2
ii) Provisions and contingencies	2.8	2.5	-0.3	-10.7
iii) Operating expenses	8.1	9.2	1.1	13.6
of which : Wage Bill	2.7	3.1	0.4	14.8
C. Profit				
i) Operating Profit/Loss	**2.9**	**3.4**	**0.5**	**17.2**
ii) Net Profit/Loss	**0.1**	**0.9**	**0.8**	**800.0**
D. Spread (Net Interest Income)	**6.8**	**8.6**	**1.8**	**26.5**

Source : Based on Off-site returns.