Annex 1

Letter addressed to Shri M.S. Verma regarding constitution of the Working Group

DEPUTY GOVERNOR

RESERVE BANK OF INDIA,
CENTRAL OFFICE,
SHAHEED BHAGAT SINGH ROAD,
MUMBAI – 400 001. INDIA.

D.O. DBOD.BP.2059/21.04.110/99

February 6, 1999

Dear Shri Verma,

Working Group on Restructuring of Weak Public Sector Banks

It has been decided to set up, in consultation with the Government of India, a Working Group under your Chairmanship, to suggest measures for revival of weak public sector banks with the following members:

(i) Shri K.R.Ramamoorthy, Chairman, Vysya Bank Limited, Bangalore,

(ii) Shri M.M. Chitale, Chartered Accountant (former President, Institute of Chartered Accountants of India),

(iii) Shri P.K.Choudhury, Managing Director, Investment Credit Rating Agency, New Delhi,

(iv) Shri J.R.Prabhu, former Executive Director, Reserve Bank of India, and

(v) Dr. Sushil Chandra, former Director, International Management Institute, New Delhi.

2. The terms of reference of the Working Group are as under:

[a] Criteria for identification of weak public sector banks;

[b] To study and examine the problems of weak banks;

[c] To undertake a case by case examination of the weak banks and to identify those which are potentially revivable;

[d] To suggest a strategic plan of financial, organisational and operational restructuring for weak public sector banks.

Shri C.R. Muralidharan, General Manager, Reserve Bank of India, Department of Banking Operations and Development, Central Office, Mumbai, will be the Member Secretary.

The report of the Working Group may please be submitted to us by 30th June, 1999.

With regards,

Yours sincerely,

Sd/-

[S.P. Talwar]

Shri M.S. Verma,
Hon. Advisor to the Reserve Bank of India,
Reserve Bank of India,
Main Building,
Mumbai.

Annex 2

Questionnaire sent to the three weak banks

NAME OF THE BANK:
PROFILE (as on 31.03.99)
A. (i) Number of offices and staff

	No. of people	
ADMINISTRATIVE	Supervisory	Award Staff
Head Office		
Zonal Offices		
Divisional Offices		
Total		
OPERATING		
Branches		
Sub-branches/offices/ extension counters		
Total		
GRAND TOTAL		

(ii) Geographical spread

INDIA:

Name of the State	Administrative offices			Operating offices		
	HO	ZO	Div.	Branches	Sub-branches	Extension counters

<u>ABROAD</u>:

Name of the Country	Administrative offices			Operating offices		
	HO	ZO	Div.	Branches	Sub-branches	Extension counters

(iii) <u>Staff concentration</u>

Concentration Category	Head Office	Zonal Office	Divisional Offices	Branches
Very large (with more than 300 employees)				
Large (101 – 300)				
Big (51 – 100)				
Medium (21 – 50)				
Small (8 – 20)				
Very small (7 – 1)				

B. (i) <u>Business Handled</u>

	1997-98		1998-99		1999-2000	
	Amount	Market Share	Amount	Market Share	Amount	Market Share
Aggregate deposits						
Aggregate advances						
Net profit/losses						
Accumulated losses, if any						

(ii) Business Concentration

	In terms of deposits (%)	In terms of advances (%)	In terms of profits (%)
10 largest branches			

account for	
25	-do-
50	-do-
100	-do-
300	-do-
500	-do-
Note:	Largest for the purpose means largest for the particular kind of business, i.e., deposits or advances

(iii) Profit dispersal amongst branches

Metropolitan	Profit making	Loss-making
Urban		
Semi-urban		
Rural		
Total		

GENERAL STATE OF AFFAIRS

Current and projected basic ratios indicating financial strength:

	31 March 1998	31 March 1999	31 March 2000 (Projected)	31 March 2001 (Projected)
Capital adequacy				
ROA (Return on assets)				
ROE (Return on Equity)				
Equity on Asset				
Non-performing Loan/				
Total Loan				
Non-performing Assets/				
Total operating revenue				
Total Expense/Total				
Income				
Non-interest expense/ operating revenue				

Where projections are made, assumptions behind these projections should be stated clearly. Such assumptions could be about markets, management of NPAs, asset restructuring and recapitalisation. The extent of additional recapitalisation required and the expected source from which such recapitalisation is expected should also be stated.

STRATEGY

1. <u>Position in the industry / market</u>

1.1 How do you view the future of commercial banking in India in the next 3/5 years in terms of number and type of players and the impact of competition on this structure?

1.2 What is your bank's vision and objectives? What positioning do you envisage for your bank in the market; a bank with countrywide importance, regional importance or operating in a niche or any other.
In your view what will be your share of business in the total market?

1.3 Do you have a strategy charted out to achieve the above stated vision/ objective? Will there be any pre requisites, preconditions for you to be able to implement the desired strategy?

Operating strategy

1.4 How precisely (i.e. by changing customer focus, modifying product line, reduction in cost of delivery, identifying new businesses and converting them into additional streams of revenue, improvement in technology etc.) will you meet the intensifying competition in the sector. How, in particular, do you expect to fare against the highly technologically advanced private sector/ foreign banks that are also largely free from any legacy of the past ?

1.5 Do you have and/or expect to develop any distinctive strategic advantage and skill sets, which will drive your product/customer focus in the revival strategy?

1.6 What levels of Net interest margin (NIM), Net interest income (NII) ratio of Non-interest income to total income, expense ratio, do you estimate will be necessary for you to be able to generate an acceptable return on equity say 15%?

Corporate Governance

1.7 Do you consider that any change in the structure of your Board of directors will be helpful in your implementing the desired strategy. If so, what kind of structural changes in the constitution of the Board are considered desirable?

1.8 Do you expect the Board to play a decisive role in setting strategy and overall performance targets?

1.9 Is the current decision making process in your bank, particularly relating to credit and investments seen as sound and quick so as to ensure retention of present clients and acquisition of acceptable new ones? If you envisage any changes therein, what would these be?

Management

1.10 How do you propose to organise your core team to drive change and implement the revival strategy successfully?

1.11 How do you propose managing the basic problems of acquiring a reasonably good number of new clients and retaining the existing ones?
What are the required investments and resources to do so?

1.12 Does your bank have a reasonably good percentage of high performers at different levels amongst your total staff strength (say, 12 – 15%) upon whom reliance could be placed to drive the revival strategy? In the present none-too-enthusing scenario how do you propose to keep them motivated? What kind of scheme of empowerment and/or incentive(s) would help you place the bank on the path to long term profitable performance?

Organisational structure

1.13 Is the bank's organisational structure adequate to achieve its current objectives? Do you consider any change therein necessary?

1.14 Has any attempt been made or is being made to effect any change in the structure? What is your estimation of the financial and human resources required for effecting the desired change?

2. Business capability

2.1 Are there any clearly identified skill strengths in each or any of your major business lines today?

2.2 Are there any identified skill gaps? Do you think that these gaps can be closed effectively within a reasonable time so as to ensure that future of the bank is not jeopardised?

2.3 What is your plan to close the gap? Has it been initiated already and how long do you think it will take to complete?

2.4 What is the Bank's present efficiency ratio (as on 31.3.98 and 31.3.99)?

2.5 What is the efficiency ratio, you think the Bank will achieve by the end of 1999-2000 and 2000-2001?

Technology

2.6 What is the extent of computerisation achieved in your bank so far?
Please indicate in terms of:

(A) Business

(a) Number of branches computerised

- (i) only back office
- (ii) full branch

(b) Percentage of total business covered by computerisation

- (i) Deposits
- (ii) Advances
- (iii) Other business

(B) Percentage of total M.I.S. covered by computerisation

2.7 Has the Bank at present a working ALM system. Is the M.I.S. in the bank aligned to the ALM system ?

2.8 Does the bank have any system for credit scoring, credit portfolio management and early warning systems?

3. Management of Non-performing Assets

3.1 What is the percentage of Non-performing assets to Aggregate assets?

	31.3.97	31.3.98	31.3.99	31.3.2000 (projected)
Gross				
Net				

Please give market segment-wise details. Also indicate what % of the total is represented by the top 200 accounts under each head.

3.2 What is the percentage of Non-performing loans to Aggregate loans?

	31.3.97	31.3.98	31.3.99	31.3.2000 (projected)
Gross				
Net				

Please give market segment-wise details. Also indicate what % of the total is represented by the top 200 accounts under each head.

3.3 What is the current estimate of Losses from :

(i) Net non-performing assets

(ii) Net non-performing Loans

Please state separately the extent of security cover available in respect of NPAs (independent of provisions)

3.4 Has any special set-up been created within the bank to address the problem of NPA? If so, please provide details (organisation, processes, number and amount of accounts specially focussed upon as well as success achieved so far/likely to be achieved in future.

	1997-98	1998-99	1999-2000	2000-2001
By upgradation				
Recoveries				
Compromise settlements				
Write-off				
Total				

3.5 What is the current rate of N.P.A. generation? (calculated as % of new NPAs identified during a year to aggregate performing assets/Loans at the beginning of the year)

3.6 Would you favour the idea of transferring whole or part of your bank's NPAs to a separate Asset reconstruction company (ARC)?

3.7 Would you favour the idea of transferring NPAs to an independent ARC even if the transfer value agreed upon turns out to be lower than their book value?

3.8 What do you suggest should be the criteria for transferring assets to the proposed ARC?

3.9 Based on the criteria proposed by you what are the numbers and amount of your NPAs, which will get transferred to the ARC?

3.10 What will be the projected results of the transfer of NPAs (a) Impact on existing earning assets (b) Impact on growth of assets (c) Impact on required provision levels (d) Impact on the banks profitability

3.11 Have you any alternative/additional plan for handling your bank's NPAs already under implementation or proposed to be implemented shortly?
Please give details and its expected impact.

4. <u>Financials – Cost and Revenue Revenue</u>

4.1 Are the margins available on your different products adequate to render the overall operations of the bank profitable?

4.2 In respect of which of your bank's revenue sources, you think an increase is likely and/or anticipated in the near future. Have you initiated or are likely to initiate in the near future any measures to achieve?

4.3 What will be the impact of such increase(s) on your bank's profits and by when?

4.2 What is your bank's present level of Non-interest income and what improvement therein is planned in the next three years? Give details of these plans and their operationalisation?

Cost

4.5 What is your current efficiency ratio and what are your plans for improving it in the years 1999-2000, 2000-2001 and 2001-2002?

4.6 Does the Bank have any plans for productivity improvement? Give details and an idea of the time frame in which its results can be visible.

4.7 What management process do you plan to use to measure and monitor productivity improvement in each major business segment and back/front office functions?

4.8 If margins and levels of business do not improve substantially in the near future there will be no alternative to cost reductions. What plans in these regards can be followed?

a. Reduction in the number of branches
b. Reduction in the number of staff, say, by way of VRS
c. Wage freeze/cut
d. Others

5. Need for recapitalisation

5.1 Based on stipulated capital adequacy requirements as also the proposed business plans and the financial projections, what would be the required recapitalisation as at the end of the years 1999–2000, 2000–01 and 2001-02.

5.2 What would be the proposed source of the recapitalisation and can it be reasonably assumed on the basis of currently available indications that the anticipation in regard to the source is realistic?

6. Future potential

6.1 Has the bank been successful in retaining customers in the past two years, i.e., 97-98 and 98-99?

6.2 How many new accounts (other than advances in the priority sector under different government sponsored schemes) were opened in the past two years?

	1997-98		1998-99	
	Advances	Deposits	Advances	Deposits
Corporate				
Retail				
Total				

6.3 (a) Have you conducted any retail customer satisfactory survey in the past 2 years?

(b) Have you conducted any commercial customer satisfaction survey in the past 2 years?

6.4 Does your bank have a System/M.I.S., which can calculate profit by customer segment/product line/individual customer?

6.5 Are the accounting system and the M.I.S. in the bank designed to give a reasonably precise idea of the cost involved in offering any product/ service to the clients?

FINANCIAL STATEMENT – BALANCE SHEET

(Rs. crore)

	Past Performance				Projections			
	1997	1998	1999	2000	2001	2002	2003	2004
Assets								
Cash, bank deposits, money								

Markets	
Recapitalisation Fund (Bonds) already received	
Loans – Performing	
(Provisions for Loans)	
Loans – Non performing	
(Provisions for Loans)	
Government Securities	
Corporate Debentures	
Equity	
(Provision for securities)	
Fixed assets	
Other assets	
Total Assets	
Liabilities and Equity	
Deposits – Demand	
Deposits – Savings	
Money Market funding	
Borrowing – domestic	
Borrowing – foreign	
Other liabilities	
Total Liabilities	
Net Assets (Liabilities)	
Shareholders equity	

FINANCIAL STATEMENT – PROFIT AND LOSS STATEMENT

(Rs. crore)

	Past Performance			Projections				
	96/97	97/98	98/99	1999/ 2000	2000/ 01	2001/ 02	2002/ 03	2003/ 04
Total interest income								
Total interest expense								
Net interest income (NII)								
% of operating revenue								
Other income (e.g., investments)								
Other expenses (FX.,investment)								
Non interest income								
% of operating revenue								
Total net revenue (Operating revenue)								
Provisions for loan losses								
Staff expenses								
Other operating expenses								

Total non interest expense (Other expense)	
Profit/(loss) before tax	
Income Tax %	
NET INCOME/(LOSS)	

Annex 3
Constitution of sub-groups

Name of the Bank	Members	
Indian Bank	Shri P.K. Choudhury	Member of Working Group
	Shri K. R. Ramamoorthy	Member of Working Group
	Shri R. Raghuttama Rao	Executive Director, ICRA Advisory Services
	Shri V. Sriram	Consultant, ICRA Advisory Services
	Shri N. Mahesh	Consultant, ICRA Advisory Services
	Shri G. Sreekumar	AGM and EA to Hon. Adviser, Reserve Bank of India
UCO Bank	Dr. Sushil Chandra	Member of Working Group
	Shri J.R. Prabhu	Member of Working Group
	Shri C.R. Muralidharan	Member Secretary of Working Group
	Ms. Anjali Gupta	Asst. Vice President, SBI Capital Markets Ltd.
United Bank of India	Shri M.M. Chitale	Member of Working Group
	Shri Kishore Gandhi	Director, CRISIL
	Shri George Mathew	Manager, CRISIL
	Shri N. Shankar	Manager, CRISIL
	Shri Pathik Gandotra	Manager, CRISIL
	Ms. Sudha Damodar	Deputy General Manager, Reserve Bank of India

Note: The sub-groups were also assisted by General Managers of the respective banks.

Annex 4

Sub-group report on Indian Bank Executive Summary

1. Indian Bank has a four-tier organisation structure. The bank has 1,492 domestic branches and 34 regional offices, which are controlled by 11 zonal offices. More than 60 per cent of the branches are in semi-urban and rural areas. Nearly three-fourths of the branches are in the southern states. The bank has lead bank responsibility for 13 districts spread across three states and one union territory. Gross profit of all the four RRBs sponsored by the bank was Rs. 10.34 crore as on 31 March 1999.

2. The financial position of the bank has steadily deteriorated over the last five years. The accumulated losses as on 31 March 1998 amounted to Rs. 2,403 crore. With the losses for 1998-99 expected to be about Rs. 850 crore, the accumulated losses will amount to Rs. 3,253 crore as on 31 March 1999. With the exception of one year (1994-95), the bank has posted operating losses for the last six years. In 1994-95, the bank was able to post a profit on account of non-classification of certain assets as non-performing.

3. The bank has a capital of Rs. 2,503.96 crore as on 31 March 1999.
It has received special securities and recap bonds aggregating Rs. 2,484.96 crore at varying coupon rates. An infusion of Rs. 1,750 crore was made in February 1998 based on a strategic revival plan. Capital adequacy turned positive after two years and reached 1.41 in March 1998 but will again turn negative in March 1999.

4. Though the bank was able to achieve the targets in terms of resource mobilisation and the deployment of funds, there was a sharp reduction in net interest income of the bank on account of high interest rate risk. The inherent weak position and poor earnings of the bank was accentuated by a fall in interest rates during 1997-98.

5. The reasons for the bank's continued poor performance are:

a. High levels of non-performing assets.

b. High operating expenses compared to earning assets.

c. Funding of accumulated cash losses.

d. Adverse movement of interest rates.

6. The problems of the bank can be classified into two phases. The first phase covers the pre-1996 period when there was a gradual deterioration in all areas of banking, viz., quality of advances, reliance on high cost funds, slow growth in core deposits and poor governance. This phase saw a period of excessive unplanned credit growth between 1988 and 1992. While credit grew at a CAGR of 28.8 per cent, deposit grew at 21.1 per cent resulting in excessive borrowings. The bank was subjected to high interest and liquidity risks given the nature of funding sources and the interest cost on borrowing reached a peak of 20.9 per cent during 1991-92.

7. The Reserve Bank of India imposed restrictions on credit expansion in August 1992. The period 1992 to 1994 saw a modest credit growth of 7.8 per cent and a deposit growth of 17.8 per cent. However, the effect of the previous unplanned credit growth started to show up. In 1994, when the Reserve Bank lifted the credit embargo, the bank once again resorted to credit growth in excess of core deposit growth and ended up borrowing nearly Rs. 3,000 crore during 1995-96 to fund the growth. The credit growth was in new and high-risk areas. The bank ran a huge asset liability mismatch and interest risk. With high levels of NPAs, poor quality of advances in high-risk sectors and an unfavourable asset liability position, the bank started making huge losses from 1996 onwards.

8. The post-1996 phase was characterised by a structural problem.
The huge NPAs and asset liability mismatch were an overhang on the bank. The initial years in this period were devoted to cleansing operations of bad loans and implementing of control systems. The bank was concentrating more on correcting the asset liability mismatches by restructuring the liability side of the balance sheet. Credit sanction was centralised at the head office and the operational tiers were directed to concentrate on recovery.

9. The cleaning up operations entailed stringent disciplinary action within the bank. This resulted in a spate of cases being opened up on advances sanctioned during the earlier period. This acted as a dampener in decision making and there was and continues to be reluctance in decision making at all levels. This has resulted in the bank making no progress in disbursing fresh credit or in recovering bad loans. The only area in which the bank performed reasonably was deposit mobilisation. Recently, there has been a relaxation in the credit sanction policies and the discretionary powers of the various authorities have been restored.

10. The lack of direction in terms of growth targets and upgradation of skills have left the bank in a state of organisational paralysis. There is no will to take decisions at the operating level. The excessively long time taken to process credit and compromise proposals for non-performing assets has resulted in loss of business.

11. The lack of business growth and the high levels of NPAs resulted in a disproportionate increase in wage costs as compared to the earning assets of the bank. While the wage costs increased at the average industry rates, the balance sheet of the bank shrunk. Thus, the bank has an inherently adverse cost structure.

12. The bank achieved an average deposit growth of 15 per cent over the last three years though much of it was in high cost term deposits. Credit grew at an average of about 5 per cent mainly due to food credit. In terms of non-food credit there was a decline in 1996-97 and 1997-98. As a consequence of low credit growth, the fee income has also suffered. Further, the discretionary powers of branch managers for purchase of cheques and drafts were withdrawn.

13. The bank concentrated on large value corporate credit during most of 1998-99. Most of the sanctions were to reputed corporate houses at the prime lending rate (PLR). Of late, there seems to be a change in the focus towards the mid-corporate and trade segments where it could charge an interest of PLR + 3 or 4 per cent. With the restoration of discretionary powers to the field officials, the bank expects to increase credit to these segments at higher rates.

14. The bank is not active in its treasury operations. The financial position of the bank precludes it from taking any significant risk. The bank is presently in the process of training its personnel in trading and has made a modest beginning in this area.

15. Due to lack of growth in credit, the non-interest income to average total assets was only 0.57 per cent as against the median of 3.32 per cent for profitable public sector banks.

16. Operating expenses to total income increased from 29 per cent in 1996-97 to 34 per cent in 1997-98 and further to 38 per cent in 1998-99. The cost income ratio for the bank works out to 117 per cent for 1997-98. This is way ahead of the industry levels. The expenses are not sustainable at current levels of business.

17. Out of total NPAs of Rs. 3,428 crore in 1997-98, Rs. 3,029 crore pertain to domestic operations. Domestic provisions amount to Rs. 1,100 crore. Non-priority sector accounts for 62 per cent of total NPAs. This includes advances disbursed during the early nineties in new areas such as real estate, films, hospitals and educational institutions. Though bulk of the NPAs is in the non-priority sector, more than 50 per cent of the recovery is from smaller priority sector accounts. Recovery in large value NPAs is poor. As a result of the poor recovery, NPAs have slipped into the doubtful category necessitating additional provisions; the efflux of time also makes them more difficult to recover.

18. The bank has a compromise policy for recovery of NPAs. Though the policy of the bank is to effect maximum recovery through compromise, it has not been able to achieve any significant recovery through this route. In fact, the number of compromise proposals put up to the head office has been on the decline over the last three years. Lack of clarity in the policy and delayed decisions at higher levels have contributed to this decline. Multiple layers in the sanctioning process, use of different formats at different levels and rejection of proposals without assigning any reason are some of the other reasons for the decline. The recently revised compromise policy is expected to provide better results.

19. There is a general perception in the bank that top management is not very keen to effect recovery. This has affected decision making at lower levels. The poor recovery of NPAs coupled with a very high slippage has crippled the earnings of the bank. The bank added fresh NPAs to the tune of Rs. 1,000 crore in the last three years.

20. The domestic net credit has been stagnant at around Rs. 7,000 crore during the three years ended March 1998 even as deposits grew steadily. As a consequence, the credit deposit ratio fell from 63 per cent in March 1996 to 49 per cent in March 1998. This was mainly due to centralisation of all lending decisions at the head office.

21. More than 70 per cent of the large-value large and medium industry accounts fall within the potentially weak category. The bank could experience very high NPA generation rate over the medium term unless account-specific remedial measures calling for significant organisational effort at all levels are taken. New asset creation process will have to be more stringent as the current risk profile of the portfolio does not allow for taking on any new high risk accounts.

22. The credit appraisal system captures the basic details but fails to capture risk-related aspects. Large value proposals pass through a number of tiers before reaching the sanctioning authority but there is no value addition at most of the tiers.

23. The bank has two branches in Colombo and one in Singapore which together have 543 employees. Total NPAs in international operations amounted to about Rs. 400 crore as on 31 March 1998. This is expected to increase by more than Rs. 200 crore during 1998-99. The provision for Singapore NPAs is expected to be Rs. 170 crore for 1998-99 and with this the branch is expected to post a net loss of about Rs. 140 crore as on 31 March 1999. The bank's high cost of funds leads to an unfavourable client profile. The level of NPA is very high and has led to a low interest spread. The bank lacks the necessary treasury skills in a market with free capital flows.

24. An amount of Rs. 35 crore on account of ICDs given by the housing subsidiary is likely to devolve on the bank. Despite capital infusion, the net worth of the housing subsidiary will be negative in the foreseeable future owing to write-off of ICDs, interest accrued on ICDs and non-performing project loans.

25. In the case of the mutual fund subsidiary, the total liability towards all schemes stands at Rs. 123.67 crore. Of this, only Rs. 0.42 crore is expected to be met from profits. While Rs. 43.71 crore has already been paid by the bank (this has been treated as investments and not yet written off), the bank will have to pay a further amount of Rs. 79.54 crore during this financial year. The bank will have to fund the mutual fund to the extent of Rs. 75 crore towards schemes where indicative returns have been committed by the fund.

26. The merchant banking subsidiary has reported a loss of Rs. 40.27 crore for the half-year ended 30 September 1998 after providing Rs. 31.75 crore for NPAs. Provisional losses for 1998-99 are about Rs. 96 crore. This includes provisioning of Rs. 83 crore. Deposits will have to be repaid to the extent of Rs. 90 crore. This would entail a severe strain on the cash flow.

27. As on 31 March 1999, the bank had 26,584 employees. This included 9,231 officers, 13,350 clerks and 4,003 sub-staff. It also has 543 employees in its three overseas branches. About 57 per cent of the employees are in the age group of 41 to 50.

28. The bank needs officers skilled in credit appraisal and monitoring, NPA recovery, risk management and treasury. While the bank's training facilities for its employees are on par with industry standards, it does not have a systematic database to track the skills of its employees. The lack of an effective placement policy, which matches organisational requirements with individual skills and objectives, underscores the need for skill upgradation.

29. The bank has attained 29.08 per cent branch computerisation in March 1999 and has targeted to increase this to 58 per cent by March 2000 and 70 per cent by December 2000. The bank currently has 25 ATMs and the target is to have 75 ATMs by March 2000 and 125 by March 2001. The bank has installed 16 VSATs and this will increase to 30 by March 2000 and 60 by March 2001.

30. The bank's problems can be summarised as follows:

a. The business efficiency factor

i. Lower yields on advances and investments.

ii. Higher cost of funds.

iii. Expenses disproportionate to income earning assets.

iv. No growth in fee income.

b. The structural factor

i. A huge NPA portfolio.

ii. Funding of losses by interest bearing funds. iii. Loss in subsidiaries. iv. Loss in overseas operations.

c. The organisation factor

i. Lack of direction in business strategy with regard to target customer segments.

ii. Non-upgradation of skills to match changing needs.

iii. Low morale and lack of will to take decisions.

31. The bank, in its projections provided to the sub-group, has covered only the period up to 2002. The bank’s projection is only up to the operating profit/ loss level and does not consider provisioning and net profit figures. The projection is only for domestic operation. It has not indicated any changes in the existing structure to attain the projection. While the bank feels that recapitalisation is needed to sustain customer confidence and attract good quality assets, it has not indicated the quantum/mode of recapitalisation required.

32. The bank expects some regulatory forbearance including reduction in CRR requirements to three per cent, favoured treatment for PSU and railway accounts, participation in State Bank of India/Financial Institution consortiums, higher allocation of food credit and favoured treatment for retailing of government securities.

33. The bank also expects to increase current and savings bank deposits from 32.87 to 36 per cent, extend working hours for cash transactions at totally computerised branches, mobilise deposits by extending consumer credit loans to professionals and others and extending telebanking facility and increasing ATMs.

34. For credit expansion, the bank proposes to focus on mid-sized trading borrowers, non-priority jewel loans, consumer credit loans and clean personal loans, build confidence at field level, relax pre-release audit without diluting safety of advance, reintroduce secured overdraft and review PLR to facilitate availing of limits in sanctioned accounts.

35. The bank expects to reduce NPA by delegating increased powers to field level functionaries including branch managers for compromise. Recovery monitoring cells will be put in place. Special monitoring officers for NPAs of Rs. 5 crore and above will be posted and recovery camps for small loans and rural credits held. All officers and staff in branches will be involved in the recovery process.

36. The bank estimates deposits to grow at 15 per cent, which appears optimistic. It expects credit to grow by 19.45 per cent and 18.70 per cent in the years 2000-01 and 2001-02 respectively. It also expects the yield on advances to be 14.50 per cent during the period. This is not supported by its past growth and inherent strengths and weaknesses. The bank's lending rates are high and even if such a growth is realised, it will be extremely risky for the bank.

37. The bank's estimation for fresh NPA generation and reduction in NPA are optimistic and not borne out by its past record. Its estimates in respect of growth in interest and non-interest income and non-salary non-interest expenditure are also optimistic.

38. Based on the sub-group's assessment of the capabilities of the bank, the bank's business plan was modified. The assumptions and outcome of the possible scenarios are summarised below:

Scenario	Assumptions	Present Value of Recapitalisation (Zero coupon bonds)	Comments
Case I	Business growth at 14% Employee expenses to grow at an average of 15%	No recapitalisation	Not a turnaround
Case II	Case I + Business growth at 16% (instead of 14%)	Rs. 2,855 crore	Not a turnaround
Case III	Case II + Partial wage freeze at 11% annual increase	Rs. 2,352 crore	Not a turnaround
Case IV	Case II + Wage freeze at 4% annual increase (to provide for DA)	Rs. 1,831 crore	Operating profits in 2003 and net profits in 2004
Case V	Case IV + Asset reconstruction company to take care of the NPAs (70% of the NPAs transferred at 50% of their gross value)	Rs. 1,933 crore	The best case scenario.Difficult to achieve.

39. The turnaround initiatives for the bank can be broadly classified into three areas: structural, organisational and business strategies. The structural issues would include infusion of capital, closing down of subsidiaries and international operations, reduction of staff through VRS and hiving off NPAs into an ARC. The organisational issues would include having a chief executive with a long tenure and a deputy CEO or ED with a clear indication that he would take over as the CEO. The organisational structure would also need to be revamped structure to manage business and risks effectively. The business issues will have to cover upgradation of risk management systems, identification of business areas to be focused on, improving credit appraisal and risk management skills and removal of fear psychosis and improving the morale of the employees.

Annex 5

Sub-group report on UCO Bank Executive Summary

1. UCO Bank has a four tier organisational structure; Head Office, Zonal and Regional Offices and 1,790 branches of which 65 per cent are in the rural and semi-urban centres.

2. The bank has sponsored 11 RRBs, three each in West Bengal and Bihar, two each in Rajasthan and Orissa, and one in Madhya Pradesh. The accumulated losses of these RRBs aggregated Rs. 233.11 crore as at the end of March 1998. As on 30 September 1998, the total paid-up capital of the 11 RRBs was Rs. 10.87 crore of which UCO Bank contributed Rs. 3.85 crore.

3. UCO Bank has been continuously incurring losses since 1989-90.
Some major factors which have contributed to the weak financial position of the bank are detailed as follows:

- High level of NPAs causing reduction in interest income and increase in provisioning, thereby reducing profitability
- Excess staff resulting in high staff expenses
- Lack of succession planning in senior management
- Low staff morale coupled with restrictive trade practices
- Lack of new product delivery
- Low level of computerisation, absence of MIS and poor housekeeping

4. Several studies were conducted in the past by various consultants (ICRA appointed by RBI, NIBM and Batliboi) to suggest measures for turnaround of the bank. The major recommendations of ICRA were

a. Massive capital infusion of Rs. 375 crore.

b. Setting up of ARF for taking over NPA accounts aggregating Rs. 281 crore and recovery of NPAs through judiciously negotiated compromise, settlement and invocation of government guarantees.

c. Cost reduction through wage freeze and downsizing through VRS.

d. Improving business through deposit growth to bring it on par with that of leading banks and better credit delivery through revamping of credit appraisal systems.

e. Splitting the CMD’s post into that of a non-executive Chairman and a Managing Director and addressing the problem of inadequate senior management due to serious gaps in succession.

f. Cost reduction, winding up of overseas operations, improved customer service, housekeeping, rationalisation of branches, redeployment of excess manpower in deficit areas, recruiting professionals in merchant banking, MIS and strategic planning, etc.

5. Based on the recommendations of ICRA, the bank initiated measures for improving deposit mobilisation, recovery of NPAs, toning up of credit management system, improving housekeeping, etc. However, there were reservations on the strategy suggested on wage freeze, VRS and closure of overseas branches. Setting up of an ARF was not found to be feasible by the GOI/RBI.

6. At the instance of the Government, the bank drew up Strategic Revival Plan (SRP) covering the period 1997-98 to 1999-2000 for its turnaround. The restructuring plan aimed at achieving profitability targets in definitive time frames through improvement in key performance areas such as mobilisation of low cost deposits, credit management system, recovery of NPAs, house keeping and MIS, etc. The staff unions of the bank also signed an MOU assuring higher productivity and removal of restrictive practices.

7. The extent of success achieved under the SRP is far from significant.
Certain measures such as setting up of Settlement Advisory Committee and recovery cells for recovery of NPAs were implemented. However, the bank was unable to achieve the important objectives of earning profit and reducing losses by 1998-99. There was no perceptible improvement by way of qualitative credit expansion. Instead, the bank took the safer route of investment in government paper.

8. The MOU with the Unions had only a limited impact on the cost front with certain sacrifices such as reduction of overtime and giving up of certain allowances. The other measures of cost control such as rationalisation of a few existing branches, embargo on new branches, curtailment of major capital expenditure, etc., do not have any major impact and the cost revenue ratio of the bank continued to exceed 100 per cent even by March 1998. The only significant result has been the closure of its London branch and merger of its two branches in Singapore.

9. In a belated recognition of the need for action, the committee of the Board of the bank set up to monitor progress under the revival plan had recommended (i) downsizing of the staff strength through VRS (7000 staff to be reduced in a phased manner in 3 years), (ii) further capital infusion of Rs. 250 crore by the Government, (iii) Mobilisation of Tier II capital, (iv) Non-implementation of wage settlement and (v) Closure/merger of loss making branches. The recommendations have not been endorsed by the representatives of the staff. There has been no serious follow-up measures to implement the recommendations.

10. During 1997-98, the bank posted an operating profit of Rs. 15 crore which increased to Rs. 38 crore in 1998-99. The bank could reduce its net loss from Rs. 96 crore in 1997-98 to Rs. 68 crore in 1998-99. If the interest income on recapitalisation bonds is excluded the bank would have incurred operating loss of Rs. 91 crore in 1997-98 and Rs. 157 crore in 1998-99. As at the end of March 1999, the bank's accumulated losses stood at Rs. 1,804 crore. The bank received capital infusion from the government aggregating Rs. 2,257 crore till 1998-99. The bank had CRAR of 9.63 per cent as on 31 March 1999.

11. Despite the bank's presence in most of the top 100 deposit/ advances centres, the bank's deposit growth was only about 11 per cent and that of advances at 1-3 per cent during the period from 1994-95 to 1996-97. Consequently the CD ratio declined from 47 per cent in 1994-95 to 39 per cent in 1997-98, while the investment/deposit ratio increased from 44 per cent in 1994-95 to 52 per cent in 1997-98. Growth in domestic deposits and advances picked up in 1997-98 at 17 and 16 per cent respectively. However, the cost of deposits remained high at 8.5 percent. The deposit profile reveals that the eastern sector accounts for 39 per cent of the deposits.

12. The bank's market share in advances declined considerably from 3.9 per cent in 1993-94 to 1.6 per cent in 1998-1999. Credit to priority sector and industry (medium and large) constitutes 37 and 35 per cent of the advance portfolio respectively. The highest share of the advance portfolio is in West Bengal and Maharashtra Zones. The bank's increasing exposure to the steel and iron sector may be a cause for concern considering the poor situation of the industry. The credit management suffers from the following deficiencies resulting in high level of NPAs which aggregated Rs. 1,716 crore (23 per cent of gross advances) as at the end of March 1999.

Delay in decision making due to four tier structural set-up.
Lack of credit appraisal skills.
Poor review and follow up.

13. The Zone-wise break-up of NPAs indicates the highest level of NPAs in West Bengal (Rs. 393 crore) followed by Maharashtra (Rs. 180 crore) and Southern Zone (Rs. 142 crore). The NPA slippage ratio was 6 per cent in 1998. The cumulative provisions constituted 41 per cent of the total NPAs as on 31 March 1999. Majority of the NPAs is in the doubtful/loss category. The SSI and agricultural category account for a major portion of NPAs. The recovery of NPAs has been tardy as bulk of NPAs is in the Rs. 25,000 to Rs. 25 lakh category with a large number of accounts. Cases filed with the Debt Recovery Tribunals amounted to Rs. 474 crore out of which the settlement was only Rs. 45 crore and the actual recovery, Rs. 14 crore. As at the end of March 1998, outstanding amount under government guaranteed accounts aggregated Rs. 90 crore. The bank is resorting to compromise for accelerating recovery of NPAs. Since July 1998, quarterly reporting of fresh generation of NPAs from each branch has been implemented. A scheme for awarding trophies to the best performing zones besides issuance of letters of reprimand to those officials who have exceeded 3 per cent level in fresh generation of NPAs has been introduced.

14. The investment portfolio of the bank comprises of high proportion of SLR and government securities, which have a relatively low yield. The bank's secondary operations are not very significant as indicated in the low profit on sale of investments. There has been an increase in investments in PSU bonds and corporate debentures. Lack of clear focus, research and database and computerisation are the main constraints faced by the investment department. In the last three years, yield on investments improved marginally.

15. Loss making branches numbering 829 constituted 46 per cent of total branches. While the maximum number of loss making branches are in the rural areas (54 per cent), metro branches account for the highest quantum (36 per cent). West Bengal and Gujarat have the highest number of loss making branches. Under the prevalent Transfer Pricing mechanism adequate incentives have been given to both the deposit and advances oriented branches with adequate disincentives built in for non-performing assets. There has been a substantial reduction in the number of loss making branches primarily on account of change effected in the Transfer Pricing mechanism with effect from April 1997.

16. Internal control and house keeping in the bank leave much to be desired. There is no centralised MIS in the bank. Books in various branches were not balanced for a considerable period. Control of the Head Office was not exercised over the Zonal Offices and Regional Offices as the various returns which were required to be submitted were not done in time and even when they were submitted, were incomplete and incorrect at times. There was inadequate follow-up from the Head Office to ensure timely submission as well. There were 23,874 unreconciled inter branch entries as on 31 March 1998 aggregating Rs. 217 crore. There were 13,627 unadjusted entries in clearing difference account aggregating Rs. 24 crore as on 31 March 1998. Further there were 40 branches where the books were not balanced even with crystallised difference for as many as three years as on 31 March 1998.

17. The bank has four overseas branches, two each in Singapore and Hong Kong. The bank's London branch, which was making losses, was closed in 1998. Overseas branches earned a net profit of Rs. 22.61 crore during 1998-99. During 1998-99, an amount of Rs. 44 crore was remitted on account of loss incurred in closure of the London branch.

18. In the past, vacancies in the top managerial posts were unfilled for long duration. The age profile of the staff is adverse with 11 per cent of the staff above 55 years and 50 per cent of officers above 50 years. A second rung of officers needs to be developed to avert a succession crisis.

19. An analysis of profitability shows that income on investments contributes 48 per cent while the share of income on advances is lesser at 34 per cent. The contribution of fee based income to total income is not very significant at 5 per cent.

20. The bank has recently undertaken a restructuring exercise, which envisages a three-tier organisational structure by closure of the Zonal/ Regional Offices and establishment of five Local Head Offices to oversee the operations of about ten regions. Other measures taken by the bank are detailed under:

Creation of post of General Manager (operations) to oversee the functioning of branches and large credit proposals to be sent to Head Office directly to quicken the process of decision making.

Formation of Asset Liability Management Committee and MIS department.

Focus on mid-market segment.

Recovery of NPAs through recovery camps and compromise.

Closure/merger of 34 loss making branches.

Increased computerisation.

Instilling confidence and reducing fear psychosis in the staff to take informed credit decisions.

21. The sub-group noted that the projected business plan envisaged net profit of Rs.

19 crore to be generated in the year 2001 which is expected to grow in the subsequent years up to 2004. The bank assumes capital infusion aggregating Rs. 2,614 crore to maintain minimum CAR of 9 per cent in 2000 and 10 per cent thereafter. The bank is not likely to record current median levels of minimum competitive efficiency even by 2003. It is pertinent to remember that by then, the efficiency parameters of the remaining public sector banks would have moved up further considerably.

22. The sub-group assessed the revised business plan targets consistent with the capability of the bank based on the data available on its past record and the industry scenario. The projected growth in deposits (15%) was reasonable while that of credit (22-24%) was optimistic. Consequently, the assumptions behind the higher Net Interest Margin or growth in non-interest income of about 19 per cent (as against industry average of 12.7 per cent) were not realistic. The bank was also unlikely to reach projected levels of yield on investment (with the planned shift to credit portfolio and the future movements in interest rates. Likewise, the rapid reduction of NPAs to 5 per cent by year 2004 was out of line with the current levels of recovery performance. It was, clear that the business plan as projected by the bank would not be feasible even after the moderation factored in by the bank on account of the limitations of the bank to bring down the level of NPAs and to increase the advances while ensuring quality to comply with the proposed projection of NPAs.

23. The sub-group accordingly, drew up modified plans in three different scenarios. The scenarios involved estimating different growth levels in business parameters such as advances, deposits, return on investments, non-interest income as well as expected level of NPAs. The scenarios involved gradual reduction in the staff cost to industry level as well as bringing it down at one stroke. The estimate of the additional capital infusion requirement from the government would vary between Rs. 600 and Rs. 1,800 crore under the three different scenarios. After taking into account the likely shortfalls in attainment of targets, the sub-group observed that under all scenarios, the bank would require a minimum of four years to reach a reasonable level of net profit. An earlier turn around is, however, feasible if reduction of staff cost is attempted in one stroke to come to the level of industry median.

Annex 6

Sub-group report on United Bank of India Executive Summary

1. United Bank of India has a three-tier organisational structure: Head Office, 33 Regional Offices and 1,333 branches. There is a separate Zonal Office to oversee the seven ROs in the North-east Region. The 1,167 branches in the Eastern and North-eastern regions account for 87 per cent of total branches.

2. The bank has lead bank responsibility in 33 districts. It is also convenor of the SLBC in the states of West Bengal, Manipur and Tripura. The bank has sponsored 11 RRBs, five in West Bengal, four in Assam and one each in Manipur and Tripura. The accumulated losses of these RRBs aggregated Rs. 417.44 crore as at the end of March 1998.

3. UBI's position has marginally improved over the last five years. There has been improvement in profitability and capital adequacy assisted by the regular capitalisation by GOI and income tax refund of Rs 111 crore. For the first time in five years, the bank registered a small profit of Rs. 9.62 crore during 1997-98. Bank has been deploying a larger quantum of incremental resources in zero risk government securities with small investments in corporate debentures. CD Ratio has accordingly come down. Net interest margin has improved due to the higher share of performing assets in the overall portfolio. Fee-based income avenues are weak in comparison to other banks. Cost income ratios and expense income ratios are high.

4. The management approach was cautious and conservative since the early nineties. No plan of action has been formulated and implemented with a view to achieve turnaround, may be as a consequence of the frequent changes at the helm. Short tenure and frequent changes of top management did not help the bank's cause in pursuing a long term strategy for turnaround.

5. Employee cost accounts for 22 per cent of total income. Employee productivity ratio is also low at Rs. 12 lakh of business per employee. Average age profile of employees is above 45. Infrequent training and unresponsiveness to the same have created gaps in skill levels especially in specialised areas such as credit marketing, treasury, forex and IT. Transfer policy does not support specialisation. Employee motivation has been low. Practically no growth avenues are available for competent officers. Training of officers is not done on the basis of their needs. An officer attends a training programme as infrequently as once in 4-5 years.

6. Growth in credit has been slow during the last five years. Due to overpricing and inadequate services, it has been excluded from various consortiums. The bank lacks a comprehensive marketing strategy and follow-up action plan geared towards attracting and retaining corporate clients. The bank has therefore been deploying surplus resources in government securities.

7. Income from fee based services like remittances, foreign exchange business, guarantees and LCs have been very low due to a combination of reasons such as lack of captive clientele from credit, gaps in service quality, weak bank perception and inadequate marketing.

8. Poor asset quality: The historical focus of the bank in the eastern region and the inability to attract good credit quality clients has led to poor asset quality.

9. Deposit growth rate has been lower than the average for all scheduled commercial banks. UBI's cost of funds (as a percentage of average working funds) for 1998-99 at 8.3 per cent was higher than that for all SCBs. Current deposits constitute less than 10 per cent of the total deposits. The bank's average deposits grew at a compounded annual growth rate of 15.4 per cent during 1995-99 as against an industry average of 17.1 per cent.

10. Credit generation has been slow since 1992. The CD ratio fell from 57.5 per cent in 1992 to 36.0 per cent in 1998. Slow credit growth can be attributed to the following reasons:

- Lack of focused marketing strategy.
- Focus on the economically weaker areas of east and north-east.
- Credit embargo by the central bank from 1992 to 1993 and reluctance of bank to take credit exposure due to weak capital position.
- Exclusion from consortiums lending to good quality clients.
- Low demand from existing clients.
- Introduction of credit substitutes and higher level of disintermediation.

11. While the bank monitors single risk exposure and industry exposures, as per RBI's norms, there is no system to monitor the credit risk profile of the overall portfolio, in order to plan future strategies and correct portfolio imbalances.

12. The main characteristics of the asset portfolio are:

- Weak quality of industrial advances: 21 per cent are non-performing and another 24 per cent appear vulnerable.
- Moderate industry-wise diversification of portfolio: high degree of exposure to the ferrous and non-ferrous metals sector. It also has a substantial exposure to engineering and tea processing industries.
- Relatively large single risk exposures: In view of capital erosion, some of the bigger advances which were within the single and group borrower limits are now outside such limits thereby exposing the bank to high risk.
- High level of NPAs in all forms of priority sector advances: 50 per cent of these advances are NPAs.
- age profile of NPA accounts is such that more than five years old cases account for 42 per cent in terms of number of accounts and 55 per cent in terms of amount.

13. The yield on investments has increased to 11.95 per cent as at the end of March 1998 from 11.05 per cent at the end of the previous financial year. The yield is lower as compared to other public sector banks due to the higherproportion of low yielding recapitalisation bonds. About 7 per cent of the investments in corporate bonds (total portfolio: Rs 424.20 crore) is in the vulnerable category. Exit strategies have not been devised or resorted to, as the market is not liquid.

14. The bank's non-interest income has been declining over the last three years and was only 0.55 per cent of its average total assets during 1997-98. Commissions on foreign exchange yielded around Rs. 5 crore during 1998-99 and has been virtually stagnant over the last three years. The impediments to the bank's efforts in increasing income from foreign exchange business are the following:

- Low export credit at 5.2 per cent of net advances as against the minimum of 12 per cent stipulated by RBI.
- Absence of policy and guidelines for the conduct of foreign exchange business.
- Transfer policy does not support development of expertise in foreign exchange.
- Risk-averse attitude among management leading to bank's clients not routing a proportionate share of forex transactions through the bank.
- Lack of adequate ongoing training and skills enhancement.
- Poor internal inspection and supervision of authorised dealing branches.
- Negligible trading profits due to insignificant proprietary trading, risk averse attitude, adverse age profile of dealers, low level of merchant turnover and consequent low levels of inter-bank turnover, and negligible/non-existent counterparty limits. The bank's exchange profits were Rs.9.02 crore (1997-98).

15. According to UBI's transfer pricing mechanism, for the financial year 1997-98, 1,229 out of 1,333 branches were profitable despite poor financial condition of the bank as a whole. Out of the 104 loss-making branches, 81 are located in the eastern and north-eastern regions.

16. Systems and housekeeping are two neglected areas. Less than 10 per cent of the bank's branches are partially computerised and only a few large branches have been fully computerised. Low level of mechanisation due to opposition by labour unions and insufficient IT team to manage the implementation process.

17. Around 45 per cent of the total work force is in the age group of 45 per cent and above with around 10 per cent being 55 and above. Among officers, around 60 per cent are in the age group of 45 years and above. This has resulted in low mobility, unwillingness to take higher responsibilities and low receptivity to change. The skewed age profile along with infrequent promotions, weak image and performance of the bank and fear psychosis have gradually made employees demotivated and even indifferent to promotions.

18. A contribution analysis for the year ended March 1998 shows that advances provided negative contribution, primarily on account of the non-accrual of income and the provisioning required to be made for non-performing assets. However, investment provided a positive contribution, which has offset the negative contribution in credit business. This includes proceeds from sale of investments. The bank showed a net profit, after administrative and employee expenses, due to the extraordinary accrual of interest dues of Rs. 111 crore from the income tax department. The bank has a lower net interest margin as compared to other banks, which has led to its poor performance on the profitability front.

19. The bank's capital adequacy is low in comparison to other banks despite capital infusion of Rs. 1,100 crore during the last five years. The Tier 1 capital coverage of net

NPAs is low, at around 77 per cent. External support is imperative since there is no contribution from earnings. There is also a need for further infusion to meet future provisioning requirements.

20. The following recommendations have been made to reduce the costs to the required levels:

§ Wage freeze for a minimum of one wage settlement period (1997- 2002): this will save capital worth Rs. 356 crore over the five year period. The cost-income ratio will be reduced to 89 per cent.
§ Reduction in manpower strength by 3,000 personnel during 1999- 2000: This measure in addition to wage freeze will reduce cost-income ratio to 81 per cent by 1999-2000.

21. Reduction in manpower should be by offering an attractive VRS targeted at the older personnel in each cadre. This constitutes around 14 per cent of the existing staff strength. The reduction in staff by 3,000 persons will lead to a reduction in staff expenses by around Rs. 42.25 crore in 1999-2000. The target category for VRS in officer cadre are scale 1 and scale 2 officers above the age of 50 numbering around 1,900. The target category in the clerical cadre is those above 45 years numbering around 5,600. The target category in the sub- staff cadre is those above 40 years numbering around 4,200. The VRS will have to be financed through government support as the bank is already short of capital and internal resources generation options do not appear adequate. Sale of branch network to finance VRS will affect future deposit growth. However, sale of a few branches in the non-core regions, where the bank does not have a competitive advantage may be considered. For instance, 10 of the 40 branches in the Southern region do not have a competitive advantage.

22. Transfer of doubtful and loss assets to an ARC will not only augment the bank's income but also free managerial resources to focus on smaller value NPAs. This would depend on the following:

§ Establishment of an ARC on an industry-wide basis, capitalised by external participants and not from the financial system.
§ Legal reforms and improved legal infrastructure to enable faster resolution of cases. Specific legal powers for the ARC are warranted.
§ Valuation of assets transferred on a case to case basis.
23. The bank should embark on an image building exercise by maintaining high visibility in its areas of operation on a sustained basis, through different media. This should be backed up by a clear action plan on rectifying the weaknesses that the bank currently faces. This will help remove the weak bank image and motivate the bank's own employees.

24. The bank should follow a cautious strategy to credit growth, powered by selective addition of new clients, till internal systems of credit delivery and risk management are improved in line with the industry standards. The bank should establish separate corporate banking cells at each metro responsible for credit marketing and delivery. The focus should be on meeting the needs of high value corporate customers (potential and existing), based on relationship manager concept, to ensure excellent service standards. Relationships with top clients should be handled out of these corporate banking cells to cut through layers and ensure faster response times, by having direct access to the top management / decision- making committees.

25. New areas of financing like infrastructure, services and software offer the bank with opportunity to sustain its credit growth and also diversify its portfolio of advances. The bank would need to evolve methodologies for appraisal, financing and risk mitigation, as these sectors are different in character from traditional sectors. Bank should contain or terminate direct lending to sub-sectors/ regions where experience has not been satisfactory. It should explore giving credit indirectly through institutions like NABARD/SIDBI, etc. where recovery of capital is guaranteed.

26. Portfolio credit quality is to be measured and tracked by adopting a suitable credit evaluation system. Risk and exposure profiles needs to be updated frequently. The bank should contain large exposure concentration in clients/ groups due to its weak net worth. It should enhance associated tracking and follow- up systems at the field level. Assistance of external credit evaluation expertise for particular sectors/corporates should be procured on a case to case basis to aid evaluation as well as improve response times. The bank should focus on diversifying business out of the eastern sector into areas where industrial activity and credit repayment culture are stronger.

27. Total branch mechanisation will be very crucial to improve efficiency and service. TBM of all high business branches and regions should be carried out on a high priority. Networking of these select branches with the Head Office will aid in improving housekeeping, service to clients and decision response times.

28. Export credit needs to be significantly improved through a combination of marketing and improved delivery of services and derive spin off benefits. The forex set-up needs a review in terms of its structure, synergy with credit function and adequacy of staff and skills. Specialists should be retained in this line to derive maximum return on investment in training. Infusion of external expertise in the form of experienced senior level specialist bankers in this area will be crucial.

29. High business potential locations such as Mumbai, Delhi and other metros should have well trained and updated personnel. Targets of these locations should be re-estimated based on business potential.

30. Productivity needs to be enhanced by rationalising branches and relocating human resources. The bank has proposed that it will

§ merge / relocate branches where necessary,

§ open Sunday branches / morning branches / seven days a week branches, etc.,
§ identify and upgrade branches in metro an urban centres and provide service on part

with that of foreign / private sector banks,
§ open branches in potential centres in different parts of the country in lieu of merger of some of its existing branches.

Annual targets should be set for the above measures and followed diligently.

31. Priority sector norms for weak banks should be relaxed for a period of five years. UBI's priority sector portfolio has NPA levels in excess of 50 per cent and accounts for 60 per cent of its total NPAs.

32. It is expected that there is an additional capital requirement of Rs. 155 crore. This will enable the bank to meet the capital adequacy norm and also meet the capital required to finance the VRS.

33. Under the proposed restructuring plan and the assumptions made therein, the bank is expected to make profits from 2000-2001 onwards. However, it reaches minimum competitive efficiency levels on return on assets, only in 2003- 04. In 1999-2000, the bank makes a loss of Rs. 122 crore, on account of VRS payment which is assumed to be recognised in the year of incidence. Subsequent to VRS and the wage freeze, the cost to income ratio would come down to 81 per cent in 1998 and would continue to reduce further to 70 per cent at the end of the horizon. The employee cost to total income ratio comes down to 19.8 per cent in 1999-2000 and gradually reduces to 19 per cent by 2003-04.

34. These measures constitute an initial plan to correct the financial position of the bank. It is by no means sufficient to effect a complete turnaround. The bank will have to create its own strategies with regard to regional diversification, operations, human resources management, technology management, etc. so that the bank clearly does not regress back to its old position.

Annex 7
List of persons met by the Working Group

Sr. No.	**Name**	**Designation**
1.	Mr. Eric D. Cruikshank	Manager, International Finance Corporation
2.	Shri Tarun Das	Director General, Confederation of Indian Industry
3.	Shri V.V. Desai	Economist, ICICI
4.	Mr. Martin Fish	(then) CEO, Standard Chartered Bank
5.	Shri D.N. Ghosh	Chairman, ICRA Ltd.
6 .	Shri Omkar Goswami	Senior Consultant, Confederation of Indian Industry
7.	Shri Rashid Jilani	CMD, Punjab National Bank
8.	Shri Y.H. Malegam	Chartered Accountant and Member, Board for Financial Supervision

9.	Shri Sanjiv Minocha	Senior Investment Officer, International Finance Corporation
10.	Shri M. Narasimham	Former Governor, Reserve Bank of India and Chairman, Administrative Staff College of India
11.	Shri A.T. Pannir Selvam	CMD, Union Bank of India
12.	Shri Deepak S. Parekh	Chairman, HDFC Ltd.
13.	Dr. Amrita Patel	Member, Board for Financial Supervision
14.	Prof. Mihir Rakshit	Economist
15.	Shri E. A. Reddy	Member, Board for Financial Supervision
16.	Shri S.S. Tarapore	Former Deputy Governor, Reserve Bank of India
17.	Shri S. Venkitaramanan	Former Governor, Reserve Bank of India
18.	Shri R. Viswanathan	Former DMD, State Bank of India
19.	Shri N. Vittal	Chief Vigilance Commissioner
20.	Shri Prakash Yardi	Principal Investment Officer, International Finance Corporation

Government of India

1. Dr. Vijay L. Kelkar (then) Finance Secretary
2. Shri C.M. Vasudev (then) Special Secretary (Banking)
3. Shri M. Damodaran Joint Secretary, Banking Division
4. Shri Sudhir Shrivastava PS to Finance Minister

Reserve Bank of India

1. Dr. Bimal Jalan Governor
2. Shri S.P. Talwar Deputy Governor
3. Dr. Y.V. Reddy Deputy Governor
4. Shri Jagdish Capoor Deputy Governor
5. Shri G.P. Muniappan Executive Director

Organisations whose representatives met the Working Group

1. United Forum of Bank Unions
2. All India Bank Employees Association
3. All India Bank Officers Confederation
4. National Confederation of Bank Employees
5. All India Bank Officers Association
6. Bank Employees Federation of India
7. Indian National Bank Employees Federation
8. Indian National Bank Officers Congress
9. National Organisation of Bank Workers
10. National Organisation of Bank Officers
11. Federation of Indian Bank Employees' Unions

12. All India Indian Bank Officers’ Association
13. Indian Bank Officers Federation
14. National Association of Indian Bank Officers
15. All India Indian Bank Staff Union
16. All India Federation of UCO Bank Officers
17. All India UCO Bank Officers Federation
18. UCO Bank Officers Congress
19. All India UCO Bank Employees Federation
20. UCO Bank Employees Association
21. All India UCO Bank Employees Staff Federation
22. United Bank of India Employees’ Association
23. United Bank of India Employees’ Union
24. United Bank of India Shramik Karmachari Samity
25. United Bank of India Employees’ Congress
26. United Bank Officers’ Association
27. United Bank of India Officer Employees Association

Annex 8
Select ratios for all Public Sector Banks

A. Capital Adequacy Ratio

S.No.	Name of the Bank	March 1998	March 1999
1.	State Bank of Saurashtra	18.14	14.35
2.	Oriental Bank of Commerce	15.28	14.10
3.	Bank of Baroda	12.05	13.30
4.	Corporation Bank	16.90	13.20
5.	State Bank of India	14.58	12.51
6.	State Bank of Patiala	13.24	12.47
7.	State Bank of Indore	9.83	12.35
8.	State Bank of Bikaner & Jaipur	10.65	12.26
9.	Central Bank of India	10.40	11.88
10.	Dena Bank	11.88	11.14
11.	Andhra Bank	12.37	11.02
12.	Canara Bank	9.54	10.96
13.	Punjab & Sind Bank	11.39	10.94
14.	Punjab National Bank	8.81	10.79
15.	State Bank of Hyderabad	10.83	10.65
16.	Bank of India	9.11	10.55
17.	Allahabad Bank	11.64	10.38
18.	State Bank of Travancore	11.48	10.27
19.	State Bank of Mysore	11.61	10.23
20.	Indian Overseas Bank	9.34	10.15
21.	Union Bank of India	10.86	10.09
22.	Vijaya Bank	10.30	10.02
23.	Bank of Maharashtra	10.90	9.76

24.	**UCO Bank**	**9.07**	**9.63**
25.	**United Bank of India**	**8.41**	**9.60**
26.	Syndicate Bank	10.50	9.57
27.	**Indian Bank**	**1.41**	**(-) 8.94**
	Minimum prescribed level	**8.00**	**9.00**

B. Coverage Ratio

S.No.	Name of the Bank	March 1998	March 1999
1.	Corporation Bank	6.45	5.68
2.	Oriental Bank of Commerce	5.38	4.70
3.	State Bank of Saurashtra	4.48	3.19
4.	Andhra Bank	3.65	2.59
5.	State Bank of Patiala	2.88	2.41
6.	State Bank of India	2.84	2.02
7.	Bank of Baroda	2.31	1.88
8.	Canara Bank	2.07	1.85
9.	Syndicate Bank	0.14	0.88
10.	Bank of India	1.10	0.79
11.	Bank of Maharashtra	0.80	0.66
12.	Vijaya Bank	0.29	0.65
13.	Union Bank of India	0.94	0.51
14.	Dena Bank	0.53	0.30
15.	State Bank of Hyderabad	(-) 1.08	0.21
16.	State Bank of Bikaner & Jaipur	0.90	0.09
17.	Punjab National Bank	(-) 0.63	(-) 0.28
18.	State Bank of Indore	(-) 1.00	(-) 0.39
19.	Central Bank of India	(-) 1.24	(-) 0.56
20.	Indian Overseas Bank	(-) 0.24	(-) 0.81
21.	State Bank of Travancore	(-) 1.68	(-) 0.85
22.	Punjab & Sind Bank	(-) 1.12	(-) 0.93
23.	**United Bank of India**	**(-) 1.36**	**(-) 1.03**
24.	**UCO Bank**	**(-) 2.19**	**(-) 1.18**
25.	State Bank of Mysore	(-) 1.52	(-) 1.43
26.	Allahabad Bank	(-) 2.32	(-) 1.48
27.	**Indian Bank**	**(-) 10.42**	**(-) 12.13**
	Threshold rate	**0.50**	**0.50**

C. Return on Assets

S.No.	Name of the Bank	1997-98	1998-99
1.	Corporation Bank	1.49	1.43
2.	Oriental Bank of Commerce	1.40	1.20
3.	State Bank of Patiala	1.48	0.99

4.	State Bank of Bikaner & Jaipur	1.08	0.98
5.	State Bank of Hyderabad	0.91	0.85
6.	Bank of Baroda	1.01	0.81
7.	Punjab National Bank	1.20	0.80
8.	Andhra Bank	0.84	0.78
9.	Allahabad Bank	0.85	0.77
10.	Dena Bank	0.86	0.75
11.	Syndicate Bank	0.45	0.71
12.	State Bank of Indore	0.68	0.63
13.	Punjab & Sind Bank	0.76	0.58
14.	Union Bank of India	0.97	0.51
15.	State Bank of Mysore	0.86	0.49
16.	Canara Bank	0.47	0.47
17.	State Bank of India	1.04	0.46
18.	Bank of Maharashtra	0.55	0.43
19.	Central Bank of India	0.61	0.43
20.	State Bank of Travancore	0.69	0.40
21.	Bank of India	0.79	0.40
22.	State Bank of Saurashtra	2.32	0.38
23.	Vijaya Bank	0.26	0.28
24.	Indian Overseas Bank	0.53	0.23
25.	**United Bank of India**	**0.07**	**0.09**
26.	**UCO Bank**	**(-) 0.57**	**(-) 0.36**
27.	**Indian Bank**	**(-) 1.77**	**(-) 4.26**
	Median @	**0.86**	**0.61**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

D. Net Interest Margin

S.No.	Name of the Bank	1997-98	1998-99
1.	State Bank of Indore	3.86	3.92
2.	State Bank of Mysore	3.94	3.58
3.	Punjab National Bank	3.25	3.57
4.	State Bank of Hyderabad	3.61	3.53
5.	State Bank of Patiala	3.68	3.53
6.	State Bank of Saurashtra	3.63	3.49
7.	Bank of Maharashtra	3.64	3.29
8.	Canara Bank	2.49	3.24
9.	State Bank of Bikaner & Jaipur	3.68	3.23
10.	Central Bank of India	3.22	3.12
11.	Oriental Bank of Commerce	3.38	3.10
12.	Syndicate Bank	3.00	3.02
13.	Bank of Baroda	2.91	3.01
14.	Dena Bank	3.48	2.97

15.	Vijaya Bank	2.86	2.94
16.	Andhra Bank	3.46	2.91
17.	Allahabad Bank	2.82	2.82
18.	State Bank of India	3.01	2.72
19.	Union Bank of India	3.17	2.66
20.	Bank of India	2.77	2.61
21.	Corporation Bank	3.46	2.52
22.	Punjab & Sind Bank	2.77	2.38
23.	**UCO Bank**	**2.14**	**2.36**
24.	Indian Overseas Bank	2.31	2.31
25.	State Bank of Travancore	2.94	2.18
26.	**United Bank of India**	**2.22**	**1.95**
27.	**Indian Bank**	**0.65**	**1.08**
	Median @	**3.24**	**3.02**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

E. Ratio of operating profit to average working funds

S.No.	Name of the Bank	1997-98	1998-99
1.	State Bank of Indore	2.37	2.50
2.	State Bank of Patiala	2.48	2.34
3.	State Bank of Hyderabad	2.85	2.30
4.	Oriental Bank of Commerce	2.60	2.30
5.	Corporation Bank	3.23	2.28
6.	Canara Bank	1.74	2.17
7.	Bank of Baroda	1.95	1.95
8.	State Bank of Saurashtra	2.12	1.91
9.	Punjab National Bank	2.00	1.85
10.	State Bank of Bikaner & Jaipur	2.50	1.79
11.	State Bank of Mysore	2.70	1.79
12.	Andhra Bank	1.86	1.63
13.	Dena Bank	2.55	1.59
14.	State Bank of India	1.96	1.55
15.	Allahabad Bank	1.65	1.42
16.	Bank of India	1.61	1.41
17.	State Bank of Travancore	2.06	1.30
18.	Bank of Maharashtra	1.30	1.24
19.	Vijaya Bank	0.81	1.22
20.	Union Bank of India	1.46	1.13
21.	Punjab & Sind Bank	1.22	0.95
22.	Central Bank of India	1.29	0.89
23.	Syndicate Bank	0.76	0.89
24.	Indian Overseas Bank	0.75	0.59
25.	**United Bank of India**	**1.30**	**0.30**

26.	**UCO Bank**	**0.09**	**0.21**
27.	**Indian Bank**	**(-) 1.23**	**(-) 0.89**
	Median @	**1.96**	**1.61**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

F. Ratio of cost to income

S.No.	Name of the Bank	1997-98	1998-99
1.	Corporation Bank	43.12	46.94
2.	Oriental Bank of Commerce	47.11	49.38
3.	State Bank of Patiala	53.99	50.70
4.	Bank of Baroda	57.05	56.07
5.	Canara Bank	60.03	56.26
6.	State Bank of Hyderabad	48.34	58.36
7.	State Bank of Indore	60.56	59.54
8.	State Bank of Saurashtra	57.70	60.99
9.	State Bank of Travancore	52.05	61.51
10.	Punjab National Bank	58.49	62.62
11.	State Bank of India	57.39	63.08
12.	Dena Bank	55.20	63.61
13.	Bank of India	62.61	64.46
14.	Allahabad Bank	64.91	66.60
15.	State Bank of Mysore	61.36	67.13
16.	State Bank of Bikaner & Jaipur	58.89	67.18
17.	Andhra Bank	63.66	67.62
18.	Union Bank of India	65.88	71.67
19.	Vijaya Bank	81.36	72.76
20.	Bank of Maharashtra	73.36	73.42
21.	Punjab & Sind Bank	71.65	74.86
22.	Central Bank of India	72.09	78.61
23.	Syndicate Bank	82.56	80.05
24.	Indian Overseas Bank	78.00	82.49
25.	**UCO Bank**	**97.28**	**93.94**
26.	**United Bank of India**	**87.50**	**97.61**
27.	**Indian Bank**	**166.85**	**141.22**
	Median @	**60.30**	**64.04**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

G. Ratio of staff cost to NII + all other income

S.No.	Name of the Bank	1997-98	1998-99
1.	Corporation Bank	24.20	28.61

2.	Oriental Bank of Commerce	28.99	28.65
3.	State Bank of Patiala	39.94	36.96
4.	Bank of Baroda	39.35	39.27
5.	Canara Bank	41.07	40.20
6.	State Bank of Indore	41.37	42.02
7.	State Bank of Hyderabad	35.39	42.70
8.	State Bank of Travancore	36.35	44.33
9.	State Bank of India	43.25	44.37
10.	State Bank of Saurashtra	44.16	45.87
11.	Dena Bank	40.08	46.41
12.	Bank of India	41.32	46.57
13.	Allahabad Bank	42.09	46.59
14.	Union Bank of India	42.53	46.99
15.	Punjab National Bank	45.16	48.65
16.	Andhra Bank	46.42	49.60
17.	State Bank of Bikaner & Jaipur	45.03	50.83
18.	State Bank of Mysore	47.12	51.31
19.	Vijaya Bank	58.65	51.68
20.	Punjab & Sind Bank	51.26	51.85
21.	Bank of Maharashtra	57.05	59.39
22.	Central Bank of India	55.21	59.46
23.	Indian Overseas Bank	58.18	62.28
24.	Syndicate Bank	64.86	63.20
25.	**UCO Bank**	**80.19**	**76.37**
26.	**United Bank of India**	**72.23**	**80.60**
27.	**Indian Bank**	**124.86**	**107.79**
	Median @	**42.89**	**46.58**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

Annex 9
Market share of Public Sector Banks

Name of the Bank	Interest Income		Non-int. income		Total income		Branches	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1997	1998
1. State Bank of India	13,991	14,968	3,106	2,605	17,097	17,573	8,888	8,925
	(20.3)	(20.9)	(30.0)	(22.3)	(21.5)	(21.1)	(17.9)	(17.6)
2. State Bank of Bikaner and Jaipur	737	851	128	163	865	1,013	764	767
	(1.1)	(1.2)	(1.2)	(1.4)	(1.1)	(1.2)	(1.5)	(1.5)
3. State Bank of Hyderabad	970	1,035	146	170	1117	1,205	800	832
	(1.4)	(1.4)	(1.4)	(1.5)	(1.4)	(1.5)	(1.6)	(1.6)
4. State Bank of Indore	378	407	53	73	431	480	372	379
	(0.6)	(0.6)	(0.5)	(0.6)	(0.5)	(0.6)	(0.8)	(0.8)
5. State Bank of Mysore	568	610	84	104	651	714	557	562
	(0.8)	(0.9)	(0.8)	(0.9)	(0.8)	(0.9)	(1.1)	(1.1)
6. State Bank of Patiala	906	940	94	98	1,000	1,038	699	707
	(1.3)	(1.3)	(0.9)	(0.8)	(1.3)	(1.3)	(1.4)	(1.4)
7. State Bank of Saurashtra	486	503	80	93	566	596	380	384
	(0.7)	(0.7)	(0.8)	(0.8)	(0.7)	(0.7)	(0.8)	(0.8)

8. State Bank of Travancore	909	982	124	149	1,033	1,131	654	660
	(1.3)	(1.4)	(1.2)	(1.3)	(1.3)	(1.4)	(1.3)	(1.3)
9. Allahabad Bank	1,278	1,405	178	217	1,456	1,621	1,863	1,875
	(1.9)	(2.0)	(1.7)	(1.9)	(1.8)	(2.0)	(3.7)	(3.7)
10.Andhra Bank	789	916	95	117	883	1,033	978	974
	(1.1)	(1.3)	(0.9)	(1.0)	(1.1)	(1.2)	(2.0)	(1.9)
11.Bank of Baroda	3,417	3,760	384	458	3,801	4,218	2,493	2,493
	(5.0)	(5.3)	(3.7)	(3.9)	(4.8)	(5.1)	(5.0)	(4.9)
12.Bank of India	3,057	3,434	354	423	3,410	3,857	2,475	2,495
	(4.4)	(4.8)	(3.4)	(3.6)	(4.3)	(4.6)	(5.0)	(4.9)
13.Bank of Maharashtra	864	991	85	100	949	1,091	1,147	1,162
	(1.3)	(1.4)	(0.8)	(0.9)	(1.2)	(1.3)	(2.3)	(2.3)
14.Canara Bank	3,418	3,766	450	583	3,868	4,349	2,262	2,312
	(5.0)	5.3)	(4.3)	(5.0)	(4.9)	(5.2)	(4.5)	(4.6)

Market share of Public Sector Banks

Name of the Bank	**Interest Income**		**Non-int. income**		**Total income**		**Branches**	
	1996-97	**1997-98**	**1996-97**	**1997-98**	**1996-97**	**1997-98**	**1997**	**1998**
15.Central Bank of India	2,530	2,821	305	364	2,836	3,184	3,087	3,088
	(3.7)	(3.9)	(2.9)	(3.1)	(3.6)	(3.8)	(6.2)	(6.1)
16. Corporation Bank	828	1,036	112	144	940	1,180	507	581
	(1.2)	(1.5)	(1.1)	(1.2)	(1.2)	(1.4)	(1.0)	(1.2)
17. Dena Bank	1,022	1,228	119	184	1,141	1,413	1,143	1,156
	(1.5)	(1.7)	(1.2)	(1.6)	(1.4)	(1.7)	(2.3)	(2.3)
18. Indian Bank	**1,435**	**1,342**	**212**	**186**	**1,647**	**1,528**	**1,487**	**1,494**
	(2.1)	**(1.9)**	**(2.1)**	**(1.6)**	**(2.1)**	**(1.8)**	**(3.0)**	**(2.9)**
19. Indian Overseas Bank	1,683	1,826	187	215	1,869	2,042	1,371	1,380
	(2.4)	(2.6)	(1.8)	(1.8)	(2.4)	(2.5)	(3.0)	(2.7)
20. Oriental Bank of Commerce	1,269	1,471	104	138	1,374	1,610	755	841
	(1.8)	(2.1)	(1.0)	(1.2)	(1.7)	(1.9)	(1.5)	(1.7)
21. Punjab & Sind Bank	732	845	88	115	820	960	704	711
	(1.1)	(1.2)	(0.9)	(1.0)	(1.0)	(1.2)	(1.4)	(1.4)
22. Punjab National Bank	3,787	4,237	421	681	4,209	4,918	3,765	3,893
	(5.5)	(5.9)	(4.1)	(5.8)	(5.3)	(5.9)	(7.6)	(7.7)
23. Syndicate Bank	1,523	1,583	159	219	1,682	1,802	1,611	1,627
	(2.2)	(2.2)	(1.5)	(1.9)	(2.1)	(2.2)	(3.2)	(3.2)
24. UCO Bank	**1,148**	**1,293**	**106**	**175**	**1,254**	**1,468**	**1,803**	**1,802**
	(1.7)	**(1.8)**	**(1.0)**	**(1.5)**	**(1.6)**	**(1.8)**	**(3.6)**	**(3.6)**
25. Union Bank of India	2,302	2,497	199	214	2,501	2,712	2,030	2,087
	(3.3)	(3.5)	(1.9)	(1.8)	(3.2)	(3.3)	(4.1)	(4.1)
26. United Bank of India	**1,007**	**1,342**	**97**	**141**	**1,104**	**1,482**	**1,333**	**1,333**
	(1.5)	**(1.9)**	**(0.9)**	**(1.2)**	**(1.4)**	**(1.8)**	**(2.7)**	**(2.6)**
27. Vijaya Bank	732	809	64	82	796	892	835	835
	(1.1)	(1.1)	(0.6)	(0.7)	(1.0)	(1.1)	(1.7)	(1.7)
Total for PSBs	**51,767**	**56,898**	**7,533**	**8,212**	**59,300**	**65,110**	**44,763**	**45,355**
	(74.9)	**(79.4)**	**(72.7)**	**(70.3)**	**(74.6)**	**(78.1)**	**(89.9)**	**(89.4)**
Total for all Banks	**69,102**	**71,644**	**10,361**	**11,680**	**79,463**	**83,324**	**49,771**	**50,743**
	(100)	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**

Note: Figures in brackets indicate percentage to total for all banks.

Annex 10
Gross NPA Movement

(Rs. crore)

Movement in	**Indian Bank**	**UCO Bank**	**United Bank of**

Gross NPA			**India**
As on 31 March 1996	**3,140**	**1,840**	**1,401**
Reduction during 1996-97	482	354	167
Addition during 1996-97	645	387	164
As on 31 March 1997	**3,303**	**1,873**	**1,398**
Reduction during 1997-98	347	371	97
Addition during 1997-98	472	278	150
As on 31 March 1998	**3,428**	**1,780**	**1,451**
Reduction during 1998-99	164	327	101
Additions during 1998-99	445	263	199
As on 31 March 1999	**3,709**	**1,716**	**1,549**

Annex 11
Operating Expenses to NII
and Other Income

Name of the Bank	**Operating Expenses to NII & Other income**		
	1996-97	**1997-98**	**1998-99**
Indian Bank	140.91	166.85	141.22
UCO Bank	116.41	97.28	93.94
United Bank of India	122.38	87.50	97.61
Median for PSBs	63.20	61.36	66.60

Annex 12
Staff cost to operating expenses

Sr.No.	**Name of the Bank**	**1997-98**	**1998-99**
1.	Oriental Bank of Commerce	61.54	58.03
2.	Corporation Bank	56.11	60.94
3.	Union Bank of India	64.55	65.56
4.	Punjab & Sind Bank	71.55	69.27
5.	Allahabad Bank	64.84	69.95
6.	Bank of Baroda	68.98	70.03
7.	State Bank of India	75.36	70.34
8.	State Bank of Indore	68.31	70.57
9.	Vijaya Bank	72.09	71.03
10.	Canara Bank	68.42	71.46
11.	State Bank of Travancore	69.83	72.07
12.	Bank of India	65.99	72.24
13.	State Bank of Patiala	73.96	72.90

14.	Dena Bank	72.61	72.96
15.	State Bank of Hyderabad	73.21	73.16
16.	Andhra Bank	72.92	73.35
17.	State Bank of Saurashtra	76.53	75.20
18.	Indian Overseas Bank	74.59	75.50
19.	Central Bank of India	76.58	75.63
20.	State Bank of Bikaner & Jaipur	76.46	75.66
21.	**Indian Bank**	**74.83**	**76.33**
22.	State Bank of Mysore	76.79	76.43
23.	Punjab National Bank	77.21	77.68
24.	Syndicate Bank	78.56	78.96
25.	Bank of Maharashtra	77.77	80.89
26.	**UCO Bank**	**82.43**	**81.29**
27.	**United Bank of India**	**82.55**	**82.57**
	Median @	**72.77**	**72.57**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

Annex 13

Ratio of assets to employees (March 1998)

(Amt. in Rs. crore)

Sr.No.	**Name of the Bank**	**Total assets**	**Total staff**	**Asset to staff ratio**
1.	Corporation Bank	11,214	9,615	1.17
2.	Oriental Bank of Commerce	14,782	14,238	1.04
3.	Bank of Baroda	45,841	45,935	1.00
4.	Bank of India	46,338	52,518	0.88
5.	Union Bank of India	25,753	30,901	0.83
6.	Dena Bank	12,264	15,109	0.81
7.	Canara Bank	43,112	54,703	0.79
8.	Indian Overseas Bank	21,432	28,347	0.76
9.	State Bank of India	1,79,673	2,39,649	0.75
10.	State Bank of Hyderabad	10,618	14,269	0.74
11.	State Bank of Patiala	9,641	13,108	0.74
12.	Punjab & Sind Bank	9,031	12,167	0.74
13.	**Indian Bank**	**19,454**	**26,994**	**0.72**
14.	State Bank of Travancore	9,133	13,049	0.70
15.	Allahabad Bank	15,153	22,606	0.67
16.	Vijaya Bank	9,440	14,138	0.67
17.	State Bank of Saurashtra	5,204	7,993	0.65
18.	**United Bank of India**	**14,389**	**22,041**	**0.65**
19.	Bank of Maharashtra	10,656	16,596	0.64
20.	Andhra Bank	9,231	14,936	0.62
21.	Central Bank of India	30,519	49,702	0.61

22.	State Bank of Indore	4,093	6,831	0.60
23.	Punjab National Bank	39,768	66,599	0.60
24.	State Bank of Bikaner & Jaipur	8,523	15,046	0.57
25.	**UCO Bank**	**18,586**	**32,830**	**0.57**
26.	Syndicate Bank	19,476	36,266	0.54
27.	State Bank of Mysore	5,863	11,217	0.52
	Median @			**0.72**

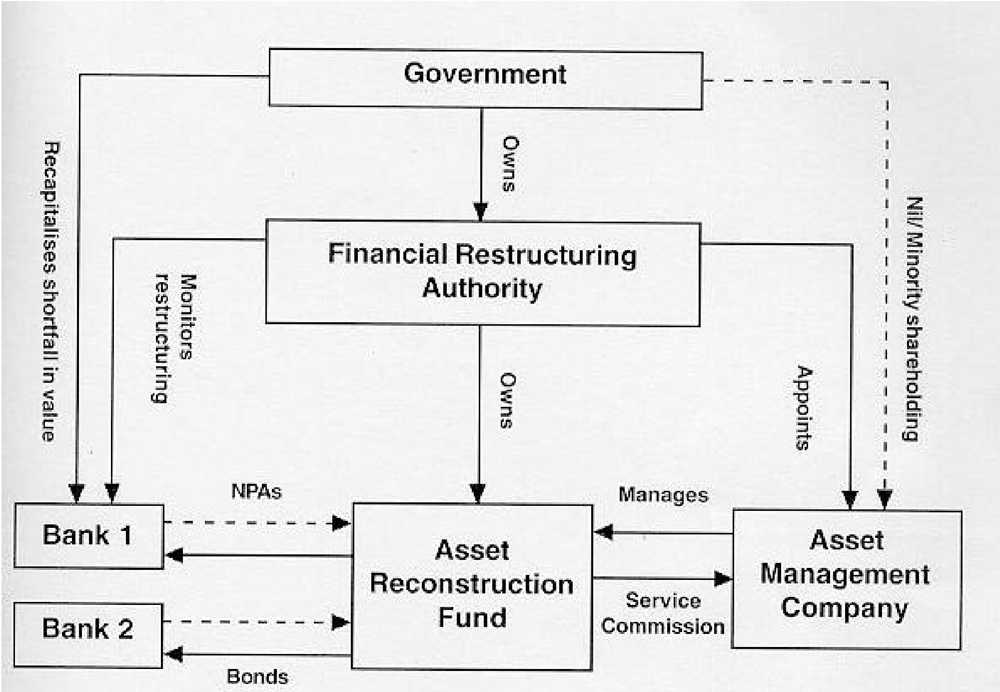
@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

Annex 14
Staff cost to total income

Sr.No.	Name of the Bank	1997-98	1998-99
1.	Oriental Bank of Commerce	11.59	10.59
2.	Corporation Bank	11.00	10.61
3.	State Bank of Travancore	13.40	14.79
4.	Bank of Baroda	15.67	15.65
5.	Union Bank of India	16.06	16.42
6.	Canara Bank	15.60	16.54
7.	State Bank of Patiala	17.41	16.56
8.	Dena Bank	17.48	16.74
9.	Punjab & Sind Bank	18.86	17.22
10.	Bank of India	17.06	17.89
11.	Allahabad Bank	16.79	18.07
12.	State Bank of India	19.03	18.52
13.	State Bank of Hyderabad	16.28	19.76
14.	Vijaya Bank	22.50	19.87
15.	Indian Overseas Bank	18.62	19.95
16.	Andhra Bank	19.21	19.98
17.	State Bank of Indore	19.88	20.40
18.	State Bank of Saurashtra	20.92	20.83
19.	Punjab National Bank	18.83	21.41
20.	**United Bank of India**	**22.67**	**22.26**
21.	State Bank of Bikaner & Jaipur	21.17	22.27
22.	Central Bank of India	22.40	22.89
23.	State Bank of Mysore	21.78	22.99
24.	**Indian Bank**	**23.48**	**23.40**
25.	Bank of Maharashtra	24.52	24.31
26.	Syndicate Bank	26.31	25.00
27.	**UCO Bank**	**27.07**	**25.74**
	Median @	**18.73**	**19.14**

@ Median of all banks excluding Indian Bank, UCO Bank and United Bank of India.

Annex 15
Structure of proposed NPA transfer mechanism



FRA: Independent agency set up under separate Act, government owned, approves and monitors bank-specific restructuring programmes, owns ARF, and appoints AMCs.

ARF: Government-owned (through FRA), profit-oriented, buys loans from weak banks against bonds at negotiated prices, recovers/sells loans, limited life span as for FRA.

AMC: Independent, private sector entity or existing Fund Manager, miniority government holding, manages ARF, staffed with top class professionals, incentive-driven.