Chapter-I

INTRODUCTION
Chapter-I

INTRODUCTION
In principle, efficient financial performance of any industry in any country is very much necessary. Banking industry is not an exception for this basic principle. Banking performance in terms of its financial indicators is indispensible for its growth, development and sustainability. Moreover the banking industry is the purveyor and creator of credit. The banking system plays a major role in the financial dealings of any nation. A bank is a financial institution that provides banking facilities on one side and financial services on the other side to its customers.

**DEFINITION AND MEANING OF BANK**

Since the banking business is originated in different parts of the world at different times, there are differences of opinions regarding the origin of the word, ‘Bank’. The word ‘Bank’ seems to have been originated from the Italian word ‘Banco’. At the time of the establishment of the ‘Bank of Venice’ in 1157, the Germans were the influencers in Italy. ‘Bank’ was the German word for joint stock funds, meaning a ‘heap’ or ‘mound’ and the Italians converted the word into ‘Banco’ which denotes an accumulation of either stock or money.

There is another group of people who argues that the word ‘Bank’ has been derived from the Greek word ‘Bancus’ or ‘Banque’ which means a bench. In olden days the Jewish people used to transact their business transactions in Lombardy, an autonomous region in north Italy at the market place sitting on ‘benches’. When the banker was unable to meet his obligations, the bench on which he was carrying on banking business was broken into pieces and that led to the origin of the word ‘Bankrupt’. As a money changer, the merchant at the bench did not invest money, but merely converted the foreign currency into the only legal tender in Rome –that of the Imperial Mint.

However, that first view is more convincing than the second one, as it is used in the establishment of the Bank of Venice which is considered to be the first institution to be regarded as a Bank. So the definition of a bank varies from country to country. An attempt to define this term becomes rather difficult as it is impossible to include all the functions performed by the banker in a single definition, especially the modern banker who discharges a large number of functions. Even in England, there was no statutory definition of the term ‘banker’. Therefore, some leading institutions
and authors on banking have tried to define the term from time to time on the basis of certain cases. Some of the definitions are

- Dr. Herbert L. Hart is considered to be more realistic. In his book ‘Law of Banking’ he says a ‘banker is one who in the ordinary course of business, honours cheques drawn up on him by persons, from and for whom he receives money on current accounts’.
- Section 5(b) of Banking Regulation Act, 1949 defines bank as accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft and order or otherwise
- Oxford Advanced Learners Dictionary (2004) defined the bank as “an organization that provides various financial services for example keeping or lending money”.
- The English Common Law defined a banker as a person who carries on the business of banking.

**HISTORICAL PERSPECTIVE OF BANKING**

At first the banks were probably the religious temples of the ancient world. There were some recorded incidents of money lending, money changing and banking functions in the courts of Emperor Nebuchadnezer of Babylonia around 600 BC. Babylonians used to store gold in the temples of god ‘Nebo’, which they thought as a safest and sacred place. There are extracts and records of loans from 6th century B.C. in Babylonia that were made by temple priests to merchants at high rates of interests.

The basic functions of banks are to accept deposits, lend money and act as collecting and paying agents. If any organized institution performs these functions that institute can be called a ‘bank’. The Bank of Barcelona in Spain (1401) was perhaps the first institution that could be called as a bank in the above sense. Though the Bank of Venice (Banca di Venezia) was established (1157) much earlier than the establishment of the Bank of Barcelona, it was not considered as the first bank, because it was formed solely for the purpose of taking over the public debt created by Venice to finance its many wars.
Banking in the United States began in 1781 with the establishment of Bank of North America in Philadelphia by an act of the United States of Congress. During the American revolutionary war, the Bank of North America was given a monopoly power of issuing currency. Prior to this, private banks used to print notes of their own bank backed by deposits of gold or silver. Whereas in India Banking was originated long ago. There are evidences of giving loans to others even during the Vedic periods. Banking was synonymous with money lending. The Manusmriti speaks of deposits, pledges, loans and interest rates, money lenders and indigenous bankers who played an important role in the Indian society as purveyors of money and credit from times immemorial.

Banking in India in recent times is the result of slow and gradual development. Though India had a system of indigenous banking from very early times, it was not similar to the banking of the modern times. It was only a little over a century ago that modern banking took its birth.

The modern Commercial Banking originated in India during the later part of the 19th century and the early 20th century, mainly due to the development of foreign trade and the convergence of the organized commercial and industrial sector. Till the advent of three Presidency Banks, the European Agency Houses acted as Bankers. As they were prospered in course of time they also started to operate banks. The Bank of Hindustan was established by Alexander and company of Calcutta, a leading Agency house in 1770. It was closed down in 1832. The Bengal Bank and the General Bank of India were also started by the other Agency Houses in Bengal in 1786. The Agency House floated the Commercial Bank in 1819 and the Calcutta bank in 1806.

A notable development in the history of Indian banking was the amalgamation of the three Presidency Banks in to the Imperial Bank of India in 1921 by the passing of the Imperial Bank of India Act, 1920. Later, with the passing of the Reserve Bank of India Act, 1934, the Reserve Bank of India came into existence in April 1935 to act as the Central Bank of the country. A major historical event in the history of banking in India after independence is the nationalization of 14 major banks on 19-07-1969. At present banking in India is considered as fairly mature in terms of supply product range and reach.
IMPORTANT MILESTONES IN THE GROWTH OF INDIAN BANKING

The following is the milestones that one could come across in the growth and development of banking.

- 1770 - The Bank of Hindustan was established by Alexander & Co.
- 1786 - Establishment of The General Bank of India (defunct)
- 1806 - Establishment of The Bank of Calcutta, renamed as Bank of Bengal later.
- 1832 - Hindustan Bank was closed
- 1840 - Establishment of The Bank of Bombay
- 1843 - Establishment of The Bank of Madras
- 1861 - Paper Currency Act came into existence
- 1881 - Establishment of Oudh Commercial Bank.
- 1921 - The Imperial Bank of India (amalgamation of the three Presidency banks)
- 1935 - The Reserve Bank of India was established in 1934 and started its operations in 1935.
- 1956 - The Imperial Bank of India was nationalised and renamed as State Bank of India.
- 1961 - Insurance cover for deposits
- 1969 - Nationalisation of 14 major banks, Introduction of Lead Bank Scheme by RBI
- 1975 - Regional Rural Banks (RRBs) were established
- 1980 - Nationalisation of seven more banks, with deposits over 200 crore
- 1982 – NABARD was established
- 1991 - Banking sector reforms phase-1 were introduced.
- 1992 - Implementation of Basel-I norms in India
- 1997 - First Online Banking was launched by ICICI Bank
- 1998 - Banking sector reforms phase-2 were introduced.
- 2004 - The Basel II Accord released
- 2011 – The RBI constituted a committee under the chairmanship of M.Damodaran to look into banking services rendered to retail and small customers, including pensioners and also to look into the functioning of the grievance redressal mechanism prevalent in banks, its structure and efficacy and to suggest measures for expeditious resolution of complaints. The committee submitted its report on 03-08- 2011.
CLASSIFICATION OF BANKS

Banks can be classified on the basis of their ownership and the functions they perform.

Classification of banks on the basis of the functions they perform

On the basis of ownership, banks may be classified into private and public or incorporated banks. A private bank is owned by one or more individuals. Public or incorporated banks are those banks which are incorporated under an act and are owned by the shareholders.

Classification of the banks on the basis of their functions

Banks can also be classified basing upon various functions performed by them and accordingly this classification can be called a ‘functional classification’. Thus the banking institutions are classified as follows.

- **Central banks**: The duty of central banks is to maintain financial stability and to have control on all other banks operating in the country. Central banks act as regulators of their country and control the interest rates by amount of money in circulation and buying and selling currencies. They exist as a separate entity from all the other banks.

- **Industrial Development Banks**: These banks are committed towards enhancing the growth of industries by providing loans for a very long period of time. This is vital for the long term growth of the industries.

- **Exchange banks**: These banks are available in more than one country. They provide services for the buying and selling of gold, silver and foreign currencies.

- **Investment banks**: Investment banks distribute and underwrite shares and bond issues, they trade securities on the financial markets and advise corporates on capital market activities such as mergers and acquisitions, floating of securities, private placements and the like.

- **Mortgage banks**: These banks are specialized in providing mortgage loans alone. In order to sell loans they depend solely on the retail segment.
- **Co-operative banks:** As the name suggests that these banks get money from the general community without any bias and provide loans to all sections of people in the neighbourhood.

- **Islamic banks:** These banks are based on the principles of Islam. There is no interest for loans acquired from this bank.

- **Commercial banks:** Commercial banks provide banking services to individuals and firms through their branch network. They provide services to individuals through its retail banking operations and to corporates through its wholesale banking operations.

- **Community development banks:** These banks provide services to the community or region where there has been very little development over the years.

- **Investment banks:** These banks are pertinent to large organizations investments ventures across the industry. They mainly provide investment advice to the large corporates.

**Nationalized Banks**

The period from 1967 to 1991 was witnessed by two major developments such as social control on banks in 1967 and nationalization of 14 banks in 1969. The banks that were nationalized in 1969 are:

- The United Bank of India Ltd.
- The Punjab National Bank Ltd.
- The Indian Bank Ltd.
- The United Commercial Bank Ltd.
- The Syndicate Bank Ltd.
- The Bank of Maharashtra Ltd.
- The Canara Bank Ltd.
- The Union Bank of India Ltd.
- The Dena Bank Ltd.
- The Bank of Baroda Ltd.
- The Central Bank of India Ltd.
- The Bank of India Ltd.
- The Allahabad Bank Ltd.
- The Indian Overseas Bank Ltd.
The phase-II Nationalization was done in 1980. As a result six more banks were brought under the purview of the government. The banks that were nationalized in 1980 are

- The Oriental Bank of Commerce
- The Corporation Bank
- The Vijaya Bank
- The Andhra Bank
- The New Bank of India
- The Punjab & Sind Bank

The objectives behind nationalization of banks are

- to increase the deposits and inculcate a habit of savings among the public thereby increasing the confidence in the public.
- to appoint experienced personnel in the top management to run and manage the banks.
- to bring co-ordination and co-operation between commercial banks and central banks.
- to prevent concentration of economic power.
- to channel the bank finance and provide credit to weak areas like Agriculture and Small Scale Industries.
- to prevent the monopoly of big enterprises which were close to directors of the existing banks prevailing at that time.
- to ensure balanced regional development.
- to ensure the staff of banks enjoy greater job security and higher emoluments which in turn affects the operational efficiency of banks.

The nationalization of banks was an attempt to use the scarce resources of the banking system for the purpose of planned development. The course of evolution of the banking sector in India since 1969 has been dominated by the nationalization of banks. This period was characterized by rapid branch expansion that immensely helped to draw the channels of monetary transmission far and wide across the country. The share of unorganized credit fell sharply and the economy seemed to come out of the low level of equilibrium trap. There was very little operational flexibility for the commercial banks as profitability was not the prime motive and hence suffered from
poor governance. Then the RBI under various committees had formulated reforms for the efficient operations of the banking industry. The important reforms have been discussed below.

**COMMITTEES AND THEIR RECOMMENDATIONS ON BANKING INDUSTRY**

The Banking commission and the Reserve Bank of India (RBI) together have appointed various committees from time to time. The Tandon Committee was appointed in 1974, which gave the guidelines to be followed by banks while extending credit to its customer. The Talwar committee was appointed to look into the customer service in the banks, and the Goipuria committee in its report has specified the accounting procedures and maintenance of records at bank branches. The Talwar committee on customer service in banks had recommended computerization of some functions to avoid delays in customer service. Until 1983; there was no major breakthrough in the mechanization and computerization in the banking industry. In September 1983, an agreement was made between the Indian Banks Association and the All India Bank Employees Association on the installation of electric and electronic machines (other than computers), micro-processors and mainframe computers to support specified functional areas in branches, Zonal Offices and Head Offices. In July 1983, the RBI appointed a committee on mechanization in banking industry. The following are some of the important committees appointed by RBI and their recommendations.

**GADGIL COMMITTEE-1969 (LEAD BANK SCHEME)**

The origin of Lead Bank Scheme could be traced to a study group on Implementation of the Social Objectives. The study group was headed by Prof. D.R. Gadgil (Gadgil Study group). The committee drew attention that the banks did not have adequate presence in rural areas and also lag in the required rural orientation as they were not profitable. As a result, the banking needs of the rural areas in general and the backward regions in particular, could not be adequately taken care of by the commercial banks. Particularly the fields like agriculture and allied activities, Small Scale Industries (SSI) and other service sectors were neglected. The committee had
recommended the adoption of an 'Area Approach' to evolve plans and programmes for the development of an adequate banking and credit structure in the rural areas.

**NARIMAN COMMITTEE-1969 (BRANCH EXPANSION)**

A Committee of Bankers on Branch Expansion Programme of public sector banks appointed by Reserve Bank of India under the Chairmanship of Shri F.K.F Nariman (Nariman Committee) endorsed the idea of area based approach in its report 1969. It recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on certain districts where it should act as a 'Lead Bank'.

**NARASIMHAN COMMITTEE 1 -1991 (FIRST GENERATION REFORMS)**

The Government of India appointed a committee called 'The Committee on Financial System' under the chairmanship of Sri M. Narasimham, ex-Governor of Reserve Bank of India which made recommendations in November 1991 to restore the financial health of commercial banks and to make their functioning efficient and profitable by ensuring a degree of operational flexibility, autonomy for the banks and degree of professionalism. In order to ensure efficiency, productivity and profitability, the committee recommended a series of measures of which some of them are as follows.

- Reduction of Statutory Liquidity Ratio (SLR) to 25 per cent over a period of five years.
- Progressive reduction in Cash Reserve Ratio (CRR).
- Phasing out of directed credit programmes and redefinition of the priority sector.
- Deregulation of interest rates so as to reflect emerging market conditions
- Stipulation of minimum capital adequacy ratio.
- Adoption of uniform accounting practices with regard to IRAC norms
- Imparting transparency to bank balance sheets and making more disclosures
- Setting up of special tribunals (like DRT – Debt Recovery Tribunal) to speed up the process of recovery of loans
- Liberalizing the policy with regard to allowing foreign banks to open offices in India
GHOSH COMMITTEE – 1992 (FRAUD AND MALPRACTICES IN BANKS)

The Reserve Bank of India had set up Ghosh Committee under the chairmanship of Shri A.Ghosh to make an enquiry into various aspects of frauds and malpractices in banks and to make recommendations to reduce such frauds and malpractices. The committee submitted its report in 1992. Some of the recommendations of this committee are

- Joint custody and dual responsibility has to be maintained in respect of cash and other valuables like gold and sensitive stationery.
- Designate one of the officers as compliance officer at the branch level.
- Exercise of caution at the time of opening of new deposits of all types
- Precautions in drafting mails
- Precautions for averting frauds in non-fund based business like letter of credits and bank guarantees
- Safety standards for fully computerized branches to prevent frauds

JILANI COMMITTEE - 1995 (INTERNAL CONTROL AND INSPECTION/AUDIT SYSTEM IN BANKS)

The Jilani Working Group on internal controls and inspection / audit systems in banks identified key risks associated with Information Technology (IT) systems and recommended various control measures to address these risks. It recognized the need for a specialized system of Electronic Data Processing (EDP) audit and recommended that the entire domain of EDP activities should be brought under the scrutiny of the Inspection and Audit department. Banks were advised to implement the recommendations of the group. Some of the salient features of the report are

- There should be a follow up on major/serious irregularities detected during concurrent audit. A time bound action for rectification to be drawn up and closely monitored.
- Small/medium sized branches to rectify irregularities pointed out during inspection/audit within 4 months.
- Fraudulent transactions to be reported to Vigilance/Chief of Inspection/audit and the like.
- Appropriate control measures should be devised and documented to prevent the computer system from attacks of unscrupulous elements.
In order to bring about uniformity of software used by various branches/offices, there should be a formal method of incorporation change in standard software and it should be approved by the management.

Regular checking by inspectors/auditors to verify the correctness of information complied/furnished by branches regarding income recognition, asset classification, provisioning and Non-performing Assets (NPAs) quantification in conformity with prescribed norms.

A copy of the booklet incorporating RBI circulars to be supplied to each inspecting/audit official by inspection and audit department periodically.

NARASIMHAN COMMITTEE-2 1998 (SECOND GENERATION REFORMS)

The recommendations of Narasimhan Committee-I (1991) provided blueprint for first generation reforms of the financial sector. The period 1992-1997 witnessed laying of the foundations for reforms of the banking system. It also saw the implementation of recovery measures, prudential norms relating to capital adequacy, asset classification, income recognition and provisioning exposure norms and the like. The second generation reforms that came in could be conveniently looked at in terms of three broad inter-related issues.

- Measures that need to be taken to strengthen the foundations of the banking system.
- Upgrading technology and human resource development.
- Structural changes in the banking system.

Some of the important recommendations of the Committee are enlisted here under.

- strengthening banks in India by allowing mergers.
- narrow banking to allow weak banks to place their funds in short terms and risk free assets.
- the government should raise the prescribed capital adequacy norms. This will further improve their absorption capacity also.
- a review of functions of boards and enable them to adopt professional corporate strategy.
amending main laws governing Indian Banking Industry like RBI Act, Banking Regulation Act, State Bank of India Act, Bank Nationalization Act and the like.

apart from these major recommendations, the committee has also recommended faster computerization, technology upgradation, training of staff, depoliticizing of banks, professionalism in banking, reviewing bank recruitment and the like.

**KHAN COMMITTEE – 1998 (HARMONIZATION OF ROLE OF FINANCIAL SYSTEM (FIS) AND BANKS)**

The Khan panel made a strong pitch for "eventually" giving full banking licenses to the Development of Financial Institutions (DFIs) and called for mergers between strong banks and institutions. Some of the recommendations of Khan Committee report are

- a super regulator should be there to coordinate the activities of other regulators.
- redefining of the priority sector. It suggested change in the method of determining priority sector targets for banks.
- favouring mergers between banks and banks, banks and financial institutions and these mergers should be done in practical way and such reconstruction should be useful for the financial system as a whole.
- fast legal reforms in order to make quick recovery of loans.
- reduction in Cash Reserve Ratio (CRR) and Statutory Liquid Ratio (SLR).

**M S VERMA COMMITTEE – 1998 (REVIVAL OF WEAK PUBLIC SECTOR BANKS)**

The Verma Committee has been set up to identify the problems of weak banks on the basis of certain criteria and to suggest a plan of restructuring. The panel identified Indian Bank, UCO Bank and United Bank of India as weak banks.
The report also identified eight banks namely Allahabad Bank, Indian Bank, Indian Overseas Bank, Punjab and Sind Bank, State Banks of Indore, Mysore and Travancore, and United Bank of India in which the accumulated losses and net non-performing assets exceeded the net worth of the bank. The recommendations of the committee are as follows:

- the banks should aim at increasing the income and by reducing their costs.
- the banks should use ultra modern technology to compete with new private sector and foreign banks.
- there is overstaffing in the public sector banks and it should be done away at the earliest.
- financial reconstruction is necessary in functioning of the public sector banks.

RESERVE BANK OF INDIA COMMITTEE ON COMPUTER AUDIT 2002

The Reserve Bank of India Committee on computer audit has recommended the following:

- Standard checklist for conducting computer audit in commercial banks and financial institutions
- Banks and Foreign Institutions may be advised to follow the checklists as general guidelines and those banks which are following better practices may continue to do so
- Periodical trainings and seminars on this area may be conducted at Reserve Bank Staff College (for inspecting officials of Reserve Bank of India) and Bankers Training College (for commercial banks) on a continuous basis and
- A cell may be established at Central Office of Department of Banking Supervision (Reserve Bank of India) which will scrutinize the reports prepared by the inspecting officials so that necessary corrective action may be suggested for effective and efficient functioning of banks. Further, this cell may continue to update the checklists with latest developments and concerns so that the checklists remain current and relevant.
DAMODARAN COMMITTEE 2011 (CUSTOMER SERVICE IN BANKS)

This committee was formed by the RBI to review the services of banks to its retail and small customers. The committee had been set up to review the existing system approach, attitude and fair treatment to customers from retail, small and pensioners segment. Some of the recommendations of the committee are

- Banks should have a grievance redressal mechanism for expeditious resolution of complaints.
- Banks should ensure full transparency in levying of various fees to its customers.
- The banks must have a well defined policy that sets out their approach to Customer Care.
- Exchange soiled/torn note is a right of every citizen. RBI should ensure that no holder of sovereign currency note is torned away at a bank counter when exchange facility is desired, irrespective of the person tendering the note is a customer or not.
- The Board of Directors should play a proactive role in implementing all the guidelines and instructions that are formulated from time to time to enhance the customer service. Root cause analysis of the top five types of complaints of a quarter should be placed before the Customer Service Committee of the Board held in the subsequent quarter. A brief note on the discussions held on the same should be placed before the board in its subsequent meeting.

STRUCTURE OF BANKING INDUSTRY

After enlighting the milestones of Indian Banking, the researcher wishes to present the structure of Banking Industry in India. The entire organized banking system comprises of scheduled and non-scheduled banks.
FIG. 1.1: ORGANISATIONAL STRUCTURE OF BANKING INDUSTRY IN INDIA

Source: D & B Industry Research Service

Scheduled Banks & Non-Scheduled Banks (Un-Scheduled Banks)

Scheduled Banks are those banks which have a minimum paid-up capital and reserves of Rs. 5 lakhs and which are included in the second schedule of the Reserve Bank of India (RBI) Act. For inclusion in the second schedule of the RBI Act, the bank must satisfy the Reserve Bank that its affairs are not conducted in a manner detrimental to the interests of its depositors and it must be a company as defined in the Companies Act, 1956 or an institution notified by the Central Government or a Corporation or a Company incorporated under any law in force in any place outside India. The Scheduled Banks are further classified into Scheduled Commercial Banks...
and Scheduled Cooperative Banks. The difference between these two is in their holding pattern. Scheduled Cooperative Banks are cooperative credit institutions that are registered under the Cooperative Societies Act. These banks work according to the cooperative principles of mutual assistance. The un-scheduled Banks are also known as ‘Local Area Banks’. The un-scheduled Banks are banking companies other than those included in the second schedule in the RBI Act. The following are the local area banks functioning in India. They are

- Coastal Local Area Bank Ltd., – Vijayawada, A.P.
- Capital Local Area Bank Ltd., – Phagwara, Punjab.
- Krishna Bhima Samruddi Local Area Bank Ltd., Mahabubnagar, Telangana.
- Subhadra Local Area Bank Ltd., Kolhapur, Maharashtra.

The RBI has made it clear that these banks will have to give more importance to rural–oriented financing and the lending rates and deposit rates will be governed by provisions applicable to RRBs.

The total Scheduled Commercial Banks (SCBs) are numbering to 89.

a. Public Sector Banks (26) 
   i. SBI and its associates (6)
   ii. Nationalized banks (20)

b. Private Sector Banks (20) 
   i) New Private Sector Banks (7)
   ii) Old Private Sector Banks (13)

c. Foreign banks (43)

Scheduled commercial banks (SCBs) account for a major proportion of the business of the scheduled banks. At the end of March, 2013, 151 SCBs were in operation in India. SCBs in India are categorized into five groups based on their ownership and/or their nature of operations. State Bank of India and its six associates are recognized as a separate category of SCBs, because of the distinct statutes (SBI Act, 1955 and SBI Subsidiary Banks Act, 1959) that govern them. Nationalized banks (20) and SBI and its associates (6), together form as public sector banks group and control around 75 per cent of the total credit and deposits businesses in India. Industrial Development Bank of India Limited (IDBI Ltd.,) has been included in the nationalized banks group since December 2004. Private sector banks include the old private sector banks and the new generation private sector banks- which were
incorporated according to the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993.

Public Sector Banks (PSBs) (Government Owned Banks)

The Public Sector Banks refer to banks that have their listed shares in the stock exchanges like National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). Also the government of India holds majority stake in these banks. At any point of time, the government share holding in these banks should not fall below the limit of 51 per cent. These banks can also be termed as government owned banks. The State Bank of India and its associates and nationalized banks fall under this category. The following is the list of nationalized banks (20) and SBI and its associates (6) which are included in PSBs.

- Bank of Baroda
- Central Bank of India
- Canara Bank
- Bank of India
- Dena Bank
- Vijaya Bank
- Punjab National Bank
- Syndicate Bank
- Indian Bank
- Oriental Bank of Commerce
- Allahabad Bank
- IDBI Bank
- United Bank of India
- Indian Overseas Bank
- Punjab and Sind Bank
- Union Bank of India
- UCO Bank
- Andhra Bank
- Bank of Maharashtra
- Corporation Bank
The following banks which are governed by SBI Act are

- State Bank of India
- State Bank of Bikaner and Jaipur
- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Travancore

**Private Sector Banks (PRSBS) (Non – Government Owned Banks)**

The Private Sector Banks (PRSBS) are the banks in which greater part of stake or equity are held by the private shareholders and not by the government. Private Sector Banks have been functioning in India since the very beginning of the banking system. Initially during 1921, the private banks like Bank of Bengal, Bank of Bombay and Bank of Madras were in service, which all together formed into Imperial Bank of India. The Reserve Bank of India (RBI) came into existence in 1935 and became the centre of every other bank taking away all the responsibilities and functions of already formed Imperial Bank of India. Between 1969 and 1980, there was rapid increase in the number of branches of the PRSBs. From the early 1990, RBI’s liberalization policy came into picture and with this the government gave licences to a few private banks. So, the Private Sector Banks are divided into two groups by the financial regulators in India. They are

- The Old Private Sector Banks
- The New Private Sector Banks

**Old Private Sector Banks**

As the name implies, the old private sector banks existed prior to the nationalization in 1969 and kept their independence because they were either too small to be included in nationalization. So, the old private sector banks constitute an important part of the private sector banks. They are closely held by certain communities, and their operations are mostly restricted to the areas in and around their place of origin. Their board of directors too consist of locally prominent personalities from trade and business circles. In the total assets of private sector banks, the old private sector banks constitute a predominant share. It is known that recently the entrance of the new private sector banks weakened the competitive
strength of the old private sector banks. The following are some of the old private sector banks operating in India at present.

- Jammu and Kashmir Bank Ltd.
- Catholic Syrian Bank Ltd.
- Ratnakar Bank Ltd.
- Karnataka Bank Ltd.
- City Union Bank Ltd.
- South India Bank Ltd.
- Tamilnad Mercantile Bank Ltd.
- Karur Vysya Bank Ltd.
- Federal Bank Ltd.
- Dhanalakshmi Bank Ltd.
- Nainital Bank Ltd.
- Laxmi Vilas Bank Ltd.
- ING Vysya Bank Ltd.

**New Private-Sector Banks**

They are also called the “New Generation Banks”. The banks which came into operation after 1991 with the introduction of economic reforms and financial sector reforms are called ‘New Private Sector Banks’. They have been established on the basis of the recommendations of the Narasimhan Committee report. Banking regulation act was then amended in 1993, and permitted the entry of these new private sector banks in the Indian banking sector. The following is the list of New Private Sector Banks operating in India.

- ICICI Bank Ltd.
- Kotak Mahindra Bank Ltd.
- Yes Bank Ltd.
- Axis Bank Ltd.
- HDFC Bank Ltd.
- Indus Ind Bank Ltd.
- Development Credit Bank Ltd.
Foreign Banks

Some Foreign banks are also present in the country either through complete branch set up or through subsidiary route or through their representative offices. These banks have head quarters in foreign countries and are allowed to do their business in India with the restrictions and policies laid down by the RBI from time to time.

These banks were established in India during the 19th century and in the early 20th century, mainly due to the development of trade with other countries during that period. Since they were pre-occupied with financing of foreign trade and associated activities, they opened branches only in the port towns like Bombay, (presently Mumbai), Calcutta, (presently Kolkata) and Madras, (presently Chennai). Though the primary objective of establishing the banks was to finance India’s foreign trade, they slowly began to enter into the field of internal trade. In the field of foreign trade, they discriminated between Indian traders and foreign traders. These banks discouraged the development of Indian firms like shipping companies and insurance companies by insisting on employing foreign ships to carry the goods and to insure them with foreign insurance companies.

The total numbers of foreign banks operating in India were 43 as on 30th March 2013. The 327 branches of foreign banks were spread over 40 centres in almost all the states / union territories in India. The following is the list of foreign banks and their head quarters that are operating in India at present.

1. American Express Banking Corp. - USA
2. AB Bank Ltd. - Bangladesh
3. Bank International Indonesia. - Indonesia
4. Antwerp Diamond Bank NV. - Belgium
5. Abu Dhabi Commercial Bank Ltd. - UAE
6. Australia and New Zealand Banking Group Ltd. - Australia
7. Bank of America National Association - USA
8. Bank of Ceylon - Srilanka
9. Barclays Bank PLC - U.K.
10. BNP Paribas - France
<table>
<thead>
<tr>
<th></th>
<th>Bank Name</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.</td>
<td>Bank of Bahrain &amp; Kuwait B.S.C.</td>
<td>Bahrain</td>
</tr>
<tr>
<td>12.</td>
<td>Bank of Nova Scotia</td>
<td>Canada</td>
</tr>
<tr>
<td>13.</td>
<td>Credit Suisse AG</td>
<td>Switzerland</td>
</tr>
<tr>
<td>14.</td>
<td>Chinatrust Commercial Bank</td>
<td>Taiwan</td>
</tr>
<tr>
<td>15.</td>
<td>Credit Agricole Corporate and Investment</td>
<td>France</td>
</tr>
<tr>
<td>16.</td>
<td>Citibank N.A.</td>
<td>USA</td>
</tr>
<tr>
<td>17.</td>
<td>Commonwealth Bank of Australia</td>
<td>Australia</td>
</tr>
<tr>
<td>18.</td>
<td>Deutsche Bank</td>
<td>Germany</td>
</tr>
<tr>
<td>19.</td>
<td>DBS Bank Ltd.</td>
<td>Singapore</td>
</tr>
<tr>
<td>20.</td>
<td>First Rand Bank</td>
<td>South Africa</td>
</tr>
<tr>
<td>21.</td>
<td>HSBC Ltd. (Hongkong &amp; Shanghai Banking Corp.)</td>
<td>Hongkong</td>
</tr>
<tr>
<td>22.</td>
<td>Industrial and Commercial Bank of China</td>
<td>China</td>
</tr>
<tr>
<td>23.</td>
<td>JPMorgan Chase Bank National Association</td>
<td>USA</td>
</tr>
<tr>
<td>24.</td>
<td>JSC VTB Bank</td>
<td>Russia</td>
</tr>
<tr>
<td>25.</td>
<td>Krung Thai Bank Public Co. Ltd.</td>
<td>Thailand</td>
</tr>
<tr>
<td>26.</td>
<td>Mashreq Bank PSC</td>
<td>UAE</td>
</tr>
<tr>
<td>27.</td>
<td>Mizuho Corporate Bank Ltd.</td>
<td>Japan</td>
</tr>
<tr>
<td>28.</td>
<td>National Australia Bank</td>
<td>Australia</td>
</tr>
<tr>
<td>29.</td>
<td>Oman International Bank S.A.O.G.</td>
<td>Sultanate of Oman</td>
</tr>
<tr>
<td>30.</td>
<td>Rabo bank International</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>31.</td>
<td>Standard Chartered Bank</td>
<td>U.K.</td>
</tr>
<tr>
<td>32.</td>
<td>Sber Bank</td>
<td>Russia</td>
</tr>
<tr>
<td>33.</td>
<td>Shinhan Bank</td>
<td>South Korea</td>
</tr>
<tr>
<td>34.</td>
<td>Societe Generale</td>
<td>France</td>
</tr>
<tr>
<td>35.</td>
<td>State Bank of Mauritius Ltd.</td>
<td>Mauritius</td>
</tr>
<tr>
<td>36.</td>
<td>Sonali Bank</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>37.</td>
<td>The Bank of Tokyo-Mitsubishi UFJ Ltd.</td>
<td>Japan</td>
</tr>
<tr>
<td>38.</td>
<td>The Royal Bank of Scotland N V</td>
<td>Scotland</td>
</tr>
<tr>
<td>39.</td>
<td>UBS AG</td>
<td>Switzerland</td>
</tr>
<tr>
<td>40.</td>
<td>United Overseas Bank Ltd.</td>
<td>Singapore</td>
</tr>
<tr>
<td>41.</td>
<td>Woori Bank</td>
<td>South Korea</td>
</tr>
<tr>
<td>42.</td>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>Japan</td>
</tr>
<tr>
<td>43.</td>
<td>Westpack Banking Corporation</td>
<td>Australia</td>
</tr>
</tbody>
</table>
Regional Rural Banks

Regional Rural Banks (RRBs) were set up in September 1975 in order to develop the rural economy by providing banking services in rural areas by combining the cooperative specialty of local orientation and the sound resource base which is the characteristic of commercial banks. Regional Rural Banks (RRBs) have a unique structure, in the sense that their equity holding is jointly held by the central government, the concerned state government and the sponsor bank in the ratio 50:15:35, which is responsible for assisting the Regional Rural Banks (RRB) by providing financial, managerial and training aid and also subscribing to its share capital. Regional Rural Banks (RRBs) were set up in accordance with the recommendations of the Banking Commission in 1972. They recommended the setting up of rural banks to extend banking facilities to rural areas. Accordingly, the Government of India constituted a Working Group under the Chairmanship of Sri. M. Narasimhan, the Additional Secretary, Ministry of Finance to review the flow of institutional credit especially to the weaker sections of the community. The Government of India accepted the report and accordingly, the Regional Rural Banks Ordinance was issued on 26-9-1975 which brought the Regional Rural Banks into existence.

The number of RRBs operating in the country has been declined over the past five years due to rapid consolidation among them. As a result of state wise amalgamation of RRBs sponsored by the same sponsor bank, the number of RRBs fell to 82 by end March 2013.

Scheduled Cooperative Banks

Cooperative banking system in India once played a very important role in the development of Indian economy, especially in rural economy. Even though the cooperative banking system is smaller when compared to commercial banking system, its importance in the development of Indian rural economy cannot be ignored. The cooperative movement was started in India with the passing of the Cooperative Credit Societies Act, 1904 with the main objective of providing finance at low rates of interest to agriculturalists. Until then the agriculturalists were in the clutches of money lenders who charged very high rates of interest.
The distinctive feature of the cooperative banking in India is its heterogenity. The structure differs across rural and urban areas as well as across states and tenures of loans. The urban areas are served by Urban Cooperative Banks (UCBs), and the rural areas are served by Rural Cooperative Banks (RCBs).

The Rural Cooperative structure is bifurcated into ‘short term’ and ‘long-term’ structure. The short-term cooperative structure is a three tier structure having State Cooperative Banks (StCBs) at the apex level, followed by District Central Cooperative Banks (DCCBs) at the district level followed by Primary Agricultural Credit Societies (PACs) at the village level. This structure is often referred to as ‘Federal Structure of the short-term credit cooperatives’.

The long term cooperative structure has the State Cooperative Agricultural and Rural Development Banks (SCARDBs) at the apex level followed by the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. This is often referred to as the ‘Federal Structure of long-term credit cooperatives’.

FUNCTIONS OF COMMERCIAL BANKS

The Commercial Banks serve as the back bone of the financial system of the country. They render many valuable services. The important functions of the Commercial Banks can be explained with the help of the following chart.
FIG. 1.2: FUNCTIONS OF COMMERCIAL BANKS

Source: www.financemoney.in

Primary Functions

The following are the primary functions of the commercial banks in India

A. Accepting Deposits – Banks accept deposits of different types such as savings deposits, current deposits, fixed deposits and recurring deposits from the public. A brief description about each of the deposit types is given under

1. Savings deposits:

The savings deposit promotes banking habits among people. The savings deposits can only be held by individuals. They can be withdrawn at any time by the account holder. Corporate bodies and business firms are not allowed to open savings banks accounts. The rate of interest paid on savings deposits is lower than that of time deposits. The savings account holder gets the advantage of small income in the form of interests. Presently interest on Savings Bank Accounts is determined by RBI. It is 4.5 per cent per annum. Co-operative banks are allowed to pay an extra 0.5 per cent on its savings bank deposits.

2. Fixed Deposits

The fixed deposits can be withdrawn only after expiry of certain period. In times of urgent need for money, the bank allows premature closure of fixed deposits by paying interest at reduced rate. Previously the rates of interest payable on fixed
deposits were determined by Reserve Bank. Presently banks are permitted to offer interest as determined by each bank. Depositors can also avail loans against Fixed Deposits. The Fixed Deposit Receipt cannot be transferred to other persons. These depositors are not allowed to withdraw the deposits either by means of cheque, draft or by other means.

3. Current Deposits

The current accounts are opened and maintained by firms, institutions and co-operative bodies. No interest is paid on current deposits and there are no restrictions on withdrawals from the current account. These accounts are generally in the name of businesses.

4. Recurring Deposits

In Recurring deposits, any individual can open an account and deposit a certain sum of money every month. After a certain period, say 1 year or 3 years or 5 years, the accumulated amount along with interest is paid to the customer. It is very helpful to the middle and poor sections of the people. The interest paid on such deposits is generally on cumulative basis. This deposit system is a useful mechanism for regular savers of money.

B. Granting Advances

The commercial banks provide loans and advances in various forms. They are given below:

1. Overdraft

This facility is given to holders of current accounts only. Under this arrangement, the customer is allowed to draw money over and above the balance in his/her account. This facility of overdrawing his account is generally pre-arranged with the bank up to a certain limit. It is a short-term temporary fund facility from bank and the bank will charge interest over the amount overdrawn. This facility is generally available to business firms and companies.
1. **Cash credit**

Cash credit is a form of working capital credit given to the business firms. This is of short term in nature. Under this arrangement, the customer opens an account and the sanctioned amount is credited with that account. The customer can operate that account within the sanctioned limit as and when required. It is made against security of goods, personal security and the like. On the basis of operation, the period of credit facility may be extended further. One advantage under this method is that bank charges interest only on the amount utilized and not on total amount sanctioned or credited to the account.

3. **Discounting of Bills**

Discounting of Bills may be another form of bank credit. The bank may purchase inland and foreign bills before they are due for payment by the drawer debtors, at discounted values, i.e., values a little lower than the face values. The Banker's discount is generally the interest on the full amount for the unexpired period of the bill. The banks reserve the right of debiting the accounts of the customers in case the bills are ultimately not paid or dishonoured. The bill passes to the Banker after endorsement. Discounting of bills by banks provide immediate finance to sellers of goods. This helps them to carry on their business. Banks can discount only genuine commercial bills i.e., those drawn against sale of goods on credit.

**Secondary Functions**

The secondary functions of the banks are divided into:

A. Agency Functions and   B. Utility Functions.

The agency functions are further divided into

i. Transfer of funds
ii. Periodic payments
iii. Collection of cheques
iv. Portfolio management
v. Periodic collections
vi. Other agency functions
The utility functions are further divided into

i. Drafts

ii. Lockers

iii. Under writing

A. Agency functions: Agency functions of the bank are of different forms such as transfer of funds, periodic payments, collection of cheques, portfolio management, periodic collections and other agency functions.

i. Transfer of funds

Funds from an account of the customer can be transferred to another account through direct transfers (in the same bank), NEFT and RTGS. Now a days transfer of funds is taking advantage over Demand drafts and Pay orders.

ii. Periodic payments

The bank makes the payments such as rent, insurance premiums, subscriptions, on standing instructions until further notice. Till the order is revoked, the bank will continue to make such payments regularly by debiting the customer's account.

iii. Collection of Cheques

As an agent, the bank collects cheques, drafts, promissory notes, interest, dividends and the like on behalf of its customers and credits the amounts to their accounts. Customers may furnish their bank details to corporate where investment is made in shares, debenture and the like. As and when dividend, interest is due, the companies directly send the warrants/cheques to the bank for credit to customer account.

iv. Portfolio Management

Commercial banks undertake the purchase and sale of different securities such as shares, debentures, bonds and the like on behalf of their customers. They run a separate 'Portfolio Management Scheme' (PMS) for their big customers.
v. Periodic collections

The bank collects money periodically like salary, pension, dividends and such other periodic collections on behalf of the clients.

vi. Other agency functions

The banks act as trustees, executors, advisers and administrators on behalf of their clients. They act as representatives of their customers to deal with other banks and financial institutions.

B. Utility Functions: Utility functions of the banks are of different forms such as drafts, lockers and underwriting

i. Drafts

Banks issue demand drafts and pay orders to its customers to transfer the amount from one place to another.

ii. Lockers

Safekeeping of important documents, valuables like jewels are the oldest services provided by commercial banks. 'Lockers' are small receptacles which are fitted in steel racks and kept inside strong rooms known as vaults. These lockers are available on rental basis.

The bank merely provides lockers and the key but the valuables are always under the control of its users. Only customers of safety lockers after entering into a register his name account number and time can enter into the vault. Because the vault is holding important valuables of customers in lockers, it is also known as 'Strong Room'.

iii. Underwriting

The commercial banks provide valuable services through their merchant banking divisions or through their subsidiaries to the traders. This is the function of underwriting of securities. They underwrite a portion of the Public issue of shares, Debentures and Bonds of Joint Stock Companies. Such underwriting ensures the expected minimum subscription and also convey to the investing public about the
quality of the company issuing the securities. Currently, this type of services can be provided only by separate subsidiaries, known as Merchant Bankers as per Security and Exchange Board of India (SEBI) regulations.

iv. Project reports

The banks undertake Technical Evaluation (TEV) study for its customers who wanted to set up a new project. The TEV study is done for big manufacturing units to assess the feasibility and viability of the project.

RISKS AND CHALLENGES OF BANKS

Banks in the process of financial intermediation are confronted with various kinds of risks like credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk, operational risk and the like. These risks have high impact on the banks. Banks are required to identify measure, monitor and control the level of risk. The risk management in banking should cover the following.

- Organizational structure
- Comprehensive risk measurement approach
- Risk management policies
- Strong MIS for reporting, monitoring and controlling risks
- Periodical review and evaluation

The Basel-I Accord, 1988

The Basel Committee on Banking Supervision (BCBS) has been making efforts over the years to secure international convergence of supervisory regulations governing the capital adequacy of international banks. The two fundamental objectives of the Committee’s work on regulatory convergence are: (i) the framework should serve to strengthen the soundness and stability of the international banking system; and (ii) the framework should be fair and have a high degree of consistency in its application to banks in different countries with a view to diminishing an existing source of competitive inequality among international banks.
The Accord has been endorsed by many countries and applied to many banks other than those conducting significant international business. The Accord was passed in January 1993, and currently more than hundred countries have adopted the Basel Norms.

Capital as per Basel Accord, better known as regulatory capital, is sum of Tier I and Tier II capital which a bank is required to maintain in relation to its risk-weighted assets. Under both Basel-I and Basel-II, the regulatory definition of capital is comprised of three levels of capital. An item qualifies for a given tier if it satisfies the specific criteria. Tier I Capital comprises only those elements which have the highest capacity for absorbing losses on an ongoing basis. Tier II Capital is made up of a broad mix of near equity components and hybrid capital/debt instruments, the total of which is limited to 100 per cent of Tier I Capital.

**The Basel-II Accord, 2004**

BCBS brought out a report entitled “International Convergence of Capital Measurement and Capital Standards – A revised framework 2004” also called Basel II report. The report presents the outcome of the Basel committee on Banking supervisions work over recent years to secure internal convergence on revision to supervisory regulations governing the capital adequacy of internally active banks. The objective is to revise the framework that would strengthen the soundness and stability of the international banking system while maintaining sufficient consistency that capital adequacy regulation will not be a significant source of competitive inequality among international active banks. The revised framework is more sensitive than 1988 accord, but countries where risks in the local banking market are relatively high, nonetheless need to consider if banks should be required to hold additional capital over and above the minimum as prescribed by Basel Committee.

The Basel-II framework entails a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are working to implement through domestic rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face, i.e., trend towards convergence of the regulatory and economic capital, which is especially evident in the advanced
approaches. In addition, the Basel-II framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices.

Basel-II consists of three mutually reinforcing pillars: minimum capital requirements, supervisory review process and market discipline.

The First Pillar – Minimum Capital Requirements

In the revised capital framework, the importance of minimum regulatory capital requirements continues to be recognized as the first pillar of the framework. The measures for credit risk are more complex, market risk is the same, while operational risk is new when compared to the Basel-I accord.

The Second Pillar – Supervisory Review Process

This requires the banks to implement an internal process for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels. Pillar 2 also requires the supervisory authorities subject to all banks to an evaluation process and to impose any necessary supervisory measures based on the evaluations.

The Third Pillar – Market Discipline

The third pillar is a set of disclosure requirements included in the Basel II framework to allow market participants assess the capital adequacy of the institution based on information on the scope of application, capital, risk exposures, risk assessment processes, and the like. Banks should have a formal disclosure policy approved by the board of directors that addresses the bank’s approach regarding the disclosures they make, and the internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency.
The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to present day banking. Banking in India has been through a long journey. Banking sector in India has achieved greater heights in technology and services offered to the customer. However, with the changing dynamics of banking business brings new kind of risk exposure which can be listed as follows.

- **Technical Expertise:** The capital requirements as per the Basel-II have become more risk oriented by implementation of credit risk with risk weights, market risk and operational risk which is not an easy task for banks in the nascent stage.

- **Infrastructure Development:** The public sector banks and the private sector banks in India need to develop the overall infrastructure from amenities to systems to be in par with foreign banks operating in India.

- **Anti-Money Laundering:** As a result of increased integration in the global financial industry, the misuse of banking industry has been observed in recent years. These include the use of banking services for activities like, terrorist financing, drug trafficking and money laundering. Banks needs to have stringent controls to curb these issues.

- **Operational Aspects:** It has been observed over time that banks put their focus on treasury & corporate business while the day to day operational side is often ignored. The day to day operations if ignored will pose a serious threat to the growth of banks in the long run.

- **Human Resource Development:** The Banks need to develop their human resources for future challenges and produce professionals having the desired expertise for specialized banking like treasury functions, SME financing and Islamic Banking and the like. This is the need of the hour that banks should develop their own Human Resources.

- **Maintain asset quality:** With the growth of competition by various banks, the biggest challenge lies in maintaining good asset quality. The banks should improve their recover measures and speed up their recovery processes to maintain a healthy portfolio of assets.
➢ **Equity Stock Investment:** Given the volatile nature of the equity markets, the various banks’ investment in equity stocks needs a cautious approach.

➢ **E-Banking:** Another area where still a lot of progress should be made.

Although small and medium banks are now offering on-line services to their customers, the large banks, with more expanded branch network and number of customers, are required to move more expeditiously so as to optimally utilize the E-banking network by educating the customers on the online products and reducing the operational cost at the branch level. The safety in the E-banking process poses a serious threat.

**BANK OF INDIA – THE SELECTED UNIT FOR INVESTIGATION**

The ‘Bank of India’ (BOI) is an Indian State-owned commercial bank with headquarters in Mumbai, Maharashtra, India. It was set up on 7th September, 1906 with an authorized capital of Rs. 10 million divided into 100,000 shares each of Rs. 100. The promoters acquired 55,000 shares privately and issued 45,000 to the public by way of Initial public offering (IPO) on 3rd October, 1906. The bank commenced its operations on 1st November, 1906. It was nationalized in 1969 along with 13 other banks. Bank of India has 4292 branches as on 31st December, 2013, including 54 branches outside India. BOI is a founder member of “Society for worldwide Inter Bank Financial Telecommunications (SWIFT), which facilitates provision of cost-effective financial processing and communication services. The bank has completed its first one hundred years of operation on 7-9-2006, and 108th foundation day in 2013. (Exhibit No.4 in Chapter-IV).

**The following are some of the salient features of Bank of India.**

1. BOI is the first Indian Bank to open its branch outside the country i.e.in London in 1946. It is the first overseas branch established by Indians. The BOI is also the first bank to open its branch in Paris, the capital of France in 1974. The bank will be opening more branches globally. The bank has got approval for opening branches/offices in Bangladesh, Brazil, Canada, New Jersey, Egypt, Madagascar, Myanmar, Qatar and Sri Lanka. The international business accounts for around 28 per cent of bank’s total business.
2. BOI has got a number of accolades and awards to its credit. It was awarded “The Best Bank of Excellence in AADHAR related UIDAI programme of Govt. of India on the hands of the Prime Minister”.

3. The Bank’s In-House Journal “Taarangan” has been conferred with award for Brand Excellence by Asian Confederation of Business during 3rd Asian Leadership Awards 2013, held at Dubai on 24-09-2013.

4. It has introduced a number of schemes specifically designed for Micro & Small Enterprises. Some of the important schemes are
   a) Priyadarshani yojna.
   b) Udyog Suvidha.
   c) Vypar.
   d) Laghu Udyami Samiket and the like.

5. The bank has come out with an ambitious Financial Inclusion plan for 3 years i.e. 2014-2016. 1.25 crore no frill accounts are proposed to be opened in 40,000 villages across the country in a phased manner by 2016.

6. In order to evolve an organization which is Customer-focused and to achieve the business goals which are mostly measured in terms of profit, the goal of the bank has been redesigned with the name “SANKALP-10.000” which aims at a profit of Rs.10,000 crores by March 2015.

7. Recently, the bank has organized centenary celebrations. It is listed in India on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) of India Limited.

**Future Plans of BOI**

BOI is planning to increase its presence in the EU by opening new branches and offering complete financial services to its customers, including guidance for entering the market, availing loans, remittances, and the like. BOI has plans to open a branch in Antwerp (Belgium) to cater to the requirement of diamond merchants, traders and in this segment BOI is a market leader in India. BOI is planning to have 9 branches in the EU to service its customers.

BOI also has plans to enhance its services to Indian companies that are investing in United Kingdom (UK). It has plans to assist them in generating corporate and project finance for their investments abroad. It plans to increase its focus on other
diversified services, apart from banking services such as venture capital, merchant banking and the like. The bank also hopes to leverage IT and develop quality products and services for increasing its reach and gaining competitive advantage.

After critical study and thorough examination of the above facts and figures, the investigator wishes to focus more on Bank of India, with special reference to its financial performance.

**Conclusion**

The financial performance of scheduled commercial banks in general and the Bank of India in particular is the focal theme of the present investigation. For this purpose, the study has been started from the basic things like definition and meaning of a bank, history of evolution of banking, important milestones in the growth of Indian banking, classification of banks, various committees worked on banking industry, structure and functions of the banking industry and the like, are examined in detail. Later the study has focused exclusively on the basic information on the Bank of India as it stood on the forefront of development.