CHAPTER V
CHAPTER - V

PERFORMANCE TRENDS OF THE NATIONALISED COMMERCIAL BANKING IN THE DISTRICT ECONOMY OF BANDA UNDER THE ECONOMIC REFORMS PERIOD

"The advantage of economic growth is not that wealth increases happiness but it increases the range of human close"

- Arther Lewis

5.1 PERFORMANCE OF CREDIT AGENCIES IN BANDA DISTRICT:

The district of Banda is being served by a network of commercial banks, DCCB and RRB. In respect of achievement of financial targets under Annual Credit Plan of 1997-98, the banks put together have achieved 94 percent while it has been reduced to 74 percent in 1998-99 but some banks have very poor achievements ranging between 17 percent to 52 percent and 11 percent to 35 percent in 1997-98 and 1998-99 respectively. Concerted efforts are needed to be initiated by bank to avoid such huge gap in meeting the credit requirements of their respective areas. Further, these efforts are to be balanced up by Government by providing requisite infrastructure support to increase the credit absorption capacity and also aid the recovery of banks, specifically in respect of recovery of RC field cases, so that proper recycling of funds can take place and the banks are in a position to work profitably.

The Commercial Deposit ratio of the district as a whole in 1996,
1997, 1998 and 1999 comes to 39 percent, 36 percent, 37 percent and 37 percent respectively.

The Commercial Deposit ratio of the individual agencies is as under-

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Agencies</th>
<th>CD Ratio (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>31.03.96</td>
</tr>
<tr>
<td>1.</td>
<td>Commercial banks</td>
<td>26</td>
</tr>
<tr>
<td>2.</td>
<td>RRB</td>
<td>39</td>
</tr>
<tr>
<td>3.</td>
<td>Co-operative Banks</td>
<td>45</td>
</tr>
</tbody>
</table>

*Source*: Potential Linked Plan.

The low achievement of some of the commercial banks under the Annual Credit Plan is reflected in the low Commercial Deposit ratio of the Commercial Bank,

To see that the Regional Rural Bank and District Credit Co-operative Bank of the district is able to function viably and effectively so that credit and banking needs of the district are met effectively, development action plans with a long term perspective are being prepared by them and the various performance indicators are being regularly monitored by NABARD and the sponsor bank of RRB. The health and performance of individual agencies is detailed here under.

**Commercial Banks**:

Six commercial banks are working in these district and are having  

28 branches with 17 rural areas and 11 in semi-urban areas. Allahabad Bank being the lead bank has maximum no. of branches at 18 and consequently have advanced the maximum loan and also had maximum amount of deposits. All the banks taken together have shown a deposit growth of 15.56 percent in 1998-99 over 1997 and an advance growth of 14 percent over the same period. The combined recovery performance as on March 1988 was 48 percent. Some one branch banks have slipped quite heavily in achieving the Annual Credit Plan targets. The recovery have shown an increasing trend in last 3 years viz. 48 percent in June 1996 to 48 percent on June 1998.

**Tulsi Gramin Bank**

Tulsi Gramin Bank established on March 26, 1981, has its head office at Banda in Uttar Pradesh. The operational area of the bank covers Banda and Chitrakoot district in Uttar Pradesh. The bank has network of 54 branches in the district with a deposit of Rs. 7763.43 lakh and loans outstanding of 3146.23 lakh. The Commercial Deposit ratio at 40.52 has shown on improvement over last year's achievement of 37 percent. The deposit of the bank has increased by Rs.- 2036 lakh and the advances by Rs. 1113.59 lakh (these figures refer to bank as a whole as District was bifurcated into two in mid 97 and separate figures are available only March 1998). The recovery performance at 40.23 percent requires improvement.

The bank in order to tune up its operations with the aim of attaining viability have been entering into Memorandum of Understanding with its sponsor bank and for the first time during the year 1997-98 obtained
an operating profit of Rs. 193.76 lakh. This has been made possible because of the fact that average return on funds have increased to 9.35 from 8.33 in last year. This miscellaneous income has jumped from 8.44 to 2.56 while transaction and Risk cost have decreased from 5.38 percent and 7.72 percent to 4.10 and nil, respectively. The overall effect has been a phenomenal jump in net margin from (-) 10.81 to (+) 1.81 leading to operating profit. This clearly shows that the bank has strived to come out of the morass, and is on its way to attaining sustainable viability and this shall help in meeting the credit need of the district. In 1997-98 itself the bank has exceeded the loan issued target under Memorandum of Understanding.

**Banda District Central Co-operative Bank :**

The bank is having 18 branches in total and is presently being managed by an administrator. To see that the bank functions on viability consideration it sign Memorandum of Understanding with NABARD and SCB.

Major efforts shall be required on the part of the bank to improve its functioning to attain viability whereby it shall be in position to meet the credit needs of the area in a better way.

**Land Development Bank :**

The district is being served by 3 branches of UP Sahkari Gram Vikas Bank Ltd. The total loans outstanding as on 31.03.1998 stood at Rs. 685.19 lakh. In 1997 it grew @ 11.5 percent over 1996 and in 1998 the growth was 3.6 percent over 1997. The recovery performance could be termed as satisfactory. However the performance
at 52 percent achievement against AAP target requires improvement specifically under loans to agriculture and Allied activities which is its main operations. The performance was specifically poor in comparison to the achievement of Rs. 224.46 lakhs against AAP target of 279.55 lakhs in 1997 end. However, this indicates that bank is capable of meeting the credit needs of the area.

**Other Financial Institutions:**

Some other financial institutions are also operating in the state in addition to the banking institutions and the entrepreneurs of the district can/avail/receive assistance from them. The related institutions are PICUP, which provide financial assistance for industrial projects having outlays of more than 60 lakhs, Uttar Pradesh Financial Corporation providing assistance to SSI/Tiny units for block and working-capital under single window system, KVIC/KVIB have specific focus on Khadi and village industries and provide finance, interest, subsidies, margin money and also training to entrepreneurs, UP Scheduled Castes Finance and Development Corporation, provide finance/training/subsidies/extension services to entrepreneurs from SC/ST communities and UP Minorities Finance and Development Corporation which provides term loans upto a maximum of Rs. 85,000/= @ 6 percent P.A. for entrepreneurs from minorities communities.

**5.2 PERFORMANCE OF BANKING INDUSTRIES:**

On the functioning side, deposit growth of commercial banks has been lower during FY 2002. The aggregate deposits of SCBs increased to Rs. 11.234 billion on March 29, 2002, reflecting an increase of 13.6
percent (year on year) during FY 2002, as compared with 16.2 percent during FY 2001. Deposit mobilisation was higher during FY 2001, because of Rs. 257 billion raised through India Millennium Deposits.

On the asset side, bank credit to the commercial sector increased at a slower rate than the growth in Bank Deposits. Bank credit increased to Rs. 6045 billion on March 29, 2002, reflecting an increase of 14.2 percent (YoY), compared with 16.6 percent (YoY) during FY 2001. The slower growth in bank credit was primarily because of the industrial slowdown. Non-food credit increased to Rs. 4895 billion on March 29, 2002 an increase of 12.4 percent (YoY) by contrast, food credit of Scheduled Commercial Banks increased 37.1 percent (YoY) to Rs. 545 billion on March 29, 2002 in response to the increase in the quantum as well the price of food grains procured. The investment made by Scheduled Commercial Banks government and approved security increased 19.5 percent (YoY) to Rs. 4389 billion on March 29, 2002, compared with a growth of 17.8 percent (YoY) on March 30, 2001. As of end March 2001, bank's holding of SLR securities amounted to Rs. 1060 billion over and above the SLR requirement and was substantially higher than the net annual borrowings of the central government.

Following the announcement of policy measures during FY 2002, these have been a decline in Scheduled Commercial Banks lending and deposits rates. The PLRs of five major PSBs declined between 11 percent per annum and 12 percent per annum on March 2002. The implicit yield on 91 day Treasury Bills declined from 8.50 percent p.a. on March 23, 2001 to 7.04 percent p.a. on July 4, 2001 and 6.05
percent on March 20, 2002. Deposits rates of major banks for more than one year maturity have also declined between 8.5 percent annum and 10 percent p.a. on March 2002 to between 7.5 percent p.a. and 8.5 percent p.a. in March 2002. On balance, term deposits rates across all maturities, were lower in March 2000 than the corresponding levels in March 2001.

5.2.1 RECENT TRENDS IN BANKING INDUSTRY:

In recent years, the banking industry has been undergoing rapid changes, reflecting number of underlying developments. The most significant has been advances in communication and information technology, which have accelerated and broadened dissemination of financial information while lowering the costs of many, financial activities. Second, key impetus for changes has been increasing competition among broad range of domestic and foreign institutions in providing banking and related financial services. Third, financial activities have become larger relative overall economic activities in most economies. This has meant that any disruption of financial markets or financial infrastructure has broaden economic ramifications than might have been the case previously.

These developments have manifold consequences for the institutional and systematic structure of the financial sector in general and banking in particular. The business profile of financial institutions is also undergoing change the service the traditionally associated with banking is being offered by institutions not normally characterised as banks, while banks have gradually made for non banking activities. Merger and
takeover of smaller institutions have led to the emergence of transactional conglomerates offering services ranging from traditional commercial banking to investment banking and insurance.

With increasing globalisation and blurring of distinction between different segments of financial intermediaries, there is a growing recognition that safeguards the health of the financial system is of paramount importance for maintaining financial stability. Not surprisingly, the financial sector especially the banking sector in most emerging economics is passing through a process of change and India is no exception. With the banking sector being the ministry of financial intermediation in emerging economics, developing a sound and healthy banking system through promotion of prudent financial practices is viewed as sine qua non for safeguarding financial stability. The banking sector accounts for over half of the assets of the financial sector and remains dominant in India.

**Branch Expansion:**

The geographical coverage of banking facilities has improved markedly, especially after the nationalisation of 14 major commercial banks in July 1969. Till 1956 the RBI was very cautious in giving licences for new branches. Its major effort was devoted to the consolidation and strengthening of the banking system and not to expansion. Consequently till 1954 there was a continuous decline in the total number of banking offices, mainly due to the amalgamation of smaller banks with the larger banks and closure of the offices of non-scheduled and smaller banks². 1956-61 was a period of slow expansion of banking
offices. The number of banking offices increased from 4067 to only 5012. From July 1962, the RBI followed a systematic programme of branch expansion, encouraging banks to open their offices in semi-urban, rural and other unbanked areas. Under the programme, upto Dec. 1970 the number of banking offices more than double from about 5000 to about 11000. The nationalisation of 14 major banks in July 1969 imparted a new sense of urgency and major impetus to branch expansion in unbanked especially rural and semi-urban, areas expenditiously. One of the major objective of the bank nationalisation has been this kind of expansion of banking facilities in the country. For, the private sector banks all along had hesitated opening bank offices in small centres, as they did not expect such office to be remunerative for several years. Therefore, it was thought that the state must come forward in a big way (through the ownership of banks) to open up the counter side to banking and meet the initial costs involved in the interest of larger social goals of saving promotion and mobilisation and making available institutional credit and remittance facilities even in rural areas, for the growth of agriculture and rural industries. Even since their nationalisation, the SBI group of banks has played an important role in this direction. Since October 1975 the effort has been supplemented by setting up Regional Rural Banks.

Since nationalisation of banks, the number of bank offices has multiplied rapidly from 8300 in July 1969 to more than 62000 at end June, 1995. This has improved substantially the availability of banking facilities in the country. Whereas in 1969 there was only one bank to
serve 65000 population by the end of 1995, were five banks for the
same number of persons.

The picture becomes much more impressive when we look at
the striking increase in the number of bank offices in rural areas from
mere 1860 in July 1969 to more than 47000 in June 1995. Taking rural
and semi urban centres together, the number of bank offices increased
from about 4200 in July 1969 to more than 47000 in June 1994, whereas
the number of bank offices in urban and metropolitan and port towns
increased from 3100 in July 1969 to 8300 in June 1994.

Also, in recent years, there was greater emphasis on extending
banking facilities in deficit districts and in unbanked areas. With the
provision of adequate banking infrastructure through the country,
particularly in rural area, the RBI has given up its old branch licensing
policy and given greater freedom to banks to rationalise their existing
branch network in non-rural areas.

A branch is termed as a good going one if inside it there is
a good working atmosphere. If customers are very much satisfied with
the degree and quality of services rendered to them, the goodwill of
the branches spreads in the operational areas and internal factors are
solely responsible for rating of the branches as quite satisfactory. All
these can only be possible if there is proper team spirit prevailing in
the branch and all concerned are always watchful of the hindrance blocks
which are mainly (i) misutilisation of manpower (ii) absence of proper
work ethics (iii) employees attention (iv) lack of organised approach
to face any situation (v) lack of discipline (vi) lack of appropriate
communication (vii) absence of an effective participative culture (viii)
lack of job satisfaction and motivation and (ix) lack of leadership. In
order to make the goodwill of the branch, the manager, should overcome
the hindrance blocks.

**Deposits:**

Total deposits of the bank grew by 12.7 percent to Rs. 22666
crores on March 31, 2002 from Rs. 20106 as on March 31, 2001.
The share of low cost deposits (Current Account and Saving bank
Accounts) in total deposits improved from 42.0 percent as on March
31, 2001 to 42.3 percent as on March 31, 2002. Improvement customer
services have resulted in increase in the share of low cost deposits
in the overall deposit mix. Mobilisation of low cost resources remained
at the focus of attention of the bank. Cost of deposits declined to

The categorywise break-up of total deposits during last five years
is presented below:

**Table 5.2**

<table>
<thead>
<tr>
<th>Total Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Rs. in crores)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current deposit</td>
<td>1276.49</td>
<td>1503.42</td>
<td>1696.43</td>
<td>1845.60</td>
<td>1871.60</td>
</tr>
<tr>
<td>Saving bank deposits</td>
<td>4260.80</td>
<td>4970.71</td>
<td>5701.18</td>
<td>6603.73</td>
<td>7700.60</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>8003.47</td>
<td>9036.92</td>
<td>10244.50</td>
<td>11656.69</td>
<td>13093.74</td>
</tr>
<tr>
<td>Total</td>
<td>13540.76</td>
<td>15511.05</td>
<td>17642.11</td>
<td>21060.06</td>
<td>222665.94</td>
</tr>
</tbody>
</table>

[134]

Distribution of Deposits:

Deposits from Rural & Semi Urban Populace:

The share of rural and semi-urban branches of Allahabad Bank is 66.89 percent. The bank is focusing in rural and semi urban areas for retail finance. The population group wise breakup of aggregate deposits for the last five years are as given in the table below:

Table 5.3
Distribution of Deposit

<table>
<thead>
<tr>
<th>As on March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>20.77</td>
<td>21.02</td>
<td>21.35</td>
<td>21.79</td>
<td>21.11</td>
</tr>
<tr>
<td>Semi Urban</td>
<td>19.53</td>
<td>19.35</td>
<td>19.81</td>
<td>20.10</td>
<td>20.01</td>
</tr>
<tr>
<td>Urban</td>
<td>29.21</td>
<td>30.03</td>
<td>30.68</td>
<td>30.85</td>
<td>30.83</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>30.48</td>
<td>29.52</td>
<td>28.16</td>
<td>27.27</td>
<td>28.06</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03

Growth of Advances:

The growth of the Bank's advances during the post five years is as follows:
Table 5.4

Growth of the Bank's Advances

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Gross Credit</th>
<th>Annual Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>6293.56</td>
<td>15</td>
</tr>
<tr>
<td>1999</td>
<td>7565.71</td>
<td>20</td>
</tr>
<tr>
<td>2000</td>
<td>8882.87</td>
<td>17</td>
</tr>
<tr>
<td>2001</td>
<td>10316.00</td>
<td>16</td>
</tr>
<tr>
<td>2002</td>
<td>11815.01</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03

Investment Portfolio of Allahabad Bank:

The investment portfolio of the Bank stands at Rs. 10466.26 crores mark as on March 31, 2002. The investment portfolio of the bank as on March 31, 2002 is furnished below:
### Table 5.5

**Investment Portfolio of Allahabad Bank**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Securities</td>
<td>8029.96</td>
</tr>
<tr>
<td>Other Approved Securities</td>
<td>689.46</td>
</tr>
<tr>
<td>Shares</td>
<td>107.05</td>
</tr>
<tr>
<td>Debentures and Bonds</td>
<td>1427.24</td>
</tr>
<tr>
<td>Subsidiaries and joint ventures</td>
<td>87.62</td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
<tr>
<td>Initial Capital/Units of UTI</td>
<td>85.42</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>39.51</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10466.26</strong></td>
</tr>
</tbody>
</table>

**Source**: Allahabad Bank Offer Document 2002-03

With the introduction of prudential norms, deregulation of interest rates and capital adequacy measures, there has been a gradual shift of focus to investment activities. Accordingly, the investment portfolio of the Bank has increased steadily over the years. A large proportion (more than 83 percent) of the Banks total investment is held in government and other approved securities.

Bank has been able to maintain a fairly consistent portfolio yield by changing portfolio mix by regular churning without changing the portfolio risk.
Investment Strategy:

Bank has formulated a comprehensive policy for dealing in rupees derivative products like Forward Rate Agreement and Interest Rate Swaps, in terms of RBI guidelines, in order to hedge interest rate risk arising on account of lending or borrowing made at fixed/variable interest rates.

The break-up of the bank's investment is given below. As per RBI guidelines investments are classified into three categories, viz. Held Till Maturity, Available For Sale and Held For Trading from FY 2000-2001. Recapitalisation bonds amounting to Rs. 777.53 crores and subsidiary and Joint Ventures amounting to Rs. 87.62 crores are not considered while calculating the percentage of Held Till Maturity Securities to total investments.
Table 5.6

Break-up of The Bank's Investment

(Rs. in crores)

<table>
<thead>
<tr>
<th>Investment</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>As on March 31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Investments</td>
<td>6483.57</td>
<td>7174.57</td>
<td>8269.38</td>
<td>8789.90</td>
<td>10466.26</td>
</tr>
<tr>
<td>SLR</td>
<td>4473.09</td>
<td>5141.24</td>
<td>6166.62</td>
<td>6692.26</td>
<td>7798.45</td>
</tr>
<tr>
<td>Investment Held till maturity (HTM)</td>
<td></td>
<td></td>
<td></td>
<td>2429.38</td>
<td>2756.59</td>
</tr>
<tr>
<td>Available for sale</td>
<td></td>
<td></td>
<td></td>
<td>6318.38</td>
<td>7687.83</td>
</tr>
<tr>
<td>Held for Trading</td>
<td></td>
<td></td>
<td></td>
<td>42.14</td>
<td>26.76</td>
</tr>
<tr>
<td>Percent of HTM to entire portfolio</td>
<td></td>
<td></td>
<td></td>
<td>17.80</td>
<td>18.07</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

In order to cash in on the trading opportunities, the bank during the last two years has increased its activities in secondary market operations particularly in Government securities and in debenture and Bond portfolio. Secondary market turnover and profit have been a quantum jump in recent months. During the Financial Year 2001-02, Bank earned a trading profit (excluding profit on redemption) or Rs. 198.66 crore as compared to Rs. 43.39 crore for the financial year 2000-2001. The aggregate book value of investment in shares was Rs. 107.05 crores as on March 31, 2002. The market value of such investment was Rs. 98.53 crores as per RBI guidelines. The bank has
fully provided for the decline in the value of such investments.

The Non performing investment have been identifid as per RBI guidelins and the provision has been made for the entire amount for FY 2001-02.

**Yield on Investments:**

The yield on investments (percent) for the last five years are given below:

<table>
<thead>
<tr>
<th>Table 5.7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yield on Investment</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As on March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>The yield on investment</td>
<td>10.99</td>
<td>11.19</td>
<td>11.11</td>
<td>11.04</td>
<td>10.59</td>
</tr>
</tbody>
</table>

(Percent)


5.3 **ASSETS CLASSIFICATION, INCOME RECOGNITION PROVISIONING:**

5.3.1 **REGULATORY POSITION:**

In keeping with RBI guidelines on assets classification, income recognition and provisiong, the bank has adopted the system of classifying the advances under 4 categories.
Table 5.8
Segregation of Advances

<table>
<thead>
<tr>
<th>Category</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performing</td>
<td>An assets which has not posed any problem and which does not carry more than the normal business risk.</td>
</tr>
<tr>
<td>Standard Assets</td>
<td></td>
</tr>
<tr>
<td>2. Non-performing</td>
<td></td>
</tr>
<tr>
<td>a) Sub-standard</td>
<td>An asset which has been non performing Assets for a period less than or equal to eighteen months.</td>
</tr>
<tr>
<td>b) Doubtful Assets</td>
<td>An asset which has been non-performing for a period exceeding eighteen months.</td>
</tr>
<tr>
<td>c) Loan Assets</td>
<td>Asset where loss has been identified by the bank or auditors/RBI. The value of security is less than 10 percent.</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

For this purpose, all advances are segregate into performing assets (standard assets) and non-performing assets. A borrowal account is classified as Non-performing Assets when interest and/or instalment is due for more than 180 days. Borrowal accounts treated as Non-performing Assets for not exceeding one and half year are classified as sub standard assets and borrowal accounts treated as NPA for more than one and half years are treated as doubtful assets. NPAs where securities are less than 10 percent and which are considered irrecoverable
area treated as loss assets. When an account is classified as Non-performing Assets, interest already debited to the account but not realised, is derecognised and further interest accrued is collected on cash basis.

Provisions are arrived on all outstanding Non-performing Assets as under:

a) Sub standard assets at 10 percent of the outstanding.

b) Doubtful Assets at 20 percent or 30 percent or 50 percent of the secured position based on the number of years the account remained as "doubtful assets" (i.e. upto one year, one to three years and more than three years respectively) and at 100 percent of the unsecured portion of the outstanding after netting retainable on realisable amount of the guarantee claims already received/lodged with DICGC/ECGS, if any.

c) Loss Assets at 100 percent of the outstanding after netting retainable amount of the guarantee claims already received/lodged with DICGC/ECGC if any.

The assets quality of the bank has improved considerably during the last seven years. Between 1994-95 to 2001-02, Gross NPA to Gross NPA to Gross Advances dropped from 26.91 percent to 16.94 percent while net NPA to Net Advances fall from 19.28 percent to 10.57 percent.

5.3.2 GENERAL DATA ON NON-PERFORMING ASSETS:

The details of Non-performing Assets of the Bank are furnished in various tables below:
Table 5.9

Net Non-performing Assets

(Rs. in crores)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>As on March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Gross NPA at the beginning of the yr.</td>
<td>1520.11</td>
</tr>
<tr>
<td>Addition during the year</td>
<td>434.35</td>
</tr>
<tr>
<td>Reduction during the year</td>
<td>260.30</td>
</tr>
<tr>
<td>a) Upgradation</td>
<td>35.90</td>
</tr>
<tr>
<td>b) Cash recovery</td>
<td>86.21</td>
</tr>
<tr>
<td>c) Compromise</td>
<td>42.63</td>
</tr>
<tr>
<td>d) Write off</td>
<td>95.56</td>
</tr>
<tr>
<td>Gross NPA at the end of the year</td>
<td>1694.16</td>
</tr>
<tr>
<td>Provision</td>
<td>642.81</td>
</tr>
<tr>
<td>Interest Suspense</td>
<td>14.35</td>
</tr>
<tr>
<td>DICGC/ECGC Balance</td>
<td>34.22</td>
</tr>
<tr>
<td>Net NPA at the end of the year</td>
<td>1002.78</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.
Table 5.10

Net Non-performing Assets to Net Advances

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>As on March 31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Advances</td>
<td>6294.85</td>
<td>7565.71</td>
<td>8882.87</td>
<td>10315.76</td>
<td>11815.01</td>
</tr>
<tr>
<td>Gross NPAs</td>
<td>1458.93</td>
<td>1520.11</td>
<td>1694.16</td>
<td>1821.31</td>
<td>2001.85</td>
</tr>
<tr>
<td>Gross NPAs, to</td>
<td>23.18</td>
<td>20.09</td>
<td>19.07</td>
<td>17.66</td>
<td>16.94</td>
</tr>
<tr>
<td>Gross Advances (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Advances</td>
<td>5695.28</td>
<td>6912.40</td>
<td>8191.49</td>
<td>9569.10</td>
<td>10973.32</td>
</tr>
<tr>
<td>Net NPAs</td>
<td>859.36</td>
<td>866.80</td>
<td>1002.78</td>
<td>1074.65</td>
<td>1160.21</td>
</tr>
<tr>
<td>Net NPA to</td>
<td>15.09</td>
<td>12.54</td>
<td>12.24</td>
<td>11.23</td>
<td>10.57</td>
</tr>
<tr>
<td>Net Advances (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

5.3.3 NON-PERFORMING ASSETS MANAGEMENT STRATEGY:

# The Bank has set up committees at Head Office and Regional Office to guide the NPA management efforts of the bank.

# The recovery and upgradation efforts are executed through a separate Recovery and Rehabilitation department.

# An elaborate strategy has been drawn up and implemented by the bank for reduction of NPAs.

# Credit monitoring system has been revamped.

# High value NAPs are reviewed individually.

# High incidence NPAs areas are directly monitored by the General Managers at H.O.
An incentive scheme has been launched to better the NPA recovery.

Best use of new ordinance to recover bank's dues.

**Five point short term strategies**:

All potential NPA accounts must be critically reviewed and monitored so as to sustain them as performing assets.

All potential performing assets accounts where upgradation or cash recovery is possible should be followed up vigourously.

Emphatic stress should be given on all compromise settled cases for recovery of dues as per agreed terms.

Execution of decrees and recovery thereof should be ensured.

All recovery proceedings before Debt Recovery Tribunal should be followed up for recovery of dues expeditiously.

**Eleven Point Long Term Strategies**:

Tight fencing of fresh addition.

Identify potential Non-performing Assets accounts (Special Mentioned Account)

Tackle sub-standard accounts top priority basis.

Meet each and every Non-performing Assets borrowers.

Settlement effort for each Non-performing Assets account.

Make full use of compromise committee at

a) Regional offices.

b) ELBs/VLBs
# Full use of High Power Head Office Compromise Committee.
# Separate Strategy for suit filed cases.
# Strategy for decreed cases.
# Strategy for rural branches- recovery camp, settlement camp, effective use of NPWD.
# Strong monitoring by Regional Heads.

5.4 PROFITABILITY:

Profitability of banks was not given due importance till 1969. It was given due importance only after nationalisation of banks in 1969. After nationalisation of banks in 1969, the performance of the Public Sector Banks (PSBs) has been spectacular in the spheres of deposit mobilisation, branch expansion and providing credit to hitherto neglected sectors of the economy. The PSBs have also played pivotal role in advancing the national economy by creating employment opportunities and broadening the base of income distribution. Banks had to play development role till the financial sector reforms were put in place.

Profitability performance, therefore was at the back seat. However, after setting in motion the banking sector reforms, the profitability performance is now on the front seat. The emphasis has shifted from development or social banking to commercial viable banking. All banking operations gradually are being measured in terms of their ability to generate profits.

The profitability has now becomes the buzz word in the banking industry. It has to be recognised that the profitability of public sector banks cannot be judged entirely by the normal criteria. Banks in India
have to operate under several constraints dictated by wider socio-economic objectives. There is, firstly, the administered interest rate structure with relatively low interest rates for preferred sectors which account for an increasing proportion of bank lending. Superimposed on this are the statutory liquidity requirement which is at present 25 percent of total demand and time liabilities and a high cash reserve requirement which was 5 percent. In 2002-03 the cash reserve ratio has been reduced by 0.25 percentage point that is, it has been reduced to 4.75 percent due to compulsion of monetary policy. Besides there are preemptions of use of credit like that for public procurement and distribution of food grains. As a result only nominal percent of the new resources raised by banks is available for lending on what may be termed as commercial rates of interest. Indian banks are also under capitalised. Operating costs are high on account of their speedy geographical spreads and the shift to retail, mass lending. The Reserve Bank and the Government are conscious of these constraints and have taken several measures to help improve bank profitability.

The Narsimham Committee on the FSR had observed that massive and very fast expansion of branches, particularly in rural areas eroded the profitability of banks, as many of these branches were unremunerative.

The question comes to the mind is whether profits assessed at the branch level are any way correct and let us first of all, try to find out answer to this question.

In USA and other developing countries where unit banking system is in vogue, branches (if any) of the bank function as an independent
unit while under branch banking system which exist in India each branch and corporate office are interdependent so far as the profitabiliity performance of the branch/bank is concerned. Hence performance of the bank. It is therefore, necessary to have a mechanism for properly measuring the performance of a branch.

Banks need to made special efforts to improve their profitability. They must enhance cost consciousness at all levels and raise productivity substantially\textsuperscript{6}. The commonly adopted criterion of business in nominal terms per employee is evidently an inadequate way of looking at productivity as is does not take into account the impact of inflation on nominal increase in business and the cost per employee. Similarly TPM system in our country and in most of other countries world wide is being used for assessing profits at branch level.

It is observed that TPM as practiced now is not capable of assessing profit/loss at the branch level in transparent manner. Profits of the branch, arrived at through TPM system, includes subsidy at higher level.

More refined and stringent criteria need to be employed. The recently evolved Branch Licensing Policy should also help contain expenditure and improve productivity. The increasing incidence of non-performing assets is a serious drag and calls for effective remedies. Quality of bank assets, present and future must be upgraded. Banks could also, within reasonable limits, increase their non-fund business. Needless to say that they are entitled to levy appropriate charges on the service rendered by them. Improved cash management and
safeguards against revenue leakage need greater attention. Banks could also examine the scope from rationalisation of loss making branches consistent with the need for providing adequate services to the relevant localities.

5.4.1 RATIO ANALYSIS:

Ratio analysis may help the management in taking fair and quick decisions for planning, controlling and monitoring the branch working because through ratio analysis technique, operational efficiency, commercial viability and managerial competency of a branch may be judged. These are some ratios, which portray the picture about utilisation of human resources at the branch, and there are some other ratios, which reflect the position about prudent utilisation of funds. There are also many ratios through which overall profitability performance of a branch may be analysed but it is important to choose proper ratios. To start with, the following ratios are being recommended for measuring the profitability performance of a branch.

Hence it is pertinent to mention that banks may continue to assess profit/loss at the branch level through TPM system but for measuring the profitability performance, ratio analysis model may be introduced because ratio analysis may prove to be very useful tool in the hands of the management for measuring the profitability performance of a branch.

1) Gross Profit as Percentage of Average Working Funds:

This ratio may be worked out as under:
\[
\frac{\text{Gross Profit}}{\text{Average Working Funds}} \times 100
\]

This ratio indicates profit of a branch in relation to the average working funds. Even though the gross profit of a branch in absolute terms may be increasing but in terms of percentage to average working funds it may be decreasing. This ratio will indicate whether the funds of the branch are being used with prudence and whether the branch is able to maintain the profitability in relation to growth in average working funds. Otherwise, it gives a clear indication that profit margin in the branch, is on decline and suitable measures are required to be taken to arrest the downward trend in the profitability performance of the branch.

2. **Operating Expenses as percentage of Average Business**:

   This ratio may be worked out as under:
   
   \[
   \frac{\text{Operating Expenses}}{\text{Average Weekly business}} \times 100
   \]
   
   (Deposits + Advances)

   This ratio used for finding out whether the operating expenses of the branch are increasing/decreasing in proportion to the growth in the average business. If the ratio indicates increasing trend, efforts must be made to increase average business. Detailed analysis of this ratio will enable the branch to find to find out reasons for higher increase in operating expenses as compared to increase in average business.

3. **Non-Interest Income as Percentage of Average Business**:

   This ratio may be worked out as under:
\[
\frac{\text{Non-interest income}}{\text{Average weekly business}} \times 100
\]

(Deposit + advances)

This ratio will indicate the extent of income from non-fund based business of the Branch. When advances in a branch are showing increasing trend, non-interest income at the branch should also increase. If this not happening it means the borrower is diverting its miscellaneous business to some other bank. This trend must be arrested. A low ratio will indicate that the branch is mainly depending on interest income for its profitability performance. This ratio should show increasing trend.

4. \textbf{Yield on Advances:}

This ratio may be worked out as under:

\[
\frac{\text{Interest on advances}}{\text{Average weekly advances}} \times 100
\]

The ratio can be used to find out the quality of assets at the branch level. If NPA level is high, yield on advances would be very low. Awareness at the branch level may prompt branches (i) to sanction high yielding advances and (ii) to initiate suitable action for improving the quality of advances.

5. \textbf{Cost of Deposits:}

This ratio may be worked out as under:

\[
\frac{\text{Interest on deposits}}{\text{Average weekly deposits}} \times 100
\]

Branches should mobilise low cost deposits. Staff members at the branch level should know about the cost of deposits at their branch, this will create awareness among them and will encourage them to
mobilise low cost deposits. Lower cost of deposits will help in improving the bottom line of the bank.

6. **Non performing Advances as Percentage of Total Advances**:

This ratio may be worked out as under:

\[
\frac{\text{Average non-performing advances}}{\text{Average weekly advances}} \times 100
\]

Recently, this ratio has gained much importance as NPAs one affecting the bottomline of most of the banks. As at the end of March 2001, there were NPAs of Rs. 63883 crore. All out efforts must be made to reduce the level of NPAs at the branch.

7. **Interest Spread**:

Interest spread = Interest income - interest expenses.

Interest spread is calculated by deducting interest expenses from interest income. Higher interest spread is good sign for a branch. Mobilisation of low-cost deposits, sanction of high yielding advances with adequate security and reduction in non-performing advances may result in improvement in the interest spread. Higher interest spread indicates prudent deployment of funds at the branch level.

8. **Burden Ratio**:

Burden Ratio = Non interest expenses - non interest income.

Burden ratio is calculated by deducting non-interest income from non-interest expenses. Income from non-fund based business is very low in our country. Most of the branches, therefore, have very heavy burden ratio. Increase in non-interest income, reduction in non-interest expenses, introduction of new technology for improving operational
efficiency and observing strict cost control at the branch level will result in improved burden ratio. Reasons for movements in burden ratio should be analysed carefully.

9. **Per Employee Establishment Expenses**:

This ratio may be worked out as under:

\[
\frac{\text{Total establishment expenses}}{\text{Number of employees}}
\]

This ratio is used for making comparison of per employee establishment expenses among branches. If this ratio is very high, efforts should be made to control the cost by redeployment of staff.

10. **Per Employee Average Business**:

This ratio may be worked out as under:

\[
\text{Average weekly business} = \frac{(\text{Deposits + advances}) \times 100}{\text{Number of staff members}}
\]

This ratio will indicate productivity of the employee. Comparison of productivity may be made among branches through this ratio. If productivity at certain branches is low as compared to the Bank level productivity, efforts should be made to improve the level of business of staff should be redeployed at these branches. Generally, productivity at computerised branches will be at higher level as compared to that at non-computerised branches.

**NOTES & REFERENCES**


3. Mishra, Jagnath, "Manager Branch and Human Resource

