CHAPTER - II

INDIAN BANKING INDUSTRY

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2.1. BANKING THROUGH THE DECADES

In the post-Independence era banking has seen momentous changes, has been an instrument of even political changes and at times, a mute witness to the events that passed by. Here is an attempt to identify certain highs and lows in the field of banking after Independence.

The Fifties

The thrust during the first decade after independence was on branch expansion and rural credit. To veer around a reluctant Imperial Bank of India to start more branches, the Reserve Bank of India agreed to meet the losses of unremunerative branches beyond an agreed figure, out of the dividends payable to it. For this purpose an 'Integration and Development Fund' was instituted. On rural credit, it was rightly thought that the farmers should have access to adequate storage, warehousing and marketing facilities. Financing small scale sector was another big step during this decade. Measures to devise methods for financing SSI sector were being formulated. There was also a shift in the lending method in that, from the concept of security of property to be the sole criteria for lending, capacity to produce and sell formed the basis. The RBI took control of the Imperial Bank of India on December 20, 1954 and the State Bank of India Act was passed in May 1955.

The Sixties

The early Sixties saw a sharp decline in the financing of textiles and sugar industries. However exports attracted attention. This was also the period of Chinese aggression. Credit was channelled to vulnerable areas like foodgrain distribution and in manufacture of goods and equipment required for defence. The country saw the coming in of the Unit Trust of India and the Export and Credit Guarantee Corporation. Seventyfive percent of available credit was
seen to go to the industrial sector and a survey made during that period indicated that 99 percent of total number of advances were less than Rs. 5 lakhs each. Establishing branches overseas and increasing participation in forex business also became a practice. From traditional industries, banks shifted to finance industries such as chemicals, cement, and heavy engineering. The year 1969 saw a Banking Commission being appointed to recommend changes in structure, procedure and policy of the Indian banking system. Another mega event of this year was the nationalisation of 14 major banks.

The Seventies

The banking industry saw the necessity for offering merchant banking services to help the capital formation and therefore entered this area as well. A better capital base was required to fund acquisition of fixed assets, to absorb development costs (an euphemism for bad debts in priority sector lending) and to attract the attention of discerning foreign institutional investors and lenders from abroad. With first generation entrepreneurs coming in large numbers, there was a necessity to fund such ventures. The R.S. Bhatt Committee recommended a fund to provide such finance. Industrial Finance Corporation of India started the risk capital foundation to serve the said objective. Bankers felt that such entrepreneurs needed management/technical support as well and therefore formed technical cells to assist such entrepreneurs. The “Teller” system also came into practice during this decade. The year 1975 saw Regional Rural Banks being established to augment efforts on agricultural financing. Compared to commercial banks their costs were expected to be low and being drawn from the local milieu, were expected to respond to the local needs far better. Integrated Rural Development caught the banker’s imagination which included irrigation, storage facilities, housing, gobargas plants, fair price shops, drinking water, education and primary health centres.
The Eighties

As of June 1983, advances to agriculture by nationalised banks stood at Rs. 5,356 crores against Rs. 188 crores in June 1969. The recovery percentage stood at around 50 percent in this sector which was a cause for concern. The reasons, of course were partly the droughts and floods but more importantly the ineffective follow-up, poor supervision, wilful defaults and inadequate legal support. To assist in speedier clearance, technology was also tapped with the introduction of MICR, (Magnetic Ink Character Reader) cheques. The Board for Industrial and Financial Reconstruction in terms of Sick Industrial Companies (Special Provision) Act 1985 was formed with a view to securing the timely detection of sick and potentially sick companies owning undertakings and to identify and implement speedy, ameliorative remedial measures. Sadly the provisions of SICA were misused. Clever corporates to ward off winding up petitions and other legal cases pending against them, registered themselves with BIFR, so as to take shelter under Section 22 of SICA, which provided a protective umbrella against those cases during the period of such registration. The coming in of NABARD (National Bank for Agriculture and Rural Development) was meant to focus attention on rural credit.

To improve profits, banks also started certain unhealthy practices under the garb of portfolio management schemes. Funds were accepted from clients with an assurance of a return higher than that on deposits with the attendant risks being borne by the banks. Rewards did not accompany risks. The RBI had to step in to put an end to this obnoxious practice which favoured a few. Some banks floated mutual funds to mop up funds to be deployed in the capital market.

The Nineties

Nineties was the most important decade of all for Indian Banking as this
decade initiated banking sector reforms which completely changed the face and future of Indian Banking. This decade should more appropriately be referred to as Narasimham decade, after name of a personality who was the brain behind these reforms. Interest rates were liberalised with market forces determining the call money rates. Two instruments-certificate of deposit and commercial paper made their entry. Simultaneously. The UTI and other mutual funds became active players in the market. The banking industry itself experienced stiff competition from foreign banks. Strong corporates took the commercial paper route to raise short term loans reducing their dependence on banks further. The household sector too displayed a penchant for the capital market-the proportion of bank deposits in the gross financial savings of the household sector declined from 45.8 percent in 1980-81 to nearly 36 percent at the end of the Eighties.

The system was heating fast with the entry of new players and the bubble ultimately burst with a securities scam requiring sizeable provisions to meet losses. As an aftermath of the securities scam, the industry went into the usual routine of soul searching through the Janakiraman Committee and Joint Parliamentary Committee reports. New private sector banks were licensed for business. A few major investment banks abroad were permitted to set up wholly owned subsidiaries. The banking scene witnessed a large number of players competing with one another. The new entrants had the advantage of starting with strong capitalisation, modern technology, lean network and a great wisdom to avoid pitfalls gained from the experience of other banks. Technology upgradation in the form of RABMN (Remote Area Business Message Network) and BANKNET network came to be introduced. Banks started disclosing their accounting policies as a first step towards reporting transparency. Capital adequacy standards set by the Bank for International Settlements (BIS) became relevant. Advances were graded as per their performance and income was accounted almost receipt based,
bringing in a touch of reality to the profits. Banks switched to the liberalised exchange rate management system (LERMS) and, for electronic funds transfer, joined the Society for Worldwide Interbank Financial Telecommunication (SWIFT). To combat NPAs, debt recovery tribunals made their appearance and to meet capital adequacy standards banks started coming to the public. The weak ones were infused with funds from the government. Interest rates got deregulated with the RBI abolishing the minimum lending rate allowing each bank to determine its own prime lending rate. Banks were allowed to increase their product range-leasing, hire purchase, housing finance, direct investment in shares and bonds-all become possible. The RBI unleashed a second set of norms bringing in the process of a stricter regime of capital adequacy and provisioning. To effectively manage interest risks and asset-liability mismatches, asset liability management assumed importance. The intense competition, thinning margins, increasing wage bill did made banks look for larger volume, fee-based income, and a different product range.

Banking has changed now-agricultural financing is no longer confined to a crop loan; hitech agricultural activities like ultra high density farming, greenhouse floriculture, genetic engineering, tissue culture, hybrid seed production, bio-fertilizers, and superior scientific livestock breeding have become the thrust areas; in the industrial sector, heavy engineering, cement and steel have become passe; IT, education and entertainment industries have become the targets: investments no longer mean shares and bonds, derivatives rule the scene. One thing is for sure-the present Banking Regulations Act 1949 would be consigned to the dust bin in this decade. The dividing lines between banks, FIs, insurance companies and NBFCs would become more and more blurred, giving way for universal banking.
2.2. BANK CREDIT TO INDUSTRY

Infrastructure plays a crucial role in the development of any economy. Among the infrastructure, banks occupy a prominent place as they provide the essential finance which lubricates well the wheels of development credit, which is the king pin of industrialisation, way of economy's progress as a whole and without it the economy either grinds to a halt or moves very slowly. As such, economic development has been accompanied by an increase in the use of credit. Credit has facilitated the mobilisation and expansion of real capital by permitting the transfer of purchasing power from savers to investors. In a planned economy, bank credit constitutes an important component of resources. And economy to a large extent is based upon industrial sector. Therefore, this makes for a significant interrelation between bank credit and industrial growth of any economy. However, the role of bank credit has received little attention, whenever industrial situation is analysed in the past. This is because of the general view that the growth of bank credit is more a consequence of industrial growth than its cause. Besides, it is argued that industry's dependence on bank credit is declining due to such factors as disintermediation, availability of funds from other sources including external borrowing, profit retention and access to capital market. In order words, bank credit is a dependent variable and its role is marginal in the revival of industrial growth. The question is how valid is this approach?

The relationship between credit and growth especially industrial growth is symbiotic. There is a correlation between growth in bank credit and economic growth though it is not statistically quantified through systematic and elaborate studies. The more relevant aspect of the correlation is the credit elasticity of industrial growth, that is, increase in industrial production for a given increase in bank credit. The responsiveness of industrial growth to changes in bank credit is clear and positive through quantitative analysis.
Trends in Industrial Production

With the introduction of economic reforms in 1991, the industrial sector was freed from all controls and regulations. The objective was to speed up industrial growth by creating additional capacity through investment and by enhancing utilisation of the existing capacity. This was achieved to a great extent in the early years of reform. However this share could not be maintained in subsequent years with rate of growth of industrial sector decelerating considerably in previous four years. The decline in industrial output reflects the declining trend in general economic activity in the last three years, as a result of adverse developments such as lower rate of agricultural growth, slackening aggregate demand, falling export growth, and inadequate availability of financial resources. The single dominant factor in the situation is the decline, in aggregate demand, the main components of which are investment, consumption and exports, all of which witnessed a negative growth rate. Another development contributing to the decline in industrial growth is that several industries have been subject to competitive pressure from imports. Low tariffs and unrestricted entry facilitated free flow of imports into the country to compete with domestic products. The competition is in the form of low import prices, that is, virtual dumping.

Trends in Bank Credit to Industry

The flow of bank credit to industry has been declining for the past two years and more. The growth of bank credit to industry decelerated to 10.5% in 2000-2001 against 12.9% in the previous year. The deceleration was even sharper in case of credit to wholesale trade aggregate credit off take by the wholesale traders increased by just about 6.1% in 2000-2001 as compared to 20.4% in 1999-2000. Though periodic and seasonal fluctuations are not unfamiliar, the downswing in credit flow this time is indeed prolonged and looks like continuing. No doubt, as mentioned above, lack of demand for credit and depressed
conditions in the export sector, have contributed in a large measure to the
decline in flow of bank credit to industry. But to lay the blame entirely on these
factors for the low off take of credit is not realistic. One general impression that
needs to be dispelled is the role of disintermediation, that is, borrowers resorting
to alternative sources of funds both internal and external. This is not very
convincing. Only high-rated companies can raise funds from the capital market
and such companies are not many. Also, this source has virtually dried up
given the sluggishness of the capital market. Besides, no corporate would sever
its links with its bank in the name of disintermediation because given the
volatility in money and capital markets, the bank is the source to fall back
upon.

However the fact remains that there has been a steep decline in the dependence
of enterprise on bank credit and this shortfall is made up to a large extent by an
increase in other borrowings, bulk of it consisting of borrowings from financial
institutions and public deposits. The steep decline in the share of bank credit is
more the result of conditionalities, complex rules, higher cost of credit and
bureaucratic delays on the part of banks.

Suggestions to Augment Bank Credit to Industry

To increase bank credit the most important step is to reorient the methods and
practices, thinking and attitude of banks towards lending to industry, by
following ways:

(a) The banking environment has become highly competitive in terms of sources
of funds, new products and services. Bank credit market is no longer a seller's
market. Banks will have to be more 'outgoing' in search of new clients and new
avenues for lending. The client needs are changing. Marketing of bank credit is
important for banks.
(b) There is need for changing present methods of assessing credit needs and techniques of lending. The emphasis of lending has shifted over the years to security based and to need based from person-based. Now lending should become activity-based, information-based and technology-based.

(c) Bank lending is biased too much in favour of large corporates. They become a drag on banks' resources, divert funds for other purposes and contribute substantially to NPAs. The banks neglect small/medium enterprises, which are growth sectors and which contribute to value addition, to exports and employment. It is this group which suffers for want of adequate credit at reasonable rates of interest. These enterprises deserve much greater attention from banks.

(d) Banks have to evolve strategies for credit policy, keeping in view the medium and long-term perspectives; suitable organisational structures have to be designed for handling credit to industry. There are problems in the area of systems beginning from credit appraisal to follow-up which contribute to poor quality of credit, delays in decision-making and NPAs. The entire credit appraisal mechanism has to be revamped and the credit appraisal skill needs to be enhanced urgently.

(e) Increasing liquidity of the banking system is not enough. Banks must be made to increase their lending at reasonable rates of interest. Lending rates should not become instruments for protecting banks' spreads or for compensating the banks for the loss of income on their NPAs.
<table>
<thead>
<tr>
<th>Industry (Total of Small, Medium and Large Scale)</th>
<th>2003</th>
<th>2005</th>
<th>2005</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>1114</td>
<td>1126</td>
<td>1034</td>
<td>12</td>
<td>-92</td>
</tr>
<tr>
<td>Mining</td>
<td>1360</td>
<td>1240</td>
<td>1303</td>
<td>-120</td>
<td>63</td>
</tr>
<tr>
<td>Iron &amp; steel</td>
<td>18291</td>
<td>18799</td>
<td>19406</td>
<td>508</td>
<td>607</td>
</tr>
<tr>
<td>Other Metals and Metal Products</td>
<td>5918</td>
<td>6294</td>
<td>6351</td>
<td>376</td>
<td>57</td>
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<tr>
<td>All Engineering of which: Electronics</td>
<td>21513</td>
<td>23069</td>
<td>23397</td>
<td>1556</td>
<td>328</td>
</tr>
<tr>
<td>Electricity</td>
<td>6813</td>
<td>7438</td>
<td>8590</td>
<td>625</td>
<td>1152</td>
</tr>
<tr>
<td>Cotton Textiles</td>
<td>10430</td>
<td>11682</td>
<td>13244</td>
<td>1252</td>
<td>1562</td>
</tr>
<tr>
<td>Jute Textiles</td>
<td>844</td>
<td>894</td>
<td>844</td>
<td>50</td>
<td>-50</td>
</tr>
<tr>
<td>Other Textiles</td>
<td>12000</td>
<td>13003</td>
<td>12012</td>
<td>1003</td>
<td>-991</td>
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<tr>
<td>Sugar</td>
<td>3338</td>
<td>3832</td>
<td>4682</td>
<td>494</td>
<td>850</td>
</tr>
<tr>
<td>Tea</td>
<td>825</td>
<td>1034</td>
<td>1058</td>
<td>209</td>
<td>24</td>
</tr>
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<td>Food Processing</td>
<td>4750</td>
<td>5986</td>
<td>6354</td>
<td>1236</td>
<td>368</td>
</tr>
<tr>
<td>Vegetables Oils &amp; Vanspati</td>
<td>2710</td>
<td>2958</td>
<td>2876</td>
<td>248</td>
<td>-82</td>
</tr>
<tr>
<td>Tobacco and Tobacco Products</td>
<td>1005</td>
<td>993</td>
<td>963</td>
<td>-12</td>
<td>-30</td>
</tr>
<tr>
<td>Paper and Paper Products</td>
<td>2936</td>
<td>3143</td>
<td>3468</td>
<td>205</td>
<td>325</td>
</tr>
<tr>
<td>Rubber and Rubber Products</td>
<td>2014</td>
<td>2063</td>
<td>2195</td>
<td>49</td>
<td>132</td>
</tr>
<tr>
<td>Chemicals, Dyes, Paints etc. of which</td>
<td>19929</td>
<td>23440</td>
<td>24065</td>
<td>3511</td>
<td>625</td>
</tr>
<tr>
<td>i) Fertilizers</td>
<td>3577</td>
<td>4577</td>
<td>5233</td>
<td>1000</td>
<td>656</td>
</tr>
<tr>
<td>ii) Petrochemicals</td>
<td>4748</td>
<td>6185</td>
<td>6115</td>
<td>1437</td>
<td>-70</td>
</tr>
<tr>
<td>iii) Drugs &amp; Pharma</td>
<td>5223</td>
<td>5693</td>
<td>5489</td>
<td>370</td>
<td>-304</td>
</tr>
<tr>
<td>Cement</td>
<td>2746</td>
<td>3624</td>
<td>3842</td>
<td>878</td>
<td>218</td>
</tr>
<tr>
<td>Leather and Leather Products</td>
<td>2542</td>
<td>2664</td>
<td>2764</td>
<td>122</td>
<td>100</td>
</tr>
<tr>
<td>Gems and Jewellery</td>
<td>4124</td>
<td>5406</td>
<td>6581</td>
<td>1282</td>
<td>1175</td>
</tr>
<tr>
<td>Construction</td>
<td>2569</td>
<td>2736</td>
<td>3175</td>
<td>167</td>
<td>439</td>
</tr>
<tr>
<td>Petroleum</td>
<td>5516</td>
<td>8969</td>
<td>11572</td>
<td>3453</td>
<td>2603</td>
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<tr>
<td>Automobiles</td>
<td>3128</td>
<td>4028</td>
<td>4409</td>
<td>900</td>
<td>381</td>
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<tr>
<td>Computer Softwares</td>
<td>747</td>
<td>1022</td>
<td>1223</td>
<td>275</td>
<td>201</td>
</tr>
<tr>
<td>Infrastructures of which</td>
<td>5945</td>
<td>7243</td>
<td>11349</td>
<td>1298</td>
<td>4106</td>
</tr>
<tr>
<td>i) Power</td>
<td>2109</td>
<td>3289</td>
<td>5246</td>
<td>1180</td>
<td>1957</td>
</tr>
<tr>
<td>ii) Telecommunication</td>
<td>2273</td>
<td>1992</td>
<td>3644</td>
<td>-281</td>
<td>1652</td>
</tr>
<tr>
<td>iii) Roads and Ports</td>
<td>1563</td>
<td>1962</td>
<td>2459</td>
<td>399</td>
<td>497</td>
</tr>
<tr>
<td>Other Industries Memorandum</td>
<td>35890</td>
<td>37447</td>
<td>42082</td>
<td>1557</td>
<td>4635</td>
</tr>
</tbody>
</table>

Item Industrial Credit as proportion to net Bank Credit: 52.7% 50.3% 46.8%

Exhibit No. 2.1 depicts very clearly industry wise deployment of bank credit by scheduled commercial banks. For this purpose industrial sector has been bifurcated into 26 broad industrial segments comprising of total of small, medium and large scale industry. Against each of such industrial segments are displayed not only the amount of gross bank credit outstanding at end of last three financial years but also the variations witnessed in each of 26 industries during financial year 2003-2004 and 2004-2005. One fact that clearly emerges from this exhibit is that industrial credit is continuously declining as proportion to net bank credit (from 52.7 in 2003 to 46.8 in 2004). Rest of the figures are self revealing and self explanatory.

Small Scale Industry

The Small Scale Industry Sector plays a vital role in industrial production, employment generation and exports. Small scale industrial units are those that are engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs. 1 crore. The Government’s commitment to the SSI is clear from the fact that it forms part of Priority sector lending and a sub-target of 10 percent of net bank credit is allocated for foreign banks. In the context of growing domestic and international competition, the Govt's strategy has always been to support this sector through promotional policies of credit and technology. Following measures have been undertaken by the Govt. to ensure free flow of bank and other institutional credit to SSI Sector.

a) Public Sector Banks have been asked to accelerate their programme of SSI branches to ensure that every district and SSI clusters within districts are served by at least one specialized SSI bank branch. Furthermore to improve the quality of banking services, SSI branches have been asked to obtain ISO certifications.
As such, 391 specialized branches of public sector banks have been opened for SSIs as of September 30, 2005.

b) The requirement of providing collateral security is a major bottle neck to the flow of bank credit to very small units. RBI has in recent years issued instructions to dispense with the collateral requirement for loans upto Rs. 1 lakh and w.e.f. 2005-2006 for loans upto Rs. 5 lakhs.

c) The limit for composite loans has been increased from Rs. 2 lakh to Rs. 5 lakh.

d) The extension of credit to SSI has already been facilitated through the Credit Guarantee Scheme and the Credit Linked Capital Subsidy Scheme for Technology Upgradation.

e) Encouraged by the Kisan Credit Card Scheme, PSBs have now decided to introduce a scheme called Laghu Udyami Credit Card (LUCC) Scheme for providing simplified and borrower friendly credit facilities to small businessmen, retail traders, artisans and, small entrepreneurs, professionals and other self employed persons, including those in the tiny sector.

As a result of these and other measures, net bank credit outstanding to small scale industries increased from Rs. 45,789 Crore on March 31, 2004 to Rs. 48,445 crore on March 31, 2005. Exhibit No. 2.2 displays how Public Sector Banks, Private Sector Banks and Foreign Banks have advanced to small scale industry in last five years.
## Exibit No. 2.2.

### ADVANCES TO SMALL SCALE INDUSTRY

(Amount in Rs. Crore)

<table>
<thead>
<tr>
<th>As at end of</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2002</td>
<td>38.109</td>
<td>5,849</td>
<td>2,084</td>
</tr>
<tr>
<td></td>
<td>(17.5)</td>
<td>(20.6)</td>
<td>(10.3)</td>
</tr>
<tr>
<td>March 2003</td>
<td>42674</td>
<td>6493</td>
<td>4,660</td>
</tr>
<tr>
<td></td>
<td>(17.3)</td>
<td>(18.8)</td>
<td>(11.00)</td>
</tr>
<tr>
<td>March 2004</td>
<td>45788</td>
<td>7313</td>
<td>2,872</td>
</tr>
<tr>
<td></td>
<td>(15.6)</td>
<td>(15.7)</td>
<td>(10.2)</td>
</tr>
<tr>
<td>March 2005</td>
<td>48445</td>
<td>8158</td>
<td>3,716</td>
</tr>
<tr>
<td></td>
<td>(14.2)</td>
<td>(14.4)</td>
<td>(10.7)</td>
</tr>
<tr>
<td>March 2006</td>
<td>40743</td>
<td>N.A.</td>
<td>4,561</td>
</tr>
<tr>
<td></td>
<td>(12.5)</td>
<td>(N.A.)</td>
<td>(11.6)</td>
</tr>
</tbody>
</table>

N.A. Not Available

Source: Annual Report, RBI, 2005-2006
2.3 RURAL CREDIT

Agricultural credit is one of the most crucial inputs in all agricultural development programmes. For a long time, the major source of agricultural finance was the private money-lenders. This source of finance was inadequate and highly expensive and exploitative. Since Independence, a multi-agency approach consisting of co-operatives, commercial banks and Regional Rural Banks (RRBs) has been adopted to provide timely, adequate and relatively cheap credit to farmers.

In the field of co-operation, the Primary Agricultural Credit Societies (PACSs) provide mainly short term loans, and Land Development Banks (LDBs) provide long term and medium-term loans to the agricultural sector. The commercial banks, including the RRBs, provide short-term loans to agriculture and for allied activities. The National Bank for Agriculture and rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned above, RBI, as the central bank of the country, plays a crucial role by giving overall direction to rural credit and financial support to the National Bank (NABARD) for its operations. The extent of bank credit for farmers in recent years is given in exhibit no. 2.3.

Exhibit No. 2.3

OUTSTANDING AGRICULTURAL ADVANCES BY COMMERCIAL BANKS

(As at end March)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th></th>
<th>Private Sector Banks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount Outstanding</td>
<td>Share in Net Bank Credit (%)</td>
<td>Amount Outstanding*</td>
<td>Share in Net Credit (%)</td>
</tr>
<tr>
<td>2002</td>
<td>34304</td>
<td>15.7</td>
<td>2746</td>
<td>9.7</td>
</tr>
<tr>
<td>2003</td>
<td>40078</td>
<td>16.3</td>
<td>3286</td>
<td>9.5</td>
</tr>
<tr>
<td>2004</td>
<td>46190</td>
<td>15.8</td>
<td>4481</td>
<td>9.6</td>
</tr>
<tr>
<td>2005</td>
<td>53685</td>
<td>15.7</td>
<td>5394</td>
<td>9.6</td>
</tr>
<tr>
<td>2006</td>
<td>63083</td>
<td>15.8</td>
<td>N.A.</td>
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</tbody>
</table>

Commercial Banks and Rural Credit

The interest of commercial banks in rural finance first started when the State Bank of India was created in 1955 to provide, among others, credit facilities for co-operative processing and marketing societies. The State Bank of India and its subsidiaries started a network of branches in semi-urban and rural areas but lead was not followed by other commercial banks. An important argument in support of bank nationalisation was that commercial banks had kept themselves aloof from the problems of agriculture and have remained largely indifferent to the credit needs of farmers for agricultural operations and land improvement. Soon after nationalisation, a rapid expansion in branch banking in rural and semi-urban areas was started.

Direct Financing by Commercial Banks

The commercial banks were expected to go vigorously in support of the farmers in general and small cultivators in particular. In the initial stages, for obvious reasons the nationalised banks concentrated their attention on cultivators and other special category farmers such as those engaged in raising high-yielding varieties of foodgrains. At present short-term crop loans account for nearly 45 to 47 percent of the total loans given and disbursed by the commercial banks. Term loans for varying periods are given for purchasing pump-sets, tractors and other agricultural machinery, for construction of wells and tube wells, for development of fruit and garden crops, for levelling and development of land, for the purchase of ploughs, animals, etc. (These amount to about 35 to 37 percent of the total loans.) Finally, commercial banks extend loans for allied activities viz., for dairying, poultry, piggery, bee keeping, fisheries and others. These loans come to 15 to 16 percent.
Indirect Financing by Commercial Banks

Even though the scope for direct financing by commercial banks would be limited for some years to come, there is considerable scope for indirect financing by them:

(a) Commercial banks finance co-operative societies to enable them to extend their production credit to the farmers.

(b) Commercial banks are undertaking indirect provision of production credit through agencies engaged in the supply of inputs for the marketing or processing of agricultural produce.

(c) They extend credit to manufacturing or distribution firms and agencies and co-operatives engaged in the supply of pump-sets and other agricultural machinery on a hire-purchase basis or otherwise.

(d) They finance the operations of the Food Corporation of India, the State Governments and others in the procurement, storage, and distribution of foodgrains.

(e) Commercial banks are increasingly subscribing to the debentures of the Central land development banks and also extend advances to the latter.

Exhibit No. 2.4 shows in detail advances made by each of 27 PSBs in form of direct agricultural advances and indirect agricultural advances on March end 2001.

Kisan Credit Cards

Another notable development in recent years is the introduction of Kisan Credit Cards (KCC), first announced in 1999-2000 budget. As against the target of 2 million KCCs, public sector banks had issued about 0.9 million cards in the nine months of 1999-2000 (i.e., April to December 1999). The banks had sanctioned nearly Rs. 2,380 crores through these cards, which
### Exhibit No. 2.4
**Advances of Public Sector Banks to Agriculture as on end-March 2001**

(Amount in Rs. Crore)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of Bank</th>
<th>Direct agricultural advances</th>
<th>Indirect agricultural advances</th>
<th>Total agricultural advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>Percent to NBC</td>
<td>Amount</td>
</tr>
<tr>
<td>1.</td>
<td>Allahabad Bank</td>
<td>978.98</td>
<td>10.32</td>
<td>615.00</td>
</tr>
<tr>
<td>2.</td>
<td>Andhra Bank</td>
<td>911.41</td>
<td>13.67</td>
<td>137.48</td>
</tr>
<tr>
<td>4.</td>
<td>Bank of India</td>
<td>2,261.93</td>
<td>11.21</td>
<td>768.16</td>
</tr>
<tr>
<td>5.</td>
<td>Bank of Maharashtra</td>
<td>722.70</td>
<td>10.75</td>
<td>95.56</td>
</tr>
<tr>
<td>6.</td>
<td>Canara Bank</td>
<td>3,120.31</td>
<td>14.14</td>
<td>390.45</td>
</tr>
<tr>
<td>7.</td>
<td>Central Bank of India</td>
<td>1,671.31</td>
<td>9.37</td>
<td>873.60</td>
</tr>
<tr>
<td>8.</td>
<td>Corporation Bank</td>
<td>444.28</td>
<td>6.80</td>
<td>274.99</td>
</tr>
<tr>
<td>9.</td>
<td>Dena Bank</td>
<td>614.60</td>
<td>8.51</td>
<td>544.39</td>
</tr>
<tr>
<td>10.</td>
<td>Indian Bank</td>
<td>1,049.38</td>
<td>12.99</td>
<td>404.24</td>
</tr>
<tr>
<td>11.</td>
<td>Indian Overseas Bank</td>
<td>1,238.00</td>
<td>14.52</td>
<td>371.00</td>
</tr>
<tr>
<td>13.</td>
<td>Punjab &amp; Sind Bank</td>
<td>2,837.47</td>
<td>10.44</td>
<td>1,012.17</td>
</tr>
<tr>
<td>15.</td>
<td>Syndicate Bank</td>
<td>1,460.00</td>
<td>15.13</td>
<td>290.00</td>
</tr>
<tr>
<td>16.</td>
<td>Union Bank of India</td>
<td>1393.95</td>
<td>9.20</td>
<td>656.92</td>
</tr>
<tr>
<td>17.</td>
<td>United Bank of India</td>
<td>547.00</td>
<td>8.57</td>
<td>218.00</td>
</tr>
<tr>
<td>18.</td>
<td>UCO Bank</td>
<td>630.00</td>
<td>7.07</td>
<td>329.00</td>
</tr>
<tr>
<td>19.</td>
<td>Vijaya Bank</td>
<td>604.53</td>
<td>12.61</td>
<td>146.92</td>
</tr>
<tr>
<td>20.</td>
<td>State Bank of India</td>
<td>9488.39</td>
<td>10.65</td>
<td>5493.92</td>
</tr>
<tr>
<td>23.</td>
<td>State Bank of Indore</td>
<td>538.09</td>
<td>15.91</td>
<td>71.10</td>
</tr>
<tr>
<td>24.</td>
<td>State Bank of Mysore</td>
<td>464.33</td>
<td>12.66</td>
<td>107.36</td>
</tr>
<tr>
<td>25.</td>
<td>State Bank of Patiala</td>
<td>867.00</td>
<td>13.41</td>
<td>269.00</td>
</tr>
<tr>
<td>26.</td>
<td>State Bank of Saurashtra</td>
<td>577.70</td>
<td>16.06</td>
<td>36.38</td>
</tr>
</tbody>
</table>

Total: 38003.22 11.15 15682.14 4.60 53685.36 15.65

Figures tabulated from following source:

a) Report on trend and Progress of Banking in India, RBI., 2000-2001
worked out to Rs. 26,160 per card. The purpose of KCC is to enable farmers to get bank credit easily. After having disbursed 2.07 crore cards upto 31st Dec. 2001, banks have been given an annual target of 33 lakh KCCs by March 02. Further, bank were advised to ensure that all existing and prospective KCC holder are covered under the Personal Accident Insurance Policy. In addition, banks are urged to make suitable plans for covering all eligible borrowers in agricultural sector under the KCCs by March 2004.

Regional Rural Banks (RRBs)

The Narasimham Committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. They would "combine the local feel and familiarity with rural problems which co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and modernised outlook which the commercial banks have." Accepting the recommendations of the Narasimham Committee, the Government passed the Regional Rural Banks Act, 1976. The main objective of the regional rural banks is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

2.4. EXPORT PROMOTION

Financial services are the mainstay of a robust economy and since the last century exporting is one of the activities that require extensive financial assistance. Recognising the importance of adequate export finance, most countries have set up specialised export credit agencies (ECAs). These agencies focus mainly on providing medium and long-term export credit, which are particularly important for the export of high value, high technology
manufactured goods and project goods.

The Export-Import Bank of India (Exim Bank), an apex financial institutional institution, was established in 1982 under an Act of Parliament to finance, facilitate and promote India's international trade. The vision of Exim Bank is to develop commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services aimed at helping them to globalise. The need to utilise all possible financing mechanisms to promote export capabilities has motivated the bank to go beyond pre and post-shipment credit, and operate schemes involving short-term export finance, investment loans and export marketing finance. The bank provides competitive finance at various stages of the business cycle, covering import of technology, export product development, export production, export marketing, export credit at pre-shipment and post-shipment stage, and investment overseas. Finance is provided in Indian rupees and foreign currency.

The bank has five overseas offices - in Washington D.C., Singapore, Milan, Budapest and Johannesburg. The overseas offices are strategically located for enhancing institutional linkages with multilateral agencies such as the World Bank, International Monetary Fund, European Bank for Reconstruction and Development, Asian Development Bank, African Development Bank and regional banks like the PTA in Africa and also interacting with various export credit agencies. The overseas offices also assist Indian companies in identifying partners for business or joint ventures. The Exim Bank has forged alliances with banks and trade and investment promotion agencies in 31 countries.

The Exim Bank finances exports of Indian machinery, manufactured goods, consultancy and technology services on deferred payment terms. It also seeks to co-finance projects with global and regional development agencies to assist Indian exporters in their effort to participate in such overseas projects.
Companies can avail themselves of facilities such as forfaiting, underwriting of issues and import finance through lines of credit from other export credit agencies and bulk import finance for import of raw materials and intermediates. Equity issuance is available for acquiring or setting up companies abroad for manufacturing, marketing, trading and other services. Companies can also avail finance from the bank for export market development activities and for export product development activities. Companies collaborating for technology, particularly with companies from Asian countries can access concessional finance through the bank under the ACIP programmes. The Exim Bank offers rediscounting and refinance facilities to commercial banks in India. It also participates in guarantees issued by commercial banks on behalf of Indian project exporters. It also offers finance for setting up computer software training institutes and grants finance for product/process quality certification.

New Initiatives

The bank was introduced several new initiatives to promote India's international trade. Some of the recent initiatives are:

i. A Programme to finance Research & Development of export oriented companies at concessional interest rates.

ii. Bank's participation in the equity of Indian ventures abroad.

iii. Working capital finance for exporting companies.

iv. Financing packages for knowledge based industries such as Information technology, computer software and pharmaceuticals.

v. Co-operation agreement with U.S. Exim Bank for promoting bilateral trade between the U.S. and India.

vi. Co-operation agreement with PTA Bank—a regional development bank in
Africa-to sponsor Indian consultants for PTA Bank funded projects in Africa.


viii. Exim Bank acts as a consultant sharing its own experience in institution building. It has provided consultancy to many developing countries.

The bank undertakes research studies on subjects concerning international trade, international economics, sector and product studies and country studies and publishes these studies in the form of Occasional Papers (OPs). So far it has brought out 79 Ops. In addition to finance, the Exim Bank provides a range of analytical information and related services necessary for globalisation of Indian companies. The advisory services enable exporters to evaluate international risks and export opportunities and enhance their competitiveness. Through its wide network of alliances with financial institutions, trade promotion agencies and information providers across the globe it assists externally oriented India companies in their quest for excellence and globalisation. Services include search for overseas partners, identification of technology suppliers, negotiating an alliance and consummating a joint venture.

2.5. PUBLIC SECTOR BANKS

In Public Sector Banks, we have the State Bank of India, its associate banks and nationalised banks.

State Bank of India

Three presidency banks, viz., Bank of Bengal, Bank of Bombay and Bank of Madras were amalgamated into the Imperial Bank of India on 27 January 1921 by the Imperial Bank of India Act 1920. This Act, however, gave the
bank no power to issue notes, but it was allowed to hold government balances and to manage the public debts and clearing houses till the establishment of the Reserve Bank of India in 1935. With the passing of the State Bank of India Act 1955, the undertaking work of the Imperial Bank of India was taken over by the newly constituted State Bank of India. SBI has the largest number of branches all over India and does considerable business in commercial banking, besides handling government business. It is the premier bank in the country having an edge over all other banks not only in the banking business but also in organisation, planning, management, systems and procedures.

Associate Banks of State Bank of India

Pursuant to the provisions of the State Bank of India (Subsidiary Banks) Act 1959, eight banks based in the former princely states were nationalised and constituted as subsidiary banks of the State Bank of India, thus extending the latter's area of operation and the influence. Later on, these subsidiary banks came to be known as associate banks of the State Bank of India. Two associate banks, viz., the Bank of Bikaner and the Bank of Jaipur were merged together to form State Bank of Bikaner and Jaipur. The seven associates of the State Bank of India are:

1. State Bank of Hyderabad
2. State Bank of Patiala
3. State Bank of Travancore
4. State Bank of Bikaner and Jaipur
5. State Bank of Mysore
6. State Bank of Saurashtra
7. State Bank of Indore
Nationalised Banks

As social control over banks, which was brought into effect from 1 February 1969, was having little impact on the banking system, on 19 July 1969, the Government of India nationalised 14 major Indian Banks, having deposits of more than Rs. 50 crore each. The management of these 14 banks was taken over by 14 new corporate bodies, established under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970. On 15 April 1980, six more banks, having demand and time liabilities of not less than Rs. 200 crore were nationalised. Of these six banks, New Bank of India, which was not doing well, was merged with Punjab National Bank in September 1993. At present, we have 19 nationalised banks, owned and wholly managed by the Government of India through their respective board of directors appointed by the government. These 19 nationalised banks are:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>2.</td>
<td>Punjab National Bank</td>
</tr>
<tr>
<td>3.</td>
<td>Bank of India</td>
</tr>
<tr>
<td>4.</td>
<td>Canara Bank</td>
</tr>
<tr>
<td>5.</td>
<td>Central Bank of India</td>
</tr>
<tr>
<td>6.</td>
<td>Union Bank of India</td>
</tr>
<tr>
<td>7.</td>
<td>Indian Bank</td>
</tr>
<tr>
<td>8.</td>
<td>Indian Overseas Bank</td>
</tr>
<tr>
<td>9.</td>
<td>Syndicate Bank</td>
</tr>
<tr>
<td>10.</td>
<td>UCO Bank</td>
</tr>
<tr>
<td>11.</td>
<td>Allahabad Bank</td>
</tr>
<tr>
<td>12.</td>
<td>United Bank of India</td>
</tr>
<tr>
<td>13.</td>
<td>Oriental Bank of Commerce</td>
</tr>
<tr>
<td>14.</td>
<td>Corporation Bank</td>
</tr>
<tr>
<td>15.</td>
<td>Vijaya Bank</td>
</tr>
<tr>
<td>16.</td>
<td>Dena Bank</td>
</tr>
<tr>
<td>17.</td>
<td>Bank of Maharashtra</td>
</tr>
<tr>
<td>18.</td>
<td>Andhra Bank</td>
</tr>
<tr>
<td>19.</td>
<td>Punjab and Sind Bank</td>
</tr>
</tbody>
</table>
2.5.a Organisational Structure of PSBs

Operating efficiency and profitability of banks can be attained by good management and organisational structure. High qualities of management and well designed organisational pattern can assist in directing a large volume of credit to flow into neglected sectors, reduction of disparities and prevent escalation in cost and lowering of profit. The rapid expansion of bank branches has called for a organisational change in banks to attain the desired results. The more complex and large organisation like bank requires optimum utilisation of human efforts, assigning of authorities, delegation of responsibilities, motivation and co-ordination. The existing organisational structure of public sector commercial banks are divided into two categories-functional and divisional. There is no uniformity among banks regarding functional organisational structure yet most public sector banks have commonly accepted departments which could be shown through the Exhibit No. 2.5.

Organisational structure based on geographical spread of banks offices can be presented in following manner -
Above structure of organisation shows that divisional office co-ordinates and controls the activities of branches and the divisional offices work under the supervision of zonal office. The Head Office governs over zonal, regional and branch offices of the bank.

The organisational structure at branch level adopted is line and staff type of organisation. In a large organisation like bank it is not possible that managers of line may function all works and activities. Therefore, inclusion of other staff in management is imperative and the relations among them are known as staff relations. Staff managers help the line managers in decision making and reduce the work load of line managers. This type of organisation could be seen in exhibit No. 2.6. The present structure of public sector banks has failed to set an effective communication and controlling system. The accountability of branches at different levels creates overlapping of managerial activities and also be-got absence of control on lower and middle management of the top management. Therefore, new organisational structure is needed for integrated banking system. The pattern should avoid
overlapping of activities, wasteful competition and to introduce the system which offers banking facilities in compact area of a banking unit.

Exhibit No. - 2.6

ORGANISATIONAL STRUCTURE AT BRANCH LEVEL
Branch Manager
MANAGER (Account)

Manager (Deposit)  Manager (Advance)  Manager (Bills)  Manager (Draft)  Manager (Currency Chest)

Officer (Priority Sector)  Officer (Other Advances)

Field Supervisor (Survey)  Field Supervisor (Recovery)

Clerical Staff (Agri)  Clerical Staff (Allied to Agri.)  Clerical Staff (Other Priority Sector Advances)

2.5.b. Management of PSBs

A banking company like any other company is an artificial person having separate legal entity. Management is divorced from ownership. The persons who manage company affairs are termed 'Directors' and collectively designated as the 'Board of Directors'.

Board of Directors

The board of directors is the supreme authority of the bank and has a pivotal position in a bank's organisation. All the powers and responsibilities are occupied by the board. Banking Regulation Act (amended in 1968) provides that majority of the persons of the board shall have special knowledge or practical experience in accountancy, agriculture, rural economy, banking cooperation, law, economics, finance and small scale industries. It
also provides that these directors should not have substantial interest or active association with any large or medium sized industrial or business undertakings. The Managing Director shall be the Chief Executive officer of the bank and the same person can hold both offices of Managing Director and the Chairman and also preside over the meetings of the board.

Management Committee

The Management of the Nationalised Banks (Management & Miscellaneous Provisions) Scheme 1970 has provisions for the constitution of management committee and Regional Consultative Committees of each of 5 regions which are Northern, Eastern, Southern, Western and Central. The Management Committee for each bank shall consist of Chairman, the managing director, directors nominated by RBI and Central Government. Each Regional Consultative Committees shall comprise of:

(a) not more than three persons nominated by Central Government.
(b) two representatives from each of the states and one from each of the union territories of the Region;
(c) one representative nominated by each nationalised banks having office in the Region as may be designated by the RBI.

General Manager

In organisational pyramid, the general manager is the main chain between the directors and the executives of a bank. The board of director delegates authority to the managing director who in turn delegates a part of his authority to the general manager. The General manager also delegates part of his authority to different departmental heads. He is responsible & accountable for successfully running of all the departmental activities. A group of deputy general managers assist to general manager.
2.5.c. Control of PSBs

Banks are bound to function as development agencies and their capacities should be utilised for the advancement of society. Therefore, to meet the increasing goals, banks are tightened from different corners. The controlling authorities and agencies watching over banks can be seen in Exhibit No. 2.7.
2.6. PRIVATE SECTOR BANKS

It was the Narasimham committee report dated 1991 that envisaged a larger role for private sector banks. The Reserve Bank of India agreed, and in an effort to make the sector more efficient and competitive, it issued, in January 1993, the guidelines governing the entry of new private banks-a minimum paid-up capital of Rs. 100 crore among others. This was the first time, following the nationalisation of banks in 1969, that the RBI was issuing fresh banking licences to the private sector. With the birth of new private sector banks, the classification of existing players in the domestic banking system was enlarged to include public sector banks, foreign banks, 'new' private sector banks and 'old' private sector banks. Apart from a stringent entry barrier of a minimum capital of Rs. 100 crores, the Government and the regulatory authority, apparently concerned at the low level of technology environment that was then obtaining in the domestic banking system, stipulated that the new entrants should commence their operations in the country on a fully computerised platform.

This entry pre-condition ushered in a new wave of competition, substantially aided by technology in the discerning and visible metro market, giving competitive advantage to the new players. This competitive advantage, backed by straight-fit experienced banking personnel, sourced substantially from the existing domestic banking players - all in the supervisory cadre - gave this new generation banks a head-start, clearly distinguishing them from the existing domestic players in terms of delivery capability, product innovation and cost structure. The existing private sector banks came to be branded with the epithet "old".

2.6.a Old Private Sector Banks

In their earlier days, the old private sector banks, as a group, reflected the fervour of the pioneering spirit and the visionary zeal of ethnic banking.
which strove to promote financial intermediation, by mobilising the savings of the local community and lending it to the trade and small business segments in the area of their operations. Prior to nationalisation, barring perhaps the State Bank of India, the entire banking industry was a part of the ethnic regional banks. The post nationalisation era witnessed a new phase of such banks with their enlarged network, customer penetration and business diversity, bringing about also a cultural change with in these banks.

The old private sector banks, on their volition, confined their activities to specific regions and derived their strengths from their familiarity of the region where they operated, its economic activities and customer profile. While this self-imposed restraint of not expanding beyond their strongholds is perceived even today as an inherent strength of these banks, similar to the community banks in the U.S., it is also proving to be a serious constraint in the emerging competitive scenario. Despite years of existence some of these banks could not enlarge their customer base substantially or bring about diversity in their business mix. Their regional presence and the concomitant market and customer familiarity had not bestowed them with any sustainable competitive advantage over even some of the well operating public sector banks in their operational areas, let alone the new competitors. In terms of profitability parameters, like return on assets (ROA), however, the group of old private sector banks, over the year, has shown a better discernible trend, vis-a-vis the nationalised banks.

The list of old private sector banks as on 31 March 2001 is as under

1. The Bank of Rajasthan Ltd.
2. The Benares State Bank Ltd. (now taken over by Bank of Baroda)
3. Bharat Overseas Bank Ltd.
4. The Catholic Syrian Bank Ltd.
5. City Union Bank Ltd.
6. Development Credit Bank Ltd.
7. Dhanalakshmi Bank Ltd.
8. The Federal Bank Ltd.
10. The Jammu & Kashmir Bank Ltd.
11. The Karnataka Bank Ltd.
12. The Karur Vysya Bank Ltd.
13. The Lakshmi Vilas Bank Ltd.
14. Lord Krishna Bank Ltd.
15. The Nainital Bank Ltd.
16. The Nedungadi Bank Ltd.
17. The Ratnakar Bank Ltd.
18. The Sangli Bank Ltd.
19. SBI Commercial & International Bank Ltd.
20. The South Indian Bank Ltd.
21. Tamilnad Mercantile Bank Ltd.
22. The United Western Bank Ltd.
23. The Vysya Bank Ltd.

2.6.6 New Private Sector Banks

With the onset of the liberalisation process in India in 1992, the role of new private sector banks is increasing. The following new private sector banks started their operations in India in the aftermath of banking deregulation.

1. IndusInd Bank Ltd.
2. UTI Bank Ltd.
3. HDFC Bank Ltd.
4. ICICI Banking Corporation Ltd.
5. Global Trust Bank Ltd.
6. Centurion Bank Ltd.
7. Times Banks Ltd. (now merged with HDFC Bank Ltd.)
8. Bank of Punjab Ltd.
9. IDBI Bank Ltd.

The eight new private banks that have emerged on the Indian financial topography since 1994 are clear out performers in an otherwise troubled sector. In ten years, these banks have grown to account for six percent of the total assets and 10 percent of the total profits of the banking industry. The NPBs have grown not just organically, as is clear from exhibit no. 2.8, but also through mergers and acquisitions. HDFC Bank merged with Times Bank in all-stock deal valued at Rs. 200 crore in November 2002. ICICI Bank acquired Bank of Madura in a stock-swap deal in December 2003 to become the largest among the NPBs. Today, both ICICI Bank and HDFC Bank are listed on NYSE, and show no signs of letting up on their retail offensive. As on March 2004, ICICI Bank had set up 510 ATMs (Automated Teller Machines), HDFC Bank, 350. These new private sector banks have created a niche for themselves with their aggressive business strategies and marketing drive. With the latest technology and skilled manpower, these new banks can unleash rapid transformation in the scope and content of high value banking services.

Exhibit No. 2.8

NEW PRIVATE-SECTOR BANKS: VITAL STATS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4130.49</td>
<td>5407.46</td>
<td>7504.26</td>
</tr>
<tr>
<td>Operating Income</td>
<td>684.28</td>
<td>1243.85</td>
<td>1368.97</td>
</tr>
<tr>
<td>Net Profit</td>
<td>397.05</td>
<td>569.42</td>
<td>639.41</td>
</tr>
<tr>
<td>Provisions and Contingencies</td>
<td>287.23</td>
<td>674.43</td>
<td>729.56</td>
</tr>
<tr>
<td>Spread</td>
<td>763.94</td>
<td>1151.71</td>
<td>1685.13</td>
</tr>
<tr>
<td>NPAs (% of net advances)</td>
<td>6.2</td>
<td>4.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Total Advances</td>
<td>14070</td>
<td>22816</td>
<td>31499</td>
</tr>
</tbody>
</table>

Source: RBI-Trends and Progress in Banking.
2.7. FOREIGN BANKS

Banks incorporated in foreign countries are called foreign banks. Initially, foreign banks concentrated in financing of foreign trade. But in the post-liberalisation climate, they have entered the areas of investment management for foreign investors as well as consumer finance in a big way. Citibank, Standard Chartered Grindlays Bank, Hongkong Bank, American Express Bank and Standard Chartered Bank are the more active ones among the foreign banks in India.

Foreign banks are governed by the RBI Act 1934 and the Banking Regulations Act 1949 as in the case of other banks. They also have to take a licence from the RBI for opening any new branch. Foreign banks have a special role to play in the Indian economy due to their expertise in foreign trade, huge capital base, modern techniques and procedures, and excellent customer service. They encourage export business and also serve as intermediaries for bringing foreign capital into India. In order to align priority sector lending of foreign banks operating in India with that of the Indian banks, the priority sector lending target for foreign banks was raised in October 1993 from 15 to 32 percent of their net bank credit, inclusive of two separate sub-targets of at least 10 percent each in respect of advances to small-scale industry and exports. These banks have to deposit shortfall, if any, in their lending with SIDBI.

There are 41 foreign banks from 21 countries operating in India with 194 branches as on June 30, 2001. While 5 banks have 10 or more branches, 17 are one branch banks. Twelve foreign banks have 367 ATMs located both at branches and off-sites. The branches of foreign banks are spread over 25 centres in 16 States/Union Territories. Consequent upon acquisition of the issued share capital of ANZ Grindlays Bank Ltd. from Australia and New Zealand Banking Group, Australia by Standard Chartered bank plc.
London, the name of ANZ Grindlays Banks Ltd., operating with 41 branches in India, has been changed to Standard Chartered Grindlays Bank. Further, as a result of a global merger between two Japanese Banks viz., Sakura Bank and Sumitomo Bank Ltd., Indian operations of Sakura Bank have merged with Sumitomo Bank and the latter is operating in India as a new entity viz., Sumitomo Mitsui Banking Corporation since April 2001. As on June 30, 2001, 24 banks from 12 countries had representative offices in India of which 22 were in Mumbai and one each in New Delhi and Chennai.

The list of Foreign banks operating in India as on 30 June, 2001 is as follows:

1. ABN-AMRO Bank NV
2. Abu Dhabi Commercial Bank
3. American Express Bank
4. Arab Bangladesh Bank
5. Bank Internasional Indonesia
6. Bank Muscat SAOG
7. Bank of America NV
8. Bank of Bahrain & Kuwait BSC
9. Bank of Ceylon
10. The Bank of Nova Scotia
11. The Bank of Tokyo - Mitsubishi
12. Barclays Bank PLC
13. BNP Paribas
14. Chinatrust Commercial Bank
15. Cho Hung Bank
16. Citibank
17. Commerzbank AG
18. Credit Agricole Indosuez
19. Credit Lyonnais
20. Deutsche Bank AG
21. Development Bank of Singapore
22. Desdner Bank AG
23. HSBC
24. ING Bank NV
25. KBC Bank NV
26. Krung Thai Bank Public Co
27. Mashreq Bank
28. Morgan Guaranty Trust
29. Oman International Bank SAOG
30. Oversea-Chinese Banking Corp.
31. The Sanwa Bank
32. The Siam Commercial Bank
33. Societe Generale
34. Sonali Bank
35. Standard Chartered Bank
36. Standard Chartered Grindlays Bank
37. State Bank of Mauritius
38. Sumitomo Mitsui Banking Corporation
39. The Fuji Bank
40. The Toronto Dominion Bank
41. The Chase Manhattan Bank