

## Chapter III

### Developments in Co-operative Banking

#### Introduction

3.1 As at end-March 2016, India's co-operative banking sector comprised of 1,574 urban co-operative banks (UCBs) and 93,913 rural co-operative credit institutions, including short-term and long-term credit institutions (Chart 3.1). During 2015-16, there was a moderation in the growth of UCBs' balance sheets. Their profitability indicators and asset quality also deteriorated. During 2014-15, the balance sheets of short term-rural co-operatives, except primary agricultural credit societies (PACS), had undergone deceleration in growth while the balance sheets of long-term rural co-operatives had exhibited accelerated growth. At the same time, there was an improvement in asset quality across all rural co-operatives even as most of them registered a decline in net profits.

#### Urban co-operative banks

3.2 The number of UCBs came down from 1,579 in 2015 to 1,574 in 2016. While the number of scheduled multi-state UCBs increased from 29 to 31, non-scheduled single-state UCBs decreased from 1,507 to 1,502 by end-March 2016 (Chart 3.1).

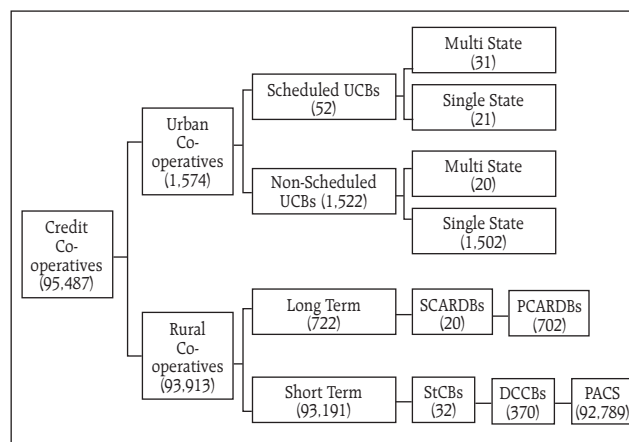
#### Balance sheet operations

3.3 Growth in assets of UCBs continued to decelerate in 2015-16 -- 9.9 per cent in 2015-16 *vis-à-vis* 11.2 per cent in 2014-15 (Chart 3.2). Loans and advances on the asset side grew by a lower rate of 9.2 per cent as compared to 11.9 per cent in 2014-15. On the liability side, deposits and reserves and surplus accumulated at a slower pace (10.4 per cent and 6.7 per cent respectively against 11.8 per cent and 7.4 per cent respectively in 2014-15).

#### Profitability

3.4 UCBs witnessed a reduction in their returns on equity as well as assets in 2015-16. The net interest

**Chart 3.1: Structure of co-operative credit institutions in India (as on March 31, 2016)**

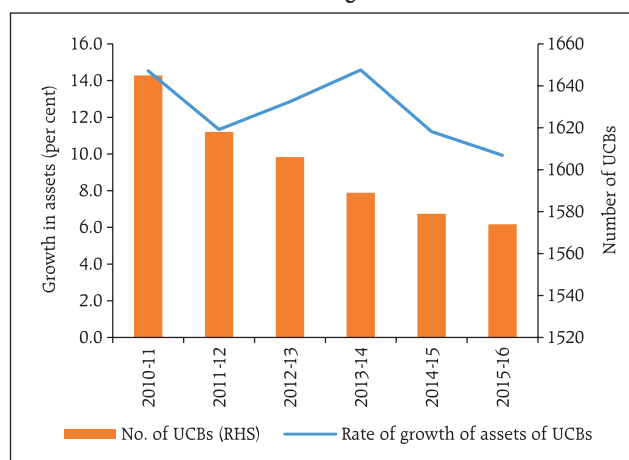


StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

- Notes:**
1. Figures in parenthesis indicate the number of institutions at end-March 2016 for UCBs and at end-March 2015 for rural co-operatives.
  2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

**Source:** RBI.

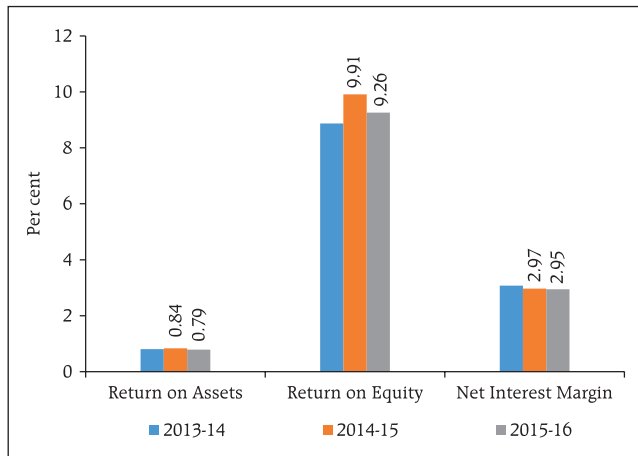
**Chart 3.2: Total number and growth in assets of UCBs**



**Note:** Data for 2015-16 are provisional.

**Source:** RBI Supervisory Returns and staff calculations

**Chart 3.3: Select indicators of profitability of UCBs**



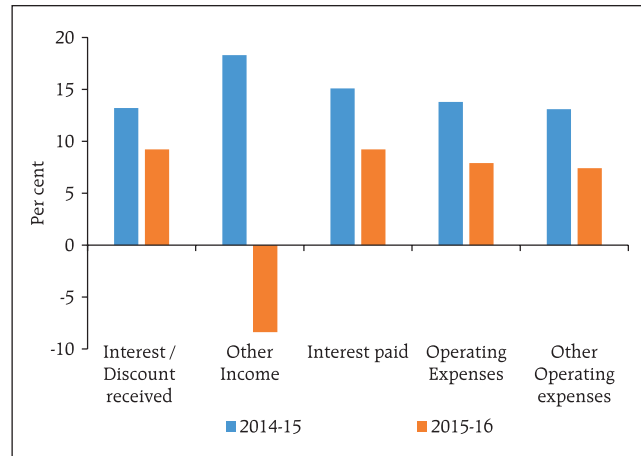
**Note:** Data for 2015-16 are provisional.  
**Source:** RBI Supervisory Returns and staff calculations

margin continued to narrow down (Chart 3.3). Continuing the trend of 2014-15, their total expenses grew relatively higher (8.8 per cent) than their total income (7.9 per cent). Additionally, provisions made during 2015-16 against risks/contingencies were higher by 4.6 per cent as compared to the previous year. Net profits of UCBs decelerated. Growth rate of interest income continued to shrink and was placed at 9.2 per cent in 2015-16 as against 13.2 per cent in 2014-15. Moreover, other income which rose by 7 per cent during 2014-15 recorded a decline of 8.4 per cent in 2015-16 (Chart 3.4).

**Asset quality**

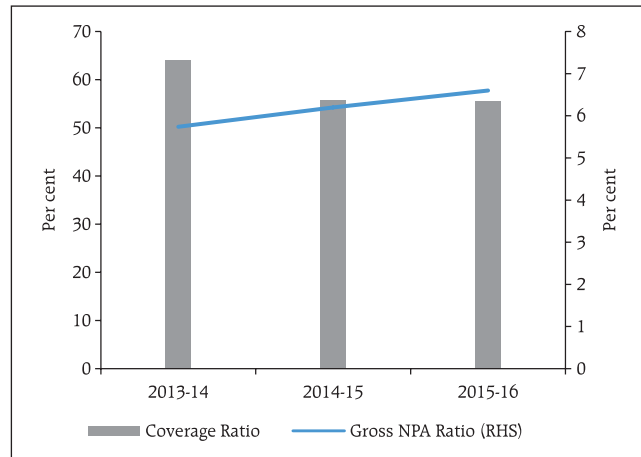
3.5 UCBs' gross NPAs continued to increase at a higher rate than assets. The gross NPA ratio stood at 6.6 per cent at end-March 2016 as compared to 6.2 per cent at end-March 2015 (Chart 3.5). While during 2014-15 provisions grew at a much lower rate than GNPA's resulting in a fall in coverage ratio to 55.8 per cent from 63.9 per cent in 2013-14, commensurate growth in provisions and GNPA's during 2015-16 ensured that the coverage ratio remained stable at 55.5 per cent (Chart 3.6).

**Chart 3.4: Income and expenses of UCBs – variations in per cent**



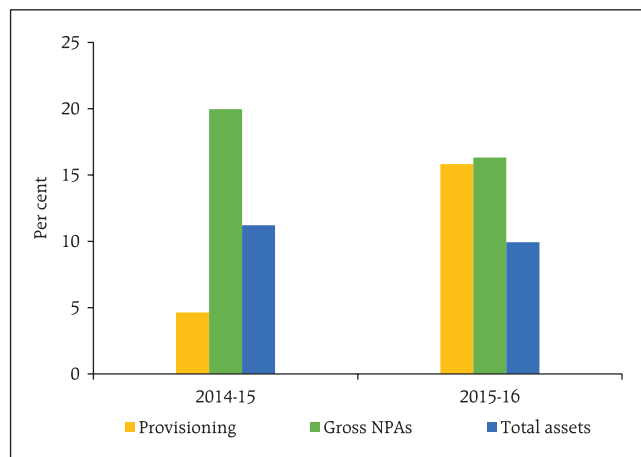
**Note:** Data for 2015-16 are provisional.  
**Source:** RBI Supervisory Returns and staff calculations

**Chart 3.5: UCBs' non-performing assets**



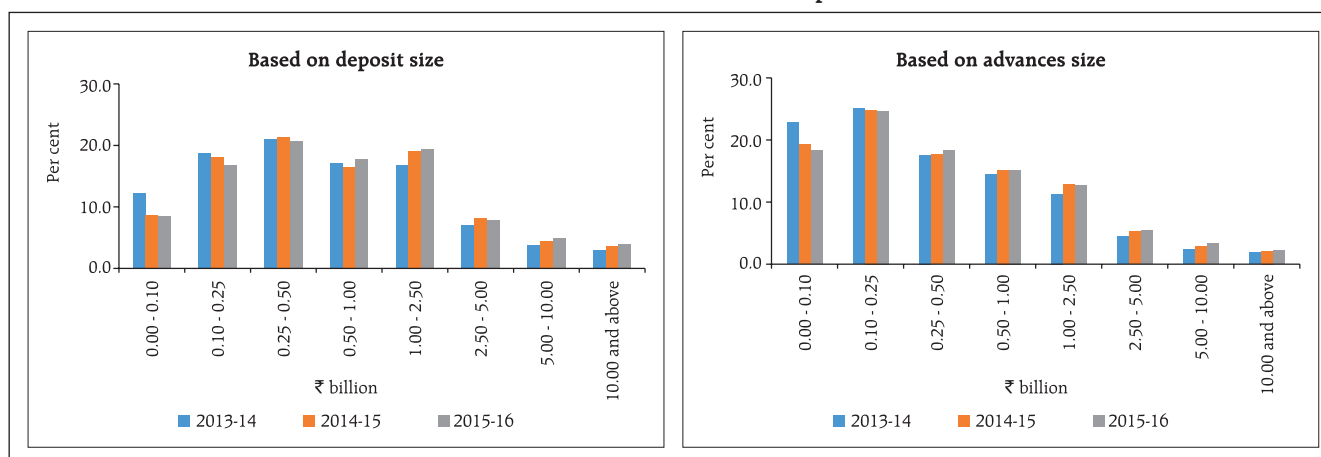
**Note:** Data for 2015-16 are provisional.  
**Source:** RBI Supervisory Returns and staff calculations

**Chart 3.6: Growth in assets, NPAs and provisions**



**Note:** Data for 2015-16 are provisional.  
**Source:** RBI Supervisory Returns and staff calculations

**Chart 3.7: Distribution of UCBs based on size of deposits and advances**



**Note:** 1. Position as on March 31, 2016.  
2. Data for 2015-16 are provisional.

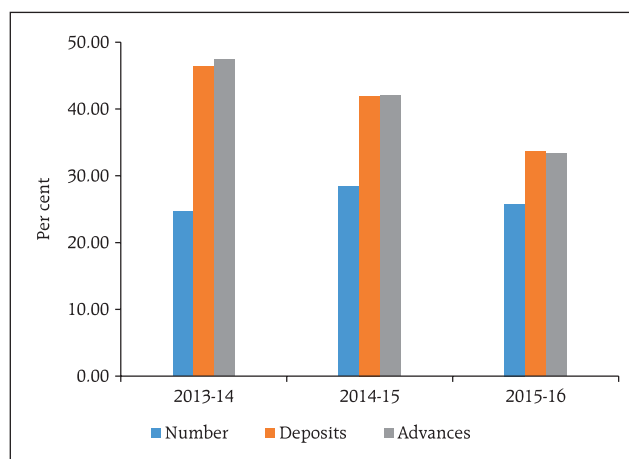
**Source:** RBI Supervisory Returns and staff calculations.

### Developments with regard to UCBs

3.6 The number of Tier-II UCBs<sup>1</sup> continued to increase (from 412 at end-March 2013 to 442 at end-March 2014 and further to 447 at end-March 2015). In 2015-16, in general, the number of UCBs which held larger sizes of deposits and advances continued to exhibit an increase (Chart 3.7).

3.7 The share of UCBs under the highest rated category 'A' under the CAMELS model, slipped from 28.4 per cent in 2014-15 to 25.8 per cent in 2015-16. The share of banking business under this category also fell sharply indicating rising risks in the larger UCBs (Chart 3.8).

**Chart 3.8: Share of UCBs in rating category A (by number and business size)**



**Note:** 1. Position as on March 31, 2016.  
2. Data for 2015-16 are provisional.

**Source:** RBI Supervisory Returns and staff calculations.

<sup>1</sup> Tier-I UCBs are defined as UCBs with:

- A deposit base below ₹1 billion operating in a single district.
- A deposit base below ₹1 billion operating in more than one district provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively of the bank.
- A deposit base below ₹1 billion, whose branches were originally in a single district but subsequently became multi-district due to re-organisation of the district.

All other UCBs are defined as Tier-II UCBs.

3.8 In a trend comparable to scheduled commercial banks (SCBs), the credit to deposit ratio of UCBs dipped marginally from 63.2 per cent in 2014-15 to 62.5 per cent in 2015-16 and the investment to deposit ratio decreased from 34.7 per cent in 2014-15 to 30.8 per cent in 2015-16. In 2015-16, UCBs' SLR investments fell by 4.8 per cent as balances with central/state co-operative banks ceased to be reckoned as SLR investments from April 01, 2015. This also resulted in an increase in the growth rate of 'investments in approved securities' from 7.3 per cent in 2014-15 to 13 per cent in 2015-16 (Chart 3.9). On a disaggregated level, the effect was more pronounced for non-scheduled UCBs as they held a higher share of their SLR investments as balances with central/state co-operative banks.

#### Implementation of core banking solution (CBS)

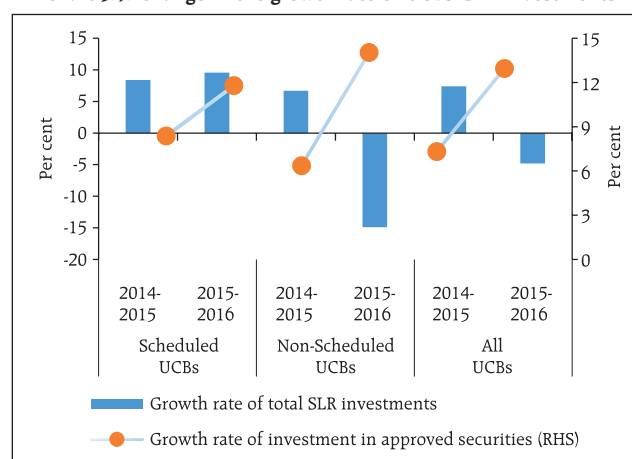
3.9 In April 2016, a scheme was formulated by the Reserve Bank, in consultation with Institute for Development and Research in Banking Technology (IDRBT), to provide financial assistance and technology support for implementation of CBS in UCBs. The scheme is implemented through IDRBT/ Indian Financial Technology and Allied Services (IFTAS). UCBs which have not yet / partially implemented CBS are eligible for financial assistance under the scheme. The scheme has received favourable response from UCBs.

#### Trends for scheduled UCBs

3.10 There were 52 scheduled UCBs at end-March 2016 (50 as at end-March 2015). Their share of assets in the total assets of all UCBs increased in 2015-16 (Chart 3.10).

3.11 The balance sheets of scheduled UCBs expanded by 11.5 per cent in 2015-16. This is comparable to the pace of expansion witnessed during the previous year. Growth in deposits and loans and advances continued to be the leading components contributing to the expansion of UCBs' balance sheets during the year.

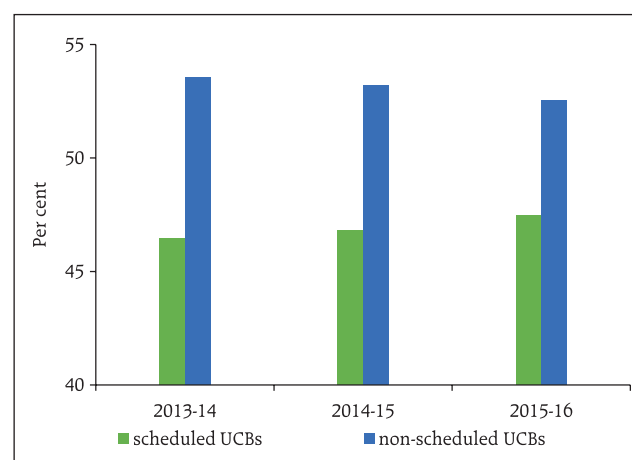
Chart 3.9: Change in the growth rate of UCBs' SLR investments



Note: Data for 2015-16 are provisional.

Source: RBI Supervisory Returns and staff calculations.

Chart 3.10: Scheduled and non-scheduled UCBs' share in total assets



Note: 1. Position as on March 31, 2016.

2. Data for 2015-16 are provisional.

Source: RBI Supervisory Returns and staff calculations.

3.12 Profitability indicators of scheduled UCBs deteriorated in 2015-16. Both return on equity and return on assets fell while the net interest margin increased marginally (Chart 3.11). Expenditure growth remained higher than the growth in income and, in contrast to non-scheduled UCBs, the level of net profits of scheduled UCBs fell in 2015-16.

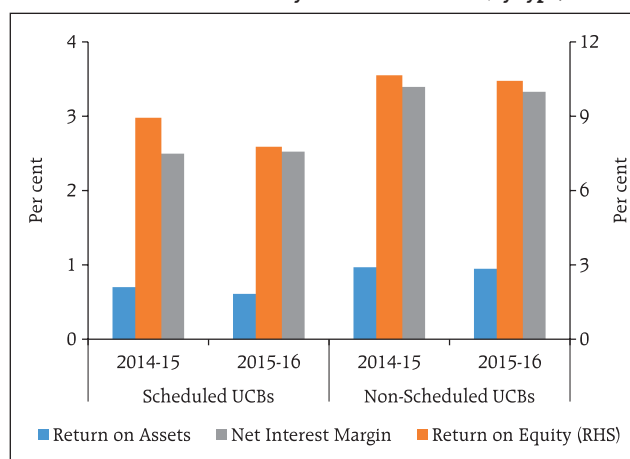
### Priority sector advances of UCBs

3.13 In 2015-16, credit to small enterprises and housing witnessed a marginal increase, while the share of advances to the agricultural sector remained almost stable (Chart 3.12). The share of priority sector advances directed towards weaker sections improved across all sectors, especially for the micro, small enterprises and housing sectors between 2014-15 and 2015-16 (Chart 3.13).

### Rural co-operative banks

3.14 The number of primary rural co-operative credit institutions (both short- and long-term) decreased in 2014-15, bringing down the total number of rural co-operatives to 93,913 from 94,718 in 2013-14. The share of short-term credit co-operatives, comprising state co-operative banks (StCBs), district central co-operative banks (DCCBs) and primary agricultural credit societies (PACS), stood at about 93 per cent of the total assets of the

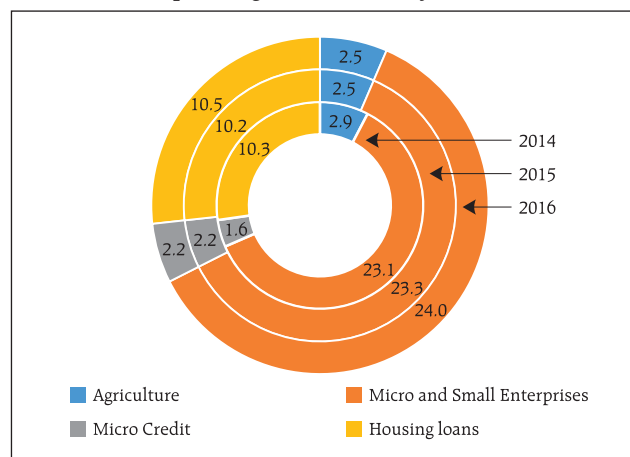
Chart 3.11: Profitability indicators of UCBs (by type)



Note: Data for 2015-16 are provisional.

Source: RBI Supervisory Returns and staff calculations.

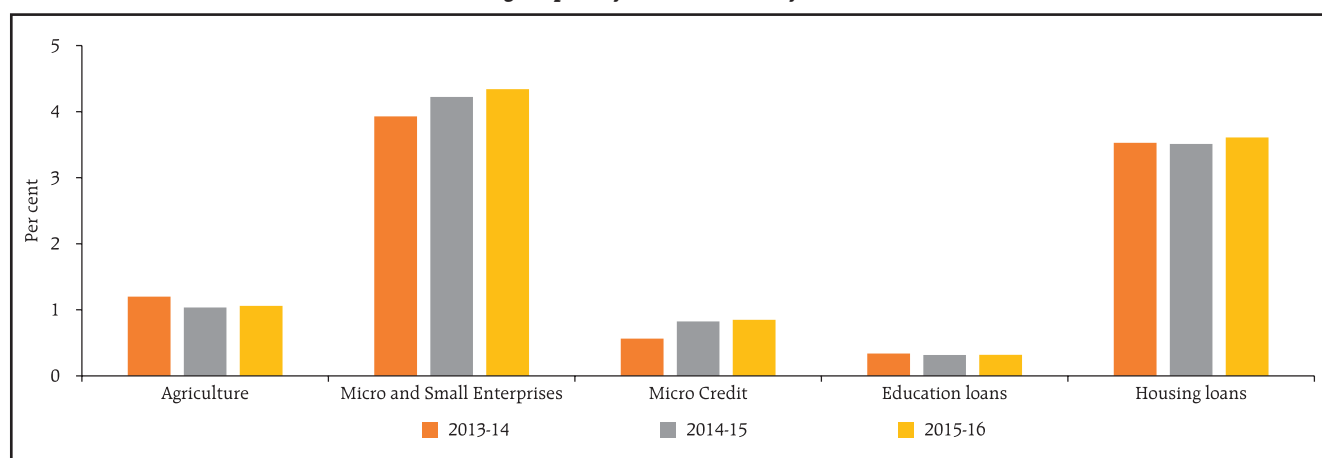
Chart 3.12: Distribution of credit to select priority sectors as a percentage of total credit by UCBs



Note: Data for 2015-16 are provisional.

Source: RBI Supervisory Returns and staff calculations.

Chart 3.13: Percentage of priority sector advances by UCBs to weaker sections



Note: Data for 2015-16 are provisional.

Source: RBI Supervisory Returns and staff calculations.

Table 3.1: A profile of rural co-operatives (as on March 31, 2015)

(₹ billion)

Item	Short-term			Long-term	
	StCBs	DCCBs	PACs	SCARDBs	PCARDBs
1	2	3	4	5	6
<b>A. Number of Co-operatives</b>	<b>32</b>	<b>370</b>	<b>92789</b>	<b>20@</b>	<b>702</b>
<b>B. Balance Sheet Indicators</b>					
i. Owned Funds (Capital + Reserve)	141.8	293.7	216.8	74.7	53.5
ii. Deposits	1028.1	2588.1	846.2	18.4	10.2
iii. Borrowings	687.3	800.0	999.8	161.1	163.7
iv. Loans and Advances	1145.5	2194.0	1472.3*	211.9	148.1
v. Total Liabilities/Assets	1988.6	4076.9	2237.1+	332.9	306.8
<b>C. Financial Performance</b>					
i. Institutions in Profit #					
a. Number	28	304	43653	9	319
b. Amount of Profit	11.1	18.3	28.3	1.1	1.8
ii. Institutions in Loss					
a. Number	4	58	37440	4	381
b. Amount of Loss	0.3	10.5	43.8	5.0	5.6
iii. Overall Profits (+)/Loss (-)	10.8	7.8	(-)15.5	(-) 3.9	(-) 3.8
<b>D. Non-performing Assets</b>					
i. Amount	57.2	208	357.9++	64.4	53.6
ii. As percentage of Loans Outstanding	5.0	9.5	24.3	30.3	36.2
<b>E. Recovery of Loans to Demand Ratio (Per cent)</b>	<b>94.9</b>	<b>77.3</b>	<b>NA</b>	<b>46.7</b>	<b>44.6</b>

**Note:** = @ Out of these, 9 have reported profits, 4 have reported losses (Haryana, Jammu and Kashmir, Puducherry and Tripura), 3 are non-functional/dormant (Assam, Bihar, Odisha), one is defunct (Manipur), two are under liquidation (Madhya Pradesh and Maharashtra) and in Chhattisgarh, the LT structure has been merged with the ST structure. # As per data submitted by 362 DCCBs. \* Loans & Advances Outstanding, + Working Capital, ++ Total overdues, NA= Not Available. **Source:** NABARD and NAFSCOB.

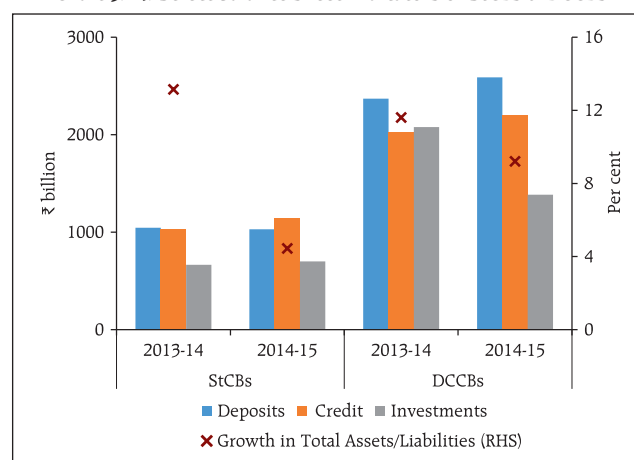
rural co-operative credit institutions at end-March 2015 (Table 3.1).

### Short term rural credit institutions – StCBs and DCCBs

3.15 StCBs experienced a slowdown in balance sheet expansion from 13.1 per cent in 2013-14 to 4.4 per cent in 2014-15 (Chart 3.14). This was primarily due to negative growth in deposits, a pronounced slowdown in the growth of the 'other liability' component, negative growth in cash and bank balances and lower growth in loans and advances on the asset side.

3.16 Growth in income for StCBs decelerated from 9.7 per cent in 2013-14 to 5.6 per cent in 2014-15 on account of a slowdown in the growth of interest income. Despite a sharp increase in the growth of operating expenses (9.3 per cent) in 2014-15, expenditure growth witnessed moderation from 12.9 per cent in 2013-14 to 4.1 per cent in 2014-15. This was due to the 'provisions and contingencies' component of expenditure being lower by 19.9 per

Chart 3.14: Select balance sheet indicators of StCBs &amp; DCCBs



**Source:** NABARD.

cent in 2014-15 (as compared to being higher by 42.6 per cent in 2013-14). The lower level of provisions and contingencies also resulted in higher growth of net profits during 2014-15 at 29.9 per cent as against a decline of 24.7 per cent in 2013-14.

3.17 The balance sheets of DCCBs expanded by 9.2 per cent in 2014-15, which was lower than that in previous years (13.3 per cent in 2012-13 and 11.6 per cent in 2013-14). A dip in the growth of other liabilities and deposits contributed to the slowdown from the liability side while lower growth in loans and advances and negative growth in investments accounted for the deceleration from the asset side.

3.18 Net profits of DCCBs recorded a negative growth of 49.9 per cent in 2014-15 *vis-à-vis* a negative growth of 0.7 per cent in 2013-14. Income increased by 9.3 per cent in 2014-15 as compared to 10.8 per cent in 2013-14 due to lower growth in interest income. On the other hand, the sharp increase in the 'provisions and contingencies' component of expenditure (26.8 per cent in 2014-15 versus (-)22.4 per cent in 2013-14) drove expenditure growth up from 11.1 per cent in 2013-14 to 12.2 per cent in 2014-15.

3.19 StCBs fared better than DCCBs in all aspects of financial performance. The NPA ratio of StCBs declined further from 5.5 per cent in 2013-14 to 5.0 per cent in 2014-15 while their recovery ratio increased from 82.5 per cent in 2013-14 to 94.9 per cent in 2014-15. There was a slight decline in DCCBs' NPA ratio (9.5 per cent in 2014-15 as against 10.3 per cent in 2013-14); their recovery ratio fell marginally from 78.3 per cent in 2013-14 to 77.3 per cent in 2014-15 (Table 3.2).

3.20 During 2014-15, StCBs in all regions saw an increase in profits, except in the north-eastern region. The increase was the highest for the eastern region with aggregate profits in 2014-15 being about four times that in 2013-14. With the exception of the central region, the NPA ratio of StCBs fell or remained stable across all regions with the decrease being the most pronounced in the north-eastern region (2.6 percentage points). Recovery as a percentage of demand exhibited a mixed trend with a turn-around in the eastern region where the recovery to demand ratio picked up from a low of 58 per cent in 2013-14 going up to 94.5 per cent in 2014-15 which was higher than the trend level of the region (about 90 per cent).

Table 3.2: Soundness indicators of rural co-operative banks (short-term)

(₹ billion)

Item	StCBs				DCCBs			
	As at end-March		Percentage Variation		As at end-March		Percentage Variation	
	2014	2015P	2013-14	2014-15P	2014	2015P	2013-14	2014-15P
1	2	3	4	5	6	7	8	9
<b>A. Total NPAs (i+ii+iii)</b>	57.0	57.2	1.2	0.4	209.0	208.0	15.8	-0.5
i. Sub-standard	20.7 (36.2)	20.8 (36.3)	0.3	0.5	100.2 (47.9)	93.2 (44.8)	27.3	-7.0
ii. Doubtful	26.1 (45.9)	24.7 (43.2)	31.2	-5.4	86.9 (41.6)	91.1 (43.8)	14.0	4.8
iii. Loss	10.2 (17.9)	11.7 (20.5)	-35.4	15.0	21.9 (10.5)	23.7 (11.4)	-14.4	8.3
<b>B. Gross NPA-to-Loans Ratio (%)</b>	5.5	5.0			10.3	9.5		
<b>C. Recovery-to-Demand Ratio (%) (as on 30 June of previous year)</b>	82.5	94.9			78.3	77.3		

Notes: Figures in parenthesis are percentages to total NPAs. P: Provisional.

Source: NABARD.

3.21 At the district level, there was an increase in NPAs of DCCBs across all regions, except western and northern regions. The increase was marginal barring the central region. The central region, along with the southern region, also saw a fall in their recovery to demand ratio in 2014-15. The declining trend of recovery in the southern region continued (90.9 per cent in 2012-13, 81.3 per cent in 2013-14 and 75.9 per cent in 2014-15).

**Developments with regard to DCCBs**

3.22 Significant progress has been made with respect to issuing licences to unlicensed DCCBs. With the implementation of the revival scheme announced by the central government in November 2014, the number of unlicensed DCCBs came down sharply from 23 to just 3 at the end of September 2016.

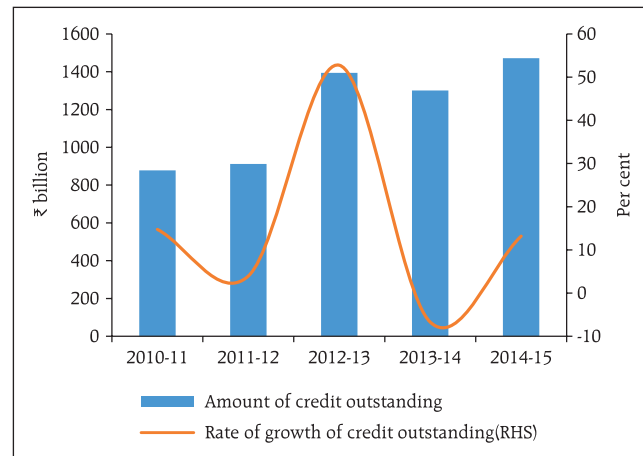
**Primary agricultural credit societies (PACS)**

3.23 PACS witnessed growth in credit outstanding during 2014-15 after experiencing a slowdown in 2013-14 (Chart 3.15).

3.24 The overall borrower to member ratio, which is a useful indicator of access to credit from PACS, improved from the level witnessed during 2013-14. Farmers – small and marginal – remained majority members of PACS but the increase in access to credit by the 'rural artisan' group contributed substantially to the increase in the overall borrower to member ratio (Chart 3.16).

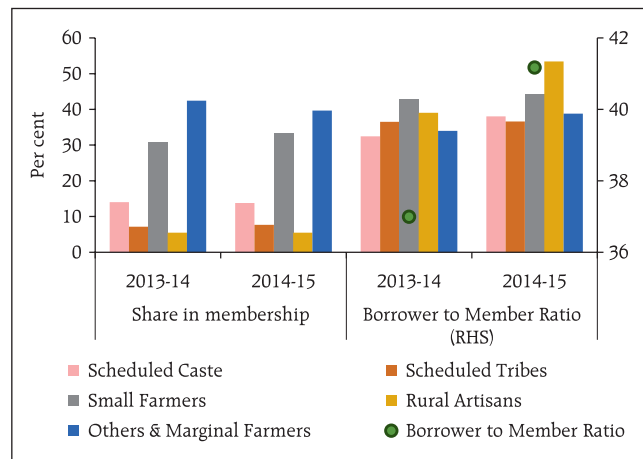
3.25 There was no change in the percentage of PACS making both profits and losses from the 2013-14 levels (Chart 3.17). The eastern region, followed by the north-eastern region, continued to remain the weakest performing regions with loss-making PACS

**Chart 3.15: Growth in credit outstanding from PACS**



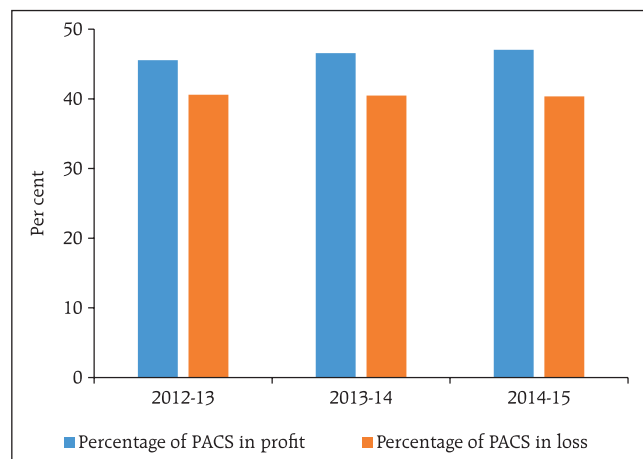
Source: NAFSCOB and staff calculations.

**Chart 3.16: Share in membership and borrower to member ratio**



Source: NAFSCOB and staff calculations.

**Chart 3.17: Percentage of PACS in profit and loss (all India)**



Source: NAFSCOB and staff calculations.



outnumbering profit-making PACS (Chart 3.18). The central and northern regions emerged the strongest with the number of profit-making PACS far exceeding the number of loss-making ones.

### Long-term rural credit

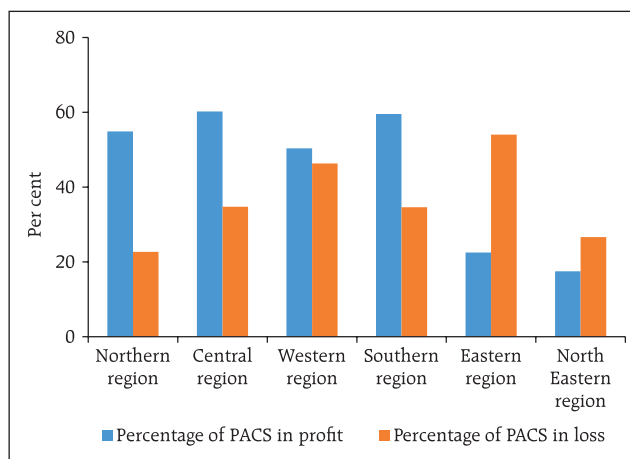
#### SCARDBs

3.26 SCARDBs' balance sheets expanded by 7.6 per cent in 2014-15 as against 0.7 per cent in 2013-14. On the liability side, major contributors were borrowings and other liabilities while on the asset side, investments, other assets and loans and advances contributed to the higher growth. There was a dip in growth of interest income and hence in the growth of total income in 2014-15. Nonetheless, there was a reduction in net losses in 2014-15 even as higher operating expenses caused the operating profits to fall. This was brought about as provisions against contingencies made during 2014-15 were lower by 28.9 per cent.

#### PCARDBs

3.27 PCARDBs' balance sheets expanded by 4.7 per cent in 2014-15 which was higher than the 3.3 per cent in 2013-14. This was mainly on account of higher growth in loans and advances, other assets (-1.4 per cent in 2013-14; 2.8 per cent in 2014-15)

Chart 3.18: Percentage of PACS in profit and loss – regional level (as on March 31, 2015)



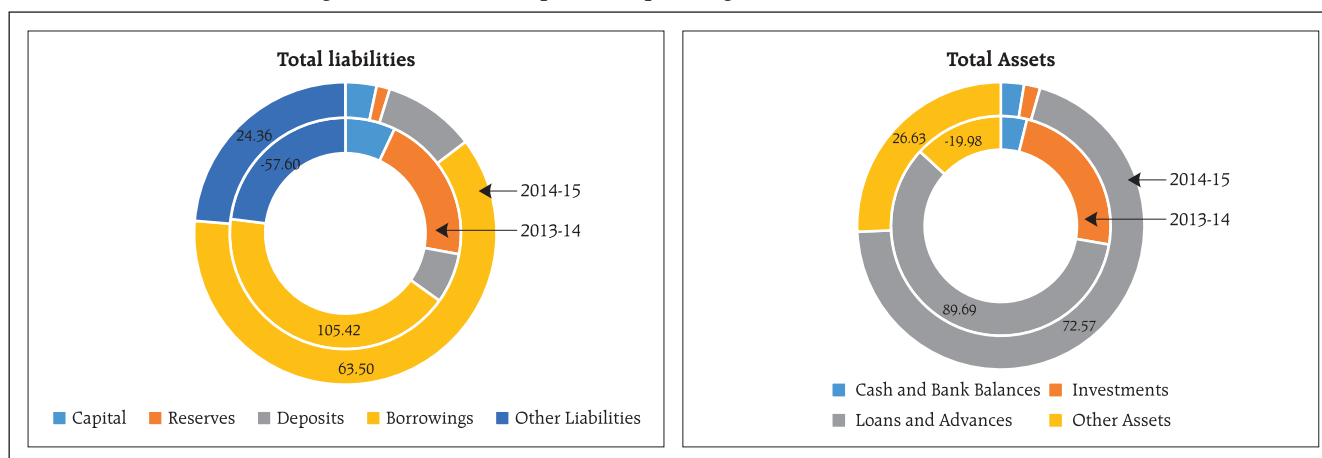
Source: NAFSCOB and staff calculations.

and other liabilities (-6.7 per cent in 2013-14; 4.4 per cent in 2014-15) and steady growth in borrowings (Chart 3.19).

3.28 PCARDBs' losses increased during 2014-15 as expenditure growth outpaced income growth. All items of expenditure witnessed acceleration in growth while interest income recorded a low growth of 2.4 per cent in 2014-15 *vis-à-vis* 9.8 per cent in 2013-14.

3.29 Asset quality and recovery performance of the long term rural credit institutions, especially SCARDBs, improved in 2014-15. Between 2013-14

Chart 3.19: Percentage contributions of components to percentage variation in total liabilities and assets of PCARDBs



Source: NABARD.

and 2014-15, SCARDBs' NPA ratio fell from 35.6 per cent to 30.3 per cent and the recovery ratio increased noticeably from 33.2 per cent to 46.7 per cent. The NPA ratio of PCARDBs fell from 37.3 per cent in

2013-14 to 36.2 per cent in 2014-15 and recovery to demand ratio continued to improve (42.7 per cent in 2012-13; 43.9 per cent in 2013-14; and 44.6 per cent in 2014-15) (Table 3.3).

Table 3.3: Soundness indicators of rural co-operative banks (long-term)

(₹ billion)

Item	SCARDBs				PCARDBs			
	As at end-March		Percentage Variation		As at end-March		Percentage Variation	
	2014	2015P	2013-14	2014-15P	2014	2015P	2013-14	2014-15P
1	2	3	4	5	6	7	8	9
<b>A. Total NPAs (i+ii+iii)</b>	72.6	64.4	7.5	-11.3	48.1	53.6	-0.3	11.5
i. Sub-standard	31.05 (42.8)	24.6 (38.1)	10.3	-20.9	22.1 (46.0)	27.3 (50.9)	-0.6	23.6
ii. Doubtful	41.4 (57.0)	39.2 (60.9)	8.7	-5.2	25.6 (53.3)	26.0 (48.5)	-0.04	1.4
iii. Loss	0.1 (0.2)	0.6 (0.9)	-91.1	445.5	0.4 (0.8)	0.3 (0.6)	-2.6	-13.5
<b>B. Gross NPA-to-Loans Ratio (%)</b>	35.6	30.3			37.3	36.2		
<b>C. Recovery-to-Demand Ratio (%) (as on 30 June of previous year)</b>	33.3	46.7			43.9	44.6		

Note: Figures in parenthesis are percentages to total NPAs. P: Provisional.

Source: NABARD.