Chapter IV

Operations and Performance of Commercial Banks

The Indian banking sector performed better in 2010-11 over the previous year despite the challenging operational environment. The banking business of Scheduled Commercial Banks (SCBs) recorded higher growth in 2010-11 as compared with their performance during the last few years. Credit grew at 22.9 per cent and deposits grew at 18.3 per cent in 2010-11 over the previous year. Accordingly, the outstanding credit-deposit ratio of SCBs increased to 76.5 per cent in 2010-11 as compared with 73.6 per cent in the previous year. Despite the growing pressures on margins owing to higher interest rate environment, the return on assets (RoA) of SCBs improved to 1.10 per cent in 2010-11 from 1.05 per cent in 2009-10. The capital to risk weighted assets ratio under both Basel I and II frameworks at 13.0 per cent and 14.2 per cent, respectively in 2010-11 remained well above the required minimum of 9 per cent. The gross NPAs to gross advances ratio declined to 2.25 per cent in 2010-11 from 2.39 per cent in 2009-10, displaying improvement in asset quality of the banking sector. Though there was improvement in the penetration of banking services in 2010-11 over the previous year, the extent of financial exclusion continued to be staggering. The number of complaints received at the Banking Ombudsman offices witnessed decline in 2010-11 over the previous year.

1. Introduction

Performance of banks was conditioned by the dynamics of growth-inflation trade-off

4.1 The Indian banking sector, which is the edifice of the Indian financial sector, though weathered the worst consequences of the global financial turmoil to a large extent, had to traverse through a challenging macroeconomic environment during the post crisis period. Followed by the financial turmoil, the global financial sector was generally turbulent mainly because of the European sovereign debt crisis, and sluggish growth recovery in the Euro zone as also in the US. In contrast, the banking sectors in the emerging market economies displayed better performance in 2010-11 as compared with their western counterparts. However, improving economic growth while keeping inflation at tolerable levels was a policy challenge faced by many of the emerging market economies including India during the post crisis period. To keep inflation at tolerable levels, the Reserve Bank has also undertaken monetary tightening during 2010-11. Accordingly, the operations and performance of commercial banks during 2010-11 was conditioned to a great extent by the dynamics of growth-inflation trade-off experienced by the Indian economy.

Banks operated in a challenging operational environment

4.2 During 2010-11, higher interest rate environment not only caused concerns about slowdown in credit growth, but also increased the possibility of deterioration in asset quality on the back of the possible weakening of the repayment capacities of borrowers in general. The tight interest rate environment also affected the profit prospects of commercial banks due to the possibility of lower margins in 2010-11. During the year, the large credit intake by some of the crucial sectors such as NBFCs and infrastructure, also raised concerns about financial soundness through the potential build up of sectoral credit booms. Large borrowings by the telecommunication companies to participate in the auction of 3G spectrum, reduction in Government spending as also the large currency holdings by the public due to high inflation made the liquidity conditions more stringent in 2010-11. Further, the need to migrate towards advanced approaches of capital calibration under Basel II was also a challenge that loomed large in the Indian banking sector. Alongside, there was also a pressing need to become more innovative to transform unbanked villages into profitable business locations thereby strengthening the financial inclusion process, to keep up with the latest technological developments and to improve the quality of customer service.

4.3 Against this backdrop, the present chapter analyses the operations and performance of commercial banks in India during the year 2010-11 in terms of deployment of credit, profitability, soundness indicators and regional penetration, among others. The chapter analyses the audited annual accounts of 83 SCBs[1], 82 Regional Rural Banks (RRBs) and four local area banks (LABs) for the financial year 2010-11 to highlight the emerging issues in the Indian banking sector.

2. Balance Sheet Operations of Scheduled Commercial Banks

Consolidated balance sheet of SCBs registered higher growth

4.4 The consolidated balance sheet of SCBs recorded higher growth in 2010-11 as compared with the previous year. This is in contrast to the trend observed during the last two years and signals a revival from the peripheral effects of global financial turmoil. The higher growth in the consolidated balance sheet of SCBs was contributed by all the bank groups except old private sector banks (OPRBs), which recorded marginal deceleration in growth. The highest growth was recorded by new private sector banks (NPRBs) followed by public sector banks (PSBs). Yet, as at end-March 2011, almost three fourths of the total assets of the banking sector belonged to PSBs followed by NPRBs (15 per cent). Old private sector banks had the lowest share (around four per cent) followed by foreign banks (FBs) (around seven per cent).

Liability side of the balance sheet was driven by capital, borrowings and, other liabilities

4.5 On the liability side of the balance sheet, the growth was driven mainly by borrowings, capital, and other liabilities and provisions. The recapitalisation of public sector banks by the Central Government, and the mobilisation of funds from the stock market through public issues by PSBs were the main factors behind the growth of capital of SCBs in 2010-11. An interesting development about the consolidated balance sheet of SCBs in 2010-11 was the deceleration in the growth of savings bank deposits and demand deposits with a corresponding acceleration in the growth of term deposits. This could be due to the prevailing higher interest rate environment, making term deposits more attractive as compared with demand and savings deposits.

Asset side of the balance sheet was driven by loans and advances

4.6 On the asset side of the balance sheet, the growth was primarily driven by loans and advances. There was a revival in credit growth across all the bank groups except old private sector banks in 2010-11 as compared with the previous year despite the tight interest rate environment. Credit growth in 2010-11 of new private sector banks and foreign banks was particularly noteworthy when compared with their performance during the last year. Notably,

[1] These include 26 public sector banks (State Bank of India and its five associates, 19 nationalised banks and IDBI Bank Ltd.), 7 new private sector banks, 14 old private sector banks and 36 foreign banks. The number of SCBs increased to 83 in 2010-11 from 81 in 2009-10.

Table IV.1: Consolidated Balance Sheet of Scheduled Commercial Banks

(in ₹ crore)

Item	As at end-March 2011					
	Public sector banks	**Private sector banks**	Old private sector banks	New private sector banks	**Foreign banks**	**All scheduled commercial banks**
1	**2**	**3**	4	5	**6**	**7**
1. Capital	**19,055**	**4,805**	1,396	3,409	**35,383**	**59,243**
2. Reserves and Surplus	**2,71,196**	**1,33,784**	22,425	1,11,359	**45,668**	**4,50,648**
3. Deposits	**43,72,985**	**10,02,759**	2,64,157	7,38,602	**2,40,689**	**56,16,432**
3.1. Demand Deposits	**4,10,109**	**1,58,929**	24,222	1,34,707	**72,900**	**6,41,939**
3.2. Savings Bank Deposits	**10,83,001**	**2,29,130**	49,667	1,79,463	**39,650**	**13,51,782**
3.3. Term Deposits	**28,79,874**	**6,14,699**	1,90,268	4,24,432	**1,28,138**	**36,22,712**
4. Borrowings	**3,95,144**	**1,85,984**	10,967	1,75,017	**92,797**	**6,73,925**
5. Other Liabilities and Provisions	**2,35,438**	**70,844**	10,066	60,778	**76,992**	**3,83,273**
Total Liabilities/Assets	**52,93,817**	**13,98,176**	**3,09,011**	**10,89,166**	**4,91,528**	**71,83,522**
1. Cash and Balances with RBI	**3,52,379**	**86,111**	18,173	67,938	**20,293**	**4,58,783**
2. Balances with Banks and Money at Call and Short Notice	**1,32,225**	**31,616**	3,908	27,708	**27,365**	**1,91,206**
3. Investments	**13,28,534**	**4,22,020**	92,617	3,29,403	**1,65,499**	**19,16,053**
3.1 Government Securities (a+b)	**10,82,515**	**2,63,181**	64,603	1,98,578	**1,11,960**	**14,57,657**
a) In India	**10,74,411**	**2,62,252**	64,603	1,97,649	**1,11,960**	**14,48,624**
b) Outside India	**8,103**	**929**	-	929	**-**	**9,033**
3.2 Other Approved Securities	**3,098**	**89**	51	38	**2**	**3,189**
3.3 Non-Approved Securities	**2,42,920**	**1,58,750**	27,962	1,30,787	**53,537**	**4,55,207**
4. Loans and Advances	**33,05,632**	**7,97,534**	1,84,647	6,12,886	**1,95,539**	**42,98,704**
4.1 Bills purchased and Discounted	**1,83,405**	**33,013**	9,875	23,138	**25,182**	**2,41,600**
4.2 Cash Credits, Overdrafts, *etc.*	**13,97,114**	**2,03,756**	84,039	1,19,717	**91,172**	**16,92,042**
4.3 Term Loans	**17,25,113**	**5,60,765**	90,733	4,70,032	**79,185**	**23,65,063**
5. Fixed Assets	**36,156**	**12,980**	2,509	10,470	**4,958**	**54,093**
6. Other Assets	**1,38,892**	**47,915**	7,156	40,760	**77,874**	**2,64,681**

-: Negligible/Nil
Source: Balance sheets of respective banks.

the growth of investments of the banking sector witnessed deceleration in 2010-11 in comparison with the previous year. The only exception to this general trend was the new private sector banks, which recorded higher growth in investments in 2010-11 as compared with the previous year (Tables IV.1 and IV.2).

Major Liabilities of SCBs

Deposits

Deposits registered higher growth

4.7 Deposits, which constitute 78 per cent of total liabilities of the banking sector registered higher growth in 2010-11 in contrast to the trend observed in the recent years. This was mainly because of the accelerated deposit mobilisation of new private sector banks in 2010-11 over the previous year. The higher growth in deposits emanated mainly from term deposits. As alluded to earlier, this could be due to the higher interest rate environment leading to an increase in term deposit rates. While accelerated growth rate of term deposits is a welcome development from the point of view of stability of balance sheet as it strengthens the retail deposit base and reduces asset liability mismatches; it may increase the interest expenses of the banking sector, thus, adversely impacting profitability.

Share of CASA deposits in total incremental deposits declined

4.8 In contrast, current account and savings account (CASA) deposits, which are least cost sources, recorded deceleration in 2010-11. It is pertinent to note that despite the increased remuneration on savings deposits based on a daily product basis with effect from April 1, 2010, the savings deposit mobilisation decelerated in 2010-11 across all the bank groups as compared with the previous year. Shift of funds to term deposits due to higher interest rates is one of the reasons for this trend.

Table IV.2: Growth in Balance Sheet of Scheduled Commercial Banks

(Per cent)

Item	Public sector banks		Private sector banks		Old private sector banks		New private sector banks		Foreign banks		All scheduled commercial banks	
1	2	3	4	5	6	7	8	9	10	11	12	13
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1. Capital	0.1	40.7	7.3	5.6	8.7	9.7	6.7	4.1	19.7	15.9	12.3	21.9
2. Reserves and Surplus	16.8	19.2	21.0	15.9	15.9	18.7	22.0	15.4	12.3	18.2	17.5	18.1
3. Deposits	18.6	18.4	11.7	21.9	15.4	14.9	10.4	24.6	8.4	3.7	16.8	18.3
3.1. Demand Deposits	18.4	11.3	33.5	18.1	22.5	12.2	35.9	19.2	12.7	6.8	20.9	12.4
3.2. Savings Bank Deposits	25.8	22.1	32.8	23.0	26.2	14.0	34.9	25.8	26.5	8.8	26.9	21.8
3.3. Term Deposits	16.2	18.2	1.3	22.5	12.0	15.5	-3.1	25.8	2.2	0.6	12.9	18.2
4. Borrowings	21.4	25.9	8.5	24.5	40.6	26.4	6.9	24.4	-11.9	36.0	12.2	26.8
5. Other Liabilities and Provisions	4.2	21.4	8.5	20.9	8.4	-1.0	8.5	25.5	-29.7	16.9	-4.6	20.4
Total Liabilities/Assets	17.9	19.2	12.0	21.5	15.8	14.9	10.9	23.5	-2.2	12.9	15.0	19.2
1. Cash and Balances with RBI	20.8	30.1	32.0	13.5	27.7	7.4	33.3	15.2	22.1	6.3	23.1	25.4
2. Balances with Banks and Money at Call and Short Notice	-12.9	15.6	13.9	-18.2	-43.3	-31.3	38.0	-16.0	-34.2	33.1	-11.6	10.1
3. Investments	20.0	9.3	15.5	19.2	15.3	10.9	15.6	21.7	22.2	3.9	19.3	10.8
3.1 Government Securities (a+b)	19.0	7.4	10.6	9.1	13.4	6.2	9.7	10.1	17.5	-4.7	17.3	6.6
a) In India	18.8	7.4	10.6	8.8	13.4	6.2	9.7	9.7	17.5	-4.7	17.2	6.6
b) Outside India	48.2	-3.0	72.6	464.8	-	-	72.6	464.8	-	-	48.6	6.1
3.2 Other Approved Securities	-36.8	-38.2	43.4	-71.4	56.2	-82.2	-31.7	74.8	-41.7	-57.1	-34.6	-40.2
3.3 Non-Approved Securities	28.4	20.1	27.6	41.0	20.5	24.9	29.5	45.0	37.7	28.1	29.2	27.6
4. Loans and Advances	19.6	22.4	9.9	26.1	19.9	19.8	7.1	28.1	-1.3	19.8	16.6	22.9
4.1 Bills purchased and Discounted	10.4	30.3	30.7	20.2	19.1	10.3	37.2	25.0	46.9	18.2	16.3	27.5
4.2 Cash Credits, Overdrafts, *etc.*	22.9	26.9	9.6	28.4	20.8	23.4	2.5	32.1	2.5	24.8	19.9	27.0
4.3 Term Loans	18.1	18.2	9.0	25.7	19.2	17.8	7.0	27.3	-13.4	14.9	14.4	19.8
5. Fixed Assets	2.2	4.9	3.6	26.8	8.0	6.5	2.4	32.8	2.6	2.0	2.5	9.1
6. Other Assets	-0.2	32.9	-11.6	21.6	7.4	12.6	-14.5	23.3	-30.1	14.0	-14.1	24.7

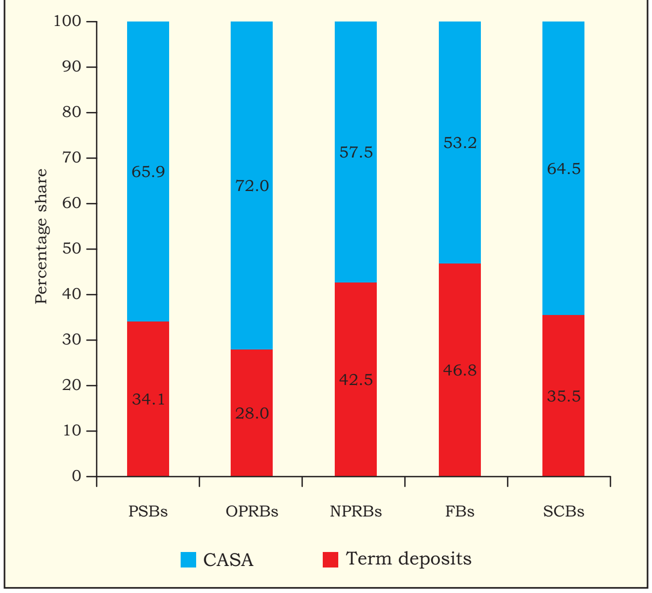
-: Negligible/Nil
Source: Balance sheets of respective banks.

However, the upward revision in the savings deposit rate from 3.5 per cent to 4.0 per cent in April 2011 and deregulation of interest rate on savings deposits in October 2011, may improve the savings deposit mobilisation going forward. However, in a competitive environment, with the deregulation of interest rates, savings deposits will no longer be as less expensive as they were in the past. In tune with the growth deceleration, the share of CASA deposits in total incremental deposits declined to 36 per cent in 2010-11 as compared with 48 per cent in the previous year. An analysis at the bank group level indicated that foreign banks had the highest share of CASA deposits followed by NPRBs and PSBs (Chart IV.1).

Growth of unclaimed deposits decelerated

4.9 The Reserve Bank raised concerns with regard to the growing unclaimed deposits with the banking sector and advised SCBs in August 2008 to become pro-active in finding out the whereabouts of these customers. Resultantly, since 2008 the growth rate of unclaimed

Chart IV.1: Composition of Deposits 2010-11



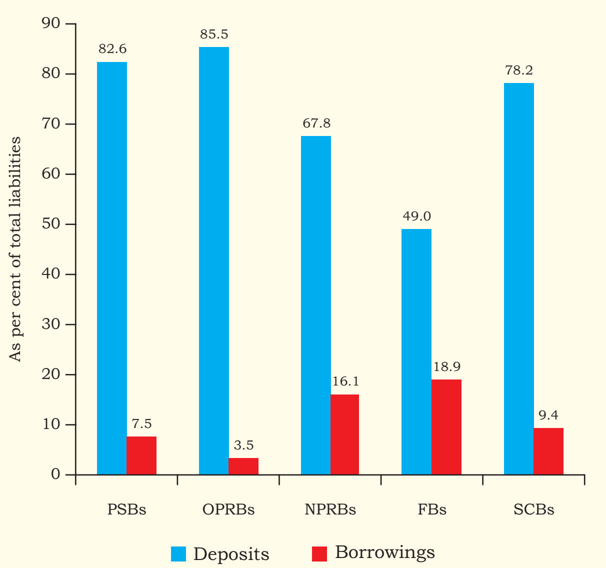
deposits witnessed deceleration. The growth rate of unclaimed deposits came down to 5 per cent in December 2010 as compared with the growth rates of 15 per cent in December 2009 and 18 per cent in December 2008. Importantly, unclaimed deposits in the current accounts and fixed deposit accounts declined as at end-December 2010 over the previous year. The share of unclaimed deposits in total deposits, however, remained more or less same at 0.02 per cent in 2010-11 as in the previous year[2].

Borrowings

Borrowings recorded higher growth

4.10 Borrowings, which constitute nine per cent of the total liabilities of the banking sector recorded accelerated growth in 2010-11 as compared with the previous year. At the bank group level, the share of borrowings in total liabilities exhibited wide variation. The dependence of foreign banks and new private sector banks on borrowings was relatively high as compared with other bank groups (Chart IV.2).

Chart IV.2: Deposits and Borrowings 2010-11



Major Assets of Scheduled Commercial Banks

Bank Credit

Growth of loans and advances witnessed acceleration

4.11 It is interesting to note that despite the widespread concerns with regard to slowdown in credit off-take in the context of tight monetary policy, on a y-o-y basis, the loans and advances of the banking sector recorded higher growth in 2010-11 as compared with the previous year. While the economic recovery from the recent financial turmoil increased the demand for credit; from the supply side, higher growth in deposits as well as growth in capital facilitated higher credit growth. In contrast to the previous year's trend, term loans grew at a higher rate in 2010-11 as compared with the previous year. In 2010-11, new private sector banks recorded significantly higher growth in term loans as compared with the previous year, on the back of corresponding high growth in term deposits mobilisation.

Investments

Growth of investments decelerated

4.12 Due to the accommodation of higher credit growth, there was an overall deceleration in the growth of investments in securities in 2010-11 as compared with the previous year. In 2010-11, almost three fourths of the total investments of the banking sector were in Government securities held in India, mainly to meet the SLR requirements prescribed by the Reserve Bank and to raise funds from the short-term money market. However, investments of the banking sector in Government securities held in India recorded lower growth in 2010-11 as compared with the previous year in tune with the reduction in SLR requirements from 25 per cent to 24 per cent with effect from December 18, 2010.

[2] Data on deposits were taken from Quarterly Statistics on Deposits and Credit of SCBs.

Non-SLR investments declined

4.13 The non-SLR investments of SCBs witnessed a decline in March 2011 as compared with those during the corresponding period of the previous year. This was primarily due to a decline in the investments in commercial paper in 2010-11 over those during the previous year. Investments in commercial paper are short-term investments of the banking sector to reap economic gain out of short-term surplus funds. The decline in such investments reflected tight liquidity conditions during 2010-11. On the other hand, banks' investments in shares witnessed increase in 2010-11 over the previous year. Alongside, banks' investments in bonds/ debentures also witnessed a marginal increase during 2010-11 as compared with the previous year (Table IV.3).

International Liabilities and Assets of Scheduled Commercial Banks[3]

International liabilities registered moderated growth

4.14 In 2010-11, international liabilities of the banking sector grew at a lower rate as compared with the growth in international assets. Yet, the international liabilities of the banking sector continued to be almost double of the international assets of the banking sector in 2010-11 as in the recent past. The growth in international liabilities was mainly led by growth in equities of banks held by non-residents, Non-Resident Ordinary (NRO) deposits and foreign currency borrowings (Table IV.4).

International assets recorded higher growth

4.15 The growth in international assets was mainly led by foreign currency loans to residents, outstanding export bills drawn on non-residents by residents and Nostro balances (Table IV.5).

Consolidated International Claims[4]

Consolidated international claims recorded higher growth

4.16 The consolidated international claims of the banking sector registered higher growth in 2010-11 as compared with the previous year. The sector-wise composition of international claims showed that it was mainly claims on

Table IV.3: Non-SLR Investments of Scheduled Commercial Banks

(Amount in ₹ crore)

Instrument	As on March 25, 2011	Per cent to total	As on October 07, 2011	Per cent to total
1	2	3	4	5
1. Commercial Paper	**12,310 (-51.1)**	**5.4**	**21,244 (-50.2)**	**8.1**
2. Shares	**41,316 (37.2)**	**18.2**	**38,941 (15.0)**	**14.8**
a) *Of which,* Public sector undertakings	8,965	4.0	8,377	3.2
b) *Of which,* Private corporate sector	32,351	14.3	30,564	11.6
3. Bonds/Debentures	**93,975 (49.7)**	**41.5**	**1,09,089 (47.0)**	**41.4**
a) *Of which,* Public sector undertakings	27,946	12.3	35,013	9.2
b) *Of which,* Private corporate sector	66,029	29.2	74,077	28.1
4. Units of MFs	**47,603 (-10.0)**	**21.0**	**61,806 (2.3)**	**23.5**
5. Instruments issued by FIs	**31,296 (-4.0)**	**13.8**	**32,326 (12.3)**	**12.3**
Total Investments (1 to 5)	**2,26,500 (11.3)**	**100.0**	**2,63,406 (9.8)**	**100.0**

Note: Figures in parentheses indicate percentage variation over the corresponding period in the previous year.
Source: Section 42(2) returns submitted by SCBs.

[3] Refers to international liabilities and assets of branches of all commercial banks geographically located in India.
[4] Refers to international assets of all branches (both located in India and abroad) of domestic commercial banks.

Table IV.4: International Liabilities of Banks – By Type
(As at end-March)

(Amount in ₹ crore)

Item	2010	2011	Percentage Variation 2010	Percentage Variation 2011
1	2	3	4	5
1. Deposits and Borrowings	**3,38,574**	**3,78,221**	**4.8**	**11.7**
of which:	**(74.9)**	**(74.9)**		
Foreign Currency Non Resident Deposits (Bank) [FCNR (B)] scheme	72,234 (16.0)	77,413 (14.8)	-0.8	7.2
Foreign Currency Borrowings *	74,354 (16.4)	95,419 (18.3)	-1.4	28.3
Non-resident External Rupee (NRE) Deposits	1,22,380 (27.1)	1,21,229 (23.2)	-1.7	-0.9
Non-Resident Ordinary (NRO) Rupee Deposits	30,824 (6.8)	41,072 (7.9)	49.0	33.2
2. Own Issues of Securities/Bonds	**5,439 (1.2)**	**4,575 (0.9)**	**-20.8**	**-15.9**
3. Other Liabilities	**1,08,166**	**1,38,658**	**91.3**	**28.2**
of which:	**(23.9)**	**(26.6)**		
ADRs/GDRs	30,391 (6.7)	34,699 (6.7)	193.4	14.2
Equities of banks held by non-residents	50,313 (11.1)	73,159 (14.0)	165.8	45.4
Capital/remittable Profits of Foreign Banks in India and other unclassified International Liabilities	27,462 (6.1)	30,799 (5.9)	0.8	12.2
Total International Liabilities	**4,52,179**	**5,21,454**	**17.0**	**15.3**

* : Include inter-bank borrowings in India and from abroad, and external commercial borrowings of banks.
Note: Figures in parentheses are percentages to total International liabilities.
Source: Locational Banking Statistics.

banks, which led the growth in total international claims of banks (Table IV.6).

4.17 The growth in the consolidated international claims of banks on countries other than India was mainly led by claims of banks on Germany, UAE and USA. In contrast, claims of banks on UK and Hong Kong registered a decline in 2010-11 as compared with the previous year (Table IV.7).

Table IV.5: International Assets of Banks - By Type
(As at end-March)

(Amount in ₹ crore)

Item	2010	2011	Percentage Variation 2010	Percentage Variation 2011
1	2	3	4	5
1. Loans and Investments	**2,37,181 (96.3)**	**2,78,741 (96.8)**	**8.0**	**17.5**
of which :				
a) Loans to Non-Residents*	10,196 (4.1)	14,414 (5.0)	22.2	41.4
b) Foreign Currency Loans to Residents**	1,23,476 (50.1)	1,40,083 (48.6)	23.5	13.4
c) Outstanding Export Bills drawn on Non-Residents by Residents	50,496 (20.5)	61,321 (21.3)	13.3	21.4
d) Nostro Balances@	52,135 (21.2)	62,343 (21.6)	-21.6	19.6
2. Holdings of Debt Securities	**39 (0.0)**	**179 (0.1)**	**-48.7**	**359.0**
3. Other Assets @@	**9,139 (3.7)**	**9,147 (3.2)**	**-6.1**	**0.1**
Total International Assets	**2,46,359 (100.0)**	**2,88,067 (100.0)**	**7.4**	**16.9**

* : Include rupee loans and Foreign Currency (FC) loans out of non-residents (NR) deposits;
** : Include loans out of FCNR (B) deposits, Packing Credit in Foreign Currency (PCFC), FC lending to and FC deposits with banks in India.
@ : Include placements made abroad and balances in term deposits with non-resident banks.
@@ : Include capital supplied to and receivable profits from foreign branches/subsidiaries of Indian banks and other unclassified international assets.
Note : Figures in parentheses are percentages to total international assets.
Source: Locational Banking Statistics.

Table IV.6: Classification of Consolidated International Claims of Banks on Countries other than India - By Maturity and Sector
(As at end-March)

(Amount in ₹ crore)

Residual Maturity/Sector	2010	2011
1	2	3
Total Consolidated International Claims	**2,33,071**	**2,46,413**
a) Maturity-wise		
1) Short-term (residual maturity less than one year)	1,44,638 (62.1)	1,53,893 (62.5)
2) Long-term (residual maturity of one year and above)	81,939 (35.2)	87,247 (35.4)
3) Unallocated	6,494 (2.8)	5,273 (2.1)
b) Sector-wise		
1) Bank	98,191 (42.1)	1,09,142 (44.3)
2) Non-Bank Public	1,442 (0.6)	870 (0.4)
3) Non-Bank Private	1,33,438 (57.3)	1,36,401 (55.4)

Note: 1) Figures in parentheses are percentages to total International claims.
2) Unallocated residual maturity comprises maturity not applicable (*e.g.*, for equities) and maturity information not available from reporting bank branches.
3) Bank sector includes official monetary institutions (IFC, ECB, *etc.*) and central banks.
4) Prior to the quarter ended March 2005, 'Non-bank public sector' comprised of companies/institutions other than banks in which shareholding of State/Central Governments was at least 51 per cent, including State/Central Governments and its departments. From March 2005 quarter, 'Non-bank public sector' comprises only State/Central Governments and its departments.

Source: Consolidated Banking Statistics - Immediate Country Risk Basis.

Table IV.7: Consolidated International Claims of Banks on Countries other than India
(As at end-March)

(Amount in ₹ crore)

Item	2010	2011
1	2	3
Total Consolidated International Claims	**2,33,071 (100.0)**	**2,46,413 (100.0)**
of which:		
a) United States of America	53,394 (22.9)	54,818 (22.2)
b) United Kingdom	36,141 (15.5)	34,370 (13.9)
c) Singapore	18,437 (7.9)	18,546 (7.5)
d) Germany	12,179 (5.2)	14,164 (5.7)
e) Hong Kong	18,978 (8.1)	18,376 (7.5)
f) United Arab Emirates	13,536 (5.8)	15,498 (6.3)

Note: Figures in parentheses are percentage shares in total international claims.

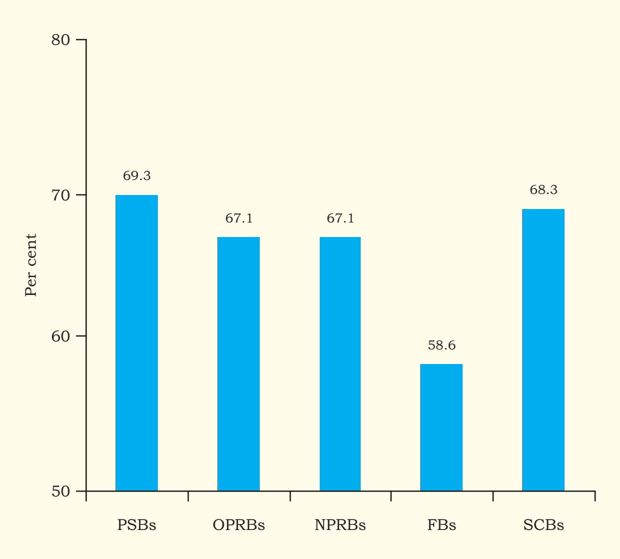
Source: Consolidated Banking Statistics - Immediate Country Risk Basis.

Credit-Deposit and Investment-Deposit Ratios of Scheduled Commercial Banks

Banks reported higher outstanding credit-deposit ratio

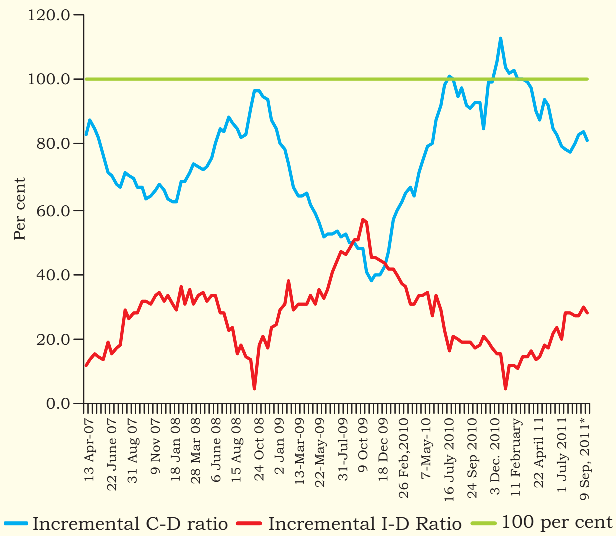
4.18 Trends in credit-deposit ratio as well as investment-deposit ratio manifested banks' preference for credit over investments in 2010-11. The outstanding credit-deposit ratio was higher at 77 per cent in 2010-11 as compared with 74 per cent in the previous year. In contrast, the outstanding investment-deposit ratio was lower at 34 per cent in 2010-11 as compared with 36 per cent in the previous year. Among the bank groups, new private sector banks recorded the highest credit-deposit ratio followed by foreign banks in 2010-11. However, the higher credit-deposit ratio reported by new private sector banks as well as foreign banks needs to be interpreted with a caveat as the dependence of these bank groups on deposits for funds is relatively lower as compared with other bank groups. These bank groups raise a substantial amount of funds through borrowings (see Chart IV.2) and hence, a more meaningful ratio for a bank group comparison would be credit as a percentage of deposits plus borrowings. Public sector banks ranked first in terms of this ratio followed by private sector banks and foreign banks (Chart IV.3).

Chart IV.3: Credit as per cent of Deposits plus Borrowings 2010-11



4.19 The incremental C-D ratio above 100 per cent is a rough indicator of overheating in the economy. Owing to the robust credit growth in 2010-11, the incremental C-D ratio went above 100 per cent during the third quarter of 2010-11. However, subsequently incremental C-D ratio witnessed moderation. Accordingly, the incremental I-D ratio improved during the later part of the year (Chart IV.4).

Chart IV.4: Incremental Credit- and Investment-Deposit Ratios of SCBs



*: Provisional data.

Maturity Profile of Assets and Liabilities of Banks

No significant shift in the maturity profile-wise composition of assets and liabilities

4.20 The mismatches in the maturity profile of assets and liabilities of the banking sector are a cause for concern as it leads to the financing of long-term assets by short-term liabilities. The maturity profile-wise composition of assets and liabilities indicated that almost half of the total deposits and borrowings of the banking sector were short-term as at end-March 2011. However, almost one fourth of the total loans and advances, and more than half of the total investments were long-term during the same period. There was no significant shift in the maturity profile-wise composition of assets and liabilities of the banking sector in 2010-11 over the previous year indicating the persistence of

Table IV.8: Bank Group-wise Maturity Profile of Select Liabilities/Assets

(As at end -March)

(Per cent to total under each item)

Liabilities/assets	**Public sector banks**		**Private sector banks**		Old private sector banks		New private sector banks		**Foreign banks**		**All SCBs**	
1	**2**	**3**	**4**	**5**	6	7	8	9	**10**	**11**	**12**	**13**
	2010	**2011**	**2010**	**2011**	2010	2011	2010	2011	**2010**	**2011**	**2010**	**2011**
I. Deposits												
a) Up to 1 year	**48.9**	**48.2**	**47.7**	**46.1**	47.6	45.3	47.7	46.4	**63.7**	**64.2**	**49.4**	**48.5**
b) Over 1 year and up to 3 years	**27.5**	**28.6**	**38.4**	**38.6**	36.8	40.6	39.0	37.9	**26.8**	**26.9**	**29.4**	**30.3**
c) Over 3 years	**23.6**	**23.2**	**13.9**	**15.2**	15.6	14.1	13.3	15.6	**9.5**	**9.0**	**21.2**	**21.1**
II. Borrowings												
a) Up to 1 year	**42.0**	**40.1**	**34.7**	**42.4**	49.0	54.5	33.9	41.7	**74.6**	**78.7**	**44.2**	**46.2**
b) Over 1 year and up to 3 years	**11.0**	**12.5**	**23.9**	**16.2**	15.6	12.5	24.4	16.4	**14.7**	**14.8**	**15.3**	**13.9**
c) Over 3 years	**46.9**	**47.4**	**41.4**	**41.4**	35.3	33.0	41.7	41.9	**10.7**	**6.5**	**40.5**	**40.0**
III. Loans and Advances												
a) Up to 1 year	**38.0**	**36.0**	**37.1**	**37.6**	40.5	41.9	36.0	36.3	**61.1**	**68.1**	**38.9**	**37.8**
b) Over 1 year and up to 3 years	**33.8**	**36.2**	**34.2**	**36.4**	36.8	38.4	33.4	35.8	**20.1**	**17.0**	**33.3**	**35.4**
c) Over 3 years	**28.2**	**27.7**	**28.7**	**26.0**	22.7	19.7	30.6	27.8	**18.8**	**15.0**	**27.8**	**26.8**
IV. Investments												
a) Up to 1 year	**18.8**	**18.1**	**38.1**	**37.3**	24.4	28.7	42.4	39.7	**76.4**	**79.0**	**28.1**	**27.6**
b) Over 1 year and up to 3 years	**12.2**	**12.7**	**21.6**	**22.4**	8.8	12.2	25.6	25.3	**15.2**	**14.6**	**14.4**	**15.0**
c) Over 3 years	**69.0**	**69.2**	**40.2**	**40.2**	66.8	59.1	32.0	35.0	**8.4**	**6.4**	**57.5**	**57.3**

Source: Balance Sheets of respective banks.

Box IV.1: Asset Liability Mismatches (ALM) in the Indian Banking Sector: The Extent and Persistence

The analysis of the maturity profile of long-term assets and liabilities indicates that at the aggregate level, the long-term assets are financed by short-term liabilities. The ALM calculated as long-term assets minus long-term liabilities never turned out to be negative during the recent years implying that the higher growth observed in the long-term loan segment is leading to asset liability mismatches in the banking sector. Bucket-wise break-up of ALM positive gap shows that the banking sector has the highest ALM positive gap in the bucket more than five years followed by 3-5 years and 1-3 years. As at end-September 2010, ALM positive gap in the more than five years bucket constituted 42 per cent of the total ALM positive gap, followed by 3-5 years bucket (31 per cent) and 1-3 years bucket (27 per cent).

An analysis of persistence of the positive ALM gap is carried out following the methodology developed by Marques (2004). Accordingly, the persistence of ALM positive gap is estimated on the basis of absence of mean reversion, that is

$$\gamma = 1 - \left(\frac{n}{T}\right)$$

Where n stands for the number of times the series crosses the mean during a time interval with T+1 observations. It is theoretically proved that for a symmetric zero mean white noise process E (γ) = 0.5. Thus, if the value of γ is close to 0.5, it means that there is no significant persistence. On the other hand, if the value of γ is significantly above 0.5 it signals the existence of significant persistence. Under the assumption of a symmetric white noise process (zero persistence), the statistic

$$\left[\frac{\gamma - 0.5}{\frac{0.5}{\sqrt{T}}}\right] \cap N(0;1)$$

is used for testing the statistical significance of the measure of persistence γ.

Table: Measure of Persistence of ALM Positive Gap – Bucket-wise

Time Buckets	Persistence (γ)	Significance (γ – 0.5)/(0.5/√T)
One to Three Years	0.60	1.483[b] (0.0606)
Three to Five Years	0.47	-0.404[b] (0.3264)
More than Five Years	0.47	-0.404[b] (0.3264)
Total	**0.47**	**0.405[b] (0.3264)**

[b]Acceptance of the null hypothesis of zero persistence at 5 per cent level.
Note: Number of Observations used for the analysis is 55.

The value of γ for the ALM positive gap during the entire sample period, *i.e.*, March 2006 to September 2010 for all SCBs is 0.47, which is slightly lower than 0.5. This indicates that there is no significant persistence in the ALM positive gap during the period under study at the aggregate level. The bucket-wise analysis of persistence shows that in none of the time buckets, the persistence is significant at five per cent level. However, at ten per cent level, it is persistent in the 'one to three years' time bucket. Thus, in sum, though at the aggregate level, the ALM positive gap is not significant, in the 'one to three years' bucket it is significant and calls for careful monitoring (Table).

Reference:

Marques, Carlos Robalo (2004), 'Inflation Persistence: Facts or Artefacts?', Working Paper No. 371, June, European Central Bank.

asset-liability mismatches. An analysis of the extent and persistence of asset liability mismatches in the Indian banking sector is provided in Box IV.1 (Table IV.8).

4.21 Almost 20 per cent of the long-term assets of the Indian banking sector were financed by short-term liabilities in 2010-11. The percentage of long-term assets financed by short-term liabilities witnessed a marginal decline over the previous year (Table IV.9).

4.22 On the financing side, almost 23 per cent of short-term liabilities were used to finance almost 20 per cent of long-term assets in the banking sector. The percentage share of short-term liabilities used to finance long-term assets also witnessed a marginal decline in 2010-11 over the previous year (Table IV.9).

Off-Balance Sheet Operations of Scheduled Commercial Banks

Off-balance sheet operations of banks continued to increase

4.23 The recent global financial turmoil demonstrated the risk involved in accumulating large amount of off-balance sheet exposures (OBS). Recognising the risky and uncertain nature of OBS, the Reserve Bank tightened the prudential norms on OBS in August 2008.

4.24 The off-balance sheet exposures of the banking sector, which declined in the previous two years, witnessed a growth of 31 per cent in 2010-11. The forward exchange contracts constituted more than three fourths of total off-balance sheet exposures in 2010-11. The off-

Table IV.9: Asset Liability Mismatches in the Indian Banking Sector

(Per cent)

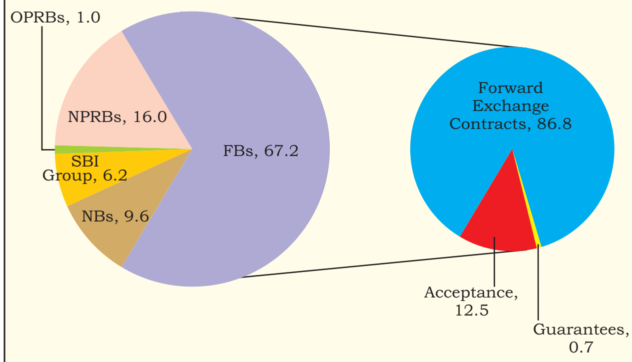
Sr. no.	Bank group/year	Long-term Assets Financed by Short-term Liabilities*		Percentage of short-term liabilities used to finance long-term assets**	
1		2	3	4	5
		2009-10	2010-11	2009-10	2010-11
1	**Public sector banks**	**22.6**	**22.0**	**28.5**	**27.9**
	1.1 Nationalised banks#	24.1	22.3	27.3	24.6
	1.2 SBI Group	19.7	21.4	31.8	38.2
2	**Private sector banks**	**14.4**	**15.7**	**19.6**	**21.0**
	2.1 Old private sector banks	18.9	13.4	23.8	17.0
	2.2 New private sector banks	13.1	16.3	18.2	22.1
3	**Foreign banks**	**-16.2**	**-25.0**	**-6.4**	**-9.0**
	All SCBs	**19.7**	**19.5**	**23.4**	**23.3**

*: Calculated as (long-term assets minus long-term liabilities)/long-term assets*100

**: Calculated as (long-term assets minus long-term liabilities)/short-term liabilities*100

#: Include IDBI Bank Ltd.

Chart IV.5: Composition of Off-Balance Sheet Exposures of the Banking Sector 2010-11



balance sheet exposures of foreign banks constituted more than two thirds of the total off-balance sheet exposures of the banking sector in 2010-11. A detailed analysis of OBS of the Indian banking sector is provided in Box IV.2 (Appendix Table IV.1 and Chart IV.5).

3. Financial Performance of Scheduled Commercial Banks

Profitability

Consolidated net profits recorded higher growth

4.25 Despite widespread concerns with regard to profitability on account of higher interest expenses on the one hand and, higher non-performing assets and the consequent higher provisioning requirements, and lower interest income on the other, the financial performance of SCBs improved in 2010-11 as compared with the previous year.

4.26 The consolidated net profits of the banking sector recorded higher growth in 2010-11, in contrast to the deceleration experienced in 2009-10, primarily because of higher growth in interest income. The implementation of the Base rate system with effect from July 1, 2010, which prohibited sub-prime lending to the corporate sector might have contributed to the higher interest income in 2010-11 apart from robust credit growth. Although, interest expenses also witnessed accelerated growth in 2010-11 owing to the higher interest rate environment, it was considerably lower than the growth in interest income. Accordingly, the net interest margin (NIM) of SCBs improved in 2010-11 over the previous year.

Growth of 'other income' decelerated

4.27 'Other income' recorded a lower growth in 2010-11 over the previous year. The decline in trading income of the banking sector in 2010-11 over the previous year was one of the reasons for this trend. However, despite the overall deceleration in 'other income', one of the major components of 'other income', *viz.*, commission and brokerage recorded higher growth in 2010-11 over the previous year.

Operating expenses grew at a higher rate

4.28 In contrast, the operating expenses of the banking sector grew at a higher rate in 2010-11 as compared with the previous year mainly on account of pay hikes implemented in the

Box IV.2: Profitability versus Risks: An Analysis of Off-Balance Sheet Exposures in the Indian Banking Sector

Off-balance sheet exposures (OBS) raise concern as its exact impact on the soundness of the banking sector is uncertain. In the event of a default, the off-balance sheet exposures can seriously damage the soundness of the banking sector as demonstrated by the recent global financial turmoil. During the last ten years, the OBS of the banking sector witnessed substantial growth, especially that of new private sector banks and foreign banks. With the onset of the global financial turmoil, the policy on OBS was tightened in August 2008. Resultantly, there was a decline in OBS of the banking sector in 2008-09 and 2009-10. However, with the onset of recovery, OBS of the banking sector again witnessed a positive growth in 2010-11 (Chart A).

Ipso facto, fluctuations in the exchange rate and also the higher interest rate environment increase the demand for forward contracts from the customers of banks, which is the biggest component of the off-balance sheet exposure of the banking sector. As the economy grows, the demand for such risk management services from the banking sector also increases. On the other side, from the point of view of banks, off-balance sheet exposures, which are basically fee-based services, increase the gross income although at a higher level of risk. Thus, if the risk appetite of a particular bank is high, it has an incentive to accumulate off-balance sheet exposures to reap more fee income.

The role of OBS in generating 'other income' was examined using panel data regression analysis. The panel data regression was done at the bank group level. The bank group-wise data used have been taken from the previous issues of *the Report on Trend and Progress of Banking in India.*

The log of 'other income' was taken as the dependant variable. The independent variables were off-balance sheet exposures, on-balance sheet assets and first lag of 'other income'. Thus, symbolically, the model used in the study can be written as:

$$\pi_{it} = \text{c} + \sum_{k=1}^{K} \beta_k X_{it}^k + \varepsilon_{it}$$

Where

$$\varepsilon_{it} = v_i + u_{it}$$

π_{it} is the 'other income' of bank group i at time t, with $i = 1,\ldots,N; t = 1,\ldots, T$, c is a constant term, X_{it}s are k explanatory variables and ε_{it} is the disturbance with v_i the unobserved bank-specific effect and u_{it} the idiosyncratic error. The Hausman test statistic was not significant. Hence, results of the random effects model are reported. The regression results are presented below (Table).

Table: Impact of OBS on 'Other Income'

Sample Period : 2002 to 2010 across five bank groups

Number of pooled observations - 50

Dependent Variable: 'Other Income'

Explanatory Variables	Coefficients	t-value
Intercept	-1.188	-1.750*
Balance Sheet Assets	0.365	3.715***
Off-Balance Sheet Exposures	0.085	2.189**
First Lag of 'Other Income'	0.480	4.172***
R-Squared : 0.89		
Adjusted R-Squared: 0.88		
DW Statistic: 1.44		

*: Significant at ten per cent level.
**: Significant at five per cent level.
***: Significant at one per cent level.

Results indicated that one per cent increase in off-balance sheet exposures increases 'other income' of the banking sector by 0.08 per cent. Thus, *ceteris paribus*, banks have an incentive to accumulate off-balance sheet exposures in the interest of garnering better 'other income' and profits.

On the other hand, the risk associated with these off-balance sheet exposures is difficult to quantify. However, it may be noted that as at end-March 2011, the size of the total off-balance sheet exposures of the Indian banking sector was larger than the total balance sheet assets of the banking sector. This was mainly due to foreign banks and new private sector banks. Public sector banks and old private sector banks had relatively low level of off-balance sheet exposures as compared with other bank groups. Thus, in the event of a default, these exposures can seriously damage the financial soundness of the banking sector, especially those of foreign banks and new private sector banks (Chart B).

Chart A: Movements in OBS

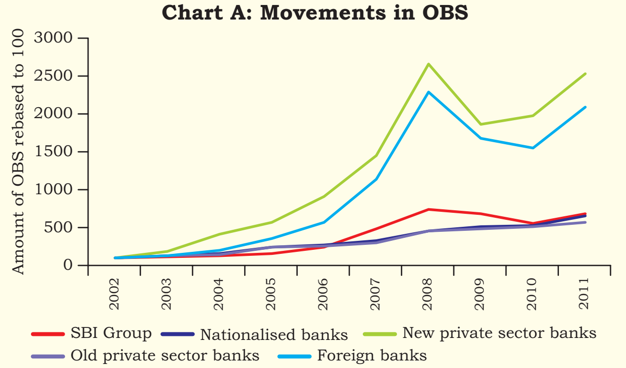


Chart B: Off-Balance Sheet Exposures (OBS) and Balance Sheet Assets (BA) - 2010-11

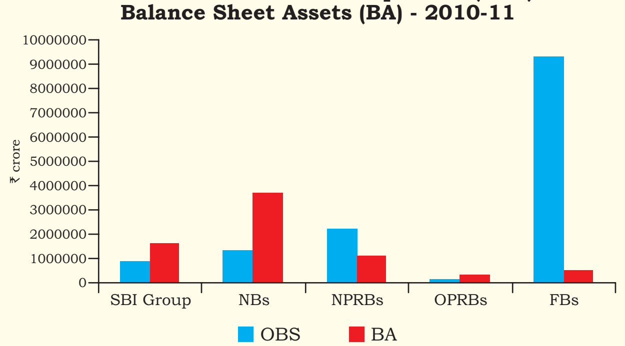


Table IV.10: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ₹ crore)

Item	2009-10		2010-11	
	Amount	Percentage variation	Amount	Percentage variation
1	2	3	4	5
1. Income	**4,94,446**	**6.63**	**5,71,230**	**15.53**
a) Interest Income	4,15,179	6.87	4,91,667	18.42
b) Other Income	79,267	5.38	79,564	0.37
2. Expenditure	**4,37,337**	**6.42**	**5,00,899**	**14.53**
a) Interest Expended	2,72,083	3.37	2,98,891	9.85
b) Operating Expenses	1,00,028	11.66	1,23,129	23.09
of which : Wage Bill	55,248	15.16	71,950	30.23
c) Provisions and Contingencies	65,226	12.17	78,879	20.93
3. Operating Profits	**1,22,335**	**10.31**	**1,49,210**	**21.97**
4. Net Profits for the year	**57,109**	**8.26**	**70,331**	**23.15**
5. Net Interest Income (1a-2a)	**1,43,096**	**14.24**	**1,92,776**	**34.72**
Memo Item:				
1. Net Interest Margin	**2.17**		**2.92**	

Source: Profit and loss accounts of respective banks.

banking sector during the last one year. Further, provisions and contingencies also witnessed higher growth in 2010-11 as compared with the previous year, mainly on account of increase in gross non-performing assets (GNPAs) (in absolute terms). The depreciation in the value of investments owing to the higher interest rate environment also increased the provisioning requirements of the banking sector. As the provisioning requirements for various categories of NPAs were increased in May 2011, it is expected to increase further in future (Table IV.10).

4.29 A factor, which helped the banking sector to maintain profitability in 2010-11 was the regulatory treatment extended to liabilities arising out of re-opening of pension option to employees of PSBs and the enhancement in gratuity limits in February 2011. The Reserve Bank allowed banks to amortise the total liabilities arising out of this development over a period of five years and as such only one fifth of the total liabilities was charged to the profit and loss account of the current year[5].

Marginal improvement in return on assets

4.30 Resultantly, the consolidated net profits of the banking sector registered higher growth in 2010-11 as compared with the decelerating trend observed during the recent past. The return on assets of SCBs also marginally increased to 1.10 per cent in 2010-11 from 1.05 per cent in 2009-10, mainly owing to higher NIM. The return on equity also witnessed an improvement over the same period. However, the SBI group was an exception to this general trend. The marginal decline in both RoA and RoE recorded by the SBI group was partly on account of the provisioning requirements for housing loans extended at teaser interest rates. The Reserve Bank had increased provisioning requirements for such loans (classified as standard assets) in December 2010 due to the risk of delinquencies upon repricing of such loans going forward (Table IV.11 and Chart IV.6).

Efficiency

4.31 On the one hand, while a higher NIM contributes to profitability, on the other it also

Table IV.11: Return on Assets and Return on Equity of SCBs – Bank Group-wise

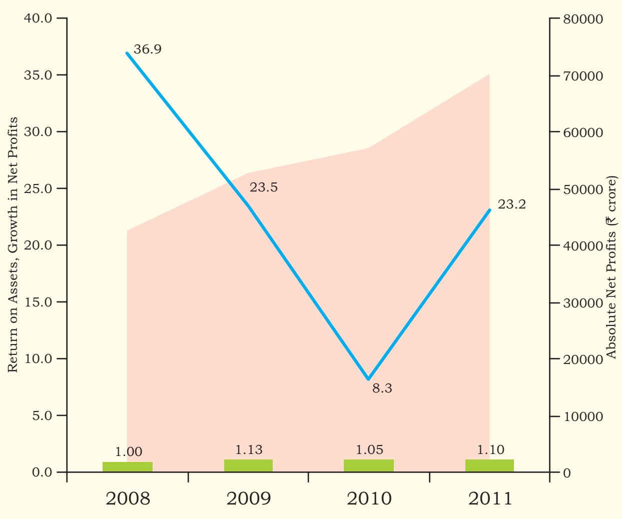
(Per cent)

Sr. no.	Bank group/year	Return on assets		Return on equity	
		2009-10	2010-11	2009-10	2010-11
1	2	3	4	5	6
1	**Public sector banks**	**0.97**	**0.96**	**17.47**	**16.90**
	1.1 Nationalised banks*	1.00	1.03	18.30	18.20
	1.2 SBI Group	0.91	0.79	15.92	14.11
2	**Private sector banks**	**1.28**	**1.43**	**11.94**	**13.70**
	2.1 Old private sector banks	0.95	1.12	12.29	14.10
	2.2 New private sector banks	1.38	1.51	11.87	13.62
3	**Foreign banks**	**1.26**	**1.74**	**7.34**	**10.28**
	All SCBs	**1.05**	**1.10**	**14.31**	**14.96**

*: Nationalised banks include IDBI Bank Ltd.
Note: 1) Return on Assets = Net profits/Average total assets
2) Return on Equity = Net profits/Average total equity
Source: Calculated from balance sheets of respective banks.

[5] The opening balance of reserves of banks will be reduced to the extent of the unamortised carry forward expenditure. In view of the exceptional nature of the event, the unamortised expenditure would not be reduced from Tier I capital.

Chart IV.6: Net Profits of SCBs



implies higher cost of financial intermediation in the economy, which is considered as a sign of inefficiency. Thus, there is a need to bring down NIM to improve the efficiency of financial intermediation along with increasing the non-interest income to maintain profitability. A detailed analysis of efficiency of the banking sector during the last one decade is provided in Box IV.3.

Cost of funds declined

4.32 In contrast to the general expectation, cost of funds of SCBs witnessed a decline in 2010-11 as compared with the previous year, primarily owing to a decline in the cost of deposits (Table IV.12).

Return on funds improved

4.33 In contrast, the return on funds increased in 2010-11 as compared with the previous year, mainly due to an increase in return on investments. However, return on advances declined in 2010-11 over the previous year. One

Table IV.12: Cost of Funds and Return on Funds - Bank Group-wise

(Per cent)

Sr. No.	Bank group/year	Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
1	2	3	4	5	6	7	8	9 = (8-5)
1	**Public sector banks**							
	2009-10	**5.68**	**1.50**	**5.35**	**9.10**	**6.65**	**8.34**	**2.99**
	2010-11	**5.12**	**2.31**	**4.89**	**9.09**	**6.80**	**8.41**	**3.52**
	1.1 Nationalised banks*							
	2009-10	5.64	1.65	5.37	9.18	6.81	8.46	3.09
	2010-11	5.13	2.36	4.93	9.20	6.85	8.50	3.57
	1.2 SBI Group							
	2009-10	5.75	1.28	5.32	8.93	6.33	8.10	2.78
	2010-11	5.09	2.22	4.80	8.84	6.67	8.21	3.41
2	**Private sector banks**							
	2009-10	**5.36**	**1.95**	**4.83**	**9.89**	**6.23**	**8.60**	**3.77**
	2010-11	**4.97**	**2.31**	**4.56**	**9.67**	**6.53**	**8.56**	**4.00**
	2.1 Old private sector banks							
	2009-10	6.28	1.87	6.13	10.95	6.09	9.22	3.10
	2010-11	5.63	2.24	5.50	10.42	6.20	8.98	3.48
	2.2 New private sector banks							
	2009-10	5.01	1.96	4.42	9.56	6.28	8.40	3.99
	2010-11	4.73	2.31	4.27	9.43	6.62	8.44	4.17
3	**Foreign banks**							
	2009-10	**3.10**	**2.01**	**2.83**	**9.99**	**6.39**	**8.30**	**5.47**
	2010-11	**3.30**	**2.56**	**3.11**	**8.75**	**7.39**	**8.11**	**5.00**
	All SCBs							
	2009-10	**5.49**	**1.70**	**5.10**	**9.29**	**6.54**	**8.39**	**3.29**
	2010-11	**5.01**	**2.34**	**4.73**	**9.18**	**6.79**	**8.42**	**3.69**

*: Include IDBI Bank Ltd.

Note: 1) Cost of Deposits = Interest Paid on Deposits/Average of current and previous year's deposits.
2) Cost of Borrowings = Interest Paid on Borrowings/Average of current and previous year's borrowings.
3) Cost of Funds = (Interest Paid on Deposits + Interest Paid on Borrowings)/(Average of current and previous year's deposits plus borrowings).
4) Return on Advances = Interest Earned on Advances /Average of current and previous year's advances.
5) Return on Investments = Interest Earned on Investments /Average of current and previous year's investments.
6) Return on Funds = (Interest Earned on Advances + Interest Earned on Investments) / (Average of current and previous year's advances plus investments).

Source: Calculated from balance sheets of respective banks.

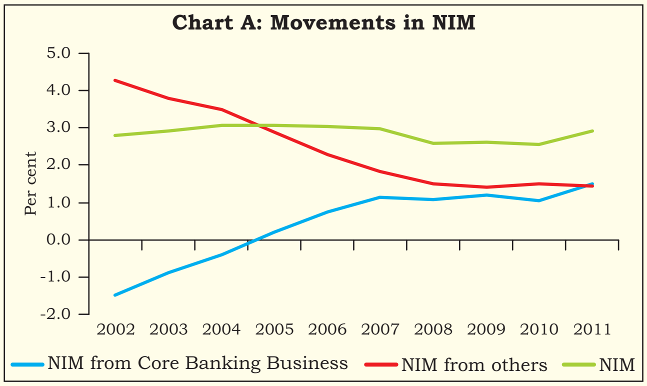
Box IV.3: Net Interest Margin of the Indian Banking Sector: Efficiency versus Profitability

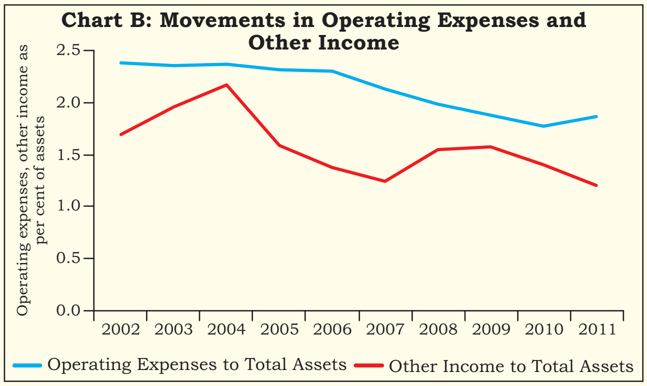
While maintaining profitability is a *sine qua non* for the financial soundness of the banking sector, efficient financial intermediation is important from the point of view of economic growth. The net interest margin (NIM), operating expenses and 'other income' are crucial in determining profitability of the banking sector. On the other side, one of the indicators, which is used to assess efficiency of the banking sector is NIM. NIM indicates the margin taken by the banking sector while doing banking business. In this context, there is a need to bring down NIM from an efficiency point of view, nevertheless, from a profitability point of view; there is a need to increase it. A balanced approach would be to bring down NIM, which will improve efficiency of financial intermediation, along with an increase in income from other sources and reduction in operating expenses to maintain profitability (Subbarao, 2010).

In India, during the last one decade, NIM was in the range 2.5 per cent to 3.1 per cent. The NIM, which witnessed a declining trend during the period 2004 to 2010, improved during 2010-11. The NIM of the Indian banking sector continues to be higher than some of the emerging market economies of the world. The decomposition of NIM into NIM from core banking business, (*i.e.,* calculated as the difference between interest income from loans and advances minus interest expenses on deposits as a per cent of average total assets), and NIM from others (*i.e.*, mainly the difference between all other interest income and interest expenses) showed that NIM from core banking business witnessed substantial increase during the last one decade. In contrast, NIM from others witnessed a decline, leaving the total NIM more or less stable during the same period. The increase in the NIM from core banking business indicates that the cost of financial intermediation increased in the economy during the last one decade. Thus, there is a need to bring down NIM from core banking business to bring the overall NIM down (Chart A).

As alluded to earlier, it is important to increase 'other income' and reduce operating expenses as ratio of assets in the interest of profitability. The operating expenses to total average assets witnessed a declining trend during the last one decade mainly owing to the cost effective technological advancements. However, 'other income' to total average assets also witnessed a declining trend during the last one decade. Thus, it may be important for the Indian banking sector to improve 'other income' along with a reduction in NIM from core banking business to maintain profitability and to improve efficiency of financial intermediation (Chart B).

Reference: D Subbarao (2010), 'Five Frontier Issues in Indian Banking', Speech delivered at 'BANCON 2010', Mumbai, December.





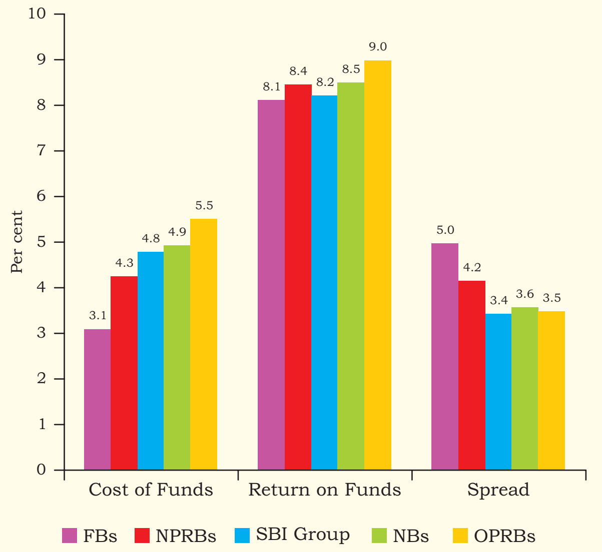
reason for this trend could be the increase in gross non-performing loans in absolute terms. In sum, the increase in return on funds along with the decline in cost of funds lead to an increase in spread. At the bank group level, while the return on funds was largely comparable, there was substantial variation in cost of funds. The lowest cost of funds recorded by foreign banks helped them to register the highest spread in 2010-11. The high share of less expensive CASA deposits enabled foreign banks to register lower cost of deposits and, in turn, lower cost of funds during the recent years (see Chart IV.1) (Chart IV.7).

4. Soundness Indicators

Soundness indicators point to a comfortable position

4.34 Financial soundness of the banking sector is a *sine qua non* for the financial system's stability in a bank dominated country like India. Accordingly, different aspects of financial soundness of the banking sector, *viz.*, capital adequacy, asset quality, leverage, credit booms and liquidity are analysed in this section.

Chart IV.7: Cost of Funds and Return on Funds - Bank Group-wise 2010-11



Capital to Risk Weighted Assets Ratio (CRAR)

CRAR under both Basel I and II remained well above the stipulated norm

4.35 Though all SCBs excluding RRBs and LABs migrated to Basel II framework, the parallel run of Basel I is also continuing as a backstop measure. The CRAR of all bank groups under Basel I remained well above the stipulated regulatory norm of 9 per cent in 2010-11 (Table IV.13).

Table IV.13: Capital to Risk Weighted Assets Ratio under Basel I and II – Bank Group-wise
(As at end-March)

(Per cent)

Bank group	Basel I		Basel II	
	2010	2011	2010	2011
1	2	3	4	5
Public sector banks	**12.1**	**11.8**	**13.3**	**13.1**
Nationalised banks*	12.1	12.2	13.2	13.5
SBI group	12.1	11.0	13.5	12.3
Private sector banks	**16.7**	**15.1**	**17.4**	**16.5**
Old private sector banks	13.8	13.3	14.9	14.6
New private sector banks	17.3	15.5	18.0	16.9
Foreign banks	**18.1**	**17.7**	**17.3**	**17.0**
Scheduled commercial banks	**13.6**	**13.0**	**14.5**	**14.2**

* : Include IDBI Bank Ltd.
Source: Based on off-site returns submitted by banks.

4.36 The CRAR, however, declined in 2010-11 over the previous year mainly owing to a decline in Tier II CRAR ratio. Among the bank groups, foreign banks registered the highest CRAR, followed by private sector banks and PSBs in 2010-11. Under Basel II also, the CRAR of SCBs remained well above the required minimum in 2010-11. This implies that, in the short to medium term, SCBs are not constrained by capital in extending credit (Table IV.14).

4.37 While implementing Basel II, the Reserve Bank had specified the per cent of minimum capital under Basel II as per cent of minimum capital under Basel I as a prudential floor. Under this dispensation, the minimum capital under Basel II should be 100 per cent in the first year, 90 per cent in the second year and 80 per cent in the third year of the minimum capital under Basel I to limit any risk arising from the quality of compliance with the Basel II framework. In December 2010, banks were advised to continue with the parallel run till March 31, 2013 and the prudential floor was fixed at 80 per cent. Notably, in 2009-10, the third year of Basel II implementation (for all foreign banks and domestic banks with international presence), the ratio was 99.1 per cent, well above the target prescribed by the Reserve Bank. In 2010-11, it further increased to 99.4 per cent. Further, in case of PSBs, Government plans to increase the Tier I ratio above 8 per cent to ensure the

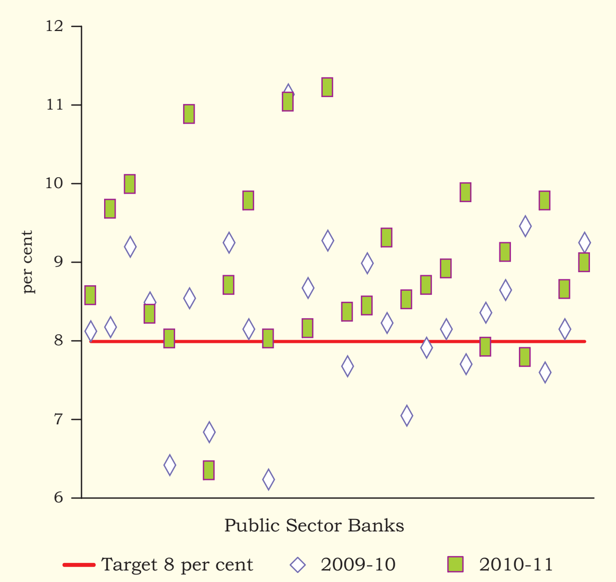
Table IV.14: Component-wise Capital Adequacy of SCBs
(As at end-March)

(Amount in ₹ crore)

Item	Basel I		Basel II	
	2010	2011	2010	2011
1	2	3	4	5
A. Capital funds (i+ii)	5,72,582	6,74,662	5,67,381	6,70,389
i) Tier I capital	3,97,666	4,76,615	3,95,100	4,74,581
ii) Tier II capital	1,74,916	1,98,047	1,72,281	1,95,808
B. Risk-weighted assets	42,16,565	51,81,583	39,01,395	47,24,933
C. CRAR (A as % of B)	13.6	13.0	14.5	14.2
of which: Tier I	9.4	9.2	10.1	10.0
Tier II	4.1	3.8	4.4	4.1

Source: Based on off-site returns submitted by banks.

Chart IV.8: Tier I Ratio of Public Sector Banks



financial soundness of these banks. In 2010-11, only three banks had a Tier I ratio of below 8 per cent (Chart IV.8).

Indian banks can comfortably cope with the proposed Basel III framework

4.38 Even with the proposed Basel III framework, which will become operational from January 1, 2013 in a phased manner, Indian banks will not have any problem in adjusting to the new capital rules both in terms of quantum and quality. Quick estimates based on the data furnished by banks in their off-site returns, showed that the CRAR of Indian banks under Basel III will be 11.7 per cent (as on June 30, 2010) as compared with the required CRAR under proposed Basel III at 10.5 per cent.

Non-Performing Assets

GNPAs to gross advances ratio improved

4.39 The asset quality of the banking sector improved in 2010-11 over the previous year. The gross NPAs to gross advances ratio declined to 2.25 per cent in 2010-11 from 2.39 per cent in the previous year. The GNPAs, however, increased in absolute terms in 2010-11 over the previous year, though at a lower rate. The improvement in asset quality was visible in both private sector banks and foreign banks. Public sector banks, however, witnessed deterioration in asset quality in 2010-11 over the previous year. This was mainly due to deterioration in asset quality of the SBI group. Among the bank groups, SBI group reported the highest GNPA ratio followed by foreign banks in 2010-11. Foreign banks, however, registered a decline in gross non-performing loans in 2010-11 over the previous year (Chart IV.9 and Table IV.15).

Banking sector has written off ten per cent of the previous year's outstanding GNPAs

4.40 During the year 2010-11, the banking sector has written off almost ten per cent of the outstanding gross non-performing loans (as at end-March 2010), which helped in limiting the growth of gross non-performing loans. The extent of write off was lower in 2010-11 as compared with the previous year, however, in comparison with 2008 and 2009, the ratio was on the higher side. This indicated that during the last two years, writting off of NPAs was an important factor in maintaining the asset quality of the banking sector at tolerable levels. The percentage of outstanding GNPAs written off to total outstanding GNPAs (as at end-March 2010)

Chart IV.9: Trends in Gross Non-Performing Assets

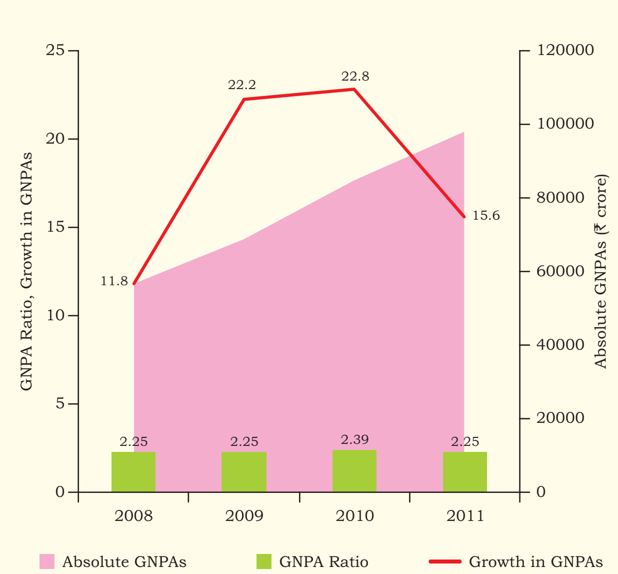


Table IV.15: Trends in Non-Performing Assets - Bank Group-wise

(Amount in ₹ crore)

Item	Public sector banks	Nationalised banks*	SBI Group	Private sector banks	Old private sector banks	New private sector banks	Foreign banks	Scheduled commercial banks
1	2	3	4	5	6	7	8	9
				Gross NPAs				
Closing balance for 2009-10	**59,926**	36,394	23,532	**17,639**	3,622	14,017	**7,133**	**84,698**
Opening balance for 2010-11	**59,433**	36,394	23,039	**17,340**	3,323	14,017	**7,133**	**83,906**
Addition during 2010-11	**58,226**	35,514	22,712	**8,657**	2,412	6,245	**3,527**	**70,410**
Recovered during 2010-11	**37,160**	25,974	11,186	**5,417**	1,804	3,613	**5,514**	**48,091**
Written off during 2010-11	**5,884**	1,712	4,172	**2,338**	231	2,107	**77**	**8,299**
Closing balance for 2010-11	**74,614**	44,222	30,392	**18,240**	3,699	14,541	**5,068**	**97,922**
				Gross NPAs as per cent of Gross Advances				
2009-10	**2.19**	1.95	2.70	**2.74**	2.32	2.87	**4.26**	**2.39**
2010-11	**2.23**	1.89	3.00	**2.25**	1.97	2.33	**2.54**	**2.25**
				Net NPAs				
Closing balance for 2009-10	**29,375**	16,813	12,562	**6,371**	1,137	5,234	**2,977**	**38,723**
Closing balance for 2010-11	**36,071**	21,281	14,790	**4,430**	982	3,448	**1,312**	**41,813**
				Net NPAs as per cent of Net Advances				
2009-10	**1.09**	0.91	1.46	**1.01**	0.78	1.08	**1.82**	**1.11**
2010-11	**1.09**	0.92	1.49	**0.56**	0.53	0.56	**0.67**	**0.97**

* : Include IDBI Bank Ltd.

Note: Difference between closing balance of gross NPAs in 2009-10 and opening balance of gross NPAs in 2010-11 in the State Bank group is due to the merger of State Bank of Indore with the State Bank of India. In case of old private sector banks, the difference is due to two reasons: first, the merger of Bank of Rajasthan and second, due to the inclusion of interest reserve of ₹5.27 crore in the closing balance of gross NPAs in 2009-10 and exclusion of the same from the opening balance of gross NPAs in 2010-11 by the City Union Bank.

Source: Balance Sheets of respective banks.

was particularly high for SBI group and new private sector banks (Charts IV.10A and IV.10B).

4.41 Slippage ratio calculated as addition of gross NPAs during the year as a per cent of outstanding standard assets of the previous year is another important indicator of asset quality. The slippage ratio, which increased consistently since 2008, witnessed an improvement in 2010-11, broadly reflecting the recovery of growth. At the bank group level, new private sector banks recorded the lowest slippage ratio in 2010-11 (Charts IV.11A and IV.11B).

4.42 Recovery of GNPAs is another important component of asset quality management in the banking sector. During the year 2010-11, the banking sector recovered 57 per cent of the outstanding GNPAs (as at end-March 2010) through various recovery channels. Foreign banks reported the highest recovery percentage followed by nationalised banks (Charts IV.12A and IV.12B).

4.43 SARFAESI Act, Debt Recovery Tribunals (DRT) and Lok Adalats are different channels available for the banking sector to recover their

Chart IV.10A: NPAs Written off as per cent of Previous Year's Gross NPAs

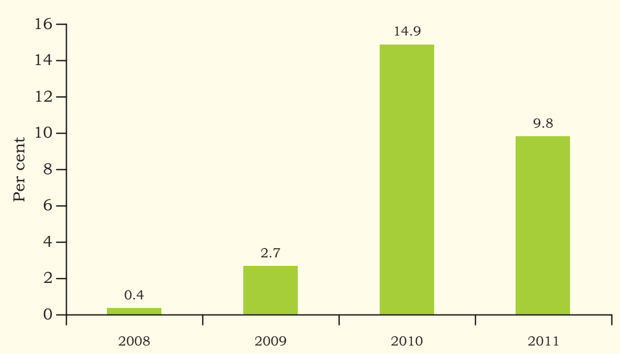


Chart IV.10B: Written Off Ratio - Bank Group-wise 2010-11

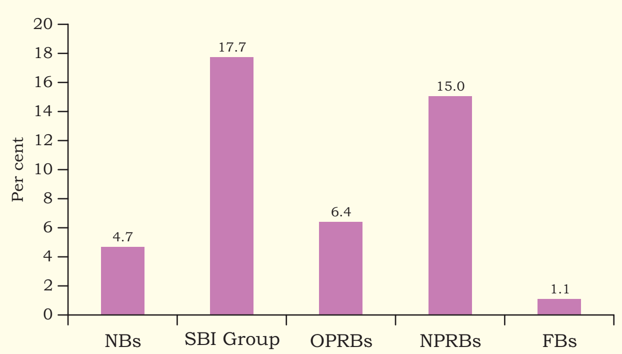


Chart IV.11A: Slippage Ratio

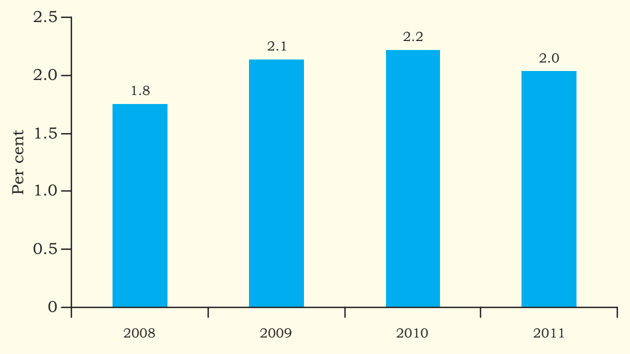
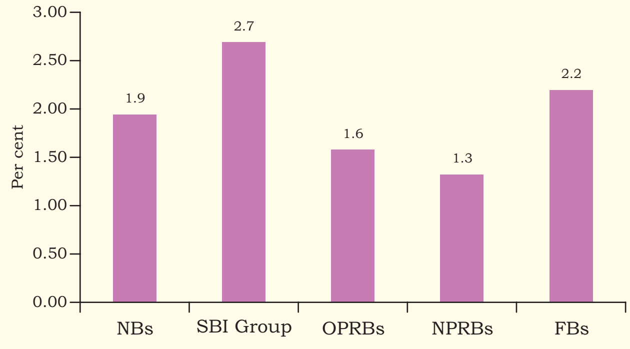


Chart IV.11B: Slippage Ratio - Bank Group-wise 2010-11



NPAs. In 2010-11, there was 51 per cent increase in the number of cases referred to under the SARFAESI Act. Further, out of the total amount involved, more than one third was recovered in 2010-11. In 2010-11, the number of cases referred to DRT registered a whopping growth of 114 per cent over the previous year. Due to the speedy recovery in Lok Adalats, the number of cases referred to Lok Adalats is much more as compared with other channels of recovery. However, in 2010-11, the number of cases referred to Lok Adalats witnessed a decline over the previous year. Moreover, the percentage of amount recovered to amount involved was comparatively lower in Lok Adalats as compared with DRT in 2010-11, though there was an improvement over the previous year (Table IV.16).

4.44 The Reserve Bank issued Certificate of Registration (CoR) to fourteen securitisation companies/reconstruction companies (SCs/RCs) as at end June, 2011. Of these, thirteen SC/RCs, registered with the Reserve Bank, had commenced operations. In 2010-11, the book value of assets acquired by SCs/RCs grew at 19 per cent over the previous year. Out of the total security receipts issued by SCs/RCs in 2010-11, 71 per cent were subscribed by the banking sector (Table IV.17).

Restructuring of standard advances helped in limiting the growth of gross non-performing loans

4.45 The restructuring of advances undertaken by the banking sector during the recent years also helped in reducing the GNPA ratio of the

Chart IV.12A: NPAs Recovered as per cent of Previous Year's Gross NPAs

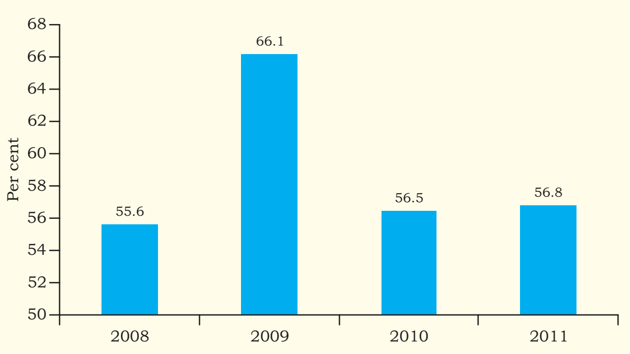


Chart IV.12B: Recovery Ratio - Bank Group-wise 2010-11

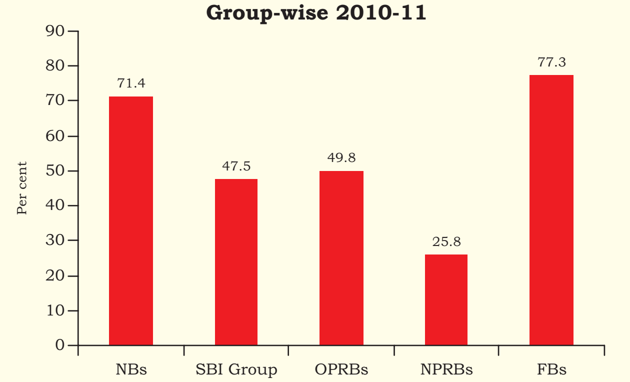


Table IV.16: NPAs of SCBs Recovered through Various Channels

(Amount in ₹ crore)

Recovery channel	2009-10				2010-11			
	No. of cases referred	Amount involved	Amout recovered*	Col. (4) as % of Col. (3)	No. of cases referred	Amount involved	Amount recovered*	Col.(8) as % of Col.(7)
1	2	3	4	5	6	7	8	9
i) Lok Adalats	778,833	7,235	112	1.55	616,018	5,254	151	2.87
ii) DRTs	6,019	9,797	3,133	32.00	12,872	14,092	3,930	27.89
iii) SARFAESI Act	78,366#	14,249	4,269	30.00	118,642#	30,604	11,561	37.78

*: Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years.
#: Number of notices issued.
DRTs- Debt Recovery Tribunals.

banking sector. The impact of restructuring of advances on the asset quality of the banking sector is provided in Box IV.4.

4.46 The share of priority sector NPAs in gross NPAs of domestic banks witnessed an increase in 2010-11 over the previous year. While the ratio of priority sector gross NPAs to priority sector advances increased in public sector banks in 2010-11 over the previous year, it declined in private sector banks during the same period (Table IV.18 and Chart IV.13).

Agricultural sector contributed 44 per cent of total incremental NPAs of domestic banks

4.47 Agricultural sector contributed 44 per cent of the total incremental NPAs of domestic banks in 2010-11. Higher growth registered in the credit to agricultural sector (more than 20 per cent) during the last four years (2006-07 to 2009-10) might have contributed to the growth in agricultural NPAs in 2010-11 owing to the deterioration in credit quality. The agricultural NPAs to agricultural advances of domestic banks, which declined in 2008-09 due to the implementation of the Agriculture Debt Waiver and Relief Scheme, 2008, witnessed an increasing trend thereafter. In 2010-11, PSBs registered higher increase in agricultural NPA ratio as compared with private sector banks (Charts IV.13 and IV.14, and Appendix Tables IV.2 (A), IV.2 (B) and IV.2 (C)).

4.48 Similarly, weaker sections NPAs to weaker sections advances also witnessed an increase in PSBs and private sector banks. Despite the increase in the limit of collateral free loans

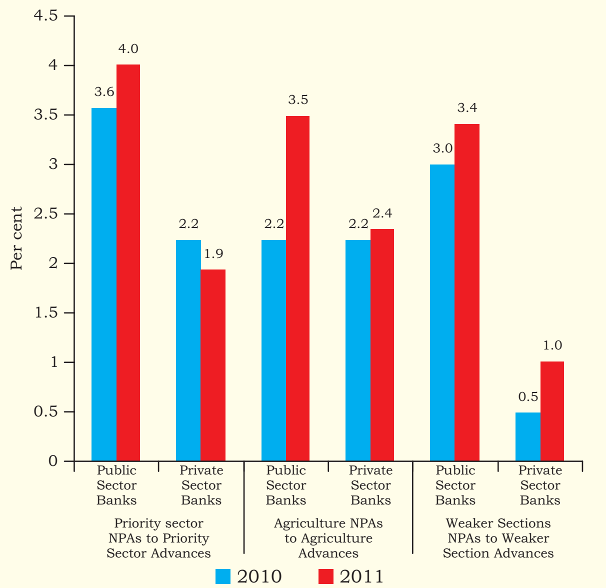
Table IV.17: Details of Financial Assets Securitised by SCs/RCs

(₹ crore)

Item	End-June 2010	End-June 2011
1	2	3
1 Book Value of assets acquired	62,217	74,088
2 Security Receipts issued by SCs/RCs	14,051	15,859
3 Security Receipts subscribed by		
(a) Banks	10,314	11,233
(b) SCs/RCs	2,940	3,384
(c) FIIs	-	39
(d) Others (Qualified Institutional Buyers)	797	1,203
4 Amount of Security Receipts completely redeemed	4,556	6,704

-: Nil/negligible.
Source: Quarterly Statement submitted by Securitisation Companies/ Reconstruction Companies (SCs/RCs).

Chart IV.13: Ratio of NPAs to Advances



Box IV.4: Impact of Restructuring of Advances on the Asset Quality of the Banking Sector

In the aftermath of the global financial turmoil in 2007, the Reserve Bank had proactively taken many steps to arrest the downward spiral, if any, in the economy and the banking sector. Amongst those steps, one important measure was allowing banks to restructure their advances, as a one-time measure. Accordingly, the Reserve Bank issued guidelines on restructuring of advances by banks in August 2008 by which banks were allowed to restructure accounts of viable entities classified as standard, sub-standard and doubtful. Though it was prescribed in August 2008 that accounts classified as standard assets should be immediately re-classified as sub-standard assets upon restructuring, in January 2009, an exceptional/special regulatory treatment was granted to all accounts, which were standard as on September 1, 2008. The exceptional/special regulatory treatment permits treating standard accounts as standard after restructuring, provided certain conditions are met. The special regulatory treatment allowed to the standard accounts helped the banking sector to limit the growth of gross non-performing advances. However, there was always a concern how many of these restructured standard accounts will fall back into the NPA category over a period of time as these borrowers were facing temporary cash flow problems in the wake of the global financial turmoil. Thus, the impact of restructuring of advances on the asset quality of the banking sector will be shaped by the per cent of restructured standard accounts falling back into the NPA category.

Data on restructuring of advances by bank groups since September 2008 indicate that public sector banks account for major portion of the restructuring of standard advances. At the system level, the restructured standard advances as a percentage of gross advances increased from 2.16 per cent as at end-March 2009 to 2.66 per cent as at end-March 2011.

To assess the impact of restructuring of standard advances on the asset quality of the banking sector, different scenarios have been developed assuming different values for the percentage of restructured standard advances falling back into the NPA category. Results are provided in the Table below.

Under the extreme assumption that the entire restructured standard advances would have become NPAs if these were not restructured, the gross NPA ratio would have been as high as 5.01 per cent as at end-March 2011 as against the reported GNPA ratio of 2.35 per cent (Table).

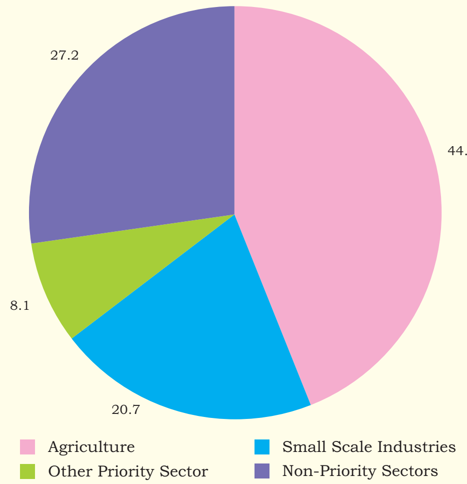
Table: Impact of Restructuring on Asset Quality of SCBs

(Amount in ₹ crore)

Item	All SCBs			Y-on-Y Growth rate		
	March 2009	March 2010	March 2011	2009 over 2008	2010 over 2009	2011 over 2010
1	2	3	4	5	6	7
Total Gross Advances	27,93,572	32,71,896	40,12,079	19.79	17.12	22.62
Standard Advances	27,25,350	31,90,080	39,17,991	19.73	17.05	22.82
Of which Restructured	60,379	97,834	1,06,859	192.98	60.19	10.53
Total Gross NPAs	68,222	81,816	94,088	22.17	19.93	14.84
Total Gross NPAs to Total Gross Advances	2.44	2.50	2.35			
Restructured standard advances as % of gross advances	2.16	2.99	2.66			
Scenario-I – 15 per cent of Restructured Standard Advances turning NPAs						
Scenario-I NPAs	77,279	96,491	1,10,116	31.13	24.64	14.19
Scenario-I NPA Ratio	2.77	2.94	2.74			
Scenario-II – 25 per cent of Restructured Standard Advances turning NPAs						
Scenario-II NPAs	83,317	1,05,996	1,20,684	36.59	27.22	13.86
Scenario-II NPA Ratio	2.98	3.24	3.01			
Scenario-III – 100 per cent of Restructured Standard Advances turning NPAs						
Scenario-III NPAs	1,28,601	1,78,537	2,00,860	68.21	38.83	12.50
Scenario-III NPA Ratio	4.60	5.46	5.01			

extended to the SME sector from ₹5 lakhs to ₹10 lakhs in May 2010, the NPA ratio of the SME sector witnessed a decline in 2010-11 over the previous year. In sum, the priority sector NPAs to priority sector advances was generally high in PSBs as compared with private sector banks (Table IV.18, Chart IV.13, and Appendix Tables IV.3 (A) and IV.3 (B)).

Chart IV.14: Composition of Incremental NPAs of Domestic Banks 2010-11



Note: Under the item 'small scale industries', for the year 2011 data pertain to 'micro and small enterprises' and for the year 2010 data pertain to 'small scale industries'.

Provisioning for GNPAs witnessed higher growth

4.49 In sync with the growth in GNPAs, the provisioning for NPAs registered a growth of 25 per cent in 2010-11 as compared with the previous year's growth of 22 per cent. Reflecting the increase in provisions, the ratio of outstanding provisions to gross NPAs improved in 2010-11 over the previous year (Table IV.19).

Net NPAs registered lower growth

4.50 Net NPAs registered a lower growth of 8 per cent in 2010-11 as compared with the previous year's growth of 23 per cent, reflecting increase in provisioning for NPAs. Resultantly, net NPAs to net advances ratio declined in 2010-11 over 2009-10.

Standard assets to gross advances ratio improved

4.51 In accordance with the decline in the gross NPA ratio in 2010-11 over the previous year, the standard assets to gross advances ratio witnessed an improvement during the same period. However, there was an increase in the

Table IV.18: Sector-wise NPAs of Domestic Banks*

(Amount in ₹ crore)

Year	Priority sector		*Of which*						Non-Priority sector		*Of which*		Total NPAs	
			Agriculture		Small scale industries#		Others				Public Sector			
	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt	Per cent	Amt.	Per cent	Amt.	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Public sector banks														
2010	30,848	53.8	8,330	14.5	11,537	20.1	10,981	19.2	26,453	46.2	524	0.9	57,301	100.0
2011	41,245	58.1	14,487	20.4	14,340	20.2	12,417	17.5	29,802	41.9	278	0.4	71,047	100.0
Nationalised banks**														
2010	19,908	56.1	5,741	16.2	8,668	24.4	5,499	15.5	15,562	43.9	280	0.8	35,470	100.0
2011	25,678	59.8	9,220	21.5	10,424	24.3	6,034	14.1	17,229	40.2	273	0.6	42,907	100.0
SBI group														
2010	10,940	50.1	2,589	11.9	2,869	13.1	5,482	25.1	10,890	49.9	244	1.1	21,830	100.0
2011	15,567	55.3	5,268	18.7	3,916	13.9	6,383	22.7	12,573	44.7	6	0.02	28,140	100.0
Private sector banks														
2010	4,792	27.6	2,023	11.6	1,139	6.6	1,630	9.4	12,592	72.4	-	-	17,384	100.0
2011	4,823	26.8	2,172	12.1	1,298	7.2	1,353	7.5	13,147	73.2	153	0.9	17,971	100.0
Old private sector banks														
2010	1,613	44.7	269	7.4	475	13.2	869	24.1	1,999	55.3	-	-	3,612	100.0
2011	1,599	43.3	417	11.3	551	14.9	631	17.1	2,095	56.7	153	4.1	3,694	100.0
New private sector banks														
2010	3,179	23.1	1,754	12.7	664	4.8	760	5.5	10,594	76.9	-	-	13,773	100.0
2011	3,224	22.6	1,755	12.3	746	5.2	722	5.1	11,053	77.4	-	-	14,277	100.0
All SCBs														
2010	35,640	47.7	10,353	13.9	12,676	17.0	12,611	16.9	39,045	52.3	524	0.7	74,685	100.0
2011	46,068	51.8	16,660	18.7	15,638	17.6	13,370	15.5	42,950	48.2	431	0.5	89,017	100.0

#: Data for 2011 pertains to 'micro and small enterprises' and, hence, not strictly comparable with 2010.
* : Excluding foreign banks.
- : Nil/negligible.
Amt. – Amount; Per cent – Per cent of total NPAs.
**- include IDBI Bank Ltd.
Source: Based on off-site returns (domestic) submitted by banks.

Table IV.19: Trends in Provisions for Non-Performing Assets – Bank Group-wise

(Amount in ₹ crore)

Item	Public sector banks	Nationa-lised banks*	SBI group	Private sector banks	Old private sector banks	New private sector banks	Foreign banks	Scheduled commercial banks
1	2	3	4	5	6	7	8	9
Provisions for NPAs								
As at end-March 2010	**28,187**	17,818	10,369	**10,848**	2,066	8,782	**4,178**	**43,213**
Add : Provisions made during the year	**29,133**	15,720	13,413	**6,854**	1,149	5,705	**2,755**	**38,742**
Less : Write-off, write- back of excess during the year	**20,641**	12,348	8,293	**4,150**	749	3,401	**3,126**	**27,917**
As at end-March 2011	**36,680**	21,190	15,490	**13,552**	2,466	11,086	**3,808**	**54,040**
Memo:								
Gross NPAs	**74,614**	44,222	30,392	**18,240**	3,699	14,541	**5,068**	**97,922**
Ratio of outstanding provisions to gross NPAs (per cent)								
End-March 2010	**47.4**	48.9	45.0	**62.4**	61.3	62.7	**58.7**	**51.5**
End-March 2011	**49.2**	47.9	51.0	**74.3**	66.7	76.2	**75.1**	**55.2**

* : Include IDBI Bank Ltd.
Source: Balance sheets of respective banks.

ratio of doubtful assets to gross advances ratio in 2010-11 over the previous year. The sub-standard assets as a ratio of gross advances declined in 2010-11 over the previous year (Table IV.20).

Leverage Ratio

Leverage ratio remained unchanged

4.52 Despite the higher growth in balance sheet during 2010-11, the leverage ratio, as in the previous year, remained constant at 6.6 per cent in 2010-11 owing to the corresponding growth in the capital base of the banking sector.

Credit Boom

Despite higher credit growth, there is no evidence of credit boom

4.53 From the point of view of banking sector stability, it is important to monitor the development of credit bubbles in the economy. The analysis provided in Box IV.5 indicated that the robust credit growth during 2010-11 did not

Table IV.20: Classification of Loan Assets - Bank Group-wise

(As at end-March)

(Amount in ₹ crore)

Sr. No.	Bank group	Year	Standard assets Amount	Standard assets Per cent*	Sub-standard assets Amount	Sub-standard assets Per cent*	Doubtful assets Amount	Doubtful assets Per cent*	Loss assets Amount	Loss assets Per cent*
1	2	3	4	5	6	7	8	9	10	11
1	**Public sector banks**	**2010**	**26,73,534**	**97.81**	**28,791**	**1.05**	**25,383**	**0.93**	**5,750**	**0.21**
		2011	**32,72,914**	**97.77**	**34,973**	**1.04**	**33,180**	**0.99**	**6,463**	**0.19**
	1.1 Nationalised banks**	2010	18,27,061	98.05	18,520	0.99	15,034	0.81	2,841	0.15
		2011	22,91,111	98.11	21,758	0.93	19,282	0.83	3,183	0.14
	1.2 SBI Group	2010	8,46,473	97.30	10,271	1.18	10,349	1.19	2,909	0.33
		2011	9,81,803	97.00	13,215	1.31	13,898	1.37	3,280	0.32
2	**Private sector banks**	**2010**	**6,26,472**	**97.27**	**8,842**	**1.37**	**6,590**	**1.02**	**2,166**	**0.34**
		2011	**7,93,590**	**97.76**	**4,530**	**0.56**	**10,795**	**1.33**	**2,864**	**0.35**
	2.1 Old private sector banks	2010	1,52,745	97.69	1,395	0.89	1,637	1.05	580	0.37
		2011	1,83,601	98.03	1,253	0.67	1,815	0.97	626	0.33
	2.2 New private sector banks	2010	4,73,727	97.13	7,447	1.53	4,953	1.02	1,586	0.33
		2011	6,09,989	97.68	3,277	0.52	8,980	1.44	2,238	0.36
3	**Foreign banks**	**2010**	**1,60,311**	**95.74**	**4,929**	**2.94**	**1,440**	**0.86**	**758**	**0.45**
		2011	**1,94,256**	**97.46**	**1,865**	**0.94**	**2,110**	**1.06**	**1,087**	**0.55**
	Scheduled commercial banks	**2010**	**34,60,317**	**97.61**	**42,562**	**1.20**	**33,413**	**0.94**	**8,674**	**0.24**
		2011	**42,60,760**	**97.75**	**41,368**	**0.95**	**46,085**	**1.06**	**10,415**	**0.24**

* : As per cent to gross advances.
**: Include IDBI Bank Ltd.
Note: Constituent items may not add up to the total due to rounding off.
Source: DSB Returns (BSA) submitted by respective banks.

lead to development of any credit boom in the economy both at the aggregate and sub-sectoral level (Box IV.5).

Liquidity

Due to autonomous factors banks operated under tight liquidity conditions

4.54 During 2010-11, banks were operating under tight liquidity conditions. The Liquidity Adjustment Facility (LAF) window of the Reserve Bank, which had remained in surplus mode for nearly 18 months, switched into deficit mode at end-May 2010 and largely remained in deficit for rest of the financial year 2010-11. Autonomous factors like the centre's surplus balance with the Reserve Bank and currency in circulation were key drivers of liquidity conditions in 2010-11. The liquidity conditions have continued to remain in deficit mode during 2011-12 so far. Reflecting the tight liquidity conditions and regular hikes in the policy rates by the Reserve

Box IV.5: Robust Credit Growth and Credit Booms – An Analysis of the Indian Banking Sector

The robust credit growth experienced by the Indian economy during 2010-11 raised concerns with regard to the development of credit booms in the economy. Credit booms can seriously undermine the financial soundness of the banking sector owing to deterioration in credit quality. To analyse credit booms, the methodology developed by Coricelli *et. al.* (2006) is used here. As per the said methodology, a credit bubble or boom is present when the cyclical component of credit exceeds 1.5 times the standard deviation of the cyclical credit. The cyclical component of credit was obtained from Hodrick-Presscott filter. As along with the robust growth of aggregate non-food credit, some of the sectors such as credit to NBFCs and credit to infrastructure sector also witnessed high growth in 2010-11, the analysis was also undertaken at the sub-sectoral level. The results are provided in Charts A, B, C and D.

The results indicated that at the aggregate level there was no credit boom in the economy during 2010-11, despite the higher credit growth. However, the cyclical component of credit to the infrastructure sector crossed the ceiling of 1.5 times of standard deviation of cyclical credit in the early 2010-11, though moderated thereafter. Further, the credit to NBFCs was in an upturn during 2010-11, which deserves careful monitoring going forward (Charts A, B, C and D).

Reference:

Coricelli, Fabrizio, Fabio Mucci, and Debora Revoltella (2006), 'Household Credit in the New Europe: Lending Boom or Sustainable Growth?', Discussion Paper No. 5520, Centre for Economic Policy Research, London, UK.

Chart A: Credit Boom in Aggregate Non-Food Credit

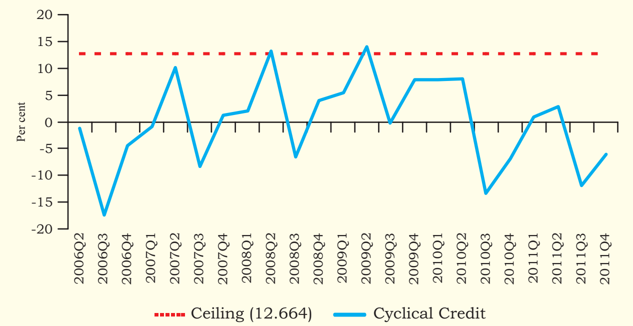


Chart B: Credit Boom in Infrastructure Credit

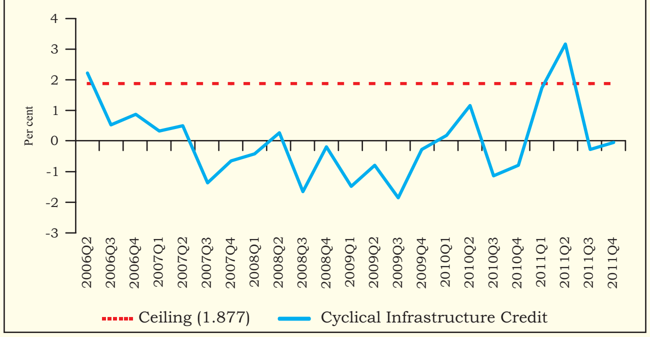


Chart C: Credit Boom in Housing Credit

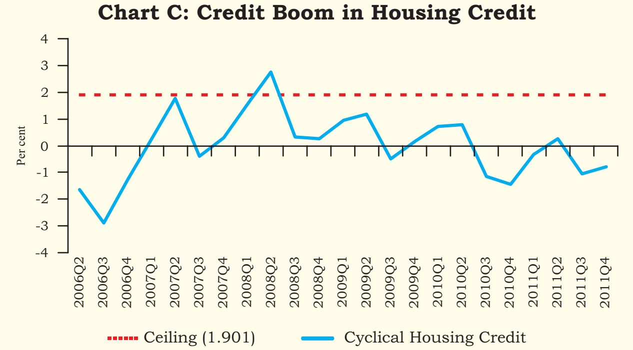
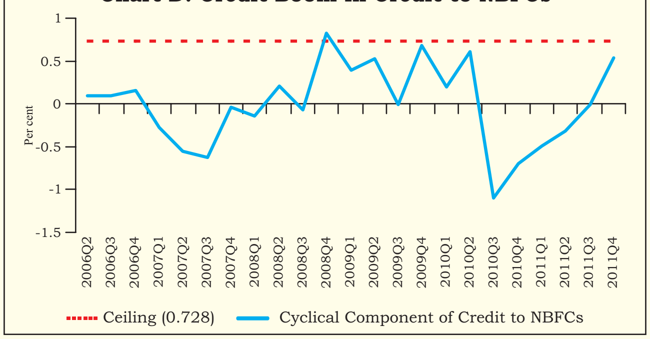


Chart D: Credit Boom in Credit to NBFCs



Bank, the call rate, after hovering around the lower bound of the informal LAF corridor for a long period, firmed up since end-May 2010 and mostly remained above the upper bound of the informal corridor in the second-half of 2010-11. The rates in the collateralised segments (*i.e.,* CBLO and Market Repo) moved in tandem with the call rate, but generally remained below it during this period. Banks and primary dealers were the major groups of borrowers in the collateralised segments. The average issuance of certificates of deposit (CDs) remained high during 2010-11. The average issuance during 2010-11 was higher at around ₹33,000 crore as compared to around ₹17,000 crore during 2009-10. In line with the rise in rates in other money market segments, the effective interest rate in respect of aggregate CD issuances increased to 9.96 per cent at end-March 2011 from 6.07 per cent as at end-March 2010.

5. Sectoral Deployment of Bank Credit

Growth of aggregate non-food credit improved

4.55 On a y-o-y basis, there was an improvement in the growth of aggregate non-food credit in 2010-11 as compared with that in the previous year. This was in contrast to the trend observed during the last four years. The major drivers of this overall credit growth during 2010-11 were credit to services sectors and personal loans. Within the services sector, credit to non-banking financial companies (NBFCs) reported the highest growth rate followed by tourism, hotels and restaurants, and professional services. Within personal loans, the highest credit growth was observed in advances against shares followed by advances against FCNR(B)/NRNR deposits and vehicle loans.

Credit growth to agriculture and industry moderated

4.56 The growth of credit to agriculture sector and industrial sector witnessed moderation during 2010-11 in comparison with those in the previous year. The sharp decline in the growth of agricultural credit was partly on account of definitional changes effected during February-March 2011. It is pertinent to note that despite the enhancement of limit (from ₹50,000 to ₹1,00,000), for the waiver of margin/security requirements for agricultural loans in June 2010, the credit flow to the agricultural sector decelerated in 2010-11 over the previous year. In tune with the overall moderation in the growth of industrial credit, the credit to infrastructure sector also reported lower growth in 2010-11 as compared with that in the previous year. However, in comparison with the growth in total non-food credit and growth in industrial credit, credit growth to infrastructure sector was substantially high. The telecommunications sector was the major contributor of this higher credit growth, which was mainly due to credit extended for participation in the 3G spectrum auctions. As this was a one-time event, credit to infrastructure sector may moderate going forward. However, empirical estimation suggests that these long-term loans increase the asset liability mismatches in the banking sector (Table IV.21)[6].

Shares of services sector and personal loans in total non-food credit increased

4.57 In sync with the higher growth rates, the shares of services sector credit and personal loans increased in the total outstanding non-food credit as at end-March 2011 in comparison with the previous year. In contrast, the share of agricultural credit in the total outstanding non-

[6] Null Hypothesis	F-Statistic	p- value
Infrastructure Loans does not granger cause ALM	2.524***	0.09
Infrastructure Loans does not granger cause ALM gap in the 'more than five years'	4.096**	0.02

***: significant at ten per cent level. **: significant at five per cent level.

Table IV.21: Sectoral Deployment of Gross Bank Credit

(Amount in ₹ crore)

Sector	2009-10		2010-11	
	Amount	Percentage Variation	Amount	Percentage Variation
1	2	3	4	5
1. Agriculture and Allied Activities	**4,16,133**	**22.9**	**4,60,333**	**10.6**
2. Industry	**13,11,451**	**24.4**	**16,20,849**	**23.6**
Of which:				
Infrastructure Loans	3,79,888	40.7	5,26,655	38.6
3. Personal Loans	**5,85,633**	**4.1**	**6,85,372**	**17.0**
Of which: Housing	3,00,929	7.7	3,46,110	15.0
Credit Card Outstanding	20,145	-28.1	18,098	-10.2
Education	36,863	29.0	43,710	18.6
4. Services	**7,26,790**	**12.5**	**9,00,801**	**23.9**
Of which:				
Tourism, hotels and restaurant	19,410	42.5	27,729	42.9
Commercial Real Estate Loans	92,128	-0.3	1,11,836	21.4
Non-Banking Financial Companies	1,13,441	14.8	1,75,577	54.8
Total Non-Food Gross Bank Credit (1 to 4)	**30,40,007**	**16.8**	**36,67,355**	**20.6**

Note: 1) Data are provisional and relate to select banks.
2) The slowdown in credit to agriculture was largely on account of definitional changes effected during February-March 2011.

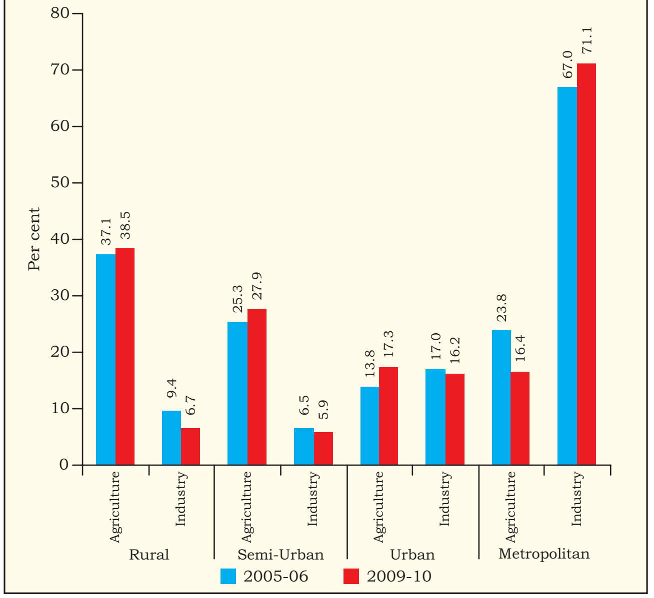
Source: Sectoral and Industrial Deployment of Bank Credit Return (Monthly).

food credit recorded a decline. Agricultural sector, which offers employment to large sections of population received only 13 per cent of total non-food credit as at end-March 2011.

4.58 Rural areas accounted for almost 39 per cent of total agricultural credit and another 28 per cent was disbursed in semi-urban areas as at end-March 2010. The shares of rural, semi-urban and urban areas in total agricultural credit witnessed an increase during the period 2005-06 to 2009-10, while that of metropolitan areas witnessed a decline during the same period (Chart IV.15)[7].

4.59 The share of industrial credit also witnessed a decline in the outstanding non-food credit in 2010-11 as compared with the previous year. However, even with the decline, almost half of the total non-food credit went to the industrial sector in 2010-11. Out of the total industrial credit, the share of infrastructure increased from 29 per cent in 2009-10 to 33 per cent in 2010-11. Further, the credit to telecommunications sector, which recorded a growth of 69 per cent in 2010-11 over the previous year, also witnessed an increase in its share in the total infrastructure credit.

Chart IV.15: Shares of Population Groups in Agricultural and Industrial Credit



4.60 As at end-March 2010, more than 70 per cent of the total industrial credit was disbursed in metropolitan areas, leaving a small share for other population groups (Chart IV.15)[8].

Despite policy tightening, housing credit witnessed higher growth

4.61 Personal loans witnessed a growth of 17 per cent in 2010-11 over the previous year. It may be recalled that growth in personal loans was one of the major factors behind the high credit growth phase of the mid-2000s. It may require careful monitoring at the present juncture also owing to a number of reasons. First, housing loans being sensitive to interest rate increases might increase the possible

[7] Based on data taken from Basic Statistical Returns, various issues.
[8] Based on data taken from Basic Statistical Returns 2009-10.

defaults by borrowers. In fact, in December 2010, the Reserve Bank had strengthened the prudential norms relating to housing loans to prevent excessive leverage. However, despite policy tightening, housing credit witnessed higher growth in 2010-11 over the previous year. Since the tightening was towards the end of the financial year, its impact may be felt subsequently. Second, a sizable portion of personal loans (except housing and vehicle loans) are unsecured loans, and may have a significant impact on GNPAs of the banking sector. Third, majority of personal loans are long-term loans and empirical analysis indicated that it causes asset liability mismatches in the long-term buckets[9].

Credit to Priority Sectors

At the aggregate level, priority sector lending target was met by the banking sector

4.62 The priority sector lending[10] witnessed a growth of 18 per cent in 2010-11 over the previous year. However, the growth of agricultural advances decelerated to 9 per cent in 2010-11 as compared with the growth of 23 per cent in the previous year. As in the previous year, in 2010-11 also, at the aggregate level, banks have lent more than 40 per cent of their ANBC to priority sectors. The sub-target prescribed for agriculture at 18 per cent of ANBC was also achieved by banks in 2010-11 (Table IV.22).

Some public sector banks could not meet the priority sector lending target

4.63 The bank-wise data on priority sector advances as per cent of ANBC, however, indicated that seven out of 26 public sector banks were not able to meet the priority sector lending target of 40 per cent of ANBC in 2010-11. Further, it is a concern that 18 out of 26 public sector banks could not meet the target set for agricultural advances in 2010-11. Among the private sector banks, only one bank could not meet the priority sector lending target in 2010-11. However, ten private sector banks did not meet the target set for agricultural advances in 2010-11 (Charts IV.16A and IV.16B, and Appendix Tables IV.4A, IV.4B, IV.5A and IV.5B).

4.64 Foreign banks have a slightly different norm for priority sector lending as the target for them is set at 32 per cent of ANBC. Further, export credit is a part of priority sector lending of foreign banks. In 2010-11, at the aggregate level, foreign banks achieved the target of priority sector lending. However, at the bank-level, a few banks could not meet the priority sector lending

Table IV.22: Priority Sector Lending by Public and Private Sector Banks

(As on the last reporting Friday of March)

(Amount in ₹ crore)

Item	Public Sector Banks		Private Sector Banks	
	2010	2011P	2010	2011P
1	2	3	4	5
Priority Sector Advances#	**8,63,777**	**10,28,615**	**2,14,669**	**2,48,828**
	(41.6)	**(41.3)**	**(45.8)**	**(46.6)**
Of which, Agriculture	3,72,463	4,14,991	90,737	92,136
	(17.9)	(16.5)	(19.4)	(15.7)
Of which, Micro and Small Enterprises	2,76,319	3,76,625	64,825	87,857
	(13.3)	(15.1)	(13.8)	(16.4)

P: Provisional.

#: In terms of revised guidelines on lending to priority sector lending, broad categories include small enterprise sector, retail trade, microcredit, education and housing.

Note: Figures in parentheses represent percentages to Net Bank Credit/ Adjusted Net Bank Credit (ANBC)/Credit equivalent amount of Off-Balance Sheet Exposures (CEOBSE), whichever is higher.

[9] **Null Hypothesis**	**F-Statistic**	**p- value**
Personal Loans does not granger cause ALM	2.841**	0.04
Personal Loans does not granger cause ALM gap in the ‘three to five years’	4.340**	0.02

**: Significant at five per cent level.

[10] As per the extant norms, public sector banks and private sector banks have to lend 40 per cent of their adjusted net bank credit (ANBC) or credit equivalent amount of off balance sheet exposures, whichever is higher as on March 31st of the previous year to priority sectors.

Chart IV.16A: Priority Sector Lending: Target and Achievement 2010-11

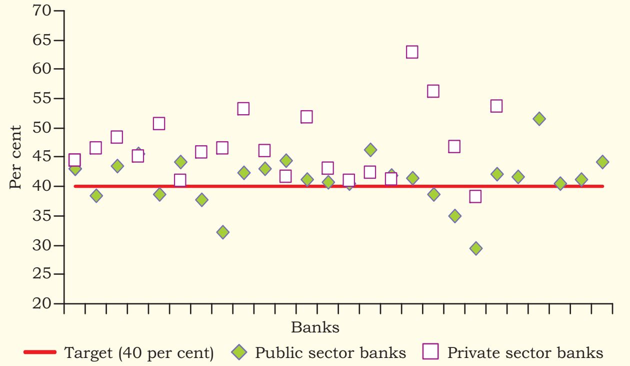
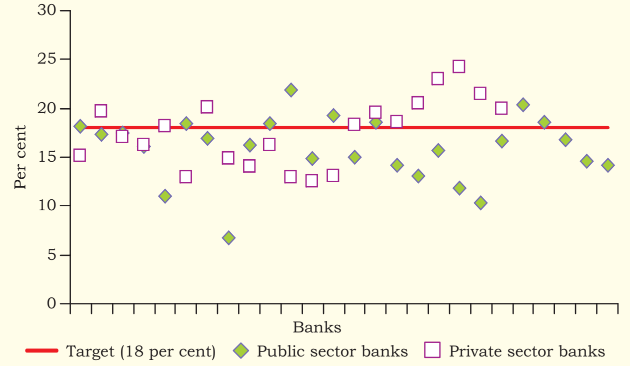


Chart IV.16B: Agricultural Advances: Target and Achievement 2010-11



target in 2010-11. Further, at the aggregate level, though foreign banks achieved the target of export credit at 12 per cent, at the bank level, some banks could not meet the target (Table IV.23, Charts IV.17A and IV.17B, and Appendix Tables IV.4C and IV.5C).

Retail Credit

Retail loan segment registered higher growth

4.65 The retail loan segment of the banking sector, which decelerated during the recent past registered higher growth in 2010-11. The highest growth was reported by consumer durables followed by auto loans in 2010-11 over the previous year. The housing loans witnessed a moderate growth of 16 per cent in 2010-11 over the previous year. Importantly, housing loans continued to constitute almost half of the total retail portfolio of the banking sector. The only sub-segment, which reported negative growth rate in 2010-11 over the previous year was credit card receivables (Table IV.24).

Credit to Sensitive Sectors

Credit to sensitive sectors registered higher growth

4.66 Credit to sensitive sectors, *viz.*, exposure to capital market, direct and indirect lending to real estate sector and credit to commodities sector presumes significance in the context of financial stability as these are the sectors, which are subject to fluctuations in prices, and as such leads to booms in loans and advances. In 2010-11, credit to sensitive sectors recorded higher growth as compared with the previous year. The sensitive sector credit growth reported by the SBI group is particularly noteworthy at 41 per

Chart IV.17A: Priority Sector Advances-Target and Achievement 2010-11

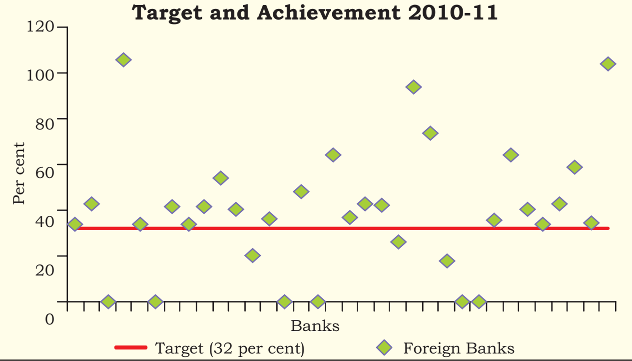
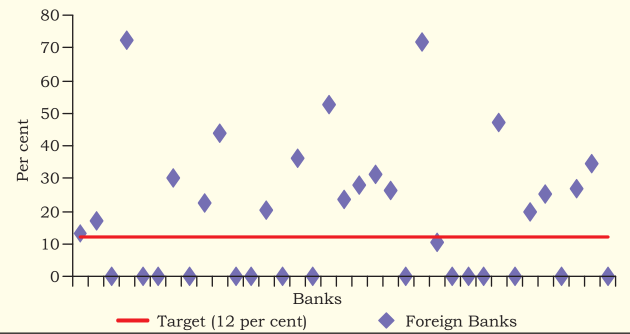


Chart IV.17B: Export Credit - Target and Achievement 2010-11



Note: Priority sector lending target will only be applicable from 2011-12 onwards to banks, which have started their operations in 2010-11. This is one of the reasons for zero values.

Table IV.23: Priority Sector Lending by Foreign Banks
(As on the last reporting Friday of March)

(Amount in ₹ crore)

Sector	2010		2011P	
	Amount	Percentage to ANBC/ CEOBSE	Amount	Percentage to ANBC/ CEOBSE
1	2	3	4	5
Priority Sector Advances#	**59,960**	**36.0**	**66,527**	**40.0**
Of which: Export credit	33,396	20.1	42,487	25.5
Of which: Micro and Small Enterprises*	21,147	12.7	21,501	12.9

P : Provisional.
#: In terms of revised guidelines on lending to priority sector, broad categories include agriculture, small enterprises sector, retail trade, micro credit, education and housing.
*: The new guidelines on priority sector advances take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.
Note: ANBC/CEOBSE – Adjusted Net Bank Credit/Credit equivalent amount of Off-Balance Sheet Exposures, whichever is higher.

Table IV.24: Retail Portfolio of Banks

(Amount in ₹ crore)

Item	Outstanding as at end-March		Percentage variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
1. Housing Loans	3,15,862	3,67,364	20.0	16.3
2. Consumer Durables	3,032	4,555	-44.2	50.2
3. Credit Card Receivables	21,565	18,655	-28.0	-13.5
4. Auto Loans	78,346	1,00,155	-6.6	27.8
5. Other Personal Loans	2,03,947	2,53,243	-3.5	24.2
Total Retail Loans (1 to 5)	**6,22,752 (19.0)**	**7,43,972 (18.5)**	**4.9**	**19.5**

Note: Figures in parentheses represent percentage share of retail loans in total loans and advances. The amount of total loans and advances are as provided in the off-site returns (domestic) of SCBs.
Source: Based on Off-site returns (domestic).

cent as compared with the industry average of 22 per cent in 2010-11. This was mainly due to the growth in real estate credit.

4.67 Despite higher growth, the share of credit to sensitive sectors in total loans and advances witnessed a decline in 2010-11 as compared with the previous year due to the offsetting jump in the growth of total loans and advances. The share of sensitive sector credit as well as real estate sector credit to total loans and advances was the highest in foreign banks followed by new private sector banks in 2010-11 (Appendix Table IV.6).

6. Operations of Scheduled Commercial Banks in Capital Market

Resources raised by banks through public issues increased

4.68 In contrast to the trend observed during the last two years, resources raised by banks through public issues witnessed substantial increase in 2010-11, particularly during March 2011 when 70 per cent of the total resources were raised. Resumption of FII inflows and a moderate recovery in the secondary market enabled banks to raise resources. The capital raised by banks was through rights issue, with public sector banks accounting for the bulk of the increase (Table IV.25).

4.69 Resources raised by banks through private placements declined by 40 per cent in 2010-11 over the previous year, mainly on account of private sector banks, which registered a decline of over 64 per cent (Table IV.26).

4.70 During 2010-11, banks did not raise any resources from the global capital markets. The environment of sluggish growth recovery in the advanced economies, persistence of Euro zone sovereign debt problems and political tensions in the MENA region have negatively affected overall

Table IV.25: Public Issues from the Banking Sector

(₹ crore)

Year	Public Sector Banks		Private Sector Banks		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8=(6+7)
2009-10	325	-	313	-	638	-	638
2010-11	4,332	-	915	-	5,247	-	5,247

-: Nil/Negligible.

Table IV.26: Resources Raised by Banks through Private Placements

(Amount in ₹ crore)

Category	2009-10		2010-11	
	No. of Issues	Amount raised	No. of Issues	Amount raised
1	2	3	4	5
Private Sector Banks	18	17,101	5	6,063
Public Sector Banks	63	23,762	25	20,916
Total	**81**	**40,863**	**30**	**26,979**

Note: Data for 2010-11 are provisional.
Source: Merchant Bankers and Financial Institutions.

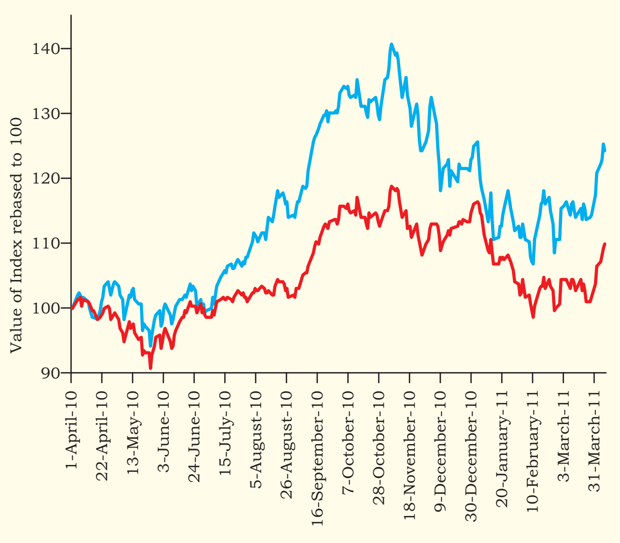
resource mobilisation through Euro issues (Table IV.27).

Performance of Banking Stocks in the Secondary Market

Despite concerns, BSE Bankex outperformed BSE Sensex

4.71 The domestic stock market, which had recorded significant gains in 2009-10 continued to grow in 2010-11, *albeit* at a slower pace. Despite concerns over the net interest margins and rising provisions, the BSE Bankex outperformed BSE Sensex during 2010-11 as in the previous year, reflecting positive market sentiments given the healthy growth in credit demand (Chart IV.18).

Chart IV.18: Relative Performance of BSE Bankex and BSE Sensex - 2010-11



Volatility of BSE Bankex was higher than that of BSE Sensex

4.72 Out of 38 listed banks, four banks registered decline in their stock prices over the previous year. The volatility of BSE Bankex was higher than that of BSE Sensex in 2010-11 as in the previous year, reflecting the risk in trading in these stocks (Table IV.27).

4.73 In 2010-11, the price earning (P/E) ratio of nine out of the 38 banks was lower as compared with the previous year. Bank stocks witnessed an increase in their share in total turnover in 2010-11 over 2009-10. This share further increased in 2011-12 (during April and June). Similarly, the share of bank stocks in total market capitalisation also increased in 2010-11 over the previous year. However, share of bank stocks in total market capitalisation witnessed a decline at end June 2011 over end March 2011 (Table IV.28 and Appendix Table IV.7).

7. Shareholding Pattern in Scheduled Commercial Banks

Government shareholding in PSBs was well above the statutory requirement

4.74 In 2010-11, Government shareholding in public sector banks ranged roughly between 57 per cent and 85 per cent in 2010-11, though the minimum statutory requirement is 51 per cent (Table IV.29 and Chart IV.19).

Table IV.27: Resource Mobilisation through Euro Issues by the Banking Sector

(₹ crore)

Item	2009-10	2010-11
1	2	3
Euro Issues	**843**	**-**
(i) ADRs	**-**	**-**
a) Private	-	-
b) Public	-	-
(ii) GDRs	**843**	**-**
a) Private	843	-
b) Public	-	-
(iii) FCCBs	**N.A.**	**N.A.**

N.A.: Not available.
-: Nil/Negligible.
FCCBs – Foreign Currency Convertible Bonds.
ADRs/GDRs- American/Global Depository Receipts.

Table IV.28: Risk-Return Performance, Turnover and Capitalisation of Bank Stocks

Item	2008-09	2009-10	2010-11	2011-12#
1	2	3	4	5
1. Return*				
BSE Bankex	-41.8	137.2	24.9	-3.6
BSE Sensex	-37.9	80.5	10.9	-2.3
2. Volatility@				
BSE Bankex	23.0	16.5	10.3	4.3
BSE Sensex	24.2	11.9	6.3	3.3
3. Share of turnover of bank stocks in total turnover	9.61	8.28	9.48	9.96
4. Share of capitalisation of bank stocks in total market capitalisation**	8.41	10.03	11.91	11.55

*: Percentage variations in indices on a point-to-point basis.
@: Defined as coefficient of variation.
**: As at end-period.
#: April-June 30, 2011.
Source: BSE.

Table IV.29: Number of Public Sector Banks* Classified by Percentage of Private Shareholding
(end-March 2011)

Class of shareholding	Private resident shareholding	Private non-resident shareholding	Total private shareholding
1	2	3	4
Up to 10 per cent	1	12	-
More than 10 and upto 20 per cent	6	9	4
More than 20 and upto 30 per cent	9	-	1
More than 30 and upto 40 per cent	2	-	6
More than 40 and upto 43 per cent	3	-	10

–: Nil/negligible.
*: Including 19 nationalised banks, SBI and IDBI Bank Ltd.

4.75 The foreign shareholding in public sector banks continued to be at a lower level in 2010-11 as in the previous year. Twelve out of 21 public sector banks had only less than ten per cent foreign shareholding in 2010-11, while rest of the public sector banks had less than 20 per cent foreign shareholding. All the new private sector banks had a foreign shareholding of more than 30 per cent. In nine out of 14 old private sector banks, the foreign shareholding was more than 20 per cent in 2010-11. However, foreign shareholding in all private sector banks was less than 74 per cent, the regulatory maximum prescribed by the Reserve Bank. Notably, only four banks, *viz.*, three new private sector banks and one old private sector bank, had foreign shareholding of more than 49 per cent in 2010-11, the ceiling put forward by the Reserve Bank for new banks for the first five years of their operations in the draft guidelines issued in August 2011 (Chart IV.20 and Appendix Table IV.8).

Chart IV.19: Government Shareholding in PSBs
(end-March 2011)

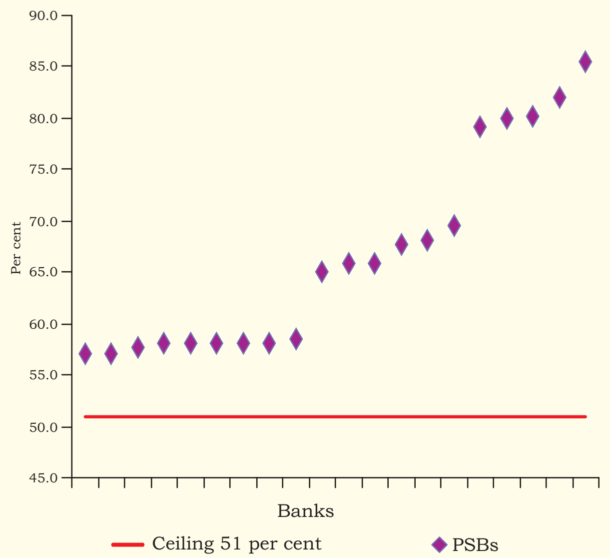
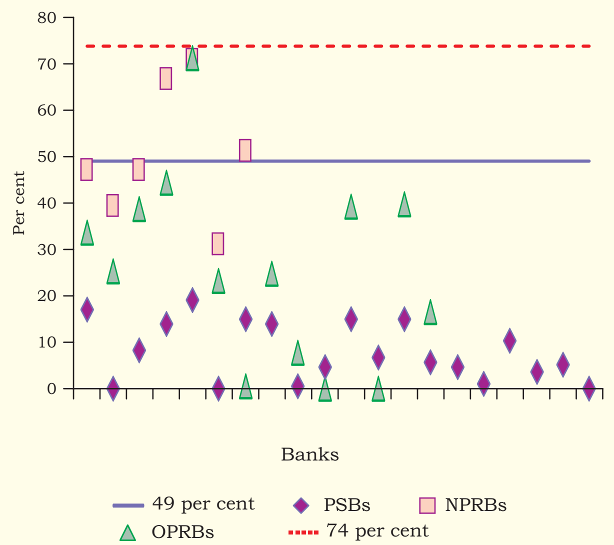


Chart IV.20: Foreign Shareholding in Domestic Banks
(end-March 2011)



8. Foreign Banks' Operations in India and Overseas Operations of Indian Banks

Operations of foreign banks in India witnessed an increase

4.76 At end-August 2011, 38 foreign banks (from 24 countries) were operating in India as compared to 34 banks at end September 2010. The total number of branches too increased to 321 in August 2011 from 315 in September 2010. In addition, 47 foreign banks operated in India through representative offices as at end August 2011 as against 45 as at end September 2010. The largest branch network of foreign banks in India was that of Standard Chartered Bank followed by HSBC Ltd., Citibank and the Royal Bank of Scotland N.V.

4.77 Between September 2010 and August 2011, permission was granted to four new foreign banks, *viz.*, National Australia Bank, Industrial and Commercial Bank of China, Rabobank International and Woori Bank to open one branch each in India. Permission was also granted to one foreign bank *viz.*, Sumitomo Mitsui Banking Corporation to open a representative office in India.

Foreign operations of Indian banks expanded

4.78 Between September 2010 and August 2011, Indian Banks opened nine more branches abroad apart from opening one subsidiary and one representative office. Thus, the foreign operations of Indian banks (16 public sector banks and six private sector banks) expanded in 2010-11 with a network of 244 offices as compared with 233 offices in the previous year. The largest Indian bank, *viz.*, State Bank of India had the largest network of foreign offices as at end August 2011 followed by Bank of Baroda. These two banks together accounted for 51 per cent of the total foreign offices of Indian banks as at end August 2011. Among private sector banks, ICICI Bank Ltd. had the largest foreign presence as at end-August 2011. In 2010-11, State Bank of India undertook the largest expansion of foreign operations through opening five new offices abroad (Table IV.30).

9. Technological Developments in Scheduled Commercial Banks

Technological upgradation continued

4.79 During the recent years, the pace and quality of banking was changed by the technological advancements made in this area. Computerisation as well as the adoption of core banking solutions was one of the major steps in improving the efficiency of banking services. The new private sector banks and most of the foreign banks, which started their operations in the mid nineties followed by liberalisation, were the front runners in adopting technology. For old private sector banks and public sector banks adoption of technology was an arduous job because of the historical records and practices. However, it is important to note that presently almost 98 per cent of the branches of public sector banks are fully computerised, and within which almost 90 per cent of the branches are on core banking platform.

4.80 Further, introduction of automated teller machines (ATMs) enabled customers to do banking without visiting the bank branch. In 2010-11 the number of ATMs witnessed a growth of 24 per cent over the previous year. However, the percentage of off-site ATMs to total ATMs witnessed a marginal decline to 45.3 per cent in 2010-11 from 45.7 per cent in 2009-10. More than 65 per cent of the total ATMs belonged to the public sector banks as at end March 2011 (Table IV.31 and Appendix Table IV.9).

4.81 During 2010-11, the number of debit cards grew at the rate of 25 per cent over the previous year. In sync with the trend observed in case of ATMs, nearly three fourths of the total debit cards were issued by PSBs as at end March 2011. The share of PSBs in outstanding debit cards witnessed an increase during the recent

Table IV.30: Overseas Operations of Indian Banks
(Actually operational)

Name of the Bank	Branch		Subsidiary		Representative Office		Joint Venture Bank		Total	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9	10	11
I. Public Sector Banks	**137**	**144**	**20**	**21**	**39**	**39**	**7**	**7**	**203**	**211**
1. Allahabad Bank	1	1	-	-	1	1	-	-	2	2
2. Andhra Bank	-	-	-	-	2	2	-	-	2	2
3. Bank of Baroda	46	47	9	9	3	3	1	1	59	60
4. Bank of India	24	24	3	3	5	5	1	1	33	33
5. Canara Bank	4	4	-	-	1	1	-	-	5	5
6. Corporation Bank	-	-	-	-	2	2	-	-	2	2
7. Indian Bank	3	4	-	-	-	-	-	-	3	4
8. Indian Overseas Bank	6	6	1	1	4	4	-	-	11	11
9. IDBI Bank Ltd.	1	1	-	-	-	-	-	-	1	1
10. Punjab National Bank	4	4	2	3	4	4	1	1	11	12
11. State Bank of India	42	47	5	5	8	8	4	4	59	64
12. Syndicate Bank	1	1	-	-	-	-	-	-	1	1
13. UCO Bank	4	4	-	-	2	2	-	-	6	6
14. Union Bank	1	1	-	-	5	5	-	-	6	6
15. United Bank of India	-	-	-	-	1	1	-	-	1	1
16. Oriental Bank of Commerce	-	-	-	-	1	1	-	-	1	1
II. New Private Sector Banks	**11**	**13**	**3**	**3**	**16**	**17**	**-**	**-**	**30**	**33**
17. Axis Bank	3	3	-	-	2	3	-	-	5	6
18. HDFC Bank Ltd.	1	2	-	-	2	2	-	-	3	4
19. ICICI Bank Ltd.	7	8	3	3	8	8	-	-	18	19
20. IndusInd Bank Ltd.	-	-	-	-	2	2	-	-	2	2
21. Federal Bank Ltd.	-	-	-	-	1	1	-	-	1	1
22. Kotak Mahindra Bank Ltd.	-	-	-	-	1	1	-	-	1	1
Total	**148**	**157**	**23**	**24**	**55**	**56**	**7**	**7**	**233**	**244**

-: Nil
Note: 1) Data for 2010 relate to end-September.
2) Data for 2011 relate to end-August.

years, while that of new private sector banks and foreign banks witnessed a decline over the same period. However, in absolute terms, the number of outstanding debit cards witnessed an increase for new private sector banks during the recent years (Table IV.32 and Chart IV.21).

Table IV.31: ATMs of Scheduled Commercial Banks
(As at end-March 2011)

Sr. No.	Bank group	On-site ATMs	Off-site ATMs	Total number of ATMs	Off-site ATMs as per cent of total ATMs
1		2	3	4	5
I	**Public sector banks**	**29,795**	**19,692**	**49,487**	**39.8**
	1.1 Nationalised banks*	15,691	9,145	24,836	36.8
	1.2 SBI group	14,104	10,547	24,651	42.8
II	**Private sector banks**	**10,648**	**13,003**	**23,651**	**55.0**
	2.1 Old private sector banks	2,641	1,485	4,126	36.0
	2.2 New private sector banks	8,007	11,518	19,525	59.0
III	**Foreign banks**	**286**	**1,081**	**1,367**	**79.1**
	All SCBs (I+II+III)	**40,729**	**33,776**	**74,505**	**45.3**

*: Include IDBI Bank Ltd.

Outstanding number of credit cards declined

4.82 The issuance of credit cards facilitates transactions without having to carry paper

Chart IV.21: Shares of Bank Groups in Outstanding Debit Cards

Table IV.32: Debit Cards Issued by Scheduled Commercial Banks
(As at end-March 2011)

(In Millions)

Sr. No.	Bank group	Outstanding Number of Debit Cards 2006-07	2007-08	2008-09	2009-10	2010-11
1		2	3	4	5	6
I	**Public sector banks**	**44.09**	**64.33**	**91.7**	**129.69**	**170.34**
	1.1 Nationalised banks	19.24	28.29	40.71	58.82	80.27
	1.2 SBI group	24.85	36.04	50.99	70.87	90.07
II	**Private sector banks**	**27.19**	**34.1**	**41.34**	**47.85**	**53.58**
	2.1 Old private sector banks	3.94	5.34	7.09	9.81	12.44
	2.2 New private sector banks	23.25	28.76	34.25	38.04	41.14
III	**Foreign banks**	**3.70**	**4.02**	**4.39**	**4.43**	**3.92**
	All SCBs (I+II+III)	**74.98**	**102.44**	**137.43**	**181.97**	**227.84**

money. Despite the decline in the number of outstanding number of credit cards, the volume and value of transactions with credit card recorded a growth of 13 per cent and 22 per cent, respectively in 2010-11. New private sector banks and foreign banks accounted for more than 80 per cent of the total outstanding credit cards as at end March 2011 (Table IV.33 and Chart IV.22).

Electronic banking transactions have been on steady increase

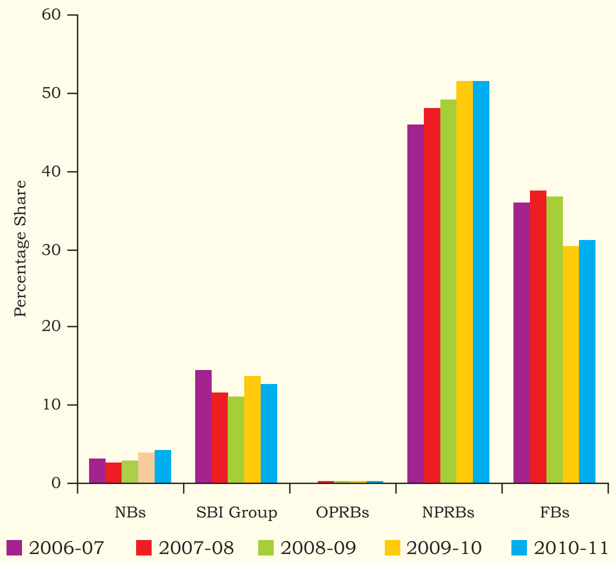
4.83 The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit, National Electronic Fund Transfer (NEFT)

Table IV.33: Credit Cards Issued by Scheduled Commercial Banks
(As at end-March 2011)

(In Millions)

Sr. No	Bank group	Outstanding Number of Credit Cards 2006-07	2007-08	2008-09	2009-10	2010-11
1		2	3	4	5	6
I	**Public sector banks**	**4.14**	**3.93**	**3.44**	**3.26**	**3.08**
	1.1 Nationalised banks	0.75	0.72	0.72	0.73	0.78
	1.2 SBI group	3.39	3.21	2.72	2.53	2.30
II	**Private sector banks**	**10.68**	**13.29**	**12.18**	**9.5**	**9.32**
	2.1 Old private sector banks	0.03	0.04	0.06	0.06	0.04
	2.2 New private sector banks	10.65	13.25	12.12	9.44	9.28
III	**Foreign banks**	**8.31**	**10.33**	**9.08**	**5.57**	**5.64**
	All SCBs (I+II+III)	**23.12**	**27.55**	**24.70**	**18.33**	**18.04**

Chart IV.22: Shares of Bank Groups in Outstanding Credit Cards



for retail transactions and Real Time Gross Settlement (RTGS) for large value, improved the speed of financial transactions, across the country.

Volume of transactions through NEFT registered a steep growth

4.84 Both retail and large value systems of electronic payment transactions registered a growth out of which NEFT registered a steep growth in 2010-11 over the previous year (Table IV.34).

10. Customer Service

Number of complaints against banks declined

4.85 Customer satisfaction is an integral element in inculcating trust among the common people on the banking sector, which may also facilitate financial inclusion in the medium to long-term. Understanding the importance of customer service in banking, the Reserve Bank set up a separate Customer Service Department in 2006 and also Banking Ombudsman (BO) offices in 15 major banking centres. Since its inception, BO has been an effective forum for redressing complaints received from customers.

Table IV.34: Volume and Value of Electronic Transactions* by Scheduled Commercial Banks
(As at end-March 2011)

(Volume in million, Value in ₹ crore)

Year	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
	Volume		Percentage Variation		Value		Percentage Variation	
1	2	3	4	5	6	7	8	9
ECS Credit	98.1	117.3	11.0	19.5	1,17,613	1,81,686	20.6	54.5
ECS Debit	149.3	156.7	-6.7	5.0	69,524	73,646	3.8	5.9
NEFT	66.3	132.3	106.3	99.5	4,09,507	9,39,149	62.5	129.3
RTGS	33.2	49.3	148.5	48.2	3,94,53,359	4,84,87,234	22.2	22.9

*: Excluding transactions carried out through cards

4.86 In 2010-11, there was a decline in the number of complaints received by the BO offices across the country. The decline was particularly visible in metropolitan regions, *viz.*, New Delhi, Mumbai and Chennai. However, in the midst of general declining trend, there were some centres, *viz.*, Bhopal, Patna, Ahmedabad, Chandigarh and Guwahati, which reported an increase in the number of complaints (Table IV.35).

Complaints against public sector banks increased

4.87 There was, however, an increase in complaints against public sector banks in 2010-11 over the previous year, whereas the number of complaints against private sector banks and foreign banks witnessed a decline over the same period. Number of complaints per branch was particularly high for foreign banks at 22.34 in 2010-11. In 2010-11, almost one fourth of the total complaints were received against credit/debit/ATM cards. The second largest number of complaints were received against pension (8 per cent) followed by loans and advances (6 per cent). Complaints against pension and direct selling agents (DSA) increased in 2010-11 over the previous year (Table IV.36 and Appendix Table IV.10).

Table IV.35: Region-wise Complaints Received at Banking Ombudsman Offices

BO office	Number of complaints	
	2009-10	2010-11
1	2	3
Ahmedabad	4,149	5,190
Bangalore	3,854	3,470
Bhopal	3,873	5,210
Bhubaneswar	1,219	1,124
Chandigarh	3,234	3,559
Chennai	12,727	7,668
Guwahati	528	584
Hyderabad	5,622	5,012
Jaipur	4,560	3,512
Kanpur	7,832	8,319
Kolkata	5,326	5,192
Mumbai	10,058	7,566
New Delhi	12,045	10,508
Patna	1,707	2,283
Thiruvananthapuram	2,532	2,077
Total	**79,266**	**71,274**

Source: Various Regional Offices of Banking Ombudsman.

4.88 A point to be noted at this juncture is the concentration of complaints with regard to DSA against new private sector banks and foreign banks. In 2010-11, more than 90 per cent of total complaints relating to DSA were received against foreign banks and new private sector banks. Further, more than 50 per cent of the complaints relating to hidden charges were received against private sector banks and foreign banks. Such complaints were relatively less in case of public sector banks. However, more than 95 per cent of the complaints regarding pension were received against public sector banks (Chart IV.23).

11. Financial Inclusion

Financial inclusion further progressed

4.89 Financial inclusion has been one of the top priorities of the Reserve Bank during the recent years. Accordingly, the Reserve Bank has been encouraging the banking sector to expand the

Table IV.36: Bank Group-wise Complaints Received at Banking Ombudsman Offices –2010-11

Nature of Complaint	**Public sector banks**	Nationa-lised banks*	SBI group	**Private sector banks**	Old private sector banks	New private sector banks	Foreign banks	**All SCBs**	**UCBs/ RRBs/ others**	**Total**
1	**2**	3	4	**5**	6	7	8	**9**	**10**	**11= (9+10)**
Deposit accounts	**726**	379	347	**641**	50	591	293	**1,660**	**67**	**1,727**
Remittances	**3,019**	1,574	1,445	**816**	65	751	175	**4,010**	**206**	**4,216**
Credit/Debit/ATM cards	**9,217**	3,343	5,874	**4,458**	149	4,309	3,196	**16,871**	**245**	**17,116**
Loans/advances	**3,262**	1,891	1,371	**832**	185	647	199	**4,293**	**271**	**4,564**
Charges without prior notice	**1,700**	995	705	**1,836**	120	1,716	482	**4,018**	**131**	**4,149**
Pension	**5,746**	1,746	4,000	**43**	1	42	21	**5,810**	**117**	**5,927**
Failure on commitments made	**1,971**	1,035	936	**747**	94	653	161	**2,879**	**83**	**2,962**
Direct selling agents	**120**	58	62	**928**	12	916	658	**1,706**	**16**	**1,722**
Notes and coins	**86**	36	50	**25**	1	24	19	**130**	**16**	**146**
Non-Observance of Fair Practice of Lenders	**8,799**	4,680	4,119	**3,378**	254	3,124	1,163	**13,340**	**786**	**14,126**
Non-Observance of BCSBI Code	**1,260**	742	518	**812**	51	761	204	**2,276**	**69**	**2,345**
Others	**4,835**	2,675	2,160	**2,323**	167	2,156	440	**7,598**	**606**	**8,204**
Out of subject	**1,983**	1,263	720	**283**	30	253	70	**2,336**	**1,734**	**4,070**
Total complaints	**42,724**	**20,417**	**22,307**	**17,122**	**1,179**	**15,943**	**7,081**	**66,927**	**4,347**	**71,274**
	(1.9)	**(6.94)**	**(2.3)**	**(-24.1)**	**(-15.4)**	**(-24.6)**	**(-38.1)**	**(-11.8)**	**(30.2)**	**(-10.1)**
Complaints per Branch	**0.69**	**0.45**	**1.25**	**1.47**	**0.25**	**2.35**	**22.34**	**0.90**		

*: Include IDBI Bank Ltd.
Note: Figures in parentheses indicate percentage change over the previous year.
Source: Various Regional Offices of Banking Ombudsman.

banking network both through setting up of new branches and also through BC model by leveraging upon the information and communication technology (ICT). As a result of all these efforts the status of financial inclusion improved in 2010-11 over the previous year (Table IV.37).

Chart IV.23: Major Complaints against Bank Groups 2010-11

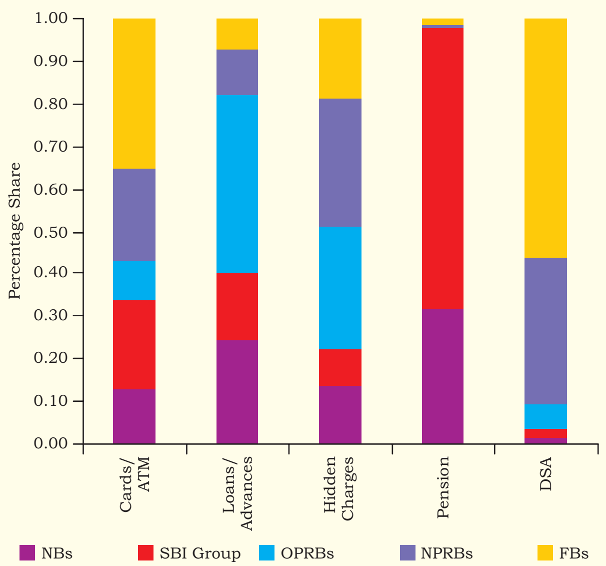


Table IV.37: Progress of Financial Inclusion

No.	Indicator	2009-10	2010-11
1	2	3	4
1	Credit-GDP	53.4	54.6
2	Credit-Deposit	73.6	76.5
3	Population per Bank Branch	14,000	13,466
4	Population per ATM	19,700	16,243
5	Percentage of Population having deposit accounts*	55.8	61.2
6	Percentage of Population having credit accounts*	9.3	9.9
7	Percentage of Population having debit cards	15.2	18.8
8	Percentage of Population having credit cards	1.53	1.49
9	Branches opened in Tier 3-6 centres as a per cent of total new bank branches	40.3	55.4
10	Branches opened in hitherto unbanked centres as a per cent of total new bank branches	5.6	9.7

*: Data relate to 2008-09 and 2009-10.

Note: 1) Data on credit and deposits are taken from the consolidated balance sheet of SCBs.
2) Data on bank branches, new bank branches, branches opened in Tier 3 to Tier 6 centres, and branches opened in unbanked centres are taken from Master Office File, DSIM. Data relate to April-March.
3) Data on branches include branches of Regional Rural Banks in 2010-11.
4) Data on population for the year 2010-11 are taken from Census of India 2011.
5) Data on population per bank branch and population per ATM for the year 2009-10 are repeated from the Report on Trend and Progress of Banking in India 2009-10.
6) Data on population for the year 2009-10 for calculating Indicators 5-8 are derived from the population per bank branch as reported in the Report on Trend and Progress of Banking in India 2009-10.
7) Data on number of deposits and credit accounts are taken from the Basic Statistical Returns 2009-10.
8) Data on number of ATMs, debit cards and credit cards are sourced from the Department of Payment and Settlement System.

Extent of financial exclusion is staggering

4.90 Yet, the extent of financial exclusion is staggering. Out of every 1000 persons, only 99 had a credit account and 600 had a deposit account as at end-March 2010[11]. This underlined the need to strengthen the financial inclusion drive through well thought out policies.

Expansion of Banking Network through Bank Branches

Number of bank branches increased by 4,826

4.91 In 2010-11, the number of branches of SCBs increased by 4,826 over the previous year. Importantly, of the new branches opened by SCBs, 22 per cent were in rural areas and 42 per cent were in semi-urban areas. The Southern region, which is already well banked, had the highest share of new bank branches in 2010-11. On the other hand, the least banked region, *viz*., North-Eastern region had the lowest share of new bank branches in 2010-11 (Table IV.38).

4.92 The State-wise distribution of new bank branches showed that Uttar Pradesh had the highest share of new bank branches at 11 per cent followed by Maharashtra (10 per cent), Andhra Pradesh (9 per cent) and Tamil Nadu (7 per cent) during the period April-March 2010-11.

Table IV.38: Distribution of New Bank Branches across Regions and Population Groups
(During the period 2010-11 April-March)

Regions	No. Of new branches	Population groups	No. Of new branches
1	2	3	4
Central Region	874 (18.1)	Rural	1,077 (22.3)
Eastern Region	650 (13.5)	Semi Urban	2,011 (41.7)
North Eastern Region	97 (2.0)	Urban	865 (17.9)
Northern Region	1,120 (23.2)	Metropolitan	873 (18.1)
Southern Region	1,263 (26.2)	-	-
Western Region	822 (17.0)	-	-
Total	**4,826(100.0)**	**Total**	**4,826 (100.0)**

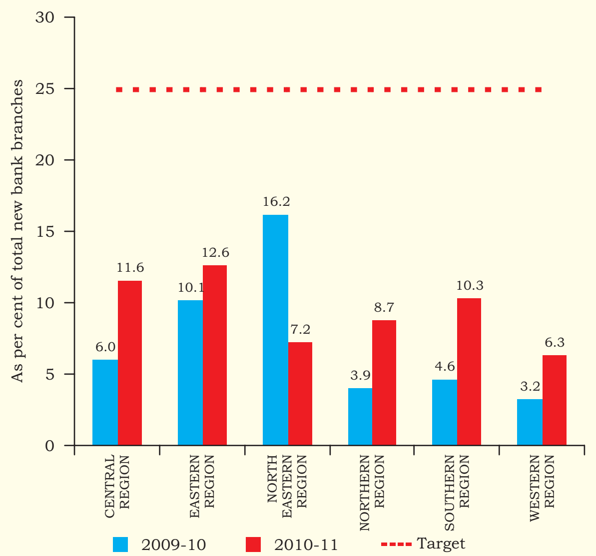
Note: Figures in parentheses are percentages to total new bank branches.
Source: Master Office File.

4.93 An important policy initiative to increase the number of bank branches in the Tier 3 to Tier 6 centres was the liberalisation of the branch authorisation policy in December 2009. In 2010-11 (April-March), SCBs opened more number of branches in Tier 3 to 6 centres as compared with the previous year. More than half of the new branches were opened in Tier 3 to 6 centres during 2010-11 (April-March) (Table IV.37).

Bank branches opened in hitherto unbanked centres increased

4.94 In July 2011, banks were advised to allocate at least 25 per cent of the total new bank branches in unbanked rural centres. The bank branches opened in the hitherto unbanked centres increased from 281 in 2009-10 to 470 in 2010-11 (April-March). Of the total new bank branches opened in 2010-11, almost ten per cent were opened in hitherto unbanked centres as compared with 6 per cent in the previous year. However, in comparison with the latest policy prescription, the share of new bank branches opened in unbanked centres in 2010-11 was low (Chart IV.24).

Chart IV.24: Bank Branches Opened in Hitherto Unbanked Centres (April-March)



[11] Data on deposit accounts and credit accounts are taken from the Basic Statistical Returns 2009-10.

4.95 Despite the efforts taken, the population per bank branch (after including branches of RRBs) in North Eastern, Eastern and Central regions continued to be substantially higher than the national average in 2010-11 (Chart IV.25).

Expansion of Banking Network through ATMs

Nearly 50 per cent of the net increase in ATMs was at off-site locations

4.96 From the point of view of banking penetration, off-site ATMs have more relevance than on-site ATMs. Out of the total net increase in ATMs in 2010-11, 44 per cent were off-site ATMs. Sixty three per cent of the net addition of ATMs by new private sector banks and 98 per cent of net addition of ATMs by foreign banks were at off-site locations in 2010-11. Almost 41 per cent and 49 per cent, respectively of the net addition of ATMs by nationalised banks and old private sector banks were also at off-site locations.

Rural areas accounted for ten per cent of total outstanding ATMs

4.97 In 2010-11, almost one tenth of the total ATMs were located in rural areas out of which the State Bank group accounted for 44 per cent followed by nationalised banks (38 per cent) (Table IV.39 and Chart IV.26).

Table IV.39: Number of ATMs of SCBs Located at Various Locations

Bank group	(At end-March 2011)				
	Rural	Semi–urban	Urban	Metro politan	Total
1	2	3	4	5	6
Public sector banks	**5,872**	**13,278**	**16,186**	**14,151**	**49,487**
	(11.9)	**(26.8)**	**(32.7)**	**(28.6)**	**(100.0)**
Nationalised Banks*	2,718	5,680	8,132	8,306	24,836
	(10.9)	(22.9)	(32.7)	(33.4)	**(100.0)**
State Bank Group	3,154	7,598	8,054	5,845	24,651
	(12.8)	(30.8)	(32.7)	(23.7)	(100.0)
Private sector banks	**1,262**	**4,784**	**7,576**	**10,029**	**23,651**
	(5.3)	**(20.2)**	**(32.0)**	**(42.4)**	**(100.0)**
Old Private Sector Banks	332	1,339	1,401	1,054	4,126
	(8.0)	(32.5)	(34.0)	(25.5)	(100.0)
New Private Sector Banks	930	3,445	6,175	8,975	19,525
	(4.8)	(17.6)	(31.6)	(46.0)	(100.0)
Foreign Banks	**21**	**20**	**300**	**1,026**	**1,367**
	(1.5)	**(1.5)**	**(21.9)**	**(75.1)**	**(100.0)**
Total	**7,155**	**18,082**	**24,062**	**25,206**	**74,505**
	(9.6)	**(24.3)**	**(32.3)**	**(33.8)**	**(100.0)**
	[37.7]	**[24.9]**	**[21.8]**	**[21.7]**	**[23.9]**

*: Include IDBI Bank Ltd.

Note: 1) Figures in parentheses indicate percentage share of total ATMs under each bank group.
2) Figures in square brackets are percentage variation over the previous year.

North-Eastern region had the lowest share in the incremental increase in the deployment of ATMs

4.98 The share of the North Eastern region was the lowest in the incremental deployment of ATMs in 2010-11 (Chart IV.27).

Chart IV.25: Region-wise Population per Bank Branch (end March 2011)

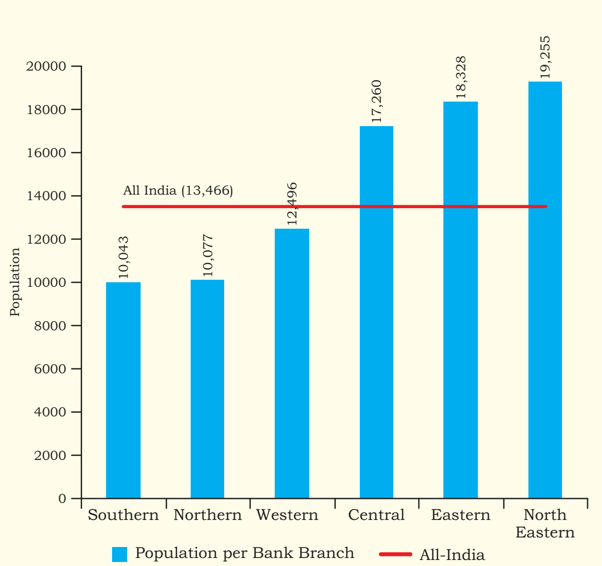


Chart IV.26: Population Group-wise Distribution of ATMs (end-March 2011)

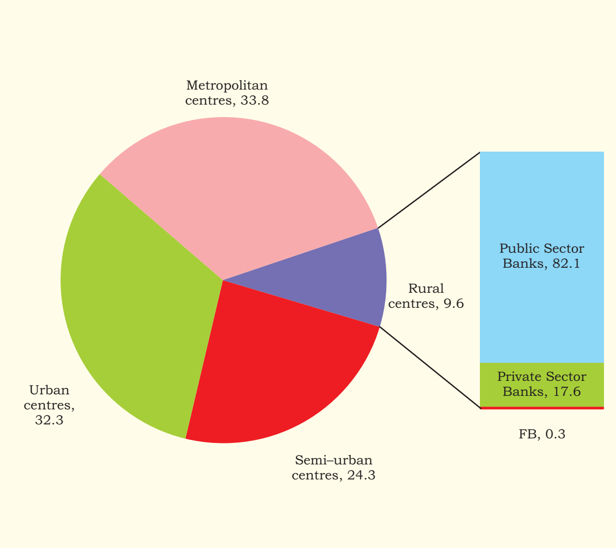


Chart IV.27: Share of Regions in Total Net Increase in ATMs 2010-11

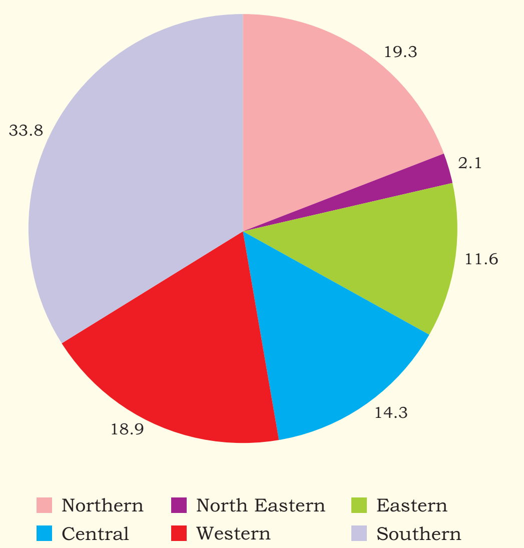
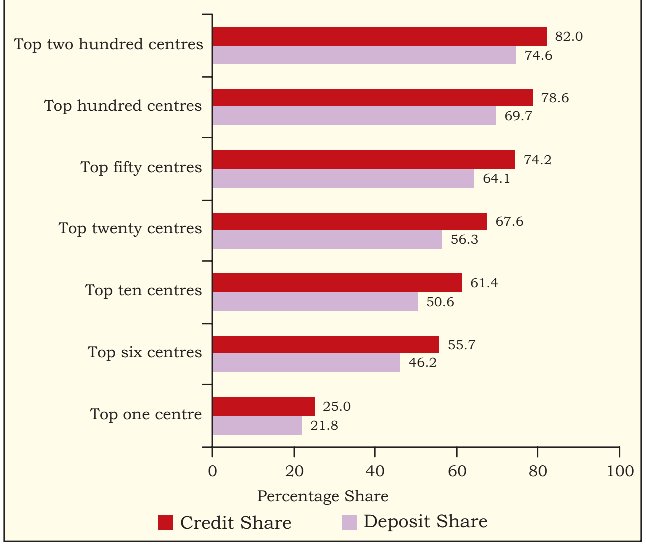


Chart IV.28: Distribution of Deposit and Credit According to Banking Centres - March 2011



Distribution of Bank Credit and Deposits[12]

Banking business is concentrated in the metropolitan region

4.99 The spatial distribution of deposit and credit indicated high level of concentration in the metropolitan regions. Greater Mumbai centre alone accounted for 22 per cent of total deposits and 25 per cent of total credit in 2010-11. Further, the top six centres, *viz.*, Greater Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad, together accounted for 46 per cent of total deposits and 56 per cent of total credit in 2010-11. The concentration of credit was higher in these centres as compared with the concentration of deposits (Chart IV.28).

4.100 Geographical region-wise distribution of credit indicated that more than one third of the total credit belonged to the Western region. The share of North-Eastern region in the total credit was abysmally low as at end-March 2011. The population group-wise distribution of credit indicated that 68 per cent of total credit belonged to the metropolitan region as at end-March 2011. While the semi-urban areas accounted for nine per cent of credit as at end March 2011, the rural areas accounted for six per cent of credit. (Charts IV.29A and IV.29B, and Appendix Table IV.11).

The Reserve Bank is closely monitoring the Financial Inclusion Plans

4.101 To strengthen the financial inclusion drive, the Reserve Bank asked banks to cover all villages with more than 2,000 population with at least one banking outlet by March 2012. In addition, banks were also encouraged to cover the peripheral villages with population less than 2,000. To facilitate the smooth progress of this plan, all banks were advised to put in place board approved financial inclusion plans (FIPs). Banks have already prepared such plans and the Reserve Bank is closely monitoring the implementation of these plans. The progress made under FIPs is provided in Table IV.40.

4.102 The total number of villages covered by at least one banking outlet grew at 82 per cent in 2010-11 over the previous year. Importantly, in 2010-11, 47 per cent of the total villages covered

[12] Data are taken from *Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks March 2011.*

Chart IV.29A: Region-wise Share in Credit - March 2011

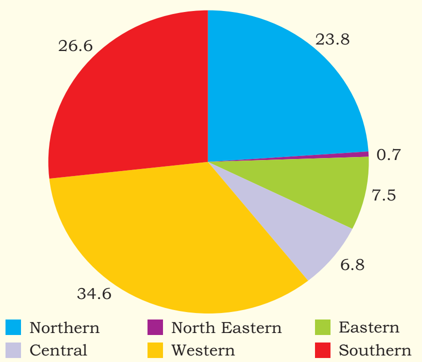
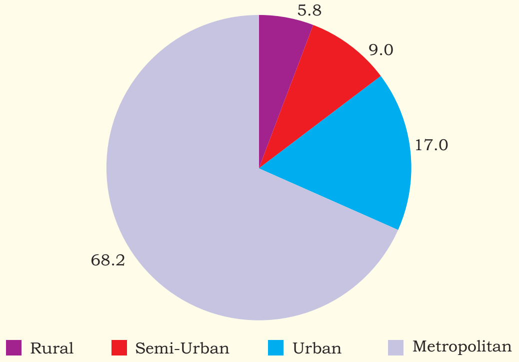


Chart IV.29B: Population Group-wise Share in Credit - March 2011



under FIPs were villages with population less than 2,000. It can be understood from the table that banks have been heavily relying on BCs to expand the banking network in the unbanked areas under FIPs. In 2010-11, almost 77 per cent of the total villages covered were through BCs. The number of 'no-frills' accounts recorded a growth of 50 per cent in 2010-11 over the previous year. The share of 'no-frills' accounts with overdrafts in the total 'no-frills' accounts improved from 0.3 per cent in 2009-10 to six per cent in 2010-11. The number of Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) witnessed growth of 15 per cent and 49 per cent, respectively in 2010-11 over the previous year (Table IV.40).

Micro Finance

4.103. SHG-Bank Linkage Programme has completed two decades of existence since the early days of the pilot in 1992. The approach has received wide acceptance amongst a multiplicity of stakeholders, like the financially excluded poor households, civil society organisations, bankers and also the international community. In 2010-11, 1.2 million new SHGs were credit-linked with banks, and bank loans of ₹14,547 crore (including repeat loan) was disbursed to these SHGs. Further, at end-March 2011, 7.46 million SHGs maintained savings accounts with banks. On an average, the amount of savings per SHG was ₹9,405 as compared to the amount of credit of ₹65,180 in 2010-11. There is a strong belief that the SHG movement has the potential to satisfy the financial service needs of India's unbanked people in a sustainable way. However, the approach has faced a few concerns of being fundamentally focused on credit without

Table IV.40: Progress Made Under Financial Inclusion Plans

Sr. No.	Particulars	end-March 2010	end-March 2011	Progress: April 10-March 11
1	2	3	4	5
1	Total Number of Customer Service Points deployed	33,042	58,361	25,319
2	Total Villages Covered	54,757	99,840	45,083
3	Villages Covered - with population >2000	27,743	53,397	25,654
4	Villages Covered - with population <2000	27,014	46,443	19,429
5	Villages covered through Branches	21,499	22,684	1,185
6	Villages covered through BCs	33,158	76,801	43,643
7	Villages covered through other modes (Mobile van and ATM)	100	355	255
8	Urban Locations covered through BCs	423	3,653	3,230
9	Number of No-Frill Accounts (in millions)	50	75	25
10	Amount in No-Frill Accounts (₹ crore)	4,895	6,566	1,652
11	Number of No-Frill Accounts with OD (in millions)	.13	4	4
12	Amount in No Frill A/Cs with OD (₹ crore)	8	199	190
13	Number of KCCs outstanding (in millions)	20	23	3
14	Amount in KCCs outstanding (₹ crore)	1,07,519	1,43,862	36,343
15	Number of GCCs outstanding (in millions)	.6	1	.4
16	Amount in GCCs outstanding (₹ crore)	814	1,308	494

Table IV.41: Progress of Micro-Finance Programmes

(As at end-March)

Item	Self-Help Groups					
	Number (in million)			Amount (₹ crore)		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
1	2	3	4	5	6	7
Loans disbursed by banks during the year	1.61(0.26)	1.59(0.27)	1.20(0.24)	12,254(2,015)	14,453(2,198)	14,547(2,480)
Loans outstanding with banks	4.22(0.98)	4.85(1.25)	4.79(1.29)	22,680(5,862)	28,038(6,251)	31,221(7,829)
Savings with banks	6.12(1.51)	6.95(1.69)	7.46(2.02)	5,546(1,563)	6,199(1,293)	7,016(1,817)
	Microfinance Institutions*					
	Number (in million)			Amount (₹ crore)		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Loans disbursed by banks during the year	581	691	469	3,732	8,063	7,605
Loans outstanding with banks	1,915	1,513	2,176	5,009	10,148	10,689

*: The actual number of MFIs provided with bank loans would be lower on account of MFIs availing loans from more than one bank.

Note: Figures in brackets indicate the details about SHGs covered under Swarnajayanti Gram Swarozgar Yojana (SGSY).

Source: NABARD.

adequate room for intensifying the space for thrift and savings. Similarly the approach has also shown the need and scope for allowing greater flexibility to accommodate multiplicity of credit borrowings at the SHG level. NABARD's attempt at present has been to better appreciate the concerns being expressed from different quarters which are aimed at addressing some of these critical concerns to make the approach more flexible, client friendly in tune with the changing needs (Table IV.41).

4.104. In 2010-11, 461 MFIs were provided loans by banks to the tune of ₹7,605 crore. The growth under the MFI-linkage programme in terms of both number and amount of loans was much higher than the corresponding growth under the SHG-Bank Linkage Programme in 2010-11 (Table IV.41).

Andhra Pradesh Microfinance Act

4.105. A bill titled "A Bill to protect The Women Self Help Groups from Exploitation by the Micro Finance Institutions in the State of Andhra Pradesh and for the Matters Connected Therewith or Incidental Thereto" was passed by the Andhra Pradesh Legislative Assembly on December 14, 2010. It replaced the Ordinance on the same matter issued on October 15, 2010. The Act applies to all entities engaged in the business of microfinance including NBFCs regulated by the Reserve Bank under the provisions of the RBI Act, 1934. Among others, this Bill stipulates that (i) every MFI has to register before the Registering Authority of the district, (ii) no member of an SHG can be a member of more than one SHG, (iii) no MFI can give a further loan to any SHG/its members without the approval of the registering authority where there is an outstanding bank loan, (iv) all repayments have to be made at the office of the Gram Panchayat or at a designated public place, (v) MFIs cannot use agents for recovery or use coercive methods of recovery, and (vi) loan recoveries have to be made only by monthly installments.

4.106. If State Governments start enacting their own legislations to regulate MFIs including the ones regulated by the Reserve Bank, there will be plurality of regulation leaving scope for regulatory arbitrage. The responsibility for regulating NBFCs has been given to the Reserve Bank, thus, empowering it to regulate the NBFC-MFIs. If other States also come out with legislation similar to the AP Government, it will raise concerns not only about multiple regulations but also about client protection, as borrowers would then be subject to different regulations. If there are separate regulations governing NBFC-MFIs in individual states, the task of regulation by the Reserve Bank of MFIs operating in more than one State will become even more difficult. This may also impact the business of MFIs, which are operational in more than one State.

12. Regional Rural Banks

Amalgamations reduced the number of RRBs during the recent years

4.107 The professionalism of commercial banks and the rural orientation of cooperatives were imbibed in Regional Rural Banks (RRBs) to improve credit flow to the rural economy without compromising the overall financial soundness of the banking sector. RRBs are sponsored by commercial banks along with the Central Government and the concerned State Governments. Presently, there are 82 RRBs functioning in the country, reduced from 196 in early 2000s on account of restructuring and amalgamation of existing RRBs to improve their financial soundness. Many of the RRBs were also recapitalised during the recent years to enable them to extend more credit to the rural areas.

4.108 The overall deposit mobilisation of RRBs increased in 2010-11 over the previous year. The increase was particularly visible in case of saving deposits followed by deposits in the current account in 2010-11. The borrowings of RRBs also increased in 2010-11 over the previous year owing to higher borrowings from Sponsor Banks, NABARD and others. On the assets side, RRBs' balances with the Reserve Bank witnessed an increase in 2010-11 over the previous year (Table IV.42).

4.109 The net profits of RRBs increased in 2010-11 over the previous year. Despite a decline in operating profits, net profits registered an increase owing to the decline in provisions and contingencies. However, even with the increase in net profits in absolute terms, the return on assets recorded a decline in 2010-11 over the previous year. The per branch profitability as well as per employee profitability of RRBs witnessed an increase in 2010-11 over the previous year (Table IV.43).

Table IV.42: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ₹ crore)

Sr. No.	Item	At end-March 2009-10	At end-March 2010-11P	Percentage variation
1	2	3	4	5
1	**Share Capital**	**197**	**197**	**-**
2	**Reserves**	**8,065**	**9,582**	**18.8**
3	**Share Capital Deposits**	**3,985**	**4,060**	**1.9**
4	**Deposits**	**1,45,035**	**1,66,232**	**14.6**
	4.1 Current	8,065	9,190	13.9
	4.2 Savings	75,906	91,136	20.0
	4.3 Term	61,064	65,906	7.9
5	**Borrowings from**	**18,770**	**26,491**	**41.1**
	5.1 NABARD	12,500	15,240	21.9
	5.2 Sponsor Bank	6,186	9,602	55.2
	5.3 Others	84	1,649	1,863.0
6	**Other Liabilities**	**8,041**	**8,797**	**9.4**
	Total liabilities/Assets	**1,84,093**	**2,15,359**	**17.0**
7	**Cash in Hand**	**1,784**	**2,119**	**18.8**
8	**Balances with RBI**	**8,145**	**9,853**	**21.0**
9	**Other Bank Balances**	**39,102**	**44,080**	**12.7**
10	**Investments**	**47,289**	**55,280**	**16.9**
11	**Loans and Advances (net)**	**79,157**	**94,715**	**19.7**
12	**Fixed Assets**	**379**	**457**	**20.6**
13	**Other Assets #**	**8,237**	**8,855**	**7.5**
	Memo Item			
1	Credit -Deposit Ratio	57.1	59.69	
2	Investment -Deposit Ratio	32.6	55.48	
3	(Credit + Investment) -Deposit Ratio	87.2	115.17	

P: Provisional.
#: Include accumulated losses.
- : Nil/Nigligible.
Source: NABARD.

4.110 It is important to note that more than 80 per cent of the total credit of RRBs belonged to the priority sector in 2010-11. A little more than half of the credit was bagged by the agricultural sector in 2010-11, though the share of agricultural credit in total credit witnessed a marginal decline in 2010-11 over the previous year. Within agriculture, crop loans constituted almost 74 per cent of the volume of lending. Within the non-agricultural sector, majority of the credit was for other purposes in 2010-11 (Table IV.44).

13. Local Area Banks

Assets of local area banks registered lower growth

4.111 Local Area Banks (LABs) form a very small segment of the Indian banking sector. Though small in size, these institutions have a

Table IV.43: Financial Performance of Regional Rural Banks

(Amount in ₹ crore)

Sr. No.	Item	2009-10 (82)	2010-11P (82)	Percentage variation
1	2	3	4	5
A	**Income (i + ii)**	**13,835**	**16,220**	**17.2**
i	Interest income	12,945	15,225	17.6
ii	Other income	890	995	11.8
B	**Expenditure (i+ii+iii)**	**11,951**	**14,232**	**19.1**
i	Interest expended	7,375	8,612	16.8
ii	Operating expenses	3,547	4,905	38.3
	of which Wage bill	2,676	3,825	42.9
iii	Provisions and contingencies	1,029	715	(-)30.5
C	**Profit**			
i	Operating profits	2,913	2,703	(-)7.2
ii	Net profits	1,884	1,988	5.5
D	**Total assets**	**1,84,093**	**2,15,359**	**17.0**
E	**Financial ratios**			
i	Operating profits	1.7	1.3	
ii	Net profits	1.1	0.9	
iii	Income (a + b)	8.3	7.5	
	(a) Interest income	7.7	7.1	
	(b) Other income	0.5	0.5	
iv	Expenditure (a+b+c)	7.1	6.6	
	(a) Interest expended	4.4	4.0	
	(b) Operating expenses	2.1	2.3	
	of which Wage Bill	1.6	1.6	
	(c) Provisions and Contingencies	0.6	0.3	

P: Provisional

Note: 1) Financial ratios are with respect to average total assets.
2) Figures in parentheses refer to the total number of RRBs.

Source: NABARD.

Table IV.44: Purpose-wise Distribution of Credit from Regional Rural Banks

(Amount in ₹ crore)

	Purpose	As at end-March 2010	As at end-March 2011P
1	2	3	4
I	**Agriculture (i to iii)**	**46,282**	**55,067**
		(55.9)	(54.9)
i	Short-term credit (crop loans)	33,663	40,663
ii	Term credit (for agriculture and allied activities)	12,619	14,404
iii	Indirect Advances	-	-
II	**Non-agriculture (i to iv)**	**36,537**	**45,231**
		(44.1)	(45.1)
i	Rural artisans	810	881
ii	Other industries	1,598	2,625
iii	Retail trade	5,234	5,082
iv	Other purposes	28,895	36,643
	Total (I+II)	**82,819**	**1,00,298**
	Memo item :		
(a)	Priority sector	68,823	82,643
(b)	Non-Priority sector	13,956	17,655
(c)	Percentage share of priority sector in total credit	83.1	82.4

P : Provisional.

- : Nil/Negligible.

Note: Figures in parentheses indicate percentage share in total credit.

Source: NABARD

local orientation, which enables them to cater better to the needs of local populace hailing from rural and semi-urban areas. Presently, four LABs are functioning in India, of which one LAB, *viz.*, Capital Local Area Bank Ltd. accounted for more than two third of the total assets of all LABs.

4.112 The total assets of LABs registered a lower growth in 2010-11 over the previous year. In tune with this overall deceleration, the gross advances of LABs marginally moderated to 21 per cent in 2010-11 as compared with the previous year's growth rate of 22 per cent. In contrast, the deposit mobilisation recorded a marginally higher growth of 22 per cent in 2010-11 as compared with the growth of 20 per cent in the previous year (Table IV.45).

4.113 Though there was deceleration in the asset growth of LABs, the RoA of LABs improved to 1.8 per cent in 2010-11 from 1.4 per cent in 2009-10 mainly due to an increase in net interest income. As provisions and contingencies registered higher growth in 2010-11, the increase in net profits was less than the growth in operating profits (Table IV.46).

14. Conclusions

Banks' performance improved, yet concerns remain

4.114 In retrospect, despite the demanding operational environment, the Indian banking sector demonstrated continued revival from the peripheral spill over effects of the recent global financial turmoil in 2010-11. This was evident in the higher credit growth, deposit growth, better RoA, sound CRAR and improvement in GNPA ratio, among others. However, despite the positives, certain concerns continued to persist in the Indian banking sector.

Need to further improve efficiency

4.115 Maintaining profitability is a challenge especially in a highly competitive and high interest rate environment. Yet the Indian

Table IV.45: Profile of Local Area Banks
(As at end-March)

(Amount in ₹ crore)

Bank	Assets		Deposits		Gross Advances	
	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	651 (68.8)	750 (67.8)	532 (72.2)	648 (72.2)	347 (65.0)	420 (65.2)
Coastal Local Area Bank Ltd.	127 (13.4)	158 (14.3)	101 (13.7)	122 (13.6)	84 (15.7)	100 (15.5)
Krishna Bhima Samruddhi Local Area Bank Ltd.	120 (12.7)	138 (12.5)	75 (10.2)	93 (10.4)	78 (14.6)	88 (13.7)
Subhadra Local Area Bank Ltd.	48 (5.1)	61 (5.5)	29 (3.9)	34 (3.8)	25 (4.7)	36 (5.6)
All LABs	**946 (100.0)**	**1,107 (100.0)**	**737 (100.0)**	**897 (100.0)**	**534 (100.0)**	**644 (100.0)**

Note: Figures in parentheses indicate percentage share in total.
Source: Based on Off-site returns (domestic).

banking sector managed to improve the RoA marginally in 2010-11 over the previous year. However, the detailed analysis showed that NIM, which is already high in India as compared with some of the emerging market economies, increased further. Thus, there is a need to reduce NIM, increase 'other income', and reduce operating expenses in the interest of efficiency and profitability.

Table IV.46: Financial Performance of Local Area Banks

(Amount in ₹ crore)

Particulars	2009-10	2010-11	Percentage Variation
1	2	3	4
A Income (i+ii)	**104**	**124**	**19.2**
i) Interest income	86	107	24.4
ii) Other income	18	17	-5.6
B Expenditure (i+ii+iii)	**91**	**105**	**15.4**
i) Interest expended	51	55	7.8
ii) Provisions and contingencies	8	13	62.5
iii) Operating expenses	32	37	15.6
of which :			
Wage bill	14	17	21.4
C Profits			
i) Operating profits/loss	**21**	**32**	**52.4**
ii) Net profits/loss	**13**	**19**	**46.2**
D Net Interest Income	**35**	**52**	**48.6**
E Total assets	**946**	**1,107**	**17.0**
F Financial ratios			
i) Operating profits	2.4	3.1	
ii) Net profits	1.5	1.9	
iii) Income	12.0	12.1	
iv) Interest income	9.9	10.4	
v) Other income	2.1	1.7	
vi) Expenditure	10.5	10.2	
vii) Interest expended	5.9	5.4	
viii) Operating expenses	3.7	3.6	
ix) Wage bill	1.6	1.7	
x) Provisions and contingencies	0.9	1.3	
xi) Net Interest Income	4.0	5.1	

Note: All ratios under 'F' are with respect to average total assets.
Source: Based on Off-site returns (domestic).

Need to closely monitor the quality of assets

4.116 A challenging task in the midst of regular policy rate hikes was the management of the quality of assets. Though the GNPA ratio witnessed improvement in 2010-11 over the previous year, certain concerns with regard to asset quality of the banking sector continued to loom large. During the last two years, the writing off ratios were high in the Indian banking sector, which implies foregone profitability in an attempt to clean balance sheets. Further, there was always a concern with regard to the restructured standard accounts, *i.e.*, how many of them will again fall back into the NPA category. Further, it is a concern that a substantial portion of the total incremental NPAs of domestic banks in 2010-11 was contributed by agricultural NPAs.

Need to persevere with the task of further strengthening financial inclusion

4.117 Staggering financial exclusion despite the efforts taken by the banking sector is a critical issue, which needs to be addressed. In the coming years, banking sector would need to make greater efforts to address this issue. Alongside, it is also important to address certain flaws observed while expanding the banking services during the recent years. These include, *inter alia*, larger expansion of banking services through BCs as compared with branches, lower percentage of new bank branches opened in the hitherto unbanked areas, lower percentage of branches opened in the North Eastern region and lower percentage of 'no-frills' accounts with overdraft.

Need to improve credit flow to rural areas

4.118 One disquieting feature in the present business scenario of the Indian banking sector is the concentration of banking business in a few metropolitan centres. Six top metropolitan centres accounted for almost half of the total banking business of the Indian banking sector. More alarmingly, rural areas accounted for only a small proportion of credit. Further, the North-Eastern, Eastern and Central regions continued to display backwardness in the availability as well as utilisation of banking services. Thus, efforts need to be taken to improve credit flow to the rural areas as also to the North-Eastern, Eastern and Central regions. This will also help in increasing credit penetration in terms of credit-GDP ratio, which is at a lower level in India as compared with some of the peer group countries.

High growth of credit to few sensitive sectors may impact credit quality

4.119 Though there was no evidence of a credit boom in the economy, the higher credit growth observed in some of the sectors such as NBFCs, infrastructure, personal loans, and real estate demands continuous monitoring. Credit to the NBFCs witnessed a growth of more than 50 per cent in 2010-11 over the previous year, which requires careful monitoring. Though, infrastructure loans also witnessed a higher growth in 2010-11 over the previous year, this was mainly because of the loans extended to the telecommunications companies to participate in the 3G spectrum auctions. As such, it may moderate in the coming years. Nevertheless, growth observed in infrastructure loans and personal loans raises risk to the banking sector as these loans may increase the asset liability mismatches. For similar reasons, growth pick up in the commercial real estate loans also deserves attention.

Need for banks to conform to the priority sector lending target

4.120 On the other side, during 2010-11 non adherence to the priority sector lending targets and targets set for advances to the agriculture sector raises concern from the point of view of equitable distribution of credit to productive sectors of the economy. Though at the aggregate level, bank groups adhered to the targets prescribed by the Reserve Bank, at the bank level, there are a number of banks, which were not able to meet the target set for priority sector as a whole and also for agricultural credit. Non adherence to the agricultural lending target by a large number of banks raises concern as still a large proportion of India's population depends on the agricultural sector for livelihood.

Need for greater use of technology to propagate financial inclusion

4.121 On the operational side, despite the convenience offered by ATMs in providing banking services, the debit card penetration continued to be low with only 30 per cent of deposit account holders having a debit card. The status of credit card penetration was worse with only less than two per cent of the population having a credit card. Further, the number of outstanding credit cards witnessed a declining trend during the recent years. As these technological advancements improve the pace and quality of banking services, there is a need to make efforts to improve card penetration in the country.

Need for improving the quality of banking services

4.122 Quality of banking services is another area, which requires continuous improvement to attract more customers to the formal banking channels. It is a welcome development that at the aggregate level the number of complaints received at various banking ombudsman offices registered a decline in 2010-11 over the previous year. However, a detailed analysis revealed that both foreign banks and new private sector banks need to make continuous efforts to improve the quality of service offered by DSA as more than 90 per cent of the complaints with regard to DSA were received against these two bank groups. Further, these two bank groups need to promote transparency by way of informing customers about different charges levied by them. This is because, majority of complaints with regard to hidden charges were also received against these two bank groups. The area in which the public sector banks have to pay attention is pension services. In general, all bank groups should take more care while offering cards both debit and credit, as almost one fourth of the total complaints were with regard to cards.

Need for a review of foreign banks' operations

4.123 A generic issue that may deserve attention at this juncture is the concerns raised by operations of foreign banks. It is a fact that these banks are mostly present in the metropolitan regions, and as such their role in furthering financial inclusion especially by extending banking services to the unbanked regions is limited. Further, it is also a fact that even after having a lower priority sector lending target, many of them have not been meeting these targets. Moreover, the target set for export credit was also not met by many of these banks. On the other side, their share in the sensitive sector credit, especially share in the real estate credit was particularly high. Further, the off balance sheet exposures accumulated by foreign banks were also particularly high raising system-wide risks.

4.124 To conclude, focused attention on the issues that are being confronted by the banking sector may be imperative in the larger interest of securing economic growth with equity. Once these issues are addressed, the Indian banking sector has the potential to become further deeper and stronger. Greater attention to these issues would facilitate better financialisation of the economy and in the medium to long-term lead to broad-based economic growth.