Report on Trend and Progress of Banking in India for the year ended June 30, 2012 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2011-12

RESERVE BANK OF INDIA

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In India	–	` 150	(Normal)
	–	` 190	(Inclusive of Postal Charges)
	–	` 110	(Concessional – at Counter)
	–	` 150	(Concessional – Including Postage)
Abroad	–	US$ 12	(Inclusive of Air Mail Courier Charges)

Published by Sanjay Kumar Hansda for the Reserve Bank of India, Mumbai 400 001 and designed and printed by him at Alco Corporation, A2/73, Shah and Nahar Industrial Estate, Lower Parel (W), Mumbai - 400 013

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DEPR.BRD. 3215/13.01.01/2012-13

November 8, 2012
Kartika 17, 1934 (Saka)

The Finance Secretary
Government of India
Ministry of Finance
New Delhi - 110 001

Dear Mr. Secretary,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I have pleasure in transmitting herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 2012.

Yours faithfully,

(D. Subbarao)

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Contents

List of Boxes

List of Tables

Sr.No.	Particulars	Page No.

List of Charts

Sr. No.	Particulars	Page No.

List of Appendix Tables

List of Select Abbreviations

AD	Authorised Dealer
ADR	American Depository Receipt
ADWDR	Agricultural Debt Waiver and Debt Relief Scheme
AEs	Advanced Economies
AFC	Asset Finance Companies
AFI	Annual Financial Inspection
AIFIs	All-India Financial Institutions
ALM	Asset-Liability Management
AMA	Advanced Measurement Approach
AML	Anti-Money Laundering
ANBC	Adjusted Net Bank Credit
ARDB	Agriculture and Rural Development Bank
ASA	Alternate Standardised Approach
ATM	Automated Teller Machine
BBA	British Bankers' Association
BC	Business Correspondent
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Plan
BCP-DR	Business Continuity Planning and Disaster Recovery
BCSBI	Banking Codes and Standards Board of India
BF	Business Facilitator
BFS	Board for Financial Supervision
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements
BO	Banking Ombudsman
BoD	Board of Directors
BoM	Board of Management
BPR	Business Process Re-engineering
BSE	Bombay Stock Exchange Ltd.
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Systems & Control
CAR	Capital Adequacy Ratio
CAS	Common Accounting System
CASA	Current Account and Savings Account
CBI	Central Bureau of Investigation
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Core Banking Solutions
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factors
CCP	Central Counter Party
CD	Certificate of Deposit
CD Ratio	Credit to Deposit Ratio
CDS	Credit Default Swaps
CE	Common Equity
CEO	Chief Executive Officer
CEOBSE	Credit Equivalent Amount of Off-Balance Sheet Exposure
CFSA	Committee on Financial Sector Assessment
CFT	Combating Financing of Terrorism
CGFS	Committee on Global Financial Stability
CGS	Credit Guarantee Scheme
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIBIL	Credit Information Bureau of India Limited
CIC	Credit Information Company
CICs-ND-SI	Systemically Important Core Investment Companies
CICs	Core Investment Companies
CMB	Cash Management Bills
CMCG	Compensation Monitoring Contact Group
CME	Capital Market Exposure
CNP	Card Not Present
CoR	Certificate of Registration
CP	Commercial Paper

CP	Card Present
CPSS	Committee on Payment and Settlement System
CR	Capital to Assets Ratio
CRAR	Capital to Risk-Weighted Assets Ratio
CRAs	Credit Rating Agencies
CRDIV	Capital Requirements Directive IV
CRR	Cash Reserve Ratio
CTC	Cheque Truncation System
DCCB	District Central Co-operative Bank
DGA	Duration Gap Analysis
DICGC	Deposit Insurance and Credit Guarantee Corporation
DIN	Director Identification Number
DLIC	District Level Implementation Committee
DMFC	District Micro-Finance Committee
DR	Disaster Recovery
DRT	Debt Recovery Tribunal
DSA	Direct Selling Agents
D-SIB	Domestic Systemically Important Bank
EaR	Earnings at Risk
EBA	European Banking Authority
EBT	Electronic Benefit Transfer
ECCS	Express Cheque Clearing System
ECS	Electronic Clearing Service
EDEs	Emerging and Developing Economies
EEFC	Exchange Earners' Foreign Currency
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EIOPA	European Insurance and Occupational Pensions Authority
EL	Expected Loss
EME	Emerging Market Economy
EMV	Euro pay MasterCard Visa
ESA	European Supervisory Authorities
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EURIBOR	Euro Inter-Bank Offered Rate
EWS	Economically Weaker Sections
EXIM Bank	Export Import Bank of India
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force
FB	Foreign Banks
FCs	Financial Conglomerates
FCA	Financial Conduct Authority
FCCB	Foreign Currency Convertible Bonds
FCMD	Financial Conglomerate Monitoring Division
FCNR (B)	Foreign Currency Non-Resident (Banks)
FCRA	Foreign Contribution (Regulation) Act
FDIC	Federal Deposit Insurance Corporation
FEMA	Foreign Exchange Management Act
FFC	Fair Practices Code
FHC	Financial Holding Company
FI	Financial Institution
FII	Foreign Institutional Investments
FIP	Financial Inclusion Plan
FLCC	Financial Literacy and Credit Counselling Centres

FMI	Financial Market Infrastructure
FMU	Financial Market Utilities
FPC	Financial Policy Committee
FSA	Financial Services Authority
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FSDC	Financial Stability and Development Council
FSLRC	Financial Sector Legislative Reforms Commission
FSOC	Financial Stability Oversight Council
FSR	Financial Stability Report
GAAP	Generally Accepted Accounting Principles
G-Sec	Government Securities
GCC	General Credit Card
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GFSR	Global Financial Stability Report
GHOS	Governors and Heads of Supervision
GIC	General Insurance Corporation of India
GNPA	Gross Non-Performing Assets
G-SIB	Global Systemically Important Bank
HFCs	Housing Finance Companies
HLSC	High-Level Steering Committee
HRM	Human Resource Management
HR	Human Resource
HSBC	Hong Kong and Shanghai Banking Corporation
HTM	Held to Maturity
IADs	Independent ATM Deployers
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBA	Indian Banks' Association
ICAI	Institute of Chartered Accountants of India
ICB	Independent Commission on Banking
ICs	Investment Companies
ICICI	Industrial Credit and Investment Corporation of India
ICT	Information and Communications Technology
IDBI	Industrial Development Bank of India
IDFC-NBFC	Infrastructure Debt Fund-Non-Banking Financial Companies
ID Ratio	Investment-to-Deposit Ratio
IDRBT	Institute for Development and Research in Banking Technology
IFC	Infrastructure Finance Company
IFRS	International Financial Reporting Standards
IIBI	Industrial Investment Bank of India
IL	Incurred Loss
IMA	Internal Models Approach
IMF	International Monetary Fund
INFINET	Indian Financial NETwork
IOSCO	International Organisation of Securities Commission
IRB	Internal Rating Based
IRC	Incremental Risk Charge
IRDA	Insurance Regulatory and Development Authority
IRSD	Interest Rate Sensitivity under Duration Gap Analysis
ISO	Independent Service Organisation
IS	Information Security
IT	Information Technology
IVR	Interactive Voice Response
IWG	Internal Working Group
JLGs	Joint Liability Groups

KA	Key Attributes
KCC	Kisan Credit Card
KYC	Know Your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LCBG	Large and Complex Banking Group
LCR	Liquidity Coverage Ratio
LCs	Loan Companies
LDB	Land Development Bank
LEI	Long-term Economic Impact
LGD	Loss Given Default
LIBOR	London Inter-Bank Offered Rate
LIC	Life Insurance Corporation of India
LIG	Low Income Groups
LTRO	Long-Term Refinancing Operations
LTCCS	Long-Term Co-operative Credit Structure
LWE	Left Wing Extremism
MAG	Macroeconomic Assessment Group
MAP	Monitorable Action Plan
MCA	Ministry of Corporate Affairs
MDG	Modified Duration Gap
MENA	Middle East and North African
MFDC	Macro Finance Development Council
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institution
MHP	Minimum Holding Period
MIS	Management Information System
MNOs	Mobile Network Operators
MoU	Memorandum of Understanding
MRR	Minimum Retention Requirement
MSE	Micro and Small Enterprise
MSF	Marginal Standing Facility
MSME	Micro, Small and Medium Enterprises
MVE	Market Value of Equity
NABARD	National Bank for Agriculture and Rural Development
NAFSCOB	National Federation of State Co-operative Banks
NBFC	Non-Banking Financial Company
NBFC-D	Non-Banking Financial Company-Deposit taking
NBFC-ND	Non-Deposit taking Non-Banking Financial Company
NBFC-ND-SI	Systemically Important Non-Deposit taking Non-Banking Financial Company
NBFC-MFI	Non-Banking Financial Companies - Micro-Finance Institutions
NBFI	Non-Banking Financial Institution
NCC	National Credit Council
NDS-OM	Negotiated Dealing System - Order Matching
NDTL	Net Demand and Time Liability
NECS	National Electronic Clearing Service
NEFT	National Electronic Fund Transfer
NGO	Non-Government Organisation
NG-RTGS	New Generation-Real Time Gross Settlement System
NHB	National Housing Bank
NII	Net Interest Income
NIM	Net Interest Margin
NIMC	National Implementing and Monitoring Committee
NOC	No Objection Certificate
NOF	Net Owned Fund
NOHC	Non-Operative Holding Company
NOOPL	Net Overnight Open Position Limit
NPA	Non-Performing Asset

NPCI	National Payments Corporation of India
NPLs	Non-Performing Loans
NRE	Non-Resident External
NREGA	National Rural Employment Guarantee Act
NRRDA	National Rural Roads Development Agency
NRO	Non-Resident Ordinary
NSFR	Net Stable Funding Ratio
OBS	Off-Balance Sheet
OECD	Organisation for Economic Co-operation and Development
OMO	Open Market Operations
OMT	Outright Monetary Transactions
OSMOS	Off-Site Monitoring and Surveillance System
OTC	Over the Counter
PACS	Primary Agricultural Credit Society
PAT	Profit After Tax
PBT	Profit Before Tax
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PCR	Provisioning Coverage Ratio
PD	Primary Dealer
PDO – NDS	Public Debt Office- Negotiated Dealing System
PE	Price Earning
PFRDA	Pension Fund Regulatory and Development Authority
PIN	Personal Identification Number
PoS	Point of Sale
PPIs	Pre-paid Payment Instruments
PRA	Prudential Regulatory Authority
PRB	Private Sector Bank
PSB	Public Sector Bank
RCS	Registrar of Co-operative Societies
RIDF	Rural Infrastructure Development Fund
RNBC	Residuary Non-Banking Company
RoA	Return on Assets
RoE	Return on Equity
RORWA	Return on Risk Weighted Assets
RRB	Regional Rural Bank
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
RTGS	Real Time Gross Settlement System
RWAs	Risk-Weighted Assets
SAO	Seasonal Agricultural Operations
SAR	Special Administrative Regulations
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SBLP	SHG-Bank Linkage Programme
SC	Scheduled Caste
SCAP	Supervisory Capital Assessment Programme
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SCS/RCs	Securitisation Companies/ Reconstruction Companies
SDS	Special Dispensation Scheme
SEBI	Securities and Exchange Board of India
SHG	Self-Help Group
SIDBI	Small Industries' Development Bank of India
SIFCL	Sahara India Financial Corporation Limited
SIFI	Systemically Important Financial Institution
SLIMC	State Level Implementing and Monitoring Committee
SLR	Statutory Liquidity Ratio

SME	Small and Medium Enterprise
SMFC	State Micro-Finance Council
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
ST	Scheduled Tribe
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure
SRR	Special Resolution Regime
TAG	Technical Advisory Group
T/B	Treasury Bills
TAFCUB	Task Force for Urban Co-operative Bank
TGA	Traditional Gap Analysis
TLE	Terminal Line Encryption
UBD	Urban Banks Department
UCB	Urban Co-operative Bank
UKPT	Unique Key Per Terminal
UCIC	Unique Customer Identification Code
UO	Umbrella Organisations
USBs	Ultra Small Branches
WEO	World Economic Outlook
WLA	White-Label ATM
WSHG	Women Self-Help Group
VAPT	Vulnerability Analysis and Penetration Test
VaR	Value at Risk
XML	Extensible Mark-up Language

Chapter I

Perspectives on the Indian Banking Sector

Headwinds from international and domestic economic developments posed challenges to the banking sector during the year 2011-12. While banks maintained their profitability, their asset quality was impaired. As things stand, several initiatives are under way to strengthen the regulatory and accounting frameworks aimed at increasing the resilience of the institutions. However, higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk is likely to raise the funding costs of banks. Compliance with Basel III stipulations along with the credit needs of a growing economy will require banks to tap various avenues to raise capital. Broad estimates suggest that for public sector banks, the incremental equity requirement due to implementation of Basel III norms by March 2018 is expected to be approximately `750-800 billion. Meeting these capital requirements will entail the use of innovative and attractive market based funding channels by the banks. The convergence with the International Financial Reporting Standards (IFRS) may also place additional demands on the banks' technical as well as human resources. Considering the granularity of data required for effective supervisory review, efforts should be to automate data flow from reporting entities through the adoption of straight-through processing systems. With regard to financial inclusion, quantitative coverage has improved, but meaningful financial inclusion through the evolution of sustainable business and delivery models needs to be achieved. Notwithstanding the multitude of challenges, the regulatory responses and the inherent strengths underlying the Indian economy should ensure that the banking system continues to play a positive role in supporting the financing needs of our growing economy.

1. Introduction

1.1 The global economy showed deeper signs of stress during the past year. With the deteriorating macroeconomic situation in the euro area interacting with a loss of growth momentum in the US and in emerging and developing economies (EDEs), the risks of potentially large negative spillovers have increased. Domestically, the macroeconomic situation continues to raise concerns. Even as growth has slowed significantly, inflation remains well beyond the comfort level of the Reserve Bank.

1.2 The headwinds from domestic and international economic developments posed challenges to the banking sector during the year 2011-12. Though asset impairment increased, the resilience of the Indian banking sector was manifested in an improvement in the capital base and maintenance of profitability. A series of stress tests conducted by the Reserve Bank in respect of credit, liquidity and interest rate risks showed that banks remained reasonably resilient. However, under extreme shocks, some banks could face moderate liquidity problems and their profitability could be affected.

1.3 While global banking developments are covered in Chapter II, some perspectives on the factors that are likely to shape the banking *milieu* in the period ahead and the challenges facing the banks are outlined here.

2. Forces Shaping the Environment

1.4 The multi-pronged regulatory initiatives undertaken in the area of prudential and capital requirements of banks along with a move towards greater convergence in banking regulation globally are likely to have a major impact on the functioning of banks in the period ahead.

Move towards greater global convergence in the banking regulation

1.5 The recent financial crisis has redefined the broad contours of regulation of the banking sector globally. The need for convergence in banking regulation stems from the fact that while banking has become global, banking regulation is national. Therefore, addressing the issue of regulatory arbitrage is at the centre-stage of policy concern. The international standard-setting bodies have been attempting to achieve convergence by issuing broad principles that should shape national regulatory frameworks.

1.6 In the post-crisis period, the Financial Stability Board (FSB) has emerged as the most important international body to address the vulnerabilities in the global financial system and to guide the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability. Besides implementation of Basel III capital requirements, the FSB is addressing the issue of Systemically Important Financial Institutions (SIFIs), which involves determination of global SIFIs and their loss absorbency; resolution tools and regimes for them; and supervisory intensity and effectiveness for such SIFIs with the aim of reducing both the probability and impact of the failure of a SIFI.

1.7 The broader endeavour of global convergence in the banking regulation will, however, have to account for country-specific circumstances to enable customised adoption of guidance of international standard-setting bodies as already recognised in many cases by the Basel Committee on Banking Supervision (BCBS). To the extent that the systemically important jurisdictions harmonise and converge to agreed international best practices, there are positive externalities from India's stand-point. In particular, the BCBS guidance on the conduct of the countercyclical capital buffer for India may require some changes, as the recommended metric of credit-to-GDP ratio could potentially impact the structural drivers underlying credit growth in India. Thus, there may be a need for some adjustments to capital buffer guidance. The issue is being examined by an internal group in the Reserve Bank.

International capital standards for effective risk management

1.8 In response to the need to implement Basel III to strengthen the resilience of the Indian banking sector, the Reserve Bank has announced the final guidelines on Basel III capital regulations. These would be effective from January 1, 2013 in a phased manner with the Basel III capital ratios to be fully implemented by end-March 2018. Regarding the implementation of Basel III, one issue had been why an emerging economy like India, should adopt onerous regulation such as Basel III norms which could, potentially, have a negative impact on output growth. The rationale for adopting these standards is two-fold. One, India cannot remain non-compliant with international standards, especially when Indian banks are venturing abroad and the markets are opened up for international participants. Two, even while the financial system is much simpler and does not have many of the features that led to the crisis, the country is vulnerable to contagion from the global economy and the higher defences built under Basel III will provide the financial system with the much-needed resilience.

1.9 The objectives of Basel III are to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spillover from the financial sector to the real economy. Towards this end, Basel III has some micro-prudential elements along with a macro-prudential overlay that will take care of issues relating to systemic risk.

1.10 Basel III guidelines stipulate a stringent definition of regulatory capital and higher requirement of common equity than Basel II.

Under Basel III, common equity capital will be the predominant form of regulatory capital and innovative features such as step-up or other incentives to redeem in non-equity capital instruments are no longer acceptable. In addition, Basel III has introduced two new liquidity standards, *viz*., Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) to improve the resilience of banks to liquidity shocks.

Need to further leverage technology in the banking sector

1.11 Banks have adopted core banking solutions (CBS) that effectively address the transactional requirements of the banks. With the implementation of CBS, the banking system is now seamlessly integrated. With the basic technology adoption being complete in banks, there is, therefore, a need to move from a transaction processing system to an information processing system. In its IT Vision Document 2011-17, the Reserve Bank of India has highlighted the need for banks to move forward and leverage IT in areas like Management Information Systems (MIS), overall risk management, financial inclusion, customer relationship management (CRM) and enhancing automated data flow within the banks and to the Reserve Bank without manual intervention. Banks need to augment their innovation capabilities in terms of new products, services and strategies which would enable them to maximise their efficiency gains (Box I.1).

1.12 With the computerisation and adoption of CBS in banks almost reaching the final stage of completion, the focus has now shifted to adoption of more advanced technologies in banking which would enhance their CRM by using appropriate tools, improving internal effectiveness including MIS and managing risks arising out of IT implementation.

3. Operational and Strategic Responses

1.13 The strategic and operational responses during the year pertained to policy initiatives with regard to enhancing co-ordination among regulators and positioning of banks to meet the needs of inclusive growth, besides a review of the regulatory framework for the micro-finance sector.

Steps initiated towards improved cross-border supervision and co-operation

1.14 The recent financial crisis has necessitated a re-examination of the tools used by supervisors to oversee financial institutions, particularly systemically important institutions with cross-border operations. One major flaw in this regard has been the ineffective supervisory co-operation among national bank supervisors. As a result, need has been felt for the use of supervisory colleges to supervise global financial institutions, in particular, the systemically important financial institutions. The overarching objective of a supervisory college is to help its members develop a better understanding of the risk profile of the banking group. Moreover, information exchange and co-operation between supervisors can help strengthen the supervision of the individual components of a banking group. Colleges can also complement wider peer review processes by promoting a coherent approach across different jurisdictions to the consistent and effective implementation of macro- and micro-prudential policy tools.

1.15 The growing global activities of some large Indian banks have necessitated putting in place a formal mechanism of supervisory co-operation and information exchange with host supervisors for effective cross-border consolidated supervision. In India, at present no supervisory colleges have been set up. However, the Reserve Bank has been attending the supervisory colleges of some of the major foreign banks operating in India. The High-Level Steering Committee on the Review of Supervisory Processes for Commercial Banks (Chairman: Dr. K.C. Chakrabarty) has recommended setting up supervisory colleges for large globally active Indian banks with a significant (around 15 per cent) share of assets from foreign operations as a percentage of total assets. Accordingly as an initial step, supervisory colleges of SBI and ICICI Bank are being planned.

Box I.1 :

Technological Innovations and Efficiency Gains in the Banking Sector

With the advent of the process of liberalisation in the early 'nineties, the demands on banks' resources and capabilities increased as banks had to match the challenges of being financial service providers in a globalised, competitive environment. This posed a dual challenge for the banking industry. The first challenge was to manage the growing needs of their existing customer segments and business locations for better and more efficient services, and the second was, how to expand the reach of their services and business beyond the traditional services and locations, which had large socio-economic implications because large parts of the population did not have access to even basic banking services. At this juncture, banks in India were looking at huge potential in business growth as well as several constraints, such as inadequacy of infrastructure and human resources, geographical, topographical and distance limitations, communication inefficiencies, cost implications and delivery, as well as the processing capability to manage more business information and larger accounts.

Increased use of information technology emerged as the key to meeting these challenges. Several measures were mooted at the level of the Government, the Reserve Bank and industry, which provided an impetus to adoption of technology in the banking sector. CBS implementation has made customer account maintenance seamless and enhanced data storage and retrieval capabilities tremendously. It has also enhanced the banks' capacity to develop and market new products, as technology has increased information availability and the capacity for analysis and communication manifold. Such capabilities and efficiencies are poised to rise further with the advent and adoption of evolving technologies like cloud computing and virtualisation, which have the potential to significantly bring down financial and management costs.

Economic theory supported by empirical evidence suggests that, in general, increases in technology investment will raise productivity, lower costs, and allow firms to operate more efficiently. Information technologies and the innovations they enable are strategic tools, since they reduce the costs of financial transactions, improve the allocation of financial resources and increase the competitiveness and efficiency of financial institutions. Technological innovation not only enables a broader reach for consumer banking and financial services, but also enhances its capacity for continued and inclusive growth (Subbarao, 2009).

Globally, the effect of IT on the banking industry has been positive. In general, studies have concluded two positive effects regarding the relation between IT and banks' performance. First, IT can reduce banks' operational costs (the cost advantage). Second, IT can facilitate transactions among customers within the same network (the network effect). Eyadat and Kozak (2005) examined the impact of the progress in IT on the profit and cost efficiencies of the US banking sector during the period 1992-2003. The research showed a positive correlation between the level of implemented IT and both profitability and cost savings. Berger (2003) also showed improvements in bank performance and consolidation of the banking industry in the US during the deployment of new technologies.

In the Indian context, technological innovation and investment in IT during the period 2005-06 to 2009-10 led to efficiency gains for the scheduled commercial banks (Rajput and Gupta, 2011). Technology is encompassing the entire set of business processes in the banking industry and technological innovations are enabling banks to cope with burgeoning customer requirements, social and developmental expectations, strategic and competitive business needs, internal control and risk management needs, governance and regulatory reporting requirements.

However, going forward, banks need to innovate appropriately in terms of products, services and strategies and will also need to align their IT and business perspectives to fully leverage the benefits of technology. Predictive analytics can bring in competitive advantage in banking and help banks move from product-centric to customer-centric operations.

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1.16 In this context, Reserve Bank has initiated the process of setting up of a cross-border supervision and supervisory co-operation mechanism, which allows for signing Memorandum of Understanding (MoU) with overseas regulators on supervisory co-operation and exchange of information with them (Box I.2).

Strategic role for banks in ensuring inclusive growth

1.17 Banks play a dominant role in India's financial system and are, therefore, expected to play a key role in furthering the agenda of financial inclusion with a view to achieving inclusive growth and development. Accordingly, a bank-led model

Box I.2 :

Bilateral Memorandum of Understanding (MoU) with Reserve Bank's Overseas Counterparts for Improved Cross-Border Supervision and Co-operation

Genesis

The concept of supervisory co-operation on cross-border supervision dates back to the report released by the Committee on Banking Regulations and Supervisory Practices in 1975. However, the seminal idea of having a form of MoU first found mention in the report titled "The Supervision of Cross-Border Banking" (October, 1996) by a working group which comprised members of the BCBS. The Group recommended that the understandings between the supervisors might take the form of bilateral MoUs or exchange of letters which may formulate what each party expects from the relationship. Taking forward the concept, the BCBS released a document titled "Essential Elements of a Statement of Co-operation Between Banking Supervisors" in May 2001, listing key elements that could form part of a statement of co-operation or MoU between "Home" and "Host" country supervisors.

Need for MoU - Indian Scenario

Until recently, cross-border supervision of the overseas operations of Indian banks has been carried out through a combination of need-based on-site inspection, an off-site reporting framework and informal exchange of supervisory information with overseas regulators/supervisors. However, during the past few years the cross-border operations of Indian banks have expanded significantly. Some banks have set up banking and other financial services subsidiaries abroad. Against this backdrop, a need was felt to enter into MoUs with bank regulators, and an Internal Working Group (IWG) was constituted to lay down the road-map for adopting a suitable framework. Based on the recommendations of the IWG, a policy framework was put in place. The policy provides, *inter alia*, for establishing legally non-binding formal arrangements for supervisory co-operation with overseas supervisors through an MoU, in accordance with the various BCBS Principles as well as in consonance with the various laws/statutes of the land.

Establishment of MOUs with Overseas Supervisory Authorities

To start with, 16 countries were identified. These were primarily countries whose bank regulators had evinced interest in having such an arrangement with the Reserve Bank and also those jurisdictions where an MoU between the Reserve Bank and the host country regulator was a prerequisite for Indian banks. The Reserve Bank has also started adopting the principle of mutual banking presence to initiate a dialogue on an MoU with overseas regulators and supervisory jurisdictions with such a mutual banking footprint. In the process, the list of identified countries was expanded to 38.

Current Status on Signing of MOUs with Overseas Supervisors

So far, the Reserve Bank has executed MoUs with ten overseas supervisors. In addition, proposals for MoUs with 28 overseas supervisors are in various stages of finalisation.

Going forward, while the current objective of the Reserve Bank is to establish MoUs with the supervisors of those jurisdictions where Indian banks have substantial operations or are planning to scale up their operations, the longer-term goal of the Reserve Bank is to first stabilise the mechanism of the MoU through frequent interactions with the host country supervisors and then to leverage on the supervisory co-operation with these domains and benefit from the knowledge and views of the host country supervisors for better oversight of Indian banking entities.

of financial inclusion has been adopted in the country. Based on the experience of countries like Kenya, and the massive growth and expansion of mobile phones in the country, there have been demands for experimenting with a model of mobile-led banking for financial inclusion. However, it has been argued that mobile-led banking takes care of only remittance products as against a bouquet of products, such as a variable recurring deposit product, an overdraft and an emergency credit product in the form of Kisan Credit Card (KCC)/General Credit Card (GCC). Second, banks are prudently regulated and this helps address the concerns about KYC/AML as also customer service. With respect to mobile payment companies, the Reserve Bank does not have similar regulatory authority. Third, entry into the banking space has to be on open, transparent and contestable criteria. Thus, it may not be prudent to allow mobile operators privileged access into commercial banking through the mobile route. However, efforts have been made to leverage the reach of mobile network companies by allowing banks to appoint corporates to act as Business Correspondents (BCs), but it is still early days and the success of these arrangements between banks and the companies will be analysed in the coming years.

National Strategy on financial literacy aims to further the financial inclusion process

1.18 Financial literacy is a prerequisite for achieving the objectives set out under financial inclusion, as it enables the common man to understand the need and benefits of the products and services offered by formal financial institutions. Financial education plays a vital role in making the demand side respond to the initiatives of supply-side interventions. Increased emphasis is now being given towards creating awareness and spreading financial literacy as an important demand-side push towards achieving the goal of financial inclusion. Since a large number of stakeholders are involved in spreading financial literacy, a broad national strategy is a prerequisite to ensure that they work in tandem with the strategy. Towards this objective, a draft National Strategy prepared under the *aegis* of the Sub-Committee of the Financial Stability and Development Council (FSDC) has been simultaneously released by all financial sector regulators including the Reserve Bank. With this move, India has joined countries like the Netherlands, New Zealand, Spain, the UK and the Czech Republic, which have already implemented a national strategy for financial education.

Regulatory framework for the micro-finance sector to ensure customer protection and financial health

1.19 The micro-finance sector comprising the Self-Help Group (SHG)-Bank linkage programme, for-profit Non-Banking Finance Companies-Micro-Finance Institutions (NBFC-MFIs) registered with the Reserve Bank and all other small not-for-profit MFIs registered as trusts, societies, *etc.*, plays an important role in extending credit as part of financial inclusion efforts in India. While the SHG-Bank linkage programme was sought to be strengthened by NABARD through fresh guidelines, the focus firmly remained on the NBFC-MFIs. It may be recalled that the State of Andhra Pradesh had issued an Ordinance in October 2010, which was later enacted into a law, making registration of MFIs functioning in the State compulsory with a view to regulate their functioning. The Reserve Bank had then set up a Sub-Committee of its Central Board of Directors (Chairman: Shri Y.H.Malegam) to study the issues and concerns, *inter-alia*, with regard to interest rates, lending and recovery practices in the micro-finance sector. Based on the recommendations of the Malegam Committee, a separate category of NBFC-MFIs has been created. The proposed regulatory framework puts in place restrictions and safeguards with regard to minimum standards of governance, management and customer protection as well as the financial health of MFIs. A fair and adequate regulation of NBFCs will encourage the growth of this sector, while adequately protecting the interests of borrowers. A Micro Finance Institutions (Development and Regulation) Bill, 2012 proposing to exempt MFIs registered with and regulated by the Reserve Bank from State money-lending acts, under which NBFC-MFIs were regulated by the Andhra Pradesh Government, is pending in Parliament. In the long run, MFIs will benefit from such a regulatory framework, as it enables orderly growth and reduces uncertainty.

4. Challenges

1.20 Going forward, a move towards higher capital requirements and the need for meaningful financial inclusion are the primary challenges before banks. The convergence to International Financial Reporting Standards (IFRS) is also likely to pose demands on banks' resources. The slippage in asset quality needs to be contained and the risks posed by global factors need to be addressed carefully.

Move towards Basel III to entail capital infusion

1.21 Effective implementation of Basel III is needed for developing the resilience of the banking sector to future shocks. The challenges in implementing Basel III should not be underestimated. In general, Basel III will increase the capital requirements on Indian banks. The current capital adequacy levels for the Indian banking system are comfortable. However, the capital requirements, including equity, would be substantial to support the high GDP growth; further the credit to GDP ratio, which is currently quite modest at about 55 per cent, is bound to increase substantially due to structural changes in the economy.

1.22 Broad estimates suggest that in order to achieve full Basel III implementation by end-March 2018, public sector banks (PSBs) would require common equity of ₹1.4-1.5 trillion on top of internal accruals, in addition to ₹2.65-2.75 trillion in the form of non-equity capital. Banks would have continued to require additional capital to meet Basel II capital ratios had Basel III capital ratios not been implemented. Therefore, in case of PSBs, the incremental equity requirement due to enhanced Basel III capital ratios is expected to be ₹750-800 billion. Similarly, major private sector banks would require common equity of ₹200-250 billion on top of internal accruals, in addition to ₹500-600 billion in the form of non-equity capital. These projections are based on the conservative assumption of uniform growth in Risk-Weighted Assets of 20 per cent per annum individually for all banks and individual bank's assessment of internal accruals (in the range of 1.0-1.2 per cent of Risk-Weighted Assets).

1.23 For every bank, it is critical to work out the most cost-effective model for implementing Basel III. Banks will have to issue fresh capital particularly towards the later years of implementation. Although Indian banks have the advantage of a strong starting base in the form of a higher capital to risk-weighted assets ratio (CRAR) with a larger component of core equity capital, the large equity needs, though over an extended time-frame, could put downward pressure on the banks' Return on Equity (RoE). In the long term, the higher capital requirements would bring down risks in the banking sector inducing investors to accept a lower RoE. In the short term, though, the only solution is to raise productivity. The Government of India being the owner of public sector banks will have to play a proactive role in this process.

Issues in convergence with International Financial Reporting Standards (IFRS)

1.24 The Ministry of Corporate Affairs (MCA), Government of India, released a road map in January 2010 which entailed IFRS convergence in a phased manner commencing from April 1, 2011 onwards, with commercial banks in India scheduled to converge with effect from April 1, 2013. India's path to convergence with IFRS has however, become difficult due to several issues, both domestic and international. The convergence of certain categories of corporates that was scheduled for April 1, 2011 has not happened. Currently lack of clarity exists regarding the convergence schedule in India.

1.25 At the global level, the International Accounting Standards Board (IASB) has embarked on a project to replace the existing standard on financial instruments (IAS 39: Financial Instruments: Recognition and Measurement) with the new standard IFRS 9: Financial Instruments. This project has not progressed as per schedule since IASB could not finalise certain critical proposals relating to impairment and hedge accounting. In view of the developments at the international level, it appears unlikely that IFRS 9 would be ready in its entirety before mid-2013. The biggest challenge to the banking sector in India which is of equal concern to regulators is the lack of clarity and uncertainty regarding the finalisation of IFRS 9 and its convergence with US Generally Accepted Accounting Principles (GAAP), besides of course the major technical and human resources issues arising for Indian banks in the course of convergence.

Need for improvement in the asset quality of banks

1.26 The asset quality of banks is an important indicator of their financial health, and also reflects the efficacy of banks' credit risk management and the recovery environment. The asset quality of the banking system has deteriorated significantly during the year 2011-12 after a period of sustained improvement. Inadequate credit appraisal during the boom period of 2003-07 coupled with the adverse economic situation in the domestic as well as the external front resulted in the current increase in NPAs. To further strengthen the NPA management framework of the Indian banks, in terms of the Monetary Policy Statement for the year 2012-13, banks were advised to put in place a robust mechanism for early detection of signs of distress, and measures to preserve the economic value of assets. Banks were also advised to have proper system-generated segment-wise data on their NPA accounts, write-offs, compromise settlements, recovery and restructured accounts.

Financial system remains robust though global factors pose elevated risks

1.27 The financial system of the country remains robust. Risks to stability are, however, elevated due to global factors and domestic macroeconomic factors. Domestic growth has slowed. Savings and investment rates are also lower. Although inflation has moderated, it is still above the level conducive for sustained growth. Risks are also posed by the high levels of current account and fiscal deficits. Risks from global developments, *viz*., growth slowdown, continuing instability in the euro area, uncertain capital flows and the impact of deleveraging by banks, could be accentuated by domestic macroeconomic risks. Notwithstanding these, the intrinsic strength of the domestic economy remains intact. The findings of the periodic Systemic Risk Surveys conducted by the Reserve Bank reveal that financial system stakeholders retained their confidence in the stability of the system. However, distress dependencies among banks have risen, warranting closer monitoring.

Data integrity is a prerequisite for effective supervisory review

1.28 The need for granular data for policy decisions has increased. It is, therefore, important to further improve the database of the banking infrastructure in the country. In keeping with the Reserve Bank's IT Vision, the efforts should be to automate data flow from the reporting entities through the adoption of appropriate straight-through-processing systems. The use of data warehousing for processing should be strengthened to improve the quality, integrity and delivery of data. Second, there is a need for close co-ordination between statisticians and bank supervisors, both in the commercial and co-operative banking space, to identify and mitigate data gaps in the supervisory review process and to facilitate appropriate risk assessment for the banking system. Third, the data reporting system needs to be geared towards automated data capture from the source systems. An improved and granular database of the banking infrastructure in the country is essential to gauge the extent of financial inclusion and to assess the efficacy of various policy actions taken in this regard. To ensure faster and more accurate transmission of uniform data for quick decision-making, data should be captured at the base-level entity. This can be facilitated by a move away from the existing return-based reporting system to a data-based reporting system.

Financial inclusion: need for meaningful inclusion

1.29 Universal financial inclusion is both a national commitment and a policy priority. The Reserve Bank and the Government of India have taken several initiatives in this direction. The provision of BCs in several villages has created a sense of awareness among villagers about banking. However, major challenges remain as about 40 per cent of our population lacks access to even the simplest kind of formal financial services. In order to ensure that the financial inclusion initiatives fructify, there is a need to enlarge the number and value of transactions in no-frills accounts.

1.30 Banks should endeavour to have a BC touch-point in every village. However, to make it a self-sustaining business model, banks should, over a period of time, ensure that all banking services, *viz*., remittances, recurring deposits, entrepreneurial credit in the form of KCC and GCC, insurance (life and non-life) and other banking services are available to all residents of the village through a mix of brick-and-mortar branches and a BC network.

Enhanced usage of technology requires improved risk management tools

1.31 Due to the operational risks associated with the use of technology, information security is an area that is gaining importance. The issues related to information security, data integrity and storage as also communication channels have acquired challenging dimensions in the electronic environment. The IT management systems in the banks have to be robust enough to meet these new challenges effectively, on a continuing basis.

5. The Way Forward

1.32 Going forward, banks will need to move towards the mandated higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian banks will need to improve efficiency even as their costs of doing business go up. They will need to refine their risk management skills for enterprise-wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services since capital comes at a cost. This involves costing, a quantitative assessment of revenue streams from each product and service and an efficient transfer-pricing mechanism that would determine capital allocation.

1.33 During the year 2011-12, the NPA stock has risen. The slippage ratio of the banking system, which showed a declining trend during 2005-08, increased during 2008-12. Banks need to, not only utilise effectively, the various measures put in place by the Reserve Bank and the Government of India for the resolution and recovery of bad loans, but also have to strengthen their due diligence, credit appraisal and post-sanction loan monitoring systems to minimise and mitigate the problem of increasing NPAs.

1.34 Going ahead, banks need to tap into untapped business opportunities for resources to power the growth engine. This requires harnessing resources and fortune at the bottom of the pyramid. Small customers are an important key to big business opportunities waiting to be tapped. The challenge before banks is to make the best use of technology and innovation to bring down intermediation costs while protecting their bottom lines. The recent regulatory initiatives like the deregulation of savings bank deposit interest rates and opening up government business to more banks, imminent steps, such as licensing of new banks and subsidiarisation of the foreign bank branches, on the one hand, and the changing profile and simultaneously rising aspirations and expectations of customers on the other, should make the turf more competitive and increasingly, a buyers' market. As the Indian banking sector is propelled forward to a higher orbit, banks would have to strive to remain relevant in the changed economic environment by reworking their business strategy, designing products with the customer in mind and focussing on improving the efficiency of their services. The challenge for Indian banks is to reduce costs and pass on the benefits to both depositors and lenders.

1.35 Notwithstanding the multitude of challenges to be braved by the Indian banking sector against the backdrop of a difficult domestic and global macroeconomic environment, the regulatory responses and the inherent strengths underlying the Indian economy would ensure that the banking system withstands the transitory difficult phase and plays a positive intermediation role in supporting the financing needs of our growing economy.

Chapter II

Global Banking Developments

The global banking system was affected by the weakening of global growth, escalation of the sovereign debt crisis and financial market stress. While US banks have been able to reduce their leverage and reliance on wholesale funding, European banks' dependence on wholesale funding remains high. The fundamentals of the banking sector in emerging economies were better, reflecting higher economic growth and relative balance sheet strength on the back of higher domestic funding and sound capital base. Significant progress has been made on the regulatory front, such as Basel III, SIFIs and shadow banking, but implementation challenges remain. Many advanced countries have made substantial progress in putting in place effective resolution regimes and bail-in mechanisms. The European Union and European Central Bank (ECB) have undertaken various measures to address funding and deleveraging risks, but concerns remain. In the long term, banks should focus on cost reduction strategies and work towards restoring investor confidence.

1. Introduction

2.1 The global banking system in 2011 and 2012, so far, witnessed severe setbacks as it continued to be affected by tepid recovery in global growth; the re-emergence of the euro area sovereign debt crisis; and funding and deleveraging risks for global banks. Uncertainties emanating from the ongoing euro area sovereign debt crisis, the downgrade in the outlook of several advanced economies (AEs), and stability issues of euro area banks amidst bank recapitalisation concerns, among other factors, kept international financial markets and the banking system volatile during most of 2011-12.

2.2 Global credit growth demonstrated a mixed picture: in emerging market economies it was sustained, in the US it showed some revival; but in Europe it decelerated. The return on assets (RoA) improved for banks in the US and some EMEs, but declined in European countries. The banking trends in select regions and countries show that the US banking system has made substantial progress in repairing balance sheets and enhancing capital. In the euro zone banking system, the risks remain at an elevated level on account of the vicious circle between banks and sovereigns. The crisis in the euro area has affected the UK financial system also and the funding costs for banks have risen sharply, leading to higher interest rates and lower credit availability for household and corporate borrowers in the UK.

2.3 An analysis of the performance of the top 100 global banks shows that the share of emerging economies in global banking continued to increase. Among emerging and developing countries, Chinese banks have registered substantial gains in the top 100 bank ratings. On the global policy reforms front, there has been some progress in rule framework for the Basel Rule, systemically important financial institutions (SIFIs), shadow banking, resolution regimes and bail-in mechanisms.

Global growth remains considerably weak

2.4 The global economy suffered a major setback in late 2011 as concerns about financial stability in the euro area came to the fore. Market stress spread throughout the euro area and bond yields soared in peripheral economies as investors were increasingly concerned about the risk of a sovereign default. These developments dramatically highlighted the risk of adverse, self-fulfilling shifts in market sentiment that could rapidly push fragile sovereigns into a bad equilibrium of rising yields, a funding squeeze for domestic banks, and a worsening economy [IMF's Global Financial Stability Report (GFSR) – April 2012].

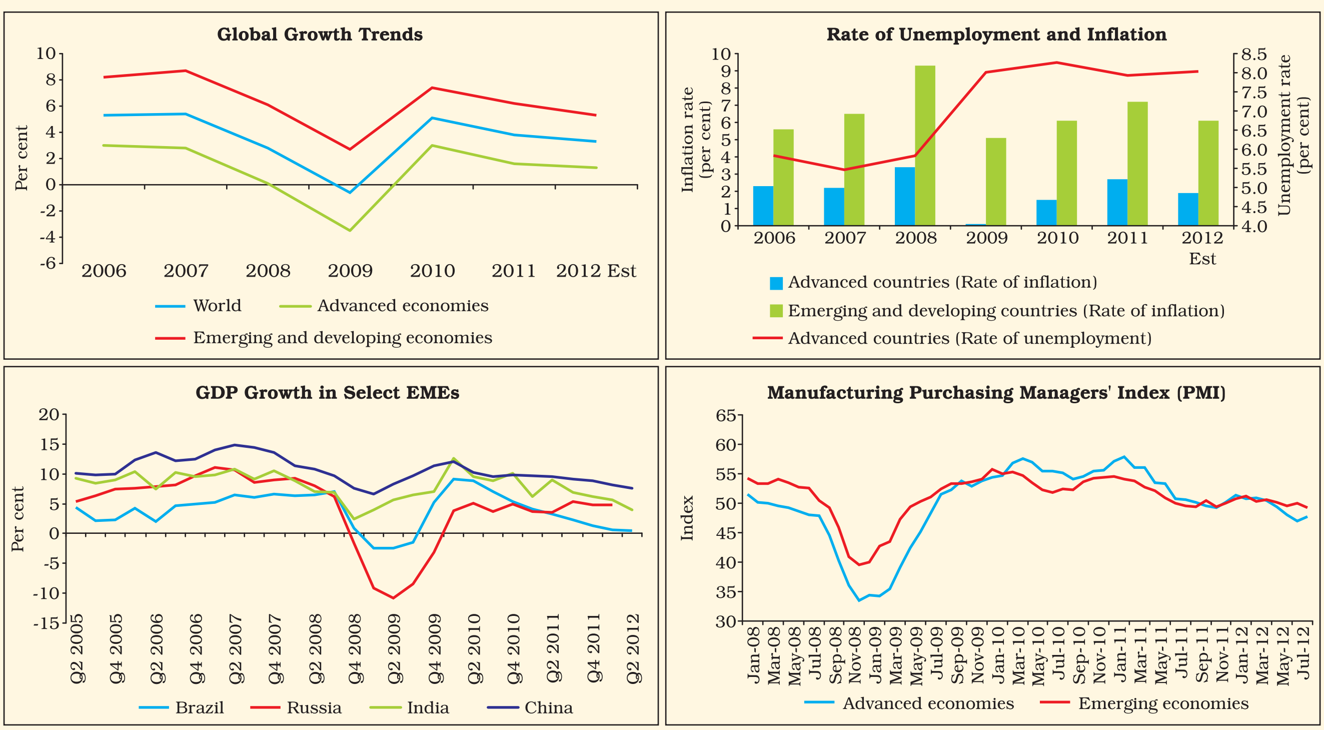
2.5 Global growth moderated to 3.8 per cent in 2011 compared with 5.1 per cent achieved in 2010 (Chart II.1). The slow growth was mainly driven by weakening growth in the advanced economies. On the other hand, emerging market economies continued to grow at a higher rate. For the year 2012, various forecasts have suggested the continuation of sluggish global growth. The IMF's World Economic Outlook (WEO) – October 2012 has projected global growth to moderate to 3.3 per cent in 2012 with significant downward risks.

2.6 Against this global macroeconomic setting, Section 2 reviews the performance of the global banking system using major indicators of banking activity and soundness for select advanced and emerging economies. Section 3 looks into the detailed individual performance of the banking systems in few advanced and emerging economies/ economy groups. Section 4 analyses the performance of the top-100 banks having major global presence. Section 5 highlights the major regulatory and supervisory policy initiatives with regard to the global banking system during the year. Section 6 presents the overall assessment and outlook for the global banking sector for 2013.

2. Global Banking Trends

2.7 The recent financial crisis brought to the fore the weaknesses in the global banking industry, which, in turn, was manifested in dwindling public confidence in the banking industry. The recent financial crisis has led to a realisation of the inadequacies in the banking sector. Banks had failed to secure stable and diversified sources of income and to contain costs, which resulted in liquidity stress for the institutions. Secondly, opaque balance sheets significantly impaired analysis of risk, thus preventing timely awareness of the weakness of banks' capital buffers (BIS Annual Report – 2011-12).

Chart II.1: Global Macroeconomic Trends

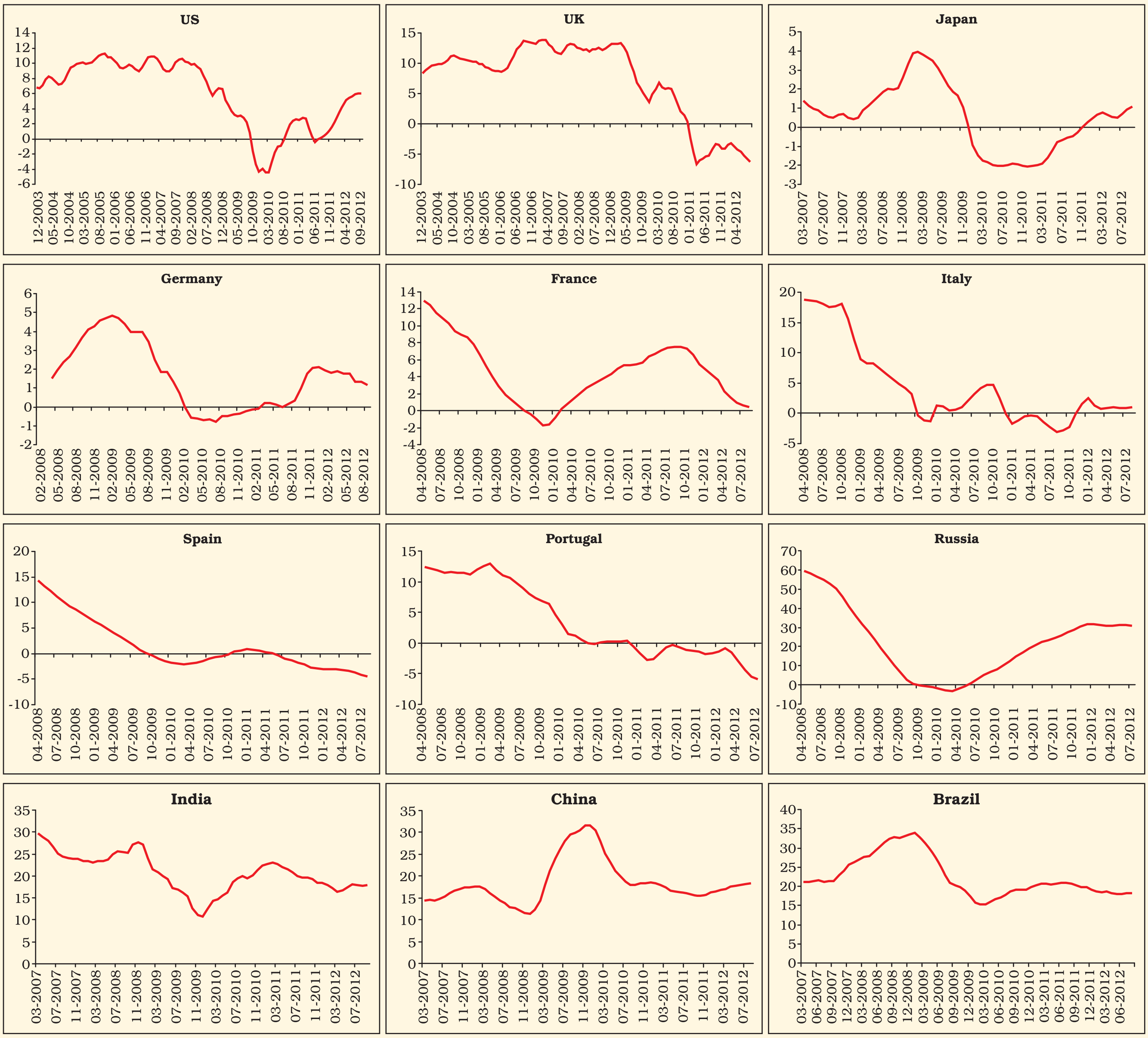


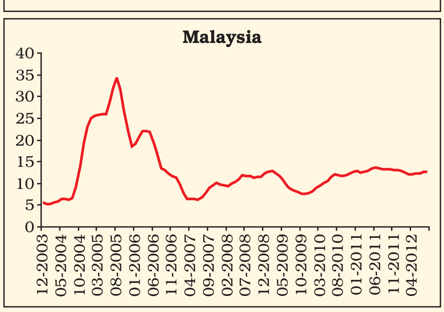
Source: World Economic Outlook, IMF and Thomson Reuters, Datastream.

Divergence in the credit growth across regions

2.8 Mirroring the divergence in the growth performance of economies, the credit growth across economies demonstrated an uneven pattern (Chart II.2).

Chart II.2: Three-Month Moving Average of Bank Credit Growth, in per cent





Notes:
1. Growth rates for all countries are monthly year-on-year basis smoothened out using three-month moving average method.
2. Bank credit refers to private credit for Germany, Russia, Spain, UK, France, Italy and Portugal. In all other countries, it refers to total bank credit.
3. Credit data used for the growth calculations are as reported in the respective currency of each country.
4. For Russia, data is available only from December 2006.

Source: Compiled from Thomson Reuters, Datastream.

Return on assets showed a declining trend in general

2.9 The return on assets (RoA), an indicator of the banking system's profitability, showed a divergent trend across economies. In general, it witnessed a declining trend (Table II.1).

Financial stress continued to be at an elevated level

2.10 In late 2011, concerns about the sustainability of fiscal deficit in the advanced countries, especially in euro area countries, re-escalated. The heightened risk perception by the markets resulted in the widening of the credit default swap (CDS) spread of the sovereign bonds of the affected economies in the euro area. The banking industry came under severe funding stress, as indicated by the rising CDS spreads for global banks (Chart II.3). The funding of the EME

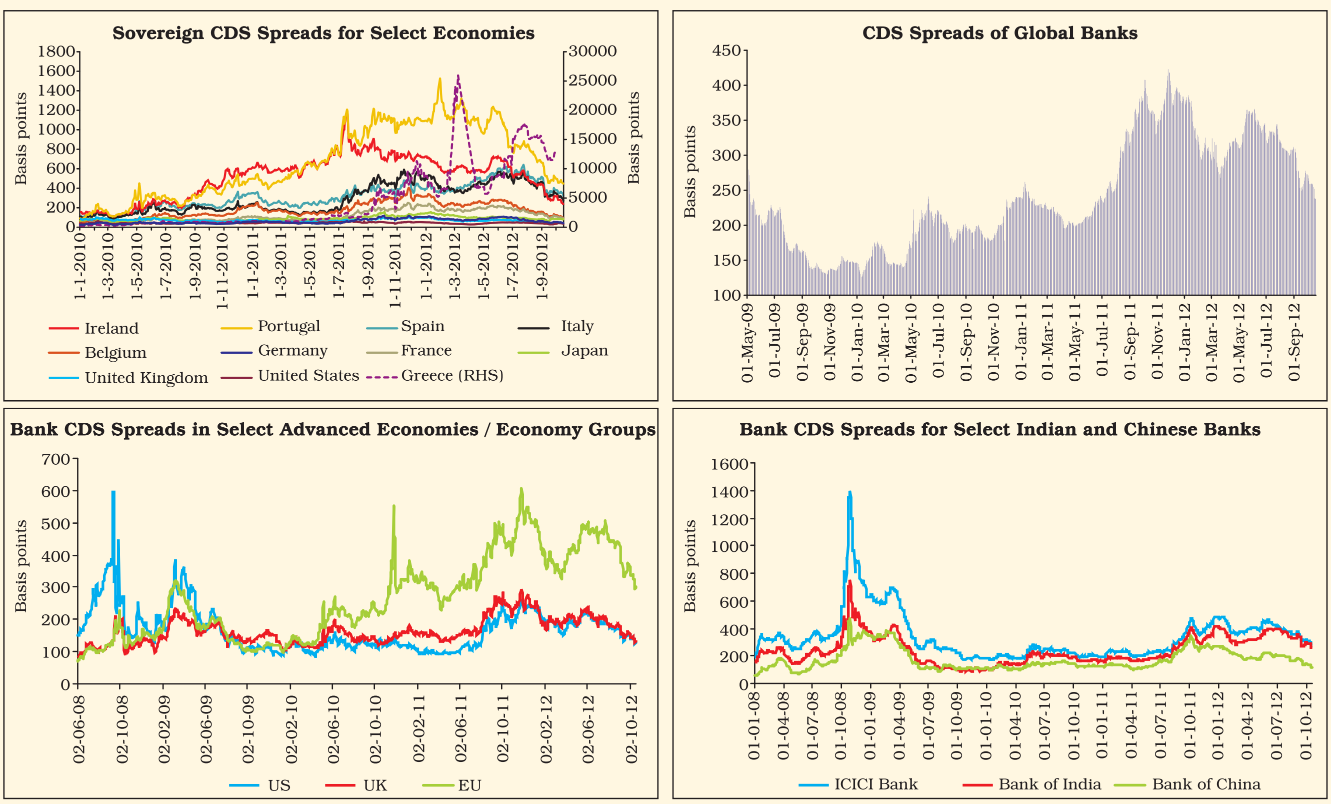
Table II.1: Return on Assets of Banks for Select Countries

(per cent)

Country	2007	2008	2009	2010	2011	2012
Advanced economies						
France	-	0.1	0.3	0.6	0.4	-
Germany	0.3	-0.1	0.2	0.4	-	-
Greece	1.0	0.2	-0.1	-0.6	-2.1	-
Italy	0.8	0.3	0.3	0.3	-0.9	-
Japan	0.5	0.3	-0.3	0.2	0.3	-
Portugal	1.1	0.3	0.4	0.5	-0.3	0.1
Spain	1.1	0.8	0.6	0.5	0.2	-
United Kingdom	0.4	-0.4	0.1	0.1	0.1	-
United States	1.2	-0.1	-0.1	0.9	1.2	1.0
Emerging and developing economies						
Russia	3.0	1.8	0.7	1.9	2.5	-
China	0.9	1.0	0.9	1.1	1.3	-
India	0.9	1.0	1.0	0.9	1.0	1.0
Malaysia	1.5	1.5	1.2	1.5	1.5	1.6
Brazil	3.5	1.6	2.4	3.2	1.5	1.4
Mexico	2.3	1.4	1.5	1.8	1.5	1.8

Note: - Not available.
2011 data for Japan and Greece pertain to September.
2012 data for Portugal, US, India, Malaysia and Brazil pertain to June and for Mexico pertain to March.
Source: Compiled from Financial Soundness Indicators, IMF.

Chart II.3: Sovereign and Bank CDS Spreads in Select Economies



Note: The sovereign spreads are for 5-year senior CDS, while banks' spreads are for 5-year CDS.
Source: Bloomberg for CDS spreads of Sovereign and Global Banks and Thomson Reuters, Datastream for banks' spreads.

banks was relatively unaffected due to their limited reliance on wholesale deposits for funding. The financial stress reduced following the measures taken by advanced economies.

Contagion spreads to bank stocks

2.11 Bank stocks, particularly in the advanced economies, declined sharply, reflecting the downgrade of sovereign debt of some countries for most part of 2011 and 2012 (Chart II.4). Further, the uncovering of serious allegations regarding money laundering and trading losses by a few banks has dented market confidence in the global banking system. Banking stocks in the EMEs declined reflecting the risk aversion arising from the euro area sovereign debt crisis and inflationary concerns in some EMEs. The recent LIBOR controversy has drawn the world's attention to how a few large global financial institutions allegedly manipulated one of the most commonly used market rates (Box II.1).

Decline in international banking business

2.12 During 2011-12, the international banking business (by location of reporting banks) witnessed a contraction. This is in contrast to the revival in international business between 2009-10 and 2010-11 (Table II.2). The contraction in the flow of cross-border credit was due to banks' efforts to strengthen their capital base. The reduction was especially marked for cross-border claims on the euro area.

Financial Soundness of Banks

Capital adequacy levels vary across countries

2.13 Intensified efforts by the banks to strengthen their capital position reflected in an increase in the level of capital adequacy in several economies. However, few European countries and EMEs exhibited a decline in their capital adequacy levels (Table II.3).

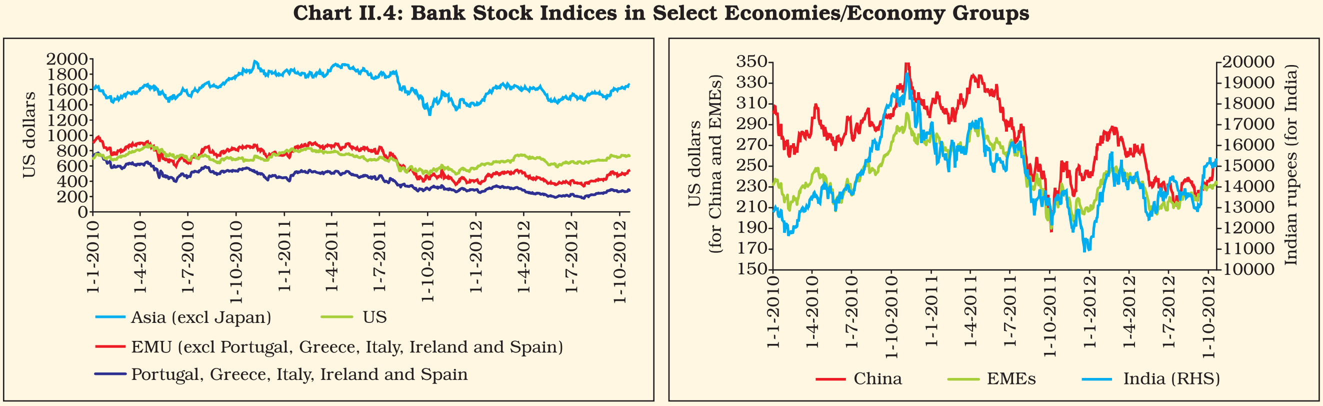
Uneven decline in leverage

2.14 An analysis of the leverage ratio as measured by the percentage of total capital (and reserves) to total assets across countries reveals an uneven pattern in deleveraging by the banking sector (Chart II.5).

Improvement in asset quality

2.15 Globally, there was an improvement in the asset quality of banks in 2011, except in the crisis-ridden euro area countries (Chart II.6). Among EMEs, most of the economies showed considerable improvement in asset quality in the years following the crisis.

Chart II.4: Bank Stock Indices in Select Economies/Economy Groups



Note: EMU refers to European Monetary Union.
Source: Thomson Reuters, Datastream.

Box II.1: Issues in LIBOR Fixation and Implications for Banks

The recent London Interbank Offered Rate (LIBOR) fixing incident has added further uncertainty to the fragile financial markets. The incident brought to the fore the flaws in the methodology underlying the computation of LIBOR, one of the most commonly used market rates, which lent itself to manipulation by certain key players.

LIBOR is a benchmark used by banks, securities houses and investors to gauge the cost of unsecured borrowing in the London interbank market. Its significance as a benchmark has risen since its introduction in the 1980s, because it acts as a reference rate for the majority of financial products, such as, interest rate swaps, corporate loans, and residential mortgages. The LIBOR is published by the British Bankers' Association (BBA) and is calculated each day by Thomson Reuters, to whom major banks submit their cost of borrowing unsecured funds for 15 periods of time in 10 currencies. The highest and lowest submissions are discarded and the average of the remaining submissions is taken to compute LIBOR for the given day.

Since LIBOR is not derived from real rates but is based on the submissions of the 18 largest international banks on their estimates of the levels at which they could borrow from other banks, banks could influence the LIBOR benchmark. The bankers attempted to engineer the benchmark rate by nudging their own firms' submissions up or down in small increments to benefit their trading books during the period 2005 to 2008. The banks lowered their rate submissions to provide a healthier picture of their finances particularly at the height of the financial crisis during 2008 to 2009.

The incident has brought into focus the need for regulatory reforms in the fixation of LIBOR benchmarks. The UK Government requested the Financial Services Authority (FSA) to review the framework for the setting of LIBOR led by Martin Wheatley, its Managing Director. The Terms of Reference for the Committee included: (i) necessary reforms in the current framework for setting and governing LIBOR; (ii) the adequacy and scope of sanctions to appropriately tackle LIBOR manipulation; and (iii) whether analysis of the failings of LIBOR has implications on other global benchmarks. The Wheatley Committee had placed an initial discussion paper to solicit public feedback on August 10, 2012. Based on the public feedback, the Committee submitted its final report on September 28, 2012. The Committee has recommended a ten-point plan for comprehensive reform for LIBOR, which has been accepted by the UK Government. The major reforms include (i) administering LIBOR, and submitting to LIBOR, become regulated activities under the Financial Services and Markets Act, 2000 (Regulated Activities) Order 2001, (ii) The BBA should transfer responsibility for LIBOR to a new administrator, (iii) Submitting banks should make explicit and clear use of transaction data to corroborate their submissions, (iv) The BBA, and in due course, the new Administrator, should cease the compilation and publication of LIBOR for those currencies and tenors for which there is insufficient trade data. This will result in decline of number of published rates from 150 to 20.

The controversy has added further uncertainty to the global financial system and reduced market confidence in key benchmark rates as well as in the banking system. The bank stocks of some of the allegedly involved banks have declined following the LIBOR fixation incident. The banking institutions involved in the incident could face stringent fines and penalties, as a large number of lawsuits have already been filed against these companies. This may hamper the banks' efforts to strengthen their balance sheet.

The incident also brought forth wider debate over how other benchmark rates and indices are calculated. Some benchmarks are already under scrutiny; the International Organisation of Securities Commissions (IOSCO) is investigating oil spot prices, while the European Commission is looking into other financial benchmarks, such as the Euro Interbank Offered Rate (EURIBOR).

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Table II.2: Growth in International Assets and Liabilities of Banks

(Per cent)

Item	2008-09	2009-10	2010-11	2011-12
Total assets	**-17.5**	**0.2**	**5.8**	**-1.9**
1. External assets	-17.5	0.1	5.7	-2.3
Loans and deposits	-19.0	-1.0	6.9	-2.3
Holdings of securities and other assets	-13.2	3.0	2.4	-2.4
2. Local assets in foreign currency	-17.5	0.7	6.9	1.6
Total liabilities	**-18.0**	**-0.7**	**7.4**	**-0.9**
1. External liabilities	-18.6	0.2	6.8	-1.4
Loans and deposits	-21.2	-1.3	5.9	-2.1
Own issues of securities and other liabilities	-2.0	7.4	11.0	1.7
2. Local liabilities in foreign currency	-14.4	-6.1	11.8	2.2

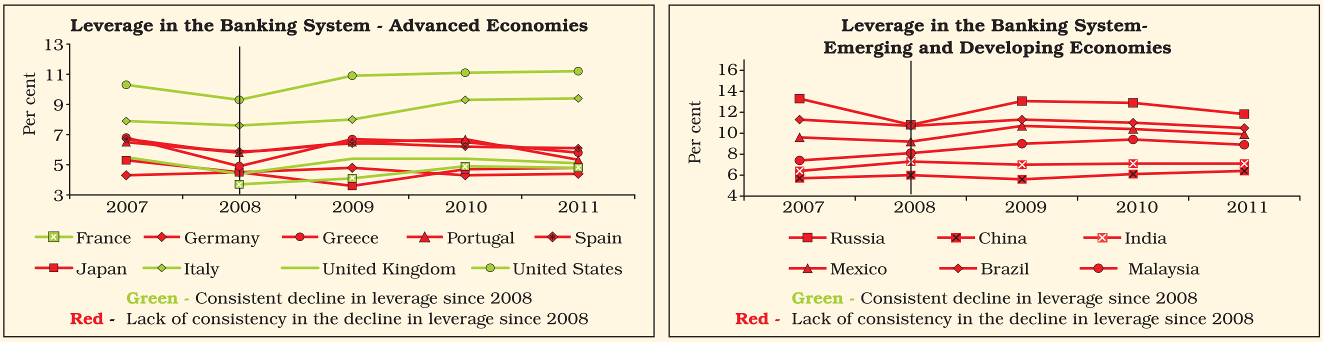
Source: Compiled from BIS Locational Banking Statistics.

3. Banking Trends in Select Regions and Countries

US banking system – substantial progress in repairing balance sheets and enhancing capital

2.16 The US banking system has made considerable progress towards repairing balance sheets and building capital since the recent financial crisis. Large US banks have reduced their reliance on short-term wholesale funding. The banks have reduced impaired assets through charge-offs, write-downs and asset disposals and increased the Tier-1 capital. Concomitantly, the

Chart II.5: Leverage in the Banking Systems of Select Economies



Note: 2011 data for Japan and Greece pertain to September 2011. 2007 data for France is not available.
Source: Compiled from Financial Soundness Indicators, IMF.

Table II.3: Capital to Risk-Weighted Assets Ratio of Banks in Select Countries

(Per cent)

Country	2007	2008	2009	2010	2011	2012
Advanced economies						
France	-	10.5	12.4	12.7	12.3	-
Germany	12.9	13.6	14.8	16.1	16.4	17.0
Greece	11.2	9.4	11.7	12.2	10.1	-
Italy	10.1	10.4	11.7	12.1	12.7	-
Japan	13.3	12.3	12.4	13.3	14.2	-
Portugal	10.5	9.4	10.5	10.3	9.8	12.3
Spain	11.4	11.3	12.2	11.9	12.4	-
United Kingdom	12.6	12.9	14.8	15.9	15.7	-
United States	12.8	12.8	14.3	15.3	15.3	15.3
Emerging and developing economies						
Russia	15.5	16.8	20.9	18.1	14.7	14.6
China	8.4	12.0	11.4	12.2	12.7	12.9
India	12.3	13.0	13.2	13.6	14.2	13.6
Malaysia	14.8	16.1	18.2	17.5	17.7	17.2
Brazil	18.8	18.3	19.0	17.7	17.3	17.2
Mexico	15.9	15.3	16.5	16.9	15.7	15.7

Note: - Not available.
2011 data for Japan and Greece pertain to September.
2012 data for Germany, Portugal, US, China, India, Malaysia and Brazil pertain to June and for Mexico and Russia pertain to March.
Source: Compiled from Financial Soundness Indicators, IMF.

banks' equity capital and equity assets ratio has seen an improvement (Chart II.7).

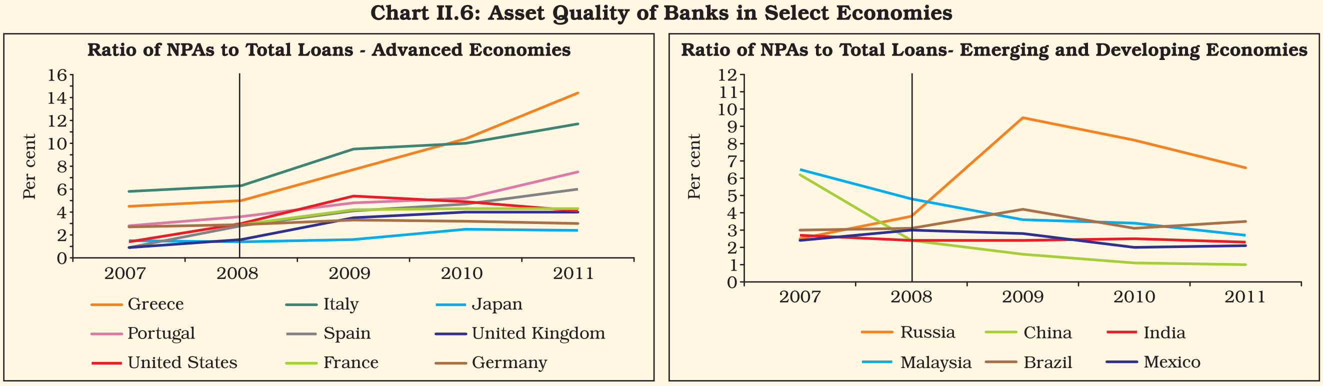
The Stress Tests for US banks show improved resilience

2.17 The stress tests conducted under the Comprehensive Capital Analysis and Review (CCAR) in March 2012 show that most of the 19 banking firms would have sufficient capital to withstand a period of intense economic and financial stress and still be able to sustain their lending capacity.

Improvement in the credit quality of US banks

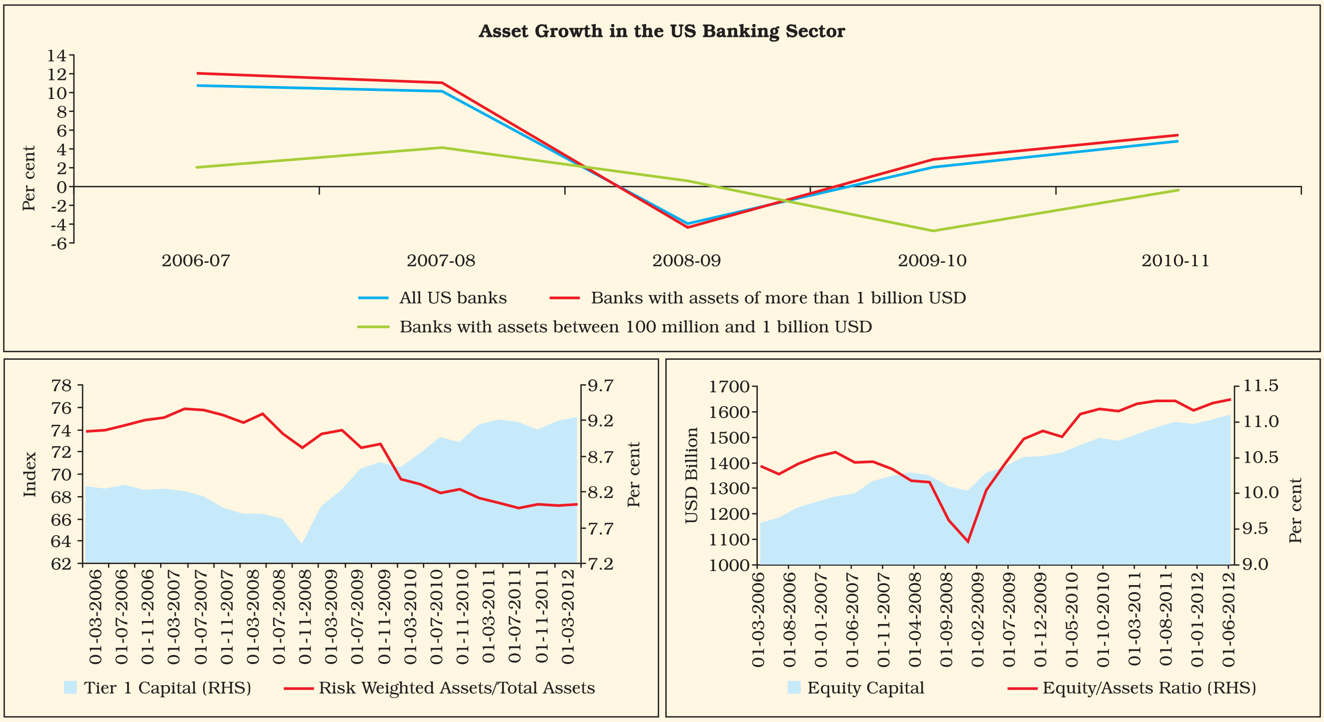
2.18 There has been significant growth in credit to the industrial sector, but credit to real estate and individual loans remains muted. The overall delinquency rates on loan portfolios have fallen, but given the wide difference across sectors in

Chart II.6: Asset Quality of Banks in Select Economies



Note: 2011 data for Japan pertain to September 2011.
Source: Compiled from Financial Soundness Indicators, IMF.

Chart II.7: Progress in the US Banking System



Source: Bloomberg and Federal Deposit Insurance Corporation (FDIC) database.

terms of asset quality, concerns remain (Chart II.8).

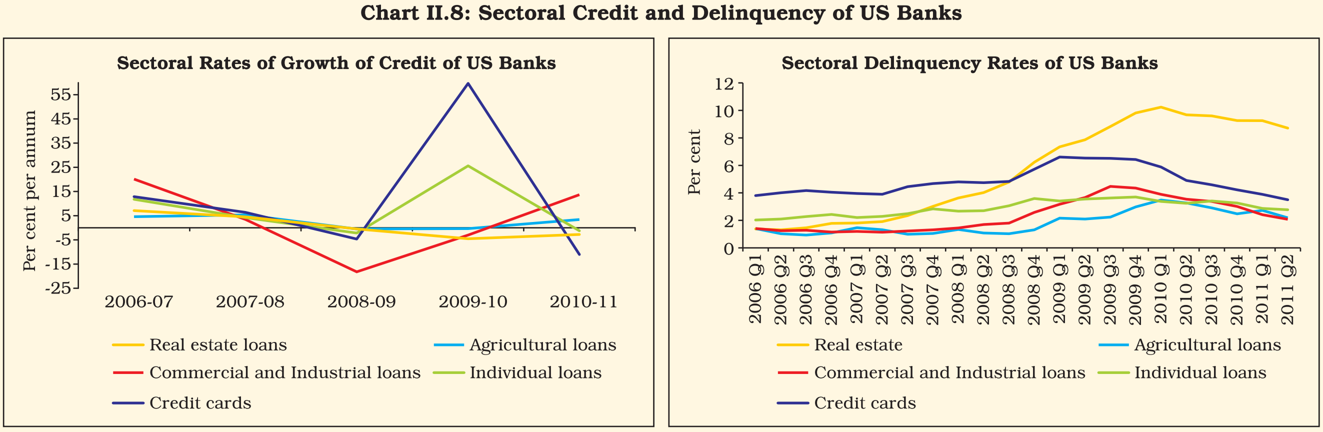
Euro area banking system – risks remain at an elevated level

2.19 The current euro area debt crisis has highlighted the existence of a vicious circle between banks and sovereigns (Box II.2). Their increasing inter-linkage has led to a prolonged collapse of market confidence in the European Union (EU) banking sector, affecting adversely the cost and availability of funds.

Risk aversion during euro area crisis led to freezing of inter-bank market

2.20 The EU banks are more reliant on wholesale funds than customer deposits. The ratio of residential deposits to total liabilities for these banks is placed at around 51 per cent (Chart II.9).

Chart II.8: Sectoral Credit and Delinquency of US Banks



Source: Calculated using data from FDIC database and FRED economic data, St. Louis FED.

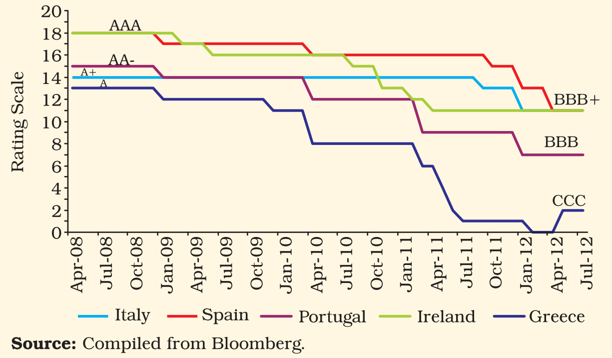
Box II.2: Eurozone Crisis and the Sovereign-Bank Nexus: Sovereign Rating Downgrades and Implications for Global Banking System

The recent global financial crisis and the consequent deepening of the euro debt crisis clearly indicate the interdependencies between banks and sovereign risk. Several research studies have found a link between the fiscal and financial distress. Discussing the transmission channels during the fiscal and financial turmoil, Reinhart and Rogoff (2011) present a set of four stylised facts. First, private and public debt booms ahead of banking crises. Second, banking crises, both home-grown and imported, usually accompany or lead sovereign debt crises. Third, public borrowing increases sharply ahead of sovereign debt crises, and, moreover, it turns out that the government has additional "hidden debts" (domestic public debt and contingent private debt). Fourth, the composition of debt shifts towards the short term before both a debt and banking crisis. Further, a default may take place if the financial crisis ignites a currency crash that impairs the sovereign's ability to repay foreign currency debt.

The bailout of banks by their respective countries during the recent global financial crisis has led to a shift of credit risk from the financial sector to national governments and led to an increase in sovereign risk (Acharya *et al* 2010). However, historically, the transmission of distress has often moved from sovereign to banks with sovereign defaults triggering bank crises (Caprio and Honahan 2008). The anaemic economic growth combined with high debt-to-GDP ratio has led to frequent downgrades of the sovereign ratings of euro area Greece, Ireland, Italy, Portugal and Spain (GIIPS) countries by credit rating agencies (Chart 1). With an increase in sovereign debt risk, banks were also affected as they were the major holders of sovereign bonds.

There are multiple channels through which the increase in sovereign risk feeds into the banks' funding costs: (i) losses on holdings of government debt weaken banks' balance sheets, increasing their riskiness and making funding more costly and difficult to obtain; (ii) higher sovereign risk reduces the value of the collateral which banks can use to raise wholesale funding and central bank liquidity; (iii) sovereign downgrades generally flow through to lower ratings for domestic banks, increasing their wholesale funding costs, and potentially impairing their market access and (iv) a weakening of the sovereign reduces the funding benefits that banks derive from implicit and explicit government guarantees (CGFS-BIS 2011).

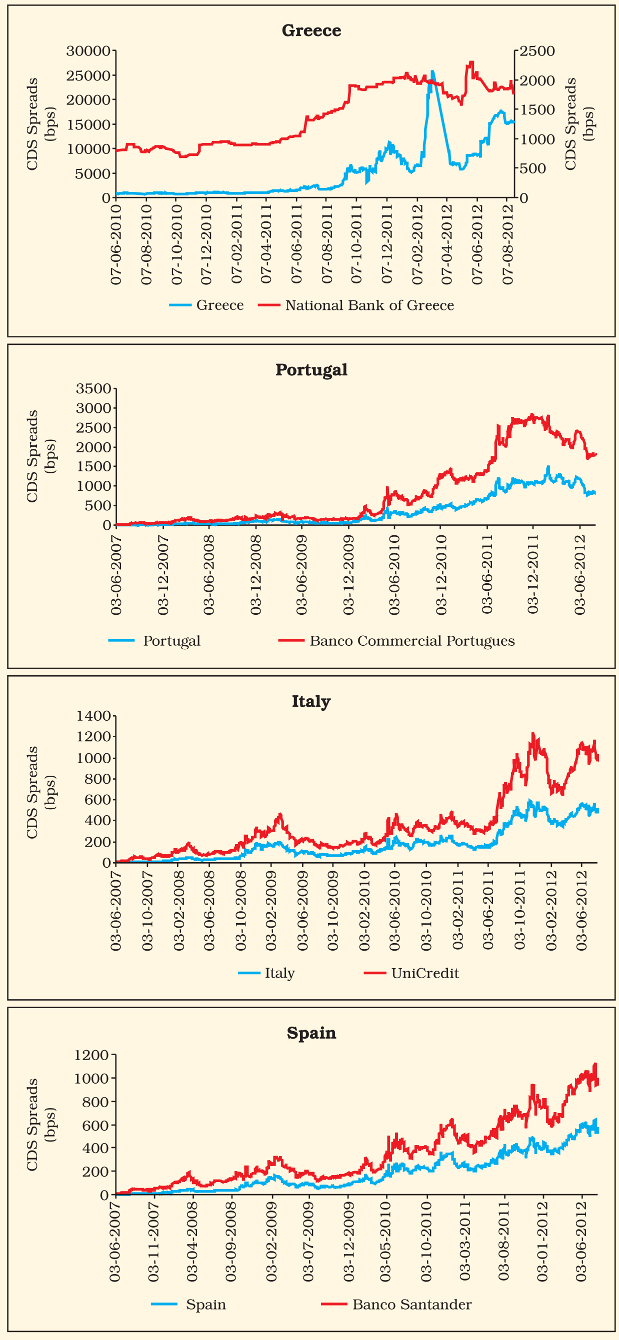
Chart 1: Euro Area Sovereign Ratings by S&P



Source: Compiled from Bloomberg.

The interdependency between the sovereign and their banks can be clearly seen for euro area GIIPS countries, as both sovereign and bank risk (largest bank in the respective country), as measured by CDS spreads, tend to move together during the crisis (Chart 2).

Chart 2: Bank and Sovereign Risk



Source: Bloomberg.

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The sovereign and banking stress increased as investors' concerns about the political situation in Greece and the implications of the difficulties experienced by the Spanish banking system, were compounded by a perceived lack of cohesion among governments in upgrading the crisis management mechanisms in the euro area.

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Barth, James R., Apanard Prabha & Greg Yun (2012), "The Eurozone Financial Crisis: Role of Interdependencies between Bank and Sovereign Risk", Journal of Financial Economic Policy, Vol.4.

Caprio, Gerard & Patrick Honahan (2008), "Banking Crisis", Center for Development Economics, Williams College.

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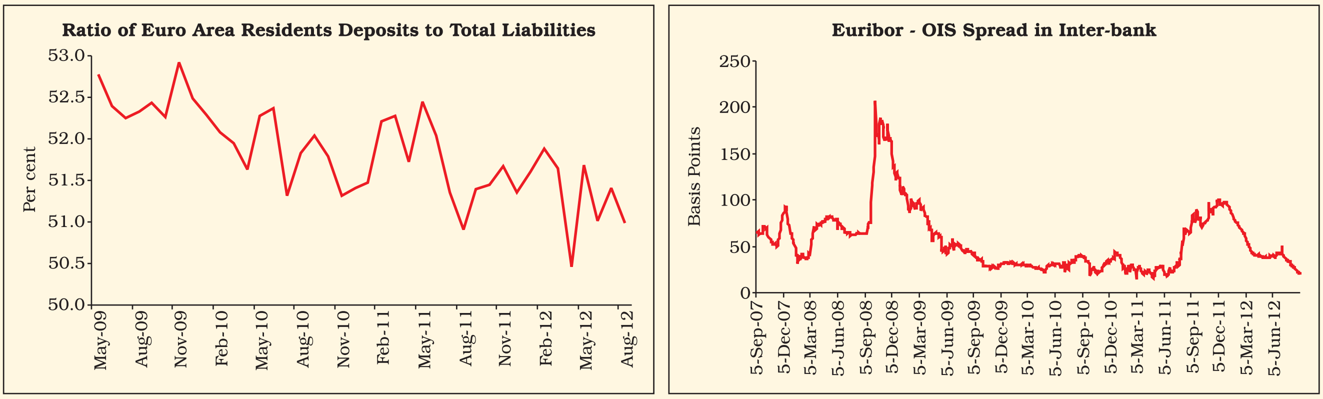
During the current euro area sovereign crisis, such a structure of funding had made EU banks more vulnerable, as it increased their funding costs to unsustainable levels. This led to the freezing of wholesale funding markets for European banks. In countries such as Greece, Italy and Spain, there was a fall in customer deposits – including from non-residents. The Euribor-OIS spread, an indicator of counterparty risk in unsecured inter-bank markets, rose sharply in the second half of 2011, before showing a decline in the subsequent period (Chart II.9).

2.21 In order to ease the funding pressures on EU banks, the ECB undertook Long-Term Refinancing Operations (LTRO) on December 21, 2011 and February 29, 2012 amounting to more than € 1 trillion. This has temporarily alleviated the funding pressures on EU banks and reduced the financial stress. The EU banks, however, have not used the LTRO funds to extend private credit, but sought to protect their balance sheets (Chart II.10). The predominant share of LTRO funds has been re-deposited with the ECB.

Efforts to increase capital are on, but concerns remain

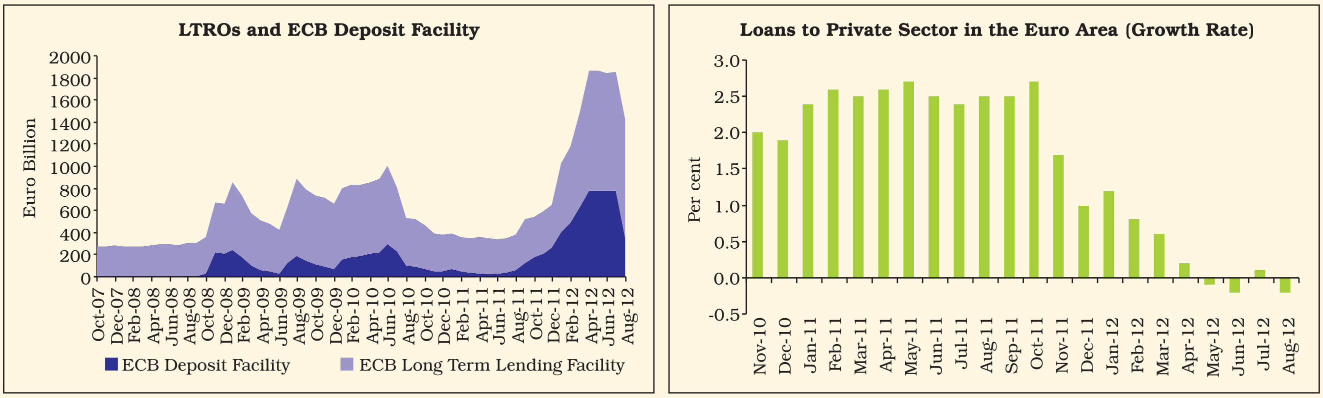
2.22 As the crisis continued to escalate, the markets were increasingly concerned about asset quality, the size of capital buffers and their ability to cope with future credit losses. In order to alleviate these concerns, the European Banking Authority (EBA) undertook an EU-wide stress test as well as conducted a capital exercise of 71 banks in November 2011 to assess their capital needs and advised the banks to build a temporary capital buffer to reach a 9 per cent core Tier 1 ratio by

Chart II.9: European Banks Funding Structure and Inter-Bank Market



Source: Bloomberg.

Chart II.10: LTRO and Loans to Private Sector in the Euro Area



Source: Bloomberg and European Central Bank (ECB).

June 30, 2012. The EBA found that 27 banks across Europe needed to raise capital totalling €76 billion to meet the 9 per cent core Tier 1 ratio. The final report by the EBA on October 3, 2012 showed that 27 banks have strengthened their capital position by € 116 billion as of June 2012. Though the results are positive, concerns remain as several of the banks surveyed require bailouts, particularly, banks in Greece and Spain.

EU banks deleveraging their exposure to GIIPS countries

2.23 EU banks have been reducing their exposures to affected countries in the euro area, particularly Greece. The latest BIS data show that after write-downs and asset sales, the total exposure of European banks to Greek public sector debt fell by more than 70 per cent quarter-on-quarter as at end-March 2012 (Chart II.11).

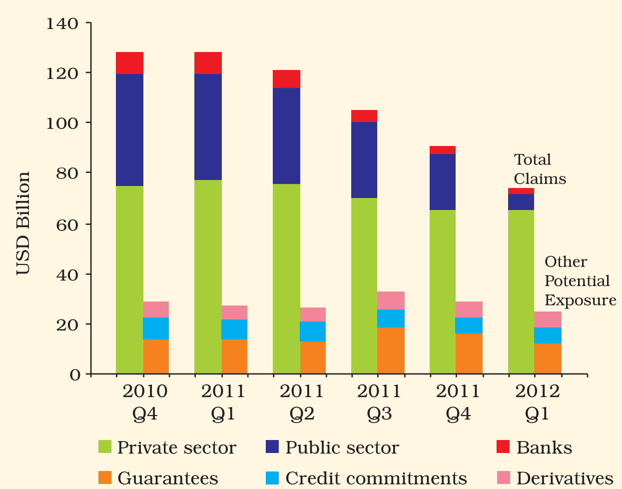
UK banking system – contagion from euro area crisis

2.24 The crisis in the euro area has affected the UK financial system and has led to a marked deterioration in the outlook for the UK economy. Even though UK banks have built up considerable buffers of loss-absorbing capital, they were affected by the general increase in the market uncertainty and widespread risk aversion associated with problems in the euro area. This, in turn has caused funding costs for banks to rise sharply, leading to higher interest rates and lower credit availability for household and corporate borrowers in the UK (Bank of England). In spite of the policy actions of the authorities, the flow of credit through the banking system – which households and many businesses necessarily rely on – has remained impaired. Recent data show that the stock of lending to UK businesses has contracted (Chart II.12).

Chinese banking system exhibits continued growth

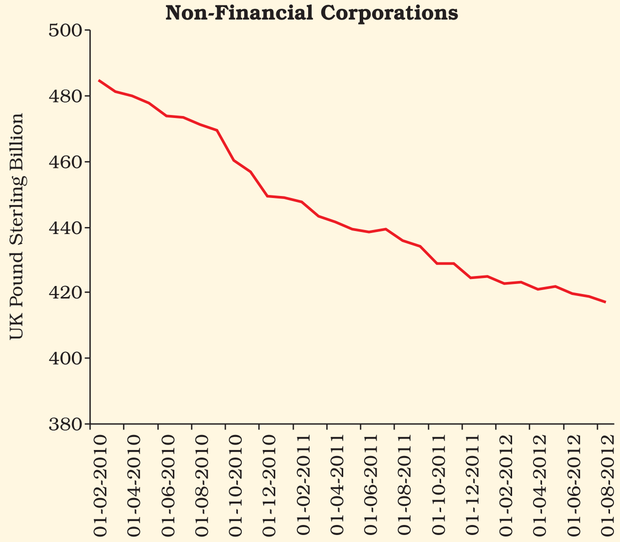
2.25 The Chinese banking system continued to grow in 2011, with higher capital to assets ratio and low level of non-performing loans (NPLs) at

Chart II.11: European Banks' Exposure to Greece



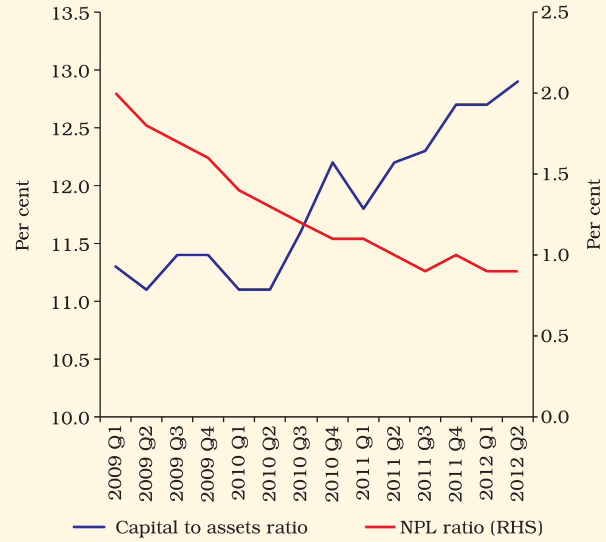
Note: Total claims include European banks exposure to private, public, and banking sector, while other potential exposure include guarantees, credit commitments and derivatives.
Source: Bloomberg.

Chart II.12: UK Banks' Lending to Private Non-Financial Corporations



Source: Bank of England (BoE).

Chart II.13: Chinese Banking Indicators



Source: Bloomberg.

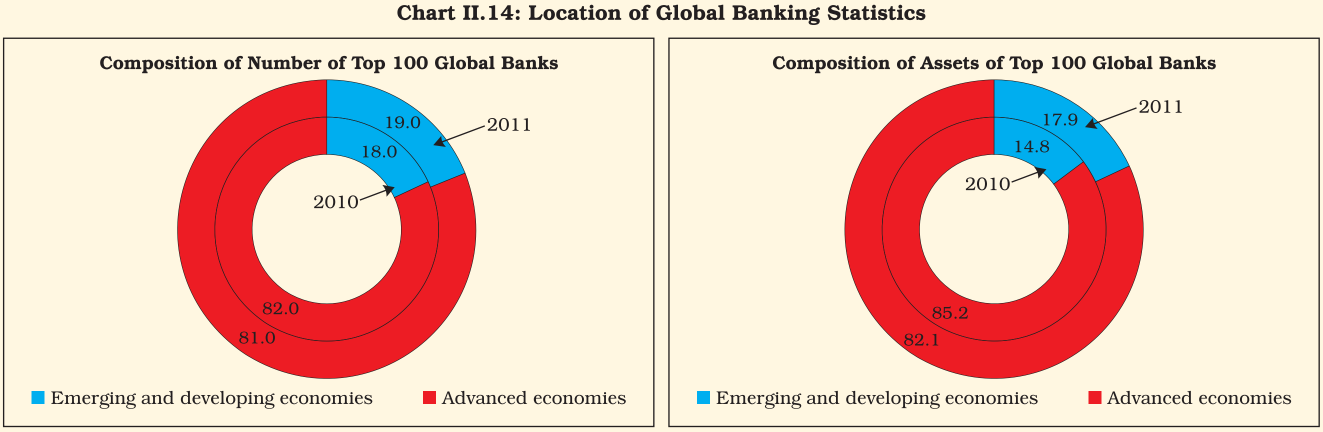
just about 1 per cent (Chart II.13). However, concerns remain, as the rapid growth of the Chinese banking industry may be hard to sustain due to the slowdown in the national economy and large exposure to Chinese property markets.

4. Analysis of the Performance of Top 100 Global Banks

Share of EMEs in global banking continued to increase

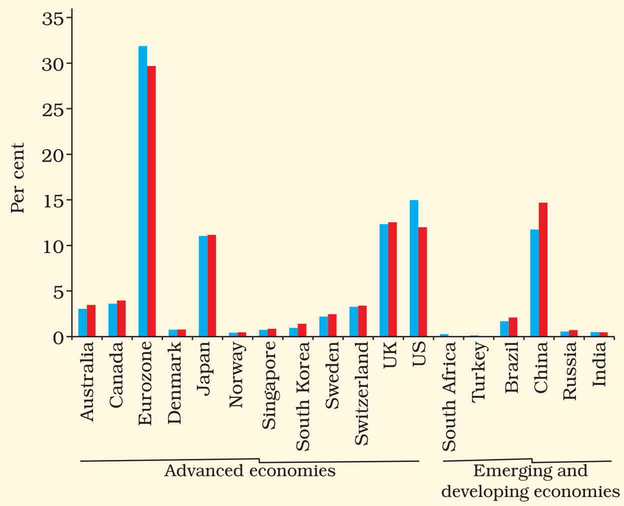
2.26 The analysis of the top 100 global banks by the Banker Database shows that the trend of moderate shift in the global banking business from advanced economies to EMEs continued in the year 2011, as evident from both the composition of number and assets of the top 100 global banks (Chart II.14). This shift reflects the continued credit growth in the EMEs, as well as the decline in credit growth in the advanced economies. The decline in the asset share of advanced economies between 2010 and 2011 was concentrated in US and European banks (Chart II.15). Among EMEs, Chinese banks have exhibited a significant improvement in the top 100 banks ratings, as four banks are listed among the top 10 banks based on Tier 1 capital for the first time.

Chart II.14: Location of Global Banking Statistics



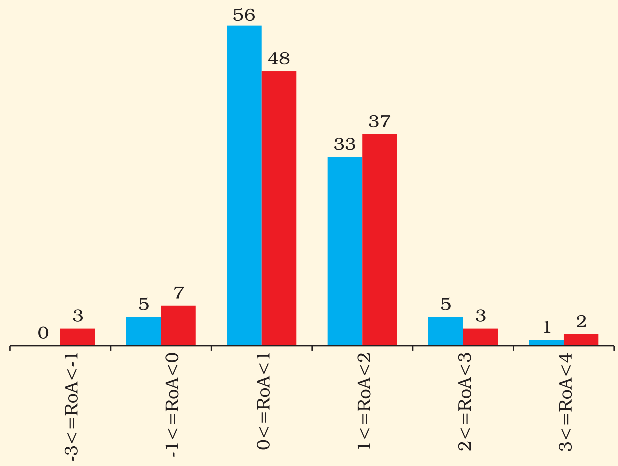
Source: Calculated using Banker Database.

Chart II.15: Share of Countries in Total Assets of Top 100 Global Banks



Source: Calculated using Banker Database.

Chart II.16: Percentage Distribution of Top 100 Global Banks by Return on Assets



Source: Calculated using Banker Database.

Profitability of global banks remains subdued

2.27 The profits of the top 100 banks, which had staged a recovery after the financial crisis received a setback during 2011. The aggregate profits of these banks recorded a moderate fall to US$ 702 billion in 2011 from US$ 709 billion in 2010. Moreover, the percentage of loss making banks [reporting negative return on assets (RoA)] also recorded an increase from 5 per cent in 2010 to 10 per cent in 2011 (Chart II.16).

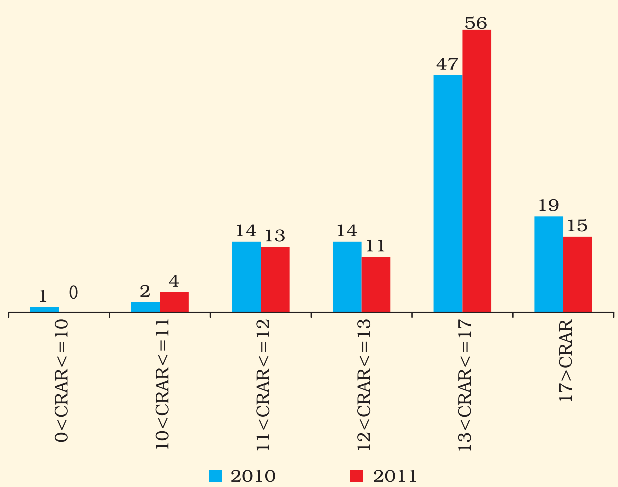
Global banks strengthen their capital adequacy position

2.28 The capital adequacy position of the top 100 banks reveals that the number of banks in the higher bracket of capital adequacy ratio, *i.e.*, 13 to 17 per cent, showed an increase, reflecting global initiatives to strengthen the capital position of banks. However, the number of banks with a CRAR range of more than 17 per cent declined (Chart II.17). All the top 100 banks (barring one for which data are not available) show that they are maintaining a higher capital adequacy level than the BCBS norm of 8 per cent CRAR stipulated under the Basel II framework.

Some progress is evident in the deleveraging of global banks

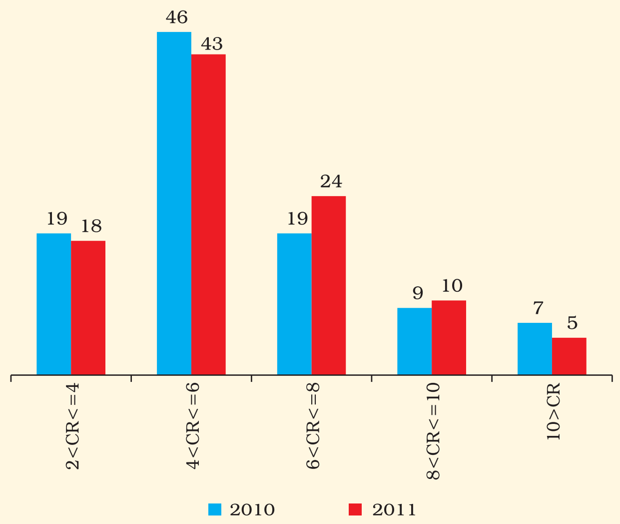
2.29 With the pressure on global banks to deleverage, especially after the global financial crisis, the banks have made some progress in reducing their leverage (Chart II.18). At the end of

Chart II.17: Percentage Distribution of Top 100 Global Banks by CRAR



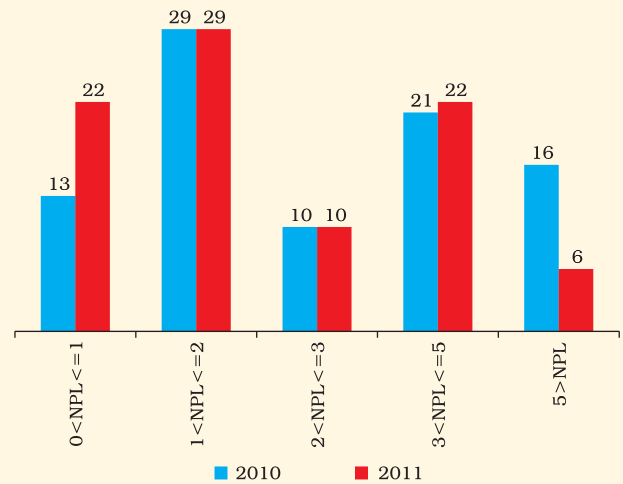
Note: On account of non-availability of data on certain banks from the top-100 sample, the percentage may not add up to 100.
Source: Calculated using Banker Database.

Chart II.18: Percentage Distribution of Top 100 Global Banks by Capital to Assets Ratio (CR)



Source: Calculated using Banker Database.

Chart II.19: Percentage Distribution of Top Global Banks by NPL Ratio



Note: On account of non-availability of data on certain banks from the top-100 sample, the percentage may not add up to 100.
Source: Calculated using Banker Database.

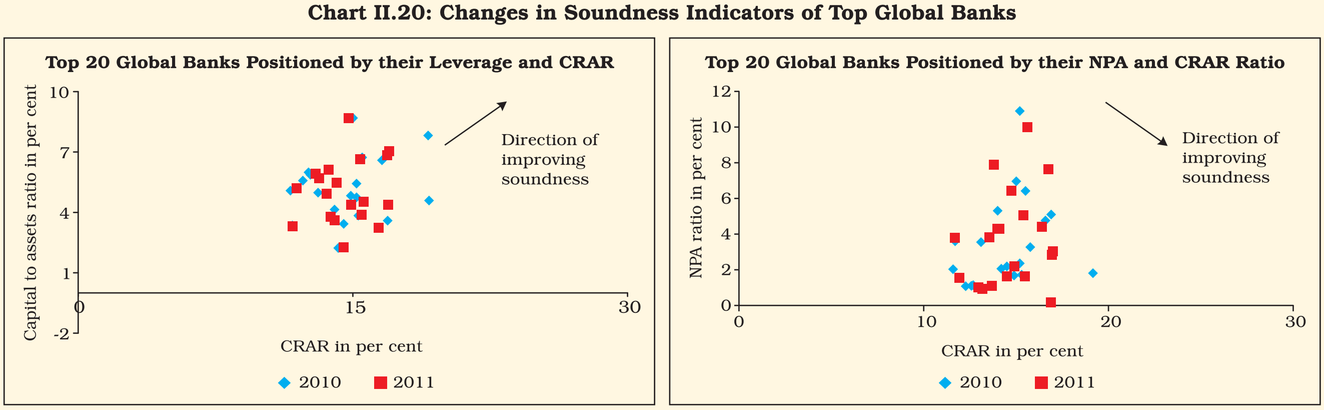
2011, the number of banks that are highly leveraged with a capital to assets ratio – a measure of financial leverage – of less than 4 per cent and between 4 - 6 per cent came down, while the number of banks in the range of 6 - 8 per cent showed an increase.

Improvement in the asset quality of global banks

2.30 Amidst an uncertain global financial environment, global banks showed an improvement in their asset quality. The number of banks with more than 5 per cent of non-performing loans (NPL) ratio declined from 16 to 6 (Chart II.19). Further, number of banks with a lower NPA ratio, *i.e.*, 0 - 1 per cent showed an increase.

2.31 The scatter plots of the top 20 banks covering three indicators of CRAR, leverage and NPA ratio, clearly revealed that while banks were in the process of increasing their CRAR between 2010 and 2011, little improvement was discernible in the leverage and NPA ratios of banks (Chart II.20).

Chart II.20: Changes in Soundness Indicators of Top Global Banks



Note: The top 20 banks are as per the list of 2011. The same banks have been chosen for 2010 for these scatter plots.
Source: Calculated using Banker Database.

5. Global Policy Reforms

Progress on Basel rules implementation

2.32 The Basel rules on banking supervision, *viz.*, Basel II, Basel II.5 and Basel III, aim at strengthening the resilience of the global banking sector. The timely and consistent implementation of these rules across jurisdictions is important to ensure stability in the global banking system. The Basel Committee on Banking Supervision (BCBS) is carrying out an assessment of the implementation of Basel rules across member countries. The progress report on Basel III implementation by BCBS in October 2012 shows that many of the member countries are yet to issue the guidelines and, in the case of countries which have issued the guidelines, there is a possibility of weaker national standards than the globally agreed norms. Some G-20 countries such as India, Japan, China and Saudi Arabia have already announced final rules for implementation of Basel III from early 2013, but the majority are still in the drafting or consulting stage. The US and EU have moved closer to a final rule with the publication of draft legislation on Basel III.

Reforms related to Systemically Important Financial Institutions (SIFIs)

2.33 In November 2011, the BCBS issued the final rule to assess the global systemic importance and to quantify the required additional loss absorbency capacity of large institutions, *i.e.*, global systemically important banks (G-SIBs). The rationale was to contain the risks posed by these institutions to the global financial sector and includes the methodology to identify G-SIBs and the details of additional loss absorbency capital requirements to be met with common equity to discourage any increase in systemic importance. The initial list of 29 G-SIBs has been published, which will be revised annually and the methodology reviewed periodically. Implementation of the revised G-SIB standards will be phased in from 2016.

Framework for Domestic Systemically Important Banks (D-SIBs)

2.34 The G-20 leaders requested the BCBS and Financial Stability Board (FSB) to design an appropriate risk mitigating framework for domestic systemically important banks (D-SIBs). Accordingly, in June 2012, the BCBS came out with a consultative document containing a framework for dealing with D-SIBs. This framework for D-SIBs will complement the G-SIBs framework, by concentrating on the impact of failure of D-SIBs on the domestic economy. In contrast to the G-SIBs framework, the D-SIBs framework allows considerable national discretion for the assessment and application of the policy tools in order to tailor the framework to the structural characteristics of the domestic financial system. The principles require the national authority to assess the systemic risks with reference to the domestic financial system and risks should be assessed with regard to bank-specific factors such as size, inter-connectedness, substitutability/ financial institution infrastructure and complexity. Based on the consultation process, the BCBS has published the final framework for the regulation of D-SIBS in October 2012.

Oversight and regulation of the shadow banking system

2.35 The Financial Stability Board (FSB) in April 2012 defined shadow banking system as " Credit intermediation involving entities and activities outside the regular banking system".

2.36 At the Cannes Summit in November 2011, G-20 leaders agreed to strengthen the oversight and regulation of the shadow banking system, and endorsed the FSB's initial recommendations with a work plan to further develop them in the course of 2012. The FSB has adopted a two-pronged approach. First, the FSB will enhance the monitoring framework by continuing its annual monitoring exercise to assess global trends and risks, with more jurisdictions participating in the exercise. Second, the FSB will develop recommendations to strengthen the regulation of the shadow banking system, where necessary, to mitigate the potential systemic risks. The FSB in its Report on Shadow Banking to the G-20 leaders in April 2012 reviewed the progress made and indicated that other policy recommendations will be made by the end of 2012.

Resolution regimes and bail-in mechanisms

2.37 The global financial crisis demonstrated the urgent need to improve resolution regimes so as to enable authorities to resolve failing financial institutions quickly without destabilising the financial system or exposing taxpayers to the risk of loss from solvency support. The U.S. Government's Dodd-Frank Act has broadened the Federal Deposit Insurance Corporation's (FDIC) authority in dealing with the failure of large and systemically important non-bank entities as well as financial institutions. Similarly, the UK Government has implemented a special resolution regime (SRR) and special administration regime (SAR) to ensure orderly resolution of banks and investment firms. The European Commission has also issued a proposal to develop an EU-wide Crisis Management and Bank Resolution Framework to harmonise the resolution tools and the approach of national authorities.

2.38 The FSB in November 2011 released standards for effective resolution regimes. It requires jurisdictions to have resolution authorities with a broad range of powers to resolve G-SIFIs (including non-banks), to reduce impediments to cross-border co-operation, and to ensure that recovery and resolution plans and crisis management groups are in place, at least for banking groups that have been designated as G-SIFIs.

2.39 The FSB is undertaking the first peer review to evaluate FSB member jurisdictions' existing resolution regimes and consider any planned changes to those regimes using key attributes (KAs) as a benchmark.

2.40 Progress has been made in the regulatory reform agenda, but the work is not complete, and important implementation challenges remain. Full implementation, however, will depend on strong political commitment, as it will require legislation, among other things, to enhance cross-border co-operation and information sharing and extend the range and scope of resolution powers for financial groups in home and host jurisdictions.

6. Overall Assessment

2.41 The global banking system faced a number of challenges in 2011 and 2012 so far, such as weakening global growth, escalation of the sovereign debt crisis and related funding and deleveraging risks, especially for European banks. In the year 2013, these challenges are likely to persist, as downward risks continue, unless various measures taken by the advanced countries' central banks revive growth. The fiscal austerity measures taken in response will also weaken the prospects of growth and employment in the advanced countries. Banks in the EMEs are better placed, as they have limited funding dependency on international markets, but they also face downward risks, such as freezing trade finance, decline in global risk appetite, capital outflows and forex market volatility, if the euro area sovereign debt crisis continues.

2.42 In the recent period, the advanced countries undertook monetary stimulus measures to boost economic growth. The US Federal Reserve announced Quantitative Easing-III (QE-III) an open-ended endeavour to purchase additional agency mortgage-backed securities amounting to US$ 40 billion per month. The ECB has announced the “sterilised” Outright Monetary Transactions (OMT) programme, to buy sovereign bonds of the euro area in the secondary markets to tackle the issue of sovereign debt in Europe. The Bank of Japan has also increased the total size of the Asset Purchase Program by about 21 trillion yen, taking the total to about 91 trillion yen. These measures have alleviated the funding pressures of EU banks and reduced the financial stress. The launching of € 500 billion permanent bailout fund “European Stability Mechanism” and the proposal for single banking regulator under the ECB also helped in reducing the financial market stress.

2.43 Thus, going forward, weak global growth and the evolving new regulatory environment will pose challenges for banks as cost of doing business will increase, which will put pressure on their profitability. In the long term, global banks should focus on cost reduction strategies and work towards restoring investor confidence.

Chapter III

Policy Environment

Global financial conditions deteriorated further during 2011-12. Amidst the subdued global growth and its increasing spillover risks, the Indian economy witnessed weakening domestic macroeconomic fundamentals. While the Western world continues to contend with dampening growth, a worsening sovereign debt crisis and repairing its financial regulatory architecture, the emerging lesson undeniably remains that financial/ banking regulations have to keep pace with the emerging market dynamics, while ensuring that such regulations do not throttle entrepreneurship and innovation. In this milieu, the Reserve Bank focused on enhancing the resilience of the banking sector. Several policy measures were initiated during 2011-12 with a greater focus on regulatory and supervisory apparatus, in line with the ongoing global initiatives such as migration to Basel II advanced approaches, setting the roadmap for Basel III implementation, efforts to move for a dynamic provisioning framework/ countercyclical capital buffers, securitisation norms, sound compensation practices and adoption of a risk-based supervisory approach for banks. Steps were also initiated to check the menace of money laundering/ terrorism financing, combating frauds, widening access to payment and settlement systems and improving customer service in banks. The Reserve Bank continued to spearhead the agenda of financial inclusion through policy initiatives combined with its outreach visits programme.

1. Introduction

3.1 Amidst an adverse external environment, the Indian economy during 2011-12 traversed a difficult terrain characterised by inflationary pressures, growth slowdown and deteriorating fiscal and external sector balances. Against the backdrop of a difficult macroeconomic setting, monetary policy had the difficult task of reining in inflation, arresting the growth slowdown, providing adequate liquidity in the system to ensure non-disruptive functioning of the financial markets and containing volatility in the forex market. The Reserve Bank continued to maintain an anti-inflationary stance up till mid-December 2011. With the emerging evidence on growth slowdown, the Reserve Bank front-loaded its action and cut the policy rates in April 2012, before reverting to pause mode in the wake of persisting inflationary pressures.

3.2 The Indian banking industry has largely remained insulated from the global financial turbulence. The global crisis brought to the fore the flaws in the Basel II prudential regulatory framework, micro-supervisory approach and its procyclical nature. Though the need for reorienting prudential policies to have a macro dimension was recognised the world over after the crisis of 2008, India was well ahead in adopting macro-prudential policies even before the crisis. Nonetheless, in the light of lessons from the global financial crisis, the Reserve Bank has been constantly reviewing and refining its regulatory and supervisory policies to ensure a strong capital base, effective risk management and best corporate governance standards in the banking sector. In recent years, the focus has also been on improving credit delivery, customer service and promoting financial inclusion.

3.3 The Reserve Bank continued to undertake several policy initiatives during the year to make the Indian banking system sound, resilient and inclusive, consistent with the developments in global regulatory reforms. This chapter traces the major developments in various areas of banking sector policy, with greater focus on regulatory and supervisory initiatives undertaken during 2011-12.

2. Monetary Policy

Monetary policy attuned to containing inflation and mitigating the risks to growth slowdown

3.4 The monetary policy stance during 2011-12 was shaped by the overarching priorities of controlling inflation and arresting the growth slowdown. While in the first half, monetary policy had to address the risk of entrenchment of inflationary pressures and elevated inflation expectations, during the second half, with signs of marked deceleration of domestic growth, monetary policy sought to strike a balance between the objectives of growth stabilisation and low and stable inflation. Concomitantly, with liquidity deficit breaching the indicative comfort zone for an extended period due to both frictional and structural factors, the Reserve Bank had to embark on an active liquidity management with a slew of measures including OMOs to inject durable liquidity, so as to ensure non-disruptive functioning of the domestic financial markets. This also posed a challenge for monetary policy in effectively communicating the intent of liquidity-easing steps as distinct from its monetary policy stance.

3.5 The headline WPI inflation during April-November 2011 remained stubbornly high, averaging at 9.7 per cent. Treading the path of an anti-inflationary stance, the Reserve Bank raised its key policy repo rate five times by 175 basis points during April-November 2011. From the beginning of the fourth quarter of 2011-12, while there were growing indications of a moderating inflation on account of deceleration in food inflation, the downside risks to growth were clearly on the rise. In addition, the deficit liquidity conditions persisted way beyond the comfort zone of the Reserve Bank. Considering that such structural liquidity constraints in the economy, if not addressed, could lead to disruption in credit flow and exacerbate growth risks, the Reserve Bank reduced the CRR by 125 basis points effective January 28, 2012 and March 10, 2012. Keeping in view the growth slowdown, the Reserve Bank front loaded the policy rate reduction by bringing down the key policy repo rate by 50 basis points to 8 per cent on April 17, 2012. Further, based on an assessment of the prevailing macroeconomic situation, the Reserve Bank cut the CRR by 50 basis points to 4.25 per cent effective September 22, 2012 and November 3, 2012. Taking its cue from the Reserve Bank's change in the policy rate, banks have responded by attuning their deposit and lending interest rates.

3.6 Even as core inflation moderated, it continued to be well above the historical trend. Headline inflation continued to remain sticky, even as growth moderated. Monetary policy, in such a scenario had to maintain a fine balance, such that, while addressing short-term growth concerns, price stability is maintained to ensure sustainable growth over the medium-term.

Deregulation of savings bank deposit rate to bring finer pricing in savings deposits

3.7 The continued regulation of savings deposit rate hampered competition with both banks and depositors acting passively, which reduced its relative attractiveness and inhibited product innovation. Moreover, in recognition of the fact that deregulation of interest rate on savings deposits would make the rate flexible and facilitate monetary transmission, the Reserve Bank during 2011-12 initiated two major changes on the liability side of banks' balance sheet, *viz.,* (a) deregulation of savings bank deposit interest rate effective October 25, 2011 and (b) deregulation of interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident External (NRE) accounts, and savings deposits under Non-Resident Ordinary (NRO) accounts effective December 16, 2011. The transition phase in the post-deregulated period for each of these items has been smooth so far. With these reforms, on the liability side, current account deposits, Foreign Currency Non-Resident (Banks) [FCNRB] deposits and borrowings under overseas line of credit continue to remain regulated by the Reserve Bank. On the assets side, buyers credit to importers continues to be regulated.

Hike in interest ceiling on FCNR (B) deposits to attract foreign currency inflows

3.8 With a view to augmenting foreign currency inflows into the economy, the interest rate ceiling on FCNR(B) deposits was raised to LIBOR/ Swap rates *plus* 200 basis points for 1-3 year maturity and LIBOR/ Swap rates *plus* 300 bps for 3-5 year maturity, effective May 5, 2012 from LIBOR/ Swap rates *plus* 125 basis points for 1-5 year maturity earlier. The interest rate ceiling for overseas line of credit for exporters by banks is currently at 6 months LIBOR/ EURO LIBOR/ EURIBOR *plus* 250 basis points effective November 15, 2011, subject to a review as and when warranted. The current all-in-cost ceiling on buyers credit is at 6 months LIBOR *plus* 350 basis points, subject to a review based on experience gained in this regard.

Deregulation of export credit interest rate to facilitate foreign currency loans

3.9 The interest rate on export credit in foreign currency was deregulated effective May 5, 2012. This measure is expected to increase foreign currency loans to exporters.

Enhanced liquidity cushion for banks under MSF

3.10 With a view to contain volatility in the overnight inter-bank money market, the Marginal Standing Facility (MSF) Scheme was introduced effective May 9, 2011, under which scheduled commercial banks (SCBs) were allowed to borrow overnight up to one per cent of their respective Net Demand and Time Liabilities (NDTL) without the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility. Effective December 21, 2011, banks were also permitted to avail of funds from the Reserve Bank under the MSF against their excess SLR holdings. In order to provide a greater liquidity cushion, the borrowing limit was further raised to 2 per cent of NDTL effective April 17, 2012.

Bank Rate aligned with MSF Rate

3.11 In the context of changed operating procedure of monetary policy, the policy repo rate and the MSF rate have become operational, while the Bank Rate continued to remain at 6 per cent. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements. The Bank Rate is also used by several other organisations as a reference rate for indexation purposes. Being the discount rate as per the Reserve Bank Act, the Bank Rate should technically be higher than the policy repo rate. Therefore, the Reserve Bank felt that the Bank Rate should stay aligned with the MSF rate, which is instituted at 100 basis points above the policy repo rate. Accordingly, the Bank Rate was increased by 350 basis points from 6.0 per cent to 9.5 per cent per annum, with effect from February 13, 2012. This was a one-time technical adjustment to align the Bank Rate with the MSF rate rather than any change in the monetary policy stance. Consequently, the Bank Rate has remained aligned to the MSF rate.

3. Credit Delivery

3.12 The Reserve Bank has been laying considerable emphasis on ensuring adequate and timely credit at reasonable rates to different sectors of the economy. For achieving the objective of sustainable and inclusive economic growth, it is important to bring the under-served sectors/ sections of society within the banking fold. Against this backdrop, several initiatives were taken during the year, which include revising the priority sector norms to refocus direct agricultural lending by banks; extending the interest subvention relief to farmers to post-harvest operations; setting up a new short-term refinance facility for on-lending to agriculture; providing debt relief under the

Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008; revising the Kisan Credit Card (KCC) Scheme to suit current requirements; and introducing measures to enhance the flow of credit to micro and small enterprises (MSEs). Steps were also taken during the year to promote Women SHGs in backward and Left-Wing Extremism (LWE)-affected districts of the country. Further, to make the approach and design of the SHG-Bank Linkage Programme more flexible, some client-friendly product level changes were also made in tune with the changing requirements of customers.

Ambit of priority sector lending revisited

3.13 The changing economic conditions and experience from the operation of the priority sector lending scheme over the years led to a need for revisiting the priority sector guidelines and updating it in line with current national priorities. Accordingly, the Reserve Bank in August 2011 set up a Committee (Chairman: Shri M. V. Nair) to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues. The Committee submitted its report in February 2012. In the light of comments/ suggestions on the Committee's recommendations received from the various stakeholders, priority sector lending guidelines were revised by the Reserve Bank on July 20, 2012. Under the revised guidelines, there is no change in the overall target of priority sector since it was felt that fresh targets would distort the allocation of credit. However, in view of the growing network of foreign banks, it was felt that there is a need to relook into the preferential treatment given to them under priority sector lending. Accordingly, it was decided that foreign banks that have 20 branches or more will be subject to the same targets as domestic banks, to be achieved within a period of five years from April 1, 2013; in the case of other foreign banks, the existing overall target of 32 per cent would continue to apply.

3.14 The focus of the Committee was on direct lending by banks to small/ marginal farmers and micro enterprises. The revised guidelines aim to refocus direct agricultural lending to individuals, Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) engaged in agriculture and allied activities, while keeping the targets unchanged both under direct and indirect agriculture lending. Bank loans to farmers through entities like Primary Agricultural Credit Societies (PACS) ceded to or managed/ controlled by banks have been included under direct lending to agriculture. This would facilitate banks that do not have a wide presence in rural areas and would otherwise have difficulty in meeting the targets. In view of inadequate credit flow to the services sector, some changes were made by expanding the definition of the services sector to include services, which were not specifically listed earlier under priority sector lending, with a ceiling of `10.0 million per unit.

3.15 As per the revised guidelines, the items that would be reckoned under the priority sector include loans up to `2.5 million for housing in metropolitan centres (with population above 10 lakh) and `1.5 million at other centres; loans to individuals for education including vocational courses up to `1.0 million in India and `2.0 million abroad; loans for housing projects for economically weaker sections (EWS) and low income groups (LIG), provided the cost does not exceed `0.5 million per dwelling unit; loans to distressed farmers indebted to non-institutional lenders; loans to individuals other than farmers up to `50,000 to prepay their debt to non-institutional lenders; and loans to individuals to set up off-grid solar and other renewable energy solutions for households.

3.16 Further, in the light of discussions held with select banks on the operational issues and based on the feedback received, certain additions/ amendments were made in the guidelines on October 17, 2012. It was decided that loans up to `20 million to corporates including farmers' producer companies, partnership firms and co-operatives of farmers directly engaged in agriculture and allied activities will also be classified as direct finance to agriculture. The limit for loans under priority sector in respect of services provided by MSEs was raised to `20 million and and the cost of dwelling unit for housing projects for EWS and LIG categories was raised to `1 million. Further it was decided to include under priority sector, bank loans to Housing Finance Companies (HFCs) for on-lending for housing up to `1 million per borrower provided the interest rate charged to the ultimate borrower does not exceed the lowest lending rate of the lending bank for housing loans *plus* two per cent per annum.

Interest rate subvention relief to farmers extended to post-harvest operations

3.17 In order to make credit available at a reasonable cost to the farmers, it was announced in the Union Budget 2006-07 that the farmers would be made available short term credit at an interest rate of 7.0 per cent per annum, with an upper limit of `0.3 million on the principal amount. Towards this end, the Government of India announced interest subvention for public sector banks, RRBs and co-operative banks. The Union Budget 2011-12 provided interest subvention of 2 per cent for short-term production credit up to `0.3 million and enhanced the additional interest subvention for prompt-paying farmers to 3 per cent, so that the effective interest rate for such farmers would be 4 per cent. Further, the benefit of interest subvention has been extended to small and marginal farmers who have a Kisan Credit Card (KCC) for a further period of upto six months (post-harvest) against negotiable warehouse receipts. This is expected to discourage distress sale of crops by these farmers and encourage them to store their produce in warehouses. As announced in the Union Budget 2012-13, the scheme of interest subvention will continue for the year 2012-13 on the same lines.

New short-term refinance facility for on-lending to agriculture

3.18 With a view to provide adequate and timely credit to farmers, during 2011-12, it was decided to introduce a separate Short-Term Refinance Facility from NABARD for Central Co-operative Banks (CCBs) with sound financial position and a new line of short-term refinance support for public sector banks and RRBs for financing the PACS in such areas where CCBs are weak. The quantum of refinance is fixed at a uniform rate of 45 per cent of the Realistic Lending Programme. The facility is available at an interest rate of 4.5 per cent per annum provided that the rate charged to the ultimate borrower for crop loans upto `0.3 million does not exceed 7 per cent per annum.

Additional refinance facility for agriculture in the Eastern and North-Eastern Regions

3.19 NABARD extended additional refinance to the co-operative banks and RRBs in the Eastern and North-Eastern Regions (including hilly regions), which are disbursing crop loans upto `0.3 million per borrower at 7 per cent interest per annum. Accordingly, State Co-operative Banks (StCBs) and RRBs in the Eastern and North-Eastern Region are eligible to receive additional quantum of refinance of 5 per cent and 25 per cent, respectively, over and above the normal quantum of refinance. Further, the facility of additional refinance of 5 per cent was made applicable to banks in 28 districts of Eastern Uttar Pradesh.

Concessional refinance support for agriculture investment activities

3.20 The scheme to provide refinance at a concessional rate of 7.5 per cent per annum to banks was introduced in the year 2011-12 to ensure investments in agriculture to enhance the production and productivity of crops in the Eastern Region. The operative period of the scheme is two financial years, *viz.*, 2011-12 and 2012-13. Four activities, *viz.*, water resource development, land development, farm equipment (including tractor financing on group mode basis) and seed production area are covered under the Scheme. The banks were offered refinance *plus* support for (a) forming and linking of JLGs,

(b) awareness programmes for promoting the scheme, (c) organising sensitisation meets for branch officials and (d) training and capacity building needs of entrepreneurs identified under the Scheme.

Progress under the Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008

3.21 Under the ADWDR scheme, lending institutions were compensated by the Government of India in a staggered manner (Table III.1). The Government has so far released `525 billion in five installments. Of this, about `293 billion was passed on to NABARD for reimbursement to RRBs and co-operatives. Besides, an amount of `232 billion was released for reimbursement by the Reserve Bank to SCBs, Local Area Banks (LABs) and Urban Co-operative Banks (UCBs). Of this, as on September 10, 2012, an amount of `232 billion has been disbursed, while `0.81 billon is being held as balance in the relevant account by the Reserve Bank for further payments, if any, and/ or for refund to the Government of India.

New Electronic Kisan Credit Card to facilitate credit delivery to farmers

3.22 The Kisan Credit Card (KCC) has proved to be an innovative credit delivery mechanism to meet the production credit requirements of farmers in a timely and hassle-free manner. The scheme has been under implementation in the entire country and has received wide acceptability among bankers and farmers. With a view to simplifying and attuning the Scheme to suit current requirements and to facilitate the issue of Electronic Kisan Credit Cards, a Working Group (Chairman: Shri T.M. Bhasin), was constituted. Pursuant to its recommendations, a revised KCC scheme was put in place in May 2012. The salient features of the revised scheme include KCC limit to comprise crop loan portion, post-harvest expenses, consumption requirements, working capital and investment credit for agriculture and allied activities; all farmers/ owner cultivators, tenant farmers, oral lessees and share croppers to be eligible for finance under KCC; limit to be drawn through any delivery channel, such as ATMs, Business Correspondents (BCs), point of sale (PoS) and mobile-based transactions with agricultural input dealers and *mandis*; interest subvention/ incentive for prompt repayment; and loan against the warehouse receipt. The National Payments Corporation of India (NPCI) will design the KCC to be adopted by all banks.

Table III.1: Agricultural Debt Waiver and Debt Relief Scheme

(Amount in ` billion)

Lending Institutions	Amount Reimbursed by Government of India (in instalments)					
	First	Second	Third	Fourth	Fifth	Total
	Sept 2008	Jul 2009	Jan 2011	Nov 2011	Mar 2012	
RRBs and Co-operatives	175	105	12	0.4	0.0	293
SCBs, UCBs and LABs	75	45	101	10	1*	232
Total	250	150	113	11	1*	525

*includes ` 0.81 billion balance held by RBI.

Greater focus on lending to MSMEs

3.23 A High Level Task Force was constituted by the Government of India (Chairman: Shri T. K. A. Nair), to consider various issues relating to the Micro, Small and Medium Enterprises (MSMEs) in September 2009. The Task Force submitted its Report in January 2010. Pursuant to its recommendations, SCBs were advised that the share of micro enterprises in MSE lending should amount to 60 per cent. This is to be achieved in a phased manner, *i.e.*, 50 per cent during 2010-11, 55 per cent in 2011-12 and 60 per cent in 2012-13, with 10 per cent annual growth in the number of micro enterprise accounts and also 20 per cent y-o-y growth in MSE lending. The Reserve Bank is closely monitoring the achievements of targets by banks on a quarterly basis. The Reserve Bank has held one to one meetings with banks to know the constraints and also impress upon them to devise strategies to gear up the credit mechanism for the sector. It has also taken up the matter with the banks that have failed to achieve the targets prescribed by the Task Force.

Rural Infrastructure Development Fund (RIDF)

3.24 The RIDF was established in NABARD in 1995 as a repository of the shortfall in priority sector lending by commercial banks. The corpus of the fund for the year 2011-12 would be contributed by domestic scheduled commercial banks, having shortfall in achievement of priority sector lending target (40 per cent) and/ or agriculture lending target (18 pre cent) and/ or weaker sections lending target (10 per cent), as on the last reporting Friday of March 2011. Funds from RIDF are lent to State Governments for implementing rural infrastructure projects. Originally, the objective was to allocate these funds only to finance the funding gap, that is, to provide financing for projects that are nearly, but not fully, complete. RIDF funding is now available for 31 eligible activities relating to rural infrastructure projects. Since 1995-96, the Government has announced an annual allocation in each Union Budget to the Fund. Since RIDF I, the corpus has grown manifold and stood at `180 billion under RIDF XVII (2011-12). The total cumulative allocation across all tranches taken together stood at `1,525 billion including `185 billion under a separate window for funding rural roads under the Bharat Nirman Programme. Further, under RIDF XVII, `20 billion has been exclusively dedicated for the creation of warehousing facilities.

Microfinance

Revisiting the SHG Bank Linkage Programme

3.25 The SHG Bank Linkage Programme (SHG - BLP) continues to be the leading model in India's microfinance sector. To make the approach and design of SHG-BLP more flexible, guidelines were issued by NABARD on March 27, 2012 suggesting some client friendly product level changes in tune with the changing needs of customers under SHGs, such as allowing voluntary savings by members with surplus funds, which could be maintained separately or used for intra-group lending; providing need-based access to funds and longer tenure of credit from banks through the introduction of a cash credit system to obviate the need for frequent documentation and also delays in the renewal of loans; extending JLG or other non-collateral lending models of higher credit needs to smaller livelihood groups; a self-rating mechanism to improve the quality of the group; and developing federations to continuously guide, nurture and cater to the needs of the groups.

Promotion of women SHGs in backward and LWE districts

3.26 A scheme for promotion and financing of Women Self-Help Groups (WSHG) in association with the Government of India is being implemented across 150 backward and Left-Wing Extremism affected districts of the country. The scheme aims to encourage viable and self-sustainable WSHGs by involving NGOs/ support agencies, which shall promote and facilitate credit linkage of these groups with banks, provide continuous handholding support and also take responsibility for loan repayments. NABARD shall provide grant support of `10,000 per SHG to these NGOs and also bear the cost of training and other capacity-building initiatives.

Promotional assistance for capacity building of SHGs/ JLGs and MFIs

3.27 The Revolving Fund Assistance, Capital Support and Grant Support for rating provided to eligible microfinance institutions (MFIs) by NABARD out of the Microfinance Development and Equity Fund (MFDEF) has been discontinued from April 1, 2011 following the announcement in the Union Budget 2011-12. Accordingly, the existing MFDEF will henceforth be exclusively used for the purpose of training and capacity building support for SHGs and MFIs, supporting matured SHGs to undertake livelihood promotion activities and forming JLGs.

4. Financial Inclusion

3.28 In India, growth with equity has been the central objective right from the inception of the planning process. In this direction, the objective of financial inclusion is to provide financial services at affordable cost to those who are excluded from the formal financial system. This is vital for sustaining long-term equitable development, since a sizeable proportion of households/ areas do not have access to basic banking facilities, notwithstanding the existence of a vast institutional framework in the country. In recent years, there has been growing emphasis by the Government and the Reserve Bank on providing formal financial services to the hitherto unbanked/ under-banked areas. A multi-pronged strategy has been adopted to enhance the outreach of banking services across all sections of society. In order to achieve the objective of universal financial inclusion, banks have been directed to use a combination of strategies, which include: (a) provision of basic banking products; (b) introduction of the Business Correspondent/ Business Facilitator (BF) model; (c) relaxation of existing regulatory guidelines in the form of lenient Know Your Customer (KYC) norms; (d) enhanced use of technology; and (e) setting up financial literacy and credit counseling centres in districts to achieve greater outreach. During 2011-12, the Reserve Bank continued with the policy initiatives aimed at expanding the outreach of banking services to remote parts of the country.

Branch authorisation policy geared for greater rural outreach

3.29 Keeping in view the goal of bringing banking services to an identified 72,800 villages with a population above 2,000 by March 2012, and thereafter progressively to all villages over a period, banks were advised that while preparing their Annual Branch Expansion Plan, they should allocate at least 25 per cent of the total number of branches proposed to be opened during a year to unbanked rural (Tier V and Tier VI) centres. With the aim of providing enhanced banking services in Tier II centres, the general permission being granted to domestic scheduled commercial banks for opening branches in Tier III to Tier VI centres was extended to opening branches in Tier II centres (with population of 50,000 to 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting.

Inter-operability at retail outlets

3.30 In order to facilitate financial inclusion further, it was decided to permit inter-operability at the retail outlets or sub-agents of Business Correspondents *(i.e.,* at the point of customer interface), provided the technology available with the bank that has appointed the BC supports inter-operability, subject to the following conditions: (i) the transactions and authentications at such retail outlets or sub-agents of BCs are carried out on-line; (ii) the transactions are carried out on a core banking solution (CBS) platform; and (iii) the banks follow the standard operating procedures to be advised by the Indian Banks' Association (IBA). However, the BC or its retail outlet or sub-agent at the point of customer interface would continue to represent the bank that has appointed the BC.

Intermediate brick-and-mortar structure to facilitate Business Correspondents

3.31 Recognising the fact that the success of the BC model is dependent on the support provided and monitoring by the base branches of the concerned banks, the Reserve Bank had advised banks that they may establish outlets in rural centres, which are intermediate brick-and-mortar structures (Ultra-Small Branches) between the existing base branch and BC locations, so as to provide support to a cluster of about 8-10 BC units at a reasonable distance of about 3-4 kilometers. Such Ultra-Small Branches should have the minimum required infrastructure, such as a CBS, and would have to be managed full-time by bank officers/ employees. It is expected that such an arrangement would lead to efficiency in cash management, documentation, redressal of customer grievances and close supervision of BC operations. Further, BCs can operate from such Ultra-Small Branches, which would enhance their legitimacy and credibility in the area and boost confidence among the public to use their services.

Special Dispensation Scheme to improve bank presence in the North-Eastern Region

3.32 Under the Special Dispensation Scheme, the Reserve Bank had undertaken to reimburse a one-time capital cost and recurring expenses for five years to banks for setting up branches at agreed centres in the North-Eastern Region, and the State Governments had agreed to provide the necessary premises, security and rental accommodation for the bank staff. The special dispensation provided by the Reserve Bank would be available for only those branches that have been opened at allotted centres by June 30, 2012.

5. Prudential Regulatory Policy

3.33 The recent global financial crisis has redefined the broad contours of regulation of the banking sector. There is a growing recognition that regulatory and supervisory policies need to be strengthened, particularly by adopting a system-wide approach to counteract pro-cyclical movements in the banking sector. The regulatory initiatives by the Reserve Bank during the year continued to focus on adopting international best practices. The migration of commercial banks to the Basel II framework has made considerable progress and efforts are on to move towards advanced approaches. One of the important initiatives taken during the year was setting up the roadmap for Basel III implementation. Measures were also taken to examine the implementation of countercyclical capital buffers in India. Initiatives have also been undertaken to move towards a dynamic provisioning framework, aligning securitisation norms with international best practices, adopting sound compensation practices, setting up prudential limits on banks' investment in non-financial companies, checking the menace of money laundering/ terrorism financing activities and regulating foreign contributions to banks.

Migration to Basel II advanced approaches

3.34 The Basel II framework provides two broad methodologies, namely, the Foundation/ Standardised Approach and more advanced approaches, to banks to calculate the capital requirements for credit, market and operational risks. All the SCBs in India have been Basel II compliant as per the standardised approach with effect from April 1, 2009. In July 2009, the timetable for the phased adoption of advanced approaches was also placed in the public domain. Migrating to Basel II advanced approaches offers many benefits to banks which, *inter-alia*, include improvement in risk assessment and management, monitoring and reporting processes, accurate risk-adjusted pricing of products and efficient allocation of capital. Nonetheless, to adopt these advanced risk-sensitive approaches, banks also need to be more sophisticated in terms of overall risk management infrastructure, systems, practices and culture.

3.35 Banks desirous of moving to advanced approaches under Basel II have been advised that they can apply for migrating to advanced approaches of Basel II for capital calculation on a voluntary basis based on their preparedness and subject to the Reserve Bank approval. The appropriate guidelines for advanced approaches of market risk, operational risk and credit risk were issued in April 2010, April 2011 and December 2011, respectively. Banks are presently assessing their preparedness and applying to the Reserve Bank for migrating to advanced approaches.

Roadmap set for Basel III implementation

3.36 The Basel Committee on Banking Supervision (BCBS) issued a comprehensive reform package, "Basel III: A global regulatory framework for more resilient banks and banking systems" in December 2010. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. Consequently, the Reserve Bank issued final guidelines on Basel III implementation in Indian banks on May 2, 2012 after due consideration of the comments/ suggestions received from various stakeholders on the draft guidelines issued on December 30, 2011.

3.37 The guidelines issued by the Reserve Bank will become effective from January 1, 2013 in a phased manner. In order to allow banks to prepare and plan and also to minimise any unintended consequences arising out of higher capital requirements, a long phase-in period has been provided. The Basel III norms will be made fully applicable from March 31, 2018.

The key features of the guidelines are as follows:

(i) **Minimum capital requirements:** Total capital must be at least 9 per cent of risk-weighted assets (RWAs). Tier 1 capital must be at least 7 per cent of RWAs; and Common Equity Tier 1 (CET1) capital must be at least 5.5 per cent of RWAs.

(ii) **Capital Conservation Buffer (CCB)**: The CCB in the form of common equity of 2.5 per cent of RWAs is required to be maintained; and total capital with CCB will be 11.5 per cent of RWAs.

(iii) **Leverage ratio**: A non-risk-based Tier 1 leverage ratio has been prescribed. There will be a parallel run for the leverage ratio from January 1, 2013 to January 1, 2017, during which banks should strive to maintain a minimum Tier 1 leverage ratio of 4.5 per cent. The leverage ratio requirement will be finalised taking into account the final proposal of the Basel Committee.

3.38 The implementation period of Basel III capital requirements, including capital conservation buffer and regulatory deductions, will begin from January 1, 2013 and will be fully implemented by March 31, 2018, before the timeline (January 1, 2019) indicated in Basel III rules. In India, implementation of Basel III has been advanced by nine months to ensure that full implementation is co-terminus with the financial closure of banks (Table III.2).

3.39 As a prudential measure, the Reserve Bank has always prescribed minimum capital adequacy ratio 1 per cent higher at 9 per cent compared to 8 per cent stipulated by the Basel Committee under Basel I/ Basel II capital adequacy framework. The higher prescription has served Indian banking system well over the years. The higher capital adequacy norms will ensure that individual banks are stronger and internationally competitive. The higher prescription also enhances the resilience of the Indian banking system. It is important to consider that banks are exposed to certain risks, which cannot be properly explained and quantified. Therefore, such risks can be taken care of to a larger extent by the additional capital cushion. Besides the Basel Committee provides flexibility to national regulators in deciding the higher minimum capital requirements in their respective

Table III.2: Phase-wise Timeline for Basel III Implementation

(Per cent of RWAs)

Minimum Capital Ratios	Jan 1, 2013	Mar 31, 2014	Mar 31, 2015	Mar 31, 2016	Mar 31, 2017	Mar 31, 2018
Minimum Common Equity Tier 1 (CET1)	4.5	5.0	5.5	5.5	5.5	5.5
Capital Conservation Buffer (CCB)	-	-	0.625	1.25	1.875	2.5
Minimum CET1+ CCB	4.5	5.0	6.125	6.75	7.375	8.0
Minimum Tier 1 Capital	6.0	6.5	7.0	7.0	7.0	7.0
Minimum Total Capital	9.0	9.0	9.0	9.0	9.0	9.0
Minimum Total Capital + CCB	9.0	9.0	9.625	10.25	10.875	11.5
Phase-in of all deductions from CET1 (in %)	20.0	40.0	60.0	80.0	100.0	100.0

jurisdictions. Many regulators have prescribed higher capital adequacy requirements than the minimum prescribed by the Basel Committee.

Working Group to examine countercyclical capital buffers in India

3.40 Procyclicality has been among the identified underlying causes for the recent global financial crisis. Against this backdrop, the BCBS has prescribed the creation of a countercyclical capital buffer to protect the banking sector from periods of excess aggregate credit growth often associated with build-up of system-wide risk. This would enable the banking sector to have capital on hand to maintain the flow of credit even during periods of system-wide stress. To operationalise the system of a countercyclical capital buffer in India, an internal Working Group (Chairman: Shri B. Mahapatra) has been constituted within the Reserve Bank to examine the appropriateness of the credit-to-GDP guide and to consider other indicators that may be used for the capital buffer decision in the Indian context.

Efforts are on to move towards Dynamic Provisioning Framework

3.41 In the context of the recent global financial crisis, there has been a growing emphasis on a review of the impairment-accounting framework for financial assets, which is engaging the attention of accounting standard-setting bodies, the Basel Committee and other international bodies. To address the pro-cyclicality of provisioning requirements, efforts at the international level are being made to introduce dynamic provisioning framework. The Reserve Bank accordingly prepared a discussion paper on the dynamic provisioning framework and placed it on its website on March 30, 2012. The comments and feedback received from banks and other stakeholders on the discussion paper are currently under examination. Banks with the capability to calibrate their own parameters may, with the prior approval of the Reserve Bank, introduce the dynamic provisioning framework using the theoretical model indicated by the Reserve Bank. Other banks would have to use the standardised calibration arrived at by the Reserve Bank.

Revised guidelines on securitisation to align with international best practices

3.42 The market for securitisation of standard assets was growing significantly during the pre-financial crisis period. In order to ensure orderly development of the market, the Reserve Bank had issued a set of guidelines on securitisation of standard assets in February 2006. However, during the global financial crisis, market failures in securitisation, particularly securitisations of US subprime mortgages, played a precipitating role. Though the securitisation market in India is marked by relatively simple structures and stable ratings, concerns over asset quality have affected investor appetite for securitisation in the post-crisis scenario.

3.43 Post-crisis, international endeavours to better align the incentives of the originators and investors of securitisation by way of regulatory changes resulted in many new regulatory proposals being considered. The important features of such endeavours were a Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR). The regulations proposed that originators should be allowed to securitise assets only after demonstrating a minimum recovery performance and the originators should continue to have a stake throughout the life of the transaction by way of retention of a portion of the assets securitised. In order to adopt the best international practices, the Reserve Bank issued revised guidelines on securitisation transactions in May 2012. The guidelines have introduced norms on MHP, MRR, prohibition of securitisation of single loans, loan origination standards, standards of due diligence, *etc.*, with regard to securitisation transactions. Concomitantly, the Reserve Bank has issued a set of detailed guidelines on transactions involving transfer of assets through direct assignment of cash flows and the underlying securities to do away with the possible regulatory arbitrage that existed between the securitisation route and the direct assignment route.

Sound compensation practices among Indian banks

3.44 In the aftermath of the global financial crisis, the Financial Stability Board (FSB) brought out a set of principles and implementation standards on sound compensation practices in April and September 2009, respectively. The principles are intended to reduce incentives towards excessive risk-taking that may arise from the structure of compensation schemes. The principles call for effective governance of compensation and its alignment with prudent risk-taking, effective supervisory oversight and stakeholder engagement. Based on the FSB principles for sound compensation practices, the Reserve Bank had in July 2010 placed draft guidelines on compensation on its website, inviting public comments. Meanwhile, in October 2010 the BCBS brought out a consultative paper and issued the final paper in May 2011.

3.45 Taking into account the feedback received on the draft guidelines and the impact analysis carried out with the help of external consultants and methodologies prescribed by the BCBS on risk alignment, the Reserve Bank issued final guidelines in January 2012 applicable to all private sector and foreign banks operating in India. The guidelines are implemented from financial year 2012-13. These guidelines require the board of directors of banks to ensure effective governance of compensation of employees, alignment of compensation with prudent risk-taking and appropriate disclosure of compensation. The banks have also been advised that, as hitherto, private sector banks and foreign banks operating in India would be required to obtain regulatory approval for grant of remuneration to their whole-time directors/ Chief Executive Officers.

3.46 To undertake ongoing monitoring of the progress in implementing the FSB principles, the FSB has recently established a Compensation Monitoring Contact Group (CMCG) comprising experts from member jurisdictions, with regulatory or supervisory responsibility on compensation practices. The Reserve Bank is also a member of CMCG.

Prudential limits set on banks' investment in non-financial companies

3.47 Banks' investments in companies that are not subsidiaries are governed by Section 19(2) of the Banking Regulation Act, 1949. Hitherto, there was no requirement for obtaining prior approval of the Reserve Bank for such investments except in cases where the investee companies were financial services companies. It was, therefore, possible that banks could, directly or indirectly through their holdings in other entities, exercise control on such companies or have significant influence over such companies and, thus, engage in activities directly or indirectly not permitted to banks under Section 6(1) of the Act. This would be against the spirit of the provisions of the Act and is not considered appropriate from a prudential perspective. It was, therefore, decided to lay down prudential guidelines for banks' investments in companies that are not subsidiaries and are not 'financial services companies'. The revised guidelines prescribe prudential limits for bank's investments in non-financial companies in order to ensure that banks do not engage in activities that are not permitted under the Act.

Banks to identify/ assess risks of money laundering/ financing of terrorism

3.48 The Government of India constituted an Anti-Money Laundering (AML)/ Combating Financing of Terrorism (CFT) Risk Assessment Committee to present a comprehensive overview of AML/ CFT risk in the financial sector in a consolidated manner. As recommended by the Committee, banks/ FIs have been advised to take steps to identify and assess their ML/ TF risk for customers, countries and geographical areas as also for products/ services/ transactions/ delivery channels. In this regard, banks/ FIs are required to have in place policies, controls and procedures, duly approved by their boards, to effectively manage and mitigate their risk by adopting a risk-based approach and apply enhanced measures for products, services and customers with a medium or high risk rating.

Foreign Contribution (Regulation) Act, 2010 to regulate receipt of foreign contributions

3.49 The Government of India enacted the Foreign Contribution (Regulation) Act in 1976 to regulate the receipt of foreign contributions and acceptance of hospitality by various entities. Over the years, deficiencies in the existing Act were noticed. Accordingly, the Government enacted the new Foreign Contribution (Regulation) Act, 2010 and notified Foreign Contribution (Regulation) Rules, 2011 framed there under, which came into force from May 1, 2011. Banks were advised to ensure compliance with the relevant provisions of FCRA, 2010 through guidance under Section 36(1)(a) of the Banking Regulation Act, 1949.

Reduction in the validity period of cheques/ drafts

3.50 The Government of India constituted an Inter-Ministerial Group (IMG) on Street Financing as there were reports of certain persons misusing the existing 6 month validity of cheques/ drafts by circulating the same instrument as cash for 6 months. In compliance with the recommendations of the IMG, banks were advised that with effect from April 1, 2012, they should not make payment of cheques/ drafts/ pay orders/ banker's cheques bearing that date or any subsequent date, if they are presented beyond the period of three months from the date of such instrument.

Unique Customer Identification Code (UCIC) to enable better risk profiling of bank customers

3.51 Banks were advised to introduce UCIC for their customers in India. The UCIC will help banks to identify customers, track the facilities availed of, monitor financial transactions in a holistic manner and enable banks to have a better approach to risk profiling of customers. It would also smoothen banking operations for customers. The risk categorisation of customers, compilation, periodic updating of customer profiles and monitoring of accounts by banks are extremely important for effective implementation of KYC/ AML/ CFT measures. Banks were advised to complete the process of risk categorisation and compiling/ updating profiles of all their existing customers by end-March 2013 (Box III.1).

Box III.1: Unique Customer Identification Code for Banks' Customers in India

One of the fundamental building blocks of financial data is reference data about companies, organisations, firms and individual customers. An essential component of reference data is a systematic structure or code that uniquely identifies each entity/ individual. Around the globe, regulators are considering ways to create common identifiers. A unique Legal Entity Identifier is considered ideal for financial data as it assists in improving regulation and risk management. The importance of creating a common system of identifiers has been recognised by the Financial Stability Board (FSB) and G-20 Finance Ministers and leaders. The FSB has been supporting the work by financial regulators and industry to establish a single global system for uniquely associating individuals/ institutions with financial transactions.

In India, banks are required to follow customer identification procedures while opening new accounts to reduce the risk of fraud and money laundering. While some banks in India have voluntarily developed a Unique Customer Identification Code (UCIC), in the absence of regulatory prescription, this practice was so far not followed uniformly by all banks. A UCIC will help banks to identify a customer, track the facilities availed of, monitor financial transactions in various accounts, improve risk profiling, take a holistic view of customer profiles and smoothen banking operations for the customer. In this regard, a working group constituted by the Government of India has proposed the introduction of unique identifiers for customers across different banks and financial institutions. While such a system for the entire financial system is desirable, it is likely to take some time for a complete roll-out.

Against this backdrop, the Reserve Bank has advised banks to initiate steps to allot a UCIC number to all their new customers to begin with. Banks have also been advised to allot UCIC to existing individual customers by the close of April 2013.

Grant of new bank licenses after the Amendment of the BR Act, 1949

3.52 It was announced in the Union Budget on February 26, 2010 that the Reserve Bank was considering providing additional banking licenses to private sector players, and non banking financial companies could also be considered, if they meet the required eligibility criteria. The Reserve Bank has accordingly prepared a discussion paper taking into account international practices and experience with private sector banks, and placed it in the public domain in August 2010. After examining the comments and suggestions received from the public and holding detailed discussions with all the stakeholders and the Government, the draft guidelines were prepared and placed in the public domain on August 29, 2011.

3.53 The draft guidelines stipulate conditions relating to eligible promoters, minimum capital, foreign shareholding, business model and desirable corporate structure and governance standards of the applicant group. As indicated in the draft guidelines, certain amendments to the Banking Regulation Act, 1949 are under consideration by the Government of India including a few that are vital for finalisation and implementation of the policy for licensing new banks in the private sector. The final guidelines will be issued and the process of inviting applications for setting up new banks in the private sector will be initiated only after the Banking Regulation Act is amended.

Enhancement of borrowing limit for FIs

3.54 As at end-March 2012, there were five financial institutions (FIs) under the regulation of the Reserve Bank, *viz.*, EXIM Bank, NABARD, National Housing Bank (NHB), Small Industries' Development Bank of India (SIDBI) and Industrial Investment Bank of India (IIBI). Of these, four FIs (EXIM Bank, NABARD, NHB and SIDBI) are under full-fledged regulation and supervision of the Reserve Bank. IIBI is under the process of voluntary winding-up. During 2011-12, in view of the difficulties expressed by NABARD and NHB, their aggregate borrowing limit has been enhanced to 11 times of their net owned funds (NOF) for one year, subject to a review. Further, the aggregate borrowing limit for EXIM Bank has been enhanced to 12 times of NOF for a period of one year, *i. e.*, up to August 31, 2013 due to fund constraints and thereafter it will revert back to 10 times of NOF. Additionally, borrowing under the umbrella limit for all four FIs has been enhanced from 100 per cent of NOF to 150 per cent of NOF for a period of one year, subject to a review. The guidelines on prudential norms issued to banks are also made applicable to select all-India FIs.

6. Supervisory Policy

Strengthening concurrent audit to combat frauds

3.55 A study of large-value frauds, including frauds under housing loan segment, reported by banks to the Reserve Bank was undertaken to identify gaps in the control mechanism that contributed to the perpetration of these frauds, particularly when the branches were also under concurrent audit. It was observed that a large number of frauds were perpetrated on account of the submission of forged documents by borrowers, which had been certified by professionals, *i.e.*, valuers/ advocates/ chartered accountants. In light of the findings of the study, banks were advised to enhance the efficacy of concurrent audit, *inter alia*, to ensure verification of title documents, especially for large-value loans; seek verification reports from local revenue authorities in the case of loans against the security of land; conduct independent verification of the authenticity of chartered accountants' certificates, property valuation certificates and legal certificates submitted by the borrower; and inculcate internal discipline, staff rotation, and a system of checks and balances.

A new return to capture interest rate sensitivity of banks

3.56 In terms of a notification dated November 4, 2010, a new return was introduced under DSB returns to capture banks' interest rate sensitivity under Duration Gap Analysis (economic value perspective) with effect from the quarter ended June 2011. The format of the extant report of the interest rate sensitivity under Traditional Gap Analysis (earnings perspective) has also been revised to capture the global position and the relevant currencies (against the existing reporting of domestic position and the Indian rupee).

BFS initiatives to strengthen the supervisory system of banks

3.57 The Board for Financial Supervision (BFS), constituted in November 1994, has been the chief guiding force behind the Reserve Bank's supervisory and regulatory initiatives. The BFS had 10 meetings during the period July 2011 to June 2012. The BFS examined, *inter alia*, the performance and the financial position of banks and financial institutions during 2009-10 and 2010-11, besides reviewing memorandum on inspection reports. It reviewed memorandum on 88 inspection reports of banks/ FIs. The BFS also reviewed summaries of inspection reports/ financial highlights pertaining to scheduled urban co-operative banks. Keeping in view the directions of the BFS, various initiatives were taken to strengthen the supervisory system of banks such as reviewing the coverage of the Annual Financial Inspection Reports and putting in place a revised format and the new guidelines; conducting thematic reviews on areas like real estate and KYC/ AML and appraising their findings to BFS; advising the foreign banks that the CEO should be held responsible for effective oversight over the audit process and its compliance; and advising banks not to include stamp duty, registration and other documentation charges for arriving at the eligible bank finance as these charges are not realisable.

HLSC recommends a risk-based supervisory approach for banks

3.58 The banking sector in India has witnessed considerable changes in recent years with significant growth in size, number and complexities in the banking business. To improve the quality of the Reserve Bank's supervisory processes/ techniques and benchmark them with global best practices, the Reserve Bank had set up a High-Level Steering Committee (HLSC) (Chairman: Dr. K. C. Chakrabarty), which submitted its report on June 11, 2012. The HLSC has recommended measures to transform the extant supervisory approach of examining past performance through a transaction-testing based (CAMELS) framework to a risk-based approach using trend analysis to find risk drivers and predict the path and passage of risks in the banks' books. The present 'one size fits all approach' of annual financial inspection of banks is intended to be replaced with a continuous supervision approach that is based on the risks posed by the bank to the supervisory objectives. The supervisory stance of the Reserve Bank based on the position of the bank in the risk matrix could be one of four - "Baseline Monitoring", "Close Monitoring", "Active Oversight" and "Corrective Action" - and would comprise specific supervisory actions to be initiated by the supervisor during the supervisory cycle. The risk assessment and the supervisory actions are intended to enable identification of risks and effective intervention at an early stage so as to minimise losses/ potential disruptions to the banking system. Overall, the Committee's recommendations are intended to encourage banks to adopt risk-based business conduct within an indicative timeframe through a system of incentives and disincentives. The Committee's recommendations are under examination for implementation. As a first step, banks have been advised of the decision to make transition to a risk based approach to supervision from the next supervisory cycle (2013-14). They have been advised to assess the status of their risk management architecture, culture, practices and related processes against certain essential requirements identified for the introduction of risk based supervision.

Strengthening supervisory/ regulatory framework for financial conglomerates under FSDC umbrella

3.59 One of the mandates for the Financial Stability and Development Council (FSDC) and its sub-Committee is supervision of Financial Conglomerates (FCs). To institutionalise the framework for supervision of FCs and monitoring and management of systemic risks emanating from the activities of FCs, the Sub-Committee of the FSDC has approved the creation of an Inter-Regulatory Forum under the Chairmanship of the Deputy Governor, Reserve Bank with Executive Director-level membership from other peer regulatory/ supervisory agencies. The Inter-Regulatory Forum would be responsible for framing policies for the FCs (such as identification, group-wide risk management, group-wide capital adequacy and corporate governance) as well as for conducting high-level supervision of FCs. The Forum would also try to strengthen the supervisory co-ordination/ co-operation mechanism among the domestic supervisors for effective supervision of FCs.

7. Regional Rural Banks

Recapitalisation to revive the financial position of RRBs

3.60 On accepting the recommendations of the Committee (Chairman: Dr. K. C. Chakrabarty) to study the current level of capital to risk-weighted assets ratio (CRAR) of RRBs and to suggest a roadmap for enhancing the same to 9 per cent by March 31, 2012, the Government of India announced a Recapitalisation Programme in 40 of the 82 RRBs to ensure that their CRAR level reaches 9 per cent by March 2012. The Government of India, along with other shareholders, decided to recapitalise the RRBs by infusing funds to the extent of ` 22 billion. The shareholder-wise GoI/ sponsor banks/ State Governments proportion and amount is 50:35:15 and `11 billion: `8 billion: `3 billion, respectively. The Government of India made a budgetary provision of `5 billion for the financial year 2011-12 for this purpose.

3.61 An amount of `10 billion was released to 27 RRBs in 16 States as on March 31, 2012. The recapitalisation is complete in respect of 16 RRBs (in Odisha, Madhya Pradesh, Uttaranchal, Assam, Arunachal Pradesh, Nagaland, Tripura, Jammu and Kashmir and Karnataka). Six State Governments (Manipur, Uttar Pradesh, West Bengal, Rajasthan, Mizoram and Jammu and Kashmir) have not released any amount in respect of 13 RRBs. Among the 16 fully recapitalised RRBs, as on March 31, 2012, 12 have achieved the stipulated CRAR of 9 per cent. Further, of the 82 RRBs, 15 RRBs have failed to achieve the stipulated CRAR level.

Branch expansion of RRBs to promote the agenda of financial inclusion

3.62 As part of the strategy to promote financial inclusion, the RRBs were advised to undertake an aggressive branch expansion programme, particularly in hitherto unbanked areas. With the help of technology and the consolidation of RRBs, staff can be judiciously deployed in branches in the expansion plan. As on March 31, 2012, RRBs had a network of 16,914 branches. As per the advice of the Government of India, RRBs were to open 2,000 branches in two years, *i.e.*, 2010-11 and 2011-12. Against this, RRBs have opened 521 branches during 2010-11 and 913 branches during 2011-12 and have fallen short of the target. The Government of India has advised all sponsor banks of RRBs that 10 per cent of the existing RRB branch network will be the target for the year 2012-13. Accordingly, RRBs will be required to open 1,700 branches during the year 2012-13.

3.63 Under the agenda of financial inclusion, 73,000 villages that are not covered by any bank and have a population of 2,000 and above were to be covered by RRBs through ICT-enabled Business Correspondents by March 31, 2012. RRBs have been allocated 20,000 villages and, at places where it is not viable to open a brick-and-mortar branch, the banks may start with Ultra-Small Branches (USBs); thereafter, at places where the bank reaches the desired level of business, the Ultra-Small Branches can be upgraded into regular bank branches.

Supervisory and regulatory initiatives for RRBs

3.64 During the year 2011-12, several policy initiatives were undertaken on supervision related matters of RRBs. These measures include revised guidelines to improve the fraud monitoring and reporting system; circulation of *modus operandi* of attempted fraud and best practices followed by some banks to strengthen the internal checks and control systems; conducting sensitisation workshops covering aspects related to implementation of KYC guidelines; ensuring compliance with the provisions of the Prevention of Money Laundering Act; internal checks and control system; corporate governance; and asset liability management.

8. Co-operative Banks

Urban Co-operative Banks

Internet banking permitted for eligible UCBs

3.65 Scheduled UCBs that have a minimum net worth of `1 billion, CRAR of at least 10 per cent, net NPA less than 5 per cent and have earned net profit continuously in the last three financial years were allowed to offer an internet banking facility with the approval of the Reserve Bank so as to enable them to serve their customers better.

Revision in housing loan limits and repayment period

3.66 UCBs in the Tier I category were permitted to extend individual housing loans upto a maximum of `3.0 million per beneficiary of dwelling unit; those in the Tier II category were permitted to extend individual housing loans upto a maximum of `7.0 million per beneficiary of a dwelling unit, subject to extant prudential exposure limits. Based on the representations received from the UCB sector, the maximum repayment period of housing loans granted by UCBs was revised from the present 15 years to 20 years.

Extension of interest rate subvention on Rupee export credit

3.67 With a view to encouraging exports in certain specified sectors, the Government of India decided to extend interest subvention of 2 per cent on rupee export credit for these sectors. Accordingly, the AD category 1 UCBs were advised of the decision to extend interest subvention of 2 per cent on pre-shipment and post-shipment Rupee export credit to these sectors from April 1, 2011 to March 31, 2012 and from April 1, 2012 to March 31, 2013, respectively.

Grant of NDS-OM membership to UCBs

3.68 NDS-OM is a screen-based electronic anonymous order matching system for secondary market trading in government securities owned by the Reserve Bank. At present, membership is open to entities like banks, primary dealers, insurance companies and mutual funds. UCBs that fulfill certain eligibility criteria were allowed direct access to the negotiated dealing system (NDS) order matching (OM), subject to obtaining prior approval from the Reserve Bank.

Submission of credit information to CIBIL and other credit information companies

3.69 UCBs were advised to submit quarterly, a list of suit-filed accounts of `10.0 million and above that were classified as doubtful or loss and a list of suit-filed accounts of willful defaulters of `2.5 million and above to the Credit Information Bureau of India Limited (CIBIL) and/ or any other credit information company that has obtained a Certificate of Registration (CoR) from the Reserve Bank and of which the bank is a member.

Supervisory Action Framework for UCBs

3.70 The Reserve Bank monitors and initiates supervisory actions based on its assessment of the financial position of UCBs. A Supervisory Action Framework was introduced for UCBs with effect from March 1, 2012. The framework envisages self-corrective action by the management of the UCBs themselves in the initial stage of deterioration in the financial position and supervisory action by the Reserve Bank in case the financial position of the bank does not improve.

Convergence of IAS with IFRS standards

3.71 As announced in the Annual Monetary Policy Statement 2010-11, UCBs with net worth in excess of `3 billion were advised to take necessary steps to ensure that they are in readiness to adopt the Indian Accounting Standards (IAS) converged with International Financial Reporting Standards (IFRS) from April 1, 2013 and those with net worth in excess of `2 billion but not exceeding `3 billion from April 1, 2014.

Revision of UCBs exposure to housing/ commercial real estate loans

3.72 The UCBs were earlier permitted to assume aggregate exposure on real estate, commercial real estate and housing loans upto a maximum of 10 per cent of their total assets, with an additional limit of 5 per cent of their total assets for housing loans upto `1.5 million. It was decided to permit UCBs to utilise the additional limit of 5 per cent of their total assets for granting housing loans up to `2.5 million, so that all priority sector housing loans are covered under this additional limit.

9. Non-Banking Financial Companies

Working Group to examine issues relating to gold loans

3.73 There has been a significant increase in loans by Non-Banking Financial Companies (NBFCs) against gold in the recent period. There are also complaints that some NBFCs are not scrupulously following the proper documentation process and KYC norms, among others, in order to quickly dispose of the cases relating to gold loans. Gold imports have also increased sharply, raising macroeconomic concerns. To undertake a detailed study of these aspects, a Working Group (Convener: Shri K. U. B. Rao) was constituted. The major terms of reference of the Group were: (i) to assess the trends in demand for gold loans and how they have influenced gold imports; (ii) to analyse the implications of gold imports for external and financial stability; (iii) to study the trends in gold prices and to examine whether NBFCs that extend gold loans play any role in influencing the price of gold; (iv) to examine the sources of funds of NBFCs for gold loans, especially their borrowings from the banking system; and (v) to examine the current practices of NBFCs involved in lending against the collateral of gold. The Working Group submitted its Report in August 2012.

10. Customer Service in Banks

Implementation of the Damodaran Committee recommendations to improve customer service in banks

3.74 The Committee on Customer Service in Banks (Chairman: Shri M. Damodaran) submitted its report in July 2011. The Committee made a total of 232 recommendations, of which 152 recommendations have since been implemented. The Reserve Bank has held discussions with the IBA, the Banking Codes and Standards Board of India (BCSBI), the Institute for Development and Research in Banking Technology (IDRBT) and the National Payment Corporation of India (NPCI) to work out the modalities for taking forward the implementation of the remaining recommendations. The IBA has now constituted a sub-group to examine the implementation of the remaining recommendations after studying the relevant international standards and best practices.

Abolition of foreclosure charges to lead to better pricing of home loans

3.75 The Committee on Customer Service in Banks (Chairman: Shri M. Damodaran) observed that foreclosure charges levied by banks on prepayment of home loans were resented by home loan borrowers across the board, especially since banks were found to be hesitant in passing on the benefits of lower interest rates to existing borrowers in a falling interest rate scenario. As such, foreclosure charges were seen as a restrictive practice that deterred borrowers from switching to a cheaper available source. It was, therefore, decided that banks would not be permitted to charge foreclosure charges/ pre-payment penalties on home loans on a floating interest rate basis, with immediate effect. The removal of foreclosure charges on home loans will lead to a reduction in the discrimination between existing and new borrowers, and the competition among banks will result in finer pricing of home loans with the floating rate.

Banks to offer basic savings bank deposit account to all customers

3.76 To take forward the agenda of financial inclusion, in November 2005, the Reserve Bank advised the banks to make available a basic banking 'no-frills' account with either 'nil' or very low minimum balance as well as charges that would make such accounts accessible to vast sections of the population. The experience since the introduction of 'no frills' accounts highlights the fact that banks had taken this initiative more to achieve their targets on compliance. On a review, it was decided to modify the guidelines on opening of basic banking 'no-frills' accounts and make basic banking facilities available in a more uniform manner across the banking system. In the Annual Monetary Policy Statement 2012-13, it was announced that banks should offer a 'basic savings bank deposit account' with certain minimum common facilities and without the requirement of a minimum balance to all their customers. This would also take care of customer grievances regarding charges for non-maintenance of a minimum balance.

Banks to ensure minimal variation in interest rates on deposits

3.77 Despite the stipulation by the Reserve Bank that banks should not discriminate in the interest rate paid on deposits, except in respect of fixed deposit schemes specifically meant for resident Indian senior citizens and single term deposits of `1.5 million and above, wide variations were observed in banks' retail and bulk deposit rates, making it unfair to retail depositors. Banks were also offering significantly different rates on deposits with very little difference in maturities. This suggested an inadequate liquidity management system and inadequate pricing methodologies among banks. In the Annual Monetary Policy Statement 2012-13, the Reserve Bank, therefore, announced that banks should have a Board-approved transparent policy on pricing of liabilities and they should also ensure that variation in interest rates on single term deposits of `1.5 million and above and other term deposits is minimal.

Facilitating intra-bank deposit accounts portability

3.78 Some banks were insisting that customers open a fresh account when the customer requested a transfer of account from one branch to another branch of the same bank. This practice, which required the customer to undergo KYC procedure again, was causing inconvenience, resulting in poor customer service. Under the core banking solution environment, this practice was not reasonable. Banks were, therefore, advised that if full KYC was done by one branch of the bank, it should be valid for transfer of the account within the bank. The customer should be allowed to transfer his/ her account from one branch to another branch without restrictions. In order to comply with KYC requirements of correct address of the person, fresh address proof may be obtained upon such transfer by the transferee branch.

Banks to levy fair service charges for outstation cheques and speed clearing

3.79 The Reserve Bank accorded banks the freedom to determine collection charges for cheques valuing above `0.1 million cleared through speed clearing and the out-station cheque clearing mechanism, subject to such charges being levied in a fair and transparent manner. The term 'fair and transparent manner', *inter-alia*, included fixing the service charges on a cost-*plus* basis. However, there were instances of banks levying charges as an arbitrary percentage of the value of the instrument. The Reserve Bank, therefore, advised such banks to review and fix the charges on a cost-*plus* basis. Banks were also advised to ensure that the collection charge fixed for instruments valuing `0.1 million is lower under speed clearing *vis-à-vis* out-station cheque collection, so as to encourage the use of speed clearing.

11. Financial Markets

Steps to strengthen the PD system

3.80 Various policy initiatives were taken during the year 2011-12 to strengthen the primary dealers (PDs) system. Final guidelines on the authorisation of PDs were issued on August 30, 2011, covering, *inter-alia*, seasoning requirement to become PDs, minimum turnover in government securities on behalf of mid-segment and retail investors and the exit/ termination process. With a view to providing market participants a tool to transfer and manage the credit risk associated with corporate bonds, the Reserve Bank introduced Credit Default Swaps (CDS) on corporate bonds in November 2011. Standalone PDs can undertake transactions in CDS, both as market-makers as well as users. As a user, a PD can use CDS to hedge credit risk in corporate bonds held in its trading book.

Administrative steps to curb volatility in the forex market

3.81 In view of the volatility in the Indian forex market during 2011-12, especially the depreciation of the INR against the USD by more than 20 per cent since August 2011, a number of administrative measures were initiated by the Reserve Bank on December 15, 2011 such as withdrawing the facility of cancellation and rebooking of contracts available under contracted exposure to residents and foreign institutional investors (FIIs); reducing the limit under past performance facility for importers to 25 per cent of the current limit available; making the past performance facility available to exporters and importers only on delivery basis; making all transactions by the ADs on behalf of clients be undertaken for actual remittances/ delivery only, which could not be cancelled/ cash settled; reducing the Net Overnight Open Position Limit (NOOPL) of ADs; and specifying that the intra-day position/ daylight limit of ADs should not exceed the existing NOOPL approved by the Reserve Bank.

3.82 Guidelines were also issued on May 10, 2012, stipulating that out of the balances in the Exchange Earners' Foreign Currency (EEFC) accounts, 50 per cent should be converted forthwith into rupee balances and credited to the rupee accounts within a fortnight. Further, in respect of all future forex earnings, an exchange earner is eligible to retain 50 per cent (as against the previous limit of 100 per cent) in non-interest-bearing EEFC accounts. The balance 50 per cent shall be surrendered for conversion to rupee balances.

3.83 The Reserve Bank initiated further measures to contain volatility in the foreign exchange market on May 21, 2012. These include: the current NOOPL of the banks as applicable to the positions involving the Rupee as one of the currencies shall not include the positions undertaken in the currency futures/ options segment in the exchanges; the positions in the exchanges cannot be netted/ offset by undertaking positions in the OTC market and *vice versa;* the positions initiated in the exchanges shall be liquidated/ closed in the exchanges only; and the position limit for the trading member AD

Category I bank in the exchanges for trading currency futures and options to be US$ 100 million or 15 per cent of the outstanding open interest, whichever is lower. In order to provide some operational flexibility to exporters, they were allowed to cancel and rebook 25 per cent of the total contracts booked for hedging their export exposure on July 31, 2012.

3.84 Further, on a review on July 31, 2012, it was decided to restore the erstwhile stipulation of allowing credit of 100 per cent foreign exchange earnings to the EEFC account subject to the condition that the sum total of the accruals in the account during a calendar month should be converted into Rupees on or before the last day of the succeeding calendar month after adjusting for utilisation of the balances for approved purposes or forward commitments.

Caution against fictitious offers like cheap funds/ lottery winnings from abroad

3.85 The Reserve Bank has launched several public awareness campaigns to fight the menace of fictitious offers of cheap funds from abroad through advertisements in the electronic and print media, letters to colleges/ schools and interactive/ training sessions with police personnel by the Regional Offices. The Reserve Bank has given the list of nodal agencies with whom the public can register complaints on its website. In this regard, a detailed Press Release was issued on February 6, 2012. It has also been decided to include fictitious offers as one of the agenda items of the State Level Security Committee Meeting. Campaign against fictitious offers has been included as part of the outreach programme of the Bank.

3.86 The IBA has been advised to publicise the issue among member banks. All SCBs have been advised that they would be held responsible for losses incurred by customers if they are found to be in violation of the regulations, KYC/ AML and/ or other regulatory/ statutory requirements relating to remittance towards participation in lottery, money circulation schemes and other fictitious offers of cheap funds. Co-operative banks have also been sensitised in the matter.

12. Payment and Settlement Systems

3.87 The regulatory initiatives of the Reserve Bank during the year were guided by the mission statement laid down in the Payment Vision Document 2009-12. The major policy initiatives taken during the year include the following.

Express cheque clearing system operationalised

3.88 The Express Cheque Clearing System (ECCS) introduced in 2011 for non-MICR[1] clearing houses with the facility of speed clearing for out-station cheques has been operationalised at 1,170 out of 1,241 centres (as on June 30, 2012).

Expansion of Cheque Truncation System (CTS)

3.89 The scope of the CTS was expanded by introducing grid-based CTS in Chennai. The grid clearing allows banks to present/ receive cheques to/ from multiple cities to a single clearing house through their service branches in the Chennai grid location. The pan-India roadmap for rolling out the grid-based CTS across the country has also been finalised by NPCI, which has been entrusted with this task.

Access criteria revised to enable wider access to electronic payment systems

3.90 In order to facilitate wider access to payment systems and strengthen the risk management framework, the access criteria were revised in September 2011. Two sets of access criteria, *viz.*, one for centralised payment systems and the other for decentralised payment systems, were accordingly laid down. The revised and rationalised criteria enable access to both

[1] Clearing house where cheque sorting is not mechanised.

centralised and decentralised payment systems based on CRAR, NPA, networth and the recommendation of the regulatory department. Under the new access criteria, approval has been accorded to 53 banks as on June 30, 2012 for becoming members of the centralised payment systems. A sub-membership route was also introduced in April 2012 to enable all licensed banks to participate in the centralised payment systems. This was in addition to the facility provided to RRBs to participate in National Electronic Fund Transfer (NEFT) through their Sponsor banks. As on June 2012, 71 out of 82 RRBs (12,000 RRB branches) were participating in NEFT.

3.91 Banks that were managing clearing houses/ processing centres were permitted to levy processing charges with effect from July 2011 from the originating banks. Service charges for outward transactions in the RTGS System were also introduced from October 2011.

Criterion for pre-paid payment instruments relaxed to provide impetus to alternate payment channels

3.92 The guidelines for pre-paid payment instruments (PPIs) were first issued in the year 2009. During the year 2011-12, around 591 million PPIs were issued for a value of over `70 billion. The average monthly issuance of PPIs was about 49 million for a value of `6 billion. The growth in the issuance of PPIs is yet to gain substantial traction. In order to provide impetus to this payment channel, the following relaxations were effected: (i) mobile wallets (a category of PPIs), that could earlier be issued up to `5000 were brought on par with other PPIs by raising the limit to `50,000; (ii) banks were permitted to issue PPIs to listed corporates, with the verification of employee identity being the responsibility of the corporate concerned. Additionally, rationalisation in the categorisation and value limits of PPIs was effected by introducing three broad categories such as (a) instruments up to `10,000 can be issued in electronic form with minimum details of the customer, (b) instruments from `10,001 to `50,000 can be issued in electronic but non-reloadable form by accepting any 'officially valid document' defined under the Prevention of Money Laundering Act, and (c) instruments up to `50,000 with full KYC can be reloadable in nature. The extant domestic fund transfer scheme was also rationalised to enable person to person fund transfer. Simultaneously, the escrow mechanism has been strengthened by mandating the non-bank entities that the escrow account should be credited immediately as and when the issuer/ agent/ distributor sells a PPI to the end-user. It has been reiterated that the balances in the escrow account should be adequate to cover the outstanding balances on the PPIs with end-users and the obligations to merchants arising out of the usage of PPIs by the end users at any given point of time.

Promotion of mobile banking to step up financial inclusion

3.93 Mobile banking transactions refer to banking transactions through mobile phones by bank customers that involve credit/ debit to their accounts. To enhance usage through mobile banking, the threshold limit of transactions permitted without end-to-end encryption was raised from `1,000 to `5,000. Further, the limit of `50,000 per transaction was done away with by permitting banks to fix the limits based on their own risk perception. With "for-profit" companies being allowed to act as Business Correspondents, which include mobile network operators (MNOs), it is expected that this unique bank-MNO partnership model being piloted in India will provide a boost to mobile payments and help in financial inclusion, given the wide network of the MNOs in terms of providing mobile services to their customers.

White Label ATMs to provide access in un-banked/ under-banked areas

3.94 To deepen the ATM infrastructure in the country especially in Tier III to Tier VI centres, non-banks have been permitted to set up, own and operate White-label ATMs (WLAs) in India. To operate WLAs, entities need to obtain authorisation from the Reserve Bank as laid down under the Payment and Settlement Systems Act, 2007. They can choose any one of the three schemes as laid down in the guidelines. To spread the ATM infrastructure in under-banked areas, it has been mandated that 10 per cent of the new WLAs under any scheme must be installed in Tier V and VI centres. This initiative is expected to expand the availability of access points for payment services (Box III.2).

Enabling migrant population to access the formal money transfer system

3.95 To bring in the migrant population that is financially excluded into the formal banking fold, the domestic money transfer guidelines were relaxed in October 2011 to provide for fund transfer without the need for bank accounts at both ends. (For details refer to Box. No. IX.1 of the Annual Report 2011-12)

Payment Systems in India: Vision 2012-2015 aims to make payment system safe, secure and inclusive

3.96 The Payment System Vision Document 2012-15 has been released. The document sets out the path for the period 2012-15 to enable the payment systems to meet the growing payment needs of the country. Towards this end, the Vision Document outlines the course of action over the three-year period to make the payment systems in the country safe, efficient, inter-operable,

Box III.2: White-Label ATMs (WLAs)

The Automated Teller Machine (ATM) has been hailed as one of the most innovative and revolutionary technological developments in the history of banking. The channel, which was initially a medium for disbursal of cash to customers at bank branches, has now developed into a touch-point for delivery of a wide variety of banking services at branches and convenient off-site locations. Though banks initially owned and deployed their own ATMs, over time this has undergone a broad change, with banks now preferring outsourcing all or many of the activities associated with ATM operations - starting from deployment, maintenance, cash loading and technology upgrading. This has helped them reduce their operational costs and stay more focused on their core business.

Internationally, in addition to bank-owned and deployed ATMs, Independent ATM Deployers (IADs) and Independent Service Organisations (ISOs) are engaged in the ATM business. Such ATMs are called White-label ATMs (WLAs). IADs and ISOs are almost similar in their operations, barring the following differences:

(i) ISOs are usually larger operators that own and deploy ATMs and the entire related infrastructure. They have a sponsorship arrangement with the banks for cash loading and services. The relationships with sponsor banks are guided by local regulatory requirements. The ISO scheme works either through a single sponsor bank or the multi-sponsor bank model.

(ii) In the IAD model, the entities concentrate on investment in the assets (ATMs). They own the ATM and connect to any existing network provider for the payment infrastructure. The IADs can include entities ranging from individual business owners to large retail outlets/ supermarkets. Such entities do not have a direct arrangement with any bank for any aspect related to the operation of such ATMs, including cash loading.

Under both models, an additional important revenue source is through on-site advertisements. A large portion of the revenue for the IAD/ ISO is generated through such advertisements.

ATMs and WLA Scheme in India

The number of ATMs in the country stands at 98,074, of which 38 per cent are owned by private sector banks, 33 per cent by public sector banks, 27 per cent by the SBI and Associates, and 2 per cent by foreign banks. There has been a 30 per cent year-on-year growth in the number of ATMs deployed in the country since 2008, but the penetration of ATMs in Tier III to Tier VI centres remains below the desired level. In order to ensure deeper penetration of ATMs in unbanked/ under-banked areas, the Reserve Bank has permitted White-Label ATMs in the country to supplement the existing ATM schemes operated by banks. Under the policy guidelines, non-bank entities incorporated in India under the Companies Act, 1956 would be authorised to set up, own and operate ATMs in India, which will provide banking services to the customers of banks in India, based on the cards (debit/ credit/ pre-paid) issued by banks. Such non-bank entities should have a minimum net worth of `1 billion as per the latest financial year's audited balance sheet, which is to be maintained at all times. The model envisages that cash management and customer redressal would continue to be the responsibility of the sponsor banks. The scheme offers scope for large volumes, especially in unbanked/ under-banked areas. It is expected that WLA operators in India will use the features of the IAD and ISO models, as permitted under the guidelines, and collaborate closely with the sponsor banks.

authorised, accessible, inclusive and compliant with international standards. The vision proactively aims to encourage electronic payment systems for ushering in a less-cash society in the country.

Oversight of payment and settlement systems

3.97 The Reserve Bank exercises and carries out its oversight functions, through on-site inspections, off-site surveillance complemented by market intelligence under the powers derived under the Payment and Settlement Systems Act, 2007. Eleven entities including the National Payments Corporation of India (NPCI) were inspected during 2011-12. As a part of the off-site surveillance mechanism, data pertaining to payment systems are being collected in structured templates through the Online Return Filing System (ORFS).

13. Technological Developments

Banks conduct business continuity/ vulnerability assessment and penetration tests

3.98 Today technology plays a very important role in driving banking business. In view of the increasing dependence on technology, managing business continuity remains a challenge for overall financial stability. It is, therefore, important for the banks to put in place appropriate Business Continuity Plan (BCP). Further, in order to test their CBS and other internal systems to handle unforeseen disruptions, it is important for the banks to conduct Disaster Recovery (DR) Drills on a regular basis. It is also important that these arrangements are subject to periodic testing. Further, considering that cyber attacks could threaten the confidentiality, integrity and availability of data and the systems, it is imperative for the banks to conduct Vulnerability Assessment and Penetration (VAPT) Tests periodically to prevent any such attacks. This information is received by the Reserve Bank on a quarterly basis; the summary of which is taken as an input for the Financial Stability Report. Banks have also been advised to obtain the approval of their Board/ Top Management for BCP/ DR/ VAPT calendars.

Putting in place appropriate frameworks for IT and IS governance

3.99 As announced in the Annual Monetary Policy Statement 2012-13, adoption of well-structured IT governance models will assist banks in enabling better alignment between IT and business, create efficiencies, enhance conformity to internationally accepted best practices and improve overall IT performance, as also enable better control and security. In order to achieve these objectives, banks need to move towards adoption of well-structured IT governance models. Further, banks are increasingly relying on various IT based channels to operate their businesses and market interactions. Ability of banks to take advantage of new opportunities is largely contingent upon their capability to provide accessible and secure service channels. However, this would also increase their exposure to technology and operational risks, which have potential implications for individual banks as also for the entire financial sector. Adoption of comprehensive information security (IS) frameworks suiting the prevalent banking environment, business goals, processes, people and technology will be imperative to meet these challenges. Therefore, banks have been advised to take suitable steps to adopt appropriate frameworks for IT and IS governance and put in place the proper structure and systems, which would ensure that the issues relating to governance, information security and business continuity get adequate attention at the Board level.

14. Banking Sector Legislation

3.100 During the year, a number of legislative changes were initiated to review the laws pertaining to the banking sector. The most important development has been the move towards setting up the Financial Sector Legislative Reforms Commission, which would pave the way for the examination and review of the extant architecture of the legislative and regulatory system governing the financial sector in India.

(A) Factoring Regulation Act, 2011

3.101 The Factoring Regulation Act, 2011 came into force on April 2, 2012. The Act provides a regulatory framework under which factors would be required to register with the Reserve Bank. The Reserve Bank has been empowered to issue directions, call for information and prohibit financial institutions from undertaking factoring business if they fail to comply with its directions. Penalties are provided for non-compliance with the directions of the Reserve Bank. It enables any company, big or small, to register with the Reserve Bank for conducting the business of factoring, which is made subject to the provisions of Chapter IIIB of the Reserve Bank of India Act, 1934 as well as the Factoring Regulation Act. It is expected that financing against receivables will pick up with the required registration of assignments with the Central Registry (constituted under the SARFAESI Act, 2002). This will reduce the risk in multiple financing against the same receivables and is a significant milestone towards fewer NPAs for banks. Even companies that do not have financial activity as their principal activity would now come within the regulatory ambit of the Reserve Bank.

(B) The Coinage Act, 2011 consolidates laws relating to Coinage and Mints

3.102 The Coinage Act, 2011 came into force on March 28, 2012. The Act seeks to consolidate the laws relating to Coinage and the Mints, and repeals the earlier Coinage Acts. It prohibits the making, melting or destroying of coins except by persons authorised by the Government of India and prescribes penalties for contravention of these provisions. Bringing in a piece of metal to be used as a coin by sea, land or air without the permission of the Government continues to be prohibited.

(C) The EXIM Bank (Amendment) Act, 2011 strengthens its capital base

3.103 The Export-Import Bank of India (Amendment) Act, 2011 came into force on February 1, 2012. The Act provides for an increase in the authorised capital of EXIM Bank from ` 20 billion to `100 billion. It also provides for the appointment of two whole-time directors by the Central Government to the Board of EXIM Bank.

(D) The Constitution (97th Amendment) Act, 2011 to promote democratic and professional management of co-operatives

3.104 The Constitution (Ninety-seventh Amendment) Act, 2011 came into force on February 15, 2012. The Act adds a new Directive Principle of State Policy, which requires the State to promote voluntary formation, autonomous functioning, democratic control and professional management of co-operative societies. Part IX B in the Constitution empowers Parliament in respect of Multi-State Co-operative Societies and State legislatures in the case of other co-operative societies to make an appropriate law for the incorporation, regulation and winding up of co-operative societies. This law would be based on the principles of democratic member-control, member-economic participation and autonomous functioning, and would specify that the maximum number of directors of a co-operative society should not exceed 21 members with a fixed tenure of five years from the date of election in respect of the elected members of the Board and its office bearers. The State Legislature will have to ensure that the State laws adhere to the principles laid down in the Constitution and State interference will be reduced. The Amendment states that the provisions of the Banking Regulation Act, 1949 relating to supersession and suspension of the Board of Directors will be applicable to co-operative societies that carry out banking activities.

(E) Enforcement of the Security Interest and Recovery of Debts Laws (Amendment) Bill, 2011

3.105 This Bill was introduced in the Lok Sabha on December 12, 2011 and is pending. It seeks to amend the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. The Bill empowers banks and financial institutions to accept the immovable property in full or partial satisfaction of the bank's claim against the defaulting borrower when they cannot find a buyer for the securities. The measures for recovery through the Debt Recovery Tribunal (DRT), which had not been available to multi-state co-operative banks, are now made available by including multi-state co-operative banks under the definition of 'bank' in DRT Act, thereby providing them the option of an additional effective recovery mechanism apart from the mechanism available under the Multi-State Co-operative Societies Act, 2002.

(F) Banking Laws (Amendment) Bill, 2011

3.106 On December 13, 2011, the Standing Committee on Finance presented its report to the Lok Sabha on the Banking Laws (Amendment) Bill, 2011, which was introduced before the Lok Sabha on March 22, 2012.

(G) Financial Sector Legislative Reforms Commission

3.107 The Government of India, pursuant to the announcement made in the Union Budget 2010-11, set up the Financial Sector Legislative Reforms Commission (Chairman: Justice B.N. Srikrishna), on March 24, 2011. The terms of reference are wide in their ambit and include the examination of the architecture of the legislative and regulatory system governing the financial sector in India and reviewing the existing laws that govern the financial sector. The comments, suggestions and inputs from the Reserve Bank have been submitted to the Commission, which include the need for a clear and specific mandate to the Reserve Bank for the pursuit of financial stability, monopoly of the Reserve Bank in the regulation of public deposits, the consolidation of banking laws, the need for globally compatible secrecy laws and continuation of the debt management function with the Reserve Bank.

15. Overall Assessment

3.108 The banking sector policy during 2011-12 was attuned to the broader objectives of macroeconomic policy, such as price stability, growth, broader financial and banking sector development, while ensuring uninterrupted credit flow to the productive sectors of the economy. In the context of weakening domestic macroeconomic conditions, the Reserve Bank had to maintain a fine balance between price stability and growth. The Reserve Bank undertook several measures to maintain adequate liquidity in the system to ensure smooth functioning of the financial markets. Several administrative steps were also initiated to contain volatility in the forex market.

3.109 During the year, the priority sector norms were revisited to refocus direct agricultural lending to individuals, SHGs and JLGs, and to focus on direct lending by banks and not through intermediaries. The KCC Scheme was revised to suit the current requirements of farmers and a special and concessional refinancing facility was also extended to improve the availability of credit to agriculture.

3.110 Amidst turbulent global financial market conditions, banks and financial entities have to grapple with growing complexities and risks associated with their businesses. In this context, policy initiatives, such as the adoption of Basel II advanced approaches, the phased implementation of Basel III norms, efforts to move towards a dynamic provisioning framework/ countercyclical capital buffers, adoption of securitisation norms in line with best international practices, sound compensation practices and the adoption of a risk-based supervisory approach for banks will go a long way in placing the Indian banking system on a strong footing and enhance the banking sector's ability to absorb shocks arising from any financial and economic stress and encourage prudent risk-taking. The implementation of the recommendations of the Committee on Customer Service in Banks (Chairman: Shri M. Damodaran) are expected to improve customer service in banks. The multi-pronged strategy and outreach visits for financial inclusion are expected to enhance the outreach of the banking system to the remotest parts of the country. The other major policy developments include steps to combat money laundering/ terrorism financing activities and steps to strengthen the payment and settlement systems. The major development that would pave the way towards further reforms in the financial sector include the setting up of the Financial Sector Legislative Reforms Commission.

3.111 Going forward, a steady movement towards improving the resilience of financial institutions and banks, with focused attention on containing systemic risks, would pave the way for financial stability. The growth in the financial and banking sector has to keep pace with growth in the real sector and has to be in tune with domestic macroeconomic fundamentals. The banking sector has to pursue the agenda of financial inclusion with a greater sense of social commitment to usher in inclusive growth of the overall economy.

Chapter IV

Operations and Performance of Commercial Banks

Performance of the Indian banking sector during 2011-12 was influenced by the slowdown in the domestic economy. Consequently, balance sheet expansion of banks was lower than the previous year. Major profitability indicators, i.e., return on assets (RoA) and return on equity (RoE) dipped marginally. However, cost to income ratio of banks improved during 2011-12, reflecting marginal gains in efficiency. Though Indian banks remained well-capitalised, concerns about the growing non-performing assets (NPAs) loomed large. Banks' exposure to the stressed power and airline sectors particularly added to deterioration in their asset quality. Though progress has been made in expanding banking coverage, more efforts are needed to achieve meaningful financial inclusion. Customer services of banks need to be strengthened to face the emerging challenges.

1. Introduction

4.1 Indian banking sector, which withstood the turmoil of the global financial crisis during 2008-09, started showing some signs of stress during the subsequent period. Performance of Indian banks during the post-crisis period was conditioned to a large extent by fragile recovery of the global financial markets as well as a challenging operational environment on the domestic front, with high inflation and muted growth performance. In addition, stressed financial condition of some State Electricity Boards and airline companies further added to the deterioration in the asset quality of banks.

4.2 Against this backdrop, this chapter analyses the operations and performance of Indian banking sector (including regional rural banks and local area banks) during 2011-12, based on the audited balance sheets of banks and off-site returns submitted to the Reserve Bank. Various sections of this chapter focus on balance sheet operations, profitability and efficiency indicators, soundness position, overseas operations, operations in the capital market, customer services and technological developments. Progress under financial inclusion plans is delineated in a separate section. The concluding section highlights major issues that emerge from the analysis.

2. Balance Sheet Operations of Scheduled Commercial Banks

Balance sheet expansion slowed down led by muted growth in deposits as well as loans and advances

4.3 Consolidated balance sheet of SCBs grew at a slower pace during 2011-12 as compared with the previous year. On the liabilities side, the deceleration in growth was broad-based with the major items of liabilities, *i.e.*, capital, deposits and borrowings, registering moderation in growth. On the assets side, the slowdown was mainly attributed to deceleration in growth of loans and advances, reflecting the slowdown in all key segments of domestic macro-economy (Tables IV.1 and IV.2).

4.4 Reflecting the deceleration in the balance sheet of public sector banks, their share in total assets of the banking system dipped marginally during 2011-12. Notwithstanding this, Indian banking sector remained broadly public in nature with public sector banks accounting for more than two-thirds of total assets of all scheduled commercial banks, as at end-March 2012 (Chart IV.1).

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

(Amount in ` billion)

Item	As at end-March 2012							
	Public sector banks	SBI group	Nationalised 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
1. Capital	**183**	12	171	**48**	13	35	**406**	**637**
2. Reserves and Surplus	**3,373**	1,061	2,312	**1,545**	266	1,279	**531**	**5,449**
3. Deposits	**50,020**	14,050	35,970	**11,746**	3,159	8,587	**2,771**	**64,537**
3.1. Demand Deposits	**3,844**	1,197	2,647	**1,659**	258	1,401	**801**	**6,303**
3.2. Savings Bank Deposits	**12,140**	4,537	7,604	**2,729**	578	2,152	**419**	**15,289**
3.3. Term Deposits	**34,036**	8,317	25,719	**7,358**	2,323	5,035	**1,551**	**42,945**
4. Borrowings	**4,618**	1,588	3,030	**2,584**	198	2,386	**1,199**	**8,401**
5. Other Liabilities and Provisions	**2,186**	1,002	1,184	**855**	114	741	**929**	**3,970**
Total Liabilities/Assets	**60,380**	**17,712**	**42,668**	**16,778**	**3,750**	**13,028**	**5,836**	**82,994**
1. Cash and Balances with RBI	**2,800**	791	2,009	**706**	167	538	**232**	**3,737**
2. Balances with Banks and Money at Call and Short Notice	**1,760**	482	1,278	**366**	71	295	**312**	**2,437**
3. Investments	**15,041**	4,173	10,868	**5,260**	1,093	4,166	**2,005**	**22,305**
3.1 Government Securities (a+b)	**12,580**	3,513	9,067	**3,474**	785	2,688	**1,376**	**17,429**
a) In India	**12,494**	3,494	9,000	**3,468**	785	2,683	**1,376**	**17,338**
b) Outside India	**85**	19	67	**5.6**	-	5.6	**-**	**91**
3.2 Other Approved Securities	**10**	0.2	9.7	**0.2**	0.2	0.01	**-**	**10**
3.3 Non-Approved Securities	**2,451**	660	1791	**1,786**	308	1,478	**629**	**4,866**
4. Loans and Advances	**38,783**	11,520	27,263	**9,664**	2,301	7,363	**2,298**	**50,746**
4.1 Bills Purchased and Discounted	**2,307**	888	1,419	**357**	113	244	**257**	**2,922**
4.2 Cash Credits, Overdrafts, *etc.*	**16,085**	4,958	11,127	**2,860**	1,120	1,740	**1,099**	**20,044**
4.3 Term Loans	**20,391**	5,674	14,717	**6,447**	1,068	5,380	**942**	**27,780**
5. Fixed Assets	**383**	74	309	**134**	27	107	**50**	**567**
6. Other Assets	**1,613**	672	941	**649**	91	558	**939**	**3,201**

Note: -: Nil/negligible. Components may not add up to their respective totals due to rounding off numbers to ` billion.
*: Includes IDBI Bank Ltd.
Source: Annual accounts of respective banks.

Major Liabilities of SCBs

Deposits grew at a subdued pace

4.5 As at end-March 2012, deposits constituted more than three-fourths of the total liabilities of the banking sector. Deposits grew at a slower rate than the previous year, which mainly emanated from contraction of demand deposits as well as slower growth of savings bank deposits. On the other hand, growth in term deposits accelerated. Going forward, the slowdown in demand and savings banks deposit mobilisation, which are the least cost sources of funds, could put downward pressure on profitability of Indian banks (Table IV.2).

Proportion of CASA deposits in total deposits declined

4.6 The share of current and savings account (CASA) deposits in total deposits declined during 2011-12 due to the decline in demand deposits as well as slowdown in savings bank deposit mobilisation. As at end-March 2012, CASA deposits formed almost one-third of total deposits of SCBs. Bank group-wise analysis of composition of deposits revealed that foreign banks had the highest proportion of CASA deposits followed by new private sector banks. This could be partly explained by the fact that number of private sector banks revised their savings bank deposits rates

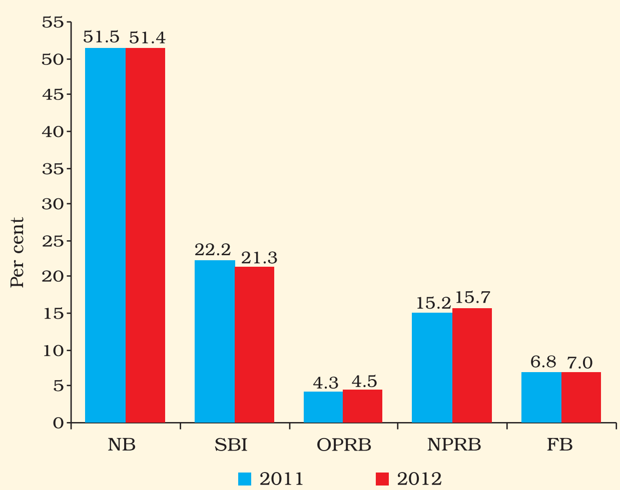
Table IV.2 : Growth in Balance Sheet of Scheduled Commercial Banks

(Per cent)

Item	Public sector banks		Private sector banks		Old private sector banks		New private sector banks		Foreign banks		All scheduled commercial banks	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital	**40.7**	**-4.2**	**5.1**	-	7.9	-4.2	4.1	1.7	**15.1**	**15.6**	**21.3**	**8.0**
2. Reserves and Surplus	**19.3**	**24.4**	**15.9**	**15.5**	18.7	18.5	15.4	14.9	**18.8**	**15.7**	**18.2**	**20.8**
3. Deposits	**18.4**	**14.4**	**21.9**	**17.1**	14.9	19.6	24.6	16.3	**3.7**	**15.1**	**18.3**	**14.9**
3.1. Demand Deposits	**11.3**	**-6.3**	**18.1**	**4.4**	12.2	6.5	19.2	4.0	**6.8**	**9.9**	**12.3**	**-1.8**
3.2. Savings Bank Deposits	**22.1**	**12.1**	**23.0**	**19.1**	14.0	16.3	25.8	19.9	**8.8**	**5.6**	**21.8**	**13.1**
3.3. Term Deposits	**18.2**	**18.2**	**22.5**	**19.7**	15.5	22.1	25.8	18.6	**0.6**	**21.0**	**18.2**	**18.6**
4. Borrowings	**26.4**	**16.4**	**24.5**	**38.9**	26.4	80.3	24.4	36.4	**36.1**	**29.1**	**27.1**	**24.4**
5. Other Liabilities and Provisions	**20.9**	**-6.8**	**21.0**	**20.6**	-0.7	13.5	25.6	21.8	**16.3**	**21.3**	**20.0**	**3.9**
Total Liabilities/Assets	**19.2**	**14.1**	**21.5**	**20.0**	**14.9**	**21.4**	**23.5**	**19.6**	**12.8**	**18.8**	**19.2**	**15.5**
1. Cash and Balances with RBI	**30.1**	**-20.5**	**13.5**	**-18.1**	7.4	-7.9	15.2	-20.8	**6.3**	**14.2**	**25.4**	**-18.5**
2. Balances with Banks and Money at Call and Short Notice	**9.3**	**40.7**	**-18.2**	**15.6**	-31.3	80.4	-16.0	6.5	**33.2**	**13.8**	**6.0**	**32.4**
3. Investments	**9.9**	**12.6**	**19.2**	**24.6**	11.0	18.0	21.7	26.5	**3.9**	**21.1**	**11.3**	**16.0**
3.1 Government Securities	**7.4**	**16.2**	**9.1**	**32.0**	6.3	21.5	10.1	35.4	**-4.7**	**22.9**	**6.6**	**19.6**
3.2 Other Approved Securities	**-43.4**	**-65.1**	**-71.4**	**-78.8**	-82.2	-65.0	74.8	-97.6	**-57.1**	**-100.0**	**-45.1**	**-65.6**
3.3 Non-Approved Securities	**23.9**	**-2.2**	**41.0**	**12.5**	24.9	10.0	45.0	13.0	**28.1**	**17.5**	**29.8**	**5.1**
4. Loans and Advances	**22.3**	**17.4**	**26.1**	**21.2**	19.8	24.6	28.1	20.1	**19.8**	**17.6**	**22.9**	**18.1**
4.1 Bills Purchased and Discounted	**30.3**	**25.8**	**20.2**	**8.2**	10.3	14.7	25.0	5.5	**10.2**	**9.6**	**26.6**	**21.8**
4.2 Cash Credits, Overdrafts, *etc.*	**24.0**	**17.9**	**41.2**	**27.6**	23.4	33.3	54.6	24.2	**27.1**	**18.4**	**26.2**	**19.2**
4.3 Term Loans	**20.3**	**16.1**	**21.1**	**19.3**	17.8	17.7	21.8	19.6	**14.9**	**18.9**	**20.3**	**16.9**
5. Fixed Assets	**4.9**	**5.9**	**26.8**	**3.0**	6.5	6.9	32.8	2.1	**2.0**	**1.2**	**9.1**	**4.8**
6. Other Assets	**33.9**	**15.3**	**21.6**	**35.5**	12.0	28.0	23.4	36.8	**13.5**	**21.1**	**25.0**	**20.7**

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

Chart IV.1: Share of Bank Groups in Total Liabilities/ Assets of SCBs (end-March 2012)



NB: Nationalised Banks OPRB: Old Private Sector Banks
NPRB: New Private Sector Banks FB: Foreign Banks.

upwards after the deregulation of savings bank interest rate in October 2011 (Chart IV.2).

Recourse to borrowings higher during 2011-12

4.7 As at end-March 2012, borrowings constituted almost 10 per cent of the total liabilities of the banking sector, which was marginally higher than the previous year (Table IV.1).

Major Assets of SCBs

Lower credit off-take led by both demand and supply side factors

4.8 Total loans and advances witnessed moderation in growth compared with the previous year. The deceleration in bank credit was broad-

Chart IV.2A: Share of CASA Deposits in Total Deposits (end-March)

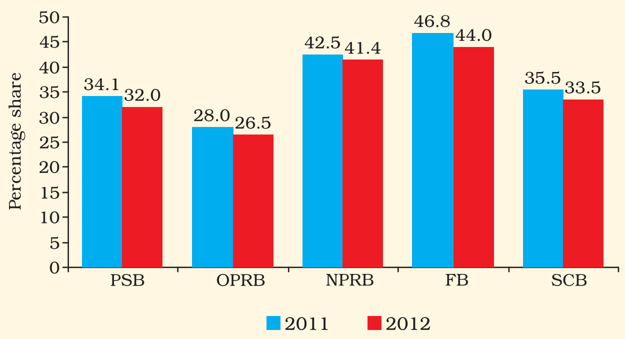
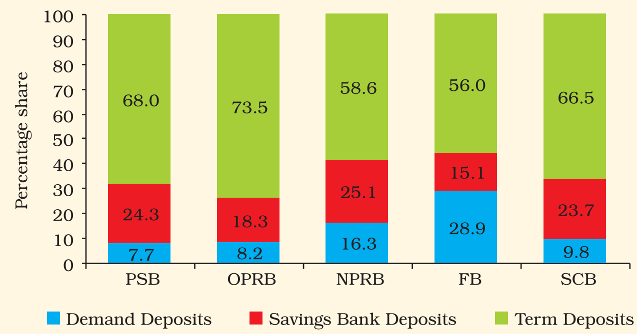


Chart IV.2B: Composition of Deposits (end-March 2012)



PSB: Public Sector Banks OPRB: Old Private Sector Banks NPRB: New Private Sector Banks FB: Foreign Banks. SCB: Scheduled Commercial Banks

based with credit off-take by all major sectors slowing down during 2011-12. Credit to industry and services sector, which together constituted more than two-thirds of total bank credit, recorded slower growth.

Risk aversion by banks was evident from higher investment in government securities

4.9 In contrast with the overall slowdown observed in the major balance sheet items of banks, growth in investments accelerated during 2011-12 compared with the previous year. As against deceleration in credit growth, banks' investment in government securities increased substantially. This trend partly reflected increase in risk aversion by banks with a growing preference to park funds in safer instruments, against the backdrop of weak macro-economic outlook as well as rising NPAs.

Investments in non-SLR instruments declined

4.10 As at end-March 2012, banks' investments in non-SLR instruments contracted compared with the corresponding period of the previous year, due to decline in investments in shares and mutual funds. The decline in investments in mutual funds could be partly attributed to the policy tightening by the Reserve Bank in order to curb banks' exposure to liquid/short term debt schemes of mutual funds. However, banks' investments in commercial papers increased sharply (Table IV.3).

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

(Amount in ` billion)

Instrument	As on March 23, 2012	Growth over corresponding period of previous year	As on Sept 21, 2012	Growth over corresponding period of previous year
1	2	3	4	5
1 Commercial Paper	**196 (7.2)**	**59.2**	**357 (10.9)**	**90.6**
2 Shares	**402 (14.8)**	**-12.0**	**426 (13.2)**	**-1.4**
a) PSU	72		76	
b) Private corporate sector	301		318	
c) Public FIs	23.8		25	
d) Others	5.2		7	
3 Bonds/ Debentures	**1,861 (68.7)**	**11.5**	**2,002 (61.2)**	**15.5**
a) PSU	412		341	
b) Private corporate sector	741		884	
c) Public FIs	359		342	
d) Others	349		435	
4 Units of UTI/ other MFs	**251 (9.3)**	**-47.2**	**485 (14.8)**	**-26.8**
Total Investments (1 to 4)	**2,710 (100.0)**	**-0.6**	**3,270 (100.0)**	**8.4**

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion. Figures in parentheses indicate share in respective totals.

Source: Section 42(2) returns submitted by SCBs.

International Liabilities and Assets of Scheduled Commercial Banks

While growth in total international liabilities moderated, international assets registered higher growth

4.11 During 2011-12, total international liabilities of banks grew at a lower rate compared with the previous year, mainly due to the contraction in other liabilities owing to a decline in ADRs/GDRs issued by the domestic banks. However, inflows through NRE rupee deposits increased which could be due to the increase in interest rate under NRE term deposits following the deregulation of interest rates on both savings deposit and term deposits under NRE accounts (Table IV.4).

Table IV.4: International Liabilities of Banks - by Type

(` billion)

Liability Type	Amount Outstanding (as at end-March)		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
1. Deposits and Loans	**3,782 (72.5)**	**4,472 (79.0)**	**11.7**	**18.2**
of which				
a) Foreign Currency Non Resident Bank [FCNR (B)] Scheme	774 (14.8)	805 (14.2)	7.2	4.0
b) Foreign Currency Borrowings *	954 (18.3)	1,100 (19.4)	28.3	15.3
c) Non-Resident External Rupee (NRE) A/C	1,212 (23.2)	1,626 (28.7)	-0.9	34.1
d) Non-Resident Ordinary (NRO) Rupee Deposits	411 (7.9)	532 (9.4)	33.2	29.6
2. Own Issues of Securities/Bonds	**46 (0.9)**	**56 (1.0)**	**-15.9**	**23.0**
3. Other Liabilities	**1,387** (26.6)	**1,133** (20.0)	**28.2**	**-18.3**
of which:				
a) ADRs/GDRs	347 (6.7)	271 (4.8)	14.2	-21.8
b) Equities of banks held by non-residents	732 (14.0)	536 (9.5)	45.4	-26.8
c) Capital/remittable profits of foreign banks in India and other unclassified international liabilities	308 (5.9)	326 (5.8)	12.2	5.8
Total International Liabilities	**5,215 (100.0)**	**5,661 (100.0)**	**15.3**	**8.6**

* Inter- bank borrowings in India and from abroad, external commercial borrowings of banks.

Notes: 1. Figures in parentheses are percentages to total.
2. Based on Locational Banking Statistics (LBS) statements.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

4.12 In contrast, international assets of the banking sector registered higher growth in 2011-12 compared with the previous year, mainly led by foreign currency loans to residents, and Nostro balances (Table IV.5).

Consolidated international claims registered higher growth

4.13 Continuing the trend observed during the previous year, total consolidated international claims registered accelerated growth during 2011-12. However, no significant change was discernible in the maturity (residual)-wise as well as sector-wise composition of total international claims (Table IV.6). The growth in the consolidated international claims of banks on countries other

Table IV.5: International Assets of Banks Classified by Type

(` billion)

Asset Type	Amount Outstanding		Percentage Variation	
	March 2011	March 2012	2010-11	2011-12
1. Loans and Deposits	**2,787 (96.8)**	**3,410 (97.3)**	**17.5**	**22.3**
of which				
a) Loans to Non-Residents*	144 (5.0)	156 (4.4)	41.4	8.1
b) Foreign Currency Loans to Residents **	1,401 (48.6)	1,652 (47.2)	13.4	17.9
c) Outstanding Export Bills drawn on Non-Resident by Residents	613 (21.3)	725 (20.7)	21.4	18.3
d) Nostro Balances@	624 (21.7)	865 (24.7)	19.6	38.7
2. Holdings of Debt Securities	**2.0 (0.1)**	**- (0.0)**	**351.3**	**-**
3. Other Assets @@	**91 (3.2)**	**94 (2.7)**	**0.1**	**2.9**
Total International Assets	**2,881 (100.0)**	**3,504 (100.0)**	**16.9**	**21.6**

* Includes rupee loans and foreign currency (FC) loans out of non-residents deposits.

** Includes loans out of FCNR(B) deposits, Packing Credit in Foreign Currency (PCFC's), FC lending to and FC deposits with banks in India *etc*.

@ Includes placements made abroad and balances in term deposits with non-resident banks.

@@ Capital supplied to and receivable profits from foreign branches/ subsidiaries of Indian banks and other unclassified international assets.

Notes: 1. Figures in parentheses are percentages to total.
2. Based on Locational Banking Statistics (LBS) statements.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
4. -: Nil/Negligible.

than India was mainly led by claims of banks on the UAE, Hong Kong, the US, Singapore and the UK (Table IV.7).

Credit-Deposit (C-D) and Investment-Deposit (I-D) Ratios

Incremental C-D ratio remained well above incremental I-D ratio

4.14 The incremental C-D ratio declined during the first three quarters of 2011-12, partly reflecting the slowdown in bank credit. There was a sharp rise in the ratio during the fourth quarter of 2011-12 as deposits growth decelerated sharply even as growth in credit remained stable. Incremental C-D ratio was highest for new private sector banks while foreign banks recorded the highest incremental investment-deposit (I-D) ratio (Charts IV.3 and IV.4)[1].

Table IV.6: Maturity (Residual) and Sectoral Classification of Consolidated International Claims of Banks

(` billion)

Residual Maturity/Sector	Amount Outstanding		Percentage Variation	
	March 2011	March 2012	2010-11	2011-12
1	2	3	4	5
Total Consolidated International claims	**2,464 (100.0)**	**2,809 (100.0)**	**5.9**	**14.0**
a) Maturity-wise				
1. Short-term (residual maturity of less than one year)	1,539 (62.5)	1,832 (65.2)	6.6	19.0
2. Long-term (residual maturity of one year and above)	872 (35.4)	924 (32.9)	6.5	5.9
3. Unallocated	53 (2.1)	54 (1.9)	-18.8	1.7
b) Setor-wise				
1. Bank	1,091 (44.3)	1,286 (45.8)	11.5	17.8
2. Non-Bank Public	9 (0.4)	19 (0.7)	-39.7	114.1
3. Non-Bank Private	1,364 (55.4)	1,505 (53.6)	2.2	10.3

Notes:
1. Figures in parentheses are percentages to total.
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 (*e.g.*, 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 government and its departments. From March 2005 quarter, 'Non-bank public' sector comprises only State/Central government and its departments and, accordingly, all other entities excluding banks are classified under 'Non-bank private sector.
5. Based on CBS (Consolidated Banking Statistics) statements - Immediate Country Risk Basis.
6. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

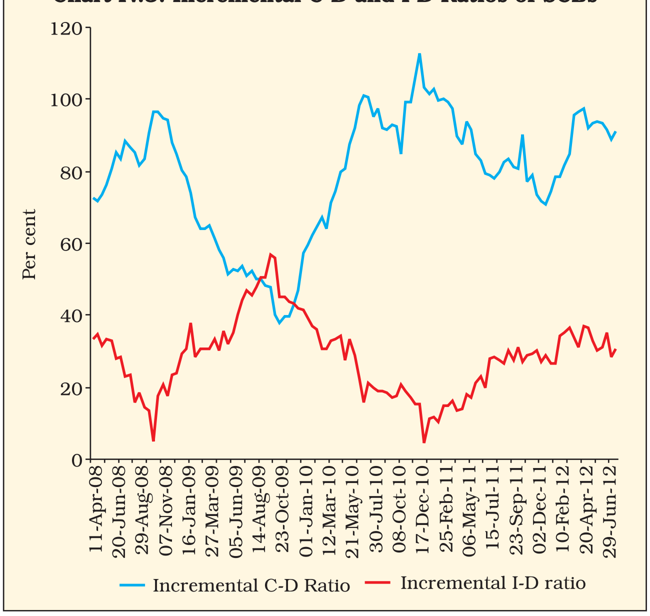
Table IV.7: Consolidated International Claims of Banks on Countries other than India

(` billion)

Country	Amount Outstanding		Percentage Variation	
	March 2011	March 2012	2010-11	2011-12
1	2	3	4	5
Total Consolidated International Claims	**2,464 (100.0)**	**2,809 (100.0)**	**5.9**	**14.0**
Of Which				
1. United States of America	548 (22.2)	643 (22.9)	3.2	17.2
2. United Kingdom	344 (13.9)	364 (13.0)	-4.9	6.0
3. Hong Kong	184 (7.5)	220 (7.8)	-3.2	19.5
4. Singapore	185 (7.5)	216 (7.7)	0.6	16.3
5. United Arab Emirates	155 (6.3)	221 (7.9)	14.5	42.8
6. Germany	142 (5.7)	118 (4.2)	16.3	-16.6

Notes: 1. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
2. Figures in parentheses are percentages to total.

Chart IV.3: Incremental C-D and I-D Ratios of SCBs



[1] Incremental C-D and I-D ratios for bank groups were calculated from consolidated balance sheet of SCBs for end-March 2011 and end-March 2012.

Chart IV.4: Bank Group-wise Incremental C-D and I-D Ratios (end-March 2012)

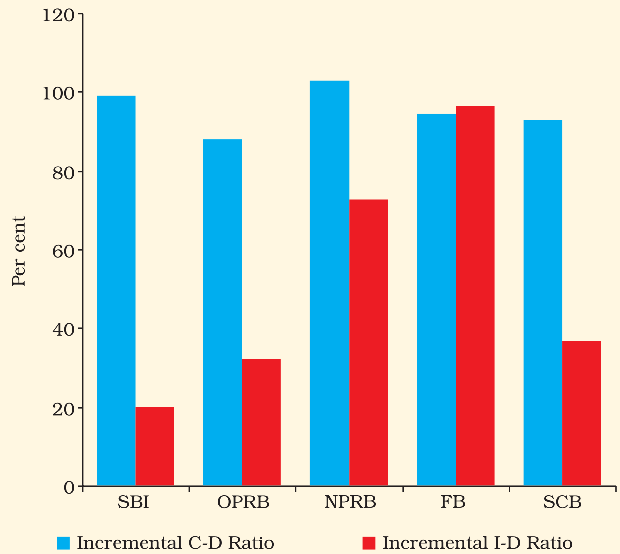
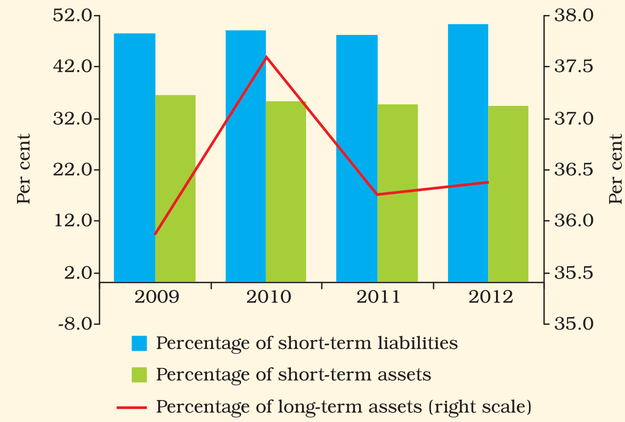


Chart IV.5: Trend in Maturity Profile of Assets and Liabilities (as at end-March)



Notes: 1. Percentage of short-term assets/liabilities is calculated as investments and advances/deposits and borrowings with maturity upto one year as percentage of total investments and advances/deposits and borrowings.
2. Percentage of long-term assets refers to investments and advances with maturity of 3 or more years as percentage of total investments and advances.

Maturity Profile of Assets and Liabilities

Maturity mismatch continued to persist with proportion of short-term liabilities registering an increase

4.15 The persistent mismatch in the average maturity profile of assets with that of liabilities has been a concern for Indian banking sector in recent years. The proportion of short-term liabilities registered an increase from 2008 onwards. On the other hand, the proportion of short-term assets in total assets exhibited a declining trend from 2008 onwards (Chart IV.5 and Table IV.8).

Off-Balance Sheet Operations of SCBs

Off-balance sheet exposures continued to increase, albeit, at a slower pace

4.16 In recent years, off-balance sheet activities of banks have come under the scrutiny of the Reserve Bank, especially given the fact that the excessive growth in off-balance sheet exposure of banks in advanced economies has been one of the factors behind the global financial turmoil. During 2011-12, total off-balance sheet liabilities (notional) of banks registered lower growth than the previous year. Bank group-wise analysis of off-balance sheet exposure revealed that, off-balance sheet exposure (notional) as percentage of on-balance sheet liabilities was significantly higher for foreign banks as compared with other bank groups, due to their higher exposure in forward contracts, guarantees and acceptance/endorsements (Chart IV.6 and Appendix Table IV.2).

3. Financial Performance of Scheduled Commercial Banks

4.17 Financial performance of banks came under pressure during 2011-12, mainly due to the increased cost of deposits in the backdrop of an elevated interest rate environment. However, on a positive note, the efficiency of banks improved. The two main indicators of profitability, *i.e.*, RoE and RoA declined marginally during 2011-12, reflecting deceleration in the net profit of banks.

Profitability

Growth in consolidated net profit slowed down due to spurt in interest expenditure

4.18 Despite accelerated growth in total income, the consolidated net profit of the banking sector increased at a slower rate compared with the previous year, mainly due to the steep increase in interest expended.

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

(As at end -March)

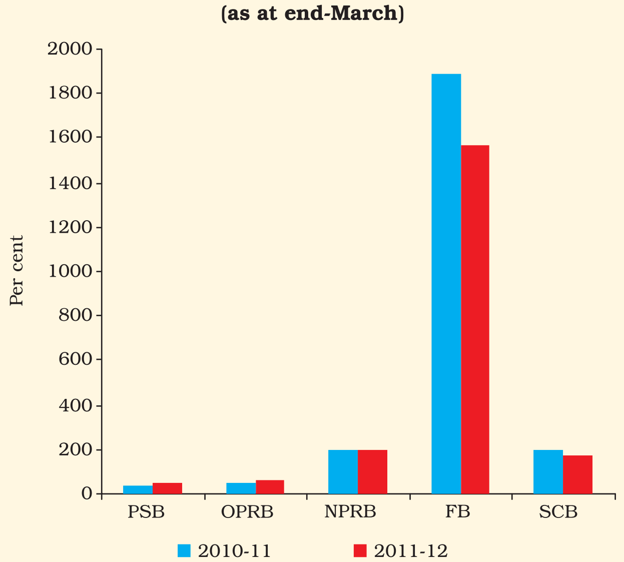
(Per cent to total under each item)

Liabilities/assets	Public sector banks 2011	Public sector banks 2012	Private sector banks 2011	Private sector banks 2012	Old private sector banks 2011	Old private sector banks 2012	New private sector banks 2011	New private sector banks 2012	Foreign banks 2011	Foreign banks 2012	All SCBs 2011	All SCBs 2012
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Deposits												
a) Up to 1 year	48.2	49.6	46.1	48.7	45.3	48.1	46.4	48.9	63.7	61.8	48.5	50.0
b) Over 1 year and up to 3 years	28.6	25.3	38.6	30.0	40.6	39.2	37.9	26.6	27.3	29.8	30.4	26.3
c) Over 3 years and upto 5 years	8.1	8.5	6.1	5.7	8.5	6.9	5.2	5.2	8.9	8.3	7.8	8.0
d) Over 5 years	15.1	16.6	9.1	15.7	5.6	5.8	10.4	19.3	-	0.1	13.4	15.7
II. Borrowings												
a) Up to 1 year	39.9	45.4	42.4	50.3	54.5	63.7	41.7	49.2	78.8	84.5	46.1	52.6
b) Over 1 year and up to 3 years	12.5	12.2	16.2	11.8	12.5	13.4	16.4	11.7	14.7	9.2	13.8	11.7
c) Over 3 years and upto 5 years	12.3	15.2	9.8	12.5	11.4	7.8	9.7	12.9	2.1	2.7	10.2	12.5
d) Over 5 years	35.3	27.2	31.6	25.4	21.6	15.1	32.2	26.2	4.4	3.5	29.9	23.2
III Loans and Advances												
a) Up to 1 year	36.0	34.3	37.6	35.2	41.9	44.0	36.3	32.4	68.1	67.4	37.8	35.9
b) Over 1 year and up to 3 years	36.3	37.4	36.4	37.1	38.4	36.1	35.8	37.4	17.0	15.5	35.4	36.3
c) Over 3 years and upto 5 years	10.9	11.0	11.4	11.3	9.9	9.1	11.9	12.0	4.2	4.5	10.7	10.8
d) Over 5 years	16.8	17.3	14.5	16.4	9.8	10.8	16.0	18.2	10.7	12.5	16.1	17.0
IV. Investments												
a) Up to 1 year	18.1	20.1	36.6	42.5	28.7	30.3	38.8	45.7	79.9	76.6	27.5	30.4
b) Over 1 year and up to 3 years	12.7	12.6	22.7	17.3	12.2	12.2	25.6	18.6	14.2	12.9	15.0	13.7
c) Over 3 years and upto 5 years	14.4	14.2	10.0	9.2	11.7	13.0	9.5	8.2	3.4	5.2	12.4	12.2
d) Over 5 years	54.8	53.1	30.7	31.0	47.3	44.4	26.1	27.5	2.5	5.3	45.0	43.7

Note: - Nil/negligible
Source: Balance sheets of respective banks.

4.19 Interest expended on deposits accounted for more than three-fourths of the total interest expenditure of banks. This, along with an increase in the proportion of relatively high-cost term deposits, led to an acceleration in the interest cost of banks. In addition, retail deposits became more costly in the backdrop of a high interest rate environment.

Chart IV.6: Off-balance Sheet Exposure (notional) as percentage of On-balance Sheet Liabilities (as at end-March)



Net interest margin dipped slightly

4.20 During 2011-12, the net interest margin (NIM) of banks dipped marginally compared with the previous year, mainly reflecting the steep rise in interest expended (Table IV.9).

Consequent to the slowdown in net profit, RoA and RoE dipped marginally

4.21 During 2011-12, two major indicators of profitability, RoA and RoE dipped marginally compared with the previous year, mainly reflecting the slowdown in net profit caused by increased interest expenditure (Table IV.10). A more detailed

Table IV.9: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ` billion)

Item	2010-11		2011-12	
	Amount	Percentage Variation	Amount	Percentage Variation
1	2	3	4	5
1. Income	**5,712**	**15.5**	**7,408**	**29.7**
a) Interest Income	4,913	18.3	6,551	33.3
b) Other Income	799	0.7	857	7.3
2. Expenditure	**5,009**	**14.5**	**6,591**	**31.6**
a) Interest Expended	2,989	9.9	4,305	44.0
b) Operating Expenses	1,231	23.1	1,371	11.3
of which : Wage Bill	727	31.6	780	7.3
c) Provisions and Contingencies	788	20.8	915	16.1
3. Operating Profit	**1,491**	**22.0**	**1,732**	**16.1**
4. Net Profit	**703**	**23.2**	**817**	**16.1**
5. Net Interest Income (1a-2a)	**1,924**	**34.5**	**2,245**	**16.7**
Memo Item:				
Net Interest Margin (NII as percentage of average assets)	**2.91**		**2.90**	

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
Source: Annual accounts of respective banks.

analysis of RoA and RoE of bank groups is provided in Box IV.1.

Efficiency

Operating efficiency, as captured by cost to income ratio witnessed improvement

4.22 During 2011-12, operating efficiency of banks in terms of cost-to-income ratio[2] witnessed an improvement. The other efficiency indicator, NIM, dipped marginally, which implied reduction in cost of financial intermediation (Chart IV.7).

Cost/Return on funds

Spread of banks narrowed due to increased cost of funds

4.23 During 2011-12, both cost as well as return on funds increased for the banks. However, the spreads narrowed due to the higher increase in cost of funds. At the bank group level, cost of funds was lower in the case of foreign banks, partly because low cost CASA deposits formed a higher proportion of total deposits for foreign banks (Table IV.11 and Chart IV.8).

Table IV.10: Return on Assets and Return on Equity of SCBs – Bank Group-wise

(Per cent)

	Bank group/year	Return on Assets		Return on Equity	
		2010-11	2011-12	2010-11	2011-12
	1	2	3	4	5
1	**Public sector banks**	**0.96**	**0.88**	**16.90**	**15.33**
	1.1 Nationalised banks*	1.03	0.88	18.19	15.05
	1.2 SBI Group	0.79	0.89	14.11	16.00
2	**Private sector banks**	**1.43**	**1.53**	**13.70**	**15.25**
	2.1 Old private sector banks	1.12	1.20	14.11	15.18
	2.2 New private sector banks	1.51	1.63	13.62	15.27
3	**Foreign banks**	**1.75**	**1.76**	**10.28**	**10.79**
	All SCBs	**1.10**	**1.08**	**14.96**	**14.60**

Notes: 1. Return on Assets for a group is obtained as weighted average of return on assets of individual banks in the group, being the proportion of total assets of the bank as percentage to total assets of the group.
2. Return on Equity = Net profit/average of capital and reserves and surplus for current and previous year.
3. * Nationalised banks include IDBI Bank Ltd.

4. Soundness Indicators

4.24 All scheduled commercial banks in India have become Basel II compliant as per the standardised approach with effect from April 1, 2009. For migrating to advanced approaches of Basel II, the Reserve Bank issued separate set of guidelines and the applications received from banks for migration to advanced approaches of Basel II are at various stages of examination with the Reserve Bank. Parallel to this process, the Reserve Bank came out with the final guidelines for implementation of Basel III in May 2012. The guidelines issued by the Reserve Bank will become effective from January 1, 2013. Against this backdrop, it is important to examine the existing capital position and other soundness indicators of Indian banks in order to assess banks' preparedness to migrate to the more advanced regulatory approaches.

[2] Calculated as operating expenses as percentage of total income.

Box IV.1: What Drives the Profitability of Indian Banks?: A Du Pont Analysis for Bank Groups

Profitability of banks facilitates many aspects, which includes, *inter alia*, enhancing the ability of banks to mobilise resources from the capital market, as well as better management of non-performing assets. In addition, sound profitability of banks enhances their ability to augment the financial inclusion process. During the pre-liberalisation period, banks in India were operating in a rather tight regulatory environment. After liberalisation, Indian banks operated in a less regulated environment in terms of interest rate liberalisation, reduction in reserve requirements, and entry deregulation. In addition, with the advent of complex financial products, banks' business has expanded in recent years beyond the traditional financial intermediation process. Also, off-balance sheet exposure of banks has witnessed a significant increase in recent years. Against this backdrop, it is important to analyse the main sources of profitability of Indian banks.

In recent years, significant variation in profitability has been observed among bank groups. It was observed that, generally profitability of foreign banks was higher than that of other bank groups. Some past studies on profitability of Indian banks concluded that higher profitability of foreign banks could be attributed to their access to low cost CASA deposits, diversification of income as well as higher "other income". During 2011-12, foreign banks accounted for close to 12 per cent of the total net profit of SCBs. As against this, their share in total assets of Indian banking sector stood at 7 per cent (Charts 1.A and 1.B).

In order to understand the sources of profitability across bank groups, RoE analysis and Du Pont analysis have been carried out taking the bank group-wise data for 2011-12. The RoE analysis decomposes the profitability of banks into two components, *i.e.*, profitability of bank assets, as captured by

Chart 1.A: Net Profit as Percentage of Average Total Assets

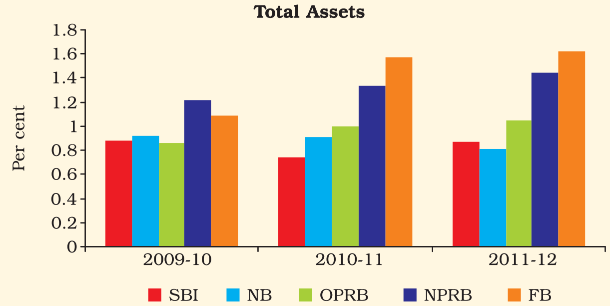


Chart 1.B: Profitability of Bank Groups *vis-a-vis* their Share in Total Assets (2011-12)

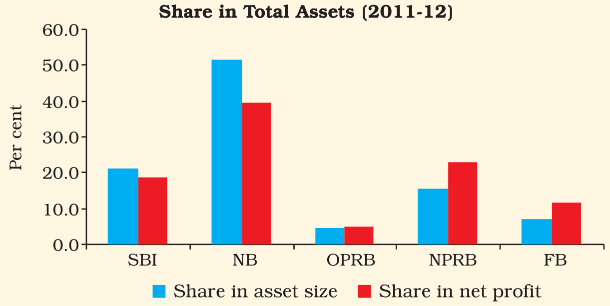


Table 1.1: RoE Analysis of Profitability: 2011-12

Bank Group	Return on Equity	Profitability of Assets	Leverage	Capital to Assets Ratio
1	2	3	4	5
SBI group	16	0.91	17.58	0.07
Nationalised banks	15.05	0.87	17.37	0.4
Old private sector banks	15.18	1.15	13.23	0.35
New private sector banks	15.27	1.57	9.72	0.27
Foreign banks	10.79	1.75	6.15	6.95

RoA and leverage, captured by the ratio of total average assets to total average equity. Further, decomposition of RoE suggests that banks' profitability can be associated with higher return from assets or higher leverage or both. There are some studies which focused on the possibility of getting a higher RoE by substitution of equity capital with lower cost long-term debt. While higher return on assets is always considered good, a higher leverage ratio exposes bank to the risk of insolvency.

It follows from the empirical result presented in Table 1.1, that the higher RoE for the SBI group and nationalised banks was associated with a higher leverage ratio, while for new private sector banks, the higher RoE was attributable to higher profitability of assets and lower leverage. Among the bank groups, foreign banks had the highest return from assets as well as the lowest leverage ratio. The capital to assets ratio, as calculated for various bank groups using balance sheet data, further corroborates the findings of RoE analysis. As at end-March 2012, this ratio was highest for foreign banks, indicating their better capital position *vis-à-vis* other bank groups.

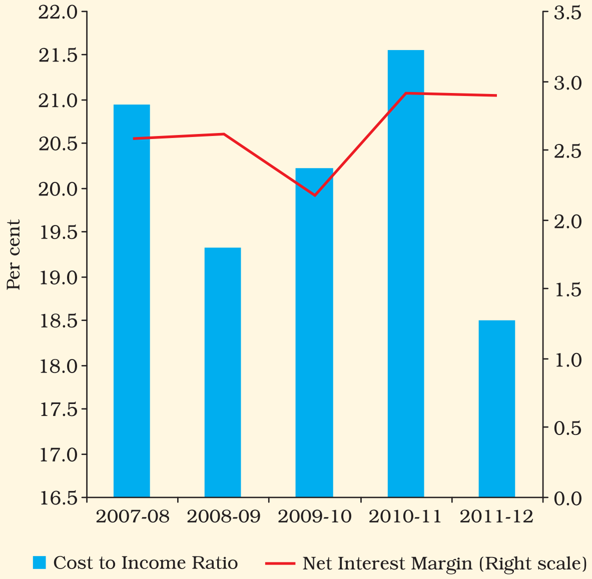
Du Pont analysis decomposes profitability of banks into two components, *viz.*, asset utilisation and cost management. Asset utilisation is captured by the total income net of interest expenditure and provisions/contingencies as percentages of average total assets. The ratio of operating expenses to average total assets indicates how efficiently a bank is using its resources and is thus termed as a parameter to understand the efficiency of cost management by banks. Better profit of banks can be attributed to better asset utilisation or better cost management or both simultaneously. Table 1.2 summarises the result of Du Pont analysis carried out on banks, for 2011-12.

According to the results of Du Pont analysis, foreign banks registered the highest RoA among bank groups, mainly on account of better asset utilisation, though their operating expenses to assets ratio was also higher when compared to other bank groups. This result corroborates the findings of past literature according to which foreign banks' higher profitability could be attributed to better fund management practices.

Table 1.2: Du Pont Analysis of Profitability: 2011-12

Bank Group	Asset Utilisation	Cost Management
1	2	3
SBI group	2.85	1.94
Nationalised banks	2.35	1.48
Old private sector banks	3.06	1.91
New private sector banks	3.81	2.24
Foreign banks	4.27	2.52

Chart IV.7: Trend in Efficiency Indicators



Capital Adequacy

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

4.25 The capital to risk-weighted assets ratio (CRAR) remained well above the stipulated 9 per cent for the system as a whole as well as for all bank groups during 2011-12, indicating that Indian banks remained well-capitalised. Also, the CRAR (Basel II) at the system-level improved marginally compared with the previous year (Table IV.12).

Tier I capital constituted more than 70 per cent of capital funds of banks

4.26 The component-wise breakup of capital funds indicated that Tier I capital accounted for

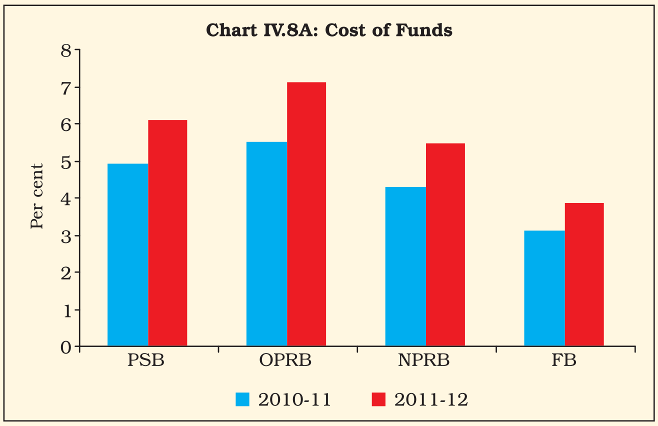
Table IV.11: Cost of Funds and Returns on Funds - Bank Group-wise

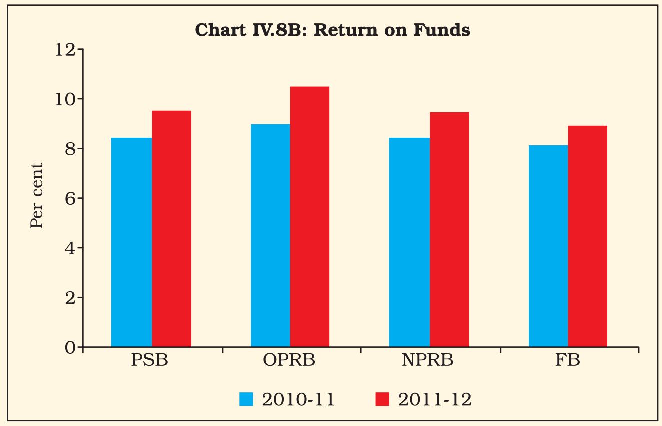
(Per cent)

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**							
	2010-11	**5.12**	**2.28**	**4.89**	**9.09**	**6.80**	**8.41**	**3.52**
	2011-12	**6.36**	**2.81**	**6.06**	**10.30**	**7.54**	**9.52**	**3.46**
1.1	Nationalised banks*							
	2010-11	5.13	2.36	4.93	9.21	6.83	8.49	3.56
	2011-12	6.51	2.78	6.22	10.32	7.44	9.49	3.27
1.2	SBI Group							
	2010-11	5.09	2.14	4.79	8.84	6.72	8.22	3.43
	2011-12	5.97	2.85	5.66	10.26	7.78	9.59	3.93
2	**Private sector banks**							
	2010-11	**4.97**	**2.33**	**4.56**	**9.65**	**6.53**	**8.55**	**3.99**
	2011-12	**6.43**	**2.92**	**5.84**	**10.99**	**7.26**	**9.69**	**3.85**
2.1	Old private sector banks							
	2010-11	5.63	2.24	5.50	10.42	6.20	8.98	3.48
	2011-12	7.24	4.34	7.10	11.98	7.37	10.47	3.37
2.2	New private sector banks							
	2010-11	4.73	2.33	4.27	9.41	6.62	8.42	4.15
	2011-12	6.14	2.81	5.45	10.69	7.23	9.46	4.01
3	**Foreign banks**							
	2010-11	**3.30**	**2.56**	**3.11**	**8.75**	**7.39**	**8.11**	**5.00**
	2011-12	**4.34**	**2.60**	**3.83**	**9.61**	**8.10**	**8.91**	**5.08**
4	**All SCBs**							
	2010-11	**5.01**	**2.33**	**4.73**	**9.18**	**6.79**	**8.42**	**3.69**
	2011-12	**6.28**	**2.81**	**5.90**	**10.40**	**7.53**	**9.52**	**3.62**

Notes : 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).
7. *: Includes IDBI Bank Ltd.

Source: Calculated from balance sheets of respective banks.





more than 70 per cent of the total capital of Indian banks both under Basel I and II, reflecting the sound capital position of banks. As at end-March 2012, the core CRAR stood well above the stipulated minimum of 6 per cent (Table IV.13).

4.27 As at end-March 2012, the majority of public sector banks had Tier I capital adequacy ratio within the range of 8 to 12 per cent (Chart IV.9).

Table IV.12: 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	
	2011	2012	2011	2012
1	2	3	4	5
Public sector banks	**11.78**	**11.88**	**13.08**	**13.23**
Nationalised banks*	12.15	11.84	13.47	13.03
SBI group	11.01	11.97	12.25	13.70
Private sector banks	**15.15**	**14.47**	**16.46**	**16.21**
Old private sector banks	13.29	12.47	14.55	14.12
New private sector banks	15.55	14.90	16.87	16.66
Foreign banks	**17.71**	**17.31**	**16.97**	**16.74**
Scheduled commercial banks	**13.02**	**12.94**	**14.19**	**14.24**

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

Table IV.13: Component-wise Capital Adequacy of SCBs
(As at end-March)

(Amount in ` billion)

Item	Basel I		Basel II	
	2011	2012	2011	2012
1. Capital funds (i+ii)	**6,745**	**7,810**	**6,703**	**7,780**
i) Tier I capital	4,765	5,685	4,745	5,672
ii) Tier II capital	1,980	2,124	1,958	2,109
2. Risk-weighted assets	**51,807**	**60,375**	**47,249**	**54,623**
3. CRAR (A as % of B)	**13.0**	**12.9**	**14.2**	**14.2**
of which: Tier I	9.2	9.4	10.0	10.4
Tier II	3.8	3.5	4.1	3.9

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

Leverage Ratio

Leverage ratio remained well above 4.5 per cent

4.28 In 2011-12, the leverage ratio, calculated as Tier I capital (under Basel II) as percentage of total assets increased compared with the previous year and remained above 4.5 per cent[3]. This was in sync with the increase in CRAR (under Basel II) (Chart IV.10).

[3] As per the Basel III guidelines, the statutory minimum for the leverage ratio has been prescribed at 4.5 per cent, during the parallel run period .

Chart IV.9A: Distribution of Banks According to CRAR (end-March 2012)

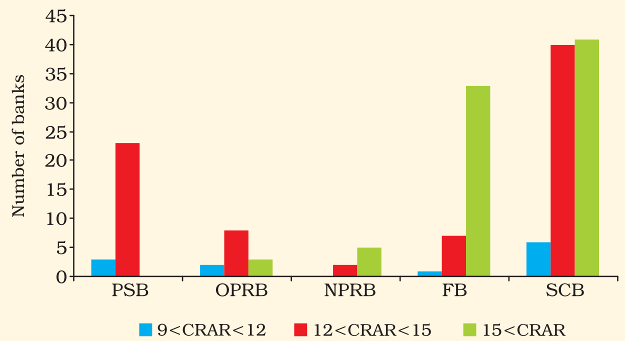
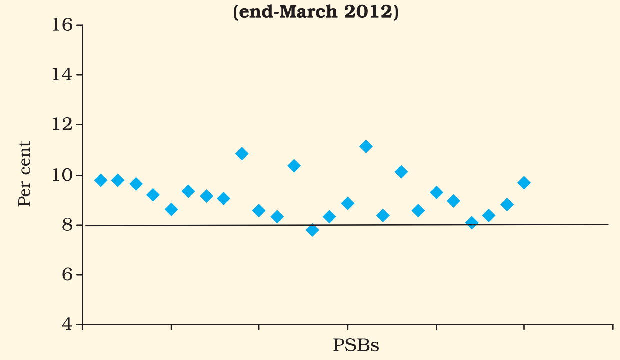


Chart IV.9B: Tier I CRAR of PSBs (end-March 2012)



Non-Performing Assets

Gross NPA ratio at system-level increased, mainly on account of the deterioration in asset quality of public sector banks

4.29 During 2011-12, the deteriorating asset quality of the banking sector emerged as a major concern, with gross NPAs of banks registering a sharp increase. The spurt in NPAs could be attributed to the slowdown prevailing in the domestic economy as well as inadequate appraisal and monitoring of credit proposals (Chart IV.11)[4].

4.30 The deterioration in asset quality was more pronounced in the case of public sector banks. During 2011-12, the gross NPAs of public sector banks increased at a higher rate as compared with the growth rate of NPAs at a system-level (Table IV.14 and Chart IV.12).

Chart IV.10: Trend in Capital Adequacy (end-March 2012)

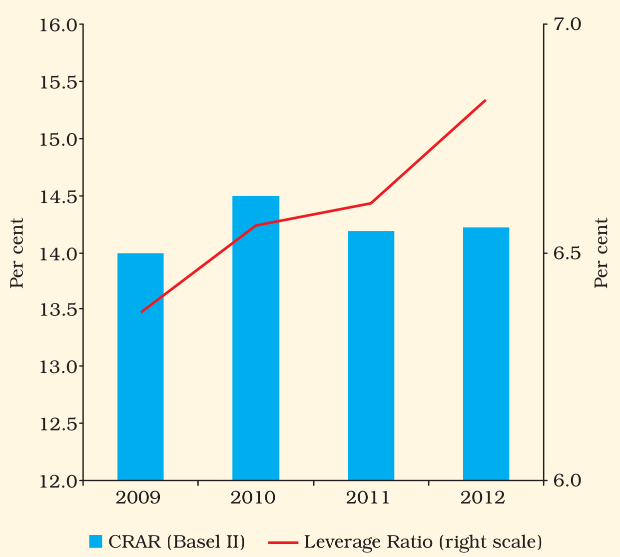


Chart IV.11: Growth Rate of NPAs *vis-a-vis* Advances

4 Growth rate of gross NPAs and advances were calculated based on the data collected from off-site returns.

Table IV.14: Trends in Non-performing Assets - Bank Group-wise

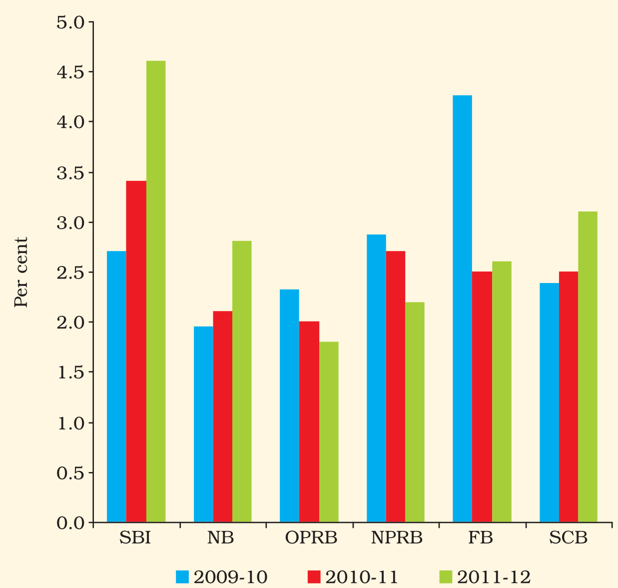
(Amount in ` billion)

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 2010-11	**746**	442	303	**182**	36	145	**50**	**979**
Opening balance for 2011-12	**746**	442	303	**182**	36	145	**50**	**979**
Addition during 2011-12	**928**	586	341	**98**	27	71	**45**	**1,071**
Recovered during 2011-12	**478**	325	152	**73**	20	52	**32**	**585**
Written off during 2011-12	**23**	13	10	**19**	1	18	**-**	**43**
Closing balance for 2011-12	**1,172**	690	482	**187**	42	145	**62**	**1,423**
Gross NPAs as per cent of Gross Advances**								
2010-11	**2.4**	**2.1**	**3.4**	**2.5**	**1.9**	**2.7**	**2.5**	**2.5**
2011-12	**3.3**	**2.8**	**4.6**	**2.1**	**1.8**	**2.2**	**2.6**	**3.1**
Net NPAs								
Closing balance for 2010-11	**360**	212	147	**44**	9	34	**12**	**417**
Closing balance for 2011-12	**591**	389	202	**44**	13	30	**14**	**649**
Net NPAs as per cent of Net Advances***								
2010-11	**1.2**	1.0	1.7	**0.6**	0.5	0.6	**0.6**	**1.1**
2011-12	**1.7**	1.6	2.0	**0.5**	0.6	0.5	**0.6**	**1.4**

Notes: 1. *: Includes IDBI Bank Ltd.
2. **: Calculated taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns.
3. ***: Calculated taking net NPAs from annual accounts of respective banks and net advances from off-site returns.
4. -: Nil/negligible.

Source: Balance sheets of respective banks.

Chart IV.12: Gross NPAs as percentage of Gross Advances



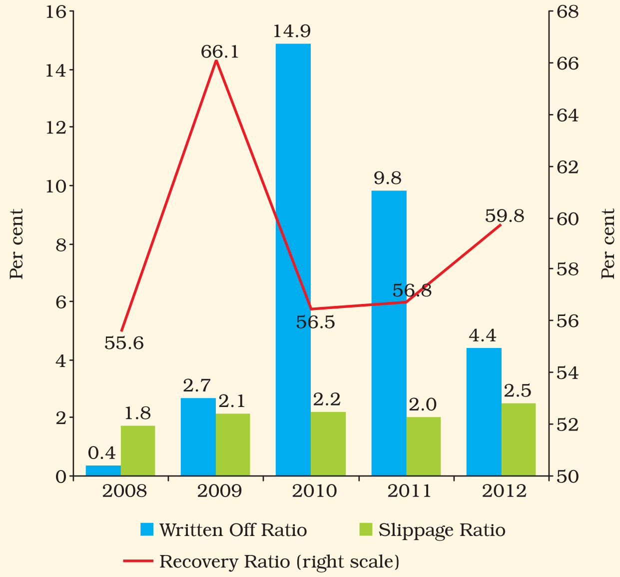
Slippage ratio deteriorated, though recovery ratio witnessed an improvement

4.31 In addition to an increase in gross NPAs at the system-level, fresh accretion of NPAs, as captured by the slippage ratio[5] also increased during 2011-12 compared with the previous year. However, on a positive note, the recovery ratio[6] of the banking sector witnessed an improvement during the year. During 2011-12, the written-off ratio[7] was significantly lower as compared with the previous year (Chart IV.13).

4.32 At the bank group level, the accretion to NPAs as captured by the slippage ratio was higher in the case of public sector banks and foreign banks. However, their recovery performance was also better than private sector banks. Among

[5] Slippage ratio is defined as fresh accretion of NPAs during the year as percentage of standard assets at the beginning of the year.
[6] Recovery ratio is defined as NPAs recovered during the year as percentage of gross NPAs outstanding at the beginning of the year.
[7] Written-off ratio is defined as NPAs written-off during the year as percentage of gross NPAs outstanding at the beginning of the year.

Chart IV.13: Trend in Important Ratios Relating to NPAs



various bank groups, new private sector banks relied more on writing off NPAs as a measure to contain their NPAs level (Chart IV.14).

Restructured standard advances increased significantly

4.33 In recent years, restructuring of advances has been one of the important channels used by banks to contain the deterioration in asset quality caused by burgeoning NPAs. Consequent to the slowdown in domestic economy, banks, especially public sector banks actively resorted to restructuring their advances under the special dispensation scheme of the Reserve Bank announced during 2008. The scheme enabled banks to retain the status of standard accounts even after restructuring. The steep increase in gross NPAs during 2011-12 was accompanied by a considerable pick-up in the growth of restructured advances. This was mainly due to the steep increase in restructured advances by public sector banks, particularly nationalised banks (Charts IV.15 and IV.16).

4.34 During 2011-12, total amount of NPAs recovered through the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act), Debt Recovery Tribunals (DRTs) and Lok Adalats registered a decline compared with the previous year. Of the total amount recovered through these channels, recoveries under the SARFAESI Act constituted almost 70 per cent.

4.35 Banks approach the DRTs in case they fail to recover total amount of their bad loans through the SARFAESI Act. At present, there are 33 DRTs

Chart IV.14: Bank Group-wise Ratios Relating to NPAs (end-March 2012)

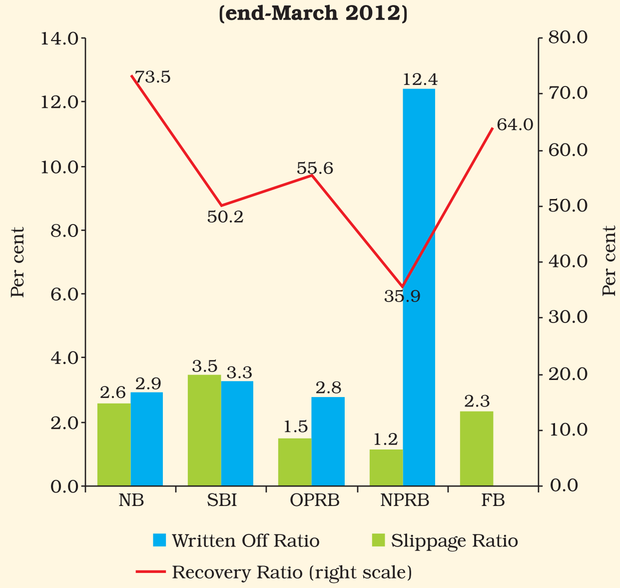


Chart IV.15: Restructured Advances as per cent of Gross Advances of SCBs (end-March)

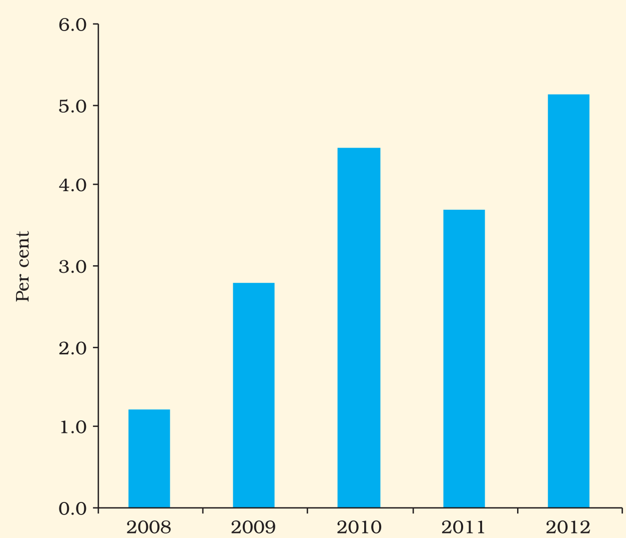


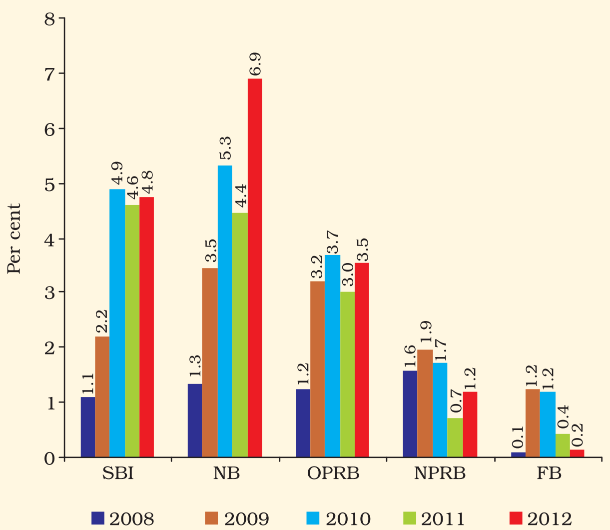
Table IV.15: NPAs of SCBs Recovered through Various Channels

(Amount in ` billion)

Recovery channel	2010-11				2011-12			
	No. of cases referred	Amount involved	Amount 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	6,16,018	53	2	3.7	4,76,073	17	2	11.8
ii) DRTs	12,872	141	39	27.6	13,365	241	41	17.0
iii) SARFAESI Act	1,18,642#	306	116	37.9	1,40,991#	353	101	28.6
Total	**7,47,532**	**500**	**157**	**31.4**	**6,30,429**	**611**	**144**	**23.6**

Notes: 1. *: 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.
2. #: Number of notices issued.

Chart IV.16: Restructured Advances as per cent of Gross Advances: Bank Group-wise (end-March)



and five Debt Recovery Appellate Tribunals across the country. NPAs recovered through DRTs constituted almost 28 per cent of total NPAs recovered through these three channels (Table IV.15).

4.36 As at end-June 2012, banks subscribed to almost 70 per cent of total security receipts issued by 14 securitisation/reconstruction companies. These companies, which function under the SARFAESI Act, acquire NPAs from banks, which helps the banking sector to improve the quality of their balance sheets (Table IV.16).

Provisioning coverage ratio declined

4.37 Though total provisioning increased at a higher rate, in sync with the higher growth of NPAs, the provisioning coverage ratio (PCR) dipped compared with the previous year. This was mainly due to the decline in the PCR of public sector banks (Table IV.17).

Net NPAs increased significantly

4.38 In sync with the acceleration in growth of gross NPAs as well as a lower provisioning coverage, net NPAs registered higher growth. Net NPA ratio was on a higher side for public sector banks, as compared with private sector and foreign banks (Also see Table IV.14).

Table IV.16: Details of Financial Assets Securitised by SCs/RCs

(Amount in ` billion)

	Item	End-March 2012	End-June 2012
	1	2	3
1	Book value of assets acquired	769	805
2	Security Receipts issued by SCs/RCs	165	167
3	Security Receipts subscribed by		
	(a) Banks	115	116
	(b) SCs/RCs	35	36
	(c) FIIs	1	1
	(d) Others (Qualified Institutional Buyers)	14	15
4	Amount of Security Receipts completely redeemed	79	82

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

Table IV.17: Trends in Provisions for Non-performing Assets – Bank Group-wise

(Amount in ` billion)

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
Provisions for NPAs								
As at end-March 2011	**366**	212	154	**135**	24	110	**38**	**540**
Add : Provisions made during the year	**381**	219	161	**56**	8	47	**34**	**472**
Less : Write-off, write- back of excess during the year	**190**	152	38	**51**	7	43	**23**	**264**
As at end-March 2012	**558**	279	278	**140**	25	114	**49**	**747**
Memo: Provisioning Coverage Ratio (Ratio of outstanding provisions to gross NPAs (per cent))								
End-March 2011	**49.0**	47.9	50.7	**74.0**	64.9	75.6	**75.0**	**55.1**
End-March 2012	**47.6**	40.4	57.7	**74.9**	61.0	78.6	**79.0**	**52.5**

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

NPAs became stickier, with proportion of sub-standard as well as doubtful assets in gross advances registering an increase

4.39 Apart from an increase in NPAs, the deterioration in asset quality was also evident in the form of rising sub-standard/doubtful assets as a percentage of gross advances. Increase in these two categories of NPAs as percentage of gross advances indicated that NPAs became stickier (Table IV.18).

Table IV.18: Classification of Loan Assets - Bank Group-wise
(As at end-March)

(Amount in ` billion)

Sr. No.	Bank group	Year	Standard assets		Sub-standard assets		Doubtful assets		Loss assets	
			Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
1	2	3	4	5	6	7	8	9	10	11
1	**Public sector banks**	**2011**	**32,718**	**97.8**	**350**	**1.0**	**332**	**1.0**	**65**	**0.2**
		2012	**38,255**	**97.0**	**623**	**1.6**	**490**	**1.2**	**60**	**0.2**
1.1	Nationalised banks**	2011	22,900	**98.1**	218	**0.9**	193	**0.8**	32	**0.1**
		2012	26,910	**97.5**	402	**1.5**	268	**1.0**	21	**0.1**
1.2	SBI Group	2011	9,818	**97.0**	132	**1.3**	139	**1.4**	33	**0.3**
		2012	11,345	**95.9**	221	**1.9**	222	**1.9**	39	**0.3**
2	**Private sector banks**	**2011**	**7,936**	**97.8**	**45**	**0.6**	**108**	**1.3**	**29**	**0.4**
		2012	**9,629**	**98.1**	**52**	**0.5**	**104**	**1.1**	**29**	**0.3**
2.1	Old private sector banks	2011	1,836	**98.0**	13	**0.7**	18	**1.0**	6	**0.3**
		2012	2,287	**98.2**	18	**0.8**	17	**0.7**	7	**0.3**
2.2	New private sector banks	2011	6,100	**97.7**	33	**0.5**	90	**1.4**	22	**0.4**
		2012	7,342	**98.1**	34	**0.4**	87	**1.2**	22	**0.3**
3	**Foreign banks**	**2011**	**1,943**	**97.5**	**19**	**0.9**	**21**	**1.1**	**11**	**0.5**
		2012	**2,284**	**97.3**	**21**	**0.9**	**22**	**0.9**	**20**	**0.8**
4.	**Scheduled commercial banks**	**2011**	**42,596**	**97.8**	**414**	**0.9**	**461**	**1.1**	**104**	**0.2**
		2012	**50,168**	**97.2**	**695**	**1.3**	**617**	**1.2**	**109**	**0.2**

Notes: 1. Constituent items may not add up to the total due to rounding off.
2. * : As per cent to gross advances.
3. **: Includes IDBI Bank Ltd.

Source: Off-site Returns.

Chart IV.17A: Gross NPA Ratio (Priority Sector): Bank Group-wise

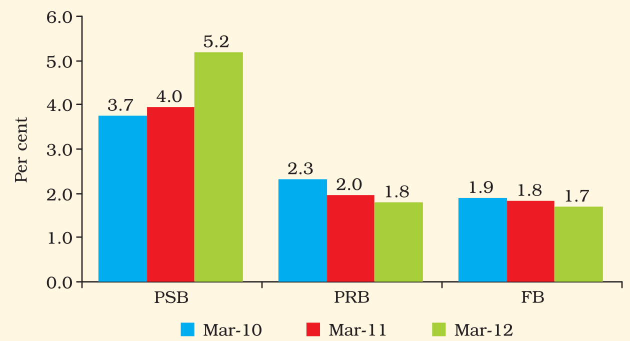
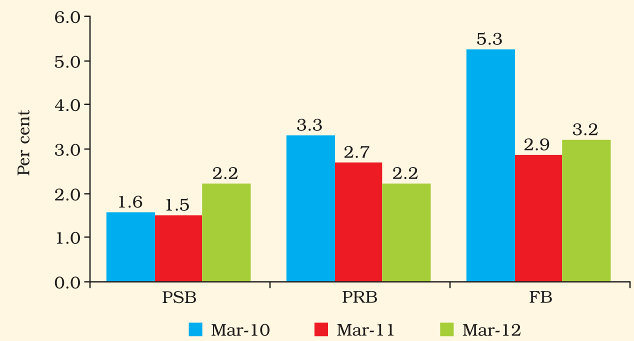


Chart IV.17B: Gross NPA Ratio (Non-Priority Sector): Bank Group-wise



Sector-wise Analysis of Non-performing Assets[8]

Deterioration in asset quality of public sector banks was spread across priority and non-priority sectors

4.40 Bank group-wise analysis of the ratio of gross NPAs to gross advances indicated that for public sector banks, this ratio increased for both the priority and non-priority sectors. In addition, the gross NPAs to gross advances ratio (priority sector) was significantly higher for public sector banks than other bank groups (Chart IV.17).

Nearly half of the total NPAs were attributed to priority sectors

4.41 During 2011-12, total priority sector NPAs increased at a significantly higher rate than the growth rate of credit to the priority sector. However, the share of the priority sector in total NPAs declined compared with the previous year. Among bank groups, proportion of priority sector in total NPAs was higher for public sector banks.

Share of agricultural sector in total NPAs registered an increase

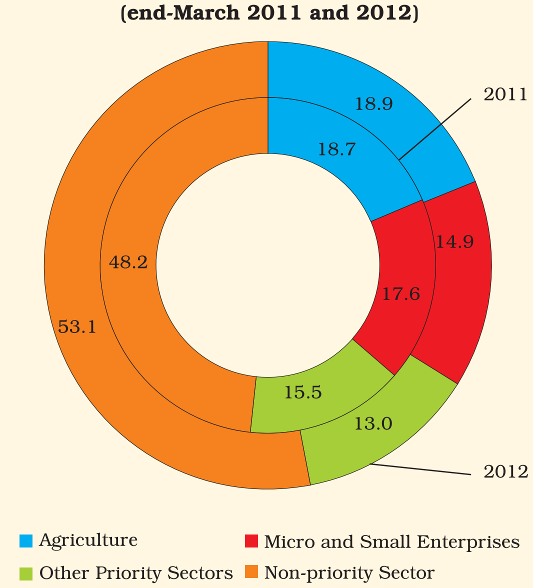
4.42 The sectoral classification of NPAs revealed that, during 2011-12, the share of agriculture in total NPAs increased marginally. However, despite the subdued industrial performance, the share of micro and small enterprises in total NPAs of the banking sector came down as compared with the previous year (Chart IV.18 and Table IV.19).

Liquidity

Liquidity ratio exhibited marginal decline

4.43 During 2011-12, the liquidity of banks was adversely affected by many structural and frictional factors, which include, *inter alia*, deceleration in deposits growth rate, growing mismatch in maturity profile of assets and

Chart IV.18: Percentage Composition of NPAs of SCBs (end-March 2011 and 2012)



[8] Analysis in this section is based on data collected from off-site returns.

Table IV.19: Sector-wise NPAs of Domestic Banks*

(Amount in ` billion)

Bank group	Priority sector		*Of which*						Non-Priority sector		*Of which*		Total NPAs	
			Agriculture		Micro and Small Enterprises		Others				Public Sector			
	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent
Public sector banks														
2011	**413**	**58.1**	**145**	**20.4**	**144**	**20.2**	**124**	**17.5**	**298**	**41.9**	**3**	**0.4**	**711**	**100.0**
2012	**562**	**50.0**	**227**	**20.1**	**178**	**15.9**	**157**	**14.0**	**563**	**50.0**	**32**	**2.9**	**1,125**	**100.0**
Nationalised banks**														
2011	257	59.9	92	21.5	105	24.4	60	14.0	172	40.1	3	0.6	430	100.0
2012	323	48.3	129	19.3	134	20.0	61	9.1	345	51.7	10	1.5	668	100.0
SBI group														
2011	156	55.3	53	18.7	39	13.9	64	22.7	126	44.7	-	0	281	100.0
2012	239	52.3	98	21.4	45	9.8	97	21.1	218	47.7	22	4.9	457	100.0
Private sector banks														
2011	**48**	**26.8**	**22**	**12.1**	**13**	**7.2**	**14**	**7.5**	**132**	**73.2**	**2**	**0.8**	**180**	**100.0**
2012	**51**	**27.9**	**22**	**11.8**	**17**	**9.4**	**12**	**6.7**	**132**	**72.1**	**0**	**0**	**183**	**100.0**
Old private sector banks														
2011	16	43.3	4	11.3	6	14.9	6	17.1	21	56.7	2	4.1	37	100.0
2012	18	42.9	6	13.4	7	16.8	5	12.8	24	57.1	0	0	42	100.0
New private sector banks														
2011	32	22.6	18	12.3	8	5.2	7	5.1	111	77.4	0	0	143	100.0
2012	33	23.4	16	11.3	10	7.1	7	4.9	108	76.6	0	0	141	100.0
All SCBs														
2011	**461**	**51.8**	**167**	**18.7**	**157**	**17.6**	**138**	**15.5**	**430**	**48.2**	**4**	**0.5**	**891**	**100.0**
2012	**613**	**46.9**	**248**	**19.0**	**195**	**14.9**	**169**	**13.0**	**695**	**53.1**	**32**	**2.5**	**1,308**	**100.0**

Notes: 1. * : Excluding foreign banks.
2. - : Nil/negligible
3. Amt. – Amount; Per cent – Per cent of total NPAs.
4. **- Includes IDBI Bank Ltd.

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

liabilities as well as exposure to long-run infrastructure projects. The percentage of liquid assets (cash and balances with the Reserve Bank in excess of CRR requirements, and investments and advances with maturity up to one year) in total assets can be taken as a rough measure of banks' liquidity condition. This ratio deteriorated marginally during 2011-12.

5. Sectoral Deployment of Bank Credit

Deceleration evident in the growth of aggregate non-food bank credit

4.44 The growth in aggregate non-food bank credit decelerated in 2011-12. This trend is in consonance with the overall slowdown observed in the growth of loans and advances in banks' consolidated balance sheet. Sluggish growth performance of the domestic economy due to cyclical and structural factors partly explains the slowdown in credit off-take. The overall slowdown in non-food bank credit during 2011-12 mainly emanated from slower growth in credit to industry, services and personal loans.

4.45 Given that majority of the personal loans are long-term in nature, growth in personal loans assumes special significance, especially in the backdrop of increase in NPAs during 2011-12. On a year-on-year basis, the growth in personal loans decelerated during 2011-12 compared with the previous year. Within the personal loans segment, housing credit slowed down (Table IV.20).

Credit to infrastructure grew at a slower pace

4.46 Following the overall deceleration in credit growth, credit to infrastructure also slowed down. As at end-March 2012, power sector accounted

Table IV.20: Sectoral Deployment of Gross Bank Credit

(Amount in ` billion)

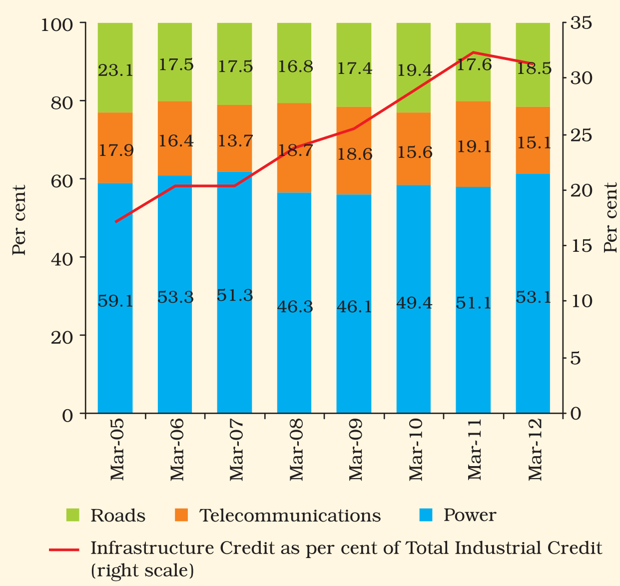
Sr No.	Sector	Outstanding as on		Percentage Variation	
		Mar-11	Mar-12	2010-11	2011-12
1	**Agriculture and Allied Activities**	**4,603**	**5,226**	**10.6**	**13.5**
2	**Industry, *of which***	**16,208**	**19,659**	**23.6**	**21.3**
	2.1 Infrastructure	5,266	6,191	38.6	17.6
	2.2 Micro and Small Industries	2,291	2,592	11.0	13.1
3	**Services**	**9,008**	**10,330**	**23.9**	**14.7**
	3.1 Trade	1,863	2,209	13.2	18.6
	3.2 Commercial Real Estate	1,118	1,205	21.4	7.8
	3.3 Tourism, Hotels & Restaurants	277	313	42.9	12.9
	3.4 Computer Software	151	154	20.3	2.1
	3.5 Non-Banking Financial Companies (NBFCs)	1,756	2,218	54.8	26.3
4	**Personal Loans**	**6,854**	**7,683**	**17.0**	**12.1**
	4.1 Credit Card Outstanding	181	204	-10.2	12.9
	4.2 Education	437	502	18.6	14.8
	4.3 Housing (Including Priority Sector Housing)	3,461	3,880	15.0	12.1
	4.4 Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits *etc.*)	605	685	24.4	13.2
5	**Total Non-food Gross Bank Credit**	**36,674**	**42,897**	**20.6**	**17.0**
6	**Total Gross Bank Credit**	**37,315**	**43,714**	**20.8**	**17.1**

Notes: 1. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
2. Components may not add up due to rounding off numbers of ` billion.

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

for more than half of total infrastructure credit (Chart IV.19). Also, the growth of credit to power sector was higher than the overall growth of credit to infrastructure. Going forward, there is a need to monitor the impact of lending to power sector on banks' asset quality, especially given the slowdown observed in this sector in recent times.

Chart IV.19: Trend in Infrastructure Credit



In addition, lending to infrastructure, being long-term in nature may result in an increase in maturity mismatch. A detailed analysis of the same is provided in Box IV.2.

Credit to Priority Sectors

4.47 During 2011-12, public and private sector banks' advances to priority sectors were less than 40 per cent of adjusted net bank credit/credit equivalent off-balance sheet exposure, whichever is higher. In addition, advances to agriculture and weaker sections by both public and private sector banks were less than 18 per cent and 10 per cent, respectively, at the aggregate level (Table IV.21).

Domestic banks' failure to meet the priority sector target remains a concern

4.48 The bank-wise provisional data on priority sector lending as on last reporting Friday of March 2012 indicates that 16 out of 26 public sector banks could not meet the overall priority sector target of 40 per cent. The number of public sector banks, which could not meet the sub-target of priority sector lending to agriculture and weaker

Box IV.2: Bank Lending to Infrastructure and Asset-Liability Mismatches: How Strong is the Linkage?

In a developing country like India, infrastructure plays a crucial role in sustaining the growth momentum of the country. According to the Approach Paper of 12th Five-Year Plan, the investment requirements in the infrastructure sector are estimated to be around `45 trillion during the 12th Plan period. This implies that infrastructure investment to GDP ratio needs to increase from about 8 per cent during 2011-12 to 10 per cent by 2016-17. However, investment in infrastructure development bears some special significance for the financial sector of the country as these investments are typically lump sum and involving long gestation, thus having implications for asset liability management. Apart from this, infrastructure projects are often subject to procedural delays and thus expose the lender to the risk of non-realisation of return in time.

During the last few years, the total credit extended by the SCBs to infrastructure segment increased within a range of 40-43 per cent. Also, infrastructure accounted for almost 15 per cent of total non-food gross bank credit in recent years. As against this, there was an increase in short-term liabilities of the banking sector during recent years. The asset-liability mismatch (ALM), calculated as the gap between proportion of short-term deposits and borrowings (with maturity up to one year) and proportion of short-term credit and investments (with maturity up to one year) also witnessed an upward trend in recent years (Chart 2.1).

In order to understand the possible impact of infrastructure lending on asset liability mismatches of the banking sector, a regression analysis was carried

Chart 2.1: Trend in Asset Liability Mismatch and Infrastructure Lending

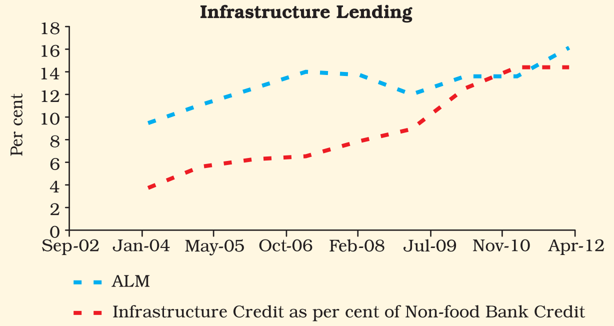


Table 2.1: Result of Regression Analysis

Dependent variable: ALM			
Sample period: 2004-2012			
	Coefficients	Standard Error	t-Stat
Intercept	30.43	17.27	1.76*
Proportion of term deposits	-0.31	0.27	-1.14*
Proportion of infrastructure credit	0.38	0.12	3.17**
R Square	0.68	Durbin-Watson statistic: 2.3	
Adjusted R Square	0.58		

Notes: 1.*:Not significant.
2. **: Significant at 1 per cent.

out taking the ALM as dependent variable, and credit to infrastructure as percentage of total non-food gross bank-credit and proportion of term deposits in total deposits, as explanatory variables. While increased proportion of term deposits is expected to increase the stability of balance sheet and thus reduce asset liability mismatches, increase in infrastructure lending could further exacerbate the asset-liability mismatches. Empirical results of the analysis are presented in Table 2.1.

From the results, it can be seen that proportion of infrastructure credit in total non-food gross bank credit is positively correlated with the ALM and this correlation was statistically significant. However, though the coefficient associated with proportion of term deposits was negative, the corresponding "t" value came out as statistically insignificant.

Recognising the possible adverse impact of infrastructure financing by banks on their asset-liability management, the Reserve Bank has taken certain measures in recent years such as permitting banks to enter into take out financing arrangement with IDFC/other FIs. Going forward, there is a need to conduct detailed impact analysis of the effect of infrastructure lending on asset liability mismatches of banks. Also, there is a need to make infrastructure projects commercially viable, apart from strengthening the corporate bond market, which would reduce the dependence on banks for infrastructure funds.

sections stood at 15 and 11, respectively. As on the last reporting Friday of March 2012, 6 private sector banks could not meet the overall priority sector target of 40 per cent. In addition, 13 private sector banks could not achieve the sub-target set for agriculture (Chart IV.20). A detailed analysis of priority sector lending is provided in Box IV.3.

Banks' retail loan portfolio expanded at a higher rate

4.49 During 2011-12, banks' retail loan portfolio witnessed expansion at a higher rate as compared with the previous year, mainly led by growth in credit card receivables and other personal loans.

Table IV.21: Priority Sector Lending by Banks
(As on last reporting Friday of March 2012)

(Amount in ` billion)

Item	Public Sector Banks		Private Sector Banks		Foreign Banks***	
	Amount Outstanding	Per cent of ANBC/OBE*	Amount Outstanding	Per cent of ANBC/ OBE*	Amount Outstanding	Per cent of ANBC/OBE*
1	2	3	4	5	6	7
Total Priority Sector Advances	**11,307**	**37.2**	**2,864**	**39.4**	**805**	**40.9**
of which						
Agriculture**	4,786	15.8	1,042	14.3	1	0.1
Weaker Sections	2,888	9.5	389	5.4	-	-
Small Enterprises	3,966	13.1	1,105	15.2	217	11

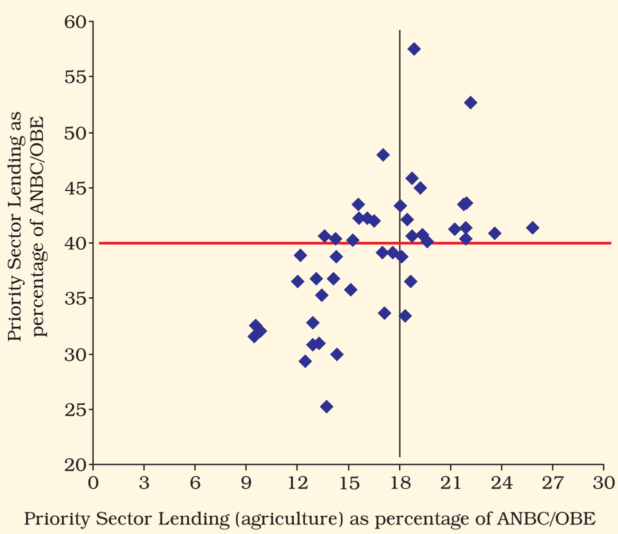
Notes: 1. *: Priority sector lending target set at 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher as on March 31st of the previous year.
2. **:For agriculture, the sub-target is set at 18 per cent of ANBC/OBE, whichever is higher as at end-March of the previous year.
3. ***: For foreign banks, the target of priority sector lending is set at 32 per cent of ANBC/OBE, whichever is higher, as at end-March of the previous year.
4. Figures reported as "per cent of ANBC/OBE" are calculated as amount of priority sector advances as per cent of ANBC/OBE, whichever is higher, as at end-March of the previous year.
5. - Nil/negligible.
6. Data are provisional.

Housing loans continued to constitute almost half of total retail portfolio of banks (Table IV.22).

Credit flow to sensitive sectors registered subdued growth

4.50 The Reserve Bank considers capital market, real estate, and commodities as sensitive sectors as sudden spurt in credit to these sectors could adversely affect the asset quality of banks due to price fluctuations in related asset/product markets. During 2011-12, growth in credit to sensitive sectors slowed down as compared with the previous year. As a consequence, proportion of credit to sensitive sectors in total credit also registered a decline. Real estate exposure accounted for more than 90 per cent of total bank exposure to sensitive sectors. At the bank group level, foreign banks' exposure to these sectors was higher as compared with other bank groups (Appendix Table IV.3).

Chart IV.20: Priority Sector Lending by Public Sector Banks (end-March 2012)



6. Operations of Scheduled Commercial Banks in Capital Market

Resource mobilisation through public and private placements slowed down

4.51 In an increasingly liberalised and competitive market, banks' resource mobilisation through the capital market provides an important avenue for growth in their balance sheet. However, following the uncertainties prevailing in the domestic market and relatively subdued performance of the equity market during the first half of 2011-12, banks abstained from raising resources through public issues during 2011-12 (Table IV.23).

Box IV.3: Priority Sector Lending – is there a Bias towards Bigger Credit Needs?

The effort of extending formal credit to key priority sectors, *i.e.*, agriculture and small scale industries had been set in motion back in 1968, when the Reserve Bank, in consultation with the National Credit Council (NCC) for the first time emphasised the need to increase commercial banks' commitment to priority sector lending. The description of the priority sectors was later formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the priority sectors. Although no specific target was fixed for lending to priority sectors during the initial years, banks were advised to increase the share of these sectors in their aggregate advances to the level of 33 per cent by March 1979. Later, banks were advised to increase the proportion of their priority sector lending to 40 per cent by March 1985.

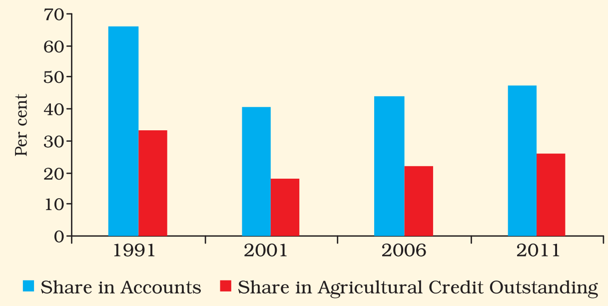
Subsequently, other committees and working groups on priority sector lending continued with the recommendation of a specific priority sector mandate for banks, though there have been periodic changes in the scope of priority sector definition from time to time. The recent development regarding priority sector lending involved constitution of a Working Group within the Reserve Bank under the Chairmanship of Shri M. V. Nair, with the mandate of re-examining the existing classification and suggesting revised guidelines with regard to priority sector lending classification and related issues.

As per the revised priority sector norms, there is no change in the overall target of 40 per cent. However, foreign banks having 20 branches or more will be subject to same targets as domestic banks, to be achieved within a period of five years (from April 1, 2013); in the case of other foreign banks, the existing target of 32 per cent continues to apply.

In this context, an attempt has been made to understand whether loans are concentrated in larger accounts at the cost of small borrowers within the priority sectors.

Agriculture is one of the most important employment intensive sectors of the economy, and as such a sub-target of 18 per cent of ANBC is prescribed for ensuring adequate credit flow to this sector. While there have been concerns about non-adherence to this target by banks in general, a further disaggregated analysis shows that only about one-fourth of total agricultural credit is going to small and marginal farmers. Further, the share of small and marginal farmers in total agricultural accounts continued to decline during past two decades. However, on the positive side, share of small and marginal farmers in the total agricultural credit outstanding witnessed an increasing trend from the 2000 onwards (Chart 3.1). Importantly, 13.6 per cent of total agricultural credit was absorbed by corporate, partnership firms and institutions engaged in agriculture, as on the last reporting Friday of March 2011.

Chart 3.1: Share of Small and Marginal Farmers in Total Agricultural Credit



Agro-processing units accounted for almost 5 per cent of the total agricultural credit during the same period.

Data on credit to micro and small enterprises also revealed a bias in favour of relatively bigger enterprises. As on the last reporting Friday of March 2011, of the total credit outstanding to the micro and small enterprises, only 21.1 per cent was disbursed to micro (manufacturing) enterprises with investment up to ₹5 lakh and micro (service) enterprises with investment up to ₹2 lakh as against the prescribed target of 40 per cent.

Priority sector loans across different sectors to certain borrowers are classified as weaker sections and a separate target of 10 per cent of ANBC is prescribed for this category. Though number of accounts in weaker section category witnessed higher growth during late 2000s as compared with early 2000s, amount outstanding under small and marginal farmers, DRI beneficiaries as well as SHGs decelerated during late 2000s (Table 3.1).

Thus, within the priority sectors, especially within agriculture and micro and small enterprises, majority of loans are concentrated in relatively larger accounts. There is a need to change credit concentration within the priority sector in order to further facilitate the process of inclusive growth.

Table 3.1: Priority Sector Lending of SCBs
(As on Last Reporting Friday of March 2011)

Category	Number of Accounts		Amount Outstanding	
	2006 over 2001	2011 over 2006	2006 over 2001	2011 over 2006
Weaker Sections	3.4	9.8	24.9	26.7
Small and Marginal Farmers	7.9	9.9	31.7	25.8
DRI beneficiaries	-9.7	12.2	11.6	7.1
Advances to SHGs	72.9	19.0	99.7	35.6

Source: Priority sector returns submitted by banks to the Reserve Bank.

Table IV.22: Retail Portfolio of Banks

(Amount in ` billion)

Item		Outstanding as at end-March		Percentage Variation	
		2011	2012	2010-11	2011-12
1		2	3	4	5
1	Housing Loans	3,607	4,118	15.1	14.2
2	Consumer Durables	46	27	50.3	-40.9
3	Credit Card Receivables	187	223	-13.5	19.6
4	Auto Loans	1,002	1,162	27.8	16.0
5	Other Personal Loans	2,469	3,069	18.5	24.3
Total Retail Loans (1 to 5)		**7,310** (18.3)	**8,599** (18.4)	**17.0**	**17.6**

Note: 1. Figures in parentheses represent percentage share of retail loans in total loans and advances.
2. The amount of total loans and advances are as provided in the off-site returns (domestic) of SCBs.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
4. Components may not add up to total due to rounding off numbers to ` billion.

Source: Based on Off-site returns (domestic).

4.52 During 2011-12, banks' resource mobilisation through private placements also slowed down as compared with the previous year. This reduction in resource mobilisation through private placements was in the case of public sector banks, while private sector banks continued to raise resources through private placements. Due to the global uncertainties emanating from the deteriorating European sovereign debt crisis, Indian banks did not mobilise resources from euro issues (Table IV.24).

Performance of BSE Bankex was subdued

4.53 Indian equity market witnessed sluggishness until December 2011, before picking up in the fourth quarter of 2011-12 following renewed FII buying. In tandem, the BSE Bankex, which represents the banking sector scrips, recorded negative return during 2011-12. The volatility of the BSE Bankex was also higher than the BSE Sensex, reflecting the higher risk perception in banking stocks. However, performance of BSE Bankex improved in the later part of the year and during February-March 2012, it outperformed the BSE Sensex (Table IV.25 and Chart IV.21).

4.54 In sync with the overall trend of the BSE Bankex, most banks recorded a lower price earning (P/E) ratio in 2011-12 compared with the previous year. During 2011-12, though the share of bank stocks in total turnover maintained an upward trend, banks' share in total market capitalisation declined as compared with the previous year (Appendix Table IV.4 and Table IV.25).

Table IV.23: Public Issues from the Banking Sector

(` billion)

Year	Public Sector Banks		Private Sector Banks		Total	
	Equity	Debt	Equity	Debt	Equity	Debt
1	2	3	4	5	6	7
2010-11	43.3	-	9.2	-	52.5	-
2011-12	-	-	-	-	-	-

- Nil/Negligible.
Source: SEBI.

Table IV.24: Resources Raised by Banks through Private Placements

(Amount in ` billion)

Category	2010-11		2011-12	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
Private Sector Banks	5	61	10	62
Public Sector Banks	25	209	9	44
Total	**30**	**270**	**19**	**106**

Note: Data for 2011-12 are provisional.
Source: Merchant Bankers and Financial Institutions.

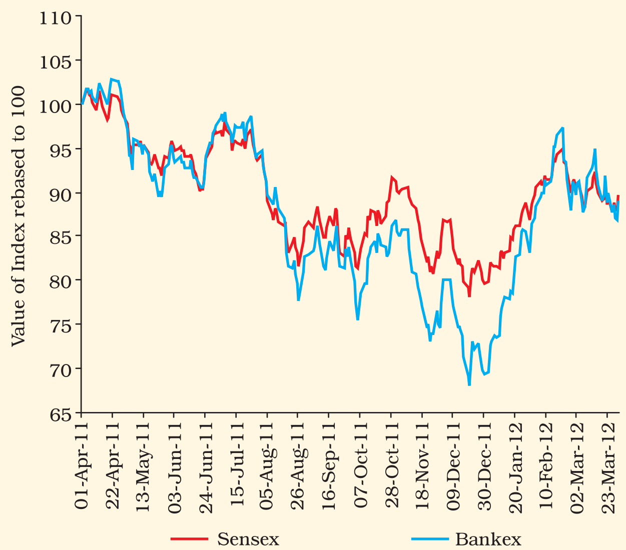
Table IV.25: Risk-Return Performance, Turnover and Capitalisation of Bank Stocks

Item	2009-10	2010-11	2011-12	2012-13#
1	2	3	4	5
1. Return*				
BSE Bankex	137.2	24.9	-11.6	11.8
BSE Sensex	80.5	10.9	-10.5	7.8
2. Volatility@				
BSE Bankex	16.5	10.3	9.7	4.8
BSE Sensex	11.9	6.3	6.2	3.8
3. Share of turnover of bank stocks in total turnover	**8.3**	**9.5**	**11.4**	**14.4**
4. Share of capitalisation of bank stocks in total market capitalisation **	**10.0**	**11.9**	**11.5**	**12.0**

Notes: 1. * : Percentage variations in indices on a point-to-point basis.
2. @ : Defined as coefficient of variation.
3. **: As at end-period.
4. #: April-September 28, 2012.

Source: BSE.

Chart IV.21: Relative Performance of Bankex and BSE Sensex - 2011-12



7. Shareholding Pattern in Scheduled Commercial Banks

Government shareholding in PSBs was well above the statutory requirement

4.55 During 2011-12, majority of public sector banks had Government shareholding of more than the stipulated 51 per cent, though for a number of public sector banks, this percentage was close to the statutory floor (Chart IV.22). As at end-March 2012, 10 out of 26 public sector banks had private shareholding ranging from 20 per cent to 40 per cent. In addition, foreign shareholding in public sector banks was only upto 17.4 per cent. As at end-March 2012, foreign shareholding in private sector banks was upto 70.7 per cent, which was within the stipulated limit of 74 per cent (Table IV.26 and Appendix Table IV.5).

Chart IV.22: Government Shareholding in Select Public Sector Banks (end-March 2012)

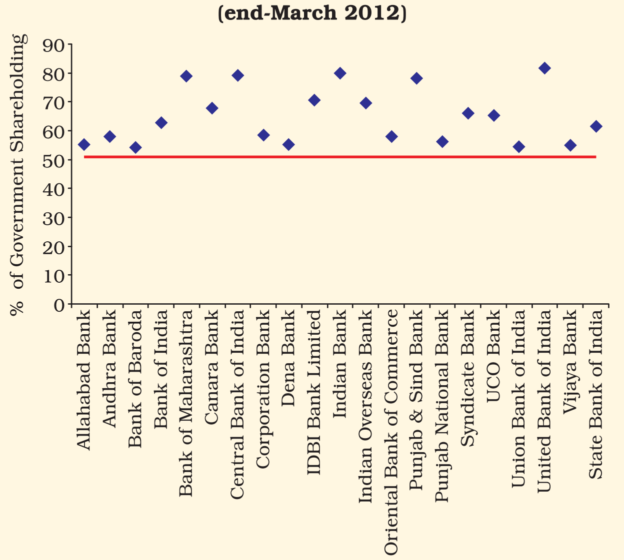


Table IV.26: Number of Public Sector Banks Classified by Percentage of Private Shareholding*
(As at end-March 2012)

Class of shareholding	Private resident shareholding	Private non-resident shareholding	Total private shareholding
1	2	3	4
Up to 10 per cent	-	17	-
More than 10 and up to 20 per cent	5	9	2
More than 20 and up to 30 per cent	8	-	4
More than 30 and up to 40 per cent	8	-	6
More than 40 and up to 43 per cent	5	-	14

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

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

4.56 As at end-March 2012, there were 41 foreign banks operating in India with 323 branches. Another 46 foreign banks had their representative offices in India. Among foreign banks, Standard Chartered had the maximum spread of bank branches in India (96 branches) followed by HSBC (50 branches), Citi Bank N.A. (42 branches) and Royal Bank of Scotland N.V. (31 branches).

4.57 As at end-March 2012, 23 Indian banks had overseas presence with a total number of overseas branches of 250, as compared with 244 during the previous year. Of these overseas branches, 215 branches were of public sector banks. Among these banks, the State Bank had maximum number of overseas branches followed by Bank of Baroda and Bank of India. In addition,

Table IV.27: Overseas Operations of Indian Banks
(As at end-March)

Name of the Bank		Branch		Subsidiary		Representative Office		Joint Venture Bank		**Total**	
		2011	2012	2011	2012	2011	2012	2011	2012	**2011**	**2012**
1		2	3	4	5	6	7	8	9	**10**	**11**
1	Allahabad Bank	1	1	0	0	1	1	0	0	**2**	**2**
2	Andhra Bank	0	0	0	0	2	2	0	0	**2**	**2**
3	Bank of Baroda	47	47	9	9	3	2	1	1	**60**	**59**
4	Bank of India	24	24	3	4	5	5	1	0	**33**	**33**
5	Canara Bank	4	5	0	0	1	1	0	0	**5**	**6**
6	Corporation Bank	0	0	0	0	2	2	0	0	**2**	**2**
7	Indian Bank	4	4	0	0	0	0	0	0	**4**	**4**
8	Indian Overseas Bank	6	6	1	0	4	3	0	0	**11**	**9**
9	IDBI Bank Ltd.	1	1	0	0	0	0	0	0	**1**	**1**
10	Punjab National Bank	4	4	3	3	4	5	1	1	**12**	**13**
11	State Bank of India	45	52	5	5	8	8	4	4	**62**	**69**
12	State Bank of Travancore	0	0	0	0	0	1	0	0	**0**	**1**
13	Syndicate Bank	1	1	0	0	0	0	0	0	**1**	**1**
14	UCO Bank	4	4	0	0	2	1	0	0	**6**	**5**
15	Union Bank	1	1	0	0	5	5	0	0	**6**	**6**
16	United Bank of India	0	0	0	0	1	1	0	0	**1**	**1**
17	Oriental Bank of Commerce	0	0	0	0	1	1	0	0	**1**	**1**
18	Axis Bank	3	4	0	0	3	3	0	0	**6**	**7**
19	HDFC Bank Ltd.	2	2	0	0	2	2	0	0	**4**	**4**
20	ICICI Bank Ltd.	8	9	3	3	8	8	0	0	**19**	**20**
21	IndusInd Bank Ltd.	0	0	0	0	2	2	0	0	**2**	**2**
22	Federal Bank Ltd.	0	0	0	0	1	1	0	0	**1**	**1**
23	Kotak Mahindra Bank Ltd.	0	0	0	0	1	1	0	0	**1**	**1**
	Total	**155**	**165**	**24**	**24**	**56**	**55**	**7**	**6**	**242**	**250**

25 Indian banks had a total of 55 representative offices in other countries. The number of subsidiaries and joint ventures of Indian banks abroad stood at 24 and 6, respectively (Table IV.27).

9. Technological Developments in Scheduled Commercial Banks

4.58 Over the years, the Reserve Bank has laid special emphasis on technology infusion in the day to day operations of banks. Technology, apart from increasing the efficiency of banking services, is expected to boost the ongoing process of financial inclusion emphasised by the Reserve Bank. In recent years, increase in the number of off-site ATMs in various locations as well as use of mobile phones for delivering banking technology has further facilitated banking outreach in remote areas. The IT Vision Document, 2011-17 of the Reserve Bank sets out the roadmap for implementation of key IT applications in banking with special emphasis on seamless delivery of banking services through effective implementation of Business Continuity Management (BCM), Information Security Policy, and Business Process Re-engineering (BPR).

4.59 With the computerisation and adoption of Core Banking Solutions in banks almost reaching the final stage of completion, the focus has now shifted to adoption of more advanced technologies in banking, which would use analytics and business intelligence to enhance their Customer Relationship Management (CRM) and improve internal effectiveness including Management Information Systems (MIS) and managing risks arising out of IT implementation.

Sustained increase in total number of ATMs indicating move towards door-step banking

4.60 During 2011-12, an additional 21,000 ATMs were deployed by the banks. Public sector banks accounted for more than 60 per cent of the total number of ATMs as at end-March 2012, while close to one-third of the total ATMs were attributable to new private sector banks (Table IV.28).

Public sector banks were major issuers of debit cards

4.61 Issuance of credit cards declined, while debit cards showed a high growth trend. Foreign banks, however, showed a small decline in the issuance of debit cards. More than three-fourths of the total debit cards outstanding as at the end of March 2012 were issued by public sector banks. In contrast, more than half of the outstanding credit cards as at the end of March 2012 were issued by new private sector banks (Table IV.29 and Chart IV.23).

Table IV.28: ATMs of Scheduled Commercial Banks
(As at end-March 2012)

Sr. No	Bank group	On-site ATMs	Off-site ATMs	Total number of ATMs
1	2	3	4	5
1.	**Public sector banks**	**34,012**	**24,181**	**58,193**
1.1	Nationalised banks*	18,277	12,773	31,050
1.2	SBI group	15,735	11,408	27,143
2.	**Private sector banks**	**13,249**	**22,830**	**36,079**
2.1	Old private sector banks	3,342	2,429	5,771
2.2	New private sector banks	9,907	20,401	30,308
3.	**Foreign banks**	**284**	**1,130**	**1,414**
All SCBs (1+2+3)		**47,545**	**48,141**	**95,686**

Note: *: Excluding IDBI Bank Ltd.

Table IV.29: Credit and Debit Cards Issued by Scheduled Commercial Banks
(As at end-March)

(in million)

Sr. No	Bank group	Outstanding Number of Credit Cards		Outstanding Number of Debit Cards	
		2011	2012	2011	2012
1	2	3	4	5	6
1.	**Public sector banks**	**3.08**	**3.06**	**170**	**215**
1.1	Nationalised banks	0.78	0.84	80	103
1.2	SBI group	2.30	2.22	90	112
2.	**Private sector banks**	**9.32**	**9.67**	**53**	**60**
2.1	Old private sector banks	0.04	0.04	12	14
2.2	New private sector banks	9.28	9.63	41	46
3.	**Foreign banks**	**5.64**	**4.92**	**3.9**	**3.8**
All SCBs (1+2+3)		**18.04**	**17.65**	**228**	**278**

Note: Components may not add up to total due to rounding off numbers to million.

Both volume and value of transactions through major electronic payment systems registered an increase

4.62 A trend in favour of cashless payments is discernible in recent years with both volume and

Chart IV.23A: Number of Credit/Debit Cards Outstanding

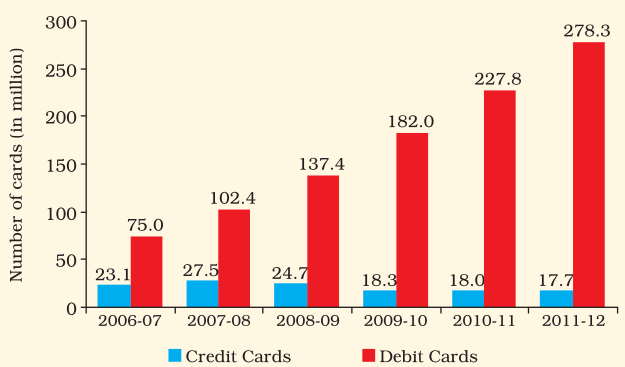
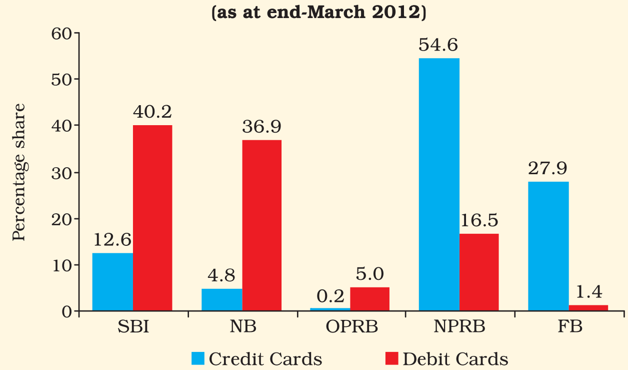


Chart IV.23B: Share of Bank Groups in Total Credit/Debit Cards: (as at end-March 2012)



Box IV.4: Changing Trend of the Payment Systems from Cash to Cashless

In India, cash continues to be the pre-dominant mode of payment. The policy initiatives and the regulatory stance of the Reserve Bank has continued to focus on increasing the acceptance and penetration of safe, secure and efficient non-cash payment modes comprising cheques, credit/debit cards, and transactions through ECS/RTGS/NEFT, over the years. Due to these measures the average ratio of non-cash retail payment to GDP continues to hover around 6 per cent over the last three years. (Table 4.1).

The bank-led model for mobile banking has also started gaining popularity in the recent months. As at the end of June 2012, 69 banks were granted approval to provide mobile banking facility, of which 49 have started operations. In November 2010, National Payment Corporation of India (NPCI) was given approval to launch Interbank Mobile Payment Service (IMPS), which is a unique 24X7 inter-bank electronic funds transfer system providing instantaneous credit to the beneficiaries. With this channel having now stabilised and gaining further customer acceptance, the earlier transaction limit for mobile banking has been removed by the Reserve Bank. The banks are now free to fix their own per transaction limit based on their own risk perception with the approval of their respective Boards.

Apart from this, the volume and value of transactions through the two major electronic payment systems of the country, *i.e.*, RTGS and NEFT has increased rapidly (Chart 4.1A and 4.1B).

Pre-paid payment instruments (PPIs) have emerged as a convenient replacement/substitution for cash transaction, besides providing a proper audit trail. PPIs are payment instruments that facilitate purchase of goods and services against the value stored on such instruments. As at end-June 2012, 40 banks (including the Department of Posts, GoI) and 21 non-bank entities were granted approval/ authorisation under the Payment and Settlement System (PSS) Act, 2007 to issue PPIs in India. Three types of PPIs are popularly issued *viz.*, paper voucher, cards and m-wallets. Amongst these, the paper vouchers are the most popular in terms of numbers and value. These were mainly issued by non-banks (Table 4.2). However, efforts are underway to migrate these paper based PPIs to electronic modes.

Going forward, the relaxations in the domestic money transfer guidelines introduced in October 2011 are expected to provide further impetus towards financial inclusion through electronic PPIs, including the use of m-wallets, by enabling all authorised entities (both banks as well as non-banks) to increase domestic remittances through formal payment channels.

Chart 4.1A: Progress in NEFT

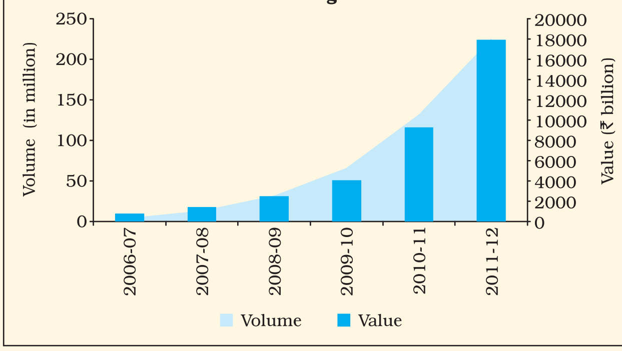


Chart 4.1B: Progress in RTGS

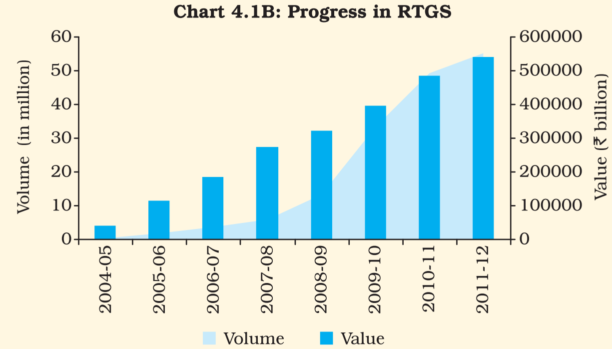


Table 4.1: Trend in Payments Systems

(` billion)

Year	Non-cash retail payments*	Non-cash retail payments to GDP ratio	Currency in circulation as a percentage of GDP
2006-07	1,94,459	4.53	11.77
2007-08	3,05,382	6.12	11.85
2008-09	3,29,736	5.91	12.38
2009-10	4,06,116	6.29	12.38
2010-11	4,76,291	6.21	12.36
2011-12	5,16,332	5.83	12.04

* Cheques, ECS, NEFT, Cards, RTGS Customer transactions.

Source: Various RBI publications and Database on Indian Economy (DBIE).

Table 4.2: Spread of Pre-payment Instruments
(end-March 2012)

(Volume in million and Value in ` billion)

Pre-paid Instrument Type	Number of PPIs issued	Percentage to total PPIs issued	Value of PPIs issued	Percentage to total PPIs issued
Paper voucher	42.00	97.0	1.76	60.8
Card based	0.57	1.3	1.04	35.8
Mobile account/ wallet	0.55	1.3	0.1	3.5
Total	**43.00**	**100.0**	**2.9**	**100.0**

Note: Components may not add up to total due to rounding off numbers to million/ ` billion.

Table IV.30: Volume and Value of Electronic Transactions by SCBs

(Volume in million, Value in ` billion)

Year	Volume		Percentage Variation		Value		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5	6	7	8	9
ECS Credit	117	122	19.5	3.6	1,817	1,838	54.5	1.2
ECS Debit	157	165	5.0	5.1	736	834	5.9	13.3
Credit cards	265	320	13.2	20.7	755	966	22.2	27.9
Debit cards	237	328	39.3	38.2	387	534	46.6	38.0
NEFT	132	226	99.5	70.9	9,321	17,903	127.6	92.1
RTGS	49	55.0	48.5	11.6	4,84,872	5,39,307	22.9	11.2

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to million/` billion.

value of transactions through major electronic modes of payments registering an increase (Table IV.30 and Box IV.4).

Implementation of Business Continuity Plan (BCP) and Automated Data Flow is in progress

4.63 At the present juncture, banking in India is largely dependent on technology. It is, therefore, necessary that banks have appropriate and adequate arrangements for disaster recovery and business continuity to face any event of natural disasters or operational failure. During recent years, an integrated Business Continuity Management (BCM) arrangement encompassing continuity planning for all business functions including data centres has evolved, with support provided by the Reserve Bank. In addition, to address the issues of disruption in business process arising from technology failure, appropriate disaster recovery and business continuity arrangements have been implemented at RBI data centres.

4.64 Considering the importance of accuracy and timeliness in regulatory reporting, a project on automating data flow from the core banking solution (CBS) or other IT systems of commercial banks to the Reserve Bank was announced in the Monetary Policy Statement of 2010-11. The Approach Paper released in November 2011, prepared by a core group with representation from banks, the Reserve Bank, IDRBT and the IBA envisages the implementation in two phases. In the first phase, banks were advised to ensure seamless flow of data from their transaction server to their management information system (MIS) server while the second phase would involve the Reserve Bank to introduce a system for generating all returns from banks' MIS. Implementation of the first phase is in progress, and is monitored and reviewed at quarterly intervals. The project is expected to be completed by March 2013. In the second phase, the Reserve Bank would introduce a system for the flow of data from the MIS server of banks in a straight through process.

4.65 Considering the tremendous growth in volume of transactions through the RTGS system, a Technical Advisory Group (TAG) with members from technology institutes, banks and the Reserve Bank was constituted in order to review the RTGS system. The Group recommended building up the New Generation RTGS (NG-RTGS) system, which would encompass key features such as (i) liquidity-saving mechanism (ii) advanced queue management system (iii) various modes of access as per the size of the bank (iv) Extensible Mark-up Language (XML) based messaging system and (v) real-time information and transaction monitoring and control system having the dashboard facility.

10. Customer Service

4.66 Providing efficient and hassle-free banking services has been one of the important priorities pursued by the Reserve Bank. A separate Customer Services Department was set up within the Reserve Bank in July 2006 to oversee the

Table IV.31: Region-wise Complaints Received at Banking Ombudsman Offices

BO office	Number of Complaints		Percentage Variation
	2010-11	2011-12	2011-12
Ahmedabad	5,190	4,590	-11.6
Bangalore	3,470	3,486	0.5
Bhopal	5,210	5,953	14.3
Bhubaneswar	1,124	1,826	62.5
Chandigarh	3,559	3,521	-1.1
Chennai	7,668	6,614	-13.7
Guwahati	584	708	21.2
Hyderabad	5,012	5,167	3.1
Jaipur	3,512	4,209	19.8
Kanpur	8,319	9,633	15.8
Kolkata	5,192	4,838	-6.8
Mumbai	7,566	7,905	4.5
New Delhi	10,508	9,180	-12.6
Patna	2,283	2,718	19.1
Thiruvananthapuram	2,077	2,541	22.3
Total	**71,274**	**72,889**	**2.3**

Source: Various Regional Offices of Banking Ombudsman.

grievance redressal mechanism of various banks as well as the Reserve Bank as also administering the Banking Ombudsman (BO) scheme. At present, the BO is functional across 15 major banking centres of the country.

Major metropolitan cities accounted for almost 40 per cent of total complaints

4.67 The major metropolitan centres, *i.e.*, New Delhi, Mumbai, Kolkata, and Chennai accounted for almost 40 per cent of the total number of complaints received across the country (Table IV.31).

Majority of complaints relate to credit/debit cards and violation of fair practices code

4.68 According to the category-wise data on complaints sourced from all 15 BO offices, majority of complaints were regarding credit/debit cards followed by non-observance of the fair practices code, deposits account, failure of commitments made under the BCSBI code and pensions.

Public sector banks accounted for almost two-thirds of total complaints

4.69 In continuation of the trend observed during the previous year, public sector banks accounted for bulk of the complaints (70 per cent) received during 2011-12. Within public sector banks, the State Bank group alone accounted for almost 38 per cent of total complaints received during 2011-12. Though across all major categories of complaints, the combined share of the State Bank group and nationalised banks was more than 50 per cent, it was particularly marked for complaints related to pensions (Chart IV.24 and Appendix Table IV.7).

4.70 Going forward, there is a need to improve customer services in public sector banks across all spheres of banking and particularly in areas related to deposit accounts, loans and advances,

Chart IV.24A: Bank Group-wise Break-up of Major Complaint Types: 2011-12

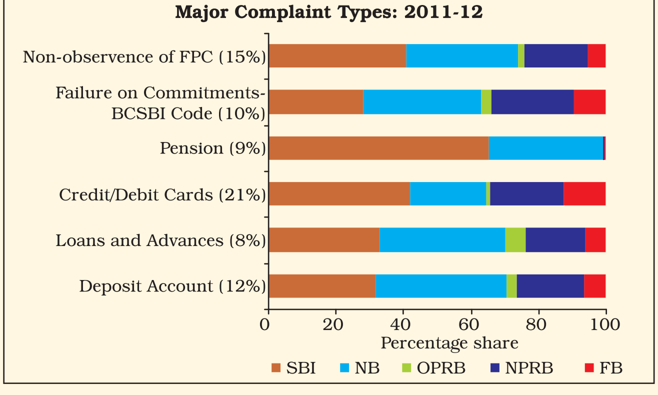
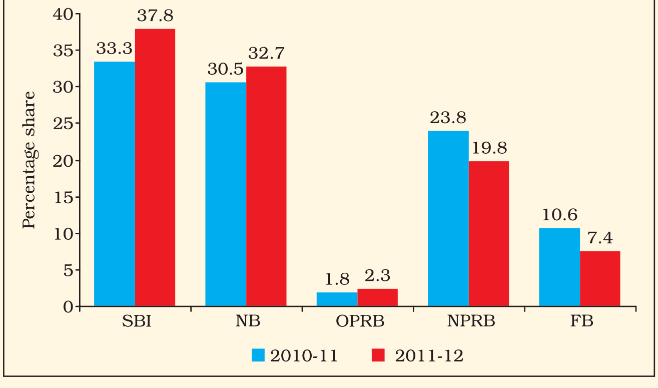


Chart IV.24B: Share of Bank Groups in Total Complaints



FPC: Fair Practices Code.

Note: Figures in parentheses in Chart IV.24A is share of complaints pertaining to the area in total complaints recorded during 2011-12.

failure of commitments made under the BCSBI code and pensions. In addition, services related to credit/debit cards, which have been subject to frequent complaints from customers in recent years, need to be improved across all bank groups. With the advent of technology, there is a need to further strengthen customer service in areas of net and mobile banking to enhance customer confidence in these technologies.

4.71 There is a further need to improve the customer data base, which apart from facilitating banks to acquaint themselves with the whereabouts of the customers, would help them to prevent incidents of fraud/money-laundering. A new initiative, namely, Unique Customer Identification Code (UCIC) has been taken up by the Reserve Bank in this area (refer to Box III.1 of Chapter III).

Need to improve customer awareness to contain incidents of frauds involving customers

4.72 With greater infusion of technology in banking, the incident of frauds in internet banking has witnessed an increase in recent times. Ensuring efficiency of the banking sector by way of technology infusion while minimising the occurrence of such fraudulent events has become one of the major objectives of the Reserve Bank in recent years. Complaints related to unauthorised fund transfers, fraudulent withdrawals from ATMs using duplicate cards, phishing E-mails aimed at extracting personal information have registered significant increase in recent times.

4.73 Going forward, there is a need for building up a robust mechanism to prevent incidents of fraud in areas of mobile/net banking and electronic fund transfer. Along with this, the initiatives by various BO offices to improve customer education and awareness need to be stepped up further, which would require active support from banks as well as State Governments.

11. Financial Inclusion

4.74 In sync with the objective of inclusive growth, the Reserve Bank has given high priority to the agenda of financial inclusion over the past few years. Initiatives were taken by the Reserve Bank in recent years to expand banking services to remote areas of the country. This includes relaxation of branch authorisation policy, and directing commercial banks to open at least 25 per cent of their total branches in hitherto unbanked areas of the country. In addition, considering the difficulty of opening brick-and-mortar branches in all the remote parts of the country, the Reserve Bank has been encouraging banks to improve banking penetration through Business Correspondents (BCs)/ Business Facilitators (BFs). Further, the Reserve Bank has also allowed for-profit organisations to work as BCs. Apart from this, leverage of technology for the expansion of banking services has been encouraged by the Reserve Bank in recent years. The use of mobile technology to deliver banking services is an important initiative in this direction. Despite all the attempts made by the Reserve Bank, the extent of financial exclusion continued to be significant in India, when compared with some of the advanced as well as developing countries (Table IV.32).

Table IV.32: Select Indicators of Financial Inclusion-Cross Country Comparison

Country	Number of branches (per 0.1 million adults)	Number of ATMs (per 0.1 million adults)	Bank loan as per cent of GDP	Bank deposits as per cent of GDP
1	2	3	4	5
India	**10.64**	**8.90**	**51.75**	**68.43**
Australia	29.61	166.92	128.75	107.10
Brazil	46.15	119.63	40.28	53.26
France	41.58	109.80	42.85	34.77
Mexico	14.86	45.77	18.81	22.65
United States	35.43	-	46.83	57.78
Korea	18.80	-	90.65	80.82
Philippines	8.07	17.70	21.39	41.93

Notes: - : Data not available. All data pertain to 2011.
Source: Financial Access Survey, IMF.

Majority of the new bank branches were opened in rural and semi-urban areas

4.75 In accordance with the efforts put forward by the Reserve Bank for opening new bank branches in rural areas, more than two-thirds of total new branches opened during 2011-12 were in rural or semi-urban areas. Among the regions, southern region accounted for almost 30 per cent of total new bank branches opened (Table IV.33).

Majority of the new bank branches were located in Tier 2-6 centres

4.76 Consequent to the liberalisation of the branch authorisation policy, banks are not required to take prior approval from the Reserve Bank in order to open branches in Tier-2 to Tier-6 centres. Of the total new bank branches opened during 2011-12, almost 70 per cent (4,831 bank branches) were located in Tier-2 to Tier-6 centres.

Off-site ATMs as substitute for brick-and-mortar branches

4.77 Off-site ATMs play an important role by providing the basic banking services like cash withdrawal, transfer of funds even without the presence of full-fledged brick-and-mortar branches. During 2011-12, there was an addition of 14,365 new off-site ATMs. However, metropolitan areas accounted for the maximum number of newly opened ATMs. Southern region had maximum number of newly opened ATMs, followed by northern region. However, the share of rural areas in the total number of ATMs continued to remain small (Chart IV.25 and Table IV.34).

Table IV.33: Region-wise and Population Group-wise New Bank Branches Opened during 2011-12

Region	Rural	Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5	6
Central	543	483	240	119	1,385
Eastern	301	352	217	89	959
North-Eastern	43	60	49	-	152
Northern	450	425	187	205	1,267
Southern	647	871	315	247	2,080
Western	269	387	122	297	1,075
Total	**2,253**	**2,578**	**1,130**	**957**	**6,918**

The process of providing banking outlets in all villages with population more than 2,000 is on the verge of completion

4.78 As at end-March 2012, 99 per cent of the identified villages have been provided with banking outlets. Four States, *viz*., Uttar Pradesh, Bihar, West Bengal and Andhra Pradesh accounted for more than 50 per cent of these newly opened banking outlets. On a positive note, all identified villages in the north-eastern region have been provided with banking outlets. Region-wise

Chart IV.25A: Share of Population Groups in Increment of ATMs: 2011-12

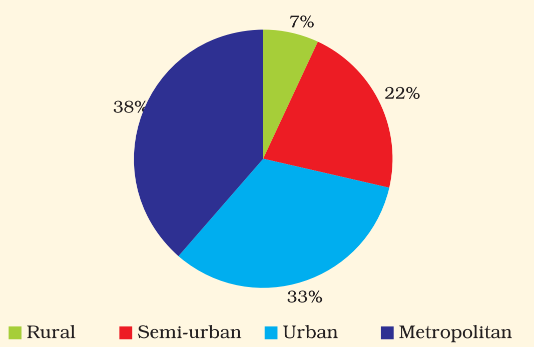


Chart IV.25B: Share of Regions in Total Number of New ATMs Opened: 2011-12

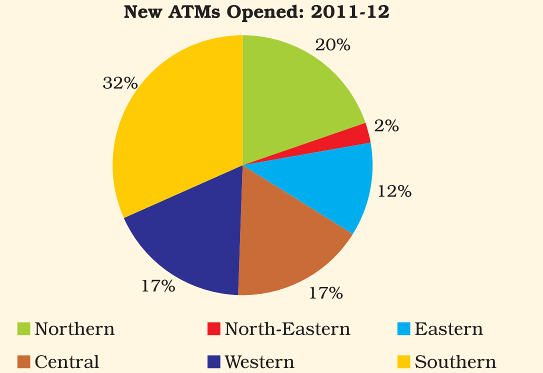


Table IV.34: Number of ATMs of SCBs at Various Locations
(At end-March 2012)

Bank group	Rural	Semi–urban	Urban	Metro-politan	Total
1	2	3	4	5	6
Public sector banks	**6,673 (11.5)**	**15,135 (26.0)**	**19,213 (33.0)**	**17,172 (29.5)**	**58,193 (100.0)**
Nationalised Banks	3,383 (10.9)	6,800 (21.9)	10,186 (32.8)	10,681 (34.4)	31,050 (100.0)
State Bank Group	3,290 (12.1)	8,335 (30.7)	9,027 (33.3)	6,491 (23.9)	27,143 (100.0)
Private sector banks	**1,937 (5.4)**	**7,520 (20.8)**	**11,525 (31.9)**	**15,097 (41.8)**	**36,079 (100.0)**
Old Private Sector Banks	523 (9.1)	2,025 (35.1)	1,876 (32.5)	1,347 (23.3)	5,771 (100.0)
New Private Sector Banks	1414 (4.7)	5,495 (18.1)	9,649 (31.8)	13,750 (45.4)	30,308 (100.0)
Foreign Banks	**29 (2.1)**	**22 (1.6)**	**268 (19.0)**	**1,095 (77.4)**	1,414 **(100.0)**
Total	**8,639 (9.0)**	**22,677 (23.7)**	**31,006 (32.4)**	**33,364 (34.9)**	**95,686 (100.0)**
Growth over previous year	**(20.7)**	**(25.4)**	**(28.9)**	**(32.4)**	**(28.4)**

Note: Figures in parentheses indicate population group-wise percentage share of total ATMs under each bank group.

analysis of the progress made in banking penetration indicated that significant progress has been made in eastern as well as north-eastern region on this front (Table IV.35).

Public sector banks and regional rural banks play a key role in financial inclusion process

4.79 Bank group-wise analysis of new banking outlets in identified villages revealed that public sector banks as well as RRBs played a key role in expanding the banking network in rural India (Chart IV.26).

4.80 Further, in sync with the Government's mandate of transferring all benefits directly to the beneficiaries' bank accounts, the Reserve Bank is encouraging banks to implement Electronic Benefit Transfers (EBT). Since the social security beneficiaries may be residing in villages with a population of less than 2000, there is an immediate need for expanding EBT-enabled bank accounts across smaller villages.

Initiatives undertaken for implementation of the process of EBT

4.81 The Reserve Bank has issued guidelines to SLBC convenor banks in June 2012 mandating them to prepare a roadmap covering all un-banked villages of population less than 2,000 and allot these villages to banks for providing banking services, in a time-bound manner. Banks have also been advised to have a BC touch point in each of the villages in the country, to start with, for provision of EBT services.

4.82 Further, banks have been advised to give priority, in the initial stages, to provide door step services to EBT beneficiaries through regular visits by BCs to the allotted villages, for making it a self-sustaining business model and over a period of time, ensure that all kinds of banking services, *viz*., remittances, recurring deposit, entrepreneurial

Table IV.35: Progress in Roadmap for Providing Banking Outlets in Villages with Population of more than 2000
(As on March 31, 2012)

Region	No. of villages covered (March 2010)	Banking outlets opened in villages with population > 2000 during April 2010 - March 2012				Total no. of villages covered (March 2012)	Banking penetration in villages in March 2012 as multiple of position of March 2010
		Branches	BC	Other Modes	Total		
Northern	4,363	241	7,868	67	8,176	12,539	2.9
North-Eastern	1,093	382	2,795	7	3,184	4,277	3.9
Eastern	6,767	444	19,019	579	20,042	26,809	4.0
Central	6,935	491	19,256	535	20,282	27,217	3.9
Western	3,409	208	6,849	816	7,873	11,282	3.3
Southern	5,894	727	13,587	328	14,642	20,536	3.5
All-India	**28,461**	**2,493**	**69,374**	**2,332**	**74,199**	**1,02,660**	**3.6**

Chart IV.26A: Share of Bank Groups in New Banking Outlets Opened in Villages with Population>2000 (end-March 2012)

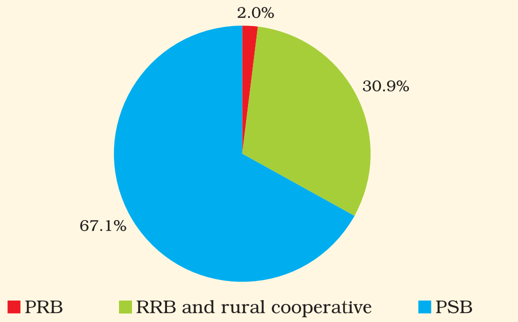
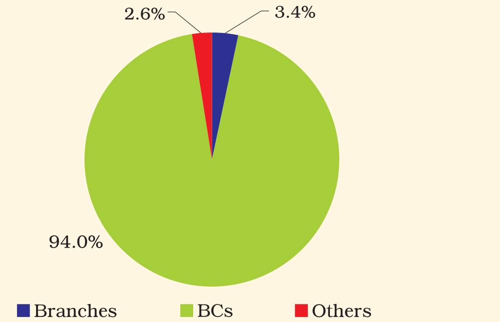


Chart IV.26B: Composition of Public Sector Banks having Banking Outlets in Villages with Population>2000 (end-March 2012)



credit in the form of KCC and GCC, and other banking services are available to all the residents of the village through a mix of brick-and-mortar branches and BC network.

4.83 Keeping in view the difficulty faced by one lead bank in implementing EBT across all villages of the concerned district under the erstwhile "one district-one bank" model, the Reserve Bank has recommended the implementation of EBT through the "one district-many banks-one leader bank" model, in its "Operational Guidelines for Implementation of EBT and its Convergence with Financial Inclusion Plan". Under this model, all banks having presence in the concerned district would participate in EBT, though for administrative convenience, the Government would deal with only one leader bank. The revised model is expected to expedite EBT implementation due to its simplicity and scalability.

Financial Inclusion Plan (FIP) is in progress

4.84 All public and private sector banks were advised to put in place Board approved three-year financial inclusion plans (FIPs) from April 2010 onwards. The FIP should broadly contain self-set targets with respect to; i) opening rural brick and mortar branches; ii) deployment of BCs; iii) coverage of villages with population of more than 2000 as also other un-banked villages with population below 2,000 through branches/BCs/ other modes; iv) opening no-frills accounts including through BC-ICT; v) issuing Kisan Credit Cards (KCCs) and General Credit Cards (GCCs), and other specific products designed by them to cater to the financially excluded segments.

4.85 The progress, so far, by banks in achieving FIP during the last two years has been impressive. A brief analysis of the progress shows that penetration of banking has increased multi-fold in rural areas. As at end-March 2012, villages covered through BCs constituted more than 80 per cent of the total villages covered under the FIP. This indicates move towards the widespread acceptance of BC model of financial inclusion by banks as well as consumers in rural India.

Volume of transactions through ICT-based accounts increased steadily

4.86 No-frills accounts enable small customers to avail of hassle-free credit in the form of in-built overdraft facility. As at end-March 2012, the total number of no-frills accounts had surpassed 100 million. However, only two per cent of these no-frills accounts had overdraft facility. One welcome development noticed in this regard is that, the number of ICT-based accounts as percentage of no-frills accounts has witnessed steady increase in the last two years, indicating increased acceptance of ICT-based products among rural customers.

4.87 In the ensuing year, focus would be on the number and value of transactions in the no-frills accounts and credit disbursed through ICT-based BC outlets. For the purpose, banks have been advised to ensure that FIPs prepared by their Head Offices are disaggregated at the respective controlling offices and at the branch level and a mechanism is put in place to monitor the progress at these levels periodically. Details of the progress made by banks under FIP are given in Table IV.36.

SHG-Bank Linkage Programme and Micro-Finance

4.88 The self-help group (SHG) - bank linkage programme started in 1992 as a pilot project initiated by NABARD and involving three agencies, *viz*., the SHGs, banks and NGOs. Though progress under the SHG-bank linkage programme was slow during the initial years of commencement, it started expanding rapidly after 1999. As at end-March 2012, about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. Though the number of SHGs maintaining savings accounts with banks increased during 2011-12, compared with the previous year, total amount of SHG savings outstanding in banks declined.

4.89 In recent years, micro-finance institutions have emerged as an important conduit of channelling credit to the rural parts of the country, due to their widespread reach in these areas as well as the ability to offer customised financial products, suited to the needs of average rural customers (Table IV.37).

12. Local Area Banks

4.90 Local Area Banks (LABs) play an important role in financial inclusion process. LABs came into existence in 1996, as a result of the initiatives taken by the Reserve Bank to establish local banks in private sector with minimum paid up capital of ` 500 million. It was expected that LABs would extend credit to agriculture and allied activities, small-scale industries, agro-industrial activities,

Table IV.36: Progress under Financial Inclusion Plans

Sr no	Particulars	As on Mar 2011	As on Mar 2012
1	2	3	4
1	Total No. of Customer Service Points deployed	60,993	1,16,548
2	Total banking outlets in villages, *of which*	1,16,208	1,81,753
	2.1 Branches	34,811	37,471
	2.2 BCs	80,802	1,41,136
	2.3 Other modes	595	3146
3	Urban Locations covered through BCs	3,771	5,891
4	ICT-Based A/Cs-through BCs (No. in million)	32	57
5	ICT-Based A/Cs-Transactions (No. in million)	84	141
6	ICT-Based A/Cs-Transactions (Amt in billion)	58	93
7	Number of No-Frills Accounts (in million)	105	139
8	Amount in No-Frills Accounts (` billion)	76	120
9	Number of No-Frills Accounts with OD (in million)	0.6	2.7
10	Amount in No Frills A/Cs with OD (` billion)	0.3	1.1
11	Number of KCCs outstanding (in million)	27	30
12	Amount in KCCs outstanding (` billion)	1,600	2,068
13	Number of GCCs outstanding (in million)	1.7	2.1
14	Amount in GCCs outstanding (` billion)	35	42

Table IV.37: Progress of Micro-finance Programmes
(As at end-March)

Item	Self-Help Groups*					
	Number (in million)			Amount (` billion)		
	2009-10	2010-11	2011-12P	2009-10	2010-11	2011-12P
Loans disbursed by banks	1.5 (0.27)	1.2 (0.2)	1.1 (0.2)	145 (22)	145 (25)	165 (26)
Loans outstanding with banks	4.8 (1.3)	4.8 (1.3)	4.4 (1.2)	280 (63)	312 (78)	363 (80.5)
Savings with banks	6.9 (1.7)	7.5 (2.0)	8.0 (2.1)	62 (13)	70 (18)	66 (14)
Item	**Micro-finance Institutions**					
	Number (in million)			Amount (` billion)		
	2009-10	2010-11	2011-12P	2009-10	2010-11	2011-12P
Loans disbursed by banks	691	469	465	81	76	52
Loans outstanding with banks	1,513	2,176	1,960	101	107	115

Notes: 1. *: Figures in brackets indicate the details about SHGs covered under Swarnajayanti Gram Swarozgar Yojana (SGSY).
2. P: Provisional data.

Source: NABARD.

Table IV.38: Profile of Local Area Banks
(As at end-March)

(Amount in ` billion)

Bank	Assets		Deposits		Gross Advances	
	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	7.50	9.67	6.48	8.20	4.20	5.18
	(67.8)	(71.0)	(72.3)	(73.8)	(65.2)	(67.2)
Coastal Local Area Bank Ltd.	1.58	1.93	1.22	1.51	1.00	1.26
	(14.3)	(14.2)	(13.6)	(13.6)	(15.6)	(16.4)
Krishna Bhima Samruddhi Local Area Bank Ltd.	1.38	1.35	0.93	1.00	0.88	0.84
	(12.4)	(9.9)	(10.3)	(9.0)	(13.7)	(10.9)
Subhadra Local Area Bank Ltd.	0.61	0.68	0.34	0.39	0.36	0.43
	(5.5)	(5.0)	(3.8)	(3.5)	(5.5)	(5.6)
All LABs	**11.07**	**13.63**	**8.97**	**11.10**	**6.44**	**7.71**
	(100)	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**

Note: Figures in parentheses indicate percentage share in total. Percentage shares calculated could slightly differ due to rounding off numbers to ` billion.
Source: Based on off-site returns (domestic).

trading activities and the non-farm sectors. LABs are also subject to the requirement of priority sector lending target set at 40 per cent of ANBC and at least 25 per cent of their priority sector deployment is to be disbursed to the weaker sections.

4.91 Though initially six LABs were licensed by the Reserve Bank, only four of them remained operational in the subsequent years. Of these four banks, Capital Local Area Bank accounted for more than 70 per cent of total assets of all four LABs taken together (Table IV.38 and IV.39).

Table IV.39: Financial Performance of Local Area Banks

(Amount in ` billion)

	Amount		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5
1. Income (i+ii)	**1.2**	**1.5**	**19.2**	**25.0**
i) Interest income	1.1	1.4	24.4	27.3
ii) Other income	0.2	0.2	-5.6	-
2. Expenditure (i+ii+iii)	**1.1**	**1.3**	**15.4**	**18.2**
i) Interest expended	0.6	0.8	7.8	33.3
ii) Provisions and contingencies	0.1	0.1	62.5	7.7
iii) Operating expenses	0.4	0.4	15.6	-
of which : Wage Bill	0.2	0.2	21.4	-
3. Profit				
i) Operating Profit/Loss	**0.3**	**0.3**	**52.4**	-
ii) Net Profit/Loss	**0.2**	**0.2**	**46.2**	-
4. Spread (Net Interest Income)	**0.5**	**0.6**	**48.6**	**20.0**
5. Total Assets	**11.1**	**13.6**	**17.0**	**22.5**
6. Financial Ratios @			-	-
i) Operating Profit	3.0	2.6	-	-
ii) Net Profit	1.8	1.5	-	-
iii) Income	12.1	12.3	-	-
iv) Interest income	10.5	11.0	-	-
v) Other Income	1.6	1.3	-	-
vi) Expenditure	10.3	10.8	-	-
vii) Interest expended	5.4	6.2	-	-
viii) Operating expenses	3.7	3.6	-	-
ix) Wage Bill	1.6	1.7	-	-
x) Provisions and Contingencies	1.2	1.1	-	-
xi) Spread (Net Interest Income)	5.1	4.9	-	-

Notes: 1. @ Ratios to total average assets.
2. Percentage changes calculated could slightly differ due to rounding off numbers to ` billion.
3. - : Nil/Negligible.
Source : Based on off-site returns.

13. Regional Rural Banks

4.92 As in the case of SCBs, the consolidated balance sheet of RRBs registered lower growth during 2011-12 compared with the previous year. On the liabilities side, the lower growth was mainly due to lower growth in deposits as well as borrowings. On the assets side, the deceleration in the balance sheet was attributable to reduction in balances with the Reserve Bank as well as deceleration in investments. It is noteworthy that, the share of CASA deposits in total deposits of RRBs was higher than the corresponding share for SCBs (Table IV.40).

4.93 During 2011-12, out of total 82 RRBs operating in the country, 79 made profit whereas the remaining three RRBs incurred loss. Though net profits of RRBs witnessed improvement in recent years, their net margin exhibited a mixed trend (Chart IV.27 and Table IV.41).

Chart IV.27: Trend in Profitability of RRBs

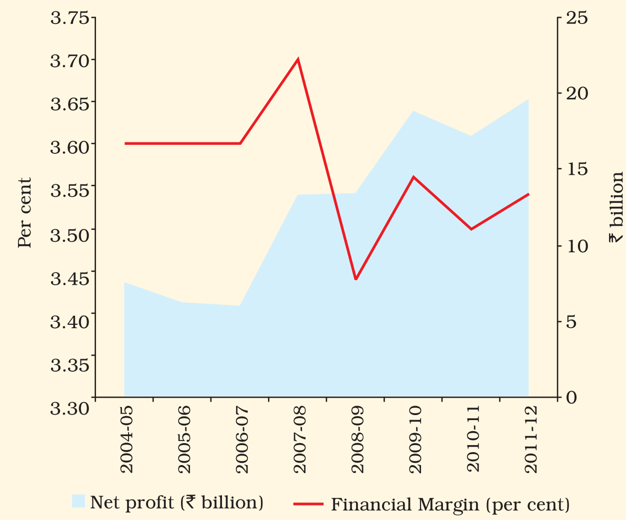


Table IV.40: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ` billion)

Sr. No.	Item	At end-March		Percentage Variation	
		2011	2012P	2010-11	2011-12P
1	Share Capital	2	2	0.0	0.0
2	Reserves	96	113	18.6	17.9
3	Share Capital Deposits	41	50	2.3	22.3
4	Deposits	1,662	1,863	14.6	12.1
	4.1 Current	92	104	13.9	12.7
	4.2 Savings	911	986	20.1	8.2
	4.3 Term	659	774	7.9	17.4
5	Borrowings	265	303	41.1	14.3
	5.1 from NABARD	160	213	28.2	33.0
	5.2 Sponsor Bank	98	88	58.3	-10.4
	5.3 Others	7	2	696.4	-71.4
	5.4 Other Liabilities	88	95	9.5	7.4
	Total liabilities/Assets	**2,154**	**2,425**	**17.0**	**12.6**
6	Cash in Hand	21	23	19.1	9.5
7	Balances with RBI	99	89	20.9	-10.2
8	Other Bank Balances	452	478	15.6	5.9
9	Investments	542	603	14.5	11.2
10	Loans and Advances (net)	947	1,130	19.7	19.3
11	Fixed Assets	5	7	21.1	40.0
12	Other Assets #	89	96	7.5	7.9
	Memo Items				
1	Credit -Deposit Ratio	59.5	63.3		
2	Investment -Deposit Ratio	52.0	49.8		
3	(Credit + Investment) -Deposit Ratio	111.5	113.1		

Notes: 1. P: Provisional.
2. #: Includes accumulated losses.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

Table IV.41: Financial Performance of Regional Rural Banks

(Amount in `billion)

Sr. No.	Item	Amount		Percentage Variation	
		2010-11	2011-12P	2010-11	2011-12P
1	2	3	4	5	6
1	**Income (i + ii)**	**162**	**201**	**17.2**	**24.1**
	i Interest income	152	189	17.6	**24.3**
	ii Other income	10	11	12.4	**10.0**
2	**Expenditure (i+ii+iii)**	**145**	**181**	**21.4**	**24.8**
	i Interest expended	86	112	16.7	**30.2**
	ii Operating expenses	49	55	38.0	**12.2**
	of which, Wage bill	38	40	42.9	**5.3**
	iii Provisions and contingencies	10	13	-3.9	**30.0**
3	**Profit**				
	i Operating profit	27	33	-6.9	**22.2**
	ii Net profit	17	20	-8.5	**17.6**
4	**Total assets**	**2,154**	**2,425**	**17.0**	**12.6**
5	**Financial ratios #**				
	i Operating profit	1.3	1.4		
	ii Net profit	0.8	0.8		
	iii Income (a + b)	7.5	8.3		
	(a) Interest income	7.0	7.8		
	(b) Other income	0.5	0.5		
	iv Expenditure (a+b+c)	6.7	7.4		
	(a) Interest expended	4.0	4.6		
	(b) Operating expenses	2.3	2.3		
	of which, Wage Bill	0.6	1.6		
	(c) Provisions and contingencies	0.5	0.5		

Notes: 1. P: Provisional.
2. #: Financial ratios are with respect to average total assets.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
4. Components may not add up to total due to rounding off numbers to ` billion.

Source: NABARD.

Table IV.42: Purpose-wise Distribution of Credit from Regional Rural Banks

(Amount in ` billion)

Sr. No	Purpose	As at end-March	
		2011	2012P
1	2	3	4
1.	**Agriculture (i to iii)**	**551** (55.7)	**641** (53.2)
	i Short-term credit (crop loans)	407	474
	ii Term credit (for agriculture and allied activities)	144	167
	iii Indirect advances	-	-
2.	**Non-agriculture (i to iv)**	**439** (44.3)	**564** (46.8)
	i Rural artisans	9	11
	ii Other industries	26	36
	iii Retail trade	51	66
	iv Other purposes	353	452
Total (1+2)		**989**	**1,206**
	Memo item :		
(a)	Priority sector	826	974
(b)	Non-Priority sector	163	231
(c)	Percentage share of priority sector in total credit	83.5	80.8

Notes: 1. P: Provisional. - : Nil/Negligible.
2. Percentage share in total credit as provided in parentheses could slightly differ due to rounding off numbers to ` billion.
3. Components may not add up to total due to rounding off numbers to ` billion.

Source: NABARD.

4.94 As at end-March 2012, priority sector advances comprised of more than 80 per cent of the total credit of RRBs. Purpose-wise composition of credit disbursed by RRBs remained broadly unchanged during 2011-12, with more than half of total credit going to the agricultural sector (Table IV.42).

14. Overall Assessment

4.95 Performance of banks during 2011-12 was conditioned by slowdown in the domestic economy coupled with higher interest rate environment. However, Indian banks remained well-capitalised. In addition, the efficiency of banks improved as reflected by lower cost-to-income ratio and NIM. Progress made by banks under the financial inclusion plans was broadly satisfactory.

Deterioration in asset quality of banks remains a concern

4.96 The deterioration in asset quality, as evident by a steep rise in NPAs for banks in general, and public sector banks in particular, has emerged as a serious concern. Moreover, fresh accretion to NPAs, as captured by the slippage ratio witnessed an increase. Further, the provisioning coverage ratio declined. Though banks aggressively resorted to restructuring of advances, in the long-run it may have implications for asset quality, in case, significant proportion of these restructured advances turn into bad loans.

Need to closely monitor impact of infrastructure lending on asset-liability mismatch

4.97 The liquidity condition of banks remained under stress, reflecting structural issues as well as the policy environment prevailing during 2011-12. Though credit to infrastructure registered slower growth, it continued to account for almost one-third of total bank credit to industry. Large exposure to long-gestation infrastructure projects could further exacerbate the maturity mismatch prevailing in the banking sector. Going forward, Indian banking sector needs careful monitoring of rising bad loans as well as exposure to long-term infrastructure projects.

Banks' inability to meet priority sector lending target remained a concern

4.98 During 2011-12, majority of public sector banks failed to meet the priority sector target. Though at an aggregate level, foreign banks' performance was better as compared to domestic banks, bank-wise data revealed that some foreign banks also failed to meet the priority sector lending target.

Need to further strengthen financial inclusion and improve customer service

4.99 Data on complaints received from various Ombudsman offices showed that public sector banks accounted for the majority of complaints underlining the need to improve customer services particularly with respect to pensions accounts, as their share of complaints in this area was significantly high. In addition, non-observance of the fair practices code by banks led to number of complaints from customers in recent years. Though progress in financial inclusion was broadly satisfactory, there is still a long way to go, especially given that India continues to lag behind some major developing countries in terms of financial inclusion. With increased use of technology in banking, greater emphasis is required for improving customer services in the areas of net banking and credit/debit cards as well as further developing the existing electronic payment systems.

Chapter V

Developments in Co-operative Banking

Over recent years, the financial health of the urban co-operative sector has shown an improvement. In 2011-12, the sector showed an increased return on assets and a further fall in the ratio of Non-Performing Assets (NPAs). As per the new CAMELS rating model, 61 per cent of the UCBs, accounting for about 78 per cent of the total banking business of the UCB sector, had ratings of 'A' and 'B', indicating the good financial health of this sector. As regards rural co-operatives, State Co-operative Banks and District Central Co-operative Banks showed some signs of improvement in profitability and asset quality in 2010-11, partly attributable to the prudential regulatory reforms and implementation of the revival package for the short-term rural co-operative sector. However, long-term rural co-operatives, such as State and Primary Co-operative Agriculture and Rural Development Banks, showed very weak financial health. Going forward, it is necessary to persevere with recapitalisation and regulatory reforms so that the rural co-operative sector can lend support to financial inclusion and agriculture.

1. Introduction

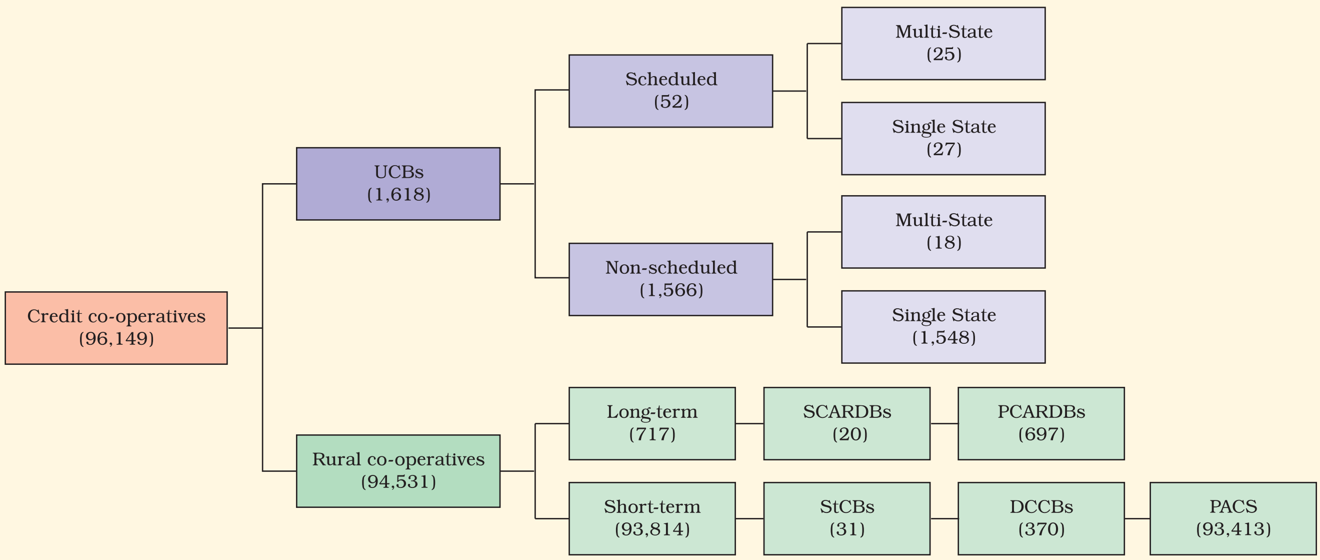
5.1 Co-operatives account for a relatively small share in the bank-dominated Indian financial system; however, given their geographic and demographic outreach, they hold a key position in the system[1]. Geographically, co-operatives have been instrumental in extending formal financial services to villages and small towns in India. Demographically, these institutions have enabled access to financial services to low and middle-income groups in both rural and urban areas.

5.2 Notwithstanding their role in enhancing the inclusiveness of the financial system, these institutions have been marred by weak financial health, partly on account of operational and governance-related concerns. Hence, there has been an ongoing effort to revitalise these institutions by means of various development and regulatory initiatives. In the case of urban co-operatives, the Reserve Bank has moved towards a more unified regulatory framework consequent to its Vision Document of 2005 aimed at creating a consolidated and stronger urban co-operative banking sector. As regards the short-term arm of rural co-operatives, the application of prudential regulations followed by recapitalisation has paved the way towards improving the financial health of these institutions. Apart from these ongoing initiatives, several new policy measures have been introduced with regard to the co-operative sector in 2011-12, which are discussed in Chapter 3.

5.3 In light of these policy initiatives, this chapter analyses the performance of co-operatives in 2011-12, drawing time-series as well as cross-sectional comparisons with other segments of the financial system, where necessary. As data on rural co-operatives are available with a lag of one year, the analysis for these institutions only goes as far as 2010-11. The analysis covered in this chapter broadly pertains to 1,618 Urban Co-operative Banks (UCBs) and 94,531 rural co-operatives, including short-term and long-term co-operatives, as given in Chart V.1.

[1] As at end-March 2011, the assets of rural and urban co-operatives taken together were about 12 per cent of the total assets held by Scheduled Commercial Banks (SCBs).

Chart V.1: Structure of Co-operative Credit Institutions in India
(As at end-March 2012)



StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.
Notes: 1. Figures in parentheses indicate the number of institutions at end-March 2012 for UCBs and at end-March 2011 for rural co-operatives.
2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

5.4 The chapter is organised into six sections. Section 2 analyses the performance of UCBs, using data on their assets and liabilities, income and expenditure, and soundness indicators. Section 3 reviews the performance of various tiers of the short-term and long-term rural co-operative credit structure. Sections 4 and 5 discuss salient developments pertaining to rural co-operatives with regard to licensing and implementation of the revival package for these institutions. Section 6 enumerates the developments related to Kisan Credit Cards (KCCs), a scheme for rural credit involving rural co-operatives. Section 7 concludes with the major observations from the chapter.

2. Urban Co-operative Banks

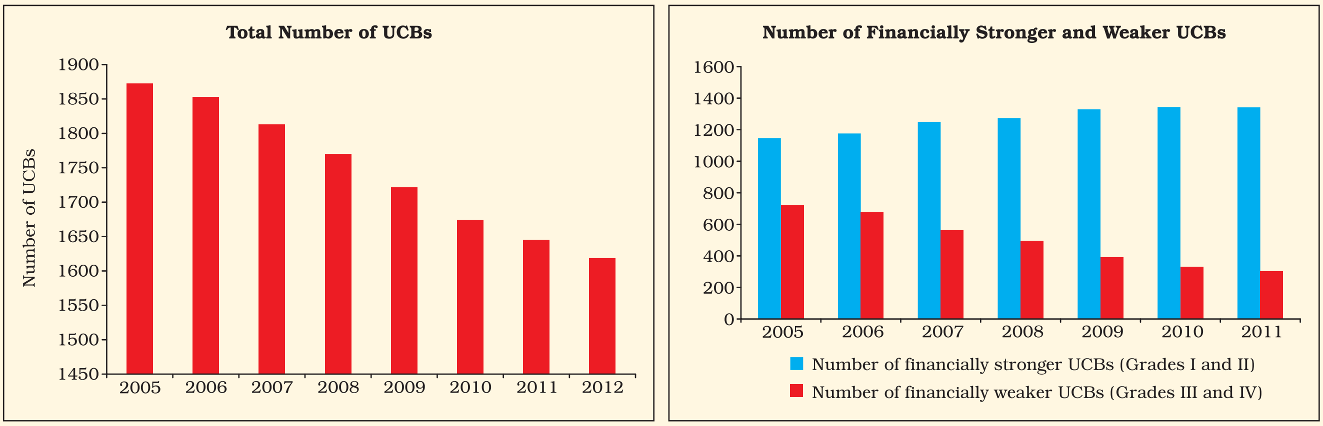
Emergence of a stronger UCB sector through consolidation

5.5 The Urban Co-operative Bank (UCB) sector has emerged financially stronger since 2005, when the Reserve Bank conceived a Vision Document for the revival of this sector. Through the Document, the Reserve Bank laid down a multi-layered regulatory and supervisory approach aimed at the merger/amalgamation of viable UCBs and the exit of unviable UCBs. On account of this process of consolidation, there has been a continued reduction in the number of UCBs (Chart V.2). In continuation with this trend, at end-March 2012, the total number of UCBs stood at 1,618 as against 1,645 at end-March 2011. Further, there was a steady rise in the number of financially stronger UCBs (defined as UCBs belonging to Grades I and II) and a decline in the number of financially weaker UCBs (defined as UCBs belonging to Grades III and IV) between 2005 and 2011[2].

5.6 Maharashtra, the State with the largest concentration of UCBs, accounted for the maximum number of mergers. In the total number

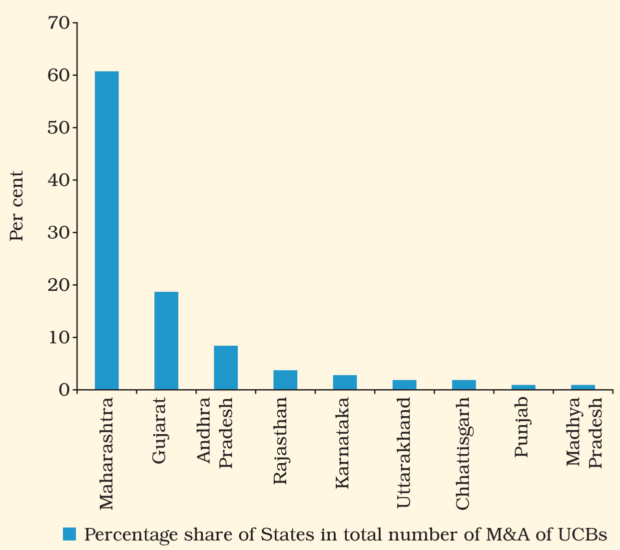
[2] The data on grade-wise distribution of UCBs are not available for 2012 as this classification has been discontinued and a new rating-wise classification of UCBs has been introduced (see details later in the chapter). Grades were decided based on the financial performance of UCBs, which included parameters such as capital adequacy, level of NPAs and history of profit/loss.

Chart V.2: Number and Composition of UCBs based on Financial Strength



of mergers that took place until end-March 2012 since 2005, Maharashtra had a share of about 61 per cent, followed by Gujarat with a share of 19 per cent and Andhra Pradesh with a share of 8 per cent (Chart V.3).

Chart V.3: Progress of Consolidation of the UCB Sector in each State, At end-March 2012



Rapid growth of Tier II UCBs in 2011-12 indicates an expansion of the UCB sector

5.7 Following the Vision Document of 2005, UCBs were classified into Tier I and Tier II categories based on their deposit base, and a differentiated regulatory treatment was laid down for these two categories[3]. In recent years, Tier II banks, which have a larger deposit base and wider geographical presence, have grown in terms of both number and asset size (Table V.1 read with Chart V.4).

A new CAMELS rating method for judging the financial strength of UCBs

5.8 UCBs were earlier classified into various grades based on their financial health for regulatory and supervisory purposes. However, with the introduction of the CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and systems & control) rating model, this classification was discontinued and a newer dimension was introduced to judge the financial

[3] Tier I UCBs were defined as UCBs with:

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

All other UCBs were defined as Tier II UCBs.

Table V.1: Tier-wise Distribution of Urban Co-operative Banks
(As at end-March 2012)

(Amount in ` billion)

Tier Type	No. of banks		Deposits		Advances		Assets	
	Number	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total
1	2	3	4	5	6	7	8	9
Tier I UCBs	1,234	76.3	410	17.2	260	16.5	527	17.4
Tier II UCBs	384	23.7	1,975	82.8	1,320	83.5	2,506	82.6
All UCBs	**1,618**	**100.0**	**2,385**	**100.0**	**1,580**	**100.0**	**3,033**	**100.0**

Note: Data are provisional.

strength of UCBs, namely, the credit rating of these institutions.

5.9 Under the new CAMELS rating model, a composite rating of A/B/C/D (in decreasing order of performance) is being given to a bank, based on the weighted average rating of the individual components of CAMELS. The rating of A/B/C is suffixed with a '+' or '-' sign, wherever necessary, to reflect granularity in the components and composite rating of the bank. The rating of D represents the lowest rating.

5.10 As per this new classification, at end-March 2012 about 61 per cent of the UCBs had composite ratings of A and B, accounting for about 78 per cent of the total banking business (represented by deposits plus credit) of the UCB sector. Further, 32 per cent of the UCBs had a composite rating of C; these UCBs accounted for about 18 per cent of the banking business of the UCB sector. Only about 7 per cent of the UCBs had the lowest rating of D, representing the weakest financial health (Table V.2).

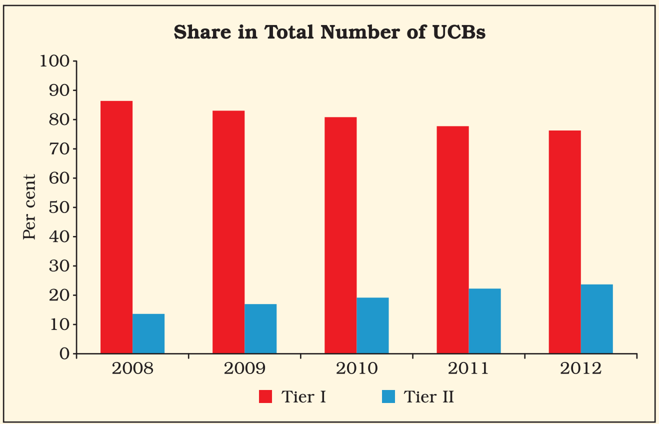
Table V.2: Rating-wise Distribution of UCBs
(As at end-March 2012)

(Amount in ` billion)

Rating	Number of UCBs	Percentage to total number	Deposits	Percentage to total deposits	Advances	Percentage to total advances
1	2	3	4	5	6	7
A+	5	0.3	36	1.5	27	1.7
A	46	2.8	366	15.3	251	15.9
A-	140	8.7	388	16.3	263	16.6
B+	296	18.3	491	20.6	332	21.0
B	353	21.8	432	18.1	284	18.0
B-	141	8.7	148	6.2	93	5.9
C+	318	19.7	303	12.7	193	12.2
C	145	9.0	79	3.3	49	3.1
C-	59	3.6	52	2.2	32	2.0
D	115	7.1	91	3.8	56	3.6
Total	**1,618**	**100.0**	**2,385**	**100.0**	**1,580**	**100.0**

Note: Data are provisional.

Chart V.4: Tier-wise Composition of UCBs



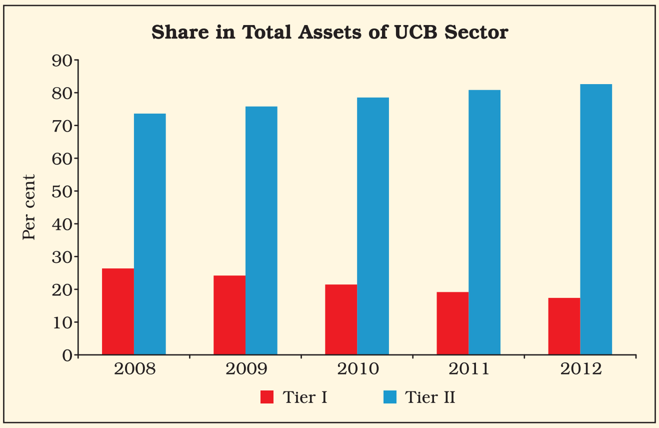


Table V.3: Distribution of UCBs by Deposits and Advances

Deposits (` billion)	Number of UCBs		Amount of Deposits		Advances (` billion)	Number of UCBs		Amount of Advances	
	No.	% share	Amt.	% share		No.	% share	Amt.	% share
1	2	3	4	5	6	7	8	9	10
0 - 0.10	258	15.9	17	0.7	0 - 0.10	459	28.4	29	1.8
0.10 - 0.25	392	24.2	72	3.0	0.10 - 0.25	450	27.8	75	4.8
0.25 - 0.50	324	20.0	122	5.1	0.25 - 0.50	256	15.8	93	5.9
0.50 - 1.0	300	18.5	321	13.5	0.50 - 1.0	199	12.3	146	9.2
1.0 - 2.5	205	12.7	314	13.2	1.0 - 2.5	149	9.2	256	16.2
2.5 - 5.0	60	3.7	194	8.1	2.5 - 5.0	50	3.1	177	11.2
5.0 - 10.0	40	2.5	264	11.1	5.0 - 10.0	34	2.1	227	14.4
10.0 and above	39	2.4	1,081	45.3	10.0 and above	20	1.2	577	36.5
Total	**1,618**	**100.0**	**2,385**	**100.0**	**Total**	**1,618**	**100.0**	**1,580**	**100.0**

Asset concentration within the UCB sector rose in 2011-12

5.11 Over the years, partly as a fall-out of consolidation, there has been an increase in asset concentration within the UCB sector. The number of UCBs with an asset size of more than `10 billion quadrupled between 2008 and 2012. Notably, the percentage share of such UCBs in the total assets of the UCB sector increased from about 37 per cent to 48 per cent during this period (Chart V.5).

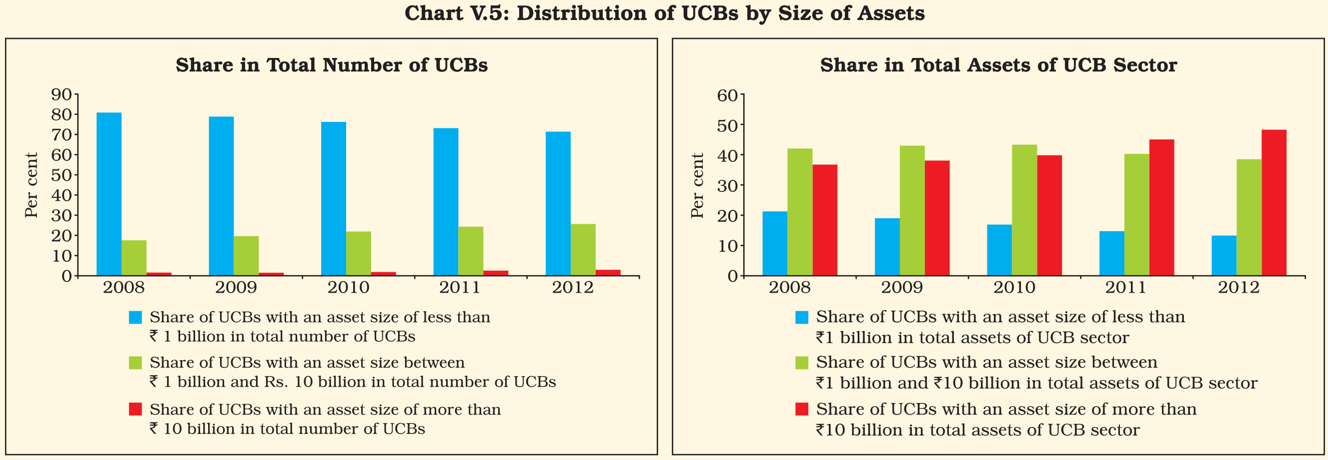
5.12 At end-March 2012, UCBs with a deposit base of over `10 billion accounted for 45 per cent of total deposits. Further, UCBs with a credit size of over `10 billion accounted for about 37 per cent of total advances of the UCB sector (Table V.3). Box V.1 provides a detailed discussion on the concentration within the UCB sector, using various statistical measures of market concentration.

Asset growth of UCBs slowed down in 2011-12

5.13 The growth in the assets of UCBs picked up significantly from a single-digit figure to a double-digit one since the beginning of the process of consolidation in 2005. However, after peaking at 18 per cent in 2009-10, growth steadily slowed but remained in the double digits (Chart V.6).

5.14 The growth in credit witnessed a slowdown in 2011-12, possibly reflecting the high interest and slack credit demand prevailing during most part of the year. Investments, the second major use of funds of UCBs, also posted slower growth in 2011-12, on account of a decline in the growth of SLR investments (Tables V.4 and V.5).

Chart V.5: Distribution of UCBs by Size of Assets



Box V.1: An Analysis of Market Concentration within the UCB Sector

Since the formation of the Vision Document and issuance of guidelines aimed at consolidation of the Urban Co-operative Bank (UCB) sector, the sector has exhibited phenomenal growth. It accounted for 3.7 per cent of the SCB sector by end-March 2012 by posting an exponential rate of growth of about 13 per cent per annum between 2005 and 2012.

As the sector has consolidated, there has been a rise in the extent of concentration within this sector. Though market concentration is analysed using several statistical measures, a few measures have been selected here, keeping in view the availability of data on the UCB sector. The two measures used are the following:

(a) Share of top four/eight/ten market entities (CR_4/CR_8/CR_{10}) defined as

$CR_k = \sum_{i=1}^{k} S_i$

where, S_i represents share of 'i'th entity,

k represents the number of 'k' leading entities.

While this measure is relatively simple, it is sensitive to the total number of entities within a given market (Bikker and Haaf, 2000). As per this measure, a sector is usually said to be highly concentrated when CR_4 ranges above 50 per cent and CR_8 ranges above 75 per cent.

As per this measure, it can be said that the UCB sector was *moderately* concentrated in 2012 and the extent of concentration showed an increase in the recent period (Table 1).

(b) The Lorenz curve and the associated concentration coefficient (LR) is defined as the curve representing the cumulative distribution of the number of entities and their corresponding market shares. The concentration coefficient is worked out using the following formula:

Concentration coefficient $= 1 - \sum (X_{k+1} - X_k)(Y_{k+1} + Y_k)$

where k starts from 0 and ends at n-1

X refers to cumulative proportion of entities

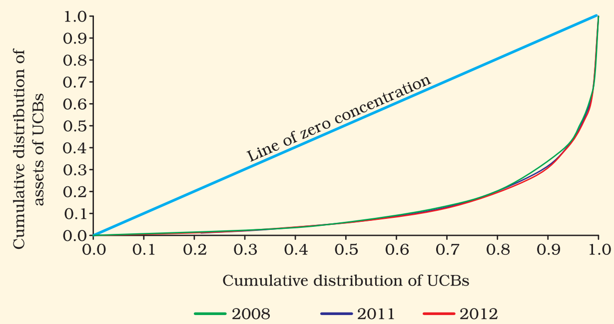
Y refers to cumulative proportion of market share.

Table 1: Share of Top Four/Eight/Ten UCBs in Total Assets of UCB Sector

(in per cent)

Measure	2011	2012
CR_4	17.8	19.4
CR_8	23.9	26.2
CR_{10}	26.4	28.7

Chart 1: Changes in Concentration of Assets in the UCB Sector



The coefficient ranges between 0 and 1, with 0 indicating perfectly equal shares and 1 indicating perfect monopoly. This measure remains insensitive to the number of entities (*ibid.*).

As the concentration coefficient ranged above 0.5, the UCB sector showed a *relatively high* degree of concentration as per this measure. Moreover, there was a moderate rise in the extent of concentration over time, as borne out both from the concentration curve and the concentration coefficient (Chart 1 read with Table 2).

In conclusion, it could be said that the UCB sector was marked by a moderate to high degree of asset concentration and the degree of concentration has increased over time, partly on account of the regulatory reforms aimed at consolidating the sector.

Table 2: Concentration Coefficient for the UCB Sector

Year	Concentration coefficient
2008	0.748
2011	0.757
2012	0.761

Note: The coefficient is worked out taking shares of UCBs within the total assets of the UCB sector.

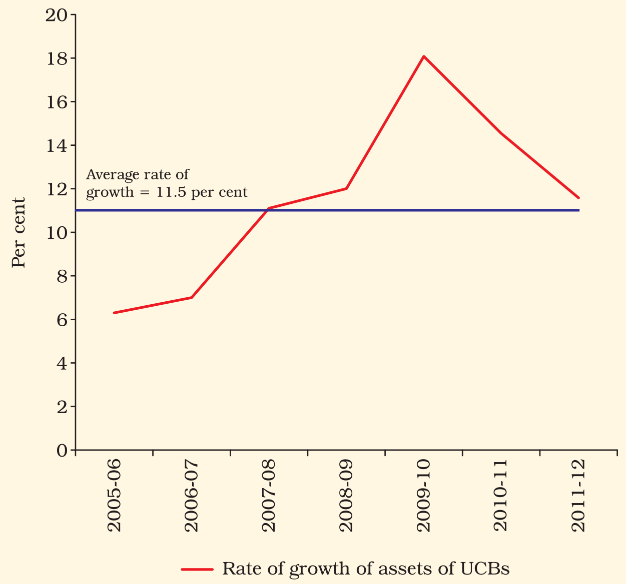
Reference:

Bikker, J.A. and K. Haaf (2000), "Measures of Competition and Concentration in the Banking Industry: A Review of Literature", De Nederlandsche Bank, Research Series Supervision No. 27.

Rising share of scheduled UCBs suggests a trend of expansion in the capital base of UCBs

5.15 Over recent years, there has been a rising trend in the share of scheduled UCBs, suggesting a general trend of expansion in the capital base of UCBs (Chart V.7). Scheduled UCBs are banks included in the Second Schedule of the RBI Act, 1934 and include banks that have paid-up capital and reserves of not less than `0.5 million and

Chart V.6: Growth in Assets of UCBs



carry out their business in the interest of depositors to the satisfaction of the Reserve Bank.

Persistently lower CD ratio for UCBs than SCBs

5.16 Though there has been a rising trend in the Credit-Deposit (CD) ratio of UCBs reflecting the general expansion in banking business of these institutions, the ratio has been persistently lower than that of SCBs (Chart V.8). Correspondingly, investments were the preferred use of funds among UCBs than SCBs.

Remarkable improvement in profitability of UCBs driven by high growth in total income

5.17 The overall levels of UCB profits exhibited an improvement in 2011-12, attributable to an almost doubling of the growth in the total income of these institutions (Table V.6). This increase was on account of an expansion in both interest and non-interest components of income.

Table V.4: Liabilities and Assets of Urban Co-operative Banks
(As at end-March)

(Amount in ` billion)

Asset/Liability	Scheduled UCBs		Non-Scheduled UCBs		All UCBs		Rate of growth (%) (All UCBs)
	2011	2012	2011	2012	2011	2012	2011-12
1	2	3	4	5	6	7	8
Liabilities							
1. Capital	19 (1.6)	23 (1.6)	44 (2.9)	50 (3.1)	63 (2.3)	73 (2.4)	16.1
2. Reserves	112 (9.3)	126 (8.9)	151 (9.9)	143 (8.9)	263 (9.7)	270 (8.9)	2.7
3. Deposits	923 (77.1)	1,104 (77.4)	1,195 (78.7)	1,281 (79.8)	2,119 (78.0)	2,385 (78.6)	12.6
4. Borrowings	28 (2.3)	21 (1.5)	16 (1.1)	15 (0.9)	44 (1.6)	36 (1.2)	-18.7
5. Other Liabilities	116 (9.7)	152 (10.7)	113 (7.4)	117 (7.3)	230 (8.4)	269 (8.9)	17.3
Assets							
1. Cash	6 (0.5)	8 (0.5)	17 (1.1)	22 (1.4)	24 (0.9)	30 (1.0)	26.1
2. Balances with Banks	110 (9.1)	122 (8.6)	133 (8.7)	141 (8.8)	242 (8.9)	263 (8.7)	8.7
3. Money at Call and Short Notice	6 (0.5)	9 (0.6)	5 (0.4)	7 (0.4)	11 (0.4)	16 (0.5)	44.5
4. Investments	335 (27.9)	369 (25.9)	516 (33.9)	511 (31.8)	850 (31.3)	880 (29.0)	3.5
5. Loans and Advances	617 (51.5)	744 (52.1)	748 (49.2)	836 (52.1)	1,365 (50.2)	1,580 (52.1)	15.8
6. Other Assets	125 (10.4)	175 (12.3)	101 (6.7)	89 (5.5)	226 (8.3)	264 (8.7)	16.8
Total Liabilities / Assets	**1,198** **(100.0)**	**1,427** **(100.0)**	**1,519** **(100.0)**	**1,606** **(100.0)**	**2,718** **(100.0)**	**3,033** **(100.0)**	**11.6**

Notes: 1. Figures in parentheses are percentages to total liabilities/assets.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
3. Components may not add up to the whole due to rounding off.

Table V.5: Investments by Urban Co-operative Banks

(Amount in ` billion)

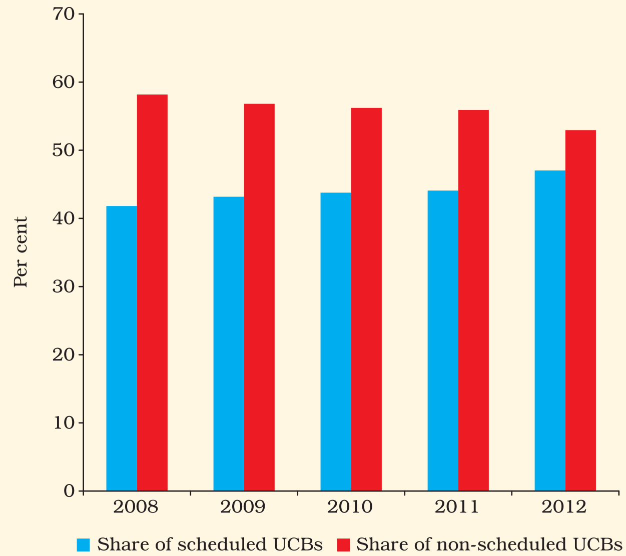
Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
Total Investments (A+B)	**850 (100.0)**	**880 (100.0)**	**7.4**	**3.5**
A. SLR Investments (i to vi)	**785 (92.3)**	**814 (92.5)**	**10.7**	**3.8**
i) Central Government Securities	513 (60.4)	564 (64.1)	25.7	10.0
ii) State Government Securities	93 (10.9)	108 (12.3)	18.8	17.2
iii) Other Approved Securities	5 (0.6)	3 (0.4)	29.4	-38.4
iv) Term Deposits with StCBs	53 (6.2)	42 (4.8)	-16.6	-20.8
v) Term Deposits with DCCBs	107 (12.6)	76 (8.6)	-22.9	-28.9
vi) Others, if any	14 (1.7)	21 (2.3)	-18.3	44.7
B. Non-SLR Investments	**65.5 (7.7)**	**65.7 (7.5)**	**-20.5**	**0.4**

Notes: 1. Figures in parentheses are percentages to total.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
3. Components may not add up to the whole due to rounding off.

Rising trend in various indicators of profitability for UCBs

5.18 In continuation of the past trend, there has been an improvement in the major indicators of profitability of UCBs in 2011-12 (Table V.7).

Chart V.7: Share of Scheduled and Non-Scheduled UCBs in Total Assets of UCB Sector



Both the Return on Assets (RoA), defined as net profits as per cent of average assets, as well as Return on Equity, defined as net profits as per cent of average equity, showed a perceptible rise during the year.

5.19 Further, the rise in RoA could be seen not just at the aggregate or system-wide level but also at the disaggregated level; there was a discernible upward shift in RoA among all scheduled UCBs in 2011-12. No scheduled UCB reported a negative RoA in this year unlike in the past (Appendix Table V.1).

Chart V.8: Credit-Deposit and Investment-Deposit Ratios for UCBs compared with SCBs

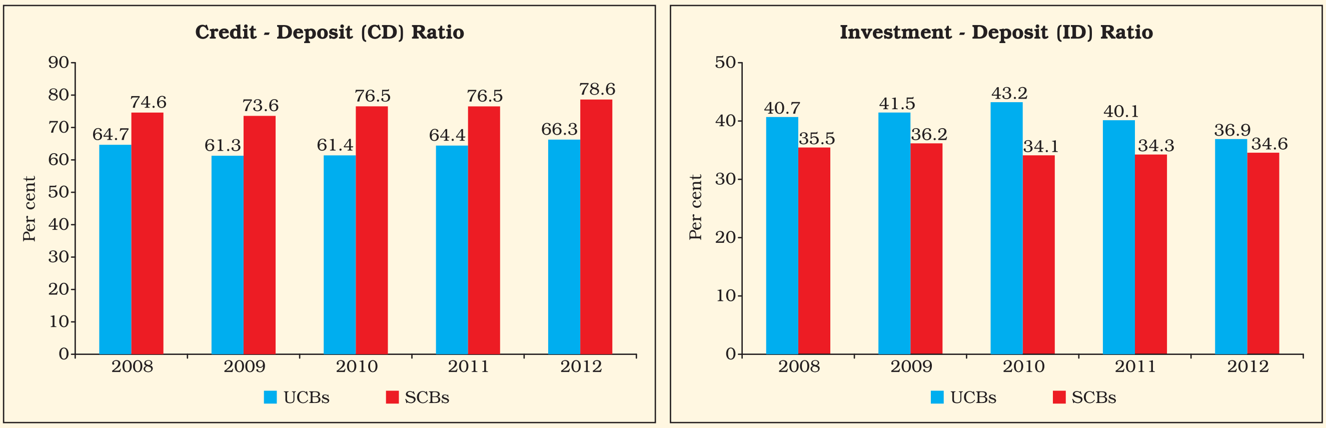


Table V.6: Financial Performance of Scheduled and Non-Scheduled Urban Co-operative Banks
(As at end-March 2012)

(Amount in ` billion)

Item	Scheduled UCBs		Non-Scheduled UCBs		All UCBs		Percentage Variation (All UCBs)	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5	6	7	8	9
A. Total Income (i+ii)	**98 (100.0)**	**124 (100.0)**	**125 (100.0)**	**158 (100.0)**	**224 (100.0)**	**281 (100.0)**	**13.4**	**25.9**
i. Interest Income	90 (91.3)	113 (91.7)	119 (95.0)	148 (93.9)	209 (93.4)	261 (92.9)	14.2	25.2
ii. Non-Interest Income	9 (8.7)	10 (8.3)	6 (5.0)	10 (6.1)	15 (6.6)	20 (7.1)	2.4	35.4
B. Total Expenditure (i+ii)	**78 (100.0)**	**100 (100.0)**	**107 (100.0)**	**131 (100.0)**	**185 (100.0)**	**230 (100.0)**	**9.6**	**24.9**
i. Interest Expenditure	55 (70.9)	74 (74.3)	75 (70.6)	92 (70.5)	131 (70.8)	166 (72.1)	8.8	27.2
ii. Non-Interest Expenditure	23 (29.1)	26 (25.7)	31 (29.4)	39 (29.5)	54 (29.2)	64 (27.9)	11.4	19.1
of which: Staff Expenses	12	13	16	19	28	32	-0.3	15.0
C. Profits								
i. Amount of operating profits	20	24	19	27	39	51	35.7	30.7
ii. Provisions, contingencies, taxes	8	10	9	13	17	23	2.6	37.0
iii. Amount of net profits	12	14	10	14	22	28	78.0	26.1

Notes: 1. Figures in parentheses are percentages to total income/expenditure.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
3. Components may not add up to the whole due to rounding off.
4. Data for 2011-12 are provisional.

Improvement in the asset quality of UCBs was sustained

5.20 UCBs have shown a steady improvement in their asset quality over recent years. There has been a decline in gross Non-Performing Assets (NPAs), both in absolute and ratio terms. In continuation of this trend, UCBs reported negative growth in gross NPAs and also showed a fall in their gross NPA ratio in 2011-12 (Chart V.9 read with Table V.8).

Table V.7: Select Indicators of Profitability of UCBs

Indicator	Scheduled UCBs		Non-Scheduled UCBs		All UCBs	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5	6	7
Return on Assets	1.07	1.08	0.7	0.9	0.9	1.0
Return on Equity	9.6	10.1	5.5	7.3	7.1	8.4
Net Interest Margin	3.1	3.0	3.1	3.6	3.1	3.3

Note: Data for 2011-12 are provisional.

Chart V.9: Gross NPA Growth and Ratio

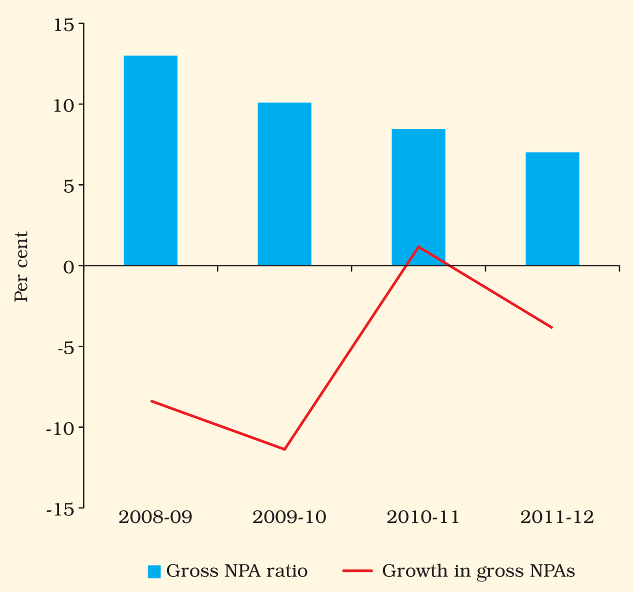


Table V.8: Non-Performing Assets of UCBs

(Amount in ₹ billion)

Item	2011	2012
1	2	3
1. Gross NPAs	115	111
2. Net NPAs	27	29
3. Gross NPA Ratio (per cent)	8.4	7.0
4. Net NPA Ratio (per cent)	2.1	2.0
5. Provisioning (1-2)	88	82
6. Provisioning Coverage Ratio (per cent) (5/1)	76.6	73.6

Rising Provisioning Coverage Ratio (PCR) for UCBs

5.21 Not only were the NPAs of UCBs on the decline, but also their provisions were on a steady rise in recent years. As a result, their Provisioning Coverage Ratio (PCR), defined as provisions as per cent of gross NPAs, also showed a largely rising trend (Chart V.10).

Majority of UCBs reported CRAR above the statutory minimum in 2011-12, but capital position of scheduled UCBs was much weaker than non-scheduled UCBs

5.22 The majority of UCBs (about 91 per cent) reported Capital to Risk-Weighted Assets Ratio (CRAR) above the statutory minimum of 9 per cent at end-March 2012 (Table V.9 read with Chart V.11). However, the capital position of scheduled UCBs was much weaker than that of non-scheduled UCBs. Moreover, it was a disquieting feature that most of the scheduled UCBs with CRAR below the regulatory minimum had a negative CRAR.

Table V.9: Distribution of UCBs by CRAR
(As at end-March 2012)

CRAR (in per cent)	Scheduled UCBs	Non-Scheduled UCBs	All UCBs
1	2	3	4
CRAR < 3	8	79	87
3 ≤ CRAR < 6	1	14	15
6 ≤ CRAR < 9	-	50	50
9 ≤ CRAR < 12	8	197	205
12 ≤ CRAR	35	1,226	1,261
Total	**52**	**1,566**	**1,618**

Note: Data are provisional.

Small enterprises and housing – principal elements in UCB credit in 2011-12

5.23 Given their urban focus, UCBs mainly cater to the credit needs of small enterprises and the housing sector. These two sectors accounted for over one-third of the total credit of UCBs in 2011-12 (Chart V.12 read with Table V.10). Further, they had a share of around 70 per cent in the total priority sector credit of UCBs.

Chart V.10: Provisioning Coverage Ratio of UCBs

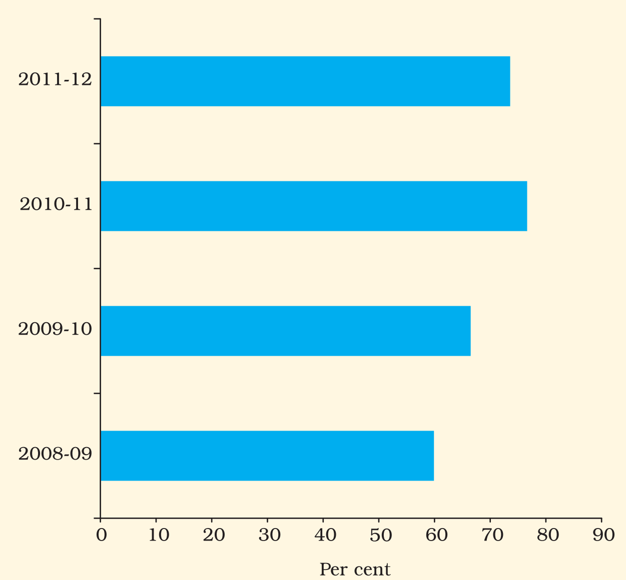


Chart V.11: Distribution of UCBs by CRAR, 2012

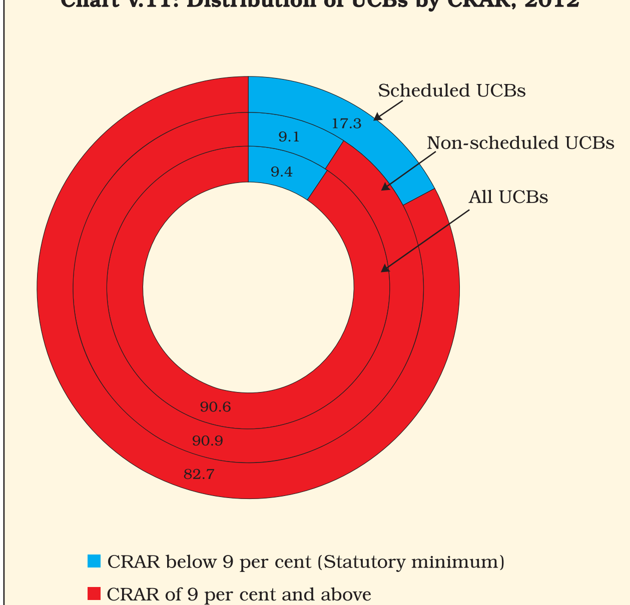
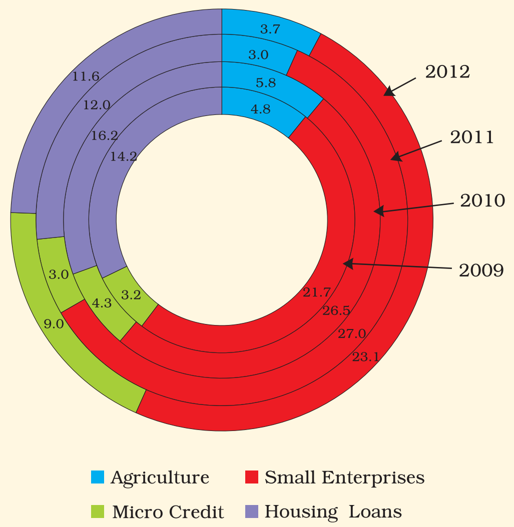


Chart V.12: Percentage Distribution of Credit to Select Priority Sectors by UCBs



Increase in the provision of micro credit by UCBs

5.24 Micro credit, a component of the priority sector, has increased in terms of importance for UCBs. Within the total priority sector credit given to weaker sections, which can be taken as a reflection of the contribution of UCBs to financial inclusion, micro credit showed a significant increase in 2011-12. It competed closely with housing and small enterprises, the two major priority sectors for UCBs (Chart V.13).

A high but declining degree of geographical concentration of banking business of UCBs

5.25 The banking business of UCBs captured by credit plus deposits remained spatially concentrated in the western region followed by the southern region. These two regions accounted for only 27 per cent of total districts in India and yet controlled about 92 per cent of the total banking business of UCBs (Table V.11 read with Appendix Table V.3). On the other hand, the remaining four regions accounted for about 73 per cent of total districts, but had a share of less than 9 per cent in the total banking business of UCBs. The volume of banking business per branch too was significantly higher in the western and southern regions (Table V.12).

Table V.10: Composition of Credit to Priority Sectors by UCBs
(As at end-March 2012)

(Amount in ₹ billion)

Sector	Composition of total priority sector credit		*Of which*, composition of credit to weaker sections	
	Amount	Percentage to total	Amount	Percentage to total
1	2	3	4	5
1. Agricultural credit	**58**	**3.7**	**21**	**1.3**
1.1 Direct agricultural credit	19	1.2	8	0.5
1.2 Indirect agricultural credit	39	2.5	13	0.8
2. Small Enterprises	**366**	**23.1**	**74**	**4.7**
2.1 Direct credit to small enterprises	306	19.5	58	3.7
2.2 Indirect credit to small enterprises	60	3.9	16	1.0
3. Micro Credit	**142**	**9.0**	**41**	**2.6**
3.1 Loans to SHGs/JLGs	10	0.6	3	0.2
3.2 Loans to others	132	8.5	38	2.4
4. State-sponsored organisations for SC/ ST	**2**	**0.1**	**1**	**0.03**
5. Education loans	**20**	**1.2**	**7**	**0.4**
6. Housing loans	**183**	**11.6**	**53**	**3.4**
All priority sectors	**770**	**48.7**	**195**	**12.4**

Notes: 1. Percentages are with respect to total credit of UCBs.
2. Components may not add up to the whole due to rounding off.

Chart V.13: Percentage Distribution of Credit to Weaker Sections by UCBs

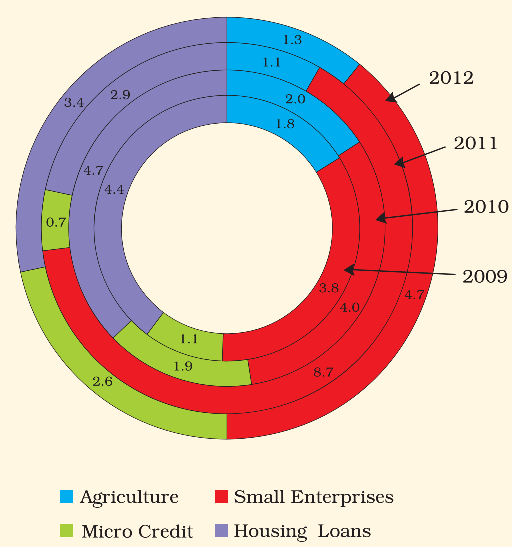


Table V.11: Distribution of Districts and Banking Business of UCBs across Regions

Region	Percentage share in total number of districts	Percentage share in total banking business of UCBs
1	2	3
	Regions of low concentration	
Northern region	17.5	3.2
North-eastern region	9.9	0.4
Eastern region	18.3	1.7
Central region	27.0	3.2
Sub-total	**72.7**	**8.5**
	Regions of high concentration	
Western region	10.4	76.2
Southern region	17.0	15.3
Sub-total	**27.4**	**91.5**
All-India	**100.0**	**100.0**

Note: Banking business refers to deposits plus credit of UCBs.

Table V.12: Volume of Banking Business per Branch for UCBs by Region

Region	Volume of banking business per branch (in ` million)		
	2009	2011	2012
1	2	3	4
Northern region	290	320	367
North-eastern region	151	262	313
Eastern region	342	403	445
Central region	234	285	290
Western region	395	490	557
Southern region	214	289	332
All-India	**341**	**426**	**481**
Coefficient of variation	*0.33*	*0.26*	*0.25*

5.26 However, it is noteworthy that the degree of concentration of banking business of UCBs showed some signs of decline over time. The coefficient of variation in the banking business of UCBs across regions showed a mild but steady fall between 2009 and 2012 (Table V.12).

3. Rural Co-operatives[4]

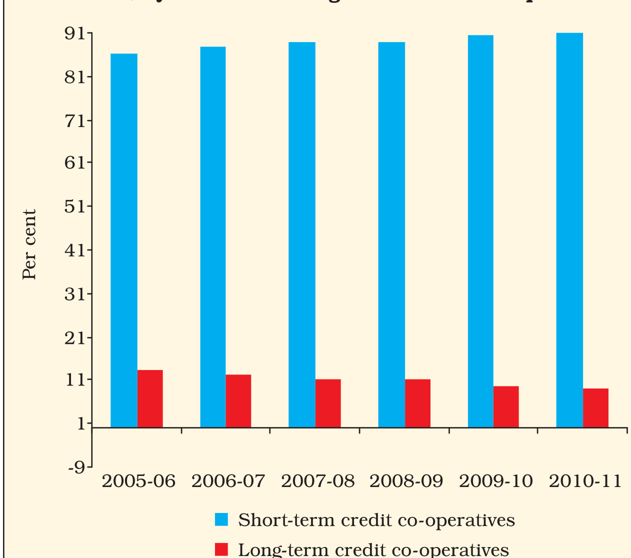
Short-term co-operatives dominate rural co-operative credit structure

5.27 Over the years, there has been a growing dominance of short-term credit co-operatives in the rural co-operative credit structure. Concomitantly, the share of long-term credit co-operatives has been on a steady decline (Chart V.14 read with Table V.13).

Revival in profitability of short-term co-operatives as against long-term co-operatives

5.28 The profitability of short-term credit co-operatives, at the aggregate level, has shown a distinct revival since 2008-09. This is in contrast with the earlier years, when there was a continued increase in the losses reported by these co-operatives. The improvement in the profitability of short-term credit co-operatives could be partly attributed to the reforms implemented across several States as part of the revival package for these institutions[5]. On the other hand, long-term credit co-operatives showed a continued

Chart V.14: Composition of Rural Co-operative Credit Structure, by Short and Long-term Credit Co-operatives



[4] The section is based on the year 2010-11 given the lagged availability of data for rural co-operatives.

[5] The details of the revival package for short-term credit co-operatives are discussed later in Section 5.

Table V.13: A Profile of Rural Co-operatives
(As at end-March 2011)

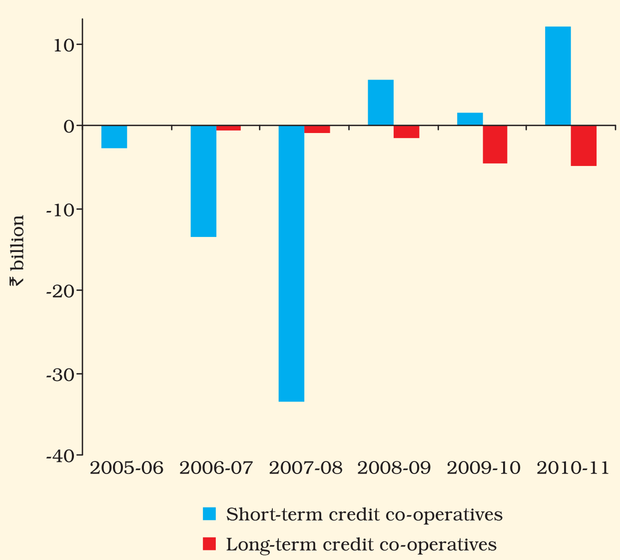
(Amount in ` billion)

Item	Short-term			Long-term	
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs
1	2	3	4	5	6
A. Number of Co-operatives	31	370	93,413	20	697
B. Balance Sheet Indicators					
i. Owned Funds (Capital + Reserves)	112	242	145	45	49
ii. Deposits	783	1,651	372	10	5
iii. Borrowings	319	424	540	162	128
iv. Loans and Advances	640	1,308	878	178	116
v. Total Liabilities/Assets	1,302	2,541	1,442+	285	252
C. Financial Performance					
i. Institutions in Profit					
a. Number	30	318	44,554	9	329
b. Amount of Profit	5.2	14	18	1	2
ii. Institutions in Loss					
a. Number	1	52	38,065	10	368
b. Amount of Loss	0.6	5	20	4	4
iii. Overall Profit (+)/Loss (-)	4.6	9	-2	-3	-2
D. Non-performing Assets					
i. Amount	57	153	227++	61	48
ii. As percentage of Loans Outstanding	8.9	11.6	25.2	34.3	41.7
E. Recovery of Loans to Demand Ratio (Per cent)	91.8	78.8	-	40.0	39.4

StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.
-: Not available. +: Working capital. ++: Total overdues.
Note: Manipur SCARDB is defunct.
Source: NABARD and NAFSCOB.

deterioration in profitability with absolutely no signs of revival (Chart V.15).

Chart V.15: Profitability of Rural Co-operative Credit Institutions



Short-term rural credit co-operatives

State Co-operative Banks

Slowdown in the growth of the balance sheet of StCBs in 2010-11

5.29 There was a decline in the growth of the balance sheet of State Co-operative Banks (StCBs) in 2010-11 over 2009-10. On the liabilities side, the growth in the balance sheet of StCBs in 2010-11 emanated from high growth in borrowings, while on the assets side, the growth was attributed to loans and advances or credit (Table V.14).

Possibility of a slowdown in growth of the balance sheet of scheduled StCBs in 2011-12

5.30 Advance information on scheduled StCBs for 2011-12 available from Section 42(2) returns has been analysed to gauge the more recent trends.

Table V.14: Liabilities and Assets of State Co-operative Banks
(At end-March 2011)

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
Liabilities				
1. Capital	16	21	4.0	25.8
	(1.3)	(1.6)		
2. Reserves	76	91	-26.3	19.8
	(6.2)	(7.0)		
3. Deposits	812	783	15.5	-3.6
	(66.1)	(60.2)		
4. Borrowings	234	319	12.0	36.3
	(19.1)	(24.5)		
5. Other Liabilities	90	88	79.1	-1.8
	(7.3)	(6.8)		
Assets				
1. Cash and Bank Balances	105	84	32.4	-20.8
	(8.6)	(6.4)		
2. Investments	553	502	18.9	-9.2
	(45.1)	(38.6)		
3. Loans and Advances	493	640	1.8	29.8
	(40.1)	(49.1)		
4. Other Assets	76.7	76.8	47.8	0.2
	(6.2)	(5.9)		
Total Liabilities/Assets	**1,228**	**1,302**	**13.6**	**6.0**
	(100.0)	**(100.0)**		

Notes: 1. Figures in parentheses are percentages to total liabilities/ assets.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
Source: NABARD.

The trends suggest that although there has been a revival in the growth of both deposits and SLR investments of scheduled StCBs in 2011-12, there has been a slowdown in the growth of credit from StCBs during this year (Table V.15).

Table V.15: Trends in Select Balance Sheet Indicators of Scheduled State Co-operative Banks

(Amount in ` billion)

Item	2009-10	2010-11	2011-12
1	2	3	4
Deposits	652	594	640
	(24.0)	(-8.9)	(7.8)
Credit	433	587	694
	(2.3)	(35.4)	(18.3)
SLR Investments	239	213	209
	(39.2)	(-10.8)	(-1.8)
Credit plus SLR Investments	673	800	904
	(12.9)	(19.0)	(12.9)

Notes: 1. Figures in parentheses indicate growth in per cent over the previous year.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
Source: Final Form A/B under Section 42(2) of the RBI Act, 1934.

Turnaround in profitability of StCBs in 2010-11 on account of higher growth in income

5.31 There was a near-doubling of net profits of StCBs in 2010-11, suggesting a complete turnaround from the negative growth in profits shown by these institutions in 2009-10 (Table V.16). The increased profitability of StCBs was on account of the growth in income outpacing that of expenditure. The growth in income was primarily attributable to a higher growth in interest income.

5.32 Within the total expenditure of StCBs, there was increased growth in provisions and contingencies, necessitated partly by the increased growth in the NPAs of these institutions in 2010-11.

High growth in NPAs of StCBs in 2010-11, though NPA ratio was largely maintained

5.33 There was a deterioration in the NPA position of StCBs in 2010-11. However, on account

Table V.16: Financial Performance of State Co-operative Banks

(Amount in ` billion)

Item	As during		Percentage Variation	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
A. Income (i+ii)	**82**	**87**	**8.8**	**5.9**
	(100.0)	**(100.0)**		
i. Interest Income	78	83	7.6	6.5
	(94.9)	(95.5)		
ii. Other Income	4.2	3.9	38.0	-5.4
	(5.1)	(4.5)		
B. Expenditure (i+ii+iii)	**80**	**83**	**10.1**	**3.4**
	(100.0)	**(100.0)**		
i. Interest Expended	66	68	15.3	2.7
	(82.5)	(82.0)		
ii. Provisions and Contingencies	3.96	4.05	-10.2	2.1
	(5.0)	(4.9)		
iii. Operating Expenses	10	11	-8.6	8.0
	(12.5)	(13.1)		
Of which, Wage Bill	6	7	-14.4	18.3
	(7.3)	(8.3)		
C. Profits				
i. Operating Profits	6.4	8.7	-15.0	35.2
ii. Net Profits	2.4	4.6	-21.7	88.8

Notes: 1. Figures in parentheses are percentages to total income/ expenditure.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
Source: NABARD.

of high growth in credit from StCBs, the NPA ratio (defined as NPAs as per cent of loans outstanding) was largely maintained at around 8.9 per cent in 2010-11 (Table V.17). The high growth in NPAs in 2010-11 emanated from sub-standard assets, since the growth in doubtful and loss assets showed a slight moderation over the previous year. Like the NPA ratio, the recovery-to-demand ratio suggesting the extent of recovery of loans as a proportion of the expected recovery, was maintained at 92 per cent in 2010-11.

Perceptible improvement in the financial health of StCBs

5.34 There have been signs of distinct improvement in the financial health of StCBs in recent years. Between 2008 and 2011, there was no increase in the NPA ratio of StCBs. The ratio either showed a decline or was, at best, maintained at the previous year's level (Chart V.16). There was a similar trend for the recovery ratio, with the ratio either showing a rise or remaining unchanged.

Broad-based improvement in financial health of StCBs across most regions, except the western region

5.35 The improvement in the financial health of StCBs as suggested by the NPAs and recovery

Chart V.16: Indicators of Financial Health of StCBs

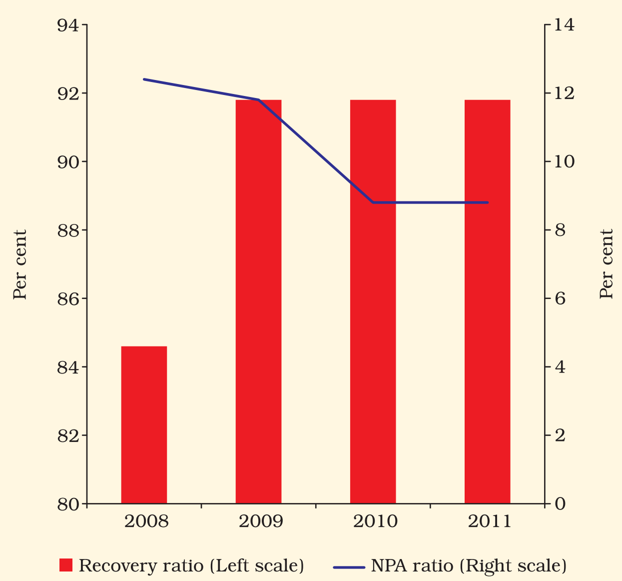


Table V.17: Soundness Indicators of State Co-operative Banks

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
A. Total NPAs (i+ii+iii)	44	57	-24.5	31.4
i. Sub-standard	13	17	-20.6	28.7
	(30.6)	(30.0)		
ii. Doubtful	22	25	42.3	12.9
	(51.0)	(43.8)		
iii. Loss	8	15	231.0	86.9
	(18.4)	(26.2)		
B. NPA-to-Loans Ratio (%)	**8.8**	**8.9**	-	-
C. Recovery-to-Demand Ratio (%)	**91.8**	**91.8**	-	-

Notes: 1. Figures in parentheses are percentages to total NPAs.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

ratios could be seen across most regions except the western region (Chart V.17 read with Appendix Table V.4). The NPA ratio showed a rising trend, while the recovery ratio posted a decline in the western region in complete contrast to the trend observed across all other regions.

District Central Co-operative Banks

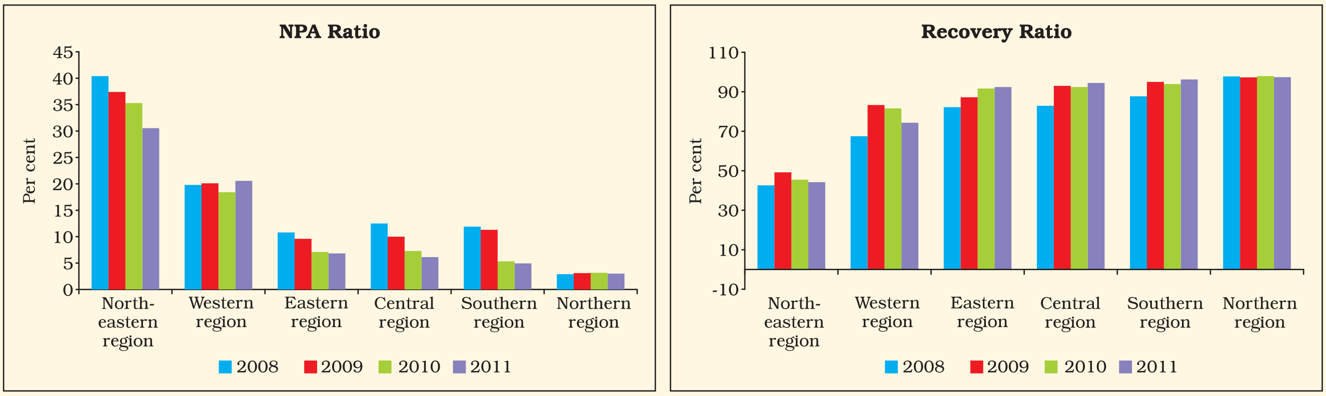
Like StCBs, slowdown in the growth of the balance sheet of DCCBs

5.36 Similar to StCBs, District Central Co-operative Banks (DCCBs) witnessed a slowdown in their balance sheet in 2010-11 (Table V.18). The slowdown in the balance sheet of DCCBs was on account of a slowdown in deposits on the liabilities side and investments on the assets side, although the credit growth of DCCBs posted an increase.

Declining trend in the profits of DCCBs

5.37 Although DCCBs as a whole reported profits in 2010-11, there was a decline in the quantum of profits reported by these institutions (Table V.19). The decline in profitability mainly emanated from a high growth in operating expenses, which outpaced the growth in income of these institutions.

Chart V.17: Financial Health of StCBs by Region



Source: NABARD.

Further improvement in asset quality of DCCBs

5.38 There was a continued improvement in the asset quality of DCCBs, with a decline in the NPA ratio in 2010-11 (Table V.20). Also, contrary to the trends observed in the case of StCBs, there was a decline in absolute terms in the NPAs of DCCBs between 2009-10 and 2010-11 (Table V.20 read with Table V.17). The recovery ratio of DCCBs increased in 2010-11.

Table V.18: Liabilities and Assets of District Central Co-operative Banks

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
Liabilities				
1. Capital	73 (3.2)	79 (3.1)	11.3	8.5
2. Reserves	144 (6.4)	163 (6.4)	-38.0	13.1
3. Deposits	1,529 (67.8)	1,651 (65.0)	19.8	8.0
4. Borrowings	287 (12.7)	424 (16.7)	3.6	47.9
5. Other Liabilities	222 (9.8)	224 (8.8)	109.2	1.2
Assets				
1. Cash and Bank Balances	154 (6.8)	171 (6.7)	19.1	11.4
2. Investments	789 (35.0)	854 (33.6)	21.9	8.2
3. Loans and Advances	1,106 (49.1)	1,308 (51.5)	11.2	18.3
4. Other Assets	206 (9.1)	208 (8.2)	10.3	1.2
Total Liabilities/Assets	**2,254 (100.0)**	**2,541 (100.0)**	**15.2**	**12.7**

Notes: 1. Figures in parentheses are percentages to total assets/ liabilities.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

Table V.19: Financial Performance of District Central Co-operative Banks

(Amount in ` billion)

Item	As during		Percentage Variation	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
A. Income (i+ii)	**177 (100.0)**	**188 (100.0)**	**10.0**	**6.3**
i. Interest Income	159 (90.0)	176 (93.7)	9.0	10.7
ii. Other Income	18 (10.0)	12 (6.3)	19.4	-33.6
B. Expenditure (i+ii+iii)	**166 (100.0)**	**179 (100.0)**	**12.1**	**8.0**
i. Interest Expended	103 (62.3)	111 (61.9)	11.8	7.3
ii. Provisions and Contingencies	22.3 (13.4)	21.9 (12.2)	4.1	-1.9
iii. Operating Expenses	40 (24.2)	46 (25.9)	17.8	15.1
Of which, Wage Bill	26 (15.8)	31 (17.3)	16.7	18.2
C. Profits				
i. Operating Profits	34	31	-2.7	-7.5
ii. Net Profits	11	9	-13.7	-18.6

Notes: 1. Figures in parentheses are percentages to total income/ expenditure.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

Table V.20: Soundness Indicators of District Central Co-operative Banks

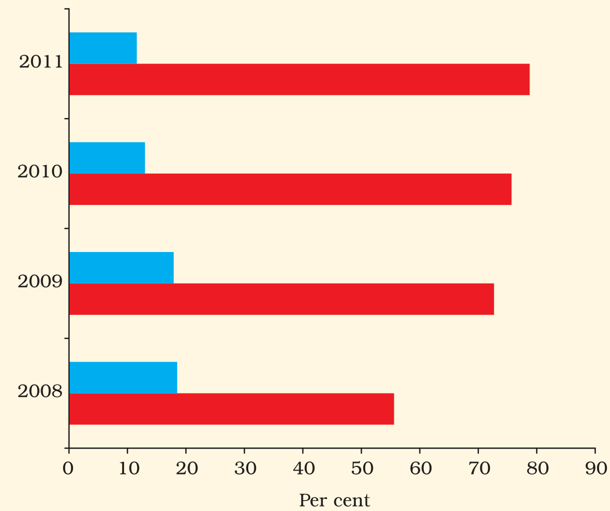
(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
A. Total NPAs (i+ ii + iii)	**164**	**153**	**-8.7**	**-6.9**
i) Sub- standard	73	60	-9.4	-17.1
	(44.4)	(39.6)		
ii) Doubtful	64.8	65.0	-10.3	0.3
	(39.6)	(42.6)		
iii) Loss	26	27	-1.8	3.5
	(16.0)	(17.8)		
B. NPA-to-Loans Ratio (%)	**14.8**	**11.6**	-	-
C. Recovery-to-Demand Ratio (%)	**75.7**	**78.8**	-	-

Notes: 1. Figures in parentheses are percentages to total NPAs.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

Chart V.18: Indicators of Financial Health of DCCBs



Source: Compiled from NABARD data.

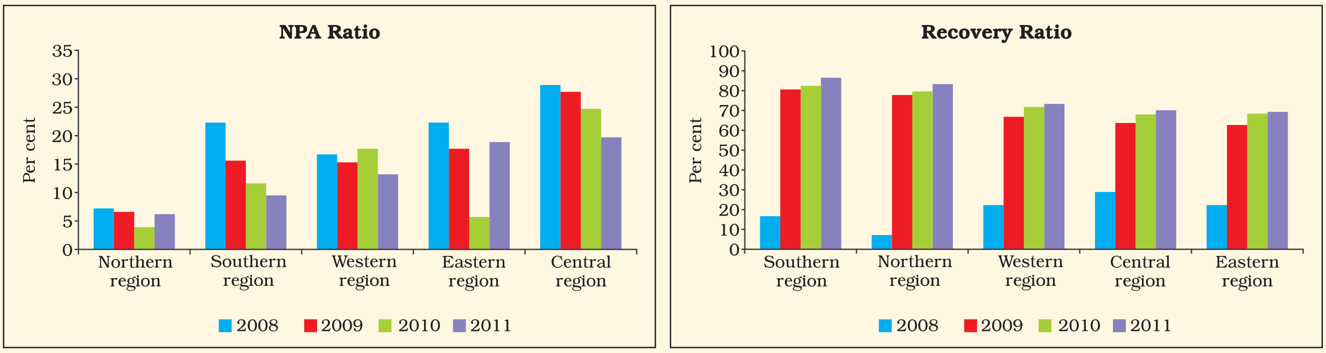
Distinct improvement in the financial health of DCCBs, like StCBs

5.39 There was a distinct improvement in the financial health of DCCBs in recent years, again partly reflecting the outcome of the reform package being implemented for these institutions. The recovery ratio of DCCBs showed a consistent increase, while the NPA ratio posted a decline (Chart V.18).

Signs of improvement in financial health of DCCBs across all regions

5.40 Though there was an improvement in the financial health of DCCBs at the aggregate level, this improvement was not spread across all regions (Chart V.19 read with Appendix Table V.5). On the one hand, DCCBs in the southern and northern regions were financially most sound, as indicated by low NPAs and a high recovery ratio, on the other hand, the financial health of DCCBs in the central, eastern and western regions appeared relatively less robust. However, over recent years, the regional gap in terms of both these indicators narrowed considerably, suggesting an increase in the financial soundness of DCCBs across the country.

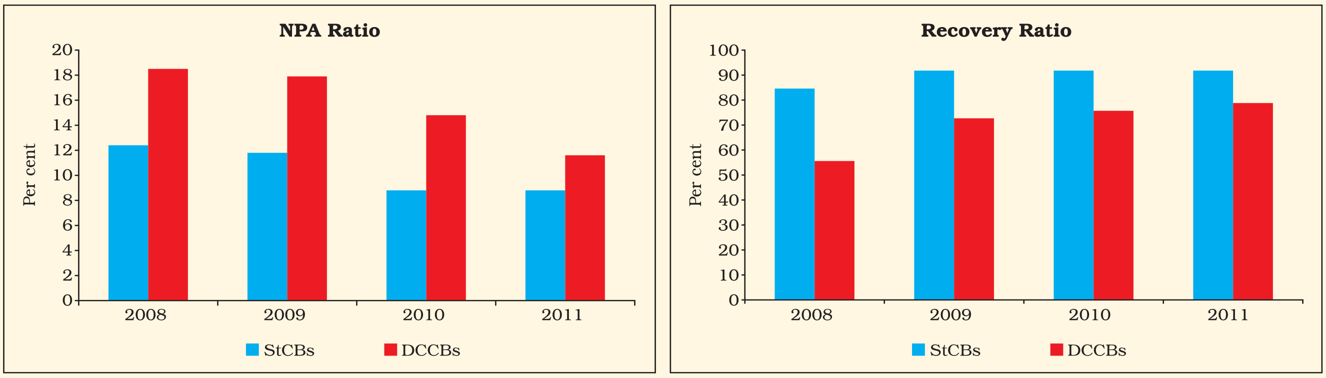
Chart V.19: Financial Health of DCCBs by Region



Note: DCCBs are not present in the north-eastern region on account of a two-tier short-term co-operative credit structure comprising StCBs and PACS; hence, they are not shown in the Chart.

Source: Compiled from NABARD data.

Chart V.20: Comparison of Financial Health of StCBs and DCCBs



Source: Compiled from NABARD data.

Notwithstanding improvement, DCCBs had much weaker financial health than StCBs

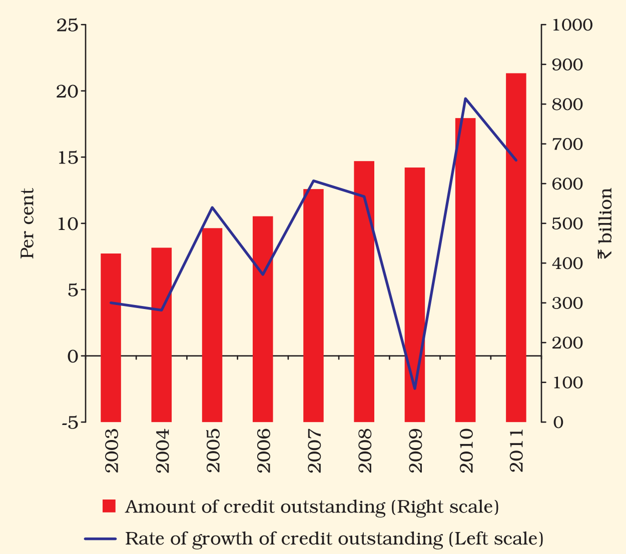
5.41 Notwithstanding the decline in the NPA ratio and the rise in the recovery ratio, it is noteworthy that the financial health of DCCBs remained generally much weaker than that of StCBs (Chart V.20).

Primary Agricultural Credit Societies

Slower credit growth for PACS in 2010-11

5.42 The credit growth of Primary Agricultural Credit Societies (PACS) slowed slightly in 2010-11 compared to 2009-10 (Chart V.21 read with Table V.21).

Chart V.21: Growth in Credit Outstanding from PACS



Source: NAFSCOB.

Persistently low borrower-to-member ratio for PACS

5.43 The borrower-to-member ratio is a useful indicator of access to credit from PACS. This ratio has generally remained below 50 per cent since 2003, suggesting that only about half the members of PACS access credit during each year[6]. Moreover, among the backward groups, *viz.*, Scheduled Castes and Scheduled Tribes (SCs/STs), the ratio generally ranged below 30 per cent. The ratio

Table V.21: Primary Agricultural Credit Societies - Select Balance Sheet Indicators

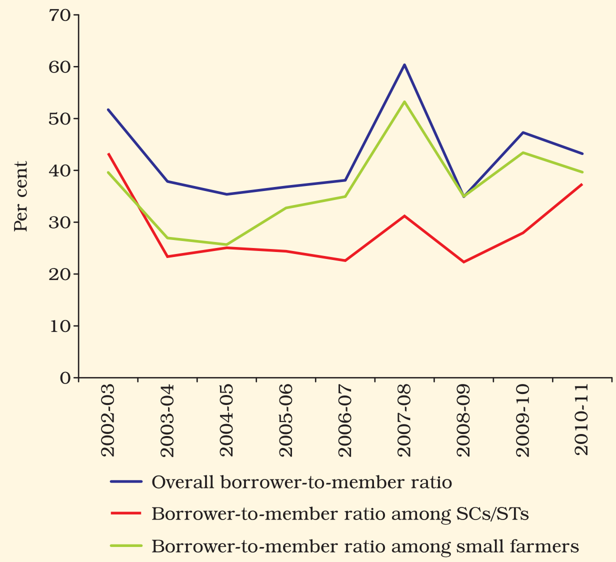
(Amount in ` billion)

Item	As at end-March 2010	As at end-March 2011	Percentage Variation 2010-11
1	2	3	4
A. Liabilities			
1. Total Resources (2+3+4)	995	1,057	6.2
2. Owned Funds (a+b)	125	145	15.9
a. Paid-up Capital	72	76	5.6
Of which, Government Contribution	7	6	-6.1
b. Total Reserves	53	69	29.5
3. Deposits	353	372	5.5
4. Borrowings	518	540	4.3
5. Working Capital	1,352	1,442	6.7
B. Assets			
2. Total Loans Outstanding (a+b)	765	878	14.8
a) Short-Term	550	636	15.8
b) Medium-Term	215	241	12.2

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.
Source: NAFSCOB.

[6] The ratio rose to a high of 60 per cent only in 2007-08 on account of a sharp rise by 65 per cent in the number of borrowers. However, going by the trend in the previous and subsequent years, this seems to be an outlier.

Chart V.22: Borrower-to-Member Ratio of PACS



Source: NAFSCOB.

among small farmers too was relatively low when compared with the overall borrower-to-member ratio (Chart V.22).

A trend of slow decline in the number of loss-making PACS

5.44 There was a slow decline in the percentage of loss-making PACS over recent years, particularly since 2008. Despite the decline, the percentage of loss-making PACS competed closely with the percentage of profit-making PACS (Chart V.23)[7].

5.45 The percentage of loss-making PACS was much larger in the eastern and north-eastern regions (Chart V.23 read with Appendix Table V.6).

Long-term rural credit co-operatives

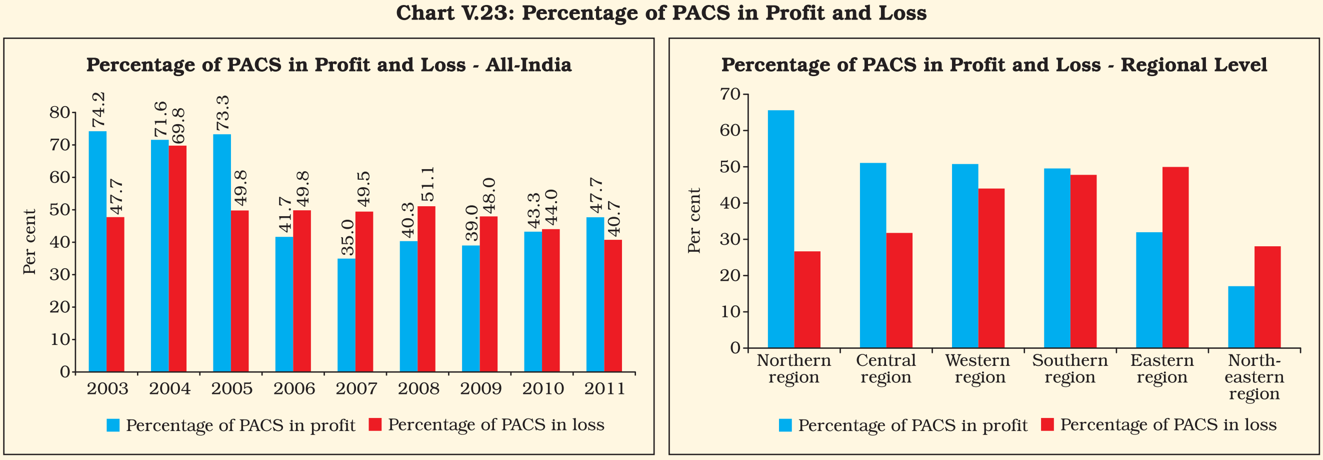
State Co-operative Agriculture and Rural Development Banks

Expansion in the balance sheet of SCARDBs in 2010-11

5.46 The balance sheet of SCARDBs in 2010-11 reflected a high growth in borrowings, which accounted for about 60 per cent of the total liabilities of these institutions. On the assets side, the major driver of growth was credit, which also accounted for a little over 60 per cent of the total assets of these institutions (Table V.22).

5.47 A comparison of the balance sheets of apex-level institutions of the short-term and long-term co-operative structures distinctly brought out the dwindling asset and credit size and weakening capital position of SCARDBs in comparison with StCBs during recent years (Box V.2).

Chart V.23: Percentage of PACS in Profit and Loss



[7] As regards the remaining PACS, either they broke even, reporting neither profit nor loss, or there was no information available on their financial health.

Table V.22: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
Liabilities				
1. Capital	8.2 (3.2)	8.4 (3.0)	1.0	2.5
2. Reserves	34 (13.4)	37 (13.0)	7.3	7.8
3. Deposits	8 (3.0)	10 (3.3)	6.7	25.2
4. Borrowings	156 (61.0)	162 (57.0)	-1.7	4.2
5. Other Liabilities	50 (19.5)	68 (23.7)	3.2	35.7
Assets				
1. Cash and Bank Balances	2.0 (0.8)	2.4 (0.8)	4.3	19.6
2. Investments	31 (12.3)	29 (10.0)	6.8	-9.2
3. Loans and Advances	170 (66.5)	178 (62.6)	3.5	4.8
4. Other Assets	52 (20.4)	76 (26.6)	-10.5	45.0
Total Liabilities/Assets	**256 (100.0)**	**285 (100.0)**	**0.7**	**11.4**

Notes: 1. Figures in parentheses are percentages to total assets/ liabilities.
2. SCARDB in Manipur is defunct.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

As in the past, SCARDBs reported losses in 2010-11

5.48 SCARDBs reported losses in 2010-11, as was the case in 2009-10. The loss-making position of SCARDBs was on account of a negative growth in total income coupled with increased growth in their total expenditure arising from a steep rise in interest as well as operating expenses (Table V.23).

Weak asset quality of SCARDBs

5.49 The asset quality of SCARDBs has been poor, with the NPA ratio nearing 34 per cent (Table V.24). A comparison of SCARDBs with StCBs, UCBs and commercial banks brings out the dismal quality of assets of SCARDBs. Moreover, contrary to a declining trend in the NPA ratios of StCBs and UCBs, the NPA ratio of SCARDBs has fluctuated around a rising trend in recent years (Chart V.24).

Asset quality of SCARDBs in the western region was the weakest

5.50 Similar to StCBs, the SCARDBs in the western region were observed to be financially the most fragile. At end-March 2011, SCARDBs in the western region had an abysmally high NPA ratio of 74 per cent. This implied that only one-fourth of the loan assets of these institutions were standard assets (Chart V.25 read with Appendix Table V.7).

Primary Co-operative Agriculture and Rural Development Banks

Marginal growth in the balance sheet of PCARDBs in 2010-11

5.51 There was negligible expansion in the balance sheet of Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) in 2010-11. The major component of uses of funds of PCARDBs, namely credit, and that of sources of funds, namely borrowings, showed a negligible growth of less than 1 per cent in 2010-11, broadly in line with the trend during the previous year (Table V.25).

Like SCARDBs, PCARDBs reported continued losses in 2010-11

5.52 Similar to SCARDBs, PCARDBs reported losses in 2010-11 at the aggregate level (Table V.26). The majority of these institutions were loss-making during the year (Chart V.26 read with Appendix Table V.8). Moreover, a disquieting feature is that there was no perceptible improvement in the profitability of PCARDBs in the recent past.

In terms of financial health, PCARDBs were far weaker than SCARDBs

5.53 Although the long-term co-operative structure as a whole was weak, within this

Box V.2: Weakening Long-Term Co-operative Credit Structure: A Comparative Analysis of Apex-Level Institutions

Origin and rationale for long-term credit co-operatives

Co-operatives were the first formal institution created to address the rural credit needs in the country in the early 20th century, following co-operative societies that had been very successful in some Western European countries. However, unlike other countries that experimented with credit co-operatives, in India two distinct sets of co-operatives *viz*., short-term and long-term co-operatives, were created with specific development objectives. While short-term co-operatives were created to meet the credit needs of farmers for seasonal agricultural activities and marketing of crops, long-term co-operatives in the form of land mortgage banks (LMBs) were created in order to meet the long-term credit needs of farmers for land development. Over time, these long-term co-operatives diversified their lending operations and were renamed - first, as Land Development Banks (LDBs) and then as Agriculture and Rural Development Banks (ARDBs) (GoI, 2004).

Slowdown in disbursal of long-term co-operative credit

In recent years, there has been a perceptible slowdown in the disbursal of long-term co-operative credit (Chart below). The share of long-term credit in total co-operative credit (disbursed) stood at 32 per cent in 2000-01, which almost halved to 17 per cent by 2009-10. Even in absolute terms, there was a decline in the amount of long-term credit disbursed through co-operatives for certain years in the 2000s.

Dwindling asset size and capital base of SCARDBs relative to StCBs

A comparison of apex-level institutions of long-term and short-term co-operatives, namely SCARDBs and StCBs, brings out the growing divergence between the growth of

Chart: Amount of Short-Term and Long-Term Co-operative Credit

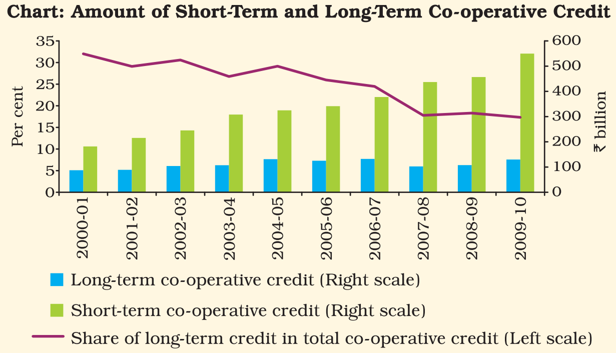


Table: Comparison of Assets, Credit and Capital Size of SCARDBs and StCBs

(in `)

Year	Amount of assets of SCARDBs per `100 of assets of StCBs	Amount of credit of SCARDBs per `100 of credit of StCBs	Amount of capital of SCARDBs per `100 of capital of StCBs
2008	26	37	80
2009	23	34	52
2010	21	34	51
2011	22	28	40

Source: Calculated based on data from NABARD.

long-term and short-term structures (Table above). This analysis suggests that

(a) For every `100 of total assets of StCBs, SCARDBs reported assets worth `26 in 2008. By 2011, the relative asset size of SCARDBs had declined to `22.

(b) The contraction was even more striking when the size of the credit portfolio of SCARDBs was compared with that of StCBs. For every `100 of credit reported by StCBs, SCARDBs reported credit worth `37 in 2008. By 2011, the relative amount for SCARDBs had shrunk to `28.

(c) The relative weakening of SCARDBs was particularly evident from the changes in the capital base of these institutions. For every `100 of capital of StCBs, the amount of capital for SCARDBs was `80 in 2008. By 2011, there was a steep reduction in the relative amount of capital for SCARDBs, reaching half its level in 2008.

The revival package, as recommended by the Vaidyanathan Committee of 2004, has been under implementation for short-term co-operatives since 2006 and, by 2012, 25 States have taken steps towards reviving their short-term co-operatives (refer to Section 5 of this chapter). However, as regards long-term co-operatives, the implementation of such a package is still awaited. Evidently, the sustainability of long-term co-operatives is under pressure, and these institutions are in need of an urgent revival through appropriate reforms.

Reference:

Government of India (2004), "Task Force on Revival of Rural Co-operative Credit Institutions (Long-term)" (Chairman: Prof. A. Vaidyanathan), New Delhi.

structure financial health deteriorated significantly as we moved from the higher tier to the lower tier. In other words, the financial health of PCARDBs was much more fragile than that of SCARDBs (Table V.27 read with Table V.24; Chart V.27).

4. Progress on Licensing of Rural Co-operatives

5.54 The Reserve Bank, the licensing authority for StCBs and DCCBs under the Banking

Table V.23: Financial Performance of State Co-operative Agriculture and Rural Development Banks

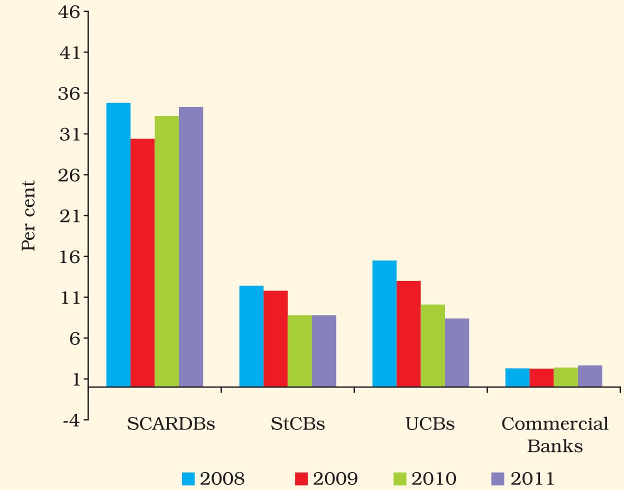
(Amount in ` billion)

Item	As during		Percentage Variation	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
A. Income (i+ii)	**21**	**19**	**-31.6**	**-6.2**
	(100.0)	**(100.0)**		
i. Interest Income	17.75	17.81	-36.0	0.4
	(86.3)	(92.4)		
ii. Other Income	3	2	19.9	-47.9
	(13.7)	(7.6)		
B. Expenditure (i+ii+iii)	**21**	**22**	**-28.2**	**3.5**
	(100.0)	**(100.0)**		
i. Interest Expended	13	14	-0.3	2.8
	(62.4)	(62.0)		
ii. Provisions and Contingencies	5	4	-65.1	-17.8
	(22.8)	(18.1)		
iii. Operating Expenses	3	4	31.6	39.1
	(14.8)	(19.9)		
Of which, Wage Bill	2	3	20.3	37.5
	(11.0)	(14.6)		
C. Profits				
i. Operating Profits	4.2	1.4	-70.9	-67.0
ii. Net Profits	-0.7	-2.7	-	-

Notes: 1. Figures in parentheses are percentages to total income/ expenditure.
2. SCARDB in Manipur is defunct.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

Chart V.24: Comparison of NPA ratio of SCARDBs with other Co-operative and Commercial Banking Institutions



Source: Compiled from Report on Trend and Progress of Banking in India, various issues.

Regulation Act, 1949 [As Applicable to Co-operative Societies (AACS)], had drawn a roadmap to ensure that only licensed entities operate in the co-operative space. The Reserve Bank also issued revised guidelines in 2009, in consultation with NABARD, for granting licences to rural co-operative banks that had a CRAR of 4 per cent and above, as per the latest inspection report of NABARD, and that also complied with the CRR and SLR requirements during the past one year. The Reserve Bank has since granted licences to co-operative banks that complied with the above conditions and has been undertaking a periodic

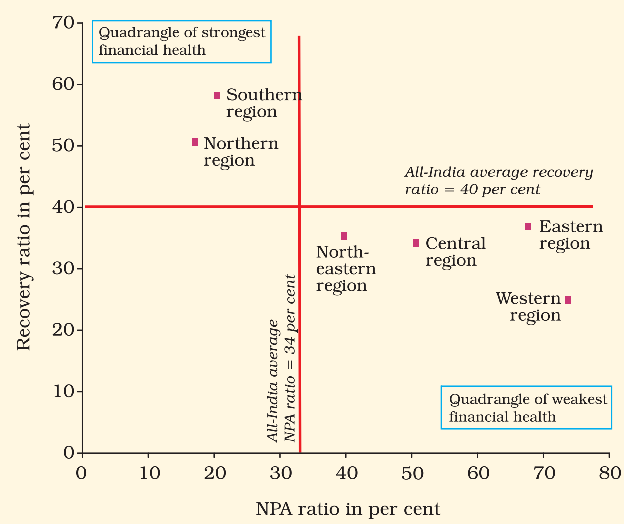
Table V.24: Asset Quality of State Co-operative Agriculture and Rural Development Banks

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**57**	**61**	**14.2**	**8.3**
i. Sub-standard	28	34	-3.7	21.4
	(50.2)	(56.3)		
ii. Doubtful	27	26	38.4	-4.5
	(48.3)	(42.6)		
iii. Loss	0.9	0.7	145.7	-18.5
	(1.6)	(1.2)		
B. NPA-to-Loans Ratio (%)	**33.2**	**34.3**	-	-
C. Recovery-to-Demand Ratio (%)	**40.5**	**40.0**	-	-

Notes: 1. Figures in parentheses are percentages to total NPAs.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Chart V.25: A Regional Comparison of Financial Health of SCARDBs



Source: Calculated based on data from NABARD.

Table V.25: Liabilities and Assets of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
Liabilities				
1. Capital	15.3 (6.1)	14.5 (5.8)	0.8	-4.8
2. Reserves	34.74 (13.9)	34.75 (13.8)	-0.5	0.03
3. Deposits	4.61 (1.8)	4.58 (1.8)	15.2	-0.5
4. Borrowings	128.3 (51.3)	128.4 (50.9)	3.8	0.1
5. Other Liabilities	67 (26.9)	70 (27.8)	-4.7	4.1
Assets				
1. Cash and Bank Balances	2.68 (1.1)	2.73 (1.1)	13.6	2.2
2. Investments	11.7 (4.7)	11.9 (4.7)	4.0	2.3
3. Loans and Advances	114.8 (45.9)	116.1 (46.0)	1.9	1.1
4. Other Assets	121.2 (48.4)	121.7 (48.2)	-0.8	0.5
Total Liabilities/Assets	**250 (100.0)**	**252 (100.0)**	**0.8**	**0.8**

Notes: 1. Figures in parentheses are percentages to total assets/liabilities.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

review of unlicensed banks in consultation with NABARD.

5.55 As on March 31, 2012, 43 banks, *i.e.*, 1 StCB and 42 DCCBs, remained unlicensed. The compliance regarding unlicensed co-operative banks was once again reviewed in co-ordination with NABARD and it was decided that to ensure stability of the financial system and to protect the interest of depositors of the unlicensed banks and the public in general, unlicensed banks may be prohibited from accepting fresh deposits under Section 35A of the Banking Regulation Act, 1949 (AACS).

5.56 Further, it was decided to form a Task Force to closely monitor the progress of unlicensed DCCBs through a Monitorable Action Plan (MAP). This plan would be prepared by the concerned banks and approved by the Task Force. The aim of this Task Force would be to ensure that the

Table V.26: Financial Performance of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ` billion)

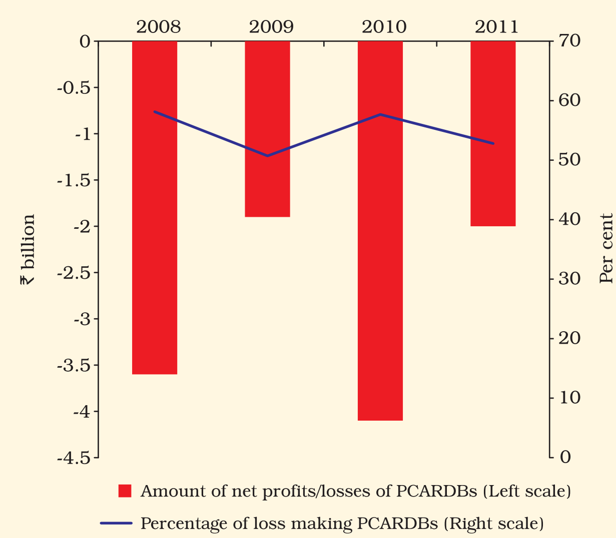
Item	As during		Percentage Variation	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
A. Income (i+ii)	**18 (100.0)**	**21 (100.0)**	**-9.4**	**12.4**
i. Interest Income	13 (70.5)	15 (70.5)	-9.8	12.3
ii. Other Income	5.4 (29.5)	6.1 (29.5)	-8.7	12.7
B. Expenditure (i+ii+iii)	**22.4 (100.0)**	**22.6 (100.0)**	**0.8**	**0.8**
i. Interest Expended	11.4 (50.8)	11.6 (51.3)	-6.5	1.8
ii. Provisions and Contingencies	6.0 (26.6)	5.8 (25.5)	9.3	-3.3
iii. Operating Expenses	5.0 (22.5)	5.2 (23.1)	10.1	3.5
Of which, Wage Bill	2.8 (12.7)	2.9 (12.7)	49.2	0.6
C. Profits				
i. Operating Profits	1.9	3.8	-58.5	100.5
ii. Net Profits	-4.1	-2.0	-	-

Notes: 1. Figures in parentheses are percentages to total income/expenditure.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

DCCBs attained the eligibility for issue of a license in the shortest possible time. The Task Force

Chart V.26: Profitability Indicators of PCARDBs



Source: Calculated based on data from NABARD.

Table V.27: Asset Quality of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ` billion)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**48.9**	**48.3**	**3.1**	**-1.1**
i. Sub-standard	27.7	28.2	0.2	1.7
	(56.7)	(58.4)		
ii. Doubtful	20.6	19.5	6.5	-5.0
	(42.1)	(40.4)		
iii. Loss	0.57	0.61	33.7	5.8
	(1.2)	(1.3)		
B. NPA-to-Loans Ratio (%)	**42.6**	**41.7**	-	-
C. Recovery-to-Demand Ratio (%)	**37.2**	**39.4**	-	-

Notes: 1. Figures in parentheses are percentages to total NPAs.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Source: NABARD.

would also examine alternative formal channels of credit in the regions where these banks were functioning to ensure that banking services in general and credit flow to important sections of the economy, and agriculture in particular, were not adversely affected, if the unlicensed banks were not in a position to acquire a licence.

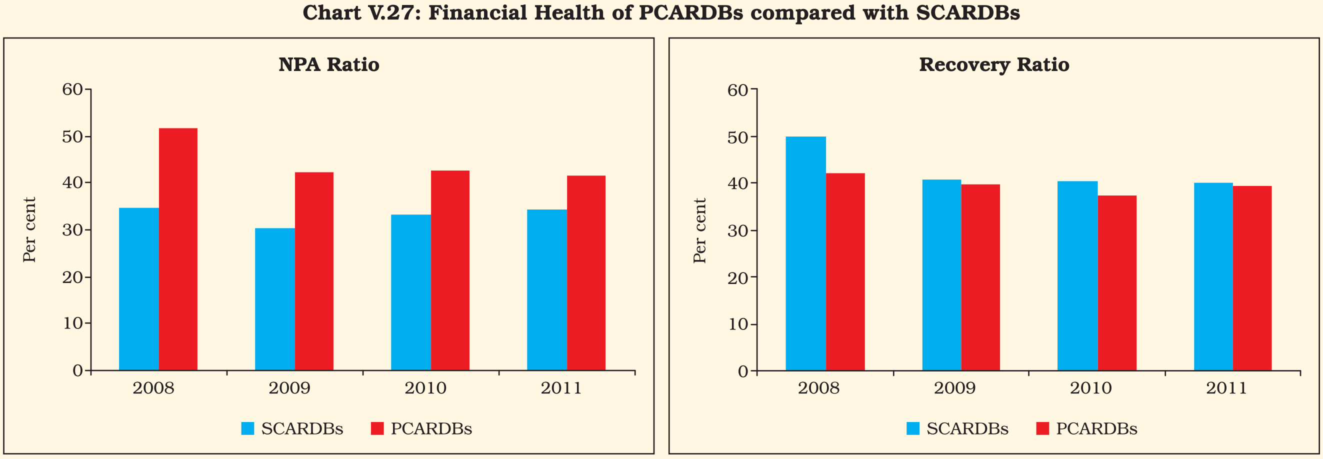
5.57 Further, as suggested in the Annual Policy Statement for 2012-13, a Working Group [rechristened as an "Expert Committee" (Chairman: Dr. Prakash Bakshi) following induction of outside experts in the Working Group] was set up in July 2012 to review the short-term rural co-operative structure and examine alternatives including the feasibility of setting up a two-tier structure instead of the existing three-tier structure. The Committee would also examine the feasibility of merging weak/unviable DCCBs with financially strong DCCBs in adjacent districts. In places where DCCBs were financially defunct, the Committee would explore alternate channels of rural credit delivery, such as commercial banks lending to PACS. It would also examine the enhancement of CRAR by StCBs/DCCBs to 9 per cent and suggest ways to augment the capital of these institutions.

5. Progress relating to Revival of Rural Co-operatives

Considerable progress has been made in reviving the short-term co-operative credit structure

5.58 A major development in the area of rural co-operatives has been their revival through a practical plan of action that follows the recommendations of the Task Force on Revival of Co-operative Credit Institutions (Short-term) (Chairman: Prof. A. Vaidyanathan) in 2004. The plan of action was finalised by the Government of India in consultation with the State Governments. The package broadly aimed at providing financial assistance to co-operatives and introducing legal and institutional reforms in these institutions. The current status of these reforms is discussed in Box V.3.

Chart V.27: Financial Health of PCARDBs compared with SCARDBs



Box V.3: Reforms for the Revival of Short-term Rural Co-operatives

The major components of the plan of action include providing recapitalisation assistance to rural co-operatives to bring them to an acceptable level of health. Further, it aims to introduce certain legal and institutional reforms in these institutions to ensure the democratic, self-reliant and efficient functioning of these institutions.

Recapitalisation assistance

An amount of `98.5 billion (including `90 billion as the Central Government's share and `8.5 billion as the State Government's share) was released up to March 31, 2012 to recapitalise 54,728 short-term co-operatives (54,715 PACS and 13 DCCBs) in 17 States to wipe out the accumulated losses prevailing as at end-March 2004 and to enable them to reach a minimum CRAR of 7 per cent by end-March 2004.

Legislative reforms

At end-March 2012, 21 States had amended their respective State co-operative societies' acts. These included Andhra Pradesh, Arunachal Pradesh, Bihar, Gujarat, Haryana, Karnataka, Jammu and Kashmir, Jharkhand, Madhya Pradesh, Maharashtra, Manipur, Mizoram, Meghalaya, Nagaland, Odisha, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal. Further, the State Governments of Chhattisgarh and Assam accorded cabinet approval to the proposed amendments to their co-operative societies' acts, pending the actual amendment, which would take a little longer. The amendments to the co-operative societies' acts in Punjab and Uttarakhand are under consideration by their respective State Governments.

The legislative reforms aimed at providing full functional autonomy to co-operatives including: (a) ensuring full voting membership rights to all users of financial services, including depositors; (b) removing state intervention in administrative and financial matters in co-operatives; (c) ensuring timely elections before the expiry of the term of the existing Boards; and (d) limiting the powers of the State Government to supersede elected boards.

Training reforms

NABARD has designed nine training modules for capacity building of functionaries of co-operatives besides Board of Directors and Chief Executive Officers. The programmes are being conducted by the training establishments of NABARD, along with the training partners of the States and the National Council of Co-operative Training (NCCT).

Corporate Governance reforms

The Reserve Bank has prescribed 'Fit and Proper' criteria for the appointment of Chief Executive Officers and professional Directors in StCBs and DCCBs. Following these prescriptions, all co-operative banks have been implementing these criteria.

Technological reforms

NABARD has finalised the core software and made it available to 20 States, *viz*., Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, Tripura, Uttar Pradesh and West Bengal. The trial run of the software has been completed in 10 States, *viz*., Assam, Arunachal Pradesh, Chhattisgarh, Gujarat, Jharkhand, Maharashtra, Madhya Pradesh, Odisha, Uttar Pradesh and West Bengal, and is in progress in Karnataka, Rajasthan and Tripura. The remaining States have initiated steps for the trial run.

5.59 Since the finalisation of this plan of action, 25 States have entered into a Memorandum of Understanding (MoU) with GoI and NABARD to implement this plan. They include Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand, Uttar Pradesh and West Bengal, which covers more than 96 per cent of the short-term co-operatives in the country.

Revival package for long-term co-operative credit structure is awaited

5.60 As in the case of short-term cooperative structure, the Task Force on Revival of Rural Co-operative Credit Institutions (Long-term) was constituted by the Government of India in 2005 (Chairman: Prof. A. Vaidyanathan) to suggest an implementable action plan for reforming long-term co-operatives. The Central Government discussed the recommendations of the Task Force with the State Governments in October 2007, January 2008 and February 2008 in three specially convened meetings. In the Union Budget 2008-09, it was indicated that a consensus was reached with the State Governments on the modalities of the plan of action for revival of long-term co-operatives.

5.61 Subsequent to the implementation of the Agricultural Debt Waiver and Debt Relief Scheme and feedback received from the State Governments, the Central Government revised the reform package for long-term co-operatives. However, before announcing the package, the Central Government decided to relook at the viability and relevance of a separate package for long-term co-operatives in the backdrop of: (i) the implementation of a package for short-term co-operatives and (ii) the aggressive branch and business expansion by commercial banks and Regional Rural Banks in rural areas in recent years, as a consequence of the policy of financial inclusion.

5.62 Consequently, a separate Task Force was constituted in September 2009 (Chairman: Shri G. C. Chaturvedi). The Task Force submitted its report in 2010 and is under consideration by the Central Government. The announcement of the reform package by the Central Government for long-term co-operatives is, thus, awaited.

6. Progress relating to Rural Credit Measures that have Specific Implications for Co-operatives

Kisan Credit Card

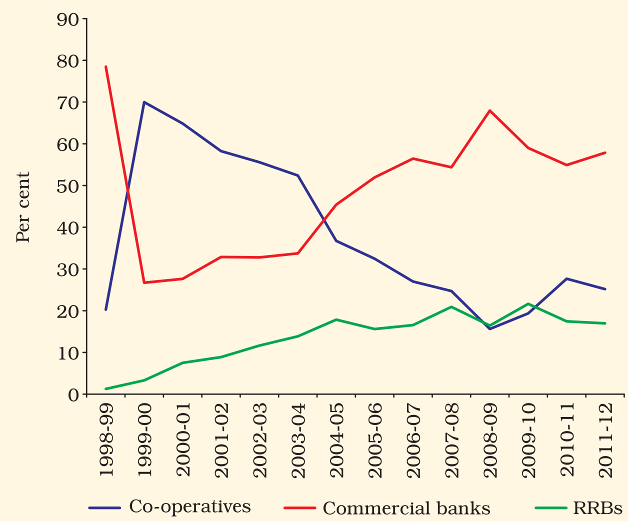
5.63 The Kisan Credit Card (KCC) scheme is being implemented through co-operatives, SCBs and RRBs to provide easy access to adequate, timely and cost-effective credit for farmers.

Commercial banks leading in KCC distribution

5.64 Commercial banks were leading in the distribution of KCCs, accounting for 58 per cent of the total cards issued at end-March 2012. Co-operatives had a share of about 25 per cent in the total cards issued, with RRBs accounting for the remaining 17 per cent (Chart V.28 read with Appendix Table V.9).

5.65 Since the inception of the KCC scheme in 1998-99, the shares of commercial banks and RRBs have witnessed a sharp increase in the total number of cards issued, while the share of co-operatives has slowed (Chart V.28). Although there has been a turnaround in the share of co-operatives since 2008-09, commercial banks have continued to be the most important means of KCC distribution in the country.

Chart V.28: Shares of Rural Credit Institutions in Total KCCs Issued

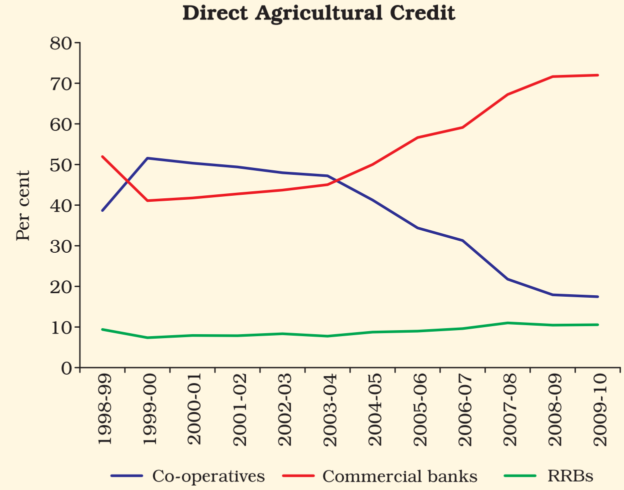


Source: Calculated based on data from NABARD.

KCC emerging as a driver of agricultural credit in general, and agricultural credit supplied through commercial banks in particular

5.66 A comparison of the three institutions providing agricultural credit, *viz.*, co-operatives, commercial banks and RRBs, in terms of their share in the total number of KCCs issued and amount of direct agricultural credit reveals a similarity in trends (Charts V.28 read with Chart V.29).

Chart V.29: Share of Rural Credit Institutions in Direct Agricultural Credit



Note: The series on direct agricultural credit terminates in 2009-10 due to lack of data.
Source: Calculated based on data from Handbook of Statistics on Indian Economy, various issues.

5.67 In the 2000s, total and direct agricultural credit in India showed sharp growth. This growth was primarily attributable to commercial banks, with commercial banks overtaking co-operatives and emerging as the most important source of agricultural credit in the country. Interestingly, the 2000s was also a period when the share of commercial banks in the total number of KCCs issued showed a rapid rise. Therefore, it can be deduced that KCCs, in some ways, were instrumental in stepping up agricultural credit in the country and raising the share of commercial banks in agricultural credit in the 2000s.

7. Overall Assessment

A more profitable, sound and growing UCB sector, but with concerns relating to capital adequacy

5.68 Within the co-operative sector, UCBs present the story of a sector that has turned itself around to a considerable extent since the initiation of regulatory reforms in 2005. The sector, as a whole, has posted double-digit growth in assets along with an improvement in profitability and asset quality in 2011-12, as in the recent past. As a fall-out of consolidation, there has been growth in stronger entities and the exit of weaker entities from this sector. Concomitantly, there has been a rise in the degree of asset concentration within this sector. On the downside, though the level of capital adequacy of UCBs was satisfactory at the aggregate level, the capital position of scheduled UCBs appeared much weaker. A few of the scheduled UCBs even reported a negative CRAR.

Financially weak short-term rural co-operative sector, with some signs of revival at the apex levels

5.69 Within rural co-operatives, short-term rural co-operatives at the apex levels showed some signs of revival in terms of profitability and asset quality in 2010-11, as in the recent past, which could be partly attributed to ongoing reforms in this sector. Though there was a slowdown in the growth of the balance sheet of State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) in 2010-11, these institutions reported overall profits and showed a decline in their NPA ratios. Moreover, the improvement in profitability and asset quality could be seen broadly across all regions, but with the notable exception of the western region.

5.70 While there were signs of revival, financial health weakened as one moved to the lower tiers. The financial health of StCBs was better than that of DCCBs, which, in turn, was better than the financial health of Primary Agricultural Credit Societies (PACS). Thus, PACS still remained the weakest spot in the short-term co-operative credit structure, having very high levels of overdues and losses.

Financial health of long-term rural co-operative sector continues to be fragile

5.71 In contrast to short-term rural co-operatives, long-term rural co-operatives continued to post losses and also exhibited weak asset quality in 2010-11, as in the past. The growth in the asset size of both State and Primary Co-operative Agriculture and Rural Development Banks (SCARDBs and PCARDBs) remained much lower than their short-term counterparts in 2010-11, as in the recent past. This led to a gradual decline in the share of long-term co-operatives in the total assets of the rural co-operative sector.

5.72 In sum, reforms pertaining to the urban co-operative and short-term rural co-operative sectors seem to have set in motion a process of revival in these sectors. As regards the urban co-operative sector, the improvement in financial performance and health is better established by now; for the short-term rural co-operative sector, the revival is more fragile and yet to spread across all regions in the country and all tiers of the sector. In the coming years, it needs to be seen whether the revival is sustained and broad-based. Further, it is imperative to pave the way for a revival of the long-term rural co-operative sector given the vital role played by these institutions in stepping up capital formation in Indian agriculture.

Chapter VI

Non-Banking Financial Institutions

The non-banking financial sector is witnessing a consolidation process, with smaller NBFCs (deposit-taking) opting for either merger or closure and some larger ones getting converted into non-deposit-taking NBFCs. NBFCs are comfortably placed with higher capital. The financial performance of deposit-taking Non-Banking Financial Companies (NBFCs-D) showed an improvement as reflected in the increase in their operating profits mainly emanating from growth in fund-based income. Systemically Important-Non-deposit taking NBFCs (NBFCs-ND-SI) segment continued to rely on bank finances for their resource requirement. There is sign of deterioration in the quality of assets in respect of NBFCs-ND-SI. The set of regulations prescribed for NBFCs sector is expected to make the NBFCs more resilient in the medium term. The combined balance sheets of financial institutions (FIs) expanded and operating profit as well as net profit have increased significantly. The impaired assets of the FIs showed increase and are a matter of concern. The increase in expenses of PDs more than compensated for the increase in income which led to reduced profit. PDs are comfortably placed with higher CRAR.

1. Introduction

6.1 Non-banking financial institutions (NBFIs) are an important part of the Indian financial system. The NBFIs at present consist of a heterogeneous group of institutions that cater to a wide range of financial requirements. The major intermediaries include financial institutions (FIs), non-banking financial companies (NBFCs) and primary dealers (PDs).

6.2 This chapter provides an analysis of the financial performance and soundness indicators related to each segment of NBFIs during 2011-12. The chapter is organised into five sections. Section 2 analyses the financial performance of FIs, while Section 3 discusses the financial performance of NBFCs-D and NBFCs-ND-SI, including RNBCs. Section 4 provides an analysis of the performance of PDs in the primary and secondary markets, followed by the overall assessment in Section 5.

2. Financial Institutions

6.3 As at end-March 2012, there were five financial institutions (FIs) under the full-fledged regulation and supervision of the Reserve Bank, *viz*., Export Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI) and Industrial Investment Bank of India (IIBI) (Table VI.1). However, IIBI is in the process of voluntary winding-up.

Table VI.1: Ownership Pattern of Financial Institutions
(As on March 31, 2012)

Institution	Ownership	Per cent
1	2	3
EXIM Bank	Government of India	100
NABARD	Government of India	99.3
	Reserve Bank of India	0.7
NHB	Reserve Bank of India	100
SIDBI *	Public Sector Banks	62.5
	Insurance Companies	21.9
	Financial Institutions	5.3
	Others	10.3

*IDBI Bank Ltd. (19.2 per cent), State Bank of India (15.5 per cent) and Life Insurance Corporation of India (14.4 per cent) are the three major shareholders in SIDBI.

Operations of Financial Institutions

Combined balance sheets of financial institutions (FIs) expanded

6.4 The financial assistance sanctioned and disbursed by FIs increased during 2011-12 due to increase in sanctions and disbursements made by investment institutions (LIC and GIC) and specified financial institutions (IVCF and TFCI). However, sanctions and disbursements made by IFCI have declined in 2011-12 (Table VI.2 and Appendix Table VI.1).

Assets and Liabilities of FIs

6.5 The combined balance sheets of FIs expanded during 2011-12. On the liabilities side, deposits and 'bonds and debentures' remain the major sources of borrowings during 2011-12. On the assets side, 'loans and advances' continued to be the single largest component, contributing more than four-fifth of the total assets of the FIs (Table VI.3).

Table VI.2: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in ` billion)

Category	Amount				Percentage Variation	
	2010-11		2011-12		2011-12	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term-lending Institutions *	545	472	478	478	-12.2	1.2
(ii) Specialised Financial Institutions #	9	5	11	8	21.3	66.8
(iii) Investment Institutions @	450	401	544	520	20.8	29.5
Total Assistance by FIs (i+ii+iii)	**1,004**	**878**	**1,033**	**1,006**	**2.9**	**14.5**

S: Sanctions. D: Disbursements.
* : Relating to IFCI, SIDBI and IIBI.
# : Relating to IVCF, ICICI Venture and TFCI.
@ : Relating to LIC and GIC & erstwhile subsidiaries (NIA, UIIC and OIC).
Notes: 1. Components may not add up to the whole due to rounding off.
2. Data pertaining to 2011-12 are provisional.
Source: Respective Financial Institutions.

Table VI.3: Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in ` million)

Item	2011	2012 P	Percentage Variation
Liabilities			
1. Capital	49,000 (1.7)	62,000 (1.8)	26.5
2. Reserves	4,26,071 (14.7)	4,65,001 (13.8)	9.1
3. Bonds & Debentures	9,00,968 (31.0)	10,72,973 (31.9)	19.1
4. Deposits	9,27,817 (31.9)	10,90,780 (32.4)	17.6
5. Borrowings	4,26,807 (14.7)	4,95,207 (14.7)	16.0
6. Other Liabilities	1,75,493 (6.0)	1,77,294 (5.3)	1.0
Total Liabilities/Assets	**29,06,156**	**33,63,255**	**15.7**
Assets			
1. Cash & Bank Balances	65,219 (2.2)	67,398 (1.9)	3.3
2. Investments	1,18,023 (4.1)	1,25,559 (3.7)	6.4
3. Loans & Advances	25,61,759 (88.2)	29,82,001 (88.7)	16.4
4. Bills Discounted/ Rediscounted	35,422 (1.2)	29,636 (0.9)	-16.3
5. Fixed Assets	5,374 (0.2)	5,364 (0.2)	-0.2
6. Other Assets	1,86,822 (6.4)	1,53,297 (4.6)	-17.9

P: Provisional.
Notes: 1. Data pertain to 4 FIs, *viz.*, EXIM Bank, NABARD, NHB & SIDBI.
2. Figures in parentheses are percentages to total Liabilities/ Assets.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI ended March 31, and for NHB June 30.

Resources Mobilised by FIs

Commercial Paper (CP) is the major source of funds

6.6 The resources mobilised by FIs during 2011-12 were considerably higher than in the previous year. The NHB has mobilised the largest amount of resources, followed by NABARD, SIDBI and EXIM Bank (Table VI.4).

6.7 During 2011-12, there was a significant increase in the resources raised by FIs through commercial paper (CP), which accounted for more than 70 per cent of the total resources mobilised from the money market (Table VI.5).

Table VI.4: Resources Mobilised by Financial Institutions

(Amount in ` billion)

Institutions	Total Resources Raised								Total Outstanding (As at end-March)	
	Long Term		Short Term		Foreign Currency		Total			
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2011	2012
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	111	88	15	55	111	84	237	227	472	547
NABARD	97	179	185	90	-	-	283	269	339	423
NHB	75	555	295	827	-	-	370	1,382	109	607
SIDBI	100	139	23	80	12	20	135	239	341	440
Total	**384**	**961**	**518**	**1,052**	**123**	**104**	**1,025**	**2,117**	**1,261**	**2,016**

- : Nil/Negligible.
Note: Long-term Rupee resources comprise borrowings by way of bonds/debentures; short-term resources comprise CP, term deposits, ICDs, CDs and borrowing from the term money market. Foreign currency resources largely comprise bonds and borrowings in the international market.
Source: Respective FIs.

Sources and Uses of Funds

6.8 The majority of the funds raised were used for fresh deployments, followed by repayment of past borrowings (Table VI.6).

Maturity and Cost of Borrowings and Lending

6.9 The weighted average cost of Rupee resources raised went up across the board. While the weighted average maturity of Rupee resources raised by SIDBI and NABARD has gone up, in the case of EXIM Bank and NHB they came down during 2011-12 (Table VI.7). While both EXIM Bank and SIDBI raised their prime lending rate during the year, the NHB kept it unchanged (Table VI.8).

Table VI.5: Resources Raised by Financial Institutions from Money Market
(As at end-March 2012)

(Amount in ` million)

Instrument	EXIM	NABARD	NHB	SIDBI	Total
1	2	3	4	5	6
A. Total	**49,355**	**90,347**	**28,953**	**50,915**	**2,19,570**
i) Term Deposits	8,193	70	2,184	8,419	18,866
ii) Term Money	-	4,381	-	-	4,381
iii) Inter-corporate Deposits	-	-	-	-	-
iv) Certificate of Deposits	536	12,810	-	-	13,346
v) Commercial Paper	40,626	73,086	4,889	42,496	1,61,097
vi) Short-term loans from banks	-	-	21,880	-	21,880
Memo:					
B. Umbrella Limit	**75,458**	**2,07,941**	**41,550**	**89,673**	**4,14,622**
C. Utilisation of Umbrella limit (A as percentage of B)	65.4	43.5	69.7	56.8	53.0

- : Nil/Negligible.
Source: Fortnightly return of resources mobilised by financial institutions,

Table VI.6: Pattern of Sources and Deployment of Funds of Financial Institutions

(Amount in ` billion)

Item	As at end-March 2011	As at end-March 2012	Percentage Variation
1	2	3	4
A. Sources of Funds (i+ii+iii)	2,978 (100.0)	4,252 (100.0)	42.8
i. Internal	1,632 (54.8)	2,623 (61.7)	60.7
ii. External	1,191 (40.0)	1,495 (35.2)	25.6
iii. Others@	155 (5.2)	134 (3.2)	-13.7
B. Deployment of Funds (i+ii+iii)	**2,978 (100.0)**	**4,252 (100.0)**	**42.8**
i. Fresh Deployment	1,747 (58.7)	2,739 (64.4)	56.8
ii. Repayment of past borrowings	840 (28.2)	1,290 (30.4)	53.7
iii. Other Deployment	391 (13.1)	222 (5.2)	-43.2
of which: Interest Payments	142 (4.8)	145 (3.4)	1.9

@ Includes cash and balances with banks, balances with the Reserve Bank and other banks.
Notes: 1. EXIM Bank, NABARD, NHB and SIDBI.
2. Figures in parentheses are percentages to totals.
Source: Respective FIs.

Table VI.7: Weighted Average Cost and Maturity of Rupee Resources Raised by Select Financial Institutions

Institutions	Weighted Average Cost (Per cent)		Weighted Average Maturity (years)	
	2010-11	2011-12 P	2010-11	2011-12 P
1	2	3	4	5
EXIM Bank	8.4	9.0	2.9	2.8
SIDBI	7.0	7.2	2.5	3.7
NABARD	7.1	9.5	1.1	1.9
NHB	7.2	8.8	2.5	0.9

P: provisional.
Source: Respective FIs.

Financial Performance of FIs

The profitability of FIs substantially increased with reduction in wage bill

6.10 Both the operating profit and net profit of FIs increased significantly during 2011-12 (Table VI.9). The return on assets (RoA) is highest for SIDBI followed by the NHB, EXIM Bank and NABARD (Table VI.10).

Table VI.8: Long-term PLR Structure of Select Financial Institutions

(Per cent)

Effective	EXIM Bank	SIDBI	NHB
1	2	3	4
March 2011	14.0	11.0	10.5
March 2012	15.0	12.75	10.5

Source: Respective FIs.

Table VI.9: Financial Performance of Select All-India Financial Institutions

(Amount in ` million)

	2010-11	2011-12	Variation	
			Amount	Percentage
A) Income (a+b)	**1,85,018**	**2,26,647**	**41,629**	**22.5**
a) Interest Income	1,80,167 (97.4)	2,16,887 (95.7)	36,720	20.4
b) Non-Interest Income	4,851 (2.6)	9,760 (4.3)	4,909	101.2
B) Expenditure (a+b)	**1,37,422**	**1,62,908**	**25,486**	**18.5**
a) Interest Expenditure	1,22,589 (89.2)	1,48,852 (91.4)	26,263	21.4
b) Operating Expenses	14,833 (10.8)	14,057 (8.6)	-776	-5.2
of which Wage Bill	10,981	10,175	-806	-7.3
C) Provisions for Taxation	**12,819**	**16,451**	**3,632**	**28.3**
D) Profit				
Operating Profit (PBT)	39,374	48,849	9,475	24.1
Net Profit (PAT)	26,556	32,399	5,843	22.0
E) Financial Ratios @				
Operating Profit	1.46	2.81		
Net Profit	0.98	1.03		
Income	6.85	7.23		
Interest Income	6.67	6.92		
Other Income	0.18	0.31		
Expenditure	5.09	5.20		
Interest Expenditure	4.54	4.75		
Other Operating Expenses	0.55	0.45		
Wage Bill	0.41	0.32		
Provisions	0.47	0.52		
Spread (Net Interest Income)	2.13	2.17		

@: as percentage of Total Average Assets.
Notes: 1. Figures in parentheses are percentages to total Income/ Expenditure.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ` million.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI ended March 31, and for NHB June 30.

Table VI.10: Select Financial Parameters of Financial Institutions
(As at end-March)

(Per cent)

Institution	Interest Income/ Average Working Funds		Non-Interest Income/ Average Working Funds		Operating Profit/ Average Working Funds		Return on Average Assets (Per cent)		Net Profit per Employee (` million)	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	6.5	7.1	0.5	0.6	2.2	2.5	1.2	1.1	24	27
NABARD	6.2	6.5	0.1	0.2	1.3	1.4	0.9	0.9	3	4
NHB *	7.7	8.6	0.04	0.05	1.7	2.1	1.1	1.3	32	38
SIDBI	8.0	8.5	0.3	0.2	2.9	3.4	1.8	2.0	5	5

*: Position as at the end of June.
Source: Statements furnished by the FIs.

Soundness Indicators: Asset Quality

NPAs of FIs have gone up substantially during the year

6.11 At the aggregate level, the net NPAs of FIs have increased substantially. The increase in net NPAs, however, was attributable mainly to SIDBI and EXIM Bank. While NABARD has maintained the same level, the NHB has reported no NPAs during 2011-12 (Table VI.11).

6.12 There was a substantial increase in the sub-standard and doubtful assets of EXIM Bank (Table VI.12). The higher NPAs in respect of EXIM Bank may be a reflection of the continued unfavourable external environment, especially in the context of India's increased integration with the world economy.

Capital Adequacy

FIs are comfortably placed with capital

6.13 During the year 2011-12, all four FIs have maintained a higher CRAR than the minimum stipulated norm of 9 per cent (Table VI.13).

Table VI.11: Net Non-Performing Assets
(As at end-March)

(Amount in ` million)

Institutions	Net NPAs		Net NPAs/Net Loans (Per cent)	
	2011	2012	2011	2012
1	2	3	4	5
EXIM Bank	930	1,558	0.2	0.3
NABARD	298	371	0.02	0.02
NHB	..	..	..	..
SIDBI	1,321	1,847	0.3	0.4
All FIs	2,549	3,776	0.1	0.13

.. : Not Available.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI ended March 31, and for NHB June 30.

3. Non-Banking Financial Companies

Three new categories of NBFCs have been created – Infrastructure Debt Funds (NBFC-IDF), Micro Finance Institution (NBFC-MFI) and NBFC-Factors

6.14 NBFCs are classified into two categories, based on the liability structure, *viz.*, Category 'A' companies (NBFCs accepting public deposits or NBFCs-D), and Category 'B' companies (NBFCs not raising public deposits or NBFCs-ND). NBFCs-D are subject to requirements of capital adequacy, liquid assets maintenance, exposure norms (including restrictions on exposure to investments in land, building and unquoted shares), ALM discipline and reporting requirements; in contrast, until 2006 NBFCs-ND were subject to minimal regulation. Since April 1, 2007, non-deposit taking NBFCs with assets of `1 billion and above are being classified as Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI), and prudential regulations, such as capital adequacy requirements and exposure norms along with reporting requirements, have been made applicable to them. The asset liability management (ALM) reporting and disclosure norms have also been made applicable to them at different points of time.

Table VI.12: Asset Classification of Financial Institutions
(As at end-March)

(Amount in ` million)

Institution	Standard		Sub-Standard		Doubtful		Loss	
	2011	2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9
EXIM Bank	4,55,628	5,37,340	1,966	4,044	2,456	3,871	358	44
NABARD	13,94,594	16,49,324	-	221	681	681	10	10
NHB *	2,25,814	2,85,185	..	..	..	..	..	..
SIDBI	4,59,215	5,36,034	1,427	2,123	1,364	385	-	1,227
All FIs	25,35,251	30,07,883	3,393	6,388	4,501	4,937	368	1,281

- : Nil/Negligible. .. : Not Available. *: Position as at the end of June 2011 as per OSMOS returns.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI ended March 31, and for NHB June 30.

Table VI.13 Capital to Risk (Weighted) Assets Ratio of Select Financial Institutions
(As at end-March)

(Per cent)

Institution	2011	2012 P
1	2	3
EXIM Bank	17.0	16.4
NABARD	21.8	20.6
NHB *	20.7	19.7
SIDBI	31.6	29.2

*: Position as at the end of June 2012 as per OSMOS returns.
P: Provisional.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI ended March 31, and for NHB June 30.

6.15 NBFCs are also classified in terms of activities into Asset Finance Companies (AFC), Investment Companies (IC), Loan Companies (LC), Infrastructure Finance Companies (IFC), Core Investment Companies (CIC), Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFC), Non-Banking Financial Company–Micro Finance Institutions (NBFC-MFI) and NBFC-Factors. During 2011-12, two new categories of NBFCs, *viz.*, Infrastructure Debt Funds – NBFC (NBFC-IDF) and Micro Finance Institution (NBFC-MFI) – were created and brought under separate regulatory framework. In addition, a new category of NBFC-Factors was introduced in September 2012. Earlier in April 2010, a regulatory framework for Systemically Important Core Investment Companies (CIC ND-SI) was created for companies with an asset size of `1 billion and above, whose business is investment for the sole purpose of holding stakes in group concerns, are not trading in these securities and are accepting public funds. Prudential requirements in the form of Adjusted Net Worth and leverage were also prescribed for CIC-ND-SIs as they were given exemption from NOF, capital adequacy and exposure norms.

6.16 An NBFC-MFI is defined as a non-deposit-taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions: (i) Minimum Net Owned Funds of `5 crore (`2 crore for the North-eastern Region), (ii) Not less than 85 per cent of its net assets are in the nature of "qualifying assets", (iii) the income it derives from the remaining 15 per cent assets in accordance with the regulations specified in that behalf. An NBFC which does not qualify as an NBFC-MFI shall not extend loans to the micro finance sector, in excess of 10 per cent of its total assets. Given the functional hardship faced by the MFI sector following the Andhra Pradesh Micro Finance Institutions (Regulations of Money Lending) Ordinance, 2010 and to give reprieve to the sector, the Reserve Bank modified the regulatory framework for MFIs to allow for time for compliance to regulations and allow them to register with the Bank as NBFC-MFI early. Considering the importance of this sector for the development and regulation of micro-finance institutions to promote financial inclusion, the Micro-Finance Institutions (Development and Regulation) Bill, 2012 was introduced in the Lok Sabha on May 22, 2012 (Box VI.1).

6.17 The ownership pattern of NBFCs-ND-SI as well as deposit-taking NBFCs as at end-March 2012, suggested that government owned companies have a share of below 3 per cent (Table VI.14).

Profile of NBFCs (including RNBCs)

Non-Banking financial companies' segment is witnessing consolidation

6.18 The total number of NBFCs registered with the Reserve Bank declined marginally to 12,385 as at end-June 2012 (Chart VI.1). A similar trend was observed in the case of deposit-taking NBFCs (NBFCs-D) during 2011-12, mainly due to the cancellation of Certificates of Registration (COR) and their exit from deposit-taking activities.

6.19 Despite the decline in the number of NBFCs, their total assets as well as net owned funds registered an increase during 2011-12, while public deposits recorded a decline. The share of Residuary Non-Banking Companies (RNBCs) in the total assets of NBFCs showed a decline. The net owned funds of RNBCs have

Box VI.1: Micro Finance Institutions (Development and Regulation) Bill, 2012 and its Impact on the Microfinance Sector

The Micro Finance Institutions (Development and Regulation) Bill, 2012 aims at providing a framework for the development and regulation of micro-finance institutions. The Bill defines a micro-finance institution (MFI) as an organisation, other than a bank, providing micro-finance services as micro credit facilities not exceeding `5 lakh in aggregate, or with the Reserve Bank's specification of `10 lakh per individual. Subsidiary services like collection of thrift, pension or insurance services and remittance of funds to individuals within India also come under these services. The Bill allows the Central Government to create a Micro-Finance Development Council (MFDC) that will advise on policies and measures for the development of MFIs. Besides, the Bill allows the Central Government to form State Micro-Finance Councils (SMFC), which will be responsible for co-ordinating the activities of District Micro-Finance Committees in the respective states.

District Micro-Finance Committees (DMFC) can be appointed by the Reserve Bank. The Bill requires all MFIs to obtain a certificate of registration from the Reserve Bank. The applicant needs to have a net owned fund (the aggregate of paid-up equity capital and free reserves on the balance sheet) of at least `5 lakh. The Reserve Bank should also be satisfied with the general character or management of the institution.

Every MFI will have to create a reserve fund and the Reserve Bank may specify a percentage of net profit to be added annually to this fund. There can be no appropriation from this fund unless specified by the Reserve Bank. At the end of every financial year, MFIs are required to provide an annual balance sheet and profit and loss account for audit to the Reserve Bank. They will also have to provide a return, detailing their activities within 90 days of the Bill being passed. Any change in the corporate structure of a MFI, such as shut-down, amalgamation, takeover or restructuring can only take place with approval from the Reserve Bank.

The Bill has entrusted the Reserve Bank with the power to issue directions to all MFIs. This could include directions on the extent of assets deployed in providing micro-finance services, ceilings on loans or raising capital. The RBI has the authority to set the ceiling on the rate of interest charged and the margin by MFIs. Margin is defined as the difference between the lending rate and the cost of funds (in percentage per annum).

The Reserve Bank shall create the Micro-Finance Development Fund (MFDF). The sums are raised from donors, institutions and the public along with the outstanding balance from the existing Micro-Finance Development and Equity Fund. The central government, after due appropriation from Parliament, may grant money to this fund. The fund can provide loans, grants and other micro-credit facilities to any MFIs.

The Reserve Bank is responsible for redressal of grievances for beneficiaries of micro-finance services. The Reserve Bank is empowered to impose a monetary penalty of up to `5 lakh for any contravention of the Bill's provisions. No civil court will have jurisdiction against any MFI over any penalty imposed by the Reserve Bank. The Bill gives the Central Government the authority to delegate certain powers to the National Bank for Agriculture and Rural Development (NABARD) or any other Central Government agency. However, the Central Government has the power to exempt certain MFIs from the provisions of the Bill.

The Bill and its likely Impact on the Microfinance Sector

The Bill envisages that the Reserve Bank would be the overall regulator of the MFI sector, regardless of legal structure. The Reserve Bank has provided the views on the Bill to the Government of India. The aims of the Bill are to regulate the sector in the customers' interest and to avoid a multitude of microfinance legislation in different states. The proper balancing of the resources at the Reserve Bank to supervise these additional sets of institutions besides the existing regulated institutions could be an important issue. Requiring all MFIs to register is a critical and necessary step towards effective regulation. The proposal for appointment of an Ombudsman will boost the banking industry's own efforts to handle grievances better. Compulsory registration of the MFIs would bring the erstwhile money-lenders into the fold of organised financial services in the hinterland who had been acting as MFIs *hitherto*.

however remained at more or less same level during 2011-12 (Table VI.15).

6.20 The ratio of public deposits of NBFCs to aggregate deposits of Scheduled Commercial Banks (SCBs) in 2011-12 indicates a decline. The ratio of deposits of NBFCs to the broad liquidity aggregate of L3[1] also declined during the year (Chart VI.2).

[1] Includes NM3 + Postal Deposits + Term Money + Certificates of Deposit + Term Deposit + public deposits with NBFCs.

Table VI.14: Ownership Pattern of NBFCs
(As on March 31, 2012)

(Number of Companies)

Ownership	NBFCs-ND-SI	Deposit-taking NBFCs
1	2	3
A. Government Companies	9 (2.4)	7 (2.6)
B. Non-Government Companies	366 (97.6)	266 (97.4)
1. Public Ltd Companies	198 (52.8)	263 (96.3)
2. Private Ltd Companies	168 (44.8)	3 (1.1)
Total No. of Companies (A)+(B)	375 (100.0)	273 (100.0)

Note: Figures in parentheses are percentages to total number of NBFCs.

Operations of NBFCs-D (excluding RNBCs)

Financial performance of deposit-taking Non-Bank Financial Companies (NBFCs-D) showed improvement

6.21 The balance sheet size of NBFCs-D expanded at the rate of 10.8 per cent in 2011-12 (Table VI.16). The borrowings constituted around two-third of the total liabilities of NBFCs-D. The public deposits of NBFCs-D, which are subject to credit ratings, continued to show an increasing trend during 2011-12. On the assets side, loans and advances remained the most important category for NBFCs-D, constituting about three-fourth of their total assets. The investment constituted the second most important category, which witnessed subdued growth during 2011-12 mainly due to a decline in non-SLR investments.

6.22 Asset Finance Companies (AFCs) held the largest share in the total assets of NBFCs-D at end-March 2012 (Table VI.17).

Chart VI.1: Number of NBFCs Registered with the Reserve Bank (As at end-March)

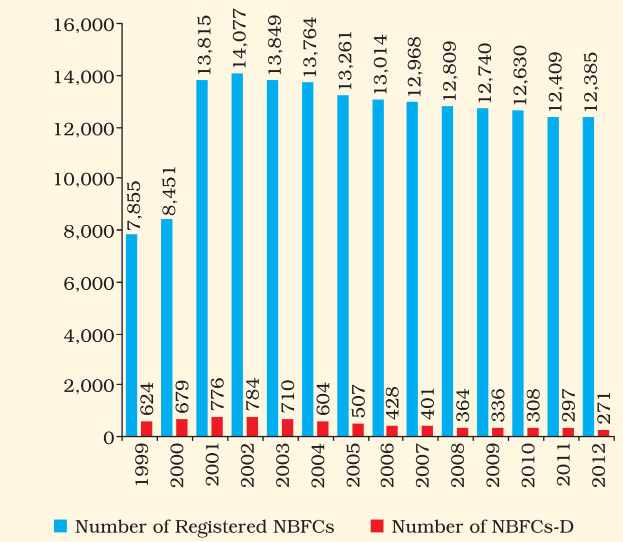


Table VI.15: Profile of NBFCs

(Amount in ` billion)

Item	As at end-March			
	2011		2012P	
	NBFCs	*of which: RNBCs*	NBFCs	*of which: RNBCs*
1	2	3	4	5
Total Assets	1,169	115 (9.8)	1,244	76 (6.1)
Public Deposits	120	79 (66.0)	101	43 (42.2)
Net Owned Funds	180	30 (16.6)	225	31 (13.7)

P: Provisional

Note: 1. NBFCs comprise NBFCs-D and RNBCs.
2. Figures in parentheses are percentage shares in respective total.
3. Of the 273 deposit-taking NBFCs, 196 NBFCs filed Annual Returns for the year ended March 2012 by the cut-off date, September 8, 2012.

Source: Annual/Quarterly Returns.

Chart VI.2: Ratio of Public Deposits of NBFCs to Broad Liquidity (L3) and Aggregate Deposits of SCBs

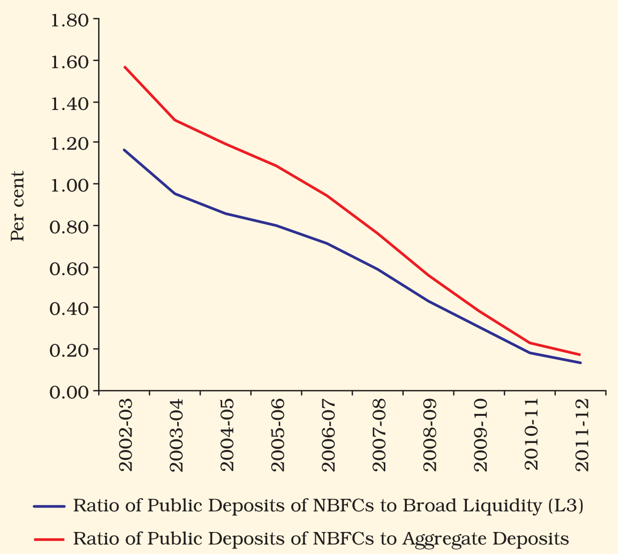


Table VI.16.Consolidated Balance Sheet of NBFCs-D

(Amount in ` billion)

Item	As at end-March		Variation			
			2010-11		2011-12 P	
	2011	2012P	Absolute	Per Cent	Absolute	Per Cent
1	2	3	4	5	6	7
Paid-Up Capital	36 (3.5)	32 (2.8)	-3	-6.4	-4	-11.5
Reserves Surplus	135 (12.8)	162 (13.9)	13	10.9	27	20.2
Public Deposits	41 (3.9)	58 (5.0)	12	43.5	18	43.8
Borrowings	698 (66.2)	809 (69.2)	57	9.0	111	15.9
Other Liabilities	144 (13.7)	107 (9.1)	32	28.3	-37	-25.9
Total Liabilities/ Assets	**1,054 (100.0)**	**1,169 (100.0)**	**112**	**11.9**	**114**	**10.8**
Investments	211	159	26	14.1	-52	-24.8
(i) SLR Investments@	135 (12.8)	134 (11.5)	39	40.0	-1.0	-0.7
(ii) Non-SLR Investments	76 (7.2)	25 (2.1)	-12	-14.1	-51	-67.6
Loans and Advances	780 (74.0)	874 (74.8)	68	9.6	94	12.1
Other Assets	63 (6.0)	103 (8.8)	18	39.3	40	62.3

P: Provisional

@ SLR investments comprise 'approved Securities' and 'unencumbered term deposits' in Scheduled Commercial Banks; Loans & advances include Hire Purchase and Lease Assets.

Notes: 1. Figures in parentheses are percentages to respective total.

Source: Annual/Quarterly Returns.

Size-wise Classification of Deposits of NBFCs-D

Larger NBFCs are more successful in raising public deposits

6.23 A sharp increase was discernible in the share of NBFCs-D with a deposit size of ` 500 million and above, accounting for about 93.2 per cent of total deposits at end-March 2012. However, only 7 NBFCs-D belonged to this category, constituting about 3.6 per cent of the total number of NBFCs-D. It indicates that only relatively larger NBFCs-D were able to raise resources through deposits (Table VI.18 and Chart VI.3).

Table VI.17: Major Components of Liabilities of NBFCs-D by Classification of NBFCs

(As at end-March)

(Amount in ` billion)

Classification of NBFCs	No. of Companies		Deposits		Borrowings		Liabilities	
	2011	2012P	2011	2012P	2011	2012P	2011	2012P
1	2	3	4	5	6	7	8	9
Asset Finance Companies	174	160	36 (89.4)	45 (76.9)	490 (70.2)	581 (71.8)	740 (70.2)	856 (73.2)
Loan Companies	43	36	4 (10.6)	13 (23.1)	208 (29.8)	228 (28.2)	314 (29.8)	313 (26.8)
Total	**217**	**196**	**40**	**58**	**698**	**809**	**1,054**	**1,169**

P: Provisional.

Note: Figures in parentheses are percentage share to total.

Table VI.18: Public Deposits held by NBFCs-D by Deposit Range

(Amount in ` million)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of deposit	
	2011	2012 P	2011	2012 P
1	2	3	4	5
1. Less than `5 million	134	117	194	138
2. More than `5 million and up to `20 million	38	34	442	377
3. More than `20 million and up to ` 100 million	28	27	1,287	1,131
4. More than ` 100 million and up to ` 200 million	7	7	1,084	1,092
5. More than ` 200 million and up to ` 500 million	2	4	807	1,201
6. ` 500 million and above	8	7	36,809	54,467
Total	**217**	**196**	**40,623**	**58,406**

P: Provisional
Source: Annual/Quarterly Returns.

Table VI.19: Public Deposits held by NBFCs-D - Region-wise

(Amount in ` million)

Region	As at end-March			
	2011		2012 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
North	144	1,882	125	3,285
East	8	39	5	39
West	20	9,286	17	14,880
South	45	29,416	49	40,206
Total	**217**	**40,623**	**196**	**58,410**
Metropolitan cities:				
Kolkata	5	39	3	39
Chennai	26	28,638	30	39,338
Mumbai	6	9,074	5	14,682
New Delhi	50	976	43	2,390
Total	**87**	**38,728**	**81**	**56,450**

P: Provisional
Source: Annual Returns.

Region-wise Composition of Deposits held by NBFCs

6.24 Among metropolitan cities, New Delhi accounted for the largest number of NBFCs-D, while Chennai held the largest share of 69.7 per cent in total public deposits of NBFCs-D (Table VI.19 and Chart VI.4).

Interest Rate on Public Deposits with NBFCs

NBFCs-ND-SI segment continues to rely heavily on bank finance

6.25 There was an increase in the share of public deposits in the interest rate range of 10 per cent to 12 per cent during 2011-12 (Table VI.20 and Chart VI.5).

Chart VI.3: Share of Public Deposits held by NBFCs-D by deposits Ranges

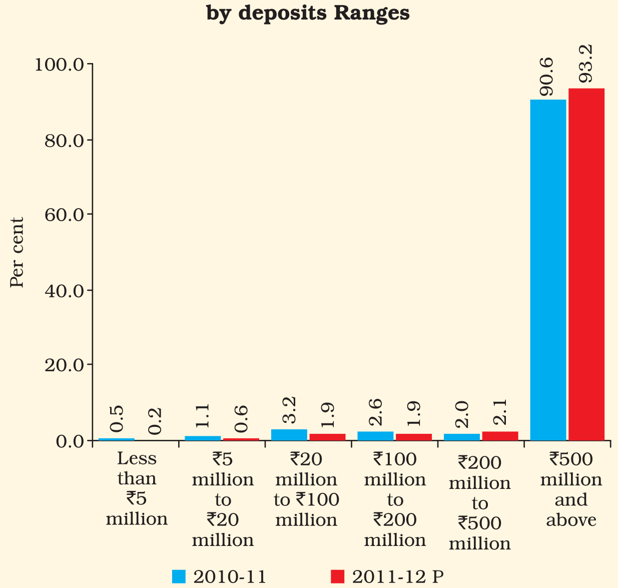


Chart VI.4: Share of Public Deposits held by NBFCs-D: Region-wise

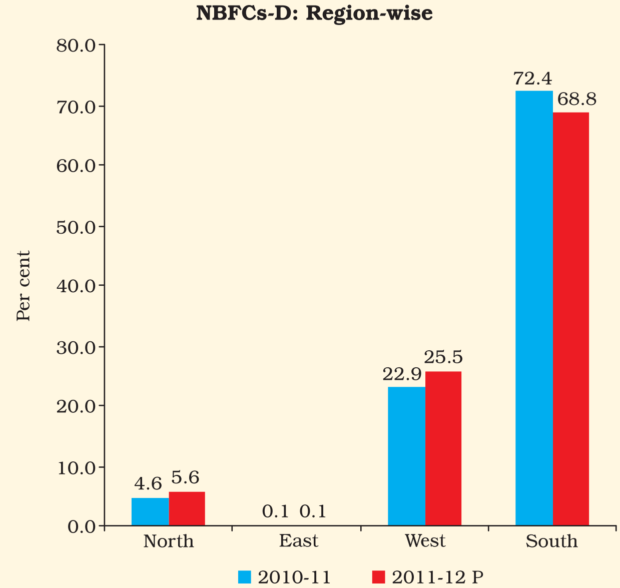


Table VI.20: Public Deposits held by NBFCs-D – Interest Rate Range-wise

(Amount in ` million)

Interest Rate Range	As at end-March	
	2011	2012 P
1	2	3
Up to 10 per cent	29,963 (73.8)	32,460 (55.6)
More than 10 per cent and up to 12 per cent	9,454 (23.3)	24,870 (42.6)
12 per cent and above	1,206 (3.0)	1,080 (1.8)
Total	**40,623** (100.0)	**58,410** (100.0)

P: Provisional
Note: 1. The rate of interest on public deposits cannot exceed 12.5 per cent.
2. Figures in parentheses are percentages to total.
Source: Annual Returns.

Table VI.21: Maturity Pattern of Public Deposits held by NBFCs-D

(Amount in ` million)

Maturity Period	As at end-March	
	2011	2012P
1	2	3
1. Less than 1 year	9,816 (24.2)	11,720 (20.1)
2. More than 1 and up to 2 years	7,942 (19.6)	15,530 (26.6)
3. More than 2 and up to 3 years	19,877 (48.9)	24,980 (42.8)
4. More than 3 and up to 5 years	2,221 (5.5)	6,170 (10.6)
5. 5 years and above@	769 (1.9)	10 (0.0)
Total	**40,624** (100.0)	**58,410** (100.0)

P: Provisional
@ includes unclaimed public deposits.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

Maturity Profile of Public Deposits

6.26 The largest proportion of public deposits raised by NBFCs-D belonged to the short to medium end of the maturity spectrum. In 2011-12, there was an increase in the shares of deposits for more than 2 years (Table VI.21 and Chart VI.6).

6.27 Banks and financial institutions were the major providers of funds for NBFCs-D, constituting about 50 per cent during 2011-12. This share has come down marginally. Others (which include, *inter alia*, money borrowed from other companies, commercial paper, borrowings from mutual funds and any other types of funds that were not treated as public deposits) also registered a declining trend (Table VI.22).

Assets of NBFCs

Expansion in assets of AFCs was noticeable

6.28 The total assets of NBFCs-D sector registered a moderate growth during 2011-12 mainly due to an increase in the assets of asset

Chart VI.5: Public Deposits held by NBFCs-D - Interest Rate Range-wise (Per cent)

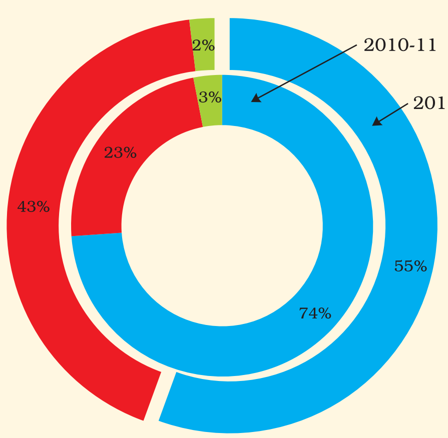


Chart VI.6: Maturity Pattern of Public Deposits held by NBFCs-D (Per cent)

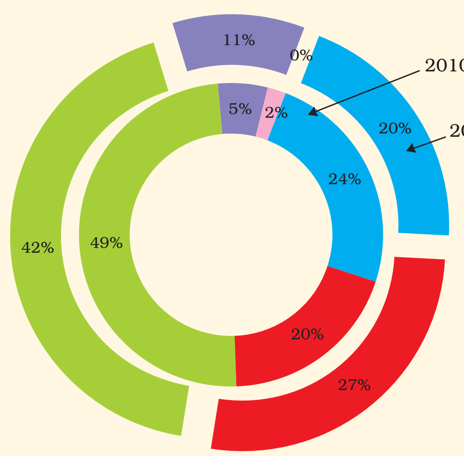


Table VI.22: Sources of Borrowings by NBFCs-D by Classification of NBFCs

(Amount in ₹ billion)

Classification	As at end-March									
	Government		Banks and Financial Institutions		Debentures		Others		Total Borrowings	
	2011	2012P	2011	2012P	2011	2012P	2011	2012P	2011	2012P
1	2	3	4	5	6	7	8	9	10	11
Asset Finance	0.0	0.0	283	300	123	198	84	83	490	581
	(0.0)	(0.0)	(80.2)	(74.9)	(85.7)	(83.3)	(59.0)	(71.2)	(70.2)	(71.8)
Loan Companies	59	54	70	101	20	40	59	33	208	228
	(100.0)	(100.0)	(19.8)	(25.1)	(14.3)	(16.7)	(41.0)	(28.8)	(29.8)	(28.2)
Total	**59**	**54**	**353.2**	**401**	**143**	**238**	**143**	**116**	**698**	**809**

P: Provisional
Note: Figures in parentheses are percentage to respective total.
Source: Annual Returns.

finance companies (Table VI.23). As at end-March 2012, more than two-third of the total assets of the NBFCs-D sector was held by asset finance companies. Component-wise, advances accounted for the predominant share of total assets, followed by investment.

Distribution of NBFCs-D According to Asset Size

6.29 At end-March 2012, only 6 per cent of NBFCs-D had an asset size of more than ₹ 5,000 million, which had a share of 97 per cent in the total assets of all NBFCs-D (Table VI.24).

Distribution of Assets of NBFCs – Type of Activity

6.30 During 2011-12, assets held in the form of loans and advances of NBFCs-D witnessed significant growth, whereas investment declined. These two categories of activities constituted over 90 per cent share in total assets of the NBFCs-D sector (Table VI.25).

Financial Performance of NBFCs-D

Fund-based income of the NBFCs-D segment has increased

6.31 The financial performance of NBFCs-D witnessed improvement as reflected in the

Table VI.23: Major Components of Assets of NBFCs-D by Classification of NBFCs

(Amount in ₹ billion)

Classification	As at end-March					
	Assets		Advances		Investments	
	2011	2012P	2011	2012P	2011	2012P
1	2	3	4	5	6	7
Asset Finance Companies	740	856	557	656	126	180
	(70.2)	(73.2)	(71.5)	(75.0)	(59.9)	(94.1)
Loan Companies	314	313	222	218	85	11
	(29.8)	(26.8)	(28.5)	(25.0)	(40.1)	(5.9)
Total	1,054	1,169	779	874	211	191

P: Provisional
Note: Figures in parentheses are percentage to respective total.
Source: Annual Returns.

Table VI.24: Assets of NBFCs-D by Asset-Size Ranges
(As at end-March)

(Amount in ₹ million)

Asset Range	No. of Companies		Assets	
	2011	2012P	2011	2012P
1	2	3	4	5
1. Less than ₹2.5 million	2	0	2	0.0
2. More than ₹2.5 million and up to ₹ 5.0 million	9	11	35	45
3. More than ₹5.0 million and up to ₹20 million	70	55	804	691
4. More than ₹20 million and up to ₹100 million	73	65	3,471	2,917
5. More than ₹100 million and up to ₹500 million	34	34	8,224	7,147
6. More than ₹500 million and up to ₹1,000 million	8	11	5,079	6,910
7. More than ₹1,000 million and up to ₹5,000 million	6	8	8,309	19,052
8. Above ₹5,000 million	15	12	1,028,388	1,131,913
Total	**217**	**196**	**1,054,312**	**1,168,676**

P: Provisional
Source: Annual Returns.

Table VI.25: Break-up of Assets of NBFCs-D by Activity

(Amount in ` billion)

Activity	As at end-March 2011	As at end-March 2012P	Percentage Growth 2011-12P
1	2	3	4
Loans and Advances	779 (73.9)	874 (74.8)	12.2
Investments	211 (20.0)	192 (16.4)	-9.2
Other assets	64 (6.1)	103 (8.8)	60.0
Total	**1,054**	**1,169**	10.8

P: Provisional
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

increase in their operating profits during 2011-12. This increase in profit was mainly on account of growth in fund-based income (Table VI.26).

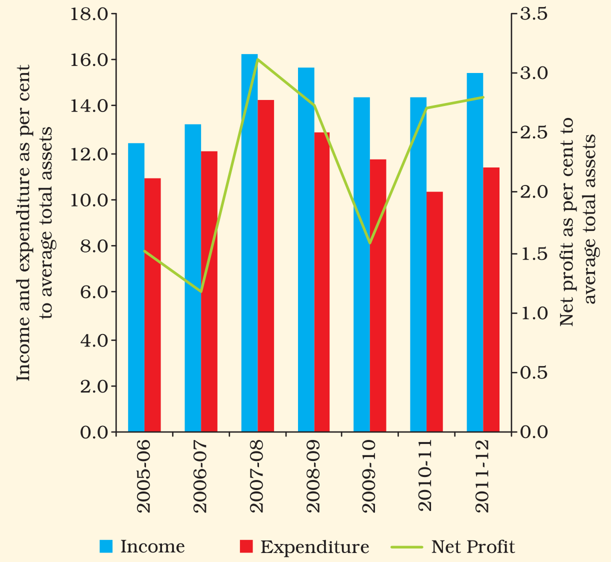
Table VI.26: Financial Performance of NBFCs-D

(Amount in ` billion)

Item	As at end-March 2011	As at end-March 2012P
A. Income (i+ii)	**152**	**181**
(i) Fund-Based	151 (99.2)	180 (99.3)
(ii) Fee-Based	1 (0.8)	1 (0.7)
B. Expenditure (i+ii+iii)	**109**	**133**
(i) Financial	68 (62.3)	81 (60.9)
of which Interest Payment	9 (8.2)	8 (6.0)
(ii) Operating	30 (27.1)	35 (26.4)
(iii) Others	11 (10.5)	17 (12.8)
C. Tax Provisions	**14**	**16**
D. Operating Profit (PBT)	**43**	**48**
E. Net Profit (PAT)	**29**	**33**
F. Total Assets	**1,054**	**1,169**
G. Financial Ratios (as % to Total Assets)		
i) Income	14.4	15.5
ii) Fund Income	14.3	15.4
iii) Fee Income	0.0	0.1
iv) Expenditure	10.4	11.4
v) Financial Expenditure	0.1	6.9
vi) Operating Expenditure	2.8	3.0
vii) Tax Provision	1.3	1.3
viii) Net Profit	2.7	2.8
H. Cost to Income Ratio	**72.0**	**73.3**

P: Provisional
Note: 1. Figures in parentheses are percentages to respective total.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ` billion.
Source: Annual Returns.

Chart VI.7: Financial Performance of NBFCs-D



Expenditure as a percentage to average total assets witnessed a marginal increase during 2011-12. The same trend is seen in terms of income as a percentage to average total assets of NBFCs-D (Chart VI.7).

Soundness Indicators: Asset Quality of NBFCs-D

Deterioration in asset quality of NBFCs-D segment

6.32 During 2011-12, there was a significant increase in the gross NPAs to total advances of NBFCs-D, which is a deviation from recent trends.

Table VI.27: NPA Ratios of NBFCs-D

(per cent)

As at end-March	Gross NPAs to Total Advances	Net NPAs to Net Advances
1	2	3
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	5.7	2.5
2006	3.6	0.5
2007	2.2	0.2
2008	2.1	#
2009	2.0	#
2010	1.3	#
2011	0.7	#
2012 P	2.1	0.5

P: Provisional. # Provision exceeds NPA
Source: Half-Yearly returns on NBFCs-D.

Table VI.28: NPAs of NBFCs-D by Classification of NBFCs

(Amount in ` billion)

Classification/End-March	Gross Advances	Gross NPAs		Net Advances	Net NPAs	
		Amount	% to Gross Advances		Amount	% to Net Advances
1	2	3	4	5	6	7
Asset Finance						
2010-11	517	3	0.5	508	-7	-1.4
2011-12 P	663	16	2.3	651	3	0.5
Loan Companies						
2010-11	183	2	1.3	181	-0.1	0.0
2011-12 P	208	3	1.6	206	2	0.8
All Companies						
2010-11	700	5	0.7	689	-7	-1.0
2011-12 P	871	19	2.1	857	5	0.5

P: Provisional
Source: Half-Yearly returns on NBFCs-D.

Net NPAs which remained negative till 2011 from 2008, with provisions exceeding NPAs registered an increase of 0.5 per cent of total net advances as on March 31, 2012 (Table VI.27).

6.33 There was deterioration in the asset quality of asset finance and loan companies during 2011-12 as evident from an increase in the gross NPAs to gross advances ratio for these companies (Table VI.28).

In order to improve transparency and understanding by borrowers, the Reserve Bank has issued a revised fair practices code (Box VI.2).

Box VI.2: Guidelines on Fair Practices Code for NBFCs

The Reserve Bank has revised the guidelines on Fair Practices Code (FPC) for all NBFCs issued on September 28, 2006 in the light of the recent developments in the NBFC sector. The salient features of the revised circular dated March 26, 2012 are as follows:

General

(a) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.

(b) Loan application forms should include necessary information that affects the interests of the borrower.

(c) Loan agreement should contain all details.

(d) NBFCs should refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement.

(e) In the matter of recovery of loans, the NBFCs should not resort to undue harassment and ensure that the staffs are adequately trained to deal with customers.

(f) The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism within the organisation.

(g) The Fair Practices Code should be put in place by all NBFCs with the approval of their Boards. The same should be put up on their website.

(h) Boards of NBFCs should lay out appropriate internal principles and procedures to determine interest rates and processing and other charges.

(i) The Board of each NBFC shall adopt an interest rate model taking into account relevant factors, such as cost of funds, margins and risk premium.

(j) NBFCs must have a built-in re-possession clause in the contract/loan agreement with the borrower which must be legally enforceable.

(k) To ensure transparency, the terms and conditions of the contract/loan agreement should also contain provisions regarding: (a) notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) the procedure for taking possession of the security; (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property; (e) the procedure for giving repossession to the borrower and (f) the procedure for sale/ auction of the property.

NBFC-MFIs

In addition to the general principles above, NBFC-MFIs are required to adopt the following fair practices that are specific to their lending business and regulatory framework.

(a) A statement shall be made in vernacular language and displayed by NBFC-MFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices;

(b) Field staff should be trained to make necessary enquiries with regard to existing debt of the borrowers, and training, if any, offered to the borrowers shall be free of cost.

(Contd...)

(Concld...)

(c) The effective rate of interest charged and the grievance redressal mechanism set up by the NBFC-MFIs should be prominently displayed in all its offices;

(d) A declaration that the MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal shall be made in the loan agreement;

(e) All sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function;

(f) All NBFC-MFIs shall have a Board-approved standard form of loan agreement, preferably in the vernacular language;

(g) The loan card should reflect the details, including the effective rate of interest charged;

(h) Non-credit products issued shall be with the full consent of borrowers and the fee structure shall be communicated in the loan card itself;

(i) Recovery should normally be made only at a central designated place;

(j) NBFC-MFIs shall ensure that a Board-approved policy is in place with regard to Code of Conduct by field staff.

Lending against collateral of gold jewellery

(a) Adequate steps to ensure that the KYC guidelines stipulated by the RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan.

(b) Proper assaying procedure for the jewellery received.

(c) Internal systems to satisfy ownership of the gold jewellery.

(d) The policy shall also cover putting in place adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to.

(e) Loans against the collateral of gold should not be extended by branches that do not have appropriate facility for storage of the jewellery.

(f) The jewellery accepted as collateral should be appropriately insured.

(g) The Board-approved policy with regard to auction of jewellery in case of non-repayment shall be transparent and adequate prior notice to the borrower should be given before the auction date.

(h) The auction should be announced to the public by issue of advertisements in at least 2 newspapers, one in vernacular language and another in national daily newspaper.

(i) As a policy the NBFCs themselves shall not participate in the auctions held.

(j) Gold pledged will be auctioned only through auctioneers approved by the Board.

(k) The policy shall also cover systems and procedures to be put in place for dealing with fraud, including separation of duties of mobilisation, execution and approval.

6.34 There was an increase in the shares of all three NPA categories of sub-standard, doubtful and loss assets of all companies in 2011-12, underlining the marginal deterioration in asset quality of these institutions. This mainly emanated from asset finance companies (Table VI.29).

Table VI.29: Classification of Assets of NBFCs-D by Category of NBFCs

(Amount in ` billion)

	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Gross Advances
1	2	3	4	5	6	7
Asset Finance Companies						
2010-11	515 (99.5)	2.1 (0.4)	0.3 (0.1)	0.1 (0.0)	2.5 (0.5)	517 (100.0)
2011-12P	648 (97.7)	10 (1.5)	4 (0.5)	2 (0.3)	15 (2.3)	663 (100.0)
Loan Companies						
2010-11	180 (98.7)	1 (0.6)	2 (0.4)	0 (0.0)	2 (1.3)	183 (100.0)
2011-12P	205 (98.4)	2 (1.0)	1 (0.4)	0.4 (0.2)	3 (1.6)	208 (100.0)
All Companies						
2010-11	695 (99.3)	3 (0.5)	2 (0.1)	0.1 (0.0)	5 (0.7)	700 (100.0)
2011-12P	852 (97.8)	12 (1.4)	4 (0.5)	2 (0.3)	19 (2.2)	871 (100.0)

P: Provisional
Note: Figures in parentheses are per cent to total credit exposures.
Source: Half Yearly returns on NBFCs-D.

Table VI.30: Capital Adequacy Ratio of NBFCs-D

(Number of companies)

CRAR Range	2010-11			2011-12P		
	AFC	LC	Total	AFC	LC	Total
1	2	3	4	5	6	7
1) Less than 12 per cent	1	1	2	1	1	2
a) Less than 9 per cent	1	1	2	1	1	2
b) More than 9 per cent and up to 12 per cent	0	0	0	0	0	0
2) More than 12 per cent and up to 15 per cent	1	2	3	1	0	1
3) More than 15 per cent and up to 20 per cent	5	3	8	8	3	11
4) More than 20 per cent and up to 30 per cent	19	3	22	16	2	18
5) Above 30 per cent	142	27	169	131	27	158
Total	**168**	**36**	**204**	**157**	**33**	**190**

P: Provisional
Note: AFC-Asset Finance Companies; LC-Loan Companies
Source: Half-yearly returns.

6.35 At end-March 2012, of 190 reporting NBFCs, 187 had CRAR of more than 15 per cent (Table VI.30). This could be an indication that the NBFC sector is undergoing a consolidation process in the past few years, wherein weaker NBFCs are gradually exiting and paving the way for stronger ones. The ratio of public deposits to Net Owned Funds (NOF) of NBFCs taken together has more or less remained same as at end-March 2012 (Table VI.31). There was a significant increase in NOF and public deposits of NBFCs-D during 2011-12. The increase in NOF was mainly

Table VI.31: Net Owned Fund vis-à-vis Public Deposits of NBFCs-D by Classification

(Amount in ` billion)

Classification	Net Owned Fund		Public Deposits	
	2010-11	2011-12P	2010-11	2011-12P
1	2	3	4	5
Asset Finance Companies	108	139	36 (0.3)	45 (0.3)
Loan Companies	42	56	4 (0.1)	13 (0.2)
Total	**150**	**195**	**41 (0.3)**	**58 (0.3)**

P: Provisional.
Note: Figures in parentheses are ratio of public deposits to net owned funds.
Source: Annual Returns.

concentrated in the category of `5,000 million and above (Table VI.32).

Residuary Non-Banking Companies (RNBCs)

RNBCs are in the process of migrating to other business models

6.36 The assets of RNBCs declined by 34 per cent during the year ended March 2012. The assets mainly consist of investments in unencumbered approved securities, bonds/ debentures and fixed deposits/certificates of deposit of SCBs. The NOF of RNBCs has also registered a decline of 52.2 per cent in 2011-12 (Table VI.33). The decline in the expenditure of RNBCs during 2011-12 was more than the decline

Table VI.32: Range of Net Owned Funds vis-à-vis Public Deposits of NBFCs-D

(Amount in ` million)

Range of NoF	2010-11			2011-12P		
	No. of Companies	Net Owned Fund	Public Deposits	No. of Companies	Net Owned Fund	Public Deposits
1	2	3	4	5	6	7
Up to `2.5 million	2	-2,003	324	1	-1	1.2
More than `2.5 million and up to `20 million	113	838	320	89	750	242
More than `20 million and up to `100 million	65	2,662	1,359	67	2,894	1,271
More than `100 million and up to `500 million	20	4,529	1,133	21	4,468	1,252
More than `500 million and up to `1000 million	2	1,204	1,038	4	2,869	817
More than `1000 million and up to `5000 million	7	17,118	4,526	7	13,876	15,612
Above `5000 million	8	1,25,527	31,923	7	1,69,792	39,212
Total	**217**	**1,49,874**	**40,623**	**196**	**1,94,648**	**58,406**

P: Provisional
Note: Figures in parentheses are public deposits as ratio of respective net owned fund.
Source: Annual returns

Table VI.33: Profile of RNBCs

(Amount in ` million)

Item	2010-11	2011-12P	Percentage Variation	
			2010-11	2011-12P
1	2	3	4	5
A. Assets (i to v)	**1,14,670**	**75,430**	-26.6	-34.2
(i) Investment in Unencumbered Approved Securities	13,080	8,380	-47.0	-36.0
(ii) Investment in Fixed Deposits / Certificate of Deposits of Scheduled Comm. Banks/ Public Financial Institutions	26,520	13,900	-45.4	-47.6
(iii) Debentures/Bonds/ Commercial Papers of Govt. Companies/Public Sector Banks/ Public Financial Institution/ Corporation	28,760	7,510	-45.6	-73.9
(iv) Other Investments	490	4,330	-96.2	784.3
(v) Other Assets	45,820	41,310	166.6	-9.8
B. Net Owned Fund	29,880	14,270	2.3	-52.2
C. Total Income (i+ii)	11,590	3,320	-40.4	-71.3
(i) Fund Income	11,280	2,940	-41.3	-73.9
(ii) Fee Income	310	380	19.2	24.1
D. Total Expenses (i+ii+iii)	10,060	1,660	-28.1	-83.5
(i) Financial Cost	6,310	460	-35.2	-92.7
(ii) Operating Cost	3,680	520	7.3	-85.9
(iii) Other Cost	70	680	-91.6	876.9
E. Taxation	620	570	-62.2	-8.1
F. Operating Profit (PBT)	1,530	1,670	-72.0	8.9
G. Net Profit (PAT)	910	1,100	-76.2	20.5

P: Provisional. PBT: Profit Before Tax. PAT: Profit After Tax.
Source: Annual returns

in income, as a result of which the operating profits of RNBCs increased during the year. As a result of decline in the provision for taxation, the net profits of RNBCs increased sharply during 2011-12.

Regional Pattern of Deposits of RNBCs

6.37 At end-March 2012, there were two RNBCs, registered with the Reserve Bank. One each is located in central and eastern regions. Both the RNBCs are in the process of migrating to other business models and have been directed to reduce their deposit liabilities to 'nil' by 2015. Public deposits held by the two RNBCs registered a significant decline in 2011-12, mainly due to a substantial decline in the deposits held by SIFCL (Table VI.34).

Table VI.34: Public Deposits Held by RNBCs – Region-wise

(Amount in ` billion)

Item	2010-11		2011-12P	
	No. of RNBCs	Public Deposits	No. of RNBCs	Public Deposits
1	2	3	4	5
Central	1	53 (66.9)	1	21 (50.0)
Eastern	1	26 (33.1)	1	21 (50.0)
Total	2	79	2	42
Metropolitan Cities				
Kolkata	1	26	1	21
Total	1	26	1	21

P: Provisional
Note: Figures in parentheses are percentages to respective totals.
Source: Annual returns.

Investment Pattern of RNBCs

6.38 Following the decline in deposits, there was a decline in the investments of RNBCs in 2011-12. The decline was noticeable in all segments of investment (Table VI.35).

NBFCs-ND-SI

Though borrowing from banks is sizable, a substantial increase in borrowings by way of debentures was witnessed

6.39 The assets of NBFCs-ND-SI for the year ended March 2012 showed an increase of 21 per

Table VI.35. Investment Pattern of RNBCs

(Amount in ` million)

Item	2010-11	2011-12P
1	2	3
Aggregate Liabilities to the Depositors (ALD)	**79,020**	**42,650**
(i) Unencumbered approved securities	13,080 (16.6)	8,380 (19.6)
(ii) Fixed Deposits with banks	26,520 (33.6)	13,900 (32.6)
(iii) Bonds or debentures or commercial papers of a Govt. Company / public sector bank / public financial Institution / corporations	28,760 (36.4)	7,510 (17.6)
(iv) Other Investments	490 (0.6)	4,330 (10.2)

P: Provisional
Note: Figures in parentheses as percentages to ALDs.
Source: Annual returns.

cent. Total borrowings (secured and unsecured) by NBFCs-ND-SI showed a significant increase of 23.6 per cent, constituting more than two-third of the total liabilities (Table VI.36). Secured borrowings constituted the largest source of funds for NBFCs-ND-SI, followed by unsecured borrowings, reserves and surplus.

Table VI.36: Consolidated Balance Sheet of NBFCs-ND-SI

(Amount in ` billion)

Item	2010-11	2011-12	Variation (Per cent)
1	2	3	4
1. Share Capital	**382**	**505**	**32.1**
2. Reserves & Surplus	1,599	1,901	18.9
3. Total Borrowings	**5,175**	**6,398**	**23.6**
A. Secured Borrowings	**2,915**	**3,770**	**29.3**
A.1. Debentures	984	1,732	76.0
A.2. Borrowings from Banks	1,006	1,441	43.2
A.3. Borrowings from FIs	103	90	-12.7
A.4. Interest Accrued	52	63	22.9
A.5. Others	770	444	-42.3
B. Un-Secured Borrowings	**2,260**	**2,628**	**16.3**
B.1. Debentures	753	1,218	61.7
B.2. Borrowings from Banks	461	436	-5.3
B.3. Borrowings from FIs	31	53	74.0
B.4. Borrowings from Relatives	13	12	-9.5
B.5. Inter-Corporate Borrowings	242	278	14.5
B.6. Commercial Paper	314	306	-2.8
B.7. Interest Accrued	44	69	59.0
B.8. Others	401	256	-36.3
4. Current Liabilities & Provisions	457	409	-10.6
Total Liabilities/ Total Assets	**7,613**	**9,213**	**21.0**
Assets			
1. Loans & Advances	4,709	5,900	25.3
1.1. Secured	3,406	4,486	31.7
1.2. Un-Secured	1,304	1,414	8.5
2. Hire Purchase Assets	502	635	26.5
3. Investments	1,507	1,595	5.9
3.1. Long-Term Investments	1,089	1,227	12.6
3.2. Current Investments	417	368	-11.7
4. Cash & Bank Balances	313	357	14.0
5. Other Current Assets	437	553	26.5
6. Other Assets	144	173	19.9
Memo Items			
1. Capital Market Exposure	822	799	-2.8
Of which: Equity Shares	347	253	-27.0
2. CME as per cent to Total Assets	10.8	8.7	
3. Leverage Ratio	2.84	2.83	2.95

Notes: Percentage variation could be slightly different because absolute numbers have been rounded off to ` billion.
Source: Monthly returns on ND-SI (`1 billion and above).

6.40 The NBFCs-ND-SI segments is growing rapidly. Borrowings comprise their largest source of funds, mostly sourced from banks and financial institutions. To the extent that they rely on bank financing, there is an indirect exposure to depositors. While the concentration of funding has risks, the caps on bank lending to NBFCs may constrain their growth. However, the leverage ratio of the NBFCs-ND-SI sector remains the same as in the previous year.

Borrowings of NBFCs-ND-SI by Region

Northern Region continued to be main source of funds

6.41 Analysis of region-wise borrowings of the NBFCs-ND-SI reveals the dominance of northern and western regions; together they constitute more than 70 per cent of the total borrowings during the year ended March 2012. The same trend continued during the quarter ended June 2012. All regions registered growth during both the year ended March 2012 and quarter ended June 2012 (Table VI.37).

Financial Performance

NBFCs-ND-SI showed deterioration in financial performance and increase in NPAs

6.42 The financial performance of the NBFCs-ND-SI sector deteriorated marginally as reflected in the decline in net profit during 2011-12 (Table VI.38). Both Gross and Net NPAs to total asset of the NBFCs-ND-SI sector increased during the year.

Table VI.37: Borrowings of NBFCs-ND-SI Sector by Region

(Amount in ` billion)

Region	As at end		
	March 2011	March 2012P	June 2012P
1	2	3	4
North	2,707	3,431	3,502
East	231	329	368
West	1,383	1,512	1,594
South	854	1,127	1,193
Total Borrowings	**5,175**	**6,398**	**6,657**

P: Provisional
Source: Monthly returns on NBFCs-ND-SI.

Table VI.38: Financial Performance of NBFCs-ND-SI Sector

(Amount in ` billion)

Item	As at end		
	March 2011	March 2012	June 2012
1	2	3	4
1. Total Income	752	948	263
2. Total Expenditure	529	740	192
3. Net Profit	160	139	51
4. Total Assets	7,613	9,213	9,608
Financial Ratios			
(i) Income to Total Assets (per cent)	9.9	10.3	2.7
(ii) Expenditure to Total Assets (per cent)	6.9	8.0	1.9
(iii) Net Profit to Total Income (per cent)	21.3	14.6	19.4
(iv) Net Profit to Total Assets (per cent)	2.1	1.5	0.5

Source: Monthly returns on ND-SI (`1 billion and above).

The same trend continued as on June 2012 (Table VI.39).

6.43 As on March 31, 2012, the majority of the reporting companies maintained the stipulated minimum norm of 15 per cent capital adequacy as measured by CRAR. Only 10 per cent of the total reporting companies have a CRAR of less than 15 per cent (Table VI.40). These companies were also largely dependent on nationalised banks for their term loans, working capital loans and debentures/CPs. New private sector banks have emerged as a second major bank group for these companies to raise term loans and working capital loans (Table VI.41).

Table VI.39: NPA Ratios of NBFCs-ND-SI Sector

(per cent)

Item	As at end		
	March 2011	March 2012	June 2012
1	2	3	4
(i) Gross NPAs to Gross Advances	1.72	2.08	2.26
(ii) Net NPAs to Net Advances	0.69	1.25	1.37
(iii) Gross NPAs to Total Assets	1.28	1.48	1.61
(iv) Net NPAs to Total Assets	0.51	0.88	0.97

Source: Monthly returns on ND-SI (` 1 billion and above).

Table VI.40: Capital Adequacy Ratio of NBFCs-ND-SI - By Type of NBFC

(Number of companies)

CRAR Range	AFC	IFC	IC	LC	Total
1	2	3	4	5	6
Less than 15 per cent	0	0	21	15	36
15 per cent to 20 per cent	5	1	8	20	34
20 per cent to 25 per cent	2	2	5	14	23
25 per cent to 30 per cent	3	0	6	4	13
Above 30 per cent	8	1	171	79	259
Total	**18**	**4**	**211**	**132**	**365**

Note: AFC - Asset Finance Companies; IFC - Infrastructure Finance Companies; IC - Investment Companies; LC - Loan Companies
Source: Quarterly Returns on NBFCs-ND-SI.

4. Primary Dealers

6.44 There were 21 Primary Dealers (PDs) operating in the financial markets as on June 30, 2012. Of them, 13 were run by banks as a department called Bank-PDs, and the remaining 8 were non-bank entities known as standalone PDs registered as NBFCs under Section 45 IA of the RBI Act, 1934.

Operations and Performance of PDs

6.45 During 2011-12, the bid to cover ratio of PDs in both dated Government of India securities (G-Sec) and Treasury Bills (T-Bills) was marginally

Table VI.41: Bank Exposure of NBFCs-ND-SI Sector
(As at end-March 2012)

(Amount in ` billion)

Bank Group	Term Loans	Working Capital Loans	Debentures	Commercial Paper	Others	Total
1	2	3	4	5	6	7
A. Nationalised Banks	959	282	81	18	73	1,412
B. State Bank Group	102	97	21	0.3	27	247
C. Old Private Banks	38	27	10	2	2	79
D. New Private Banks	140	53	53	11	11	268
E. Foreign Banks	72	34	9	3	5	123
All Banks	**1,310**	**492**	**175**	**35**	**117**	**2,130**

Source: Monthly Returns on ND-SIs (`1 billion and above).

lower than in the previous year. PDs were required to achieve a minimum success ratio (bids accepted to the bidding commitment) of 40 per cent for T-Bills and Cash Management Bills (CMBs) put together, usually reviewed on a half-yearly basis. All the PDs achieved the stipulated minimum success ratio in both the first and second half of 2011-12. The success ratio in T-Bill auctions, however, was marginally lower during the year.

6.46 During 2011-12, all the dated G-Secs were fully underwritten. In the auctions of dated securities, the share of the PDs (bids accepted to the securities issued) decreased marginally (Table VI.42). Partial devolvement on the PDs took place on 14 instances.

Performance of Standalone PDs

6.47 In the secondary market, PDs have individually achieved a minimum annual total turnover ratio[2] (outright and repo transactions) of 5 times in dated G-Sec and 10 times in T-Bills during 2011-12. PDs had also achieved the minimum annual outright turnover ratio of 3 times in dated G-Sec and 6 times in T-Bills (Table VI.43).

Table VI.42: Performance of the PDs in the Primary Market
(As at end-March)

(Amount in ` billion)

Item	2011	2012
1	2	3
Treasury Bills & CMBs		
Bidding Commitment	3,808	7,296
Actual Bids Submitted	7,260	13,505
Bid to Cover Ratio	2.3	2.2
Bids Accepted	2,353	4,271
Success Ratio (in per cent)	61.8	58.6
Central Govt. Securities		
Notified Amount	4,370	5,100
Actual Bids submitted	6,239	6,932
Bid to Cover Ratio	1.4	1.3
Bids of PDs Accepted	2,165	2,432
Share of PDs (in per cent)	49.6	47.7

Note: Percentage variation could be slightly different because absolute numbers have been rounded off to ` billion.

Table VI.43: Performance of Standalone PDs in the Secondary Market
(As at end-March)

(Amount in ` billion)

Item	2011	2012
1	2	3
Outright		
Turnover of standalone PDs	10,900	18,381
Turnover of market participants	57,419	69,764
Share of PDs (in per cent)	19.0	26.3
Repo		
Turnover of standalone PDs	11,460	15,245
Turnover of market participants	81,986	75,278
Share of PDs (in per cent)	14.0	20.3
Total		
Turnover of standalone PDs	22,359	33,625
Turnover of market participants	1,39,405	1,45,042
Share of PDs (in per cent)	16.0	23.2

Notes: 1. Percentage variation could be slightly different because absolute numbers have been rounded off to ` billion.
2. Components may not add up to the whole due to rounding off.

Source: Clearing Corporation of India Limited.

Sources and Application of Funds of Standalone PDs

Investment by PDs in corporate bond market has decreased

6.48 The net owned fund (NOF) of the PDs has increased marginally. Reserves and surplus of the PDs had increased significantly. Both the secured and unsecured loans of the PDs also increased significantly during 2011-12. Investments in corporate bonds decreased marginally during the year (Table VI.44).

Financial Performance of Standalone PDs

Sharp increase in expenses led to reduction in profit

6.49 The net profit of the PDs reduced marginally during 2011-12. The total income of the PDs increased significantly. However, the PDs reported a sharp increase in their interest expenses mainly due to the increased cost of borrowings (Table VI.45). As a result, the cost-income ratio (*i.e.*, operating expenses to net total

[2] Turnover ratio is computed as the ratio of total purchase and sales during the year in the secondary market to average month-end stocks.

Table VI.44: Sources and Applications of Funds of Standalone Primary Dealers

(Amount in ` million)

Item	As at end-March			Percentage Variation	
	2010	2011$	2012	2011	2012
1	2	3	4	5	6
Sources of Funds	**1,03,080**	**130,320**	**2,03,810**	**26.4**	**56.4**
1 Capital	15,410	15,210	15,080	-1.3	-0.8
2 Reserves and Surplus	19,250	18,890	20,490	-1.9	8.4
3 Loans (a + b)	68,420	96,220	168,240	40.7	74.9
a) Secured	25,220	63,520	113,970	151.9	79.4
b) Unsecured	43,200	32,700	54,260	-24.3	66.0
Application of Funds	**1,03,080**	**1,30,320**	**2,03,810**	**26.4**	**56.4**
1 Fixed Assets	140	380	370	171.4	-2.6
2 Investments (a + b + c)	72,800	98,520	1,45,080	35.3	47.3
a) Government Securities	62,518	86,430	1,33,320	38.1	54.2
b) Commercial Papers	1,420	100	250	-92.9	149.4
c) Corporate Bonds	8,800	11,990	11,510	36.2	-4.0
3 Loans and Advances	7,410	4,260	19,380	-42.5	354.9
4 Non-current Assets	0	0	2,970	-	-
5 Equity, Mutual Funds, *etc*.	680	250	160	-63.2	-36.0
6 Others*	22,050	26,910	35,850	22.0	33.2

* Others include cash + certificate of deposits + bank balances + accrued interest + deferred tax assets – current liabilities and provisions.
$: Except Morgan Stanley Deutsche Sec and IDBI Gilts.
Notes: 1. Percentage variation could be slightly different because of rounding off.
2. Components may not add up to the whole due to rounding off.
Source: Annual Reports of PDs.

income) increased during the year. The return on net worth (RONW) and return on average assets (ROAA) for the year ended March 2012 were down

Table VI.45: Financial Performance of Standalone Primary Dealers

(Amount in ` million)

Item	2010-11	2011-12	Variation	
			Amount	Percentage
1	2	3	4	5
A. Income (i to iii)	**10,790**	**15,470**	**4,680**	**43.4**
i) Interest and discount	9,700	13,820	4,120	42.5
ii) Trading Profit	580	640	60	10.3
iii) Other income	510	1,010	500	98.0
B. Expenses (i+ii)	**8,070**	**13,070**	**4,560**	**62.0**
i) Interest	6,530	11,180	4,650	71.2
ii) Other expenses including Establishment and Administrative Costs	1,540	1,890	350	22.7
Profit Before Tax	2,720	2,400	-320	-11.8
Profit After Tax	1,780	1,540	-240	-13.5

Notes: 1. Percentage variation could be slightly different because absolute numbers have been rounded off to ` billion.
2. Components may not add up to the whole due to rounding off.
Source: Returns submitted by PDs.

Table VI.46: Financial Indicators of Standalone PDs

(Amount in ` million)

Indicator	2010-11	2011-12
1	2	3
i) Net profit	1,780	1,540
ii) Average Assets	1,66,970	1,97,460
iii) Return on Average Assets (in per cent)	1.1	0.8
iv) Return on Net Worth (in per cent)	5.1	4.4

marginally (Table VI 46). The CRAR of the PDs increased from 46.2 per cent to 53.8 per cent during the year as against a minimum prescribed requirement of 15 per cent (Table VI 47).

Table VI.47: CRAR of the standalone PDs (As at end-March)

(Amount in ` million)

Particulars	2011	2012
1	2	3
1. Total Net Capital Funds	36,260	39,290
2. Total Risk Weighted Assets	78,580	72,980
a) Credit Risk	33,500	37,420
b) Market Risk	45,080	35,560
3. CRAR (in percent)	**46.2**	**53.8**

5. Overall Assessments

6.50 There were signs of a consolidation process in the NBFC sector in terms of number of NBFCs. The balance sheets of NBFCs have, however, showed substantial expansion and similar expansion was observed in respect of FIs and PDs. The financial performance of the NBFCs-D segment has witnessed improvement as reflected in the increase in their operating profits mainly emanating from fund-based income. However, the financial performance of the NBFCs-ND-SI segment has deteriorated marginally, though the sector is growing faster. Borrowings constitute the largest source of funds mostly sourced from banks and financial institutions for NBFCs. Thus, the heavy reliance on bank financing needs to be monitored closely. In this context, the recent regulatory measures leading to tightening of norms with respect to raising of resources from banks is expected to bring down the NBFC sector's reliance on the banking sector and to look for alternate sources of funds.

6.51 In terms of NPAs, there was a significant increase in the gross NPAs to total advances of NBFCs. Similarly, FIs have registered an increase in NPAs. The NBFIs as a segment continue to be better placed in terms of capital adequacy with high CRAR than the minimum regulatory requirement. In respect of primary dealers, while their interest income increased, expenses enhanced at a faster pace due to the increased cost of borrowings, leading to reduced profit and lower RoA.

Appendix Table IV.1 : Indian Banking Sector at a Glance

(Amount in ` billion)

Sr. No	Items	Amount Outstanding (As at end-March)		Percentage Variation	
		2011	2012	2010-11	2011-12
1	**Balance Sheet Operations**				
1.1	Total Liabilities/Assets	71,834	82,994	19.2	15.5
1.2	Deposits	56,159	64,537	18.3	14.9
1.3	Borrowings	6,755	8,401	27.1	24.4
1.4	Loans and Advances	42,975	50,746	22.9	18.1
1.5	Investments	19,236	22,305	11.3	16.0
1.6	Off-balance Sheet Exposure (As percentage of On-balance Sheet Liabilities)	192.5	175.9	–	–
1.7	Total Consolidated International Claims	2,464	2,809	5.9	14.0
2	**Profitability**				
2.1	Net Profit	703	817	23.2	16.1
2.2	Return on Asset (RoA) (Per cent)	1.10	1.08	–	–
2.3	Return on Equity (RoE) (Per cent)	14.96	14.60	–	–
2.4	Net Interest Margin (NIM) (Per cent)	2.91	2.90	–	–
3	**Capital Adequacy**				
3.1	Capital to Risk Weighted Asset Ratio (CRAR) (under Basel I) (Per cent)	13.02	12.94	–	–
3.2	Capital to Risk Weighted Asset Ratio (CRAR) (under Basel II) (Per cent)	14.19	14.24	–	–
3.3	Tier I Capital (As percentage of Total Capital)	70.6	72.8	–	–
3.4	CRAR (Tier I) (Basel I) (Per cent)	9.2	9.4	–	–
3.5	CRAR (Tier I) (Basel II) (Per cent)	10.0	10.4	–	–
3.6	Leverage Ratio (Per cent)	6.61	6.83	–	–
4	**Asset Quality**				
4.1	Gross NPAs	979	1,423	15.7	45.3
4.2	Net NPAs	417	649	7.7	55.6
4.3	Total Provisions made	540	747	25.0	38.3
4.4	Gross NPA Ratio (Gross NPAs as percentage of Gross Advances)	2.5	3.1	–	–
4.5	Net NPA Ratio (Net NPAs as percentage of Net Advances)	1.1	1.4	–	–
4.6	Provisioning Coverage Ratio (Per cent)	55.1	52.5	–	–
4.7	Slippage Ratio (Per cent)	2.03	2.51	–	–
4.8	Written-off Ratio (Per cent)	9.8	4.4	–	–
5	**Sectoral Deployment of Bank Credit**				
5.1	Total Non-food Gross Bank Credit	36,674	42,897	20.6	17.0
5.2	Agriculture and Allied Activities	4,603	5,226	10.6	13.5
5.3	Industry	16,208	19,659	23.6	21.3
5.4	Services	9,008	10,330	23.9	14.7
5.5	Personal Loans	6,854	7,683	17.0	12.1
6	**Technological Deployment**				
6.1	Number of Credit Cards (in million)	18.04	17.65	-1.6	-2.2
6.2	Number of Debit Cards (in million)	228	278	25.2	22.1
6.3	Number of ATMs	74,505	95,686	23.9	28.4
7	**Customer Services***				
7.1	Number of Complaints Received	76,638	77,507	0.9	1.1
7.2	Number of Complaints Addressed	72,021	72,885	-13.6	1.2
7.3	Percentage of Complaints Addressed	93.98	94.04	–	–
8	**Financial Inclusion**				
8.1	Credit-Deposit (C-D) Ratio (Per cent)	76.5	78.6	–	–
8.2	Number of New Bank Branches Opened	5,314	6,918	2.3	30.2
8.3	Total Banking Outlets opened in Villages under Financial Inclusion Plan (FIP)	1,16,208	1,81,753	–	56.4

-: NA / Not Available. *Position as on end-June 2012.
Also, number of complaints received and addressed are inclusive of RRBs and co-operatives.
Note: Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Appendix Table IV.2: Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Amount in ` billion)

Item	Public Sector Banks		Nationalised Banks*		State Bank Group		Private Sector Banks	
	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation
1	2	3	4	5	6	7	8	9
1. Forward exchange contract@	15,786 (26.1)	26.1	11,136 (26.1)	35.6	4,649 (26.3)	7.9	24,137 (143.9)	19.2
2. Guarantees given	4,932 (8.2)	17.6	3,019 (7.1)	17.3	1,913 (10.8)	18.0	2,081 (12.4)	12.8
3. Acceptances, endorsements, *etc.*#	5,866 (9.7)	13.1	3,007 (7.1)	21.1	2,858 (16.1)	5.7	1,652 (9.9)	27.4
Contingent Liabilities	**26,583 (44.0)**	**21.4**	**17,162 (40.2)**	**29.3**	**9,421 (53.2)**	**9.1**	**27,870 (166.1)**	**19.1**

Item	Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation
1	10	11	12	13	14	15	16	17
1. Forward exchange contract@	1,847 (49.3)	75.8	22,289 (171.1)	16.1	86,427 (1480.9)	-0.9	126,350 (152.2)	5.3
2. Guarantees given	201 (5.4)	23.0	1,881 (14.4)	11.9	790 (13.5)	13.6	7,803 (9.4)	15.9
3. Acceptances, endorsements, *etc.*#	149 (4.0)	-16.3	1,504 (11.5)	34.3	4,278 (73.3)	-16.0	11,796 (14.2)	1.9
Contingent Liabilities	**2,197 (58.6)**	**57.9**	**25,674 (197.1)**	**16.7**	**91,496 (1567.8)**	**-1.6**	**145,949 (175.9)**	**5.5**

* : Includes IDBI Bank Ltd.
@ : Includes all derivative products (including interest rate swaps) as admissible.
# : Includes inter alia items like (a) claims against the bank not acknowledged as debt, (b) liability for partly paid investments, (c) bills re-discounted and (d) letters of credit.

Note : 1. Figures in parentheses are percentages to total liabilities of the concerned bank-group.
2. Components may not add up exactly due to rounding off numbers to ` billion.

Source : Annual accounts of respective banks.

Appendix Table IV.3: Bank Group-wise Lending to the Sensitive Sectors

(As at end-March)

(Amount in ` billion)

Sector	Public Sector Banks		Nationalised Banks*		State Bank Group		Private Sector Banks	
	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation
1	2	3	4	5	6	7	8	9
1. Capital Market #	383	-14.5	336	1.5	46	-60.0	380	-7.8
	(1.0)		(1.2)		(0.4)		(3.9)	
2. Real Estate @	5,308	11.5	3,465	12.7	1,843	9.3	2,036	9.4
	(13.7)		(12.7)		(16.0)		(21.1)	
3. Commodities	-	-	-	-	-	-	-	-
Total Advances to Sensitive Sectors	**5,690**	**9.3**	3,801	**11.6**	**1,890**	**4.8**	**2,416**	**6.3**
	(14.7)		**(13.9)**		**(16.4)**		**(25.0)**	

Sector	Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation	2011-12	Percentage Variation
1	10	11	12	13	14	15	16	17
1. Capital Market #	26	14.8	354	-9.1	83	17.9	846	-9.1
	(1.1)		(4.8)		(3.6)		(1.7)	
2. Real Estate @	284	13.1	1,752	8.9	608	9.2	7,952	10.8
	(12.3)		(23.8)		(26.5)		(15.7)	
3. Commodities	-	-	-	-	16	-	16	-
					(0.7)		(0.03)	
Total Advances to Sensitive Sectors	**310**	**13.2**	**2,107**	**5.4**	**707**	**12.7**	**8,814**	**8.7**
	(13.5)		**(28.6)**		**(30.8)**		**(17.4)**	

- : Nil/Negligible.
: Exposure to capital market is inclusive of both investments and advances.
@ : Exposure to real estate sector is inclusive of both direct and indirect lending.
* : Includes IDBI Bank Ltd.

Note : 1. Figures in parentheses are percentages to total loans and advances of the concerned bank group.
2. Components may not add up exactly due to rounding off numbers to ` billion.

Source : Annual accounts of respective banks.

Appendix Table IV.4: Share Prices and Price/ Earning Ratios of Bank Stocks at BSE

(As on the last reporting Friday of March)

Sr. No.	Name of the Bank	Closing Prices (`)			Percentage Variation in Share Prices	PE Ratio*		
		(End-March)			(2011-12 over 2010-11)	(End-March)		
		2009-10	2010-11	2011-12		2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9
	Public Sector Banks							
1	Allahabad Bank	142.5	230.7	186.3	-19.3	5.2	7.1	4.8
2	Andhra Bank	108.1	151.0	119.3	-21.0	5.0	5.8	5.0
3	Bank of Baroda	639.3	963.2	793.7	-17.6	7.3	8.5	5.9
4	Bank of India	340.8	478.1	361.0	-24.5	10.0	9.8	7.3
5	Bank of Maharashtra	49.7	59.4	54.6	-8.2	4.9	7.7	6.1
6	Canara Bank	410.4	626.2	473.7	-24.4	5.6	6.4	6.3
7	Corporation Bank	481.0	638.2	424.8	-33.4	5.8	6.4	4.1
8	Dena Bank	78.5	104.3	90.0	-13.7	4.4	4.9	3.7
9	Indian Overseas Bank	92.0	146.6	239.7	63.5	7.1	7.3	5.6
10	Oriental Bank of Commerce	320.9	387.0	252.3	-34.8	7.1	6.5	6.5
11	Punjab National Bank	1013.5	1220.2	926.1	-24.1	8.0	8.4	6.2
12	Syndicate Bank	86.1	122.0	111.1	-8.9	5.5	6.1	3.6
13	Union Bank of India	293.0	347.5	234.9	-32.4	7.6	7.6	6.0
14	Vijaya Bank	47.4	79.4	58.4	-26.4	-	-	-
15	State Bank of India	2079.0	2767.9	2095.0	-24.3	11.2	16.4	8.7
16	State Bank of Bikaner and Jaipur	453.7	519.6	402.8	-22.5	4.9	5.1	4.3
17	State Bank of Mysore	637.0	653.0	503.7	-22.9	5.1	5.4	6.4
18	State Bank of Travancore	612.6	744.7	581.1	-22.0	4.6	5.1	5.7
19	UCO Bank	56.5	107.1	78.8	-26.5	3.1	6.5	4.5
20	IDBI Bank Ltd.	115.0	142.5	104.7	-26.5	8.2	8.2	5.2
	Private Sector Banks							
21	Axis Bank	1169.1	1403.7	1145.9	-18.4	18.0	17.2	11.2
22	City Union Bank Ltd.	28.6	44.8	48.5	8.1	7.1	8.4	7.0
23	Development Credit Bank Ltd.	32.2	45.9	45.1	-1.7	-	42.9	16.5
24	Dhanalakshmi Bank	132.9	113.4	68.2	-39.8	36.6	34.2	17.6
25	Federal Bank Ltd.	267.0	418.9	426.0	1.7	10.4	12.9	9.7
26	ING Vysya Bank	279.5	321.3	355.9	10.8	12.7	12.1	11.1
27	Indusind Bank Ltd.	170.7	263.7	320.8	21.7	18.9	20.0	18.7
28	Jammu and Kashmir Bank Ltd.	679.1	874.5	917.4	4.9	6.4	6.9	5.5
29	Karnataka Bank Ltd.	119.8	107.5	95.7	-11.0	8.9	7.1	7.3
30	Karur Vysya Bank Ltd.	458.2	399.1	372.9	-6.6	7.4	8.9	8.0
31	Kotak Mahindra Bank Ltd.	749.1	456.9	542.5	18.7	19.9	21.1	22.0
32	Lakshmi Vilas Bank Ltd.	77.8	97.8	85.8	-12.2	16.7	9.4	7.8
33	South Indian Bank Ltd.	178.3	22.9	246.0	976.6	8.6	8.8	7.0
34	HDFC Bank Ltd.	1932.5	2343.0	520.1	-77.8	28.1	27.1	23.2
35	ICICI Bank Ltd.	952.7	1112.8	887.3	-20.3	22.7	20.8	13.4
36	Yes Bank	254.9	309.9	367.3	18.5	16.4	14.7	13.2

– : Not Available.

Note: Percentage variation could slightly differ due to rounding off numbers.

* **Source:** Bloomberg.

Appendix Table IV.5: Shareholding Pattern of Domestic Scheduled Commercial Banks *(Continued)*

(As at end-March 2012)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI - Resident	Financial Institutions- Resident	Financial Institutions- Non Resident	Other Corporates- Resident	Other Corporates- Non Resident	Total Individual- Resident	Total Individual - Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks*									
1.	Allahabad Bank	55.2	21.1	12.5	1.4	–	9.7	0.1	87.4	12.6
2.	Andhra Bank	58.0	15.3	13.5	2.3	–	10.8	0.2	86.4	13.6
3.	Bank of Baroda	54.3	20.5	13.5	6.2	–	4.9	0.5	86.0	14.0
4.	Bank of India	62.7	16.3	14.7	0.6	–	5.3	0.4	84.9	15.1
5.	Bank of Maharashtra	79.0	11.1	0.7	1.2	–	7.8	0.2	99.1	0.9
6.	Canara Bank	67.7	11.1	14.5	1.9	–	4.7	0.1	85.4	14.6
7.	Central Bank of India	79.2	10.9	2.5	1.4	–	5.9	0.2	97.4	2.6
8.	Corporation Bank	58.5	30.6	4.4	2.0	–	4.1	0.3	95.2	4.8
9.	Dena Bank	55.2	11.5	–	5.2	–	16.0	12.1	87.9	12.1
10.	IDBI Bank Ltd.	70.5	17.5	–	2.0	–	9.6	0.4	99.6	0.4
11.	Indian Bank	80.0	4.7	9.1	3.8	–	2.5	0.1	90.9	9.1
12.	Indian Overseas Bank	69.6	14.4	3.7	2.4	–	9.4	0.5	95.8	4.2
13.	Oriental Bank of Commerce	58.0	24.4	10.3	2.7	–	4.5	0.1	89.6	10.4
14.	Punjab & Sind Bank	78.2	5.9	3.0	3.0	–	9.4	0.4	96.5	3.5
15.	Punjab National Bank	56.1	21.8	17.4	1.0	–	3.8	–	82.6	17.4
16.	Syndicate Bank	66.2	15.5	4.0	1.9	–	12.4	–	96.0	4.0
17.	UCO Bank	65.2	14.7	3.5	3.6	–	12.8	0.3	96.2	3.8
18.	Union Bank of India	54.4	18.9	9.6	8.5	–	8.6	–	90.4	9.6
19.	United Bank of India	81.6	6.4	1.1	6.9	–	3.0	1.1	97.8	2.2
20.	Vijaya Bank	55.0	9.7	4.5	5.3	–	24.9	0.6	95.0	5.0
	State Bank Group									
21.	State Bank of Bikaner & Jaipur	–	78.3	–	3.8	5.1	12.7	0.2	94.7	5.3
22.	State Bank of Hyderabad	–	100.0	–	–	–	–	–	100.0	–
23.	State Bank of India	61.6	16.8	11.2	4.2	–	6.1	0.2	88.6	11.4
24.	State Bank of Mysore	–	94.0	–	0.3	–	5.6	0.1	99.9	0.1
25.	State Bank of Patiala	–	100.0	–	–	–	–	–	100.0	–
26.	State Bank of Travancore	1.1	76.9	3.3	2.7	–	13.0	3.0	93.7	6.3

- : Nil/Negligible.
* : Include IDBI Bank Ltd.
Source: Off-site Returns (domestic).

Appendix Table IV.5: Shareholding Pattern of Domestic Scheduled Commercial Banks *(Concluded)*

(As at end-March 2012)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI - Resident	Financial Institutions-Resident	Financial Institutions-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual - Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Old Private Sector Banks									
1.	Catholic Syrian Bank Ltd.	–	5.0	–	23.3	14.9	38.7	18.2	67.0	33.0
2.	City Union Bank Ltd.	–	6.6	21.1	10.8	7.2	51.5	2.9	68.9	31.1
3.	Dhanalakshmi Bank Ltd.	–	0.8	33.0	14.4	–	45.9	6.0	61.1	38.9
4.	Federal Bank Ltd.	–	20.3	42.3	12.8	5.0	16.2	3.5	49.3	50.8
5.	ING Vysya Bank Ltd.	–	13.7	25.2	6.6	43.8	9.0	1.7	29.3	70.7
6.	Jammu & Kashmir Bank Ltd.	53.2	2.8	25.2	7.1	–	11.3	0.4	74.4	25.6
7.	Karnataka Bank Ltd.	–	4.5	17.9	22.8	–	54.3	0.6	81.5	18.5
8.	Karur Vysya Bank Ltd.	–	7.8	22.8	14.2	–	53.3	1.9	75.3	24.7
9.	Lakshmi Vilas Bank Ltd.	–	8.5	–	21.9	11.9	56.7	1.0	87.1	12.9
10.	Nainital Bank Ltd.	–	98.6	–	–	–	1.4	–	100.0	–
11.	Ratnakar Bank Ltd.	–	–	–	24.2	32.8	39.2	3.8	63.5	36.5
12.	South Indian Bank Ltd.	–	7.6	46.2	8.4	–	34.8	3.1	50.8	49.2
13.	Tamilnad Mercantile Bank Ltd.	–	–	–	13.5	16.5	69.6	0.4	83.1	16.9
	New Private Sector Banks									
14.	Axis Bank Ltd.	–	43.8	41.5	8.2	–	6.2	0.2	58.3	41.7
15.	Development Credit Bank Ltd	–	7.9	–	15.6	35.6	38.4	2.5	61.9	38.1
16.	HDFC Bank Ltd.	–	10.5	–	31.9	48.4	8.8	0.4	51.2	48.8
17.	ICICI Bank Ltd.	–	20.4	63.0	10.8	–	5.7	0.2	36.8	63.2
18.	IndusInd Bank Ltd.	–	8.1	48.8	13.1	19.8	8.8	1.4	30.0	70.0
19.	Kotak Mahindra Bank Ltd.	–	4.6	32.8	7.5	0.6	54.0	0.6	66.1	33.9
20.	Yes Bank Ltd	–	10.9	46.6	11.7	4.7	25.5	0.5	48.1	51.9

- : Nil/Negligible.

Source: Off-site Returns (domestic).

Appendix Table IV.6: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2012)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	**23,776**	**22,468**	**17,878**	**17,118**	**81,240**	**47,545**	**48,141**	**95,686**
	Public Sector Banks	**22,188**	**17,773**	**14,248**	**13,257**	**67,466**	**34,012**	**24,181**	**58,193**
	Nationalised Banks	**15,606**	**12,154**	**10,744**	**10,132**	**48,636**	**18,277**	**12,773**	**31,050**
1.	Allahabad Bank	1,016	491	510	461	2,478	209	107	316
2.	Andhra Bank	431	444	451	379	1,705	493	563	1,056
3.	Bank of Baroda	1,267	1,042	714	868	3,891	1,372	640	2,012
4.	Bank of India	1,466	1,040	676	724	3,906	860	820	1,680
5.	Bank of Maharashtra	546	300	314	400	1,560	360	142	502
6.	Canara Bank	1,001	1,014	787	815	3,617	1,530	1,332	2,862
7.	Central Bank of India	1,465	1,046	779	726	4,016	930	753	1,683
8.	Corporation Bank	285	397	376	370	1,428	726	548	1,274
9.	Dena Bank	396	269	265	312	1,242	430	113	543
10.	Indian Bank	507	551	499	372	1,929	923	359	1,282
11.	Indian Overseas Bank	720	732	604	572	2,628	903	540	1,443
12.	Oriental Bank of Commerce	361	443	520	443	1,767	932	338	1,270
13.	Punjab and Sind Bank	317	165	246	262	990	101	17	118
14.	Punjab National Bank	2,176	1,281	1,039	844	5,340	3,059	2,950	6,009
15.	Syndicate Bank	850	690	619	551	2,710	1,033	207	1,240
16.	UCO Bank	843	549	506	471	2,369	551	313	864
17.	Union Bank of India	952	878	734	665	3,229	2,156	1,644	3,800
18.	United Bank of India	644	291	372	306	1,613	318	486	804
19.	Vijaya Bank	272	292	375	317	1,256	596	154	750
20.	IDBI Bank Ltd.	91	239	358	274	962	795	747	1,542
	State Bank Group	**6,582**	**5,619**	**3,504**	**3,125**	**18,830**	**15,735**	**11,408**	**27,143**
21.	State Bank of India	5,250	3,956	2,442	2,214	13,862	12,198	9,943	22,141
22.	State Bank of Bikaner and Jaipur	334	271	170	181	956	620	437	1,057
23.	State Bank of Hyderabad	367	413	284	281	1,345	1,060	311	1,371
24.	State Bank of Mysore	219	160	154	203	736	571	231	802
25.	State Bank of Patiala	351	286	263	161	1,061	632	211	843
26.	State Bank of Travancore	61	533	191	85	870	654	275	929

Notes : 1. Nationalised Banks include IDBI Bank Ltd.
2. Branches data exclude administrative offices.

Source : Master office file (latest updated version) on commercial banks.

Appendix Table IV.6: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2012)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**1,581**	**4,687**	**3,569**	**3,615**	**13,452**	**13,249**	**22,830**	**36,079**
	Old Private Sector Banks	**881**	**2,025**	**1,395**	**1,085**	**5,386**	**3,342**	**2,429**	**5,771**
1.	Catholic Syrian Bank Ltd.	18	203	98	50	369	121	57	178
2.	City Union Bank Ltd.	42	104	95	61	302	234	266	500
3.	Dhanalakshmi Bank Ltd.	24	106	82	61	273	171	229	400
4.	Federal Bank Ltd.	62	520	191	157	930	647	358	1,005
5.	ING Vysya Bank	83	93	163	184	523	232	198	430
6.	Jammu and Kashmir Bank Ltd.	284	100	134	64	582	344	164	508
7.	Karnataka Bank Ltd.	94	114	148	152	508	216	136	352
8.	Karur Vysya Bank Ltd.	41	163	141	101	446	472	353	825
9.	Lakshmi Vilas Bank Ltd.	42	105	86	57	290	172	369	541
10.	Nainital Bank Ltd.	25	29	25	22	101	-	-	-
11.	Ratnakar Bank Ltd.	25	30	20	26	101	43	14	57
12.	South Indian Bank Ltd.	83	332	158	116	689	523	140	663
13.	Tamilnad Mercantile Bank Ltd.	58	126	54	34	272	167	145	312
	New Private Sector Banks	**700**	**2,662**	**2,174**	**2,530**	**8,066**	**9,907**	**20,401**	**30,308**
14.	Axis Bank Ltd.	133	520	480	473	1,606	2,058	7,866	9,924
15.	Development Credit Bank Ltd.	5	16	11	54	86	86	234	320
16.	HDFC Bank Ltd.	177	913	654	768	2,512	3,823	5,090	8,913
17.	ICICI Bank Ltd.	285	913	721	827	2,746	3,032	5,974	9,006
18.	IndusInd Bank Ltd.	36	97	139	131	403	347	345	692
19.	Kotak Mahindra Ltd.	33	70	82	171	356	318	530	848
20.	Yes Bank Ltd.	31	133	87	106	357	243	362	605

- : Nil/Negligible.

Note : Branches data exclude administrative offices.

Source : Master office file (latest updated version) on commercial banks.

Appendix Table IV.6: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*
(As at end-March 2012)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**7**	**8**	**61**	**246**	**322**	**284**	**1130**	**1414**
1.	AB Bank Ltd.	-	-	-	1	1	-	-	-
2.	Abu Dhabi Commercial Bank Ltd.	-	-	-	2	2	-	-	-
3.	American Express Banking Corp.	-	-	-	1	1	-	-	-
4.	Antwerp Diamond Bank NV	-	-	-	1	1	-	-	-
5.	Australia and New Zealand Banking Group Ltd.	-	-	-	1	1			
6.	BNP Paribas	-	-	-	9	9	-	-	-
7.	Bank International Indonesia	-	-	-	1	1	-	-	-
8.	Bank of America National Association	-	-	-	5	5	-	-	-
9.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	2	2	-	-	-
10.	Bank of Ceylon	-	-	-	1	1	-	-	-
11.	Bank of Nova Scotia	-	-	1	4	5	-	-	-
12.	Barclays Bank PLC	-	1	4	4	9	7	29	36
13.	Chinatrust Commercial Bank	-	-	-	1	1	-	-	-
14.	Citibank N.A.	-	2	12	29	43	58	645	703
15.	Commomwealth Bank of Australia	-	-	-	1	1	-	-	-
16.	Credit Agricole Corporate and Investment	-	-	-	6	6	-	-	-
17.	Credit Suisse AG	-	-	-	1	1	-	-	-
18.	DBS Bank Ltd.	3	3	-	6	12	5	34	39
19.	Deutsche Bank (Asia)	1	-	6	8	15	12	52	64
20.	First Rand Bank	-	-	-	1	1	-	-	-
21.	HSBC Ltd.	1	1	10	38	50	70	73	143
22.	Industrial and Commercial Bank of China	-	-	-	1	1	-	-	-
23.	JPMorgan Chase Bank National Association	-	-	-	1	1	-	-	-
24.	JSC VTB Bank	-	-	-	1	1	-	-	-
25.	Krung Thai Bank Public Co. Ltd.	-	-	-	1	1	-	-	-
26.	Mashreqbank PSC	-	-	-	2	2	-	-	-
27.	Mizuho Corporate Bank Ltd.	-	-	-	2	2	-	-	-
28.	National Australia Bank	-	-	-	1	1	-	-	-
29.	Oman International Bank S.A.O.G.	-	-	1	1	2	-	-	-
30.	Rabobank International	-	-	-	1	1	-	-	-
31.	Sber Bank	-	-	-	1	1	-	-	-
32.	Shinhan Bank	-	1	-	2	3	-	-	-
33.	Societe Generale	-	-	-	2	2	-	-	-
34.	Sonali Bank	-	-	1	1	2	-	-	-
35.	Standard Chartered Bank	-	-	16	78	94	97	210	307
36.	State Bank of Mauritius Ltd.	-	-	-	3	3	-	-	-
37.	The Bank of Tokyo-Mitsubishi UFJ,Ltd.	-	-	-	3	3	-	-	-
38.	The Royal Bank of Scotland N V	2	-	10	19	31	35	87	122
39.	UBS AG	-	-	-	1	1	-	-	-
40.	United Overseas Bank Ltd.	-	-	-	1	1	-	-	-
41.	Woori Bank	-	-	-	1	1	-	-	-

- : Nil/Negligible.
Note : Branches data exclude administrative offices.
Source : Master office file (latest updated version) on commercial banks.

Appendix Table IV.7: Statement of Complaints Received at Banking Ombudsman Office (*Continued*)

(For the period 2011-12)

Sr. No.	Name of the bank	Number of Complaints in Major Categories							Total No. of Complaints Received
		Deposit Account	Loans/ Advances General & Housing	ATM/ Credit/ Debit Cards	Pension	Failure on Commitments made- BCSBI Code	Non Observance of Fair Practices Code	Non- Adherence to Instructions on DSA & Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	**8,142**	**5,594**	**14,237**	**5,845**	**6,960**	**10,188**	**451**	**68,332**
	Public Sector Banks	**5,742**	**3,937**	**9,221**	**5,793**	**4,408**	**7,539**	**145**	**48,180**
	Nationalised Banks**	**3,135**	**2,086**	**3,223**	**1,975**	**2,443**	**3,379**	**58**	**22,326**
1.	Allahabad Bank	95	62	75	104	121	181	2	964
2.	Andhra Bank	99	78	138	88	108	40	3	745
3.	Bank of Baroda	275	160	260	123	222	414	3	2,063
4.	Bank of India	193	124	288	129	205	384	6	1,808
5.	Bank of Maharashtra	66	29	42	28	38	111	-	416
6.	Canara Bank	362	235	338	190	224	178	10	1,986
7.	Central Bank of India	215	151	136	231	178	212	2	1,528
8.	Corporation Bank	44	40	111	5	90	59	1	515
9.	Dena Bank	62	21	44	68	50	160	1	547
10.	Indian Bank	183	219	113	78	51	55	1	847
11.	Indian Overseas Bank	210	141	179	75	75	74	2	995
12.	Oriental Bank of Commerce	87	54	100	7	92	95	1	663
13.	Punjab and Sind Bank	58	34	8	27	43	37	1	332
14.	Punjab National Bank	430	222	752	486	191	395	4	3,535
15.	Syndicate Bank	144	91	108	70	121	108	2	899
16.	UCO Bank	130	93	86	120	134	238	6	1,080
17.	Union Bank of India	237	131	262	109	204	277	5	1,662
18.	United Bank of India	61	44	45	28	129	94	3	490
19.	Vijaya Bank	52	51	42	8	55	44	1	331
20.	IDBI Bank Limited	132	106	96	1	112	223	4	920
	State Bank Group	**2,607**	**1,851**	**5,998**	**3,818**	**1,965**	**4,160**	**87**	**25,854**
21.	State Bank of India	2,109	1,386	5,198	3,466	1,664	3,877	80	22,418
22.	State Bank of Bikaner and Jaipur	209	175	194	124	80	93	1	1,111
23.	State Bank of Hyderabad	81	62	272	68	73	48	4	778
24.	State Bank of Mysore	39	21	67	37	49	55	-	316
25.	State Bank of Patiala	110	69	150	68	25	30	-	609
26.	State Bank of Travancore	59	138	117	55	74	57	2	622

- : Nil/negligible.

** : Nationalised banks included IDBI Bank Ltd.

Appendix Table IV.7: Statement of Complaints Received at Banking Ombudsman Office (*Continued*)
(For the period 2011-12)

Sr. No.	Name of the bank	Number of Complaints in Major Categories							Total No. of Complaints Received
		Deposit Account	Loans/ Advances General & Housing	ATM/ Credit/ Debit Cards	Pension	Failure on Commitments made- BCSBI Code	Non Observance of Fair Practices Code	Non-Adherence to Instructions on DSA & Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**1,894**	**1,328**	**3,245**	**39**	**1,895**	**2,101**	**223**	**15,084**
	Old Private Sector Banks	**250**	**335**	**141**	**1**	**192**	**181**	**8**	**1,569**
1.	Catholic Syrian Bank Ltd.	5	28	8	–	3	7	–	67
2.	City Union Bank Ltd.	15	8	3	–	1	2	–	42
3.	Dhanalakshmi Bank Ltd.	21	35	15	–	19	11	2	153
4.	Federal Bank Ltd.	27	74	23	–	31	30	1	252
5.	ING Vysya Bank Ltd.	76	87	30	–	80	67	4	486
6.	Jammu and Kashmir Bank Ltd.	9	2	10	1	4	11	–	57
7.	Karnataka Bank Ltd.	5	2	18	–	17	7	–	72
8.	Karur Vysya Bank Ltd.	27	25	12	–	10	7	–	128
9.	Laxmi Vilas Bank Ltd.	13	10	4	–	6	7	–	49
10.	Nainital Bank Ltd.	3	–	–	–	1	3	–	17
11.	Ratnakar Bank Ltd.	4	–	–	–	–	1	–	6
12.	South Indian Bank Ltd.	21	46	16	–	12	26	–	169
13.	Tamilnad Mercantile Bank Ltd.	24	18	2	–	8	2	1	71
	New Private Sector Banks	**1,644**	**993**	**3,104**	**38**	**1,703**	**1,920**	**215**	**13,515**
14.	Axis Bank Ltd.	316	170	549	8	197	350	15	2,404
15.	Development Credit Bank Ltd.	8	17	6	–	15	20	–	94
16.	HDFC Bank Ltd.	531	336	1,153	8	804	603	77	4,976
17.	ICICI Bank Ltd.	571	376	1,211	22	559	762	105	4,771
18.	Indus Ind Bank Ltd.	69	13	62	–	48	80	10	440
19.	Kotak Mahindra Bank Ltd.	125	72	110	–	71	92	8	720
20.	Yes Bank Ltd.	24	9	13	–	9	13	–	110

- : Nil/negligible.

Appendix Table IV.7: Statement of Complaints Received at Banking Ombudsman Office *(Concluded)*
(For the period 2011-12)

Sr. No.	Name of the bank	Number of Complaints in Major Categories							Total No. of Complaints Received
		Deposit Account	Loans/ Advances General & Housing	ATM/ Credit/ Debit Cards	Pension	Failure on Commitments made- BCSBI Code	Non Observance of Fair Practices Code	Non- Adherence to Instructions on DSA & Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**506**	**329**	**1,771**	**13**	**657**	**548**	**83**	**5,068**
1.	AB Bank Ltd.	–	–	–	–	–	1	–	2
2.	Abu Dhabi Commercial Bank Ltd.	–	–	–	–	–	–	–	–
3.	American Express Banking Corp.	8	2	43	–	3	8	2	68
4.	Antwerp Diamond Bank NV	–	–	–	–	–	–	–	–
5.	Australia and New Zealand Banking Group Ltd.	–	–	–	–	–	–	–	–
6.	BNP Paribas	–	–	–	–	–	–	–	–
7.	Bank International Indonesia	–	–	–	–	–	–	–	–
8.	BankofAmericaNationalAssociation	3	–	–	–	1	–	–	7
9.	Bank of Bahrain & Kuwait B.S.C.	–	–	–	–	–	–	–	–
10.	Bank of Ceylon	1	–	–	–	–	–	–	1
11.	Bank of Nova Scotia	–	1	–	–	1	–	–	6
12.	Barclays Bank PLC	27	35	132	2	43	37	13	337
13.	Chinatrust Commercial Bank	–	–	–	–	–	–	–	–
14.	Citibank N.A.	82	56	269	2	67	85	3	746
15.	Commomwealth Bank of Australia	–	–	–	–	–	–	–	–
16.	Credit Agricole Corporate and Investment	–	–	–	–	–	–	–	–
17.	Credit Suisse AG	–	–	–	–	–	–	–	–
18.	DBS Bank Ltd.	1	1	–	–	–	–	–	5
19.	Deutsche Bank (Asia)	17	27	17	1	41	18	2	174
20.	First Rand Bank	–	–	–	–	–	–	–	–
21.	HSBC Ltd.	107	38	423	1	109	140	26	1,106
22.	Industrial and Commercial Bank of China	–	–	–	–	–	–	–	–
23.	JPMorgan Chase Bank National Association	–	–	–	–	–	–	–	–
24.	JSC VTB Bank	–	–	–	–	–	–	–	–
25.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–
26.	Mashreqbank PSC	–	–	–	–	–	–	–	–
27.	Mizuho Corporate Bank Ltd.	–	–	–	–	–	–	–	–
28.	National Australia Bank	–	–	–	–	–	–	–	–
29.	Oman International Bank S.A.O.G.	–	–	–	–	–	–	–	–
30.	Rabobank International	–	–	–	–	–	–	–	–
31.	Sber Bank	–	–	–	–	–	–	–	–
32.	Shinhan Bank	–	–	–	–	–	–	–	–
33.	Societe Generale	–	–	–	–	–	–	–	–
34.	Sonali Bank	–	–	–	–	1	1	–	3
35.	Standard Chartered Bank	218	146	719	5	337	212	33	2,187
36.	State Bank of Mauritius Ltd.	–	–	–	–	–	–	–	–
37.	The Bank of Tokyo-Mitsubishi UFJ,Ltd.	–	–	–	–	1	–	–	1
38.	The Royal Bank of Scotland N V	42	23	168	2	53	46	4	425
39.	UBS AG	–	–	–	–	–	–	–	–
40.	United Overseas Bank Ltd.	–	–	–	–	–	–	–	–
41.	Woori Bank	–	–	–	–	–	–	–	–

- : Nil/negligible.

Appendix Table IV.8: Credit-Deposit Ratio and Investment plus Credit-Deposit Ratio of Scheduled Commercial Banks - Region/State-wise

(Per cent)

Sr. No.	Region/State/Union Territory	Credit-Deposit Ratio					Investment *plus* Credit-Deposit Ratio @				Investment *plus* Credit plus RIDF-Deposit Ratio @	
		March 2010		March 2011		March 2012	March 2010		March 2011		March 2011	
		As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation
1	2	3	4	5	6	7	8	9	10	11	12	13
	ALL INDIA	**73.3**	**73.3**	**75.6**	**75.6**	**78.1**	**79.8**	**79.8**	**81.2**	**81.2**	**82.4**	**82.4**
1	**NORTHERN REGION**	**74.4**	**74.9**	**82.5**	**83.4**	**90.1**	**79.4**	**80.0**	**87.2**	**88.1**	**89.4**	**90.4**
	Haryana	63.3	76.1	71.7	85.6	102.1	70.1	82.9	78.5	92.4	79.3	93.2
	Himachal Pradesh	42.2	51.0	41.6	48.6	37.2	64.2	73.0	58.0	65.0	61.1	68.2
	Jammu & Kashmir	46.4	47.8	38.1	35.7	34.3	58.3	59.7	48.4	46.1	52.4	50.0
	Punjab	71.5	73.0	77.8	92.9	81.6	82.7	84.2	88.5	103.6	89.7	104.7
	Rajasthan	88.4	96.6	90.4	95.8	90.1	105.7	114.0	105.8	111.2	108.0	113.4
	Chandigarh	131.1	133.7	121.6	119.8	113.6	131.1	133.7	121.6	119.8	121.6	119.8
	Delhi	74.6	70.6	86.8	80.8	95.3	74.6	70.6	86.8	80.8	89.6	83.6
2	**NORTH-EASTERN REGION**	**35.5**	**39.1**	**33.8**	**36.3**	**33.8**	**45.7**	**49.3**	**42.6**	**45.1**	**44.4**	**47.0**
	Arunachal Pradesh	27.5	34.4	23.7	27.4	22.5	33.5	40.3	28.2	31.9	34.1	37.8
	Assam	37.8	40.5	36.5	38.9	37.3	46.5	49.2	43.8	46.2	45.2	47.6
	Manipur	42.1	44.8	34.8	36.6	30.1	66.7	69.5	54.9	56.7	55.4	57.2
	Meghalaya	25.6	32.7	24.4	29.6	25.3	34.1	41.2	32.1	37.3	34.2	39.3
	Mizoram	53.2	57.7	46.0	49.8	38.1	72.9	77.5	64.9	68.6	68.4	72.2
	Nagaland	30.3	40.2	26.1	27.5	26.8	56.2	66.1	48.0	49.4	48.0	49.4
	Tripura	30.7	31.6	32.2	33.2	31.3	37.9	38.7	40.0	41.0	43.2	44.2
3	**EASTERN REGION**	**50.8**	**53.5**	**51.4**	**53.3**	**50.0**	**59.9**	**62.6**	**59.2**	**61.1**	**60.4**	**62.4**
	Bihar	29.0	29.7	29.5	31.6	29.1	38.1	38.8	36.9	39.0	38.4	40.5
	Jharkhand	35.1	36.8	34.4	35.6	33.6	42.8	44.5	40.9	42.0	42.8	44.0
	Orissa	54.4	58.1	52.5	55.7	46.9	57.8	61.5	54.9	58.0	56.8	60.0
	Sikkim	37.2	49.5	37.9	62.4	32.0	52.1	64.4	51.0	75.4	55.0	79.5
	West Bengal	61.5	64.8	63.7	65.1	62.9	72.6	75.9	73.6	75.0	74.4	75.8
	Andaman & Nicobar Islands	36.5	41.1	38.1	39.1	38.0	36.5	41.1	38.1	39.1	38.1	39.1
4	**CENTRAL REGION**	**47.3**	**51.0**	**46.7**	**50.9**	**47.3**	**55.6**	**59.4**	**53.2**	**57.4**	**54.5**	**58.8**
	Chhattisgarh	52.3	55.1	52.3	56.1	53.5	55.4	58.3	52.6	56.4	53.5	57.3
	Madhya Pradesh	60.6	63.7	55.6	60.1	57.2	69.9	73.1	63.3	67.8	65.1	69.6
	Uttar Pradesh	43.3	47.4	44.0	48.2	44.0	51.9	56.0	50.7	55.0	51.8	56.1
	Uttaranchal	33.7	38.2	35.4	39.1	35.6	43.5	47.9	44.3	48.0	46.1	49.8
5	**WESTERN REGION**	**79.1**	**74.7**	**79.5**	**74.1**	**83.1**	**83.1**	**78.8**	**83.0**	**77.6**	**83.4**	**78.0**
	Goa	26.5	27.9	29.1	31.1	28.9	31.8	33.2	29.6	31.6	30.3	32.2
	Gujarat	65.3	75.2	66.2	74.4	69.7	75.9	85.8	76.1	84.3	77.7	85.9
	Maharashtra	82.9	75.8	83.0	75.0	87.1	85.8	78.6	85.5	77.5	85.7	77.6
	Dadra & Nagar Haveli	60.0	92.9	34.8	56.2	34.4	60.0	92.9	34.8	56.2	34.8	56.2
	Daman & Diu	20.2	44.7	21.3	43.8	17.2	20.2	44.7	21.3	43.8	21.3	43.8
6	**SOUTHERN REGION**	**92.7**	**94.8**	**94.5**	**98.3**	**94.8**	**101.6**	**103.7**	**102.2**	**106.0**	**103.2**	**107.0**
	Andhra Pradesh	105.1	109.7	109.7	114.9	110.4	117.1	121.6	120.3	125.5	121.8	127.0
	Karnataka	77.6	80.4	72.7	76.3	70.7	82.7	85.6	76.8	80.4	77.5	81.1
	Kerala	63.1	64.5	73.1	73.8	75.5	73.5	74.9	81.5	82.2	82.2	83.0
	Tamil Nadu	113.8	113.5	115.1	119.4	116.2	123.1	122.8	123.5	127.7	124.5	128.7
	Lakshadweep	7.3	7.7	8.7	8.8	9.7	7.3	7.7	8.7	8.8	8.7	8.8
	Puducherry	57.2	59.2	62.7	63.7	71.6	71.7	73.7	77.1	78.1	78.2	79.2

@: Bank's State-wise investment represent their holdings of State-level securities, such as, State Government loans and shares, bonds, debentures, *etc.* of regional rural banks, co-operative institutions, State electricity boards, municipal corporations, municipalities and port trusts, state financial corporations, housing boards, state industrial development corporations, road transport corporations and other government and quasi-government bodies. All-India investments plus credit-deposit ratio is worked out by excluding investments in Central Government and other securities not mentioned above.

Notes: 1. Deposits and Credit (as per place of sanction and utilisation) data for 2010 and 2011 are based on BSR-1 and 2 Surveys.
2. Deposits and credit data (as per sanction) for 2012 are based on BSR 7 as on March 31,2012.
3. The investment figures are based on BSR-5 survey as on March 31,2010 and March 31,2011.
4. RIDF outstanding data are based on information provided by NABARD.

Appendix Table V.1: Select Financial Parameters of Scheduled UCBs
(As at end-March 2012)

Sr. No.	Bank Name	CRAR (%)	Net Interest Income to Working Funds (%)	Non-Interest Income to Working Funds (%)	Return on Assets (%)	Average Cost of Deposits (%)	Profit per Employee (` million)	Business per Employee (` million)
1	2	3	4	5	6	7	8	9
1	Abhyudaya Co-operative Bank Ltd., Mumbai	14.5	3.7	0.6	1.1	6.9	0.4	48.8
2	Ahmedabad Mercantile Co-op Bank Ltd.	31.9	3.9	0.5	1.4	5.8	0.5	37.0
3	Amanath Co-operative Bank Ltd. Bangalore	-67.1	1.2	0.4	0.0	5.3	-0.2	17.2
4	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	21.0	4.1	0.3	1.3	7.8	0.3	34.3
5	Bassein Catholic Co-operative Bank Ltd.	19.5	3.9	0.9	2.0	6.6	1.3	93.5
6	Bharat Co-operative Bank (Mumbai) Ltd. Mumbai	12.8	3.5	0.7	1.5	7.6	0.8	81.1
7	Bharati Sahakari Bank Ltd.	15.9	4.4	0.04	1.2	7.0	0.3	40.0
8	Bombay Mercantile Co-operative Bank Ltd.	5.4	3.3	1.3	0.8	5.5	0.1	19.6
9	Citizen Credit Co-operative Bank Ltd., Mumbai	16.8	3.1	0.7	0.9	7.0	0.4	60.2
10	Cosmos Co-operative Urban Bank Ltd.	12.6	2.3	0.6	0.8	8.1	0.5	83.6
11	Dombivli Nagari Sahakari Bank Ltd.	14.2	3.8	1.0	1.2	6.8	0.5	63.8
12	Goa Urban Co-operative Bank Ltd.	14.8	3.9	0.2	0.6	6.3	0.2	45.8
13	Gopinath Patil Parsik Janata Sahakari Bank Ltd.Thane	20.2	4.6	0.2	1.2	5.0	0.5	50.0
14	Greater Bombay Co-operative Bank Ltd.	18.0	3.1	0.9	0.6	7.1	0.2	41.3
15	Indian Mercantile Co-operative Bank Ltd., Lucknow	-42.1	1.8	1.2	0.03	8.5	0.01	20.8
16	Jalgaon Janata Sahakari Bank Ltd.	11.0	2.9	0.6	0.7	7.3	0.2	35.3
17	Janakalyan Sahakari Bank Ltd., Mumbai	13.4	2.8	0.5	1.2	6.9	0.5	62.9
18	Janalaxmi Co-operative Bank Ltd., Nashik	-1.5	1.5	0.3	0.2	6.9	0.0	13.5
19	Janata Sahakari Bank Ltd., Pune	10.8	2.8	7.2	1.1	7.9	0.6	79.3
20	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	12.2	3.4	0.4	0.8	7.4	0.2	34.7
21	Kalupur Commercial Co-op. Bank Ltd.	24.6	3.1	0.5	1.4	7.2	0.7	78.3
22	Kalyan Janata Sahakari Bank Ltd., Kalyan	12.7	3.2	0.8	0.9	6.8	0.6	54.7
23	Karad Urban Co-operative Bank Ltd.	11.4	3.6	0.7	0.9	7.3	0.2	39.6
24	Madhavpura Mercantile Co-op Bank Ltd.	-1870.4	1.4	0.5	1.7	0*	19.5	1434.3
25	Mahanagar Co-operative Bank Ltd., Mumbai	11.6	3.5	0.4	0.8	6.9	0.2	36.2
26	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-9.7	3.4	0.8	1.1	6.4	0.2	26.6
27	Mehsana Urban Co-op Bank Ltd.	14.3	2.9	0.2	0.9	7.8	0.5	83.2
28	Nagar Urban Co-operative Bank Ltd., Ahmednagar	15.7	4.1	0.3	0.8	8.1	0.3	45.7
29	Nagpur Nagrik Sahakari Bank Ltd.	12.7	3.8	0.7	0.7	6.5	0.1	28.4
30	Nasik Merchant's Co-operative Bank Ltd.	26.4	5.2	0.5	1.7	6.7	0.4	29.9
31	New India Co-operative Bank Ltd., Mumbai	16.6	3.2	0.6	0.6	6.8	0.5	85.5
32	NKGSB Co-operative Bank Ltd., Mumbai	13.4	9.0	0.4	1.1	7.6	0.5	72.0
33	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	18.7	2.5	0.7	0.5	6.8	0.2	48.3
34	Pravara Sahakari Bank Ltd.	13.4	4.0	0.3	0.5	7.8	0.1	26.5
35	Punjab & Maharashtra Co-op Bank Ltd.	13.3	3.5	0.7	0.9	7.7	0.4	68.5
36	Rajkot Nagrik Sahakari Bank Ltd.	13.3	3.0	0.5	1.4	7.8	0.7	70.9
37	Rupee Co-operative Bank Ltd.	-92.1	6.5	0.1	0.1	5.6	0.02	25.0
38	Sangli Urban Co-operative Bank Ltd., Sangli	12.3	3.0	0.8	0.6	7.5	0.1	17.3
39	Saraswat Co-operative Bank Ltd., Bombay	12.4	2.8	0.9	1.1	7.2	0.6	91.2
40	Sardar Bhiladwala Pardi Peoples Co-op. Bank Ltd.	27.7	4.1	0.4	0.8	5.0	0.2	37.7
41	Shamrao Vithal Co-operative Bank Ltd.	12.8	3.1	0.8	1.1	7.9	0.5	74.8
42	Shikshak Sahakari Bank Ltd., Nagpur	12.5	3.1	0.5	2.0	6.6	0.3	24.2
43	Solapur Janata Sahakari Bank Ltd.	11.5	4.0	0.5	1.2	7.4	0.4	46.6
44	Surat Peoples Co-op Bank Ltd.	20.2	4.0	0.4	0.6	7.0	0.3	58.8
45	Thane Bharat Sahakari Bank Ltd.	11.3	3.5	0.7	0.9	6.5	0.3	40.1
46	Thane Janata Sahakari Bank Ltd.	15.0	3.5	0.7	1.3	7.1	0.7	83.0
47	The Akola Janata Commercial Co-operative Bank Ltd. Akola	12.0	3.4	0.5	0.6	7.5	0.1	28.8
48	The Akola Urban Co-operative Bank Ltd., Akola	11.8	2.4	0.4	0.6	7.8	0.2	43.1
49	The Kapol Co-operative Bank Ltd., Mumbai	10.7	3.1	0.9	0.4	6.9	0.1	43.0
50	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	5.1	3.7	0.9	2.6	6.1	0.4	18.9
51	Vasavi Co-op. Urban Bank Ltd.	9.4	8.0	0.9	0.0	3.7	0.0	8.7
52	Zoroastrian Co-operative Bank Ltd., Bombay	14.5	3.3	0.4	1.5	6.9	1.1	71.7

Note: Data for 2011-12 are provisional.
* The Bank was under direction as per Section 35 (A) of the BR Act, 1949.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Continued)*

(As per cent to total assets)

Sr. No.	Bank Name	Operating Profit		Net Profit after Taxes		Interest Income	
		2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5	6	7	8
1	Abhyudaya Co-operative Bank Ltd., Mumbai	1.7	1.6	1.2	1.0	7.6	8.7
2	Ahmedabad Mercantile Co-op Bank Ltd.	1.9	2.1	1.2	1.4	7.2	7.5
3	Amanath Co-operative Bank Ltd., Bangalore	1.2	-0.5	1.0	-0.8	3.6	2.9
4	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	2.9	2.0	1.4	1.3	9.6	9.8
5	Bassein Catholic Co-operative Bank Ltd.	2.8	2.7	1.9	1.9	8.4	8.9
6	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	2.1	2.1	1.3	1.4	8.6	9.2
7	Bharati Sahakari Bank Ltd.	1.7	2.8	0.8	1.2	8.2	9.6
8	Bombay Mercantile Co-operative Bank Ltd.	1.5	1.7	0.8	0.8	7.5	8.2
9	Citizen Credit Co-operative Bank Ltd., Mumbai	1.5	1.4	0.8	0.9	7.7	8.4
10	Cosmos Co-operative Urban Bank Ltd.	1.7	1.5	1.0	0.8	7.3	8.1
11	Dombivli Nagari Sahakari Bank Ltd.	2.7	2.4	1.2	1.1	8.3	8.6
12	Goa Urban Co-operative Bank Ltd.	2.0	1.9	1.0	0.6	8.3	9.2
13	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	2.3	2.4	1.2	1.2	7.6	8.5
14	Greater Bombay Co-operative Bank Ltd.	1.1	1.0	0.7	0.6	8.4	9.6
15	Indian Mercantile Co-operative Bank Ltd., Lucknow	-15.9	-16.6	-15.9	-16.6	6.3	7.8
16	Jalgaon Janata Sahakari Bank Ltd.	0.9	0.9	0.6	0.7	9.5	6.0
17	Janakalyan Sahakari Bank Ltd., Mumbai	0.9	1.2	1.4	1.1	8.0	8.6
18	Janalaxmi Co-operative Bank Ltd., Nashik	0.1	0.6	-1.2	0.2	4.8	5.1
19	Janata Sahakari Bank Ltd., Pune	1.8	1.7	0.7	1.1	7.9	8.9
20	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	1.2	1.2	0.5	0.6	7.8	8.5
21	Kalupur Commercial Co-op Bank Ltd.	2.1	2.1	1.1	1.1	6.7	7.3
22	Kalyan Janata Sahakari Bank Ltd., Kalyan	2.1	1.5	1.4	0.9	7.6	8.3
23	Karad Urban Co-operative Bank Ltd.	1.3	1.5	0.6	0.7	8.9	9.0
24	Madhavpura Mercantile Co-op Bank Ltd.	-1.3	1.2	0.1	1.7	1.2	1.5
25	Mahanagar Co-operative Bank Ltd., Mumbai	1.4	1.3	0.7	0.8	8.1	8.7
26	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	1.0	1.1	1.0	1.1	8.2	9.2
27	Mehsana Urban Co-op Bank Ltd.	2.1	1.9	0.8	0.9	8.3	8.7
28	Nagar Urban Co-operative Bank Ltd., Ahmednagar	1.8	1.9	0.7	0.8	8.9	9.4
29	Nagpur Nagrik Sahakari Bank Ltd.	1.0	1.8	0.4	0.7	8.1	9.0
30	Nasik Merchant's Co-operative Bank Ltd.	2.9	2.6	1.7	1.5	8.4	9.2
31	New India Co-operative Bank Ltd., Mumbai	1.3	0.9	0.8	0.6	8.1	7.9
32	NKGSB Co-operative Bank Ltd., Mumbai	1.4	1.4	1.0	1.0	8.3	8.9
33	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	1.5	1.1	0.6	0.5	7.3	7.6
34	Pravara Sahakari Bank Ltd.	1.0	1.7	0.3	0.4	8.5	9.6
35	Punjab & Maharashtra Co-op Bank Ltd.	1.4	1.7	0.9	0.9	8.7	9.6
36	Rajkot Nagrik Sahakari Bank Ltd.	2.2	2.1	1.5	1.4	8.1	8.7
37	Rupee Co-operative Bank Ltd.	-0.5	-0.7	0.7	0.0	3.1	2.9
38	Sangli Urban Co-operative Bank Ltd., Sangli	1.3	1.1	0.8	0.6	7.5	7.7
39	Saraswat Co-operative Bank Ltd., Bombay	1.7	1.7	1.0	1.0	7.2	7.8
40	Sardar Bhiladwala Pardi Peoples Co-op Bank Ltd.	2.1	2.0	0.8	0.8	7.8	7.8
41	Shamrao Vithal Co-operative Bank Ltd.	2.3	1.8	1.0	0.9	8.6	9.1
42	Shikshak Sahakari Bank Ltd., Nagpur	1.7	1.1	-0.6	2.0	8.4	8.3
43	Solapur Janata Sahakari Bank Ltd.	1.8	1.8	0.8	1.1	8.8	9.4
44	Surat Peoples Co-op Bank Ltd.	2.3	2.1	0.8	0.5	8.7	8.8
45	Thane Bharat Sahakari Bank Ltd.	1.3	1.3	0.7	0.9	8.3	9.4
46	Thane Janata Sahakari Bank Ltd.	2.1	2.0	1.2	1.1	8.2	8.5
47	The Akola Janata Commercial Co-operative Bank Ltd., Akola	0.7	1.0	0.5	0.6	8.3	8.8
48	The Akola Urban Co-operative Bank Ltd., Akola	1.5	1.5	0.2	0.6	7.9	8.5
49	The Kapol Co-operative Bank Ltd., Mumbai	1.0	0.8	0.3	0.3	8.3	9.2
50	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	0.5	2.2	0.2	2.6	6.6	7.8
51	Vasavi Co-op Urban Bank Ltd.	0.8	1.9	0.1	-0.5	2.2	5.1
52	Zoroastrian Co-operative Bank Ltd., Bombay	1.8	2.1	1.4	1.5	8.6	9.1

Note: Data for 2011-12 are provisional.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Concluded)*

(As per cent to total assets)

Sr. No.	Bank Name	Interest Expended		Provisions & Contingencies		Total Operating Expenses		Spread	
		2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
1	2	9	10	11	12	13	14	15	16
1	Abhyudaya Co-operative Bank Ltd., Mumbai	4.2	5.4	0.2	0.2	6.4	7.6	3.4	3.3
2	Ahmedabad Mercantile Co-op Bank Ltd.	3.2	3.8	0.6	0.7	2.4	2.0	4.0	3.7
3	Amanath Co-operative Bank Ltd. Bangalore	2.3	2.2	0.2	0.3	3.7	3.6	1.2	0.7
4	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	5.0	5.7	0.6	0.6	7.3	7.7	4.6	4.1
5	Bassein Catholic Co-operative Bank Ltd.	4.6	5.0	1.9	1.3	1.5	1.5	3.9	3.9
6	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	5.0	5.8	0.2	0.1	2.1	2.0	3.6	3.4
7	Bharati Sahakari Bank Ltd..	5.1	5.3	0.6	0.9	6.9	7.0	3.1	4.4
8	Bombay Mercantile Co-operative Bank Ltd.	4.1	5.0	0.8	1.0	2.7	2.8	3.3	3.3
9	Citizen Credit Co-operative Bank Ltd., Mumbai	4.9	5.5	0.6	0.6	2.0	2.1	2.8	2.9
10	Cosmos Co-operative Urban Bank Ltd.	4.8	5.9	0.2	0.5	6.4	7.2	2.5	2.2
11	Dombivli Nagari Sahakari Bank Ltd.	4.7	5.3	1.6	1.4	1.7	1.8	3.6	3.3
12	Goa Urban Co-operative Bank Ltd.	4.4	5.3	0.5	0.8	6.5	7.4	4.0	3.9
13	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	3.5	3.9	1.1	1.3	5.5	6.2	4.1	4.5
14	Greater Bombay Co-operative Bank Ltd.	5.7	6.5	0.4	0.5	2.5	2.8	2.7	3.1
15	Indian Mercantile Co-operative Bank Ltd., Lucknow	5.3	6.4	0.0	0.0	19.8	8.8	1.0	1.4
16	Jalgaon Janata Sahakari Bank Ltd.	4.7	5.5	0.2	0.2	2.2	2.3	4.8	0.5
17	Janakalyan Sahakari Bank Ltd., Mumbai	5.4	5.8	0.1	0.1	2.3	2.1	2.6	2.7
18	Janalaxmi Co-operative Bank Ltd., Nashik	3.7	3.9	0.0	0.3	0.0	0.2	0.0	0.3
19	Janata Sahakari Bank Ltd., Pune	5.3	6.3	3.8	3.6	6.7	7.8	2.7	2.6
20	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	4.7	5.7	0.7	0.6	1.3	1.2	3.1	2.8
21	Kalupur Commercial Co-op Bank Ltd.	3.8	4.5	1.0	1.1	1.3	1.2	2.9	2.9
22	Kalyan Janata Sahakari Bank Ltd., Kalyan	4.3	5.2	0.8	0.6	2.2	2.4	3.3	3.1
23	Karad Urban Co-operative Bank Ltd.	5.6	5.8	0.6	0.4	2.5	2.4	3.2	3.2
24	Madhavpura Mercantile Co-op Bank Ltd.	2.3	0.0	0.0	0.0	2.5	0.2	-1.1	1.4
25	Mahanagar Co-operative Bank Ltd., Mumbai	4.8	5.3	0.7	0.6	2.3	2.4	3.3	3.4
26	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	5.8	6.0	0.0	0.0	2.6	2.8	2.4	3.2
27	Mehsana Urban Co-op Bank Ltd.	5.4	5.9	0.7	0.5	1.1	1.1	2.9	2.9
28	Nagar Urban Co-operative Bank Ltd., Ahmednagar	5.0	5.6	0.5	0.5	7.5	7.8	3.9	3.8
29	Nagpur Nagrik Sahakari Bank Ltd.	4.9	5.3	0.5	0.6	7.7	8.0	3.2	3.8
30	Nasik Merchant's Co-operative Bank Ltd.	3.5	4.6	0.5	0.5	2.5	2.5	4.9	4.7
31	New India Co-operative Bank Ltd., Mumbai	4.9	5.1	0.4	0.3	2.9	2.5	3.2	2.8
32	NKGSB Co-operative Bank Ltd., Mumbai	5.7	6.0	0.3	0.3	1.7	1.7	2.6	2.9
33	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	4.2	5.1	0.5	0.9	2.3	2.1	3.0	2.5
34	Pravara Sahakari Bank Ltd.	5.3	5.7	0.7	1.2	7.8	8.2	3.2	3.9
35	Punjab & Maharashtra Co-op Bank Ltd.	5.3	6.1	0.2	0.3	2.9	2.5	3.4	3.5
36	Rajkot Nagrik Sahakari Bank Ltd.	4.8	5.7	0.7	0.7	1.7	1.5	3.3	3.0
37	Rupee Co-operative Bank Ltd.	2.5	2.4	-1.2	-0.7	3.8	3.7	0.7	0.5
38	Sangli Urban Co-operative Bank Ltd., Sangli	4.7	5.0	0.5	0.5	7.0	7.3	2.7	2.7
39	Saraswat Co-operative Bank Ltd., Bombay	4.7	5.3	0.3	0.3	1.6	1.7	2.5	2.5
40	Sardar Bhiladwala Pardi Peoples Co-op Bank Ltd.	3.6	3.7	1.4	1.3	5.8	6.1	4.2	4.0
41	Shamrao Vithal Co-operative Bank Ltd.	5.3	6.3	0.7	0.5	1.6	1.7	3.3	2.8
42	Shikshak Sahakari Bank Ltd., Nagpur	4.7	5.2	2.2	0.2	7.2	7.7	3.7	3.1
43	Solapur Janata Sahakari Bank Ltd.	5.2	5.6	0.5	0.2	2.4	2.5	3.6	3.8
44	Surat Peoples Co-op Bank Ltd.	4.7	4.8	1.7	1.5	6.7	6.9	4.0	4.0
45	Thane Bharat Sahakari Bank Ltd.	5.2	5.9	0.7	0.4	2.4	2.9	3.1	3.5
46	Thane Janata Sahakari Bank Ltd.	4.9	5.5	0.4	0.4	1.8	1.7	3.3	3.1
47	The Akola Janata Commercial Co-operative Bank Ltd, Akola	5.4	5.6	0.8	0.3	7.2	7.6	2.9	3.2
48	The Akola Urban Co-operative Bank Ltd., Akola	5.7	6.2	1.0	0.4	6.8	7.4	2.2	2.3
49	The Kapol Co-operative Bank Ltd., Mumbai	5.4	6.2	0.1	0.5	8.3	9.3	2.9	3.0
50	The Khamgaon Urban Co-operative Bank Ltd, Khamgaon	4.6	4.7	0.2	-0.4	6.4	6.4	2.0	3.2
51	Vasavi Co-op Urban Bank Ltd.	1.3	1.6	0.6	2.4	2.9	3.6	1.5	3.4
52	Zoroastrian Co-operative Bank Ltd., Bombay	5.2	5.8	0.2	0.2	2.0	1.7	3.3	3.3

Note: Data for 2011-12 are provisional.

Appendix Table V.3: State-wise Distribution of UCBs
(As at end-March 2012)

Sr. No.	State / Union Territory	No. of UCBs	Number of branches (including head office-cum-branches)	Number of extension counters	Total number of ATMs	Number of districts with a UCB branch	Number of districts without a UCB branch	Deposits (` Billion)	Advances (` Billion)
1	2	3	4	5	6	7	8	9	10
	Northern Region	**74**	**342**	**13**	**2**	**46**	**60**	**80**	**46**
1	Haryana	7	16	1	0	7	14	5	3
2	Himachal Pradesh	5	9	2	0	4	8	4	2
3	Jammu and Kashmir	4	19	4	0	6	16	3	2
4	Punjab	4	19	1	2	4	13	8	4
5	Rajasthan	39	205	3	0	24	9	41	25
6	Delhi	15	74	2	0	1	0	18	10
	North-Eastern Region	**17**	**45**	**1**	**0**	**15**	**45**	**10**	**4**
7	Assam	8	23	0	0	5	22	5	2
8	Manipur	3	10	1	0	2	7	3	1
9	Meghalaya	3	5	0	0	3	4	1.4	0.7
10	Mizoram	1	1	0	0	1	7	0.3	0.1
11	Sikkim	1	4	0	0	2	2	0.2	0.1
12	Tripura	1	2	0	0	2	3	0.2	0.1
	Eastern Region	**63**	**155**	**7**	**6**	**27**	**84**	**44**	**24**
13	Bihar	3	5	1	1	2	36	1	0.4
14	Odisha	12	45	4	0	12	18	11	6
15	West Bengal	46	103	2	5	11	8	33	18
16	Jharkhand	2	2	0	0	2	22	0.2	0.1
	Central Region	**139**	**440**	**26**	**18**	**82**	**82**	**84**	**43**
17	Chhattisgarh	12	23	1	0	8	19	4	1
18	Madhya Pradesh	52	90	1	0	23	26	14	7
19	Uttar Pradesh	70	258	22	11	42	33	43	22
20	Uttarakhand	5	69	2	7	9	4	23	13
	Western Region	**766**	**5,427**	**130**	**1,379**	**61**	**2**	**1,814**	**1,208**
21	Goa	6	73	1	17	2	0	19	12
22	Gujarat	237	865	2	85	24	2	246	155
23	Maharashtra	523	4,489	127	1,277	35	0	1,550	1,041
	Southern Region	**559**	**1,826**	**16**	**30**	**97**	**6**	**353**	**254**
24	Andhra Pradesh	103	283	6	7	21	2	64	47
25	Karnataka	266	851	8	18	30	0	163	115
26	Kerala	60	370	2	1	14	0	70	48
27	Tamil Nadu	129	316	0	4	31	1	54	44
28	Puducherry	1	6	0	0	1	3	1.3	1
	All-India	**1,618**	**8,235**	**193**	**1,435**	**328**	**279**	**2,385**	**1,580**

Appendix Table V.4: Salient Indicators of Financial Health of State Co-operative Banks – Region and State-wise

(As at end-March)

(Amount in ` million)

Sr. No.	Region/State	Amount of Profit/Loss		NPAs as Percentage of Loans Outstanding		Recovery to Demand (Per cent as at end-June)	
		2010	2011P	2010	2011P	2010	2011P
1	2	3	4	5	6	7	8
	Northern Region	**713**	**1,419**	**3.2**	**3.0**	**97.9**	**97.4**
1.	Chandigarh	33	37	15.6	14.4	60.9	62.2
2.	Delhi	257	269	9.4	7.6	89.0	91.2
3.	Haryana	-140	50	0.1	0.1	99.9	99.9
4.	Himachal Pradesh	355	559	13.2	12.5	80.0	67.0
5.	Jammu & Kashmir	0.2	2	19.1	26.3	58.3	52.5
6.	Punjab	76	258	1.2	1.1	99.2	99.3
7.	Rajasthan	132	245	1.8	1.1	97.1	98.4
	North-Eastern Region	**596**	**1,015**	**35.3**	**30.6**	**45.5**	**44.2**
8.	Arunachal Pradesh	89	89	99.9	65.0	14.4	7.7
9.	Assam	64	457	34.6	34.6	64.3	64.3
10.	Manipur	7	5	69.1	69.1	19.6	19.6
11.	Meghalaya	194	221	15.0	13.3	20.1	28.3
12.	Mizoram	21	22	15.5	15.5	75.3	75.3
13.	Nagaland	5	6	41.9	35.3	67.1	66.0
14.	Sikkim	16	16	7.0	7.0	62.2	62.2
15.	Tripura	199	199	18.1	18.1	65.7	65.7
	Eastern Region	**333**	**340**	**7.1**	**6.8**	**91.6**	**92.4**
16.	Andaman & Nicobar Islands	21	24	20.0	9.4	59.2	92.1
17.	Bihar	64	64	24.2	24.2	72.1	72.1
18.	Odisha	103	108	4.6	5.1	96.7	96.8
19.	West Bengal	145	145	4.0	4.0	91.1	91.1
	Central Region	**456**	**709**	**7.3**	**6.1**	**92.4**	**94.5**
20.	Chattisgarh	50	67	10.1	7.8	80.0	93.0
21.	Madhya Pradesh	181	403	2.4	3.2	96.9	97.3
22.	Uttar Pradesh	204	211	10.3	7.8	90.2	91.9
23.	Uttarakhand	21	28	12.4	12.4	97.4	97.4
	Western Region	**641**	**176**	**18.4**	**20.6**	**81.6**	**74.3**
24.	Goa	9	10	10.9	8.2	80.7	87.4
25.	Gujarat	603	137	10.2	9.0	87.2	87.8
26.	Maharashtra	29	29	20.9	23.5	79.6	70.6
	Southern Region	**-290**	**966**	**5.3**	**4.9**	**93.9**	**96.2**
27.	Andhra Pradesh	1,367	1117	1.0	2.7	88.9	95.6
28.	Karnataka	93	93	4.4	4.1	97.6	97.5
29.	Kerala	-1,941	-655	19.2	15.3	81.8	85.8
30.	Puducherry	3	4	6.2	13.7	92.0	92.4
31.	Tamil Nadu	188	407	3.6	2.7	99.8	99.4
	All-India	**2,449**	**4,624**	**8.8**	**8.9**	**91.8**	**91.8**

P : Provisional.

Notes: 1. Data for StCBs in the States of Bihar, Manipur and West Bengal are repeated for the year 2011 from previous year.
2. Jharkhand StCB is not yet functional and hence is not included.

Source : NABARD.

Appendix Table V.5: Salient Indicators of Financial Health of District Central Co-operative Banks – Region and State-wise

(As at end-March)

(Amount in ₹ million)

Sr. No.	Region/State	2009-10					2010-11					2010		2011	
		No. of report-ing DCCBs	Profit		Loss		No. of report-ing DCCBs	Profit		Loss		NPA to Loans ratio (%)	Re-covery Ratio (%)	NPA to Loans ratio (%)	Re-covery Ratio (%)
			No. of DCCBs	Amt.	No. of DCCBs	Amt.		No. of DCCBs	Amt.	No. of DCCBs	Amt.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Northern Region	**73**	**65**	**1,130**	**8**	**358**	**73**	**62**	**1,316**	**11**	**673**	**3.9**	**79.6**	**6.2**	**83.3**
1	Haryana	19	15	94	4	190	19	14	45	5	253	10.2	63.7	3.8	68.5
2	Himachal Pradesh	2	2	482	–	–	2	2	603	–	–	7.8	87.4	8.5	85.7
3	Jammu & Kashmir	3	2	8	1	33	3	–		3	229	14.8	73.3	22.5	58.7
4	Punjab	20	18	324	2	93	20	18	279	2	31	7.0	92.5	6.0	92.8
5	Rajasthan	29	28	222	1	42	29	28	390	1	160	10.4	79.0	6.8	87.5
	Eastern Region	**64**	**48**	**505**	**16**	**1,146**	**64**	**46**	**547**	**18**	**2,028**	**5.7**	**68.4**	**18.8**	**69.3**
6	Bihar	22	13	121	9	228	22	13	121	9	228	54.5	50.8	54.5	50.8
7	Jharkhand	8	5	32	3	141	8	5	32	3	141	75.9	17.2	75.9	17.2
8	Odisha	17	13	72	4	468	17	14	114	3	1,350	2.3	69.6	13.5	70.8
9	West Bengal	17	17	280	–	308	17	14	280	3	308	16.0	75.6	16.0	75.6
	Central Region	**104**	**95**	**3,035**	**9**	**377**	**104**	**89**	**3,038**	**15**	**1,723**	**24.7**	**68.0**	**19.7**	**70.1**
10	Chattisgarh	6	6	439	–	–	6	6	396	–	–	23.1	72.1	21.8	74.4
11	Madhya Pradesh	38	38	1,191	–	–	38	38	1,740	–	–	24.9	68.3	16.6	70.5
12	Uttar Pradesh	50	41	1,016	9	377	50	35	487	15	1,723	27.9	63.6	25.1	65.2
13	Uttarakhand	10	10	390	–	–	10	10	415	–	–	13.7	87.4	13.7	87.4
	Western Region	**49**	**42**	**5,934**	**7**	**3,219**	**49**	**48**	**5,779**	**1**	**137**	**17.7**	**71.8**	**13.2**	**73.3**
14	Gujarat	18	17	1,125	1	33	18	18	2,145	–	–	15.9	75.6	12.7	86.0
15	Maharashtra	31	25	4,809	6	3,186	31	30	3,635	1	137	18.1	70.6	13.3	68.8
	Southern Region	**80**	**74**	**5,997**	**6**	**140**	**80**	**73**	**3,493**	**7**	**367**	**11.6**	**82.4**	**9.5**	**86.5**
16	Andhra Pradesh	22	22	1,340	–	–	22	21	516	1	52	12.6	78.9	10.0	84.9
17	Karnataka	21	18	851	3	53	21	18	851	3	53	10.9	74.5	8.4	87.9
18	Kerala	14	11	273	3	87	14	12	399	2	235	12.4	87.8	9.7	86.4
19	Tamil Nadu	23	23	3,532	–	–	23	22	1,727	1	28	10.9	86.5	9.5	87.4
	All-India	**370**	**324**	**16,601**	**46**	**5,239**	**370**	**318**	**14,174**	**52**	**4,927**	**14.8**	**75.7**	**11.6**	**78.8**

Notes: 1. Data for 2011 are provisional.

2. Data in respect of DCCBs in Bihar, Jharkhand and West Bengal are repeated for the year 2010-11 from previous year.

Source: NABARD.

Appendix Table V.6: Select Indicators of Primary Agricultural Credit Societies - State-wise *(Continued)*

(As at March 31, 2011)

(Amount in ` million)

Sr. No.	State	No. of PACS	Deposits	Working Capital	Loans and Advances Outstanding		Societies in Profit	
					Agriculture	Non-Agriculture	No.	Amount
1	2	3	4	5	6	7	8	9
	Northern Region	**12,791**	**24,964**	**2,08,119**	**84,347**	**6,019**	**8,390**	**1,610**
1	Chandigarh	16	0.3	2	–	1	15	0.3
2	Haryana	646	5,012	78,214	48,656	4,140	80	1
3	Himachal Pradesh	2,110	4,482	19,024	4,071	–	1,707	193
4	Jammu & Kashmir	765	12	787	223	9	275	8
5	Punjab	3,990	9,081	59,011	1,281	–	2,504	924
6	Rajasthan	5,264	6,377	51,081	30,116	1,869	3,809	483
	North-Eastern Region	**3,472**	**717**	**3,834**	**424**	**62**	**593**	**836**
7	Arunachal Pradesh	34	–	194	–	–	13	45
8	Assam	766	–	1,112	56	3	309	764
9	Manipur	204	7	43	47	–	–	–
10	Meghalaya	179	25	252	123	3	55	2
11	Mizoram	133	1	32	13	0.1	24	2
12	Nagaland	1,719	642	1,125	20	36	–	–
13	Sikkim	169	–	70	4	0.3	90	2
14	Tripura	268	43	1,006	161	21	102	20
	Eastern Region	**18,466**	**24,698**	**89,431**	**35,388**	**2,565**	**5,901**	**458**
15	Andaman & Nicobar Islands	46	1	22	16	–	15	2
16	Bihar	8,463	1,753	5,082	–	–	1,180	60
17	Jharkhand	498	774	4,878	2,866	–	118	15
18	Odisha	2,452	7,982	39,730	21,476	811	581	195
19	West Bengal	7,007	14,187	39,719	11,030	1,754	4,007	185
	Central Region	**15,426**	**13,875**	**86,685**	**44,713**	**2,730**	**7,878**	**1,861**
20	Chhattisgarh	1,213	2,619	10,565	5,603	376	834	242
21	Madhya Pradesh	4,526	7,043	54,899	27,554	1,267	1,946	1,064
22	Uttarakhand	758	3,531	8,629	3,553	1,087	562	377
23	Uttar Pradesh	8,929	682	12,593	8,003	–	4,536	177
	Western Region	**29,541**	**13,229**	**2,23,739**	**1,15,608**	**19,965**	**14,996**	**4,643**
24	Goa	81	337	585	63	238	56	0.1
25	Gujarat	8,117	11,795	84,094	38,616	1,404	4,720	971
26	Maharashtra	21,343	1,097	1,39,060	76,929	18,323	10,220	3,672
	Southern Region	**13,717**	**2,94,897**	**8,30,412**	**1,65,909**	**2,29,472**	**6,796**	**9,004**
27	Andhra Pradesh	2,792	12,086	3,48,396	40,565	1,863	980	252
28	Karnataka	4,811	32,372	1,01,725	45,131	24,419	2,818	5,095
29	Kerala	1,573	2,11,398	2,63,802	46,748	1,70,008	789	2,072
30	Puducherry	53	707	1,272	130	308	25	14
31	Tamil Nadu	4,488	38,334	1,15,216	33,335	32,876	2,184	1,571
	All-India	**93,413**	**3,72,382**	**14,42,219**	**4,46,390**	**2,60,814**	**44,554**	**18,412**

– : Nil/Negligible

Source : NAFSCOB.

Appendix Table V.6: Select Indicators of Primary Agricultural Credit Societies - State-wise *(Concluded)*

(As at March 31, 2011)

(Amount in ` million)

Sr. No.	State	Societies in Loss		Viable	Potentially viable	Dormant	Defunct	Others
		No.	Amount					
1	2	10	11	12	13	14	15	16
	Northern Region	**3,413**	**765**	**9,047**	**2,761**	**666**	**249**	**68**
1	Chandigarh	1	0.01	15	–	1	–	–
2	Haryana	566	27	646	–	–	–	–
3	Himachal Pradesh	340	20	460	1,599	35	5	11
4	Jammu & Kashmir	356	150	275	173	96	219	2
5	Punjab	970	129	3,206	290	490	4	–
6	Rajasthan	1,180	439	4,445	699	44	21	55
	North-Eastern Region	**975**	**1,117**	**2,070**	**350**	**667**	**385**	**0**
7	Arunachal Pradesh	19	72	20	5	4	5	–
8	Assam	419	991	709	57	–	–	–
9	Manipur	108	0	195	–	8	1	–
10	Meghalaya	124	4	138	41	–	–	–
11	Mizoram	109	18	133	–	–	–	–
12	Nagaland	–	–	457	228	655	379	–
13	Sikkim	30	0.4	158	11	–	–	–
14	Tripura	166	32	260	8	–	–	–
	Eastern Region	**9,224**	**2,351**	**14,382**	**2,802**	**567**	**371**	**344**
15	Andaman & Nicobar Islands	28	9	38	7	–	1	–
16	Bihar	3,962	9	8,463	–	–	–	–
17	Jharkhand	380	293	352	143	3	–	–
18	Odisha	1,854	1,893	1,810	512	10	1	119
19	West Bengal	3,000	147	3,719	2,140	554	369	225
	Central Region	**4,900**	**1,946**	**12,190**	**2,548**	**436**	**180**	**72**
20	Chhattisgarh	379	37	1,123	90	–	–	–
21	Madhya Pradesh	2,368	1,802	3,373	1,076	6	–	71
22	Uttarakhand	185	93	579	113	48	17	1
23	Uttar Pradesh	1,968	15	7,115	1,269	382	163	–
	Western Region	**13,000**	**5,546**	**18,805**	**9,848**	**640**	**72**	**176**
24	Goa	25	0.2	59	14	8	–	–
25	Gujarat	2,274	1,215	4,731	2,566	572	72	176
26	Maharashtra	10,701	4,331	14,015	7,268	60	–	–
	Southern Region	**6,553**	**8,731**	**9,491**	**3,289**	**283**	**107**	**547**
27	Andhra Pradesh	1,812	4,545	2,222	556	5	7	2
28	Karnataka	1,952	939	3,685	908	24	21	173
29	Kerala	692	2,030	1,335	176	19	18	25
30	Puducherry	28	78	25	28	–	–	–
31	Tamil Nadu	2,069	1,139	2,224	1,621	235	61	347
	All-India	**38,065**	**20,457**	**65,985**	**21,598**	**3,259**	**1,364**	**1,207**

– : Nil/Negligible
Source : NAFSCOB.

Appendix Table V.7: Salient Indicators of Financial Health of State Co-operative Agriculture and Rural Development Banks – State-wise

(As at end-March)

(Amount in ` million)

Sr. No.	Region/State	Branches	Profit/Loss		NPA to Loans ratio (per cent)		Recovery ratio (per cent)	
		2011	2009-10	2010-11	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9
	Northern region	**85**	**91**	**-785**	**18.4**	**17.2**	**51.5**	**50.6**
1	Haryana@	–	50	-1,166	28.0	28.0	46.5	46.5
2	Himachal Pradesh #	33	12	11	–	0.1	51.4	44.3
3	Jammu & Kashmir*	45	-24	-27	46.1	34.5	29.1	31.1
4	Punjab@	–	275	193	–	–	78.9	78.9
5	Rajasthan@	7	-221	204	18.0	23.2	51.8	52.4
	North-eastern region	**33**	**-35**	**-63**	**39.8**	**39.8**	**35.4**	**35.4**
6	Assam*	28	-35	-62	79.7	79.7	36.4	36.3
7	Tripura*	5	-1	-1	39.6	39.6	69.8	69.8
	Eastern region	**138**	**71**	**-16**	**69.8**	**67.6**	**36.9**	**36.9**
8	Bihar*	131	-5	-5	85.3	85.3	2.0	2.0
9	Odisha@	5	-13	-13	100.0	100.0	48.9	48.9
10	West Bengal#	2	90	3	24.0	17.6	59.8	59.8
	Central region	**349**	**-498**	**-454**	**47.5**	**50.6**	**35.3**	**34.2**
11	Chattisgarh@	–	5	2	50.0	46.3	36.2	31.3
12	Madhya Pradesh@	7	-609	-609	40.0	51.7	26.2	21.1
13	Uttar Pradesh*	342	106	153	52.4	53.9	43.4	50.1
	Western region	**181**	**319**	**-771**	**74.7**	**73.8**	**25.2**	**24.9**
14	Gujarat*	181	355	371	51.4	49.5	37.2	47.2
15	Maharashtra@	–	-36	-1,142	98.0	98.0	13.3	2.6
	Southern region	**56**	**-632**	**-620**	**20.2**	**20.4**	**59.0**	**58.2**
16	Karnataka@	23	-825	-825	29.0	29.7	43.9	41.0
17	Kerala@	14	176	185	6.0	6.0	91.3	91.3
18	Puducherry*	1	-1	-1	4.9	4.9	95.7	95.7
19	Tamil Nadu@	18	19	21	41.0	41.0	4.9	4.9
	All-India	**842**	**-683**	**-2,708**	**33.2**	**34.3**	**40.5**	**40.0**

– : Not available @ Federal structure # Mixed structure * Unitary structure

Notes: 1. Data for 2011 are provisional.
2. Data for the States of Bihar, Maharashtra, Odisha, Tamil Nadu and Tripura are repeated for the year 2010-11 from previous year.
3. Manipur SCARDB is defunct.

Source: NABARD.

Appendix Table V.8: Salient Indicators of Financial Health of Primary Co-operative Agriculture and Rural Development Banks -State-wise

(As at end-March)

(Amount in ` million)

State	2009-10				2010-11				NPA to Loans ratio (per cent)		Recovery ratio (per cent) (At end-June)	
	Profit		Loss		Profit		Loss					
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern Region	**104**	**505**	**41**	**2,050**	**105**	**522**	**40**	**2,052**	**30.9**	**30.9**	**46.4**	**47.4**
Haryana	–	–	19	1,656	–	–	19	1,656	49.9	49.9	27.1	27.1
Himachal Pradesh	1	17	–	–	1	5	–	–	–	–	61.3	57.7
Punjab	80	379	9	36	80	379	9	36	35.2	35.2	59.4	59.4
Rajasthan	23	109	13	358	24	138	12	360	38.3	38.5	37.8	45.3
Central Region	**16**	**22**	**34**	**357**	**10**	**150**	**40**	**805**	**52.3**	**57.9**	**44.1**	**37.6**
Chhattisgarh	3	3	9	63	3	43	9	302	46.1	47.2	52.9	47.6
Madhya Pradesh	13	19	25	295	7	108	31	503	58.5	68.6	35.3	27.5
Eastern Region	**38**	**336**	**32**	**164**	**38**	**336**	**32**	**163**	**63.9**	**58.8**	**46.7**	**46.7**
Odisha	32	324	14	31	32	324	14	31	97.5	97.5	48.5	48.5
West Bengal	6	12	14	132	6	12	14	132	30.3	20.0	44.9	44.9
Western Region	**–**	**–**	**29**	**–**	**–**	**–**	**29**	**–**	**75.0**	**75.0**	**8.0**	**20.8**
Maharashtra	–	–	29	–	–	–	29	–	75.0	75.0	8.0	20.8
Southern Region	**137**	**445**	**266**	**867**	**176**	**592**	**227**	**558**	**37.3**	**37.3**	**41.0**	**44.5**
Karnataka	56	219	121	565	95	365	82	256	35.8	35.8	43.9	54.4
Kerala	32	141	17	97	32	141	17	97	33.9	33.9	66.9	66.9
Tamil Nadu	49	85	131	205	49	85	131	205	42.2	42.2	12.1	12.1
All-India	**295**	**1,309**	**402**	**3,438**	**329**	**1,599**	**368**	**3,578**	**42.6**	**41.7**	**37.2**	**39.4**

Note: Data for 2011 are provisional.
Source: NABARD.

Appendix Table V.9: Kisan Credit Card Scheme: State-wise Progress
(As at end-March 2012)

(Amount in ` billion and Number of cards issued in '000)

Sr. No.	State/UT	Co-operative Banks		Regional Rural Banks		Commercial Banks		Total	
		Cards issued	Amount sanctioned	Cards issued	Amount sanctioned	Cards issued	Amount sanctioned	Cards issued	Amount sanctioned
1	2	3	4	5	6	7	8	9	10
	Northern region	**189**	**9.8**	**188**	**26.1**	**745**	**152.7**	**1,122**	**188.6**
1	Haryana	26	1.8	47	6.2	118	25.7	191	33.7
2	Himachal Pradesh	13	1.9	16	1.7	34	3.6	63	7.2
3	Jammu & Kashmir	1	0.04	8	0.5	5	0.4	14	0.9
4	New Delhi#$	–	–	–	–	5	1.3	5	1.3
5	Punjab	24	2.3	25	5.4	165	59.5	214	67.2
6	Rajasthan	125	3.8	92	12.3	416	61.6	633	77.7
7	Chandigarh#$	–	–	–	–	2	0.6	2	0.6
	North-eastern region	**31**	**0.3**	**130**	**2.8**	**236**	**7.8**	**397**	**10.9**
8	Assam	7	0.1	84	2.3	160	5.4	251	7.8
9	Arunachal Pradesh#	–	–	–	–	7	0.2	7	0.2
10	Meghalaya#	3	0.03	2	0.04	20	0.7	25	0.7
11	Mizoram#	–	0.01	1	0.02	5	0.3	6	0.3
12	Manipur#	–	–	–	–	3	0.1	3	0.1
13	Nagaland#	–	–	–	–	11	0.4	11	0.4
14	Tripura#	21	0.2	43	0.5	28	0.7	92	1.4
15	Sikkim#$	–	–	–	–	2	0.1	2	0.1
	Western region	**333**	**10.2**	**83**	**4.1**	**895**	**93.0**	**1,311**	**107.3**
16	Gujarat	126	3.3	37	2.0	200	29.0	363	34.3
17	Maharashtra	206	6.9	46	2.1	694	63.8	946	72.8
18	Goa$	1	0.02	–	–	1	0.2	2	0.2
19	Daman and Diu@#$	–	–	–	–	–	0.03	–	0.03
20	Dadra and Nagar Haveli@$	–	–	–	–	–	0.01	–	0.01
	Central region	**1,192**	**57.9**	**682**	**42.8**	**1,349**	**147.4**	**3,223**	**247.9**
21	Uttar Pradesh	476	9.4	521	32.2	946	98.9	1,943	140.4
22	Uttarakhand	48	1.1	8	0.5	80	9.0	136	10.6
23	Madhya Pradesh	473	39.6	79	8.1	289	36.7	841	84.4
24	Chhattisgarh	195	7.7	74	2.0	34	2.8	303	12.5
	Southern region	**419**	**17.3**	**352**	**17.7**	**2,509**	**243.2**	**3,280**	**278.1**
25	Karnataka	109	4.2	93	6.0	427	49.6	629	59.8
26	Kerala	129	7.0	51	4.1	162	24.3	342	35.4
27	Andhra Pradesh	27	1.7	143	5.2	1,244	82.0	1,414	88.9
28	Tamil Nadu	154	4.3	65	2.4	662	86.2	881	92.9
29	Lakshdweep@$	–	–	–	–	1	0.02	1	0.02
30	Puducherry#	–	–	–	–	13	1.1	13	1.1
	Eastern region	**797**	**11.0**	**560**	**21.6**	**1,070**	**50.9**	**2,427**	**83.5**
31	Odisha	674	8.0	84	1.5	250	8.4	1,008	17.9
32	West Bengal	77	2.1	203	6.1	331	14.0	611	22.2
33	Andaman and Nicobar Islands#$	1	0.03	–	–	1	0.01	2	0.0
34	Bihar	35	0.8	204	12.9	345	23.4	584	37.1
35	Jharkhand	10	0.1	69	1.1	143	5.1	222	6.3
	Total	**2,961**	**106.4**	**1,995**	**115.2**	**6,804**	**695.1**	**11,760**	**916.8**

StCB functions as Central Financing Agency @ No Co-operative Banks in these UTs. $ No RRB in these States/UTs.
Source: NABARD.

Appendix Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions *(Continued)*

(Amount in ` billion)

Institutions	Loans*				Underwriting and Direct Subscription			
	2010-11		2011-12		2010-11		2011-12	
	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9
A. All-India Financial Institutions								
Banks (1, 2 and 3)	**498.8**	**456.4**	**466.0**	**447.9**	**45.6**	**15.3**	**11.8**	**29.4**
1. IFCI	80.1	70.1	34.3	33.8	42.5	13.9	10.4	25.7
2. SIDBI	418.7	386.3	431.7	414.1	3.1	1.4	1.3	3.7
3. IIBI	–	–	–	–	–	–	–	–
B. Specialised Financial Institutions (4,5 and 6)	**8.2**	**4.3**	**9.8**	**7.4**	**0.1**	**0.1**	**0.5**	**0.5**
4. IVCF	1.6	1.3	3.1	2.9	0.0	0.0	0.0	0.0
5. ICICI Venture	..	..			..	..	..	..
6. TFCI	6.6	3.0	6.7	4.6	0.1	0.1	0.5	0.5
C. Investment Institutions (7 and 8)	**91.2**	**31.5**	**17.4**	**27.0**	**355.7**	**368.0**	**524.9**	**490.1**
7. LIC	91.2	31.5	17.4	27.0	343.3	355.6	512.3	477.6
8. GIC @	0.0	0.0	0.0	0.0	12.4	12.4	12.6	12.6
D Financial Institutions (A+B+C)	**598.2**	**492.2**	**493.2**	**482.3**	**401.4**	**383.4**	**537.1**	**520.0**
E. State level Institutions (9 and 10)								
9. SFCs	..	..	..	..	..	..	..	..
10. SIDCs	..	..	..	..	..	..	..	..
F. Total Assistance by All Financial Institutions (D+E)	**598.2**	**492.2**	**493.2**	**482.3**	**401.4**	**383.4**	**537.1**	**520.0**

S : Sanctions. D: Disbursements. – : Nil. .. : Not available.
* : Loans include rupee loans, foreign currency loans. @ : Data include GIC and its subsidiaries.
Note: All data are provisional.
Source: Respective Financial Institutions.

Appendix Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions *(Concluded)*

(Amount in ` billion)

Institutions		Total				Percentage variation	
		2010-11		2011-12		2011-12	
		S	D	S	D	S	D
1		10	11	12	13	14	15
A.	**All-India Financial Institutions**						
	Banks (1, 2 and 3)	**544.7**	**472.0**	**478.1**	**477.6**	**-12.2**	**1.2**
	1. IFCI	122.6	84.0	44.7	59.5	-63.6	-29.2
	2. SIDBI	422.1	388.0	433.4	418.1	2.7	7.8
	3. IIBI	–	–	–	–	–	–
B.	**Specialised Financial Institutions (4,5 and 6)**	**9.0**	**5.1**	**10.9**	**8.5**	**21.3**	**66.8**
	4. IVCF	1.6	1.3	3.1	2.9	94.4	119.7
	5. ICICI Venture	..	..	..	..		
	6. TFCI	7.4	3.8	7.8	5.6	5.7	48.7
C.	**Investment Institutions (7 and 8)**	**450.5**	**401.4**	**544.1**	**519.7**	**20.8**	**29.5**
	7. LIC	438.1	389.0	531.5	507.1	21.3	30.3
	8. GIC @	12.4	12.4	12.6	12.6	1.7	1.7
D	**Financial Institutions (A+B+C)**	**1,004.2**	**878.5**	**1,033.0**	**1,005.8**	**2.9**	**14.5**
E.	**State level Institutions (9 and 10)**						
	9. SFCs	..	..	..	..	..	..
	10. SIDCs	..	..	..	..	..	..
F.	**Total Assistance by All Financial Institutions (D+E)**	**1,004.2**	**878.5**	**1,033.0**	**1,005.8**	**2.9**	**14.5**

Appendix Table VI.2: Financial Performance of Primary Dealers

(Amount in ` million)

S. No.	Name of the Primary Dealers	Year	Income				Expenditure			Profit Before Tax	Profit After Tax	Return on Networth (per cent)
			Interest Income (incl. discount)	Trading Profit	Other Income	Total Income	Interest Expenses	Other Expenses	Total Expenditure			
	1	2	3	4	5	6	7	8	9	10	11	12
1	STCI-PD	2010-11	1,375	-133	44	1,286	1,049	156	1,205	81	54	1.9
		2011-12	1,696	-128	39	1,607	1,556	143	1,700	-93	-93	-3.6
2	SBI DFHI LTD	2010-11	1,453	234	27	1,714	674	187	861	853	532	5.3
		2011-12	1,978	14	27	2,019	1,206	163	1,369	650	435	4.9
3	ICICI Securities Ltd	2010-11	3,011	356	222	3,589	2,255	531	2,786	803	528	9.0
		2011-12	4,455	1,349	180	5,984	4,034	676	4,710	1,274	857	13.65
4	PNB Gilts	2010-11	989	-112	154	1,031	516	75	591	440	306	5.3
		2011-12	1,659	-143	142	1,658	1,257	105	1,361	296	211	3.66
5	Morgan Stanley - PD	2010-11	1,095	136	27	1,258	797	187	984	274	182	6.5
		2011-12	1,303	-306	62	1,058	1,017	207	1,224	-165	-167	-4.6
6	Nomura FI Sec. Ltd.	2010-11	1,014	123	8	1,145	694	268	962	183	122	3.3
		2011-12	1,629	-519	538	1,648	1,329	291	1,620	27	26	0.7
7	Deutsche Securities (India) Pvt Ltd	2010-11	373	-83	8	298	187	44	231	67	45	2.0
		2011-12	395	-24	13	383	232	40	272	111	75	3.3
8	Goldman Sachs*	2010-11										
		2011-12	707	393	11	1,111	546	266	812	299	200	8.3
TOTAL		**2010-11**	**9,310**	**521**	**490**	**10,321**	**6,172**	**1,448**	**7,620**	**2,701**	**1,769**	**5.1**
		2011-12	**13,822**	**636**	**1,011**	**15,469**	**11,176**	**1,891**	**13,067**	**2,401**	**1,545**	**4.4**

* Goldman Sachs started PD business *w.e.f.* April 18, 2011
All amounts rounded off to the nearest million.
– : Not applicable.
Source: Returns submitted by the PDs.

Appendix Table VI.3: Select Financial Indicators of Primary Dealers

(Amount in ` billion)

S. No.	Name of the Primary Dealers	Capital Funds (Tier I + Tier II+ eligible Tier III)		CRAR (per cent)		Stock of Government Securities and Treasury bills (Book Value/MTM)		Total Assets (Net of current liabilities and provisions)	
		2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
	1	2	3	4	5	6	7	8	9
1	Deutsche Securities (India) Pvt Ltd	2.2	2.2	265	185	3.3	3.5	3.8	3.5
2	ICICI Securities Primary Dealer Ltd.	8.9	10.6	29	48	31.5	47.1	55.1	69.0
3	Goldman Sachs*/IDBI Gilts	1.6	2.4	248	64	3.7	12.7	0.0	15.3
4	Morgan Stanley India Primary Dealer Pvt. Ltd.*	2.9	3.7	21	35	2.7	3.7	3.2	2.5
5	Nomura Fixed Income Securities Pvt.Ltd.**	3.7	4.1	41	41	8.1	15.5	12.3	16.4
6	PNB Gilts Ltd.	5.7	5.7	94	75	11.4	24.7	14.3	27.7
7	SBI DFHI Ltd.	8.5	8.7	130	94	11.2	24.6	16.6	30.0
8	STCI Primary Dealer Ltd.	2.7	2.7	26	25	14.5	12.6	20.7	21.5
	TOTAL	**36.3**	**40.2**	**46**	**54**	**86.4**	**144.4**	**125.9**	**185.9**

*Goldman Sachs stated PD business w.e.f. April 18, 2011.
Amount rounded off to the nearest billion.
Source: Returns submitted by the PDs.