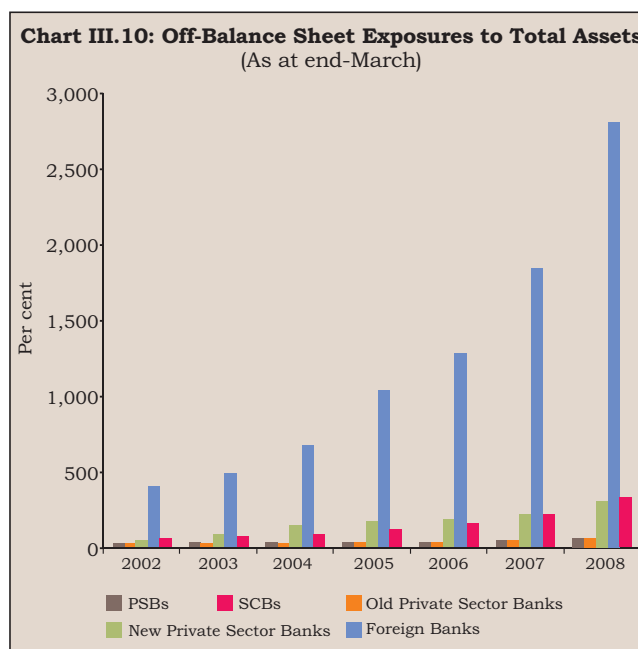


new private sector banks), with the increase being more pronounced in respect of public sector banks. The maturity pattern of loans and advances and investments of all bank groups remained broadly the same during 2007-08 as in the previous year. The share of loans and advances with up to one year maturity increased marginally in the case of all bank groups, barring foreign banks. Similar trend was observed in investments across all bank groups. On the whole, assets depicted a synchronous pattern with the liabilities. At end-March 2008, in general, public sector banks and old private sector banks had higher proportion of both liabilities and assets under longer maturity bucket. Furthermore, within the asset portfolio, while the maturity profile of loans and advances was nearly similar for all bank groups, barring foreign banks, investment pattern of new private sector banks and foreign banks was more tilted towards shorter term maturity profile.

3. Off-Balance Sheet Operations

3.55 In line with the trend observed in recent years, SCBs continued to expand their off-balance sheet (OBS) exposures. During 2007-08, off-balance sheet exposures increased sharply by 88.4 per cent on the top of an increase of 80.2 per cent during 2006-07. As a result, the total off-balance sheet exposure of SCBs at end-March 2008 was more than three times the size of their consolidated balance sheet as compared with more than two times at end-March 2007 (Chart III.10). Leveraged positions in derivatives as a means of diversifying income, improvements in technology (trading and information services) and increasing use of derivatives as tools for risk mitigation appear to have contributed to the growth in OBS exposures.

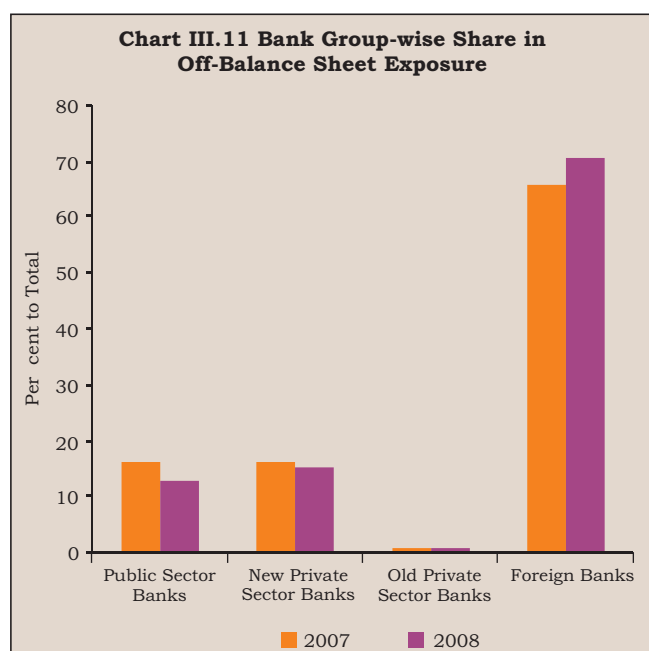


3.56 Among the bank groups, the off-balance sheet exposure of foreign banks was at 2,830.5 per cent of their total assets, followed by new private sector banks (301.8 per cent), public sector banks (61.5 per cent) and old private sector banks (57.1 per cent) (Appendix Table III.14).

3.57 Of the total off-balance sheet exposures of SCBs, foreign banks constituted the largest share (70.8 per cent), followed by new private sector banks (15.6 per cent) and public sector banks (12.9 per cent) (Chart III.11)

4. Financial Performance of Scheduled Commercial Banks

3.58 Financial performance of SCBs during 2007-08 was shaped by the movements in deposits interest rates across all maturities and lending interest rates along with growth in the volume of their activities. Reflecting hardening of interest rates, interest income increased sharply. Although deposit interest rates softened between end-March 2007 and end-March 2008, deposits contracted at



higher interest rates at different points of time led to increase in interest expenditure. On the whole, net interest income declined in relation

to assets. Non-interest income, however, grew significantly. Operating expenses of banks were contained. As a result, profits of banks increased considerably during the year. Overall, return on assets improved during the year, though return on equity declined marginally as banks enlarged their capital base partly by raising resources from the capital market and partly by ploughing back of profits.

Interest Rate Scenario

3.59 Lending rates of SCBs across various bank groups showed a generally upward movement during the year (Table III.20). Deposit rates across bank groups showed a general decline during 2007-08, though foreign and private sector banks marginally increased their rates in some of the maturity

Table III.20: Movements in Deposit and Lending Interest Rates

(Per cent)

Interest Rates	March 2006	March 2007	March 2008	June 2008	October 2008
1	2	3	4	5	6
Deposit Rates					
<i>Public Sector Banks</i>					
a) Up to 1 year	2.25-6.50	2.75-8.75	2.75-8.50	2.75-9.00	2.75-10.25
b) 1 year up to 3 years	5.75-6.75	7.25-9.50	8.25-9.25	8.25-9.50	8.75-10.60
c) Over 3 years	6.00-7.25	7.50-9.50	8.00-9.00	8.00-9.35	8.50-9.75
<i>Private Sector Banks</i>					
a) Up to 1 year	3.50-7.25	3.00-9.00	2.50-9.25	3.00-8.75	3.00-10.50
b) 1 year up to 3 years	5.50-7.75	6.75-9.75	7.25-9.25	8.00-9.50	9.00-11.00
c) Over 3 years	6.00-7.75	7.75-9.60	7.25-9.75	8.00-10.00	8.25-11.00
<i>Foreign Banks</i>					
a) Up to 1 year	3.00-5.75	3.00-9.50	2.25-9.25	3.00-9.25	3.50-12.15
b) 1 year up to 3 years	4.00-6.50	3.50-9.50	3.50-9.75	3.50-9.75	3.50-10.50
c) Over 3 years	5.50-6.50	4.05-9.50	3.60-9.50	3.60-9.50	3.60-11.00
BPLR					
Public Sector Banks	10.25-11.25	12.25-12.75	12.25-13.50	12.50-14.00	13.75-14.70
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-16.50	13.00-17.00	13.75-17.75
Foreign Banks	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-17.00
Actual Lending Rates*					
Public Sector Banks	4.00-16.50	4.00-17.00	4.00-17.75	4.00-18.00	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-24.00	4.00-25.00	-
Foreign Banks	4.75-26.00	5.00-26.50	5.00-28.00	5.00-25.50	-

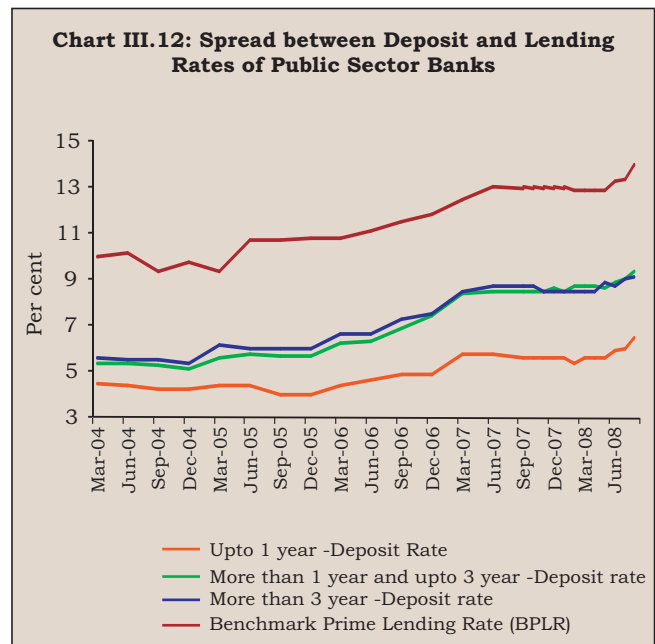
- : Not Available

* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.

buckets. Public sector banks reduced the maximum rate on term deposits of all maturities (25 to 50 basis points), while they increased the minimum rates for deposits of 1 to 3 years (100 basis points). Private sector banks increased the maximum rates for deposits up to one year (by 25 basis points) and over three years (by 15 basis points), while they reduced their interest rate on for deposits of one to three maturity (by 50 basis points). The minimum rates for deposits up to one year and over three years were reduced (by 50 basis points each) by private sector banks, while they were increased for deposits of one to three years (by 50 basis points). Foreign banks, on the other hand, reduced their minimum rates for deposits up to 1 year (by 75 basis points) and over 3 years (by 45 basis points). Interest rates offered by public sector banks on deposits of maturity of one year to three years were placed in the range of 8.25-9.25 per cent in March 2008 as compared with the range of 7.25-9.50 per cent a year ago, while those on deposits of maturity of above three years were placed in the range of 8.00-9.00 per cent in March 2008 as compared with the range of 7.50-9.50 per cent a year ago. Similarly, interest rates offered by private sector banks on deposits of maturity of one year to three years were placed in the range of 7.25-9.25 per cent in March 2008 as compared with 6.75-9.75 per cent in March 2007, while those on deposits of maturity above three years were placed in the range of 7.25-9.75 per cent in March 2008 as compared with 7.75-9.60 per cent in March 2007. Interest rates offered by foreign banks on deposits of maturity of one year to three years were placed in the range of 3.50-9.75 per cent in March 2008 as compared with 3.50-9.50 per cent in March 2007.

3.60 During the first half of 2008-09, both the lending and deposits rates, in general, hardened. Interest rates of PSBs on deposits of maturity of one to three years were placed in the range of 8.25-9.50 per cent in June 2008 as compared with 8.25-9.25 per cent in March 2008 and further moved up to the range of 8.75-10.60 per cent in October 2008. The deposit rates of private sector banks on deposits of maturity of one to three years and above three years firmed up further to 9.00-11.00 per cent and 8.25-11.00 per cent, respectively, in October 2008 as compared with 7.25-9.25 per cent and 7.25-9.75 per cent, respectively, in March 2008.

3.61 The range of benchmark prime lending rates (BPLRs) of PSBs and private sector banks hardened somewhat during 2007-08. Overall, there was an increase of around 75 basis points in the BPLR of public sectors during 2007-08 as compared with that in the previous year (Chart III.12). The BPLR of PSBs and private sector banks were placed in the range of 12.25-13.50 per cent and 13.00-16.50 per cent, respectively, in March 2008 as compared with 12.25-12.75 per cent and 12.00-16.50 per cent, respectively, in March 2007. The



range of BPLRs of foreign banks, however, remained unchanged at 10.00-15.50 per cent during this period. The range of actual lending rates on demand and term loans (other than export credit) for the SCBs widened to the range of 4.00-28.00 per cent in March 2008 from the range of 3.15-26.50 per cent in March 2007 (Table III.20).

3.62 The share of sub-BPLR lending in total lending of commercial banks, excluding export credit and small loans, declined from 78 per cent at end-March 2007 to about 76 per cent at end-March 2008. The band of BPLRs of private sector banks and foreign banks was much wider than that of public sector banks. BPLRs of more than half of private sector banks were in the range of 13.00-15.00 per cent at end-March 2008, while those of other private sector banks in the range of 15.25-16.50 per cent. As regards foreign banks, BPLRs of twelve banks were in the range of 10.00-13.00 per cent. BPLRs of nine other foreign banks were in the range of 13.25-14.00 per cent and another seven in the range of 14.25-15.50 per cent.

3.63 Yields in the Government securities market during 2007-08 hardened somewhat in the first quarter, partly in response to global trends, CRR hikes, increase in market stabilisation scheme (MSS) ceiling and issuance under the MSS. Yields softened after July 2007 on account of easy liquidity conditions, lower inflation, global trends in yields and expectations of a rate cut by RBI in the beginning of 2008. Yields, however, moved up after March 2008 on account of higher inflation (Table III.21). The money market remained largely orderly during 2007-08, barring occasional spells of volatility on account of large changes in capital flows and cash balances of the Central Government with the Reserve Bank. Call rates, which ruled easy from April 2008, edged up somewhat during May 2008, reflecting a decline in the surplus liquidity in the banking system due to the cumulative impact of a three-stage hike in the cash reserve ratio (CRR). CDs continued to be a preferred alternative for mobilising resources by some banks during 2007-08 and thereafter due to

Table III.21: Structure of Interest Rates*

(Per cent)

Instrument	March 2006	March 2007	March 2008	October 2008
1	2	3	4	5
I. Debt market				
1. Government Securities Market				
5 -Year	7.24	7.97	7.70	7.42
10 -Year	7.53	7.97	7.93	7.45
II. Money Markets				
2. Call Borrowing (Average)	6.57	14.07	7.37	9.90
3. Commercial papers				
WADR 61 - 90 days	8.72	11.65	10.79	16.27
WADR 91-180 days	8.54	11.81	10.01	12.57
Range	6.69-9.25	10.25-13.00	9.50-14.25	11.55-16.90
4. Certificates of deposit				
Range	6.50-8.94	10.23-11.90	9.00-10.75	8.92-21.00
WADR Overall	8.62	10.75	10.00	12.57
3 Months	8.72	11.35	10.73	10.45
12 Months	8.65	10.59	9.97	10.26
5. Treasury Bills				
91 days	6.11	7.98	7.36	9.06
364 days	6.42	7.98	7.35	9.18

* : As at end-month.

WADR - Weighted Average Discount Rate.

the flexibility of their timing and returns (Details given in Chapter 7).

Cost of Deposits and Return on Advances

3.64 Though the deposit rates showed a marginal decline between end-March 2007 and end-March 2008, the cost of deposits of SCBs increased by one percentage point as compared with that during the previous year. This essentially reflected the average cost of contracting deposits of different types and different maturities at different points in time. Thus, the rise in cost of deposits during 2007-08 partly reflected the increase in deposit rate during the previous year. Though the cost of deposits increased across all bank groups, the increase was more pronounced in the case of new private sector banks (1.2 percentage points). Owing to higher lending rates, return of advances of SCBs showed a significant improvement of one percentage point during the year with the improvement being observed across all bank groups. The increase was significantly higher in the case of new private sector banks (1.7 percentage points). Return on investments by SCBs, however, declined marginally during 2007-08 from the previous year's level mainly reflecting the prevailing

financial markets conditions. The decline in return on investments was observed across all bank groups, barring new private sector banks which showed an increase of 0.8 percentage points. The improvement in the overall return on funds was lower than the increase in the cost of funds, leading to a decline of around 20 basis points in the spread (returns of funds over cost of funds) of banks during 2007-08 (Table III.22).

Income

3.65 Overall income of SCBs during 2007-08 increased at a significantly higher rate of 34.3 per cent as compared with 24.4 per cent increase in the previous year. The income to assets ratio improved to 8.5 per cent after remaining unchanged at 7.9 per cent in the previous two years (Appendix Table III.15). Reflecting the higher lending rates, interest income of SCBs during 2007-08 increased by 33.6 per cent as compared with 25.0 per cent in the previous year (Table III.23). 'Other income' of SCBs during 2007-08 increased by 37.8 per cent as compared with 21.7 per cent during the previous year, reflecting the increasing diversification of sources of income by banks.

Table III.22: Cost of Funds and Returns on Funds - Bank Group-wise

(Per cent)

Indicator	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11
1. Cost of Deposits	4.5	5.4	4.9	5.7	4.7	5.9	3.1	3.8	4.4	5.4
2. Cost of Borrowings	2.8	3.6	3.4	4.6	3.1	3.1	4.7	4.5	3.3	3.7
3. Cost of Funds	4.4	5.3	4.8	5.7	4.5	5.5	3.5	4.0	4.3	5.3
4. Return on Advances	7.7	8.6	8.6	9.6	8.3	10.0	8.7	9.8	7.9	8.9
5. Return on Investments	7.1	6.8	7.0	6.5	5.7	6.5	7.5	7.1	6.9	6.7
6. Return on Funds	7.5	8.0	8.0	8.6	7.4	8.7	8.2	8.7	7.6	8.2
7. Spread (6-3)	3.1	2.7	3.2	2.9	2.9	3.2	4.7	4.8	3.2	3.0

- Notes :
1. Cost of Deposits = Interest Paid on Deposits/Deposits.
 2. Cost of Borrowings = Interest Paid on Borrowings/Borrowings.
 3. Cost of Funds = (Interest Paid on Deposits + Interest Paid on Borrowings)/(Deposits + Borrowings).
 4. Return on Advances = Interest Earned on Advances /Advances.
 5. Return on Investments = Interest Earned on Investments /Investments.
 6. Return on Funds = (Return on Advances + Return on Investments)/(Investments + Advances).

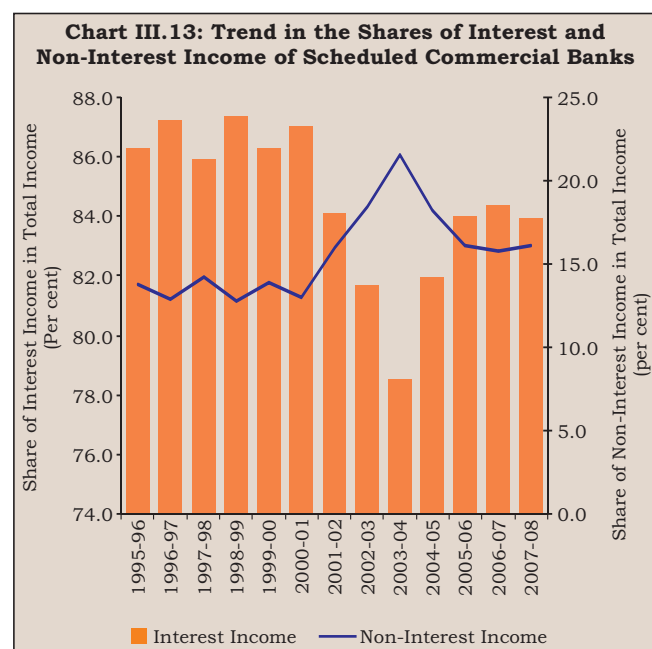
Table III.23: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

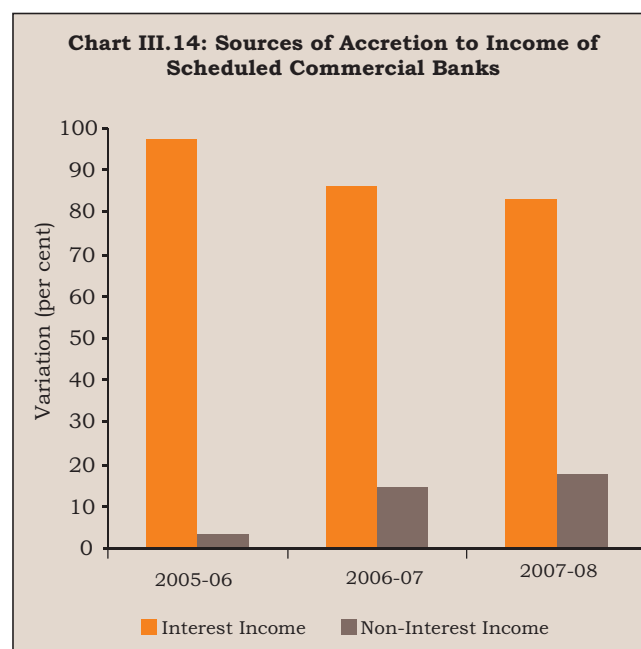
Item	2005-06		2006-07		2007-08	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7
1. Income	2,20,756	7.9	2,74,716	7.9	3,68,886	8.5
a) Interest Income	1,85,388	6.7	2,31,675	6.7	3,09,570	7.2
b) Other Income	35,368	1.3	43,041	1.2	59,315	1.4
2. Expenditure	1,96,174	7.0	2,43,514	7.0	3,26,160	7.5
a) Interest Expended	1,07,161	3.8	1,42,420	4.1	2,08,001	4.8
b) Operating Expenses	59,201	2.1	66,319	1.9	77,220	1.8
of which : Wage Bill	33,461	1.2	36,148	1.0	39,806	0.9
c) Provision and Contingencies	29,812	1.1	34,775	1.0	40,939	0.9
3. Operating Profit	54,394	2.0	65,977	1.9	83,665	1.9
4. Net Profit	24,582	0.9	31,203	0.9	42,726	1.0
5. Net Interest Income/Margin (1a-2a)	78,227	2.8	89,255	2.6	1,01,570	2.3

Note: The number of scheduled commercial banks was 85 in 2005-06, 82 in 2006-07 and 79 in 2007-08.

3.66 The relative contribution of interest and non-interest income in total income of SCBs showed significant variations in recent years. The share of interest income, which had declined to a low level of 78.5 per cent in 2003-04, increased during the following three years. In 2007-08, however, it declined marginally to 83.9 per cent as compared with 84.3 per cent in the previous year (Chart III.13). The share of non-interest incomes showed a corresponding increase.



3.67 There was a discernible change in the relative contribution of interest and non-interest income to total income during 2007-08. Non-interest sources contributed 17.3 per cent to incremental income of SCBs as compared with 14.2 per cent during the previous year. The interest component showed a corresponding decline during 2007-08 (Chart III.14). Non-interest income in relation to total assets increased from 1.2 per cent in 2006-07 to 1.4 per cent in 2007-08.



3.68 The composition of non-interest income of SCBs has undergone some changes in recent years, particularly in terms of fee based income (Box III.2). Income from trading, which increased significantly during 2001-02 to 2003-04, declined in recent years.

3.69 Among bank-groups, income of new private sector banks grew at the highest rate (45.8 per cent) during 2007-08, followed by foreign banks (40.0 per cent), public sector banks (30.9 per cent) and old private sector banks (28.8 per cent). The interest income to total assets ratio of new private sector banks and SBI group improved during the year, while it declined in the case of other bank groups [Appendix Table III.17(A to G)].

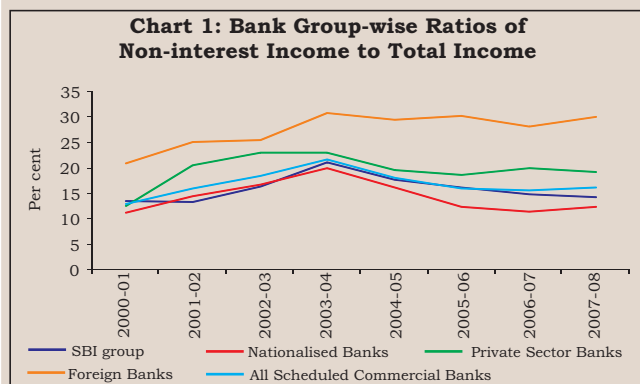
Expenditure

3.70 Expenditure of SCBs increased by 33.9 per cent during 2007-08 as compared with 24.1 per cent in the previous year. Among the major components of expenditure of SCBs, reflecting the impact of deposits contracted at different interest rates, interest expended increased sharply by 46.0 per cent as compared with 32.9 per cent in the previous year. Non-interest or operating expenses increased by 16.4 per cent as compared with 12.0 per cent in the last year. Provisioning made increased marginally (Table III.24).

3.71 In relation to assets, interest expenses increased to 4.8 per cent of total assets from

Box III.2: Sources of Non-interest Income of Scheduled Commercial Banks

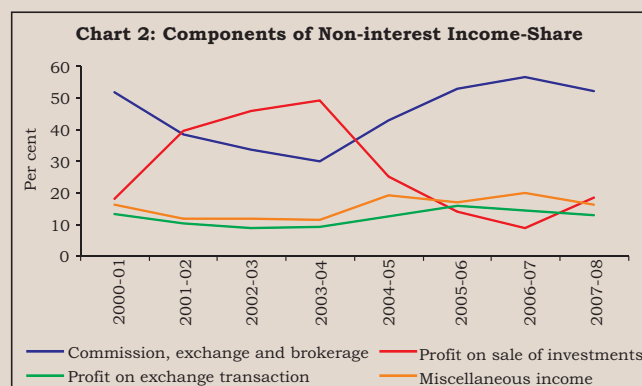
With the increased competition brought about by financial liberalisation, banks began to diversify their activities and as such non-interest income of banks acquired greater significance in the income portfolio of banks in India. An analysis of data on scheduled commercial banks (excluding regional rural banks) from 2000-01 to 2007-08 suggests that the ratio of non-interest income to total income of scheduled commercial banks increased from 13.0 per cent in 2000-01 to 21.6 per cent in 2003-04. The ratio, however, declined thereafter to 15.7 per cent in 2006-07, before showing a marginal increase in 2007-08 to 16.1 per cent (Chart 1).



The share of non-interest income in total income was the highest in respect of foreign banks in each of the single year from 2000-01 to 2007-08, indicating their large exposure to off-balance sheet items. On the other hand, the share of non-interest income was the lowest in respect of nationalised banks.

Sources of non-interest income of SCBs comprise: (i) commission, exchange, and brokerage; (ii) profit on sale of

investments; (iii) profit on exchange transaction; and (iv) miscellaneous income. The miscellaneous income of banks includes profit on revaluation of investments, profit on sale of fixed assets such as buildings. Of these, while profit on exchange transactions and miscellaneous income showed more or less a steady trend, commission, exchange and brokerage, and profit on sale of investments showed a divergent trend. The share of commission, exchange and brokerage declined sharply during 2003-04, in which year, however, the share of profit on sale of investments increased commensurately. During 2006-07, when the commission, exchange and brokerage increased sharply, that of profit on sale of investments showed a sharp decline (Chart 2).



References:

1. Reserve Bank of India (2008a), Statistical Tables Relating to Banks in India 1979-2007.
- (2008b), Annual Accounts of Scheduled Commercial Banks, 2007-08.

Table III.24: Variation in Income-Expenditure of Scheduled Commercial Banks

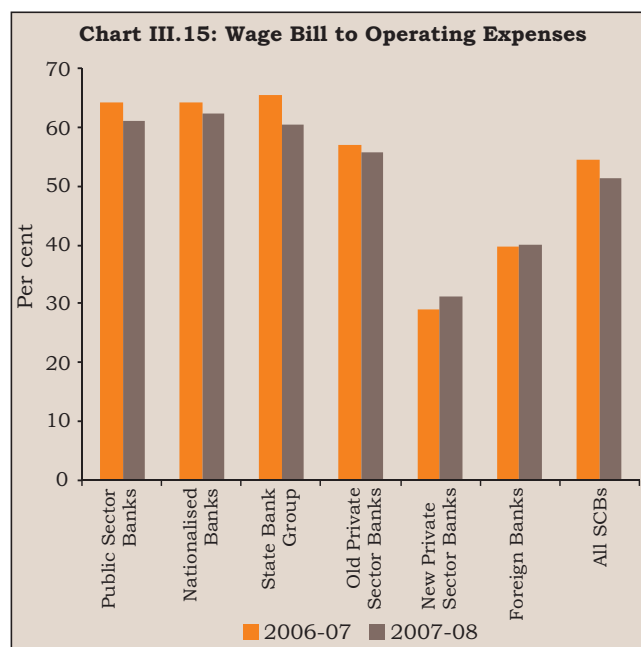
(Amount in Rs. crore)

Item	2006-07		2007-08	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Income (a+b)	53,961	24.4	94,169	34.3
a) Interest Income	46,287	25.0	77,895	33.6
b) Other Income	7,673	21.7	16,274	37.8
2. Expenses (a+b+c)	47,340	24.1	82,646	33.9
a) Interest Expenses	35,259	32.9	65,581	46.0
b) Other Expenses	7,118	12.0	10,901	16.4
c) Provisioning	4,963	16.6	6,164	17.7
3. Operating Profit	11,583	21.3	17,688	26.8
4. Net Profit	6,621	26.9	11,523	36.9

Source : Balance Sheets of respective banks.

4.1 per cent in 2006-07. Operating expenses as percentage of total assets, however, declined marginally to 1.8 per cent in 2007-08 as compared with 1.9 per cent in the previous year (Appendix Table III.25). As a result, banks' burden (excess of non-interest expenditure over non-interest income) declined significantly to 0.4 per cent of total assets in 2007-08 as compared with 0.7 per cent in 2006-07 and 0.9 per cent in 2005-06. The efficiency ratio (operating expenses as percentage of net interest income plus non-interest income) improved to 48.0 per cent during 2007-08 from 50.1 per cent in 2006-07, reflecting the rise in non-interest income and decline in operating expenses, which combined together outweighed the decline in net interest income (in relation to total assets).

3.72 Wages by SCBs increased at a somewhat higher rate of 10.1 per cent in 2007-08 as compared with 8.0 per cent in the previous year. In terms of percentage to total assets, however, the wage bill of SCBs declined marginally to 0.9 per cent as compared with 1.0 per cent in 2006-07. A similar decline was also observed in the ratio of wage bill to operating expenses during 2007-08 (Chart III.15). Continuing the trend, the wage bill to operating expenses ratio was the lowest



in respect of new private sector banks (31.2 per cent) in 2007-08, followed by foreign banks (39.9 per cent), notwithstanding some increase in the ratio over the previous year. The wage bill to operating ratio of other bank groups showed a marginal decline during 2007-08, essentially reflecting the reduction in expenditure on wages due to continued emphasis on technological upgradation.

Net Interest Income

3.73 The difference between interest income and interest expenses, *i.e.*, net interest income, is an important indicator of efficiency of the intermediation process by banks. Lower net interest income in relation to assets is an indicator of higher efficiency. Continuing the trend that began in 2004-05, net interest income (spread) of SCBs as percentage of total assets declined to 2.3 per cent in 2007-08 from 2.6 per cent in the previous year. Among the bank groups, net interest margin of foreign banks and private banks increased, while that of PSBs declined during 2007-08 (Appendix Table III.23).

Operating Profits

3.74 Reflecting the buoyant growth in non-interest income on the one hand and a relatively subdued growth in operating expenses on the other, operating profits of SCBs increased by 26.8 per cent in 2007-08 as compared with an increase of 21.3 per cent in 2006-07. Though the operating profits increased across all bank groups, the increase was more pronounced in respect of new private sector and foreign banks. The operating profits to total assets ratio during 2007-08 remained almost unchanged at the previous year's level of 1.9 per cent. At the individual bank level, the operating profits to assets ratio showed large variations. The ratio varied between 11.1 per cent and (-)0.7 per cent in respect of foreign banks, between 2.8 per cent to 0.8 per cent in the case of private sector banks (barring Sangli Bank and Lord Krishna Bank which were merged during the year) and between 2.4 per cent to 0.8 per cent for public sector banks (Appendix Table III.19).

Provisions and Contingencies

3.75 Provisions and contingencies of SCBs during 2007-08 grew at a marginally higher rate of 17.7 per cent as compared with 16.6

per cent in the previous year. While provisions for loans during 2007-08 were higher by 5.3 per cent, provisions for depreciation in value of investments declined by 11.6 per cent. Bank-group wise, provisions and contingencies as percentage of total assets increased for private sector and foreign banks, while they declined for PSBs.

Net Profit

3.76 Net profits of SCBs showed a significant increase of 36.9 per cent during 2007-08 as compared with 26.9 per cent in the previous year despite the larger increase in provisions and contingencies (Table III.25).

Return on Assets

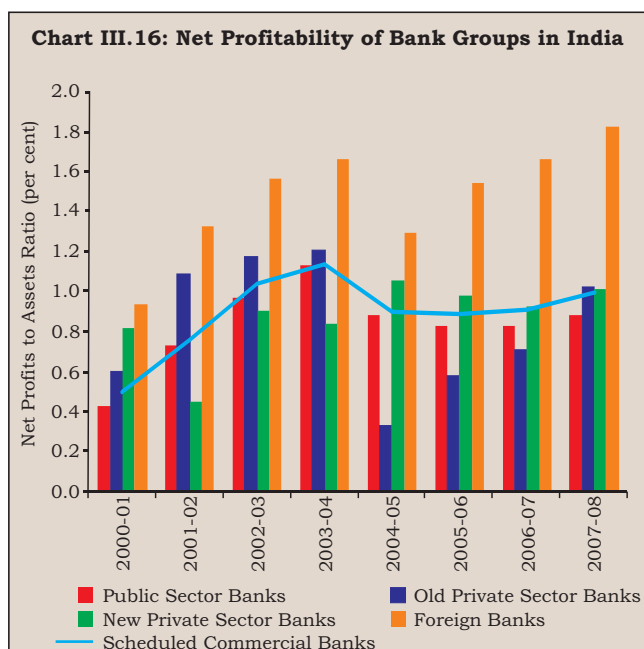
3.77 Return on assets (RoA) is an indicator of efficiency with which banks deploy their assets. During 2007-08, the net profits to assets ratio of SCBs improved moderately to 1.0 per cent from 0.9 per cent in 2006-07. Though net profits as percentage of total assets improved across all bank groups, the improvement was more pronounced in the case of old private sector banks (Chart III.16). Foreign banks continued to show the highest returns on assets.

Table III.25: Operating Profit and Net Profit - Bank Group-wise

(Amount in Rs. Crore)

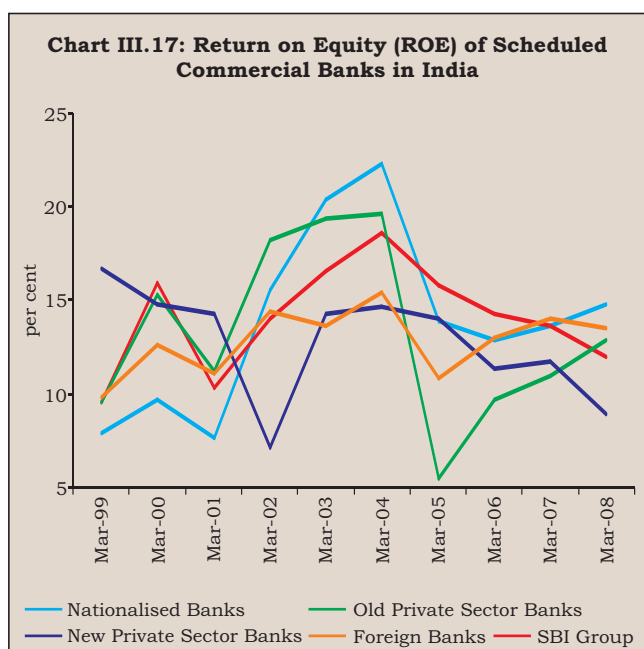
Bank Group	Operating Profit				Net Profit			
	2006-07	Percentage Variation	2007-08	Percentage Variation	2006-07	Percentage Variation	2007-08	Percentage Variation
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	65,977	21.3	83,665	26.8	31,203	26.9	42,726	36.9
Public Sector Banks	42,655	12.3	50,441	18.3	20,152	21.8	26,592	32.0
Nationalised Banks	27,456	24.0	31,663	15.3	12,950	29.2	16,856	30.2
State Bank Group	14,292	-4.9	17,444	22.1	6,572	10.3	9,006	37.0
Other Public Sector Bank	907	13.2	1,333	47.0	630	12.4	729	15.7
Old Private Sector Banks	3,021	33.8	3,605	19.3	1,122	29.6	1,978	76.3
New Private Sector Banks	10,682	42.2	15,632	46.3	5,343	30.0	7,544	41.2
Foreign Banks	9,619	44.5	13,988	45.4	4,585	49.4	6,612	44.2

Source : Balance sheets of respective banks.



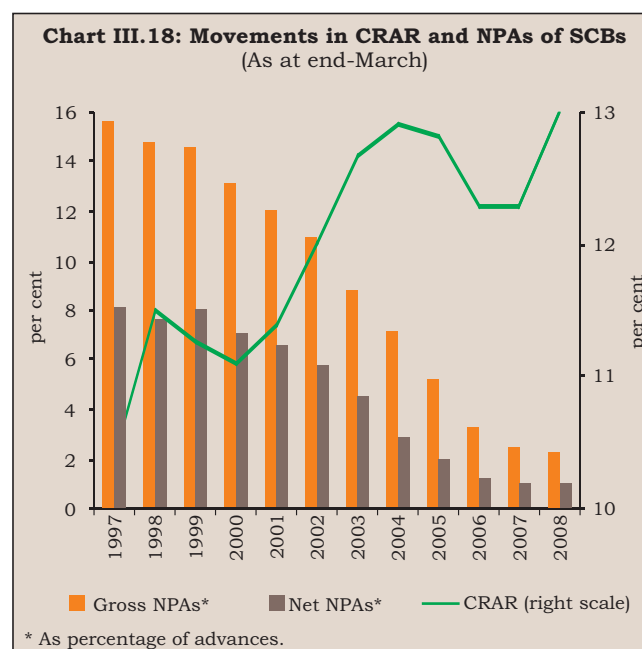
Return on Equity

3.78 Return on equity (RoE), an indicator of efficiency with which capital is used by banking institutions, declined to 12.5 per cent as at end-March 2008 from 13.2 per cent at end-March 2007, reflecting mainly the impact of increase in resources raised from the capital market during the year and reserves and surplus (Chart III.17).



5. Soundness Indicators

3.79 A sound and efficient banking system is a *sine qua non* for maintaining financial stability. Therefore, considerable emphasis has been placed on strengthening the capital requirements in recent years. The capital to risk-weighted assets ratio (CRAR) of SCBs, a measure of the capacity of the banking system to absorb unexpected losses, improved further to 13.0 per cent at end-March 2008 from 12.3 per cent at end-March 2007. Asset quality of SCBs also improved consistently in the past few years as reflected in the decline in non-performing assets (NPAs) as percentage of total advances. During 2007-08, while overall gross NPAs of SCBs declined to 2.3 per cent of gross advances from 2.5 per cent in the previous year, net NPAs as percentage of net advances remained at the previous year's level of 1.0 per cent. Thus, in terms of the two crucial soundness indicators, *viz.*, capital and asset quality, the Indian banking sector showed further improvement during 2007-08 (Chart III.18).



Asset Quality

3.80 The trend of improvement in the asset quality of banks continued during the year. Indian banks recovered a higher amount of NPAs during 2007-08 than that during the previous year. Though the total amount recovered and written-off at Rs.28,283 crore in 2007-08 was higher than Rs.26,243 crore in the previous year, it was lower than fresh addition of NPAs (Rs.34,420 crore) during the year. As a result, the gross NPAs of SCBs increased by Rs.6,136 crore in 2007-08. This is the first time since 2001-02 that gross NPAs increased in absolute terms (Table III.26). In this context, it may be noted that banks had registered rapid credit growth during the previous three years. Some slippage in NPAs, therefore, could be expected. Besides, some

other developments such as hardening of interest rates might have also resulted in increased NPAs. Banks had extended housing loans at floating interest rates. The hardening of interest rates might have made the repayment of loans difficult for some borrowers, resulting in some increase in NPAs in this sector. It may be noted that the increase in gross NPAs was more noticeable in respect of new private sector and foreign banks, which have been more active in the real estate and housing loans segments. Gross NPAs (in absolute terms) of nationalised banks and old private sector banks continued to decline during the year. Gross NPAs of State Bank group showed an increase. Notwithstanding increase in gross NPAs of the banking sector, gross NPAs as percentage of gross advances

Table III.26: Movements in Non-performing Assets - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)
1	2	3	4	5	6	7	8
Gross NPAs							
As at end-March 2007	50,299	38,968	26,292	12,676	2,810	6,286	2,233
Addition during the year	34,420	24,093	14,617	9,476	1,249	6,412	2,664
Recovered during the year	28,090	22,466	15,791	6,675	1,501	2,272	1,849
Written off during the year	193	0	0	0	1	0	191
As at end-March 2008	56,435	40,595	25,117	15,478	2,557	10,426	2,856
Net NPAs							
As at end-March 2007	20,207	15,324	8,965	6,359	831	3,136	913
As at end-March 2008	24,733	17,836	9,328	8,508	740	4,906	1,250
<i>Memo:</i>							
Gross Advances (end-March 2008)	25,07,885	18,19,074	12,18,554	6,00,521	1,13,404	4,12,441	1,62,966
Net Advances (end-March 2008)	24,77,039	17,97,504	12,03,782	5,93,722	1,11,670	4,06,733	1,61,132
Gross NPAs/Gross Advances Ratio							
End-March 2007	2.5	2.7	2.7	2.6	3.1	1.9	1.8
End-March 2008	2.3	2.2	2.1	2.6	2.3	2.5	1.9
Net NPAs/Net Advances Ratio							
End-March 2007	1.0	1.1	0.9	1.3	1.0	1.0	0.7
End-March 2008	1.0	1.0	0.8	1.4	0.7	1.2	0.8

* : Includes IDBI Bank Ltd.

Note : Figures in parentheses are the number of banks.

Source : Balance sheets of respective banks.

declined further to 2.3 per cent at end-March 2008 from 2.5 per cent a year ago. The NPAs ratio (gross NPAs to gross advances) of new private sector banks increased significantly during the year, while that of foreign banks increased marginally. The NPAs ratio of all other bank groups declined.

3.81 Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the debt recovery tribunals (DRTs) have been the most effective in terms of amount recovered. The amount recovered as percentage of amount involved was the highest under the SARFAESI Act, followed by DRTs (Table III.27).

3.82 In the case of direct agricultural advances, the recovery rate (percentage of recovery to demand) declined to 79.7 per cent for the year ended June 2007 from 80.1 per cent a year ago (Table III.28).

3.83 The Reserve Bank has so far issued certificate of registration (CoR) to eleven securitisation companies/reconstruction companies (SCs/RCs), of which six have commenced their operations. At end-June 2008, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank was at Rs.41,414 crore, showing an increase of 45.1 per cent during the year (July 2007 to June 2008). While security receipts subscribed to by banks/FIs amounted to Rs.8,319 crore, security receipts redeemed amounted to Rs.1,299 crore (Table III.29).

Table III.28: Recovery of Direct Agricultural Advances of PSBs

(Amount in Rs. crore)

Year ended June	Demand	Recovery	Overdues	Percentage of Recovery to Demand
1	2	3	4	5
2004	33,544	25,002	8,542	74.5
2005	45,454	35,733	9,721	78.6
2006	46,567	37,298	9,269	80.1
2007	73,802	58,840	14,958	79.7

Movements in Provisions for Non-performing Assets

3.84 Provisioning for non-performing assets tends to follow a cyclical pattern. In the expansionary phase of business cycle, impairment to balance sheets of banks tends to be relatively lower requiring lower provisioning even as credit increases at a faster pace. The downturn phase of business cycle, on other hand, increases the possibility of credit losses, leading to higher provisioning requirements. The higher provisioning in the downturn phase may, thus, put pressure on the credit availability and accentuate the contraction phase of business cycle.

3.85 Provisioning made during 2007-08 was higher than write-back of excess provisioning during the year. Still, however, net NPAs increased during the year due to increase in gross NPAs. Among bank groups, provisions made during the year were higher than write-back of excess provisions for new private sector banks and foreign banks whereas they were lower for public sector banks and old private sector banks. Thus, the cumulative

Table III.27: NPAs recovered by SCBs through various Channels

(Amount in Rs. crore)

Recovery Channel	2006-07				2007-08			
	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	160,368	758	106	14.0	186,535	2,142	176	8.2
ii) DRTs	4,028	9,156	3,463	37.8	3,728	5,819	3,020	51.9
iii) SARFAESI Act	60,178#	9,058	3,749	41.4	83,942#	7,263	4,429	61.0

: Number of notices issued.

Table III.29: Details of Financial Assets Securitised by SCs/RCs

Item	(Rs. crore)	
	End-June 2007	End-June 2008
1	2	3
1. Book Value of Assets Acquired	28,544	41,414
2. Security Receipts issued	7,436	10,658
3. Security Receipts subscribed by		
(a) Banks	6,894	8,319
(b) SCs/RCs	408	1,647
(c) FIIs	-	-
(d) Others(QIBs)	134	692
4. Amount of Security Receipts completely redeemed	660	1,299

provisions at end-March 2008 were higher than their respective levels a year ago in respect of new private sector and foreign banks whereas they were lower for public sector and old private sector banks. Cumulative provisions as percentage of NPAs declined marginally to 52.4 per cent at end-March 2008 from 56.1 per cent at end-March 2007. Bank-group wise, the ratio was the highest for old private sector banks (64.9 per cent), followed by PSBs, new private sector banks and foreign banks (Table III.30 and Appendix Table III.24).

3.86 Notwithstanding an increase in the fresh accretions to gross NPAs (Rs.34,420 crore) of SCBs during 2007-08, gross NPAs

as percentage of gross advances declined during the year. The net NPA ratio (net NPAs as percentage of net advances) declined in respect of public sector and old private sector banks, while it increased in respect of new private sector banks and foreign banks. The net NPAs to net advances ratio at end-March 2008 was highest (1.2 per cent) in respect of new private sector banks, followed by public sector, foreign and old private sector banks at 1.0 per cent, 0.8 per cent and 0.7 per cent, respectively (Table III.31 and Appendix Table III.27 and III.28).

3.87 The net NPAs to net advances ratio at end-March 2008 of 75 banks (76 last year) out of 79 (82 last year) was less than 2 per cent. The net NPAs ratio of only one foreign bank was higher than 5 per cent (Table III.32). During 2007-08, the net NPA ratio of six banks each in the public sector and private sector improved (Appendix Table III.27 and III.28).

3.88 Apart from decline in the NPA ratios, the improvement in asset quality of SCBs during 2007-08 was also reflected in the different loan asset categories. The share of

Table III.30: Movements in Provisions for Non-performing Assets - Bank Group-wise

Item	(Amount in Rs. crore)							
	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)	
1	2	3	4	5	6	7	8	
Provisions for NPAs								
As at end-March 2007	28,188	22,139	15,851	6,288	1,807	3,087	1,152	
Add : Provisions made during the year	15,240	9,810	6,541	3,269	416	3,846	1,166	
Less : Write-off, write back of excess during the year	13,750	10,769	8,006	2,763	564	1,574	841	
As at end-March 2008	29,678	21,180	14,387	6,793	1,659	5,359	1,478	
<i>Memo:</i>								
Gross NPAs	56,435	40,595	25,117	15,478	2,557	10,426	2,856	
Outstanding Provisions to Gross NPAs (per cent)								
End-March 2007	56.1	56.8	57.4	49.6	66.0	49.1	51.1	
End-March 2008	52.6	52.2	57.3	43.9	64.9	51.4	51.7	

* : Includes IDBI Bank Ltd.

Note : Figures in parentheses indicate the number of banks in that group at end-March 2008.

Source : Balance sheets of respective banks.

Table III.31: Gross and Net NPAs of Scheduled Commercial Banks - Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to total Assets		Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2005	11,52,682	59,373	5.2	2.5	11,15,663	21,754	1.9	0.9
2006	15,51,491	51,097	3.3	1.8	15,16,812	18,543	1.2	0.7
2007	20,12,510	50,486	2.5	1.5	19,81,237	20,101	1.0	0.6
2008	25,07,885	56,435	2.3	1.3	24,77,039	24,734	1.0	0.6
Public Sector Banks								
2005	8,77,825	48,399	5.5	2.7	8,48,912	16,904	2.0	1.0
2006	11,34,724	41,358	3.6	2.1	11,06,288	14,566	1.3	0.7
2007	14,64,493	38,968	2.7	1.6	14,40,146	15,145	1.1	0.6
2008	18,19,074	40,595	2.2	1.3	17,97,504	17,836	1.0	0.6
Old Private Sector Banks								
2005	70,412	4,200	6.0	3.1	67,742	1,859	2.7	1.4
2006	85,154	3,759	4.4	2.5	82,957	1,375	1.7	0.9
2007	94,872	2,969	3.1	1.8	92,887	891	1.0	0.6
2008	1,13,404	2,557	2.3	1.3	1,11,670	740	0.7	0.4
New Private Sector Banks,								
2005	1,27,420	4,582	3.6	1.6	1,23,655	2,353	1.9	0.8
2006	2,32,536	4,052	1.7	1.0	2,30,005	1,796	0.8	0.4
2007	3,25,273	6,287	1.9	1.1	3,21,865	3,137	1.0	0.5
2008	4,12,441	10,426	2.5	1.4	4,06,733	4,907	1.2	0.7
Foreign Banks								
2005	77,026	2,192	2.8	1.4	75,354	639	0.8	0.4
2006	98,965	1,928	1.9	1.0	97,562	808	0.8	0.4
2007	1,27,872	2,263	1.8	0.8	1,26,339	927	0.7	0.3
2008	1,62,966	2,857	1.8	0.8	1,61,133	1,250	0.8	0.3

Source : Balance sheets of respective banks.

'sub-standard' loans showed a marginal increase to 1.1 per cent from 1.0 per cent in

the previous year. However, the shares of loans in 'doubtful' and 'loss' categories,

Table III.32: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(Number of banks)

Bank Group	As at end-March				
	2004	2005	2006	2007	2008
1	2	3	4	5	6
Public Sector Banks					
	27	28	28	28	28
Up to 2 per cent	11	19	23	27	28
Above 2 and up to 5 per cent	13	7	5	1	0
Above 5 and up to 10 per cent	3	2	0	0	0
Above 10 per cent	0	0	0	0	0
Old Private Sector Banks					
	20	20	20	17	15
Up to 2 per cent	2	4	11	15	15
Above 2 and up to 5 per cent	9	12	7	1	0
Above 5 and up to 10 per cent	7	4	2	1	0
Above 10 per cent	2	0	0	0	0
New Private Sector Banks					
	10	9	8	8	8
Up to 2 per cent	4	5	6	7	7
Above 2 and up to 5 per cent	5	3	2	1	1
Above 5 and up to 10 per cent	0	1	0	0	0
Above 10 per cent	1	0	0	0	0
Foreign Banks					
	33	31	29	29	28
Up to 2 per cent	22	23	25	27	25
Above 2 and up to 5 per cent	2	2	0	1	2
Above 5 and up to 10 per cent	3	2	0	0	1
Above 10 per cent	6	4	4	1	0

which represent lower quality of assets than sub-standard assets, continued to decline during 2007-08. Among these two categories ('loss' and 'doubtful'), while NPAs in 'loss' category continued to show decline in absolute terms, NPAs in 'doubtful' category showed a marginal increase in 2007-08. More or less a similar trend was observed across all bank groups, barring new private sector banks in whose case the NPAs in all the three categories, viz., sub-standard, doubtful and loss increased during the year (Table III.33).

Sector-wise NPAs

3.89 The sector-wise analysis of NPAs of public and private sector banks indicates that the NPAs in the priority sector increased by 11.1 per cent during 2007-08 (4.8 per cent in the previous year) mainly due to increase in NPAs in the agriculture sector (32.1 per cent) and in the non-priority sector (10.3 per cent). At the aggregate level, the share of priority sector NPAs in total NPAs at 54.4 per cent was broadly same as in the previous year (54.0 per cent) [Table III.34, Appendix Table III.29 (A) and 29 (B); and Appendix Table 30 (A) and 30 (B)].

Table III.33: Classification of Loan Assets - Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Total Gross NPAs		Total Gross Advances
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2004	8,37,130	92.9	21,026	2.3	36,247	4.0	7,625	0.9	64,898	7.2	9,02,027
2005	10,93,523	94.9	14,016	1.2	37,763	3.3	7,382	0.6	59,161	5.1	11,52,684
2006	14,99,431	96.7	14,826	1.0	30,105	2.0	7,016	0.4	51,947	3.3	15,51,378
2007	19,61,877	97.5	20,010	1.0	24,408	1.2	6,215	0.3	50,633	2.5	20,12,510
2008	24,51,217	97.7	26,541	1.1	24,507	1.0	5,619	0.2	56,668	2.3	25,07,885
Public Sector Banks											
2004	6,10,435	92.2	16,909	2.5	28,756	4.4	5,876	0.9	51,541	7.8	6,61,975
2005	8,30,029	94.6	11,068	1.3	30,779	3.5	5,929	0.7	47,796	5.4	8,77,825
2006	10,92,607	96.2	11,453	1.0	25,028	2.2	5,636	0.5	42,117	3.7	11,34,724
2007	14,25,519	97.3	14,275	1.0	19,873	1.4	4,826	0.3	38,974	2.7	14,64,493
2008	17,78,476	97.8	17,290	1.0	19,291	1.1	4,018	0.2	40,598	2.2	18,19,074
Old Private Sector Banks											
2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
2005	66,212	94.0	784	1.1	2,868	4.0	549	0.8	4,201	6.0	70,413
2006	81,414	95.6	710	0.8	2,551	3.0	479	0.6	3,740	4.4	85,154
2007	91,903	96.9	760	0.8	1,783	1.9	425	0.4	2,969	3.1	94,872
2008	1,10,847	97.7	816	0.7	1,346	1.2	395	0.3	2,557	2.3	1,13,404
New Private Sector Banks											
2004	1,13,560	95.0	1,966	1.6	3,665	3.0	321	0.3	5,952	5.0	1,19,512
2005	1,22,577	96.2	1,449	1.1	3,061	2.4	334	0.3	4,844	3.8	1,27,421
2006	2,28,504	98.3	1,717	0.7	1,855	0.8	460	0.2	4,032	1.8	2,32,536
2007	3,19,002	98.1	3,608	1.1	2,147	0.7	516	0.2	6,271	1.9	3,25,273
2008	4,02,013	97.5	6,473	1.6	3,106	0.8	849	0.2	10,428	2.5	4,12,441
Foreign Banks											
2004	59,619	95.1	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632
2005	74,705	97.0	715	1.0	1,035	1.3	570	0.7	2,320	3.0	77,025
2006	96,907	98.0	946	1.0	670	0.7	441	0.5	2,057	2.0	98,965
2007	1,25,453	98.1	1,367	1.1	605	0.5	447	0.3	2,419	1.9	1,27,872
2008	1,59,882	98.1	1,962	1.2	764	0.5	358	0.2	3,084	1.9	1,62,966

Note : Constituent items may not add up to the total due to rounding off.

Source : Off-site returns (Balance sheet returns) submitted by respective banks.

Table III.34: Sector-wise NPAs - Bank Group-wise*

(Rs. crore)

Sector	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9
A. Priority Sector	22,954	25,287	1,416	1,338	1,468	2,080	25,838	28,705
i) Agriculture	6,506	8,268	249	243	612	1,225	7,367	9,735
ii) Small Scale Industries	5,843	5,805	490	359	155	292	6,488	6,456
iii) Others	10,604	11,214	677	737	702	563	11,983	12,514
B. Public Sector	490	299	0	0	3	0	493	299
C. Non-Priority Sector	15,158	14,163	1,553	1,219	4,800	8,339	21,510	23,721
Total (A+B+C)	38,602	39,749	2,969	2,557	6,271	10,419	47,841	52,725

* : Excluding foreign banks.

Source : Based on off-site returns submitted by banks (pertaining to domestic operations only).

Movements in Provisions for Depreciation on Investments

3.90 The provisions for depreciation on investments declined by 11.6 per cent at end-March 2008 from their level at end-March 2007 as a result of lower provisions made during the year than the write-offs and write-back of excess provisions. The reduction in provisions was despite the increase in investments during the year (Table III.35).

Capital Adequacy

3.91 The overall CRAR of all SCBs improved to 13.0 per cent at end-March 2008 from 12.3 per cent a year ago, reflecting a relatively higher growth rate in capital funds maintained

by banks than risk-weighted assets. While the growth in risk-weighted assets moderated in line with overall deceleration in credit growth during 2007-08, capital funds increased at a higher rate on account of raising of resources by banks from the capital market and increase in resources required for ensuing implementation of Basel II norms. Thus, the CRAR of the banking system at 13.0 per cent was significantly above the stipulated minimum of 9.0 per cent (Table III.36).

3.92 As a result of resources raised by banks from the capital market during 2007-08 and increase in reserves, the Tier I capital ratio of SCBs improved to 9.1 per cent at end-March 2008 from 8.3 per cent a year ago. However,

Table III.35: Movements in Provisions for Depreciation on Investment - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)
1	2	3	4	5	6	7	8
Provision for Depreciation on Investment							
As at end-March 2007	11,492	8,904	6,616	2,288	321	819	1,448
Add : Provision made during the year	3,229	2,539	1,691	848	67	427	196
Less : Write-off, write-back of excess during the year	4,566	3,881	2,120	1,762	72	317	296
As at end-March 2008	10,155	7,561	6,187	1,374	316	929	1,349

*: Includes IDBI Bank Ltd.

Note : Figures in parentheses indicate the number of banks for 2007-08.

Source : Balance sheets of respective banks.

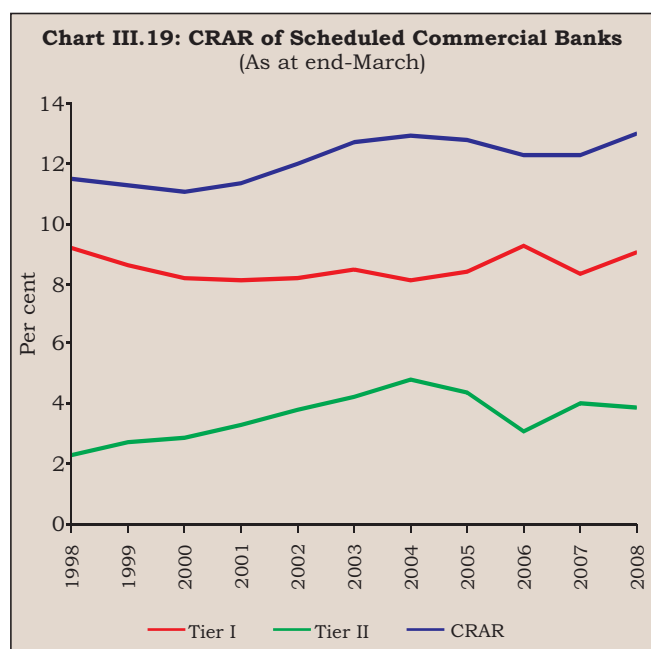
Table III.36: Scheduled Commercial Banks - Component-wise CRAR

(Amount in Rs. crore)

Item / End-March	2006	2007	2008
1	2	3	4
A. Capital Funds (i+ii)	2,21,363	2,96,191	4,06,835
i) Tier I Capital	1,66,538	2,00,386	2,83,339
<i>of which:</i>			
Paid-up Capital	25,142	29,462	41,178
Unallocated/Remittable Surplus	11,075	20,387	23,846
Deductions for Tier-I Capital	11,271	13,662	21,933
ii) Tier-II Capital	54,825	95,794	1,23,496
<i>of which:</i>			
Discounted Subordinated Debt	43,214	63,834	73,297
B. Risk-weighted Assets	17,97,207	24,12,236	31,28,093
<i>of which:</i>			
Risk-weighted Loans and Advances	12,38,163	17,17,810	21,66,234
C. CRAR (A as per cent of B)	12.3	12.3	13.0
<i>of which:</i>			
Tier I	9.3	8.3	9.1
Tier II	3.1	4.0	3.9

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

the Tier II capital declined marginally to 3.9 per cent at end-March 2008 from 4.0 per cent a year ago (Chart III.19). Tier I CRAR was more than the present stipulated requirement of 4.5 per cent and also above the 6.0 per cent



norm prescribed in the final guidelines for implementation of Basel II released by the Reserve Bank on April 27, 2007.

3.93 During 2007-08, the improvement in CRAR was observed across all bank groups. The improvement was, however, more pronounced in respect of new and old private sector banks, followed by SBI and associates. As at end-March 2008, the CRAR of nationalised banks at 12.5 per cent was below the industry average (13.0 per cent), while that of all other groups was above the industry level (Table III.37).

3.94 The CRAR of the five largest banks showed an improvement during 2007-08 barring a marginal decline in the CRAR of Canara Bank. All the five banks, however, maintained a CRAR of more than 12 per cent. Of the five largest SCBs, four are in the public sector, while ICICI Bank is in the private sector (Chart III.20).

3.95 At the individual bank level, the CRAR of all SCBs was above the prescribed requirement of 9 per cent at end-March 2008. While the CRAR of as many as 77 banks was

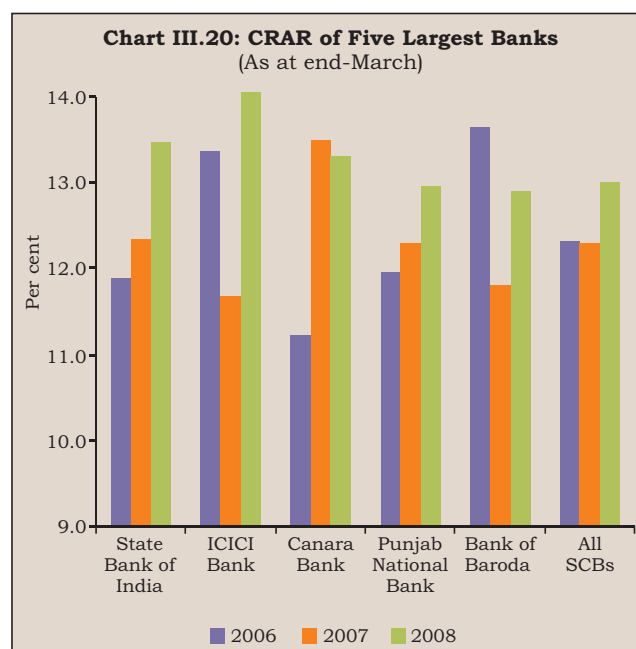


Table III.37: Capital Adequacy Ratio - Bank Group-wise

(Per cent)

Bank Group/End-March	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	2	3	4	5	6	7	8	9	10
Scheduled Commercial Banks	11.1	11.4	12.0	12.7	12.9	12.8	12.3	12.3	13.0
Public Sector Banks	10.7	11.2	11.8	12.6	13.2	12.9	12.2	12.4	12.5
Nationalised Banks	10.1	10.2	10.9	12.2	13.1	13.2	12.3	12.4	12.1
SBI Group	11.6	12.7	13.3	13.4	13.4	12.4	11.9	12.3	13.2
Old Private Sector Banks	12.4	11.9	12.5	12.8	13.7	12.5	11.7	12.1	14.1
New Private Sector Banks	13.4	11.5	12.3	11.3	10.2	12.1	12.6	12.0	14.4
Foreign Banks	11.9	12.6	12.9	15.2	15.0	14.0	13.0	12.4	13.1

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

above 10 per cent, that of two other banks was in the range of 9 to 10 per cent (Table III.38 and Appendix Table III.31).

6. Banks' Operations in the Capital Market

Resources raised by Banks from the Primary Capital Market

3.96 During 2007-08, scheduled commercial banks, both in the public and private sectors, raised significantly higher resources from the domestic primary market as compared with the previous year. Total resource mobilisation by banks through public issues (excluding offer for sale) in the domestic capital market amounted to

Rs.30,455 crore during 2007-08 as against Rs.1,066 crore during 2006-07. In view of good performance of banking scrips in the secondary market, strong financial results of banks, the need to raise capital in the face of the ensuing Basel II norms and tightening of prudential norms for sensitive sectors, five banks entered the capital market with six issues during 2007-08. Out of six issues, five were equity issues, of which two were floated by public sector banks for Rs.17,552 crore (including premium) and four issues by private sector banks (including one debt issue) for Rs.12,903 crore (including premium on equity issues) (Table III.39).

Table III.38: Distribution of Scheduled Commercial Banks by CRAR

(Number of banks)

Bank Group	2006-07					2007-08				
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Between 10-12 per cent	12 per cent & above	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Between 10-12 per cent	12 per cent & above
1	2	3	4	5	6	7	8	9	10	11
Nationalised Banks	-	-	-	8	12	-	-	-	11	9
State Bank Group	-	-	-	3	5	-	-	-	2	6
Old Private Sector Banks	1	-	2	5	9	-	-	1	3	11
New Private Sector Banks	-	-	-	4	4	-	-	-	2	6
Foreign Banks	-	-	-	7	22	-	-	1	3	24
Total	1	-	2	27	52	-	-	2	21	56

- : Nil/Negligible

* : Includes data for IDBI Bank Ltd.

Source: Balance sheets of respective banks

Table III.39: Public Issues by the Banking Sector

(Rs. crore)

Year	Public Sector Banks		Private Sector Banks		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8
2004-05	3,336	-	4,108	1,478	7,444	1,478	8,922
2005-06	5,413	-	5,654	-	11,067	-	11,067
2006-07	782	-	284	-	1,066	-	1,066
2007-08	17,552	-	12,403	500	29,955	500	30,455
2007 (April-Oct)	816	-	10,063	500	10,879	500	11,379
2008 (April-Oct)	-	-	-	-	-	-	-

-: Nil/Negligible

3.97 Total premium raised by public sector banks was Rs.17,367 crore and that by private sector banks was Rs.12,179 crore (Table III.40).

3.98 Resources raised by banks through debt issues in the private placement market during 2007-08 declined by 15.5 per cent to Rs.26,199 crore (Table III.41). During April-September 2008, resources mobilised by public sector banks declined considerably by 58.3 per cent to Rs.4,558 crore, while resource mobilisation by private sector banks increased substantially by 203.0 per cent to Rs.2,251 crore.

Performance of Banking Stocks in the Secondary Market

3.99 During 2007-08, the banking stocks as represented by the Bankex (comprising 18 banking scrips) underperformed the BSE

Sensex, the broad-based index - the BSE 500, and other major sectoral indices, except IT and consumer durables. Banking stocks, however, performed better than the BSE Sensex, BSE 500 and the sectoral indices like capital goods and consumer durables during the current financial year so far (up to December 08, 2008) (Table III.42). Slowdown in GDP growth, particularly industrial growth and sharp rise in domestic inflation appeared to have adversely affecting the banking stocks. Banking sector stock also came under pressure due to concerns over the global financial turmoil.

3.100 Banking stocks also showed significantly higher volatility during 2007-08 than volatility in the BSE Sensex (Table III.43). However, during 2008-09 so far (up to December 08, 2008), volatility in BSE Sensex exceeded that of BSE Bankex.

3.101 Notwithstanding the under-performance at the industry level, at an individual bank level, the stocks of public

Table III.40: Resources Raised by Banks through Public Issues - 2007-08

Bank	Face Value (Rs.)	Issue Price (Rs.)	Size of issue (Rs. crore)		
			Amount	Premium	Total
1	2	3	4	5	6
Public Sector Bank					
Central Bank of India	10	92	80	736	816
State Bank of India	10	1,580	105	16,631	16,736
A. Sub-total			185	17,367	17,552
Private Sector Banks					
ICICI Bank Ltd.	10	940	107	9,956	10,063
ICICI Bank Ltd.			500	-	500
(Debt Issue)					
Federal Bank of India	10	250	85	2,056	2,141
Dhanalakshmi Bank Ltd.	10	62	32	167	199
B. Sub-total			724	12,179	12,903
Total (A+B)			909	29,546	30,455

-: Not Applicable.

Source : Securities and Exchange Board of India (SEBI).

Table III.41: Resources Raised by Banks through Private Placements

(Amount in Rs. crore)

Category	Public Sector Banks		Private Sector Banks		Total	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5	6	7
2006-07	26	6,639	64	24,355	90	30,994
2007-08	10	2,090	58	24,109	68	26,199
2007 (April-Sept)	6	743	21	10,924	27	11,687
2008 (April-Sept)	6	2,251	12	4,558	18	6,809

Source: Merchant Bankers and Financial Institutions.