Report on Trend and Progress of Banking in India for the year ended June 30, 2011 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 2010-11

RESERVE BANK OF INDIA

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November 14, 2011
Kartika 23, 1933 (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, 2011.

Yours faithfully,

(D. Subbarao)

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List of Select Abbreviations

AD	Authorised Dealer
ADR	American Depository Receipt
ADWDR	Agricultural Debt Waiver and Debt Relief Scheme
AFC	Asset Finance Companies
AFI	Annual Financial Inspection
AIFIs	All India Financial Institutions
ALM	Asset-Liability Mismatch
AMA	Advanced Measurement Approach
AML	Anti-Money Laundering
ANBC	Adjusted Net Bank Credit
ASA	Alternate Standardised Approach
ATM	Automated Teller Machine
BC	Business Correspondent
BCBS	Basel Committee on Banking Supervision
BCP-DR	Business Continuity Management and Disaster Recovery
BCSBI	Banking Codes and Standards Boards of India
BFS	Board for Financial Supervision
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.
CAR	Capacity Adequacy Ratio
CAS	Common Accounting System
CASA	Current Account and Savings Account
CBI	Central Board of Investigation
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Core Banking Solutions
CCAR	Comprehensive Capital Assessment Review
CCF	Credit Conversion Factors
CCP	Central Counter Party
CDs	Certificates of Deposit
CDS	Credit Default Swaps
CE	Common Equity
CEO	Chief Executive Officer
CEOBSE	Credit Equivalent Amount 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
CIC	Credit Information Company
CICs-ND-SI	Systemically Important Non-deposit taking Core Investment Companies
CMB	Cash Management Bills
CME	Capital Market Exposure
CNP	Card Not Present
CoR	Certificate of Registration
CPs	Commercial Papers
CP	Card Present
CPSS	Committee on Payment and Settlement System
CRAR	Capital to Risk-Weighted Assets Ratio
CRAs	Credit Rating Agencies
CRCS	Central Registrar of Cooperative Societies
CRE	Commercial Real Estate
CRR	Cash Reserve Ratio
DCCB	District Central Cooperative Banks
DGA	Duration Gap Analysis
DICGC	Deposit Insurance and Credit Guarantee Corporation

DIN	Director Identification Number
DLIC	District Level Implementation Committee
DR	Disaster Recovery
DRT	Debt Recovery Tribunal
DSA	Direct Selling Agents
EaR	Earnings at Risk
EBA	European Banking Authority
ECCS	Express Cheque Clearing System
ECS	Electronic Clearing Service
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 Supervisions
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EURIBOR	Euro Inter-Bank Offered Rate
EXIM Bank	Export Import Bank of India
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force
FB	Foreign Banks
FCA	Financial Conduct Authority
FCCB	Foreign Currency Convertible Bonds
FCMD	Financial Conglomerate Monitoring Division
FCNR (B)	Foreign Currency Non-Resident (Banks)
FEMA	Foreign Exchange Management Act
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
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
GoI	Government of India
GSIB	Global Systemically Important Bank
HRM	Human Resource Management
HSBC	Hong Kong and Shanghai Banking Corporation
HTM	Held to Maturity
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBA	Indian Banks' Association
ICs	Investment Companies
ICB	Independent Commission on Banking

ICDs	Inter Corporate Deposits
ICICI	Industrial Credit and Investment Corporation of India
ICT	Information and Communications Technology
IDBI	Industrial Development Bank of India
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
Ind ASs	Indian Accounting Standards
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
IT	Information Technology
IVR	Interactive Voice Response
JLGs	Joint Liability Groups
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
LEI	Long-term Economic Impact
LGD	Loss Given Default
LIBOR	London Inter-Bank Offered Rate
LIC	Life Insurance Corporation of India
LTCCS	Long-Term Cooperative Credit Structure
MAG	Macro-economic Assessment Group
MCA	Ministry of Corporate Affairs
MDG	Modified Duration Gap
MENA	Middle East and North African
MFI	Micro Finance Institution
MICR	Magnetic Ink Character Recognition
MIS	Management Information System
MoU	Memorandum of Understanding
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 Cooperative 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
NBFIs	Non-Banking Financial Institutions
NDS	Negotiated Dealing System
NDTL	Net Demand and Time Liability
NECS	National Electronic Clearing Service
NEFT	National Electronic Fund Transfer
NGO	Non-Government Organisation
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
NPA	Non-Performing Asset
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 Corporation and Development
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 Cooperative Agriculture and Rural Development Bank
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
PRA	Prudential Regulation Authority
PRBs	Private Sector Banks
PSB	Public Sector Bank
RCS	Registrar of Cooperative Societies
RIDF	Rural Infrastructural 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
SAO	Seasonal Agricultural Operations
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 Cooperative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SCs/RCs	Securitisation Companies/ Reconstruction Companies
SEBI	Securities and Exchange Board of India
SHG	Self-Help Group
SIDBI	Small Industries' Development Bank of India
SIFI	Systemically Important Financial Institution
SLIMC	State Level Implementing and Monitoring Committee
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
ST	Scheduled Tribe
StCB	State Cooperative Bank
STCCS	Short-Term Cooperative Credit Structure
T/B	Treasury Bills
TAFCUB	Task Force for Urban Cooperative Bank
TGA	Traditional Gap Analysis
TLE	Terminal Line Encryption
UBD	Urban Banks Department
UCB	Urban Cooperative Bank
UKPT	Unique Key Per Terminal
UO	Umbrella Organisations
VAPT	Vulnerability Analysis and Penetration Test
VaR	Value at Risk

Chapter I

Perspectives on the Indian Banking Sector

Domestic banks continued to manage growth with resilience during 2010-11 with ample reserves of capital and liquidity, improved performance in profitability and asset quality. With high growth potential of the Indian economy and favourable demographics, banks have immense opportunities to further expand their business both with traditional and innovative products and through financial inclusion using technology enabled sustainable business models. However, the prevailing interest rate environment and slowing growth in the near-term amidst somewhat skewed exposures to interest sensitive sectors will require adept management of such exposures going forward. Further, it will be challenging for banks to raise additional capital and liquidity to support higher growth and to comply with Basel III stipulations. This would require banks to use innovative and attractive market based funding channels, especially when capital continues to remain expensive and the Government support may be constrained by fiscal considerations. The challenge to converge with the International Financial Reporting System would require banks to upgrade infrastructure including information technology and human resources. Given the focus on inclusive growth, banks are also expected to renew efforts to broaden the scope of financial inclusion and use viable business models to achieve their targets. Finally, sustained pursuit of forward looking strategies aimed at mitigating risks, diversifying revenue sources, containing asset-liability mismatches, providing effective response to changing global market environment and improving customer relationships should strengthen the overall growth of the banking sector in the medium term.

1. Introduction

1.1 The banking sector in India emerged largely unscathed from the global financial crisis of 2007-08, but faced a slowdown in the momentum of growth due to the weakening of trade, finance and confidence channels. However, post crisis, the economic growth in most emerging market economies (EMEs) including India recovered, while growth remains anemic in advanced economies. Instability of sovereign debt markets in the Euro zone, political turmoil in the Middle East and North African (MENA) region, calamities in Japan, sovereign debt downgrade of the United States in August this year and the persistently elevated levels of commodity prices have together led to an accentuation of downside risks to global growth. While these risks are expected to recede gradually over time, the long-term sustainability of higher growth in India will depend crucially on the ability of the banking sector to mobilise the savings and meet the credit needs of the growing economy through innovative financial instruments and services that foster financial inclusion and provide efficient and transparent delivery of credit.

1.2 Despite the challenging headwinds from domestic and international developments, the performance of Indian banks remained robust during 2010-11. The resilience of the banking sector was marked by improvement in the capital base, asset quality and profitability. The profitability of scheduled commercial banks (SCBs) improved both in terms of return on assets (RoA) and return on equity (RoE). Simultaneously, both gross and net NPA ratios declined in comparison with the previous year. Since the Indian financial system is bank dominated, banks' ability to withstand stress is critical to overall financial stability. 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 A detailed description of perspectives on global developments is covered in Chapter II on Global Banking Developments. Against this background, some relevant perspectives about the Indian banking sector are outlined.

2. Forces Shaping the Environment

Are Indian banks adequately prepared for migration to Basel III regime?

1.4 Commercial banks in India have already adopted standardised approaches under Basel II. It is time for larger banks to seriously consider upgrading their systems and migrating to advanced approaches. Adoption of advanced approaches requires simultaneous use of the underlying processes in the day-to-day risk management of banks. In the background of the recent global regulatory developments, a question often discussed is whether the Indian banks are prepared for Basel III. The building blocks of Basel III are by now quite well known: higher and better quality capital; an internationally harmonised leverage ratio to constrain excessive risk taking; capital buffers which would be built up in good times so that they can be drawn down in times of stress; minimum global liquidity standards; and stronger standards for supervision, public disclosure and risk management. Quick assessments show that at the aggregate level Indian banks will not have any problem in adjusting to the new capital rules both in terms of quantum and quality. Indian banks are comfortably placed in terms of compliance with the new capital rules.

1.5 One point to note though is that the comparative position is at the aggregate level; a few individual banks may fall short of the Basel III norms and will have to augment their capital. There will be challenges of upgrading risk management systems and meeting the credit needs of a rapidly growing economy even while adjusting to a more demanding regulatory regime. In addition to countercyclical capital buffers, Basel III also envisages countercyclical provisions.

1.6 In India, banks have a stock of floating provisions which the Reserve Bank has not permitted to be used, except under a situation of systemic stress. While the floating provisions may serve the purpose of countercyclical provision, a framework is necessary for allowing its use. As an interim measure, the Reserve Bank has been trying to develop a methodology based on the Spanish dynamic provisioning system. This, however, has not been easy given the lack of required data and analytics with the banks. Migration to Basel III requires a high level of liquidity to be maintained through a pool of liquid assets. The definition of liquid assets is very stringent including the requirement that they should be freely available.

Are the Indian banks geared up for transition to the International Financial Reporting System (IFRS)?

1.7 Converging to global accounting standards, *i.e.,* IFRS facilitates comparability between enterprises operating in different jurisdictions. Convergence would help to reduce both the cost of capital and cost of compliance for industry. Training, education and skill development are cornerstones of a successful IFRS implementation. All the stakeholders including investors, accountants, auditors, customers, software and hardware vendors, rating agencies, analysts, audit committees, actuaries, valuation experts and other specialists will need to develop an understanding of IFRS provisions to varying degrees and what they need to do. It is not only the accounting issues but how to address the non-accounting issues that will determine how successfully banks make a transition to IFRS. Additionally, banks will need to upgrade their infrastructure, including IT and human resources to face the complexities and challenges of IFRS. Some major technical issues arising for Indian banks during the convergence process are the differences between the IFRS and current regulatory guidelines, in particular, those within the ambit of International Accounting Standard (IAS) 39 replacement project relating to classification and measurement of financial assets and liabilities.

Interconnectedness in the banking sector and vulnerability of financial system

1.8 Post-crisis, macro-prudential policy has emerged as an important tool for addressing systemic risk, highlighting its time and the cross sectional dimensions. While the time dimension refers to pro-cyclical elements that give rise to the evolution of aggregate risk over time, the cross section dimension is concerned with distribution of risks which can be exacerbated owing to the interconnectedness in the financial system. Financial interconnectedness as a part of macro-financial surveillance is the key issue in discussions on prudential regulation policies as it can magnify idiosyncratic shocks across the financial system. To put in place an effective system of macro-prudential surveillance of the financial system, the Reserve Bank has started using network analysis techniques to model inter-bank exposures. The analysis revealed that the banking sector in India is deeply connected. Further, the contagion analysis made on the basis of network analysis underlined that interconnectedness in the banking sector gives rise to vulnerability of financial system in the event of failure of one or more banks depending on the degree of interaction. The contagion impact is relatively contained due to regulatory limits on interbank exposures. However, the impact may be more significant if other entities like other banks, NBFCs, and mutual funds are included for analysis.

Current and emerging environment offers sound business opportunities to the banks

1.9 The emerging economic environment provides a number of opportunities for the Indian banking sector. Factors like expected positive economic performance, strong savings growth spurred by the favourable demographic dividend, emphasis on expansion of physical infrastructure and the extent of financial exclusion to be bridged will ensure growth of the banking sector in medium term. To exploit emerging opportunities and to benefit from their strengths, Indian banks need to be globally competitive. From a strategic perspective, competitiveness can be achieved by balancing factors such as scale, scope, prudence and knowledge.

3. Strategic and Operational Responses

Migration of financial conglomerates in India to holding company structure

1.10 At present, most of the financial groups in India are led by banks and organised under the Bank Subsidiary model. This model puts the onus on the parent bank for corporate governance, performance and capital requirement of subsidiaries. Besides, the parent carries very substantial reputational risk. The Working Group on 'Introduction of Holding Company structure in India for banks' has recommended migration of major financial conglomerates to the holding company structure to address these limitations to some extent. The main challenges in implementing the recommendations include, formulating a new law governing functioning of financial holding companies, providing right incentives to the existing financial conglomerates through appropriate tax treatment and resolution of strategic and public policy issues by the Government in the case of public sector banks.

Introducing innovative financial products as an efficient way to manage risks

1.11 Introducing innovative financial products is an efficient way to manage risks involved in the banking business. From this point of view, the decision to introduce credit default swaps (CDS) with effect from October 24, 2011 is a welcome development. However, given their complex nature, CDS shall be permitted on listed corporate bonds, unlisted but rated bonds of infrastructure companies and unlisted/ unrated bonds issued by the Special Purpose Vehicles (SPVs) set up by infrastructure companies as reference obligations, and the reference entities shall be single legal resident entities. The guidelines also require market participants to build robust and appropriate risk management systems. Newer skill sets for managing newer areas and unfamiliar elements of risks would continue to pose questions even to the most advanced banks. The implementation of innovative financial products requires diligent assessment of counterparty and related risks. Banks will have to adopt an approach to re-evaluate their risk management acumen in a manner that calls for higher levels of transparency, structural integrity and operational control. While expanding market is a matter of survival, a further challenge for the banks would be to ring-fence their operations by establishing a sound risk management system that is not only protective but also inclusive and acts as a business enabler.

Management of asset quality

1.12 While gross NPAs, in percentage terms, have declined steadily from 15.70 per cent at end March 1997 to 2.25 per cent at end March 2011, this does not fully reveal the underlying realities and some trends are a matter of concern, which could put pressure on asset quality of banks in future. Aggressive lending during the high credit growth phase followed by the crisis resulted in slippage with gross NPA ratio steadily rising from 1.81 per cent at end March 2008 to 2.21 per cent at end March 2010, followed by a slight moderation to 2.01 per cent in 2011. The concern is that the recoveries have not kept pace with slippages since 2007-08. Rising interest rates and substantial amount of restructuring done during the crisis period, if not done with due care, are likely to put further pressure on asset quality of banks. Further, asset quality of banks needs to be closely watched in the changing interest rate environment as the sticky loan portfolio of small and medium enterprises might rise. Therefore, there is a need for banks to step up efforts to resolve their existing NPAs and tighten their credit risk management systems.

Robust business continuity management and disaster recovery

1.13 The extensive use of technology systems in transaction processing and settlement in retail as well as inter-institution and interbank markets requires adequate availability and capacity to handle the increasing load on these systems for smooth functioning of financial markets and banking industry in India. Data centres managed by the Reserve Bank, and Indian Financial Network (INFINET), the communication backbone for the financial sector managed by the Institute for Development and Research in Banking Technology (IDRBT), continued to provide robust support during the year. Software changes were made in Real Time Gross Settlement (RTGS) and Public Debt Office-Negotiated Dealing System (PDO-NDS) applications to enhance performance and introduce new functionalities. The next generation RTGS with advanced technology and new functionalities is also in the pipeline, which would have features such as advanced liquidity management facility, extensible markup language based messaging system conforming to ISO 2002, and real time information and transaction monitoring and control system. Periodic drills were conducted to get feedback and assurance on the effectiveness of the

Business Continuity management and Disaster Recovery (BCP-DR) arrangements for shared infrastructure and Payment and Settlement Systems. A quarterly report on the BCP-DR and Vulnerability Analysis and Penetration Testing (VAPT) exercise conducted by commercial banks at their end was also obtained and significant points emerging out of the same are included in the inputs for analysis and suitable incorporation in the periodical Financial Stability Report.

4. Challenges

Need for further improving the efficiency parameters of the Indian Banks

1.14 The Indian banking sector has recorded an impressive improvement in productivity over the last 15 years; many of the productivity/ efficiency indicators have moved closer to the global levels. There has been a particularly discernible improvement in banks' operating efficiency in recent years owing to technology up-gradation and staff restructuring. However, to sustain high and inclusive growth, there is a need to raise the level of domestic savings and channel those savings into investment. This implies that banks need to offer attractive interest rates to depositors and reduce the lending rates charged on borrowers - in other words, reduce the net interest margin (NIM). The NIM of the Indian banking system is higher than that in some of the other emerging market economies even after accounting for mandated social sector obligations such as priority sector lending and credit support for the Government's anti-poverty initiatives.

1.15 By far the most important task is to further improve operating efficiency on top of what has already been achieved by optimising operating costs, *i.e.,* non-interest expenses including wages and salaries, transaction costs and provisioning expenses. This will enable banks to lower lending rates while preserving their profitability. If pursued effectively, financial inclusion will provide banks access to sizeable low cost funds as also opportunities for lending in the small volume segment. The latter should be possible since the Reserve Bank has deregulated the interest rate that can be charged on small value loans. To gainfully pursue financial inclusion, banks will need to constantly reinvent their business models and design products and services demanded by a growing economy with rapid structural transformation.

Challenges to further strengthening inclusive growth

1.16 The banking sector is a key driver of inclusive growth. There are supply side and demand side factors driving inclusive growth. Banks and other financial services players largely are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Banks were advised to ensure close and continuous monitoring of Business Correspondents (BCs). They were also advised to focus, in future, on opening of some form of low cost brick and mortar branches between the base branch and BC locations. Further, banks were required to make efforts to increase the number of transactions in no-frill accounts. There should be seamless integration of the financial inclusion server with their internal core banking solution (CBS) systems and in the case of end-to-end solution, there should be a clear demarcation of the technology related activities and BC related activities of their service providers. However, banks must bear in mind that apart from the supply side factors, demand side factors, such as lower income and /or asset holdings also have a significant bearing on inclusive growth.

1.17 Banks also need to take into account various behavioural and motivational attributes of potential consumers for a financial inclusion strategy to succeed. Today, access to financial products is constrained by several factors, which include: lack of awareness about the financial products, unaffordable products, high transaction costs, and products which are not convenient, inflexible, not customised and of low quality. A major challenge of the next decade is financing the millions in the unorganised sector, self-employed in the micro and small business sector, the small and marginal farmers as also rural share-croppers in the agricultural sector. Other challenges include financing affordable housing and education needs of low income households.

Need for effective corporate governance in banks

1.18 Banks are different from other corporates in important respects and that makes corporate governance of banks not only different but also more critical. Banks facilitate economic growth, are the conduits of monetary policy transmission and constitute the economy's payment and settlement system. By the very nature of their business, banks are highly leveraged. They accept large amounts of uncollateralised public funds as deposits in a fiduciary capacity and further leverage those funds through credit creation. Banks are interconnected in diverse, complex and opaque ways underscoring their 'contagion' potential. If a corporate fails, the fallout can be restricted to the stakeholders. If a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy. While regulation has a role to play in ensuring robust corporate standards in banks, the point to recognise is that effective regulation is a necessary, but not a sufficient condition for good corporate governance. In this context, the relevant issues pertaining to corporate governance of banks in India are bank ownership, accountability, transparency, ethics, compensation, splitting the posts of chairman and CEO of banks and corporate governance under financial holding company structure, which should engage adequate attention.

Need to review laws governing the Indian banking sector

1.19 The extant statutory arrangement is complex with different laws governing different segments of the banking industry. The nationalised banks are governed by the Banking Companies (Acquisition and Transfer of Undertaking) Acts of 1970 and 1980. State Bank of India and its subsidiaries are governed by their respective statutes. Private sector banks come under the purview of the Companies Act, 1956 and the Banking Regulation Act, 1949. Foreign banks which have registered their documents with the registrar under Section 592 of the Companies Act are also banking companies under the Banking Regulation Act. Certain provisions of the Banking Regulation Act have been made applicable to public sector banks. Similarly, some provisions of the RBI Act too are applicable to nationalised banks, SBI and its subsidiaries, private sector banks and foreign banks. Notwithstanding this wide array of legislations of varying vintage, the statutory arrangement has served the system well by helping maintain an orderly banking system. Needless to say, each of the statutes was crafted in a setting reflecting the needs and concerns of the time. Almost all the statutes have had to be amended from time to time to reflect changes in circumstances and context. There is a strong case for reviewing all the various legislations and recasting them for a number of reasons. There is also a need to iron out inconsistencies between the primary laws governing the banking sector and other laws applicable to the banking sector. The decision of the Government to set up a Financial Sector Legislative Reforms Commission "to rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector" is very timely and very vital. It is important, however, to recognise that changes in policy or in the regulatory architecture cannot be the remit of a Legislative Reforms Commission. Rather, they should be debated and decided upon as a prelude to the work of the Commission so that the Commission has a clear mandate on the policy directions.

Can the Indian banks aim to become global in stature?

1.20 Of late, there is a debate on whether the Indian banks should aim to become global? In this context, there is a need to view the related costs and benefits analytically and also view this as an aspiration consistent with India's growing international profile. Two specific questions that need clarity in this context are: (i) can Indian banks aspire to achieve global size? and (ii) should Indian banks aspire to attain global size? On the first question, it is unlikely that any of the Indian banks will come in the top ten of the global league even after reasonable consolidation. On the next question, those who argue that banks must go global contend that the issue is not so much the size of our banks in global rankings but of Indian banks having a strong enough global presence. The main argument is that the increasing global size and influence of Indian corporates warrant a corresponding increase in the global footprint of Indian banks. The opposing view is that Indian banks should look inwards rather than outwards, focus their efforts on financial deepening at home rather than aspiring to global size. It is possible to take a middle path and argue that looking outwards towards increased global presence and looking inwards towards deeper financial penetration are not mutually exclusive; it should be possible to aim for both. In the wake of the global financial crisis, there has definitely been a pause to the rapid expansion overseas of our banks. Notwithstanding the risks involved, it will be opportune for some of the larger banks to be looking out for opportunities for consolidation. The surmise, therefore, is that Indian banks should increase their global presence. In the rapidly changing global financial landscape, it is imperative for the Indian banks to think global but act local.

Costs and risks in using technology to change the face of banking

1.21 Technology adoption has changed the face of banking in India. Wide spread technology deployment in the banking business has also brought to the fore some new issues and challenges. These can be broadly divided into two categories - costs and risks. Costs, in terms of increasing expenditure on IT deployment and risks that are resulting from reliance on IT systems without necessary safeguards. Cost aspects can be addressed by synergising IT deployment objectives with the broader, strategic business objectives to ensure adequate operational and management controls over purchase as well as maintenance of appropriate technology solutions. The second aspect relating to IT risks is a very critical issue. With the increased use of IT, there are attendant risks posed to the banks as well as their customers in terms of monetary loss, data theft, breach of privacy and banks need to be extremely cognizant of such risks. Another significant aspect of banking business is regulatory and supervisory compliance. With the growth and globalisation of markets in general and in the aftermath of recent crisis in particular, number of such compliance requirements is increasing. Basel II and III implementation brings in huge challenges. Banks have adopted technology, but the benefit of technology has not fully percolated in terms of cost, speed and convenience. Empowering customers with technology-driven benefits is a big challenge.

Emerging trends in payment systems and related challenges

1.22 The smooth functioning of the market infrastructure for enabling payment and settlement systems is essential for market and financial stability, as also for economic efficiency, and for the smooth functioning of financial markets. The financial sector and the payment and settlement system infrastructure have to be subservient to the real sector. The evolving payment systems scenario offers new challenges and opportunities to all segments of this industry. To leverage on the opportunities provided by new products, the system providers/banks need to ensure that the challenges are adequately addressed. It also has to be ensured that the products cover all segments of the population and provide an incentive to adopt these products. The regulatory process will support all orderly development of new systems and processes, within the legal mandate. The important issues in this context are how banks can provide cost-effective, safe, and speedier and hassle free payment and settlement products and solutions.

Some concerns related to financial stability

1.23 Despite the fragility of the global macro-financial environment, the macroeconomic fundamentals for India have remained robust. Further, since December 2010, the financial markets remained stress-free and the forecast of the values of the Financial Stress Indicator pointed out that they were likely to remain stable in the near term. Some emerging trends that may be of immediate concern in respect of financial stability are, (i) the possibility of spillovers from increasing financialisation of commodities to financial markets, (ii) interest rate differentials *vis-à-vis* advanced economies, which could propel foreign funding by Indian corporates leading to currency mismatches, (iii) rollover risks of maturity of Foreign Currency Convertible Bonds (FCCBs) requiring refinancing at higher interest rates, and (iv) disproportionate growth in bank credit to four specific sectors, *viz*., real estate, infrastructure, NBFCs and retail credit coupled with persistent asset-liability mismatches, reliance on borrowed funds and enhanced requirement of provisioning for NPAs. Stress tests suggest that the banking sector remains fairly well capitalised and resilient to asset quality shocks and other plausible adverse changes in macroeconomic scenario. Issues pertaining to regulatory gaps remaining in the NBFC sector that impinge on financial stability are being addressed by enhancing the scope of the regulatory perimeter while vulnerabilities in the liquidity risk management systems of domestic central counterparties are being weighed in terms of new mechanisms for bail-outs.

5. The Way Forward

1.24 While the opportunities to grow further are on increase, banks do have to contend with new challenges as they move forward. The recent deregulation of savings bank deposit interest rates announced on October 25, 2011 may initially lead to some competition, as banks with low share of savings deposits may like to garner a larger share of such deposits. However, this process may not be disruptive. The provisioning in lieu of pension liabilities and slippages in incrementally high growth loan portfolios in sensitive sectors such as retail and real estate sectors may impact profitability. A specific area of concern that has come to the fore is the concentrated and high pace of lending to the infrastructure sector by the public sector banks (PSBs), raising the apprehensions of increasing delinquencies in the future. As mentioned earlier, banks also face challenges in respect of demanding needs of supporting growth through financial inclusion and efficient credit intermediation through technology and product innovation.

1.25 It is important to recognise that with further globalisation, consolidation, deregulation and diversification of the financial system, the banking business is set to become more complex and riskier. Issues like complex risk management, appropriate liquidity management and enhancing skill development are some challenges already visible in the Indian context. The interface between banks and financial markets has undergone a fundamental shift in the recent times. The banks have become intricately linked to financial markets and hence more vulnerable to financial markets stress.

While technological advancements in IT have led to discernible improvement in the efficiency of banking services, banks have not gained in terms of efficiency partly because of lack of business process re-engineering. The challenge is to leverage technology optimally to balance growth, efficiency and risk management objectives.

Medium term outlook

1.26 To take full advantage of the opportunities while addressing the new challenges, the process of institutional strengthening assumes critical importance. Banks need to build on four principles, *viz.*, efficiency, stability, transparency and inclusion. The three balancing acts that the banking sector development strategy needs to perform are: between the drivers of banking sector growth and the requirements of the larger growth and development agenda; between the benefits and risks of greater global integration; and between the advantages of scale and the compulsions of diversity. As articulated earlier, expected economic performance, robust savings, policy thrust to expand infrastructure and further strengthening of financial inclusion are expected to ensure robust growth of the banking sector in medium term.

1.27 In the long term, however, the most significant task of the Indian banking sector is to ensure that banking products and services are made available to every individual in the country efficiently to achieve total financial inclusion. Going forward, filling the void called 'financial exclusion' is the critical responsibility of banks. Despite all the challenges and issues to be addressed, the banking sector in India can look forward to enormous opportunities in their quest for long term growth. The banking sector needs to focus on growth through inclusion, innovation and diversification while complying with domestic regulations and internalising international best practices.

Chapter II

Global Banking Developments

The year 2010, and 2011 so far, has been a difficult period for the global banking system, with challenges arising from the global financial system as well as the emerging fiscal and economic growth scenarios across countries. The Global Financial Stability Report in September 2011 has cautioned that for the first time since October 2008, the risks to global financial stability have increased, signaling a partial reversal in the progress made over the past three years. Banking systems in advanced economies have continued to be on uncertain grounds on account of a lacklustre economic revival and increasing sovereign credit strains. The US, despite riding on the QE2 wave, has witnessed its economic recovery losing steam and has experienced a downgrading of its sovereign. The US banking system, which showed signs of improvement in credit growth and profitability in 2010, now faces a serious question about whether this revival in the banking system would continue in the near future. The banking system in the Euro zone, as a whole, stands vulnerable to mounting credit, market and funding risks as a result of severe deterioration in public finances in certain European countries. Further, many of these banks require recapitalisation to cushion them from the risk of sovereign defaults. In the UK too, banking system continues to be beleaguered by high leverage and weak asset quality. In major emerging economies, credit growth has been at relatively high levels and is being regarded as a cause of concern given the growing inflationary pressures and increasing capital inflows. Further, concerns are also being expressed about the credit growth laying foundations for a weak asset quality in the years to come. On the positive side, both advanced and emerging economies, individually, and multi-laterally, have moved forward towards strengthening macro-prudential oversight of their banking systems. While it is important to keep up efforts towards strengthening the banking system from within, it is also equally important to develop effective solutions for containing fiscal and economic risks, which at the present juncture, threaten the stability of the global banking system from without. All such solutions need to be designed keeping in mind the larger interests of the global economy.

1. Introduction

2.1 For the global economy, the year 2010 was replete with a mixed sense of optimism and concerns. The optimism was attributed to a somewhat encouraging 'two speed' recovery, in advanced and emerging economies, after a major slump in economic growth in 2009 following the financial crisis. The concerns, however, were on account of escalating sovereign risks in the Euro zone and heightened inflationary pressures marked by uncertainty in the Middle East and North Africa (MENA) region. The beginning of 2011 has seen the optimism giving way to greater concerns on account of a projected slowdown of the global economy in general, and the US economy in particular, for 2011. Further, sovereign risks have strengthened even in the US with an increase in sovereign debt ceiling along with a downgrading of the rating of the US sovereign by the credit rating agency of Standard and Poor's.

2.2 In this milieu, the performance of the global banking system too has been characterised by a mixed bag of a few positive developments and a number of shortfalls. The positive developments have been in terms of the efforts by countries towards revamping their regulatory and supervisory architecture learning from the crisis, along with an effort to step up capital adequacy of banks. The major shortfalls, however, have been the lack of a widespread revival of the global banking activity, which could be characterised by improved credit growth, profitability and asset quality, and lower leverage.

2.3 Against this setting, this chapter analyses the performance of the global banking system using major indicators of banking activity and soundness for select advanced and emerging economies. It also looks into the detailed individual performance of the banking systems in few advanced and emerging economies/ economy-groups. Finally, at the institutional level, it analyses the performance of the top-100 banks having major global presence. It then highlights the major regulatory and supervisory policy initiatives with regard to the global banking system during the year.

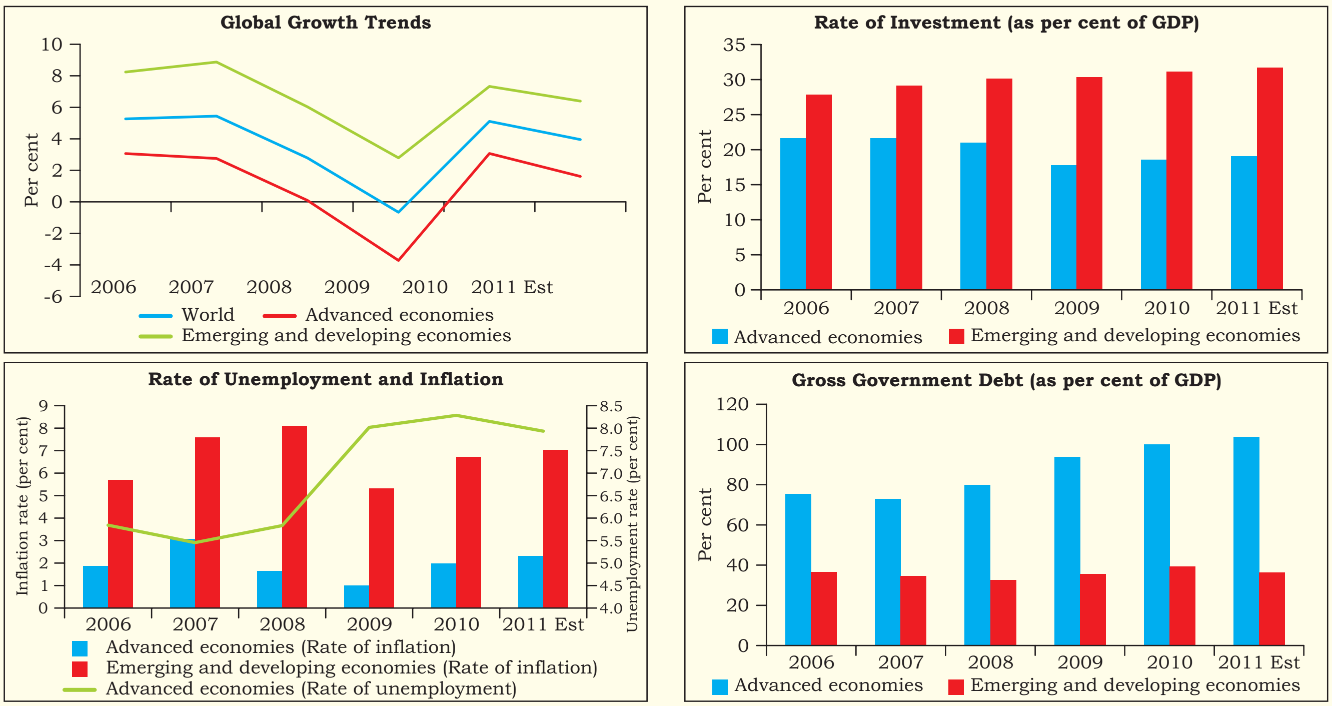
2. Global Banking Trends

2.4 The current global macro-economic situation is characterised by an unbalanced economic recovery across advanced and emerging economies, moderation in economic prospects in 2011, high levels of unemployment and inflationary pressures, and elevated levels of government debt (Chart II.1).

Macro-economic risks have increased substantially

2.5 In its September 2011 World Economic Outlook, the International Monetary Fund (IMF) has estimated a growth of 4.0 per cent for the world economy as a whole during 2011, with emerging and developing economies growing at 6.4 per cent and advanced economies growing only at 1.6 per cent. The estimate for advanced economies of 1.6 per cent provided in September

Chart II.1: Global Macro-economic Trends



Note: The rate of unemployment is not reported separately for emerging and developing economies.
Source: Calculated from World Economic Outlook database

2011 was lower than the estimate of 2.2 per cent provided in June 2011 in light of the lower quarterly GDP growth of leading advanced economies. The rate of unemployment in advanced economies has been little over 8 per cent in 2010 albeit with some moderation expected in 2011 as per the IMF estimates. Inflationary pressures, which had become stubborn in 2010, more so for emerging economies as a fallout of rising oil, food and commodity prices, are expected to aggravate further in 2011.

Uncertainty about credit revival continues

2.6 Against the macro-economic backdrop discussed in the foregoing section, banking business in some advanced economies showed signs of revival in 2010. An increase in the growth of bank credit was evident in the US, Germany and France in the first quarter of 2011 after entering into the negative growth zone after the crisis. However, there is an uncertainty about whether this credit revival would continue or not, given the picture of economic revival looking bleak in the US and now, even in Germany[1]. In fact, credit growth has again witnessed a slump in the second quarter of 2011 in the US. In the UK and Japan, bank credit growth, which had entered a downtrend since the beginning of 2009, has shown a recovery in 2011, but has remained in the negative zone. Other advanced economies from Europe, particularly countries with fiscal strains, namely Portugal, Spain and Italy, showed a steep fall in the growth in bank credit with no signs of revival by 2011 (Chart II.2).

Return on Assets showed a moderate increase

2.7 Apart from the pickup in credit growth, Return on Assets (RoA), an indicator of banking system's profitability and soundness, also showed a moderate increase in the US and France in 2010 (Table II.1). The RoA of US banks turned positive by 2010 after staying in the negative zone in 2008 and 2009; it showed a further increase in 2011 (March). In Russia, China and Malaysia, RoA of the banking system, which had dipped between 2008 and 2009, recovered between 2009 and 2010. In Russia and Malaysia, the trend of increase in RoA continued even in 2011 (March). The RoA of Indian banks too showed a modest rise between 2008 and 2010.

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

Country	2007	2008	2009	2010	2011*
Advanced economies					
France	0.4	0.0	0.4	0.6	…
Germany	0.3	-0.1	0.2	…	…
Greece	1.0	0.2	-0.1	-0.6	-0.3
Italy	0.7	0.3	0.2	…	…
Japan	0.3	-0.3	0.2	0.4	…
Portugal	1.2	0.4	0.4	0.5	0.5
Spain	1.1	0.8	0.6	0.5	…
United Kingdom	0.4	-0.4	0.1	0.2	…
United States	1.2	-0.1	-0.1	0.9	1.2
Emerging and developing economies					
Russia	3.0	1.8	0.7	1.9	2.3
China	0.9	1.0	0.9	1.0	…
India	0.9	1.0	1.1	1.1	…
Malaysia	1.5	1.5	1.2	1.5	1.8
Brazil	3.4	1.5	2.4	3.2	3.3
Mexico	2.3	1.4	1.5	1.8	1.6

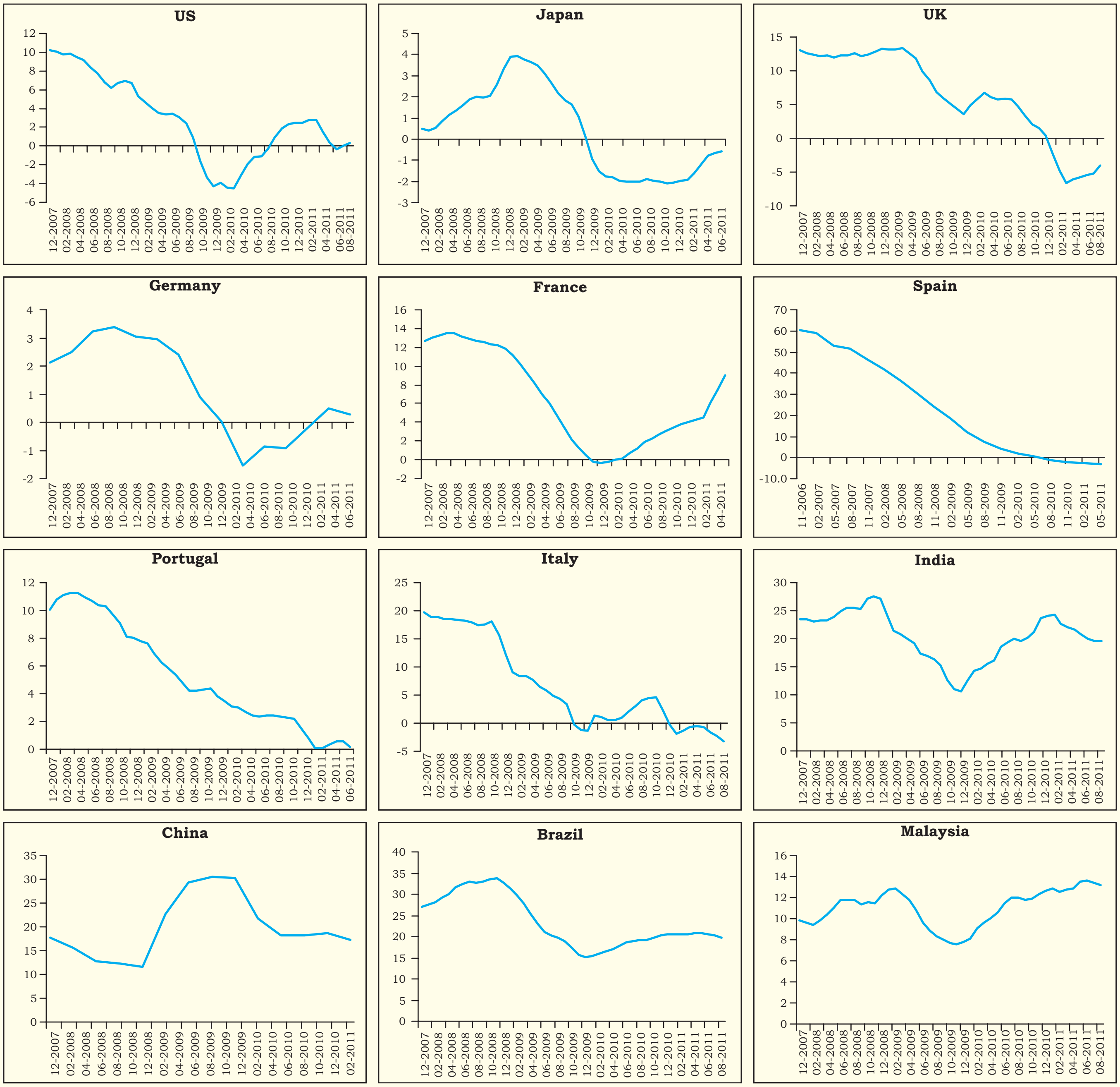
Source: Compiled from Financial Soundness Indicators, IMF
… Not available
* Up to the period ending March

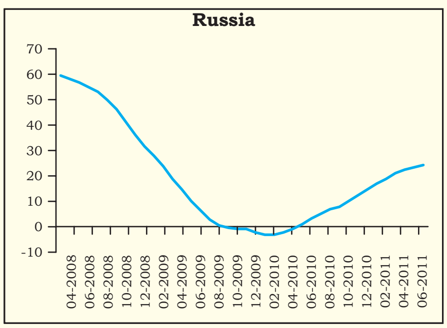
Disappointing performance of bank stocks

2.8 Changes in bank stock indices, which are generally associated with changes in balance sheet and profitability growth of banks, were globally on a path of slow recovery since the beginning of 2009. In the US, there was an upward movement in the prices of bank stocks but this was within a narrow range, reflecting weak confidence of investors in these stocks (Chart II.3). Moreover, there was a striking downtrend in bank stocks in the US since the

[1] The US GDP growth in the first quarter of 2011 slowed down to 0.4 per cent and recovered, albeit moderately, to 1.3 per cent in the second quarter. In Germany, GDP growth was 1.3 per cent in the first quarter of 2011 but declined to 0.1 per cent in the second quarter of the year.

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

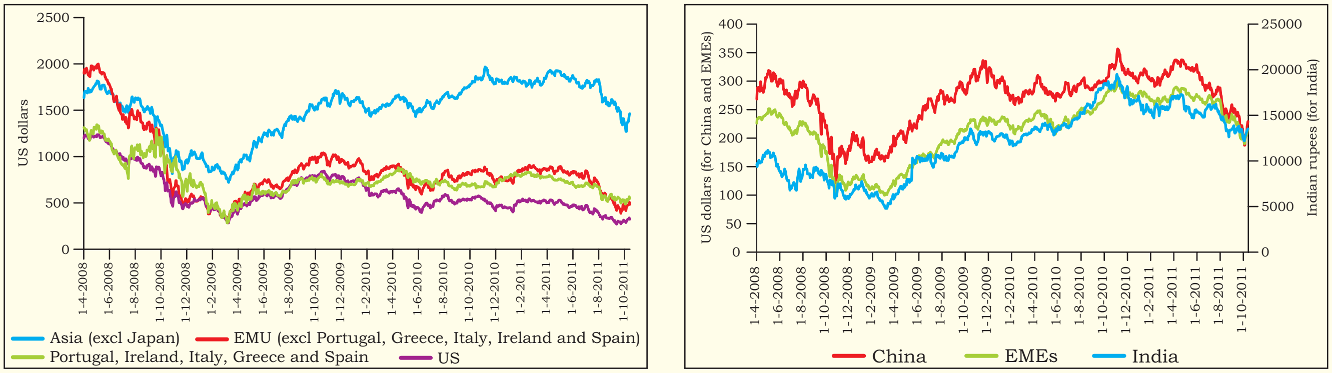




Note:
1. Data for Spain are available with quarterly frequency. Hence, its growth rates are reported as quarter-over-quarter. Growth rates for all other countries are month-over-month growth rates smoothened out using three-year moving average method.
2. Bank credit refers to private credit for Germany, Russia, Spain, UK, France 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.

Source: Calculated from Thomson Reuters, DataStream

Chart II.3: Bank Stock Indices in Select Economies/Economy Groups



Note: EMU refers to European Monetary Union.
Source: Compiled from Thomson Reuters, DataStream

beginning of 2011. A similar downtrend could also be seen in bank stocks of the fiscally strained economies. In EMEs as a whole, and in China, bank stock indices moved upwards very slowly since the beginning of 2009. Among EMEs, the upward movement in bank stocks since the beginning of 2009 was significant for India, resulting in the index overshooting its pre-crisis mark by the end of 2010.

Revival in international banking business

2.9 In 2010-11 (March), there was considerable revival in international banking business (by location of reporting banks) continuing with the trend in 2009-10. During 2008-09, international assets and liabilities of banks had contracted significantly in the aftermath of the financial crisis (Table II.2).

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

Item	2007-08	2008-09	2009-10	2010-11
Total assets	**26.1**	**-17.5**	**0.2**	**5.4**
1. External assets	26.6	-17.5	0.1	5.3
Loans and deposits	28.2	-19.0	-1.0	6.7
Holdings of securities and other assets	22.1	-13.2	3.0	1.9
2. Local assets in foreign currency	22.4	-17.5	0.7	5.7
Total liabilities	**26.5**	**-18.0**	**-0.7**	**7.1**
1. External liabilities	27.4	-18.6	0.2	6.6
Loans and deposits	26.5	-21.2	-1.3	6.0
Own issues of securities and other liabilities	33.7	-2.0	7.4	9.5
2. Local liabilities in foreign currency	20.8	-14.4	-6.1	10.5

Source: Calculated from BIS, Locational Banking Statistics.

2.10 In most advanced countries, the quantum of international assets and liabilities (in all currencies *vis-à-vis* all sectors) also showed a similar trend of increase between end-March 2010 and end-March 2011 (Chart II.4). Among advanced countries, the increase in international business was most striking for banks located in the US and UK. Even in the emerging economies, the increase in international banking business gained considerable momentum by the first quarter of 2011. Latin American banks increasingly resorted to the issuance of securities, leading to a sharp growth in the international liabilities of these banks.

Financial soundness of banks

1. Increase in levels of capital adequacy

2.11 The level of capital adequacy across banks in most advanced economies was on a steady rise between 2008 and 2010 (Table II.3). By 2010, in the UK, US, Japan and Germany, Capital to Risk-weighted Assets Ratio (CRAR) was placed above 15 per cent. The ratio showed a further increase for US and German banks in the first quarter of 2011. Among the major emerging economies, however, the level of capital adequacy showed a moderate decline between 2009 and 2010, with the exceptions of China, India and Mexico. Both Mexican and

Chart II.4: International Assets/Liabilities of Advanced and Emerging Economies

Note: Data for 2007 for Malaysia are not available.
Source: Compiled from BIS Locational Banking Statistics

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

Country	2007	2008	2009	2010	2011*
Advanced economies					
France	10.2	10.5	12.4	12.3	...
Germany	12.9	13.6	14.8	16.1	16.6
Greece	11.2	9.4	11.7	11.4	12.3
Italy	10.4	10.8	12.1	12.3	...
Japan	12.3	12.4	15.8	16.7	...
Portugal	10.4	9.4	10.5	10.2	10.5
Spain	11.4	11.3	12.2	11.8	...
United Kingdom	12.6	12.9	14.8	15.9	...
United States	12.8	12.8	14.3	15.3	15.5
Emerging and developing economies					
Brazil	18.7	18.2	18.9	17.6	18.2
China	8.4	12.0	11.4	12.2	11.8
India	12.3	13.0	13.2	13.6	...
Malaysia	14.4	15.5	18.2	17.5	16.4
Mexico	15.9	15.3	16.5	16.9	16.5
Russia	15.5	16.8	20.9	18.1	17.2

Source: Compiled from Financial Soundness Indicators, IMF
... Not available
* Up to the period ending March/May

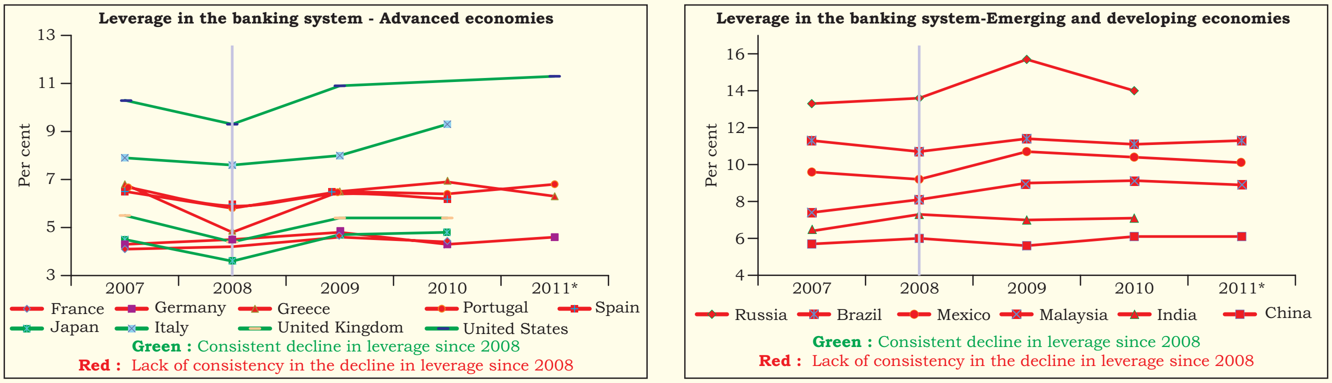
Chinese banks showed a moderate decline in their capital positions by March 2011.

2. Uneven decline in leverage

2.12 There was unevenness in the decline in banking sector leverage across countries after the crisis; here, the percentage of total capital (and reserves) to total assets has been taken as an indicator of leverage in the banking system[2]. In the US, leverage in the banking system showed some moderation between 2008 and 2010 (Chart II.5). This trend for US banks continued further in the first quarter of 2011. A moderation in leverage could also be seen for UK banks between 2008 and 2010. Notwithstanding this moderation, the extent of leverage for UK banks continued to be at relatively high levels.

[2] As per the baseline proposal for leverage ratio put forward by the BCBS under its Basel III rules text, (i) the *capital* measure should include Tier 1 capital and the predominant form of Tier 1 capital, while (ii) total *exposure* should include exposure net of provisions and other valuation adjustments. Hence, the measure of leverage used for the present analysis has been referred to as preliminary. It directly follows the measure provided by the IMF in its Financial Soundness Indicators (FSI) database. It is noteworthy, however, that the IMF while discussing this measure, refers to it as a "leverage ratio"; see "Concepts and Definitions" of FSI, <www.imf.org>.

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



Source: Compiled from Financial Soundness Indicators, IMF
* Up to the period ending March

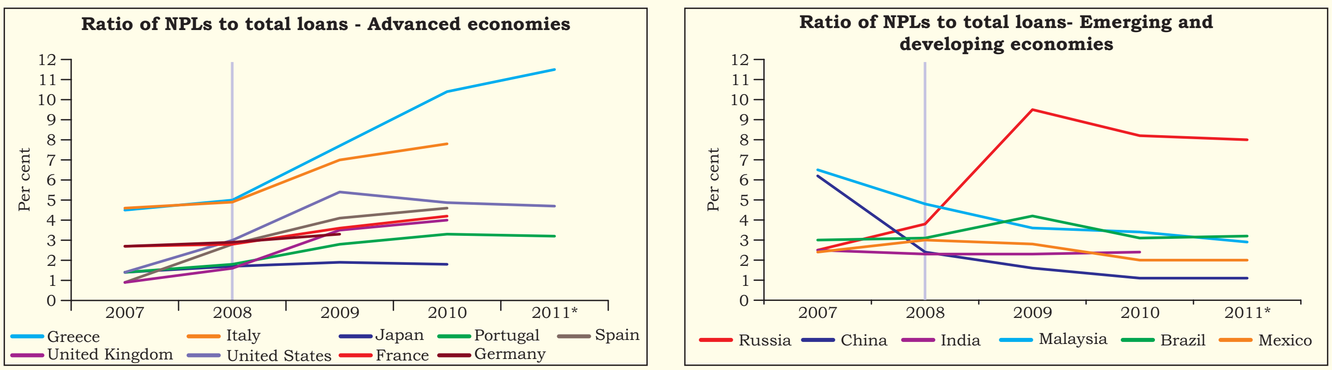
Deleveraging had not gained any significant momentum in the banking systems of other advanced European economies, *viz.*, France, Germany, Portugal, Greece and Spain, treating 2008 as the reference point.

2.13 In major emerging economies, banking systems were generally less leveraged than most advanced economies. Moreover, the banking systems in these economies did not show signs of any perceptible increase in leverage during the crisis period. However, treating 2008 as the reference point, in many emerging economies, there was an increase in the leverage of their banking systems in the post-crisis period. The Global Financial Stability Report (GFSR) (September 2011) has in fact highlighted releveraging as a major concern for banking systems in emerging economies.

3. Weakening asset quality

2.14 Globally, there was little improvement in the asset quality of banks since the onset of the financial crisis. According to the GFSR (September 2011), credit risks have risen and continue to be the key potential risk to global financial stability. The Report went on to add that improvements in credit risks had lagged behind improvements in the real economy. There was a trend of increasing Non-Performing Loans (NPLs) ratio across most advanced economies between 2008 and 2010 with the exception of the US. In the US, there was a moderate improvement in asset quality between 2009 and 2010, which continued in the first quarter of 2011 (Chart II.6). In complete contrast to advanced economies, many of the major emerging economies showed considerable

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



Note: Ratio of NPLs is not available for 2010 for Germany and hence has not been reported. * Up to the period ending March
Source: Compiled from Financial Soundness Indicators, IMF

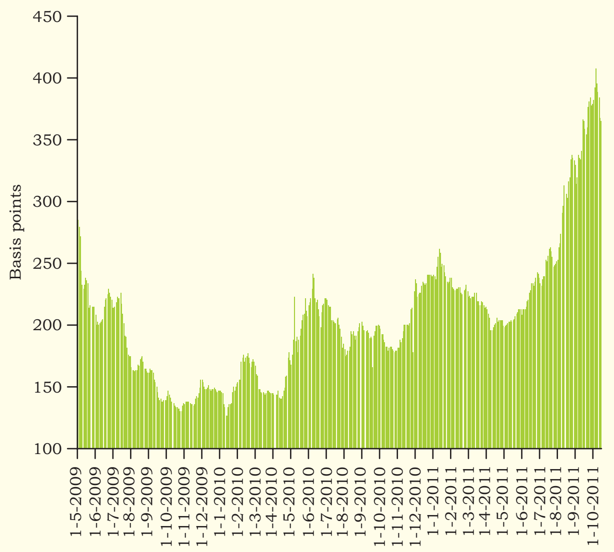
improvement in asset quality in the years following the crisis. Asset quality remained particularly robust in China.

Rising CDS spreads indicating hardening risk perceptions

2.15 CDS spreads of global banks during 2010-11 have been, in general, on the rise with intermittent periods of fall (Chart II.7). During 2011, CDS spreads fell till mid-April and rose subsequently. With solvency of sovereigns coming into serious question in the recent months, particularly for some Euro zone countries, CDS spreads of global banks have been on a rise with the increase in risks associated with sovereign debt. In the case of Greece, the sovereign CDS spreads had shot up to very high levels up to September 15, 2011, reflecting the severe elevation in sovereign risks (Chart II.8).

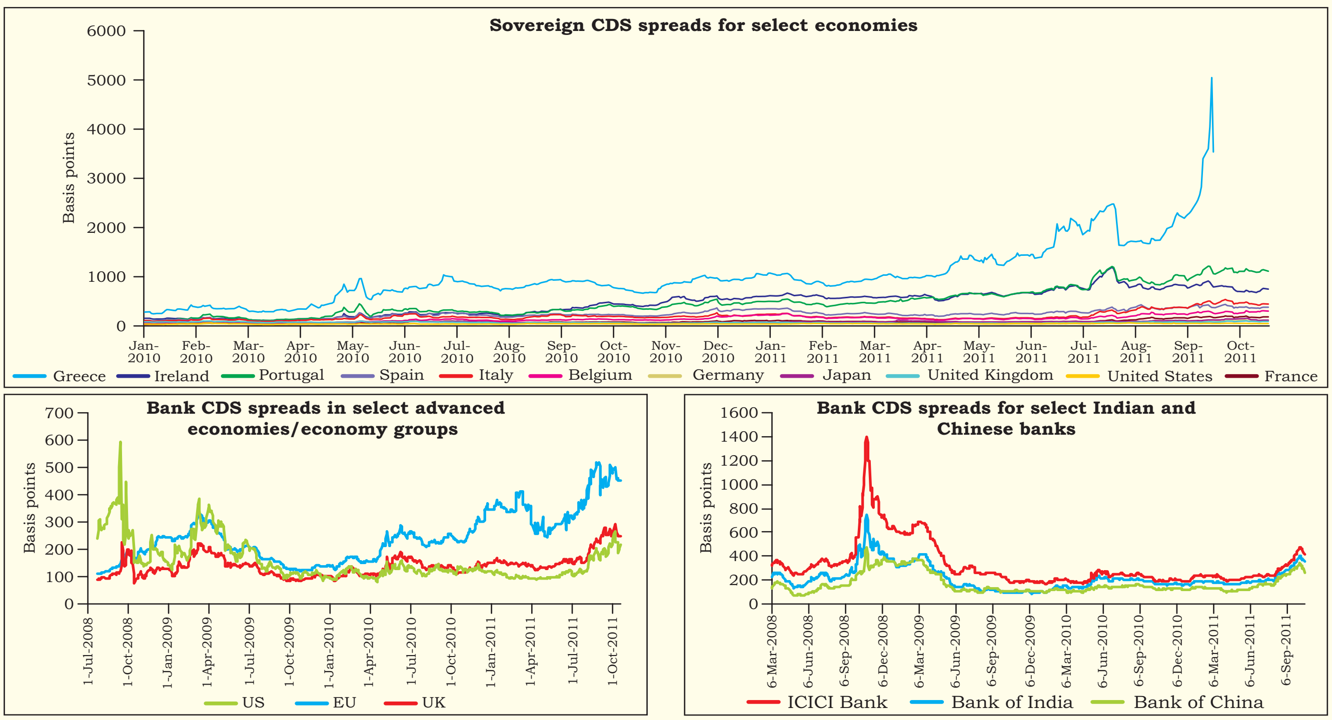
2.16 Across countries, bank CDS spreads had hardened significantly during September 2008 (Chart II.8). The spreads softened in the following months and continued to be low in 2010 and first half of 2011 across most advanced and emerging economies, except in the Euro zone. However, not just in the Euro zone

Chart II.7: CDS Spread of Global Banks



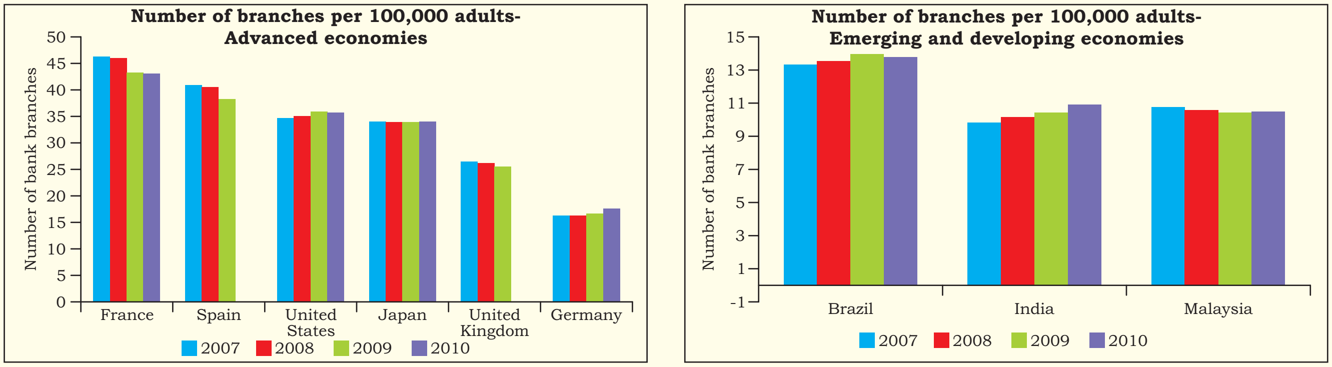
Source: Bloomberg

Chart II.8: 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 Sovereign spreads and Thomson Reuters, DataStream for Banks' spreads

Chart II.9: Demographic Access to Banking Services across Select Economies



Note: Data are not available for UK and Spain for 2010 and hence, are not reported in the chart.
Source: Compiled from Financial Access Survey, IMF

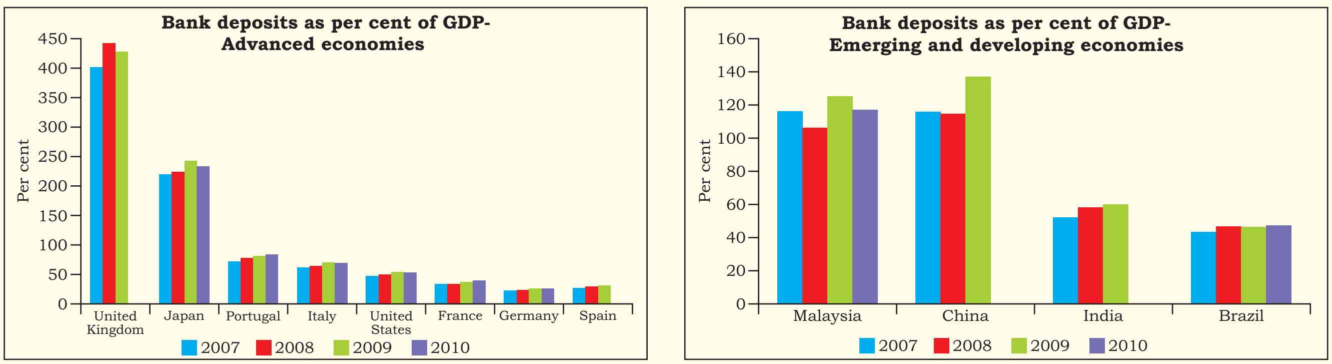
but also in other parts of the world, CDS spreads for banks have been on a rise in the third quarter of 2011.

Trends in access and usage of banking services

Possibility of an increase in financial exclusion following the crisis

2.17 Financial inclusion has become an important part of the banking policy in both advanced and emerging economies in the recent years. Moreover, it has attained centre stage particularly after the financial crisis. This is because there have been concerns about the possibility of an increase in financial exclusion following the crisis, particularly in the advanced economies. Recent data from the World Bank on the access and usage of banking services suggest that these concerns have not been misplaced. There was a contraction in the access to banking services in many of the advanced economies affected by the crisis, resulting from a closure of bank branches (Chart II.9). As noted in the report on "Financial Access" by the World Bank, slowing down of economic growth made an impact on the retail infrastructure in many advanced economies and bank branches were one of the causalities of this impact[3]. There was also a decline in usage of banking services. The decline in the usage of banking services was more striking in the advanced economies. The decline was more pronounced and widespread with regard to usage of credit services as compared to deposit services (Charts II.10 and II.11).

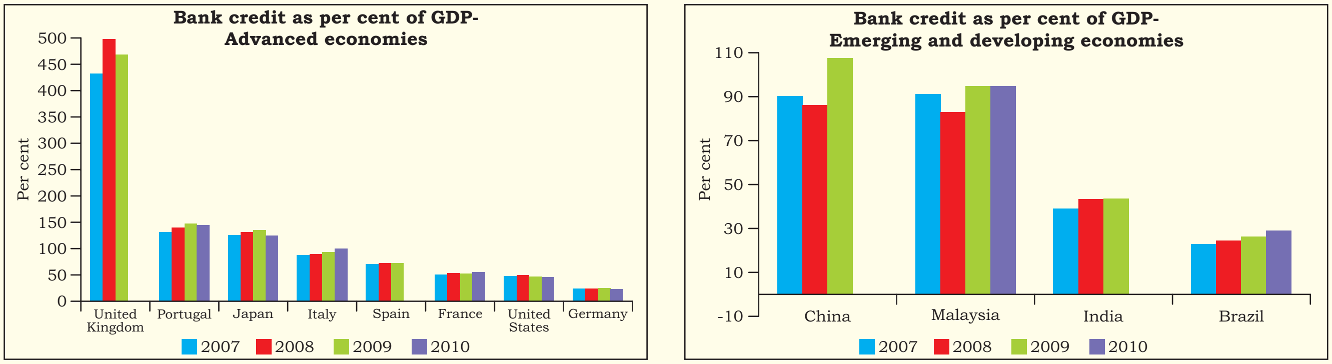
Chart II.10: Usage of Banking Services across Select Economies – Deposits



Note: Data are not available for UK, Spain, India and China for 2010 and hence, are not reported in the chart.
Source: Compiled from Financial Access Survey, IMF

3 *Financial Access 2010 – The State of Financial Inclusion through the Crisis*, CGAP, World Bank.

Chart II.11: Usage of Banking Services across Select Economies – Credit



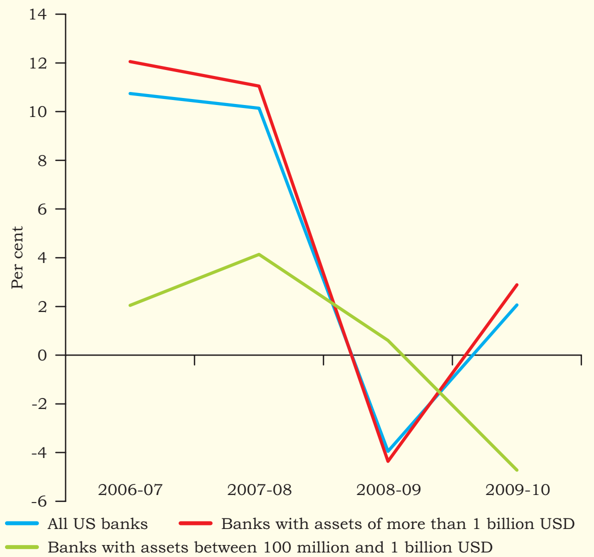
Note: Data are not available for UK, Spain, India and China for 2010 and hence, are not reported in the chart.
Source: Compiled from Financial Access Survey, IMF

3. Banking Trends in Select Regions and Countries

US banking system – Signs of a weak recovery

2.18 In 2010, the performance of the US banking system showed signs of recovery since the time of the financial crisis but by historical standards, this recovery continued to be weak. The assets of the US banking sector showed an overall growth of 2.1 per cent in 2009-10 from a negative growth of 3.9 per cent in 2008-09. This recovery was largely driven by the US banks with an asset size of more than US$ 1 billion, which constituted about 90 per cent of the total assets of the US banking sector (Chart II.12).

Chart II.12: Asset Growth in the US Banking Sector



Source: Calculated using data from FDIC database

Credit continued to remain restricted to industrial sector

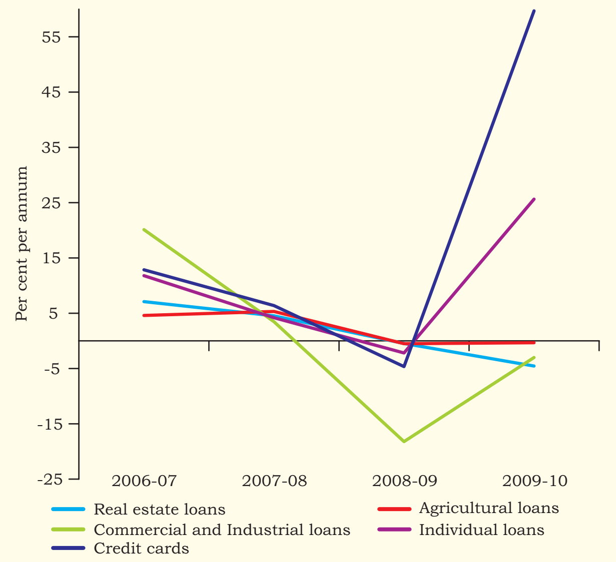
2.19 Among the major components of balance sheets of US banks, it was credit which was hit the hardest on account of the crisis. As already noted in earlier section, growth in credit of US banks turned negative since September 2009, and entered the positive zone only after a year in August 2010 but showed signs of slowing down again in 2011 (see Chart II.2 earlier). The sector that received the largest setback with the slowing down of both credit and economic growth as fallout of the crisis was the commercial and industrial sector in the US. For both commercial/industrial and real estate sectors, bank credit continued to remain restricted even in 2009-10, as personal credit, particularly credit cards, showed a significant revival on the back of low base and with some improvement in the confidence of US consumers about a better economic outlook (Chart II.13).

High levels of non-performing loans

2.20 High levels of non-performing loans, particularly in the real estate sector, remained the weakest spot in the US banking system, as noted in the Annual Report of the Federal Reserve (2010). The delinquency rate for real estate loans hit a high of 10 per cent in the second quarter of 2010 (Chart II.14)[4]. In the

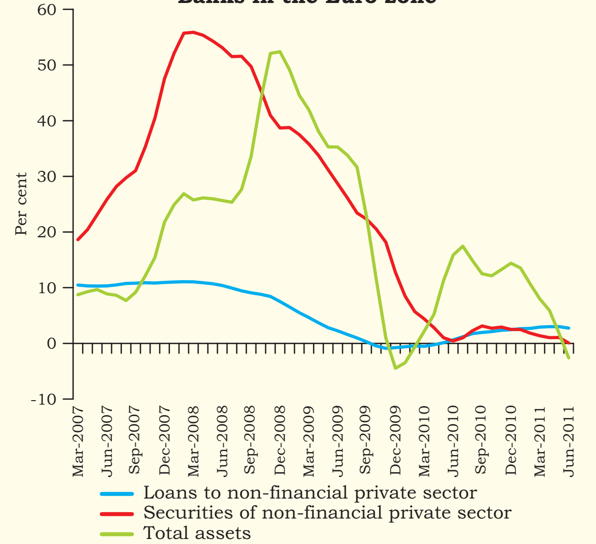
[4] Delinquency rates are defined as loans past due for thirty days or more and still accruing interest as well as those in non-accrual status. They are seasonally adjusted. Hence, these rates do not compare with the NPL ratios given in Chart II.6 earlier.

Chart II.13: Sectoral Rates of Growth of Credit of US Banks



Source: Calculated using data from FDIC database

Chart II.15: Balance Sheet Indicators of Banks in the Euro zone



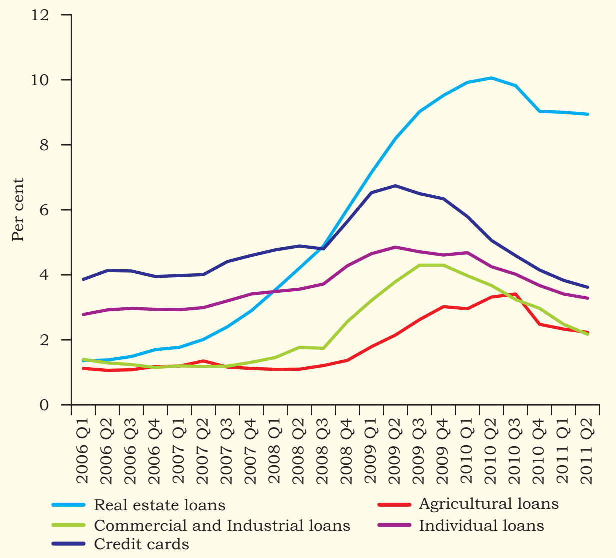
Note: The rates of growth are three yearly moving averages.
Source: Calculated from ECB database

subsequent quarters, this rate tapered off moderately but still remained at a stubbornly elevated level.

Euro zone banking system - Concerns remain with regard to revival in credit

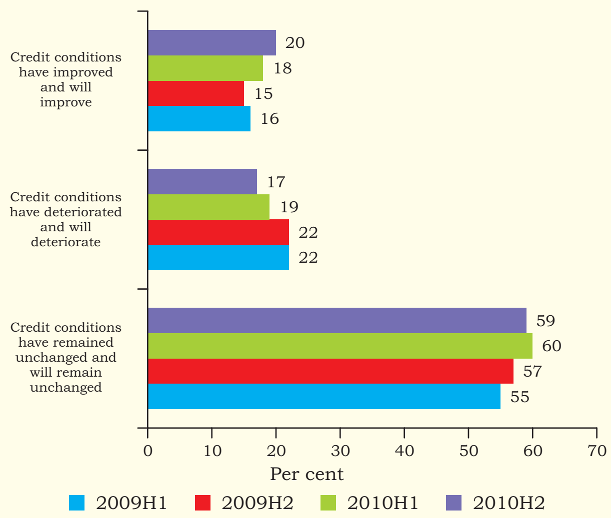
2.21 At the aggregate level, banking conditions in the Euro zone showed signs of improvement in terms of revival in growth in private credit and banks' investment in securities of the private sector in 2010 (Chart II.15). However, at the disaggregated level, concerns about credit revival continued to plague banks in the fiscally strained economies (Chart II.2 earlier). Also, concerns remained about revival in credit to small and medium enterprises (SMEs) in the Euro zone, a sector largely dependent on bank finance (Chart II.16).

Chart II.14: Sectoral Delinquency Rates of US Banks



Source: Calculated using data from Federal Reserve database

Chart II.16: Expectations about Credit Conditions for SME Sector in the Euro zone

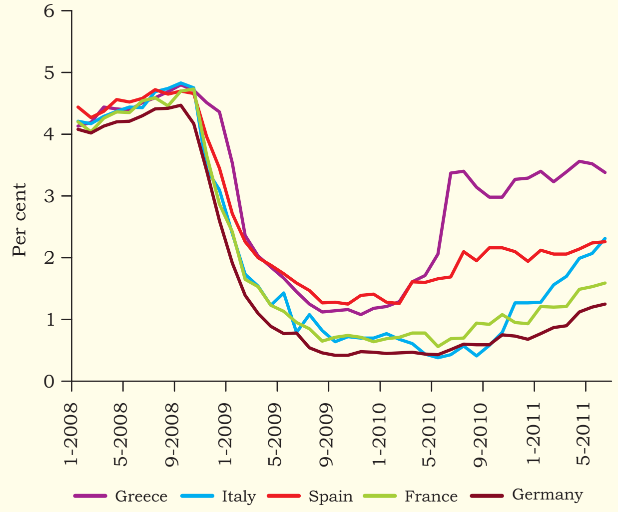


Note: The figures refer to weighted percentage of responses.
Source: Compiled from ECB's Survey on Access to Finance of SMEs in the Euro area

Impact of sovereign debt crisis on Euro zone banking system

2.22 Sovereigns, especially home sovereigns, are generally an important part of banks' balance sheets. With downgrading of sovereigns and the resulting losses, banks' balance sheets in the Euro zone countries, particularly in the countries which are fiscally challenged, have weakened significantly. Further, rising sovereign risks have also increased funding risks for Euro zone banks. This is evident from a rising trend in Euribor (Euro Inter-bank Offered Rate) since mid-2010 (Chart II.17). It is noteworthy that deposit rates in Spain, Italy and Greece – economies severely afflicted by the sovereign debt crisis – are at higher levels than the rates prevailing in other Euro zone countries, *viz.*, France and Germany, again reflecting funding strains for banks in these economies (Chart II.18).

Chart II.18: Interest Rates on Bank Deposits from Non-financial Corporations (with Less than One Year Maturity), Select Euro zone Economies

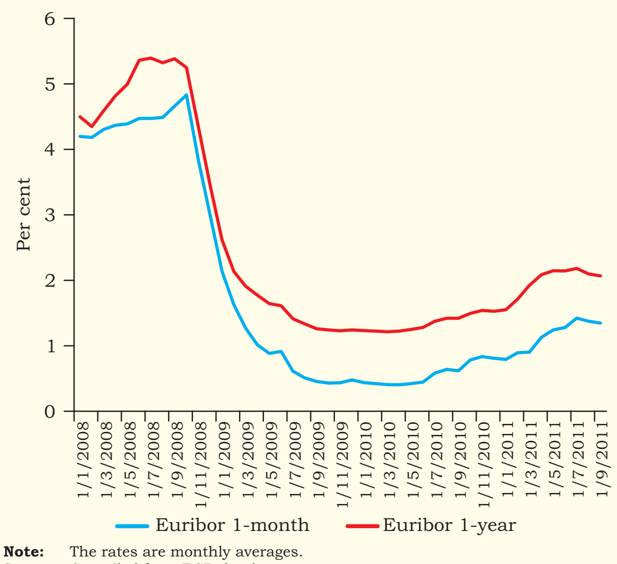


Source: Compiled from Eurostat database

Risks related to cross-border exposure of sovereign debt

2.23 With sovereign debt concerns coming to the fore in the Euro area, concerns have emerged over stability of banks having exposure to sovereign debt of Euro area countries, particularly on account of cross-border exposure of sovereign debt (Box II.1).

Chart II.17: Movements in Euro Inter-Bank Offered Rate



Note: The rates are monthly averages.
Source: Compiled from ECB database

UK banking system – Leverage and credit risks at elevated levels

2.24 In 2010-11, the UK banking system showed moderate de-leveraging and reduced its reliance on wholesale funding, unlike its counterparts in the Euro zone. However, the UK banking system continued to be besieged by some concerns: First, despite de-leveraging, the level of leverage still remained high for UK banks. Secondly, private credit growth remained considerably weak, as already shown in Chart II.2. Moreover, the near to medium-term expectations about an improvement in credit availability have been on wane, particularly for medium term enterprises, as per the Bank of England Credit Conditions Survey (Chart II.19). Thirdly, credit risks continued to be at elevated levels, as illustrated earlier in Chart II.6. At the sectoral level, credit risks grew for the unsecured component of bank loans, namely, credit card loans (Chart II.20).

Box II.1: European Banks' Exposure to Euro Area Sovereign Debt

Apart from their exposure to sovereign debt of their own country, cross-border exposure to sovereign debt is also high for banks in some of the Euro area nations (Table below). Illustratively, despite Germany's sound fiscal position, its exposure to sovereign debt of other Euro area nations, some of which have debt sustainability issues, is relatively high. German and French banks are more exposed to the sovereign debt of Italy than other nations. Due to the high cross-border exposure to sovereign debt of banks, any haircut/restructuring could adversely affect the banks of countries with otherwise sound fiscal positions.

Table : Exposure to Sovereign Debt of Banks

(in Euro Million)

		Exposure to Sovereign Debt of				
		Greece	Ireland	Portugal	Italy	Spain
Banking Exposure of	Greece	56,148	-	-	-	-
	Ireland	-	5,322	257	-	-
	Portugal	1,739	839	13,707	1,179	345
	Italy	1,778	239	304	1,44,856	1,383
	Spain	1,016	-	6,807	6,017	2,03,310
	France	11,624	2,476	4,864	48,185	6,592
	Germany	18,718	12,922	10,888	72,717	31,854
	UK	4,131	5,580	2,571	10,029	5,916
	Netherlands	3,160	559	2,272	10,313	1,685

Note: The listing of select countries in the Euro area covers the major sources and destination of sovereign debt and is not exhaustive.
Source: Blundell-Wignall, A. and P. Slovik (2010), "The EU Stress Test and Sovereign Debt Exposures", *OECD Working Papers on Finance, Insurance and Private Pensions,* No. 4.

Chinese banking system - concerns about weakening of asset quality

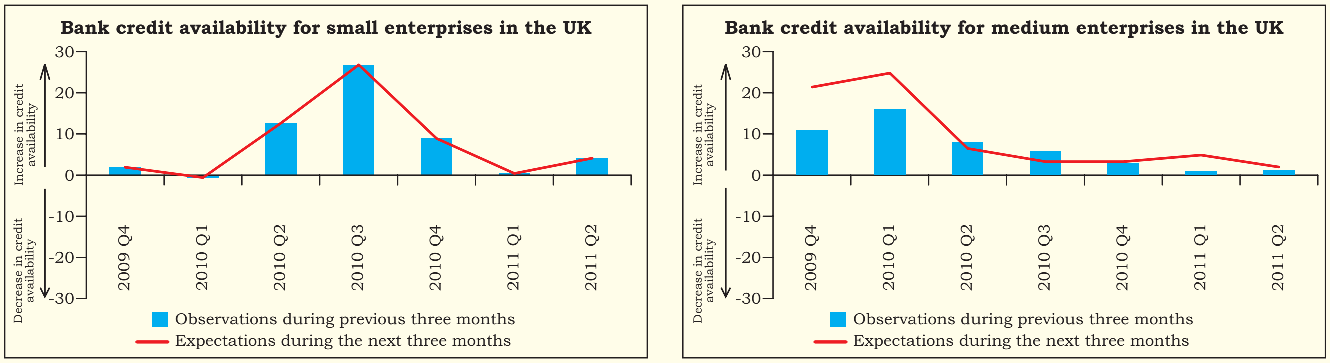
2.25 Among the emerging economies, China exhibited a rapid expansion in the asset size of its banking system in 2009, at a time when banking sector assets in most advanced economies were in a phase of contraction following the financial crisis. The growth in bank assets and credit, however, peaked by the end of 2009 and posted a decline thereafter (Chart II.21). Yet, credit growth in China remained at a high level in 2010. With the high growth in credit, there are concerns being raised about a weakening of asset quality of Chinese banks in the near future.

4. An Analysis of the Performance of Top 100 Global Banks

Considerable repositioning of banks at the top end of the asset spectrum

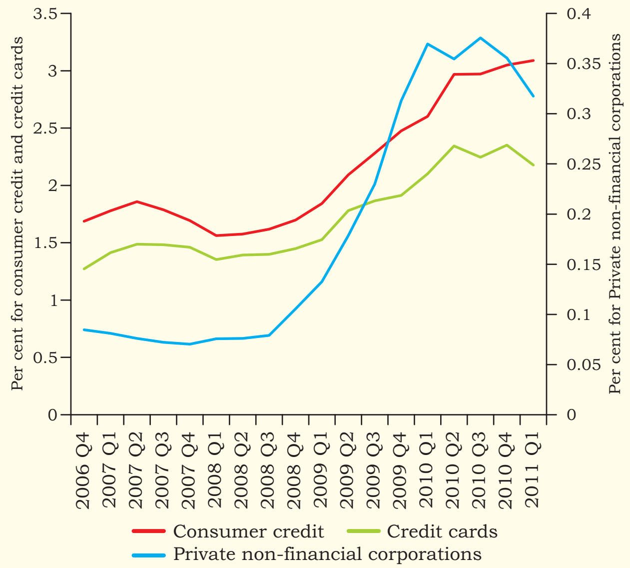
2.26 The rank correlation coefficient of the top-20 global banks between 2009 and 2010 worked

Chart II.19: Expectations about Bank Credit Availability to SMEs in the UK



Note: The figures are net percentage balances calculated by weighing the responses of those lenders who answered the question by their market shares.
Source: Bank of England, Credit Conditions Survey

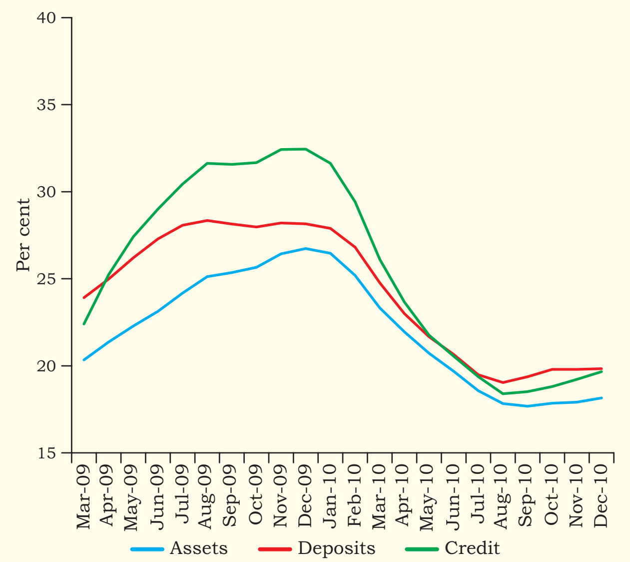
Chart II.20: Write-off Rates of UK Banks



Source: Calculated from Bank of England database

out to 0.83. The correlation coefficient increased steadily, as the sample of banks was expanded to top-50 and then to top-100 banks. The rise in the rank correlation coefficients with the increase in the sample size suggested that there was considerable repositioning of banks at the top end of the asset spectrum (Table II.4).

Chart II.21: Growth in Balance Sheets of Chinese Banks



Note: Series have been smoothened using three-year moving average method.
Source: Calculated from Peoples' Bank of China database

Table II.4: Rank Correlation Coefficients for Top Global Banks between 2009 and 2010

Item	Top-20 banks	Top-50 banks	Top-100 banks
Rank correlation coefficient	0.83	0.96	0.98

Note: The coefficients were worked out assuming that the sample of top banks remained the same between the two years. In other words, the ranking was re-worked by removing the new additions/deletions of banks during this period.
Source: Calculated from Banker Database

Moderate shift of the global banking business to emerging economies

2.27 An analysis of the location of incorporation of top 100 global banks (ranked by the strength of their Tier 1 capital) suggested a moderate shift of the global banking business from advanced economies to emerging economies in the aftermath of the crisis. This shift was attributable to bank failures as well as a weak growth in asset base of banks from the advanced economies. In terms of both number and total assets of the top 100 global banks, there was a fall in the share of advanced economies between 2009 and 2010 (Chart II.22). The decline in the asset share of advanced economies between 2009 and 2010 was concentrated in the US, UK, and more prominently, in the Euro zone economies (Chart II.23).

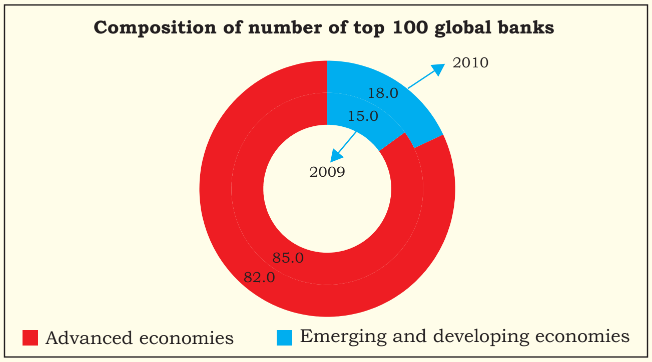
Improvement in the profitability of global banks

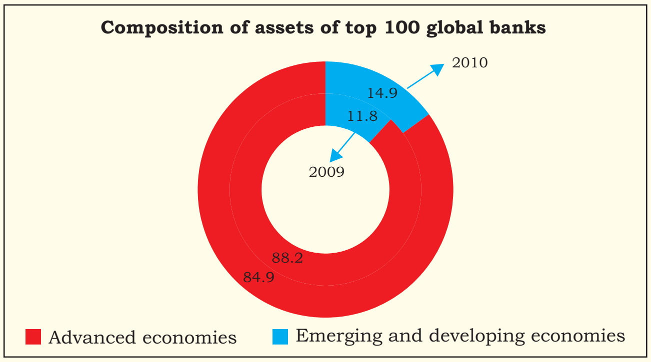
2.28 There was a distinct improvement in the profitability of global banks between 2009 and 2010 as evident from an increase in RoA. The percentage of loss making global banks (reporting negative RoA) was down from 25 per cent in 2009 to only 5 per cent in 2010. Further, about 89 per cent of the global banks had a positive RoA of less than 2 per cent in 2010 as against a share of 70 per cent in 2009 (Chart II.24).

Strengthening of capital adequacy of global banks

2.29 Apart from a turnaround in profitability of global banks, there was also strengthening of capital adequacy positions of these institutions

Chart II.22: Location of Global Banking Business





Source: Calculated using Banker Database

between 2009 and 2010. There was an increasing concentration of banks between 2009 and 2010 in higher size classes based on CRAR. At end-December 2010, 47 per cent of the top 100 global banks had a CRAR ranging between 13 per cent and 17 per cent, far above the BCBS norm of 8 per cent under the Basel II framework (Chart II.25).

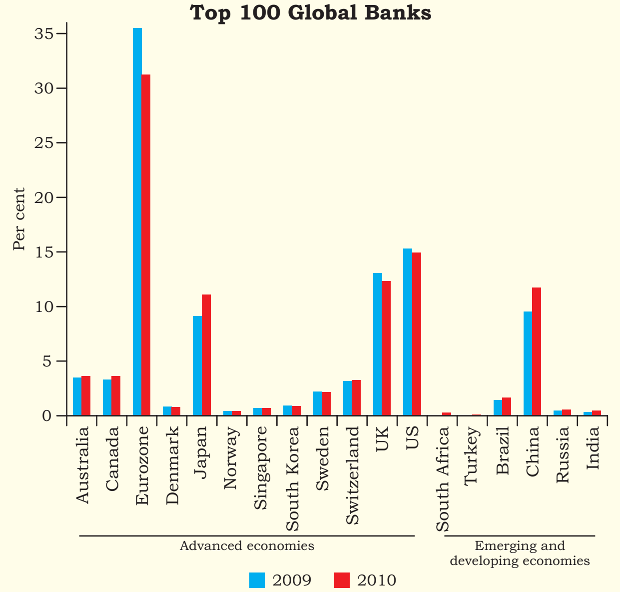
Slow process of deleveraging of global banks

2.30 Notwithstanding the improvement in CRAR, soundness of global banks remained a concern on account of a slow process of deleveraging and increasing levels of NPAs. At the end of 2009, about 24 per cent of the top-100 global banks were highly leveraged with a Capital Adequacy Ratio (CAR) – a measure of financial leverage – of less than four per cent; the percentage had come down moderately by 5 percentage points to 19 per cent at the end of 2010 (Chart II.26). As against this, the percentage of global banks with CAR ranging between 4 and 6 per cent had increased exactly by the same magnitude from 41 per cent to 46 per cent.

Weakening asset quality of global banks

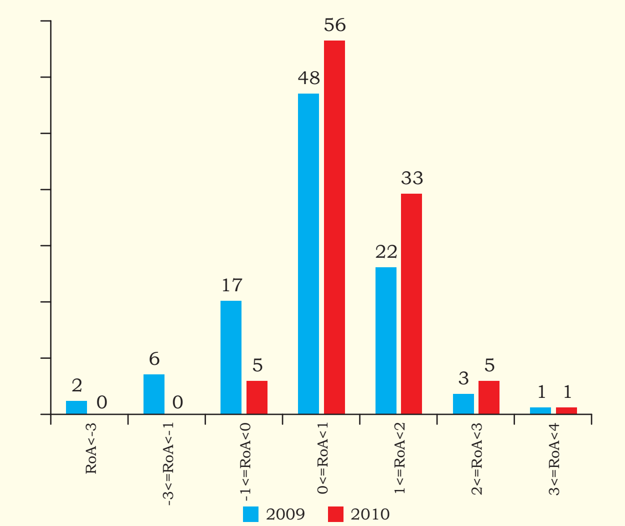
2.31 Between 2009 and 2010, there was a decline in the proportion of banks reporting very

Chart II.23: Share of Countries in Total Assets of Top 100 Global Banks



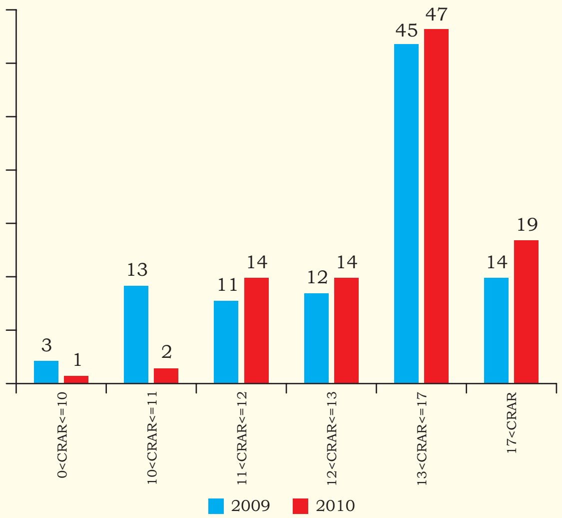
Source: Calculated using Banker Database

Chart II.24: Percentage Distribution of Top 100 Global Banks by Return on Assets



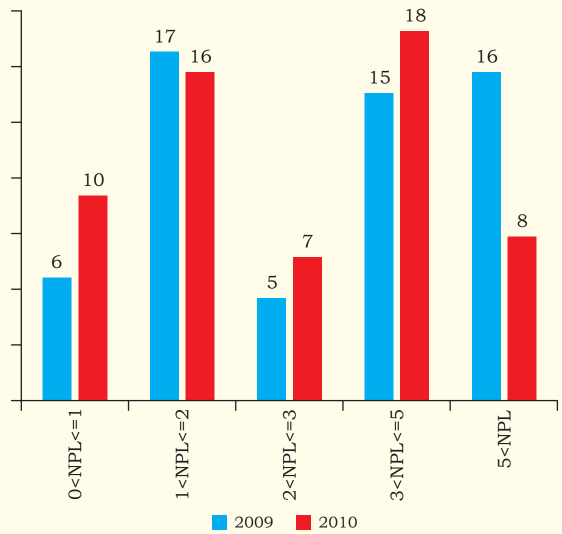
Note: On account of non-availability of data on certain banks from the top-100 sample, the percentages may not add up to 100.
Source: Calculated using Banker Database

Chart II.25: 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 percentages may not add up to 100.
Source: Calculated using Banker Database

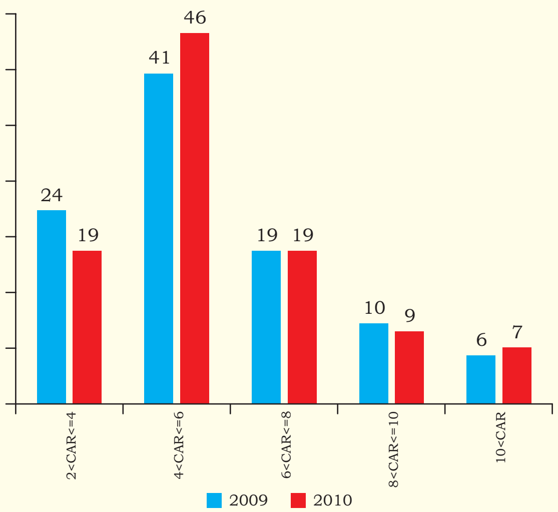
Chart II.27: Percentage Distribution of Top Global Banks by NPLs Ratio



Source: Calculated using Banker Database

high levels of NPLs ratio, suggesting some temperance of the acute credit strain on banks[5]. However, except this change at the extreme end of the spectrum, there was a general weakening of the asset quality of top global banks (Chart II.27).

Chart II.26: Percentage Distribution of Top 100 Global Banks by Capital Adequacy (Leverage) Ratio



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

2.32 The scatter plots of top 20 global banks taking three indicators of CRAR, leverage and NPLs ratio, revealed that while banks were in the process of stepping up their CRAR between 2009 and 2010, there seemed to be little improvement in the leverage and NPLs ratios of banks during this period (Chart II.28).

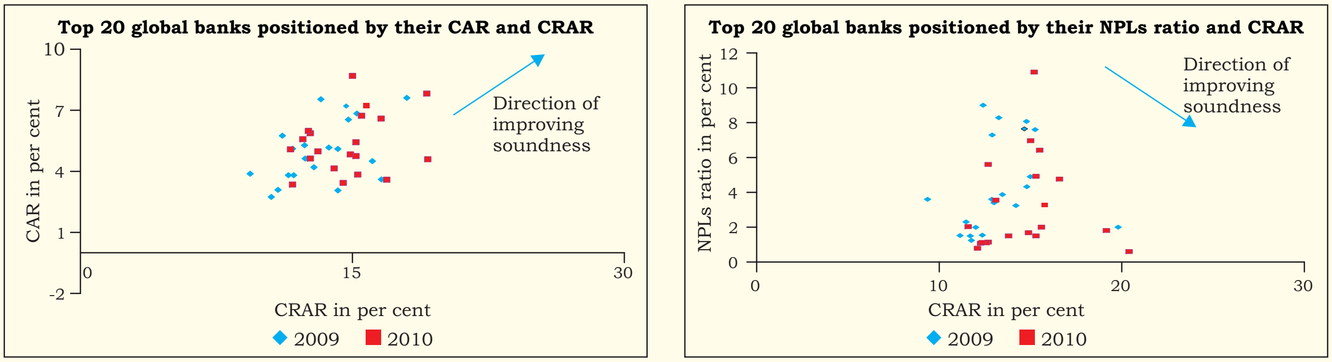
5. Global Policy Reforms

Significant increase in regulatory reforms

2.33 Various authoritative reports on the crisis so far, including that of the latest Financial Crisis Inquiry Commission of the US (2011), have attributed the eruption of a financial crisis of such vast magnitude and impact, to serious lacunae in the financial regulatory and supervisory framework[6]. Further, owing to the globalisation of finance, these reports have also underscored the need to increase inter-regulatory coordination both at the national and international level. A number of banking policy reforms are since then being contemplated; some of these, have even reached the stage of implementation.

[5] On account of non-reporting of data by many banks, the present analysis of NPLs is based on a sample of only 59 banks instead of 100 banks.
[6] For instance, see *Turner Review* (2009) *and Larosiere Report* (2009).

Chart II.28: Changes in Soundness Indicators of Top 20 Global Banks



Note: The top 20 banks are as per the list of 2010. The same banks have been chosen for 2009 for these scatter plots.
Source: Compiled from Banker database

Reforms in Capital and Liquidity Standards

2.34 The most significant development during the year was the announcement by the Basel Committee on Banking Supervision (BCBS) in December 2010 (followed by minor modifications with regard to capital treatment for counterparty credit risk in bilateral trades in June 2011) of the reform framework to strengthen the capital and liquidity standards. The framework provides details of the regulatory standards agreed to by the Governors and Heads of Supervision (GHOS) in September 2010, and endorsed by the G-20 Leaders in November 2010. This framework incorporates both micro-prudential and macro-prudential approaches to regulation and supervision. It is much more comprehensive and counter-cyclical in approach as compared to Basel II[7]. It provides a set of *collective minimum* requirements, and is expected to be implemented in totality and not in parts[8]. The key objectives and features of the reform measures suggested in the Basel III framework are summarised in Box II.2.

2.35 In addition to the December 2010 capital rules, the BCBS also recommended the loss absorption by capital instruments at the point of non-viability in January 2011 as a measure to enhance the quality of regulatory capital. According to this recommendation, all regulatory capital instruments should be able to absorb losses in the event when a bank is unable to support itself in private market, including situations where recapitalisation by public sector is necessary to save the bank.

2.36 In December 2010, the Final Report of the Macro-economic Assessment Group (MAG) formed by Financial Stability Board (FSB) and BCBS concluded that the impact of higher capital standards on economic growth would be modest and would be much less in magnitude and spread over a longer time horizon than what was estimated by the MAG Interim Report in August 2010. Taking a median of national estimates, the MAG observed a decline in annual GDP growth rate of about 3 basis points from its baseline level for 35 quarters from the start of implementation of the standards. The Long-term Economic Impact (LEI) Group studied the costs and benefits of the new standards over the long run. The LEI noted that, while the costs in terms of permanent GDP foregone were expected to be small, the benefits of reducing crisis-related risks would be substantial[9].

7 See Report on Trend and Progress of Banking in India – 2008-09 for a comparison of Basel III and Basel II norms of capital requirement and schedule for phase-in arrangements of Basel III.
8 See "Regulatory Reform: Remaining Challenges", Speech by Jaime Caruana, BIS, July 2011.
9 "An Assessment of the Long-term Economic Impact of Stronger Capital and Liquidity Requirements", BIS, August 2010.

Box II.2: Key Objectives and Features of the Basel III Framework

Capital Standards

I Raising capital base

Objective - Ensuring *quality, consistency* in definition across jurisdictions and *transparency* in disclosure of capital base.

Measures - I.1 Tier 1 capital predominantly held as common shares and retained earnings; I.2 Remainder of Tier 1 capital comprising of subordinated instruments with fully discretionary non-cumulative dividends and with no maturity date or incentive to redeem; I.3. Innovative hybrid instruments with an incentive to redeem would be phased out.

II Enhancing risk coverage

Objective - Strengthening risk coverage of capital framework especially for on- and off-balance sheet items and derivative exposures.

Measures - II.1. Introduction of stressed Value-at-Risk (VAR) capital requirement based on a continuous 12-month period of significant financial stress; II.2. Higher capital requirements for re-securitisation in banking and trading book; II.3. Introduction of capital charge for potential mark-to-market losses related to credit valuation adjustment risks associated with deterioration in creditworthiness of counterparty; II.4. Strengthening standards for collateral management. Banks with large illiquid derivative position to a counterparty would have to apply longer margining periods for determining regulatory capital requirements.

III. Supplement risk-based capital requirements with leverage measure

Objective - Containing leverage in the banking sector thereby mitigating risk related to deleveraging.

Measures - III.1. Introduction of a simple, transparent and independent measure of leverage, comparable across jurisdictions by adjusting for differences in accounting standards.

IV. Reduce pro-cyclicality through counter-cyclical buffers

Objective - Dampening pro-cyclical movements within the banking system by making it a "shock absorber" rather than a transmitter of risk to the real economy.

Measures - IV.1. Movement to a relatively less pro-cyclical Expected Loss (EL) approach as against existing Incurred Loss (IL) and updation of supervisory guidance consistent with the EL approach; IV.2. Creation of capital conservation buffers above the minimum capital and adjust the buffer range during periods of excess credit growth.

Liquidity Standards

I. Minimum liquidity standards

Objective - Introducing internationally harmonised and robust liquidity standards since stronger capital requirements may be necessary but not a sufficient condition for banking sector stability.

Measures - I.1. Introduction of liquidity coverage ratio to ensure sufficient high quality liquid resources to cope with an acute stress scenario lasting one month; I.2. Introduction of net stable funding ratio, which has a longer time horizon of one year to provide sustainable maturity structure of assets and liabilities.

II. Quantitative liquidity metrics

Objective - Imparting consistency in quantitative metrics used by supervisors to capture liquidity risks.

Measures - II.1. Introduction of metrics, which include among others, contractual maturity mismatch, concentration of funding, available unencumbered assets and liquidity coverage ratio by currency.

Reference:

"Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems", Bank for International Settlements, June 2011.

Reforms for Systemic Risk Management

1. Reforms related to Macro-Prudential Regulatory Framework

2.37 The crisis showed that while most financial entities can be regulated at an individual level, the lack of an arrangement to supervise the system as a whole can create financial instability. Since the crisis, there has been an explicit focus on developing a macro-prudential framework for dealing with system-wide risks.

2.38 The G-20 regulatory reform agenda has turned its attention to macro-prudential regulation, calling on international bodies to develop such a framework[10]. The Basel III framework designed by the BCBS includes a number of provisions to dampen pro-cyclicality and increase the resilience of financial system. The most important macro-prudential measure under Basel III framework is the counter-cyclical capital buffer, which can address the *time* dimension of systemic risks; the details of the concept and working of this buffer are illustrated in Box II.3.

2.39 There are other provisions of Basel III, which can also address time dimension of

[10] See "The Basel Committee's Response to the Financial Crisis: Report to the G-20", BIS, October 2010.

Box II.3: Counter-Cyclical Capital Buffer: Concept and Working

The introduction of a counter-cyclical capital buffer in Basel III framework is an important step towards improving the quality of regulatory capital as well as addressing its pro-cyclicality, thereby facilitating an improved macro-prudential surveillance of the banking system.

In December 2010, the BCBS issued the guidance for national authorities for operating the counter-cyclical capital buffer. As per this guidance, national jurisdictions would determine how the buffer should vary within the range of 0-2.5 per cent of risk-weighted assets and also be ready to remove this requirement in a timely manner if the systemic risk crystallises. The common reference guide for calibrating the buffer, as given in the BCBS principles, is private sector credit-to-GDP gap (deviations of credit-to-GDP ratio from its long-term trend). However, the BCBS notes that as this guide may not always work well in all jurisdictions at all times, judgment coupled with proper communications is an integral part of calibrating the buffer instead of relying mechanically on the guide. The BCBS has also suggested using other variables and qualitative information, such as asset prices, funding spreads, Credit Default Swap (CDS) spreads, credit condition surveys and real GDP growth, among others. These indicators can be useful in assessing the sustainability of credit growth and the level of system-wide risk.

As per the BCBS guidance, any increase in the buffer should be pre-announced by up to 12 months to give banks time to meet the additional capital requirements before they take effect. The reductions, however, would take effect immediately to reduce the risk of credit supply being constrained by regulatory capital requirements. Moreover, it is necessary for authorities to review the information at their disposal and accordingly, review the counter-cyclical capital buffer decisions on a quarterly or more frequent basis.

As the decision about setting the buffer needs to be taken by national jurisdictions, in India, a Working Group has been set up within the Reserve Bank. In the Indian context, one of the major issues for calibrating the buffer relates to the choice of the reference guide. The Indian economy has undergone structural changes and growth has not been even across all sectors. As a result, sectoral credit requirements tend to vary substantially making it difficult to assess the build-up of risk based on the credit/GDP guide alone. The Group is currently examining this and various issues involved in the operationalisation of the counter-cyclical capital buffer.

Reference:

Bank for International Settlements (2010), "Guidance to National Authorities for Operating the Counter-Cyclical Capital Buffer", December.

systemic risks, though they are not exclusively designed to address the same. These include permanent capital conservation buffer; minimum leverage ratio; and new liquidity standards. As regards dealing with *cross-sectional* dimension of systemic risks, the Basel III standards with increased bank capital and liquidity are expected to enhance the resilience of each individual institution to adverse shocks.

2. Reforms related to Systemically Important Financial Institutions (SIFIs)

2.40 A major development during the year with regard to containing systemic risks was the agreement reached by the GHOS on a consultative document setting out regulatory measures for Global Systemically Important Banks (G-SIBs) in June 2011. The regulation of G-SIBs is instrumental in dealing with the cross-sectional dimension of systemic risk by mitigating inter-connection and contagion risk. These measures included the methodology for assessing systemic importance, and the additional required capital and their phase-in arrangements. The assessment methodology for G-SIBs is indicator-based and comprises five broad categories *viz.*, their size, inter-connectedness, lack of substitutability in terms of the services they provide, global (cross-jurisdictional) activity and complexity[11].

3. Reforms for regulating Shadow Banking and extending the Regulatory Perimeter

2.41 As the framework for regulation, supervision and resolution of SIFIs is strengthened, there is a potential for increase in incentive for businesses to migrate to the shadow banking system. Shadow banking is described as "credit intermediation involving entities and activities outside the regular banking system"[12]. This segment is of concern because credit intermediation in this segment

[11] See "Global Systemically Important Banks: Assessment Methodology and Additional Loss Absorbency Requirement", Consultative Document, BIS, July 2011.
[12] See "Shadow Banking: Scoping the Issues", FSB, April 2011.

takes place in an environment where prudential regulatory/supervisory oversight is either not applied or applied in lesser degree than for banks engaged in similar activities. In an attempt to close regulatory gaps, the FSB has formed a Task Force, which has drafted a scoping paper entitled "Shadow Banking: Scoping the Issues", on the basis of which it made recommendations for the consideration of G-20 in autumn 2011. The G-20, in its October 2011 meeting, agreed on the initial recommendations on oversight of shadow banking. The FSB has suggested surveillance of shadow banking system through (i) improved two-step monitoring from *micro* and *macro*-perspectives and (ii) *direct* regulation of shadow banking entities and *indirect* regulation by regulating banks' interactions with these entities.

2.42 Apart from these global reforms, there have been significant policy reforms across various advanced countries in the post-crisis period. There have been attempts to institutionalise collegial arrangements in the US, UK and EU, involving the Governments, central banks and other regulators with the primary responsibility to identify, monitor and address threats of systemic risk.

6. Conclusions

Global banks are confronting multiple risks

2.43 Global banking system today stands at a juncture, where downside risks and challenges outweigh the positive efforts made by the banking system towards regaining growth and health since the outbreak of the financial crisis. The downside risks are manifold and arise not just from within the banking system but also from the financial system in general, fiscal conditions and state of the global economy. The risks arising from other segments impact the banking segment through an "adverse feedback" effect, to borrow the term used by the European Central Bank (ECB).

Marginal improvement in capital adequacy and profitability of the global banking system

2.44 The growth and soundness of the global banking system, as discussed, stands marginally improved on two major counts since 2008. First, there are indications of modest improvements in profitability of banks in the US and UK in 2010. Second, there has been a steady effort by global banks to strengthen their capital base, which can prepare them to absorb future losses more effectively.

Vulnerabilities persist

2.45 The global banking system, however, stands weak on many counts after the crisis. First, the system as a whole and most advanced economies, especially the fiscally strained economies in the Euro zone, still show very weak credit growth. There are concerns about the revival in credit growth in many advanced economies to sectors that rely heavily on bank financing and are crucial for revival in employment and growth, namely, small and medium enterprises.

2.46 Secondly, the onset of sovereign debt pressures since the early 2010 have given rise to renewed credit, market and funding risks in the Euro zone economies with troubled sovereigns, as well as the peripheral economies of Germany, France and the UK, whose banks are either directly or indirectly exposed to these sovereigns. Recapitalisation of banks in the Euro zone is also a major concern at the present juncture. Many of the Euro zone banks may require substantial pumping of capital given the capital shortfall in the event of a high Greek haircut.

2.47 Thirdly, despite attempts at de-leveraging, global banks in most advanced economies, especially in the Euro zone and UK, continue to be highly leveraged with dependence on wholesale funding markets. Fourthly, credit risks also continue to be at high levels, not just attributable to sovereign credit risks but also risks emanating from the unsecured component of bank credit in many advanced economies. Fifthly, the crisis has dampened the extent of financial inclusion in most advanced economies pushing people out of the ambit of financial system on account of both supply and demand side factors. Supply of banking facilities has been eroded with bank failures and decline in banking activity in advanced economies. Demand for banking services too has been affected with a dent on employment and income generation in these economies.

2.48 Finally, there has been a growing divergence between the performance of banking systems in advanced and emerging economies. While growth and soundness of banks in advanced economies are at low, the credit growth in major emerging economies has been high leading to concerns about overheating of these economies. In China, there are concerns about high credit growth leading to burgeoning of bad assets for banks. The high levels of inflation coupled with increasing short-term capital flows into these economies have further raised concerns about financial stability.

Near-term outlook for the global banking system is fraught with many uncertainties

2.49 Given that global risks outweigh improvements, there is an urgent need for advanced economies to step up macro-economic action, especially for improving the fiscal situation. Further, both advanced economies and emerging economies need to work individually and collectively towards strengthening and reviving the global banking system. There has to be greater commitment from countries towards consistently implementing the banking regulatory reforms that have been already agreed upon while strengthening their macro-prudential oversight. There is a need, however, to rightly calibrate the transition to this system in order to avoid any adverse impact on the global economy, particularly since the global economic recovery remains weak. The more recent intense formal consultations among European nations to finalise a Euro deal will have significant implications for European banks in terms of stiff haircuts to be accepted and to strengthen the capital bases of banks through recapitalisation. European banks, thus, need to brace for some such difficult exercises before they eventually stabilise. All in all, the near-term outlook for the global banking system is fraught with many uncertainties, some of which are beyond its direct control. In the present situation, Government agencies, central banks and banking institutions should collectively tread the risky path to enduring recovery and stability.

Chapter III

Policy Environment

Macroeconomic policy in India during 2010-11 was aimed at achieving the twin objectives of sustaining economic growth and controlling inflation. Banking sector policy needs to be consistent with the broader objectives of macroeconomic policy through the provision of productive credit to bolster economic growth within the broad contours of monetary management. As the developed world was still battling low economic growth and deterioration in public finances, and repairing its financial regulatory architecture in the aftermath of the financial crisis, India successfully reverted back to its pre-crisis growth path in 2010-11. However, the inflationary pressures, which emerged partly on account of high global commodity prices and partly due to internal structural imbalances in demand and supply, remained above the comfort zone in 2010-11. These pressures called for repeated monetary policy responses, in order to ensure that economic growth, which was in the process of consolidation, was not sacrificed in the long-run. Indian banking sector policy with regard to financial liberalisation and innovation has always been calibrated, cautious and yet, consistent. The fact that the Indian banking system was not adversely affected during the recent crisis is a proof of the success of this policy. Treading on the same path, the Reserve Bank initiated important policy discussions with regard to providing new bank licenses, designing the road ahead for the presence of foreign banks, holding company structure for banks, and introduced credit default swaps for corporate bonds, while migrating to advanced approaches under the Basel II framework and facilitating the movement towards the Basel III framework. Financial Inclusion continued to remain high on the agenda of the Reserve Bank with the rolling out of Board-Approved Financial Inclusion Plans by banks.

1. Introduction

3.1 With the onslaught of the global financial crisis, banking sector policy across the world has received a newer meaning and relevance. There is a growing realisation that regulatory and supervisory policy needs to be strengthened to adopt a system-wide approach to counteract pro-cyclical movements in the banking sector. The perimeter of regulation also needs to be expanded to cover the unregulated segments in order to minimise regulatory arbitrage. India has been lauded as one of the few countries that has followed a vigilant and counter-cyclical policy approach to banking sector developments. It has also widened the regulatory perimeter steadily to bring non-banking entities into the ambit of regulation. This chapter presents major developments in various realms of banking sector policy, with special thrust on regulatory and supervisory policies adopted during 2010-11[1]. The other major aspects of the banking policy covered, include monetary policy, credit delivery, financial inclusion, technological developments, payment and settlement system, customer service and legal provisions for banking. Apart from the commercial banking sector, major policy measures relating to Regional Rural Banks (RRBs), Cooperative Banks, Non-Banking Financial Companies (NBFCs) and Financial Markets are also discussed in the chapter.

[1] The period covered in this chapter stretches from April 2010 to October 2011.

2. Monetary Policy[2]

Monetary Policy Stance and Measures

3.2 Monetary policy stance in 2010-11 was attuned to the growth-inflation dynamics prevailing in the economy in the broader context of global uncertainties. In the first half of 2010-11, the thrust of monetary policy was on avoiding policy impediments to the recovery amidst global uncertainties, while also containing inflationary pressures.

3.3 In the second half of 2010-11, while growth continued to consolidate, the moderating path of inflation reversed beginning December 2010 due to a series of supply side shocks, both domestic and global. Non-food manufacturing inflation remained much above the trend growth of 4 per cent during the second half of 2010-11. Therefore, policy rates were raised to contain inflation and anchor inflationary expectations. This was warranted to ensure that the long-term growth prospects were not harmed, even if it meant sacrificing some growth in the short-term.

3.4 As the inflation remained above the comfort level of the Reserve Bank even in 2011-12, the anti-inflationary stance was continued during this period. Since the exit from its crisis-driven expansionary monetary policy stance, the Reserve Bank has raised the policy rate (the repo rate) 13 times by 375 basis points. Till March 2011, the policy rate was raised eight times by 200 bps. In 2011-12 so far (up to October 25, 2011), it was further raised five times by 175 bps. The effective tightening since October 2009 has been of 525 bps as liquidity in the system transited from surplus to deficit. The CRR was also raised by 100 bps.

Changes in the Operating Procedure of Monetary Policy

3.5 Based on the Report of the Working Group on Operating Procedure of Monetary Policy (Chairman: Shri Deepak Mohanty), the Reserve Bank made a number of changes in the operating procedure of monetary policy with effect from May 2011. As per these changes, the weighted average overnight call money rate was made the operating target of monetary policy. Further, the repo rate was made the single policy rate to more accurately signal the monetary policy stance with the reverse repo rate pegged at a fixed 100 basis points below the repo rate. A new Marginal Standing Facility (MSF) was also instituted under which Scheduled Commercial Banks (SCBs) could borrow overnight up to one per cent of their respective Net Demand and Time Liabilities (NDTL), carved out of the required Statutory Liquidity Ratio (SLR) portfolio. The MSF rate is 100 basis points above the repo rate and provides an upper bound to the policy rate corridor with reverse repo rate as the lower bound. These changes were deemed necessary for improved liquidity management and effective monetary transmission.

Deregulation of Savings Bank Deposit Rate

3.6 With the steady process of deregulation since the early 1990s, the only rupee interest rate that continued to remain regulated was the savings deposit interest rate. In order to delineate the advantages and disadvantages of deregulating the savings deposit rate, the Reserve Bank prepared a discussion paper which was placed on the RBI website for suggestions from general public in April 2011. The Discussion Paper evoked wide ranging responses from a cross-section of stakeholders. The Reserve Bank after weighing both pros and cons, decided to deregulate the savings bank deposit rate in its Second Quarter Review of Monetary Policy 2011-12 released on October 25, 2011. Accordingly, banks can freely determine their savings bank deposit interest rates subject to the following two conditions:

- Each bank will have to offer a uniform interest rate on savings bank deposits up to

[2] This section deals with monetary policy developments in brief, as they have been covered in the RBI Annual Report 2010-11 in detail.

₹1 lakh, irrespective of the amount in the account within this limit.

- For savings bank deposits over ₹1 lakh, a bank may provide differential rates of interest, if it so chooses. However, there should not be any discrimination from customer to customer on interest rates for similar amount of deposit.

3. Credit Delivery

Priority Sector Lending Policy - Loans to NBFCs

3.7 The Reserve Bank advised all SCBs in February 2011 that loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery will not be eligible for classification under priority sector as agricultural credit. Similarly, investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under the agricultural sector.

Priority Sector Lending Policy - Loans to Agriculture

3.8 The scheme of interest subvention has been in existence since 2006-07 with regard to provision of short-term agricultural credit to farmers by public sector banks, RRBs and cooperative banks. In 2009-10, an interest subvention of 2 per cent was provided on short-term production credit of up to ₹3 lakh, which would ensure that credit was made available to farmers at the ground level at 7 per cent per annum. Further, an additional interest subvention of 1 per cent was also provided to public sector banks in respect of those farmers who were prompt in repaying their loans within one year of disbursement of such loans, reducing the effective rate for such farmers further to 6 per cent per annum. In 2010-11, the interest subvention was reduced to 1.5 per cent and the additional interest subvention for prompt-paying farmers has been increased to 2 per cent. Further, in the Union Budget for 2011-12, the Finance Minister has proposed an enhancement of the additional interest subvention for prompt-paying farmers to 3 per cent making the effective rate for such farmers to be 4 per cent per annum.

Loans to Micro, Small and Medium Enterprises (MSME) - Credit Target for Micro-Enterprises

3.9 Pursuant to the recommendations of the High Level Task Force constituted by the Government of India (Chairman: Shri T K A Nair), SCBs have been advised on June 29, 2010 to allocate 60 per cent of the MSE advances to micro-enterprises. This target is to be achieved in three stages *viz.*, 50 per cent in 2010-11, 55 per cent in 2011-12 and 60 per cent in 2012-13 with an annual growth of 10 per cent in the number of micro-enterprises accounts and an annual growth of 20 per cent in lending to micro and small enterprises. A suitable format has also been devised by the Reserve Bank to capture and closely monitor the achievement of these targets by banks on a half-yearly basis (March and September). From the quarter ending June 2011, the monitoring is being done on a quarterly basis. The Reserve Bank has also taken up the matter with banks that have failed to achieve the targets prescribed by the Task Force.

Credit Guarantee for Credit to Micro and Small Enterprises

3.10 Based on the recommendations of the Working Group (Chairman: Shri V.K. Sharma) constituted by the Reserve Bank in March 2010 to review the Credit Guarantee Scheme (CGS) of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), the limit for collateral free loans to the MSE sector has been increased to ₹10 lakh and has been made mandatory for banks. SCBs are advised to follow the guidelines on collateral free lending, encourage branch level functionaries to avail the credit guarantee cover and making performance in this regard a criterion in their appraisal. The Working Group has also made recommendations regarding an increase in the extent of guarantee cover, absorption of guarantee fees for the collateral free loans up to ₹10 lakh by CGTMSE, subject to certain conditions, simplification of procedure for filing claims with CGTMSE and increasing awareness about the scheme. The recommendations have been forwarded to CGTMSE for implementation.

Housing Loans

3.11 With the objective of improving affordability of housing for middle and lower income groups, the Union Budget of 2009-10 had announced a scheme of 1 per cent interest subvention in respect of individual housing loans of up to ₹10 lakh provided that the cost of unit did not exceed ₹20 lakh. The scheme was applicable initially for a period of one year effective from October 1, 2009 to September 30, 2010. An initial allocation of ₹1,000 crore was announced for this purpose. The Union Budget for 2010-11 had announced an extension of the scheme and also made a provision of ₹700 crore under the scheme for 2010-11. As per the Union Budget for 2011-12, the existing scheme has been further liberalised to housing loans of up to ₹15 lakh, where the cost of the house does not exceed ₹25 lakh as against the earlier limits of ₹10 lakh and ₹20 lakh, respectively. The scheme is being implemented through SCBs and housing finance companies. The Reserve Bank acts as the nodal agency in respect of SCBs. After sanctioning and disbursing the eligible loans, SCBs claim reimbursement of subsidy from the Reserve Bank on a monthly basis. The necessary instructions with regard to the liberalisation of the scheme have been issued to all SCBs by the Reserve Bank on April 21, 2011.

Loans to MFIs

3.12 Following concerns about the micro finance sector in Andhra Pradesh, a need was felt for a more rigorous regulation of NBFCs functioning as Micro-Finance Institutions (MFIs). Accordingly, a sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) was constituted to study issues and concerns in the MFI sector. The Committee has submitted its report in January 2011, which has been placed in public domain. The Committee, *inter alia*, has recommended: (i) creation of a separate category of NBFC-MFIs; (ii) a margin cap and an interest rate cap on individual loans; (iii) transparency in interest charges; (iv) lending by not more than two MFIs to individual borrowers; (v) creation of one or more credit information bureaus; (vi) establishment of a proper system of grievance redressal procedure by MFIs; (vii) creation of one or more "social capital funds"; and (viii) continuation of categorisation of bank loans to MFIs complying with the regulation laid down for NBFC-MFIs, under the priority sector.

3.13 The recommendations of the Committee were discussed with all stakeholders, and in light of the feedback received, it has been decided to accept the broad framework of regulations recommended by the Committee. Accordingly, all SCBs have been advised on May 3, 2011 that:

1. Bank credit to MFIs extended on, or after, April 1, 2011 for on-lending to individuals and also to members of Self-Help Groups (SHGs)/ Joint Liability Groups (JLGs) will be eligible for categorisation as priority sector advances under respective categories *viz.*, agriculture, micro and small enterprises, and micro credit (for other purposes), as indirect finance, provided that

    (a) Not less than 75 per cent of the aggregate loans given by MFIs are extended for income generating activities;

    (b) Not less than 85 per cent of the total assets of MFI (other than cash, balances with banks and financial institutions, Government securities and money market instruments) are in the nature of "qualifying assets". A "qualifying asset" has to satisfy the following criteria: (i) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed ₹60,000, while for non-rural areas, it should not exceed ₹1,20,000; (ii) Loan does not exceed ₹35,000 in the first cycle and ₹50,000 in the subsequent cycles; (iii) Total indebtedness of the borrower does not exceed ₹50,000; (iv) Tenure of loan is not less than 24 months when loan amount exceeds ₹15,000 with right to borrower of prepayment without penalty; (v) The loan is without collateral; (vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

(c) Banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines': (i) Margin cap at 12 per cent for all MFIs; (ii) The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets; (iii) Interest cap on individual loans at 26 per cent per annum to be calculated on a reducing balance basis; (iv) Only three components are to be included in pricing of loans *viz*., a processing fee not exceeding 1 per cent of the gross loan amount, interest charge, and insurance premium; (v) The processing fee is not to be included in the margin cap or the interest cap of 26 per cent; (vi) Only the actual cost of insurance *i.e.* actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered and administrative charges must be recovered as per IRDA guidelines; (vii) There should not be any penalty for delayed payment; (viii) No Security Deposit/Margin is to be collected from borrowers.

(d) The banks should obtain, at the end of each quarter, a Chartered Accountant's Certificate from the MFI stating, *inter alia*, that all three conditions given above have been followed.

2. Bank loans to MFIs, which do not comply with above conditions and bank loans to other NBFCs, will not be reckoned as priority sector loans with effect from April 1, 2011. Bank loans extended prior to April 1, 2011 classified under priority sector will continue to be reckoned as priority sector till the maturity of such loans.

Progress under the Agriculture Debt Waiver and Debt Relief Scheme, 2008

3.14 As per the schedule of reimbursement provided by the Government of India in respect of the Agriculture Debt Waiver and Debt Relief Scheme, 2008, the lending institutions were compensated in a staggered manner as given in Table III.1. The Government of India has sanctioned ₹40,000 crore as the first and second instalments. Out of this, ₹28,000 crore was transferred to National Bank for Agriculture and Rural Development (NABARD) for reimbursement to RRBs and cooperatives. The remaining amount of ₹12,000 crore has been earmarked for reimbursing SCBs, Local Area Banks and Urban Cooperative Banks. The third instalment of ₹11,340.47 crore was released by the Government of India in January 2011 of which ₹1,240.12 crore has been transferred to NABARD for reimbursement of RRBs and cooperatives and the remaining amount of ₹10,100.35 crore has been utilised for reimbursing SCBs, Local Area Banks and Urban Cooperative Banks.

4. Financial Inclusion

3.15 Financial inclusion has been made an integral part of the banking sector policy in India. Reserve Bank is furthering financial inclusion in a mission mode through a combination of strategies ranging from relaxation of regulatory guidelines, provision of innovative products, encouraging use of technology and other supportive measures for achieving sustainable and scalable financial inclusion. During 2010-11 too, the Reserve Bank continued with policy initiatives aimed at expanding the outreach of banking services to remote parts of the country.

Mandating Opening of Branches in Rural Unbanked Centres

3.16 To further step up penetration of banking services in the rural areas, there is a need for opening of more brick and mortar branches, besides the use of Business Correspondents (BCs). Accordingly, banks have been mandated to allocate at least 25 per cent of their total number of branches to be opened during a year to unbanked rural centres. Further, in October 2011, to provide enhanced banking services in Tier 2 centres (with population of 50,000 to 99,999 as per Census 2001), it has been proposed to permit domestic SCBs (other than RRBs) to open branches in these centres without the need to take permission from the Reserve Bank in each case, subject to reporting. The opening of branches in Tier 1 centres (centres with population of 1,00,000 and above as per Census 2001) will continue to require prior permission of the Reserve Bank. While issuing such authorisation, the Reserve Bank will continue to factor in, among others, whether at least 25 per cent of the total number of branches to be opened during a year are proposed to be opened in unbanked rural centres.

Relaxation of KYC norms

3.17 Know Your Customer (KYC) requirements for opening bank accounts were relaxed for small accounts in August 2005, simplifying procedure by stipulating that introduction by an account holder who has been subjected to full KYC drill and any evidence of the identity and address of the customer to the satisfaction of the bank, would suffice for opening such accounts. In 2010-11, KYC norms have been further relaxed *vide* circular dated January 27, 2011 to include job cards issued by/under National Rural Employment Guarantee Act (NREGA) (duly signed by an officer of the State Government) or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number can also be taken as the basis for opening small bank accounts. It was further relaxed *vide* circular dated September 28, 2011, making it applicable to all accounts.

Widening the Definition of Business Correspondent

3.18 Since 2006, the Reserve Bank has permitted banks to engage Business Facilitators and Business Correspondents (BFs/BCs) as intermediaries for providing banking services. The list of eligible individuals/entities who can

Table III.1: Compensation under Agriculture Debt Waiver and Debt Relief Scheme

(Amount in ₹crore)

Lending Institutions	Proposed reimbursement**			
	First instalment	Second instalment	Third instalment	Fourth instalment
	Sept 2008	July 2009	July 2010	July 2011
RRBs and Cooperatives	17,500	10,500	2,800	Balance amount, if any
SCBs, UCBs and LABs	7,500	4,500	9,200	Balance amount, if any
Total	**25,000**	**15,000**	**12,000**	**Balance amount, if any**

** Based on the current provisional estimates be engaged as BCs has been widened from time to time. During 2010-11, in order to harness the large and widespread retail network of corporate for providing financial and banking services, 'for-profit' companies were also allowed to be engaged as intermediaries to work as BCs for banks in addition to entities permitted earlier.

Introduction of Innovative and Simple Products

3.19 Timely and hassle-free credit being the most important requirement of poor people, banks have been advised to provide in-built overdraft of small amount in no-frill accounts so that customers can avail of credit of small amount without any further documentation, for meeting emergency requirements.

Roadmap for Banking Services

3.20 With an objective to ensure uniform progress in provision of banking services in all parts of the country, banks were advised to draw up a roadmap for opening banking outlets in every unbanked village having a population of more than 2,000, through a brick and mortar branch or any of the various forms of ICT-based models, including through BCs. In alignment with the budget announcements, the timelines for completing the roadmap was extended to March 2012 *vide* circular dated September 16, 2010. About 72,800 such unbanked villages have been identified and allotted to various banks through State-level Bankers' Committee (SLBC).

Progress on Financial Inclusion Plans

3.21 In January 2010, all public and private sector banks were advised to put in place a Board-approved three-year Financial Inclusion Plan (FIP) and submit the same to the Reserve Bank by March 2010. These banks prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013. These plans broadly include self-determined targets in respect of rural brick and mortar branches to be opened; BCs to be employed; coverage of unbanked villages with population above 2,000 as also other unbanked villages with population below 2,000 through branches/BCs/other modes; no-frill accounts opened including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board-approved FIPs with their business plans and to include the criterion on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is being closely monitored by the Reserve Bank.

3.22 In order to review the progress of banks in the implementation of FIPs during the year 2010-11 and making way for accelerated progress in future, the Reserve Bank has been conducting one-to-one meetings with Chairman and Managing Director (CMD)/Chief Executive Officer (CEO) of banks. Few of the important action points which emanated out of the discussions held during May-June 2011 are as follows:

- Banks shall review their delivery models so that Financial Inclusion results in a profitable business for them.
- In addition to providing banking services in villages with more than 2,000 population, they will also focus on providing banking services in peripheral villages with population of less than 2,000.
- In future, banks need to focus more on opening of brick and mortar branches in unbanked villages. It may be a low cost and simple intermediary structure comprising of minimum infrastructure for operating small customer transactions and supporting upto 10 BCs at a reasonable distance of 2-3 km. Such an approach will help banks in having a better customer redressal mechanism and at the same time, help in developing a better BC-monitoring mechanism. This will lead to efficiency in cash management,

documentation and redressal of customer grievances.

- Banks shall expand financial inclusion initiatives in urban and semi-urban areas by targeting pockets of migrant workers and small vendors and leveraging Aadhaar enrolment for opening bank accounts.
- Banks shall formulate financial inclusion plans for RRBs sponsored by them and develop an effective monitoring mechanism so that targets assigned to the RRBs are also achieved meticulously.

5. Prudential Regulatory Policy

Migration to Advanced Approaches under Basel II

3.23 In March 2009, all commercial banks in India completed migration to the basic approaches of Basel II. While the implementation of the standardised approaches and Pillar 2 would continue to be improved, the focus has recently shifted to the implementation of the advanced approaches for computation of capital adequacy requirement under the Basel II framework. These advanced approaches would help in aligning individual banks' regulatory capital with their risk profiles and also improve their risk management practices. As banking products and business models become increasingly complex, the risks inherent in these products can be measured and managed better under the advanced approaches. Thus, migration to advanced approaches would also help in pricing of financial products and performance measurement.

3.24 Adoption of advanced approaches is more challenging than the standardised approaches. First, unlike in the advanced economies, banks in India are not quite familiar with the use of the advanced quantitative techniques in risk management which are essential for computing risk measures under Basel II. Secondly, banks have to build institutional capabilities for implementation of advanced risk management framework particularly in the form of adequate incentive and compensation schemes for staff. Thirdly, banks need availability of quality data, understanding of economic cycles, capability to use quantitative techniques and skilled staff for validation of risk models. Hence, it is advisable that relatively large banks having adequate risk management systems migrate to advanced approaches first with other banks focusing on improving the risk management systems and MIS in a way that is consistent with their present operations and simultaneously build up the requisite organisational skills for the advanced approaches.

3.25 Further, there are specific challenges in relation to implementation of individual approaches. First, as regards modelling credit risk under the Internal Rating Based (IRB) Approach, there is a need for modelling Probability of Default and Loss Given Default (LGD) based on bank's own historical credit data. Lack of adequate historical data poses a problem in such an exercise. Further, the relevant data is often kept in disparate systems and units, and the traditional asset classes used by banks are different from those required under IRB approach. The utility of credit risk models based on market data have only limited scope for application in India as most of the corporate borrowers are unlisted and do not have listed corporate bonds.

3.26 Secondly, modelling operational risk under the Advanced Measurement Approach (AMA) is challenging due to the absence of external loss data and quality internal loss data. Further, it requires considerable subjective judgement in incorporation of the effect of business environment, internal control factors and use of scenario analysis in computing the operational risk capital charge.

3.27 Thirdly, while Internal Models Approach (IMA) for market risk is relatively less demanding in terms of data requirements and modelling, the methodologies for computation of Incremental Risk Charge (IRC) are still in the early stage of development.

3.28 The Reserve Bank has laid down the time line for banks to migrate to advanced approaches. Guidelines have been issued for Standardised Approach (TSA)/Alternate Standardised Approach (ASA) for operational risk in March 2010 and IMA for market risk in April 2010. Guidelines on AMA for operational risk have also been issued in April 2011. Draft guidelines on Foundation IRB as well as Advanced IRB Approach for calculating credit risk capital charge have been placed on the RBI website on August 10, 2011 inviting comments from banks and other stakeholders. As indicated in the Second Quarter Review of Monetary Policy of 2011-12, it is proposed to issue the final guidelines on IRB approach by end-December 2011.

Licensing of New Banks in Private Sector

3.29 Pursuant to the announcement made by the Union Finance Minister in his budget speech and the Reserve Bank's Annual Policy Statement for the year 2010-11, a Discussion Paper on "Entry of New Banks in the Private Sector" was placed on RBI website on August 11, 2010. Based on the responses received from various stakeholders and extensive internal discussions and consultations with the Government of India, the Draft Guidelines were prepared and released on August 29, 2011 on the RBI website, again seeking comments from various stakeholders. Suggestions and comments on the draft guidelines were to be sent by October 31, 2011.

Key features of the draft guidelines are as follows:

(i) Eligible promoters: Entities/groups in the private sector, owned and controlled by residents, with diversified ownership, sound credentials and integrity and having successful track record of at least 10 years will be eligible to promote banks. Entities/groups having significant (10 per cent or more) income or assets or both from real estate construction and/ or broking activities individually or taken together in the last three years will not be eligible.

(ii) Corporate structure: New banks will be set up only through a wholly owned Non-Operative Holding Company (NOHC) to be registered with the Reserve Bank as NBFC, which will hold the bank as well as all the other financial companies in the promoter group.

(iii) Minimum capital requirement: Minimum capital requirement will be ₹500 crore. Subject to this, actual capital to be brought in will depend on the business plan of the promoters. The NOHC shall hold minimum 40 per cent of the paid-up capital of the bank for a period of five years from the date of licensing of the bank. Shareholding by NOHC in excess of 40 per cent shall be brought down to 20 per cent within 10 years and to 15 per cent within 12 years from the date of licensing of the bank.

(iv) Foreign shareholding: The aggregate non-resident shareholding in the new bank shall not exceed 49 per cent for the first 5 years after which it will be as per the extant policy.

(v) Corporate governance: At least 50 per cent of the directors of the NOHC should be independent directors. The corporate structure should be such that it does not impede effective supervision of the bank and the NOHC on a consolidated basis by the Reserve Bank.

(vi) Business model: The model should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

(vii) Other conditions:

- The exposure of the bank to any entity in the promoter group shall not exceed 10 per cent and the aggregate exposure to all the entities in the group shall not exceed 20 per cent of the paid-up capital and reserves of the bank.

- The bank shall get its shares listed on the stock exchanges within two years of licensing.
- The bank shall open at least 25 per cent of its branches in unbanked rural centres.
- Existing NBFCs, if considered eligible, may be permitted to either promote a new bank or convert themselves into banks.

(viii) In respect of promoter groups having 40 per cent or more assets / income from non-financial business, certain additional requirements have been stipulated.

It is pertinent to mention that certain amendments to the Banking Regulation Act, 1949 are under consideration of the Government of India, a few which, are vital for finalisation and implementation of the policy for licensing of new banks in the private sector. These vital amendments are the removal of restriction of voting rights and concurrently empowering the Reserve Bank to approve acquisition of shares and /or voting rights of 5 per cent or more in a bank to persons who are 'fit and proper', empowering the Reserve Bank to supersede the Board of Directors of a bank so as to protect depositors' interest, and facilitating consolidated supervision.

Final guidelines will be issued and the process of inviting applications for setting up of new banks in the private sector will be initiated after receiving feedback/comments on the Draft Guidelines, and after the amendments to Banking Regulation Act, 1949 are in place.

Presence of Foreign Banks in India

3.30 The Reserve Bank also released a Discussion Paper on the presence of foreign banks in India in January 2011 seeking feedback and suggestions from stakeholders and general public. After receiving feedback on the Discussion Paper, comprehensive guidelines on the mode of presence of foreign banks in India would be issued.

Holding Companies Structure for Indian Banks

3.31 Pursuant to the announcement made in the Monetary Policy Statement for the year 2010-11, a working group was constituted in June 2010 (Chairperson: Smt. Shyamala Gopinath) to examine the introduction of a holding company structure for banks and other financial entities and the required changes in legislative and regulatory framework. The Group had representatives from the Government of India, the Reserve Bank, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Indian Banks' Association (IBA) and a few banks. The Report of the Working Group was placed on the RBI website in May 2011 for public comments. The Report has been forwarded to the Government of India for consideration.

3.32 The Working Group has recommended Financial Holding Company (FHC) model as a preferred model for banks and all large financial groups irrespective of whether they contain a bank or not. The FHC would primarily be a non-operating entity and would carry out all financial activities through subsidiaries. The FHC would be well diversified and subject to strict ownership and governance norms. The ownership restrictions would be applied either at the level of the FHCs or at the entity level, depending upon whether the promoters intend to maintain majority control in the subsidiaries, wherever it is permissible as per law.

3.33 The Working Group observed that the FHC model would enable better oversight of financial groups from a systemic perspective and allow better resolution of different entities as compared to Bank Subsidiary Model where liquidation of the parent bank may make the liquidation of subsidiaries inevitable.

3.34 To address the systemic concerns, the Working Group has envisaged consolidated supervision at FHC level that would be formalised through Memorandum of Understanding between financial sector regulators. The function of FHC regulation would be undertaken by a separate unit within the Reserve Bank with staff drawn from both the Reserve Bank as well as other regulators. To fully operationalise the FHC model, it has been recommended that a separate legislation for regulation of FHC be enacted and amendments be simultaneously made to other statutes governing public sector banks, Companies Act and Banking Regulation Act, 1949, wherever necessary. In addition, suitable amendments to various taxation provisions will have to be made to make the transition from bank subsidiary model to FHC model, tax and stamp duty neutral.

3.35 However, there are numerous challenges in implementing the FHC model in India due to legacy issues and multiplicity of regulatory and legal provisions that govern various sectors. Some of the major challenges can be identified as follows:

- Though enactment of a separate law for regulating FHCs has been recommended, it may take a while before this can be achieved. This is because the recommendations need to be accepted by all stakeholders including Government of India and also a simultaneous amendment to various other acts is made.
- There exist various policy issues in the financial sector including the differential Government ownership in financial entities, differential ownership and governance standards prescribed by various regulators and differential ceilings for foreign ownership prescribed for various sectors. Bringing all financial activities of a group within a single FHC would presuppose harmonisation among different sector policies.
- The most challenging task would be reorganising public sector banks from bank subsidiary model to FHC model as this involves both strategic and public policy issues for the Government. Irrespective of whether the Government chooses to maintain its control at the FHC level or at the bank level it would have to sort out implementation, administrative and management issues.

Compensation Policy

3.36 Compensation of Board of Directors, including that of the Chief Executive Officer (CEO) of banks in private sector and foreign banks has always been under RBI regulation in terms of the provisions of Banking Regulation Act, 1949, unlike the situation in many other jurisdictions. In terms of provisions of the Act, banking companies in India obtain approval from the Reserve Bank for conferring any benefit, amenity or perquisite in whatever form to their directors/CEOs whether during or after termination of their term of office.

3.37 Based on the Financial Stability Board (FSB) Principles for Sound Compensation Practices, the Reserve Bank placed draft guidelines on compensation in July 2010 on its website inviting public comments. In October 2010, the Basel Committee on Banking Supervision (BCBS) brought out a consultative paper titled “Range of Methodologies for Risk and Performance Alignment of Remuneration” and issued the final paper in May 2011.

3.38 Pursuant to the announcement made in the Monetary Policy Statement of May 2011 and taking into account the feedback received on draft guidelines, the impact analysis carried out with the help of external consultants and methodologies prescribed by BCBS on risk alignment, the Reserve Bank is in the process of finalising its guidelines on compensation.

Credit Information Companies

3.39 In 2010-11, a Certificate of Registration (CoR) was issued by the Reserve Bank to

Highmark Credit Information Services Private Limited to commence business of credit information after issuing CoR to Experian Credit Information Company of India Private Limited and Equifax Credit Information Services Private Limited earlier in 2009-10. The Reserve Bank issued a circular in September 2010 to banks/ financial institutions advising them to include the Director Identification Number (DIN) as one of the fields in the data submitted by them to credit information companies and Reserve Bank. This will ensure that names of directors of these credit information companies are correctly identified and in no case, persons whose names appear to be similar to the names of directors appearing in the list of Wilful Defaulters of ₹25 lakh and above or Defaulting borrowers of ₹1 crore and above are wrongfully denied credit facilities on such grounds.

Provisioning Coverage Ratio (PCR) for Advances

3.40 As a macro-prudential measure, banks were required to maintain PCR of 70 per cent of gross NPAs with reference to the position as on end-September 2010. The surplus of the provision over and above the prescribed prudential norms should be segregated into a separate account styled as "counter-cyclical provisioning buffer" which will be allowed to be used during periods of system-wide downturn with the prior approval of the Reserve Bank. This was intended to be an interim measure till such time the Reserve Bank introduces a more comprehensive methodology of counter-cyclical provisioning taking into account the evolving international standards.

Provision for Pension Liabilities

3.41 Banks provide various types of employee benefits such as pension, gratuity in accordance with the extant accounting standard AS 15, which is based on the International Accounting Standard IAS 19. Banks are expected to ensure that the commitments arising out of the wage settlement can be absorbed by them keeping in view their financial position. As witnessed during the last wage revision, public sector banks and 10 old private sector banks, under the 9th bipartite settlement, signed in April 2010, were apparently not able to absorb the impact of the additional burden arising on account of above. The IBA approached the Reserve Bank on behalf of the member banks, seeking approval to amortise the additional liability. Special regulatory dispensation of amortisation was granted to these banks by the Reserve Bank for a period of five years subject to certain conditions[3]. The laxity in building up adequate provisions for such liabilities is a matter of regulatory concern. This also has systemic stability issues arising from under-provisioning and non-compliance with extant accounting standards. It is, therefore, necessary that banks make proper assessment of their superannuation liabilities and provide for the same from the year in which the wage settlements fall due and not from the year in which such settlements are made.

Road Map for Basel III

3.42 The Basel Committee has prescribed a detailed roadmap for smooth transition to Basel III standards between January 1, 2013 and January 1, 2019. In this regard, the assessment shows that Indian Banks are well positioned to adjust to the Basel III norms well within the phase-in period. However, there exist many challenges, such as upgrading risk management systems and meeting the credit needs of a rapidly growing economy even while adjusting to a more demanding regulatory regime.

6. Supervisory Policy

Close and Continuous Supervision of Large and Systemically Important Banking Groups

3.43 For optimising the supervisory resources and also to have a more focused attention on banks, which are systemically important, it was

[3] For details, see RBI Annual Report - 2010-11.

decided to reorganise the supervisory processes and the organisational structure of the Department of Banking Supervision (DBS). The reorganisation of the Department was made effective from April 1, 2011, whereby a new division named Financial Conglomerate Monitoring Division (FCMD) was created to have a system of "close and continuous supervision" of 12 large and systemically important banking groups, which account for 52.7 per cent of the total assets of the banking system. Under the reorganised set up, the supervisory responsibility of FCMD would include exercising on-site and off-site supervision, and a more meaningful consolidated/conglomerate supervision of banking groups with a focus on group wide capital adequacy assessment, among others.

Steering Committee to Review Supervisory Processes for Commercial Banks

3.44 A High Level Steering Committee (Chairman: Dr. K. C. Chakrabarty) has been constituted to assess the adequacy of Reserve Bank's supervisory policies, procedures and processes and suggest enhancements for making the supervisory policies comparable with global standards. Shri B. Mahapatra, Executive Director, RBI, Dr. J. R. Varma, Professor, IIM, Ahmedabad, Shri Diwakar Gupta, MD and CFO, State Bank of India, Smt. Chanda Kochhar, MD and CEO, ICICI Bank Ltd., Shri. Basant Seth, CMD, Syndicate Bank, and Shri M. B. N. Rao, Retired CMD, Canara Bank are the members and Shri G. Jaganmohan Rao, Chief General Manager-in-Charge of the Department of Banking Supervision is the Member Secretary of the Committee. The Committee is mandated to submit its report by July 31, 2012.

Review of the Format for Annual Financial Inspection of Banks

3.45 Keeping in view the changes in the banking system, the way banks do business and the need for supervisors to keep pace with the fast changing business practices, the process of the Annual Financial Inspection (AFI) of banks has been redefined. The revised guidelines pertaining to AFI coverage and method of drafting AFI reports are designed to sharpen the focus and bring out precision in analysis and arrive at clear conclusions for enabling the Reserve Bank to take definitive supervisory actions based on the findings. The guidelines have been put in place in the current AFI cycle 2011-12.

Initiatives taken by Board for Financial Supervision

3.46 The Board for Financial Supervision (BFS), constituted in November 1994, remains the chief guiding force behind Reserve Bank's supervisory and regulatory initiatives. During July 2010 to July 2011, the BFS held 13 meetings. It reviewed 98 inspection reports (25 reports of public sector banks, 30 of private sector banks, 31 of foreign banks, 4 of local area banks, and 8 of financial institutions). During the period, the BFS also reviewed 15 summaries of inspection reports and 43 summaries of financial highlights pertaining to scheduled UCBs classified in Grade I/II. Some of the important issues deliberated upon by the BFS during the period are as follows:

- Continuing to exercise keen interest in fine tuning of supervisory rating, the BFS sought a complete review of the rating methodology. The suggestions included: (i) review of weightages given to sub-parameters; (ii) the adjustment in composite rating to reflect the deterioration or improvement in the bank's performance in various parameters. The supervisory rating framework is currently under review.
- During the period under review, the BFS had observed that in order to take advantage of favourable market conditions and book profits, many banks were resorting to sale of securities held under Held to Maturity (HTM) category on more than one occasion during the year. In response, as directed by BFS, a circular was issued in August 2010 advising

banks to disclose market value of investments held in HTM category and indicate the excess of book value over market value for which provision is not made, if the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investment in HTM. This disclosure is required to be made in "Notes to Accounts" in banks' audited Annual Financial Statements. In November 2010, it was clarified that one-time transfer of securities to/from HTM category with the approval of Board of Directors permitted at the beginning of the accounting year and sales to the Reserve Bank under pre-announced OMO auctions would be excluded from the 5 per cent cap prescribed in August 2010.

- The BFS approved a proposal to subject only those foreign banks to Annual Financial Inspection, which have a business share of more than 0.1 per cent of the market share (assets plus off-balance sheet business). Those foreign banks which have a market share of less than 0.1 per cent will be inspected once in two years provided their rating is 'B' and above. Those foreign banks with a market share of less than 0.1 per cent and with rating of 'C' and less will be inspected annually.
- Based on the suggestions of the BFS, it was decided that as supervisors, the Inspecting Officers (IOs) should have access to all the reports/review notes prepared by the Inspection/Audit teams of the bank, some of which may be from overseas and may not be available locally.

Whole Firm Liquidity Modification Regime in the UK: Implications for Indian Banks

3.47 A new liquidity regime through increased international cooperation in financial supervision arrangements was proposed by Financial Services Authority (FSA), UK to make the banking system more robust to withstand shocks. The Whole Firm Liquidity Modification regime which encompasses Indian banks operating through branches/subsidiaries in the UK would enable the UK branch of an Indian bank to place reliance on unlimited liquidity resources from anywhere within the whole firm (bank). Six Indian banks having presence in the UK have applied for "Whole Firm Modification" after obtaining prior approval of the Reserve Bank. Subsequently, agreements were entered into by the Reserve Bank with FSA in October 2010 to monitor the liquidity of the parent bank on an ongoing basis in respect of the six banks. As per the agreement, the specifications and monitoring of triggers for liquidity insufficiency in respect of UK branches of Indian banks would rest with the parent bank.

Reporting of Frauds by Public Sector Banks

3.48 The Reserve Bank issued a circular in October 2010 advising public sector banks about the increase in the upper limit for reporting of frauds to Central Bureau of Investigation (CBI) from ₹5 crore to ₹7.5 crore and accordingly, all fraud cases involving an amount of ₹1 crore and above going up to ₹7.5 crore, where staff involvement is *prima facie* evident must be reported to Anti Corruption Branch of CBI. However, in case where the staff involvement is *prima facie* not evident, it would be advised to CBI's Economic Offences Wing. Further, all cases involving more than ₹7.5 crore would have to be reported to respective centres of Banking Security and Fraud Cell, a specialised cell of the Economic Offences Wing for major bank fraud cases.

Internal Vigilance in Private Sector/Foreign Banks

3.49 In order to align the vigilance function in private and foreign banks to that of the public sector banks, the existing vigilance functions of a few private sector and foreign banks were mapped with the existing guidelines in the matter and it was observed that the practices vary widely among the banks. Accordingly, detailed guidelines aimed at bringing about uniformity and rationalisation in the function of internal vigilance were issued for private sector and foreign banks in May 2011 to address all issues arising out of lapses with regard to corruption, malpractices and frauds for timely and appropriate action. Private sector banks and foreign banks operating in India were advised, *inter alia*: (i) to appoint Chief of Internal Vigilance (CIV) whose role has also been defined in the guidelines; (ii) to identify sensitive positions and have board-approved guidelines regarding rotation of staff and mandatory leave by staff handling sensitive desks.

Guidelines for Forensic Scrutiny

3.50 Forensic scrutinies at certain identified banks were conducted by the Reserve Bank due to occurrence of large value frauds and sharp increase in number of frauds at such banks to primarily identify the policy gaps, if any, and adequacy of controls. Based on the findings of the scrutinies, the operating framework for tracking frauds and dealing with them was advised to be structured along the lines of "Detection and Reporting of Frauds, Corrective Action and Preventive and Punitive Action" circular, issued earlier in this regard. The banks were advised to evolve suitable controls and disincentives in their HR process and internal inspection/audit process, which should focus on 'fit and proper criteria' for posting of staff in specialised branches and build a database at offices about staff having aptitude for investigation/data analysis and provide them training in investigation and forensic audit.

Penal Actions for Violations of RBI's Guidelines on Derivative Transactions

3.51 Penalties have been imposed on 19 commercial banks by the Reserve Bank in exercise of the powers vested with it under the provisions of Section 47A(1)(b) read with Section 46(4)(i) of the Banking Regulation Act, 1949. The penalties have been imposed for contravention of various directions and instructions issued by the Reserve Bank in respect of derivative transactions. The contraventions relate to failure to carry out proper due diligence on user appropriateness and suitability of products, and selling derivative products to users not having proper risk management policies, among others.

Return to Monitor Interest Rate Sensitivity

3.52 The Reserve Bank has introduced a new return to monitor interest rate sensitivity based on duration gap and has issued a circular in November 2010 for details on computing the duration gap. The details about the return and procedure for calculation are illustrated in Box III.1.

7. Regional Rural Banks

3.53 Regional Rural Banks (RRBs) are region-based and rural-oriented banks, which have been set up to correct the regional imbalances and functional deficiencies in the institutional credit structure *vis-à-vis* the weaker sections of the populace. New credit delivery models like business correspondents, business facilitators as well as new technologies are being experimented with, so as to reach the unreached customers. In this regard, RRBs are well placed to carry forward the movement of financial inclusion due to their local character and familiarity with the local clientele.

Amalgamation of RRBs

3.54 On account of the consolidation and amalgamation process which had started in September 2005, the number of RRBs has come down to 82. As on date, out of 82 RRBs, 80 RRBs have been included in the 2nd Schedule of the RBI Act, 1934. At present, two RRBs *viz.*, Paschim-Banga Gramin Bank, West Bengal and Kalinga Gramin Bank, Orissa are ineligible for scheduling.

Box III.1: Monitoring Interest Rate Sensitivity based on Duration Gap Analysis

Interest rate risk is the risk where changes in market interest rates affect a bank's financial position. Changes in interest rates impact a bank's earnings through changes in its Net Interest Income (NII). Changes in interest rates also impact a bank's Market Value of Equity (MVE) or Net Worth through changes in the economic value of its rate-sensitive assets, liabilities and off-balance sheet positions. The interest rate risk can thus be viewed from two perspectives, *viz*., 'earnings perspective' and 'economic value perspective'. Generally, the former is measured using the Traditional Gap Analysis (TGA) and the latter is measured using more sophisticated Duration Gap Analysis (DGA).

Presently, the Reserve Bank monitors the interest rate risk of banks through a monthly return on interest rate sensitivity using the TGA. The focus of the TGA is to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements over usually a one-year time horizon. It involves bucketing of all Rate-Sensitive Assets (RSA) and Rate-Sensitive Liabilities (RSL) and off-balance sheet items as per residual maturity/re-pricing date in various time bands and computing Earnings at Risk (EaR) or the loss of income under different interest rate scenarios over one year.

In addition to the existing return on Interest Rate Sensitivity under Traditional Gap Analysis, a new return is being introduced to monitor the interest rate risk using DGA, called Interest Rate Sensitivity under Duration Gap Analysis (IRSD). The DGA involves bucketing of all RSA and RSL as per residual maturity/re-pricing dates in various time bands and computing the Modified Duration Gap (MDG). The RSA and RSL include the rate-sensitive off-balance sheet assets and liabilities as well. MDG can be used to evaluate the impact on the MVE of the bank under different interest rate scenarios. The past few years have seen banks' foray into financing long-term assets, such as home loans and infrastructure projects. Banks have been allowed to raise funds through long-term bonds with a minimum maturity of five years to the extent of their exposure of residual maturity of more than five years to the infrastructural sector. Hence, the time buckets *viz*; 'over 5 years and up to 7 years', 'above 7 years and up to 10 years' and 'over 10 years and up to 15 years' and 'over 15 years', have been incorporated in the new return.

The step-by-step approach for computing modified duration gap has been detailed in the Reserve Bank circular (DBOD.No.BP.BC.59/21.04.098/2010-11) dated November 4, 2010. Banks will be required to compute their interest rate risk position, in each currency (including Rupees) by applying DGA to RSA and RSL items in that currency, where either the assets/liabilities are 5 per cent or more of the bank's total global assets/liabilities. The interest rate risk position in all other residual currencies has to be computed separately on an aggregate basis. The framework prescribed is aimed at determining the impact on the MVE arising from changes in the value of interest rate sensitive positions across the whole bank *i.e.*, both in the banking and trading books. Banks shall submit the report on interest rate sensitivity as per DGA in the stipulated format with effect from June 30, 2011 on a quarterly basis till March 31, 2012, and on a monthly basis with effect from April 30, 2012.

Branch Licensing Policy for RRBs

3.55 The Reserve Bank has recently liberalised branch authorisation policy considerably for RRBs and allowed them to open branches in Tier 3 to Tier 6 centres (with population of up to 49,999 as per 2001 Census) without prior authorisation from the Reserve Bank, subject to reporting to respective Regional Offices of the Reserve Bank, provided they fulfill certain conditions as specified in the relevant circular.

CBS Implementation

3.56 As on September 30, 2011, 65 out of 82 RRBs have migrated fully to core banking solutions (CBS), and implementation of CBS is in progress in the remaining RRBs. All sponsor banks have committed to implement CBS in RRBs by the prescribed time line *i.e.*, September 2011.

Amortisation of Gratuity

3.57 Owing to enhancement of maximum limit for payment of gratuity from ₹3.50 lakh to ₹10.00 lakh, RRBs' liability towards payment of additional premium to LIC has increased considerably. Hence, they have been permitted to amortise the enhanced expenditure over a period of five years beginning with the financial year ending March 31, 2011 subject to a minimum of 1/5th of the total amount involved every year.

8. Cooperative Banks

Urban Cooperative Banks (UCBs)

3.58 Cooperative banks assume importance in the Indian financial system under the inclusive growth agenda, which has laid emphasis on financial inclusion. During 2010-11, a number of policy initiatives have been taken to strengthen cooperative banking in India, details of which are as follows:

Opening of off-site ATMs by UCBs - Liberalisation

3.59 According to the liberalised policy, Financially Sound and Well-Managed (FSWM) UCBs can open off-site ATMs over and above their annual business plan provided they meet the following criteria: (i) maintenance of a minimum CRAR of 10 per cent; (ii) net NPAs being less than 5 per cent; (iii) no default in the maintenance of CRR/SLR during the preceding financial year; (iv) continuous net profit for the last 3 years; (v) sound internal control system with at least two professional directors on the Board; and (vi) regulatory comfort based on track record of compliance with the provisions of BR Act, 1949 (AACS), RBI Act, 1934 and instructions/directions issued by the Reserve Bank from time to time. In addition, the minimum owned funds of the FSWM UCBs should be commensurate with entry point capital norms for the centre where the off-site ATM is proposed/where the UCB is registered.

New Bank Licenses

3.60 As announced in the Annual Policy Statement 2010-11, the Reserve Bank set up an expert committee (Chairman: Shri Y.H. Malegam) comprising all stakeholders for studying the advisability of granting licenses to set up new UCBs. The expert committee submitted its report on August 18, 2011. The Committee is of the view that, there is need for a greater presence of UCBs, especially in unbanked districts and in centres having population of less than 5 lakh. In this regard, it is necessary to encourage new entrants to open banks and branches in States and districts which are unbanked or inadequately banked. The existing well-managed cooperative credit societies with sound track record should be given priority for granting licenses as UCBs particularly in unbanked or inadequately banked centres. Some of the recommendations by the Expert Committee are as follows:

- UCBs which want to operate in the North-east or only in one State would need a minimum capital of ₹50 lakh. The UCBs which want to operate in other States but keeping majority of branches in 'C' and 'D' category population centres would need minimum capital of ₹100 lakh. For UCBs which want to operate in other States without any requirement in 'C' and 'D' categories should have a minimum capital of ₹300 lakh. The UCBs which want to operate in more than one State after five years of successful operations would need a minimum capital of ₹500 lakh.
- There should be segregation of the ownership of the UCB as a cooperative society from its functioning as a bank. The new organisation structure shall consist of a Board of Management (BoM) in addition to the Board of Directors (BoD).
- The BoD will establish a BoM, consisting of persons with professional skills, which shall be entrusted with the responsibility for the control and direction of the affairs of the bank assisted by a CEO who shall have the responsibility of the management of the Bank. The appointment of the CEO shall be subject to the prior approval of the Reserve Bank.

Guidelines on Trading of Currency Options by UCBs

3.61 UCBs licensed as Authorised Dealers (Category I) were allowed to participate in the exchange traded currency option market of a designated exchange, recognised by SEBI as clients only, subject to RBI (Foreign Exchange Department) guidelines only for the purpose of hedging underlying forex exposure arising from customer transactions.

Exposure to Housing, Real Estate and Commercial Real Estate Sectors

3.62 As announced in the Second Quarter Review of Monetary Policy 2010-11, it was decided that UCBs' exposures to housing, real estate and commercial real estate loans would be limited to 10 per cent of their total assets, instead of 15 per cent of deposits, which can be exceeded by an additional limit of 5 per cent of assets in case of dwelling units costing upto ₹10 lakh, subsequently increased to ₹15 lakh for housing loans granted to individuals. Further, it was also decided that UCBs would not be allowed to exceed the aggregate ceiling for real estate, commercial real estate and housing loans to the extent of refinance availed from higher financing agencies and National Housing Bank (NHB).

Prudential Norms on Investment in Zero Coupon Bonds (ZCBs)

3.63 UCBs were advised not to invest in ZCBs unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments/securities (Government Bonds).

Limit for Housing Loans under Priority Sector Advances

3.64 The limit for housing loans considered as a priority sector was increased from ₹20 lakh to ₹25 lakh for housing loans sanctioned by UCBs on or after April 1, 2011.

Accounting Procedure for Investment: Settlement Date Accounting

3.65 UCBs were advised that to bring in uniformity in the practice adopted by banks while accounting for investing in Government securities, they should follow "Settlement Date" accounting for recording both outright and ready forward purchase and sale transactions in Government securities.

Enhancement of Gratuity Limits - Prudential Regulatory Treatment

3.66 Consequent to the increase in the gratuity payment on account of the Amendment to Payment of Gratuity Act, 1972, UCBs were allowed to defer the expenditure related to enhancement of gratuity, if not fully charged to the Profit and Loss Account during the financial year 2010-11, over a period of five years beginning with the financial year ended March 31, 2011 subject to charging to the Profit and Loss Account a minimum of 1/5th of the total amount involved every year. UCBs have to disclose the expenditure so deferred in their Annual Financial Statements.

Financing of Self-Help Groups (SHGs) and Joint Liability Groups (JLGs)

3.67 With a view to further expanding the outreach of UCBs and opening an additional channel for promoting financial inclusion, which would also help them in achieving the sub-target of lending to weaker sections, UCBs were allowed to lend to SHGs/JLGs. Loans to SHGs/JLGs for agricultural and allied activities would be considered as priority sector advances. Further, other loans to SHGs/JLGs up to ₹50,000 would be considered as Micro Credit and hence treated as priority sector advances. Lending to SHGs, which qualify as loans to priority sector, would also be treated as part of lending to weaker sections.

Internet Banking for Customers of UCBs

3.68 Scheduled UCBs having a minimum net worth of ₹100 crore, CRAR of at least 10 per cent, net NPAs less than 5 per cent and have earned net profit continuously in the last three years were allowed to provide internet banking facility to their customers subject to obtaining prior approval of the Reserve Bank.

Rural Cooperative Banks

Status of Licensing of Cooperative Banks

3.69 There are 31 State Cooperative Banks (StCBs) and 371 District Central Cooperative Banks (DCCBs) in the country. Consequent to the issuance of revised guidelines on licensing of StCBs and DCCBs, ten StCBs and 160 DCCBs were licensed. As on June 30, 2011, seven StCBs and 136 DCCBs were still unlicensed.

Limit imposed on Housing Finance for State and Central Cooperative Banks

3.70 State and Central Cooperative Banks were advised to limit the exposure to housing finance to 5 per cent of their total assets as against 10 per cent of their total loans and advances.

9. Non-Banking Financial Companies

Amendment to Definition of Infrastructure Loan

3.71 The term "Infrastructure Loan" which had been defined in Para 2(viii) of Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, respectively, were amended. Consequently, NBFCs have been advised to include "Telecom Towers" under infrastructure. Further NBFCs have been advised that only Credit Rating Agencies (CRAs) approved by the Reserve Bank can give the rating to Infrastructure Finance Companies (IFCs).

Regulatory Framework for Core Investment Companies (CICs)

3.72 Under the extant regulatory framework, Core Investment Companies (CICs) with an asset size of less than ₹100 crore are exempt from the requirements of registration with the Reserve Bank. However, CICs with an asset size of ₹100 crore or more and accessing public funds would be considered as Systemically Important Core Investment Companies (CICs-ND-SI) and would be required to obtain Certificate of Registration (CoR) from the Reserve Bank under Section 45-IA of the Reserve Bank of India Act, 1934 even if they have been advised in the past that registration would not be required.

Introduction of Provision of 0.25 per cent for Standard Assets of NBFCs

3.73 In the interest of counter-cyclicality and also to ensure that NBFCs create a financial buffer to protect themselves from the adverse effects of economic downturns, provisioning of 0.25 per cent of the outstanding standard assets has been introduced.

Participation in Currency Options

3.74 NBFCs (excluding RNBCs) have been permitted to participate in the designated currency options exchanges recognised by SEBI, subject to RBI (Foreign Exchange Department) guidelines, only for the purpose of hedging their underlying forex exposures with an appropriate disclosure in their balance sheets.

Submission of Data to Credit Information Companies

3.75 NBFCs are required to become a member of at least one credit information company. They are required to provide the credit information to the credit information companies in the prescribed format. NBFCs are also required to provide historical data in order to enable the new credit information companies to develop a robust database.

Balance Sheet and Profit and Loss Account Information

3.76 NBFCs are advised to prepare their balance sheet and profit and loss account as on March 31 every year. Any extension of date of balance sheet would require prior approval of the Reserve Bank. Further, NBFCs are required to submit a certificate from Statutory Auditor with respect to the position of the company as on March 31 every year within one month from the date of finalisation of the balance sheet and in any case not later than December 30 of that year.

NBFCs not to be Partners in Partnership Firms

3.77 On account of the risks involved in NBFCs associating themselves with partnership firms, NBFCs are prohibited from contributing capital to any partnership firm or to be partners in partnership firms. In cases of existing partnerships, NBFCs have been advised that they may seek early retirement from the partnership firms.

Ready Forward Contracts in Corporate Debt Securities

3.78 NBFCs registered with the Reserve Bank (other than Government companies as defined in Section 617 of the Companies Act, 1956) are eligible to participate in repo transactions in corporate debt securities. NBFCs participating in such repo transactions have been advised to comply with the Directions and accounting guidelines issued by the Reserve Bank. All Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFCs-ND-SI) are eligible to participate in the repo transactions.

Loan Facilities by NBFCs to the Physically/ Visually Challenged

3.79 NBFCs have been advised that there shall be no discrimination in extending products and facilities including loan facilities to the physically /visually challenged applicants on grounds of disability.

Enhancing CRAR to 15 Per cent

3.80 It was decided to align the minimum capital ratio of all deposit-taking NBFCs with that of NBFCs-ND-SI at 15 per cent. Accordingly, all deposit taking NBFCs have been advised to maintain a minimum capital ratio consisting of Tier I and Tier II capital, which shall not be less than 15 per cent of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items with effect from March 31, 2012.

Setting up of Central Electronic Registry under the SARFAESI Act, 2002

3.81 To prevent frauds in loan cases involving multiple lending from different banks on the same immovable property, a central electronic registry has been established under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.

Opening of Branch/Subsidiary/Joint Venture/Representative Office or Undertaking Investment Abroad by NBFCs

3.82 NBFCs desirous of making any overseas investment must obtain 'No Objection' (NoC) under the terms of Regulation of the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations, 2004 and the Non-Banking Financial Companies (opening of Branch/Subsidiary/ Joint Venture/Representative Office or Undertaking Investment Abroad by NBFCs) Directions, 2011 issued by the Reserve Bank before making such investment, from the Regional Office of the Reserve Bank in whose jurisdiction the head office of the company is registered.

Entry of NBFCs into Insurance Business

3.83 NBFCs registered with the Reserve Bank would be permitted to set up a joint venture (JV) company for undertaking insurance business with risk participation, subject to certain safeguards: (i) the maximum equity contribution such an NBFC can hold in a JV company is 50 per cent of the paid-up capital of the insurance company; (ii) subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of a non-banking financial institution or banking business shall not be allowed to join the insurance company on risk participation basis. In this regard, it was clarified that in case, if more than one company in the same group of the NBFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 per cent prescribed for the NBFC in such an insurance JV.

Returns to be Submitted by NBFCs – Revised Formats

3.84 In terms of extant instructions, all NBFCs (excluding RNBCs) are required to file various returns related to deposit acceptance, prudential norms and capital market exposure, among others. It has been decided to rationalise the returns to streamline the reporting system and to improve the present method of collecting data. The Reserve Bank has since hosted the format of the revised returns on the Bank's website, *viz.*, <https://cosmos.rbi.org.in>. NBFCs shall submit all the returns online in the revised formats.

10. Customer Service in Banks

3.85 The Reserve Bank focuses on customer empowerment through enhanced dissemination of information. Towards providing more efficient and transparent services to customers, a number of initiatives were taken in 2010-11.

Credit Card Services

3.86 As there have been numerous complaints about credit card operations of banks, the Reserve Bank advised banks to strictly adhere to the guidelines issued in the Master Circular on Credit Card Operations of July 1, 2011, both in *letter* and *spirit*. A failure to observe these guidelines could lead to suitable penal action, including levy of monetary penalties under the relevant statutory provisions.

Online Alerts for ATM Services

3.87 The Reserve Bank has advised banks to put in place a system of online alerts latest by June 30, 2011 to cardholders, for all types of transactions, irrespective of the amount involved through various channels due to the increased instances of fraudulent withdrawals at ATMs. Further, banks have been also advised to provide complaint templates at all ATM sites for lodging ATM-related complaints.

Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer System (NEFT) Services

3.88 To ensure prompt redressal of customer complaints regarding RTGS transactions, banks have been advised to use existing Customer Facilitation Centres set up for NEFT and RTGS customer complaints. To facilitate easy reconciliation of RTGS/NEFT return transactions, banks have been advised to provide necessary information to customers on return transactions in the account statement. Further, banks have also been advised to furnish remitter details to customers in their pass book or account statement for credits received through NEFT/National Electronic Clearing Service (NECS) / Electronic Clearing System (ECS).

Cheque Drop-Box Services

3.89 In view of complaints about refusal by banks to give acknowledgements to customers for cheques tendered at the counter, compelling them to drop them in the drop-box, banks have been advised to ensure stricter compliance with the extant instructions regarding cheque drop-box facility. Banks have been further advised that no branch should refuse to accept cheques over the counter and give proper acknowledgement.

Loan Services

3.90 With a view to bring fairness and transparency, banks have been advised to disclose ' all in cost ', inclusive of all charges involved in the processing and sanction of loans to enable the customer to compare the charges with other sources of finance. Banks need to ensure that these charges are non-discriminatory.

Committee on Customer Service in Banks

3.91 The Reserve Bank has constituted a

Committee to study various aspects of customer service in banks. The major observations made by the Committee are given in Box III.2.

Customer Satisfaction Survey: ATM Transactions

3.92 The Reserve Bank commissioned a survey to assess customer satisfaction in the usage of ATMs across the country. The Survey covered 600 ATMs distributed proportionately over metro, urban, semi-urban and rural regions, constituting 1 per cent of the total number of 60,000 ATMs in the country. The interim report was presented to the Board for Payment and Settlement Systems in June 2011. The major findings of the Survey *inter alia* were as follows: (i) cards were mainly used for withdrawing cash or shopping purposes; (ii) the use of debit cards for bills payment/ticket purchase was still low; (iii) the use of debit cards for shopping was the highest in Maharashtra and Andhra Pradesh; (iv) the use of cards for shopping was more among the youth; (v) females used cards with less frequency.

Silver Jubilee Year of Consumer Protection Act

3.93 The year 2010-11 was the Silver Jubilee Year of the Consumer Protection Act, 1986. The theme for celebration, proposed by the Ministry of Consumer Affairs, was "Consumers Discharge Your Responsibilities: Assert Your Rights". To commemorate the occasion, the Department of Consumer Affairs proposes to bring out a book titled "Consumer Protection in India" containing papers written by experts, which would be released in December 2011.

Exclusive Board Meetings on Customer Service

3.94 To increase Board oversight on customer service-related issues in banks, the Annual Monetary Policy - 2010-11 had announced that banks should devote exclusive time in a Board meeting once every six months to deliberate on these issues. All banks would submit a detailed memorandum regarding customer service to the Board of Directors, once every six months and initiate prompt corrective action, wherever quality and skill gaps were observed.

11. Financial Markets

Adherence to Foreign Exchange Management Act (FEMA) Guidelines for Online Payment Transactions

3.95 The Online Payment Gateways have emerged as popular modes of e-commerce and

Box III.2: Report of the Committee on Customer Service in Banks

The Reserve Bank constituted a Committee (through a Board Memorandum dated May 26, 2010) under the chairmanship of Shri M. Damodaran, former Chairman, SEBI to examine banking services rendered to retail and small customers, including pensioners. The Committee also had a mandate to look into the grievance redressal mechanism prevalent in banks, its structure and efficacy, and suggest measures for expeditious resolution of complaints.

The Committee had interactions with various stakeholders on all aspects of customer service fair treatment, improvement in services to pensioners, attitude of the bank staff towards the small and rural customers, service charges and fees, transparency in operations, grievance redressal, promptness in service, education and information on new products, and customer rights and expectations, among others. The Committee also called for public suggestions.

The Committee submitted its report to the Bank in July 2011. According to the Committee, the major expectations of consumers are that banks should: (i) have a customer-centric approach; (ii) render fair and non-exploitative treatment and adhere to full disclosure of information; (iii) put in place an expeditious grievance redressal; (iv) provide a simple deposit account instead of *suo moto* offering bouquet services without customer demand and charging for the same.

The recommendations of the Committee are based on the above customers expectations. They include *inter alia*: (i) creation of a toll free Common Bank Call Number; (ii) providing plain vanilla savings account without prescription of minimum balance; (iii) setting up of a trusted third party KYC data bank, which can be relied upon for KYC purposes; (iv) providing small remittances at reasonable price; (v) zero liability against loss in ATM and online transactions; (vi) enhancement of Deposit Insurance and Credit Guarantee Corporation (DICGC) cover to ₹5,00,000.

have facilitated exports, particularly in small-value goods and services. The Reserve Bank has issued guidelines in November 2010 to Authorised Dealer (AD) banks allowing them to offer the facility of repatriation of export-related remittances (up to US$ 500 per transaction) by entering into standing arrangements with Online Payment Gateway Service Providers subject to certain conditions. Enhancing the existing limit per transaction of US$ 500 is under consideration.

Over-the-Counter (OTC) Foreign Exchange Derivatives

3.96 The comprehensive guidelines on OTC foreign exchange derivatives and overseas hedging of commodity price and freight risks were issued on December 28, 2010. The important elements of the revised guidelines, which became effective in February 2011, are *inter alia*: (i) AD category banks can only offer plain vanilla European Cross Currency Options; (ii) allowing embedded cross currency option in the case of foreign currency-rupee swaps; (iii) permitting the use of cost reduction structures, both under the contracted exposures and past performance routes, subject to certain safeguards; (iv) undertaking swaps to move from Rupee liability to forex liability is allowed, subject to certain safeguards.

Introduction of Credit Default Swaps (CDS) for Corporate Bonds

3.97 The Reserve Bank had issued draft guidelines on introduction of CDS in 2003 and 2007. However, taking into account the adverse developments in the international financial markets, the issuance of final guidelines was deferred. Following the proposal of introducing plain vanilla over-the-counter (OTC) single-name CDS for corporate bonds made in the Second Quarter Review of Monetary Policy of 2009-10, an internal Working Group (Convener: Shri R. N. Kar) was constituted to finalise the operational framework. Based on the feedback received from stakeholders on the draft guidelines prepared by the Group, final guidelines have been issued in May 2011. The salient features of the guidelines, among others, are as follows:

i. The CDS shall be permitted on listed corporate bonds, unlisted but rated bonds of infrastructure companies and unlisted/ unrated bonds issued by the Special Purpose Vehicles (SPVs) set up by infrastructure companies as reference obligations.

ii. The reference entities shall be single legal resident entities.

iii. The permitted participants have been categorised into:

   a) Market Makers: Participants, such as commercial banks, NBFCs and stand-alone PDs are permitted to undertake both protection buying and protection selling subject to satisfying certain eligibility norms. Insurance companies and mutual funds can act as market-makers subject to the approval of their respective regulators.

   b) Users: Participants, among others, include commercial banks, PDs, NBFCs, mutual funds, insurance companies and listed corporates, who can hedge only their underlying exposures. Users cannot purchase CDS without having the underlying exposure and the protection can be bought only to the extent (both in terms of quantum and tenor) of such underlying risk.

iv. For users, physical settlement is mandatory. Market makers can opt for any of the three settlement methods (physical, cash or auction settlement), provided the CDS documentation includes such settlement method.

v. Reporting requirements: It is mandatory for market makers to report their CDS trades within 30 minutes from the deal time, on CDS trade reporting platform.

vi. As CDS markets are exposed to various risks, market participants are required to take these risks into account and build appropriate risk management systems. The guidelines prescribe counterparty credit exposure limits, PV01 limit (Change in price of ₹100 nominal bond for one basis point change in yield) and an independent risk management framework for monitoring and controlling of all aspects of risks.

12. Payment and Settlement System

3.98 The Reserve Bank has set up a robust technology-based payment and settlement systems infrastructure with enhanced assurance of uninterrupted and efficient provision of services. Major policy initiatives taken during the year to further strengthen the payment and settlement system were as follows:

Paper Clearing: Express Cheque Clearing System

3.99 To impart more efficiency to clearing process in non-MICR clearing houses, an advanced clearing house automation package Express Cheque Clearing System (ECCS) has been introduced. The ECCS would accept multi-user inputs in a networked environment, core-banking integration and graphic interface compatibility. The National Payments Corporation of India (NPCI) has been entrusted with the task of operationalising this package.

Electronic Payment Systems

3.100 To provide near-to-real-time funds transfer facility to retail customers, as also to cater to the stock market timings, 11-hourly settlements on week days and five-hourly settlements on Saturdays in National Electronic Fund Transfer (NEFT) was introduced in March 2010, which has now been extended to over 79,000 branches. This is expected to enhance customers' preference for electronic modes of payment.

Prepaid Payment Instruments

3.101 Keeping in view the increasing popularity of prepaid payment instruments, the guidelines issued in April 2009 were revisited in November 2010 and the following amendments *inter alia* were effected: (a) Extension of the use of semi-closed prepaid payment instruments used for payment of utility bills for the purchase of travel tickets; (b) Permission to banks to issue semi-closed prepaid payment instruments through agents and BCs. Further, the maximum value of prepaid instruments that can be used in the form of mobile-wallets (m-wallets) has been increased from ₹5,000 to ₹50,000.

Mobile Banking Transactions

3.102 Recognising the true potential of using mobile phones as a banking tool towards furthering financial inclusion, the bank-led model of mobile banking has been adopted, which would extend all banking facilities, including money transfer facility, through the mobile channel. The Reserve Bank has so far approved proposals of 50 banks to commence mobile banking services. The Bank has also authorised the NPCI to provide a seamless, instant, 24X7, mobile-based inter-bank fund transfer system through mobile phones, called Inter-Bank Mobile Payment Service.

Card-based Transactions

3.103 Given the increasing usage of cards (credit/debit/prepaid) issued by banks, there is a definite need to make both Card Present (CP), where card is swiped at ATMs and Points of Sale (PoS), and Card Not Present (CNP) transactions, safe and secure. An important step taken by the Reserve Bank, which is unique globally, is the mandate given to banks to provide additional authentication for all CNP transactions based on information not available on the card. The banks introduced additional authentication for CNP transactions except the Interactive Voice Response (IVR) transactions in April 2009, and extended the same to all IVR transactions in February 2011. The mandate presently applies to all transactions using cards issued in India for payments on merchant sites where no outflow of foreign exchange is contemplated. This initiative has increased the confidence of customers in this channel leading to a steep fall in the frauds in e-commerce transactions. The Reserve Bank has recently constituted a Working Group to look into the issue of security of all CP transactions; the major recommendations of the Group are discussed in Box III.3.

Efficiency in the ATM Delivery Channel

3.104 To improve the operational efficiency of ATMs for customers, the Reserve Bank in May 2011 has *inter alia* advised banks: (a) To reduce the time limit for resolution of customer complaints from 12 working days to seven working days from the date of receipt of the customer complaint; (b) The customer is entitled to receive compensation for delay at the rate of ₹100 per day, provided the complaint is lodged with the issuing bank within 30 days from the date of the transaction; (c) All disputes regarding ATM-failed transactions should to be settled by the issuing bank and acquiring bank only through the ATM system provider leaving no scope of bilateral settlement arrangement outside the dispute resolution mechanism of the system provider. This measure would bring down the instances of disputes in payment of compensation between the issuing and acquiring banks.

Oversight of Payment Systems

3.105 To ensure that the payment systems operate in a safe and efficient manner and in line with extant policy prescriptions, the Reserve Bank has initiated a process of assessment, comprising both off-site surveillance and on-site inspections complimented by market intelligence. As part of the off-site surveillance, a database on the various payment instruments, their volume and value has been created and placed on the RBI website. An assessment template has been devised to aid authorised entities to carry out a self-assessment of their operations, risk management and business continuity arrangement.

13. Technological Developments

3.106 Technology is central to the design and delivery of banking services. The modern-day banking services are critically dependent on technological innovation and improvement. During 2010-11, several new initiatives were taken by the Reserve Bank towards improving the banking sector technology.

Business Continuity Management and Disaster Recovery

3.107 During the year, periodical drills were conducted in order to ensure effectiveness of the Business Continuity Management and Disaster Recovery (DR) arrangements for shared

Box III.3: Recommendations of the Working Group on Securing Card Present Transactions

A Working Group was constituted by the Reserve Bank on March 31, 2011 for recommending measures to secure all Card Present (CP) transactions. The Group, which submitted its report on May 31, 2011, made *inter alia* the following recommendations: (a) The technology and payment infrastructure like implementation of Unique Key Per Terminal (UKPT) and Terminal Line Encryption (TLE) should be strengthened within 18-24 months; (b) An additional factor (Personal Identification Number (PIN) or Biometric) for all domestic debit card transactions should be introduced within 24 months; (c) After monitoring the progress made in the roll-out of Aadhaar UID, it may be considered to use the biometric finger-print capture in lieu of PIN at the ATM and PoS for 18 months; (d) Based on the above recommendations, a decision should be taken to introduce Euro pay Master Card Visa (EMV) Chip and PIN for credit cards and debit cards for all domestic transactions within five and seven years, respectively; (e) EMV Chip Card and PIN should be issued in lieu of Magstripe cards when at least one purchase is evidenced at an overseas location. The Report was placed on the RBI website for public comments. The recommendations of the Group have been accepted by the Bank and appropriate directions have been issued in September 2011.

infrastructure, and payment and settlement systems. A quarterly report on the Business Continuity Planning (BCP)-DR and Vulnerability Assessment and Penetration Testing (VAPT) exercise conducted by commercial banks at their end was obtained. The major points emerging from these exercises have been included as inputs for analysis in the Financial Stability Report brought out by the Reserve Bank.

IT Vision Document - 2011-17

3.108 A High Level Committee (Chairman: Dr. K. C. Chakrabarty) and members from IIT, IIM, IDRBT, Banks, and the Reserve Bank prepared the "IT Vision Document – 2011-17", for the Reserve Bank and banks, which provides an indicative road map for enhanced usage of IT in the banking sector.

Automated Data Flow (ADF) and New Generation RTGS (NG-RTGS)

3.109 In order to improve the quality and efficiency of regulatory reporting, a project on straight through flow of data (ADF) from banks to the Reserve Bank has been taken up. Banks have been advised to submit a roadmap indicating returns which can be sourced directly from their systems to a centralised repository for submission to the Reserve Bank. The project is expected to be completed by December 2012.

3.110 As indicated in the Annual Monetary Policy Statement for 2010-11, a Working Group comprising representatives from the Reserve Bank and select commercial banks was constituted for preparing an approach for implementation of next generation RTGS. The Group submitted its report in August 2010, which has since been accepted. The Group has suggested several new features in the new generation RTGS (NG-RTGS), such as advanced liquidity management facility, extensible mark-up language-based messaging system and real time information and transaction monitoring. The implementation of the Group's recommendations has been initiated and the NG-RTGS project is expected to be implemented by December 2012.

14. Banking Sector Legislation

3.111 A number of important legislative changes have either been initiated or effected during the year, which pave way for re-examination of banking laws, creation of the inter-regulatory mechanism in the form of Financial Stability and Development Council (FSDC) and strengthening of Reserve Bank's powers with respect to commercial banks.

Constitution of the Financial Sector Legislative Reforms Commission (FSLRC)

3.112 The FSLRC has been constituted under the Chairmanship of Justice B.N. Srikrishna by the Central Government in March 2011, with a view to rewriting, streamlining and harmonising financial sector laws, rules and regulations with the requirements of India's growing financial sector. The Terms of Reference of the Commission *inter alia* include the following: (i) examining the architecture of the legislative and regulatory system governing the Indian financial sector; (ii) examining if public feedback for draft subordinate legislation should be made mandatory, with exception for emergency measures and; (iii) examining the most appropriate means of oversight over regulators and their autonomy from the Government.

The Securities and Insurance Laws (Amendment and Validation) Act, 2010

3.113 The Act, effective from June 18, 2010, has amended the Reserve Bank of India Act, 1934, the Insurance Act, 1938, the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992. As noted in the RBI Annual Report 2010-11, a new chapter on "Joint Mechanism" has been inserted in the Reserve Bank of India Act, 1934. The Chapter provides for a Joint Mechanism, consisting of Union Finance Minister as its *ex-officio* Chairperson, Governor, Reserve Bank, as its *ex-officio* Vice-Chairman, Finance Secretary and Chairpersons of SEBI, IRDA and Pension Fund Regulatory and Development Authority (PFRDA), as its members to resolve any difference of opinion among the regulators. The Act provides for a reference being made to the Joint Committee only by the regulators and not by the Central Government. The decision of the Joint Committee would be binding on the Reserve Bank, SEBI, IRDA and PFRDA.

The Banking Laws (Amendment) Bill, 2011

3.114 The Bill, introduced in Lok Sabha in March 2011, seeks to amend the Banking Regulation Act, 1949, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 to make the regulatory powers of the Reserve Bank more effective and to increase the access of the nationalised banks to capital market to raise capital required for expansion of banking business. The Bill seeks to *inter alia*: (i) enable the nationalised banks to increase or decrease the authorised capital with approval from the Central Government and the Reserve Bank without being limited by the ceiling of ₹3,000 crore; (ii) make provisions to ensure that control of banking companies is in the hands of 'fit and proper' persons; (iii) allow nationalised banks to issue two additional instruments (bonus shares and rights issue) for accessing the capital market to raise capital required for expansion of banking business; (iv) substantially increase the penalties and fine for some violations of the Banking Regulation Act, 1949; and (v) confer power upon the Reserve Bank to levy penal interest in case of non-maintenance of required cash reserve ratio.

15. Conclusions

3.115 This chapter discussed the major developments in the area of banking sector policy in 2010-11 and 2011-12, so far. These policy developments have been broadly in-sync with the major policy objectives of maintaining price stability, while supporting economic recovery, financial stability, financial inclusion and financial sector development.

3.116 During the year, the Reserve Bank took important policy decisions with regard to forming draft guidelines about granting new licenses to private sector banks and release of two major discussion papers regarding the presence of foreign banks and promoting holding company structure for banks. Each of these initiatives was aimed at financial sector development, while keeping in view the concern of financial stability. In the field of financial inclusion, the most noteworthy development was the formation of Board-approved Financial Inclusion Plans by banks for a time horizon of next three years. The other salient policy developments, which would pave way towards further reforms in the banking sector, included changes in major banking sector statutes including the Banking Regulation Act, 1949 and constitution of the Financial Sector Legislative Reforms Commission.

3.117 With a view to improving the use of technology and customer services in the banking sector, the Reserve Bank undertook a variety of measures during the year, including the initiation of new generation RTGS and constitution of a committee to analyse expectations of customers from banks. Another salient policy development that would impact financial sector development in a major way in the years to come, with specific relevance for banks - as market makers and users - was the introduction of CDS for corporate bonds. Finally, for both RRBs and UCBs, a number of regulatory and developmental measures towards strengthening the health and physical outreach of these institutions were taken during the year.

3.118 During the year, the inflationary pressures, which kept re-surfacing partly as a fallout of external developments and partly on account of domestic structural imbalances, necessitated continuous monetary policy responses. However, while containing inflation, it was necessary that economic recovery, which had been delicate in the aftermath of the crisis, was also not thwarted. The Reserve Bank dealt with the inflationary pressures with a view of not to sacrifice the long-term growth prospects.

3.119 Going forward, a continued and consistent momentum of the banking sector policy, with focused attention on financial stability and financial inclusion, would ensure a healthier and more inclusive banking sector, which can contribute towards sustained and inclusive growth of the Indian economy.

Chapter IV

Operations and Performance of Commercial Banks

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

1. Introduction

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

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

Banks operated in a challenging operational environment

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

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

2. Balance Sheet Operations of Scheduled Commercial Banks

Consolidated balance sheet of SCBs registered higher growth

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

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

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

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

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

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

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

(in ₹ crore)

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

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

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

Major Liabilities of SCBs

Deposits

Deposits registered higher growth

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

Share of CASA deposits in total incremental deposits declined

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

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

(Per cent)

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

-: Negligible/Nil

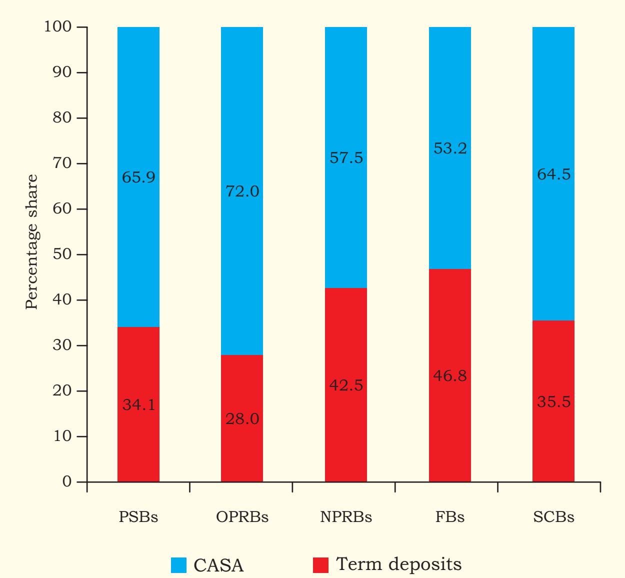
Source: Balance sheets of respective banks.

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

Growth of unclaimed deposits decelerated

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

Chart IV.1: Composition of Deposits 2010-11



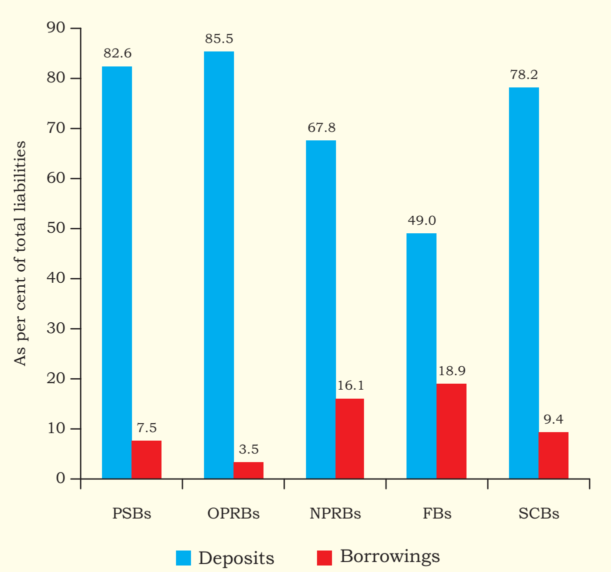
deposits witnessed deceleration. The growth rate of unclaimed deposits came down to 5 per cent in December 2010 as compared with the growth rates of 15 per cent in December 2009 and 18 per cent in December 2008. Importantly, unclaimed deposits in the current accounts and fixed deposit accounts declined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

Borrowings

Borrowings recorded higher growth

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

Chart IV.2: Deposits and Borrowings 2010-11



Major Assets of Scheduled Commercial Banks

Bank Credit

Growth of loans and advances witnessed acceleration

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

Investments

Growth of investments decelerated

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

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

Non-SLR investments declined

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

International Liabilities and Assets of Scheduled Commercial Banks[3]

International liabilities registered moderated growth

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

International assets recorded higher growth

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

Consolidated International Claims[4]

Consolidated international claims recorded higher growth

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

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

(Amount in ₹ crore)

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

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

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

Table IV.4: International Liabilities of Banks – By Type

(As at end-March)

(Amount in ₹ crore)

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

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

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

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

Table IV.5: International Assets of Banks - By Type

(As at end-March)

(Amount in ₹ crore)

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

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

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

(Amount in ₹ crore)

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

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

Source: Consolidated Banking Statistics - Immediate Country Risk Basis.

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

Banks reported higher outstanding credit-deposit ratio

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

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

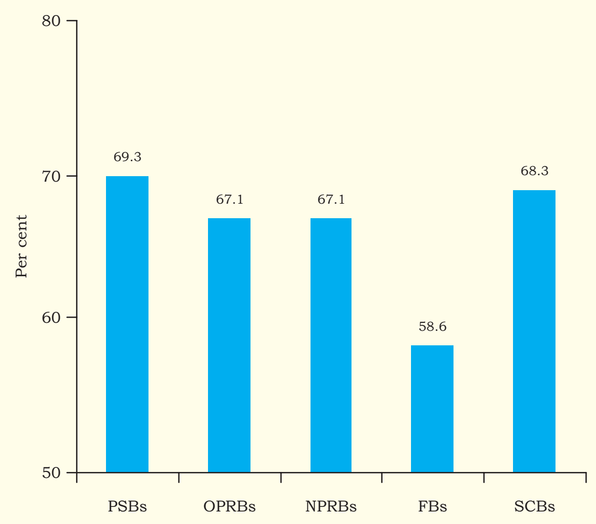
(Amount in ₹ crore)

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

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

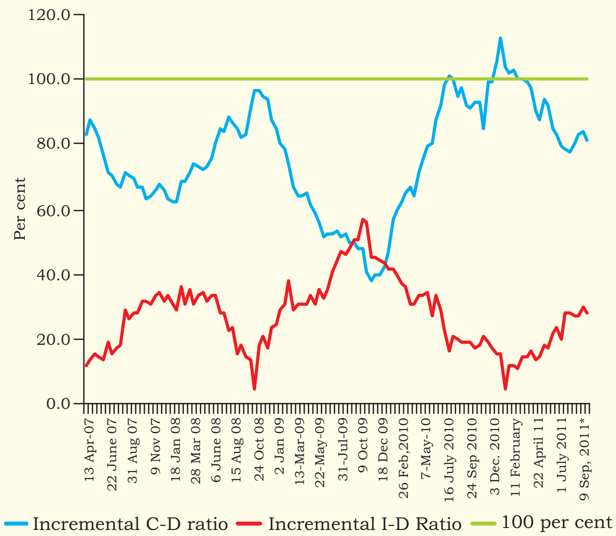
Source: Consolidated Banking Statistics - Immediate Country Risk Basis.

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



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

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



*: Provisional data.

Maturity Profile of Assets and Liabilities of Banks

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

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

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

(As at end -March)

(Per cent to total under each item)

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

Source: Balance Sheets of respective banks.

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

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

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

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

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

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

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

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

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

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

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

Reference:

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

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

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

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

Off-Balance Sheet Operations of Scheduled Commercial Banks

Off-balance sheet operations of banks continued to increase

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

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

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

(Per cent)

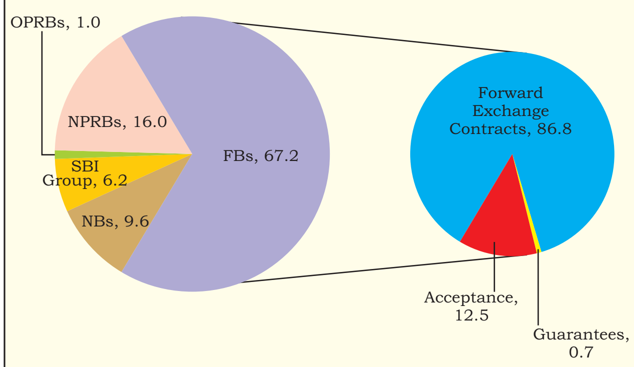
Sr. no.	Bank group/year	Long-term Assets Financed by Short-term Liabilities*		Percentage of short-term liabilities used to finance long-term assets**	
1		2	3	4	5
		2009-10	2010-11	2009-10	2010-11
1	**Public sector banks**	**22.6**	**22.0**	**28.5**	**27.9**
	1.1 Nationalised banks#	24.1	22.3	27.3	24.6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

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

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

#: Include IDBI Bank Ltd.

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



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

3. Financial Performance of Scheduled Commercial Banks

Profitability

Consolidated net profits recorded higher growth

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

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

Growth of 'other income' decelerated

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

Operating expenses grew at a higher rate

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

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

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

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

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

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

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

Where

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

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

Table: Impact of OBS on 'Other Income'

Sample Period : 2002 to 2010 across five bank groups
Number of pooled observations - 50
Dependent Variable: 'Other Income'

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

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

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

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

Chart A: Movements in OBS

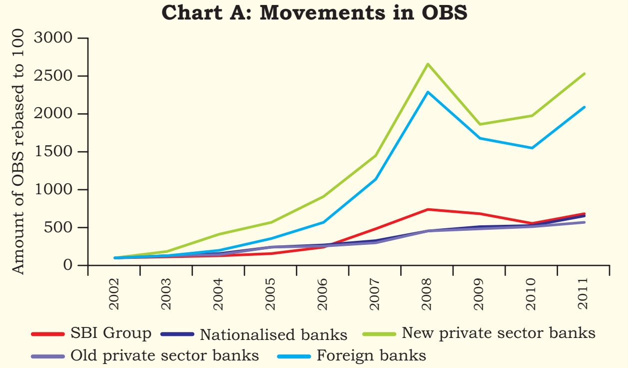


Chart B: Off-Balance Sheet Exposures (OBS) and Balance Sheet Assets (BA) - 2010-11

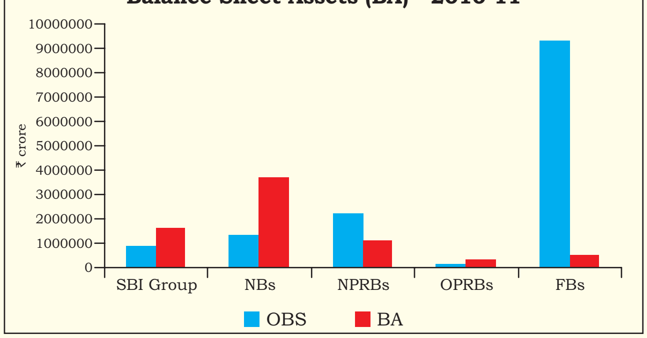


Table IV.10: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ₹ crore)

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

Source: Profit and loss accounts of respective banks.

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

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

Marginal improvement in return on assets

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

Efficiency

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

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

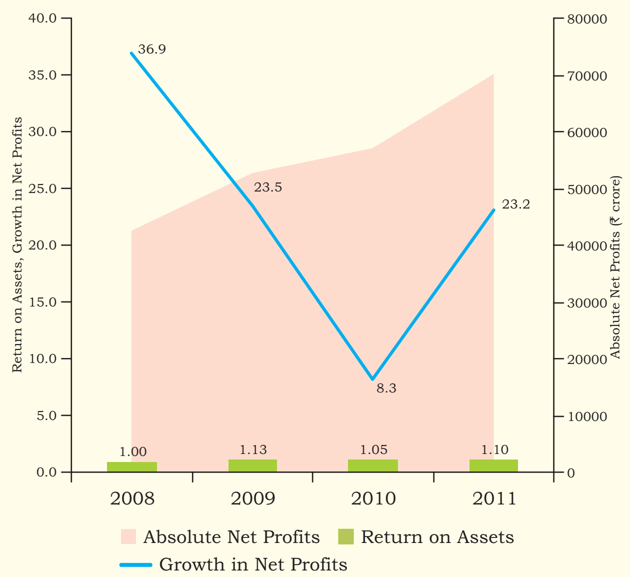
(Per cent)

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

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

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

Chart IV.6: Net Profits of SCBs



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

Cost of funds declined

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

Return on funds improved

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

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

(Per cent)

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

*: Include IDBI Bank Ltd.

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

Source: Calculated from balance sheets of respective banks.

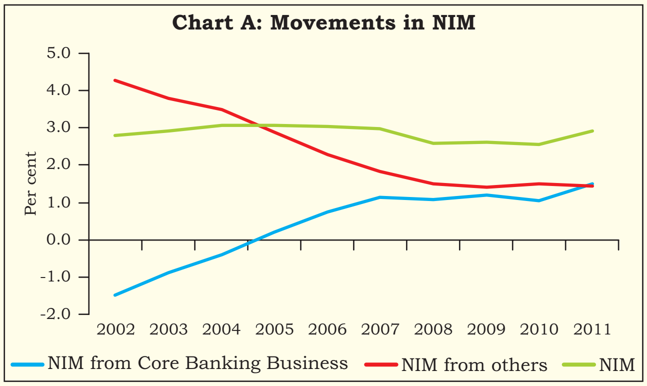
Box IV.3: Net Interest Margin of the Indian Banking Sector: Efficiency versus Profitability

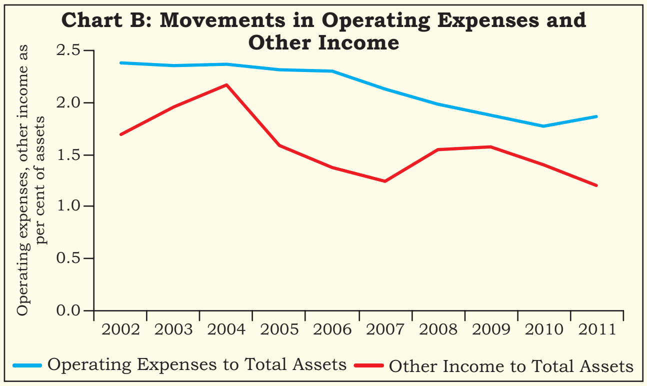
While maintaining profitability is a *sine qua non* for the financial soundness of the banking sector, efficient financial intermediation is important from the point of view of economic growth. The net interest margin (NIM), operating expenses and 'other income' are crucial in determining profitability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

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

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

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





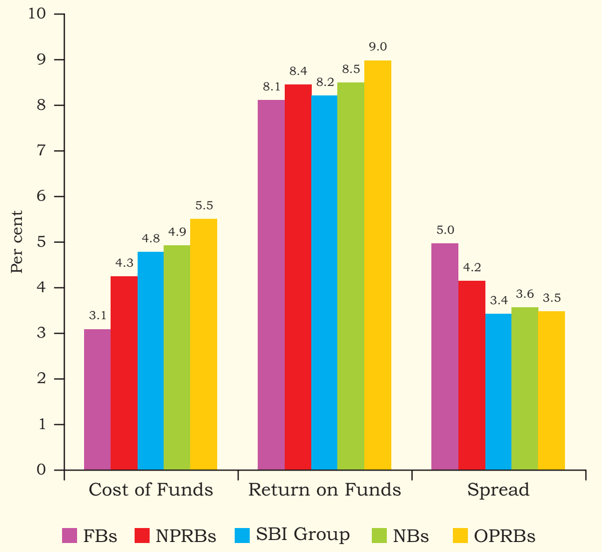
reason for this trend could be the increase in gross non-performing loans in absolute terms. In sum, the increase in return on funds along with the decline in cost of funds lead to an increase in spread. At the bank group level, while the return on funds was largely comparable, there was substantial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

4. Soundness Indicators

Soundness indicators point to a comfortable position

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

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



Capital to Risk Weighted Assets Ratio (CRAR)

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

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

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

(Per cent)

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

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

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

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

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

(Amount in ₹ crore)

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

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

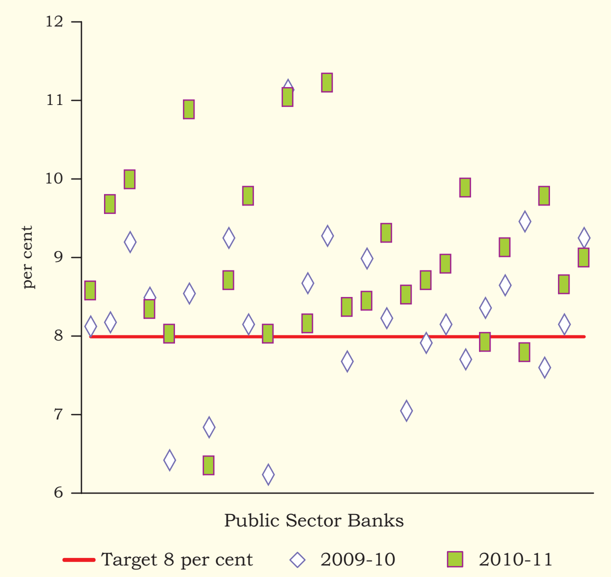


Chart IV.8: Tier I Ratio of Public Sector Banks

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

Indian banks can comfortably cope with the proposed Basel III framework

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

Non-Performing Assets

GNPAs to gross advances ratio improved

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

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

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

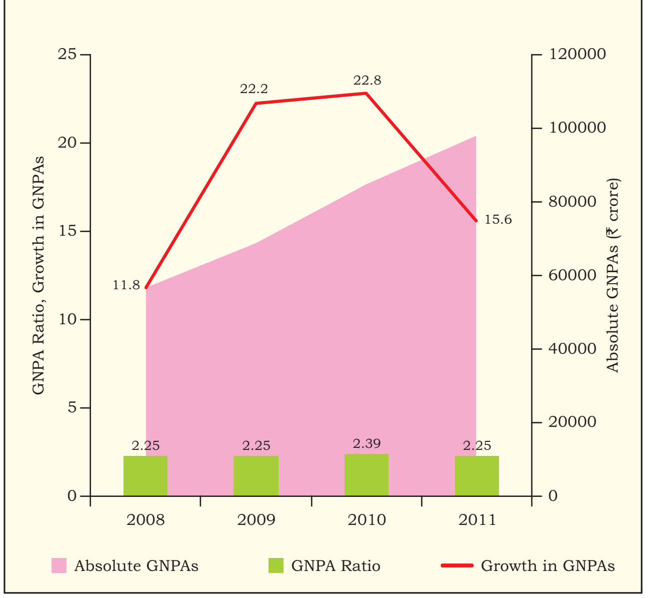


Chart IV.9: Trends in Gross Non-Performing Assets

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

(Amount in ₹ crore)

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

* : Include IDBI Bank Ltd.

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

Source: Balance Sheets of respective banks.

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

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

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

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

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

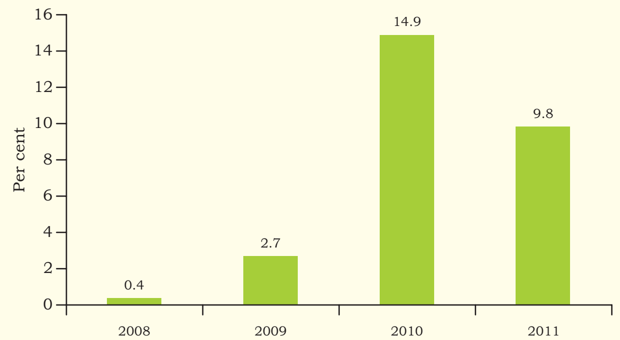


Chart IV.10B: Written Off Ratio - Bank Group-wise 2010-11

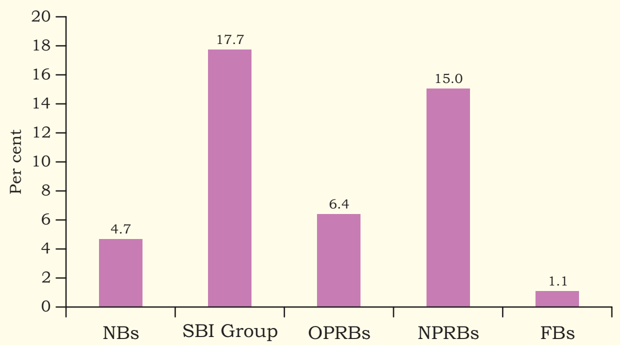


Chart IV.11A: Slippage Ratio

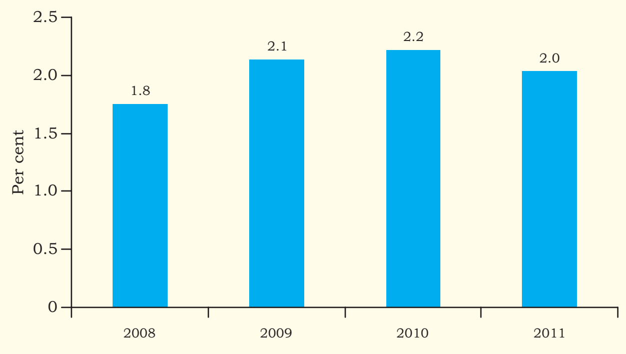
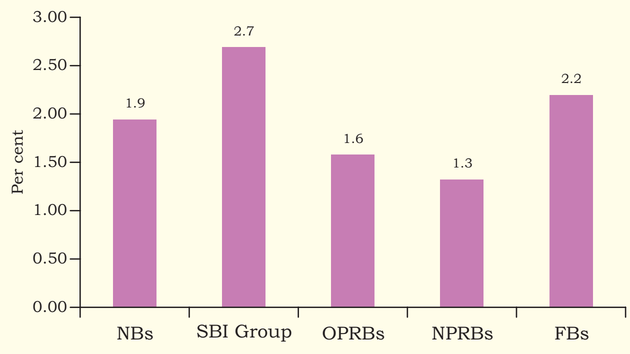


Chart IV.11B: Slippage Ratio - Bank Group-wise 2010-11



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

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

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

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

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

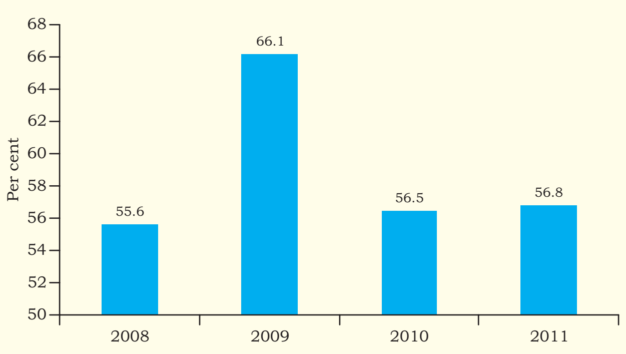


Chart IV.12B: Recovery Ratio - Bank Group-wise 2010-11

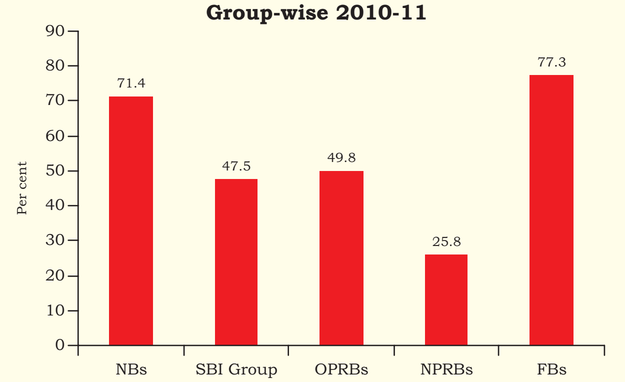


Table IV.16: NPAs of SCBs Recovered through Various Channels

(Amount in ₹ crore)

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

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

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

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

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

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

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

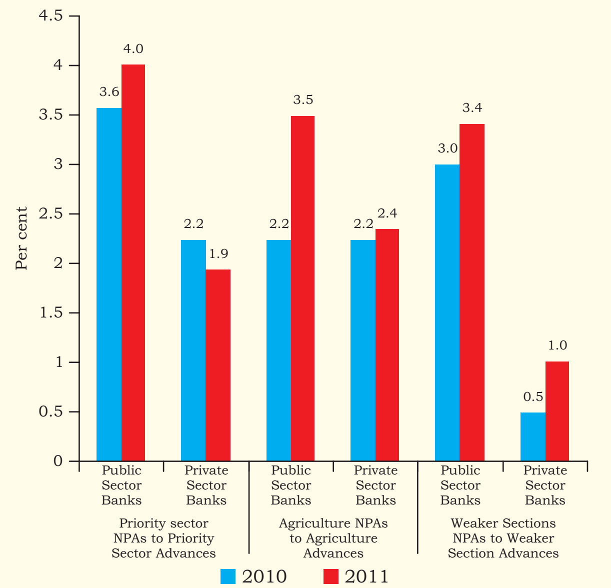
Table IV.17: Details of Financial Assets Securitised by SCs/RCs

(₹ crore)

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

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

Chart IV.13: Ratio of NPAs to Advances



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

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

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

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

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

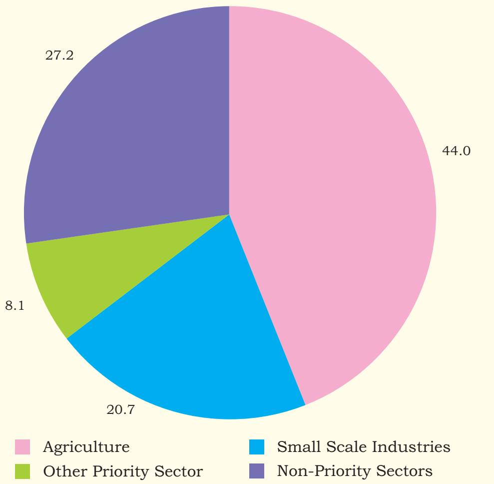
Table: Impact of Restructuring on Asset Quality of SCBs

(Amount in ₹ crore)

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

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

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



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

Provisioning for GNPAs witnessed higher growth

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

Net NPAs registered lower growth

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

Standard assets to gross advances ratio improved

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

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

(Amount in ₹ crore)

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

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

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

(Amount in ₹ crore)

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

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

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

Leverage Ratio

Leverage ratio remained unchanged

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

Credit Boom

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

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

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

(As at end-March)

(Amount in ₹ crore)

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

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

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

Liquidity

Due to autonomous factors banks operated under tight liquidity conditions

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

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

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

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

Reference:

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

Chart A: Credit Boom in Aggregate Non-Food Credit

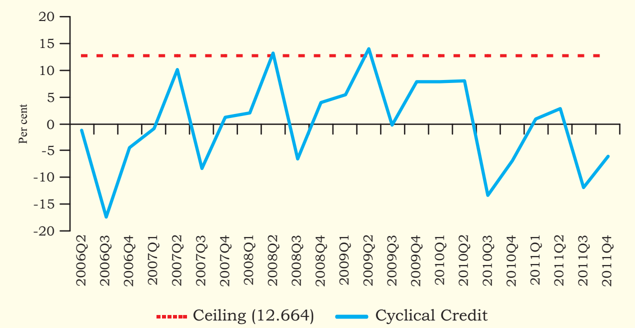


Chart B: Credit Boom in Infrastructure Credit

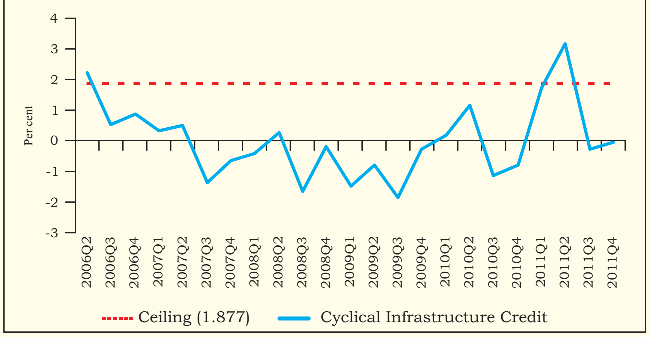


Chart C: Credit Boom in Housing Credit

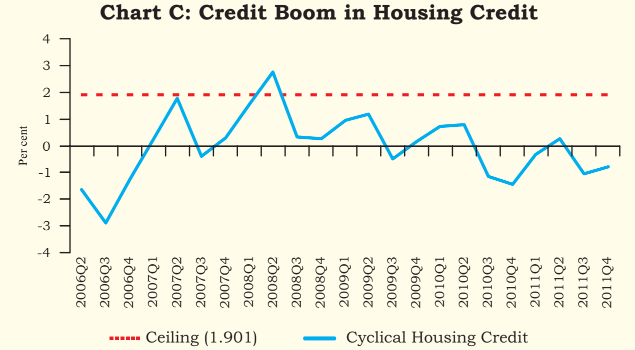
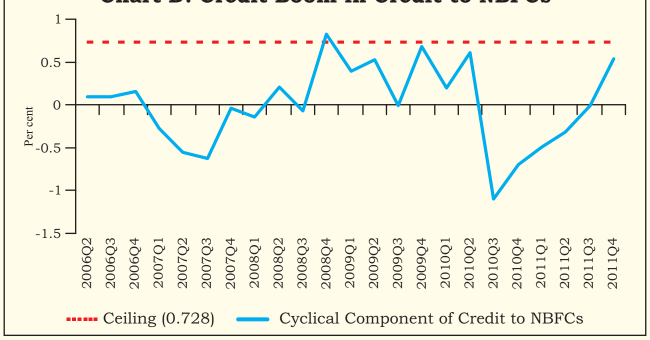


Chart D: Credit Boom in Credit to NBFCs



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

5. Sectoral Deployment of Bank Credit

Growth of aggregate non-food credit improved

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

Credit growth to agriculture and industry moderated

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

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

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

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

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

Table IV.21: Sectoral Deployment of Gross Bank Credit

(Amount in ₹ crore)

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

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

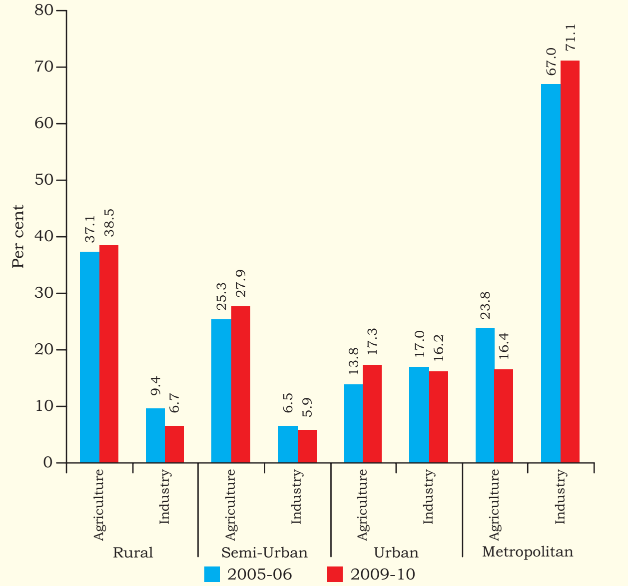
Source: Sectoral and Industrial Deployment of Bank Credit Return (Monthly).

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

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

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

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



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

Despite policy tightening, housing credit witnessed higher growth

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

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

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

Credit to Priority Sectors

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

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

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

(As on the last reporting Friday of March)

(Amount in ₹ crore)

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

P: Provisional.

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

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

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

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

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

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

**: Significant at five per cent level.

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

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

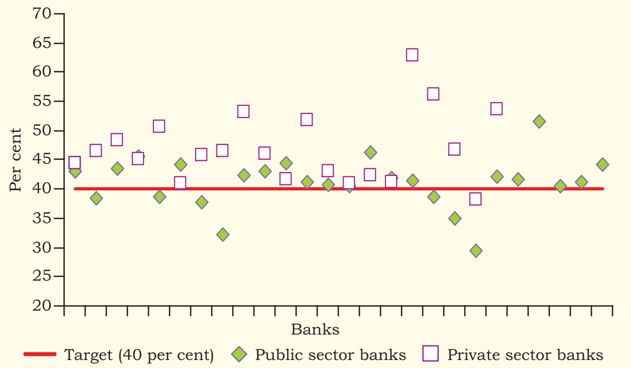
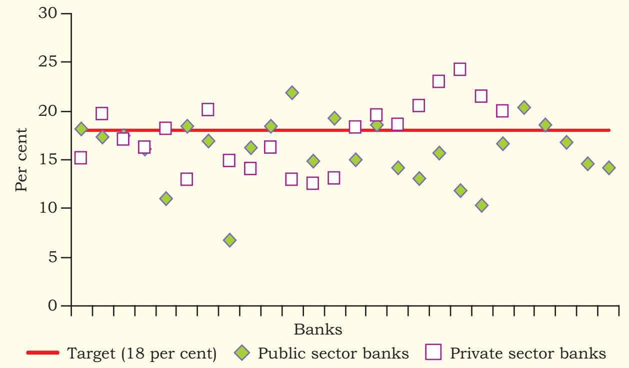


Chart IV.16B: Agricultural Advances: Target and Achievement 2010-11



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

Retail Credit

Retail loan segment registered higher growth

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

Credit to Sensitive Sectors

Credit to sensitive sectors registered higher growth

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

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

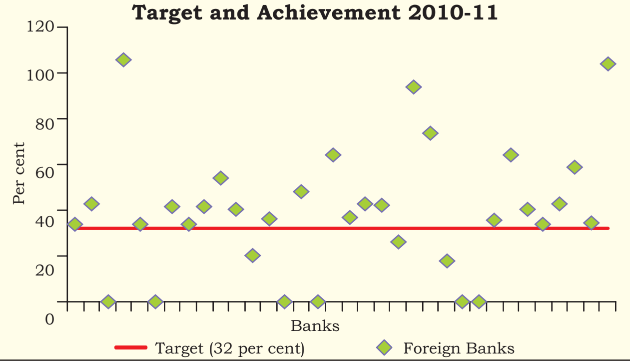
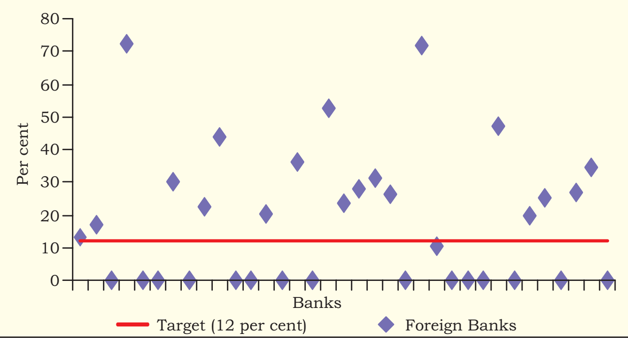


Chart IV.17B: Export Credit - Target and Achievement 2010-11



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

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

(Amount in ₹ crore)

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

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

Table IV.24: Retail Portfolio of Banks

(Amount in ₹ crore)

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

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

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

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

6. Operations of Scheduled Commercial Banks in Capital Market

Resources raised by banks through public issues increased

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

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

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

Table IV.25: Public Issues from the Banking Sector

(₹ crore)

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

-: Nil/Negligible.

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

(Amount in ₹ crore)

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

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

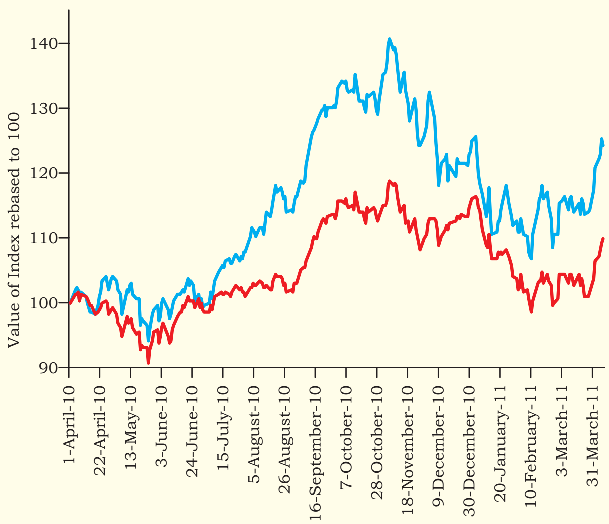
resource mobilisation through Euro issues (Table IV.27).

Performance of Banking Stocks in the Secondary Market

Despite concerns, BSE Bankex outperformed BSE Sensex

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

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



Volatility of BSE Bankex was higher than that of BSE Sensex

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

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

7. Shareholding Pattern in Scheduled Commercial Banks

Government shareholding in PSBs was well above the statutory requirement

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

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

(₹ crore)

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

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

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

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

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

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

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

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

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

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

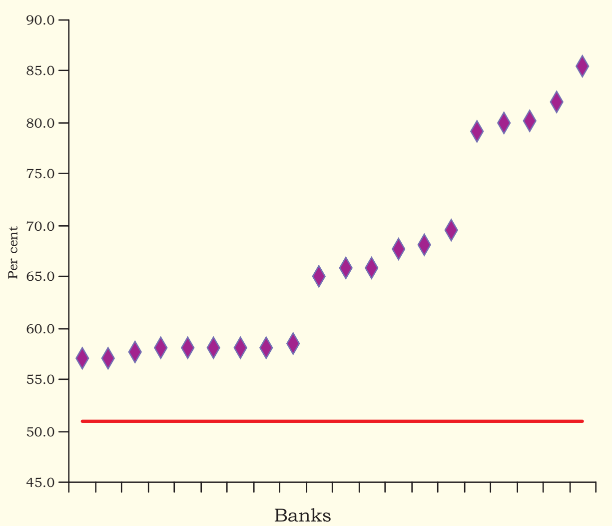
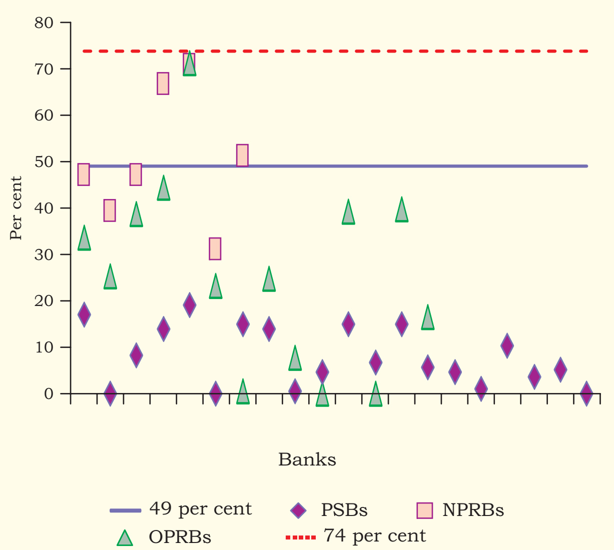


Chart IV.20: Foreign Shareholding in Domestic Banks
(end-March 2011)



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

Operations of foreign banks in India witnessed an increase

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

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

Foreign operations of Indian banks expanded

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

9. Technological Developments in Scheduled Commercial Banks

Technological upgradation continued

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

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

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

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

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

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

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

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

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

*: Include IDBI Bank Ltd.

Outstanding number of credit cards declined

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

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

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

(In Millions)

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

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

Electronic banking transactions have been on steady increase

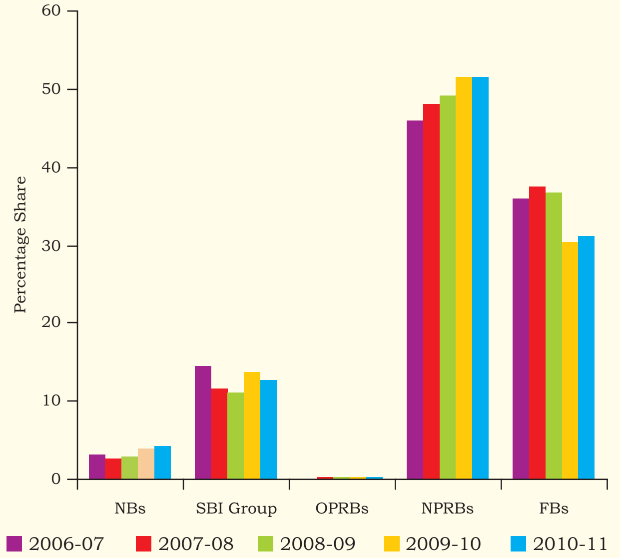
4.83 The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit, National Electronic Fund Transfer (NEFT) for retail transactions and Real Time Gross Settlement (RTGS) for large value, improved the speed of financial transactions, across the country.

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

(In Millions)

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

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



Volume of transactions through NEFT registered a steep growth

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

10. Customer Service

Number of complaints against banks declined

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

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

(Volume in million, Value in ₹ crore)

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

*: Excluding transactions carried out through cards

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

Complaints against public sector banks increased

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

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

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

Source: Various Regional Offices of Banking Ombudsman.

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

11. Financial Inclusion

Financial inclusion further progressed

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

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

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

*: Include IDBI Bank Ltd.

Note: Figures in parentheses indicate percentage change over the previous year.

Source: Various Regional Offices of Banking Ombudsman.

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

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

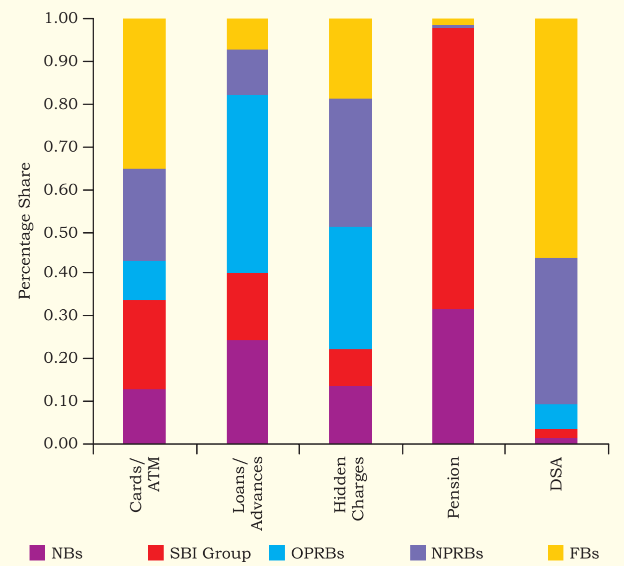


Table IV.37: Progress of Financial Inclusion

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

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

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

Extent of financial exclusion is staggering

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

Expansion of Banking Network through Bank Branches

Number of bank branches increased by 4,826

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

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

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

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

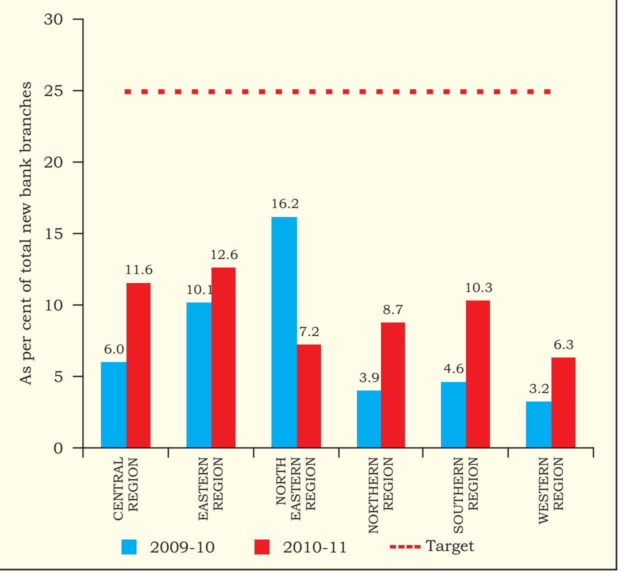
Note: Figures in parentheses are percentages to total new bank branches.
Source: Master Office File.

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

Bank branches opened in hitherto unbanked centres increased

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

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



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

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

Expansion of Banking Network through ATMs

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

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

Rural areas accounted for ten per cent of total outstanding ATMs

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

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

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

*: Include IDBI Bank Ltd.

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

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

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

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

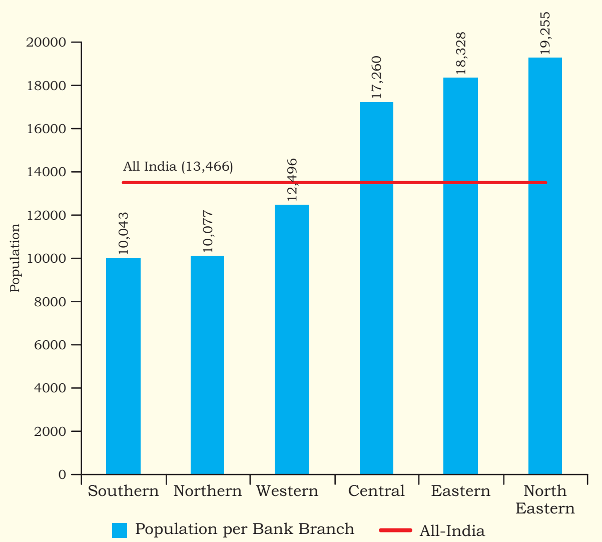


Chart IV.26: Population Group-wise Distribution of ATMs (end-March 2011)

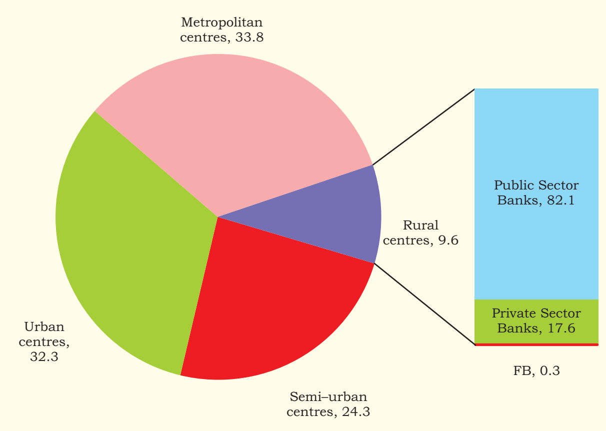


Chart IV.27: Share of Regions in Total Net Increase in ATMs 2010-11

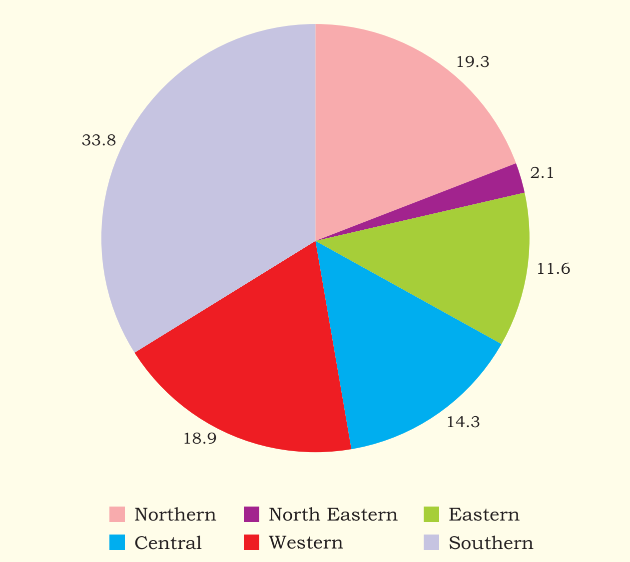
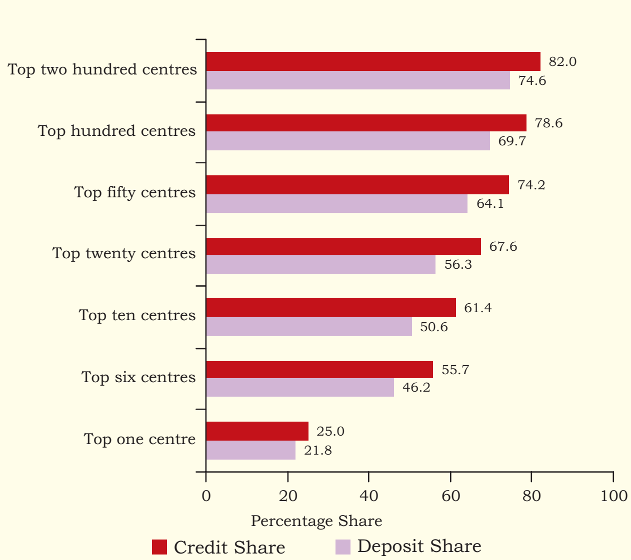


Chart IV.28: Distribution of Deposit and Credit According to Banking Centres - March 2011



Distribution of Bank Credit and Deposits[12]

Banking business is concentrated in the metropolitan region

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

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

The Reserve Bank is closely monitoring the Financial Inclusion Plans

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

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

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

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

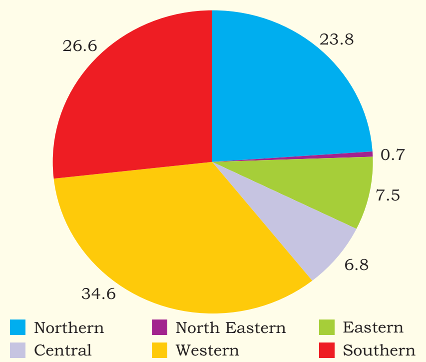
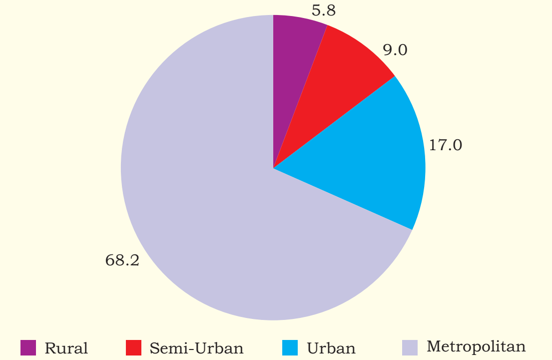


Chart IV.29B: Population Group-wise Share in Credit - March 2011



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

Micro Finance

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

Table IV.40: Progress Made Under Financial Inclusion Plans

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

Table IV.41: Progress of Micro-Finance Programmes

(As at end-March)

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

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

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

Source: NABARD.

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

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

Andhra Pradesh Microfinance Act

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

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

12. Regional Rural Banks

Amalgamations reduced the number of RRBs during the recent years

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

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

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

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

(Amount in ₹ crore)

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

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

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

13. Local Area Banks

Assets of local area banks registered lower growth

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

Table IV.43: Financial Performance of Regional Rural Banks

(Amount in ₹ crore)

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

P: Provisional

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

Source: NABARD.

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

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

4.113 Though there was deceleration in the asset growth of LABs, the RoA of LABs improved to 1.8 per cent in 2010-11 from 1.4 per cent in 2009-10 mainly due to an increase in net interest income. As provisions and contingencies

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

(Amount in ₹ crore)

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

P : Provisional.
- : Nil/Negligible.

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

Source: NABARD

registered higher growth in 2010-11, the increase in net profits was less than the growth in operating profits (Table IV.46).

14. Conclusions

Banks' performance improved, yet concerns remain

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

Need to further improve efficiency

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

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

(Amount in ₹ crore)

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

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

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

Table IV.46: Financial Performance of Local Area Banks

(Amount in ₹ crore)

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

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

Need to closely monitor the quality of assets

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

Need to persevere with the task of further strengthening financial inclusion

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

Need to improve credit flow to rural areas

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

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

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

Need for banks to conform to the priority sector lending target

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

Need for greater use of technology to propagate financial inclusion

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

Need for improving the quality of banking services

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

Need for a review of foreign banks' operations

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

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

Chapter V

Developments in Cooperative Banking

The financial performances of Urban Cooperative Banks (UCBs) improved in 2010-11 though there are some concerns with regard to some of the UCBs reporting negative CRAR. Within the rural cooperative sector, State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) reported profits but the ground level institutions, i.e., Primary Agricultural Credit Societies (PACS) continued incurring huge losses. The financial performance of long term cooperatives was found to be even weaker than their short term counterparts. Also, it was observed that the branch network of cooperatives, though widespread across the country, continued to be concentrated in certain regions. Moreover, the network of cooperatives was not broad based in the north-eastern region of the country. This suggests that efforts need to be taken to improve banking penetration in the north-eastern part of the country along with improving the financial health of the ground level cooperative institutions.

1. Introduction

5.1 Cooperative banking sector plays an important role by providing financial intermediation services to agricultural and allied activities, small scale industries and self employed workers. Since the network of cooperative banks is widespread across different parts of the country, these institutions are considered as a potential instrument to bring people from far-flung areas under the formal banking network. However, the poor financial health of cooperative banks in general, and grass root level cooperatives in particular remains as an impediment, which needs to be addressed in order to fully utilise the benefits of wide spread network of these institutions.

Increased Interlinkages between UCBs and Commercial Banks

5.2 In recent years, the integration of cooperative banks with the financial sector has increased following the inclusion of UCBs in Indian Financial Network (INFINET) and Real Time Gross Settlement System (RTGS) from November 2010. Further the annual policy statement of the Reserve Bank for 2010-11 envisages inclusion of financially sound UCBs in the Negotiated Dealing System (NDS) and opening up of internet banking channel for UCBs satisfying certain criteria. This growing interconnectedness of cooperative sector with the commercial banking sector, however, raises the risk of contagion that may affect the financial system as a whole due to the weak financial position of these institutions.

5.3 The cooperative structure in India can broadly be divided into two segments. While the urban areas are served by Urban Cooperative Banks (UCBs), rural cooperatives operate in the rural parts of the country. As at end-March 2011, there were 1,645 UCBs operating in the country, of which majority were non-scheduled UCBs. Moreover, while majority of the UCBs were operating within a single State, there were 42 UCBs having operations in more than one State.

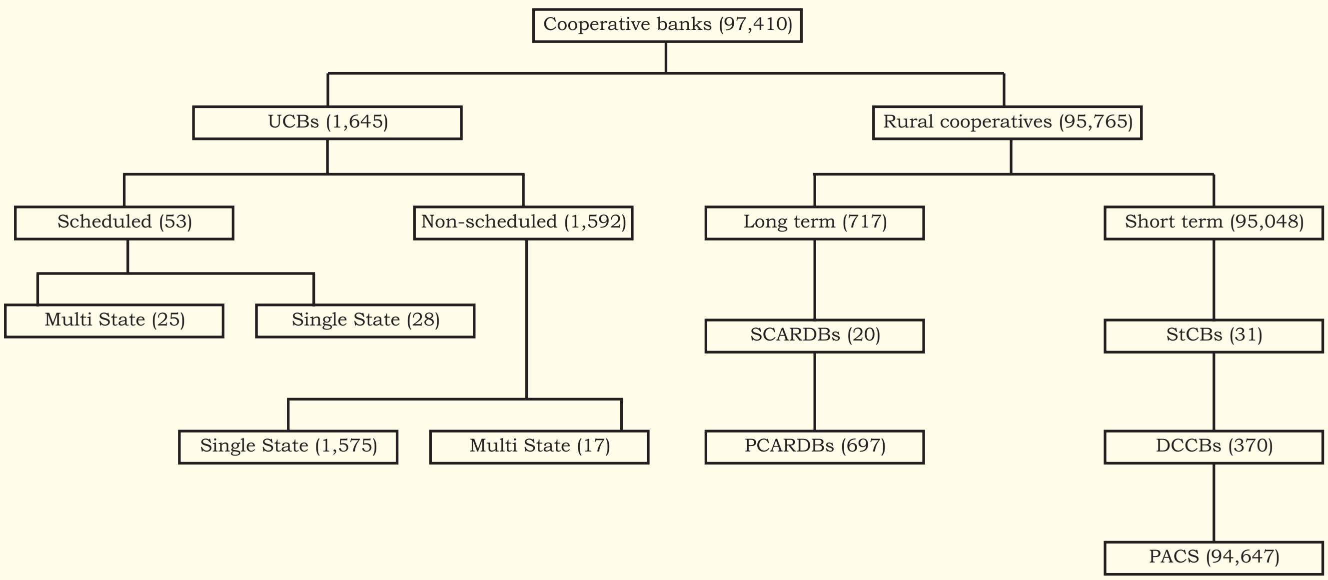
5.4 The rural cooperatives are divided into short term and long term structures. The structure of short term cooperatives sector comprises of State Cooperative Banks (StCBs) operating as apex level institutions in each state, District Central Cooperative Banks (DCCBs) operating at district level and the Primary Agricultural Credit Societies (PACS) operating at grass root level. Similarly, the long term cooperatives are the State Cooperative Agriculture and Rural Development Banks (SCARDBs) at State level and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) operating at district/block level (Chart V.1)

5.5 The banking related activities of UCBs are governed by the Reserve Bank, whereas the registration and management related activities are governed by the Registrar of Cooperative Societies (RCS) in case of UCBs operating in single State and Central RCS (CRCS) in case of multi-State UCBs. In case of rural cooperatives, the structure is even more complex with the Reserve Bank and the NABARD sharing the responsibility of regulating banking related activities and RCS regulating registration/ management related activities. However, efforts have been taken in recent years by the Reserve Bank to solve problems related to duality in control. This involved signing of Memorandum of Understanding (MoUs) with the Central/State Government apart from putting in place a forum called State Level Task Force on Co-operative Urban Banks (TAFCUB), for resolving issues related to duality in control.

5.6 Organised into five sections, this chapter provides an analysis of operations and performances of cooperative banks in India. Section 1 provides the introduction and a broad overview of the cooperative sector in India. Section 2 and 3 focus on the business operations and performances of UCBs for 2010-11 and rural cooperatives for 2009-10, respectively[1]. A detailed analysis of recent initiatives taken by NABARD for revival of rural cooperatives is presented in section 4. Section 5 delineates important observations emanating from the analysis presented in this chapter[2].

Chart V.1: Structure of Cooperative Credit Institutions in India

(As at end-March 2011)



StCBs: State Cooperative Banks, **DCCBs**: District Central Cooperative Banks, **PACS**: Primary Agricultural Credit Societies.
SCARDBs: State Cooperative Agriculture and Rural Development Banks.
PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.
Note: 1. Figures in parentheses indicate the number of institutions at end-March 2011 for UCBs and at end-March 2010 for rural cooperatives.
2. For rural cooperatives, numbers of cooperatives refer to reporting cooperatives.

1 Since data for rural cooperatives is available with time lag of one year.
2 This chapter provides analysis of operation and performance of cooperative banks based on the data collected from Urban Banks Department (UBD) of RBI (for UCBs) ,NABARD (for rural cooperatives except PACS), and National Federation of State Cooperative Banks or NAFSCOB (for PACS).

2. Urban Cooperative Banks[3]

Profile of UCBs

Consolidation of UCBs through mergers/ acquisitions is in progress

5.7 UCBs play an important role by providing banking services to the wider sections of the society, especially in rural and semi urban areas. During the period 1991-2004 the UCB sector witnessed substantial growth possibly encouraged by the liberalised policy environment in post reform period. Alongside, a number of entities in the UCB sector became weak and unviable, eroding public confidence and posing systemic risk to the sector. Keeping in view the heterogeneity of this sector, the Reserve Bank proposed a multi-layered regulatory and supervisory approach specifically aimed at revival and strengthening of UCBs in its vision document for UCB sector, 2005. In the vision document the Reserve Bank proposed merger/amalgamation of viable entities within the sector and non-disruptive exit of the unviable ones. In the recent years there has been a decrease in total number of UCBs as an outcome of the ongoing consolidation process in this sector.

Grade-wise Distribution of UCBs

5.8 UCBs are classified into four categories, *viz.*, grade I, II, III and IV based on their financial performance in terms of certain parameters like CRAR, net NPAs and history of profit/loss. UCBs categorised as grade I and II are considered as financially stronger than that of grade III and IV.

Share of banking business of UCBs of grade I and II witnessed an increase

5.9 As an outcome of the ongoing consolidation process of the UCB sector in the form of merger/ acquisition among financially viable banks and exit of the non-viable ones, there was a concentration of number of UCBs in grade I and II categories in recent years. The percentage of banks in grade I and II together constituted 82 per cent of total UCBs as at end-March 2011 compared to 80 per cent at end-March 2010. There was, however a marginal decline in the percentage of UCBs of grade I category in 2010-11 as compared to the previous year.

5.10 The share of banking business also witnessed concentration in favour of financially sound UCBs in the recent past. This is evident from the fact that the UCBs of grade I and II witnessed an increase in their share in total deposits as well as advances in recent years. The shares of deposits and advances of UCBs in grade I and II together were 89.5 and 89.9 per cent of total deposits and advances of UCBs, respectively, at end-March 2011.

Profile of UCBs-According to Asset Size wise and Business wise

Concentration of business was witnessed in favour of larger UCBs

5.11 An analysis of performance of the UCB sector according to assets, deposits and advances size wise further confirmed that there was a concentration of business in favour of UCBs with larger asset size. The percentage

Table V.1: Grade-wise Distribution of Deposits and Advances of Urban Cooperative Banks
(As at end-March 2011)

Grades	Number of UCBs	Percentage Share to Total	Amount of Deposits	Percentage Share to Total	Amount of Advances	Percentage Share to Total
1	2	3	4	5	6	7
I	845	51.3	1,34,691	63.5	86,916	63.7
II	497	30.2	55,130	26.0	35,701	26.2
III	172	10.5	10,206	4.8	6,487	4.8
IV	131	8.0	12,004	5.7	7,237	5.3
Total	**1,645**	**100.0**	**2,12,031**	**100.0**	**1,36,341**	**100.0**

[3] The data for 2011 presented in this section is provisional.

Box V.1: Merger and Amalgamation of Urban Cooperative Banks

The consolidation of the UCBs through the process of merger of weak entities with stronger ones has been set in motion through transparent and objective guidelines issued in February 2005. Though mergers/amalgamations of UCBs come within the purview of concerned State Government, prior approval from the Reserve Bank is required for obtaining No Objection Certificate (NOC). The Reserve Bank, while considering proposals for merger/amalgamation, confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and post-merger financial stability of the acquirer bank.

The financial parameters of the acquirer bank post merger must conform to the prescribed minimum prudential and regulatory requirements invariably for the merger cases. In addition to the guidelines issued in February 2005, the Reserve Bank issued another set of guidelines in January 2009 for merger/acquisition of UCBs having negative net worth as on end-March 2007. According to the new guidelines, the Reserve Bank would also consider scheme of amalgamation that provides for (i) payment to the depositors under section 16(2) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961; (ii) financial contribution by the transferee bank; and (iii) sacrifice by large depositors.

The process of merger/amalgamation requires the acquirer bank to submit the proposal alongwith some specified information to RCS/ CRCS and the Reserve Bank. The Reserve Bank examines the pros and cons of the merger scheme and places the same before an expert group for further screening and recommendations. If the proposal is found to be suitable Reserve Bank issues no objection certificate (NOC) to the concerned cooperative/RCS/CRCS. Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 158 proposals for merger of which the Reserve Bank has issued NOC to 120 proposals as on end-June 2011(Table 1.1). The RCS notified 95 mergers comprising 8 grade I, 4 grade II, 17 grade III and 66 grade IV UCBs. The year wise progress of merger/acquisition is presented in Table 1.1.

Table 1.1:Year-wise Progress in Mergers/acquisitions

Financial year	Proposals received in RBI	NOCs issued by RBI	Merger effected (Notified by RCS)
1	2	3	4
2005-06	24	13	4
2006-07	32	17	15
2007-08	42	28	27
2008-09	16	26	22
2009-10	26	17	13
2010-11	17	13	11
2011-12*	1	6	3
Total	**158**	**120**	**95**

*:Upto June 30,2011

Out of the 95 mergers reported so far, 59 comprised of UCBs having negative net worth**.** The maximum number of mergers took place in the State of Maharashtra (58), followed by Gujarat (16) and Andhra Pradesh (10). Details about State wise progress in mergers/acquisitions are furnished in Table 1.2.

Table1.2:State-wise Progress in Mergers/acquisition

States	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1	2	3	4	5	6	7	8	9
Maharashtra	2	12	14	16	6	6	2	58
Gujarat	2	1	7	2	2	1	1	16
Andhra Pradesh	-	1	3	1	3	2	-	10
Karnataka	-	-	2	1	-	-	-	3
Punjab	-	1	-	-	-	-	-	1
Madhya Pradesh	-	-	-	-	-	1	-	1
Uttarakhand	-	-	1	1	-	-	-	2
Chhattisgarh	-	-	-	1	-	1	-	2
Rajasthan	-	-	-	-	2	-	-	2
Total	**4**	**15**	**27**	**22**	**13**	**11**	**3**	**95**

Chart V.2: Grade-wise Distribution of Number of UCBs and Share in Total Advances and Deposits

(As at end-March 2011)

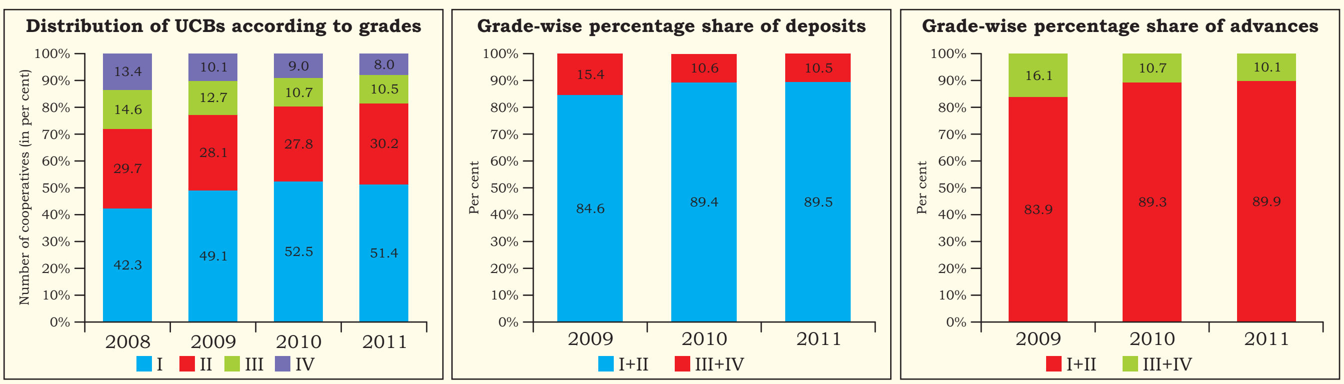
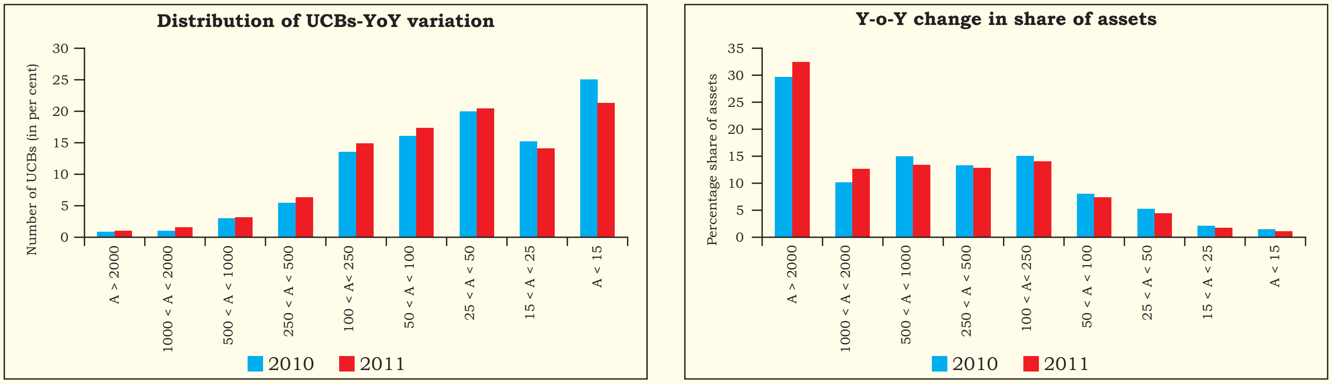


Chart V.3: Changing Profile of UCBs



Note: 'A' denotes asset size (in ₹ crore)

share of banks with larger asset size (assets more than ₹25 crore) witnessed an increase in 2010-11 compared to previous year. Accordingly, percentage share of UCBs with asset size less than ₹25 crore declined during the same period. Also UCBs with larger asset base witnessed an increase in their share in total assets (Chart V.3).

5.12 As at end-March 2011, UCBs with asset-size more than ₹500 crore constituted almost 6 asset-size per cent of total number of UCBs while the same category of UCBs accounted for a share of 59 per cent of the total assets of the sector. UCBs with medium asset size (₹100 crore-₹500 crore) had a share of 21 per cent of total number of UCBs and 27 per cent of total assets size. Accordingly, the remaining share of 14 per cent of total assets was attributable to UCBs with smaller asset size (₹15 crore-₹100 crore), which accounted for almost 73 per cent of total number of UCBs (Chart V.4).

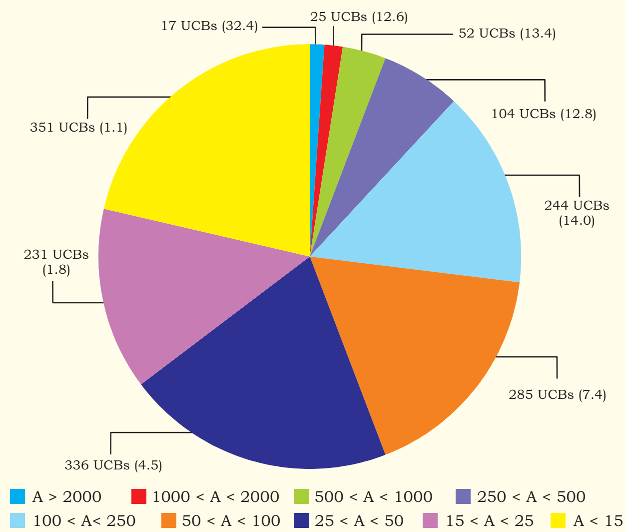
5.13 An analysis of deposits and advances base-wise distribution of UCBs revealed that banking business was predominantly concentrated in favour of larger UCBs. UCBs with larger deposit base (more than or equal to ₹500 crore), though accounted for only 4 per cent of total number of UCBs, contributed almost 53 per cent of total deposits. Similarly, only 3 per cent of total number of UCBs had advances base of more than ₹500 crore, but they accounted for almost 47 per cent of total advances disbursed in 2010-11 (Table V.2).

Tier-wise Profile of UCBs

Number of tier I banks reduced as compared with the previous year

5.14 Apart from grade-wise classification, UCBs are classified into two categories, *viz.*, tier I and tier II for regulatory purposes. All UCBs following the below stated criteria[4] are classified as tier I banks where as all other banks are classified as tier II banks.

Chart V.4: Asset Size-wise Distribution of UCBs
(As at end-March 2010)



Note: 'A' denotes asset size in ₹ crore and figures in parentheses indicate percentage share of assets

[4] Deposits and advances as referred in this definition may be reckoned as on 31-st March of the immediate preceding financial year.

Table V.2: Distribution of Urban Cooperative Banks by Size of Deposits and Advances
(As at end-March 2011)

(Amount in ₹crore)

Deposit base	Distribution of UCBs by Size of Deposits				Advances base	Distribution of UCBs by Size of Advances			
	Number of UCBs		Deposits			Number of UCBs		Advances	
	Number	Percentage share in total	Amount	Percentage share in total		Number	Percentage share in total	Amount	Percentage share in total
1	2	3	4	5	6	7	8	9	10
D ≥ 1000	28	1.7	83,867	39.6	Ad ≥ 1000	17	1.0	45,487	33.4
500 ≤ D < 1000	41	2.5	28,899	13.6	500 ≤ Ad < 1000	27	1.6	19,057	14.0
250 ≤ D < 500	91	5.5	30,212	14.2	250 ≤ Ad < 500	50	3.0	17,335	12.7
100 ≤ D < 250	206	12.5	31,631	14.9	100 ≤ Ad < 250	148	9.0	22,642	16.6
50 ≤ D < 100	245	14.9	17,219	8.1	50 ≤ Ad < 100	182	11.1	12,463	9.1
25 ≤ D < 50	318	19.3	11,442	5.4	25 ≤ Ad < 50	259	15.7	9,323	6.8
10 ≤ D < 25	418	25.4	7,115	3.4	10 ≤ Ad < 25	446	27.1	7,297	5.4
D < 10	298	18.1	1,646	0.8	Ad < 10	516	31.4	2,737	2.0
Total	**1,645**	**100.0**	**2,12,031**	**100.0**	**Total**	**1,645**	**100.0**	**1,36,341**	**100.0**

Note: D: Deposits in rupees crore, Ad: Advances in rupees crore

I. Banks having deposits below ₹100 crore operating in a single district.

II. Banks with deposits below ₹100 crore operating in more than one district provided the branches are in contiguous districts and, deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances, respectively of the bank.

III. Banks with deposits below ₹100 crore, whose branches were originally in a single district but subsequently became multi-district due to reorganisation of the district.

5.15 There was an increase in the number of tier II banks while number of tier I banks reduced as at end-March 2011 as compared to the previous year. As at end-March 2011 tier I banks accounted for more than three fourths of total number of UCBs. As against this their shares in total deposits as well as advances were less than 20 per cent. Tier II banks, though constituted less than one fourth of total number of banks, accounted for majority share of advances and deposits. Similarly, the distribution of total assets was also heavily skewed in favour of tier II banks with these banks accounting for almost 81 per cent of total assets of the UCB sector (Table V.3).

Balance Sheet Operations of UCBs

Balance sheet of UCBs expanded mainly on account of growth in borrowings as well as loans and advances

5.16 Balance sheet of UCBs expanded at a rate of 15 per cent at end-March 2011 over the previous year. This expansion in balance sheet was largely attributed to borrowings on the liabilities side and loans and advances on the assets side. Non-scheduled UCBs witnessed expansion of their balance

Table V.3: Tier-wise Distribution of Urban Cooperative Banks
(As at end-March 2011)

(Amount in ₹crore)

Bank Tier Type	No. of banks		Deposits		Advances		Assets	
	Number	Percentage Share to Total	Amount	Percentage Share to Total	Amount	Percentage Share to Total	Amount	Percentage Share to Total
1	2	3	4	5	6	7	8	9
I	1,279	77.8	40,779	19.2	24,918	18.3	52,377	19.2
II	366	22.2	1,71,252	80.8	1,11,423	81.7	2,20,924	80.8
Total	**1,645**	**100.0**	**2,12,031**	**100.0**	**1,36,341**	**100.0**	**2,73,301**	**100.0**

sheet at a higher rate than their scheduled counterparts.

5.17 As at end-March 2011, share of deposits in total liabilities was 78 per cent implying that UCBs are heavily dependent on deposits for resources. The share of deposits in total liabilities increased marginally in 2010-11 as compared to the previous year. Capital and reserves together constituted almost 12 per cent of total liabilities in 2010-11. On the assets side, loans and advances constituted almost half of total assets followed by investments and balances with banks (Table V.4).

Investment Activities of Urban Cooperative Banks

SLR instruments continued to account for a major part of total investments

5.18 The growth in total investments of UCBs moderated in 2010-11 as compared to the previous year. While total investments in SLR securities continued to increase, there was a decline in investments made in non-SLR instruments in 2010-11.

5.19 As at end-March 2011, almost 93 per cent of total investments of UCBs were in SLR instruments. Investments in Central and State Governments securities constituted almost 77 per cent of total SLR investments. Further, investments in term deposits with StCBs and DCCBs constituted almost one fifth of total SLR investments of UCBs in 2010-11. There was also a change in the composition of SLR investments in 2010-11 with UCBs shifting their investments from term deposits with StCBs and DCCBs to Central and State Government securities and other approved securities (Table V.5).

5.20 The non-scheduled UCBs witnessed a higher growth in SLR investments as compared to their scheduled counterparts. Both

Table V.4: Liabilities and Assets of Urban Cooperative Banks

(As at end-March 2011)

(Amount in ₹Crore)

Item	Scheduled UCBs		Non-Scheduled UCBs		All UCBs	
	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7
Liabilities						
1. Capital	1,612	1,871	3,955	4,395	5,567	6,267
	(1.6)	(1.6)	(3.0)	(2.9)	(2.3)	(2.3)
2. Reserves	10,377	11,066	14,153	15,195	24,531	26,260
	(10.0)	(9.3)	(10.6)	(9.9)	(10.3)	(9.6)
3. Deposits	80,208	92,428	1,02,943	1,19,602	1,83,150	2,12,031
	(77.2)	(77.3)	(77.2)	(77.8)	(77.2)	(77.6)
4. Borrowings	1,783	2,718	557	1,571	2,340	4,289
	(1.7)	(2.3)	(0.4)	(1.0)	(1.0)	(1.6)
5. Other Liabilities	9,916	11,483	11,766	12,973	21,682	24,455
	(9.5)	(9.6)	(8.8)	(8.4)	(9.1)	(8.9)
Assets						
1. Cash in Hand	586	648	1,604	1,709	2,190	2,357
	(0.6)	(0.5)	(1.2)	(1.1)	(0.9)	(0.9)
2. Balances with Banks	10,290	11,010	10,238	12,880	20,528	23,890
	(9.9)	(9.2)	(7.7)	(8.4)	(8.7)	(8.7)
3. Money at Call and Short Notice	407	651	1,023	485	1,431	1,136
	(0.4)	(0.5)	(0.8)	(0.3)	(0.6)	(0.4)
4. Investments	31,107	33,480	48,063	53,595	79,170	87,075
	(29.9)	(28.0)	(36.0)	(34.9)	(33.4)	(31.9)
5. Loans and Advances	50,647	61,772	61,789	74,569	1,12,436	1,36,341
	(48.7)	(51.7)	(46.3)	(48.5)	(47.4)	(49.9)
6. Other Assets	10,859	12,005	10,657	10,498	21,516	22,503
	(10.5)	(10.0)	(8.0)	(6.8)	(9.1)	(8.2)
Total Liabilities/Assets	**1,03,896**	**1,19,566**	**1,33,374**	**1,53,736**	**2,37,271**	**2,73,302**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note: Figures in parentheses are percentages to total liabilities/assets.

Table V.5: Investments by Urban Cooperative Banks

(Amount in ₹Crore)

Item	As at end-March		Percentage Variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
Total Investments (A+B)	**79,169**	**87,075**	21.6	10.0
	(100.0)	**(100.0)**		
A. SLR Investments (i to vi)	**70,925**	**80,756**	29.3	13.9
	(89.6)	**(92.7)**		
i) Central Government Securities	40,818	52,372	19.4	28.3
	(51.6)	(60.1)		
ii) State Government Securities	7,791	10,127	79.4	30.0
	(9.8)	(11.6)		
iii) Other Approved Securities	415	576	1.2	38.8
	(0.5)	(0.7)		
iv) Term Deposits with StCBs	6,326	5,496	19.8	-13.1
	(8.0)	(6.3)		
v) Term Deposits with DCCBs	13,839	10,861	51.8	-21.5
	(17.5)	(12.5)		
vi) Others, if any	1,736	1,324	13.1	-23.7
	(2.2)	(1.5)		
B. Non-SLR Investments	**8,244**	**6,319**	-19.4	-23.4
	(10.4)	**(7.3)**		

Note: Figures in parentheses are percentages to total investments.

these groups witnessed a decline in their non-SLR investments. The scheduled UCBs, however, continued to have a higher proportion of their total investments in non-SLR instruments as compared to non-scheduled UCBs (Chart V.5).

Financial Performance of UCBs

Net profits of the UCB sector improved due to growth in income

5.21 Net profits of the UCB sector improved substantially during 2010-11 as compared to the previous year when this sector witnessed a slowdown in net profits possibly due to the spillover effects of global financial crisis. This increase in profits was primarily attributable to a robust growth in income surpassing the growth in expenditure, thus improving the overall financial position of this sector. In case of non scheduled UCBs, which witnessed their expenditure growing at a higher rate than income, the increase in profits was mainly attributable to a fall in provisions and contingencies, taxes and staff expenses (Table V.6).

5.22 All the major items of the profit and loss account of the UCB sector witnessed positive growth during 2010-11. Return on assets and net interest margin improved for the sector as a whole owing to a significant increase in net profits. Bank wise data of RoA revealed that majority of banks were reporting RoA in the range of 0-1.5 per cent (Table V.7 and Chart V.7).

Financial Soundness of UCBs

Asset Quality

Gross NPAs increased, though there was a decline in both gross as well as net NPA ratios

5.23 The gross non-performing assets (GNPAs) of UCB sector increased during the period 2010-11 over the previous year. However, there was a

Chart V.5: Composition of Investments of UCBs

(As at end-March 2011)

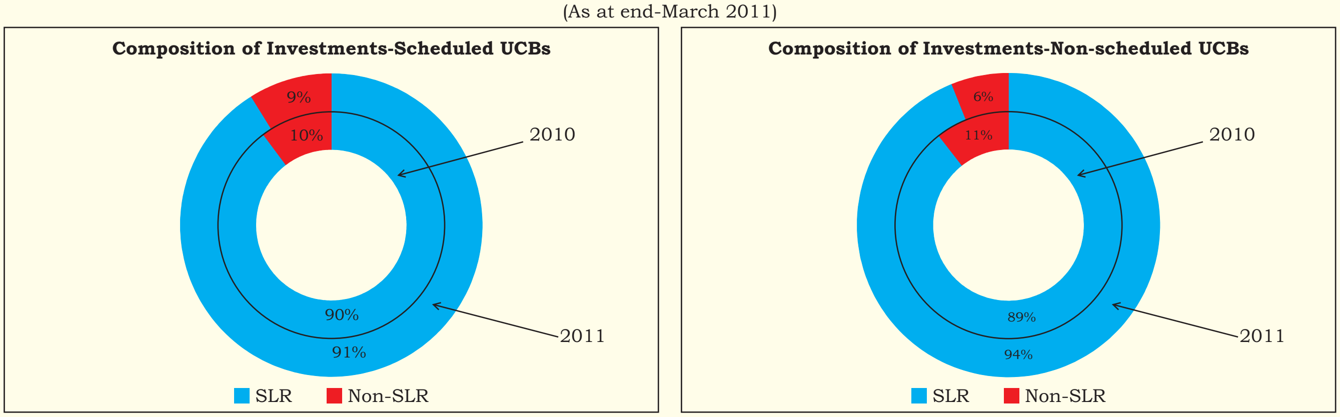


Table V.6: Financial Performance of Scheduled and Non-Scheduled Urban Cooperative Banks
(As at end-March 2011)

(Amount in ₹Crore)

Item	Scheduled		Non-Scheduled		All UCBs		Percentage variation (All UCBs)	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5	6	7	8	9
A. Total Income (i+ii)	**8,561**	**9,842**	**11,157**	**12,601**	**19,718**	**22,443**	**7.1**	**13.8**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**		
i. Interest Income	7,751	8,989	10,528	11,860	18,279	20,849	9.9	14.1
	(90.5)	(91.3)	(94.4)	(94.1)	(92.7)	(92.9)		
ii. Non-Interest Income	810	853	629	741	1,439	1594	-19.1	10.8
	(9.5)	(8.7)	(5.6)	(5.9)	(7.3)	(7.1)		
B. Total Expenditure (i+ii)	**7,347**	**7,809**	**9,500**	**10,770**	**16,847**	**18,579**	**12.7**	**10.3**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**		
i. Interest Expenditure	5,334	5,536	6,670	7,601	12,004	13,137	12.3	9.4
	(72.6)	(70.9)	(70.2)	(70.6)	(71.3)	(70.7)		
ii. Non-Interest Expenditure	2,013	2,273	2,830	3,169	4,843	5,442	13.6	12.4
	(27.4)	(29.1)	(29.8)	(29.4)	(28.7)	(29.3)		
of which: Staff Expenses	1,010	1,154	1,776	1,667	2,786	2,821	17.9	1.3
C. Profits								
i. Amount of operating profits	1,214	2,033	1,657	1,832	2,871	3,865	-17.0	34.6
ii. Provisions, contingencies, taxes	666	800	948	862	1,614	1,662	-18.5	12.7
iii. Amount of net profits	548	1,233	709	970	1,257	2,203	-19.6	75.3

Note: Figures in parentheses are percentages to their respective totals.

decline in gross as well as net NPA ratios during 2010-11 implying improvement in asset quality for the UCB sector. Along with the improvement in gross and net NPA ratios there was also an increase in the provisioning coverage ratio of the sector (Table V.8).

Capital Adequacy

Majority of UCBs reported CRAR more than 9 per cent

5.24 As at end-March 2011, almost 90 per cent of the UCBs were found to have a CRAR of more than 9 per cent. However, it was found that almost 20 per cent of the scheduled UCBs failed to comply with the prescribed minimum CRAR of 9 per cent whereas their non-scheduled counterparts performed better in terms of capital adequacy with only 8 per cent of them reporting CRAR below the prescribed limit (Chart V.6).

5.25 An analysis of bank wise CRAR data revealed that most of the UCBs with CRAR less than 9 per cent actually reported negative CRAR.

Chart V.6: Distribution of UCBs according to CRAR
(As at end-March 2011)

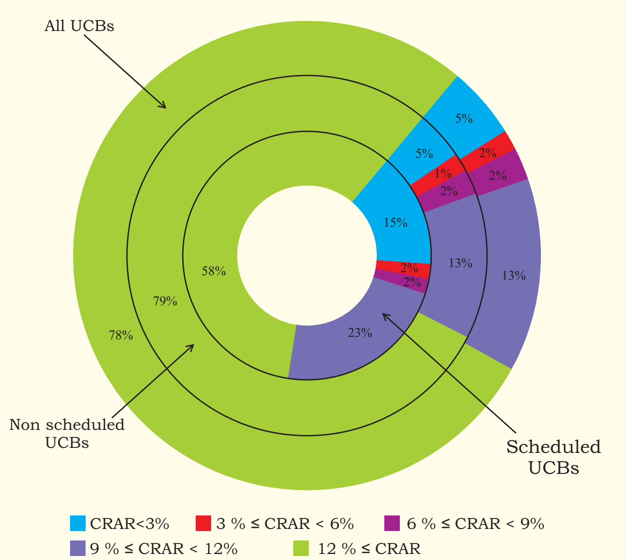


Table V.7: Select Financial Indicators of UCBs

Financial indicators	Scheduled		Non-Scheduled		All UCBs	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5	6	7
Return on Assets	0.57	1.10	0.57	0.68	0.57	0.86
Net Interest Margin	2.54	3.09	3.12	2.97	2.86	3.02

Table V.8: Non-Performing Assets of UCBs

(Amount in ₹Crore)

Items	Mar'2010	Mar'2011
1	2	3
1. Gross NPAs	11,399	11,529
2. Net NPAs	3,821	3,130
3. Gross NPA Ratio	10.1	8.5
4. Net NPA Ratio	3.9	2.5
5. Provisioning	7,578	8,399
6. Coverage Ratio	66.5	72.9

Note: 1. Coverage ratio is calculated as provisioning as percentage of gross NPAs.
2. Items 3, 4, and 6 are in percentages.

The dismal financial performances of these banks were also visible with some of them reporting negative RoA (Chart V.7).

Priority Sector Advances

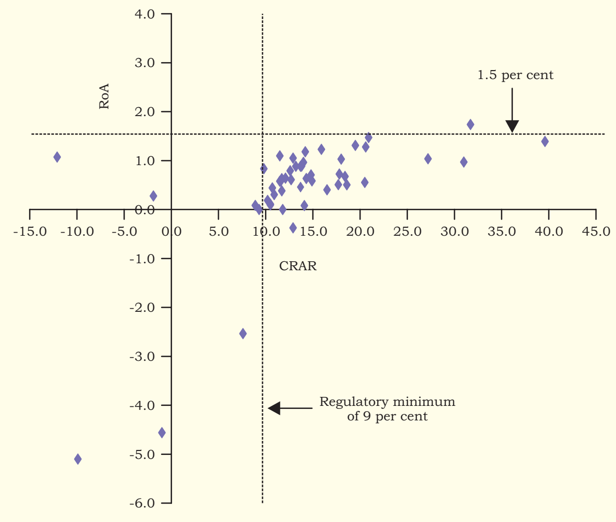
UCBs' advances to priority sectors constituted almost 46 per cent of total advances

5.26 UCBs play an important role in providing adequate and timely credit to small and weaker sections of the society. The priority sector lending target for UCBs was set at 40 per cent of adjusted bank credit or credit equivalent amount of off-balance sheet exposure, whichever is higher, as on 31st March of the previous year[5].

5.27 As at end-March 2011, advances to priority sectors by the UCBs constituted almost 46 per cent of their total advances disbursed by them. A further breakup of total priority sector advances revealed that small enterprises and housing loans constituted almost 59 per cent and 26 per cent, respectively, of total priority sector advances. The share of agriculture under priority sector in total advances declined in 2011 as compared to the previous year (Chart V.8).

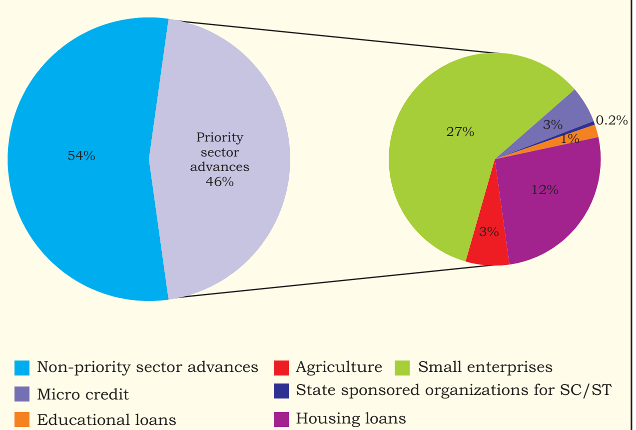
5.28 As at end-March 2011, almost 14 per cent of total advances of UCBs were disbursed to weaker sections[6] of which more than 60 per cent was absorbed by small enterprises. The advances to weaker sections constituted almost 30 percent of total priority sector advances as at end-March 2011 (Table V.9).

Chart V.7: CRAR and RoA of UCBs
(As at end-March 2011)



Note: Four UCBs have been excluded from this chart owing to their very high negative values for the CRAR as at end-March 2011.

Chart V.8: Composition of Advances to Priority Sectors by UCBs
(As at end-March 2011)



Note: Percentages mentioned in this chart are with respect to total loans and advances of UCBs

[5] Existing investments, as on August 30, 2007 made by banks in non-SLR bonds held in HTM category are not taken into account for calculation of adjusted bank credit. However, fresh investments by banks in non-SLR bonds are taken into account for this purpose. Also inter-bank exposures will not be taken into account for setting priority sector targets/sub targets.

[6] Advances to priority sectors are inclusive of advances to weaker sections.

Table V.9: Advances to Weaker Sections by Urban Cooperative Banks
(As at end-March 2011)

(Amount in ₹Crore)

Sector	Amount	Percentage share in total advances
1	2	3
Agriculture and Allied Activities	1,507	1.1
of which 1. Direct Finance	555	0.4
2. Indirect Finance	952	0.7
Small Enterprises	11,928	8.7
of which 1. Direct Finance	9,991	7.3
2. Indirect Finance	1,937	1.4
Micro Credit	1,000	0.7
State Sponsored Organisations for SC/ST	96	0.1
Educational loans	399	0.3
Housing loans	4,021	2.9
Total	**18,951**	**13.9**

Geographical Spread of UCBs

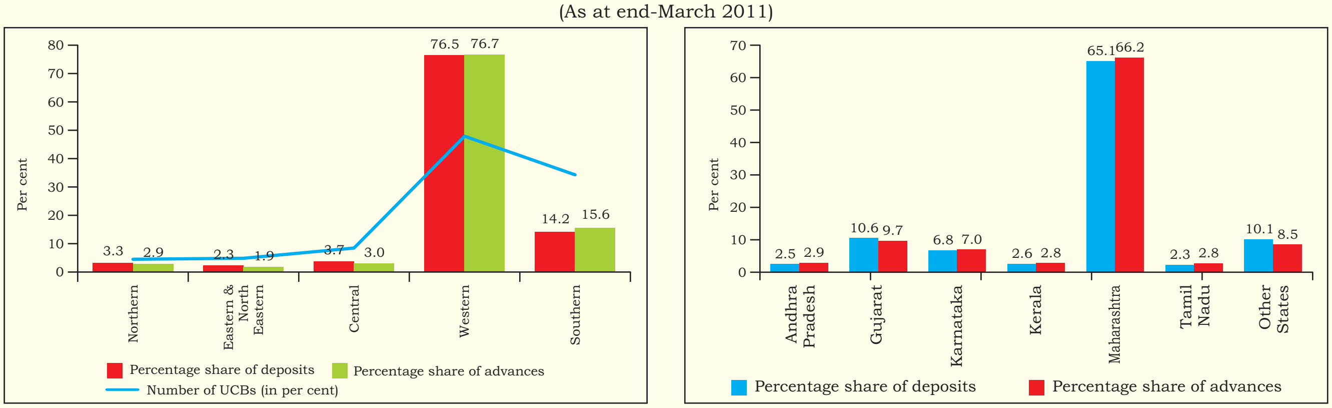
UCBs continued to be concentrated in the western region

5.29 An analysis of the State-wise data on number of UCBs as well as advances and deposits revealed that UCBs continued to remain concentrated in terms of number as well as banking business in the western part of the country. As at end-March 2011, almost 48 per cent of the total UCBs were located in the western States followed by southern States accounting for 34 per cent of total UCBs. The concentration was, however, more skewed when considered in terms of banking business with more than three fourths of total deposits as well as advances attributed to western region. Southern states accounted for 14 and 16 per cent of total deposits and advances, respectively. Accordingly, the banking business of UCBs was very shallow in other parts of the country, particularly in eastern and north-eastern regions. (Chart V.9)

5.30 The State-wise data on deposits and advances further revealed that within the regions also there was a concentration of banking business in some of the States. The share of Maharashtra, Gujarat, Karnataka, Andhra Pradesh, Kerala and Tamil Nadu together in total deposits as well as advances of the UCBs was close to 90 per cent. Maharashtra alone accounted for more than 65 per cent of the banking business of UCBs followed by Gujarat and Karnataka.

5.31 For a comparative analysis among different grades of UCBs according to level of geographical concentration, a comparison has been done between the share of top five States and bottom five States according to the number of UCBs. From the analysis it can be concluded that the level of concentration in terms of geographical presence was comparatively less in grade I UCBs followed by grade II/III and grade IV (Chart V.10).

Chart V.9: Region-wise and State-wise Profile of UCBs
(As at end-March 2011)



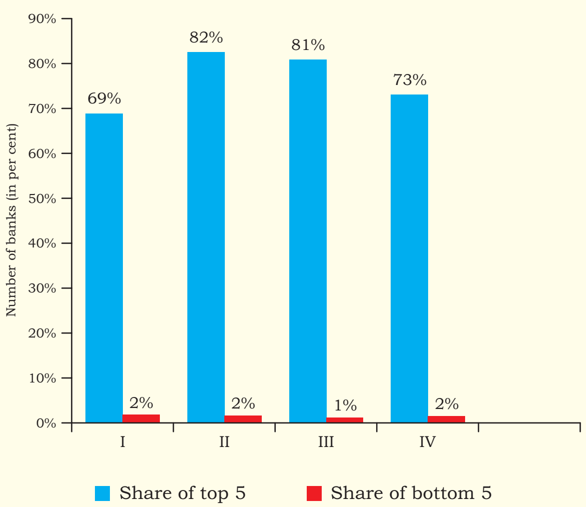
3. Rural Cooperatives[7]

Financial performance of long term cooperatives was relatively weak

5.32 As at end-March 2010, there were a total 95,765 rural cooperative institutions operating in the country. Out of the total number of rural cooperatives, short term cooperatives constituted a majority while only one per cent of the total cooperatives operating in the country were long term in nature. Within the short term structure, StCBs and DCCBs reported profits, whereas the ground level institutions, PACS incurred huge losses. The financial positions of long term cooperatives were found to be weaker than the short term cooperatives with both SCARDBs and PCARDBs reporting losses as at end-March 2010.

5.33 StCBs and the DCCBs were heavily dependent on deposits for resources whereas borrowings constituted a major part of total assets in case of PACS, SCARDBs and PCARDBs. Out of the total loans and advances issued by the rural cooperatives, DCCBs accounted for almost 47 per cent followed by PACS and StCBs. The share of long term cooperatives in total loans and advances stood at less than 3 per cent, thus indicating the dominance of short term structure in rural credit disbursement. The short term cooperatives (except PACS) were found to be better placed as compared to their long term counterparts in terms of asset quality and recovery performance. The NPA ratio was found to be higher in case of long term cooperatives. Within the short term structure, the PACS, however, reported highest NPA ratio, indicating poor asset quality of these grass root level cooperatives (Table V.10).

Chart V.10: Percentage Share of Top and Bottom Five States in Total Numbers of UCBs
(As at end-March 2011)



Management of Cooperatives

Almost one third of total rural cooperatives' boards under supersession

5.34 As at end-March 2010, almost one third of total rural cooperative credit institutions (excluding PACS) had their boards under supersession. Among various types of rural cooperatives SCARDBs witnessed the highest percentage of boards under supersession (Table V.11).

Short-term Structure of Rural Cooperatives

5.35 The short term structure of rural cooperatives comprises of StCBs operating as the apex institutions in each State, DCCBs operating at the district level and PACS operating at a more granular level. While StCBs and DCCBs witnessed fall in their net profits, PACS continued to incur losses. The NPA ratio, however, decelerated for StCBs and DCCBs at end-March 2010 as compared to the previous year.

State Cooperative Banks

Growth of StCBs' balance sheet decelerated in 2009-10 as compared to previous year

5.36 The balance sheet of StCBs expanded at a rate close to 12 per cent during 2009-10, which

[7] Data for 2009-10 presented in this section is provisional.

Table V.10: A Profile of Rural Cooperative Banks
(As at 31st March, 2010)

(Amount in ₹crore)

Item		Short-Term			Long-Term	
		StCBs	DCCBs	PACS	SCARDBs	PCARDBs
1		2	3	4	5	6
A.	**No. of Cooperative Banks**	31	370	94,647	20	697
B.	**Balance Sheet Indicators**					
	i. Owned Funds (Capital + Reserves)	11,871	31,370	12,479	4,510	5,165
	ii. Deposits	79,150	1,46,404	35,286	759	461
	iii. Borrowings	23,559	28,735	51,764	15,581	12,832
	iv. Loans and Advances Issued	53,588	1,18,393	74,938	3,205	2,465
	v. Loans and Advances Outstanding	49,629	1,07,466	76,480	17,000	11,482
	vi. Total Liabilities/Assets	1,20,662	2,18,676	1,35,192 +	25,562	25,037
C.	**Financial Performance**					
	i. Institutions in Profit					
	a. No.	29	322	40,936	10	276
	b. Amount of Profits	462	1,659	1,132	127	123
	ii. Institutions in Loss					
	a. No.	2	47*	41,679	9	416
	b. Amount of Loss	209	523	2,347	155	538
	iii. Overall Profit (+)/Loss (-)	253	1,136	-1,215	-27	-415
	iv. Accumulated Loss	575	4757	-	1,190	4154
D.	**Non-performing Assets**					
	i. Amount	4353	16,234	39,524 ++	5,642	4,841
	ii. As Percentage of Loans Outstanding	8.8	12.9	41.3	33.2	42.0
	iii. Recovery of Loans to Demand (Per cent)	91.8	75.7	-	41.0	41.5

StCBs: State Cooperative Banks, DCCBs: District Central Cooperative Banks, PACS: Primary Agricultural Credit Societies, SCARDBs: State Cooperative Agriculture and Rural Development Banks, PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.
'-' : Not available. +: Working capital. ++: Total overdues. *: Nayagarh DCCB in Orissa is in no profits no loss situation.
Note: 1 StCBs in the states of Bihar, Manipur, Kerala and West Bengal are repeated for the year 2009-10 from previous year due to lack of information.
2 Data are repeated for DCCBs operating in the States Bihar, West Bengal and Kerala.
3 Manipur SCARDB is defunct.
4 Data for 5 SCARDB are not available for 2010.
Source: NABARD and NAFSCOB.

was lower than the growth observed during 2008-09. The growth in StCB's balance sheet was mainly due to increase in borrowings and other liabilities on the liabilities side, and cash and bank balances, and other assets on the assets side. On the liabilities side, deposits continued to account for the largest share of the resources of StCBs, while investment accounted for the almost 45 per cent of total assets. During 2009-10, investments increased at a higher rate than loans and advances. Also, the percentage share of investments in total assets increased with a decline in the share of loans and advances as at end-March 2010 as compared to the previous year (Table V.12).

Table V.11: Elected Boards under Supersession
(Position as on March 31, 2010)

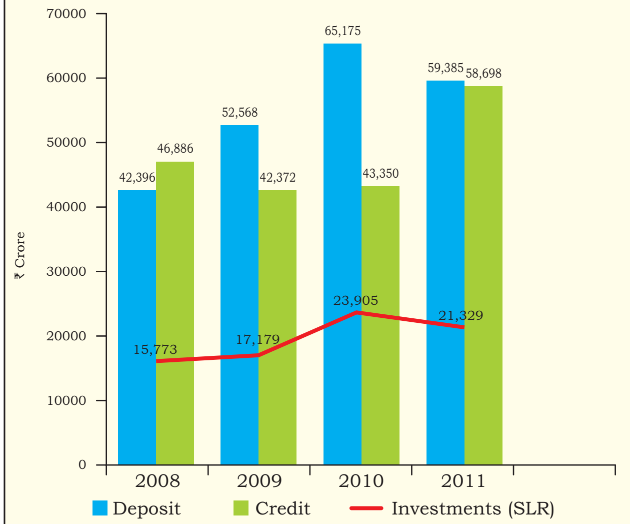
(Amount in ₹crore)

Item	StCBs	DCCBs	SCARDBs	PCARDBs	**Total**
1	2	3	4	5	6
(i) Total number of institutions	31	370	20	697	**1,118**
(ii) Number of institutions where Boards were under Supersession	9	86	9	265	**369**
Percentage of reporting Boards under supersession [(ii) as per cent of (i)]	**29.0**	**23.2**	**45.0**	**38.0**	**33.0**

Note: 1. Data related to StCBs in Bihar, Sikkim, Pondicherry and West Bengal and DCCBs in Bihar, Jharkhand and West Bengal are repeated for 2009-10 due to lack of information.
2. SCARDB in Tripura is defunct.
Source: NABARD.

5.37 From the updated information on major balance sheet indicators of scheduled StCBs available in Section 42(2) returns, it was observed that deposits declined significantly in 2010-11 as compared to the previous year. In contrast, there was substantial increase in total credit disbursed in 2010-11. Investments in SLR instruments by StCBs declined in 2010-11 as compared to the previous year (Chart V.11).

Chart V.11: Select Balance Sheet Indicators of Scheduled StCBs
(As at end-March 2011)



Source: Form B under section 42(2) of RBI act, 1934

StCBs' profits decreased mainly on account of slower growth in income

5.38 Net profits of StCBs decreased in 2009-10 as compared to the previous year. This fall in profit was mainly attributed to a slower growth of income during 2009-10 as compared to the previous year. There was also a change discernable in the composition of total income of the StCBs for last two years with the share of their non-interest income in total income increasing continuously. The trend continued in 2009-10 with non-interest income growing at a significantly higher rate than interest income. Nonetheless, interest income accounted for almost 95 per cent of StCBs total income in 2010.

Table V.12: Liabilities and Assets of State Cooperative Banks, end-March 2010

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009#	2010	2008-09	2009-10
1	2	3	4	5
Liabilities				
1. Capital	1,569 (1.5)	1,631 (1.4)	2.3	4.0
2. Reserves	10,325 (9.5)	10,240 (8.5)	4.2	-0.8
3. Deposits	70,312 (65.0)	79,150 (65.6)	24.8	12.6
4. Borrowings	20,913 (19.3)	23,559 (19.5)	-7.4	12.7
5. Other Liabilities	4,997 (4.6)	6,083 (5.0)	7.8	21.7
Assets				
1. Cash and Bank balance	7,960 (7.4)	9,367 (7.8)	-4.2	17.7
2. Investments	46,567 (43.1)	54,334 (45.0)	47.6	16.7
3. Loans and Advances	48,400 (44.8)	49,629 (41.1)	-3.3	2.5
4. Other Assets	5,188 (4.8)	7,333 (6.1)	1.8	41.3
Total Liabilities/Assets	**1,08,116 (100.0)**	**1,20,662 (100.0)**	**13.8**	**11.6**

#: Data for 2008-09 is updated

Notes: 1. Figures in brackets are percentages to total liabilities/assets.
2. 'Reserves' include credit balance in P&L Account shown separately by some of the banks.
3. Data for StCBs in the States of Bihar, Manipur, Kerala and West Bengal repeated for the year 2009-10.

Source: NABARD

5.39 On the expenditure side, interest expenditure continued to account for more than three fourths of total expenses. Total wage bill increased substantially though there was a fall in total operating expenses in 2009-10 as compared to the previous year. Provisions and contingencies also declined in 2009-10 (Table V.13)

NPA ratio declined for StCBs though there was a sharp increase in 'loss' NPAs

5.40 The asset quality of StCBs improved as at end-March 2010 over the previous year with their NPAs declining both in absolute as well as percentage terms. Analysis of various categories of NPAs further revealed that the decline in NPA was mainly on account of a decline in sub-standard and doubtful assets while there was a steep increase in loss assets in 2009-10 as compared to previous year (Table V.14).

Table V.13: Financial Performance of State Cooperative Banks

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Income (i+ii)	**7,590**	**8,239**	**22.5**	**8.6**
	(100.0)	(100.0)		
i. Interest Income	7,281	7,822	21.8	7.4
	(95.9)	(94.9)		
ii. Other Income	309	417	44.1	35.0
	(4.1)	(5.1)		
B. Expenditure (i+ii+iii)	**7,272**	**7,985**	**21.8**	**9.8**
	(100.0)	(100.0)		
i. Interest Expended	5,729	6,595	24.9	15.1
	(78.8)	(82.6)		
ii. Provisions and Contingencies	451	393	-16.9	-12.9
	(6.2)	(4.9)		
iii. Operating expenses	1,092	997	29.3	-8.7
	(15.0)	(12.5)		
of which, Wage Bill	512	581	11.8	13.7
	(7.0)	(7.3)		
C. Profits				
i. Operating Profits	768	647	0.6	-15.8
ii. Net Profits	318	253	43.8	-20.4

Note: 1. Figures in parentheses are percentages to the total income/ expenditure.
2. Data for StCBs in Bihar, West Bengal, Manipur and Kerala are repeated for the year 2009-10.

Source: NABARD.

5.41 The percentage share of 'sub-standard' and 'loss' categories of NPAs in total NPAs increased in 2009-10 as compared to the previous year though there was a decline in the percentage share of 'doubtful' NPAs during the same period (Chart V.12).

Table V.14: Soundness Indicators of State Cooperative Banks

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2009	2010
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**5,725**	**4,353**	-7.5	-24.0
i. Sub-standard	1,627	1,332	-41.9	-18.1
ii. Doubtful	3,822	2,219	44.1	-41.9
iii. Loss	276	802	-62.5	190.6
B. NPAs to Loans Ratio	**11.8**	**8.8**		
i. Recovery to Demand (%)	91.8	91.8		
ii. Provisions Required	2,883	2,861	8.5	-0.7
iii. Provision Made	3,310	4,438	10.3	34.1

Source: NABARD

District Central Cooperative Banks

Investments grew at a higher rate than loans and advances

5.42 During 2009-10 the balance sheet of DCCBs witnessed expansion at a rate close to 12 per cent, which was attributable to growth in deposits and 'other' liabilities on the liabilities side and investments on the assets side, though growth in investments decelerated as compared to 2008-09.

5.43 Deposits accounted for almost two thirds of total liabilities of DCCBs in 2009-10, indicating their heavy dependence on deposits for funds. Alongside, there was a decline in the percentage share of capitals and reserves in total liabilities.

5.44 On the assets side, loans and advances constituted almost half of the total assets whereas investments accounted for almost one third of the same. During 2009-10, loans and advances increased as compared to a decline in 2008-09. However, the higher growth in investments as compared with the growth of loans and advances during 2009-10 indicated DCCBs' continued preference for investments rather than lending due to reduction in risk

Chart V.12: Percentage Share of Different Categories of NPAs of StCBs
(End-March 2010)

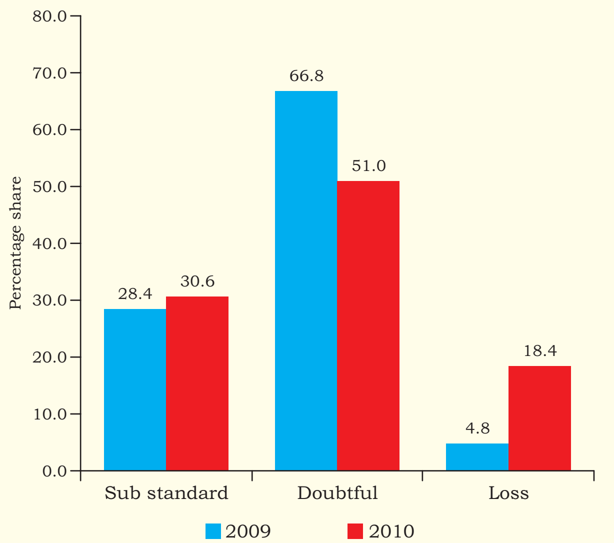


Table V.15: Liabilities and Assets of District Central Cooperative Banks

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
Liabilities				
1. Capital	6,578	7,309	10.8	11.1
	(3.4)	(3.3)		
2. Reserves	23,227	24,061	3.4	3.6
	(11.9)	(11.0)		
3. Deposits	1,27,623	1,46,404	16.4	14.7
	(65.2)	(67.0)		
4. Borrowings	27,663	28,735	-13.9	3.9
	(14.1)	(13.1)		
5. Other Liabilities	10,593	12,168	21.1	14.9
	(5.4)	(5.6)		
Assets				
1. Cash and Bank balance	12,917	14,797	21.8	14.6
	(6.6)	(6.8)		
2. Investments	64,709	75,913	34.2	17.3
	(33.1)	(34.7)		
3. Loans and Advances	99,429	1,07,466	-1.8	8.1
	(50.8)	(49.1)		
4. Other Assets	18,629	20,500	-1.0	10.0
	(9.5)	(9.4)		
Total Liabilities/Assets	**1,95,684**	**2,18,676**	**9.4**	**11.7**
	100.0	**100.0**		

Note: 1. Figures in parentheses are percentages to total.
2. 'Reserves' include credit balance in profits and loss account shown separately by some of the banks.
3. Data for DCCBs of Bihar, West Bengal and Kerala are repeated for the year 2009-10, as the latest data were not available.

Source: NABARD.

appetite following increased downward risk to domestic growth emanating from global economic uncertainties (Table V.15).

Net profits of DCCBs' declined mainly due to increase in operating expenses

5.45 The overall financial performance of DCCBs deteriorated during 2009-10 with their net profits declining substantially. This is in contrast with the improved financial performance of these institutions in the previous year when DCCBs started reporting overall profits as compared to losses prior to that.

5.46 An analysis of different components of the profit and loss account of DCCBs suggested that the deceleration of profits was mainly on account of increase in operating expenses. Interest expended continued to account for a majority share of total expenses of DCCBs with the same increasing at a higher rate than interest income of DCCBs during 2009-10. Interest income, which is the major component of income for DCCBs, increased at a significantly slower rate in 2009-10 as compared to 2008-09 (Table V.16).

Asset quality of DCCBs' improved with fall in NPA ratio

5.47 The asset quality of DCCBs improved as at end-March 2010 continuing the trend of the previous year. Total NPAs as well as the NPA ratio declined as at end-March 2010 as compared to the previous year. Similar to StCBs, there was an increase in the percentage share of loss assets in total NPAs of DCCBs with a subsequent decline in percentage shares of doubtful and sub-standard assets. Sub-standard assets continued to account for major

Table V.16: Financial Performance of District Central Cooperative Banks

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Income (i+ii)	**16,302**	**17,713**	**24.1**	**8.7**
	(100.0)	**(100.0)**		
i. Interest Income	14,817	15,936	23.7	7.6
	(90.9)	(90.0)		
ii. Other Income	1,485	1,777	28.6	19.7
	(9.1)	(10.0)		
B. Expenditure(i+ii+iii)	**14,949**	**16,576**	**12.6**	**10.9**
	(100.0)	**(100.0)**		
i. Interest Expended	9,413	10,330	19.6	9.7
	(63.0)	(62.3)		
ii. Provisions and	2,119	2,228	-12.5	5.1
Contingencies	(14.2)	(13.4)		
iii. Operating expenses	3,417	4,018	14.7	17.6
	(22.9)	(24.2)		
of which, Wage Bill	2,255	2,618	13.9	16.1
	(15.1)	(15.8)		
C. Profits				
i. Operating Profits	3,473	3,363	52.1	-3.2
ii. Net Profits	1,353	1,136	-	-16.0

Note: 1. Figures in parentheses are percentages to total.
2. Data for DCCBs of Bihar, West Bengal and Kerala are repeated for the year 2007-08.

Source: NABARD.

Box V.2: Soundness of StCBs

A trend analysis

StCBs are the apex institutions in the short term structure of rural cooperatives. Hence the financial health of StCBs has strong influence on the overall financial health of short term rural cooperatives. Particularly, given the fact that the ground level cooperatives or PACS incurred huge losses in recent years, StCBs' ability to provide assistance to PACS depends on the financial soundness of their own.

Since data on risk weighted asset is not available for rural cooperatives, it was not possible to measure the capital to risk weighted asset ratio (CRAR) for StCBs. However, a rough measure of capital adequacy for StCBs has been taken as ratio of capital and reserves to investments and advances. This ratio stood at the range of 12-15 per cent in recent years, but showed some amount of deceleration in last two years (Chart 2.1). However, the leverage ratio[8] for StCBs was found to be very high in recent years. The high leverage ratio of StCBs remains as a cause of concern for rural cooperative sector and also limits their ability to provide further assistance to ground level institutions.

There has been a continuous decline in the NPA of StCBs since 2006, both at absolute as well as in percentage terms. This fall was due to reduction in NPAs under the three major categories, though 'loss' category increased in 2009-10. Despite this, the NPA ratio for StCBs remained high when compared with the commercial banks. Another important trend observed in the composition of NPAs of StCBs during 2005-09 is that while share of 'sub-standard' NPAs in total NPA came down, there was an increase in percentage share of 'doubtful' NPAs in total NPA, though the same again decelerated in 2010. The increase in percentage share of 'doubtful' NPAs in total NPA during 2005-09 indicated that NPA of StCBs has become stickier in recent years.

The provision coverage ratio for StCBs exhibited an increasing trend from 2007 onwards. More importantly, there was a steep increase in the provision coverage ratio of StCBs in the year 2010 as compared to the previous year.

Resilience of StCBs-a stress test for increase in credit risk

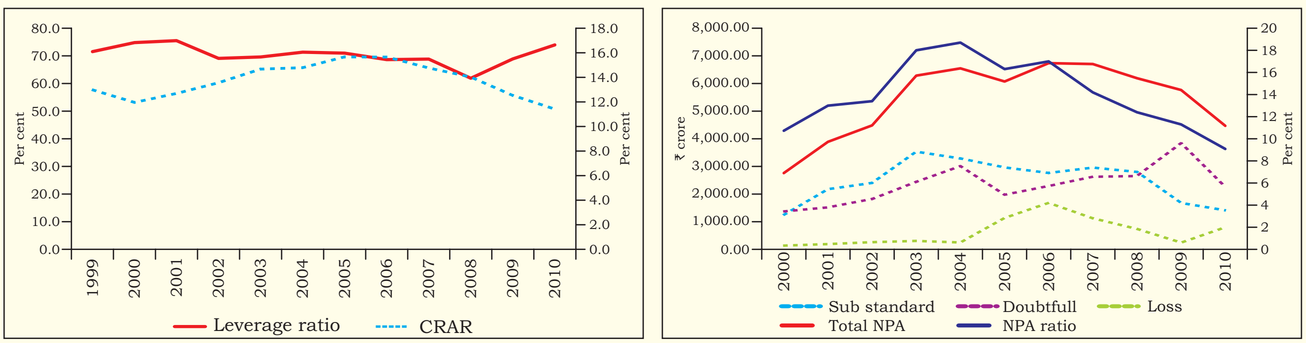
Due to unavailability of data, it was not possible to conduct a stress test at bank level for StCBs. However, to analyse the resilience of StCBs with respect to increased credit risk a stress test has been conducted at system's level. The stress test assumes increase in gross NPAs of StCBs by 100, 200 and 300 per cent along with the increased provisioning requirement of 25 per cent in case of sub-standard assets and 100 per cent for doubtful as well as loss assets. It was assumed that the ratio of different categories of NPAs remained the same under all the three scenarios. The increased provisioning requirement was first adjusted from the operating profits of StCBs and then the residual provisioning requirements, if any, was further subtracted from the capital. Due to unavailability of risk weighted assets for StCBs, CRAR under the stress is calculated as ratio of capital (after adjusting for the provisioning requirements) and reserves to investments and advances. A risk weight of zero per cent was assumed for investments in SLR instruments by StCBs (obtained from data collected from form B, sec 42(2) of RBI act). The following table summarises the stress test results.

Table 2.1: Result of Stress Test for Credit Risk-StCBs

Items	Scenario I	Secnario II	Scenario III
1	2	3	4
Increase in NPA	100%	200%	300%
Provisioning requirements	25 per cent for sub-standard assets and 100 per cent for doubtful/loss assets	25 per cent for sub-standard assets and 100 per cent for doubtful/loss assets	25 per cent for sub-standard assets and 100 per cent for doubtful/loss assets
CRAR (actual)	15.8	15.8	15.8
CRAR under the stress	7.7	3.3	-1.2

The result of the stress test revealed that an unexpected increase in the NPA level would affect the CRAR of StCBs at system level significantly, with the CRAR level falling significantly under the three stress scenarios as mentioned above.

Chart 2.1: Trend in Capital Adequacy, Leverage and NPAs of StCBs



part of total NPAs followed by doubtful assets. The recovery performance of DCCBs also improved at end-March 2010 compared to previous year (Table V.17).

[8] Calculated as ratio of assets to capital.

Table V.17: Soundness Indicators of District Central Cooperative Banks

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Total NPAs (i+ ii + iii)	**17,989**	**16,234**	**-4.1**	**-9.8**
i) Sub- standard	8,110	7,229	2.9	-10.9
	(45.1)	(44.5)		
ii) Doubtful	7,202	6,394	-12.3	-11.2
	(40.0)	(39.4)		
iii) Loss	2,677	2,611	0.7	-2.5
	(14.9)	(16.1)		
B. Percentage of NPAs to Loans	**17.9**	**12.9**		
i) Recovery to Demand (%)	72.7	75.7		
ii) Provisions Required	10,225	10,984	-1.6	7.4
iii) Provision Made	11,463	12,393	-5.1	8.1

Source: NABARD.

Primary Agricultural Credit Societies (PACS)

5.48 Primary Agricultural Credit Societies (PACS) continued to play an important role in providing institutional credit to agricultural and rural sectors. PACS are an integral part of short term rural credit cooperatives, which work at a grass root level and provide short term crop loans and other working capital loans to farmers and rural artisans.

Total advances disbursed by PACS increased at a rate of 28 per cent

5.49 The balance sheet operations of PACS expanded significantly during 2009-10 over the previous year. Total working capital of PACS increased as at end-March 2010 mainly on account of increase in deposits. Borrowings constituted more than half of the total resources of PACS in the year 2009-10, indicating their heavy reliance on external sources for funding. Total loans disbursed by PACS increased by almost 28 per cent during the year 2009-10. Short term loans, which continued to constitute more than 80 per cent of total loans issued by PACS witnessed higher growth than medium term loans during the year 2009-10 (Table V.18).

Almost 43 per cent of the PACS reported losses

5.50 Analysis of financial performance of PACS showed that almost 43 per cent of total PACS operating all over the country were loss making entities whereas 5 per cent of total number of PACS were either dormant or defunct indicating weak financial performance of these institutions in general. However, almost 70 per cent of total PACS were classified as viable and another 23 per cent of total numbers of PACS were classified as potentially viable as at end-March 2010.

Long-Term Structure of Rural Cooperatives

5.51 The long term structure of rural cooperatives consists of SCARDBs operating at the State level and PCARDBs operating at district/block level. Both SCARDBs and PCARDBs reported net losses in 2009-10. Moreover, these institutions witnessed increase in their gross NPAs in 2009-10 though the NPA ratio marginally declined for PCARDBs.

Table V.18: Primary Agricultural Credit Societies-Select Balance Sheet Indicators

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	87,080	99,529	3.3	14.3
2. Owned Funds (a+b)	11,896	12,479	8.3	4.9
a. Paid-up Capital	7,007	7,148	6.2	2.0
of which,				
Government Contribution	603	656	-4.1	8.9
b. Total Reserves	4,889	5,330	11.4	9.0
3. Deposits	26,245	35,286	3.1	34.4
4. Borrowings	48,938	51,764	2.3	5.8
5. Working Capital	94,585	1,35,192	7.4	42.9
B. Assets				
1. Total Loans Issued				
(a+b)*	58,787	74,938	2.0	27.5
a) Short-Term	48,022	61,951	1.3	29.0
b) Medium-Term	10,765	12,987	5.0	20.6
2. Total Loans Outstanding				
(a+b)	64,044	76,480	-2.5	19.4
a) Short-Term	45,686	54,970	4.6	20.3
b) Medium-Term	18,359	21,510	-16.4	17.2

Note: * - During the year.
Source: NAFSCOB.

State Cooperative Agriculture and Rural Development Banks (SCARDBs)

Borrowings reduced while capital and reserves together increased their share in total liabilities of SCARDBs

5.52 Total assets/liabilities of SCARDBs registered a moderate growth of 0.7 per cent in 2009-10 as compared to 2.5 per cent in 2008-09. On the liabilities side, borrowing, which is the major source of funds for SCARDBs registered a negative growth during 2009-10. The other important items on liabilities side, *i.e.,* net owned funds (capital and reserves) and deposits, however, increased during the same period.

5.53 On the assets side, loans and advances accounted for almost two thirds of total assets, as at end-March 2010. Another major component of total assets, *i.e.*, 'other assets' declined in 2010. Though the growth in investments slowed down in 2009-10 as compared to the previous year, the same continued to grow at a higher rate than loans and advances in 2009-10 (Table V.19).

Table V.19: Liabilities and Assets of State Cooperative Agriculture and Rural Development Banks

(Amount in ₹crore)

Item	As at end-March		Percentage variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
Liabilities				
1. Capital	812	821	-33.5	1.0
	(3.2)	(3.2)		
2. Reserves	3,191	3,688	15.4	15.6
	(12.6)	(14.4)		
3. Deposits	711	759	8.6	6.7
	(2.8)	(3.0)		
4. Borrowings	15,849	15,581	-1.6	-1.7
	(62.4)	(61.0)		
5. Other Liabilities	4,823	4,713	20.2	-2.3
	(19.0)	(18.4)		
Assets				
1. Cash and Bank Balance	189	197	-22.5	4.3
	(0.7)	(0.8)		
2. Investments	2,941	3,141	15.6	6.8
	(11.6)	(12.3)		
3. Loans and Advances	16,420	17,000	-11.2	3.5
	(64.7)	(66.5)		
4. Other Assets	5,836	5,224	67.3	-10.5
	(23.0)	(20.4)		
Total Liabilities/Assets	**25,386**	**25,562**	**2.5**	**0.7**
	(100.0)	**(100.0)**		

Note: 1. Figures in parentheses are percentages to their respective totals.
2. Data for SCARDBs in the States of Maharashtra repeated from the year 2007-08.
3. SCARDB in Manipur is defunct.
Source: NABARD.

SCARDBs reported net losses as compared to net profits in previous year

5.54 SCARDBs witnessed a sharp deterioration in their financial performance during 2009-10. This is evident from the fact that SCARDBs reported net losses during 2009-10 as compared to profits during 2008-09. Deterioration in their financial performances can be attributed to sharp fall in interest income on one side, and significant rise in operating expenses, including wage expenses on the other side. Though there was a steep decline in provisions and contingencies and also marginal decline in interest expended, this could not, however compensate for the decline in income by almost one third of its amount in 2008-09 (Table V.20).

Alongwith decline in profits, NPA ratio also increased for SCARDBs

5.55 With significant fall in profitability, SCARDBs also witnessed increase in their NPAs during 2009-10. Within the various categories of NPAs, there was an increase in 'sub-standard' as well as 'doubtful' categories of NPAs while 'loss' NPAs declined. 'Sub-standard' NPAs continued to account for a majority share of total NPAs followed by 'doubtful' and 'loss' categories. The recovery performance of SCARDBs, however, improved, at end-March 2010 as compared to the previous year (Table V.21).

Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)

PCARDBs' balance sheet grew at a lower rate in 2009-10

5.56 The growth of balance sheet of PCARDBs moderated in 2009-10 as compared to the previous year mainly on account of contraction in 'other' assets and liabilities and also slower growth in two major components of their balance

Table V.20: Financial Performance of State Cooperative Agriculture and Rural Development Banks

(Amount in ₹crore)

Item	As at end-March		Variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A Income (i+ii)	**3,009**	**2,012**	**65.0**	**-33.1**
	(100.0)	(100.0)		
i Interest Income	2,774	1,737	64.6	-37.4
	(92.2)	(86.3)		
ii Other Income	235	275	69.3	17.1
	(7.8)	(13.7)		
B Expenditure (i+ii+iii)	**2,960**	**2,040**	**43.2**	**-31.1**
	(100.0)	(100.0)		
i Interest Expended	1,330	1,303	3.7	-2.0
	(44.9)	(63.9)		
ii Provisions and Contingencies	1,390	450	147.7	-67.7
	(47.0)	(22.1)		
iii Operating expenses	240	287	7.7	19.6
	(8.1)	(14.1)		
Of which, Wage Bill	194	233	19.7	20.3
	(6.5)	(11.4)		
D Profits				
i Operating Profits	1,439	422	352.2	-70.6
ii Net Profits (+)/ Loss (-)	49	-27	-	-

Note: 1. Figures in parentheses are percentages to their respective totals.
2. Data for SCARDBs in the States of Maharashtra repeated.
3. SCARDB in Manipur is defunct

Source: NABARD.

sheet *i.e.*, borrowings as well as loans and advances. As at end-March 2010, borrowings constituted more than half of total resources of PCARDBs where as capital and reserves together constituted almost 21 per cent of the same. On the assets side, the share of 'other' assets was maximum followed by loans and advances, and investments. Investments grew at a higher rate than loans and advances during 2009-10 (Table V.22).

Table V.21: Soundness Indicators of State Cooperative Agriculture and Rural Development Banks

(Amount in ₹crore)

Item	As at end-March		Percentage Variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**4,948**	**5,641**	**-23.1**	**14.0**
	(100.0)	**(100.0)**		
i) Sub-standard	2,942	3,475	-15.1	18.1
	(59.5)	(61.6)		
ii) Doubtful	1,970	2,146	-28.7	9.0
	(39.8)	(38.0)		
iii) Loss	36	20	-82.8	-43.7
	(0.7)	(0.4)		
B. NPAs to Loans Ratio	**30.4**	**33.2**		
i) Recovery to Demand (%)	40.7	41.0		
ii) Provisions Required	1,466	1,218	13.9	-16.9
iii) Provision Made	1,493	1,536	16.0	2.9

Note: Figures in parentheses are percentages to total.

Source: NABARD.

Losses incurred by PCARDB's increased followed by sharp increase in staff expenses

5.57 Financial performance of PCARDBs deteriorated with the amount of losses increasing in 2009-10 as compared to the previous year. There was an overall fall in income of PCARDBs owing to fall in both interest as well as non-interest income. On the expenditure side, there was steep increase in staff expenses as well as provisions and contingencies. It is, however, worth mentioning that PCARDBs reported operating profits at end-March 2010, but due to high provisioning and contingencies reported net losses (Table V.23).

Table V.22: Liabilities and Assets of Primary Cooperative Agriculture and Rural Development Banks

(Amount in ₹crore)

Item	As at end-March		Percentage Variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
Liabilities				
1. Capital	1,515	1,527	69.4	0.8
	(6.1)	(6.1)		
2. Reserves	3,493	3,638	15.0	4.2
	(14.1)	(14.5)		
3. Deposits	400	461	17.8	15.2
	(1.6)	(1.8)		
4. Borrowings	12,365	12,832	16.4	3.8
	(49.8)	(51.3)		
5. Other Liabilities	7,073	6,579	32.8	-7.0
	(28.5)	(26.3)		
Assets				
1. Cash and Bank Balance	236	268	86.2	13.6
	(0.9)	(1.1)		
2. Investments	1,122	1,167	27.6	4.0
	(4.5)	(4.7)		
3. Loans and Advances	11,268	11,482	13.7	1.9
	(45.4)	(45.9)		
4. Other Assets	12,219	12,120	31.3	-0.8
	(49.2)	(48.4)		
Total Liabilities/Assets	**24,846**	**25,037**	**22.9**	**0.8**
	100.0	**100.0**		

Note: Figures in parentheses are percentages to totals.

Source: NABARD

Table V.23: Financial Performance of Primary Cooperative Agriculture and Rural Development Banks

(Amount in ₹crore)

Item	As at end-March		Percentage Variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Income (i+ii)	**2,022**	**1,831**	**29.2**	**-9.4**
	(100.0)	(100.0)		
i. Interest Income	1,431	1,292	4.8	-9.8
	(70.8)	(70.5)		
ii. Other Income	591	540	195.8	-8.7
	(29.2)	(29.5)		
B. Expenditure (i+ii+iii)	**2,221**	**2,248**	**15.3**	**1.2**
	(100.0)	(100.0)		
i. Interest Expended	1,217	1,138	22.9	-6.5
	(54.8)	(50.6)		
ii. Provisions and Contingencies	545	596	-12.3	9.3
	(24.6)	(26.5)		
iii. Operating expenses	458	513	46.0	12.0
	(20.6)	(22.8)		
of which, Wage Bill	191	285	-9.4	49.2
	(8.6)	(12.7)		
C. Profits				
i. Operating Profits	347	180	32.5	-48.1
ii. Net Profits	-199	-417	-	-

Note: Figures in parentheses are percentages to their respective totals.
Source: NABARD

NPA ratio of PCARDBs declined marginally

5.58 Total NPAs of PCARDBs increased in absolute terms for PCARDBs as at end-March 2010 as compared to the previous year. There was, however, a marginal decline in NPA ratio of PCARDBs during the same period. Among various types of NPAs, there was a significant increase in doubtful NPAs while sub-standard and loss NPAs decreased as at end-March 2010. The recovery performance of PCARDBs improved as at end-March 2010 as compared to the previous year (Table V.24).

4. Role of NABARD in Reviving the Rural Cooperatives

5.59 NABARD plays a pivotal role in disbursing credit to rural cooperatives and regional rural banks (RRBs). The short term credit provided by NABARD to cooperatives is mainly used for financing seasonal agricultural activities, marketing of crops, and pisciculture activities. The medium term credit is used for financing other approved agricultural purposes and the long-term credit involves loans given to State Governments.

Table V.24: Asset Quality of Primary Cooperative Agriculture and Rural Development Banks

(Amount in ₹crore)

Item	As at end-March		Percentage Variation	
	2009	2010	2008-09	2009-10
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**4,742**	**4,840**	**-7.3**	**2.1**
	(100.0)	**(100.0)**		
i) Sub-standard	2,769	2,723	-7.2	-1.7
	(58.4)	(56.3)		
ii) Doubtful	1,930	2,089	-8.3	8.2
	(40.7)	(43.2)		
iii) Loss	43	28	53.7	-34.2
	(0.9)	(0.6)		
B. NPAs to Loans Ratio	**42.2**	**42.0**		
i) Recovery to Demand (%)	39.5	41.5		
ii) Provisions Required	854	1,040	-5.4	21.8
iii) Provision Made	903	1,114	-4.8	23.4

Note: Figures in parentheses are percentages to total.
Source: NABARD.

Credit to StCBs constituted almost 70 per cent of total credit extended by NABARD

5.60 During 2010-11, the total amount of credit disbursed by NABARD increased significantly as compared to the previous year. A majority of total loans disbursed by NABARD in 2010-11 was in the form of short term credit extended to StCBs and RRBs. Out of the total credit disbursed by NABARD in 2010-11, StCBs absorbed almost 70 per cent while RRBs accounted for almost 29 per cent and the long term credit extended to the State Governments constituted less than one per cent. The credit extended to StCBs and RRBs increased significantly during 2010-11 as compared to the previous year while there was a decrease in long term credit extended to the State Governments (Table V.25).

Progress under Rural Infrastructure Development Fund (RIDF) and Kisan credit Card (KCC) Scheme

5.61 RIDF was set up as a joint initiative by the Central Government and NABARD in order to develop infrastructure in rural areas, particularly in the backdrop of declining public investments in agriculture and rural sectors. The scheme of RIDF was first introduced in the annual budget of 1995-96. The fund under RIDF

Box V.3: Role of Rural Cooperatives in Financial Inclusion - Some Emerging Issues

The wide network of rural cooperatives spread across the country is considered as a potential instrument to reach out the marginalised and poor sections of the society. In this context a comparative analysis of the geographical spread as well as banking business undertaken by rural cooperatives across different regions of the country is necessary. Region wise data on operations and performances of rural cooperatives revealed that while the StCBs, which are the nodal institutions in short term structure of rural cooperatives are present in every State the DCCBs are heavily concentrated in central and southern regions of the country. The banking network of DCCBs were found to be shallow in western and eastern regions of the country while there is no DCCB in north-eastern region. Not only a fewer number of DCCBs have presence in western and eastern parts of the country, the percentage of loss making entities are also observed to be higher in these two regions. On the other hand, PACS, the ground level institutions within short term rural cooperatives are concentrated in western and eastern parts of the country. Among various regions, the percentage share of loss making PACS in total number of PACS operating is highest in southern region of the country.

Within the short term credit structure, SCARDBs are concentrated in central regions while more than 60 per cent of total PCARDBs are located in southern region of the country. Notably, the number of PCARDBs operating in western region is very few and also almost all of the entities in western region were loss making, as at end-March 2010 (Chart 3.1).

From the region wise data of rural cooperatives it can be concluded that the network of these institutions, though widespread are not uniformly present across different parts of the country. More importantly, the network of rural cooperatives was found to be significantly weak in north-eastern region of the country, thus limiting the potential of these institutions for financial inclusion. Also, StCBs witnessed their highest NPA ratio in the north-eastern region of the country (Appendix table V.4).As at end-March 2010, only 4 per cent of total PACS were operating in north-eastern region. SCARDBs operating in north-eastern region also witnessed NPA ratio close to 50 per cent. The low number of rural cooperatives operating in north-eastern region as well as their poor financial performance remains as a concern.

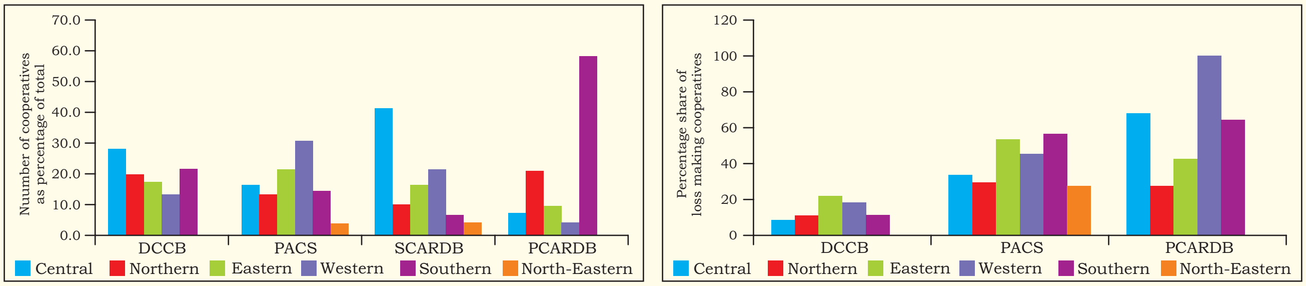
As at end-March 2010, financial performances of DCCBs, SCARDBs and PCARDBs deteriorated. The fall in profits of these cooperatives could be attributed to increasing operating expenses. Rising operating expenses of these cooperatives indicate operational inefficiencies. This suggest that a comprehensive planning to streamline the business activities and human resource development initiatives is required in this regard. Also computerization of PACS, which has already started in some of the States, needs further impetus and PACS operating in other states should also start adopting the same. The process of adoption of Common accounting System (CAS) and Management Information System (MIS) for PACS should further become broad based. The application of modern technology in business activities is expected to improve the efficiency of rural cooperatives to wider extent. However, proper training and orientation programme is needed for the employees of these institutions in order to familiarize them with the new technology.

Since only members can borrow from PACS, there is a need to increase membership per PACS to further utilize the effectiveness of the wide network of these grass root level institutions. As at end-March 2010, the number of members per PAC decreased to 1336 from 1384 at end-March 2009. Further the membership per PAC was found to be low in western and central region. Also, borrowers per PAC were low in north-eastern, western and central regions of the country (Table 3.1). Though the highest percentages of PACS were operating in western region of the county, effort is needed to increase members per PAC for western region as well as for all-India level.

The percentage of overdues to demand was found to be very high for PACS operating at north-eastern and western regions in particular and at all-India level in general. As at end-March 2010, the percentage of overdues reduced marginally compared to the previous year at all-India level, but the same further increased for PACS operating in north-eastern region. High overdues are a serious problem for PACS, which is posing threat to the financial health and soundness of these institutions. Adequate reform initiatives are required in this regard to improve the financial soundness of PACS.

Chart 3.1: Geographical Presence of Rural Cooperatives

(As at end-March 2010)



Note: Data on percentages of loss making SCARDBs in different regions was not available for 2009-10

Table 3.1: Region-wise Details Of Membership of PACS

(As at end-March 2010)

Regions	Member per PACS	Percentage of SC/ST members	Percentage of rural artisans ,small and marginal farmers	Borrowers per PACS	Percentage of SC/ST borrowers	Percentage of rural artisans, small and marginal borrowers
Northern	862	27.7	72.3	464	16.9	83.1
Eastern	2,130	40.8	59.2	720	27.8	72.2
Central	665	47.3	52.7	297	38.5	61.5
Western	571	13.3	86.7	147	16.2	83.8
Southern	3,064	18.3	81.7	2,215	8.7	91.3
North-Eastern	1,031	35.2	64.8	73	32.2	67.8
All-India	1,336	28.9	71.1	632	17.1	82.9

Table V.25: NABARD's Credit to StCBs, State Governments and RRBs

(Amount in ₹ crore)

Item	2009-10				2010-11			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1. StCBs (a+b)	**18,287**	**18,680**	**17,215**	**17,169**	**24,814**	**25,091**	**18,385**	**23,875**
a. Short-term*	18,287	18,680	17,149	17,169	23,975	24,898	18,385	23,682
b. Medium-term#	66**	0	66	0	839	193		193
2. State Governments								
a. Long-term	8***	0	53	199	0	8	39	167
3. RRBs (a+b)	**7,374**	**7,091**	**3,969**	**6,924**	**10,459**	**10,416**	**7,137**	**10,203**
a. Short-term*	7,374	7,091	3,842	6,904	10,400	10,416	7,117	10,203
b. Medium-term#	0	0	127	20	59		20	
Grand Total (1+2+3)	**25,661**	**25,771**	**21,237**	**24,292**	**35,273**	**35,515**	**25,561**	**34,245**

Notes: 1. # Medium Term includes MT Conversion, MT(NS) & MT- liquidity support scheme
2. * Short Term includes ST(SAO), ST(Others) and ST(weavers)
3. Repayments under Short Term during 2010-11 includes repayment under ST(SAO)A/C V and also A/C VI, ST(Others) and ST(Weavers)
4. **Sanction since withdrawn
5. ***Long Term Loan sanctioned to Govt. of Kerala in the extended period of 2009-10 (June 2010)

Source: NABARD.

scheme was collected from commercial banks to the extent of their respective shortfalls from priority sector lending target for agriculture.

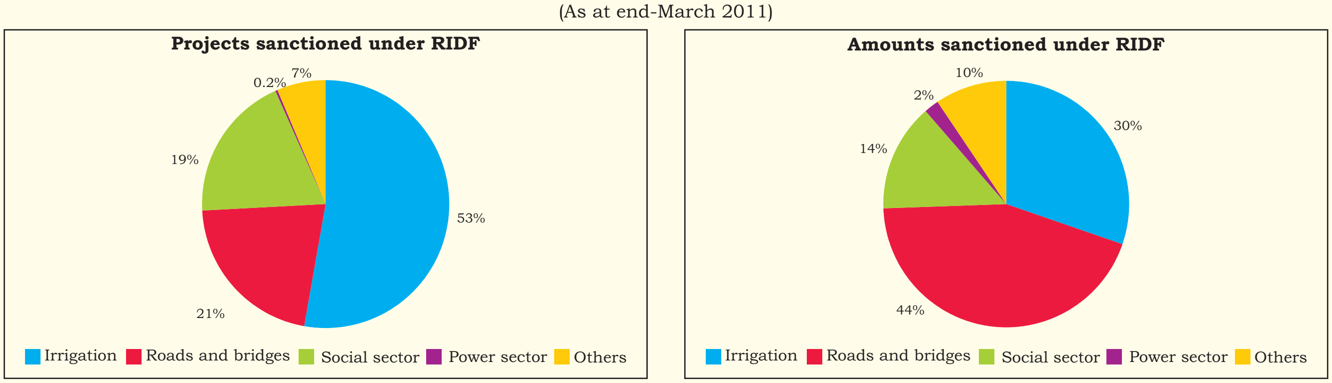
One-fifth of the sanctioned loans was disbursed during the first year of RIDF XVI

5.62 As at end-March 2011, the total amount of deposits collected under RIDF scheme stood at ₹95,785 crore. The number of projects under RIDF XVI increased as compared to its previous tranche. However, out of the total loans sanctions under RIDF XVI, one fifth was disbursed during the first year.

5.63 A separate window, namely National Rural Roads Development Agency (NRRDA) was introduced in 2006-07 under RIDF tranches XII-XV. NRRRA was introduced with the objective of funding the rural roads component of Bharat Nirman Programme introduced by the Central Government. As at end-March 2011, the aggregate allocation under NRRDA stood at ₹18,500 crore. Notably, there was no delay in disbursement of loans under NRRDA, as indicated by 100 per cent disbursement of loans sanctioned under the scheme (Table V.26).

5.64 The purpose wise details of projects and loans sanctioned under RIDF showed that irrigation accounted for more than half of total projects sanctioned while almost one fifth of total projects sanctioned were on roads and bridges, and another 19 per cent were for social sector projects. As against this, almost 44 per cent of

Chart V.13: Purpose-wise Details of Projects and Loans Sanctioned under RIDF
(As at end-March 2011)



Note: 1. Others' include soil conservation and allied activities, animal husbandry, food process and allied activities, rubber plantation etc.
2. Social sector projects include projects related to supply of drinking water, schools and anganwadi centres, public health etc.

Table V.26: Tranche-wise Details of RIDF (As at end-March 2011)

(Amount in ₹ crore)

Tranches	Year	No. of Projects	Amount			Percentage of loans disbursed to sanctioned
			Corpus	Sanctioned	Disbursed	
1	2	3	4	5	6	7
I	1995-96	4,168	2,000	1,906	1,761	92.4
II	1996-97	8,193	2,500	2,636	2,398	91.0
III	1997-98	14,345	2,500	2,733	2,454	89.8
IV	1998-99	6,171	3,000	2,903	2,482	85.5
V	1999-00	12,106	3,500	3,435	3,055	88.9
VI	2000-01	43,168	4,500	4,489	4,071	90.7
VII	2001-02	24,598	5,000	4,582	4,053	88.4
VIII	2002-03	20,887	5,500	5,950	5,148	86.5
IX	2003-04	19,544	5,500	5,638	4,916	87.2
X	2004-05	16,482	8,000	7,651	6,569	85.9
XI	2005-06	29,763	8,000	8,311	7,010	84.4
XII	2006-07	41,774	10,000	10,377	8,001	77.1
XIII	2007-08	36,810	12,000	12,614	8,969	71.1
XIV	2008-09	85,428	14,000	14,726	9,253	62.8
XV	2009-10	38,946	14,000	15,623	6,629	42.4
XVI	2010-11	41,779	16,000	18,315	3,731	20.4
RIDF : Total	-	4,44,162	1,16,000	1,21,888	80,500	66.0
NRRDA (XII to XV)	-	-	18,500	18,500	18,500	100.0
Grand Total		4,44,162	1,34,500	1,40,388	99,000	70.5

'-': Nil/Not Available.
Source: NABARD.

total loans sanctioned were for development of roads and bridges followed by irrigation and social sector projects (Chart V.13).

Developments under Kisan Credit Card Scheme (KCC)

5.65 At end-March 2011, the total number of KCCs issued stood at 104 million all over the country. Total number of cards issued as well as loans sanctioned under KCC increased in 2010-11 as compared to previous year (Table V.27).

5.66 An analysis of data on region wise as well as agency wise disbursement of number of KCCs issued showed that out of total number of KCCs issued by cooperative banks in the year 2010-11, southern region accounted for a maximum share of 34 per cent followed by central and northern region. However, in terms of credit disbursement under KCCs by cooperative banks central region accounted a maximum of 35 per cent. In case of commercial banks, majority of number of KCCs issued as well as loans disbursed was in the southern region. One notable fact was that the number of KCCs issued as well as credit disbursed under KCC scheme was notably low in north-eastern region invariably for cooperatives, commercial as well as regional rural banks (RRBs) (Appendix Table V.10).

Table V.27: Progress under Kisan Credit Card Scheme

(Amount in ₹crore)

Year	KCCs issued during the year (in thousands)	Amount sanctioned	Cumulative number of KCCs issued (in thousands)
1	2	3	4
2006-07	8,511	46,729	67,605
2007-08	8,470	88,264	76,075
2008-09	8,592	53,085	84,667
2009-10	9,006	57,678	93,673
2010-11	10,168	72,625	1,03,841

Source: NABARD

Initiatives to make KCC technology enabled

5.67 The task force on coverage issues related to Agricultural Debt Waiver and Debt Relief Scheme (ADWDR), 2008 has stressed on the need of making KCC technologically enabled including the conversion of KCC into a smart card with withdrawals and remittances enabled at ATMs, points of sale, and through hand held machines. Also, recommendations have been made to redesign the MIS of KCC. It has been proposed by the committee to fix the KCC limit to 5 years with increased flexibility given to the farmer to use it as and when needed without any sub target fixed for any crop or stages of cultivation.

Status of Revival Package for Rural Cooperatives

5.68 A task force was constituted by the Central Government under the chairmanship of Prof. A Vaidyanathan in 2004 to analyse the challenges and issues in the rural cooperative sector as well as to design future action plan for this sector. Following the recommendations of this committee, a revival package for short term rural cooperatives was announced in January 2006. A separate revival package for long term cooperatives was announced subsequently in the union budget of 2008-09.

5.69 NABARD has been entrusted with the responsibility of implementing the revival package. A National Implementing and Monitoring Committee (NIMC) monitors the status of implementation of the revival package all over the country. Within each State, the State Level Implementing and Monitoring Committee (SLIC) supported by NABARD and DCCB level implementing and monitoring committee (DLIC) together monitor the implementation status in the concerned state.

Implementation of Revival Package for Short Term Rural Cooperative Credit Structure (STCCS) is in progress

5.70 The process of implementing the revival package in any State necessarily begins with signing a Memorandum of Understanding (MoU) among the Central Government, the concerned State Government and NABARD. So far 25 State Governments have signed the MoU with Government of India and NABARD, comprising more than 96 per cent of the rural cooperatives operating in the country.

5.71 An amount of ₹8661 crore has been released by NABARD for recapitalisation of 53,380 PACS in sixteen States, while the State Governments have released ₹817 crore as their respective share.

Common Accounting System (CAS) and Management Information System (MIS)

5.72 While the process of adoption of CAS is underway in 16 States, in the other States where MoUs have been signed the RCS concerned have been advised to adopt CAS on the lines suggested by NABARD.

Special Audit for PACS

5.73 Guidelines and formats for conduct of special audit were circulated to all participating States. Further, training for master trainers and departmental auditors for conduct of special audit of PACS has been completed in all 25 implementing States. So far, special audit has been taken up in 80, 773 PACS and completed in 80,639 PACS.

Legal, Institutional and Managerial Reforms

5.74 So far, 21 States amended their State Cooperative Acts. Amendment of bye laws of StCBs and PACS is also in progress in various States.

5.75 In order to bring qualified professionals in the management of cooperatives, the Reserve Bank has prescribed 'fit and proper criteria' for appointment of the directors and chief executive officers (CEOs) of cooperatives. Accordingly, professional directors satisfying 'fit and proper criteria' have been put in place in the StCBs of Andhra Pradesh, Karnataka, Maharashtra and some other States. Also some of the States have already implemented the prescribed criteria for appointment of CEO of cooperatives. Elected Boards are in place in almost all units of STCCS in all States except Andhra Pradesh, Arunachal Pradesh, Manipur, Nagaland and Tamil Nadu.

Training and Human Resource Initiatives

5.76 A working group set up by NABARD designs training modules for training of electoral directors and staffs of PACS. Training has been imparted to 254 master trainers from 23 States. These master trainers have trained 2,039 district level trainers to conduct field level training programme for PACS. So far, 81,037 PACS secretaries have been trained in 17 States and 1,12,354 elected members of PACS have been trained in 14 States.

5.77 A new programme on business development and profitability for PACS secretaries has since been rolled out and 76 master trainers from 12 implementing States were trained at Bankers Institute of Rural Development, Lucknow. So far, 36,125 PACS staffs in eight States have been trained. Also, a five-day in-campus orientation programme for branch managers and senior officers of CCBs/ StCB for business development/ diversification has been developed and 1,582 branch managers/senior officers of DCCBs/StCB have been trained.

5. Conclusions

UCBs' profits increased though there are some concerns regarding their asset quality

5.78 During the year 2010-11, the financial performances of UCBs improved while some segments of the rural cooperative sector witnessed deterioration in their financial health. Though the overall profits of UCBs improved during 2010-11 there were some concerns regarding some of the UCBs reporting negative CRAR. Also there was an increase in gross NPAs of UCBs albeit the NPA ratio declined.

Financial health of the rural cooperatives was weak sector

5.79 Within the rural cooperative sector, while the StCBs and DCCBs reported profits, the ground level institutions, *i.e.,* PACS reported huge losses. Also, operating expenses, particularly staff expenses increased significantly in the long term rural cooperative sector. This suggests that initiatives need to be taken in order to rationalise the operating expenses of these cooperatives. Implementation of MIS/CAS and computerization of PACS also needs to be expedited.

Regional concentration of cooperatives limits their role in financial inclusion

5.80 Apart from regional concentration, banking penetration of cooperatives remained very low in the north-eastern part of the country. There is a need to further expand the base of cooperatives in the north-eastern region. Along with this, efforts need to be taken to improve the financial health of grass root level rural cooperatives *i.e.*, PACS in order to enhance financial inclusion.

Chapter VI

Non-Banking Financial Institutions

Non-Banking Financial Institutions (NBFIs) are playing pivotal role in broadening access to financial services, enhancing competition and diversification of the financial sector. They are increasingly being recognised as complementary to the banking system capable of absorbing shocks and spreading risk mitigation at the times of financial distress. The financial performance of deposit-taking Non-Banking Financial Companies (NBFCs-D) witnessed improvement as reflected in increased operating profits while expenditure declined marginally during 2010-11. The consolidated balance sheet of Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI) have expanded but their net profit to total assets remain unchanged. Resources mobilised by financial institutions (FIs) were considerably higher during 2010-11. Notwithstanding the turnaround in the trading income, net profit of the primary dealers (PDs) declined mainly on account of disproportionate increase in interest expenses and decline in other income. Rapid financial diversification has posed new challenges for regulators, especially in devising appropriate regulatory safeguards for the highly complex NBFI sector.

1. Introduction

6.1 Non-Banking Financial Institutions (NBFIs) sector in India comprises various types of financial institutions with each one of them having its roots at a particular stage of development of the financial sector. All-India financial institutions (AIFIs), largely an outcome of the development planning in India, were created for long-term financing. Non-banking financial companies (NBFCs), on the other hand, are mostly private sector institutions which provide a variety of services including equipment leasing, hire purchase, loans, and investments. Primary dealers (PDs), which came into existence in 1995, have played an important role in both the primary and secondary Government securities market. Although commonly grouped as NBFIs, the nature of operations of FIs, NBFCs and PDs are quite different from each other. The regulatory focus in respect of these three types of NBFIs is also different. Business operations and financial performance of these entities are driven mainly by sector-specific factors.

6.2 NBFCs perform a diversified range of functions and offer various financial services to individual, corporate and institutional clients. They have been helping to bridge the credit gaps in several sectors where the institutions like banks are unable to venture. With the growing importance assigned to financial inclusion, NBFCs have come to be regarded as important financial intermediaries particularly for the small-scale and retail sectors. The regulations governing these institutions are less rigorous as compared to banks as they are not subject to certain regulatory prescriptions applicable to banks. NBFCs-D are not subject to Cash Reserve Ratio (CRR) requirements like banks but are mandated to maintain 15 per cent of their public deposit liabilities in Government and other approved securities as liquid assets. The public deposits do not have insurance cover. NBFCs do not enjoy refinance facilities from the Reserve Bank and do not have chequable deposits and are thus not part of the payment and settlement systems.

6.3 Since 2006, NBFCs were reclassified based on whether they were involved in the creation of productive assets. Under the new classification, the NBFCs were divided into three major categories, *viz.,* asset finance companies, loan companies, and investment companies. Considering the growing importance of infrastructure finance, a fourth category of NBFCs involved in infrastructure finance was introduced in February 2010, *viz.,* Infrastructure Finance Companies (IFCs). Subsequently, in January 2011, a new category of companies, *viz.,* systemically important non-deposit taking core investment companies (CIC-ND-SI) were brought under regulation and supervision of the Reserve Bank.

6.4 Till recently, NBFCs-ND were subject to minimal regulation as they were non-deposit taking bodies and considered as posing little threat to financial stability. However, recognising the growing importance of this segment and its inter-linkages with banks and other financial institutions, capital adequacy and exposure norms have been made applicable to NBFCs-ND that are large and systemically important (*i.e.*, having asset size of ₹100 crore and above) from April 1, 2007; such entities are referred to as NBFCs-ND-Systemically Important.

6.5 This chapter provides analysis of the financial performance and soundness indicators related to each of these segments of NBFIs during 2010-11. The chapter is organised into four sections. Section 2 analyses the financial performance of FIs. Section 3 discusses the financial performance of NBFCs-D and NBFCs-ND-SI. Section 4 provides an analysis of the performance of PDs in the primary and secondary markets, followed by Conclusions in Section 5.

2. Financial Institutions

6.6 As at end-March 2011, there were five financial institutions (FIs) under the regulation of the Reserve Bank *viz.,* EXIM Bank, NABARD, NHB, SIDBI and 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 as on March 31, 2011. In September 2010, Reserve Bank transferred its 71.5 per cent capital stake-holding in NABARD to the Government of India (Table VI.1). In April 2010, the Government of India (GoI) agreed to transfer ownership and shareholding of NHB from the Reserve Bank to GoI and also to transfer the registration and regulatory functions in respect of Housing Finance Companies from NHB to the Reserve Bank and retention of supervisory function with the NHB.

6.7 During 2010-11, in view of the difficulties faced by NHB and EXIM Bank in meeting their overall lending requirements, their 'aggregate borrowing limit' has been enhanced from 10 times of net owned funds (NOF) to 11 times of NOF for one year (for NHB up to September 30, 2011 and for EXIM Bank up to March 31, 2012), subject to review. Further, in view of the difficulties faced by NHB, SIDBI and EXIM Bank in meeting short term lending requirements, their borrowing under 'umbrella limit' has been enhanced from 100 per cent of NOF to 150 per cent of NOF for a period of one year *i.e.*, up to June 30, 2012, subject to review. The guidelines regarding prudential norms on income recognition, asset classification and

Table VI.1 Ownership Pattern of Financial Institutions
(As on March 31, 2011)

Institution	Ownership	Per cent
1	2	3
EXIM Bank	Government of India	100
NABARD *	Government of India	99
	Reserve Bank of India	1
NHB	Reserve Bank of India	100
SIDBI **	Public Sector Banks	72.2
	Insurance Companies	21.4
	Financial Institutions	6.4

* In terms of GOI notification dated September 16, 2010, with effect from September 16, 2010, the share of GOI and RBI in NABARD equity stands at 99 per cent and 1 per cent respectively.

** IDBI Bank Ltd. (19.2 per cent), State Bank of India (15.2 per cent) and Life Insurance Corporation of India (14.4 per cent) are the three major shareholders in respect of SIDBI.

provisioning pertaining to advances, restructuring of advances, investments portfolio, *etc*. issued to banks are also made applicable to the select FIs.

Operations of Financial Institutions

6.8 The financial assistance sanctioned and disbursed by FIs declined marginally during 2010-11. This was mainly due to the decline in sanctions and disbursements made by investment institutions especially LIC (Table VI.2 and Appendix Table VI.1).

Assets and Liabilities of Financial Institutions

6.9 The combined balance sheet of FIs expanded during 2010-11. On the liabilities side, deposits along with 'bonds and debentures' remain the major source of borrowings. However, resources raised from 'other sources' witnessed a decline. On the assets side, loans and advances continued to be the single largest component contributing more than four-fifth of the total assets of FIs and witnessed growth of 16.6 per cent during 2010-11 (Table VI.3).

Resources Mobilised by FIs

6.10 Resources mobilised by FIs during 2010-11 were considerably higher than the previous year. All the components, the long-term, short-term and foreign currency resources raised witnessed a sharp rise during 2010-11 as compared with the previous year. Among the four FIs, NHB mobilised the largest amount of resources, followed by NABARD, EXIM Bank and SIDBI (Table VI.4).

6.11 FIs raise resources from the money market through various instruments such as Commercial Paper (CP), Certificates of Deposit (CDs), and term deposits. During 2010-11, there was a significant increase in the resources raised by FIs through CP (Table VI.5). As a result, CP emerged as the single most important channel accounting for more than 70 per cent of the total resources mobilised by FIs from the money market in 2010-11. FIs are mandated to raise resources from the money market within the sanctioned umbrella limit. Though, gross resources raised by SIDBI from money market during 2010-11 were ₹ 8,137 crore, at no point of time during the year amount outstanding under the above instruments exceeded the umbrella limit. As CP is a short-term money market instrument, FIs kept resorting frequently to this instrument during the year taking the cumulative amount raised through CP to a higher level.

Sources and Uses of Funds

6.12 Total sources/deployment of funds by FIs declined modestly during 2010-11. The major part of the funds of FIs was raised internally followed by external sources. 'Other sources' formed only a small part of the funds of FIs. While the funds raised from internal sources rose, external sources witnessed decline mainly

Table VI.2: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in ₹ crore)

Category	Amount				Percentage Variation	
	2009-10		2010-11		2010-11	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term- lending Institutions*	42,552	37,987	55,432	47,224	30.3	24.3
(ii) Specialised Financial Institutions#	590	320	882	509	49.5	59.1
(iii) Investment Institutions @	63,637	53,762	45,155	40,231	-29.0	-25.2
Total Assistance by FIs (i+ii+iii)	**106,779**	**92,069**	**101,469**	**87,964**	**-5.0**	**-4.5**

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).
Note: All data are provisional.
Source: Respective Financial Institution.

Table VI.3 Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in ₹ crore)

Item	2010	2011	Percentage Variation
1	2	3	4
Liabilities			
1. Capital	4,600 (1.8)	4,900 (1.7)	6.5
2. Reserves	39,556 (15.9)	42,612 (14.7)	7.7
3. Bonds & Debentures	71,011 (28.5)	90,097 (31.0)	26.9
4. Deposits	79,472 (31.9)	92,782 (31.9)	16.7
5. Borrowings	35,307 (14.2)	42,681 (14.7)	20.9
6. Other Liabilities	19,037 (7.6)	17,544 (6.0)	-7.8
Total Liabilities/Assets	**2,48,983**	**2,90,616**	**16.7**
Assets			
1. Cash & Bank Balances	3,694 (1.5)	5,814 (2.0)	57.4
2. Investments	8,676 (3.5)	11,802 (4.1)	36.0
3. Loans & Advances	2,14,671 (86.2)	2,50,238 (86.1)	16.6
4. Bills Discounted/ Rediscounted	2,668 (1.1)	3,542 (1.2)	32.8
5. Fixed Assets	553 (0.2)	537 (0.2)	-2.7
6. Other Assets	18,722 (7.5)	18,682 (6.4)	-0.2

Notes: i. Data pertains to four FIs, *viz.*, EXIM Bank, NABARD, NHB and SIDBI.
ii. Figures in parentheses are percentages to total Liabilities/ Assets.
Source: Balance Sheets of respective FIs. (ii) Unaudited Off-site returns for NHB as on June 30, 2011.

due to uncertainty in the global financial markets during 2010-11. A large part of the funds raised were used for fresh deployments, followed by repayment of past borrowings.

Table VI.5: Resources Raised by Financial Institutions from Money Market
(As at end-March 2011)

(Amount in ₹ crore)

Instrument	NABARD	SIDBI@	NHB	EXIM	Total
1	2	3	4	5	6
A. Total	**7,103**	**8,137**	**2,621**	**1,538**	**19,398**
i) Term Deposits	48	2,179	249	71	2,548
ii) Term Money	110	-	-	-	110
iii) Inter-corporate Deposits	-	-	-	-	-
iv) Certificate of Deposits	137	-	-	4	141
v) Commercial Paper	6,448	5,958	0.0	1,462	13,867
vi) Short term loans from banks	360	-	2,372	-	2,732
B. Umbrella Limit	**12,675**	**5,610**	**3,277**	**4,408**	
C. Utilisation of Umbrella limit (A as percentage of B)	**56.0**	**145.1**	**7.6**	**60.1**	

- : Nil/Negligible.
Source: Fortnightly return of resources mobilised by financial institutions.

Interest payments formed only a small part of the utilisation of funds by FIs. Other deployments recorded a sharp increase, while repayment of past borrowings registered a decline over the year (Table VI.6).

Maturity and Cost of Borrowings and Lending

6.13 The weighted average cost of Rupee resources raised went up across the board (Table VI.7). The weighted average maturity of Rupee resources raised by financial institutions, barring NHB has also gone up over the year.

Table VI.4: Resources Mobilised by Financial Institutions

(Amount in ₹ crore)

Institution	Total Resources Raised								Total Outstanding (As at end-March)	
	Long-Term		Short-Term		Foreign Currency		Total			
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	8,150	11,132	5,052	1,538	5,193	11,083	18,395	23,752	40,509	47,192
NABARD	16	9,741	12,330	18,532	-	-	12,346	28,273	24,922	33,891
NHB	7,518	7,538	10,306	29,458	-	-	17,824	36,996	10,598	10,918
SIDBI	13,253	9,977	11,500	2,285	987	1,226	25,740	13,489	30,186	34,090
Total	**28,937**	**38,388**	**39,188**	**51,813**	**6,180**	**12,309**	**74,305**	**1,02,510**	**1,06,215**	**1,26,091**

-: Nil/Negligible.
Note: Long-term rupee resources comprise of borrowings by way of bonds/debentures; and short-term resources comprise of CP, term deposits, ICDs, CDs and borrowing from the term money. Foreign currency resources comprise of largely bonds and borrowings in the international market.
Source:Respective FIs.

NHB raised its Prime Lending Rate during the year, while EXIM Bank and SIDBI kept it unchanged (Table VI.8).

Financial Performance of FIs

6.14 The financial performance of the FIs deteriorated during 2010-11 due to decrease in operating profit and net profit. There was a sharp rise in operating expenses during the year mainly on account of wage revision. However, the interest income of FIs increased by 15.4 per cent (Table VI.9). Among the four FIs, return on assets (ROA) is highest in case of EXIM Bank followed by NHB and SIDBI (Table VI.10).

Soundness Indicators: Asset Quality

6.15 At the aggregate level, there was an increase in the amount of net NPAs for FIs in 2010-11 as compared to the previous year. The increase in net NPAs, however, was attributable mainly to SIDBI, whereas, in case of NABARD it was declined marginally. If the four FIs were ranked in ascending order of the amount of their net NPAs, SIDBI appeared at the top having the largest quantum of net NPAs, while NHB was at the bottom with no NPAs. Moreover, the NPA ratio (NPAs as per cent of net loans) was the highest for SIDBI followed by EXIM Bank (Table VI.11 and Chart VI.1).

Table VI.6: Pattern of Sources and Deployment of Funds of Financial Institutions
(As at end-March)

(Amount in ₹ crore)

Item	2010	2011	Percentage Variation
1	2	3	4
A. Sources of Funds (i+ii+iii)	**3,02,610 (100)**	**2,97,784 (100)**	**-1.6**
(i) Internal	1,56,733 (51.8)	1,63,197 (54.8)	4.1
(ii) External	1,26,813 (41.9)	1,19,072 (40.0)	-6.1
(iii) Others@	19,065 (6.3)	15,515 (5.2)	-18.6
B. Deployment of Funds (i+ii+iii)	**3,02,610 (100)**	**2,97,784 (100)**	**-1.6**
(i) Fresh Deployment	1,71,922 (56.8)	1,74,674 (58.7)	1.6
(ii) Repayment of past borrowings	1,15,015 (38.0)	83,971 (28.2)	-27.0
(iii) Other Deployment	15,673 (5.2)	39,139 (13.1)	149.7
Of which Interest Payments	16,561 (5.5)	14,227 (4.8)	-14.1

Note: EXIM Bank, NABARD, NHB and SIDBI.
@: Includes cash and balances with banks, balances with the Reserve Bank and other banks.
Figures in parentheses are percentages to the 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)	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
EXIM Bank	7.1	8.4	1.9	2.9
SIDBI	6.0	7.0	2.4	2.5
NABARD	4.4	7.1	0.3	1.1
NHB	6.2	7.2	4.7	2.5

Note: Data are provisional.
Source: Respective FIs.

6.16 There was a substantial increase in the Sub-standard assets of EXIM Bank. However, Doubtful and Loss assets had decreased during the year. In case of NABARD, Sub-standard assets have come to zero level, but doubtful assets have increased. In case of SIDBI, Sub-standard and Doubtful assets had increased substantially during the year. During 2010-11, sub-standard assets of all the four FIs taken together have increased sharply (Table VI.12).

Capital Adequacy

6.17 During 2010-11, the capital adequacy as measured by CRAR has increased for NHB and SIDBI, whereas, EXIM Bank and NABARD showed decline. It may be noted that, the CRAR was way above stipulated minimum norm of 9 per cent for each of the FIs (Table VI.13).

Table VI.8 Long-term PLR Structure of Select Financial Institutions

(Per cent)

Effective	NHB	EXIM Bank	SIDBI
1	2	3	4
March 2010	10.25	14.00	11.00
March 2011	10.50	14.00	11.00

Source: Respective FIs.

Table VI.9: Financial Performance of Select All India Financial Institutions

(Amount in ₹ crore)

	2009-10	2010-11	Variation	
	Total	Total	Amount	Percentage
1	2	3	4	5
A) Income	**15,624**	**17,965**	**2,340**	**15.0**
a) Interest Income	15,147	17,485	2,338	15.4
	(96.9)	(97.3)		
b) Non Interest Income	478	480	2.4	0.5
	(3.1)	(2.7)		
B) Expenditure	**10,492**	**13,337**	**2,846**	**27.1**
a) Interest Expenditure	9,611	11,862	2,251	23.4
	(91.6)	(88.9)		
b) Operating Expenses	880	1,475	595	67.6
	(8.4)	(11.1)		
of which Wage Bill	468	1,095	627	134.1
C) Provisions for Taxation	**1,559**	**1,255**	**-304**	**-19.5**
D) Profit				
Operating Profit (PBT)	4,332	3,808	-524	-12.1
Net Profit (PAT)	2,773	2,554	-219	-7.9
E) Financial Ratios @				
Operating Profit	1.9	1.4		
Net Profit	1.2	0.9		
Income	6.7	6.7		
Interest Income	6.5	6.5		
Other Income	0.2	0.2		
Expenditure	4.5	4.9		
Interest Expenditure	4.1	4.4		
Other Operating Expenses	0.4	0.5		
Wage Bill	0.2	0.4		
Provisions	0.7	0.5		
Spread (Net Interest Income)	2.4	2.1		

@: As percentage of total average assets.
Note: 1. Figures in parentheses are percentage shares to total Income/ Expenditure.
Source: i) Annual Accounts of respective FIs.
ii) Audited/Unaudited OSMOS Returns of EXIM Bank, NABARD & SIDBI as at March 31, 2011.
iii) Unaudited OSMOS returns of NHB as at June 30, 2011.

Particularly higher CRAR for SIDBI indicates the scope for utilisation of capital for further credit expansion.

Table VI.11 Net Non-Performing Assets of Financial Institutions
(As at end-March)

(Amount in ₹ crore)

Institution	Net NPAs	
	2010	2011
1	2	3
EXIM Bank	78	93
NABARD	33	30
NHB*	-	-
SIDBI	69	132
All FIs	180	255

- : Nil/Negligible.
*: Position as at end-June as per OSMOS returns.
Source: Audited OSMOS Returns of EXIM Bank, NABARD & SIDBI as at March 31, 2011 and Unaudited OSMOS Returns of NHB as at June 30, 2011.

3. Non-Banking Financial Companies

6.18 NBFCs are classified on the basis of the kind of liabilities they access, the type of activities they pursue, and of their perceived systemic importance. On the basis of liabilities, there are two categories, (i) Category 'A' companies (NBFCs holding and accepting public deposits or NBFCs-D), and (ii) Category 'B' companies (NBFCs not having 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. NBFCs-ND are subject to minimal regulation as they were non-deposit taking bodies and considered as posing little threat to financial stability. However, recognising the growing importance of this segment and its inter-linkages with banks and

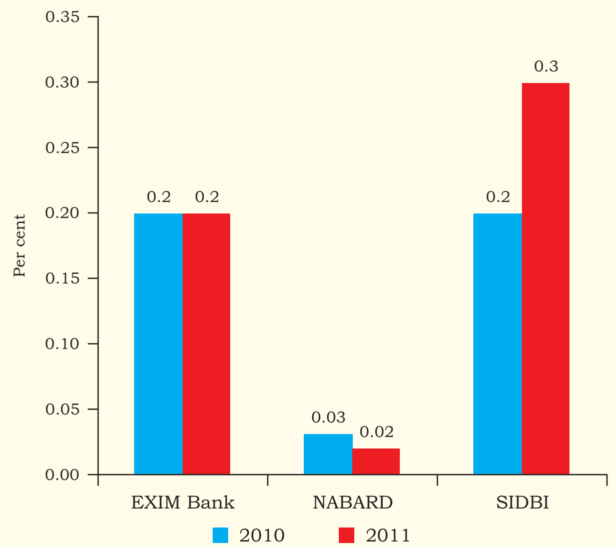
Table VI.10: Select Financial Parameters of Financial Institutions
(As at end-March)

(Per cent)

Institution	Interest Income/Average Working Funds		Non-Interest Income/Average Working Funds		Operating Profit/Average Working Funds		Return on Average Assets		Net Profit per Employee (₹ Crore)	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	6.28	6.54	0.29	0.46	1.75	2.21	1.13	1.15	2.21	2.39
NABARD	6.19	6.22	0.10	0.10	1.80	1.25	1.23	0.88	0.33	0.27
NHB *	7.27	7.74	0.17	0.04	2.14	1.72	1.35	1.11	3.15	3.21
SIDBI	8.42	8.11	0.62	0.35	4.32	3.00	1.15	1.09	0.41	0.50

*: Position as at end-June 2011.
Source: Statements furnished by the FIs.

Chart VI.1: Net Non-Performing Assets/Net Loans (As at end-March)



Note: NHB has no NPAs

other financial institutions (Box VI.1), capital adequacy, exposure norms, ALM discipline and reporting requirement have been made applicable to NBFCs-ND that are large and systemically important since April 1, 2007; such entities are referred to as NBFCs-ND-Systemically Important.

6.19 On activity-based classification, NBFCs are classified into five categories: (i) Loan Companies (LCs), (ii) Investment Companies (ICs), (iii) Asset Finance Companies (AFCs), (iv) Infrastructure Finance Companies (IFCs), and (v) Systemically Important Core Investment Companies (CICs-ND-SI). A new category of CIC-ND-SI was created in August 2010 for those companies with an asset size of ₹100 crore and above that was only in the business of investment for the sole purpose of holding stakes in group concerns, but not trading in these securities and accepting public funds. A regulatory framework in the form of adjusted Net Worth and leverage limits was put in place for CIC-ND-SIs and they were given exemption from NOF, capital adequacy and exposure norms.

Table VI.13: Capital to Risk (Weighted) Assets Ratio of Select Financial Institutions
(As at end-March)

(Per cent)

Institution	2010	2011
1	2	3
EXIM Bank	18.5	17.2
NABARD	24.9	21.8
NHB *	19.6	20.5
SIDBI	30.2	31.6

*: Position as at end-June as per OSMOS returns.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI as at March 31, 2011 and Unaudited OSMOS Returns of NHB as at June 30, 2011.

6.20 The ownership pattern of NBFCs-ND-SI as well as deposit taking NBFCs suggests that these companies were predominantly non-government companies (Public Limited Companies in nature). The percentage of non-government companies were 97.2 per cent and 97.0 per cent, respectively, in NBFCs-ND-SI and deposit taking NBFCs as against government companies having a share of 2.8 per cent and 3.0 per cent, respectively at end-March 2011 (Table VI.14).

Profile of NBFCs (including RNBCs)

6.21 The total number of NBFCs registered with the Reserve Bank declined marginally to 12,409

Table VI.12: Asset Classification of Financial Institutions

(Amount in ₹ crore)

Institution	Standard		Sub-Standard		Doubtful		Loss	
	2010	2011	2010	2011	2010	2011	2010	2011
1	2	3	4	5	6	7	8	9
EXIM Bank	38,958	45,563	62	197	301	246	50	36
NABARD	1,20,487	1,39,459	7	-	44	68	-	1
NHB *	19,837	22,582	-	-	-	-	-	-
SIDBI	37,892	45,922	75	143	2	136	-	-
All FIs	**2,17,173**	**2,53,525**	**144**	**339**	**347**	**450**	**50**	**37**

- : Nil/Negligible. *: Position as at end-June 2011 as per OSMOS returns.
Source: Audited OSMOS Returns of EXIM Bank, NABARD and SIDBI for March 31, 2011 and Unaudited OSMOS Returns of NHB at June 30, 2011.

Box VI.1: Inter-connectedness of NBFCs and Banks in India

Over a period, both banks and non-bank financial companies have become key elements of India's financial system. In the wake of recent global financial crisis (2007-09), the role of non-bank financial intermediaries had been highlighted for the nexus between the banking system and the NBFIs. NBFIs, in general, were known for taking higher risks than the banking system. Traditionally, the debate regarding the banks expansion into non-banking financial areas veered around certain activities, *viz.,* insurance, investment banking *etc.* However, the recent global crisis has extended the debate to the inter-connectedness of the banking system with the NBFIs as excessive inter-institutional exposure tends to make the financial system vulnerable.

Banks' Exposure to Deposit taking NBFCs

For the deposit taking NBFCs, it is pertinent to note that, the proportion of public deposits outstanding to their total liabilities has decreased to just around 3.5 per cent at the end-March 2011 from 20.9 per cent as at the end-March 2001. With tightening of the prudential regulatory norms in respect of deposit taking companies, the public deposit is increasingly being substituted with their reliance mainly on borrowings. A closer analysis of the sources of funds revealed that their total borrowings as at the end of March 2011 constituted as much as 66.2 per cent of their total liabilities (which increased from 31.8 per cent as at the end of March 2001). Understandably, (nearly half of the total borrowings) are from banks and financial institutions, which demonstrates the close financial inter-connectedness within the financial system, as well as underscores higher systemic risks of the financial system.

Banking system seems to be the major source of funding for NBFCs, both directly and indirectly. Till recently, banks had the incentive of lending directly to NBFCs as such loans were permitted to be classified as 'priority sector' lending by the banks. Indirectly, banks fund NBFCs by subscribing to the debentures and the CP issued by them.

The higher borrowings of NBFCs, especially, from the banking system raise some concerns about their liquidity position. These concerns will be further accentuated incase the banks' own liquidity position becomes tight at the time of crisis or even at crisis like situation.

Non-Deposit taking Systemically Important NBFCs (NBFCs-ND-SI)

Among the NBFCs-ND, the large NBFCs with ₹100 crore and above assets size classified as systemically important (NBFC-ND-SI) are also found to depend on banking system for their resources. As these NBFCs are not deposits taking, they are regulated with somewhat less rigour compared with NBFCs-D. In the post global financial crisis, the regulators' attention world over has received increased attention towards the systemically important financial institutions (SIFIs). Accordingly, even in India the extant prudential regulation of NBFCs-ND-SI is in the process of convergence with that of the NBFCs-D.

In any case, it needs to be underlined that, high dependency of NBFCs on the banking system for their resources, not only will strain banks at the time of crisis but also place NBFCs themselves into vulnerable situation as banks can become over sensitive to a liquidity crisis or imminent crisis and they can either become too reluctant to lend to NBFCs or at the extreme case, they may completely refrain from lending to NBFCs which would further aggravate the precarious condition. The recent global crisis is a pointer in this direction.

Since the regulatory and cost-incentive structures are not identical for banks and NBFCs and that NBFCs borrow funds from banks to on-lend, it is necessary to establish adequate checks and balances to ensure that the banks' depositors are not indirectly exposed to the risks of a different cost-incentive structure.

NBFCs also do not have a ceiling on their capital market related activities unlike the banking system. Moreover compared with regulation of banking sector, NBFCs in general, are less stringently regulated, though there has been substantial progress over the period towards bringing the regulatory norms relating to NBFCs on par with the banking system.

In view of the above, NBFCs' increased swapping public deposits with borrowings from the banking system seems to be a concern from the point of view of systemic inter-connectedness.

as at end-June 2011 (Chart VI.2). A similar trend was also observed in case of deposit taking NBFCs (NBFCs-D) during 2010-11 mainly due to cancellation of Certificates of Registration, exit of NBFCs from deposit taking activities resulting in conversion of NBFCs from deposit taking into non-deposit taking companies.

6.22 Despite the decline in the number of NBFCs, their total assets as well as net owned funds registered an increase during 2010-11, while public deposits recorded a decline. The share of Residuary Non-Banking Companies (RNBCs) in total assets of NBFCs showed a declining trend. The same trend also witnessed

Table VI.14: Ownership Pattern of NBFCs

(As on March 31, 2011)

(Number of Companies)

Ownership	NBFCs ND-SI	Deposit taking NBFCs
1	2	3
A. Government Companies	**9**	**9**
	(2.8)	(3.0)
B. Non-Government Companies	**310**	**288**
	(97.2)	(97.0)
1. Public Ltd Companies	181	279
	(56.7)	(93.9)
2. Private Ltd Companies	129	9
	(40.4)	(3.0)
Total No. of Companies (A)+(B)	**319**	**297**

Note: Figure in parentheses are percentage share in total number of NBFCs.

in terms of net owned funds of RNBCs during 2010-11 (Table VI.15).

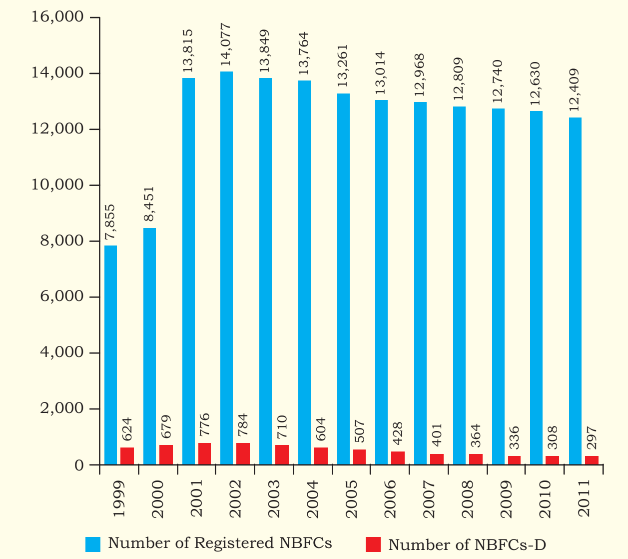
6.23 The ratio of public deposits of NBFCs to aggregate deposits of Scheduled Commercial Banks (SCBs) in 2010-11 indicated a decline. The ratio of deposits of NBFCs to the broad liquidity aggregate of L3 also declined during the year (Chart VI.3).

Operations of NBFCs-D (excluding RNBCs)

6.24 The balance sheet size of NBFCs-D expanded at the rate of 11.9 per cent in 2010-11 as compared with 22.2 per cent in the previous year, mainly due to conversion of two major NBFCs-D into NBFCs-ND (Table VI.16). It may be mentioned that borrowings constituted around two-third of the total liabilities of NBFCs-D. The public deposits of NBFCs-D, which are subject to credit reating (Box VI.2), continued to show an increasing trend during 2010-11. 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 second-most important category which witnessed a subdued growth during 2010-11 mainly due to decline in non-SLR investments.

6.25 Asset Finance Companies (AFCs) held the largest share in the total assets of NBFCs-D at end-March 2011 (Table VI.17).

Chart VI.2: Number of NBFCs Registered with the Reserve Bank of India



Size-wise Classification of Deposits of NBFCs-D

6.26 A sharp increase was discernible in the share of NBFCs-D located at the upper-end having deposit size of ₹50 crore and above accounting for about 90.6 per cent of total deposits at end-March 2011. However, there were only 8 NBFCs-D belonging to this category constituting about 3.7 per cent of the total

Table VI.15: Profile of NBFCs

(Amount in ₹ crore)

Item	As at end-March			
	2009-10		2010-11P	
	NBFCs	*of which: RNBCs*	NBFCs	*of which: RNBCs*
1	2	3	4	5
Total Assets	1,12,131	17,919	1,16,897	11,466
		(16.0)		(9.8)
Public Deposits	17,352	14,521	11,964	7,902
		(83.7)		(66.0)
Net Owned Funds	16,424	2,921	17,975	2,988
		(17.8)		(16.6)

P: Provisional

Note: 1) NBFCs comprise NBFCs-D and RNBCs.

2) Figures in parentheses are percentage shares in respective total.

3) Of the 297 deposit taking NBFCs, 217 NBFCs filed Annual Returns for the year ended March 2011 by the cut-off date September 8, 2011.

Source: Annual Returns.

Box VI.2: Credit Rating of NBFCs – Practices and Prospects

Non-Banking Finance Companies (NBFCs) being heterogeneous in their operations, they are broadly grouped under four heads (i) asset finance companies, (ii) loan companies, (iii) investment companies, and (iv) infrastructure finance companies for regulatory compliance by the Reserve Bank. Credit rating for deposit taking NBFCs was recommended by 'Working Group on Financial Companies (Chairman: A. C. Shah) in 1992. However, it was in January 1998 that the new regulatory framework for NBFCs by the Reserve Bank made it mandatory for NBFCs to get rated in order to protect the interest of the retail depositors.

The credit ratings assigned are a symbolic representation of current opinion on the relative credit risk associated with the instruments rated by credit rating agency(CRA). This opinion is arrived at after a detailed evaluation of the issuer's business and financial risks and on using such evaluation to project the level and stability of the future financial performance in various likely scenarios of the rated companies. Thus, conclusion derived from the analysis of the particular company based on the detailed information CRA received from within the company as well as from outside sources by the rating agency is reflected in a credit rating.

Rating Methodology

In rating an NBFC, the credit rating agency evaluates the company's business and financial risks, and uses this evaluation to project the level and stability of its future financial performance in various likely scenarios. The broad parameters for assessing the risks of NBFCs are based on **Business Risk:** (i) Operating Environment, (ii) Ownership Structure, (iii) Franchise and Size, (iv) Competitive position, (v) Management, Systems and Strategy, and (vi) Governance structure; **Financial Risk:** (i) Asset Quality, (ii) Liquidity, (iii) Profitability, and (iv) Capital Adequacy.

However, the relative importance of each of these parameters can vary across companies, depending on its potential to change the overall risk profile of the company concerned. Moreover, as many of these parameters are qualitative, the rating companies try to reduce the subjectivity by capturing and assessing information on defined sub-parameters and by comparison across various companies. One of the common practices among CRAs being that a careful evaluation of the risk management policies of the NBFC is done as it provides important guidance for assessing the impact of stress events on the liquidity, profitability, and capitalisation of the company concerned.

The CRA evaluates the quality of an NBFC's capital, apart from the level of capital. An NBFC's ability to meet regulatory capital adequacy requirement is also evaluated. A very high return on equity may not necessarily translate into a high credit rating, given that the underlying risk could be very high as well, and being so it could be more volatile or difficult to predict.

All ratings are kept under continuous monitoring throughout the period of validity.

Regulatory Requirements for Credit Rating of NBFCs

Effective January 31, 1998 the Reserve Bank made credit rating mandatory to all deposit taking NBFCs with NoF of ₹ 25 lakh and above. Presently, NBFCs-D with NoF of ₹ 2 crore and above have to necessarily get rated by one of the approved CRAs at least once a year. It is also mandated that they cannot raise public deposits without the 'minimum investment grade' and the copy of the rating should be submitted to the Reserve Bank. Moreover, any upgradation or downgrading of the rating also need to be informed to the regulator immediately.

Agency	*Minimum grade*
The Credit Rating Information Services of India Ltd (CRISIL)	FA- (FA minus)
ICRA Ltd	MA- (MA minus)
Credit Analysis and Research Ltd (CARE)	CARE BBB (FD)
FITCH Ratings India Pvt. Ltd	[tA- (ind) (FD)]

Prospects for Credit Ratings of NBFCs

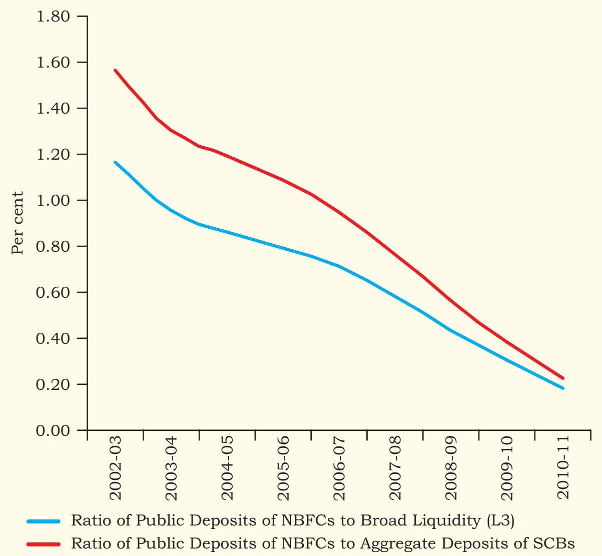
The quantum of deposit raised by an NBFC is linked to the ratings. NBFCs have been incentivized to get rated by credit rating agencies through linking of their CRAR to the ratings. Accordingly, as of now a rated NBFC is required to maintain only 12 per cent of CRAR while unrated NBFCs need to maintain 15 per cent. Incidentally, the non-deposit taking NBFCs, though the rating is not mandatory by the regulator, get their instruments rated by the CRAs.

In the wake of the sub-prime financial crisis, there is a growing concern among the regulators about the potential gap between expectation and realization, *i.e.*, between reliance on credit ratings and the reliability of such ratings. The concern emanates mainly from the fact that inaccurate credit ratings could disturb the market allocation incentives, cost structures and competition. With growing competition among credit rating agencies commercial aspirations appear to be too high. The most oft repeated complaint against CRAs are that they lack accountability as credit rating agencies do not have a legal duty of accuracy and are often protected from liability in case of inaccurate ratings. This requires the attention of regulators and the government.

References:

RBI (1992): Report of the *Working Group on Financial Companies* (Chairman: Shri A. C. Shah), Reserve Bank of India, Mumbai.

Chart VI.3: Ratio of Public Deposits of NBFCs to Broad Liquidity (L3) and Aggregate Deposits of SCBs



number of NBFCs-D. Thus, only relatively bigger NBFCs-D were able to raise resources through deposits (Table VI.18 and Chart VI.4).

Region-wise Composition of Deposits held by NBFCs

6.27 There was a concentration of NBFCs-D in the northern region of the country, which accounted for 66.4 per cent of companies in the total number of NBFCs-D at end-March 2011. However, the deposit size of NBFCs-D in the northern region was considerably smaller in comparison with the NBFCs-D located in the southern region, which accounted for 72.4 per cent of deposits at end-March 2011. There was also an increase in the share of deposits held by NBFCs-D in the southern region during 2010-11 (Table VI.19 and Chart VI.5).

6.28 Among the metropolitan cities, New Delhi from the Northern region accounted for the largest number of NBFCs-D, while Chennai from the Southern region held the largest share of 73.9 per cent in total deposits of NBFCs-D.

Table VI.16: Consolidated Balance Sheet of NBFCs-D

(Amount in ₹ crore)

Item	As at end-March		Variation 2009-10		Variation 2010-11 P	
	2010	2011 P	Absolute	Per Cent	Absolute	Per Cent
1	2	3	4	5	6	7
1. Paid Up Capital+	3,892	3,643	75	2.0	-250	-6.4
	(4.1)	(3.5)				
2. Reserves Surplus	12,181	13,506	2,769	29.4	1,325	10.9
	(12.9)	(12.8)				
3. Public Deposits	2,831	4,062	860	43.6	1,231	43.5
	(3.0)	(3.9)				
4. Borrowings	64,078	69,816	8181	14.6	5,738	9.0
	(68.0)	(66.2)				
5. Other Liabilities	11,229	14,404	5,198	86.2	3,175	28.3
	(11.9)	(13.7)				
Total Liabilities/Assets	**94,212**	**1,05,431**	**17,084**	**22.2**	**11,219**	**11.9**
	(100.0)	(100.0)				
1. Investments	18,498	21,102	2,812	17.9	2,604	14.1
(i) SLR Investments@	9,634	13,487	222	2.4	3,854	40.0
	(10.2)	(12.8)				
(ii) Non-SLR Investments	8,864	7,614	2,590	41.3	-1,250	-14.1
	(9.4)	(7.2)				
2. Loans and Advances	71,119	77,901	13,108	22.6	6,782	9.5
	(75.5)	(73.9)				
3. Bill Business	45	89	21	87.9	44	97.4
	(0.0)	(0.1)				
4. Other Assets	4,550	6,339	1,143	33.6	1,789	39.3
	(4.8)	(6.0)				

P: Provisional

@ SLR investments comprises 'approved Securities' and 'unencumbered term deposits' in Scheduled Commercial Banks; Loans & advances includes Hire Purchase and Lease Assets

+ The fall in paid-up capital is on account of conversion of two major deposit taking NBFCs into non-deposit taking NBFCs.

Note: Figures in parentheses are percentage shares in respective total.

Source: Annual Returns.

Table VI.17: Major Components of Liabilities of NBFCs-D by Category of NBFCs

(Amount in ₹ Crore)

Classification of NBFCs	No. of NBFCs		Deposits		Borrowings		Liabilities	
	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P
1	2	3	4	5	6	7	8	9
Asset Finance Companies	225	174	2,287	3,628	41,927	49,022	60,902	74,008
			(80.8)	(89.3)	(65.4)	(70.2)	(64.6)	(70.2)
Loan Companies	65	43	544	434	22,151	20,795	33,310	31,424
			(19.2)	(10.7)	(34.6)	(29.8)	(35.4)	(29.8)
Total	**290**	**217**	**2,831**	**4,062**	**64,078**	**69,816**	**94,212**	**1,05,431**

P: Provisional
Note: Figures in parentheses are percentage shares to total.
Source: Annual Returns.

Interest Rate on Public Deposits with NBFCs

6.29 The largest amount of public deposits of NBFCs-D were raised at interest rates in the range of up to 10 per cent with the share accounting for about three-fourth as at end-March 2011 (Table VI. 20 and Chart VI.6).

Maturity Profile of Public Deposits

6.30 The largest proportion of public deposits raised by NBFCs-D belonged to the short to medium-term end of the maturity spectrum. At end-March 2011, the largest percentage of deposits had a maturity of more than two years and up to three years followed by less than 1 year maturity. In 2010-11, there was an increase in the shares of deposits belonging to more than 2 years and up to 3 years maturity category, while the shares of deposits belonging to almost all maturity categories showed a decline (Table VI.21 and Chart VI.7).

6.31 Banks and financial institutions were the dominant source of borrowings for NBFCs-D with a share of about 50 per cent at end-March 2011. The share of borrowings from the Government (extended only to Government Loan Companies) witnessed an increase, while there was a negligible amount from the external sources. Others (which include, *inter alia*, money borrowed from other companies, commercial paper, borrowings from mutual funds and any other type of funds, which were not treated as

Chart VI.4: Share of Public Deposits held by NBFCs-D by Deposits Ranges

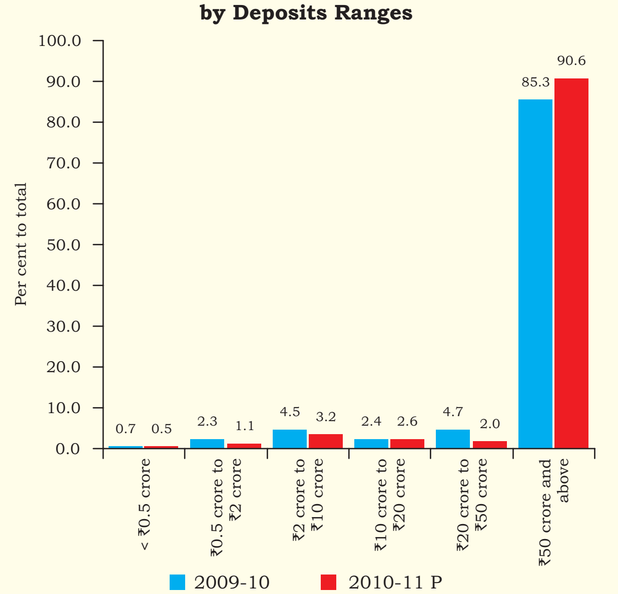


Table VI.18: Public Deposits held by NBFCs-D by Deposit Ranges

(Amount in ₹ crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of deposit	
	2009-10	2010-11P	2009-10	2010-11P
1	2	3	4	5
1. Less than Rs. 0.5 crore	184	134	21	19
2. More than Rs. 0.5 crore and up to Rs. 2 crore	60	38	64	44
3. More than Rs.2 crore and up to Rs.10 crore	27	28	128	129
4. More than Rs.10 crore and up to Rs.20 crore	5	7	69	108
5. More than Rs.20 crore and up to Rs.50 crore	4	2	133	81
6. Rs.50 crore and above	10	8	2,416	3,681
Total	**290**	**217**	**2,831**	**4,062**

P: Provisional
Source: Annual Returns.

Table VI.19: Public Deposits held by NBFCs-D - Region-wise

(Amount in ₹ crore)

Region	As at end-March			
	2010		2011 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
North	189	335	144	188
East	9	9	8	4
West	27	612	20	929
South	65	1,876	45	2,942
Total	290	2,831	217	4,062
Metropolitan cities:				
Kolkata	6	9	5	4
Chennai	37	1,812	26	2,864
Mumbai	11	592	6	907
New Delhi	55	207	50	98
Total	109	2,619	87	3,873

P: Provisional
Source: Annual Returns.

public deposits) registered a significant growth in 2010-11 resulting in a rise in its share in total borrowings of NBFCs-D (Table VI.22).

Assets of NBFCs

6.32 The total assets of deposit-taking NBFCs-D sector registered a moderate growth during 2010-11 mainly on account of increase in the assets of asset finance companies (Table VI.23).

Table VI.20: Public Deposits held by NBFCs-D- Deposit Interest Rate Range-wise

(Amount in ₹ Crore)

Deposit Interest Rate Range	As at end-March	
	2010	2011 P
1	2	3
Up to 10 per cent	1,516	2,996
	(53.6)	(73.8)
More than 10 per cent and up to 12 per cent	1,222	945
	(43.2)	(23.3)
12 per cent and above	93	121
	(3.3)	(3.0)
Total	**2,831**	**4,062**

P: Provisional
Note: The rate of interest on public deposits cannot however exceed 12.5 per cent.
Figures in parentheses are percentage shares to total.
Source: Annual Returns.

As at end-March 2011, more than two-thirds of the total assets of the NBFCs-D sector were held by asset finance companies. Component-wise, advances accounted for predominant share of total assets followed by investment.

Distribution of NBFCs-D According to Asset Size

6.33 Based on their deposit taking capacity, only bigger NBFCs-D had larger asset base. At end-March 2011, only 7 per cent of NBFCs-D had an asset size of more than ₹ 500 crore, which

Chart VI.5: Share of Public Deposits held by NBFCs-D: Region-wise

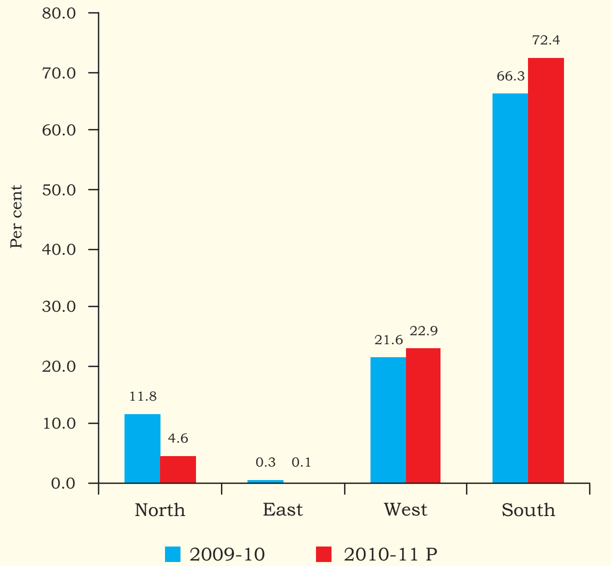


Chart VI.6: Public Deposits held by NBFCs-D - Deposit Interest Rate Range-wise

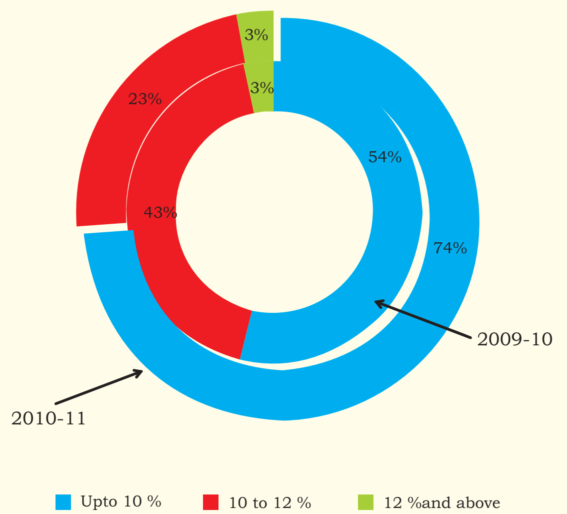


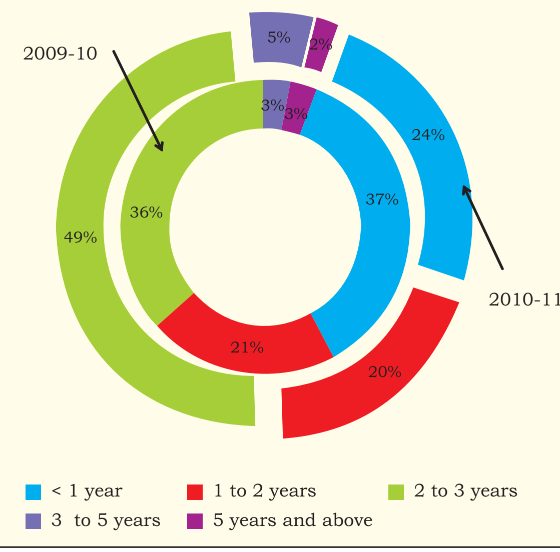
Table VI.21: Maturity Pattern of Public Deposits held by NBFCs-D

(Amount in ₹ Crore)

Maturity Period	As at end-March	
	2010	2011 P
1	2	3
1. Less than 1 year	1,034	982
	(36.5)	(24.2)
2. More than 1 and up to 2 years	595	794
	(21.0)	(19.6)
3. More than 2 and up to 3 years	1,031	1,988
	(36.4)	(48.9)
4. More than 3 and up to 5 years	81	222
	(2.9)	(5.5)
5. 5 years and above@	90	77
	(3.2)	(1.9)
Total	**2,831**	**4,062**

P: Provisional
Note: Figures in parentheses are percentages to respective total.
@ Includes unclaimed public deposits of Rs.33 crore as on Mar 31, 2011 (Rs.58 crore in the previous year).
Source: Annual Returns.

Chart VI.7: Maturity Pattern of Public Deposits held by NBFCs-D



had a share of 97.5 per cent in total assets of all NBFCs-D (Table VI.24).

Distribution of Assets of NBFCs – Type of Activity

6.34 During 2010-11, assets held in the form of loans and inter corporate deposits and investments of NBFCs-D witnessed a significant growth. These two categories of activities constituted 93.9 per cent share in total assets of the NBFCs-D sector (Table VI.25).

Financial Performance of NBFCs-D

6.35 The financial performance of NBFCs-D witnessed improvement as reflected in the increase in their operating profits during 2010-11. This increase in profit was mainly on account of growth in income (fund based) while expenditure declined marginally. The operating profit along with an increase in tax provision resulted in almost doubling of net profit during 2010-11 (Table VI.26).

6.36 Expenditure as a percentage to average total assets witnessed a marginal decline during 2010-11, while income as a percentage to average total assets more or less remain same resulting in an increase in net profit to total average assets (Return on Assets) ratio of NBFCs-D (Chart VI.8).

Table VI.22: Sources of Borrowings by NBFCs-D by Classification of NBFCs

(Amount in ₹ crore)

Classification	Government		External Sources @		Banks and Financial Institutions		Debentures		Others		Total Borrowings	
	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P	2009-10	2010-11 P
1	2	3	4	5	6	7	8	9	10	11	12	13
Asset Finance	0	0	757	3	24,159	28,329	12,030	12,285	4,980	8,405	41,927	49,022
	(0.0)	(0.0)	(100.0)	(100.0)	(75.8)	(80.2)	(80.3)	(85.7)	(42.3)	(59.0)	(65.4)	(70.2)
Loan Companies	4,710	5,908	0	0	7,693	6,991	2,943	2,045	6,805	5,850	22,151	20,795
	(100.0)	(100.0)	(0.0)	(0.0)	(24.2)	(19.8)	(19.7)	(14.3)	(57.7)	(41.0)	(34.6)	(29.8)
Total	**4,710**	**5,908**	**757**	**3**	**31,853**	**35,320**	**14,973**	**14,330**	**11,785**	**14,256**	**64,078**	**69,816**

P: Provisional; @ : Comprises (i) Foreign Government, (ii) Foreign Authority, and (iii) Foreign Citizen or Person.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

Table VI.23 : Major Components of Assets of NBFCs-D by Classification of NBFCs

(Amount in ₹ crore)

Classification	As at end-March					
	Assets		Advances		Investment	
	2010	2011 P	2010	2011 P	2010	2011 P
1	2	3	4	5	6	7
Asset Finance Companies	60,902	74,008	46,651	55,724	10,688	12,630
	(64.6)	(70.2)	(65.6)	(71.5)	(57.8)	(59.9)
Loan Companies	33,310	31,424	24,468	22,178	7,810	8,472
	(35.4)	(29.8)	(34.4)	(28.5)	(42.2)	(40.1)
Total	**94,212**	**1,05,431**	**71,119**	**77,901**	**18,498**	**21,102**

P: Provisional

Figures in parentheses are percentages to respective totals.

Source: Annual Returns.

Soundness Indicators: Asset Quality of NBFCs-D

6.37 There was a significant decline in the gross NPAs to credit exposure ratio of NBFCs-D in 2010-11 in line with the trend observed in recent years. Net NPAs remained negative with provisions exceeding NPAs for last four consecutive years up to end-March 2011 (Table VI.27).

6.38 There was an improvement in the asset quality of asset finance and loan companies in 2009-10 as evident from a decline in the gross NPAs to gross advances ratio for these companies (Table VI.28).

6.39 There was a decline in the shares of all three NPA categories of sub-standard, doubtful and loss assets of all companies in 2010-11 underlining the improvement in asset quality of these institutions. In case of loan companies, there was an improvement in share of standard assets at end-March 2011 to 98.7 per cent (Table VI.29).

Capital Adequacy Ratio

6.40 At end-March 2011, 199 out of 204 NBFCs had CRAR of more than 15 per cent or more (Table VI.30). This indicates that the NBFC sector is witnessing a consolidation process in the last few years, wherein the weaker NBFCs are gradually exiting and paving the way for

Table VI.24: Assets of NBFCs-D by Asset-Size Ranges

(Amount in ₹ crore)

	No. of Companies		Assets	
	2010	2011P	2010	2011P
1	2	3	4	5
1. Less than 0.25 Crore	3	2	0	0
2. More than 0.25 Crore and upto 0.50 Crore	20	9	8	3
3. More than 0.50 Crore and upto 2 Crore	105	70	125	80
4. More than 2 Crore and upto 10 Crore	91	73	416	347
5. More than 10 Crore and upto 50 Crore	37	34	831	822
6. More than 50 Crore and upto 100 Crore	10	8	702	508
7. More than 100 Crore and upto 500 Crore	7	6	1,377	831
8. Above 500 Crore	17	15	90,753	1,02,839
Total	**290**	**217**	**94,212**	**1,05,431**

P: Provisional.

Source: Annual Returns.

Table VI.25: Distribution of Assets of NBFCs-D by Activity

(Amount in ₹ crore)

Activity	As at end-March		Percentage Growth
	2010	2011 P	2011 P
1	2	3	4
Loans and Inter-corporate deposits	71,119	77,901	9.5
	(75.5)	(73.9)	
Investments	18,498	21,102	14.1
	(19.6)	(20.0)	
Bills	45	89	97.4
	(0.1)	(0.1)	
Other assets	4,550	6,339	39.3
	(4.8)	(6.0)	
Total	**94,212**	**1,05,431**	11.9

P: Provisional.

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

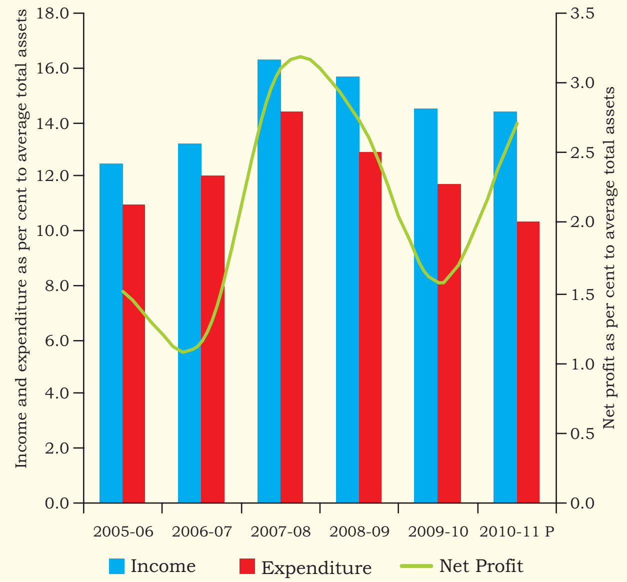
Table VI.26: Financial Performance of NBFCs-D

(Amount in ₹ crore)

Item	As at end-March 2010	2011 P
1	2	3
A. Income (i+ii)	**13,615**	**15,196**
(i) Fund Based	13,388	15,069
	(98.3)	(99.2)
(ii) Fee-Based	227	127
	(1.7)	(0.8)
B. Expenditure (i+ii+iii)	**11,038**	**10,934**
(i) Financial	6,546	6,816
	(59.3)	(62.3)
of which Interest Payment	730	902
	(6.6)	(8.2)
(ii) Operating	2,666	2,968
	(24.2)	(27.1)
(iii) Others	1,825	1,150
	(16.5)	(10.5)
C. TAX Provisions	**1,096**	**1,402**
D. Operating Profit (PBT)	**2,577**	**4,263**
E. Net Profit (PAT)	**1,482**	**2,861**
F. Total Assets	**94,212**	**1,05,431**
G. Financial Ratios (as % to Total Assets)		
i) Income	14.5	14.4
ii) Fund Income	14.2	14.3
iii) Fee Income	0.0	0.0
iv) Expenditure	11.7	10.4
v) Financial Expenditure	0.1	0.1
vi) Operating Expenditure	2.8	2.8
vii) Tax Provision	1.2	1.3
viii) Net Profit	1.6	2.7
H. Cost to Income Ratio	**81.1**	**72.0**

P: Provisional.
Note : Figures in parentheses are percentage shares to total.
Source: Annual Returns.

Chart VI.8: Financial Performance of NBFCs-D



stronger ones. The ratio of public deposits to Net Owned Funds (NOF) of NBFCs taken together has increased marginally to 0.3 per cent at end-March 2011 (Table VI.31). There was an increase in NOF and public deposits of NBFCs-D during 2010-11. This increase was mainly concentrated in the NOF size category of ₹ 500 crore and above (Table VI.32).

Residuary Non-Banking Companies (RNBCs)

6.41 Assets of the RNBCs declined by 36 per cent during the year ended March 2011. The assets mainly consist of investments in unencumbered approved securities, bonds/ debentures and fixed deposits/certificates of

Table VI.27: NPA Ratios of NBFCs-D

(per cent)

End-March	Gross NPAs to Credit Exposure	Net NPAs to Credit Exposure
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	#
2011P	0.7	#

#: Provision exceeds NPA.
Source: Half-Yearly return on NBFCs-D.

Table VI.28: NPAs of NBFCs-D by Category of NBFCs

(Amount in ₹ Crore)

Classification/ End-March	Gross Advances	Gross NPAs Amount	Gross NPAs % to Gross Advances	Net Advances
1	2	3	4	5
Asset Finance				
2009-10	45,449	350	0.77	44,480
2010-11P	51,748	251	0.49	50,807
Loan Companies				
2009-10	20,529	541	2.63	19,913
2010-11P	18,295	243	1.33	18,046
All Companies				
2009-10	65,978	891	1.35	64,393
2010-11P	70,043	494	0.70	68,853

P: Provisional.
Source: Half-Yearly return on NBFCs-D.

Table VI.29: Classification of Assets of NBFCs-D by Category of NBFCs

(Amount in ₹ Crore)

Classification/ End-March	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Gross Advances
1	2	3	4	5	6	7
Asset Finance Companies						
2009-10	45,098	287	46	18	350	45,449
	(99.2)	(0.6)	(0.1)	(0.0)	(0.8)	(100.0)
2010-11P	51,497	214	29	8	251	51,748
	(99.5)	(0.4)	(0.1)	(0.0)	(0.5)	(100.0)
Loan Companies						
2009-10	19,989	298	169	74	541	20,529
	(97.4)	(1.5)	(0.8)	(0.4)	(2.6)	(100.0)
2010-11P	18,053	102	140	0	243	18,295
	(98.7)	(0.6)	(0.8)	(0.0)	(1.3)	(100.0)
All Companies						
2009-10	65,087	585	214	92	891	65,978
	(98.6)	(0.9)	(0.3)	(0.1)	(1.4)	(100.0)
2010-11P	69,549	316	169	8	494	70,043
	(99.3)	(0.5)	(0.1)	(0.0)	(0.7)	(100.0)

P: Provisional.
Note: Figures in parentheses are percentages to total credit Exposures.
Source: Half-Yearly return on NBFCs-D.

deposit of SCBs. However, NOF of RNBCs increased marginally by 2.3 per cent in 2010-11 (Table VI.33).

6.42 The decline in the income of RNBCs during 2010-11 was more than the decline in expenditure, as a result of which the operating profits of RNBCs declined significantly during the year. Despite the decline in the provision for taxation, the net profits of RNBCs decreased sharply during 2010-11 compared to a significant increase in the previous year.

Regional Pattern of Deposits of RNBCs

6.43 At end-March 2011, there were two RNBC, of which, one was located in the eastern region while the other was in the central region. RNBCs are in the process of migrating to other business models and the companies would reduce

Table VI.31: Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D by Category

(Amount in ₹ Crore)

Classification	Net Owned Fund		Public Deposits	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
Asset Finance Companies	8,697	10,818	2,287	3,628
			(0.3)	(0.3)
Loan Companies	4,806	4,170	545	434
			(0.1)	(0.1)
Total	**13,503**	**14,987**	**2,831**	**4,062**
			(0.2)	(0.3)

Note: Figures in parentheses are ratio of public deposits to net owned fund.
Source: Annual Returns.

Table VI.30: Capital Adequacy Ratio of NBFCs-D

(Number of companies)

CRAR Range	2009-10			2010-11P		
	AFC	LC	Total	AFC	LC	Total
1	2	3	4	5	6	7
1) Less than 12%	2	1	3	1	1	2
a) Less than 9%	2	0	2	1	1	2
b) More than 9% and up to 12%	0	1	1	0	0	0
2) More than 12% and up to 15%	1	0	1	1	2	3
3) More than 15% and up to 20%	5	3	8	5	3	8
4) More than 20% and up to 30%	21	7	28	19	3	22
5) Above 30%	182	53	235	142	27	169
Total	**211**	**64**	**275**	**168**	**36**	**204**

P: Provisional.
Note: AFC-Asset Finance Companies; LC-Loan Companies.
Source: Half-yearly returns.

Table VI.32: Range of Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in ₹ Crore)

Range of NOF	2009-10			2010-11P		
	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 0.25 crore	4	-436	174	2	-200	32
More than 0.25 crore and up to 2 crore	172	130	46	113	84	32
More than 2 crore and up to 10 crore	70	265	134	65	266	136
More than 10 crore and up to 50 crore	27	538	189	20	453	113
More than 50 crore and up to 100 crore	1	66	52	2	120	104
More than 100 crore and up to 500 crore	6	1,405	480	7	1,712	453
Above 500 crore	10	11,535	1,754	8	12,553	3,192
Total	**290**	**13,503**	**2,830**	**217**	**14,987**	**4,062**

P: Provisional.
Source: Annual returns.

their deposit liabilities to 'nil' by 2015. Public deposits held by the two RNBCs registered a significant decline in 2010-11 mainly on account of a substantial decline in the deposits held by the RNBC located in the central region (Table VI.34).

Investment Pattern of RNBCs

6.44 Following the decline in deposits, there was a decline in the investments of RNBCs in 2010-11. The decline was noticeable in the case of unencumbered approved securities (Table VI.35).

NBFCs-ND-SI

6.45 The assets of NBFCs-ND-SI for the year ended March 2011 showed an increase of 24 per cent over the year ended March 2010. Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 30 per cent during the year ended March 2011, constituting around two-thirds of the total liabilities (Table VI.36).

Table VI.33. Profile of RNBCs

(Amount in ₹ crore)

Item	As at end-March		Percentage Variation	
	2010	2011P	2009-10	2010-11P
1	2	3	4	5
A. Assets (i to v)	**17,920**	**11,466**	**-11.6**	**-36.0**
(i) Investment in Unencumbered Approved Securities	2,467	1,308	-53.0	-47.0
(ii) Investment in Fixed Deposits / Certificate of Deposits of Scheduled Comm. Banks/Public Fin. Institutions	4,860	2,652	-19.0	-45.4
(iii) Debentures / Bonds/ Commercial Papers of Govt. Companies/ Public Sector Banks/Public Fin. Institution/Corporation	5,860	2,876	-16.2	-50.9
(iv) Other Investments	710	49	137.4	-93.1
(v) Other Assets	4,022	4,582	130.9	13.9
B. Net Owned Fund	**2,921**	**2,988**	**56.2**	**2.3**
C. Total Income (i+ii)	**1,946**	**1,159**	**-19.5**	**-40.4**
(i) Fund Income	1,920	1,128	-17.1	-41.2
(ii) Fee Income	26	31	-74.2	18.8
D. Total Expenses (i+ii+iii)	**1,400**	**1,006**	**-32.4**	**-28.1**
(i) Financial Cost	974	631	-39.3	-35.2
(ii) Operating Cost	343	368	-9.5	7.3
(iii) Other Cost	83	7	-3.5	-91.4
E. Taxation	**164**	**62**	**10.1**	**-62.2**
F. Operating Profit(PBT)	**546**	**153**	**57.5**	**-71.9**
G. Net Profit(PAT)	**382**	**91**	**93.1**	**-76.1**

P: Provisional PBT: Profit Before Tax PAT: Profit After Tax
Source: Annual Returns.

Table VI.34: Public Deposits Held by RNBCs - Region-wise

(Amount in ₹ Crore)

	2009-10		2010-11P	
	No. of RNBCs	Public Deposits	No. of RNBCs	Public Deposits
1	2	3	4	5
Central	1	11,235	1	5,290
		(77.4)		(66.9)
Eastern	1	3,285	1	2,612
		(22.6)		(33.1)
Total	**2**	**14,521**	**2**	**7,902**
Metropolitan Cities				
Kolkata	1	3,285	1	2,612
Total	**1**	**3,285**	**1**	**2,612**

P: Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

Secured borrowings constitute the largest source of funds for NBFCs-ND-SI, followed by unsecured borrowings, and reserves and surplus.

Table VI.35. Investment Pattern of RNBCs

(Amount in ₹ Crores)

	2009-10	2010-11P
1	2	3
Aggregate Liabilities to the Depositors (ALD)	**14,521**	**7,902**
(i) Unencumbered approved securities	2,467	1,308
	(17.0)	(16.6)
(ii) Fixed Deposits with banks	4,860	2,652
	(33.5)	(33.6)
(iii) Bonds or debentures or commercial papers of a Govt. Company/ public sector bank/public financial Institution/corporations	5,860	2,876
	(40.4)	(36.4)
(iv) Other Investments	710	49
	(4.9)	(0.6)

P: Provisional.
Note: Figures in parentheses as percentages to ALDs.
Source: Annual Returns.

6.46 NBFCs-ND-SI sector is growing rapidly and borrowings comprise their largest source of funds, mostly sourced from banks/FIs. Thus, they have a systemic linkage and need to be monitored closely to ensure that they do not pose

Table VI.36: Consolidated Balance Sheet of NBFCs-ND-SI

(Amount in ₹ Crore)

Item	2009-10	2010-11P	Percentage Variation
1	2	3	4
1. Share Capital	**36,462**	**40,591**	**11.3**
2. Reserves & Surplus	1,27,131	1,45,177	14.2
3. Total Borrowings	**3,85,779**	**5,00,938**	**29.9**
A. Secured Borrowings	**1,77,408**	**2,74,990**	**55.0**
A.1. Debentures	58,590	98,292	67.8
A.2. Borrowings from Banks	45,850	92,698	102.2
A.3. Borrowings from FIs	7,971	7,769	-2.5
A.4. Interest Accrued	3,526	5,144	45.9
A.5. Others	61,471	71,086	15.6
B. Un-Secured Borrowings	**2,08,371**	**2,25,948**	**8.4**
B.1. Debentures	82,544	74,946	-9.2
B.2. Borrowings from Banks	43,575	45,129	3.6
B.3. Borrowings from FIs	2,471	2,923	18.3
B.4. Borrowings from Relatives	1,854	1,127	-39.2
B.5. Inter-Corporate Borrowings	22,153	24,883	12.3
B.6. Commercial Paper	31,049	32,321	4.1
B.7. Interest Accrued	3,696	4,355	17.8
B.8. Others	21,029	40,263	91.5
4. Current Liabilities & Provisions	39,433	43,648	10.7
Total Liabilities/ Total Assets	**5,88,806**	**7,30,366**	**24.0**
Assets			
1. Loans & Advances	3,48,517	4,58,173	31.5
1.1. Secured	2,48,655	3,32,544	33.7
1.2. Un-Secured	99,862	1,25,629	25.8
2. Hire Purchase Assets	41,685	50,019	20.0
3. Investments	1,19,788	1,36,143	13.7
3.1. Long Term Investments	82,944	95,662	15.3
3.2. Current Investments	36,844	40,481	9.9
4. Cash & Bank Balances	25,857	29,877	15.5
5. Other Current Assets	40,565	42,444	4.6
6. Other Assets	12,393	13,431	8.4
Memo Items			
1. Capital Market Exposure	59,905	78,399	30.9
Of which			
Equity Shares	27,772	31,743	14.3
2. CME as % to Total Assets	10.2	10.7	
3. Leverage Ratio	2.60	2.93	

P: Provisional.
Note: 1 .Data presented above pertaining to ND-SIs which have consistently reported for time periods March 2010, March 2011 and June 2011. These ND-SIs constitutes 93.4 per cent of total assets of all reporting ND-SI.
2. Capital market exposure (CME) includes: (i) investments in listed-instruments, and (ii) CME related loans & advances.

Source: Monthly Return on ND-SI.

any risk to the system. 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. The leverage ratio of the entire NBFCs-ND-SI sector rose to 2.93 during 2010-11. This sector's exposure towards the sensitive sector that is prone to potential boom-bust cycles such as capital market also shows an increase. Rapid financial diversification has also posed new challenges for regulators, especially in devising appropriate regulatory safeguards for the highly complex NBFI sector (Box VI.3).

Borrowings of NBFCs-ND-SI by Region

6.47 The region-wise analysis of the total borrowings of the NBFCs-ND-SI reveals that the, Northern region along with the western region continued to account for more than 80 per cent of the total borrowings during the year ended March 2011 and March 2010; this trend continued during the quarter ended June 2011 also. All regions registered significant growth during the year ended March 2011 compared with the previous year. During the quarter ended June 2011, all regions continued with the same trend (Table VI.37).

Financial Performance

6.48 The financial performance of the NBFCs-ND-SI sector improved significantly as reflected in the increase in net profit during 2010-11 compared to the previous year. The ROA remained same during the same period (Table VI.38). Both the Gross and Net NPAs as a ratio to total asset of the entire NBFCs-ND-SI sector declined during the year ended March 2011. As on June 2011, there was marginal increase in NPA ratio (Table VI.39). At end-March 2011, 104 companies out of 253 NBFCs-ND-SI companies relied on owned fund to fund their assets. However, few companies showed their dependence on ICDs/commercial paper/banks to fund the significant portion of their assets (Table VI.40).

6.49 As on March 2011, the majority of reported companies maintained stipulated minimum norm of 15 per cent capital adequacy as measured by CRAR (Table VI.41). This indicates that there was considerable scope for NBFC-ND-SI to utilise its capital for further expansion. These companies were also largely dependent on the nationalised banks for their term loans, working capital loans, and debentures/CPs. New private banks have emerged as a second major bank group for these companies to raise term loans and working capital loans (Table VI.42).

Table VI.37: Borrowings of NBFCs-ND-SI (By Region)

(Amount in ₹ Crore)

Region	March 2010	March 2011P	June 2011P
1	2	3	4
North	2,09,491	2,68,356	2,72,228
East	13,500	16,937	18,458
West	1,07,846	1,36,877	1,48,291
South	54,943	78,768	85,847
Total Borrowings	**3,85,779**	**5,00,938**	**5,24,823**

P: Provisional.
Source: Monthly Return on NBFCs-ND-SI.

Table VI.38: Financial Performance of NBFCs- ND-SI

(Amount in ₹ Crore)

Item	March 2010	March 2011P	June 2011P
1	2	3	4
1. Total Income	60,932	71,696	20,765
2. Total Expenses	43,609	50,118	14,842
3. Net Profit	12,231	15,619	4,667
4. Total Assets	5,88,806	7,30,366	7,61,805
Financial Ratios			
(i) Income as % to Total Assets	10.3	9.8	2.7
(ii) Expenditure as % to Total Assets	7.4	6.9	1.9
(iii) Net Profit to Total Income	20.1	21.8	22.5
(iv) Net Profit to Total Assets	2.1	2.1	0.6

P: Provisional.
Source: Monthly Return on ND-SI (₹ 100 Crore and above).

Table VI.39: NPA Ratios of NBFCs-ND-SI

(Amount in ₹ Crore)

Item	March 2010	March 2011P	June 2011P
1	2	3	4
1. Gross NPA to Gross Advances	2.8	1.8	2.3
2. Net NPA to Net Advances	1.2	0.7	1.2
3. Gross NPA to Total Assets	2.0	1.3	1.7
4. Net NPA to Total Assets	0.9	0.5	0.9

P: Provisional.
Source: Monthly Return on ND-SI (₹ 100 crore and above)

Box VI.3: Recommendations of the Working Group on the Issues and Concerns in the NBFC Sector

The Reserve Bank constituted a Working Group on the 'Issues and Concerns in the NBFC Sector' (Chairperson: Smt. Usha Thorat) to examine a range of emerging issues pertaining to the regulation of NBFC sector, *viz.,* (i) To review the concept of 'principal business' and to re-examine the need for separate regulatory categories of NBFCs; (ii) To re-assess the entry point norms for NBFCs; (iii) To revisit the current framework on exemptions to certain categories of NBFCs; (iv) To frame policy on multiple NBFCs within a single group and captive NBFCs floated by manufacturing or industrial houses; (v) To examine the need for convergence of regulation of NBFCs with that of best regulatory practices of banks; (vi) To recommend comprehensive 'Disclosure norms' for NBFCs; (vii) To examine the need to prescribe professional qualifications for Independent Directors on the Boards of NBFCs-ND-SI; (viii) To examine the need for monitoring assets in one or other type of NBFC; (ix) To arrive at a set of principles to guide the frequency and depth of supervision of NBFCs based on their size and inter-connectedness with other institutions.

The Report was placed on the Reserve Bank website on August 23, 2011 for eliciting public comments. The key recommendations of the Working Group are as follows:

(i) The minimum net owned fund (NOF) requirement for all new NBFCs wanting to register with the Reserve Bank could be retained at the present ₹2 crore till the Reserve Bank of India Act is amended. The Reserve Bank should, however, insist on a minimum asset size of more than ₹50 crore for registering any new NBFC. Existing NBFCs below this limit may deregister or be asked to seek a fresh certificate of registration at the end of two years;

(ii) NBFCs not accessing public funds may be exempted from registration provided their assets are below ₹1,000 crore;

(iii) Any transfer of shareholding, direct or indirect, of 25 per cent and above, change in control, merger or acquisition of any registered NBFC should have prior approval of the Reserve Bank;

(iv) The twin criteria of assets and income for determining the principal business of an NBFC should be increased to 75 per cent of the total asset and 75 per cent of the total income, respectively. A time period of three years may be given to fulfill revised principal business criteria;

(v) Tier I capital for Capital to Risk Weighted Assets Ratio (CRAR) purposes may be specified at 12 per cent to be achieved in three years for all registered deposit taking and non-deposit taking NBFCs;

(vi) Liquidity ratio may be introduced for all registered NBFCs such that cash, bank balances and holdings of government securities fully cover the gaps, if any, between cumulative outflows and cumulative inflows for the first 30 days;

(vii) Asset classification and provisioning norms similar to banks to be brought in phased manner for NBFCs. Suitable income tax deduction akin to banks may be allowed for provisions made under the regulations. Accounting norms applicable to banks may be applied to NBFCs;

(viii) NBFCs may be subject to similar regulations as banks while lending to stock brokers and merchant banks and to similar regulation for stock brokers, as specified by the Securities and Exchange Board of India (SEBI), while undertaking margin financing;

(ix) Financial conglomerate approach may be adopted for supervision of larger NBFCs that have stock brokers and merchant bankers in the group;

(x) Government owned entities that qualify as NBFCs may comply with the regulatory framework applicable to NBFCs at the earliest.

(xi) Board approved limits for bank's exposure to real estate may be made applicable for the bank group as a whole, where there is an NBFC in the group. The risk weights for NBFCs that are not sponsored by banks or that do not have any bank as part of the group may be raised to 150 per cent for capital market exposures (CME) and 125 per cent for commercial real estate (CRE) exposures. In case of bank sponsored NBFCs, the risk weights for CME and CRE may be the same as specified for banks;

(xii) Captive NBFCs, the business models of which focus mainly (90 per cent and above) on financing parent company's products, may maintain Tier I capital at 12 per cent from the time of registration. Supervisory risk assessment of such companies should take into account the risk of the parent company;

(xiii) For the purpose of applicability of registration and supervision, the total assets of all NBFCs in a group should be taken together to determine the cut off limit of ₹100 crore;

(xiv) All NBFCs with assets of ₹100 crore and above, whether listed or not, should be required to comply with mandatory disclosures under Clause 49 of SEBI Listing Agreements.

(xv) Disclosure for NBFCs with assets of ₹100 crore and above may include provision coverage ratio, liquidity ratio, asset liability profile, extent of financing of parent company products, movement of non-performing assets (NPAs), off-balance sheet exposures, structured products and securitizations/assignments.

(xvi) NBFCs with assets of ₹1,000 crore and above should be inspected comprehensively on an annual basis and be subjected to annual stress testing to ascertain their vulnerability.

4. Primary Dealers

6.50 As on June 30, 2011, there were 21 Primary Dealers (PDs), of which 13 were banks carrying on Primary Dealership business departmentally (Bank-PDs) and the remaining eight were non-bank entities, known as

Table VI.40: Dependence on Public Funds
(As on Mar 31, 2011)

(Number of Companies)

Dependence (per cent to Total Liabilities)	Owned Fund	Banks	Debentures	Inter-Corporate Deposits	Commercial Paper
1	2	3	4	5	6
0 per cent	0	179	187	182	216
0 to 20 per cent	46	30	35	49	23
20 to 40 per cent	47	24	18	10	8
40 to 60 per cent	27	15	9	7	3
60 to 80 per cent	29	5	4	2	3
80 to 100 per cent	104	0	0	3	0
Total Reporting Companies	253	253	253	253	253

standalone PDs, registered as NBFCs under Section 45 IA of the RBI Act, 1934. In April 2011, Goldman Sachs (India) Capital Markets Private Limited was given authorisation to undertake PD business on a standalone basis. Further, pursuant to the merger of IDBI Gilts Limited with its parent entity, IDBI Bank Limited was authorised to undertake PD business departmentally from April 2011.

Operations and Performance of PDs

6.51 During the year 2010-11, the actual bids submitted by PDs collectively (including bank-PDs) in Treasury Bills (T-Bills) auctions were ₹6,87,416 crore compared to their bidding commitment of ₹3,66,320 crore. The success ratio, *i.e.,* the total amount of bids of the PDs accepted to the total commitment of the PDs increased to 62 per cent from 56 per cent during 2009-10. In Cash Management Bills (CMBs) auctions, as against the total notified amount of ₹12,000 crore, PDs submitted bids

Table VI.41. Capital Adequacy Ratio of NBFCs-ND-SI
(As on March 31, 2011)

(Number of Companies)

CRAR Range	AFC	IFC	IC	LC	Total
1	2	3	4	5	6
Less than 12 per cent	-	-	4	2	6
More than 12per cent and up to 15 per cent	-	-	3	1	4
More than 15 per cent and up to 20 per cent	7	1	3	22	33
More than 20 per cent and up to 30 per cent	4	1	9	19	33
Above 30 per cent	4	1	127	66	198
Total	**15**	**3**	**146**	**110**	**274**

Note: AFC-Asset Finance Companies; IFC-Infrastructure Finance Companies; IC-Investment Companies; LC-Loan Companies.
Source: Annual returns.

for ₹38,495 crore, out of which 68.1 per cent of total bids of the PDs were accepted. PDs are required to achieve a minimum success ratio of 40 per cent for T-Bills and CMBs put together on a half-yearly basis. All the PDs had achieved the stipulated minimum success ratio in both the first and second half of 2010-11.

6.52 During the year 2010-11, dated G-Sec were issued for ₹4,37,000 crore by the Government of India under the market borrowing programme. PDs (including bank-PDs), offered to underwrite dated G-Sec amounting to ₹7,97,545 crore against the notified amount of ₹4,37,000 crore. In the dated G-Sec auctions, the share of the PDs (bids accepted to the securities issued) increased to 49.6 per cent in 2010-11 from 42.0 per cent in 2009-10 (excluding devolvements) (Table VI. 43). Partial devolvement on the PDs took place on 6

Table VI.42: Bank Exposure of NBFCs-ND-SI
(As on March 31, 2011)

(Amount in ₹ Crore)

Bank Group	Term Loans	Working Capital Loans	Debentures/CPs	Others	Total
1	2	3	4	5	6
A. Nationalized Banks	74,806	14,233	4,519	312	93,870
B. State Bank Group	8,634	5,089	1,120	25	14,868
C. Old Private Banks	4,892	1,081	653	85	6,712
D. New Private Banks	23,076	6,541	3,463	370	33,450
E. Foreign Banks	6,947	1,958	995	725	10,625
All Banks	**1,18,356**	**28,902**	**10,750**	**1,517**	**1,59,525**

Source: Monthly returns.

Table VI.43 Performance of the PDs in the Primary Market
(At end-March)

(Amount in ₹ Crore)

	2010	2011
1	2	3
Treasury Bills		
Notified Amount	3,80,000	3,04,000
Bidding Commitment	4,17,060	3,66,320
Actual Bids Submitted	7,54,041	6,87,416
Bid to Cover Ratio	2.0	2.3
Bids Accepted	2,33,648	2,27,104
Success Ratio (in per cent)	56.0	62.0
Central Govt. Securities		
Notified Amount	4,18,000	4,37,000
Actual Bids submitted	5,35,722	6,23,939
Bid to Cover Ratio	1.3	1.4
Bids Accepted	1,75,609	2,16,535
Share of PDs (in per cent)	42.0	49.6

instances for ₹5,772.7 crore during 2010-11 as compared to 18 instances for ₹7,219.2 crore in 2009-10.

Performance of Standalone PDs

6.53 During 2010-11, in the secondary G-Sec market, the share of turnover of standalone PDs to the total turnover of market participants increased from 15.9 per cent to 19 per cent with respect to outright transactions and from 7 per cent to 14 per cent in the case of repo transactions. Overall, the share of standalone PDs increased from 8.7 per cent to 16 per cent (Table VI.44).

Sources and Application of Funds of Standalone PDs

6.54 During the year 2010-11, IDBI Gilts Ltd. and Nomura Fixed Income Securities Ltd. had infused fresh capital. However, on account of partial buy-back of its capital by SBI DFHI Ltd., the capital as also reserves and surplus of the PDs put together declined marginally. While the unsecured loans of the PDs declined by 24 per cent, secured loans increased by 152 per cent.

6.55 As regards application of funds, investments in G-Sec increased by 38 per cent in 2010-11 compared to a decline of 14 per cent in 2009-10. However, investments in corporate bonds increased by 32 per cent as compared with 77 per cent in 2009-10 (Table VI.45).

Table VI.44: Performance of Standalone PDs in the Secondary Market
(At end-March)

(Amount in ₹ Crore)

	2010	2011
1	2	3
Outright		
Turnover of standalone PDs	9,02,093	10,89,956
Turnover of market participants	56,84,838	57,41,904
Share of PDs (per cent)	15.9	19.0
Repo		
Turnover of standalone PDs	17,00,382	11,45,970
Turnover of market participants	2,41,83,229	81,98,568
Share of PDs (per cent)	7.0	14.0
Total		
Turnover of standalone PDs	26,02,475	22,35,926
Turnover of market participants	2,98,68,067	1,39,40,472
Share of PDs (per cent)	8.7	16.0

Source: CCIL.

Financial Performance of Standalone PDs

6.56 Notwithstanding the turnaround in the trading income, net profit of the PDs declined by about 22 per cent in 2010-11 mainly on account of increase in interest expenses and decline in other income. Hardening of G-Sec yields during the year impacted the treasury profits of standalone PDs (Table VI.46 and Appendix Table VI.2).

6.57 Overall, Return on Assets (ROA) decreased from 1.8 per cent in 2009-10 to 1.1 per cent in 2010-11 following the decline in net profit by 22 per cent while average assets rose by 30 per cent (Table VI.47). Stand-alone PDs continued to be well capitalised. The CRAR of individual stand-alone PDs remained above the prescribed minimum of 15 per cent as at end-March 2011. The CRAR of the stand-alone PDs as a group worked out to 46.2 per cent as at end-March 2011 (Table VI.48 and Appendix Table VI.3). The Government securities held by primary dealers as percentage to total assets has gone up to 66 per cent as at end-March 2011 from 61 per cent in the previous year (Table VI. 49).

Table VI.45: Sources and Applications of Funds of Standalone Primary Dealers

(Amount in ₹ crore)

Item	End-March			Percentage Variation	
	2009	2010	2011	2010	2011
1	2	3	4	5	6
Sources of Funds	**10,307**	**10,308**	**13,030**	**0.01**	**26.40**
1 Capital	1,121	1,541	1,521	37.47	-1.30
2 Reserves and Surplus	2,213	1,925	1,886	-13.01	-2.01
3 Loans (a+b)	6,973	6,842	9,622	-1.88	40.64
a) Secured	2,945	2,522	6,352	-14.36	151.85
b) Unsecured	4,028	4,320	3,271	7.25	-24.29
Application of Funds	**10,307**	**10,308**	**13,030**	**0.01**	**26.40**
1 Fixed Assets	13	14	38	7.69	169.86
2 Investments (a+b+c)	7,891	7,280	9,817	-7.74	34.86
a) Government Securities	7,305	6,258	8,648	-14.33	38.19
b) Commercial Papers	88	142	10	61.36	-93.08
c) Corporate Bonds	498	880	1,160	76.71	31.76
3 Loans and Advances	959	741	429	-22.73	-42.12
4 Non-current Assets	0	0	0		
5 Equity, Mutual Funds, *etc.*	22	68	25	209.09	-63.59
6 Others*	1,422	2,205	2,721	55.07	23.38

*: Others include cash + CDs + bank balances + accrued income + deferred tax assets – current liabilities and provisions.

Source: Annual Reports of the PDs.

5. Conclusions

6.58 The resources raised by FIs during 2010-11 were significantly higher over the previous year. All resource raising components, short-term, long-term and foreign currency resources witnessed a sharp rise. However, the weighted average cost of Rupee resources raised went up across the board. The financial performance of the FIs deteriorated during 2010-11 due to decrease in operating profit and net profit. There was a sharp rise in operating expenses during the year mainly on account of wage revision. There was an increase in the amount of net NPAs of the FIs in 2010-11. The CRAR of all the FIs were above the stipulated minimum norm of 9 per cent indicating the scope for utilisation of capital for further credit expansion.

6.59 The financial performance of NBFCs-D showed improvement as reflected in an increase in the ratio of net profit to total assets during 2010-11. There was a decline in the shares of all three NPA categories such as sub-standard, doubtful and loss assets of NBFCs-D underlining the improvement in asset quality. Most of the NBFCs-D had CRAR of more than 15 per cent indicating the consolidation process in the sector. The size of balance sheet of NBFCs-D has expanded. On the asset side, loans and advances remain the most important source

Table VI.46: Financial Performance of Standalone Primary Dealers

(Amount in ₹ crore)

Item	2009-10	2010-11	Variation over 2009-10	
			Amount	Percentage
1	2	3	4	5
A. Income (i + ii + iii)	**804**	**1,079**	**275**	**25.5**
i) Interest and discount	690	970	280	28.8
ii) Trading Profit	-30	58	88	151.9
iii) Other income	144	51	-93	-181.3
B. Expenses (i + ii)	**452**	**811**	**359**	**44.3**
i) Interest	302	653	351	53.8
ii) Administrative Costs	150	158	8	4.9
Profit Before Tax	**343**	**272**	**-71**	**-26.2**
Profit After Tax	**227**	**178**	**-49**	**-27.4**

Source: Annual Reports of the PDs.

Table VI.47: Financial Indicators of Primary Dealers

(Amount in ₹ crore)

Indicator	2009-10	2010-11
1	2	3
i) Net profit	227	178
ii) Average Assets	12,815	16,697
iii) Return on Average Assets (in per cent)	1.8	1.1

Source : Returns submitted by PDs.

Table VI.48: CRAR of the Standalone Primary Dealers
(At end-March)

(Amount in ₹ crore)

Particulars	2010	2011
1	2	3
1. Total Net Capital Funds	3,610	3,626
2. Total Risk Weighted Assets	8,308	7,858
a) Credit Risk	2,803	3,350
b) Market Risk	5,505	4,508
3. CRAR (per cent)	43.5	46.2

Source: Returns submitted by PDs.

Table VI. 49: Select Indicators of Primary Dealers
(At end-March)

(Amount in ₹ crore)

Item	2010	2011
1	2	3
Total Assets	10,308	13,030
of which: Government securities	6,258	8,648
Government securities as percentage of total assets	61	66
Liquidity Support Limit	3,000	3,000

Source: Returns submitted by PDs.

followed by investment. There was an increase in the share of deposits ranging more than two years and up to three years maturity category. More than two-thirds of total assets of the NBFCs-D sector were held by asset finance companies.

6.60 The financial performance of the NBFCs-ND-SI sector also improved significantly as reflected in the increase in net profit. But, the net profit as a ratio to total assets remained same during 2010-11. This sector is growing rapidly and borrowings comprise their largest source of funds mostly sourced from banks/FIs. Thus, they have systemic financial linkage that need to be monitored closely to ensure that they do not pose any risk.

6.61 The net profit of the PDs declined in 2010-11 mainly due to disproportionate increase in interest expenses and decline in other income. The hardening of G-Sec yields during the year had impact on the profits of stand-alone PDs.

6.62 The existing supervisory framework relating to NBFCs sector has to be enhanced to reflect the ongoing changes in perception of risk due to existence of regulatory arbitrage, rapid asset growth, extent of interconnectedness with the financial sector.

Appendix Table IV.1: Off-Balance Sheet Exposures of Scheduled Commercial Banks in India

(As at end-March)

(Amount in ₹ crore)

Sr. No.	Item	Public Sector Banks			Nationalised Banks *			State Bank Group			Private Sector Banks		
		2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.	Forward exchange contract	9,59,454 (21.6)	11,91,753 (22.5)	24.2	6,00,770 (19.8)	7,61,450 (20.6)	26.8	3,58,684 (25.4)	4,30,303 (26.9)	20.0	11,20,390 (97.4)	14,68,535 (105.0)	31.1
2.	Guarantees given	3,30,555 (7.4)	4,19,552 (7.9)	26.9	2,12,317 (7.0)	2,57,435 (7.0)	21.3	1,18,238 (8.4)	1,62,116 (10.2)	37.1	1,32,673 (11.5)	1,84,441 (13.2)	39.0
3.	Acceptances, endorsements, *etc.*	4,73,793 (10.7)	5,78,359 (10.9)	22.1	2,47,973 (8.2)	3,07,363 (8.3)	24.0	2,25,820 (16.0)	2,70,996 (17.0)	20.0	5,89,611 (51.2)	6,94,743 (49.7)	17.8
	Contingent Liabilities	**17,63,802 (39.7)**	**21,89,664 (41.4)**	**24.1**	**10,61,059 (35.0)**	**13,26,248 (35.9)**	**25.0**	**7,02,742 (49.8)**	**8,63,415 (54.0)**	**22.9**	**18,42,674 (160.1)**	**23,47,719 (167.9)**	**27.4**

Sr No.	Item	Old Private Sector Banks			New Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
		2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.	Forward exchange contract	99,833 (37.1)	1,05,080 (34.0)	5.3	10,20,558 (115.7)	13,63,455 (125.2)	33.6	59,60,248 (1,369.0)	80,71,241 (1,642.1)	35.4	80,40,092 (133.4)	1,07,31,529 (149.4)	33.5
2.	Guarantees given	12,276 (4.6)	16,306 (5.3)	32.8	1,20,397 (13.7)	1,68,135 (15.4)	39.7	59,949 (13.8)	69,543 (14.2)	16.0	5,23,177 (8.7)	6,73,536 (9.4)	28.7
3.	Acceptances, endorsements, *etc.*	12,022 (4.5)	17,750 (5.7)	47.7	5,77,589 (65.5)	6,76,993 (62.2)	17.2	9,05,006 (207.9)	11,60,222 (236.1)	28.2	19,68,410 (32.7)	24,33,324 (33.9)	23.6
	Contingent Liabilities	**1,24,131 (46.2)**	**1,39,136 (45.0)**	**12.1**	**17,18,543 (194.9)**	**22,08,583 (202.8)**	**28.5**	**69,25,203 (1,590.7)**	**93,01,006 (1,892.7)**	**34.3**	**1,05,31,679 (174.7)**	**1,38,38,389 (192.6)**	**31.4**

* : Include IDBI Bank Ltd.

Note: Figures in parantheses are percentages to total liabilities of the concerned bank-group.

Source: Balance sheets of respective banks.

Appendix Table IV.2(A): Non-Performing Assets of Public Sector Banks - Sector-wise
(as at end-March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	Priority Sector NPAs		*Of which*, Agriculture		*Of which*, Micro and Small Enterprises		*Of which*, Others		Non-Priority Sector NPAs		*Of which*, Public Sector NPAs		Total NPAs
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount 15 = (3+11)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Public Sector Banks	**41,245**	**58.1**	**14,487**	**20.4**	**14,340**	**20.2**	**12,417**	**17.5**	**29,803**	**41.9**	**278**	**0.4**	**71,047**
	Nationalised Banks*	**25,678**	**59.8**	**9,220**	**21.5**	**10,424**	**24.3**	**6,034**	**14.1**	**17,229**	**40.2**	**273**	**0.6**	**42,907**
1.	Allahabad Bank	1,217	73.9	549	33.3	282	17.1	387	23.5	430	26.1	-	-	1,647
2.	Andhra Bank	522	52.5	116	11.7	109	11.0	297	29.8	473	47.5	-	-	996
3.	Bank of Baroda	1,762	63.2	772	27.7	690	24.8	300	10.8	1,024	36.8	99	3.6	2,786
4.	Bank of India	2,939	67.5	898	20.6	1,645	37.8	396	9.1	1,418	32.5	14	0.3	4,357
5.	Bank of Maharashtra	888	75.7	313	26.7	404	34.5	170	14.5	286	24.3	-	-	1,174
6.	Canara Bank	1,692	56.7	663	22.2	555	18.6	474	15.9	1,290	43.3	-	-	2,982
7.	Central Bank of India	1,331	55.6	418	17.5	687	28.7	226	9.4	1,064	44.4	-	-	2,395
8.	Corporation Bank	464	58.7	217	27.5	111	14.0	136	17.2	326	41.3	-	-	790
9.	Dena Bank	428	50.8	138	16.3	194	23.0	97	11.5	414	49.2	40	4.8	842
10.	Indian Bank	495	68.7	219	30.4	141	19.6	135	18.7	225	31.3	-	-	720
11.	Indian Overseas Bank	1,388	49.7	447	16.0	633	22.6	308	11.0	1,405	50.3	56	2.0	2,793
12.	Oriental Bank of Commerce	1,161	60.4	425	22.1	361	18.8	374	19.5	760	39.6	-	-	1,921
13.	Punjab and Sind Bank	270	63.6	66	15.4	169	39.9	35	8.3	155	36.4	-	-	424
14.	Punjab National Bank	2,742	62.6	1,171	26.7	1,349	30.8	222	5.1	1,637	37.4	4	0.1	4,379
15.	Syndicate Bank	1,569	60.6	328	12.7	295	11.4	946	36.5	1,020	39.4	-	-	2,589
16.	UCO Bank	1,573	50.9	697	22.5	508	16.5	368	11.9	1,518	49.1	25	0.8	3,090
17.	Union Bank of India	2,262	62.4	856	23.6	946	26.1	460	12.7	1,361	37.6	1	-	3,623
18.	United Bank of India	1,078	79.5	320	23.6	609	44.9	149	11.0	278	20.5	-	-	1,356
19.	Vijaya Bank	1,032	82.0	363	28.8	284	22.6	385	30.6	227	18.0	-	-	1,259
20.	IDBI Bank Ltd.	866	31.1	244	8.8	453	16.3	170	6.1	1,918	68.9	33	1.2	2,785
	State Bank Group	**15,567**	**55.3**	**5,268**	**18.7**	**3,916**	**13.9**	**6,383**	**22.7**	**12,573**	**44.7**	**6**	**-**	**28,140**
21.	State Bank of Bikaner and Jaipur	278	33.3	98	11.8	139	16.7	40	4.8	558	66.7	-	-	835
22.	State Bank of Hyderabad	411	35.7	79	6.9	122	10.6	209	18.2	740	64.3	-	-	1,150
23.	State Bank of India	13,275	57.5	4,518	19.6	3,138	13.6	5,618	24.3	9,799	42.5	6	-	23,074
24.	State Bank of Mysore	519	60.1	282	32.6	184	21.3	54	6.2	345	39.9	-	-	864
25.	State Bank of Patiala	757	54.8	243	17.6	273	19.8	241	17.4	624	45.2	-	-	1,382
26.	State Bank of Travancore	327	39.2	47	5.6	59	7.1	221	26.4	508	60.8	-	-	835

*: Include IDBI Bank Ltd.

-: Nil/Negligible.

Source: Off-site returns (domestic).

Appendix Table IV.2(B): Non-Performing Assets of Private Sector Banks - Sector-wise

(as at end-March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	Priority Sector NPAs		*Of which,* Agriculture		*Of which,* Micro and Small Enterprises		*Of which,* Others		Non-Priority Sector NPAs		*Of which,* Public Sector NPAs		Total NPAs
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount 15 = (3+11)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Private Sector Banks	**4,823**	**26.8**	**2,172**	**12.1**	**1,298**	**7.2**	**1,353**	**7.5**	**13,147**	**73.2**	**153**	**0.8**	**17,971**
	Old Private Sector Banks	**1,599**	**43.3**	**417**	**11.3**	**551**	**14.9**	**631**	**17.1**	**2,094**	**56.7**	**153**	**4.1**	**3,694**
1.	Catholic Syrian Bank Ltd.	58	30.3	10	5.0	31	15.9	18	9.4	134	69.7	-	-	192
2.	City Union Bank Ltd.	56	49.9	26	23.5	9	7.9	21	18.6	56	50.1	-	-	112
3.	Dhanalakshmi Bank Ltd.	35	52.8	6	8.6	6	9.3	23	34.8	32	47.2	-	-	67
4.	Federal Bank Ltd.	454	39.6	135	11.8	177	15.4	142	12.4	694	60.4	153	13.3	1,148
5.	ING Vysya Bank Ltd.	57	37.7	42	28.0	10	6.7	4	2.9	94	62.3	-	-	152
6.	Jammu and Kashmir Bank Ltd.	312	60.2	47	9.1	49	9.5	216	41.6	206	39.8	-	-	519
7.	Karnataka Bank Ltd.	324	46.1	93	13.3	133	19.0	97	13.8	379	53.9	-	-	702
8.	Karur Vysya Bank Ltd.	75	32.9	8	3.7	56	24.6	11	4.7	153	67.1	-	-	228
9.	Lakshmi Vilas Bank Ltd.	57	36.4	16	10.2	17	10.8	24	15.3	100	63.6	-	-	158
10.	Nainital Bank Ltd.	12	56.5	3	14.5	6	27.9	3	14.1	9	43.5	-	-	21
11.	Ratnakar Bank Ltd.	18	90.9	3	17.2	12	58.3	3	15.4	2	9.1	-	-	20
12.	SBI Commercial and International Bank Ltd.	2	100.0	-	-	-	-	2	100.0	-	-	-	-	2
13.	South Indian Bank Ltd.	83	36.1	12	5.0	45	19.4	27	11.7	147	63.9	-	-	230
14.	Tamilnad Mercantile Bank Ltd.	54	38.2	14	10.2	-	-	40	28.0	87	61.8	-	-	141
	New Private Sector Banks	**3,224**	**22.6**	**1,755**	**12.3**	**746**	**5.2**	**722**	**5.1**	**11,053**	**77.4**	**-**	**-**	**14,277**
15.	Axis Bank Ltd.	673	42.4	419	26.4	169	10.6	85	5.4	914	57.6	-	-	1,587
16.	Development Credit Bank Ltd.	56	21.2	16	6.0	38	14.3	3	1.0	208	78.8	-	-	264
17.	HDFC Bank Ltd.	484	29.1	145	8.7	322	19.4	17	1.0	1,177	70.9	-	-	1,660
18.	ICICI Bank Ltd.	1,808	18.4	1,116	11.4	89	0.9	603	6.1	8,008	81.6	-	-	9,816
19.	IndusInd Bank Ltd.	107	40.1	32	12.0	64	23.9	11	4.2	159	59.9	-	-	266
20.	Kotak Mahindra Bank Ltd.	97	16.0	27	4.5	66	11.0	4	0.6	507	84.0	-	-	603
21.	Yes Bank Ltd.	-	-	-	-	-	-	-	-	81	100.0	-	-	81

-: Nil/Negligible.

Source: Off-site returns (domestic).

Appendix Table IV.2(C) : Non-Performing Assets of Foreign Banks - Sector-wise

(as at end-March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	Priority Sector NPAs		*Of which,* Agriculture		*Of which,* Micro and Small Enterprises		*Of which,* Others		Non-Priority Sector NPAs		*Of which,* Public Sector NPAs		Total NPAs
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount 15 = (3+11)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Foreign Banks	**1,141**	**22.5**	**0.1**	**-**	**352**	**6.9**	**789**	**15.6**	**3,924**	**77.5**	**-**	**-**	**5,065**
1.	AB Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	Abu Dhabi Commercial Bank Ltd.	5	40.2	-	-	5	40.2	-	-	8	59.8	-	-	13
3.	American Express Banking Corp.	-	-	-	-	-	-	-	-	20	100.0	-	-	20
4.	Antwerp Diamond Bank NV	100	100.0	-	-	49	49.6	50	50.4	-	-	-	-	100
5.	Bank International Indonesia	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Bank of America National Association	-	-	-	-	-	-	-	-	0.7	100.0	-	-	1
7.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	-	-	-	-	-	14	100.0	-	-	14
8.	Bank of Ceylon	1	54.5	-	-	0.7	38.7	0.3	15.7	0.8	45.5	-	-	2
9.	Bank of Nova Scotia	10	100.0	-	-	10	100.0	-	-	-	-	-	-	10
10.	Barclays Bank PLC	56	7.2	-	-	50	6.4	6	0.7	725	92.8	-	-	781
11.	BNP Paribas	0.5	4.1	-	-	-	-	0.5	4.1	11	95.9	-	-	11
12.	Chinatrust Commercial Bank	-	-	-	-	-	-	-	-	3	100.0	-	-	3
13.	Citibank N.A.	218	26.0	-	-	165	19.7	53	6.3	621	74.0	-	-	839
14.	Commomwealth Bank of Australia	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Credit Agricole Corporate and Investment	-	-	-	-	-	-	-	-	199	100.0	-	-	199
16.	Credit Suisse AG	-	-	-	-	-	-	-	-	-	-	-	-	-
17.	DBS Bank Ltd.	-	-	-	-	-	-	-	-	83	100.0	-	-	83
18.	Deutsche Bank (Asia)	4	2.5	-	-	4	2.1	0.8	0.5	174	97.5	-	-	179
19.	First Rand Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	HSBC Ltd.	408	41.0	-	-	60	6.0	348	35.0	588	59.0	-	-	996
21.	JPMorgan Chase Bank National Association	-	-	-	-	-	-	-	-	27	100.0	-	-	27
22.	JSC VTB Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
23.	Krung Thai Bank Public Co. Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-
24.	Mashreqbank PSC	0.00070	87.5	-	-	0.00010	12.5	0.0006	75.0	0.0001	12.5	-	-	-
25.	Mizuho Corporate Bank Ltd.	6	100.0	-	-	-	-	6	100.0	-	-	-	-	6
26.	Oman International Bank S.A.O.G.	-	-	-	-	-	-	-	-	-	-	-	-	-
27.	Sber Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
28.	Shinhan Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
29.	Societe Generale	1	100.0	-	-	-	-	1	100.0	-	-	-	-	1
30.	Sonali Bank	-	-	-	-	-	-	-	-	0.7	100.0	-	-	1
31.	Standard Chartered Bank	303	26.4	0.1	-	8	0.7	295	25.7	845	73.6	-	-	1,148
32.	State Bank of Mauritius Ltd.	-	-	-	-	-	-	-	-	18	100.0	-	-	18
33.	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-
34.	The Royal Bank of Scotland N V	28	4.6	-	-	-	-	28	4.6	586	95.4	-	-	614
35.	UBS AG	-	-	-	-	-	-	-	-	-	-	-	-	-
36.	United Overseas Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-

-: Nil/Negligible.

Note: 1) In case of sector-wise gross NPAs of foreign banks, export trade have been added to NPAs of other priority sectors and non priority sector NPAs have been adjusted accordingly.
2) 'Bank International Indonesia' has discontinued its operations in India, but was not closed technically, and has not been filing returns for the last two years.
3) 'SBER Bank' has started submitting returns from June 2011 only.

Source: Off-site returns (domestic).

Appendix Table IV.3(A): Non-Performing Assets in Advances to Weaker Sections - Public Sector Banks

(As at end March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	NPAs in Advances to Weaker Sections	
		Amount	Per cent
1	2	3	4
	Public Sector Banks	**7,929**	**3.6**
	Nationalised Banks	**5,314**	**3.8**
1.	Allahabad Bank	155	2.1
2.	Andhra Bank	47	0.7
3.	Bank of Baroda	557	6.9
4.	Bank of India	800	4.2
5.	Bank of Maharashtra	263	10.0
6.	Canara Bank	354	2.0
7.	Central Bank of India	152	11.8
8.	Corporation Bank	52	1.2
9.	Dena Bank	105	3.9
10.	Indian Bank	17	0.3
11.	Indian Overseas Bank	422	5.6
12.	Oriental Bank of Commerce	213	3.5
13.	Punjab and Sind Bank	49	1.6
14.	Punjab National Bank	852	5.4
15.	Syndicate Bank	229	2.7
16.	UCO Bank	288	3.8
17.	Union Bank of India	426	11.8
18.	United Bank of India	77	1.5
19.	Vijaya Bank	234	6.1
20.	IDBI Bank Ltd.	22	0.6
	State Bank Group	**2,615**	**3.2**
21.	State Bank of Bikaner and Jaipur	112	1.8
22.	State Bank of Hyderabad	179	2.5
23.	State Bank of India	2,013	3.4
24.	State Bank of Mysore	129	3.0
25.	State Bank of Patiala	53	7.9
26.	State Bank of Travancore	129	3.0

Note: Nationalised banks include IDBI Bank Ltd.
Source: Based on off-site returns submitted by banks(domestic).

Appendix Table IV.3(B): Non-Performing Assets in Advances to Weaker Sections - Private Sector Banks

(As at end March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	NPAs in Advances to Weaker Sections	
		Amount	Per cent
1	2	3	4
	Private Sector Banks	**283**	**1.0**
	Old Private Sector Banks	**145**	**1.1**
1.	Catholic Syrian Bank Ltd.	5	0.6
2.	City Union Bank Ltd.	-	-
3.	Dhanalakshmi Bank Ltd.	-	-
4.	Federal Bank Ltd.	36	3.2
5.	ING Vysya Bank Ltd.	4	0.8
6.	Jammu and Kashmir Bank Ltd.	43	1.5
7.	Karnataka Bank Ltd.	10	1.9
8.	Karur Vysya Bank Ltd.	5	0.3
9.	Lakshmi Vilas Bank Ltd.	14	1.8
10.	Nainital Bank Ltd.	-	-
11.	Ratnakar Bank Ltd.	1	1.3
12.	SBI Commercial and International Bank Ltd.	-	-
13.	South Indian Bank Ltd.	6	0.2
14.	Tamilnad Mercantile Bank Ltd.	21	2.1
	New Private Sector Banks	**138**	**1.0**
15.	Axis Bank Ltd.	-	-
16.	Development Credit Bank Ltd.	2	0.6
17.	HDFC Bank Ltd.	24	0.8
18.	ICICI Bank Ltd.	95	2.8
19.	IndusInd Bank Ltd.	-	-
20.	Kotak Mahindra Bank Ltd.	18	0.9
21.	Yes Bank Ltd.	-	-

- : Nil/Negligible.

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

Appendix Table IV.4A: Advances of Public Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	Total Priority Sector Advances		Total Agricultural Advances		*Of which,* Direct Agricultural Advances		*Of which,* Indirect Agricultural Advances		Advances to Weaker Sections	
		Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher
1	2	3	4	5	6	7	8	9	10	11	12
	Public Sector Banks										
	Nationalised Banks*										
1.	Allahabad Bank	**30,764**	**43.0**	13,387	18.2	9,808	13.7	3,579	5.0	7,547	10.5
2.	Andhra Bank	**21,885**	**38.5**	9,808	17.3	8,418	14.8	1,390	2.4	7,000	12.3
3.	Bank of Baroda	**57,364**	**43.6**	24,529	17.5	17,158	13.0	7,371	5.6	13,245	10.1
4.	Bank of India	**60,035**	**45.6**	21,135	16.1	15,237	11.6	5,898	4.5	17,713	13.5
5.	Bank of Maharashtra	**15,680**	**38.7**	4,483	11.1	3,835	9.5	648	1.6	2,590	6.4
6.	Canara Bank	**70,757**	**44.1**	29,656	18.5	22,669	14.1	6,987	4.4	17,824	11.1
7.	Central Bank of India	**40,075**	**37.8**	19,009	16.9	13,192	12.4	5,816	5.5	10,708	10.1
8.	Corporation Bank	**20,308**	**32.1**	4,270	6.8	2,901	4.6	1,370	2.2	4,442	7.0
9.	Dena Bank	**15,150**	**42.4**	6,389	16.2	4,179	11.7	2,210	6.2	2,690	7.5
10.	Indian Bank	**25,573**	**43.0**	10,986	18.5	8,692	14.6	2,294	3.9	6,073	10.2
11.	Indian Overseas Bank	**32,648**	**44.5**	16,056	21.8	12,724	17.3	3,332	4.5	7,463	10.2
12.	Oriental Bank of Commerce	**34,470**	**41.3**	12,413	14.8	8,626	10.3	3,787	4.5	6,066	7.3
13.	Punjab National Bank	**73,765**	**40.7**	35,054	19.3	26,837	14.8	8,217	4.5	18,365	10.1
14.	Punjab & Sind Bank	**13,249**	**40.5**	5,993	15.0	3,442	10.5	2,550	7.8	3,128	9.6
15.	Syndicate Bank	**36,606**	**46.2**	15,143	18.6	11,180	14.1	3,963	5.0	8,505	10.7
16.	Union Bank of India	**49,128**	**41.9**	20,254	14.1	11,301	9.6	8,953	7.6	11,849	10.1
17.	United Bank of India	**17,751**	**41.5**	5,712	13.1	3,677	8.6	2,035	4.8	5,143	12.0
18.	UCO Bank	**27,963**	**38.8**	11,354	15.7	8,191	11.4	3,163	4.4	7,496	10.4
19.	Vijaya Bank	**14,671**	**35.0**	4,969	11.9	3,773	9.0	1,196	2.9	3,808	9.1
20.	IDBI Bank Ltd.	**40,838**	**29.5**	14,957	10.3	7,996	5.8	6,962	5.0	3,699	2.7
	State Bank Group										
21.	State Bank of India	**2,38,809**	**42.0**	94,228	16.6	68,663	12.1	25,565	4.5	59,213	10.4
22.	State Bank of Bikaner & Jaipur	**14,855**	**41.8**	7,245	20.4	5,969	16.8	1,277	3.6	6,192	17.4
23.	State Bank of Hyderabad	**27,478**	**51.5**	10,210	18.6	7,519	14.1	2,692	5.0	2,184	4.1
24.	State Bank of Mysore	**12,106**	**40.5**	5,319	16.8	3,676	12.3	1,643	5.5	4,291	14.4
25.	State Bank of Patiala	**19,325**	**41.1**	6,851	14.6	5,615	11.9	1,236	2.6	4,793	10.2
26.	State Bank of Travancore	**17,363**	**44.1**	5,580	14.2	4,807	12.2	773	2.0	4,289	10.9

* : Include IDBI Bank Ltd.

Note: 1) Data are provisional.

2) ANBC - Adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

3) Indirect agriculture is reckoned up to 4.5 per cent of ANBC for calculation of percentage for Agriculture.

4) For IDBI Bank Ltd. concessional priority sector lending and agriculture lending targets have been fixed at 34 per cent and 14 per cent of ANBC respectively ,as on the last reporting Friday of March 2011.

Source: Data furnished by respective banks.

Appendix Table IV.4B: Advances of Private Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	Total Priority Sector Advances		Total Agricultural Advances		*Of which,* Direct Agricultural Advances		*Of which,* Indirect Agricultural Advances		Advances to Weaker Sections	
		Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks										
1.	Axis Bank Ltd.	**41,300**	**44.4**	16,381	15.2	9,961	10.7	6,420	6.9	4,654	5.0
2.	Catholic Syrian Bank Ltd.	**2,117**	**46.6**	891	19.6	857	18.9	34	0.8	827	18.2
3.	City Union Bank Ltd.	**3,346**	**48.4**	1,179	17.1	981	14.2	198	2.9	528	7.6
4.	Development Credit Bank Ltd.	**1,657**	**45.1**	773	16.3	433	11.8	340	9.3	340	9.3
5.	Dhanalakshmi Bank Ltd.	**2,555**	**50.7**	915	18.1	717	14.2	198	3.9	859	17.0
6.	Federal Bank Ltd.	**11,312**	**40.9**	3,588	13.0	2,725	9.9	864	3.1	1,238	4.5
7.	Yes Bank Ltd.	**10,163**	**45.7**	5,888	20.1	3,477	15.6	2,411	10.8	1,388	62.4
8.	HDFC Bank Ltd.	**58,064**	**46.6**	22,817	14.8	12,848	10.3	9,969	8.0	2,908	2.3
9.	ICICI Bank Ltd.	**55,173**	**53.1**	15,414	14.0	9,897	9.5	5,517	5.3	3,443	3.3
10.	IndusInd Bank Ltd.	**9,437**	**45.9**	3,406	16.3	2,415	11.8	991	4.8	1,763	8.6
11.	ING Vysya Bank Ltd.	**7,724**	**41.7**	2,501	12.9	1,552	8.4	948	5.1	455	2.5
12.	Jammu & Kashmir Bank Ltd.	**10,424**	**51.9**	2,897	12.5	1,612	8.0	1,285	6.4	2,807	14.0
13.	Karnataka Bank Ltd.	**6,348**	**43.0**	1,974	13.1	1,270	8.6	704	4.8	536	3.6
14.	Karur Vysya Bank Ltd.	**5,614**	**41.1**	2,501	18.3	2,103	15.4	398	2.9	1,390	10.2
15.	Kotak Mahindra Bank Ltd.	**8,991**	**42.4**	4,186	19.5	3,180	15.0	1,006	4.7	1,982	9.4
16.	Lakshmi Vilas Bank Ltd.	**2,615**	**41.2**	1,181	18.6	930	14.6	251	4.0	728	11.5
17.	Nainital Bank Ltd.	**811**	**62.9**	276	20.5	206	16.0	70	5.5	104	8.0
18.	Ratnakar Bank Ltd.	**500**	**56.1**	228	23.0	165	18.5	63	7.1	109	12.2
19.	SBI Commercial & International Bank Ltd.	**97**	**46.8**	50	24.2	46	22.3	4	1.9	24	11.5
20.	South Indian Bank Ltd.	**6,085**	**38.1**	3,418	21.4	3,275	20.5	144	0.9	3,056	19.1
21.	Tamilnad Mercantile Bank Ltd.	**4,494**	**53.6**	1,670	19.9	1,395	16.6	275	3.3	959	11.4

Note: 1) Data are provisional.

2) ANBC - Adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

3) Indirect agriculture is reckoned up to 4.5 per cent of ANBC or credit equivalent amount of off-balance sheet exposures,whichever is higher, for computation of achievement in lending to agriculture sector.

Source: Data furnished by respective banks.

Appendix Table IV.4C: Advances of विदेशी बैंक to Micro and Small Enterprises (MSE) and Export sectors

(As on the last reporting Friday of March 2011)

(Amount in ₹ crore)

Sr. No.	Name of the Bank	Total Priority Sector Advances		MSE Advances		Export Credit	
		Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher
1	2	3	4	5	6	7	8
	Foreign Banks						
1.	AB Bank Ltd.	**21**	**33.9**	13	20.9	8	12.9
2.	Abu Dhabi Commercial Bank Ltd.	**71**	**42.8**	43	25.7	28	17.1
3.	American Express Banking Corp.	**-**	**-**	-	-	-	-
4.	Antwerp Diamond Bank NV	**511**	**105.5**	162	33.5	349	72.1
5.	BNP Paribas	**1,275**	**34.1**	738	19.8	537	-
6.	Bank International Indonesia	**-**	**-**	-	-	-	-
7.	Bank of America National Association	**1,518**	**41.8**	430	11.9	1,088	30.0
8.	Bank of Bahrain & Kuwait B.S.C.	**132**	**34.1**	41	10.6	73	-
9.	Bank of Ceylon	**33**	**41.6**	17	21.4	18	22.3
10.	Bank of Nova Scotia	**2,729**	**53.8**	509	10.0	2,220	43.8
11.	Barclays Bank PLC	**3,043**	**40.2**	2,005	26.5	1,600	-
12.	Chinatrust Commercial Bank	**40**	**20.1**	40	20.1	-	-
13.	Citibank N.A.	**13,246**	**36.1**	4,174	11.4	7,406	20
14.	Commomwealth Bank of Australia	**-**	**-**	-	**-**	-	**-**
15.	Credit Agricole	**1,410**	**48.3**	350	12.0	1,060	36.3
16.	Credit Suisse AG	**-**	**-**	-	-	-	-
17.	DBS Bank Ltd.	**3,790**	**64.2**	687	11.6	3,103	52.6
18.	Deutsche Bank (Asia)	**4,828**	**36.9**	1,664	12.7	3,115	23.8
19.	First Rand Bank	**57**	**283.8**	6	28.6	51	255.3
20.	HSBC Ltd.	**10,463**	**42.5**	2,994	12.2	6,810	27.7
21.	JP Morgan Chase Bank	**1,182**	**41.9**	295	10.4	887	31.4
22.	JSC VTB	**10**	**26.1**	-	-	10	26.1
23.	Krung Thai Bank	**5**	**94.1**	5	94.1	-	-
24.	Mashreqbank PSC	**41**	**73.8**	1	1.7	40	72
25.	Mizuho Corporate Bank	**488**	**17.9**	206	7.6	282	10.3
26.	Oman International Bank S.A.O.G.	**-**	**-**	-	-	-	-
27.	Sber Bank	**-**	**-**	-	-	-	-
28.	Shinhan Bank	**172**	**35.8**	59	12	64	-
29.	Societe Generale	**267**	**64.2**	50	12.0	196	47.3
30.	Sonali Bank	**4**	**40.2**	-	-	-	-
31.	Standard Chartered Bank	**14,188**	**34.1**	4,476	10.8	8,097	19.5
32.	State Bank of Mauritius	**176**	**43.0**	65	15.9	102	25.0
33.	The Bank of Tokyo-Mitsubishi	**1,977**	**59.1**	335	10.0	1,642	-
34.	The Royal Bank of Scotland	**4,792**	**34.4**	2,070	14.9	3,709	26.6
35.	UBS AG	**149**	**104.1**	100	69.8	49	34.3
36.	United Overseas Bank Ltd.	**-**	**-**	-	-	-	-

- : Nil/Negligible.

Note: 1) Data are provisional.

2) ANBC - Adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

Source: Data furnished by respective banks.

Appendix Table IV.5A: Targets Achieved by Public Sector Banks under the Priority Sector

(As on the last reporting Friday of March 2011)

Sr. No.	Name of the Bank	Overall	Agriculture	Weaker Sections
1	2	3	4	5
	Public Sector Banks			
	Nationalised Banks*			
1.	Allahabad Bank	√	√	√
2.	Andhra Bank	X	X	√
3.	Bank of Baroda	√	X	√
4.	Bank of India	√	X	√
5.	Bank of Maharashtra	X	X	X
6.	Canara Bank	√	√	√
7.	Central Bank of India	X	X	√
8.	Corporation Bank	X	X	X
9.	Dena Bank	√	X	X
10.	Indian Bank	√	√	√
11.	Indian Overseas Bank	√	√	√
12.	Oriental Bank of Commerce	√	X	X
13.	Punjab National Bank	√	√	√
14.	Punjab and Sind Bank	√	X	X
15.	Syndicate Bank	√	√	√
16.	Union Bank of India	√	X	√
17.	United Bank of India	√	X	√
18.	UCO Bank	X	X	√
19.	Vijaya Bank	X	X	X
20.	IDBI Bank Ltd.	X	X	NA
	State Bank Group			
21.	State Bank of India	√	X	√
22.	State Bank of Bikaner and Jaipur	√	√	√
23.	State Bank of Hyderabad	√	√	X
24.	State Bank of Mysore	√	X	√
25.	State Bank of Patiala	√	X	√
26.	State Bank of Travancore	√	X	√

√ : Indicates meeting the respective norm for priority sector.
×: Indicates shortfall in the respective norm for priority sector.
* : Nationalised banks include IDBI Bank Ltd.
NA: Not applicable.
Note: For IDBI Bank Ltd. concessional priority sector lending and agriculture lending targets have been fixed at 34 per cent and 14 per cent of ANBC respectively, as on the last reporting Friday of March 2011.

Appendix Table IV.5B: Targets Achieved by Private Sector Banks under the Priority Sector

(As on the last reporting Friday of March 2011)

Sr. No.	Name of the Bank	Overall	Agriculture	Weaker Sections
1	2	3	4	5
	Private Sector Banks			
1.	Axis Bank Ltd.	√	X	X
2.	Catholic Syrian Bank Ltd.	√	√	√
3.	City Union Bank Ltd.	√	X	X
4.	Development Credit Bank Ltd.	√	X	X
5.	Dhanalakshmi Bank Ltd.	√	√	√
6.	Federal Bank Ltd.	√	X	X
7.	HDFC Bank Ltd.	√	X	X
8.	ICICI Bank Ltd.	√	X	X
9.	IndusInd Bank Ltd.	√	X	X
10.	ING Vysya Bank Ltd.	√	X	X
11.	Jammu & Kashmir Bank Ltd.	√	X	√
12.	Karnataka Bank Ltd.	√	X	X
13.	Karur Vysya Bank Ltd.	√	√	√
14.	Kotak Mahindra Bank Ltd.	√	√	X
15.	Lakshmi Vilas Bank Ltd.	√	√	√
16.	Nainital Bank Ltd.	√	√	X
17.	Ratnakar Bank Ltd.	√	√	√
18.	SBI Commercial & International Bank Ltd.	√	√	√
19.	South Indian Bank Ltd.	X	√	√
20.	Tamilnad Mercantile Bank Ltd.	√	√	√
21.	Yes Bank Ltd.	√	√	√

√ : Indicates meeting the respective norm for priority sector.

×: Indicates shortfall in the respective norm for priority sector.

Appendix Table IV.5C: Targets Achieved by Foreign Banks under the Priority Sector

(As on the last reporting Friday of March 2011)

Sr. No.	Name of the Bank	Overall	Advances to Micro and Small Enterprises	Export Credit
1	2	3	4	5
	Foreign Banks			
1.	A B Bank Ltd.	√	√	√
2.	Abu Dhabi Commercial Bank	√	√	√
3.	American Express Banking Corporation	-	-	-
4.	Antwerp Diamond Bank NV	√	√	√
5.	Bank International Indonesia	-	-	-
6.	Bank of America National Association	√	√	√
7.	Bank of Baharin and Kuwait B.S.C.	√	√	X
8.	Bank of Ceylon	√	√	√
9.	Bank of Nova Scotia	√	√	√
10.	Barclays Bank PLC	√	√	X
11.	BNP Paribas	√	√	X
12.	China Trust Commercial Bank	X	√	X
13.	Citi Bank	√	√	√
14.	Commonwealth Bank of Australia	-	-	-
15.	Credit Agricole Corporate and Investment	√	√	√
16.	Credit Suisse AG	-	-	-
17.	DBS Bank Ltd.	√	√	√
18.	Deutsche Bank (Asia)	√	√	√
19.	First Rand Bank	√	√	√
20.	HSBC Ltd.	√	√	√
21.	JPMorgan Chase Bank National Association	√	√	√
22.	JSC VTB	X	X	√
23.	Krung Thai Bank Public Co. Ltd.	√	√	X
24.	Mashreqbank PSC	√	X	√
25.	Mizuho Corporate Bank Ltd.	√	X	X
26.	Oman International Bank S.A.O.G.	X	X	X
27.	Sber Bank	-	-	-
28.	Shinhan Bank	√	√	X
29.	Societe Generale	√	√	√
30.	Sonali Bank	√	X	X
31.	Standard Chartered Bank	√	√	√
32.	State Bank of Mauritius Ltd.	√	√	√
33.	The Bank of Tokyo-Mitsubishi UFJ	√	√	X
34.	The Royal Bank of Scotland	√	√	√
35.	UBS AG	√	√	√
36.	United Overseas Bank Ltd.	-	-	-

√ : Indicates meeting the respective norm for priority sector.

X : Indicates not meeting the respective norm for priority sector.

- : Nil/Negligible/Not Applicable

Note: Priority sector lending target will only be applicable from 2011-12 onwards to banks, which have started their opeations in 2010-11.

Appendix Table IV.6: Bank Group-wise Lending to the Sensitive Sectors

(As at end-March)

(Amount in ₹ crore)

Sr. No.	Item	Public Sector Banks			Nationalised Banks*			State Bank Group			Private Sector Banks		
		2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation
1		2	3	4	5	6	7	8	9	10	11	12	13
1.	Capital Market #	37,501	44,023	17.4	27,526	32,412	17.8	9,975	11,611	16.4	23,573	25,250	7.1
		(1.4)	(1.3)		(1.5)	(1.4)		(1.2)	(1.2)		(3.7)	(3.1)	
2.	Real Estate @	3,86,412	4,73,735	22.6	2,68,746	3,05,060	13.5	1,17,665	1,68,675	43.4	1,47,648	1,86,158	26.1
		(14.3)	(14.3)		(14.6)	(13.2)		(13.7)	(17.0)		(23.4)	(23.3)	
3.	Commodities	-	-	-	-	-	-	-	-	-	-	-	-
	Total Advances to Sensitive Sectors	**4,23,913**	**5,17,758**	**22.1**	**2,96,272**	**3,37,471**	**13.9**	**1,27,641**	**1,80,286**	**41.3**	**1,71,221**	**2,11,407**	**23.5**
		(15.7)	**(15.7)**		**(16.1)**	**(14.6)**		**(14.9)**	**(18.1)**		**(27.1)**	**(26.5)**	

Sr. No.	Item	Old Private Sector Banks			New Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
		2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation	2009-10	2010-11	Percentage Variation
1		2	3	4	5	6	7	8	9	10	11	12	13
1.	Capital Market #	2,091	2,279	9.0	21,481	22,971	6.9	6,645	7,075	6.5	67,718	76,348	12.7
		(1.4)	(1.2)		(4.5)	(3.8)		(4.1)	(3.6)		(1.9)	(1.8)	
2.	Real Estate @	23,084	25,195	9.1	1,24,564	1,60,963	29.2	46,771	55,659	19.0	5,80,830	7,15,551	23.2
		(15.0)	(13.6)		(26.0)	(26.3)		(28.7)	(28.5)		(16.6)	(16.6)	
3.	Commodities	-	-	-	-	-	-	-	-	-	-	-	-
	Total Advances to Sensitive Sectors	**25,176**	**27,473**	**9.1**	**1,46,045**	**1,83,934**	**25.9**	**53,415**	**62,735**	**17.5**	**6,48,549**	**7,91,900**	**22.1**
		(16.3)	**(14.9)**		**(30.5)**	**(30.0)**		**(32.7)**	**(32.1)**		**(18.6)**	**(18.4)**	

- : 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.
* : Include IDBI Bank Ltd.
Note: Figures in parentheses are percentages to total loans and advances of the concerned bank-group.
Source: Balance sheets of respective banks.

Appendix Table IV.7 : 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 (₹) (End-March)			Percentage variation in closing prices (2010-11 over 2009-10)	P/E Ratio (End-March)		
		2008-09	2009-10	2010-11		2008-09	2009-10	2010-11
1	2	3	4	5	6	7	8	9
	Public Sector Banks							
1.	Allahabad Bank	39	143	231	61.9	2.2	5.2	7.1
2.	Andhra Bank	45	108	151	39.6	3.3	5.0	5.8
3.	Bank of Baroda	235	639	963	50.7	3.6	7.3	8.6
4.	Bank of India	220	341	478	40.3	3.7	10.0	9.8
5.	Bank of Maharashtra	21	50	59	19.6	2.4	4.9	8.6
6.	Canara Bank	166	410	626	52.6	3.3	5.6	6.4
7.	Central Bank of India	34	147	141	-3.9	2.4	5.3	5.4
8.	Corporation Bank	181	481	638	32.7	2.9	5.8	6.4
9.	Dena Bank	32	78	104	32.9	2.2	4.4	4.9
10.	Indian Bank	83	176	232	32.2	2.8	4.9	5.9
11.	Indian Overseas Bank	46	92	144	56.2	1.9	7.1	8.3
12.	Oriental Bank of Commerce	110	321	387	20.6	3.0	7.1	6.5
13.	Punjab National Bank	411	1,013	1,220	20.4	4.1	8.0	8.4
14.	Syndicate Bank	48	86	122	41.7	2.7	5.9	6.1
15.	Union Bank of India	147	293	347	18.6	4.3	7.1	8.1
16.	Vijaya Bank	23	47	79	67.6	-	5.4	-
17.	State Bank of India	1,067	2,079	2,768	33.1	6.2	11.2	16.4
18.	State Bank of Bikaner and Jaipur	196	454	520	14.5	2.4	4.9	5.1
19.	State Bank of Mysore	331	637	653	2.5	3.5	5.1	5.4
20.	State Bank of Travancore	212	613	745	21.6	1.7	4.6	5.1
21.	UCO Bank	24	57	107	89.6	3.2	3.1	7.4
22.	IDBI Bank Ltd.	45	115	142	23.9	4.3	8.2	9.0
	Private Sector Banks							
23.	Axis Bank	415	1,169	1,404	20.1	8.2	19.7	17.2
24.	Bank of Rajasthan Ltd.#	37	55	-	-	5.2	-	-
25.	City Union Bank Ltd.	12	29	45	56.9	3.2	7.1	8.4
26.	Dhanalakshmi Bank	50	133	113	-14.7	5.6	36.6	34.2
27.	Development Credit Bank Ltd	19	32	46	42.4	-	36.6	34.2
28.	Federal Bank Ltd.	138	267	419	56.9	4.9	10.4	12.9
29.	ING Vysya Bank	128	279	321	15.0	6.9	12.7	12.2
30.	Indusind Bank Ltd.	32	171	264	54.5	7.6	18.9	21.3
31.	Jammu and Kashmir Bank Ltd.	315	679	875	28.8	3.7	6.4	8.3
32.	Karnataka Bank Ltd.	65	120	108	-10.3	2.9	8.9	9.9
33.	Karur Vysya Bank Ltd.	200	458	399	-12.9	4.6	7.4	8.9
34.	Kotak Mahindra Bank Ltd.*	283	749	457	-39.0 (22.0)	14.9	19.9	21.5
35.	Lakshmi Vilas Bank	63	78	98	25.6	5.3	15.7	9.5
36.	South Indian Bank Ltd.**	51	178	23	-87.2 (28.1)	2.9	8.6	8.8
37.	HDFC Bank Ltd.	968	1,933	2,343	21.2	18.3	28.1	27.3
38.	ICICI Bank Ltd.	333	953	1,113	16.8	10.4	22.1	20.9
39.	Yes Bank	50	255	310	21.6	4.9	-	14.7

– : Not Available.
: Bank of Rajasthan merged with ICICI Bank in August 2010.
* : The stock was split in the ratio 1:2 on Sep 13, 2010. Figure in parenthesis is split adjusted change.
** : The stock was split in the ratio 1:10 on Sep 23, 2010. Figure in parenthesis is split adjusted change.
Source: BSE and Bloomberg.

Appendix Table IV.8: Shareholding Pattern of Domestic Scheduled Commercial Banks *(Continued)*

(As at end-March 2011)

(Per cent)

Sr. No.	Name of the Bank	Total Govern ment and RBI - Resident	Financial Institu- tions Resident	Financial Institu- tions Non Resident	Other Corpo- rates Resident	Other Corpo- rates Non Resident	Total Indivi- dual Resident	Total Indivi- dual Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks*									
1.	Allahabad Bank	58.0	30.6	-	1.2	-	10.2	-	100.0	-
2.	Andhra Bank	58.0	14.7	14.5	1.7	-	10.8	0.4	85.2	14.8
3.	Bank of Baroda	57.0	16.0	16.6	4.7	-	5.2	0.5	82.9	17.1
4.	Bank of India	65.9	12.5	14.3	1.4	-	5.6	0.4	85.3	14.7
5.	Bank of Maharashtra	79.2	8.8	1.0	1.5	-	9.3	0.2	98.9	1.2
6.	Canara Bank	67.7	11.5	14.9	0.9	-	4.9	0.1	85.0	15.0
7.	Central Bank of India	80.2	8.3	3.2	1.6	-	6.5	0.2	96.6	3.4
8.	Corporation Bank	58.5	36.0	-	2.3	-	3.0	0.3	99.7	0.3
9.	Dena Bank	58.0	9.3	-	3.6	-	15.0	14.1	85.9	14.1
10.	Indian Bank	80.0	4.5	10.1	2.6	-	2.8	0.1	89.8	10.2
11.	Indian Overseas Bank	65.9	13.6	6.3	2.6	-	11.1	0.6	93.2	6.8
12.	Oriental Bank of Commerce	58.0	22.2	13.7	1.5	-	4.5	0.1	86.2	13.8
13.	Punjab & Sind Bank	82.1	1.5	4.7	2.5	-	8.9	0.3	95.0	5.0
14.	Punjab National Bank	58.0	17.5	19.3	1.2	-	4.0	-	80.7	19.4
15.	Syndicate Bank	69.5	11.3	4.4	2.5	-	12.3	-	95.6	4.4
16.	UCO Bank	68.1	10.2	5.4	3.3	-	12.7	0.3	94.3	5.7
17.	Union Bank of India	57.1	27.4	-	6.6	-	9.0	-	100.0	-
18.	United Bank of India	85.5	5.1	-	5.8	-	3.6	0.1	99.9	0.1
19.	Vijaya Bank	57.7	10.9	7.9	3.3	-	19.6	0.6	91.5	8.5
20.	IDBI Bank Ltd.	65.1	15.1	3.9	3.5	-	11.8	0.6	95.5	4.5
	State Bank Group									
21.	State Bank of Bikaner & Jaipur	-	77.2	-	4.1	5.5	13.0	0.2	94.3	5.7
22.	State Bank of Hyderabad	-	100.0	-	-	-	-	-	100.0	-
23.	State Bank of India	59.4	16.3	15.7	2.9	-	5.7	0.1	84.2	15.8
24.	State Bank of Mysore	-	94.2	-	0.3	-	5.4	0.1	99.9	0.1
25.	State Bank of Patiala	-	100.0	-	-	-	-	-	100.0	-
26.	State Bank of Travancore	1.1	76.3	3.3	3.3	-	12.9	3.1	93.6	6.4

- : Nil/Negligible.

* : Include IDBI Bank Ltd.

Source: Off-site Returns (domestic).

Appendix Table IV.8: Shareholding Pattern of Domestic Scheduled Commercial Banks *(Concluded)*

(As at end-March 2011)

(Per cent)

Sr. No.	Name of the Bank	Total Govern ment and RBI - Resident	Financial Institu- tions Resident	Financial Institu- tions Non Resident	Other Corpo- rates Resident	Other Corpo- rates Non Resident	Total Indivi- dual Resident	Total Indivi- dual 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.	-	9.7	-	13.5	14.9	43.0	18.9	66.2	33.8
2.	City Union Bank Ltd.	-	6.7	17.5	11.5	7.2	56.7	0.5	74.9	25.2
3.	Dhanalakshmi Bank Ltd.	-	5.9	32.7	19.5	-	35.8	6.1	61.2	38.8
4.	Federal Bank Ltd.	-	24.0	36.1	14.7	5.0	17.1	3.1	55.8	44.2
5.	ING Vysya Bank Ltd.	-	12.8	23.8	6.0	43.3	10.1	4.0	28.9	71.1
6.	Jammu & Kashmir Bank Ltd.	53.2	4.5	23.0	7.2	-	11.7	0.5	76.6	23.4
7.	Karnataka Bank Ltd.	-	30.6	-	20.2	-	48.8	0.4	99.6	0.4
8.	Karur Vysya Bank Ltd.	-	4.3	22.9	15.9	-	55.0	2.0	75.1	24.9
9.	Lakshmi Vilas Bank Ltd.	-	9.0	-	22.0	7.0	61.1	0.9	92.0	8.0
10.	Nainital Bank Ltd.	-	98.6	-	-	-	1.4	-	100.0	-
11.	Ratnakar Bank Ltd.	-	-	-	22.7	32.8	38.4	6.2	61.0	39.0
12.	SBI Commercial & International Bank Ltd	-	100.0	-	-	-	-	-	100.0	-
13.	South Indian Bank Ltd.	-	10.5	36.2	11.9	-	38.1	3.4	60.4	39.6
14.	Tamilnad Mercantile Bank Ltd.	-	-	-	11.7	16.5	71.6	0.2	83.4	16.6
	New Private Sector Banks									
15.	Axis Bank Ltd.	-	42.3	46.9	5.6	-	5.0	0.2	52.9	47.1
16.	Development Credit Bank Ltd.	-	1.9	-	16.4	36.5	42.2	3.0	60.6	39.4
17.	HDFC Bank Ltd.	-	11.6	-	32.1	46.8	9.1	0.4	52.8	47.2
18.	ICICI Bank Ltd.	-	19.1	66.1	9.0	-	5.5	0.4	33.5	66.5
19.	IndusInd Bank Ltd.	-	8.5	48.7	11.2	19.9	9.8	2.1	29.4	70.6
20.	Kotak Mahindra Bank Ltd.	-	5.3	29.9	8.7	0.6	55.0	0.6	68.9	31.1
21.	Yes Bank Ltd.	-	9.9	45.5	12.1	4.8	26.9	0.8	48.9	51.1

- : Nil/Negligible.

Source: Off-site Returns (domestic).

Appendix Table IV.9: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2011)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent of ATMs to Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**21,705**	**19,800**	**16,945**	**15,680**	**74,130**	**40,729**	**33,776**	**74,505**	**45.3**	**100.5**
	Public Sector Banks	**20,387**	**15,978**	**13,569**	**12,277**	**62,211**	**29,795**	**9,692**	**49,487**	**39.8**	**79.5**
	Nationalised Banks	**14,185**	**10,561**	**10,154**	**9,398**	**44,298**	**15,691**	**9,145**	**24,836**	**36.8**	**56.1**
1.	Allahabad Bank	968	455	506	444	2,373	142	72	214	3.6	9.0
2	Andhra Bank	407	422	455	319	1,603	452	529	981	53.9	61.2
3.	Bank of Baroda	1,171	833	625	723	3,352	998	563	1,561	36.1	46.6
4.	Bank of India	1,299	769	613	622	3,303	755	670	1,425	47.0	43.1
5.	Bank of Maharashtra	534	290	298	383	1,505	323	94	417	22.5	27.7
6.	Canara Bank	803	912	765	772	3,252	1,415	758	2,173	34.9	66.8
7.	Central Bank of India	1,386	948	724	679	3,737	374	632	1,006	62.8	26.9
8.	Corporation Bank	216	338	362	352	1,268	677	505	1,182	42.7	93.2
9.	Dena Bank	362	258	264	307	1,191	391	105	496	21.2	41.6
10.	Indian Bank	496	502	473	358	1,829	806	322	1,128	28.5	61.7
11.	Indian Overseas Bank	573	547	543	504	2,167	719	324	1,043	31.1	48.1
12.	Oriental Bank of Commerce	333	396	495	416	1,640	878	314	1,192	26.3	72.7
13.	Punjab and Sind Bank	299	150	238	254	941	81	2	83	2.4	8.8
14.	Punjab National Bank	1,972	1,091	993	799	4,855	3,044	2,006	5,050	39.7	104.0
15.	Syndicate Bank	768	605	591	527	2,491	1,018	202	1,220	16.6	49.0
16.	UCO Bank	802	466	479	445	2,192	411	197	608	32.4	27.7
17.	Union Bank of India	828	846	730	647	3,051	1,830	804	2,634	30.5	86.3
18.	United Bank of India	627	286	349	294	1,556	262	246	508	48.4	32.6
19.	Vijaya Bank	260	260	358	308	1,186	447	98	545	18.0	46.0
20.	IDBI Bank Ltd.	81	187	293	245	806	668	702	1,370	51.2	170.0
	State Bank Group	**6,202**	**5,417**	**3,415**	**2,879**	**17,913**	**14,104**	**10,547**	**24,651**	**42.8**	**137.6**
21.	State Bank of India	4,972	3,865	2,382	2,065	13,284	10,826	9,258	20,084	46.1	151.2
22.	State Bank of Bikaner and Jaipur	317	256	164	172	909	586	391	977	40.0	107.5
23.	State Bank of Hyderabad	311	387	292	220	1,210	997	273	1,270	21.5	105.0
24.	State Bank of Mysore	213	141	152	194	700	532	203	735	27.6	105.0
25.	State Bank of Patiala	334	280	249	150	1,013	574	178	752	23.7	74.2
26.	State Bank of Travancore	55	488	176	78	797	589	244	833	29.3	104.5

Note: Nationalised Banks include IDBI Bank Ltd.

Source: Master office file (latest updated version) on commercial Banks.

Appendix Table IV.9: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2011)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent of ATMs to Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**1,311**	**3,814**	**3,315**	**3,162**	**11,602**	**10,648**	**13,003**	**23,651**	**55.0**	**203.9**
	Old Private Sector Banks	**764**	**1,738**	**1,349**	**966**	**4,817**	**2,641**	**1,485**	**4,126**	**36.0**	**85.7**
1.	Catholic Syrian Bank Ltd.	18	194	99	49	360	105	54	159	34.0	44.2
2.	City Union Bank Ltd.	34	82	83	49	248	185	47	232	20.3	93.5
3.	Dhanalakshmi Bank Ltd.	24	107	83	59	273	167	292	459	63.6	168.1
4.	Federal Bank Ltd.	49	402	178	112	741	462	342	804	42.5	108.5
5.	ING Vysya Bank	83	84	162	175	504	206	194	400	48.5	79.4
6.	Jammu and Kashmir Bank Ltd.	231	84	124	64	503	262	100	362	27.6	72.0
7.	Karnataka Bank Ltd.	90	101	148	144	483	192	75	267	28.1	55.3
8.	Karur Vysya Bank Ltd.	33	128	127	81	369	371	117	488	24.0	132.2
9.	Lakshmi Vilas Bank Ltd.	38	97	86	48	269	145	105	250	42.0	92.9
10.	Nainital Bank Ltd.	25	29	25	22	101	-	-	-	-	-
11.	Ratnakar Bank Ltd.	25	30	20	25	100	32	-	32	-	32.0
12.	SBI Commercial and International Bank Ltd.	-	-	-	2	2	2	-	2	-	100.0
13.	South Indian Bank Ltd.	65	304	160	103	632	398	91	489	18.6	77.4
14.	Tamilnad Mercantile Bank Ltd.	49	96	54	33	232	114	68	182	37.4	78.4
	New Private Sector Banks	**547**	**2,076**	**1,966**	**2,196**	**6,785**	**8,007**	**11,518**	**19,525**	**59.0**	**287.8**
15.	Axis Bank Ltd.	94	449	452	382	1,377	1,743	4,527	6,270	72.2	455.3
16.	Development Credit Bank Ltd.	4	14	12	52	82	78	56	134	41.8	163.4
17.	HDFC Bank Ltd.	123	619	548	673	1,963	2,749	2,722	5,471	49.8	278.7
18.	ICICI Bank Ltd.	260	803	693	767	2,523	2,727	3,377	6,104	55.3	241.9
19.	IndusInd Bank Ltd.	22	78	110	93	303	254	340	594	57.2	196.0
20.	Kotak Mahindra Ltd.	21	57	82	162	322	307	403	710	56.8	220.5
21.	Yes Bank Ltd.	23	56	69	67	215	149	93	242	38.4	112.6

– : Nil/Negligible.

Source: Master office file (latest updated version) on commercial Banks.

Appendix Table IV.9: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2011)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent of ATMs to Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks	**7**	**8**	**61**	**241**	**317**	**286**	**1,081**	**1,367**	**79.1**	**431.2**
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.	BNP Paribas	-	-	-	9	9	-	-	-	-	-
6.	Bank International Indonesia	-	-	-	1	1	-	-	-	-	-
7.	Bank of America National Association	-	-	-	5	5	-	-	-	-	-
8.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	2	2	-	-	-	-	-
9.	Bank of Ceylon	-	-	-	1	1	-	-	-	-	-
10.	Bank of Nova Scotia	-	-	1	4	5	-	-	-	-	-
11.	Barclays Bank PLC	-	1	4	4	9	7	28	35	80.0	388.9
12.	Chinatrust Commercial Bank	-	-	-	1	1	-	-	-	-	-
13.	Citibank N.A.	-	2	12	29	43	58	593	651	91.1	1,514.0
14.	Commomwealth Bank of Australia	-	-	-	1	1	-	-	-	-	-
15.	Credit Agricole Corporate and Investment	-	-	-	6	6	-	-	-	-	-
16.	Credit Suisse AG	-	-	-	1	1	-	-	-	-	-
17.	DBS Bank Ltd.	3	3	-	6	12	4	26	30	-	250.0
18.	Deutsche Bank (Asia)	1	-	6	8	15	14	46	60	76.7	400.0
19.	First Rand Bank	-	-	-	1	1	-	-	-	-	-
20.	HSBC Ltd.	1	1	10	38	50	72	79	151	52.3	302.0
21.	JPMorgan Chase Bank National Association	-	-	-	1	1	-	-	-	-	-
22.	JSC VTB Bank	-	-	-	1	1	-	-	-	-	-
23.	Krung Thai Bank Public Co. Ltd.	-	-	-	1	1	-	-	-	-	-
24.	Mashreqbank PSC	-	-	-	2	2	-	-	-	-	-
25.	Mizuho Corporate Bank Ltd.	-	-	-	2	2	-	-	-	-	-
26.	Oman International Bank S.A.O.G.	-	-	1	1	2	1	-	1	-	-
27.	Sber Bank	-	-	-	1	1	-	-	-	-	-
28.	Shinhan Bank	-	1	-	2	3	-	-	-	-	-
29.	Societe Generale	-	-	-	2	2	-	-	-	-	-
30.	Sonali Bank	-	-	1	1	2	-	-	-	-	-
31.	Standard Chartered Bank	-	-	16	78	94	95	224	319	70.2	339.4
32.	State Bank of Mauritius Ltd.	-	-	-	3	3	-	-	-	-	-
33.	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	-	-	3	3	-	-	-	-	-
34.	The Royal Bank of Scotland N V	2	-	10	19	31	35	85	120	70.8	387.1
35.	UBS AG	-	-	-	1	1	-	-	-	-	-
36.	United Overseas Bank Ltd.	-	-	-	1	1	-	-	-	-	-

– : Nil/Negligible.

Source: Master office file (latest updated version) on commercial Banks.

Appendix Table IV.10: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2010-11)

Sr. No.	Name of the Bank	Total No. of Complaints Received	Number of complaints other than credit/ debit card complaints/ 1000 accounts*	Number of credit/ debit card complaints/ 1000 credit/ debit card accounts@	Number of complaints per branch#	Category-wise break up of complaints												
						Deposit Account	Remittances	Loans/ Advances General & Housing	ATM/ Credit/ Debit Cards	Charges without prior notice	Pension	Failure on Commitments made	Non Observance of Fair Practices code	Notes and Coins	BCSBI	Recovery Agents	Out of Subject	Others
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
	Scheduled Commercial Banks	**66,927**	**0.08**	**0.16**	**0.90**	**1,660**	**4,010**	**4,293**	**16,871**	**4,018**	**5,810**	**2,879**	**13,340**	**130**	**2,276**	**1,706**	**2,336**	**7,598**
	Public Sector Banks	**42,724**	**0.05**	**0.01**	**0.69**	**726**	**3,019**	**3,262**	**9,217**	**1,700**	**5,746**	**1,971**	**8,799**	**86**	**1,260**	**120**	**1,983**	**4,835**
	Nationalised Banks**	**20,417**	**0.02**	**0.00**	**0.45**	**379**	**1,574**	**1,891**	**3,343**	**995**	**1,746**	**1,035**	**4,680**	**36**	**742**	**58**	**1,263**	**2,675**
1.	Allahabad Bank	834	0.02	0.07	0.35	7	74	47	71	28	67	38	230	1	49	-	113	109
2.	Andhra Bank	842	0.02	0.03	0.53	14	33	104	160	20	89	56	173	-	53	-	8	132
3.	Bank of Baroda	2,034	0.03	0.05	0.61	52	176	133	343	123	136	90	489	7	75	11	180	219
4.	Bank of India	1,532	0.02	0.04	0.47	21	137	76	304	49	151	63	425	2	48	3	72	181
5.	Bank of Maharashtra	369	0.02	0.02	0.25	3	36	23	34	24	34	16	119	1	21	2	8	48
6.	Canara Bank	2,047	0.03	0.06	0.63	45	177	235	393	80	192	128	324	3	89	9	83	289
7.	Central Bank of India	1,495	0.03	0.04	0.40	23	135	103	130	30	195	65	450	-	54	1	101	208
8.	Corporation Bank	459	0.02	0.03	0.37	8	34	38	122	31	10	17	120	-	15	-	12	52
9.	Dena Bank	593	0.03	0.03	0.50	5	27	14	45	67	92	10	228	-	34	2	22	47
10.	Indian Bank	719	0.02	0.02	0.39	14	46	224	95	37	49	75	66	4	14	3	9	83
11.	Indian Overseas Bank	754	0.02	0.04	0.35	18	46	166	127	35	49	70	113	4	16	4	25	81
12.	Oriental Bank of Commerce	686	0.03	0.05	0.42	5	64	44	136	43	16	30	160	-	16	3	49	120
13.	Punjab and Sind Bank	278	0.02	0.31	0.30	5	16	46	16	11	34	4	58	-	13	3	23	49
14.	Punjab National Bank	2,946	0.02	0.05	0.61	42	247	175	676	98	376	128	482	8	52	4	271	387
15.	Syndicate Bank	969	0.02	0.04	0.39	14	55	98	197	59	69	35	200	-	34	7	84	117
16.	UCO Bank	922	0.03	0.06	0.42	16	73	63	82	78	77	46	304	-	31	3	36	113
17.	Union Bank of India	1,491	0.03	0.03	0.49	40	92	197	220	82	72	86	285	4	66	1	117	229
18.	United Bank of India	466	0.02	0.03	0.30	6	38	21	41	19	27	21	193	-	24	1	15	60
19.	Vijaya Bank	295	0.02	0.03	0.25	6	24	31	39	8	8	17	71	-	22	1	12	56
20.	IDBI Bank Limited	686	0.08	0.02	0.85	35	44	53	112	73	3	40	190	2	16	-	23	95
	State Bank Group	**22,307**	**0.03**	**0.06**	**1.25**	**347**	**1,445**	**1,371**	**5,874**	**705**	**4,000**	**936**	**4,119**	**50**	**518**	**62**	**720**	**2,160**
21.	State Bank of India	19,435	0.05	0.07	1.46	297	1,231	1,034	5,268	543	3,683	797	3,485	39	456	52	652	1,898
22.	State Bank of Bikaner and Jaipur	1,005	0.05	0.05	1.11	17	107	85	173	78	92	86	249	6	10	3	12	87
23.	State Bank of Hyderabad	628	0.02	0.04	0.52	14	36	48	205	36	98	19	94	1	19	2	5	51
25.	State Bank of Mysore	305	0.03	0.03	0.44	4	25	13	63	8	56	5	81	-	6	-	18	26
26.	State Bank of Patiala	548	0.04	0.05	0.54	10	37	74	142	27	65	17	49	4	5	5	30	83
27.	State Bank of Travancore	386	0.03	0.00	0.48	5	9	117	23	13	6	12	161	-	22	-	3	15

Appendix Table IV.10: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2010-11)

Sr. No.	Name of the Bank	Total No. of Complaints Received	Number of complaints other than credit/ debit card complaints/ 1000 accounts*	Number of credit/ debit card complaints/ 1000 credit/ debit card accounts@	Number of complaints per branch#	Category-wise break up of complaints: Deposit Account	Remittances	Loans/ Advances General & Housing	ATM/ Credit/ Debit Cards	Charges without Prior Notice	Pension	Failure on Commitments made	Non Observance of Fair Practices code	Notes and Coins	BCSBI	Recovery Agents	Out of Subject	Others
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
	Private Sector Banks	**17,122**	**0.08**	**0.07**	**1.47**	**641**	**816**	**832**	**4,458**	**1,836**	**43**	**747**	**3,378**	**25**	**812**	**928**	**283**	**2,323**
	Old Private Sector Banks	**1,179**	**0.02**	**0.01**	**0.25**	**50**	**65**	**185**	**149**	**120**	**1**	**94**	**254**	**1**	**51**	**12**	**30**	**167**
1.	Catholic Syrian Bank Ltd.	43	-	-	0.1	2	2	9	2	11	-	2	7	-	5	-	-	3
2.	City Union Bank Ltd.	41	-	-	0.2	2	3	11	8	1	-	9	4	-	1	-	-	2
3.	Dhanalakshmi Bank Ltd.	100	-	-	0.4	4	1	17	11	18	-	3	29	-	1	2	1	13
4.	Federal Bank Ltd.	190	-	-	0.3	10	9	22	22	24	-	16	47	-	6	2	3	29
5.	ING Vysya Bank Ltd.	324	0.1	-	0.6	20	20	27	46	32	-	21	75	-	18	3	11	51
6.	Jammu and Kashmir Bank Ltd.	47	-	-	0.1	3	3	3	9	1	-	-	8	-	1	1	5	13
7.	Karnataka Bank Ltd.	74	-	-	0.2	1	8	9	17	7	1	3	14	-	3	-	2	9
8.	Karur Vysya Bank Ltd.	109	-	-	0.3	2	8	25	12	11	-	15	16	-	6	1	2	11
9.	Laxmi Vilas Bank Ltd.	55	-	-	0.2	3	1	19	4	1	-	9	5	1	2	-	-	10
10.	Nainital Bank Ltd.	22	-	-	0.2	1	2	-	2	1	-	-	5	-	1	-	5	5
11.	Ratnakar Bank Ltd.	9	-	0.1	0.1	1	-	2	1	1	-	-	3	-	-	-	-	1
12.	SBI Commercial and International Bank Ltd.	2	0.1	-	1.0	-	-	-	-	-	-	-	1	-	-	-	-	1
13.	South Indian Bank Ltd.	102	-	-	0.2	-	7	27	9	6	-	8	26	-	6	1	1	11
14.	Tamilnad Mercantile Bank Ltd.	61	-	-	0.3	1	1	14	6	6	-	8	14	-	1	2	-	8
	New Private Sector Banks	**15,943**	**0.12**	**0.08**	**2.35**	**591**	**751**	**647**	**4,309**	**1,716**	**42**	**653**	**3,124**	**24**	**761**	**916**	**253**	**2,156**
15.	Axis Bank Ltd.	2,215	0.1	0.1	1.6	68	155	99	624	346	8	90	392	4	67	79	56	227
16.	Development Credit Bank Ltd.	94	0.1	-	1.2	4	8	5	5	12	-	5	40	-	2	1	-	12
17.	HDFC Bank Ltd.	5,590	0.1	0.1	2.9	223	208	245	1,543	680	12	256	1,195	12	297	280	86	553
18.	ICICI Bank Ltd.	6,895	0.1	0.1	2.7	220	323	258	1,967	510	19	242	1,205	5	358	471	94	1,223
19.	Indus Ind Bank Ltd.	373	0.1	0.1	1.2	25	21	17	42	56	1	20	112	-	12	7	7	53
20.	Kotak Mahindra Bank Ltd.	728	0.3	0.1	2.3	47	35	23	110	107	1	37	173	3	24	78	9	81
21.	Yes Bank Ltd.	48	0.1	0.1	0.2	4	1	-	18	5	1	3	7	-	1	-	1	7

Appendix Table IV.10: Statement of Complaints Received at Banking Ombudsman Office *(Concluded)*

(For the period 2010-11)

Sr. No.	Name of the Bank	Total No. of Complaints Received	Number of complaints other than credit/debit card complaints/1000 accounts*	Number of credit/debit card complaints/1000 credit/debit card accounts@	Number of complaints per branch#	Category-wise break up of complaints: Deposit Account	Remittances	Loans/Advances General & Housing	ATM/Credit/Debit Cards	Charges without Prior Notice	Pension	Failure on Commitments	Non Observance of Fair Practices code	Notes and Coins	BCSBI	Recovery Agents	Out of Subject	Others
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
	Foreign Banks	**7,081**	**0.27**	**0.35**	**22.34**	**293**	**175**	**199**	**3,196**	**482**	**21**	**161**	**1,163**	**19**	**204**	**658**	**70**	**440**
1.	AB Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	Abu Dhabi Commercial Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	American Express Banking Corp.	67	0.65	0.07	67.00	-	5	3	38	-	-	-	8	-	-	10	-	3
4.	Antwerp Diamond Bank NV	-	-	-	-													
5.	BNP Paribas	1	-	-	0.11	-	-	1	-	-	-	-	-	-	-	-	-	-
6.	Bank International Indonesia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Bank of America National Association	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9.	Bank of Ceylon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Bank of Nova Scotia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Barclays Bank PLC	629	0.40	0.89	69.89	16	16	20	299	38	3	10	73	-	16	107	3	28
12.	Chinatrust Commercial Bank	1	0.11	-	1.00	-	-	-	-	-	-	-	1	-	-	-	-	-
13.	Citibank N.A.	967	0.13	0.09	22.49	35		31	367	36	-	22	196	1	42	158	15	64
14.	Commomwealth Bank of Australia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Credit Agricole Corporate and Investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Credit Suisse AG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17.	DBS Bank Ltd.	36	0.91	-	3.00	-	34	-	-	-	-	-	2	-	-	-	-	-
18.	Deutsche Bank (Asia)	208	0.36	0.80	13.87	9	3	11	82	12	-	2	41	-	13	17	3	15
19.	First Rand Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	HSBC Ltd.	1,865	0.27	0.65	37.30	77	34	44	941	126	4	38	292	8	39	161	4	97
21.	JPMorgan Chase Bank National Association	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22.	JSC VTB Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23.	Krung Thai Bank Public Co. Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24.	Mashreqbank PSC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25.	Mizuho Corporate Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26.	Oman International Bank S.A.O.G.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27.	Sber Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28.	Shinhan Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29.	Societe Generale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30.	Sonali Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31.	Standard Chartered Bank	2,144	0.34	0.47	22.8	117	65	69	869	183	6	68	389	8	71	98	31	170
32.	State Bank of Mauritius Ltd.	1	0.07	-	0.3	-	-	-	-	-	-	-	1	-	-	-	-	-
33.	The Bank of Tokyo-Mitsubishi UFJ,Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34.	The Royal Bank of Scotland N V	1,162	0.45	1.03	37.5	39	18	20	600	87	8	21	160	2	23	107	14	63
35.	UBS AG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36.	United Overseas Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* The number of accounts as on March 31, 2009.
@ The number of credit/debit card accounts as on June 30, 2011.
\# The number of branches as on March 31, 2011.
'-' Nil/Negligible/Not applicable.
** Include IDBI Bank Ltd.

Appendix Table IV.11: 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 2009		March 2010		March 2011	March 2009		March 2010		March 2010	
		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	**72.6**	**72.6**	**73.3**	**73.3**	**75.1**	**78.6**	**78.6**	**79.8**	**79.8**	**81.2**	**81.2**
1	**NORTHERN REGION**	**68.9**	**71.1**	**74.4**	**74.9**	**82.7**	**73.3**	**75.5**	**79.4**	**80.0**	**82.2**	**82.7**
	Haryana	61.4	74.0	63.3	76.1	71.5	67.3	80.0	70.1	82.9	71.1	83.9
	Himachal Pradesh	38.6	47.1	42.2	51.1	39.6	60.6	69.1	64.2	73.0	67.8	76.6
	Jammu & Kashmir	47.2	47.3	46.4	47.8	37.2	59.8	60.0	58.3	59.7	62.4	63.8
	Punjab	65.7	65.5	71.5	73.0	77.3	75.0	74.8	82.7	84.2	84.9	86.3
	Rajasthan	80.6	87.5	88.4	96.6	90.0	96.2	103.0	105.7	114.0	108.2	116.4
	Chandigarh	115.0	119.9	131.1	133.7	129.3	115.0	119.9	131.1	133.7	131.1	133.7
	Delhi	68.9	68.8	74.6	70.6	87.1	69.0	68.8	74.6	70.6	77.9	73.9
2	**NORTH-EASTERN REGION**	**36.0**	**39.2**	**35.5**	**39.1**	**32.8**	**46.9**	**50.1**	**45.7**	**49.3**	**48.0**	**51.6**
	Arunachal Pradesh	25.5	33.9	27.5	34.4	22.5	32.0	40.3	33.5	40.3	40.4	47.2
	Assam	38.5	41.5	37.8	40.5	35.6	48.4	51.4	46.5	49.2	48.1	50.8
	Manipur	36.0	37.1	42.1	44.8	32.8	56.5	57.5	66.7	69.5	67.5	70.3
	Meghalaya	28.3	34.6	25.6	32.7	24.0	37.2	43.5	34.1	41.2	36.3	43.3
	Mizoram	57.9	60.2	53.2	57.7	43.0	80.5	82.8	72.9	77.5	76.5	81.1
	Nagaland	30.8	31.6	30.3	40.2	25.6	54.5	55.3	56.2	66.1	60.6	70.5
	Tripura	30.7	31.5	30.7	31.6	31.4	37.8	38.6	37.9	38.7	40.4	41.3
3	**EASTERN REGION**	**48.8**	**50.8**	**50.8**	**53.5**	**51.2**	**57.2**	**59.2**	**59.9**	**62.6**	**61.1**	**63.8**
	Bihar	26.8	26.6	29.0	29.7	29.0	35.0	34.8	38.1	38.8	39.7	40.4
	Jharkhand	32.0	35.7	35.1	36.8	35.0	37.5	41.2	42.8	44.5	44.6	46.3
	Orissa	50.8	55.7	54.4	58.1	51.3	55.3	60.2	57.8	61.5	59.6	63.4
	Sikkim	41.6	53.7	37.2	49.5	37.7	142.7	154.7	52.1	64.4	55.5	67.8
	West Bengal	60.7	62.2	61.5	64.8	63.7	71.1	72.6	72.6	75.9	73.4	76.6
	Andaman & Nicobar Islands	31.7	38.1	36.5	41.1	37.8	31.7	38.1	36.5	41.1	36.5	41.1
4	**CENTRAL REGION**	**44.3**	**48.7**	**47.3**	**51.0**	**47.4**	**52.9**	**57.3**	**55.6**	**59.4**	**57.2**	**60.9**
	Chhattisgarh	46.3	52.3	52.3	55.1	52.3	48.9	54.9	55.4	58.3	56.7	59.5
	Madhya Pradesh	57.4	61.9	60.6	63.7	59.7	66.7	71.2	69.9	73.1	72.3	75.4
	Uttar Pradesh	42.2	46.5	43.3	47.4	43.6	51.5	55.8	51.9	56.0	53.1	57.2
	Uttarakhand	25.3	28.6	33.7	38.2	35.2	32.9	36.3	43.4	47.9	45.4	49.8
5	**WESTERN REGION**	**85.6**	**77.0**	**79.1**	**74.7**	**78.1**	**89.5**	**81.0**	**83.1**	**78.8**	**83.6**	**79.3**
	Goa	26.7	26.6	26.5	27.9	29.0	31.8	31.7	31.8	33.2	32.3	33.7
	Gujarat	63.7	74.6	65.3	75.2	66.3	73.4	84.3	75.9	85.8	77.9	87.8
	Maharashtra	91.2	78.7	82.9	75.8	81.3	94.1	81.6	85.8	78.6	86.0	78.9
	Dadra & Nagar Haveli	18.1	87.7	60.0	92.9	34.8	18.1	87.7	60.0	92.9	60.0	92.9
	Daman & Diu	19.3	49.1	20.2	44.7	20.9	19.3	49.1	20.2	44.7	20.2	44.7
6	**SOUTHERN REGION**	**87.9**	**94.1**	**92.7**	**94.8**	**94.1**	**95.5**	**101.7**	**101.6**	**103.7**	**102.7**	**104.8**
	Andhra Pradesh	96.4	104.9	105.1	109.7	110.0	106.2	114.8	117.1	121.6	118.9	123.4
	Karnataka	77.3	82.8	77.6	80.4	72.5	82.2	87.7	82.7	85.6	83.4	86.2
	Kerala	59.7	61.7	63.1	64.5	72.0	68.8	70.8	73.5	74.9	74.3	75.7
	Tamil Nadu	108.1	115.2	113.8	113.5	114.1	115.5	122.7	123.1	122.8	124.3	124.0
	Lakshadweep	5.4	7.5	7.3	7.7	8.2	5.4	7.5	7.3	7.7	7.3	7.7
	Puducherry	51.4	55.8	57.2	59.2	61.3	64.0	68.4	71.7	73.7	71.7	73.7

@ : 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.

Note: 1) Deposits and Credit (as per place of sanction and utilisation) data for 2009 and 2010 are based on BSR-1 and 2 Surveys as on March 31.
2) Deposits and credit data (as per sanction) for 2010 are based on BSR 7 as on March 31,2010.
3) The investment figures are based on BSR-5 survey as on March 31,2009 and March 31,2010.
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 2011)

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 (₹ Lakh)	Business per Employee (₹ Lakh)
1	2	3	4	5	6	7	8	9
1	Abhyudaya Co-operative Bank Ltd., Mumbai	13.7	3.5	1.4	1.1	5.3	3.7	436.32
2	Ahmedabad Mercantile Co-Op Bank Ltd.	39.6	4.1	0.3	1.2	5.1	3.9	287.04
3	Amanath Co-operative Bank Ltd. Bangalore	-67.1	2.1	1.9	1.0	4.9	2.5	163.64
4	Andhra Pradesh Mahesh Co-Op Urban Bank Ltd.	20.9	4.7	0.3	1.4	6.0	3.2	323.58
5	Bassein Catholic Co-operative Bank Ltd.	19.5	3.9	0.3	2.8	5.5	19.8	903.04
6	Bharat Co-operative Bank (Mumbai) Ltd.	13.7	1.1	0.3	-0.2	1.5	-1.1	716.4
7	Bharati Sahakari Bank Limited.	14.3	3.1	0.4	0.7	6.0	1.9	351.2
8	Bombay Mercantile Co-operative Bank Limited	-1.9	3.3	2.4	0.6	4.2	1.1	172.67
9	Charminar Co-operative Urban Bank Ltd.	-848.0	-	-	-0.1	2.6	-	-
10	Citizen Credit Co-operative Bank Ltd., Mumbai	17.8	2.9	0.3	0.9	5.6	3.6	515.87
11	Cosmos Co-operative Urban Bank Ltd.	11.7	2.6	0.6	1.0	5.8	5	701.65
12	Dombivli Nagari Sahakari Bank Ltd.	14.2	4.2	0.9	1.1	5.4	-	481.46
13	Goa Urban Co-operative Bank Limited.	14.8	4.0	0.2	1.0	5.3	3.0	401.43
14	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	20.6	4.1	0.2	1.2	4.4	4.4	455.96
15	Greater Bombay Co-operative Bank Limited	18.6	2.6	0.8	0.7	6.1	2.3	427.52
16	Indian Mercantile Co-operative Bank Ltd.,Lucknow	9.3	1.2	1.3	0.2	7.9	0.4	224
17	Jalgaon Janata Sahakari Bank Ltd.	11.5	2.5	1.1	0.6	6.0	1.4	295.02
18	Janakalyan Sahakari Bank Ltd., Mumbai	9.8	2.7	0.5	1.6	5.9	6.3	575.47
19	Janalaxmi Co-operative Bank Ltd., Nashik	-1.0	1.4	0.3	-2.8	5.9	-4.6	143.29
20	Janata Sahakari Bank Ltd., Pune.	11.6	2.8	0.4	1.3	6.3	6.0	635.05
21	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	11.7	3.1	0.3	0.6	5.5	1.5	315.44
22	Kalupur Commercial Coop.Bank Ltd.	31.0	3.1	0.5	2.1	5.5	12.2	629.46
23	Kalyan Janata Sahakari Bank Ltd., Kalyan	13.8	3.4	1.2	1.4	5.1	4.4	445.64
24	Karad Urban Co-operative Bank Ltd.	10.7	3.2	0.4	0.5	6.3	1.2	327.95
25	Madhavpura Mercantile Co-Op Bank Ltd.	-2,077.4	-1.6	7.2	2.1	5.4	373.4	9,852.73
26	Mahanagar Co-operative Bank Ltd., Mumbai	11.8	3.4	0.4	0.6	5.7	2.2	469.87
27	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-12.1	2.5	1.3	0.9	5.7	1.6	224.85
28	Mehsana Urban Co-Op Bank Ltd.	12.6	2.9	0.3	0.9	6.3	4.2	688.6
29	Nagar Urban Co-operative Bank Ltd., Ahmednagar	17.7	4.2	0.4	0.7	6.5	2.2	387.16
30	Nagpur Nagrik Sahakari Bank Ltd.	10.9	3.2	0.7	0.4	5.7	0.6	240.21
31	Nasik Merchant's Co-operative Bank Ltd.	31.7	5.3	0.5	1.7	4.8	3.2	211.29
32	New India Co-operative Bank Ltd., Mumbai	18.4	3.2	0.9	0.8	5.7	4.1	636.69
33	NKGSB Co-operative Bank Ltd., Mumbai	12.9	2.6	0.4	1.1	6.6	5.1	656.12
34	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	14.9	3.0	0.7	0.6	5.4	2.2	421.02
35	Pravara Sahakari Bank Ltd.	12.9	3.2	0.4	0.3	6.3	0.6	249.04
36	Punjab & Maharashtra Co-operative Bank Ltd.	13.2	3.3	0.8	0.8	6.0	3.9	656.05
37	Rajkot Nagrik Sahakari Bank Ltd.	18.0	3.2	0.7	1.0	5.9	6.1	575.89
38	Rupee Co-operative Bank Ltd.	-76.7	1.4	0.4	-2.0	5.4	-6.0	239.43
39	Sangli Urban Co-operative Bank Ltd., Sangli	12.1	3.0	1.0	0.6	5.9	0.6	135.32
40	Saraswat Co-operative Bank Ltd., Bombay	12.7	2.8	0.6	1.0	5.8	6.2	822.3
41	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	27.2	4.2	0.2	0.7	4.8	2.3	344.86
42	Shamrao Vithal Co-operative Bank Ltd.	14.0	5.8	1.3	2.5	10.6	13.1	745.08
43	Shikshak Sahakari Bank Ltd., Nagpur.	7.6	3.8	0.4	0.7	6.1	1.3	309.18
44	Solapur Janata Sahakari Bank Ltd.	11.5	3.8	0.5	0.8	6.2	2.2	370.21
45	Surat Peoples Coop Bank Ltd.	20.5	4.0	0.3	0.8	6.4	3.3	489.11
46	Thane Bharat Sahakari Bank Ltd.	10.2	3.2	0.6	0.7	5.9	1.9	366.10
47	Thane Janata Sahakari Bank Ltd.	15.9	3.7	0.6	1.1	5.8	6.4	704.05
48	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	10.5	3.0	0.4	0.5	6.5	1.0	275.93
49	The Akola Urban Co-operative Bank Ltd., Akola.	8.9	2.3	0.5	0.2	6.9	0.7	400.49
50	The Kapol Co-operative Bank Ltd., Mumbai	10.5	3.0	1.1	0.3	5.9	0.9	368.14
51	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	-9.9	2.4	0.5	0.2	5.9	0.3	184.48
52	Vasavi Coop Urban Bank LImited.	14.1	4.6	2.7	0.1	3.5	0.2	85.98
53	Zoroastrian Co-operative Bank Ltd., Bombay	16.5	3.2	0.4	1.8	6.1	9.2	677.15

Note: Data are provisional. '-': Nil/Negligible.
Source: OSS Returns.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Continued)*

(As at end-March)

(As per cent to Total Assets)

Sr. No	Bank Name	Operating Profit		Net Profit after Taxes		Interest Income	
		2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5	6	7	8
1	Abhyudaya Co-operative Bank Ltd., Mumbai	1.2	2.7	0.5	1.1	7.5	7.7
2	Ahmedabad Mercantile Co-Op Bank Ltd.	2.2	1.9	1.4	1.2	7.0	7.2
3	Amanath Co-operative Bank Ltd. Bangalore	0.1	1.2	0.1	1.0	3.5	3.6
4	Andhra Pradesh Mahesh Co-Op Urban Bank Ltd.	2.1	2.6	1.5	1.4	10.1	9.6
5	Bassein Catholic Co-operative Bank Ltd.	2.4	3.0	1.3	2.8	8.5	8.5
6	Bharat Co-operative Bank (Mumbai) Ltd.	0.9	0.7	-0.1	-0.2	2.1	2.4
7	Bharati Sahakari Bank Limited.	1.3	1.3	0.6	0.7	7.8	7.7
8	Bombay Mercantile Co-operative Bank Limited	2.2	2.2	0.3	0.6	5.0	5.3
9	Charminar Co-operative Urban Bank Ltd.	-0.7	-0.1	-0.7	-0.1	3.4	1.0
10	Citizen Credit Co-operative Bank Ltd., Mumbai	1.4	1.6	0.7	0.9	7.0	7.8
11	Cosmos Co-operative Urban Bank Ltd.	1.4	1.6	0.6	1.0	8.3	7.3
12	Dombivli Nagari Sahakari Bank Ltd.	2.2	2.8	1.2	1.1	7.8	8.3
13	Goa Urban Co-operative Bank Limited.	1.9	2.0	0.7	1.0	8.3	8.3
14	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	2.3	2.3	1.3	1.2	7.5	7.6
15	Greater Bombay Co-operative Bank Limited	0.9	1.1	0.5	0.7	7.5	8.3
16	Indian Mercantile Co-operative Bank Ltd.,Lucknow	0.79	2.56	-15	0.76	26.8	30.3
17	Jalgaon Janata Sahakari Bank Ltd.	1.4	1.1	0.4	0.6	6.9	7.0
18	Janakalyan Sahakari Bank Ltd., Mumbai	0.2	0.8	0.8	1.6	7.8	8.2
19	Janalaxmi Co-operative Bank Ltd., Nashik	-1.0	0.3	-6.6	-2.8	3.7	4.8
20	Janata Sahakari Bank Ltd., Pune.	1.5	1.7	0.6	1.3	8.2	8.0
21	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	0.8	1.2	0.4	0.6	8.2	7.8
22	Kalupur Commercial Coop.Bank Ltd.	1.7	2.1	1.0	2.1	6.8	6.6
23	Kalyan Janata Sahakari Bank Ltd., Kalyan	1.9	2.3	0.9	1.4	7.5	7.6
24	Karad Urban Co-operative Bank Ltd.	1.0	1.3	0.4	0.5	8.5	8.7
25	Madhavpura Mercantile Co-Op Bank Ltd.	-0.8	-0.59	0.9	0.07	0.4	0.5
26	Mahanagar Co-operative Bank Ltd., Mumbai	1.3	1.3	0.7	0.6	7.9	8.1
27	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-	0.8	1.1	0.9	7.0	6.9
28	Mehsana Urban Co-Op Bank Ltd.	1.8	2.2	0.8	0.9	8.3	8.5
29	Nagar Urban Co-operative Bank Ltd., Ahmednagar	1.5	1.8	0.5	0.7	8.4	8.9
30	Nagpur Nagrik Sahakari Bank Ltd.	0.8	1.1	0.3	0.4	7.5	8.1
31	Nasik Merchant's Co-operative Bank Ltd.	2.8	2.9	1.7	1.7	8.6	8.4
32	New India Co-operative Bank Ltd., Mumbai	0.8	1.4	0.7	0.8	8.6	8.1
33	NKGSB Co-operative Bank Ltd., Mumbai	1.4	1.5	1.1	1.1	8.4	8.3
34	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	0.8	0.6	0.6	0.6	7.5	7.3
35	Pravara Sahakari Bank Ltd.	0.4	1.1	-0.4	0.3	7.9	8.5
36	Punjab & Maharashtra Co-operative Bank Ltd.	2.0	1.9	0.9	0.8	8.0	8.6
37	Rajkot Nagrik Sahakari Bank Ltd.	1.5	1.6	1.0	1.0	7.6	5.7
38	Rupee Co-operative Bank Ltd.	-1.0	-0.5	-1.3	-2	3.7	3.6
39	Sangli Urban Co-operative Bank Ltd., Sangli	1.2	1.3	0.6	0.6	7.5	7.4
40	Saraswat Co-operative Bank Ltd., Bombay	1.0	1.7	0.6	1.0	6.4	7.2
41	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	2.4	1.9	1.0	0.7	7.2	6.8
42	Shamrao Vithal Co-operative Bank Ltd.	2.1	4.4	1.0	2.5	8.6	14.7
43	Shikshak Sahakari Bank Ltd., Nagpur.	0.1	1.2	-0.8	-0.6	5.7	6.4
44	Solapur Janata Sahakari Bank Ltd.	1.1	1.8	0.6	0.8	8.8	8.9
45	Surat Peoples Coop Bank Ltd.	1.5	2.5	0.6	0.8	8.1	8.7
46	Thane Bharat Sahakari Bank Ltd.	0.3	1.1	0.2	0.7	7.7	8.3
47	Thane Janata Sahakari Bank Ltd.	2.2	2.2	1.2	1.1	8.4	8.1
48	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	0.7	1.5	0.1	0.5	8.4	8.4
49	The Akola Urban Co-operative Bank Ltd., Akola.	0.7	1.5	0.1	0.2	8.4	7.9
50	The Kapol Co-operative Bank Ltd., Mumbai	0.4	1.1	0.1	0.3	8.0	8.3
51	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	-1.8	0.6	-5.1	0.2	6.9	7.0
52	Vasavi Coop Urban Bank LImited.	0.2	1.3	0.1	0.1	4.3	4.4
53	Zoroastrian Co-operative Bank Ltd., Bombay	0.7	1.8	0.4	1.8	8.3	8.4

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Concluded)*

(As at end-March)

(As per cent to Total Assets)

Sr. No.	Bank Name	Interest Expended		Provisions & Contingencies		Total Operating Expenses		Spread	
		2009-10	2010-11	2009-10	2010-11 P	2009-10	2010-11	2009-10	2010-11
1	2	9	10	11	12	13	14	15	16
1	Abhyudaya Co-operative Bank Ltd., Mumbai	4.5	4.3	0.3	0.4	7.1	6.3	3.0	3.4
2	Ahmedabad Mercantile Co-Op Bank Ltd.	3.3	3.2	0.2	0.1	5.1	5.6	3.8	4.0
3	Amanath Co-operative Bank Ltd. Bangalore	2.6	2.3	-	0.2	4.2	3.7	0.9	1.4
4	Andhra Pradesh Mahesh Co-Op Urban Bank Ltd.	5.9	5.1	0.1	0.6	8.2	7.2	4.2	4.5
5	Bassein Catholic Co-operative Bank Ltd.	5.3	4.6	0.5	0.2	6.4	5.7	3.3	3.9
6	Bharat Co-operative Bank (Mumbai) Ltd.	1.6	1.3	0.3	0.2	2.2	1.9	0.6	1.0
7	Bharati Sahakari Bank Limited.	5.0	4.8	0.7	0.6	7.0	6.7	2.9	2.9
8	Bombay Mercantile Co-operative Bank Limited	3.0	3.0	0.7	0.4	4.8	4.9	2.0	2.4
9	Charminar Co-operative Urban Bank Ltd.	3.8	1.3	-	-	4.7	2.8	-0.4	-0.3
10	Citizen Credit Co-operative Bank Ltd., Mumbai	4.7	4.9	0.4	0.4	6.2	6.4	2.2	2.8
11	Cosmos Co-operative Urban Bank Ltd.	6.1	4.8	0.6	0.2	7.7	6.4	2.1	2.5
12	Dombivli Nagari Sahakari Bank Ltd.	5	4.6	0.7	1.1	6.7	6.3	2.8	3.7
13	Goa Urban Co-operative Bank Limited.	4.8	4.4	0.7	0.5	6.7	6.5	3.5	4.0
14	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	3.4	3.5	0.3	0.4	5.4	5.5	4.1	4.1
15	Greater Bombay Co-operative Bank Limited	5.8	5.7	0.4	0.3	8.1	8.3	1.7	2.6
16	Indian Mercantile Co-operative Bank Ltd.,Lucknow	24.61	25.8	15.8	0.4	30.1	32.65	0.5	1.0
17	Jalgaon Janata Sahakari Bank Ltd.	5.0	4.7	0.9	0.5	6.9	6.9	1.9	2.3
18	Janakalyan Sahakari Bank Ltd., Mumbai	5.9	5.5	-	0.1	8.2	7.9	1.9	2.7
19	Janalaxmi Co-operative Bank Ltd., Nashik	3.8	3.7	5.5	3.1	4.9	4.7	-0.1	1.1
20	Janata Sahakari Bank Ltd., Pune.	6.0	5.3	0.6	0.3	7.6	6.7	2.2	2.7
21	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	5.5	4.7	0.2	0.3	7.7	6.9	2.6	3.1
22	Kalupur Commercial Coop.Bank Ltd.	4.5	3.7	0.2	-	5.7	5.0	2.3	2.9
23	Kalyan Janata Sahakari Bank Ltd., Kalyan	4.4	4.3	0.5	0.4	6.5	6.5	3.1	3.3
24	Karad Urban Co-operative Bank Ltd.	6.0	5.5	0.3	0.4	8.2	8	2.5	3.2
25	Madhavpura Mercantile Co-Op Bank Ltd.	1.02	1	-	-	1.24	1.1	-0.58	-0.5
26	Mahanagar Co-operative Bank Ltd., Mumbai	4.5	4.8	0.6	0.3	7.1	7.2	3.4	3.3
27	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	5.4	4.9	0.1	-	7.6	7.1	1.7	2.0
28	Mehsana Urban Co-Op Bank Ltd.	5.7	5.5	0.4	0.6	6.9	6.7	2.6	3.0
29	Nagar Urban Co-operative Bank Ltd., Ahmednagar	5.1	5.0	0.7	0.5	7.3	7.5	3.3	3.9
30	Nagpur Nagrik Sahakari Bank Ltd.	5.3	4.9	0.4	0.5	8.1	7.7	2.2	3.2
31	Nasik Merchant's Co-operative Bank Ltd.	3.6	3.5	0.4	0.5	6.2	5.9	4.9	4.9
32	New India Co-operative Bank Ltd., Mumbai	4.9	4.9	-	0.4	7.8	7.6	3.7	3.2
33	NKGSB Co-operative Bank Ltd., Mumbai	6.2	5.7	-	-	7.8	7.1	2.2	2.6
34	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	5.0	4.2	-	-	7.7	7.4	2.5	3.0
35	Pravara Sahakari Bank Ltd.	5.8	5.4	0.8	0.8	7.8	7.8	2.1	3.1
36	Punjab & Maharashtra Co-operative Bank Ltd.	4.9	5.3	0.2	0.2	7.1	7.6	3.1	3.3
37	Rajkot Nagrik Sahakari Bank Ltd.	5.2	3.4	0.4	0.3	6.7	4.5	2.4	2.3
38	Rupee Co-operative Bank Ltd.	3.6	2.9	0.2	1.5	5.1	4.4	0.1	0.8
39	Sangli Urban Co-operative Bank Ltd., Sangli	5.0	4.7	0.6	0.8	7.3	7.0	2.5	2.7
40	Saraswat Co-operative Bank Ltd., Bombay	5.0	4.7	0.2	0.3	6.6	6.3	1.4	2.5
41	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	3.0	3.2	0.7	0.7	5.0	5.1	4.2	3.6
42	Shamrao Vithal Co-operative Bank Ltd.	5.8	9.1	0.4	0.7	7.5	11.7	2.7	5.6
43	Shikshak Sahakari Bank Ltd., Nagpur.	4.1	3.5	0.8	0.6	6	5.5	1.6	2.9
44	Solapur Janata Sahakari Bank Ltd.	5.7	5.2	0.2	0.5	8.1	7.6	3.1	3.7
45	Surat Peoples Coop Bank Ltd.	4.8	4.7	0.5	1.6	6.9	6.7	3.2	4.0
46	Thane Bharat Sahakari Bank Ltd.	5.8	5.2	0.1	0.2	8.2	7.8	1.9	3.1
47	Thane Janata Sahakari Bank Ltd.	5.2	4.8	0.2	0.4	7.1	6.5	3.2	3.3
48	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	6.6	5.5	0.6	0.8	8.2	7.3	1.8	2.9
49	The Akola Urban Co-operative Bank Ltd., Akola.	7.1	5.7	0.5	1.0	8.1	6.8	1.4	2.2
50	The Kapol Co-operative Bank Ltd., Mumbai	5.8	5.4	0.1	0.2	8.8	8.2	2.2	3.0
51	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	6.9	4.9	3.2	0.4	9.2	6.7	0.1	2.1
52	Vasavi Coop Urban Bank LImited.	2.0	2.1	-	0.9	4.3	4.6	2.3	2.3
53	Zoroastrian Co-operative Bank Ltd., Bombay	5.9	5.2	0.1	-	8.1	7.2	2.4	3.2

'-': Nil/Negligible.
Note: Data are provisional.
Source: OSS Returns.

Appendix Table V.3: State-wise Distribution of UCBs

(As at end-March 2011)

Sr No.	State	Total number of UCBs	Total number of branches (including head office cum branches)	Total number of Extension Counters	Total number of ATMs	Number of districts with a presence of UCB branch	Number of districts without a presence of UCB branch	Deposits (₹ Cr.)	Advances (₹ Cr.)
1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh	106	260	6	3	21	2	5,348	3,963
2.	Assam	8	22		0	5	22	438	187
3.	Bihar	3	5	1	1	2	22	65	33
4.	Chhattisgarh	12	22	2	0	8	10	369	120
5.	Delhi	15	79	1	0	1	0	1,563	854
6.	Goa	6	66	1	0	2	0	1,696	1,019
7.	Gujarat	243	853	2	70	24	1	22,422	13,250
8.	Haryana	7	17	1	0	7	13	397	219
9.	Himachal Pradesh	5	9	1	0	3	3	346	193
10.	Jammu & Kashmir	4	19	4	0	6	16	307	156
11.	Jharkhand	2	2		0	2	36	17	9
12.	Karnataka	268	840	9	18	30		14,333	9,602
13.	Kerala	60	358	2	1	14	0	5,522	3,844
14.	Madhya Pradesh	52	90	1	0	23	26	1,317	624
15.	Maharashtra	539	4,526	117	1,003	35	0	1,38,124	90,260
16.	Manipur	3	10	1	0	2	7	176	80
17.	Meghalaya	3	4		0	3	4	106	49
18.	Mizoram	1	1		0	1	7	23	8
19.	Orissa	12	46	4	0	13	17	1,017	578
20.	Puducherry	1	6	0	0	1	3	122	100
21.	Punjab	4	19	1	0	2	18	717	356
22.	Rajasthan	39	200	3	3	23	10	3,711	2,159
23.	Sikkim	1	3			2	2	13	9
24.	Tamil Nadu	129	313	0	4	32	0	4,822	3,773
25.	Tripura	1	2		0	2	3	1	9
26.	Uttar Pradesh	70	242	19	9	39	33	4,052	1,953
27.	Uttarakhand	5	61	2	3	8	5	2,037	1,340
28.	West Bengal	46	103	2	3	11	8	2,969	1,593
	All India	**1,645**	**8,178**	**180**	**1,118**	**322**	**268**	**2,12,031**	**1,36,341**

Note: Data are provisional.

Appendix Table V.4: Working Results of State Cooperative Banks - Region and State-wise

(As at end-March)

(Amount in ₹ crore)

Sr. No.	Region/State	Amount of Profit/Loss		Total NPAs		NPAs as Percentage of Loans Outstanding		Recovery to Demand (Per cent as at end-June)	
		2009	2010 P	2009	2010 P	2009	2010 P	2009	2010 P
1	2	3	4	5	6	7	8	9	10
	NORTHERN REGION	**106**	**72**	**347**	**364**	**3.1**	**3.2**	**97.3**	**97.9**
1.	Chandigarh	7	3	6	9	11.9	15.6	61.9	60.9
2.	Delhi	32	26	35	30	10.8	9.4	92.4	89.0
3.	Haryana	11	-14	2	2	0.1	0.1	97.7	99.9
4.	Himachal Pradesh	28	36	197	217	14.1	13.2	85.5	80.0
5.	Jammu & Kashmir	0	0	19	17	21.4	19.1	56.7	58.3
6.	Punjab	12	8	55	56	1.2	1.2	99.2	99.2
7.	Rajasthan	16	13	33	33	1.9	1.8	96.5	97.1
	NORTH-EASTERN REGION	**18**	**68**	**435**	**455**	**37.4**	**36.1**	**49.2**	**45.5**
8.	Arunachal Pradesh	3	9	96	110	79.7	99.9	11.8	14.4
9.	Assam	-1	6	119	112	38.3	34.6	68.7	64.3
10.	Manipur	9	9	84	105	58.0	69.1	43.7	19.6
11.	Meghalaya	15	19	37	40	17.7	15.0	21.0	20.1
12.	Mizoram	2	2	22	24	17.0	18.9	75.3	75.3
13.	Nagaland	-13	1	29	29	45.5	41.9	70.4	67.1
14.	Sikkim	1	2	2	2	7.0	7.0	62.2	62.2
15.	Tripura	2	20	46	33	29.7	18.1	64.6	65.7
	EASTERN REGION	**33**	**33**	**468**	**386**	**9.6**	**7.1**	**87.2**	**91.6**
16.	Andaman & Nicobar	2	2	15	29	12.7	20.0	74.8	59.2
17.	Bihar	6	6	229	154	37.3	24.2	46.3	72.1
18.	Orissa	10	10	136	115	6.9	4.6	95.6	96.7
19.	West Bengal	15	15	88	88	4.0	4.0	91.1	91.1
	CENTRAL REGION	**68**	**45**	**607**	**470**	**10.0**	**7.3**	**93.0**	**92.4**
20.	Chattisgarh	2	5	63	63	16.7	10.1	59.2	80.0
21.	Madhya Pradesh	30	18	92	59	4.0	2.4	96.2	96.9
22.	Uttar Pradesh	35	20	443	317	13.6	10.3	92.9	90.2
23.	Uttarakhand	1	2	9	31	6.3	12.4	91.7	97.4
	WESTERN REGION	**-34**	**64**	**2,268**	**1,927**	**20.1**	**18.4**	**83.3**	**81.6**
24.	Goa	1	1	61	61	12.3	10.9	80.3	80.7
25.	Gujarat	-53	60	300	195	16.9	10.2	86.8	87.2
26.	Maharashtra	18	3	1,907	1,671	21.8	20.9	82.2	79.6
	SOUTHERN REGION	**127**	**-29**	**1,600**	**751**	**11.3**	**5.3**	**95.0**	**93.9**
27.	Andhra Pradesh	61	137	948	40	20.2	1.0	93.3	88.9
28.	Karnataka	13	9	192	137	5.5	4.4	95.3	97.6
29.	Kerala	20	-194	338	394	14.0	19.2	88.8	81.8
30.	Puducherry	-1	0	19	15	8.9	6.2	90.8	92.0
31.	Tamil Nadu	34	19	103	165	3.1	3.6	99.8	99.8
	ALL-INDIA	**318**	**253**	**5,725**	**4,353**	**11.8**	**8.8**	**91.8**	**91.8**

P: Provisional.

Note: 1. Data for StCBs in the states of Bihar, Kerala, Manipur and West Bengal are repeated for the year 2010 from previous year.
2. Jharkhand StCB is not yet functional and hence is not included.

Source: NABARD

Appendix Table V.5: Working Results of District Central Cooperative Banks - Region and State-wise

(As at end-March)

(Amount in ₹ crore)

Sr. No.	Region/State	2009					2010					2008-09			2009-10		
		Number of reporting DCCBs	Profit		Loss		Number of reporting DCCBs	Profit		Loss		Total NPAs	NPA to Loans ratio (per cent)	Recovery to Demand (per cent) as at end-June	Total NPAs	NPA to Loans ratio (per cent)	Recovery to Demand (per cent) as at end-June
			Number of DCCBs	Amount	Number of DCCBs	Amount		Number of DCCBs	Amount	Number of DCCBs	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	NORTHERN REGION	**73**	**69**	**148**	**4**	**28**	**73**	**65**	**112**	**8**	**35**	**1,807**	**6.6**	**77.8**	**1,812**	**8.9**	**79.6**
1	Haryana	19	18	31	1	9	19	15	9	4	19	535	9.6	61.4	587	10.2	63.7
2	Himachal Pradesh	2	2	50	-	-	2	2	48	-	-	112	7.7	84.4	129	7.8	87.4
3	Jammu & Kashmir	3	2	1	1	7	3	2	1	1	3	83	17.9	61.6	76	14.8	73.3
4	Punjab	20	19	38	1	2	20	18	32	2	9	540	7.3	91.2	562	7.0	92.5
5	Rajasthan	29	28	28	1	10	29	28	22	1	4	537	13.6	79.0	458	10.4	79.0
	EASTERN REGION	**64**	**50**	**77**	**14**	**93**	**64**	**46**	**50**	**17**	**115**	**1,136**	**17.7**	**62.7**	**1,136**	**5.1**	**68.4**
6	Bihar	22	13	12	9	23	22	13	12	9	23	339	54.5	50.8	339	54.5	50.8
7	Jharkhand	8	5	8	3	2	8	5	3	3	14	101	75.9	17.2	101	75.9	17.2
8	Orissa	17	15	29	2	37	17	14	7	2	47	289	9.3	59.6	289	1.5	69.6
9	West Bengal	17	17	28	-	31	17	14	28	3	31	407	16.0	75.6	407	16.0	75.6
	CENTRAL REGION	**104**	**90**	**294**	**14**	**43**	**104**	**95**	**305**	**9**	**38**	**3,357**	**27.7**	**63.7**	**3,135**	**24.7**	**68.0**
10	Chattisgarh	6	6	40	-	-	6	6	44	-	-	236	24.7	69.5	242	23.1	72.1
11	Madhya Pradesh	38	37	122	1	4	38	38	119	-	-	1,583	29.2	65.2	1,496	24.9	68.3
12	Uttar Pradesh	50	37	91	13	39	50	41	102	9	38	1,387	30.0	57.8	1,233	27.9	63.6
13	Uttarakhand	10	10	41	-	-	10	10	40	-	-	151	13.7	83.4	164	13.7	87.4
	WESTERN REGION	**49**	**41**	**573**	**8**	**55**	**49**	**42**	**593**	**7**	**322**	**6,502**	**15.3**	**66.8**	**5,597**	**17.7**	**71.8**
14	Gujarat	18	14	101	4	18	18	17	113	1	3	1,116	18.1	74.7	994	15.9	75.6
15	Maharashtra	31	27	472	4	37	31	25	480	6	319	5,386	23.5	63.8	4,603	18.1	70.6
	SOUTHERN REGION	**80**	**74**	**503**	**6**	**22**	**80**	**74**	**600**	**6**	**14**	**5,187**	**15.6**	**80.6**	**4,553**	**11.6**	**82.4**
16	Andhra Pradesh	22	19	213	3	11	22	22	134	-	-	1,237	20.4	74.2	785	12.6	78.9
17	Karnataka	21	21	70	-	-	21	18	85	3	6	773	12.9	81.6	740	10.9	74.5
18	Kerala	14	13	31	1	1	14	11	27	3	8	1,285	13.5	87.0	1,442	12.4	87.8
19	Tamil Nadu	23	21	189	2	10	23	23	354	-	-	1,892	15.3	82.2	1,586	10.9	86.5
	ALL-INDIA	**370**	**324**	**1,595**	**46**	**241**	**370**	**322**	**1,660**	**47**	**524**	**17,989**	**17.9**	**72.7**	**16,233**	**12.9**	**75.7**

'-': Nil/Negligible

Note: 1. Data for 2010 are provisional.

2. One DCCB in Orissa was in no profit no loss position in 2009-10.

3. Profit and loss in respect of DCCBs in Bihar and West Bengal are repeated for the year 2009-10 from previous year.

Source: NABARD

Appendix Table V.6: Select Indicators of Primary Agricultural Credit Societies-State wise *(Continued)*

(As at March 31, 2010)

Sr. No.	Region/State	No. of PACS	Deposits (₹ crore)	Borrowings (₹ crore)	Working Capital (₹ crore)	Loans and Advances Issued (₹ crore)		Loans and Advances Outstanding (₹ crore)		Societies in in Profit	
						Short-term	Medium-term	Agriculture	Non-Agriculture	No.	Amount (₹ crore)
1	2	3	4	5	6	7	8	9	10	11	12
	Northern Region	**12,623**	**2,781**	**11,413**	**20,336**	**13,401**	**282**	**7,441**	**542**	**7,767**	**156**
1.	Chandigarh	16	0.03	0.09	0.23	0.03	0.10	-	0.05	15	0.03
2	Haryana	628	371	4,485	6,992	4,279	38	4,443	389	33	2
3	Himachal Pradesh	2,097	1,191	64	1,577	1	26	34	-	1,650	17
4	Jammu & Kashmir	765	1	37	79	10	3	22	1	275	1
5	Punjab	3,990	908	4,020	5,901	6,199	54	128	-	2,504	92
6	Rajasthan	5,127	310	2,806	5,787	2,913	162	2,812	152	3,290	44
	North-Eastern Region	**3,583**	**72**	**65**	**378**	**19**	**2**	**40**	**7**	**637**	**82**
7	Arunachal Pradesh	33	-	13	18	-	-	-	-	12	3
8	Assam	766	-	-	111	7	1	6	0.30	309	76
9	Manipur	204	1	1	4	3	-	5	-	-	-
10	Meghalaya	179	3	13	22	3	0.01	10	1	68	0.23
11	Mizoram	245	-	-	6	1	0.12	1	-	83	1
12	Nagaland	1,719	64	9	112	2	0.47	2	4	-	-
13	Sikkim	169	-	2	4	3	0.13	1	0.02	78	-
14	Tripura	268	4	27	100	0.04	0.07	17	2	87	2
	Eastern Region	**20,308**	**3,763**	**4,405**	**10,574**	**4,566**	**865**	**4,374**	**150**	**5,110**	**49**
15	Andaman &Nicobar Island	46	0.44	3	4	3	0.47	3	-	33	0.06
16	Bihar	8,463	67	501	493	353	-	171	-	1,180	6
17	Jharkhand	208	13	3	15	1	-	2.64	7.23	60	1
18	Orissa	3,565	2,382	2,332	6,153	3,034	568	2,978	125	1,365	25
19	West Bengal	8,026	1,301	1,566	3,909	1,175	297	1,220	17	2,472	17
	Central Region	**15,454**	**1,098**	**4,732**	**7,510**	**4,026**	**219**	**3,692**	**281**	**7,419**	**152**
20	Chhattisgarh	1,213	250	538	995	578	50	529	52	816	28
21	Madhya Pradesh	4,633	504	2,914	4,561	2,371	125	2,097	229	1,632	78
22	Uttarakhand	679	276	310	695	291	32	266	0	435	28
23	Uttar Pradesh	8,929	68	971	1,259	786	12	800	0	4,536	18
	Western Region	**29,082**	**375**	**13,263**	**18,735**	**7,718**	**1,493**	**10,315**	**1,736**	**14,711**	**470**
24	Goa	79	33	5	58	2	8	5	16	56	0.24
25	Gujarat	7,763	241	3,870	5,741	3,611	307	3,584	35	4,786	86
26	Maharashtra	21,240	100	9,388	12,937	4,106	1,178	6,726	1,686	9,869	384
	Southern Region	**13,597**	**27,198**	**17,885**	**77,658**	**32,220**	**10,126**	**15,261**	**7,926**	**5,292**	**316**
27	Andhra Pradesh	2,721	1,153	4,790	34,278	3,007	332	3,644	227	951	23
28	Karnataka	4,694	1,618	3,708	6,058	3,159	108	3,198	150	1,909	51
29	Kerala	1,608	20,907	2,781	25,952	17,631	8,522	5,692	4,199	772	165
30	Puducherry	52	70	33	129	29	9	10	0.08	23	1
31	Tamil Nadu	4,522	3,450	6,574	11,241	8,395	1,154	2,718	3,350	1,637	76
	ALL INDIA	**94,647**	**35,286**	**51,764**	**1,35,191**	**61,951**	**12,987**	**41,123**	**10,642**	**40,936**	**1,226**

Appendix Table V.6: Select Indicators of Primary Agricultural Credit Societies-State wise *(Concluded)*

(As at March 31, 2010)

Sr. No.	Region/State	Societies in Loss		Viable	Potentially viable	Dormant	Defunct	Others
		No.	Amount (₹ crore)					
1	2	13	14	15	16	17	18	19
	Northern Region	**3,718**	**356**	**9,058**	**2,656**	**667**	**223**	**19**
1.	Chandigarh	1	-	15	-	1	-	-
2	Haryana	595	294	628	-	-	-	-
3	Himachal Pradesh	390	3	443	1,613	24	-	17
4	Jammu & Kashmir	356	15	275	173	96	219	2
5	Punjab	970	13	3,206	290	490	4	
6	Rajasthan	1,406	32	4,491	580	56	-	
	North-Eastern Region	**983**	**109**	**2,052**	**426**	**668**	**435**	**2**
7	Arunachal Pradesh	20	5	11	16	5	1	
8	Assam	419	99	709	57	-	-	
9	Manipur	108	0.02	195	-	8	1	
10	Meghalaya	111	0.29	169	10	-	-	
11	Mizoram	116	2	93	96	-	54	2
12	Nagaland	-	-	457	228	655	379	
13	Sikkim	28	-	158	11	-	-	
14	Tripura	181	3	260	8	-	-	
	Eastern Region	**10,870**	**107**	**15,547**	**2,946**	**771**	**532**	**512**
15	Andaman &Nicobar Island	7	0	39	4	1	2	
16	Bihar	3,962	1	8,463	-	-	-	-
17	Jharkhand	0	0	60	85	29	0	34
18	Orissa	2,143	93	2,913	502	27	4	119
19	West Bengal	4,758	13	4,072	2,355	714	526	359
	Central Region	**5,192**	**250**	**12,066**	**2,654**	**478**	**185**	**71**
20	Chhattisgarh	397	8	1,117	96	0	0	
21	Madhya Pradesh	2,610	230	3,373	1,183	6	0	71
22	Uttarakhand	217	11	461	106	90	22	
23	Uttar Pradesh	1,968	2	7,115	1,269	382	163	
	Western Region	**13,212**	**597**	**18,409**	**9,711**	**563**	**231**	**168**
24	Goa	23	0	59	12	8	0	
25	Gujarat	2,310	202	5,027	1,782	555	231	168
26	Maharashtra	10,879	395	13,323	7,917	0	0	
	Southern Region	**7,704**	**946**	**8,408**	**3,979**	**334**	**59**	**817**
27	Andhra Pradesh	1,789	476	2,163	546	5	7	
28	Karnataka	2,320	73	2,946	1,192	294	50	212
29	Kerala	682	123	1,324	226	35	1	22
30	Puducherry	29	6	23	29	0	0	
31	Tamil Nadu	2,884	269	1,952	1,986	0	1	583
	ALL INDIA	**41,679**	**2,365**	**65,540**	**22,372**	**3,481**	**1,665**	**1,589**

'-' : Nil/Negligible

Source: NAFSCOB

Appendix Table V.7: Working Results of State Cooperative Agriculture and Rural Development Banks - State-wise

(As at end-March)

(Amount in ₹ crore)

Sr No.	Region/State	Branches	Profit/Loss		Total NPAs		NPAs as percentage of Loans Outstanding		Recovery (Per cent)	
		2010	2009	2010	2009	2010	2009	2010	2009	2010
1	2	3	4	5	6	7	8	9	10	11
	NORTHERN REGION	**85**	**69**	**50**	**761**	**899**	**13.9**	**15.6**	**64.9**	**58.0**
1.	Haryana @	0	13	5	232	550	13.3	28.5	63.1	46.4
2.	Himachal Pradesh #	33	12	1	102	68	39.0	27.5	49.3	51.4
3.	Jammu & Kashmir*	45	-5	-2	7	5	80.1	46.1	20.9	29.0
4.	Punjab @	0	25	27	1	2	0.04	0.09	80.8	78.9
5.	Rajasthan @	7	24	19	419	274	28.9	18.3	59.2	51.8
	NORTH-EASTERN REGION	**35**	**-3**	**-3**	**16**	**16**	**52.0**	**51.8**	**53.4**	**54.4**
6.	Assam*	30	-3	-3	8	8	78.8	79.7	30.9	36.4
7.	Manipur*	0	0	0	0	0	0	0	0	0
8.	Tripura*	5	0	0	8	8	39.0	39.0	61.2	61.2
	EASTERN REGION	**138**	**-1**	**7**	**369**	**314**	**40.3**	**31.4**	**34.7**	**36.5**
9.	Bihar*	131	-1	-1	59	59	85.3	85.3	1.9	1.9
10.	Orissa @	5	-1	-1	110	110	99.9	99.9	48.9	48.9
11.	West Bengal #	2	1	9	200	145	27.1	17.6	56.7	59.8
	CENTRAL REGION	**349**	**207**	**-50**	**1,724**	**2,266**	**39.2**	**49.0**	**35.3**	**37.5**
12.	Chattisgarh @	0	0	0	89	95	44.5	49.6	42.2	36.2
13.	Madhya Pradesh @	7	-75	-61	391	486	31.6	40.1	27.4	26.1
14.	Uttar Pradesh*	342	282	11	1,244	1,685	42.0	52.4	38.3	43.4
	WESTERN REGION	**181**	**22**	**32**	**1,381**	**1,424**	**77.6**	**80.7**	**20.1**	**19.5**
15.	Gujarat*	181	26	36	264	307	43.1	51.4	38.1	37.2
16.	Maharashtra @	0	-4	-4	1,117	1,117	95.7	95.7	13.3	13.3
	SOUTHERN REGION	**56**	**22**	**-63**	**696**	**723**	**19.0**	**19.2**	**51.7**	**57.9**
17.	Karnataka @	23	0	-83	382	395	28.7	28.9	32.4	43.9
18.	Kerala @	14	18	18	92	106	5.1	5.6	88.4	92.5
19.	Puducherry*	1	2	0	1	1	10.0	4.9	91.5	95.7
20.	Tamil Nadu @	18	2	2	221	221	41.3	41.3	4.9	4.9
	ALL INDIA	**844**	**316**	**-27**	**4,947**	**5,642**	**30.4**	**33.2**	**40.7**	**41.0**

@ Federal structure # Mixed structure * Unitary structure

Note: 1. Data for 2010 are provisional.

2. Data for the states of Bihar, Maharashtra, Orissa, Tamil Nadu and Tripura repeated for the year 2010 from previous year.

3. Manipur SCARDB is defunct.

Source: NABARD.

Appendix Table V.8: Working Results of Primary Cooperative Agriculture and Rural Development Banks -State-wise

(As at end-March)

(Amount in ₹ crore)

Sr. No.	State	2008-09				2009-10				NPAs		NPAs as Percentage of Loans Outstanding		Recovery (Per cent) as at end-June	
		Profit		Loss		Profit		Loss							
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	2009	2010	2009	2010	2009	2010
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	NORTHERN REGION	**99**	**72**	**46**	**76**	**105**	**52**	**40**	**204**	**1,881**	**2,288**	**35.3**	**34.7**	**39.1**	**41.2**
1.	Haryana	4	25	15	45	0	0	19	166	661	952	38.2	49.9	22.3	27.1
2.	Himachal Pradesh	0	0	1	3	1	2	0	0	26	28	35.5	38.3	59.2	61.3
3.	Punjab	64	25	25	16	80	38	9	4	795	762	35.2	37.3	57.6	59.4
4	Rajasthan	31	22	5	12	24	12	12	34	399	546	28.7	38.3	40.1	37.8
	CENTRAL REGION	**23**	**24**	**27**	**69**	**16**	**2**	**34**	**36**	**746**	**623**	**63.2**	**56.7**	**37.6**	**37.5**
5.	Chhattisgarh	6	0	6	3	3	0	9	6	72	73	42.1	46.1	49.5	52.9
6.	Madhya Pradesh	17	24	21	66	13	2	25	30	674	550	66.8	58.5	36.0	35.3
	EASTERN REGION	**50**	**15**	**19**	**5**	**11**	**2**	**54**	**37**	**250**	**175**	**37.7**	**23.1**	**56.3**	**46.3**
7.	Orissa	32	1	14	3	4	1	39	18	30	30	97.5	97.5	48.5	48.5
8.	West Bengal	18	14	5	2	7	1	15	19	220	145	34.8	20.0	61.0	44.9
	WESTERN REGION	**4**	**6**	**25**	**132**	**0**	**0**	**29**	**184**	**614**	**481**	**95.9**	**98.8**	**8.0**	**20.8**
9.	Maharashtra	4	6	25	132	0	0	29	184	614	481	95.9	98.8	8.0	20.8
	SOUTHERN REGION	**167**	**71**	**236**	**60**	**144**	**67**	**259**	**77**	**1,252**	**1,274**	**36.6**	**35.4**	**50.1**	**48.2**
10.	Karnataka	79	26	98	39	56	22	121	56	408	457	33.0	35.8	49.0	43.9
11.	Kerala	39	36	7	1	39	36	7	1	690	663	37.9	33.9	61.1	66.9
12.	Tamil Nadu	49	9	131	20	49	9	131	20	154	154	42.2	42.2	12.1	12.1
	ALL INDIA	**343**	**188**	**353**	**342**	**276**	**123**	**416**	**538**	**4,743**	**4,841**	**42.2**	**42.0**	**39.5**	**41.5**

Note: Data for 2009-10 are provisional

Source: NABARD.

Appendix Table V.9: Sanctions and Disbursements under Rural Infrastructure Development Fund - State-wise *(Continued)*

(At end-March 2011)

(Amount in ₹ crore)

Name of State/Region	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7	8	9	10	11	12	13
All India	**1,906**	**1,761**	**2,636**	**2,398**	**2,733**	**2,454**	**2,903**	**2,482**	**3,435**	**3,055**	**4,489**	**4,071**
Southern Region	**499**	**460**	**865**	**780**	**752**	**673**	**702**	**640**	**925**	**856**	**1,279**	**1,174**
Andhra Pradesh	227	215	337	308	282	252	287	273	379	359	559	511
Karnataka	176	159	195	180	171	162	172	167	173	165	292	275
Kerala	96	86	87	73	89	74	64	57	127	117	175	159
Tamil Nadu			246	219	209	186	179	143	246	216	253	229
UT of Puducherry												
Western Region	**345**	**322**	**359**	**319**	**408**	**381**	**426**	**380**	**572**	**511**	**964**	**881**
Goa	7	7					9	9			19	9
Gujarat	151	145	127	114	154	135	115	91	222	179	506	462
Maharashtra	187	170	232	204	254	246	302	280	350	332	439	410
Northern Region	**527**	**499**	**792**	**713**	**838**	**753**	**935**	**749**	**868**	**810**	**1,070**	**1,006**
Haryana	27	19	64	62	67	62	53	48	90	80	65	62
Himachal Pradesh	14	14	53	53	51	49	88	79	110	108	127	128
Jammu & Kashmir	6	6			36	24	107	103	111	109	162	155
Punjab	61	61	63	62	89	85	96	75	103	91	229	200
Rajasthan	124	117	152	129	158	140	64	49	132	120	254	245
Uttar Pradesh	296	282	461	407	414	389	475	389	317	300	233	218
Uttarakhand	0	0	0	0	22	2	51	6	5	0	0	0
Central Region	**241**	**215**	**250**	**239**	**280**	**262**	**242**	**218**	**263**	**245**	**372**	**310**
Chhattisgarh	82	78	10	6	57	58	69	65	34	32	51	43
Madhya Pradesh	159	137	241	233	223	204	173	153	229	213	321	267
Eastern Region	**286**	**257**	**307**	**286**	**432**	**363**	**481**	**392**	**442**	**363**	**512**	**442**
Bihar	22	13	0	0	58	27	0	0	0	0	0	0
Jharkhand	0	0	0	0	4	2	119	82	91	82	0	0
Orissa	170	162	151	141	199	172	149	117	128	100	104	86
West Bengal	95	82	156	145	171	161	214	193	222	181	408	356
North Eastern Region	**9**	**8**	**63**	**61**	**23**	**23**	**117**	**103**	**364**	**270**	**291**	**258**
Arunachal Pradesh	0	0	0	0	0	0	0	0	25	23	103	92
Assam	0	0	63	61	16	16	65	52	186	117	50	45
Manipur	2	1	0	0	0	0	0	0	0	0	8	8
Meghalaya	3	3	0	0	7	7	9	9	31	31	30	29
Mizoram	2	2	0	0	0	0	0	0	54	54	4	4
Nagaland	1	1	0	0	0	0	0	0	16	14	56	48
Sikkim	0	0	0	0	0	0	21	21	9	9	5	5
Tripura	0	0	0	0	0	0	22	21	44	22	35	28

Appendix Table V.9: Sanctions and Disbursements under Rural Infrastructure Development Fund - State-wise *(Continued)*

(At end-March 2011)

(Amount in ₹ crore)

Name of State/Region	RIDF VII		RIDF VIII		RIDF IX		RIDF X		RIDF XI		RIDF XII	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	14	15	16	17	18	19	20	21	22	23	24	25
All India	**4,582**	**4,053**	**5,950**	**5,149**	**5,638**	**4,916**	**7,651**	**6,569**	**8,311**	**7,010**	**10,377**	**8,001**
Southern Region	**1,388**	**1,256**	**1,706**	**1,480**	**1,783**	**1,481**	**2,817**	**2,343**	**2,525**	**2,126**	**2,286**	**1,962**
Andhra Pradesh	609	558	904	752	856	651	1,533	1,229	1,267	1,082	744	607
Karnataka	235	212	220	202	290	261	407	372	449	405	483	433
Kerala	192	159	194	168	90	74	219	178	205	134	261	190
Tamil Nadu	353	327	388	358	548	494	658	563	604	504	799	732
UT of Puducherry							0	0	0	0	0	0
Western Region	**586**	**471**	**743**	**690**	**966**	**954**	**1,396**	**1,350**	**992**	**812**	**1,329**	**781**
Goa	16	10	16	10	0	0	0	0		0	0	0
Gujarat	41	22	284	284	899	899	1,312	1,275	891	778	816	346
Maharashtra	530	439	443	396	67	55	84	75	101	34	513	435
Northern Region	**1,439**	**1,360**	**1,558**	**1,407**	**1,386**	**1,264**	**1,720**	**1,542**	**2,202**	**1,948**	**3,346**	**2,915**
Haryana	150	140	267	239	153	125	166	153	178	164	249	235
Himachal Pradesh	168	175	169	154	142	112	92	79	225	194	273	203
Jammu & Kashmir	217	207	176	158	154	147	49	47	80	80	461	426
Punjab	232	206	206	198	287	254	311	286	283	269	553	481
Rajasthan	375	347	347	281	140	125	313	241	592	488	742	617
Uttar Pradesh	298	269	323	311	218	212	481	444	788	701	1,035	923
Uttarakhand	0	16	70	65	292	289	308	291	57	53	32	31
Central Region	**396**	**322**	**823**	**736**	**708**	**570**	**583**	**500**	**497**	**419**	**766**	**631**
Chhattisgarh	85	70	282	242	433	351	53	39	108	86	38	31
Madhya Pradesh	311	253	540	494	275	219	531	461	389	333	729	600
Eastern Region	**672**	**544**	**964**	**704**	**538**	**445**	**1,051**	**753**	**1,423**	**1,149**	**1,975**	**1,220**
Bihar	58	38	199	161	97	62	75	52	459	406	631	200
Jharkhand	0	0	0	0	49	39	174	113	107	89	331	240
Orissa	149	137	247	211	185	156	376	285	397	293	500	420
West Bengal	464	369	519	332	207	189	426	303	459	360	513	360
North Eastern Region	**101**	**99**	**156**	**131**	**257**	**203**	**84**	**81**	**671**	**557**	**674**	**491**
Arunachal Pradesh	69	69	0	0	15	12	26	24	149	93	142	108
Assam	0	0	76	62	190	141	14	13	402	376	283	207
Manipur	0	0	0	0	0	0	1	0	28	0	16	16
Meghalaya	18	17	16	15	16	14	0	0	32	28	24	22
Mizoram	7	7	2	2	14	14	7	7	19	19	8	8
Nagaland	1	1	7	7	17	17	29	28	34	34	25	21
Sikkim	5	5	5	5	3	3	8	8	6	6	16	16
Tripura	0	0	50	41	3	3	0	0	0	0	161	93

Appendix Table V.9: Sanctions and Disbursements under Rural Infrastructure Development Fund - State-wise *(Concluded)*

(At end-March 2011)

(Amount in ₹ crore)

Name of State/Region	RIDF XIII		RIDF XIV		RIDF XV		RIDF XVI		STATE TOTAL	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	26	27	28	29	30	31	32	33	34	35
All India	**12,614**	**8,969**	**14,726**	**9,253**	**15,623**	**6,629**	**18,315**	**3,731**	**1,21,888**	**80,500**
Southern Region	**3,482**	**2,574**	**3,469**	**2,150**	**3,140**	**1,264**	**3,770**	**687**	**31,388**	**21,906**
Andhra Pradesh	1,266	803	1,333	718	1,185	395	1,237	272	13,005	8,985
Karnataka	961	654	674	396	657	178	861	20	6,416	4,241
Kerala	298	261	501	313	370	143	532	116	3,499	2,302
Tamil Nadu	957	856	905	677	850	520	1,034	275	8,229	6,298
UT of Puducherry	0	0	55	47	79	28	106	4	239	78
Western Region	**1,760**	**1,388**	**2,293**	**1,727**	**2,034**	**1,012**	**2,345**	**822**	**17,518**	**12,801**
Goa	27	16	86	86	149	105	57	46	385	298
Gujarat	649	500	1,085	870	972	537	1,163	528	9,386	7,167
Maharashtra	1,084	872	1,123	771	914	369	1,125	248	7,747	5,336
Northern Region	**3,466**	**2,708**	**3,919**	**2,733**	**4,987**	**2,324**	**6,022**	**1,458**	**35,075**	**24,188**
Haryana	221	190	274	159	531	193	487	89	3,042	2,019
Himachal Pradesh	299	159	425	220	454	170	424	118	3,115	2,015
Jammu & Kashmir	602	430	342	226	654	317	903	102	4,059	2,537
Punjab	336	291	525	365	553	264	602	175	4,527	3,362
Rajasthan	778	611	1,100	809	1,005	433	1,300	446	7,575	5,197
Uttar Pradesh	1,092	917	952	753	1,364	744	1,569	407	10,317	7,667
Uttarakhand	138	111	300	201	426	202	738	121	2,440	1,390
Central Region	**1,330**	**628**	**1,047**	**390**	**1,261**	**484**	**1,320**	**200**	**10,379**	**6,368**
Chhattisgarh	69	54	72	50	86	55	121	5	1,648	1,264
Madhya Pradesh	1,261	573	975	340	1,176	429	1,200	196	8,731	5,104
Eastern Region	**2,169**	**1,452**	**3,052**	**1,894**	**3,125**	**1,225**	**3,771**	**456**	**21,201**	**11,944**
Bihar	589	459	752	404	877	339	1,090	265	4,907	2,425
Jharkhand	407	289	631	507	567	298	623	0	3,104	1,741
Orissa	509	312	849	464	760	236	898	38	5,771	3,331
West Bengal	665	392	820	519	922	353	1,160	153	7,420	4,447
North Eastern Region	**407**	**219**	**946**	**359**	**1,076**	**321**	**1,086**	**108**	**6,328**	**3,293**
Arunachal Pradesh	29	14	122	54	56	22	0	0	736	510
Assam	88	49	113	63	300	100	284	46	2,130	1,347
Manipur	0	0	0	0	4	0	272	30	329	55
Meghalaya	57	51	66	48	135	41	143	7	588	322
Mizoram	22	22	1	1	75	44	146	16	362	201
Nagaland	15	15	240	49	187	55	79	3	706	293
Sikkim	42	40	99	53	177	17	78	7	474	195
Tripura	154	29	305	91	142	43	86	0	1,003	371

Note: Data are provisional
Source: NABARD

Appendix Table V.10: Kisan Credit Card Scheme: State-wise Progress

(As at end-March 2011)

(Amount in ₹ crore 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
1	Andhra Pradesh **	549	378	286	751	1,063	7,556	1,898	8,685
2	Assam	0	0	38	168	79	282	117	451
3	Arunachal Pradesh #	0	0	0	0	2	10	2	10
4	Bihar	0	0	262	1,427	305	1,865	567	3,292
5	Gujarat	61	389	11	100	171	1,840	243	2,329
6	Goa $	1	1	0	0	1	10	2	12
7	Haryana	14	91	36	490	98	1,875	148	2,456
8	Himachal Pradesh	11	162	15	140	30	319	57	621
9	Jammu & Kashmir	0	1	10	58	6	50	16	109
10	Karnataka	124	540	156	997	371	4,078	650	5,615
11	Kerala	101	567	21	300	179	1,780	301	2,647
12	Madhya Pradesh	312	2,714	75	718	239	2,307	627	5,740
13	Maharashtra	118	1,053	8	62	600	3,247	726	4,362
14	Meghalaya #	0	0	0	0	4	22	4	22
15	Mizoram #	0	0	0	2	4	13	4	15
16	Manipur #	0	0	0	0	2	11	2	11
17	Nagaland #	1	1	0	0	3	8	3	9
18	Orissa	318	524	77	209	177	765	571	1,497
19	Punjab	32	313	23	759	159	4,655	213	5,727
20	Rajasthan	450	1,920	82	1,986	311	4,270	843	8,176
21	Sikkim #$	0	0	0	0	1	11	1	11
22	Tamil Nadu	188	734	27	64	614	5,776	828	6,573
23	Tripura #	5	8	13	25	13	47	32	80
24	Uttar Pradesh	231	424	369	2,179	748	7,092	1,348	9,694
25	West Bengal	97	336	156	675	196	929	449	1,940
26	Andaman and Nicobar Islands #$	0	0	0	0	0	2	0	3
27	Chandigarh #$	0	0	0	0	4	22	4	22
28	Daman & Diu @#$	0	0	0	0	0	2	0	2
29	New Delhi #$	0	1	0	0	2	27	2	28
30	D & N Haveli @$	0	0	0	0	0	5	0	5
31	Lakshdweep @$	0	0	0	0	0	0	0	0
32	Puducherry #	0	1	0	0	9	86	10	87
33	Jharkhand**	0	0	51	106	104	515	155	621
34	Chhattisgarh	178	486	53	205	42	342	272	1,033
35	Uttarakhand	21	74	5	46	47	621	73	741
36	Other States							0	0
37	Statewise breakup not available for Comml. Bks.(1998-99)							0	0
38	**Total**	**2,812**	**10,719**	**1,774**	**11,468**	**5,582**	**50,438**	**10,169**	**72,625**

StCB functions as Central Financing Agencies. @ No Cooperative Banks in these UTs. $ No RRB in these States/UTs.

* No. of banks implementing the Scheme ** Data under reconciliation.

() Data pertaining to Commercial Banks upto September 30, 2010.

No. of cards issued by Co-operatives in Tamil Nadu during the year is 95,089 and amount sanctioned ₹ 25,174 lakhs. However the same is nullified to reflect the reduction of 2,37,432 in cumulative number of cards issued by Tiruchirapally DCCB, effected during the year.

Source: NABARD.

Appendix Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in ₹ crore)

Institutions	Loans*				Underwriting and Direct Subscription				Others#				Total				Percentage variation Over 2009-10	
	2009-10		2010-11		2009-10		2010-11		2009-10		2010-11		2009-10		2010-11			
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
A. All India Financial Institutions																		
Banks (1, 2 and 3)	**40,399.4**	**36,730.2**	**53,081.3**	**46,005.0**	**2,128.1**	**1,232.1**	**2,321.4**	**1,188.7**	**24.9**	**25.0**	**29.0**	**30.1**	**42,552.4**	**37,987.3**	**55,431.7**	**47,223.7**	**30.3**	**24.3**
1. IFCI	5,461	4,989	11,198	7,349	1,546.2	1,056.9	2,010.9	1,050.0	0.0	0.0	0.0	0.0	7,007.2	6,045.4	13,208.5	8,399.4	88.5	38.9
2. SIDBI	34,938.4	31,741.7	41,883.7	38,655.6	581.9	175.2	310.6	138.7	24.9	25.0	29.0	30.1	35,545.2	31,941.9	42,223.2	38,824.3	18.8	21.5
3. IIBI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
B. Specialised Financial Institutions (4, 5 and 6)	**536.3**	**266.0**	**800.4**	**427.5**	-	-	-	-	-	-	-	-	**590.4**	**320.1**	**881.6**	**508.8**	**49.3**	**58.9**
4. IVCF	20.0	26.8	143.4	130.0	-	-	-	-	-	-	-	-	20.0	26.8	143.4	130.0	617.0	385.1
5. ICICI Venture	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..		
6. TFCI	516	239	657	298	5.0	5.0	9.1	9.1	49.1	49.1	72.1	72.1	570.4	293.3	738.2	378.8	29.4	29.1
C. Investment Institutions (7 and 8)	**13,936.5**	**3,559.0**	**8,623.9**	**3,149.3**	**48,859.6**	**50,102.2**	**36,156.9**	**36,891.3**	**841.4**	**100.6**	**374.0**	**190.5**	**63,637.5**	**53,761.8**	**45,154.8**	**40,231.1**	**-29.0**	**-25.2**
7. LIC	13,896.5	3,519.0	8,623.9	3,149.3	48,289.0	49,531.6	34,919.6	35,654.0	821.4	98.7	354.0	190.5	63,006.9	53,149.3	43,897.5	38,993.8	-30.3	-26.6
8. GIC @	40.0	40.0	-	-	570.6	570.6	1,237.3	1,237.3	20.0	1.9	20.0	-	630.6	612.5	1,257.3	1,237.3	99.4	102.0
D Financial Institutions (A+B+C)	54,872.1	40,555.2	62,505.6	49,581.8	50,987.7	51,334.3	38,478.3	38,080.0	866.3	125.6	403.0	220.6	1,06,780.2	92,069.1	1,01,468.1	87,963.6	-5.0	-4.5
E. State level Institutions (9 and 10)																		
9. SFCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..		
10. SIDCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..		
F. Total Assistance by All Financial Institutions (D+E)	**54,872.1**	**40,555.2**	**62,505.6**	**49,581.8**	**50,987.7**	**51,334.3**	**38,478.3**	**38,080.0**	**866.3**	**125.6**	**403.0**	**220.6**	**1,06,780.2**	**92,069.1**	**1,01,468.1**	**87,963.6**	**-5.0**	**-4.5**

S : Sanctions. D : Disbursements. - : Nil. .. : Not available.

* : Loans include rupee loans, foreign currency loans. # : Others include guarantees. @ : Data include GIC and its subsidiaries.

Note: All data are provisional.

Source: Respective Financial Institutions.

Appendix Table VI.2: Financial Performance of Primary Dealers

(Amount in ₹ crore)

Sr. No.	Name of the Primary Dealers	Year	Income				Expenditure			Profit Before Tax	Profit After Tax	Return On Net worth (per cent)
			Interest Income including Discount Income	Trading Profit	Other Income	Total Income	Interest Expenses	Other Expen-diture	Total diture			
	1	2	3	4	5	6	7	8	9	10	11	12
1	STCI-PD	2009-10	100	-31	11	80	44	16	60	20	13	4.7
		2010-11	138	-13	4	129	105	16	121	8	5	1.9
2	SBI DFHI LTD	2009-10	127	50	15	192	40	14	54	135	89	7.9
		2010-11	145	23	3	171	67	19	86	85	53	5.3
3	ICICI Securities Ltd	2009-10	245	24	52	321	134	72	206	116	85	15.0
		2010-11	301	36	22	359	226	53	279	80	53	9.0
4	PNB Gilts	2009-10	101	-30	31	102	35	11	46	56	37	6.5
		2010-11	99	-11	15	103	52	8	59	44	31	5.3
5	Morgan Stanley - PD	2009-10	29	3	7	39	13	17	30	10	5	1.9
		2010-11	110	14	3	126	80	19	98	27	18	6.5
6	Nomura FI Sec. Ltd.	2009-10	18	-10	15	23	7	14	21	1	1	0.4
		2010-11	101	12	1	115	69	27	96	18	12	3.3
7	Deutsche Securities (India) Pvt Ltd	2009-10	47	-10	7	44	17	4	21	23	15	6.7
		2010-11	37	-8	1	30	19	4	23	7	5	2.0
8	IDBI Gilts Ltd	2009-10	23	-26	6	3	13	9	22	-18	-18	-17.0
		2010-11	39	6	2	46	36	9	45	1	1	0.9
	TOTAL	**2009-10**	**690**	**-30**	**144**	**804**	**303**	**157**	**460**	**343**	**227**	**6.9**
		2010-11	**970**	**58**	**51**	**1,079**	**653**	**154**	**807**	**272**	**178**	**5.1**

All amounts rounded off to the nearest crore.
Source: Primary Dealers' Returns.

Appendix Table VI.3: Select Financial Indicators of Primary Dealers

(Amount in ₹ crore)

Sr. 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 Assest (Net of current liabilities and provisions)	
		2009-10	**2010-11**	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**	**2010-11**
	1	2	3	4	5	6	7	8	9
1	Deutsche Securities (India) Pvt. Ltd	228	224	53	265	235	333	279	385
2	ICICI Securities Primary Dealer Ltd.	807	891	29	29	639	3,148	3,046	5,505
3	IDBI Gilts Ltd.	142	164	72	248	175	368	449	443
4	Morgan Stanley India Primary Dealer Pvt. Ltd.*	267	286	17	21	1,311	271	1,275	316
5	Nomura Fixed Income Securities Pvt. Ltd.**	246	373	50	41	707	808	793	1,230
6	PNB Gilts Ltd.	553	569	42	94	1,007	1,141	1,308	1,427
7	SBI DFHI Ltd.	1,109	853	149	130	1,225	1,122	1,917	1,657
8	STCI Primary Dealer Ltd.	258	266	33	26	960	1,453	1,240	2,067
	Total	**3,610**	**3,626**	**44**	**46**	**6,258**	**8,643**	**10,308**	**13,030**

* Morgan Stanley India PD commenced PD operations w.e.f. July 20, 2009.
** Nomura FIS commenced PD operations w.e.f. September 7, 2009.
Source: Primary Dealers' Returns.