Contents

		Page No.	
Fore	word		
List	List of Select Abbreviations		
Over	Overview		
Chap	oter I : Macroeconomic Risks	6	
Chap	oter II : Financial Markets	15	
Chapter III : Financial Institutions: Soundness and Resilience		21	
Chap	oter IV : Financial Sector Regulation and Infrastructure	39	
Chap	oter V : Systemic Risk Assessment	51	
	Systemic Risk Survey	51	
	Systemic Liquidity Indicator	53	
	Network Analysis of the Financial System	54	
	Banking Stability Measures and Expected Shortfall	58	
	Macro Stress Testing	60	
Anne	ex: Methodologies	64	
LIST	OF BOXES		
2.1	The Greek Dilemma	16	
3.1	Power and Airlines : Sectors under Stress	27	
3.2	Stress Testing of Derivatives Portfolio of Select Banks	30	
3.3	Gold Loan Companies and Associated Risks	31	
4.1	Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India	41	
4.2	Increased volatility in the foreign exchange market and CCIL's US\$/INR settlement	44	
5.1	Network Statistics of the Banking System	56	
5.2	Macro Stress Test - Quantile Regression Approach	61	
LIST	OF CHARTS		
1	Financial Stability Map	1	
1.1	Macroeconomic Risk Map	6	
1.2	Slower Global Recovery in 2012	7	
1.3	Gross Financing Needs - AEs	7	
1.4	Growth in World Trade Volume	8	
1.5	Baltic Dry Index at Low Level	8	

		Page No.
1.6	GDP Growth in BRICS Economies	8
1.7	Trends in Quarterly GDP growth (Y-o-Y)	8
1.8	Growth in Drivers of Domestic Demand	9
1.9	Rapid increase in Wholesale Prices of Select Commodities	10
1.10	Relationship between the Twin Deficits	12
1.11	Trends in Gold Imports	12
1.12	Revenue Expenditure as proportion to Total Expenditure of Centre	13
1.13	Capital Expenditure as proportion to Total Expenditure of Centre	13
1.14	Revenue Deficit as a proportion of Gross Fiscal Deficit of Centre	13
1.15	Growth in Retail Credit, NPA and PFCE	14
1.16	Falling Profit Margins and Rising Interest Costs	14
2.1	Money Market Spreads in 2012 in US Dollars and Euros	15
2.2	Sovereign CDS Spreads in Europe in 2012	16
2.3	Volatilities of Various Asset Classes	16
2.4	Interest Rate Differential between Indian Rates and those of US and Euro	17
2.5	Financial Markets Stability Map	17
2.6	Financial Markets Stability Indicator	17
2.7	Indian Government Bond Yields in 2012	18
2.8	Currencies of EDEs with Current Account Deficits	19
2.9	Weekly Returns of Nifty and Defty in 2012	19
3.1	Banking Stability Map	21
3.2	Banking Stability Indicator	21
3.3	Claims by Indian Banks on Select Countries – Position as on Dec 2011	22
3.4	Claims on Indian Banks by Select Countries as Ratio of Indian Banking Sector Assets	22
3.5	Growth Rate of Bank Credit to Select Sectors	23
3.6	Credit Growth in Various Sectors - Bank Group Wise	23
3.7	CD/ID ratio and Incremental CD/ID ratio of SCBs	23
3.8	Growth Rate of Select Components of Balance Sheet	24
3.9	Maturity Profile of Deposits and Advances	24
3.10	CRAR of Bank Groups	24
3.11	Ratio of Net NPAs to Capital of Banks in Select Countries	25

		Page No.
3.12	Trend in Growth Rate of Gross NPAs <i>vis-à-vis</i> Loans & Advances	25
3.13	Slippages as Ratio of Recoveries	25
3.14	Growth of Restructured Accounts <i>vis-à-vis</i> NPAs and Loans	25
3.15	NPA Ratios of SCBs	26
3.16	Growth Rate of NPAs of Select Sectors	26
3.17	Exposure of SCBs to Power Sector	27
3.18	NPA and Restructured Accounts in Power Sector	27
3.19	Bank Credit to Airlines Sector	27
3.20	Top 10 Banks in terms of Credit to Airlines Sector	27
3.21	CRAR in the Eventuality of Write off of Existing Stock of NPAs (net)	28
3.22	Growth Rate of Earnings	28
3.23	Profitability Ratios	28
3.24	OBS Assets (Notional Principal) as a Ratio of Balance Sheet Assets	28
3.25	Positive and Negative MTM as a Ratio of Capital Funds for Sample of Banks	29
3.26	Net MTM as a Ratio of Capital Funds for Sample of Banks	29
3.27	Credit Growth – NBFCs <i>vis-à-vis</i> Banks	29
3.28	Negative MTM Post-Stress (Scenario) as Ratio of Capital Funds	30
3.29	Negative MTM Post-Stress (Sensitivity) as Ratio of Capital Funds	30
3.30	Change in Net MTM-Scenario Analysis	30
3.31	Change in Net MTM-Sensitivity Analysis	30
3.32	Financial Soundness Indicators of NBFC-ND-SIs	31
3.33	Financial Soundness Indicators of Scheduled UCBs	32
3.34	Growth of Select Balance Sheet Components of RRBs – March 2012	32
3.35	Gross NPA Ratio of RRBs	32
3.36	Credit Risk : Gross Credit- Distribution of Stressed CRAR of Banks	35
3.37	Interest Rate Risk - Banking Book - Distribution of Stressed CRAR of Banks	37
3.38	Bottom-Up Stress Testing: Distribution of Stressed CRAR of Select Banks	37
3.39	Impact of Shocks on Capital Position: SUCBs – Mar 2012	38
3.40	Impact of Liquidity Risk Shocks: SUCBs – Mar 2012	38
4.1	RWA Density across Regions	42
4.2	Contribution to RWAs of SCBs	42

		Page No.
4.3	RWA Density across Bank Groups – Mar 2012	42
4.4	RWA Density of SCBs	42
4.5	Increase in initial margin on two days in the review period during which the exchange rate was most volatile	44
4.6	Settlement Lags in RTGS	45
4.7	Daily average customer transactions settled within one minute	45
4.8	Daily average interbank transactions settled within one minute	45
4.9	Average settlement values of associate members as a per cent of total settlement values	46
4.10	CCIL's exposures to Designated Settlement Banks	46
4.11	Outstanding notional IRS volumes at the end of the month	47
4.12	Share of insured deposits of different categories of banks	49
4.13	Cross-Country Comparison of Coverage Levels at end-2010	49
4.14	Cross-Country Comparison of Reserve Ratios at end-2010	50
5.1	Specific risks identified in the Risk Survey, October 2011	51
5.2	Specific risks identified in the Risk Survey, April 2012	51
5.3	Risks most difficult for the country to manage	52
5.4	Risks most difficult for financial institutions to manage	52
5.5	Survey responses on the probability of 'high' impact event in the global financial system in the short term	52
5.6	Survey responses on the probability of 'high' impact event in the global financial system in the medium term	52
5.7	Survey responses on the probability of 'high' impact event in the domestic financial system in the short term	53
5.8	Survey responses on the probability of 'high' impact event in the domestic financial system in the medium term	53
5.9	The Systemic Liquidity Index	54
5.10	Trends in the interbank market	55
5.11	Percentage change of activities over a one year period in the interbank market	55
5.12	Short Term Funds as a Ratio of Total Borrowing of SCBs (March 31, 2012)	55
5.13	Short Term Funds as a Ratio of Total Outside Liabilities (March 31, 2012)	55
5.14	Network of the Banking System – March 31, 2011	56
5.15	Network of the Banking System – March 31, 2012	56
5.16	Contagion due to the failure of a top net borrower	57

		Page No.
5.17	Potential loss to the banking system due to failure of top banks	57
5.18	Potential loss distribution in the banking system due to failure of banks	57
5.19	Insurance companies' investments in different bank groups	57
5.20	MFs' investments in different bank groups	58
5.21	Movement of JPoD and BSI	59
5.22	Movement of Toxicity Index of Banks	59
5.23	Movement of Vulnerability Index of Banks	59
5.24	Systemic Inter-linkages among the Banks: Cascade Effect	60
5.25	Domino Impact of Banks on the Entire System: Cascade Effect	60
5.26	Expected Shortfall to Total Assets: System Level	60
LIST	OF TABLES	
1.1	External Sector Vulnerability Indicators	11
3.1	Consolidated Foreign Claims of European Banks	22
3.2	Asset Quality of Select Sectors - Mar 2012	26
3.3	Credit Risk: Gross Credit - Impact on Capital and NPAs	35
3.4	Credit Risk: Sectoral – Impact on Capital and NPAs	35
3.5	Credit Risk: Concentration- Impact on Capital and NPAs	36
3.6	Interest Rate Risk: Banking Book-Impact on Banks	36
3.7	Liquidity Risk: Impact on Banks	37
4.1	Details of Imposition of Volatility Margin during 2011-12	44
5.1	Impact of a Global Systemic Event on the Domestic Financial System	53
5.2	Confidence in the Global and Domestic Financial Systems	53
5.3	Contribution of Insurance companies and MFs to Banks Borrowings	58
5.4	Percentage distribution of insurance companies and MFs in investment/lending in the banking system	58
5.5	Macroeconomic Scenario Assumptions	62
5.6	Projected Gross NPA ratio using Different Models	62
5.7	Projected CRAR using Different Models	62
5.8	Bank-group-wise Projected NPAs	63
5.9	Bank-group-wise Projected CRAR	63
5.10	Projected Sectoral Gross NPA ratio	63