Report on Trend and Progress of Banking in India for the year ended June 30, 2013 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 2012-13

RESERVE BANK OF INDIA

Sale Price:

In India	–	₹ 270	(Normal)
	–	₹ 310	(Inclusive of Postal Charges)
	–	₹ 200	(Concessional – at Counter)
	–	₹ 240	(Concessional – Including Postage)
Abroad	–	US$ 11	(Inclusive of Air Mail Courier Charges)

Published by Sanjay Kumar Hansda for the Reserve Bank of India, Mumbai 400 001 and designed and printed by him at Jayant Printery, 352/54, Girgaum Road, Charni Road (E), Mumbai - 400 002

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DEPR.BRD.3159/13.01.01/2013-14

November 21, 2013
Kartika 30, 1935 (Saka)

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

Dear Shri Gujral,

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, 2013.

Yours faithfully,

Raghuram G. Rajan

(Raghuram G. Rajan)

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List of Select Abbreviations

AACS	As Applicable to Co-operative Societies
ABEP	Annual Branch Expansion Programme
ADF	Automated Data Flow
ADR	American Depository Receipt
AEs	Advanced Economies
AFA	Additional Factor of Authentication
AFCs	Asset Finance Companies
AFI	Annual Financial Inspection
AIFIs	All-India Financial Institutions
AGM	Annual General Meeting
ALD	Aggregate Liability to Depositors
ALM	Asset-Liability Management
AMA	Advanced Measurement Approach
AML	Anti-Money Laundering
ANBC	Adjusted Net Bank Credit
ARDB	Agriculture and Rural Development Bank
ATM	Automated Teller Machine
BBA	British Bankers' Association
BC	Business Correspondent
BCBS	Basel Committee on Banking Supervision
BCSBI	Banking Codes and Standards Board of India
BFS	Board for Financial Supervision
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
BO	Banking Ombudsman
BoE	Bank of England
BoJ	Bank of Japan
BOS	Banking Ombudsman Scheme
BSE	Bombay Stock Exchange Ltd.
CAD	Current Account Deficit
CAG	Comptroller and Auditor General
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Systems & Control
CAR	Capital Adequacy Ratio
CASA	Current Account and Savings Account
CBRC	China Banking Regulatory Commission
CBS	Core Banking Solutions
CCBs	Central Co-operative Banks
CCP	Central Counter Party
CD	Certificate of Deposit
CD Ratio	Credit to Deposit Ratio
CDR	Corporate Debt Restructuring
CEO	Chief Executive Officer
CETI	Common Equity Tier I
CICs	Core Investment Companies
CIS	Collective Investment Schemes
CMBs	Cash Management Bills
CME	Capital Market Exposure
CoR	Certificate of Registration
CP	Commercial Paper
CPSS	Committee on Payment and Settlement System
CRAR	Capital to Risk-Weighted Assets Ratio
CRE-RH	Commercial Real Estate – Residential Housing
CRR	Cash Reserve Ratio
CTS	Cheque Truncation System
DBT	Direct Benefit Transfer

DCCB	District Central Co-operative Bank
DICGC	Deposit Insurance and Credit Guarantee Corporation
DIF	Deposit Insurance Fund
DRT	Debt Recovery Tribunal
D-SIB	Domestic Systemically Important Bank
DTS	Direct Transfer of Subsidies
Delhi NCR	Delhi National Capital Region
EBA	European Banking Authority
EBT	Electronic Benefit Transfer
ECB	European Central Bank
ECCS	Express Cheque Clearing System
ECS	Electronic Clearing Service
EMDEs	Emerging Market and Developing Economies
EME	Emerging Market Economy
ETF	Exchange Traded Fund
EU	European Union
EXIM Bank	Export-Import Bank of India
FB	Foreign Banks
FCs	Financial Conglomerates
FCA	Financial Conduct Authority
FCNR (B)	Foreign Currency Non-Resident (Banks)
FDI	Foreign Direct Investment
FEDAI	Foreign Exchange Dealers' Association of India
FI	Financial Institution
FII	Foreign Institutional Investor
FIP	Financial Inclusion Plan
FLCs	Financial Literacy Centres
FMI	Financial Market Infrastructure
FSA	Financial Services Authority
FSB	Financial Stability Board
FSDC	Financial Stability and Development Council
FSLRC	Financial Sector Legislative Reforms Commission
G-SIBs	Global Systemically Important Banks
GCC	General Credit Card
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GFSR	Global Financial Stability Report
GIC	General Insurance Corporation of India
G-Secs	Government Securities
GoI	Government of India
HLSC	High-Level Steering Committee
HTM	Held to Maturity
HUF	Hindu Undivided Families
IBA	Indian Banks' Association
IBAN	International Bank Account Number
IBPS	India Bill Payment System
ICB	Independent Commission on Banking
ICBC	Industrial and Commercial Bank of China
ICs	Investment Companies
ICDs	Inter-Corporate Deposits
ICICI	Industrial Credit and Investment Corporation of India
IDBI	Industrial Development Bank of India
IDF	Infrastructure Debt Funds
IDF-NBFCs	Infrastructure Debt Fund - Non-Banking Financial Companies
ID Ratio	Investment-to-Deposit Ratio

IFC	Infrastructure Finance Company
IFCI	Industrial Finance Corporation of India
IVCF	IFCI Venture Capital Funds Ltd.
IFSC	Indian Financial System Code
IIBI	Industrial Investment Bank of India
IMF	International Monetary Fund
IRDA	Insurance Regulatory and Development Authority
IRF	Inter-Regulatory Forum
IT	Information Technology
JLGs	Joint Liability Groups
KA	Key Attributes
KCC	Kisan Credit Card
KYC	Know Your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LCs	Loan Companies
LDA	Loss Distribution Approach
LE	Large Exposure
LEG	Large Exposure Group
LIC	Life Insurance Corporation of India
LPG	Liquefied Petroleum Gas
LTRO	Long-Term Refinancing Operations
LTV	Loan-to-Value
MAP	Monitorable Action Plan
MDR	Merchant Discount Rate
MFI	Micro Finance Institution
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
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
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NBFC-D	Non-Banking Financial Company-Deposit taking
NBFC-MFIs	Non-Banking Financial Companies - Micro Finance Institutions
NBFC-ND	Non-Deposit taking Non-Banking Financial Company
NBFCs-ND-SI	Systemically Important Non-Deposit taking Non-Banking Financial Companies
NBFI	Non-Banking Financial Institution
NDTL	Net Demand and Time Liability
NECS	National Electronic Clearing Service
NEFT	National Electronic Fund Transfer
NGO	Non-Government Organisation
NHB	National Housing Bank
NIA	New India Assurance Company Ltd.
NII	Net Interest Income
NIM	Net Interest Margin
NOF	Net Owned Fund
NOFHC	Non-Operative Financial Holding Company
NPA	Non-Performing Asset
NPCI	National Payments Corporation of India

NPLs	Non-Performing Loans
NRE	Non-Resident (External)
NRI	Non-Resident Indian
NRLM	National Rural Livelihood Mission
OBS	Off-Balance Sheet
OFIs	Other Financial Intermediaries
OIC	Oriental Insurance Company Ltd.
OMT	Outright Monetary Transactions
ORM	Operational Risk Management
OSMOS	Off-Site Monitoring and Surveillance System
OTC	Over the Counter
PACS	Primary Agricultural Credit Society
PAT	Profit After Tax
PBT	Profit Before Tax
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PCR	Provisioning Coverage Ratio
PD	Primary Dealer
PDO – NDS	Public Debt Office - Negotiated Dealing System
PFRDA	Pension Fund Regulatory and Development Authority
PLR	Prime Lending Rate
PoS	Point of Sale
PSB	Public Sector Bank
QE	Quantitative Easing
QIS	Quantitative Impact Study
RBS	Risk-Based Supervision
RCS	Registrar of Co-operative Societies
RDDBFI	Recovery of Debts Due to Banks and Financial Institutions
RGG	Returns Governance Group
RNBC	Residuary Non-Banking Company
RoA	Return on Assets
RoE	Return on Equity
RoAA	Return on Average Assets
RoNW	Return on Net Worth
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
RWAs	Risk-Weighted Assets
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SBI	State Bank of India
SC	Scheduled Caste
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SCs/RCs	Securitisation Companies/ Reconstruction Companies
SEBI	Securities and Exchange Board of India
SGSY	Swarnajayanti Gram Swarojgar Yojana
SHG	Self-Help Group
SIDBI	Small Industries Development Bank of India
SIFI	Systemically Important Financial Institution
SLBC	State Level Bankers' Committee
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SRs	Security Receipts
ST	Scheduled Tribe
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure

T-Bills	Treasury Bills
TCF	Treating Customers Fairly
TFCI	Tourism Finance Corporation of India Ltd.
TRs	Trade Repositories
TSA	The Standardised Approach
UCB	Urban Co-operative Bank
UIIC	United India Insurance Company Ltd.
UTI	Unit Trust of India
VaR	Value at Risk
WAC	Weighted Average Cost
WAM	Weighted Average Maturity
WEO	World Economic Outlook
WG	Working Group
WLA	White-Label ATM
WMP	Wealth Management Product
WOS	Wholly Owned Subsidiary
WPI	Wholesale Price Index
XML	Extensible Mark-up Language

Chapter I

Perspectives on the Indian Banking Sector

The weakening domestic macroeconomic conditions combined with continuing subdued global growth and its increasing spillover risks posed challenges to the banking sector during 2012-13. Several policy initiatives were undertaken during the year to handle these challenges. On the regulatory and supervisory policy front, the envisaged move towards risk-based supervision, initiatives for improved cross border supervision and cooperation and enhanced oversight of financial conglomerates are important. In the short term, the stress on banks' asset quality remains a major challenge. Many policies are contemplated to expand and strengthen the banking infrastructure. Banks need to capitalise on these and play a major role in supporting economic activity and meeting the financial needs of all the sections of society.

1. Introduction

1.1 Global growth continued to remain sluggish in 2012-13. Adverse international economic developments combined with the loss of growth momentum in the domestic economy posed challenges to the banking sector in India during 2012-13. There was a rise in asset impairment coupled with a dip in profitability. Macro stress tests indicate that if the current macroeconomic conditions persist, the credit quality of commercial banks could deteriorate further[1]. However, overall the comfortable capital base still lends resilience to the Indian banking sector.

1.2 While the global banking developments are covered in Chapter II, a perspective on some of the factors that are likely to shape the banking environment in the period ahead along with strategic policy responses and the way forward for the banks are outlined here.

2. Emerging Operating Environment for Banks

1.3 The economic and financial environment in which the Indian banking system is operating is evolving continuously. Developments in global banking are likely to be conditioned by proposed regulatory changes aimed at ring-fencing commercial banking activities. The Financial Sector Legislative Reforms Commission (FSLRC) has suggested a number of changes in the landscape of the financial sector. The Reserve Bank has also placed in public domain a Discussion Paper on "Banking Structure in India-The Way Forward" which suggests far reaching changes in the banking structure so that it better serves the growing needs of the real economy. These suggestions/recommendations when taken up for implementation will shape the operating space for banks.

Global initiatives for structural regulatory reforms: ring-fencing commercial banking activities

1.4 Several jurisdictions have supplemented or propose to supplement the enhanced prudential regulations under Basel III with structural measures to combat systemic risks. The proposed structural measures range from moving businesses identified as too risky and complex into stand-alone entities to prohibiting banks from engaging

[1] *Financial Stability Report*, Reserve Bank of India, June 2013.

in these activities altogether. The objective is to insulate certain types of financial activities regarded especially important for the real economy or significant on consumer/ depositor protection grounds from the risks that emanate from potentially riskier but less important activities.

1.5 The important initiatives in the direction of structural reforms include Volcker Rule under the Dodd-Frank Act in the US, Vickers Reform proposals in the United Kingdom and Liikanen reform proposals in the EU. While the salient features of the three proposals are driven by the overall objective of ring-fencing or constructing a firewall between the deposit taking and the core banking activities on the one hand and investment banking / proprietary trading activities on the other, they offer slightly differing approaches.

- The Volcker Rule restricts deposit-taking banks from engaging in proprietary trading and complex activities. It also forbids the co-existence of such trading activities and other banking activities in different subsidiaries within the same group. It similarly prevents investments in, and sponsorship of, entities that could expose institutions to equivalent risks, such as hedge funds and private equity funds.
- The Vickers reform proposal has recommended ring-fencing of retail banking operations of large UK banks into separate legal subsidiaries. A very narrow set of retail banking business, *i.e.*, retail deposit-taking, overdrafts to individuals and loans to small and medium sized enterprises (SMEs) must be within the protected, *i.e.*, the ring-fenced entity. Another set of activity, *e.g.*, some other forms of retail and corporate banking, including ancillary operations to hedge risks to support them may also be conducted within the protected entity. The protected activities can coexist with others in separate subsidiaries within the same group but subject to intragroup constraints and other risk management conditions (Box I.1).
- The Liikanen Report proposals seek to carve out proprietary trading and market-making activities beyond a threshold on a stand-alone basis from the deposit taking bank, but allow these activities to coexist with other banking business within the same group as long as these are carried out in separate subsidiaries. The proposals limit contagion within the group by requiring, in particular, that the subsidiaries be self-sufficient in terms of capital and liquidity and that transactions between the legal entities take place on market terms.

1.6 The nations proposing structural banking reforms are global financial centres and systemically important economies. By enhancing financial stability in these countries such policies can have positive spillovers on the global economy and financial system[2].

1.7 These reforms when implemented are also likely to limit the banks' managements' capacity for excessive risk taking and shield systemically important financial services from idiosyncratic shocks impacting other activities. It is important to recognise that the regulatory changes happening elsewhere need to be appropriately understood by Indian banks as well, as they need to interact with their global counterparts.

The Financial Sector Legislative Reforms Commission recommends significant reforms for the financial landscape

1.8 The Financial Sector Legislative Reforms Commission (FSLRC) was set up by the Government of India to make the laws governing the financial

[2] "Creating a Safer Financial System: Will the Volcker, Vickers, and the Liikanen Structural Measures Help?" Staff Discussion Note, International Monetary Fund, May 2013.

Box I.1 :

Likely Implications of Vickers' Recommendations for Indian Banks (including UK Banks in India)

The "Independent Commission on Banking" (the Commission) headed by Sir John Vickers was established in the United Kingdom in June 2010 to consider structural changes and related non-structural reforms in the UK banking sector to promote financial stability and competition. The Commission's report presents a package of measures designed to make it easier and less costly to resolve failing banks; to improve banks' loss absorption capacity; limit excessive risk-taking; and limit the spread of contagion through the UK banking system.

Ring-fencing of UK banks

Under the ring-fencing proposal, the ring-fenced banks will be permitted to extend only retail and commercial banking services to a limited set of clients, including individuals and small and medium-sized enterprises (SMEs) in the UK. The Commission has specified three categorisations - Mandated, Prohibited and Ancillary - to determine services which must, and those which may or may not, be provided by a ring-fenced bank. These ring-fenced entities will also have other prohibitions and restrictions to ensure that they are not exposed to marked to market transactions and that they maintain a commercial and arm's length relationship with other entities in the group as with any other third party.

Improving loss absorbency of UK banks and bail in tools

- The large ring-fenced banks in the UK will be required to hold equity to risk-weighted assets (RWAs) ratio of at least 10 per cent with a provision to raise it to 13 per cent.
- All UK-headquartered banks should maintain a Tier-1 leverage ratio of at least 3 per cent, which will be 4.06 per cent for large ring-fenced banks.
- UK-headquartered global systemically important banks (G-SIBs) and large UK ring-fenced banks will have a capital of core equity and bail-in subordinated debt of at least 17 per cent of RWAs. A lower ratio would, however, be prescribed for smaller UK banks.
- The priority of creditors in insolvency may be revised so that deposits in banks insured by the UK's Financial Services Compensation Scheme are accorded preferential status (above floating charge holders).

Likely implications of these recommendations

Indian banks' operations in the UK

The retail asset size of Indian banks in the UK is currently much smaller than the 'De minimus' threshold set at £ 25 billion of mandated deposits for the Vickers Rules to apply. As such, no direct impact of Vickers' recommendations on ring-fencing is expected for Indian banks in the UK immediately. Also the business model of Indian banks does not include proprietary trading, investment banking or dealing in hedge funds at any significant levels. However, going forward, Indian banks in the UK may be required to separate their retail and commercial banking operations with respect to individuals and SMEs from their investment banking and wholesale banking activities, into separate ring-fenced entities. This would depend on the volume of operations, both in the area of the mandated/permitted activity, that is, the level of deposits from and credit services to individuals and SMEs as also the level of involvement in prohibited activities, such as investment banking, derivative transactions and proprietary trading.

Further, any separation of operations, wherever warranted, may involve creating separate infrastructure in terms of corporate structure, physical assets, staffing and manpower, capital, funding and liquidity arrangements as also the need for raising sufficient resources from the local market to take care of lending requirements. The cost of both capital and lending may increase. It is also expected to have monetary, legal and accounting implications.

UK banks' operations in India

As far as ring-fencing is involved, implications for Indian operations of UK banks will depend largely on the corporate structure of the respective parent company/bank in the UK and the changes and modifications that the parent company/bank is expected to bring about under ring-fencing requirements. Implications for Indian operations will also depend on whether the Indian branches are a part of the ring-fenced or non-ring fenced banking entity in the UK and how the business relocation takes place.

In general, to meet ring-fence requirements the restructuring process may be a complex one and is likely to involve administrative costs for banking groups. The recommendations may have implications for customers of the ring-fenced banks as the cost of services may go up due to the cost of restructuring and requirements of higher loss absorbing capital.

sector compatible with a growing, globalised and modernising economy; and to reflect the lessons of the global financial crisis. The Commission has proposed changes in the landscape of financial sector. The proposals cover consumer protection, dedicated and unified resolution authority, inter-regulatory coordination, development function and providing independence to the regulators/ central bank with accountability. The Commission has envisaged a regulatory framework where governance standards for regulated entities will not depend on the form of organisation of the financial firm, such as, co-operatives, private Indian firms, foreign firms and public sector firms. The banking system needs to be prepared for some of these recommendations, when accepted and implemented.

Discussion on a dynamic and evolving banking structure for India

1.9 As the Indian economy has been continuously evolving, expanding and diversifying, the time is appropriate for reviewing the existing banking structure in terms of its size, capacity, ability to meet divergent credit and banking services needs, access and inclusiveness. Given the critical need for reviewing the existing banking structure, the Reserve Bank has decided to initiate a debate on various aspects of the Indian banking system. In the Monetary Policy Statement 2013-14, it was announced that the Reserve Bank will review the extant banking structure in India and prepare a policy Discussion Paper keeping in view the recommendations of, *inter alia*, the Committee on Banking Sector Reforms, 1998 (Chairman: Shri M. Narasimham), the Committee on Financial Sector Reforms, 2009 (Chairman: Shri Raghuram Rajan) and a few other relevant viewpoints. The Discussion Paper has since been released for starting a public debate (Box I.2).

3. Policy Responses

1.10 Considering the implications of various emerging international and domestic factors on the banking system, regulatory and supervisory policy responses during the year pertained to initiatives for implementing risk-based supervision (RBS), enhanced oversight of financial conglomerates and steps towards improved coordination among regulators, besides positioning banks to meet the needs of inclusive growth. Further, several forward looking initiatives were undertaken to expand the banking system, increase competition, further strengthening the payments and settlement mechanism and fortification of capital.

Move towards risk-based supervision aimed at enhancing the efficacy of the supervisory review process

1.11 The Reserve Bank is entrusted with the responsibility of supervising the Indian banking system under various provisions of the Banking Regulation Act, 1949 and the RBI Act, 1934. While the banking landscape has witnessed considerable changes over the last two decades, supervisory resources and processes based on the CAMELS[3] framework within the Reserve Bank have remained more or less the same. This has resulted in a mismatch between supervisory responsibilities and available resources necessitating a review of the supervisory processes and the rationalisation of the organisational structure for bank supervision. Post the global financial crisis, there has been a shift towards RBS away from the erstwhile CAMELS approach. CAMELS is essentially a scorecard based approach which is more of a backward looking methodology and transaction testing model operating with a lag. RBS, on the other hand, is a forward looking approach inasmuch as it assesses the risk buildup in banks. RBS also enables conserving supervisory resources by more efficient allocation based on risk perception.

1.12 Based on the principles and approach for RBS as suggested by High-level Steering Committee (HLSC), and after taking into account the uniqueness of the Indian banking system, the Reserve Bank has finalised the supervision framework under RBS. As part of RBS phase I

[3] **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity and **S**ystems and Control (CAMELS).

Box I.2 :
Banking Structure in India : The Way Forward

It is recognised that the existing banking structure in India is elaborate and has been serving the credit and banking services' needs of the economy. However, since 1991, the Indian economy has undergone significant transformation in terms of its size and composition. The economic structure has diversified substantially and the economy has been opening up in its quest to further integrate with the global economy. If the real economy is dynamic, the banking system needs to be flexible and competitive in the emerging milieu. Viewed from this perspective, there is a need and scope for further growth in the size and strength of the existing banking structure to cope with the multiple objectives and demands made on it by various constituents of the economy.

The case for transforming the existing banking structure into a more dynamic banking structure stems from several considerations. It is felt that there is scope for increasing the size and capacity of the banking structure. There is also an imperative need for increasing the outreach of the banking structure. With the size of the economy increasing, banks require a large international presence. Several gaps exist in providing credit to certain sectors. These gaps need to be filled. There is also a need for the presence of specialised and niche banking entities to cater to the specific needs of a growing and dynamic economy. With a view to moving towards a dynamic banking structure that caters to these multiple functions, the Discussion Paper has suggested basic building blocks in the reorientation exercise:

- On tap licensing as compared to a block licensing approach to enhance competition and bring in new ideas and variety into the system.
- Implementing a domestic systemically important bank framework to deal with negative externalities of large banks.
- Creating three or four global sized banks to have a global presence through consolidation among large public and private sector banks (on a voluntary basis), keeping in view the need for competition within the domestic banking sector and avoiding complex structures.
- Allowing banks for niche segments to take care of specialised banking needs through differentiated licensing.
- Encouraging investment banks/investment banking activities.
- Encouraging inclusion to reach out to the excluded and under-banked regions. Small banks at the bottom of the tiered structure may be the preferred vehicle for these objectives to facilitate financial inclusion.
- Enhancing the regulatory and supervisory regimes with increased intensity of supervision for the systemically important banks.
- Evolving an efficient deposit insurance and resolution mechanism to support the envisaged tiered structure.
- Converting urban co-operative banks which meet the necessary criteria into commercial banks or local area banks/small banks.
- Enhancing the presence of foreign banks to stimulate competition and their subsidiarisation from the perspective of financial stability.
- Expanding the size and capacity of banking structure which enhances the ability of the banking system to cope with multiple demands made on it for credit and varied services by diverse customer base.

The Discussion Paper sets the tone for an informed discussion on the need for reorienting the present banking structure through a more liberalised policy regime, which will facilitate the evolution of a multi-tier banking structure.

rollout, 29 banks have been brought under RBS from 2013-14 constituting approximately 66 per cent of the total assets of the Indian banking system. Banks have also been sensitised about the minimum expectations that supervisors have from banks on aspects like risk appetite, a market related and efficient transfer price mechanism, effective business line mapping, risk-based pricing and risk-based internal audit and IT infrastructure for risk management. In this context, banks need to gear up to the challenges for a smooth transition to RBS.

Policy initiatives for improved cross border supervision and cooperation

1.13 The cross border operations of Indian banks are rapidly increasing. In view of this, the formalisation of the relationship between "Home" and "Host" supervisors, by way of a Memorandum of Understanding (MoU), has become an important channel for the Reserve Bank. In this context, the Reserve Bank has initiated the process of signing MoUs with overseas regulators on supervisory cooperation and exchange of information.

1.14 The Reserve Bank has executed MoUs with 16 overseas supervisors. In addition, proposals with respect to 28 other overseas supervisors are in various stages of arriving at a mutually agreeable format of MoUs. Further, the Reserve Bank has set up supervisory colleges[4] for State Bank of India and ICICI Bank Ltd. These colleges are likely to emerge as a key tool of consolidated supervision particularly considering the expanding footprints of Indian banks abroad.

Steps initiated to enhance oversight of financial conglomerates

1.15 One of the mandates assigned to the Financial Stability and Development Council (FSDC) is macro-prudential supervision of the economy, including the functioning of large Financial Conglomerates (FCs). In this context, an institutional structure for the oversight and monitoring of FCs has been set up in the form of an Inter-Regulatory Forum (IRF) modeled around the "lead regulator" principle.

1.16 To enable IRF to have an institutional mechanism for periodic coordination towards a consolidated supervision of identified FCs, a MoU for facilitating data/information sharing and formalising other cooperation arrangements like coordinated inspection and recovery and resolution planning, was signed by RBI, SEBI, IRDA and PFRDA under the aegis of FSDC's sub-committee. Based on the criteria for identifying FCs and their financials for 2012, IRF has identified 12 FCs for monitoring, each having a significant presence in two or more market segments from amongst banking, insurance, capital market, pension fund and non-banking finance. Of the 12 identified FC groups, the Reserve Bank is the lead regulator for five identified FC groups, IRDA is the lead regulator for four and SEBI is the lead regulator for three FC groups.

Structured and planned approach to further financial inclusion

1.17 The Reserve Bank has been furthering financial inclusion (FI) through a combination of strategies including relaxing regulatory guidelines and providing new products and other supportive measures to achieve sustainable and scalable financial inclusion. The Reserve Bank has adopted a bank-led model for financial inclusion which seeks to leverage on technology. A structured and planned approach was followed under financial inclusion wherein all banks were advised to implement Board-approved Financial Inclusion Plans (FIPs) congruent with their business strategies and comparative advantage for a three-year period (2010-2013). The implementation of these plans was closely monitored by the Reserve Bank. In order to take financial inclusion to the next stage of universal FI in which all eligible individuals will have transactional accounts, banks were advised to draw up FIPs for 2013-16, which have since been submitted by the banks. Banks have been advised that the FIPs prepared by them should be disaggregated and percolated down to the branch level, with a view to ensuring the involvement of base level officials in FI efforts and also for ensuring uniformity in the reporting structure under FIP.

Issue of new bank licences to further improve competition and enhance access to banking services

1.18 To meet the needs of a dynamic real economy, the banking system needs to grow. Increasing the number of banks will promote financial inclusion, foster competition and thereby reduce costs and improve the quality of services. Accordingly, the Reserve Bank invited applications for "Licensing of New Banks in the Private Sector". It received 26 applications for new

[4] "Supervisory colleges" refer to multilateral working groups of relevant supervisors that are formed for the collective purpose of enhancing effective consolidated supervision of an international banking group on an ongoing basis.

bank licences. The Reserve Bank will soon issue new bank licences consistent with the highest standards of transparency and diligence.

Road map for a structured and efficient payment and settlement system

1.19 The Reserve Bank has been laying down broad policy contours on reforms in payment systems. In this context, the latest Vision Document on “Payment Systems in India-Vision 2012-15” released on October 1, 2012, outlines the strategy to be followed over the next three years for providing safe, efficient, accessible, inclusive, interoperable and authorised payment and settlement systems for the country (Box I.3).

Capital infusion in public sector banks to enhance capital adequacy

1.20 The Basel III capital regulation has been implemented in India from April 1, 2013 in phases and will be fully implemented as on March 31, 2018. These norms lay more focus and importance on quality, consistency and transparency of the capital base. The Reserve Bank has estimated the additional capital requirements of domestic banks for full Basel III implementation till March 2018. These estimates are based on two broad assumptions:

(i) increase in the risk weighted assets of 20 per cent per annum; and

(ii) internal accrual of the order of 1 per cent of risk weighted assets.

1.21 The estimates suggest that public sector banks will require an additional capital to the tune of ₹4.15 trillion, of which equity capital will be of the order of ₹1.4 - 1.5 trillion, while non-equity capital will be of the order of ₹2.65 - 2.75 trillion. Being the majority stakeholder, Government has been infusing capital in these banks. During the last five years, the Government has infused ₹477 billion in the public sector banks. The Government will infuse ₹140 billion in the public sector banks during 2013-14. The present level of Government share holding in these banks ranges from 55 per cent to 82 per cent. Thus, there is sufficient headroom available to the Government for dilution of its stake in a number of public sector banks.

Need for improving the asset quality of banks

1.22 The NPA ratio of all major sectors weakened during 2012-13. While the primary driver of the deteriorating asset quality was the domestic economic slowdown, the contribution of other factors like delays in obtaining statutory and other approvals as well as lax credit appraisal/monitoring by banks was also significant. Further, credit concentration in certain sectors and higher leverage among corporates also increased stress on asset quality. In recent years there has also been a sharp increase in the amount of debt restructured under the corporate debt restructuring mechanism. This has implications for the banks’ already stressed asset quality in the period ahead.

1.23 In order to upgrade the banks’ credit monitoring system, the Reserve Bank advised them to have a robust mechanism for early detection of signs of distress and to use such early warning signals to put in place an effective preventive asset quality management framework. The Reserve Bank has also advised banks to strengthen the information sharing mechanism among lenders by making it compulsory for banks to receive/share information on borrowers before sanctioning loans. Going forward, it is anticipated that the position may improve if there is a pick-up in the GDP growth rate coupled with an improvement in project implementation due to the Government’s intent/efforts and improvements in banks’ recovery efforts.

4. The Way Forward

1.24 In the years ahead banks are expected to play a much larger role in supporting the productive impulses of the economy. In this

Box I.3:
Highlights of Vision Document 2012-15 on Payment and Settlement Systems

The growth of electronic payments has been impressive in recent years. However, the benefits of modern electronic payment systems are not spread evenly among all sections of society and across the different regions of the country. Despite multiple electronic modes of payment being available, cash is still the preferred and dominant mode of payment in large parts of the country. Against this backdrop, Vision Document 2012-15 aims to promote a less cash/less paper society, with increased emphasis on the use of electronic payment products and services, especially by the populace which is still not covered by these products. Achieving the goal of a less cash economy and inclusiveness will require infrastructure for an underlying robust payment system. Therefore, there is a need for transforming the "fit for current purpose" payment system infrastructure into a state of "ready for future challenges" infrastructure.

The Vision Document focuses on promoting electronic modes of payment and reducing usage of cash in society by:

(i) proactively promoting electronic payments,

(ii) developing policy guidelines which are equitable, uniform and risk-based,

(iii) increasing efficiency of payments through standardisation and capacity building in terms of systems and human resources and implementing giro payments,

(iv) setting up a body for setting standards,

(v) addressing the risks in payment systems and strengthening risk management through continuous interaction with stakeholders,

(vi) promoting access and inclusion through payment system literacy initiatives,

(vii) facilitating migration of government payments and receipts to electronic mode,

(viii) promoting use of pre-paid payment instruments, Electronic Benefit Transfer (EBT), Direct Transfer of Subsidies (DTS) and e-commerce,

(ix) ensuring smooth operations of payment systems through focus on off-site surveillance, need based inspection of retail payments and annual inspections of Financial Market Infrastructures (FMIs); and

(x) ensuring compliance with new international standards.

The Vision Statement sets out the road map for ensuring the benefits of a structured modern payment and settlement system, including innovative products, to reach out beyond the currently served target groups thereby facilitating greater financial inclusion. This is to be achieved by nurturing a payment system that adequately serves the national and international transaction needs of the nation.

context, some of the key issues are highlighted below.

Effective reduction in NPAs and improvements in the loan recovery process

1.25 The asset quality of banks is an important indicator of their financial health; it also reflects the efficacy of their credit risk management and recovery environment. The asset quality of the banking system deteriorated significantly during the year and there was an increase in the total stressed assets in the banking system (that is, NPAs plus restructured assets). Banks need to not only follow the various measures put in place by the Reserve Bank and the Government of India effectively for resolution and recovery of bad loans but also strengthen their due diligence, credit appraisal and post sanction loan monitoring systems to minimise and mitigate the problems of increasing NPAs. There is a need to improve the effectiveness of the recovery system. Recovery should be focused on efficiency and fairness - preserving the value of underlying assets and jobs where possible, even while redeploying unviable assets to new uses and compensating employees fairly. This should be done while ensuring that contractual priorities are met. In this regard, there is urgent need for accelerating the working of Debt Recovery Tribunals and Asset Reconstruction Companies. It is also necessary to collect credit data and examine large common exposures across banks. This will enable the creation of a central repository on large credits, which can be shared with the banks. This in turn will enable banks to be aware of building leverage and common exposures. This also underscores the need for expediting the setting up of an enhanced resolution structure for financial firms. Going forward, these issues will engage priority attention of Reserve Bank.

Renewed emphasis on banks' role in fostering inclusive development

1.26 It is recognised that access to finance is still hard for the poor, for rural, small and medium industries and also for the small and marginal traders. Banks need to play a much larger role in a faster, broad-based and inclusive growth leading to a rapid fall in poverty. An assessment of the progress made in financial inclusion since the introduction of Board-approved Financial Inclusion Plans reveals that while there has been considerable progress in the number of accounts opened, the actual number of transactions per account or per business correspondent (BC) continues to be extremely low. The low transaction levels indicate inadequacies on both the demand and supply sides. In this context, financial literacy efforts are expected to enhance access to the financial system by increasing awareness. Banks need to appreciate that transactions will happen if account holders have a stake in the accounts which will arise only when a variety of banking services, including entrepreneurial credit like Kisan Credit Card/ General Credit Card, an overdraft for consumption needs, direct benefit transfers and other remittance facilities are provided. Business and delivery models for providing these and other financial services need to be evolved and implemented.

1.27 Technology has the potential to act as a force multiplier in efforts for financial inclusion. There is, however, also an increasing realisation that mere reliance on technology-enabled non-face to face channels alone will not be sufficient to meet the goal of creating an inclusive financial system. Wherever feasible and viable, banks may consider opening more brick and mortar outlets as delivery points, both as a control mechanism for BCs and to gain the trust and acceptability of the financially excluded segment of the population.

Need to stimulate and foster competition in the banking sector

1.28 One of the major objectives of financial reforms was bringing in greater efficiency by allowing more operational flexibility for banks. Accordingly, the Reserve Bank has freed bank branching for domestic scheduled commercial banks. Opening new branches needs to be left to the discretion of all scheduled domestic commercial banks except for those that are poorly managed. Of course, while making use of such freedom banks are required to fulfill certain inclusion criteria in under-served areas in proportion to their expansion in urban areas.

Continued need to reduce pre-emption of banks' resources

1.29 One of the mandates for the Reserve Bank in the RBI Act is ensuring the flow of credit to productive sectors of the economy. In this context, it is necessary to reduce banks' requirements of investing in government securities in a calibrated way, to what is strictly needed from a prudential perspective. It is recognised that the scope for such reduction will increase as government finances improve. Further, as the penetration of other financial institutions, such as pension funds and insurance companies increases, it will be possible to reduce the need for commercial banks to invest in government securities.

Intensified use of technology to improve efficiency

1.30 The public should have improved access to safe investment vehicles, to be able to transfer funds, to obtain direct benefits from the government without costly intervening intermediaries and to raise funding for viable investment opportunities. In addition, access to credit for smoothening consumption needs or to tide over emergencies is desirable, especially for households in the lower income deciles. Policy endeavours should continue to provide enabling conditions to facilitate this.

1.31 There is a need to create and foster a national giro like pan-India bill payment system so that households will be able to use bank accounts to meet the multitude of day-to-day payments and funds transfer obligations at a single point. Payments "anywhere anytime" need to be a reality. Setting up "White Label" point of sale (POS) devices and mini-ATMs by non-bank entities to cover the country so as to improve access to modern financial services in rural and remote areas needs to be encouraged.

Increasing the presence of foreign banks

1.32 The objective of foreign banks' participation in India was primarily to increase competition, promote efficiency of the local banking system and also adapting their sophisticated financial services and products with respect to domestic banks. At present foreign banks are operating in India as branches. From the perspective of financial stability, a move towards subsidiarisation of foreign banks should be welcome. India needs foreign banks to participate more in the growth process, but in exchange it is important to have more regulatory and supervisory control over their local operations. Encouraging qualifying foreign banks to move to wholly owned subsidiary structures, where they will enjoy near national treatment, will be a policy that will be consciously encouraged.

Objective assessment of the existing banking structure

1.33 An objective assessment of the size and performance of the existing banking structure in India brings to the fore the need for expanding the commercial banking system in terms of its size and the number of banks and calls for decisive changes in the present structure to enable it to grow in size, resources, efficiency and inclusivity. The Reserve Bank has initiated a debate on reorienting the banking structure in the country to better serve the needs of the real economy. As the Indian economy expands, more resources will be needed for supporting the growth process. To support economic growth as envisaged in the 12th Five Year Plan, the banking business needs to expand significantly to an estimated ₹288 trillion by 2020 from about ₹115 trillion in 2012[5]. The Indian banking sector also needs to match up the likely acceleration in the credit to GDP ratio as the economy expands. The overall thrust of the reorientation should be on imparting dynamism and flexibility to the evolving banking structure, while keeping it safe from depositors' perspective.

Need to liberalise licensing policies

1.34 Regulators need to ensure that their regulatory stance does not create barriers to the entry or exit of institutions or result in unwarranted costs to the economy and consumers. Instead, regulation should impose restrictions on institutions in such a way that it does not cause a moral hazard problem. Accordingly, the Reserve Bank's Discussion Paper favours "continuous authorisations" of new banks and explores the possibility of introducing differentiated licences for small and wholesale banks and the possibility of converting large urban co-operative banks into commercial banks to impart dynamism to the banking system. However, this is not to undermine the need for ensuring sufficiently stringent entry norms to prevent the entry of banks of questionable soundness or competence, since their proliferation could undermine public confidence in the overall integrity of the banking system.

1.35 To sum up, banks will have to face a multitude of challenges while conforming to the emerging regulatory and supervisory framework and in meeting the divergent needs of the economy. In the near term, banks need to focus on improving their asset quality. Policy changes that are contemplated in the medium term will help further reinforce the dynamism of the banking system.

[5] *Banking Structure in India-The Way Forward*, Discussion Paper, Reserve Bank of India, August 2013.

Chapter II

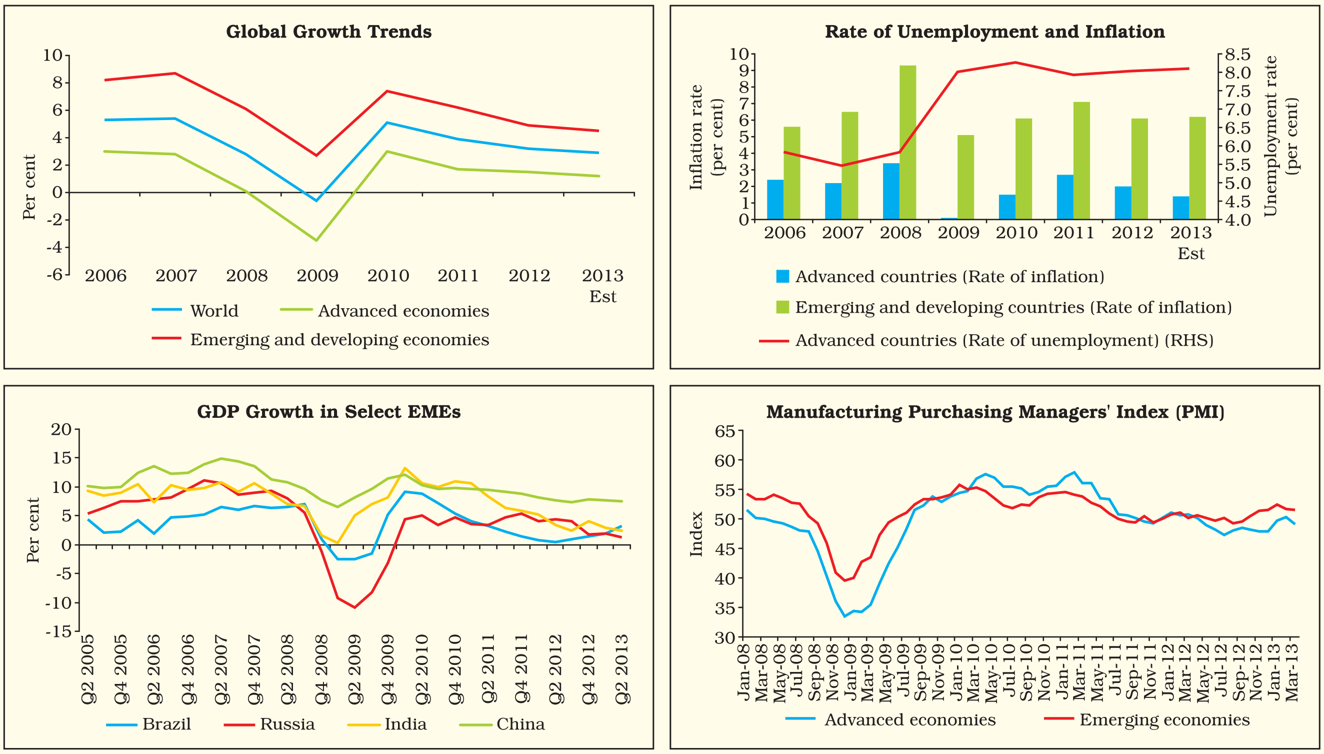
Global Banking Developments

Financial conditions in the global banking system improved following monetary easing measures by central banks in advanced economies. Banks in the US are in an advanced stage of repairing their balance sheets. Concerns, however, remain for European banks' asset quality. While the fundamentals of banking sectors in emerging economies were relatively robust, deceleration in growth may pose challenges. Significant progress has been made on the regulatory front regarding Basel III, systemically important financial institutions (SIFIs) and derivative reforms. Moving forward, the risks to the global banking system remain. The most important being the upturn in the global interest rate cycle when the Fed exits from its quantitative easing programmes resulting in an increase in credit risk. Early completion of balance sheet repair by banks and implementation of regulatory reforms will strengthen the stability of the banking system in the medium term.

1. Introduction

2.1 The global economy grew at a subdued pace in 2012 indicating that the recovery from the impact of the global financial crisis has not fully set in. Global growth moderated to 3.2 per cent in 2012 compared with 3.9 per cent achieved in 2011 (Chart II.1). Forecasts for 2013 suggest the continuation of sluggish global growth. The IMF's World Economic Outlook (WEO) has projected

Chart II.1: Global Macro-economic Trends



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

that global growth will further decline to 2.9 per cent in 2013. This subdued global projection is driven to a large extent by slower growth in several key emerging market economies, as well as a tepid recovery in the euro area[1].

2.2 Against this global macroeconomic setting, Section 2 analyses the performance of the global banking system using major indicators of banking activity and soundness for select advanced and emerging economies. Section 3 examines the performance of banking systems in select advanced and emerging economies. Section 4 analyses the performance of the top-100 banks which have a major global presence. The next section highlights the major regulatory and supervisory policy initiatives with regard to the global banking system during the year. The last section presents an overall assessment and outlook for the global banking sector for 2014.

2. Global Banking Trends

2.3 Globally, banks continued their efforts for repairing their balance sheets and improving their capital ratios, *albeit* at an uneven pace across countries. The funding costs of the global banking system in the second half of 2012 and so far in 2013 have witnessed improvements on the back of significant quantitative easing measures by central banks in advanced economies. Implementing regulatory reforms at the global level will require banks to further improve their asset quality. It will be imperative at least for some too-big-to-fail banks to rationalise their business mix as regulations may require them to ring-fence their core commercial banking services from investment activities.

2.4 Growth in global credit was multi-paced. Return on assets (RoA) improved for banks in the US and some emerging market and developing economies (EMDEs), but declined in European countries. An analysis of banking trends in select regions and countries shows an improvement in the financial position of the banks in the US, whereas banks in the euro zone continued to show a weak financial position. Concerns regarding the financial health of banks in the euro area periphery countries also remain. Banks in the UK improved their capital ratios but their exposure to the euro area remains a concern.

2.5 An analysis of the performance of the top-100 global banks shows that the share of emerging economies in global banking continued to rise, with one bank from China (Industrial and Commercial Bank of China) registering the top rank in global banking ratings. On the global policy reforms front, there was some progress in rule framework for Basel III, systemically important financial institutions (SIFIs) and derivative market infrastructures.

Divergence in credit growth across regions

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

Return on assets showed a mixed trend

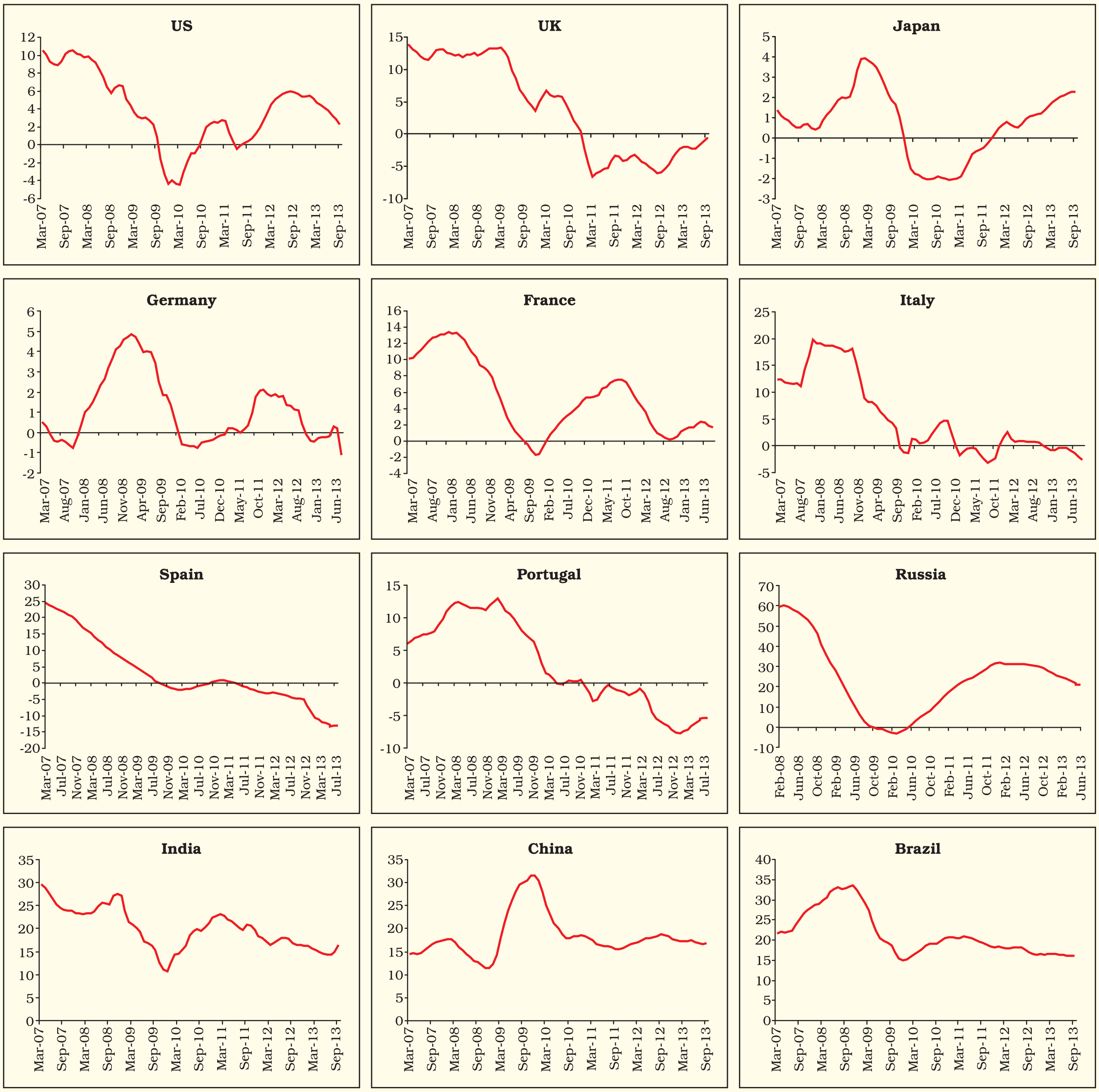
2.7 Return on assets (RoA), an indicator of the banking system's profitability, showed a divergent trend across economies. In general, EMDEs maintained high RoA levels in 2012 as well (Table II.1).

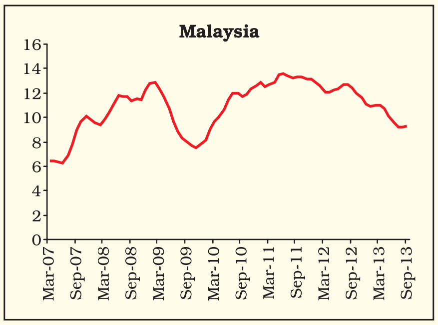
Financial stress reduced following quantitative easing (QE) measures

2.8 Financial conditions, which worsened in the second quarter of 2012-13 on account of the

[1] World Economic Outlook, IMF, October 2013.

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





Notes: 1. Growth rates for all countries are monthly year-on-year basis smoothened out using the three-month moving average method.

2. Bank credit refers to private credit for Germany, Russia, Spain, UK, France, Italy and Portugal. In all other countries, it refers to total bank credit.

3. Credit data used for growth calculations are as reported in the respective currency of each country.

4. For Russia, data is available only from December 2006.

Source: Compiled from the Thomson Reuters DataStream.

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

(per cent)

Country	2007	2008	2009	2010	2011	2012
			Advanced economies			
France	...	0.1	0.3	0.6	0.4	0.3
Germany	0.3	-0.1	0.2	0.4	0.5	0.4
Greece	1.0	0.9	0.4	0.0	-9.5	-1.8
Italy	0.8	0.3	0.3	0.3	-0.9	0.1
Japan	0.5	0.3	-0.2	0.2	0.3	0.3
Portugal	1.2	0.3	0.4	0.5	-0.3	-0.3
Spain	1.1	0.8	0.6	0.5	0.1	-1.4
United Kingdom	0.4	-0.1	0.0	0.3	0.3	0.3
United States	1.2	-0.1	0.2	0.9	1.2	1.4
			Emerging market and developing economies			
Russia	3.0	2.1	0.7	2.0	2.5	2.4
China	0.9	1.0	0.9	1.1	1.3	1.3
India	0.9	1.0	1.0	1.0	0.9	1.0
Malaysia	1.5	1.5	1.2	1.5	1.5	1.6
Brazil	3.5	2.1	1.7	1.9	1.7	1.4
Mexico	2.3	1.4	1.5	1.8	1.5	1.8

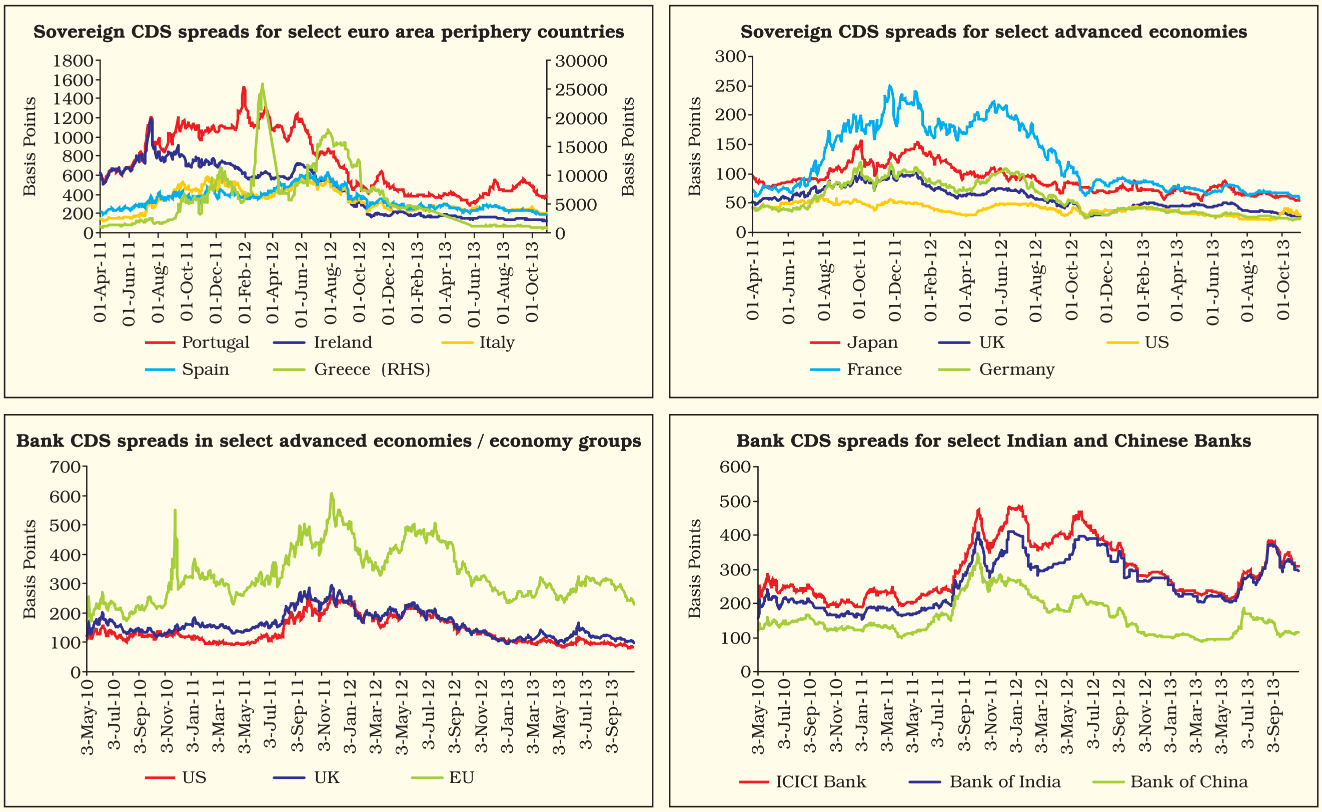
Note: ... Not available.
2012 data for Italy pertain to June.
Source: Compiled from Financial Soundness Indicators, IMF.

bank crisis in Spain and political instability in Greece, subsequently improved following quantitative easing measures undertaken by advanced central banks (Chart II.3). The US Federal Reserve undertook the "open-ended" quantitative easing (QE-3) programme, while the European Central Bank (ECB) started outright monetary transaction (OMT) programme. However, a prolonged period of low interest rates and exit from the central bank asset purchase programme may have negative spillover effects, increasing financial stability risks (Box II.1).

With better funding conditions, bank stock indices improved

2.9 Bank stock indices, particularly in the second half of 2012-13 increased as financial

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

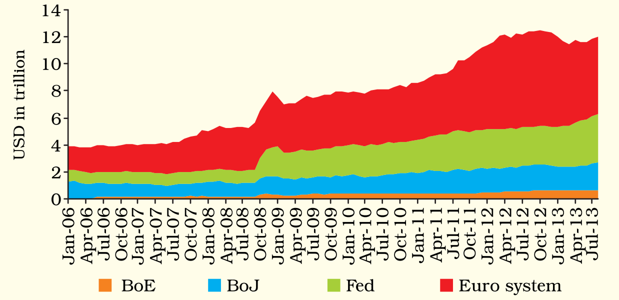


Note: The sovereign spreads are for 5-year senior CDS, while banks' spreads are for 5-year CDS.
Source: Bloomberg for CDS spreads of Sovereign and Thomson Reuters DataStream for banks' spreads.

Box II.1: Financial Stability Risks of Unconventional Monetary Policy in Major Central Banks

During the global financial crisis, central banks in advanced economies deployed a variety of unconventional measures such as, very low interest rates, quantitative easing (QE), long-term liquidity provision and private asset purchases, to restore the functioning of financial markets. These policies largely succeeded as markets started functioning and tail risks declined significantly. However, these measures have led to a substantial expansion in the balance sheets of these central banks. Coupled with an increase in the duration and diversity of assets, this has resulted in a decline in asset quality (IMF GFSR 2013). The unprecedented increase in central banks' assets may lead to an increase in the financial risk in the system, with potential negative consequences for their financial strength and independence (Chart 1).

Chart 1: Central Bank Assets of Advanced Economies



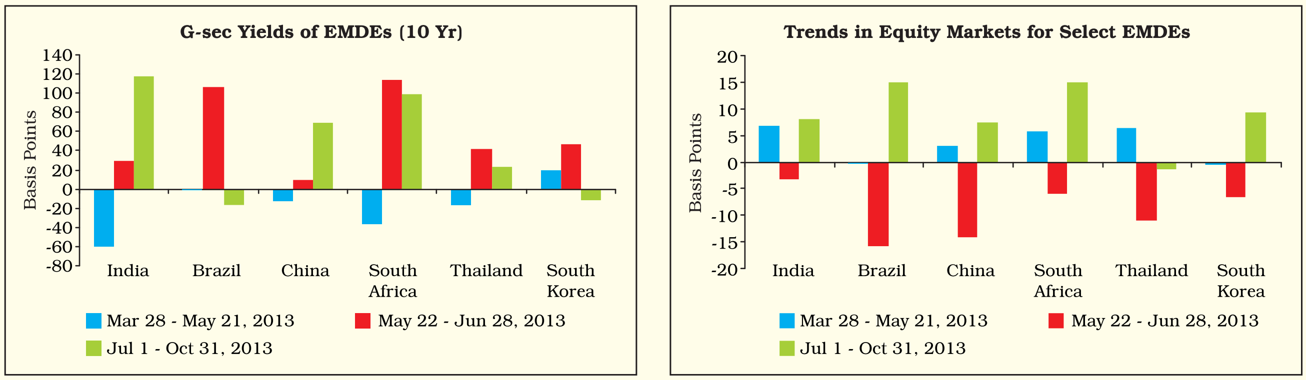
Source: Thomson Reuters DataStream.

Central banks' balance sheet risks may take the form of valuation losses as a result of rise in interest rates and a decline in operating incomes as they hold large government bonds with low interest rates and possible impairment losses on assets with credit risk, as they exit from their unconventional policies. The US Federal Reserve, Bank of England (BoE) and Bank of Japan (BoJ) face interest rate risks as they have large holdings of government bonds, while ECB may face credit risk, as it has increased its lending exposures to banks in the euro area periphery countries. IMF has estimated that a 1 per cent increase in the interest rate would correspond to a capital loss of about 4 per cent of Federal Reserve's total assets, 1.75 per cent of total assets for BoJ and 6.5 per cent for the BoE.

Prolonged periods of unconventional monetary policies may have also increased potential risks in their respective domestic economies. Low interest rates have put pressure on financial institutions to take excessive risks in search for high yields, which may manifest in asset price bubbles. In recent periods, banks and financial institutions have been increasingly dependent on central bank financing, which may hamper the restoration of private sources of funding and also result in loosening of credit standards. Further, the exiting of unconventional monetary policies by central banks may increase the interest rate in the period ahead, which may increase interest rate risks for banks. Banks may also incur capital losses on fixed-rate securities. The increase in interest rates may weaken loan performance thereby increasing credit risk. Banks may also face funding challenges once the central banks exit the markets.

Given the increasing integration of advanced economies and emerging market and developing economies (EMDEs), policy actions of central banks in advanced economies will spill over to emerging market economies as well. The signalling by the Chairman of the US Federal Reserve on May 22, 2013 that the Fed may taper off its asset purchase programme if economic conditions improve rapidly; followed by a more explicit forward guidance by the Fed Chairman on June 19, 2013 on moderating its asset purchases starting later this year and, in measured steps, unwinding the QE by mid- 2014, had a huge impact on EMDE markets. They came under intense pressure as

Chart 2: Sell-offs in EMDEs following US Fed Testimony



Source: Bloomberg.

(Contd....)

(....Concld.)

the bond sell-off was accompanied by the reverse flight of capital back into the US amid expectations that high interest rates may lead to significant losses on existing bond holdings. Portfolio capital, especially in bond markets, witnessed outflows from EMDEs, thereby increasing bond yield and sell-offs in equity markets (Chart 2). Following US Federal Reserve decision to maintain its assets purchases in September 18, 2013, equity market in the EMDEs witnessed increase as capital flows started coming in. However, the Government yields have not come down commensurately following the Fed decision.

In general, risks from an unconventional monetary policy exit stem from, among other things, timing, sequencing and speed of exit. An added challenge is managing expectations in the face of differential economic conditions between and within geographies.

Reference:

IMF (2013): Central Bank Policies since the Crisis Carry Risks to Financial Stability, Global Financial Stability Report (GFSR), IMF, April.

easing improved funding conditions for banks (Chart II.4). Even the banks in the euro zone periphery countries were able to access markets and raise resources. Banking stocks in EMDEs also increased in the second quarter of 2012-13. However, comments by the US Fed in mid-May 2013, about the likely tapering-off of quantitative easing (QE), triggered outflows of investments from EMDEs resulting in a decline in bank stocks in these countries.

Inter-bank spreads reduced significantly

2.10 Inter-bank market spreads, which increased substantially during the global financial crisis in 2008, came down following the reduction in risk perception and enhancement of liquidity injection by the central banks (Box II.2).

Decline in international banking business

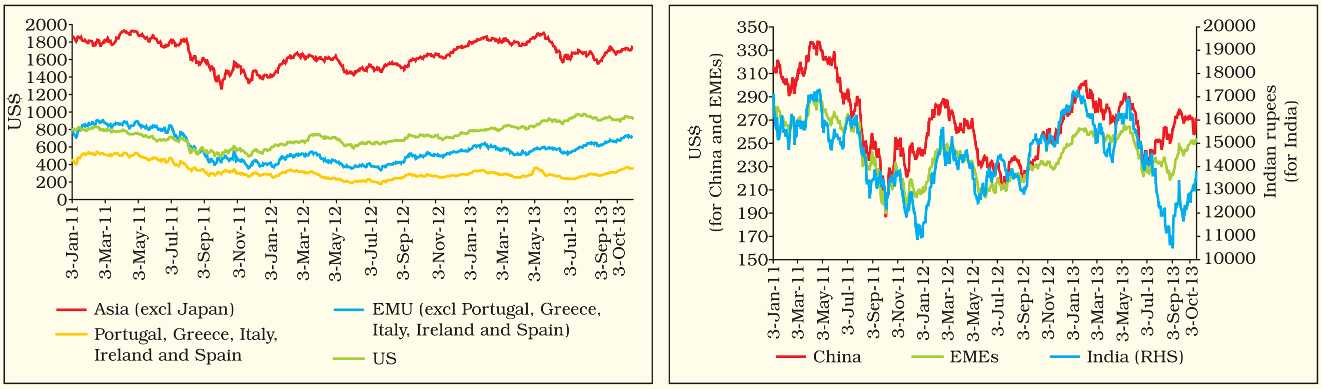
2.11 The contraction in the international banking business (by location of reporting banks) continued during 2012-13 (Table II.2). This reduction was especially marked for cross-border claims on the euro area.

Financial soundness of banks

Capital adequacy levels showed some improvement

2.12 Intensified efforts by the banks to strengthen their capital position was reflected in an increase in the level of capital adequacy in several economies including those in the euro area. However, some peripheral countries such as Greece need further improvements in capital adequacy levels (Table II.3).

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



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

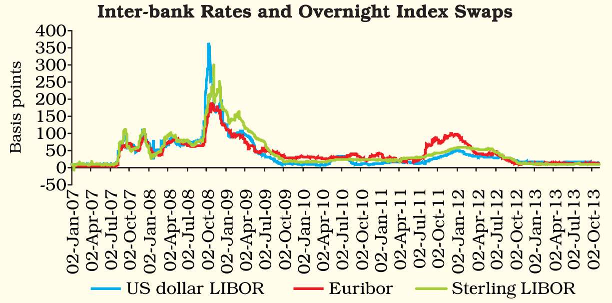
Box II.2: Liquidity Hoarding by Banks during the Global Financial Crisis

During the financial crisis, especially during August 2007 and in the aftermath of the failure of Lehman Brothers and AIG in September 2008, short-term funding markets experienced severe disruptions. While the market for asset backed mortgages froze, inter-bank borrowing rates reached record high levels (Chart 1). Repo markets, which are typically highly liquid, shrank dramatically and experienced unprecedented high "haircuts", as lenders withdrew their funds by declining to roll over their loan agreements (Gorton and Metrick, 2012). Counterparty withdrawals and credit denials, resulting in a loss of liquidity – not inadequate capital – caused a severe liquidity crisis and led to the demise of many banks. Difficulty in obtaining liquidity in inter-bank markets was subsequently experienced in many countries. Even central bank infusions of liquidity to banks through their borrowing facilities resulted in hoarding of liquidity rather than credit growth (Chart 2). Thus, it is important to analyse bank lending behaviour during a crisis to understand how banks' actions to hoard liquidity may lead to liquidity shortage in the inter-bank market, and eventually, defaults by their counterparts.

Literature offers precautionary, strategic and knightian uncertainty as banks' motives for hoarding liquidity under stressed financial conditions.

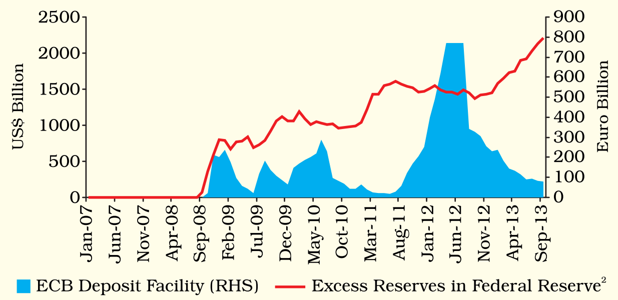
Precautionary Motive: Banks may decide to hoard liquidity for precautionary reasons if they believe that they will not be able to obtain inter-bank loans when faced with liquidity shortages. Asymmetric information in the market gives rise to banks' apprehensions that they might be perceived as a source of counterparty risk and may lose access to markets. Data analysis in the case of the US reveals that more than one-fourth of the contraction in lending is due to the precautionary motive of liquidity hoarding banks (Berrospide 2013).

Chart 1: Spread Between Three-Month Uncollateralised Inter-bank Rates and Overnight Index Swaps



Source: Bloomberg.

Chart 2: Bank Reserves in Central Bank Balance Sheet



Source: Bloomberg.

Strategic Motive: Banks may also hoard liquidity in anticipation that the tightening liquidity situation may force other banks to fire-sale their assets and they may need liquidity to take advantage of this fact. If the future demand for cash is expected to be very high, asset prices will be low. In the event that a bank enters those situations with sufficient liquidity in its portfolio, it may profit from buying illiquid assets at "fire-sale" prices (Diamond and Rajan 2009). Banks may also hoard liquidity in anticipation of insolvency of their counterparties in inter-bank markets, that is, in view of rollover risk.

Knightian Uncertainty: Since banks operate in complex financial network structures, in the face of increased uncertainty, banks may take decisions based on the worst-possible case scenarios. So they may hoard more liquidity in that process. Further, panic and uncertainty may lead to the flight to quality from illiquid banks resulting in an increase in financial stress. There has been evidence of inflows of core deposits to banks with large holdings of liquid assets in the US during the financial crisis (Berrospide 2013).

Central bank's direct infusion of liquidity to individual institutions may help mitigate distress in the inter-bank market. However, when uncertainty remains, banks may still prefer to hoard liquidity and refrain from lending to each other, which would weaken the beneficial effects of liquidity facilities. Berrospide (2013) shows that in the US, even though US$ 820 billion was provided to the banking industry during 2008 and 2009, the banks kept the funds in the central bank's reserves, as they increased the reserves by US$ 765 billion in 2008 and US$ 318 billion in 2009.

Hence, while liquidity hoarding can be a rational response to heightened uncertainty by banks, it can be another important impediment to the efficient functioning of the interbank market, in addition to the usual difficulties posed by counterparty risk, asymmetric information and the possible stigma associated with borrowing from central banks (Gale and Yorulmazer, 2011).

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Berrospide, J.M. (2013): "Bank Liquidity Hoarding and the Financial Crisis: An Empirical Evaluation", FEDS Working Paper No. 2013-03, Board of Governors of the Federal Reserve System.

Diamond, D.W. and R.G. Rajan (2009): "The Credit Crisis: Conjectures About Causes and Remedies", *American Economic Review*, 99(2):606-10.

Gale, M.D. and T. Yorulmazer (2011): "Liquidity Hoarding", Federal Reserve Bank of New York Staff Report No. 488, New York.

Gorton, G. and A. Metrick (2012): "Securitised Banking and the Run on Repo", *Journal of Financial Economics*, 104(3):425-451.

[2] From July 2013 onwards, excess reserves is calculated as "total reserve balances maintained" minus "reserve balance requirements"

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

(Per cent)

Item	2009-10	2010-11	2011-12	2012-13
Total assets	**0.2**	**5.8**	**-1.8**	**-5.2**
1. External assets	0.2	6.1	-2.3	-5.5
Loans and deposits	-0.8	6.9	-2.5	-7.7
Holdings of securities and other assets	3.0	4.0	-1.8	0.4
2. Local assets in foreign currency	0.7	6.9	1.5	-3.1
Total liabilities	**-0.6**	**7.3**	**-1.0**	**-5.8**
1. External liabilities	-0.9	7.7	-1.4	-6.4
Loans and deposits	-1.3	5.8	-2.3	-8.6
Own issues of securities and other liabilities	4.3	29.1	7.0	12.5
2. Local liabilities in foreign currency	-6.1	11.8	2.2	-4.2

Source: Compiled from BIS, Locational Banking Statistics.

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

(Per cent)

Country	2007	2008	2009	2010	2011	2012
Advanced economies						
France	...	10.5	12.4	12.7	12.3	14.5
Germany	12.9	13.6	14.8	16.1	16.4	17.9
Greece	11.2	10.0	11.7	12.3	-1.7	9.6
Italy	10.1	10.4	11.7	12.1	12.7	13.3
Japan	13.3	11.3	11.2	13.3	13.8	14.2
Portugal	10.5	9.4	10.5	10.3	9.8	12.6
Spain	11.4	11.3	12.2	11.9	12.1	11.4
United Kingdom	12.6	12.9	14.8	15.9	15.7	16.4
United States	12.8	12.8	13.9	14.8	14.7	14.5
Emerging market and developing economies						
Russia	15.5	16.8	20.9	18.1	14.7	13.7
China	8.4	12.0	11.4	12.2	12.7	13.3
India	12.3	13.0	14.3	15.2	13.1	13.1
Malaysia	14.8	16.1	18.2	17.5	17.7	17.6
Brazil	18.8	17.7	18.7	16.9	16.3	16.4
Mexico	15.9	15.3	16.5	16.9	15.7	15.9

Note: ... Not available.
2012 data for Italy pertain to June.
Source: Compiled from Financial Soundness Indicators, IMF.

Uneven decline in leverage

2.13 An analysis of the leverage ratio as measured by the percentage of total capital (and reserves) to total assets across countries reveals an uneven picture. There was sharp deleveraging by banks in US and France (Chart II.5).

Asset quality worsened for euro area periphery countries

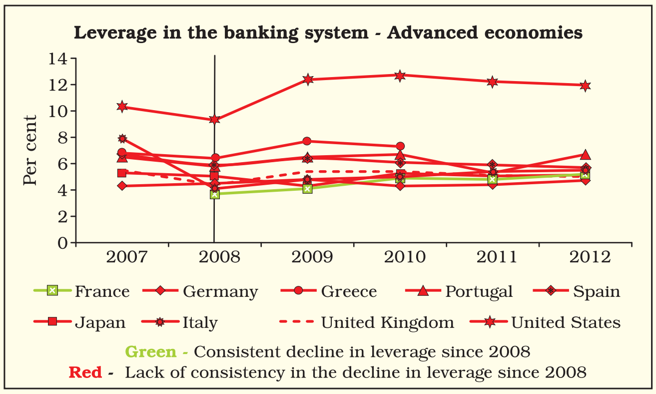
2.14 During 2012, there was an improvement in the asset quality of banks in the US and core euro area countries. However, asset impairment increased sharply in the euro area peripheral countries (Chart II.6). Among EMDEs, most of the economies showed considerable improvement in asset quality in the years following the crisis.

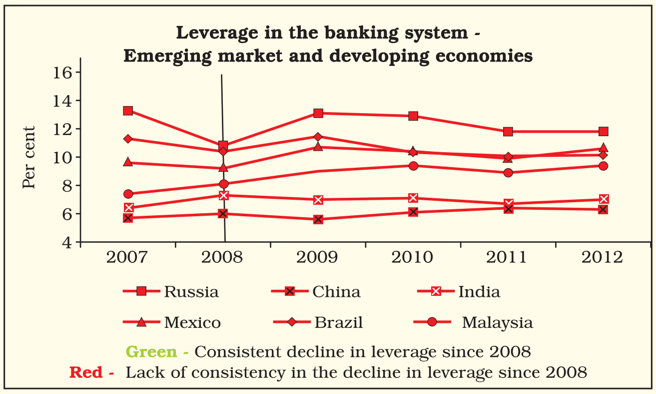
3. Banking Trends in Select Regions and Countries

The US banking system – balance sheet repair at an advanced stage

2.15 The US banking system has made considerable progress towards repairing balance sheets and building capital since the recent financial crisis. Banks have reduced their balance sheet risks by increasing their Tier-1 capital,

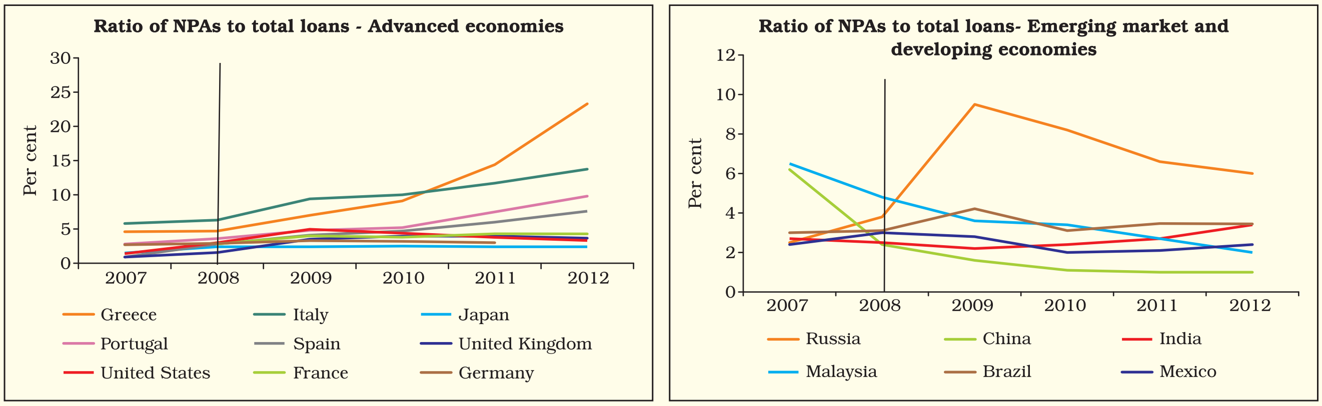
Chart II.5: Leverage in the Banking Systems of Select Economies





Note: 2012 data for Italy and China pertain to June.
Source: Compiled from Financial Soundness Indicators, IMF.

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



Source: Compiled from Financial Soundness Indicators, IMF.

assets and equity assets ratio (Chart II.7). Reflecting the improved performance of the US banking system, credit rating agency Moody's changed its banking outlook for the US from negative to stable in May 2013.

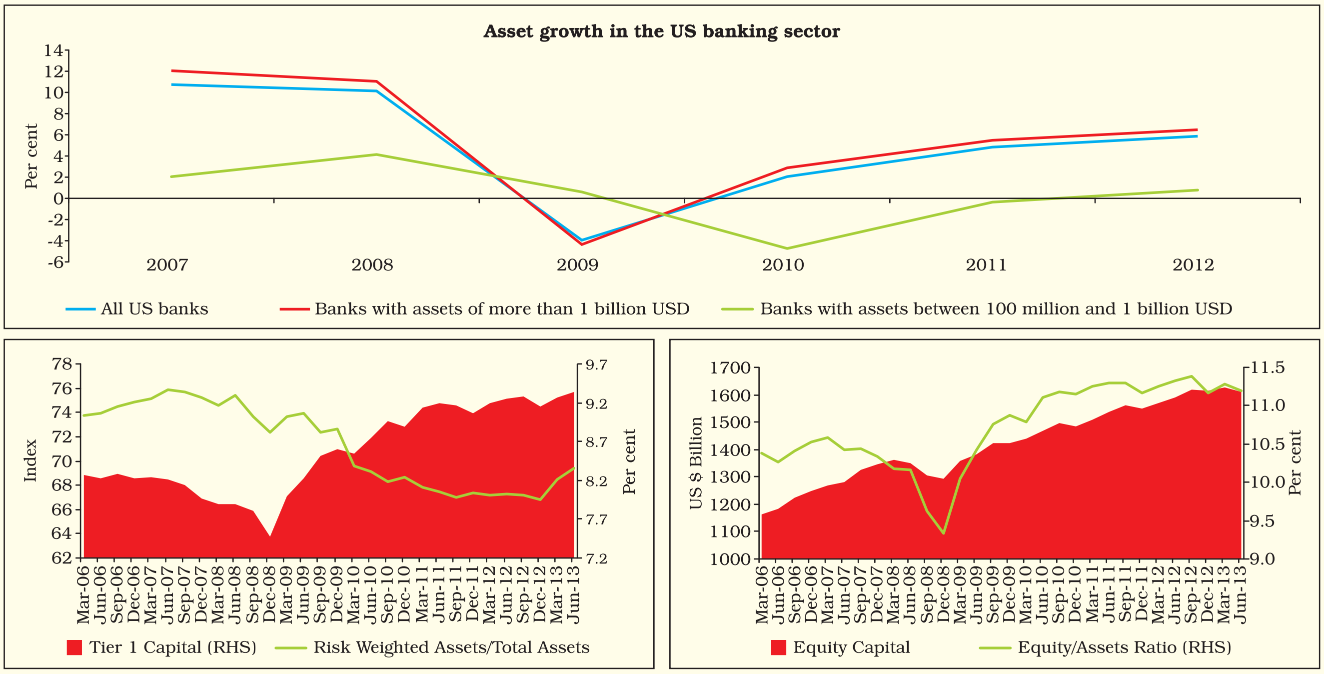
Improvement in profitability of US banks

2.16 The profitability of the US banking system has improved. It was largely been driven by a fall in loan loss reserves (Chart II.8).

Funding conditions improved for the euro area banking system

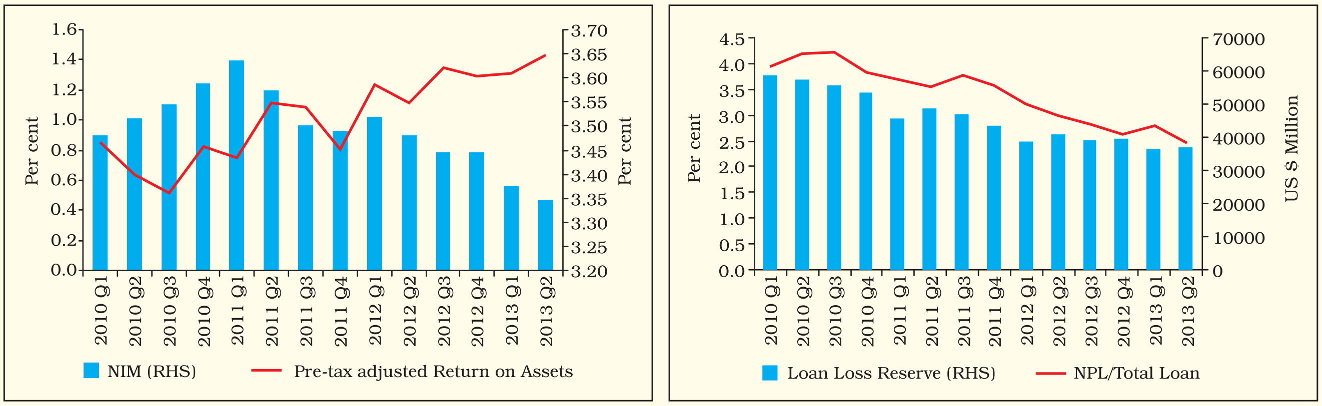
2.17 Financial conditions in the euro area improved from mid-2012 onwards, following various measures taken by the authorities such as outright monetary transactions (OMT) and monetary easing by ECB. The proposal for a single banking union has also had a favourable impact notwithstanding the Cyprus crisis in early 2013

Chart II.7: Progress in the US Banking System



Source: Bloomberg and the FDIC database.

Chart II.8: Profit and Non Performing Loans of US Banks



Source: Bloomberg.

(Chart II.9a; Box II.3). Easing financial conditions in the euro area has improved funding conditions for banks. As a result, banks started repaying their three-year longer-term refinancing operations (LTRO) funds since January 23, 2013 (Chart II.9b). Repayment of LTRO funds shows that many European banks preferred to repay the first three-year LTRO launched in December 2011 rather than the second LTRO launched in February 2012 indicating their preference for retaining funds with longer maturity.

European banks continue to deleverage

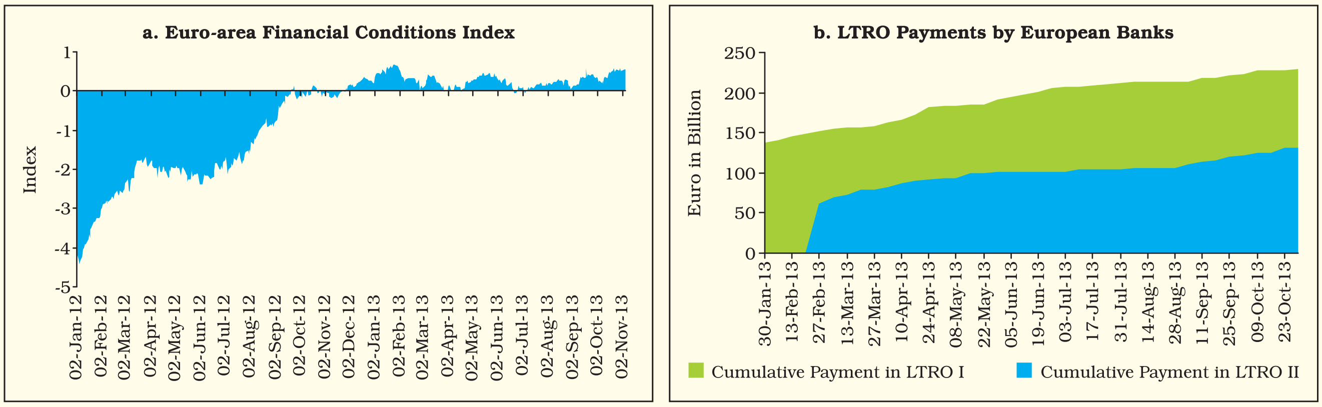
2.18 In 2012, European banks continued their efforts to repair their balance sheets in the backdrop of tepid growth, stringent regulatory requirements and financial fragmentation. There was a marked reduction in leverage ratios and loan deposit ratios from the levels reached in 2008 (Chart II.10). Reliance on whole-sale funding has also come down considerably.

2.19 European banks have also reduced their total foreign claims by over 33 per cent since the peak achieved in March 2008 (Chart II.11). However, continued deterioration in both the quality of banks' loan portfolios and profitability may pose challenges for some European banks in the period ahead.

Financial fragmentation continues to persist

2.20 Despite significant improvements in the financial conditions of euro area banks, bank credit has not picked up, posing risks for sustained recovery (Chart II.12a). Further,

Chart II.9: Financial and Liquidity Conditions in the Euro Area



Source: Bloomberg.

Box II.3: Banking Crisis in Cyprus and its Implications for Financial Stability

Cyprus, which is part of the euro zone, was affected by the ongoing European debt crisis in January 2013. The origins of the crisis in Cyprus lay in Greece's sovereign debt crisis in 2012, as Cypriot banks had invested heavily in Greek sovereign bonds and had also lent to the private sector in Greece. The restructuring of the Greek sovereign debt in 2012 severely hit these banks. The crisis was also aided by the worsening fiscal situation in Cyprus which led to fears about Cyprus' solvency. These factors resulted in a sharp increase in the capital needs of major Cypriot banks which rose to almost € 9 billion, equivalent to 50 per cent of Cypriot GDP (ECB 2013). On March 16, 2013 the Cyprus Government entered into an agreement with the Euro group to shut down the country's second largest bank, the Cyprus Laiki Bank and transfer its deposits of under €100,000 to Bank of Cyprus. Further, it was decided that in return for a €10 billion bailout from the Troika [European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF)], the Cypriot Government would be required to impose a significant haircut on uninsured deposits, a large proportion of which were held by non-residents. Under this agreement, the insured deposits of equal to or less than €100,000 were not affected. In order to avoid fund outflows from domestic banks, Cypriot authorities also introduced temporary restrictions on domestic and cross border transactions and payments.

Implications for Cyprus' economy and financial stability

Plans for the two largest banks, Bank of Cyprus and Laiki, are especially controversial in Cyprus, as these involve heavy losses for depositors with large balances in their accounts. According to IMF, which is providing 10 per cent of the bailout money, 95 per cent of account holders will be protected as a majority of the accounts have less than €100,000 in them. However, depositors with more than €100,000 will lose some of their savings. Although the exact amount has still not been determined, according to estimates they could lose up to 60 per cent of their savings. Restrictions on the amount of money that can be withdrawn daily are still in place. Data by the Central Bank of Cyprus shows that there is continuous deposit flight from the Cyprus banks. Between end-January to September 2013, there was a cumulative decline in deposits of around 30.6 per cent (Table 1). The breakdown of decline in deposits shows that foreigners drew a considerably larger share of funds.

Prospects of short-term growth are very bleak for the Cyprus economy as it is estimated that its GDP in 2013 is projected to contract by about 7.7 per cent. Deficit targets agreed to between the Troika and Cyprus in a Memorandum of Understanding (MoU) imply that the economy will contract by about 12.5 per cent cumulatively during 2013-14 and it is forecast to return to growth in 2015. Apart from the direct impact on GDP from winding down the second biggest bank Laiki and the destruction of a banking model designed to attract funds from abroad, the economy will suffer from a ripple effect across related industries, especially tourism. Further, bank assets as a percentage of total GDP are higher in Cyprus than the other euro area economies (Chart 1). Confidence shock among consumers and investors are also to be factored in. Thus, the immediate problem facing Cyprus is how to restore confidence in its banking system. The second quarterly review of Cyprus economic programme by Troika on November 7, 2013 stated that all the fiscal targets have been met as a result of significant fiscal consolidation measures underway and prudent budget execution. The November review by Troika followed by an approval by the Eurogroup and IMF's Executive Board scheduled in December 2013 will pave the way for disbursing €100 million by the ESM, and about €86 million by IMF to Cyprus. This will provide some succour to the ailing economy. The Cypriot crisis, however, has not led to any disruptions in global financial markets and it is largely confined to the domestic economy.

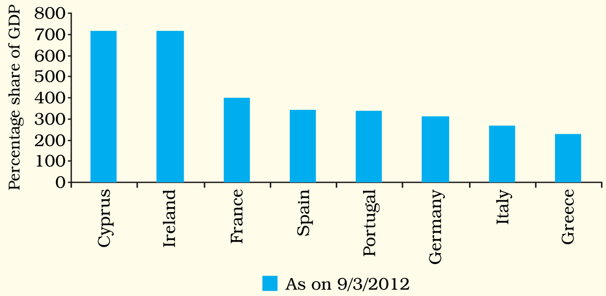
Table 1: Change in amount of deposits outstanding in Cypriot Banks

(Euro in Billion)

	Domestic	Other Euro Area	Rest of the World	Total
Feb-Mar 2013	-1.3	-0.5	-1.9	-3.8
Apr-Jun 2013	-6.3	-0.7	-6.0	-13.0
Jul-Sep 2013	-2.0	0.1	-1.3	-3.2
Cumulative (Feb-Sep 2013)	-9.6	-1.1	-9.3	-20.0

Source: Central Bank of Cyprus.

Chart 1: Euro Area Bank Assets as share of GDP

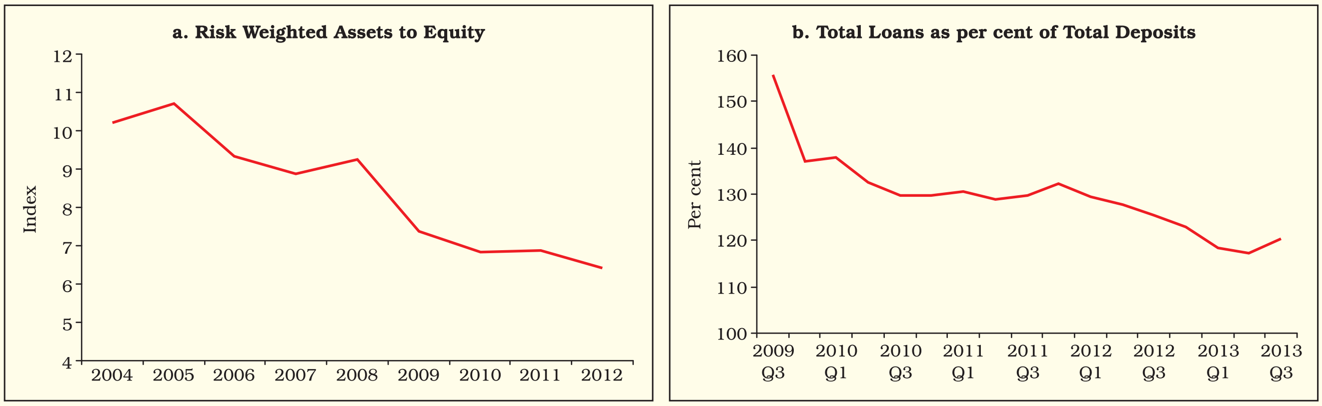


Source: Thomson Reuters Datastream.

Reference:

ECB (2013): Financial Stability Review, May 2013.

Chart II.10: Leverage and Loan-Deposit Ratio for Euro Area Banking System



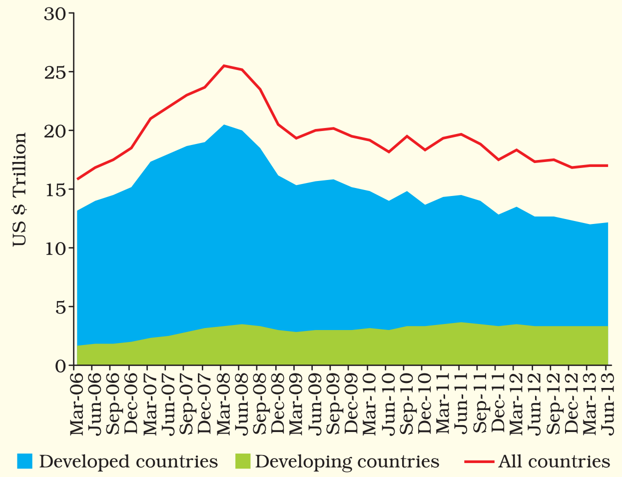
Source: Bloomberg.

financial fragmentation continues to exist between peripheral and core countries despite infusion of funds through LTRO. Dispersion in lending rates across countries and borrowers remains substantial, suggesting low pass-through from an accommodative monetary policy to bank lending conditions (Chart II.12b). ECB's forthcoming asset quality review and stress test by the European Banking Authority (EBA) will be critical for the euro area banking system in ascertaining the level of balance sheet repairs which need to be undertaken by the banks in the period ahead.

UK banking system - funding conditions improved

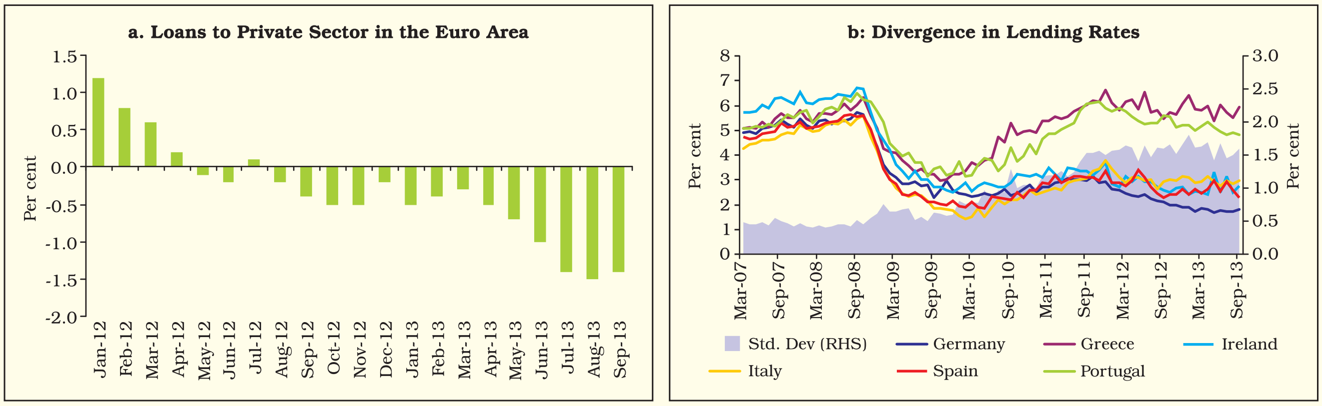
2.21 Funding conditions for UK banks improved following the easing of global financing conditions.

Chart II.11: Deleveraging of Foreign Activity by European Banks



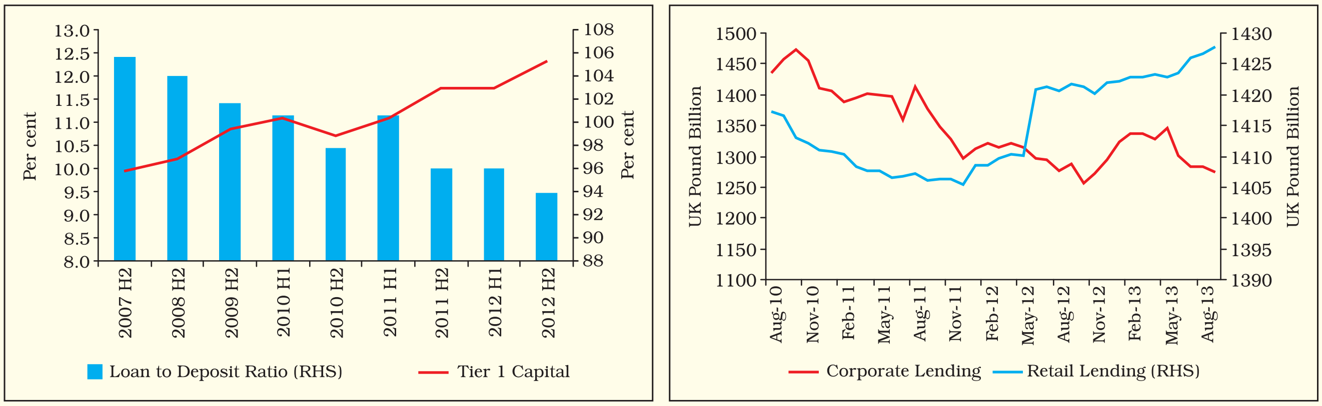
Note: Total Consolidated Foreign Claims of European Banks – Immediate Borrower basis.
Source: BIS Database.

Chart II.12: Credit and Lending Rates in the Euro Area



Source: ECB and Thomson Reuters Datastream.

Chart II.13: Key Banking Indicators for the UK



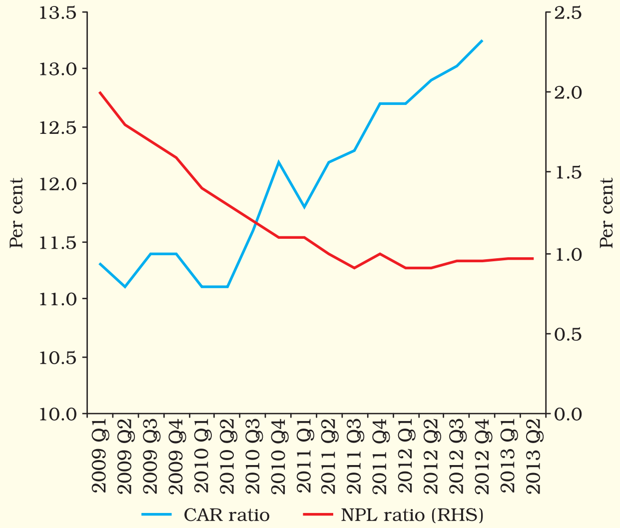
Source: Bloomberg.

While the flow of retail credit through the banking system increased in the recent period, credit to corporates is yet to pick up (Chart II.13). UK banks face significant risks as their total exposure to euro area periphery countries is substantial at around UK pound 140 billion accounting for 65 per cent of their reported core Tier-1 capital at end-2012.

Chinese banking system - continued growth

2.22 The Chinese banking system continued to grow in 2012, with a higher capital adequacy ratio and a low level of non-performing loans (NPLs) (Chart II.14). However, the growth of shadow banking remains a concern, though credit flow from the shadow banking system slowed down from the earlier high levels (Table II.4).

Chart II.14: Chinese Banking Indicators



Source: Bloomberg.

Table II.4: Chinese Shadow Banking System

(Renminbi in Billion)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Sep-13
Entrusted Loans	25.5	34.7	154.9	117.3	207.9	221.7
Trust Loans	21.4	71	-28.8	38.9	259.8	111.6
Undiscounted Bankers' Acceptance	-148.6	87.4	157.6	185.1	263.7	-8.2
Equity Financing by NFCs	31.5	81.5	95.4	35	13.5	11.3
Total	**-70.2**	**274.6**	**379.1**	**376.3**	**744.9**	**336.4**

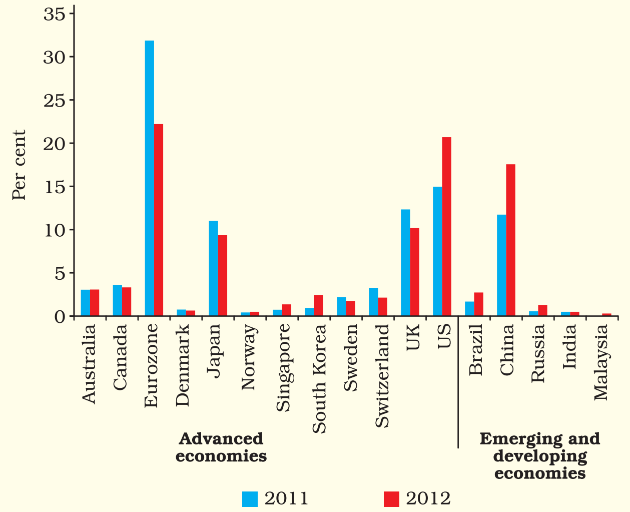
Source: Bloomberg.

4. Analysis of the Performance of Top 100 Global Banks

Share of emerging economies in global banking continued to increase

2.23 An analysis of the top 100 global banks by the Banker Database shows that the trend of a moderate shift in the global banking business from advanced economies to EMDEs continued in 2012. This is evident from both the composition of number and assets of the top-100 global banks (Chart II.15). This shift reflects continued credit growth in EMDEs, combined with subdued credit growth in advanced economies. The decline in the asset share of advanced economies between 2011 and 2012 was concentrated in Europe, Japan and UK banks (Chart II.16). Among EMDEs, Chinese banks exhibited a significant improvement in the top 100 banks ratings, as the Industrial and Commercial Bank of China (ICBC) reached the top rank based on Tier-1 capital for the first time.

Chart II.16: Share of Countries in Total Assets of Top 100 Global Banks

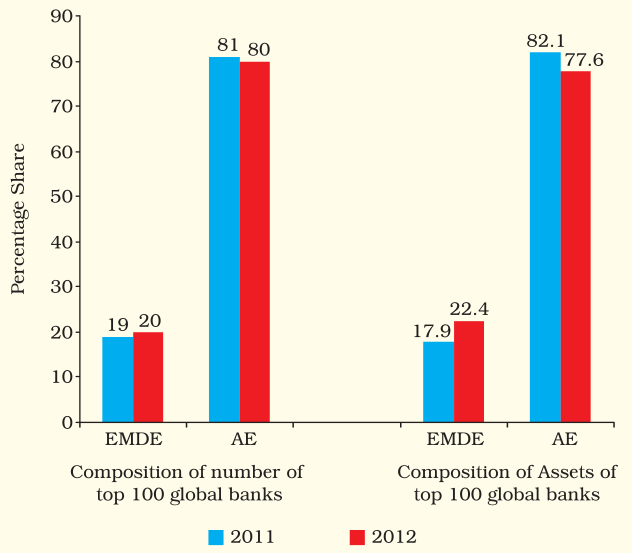


Source: Calculated using Banker Database.

Profitability of global banks remains subdued

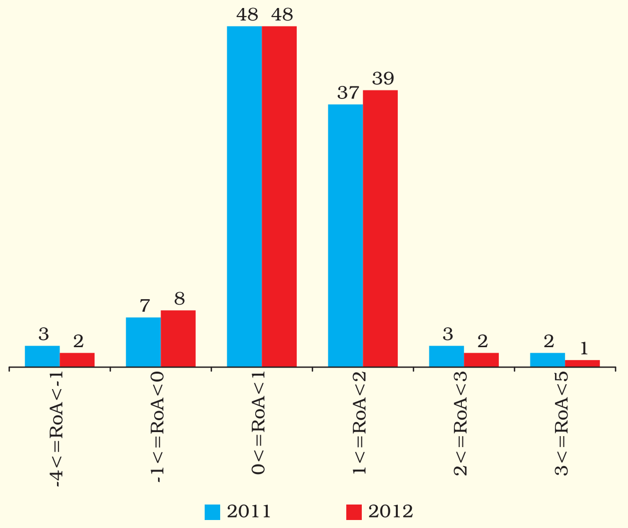
2.24 Profits of the top-100 banks remained more or less the same during 2012 (Chart II.17). Aggregate profits of these banks recorded a marginal increase to US$ 590 billion in 2012 from

Chart II.15: Location of Global Banking Statistics



Source: Calculated using Banker Database.

Chart II.17: Percentage Distribution of Top 100 Global Banks by Return on Assets



Source: Calculated using Banker Database.

US$ 557 billion in 2011, driven mainly by profits of banks in the Asia-Pacific region.

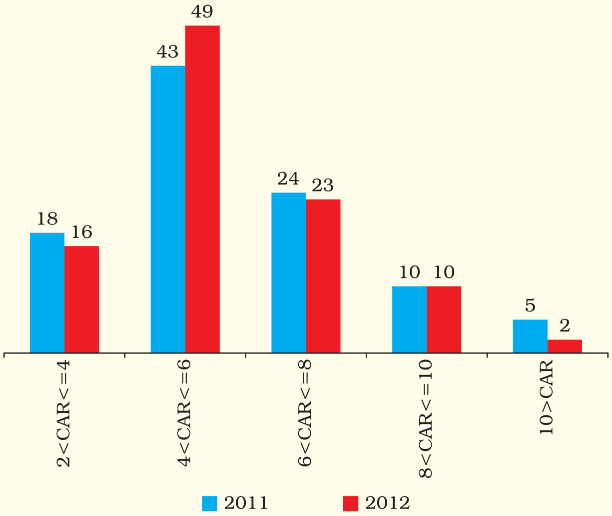
Global banks strengthen their capital adequacy position

2.25 The capital adequacy position of the top 100 banks reveals that the number of banks in the higher bracket of the capital adequacy ratio, that is, more than 17 per cent, showed an increase, reflecting global initiatives at strengthening the capital position of banks (Chart II.18). All the top 100 banks are maintaining a higher capital adequacy level than the Basel Committee on Banking Supervision (BCBS) norm of 8 per cent CRAR under the Basel II framework.

Slow progress is evident in the deleveraging of global banks

2.26 Notwithstanding the improvement in CRAR, soundness of global banks, particularly, for the euro area periphery countries remained weak. However, at the end of 2012, the number of banks that are highly leveraged with a capital adequacy ratio – a measure of financial leverage – of less than 4 per cent came down (Chart II.19).

Chart II.19: Percentage Distribution of Top 100 Global Banks by Capital Adequacy (leverage) Ratio

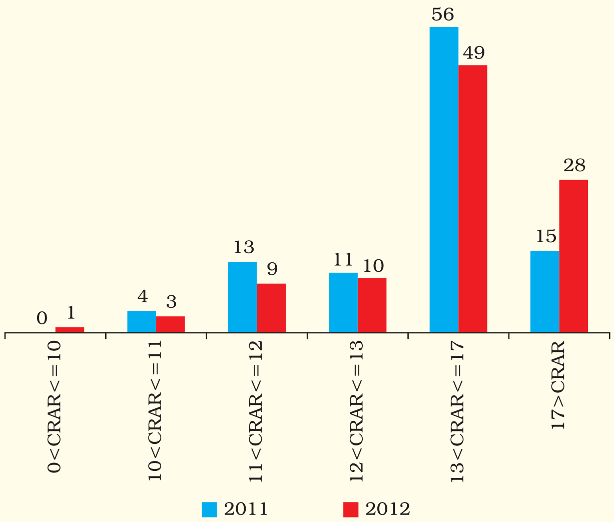


Source: Calculated using Banker Database.

Mixed trend in the asset quality of global banks

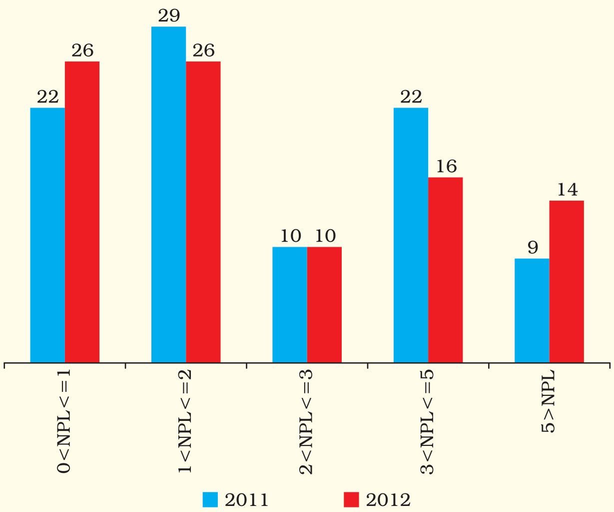
2.27 Amidst an uncertain global financial environment, global banks showed a mixed trend in their asset quality (Chart II.20). Scatter plots of the top-20 banks covering three indicators

Chart II.18: Percentage Distribution of Top 100 Global Banks by CRAR



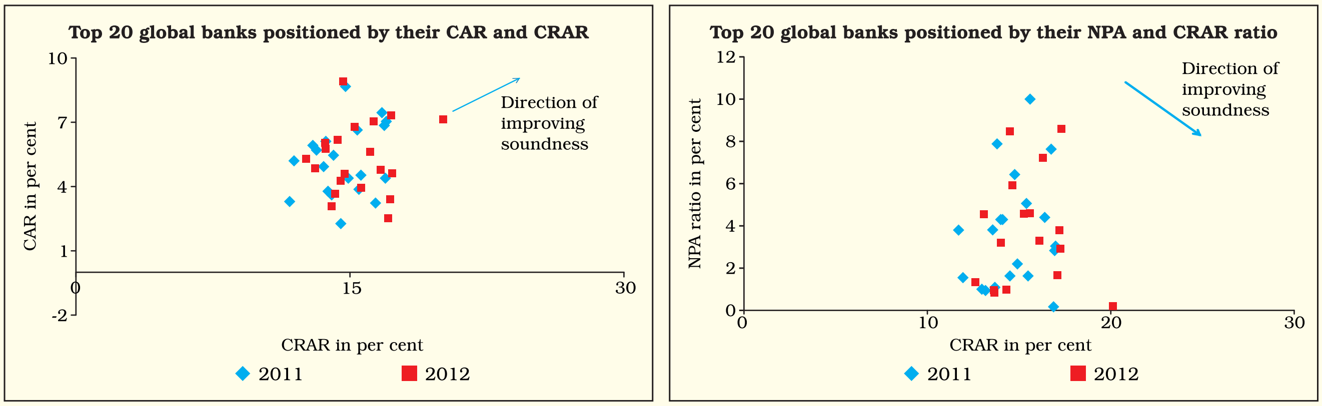
Source: Calculated using Banker Database.

Chart II.20: Percentage Distribution of Top Global Banks by NPL Ratio



Source: Calculated using Banker Database.

Chart II.21: Changes in Soundness Indicators of Top Global Banks



Source: Calculated using Banker Database.

of CRAR, CAR and NPA ratio, clearly reveal that while banks were in the process of stepping up their CRAR between 2011 and 2012, not much improvement was discernible in the NPA ratios during 2012 (Chart II.21).

5. Global Policy Reforms

Progress in regulatory reforms

2.28 Global regulatory reforms initiated in 2009 to strengthen the financial sector and to support sustainable economic growth by reducing future risks progressed in many areas. Formulation of policies regarding the Basel III framework, systemically important financial institutions (SIFIs) and financial market infrastructures have seen substantial progress in the recent period.

Basel III Framework

2.29 The Basel III framework developed by the Basel Committee on Banking Supervision (BCBS) is a comprehensive set of reform measures to strengthen the regulation, supervision and risk management of the banking sector. In January 2013, BCBS issued revised guidelines on liquidity coverage ratio, which promotes the resilience of banks by ensuring that they maintain an adequate stock of high-quality liquid assets to withstand reversals in funding conditions. The implementation of Basel III reforms has been phased-in between January 2013 and December 2018.

2.30 BCBS's October 9, 2013 progress report on Basel III implementation shows that 26 of the 27 jurisdictions that comprise the Basel Committee, had issued the final set of Basel III based capital regulations. Indonesia has draft rules in place and efforts are under way to finalise them.

Systemically Important Financial Institutions (SIFIs)

2.31 Regulatory developments towards global systemically important banks (G-SIBs) have focused principally on putting in place stronger regulations for reducing the probability of default by such banking entities to levels that are below those for less systemically important financial firms and creating a resolution regime for reducing losses to the broader financial system and economy upon the failure of a SIFI.

2.32 In July 2013, BCBS came out with its updated methodology for assessing and identifying G-SIBs and the higher loss absorbency requirement for G-SIBs. The additional loss absorbency requirements will range from 1 per cent to 2.5 per cent Common Equity Tier 1 (CET1) depending on a bank's systemic importance with an initially empty bucket of 3.5 per cent CET1 as a means to discourage banks from becoming even more systemically important. The Financial Stability Board (FSB) updated the list of G-SIBs for 2013, listing 29 banking institutions.

Markets: over-the-counter infrastructures

2.33 The global financial crisis revealed major shortcomings in the way derivatives are traded, reported and cleared as well as the capital required for bilateral trading. The basic thrust of the reforms is moving more OTC bilateral derivatives contracts to central counterparties (CCPs) and, where possible, to organised exchange trading platforms, while potentially increasing the transparency of the market *via* reporting of transactions to trade repositories (TRs).

2.34 In 2009, the G-20 agreed to implement central clearing and electronic trading of standardised derivatives instruments by the end of 2012. According to the Progress Report released by FSB on the implementation of the OTC derivatives market reforms in September 2013, there has been progress in actual use of centralised infrastructure by market participants in trade reporting, central clearing of OTC interest rate and credit derivatives. Currently, over half of FSB members jurisdictions have legislative frameworks in place to enable all reform commitments to be implemented.

National initiatives on bank structure regulation

2.35 A number of advanced countries are also considering structural reforms of bank structures in their respective countries and they are in varying stages of implementation. The Volcker Rule in the US, Vickers Report in the United Kingdom and the Liikanen Report in the European Union are some of the initiatives in this regard. Even though the initiatives are essentially aimed at strengthening financial stability by shielding the core functions of commercial banks from losses related to investment banking and securities market activities, they vary in the measures that are proposed to be taken. The Volcker Rule prohibits proprietary trading by commercial banks; the Liikanen Report recommends placing riskier trading activities in specific subsidiaries within the same holding company and the Vickers Report proposes ring-fencing of core banking activities and moving trading and underwriting activities to separate entities within the same holding company.

6. Overall Assessment

2.36 An analysis of the global banking system for 2012 shows a mixed picture. While the fundamentals of US banks are better as asset quality has improved, concerns remain in the euro area banking system because of financial fragmentation. The Global Financial Stability Report (GFSR) of April 2013 noted that many euro area banking systems remain relatively weak as capital buffers are low relative to reported impaired loans, the asset quality continues to deteriorate and profitability is poor. Banks in EMDEs, in general, maintained their regulatory capital ratios. The global banking system is faced with multiple risks in the years ahead, as it is faced with pressures on profitability, growing regulatory compliance costs, and revenue-growth difficulties amid weak credit and economic growth.

2.37 The US Federal Reserve in its September 18, 2013 communication has surprisingly refrained from reducing the US$ 85 billion pace of monthly buying, as it has decided to await more evidence that progress will be maintained before adjusting the pace of its asset purchases. The prolonged periods of unconventional monetary policies may increase financial risks in the economy, as banks and financial institutions may take excessive risks in search of high yields. Given the economic activity expanding at a moderate pace and some improvement in the employment level, the US Federal Reserve may have to exit their unconventional policy in the near future. If it tapers off its asset purchases, it is increasingly likely that there will be an upturn in global interest rate cycles, which will affect the value of banks' trading book assets directly, as banks have increasingly invested in government securities since the global financial crisis in order to reduce their credit risk. If the higher interest rate cycle exists along with lower economic growth, the banks may also face higher non-performing loans. Banks in EMDEs are better placed, as they have limited funding dependency on international markets, but they too face downward risks arising out of deceleration in economic growth, capital outflows and forex market volatility. Banking systems in various countries should continue strengthening their balance sheets. Timely completion and implementation of regulatory reforms will make banking systems less risky, more resilient and reduce future stability risks in the systems.

Chapter III

Policy Environment

The Reserve Bank continued to fine-tune its prudential and supervisory policies to ensure that the banking system remained sound, resilient and inclusive. In order to achieve this objective, several policy measures were initiated. These include issuing guidelines for new bank licences for improving access to banking services, efforts to move towards a dynamic provisioning framework and revisions effected in policy regarding restructuring of advances by banks/financial institutions. Policy framework was released for setting up of wholly owned subsidiaries by foreign banks in India. Also, a Discussion Paper on banking structure was released and a risk-based supervisory approach for banks was adopted. Measures were introduced for rationalisation of bank lending against gold and bank finance for purchase of gold. Many new initiatives were also undertaken to improve financial inclusion and to make the payment and settlement system more efficient.

1. Introduction

3.1 Domestic structural factors combined with an adverse external economic environment led to tepid economic growth during 2012-13 and 2013-14 so far. The monetary policy stance during 2012-13 sought to balance the evolving growth-inflation dynamics through calibrated easing. During 2013-14, the Reserve Bank eased monetary policy further in early May, but undertook exceptional liquidity tightening measures since July to address macro-financial risks arising from exchange rate volatility. Since September 2013, even as Reserve Bank began a calibrated withdrawal of exceptional liquidity tightening measures on signs of improvement in the external environment, taking cognizance of the mounting inflationary pressures, the repo rate was increased by 25 basis points each on September 20, 2013 and in the Second Quarter Review of October 29, 2013.

3.2 Though the Indian banking industry weathered the recent global financial crisis largely unscathed, weakening asset quality has emerged as a major concern. The global financial crisis has brought into sharp focus, the need for reorienting prudential policies to have a macro dimension. In this evolving global and domestic environment, the Reserve Bank has been constantly reviewing and fine-tuning its regulatory and supervisory policies to ensure a sound, resilient, robust and inclusive banking system that is capable of taking on various challenges effectively. In this regard, the chapter enumerates the various policy initiatives undertaken in the banking sector during 2012-13 and 2013-14 so far with particular focus on regulatory and supervisory policies.

2. Monetary Policy

Monetary policy addresses the accentuated risks to growth while maintaining a vigil on inflation

3.3 The monetary policy stance during 2012-13 was geared towards addressing the sharp slowdown in growth while not jeopardising the objective of reigning in inflation. There was a front-loading of easing of the key policy rate, the repo rate, by 50 basis points in April 2012. Reflecting the transmission of earlier monetary policy tightening as also the beneficial impact of fiscal consolidation, a moderation in inflation was witnessed in the second half. Headline Wholesale Price Index (WPI) inflation (y-o-y) averaged 7.0 per cent in the second half of the year as against 7.7

per cent in the first half. By March 2013, WPI inflation on a point to point basis, moderated to 5.7 per cent.

3.4 Using the policy space made available by the softening of WPI inflation in the second half of 2012-13, the Reserve Bank reduced the repo rate by 25 basis points each in January 2013 and in March 2013, leading to a cumulative 100 basis points easing in 2012-13. The repo rate was further reduced by 25 basis points in May 2013 to 7.25 per cent to address the accentuated risks to growth while noting that upside risks to inflation were still significant.

3.5 After easing in Q1 of 2013-14, WPI inflation started rising. Retail inflation as measured by Consumer Price Indices (CPIs) also continued to remain elevated. Considering the imperative need to curb the mounting inflationary pressures and anchor inflation expectations and thereby strengthen the foundations of growth, the repo rate was increased by 25 basis points each in the mid-quarter review of September and the second quarter review of October 2013 to 7.75 per cent.

Measures undertaken to address the stress in liquidity conditions

3.6 The year 2012-13 was marked by periods of significant stress in liquidity conditions. These were brought on by a number of factors including high government cash balances maintained with the Reserve Bank, strong seasonal demand for currency, the Reserve Bank's intervention in the foreign exchange market and divergence between deposit mobilisation and credit off-take of banks. The Reserve Bank undertook a number of measures for liquidity management. The cash reserve ratio (CRR) was reduced in three stages by a cumulative 75 basis points in 2012-13, taking it to 4.0 per cent of net demand and time liabilities (NDTL) of banks, its lowest level since 1974. The statutory liquidity ratio (SLR) was reduced by 100 basis points to 23.0 per cent of NDTL of banks in August 2012. Besides the liquidity injected through the daily liquidity adjustment facility (LAF) operations, the Reserve Bank purchased government securities worth ₹1.5 trillion through open market operations (OMOs) during 2012-13.

3.7 During early 2013-14, liquidity conditions generally improved mainly because of drawdown of government cash balances and narrowing of the gap between deposit and credit growth. In order to contain exchange rate volatility in the domestic forex market, the Reserve Bank undertook a number of measures since mid-July 2013. The measures included increasing the MSF rate and the bank rate by 200 bps to 10.25 per cent, announcing an auction of ₹120 billion in open market sales of government securities, capping LAF borrowing access for each individual bank at 0.5 per cent of its NDTL and increasing the minimum daily maintenance of CRR from 70 per cent to 99 per cent of the daily average requirement on a fortnightly basis. Further, on August 8, 2013, the Reserve Bank announced auction of Government of India Cash Management Bills (CMBs). Accordingly, ₹960 billion of CMBs were auctioned in the following weeks.

3.8 In the wake of improvement in exchange market conditions, the Reserve Bank in its Mid-Quarter Review on September 20, 2013 began calibrated withdrawal of exceptional measures taken since mid-July. The MSF rate was reduced by 75 basis points to 9.5 per cent and minimum daily maintenance of CRR was reduced to 95 per cent of the average fortnightly requirement. Further, based on the assessment of liquidity condition and in anticipation of the seasonal pick-up in credit demand, festival-related currency demand, and the Government's borrowing programme in second half of 2013-14, with a view to easing the liquidity pressure the Reserve Bank conducted OMO purchases of ₹99.74 billion on October 7, 2013. Moreover, continuing with the gradual normalisation process, the MSF rate was lowered by 50 bps from 9.5 per cent to 9.0 per cent, and additional access to liquidity through term repo up to 0.25 per cent of NDTL was announced on October 7, 2013. The first round of 7-day term repo was conducted on October 11, 2013 (₹190 billion) followed by 14-day term repo on October 18, 2013 (₹195 billion). As a result of these measures, the liquidity situation eased in October 2013. The Reserve Bank in its Second Quarter Review of Monetary Policy 2013-14 reduced the MSF rate further by 25 basis points to 8.75 per cent and hiked the repo rate by 25 basis points to 7.75 per cent; thereby completing the process of realigning the interest rate corridor to normal monetary policy operations. Also, Reserve Bank increased the liquidity access through term repos of 7-day and 14-day tenor from 0.25 per cent of NDTL of the banking system to 0.5 per cent.

3.9 Thus, monetary policy had to perform the difficult balancing act of controlling inflation and promoting growth and addressing the risks emanating from large current account deficit.

3. Credit Delivery

Priority sector loan limits raised for certain sectors to facilitate greater flow of credit

3.10 In order to increase flow of credit to certain segments covered under the priority sector, loan limits were raised with effect from April 1, 2013. Loan limits to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months was increased from ₹2.5 million to ₹5 million both under direct and indirect agriculture. In case of loans to dealers/sellers of fertilisers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs, the limit was raised from ₹10 million to ₹50 million per borrower. Similarly, the limit of bank loans to Micro and Small Enterprises (MSEs) engaged in providing or rendering of services was increased from ₹20 million to ₹50 million per borrower/unit, provided they satisfied the investment criteria for equipment as defined in Micro, Small and Medium Enterprises Development Act, 2006.

Rupee export credit - interest subvention scheme extended

3.11 With a view to encouraging exports, the Government decided to continue to extend interest subvention of 2 per cent on pre and post shipment rupee export credit for certain employment oriented sectors, *i.e.*, handicrafts, carpet, handlooms, small and medium enterprises, readymade garments, processed agriculture goods, sports goods and toys. In addition, interest subvention was also provided to 235 tariff lines in engineering goods and 6 tariff lines in ITC (HS) and textiles goods for 2013-14. Further, the Government decided to increase the rate of interest subvention from 2 per cent to 3 per cent, effective August 1, 2013.

Guidelines issued for rehabilitation of MSEs

3.12 MSEs are prone to sickness due to structural and other constraints induced by internal/external factors. As these enterprises are not financially strong, they are susceptible to even minor disruptions and tend towards sickness. The stress induced at the initial stage, if not promptly addressed, can seriously jeopardise the enterprise leading to the closure of the unit in most cases. In order to hasten the process of identifying a unit as sick, early detection of incipient sickness and laying down a procedure to be adopted by banks before declaring a unit as unviable, the Reserve Bank issued revised guidelines on November 1, 2012 for rehabilitation of sick units in the MSE sector.

Structured mechanism suggested for monitoring credit growth to the MSE sector

3.13 In view of the concerns emerging from the deceleration in credit growth to the MSE sector, an Indian Banks' Association (IBA) led sub-committee (Chairman: Shri K.R. Kamath) was set up to suggest a structured mechanism to be put in place by banks to monitor the entire gamut of credit related issues pertaining to the sector. Based on the recommendations of the Committee, guidelines were issued on May 9, 2013 which included the need for banks to strengthen their existing systems of monitoring credit growth to the sector and putting in place a system-driven comprehensive performance management information system (MIS) at every supervisory level, which should be critically evaluated on a regular basis; putting in place a system of e-tracking MSE loan applications and monitoring the loan application disposal process in banks, giving branch-wise, region-wise, zone-wise and state-wise positions and monitoring timely rehabilitation of sick MSE units.

Microfinance

SHG-Bank Linkage Programme (SHG-BLP) repositioned as SHG2

3.14 The SHG-BLP is a saving-led credit product for the unbanked poor. National Bank for Agriculture and Rural Development (NABARD) initiated the process of repositioning the SHG-BLP as SHG2. This approach is basically aimed at encouraging the poor to save. It includes SHGs introducing voluntary savings in groups or banks encouraging SHG members to open individual bank accounts for depositing their surpluses. This approach is also aimed at preparing the low literacy and low-income clients to progressively move from community banking endeavours to individual banking. Another aspect of the SHG2 is providing credit to SHGs as cash credit/ overdraft for a longer operational tenure instead of the present fixed tenor term loans. This shift provides considerable flexibility to SHGs in meeting their frequent credit needs; it also helps them in reducing their cost of borrowing.

3.15 It is observed that mature SHGs after 1-2 credit cycles tend to exhibit differential credit and financial service needs. These needs vary according to risk appetite and entrepreneurial skills of the SHG members. This has led to emergence of Joint Liability Groups (JLGs) within SHGs.

4. Financial Inclusion

Guidelines to facilitate smooth implementation of direct benefit transfer (DBT) scheme

3.16 In order to facilitate the smooth implementation of the Electronic Benefit Transfer (EBT) scheme for routing MGNREGA[1] wages, other social security benefits including proposed cash transfers with respect to subsidies on kerosene, LPG and fertilisers, guidelines were issued on November 30, 2011 to all scheduled commercial banks to ensure opening of Aadhaar-enabled bank accounts of all the beneficiaries including those residing in villages with less than 2,000 population. Banks were advised to expand their reach in remote locations either through a branch or Business Correspondent (BC) or other modes as every eligible individual should have a bank account for DBT to take place. State Level Bankers' Committee (SLBC) convenor banks of concerned states and Lead banks of selected districts were advised in October 2012 to co-ordinate with the state administrator and field level implementing agencies to ensure smooth rollout of Aadhaar enabled payment systems.

Branch expansion in unbanked rural areas to facilitate DBT scheme

3.17 To facilitate speedier branch expansion in unbanked rural centres for ensuring a seamless roll-out of the DBT/EBT scheme of the Government of India, instructions were issued to banks on May 28, 2013 that they may consider front-loading

[1] Mahatma Gandhi National Rural Employment Guarantee Act.

(prioritising) the opening of branches in unbanked rural centres over a three-year cycle co-terminus with their Financial Inclusion Plan (FIP) for 2013-16.

Bharatiya Mahila Bank Ltd. established

3.18 In order to address gender related aspects of empowerment and financial inclusion, Union Budget 2013-14 announced to set up India's first Women's Bank as a public sector bank with ₹10 billion as initial capital. As a follow up, the Reserve Bank gave licence to the Bharatiya Mahila Bank Ltd. on September 25, 2013. The registered office of the proposed Bharatiya Mahila Bank Ltd. will be in New Delhi. It will open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census). It will also observe the priority sector lending norms as applicable to the domestic banks.

Measures to improve financial inclusion and financial literacy for MSEs

3.19 The lack of financial literacy and operational skills including accounting, finance and business planning pose formidable challenge for MSE borrowers underscoring the need for facilitation by banks in these critical areas. Moreover, MSEs are further handicapped in this regard by the absence of scale and size. To effectively address these handicaps, guidelines were issued to SCBs on August 1, 2012 that the banks could either set up special cells at their branches separately or vertically integrate this function in Financial Literacy Centres (FLCs) set up by them as per their comparative advantage. The bank staff should also be trained through customised training programmes to meet the specific needs of the sector.

3.20 With a view to providing a guide for the new entrepreneurs in this sector, a booklet titled "Nurturing Dreams, Empowering Enterprises – Financing Needs of Micro and Small Enterprises – A guide" was launched on August 6, 2013 by the Reserve Bank. The booklet provides some critical information for budding entrepreneurs to take advantage of linking themselves with the formal banking sector.

Swarnajayanti Gram Swarozgar Yojana (SGSY) restructured as the National Rural Livelihood Mission (NRLM) to promote financial inclusion

3.21 The Ministry of Rural Development, Government of India has restructured the Swarnajayanti Gram Swarozgar Yojana (SGSY) as the National Rural Livelihood Mission (NRLM) with effect from April 1, 2013. NRLM is implemented through scheduled commercial banks (including RRBs[2]). To begin with, NRLM will ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the SHG network in a time bound manner.

3.22 The scheme will further ensure that the poor are provided with requisite skills for: managing their institutions, linking up with markets, managing their existing livelihoods, and enhancing their credit absorption capacity and credit worthiness. NRLM will work towards achieving universal financial inclusion from both the demand and supply side. On the demand side, it will promote financial literacy among the poor and provide catalytic capital to SHGs and their federations. On the supply side, it will coordinate with the financial sector and encourage use of ICT based financial technologies, business correspondents and community facilitators like 'Bank Mitras'. NRLM is expected to reach all districts by the end of 12th Five-Year Plan.

[2] Regional Rural Banks.

Know Your Customer (KYC) norms simplified to facilitate financial inclusion and customer service

3.23 In order to ease some of the avoidable inconveniences faced by customers due to some provisions in KYC guidelines, the Reserve Bank initiated steps to reduce the inconvenience a customer faces while opening a bank account or when transferring his account to another place. If the address on the account opening form and that on the document submitted as identity proof is the same, then that document (like passport, driving licence) can be accepted as proof of both identity and address. The MGNREGA Card can also be accepted as an officially valid document for opening an account without any limitations of a "small account". Also, transfer of accounts for customers who migrate to a new place on account of a new job or transfer has been made convenient. Further, detailed guidelines have been issued to banks in order to determine "beneficial owner" as defined under the Prevention of Money Laundering Rules, 2005.

5. Prudential Regulatory Policy

Licences to new banks in the private sector being issued to promote financial inclusion and for fostering greater competition

3.24 As per an announcement made in the Union Budget 2010-11, the Reserve Bank put out draft guidelines on licensing of new banks in the private sector on August 29, 2011 for public comments. The final guidelines were released on February 22, 2013 after amendments to the Banking Regulation Act, 1949 were made in December 2012. The last date for receipt of applications was July 1, 2013. The Reserve Bank received 26 applications for new bank licences. The applications are being processed. A High Level Advisory Committee will screen the applicants. The committee will make its recommendations to the Reserve Bank and the Reserve Bank's decision in this regard will be final. The rationale behind granting licences to new banks is to promote financial inclusion, support inclusive economic growth and foster greater competition in the banking sector.

3.25 According to the guidelines, entities/groups in the private sector which are owned and controlled by residents and entities in the public sector shall be eligible to set up a bank. The promoters/promoter groups with existing Non-Banking Financial Companies (NBFCs) can set up a bank, if found eligible. The promoters/promoter groups should be financially sound with a successful track record of 10 years and have a past record of sound credentials and integrity. Promoter/promoter groups' business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk on account of group activities such as those which are speculative in nature or subject to high asset price volatility. The business plans submitted by an applicant should be realistic and viable and should address how the bank proposes to achieve financial inclusion. The bank shall open at least 25 per cent of its branches in unbanked rural centres. The bank shall comply with priority sector lending targets and sub-targets as applicable to the existing domestic banks.

3.26 New banks in the private sector will be set up through wholly-owned Non-Operative Financial Holding Companies (NOFHCs). A NOFHC shall be wholly owned by the promoters/promoter group. The initial minimum paid-up voting equity capital for the new bank shall be ₹5 billion. The NOFHC shall initially hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years. The NOFHC will be registered as a NBFC and comply with corporate governance standards and prudential norms set out by the Reserve Bank. After the Reserve Bank gives an "in-principle approval" for setting up of the bank, the actual setting up of NOFHC and the bank, re-organisation of the promoter group entities to bring the regulated financial services entities under the NOFHC as well as realignment of business among the entities under the NOFHC have to be completed within a period of 18 months from the date of "in-principle approval" or before commencement of the banking business, whichever is earlier. The aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector bank shall not exceed 49 per cent of the paid-up voting equity capital for the first five years from the date of licensing of the bank. The Non-resident shareholding will be as per the extant FDI policy, after the expiry of the initial five year period.

Framework for setting up of wholly owned subsidiaries by foreign banks released

3.27 The Reserve Bank released the framework for setting up of Wholly Owned Subsidiaries (WOS) by foreign banks in India on November 6, 2013. The policy framework is guided by the two cardinal principles of reciprocity and single mode of presence. As a locally incorporated bank, the WOSs will be given near national treatment which will enable them to open branches anywhere in the country at par with Indian banks (except in certain sensitive areas where the Reserve Bank's prior approval would be required). The policy incentivises the existing foreign bank branches to convert into WOS due to the attractiveness of near national treatment. Such conversion is also desirable from the financial stability perspective, factoring in the lessons from the global economic crisis.

3.28 The policy framework states that banks with complex structures, banks which do not provide adequate disclosure in their home jurisdiction, banks which are not widely held, banks from jurisdictions having legislation giving a preferential claim to depositors of home country in winding up proceedings, *etc.*, would be mandated entry into India only in the WOS mode. However, foreign banks in whose case the above conditions do not apply can opt for a branch or WOS form of presence. A foreign bank opting for branch form of presence will have to convert into a WOS as and when the above conditions become applicable to it or it becomes systemically important on account of its balance sheet size in India. Foreign banks which commenced banking business in India before August 2010 shall have the option to continue their banking business through the branch mode; however, they will be incentivised to convert into WOS. To prevent domination by foreign banks, restrictions would be placed on further entry of new WOSs of foreign banks/ capital infusion, when the capital and reserves of the WOSs and foreign bank branches in India exceed 20 per cent of the capital and reserves of the banking system. The initial minimum paid-up voting equity capital for a WOS shall be ₹ 5 billion for new entrants. Existing branches of foreign banks desiring to convert into WOS shall have a minimum net worth of ₹ 5 billion. Priority sector lending requirement would be 40 per cent for WOS like domestic SCBs with adequate transition period for existing foreign bank branches converting into WOS. Certain measures from corporate governance perspective have also been built in so as to ensure that the public interest is safeguarded.

Relaxations made in branch authorisation policy

3.29 With the objective of rationalising the branch authorisation policy and to foster more competition, bank branching was made completely free for well managed domestic SCBs in every part of the country. On September 19, 2013 Reserve Bank notified that the general permission to domestic SCBs (other than RRBs) to open branches in Tier 2 to Tier 6 centres and in the rural, semi-urban and urban centres in North-

Eastern States and Sikkim without having the need to take permission from the Reserve Bank in each case, subject to reporting, is now extended to branches in Tier 1 centres also, subject to certain conditions.

Discussion Paper on banking structure released

3.30 A Discussion Paper on "Banking Structure in India - The Way Forward" was released on August 27, 2013. The Discussion Paper identified certain building blocks for the reorientation of the banking structure with a view to addressing various issues such as enhancing competition, financing higher growth, providing specialised services, and furthering financial inclusion. The overall thrust of the reorientation is to impart dynamism and flexibility to the evolving banking structure, while ensuring that the structure remains resilient and promotes financial stability. Some of the important issues covered in the Discussion Paper are small banks *versus* large banks, universal banking, conversion of Urban Co-operative Banks (UCBs) into commercial banks, consolidation in the banking sector, presence of foreign banks in India, government ownership of public sector banks, presence of Indian banks overseas and deposit insurance.

Dynamic provisioning for banks in the offing

3.31 A comprehensive provisioning framework for banks with dynamic and countercyclical elements is being contemplated to overcome the limitations of the current provisioning policy. In this regard, a Discussion Paper on 'Introduction of Dynamic Provisioning Framework for Banks in India' was released on March 30, 2012 for public comments. The primary objective of the dynamic provisioning framework is to smoothen the impact of incurred losses on the profit and loss account through the cycle. In the proposed framework, banks will be accumulating provisioning buffer during the period when the economy is growing and banks' credit losses are lower than the long run average. The accumulated buffer would be utilised during the slow growth/negative growth phase when the banks' credit losses increase. Final guidelines on dynamic provisioning will be released shortly.

Bulk deposits defined

3.32 Identifying bulk deposits is important from the viewpoint of asset-liability management (ALM). The term "bulk deposits", though not specifically defined, has been interchangeably used with "wholesale deposits" and has occasionally been used in the context of ALM guidelines. In the Reserve Bank's clarification dated May 16, 2007, deposits of ₹1.5 million or any higher threshold approved by banks' boards were termed "wholesale deposits". The position has been reviewed and it has been decided that with effect from April 1, 2013 the expression 'bulk deposits' would be used only for single Rupee term deposits of ₹10 million and above.

Curbs on bank finance for purchase of gold for speculative purposes

3.33 The significant rise in gold imports in recent years is a cause for concern. Direct bank financing for purchase of gold in any form, *viz.*, bullion/primary gold/jewellery/gold coins could lead to fuelling of the demand for gold for speculative purposes. In view of this, banks were advised that with effect from November 19, 2012, no advances should be granted by banks for purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold mutual funds. However, banks can provide finance for the genuine working capital requirements of jewellers.

Guidelines regarding bank lending against gold rationalised

3.34 As per the Reserve Bank guidelines, SCBs should not grant any advance against bullion/

primary gold. However, as specially minted gold coins sold by banks may not be in the nature of 'bullion' or 'primary gold', it was indicated in the Reserve Bank's clarification dated April 5, 2011 that there would be no objection to a bank granting loans against these coins. However, there is a risk that some of these coins would be weighing much more, thereby circumventing the Reserve Bank's guidelines. Accordingly, with effect from May 27, 2013, banks were advised that while granting advance against the security of especially minted gold coins sold by them, they should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) should be within a banks' Board approved limit. The restriction on grant of loan against "gold bullion" will also be applicable to grant of advance against units of gold ETFs and units of gold mutual funds. Similar guidelines have also been issued to Regional Rural Banks (RRBs), State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs).

Prior approval mandatory for acquisition of shares in private sector banks

3.35 To enable banking companies in India to raise capital in accordance with the international best practices and to ensure that control of banking companies is in the hands of "fit and proper persons", provisions have been made in the Banking Regulation Act, 1949. This has been effected by an amendment notified by the Government of India *vide* Banking Law Amendments Act, 2012. The notification stipulates that it would be mandatory for persons to obtain prior approval of the Reserve Bank to acquire five per cent or more of the share capital of a banking company. The notification confers power upon the Reserve Bank to impose such conditions as it deems necessary while granting such approvals. In this regard guidelines are being issued to banks shortly.

Penal rates on premature withdrawal of rupee term deposits made transparent

3.36 On request from a depositor, a bank shall allow withdrawal of a rupee term deposit of less than ₹10 million, before the completion of the period of the deposit agreed upon at the time of making the deposit. However, banks will have the freedom to determine their own penal interest rates on premature withdrawal of term deposits. Banks should ensure that the depositors are made aware of the applicable penal rates along with the deposit rates.

Draft guidelines issued for unhedged foreign currency exposures of corporates

3.37 Unhedged foreign currency exposures of the corporates are an area of concern not only for individual corporates but also for the entire financial system. Corporates which do not hedge their foreign currency exposures can incur significant losses due to exchange rate movements. These losses may reduce their capacity to service the loans taken from banks and thereby affect the health of the banking system. In view of this, the Reserve Bank issued draft guidelines on July 2, 2013 on the methodology to be followed for computing incremental provisioning and capital requirements for exposure to corporates having unhedged foreign currency exposures. Draft guidelines also require banks to factor in the risk arising from high forex exposures of corporates in their internal rating processes and share this data with the concerned credit rating agencies so that the external bank loan rating may also factor in this risk. Based on the comments/feedback received, the Reserve Bank will finalise the guidelines and banks will be required to implement the same from October 1, 2013.

Carving out separate commercial real estate-residential housing segment

3.38 Commercial Real Estate (CRE) being a sector prone to volatility has attracted stricter prudential norms from regulators globally. The Reserve Bank has also prescribed stricter prudential norms in terms of higher risk weight at 100 per cent and higher provision at 1.0 per cent for CRE standard assets as against generally a lower provision of 0.40 per cent for other standard assets. However, it was observed that the residential housing segment within CRE exposures exhibited lesser risk and volatility than the CRE sector taken as a whole. Accordingly, guidelines were issued to banks on June 21, 2013 regarding carving out a Commercial Real Estate - Residential Housing (CRE-RH) segment from CRE with lower risk weight at 75 per cent and lower provisioning at 0.75 per cent for standard assets as compared to CRE. CRE-RH would consist of loans to builders/developers for residential housing projects (except for captive consumption). It was also advised that such projects should ordinarily not include non-residential CRE.

Banks advised to bring uniformity in intersol charges to ensure fair treatment to customers

3.39 Intersol charges refer to charges levied on transactions conducted by customers at a branch other than the "home branch" in a Core Banking Solution (CBS) enabled environment. The issue was deliberated upon by the Committee on Customer Service in Banks (Chairman: Shri M. Damodaran). In this regard, it was decided that with a view to ensuring that bank customers are treated fairly and reasonably without any discrimination and in a transparent manner at all branches of banks/service delivery locations, banks should follow a uniform, fair and transparent pricing policy and not discriminate between their customers at home branch and non-home branches. Accordingly, banks were advised by the Reserve Bank on July 1, 2013 that if a particular service is provided free at home branch then the same should be available free at non-home branches also.

Prudential guidelines on restructuring of advances by banks/financial institutions revised

3.40 Some of the existing prudential guidelines on restructuring of advances by banks/financial institutions have been revised following the recommendations of the Working Group (Chairman: Shri B. Mahapatra) to Review the Existing Prudential Guidelines on Restructuring of Advances by Banks/Financial Institutions. The Working Group recommended that the Reserve Bank should do away with the regulatory forbearance regarding asset classification on restructuring of loans and advances generally in line with international prudential measures. However, in view of the domestic macroeconomic situation as also the global situation, it was decided to consider this measure after a period of two years. Accordingly, the regulatory forbearance on asset classification will stand withdrawn from April 1, 2015 except in case of change of date of commencement of commercial operation (DCCO) of infrastructure and other project loans. Further, provisioning requirement on all fresh standard restructured accounts has been increased to 5.00 per cent with effect from June 1, 2013. The increased provisioning requirement for the stock (as on May 31, 2013) of restructured standard accounts will be implemented in a more gradual way *i.e.* 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14); 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15); and 5.00 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015-16).

3.41 Banks were advised that promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of the banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. Further, conversion of debt into preference shares should be done only as a last resort and such conversion of debt into equity/ preference shares should be restricted to a cap, say 10 per cent of the restructured debt.

Procedure for migration to Advanced Measurement Approach (AMA) under Basel II Framework

3.42 With a view to enabling the upgradation of risk management framework as also capital efficiency likely to accrue to the banks by adopting the advanced approaches envisaged under the Basel II Framework and the emerging international trend in this regard, guidelines on Advanced Measurement Approach (AMA) were issued on April 27, 2011. Applications for migration to advanced measurement approach were opened for banks with effect from April 1, 2012 (Box III.1).

Box III.1:

Issues and Challenges in Implementing the Advanced Measurement Approach for Operational Risk Capital Computation

The advanced measurement approach (AMA) is the most risk sensitive and sophisticated approach among the three approaches, including the basic indicator approach (BIA) and the standardised approach (TSA), prescribed under the Basel II Framework for computing capital charge for operational risk (OR). This approach allows a bank to calculate its regulatory capital charge using internal models, based on internal risk variables and profiles, and not on exposure proxies such as gross income. AMA primarily depends on four elements: Internal Loss Data, External Loss Data, Scenario Analysis and Business Environment and Internal Control Factors (BEICF) for frequency and severity modelling for operational risk capital estimation as also the overall operational risk management (ORM).

Though AMA brings with it many requirements, it does not require banks to use a specific modelling methodology. Nevertheless, most banks today have converged on the Loss Distribution Approach (LDA). In LDA, the severity and frequency of operational risk losses are analysed and modelled separately. Once severity and frequency have been calculated, the aggregate loss distribution is typically generated using Monte Carlo simulation techniques (Corrigan, *et al.* 2013).

Key challenges faced by Indian banks aspiring to migrate to AMA

The major challenges faced by banks in implementing the AMA approach can be divided into three categories, *viz.*, internal governance issues, data issues and modelling/ quantification issues:

Internal governance issues

Basel II enjoins upon the Board and the senior management of a bank the core responsibility of active involvement in oversight of the operational risk management framework. While lack of resources may hinder the independence of ORM systems, demonstrating compliance with the qualitative aspects is a major challenge for banks. There are also uncertainties about determining which BEICFs to consider and how to build them into the operational risk capital computation model/s.

Data issues:

1. **Internal Loss Data**

   The major challenge that banks face in developing comprehensive models for operational risk is the scarcity of available internal operational loss data. Even the largest banks in India have no more than five to six years of data which mainly fall in the category of internal and external fraud event types. These challenges are further accentuated on account of certain endogenous and exogenous variations in the size, product complexity, business models, data thresholds and geographic location.

2. **External Loss Data**

   Paucity of internal loss data necessitates complementary use of scenario analysis and external loss data in AMA modelling. Absence of pooled industry data, reporting and other biases in data collected from public domain necessitate careful scaling, filtering and processing of this data. The judgmental element in data scaling may add to uncertainty and erroneous results in frequency and severity estimation using external data.

3. **Scenarios**

   While scenarios based on expert opinion may be used to complement the Value at Risk (VaR) based loss distribution approach (LDA), arriving at the likelihood of scenarios and maximum expected frequency has a degree of subjectivity and is a challenge.

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Modelling/quantification issues:

i. *High measurement standard*

The measurement standard of 99.9th percentile set under the advanced measurement approach is extremely high and implies that banks estimate the magnitude of an annual loss that would occur on average every 1000 years, which may require 100 to 200 fold extrapolation beyond observed data.

ii. *Nature of operational loss distributions*

Operational losses are commonly characterised as having a "heavy-tailed" distribution. Choice of different statistical distributions or modelling methodologies can markedly affect capital and hence there exists considerable potential for model error.

iii. *Dominance of high-severity and low-frequency losses*

Losses observed in various units of measure can be highly variable in terms of their frequency and severity with predominance towards high frequency low severity loss events.

iv. *Sensitivity to loss categorisation (granularity of operational risk categories)*

There is typically an uneven distribution of losses across the business line/event type matrix and sufficient internal loss data is available in very few operational risk categories.

v. *Integration of AMA elements*

The methodology to combine the four elements, *viz.*, internal data, relevant external operational risk data, scenario analysis and BEICFs for computation of operational risk VaR is a challenging task. Directly combining different sources of data into the econometric and statistical estimation of severity causes significant quantitative complexity.

The importance and value of advanced risk management practices and measurement cannot be overestimated. They play a critical role in protecting banks' value and the interests of stakeholders. However, implementing AMA for computing operational risk is a huge task and entails a well-planned and co-ordinated effort from all stakeholders. It will require an implementation methodology which is coherent and well-integrated.

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Corrigan Josh, Neil Cantle and Fred Vosvenieks (2013), "Implementing and Integrating Next Generation Analytical Techniques in the Financial Industry", available at http://riskandsolvency.co.uk.

6. Supervisory Policy

Major decisions of the Board for Financial Supervision (BFS) during the year 2012-13

3.43 The Board for Financial Supervision (BFS), which was constituted in November 1994, continued to be the principal force behind the Reserve Bank's supervisory and regulatory initiatives. In BFS meetings, it was decided to make the format of the inspection report more risk focussed and a Monitorable Action Plan (MAP) with a timeline for completion was issued to the banks. This resulted in focussed supervisory attention on key supervisory concerns. Based on BFS' directions/guidance, thematic reviews were conducted in certain areas such as the KYC/AML[3] environment in banks, banks' exposure to the real estate/housing sector and major frauds beyond a threshold limit. Under directions from BFS, guidelines on a revised compensation structure have been issued to private sector and foreign banks.

3.44 With regards to supervision over urban co-operative banks (UCBs), BFS approved the Revised Graded Supervisory Action, financial restructuring of UCBs under directions and made the rating model for UCBs less complex. The BFS reviewed the regulations regarding rural credit institutions and approved a proposal to issue directions to unlicenced district central co-operative banks (DCCBs).

[3] Anti Money Laundering.

Internal audit control framework in banks rationalised

3.45 In order to have a strong internal audit control framework, banks were advised on June 26, 2012 to put in place similar policy guidelines and procedures as applicable in the case of compliance officers of banks for appointment/changes of the head, internal audit.

KYC/AML guidelines in opening/monitoring of transactions in accounts

3.46 Banks were advised on September 13, 2012 to ensure strict adherence to the KYC/AML guidelines issued from time to time in opening, risk categorisation and monitoring of transactions in customer accounts. Banks were further advised that they will be held responsible for losses incurred by customers by way of deposits/remittances from such accounts if they are found to be in violation of extant regulations/statutory requirements, besides inviting supervisory action.

Monitoring of non-performing assets (NPAs) and restructuring of advances

3.47 The Reserve Bank advised the PSBs on November 30, 2012 that they should take adequate steps to strengthen their risk management systems, credit appraisal and sanction process, post-sanction monitoring and follow-up and have a robust MIS mechanism for early detection of incipient weaknesses/distress and for taking steps for remedial measures and recovery of bank's dues. They were also advised that the restructuring of advances should be undertaken in a transparent and objective manner and in conformity with regulatory guidelines. The progress in reduction in NPAs and restructured accounts should be regularly reviewed.

Risk-based supervision (RBS) of banks

3.48 In the light of the recommendations of the High Level Steering Committee (HLSC) (Chairman: Dr. K. C. Chakrabarty) to review the supervisory processes for commercial banks, on September 28, 2012 banks were informed of the imminent transition to a risk-based approach to supervision from the supervisory cycle beginning April 2013 in two phases. They were also asked to put in place an institutional mechanism to monitor the progress made and ensure compliance to the best practices on risk management systems.

Fraud monitoring processes rationalised in order to provide greater operational autonomy to banks

3.49 In order to rationalise processes and procedures in the Reserve Bank and to provide increased operational autonomy to the top management of banks, the existing guidelines which require furnishing of a report on cases of attempted fraud involving an amount of ₹10 million and above to the Reserve Bank was dispensed with from November 15, 2012. However, the banks were advised to continue to place individual cases involving ₹10 million and above before the Audit Committee of their Boards.

Media allegations against banks and regulatory response

3.50 In March, 2013, an online media portal raised certain allegations against three private sector banks that these banks were indulging in practices that encouraged money laundering, sale of gold and other third party products such as insurance and wealth management.

3.51 The allegations by media against banks accelerated the process of undertaking scrutiny in 39 banks by the Reserve Bank during March-May, 2013. Based on the findings of the scrutinies, 36 banks were issued show cause notices for violation of certain regulations and instructions issued by the Reserve Bank. After considering the facts of each case and the individual bank's reply, the Reserve Bank came to the conclusion that some of the concerns were substantiated and warranted imposition of monetary penalty. Monetary penalty was imposed on 31 banks.

3.52 The thematic reviews of KYC/AML systems and compliance in banks revealed the need for better regulatory compliance by banks. Certain corrective measures were envisioned and subsequently various guidelines were issued to banks: (i) draft guidelines on wealth management services offered by banks; (ii) detailed guidelines on marketing and distribution of third party financial products; and (iii) detailed guidelines on KYC norms/AML standards/Combating of Financing of Terrorism (CFT).

3.53 Based on the thematic reviews and the follow-up action taken, the Reserve Bank has provided a list of actionable issues to banks. It has been felt that inspections and scrutinies have to be more targeted and the focus should be on 'the results' rather than 'the mere processes'. Therefore, with a view to improving the focus and quality of inspections and scrutinies of the Reserve Bank, a Guidance Note for inspecting officers, on the areas that may be concentrated upon while assessing the adherence to KYC/AML guidelines by banks was issued.

Title documents with respect to large value loan accounts to be subjected to legal audit

3.54 The Reserve Bank advised banks on June 7, 2013 to subject title deeds and other documents with respect to all credit exposures of ₹50 million and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of a regular audit exercise till the loan stands fully repaid. Banks were also advised to furnish a review note to their Boards/audit committees of the Board at quarterly intervals on aspects such as number of loan accounts due for legal audit for the quarter, total accounts covered, list of deficiencies observed by the auditors, number of accounts in which the rectification could not take place and course of action to safeguard the interests of the bank in such cases.

Quantitative Impact Study (QIS) exercise initiated

3.55 Basel Committee on Banking Supervision (BCBS) initiated a Quantitative Impact Study (QIS) to assess the potential impact of a consultative document published in March 2013, "Supervisory Framework for Measuring and Controlling Large Exposures". The Reserve Bank, being a member of the Large Exposure Group, has initiated QIS in its jurisdiction by seeking details from six large banks (three from the public sector and three from the private sector). The results of data so collected have been submitted to BCBS for further analysis (Box III.2).

Box III.2:
Emerging Approaches to Large Exposures

One of the major lessons from the recent financial crisis is that banks did not always consistently measure, aggregate and control exposures to single counterparties across their books and operations. Historically also, there have been instances of banks failing due to concentrated exposures to individual counterparties. The need for banks to measure and limit the size of large exposures in relation to their capital has long been recognised by the Basel Committee on Banking Supervision (BCBS). BCBS issued its first guidance on credit exposures in 1991 as part of the wider goal of setting a minimum standard for sound prudential regulation and supervision of banking systems. This was followed by the 1999 BCBS document titled "Core Principles for Effective Supervision" which required that local laws and bank regulation must set prudent limits on large exposures to single or closely related group borrowers. The revised versions of the Core Principles published in 2006 and 2012 also included a reference to large exposure limits with a similar requirement. As per a 1991 BCBS document on large exposures, 25 per cent of total capital is the desirable target for an upper limit for single exposures.

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However, neither the 1991 guidance nor the Core Principles set out how banks should measure and aggregate their exposures to a single counterparty and a group of connected counterparties, which has resulted in considerable variation of practices across countries as well as banks. In view of the lessons learnt from the global financial crisis and with the objective of aligning the Large Exposures (LE) regimes across global jurisdictions, BCBS set up the Large Exposure Group (LEG) in March 2011 to review and refine the extant exposure norms. Based on LEG's recommendations, BCBS published the Consultative Document on "Supervisory Framework for Measuring and Controlling Large Exposures" in March 2013 soliciting comments on the proposed standards. The proposals, once finalised, would be implemented fully by January 1, 2019 which will be compatible with the Basel III Framework and global systemically important bank (G-SIB) transition period.

Major proposals included in the Consultative Document for the revised LE regime are:

- The revised LE framework is proposed to complement the Committee's existing work on risk-based capital standards and to serve as a simple backstop to the risk based capital framework. Credit quality and the amount expected to be recovered in the bankruptcy process are proposed to be kept out of the considerations in the large exposures standard and, hence, not reflected in measures of exposure values.
- The proposed standards focus on the concentration risk associated with the default of single private sector counterparties as well as a group of connected counterparties. Relationships of control and economic interdependence between counterparties, alone and/ or together, would provide grounds for establishing connections among counterparties, so that they form a group of connected counterparties.
- The scope of the LE regime would include exposures to funds, securitisation structures and collective investment undertakings in order to address concerns related to the shadow banking system. It also aims to limit contagion between systemically important financial institutions (SIFIs).
- While BCBS has recognised other types of concentration risks that could undermine a bank's resilience, such as, sectoral and geographical concentrations of asset exposure, exposures to sovereigns and intra-group exposures, the Committee will consider concentration risk arising from these types of exposures in its future work.
- The proposed LE framework would apply to all internationally active banks. Member countries have the option to set more stringent standards and option to extend the application to wider range of banks.
- Model risk should not have any bearing on exposure values in a large exposures framework.
- The threshold defining large exposure should be set at 5 per cent of a bank's eligible capital base.
- Banks should report to their supervisor all their large exposures or, if the number of large exposures is less than 20, their largest 20 exposures irrespective of their size relative to the bank's capital base.
- The large exposure limit may be fixed at 25 per cent of the Common Equity Tier 1 (CET1) or Tier 1 capital (as against the currently used total capital). The capital base on which the large exposure limit is calculated would thus consist only of capital that can absorb unexpected losses on a going-concern basis. Also, the tighter definition of capital employed would represent a tightening of the recommended large exposure limit.

The Reserve Bank's guidelines on containing concentration risk have evolved over a period of time and are guided by the BCBS guidance of 1991. These guidelines place a ceiling on a bank's exposure to a single or group borrower in terms of the bank's capital funds. It prescribes that credit exposure to a single borrower and borrowers belonging to a group should not exceed 15 per cent and 40 per cent of the bank's capital funds, respectively. The aggregate exposure of a bank to the capital markets in all forms (both fund based and non-fund based) should not exceed 40 per cent of its net worth, as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and venture capital funds should not exceed 20 per cent of its net worth. Further, banks may consider fixing internal limits for aggregate commitments to specific geographical areas and specific sectors so that the exposures are evenly spread across various sectors. These limits could be fixed by the banks having regard to the performance of different sectors and the risks perceived.

Reference:

Bank for International Settlements (2013), "Supervisory Framework for Measuring and Controlling Large Exposures - Consultative Document", March, Basel Committee on Banking Supervision.

Norms for empanelment of statutory central auditors of PSBs revised

3.56 With the implementation of core banking solution (CBS) in public sector banks (PSBs) with concomitant centralisation of information/documents, streamlining of MIS and increased operational efficiency, it was considered necessary to revise the professional and other norms for selecting statutory auditors and for rationalising the existing system of extensive branch audit of PSBs. As per revised norms, besides prescribed experience, at least two partners of the firm or its paid Chartered Accountants must possess DISA/CISA/ISA or any other equivalent qualification.

Financial Stability Board's peer review on resolution regimes

3.57 The Financial Stability Board (FSB) undertook a peer review on resolution regimes with the objective of evaluating the FSB jurisdictions' existing resolution regimes and any planned changes to those regimes using key attributes (KAs) as a benchmark. Among others, the resolution regime in India, which is a member of FSB, was also evaluated and a number of areas for reforms were identified. These include introduction of resolution regime for insurers and securities firms, extended powers to resolution regimes to address failures of banks and Systemically Important Financial Institutions (SIFIs) and extended tools and powers for supervisors to develop their own recovery and resolution plans for each SIFI.

Major developments relating to DICGC

3.58 During 2012-13, the Deposit Insurance and Credit Guarantee Corporation (DICGC) settled aggregate claims for ₹1,998 million with respect to 63 co-operative banks (15 main claims and 154 supplementary claims) as compared with claims for ₹2,873 million during the previous year. The size of the Deposit Insurance Fund (DIF) stood at ₹361 billion as on March 31, 2013, yielding a Reserve Ratio (DIF/Insured Deposits) of 1.7 per cent.

7. Regional Rural Banks

Interest subvention scheme for farmers extended to 2013-14 in order to ensure short-term production credit at affordable rates

3.59 The Government extended the interest subvention scheme to 2013-14 for providing short-term production credit at a concessional rate of 7 per cent to ensure availability of loans at affordable rates to farmers. The current subvention of 2 per cent coupled with the additional subvention of 3 per cent for prompt/timely repayment reduces the effective interest rate charged from farmers to 4 per cent per annum for production loans up to ₹0.3 million. The scheme has also been made applicable to private sector banks from the year 2013-14.

Branch expansion of RRBs in order to promote financial inclusion in rural areas

3.60 During 2012-13, 947 branches were opened by RRBs taking the cumulative number of branches to 17,856 spread across 635 districts in 26 states and one UT. It is now compulsory for all the new branches to be equipped with CBS. Sponsor banks are required to extend all necessary help in this regard, including financial assistance, training and back office support. As on March 31, 2013, CBS was fully implemented in all the 64 RRBs.

Recent regulatory initiatives for RRBs

3.61 During 2012-13, several policy initiatives were undertaken with regard to regulation of RRBs. In order to enhance the penetration of banking services in Tier 2 centres (with population 50,000 to 99,999) it was decided to allow RRBs to open branches in Tier 2 centres on par with the policy for Tier 3 to 6 centres. Further, RRBs were advised to allocate at least 25 per cent of the total number of branches proposed to be opened during a year in unbanked rural centres (Tier 5 and Tier 6). It was also decided to delegate powers to the Regional Offices of the Reserve Bank to take decisions on RRBs' applications for opening, shifting, merger or conversion of branches, without reference to the concerned Empowered Committees, to expedite the process of disposal of applications.

3.62 In order to make basic banking facilities available in a more uniform manner across the banking system, RRBs were advised to offer a "Basic Savings Bank Deposit Account" which will offer certain minimum common facilities to all their customers. RRBs were advised to put in place a Board approved transparent policy on pricing of liabilities and ensure that the variation in interest rates on single term deposits of ₹1.5 million and above and other term deposits (*i.e.*, deposits less that ₹1.5 million) is minimal for corresponding maturities.

3.63 RRBs were also advised to review their existing IT and MIS framework and put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level and have system generated segment wise information on non-performing assets and restructured assets.

8. Non-Banking Financial Companies (NBFCs)

New category of NBFC created

3.64 During 2012-13, a new category of NBFC, *viz.*, Non-Banking Financial Company - Factors was created and a regulatory framework in the form of entry point capital and prudential regulations was placed on them.

Revised norms on lending against gold by NBFCs

3.65 NBFCs lending against collateral of gold jewellery were advised to maintain a loan-to-value (LTV) ratio not exceeding 60 per cent and to disclose in their balance sheets the percentage of such loans to their total assets. If the loans extended by a NBFC comprise 50 per cent or more of its financial assets, it shall maintain a minimum Tier-l capital of 12 per cent by April 01, 2014. All NBFCs were advised that no advances should be granted by them for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.

3.66 The recommendations of the Working Group to Study the Issues Related to Gold Imports and Gold Loans NBFCs in India (Chairman: Shri K.U.B. Rao) set up by the Reserve Bank and relating to NBFCs lending against the collateral of gold jewellery, were broadly accepted by the Reserve Bank and guidelines were issued covering *inter alia* aspects such as appropriate infrastructure for storage of gold ornaments, prior approval of the Reserve Bank for opening branches in excess of 1000 in number, standardisation of value of gold in arriving at LTV Ratio, verification of the ownership of gold jewellery and process and procedures for auction of gold jewellery

Revisions to Guidelines on Fair Practices Code for NBFCs

3.67 The Fair Practices Code has been revised to include sector specific features to enhance transparency and fair practices relating to micro lending and lending against collateral of gold in the light of operational issues surrounding these activities.

Margin caps for Non Banking Financial Company-Micro Finance Institutions (NBFC-MFI) revised

3.68 Given the problems being faced by NBFCs-MFI, the margin cap for lending by NBFCs-MFI irrespective of their size stands at 12 per cent till March 31, 2014. With effect from April 1, 2014, margin cap as defined by the Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in MFI Sector (Chairman: Shri Y.H. Malegam) shall not exceed 10 per cent for large MFIs (loans portfolios exceeding ₹1 billion) and 12 per cent for others.

Guidelines issued for Core Investment Companies venturing into insurance business

3.69 In view of their unique business model a separate set of guidelines were issued for core investment companies (CICs), registered with the Reserve Bank, for their entry into insurance business. While the eligibility criteria, in general, are similar to that for other NBFCs, no ceiling has been stipulated for CICs in their investment in an insurance joint venture. Further, it was clarified that CICs cannot undertake insurance agency business. The guidelines include, *inter alia*, conditions such as owned funds not being less than ₹ 5 billion and the level of NPAs not being more than 1 per cent of the total advances. The CIC should have registered net profit continuously for three consecutive years. The track record of the performance of the subsidiaries, if any, of the concerned CIC should be satisfactory.

Directions issued to CICs regarding overseas investment

3.70 A separate set of regulations have been placed on overseas investments by CICs. All CICs require prior approval and registration with the Reserve Bank for investing in joint ventures/subsidiaries/representative offices overseas in the financial sector. The total overseas investment should not exceed 400 per cent of the owned funds of the CIC out of which, overseas investment in financial sector should not exceed 200 per cent.

Guidelines issued with respect to private placement by NBFCs

3.71 Guidelines were issued with regard to private placement of non-convertible debentures by NBFCs after certain adverse features came to the notice of the Reserve Bank. The guidelines aim to bring NBFCs at par with other financial entities as far as private placement is concerned by restricting the maximum number of subscribers. NBFCs were also required to put in place a Board approved policy by September 30, 2013 for resource planning which, *inter alia*, would cover the planning horizon and the periodicity of private placement. The minimum subscription amount for a single investor has been capped at ₹2.5 million and in multiples of ₹1 million thereafter.

9. Financial Institutions

Borrowing limits for all-India term lending and refinancing institutions raised

3.72 As at end-March 2013, there were four financial institutions (FIs) under the full-fledged regulation and supervision of the Reserve Bank: Export-Import Bank of India (Exim Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI). The Industrial Investment Bank of India (IIBI), the fifth FI is under the process of voluntary winding up. During 2012-13, in view of the difficulties expressed by the concerned FIs, the aggregate borrowing limit of EXIM Bank was enhanced to 12 times of Net Owned Funds (NOF) for a period of one year, *i.e.*, upto August 31, 2013 thereafter it will revert to 10 times of NOF. For NHB, the "umbrella limit" under resource raising norms was raised from 100 per cent to 150 per cent of its NOF for a period of one year, *i.e.*, upto January 31, 2014 after which it will revert to 100 per cent of NOF. For NABARD, the aggregate borrowing limit was enhanced to 11 times of NOF for a period of one year, *i.e.*, up to May 31, 2013, after which it will revert to 10 times of NOF.

10. Customer Service in Banks

Working group for revision and updation of the Banking Ombudsman Scheme, 2006

3.73 An internal Working Group for revision and updation of the Banking Ombudsman Scheme (BOS), 2006 was constituted by the Reserve Bank in July 2012. Some of the important recommendations of the Working Group pertain to extending BOS to non-scheduled urban co-operative banks, modifying the definition of 'bank' in BOS, pecuniary jurisdiction of BO, opening of new offices of BOs, new grounds for complaint, appointment of an additional ombudsman in offices with heavy volume of complaints and public awareness about BOS. The recommendations of the Working Group are being examined by the Reserve Bank for implementation.

Status of implementation of the recommendations of the Damodaran Committee on customer service

3.74 The Committee on Customer Service in Banks (Chairman: Shri M. Damodaran) had made 232 recommendations in its report. Of these, 155 recommendations stand implemented. Some of the important recommendations which are yet to be implemented are: minimum account balance- transparency, uniformity in charges for non-maintenance, charges for basic services, compensation for wrong returns of cheques by banks, internet banking - secure total protection policy, home-loans - non-discrimination between existing and new borrowers with floating interest rate and onus on banks to prove customer negligence. The Reserve Bank is in consultation with the Indian Banks' Association (IBA) for early implementation of these recommendations.

3.75 In order to further improve customer service in Indian banks and financial institutions, the Treating Customers Fairly (TCF) model can be attempted (Box III.3).

Box III.3:
Treating Customers Fairly: Obligation of Banks towards Customers

Treating Customers Fairly (TCF) is a consumer protection policy designed to address the problem of asymmetric information in the financial services industry where financial service providers possess certain information that the consumers do not. It is a regulatory initiative by which firms are required to consider their treatment of customers at all the stages of the product life-cycle, including the design, marketing, advice, point-of-sale and after-sale stages. By encouraging firms to re-evaluate their company culture and to inculcate the attitude of treating customers fairly, the outcome is likely to result in a more optimal one from the perspective of regulators, consumers and ultimately, firms. TCF is an initiative that was introduced by the Financial Services Authority (FSA), UK in 2006. In recent years South Africa also adopted TCF based on the UK version. South Africa's projected timeline for full implementation of the TCF policy is 2014.

As per FSA, 2006 desired outcomes of the TCF programmes are: (i) Consumers can be confident that they are dealing with firms where fair treatment of customers is central to their corporate culture; (ii) Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly; (iii) Consumers are provided clear information and are kept appropriately informed before, during and after the point of sale; (iv) Where consumers receive advice, the advice is suitable and takes account of their needs and circumstances; (v) Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and (vi) Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint. These outcomes of

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TCF are now well accepted across countries. In order to achieve these outcomes, cultural and operational aspects of the bank may need to change. Also, the firm needs to consider what the TCF programme means for each phase of the product life cycle.

In terms of implementing the TCF programme, the UK experience suggests that however well-worded the principles and rules may be, there are additional factors affecting successful implementation. This includes a change of mindset in the firm's leadership. Successful adopters of the TCF programme have been those where the CEO or managing director of the firm had typically endorsed the programme, spelt it out for middle management and employees and received regular data on consumer complaints and redress. Moreover, TCF measures were used to influence performance appraisal and incentive structures in a firm. The least successful firms were those that left it all to their compliance department (or an outside consultancy) to design a programme but whose feedback was neither presented nor understood at the Board level.

The Reserve Bank has also taken a lead in ensuring that bank's customers in India are treated fairly. Over the years, it has initiated several customer-centric measures and inculcated a culture of treating customers fairly through regulatory and supervisory interventions. The Reserve Bank initiative led to the setting up of the Banking Codes and Standards Board of India (BCSBI), an autonomous and independent body, which has been entrusted with the task of setting codes and standards for banking services in India. The Codes of Commitment are binding on BCSBI members and non-compliance thereof by member banks is a valid ground of complaint under the Banking Ombudsman Scheme (BOS). In a bid to empower consumers and protect their rights, the Reserve Bank has also instituted the Banking Ombudsman Scheme as an apex level, cost free grievance redressal mechanism for deficiencies in services by banks.

The intent and basic structure for TCF is in place in India for banking products of scheduled banks. However, it is now being considered to extend the TCF structure to third party products, *viz.*, mutual funds, capital market and insurance products sold by banks and also extending the BOS Scheme to non-scheduled banks.

References:

Feasibility (Pty) Ltd (2010), "Treating Customers Fairly"- A Discussion Paper prepared for the Financial Services Board.

Financial Services Authority (FSA) (2006), "Treating Customers Fairly– Towards Fair Outcomes for Consumers".

11. Payment and Settlement Systems

3.76 The Reserve Bank undertook policy initiatives as outlined in the Payment System Vision Document 2012-15. The focus of these was towards migrating payment transactions from cash/paper modes to electronic modes and also increasing the accessibility of payment systems to people who are presently excluded. The major policy initiatives taken during the year are outlined below.

Access to centralised payments systems widened

3.77 Access to centralised payments systems was further widened in April 2012 by enabling all licensed banks to access these systems through the sub-membership route as well. There were around 652 sub-members in the National Electronic Funds Transfer (NEFT) system and 509 in the Real Time Gross Settlement (RTGS) system as on June 30, 2013.

Various measures undertaken to make NEFT more efficient

3.78 In order to facilitate a more efficient handling of the increasing volumes in NEFT, two enhancements were brought about in the system. An additional batch at 8:00 am was introduced taking the total number of batches to 12 on weekdays and 6 on Saturdays. Further, the feature of continuous release of credit messages was introduced with the objective of providing an increased time-window to destination banks to process inward transactions. In order to encourage the migration of small value transactions from cash or cheque mode to NEFT, customer charges for transactions upto ₹10,000 were reduced to ₹2.50 from ₹5.00. Additionally, in order to bridge the large gap between the branches covered under NEFT and the National Electronic Clearing Service (NECS), banks were advised to take necessary steps to ensure that all NEFT-enabled branches also offer the Electronic Clearing Service (ECS). As a result, the number of bank branches in NECS now stands increased to 75,641 from 59,000.

Merchant Discount Rates (MDR) for debit card transactions rationalised to encourage its usage even for small value transactions

3.79 In order to encourage all categories and types of merchants to deploy card acceptance infrastructure and for facilitating acceptance of cards for even small value transactions, the MDR[4] structure for debit card transactions was rationalised capping the maximum rate that can be charged by banks to (i) not exceeding 0.75 per cent of the transaction amount for value upto ₹2000; (ii) not exceeding 1 per cent for transaction amount for value above ₹2000. This is expected to enhance acceptance of debit cards over Point of Sale (PoS) and encourage small merchants to deploy PoS terminals.

Oversight of payment systems made more robust

3.80 An oversight framework commensurate with international standards prescribed by the Committee on Payment and Settlement Systems (CPSS) has been put in place to monitor the activities of the 44 authorised entities (both bank and non-bank) operating payment systems in the country. Also, the Clearing Corporation of India Limited (CCIL) was assessed against the new PFMI[5] principles.

Technical Committee recommends continuation of IFSC and implementation of International Bank Account Number (IBAN)

3.81 Various payment systems operating in India use different codes (IFSC, MICR, BIC) for identifying banks/branches for settlement and for transaction routing. With all the major banks adopting CBS, there was a demand from these banks for doing away with branch identifiers in IFSC[6] for routing RTGS and NEFT transactions. Further, there were demands for introducing uniform account numbers across banks which will help in avoiding wrong credits under payment systems. Technical Committee to Examine Uniform Routing Code and Account Number Structure (Chairman: Shri Vijay Chugh) was constituted by the Reserve Bank to study these issues. The major recommendations of the Committee are: (i) continuing the branch identifier in IFSC in view of validation checks built around this by a large number of banks to prevent credits going to wrong accounts; (ii) use of IFSC for routing purposes in all payment systems including new payment systems (iii) implementing IBAN in banks to bring in uniformity and enhance the efficiency in systems that use account numbers as a critical input for successful processing of payment transactions as it would help in validating the account number at the originating stage; (iv) use of a 26-character long IBAN with alpha bank-id as it will require minimum changes across banks. However, the Committee noted that IBAN will not bring in portability of accounts across banks. The Report of the Committee is under examination.

Introduction of giro based payments system envisaged for convenient bill payments

3.82 Although a wide range of payment instruments and payment channels are currently available in the country, there is no dedicated system for facilitating bill payments. To overcome this problem and for providing common infrastructure for all bill payment needs of the public, Committee to Study the Feasibility of

4 Charges paid by merchants for card payments.

5 Principles for Financial Market Infrastructure.

6 Indian Financial System Code.

Implementation of Giro based Payment System in India (Chairman: Shri G Padmanabhan) was constituted. The Committee noted deficiencies existing in bill payments system like lack of interoperability, high cost of cash collection for billers and poor accessibility outside big cities. The Committee also noted lack of coordinated initiative by billers to put in place a common and interoperable country-wide bill payment system.

3.83 The Committee recommended that a giro based payment system christened the "India Bill Payment System" (IBPS) may be designed and implemented in the country which will provide bill payment services to all stakeholders at one single place. It will provide multiple touch points through multiple channels to bill payers providing the comfort of accessing and paying bills at their convenience. The Committee also recommended that a separate organisation needs to be set up to operate and manage the IBPS in a professional manner and run on commercial lines which may be authorised by the Reserve Bank under the Payment and Settlement Systems Act, 2007. The Report has been examined and the proposal to set up the Giro Advisory Group has been approved by the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS).

Security of electronic payments strengthened

3.84 To strengthen electronic modes of payments and further mitigate the risks faced by customers/ banks, guidelines have been issued to banks and other stakeholders to put certain security measures in place in a time bound manner. These measures include: (i) issuing only domestic cards unless a customer asks for an international card; (ii) issuing EMV cards to people who use the cards internationally; (iii) setting a threshold amount on a magnetic stripe card for international transactions; (iv) securing PoS terminals to prevent data compromise; (v) putting in place techniques to prevent frauds; (vi) placing controls on the number of beneficiaries that can be added to internet banking account and number of online transfers; (vii) introducing additional factor of authentication for online payments; and (viii) considering implementing digital signatures for large value payments for all customers.

Next Generation RTGS (NG-RTGS) System replaces the existing RTGS

3.85 In view of the increasing volumes and changing business requirements, the Reserve Bank is replacing the existing RTGS with a new system which provides for improved functions and features. Some of the new features implemented in the new system are advanced liquidity management facility; Extensible Markup Language (XML) based messaging system conforming to ISO 20022; real time information and transaction monitoring and control systems; and gridlock avoidance mechanism and advanced queue management techniques. In NG-RTGS, the ISO 20022 message formats are being used for transmitting RTGS messages, this is first instance across the globe, of usage of this message formats for high value payment systems.

12. Banking Sector Legislation

Banking Laws (Amendment) Act, 2012

3.86 The Banking Laws (Amendment) Act, 2012 came into force from January 18, 2013. The Act gives the Reserve Bank powers to supersede the board of directors of a banking company subject to a total period of 12 months and appoint an administrator till alternate arrangements are made. It also confers power on the Reserve Bank to raise the ceiling on voting rights from 10 to 26 per cent in a phased manner. In order to ensure that control of banking companies is in the hands of "fit and proper persons", prior approval of the Reserve Bank is required in case of acquisition of 5 per cent or more shares or voting rights in a banking company.

3.87 The Reserve Bank has been given the power to collect information and inspect associate enterprises of banking companies. The definition of "approved securities" is modified to restrict them to Central or State Government securities and such other securities as may be specified by the Reserve Bank. Banking companies can issue preference shares subject to regulatory guidelines issued by the Reserve Bank. Nationalised banks can raise capital through "bonus" and "right" issues and can increase or decrease the authorised capital with approval from the Central Government and the Reserve Bank without being limited by the ceiling of ₹30 billion. Penalties for violations have been substantially increased.

The Enforcement of Security Interest and Recovery of Debt Laws (Amendment) Act, 2012

3.88 The Amendment Act (except Section 8 and Section 15 (b)) was brought into force with effect from January 15, 2013. The Act amends the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDDBFI Act). The definition of "bank" both in the SARFAESI Act and in the RDDBFI Act is amended to include 'multi state co-operative bank' so that the provisions of said Acts apply to multi-state co-operative banks and the measures for recovery through the Debt Recovery Tribunals (DRTs) would now be available to them. Securitisation and reconstruction companies can now convert any part of the debt into equity/shares of a borrower company. Secured creditors can acquire the immovable property in full or partial satisfaction of their claim against the defaulting borrower, in times when no buyer for the amount of reserve price is available.

The National Housing Bank (Amendment) Bill, 2012

3.89 This Bill was introduced in the Lok Sabha on April 30, 2012. It seeks to amend the National Housing Bank (NHB) Act, 1987. The Bill provides for transfer of shareholding of the Reserve Bank in NHB to the Central Government to avoid conflict of ownership and regulatory role. It confers power on the Central Government to increase the authorised capital of NHB. To ensure uniform control over non-banking financial companies including housing finance companies, powers related to registration and regulation over housing finance companies are proposed to be transferred to the Reserve Bank. NHB will concentrate on supervision and financing of such institutions.

The Micro Finance Institutions (Development and Regulation) Bill, 2012

3.90 This Bill was introduced in the Lok Sabha on May 22, 2012 with a view to provide a statutory framework for promotion, development, regulation and orderly growth of micro finance institutions (MFI) and thereby to facilitate financial inclusion. It provides for constitution of Micro Finance Development Council at the national level to advise the Central Government on formulation of policies related to growth and development of micro finance institutions. It has similar provisions at the state and district levels. It prohibits micro-finance institutions from carrying on the activities of micro-finance services without registration with the Reserve Bank but allows existing non-banking finance companies registered under the Reserve Bank of India Act, 1934 to continue such services without registration. It empowers the Reserve Bank to cancel the registration of a micro-finance company for failure to carry on the business of providing micro-finance services, contravention of the conditions of registration or directions issued by the Reserve Bank. It also empowers the Reserve Bank to issue directions to micro-finance institutions in public interest and also to inspect the accounts of the micro-finance institutions and take necessary action.

The Regional Rural Banks (Amendment) Bill, 2013

3.91 This Bill seeks to amend the Regional Rural Banks Act, 1976 and was introduced in the Lok Sabha on April 22, 2013. It provides for managerial and financial assistance from sponsor banks to RRBs to be continued beyond the first five years of functioning of the RRBs. It provides for the authorised capital of each RRB to be enhanced from ₹50 million to ₹5 billion. It also provides for issued capital of each RRB to be not less than ₹10 million. It has a provision for RRBs to raise capital from sources other than the Central Government, the State Government and the sponsor bank subject to the condition that in no event the combined shareholding of the Central Government and the sponsor bank shall be less than 51 per cent. It also has a provision for shareholders to elect the directors.

The National Bank for Agriculture and Rural Development (Amendment) Bill, 2013

3.92 This amendment bill was introduced in the Lok Sabha on May 6, 2013. It makes a provision for transfer and vesting of the subscribed capital of the Reserve Bank in NABARD to the Central Government. It empowers the Central Government to increase the capital of NABARD from ₹50 billion to ₹200 billion. It also enhances the scope of operations of NABARD for lending purposes. It provides for establishing and maintaining of a fund to be known as the National Rural Credit (Short Term Operations) Fund by NABARD for providing financial assistance by way of loans and advances.

Prevention of Money Laundering (Amendment) Act, 2012

3.93 This amendment act came into effect from February 15, 2013. It introduces the concept of "corresponding law" to link the provisions of Indian law with laws of foreign countries and provides for transfer of proceeds of the foreign predicate offence in any manner in India. It enlarges the definition of offence of money laundering to also include activities of concealment, possession, acquisition or use and projecting or claiming the same as untainted property.

13. Overall Assessment

3.94 A number of key policy decisions were taken during 2012-13. The Reserve Bank pursued a well nuanced monetary policy maintaining a delicate balance between price stability and growth objectives not losing sight of incipient financial stability issues that have come to the fore recently. In this regard, the monetary policy tried to use the available space to front-load policy rate reductions and calibrate the easing cycle, being mindful of the macro-economic risks emanating from the twin deficits.

3.95 During the year, various measures were undertaken towards promoting financial inclusion, increasing the credit flow to the productive sectors of the economy and the development of the financial sector. Guidelines were issued to facilitate smooth implementation of the DBT scheme for routing MGNREGA wages, other social security benefits and various subsidies through bank branch/BCs. KYC and AML norms were simplified and rationalised to facilitate financial inclusion. In view of the vulnerabilities in the current account balance and to restrain demand for gold for speculative purposes some curbs were imposed on bank finance for purchase of gold/ bullion. To ward off risks to the health of the banking sector arising out of unhedged foreign currency exposures of corporates some prudential measures were undertaken. To overcome the limitations of the current provisioning policy, a comprehensive provisioning framework for banks with dynamic and countercyclical elements is being contemplated. With a view to promoting financial inclusion and fostering greater competition, final guidelines for issue of licences for new banks in the private sector were released and applications were invited for new bank licences. Various new measures were initiated to improve customer services at banks based on the recommendations of the Damodaran Committee. Prudential guidelines on restructuring of advances by banks/financial institutions were revised following the recommendations of the Mahapatra Working Group. Various important measures were initiated in order to make the payment and settlements system more robust and customer friendly and for moving payment transactions from cash/paper modes to electronic modes. To make the regulatory powers of the Reserve Bank more effective and to increase the access of the nationalised banks to the capital market, the Banking Regulation Act, 1949 was amended. Anti-money laundering laws were further strengthened to bring them at par with international standards.

3.96 Going forward, continued attention on financial stability and financial inclusion combined with a vigil on systemic risks and risks arising out of global financial interconnectedness would ensure a healthy, resilient and inclusive banking and financial sector, which can contribute towards sustained and inclusive growth of the Indian economy.

Chapter IV

Operations and Performance of Commercial Banks

Against the backdrop of a slowdown in the domestic economy and tepid global recovery, the growth of the Indian banking sector slowed down for the second consecutive year in 2012-13. There was also a decline in the growth of profits of scheduled commercial banks (SCBs) as credit off-take slowed down and interest rates softened. The asset quality also deteriorated, more perceptibly for public sector banks. On the positive side, capital positions of Indian banks, including public sector banks, remained strong and above the stipulated minimum to face any unforeseen losses. There was also a significant expansion in the outreach of banking in unbanked rural centres, as financial inclusion plans completed three years. In the short-term, the Indian banking sector needs to lend support to productive sectors facilitating economic recovery, while remaining vigilant about asset quality. In the medium to long-term, sustained improvements in efficiency and inclusiveness remain key areas of concern.

1. Introduction

4.1 The Indian financial landscape is dominated by the banking sector with banking flows accounting for over half of the total financial flows in the economy[1]. Banks play a major role in not just purveying credit to the productive sectors of the economy but also as facilitators of financial inclusion. Although the Indian banking sector exhibited considerable resilience in the immediate aftermath of the global financial crisis, it has been impacted by the global and domestic economic slowdown over the last two years. The year 2011-12, against the backdrop of a muted domestic growth, witnessed a slowdown in the overall growth of the banking sector coupled with a deterioration in asset quality and lower profitability[2]. The performance of the banking sector in 2012-13 too was conditioned by a further slowdown of the domestic economy, although there was some respite from inflationary pressures leading to an environment of lower interest rates.

4.2 Against this backdrop, this chapter discusses developments in the Indian banking sector in 2012-13 in a comparative perspective with the earlier year/s to bring out trends in balance sheets, profitability, and financial soundness of the sector taking data on 89 scheduled commercial banks (SCBs)[3]. The chapter also spells out key issues relating to other aspects of operations of SCBs, *viz.*, sectoral distribution of credit, financial inclusion, customer services, technological developments, and their overseas operations apart from separately analysing the trends in two segments closely related to the SCB sector, namely regional rural banks (RRBs) and local area banks (LABs).

[1] Estimate based on the Flow of Funds Accounts for the Indian Economy.

[2] RBI, *Report on Trend and Progress of Banking in India - 2011-12*.

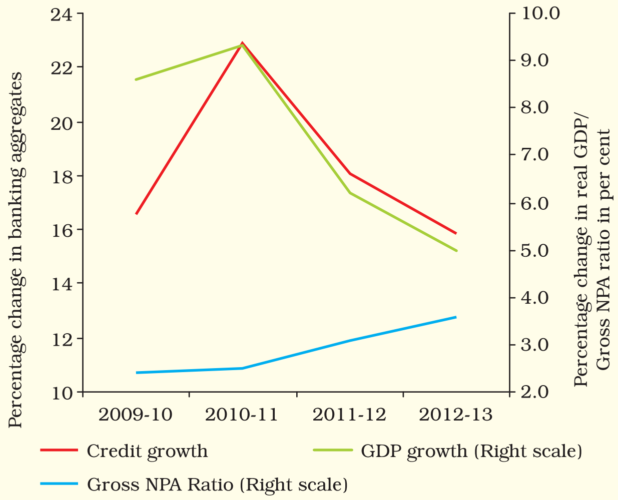
[3] These include 26 public sector banks (State Bank of India and its five associates, 19 nationalised banks and IDBI Bank Ltd.), 7 new private sector banks, 13 old private sector banks and 43 foreign banks.

2. Balance Sheet Operations of Scheduled Commercial Banks

Moderation in balance sheet growth for the second consecutive year, led by a slowing down of credit growth

4.3 In continuation with the trend during 2011-12, the overall growth in balance sheet of banks moderated further in 2012-13 (Table IV.1; Appendix Table IV.1). The major source of this moderation was bank credit. The moderation in credit growth was partly reflective of the slowdown in real economic activity coupled with increasing risk aversion by banks (Chart IV.1). The slowdown in credit growth in March 2013 over March 2012 could be seen across all bank groups except the SBI Group (Chart IV.2)[4].

Chart IV.1: Bank Credit Growth compared with Select Economic and Banking Aggregates



Source: *Handbook of Statistics on Indian Economy*, Annual Accounts of banks and off-site returns.

Table IV.1: Growth in Balance Sheet of Scheduled Commercial Banks

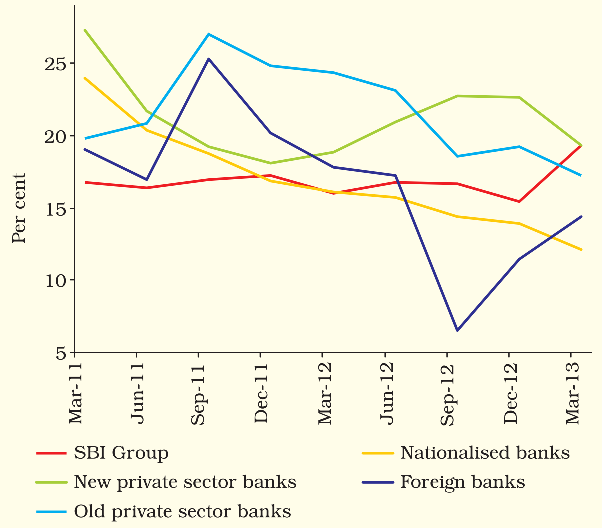
(Per cent)

Item	**Public sector banks**		**Private sector banks**		Old private sector banks		New private sector banks		**Foreign banks**		**All scheduled commercial banks**	
	2011-12	**2012-13**	**2011-12**	**2012-13**	2011-12	2012-13	2011-12	2012-13	**2011-12**	**2012-13**	**2011-12**	**2012-13**
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital	**-4.2**	**4.3**	**-**	**4.5**	-4.2	6.1	1.7	3.9	**15.6**	**13.9**	**8.0**	**10.4**
2. Reserves and Surplus	**24.4**	**15.5**	**15.5**	**21.6**	18.5	18.9	14.9	22.2	**15.6**	**15.2**	**20.8**	**17.2**
3. Deposits	**14.4**	**14.9**	**17.1**	**18.8**	19.6	18.4	16.3	19.0	**15.1**	**4.0**	**14.9**	**15.1**
3.1. Demand Deposits	**-6.3**	**16.8**	**4.4**	**15.4**	6.5	15.6	4.0	15.4	**9.9**	**-7.8**	**-1.8**	**13.3**
3.2. Savings Bank Deposits	**12.1**	**14.4**	**19.1**	**19.3**	16.3	14.9	19.9	20.5	**5.6**	**2.9**	**13.1**	**15.0**
3.3. Term Deposits	**18.2**	**14.8**	**19.7**	**19.4**	22.1	19.5	18.6	19.4	**21.0**	**10.4**	**18.6**	**15.4**
4. Borrowings	**17.2**	**19.8**	**38.9**	**16.1**	80.3	28.3	36.4	15.1	**29.7**	**27.4**	**24.9**	**19.8**
5. Other Liabilities and Provisions	**-7.5**	**15.4**	**42.1**	**0.2**	12.5	9.6	47.1	-1.0	**26.9**	**-25.1**	**8.6**	**2.2**
Total Liabilities/Assets	**14.1**	**15.3**	**21.1**	**17.5**	**21.3**	**18.6**	**21.0**	**17.2**	**19.8**	**5.7**	**15.8**	**15.1**
1. Cash and Balances with RBI	**-20.5**	**-0.2**	**-18.1**	**5.4**	-7.9	-0.2	-20.8	7.1	**14.2**	**-7.4**	**-18.5**	**0.4**
2. Balances with Banks and Money at Call and Short Notice	**40.7**	**38.0**	**15.6**	**57.9**	80.4	52.6	6.5	59.2	**13.7**	**10.7**	**32.4**	**37.5**
3. Investments	**12.8**	**16.7**	**24.6**	**19.0**	18.0	23.0	26.5	18.0	**21.2**	**13.7**	**16.1**	**17.0**
3.1 Government Securities	**16.5**	**13.5**	**32.0**	**17.8**	21.5	23.8	35.4	16.1	**23.0**	**21.5**	**19.8**	**15.0**
3.2 Other Approved Securities	**-65.1**	**-26.2**	**-78.8**	**-63.1**	-65.0	-61.2	-97.6	-100.0	**-100.0**	**-**	**-65.6**	**2.9**
3.3 Non-Approved Securities	**-2.1**	**33.3**	**12.5**	**21.4**	10.0	21.2	13.0	21.4	**17.7**	**-3.8**	**5.2**	**24.1**
4. Loans and Advances	**17.3**	**15.4**	**21.2**	**18.3**	24.6	17.3	20.1	18.6	**17.6**	**14.7**	**18.1**	**15.9**
4.1 Bills Purchased and Discounted	**25.7**	**20.8**	**8.2**	**7.8**	14.7	-4.0	5.4	13.3	**9.6**	**29.2**	**21.8**	**19.9**
4.2 Cash Credits, Overdrafts, *etc.*	**17.8**	**16.9**	**28.4**	**28.8**	33.3	25.9	25.4	30.7	**19.7**	**14.7**	**19.3**	**18.5**
4.3 Term Loans	**16.1**	**13.5**	**19.0**	**14.2**	17.6	10.6	19.3	14.9	**17.5**	**10.7**	**16.8**	**13.6**
5. Fixed Assets	**5.9**	**11.2**	**3.0**	**8.3**	6.9	14.9	2.1	6.6	**1.2**	**20.4**	**4.8**	**11.3**
6. Other Assets	**14.9**	**2.8**	**67.5**	**-7.9**	26.9	8.0	74.5	-9.9	**26.9**	**-31.0**	**27.9**	**-9.5**

Source: Balance Sheets of respective banks.

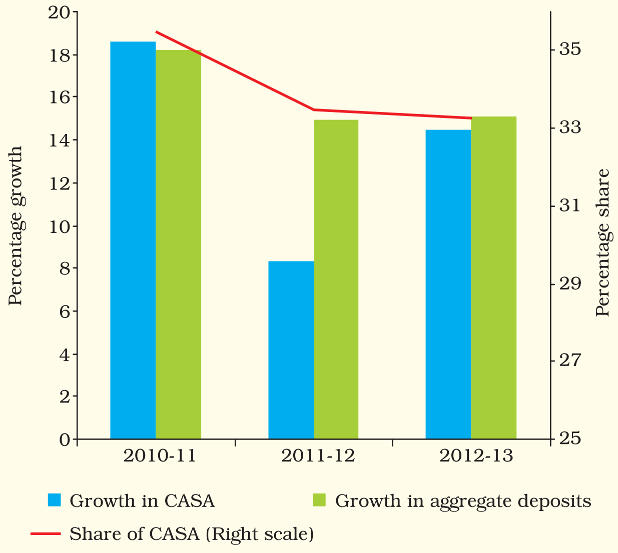
[4] With regard to the SBI Group, the higher growth primarily came about in the last quarter of 2012-13. The calculations in Chart IV.2 are based on credit figures taken from off-site returns (domestic).

Chart IV.2: Growth in Gross Advances across Bank Groups



Source: Off-site returns (domestic).

Chart IV.3: Trends in CASA



Source: Annual Accounts of banks.

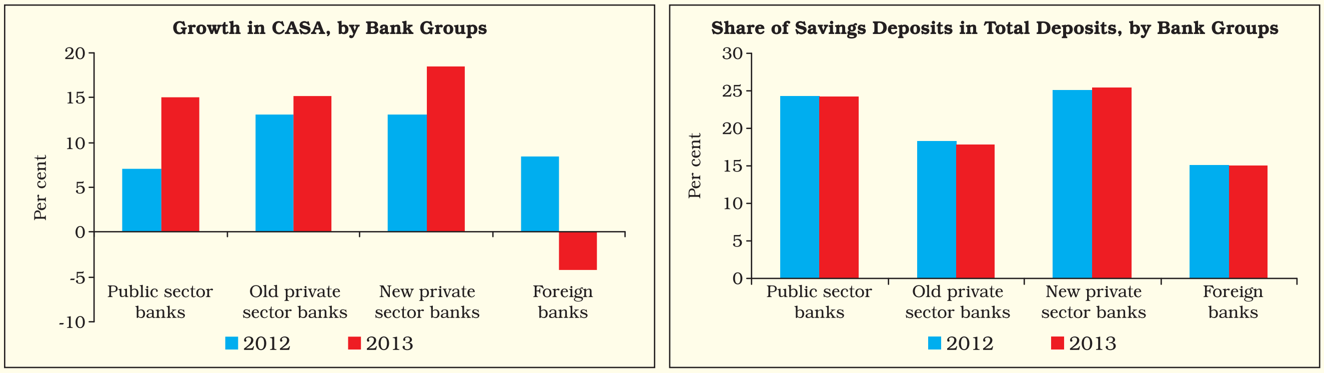
Deposits growth was maintained with the help of a revival in the growth of CASA

4.4 Although there was a moderation in the balance sheet of the banking sector, deposits – the largest component on the liabilities side – maintained their growth in 2012-13, primarily with the help of a revival in the growth of current and savings accounts (CASA). Consequently, the share of CASA was maintained at around 33 per cent (Chart IV.3).

Revival in CASA was strong for new private sector banks, partly owing to improved competition in savings deposit rate

4.5 The increase in CASA growth in 2012-13 over 2011-12 was most perceptible for new private sector banks. In 2012-13, growth in CASA for new private sector banks, at 18.5 per cent, was the highest among all bank groups (Chart IV.4). In part, this could be attributed to improved competition among banks in attracting savings deposits following the deregulation of the savings

Chart IV.4: Trends in CASA, by Bank Groups



Source: Annual Accounts of banks.

deposit rate. The share of savings deposits for new private sector banks stood at around 25 per cent of their total deposit base and was the highest among all bank groups in 2013 (Chart IV.4).

Outstanding Credit-Deposit (C-D) ratio remained broadly unchanged at the aggregate level

4.6 The C-D ratio for all SCBs, on an outstanding basis, remained broadly unchanged at about 79 per cent (Chart IV.5). At the bank group-level, there was slight moderation in the outstanding C-D ratio for all major bank groups except for the SBI and foreign bank groups (Chart IV.5).

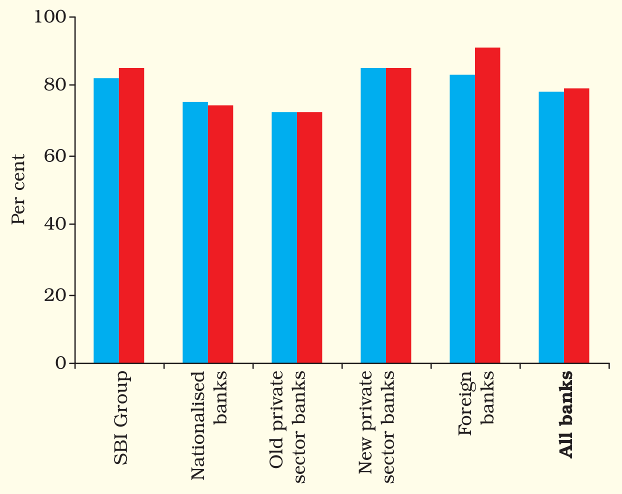
4.7 The incremental C-D ratio of SCBs posted a declining trend over a major part of 2012-13, except for a spurt in the third quarter touching 102.9 per cent in end-December 2012 (Chart IV.6).

International Liabilities and Assets of Scheduled Commercial Banks

Spurt in international liabilities of Indian SCBs in 2012-13

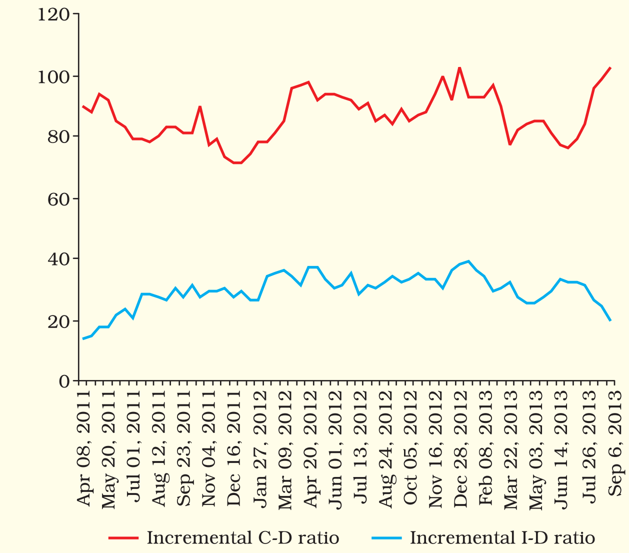
4.8 During 2012-13, there was a complete reversal of past trends in international liabilities and assets; while there was a spurt in international liabilities of banks located in India, international assets of these banks remained almost unchanged (Tables IV.2; IV.3). Going by the sectoral break up

Chart IV.5: Trends in Outstanding C-D Ratio, Bank Group-wise



Source: Annual Accounts of banks.

Chart IV.6: Trends in Incremental C-D and I-D ratios



Source: Section 42(2) returns.

Table IV.2: International Liabilities of Banks – By Type

(₹ billion)

Liability Type	Amount Outstanding (as at end-March)		Percentage Variation	
	2012	2013	2011-12	2012-13
1. Deposits and Loans	**4,472 (79.0)**	**5,274 (77.2)**	**18.2**	**17.9**
2. Own Issues of Securities/Bonds	**56 (1.0)**	**58 (0.8)**	**23.0**	**3.1**
3. Other Liabilities	**1,133 (20.0)**	**1,503 (22.0)**	**-18.3**	**32.7**
of which:				
a) ADRs/GDRs	271 (4.8)	393 (5.8)	-21.8	45.1
b) Equities of banks held by non-residents	536 (9.5)	714 (10.4)	-26.8	33.2
c) Capital/remittable profits of foreign banks in India and other unclassified international liabilities	326 (5.8)	396 (5.8)	5.8	21.4
Total International Liabilities	**5,661 (100.0)**	**6,835 (100.0)**	**8.6**	**20.7**

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

Source: Based on LBS (locational banking statistics) Statements.

Table IV.3: International Assets of Banks – By Type

(₹ billion)

Asset Type	Amount Outstanding		Percentage Variation	
	2012	2013	2011-12	2012-13
1. Loans and Deposits	**3,410 (97.3)**	**3,453 (97.5)**	**22.3**	**1.3**
of which				
a) Loans to Non-Residents*	156 (4.4)	163 (4.6)	8.1	4.9
b) Foreign Currency Loans to Residents **	1,652 (47.2)	1,740 (49.1)	17.9	5.3
c) Outstanding Export Bills drawn on Non-Residents by Residents	725 (20.7)	791 (22.3)	18.3	9.1
d) Nostro Balances@	865 (24.7)	745 (21.0)	38.7	-13.8
2. Holdings of Debt Securities	**0.0 (0.0)**	**5.2 (0.1)**	**-100.0**	**-**
3. Other Assets @@	**94 (2.7)**	**85 (2.4)**	**2.9**	**-9.5**
Total International Assets	**3,504 (100.0)**	**3,544 (100.0)**	**21.6**	**1.1**

* Includes Rupee loans and foreign currency (FC) loans out of non-resident deposits.
** Includes loans out of FCNR(B) deposits, PCFC's, FC lending to and FC deposits with banks in India, *etc*.
@ Includes placements made abroad and balances in term deposits with non-resident banks.
@@ Capital supplied to and receivable profits from foreign branches/ subsidiaries of Indian banks and other unclassified international assets.

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

Source: Based on LBS (locational banking statistics) Statements.

Table IV.4: Maturity (Residual) and Sector Classification of Consolidated International Claims of Banks

(₹ billion)

Residual Maturity/Sector	Amount Outstanding		Percentage Variation	
	2012	2013	2011-12	2012-13
1	2	3	4	5
Total Consolidated International Claims	**2,809 (100.0)**	**3,312 (100.0)**	**14.0**	**17.9**
a) Maturity-wise				
1. Short-term (residual maturity of less than one year)	1,832 (65.2)	2,153 (65.0)	19.0	17.5
2. Long-term (residual maturity of one year and above)	924 (32.9)	1,100 (33.2)	5.9	19.1
3. Unallocated	54 (1.9)	59 (1.8)	1.7	10.1
b) Sector-wise				
1. Bank	1,286 (45.8)	1,383 (41.8)	17.8	7.6
2. Non-Bank Public	19 (0.7)	31 (0.9)	114.1	66.2
3. Non-Bank Private	1,505 (53.6)	1,898 (57.3)	10.3	26.1

Notes: 1. Figures in parentheses are percentages to total.
2. Unallocated residual maturity comprises maturity not applicable (*e.g.*, for equities) and maturity information not available from reporting bank branches.
3. The "Bank" sector includes official monetary institutions (*e.g.*, IFC, ECB, *etc.*) and central banks.
4. Prior to the quarter ended March 2005, non-bank public sector comprised of companies/institutions other than banks in which shareholding of State/Central Governments was at least 51 per cent, including State/Central Government and its departments. From the March 2005 quarter, the "Non-bank public" sector comprises only State/Central Government and its departments and, accordingly, all other entities excluding banks are classified under "Non-bank private sector".
5. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: Based on CBS (consolidated banking statistics) Statements - Immediate country risk basis.

of consolidated claims of Indian SCBs, a shift was evident towards the private non-banking sector in 2012-13, reflective of the weak performance of the global banking sector in the recent years (Table IV.4). A shift was also discernible from the US and advanced European economies, such as the UK and Germany, towards South-East Asian economies, such as Hong Kong and Singapore, as also the UAE (Table IV.5). This could have been partly a fallout of the uncertain economic environment prevailing in most advanced economies in the period following the global financial and sovereign debt crises.

Maturity Profile of Assets and Liabilities

Gap between liabilities and assets widest in the shortest maturity bucket

4.9 Maturity mismatch has often been highlighted as a concern for the Indian banking sector given the sector's increased exposure to long-term infrastructural loans financed primarily from deposits of shorter maturities[5]. Such a

[5] See *Report on Trend and Progress of Banking in India – 2011-12*.

Table IV.5: Consolidated International Claims of Banks on Countries other than India

(₹ billion)

Country	Amount Outstanding		Percentage Variation	
	2012	2013	2011-12	2012-13
1	2	3	4	5
Total Consolidated International Claims	**2,809 (100.0)**	**3,312 (100.0)**	**14.0**	**17.9**
Of which				
1. United States of America	643 (22.9)	676 (20.4)	17.2	5.2
2. United Kingdom	364 (13.0)	431 (13.0)	6.0	18.3
3. Hong Kong	220 (7.8)	266 (8.0)	19.5	20.9
4. Singapore	216 (7.7)	279 (8.4)	16.3	29.4
5. United Arab Emirates	221 (7.9)	277 (8.4)	42.8	25.1
6. Germany	118 (4.2)	136 (4.1)	-16.6	15.1

Notes: 1. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.
2. Figures in brackets indicate percentage share in total.

Source: Based on CBS (consolidated banking statistics) Statements - Immediate country risk basis.

mismatch can put strain on liquidity, earnings and even at times, solvency of the bank.

4.10 An aggregated analysis of the maturity profile of liabilities and assets of SCBs suggested a positive gap (liabilities-assets) in the shortest maturity bucket of up to 1 year. It was the widest when compared with other maturity buckets. This indicated greater reliance on short-term liabilities, outpacing the corresponding creation of short-term assets. The gap was generally found to be negative for the remaining three maturity buckets, *viz.*, 1 to 3 years, 3 to 5 years and more than 5 years. This suggested greater creation of medium/ long-term assets, which outpaced the proportion of medium/long-term liabilities (Table IV.6; Chart IV.7).

Off-Balance Sheet Operations of SCBs

Slowdown in off-balance sheet operations of banks in 2012-13

4.11 In 2012-13, not just balance sheet but also off-balance sheet items showed a slowdown, although moderation in the latter was more prominent. The co-movement in the growth of

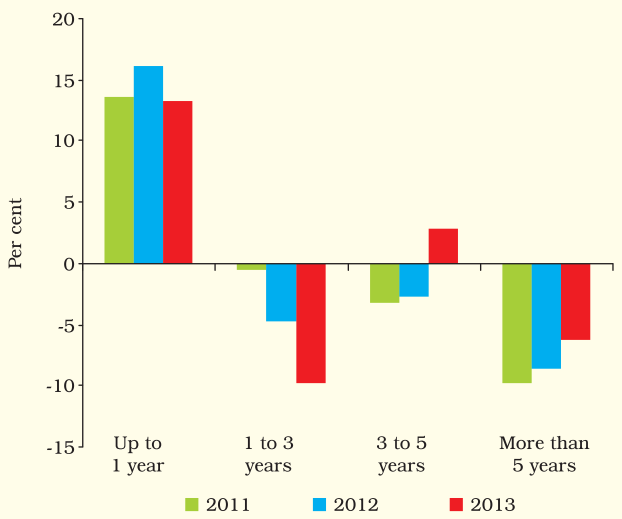
Table IV.6: Bank Group-wise Maturity Profile of Select Liabilities/Assets
(As at end-March)

(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**	
	2012	**2013**	**2012**	**2013**	2012	2013	2012	2013	**2012**	**2013**	**2012**	**2013**
1	**2**	**3**	**4**	**5**	6	7	8	9	**10**	**11**	**12**	**13**
I. Deposits												
a) Up to 1 year	**49.6**	**33.9**	**48.7**	**46.0**	48.1	48.5	48.9	45.1	**61.9**	**62.0**	**50.0**	**35.6**
b) Over 1 year and up to 3 years	**25.3**	**31.3**	**30.0**	**27.4**	39.2	37.5	26.6	23.7	**29.8**	**28.9**	**26.3**	**30.9**
c) Over 3 years and up to 5 years	**8.5**	**15.9**	**5.7**	**9.1**	6.9	7.4	5.2	9.7	**8.3**	**9.0**	**8.0**	**15.1**
d) Over 5 years	**16.6**	**18.9**	**15.7**	**17.5**	5.8	6.6	19.3	21.5	**0.1**	**0.1**	**15.7**	**18.4**
II. Borrowings												
a) Up to 1 year	**45.4**	**55.6**	**50.3**	**45.9**	63.7	66.2	49.2	44.0	**84.5**	**89.5**	**52.6**	**57.0**
b) Over 1 year and up to 3 years	**12.2**	**11.8**	**11.8**	**14.4**	13.4	14.5	11.7	14.4	**9.2**	**6.0**	**11.7**	**11.8**
c) Over 3 years and up to 5 years	**15.2**	**9.8**	**12.5**	**14.0**	7.8	8.6	12.9	14.5	**2.7**	**2.7**	**12.5**	**9.9**
d) Over 5 years	**27.2**	**22.9**	**25.4**	**25.7**	15.1	10.6	26.2	27.0	**3.5**	**1.8**	**23.2**	**21.3**
III. Loans and Advances												
a) Up to 1 year	**34.3**	**23.8**	**35.2**	**35.0**	44.0	45.8	32.4	31.7	**67.2**	**65.1**	**35.9**	**25.8**
b) Over 1 year and up to 3 years	**37.4**	**49.8**	**37.1**	**36.8**	36.1	34.2	37.4	37.7	**15.5**	**17.7**	**36.3**	**47.8**
c) Over 3 years and up to 5 years	**11.0**	**8.2**	**11.3**	**11.7**	9.1	9.6	12.0	12.3	**4.8**	**6.3**	**10.8**	**8.5**
d) Over 5 years	**17.3**	**18.1**	**16.4**	**16.5**	10.8	10.4	18.2	18.4	**12.5**	**10.8**	**17.0**	**17.8**
IV. Investments												
a) Up to 1 year	**20.1**	**16.6**	**42.6**	**41.8**	30.3	38.5	45.9	42.7	**76.7**	**77.9**	**30.4**	**23.1**
b) Over 1 year and up to 3 years	**12.6**	**17.2**	**17.3**	**18.2**	12.2	16.3	18.6	18.8	**12.9**	**11.0**	**13.7**	**17.1**
c) Over 3 years and up to 5 years	**14.2**	**20.9**	**9.1**	**9.9**	13.0	11.1	8.1	9.5	**5.2**	**3.5**	**12.2**	**18.5**
d) Over 5 years	**53.1**	**45.2**	**31.0**	**30.1**	44.4	34.1	27.4	29.0	**5.2**	**7.5**	**43.6**	**41.3**

Source: Balance Sheets of respective banks.

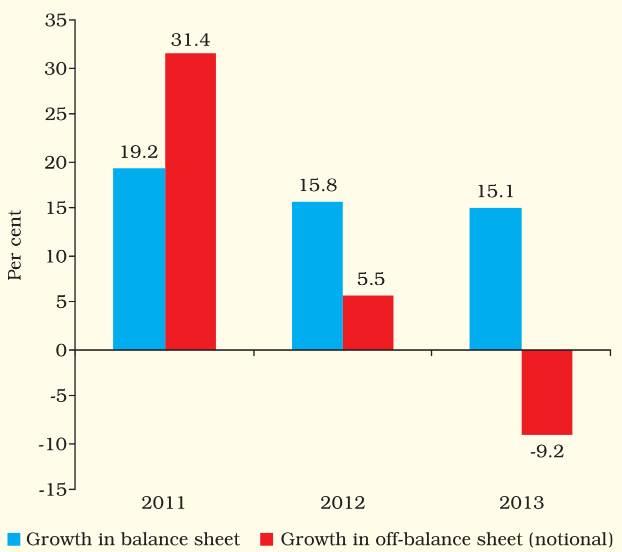
Chart IV.7: Gap between Proportion of Liabilities and Assets in various Maturity Buckets



Source: Annual Accounts of banks.

both these items during the recent past suggests a certain degree of complimentarity between them (Appendix Table IV.2; Chart IV.8).

Chart IV.8: Growth in Balance Sheet and Off-Balance Sheet Transactions



3. Financial Performance of Scheduled Commercial Banks

Slower growth in profits with low credit off-take impacting interest earnings

4.12 In 2012-13, interest earnings were adversely affected with credit growth slowing down. This was also a period when interest rates, which had hardened during earlier years, started softening (Table IV.7; Chart IV.9). Interest expended also grew at a slower pace during the year but its growth was higher than that of interest earned, thereby putting a downward pressure on the growth in both operating and net profits of banks.

In continuation with the past trend, RoA witnessed a further contraction in 2012-13

4.13 Return on assets (RoA), the most commonly used indicator of profitability, showed a further reduction by about 5 basis points in 2012-13

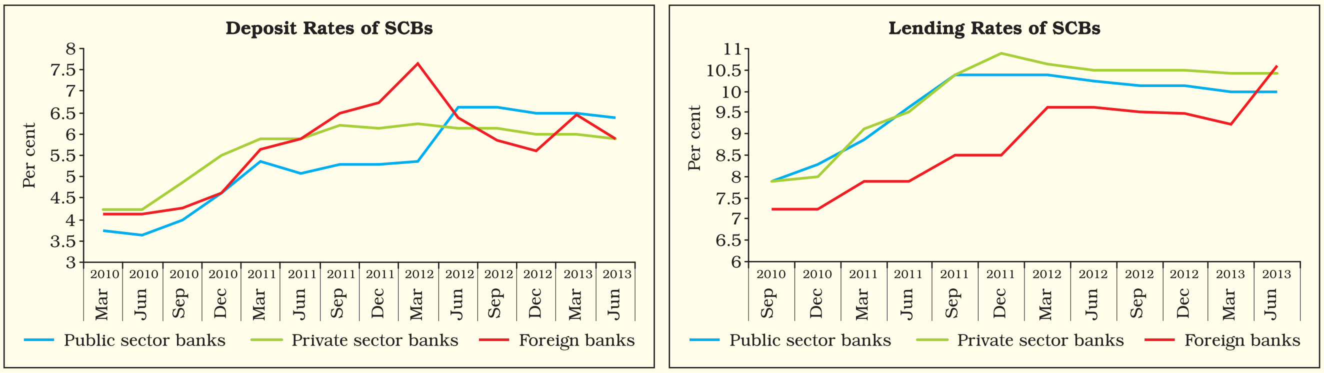
Table IV.7: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ₹ billion)

Item	2011-12		2012-13	
	Amount	Percentage Variation	Amount	Percentage Variation
1	2	3	4	5
1. Income	**7,416**	**29.8**	**8,614**	**16.2**
a) Interest Income	6,553	33.4	7,636	16.5
b) Other Income	863	8.1	978	13.3
2. Expenditure	**6,600**	**31.8**	**7,702**	**16.7**
a) Interest Expended	4,304	44.0	5,138	19.4
b) Operating Expenses	1,376	11.7	1,566	13.8
of which : Wage Bill	780	7.3	873	11.9
c) Provisions and Contingencies	920	16.8	998	8.5
3. Operating Profit	**1,737**	**16.5**	**1,910**	**10.0**
4. Net Profit	**817**	**16.1**	**912**	**11.6**
5. Net Interest Income (NII) (1a-2a)	**2,249**	**16.9**	**2,498**	**11.1**
Net Interest Margin (NII as percentage of average assets)	**2.9**		**2.8**	

Source: Annual Accounts of respective banks.

Chart IV.9: Trends in Deposit and Lending Rates of SCBs



Notes: 1. Rates are worked out as mid-point averages of minimum and maximum rates.
2. Deposit rate refers to rates charged on deposits of up to 1 year since they constitute the largest portion of the total deposits across all bank groups.

(Table IV.8). This reduction was discernible in the case of public sector banks in general, and nationalised banks in particular.

New private/foreign banks improved profitability through a reduction in the growth of operating expenses

4.14 New private sector banks and foreign banks reported an increase in RoA in 2012-13 as against nationalised banks and SBI Group. The growth of profits of new private sector/foreign banks did not show a sharp fall in 2012-13, as was the case with nationalised banks and SBI Group. Although the interest income of new private/foreign banks posted a lower growth during the year, they could manage to maintain their profits growth through a reduction in the growth of their operating expenses, particularly wage bill (Chart IV.10).

Both NIM and spread narrowed in 2012-13

4.15 Following a trend in the recent years, there was a fall in both net interest margin (NIM) and spread (difference between return and cost of

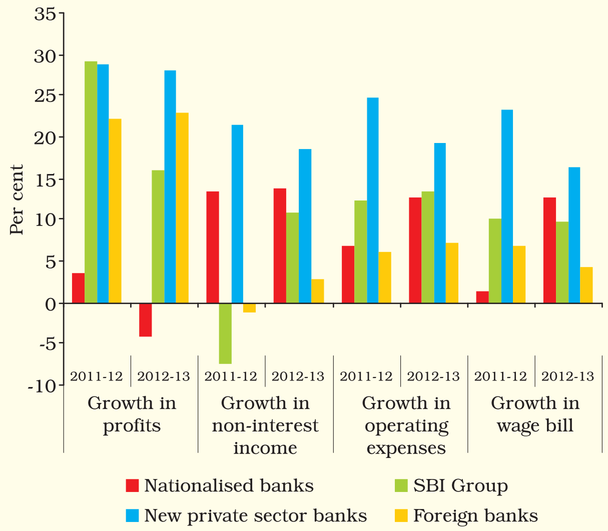
Table IV.8: Return on Assets and Return on Equity of SCBs – Bank Group-wise

(Per cent)

Sr. no.	Bank group/year	Return on Assets 2011-12	Return on Assets 2012-13	Return on Equity 2011-12	Return on Equity 2012-13
	1	2	3	4	5
1	**Public sector banks**	**0.88**	**0.78**	**15.33**	**13.24**
	1.1 Nationalised banks*	0.88	0.74	15.05	12.34
	1.2 SBI Group	0.89	0.88	16.00	15.29
2	**Private sector banks**	**1.53**	**1.63**	**15.25**	**16.46**
	2.1 Old private sector banks	1.20	1.26	15.18	16.22
	2.2 New private sector banks	1.63	1.74	15.27	16.51
3	**Foreign banks**	**1.76**	**1.94**	**10.79**	**11.52**
	All SCBs	**1.08**	**1.03**	**14.60**	**13.84**

Notes: 1. Return on Assets = Net profit/Average total assets.
2. Return on Equity = Net profit/Average total equity.
3. * Nationalised banks include IDBI Bank Ltd.
Source: Annual Accounts of respective banks.

Chart IV.10: Growth of Select Items of Income and Expenditure



Source: Annual Accounts of banks.

Table IV.9: 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**							
	2011-12	**6.36**	**2.80**	**6.06**	**10.31**	**7.54**	**9.52**	**3.46**
	2012-13	**6.63**	**2.45**	**6.27**	**10.08**	**7.60**	**9.38**	**3.11**
	1.1 Nationalised banks*							
	2011-12	6.51	2.77	6.22	10.32	7.43	9.49	3.27
	2012-13	6.74	2.37	6.39	10.16	7.42	9.36	2.97
	1.2 SBI Group							
	2011-12	5.97	2.85	5.66	10.27	7.80	9.60	3.94
	2012-13	6.37	2.58	5.96	9.90	8.08	9.42	3.46
2	**Private sector banks**							
	2011-12	**6.43**	**2.92**	**5.84**	**11.06**	**7.26**	**9.73**	**3.89**
	2012-13	**6.72**	**3.33**	**6.12**	**11.52**	**7.28**	**10.02**	**3.91**
	2.1 Old private sector banks							
	2011-12	7.24	4.34	7.10	11.98	7.37	10.47	3.37
	2012-13	7.46	4.33	7.27	12.15	7.49	10.62	3.35
	2.2 New private sector banks							
	2011-12	6.14	2.81	5.45	10.77	7.23	9.51	4.06
	2012-13	6.45	3.24	5.77	11.33	7.22	9.85	4.08
3	**Foreign banks**							
	2011-12	**4.34**	**2.78**	**3.88**	**9.61**	**8.02**	**8.87**	**4.99**
	2012-13	**4.67**	**2.78**	**4.05**	**9.55**	**8.13**	**8.89**	**4.84**
4	**All SCBs**							
	2011-12	**6.28**	**2.83**	**5.90**	**10.42**	**7.52**	**9.53**	**3.63**
	2012-13	**6.57**	**2.76**	**6.12**	**10.33**	**7.57**	**9.49**	**3.36**

Notes :
- Cost of Deposits = Interest Paid on Deposits/Average of current and previous year's deposits.
- Cost of Borrowings = Interest Paid on Borrowings/Average of current and previous year's borrowings.
- Cost of Funds = (Interest Paid on Deposits + Interest Paid on Borrowings)/(Average of current and previous year's deposits *plus* borrowings).
- Return on Advances = Interest Earned on Advances /Average of current and previous year's advances.
- Return on Investments = Interest Earned on Investments /Average of current and previous year's investments.
- Return on Funds = (Interest Earned on Advances + Interest Earned on Investments) / (Average of current and previous year's advances *plus* investments).

* Includes IDBI Bank Ltd.

Source: Calculated from balance sheets of respective banks.

funds) at the aggregate level suggesting some improvement in operating efficiency of SCBs (Tables IV.7; IV.9). An analysis of the standard accounting measures showed an improvement in the efficiency in the banking sector over recent decades (Box IV.1).

Box IV.1: Analysis of Efficiency in the Indian Banking Sector – A Ratio Approach

Sustained improvements in efficiency of the banking sector are desirable as they contribute towards (a) higher economic growth – an efficient banking sector can render its basic function of mobilisation and allocation of resources more effectively aiding economic growth (Mohan, 2005); (b) mitigation of risks – the more efficient the banking system, the more is the likelihood that it can withstand and absorb shocks. This link essentially stems from the ability of the banking sector to channel improvements in efficiency towards creating more capital buffers. In fact, studies find a negative and significant relationship between cost efficiency and the risk of a bank failure (Podpiera and Podpiera, 2005); (c) improved financial inclusion – the more efficient the banking system, the more it can aid financial inclusion, particularly because it can make the delivery of banking services cost-effective and can thereby ensure that improved *access* to banking services results in improved *usage* (Chakrabarty, 2013).

Theoretically, there exists a finer distinction between efficiency and productivity/profitability. While productivity resulting in profitability gains is the ability of a bank to produce the maximum possible output with given inputs and technology, efficiency measures the performance of a bank in a normative sense by comparing it with the industry

(Contd...)

(...Concld.)

leader (RBI, 2008). Empirically, there are two ways of measuring efficiency of the banking sector: (a) through standard accounting measures of productivity/profitability and (b) through data envelopment techniques that estimate a best practice frontier representing an optimal level of resource utilisation, and the efficiency of an individual bank is measured relative to that frontier.

Some of the commonly used accounting measures/ratios for an analysis of efficiency/profitability are cost-to-income ratio (CI), net interest margin (NIM), and return on assets (RoA). CI captures costs incurred to mobilise one unit of revenue/ income by the banking sector reflecting cost efficiency. The lower the ratio, the more efficient are the operations of the banking sector. NIM captures the intermediation efficiency of the sector in deploying their deposits and borrowed funds to generate income from credit and investment operations. The lower the ratio, the more efficient are the operations of the banking sector. RoA reflects the efficiency with which banks deploy their assets. The higher the ratio, the more efficient are the operations of the banking sector.

In a global perspective, India ranks above the advanced economies and other BRICS economies except China in terms of cost efficiency measured through CI. In terms of efficiency captured through NIM, India appears at par with BRICS economies but still lags behind most advanced economies. It compares favourably with other BRICS and advanced economies in terms of profitability measured through RoA (Table).

One of the major objectives of banking sector reforms initiated since the early 1990s has been to improve the operating efficiency and profitability of banks. A plot of CI, NIM and RoA indicates that there has been a decline in CI and NIM for the system as a whole over this period, and also an improvement in RoA, *albeit* with some variations. As per the Basel II norms, banks should strive to achieve a cost to income ratio of 40 per cent, while RoA of banks should be more than 1 per cent (RBI, 2008). In the decade of 2000s, India's performance compares favourably with these two benchmarks (Chart). Thus, the standard accounting measures/ratios suggest a trend of improvement in the efficiency of the Indian banking sector over recent years.

Table: Indicators of Profitability and Efficiency, across Select Countries

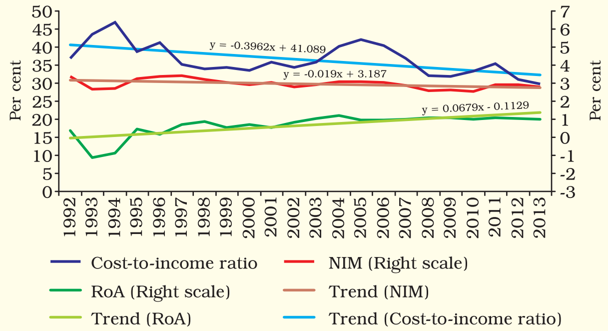
(Per cent)

Country	Cost-to-income ratio	NIM	RoA
Select advanced countries			
USA	60.59	3.64	0.83
Japan	61.65	1.01	0.28
UK	67.79	1.09	0.16
Denmark	70.32	1.12	0.07
France	75.37	0.90	0.11
Germany	83.62	0.78	0.02
Italy	89.63	1.37	-1.10
BRICS			
China	38.48	2.74	0.77
India	*44.53*	*3.02*	*0.95*
Brazil	57.28	4.97	1.21
South Africa	57.34	2.76	1.10
Russia	90.03	3.93	1.27

Note: Countries are ranked on the basis of cost-to-income ratio. Data relate to 2011. Data for India are given as reported by the World Bank to maintain comparability with other countries in terms of definitions.

Source: Bankscope, Financial Structure Database, World Bank.

Chart : Trends in Accounting Measures reflecting Efficiency



Notes: 1. NIM is defined as net interest income as per cent of average total assets; RoA is defined as net profit as per cent of average total assets and cost-to-income ratio is defined as operating costs (including provisions and contingencies) as per cent of total income.

2. Trend refers to linear time trend.

Source: *Statistical Tables relating to Banks in India, Report on Trend and Progress of Banking in India*, various issues.

References:

Chakrabarty, K. C. (2013), "Productivity Trends in Indian Banking in the Post Reform Period – Experience, Issues and Future Challenges" Address at the FIBAC, August.

Mohan, Rakesh (2005), "Indian Economy in Global Setting", *RBI Bulletin*, October.

Podpiera, A., and J. Podpiera (2005), "Deteriorating Cost Efficiency in Commercial Banks Signals an Increasing Risk of Failure" CNB Working Paper Series, December.

Reserve Bank of India (2008), *Report on Currency and Finance – 2006-08*, Mumbai.

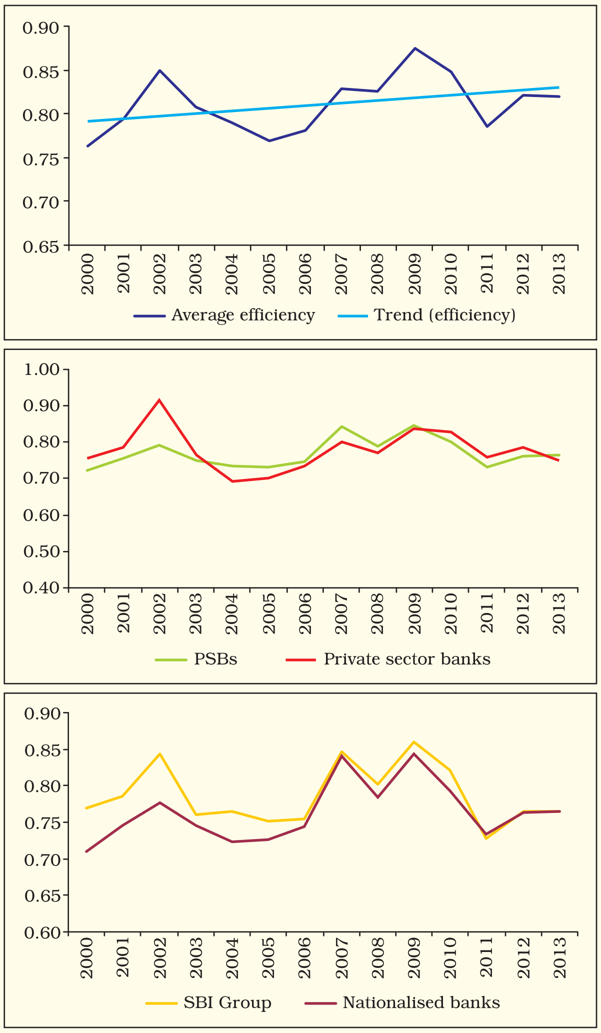
4.16 Apart from standard accounting measures, another commonly used technique to determine efficiency of the banking sector is the Data Envelopment Analysis (DEA). As per the estimates arrived at using the DEA too, there was a trend of improvement in the efficiency of the Indian banking sector during recent years (Box IV.2).

Box IV.2:
Analysis of Efficiency in the Indian Banking Sector using the Data Envelopment Analysis

The trend of improvement in efficiency in the Indian banking sector, as shown in Box IV.1 using standard accounting measures, is also corroborated by the efficiency estimates arrived at using the Data Envelopment Analysis (DEA) (Chart). Here, the DEA is based on an "intermediation" approach. Under this approach, banks are regarded as financial intermediaries that use a certain set of inputs to create a set of outputs[6]. Accordingly, inputs have been taken as deposits, borrowings and operating expenses to produce earning assets (comprising loans and investments) as outputs. The period of analysis is from 2000 to 2013 capturing the high growth phase and current phase of slowdown in macroeconomic and banking sector activity[7]. The DEA follows an input-oriented model that captures the extent of reduction in costs that is essential for achieving a given level of output[8].

For public sector banks, which account for the largest share in the Indian banking sector, the average efficiency scores were above that of private sector banks over a major part of the period under consideration. However, they lagged slightly behind the scores of private sector banks after 2010, a period that witnessed a slowdown in the growth and profitability of public sector banks. Importantly, there was much less variation across public sector banks in terms of efficiency levels as compared to private sector banks (Table). Within public sector banks, the SBI Group generally showed greater efficiency than nationalised banks. However, there were signs of convergence in the average efficiency levels of these two bank groups after 2010 (Chart).

Chart: Trends in Efficiency using DEA



Source: Efficiency scores calculated using data from *Statistical Tables relating to Banks in India*, *Report on Trend and Progress of Banking in India*, various issues.

References:

Berger, Allen N. and David Humphrey (1997), "Efficiency of Financial Institutions: International Survey and Directions for Future Research", *European Journal of Operational Research*, 98(2).

Das, Abhiman, Ashok Nag and Subhash C. Ray (2005), "Liberalisation, Ownership and Efficiency in Indian Banking: A Nonparametric Analysis", *Economic and Political Weekly*, 40(12).

Reserve Bank of India (2008), *Report on Currency and Finance – 2006-08*, Mumbai.

Table: Trends in Variation in Efficiency Levels

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Coefficient of variation (%) among public sector banks													
5.9	5.8	4.9	8.0	7.8	6.8	4.2	2.7	1.9	2.6	3.0	2.4	2.0	2.2
Coefficient of variation (%) among private sector banks													
18.0	10.4	59.6	14.0	12.3	8.7	10.2	7.3	7.6	6.1	6.1	10.0	5.6	7.3

6 See Berger and Humphrey (1997) and Das *et al* (2005).

7 In order to ensure comparability of sectoral efficiency scores across time, the sample of banks considered for this analysis includes only those banks which were in operation throughout this period.

8 Hence, if the efficiency score is 0.80, then given the available input-output combination and technology, the costs can be reduced by 20 per cent to produce the same level of output.

Table IV.10: Capital to Risk-Weighted Assets Ratio under Basel I and II – Bank Group-wise
(As at end-March)

(Per cent)

Item/ Bank Group	Basel I		Basel II	
	2012	2013	2012	2013
1	2	3	4	5
Public sector banks	**11.88**	**11.31**	**13.23**	**12.38**
Nationalised banks*	11.84	11.39	13.03	12.26
SBI Group	11.97	11.14	13.70	12.67
Private sector banks	**14.47**	**15.10**	**16.21**	**16.84**
Old private sector banks	12.47	12.33	14.12	13.73
New private sector banks	14.90	15.71	16.66	17.52
Foreign banks	**17.30**	**18.76**	**16.75**	**17.87**
Scheduled commercial banks	**12.94**	**12.77**	**14.24**	**13.88**

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

4. Soundness Indicators

Capital Adequacy

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

4.17 Continuing with past trend, the capital to risk-weighted assets ratio (CRAR) remained above the stipulated 9 per cent norm both at the system and bank group levels in 2012-13 but showed a declining trend (Table IV.10). The core CRAR (Tier I) under Basel II too showed a moderate decline (Table IV.11). The decline in capital positions at the aggregate level, however, was on account of deterioration in the capital positions of public sector banks.

Table IV.11: Component-wise Capital Adequacy of SCBs
(As at end-March)

(Amount in ₹ billion)

Item	Basel I		Basel II	
	2012	2013	2012	2013
1. Capital funds (i+ii)	**7,810**	**8,906**	**7,780**	**8,879**
i) Tier I capital	5,686	6,595	5,672	6,580
ii) Tier II capital	2,124	2,311	2,109	2,299
2. Risk-weighted assets	**60,376**	**69,742**	**54,621**	**63,969**
3. CRAR (1 as % of 2)	**12.94**	**12.77**	**14.24**	**13.88**
of which: Tier I	9.42	9.46	10.38	10.29
Tier II	3.52	3.31	3.86	3.59

Source: Based on off-site returns.

4.18 Deteriorating capital positions of public sector banks is a matter of concern given the fiscal implications of capital infusion in these banks (Table IV.12). Public sector banks remain above the statutory norm for CRAR. However, as they migrate to the advanced Basel III framework, both the quantity and quality (common equity) of capital will need to be improved, while meeting the growing credit needs of the economy and maintaining the floor for public ownership.

Non-Performing Assets

NPAs remained a pressure point for the banking sector

4.19 The gross NPA ratio at the aggregate level stood at 3.6 per cent at end-March 2013 up from 3.1 per cent at end-March 2012 (Table IV.13). The deterioration in asset quality was most perceptible for the SBI Group with its NPA ratio reaching a high of 5 per cent at end-March 2013. With the gross NPA ratio reaching about 3.6 per cent by end-March 2013, the nationalised banks were positioned next to the SBI Group.

Table IV.12: Amount of Expenditure on Recapitalisation of Public Sector Banks

Year	Recapitalisation amount (in ₹ billion)
2000-01	-
2001-02	13
2002-03	8
2003-04	-
2004-05	-
2005-06	5
2006-07	-
2007-08	100
2008-09	19
2009-10	12
2010-11	201
2011-12	120
2012-13	125
2013-14	140

- Not available/nil.
Source: Compiled from the Ministry of Finance, Union Budget documents and *Report on Currency and Finance, 2006-08*.

Table IV.13: Trends in Non-performing Assets - Bank Group-wise

(Amount in ₹ billion)

Item	**Public sector banks**	Nationalised banks*	SBI Group	**Private sector banks**	Old private sector banks	New private sector banks	**Foreign banks**	**Scheduled commercial banks**
1	**2**	3	4	**5**	6	7	**8**	**9**
Gross NPAs								
Closing balance for 2011-12	**1,178**	696	482	**187**	42	145	**62**	**1,429**
Opening balance for 2012-13	**1,178**	696	482	**187**	42	145	**62**	**1,429**
Addition during 2012-13	**1,198**	772	425	**128**	41	87	**41**	**1,368**
Recovered during 2012-13	**648**	429	219	**63**	30	33	**24**	**736**
Written off during 2012-13	**78**	17	60	**42**	1	40	**0**	**120**
Closing balance for 2012-13	**1,650**	1,022	627	**210**	52	158	**79**	**1,940**
Gross NPAs as per cent of Gross Advances**								
2011-12	**3.3**	**2.8**	**4.6**	**2.1**	**1.8**	**2.2**	**2.6**	**3.1**
2012-13	**4.1**	**3.6**	**5.0**	**2.0**	**1.9**	**2.0**	**2.9**	**3.6**
Net NPAs								
Closing balance for 2011-12	**593**	391	202	**44**	13	30	**14**	**652**
Closing balance for 2012-13	**900**	619	281	**59**	20	39	**26**	**986**
Net NPAs as per cent of Net Advances								
2011-12	**1.5**	1.4	1.8	**0.5**	0.6	0.4	**0.6**	**1.3**
2012-13	**2.0**	2.0	2.0	**0.5**	0.8	0.4	**1.0**	**1.7**

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

Source: Annual Accounts of banks and off-site returns.

4.20 There were also signs of a deepening deterioration within NPAs with an increase in the proportion of "doubtful" loan assets (Table IV.14). The increased shift of loan assets towards the "doubtful" category was most prominent for the SBI Group and nationalised banks.

Table IV.14: Classification of Loan Assets - Bank Group-wise

(As at end-March)

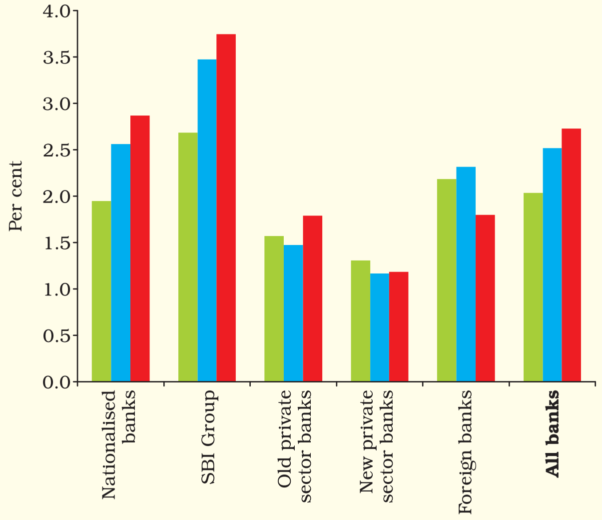
(₹ billion)

Sr. No.	Bank group	Year	Standard assets		Sub-standard assets		Doubtful assets		Loss assets	
			Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
1	2	3	4	5	6	7	8	9	10	11
1	**Public sector banks**	**2012**	**38,255**	**97.0**	**623**	**1.6**	**490**	**1.2**	**60**	**0.1**
		2013	**43,957**	**96.4**	**815**	**1.8**	**761**	**1.7**	**68**	**0.1**
1.1	Nationalised banks**	2012	26,909	**97.5**	402	**1.5**	268	**1.0**	21	**0.1**
		2013	30,396	**96.8**	558	**1.8**	424	**1.3**	35	**0.1**
1.2	SBI Group	2012	11,345	**95.9**	221	**1.9**	222	**1.9**	39	**0.3**
		2013	13,561	**95.6**	258	**1.8**	337	**2.4**	33	**0.2**
2	**Private sector banks**	**2012**	**9,629**	**98.1**	**52**	**0.5**	**104**	**1.1**	**29**	**0.3**
		2013	**11,384**	**98.2**	**64**	**0.6**	**112**	**1.0**	**32**	**0.3**
2.1	Old private sector banks	2012	2,287	**98.2**	18	**0.8**	17	**0.7**	7	**0.3**
		2013	2,679	**98.1**	23	**0.9**	23	**0.8**	6	**0.2**
2.2	New private sector banks	2012	7,342	**98.1**	34	**0.4**	87	**1.2**	22	**0.3**
		2013	8,705	**98.2**	41	**0.5**	89	**1.0**	25	**0.3**
3	**Foreign banks**	**2012**	**2,284**	**97.3**	**21**	**0.9**	**22**	**0.9**	**20**	**0.8**
		2013	**2,610**	**97.0**	**29**	**1.1**	**27**	**1.0**	**23**	**0.9**
	Scheduled commercial banks	**2012**	**50,168**	**97.2**	**695**	**1.3**	**617**	**1.2**	**109**	**0.2**
		2013	**57,951**	**96.8**	**909**	**1.5**	**900**	**1.5**	**123**	**0.2**

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

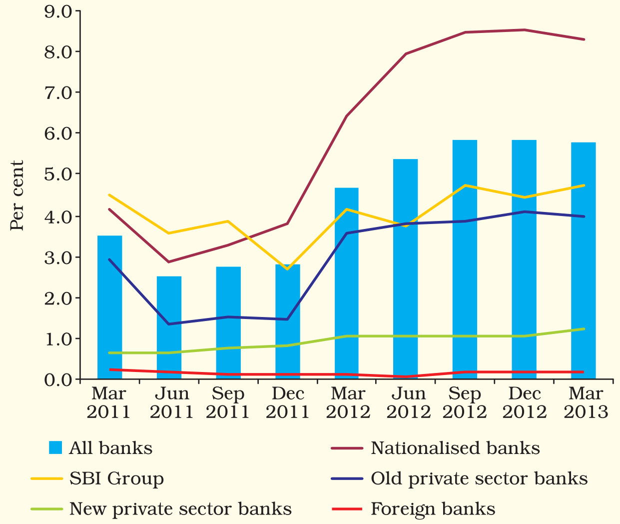
Source: Off-site returns.

Chart IV.11: Slippage Ratio, Bank Group-wise



Source: Off-site returns.

Chart IV.12: Restructured Advances as per cent of Gross Advances



Source: Off-site returns.

4.21 The slippage ratio, defined as additions to NPAs during the year as per cent of standard advances at the beginning of the year, also showed an increase during 2012-13 (Chart IV.11).

4.22 At the aggregate level, the ratio of restructured standard advances to gross advances stood at 5.8 per cent at end-March 2013. It was the highest for nationalised banks (at 8.3 per cent) followed by the SBI Group (at 4.7 per cent) (Chart IV.12).

Steep rise in the growth of restructured debt under the corporate debt restructuring (CDR) mechanism

4.23 There was a steep rise in the growth of restructured debt under the CDR mechanism in 2012-13. The CDR mechanism covers only multiple banking accounts and syndication/consortium accounts where all banking institutions together have an outstanding exposure of ₹100 million and above. In 2012-13, there was a growth of about 37 per cent in the total number of cases approved for restructuring under this mechanism and the debt thus restructured posted a growth of 52 per cent, marking a sharp increase over its corresponding growth in 2011-12 (Table IV.15). The growth in the number of cases and amount of debt receded marginally in the first quarter of 2013-14.

4.24 The sectors that witnessed the maximum distress were iron and steel, and infrastructure. At end-March 2013, iron and steel accounted for 23 per cent of the total restructured debt, while infrastructure (including power and telecommunications) held an almost comparable share of 22.7 per cent in the total restructured debt[9].

Table IV.15: Trends in Debt Restructured under the CDR Mechanism

End-Period	No. of cases approved	Aggregate debt (₹ billion)
March 2012	292 (20.7)	1,505 (35.7)
March 2013	401 (37.3)	2,290 (52.2)
June 2013	415 (34.3)	2,503 (48.6)

Note: Figures in brackets indicate percentage change over the corresponding period during the previous year.
Source: CDR Cell.

[9] The CDR Cell provides separate data for restructured debt under the categories of infrastructure, power and telecommunications. The share reported here refers to the total share of these three categories taken together.

Non-priority sector – the major contributor to rise in NPAs

4.25 Although the NPA ratio in the priority sector was consistently higher than the NPA ratio in the non-priority sector, deterioration in asset quality in 2012-13 was primarily on account of the non-priority sector (Table IV.16; Chart IV.13).

4.26 Industry, which accounts for a little less than half the total credit of domestic banks, has shown a steady deterioration in asset quality in the recent years, particularly in 2012-13[10]. The NPA ratio for the infrastructural sector, which accounted for about one-third of the total industrial credit, showed a rising trend during this period (Chart IV.14). By contrast, there was a falling trend in the NPA ratio for the retail sector.

SARFAESI Act remained the most important channel for NPA recovery

4.27 In 2012-13, among the three channels for NPA recovery, *viz.*, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act), Debt Recovery Tribunals (DRT) and Lok

Table IV.16: Sector-wise NPAs of Domestic Banks*

(Amount in ₹ billion)

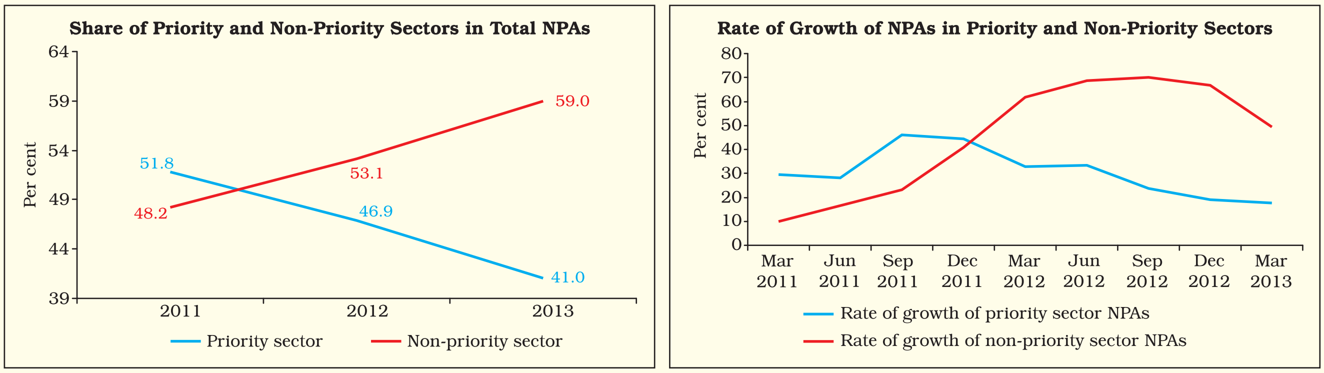
Bank group	Priority sector		*Of which*						Non-priority sector		Total NPAs	
			Agriculture		Micro and Small Enterprises		Others					
	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent
Public sector banks												
2012	**562**	**50.0**	**227**	**20.2**	**174**	**15.5**	**161**	**14.3**	**563**	**50.0**	**1,125**	**100.0**
2013	**669**	**42.9**	**280**	**18.0**	**284**	**18.2**	**105**	**6.7**	**890**	**57.1**	**1,559**	**100.0**
Nationalised banks**												
2012	323	48.4	129	19.3	134	20.0	60	9.1	345	51.6	668	100.0
2013	405	42.2	156	16.3	178	18.6	70	7.3	554	57.8	959	100.0
SBI Group												
2012	239	52.3	98	21.4	41	9.0	100	22.0	218	47.7	457	100.0
2013	264	44.1	124	20.7	106	17.6	35	5.8	335	55.9	599	100.0
Private sector banks												
2012	**51**	**27.9**	**22**	**11.8**	**17**	**9.4**	**12**	**6.7**	**132**	**72.1**	**183**	**100.0**
2013	**52**	**26.0**	**22**	**10.9**	**20**	**9.9**	**11**	**5.3**	**148**	**74.0**	**200**	**100.0**
Old private sector banks												
2012	18	42.9	6	13.4	7	16.8	5	12.8	24	57.1	42	100.0
2013	19	36.8	6	12.2	7	13.9	6	10.7	33	63.2	52	100.0
New private sector banks												
2012	33	23.4	16	11.3	10	7.2	7	4.9	108	76.6	141	100.0
2013	33	22.2	15	10.4	12	8.5	5	3.3	115	77.8	148	100.0
All SCBs												
2012	**613**	**46.9**	**249**	**19.0**	**191**	**14.7**	**173**	**13.2**	**695**	**53.1**	**1,308**	**100.0**
2013	**721**	**41.0**	**302**	**17.2**	**304**	**17.3**	**116**	**6.5**	**1,038**	**59.0**	**1,759**	**100.0**

Notes: 1. * : Excluding foreign banks.
2. Amt. – Amount; Per cent – Per cent of total NPAs.
3. **- Includes IDBI Bank Ltd.
4. Constituent items may not add up to the total due to rounding off.

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

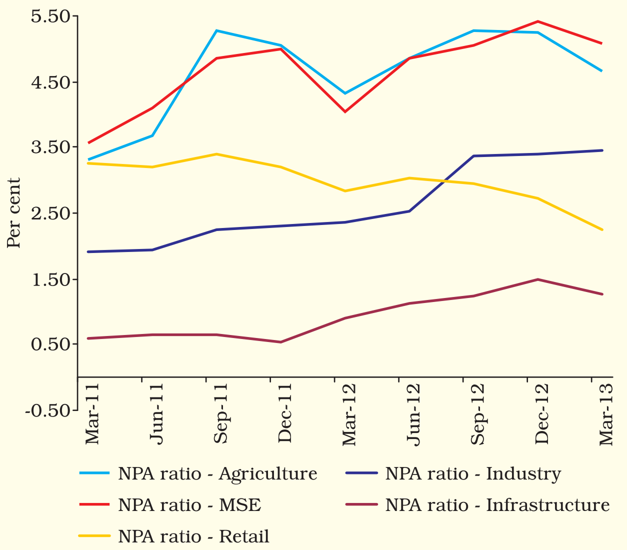
[10] Figures for gross NPAs and advances for industry and infrastructure are not strictly comparable before and after September 2012, as a new format of the return for capturing industry-wise exposure in asset quality was introduced in September 2012. However, even after accounting for this change, the trend of increase in the NPA ratio of industry and infrastructure before and after September 2012 was still discernible.

Chart IV.13: Trends in Priority and Non-Priority Sector NPAs



Source: Off-site returns for domestic banks.

Chart IV.14: Gross NPA Ratios for Select Sectors



Source: Off-site returns for domestic banks.

Adalats, the largest amount was recovered through the SARFAESI Act. NPAs recovered through this Act accounted for about 80 per cent of the total amount of NPAs. However, in terms of the total number of cases referred, Lok Adalats dominated with a share of 80 per cent; this was because these courts dealt with a large number of cases involving smaller amounts having an individual ceiling of ₹20,00,000 (Table IV.17).

Banks remained the most important subscribers of securitised assets of SCs/RCs but their share was on a decline

4.28 Of the total amount of assets securitised by Securitisation/Reconstruction Companies (SCs/RCs), the largest amount was subscribed to by banks. However, their share has been on a

Table IV.17: NPAs of SCBs Recovered through Various Channels

(Amount in ₹ billion)

Recovery channel	2011-12				2012-13			
	No. of cases referred	Amount involved	Amount recovered*	Col. (4) as % of Col. (3)	No. of cases referred	Amount involved	Amount recovered*	Col.(8) as % of Col.(7)
1	2	3	4	5	6	7	8	9
i) Lok Adalats	4,76,073	17	2	11.8	8,40,691	66	4	6.1
ii) DRTs	13,365	241	41	17.0	13,408	310	44	14.0
iii) SARFAESI Act	1,40,991	353	101	28.6	1,90,537	681	185	27.1
Total	**6,30,429**	**611**	**144**	**23.6**	**10,44,636**	**1,058**	**232**	**21.9**

Notes: 1. *: Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during earlier years.
2. DRTs- Debt Recovery Tribunals.

Table IV.18: Details of Financial Assets Securitised by SCs/RCs

(Amount in ₹ billion)

	Item	End-June 2012	End-June 2013
	1	2	3
1	Book value of assets acquired	805	885
2	Security Receipts issued by SCs/RCs	167	189
3	Security Receipts subscribed to by		
	(a) Banks	116	126
	(b) SCs/RCs	36	45
	(c) FIIs	1	1
	(d) Others (Qualified Institutional Buyers)	15	17
4	Amount of Security Receipts completely redeemed	82	101

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

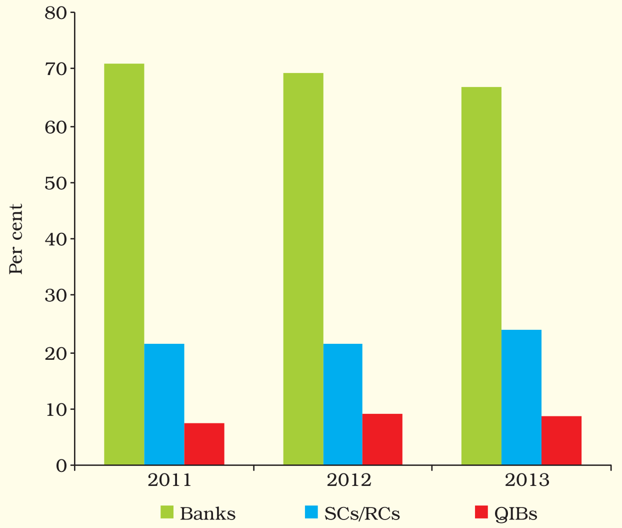
continued decline in recent years (Table IV.18; Chart IV.15).

Provisioning

Marginal decline in the provisioning coverage ratio at the aggregate level

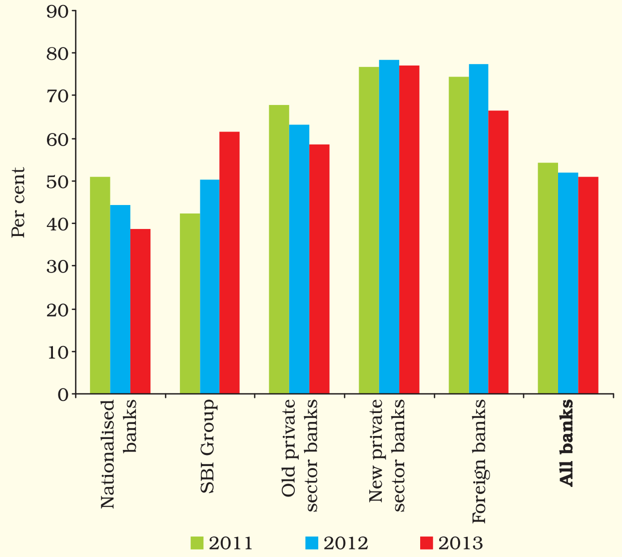
4.29 Although there was a rise in the gross NPA ratio in 2012-13, the provisioning coverage ratio (PCR), defined as provisions for credit loss as per cent of gross NPAs, showed a marginal decline during the year at the aggregate level. The

Chart IV.15: Share of Institutions in Total Securitised Receipts of SCs/RCs



Note: QIBs - Qualified Institutional Buyers.

Chart IV.16: Provisioning Coverage Ratio



Source: Off-site returns.

decline was most perceptible for nationalised banks (Chart IV.16). As regards SBI Group, however, there has been a steady improvement in PCR since 2011. This can be regarded as a positive development for this bank group against the backdrop of its rising NPA ratio during this period.

5. Sectoral Distribution of Bank Credit

Deceleration in growth of credit to all productive sectors

4.30 The year 2012-13 was marked by a slowdown in the growth of credit to all productive sectors, *viz.*, agriculture, industry and services (Table IV.19). The slowdown was the sharpest for agriculture and allied activities. There was a slowdown in the growth of credit to the infrastructural sector within industry. The slowdown in credit to NBFCs – accounting for about one-fifth of the total credit to the services sector – was an important reason behind an overall slowdown in the growth of services sector credit (Chart IV.17). By contrast, retail loans was the only segment, which maintained its growth in 2012-13.

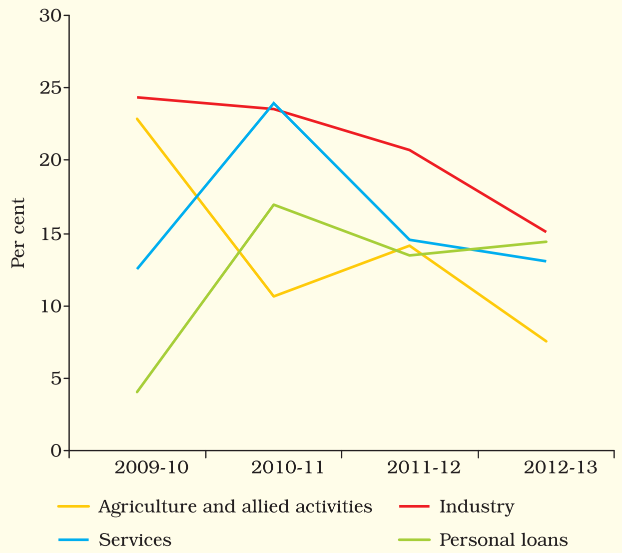
Table IV.19: Sectoral Deployment of Gross Bank Credit

(Amount in ₹ billion)

Sr No.	Sector	Outstanding as on		Percentage Variation	
		March 2012	March 2013	2011-12	2012-13
1	**Agriculture and Allied Activities**	**5,484**	**5,899**	**14.1**	**7.6**
2	**Industry,** *of which*	**19,374**	**22,302**	**20.7**	**15.1**
	2.1 Infrastructure	6,300	7,297	20.8	15.8
	2.2 Micro and Small Industries	2,363	2,843	12.4	20.3
3	**Services,** *of which*	**10,166**	**11,486**	**14.5**	**13.0**
	3.1 Trade	2,245	2,760	21.3	22.9
	3.2 Commercial Real Estate	1,126	1,261	15.7	12.0
	3.3 Tourism, Hotels & Restaurants	323	354	16.7	9.9
	3.4 Computer Software	143	169	3.0	18.4
	3.5 Non-Banking Financial Companies (NBFCs)	2,278	2,570	24.0	12.8
4	**Personal Loans,** *of which*	**7,873**	**9,009**	**13.4**	**14.4**
	4.1 Credit Card Outstanding	204	249	12.9	21.9
	4.2 Education	498	550	16.6	10.4
	4.3 Housing (Including Priority Sector Housing)	4,013	4,600	12.6	14.6
	4.4 Advances against Fixed Deposits (Including FCNR(B), NRNR Deposits *etc.*)	569	611	15.4	7.3
5	**Non-food Credit (1 to 4)**	**42,897**	**48,696**	**17.0**	**13.5**
6	**Gross Bank Credit**	**43,714**	**49,642**	**17.1**	**13.6**

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.
Source: Sectoral and Industrial Deployment of Bank Credit Return (Monthly).

Chart IV.17: Growth in Credit to Major Sectors



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

Priority Sector Credit

Rise in growth of priority sector credit in 2012-13

4.31 There was a rise in the growth of priority sector credit in 2012-13 against a drop in overall credit growth during the year. The growth in priority sector credit, however, remained lower than the growth in overall credit (Chart IV.18)[11].

At the aggregate level, share of credit to priority sectors was lower than the target

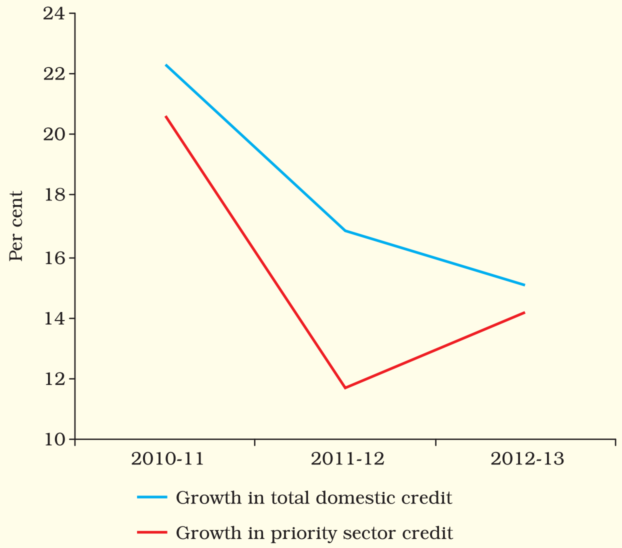
4.32 In 2012-13, credit to priority sectors by public and private sector banks was 36.3 per cent and 37.5 per cent (of Adjusted Net Bank Credit/ Credit equivalent of Off-Balance Sheet Exposure, whichever is higher) respectively, indicating a shortfall against the overall target of 40 per cent (Table IV.20).

Banks played a lead role in the distribution of Kisan Credit Cards (KCCs)

4.33 With a share of about 63 per cent in the total KCCs issued at end-March 2013, commercial banks were leading in the distribution of these cards. Co-operatives had a share of about 21 per cent in the total cards issued, with RRBs accounting for the remaining 16 per cent (Chart IV.19; Appendix Table IV.3). Over the years,

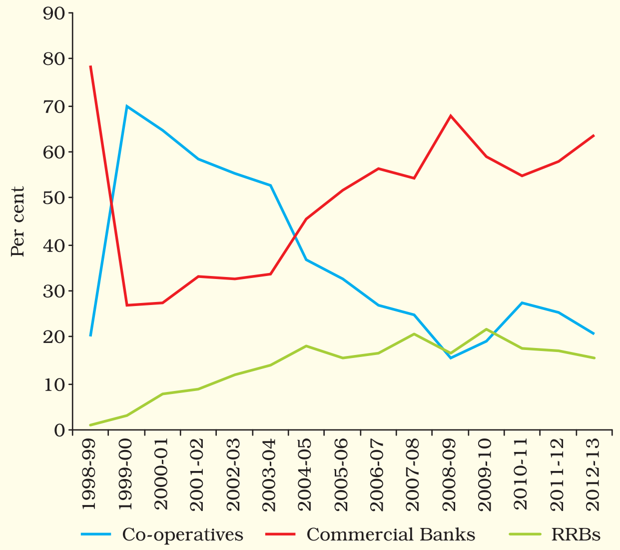
[11] These figures are taken from the off-site returns of banks based on their domestic operations. Hence, the growth in aggregate credit reported here may not match with the growth in aggregate credit reported earlier based on data derived from the balance sheets of banks.

Chart IV.18: Growth in Credit to Priority Sectors



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

Chart IV.19: Shares of Institutions in Total KCCs Issued



Source: NABARD and Returns from commercial banks.

the shares of commercial banks and RRBs have witnessed an increase, while the share of co-operatives has concomitantly declined.

Retail Loans

Retail loans maintained their growth even in a period of slowdown in overall credit growth

4.34 In 2012-13, the retail loans portfolio continued to grow in double digits as in the previous year (Table IV.21). It is noteworthy that even in a period of overall slowdown in credit growth, retail credit maintained its growth.

4.35 Growth in retail loans was maintained in 2012-13 on account of a sustained double digit growth in housing loans – the largest segment of retail loans, and a rising growth in auto loans – the third major segment of retail loans. The increase in the growth in credit card receivables too contributed to the overall growth in retail loans,

Table IV.20: Priority Sector Lending by Banks
(As on March 31, 2013)

(Amount in ₹ billion)

Item	Public Sector Banks		Private Sector Banks		Foreign Banks	
	Amount Outstanding	Per cent of ANBC/OBE	Amount Outstanding	Per cent of ANBC/OBE	Amount Outstanding	Per cent of ANBC/OBE
1	2	3	4	5	6	7
Total Priority Sector Advances	**12,836**	**36.3**	**3,274**	**37.5**	**1,033**	**35.2**
of which						
Agriculture	5,306	15.0	1,119	12.8	72	2.4
Weaker Sections	3,473	9.8	505	5.7	55	1.9
Micro and Small Enterprises	4,784	13.5	1,417	16.2	283	9.6

Notes: 1. Data are provisional.
2. As on March 31, 2013, priority sector lending targets for domestic scheduled commercial banks/foreign banks with 20 branches or more is set at 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher as on March 31 of the preceding year. The target of 40 per cent for foreign banks with 20 branches or more is to be achieved by March 2018. For foreign banks having less than 20 branches, the target is set at 32 per cent of ANBC or OBE, whichever is higher, as on March 31 of the preceding year.

Table IV.21: Retail Loan Portfolio of Banks

(Amount in ₹ billion)

Sr. No	Item	Amount Outstanding		Percentage Variation	
		2012	2013	2011-12	2012-13
1		2	3	4	5
1	Housing Loans	4,118	4,754	14.2	15.4
2	Consumer Durables	27	34	-41.0	25.3
3	Credit Card Receivables	223	268	19.6	20.1
4	Auto Loans	1,162	1,421	16.0	22.3
5	Other Personal Loans	3,069	3,618	24.3	17.9
Total Retail Loans (1 to 5)		**8,599** (18.4)	**10,095** (18.8)	**17.6**	**17.4**

Notes: 1. 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.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source*:* Based on off-site returns (domestic).

although their share in total retail loans was less than 4 per cent.

Credit to Sensitive Sectors

Credit to sensitive sectors picked up even in a period of slowdown in overall credit growth

4.36 In the past, growth in credit to sensitive sectors – namely, real estate, capital market and commodities – generally followed a pattern similar to the growth in overall credit (Appendix Table IV.4). However, in 2012-13, growth in credit to sensitive sectors almost doubled primarily on account of credit to real estate. This expansion needs to be seen in light of the steep rise in housing prices in all Tier I cities and several Tier II cities in 2012-13[12].

6. Operations of Scheduled Commercial Banks in the Capital Market

Resources raised by banks through public issues remained subdued in 2012-13

4.37 Reflecting a subdued performance of the secondary market and a lower credit off-take, banks raised only about ₹3 billion through public issues in 2012-13 (Table IV.22).

4.38 Banks tend to raise a much larger amount through private placements than public issues; 2012-13 was no exception to this trend (Table IV.23). On account of continued uncertainty in global financial markets, banks did not mobilise resources through American/Global Depository Receipts (ADR/GDR) issues in 2012-13.

BSE Bankex outperformed BSE Sensex over a major part of 2012-13

4.39 As in the past, BSE Bankex outperformed BSE Sensex in 2012-13 reflecting a relatively better performance of bank stocks. There was a steady increase in Bankex over a major part of the year except during the first quarter, partly reflecting strong FII inflows and the use of unconventional monetary policies by the central banks in major advanced economies (Chart IV.20). However, in the last quarter of the year, there was a downtrend in Bankex resulting in its convergence with the BSE Sensex owing to increased uncertainties in global financial markets and a slowing down of the domestic economy.

Table IV.22: Public Issues by the Banking Sector

(₹ billion)

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)**
2011-12	-	-	-	-	-	-	-
2012-13	-	-	3	-	3	-	**3**

-: Nil/Negligible.
Source: SEBI.

[12] See NHB Residex quarterly data for 2012-13 at <www.nhb.org.in>.

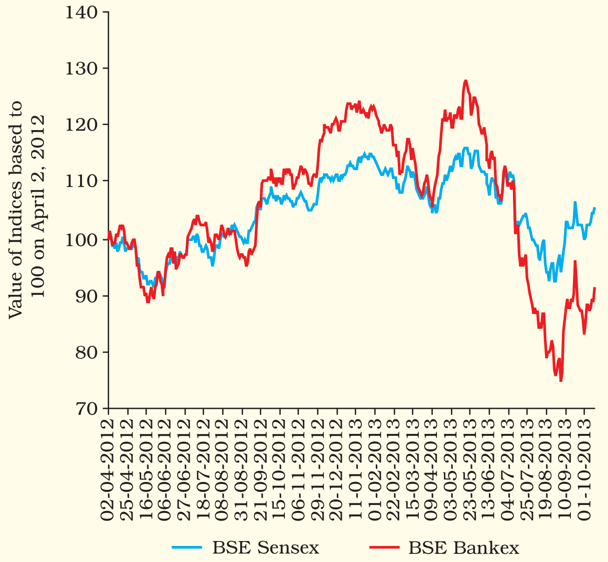
Table IV.23: Resources Raised by Banks through Private Placements

(Amount in ₹ billion)

Category	2011-12		2012-13	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
Private Sector Banks	11	62	21	171
Public Sector Banks	9	44	12	91
Total	**20**	**106**	**33**	**262**

Note: Data for 2012-13 are provisional.
Source: Merchant Bankers and Financial Institutions.

Chart IV.20: Relative Performance of Bankex and Sensex in 2012-13



4.40 The buoyancy in bank stocks during 2012-13 was primarily attributable to the stocks of private sector banks as compared to the stocks of public sector banks (Appendix Table IV.5; Chart IV.21).

4.41 Along with the return on Bankex, its variation was also much higher than that of BSE Sensex in 2012-13. This reflected higher returns but greater risks associated with trading of bank stocks (Table IV.24).

7. Ownership Pattern in Scheduled Commercial Banks

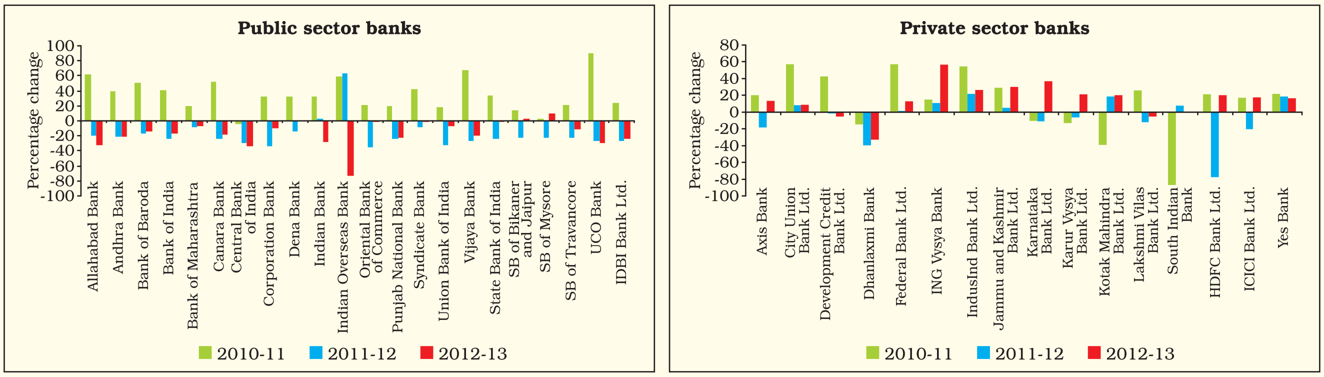
Banking sector predominantly public in nature

4.42 The public sector accounted for about 73 per cent of the total assets in the Indian banking sector at end-March 2013. In fact, there has been a trend of increase in the share of public sector banks in total assets of the banking sector over recent years (Chart IV.22).

The degree of concentration in the banking sector remains low

4.43 Notwithstanding the predominance of public ownership, the Indian banking sector is marked by a fairly low degree of concentration unlike what is observed in certain other countries

Chart IV.21: Percentage Change in Stock Prices of Banks



Note: There was negligible variation in the closing stock prices of South Indian Bank and Dena Bank between 2011-12 and 2012-13.
Source: BSE.

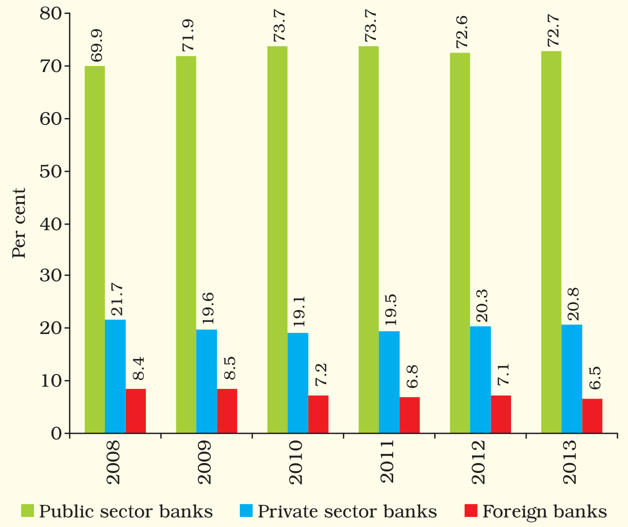
Table IV.24: Risk-Return Performance, Turnover and Capitalisation of Bank Stocks

Item	2010-11	2011-12	2012-13	2013-14[#]
1	2	3	4	5
1. Return*				
BSE Bankex	24.9	-11.6	10.9	-15.9
BSE Sensex	10.9	-10.5	8.2	2.9
2. Volatility@				
BSE Bankex	10.3	9.7	9.3	11.0
BSE Sensex	6.3	6.2	6.4	3.3
3. Share of turnover of bank stocks in total turnover	**9.5**	**11.4**	**13.3**	**13.0$**
4. Share of capitalisation of bank stocks in total market capitalisation **	**11.9**	**11.5**	**12.2**	**12.2$**

Notes: 1. * : Percentage variations in indices on a point-to-point basis.
2. @ : Defined as coefficient of variation.
3. **: As at end-period.
4. #: April-September 2013; $: April-June 2013.

Source: Bloomberg and BSE.

Chart IV.22: Share of Public, Private and Foreign Banks in Total Assets of the Banking Sector



Source: Annual Accounts of banks.

which have a dominant public banking system like China. Moreover, the extent of concentration has been on a steady fall in recent years (Box IV.3).

Box IV.3: Asset Concentration within the Indian Banking Sector

Competition in any sector, among other factors such as entry/exit barriers, and price/product differentiation, also depends on the degree of concentration in the sector. Literature and associated empirical evidence illustrates both advantages and disadvantages of concentration in the banking industry[13]. As regards advantages, it is argued that (a) the impact of systemic crisis is expected to be less on more concentrated banking sectors; (b) it is often easier to supervise few large players than a large number of small players. However, on the flip side, (a) high concentration is often associated with higher interest rates resulting from a collusion among lenders; (b) the risks of too-big-to-fail are more acute in a highly concentrated banking sector; (c) it is observed that more competitive the banking sector, the less is the probability that the country will suffer from a systemic banking crisis (*ibid.*).

Banking sectors in most advanced economies except the US are marked by a high degree of concentration (Table 1). It is interesting to note that the Chinese banking sector, known to be predominantly public in nature, is marked by a relatively high degree of concentration. By contrast, despite the predominance of public ownership, the degree of concentration in the Indian banking sector has been at a fairly low level.

Table 1: Degree of Concentration in the Banking Sector

Country	Concentration measure	Country	Concentration measure
Germany	78.1	China	51.5
South Africa	77.8	Japan	44.6
Australia	69.0	Argentina	35.6
France	62.7	USA	35.4
Brazil	62.6	Russia	31.7
UK	57.8	*India*	*29.4*

Note: Concentration measure refers to the share of top three banks in total banking assets. Countries are ranked in a descending order according to the measure. Data relate to 2011.

Source: Financial Structure Database, World Bank.

An analysis of the mergers and acquisitions within the Indian banking sector since the initiation of economic reforms suggests that consolidation gained momentum in the decade of 2000s. Of the 28 mergers that took place since 1989-90, 16 mergers took place during the 2000s[14].

(Contd...)

[13] See Beck *et al* (2003).

[14] Information compiled from *Report on Currency and Finance – 2006-08* and various issues of the *Report on Trend and Progress of Banking in India*.

(...Concld.)

However, the extent of concentration in the Indian banking sector, which has been moderate, was in fact on a decline during this decade (Table 2). This implies that the period of increased consolidation in the Indian banking sector did not witness a rise in the concentration of banking sector assets.

Table 2: Concentration Measures relating to the Indian Commercial Banking System

Measure	2000	2006	2013
CR_3	33.9	32.0	27.7
CR_5	43.7	40.8	37.4
LR	0.724	0.683	0.603
HI (Normalised)	0.065	0.045	0.040

Notes: CR_3/CR_5 refer to the share of top 3/5 commercial banks in total assets of the banking sector. LR refers to the concentration coefficient associated with the Lorenz curve and is worked out using the formula: $1 - \sum (X_{k+1} - X_k)(Y_{k+1} + Y_k)$, where k starts from 0 and ends at n-1; X refers to cumulative proportion of entities; Y refers to cumulative proportion of share in assets. The coefficient ranges between 0 and 1, with 0 indicating perfectly equal shares and 1 indicating monopoly.

HI refers to normalised Herfindahl Index defined as (H-1/N)/(1-1/N), where N refers to total number of banks and H refers to the usual Herfindahl Index defined as $H = \sum_{i=1}^{N} S_i^2$ where S_i refers to the share of the 'i'th bank in total assets of the banking sector. HI ranges from 0 to 1.

Source: Calculated based on *Statistical Tables relating to Banks in India.*

Reference:

Beck, T., Asli Demirgüç-Kunt and Ross Levine (2003), "Bank Concentration and Crises", NBER Working Paper No. 9921.

Bikker, J.A. and K. Haaf (2000), "Measures of Competition and Concentration in the Banking Industry: A Review of Literature", De Nederlandsche Bank, Research Series Supervision No. 7.

Within public sector banks, gradual shift towards greater public shareholding

4.44 Within public sector banks, there has been a gradual shift towards greater public shareholding in recent years. Between 2011 and 2013, there was a fall in the percentage of banks having shares close to the statutory floor of 51 per cent. By contrast, there was a rise in the share of public sector banks having public shareholding far above the statutory floor (ranging above 81 per cent) (Table IV.25 read with Appendix Table IV.6). As discussed earlier, the government provided increased capital support to public sector banks in recent years (read Table IV.12).

Table IV.25: Number of Public Sector Banks classified by Percentage of Public Shareholding

Class of shareholding	2011	2012	2013
1	2	3	4
More than 51 and up to 61 per cent	10 (47.6)	9 (42.9)	9 (42.9)
More than 61 and up to 71 per cent	6 (28.6)	7 (33.3)	5 (23.8)
More than 71 and up to 81 per cent	3 (14.3)	4 (19.0)	4 (19.0)
More than 81 per cent	2 (9.5)	1 (4.8)	3 (14.3)
Total	**21** **(100.0)**	**21** **(100.0)**	**21** **(100.0)**

Notes: 1. Figures in brackets indicate percentage share in total.
2. Including 19 nationalised banks, SBI and IDBI Bank Ltd.

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

Growth of Indian banks abroad outpacing the growth of foreign banks in India

4.45 While the number of branches of foreign banks operating in India exceeds the number of Indian bank branches abroad, the growth in the latter has been more than the former in the recent years. As at end-March 2013, there were 43 foreign banks operating in India with 331 branches. As against this, there were 24 Indian banks with 171 branches abroad (Table IV.26; Chart IV.23).

4.46 Although Indian banks had a subsidiarised presence abroad, foreign banks operated only as branches with no subsidiaries as at end-March

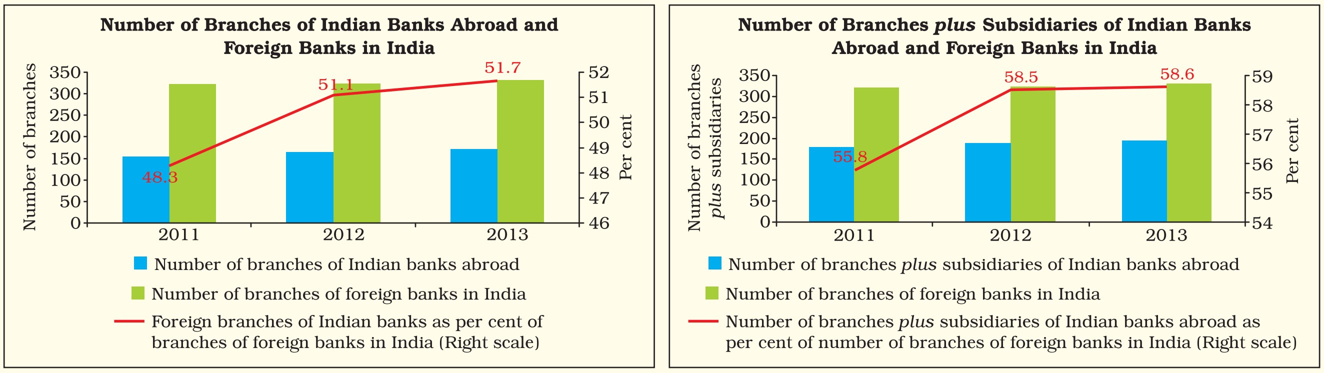
Table IV.26: Overseas Operations of Indian Banks
(As at end-March)

Name of the Bank			Branch		Subsidiary		Representative Office		Joint Venture Bank		Other Offices*		**Total**	
			2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	**2012**	**2013**
1			2	3	4	5	6	7	8	9	10	11	12	13
I.	**Public Sector Banks**		**150**	**155**	**21**	**20**	**38**	**36**	**6**	**7**	**22**	**29**	**237**	**247**
	1	Allahabad Bank	1	1	0	0	1	1	0	0	0	0	**2**	**2**
	2	Andhra Bank	0	0	0	0	2	2	0	0	0	0	**2**	**2**
	3	Bank of Baroda	47	51	9	9	2	1	1	2	8	9	**67**	**72**
	4	Bank of India	24	25	4	4	5	4	0	0	0	0	**33**	**33**
	5	Canara Bank	5	5	0	0	1	1	0	0	0	0	**6**	**6**
	6	Central Bank of India	0	0	0	0	0	1	0	0	0	0	**0**	**1**
	7	Corporation Bank	0	0	0	0	2	2	0	0	0	0	**2**	**2**
	8	Indian Bank	4	4	0	0	0	0	0	0	0	0	**4**	**4**
	9	Indian Overseas Bank	6	6	0	0	3	3	0	0	3	3	**12**	**12**
	10	IDBI Bank Ltd.	1	1	0	0	0	0	0	0	0	0	**1**	**1**
	11	Punjab National Bank	4	4	3	3	5	5	1	1	0	0	**13**	**13**
	12	State Bank of India	52	51	5	4	8	7	4	4	11	17	**80**	**83**
	13	State Bank of Travancore	0	0	0	0	1	1	0	0	0	0	**1**	**1**
	14	Syndicate Bank	1	1	0	0	0	0	0	0	0	0	**1**	**1**
	15	UCO Bank	4	4	0	0	1	0	0	0	0	0	**5**	**4**
	16	Union Bank	1	2	0	0	5	5	0	0	0	0	**6**	**7**
	17	United Bank of India	0	0	0	0	1	2	0	0	0	0	**1**	**2**
	18	Oriental Bank of Commerce	0	0	0	0	1	1	0	0	0	0	**1**	**1**
II.	**Private Sector Banks**		**15**	**16**	**3**	**3**	**17**	**18**	**0**	**0**	**0**	**0**	**35**	**37**
	19	Axis Bank	4	4	0	0	3	3	0	0	0	0	**7**	**7**
	20	HDFC Bank Ltd.	2	2	0	0	2	3	0	0	0	0	**4**	**5**
	21	ICICI Bank Ltd.	9	10	3	3	8	8	0	0	0	0	**20**	**21**
	22	IndusInd Bank Ltd.	0	0	0	0	2	2	0	0	0	0	**2**	**2**
	23	Federal Bank Ltd.	0	0	0	0	1	1	0	0	0	0	**1**	**1**
	24	Kotak Mahindra Bank Ltd.	0	0	0	0	1	1	0	0	0	0	**1**	**1**
All Banks			**165**	**171**	**24**	**23**	**55**	**54**	**6**	**7**	**22**	**29**	**272**	**284**

* Other Offices include marketing/sub-office, remittance centres, *etc*.
Source: Reserve Bank.

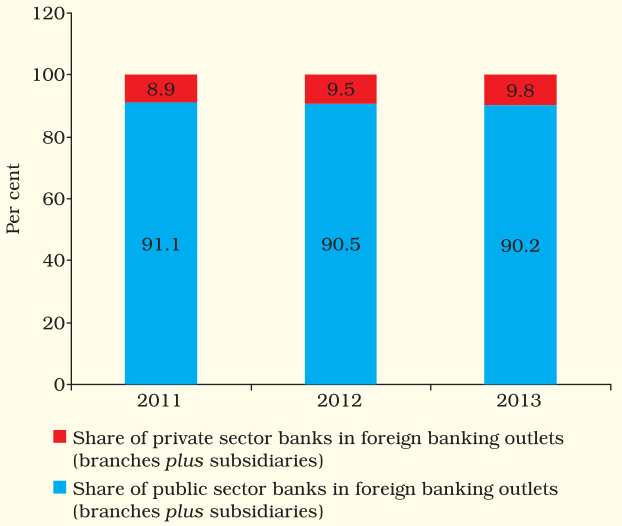
2013. Taking into account the number of branches *plus* subsidiaries, the presence of Indian banks in foreign markets has been growing at a much faster pace than the presence of foreign banks in India (Chart IV.23). Moreover, the expansion of overseas operations of Indian

Chart IV.23: Comparison of Indian Banking Outlets Abroad and Banking Outlets of Foreign Banks in India



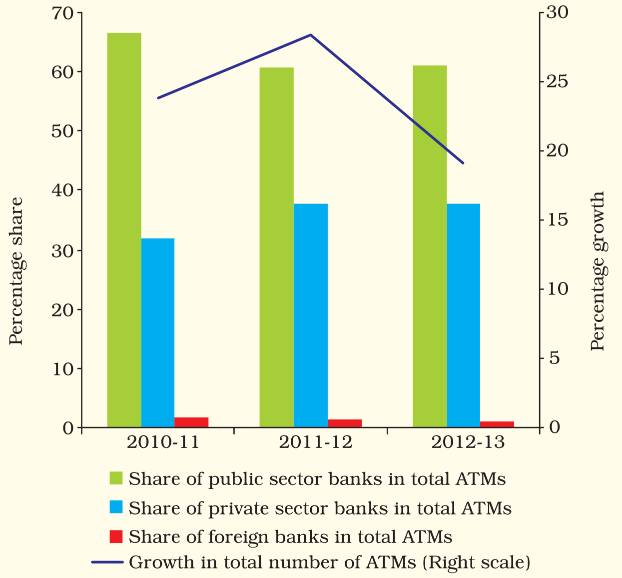
Source: Reserve Bank.

Chart IV.24: Composition of Foreign Banking Outlets (Branches *plus* Subsidiaries)



Source: Reserve Bank.

Chart IV.25: Growth and Composition of ATMs



private sector banks has been relatively faster (Chart IV.24).

9. Technological Developments in Scheduled Commercial Banks

Double digit growth in ATMs driven mainly by private sector banks

4.47 The penetration of ATMs across the country increased in 2012-13 with the total number of ATMs crossing 1,00,000, clocking a double digit growth during the year (Table IV.27; Chart IV.25). This growth was driven primarily by private sector banks, with their share in total ATMs picking up rapidly to about 38 per cent.

Table IV.27: ATMs of Scheduled Commercial Banks
(As at end-March 2013)

Sr. No	Bank group	On-site ATMs	Off-site ATMs	Total number of ATMs
1	2	3	4	5
I	**Public sector banks**	**40,241**	**29,411**	**69,652**
	1.1 Nationalised banks*	20,658	14,701	35,359
	1.2 SBI Group	18,708	13,883	32,591
II	**Private sector banks**	**15,236**	**27,865**	**43,101**
	2.1 Old private sector banks	4,054	3,512	7,566
	2.2 New private sector banks	11,182	24,353	35,535
III	**Foreign banks**	**283**	**978**	**1,261**
IV	**All SCBs (I+II+III)**	**55,760**	**58,254**	**1,14,014**

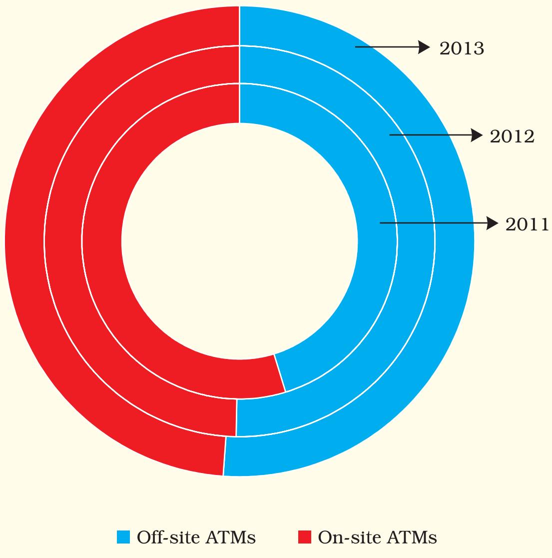
Note: *: Excluding IDBI Bank Ltd.

Faster rise in off-site ATMs, more spurt expected as White Label ATMs take off

4.48 While ATMs are an innovative means to provide basic banking services to customers in a much faster and cost-efficient manner, within these, off-site ATMs are particularly more cost-efficient since they operate without the paraphernalia of a bank branch. Over the years, the relative growth in off-site ATMs has been much more than that of on-site ATMs. As a result, by 2012-13, off-site ATMs accounted for more than half the total ATMs in the country (Appendix Table IV.7; Chart IV.26).

4.49 With the policy initiative to enable non-bank entities to set up and operate ATMs – White Label ATMs (WLAs) – the proportion of off-site ATMs is likely to grow further. So far, of the 18 entities that have approached the Reserve Bank for setting up WLAs, 12 have been granted in-principle authorisation and of these, one has also been issued the Certificate of Authorisation.

Chart IV.26: Percentage Share of Off-site and On-site ATMs



Accordingly, the first WLA became operational in Chandrapada (Tier V town) in Thane district, Maharashtra in June 2013.

Increased efficiency of cheque-based transactions under the Cheque Truncation System

4.50 The Cheque Truncation System (CTS) is a step towards improving the pace of clearance without involving end-to-end physical movement of cheques. Following the introduction of this system, there has been a quantum jump in the number of cheques processed through this system, particularly at New Delhi and Chennai, reflecting the growing acceptability of the system (Table IV.28). As the coverage of CTS is further widened by bringing more centres/areas under its

Table IV.28: Progress under Cheque Truncation System

Volume (in million)		Value (in ₹ billion)	
2011-12	2012-13	2011-12	2012-13
180	275 (52.6)	15,104	21,732 (43.9)

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

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

(in million)

Sr. no	Bank group	Outstanding Number of Credit Cards		Outstanding Number of Debit Cards	
		2012	2013	2012	2013
1		2	3	4	5
I	**Public sector banks**	**3.1**	**3.5**	**214.6**	**260.6**
	1.1 Nationalised banks*	0.8	0.9	97.7	118.6
	1.2 SBI Group	2.2	2.6	112.0	136.4
II	**Private sector banks**	**9.7**	**11.1**	**60.0**	**67.3**
	2.1 Old private sector banks	0.04	0.04	13.9	15.4
	2.2 New private sector banks	9.6	11.1	46.0	51.9
III	**Foreign banks**	**4.9**	**5.0**	**3.8**	**3.3**
IV	**All SCBs (I+II+III)**	**17.7**	**19.5**	**278.4**	**331.2**

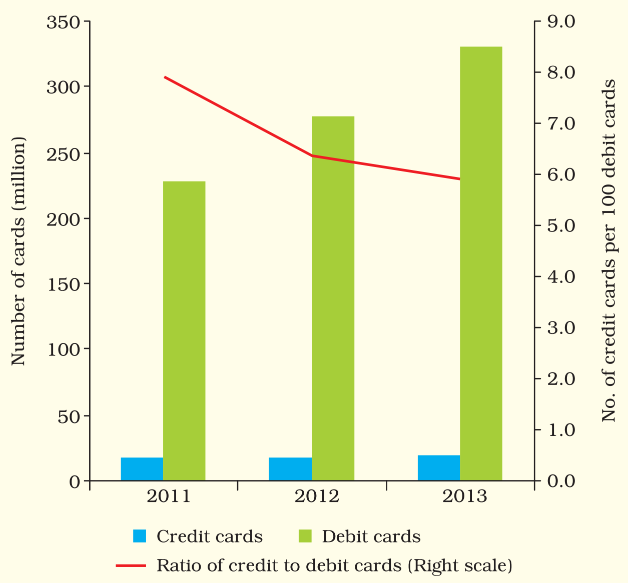
Notes: 1. *: Excluding IDBI Bank Ltd.
2. Figures may not add up to the total due to rounding off.

umbrella, the volumes will grow further spreading the benefits of this system to a larger number of customers.

Debit cards are a more popular mode of electronic money than credit cards

4.51 So far, debit cards have been a more popular mode of electronic money than credit cards in India (Table IV.29; Chart IV.27). While public sector banks have been frontrunners in

Chart IV.27: Progress of Debit and Credit Cards



issuing debit cards, new private sector banks continue to lead in the number of credit cards issued.

Sustained growth in electronic clearance and payments

4.52 There has been sustained growth in both the volume and value of all types of electronic transactions of SCBs in general and debit transactions in particular in recent years, a trend that continued in 2012-13 (Table IV.30). Both RTGS (meant for large value payments system, processing both customer and inter-bank transactions of ₹2,00,000 and above) and NEFT (a retail system) consistently posted double digit growth in terms of the volume of transactions routed through these systems.

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

(Volume in million, Value in ₹ billion)

Type of transaction	Volume		% change	Value		% change
	2011-12	2012-13	2012-13	2011-12	2012-13	2012-13
ECS Credit	121.5	122.2	0.6	1,838	1,771	-3.6
ECS Debit	165	177	7.2	834	1,083	29.9
Credit cards	320	397	23.9	966	1,230	27.3
Debit cards	328	469	43.2	534	743	39.1
NEFT	226	394	74.3	17,904	29,022	62.1
RTGS	55	69	24.5	5,39,308	6,76,841	25.5

Note: Percentage change could be slightly different as absolute numbers have been rounded off to million or ₹ billion.

Notwithstanding progress, there is scope for further improvement in the usage of electronic modes of payment

4.53 Notwithstanding the growth of various electronic modes of payment in India, it still has a long way to go in terms of achieving the high levels of penetration of such modes across the world, particularly in high income countries. It is noteworthy, however, that India stands out globally in terms of usage of mobile phones as a mode of payment (Table IV.31).

4.54 The usage of electronic modes of payments/ transfers can help in reducing the costs of operation for banks, the benefit of which can be transferred to customers (Box IV.4).

Further progress in data transfer from banks to the regulator under Automated Data Flow Project

4.55 The Automated Data Flow (ADF) Project was initiated by the Reserve Bank to automate flow of data from banks' internal systems to a centralised environment and then to the regulator in an accurate and timely manner without manual intervention. There is continued progress under ADF and as at end-June 2013, about 80 per cent of the returns of a majority of the banks had been brought under this system. Further, banks have initiated the setting up of a Returns Governance Group (RGG), comprising officials from compliance, business and technology.

Table IV.31: Penetration of Electronic Modes of Payment

Percentage of population of 15 years and above using	World	High Income	Upper Middle Income	Middle Income	*India*	Lower Middle Income	Low Income
Credit card	14.8	49.8	11.8	7.1	*1.8*	2.2	1.9
Debit card	30.4	61.4	38.6	24.8	*8.4*	10.1	7.4
Electronic mode to make payments (wire and online transfers)	14.5	55.2	8.2	5.3	*2.0*	2.3	1.9
Mobile phone to pay bills	2.0	-	1.7	1.8	*2.2*	2.0	2.6

Note: Data relate to 2011.
Source: Global Findex (Global Financial Inclusion Database), World Bank.

Box IV.4:
Banking Technology and Cost Reduction: A Perspective

Studies reveal that technological advancement is commonly accompanied by real cost reduction in the production process[15]. The two major advantages of technological adoption are: (a) reduction in banks' operational costs (the cost advantage); (b) facilitating more efficient transactions among customers within the same network (the network effect). Eyadat and Kozak (2005) showed a positive correlation between the level of implemented technology and profitability/cost savings between 1992 and 2003 for the US banking sector. Berger (2003) also showed improvements in bank performance and consolidation of the banking industry in the US by deployment of new technologies. The study for the Indian banking sector for the period 2005-06 to 2009-10 too suggested efficiency gains resulting from technological innovations and investment in IT (Rajput and Gupta, 2011).

Globally, there has been a rapid advancement in Information and Communication Technology (ICT), which has reflected in banks' business strategies, customer services and organisational structures, among others. Innovative adoption in the form of internet banking, ATMs and mobile applications have created a profound impact on the delivery channels of banking services. Also, a number of innovative developments in retail payments have emerged, which affect the retail payment market by influencing users in their choice of payment instruments and by significantly reshaping the payment processes.

The Report of the Working Group on Innovations in Retail Payments (May 2012) set up by the Committee on Payment and Settlement Systems (CPSS) provides an overview of innovative retail payment activities in CPSS and other select countries over the past decade. Based on the trends observed, the Report identified a number of exogenous and endogenous factors that serve as drivers for retail payment innovations or as barriers to them. The Report categorised the purposes of innovation across countries into two main groups, namely "improved efficiency" and "improved security". The former was divided into several sub-categories, such as reduced cash usage, lower processing costs, improved convenience and inclusion of the unbanked/under-banked. In this regard, an important trend identified by the Report was that financial inclusion served as a driving force for innovations in many countries, either under a government mandate or because of the new business opportunities opened up by the untapped market.

Developing countries with an under-developed payment infrastructure have higher potential for introducing innovative payment solutions, and thereby even leapfrogging some of the advanced countries in terms of the usual steps for developing retail payment instruments/infrastructure. M-PESA, which was launched in 2007 in Kenya, is an example of such a technological innovation. M-PESA users can use their mobile phones to transfer money to another mobile phone user. The system provides a safe, secure and fast money transfer facility at a very low cost. There has been wide acceptance of the system in view of the benefits derived. As per a study, M-banking has dramatically reduced the cost of delivering financial services[16]. About 85 per cent of M-banking customers in the survey registered lower transaction costs. It is also observed that M-banking reduced the cost of basic banking services to customers by about 60 per cent from the costs incurred through traditional channels.

M-Pesa has been so successful in Kenya mainly due to the large demand for financial services which has not been met adequately by the Kenyan banking sector. In India, on the other hand, the reach of the banking sector has been wider and the focus has been on the bank-led model for financial inclusion. Further, mobile-led banking can take care of only remittance products as against a bouquet of products, *viz.*, deposit product and overdraft/emergency credit product, which are being provided as part of the financial inclusion policy in India. However, efforts are being made to leverage the reach of mobile phones by allowing banks to appoint Business Correspondents (BCs) for financial inclusion.

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15 See Musara and Fatoki (2010) for an illustration.

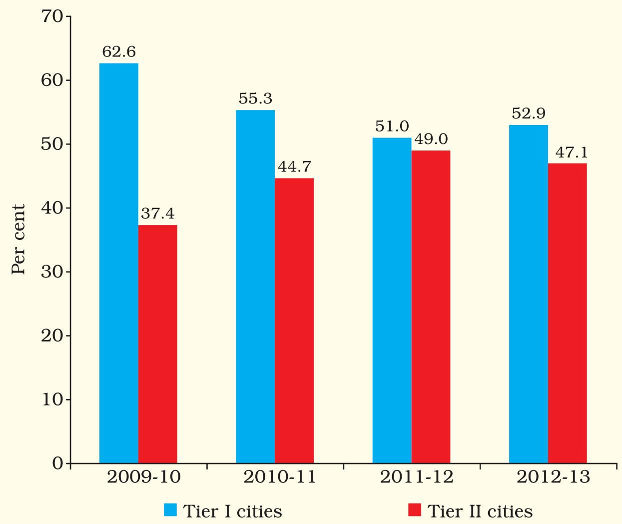
16 See Njenga (2009).

10. Customer Service

Rising share of Tier II cities in total complaints about SCBs, indicating growing awareness among customers

4.56 The Banking Ombudsman offices in Tier I cities (New Delhi, Mumbai, Chennai, Kolkata, Bengaluru and Hyderabad) account for more than half the total complaints received by all 15 offices. However, the increasing share of complaints received by Banking Ombudsman offices in Tier II cities in recent period suggests the growing awareness about this grievance redressal mechanism among customers from smaller towns (Table IV.32; Chart IV.28).

Chart IV.28: Distribution of Complaints across Tier I and II Cities



Note: Includes SCBs, RRBs and UCBs.

Importance of complaints relating to Fair Practices Code and BCSBI Code too indicates improved awareness among customers

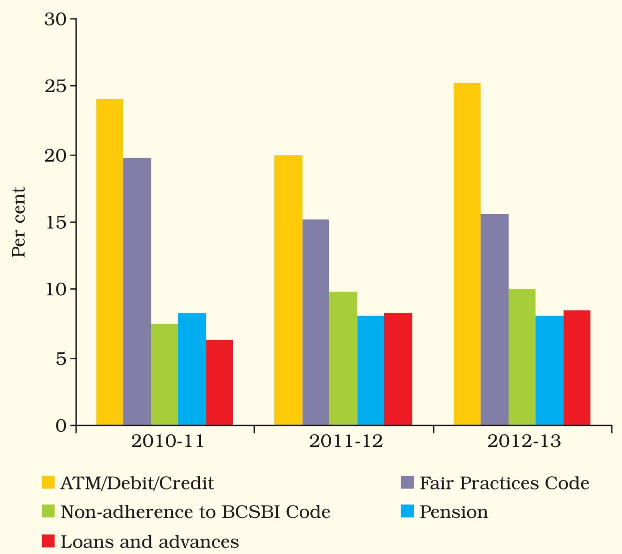
4.57 Although complaints about ATM/credit/debit cards continued to dominate, accounting for about one-fourth of the total number of complaints in 2012-13, complaints relating to non-adherence to the Fair Practices Code and non-adherence of the codes laid down by the Banking Codes and Standards Board of India (BCSBI) came next in line (Appendix Table IV.8; Chart IV.29). The share of complaints relating to these codes has been on a rising trend in recent years, again indicating the improved level of

Table IV.32: Region-wise Complaints received at Banking Ombudsman Offices

BO office	Number of Complaints		Percentage Variation
	2011-12	2012-13	2012-13
Ahmedabad	4,590	4,838	5.4
Bengaluru	3,486	3,318	-4.8
Bhopal	5,953	4,920	-17.4
Bhubaneswar	1,826	1,523	-16.6
Chandigarh	3,521	3,094	-12.1
Chennai	6,614	7,255	9.7
Guwahati	708	807	14.0
Hyderabad	5,167	4,303	-16.7
Jaipur	4,209	4,099	-2.6
Kanpur	9,633	9,012	-6.4
Kolkata	4,838	4,388	-9.3
Mumbai	7,905	8,607	8.9
New Delhi	9,180	9,444	2.9
Patna	2,718	2,785	2.5
Thiruvananthapuram	2,541	2,148	-15.5
Total	**72,889**	**70,541**	**-3.2**

Note: Includes SCBs, RRBs and UCBs.
Source: Various Regional Offices of Banking Ombudsman.

Chart IV.29: Shares of Five Major Types of Complaints



Note: Includes SCBs, RRBs and UCBs.

awareness among customers about these codes and their adherence by banks.

Greater number of complaints about foreign and private sector banks per bank branch/ account

4.58 Although public sector banks accounted for a larger share in the total number of complaints, when normalised by the number of bank branches and accounts (deposit + loan accounts), the number of complaints about foreign banks worked out to be the highest followed by private sector banks (Chart IV.30). In 2012-13, there were 1,543 complaints per 100 bank branches of foreign banks, highest among all bank groups.

11. Financial Inclusion

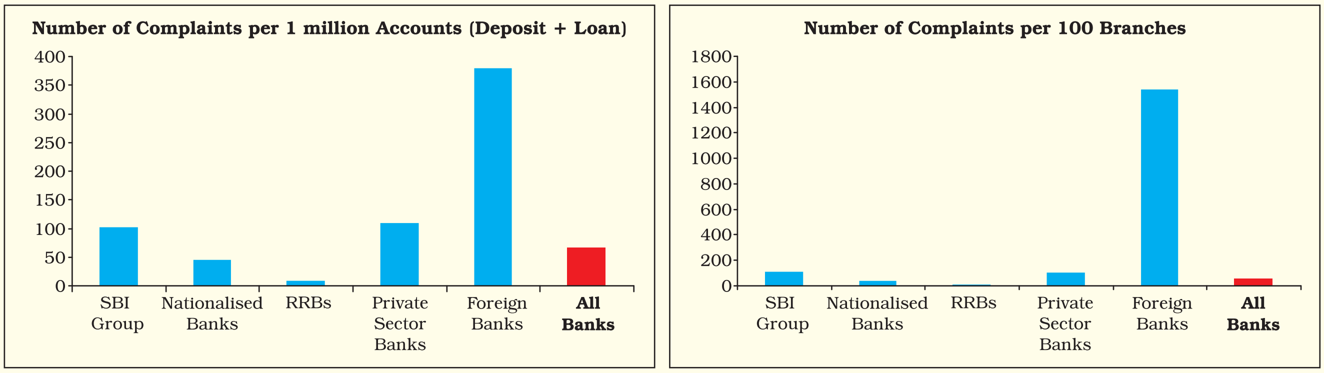
Considerable progress after the completion of the three-year Financial Inclusion Plans

4.59 In 2010, SCBs adopted Board-approved Financial Inclusion Plans (FIPs) containing self-set targets for financial inclusion for a span of three years. In 2013, banks completed three years under these plans. Taking stock of the developments over the last three years indicates considerable progress with regard to financial inclusion; the major findings can be listed as follows (Table IV.33):

- Almost all identified unbanked villages with a population of more than 2,000 have been covered with a banking outlet;
- Greater attention is now being given to unbanked villages with a population of less than 2,000; there has been a steep rise in the number of villages with a population of less than 2,000, which were provided with banking outlets between 2012 and 2013 (Chart IV.31).
- Dominance of BCs in the provision of banking services to villages as well as urban locations – The villages with a population of more/less than 2,000 are being provided with a banking outlet through branch, BCs and other (ICT-based) modes. Among these three, there is a dominance of BCs in the provision of banking services over opening bank branches. BCs have also been an important means of providing banking services to urban locations.

4.60 Apart from these data-based findings, certain useful insights were also provided by the surveys undertaken by the Reserve Bank across all regions in the country about the financial inclusion initiatives (Box IV.5).

Chart IV.30: Number of Complaints per Bank Branches/Accounts, 2012-13



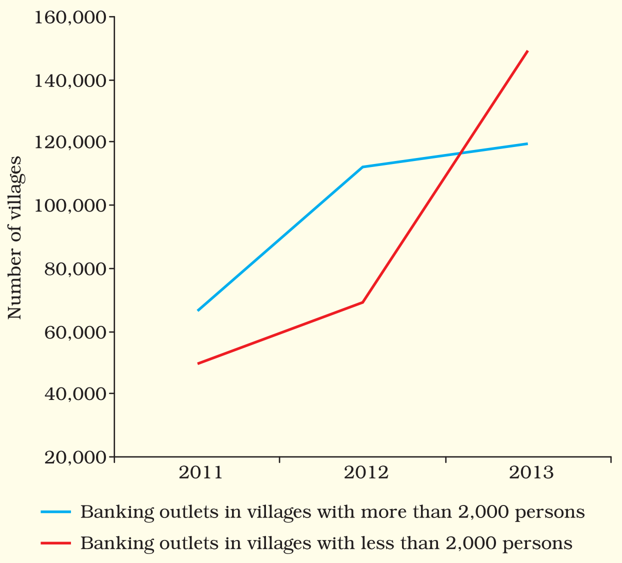
Note: The number of complaints per accounts are worked out for 2011-12 since data on the number of accounts are not available for 2012-13.
Source: Data from various Regional Offices of Banking Ombudsman and *Basic Statistical Returns of Scheduled Commercial Banks in India, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks.*

Table IV.33: Progress under Financial Inclusion Plans, All SCBs including RRBs

No.	Variable	Mar-10	Mar-11	Mar-12	Mar-13	Absolute change (2010-2013)	Percentage change (2010-2013)
1	Banking Outlets in Villages >2,000	37,949	66,605	1,12,288	1,19,453	81,504	214.8
2	Banking Outlets in Villages <2,000	29,745	49,603	69,465	1,49,001	1,19,256	400.9
3	Banking Outlets in Villages - Branches	33,378	34,811	37,471	40,837	7,459	22.3
4	Banking Outlets in Villages - BCs	34,174	80,802	1,41,136	2,21,341	1,87,167	547.7
5	Banking Outlets in Villages - Other Modes	142	595	3,146	6,276	6,134	4,319.7
6	Banking Outlets in Villages - Total	67,694	1,16,208	1,81,753	2,68,454	2,00,760	296.6
7	Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696	5,972.3
8	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	60	73	81	101	41	67.5
9	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in ₹ billion)	44	58	110	165	120	271.5
10	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	13	32	57	81	68	512.4
11	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in ₹ billion)	11	18	11	18	8	70.4
12	BSBDA Total (in million)	73	105	139	182	109	147.9
13	BSBDA Total (Amt. in ₹ billion)	55	76	120	183	128	232.5
14	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	0.2	1	3	4	4	2,094.4
15	OD facility availed in Basic Savings Bank Deposit Account (Amt. in ₹ billion)	0.1	0.3	1	2	1.5	1,450.0
16	KCCs Total (No. in million)	24	27	30	34	9	39.0
17	KCCs Total (Amt. in ₹ billion)	1,240	1,600	2,068	2,623	1,383	111.5
18	GCCs Total (No. in million)	1	2	2	4	2	161.2
19	GCCs Total (Amt. in ₹ billion)	35	35	42	76	41	117.4
20	ICT A/Cs-BC Total Transactions (No. in million)	27	84	156	250	224	844.4
21	ICT A/Cs-BC Total Transactions (Amt. in ₹ billion)	7	58	97	234	227	3,279.8

Note: Absolute and percentage variation could be slightly different as numbers have been rounded off to million/billion.
Source: Reserve Bank.

Chart IV.31: Progress of Banking Outlets at Villages Classified by Population



Rise in the number of newly opened branches at Tier 5 and 6 /rural centres

4.61 During the last three years, there was a rise in the number of newly opened branches in Tier 5 and 6 centres. In 2012-13, of the total newly opened branches, around 41 per cent were opened in these two centres taken together. These two centres together refer to centres having a population of less than 10,000 persons, indicating "rural" centres in the country (Table IV.34).

Growing proportion of newly opened branches at unbanked centres across all regions

4.62 Of the total number of newly opened branches in 2012-13, 25 per cent were opened in unbanked centres; the remaining 75 per cent were

Box IV.5: A Survey-based Analysis of Financial Inclusion

Financial inclusion has been embedded as an objective of economic policy in India since independence. However, since 2005, it has been an explicit policy endeavour of the Reserve Bank. Various policy initiatives have been undertaken by both the Reserve Bank as well as the Government of India to ensure universal financial access especially post-2005. Against this backdrop, there is an often-felt dearth of information about the extent of both demand for banking services and impact that the policy of financial inclusion has had at the ground level. In order to address this gap, the surveys in 14 select villages of Madhya Pradesh, Odisha, Andhra Pradesh and Rajasthan belonging to four geographical regions of the country, were conducted by the concerned regional offices of the Reserve Bank. The surveys were conducted using structured questionnaires and covered 8,246 households and a total population of 34,149.

Agriculture was the main occupation in a majority of the villages. The distance from the banking outlet in the case of these villages was on an average 10 kms. Men and women were in an almost equal proportion in the survey sample.

Key findings of the survey are set out in the Table below.

Several interesting conclusions emerge from the study, which provide important policy inputs. The study shows that there is financial awareness and demand for banking services in rural areas. Hence, if access can be provided, usage of banking services will improve. Major factors hindering access are the non-availability of banking outlets and long distance of existing banking outlets. The usage of basic banking products, *viz*., deposits and credit is widespread but usage of overdraft and EBT is low due to insufficient awareness about the availability of such facilities. Greater inclusion will involve

- o Making banking outlets available or closer to the villagers.
- o Creating product-specific awareness to ensure greater usage of these products.
- o Creating greater awareness about banking services among women and among rural households with relatively low incomes.
- o Formulation of products linked to income status of the borrowers thereby providing them opportunities for using banking products and services.

Table: Major Findings from the Study

	Parameters	Findings
1	**Degree of financial awareness** – Awareness about the availability of banking products and services	**Reasonable degree of awareness** – 76 per cent of the villagers were aware of the services offered by banks. **Gender** – The awareness was proportionately more among men. **Age** – There was no definite relation between age and the extent of financial awareness. About 91 per cent from the age group 18-25 years were financially aware. In the age group 26-60 years, only 74 per cent were aware but in the age group 60 years and above, 82 per cent were financially aware. **Income** – There was no definite relation between income and extent of financial awareness. Of the villagers with an annual income of up to ₹50,000, 89 per cent were financially aware. In the income group ₹0.1-0.3 million, 42 per cent were aware, whereas in the income group ₹0.3 million and above, all were financially aware.
2	**Usage of banking products**	
	a. Savings account	**Usage of savings accounts was the highest** – About 74 per cent of the villagers had a savings account.
	b. Credit products	**Usage of credit products was second** – About 34 per cent of the villagers were availing of loan facilities (including KCC/GCC).
	c. Remittance	**Remittance facilities were the next** – About 24 per cent of the villagers were availing of the remittance facility.
	d. OD in savings account	**Usage of OD was most limited among villagers** – Only 12 per cent of the villagers were availing of the OD facility in the savings bank account.
	e. Electronic Benefit Transfer (EBT)	**Usage of EBT was also limited** – Only 15 per cent of villagers were availing of the EBT facility.

Source: Reserve Bank.

Table IV.34: Tier-wise Break up of Newly Opened Bank Branches

Tier	2010-11	2011-12	2012-13P
Tier 1	1,942	2,235	1,752
Tier 2	449	642	791
Tier 3	1,167	1,241	1,006
Tier 4	663	823	727
Tier 5	580	979	1,114
Tier 6	877	1,553	1,823
Total	**5,678**	**7,473**	**7,213**

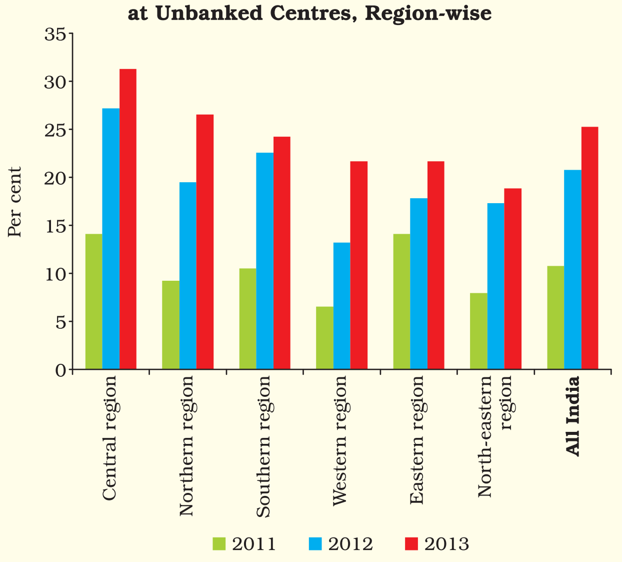
P: Provisional.
Source: Reserve Bank.

opened in centres that were already banked. However, it is noteworthy that the proportion of branches opened in unbanked centres has witnessed a consistent increase in recent years (Chart IV.32). This rise could be seen across all regions in the country.

Signs of narrowing of regional gap in terms of banking penetration

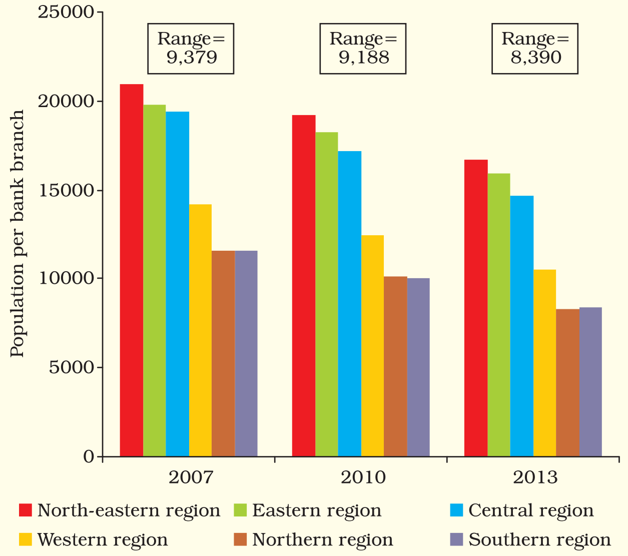
4.63 On account of the increased penetration of branches, the major beneficiaries have been the under-banked regions, *viz.*, the north-eastern, eastern and central regions. Consequently, the regional gap in terms of banking penetration has narrowed over recent years as shown by a steady decline in the range (maximum-minimum) in the population per bank branch (Chart IV.33).

Chart IV.32: Share of Newly Opened Branches at Unbanked Centres, Region-wise



Source: Reserve Bank.

Chart IV.33: Regional Gap in terms of Banking Penetration



Source: Reserve Bank, Census of India database.

Rising share of ATMs opened in rural and semi-urban centres

4.64 Although urban and metropolitan centres account for over 65 per cent of the total number of ATMs in the country, there has been a rising trend in the share of ATMs located in rural and semi-urban centres in the recent years (Table IV.35; Chart IV.34).

Steady progress in the delivery of microfinance through the dual arrangement of SHGs and JLGs

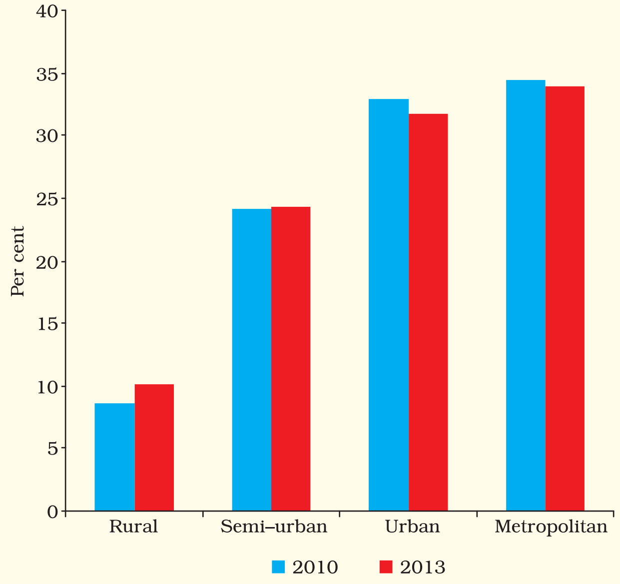
4.65 As in the past, there was a steady progress in the delivery of microfinance through self-help groups (SHGs). Joint liability groups (JLGs) too have emerged as successful non-collateralised credit instruments for financing livelihood

Table IV.35: Number of ATMs of SCBs at Various Centres
(At end-March 2013)

Bank group	Rural	Semi-urban	Urban	Metro-politan	Total
1	2	3	4	5	6
Public Sector Banks	**8,552**	**18,445**	**22,518**	**20,137**	**69,652**
	(12.3)	**(26.5)**	**(32.3)**	**(28.9)**	**(100.0)**
Nationalised Banks*	4,406	8,283	10,873	11,797	35,359
	(12.5)	(23.4)	(30.8)	(33.4)	(100.0)
SBI Group	4,053	9,847	10,912	7,779	32,591
	(12.4)	(30.2)	(33.5)	(23.9)	(100.0)
Private Sector Banks	**2,982**	**9,244**	**13,349**	**17,526**	**43,101**
	(6.9)	**(21.4)**	**(31.0)**	**(40.7)**	**(100.0)**
Old Private Sector Banks	768	2,760	2,354	1,684	7,566
	(10.2)	(36.5)	(31.1)	(22.3)	(100.0)
New Private Sector Banks	2,214	6,484	10,995	15,842	35,535
	(6.2)	(18.2)	(30.9)	(44.6)	(100.0)
Foreign Banks	**30**	**21**	**244**	**966**	**1,261**
	(2.4)	**(1.7)**	**(19.3)**	**(76.6)**	**(100.0)**
Total	**11,564**	**27,710**	**36,111**	**38,629**	**1,14,014**
	(10.1)	**(24.3)**	**(31.7)**	**(33.9)**	**(100.0)**
Growth over previous year	**33.9**	**22.2**	**16.5**	**15.8**	**19.2**

Note: Figures in parentheses indicate percentage share of total ATMs under each bank group.
*Excludes IDBI Bank Ltd.

Chart IV.34: Distribution of ATMs by Centres



activities for small farmers in general and tenant cultivators in particular. The SHG-bank linkage continues to be a more dominant mode of microfinance with banks financing over 1 million SHGs in 2012-13 (Table IV.36).

Table IV.36: Progress of Microfinance Programmes
(As at end-March)

Item	Self-Help Groups							
	Number (in million)				Amount (₹ billion)			
	2009-10	2010-11	2011-12	2012-13P	2009-10	2010-11	2011-12	2012-13P
Loans disbursed by banks	1.6	1.2	1.2	1.2	145	145	165	206
	(0.3)	(0.2)	(0.2)	(0.2)	(22)	(25)	(26)	(22)
Loans outstanding with banks	4.9	4.8	4.4	4.5	280	312	363	394
	(1.3)	(1.3)	(1.2)	(1.2)	(63)	(78)	(81)	(86)
Savings with banks	7.0	7.5	8.0	7.3	62	70	66	82
	(1.7)	(2.0)	(2.1)	(2.1)	(13)	(18)	(14)	(18)
	Microfinance Institutions							
	Number				Amount (₹ billion)			
Loans disbursed by banks	691	469	465	426	81	76	53	78
Loans outstanding with banks	1,513	2,176	1,960	2,042	101	107	115	144
	Joint Liability Groups							
	Number (in million)				Amount (₹ billion)			
Loans disbursed by banks	-	0.09	0.19	0.20	-	7	17	18

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

A decline in the number of MFIs financed by banks

4.66 By contrast, in recent years, there has been a decline in the number of microfinance institutions (MFIs) financed by banks. In part, this could be attributed to concerns about the operations of certain MFIs in Andhra Pradesh and the regulatory initiatives in response to these concerns in the recent past (Table IV.36).

12. Local Area Banks

LABs remain profitable

4.67 The profitability of LABs at the aggregate level measured by RoA has been fairly higher than that of SCBs (Table IV.37 read with Table IV.8). However, in terms of efficiency, measured by NIM, LABs tend to lag behind SCBs.

Operations and future expansion of LABs: Need for review

4.68 Notwithstanding their better profitability, there are few issues about the operations of LABs and their future expansion. First, LABs remain a miniscule portion of the entire banking system (0.02 per cent of the asset size of SCBs), with considerable concentration of the banking business in one LAB of the four LABs, Capital Local Area Bank (accounting for 72 per cent of the total assets of all four LABs) (Table IV.38). Second, contrary to the recommendations of the Review Group of 2002 which looked into the working of LABs, no LAB except the Capital Local Area Bank could step up its net worth to ₹250 million to improve financial soundness. Notwithstanding these constraints, these institutions show promise of small-scale banking institutions that can be experimented with on a

Table IV.37: Financial Performance of Local Area Banks

(Amount in ₹ billion)

	Amount		Percentage Variation	
	2011-12	2012-13	2011-12	2012-13
1	2	3	4	5
1. Income (i+ii)	**1.5**	**1.8**	**0.3**	**18.7**
i) Interest income	1.4	1.6	0.3	19.9
ii) Other income	0.2	0.2	0.0	8.7
2. Expenditure (i+ii+iii)	**1.3**	**1.6**	**0.2**	**17.4**
i) Interest expended	0.8	1.0	0.2	25.2
ii) Provisions and contingencies	0.1	0.1	0.0	-20.3
iii) Operating expenses	0.4	0.5	0.1	15.9
of which : Wage Bill	0.2	0.3	0.0	23.8
3. Profit				
i) Operating Profit/Loss	**0.3**	**0.4**	**0.0**	**7.1**
ii) Net Profit/Loss	**0.2**	**0.2**	**0.1**	**27.7**
4. Net Interest Income	**0.6**	**0.7**	**0.1**	**13.2**
5. Total Assets	**13.6**	**15.8**	**2.1**	**15.6**
6. Financial Ratios @				
i) Operating Profit	2.6	2.4	-	-
ii) Net Profit	1.5	1.6	-	-
iii) Income	12.3	12.3	-	-
iv) Interest Income	11.0	11.1	-	-
v) Other Income	1.3	1.2	-	-
vi) Expenditure	10.8	10.7	-	-
vii) Interest Expended	6.2	6.5	-	-
viii) Operating Expenses	3.6	3.5	-	-
ix) Wage Bill	1.7	1.7	-	-
x) Provisions and Contingencies	1.1	0.8	-	-
xi) Net Interest Income	4.9	4.6	-	-

Note: Percentage variation and ratios could be slightly different as absolute numbers have been rounded off to ₹ billion.
@ Ratios to Total Average Assets.
Source: Based on off-site returns.

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

(Amount in ₹ billion)

Bank	Assets		Deposits		Gross Advances	
	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	9.67 (71.0)	11.40 (72.3)	8.20 (73.8)	9.78 (74.8)	5.18 (67.2)	6.06 (67.1)
Coastal Local Area Bank Ltd.	1.93 (14.2)	2.21 (14.0)	1.51 (13.6)	1.74 (13.3)	1.26 (16.4)	1.56 (17.3)
Krishna Bhima Samruddhi Local Area Bank Ltd.	1.35 (9.9)	1.44 (9.1)	1.00 (9.0)	1.15 (8.8)	0.84 (10.9)	0.96 (10.6)
Subhadra Local Area Bank Ltd.	0.68 (5.0)	0.72 (4.5)	0.39 (3.5)	0.41 (3.1)	0.43 (5.6)	0.45 (5.0)
All LABs	**13.63 (100.0)**	**15.76 (100.0)**	**11.10 (100.0)**	**13.07 (100.0)**	**7.71 (100.0)**	**9.03 (100.0)**

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

larger scale in future. The Reserve Bank Discussion Paper "Banking Structure in India: The Way Forward" has hence recommended the creation of more number of smaller banks in the private sector with the objective of achieving financial inclusion at the local level. Such banks pose less threat to systemic stability given their limited-area operations with little financial interconnectedness. However, smaller banks should be promoted only after putting in place adequate safeguards in the form of corporate governance and a stronger resolution framework to handle the possibility of higher mortality.

13. Regional Rural Banks

Recapitalisation of RRBs is in progress to enable them to achieve a CRAR of 9 per cent

4.69 Following the recommendations of the Committee (Chairman: Dr. K. C. Chakrabarty) to improve the capital base of RRBs enabling them to achieve a CRAR of 9 per cent by March 2012, the recapitalisation of these institutions has been in progress. As per the Committee's assessment, 40 RRBs will require capital infusion to the extent of ₹22 billion in order to achieve this norm.

4.70 As at end-March 2013, out of 40 RRBs earmarked for recapitalisation, 35 RRBs were recapitalised fully and 2 RRBs were recapitalised partially. The process of recapitalisation had not started in the remaining three RRBs. The period for completion of the entire process has been extended up to March 2014 by the Government of India.

A new phase in the amalgamation of RRBs has begun

4.71 So far, there have been two broad phases in the amalgamation of RRBs. In the first phase (September 2005-March 2010), RRBs of the same sponsor banks within a State were amalgamated bringing down their number to 82 from 196. In the second and ongoing phase, starting from October 2012, geographically contiguous RRBs within a State under different sponsor banks would be amalgamated to have just one RRB in medium-sized States and two/three RRBs in large States. In the current phase, 31 RRBs have been amalgamated into 13 new RRBs within 9 States to bring down their effective number to 64. These States include Uttar Pradesh, Madhya Pradesh, Uttarakhand, Odisha, Bihar, Karnataka, Rajasthan, Himachal Pradesh and Maharashtra.

A higher growth in the balance sheets of RRBs

4.72 In the year when the balance sheets of SCBs showed signs of contraction, there was an

Table IV.39: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ₹ billion)

Sr. No.	Item	At end-March		Percentage Variation	
		2012	2013P	2011-12	2012-13P
1	Share Capital	2	2	0.0	0.0
2	Reserves	113	132	17.7	17.0
3	Share Capital Deposits	50	57	22.7	14.6
4	Deposits	1,863	2,085	12.1	11.9
	4.1 Current	104	115	12.8	11.2
	4.2 Savings	986	1,069	8.2	8.4
	4.3 Term	774	900	17.4	16.3
5	Borrowings	303	379	14.3	25.1
	5.1 from NABARD	211	297	31.7	40.9
	5.2 Sponsor Bank	88	74	-10.4	-16.0
	5.3 Others	4	8	-199.4	97.6
6	Other Liabilities	94	103	7.4	9.0
Total Liabilities/Assets		**2,425**	**2,758**	**12.6**	**13.7**
7	Cash in Hand	23	22	6.3	-2.3
8	Balances with RBI	88	83	-10.2	-6.7
9	Other Bank Balances	478	619	5.9	29.3
10	Investments	602	620	11.2	3.0
11	Loans and Advances (net)	1,130	1,309	19.3	15.8
12	Fixed Assets	6.7	7.3	46.4	9.4
13	Other Assets #	96	98	8.9	1.5

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

Source: NABARD.

Table IV.41: Financial Performance of Regional Rural Banks

(Amount in ₹ billion)

Sr. No.	Item	Amount		Percentage Variation	
		2011-12 (82)	2012-13* (64)	2011-12	2012-13*
1	2	3	4	5	6
A	**Income (i + ii)**	**200**	**208**	**23.6**	**3.7**
	i Interest income	189	196	24.3	3.3
	ii Other income	11	12	12.3	11.0
B	**Expenditure (i+ii+iii)**	**182**	**186**	**24.7**	**2.3**
	i Interest expended	112	118	30.5	4.8
	ii Operating expenses	55	54	12.3	-2.1
	of which, Wage bill	40	39	4.0	-2.6
	iii Provisions and contingencies	14.5	14.3	35.2	-1.0
C	**Profit**				
	i Operating profit	33	36	21.7	9.8
	ii Net profit	19	22	14.4	17.2
D	**Total assets**	**2,425**	**2,758**	**12.6**	**13.7**
E	**Financial ratios #**				
	i Operating profit	1.4	1.4		
	ii Net profit	0.8	0.8		
	iii Income (a + b)	8.8	8.0		
	(a) Interest income	8.3	7.5		
	(b) Other income	0.5	0.5		
	iv Expenditure (a+b+c)	7.9	7.2		
	(a) Interest expended	4.9	4.5		
	(b) Operating expenses	2.4	2.1		
	of which, Wage Bill	1.7	1.5		
	(c) Provisions and contingencies	0.6	0.6		

*: Provisional data (excluding Tripura GB) as audited data for the year were not finalised.

Notes: 1. #: Financial ratios are percentages with respect to average total assets.
2. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: NABARD and Reserve Bank.

expansion in the balance sheet growth of RRBs (Table IV.39). However, both credit – the largest component on the assets side, and deposits – the largest component on the liabilities side posted a slower growth during the year (Tables IV.39; IV.40). Despite the lower growth in credit off-take, RRBs could maintain their RoA at the previous year's level (Table IV.41).

Table IV.40: Purpose-wise Outstanding Advances by RRBs

(Amount in ₹ billion)

Sr. No	Purpose/End-March	2012	2013P
1	2	3	4
I	**Agriculture (i to iii)**	**638**	**752**
	Per cent to total loans outstanding	*54.8*	*53.8*
	i Short-term credit (crop loans)	466	551
	ii Term loans (for agriculture and allied activities)	172	201
	iii Indirect advances	-	-
II	**Non-agriculture (i to iv)**	**526**	**645**
	Per cent to total loans outstanding	*45.2*	*46.2*
	i Rural artisans, *etc.*	10	11
	ii Other industries	37	42
	iii Retail trade, *etc.*	58	62
	iv Other purposes	420	530
Total (I+II)		**1,164**	**1,397**
	Memo item :		
(a)	Priority sector	955	1,143
(b)	Non-Priority sector	208	253
	Share of priority sector (per cent to total)	*82.1*	*81.8*

P: Provisional.

Source: NABARD.

14. Overall Assessment

4.73 The operations and performance of the Indian banking sector in 2012-13 were broadly conditioned by (i) persistent slowdown of the domestic economy coupled with a tepid global recovery; (ii) moderation in interest rates; and (iii) high FII inflows leading to a general buoyancy in the Indian capital markets. Apart from these macro-economic developments, several policy measures initiated during the recent past, including provisioning requirements for restructured advances, changes in priority sector definitions and targets, among others, as discussed in Chapter III, also influenced the operations of the Indian banking sector. The salient features of the operations of SCBs in 2012-13 can be summarised as follows:

Slowdown in the overall growth of the banking sector, particularly bank credit

4.74 Both balance sheet and off-balance sheet operations of Indian banks slowed down in 2012-13 for the second consecutive year. There was an overall slowdown in credit growth though retail credit remained buoyant. The slowdown was widespread across all bank groups except the SBI Group.

Slowdown in profitability with low credit off-take affecting interest earnings

4.75 The lower credit off-take despite the softening of interest rates affected the profits of SCBs with all major indicators of profitability, *viz*., return on assets (RoA) and return on equity (RoE) showing a decline during the year. New private sector banks and foreign banks, however, could improve their RoA with the help of reduced operational costs.

Pressures with regard to asset quality persisted

4.76 The NPA ratio increased further during 2012-13. There was a rise in the slippage ratio as well as the ratio of restructured advances to gross advances. Also, the increasing shift of loan assets into the "doubtful" category reflected a deepening deterioration within NPAs. The increased stress in asset quality during the year was primarily on account of industrial and infrastructural sectors.

Capital adequacy positions remained strong

4.77 The capital adequacy positions of SCBs remained above the stipulated norm at the aggregate and bank group-levels. However, there was a trend of deterioration in the capital positions of public sector banks.

Signs of considerable progress in inclusive banking

4.78 With the completion of three years of financial inclusion plans, there were signs of considerable progress in terms of expanding the outreach of banking through both branch and non-branch means. There was a steady rise in the number of newly opened branches in Tier 5/6 centres with a population of less than 10,000 during 2010-13. While banking outlets were provided in almost all identified unbanked villages with a population of more than 2,000, the process of bringing in unbanked villages with a population of less than 2,000 was in progress during the year. The share of ATMs in rural and semi-urban centres was on a rise, and as the process of setting up of White Label ATMs gains momentum, the penetration of off-site ATMs in these centres may get a further boost. However, the default among public and private sector banks in meeting priority sector lending targets remained a matter of continued concern having implications for financial inclusion.

4.79 Looking ahead over the short-term horizon, the Indian banking sector needs to lend support to the productive sectors to boost economic recovery, but remain vigilant about asset quality. Over the medium to long-term, the sector needs to demonstrate sustained improvements in efficiency and inclusiveness.

Chapter V

Developments in Co-operative Banking

The financial health and soundness of co-operative banks which comprise of Urban Co-operative Banks (UCBs) and rural co-operatives showed a varied performance in terms of key indicators such as profitability and non-performing assets (NPAs). There was a moderation in the net profits of UCBs partly emanating from the impact of the slowdown in economic activity. Their asset quality, however, recorded steady improvement broadly mirroring strengthened prudential norms and regulations. With regard to rural co-operatives, while the overall performance of State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) exhibited some improvement in net profits and asset quality in 2011-12, primary agricultural credit societies reported losses. The long-term rural co-operatives, such as State and Primary Co-operative Agriculture and Rural Development Banks, continued to show weak financial performance.

1. Introduction

5.1 Co-operative banks play an important role in meeting the credit requirements of both the urban and rural India. Though in the bank dominated financial system, these institutions account for a small share in the total credit they hold a significant position in credit delivery as they cater to different geographic locations and demographic categories[1]. The wide network of co-operative banks, both rural and urban, supplements the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network. Demographically, these institutions have enabled access to financial services to low and middle-income groups in both rural and urban areas.

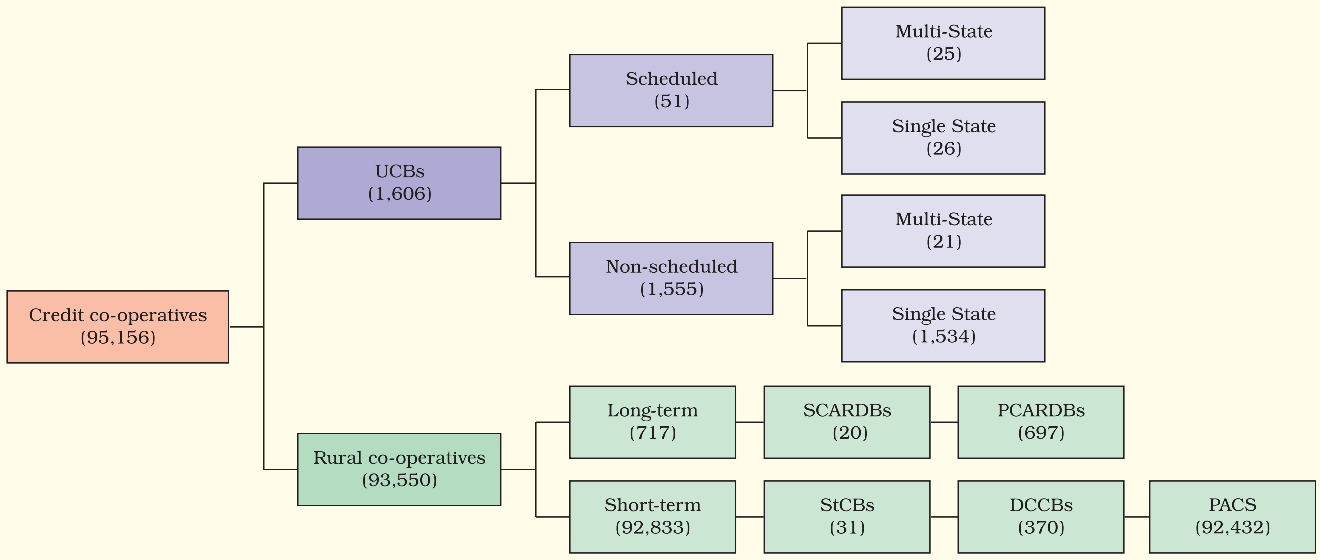
5.2 The role of co-operative banks has been commendable in enhancing the inclusiveness of the financial system. However, the financial performance of these institutions particularly rural co-operatives has been sub-par partly owing to operational and governance-related issues. A number of committees have examined the reasons for their poor financial performance and have suggested remedial measures from time to time. Initiatives for revitalising co-operatives have been ongoing.

5.3 The ongoing initiative of the Reserve Bank towards a unified regulatory framework as envisaged in its Vision Document of 2005 for UCBs buttresses initiatives for creating vibrant UCBs. With regard to short-term rural co-operatives, the recommendations of the Expert Committee on the Short-term Co-operative Credit Structure are aimed at addressing the inadequacies afflicting this segment.

5.4 Against this backdrop, this chapter analyses the performance of UCBs in 2012-13. The analysis for rural co-operative banks pertains to 2011-12 as data on this segment are available with a lag of over one year. The analysis covered

[1] As at end-March 2012, the loans and advances extended by rural and urban co-operatives taken together were about 10 per cent of the total loans and advances disbursed by Scheduled Commercial Banks (SCBs).

Chart V.1: Structure of Co-operative Credit Institutions in India
(As at end-March 2013)



StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes: 1. Figures in parentheses indicate the number of institutions at end-March 2013 for UCBs and at end-March 2012 for rural co-operatives.
2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

in this chapter pertains to 1,606 UCBs and 93,550 rural co-operative credit institutions, including short-term and long-term ones, as provided in Chart V.1.

5.5 The chapter is organised in five sections. Section 2 analyses the performance of UCBs, based on their assets and liabilities, income and expenditure, and financial soundness indicators. Section 3 reviews the performance of various tiers of the short-term and long-term co-operative credit structure. The next section presents developments pertaining to rural co-operatives with regard to licensing. Concluding observations are given in the last section.

2. Urban Co-operative Banks

Further consolidation of the UCB sector

5.6 The Reserve Bank adopted a multi-layered regulatory and supervisory strategy aimed at the merger/amalgamation of viable UCBs and the exit of unviable ones for the revival of this sector. This initiative led to a gradual reduction in the number of UCBs (Chart V.2). As a result, the total number of UCBs at end-March 2013 stood at 1,606 as against 1,618 at end-March 2012.

Chart V.2: Total Number of UCBs
(At end-March 2013)

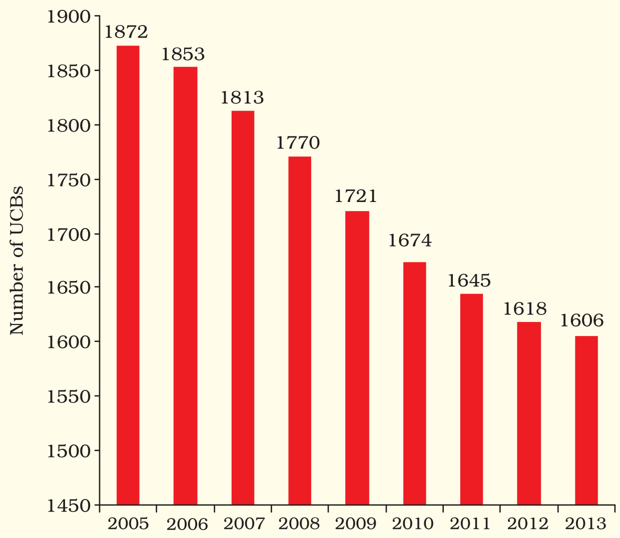
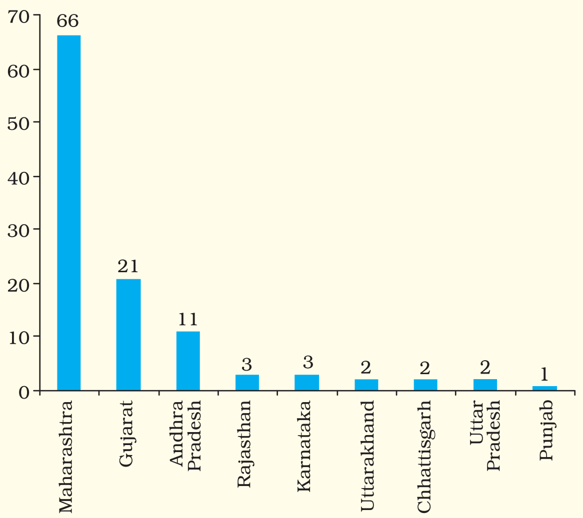


Chart V.3: State-wise number of mergers of UCBs – Cumulative basis (At end-March 2013)



5.7 State-wise distribution of mergers indicates that Maharashtra accounted for the maximum number of mergers with the largest concentration of UCBs. In all the mergers that took place between end-March 2005 and 2013, Maharashtra accounted for 66 mergers, followed by Gujarat (21) and Andhra Pradesh (11) (Chart V.3).

Tier-II UCBs dominate the business operations of UCBs

5.8 There was a stable growth in the balance sheets of UCBs during the year. UCBs were classified into Tier-I and Tier-II categories based on their deposit base, and a differentiated regulatory treatment was laid down for these two categories based on the Vision Document of 2005[2]. In recent years, Tier-II banks, which have a larger deposit base and wider geographical presence, have grown in terms of both number and asset size (Table V.1 and Chart V.4).

Improvement in the financial strength of UCBs

5.9 The Reserve Bank discontinued the erstwhile classification of UCBs into different grades for regulatory and supervisory purposes with the introduction of CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems and control) rating model to gauge the financial soundness of UCBs. Under the new CAMELS rating model, a composite rating of A/B/C/D (in decreasing order of performance) is given to a bank, based on the weighted average

Table V.1: Tier-wise Distribution of Urban Co-operative Banks
(As at end-March 2013)

(Amount in ₹ billion)

Tier Type	No. of banks		Deposits		Advances		Assets	
	Number	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total
1	2	3	4	5	6	7	8	9
Tier I UCBs	1,194	74.3	434	15.7	272	15.0	545	16.2
Tier II UCBs	412	25.7	2,335	84.3	1,538	85.0	2,827	83.8
All UCBs	**1,606**	**100.0**	**2,769**	**100.0**	**1,810**	**100.0**	**3,372**	**100.0**

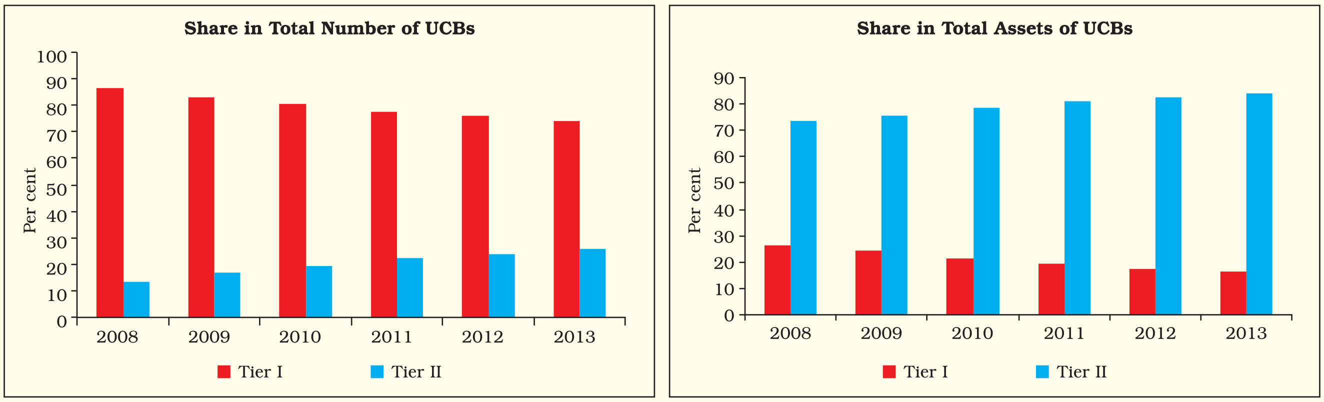
Note: Data are provisional.

[2] Tier-I UCBs were defined as UCBs with:

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

All other UCBs are defined as Tier-II UCBs.

Chart V.4: Tier-wise Composition of UCBs



rating of individual components of CAMELS' rating model.

5.10 According to the new classification, at end-March 2013 around 67 per cent (61 per cent as at end-March 2012) of the UCBs had composite ratings of A and B, accounting for about 85 per cent (78 per cent as at end-March 2012) of the total banking business (deposits plus advances) of the UCBs. There was a perceptible improvement in the financial strength of UCBs during the year. Around 27 per cent of the UCBs had a composite rating of C accounting for 13 per cent of the banking business of the UCB sector. The lowest rating of D representing the weakest financial health was assigned to about 6 per cent of the UCBs (Table V.2).

Table V.2: Rating-wise Distribution of UCBs
(As at end-March 2013)

(Amount in ₹ billion)

Rating	No. of banks	% share in total	Deposits	% share in total	Advances	% share in total
1	2	3	4	5	6	7
A	214	13.3	1,169	42.2	787	43.5
B	861	53.6	1,175	42.4	761	42.1
C	432	26.9	365	13.2	228	12.6
D	99	6.2	60	2.2	33	1.8
Total	**1,606**	**100.0**	**2,769**	**100.0**	**1,810**	**100.0**

Notes: 1. Data are provisional.
2. Ratings are based on the inspection conducted during 2010-11 to 2012-13.
3. Components may not add up to the total due to rounding off.

Further increase in asset concentration within the UCB sector in 2012-13

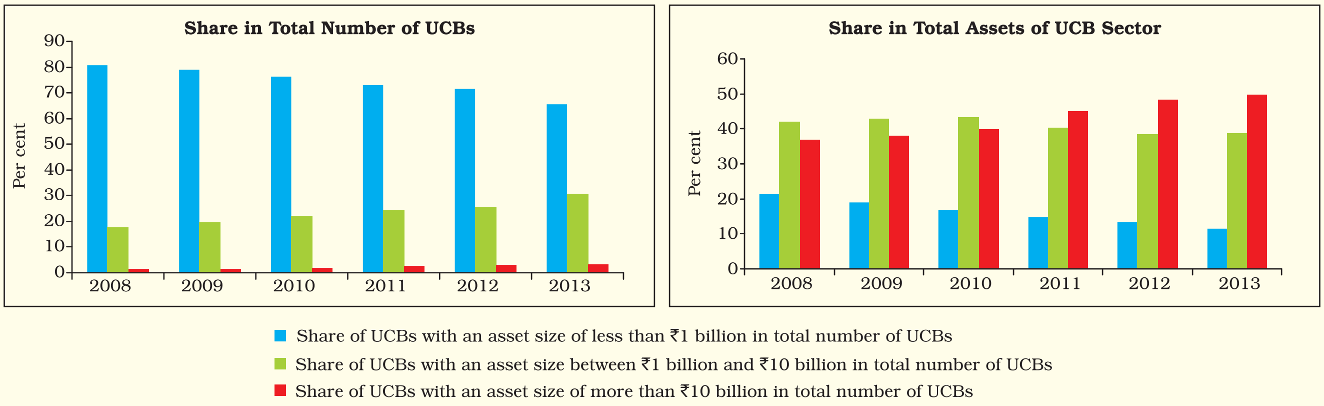
5.11 There has been an increase in asset concentration within the UCB sector in recent years, partly as an outcome of consolidation. The number of UCBs with an asset size of more than ₹10 billion increased sharply between 2008 and 2013. Notably, the percentage share of such UCBs in the total assets of the UCB sector increased from about 37 to 50 per cent during this period (Chart V.5).

5.12 UCBs with a deposit base of over ₹10 billion accounted for 47 per cent of the total deposits as at end-March 2013. These institutions with a credit size of over ₹10 billion also accounted for about 40 per cent of total UCBs advances (Table V.3).

Asset growth of UCBs remained stable in 2012-13

5.13 The assets of UCBs increased by 11.4 per cent in 2012-13 (Chart V.6). There was some moderation in their credit growth owing to sluggish demand in the economy. On the other hand investments of these institutions showed relatively higher growth in 2012-13 on account of a sharp increase in SLR investments. In this context, it needs to be noted that UCBs' deposits

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



with StCBs and DCCBs are reckoned under SLR investments. UCBs are required to maintain a uniform SLR of 25 per cent on their NDTL in India (Tables V.4 and V.5).

Scheduled UCBs account for nearly half of total assets of UCBs

5.14 Scheduled UCBs are banks included in the Second Schedule of the RBI Act, 1934 and include banks that have paid-up capital and reserves of not less than ₹0.5 million and which carry out their businesses in the interest of depositors to the satisfaction of the Reserve Bank. There was a marginal decline in the share of scheduled UCBs in 2012-13. At end-March 2013, there were 51 scheduled UCBs accounting for 3.2 per cent of all

Chart V.6: Growth in Assets of UCBs

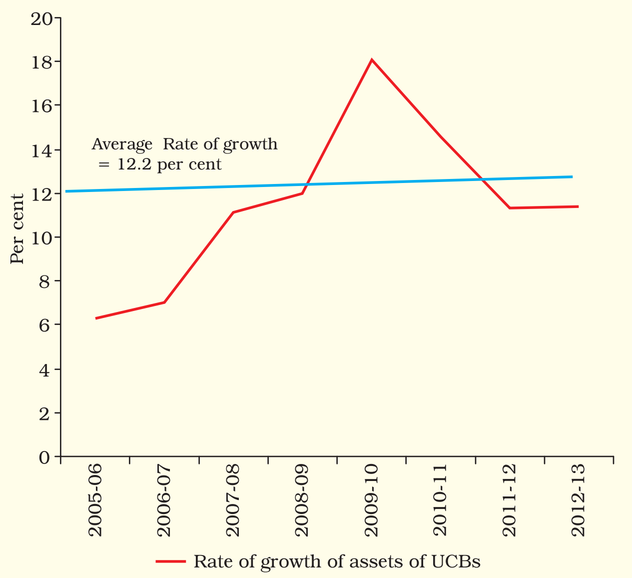


Table V.3: Distribution of UCBs by Deposits and Advances
(As at end-March 2013)

Deposits (₹ billion)	Number of UCBs		Amount of Deposits		Advances (₹ billion)	Number of UCBs		Amount of Advances	
	No.	% share	Amt.	% share		No.	% share	Amt.	% share
1	2	3	4	5	6	7	8	9	10
0 - 0.10	201	12.5	11	0.4	0 - 0.10	388	24.2	21	1.2
0.10 - 0.25	358	22.3	61	2.2	0.10 - 0.25	419	26.1	70	3.9
0.25 - 0.50	340	21.2	121	4.4	0.25 - 0.50	269	16.7	94	5.2
0.50 - 1.0	263	16.4	189	6.8	0.50 - 1.0	229	14.3	161	8.9
1.0 - 2.5	241	15.0	370	13.4	1.0 - 2.5	176	11.0	284	15.7
2.5 - 5.0	113	7.0	396	14.3	2.5 -5.0	69	4.3	240	13.3
5.0 - 10.0	47	2.9	330	11.9	5.0 - 10.0	31	1.9	216	11.9
10.0 and above	43	2.7	1,290	46.6	10.0 and above	25	1.6	724	40.0
Total	**1,606**	**100.0**	**2,769**	**100.0**	**Total**	**1,606**	**100.0**	**1,810**	**100.0**

Notes : 1. Data are provisional.
2. Components may not add up to the total due to rounding off.

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

(Amount in ₹ billion)

Asset/Liability	Scheduled UCBs		Non-Scheduled UCBs		All UCBs		Rate of growth (%) (All UCBs)
	2012	2013	2012	2013	2012	2013	2012-13
1	2	3	4	5	6	7	8
Liabilities							
1. Capital	23	27	50	67	73	93	27.4
	(1.6)	(1.8)	(3.1)	(3.6)	(2.4)	(2.8)	
2. Reserves	126	132	143	155	270	287	6.3
	(8.9)	(8.7)	(8.9)	(8.4)	(8.9)	(8.5)	
3. Deposits	1,104	1,263	1,282	1,506	2,386	2,769	16.1
	(77.6)	(82.9)	(80.0)	(81.4)	(78.8)	(82.1)	
4. Borrowings	21	23	15	8	36	31	-13.9
	(1.5)	(1.5)	(0.9)	(0.4)	(1.2)	(0.9)	
5. Other Liabilities	148	79	113	112	262	191	-27.1
	(10.4)	(5.2)	(7.0)	(6.1)	(8.7)	(5.7)	
Assets							
1. Cash	8	11	23	26	30	37	23.3
	(0.6)	(0.7)	(1.4)	(1.4)	(1.0)	(1.1)	
2. Balances with Banks	122	105	142	139	263	244	-7.2
	(8.6)	(6.9)	(8.9)	(7.5)	(8.7)	(7.2)	
3. Money at Call and Short Notice	9	5	7	9	15	14	-6.7
	(0.6)	(0.3)	(0.4)	(0.5)	(0.5)	(0.4)	
4. Investments	370	448	510	631	880	1,079	22.6
	(26.0)	(29.4)	(31.8)	(34.1)	(29.1)	(32.0)	
5. Loans and Advances	744	839	834	970	1,578	1,810	14.7
	(52.3)	(55.1)	(52.0)	(52.5)	(52.1)	(53.7)	
6. Other Assets	171	115	88	74	259	189	-27.0
	(12.0)	(7.5)	(5.5)	(4.0)	(8.6)	(5.6)	
Total Liabilities / Assets	**1,423**	**1,524**	**1,603**	**1,849**	**3,026**	**3,372**	**11.4**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	

Notes: 1. Figures in parentheses are percentages to total liabilities/assets.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.
3. Components may not add up to the whole due to rounding off.
4. Data for end-March 2013 are provisional.

UCBs, which had a share of nearly half of the total assets of UCBs (Chart V.7).

CD ratio of UCBs continued to be lower than SCBs

5.15 Although the credit-deposit (CD) ratio of UCBs hovered in the vicinity of the preceding year, the ratio continued to be lower than that of SCBs (Chart V.8). However, the investment deposits ratio was higher for UCBs than it was for SCBs primarily due to deposits of the former with StCBs and DCCBs as alluded to earlier in this chapter.

Profitability indicators of UCBs remained stable in 2012-13

5.16 UCBs' net profits witnessed a moderation during 2012-13. There was a sharp increase in both their interest and non-interest income. The share of non-interest income remained nearly

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

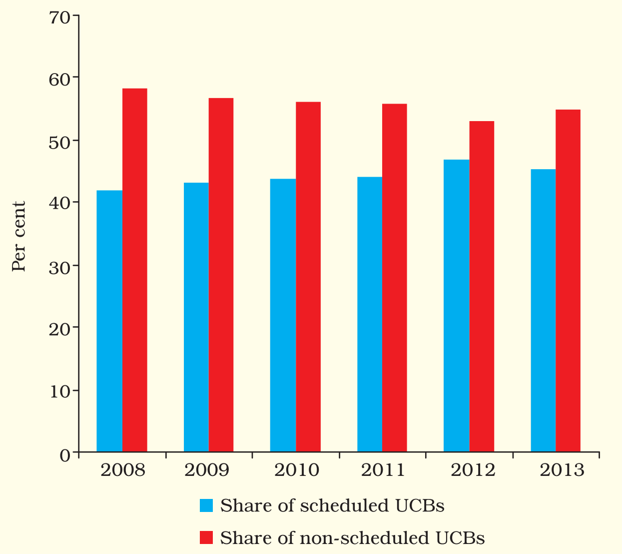
(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2012	2013	2011-12	2012-13
1	2	3	4	5
Total Investments (A+B)	**880**	**1,079**	**3.5**	**22.6**
	(100.0)	**(100.0)**		
A. SLR Investments (i to vi)	**815**	**971**	**3.8**	**19.1**
	(92.6)	**(90.0)**		
i) Central Government Securities	565	628	10.1	11.2
	(64.2)	(58.2)		
ii) State Government Securities	108	138	16.1	27.8
	(12.3)	(12.8)		
iii) Other Approved Securities	3	6	-40.0	100.0
	(0.3)	(0.6)		
iv) Term Deposits with StCBs	42	45	-20.8	7.1
	(4.8)	(4.2)		
v) Term Deposits with DCCBs	76	89	-29.0	17.1
	(8.6)	(8.2)		
vi) Others, if any	20	64	42.9	220.0
	(2.3)	(5.9)		
B. Non-SLR Investments	**66.0**	**109**	**0.0**	**65.2**
	(7.5)	**(10.1)**		

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

stable both for SCBs and UCBs. However, UCBs' total expenditure also rose during the year primarily due to a pick-up in the interest

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



component of expenditure. (Table V.6 and Chart V.9). Major indicators of profitability of UCBs remained stable in 2012-13 (Table V.7). Both the return on assets (RoA), defined as net profits as per cent of average assets, as well as return on equity (RoE), defined as net profits as per cent of average equity, remained almost the same as that of the preceding year. A disaggregated level analysis suggests that two scheduled UCBs reported negative RoA in 2012-13 (Appendix Table V.1).

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

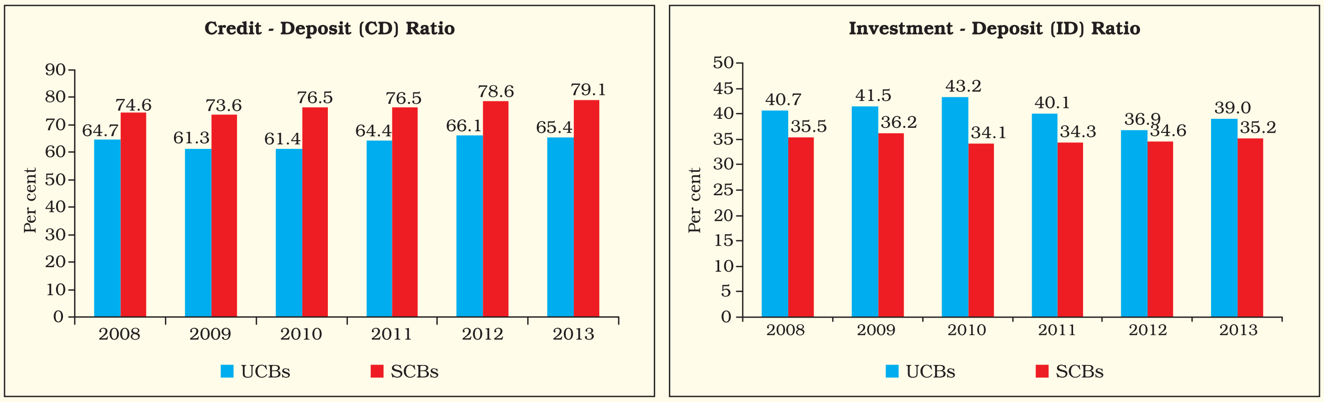


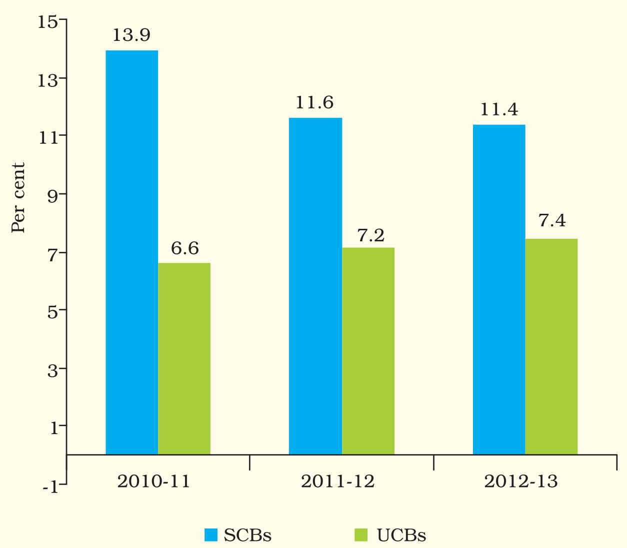
Table V.6: Financial Performance of Scheduled and Non-Scheduled Urban Co-operative Banks

(Amount in ₹ billion)

Item	Scheduled UCBs		Non-Scheduled UCBs		All UCBs		Percentage Variation	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
1	2	3	4	5	6	7	8	9
A. Total Income (i+ii)	**124**	**150**	**158**	**200**	**282**	**350**	**25.7**	**24.1**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**		
i. Interest Income	113	135	148	189	261	324	25.0	24.1
	(91.7)	(90.3)	(93.6)	(94.4)	(92.8)	(92.6)		
ii. Non-Interest Income	10	15	10	11	20	26	35.7	30.0
	(8.3)	(9.7)	(6.4)	(5.6)	(7.2)	(7.4)		
B. Total Expenditure (i+ii)	**100**	**122**	**129**	**167**	**229**	**289**	**23.9**	**26.2**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**		
i. Interest Expenditure	74	93	92	124	166	217	26.8	30.7
	(74.3)	(76.4)	(71.1)	(74.4)	(72.5)	(75.3)		
ii. Non-Interest Expenditure	26	29	37	43	63	72	16.7	14.3
	(25.7)	(23.6)	(28.9)	(25.6)	(27.5)	(24.7)		
of which: Staff Expenses	13	15	18	22	32	37	12.8	15.6
C. Profits								
i. Amount of operating profits	24	28	29	33	52	62	34.3	19.2
ii. Provisions, contingencies, taxes	9	15	11	12	20	27	17.2	35.0
iii. Amount of net profits	15	13	18	22	32	35	47.6	9.4

Notes: 1. Figures in parentheses are percentages to total income/expenditure.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹1 billion.
3. Components may not add up to the total due to rounding off.
4. Data for 2012-13 are provisional.

Chart V.9: Share of Non-Interest Income in Total Income of UCBs and SCBs



Sustained improvement in the asset quality of UCBs

5.17 The asset quality of UCBs has witnessed sustained improvement in recent years. The gross non-performing assets (NPAs) of UCBs exhibited

Table V.7: Select Indicators of Profitability of UCBs

Indicator	Scheduled UCBs		Non-Scheduled UCBs		All UCBs	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
1	2	3	4	5	6	7
Return on Assets	1.12	0.90	1.14	1.25	1.13	1.09
Return on Equity	10.51	8.65	9.17	10.40	9.73	9.65
Net Interest Margin	2.98	2.89	3.59	3.74	3.31	3.35

Note: Data for 2012-13 are provisional.

Chart V.10: Gross NPAs Growth and Ratio

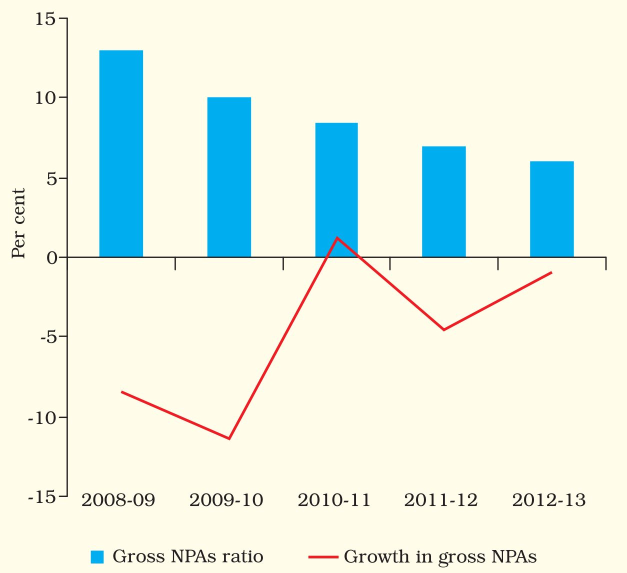
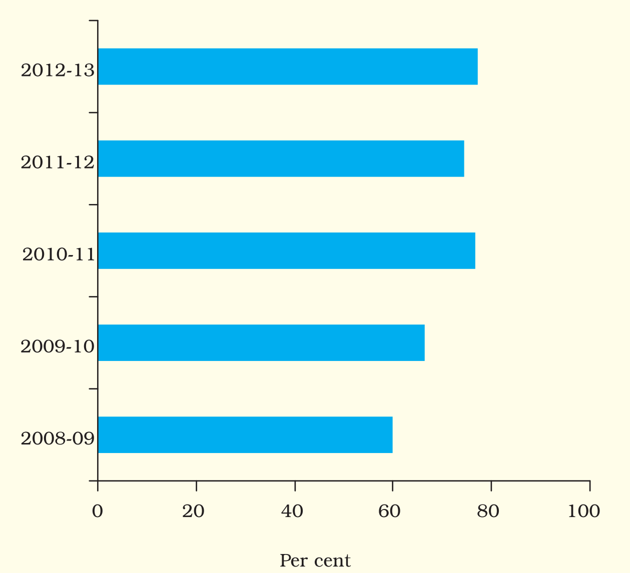


Chart V.11: Provisioning Coverage Ratio of UCBs



a decline in absolute terms as well as per cent to total advances in 2012-13 *vis-a-vis* 2011-12 (Chart V.10 and Table V.8).

Increase in Provisioning Coverage Ratio (PCR) for UCBs

5.18 Provisions for NPAs of UCBs have increased over the years (Chart V.11).

About 88 per cent of UCBs reported CRAR above the statutory minimum in 2012-13

5.19 The Capital to Risk-Weighted Assets Ratio (CRAR) was above the statutory minimum of 9 per cent at end-March 2013 with respect to 1,415 UCBs (Table V.9 and Chart V.12). 191 UCBs, both scheduled and non-scheduled, reported CRAR below the statutory minimum as at end-March 2013. Among scheduled UCBs, four had a negative CRAR.

5.20 The poor financial position of some of the UCBs can be attributed to the structural problems plaguing these institutions. The enactment of the Constitution (97th Amendment) Act, 2011, is likely to promote professionalism in the management of these institutions. The salient features of the Amendment are provided in Box V.1.

Table V.8: Non-Performing Assets of UCBs

(Amount in ₹ billion)

Item/End-March	2012	2013
1	2	3
1. Gross NPAs	110	109
2. Net NPAs	28	25
3. Gross NPA Ratio (per cent)	7.0	6.0
4. Net NPA Ratio (per cent)	1.9	1.4
5. Provisioning (1-2)	82	84
6. Provisioning Coverage Ratio (per cent) (5/1)	74.4	77.3

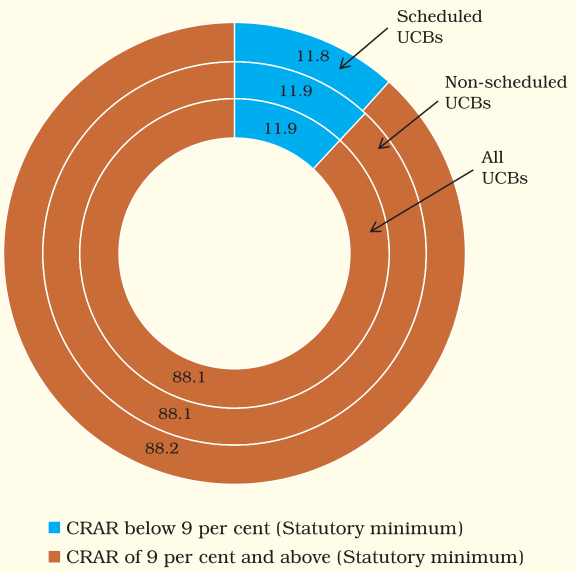
Note: Data for 2012-13 are provisional.

Table V.9: Distribution of UCBs by CRAR
(As at end-March 2013)

CRAR (in per cent)	Scheduled UCBs	Non-Scheduled UCBs	All UCBs
1	2	3	4
CRAR < 3	5	155	160
3 ≤ CRAR < 6	1	7	8
6 ≤ CRAR < 9	0	23	23
9 ≤ CRAR < 12	9	216	225
12 ≤ CRAR	36	1,154	1,190
Total	**51**	**1,555**	**1,606**

Note: Data are provisional.

Chart V.12: Distribution of UCBs by CRAR



Credit to small enterprises and housing dominated priority sector advances by UCBs in 2012-13

5.21 The composition of credit to priority sectors by UCBs suggests that small enterprises and the housing sector accounted for over one-third of the total credit of these institutions in 2012-13. These institutions primarily cater to the requirements of urban consumers which explains the predominance of these two sectors in the UCBs' credit portfolio (Chart V.13 and Table V.10).

Increase in the provision of credit to weaker sections by UCBs

5.22 Small enterprises, housing loans and micro credit, are the three major constituents in

Box V.1:
Salient Features of the Constitution (97th Amendment) Act, 2011 and their Implications for UCBs

The Constitution (97th Amendment) Act, 2011, came into force with effect from February 15, 2012 with the provision that necessary amendments have to be carried out in the State Co-operative Societies Acts within one year of the Act coming into force, *i.e.*, February 14, 2013.

Salient features of the Amendment

The term "co-operative societies" has been included in Article 19 of Part III of the Constitution. Accordingly forming a co-operative society is part of fundamental rights similar to forming an association or unions. Article 243ZI of the Act provides that the State may by law make provisions with respect to incorporating, regulating and winding up co-operative societies based on the principles of voluntary formation, democratic member control, member economic participation, autonomous functioning and professional management. The other important provisions of the Act, *inter-alia*, include:

- The number of directors in the Board of a co-operative society shall not be more than 21.
- The Act provides for co-option of two directors, in addition to a maximum number of 21, having experience in the field of banking, management, finance or specialisation in any other field relating to the objectives and activities undertaken by the society.
- The term of office of the elected members of the Board and its office bearers shall be five years from the date of the election and the term of the office bearers shall be coterminous with the term of the Board.
- The Board of a society shall not be superseded and kept under suspension for a period exceeding six months. This period would be one year for a co-operative society, other than a multi-state co-operative society, carrying on the business of banking. In the case of a co-operative society carrying on the banking business, the provisions of the Banking Regulation Act, 1949 shall also apply.
- The accounts should be audited within six months of the close of the financial year to which such accounts relate, by an auditor or auditing firm appointed by the general body of the co-operative society.
- AGM shall be convened within a period of six months of close of the financial year to transact business as may be provided by law.

Implications for UCBs

The provisions of the Constitution (97th Amendment) Act, 2011 would bring uniformity with respect to all the State Co-operative Societies Acts. Some of the implications of the amendments on the functioning of UCBs are:

- *Supersession of Board:* At present, many of the State Co-operative Societies Acts have provisions to suspend/ supersede the Board of UCBs for a maximum period of five years. The period will be restricted to six months. However, the requirement that Registrar of Co-operative Societies (RCS) would supersede the board of a UCB at the request of the Reserve Bank will continue. The Board

(Contd...)

(...Concld.)

of a multi state co-operative bank, can be superseded for a period of five years as provided under section 36AAA of the Banking Regulation Act, 1949 (AACS).

- *Co-option of professional directors*: Since the Act provides for co-option of two professional directors having experience in the field of banking, management and finance, it will bring professionalism in the working of UCBs. The Reserve Bank had earlier prescribed that UCBs should have at least two professional directors on their Boards. Amendments to the State Acts in this regard will make the RBI's prescriptions enforceable under law.
- *Appointment of an auditor*: The Act provides for audit by a qualified auditor appointed by the general body of the co-operative society from a panel of qualified auditors approved by the State Government. As per the existing provisions in the State Co-operative Societies Acts, the appointment of an auditor is being done by RCS.
- *Election of the Board*: Since the Act provides that election of a Board shall be conducted before the expiry of the term of the Board, the elections to the Board of UCBs will not be postponed indefinitely.
- The Act would also increase participation by members in the activities of the UCBs as the minimum requirement for attending meeting and utilising the services by members has to be provided by the States by law.

The amendments are expected to result in improved functioning and performance of urban co-operative banks.

Source: *Constitution (97th Amendment) Act, 2011*, Government of India.

terms of priority in providing credit to weaker sections by UCBs. The aggregate credit to weaker sections has increased in 2012-13 reflecting improved financial inclusion efforts by UCBs (Chart V.14).

Concentration of banking business of UCBs continued to be in the western region

5.23 The banking business of UCBs comprising of deposits *plus* advances continued to be concentrated largely in the western region. The

Chart V.13: Percentage Distribution of Credit to Select Priority Sectors by UCBs

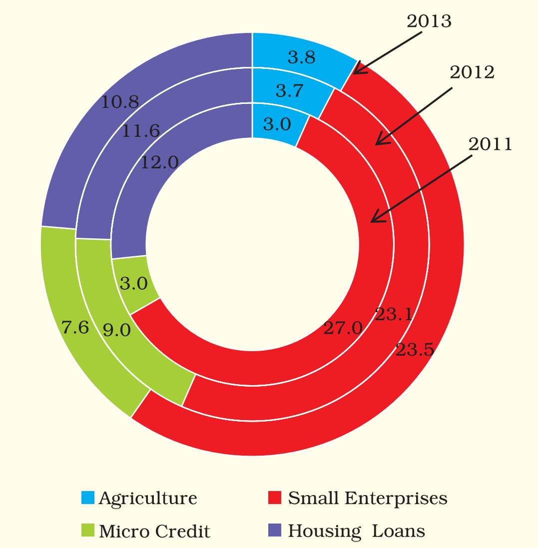


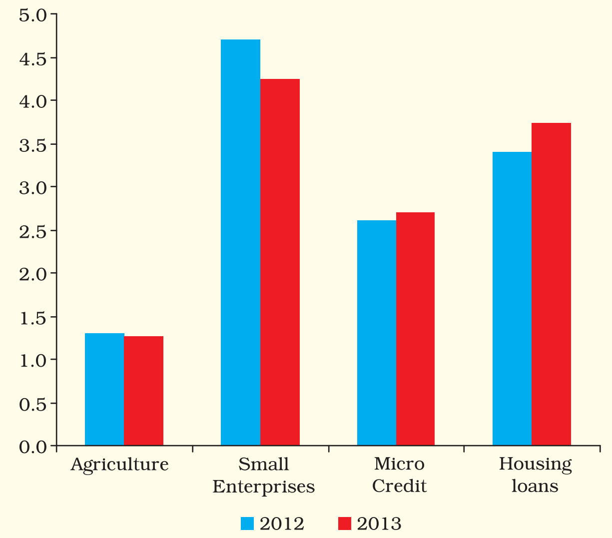
Table V.10: Composition of Credit to Priority Sectors by UCBs
(As at end-March 2013)

(Amount in ₹ billion)

Sector	Composition of total priority sector credit		*Of which*, composition of credit to weaker sections	
	Amount	Percentage to total	Amount	Percentage to total
1	2	3	4	5
1. Agricultural credit	**68**	**3.8**	**23**	**1.3**
1.1 Direct agricultural credit	25	1.4	7	0.4
1.2 Indirect agricultural credit	43	2.4	16	0.9
2. Small Enterprises	**425**	**23.5**	**77**	**4.2**
2.1 Direct credit to small enterprises	368	20.3	62	3.4
2.2 Indirect credit to small enterprises	57	3.2	15	0.8
3. Micro Credit	**138**	**7.6**	**49**	**2.7**
3.1 Loans to SHG/JLG	17	0.9	6	0.3
3.2 Loans to others	121	6.7	43	2.4
4. State-sponsored organisations for SC/ST	**1**	**0.1**	**0.5**	-
5. Education loans	**17**	**0.9**	**7**	**0.4**
6. Housing loans	**195**	**10.8**	**68**	**3.7**
7. Loans to SHG/JLG (more than ₹50,000)	**10**	**0.5**	**2**	**0.1**
All priority sectors	**853**	**47.1**	**225**	**12.4**

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

Chart V.14: Percentage Distribution of Credit to Weaker Sections by UCBs in Total Credit



southern region accounting for about one-sixth of the banking business of UCBs stood at a distant second position. These two regions together with 27 per cent of the total districts in India accounted for about 91 per cent of the total banking business of UCBs (Table V.11 and Appendix Table V.3). On the other hand, the remaining four regions with 73 per cent of the total districts had a share of around 9 per cent in the total banking business of UCBs.

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

Region	Percentage share in total number of districts	Percentage share in total banking business of UCBs
1	2	3
	Regions of low concentration	
Northern region	18.0	3.2
North-eastern region	10.8	0.4
Eastern region	18.0	1.7
Central region	26.3	3.4
Sub-total	**73.1**	**8.7**
	Regions of high concentration	
Western region	10.2	74.7
Southern region	16.7	16.6
Sub-total	**26.9**	**91.3**
All-India	**100.0**	**100.0**

3. Rural Co-operatives[3]

Short-term co-operatives continued to dominate the rural co-operative credit structure

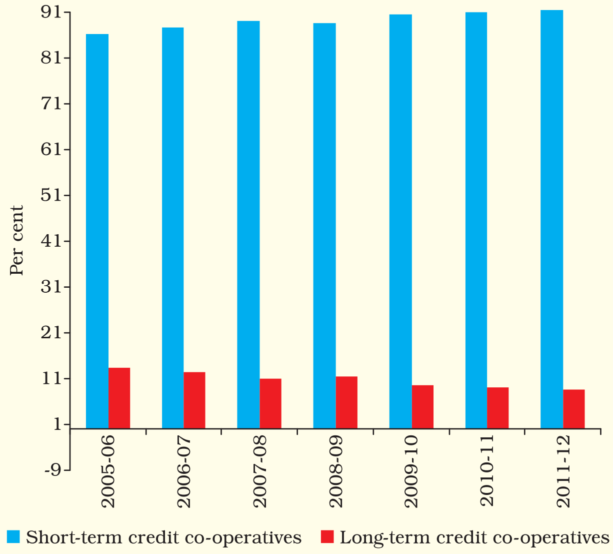
5.24 The role of rural co-operatives in providing agricultural credit has weakened over the years due to myriad factors as reflected in the decline in the share of these institutions in total agricultural credit from 64 per cent in 1992-93 to around 17 per cent in 2011-12 necessitating corrective steps in rural co-operative credit institutions. Within rural co-operatives, the short-term credit co-operatives occupy a significant position in providing credit to the agriculture sector[4]. The share of short-term credit co-operatives, comprising State Co-operative Banks (StCBs), District Central Co-operative Banks (DCCBs) and Primary Agricultural Credit Societies (PACS), continued to be above 90 per cent of the total assets of the rural co-operative credit institutions at end-March 2012 while the long-term credit co-operatives accounted for the remaining 10 per cent of total assets (Chart V.15 and Table V.12)[5].

[3] The section is based on the year 2011-12 given the lagged availability of data for rural co-operatives.

[4] Short-term rural credit co-operatives comprise of State Co-operative Banks (StCBs) at the State level, District Central Co-operative Banks (DCCBs) at the district level and Primary Agricultural Credit Societies (PACS) at the village level. In 19 states, there exists a 3-tier short-term co-operative credit structure, comprising StCBs, DCCBs and PACS and in 12 states, there exists a 2- tier short-term co-operative credit structure. In the north-eastern States, including Sikkim, the structure is a 2-tier structure, comprising of StCBs and PACS.

[5] The long-term rural co-operatives include State Co-operative Agriculture and Rural Development Banks (SCARDBs) operating at the State-level and PCARDBs operating at the district/block level. In most north-eastern States, except Assam and Tripura, there is no separate structure of long-term rural co-operatives. In Assam and Tripura, as also in Bihar, Uttar Pradesh and Gujarat, there is a unitary structure, with SCARDBs operating through their branches at the district-level and no separate entity of PCARDBs. By contrast, in other States except Himachal Pradesh and West Bengal, there is a federal structure, with SCARDBs operating through PCARDBs. In Himachal Pradesh and West Bengal, there is a mixed structure, with SCARDBs operating through PCARDBs as well as through their branches.

Chart V.15: Composition of Rural Co-operative Credit Structure, by Short and Long-term Credit Co-operatives



Short-term co-operatives reported losses as the profitability of StCBs and DCCBs was entirely outpaced by the losses incurred by PACS

5.25 The financial performance of short-term credit co-operatives, at the aggregate level, showed losses in 2011-12 in contrast to profitability in the preceding three years primarily due to the losses incurred by the primary agricultural credit societies. While the StCBs and DCCBs reported net profits during 2011-12, the extent of losses incurred by PACS, *i.e.*, third layer of the 3-tier short-term co-operative credit structure outpaced the profits of the other two tiers of short-term co-operative credit institutions. Long-term credit co-operatives showed a continued deterioration in profitability (Chart V.16).

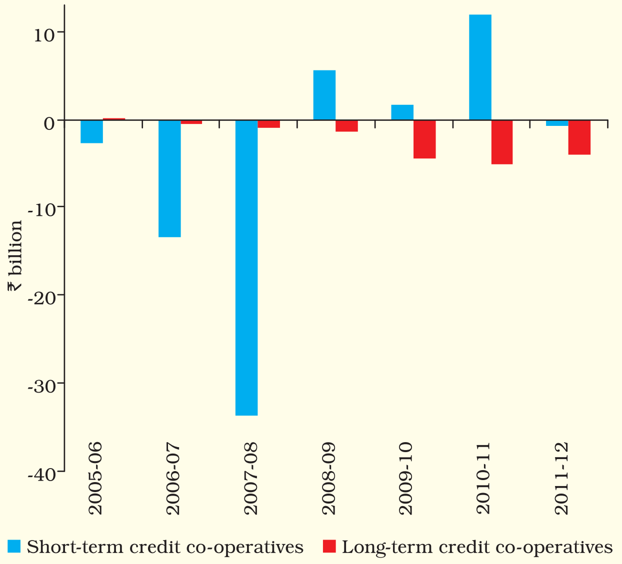
Table V.12: A Profile of Rural Co-operatives
(As at end-March 2012)

(Amount in ₹ billion)

Item	Short-term			Long-term	
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs
1	2	3	4	5	6
A. Number of Co-operatives	31	370	92,432	20	697
B. Balance Sheet Indicators					
i. Owned Funds (Capital + Reserves)	145	359	160	64	48
ii. Deposits	867	1768	503	11	5
iii. Borrowings	427	505	888	160	135
iv. Loans and Advances	756	1448	912	194	120
v. Total Liabilities/Assets	1,479	2,573	1,605+	294	262
C. Financial Performance					
i. Institutions in Profit					
a. Number	28	318	45,433	10	358
b. Amount of Profit	7	17	14	1	2
ii. Institutions in Loss					
a. Number	3	52	36,375	10	338
b. Amount of Loss	2	3	34	3	4
iii. Overall Profit (+)/Loss (-)	5	14	-20	-2	-2
D. Non-performing Assets					
i. Amount	52	154	243++	64	47
ii. As percentage of Loans Outstanding	6.8	9.7	26.8	33.1	38.6
E. Recovery of Loans to Demand Ratio (Per cent)	96	78	73	41.3	47.3

StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.
+: Working capital. ++: Total overdues
Notes: 1. Data for the year 2011-12 are provisional.
2. Manipur SCARDB is defunct.
Source: NABARD and NAFSCOB.

Chart V.16: Profitability of Rural Co-operative Credit Structure



Short-term rural credit co-operatives

State Co-operative Banks

Sustained growth in the balance sheet of StCBs in 2011-12

5.26 The growth in the balance sheet of StCBs was sustained in 2011-12. High growth in borrowings led to an increase on the liabilities side of their balance sheets in 2011-12, while the increase on the assets side, largely emanated from the growth in loans and advances (Table V.13).

Table V.13: Liabilities and Assets of State Co-operative Banks

(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
Liabilities				
1. Capital	21 (1.6)	26 (1.7)	26.7	23.8
2. Reserves	118 (8.8)	120 (8.1)	54.8	1.7
3. Deposits	809 (60.6)	849 (57.2)	-0.4	4.9
4. Borrowings	324 (24.3)	417 (28.1)	38.3	28.6
5. Other Liabilities	64 (4.8)	72 (4.9)	-28.7	12.5
Assets				
1. Cash and Bank Balances	83 (6.2)	94 (6.4)	-21.1	13.3
2. Investments	525 (39.3)	566 (38.1)	-5.2	7.8
3. Loans and Advances	660 (49.4)	756 (51.0)	33.9	14.5
4. Other Assets	68 (5.1)	67 (4.5)	-11.5	1.5
Total Liabilities/Assets	**1,336 (100.0)**	**1,483 (100.0)**	**8.7**	**11.0**

Notes: 1. Figures in parentheses are percentages to total liabilities/ assets.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

Continued growth in the balance sheet of scheduled StCBs in 2012-13

5.27 Balance sheets of scheduled StCBs for 2012-13 were analysed based on advance information available from Section 42(2) returns to assess emerging trends. Trends suggest that there was a substantial increase in credit while deposits increased moderately in 2012-13, reflecting reliance on borrowings by StCBs to meet credit demand (Table V.14).

Table V.14: Trends in Select Balance Sheet Indicators of Scheduled State Co-operative Banks

(Amount in ₹ billion)

Item	2010-11	2011-12	2012-13
1	2	3	4
Deposits	594 (-8.9)	640 (7.8)	715 (11.6)
Credit	587 (35.4)	694 (18.3)	853 (22.9)
SLR Investments	213 (-10.8)	209 (-1.8)	225 (7.7)
Credit plus SLR Investments	800 (19.0)	904 (12.9)	1078 (19.3)

Notes: 1. Figures in parentheses indicate growth in per cent over the previous year.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: Final Form A/B under Section 42(2) of the RBI Act, 1934.

Considerable improvement in the profitability of StCBs in 2011-12 on account of higher growth in income

5.28 The StCBs' net profits in 2011-12 were more than double the amount recorded by these institutions in 2010-11 (Table V.15). The increased profitability of StCBs was because growth in income outpaced that of expenditure. The growth in income has largely emanated from

Table V.15: Financial Performance of State Co-operative Banks

(Amount in ₹ billion)

Item	As during		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5
A. Income (i+ii)	**93**	**102**	**12.8**	**9.7**
	(100.0)	**(100.0)**		
i. Interest Income	88	97	12.7	10.2
	(94.9)	(95.0)		
ii. Other Income	5	5	14.4	12.4
	(5.1)	(5.3)		
B. Expenditure (i+ii+iii)	**91**	**97**	**13.7**	**6.8**
	(100.0)	**(100.0)**		
i. Interest Expended	71	79	7.6	11.3
	(78.2)	(80.9)		
ii. Provisions and Contingencies	8	5	98.9	-37.5
	(8.7)	(5.3)		
iii. Operating Expenses	12	13	19.7	8.3
	(13.2)	(13.8)		
Of which, Wage Bill	7	8	27.3	2.9
	(8.2)	(7.9)		
C. Profits				
i. Operating Profits	10	10	54.9	4.8
ii. Net Profits	2	5	-16.5	155.9

Notes: 1. Figures in parentheses are percentages to total income/expenditure.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

interest income. On the expenditure front, the increase was primarily contributed by interest expenditure.

Improvement in the asset quality of StCBs in 2011-12

5.29 There was a decline in the amount of NPAs of StCBs in 2011-12. This was largely due to a decrease in sub-standard assets and doubtful assets (Table V.16). The recovery-to-demand ratio measuring the extent of recovery of loans as a proportion of expected recovery improved to around 94 per cent in 2011-12 resulting in a lower NPA ratio.

The financial soundness of StCBs exhibits perceptible improvement

5.30 There has been a discernible improvement in the financial soundness of StCBs in recent years. The NPA ratio of StCBs showed a consistent decline between 2008 and 2012, while the recovery ratio, recorded a consecutive increase during the same period (Chart V.17).

Table V.16: Soundness Indicators of State Co-operative Banks

(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
A. Total NPAs (i+ii+iii)	56	52	29.3	-7.1
i. Sub-standard	17	15	30.1	-11.8
	(30.8)	(28.4)		
ii. Doubtful	26	23	15.0	-11.5
	(45.3)	(45.3)		
iii. Loss	13	14	67.5	1.1
	(23.9)	(26.3)		
B. NPA-to-Loans Ratio (%)	**8.6**	**6.8**	-	-
C. Recovery-to-Demand Ratio (%)	**91.8**	**93.9**	-	-

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

Source: NABARD.

StCBs witnessed an improvement in their financial health across most regions

5.31 There was general improvement in the financial health of StCBs in terms of NPAs and

Chart V.17: Indicators of Financial Soundness of StCBs

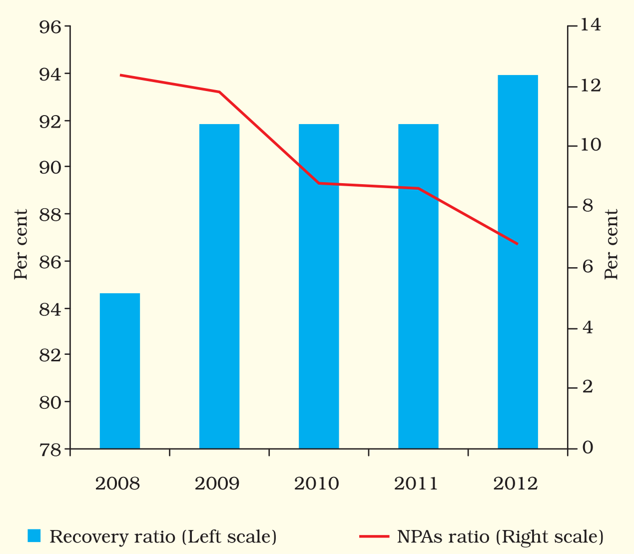
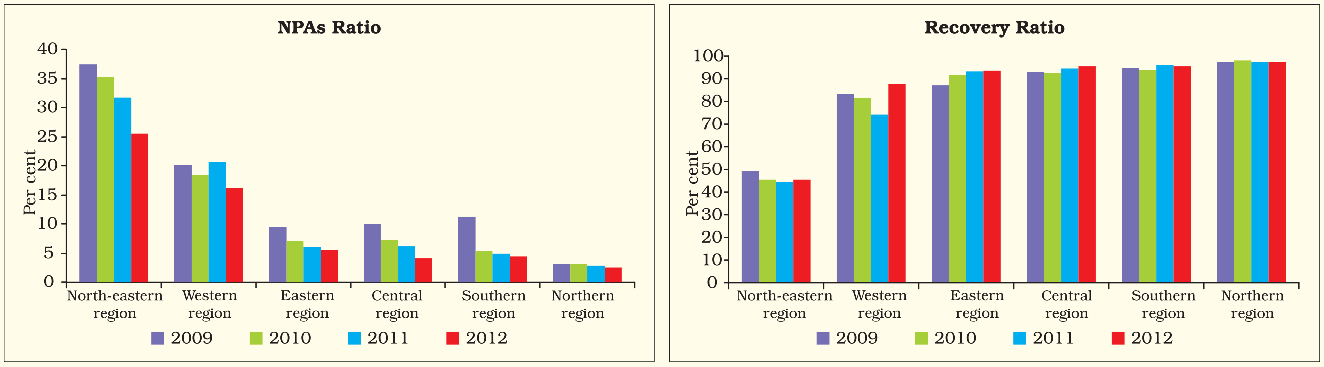


Chart V.18: Financial Health of StCBs by Region



Source: NABARD.

recovery ratios across all regions reflecting strengthened prudential norms and regulations (Chart V.18 and Appendix Table V.4). While the NPA ratio declined across all regions, the recovery ratio registered a marginal decline in the southern region in contrast to other regions.

5.32 The western region with a well established co-operative credit system showed appreciable improvement in the recovery ratio but had a considerably higher ratio of NPAs of over 16 per cent in 2012. On the other hand, the financial health of StCBs in the northern and southern regions was the most robust, with a NPA ratio of less than 5 per cent and the recovery ratio exceeding 95 per cent during the year.

District Central Co-operative Banks

Near steady growth in the balance sheet of DCCBs in 2011-12 vis-à-vis 2010-11

5.33 District Central Co-operative Banks (DCCBs) witnessed near stable growth in their balance sheet in 2011-12 which was almost the same as that in the preceding year (Table V.17).

Improvement in the profitability of DCCBs in 2011-12

5.34 DCCBs reported better performance in terms of net profit in 2011-12 as compared to 2010-11. The improvement was facilitated by an increase in interest income which was in tune with the trend witnessed in the case of StCBs. Interest income constituted about 94 per cent of the total income. Operating expenses on staff and other heads continued to be higher in the case of DCCBs,

Table V.17: Liabilities and Assets of District Central Co-operative Banks

(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
Liabilities				
1. Capital	80 (3.1)	90 (3.1)	9.0	12.5
2. Reserves	251 (9.7)	269 (9.2)	74.2	7.2
3. Deposits	1,680 (65.2)	1,842 (62.7)	9.9	9.6
4. Borrowings	425 (16.5)	508 (17.3)	48.3	19.5
5. Other Liabilities	143 (5.5)	229 (7.8)	-35.7	60.4
Assets				
1. Cash and Bank Balances	188 (7.3)	200 (6.8)	22.4	6.4
2. Investments	861 (33.4)	932 (31.7)	9.2	8.2
3. Loans and Advances	1,318 (51.1)	1,579 (53.8)	19.1	19.8
4. Other Assets	211 (8.2)	226 (7.7)	2.8	7.0
Total Liabilities/Assets	**2,578 (100.0)**	**2,937 (100.0)**	**14.4**	**13.9**

Notes: 1. Figures in parentheses are percentages to total assets/ liabilities.
2. Data for 2011-12 are provisional.
3. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

Table V.18: Financial Performance of District Central Co-operative Banks

(Amount in ₹ billion)

Item	As during		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5
A. Income (i+ii)	**191**	**230**	**7.7**	**20.3**
	(100.0)	**(100.0)**		
i. Interest Income	179	216	12.1	21.0
	(93.6)	(94.2)		
ii. Other Income	12	13	-31.7	8.3
	(6.4)	(5.8)		
B. Expenditure (i+ii+iii)	**181**	**216**	**9.2**	**19.3**
	(100.0)	**(100.0)**		
i. Interest Expended	113	136	9.1	20.3
	(62.3)	(62.9)		
ii. Provisions and Contingencies	21	24	-5.7	14.2
	(11.6)	(11.1)		
iii. Operating Expenses	47	56	17.7	19.1
	(26.1)	(26.0)		
Of which, Wage Bill	31	33	19.3	6.4
	(17.3)	(15.4)		
C. Profits				
i. Operating Profits	31	38	8.5	23.3
ii. Net Profits	10	14	-14.0	42.7

Notes: 1. Figures in parentheses are percentages to total income/expenditure.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

as compared with StCBs, due to a large network of banks (Table V.18).

Improvement in asset quality of DCCBs

5.35 The asset quality of DCCBs improved in 2011-12 with the NPA ratio showing a decline (Table V.19). This is broadly in line with the direction observed in the case of StCBs (Table V.19 and Table V.16). However, DCCBs' recovery ratio despite some improvement in 2011-12, was significantly lower than the ratio of StCBs underscoring the wider gap between expected and actual recovery in the case of DCCBs.

Improvement in the soundness indicators of DCCBs

5.36 The soundness indicators of DCCBs have exhibited continued improvement in recent years partly reflecting the strengthened prudential norms and regulations implemented for these institutions. The recovery ratio of DCCBs showed a moderate increase, while the NPA ratio recorded a decline (Chart V.19).

Table V.19: Soundness Indicators of District Central Co-operative Banks

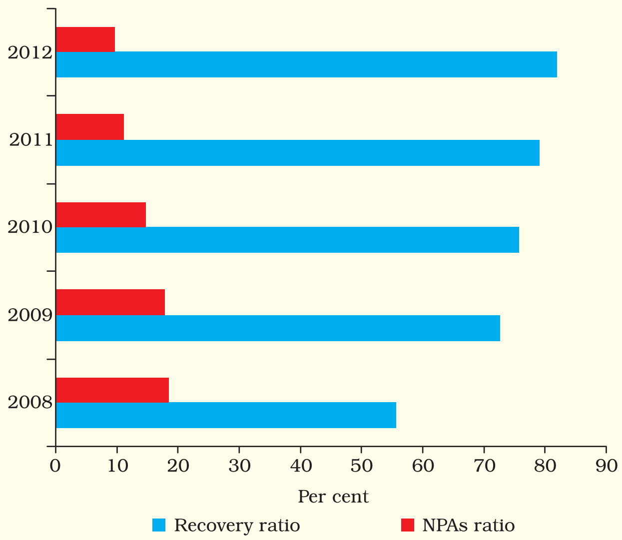
(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
A. Total NPAs (i+ ii + iii)	**148**	**154**	**-9.5**	**4.0**
i) Sub- standard	59	60	-19.1	1.7
	(39.9)	(39.0)		
ii) Doubtful	62	68	-3.5	9.7
	(41.9)	(44.2)		
iii) Loss	27	26	2.1	-3.7
	(18.2)	(16.8)		
B. NPA-to-Loans Ratio (%)	**11.2**	**9.7**	-	-
C. Recovery-to-Demand Ratio (%)	**79.1**	**81.9**	-	-

Notes: 1. Figures in parentheses are percentages to total NPAs.
2. Data for 2011-12 are provisional.
3. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

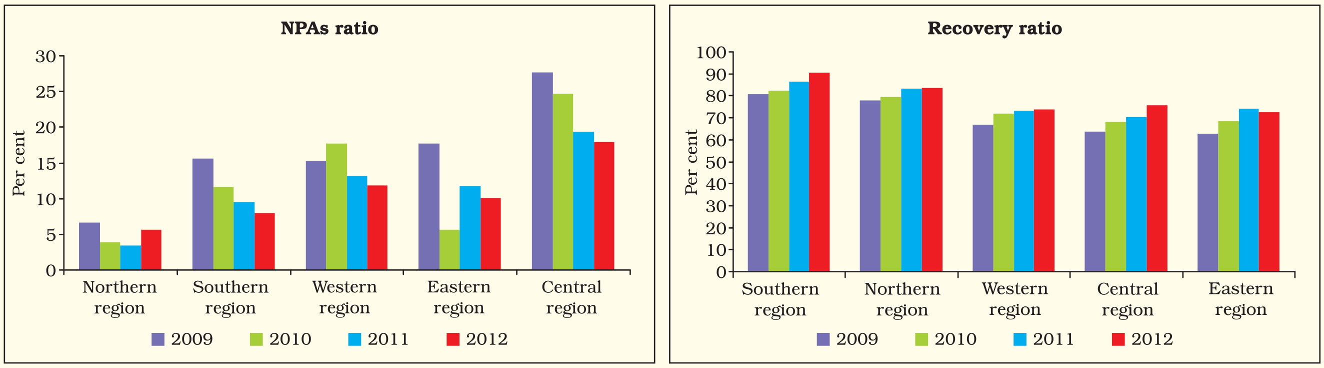
Source: NABARD.

Chart V.19: Indicators of Financial Health of DCCBs



Source: NABARD.

Chart V.20: Financial Health of DCCBs by Region



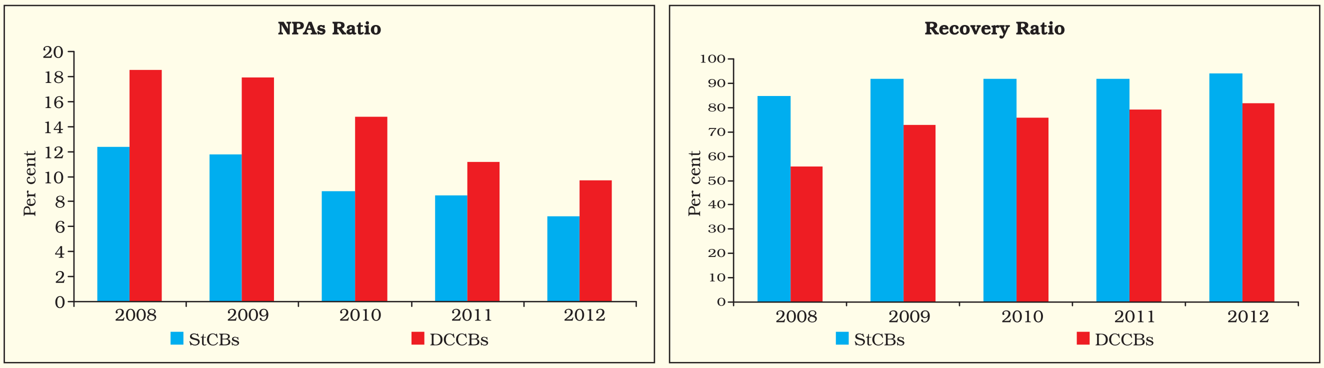
Note: DCCBs are not present in the north-eastern region on account of a two-tier short-term co-operative credit structure comprising StCBs and PACS; hence, they are not shown in the Chart.
Source: NABARD.

Financial health of DCCBs showed some improvement but lower recovery vis-a-vis StCBs

5.37 There was an improvement in the financial health of DCCBs at the aggregate level. Region-wise performance suggests that DCCBs in the southern and northern regions were financially more robust in terms of low NPAs and a high recovery ratio (Chart V.20 and Appendix Table V.5). The financial health of DCCBs in the central, eastern and western regions appeared to be relatively less robust. However, the gap across regions in terms of both these indicators has narrowed significantly over the years indicating an improvement of DCCBs as an entity.

5.38 Notwithstanding the decline in the NPA ratio and the rise in the recovery ratio, it needs to be recognised that the financial soundness indicators of DCCBs remained generally much weaker than that of StCBs (Chart V.21). The major indicator of the health of co-operatives, *viz*., NPA ratio, continued to be higher for DCCBs than it was for StCBs. Further, the recovery ratio of DCCBs remained much lower than that of StCBs.

Chart V.21: Comparison of Financial Soundness of StCBs and DCCBs



Source: NABARD.

Primary Agricultural Credit Societies

Sharp deceleration in PACS credit growth in 2011-12

5.39 PACS witnessed a sharp deceleration in credit growth in 2011-12 over 2010-11 (Chart V.22 and Table V.20).

Low borrower-to-member ratio for PACS

5.40 The borrower-to-member ratio is a useful indicator of access to credit from PACS. The average ratio during 2008-09 to 2011-12 hovered around 40 per cent indicating that only less than half the PACS members accessed credit from these institutions. The borrower-to-member ratio with respect to small farmers closely tracked the movement in overall borrower-to-member ratio. However, the average ratio was significantly lower at 28 per cent among Scheduled Castes and Scheduled Tribes (SCs/STs) during this period (Chart V.23).

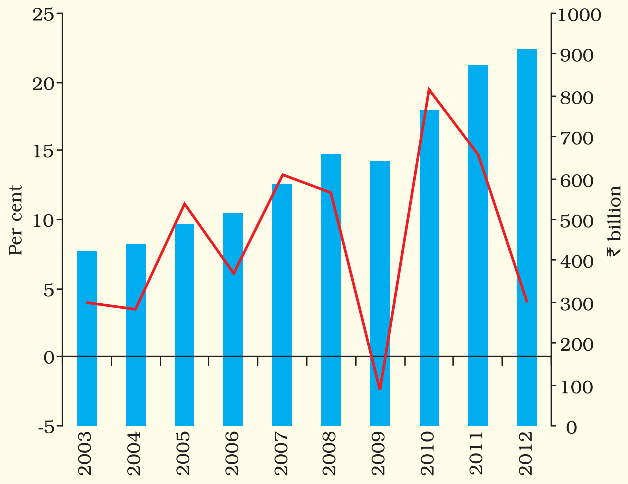
Table V.20: Primary Agricultural Credit Societies - Select Balance Sheet Indicators

(Amount in ₹ billion)

Item	As at end-March 2011	As at end-March 2012	Percentage Variation 2011-12
1	2	3	4
A. Liabilities			
1. Total Resources (2+3+4)	1,057	1,551	46.7
2. Owned Funds (a+b)	145	160	10.3
a. Paid-up Capital	76	83	9.2
Of which, Government Contribution	6	7	16.7
b. Total Reserves	69	77	11.8
3. Deposits	372	503	35.2
4. Borrowings	540	888	64.5
5. Working Capital	1,442	1,605	11.3
B. Assets			
1. Total Loans Outstanding (a+b)	878	912	3.9
a) Short-Term	636	594	-6.6
b) Medium-Term	241	318	31.8

Note: Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.
Source: NAFSCOB.

Chart V.22: Growth in credit outstanding from PACS

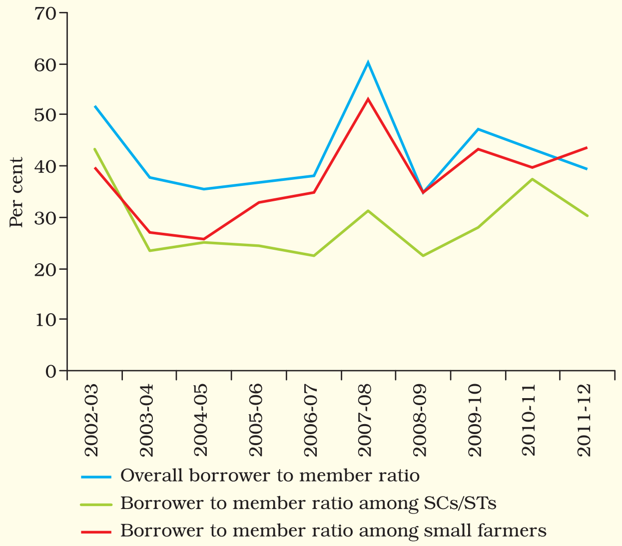


Source: NAFSCOB.

The number of loss-making PACS continued to be large

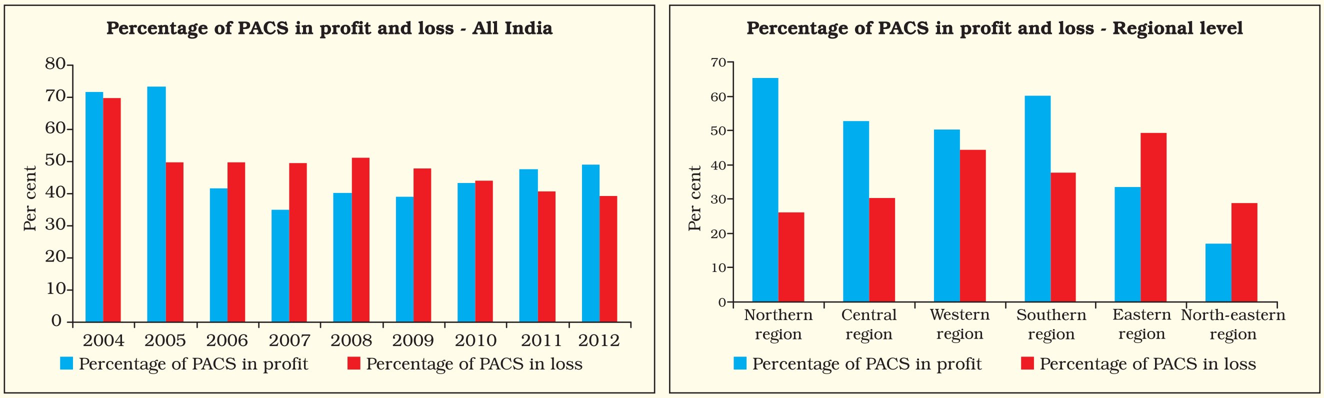
5.41 The percentage of loss-making PACS, despite a decline in recent years, continued to be large. The pace of decline in the percentage of loss-making PACS was lower than the rise in the percentage of profit-making PACS. At end-March

Chart V.23: Borrower to member ratio of PACS



Source: NAFSCOB.

Chart V.24: Percentage of PACS in Profits and Loss



2012, the percentage of loss-making PACS stood at about 39.4 per cent, while those in profit accounted for 49.2 per cent of the total number of PACS (Chart V.24)[6].

5.42 The Reserve Bank of India had constituted an Expert Committee to have a relook at the functioning of the short-term co-operative credit structure (STCCS) from the point of view of the role played by STCCS in providing agricultural credit. The committee has made a set of recommendations for action to be taken by various stakeholders (Box V.2).

Box V.2: Major Recommendations of the Expert Committee to Examine 3-Tier Short-term Co-operative Credit Structure

Under-capitalisation, *inter alia*, is one of the major problems afflicting the 3-tier co-operative credit institutions. This is sought to be addressed largely through implementing the recommendations of the Vaidyanathan Committee on strengthening co-operative banks. Even after capital infusion, as on July 19, 2013, 23 unlicensed banks in four States were unable to meet the licensing criteria as issuing of licences to these institutions is contingent upon their attaining minimum risk-weighted capital ratio of 4 per cent. It is against this backdrop, the Reserve Bank constituted an Expert Committee to examine the 3-Tier Short-term Co-operative Credit Structure (Chairman: Dr. Prakash Bakshi) with a set of objectives: (i) to have a relook at the functioning of the Short-term Co-operative Credit Structure (STCCS) from the point of view of the role played by them in providing agricultural credit; (ii) to identify Central Co-operative Banks (CCBs) and State Co-operative Banks (StCBs) which may not remain sustainable in the long-run even if some of them have met the diluted licensing criteria; (iii) to suggest appropriate mechanisms for consolidating by way of amalgamation, merger, takeover, liquidation and delayering; and (iv) to suggest proactive measures to be taken by co-operative banks and various stakeholders. The Committee submitted its report to the Reserve Bank in January 2013.

The major findings and recommendations of the Committee are:

Findings

- STCCS's share in providing agricultural credit dipped to 17 per cent at the aggregate level.
- STCCS, which was primarily constituted for providing agricultural credit must provide at least 15 per cent of the agriculture credit requirements in its operational area, gradually increasing to at least 30 per cent. Around 40 per cent of the loans provided by PACS and almost half the loans provided by CCBs are for non-agricultural purposes. PACS and CCBs were not performing the role

(Contd...)

[6] With regard to the remaining PACS, either they broke even, reporting neither profit nor loss, or there was no information available on their financial health.

(...Concld.)

for which they were constituted.

- About 209 of the 370 CCBs would require additional capital aggregating ₹65 billion in four years to attain 9 per cent CRAR by 2016-17.
- Almost two third of the deposits with StCBs are deposits made by CCBs in the form of term deposits for maintaining their SLR and CRR requirements. However, StCBs lend far higher amounts to the same CCBs and also invest in loans which have generally resulted in higher NPAs, thus putting the SLR and CRR deposits made by CCBs at risk.

Recommendations

- CCBs should provide at least 70 per cent of their loans for agriculture. If a CCB or StCB consistently underperforms and provides less than 15 per cent share of agricultural credit in the operational area, the bank should be declared and treated as an urban co-operative bank.
- StCBs in the north-eastern region as well as in smaller states and Union Territories where the provision of credit to agriculture is insignificant and so they are catering to the requirements of the urban population may be declared as urban co-operative banks.
- Deposits of members of PACS are not covered by DICGC and PACS are not in a position to issue Kisan Credit Cards (KCC) that are transactable/work on ATMs and POS devices since they are not part of the banking system. CCBs should, therefore, provide these services directly by using PACS as their business correspondents (BCs). All depositors and borrowers of PACS, therefore, would become normal shareholding members of the CCB with voting rights for all active members.
- Amendments to the State Co-operative Societies Acts, Rules and bye-laws would be necessary in each state with regard to the definition of active members for the purpose of mobilising deposits and disbursing loans.
- CCBs may be permitted by the Reserve Bank to issue fixed interest bearing deposits of 10 years or more with a lock-in period of five years for its members and to treat such deposits as Tier-I capital. CCBs may be permitted to issue perpetual bonds or debt instruments to be contributed by states, individuals and other entities, and these may be treated as Tier-I capital.
- The Reserve Bank may permit Tier-II capital to be treated as Tier-I capital to an extent of 150 per cent of the Tier-I capital fund for a period of five years.
- There is a need to assess the human resources requirements consequent on the transition of StCBs and CCBs to CBS and other ICT platforms.
- The Reserve Bank to modify the banking licence of any CCB to include additional operational area from which a PACS could work as BC of a CCB.
- The Banking Regulation Act needs to be amended to give direct and overriding authority to the Reserve Bank over any other law for superseding the Board or removing any director on the board of a StCB.
- September 30, 2013 to be set as the deadline for all StCBs and CCBs to be fully operational on CBS and providing RTGS, NEFT, ATM and POS device based services.
- StCBs and CCBs to be fully included in the financial inclusion and EBT drive. Deposits of governments and government agencies also to be made in StCBs and CCBs which have achieved 7 per cent CRAR and are on CBS.
- CCBs and StCBs to be covered by the Banking Ombudsman or a similar mechanism that may be developed by the Reserve Bank with NABARD.

An Implementation Committee (Chairman: Shri V. Ramakrishna Rao, Executive Director, NABARD) has been constituted with members from NABARD and the Reserve Bank for expeditious implementation of these recommendations wherever applicable.

The implementation of these recommendations is likely to strengthen rural co-operative credit institutions.

Reference: NABARD (2013), *Report of the Committee to Examine Three Tier Short-term Co-operative Credit Structure*, January.

Greater concentration of loss-making PACS in the eastern and north-eastern regions

5.43 The percentage of loss-making PACS was the largest in the north-eastern and eastern regions. In the western region, which had a considerable share of PACS, the percentage of profit-making societies was marginally higher than the number of loss-making societies. In the northern, southern and central regions, the percentage of profit-making societies exceeded the percentage of loss-making societies by a wide margin (Chart V.24 and Appendix Table V.6).

Long-term rural co-operatives

State Co-operative Agriculture and Rural Development Banks

Subdued growth in the balance sheet of SCARDBs in 2011-12

5.44 There was deceleration in the growth in the balance sheets of SCARDBs in 2011-12 primarily due to lower growth in borrowings, which accounted for about 54 per cent of the total liabilities of these institutions. On the assets side, the major driver of growth was credit, which accounted for around 66 per cent of the total assets of these institutions (Table V.21). A comparison of the balance sheets of apex-level institutions in short and long-term co-operative credit institutions reveals that the capital position of SCARDBs has been considerably weaker as compared with StCBs in recent years. Deteriorating asset and credit positions have also been a feature of SCARDBs.

SCARDBs reported losses in 2011-12 as they did in 2010-11

5.45 SCARDBs reported losses in 2011-12, as was the case in 2010-11. SCARDBs' loss-making position was on account of a decline in interest income coupled with increased growth in their total expenditure on account of a steep rise in provisions and contingencies and operating expenses (Table V.22).

Asset quality of SCARDBs weakened further

5.46 The asset quality of SCARDBs weakened further with the NPA ratio hovering above

Table V.21: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
Liabilities				
1. Capital	19 (6.6)	19 (6.4)	129.2	0.0
2. Reserves	39 (13.8)	45 (15.2)	14.4	15.4
3. Deposits	10 (3.4)	11 (3.6)	26.4	10.0
4. Borrowings	158 (55.6)	160 (54.2)	1.6	1.3
5. Other Liabilities	59 (20.6)	61 (20.6)	17.9	3.4
Assets				
1. Cash and Bank Balances	2 (0.8)	2 (0.6)	13.4	0.0
2. Investments	27 (9.4)	23 (7.7)	-14.5	-14.8
3. Loans and Advances	185 (64.9)	194 (65.8)	8.6	4.9
4. Other Assets	71 (24.9)	76 (25.9)	35.7	7.0
Total Liabilities/Assets	**285 (100.0)**	**294 (100.0)**	**11.3**	**3.2**

Notes: 1. Figures in parentheses are percentages to total assets/ liabilities.
2. SCARDB in Manipur is defunct.
3. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

Table V.22: Financial Performance of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	As during		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5
A. Income (i+ii)	**21 (100)**	**22 (100)**	**4.2**	**4.8**
i. Interest Income	20 (94.0)	20 (93.7)	13.7	-0.2
ii. Other Income	1.3 (6.0)	1.4 (6.3)	-54.6	7.7
B. Expenditure (i+ii+iii)	**21 (100)**	**24 (100)**	**1.1**	**14.3**
i. Interest Expended	13 (62.8)	14 (58.3)	1.8	7.7
ii. Provisions and Contingencies	5 (21.7)	6 (24.2)	-4	20.0
iii. Operating Expenses	3 (15.5)	4 (17.2)	5.8	33.3
Of which, Wage Bill	3 (74.6)	3 (71.4)	7.0	16.0
C. Profits				
i. Operating Profits	5	4	10.9	-20.0
ii. Net Profits/Loss	-0.0	-2.0	-	-

Notes: 1. Figures in parentheses are percentages to total income/ expenditure.
2. Data for the year 2011-12 are provisional.
3. SCARDB in Manipur is defunct.
4. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

Table V.23: Asset Quality of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

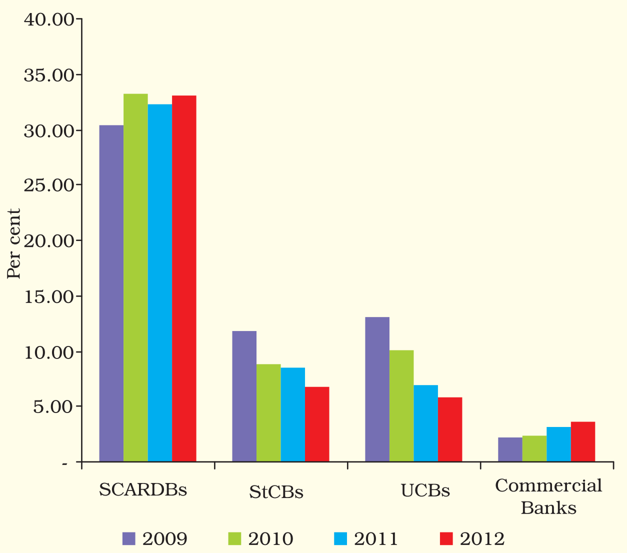
Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**60**	**64**	**5.6**	**6.7**
i. Sub-standard	29	30	3.1	3.4
	(48.9)	(46.4)		
ii. Doubtful	30	34	11.1	13.3
	(50.8)	(53.3)		
iii. Loss	0.2	0.2	-81.6	8.3
	(0.3)	(0.3)		
B. NPA-to-Loans Ratio (%)	**32.3**	**33.1**	-	-
C. Recovery-to-Demand Ratio (%)	**40.2**	**41.3**	-	-

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

Source: NABARD.

33 per cent (Table V.23). The NPA ratio of SCARDBs remained far higher than other segments of co-operatives as well as that for commercial banks suggesting the extent of the problems plaguing this long-term rural co-operatives segment (Chart V.25).

Chart V.25: Comparison of NPAs ratio of SCARDBs with Other Cooperative and Commercial Banks



SCARDBs in the western region had highest NPA ratios

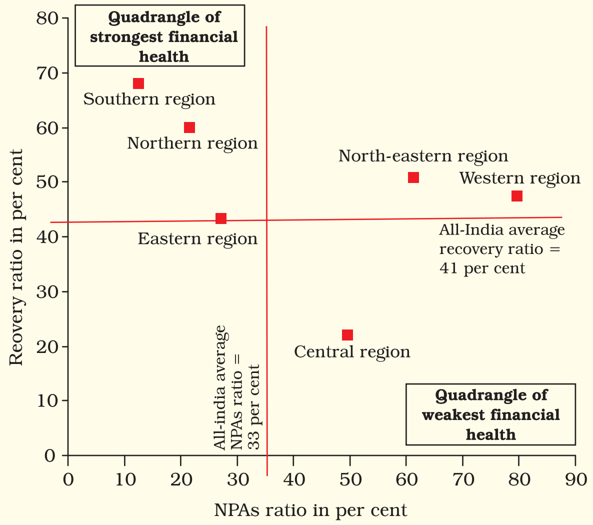
5.47 Similar to StCBs, the financial position of SCARDBs in the western region was the weakest with more than three-fourths of their assets being in the non-performing category. Closely following the western region were the north-eastern and central regions. The ratio was the lowest for SCARDBs in the northern and southern regions (Chart V.26 and Appendix Table V.7). As noted earlier, StCBs in these two regions also had strong financial health as compared with StCBs in other regions.

Primary Co-operative Agriculture and Rural Development Banks

Marginal growth in the balance sheets of PCARDBs in 2011-12

5.48 The balance sheets of Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) expanded marginally in 2011-12. The growth in assets was led by "other assets", whereas the liabilities were driven by "other liabilities"

Chart V.26: Region-wise Position of Financial Health of SCARDBs



Source: NABARD.

Table V.24: Liabilities and Assets of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
Liabilities				
1. Capital	14 (5.4)	14 (5.3)	-9.9	0.0
2. Reserves	34 (13.3)	35 (13.2)	-1.9	2.9
3. Deposits	5 (1.9)	5 (1.9)	0.05	2.5
4. Borrowings	134 (52.2)	135 (51.5)	4.1	0.7
5. Other Liabilities	69 (27.1)	74 (28.1)	0.02	7.2
Assets				
1. Cash and Bank Balances	3 (1.2)	3 (1.2)	16.8	-2.0
2. Investments	14 (5.6)	15 (5.6)	22.4	7.1
3. Loans and Advances	120 (47.0)	121 (46.2)	4.5	0.8
4. Other Assets	118 (46.2)	123 (47.0)	-2.5	4.2
Total Liabilities/Assets	**256** **(100.0)**	**262** **(100.0)**	**2.1**	**2.3**

Notes: 1. Figures in parentheses are percentages to total assets/ liabilities.
2. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

indicating the reliance of these institutions on alternative sources of funds (Table V.24).

A majority of the PCARDBs registered losses in 2011-12

5.49 At an aggregate level, PCARDBs reported losses in 2011-12 (Table V.25). About 50 per cent of the PCARDBs registered losses during the year. In addition, a disconcerting feature was that the financial position of PCARDBs does not indicate signs of a turnaround (Chart V.27 and Appendix Table V.8).

PCARDBs weaker than SCARDBs in terms of financial soundness indicators

5.50 Long-term co-operative credit institutions, particularly PCARDBs have a fragile financial position. The NPA ratio was much higher and the recovery ratio was low in the case of PCARDBs in 2011-12 (Table V.26 and Chart V.28 read with Table V.23).

Table V.25: Financial Performance of Primary Co-operative Agriculture and Rural Development Banks

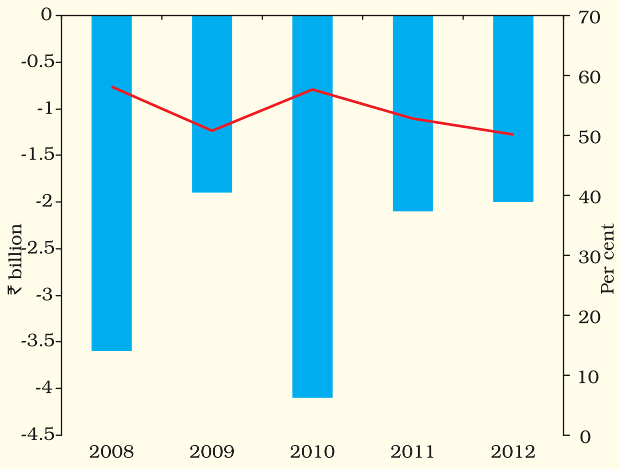
(Amount in ₹ billion)

Item	As during		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5
A. Income (i+ii)	**21** **(100.0)**	**21** **(100.0)**	**16.5**	**0.0**
i. Interest Income	16 (74.0)	16 (74.0)	22.8	-0.1
ii. Other Income	6 (26.1)	6 (26.0)	3.0	-0.5
B. Expenditure (i+ii+iii)	**24** **(100.0)**	**23** **(100.0)**	**4.7**	**-4.2**
i. Interest Expended	13 (56.2)	13 (57.3)	15.6	1.3
ii. Provisions and Contingencies	6 (24.3)	5 (22.4)	-4.5	16.7
iii. Operating Expenses	5 (19.5)	5 (20.2)	-9.3	2.8
Of which, Wage Bill	3 (67.6)	3 (69.2)	8.6	0
C. Profits				
i. Operating Profits	4	3	-91.1	-9.5
ii. Net Profits	-2	-2	-1.9	-6.5

Notes: Figures in parentheses are percentages to total income/ expenditure.

Source: NABARD.

Chart V.27: Profitability Indicators of PCARDBs



Source: NABARD.

Table V.26: Asset Quality of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	As at end-March		Percentage Variation	
	2011	2012	2010-11	2011-12
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**49**	**47**	**-0.4**	**-4.1**
i. Sub-standard	25	21	-11.6	-16.0
	(50.3)	(45.7)		
ii. Doubtful	24	25	16.4	4.2
	(49.2)	(53.6)		
iii. Loss	0.2	0.3	-63.0	50.0
	(0.4)	(0.6)		
B. NPA-to-Loans Ratio (%)	**40.6**	**38.6**	-	-
C. Recovery-to-Demand Ratio (%)	**47.3**	**44.8**	-	-

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

Source: NABARD.

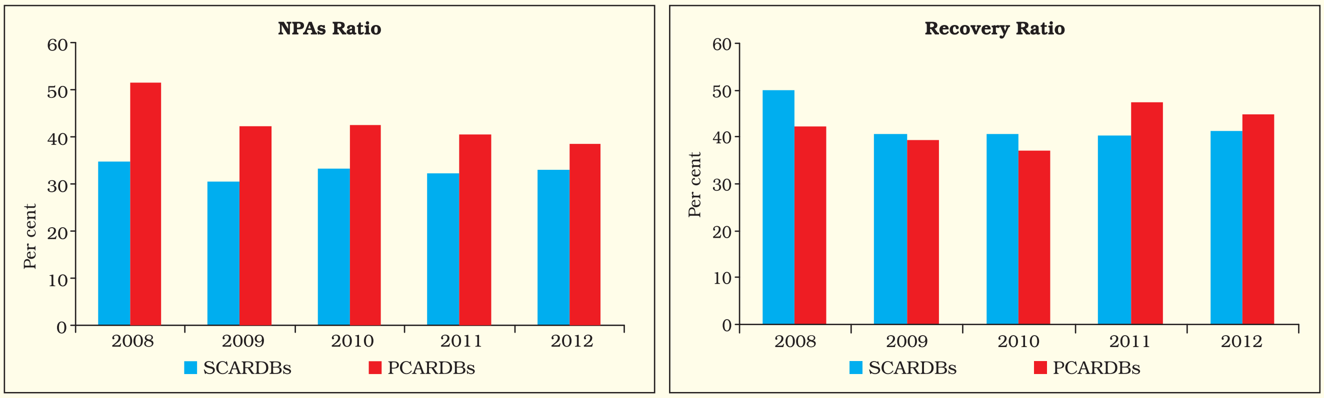
4. Status on Licensing of Rural Co-operatives

5.51 The Reserve Bank regulates the State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) under the Banking Regulation Act, 1949 (AACS), while NABARD supervises them. The Committee on Financial Sector Assessment (Chairman: Dr. Rakesh Mohan and Co-Chairman: Shri Ashok Chawla) had recommended that rural co-operative banks, which fail to obtain licences by 2012, should not be allowed to operate. A roadmap was drawn up for achieving this objective in a non-disruptive manner in consultation with NABARD. Accordingly, the Reserve Bank relaxed norms which helped in granting licences to large number of rural co-operative banks and only 43 banks (StCB -1, DCCBs-42) remained unlicensed at end-March 2012.

5.52 In order to ensure stability of the financial system and to protect the interests of depositors of these unlicensed banks and also in public interest, the Reserve Bank issued directions prohibiting them from accepting fresh deposits. These banks were advised to draw Monitorable Action Plans (MAPs) to achieve licensing norms by September 30, 2012. Task forces, headed by representatives from the Reserve Bank, NABARD and the State Governments, were constituted to monitor MAPs implementation.

5.53 Following infusion of capital by some State Governments, 17 banks (StCB-1, DCCBs-16) became eligible for issue of licence. With this the number of unlicensed banks became 26 as at end-March 2013. The regulatory action with respect to these banks was placed before the Board for Financial Supervision (BFS). On the basis of instructions from BFS, show-cause notices were issued to all 26 unlicensed DCCBs for not complying with licensing criteria in March 2013.

Chart V.28: Financial Health of PCARDBs compared with SCARDBs



Consequent to the release of funds by a State Government, two DCCBs attained licensing norms, the third DCCB attained licensing norms on its own and licences were issued to these three DCCBs. Thus, as on July 19, 2013, the number of unlicensed banks was reduced to 23 in four States.

5. Overall Assessment

UCBs exhibited improvements in asset quality, moderation in profitability; however capital adequacy of some institutions remains a concern

5.54 There was a moderation in the profitability of UCBs while the asset quality of these institutions improved. The number of UCBs attaining minimum statutory capital to risk weighted assets ratio remained stable. However, scheduled UCBs with low levels of CRAR need to improve their capital position. The ongoing process of consolidation has led to an increase in asset concentration. Given the UCBs' credit disbursement to small enterprises, housing, education and micro-credit in small towns, these institutions need to play an important role in promoting financial inclusion. With regard to urban co-operative banks, the enactment of the Constitution (97th Amendment) Act, 2011, is likely to bring uniformity with respect to certain provisions in the State Co-operative Societies Acts and also promote professionalism in the management of these institutions. These changes are expected to have an important bearing on the overall operations of UCBs.

Under short-term co-operatives the financial performance of StCBs and DCCBs exhibited improvement however PACS continued to be affected by financial weaknesses

5.55 Within rural co-operatives, while the performance of StCBs and DCCBs was better, PACS continued to incur losses on an aggregate basis. The financial soundness indicators of StCBs and DCCBs showed a general improvement in 2011-12 across all regions in the country. The losses of primary co-operative societies stem from governance and operational issues. Besides, the loan waiver scheme, the objective of which was supporting the farm sector in times of distress may have disincentivised the repayment of loans in good times under this segment. The prevailing situation in rural co-operatives necessitates some corrective steps to improve their financial soundness without jeopardising the objective of financial inclusion.

Financial soundness of long-term co-operatives continued to be fragile

5.56 Long-term co-operatives reported losses; their NPA ratios were also far higher than the other institutions in rural co-operatives possibly reflecting the inherent drawbacks in the recovery mechanism pursued by these institutions. The growth in the asset size of both State and Primary Co-operative Agriculture and Rural Development Banks (SCARDBs and PCARDBs) remained much lower than their short-term counterparts in 2011-12, as has also been in the recent past. This has led to a gradual decline in the share of long-term co-operatives in the total assets of the rural co-operative sector.

5.57 In sum, the institutional measures suggested by the Expert Committee on Short-term Rural Co-operatives, *viz.*, strengthening Tier-I capital of DCCBs and the operationalisation of core banking solution for StCBs and DCCBs; providing authority to StCBs and DCCBs in taking business decisions within the directions and guidelines prescribed by the Reserve Bank need to be carried forward to strengthen rural co-operatives. Another imperative of urban co-operatives is that efforts need to be made to improve the capital position of banks which are falling short of the statutory minimum.

Chapter VI

Non-Banking Financial Institutions

During 2012-13, the non-banking financial sector witnessed further consolidation as the number of Non-Banking Financial Companies (NBFCs) operating in the economy declined. On the whole, Non-Banking Financial Institutions (NBFIs) had a comfortable capital adequacy position. Several regulatory guidelines were issued by the Reserve Bank to increase the resilience of the sector. From time to time, the Reserve Bank has also been carrying outreach and sensitisation programmes, besides issuing public notices, cautioning the general public not to fall prey to fictitious offers promising unsustainable returns by individuals, unincorporated bodies and companies.

1. Introduction

6.1 Non-Banking Financial Institutions (NBFIs) are a heterogeneous group of institutions that cater to a wide range of financial requirements and can broadly be grouped as financial institutions (FIs), non-banking financial companies (NBFCs) and primary dealers (PDs). This chapter provides an analysis of financial performance and soundness indicators related to each segment of NBFIs during 2012-13 and is organised as follows. Section 2 analyses the financial performance of FIs, while Section 3 discusses the financial performance of NBFCs accepting public deposits (NBFCs-D), Non-Deposit taking Systemically Important NBFCs (NBFCs-ND-SI) and residuary non-banking companies (RNBCs). Section 4 provides an analysis of the performance of PDs in primary and secondary markets, which is followed by an overall assessment in the last section.

2. Financial Institutions

6.2 As at end-March 2013, there were four financial institutions (FIs) under the regulation and supervision of the Reserve Bank *viz.,* the Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) (Table VI.1). The Industrial Investment Bank of India (IIBI), the fifth FI, is in the process of voluntary winding-up. The Ministry of Finance had issued a gazette notification to this effect on September 16, 2012.

Table VI.1: Ownership Pattern of Financial Institutions
(As at end-March 2013)

Institution	Ownership	Per cent
1	2	3
EXIM Bank	Government of India	100
NABARD	Government of India	99.3
	Reserve Bank of India	0.7
NHB	Reserve Bank of India	100
SIDBI*	Public Sector Banks	62.5
	Insurance Companies	21.9
	Financial Institutions	5.3
	Others	10.3

***:** Three major shareholders of SIDBI are - IDBI Bank Ltd. (19.2%), State Bank of India (15.5%) and Life Insurance Corporation of India (14.4%).

Operations of Financial Institutions

Decline in the financial assistance sanctioned and disbursed by Financial Institutions

6.3 The financial assistance sanctioned and disbursed by FIs decreased during 2012-13 (Table VI.2).

Assets and Liabilities of FIs

6.4 The combined balance sheet of all the four FIs expanded by 15.9 per cent during 2012-13 (Table VI.3). On the liability side, "deposits" along with "bonds and debentures" constituted more

Table VI.2: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in ₹ billion)

Category	Amount				Percentage Variation	
	2011-12		2012-13 P		2012-13	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term-lending Institutions*	480.1	474.9	433.4	421.8	-9.7	-11.2
(ii) Specialised Financial Institutions#	10.9	8.5	7.1	6.2	-34.9	-27.1
(iii) Investment Institutions@	544.1	519.7	447.8	466.6	-17.7	-10.2
Total Assistance by FIs (i+ii+iii)	**1,035.1**	**1,003.1**	**888.3**	**894.6**	**-14.2**	**-10.8**

P: Provisional; S: Sanctions; D: Disbursements.
*: Relating to IFCI, SIDBI and IIBI.
#: Relating to IVCF, ICICI Venture and TFCI.
@: Relating to LIC, GIC and erstwhile subsidiaries (NIA, UIIC and OIC).
Source: Respective Financial Institutions.

than 60 per cent of total liabilities. On the assets side, "loans and advances" continued to be the single largest component, accounting for 88.8 per cent of total assets.

Resources Mobilised by FIs

Lower resources raised, but increased dependence on foreign currency resources

6.5 Total resources raised by FIs during 2012-13 were lower than the previous year. Both short-term and long-term resources raised declined, while those raised through foreign currency recorded a sharp increase (Table VI.4). Rise in foreign currency borrowings was mainly with respect to EXIM Bank as it more than doubled its external borrowings during the year.

6.6 In the money market, among the four FIs, NABARD raised the largest amount of resources followed by EXIM Bank, SIDBI and NHB (Table VI.5). Commercial papers (CPs) were the

Table VI.3: Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in ₹ million)

Item	2012	2013	Percentage Variation	Item	2012	2013	Percentage Variation
1	2	3	4	1	2	3	4
Liabilities				**Assets**			
1. Capital	62,000 (1.8)	79,594 (2.0)	28.4	1. Cash & Bank Balances	67,398 (2.0)	91,802 (2.4)	36.2
2. Reserves	4,65,243 (13.8)	4,89,948 (12.6)	5.3	2. Investments	1,25,589 (3.7)	1,17,610 (3.0)	-6.4
3. Bonds & Debentures	10,72,973 (31.9)	12,33,408 (31.6)	15.0	3. Loans & Advances	29,81,996 (88.7)	34,59,842 (88.8)	16.0
4. Deposits	10,90,780 (32.4)	13,09,191 (33.6)	20.0	4. Bills Discounted/ Rediscounted	29,636 (0.9)	42,733 (1.1)	44.2
5. Borrowings	4,95,207 (14.7)	5,65,741 (14.5)	14.2	5. Fixed Assets	5,364 (0.2)	6,258 (0.2)	16.7
6. Other Liabilities	1,77,085 (5.3)	2,20,384 (5.7)	24.5	6. Other Assets	1,53,306 (4.6)	1,80,020 (4.6)	17.4
Total Liabilities/Assets	**33,63,288**	**38,98,265**	**15.9**				

Notes: 1. Data pertain to four FIs - EXIM Bank, NABARD, NHB and SIDBI.
2. Figures in parentheses are percentages to total liabilities/assets.
Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

Table VI.4: Resources Mobilised by Financial Institutions

(Amount in ₹ billion)

Institution	Total Resources Raised								Total Outstanding (As at end-March)	
	Long-Term		Short-Term		Foreign Currency		Total			
	2011-12	2012-13 P	2011-12	2012-13 P	2011-12	2012-13 P	2011-12	2012-13 P	2011-12	2012-13 P
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	88	111	55	59	84	194	227	364	547	645
NABARD	179	174	90	85	-	-	269	259	423	447
NHB*	555	87	827	466	-	-	1,382	553	607	341
SIDBI	139	98	80	49	20	7	239	154	440	480
Total	**961**	**470**	**1052**	**659**	**104**	**201**	**2,117**	**1,330**	**2,016**	**1,913**

P: Provisional.
-: Indicates nil/ negligible.
*: Position as at end-June.
Note: Long-term rupee resources comprise borrowings by way of bonds/debentures; while short-term resources comprise CPs, term deposits, ICDs, CDs and borrowings from the term money market. Foreign currency resources largely comprise of borrowings by way of bonds, *etc.* in the international market.
Source: Respective FIs.

major instruments for raising funds from the money market for all the four FIs during 2012-13.

Sources and Uses of Funds

Sharp rise in external sources of funds raised by FIs

6.7 During 2012-13, funds raised by FIs from external sources increased by 73.4 per cent, while that from internal sources decreased by 9.3 per cent (Table VI.6). Share of "other" sources of funds for the FIs more than doubled to 8.1 per cent. In case of deployment of funds, the share of fresh deployments declined sharply to 43.8 per cent, whereas the funds used in other deployments surged significantly to 28.2 per cent.

Table VI.5: Resources Raised by Financial Institutions from Money Market
(As at end-March 2013)

(Amount in ₹ billion)

Instrument	EXIM	NABARD	NHB	SIDBI	Total
1	2	3	4	5	6
A. Total	**65.2**	**85.0**	**11.0**	**27.3**	**188.5**
i) Term Deposits	6.1	0	0.7	6.7	13.5
ii) Term Money	0	3.1	0	0	3.1
iii) Inter-Corporate Deposits (ICDs)	0	0	0	0	0
iv) Certificate of Deposits (CDs)	6.3	0	0	0	6.3
v) Commercial Paper (CPs)	52.8	81.9	10.3	20.6	165.6
vi) Short-term loans from banks	0	0	38.3	0	38.3
Memo:					
B. Umbrella Limit	**85.8**	**164.1**	**47.3**	**64.0**	**361.1**
C. Utilisation of Umbrella limit# (A as percentage of B)	76.0	51.8	23.3	42.6	52.2

#: Resources raised under the Umbrella Limit include A (i) through A (v).
Source: Data submitted by Financial Institutions.

Table VI.6: Pattern of Sources and Deployment of Funds of Financial Institutions
(As at end-March)

(Amount in ₹ billion)

Item	2012	2013 P	Percentage Variation
1	2	3	4
A. Sources of Funds (i+ii+iii)	**4,252 (100)**	**5,406 (100)**	**27.1**
i. Internal	2,623 (61.7)	2,378 (44.0)	-9.3
ii. External	1,495 (35.2)	2,592 (48.0)	73.4
iii. Others@	134 (3.2)	436 (8.1)	225.4
B. Deployment of Funds (i+ii+iii)	**4,252 (100)**	**5,406 (100)**	**27.1**
i. Fresh Deployment	2,739 (64.4)	2,365 (43.8)	-13.6
ii. Repayment of Past Borrowings	1,292 (30.4)	1,517 (28.1)	17.6
iii. Other Deployment	221 (5.2)	1,524 (28.2)	586.5
of which: Interest Payments	145 (3.4)	183 (3.4)	26.2

P: Provisional.
@: Includes cash and balances with banks and the Reserve Bank of India
Notes: 1. Data pertain to EXIM Bank, NABARD, NHB and SIDBI.
2. Figures in parentheses are percentages to total.
Source: Respective FIs.

Table VI.7: Weighted Average Cost and Maturity of Rupee Resources Raised by Financial Institutions

Institution	Weighted Average Cost (Per cent)		Weighted Average Maturity (Years)	
	2011-12	2012-13 P	2011-12	2012-13 P
1	2	3	4	5
EXIM Bank	9.0	9.0	2.8	3.5
SIDBI	7.5	7.6	4.9	4.9
NABARD	9.5	9.3	1.9	1.8
NHB*	8.8	7.7	0.9	2.9

P: Provisional.
*: Position as at end-June.
Source: Respective FIs.

Maturity and Cost of Borrowings and Lending

6.8 During 2012-13, while the weighted average cost (WAC) of rupee resources raised by NHB and NABARD decreased, that for SIDBI increased marginally and for EXIM Bank, it remained at the previous level of 9 per cent (Table VI.7). NABARD had the highest WAC of rupee resources raised and SIDBI had the least. Insofar as weighted average maturity (WAM) is concerned, while SIDBI had the longest WAM of 4.9 years, NABARD had the shortest WAM of 1.8 years. During 2012-13, while NHB lowered its long-term prime lending rate (PLR), EXIM Bank and SIDBI kept their PLRs unchanged (Table VI.8).

Financial Performance of FIs

Rise in profitability due to increase in non-interest income

6.9 Financial performance of FIs improved during 2012-13 as both their operating and net profits increased. Increase in FIs' operating expenses during 2012-13 was mainly led by higher wage bill (Table VI.9). Return on assets (RoA) in respect of all the FIs remained almost stable during 2012-13. Amongst the FIs, SIDBI had the highest RoA followed by NHB, EXIM Bank and NABARD (Table VI.10).

Table VI.8: Long-term PLR Structure of Select Financial Institutions

(Per cent)

Effective	EXIM Bank	SIDBI	NHB
1	2	3	4
March 2012	15.0	12.75	10.50
March 2013	15.0	12.75	9.75

Source: Respective FIs.

Table VI.9: Financial Performance of Financial Institutions

(Amount in ₹ million)

Items	2011-12	2012-13	Variation	
			Amount	Percentage
A) Income (a+b)	**2,26,650**	**2,75,010**	**48,360**	**21.34**
a) Interest Income	2,16,887 (95.7)	2,60,884 (94.9)	43,997	20.3
b) Non-Interest Income	9,764 (4.3)	14,126 (5.1)	4,362	44.7
B) Expenditure (a+b)	**1,62,933**	**1,99,626**	**36,693**	**22.50**
a) Interest Expenditure	1,48,850 (91.4)	1,83,811 (92.1)	34,961	23.5
b) Operating Expenses	14,082 (8.6)	15,815 (7.9)	1,733	12.3
of which: Wage Bill	10,193	11,154	961	9.4
C) Provisions for Taxation	**16,170**	**17,486**	**1,316**	**8.1**
D) Profit				
Operating Profit (PBT)	48,810	55,863	7,053	14.5
Net Profit (PAT)	32,640	38,377	5,737	17.6
E) Financial Ratios@				
Operating Profit	1.8	1.5	-	-
Net Profit	1.0	1.1	-	-
Income	7.1	7.6	-	-
Interest Income	6.8	7.2	-	-
Other Income	0.3	0.4	-	-
Expenditure	5.1	5.5	-	-
Interest Expenditure	4.0	5.1	-	-
Other Operating Expenses	0.4	0.4	-	-
Wage Bill	0.3	0.3	-	-
Provisions	0.5	0.5	-	-
Spread (Net Interest Income)	2.1	2.1	-	-

PBT: Profit Before Tax; PAT: Profit After Tax.
@: As per cent of total average assets.
Note : Figures in parentheses are percentages to total income/ expenditure.
Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

Table VI.10: Select Financial Parameters of Financial Institutions
(As at end-March)

Institution	Interest Income/ Average Working Funds (Per cent)		Non-Interest Income/ Average Working Funds (Per cent)		Operating Profit/ Average Working Funds (Per cent)		Return on Average Assets (Per cent)		Net Profit per Employee (₹ million)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	7.1	7.9	0.6	0.5	2.5	2.4	1.1	1.1	26.7	27.0
NABARD	6.5	6.9	0.1	0.1	1.4	1.5	1.0	0.9	3.6	4.1
NHB*	8.6	8.5	0.04	0.05	2.1	2.2	1.4	1.1	40.7	48.4
SIDBI	8.5	8.6	0.2	0.3	3.4	3.4	2.0	2.0	5.5	7.9

*: Position as at end-June.
Source: Statements furnished by the FIs.

Soundness Indicators

Asset Quality

Impaired assets increased during the year

6.10 As compared to last year, net NPAs of FIs at aggregate level increased mainly on account of higher net NPAs in respect of EXIM Bank, SIDBI and NHB. The largest quantum of net NPAs was held by SIDBI, followed by EXIM Bank, and NHB. NABARD had the least NPAs among the FIs and its NPA position, in fact, improved during the year (Table VI.11). The rise in net NPAs of NHB was on account of restructured loan accounts being classified as "sub-standard" asset (Table VI.12).

Table VI.11: Net Non-Performing Assets of Financial Institutions
(As at end-March)

(Amount in ₹ million)

Institution	Net NPAs		Net NPAs/Net Loans (Per cent)	
	2012	2013	2012	2013
1	2	3	4	5
EXIM Bank	1,558	3,047	0.29	0.47
NABARD	371	237	0.02	0.01
NHB*	0	1,561	0.00	0.45
SIDBI	1,847	3,073	0.36	0.55
All FIs	**3,776**	**7,917**	**0.13**	**0.23**

*: Position as at end-June.
Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

6.11 During 2012-13, while the FIs' total loss assets declined, the quantum of sub-standard and doubtful assets increased. EXIM Bank and SIDBI's sub-standard assets increased, whereas those of NABARD declined substantially.

Table VI.12: Asset Classification of Financial Institutions
(As at end-March)

(Amount in ₹ million)

Institution	Standard		Sub-standard		Doubtful		Loss	
	2012	2013	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7	8	9
EXIM Bank	5,37,340	6,40,483	4,044	8,545	3,871	6,559	44	44
NABARD	16,49,324	19,51,980	221	8	682	1,093	10	10
NHB*	2,85,159	3,44,671	0	1,806	0	34	0	0
SIDBI	5,36,034	5,57,606	2,123	4,477	385	352	1,227	713
All FIs	**30,07,857**	**34,94,740**	**6,388**	**14,836**	**4,938**	**8,038**	**1,281**	**767**

*: Position as at end-June.
Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

Table VI.13 Capital to Risk-Weighted Assets Ratio of Financial Institutions
(As at end-March)

(Per cent)

Institution	2012	2013
1	2	3
EXIM Bank	16.4	15.3
NABARD	20.6	18.3
NHB*	19.7	16.7
SIDBI	29.2	28.2

*: Position as at end-June.
Source: Audited OSMOS returns of EXIM Bank, NABARD & SIDBI (for end-March) and NHB (for end-June) of respective years.

Capital Adequacy

Capital adequacy position of FIs remains comfortable

6.12 The CRAR of all the FIs was lower during 2012-13 than the previous year. However, all the four FIs maintained a CRAR higher than the minimum stipulated norm of 9 per cent (Table VI.13).

3. Non-Banking Financial Companies

6.13 Based on liabilities, NBFCs are classified into two categories - Category "A" companies (NBFCs-D), and Category "B" companies (NBFCs not raising public deposits or NBFCs-ND). NBFCs-D are subject to requirements of capital adequacy, maintaining liquid assets, exposure norms (including restrictions on exposure to investments in land, building and unquoted shares), ALM discipline and reporting requirements. Category "B" companies, in contrast, were subject to minimal regulation till 2006. However, since April 1, 2007, non-deposit taking NBFCs with assets of ₹1 billion and above have been classified as NBFCs-ND-SI and prudential regulations such as capital adequacy requirements and exposure norms along with reporting requirements have been made applicable to them. Capital market exposure (CME) and asset liability management (ALM) reporting and disclosure norms were also made applicable to them at different points of time.

6.14 In terms of activities undertaken, NBFCs are classified into eight categories, *viz.,* Asset Finance Companies (AFCs), Investment Companies (ICs), Loan Companies (LCs), Infrastructure Finance Companies (IFCs), Core Investment Companies (CICs), Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFIs) and NBFC-Factors.

6.15 During 2012-13, various policy measures were introduced to improve the regulation and supervision of NBFCs (see Chapter III). The Reserve Bank has been carrying outreach and sensitisation programmes, besides issuing public notices, from time to time, cautioning the general public not to fall prey to fictitious offers promising unsustainable returns by individuals, unincorporated bodies and companies. Further, the Reserve Bank has also advised the public to evaluate their investment decisions carefully, including making deposit with NBFCs. The Reserve Bank also clarified that it does not regulate chit fund activities or Collective Investment Schemes (CIS). It regulates only those NBFCs that conduct financial activity as their principal business and that it has authorised only a few of them to accept deposits and such entities do not enjoy DICGC's deposit insurance facility.

6.16 In the aftermath of recent global financial crisis, the operations of shadow banking system have come under scrutiny of regulators in large number of economies. The form of shadow banking prevalent in developed economies and other EMEs is very different from what prevails in India. In India, NBFCs, which remain outside the regulatory framework as applicable to banks, in essence, are referred to as shadow banking (Box VI.1).

6.17 As per the ownership structure of NBFCs-ND-SI and deposit-taking NBFCs as at end-March 2013, it is found that a majority of them were non-government Public Limited Companies (Table VI.14).

Box VI.1: Shadow Banking in India: Some Issues

The recent global financial crisis brought to fore the role of 'shadow banking' and the related issues. Shadow banking essentially refers to a system wherein financial entities (such as money market entities, private equity funds, hedge funds, securitisation companies, structured investment vehicles, *etc.*) undertake credit intermediation activities akin to banks, while remaining outside the traditional regulatory regime, which are otherwise applicable to banks. In 2007, Paul McCulley had coined the term "shadow bank" mainly referring to US-based non-bank financial institutions engaging in maturity transformation (use of short-term deposits to finance long-term loans). The Financial Stability Board (FSB) has defined "shadow banking" as "credit intermediation involving entities and activities (fully or partially) outside the regular banking system". It is estimated that the global shadow banking system could have been running to $67 trillion at the end of 2011, which is 25 per cent of the total financial intermediation (FSB, 2012). According to a report by FSB (2012), the largest relative presence of a shadow banking system (NBFIs/OFIs) is in Netherlands (45 per cent), followed by USA (35 per cent), Hong Kong (around 35 per cent), the euro area (30 per cent), Switzerland, UK, Singapore, and Korea (all around 25 per cent).

The modus operandi of shadow banking lacks transparency with respect to its business model, leverage position; ownership, *etc.* which leaves it less amenable to regulatory framework. Since shadow bank entities have no access to central bank funding or safety nets like deposit insurance, they remain vulnerable to shocks posing systemic risk depending on their size and inter-connectedness with the formal financial system. While the merits of the shadow banking system of providing quick, customised, cost-effective, and an alternate source of credit and liquidity remains undisputed, its capacity to precipitate systemic crisis, which was manifested in the recent global financial crisis, cannot be wished away.

In the years preceding the recent global financial crisis, these entities expanded into new vistas of financial activities/ instruments, which, at times, also crossed borders to meet the growing risk appetite of various investors. The expansion of shadow banking activities was apathetic to the risks associated with them. The existence of shadow banking system was stated to have amplified the magnitude of the crisis owing to the following factors. Firstly, the inter-connection between the regular banking and shadow banking systems had increased as the banks were lenders to these entities. Products issued by the latter enhanced the leveraged position of the banks and put them to a higher risk position. Secondly, due to the near absence of regulation, the shadow banking system was able to operate without internalising the true cost of its risk and more entities (including banks) preferred to take the route of shadow banking that circumvented banking regulations. This type of regulatory arbitrage led to a system-wide build-up of huge leverage and risks. Thirdly, since shadow banks relied more on short-term deposit-like funding, which had no deposit insurance, loss of confidence resulted in "runs" on these unregulated institutions.

While the role of shadow banking generated apparent economic efficiencies through financial innovations, the crisis demonstrated that shadow banking also created new channels of contagion and systemic risk transmission between traditional banks and the capital markets. Therefore, globally a need was felt to bring such unregulated entities under the regulatory architecture. The United States passed the Dodd-Frank Act in 2010 that strengthened the arms of the Federal Reserve to regulate all institutions of systemic importance. In order to control burgeoning shadow banking activities, the European Union has put in place some measures, which *inter alia* include prudential rules concerning securitisation, regulation of credit rating agencies, *etc.* Further, at the request of the G-20 countries, FSB has been framing policies to strengthen the oversight and regulation of the shadow banking system at international level so that the risks emanating from them may be mitigated.

In India, NBFCs, which perform bank-like credit intermediation activities, while remaining outside the banking regulatory framework, essentially embody the shadow banking system (Sinha, 2013). The form of "shadow banking system" (for example, hedge funds, proprietary funds, special investment vehicles and leveraged funds) as it exists in much of the developed world is largely unrelated to the Indian context. India is essentially a bank-dominated financial system wherein banks account for about 60 per cent of the financial sector's assets. The assets of entire "other financial intermediaries" (OFIs) accounted for approximately 24 per cent of bank assets as on March 31, 2012, whereas the assets of the NBFC sector alone accounted for 12 per cent, which denotes the significance of NBFCs in the shadow banking system (Sinha, *op. cit.*). Thus, as compared to other advanced economies, the size and activities of shadow banking in India are relatively smaller. Furthermore, unlike many advanced countries, in India, there is a well-defined regulatory framework for NBFCs and overtime, progressive and prudent regulatory measures have brought consolidation in the sector. *Albeit*, the global financial crisis in 2008 put some pressure on the NBFC sector in the country due to funding inter-linkages among NBFCs, mutual funds and commercial banks, these were duly resolved. The crisis, however, brought to the fore certain regulatory issues concerning the NBFC sector, particularly risks arising from regulatory gaps, arbitrage and systemic inter-connectedness. These are being continually addressed through appropriate regulatory measures. Recently, the Reserve Bank of India also appointed a Working Group to macro-map the shadow banking sector in India. The Working Group is expected to submit the report in due course.

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Sinha, Anand (2013): Regulation of Shadow Banking – Issues and Challenges, *Reserve Bank of India Bulletin*, March.

Table VI.14: Ownership Pattern of NBFCs-ND-SI and NBFCs-D
(As at end-March 2013)

(Number of Companies)

Ownership	NBFCs-ND-SI	NBFCs-D
1	2	3
A. Government Companies	9 (2.2)	7 (2.8)
B. Non-Government Companies (1+2)	409 (97.8)	247 (97.2)
1. Public Ltd. Companies	218 (52.2)	245 (96.5)
2. Private Ltd. Companies	191 (45.7)	2 (0.8)
Total No. of Companies (A+B)	418 (100.0)	254 (100.0)

Note: Figures in parentheses are percentages to total.

Profile of NBFCs (including RNBCs)

The NBFC segment is witnessing consolidation

6.18 The total number of NBFCs registered with the Reserve Bank declined marginally to 12,225 as at end-June 2013 (Chart VI.1). The number of NBFCs-D during 2012-13 declined mainly due to the cancellation of Certificates of Registration (CoR) and migration to non-deposit-taking category.

Chart VI.1: Number of NBFCs Registered with the Reserve Bank (As at end-June)

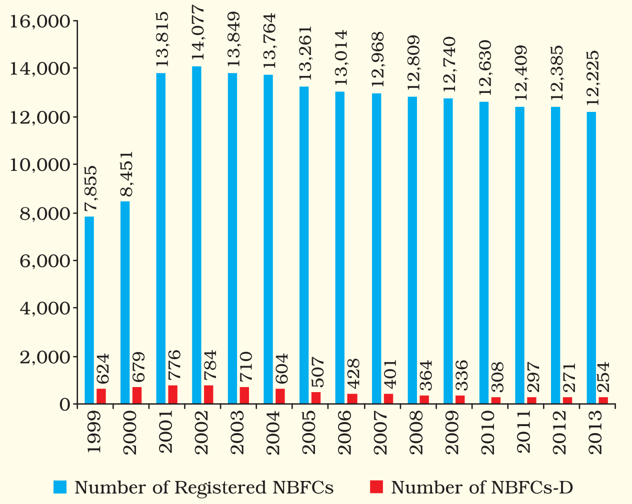


Table VI.15: Profile of Deposit-taking NBFCs

(Amount in ₹ billion)

Item	As at end-March			
	2012		2013 P	
	NBFCs	*of which: RNBCs*	NBFCs	*of which: RNBCs*
1	2	3	4	5
Total Assets	1,298	75 (5.8)	1,322	73 (5.5)
Public Deposits	100	43 (42.8)	106	35 (33.1)
Net Owned Funds	249	31 (12.4)	250	31 (12.3)

P: Provisional.

Notes: 1. Figures in parentheses are percentage shares in respective total.
2. Based on annual returns filed by 209 NBFCs-D and two RNBCs.

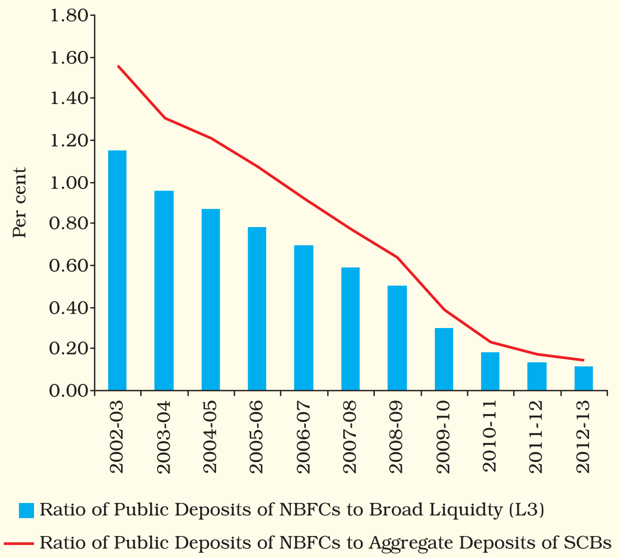
Source: Annual/Quarterly Returns.

6.19 Though the number of NBFCs in business declined, their total assets, and net owned funds increased marginally. Public deposits mobilised by them also increased. Holding of public deposits by the Residuary Non-Banking Companies(RNBCs) contracted (Table VI.15).

6.20 Despite a rise in deposits mobilised by NBFCs, the ratio of NBFCs' public deposits to aggregate deposits of scheduled commercial banks (SCBs) continued to decline during 2012-13. The ratio of NBFCs' deposits to the broadest measure of liquidity aggregates, L3[1], also declined during the year (Chart VI.2).

[1] L3= NM3 + Postal Deposits + Term Money Borrowings + Certificates of Deposit + Term Deposits + Public Deposits with NBFCs.

Chart VI.2: Ratio of Public Deposits of NBFCs to Broad Liquidity (L3) and Aggregate Deposits of SCBs



Operations of NBFCs-D (excluding RNBCs)

The consolidated balance sheet of NBFCs-D expanded modestly

6.21 During the year, the consolidated balance sheet of NBFCs-D expanded marginally by 2.2 per cent (Table VI.16). On the liability side, during 2012-13, borrowings from banks, *albeit* declined, constituted the biggest source of funding for NBFCs-D. Debentures and public deposits were the next important sources of finance. Borrowings from FIs were relatively minimal but this picked up dramatically by 170 per cent during the year. On the contrary, borrowings from government and inter-corporate borrowings declined substantially. On the asset side, loans and advances of NBFCs-D constituted close to three-fourth of their assets. The investments declined during the year mainly on the back of a decline in investments in equity shares. The investments in commercial paper also declined substantially. Investment in government securities, debentures & bonds, and mutual funds schemes, however, showed an increase.

Table VI.16.Consolidated Balance Sheet of NBFCs-D

(Amount in ₹ billion)

Item	As at end-March		Variation	
	2012	2013 P	Absolute	Per cent
1	2	3	4	5
1. Share Capital	36	37	1	2.2
2. Reserves & Surplus	182	182	0	0.3
3. Public Deposits	57	71	14	24.2
4. Debentures	238	318	79	33.3
5. Bank Borrowings	404	343	-60	-15.0
6. Borrowings from FIs	5	15	9	170.0
7. Inter-Corporate Borrowings	4	3	-1	-19.1
8. Commercial Paper	29	29	0	1.4
9. Borrowings from Government	55	43	-11	-20.9
10. Sub-ordinated Debts	55	62	8	14.0
11. Other Borrowings	29	34	6	20.4
12. Current Liabilities	92	70	-22	-24.4
13. Provisions	37	41	4	11.1
Total Liabilities/Assets	**1,222**	**1,249**	**26**	**2.2**
1. Loans & Advances	841	918	77	9.1
2. Hire Purchase & Lease Assets	37	22	-15	-39.4
3. Investments	74	72	-2	-2.6
3.1. Government Securities	7	9	1	19.8
3.2. Equity Shares	18.4	17.9	-0.6	-3.1
3.3. Preference Shares	4.68	4.71	0.03	0.6
3.4. Debentures & Bonds	2	3	1	45.0
3.5. Mutual Funds	0.1	2.5	2.4	2617.2#
3.6. Commercial Paper	0.5	0.2	-0.3	-59.2
3.7. Other Investments	41	35	-6	-14.4
4. Cash & Bank Balances	144	146	2	1.1
4.1. Cash in Hand	3	6	3	114.8
4.2. Deposits with Banks	142	140	-1	-1.0
5. Other Current Assets	103	70	-33	-31.9
6. Other Assets	23	20	-2	-10.5

P: Provisional.
#: Denominator is small.
Note: Variation in figures could be slightly different because amounts have been rounded-off to ₹ billion.
Source: Annual/Quarterly Returns.

6.22 The number of deposit-taking NBFCs declined during the year. Notwithstanding this, deposits mobilised and borrowings increased during the year. Among the NBFCs-D, while the balance sheet of Asset Finance Companies (AFCs) grew, that of Loan Companies (LCs) shrunk (Table VI.17).

Table VI.17: Major Components of Liabilities of NBFCs-D by Classification of NBFCs
(As at end-March)

(Amount in ₹ billion)

Classification of NBFCs	Number of Companies		Public Deposits		Total Borrowings		Total Liabilities	
	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P
1	2	3	4	5	6	7	8	9
Asset Finance Companies	193	169	43 (76)	57 (80)	580 (71)	732 (86)	849 (69)	1047 (84)
Loan Companies	49	40	14 (24)	14 (20)	238 (29)	116 (14)	373 (31)	202 (16)
Total	**242**	**209**	**57**	**71**	**818**	**848**	**1,222**	**1,249**

P: Provisional.
Note: Figures in parentheses are percentage shares.

Size-wise Classification of Deposits of NBFCs-D

Larger NBFCs-D mobilised a large chunk of public deposits

6.23 Six larger companies, constituting just about 2.8 per cent of the total number of NBFCs-D, mobilised about 95 per cent of total deposits of the NBFCs-D at end-March 2013 (Table VI.18).

Regional Dispersion of Deposits Mobilised by NBFCs-D

Majority of public deposits were mobilised in the southern region

6.24 Region-wise, the northern zone had the highest number of deposit taking NBFCs followed by the southern region. However, about 60 per cent of the public deposits were mobilised in the southern region. A similar pattern can be observed in the case of metropolitan cities. While New Delhi accounted for the largest number of NBFCs-D, Chennai held the largest share of 63.1 per cent in total public deposits of NBFCs-D (Table VI.19 and Chart VI.3). In the western zone, the amount of public deposits held by NBFCs-D increased significantly despite a decline in their numbers during 2012-13. This is particularly evident in Mumbai.

Table VI.18: Public Deposits held by NBFCs-D by Deposit Ranges

(Amount in ₹ million)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of deposits	
	2012	2013 P	2012	2013 P
1	2	3	4	5
1. Less than ₹5 million	153	128	187 (0.3)	156 (0.2)
2. More than ₹5 million and up to ₹20 million	45	39	490 (0.9)	407 (0.6)
3. More than ₹20 million and up to ₹ 100 million	27	28	1,131 (2.0)	1,197 (1.7)
4. More than ₹ 100 million and up to ₹ 200 million	7	6	1,085 (1.9)	928 (1.3)
5. More than ₹ 200 million and up to ₹ 500 million	4	2	1,201 (2.1)	482 (0.7)
6. ₹ 500 million and above	6	6	52,951 (92.8)	67,682 (95.5)
Total	**242**	**209**	**57,045 (100)**	**70,851 (100)**

P: Provisional.
Note: Figures in parentheses are percentage shares.
Source: Annual/Quarterly Returns.

Table VI.19: Public Deposits held by NBFCs-D – Region-wise

(Amount in ₹ million)

Region	As at end-March			
	2012		2013 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
North	178	1,990	152	1,865
South	50	40,202	47	44,223
East	6	39	4	18
West	8	14,813	6	24,746
Total	**242**	**57,045**	**209**	**70,851**
Metropolitan Cities:				
Kolkata	4	39	3	18
Chennai	31	39,338	30	43,353
Mumbai	5	14,682	3	24,604
New Delhi	44	900	32	759
Total	**84**	**54,960**	**68**	**68,733**

P: Provisional.
Source: Annual Returns.

Chart VI.3: Region-wise Public Deposits held by NBFCs-D: Shares (As at end-March)

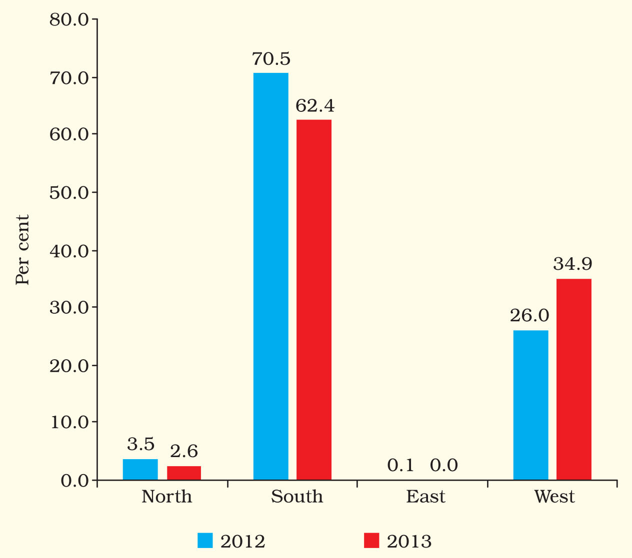
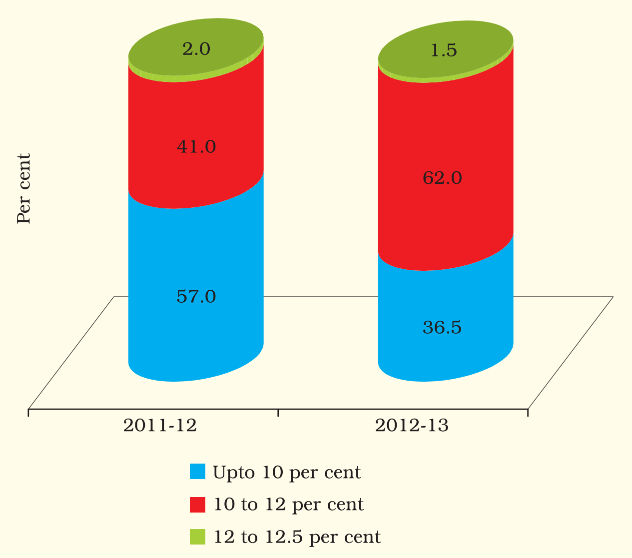


Chart VI.4: Interest Rate Range-wise Public Deposits held by NBFCs-D



Interest Rate on Public Deposits with NBFCs-D

Public deposits in the interest range of 10 to 12 per cent grew sharply

6.25 In the wake of a tightened liquidity environment, a relatively large chunk of public deposits raised by NBFCs-D were in the interest rate range of 10 to 12 per cent. Accordingly, during 2012-13, the share of deposits having interest rate upto 10 per cent came down to 36.5 per cent from 56.9 per cent last year (Table VI. 20 and Chart VI.4).

Table VI.20: Public Deposits held by NBFCs-D: Interest Rate Range-wise

(Amount in ₹ million)

Deposit Interest Rate Range	As at end-March	
	2012	2013 P
1	2	3
Up to 10 per cent	32,473 (56.9)	25,885 (36.5)
More than 10 per cent and up to 12 per cent	23,750 (41.6)	43,816 (61.8)
12 to 12.5 per cent	821 (1.4)	1,150 (1.6)
Total	**57,045** (100.0)	**70,851** (100.0)

P: Provisional.
Notes: 1. The rate of interest on public deposits offered by NBFCs-D cannot exceed 12.5 per cent.
2. Figures in parentheses are percentages to total.
Source: Annual Returns.

Maturity Profile of Public Deposits of NBFCs-D

6.26 During the year, a large proportion of public deposits raised by NBFCs-D belonged to the short to medium-term of the maturity spectrum. There was a notable rise in the share of short-term deposits (less than a year) as also long-term deposits with tenure of five years and above (Table VI.21 and Chart VI.5).

Table VI.21: Maturity Pattern of Public Deposits held by NBFCs-D

(Amount in ₹ million)

Maturity Period	As at end-March	
	2012	2013 P
1	2	3
1. Less than 1 year	10,775 (18.9)	18,379 (25.9)
2. More than 1 and up to 2 years	15,133 (26.5)	12,917 (18.2)
3. More than 2 and up to 3 years	24,940 (43.7)	31,858 (45.0)
4. More than 3 and up to 5 years	6,191 (10.9)	6,550 (9.2)
5. 5 years and above@	6 (0.0)	1,148 (1.6)
Total	**57,045** (100.0)	**70,851** (100.0)

P: Provisional.
@: Includes unclaimed public deposits.
Note: Figures in brackets are percentages to respective total.
Source: Annual Returns.

Table VI.22: Category-wise Sources of Borrowings of NBFCs-D

(Amount in ₹ billion)

Classification	As at end-March											
	Government		Banks and Financial Institutions		Debentures		Commercial Paper		Others		Total Borrowings	
	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P	2012	2013 P
1	2	3	4	5	6	7	8	9	10	11	12	13
Asset Finance Companies	0 (0.0)	0 (0.0)	299 (73.2)	328 (91.6)	198 (83.3)	298 (93.7)	6 (22.7)	19 (66.3)	75 (86.6)	87 (87.5)	580 (70.9)	732 (86.3)
Loan Companies	55 (100.0)	43 (100.0)	110 (26.8)	30 (8.4)	40 (16.7)	20 (6.3)	22 (77.3)	10 (33.7)	12 (13.4)	12 (12.5)	238 (29.1)	116 (13.7)
Total	**55**	**43**	**409**	**358**	**238**	**318**	**29**	**29**	**87**	**100**	**818**	**848**

P: Provisional.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

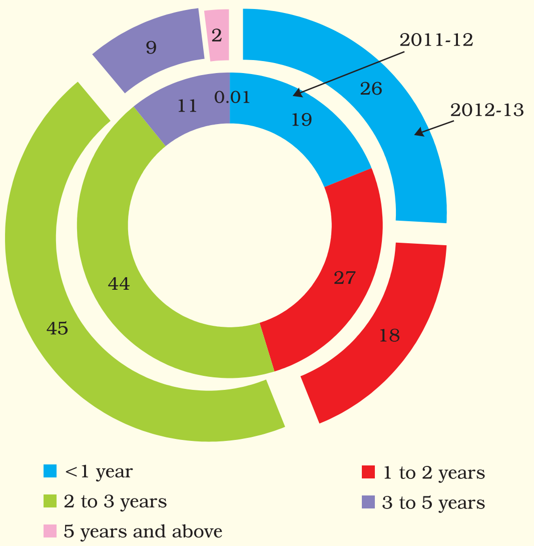
6.27 Total borrowings of NBFCs-D increased in 2012-13 due to a significant rise in the borrowings of AFCs, which offset the reduction in the borrowings of LCs (Table VI.22). NBFCs-D borrowed mainly from banks and financial institutions and through floating debentures.

Assets of NBFCs-D

Asset size of the NBFCs-D sector expanded moderately during the year

6.28 Notwithstanding a decline in the asset size of LCs, the total assets of the NBFCs-D sector registered a marginal increase during 2012-13 mainly due to rise in assets of AFCs (Table VI.23). Component-wise, advances accounted for a predominant share in total assets followed by investment.

Chart VI.5: Maturity Pattern of Public Deposits held by NBFCs-D (Per cent)



Asset Size-wise Distribution of NBFCs-D

Highly skewed distribution of assets of NBFCs-D

6.29 At end-March 2013, about 5 per cent of NBFCs-D had an asset size of more than ₹5,000 million and accounted for about 97 per cent of total assets of all NBFCs-D (Table VI.24).

Table VI.23 : Major Components of Assets of NBFCs-D by Classification of NBFCs

(Amount in ₹ billion)

Classification	As at end-March					
	Total Assets		Advances		Investment	
	2012	2013 P	2012	2013 P	2012	2013 P
1	2	3	4	5	6	7
Asset Finance Companies	849 (69.5)	1047 (83.9)	652 (74.2)	833 (88.5)	54 (73.2)	54 (75.2)
Loan Companies	373 (30.5)	202 (16.1)	226 (25.8)	108 (11.5)	20 (26.8)	18 (24.8)
Total	**1,222**	**1,249**	**879**	**941**	**74**	**72**

P: Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

Table VI.24: Assets of NBFCs-D by Asset-Size Ranges
(As at end-March)

(Amount in ₹ million)

Item	No. of Companies		Assets	
	2012	2013 P	2012	2013 P
1	2	3	4	5
1. Less than ₹2.5 million	0	0	0	0
2. More than ₹2.5 million and up to ₹ 5.0 million	19	12	79	49
3. More than ₹5.0 million and up to ₹20 million	76	61	947	753
4. More than ₹20 million and up to ₹100 million	78	71	3,579	3,176
5. More than ₹100 million and up to ₹500 million	37	36	7,903	7,921
6. More than ₹500 million and up to ₹1,000 million	11	12	6,865	8,438
7. More than ₹1,000 million and up to ₹5,000 million	7	6	14,569	16,718
8. Above ₹5,000 million	14	11	11,88,518	12,11,897
Total	**242**	**209**	**12,22,460**	**12,48,951**

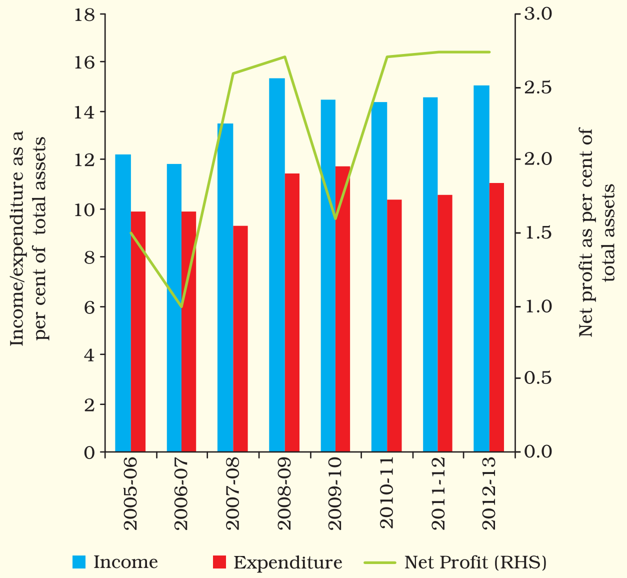
P: Provisional.
Source: Annual Returns.

Financial Performance of NBFCs-D

Financial performance of NBFCs-D sector showed marginal improvement.

6.30 During the year, though the net profit of NBFCs-D showed marginal improvement, RoA remained at the previous year's level at 2.7 per cent (Chart VI.6). In view of increased costs, cost-to-income ratio of the NBFCs-D also rose during the year (Table VI.25).

Chart VI.6: Financial Performance of NBFCs-D



Soundness Indicators: Asset Quality of NBFCs-D

Deterioration in asset quality of NBFCs-D

6.31 For the last couple of years, the asset quality of the NBFCs-D has been deteriorating. Continuing with last year's higher level of NPA, it further deteriorated during 2012-13 (Table VI.26). Weakening of the asset quality of NBFCs-D broadly followed the prevailing trend of rising NPAs in the banking sector and may, *inter alia*, be attributed to slackened economic activity.

6.32 A bulk of the NPAs of NBFCs-D were concentrated in AFCs. During 2012-13, the gross NPAs pertaining to AFCs increased by ₹7 billion,

Table VI.25: Financial Performance of NBFCs-D

(Amount in ₹ billion)

Item	As at end-March	
	2012	2013 P
A. Income (i+ii)	**179**	**188**
(i) Fund-Based	177	187
	(99.2)	(99.4)
(ii) Fee-Based	1	1
	(0.8)	(0.6)
B. Expenditure (i+ii+iii)	**129**	**138**
(i) Financial	78	86
	(60.4)	(62.2)
of which: Interest Payment	6	8
	(4.4)	(6.0)
(ii) Operating Expenses	35	37
	(27.0)	(27.0)
(iii) Others	16	15
	(12.6)	(10.8)
C. Tax Provisions	**16**	**16**
D. Operating Profit (PBT)	**50**	**50**
E. Net Profit (PAT)	**33**	**34**
F. Total Assets	**1,222**	**1,249**
G. Financial Ratios (as % of Total Assets)		
i) Income	14.6	15.0
ii) Fund Income	14.5	14.9
iii) Fee Income	0.1	0.1
iv) Expenditure	10.5	11.0
v) Financial Expenditure	6.4	6.9
vi) Operating Expenditure	2.8	3.0
vii) Tax Provision	1.3	1.2
viii) Net Profit	2.7	2.7
H. Cost to Income Ratio	**72.2**	**73.4**

P: Provisional.
Note: Figures in parentheses are percentages to total.
Source: Annual Returns.

Table VI.26: NPA Ratios of NBFCs-D

(Per cent)

As at end-March	Gross NPAs to Total Advances	Net NPAs to Net Advances
1	2	3
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	5.7	2.5
2006	3.6	0.5
2007	2.2	0.2
2008	2.1	#
2009	2	#
2010	1.3	#
2011	0.7	#
2012	2.2	0.5
2013 P	2.4	0.8

P: Provisional.
#: Provisions exceeded NPA.
Source: Half-yearly Returns of NBFCs-D.

Table VI.27: NPAs of NBFCs-D - Category-wise

(Amount in ₹ billion)

Item	Gross Advances	Gross NPAs	Net Advances	Net NPAs	NPA Ratios (as a per cent of Gross Advances)	
					Gross NPAs	Net NPAs
2011-12						
All Companies	**875**	**19**	**861**	**5**	**2.2**	**0.5**
Asset Finance Companies	665	16	652	4	2.4	0.5
Loan Companies	210	3	209	1	1.3	0.5
2012-13 P						
All Companies	**1,105**	**27**	**1,087**	**9**	**2.4**	**0.8**
Asset Finance Companies	844	23	828	7	2.7	0.8
Loan Companies	261	4	259	2	1.5	0.7

P: Provisional.
Source: Half-yearly Return of NBFCs-D.

whereas for LCs it went up only by ₹1 billion. The NPA ratios for both groups of NBFCs-D increased during the year on top of higher increase in NPAs in the previous year (Table VI.27).

6.33 Of the three NPA categories, the share of sub-standard assets increased during 2012-13, which reflected deterioration in asset quality. Sub-standard assets rose, both with respect to AFCs and LCs (Table VI.28).

6.34 Of the total 209 reporting NBFCs-D, 206 companies had maintained a CRAR in excess of 15 per cent as at end-March 2013 (Table VI.29). Further, 173 companies had CRAR above 30 per cent. The ratio of public deposits to net owned fund (NOF) of NBFCs-D increased marginally as at end-March 2013 (Table VI.30). Although the

Table VI.28: Classification of Assets of NBFCs-D by Category of NBFCs

(Amount in ₹ billion)

	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Total Credit Exposure
1	2	3	4	5	6	7
2011-12						
All Companies	**856** **(97.8)**	**12** **(1.4)**	**5** **(0.5)**	**2** **(0.3)**	**19** **(2.2)**	**875** **(100)**
Asset Finance Companies	648 (97.6)	10 (1.5)	4 (0.6)	2 (0.3)	16 (2.4)	665 (100)
Loan Companies	208 (98.7)	2 (0.9)	1 (0.3)	0 (0.1)	3 (1.3)	210 (100)
2012-13 P						
All Companies	**1,078** **(97.6)**	**20** **(1.8)**	**4** **(0.3)**	**3** **(0.3)**	**27** **(2.4)**	**1,105** **(100)**
Asset Finance Companies	821 (97.3)	17 (2.0)	3 (0.3)	3 (0.3)	23 (2.7)	844 (100)
Loan Companies	257 (98.5)	3 (1.2)	1 (0.3)	0 (0.0)	4 (1.5)	261 (100)

P: Provisional.
Note: 1. Figures in brackets are per cent to total advances.
2. Percentage figures are rounded-off.
Source: Half-yearly Return of NBFCs-D.

Table VI.29: Capital Adequacy Ratio of NBFCs-D

(Number of Companies)

CRAR Range	2011-12			2012-13 P		
	AFC	LC	Total	AFC	LC	Total
1	2	3	4	5	6	7
1) Less than 15 per cent	2	2	4	1	2	3
2) More than 15 per cent and up to 20 per cent	9	3	12	7	2	9
3) More than 20 per cent and up to 30 per cent	20	4	24	19	5	24
4) Above 30 per cent	166	40	206	144	29	173
Total	**197**	**49**	**246**	**171**	**38**	**209**

P: Provisional; AFC - Asset Finance Company; LC - Loan Company.
Source: Half-yearly Returns.

Table VI.30: Net Owned Funds *vis-à-vis* Public Deposits of NBFCs-D by Classification

(Amount in ₹ billion)

Classification	Net Owned Funds		Public Deposits	
	2011-12	2012-13 P	2011-12	2012-13 P
1	2	3	4	5
Asset Finance Companies	137	170	43 (0.31)	57 (0.34)
Loan Companies	81	50	14 (0.17)	14 (0.28)
Total	**218**	**219**	**57** (0.26)	**71** (0.32)

P: Provisional.
Note: Figures in parentheses are ratio of public deposits to net owned funds.
Source: Annual Returns.

number of companies above the NOF of ₹5,000 million had reduced to seven, their total NOF rose marginally (Table VI.31).

Residuary Non-Banking Companies (RNBCs)

RNBCs are in the process of migrating to other business models

6.35 The assets of RNBCs declined marginally during the year ended-March 2013 (Table VI.32). Their assets mainly consisted of fixed deposits/ certificates of deposits of SCBs followed by bonds/ debentures and investments in unencumbered approved securities. The NOF of RNBCs during 2012-13 remained more or less at the same level as in the previous year. Both the income and expenses of RNBCs declined during 2012-13. As the decline in total income of RNBCs was less than the decline in total expenditure, their operating profits increased modestly. Furthermore, on account of lesser tax outgo as compared to the previous year, RNBCs' net profit (PAT) increased by 9.1 per cent during 2012-13.

Table VI.31: Range of Net Owned Funds *vis-à-vis* Public Deposits of NBFCs-D
(As at end-March)

(Amount in ₹ million)

Range of NoF	2012			2013 P		
	No. of Companies	Net Owned Funds	Public Deposits	No. of Companies	Net Owned Funds	Public Deposits
1	2	3	4	5	6	7
Range of NoF						
Up to ₹ 2.5 million	1	-0.93	1	1	-0.2	0.8
More than ₹.2.5 million and up to ₹ 20 million	122	951	324	97	776	233
More than ₹ 20 million and up to ₹ 100 million	77	3,196	1,342	72	2,830	1,174
More than ₹ 100 million and up to ₹ 500 million	23	5,099	1,253	23	5,144	1,327
More than ₹ 500 million and up to ₹ 1,000 million	4	2,823	817	4	2,582	912
More than ₹ 1,000 million and up to ₹ 5,000 million	6	12,451	14,096	5	10,020	14,392
Above ₹ 5,000 million	9	1,93,461	39,212	7	1,97,907	52,812
Total	**242**	**2,17,981**	**57,045**	**209**	**2,19,259**	**70,851**

P: Provisional.
Source: Annual Returns.

Table VI.32: Profile of RNBCs

(Amount in ₹ million)

Item	As at end-March		Variation	
	2011-12	2012-13 P	Absolute	Per cent
1	2	3	4	5
A. Assets (i to v)	**75,430**	**73,138**	-2,292	-3.0
(i) Investment in Unencumbered Approved Securities	8,376	7,186	-1,190	-14.2
(ii) Investment in Fixed Deposits / Certificate of Deposits of Scheduled Comm. Banks/Public Fin. Institutions	13,897	13,113	-784	-5.6
(iii) Debentures / Bonds/ Commercial Papers of Govt. Companies/ Public Sector Banks/Public Fin. Institution/ Corporation	7,513	7,513	0	0.0
(iv) Other Investments	4,333	2,839	-1,494	-34.5
(v) Other Assets	41,312	42,490	1,178	2.9
B. Net Owned Fund	30,790	30,879	89	0.3
C. Total Income (i+ii)	3,324	3,140	-184	-5.5
(i) Fund Income	2,939	2,897	-42	-1.4
(ii) Fee Income	385	243	-142	-36.9
D. Total Expenses (i+ii+iii)	1,662	1,455	-207	-12.5
(i) Financial Cost	461	133	-328	-71.1
(ii) Operating Cost	518	658	140	27.1
(iii) Other Cost	684	661	-23	-3.4
E. Taxation	570	494	-76	-13.2
F. Operating Profit (PBT)	1,666	1,690	24	1.4
G. Net Profit (PAT)	1,096	1,196	100	9.1

P: Provisional; PBT: Profit Before Tax; PAT: Profit After Tax.
Note: Variation in figures could be slightly different because amounts have been rounded-off to ₹ billion.
Source: Annual Returns.

Regional Pattern of Deposits of RNBCs

6.36 At end-March 2013, there were two RNBCs, located in eastern and northern regions. Given regulatory stipulations, RNBCs are in the process of migrating to other business models and these companies will have to reduce their aggregate liabilities to the depositors (ALDs) to "nil" by end-June 2015. Accordingly, public deposits held by the two RNBCs continued to decline during 2012-13. (Table VI.33).

Table VI.33: Public Deposits Held by RNBCs - Region-wise

(Amount in ₹ billion)

Region	As at end-March			
	2011-12		2012-13 P	
	No. of RNBCs	Public Deposits	No. of RNBCs	Public Deposits
1	2	3	4	5
Northern	1	21 (50.0)	1	17 (47.8)
Eastern	1	21 (50.0)	1	18 (52.2)
Total	2	42	2	35
Metropolitan City				
Kolkata	1	21	1	18

P: Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

Investment Pattern of RNBCs

6.37 During 2012-13, the investments of RNBCs declined, which is in line with the regulatory stipulations mentioned in previous paragraph (Table VI.34).

NBFCs-ND-SI

NBFCs-ND-SI raised more resources through debentures, borrowings from banks and FIs

6.38 The consolidated balance sheet of NBFCs-ND-SI expanded by 19.5 per cent during 2012-13. On the liability side, borrowings (secured and unsecured) by NBFCs-ND-SI, which constituted more than two-thirds of total liabilities, increased

Table VI.34: Investment Pattern of RNBCs
(As at end-March)

(Amount in ₹ million)

Item	2011-12	2012-13 P
1	2	3
Aggregate Liabilities to the Depositors (ALDs)	**42,650**	**35,014**
(i) Unencumbered approved securities	8,376 (19.6)	7,186 (20.5)
(ii) Fixed deposits with banks	13,897 (32.6)	13,113 (37.5)
(iii) Bonds or debentures or commercial papers of a Govt. Company / public sector bank / public financial Institution / corporations	7,513 (17.6)	7,513 (21.5)
(iv) Other Investments	4,333 (10.2)	2,839 (8.1)

P: Provisional.
Note: Figures in parentheses are percentages to ALDs.
Source: Annual Returns.

significantly by 22.2 per cent during the year (Table VI.35). The NBFCs-ND-SI borrowed mainly by floating debentures, followed by borrowings from banks and FIs, commercial paper, and inter-corporate borrowings. Unsecured borrowings of NBFCs-ND-SI, constituting slightly less than half the total borrowings, expanded significantly and outpaced the growth in secured borrowings during 2012-13. The unsecured borrowings were largely raised through debentures, followed by borrowings from banks, commercial paper, inter-corporate borrowings and borrowings from FIs. Amongst the unsecured modes, "borrowings from FIs" more than doubled (126.4 per cent) during 2012-13, while borrowings from unsecured debentures and commercial paper grew by 32.2 and 25.1 per cent, respectively. Unsecured borrowings from banks increased marginally during 2012-13.

Table VI.35: Consolidated Balance Sheet of NBFCs-ND-SI
(As at end-March)

(Amount in ₹ billion)

Item	2012	2013 P	Variation (Per cent)
1	2	3	4
1. Share Capital	**524**	**592**	**12.9**
2. Reserves & Surplus	**1,891**	**2,068**	**9.3**
3. Total Borrowings	**6,530**	**7,980**	**22.2**
A. Secured Borrowings	**3,627**	**4,332**	**19.4**
A.1. Debentures	1,746	2,112	21.0
A.2. Borrowings from Banks	1,487	1,704	14.6
A.3. Borrowings from FIs	98	128	30.0
A.4. Interest Accrued	64	96	49.7
A.5. Others	232	292	25.7
B. Unsecured Borrowings	**2,902**	**3,648**	**25.7**
B.1. Debentures	1,221	1,614	32.2
B.2. Borrowings from Banks	456	460	0.9
B.3. Borrowings from FIs	28	63	126.4
B.4. Borrowings from Relatives	13	11	-13.0
B.5. Inter-Corporate Borrowings	242	247	1.8
B.6. Commercial Paper	353	441	25.1
B.7. Interest Accrued	71	99	39.8
B.8. Others	519	713	37.4
4. Current Liabilities & Provisions	**408**	**537**	**31.6**
Total Liabilities/Assets	**9,353**	**11,177**	**19.5**
Assets			
1. Loans & Advances	6,143	7,497	22.0
1.1. Secured	4,642	5,852	26.1
1.2. Unsecured	1,501	1,645	9.6
2. Hire-Purchase Assets	640	786	22.8
3. Investments	1,544	1,742	12.8
3.1. Long-Term Investments	1,170	1,284	9.7
3.2. Current Investments	374	458	22.4
4. Cash & Bank Balances	334	358	7.2
5. Other Current Assets	536	623	16.2
6. Other Assets	156	172	9.9
Memo Items			
1. Capital Market Exposure (CME)	833	907	8.9
of which: Equity Shares	267	275	2.9
2. CME as per cent of Total Assets	8.9	8.1	
3. Leverage Ratio	2.87	3.20	

P: Provisional.
Notes: 1. Data presented here pertain to 354 entities, which have consistently reported for end-March 2012 and 2013, respectively and accounted for more than 95 per cent of the total assets of the NBFCs-ND-SI sector.
2. Percentage figures are rounded-off.
Source: Monthly Returns of NBFCs-ND-SI.

6.39 The asset position of NBFCs-ND-SI further strengthened in 2012-13. Loans and advances, which formed a major part of the assets, increased by 22 per cent. The rise in hire-purchase assets and investment also propped up the asset position of NBFCs-ND-SI. The leverage ratio of the NBFCs-ND-SI sector had increased marginally to 3.20. Exposure of this segment to capital market as a per cent of total assets declined from 8.9 per cent to 8.1 per cent during the year.

Borrowings of NBFCs-ND-SI by Region

The northern region continued to be the main source of funds

6.40 Analysis of region-wise borrowings of the NBFCs-ND-SI reveals the dominance of northern and western regions; together they constituted more than 70 per cent of the total borrowings during the year ended-March 2013. Compared to other regions, the eastern and southern regions showed higher growth in borrowings (Table VI.36).

Table VI.36: Borrowings of NBFCs-ND-SI by Region

(Amount in ₹ billion)

Region	As at end-March		Variation (Per cent)
	2012	2013 P	
1	2	3	4
North	3,169	3,767	18.9
East	340	432	26.9
West	1,734	2,145	23.7
South	1,287	1,637	27.2
Total Borrowings	**6,530**	**7,980**	**22.2**

P: Provisional.
Source: Monthly Returns of NBFCs-ND-SI.

Financial Performance

NBFCs-ND-SI showed improved financial position

6.41 The financial performance of the NBFCs-ND-SI sector improved as reflected in an increase in their net profit during 2012-13 (Table VI.37). Net profit as a per cent to total income as also to total assets increased marginally during the year.

6.42 While the ratio of gross NPAs of NBFCs-ND-SI to their total assets had increased marginally, the net NPAs to total assets declined during the year (Table VI.38).

Table VI.37: Financial Performance of NBFCs-ND-SI

(Amount in ₹ billion)

Item	As at end-March	
	2012	2013 P
1	2	3
1. Total Income	988	1,246
2. Total Expenditure	745	930
3. Net Profit	171	222
4. Total Assets	9,353	11,177
Financial Ratios (Per cent)		
(i) Income to Total Assets	10.6	11.2
(ii) Expenditure to Total Assets	8.0	8.3
(iii) Net Profit to Total Income	17.3	17.8
(iv) Net Profit to Total Assets	1.8	2.0

P: Provisional.
Source: Monthly Returns of NBFCs-ND-SI.

Table VI.38: NPA Ratios of NBFCs-ND-SI

(Per cent)

Item	As at end-March	
	2012	2013 P
1	2	3
(i) Gross NPAs to Gross Advances	2.12	2.20
(ii) Net NPAs to Net Advances	1.29	1.09
(iii) Gross NPAs to Total Assets	1.54	1.63
(iv) Net NPAs to Total Assets	0.93	0.80

P: Provisional.
Source: Monthly Returns of NBFCs-ND-SI.

6.43 As at end-March 2013, a majority of the reporting companies maintained the stipulated minimum norm of 15 per cent capital adequacy as measured by CRAR. Only 12 per cent of the total reporting companies had a CRAR of less than 15 per cent and almost all of them were either investment companies or loan companies (Table VI.39). NBFCs-ND-SI have adequate scope to utilise their capital for further expansion. The exposure of the banking system to the NBFCs-ND-SI sector was largely in the form of term and working capital loans; and most of these loans were extended by nationalised banks and the State Bank Group (Table VI.40). Debentures and commercial papers floated by NBFCs-ND-SI to the banking sector were, by and large, subscribed to by new private banks and foreign banks, respectively.

6.44 In the past few years, there has been a surge in gold loans in the country. While banks still dominate the business of lending against the

Table VI.39: Capital Adequacy Ratio of NBFCs-ND-SI – Category-wise

(Number of Companies)

CRAR Range	2011-12					2012-13 P					
	AFC	IC	IFC	LC	Total	AFC	IC	IDF	IFC	LC	Total
1) Less than 15%	-	30	-	18	48	1	34	-	-	15	50
2) More than 15% and up to 20%	5	8	1	23	37	5	7	-	1	24	37
3) More than 20% and up to 30%	4	12	2	20	38	4	10	-	2	30	46
4) Above 30%	7	178	1	88	274	6	182	1	1	95	285
Total	**16**	**228**	**4**	**149**	**397**	**16**	**233**	**1**	**4**	**164**	**418**

P: Provisional;
-: Indicates nil.
AFC - Asset Finance Company; LC - Loan Company; IC - Investment Company; IFC - Infrastructure Finance Company; IDF - Infrastructure Debt Fund.
Source: Half-yearly Returns.

Table VI.40: Bank Exposure of NBFCs-ND-SI Sector
(As at end-March 2013)

(Amount in ₹ billion)

Bank Group	Term Loans	Working Capital Loans	Debentures	Commercial Paper	Others	Total
1	2	3	4	5	6	7
A. Nationalised Banks	709.4	2.7	26.6	0.1	27.3	766.1
B. State Bank Group	250.3	136.3	0.2	0.0	0.2	386.9
C. Old Private Banks	212.6	8.2	0.1	0.0	0.0	221.0
D. New Private Banks	338.5	26.9	61.1	0.3	19.8	446.5
E. Foreign Banks	50.7	0.7	0.4	50.2	0.5	102.4
All Banks	**1,561.4**	**174.6**	**88.4**	**50.6**	**47.8**	**1,922.9**

Source: Monthly Returns of NBFCs-ND-SI.

collateral of gold, there has been a significant rise in lending against gold by NBFCs-ND-SI in recent years. The number of NBFCs-ND-SI engaged in the gold loan business also increased from six to eight during the year. In view of concerns relating to financial stability due to heavy concentration of portfolio, prudential guidelines were issued to such NBFCs-ND-SI (gold-loan NBFCs) so that they disclosed the percentage of gold loans to the total assets in their balance sheet and maintained a loan-to-value (LTV) ratio not exceeding 60 per cent. Further, to address customer grievances and concerns, NBFCs were also asked to adhere to a revised fair practices code (Box VI.2).

Box VI.2:
Regulation of NBFCs Lending Against the Collateral of Gold

In recent years, gold-loan NBFCs have recorded significant growth, both in terms of the size of their balance sheets and geographic penetration across the country. As at end-March 2013, gold-loan NBFCs accounted for almost 5 per cent of the total assets of the NBFCs-ND-SI sector, and around 28.6 per cent of the total assets of loan companies (LCs). To fuel their business growth, these NBFCs, in turn, relied heavily on public funds raised through bank borrowings and issuance of non-convertible debentures to retail investors. The "single product" business model such as gold-loan NBFCs' high reliance on bank funds entail concentration risk (arising from credit, market, liquidity and operational risks) and systemic concern. Accordingly, a Working Group was set up by the RBI to study issues related to gold imports and review extant regulatory norms relating to gold loans and recommend modifications, if any (Chairman: Shri K.U.B. Rao). The Working Group submitted its final report along with recommendations on February 6, 2013.

To address some of the concerns relating to financial stability, the segment of gold-loan NBFCs was advised to maintain a loan-to-value (LTV) ratio not exceeding 60 per cent and disclose the percentage of such loans to their total assets in their balance sheets. If the loans extended by an NBFC comprised 50 per cent or more of its financial assets, it would maintain a minimum Tier I capital of 12 per cent by April 01, 2014. Further, all NBFCs were instructed not to lend against bullion/primary gold and gold coins.

Drawing from some of the recommendations of the afore-said Working Group, the extant guidelines issued on Fair Practices Code for such NBFCs were amended and revised guidelines were issued on February 18, 2013. Accordingly, such NBFCs should put in place a grievance redressal mechanism with due approval from their respective boards and the name of the grievance redressal officer should be displayed prominently at all branches. Such NBFCs were also advised to display the Fair Practices Code prominently in vernacular languages. Further, they were instructed to maintain transparency in loan pricing and follow KYC norms. NBFCs have also been exhorted to put in place adequate security and insurance on gold collateral and have a board-approved auction policy in place. They have been advised to disclose details regarding the auction procedure in the loan agreement itself and not to participate in their auctions. Further, in May 2013, it was clarified that no advances should be granted by NBFCs for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.

The guidelines were further refined on September 16, 2013. Accordingly, to ensure safety of gold and borrowers' convenience, gold-loan NBFCs have been advised to put

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in place an appropriate safe and secure infrastructure for storage of gold ornaments accepted as collaterals by them. The gold-loan NBFCs that wish to open branches in excess of 1000 numbers have been mandated to seek prior approval from the Reserve Bank. No new branches would be allowed to be opened unless suitable arrangements for security and storage of gold jewellery, including safe deposit vault, is made. For eschewing arbitrariness and to ensure transparency in valuing gold jewelleries, NBFCs are required to follow a standard method for arriving at the value. Accordingly, the gold jewellery accepted as collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days quoted by the Bombay Bullion Association Ltd. Furthermore, while accepting gold as collateral, the NBFC should give a certificate to the borrower on its letterhead mentioning the purity and weight of collateralised gold. The gold-loan NBFCs have also been asked to put in place Board approved policies to satisfy the ownership of the gold jewellery and ensure that KYC norms are followed. Further refinement in the auction process has been advised. NBFCs have been advised to disburse high value loan (₹1 lakh and above) through cheques. They have been proscribed from issuing misleading advertisements like claiming the availability of loans in a matter of 2-3 minutes. Furthermore, NBFCs lending against the collateral of gold have been exhorted to insist on a copy of Pan card of the borrower for all transactions above ₹5 lakhs. Such NBFCs have also been asked to standardise the documentation across all their branches.

4. Primary Dealers

6.45 As at end-June 2013, there were 21 Primary Dealers (PDs) operating in financial markets, of which 13 were run by banks and were called as bank-PDs and the remaining eight were non-bank entities, which are known as standalone PDs and registered as NBFCs under Section 45 IA of the RBI Act, 1934.

Operations and Performance of PDs

6.46 During 2012-13, the bid-to-cover ratio in both dated Government of India (GoI) securities and treasury bills of PDs were marginally higher than they were in the previous year. All the PDs achieved the stipulated minimum success ratio (bids accepted to the bidding commitment) of 40 per cent for treasury bills (T-Bills) and cash management bills (CMBs) put together, both in the first and second half of the year. As compared to last year, the success ratio in T-Bill auctions was marginally higher (Table VI.41).

6.47 During 2012-13, dated securities worth ₹5,580 billion were issued under the GoI's normal market borrowing programme as compared to the issuance of ₹ 5,100 billion in the previous year. In the auctions of dated securities, the share of PDs (bids accepted to the securities issued) increased from 47.7 per cent in 2011-12 to 51.1 per cent in 2012-13. As compared to 14 instances of partial devolvement for ₹121.1 billion on the PDs in 2011-12, there were only two such instances for ₹18.3 billion during 2012-13, which reflected favourable bond market conditions during the year.

Table VI.41: Performance of PDs in the Primary Market
(As at end-March)

(Amount in ₹ billion)

Item	2012	2013
1	2	3
Treasury Bills & CMBs*		
Bidding Commitment	7,296	7,346
Actual Bids Submitted	13,506	15,887
Bid to Cover Ratio	2.2	2.6
Bids Accepted	4,271	4,350
Success Ratio (Per cent)	58.6	59.2
Central Govt. Securities		
Notified Amount	5,100	5,580
Actual Bids submitted	6,932	8,795
Bid to Cover Ratio	1.3	1.5
Bids of PDs Accepted	2,432	2,852
Share of PDs (Per cent)	47.7	51.1

*: CMBs issued in 2011-12 were ₹930 billion.
Source: Returns filed by PDs.

Performance of Standalone PDs

Share of trading activity of PDs in the secondary market shrank

6.48 In the secondary market, PDs individually achieved the required minimum annual total turnover[2] (outright and repo transactions) ratio of 5 times in G-Secs and 10 times in T-Bills. PDs also achieved the minimum annual outright turnover ratio of 3 times in G-Secs and 6 times in T-Bills. Notwithstanding a higher turnover in the secondary G-Sec market during 2012-13, the share of standalone PDs in the total market volume shrank on account of an increase in trading activities of other financial entities such as banks and insurance companies. The share of standalone PDs declined, from 26.3 to 16.4 per cent in outright transactions and from 20.3 to 19.2 per cent in repo transactions, respectively during the year (Table VI.42).

Table VI.42: Performance of Standalone PDs in the Secondary G-Sec Market

(As at end-March)

(Amount in ₹ billion)

Item	2012	2013
1	2	3
Outright		
Turnover of standalone PDs	18,381	21,643
Turnover of market participants	69,764	1,31,841
Share of PDs (Per cent)	26.3	16.4
Repo		
Turnover of standalone PDs	15,245	20,724
Turnover of market participants	75,278	1,08,055
Share of PDs (Per cent)	20.3	19.2
Total		
Turnover of standalone PDs	33,625	42,367
Turnover of market participants	1,45,042	2,39,896
Share of PDs (Per cent)	23.2	17.7

Notes: 1. Percentage variation could be slightly different because absolute numbers have been rounded-off to ₹ billion.
2. Components may not add up to the whole due to rounding-off.

Source: Clearing Corporation of India Limited.

Sources and Application of Funds of Standalone PDs

Investment by PDs in CPs, the corporate bond market and equities increased significantly

6.49 Though the capital of PDs declined by 2.2 per cent in 2012-13, it was more than compensated by a sharp rise in reserves and surplus resulting in an increase in the net owned funds (NOF) to the tune of 5.8 per cent. Borrowings remained the major source of funds, accounting for 84 per cent of the total funds. Both secured and unsecured loans availed by PDs increased but their growth remained lower than that of the preceding year. As per their application of funds, there was a significant increase in investments in commercial papers (CPs), bonds and equities (Table VI.43).

Financial Performance of Standalone PDs

Sharp increase in income led to an increase in profit

6.50 The profit after tax of standalone PDs showed a significant increase of 146 per cent during 2012-13 on account of huge growth in trading profits on the back of declining interest rate scenario for the later part of 2012-13 (Table VI.44). Mirroring the improvement in PAT, the return on net worth (RoNW) and the return on average assets (RoAA) also showed a healthy rise (Table VI.45). Reflecting the increased efficiency of PDs, cost to income ratio for PDs declined from 44.1 in 2011-12 to 27.2 in 2012-13.

6.51 There was a significant rise in the holding of risk-weighted assets by PDs, which more than outweighed the modest rise in their net capital funds. This resulted in a decline in their

[2] Turnover ratio is computed as the ratio of total purchases and sales during the year in the secondary market to average month-end stocks.

Table VI.43: Sources and Applications of Funds of Standalone PDs

(Amount in ₹ million)

Item	As at end-March			Percentage Variation	
	2011	2012	2013	2012	2013
1	2	3	4	5	6
Sources of Funds	**1,30,320**	**2,03,810**	**2,43,232**	**56.4**	**19.3**
1 Capital	15,210	15,080	14,743	-0.8	-2.2
2 Reserves and Surplus	18,890	20,490	22,832	8.4	11.4
3 Loans (a + b)	96,220	1,68,240	2,05,657	74.9	22.2
a) Secured	63,520	1,13,970	1,36,325	79.4	19.6
b) Unsecured	32,700	54,260	69,331	66.0	27.8
Application of Funds	**1,30,320**	**2,03,810**	**2,43,232**	**56.4**	**19.3**
1 Fixed Assets	380	370	325	-1.8	-12.2
2 Investments (a + b + c)	98,520	1,45,080	2,13,576	47.3	47.2
a) Government Securities	86,430	1,33,320	1,77,403	54.2	33.1
b) Commercial Papers	100	250	2,442	149.4	876.8
c) Corporate Bonds	11,990	11,510	33,730	-4.0	193.0
3 Loans and Advances	4,260	19,380	9,911	354.9	-48.9
4 Non-current Assets	0	2,970	2,214	-	-25.5
5 Equity, Mutual Funds, *etc.*	250	160	1,241	-34.7	675.6
6 Others*	26,910	35,850	15,965	33.2	-55.5

* Others = cash + certificate of deposits +bank balances + accrued interest + deferred tax assets – current liabilities and provisions.

Notes: 1. Percentage variation could be slightly different because of rounding-off.
2. Components may not add upto whole due to rounding-off.

Source: Annual Reports of PDs.

CRAR from 53.8 per cent (as at end-March 2012) to 39.4 per cent (as at end-March 2013) (Table VI.46). The ratio, however, was comfortably above the regulatory stipulation of 15 per cent for all standalone PDs.

Table VI.44: Financial Performance of Standalone PDs

(Amount in ₹ million)

Item	2011-12	2012-13	Variation	
			Amount	Percentage
1	2	3	4	5
A. Income (i to iii)	**15,470**	**22,742**	**7,272**	**47.0**
i) Interest and Discount	13,820	17,912	4,092	29.6
ii) Trading Profit	640	4,276	3,636	568.1
iii) Other Income	1,010	553	-457	-45.2
B. Expenses (i+ii)	**13,070**	**17,023**	**3,953**	**30.2**
i) Interest	11,180	14,883	3,703	33.1
ii) Other Expenses including Establishment & Administrative Costs	1,890	2,140	250	13.2
Profit Before Tax	2,400	5,542	3,142	130.9
Profit After Tax	1,540	3,795	2,255	146.4

Notes: 1. Percentage variation could be slightly different because of rounding-off.
2. Components may not add upto whole due to rounding-off.

Source: Returns submitted by PDs.

Table VI.45: Financial Indicators of Standalone PDs

(Amount in ₹ million)

Indicator	2011-12	2012-13
1	2	3
i) Net profit	1,540	3,790
ii) Average Assets	1,97,460	2,52,170
iii) Return on Average Assets (RoAA) (in Per cent)	0.8	1.5
iv) Return on Net Worth (RoNW) (in Per cent)	4.4	10.1
v) Cost-Income Ratio	44.1	27.2

Table VI.46: CRAR of Standalone PDs

(Amount in ₹ million)

Particulars	As at end-March	
	2012	2013
1	2	3
1. Total Net Capital Funds	39,290	42,280
2. Total Risk Weighted Assets	72,980	1,07,401
a) Credit Risk	37,420	49,570
b) Market Risk	35,560	57,831
3. CRAR (Per cent)	**53.8**	**39.4**

5. Overall Assessment

6.52 The non-banking financial sector as a whole witnessed a significant expansion in its balance sheet; though there was consolidation as some companies exited and migrated to other business models. The net profits of FIs and NBFCs also increased during 2012-13. The overall asset quality of a large part of the NBFI sector deteriorated during the year, partly reflecting a slowdown in the overall economy. With regard to capital adequacy, the entire NBFI sector was comfortably placed. The net profit of standalone PDs showed a significant increase. Regulatory interventions for the sector were guided by concerns relating to financial stability as also for promoting healthy growth of the sector. Besides issuing public notices, the Reserve Bank has been carrying out outreach and sensitisation programmes, cautioning the general public not to fall prey to fictitious offers by individuals, unincorporated bodies and companies promising unsustainable returns.

Appendix Table IV.1: Indian Banking Sector at a Glance

(Amount in ₹ billion)

Sr. No	Item	Amount Outstanding (As at end-March)		Percentage Variation	
		2012	2013	2011-12	2012-13
1	**Balance Sheet Operations**				
1.1	Total liabilities/assets	83,209	95,733	15.8	15.1
1.2	Deposits	64,535	74,295	14.9	15.1
1.3	Borrowings	8,438	10,105	24.9	19.8
1.4	Loans and advances	50,736	58,797	18.1	15.9
1.5	Investments	22,339	26,133	16.1	17.0
1.6	Off-balance sheet exposure (as percentage of balance sheet liabilities)	175.4	138.5	-	-
1.7	Total consolidated international claims	2,809	3,312	14.0	17.9
2	**Profitability**				
2.1	Net profit	817	912	16.1	11.6
2.2	Return on Asset (RoA) (Per cent)	1.08	1.03	-	-
2.3	Return on Equity (RoE) (Per cent)	14.60	13.84	-	-
2.4	Net Interest Margin (NIM) (Per cent)	2.9	2.8	-	-
3	**Capital Adequacy**				
3.1	Capital to risk weighted assets ratio (CRAR) (under Basel I) (Per cent)	12.9	12.8	-	-
3.2	Capital to risk weighted assets ratio (CRAR) (under Basel II) (Per cent)	14.2	13.9	-	-
3.3	Tier I capital (as percentage of total capital)	72.8	74.1	-	-
3.4	CRAR (Tier I) (Basel I) (Per cent)	9.4	9.5	-	-
3.5	CRAR (Tier I) (Basel II) (Per cent)	10.4	10.3	-	-
4	**Asset Quality**				
4.1	Gross NPAs	1,429	1,940	46.0	35.8
4.2	Net NPAs	652	986	56.4	51.2
4.3	Gross NPA ratio (Gross NPAs as percentage of gross advances)	3.1	3.6	-	-
4.4	Net NPA ratio (Net NPAs as percentage of net advances)	1.3	1.7	-	-
4.5	Provisioning Coverage Ratio (Per cent)**	51.9	51.0	-	-
4.6	Slippage ratio (Per cent)	2.5	2.7	-	-
5	**Sectoral Deployment of Bank Credit**				
5.1	Gross bank credit	43,714	49,642	17.1	13.6
5.2	Agriculture	5,484	5,899	14.1	7.6
5.3	Industry	19,374	22,302	20.7	15.1
5.4	Services	10,166	11,486	14.5	13.0
5.5	Personal loans	7,873	9,009	13.4	14.4
6	**Technological Development**				
6.1	Total number of credit cards (in million)	18	20	-2.2	10.2
6.2	Total number of debit cards (in million)	278	331	22.1	19.0
6.3	Number of ATMs	95,686	114,014	28.4	19.2
7	**Customer Services***				
7.1	Total number of complaints received*	72,889	70,541	-4.9	-3.2
7.2	Total number of complaints addressed*	72,885	69,704	1.2	-4.4
7.3	Percentage of complaints addressed	99.99	98.81	-	-
8	**Financial Inclusion**				
8.1	Credit-deposit ratio (Per cent)	78.6	79.1	-	-
8.2	Number of new bank branches opened	7,473	7,213	-	-
8.3	Number of villages covered under Financial Inclusion Plans (FIPs)	1,81,753	2,68,454	56.4	48.0

Notes: 1. *Position as on end-June 2012. The number of complaints received and addressed are inclusive of RRBs and co-operatives.
2. **Based on off-site returns.
3. Percentage variation could be slightly different as figures have been rounded off to million/billion.

Appendix Table IV.2: Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Amount in ₹ billion)

Item	Public Sector Banks		Nationalised Banks*		SBI Group		Private Sector Banks	
	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation
1	2	3	4	5	6	7	8	9
1. Forward exchange contract@	19,408 (27.9)	23.0	13,809 (28.2)	24.0	5,599 (27.1)	20.4	18,504 (93.0)	-23.3
2. Guarantees given	5,346 (7.7)	8.4	3,357 (6.9)	11.2	1,989 (9.6)	4.0	2,382 (12.0)	14.5
3. Acceptances, endorsements, *etc.*#	6,350 (9.1)	7.7	3,254 (6.6)	7.2	3,095 (15.0)	8.3	6,308 (31.7)	285.4
Contingent liabilities	**31,104 (44.7)**	**16.9**	**20,420 (41.7)**	**18.8**	**10,684 (51.7)**	**13.4**	**27,194 (136.7)**	**-2.4**

Item	Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation
1	10	11	12	13	14	15	16	17
1. Forward exchange contract@	1,878 (42.2)	1.8	16,625 (107.6)	-25.4	68,868 (1,108.0)	-20.3	106,780 (111.5)	-15.5
2. Guarantees given	252 (5.7)	25.6	2,130 (13.8)	13.3	964 (15.5)	13.2	8,692 (9.1)	10.5
3. Acceptances, endorsements, *etc.*#	207 (4.7)	55.4	6,101 (39.5)	305.7	4,453 (71.7)	5.6	17,111 (17.9)	45.6
Contingent liabilities	**2,338 (52.6)**	**7.2**	**24,856 (160.9)**	**-3.2**	**74,285 (1,195.1)**	**-18.8**	**1,32,583 (138.5)**	**-9.2**

* : Includes IDBI Bank Ltd.
@ : Includes all derivative products (including interest rate swaps) as admissible.
\# : Includes *inter alia* items like (a) Claims against the bank not acknowledged as debt, (b) Liability for partly paid investments, (c) Bills re-discounted and (d) Letters of credit.
Note : Figures in parentheses are percentages to total liabilities of the concerned bank group.
Source : Annual Accounts of respective banks.

Appendix Table IV.3: Kisan Credit Card Scheme: State-wise Progress
(As at end-March 2013)

(Amount in ₹ billion and Number of cards issued in '000)

Sr. No.	State/UT	Co-operative Banks		Regional Rural Banks		Commercial Banks*		Total	
		Cards issued	Amount sanctioned	Cards issued	Amount sanctioned	Cards issued	Amount sanctioned	Cards issued	Amount sanctioned
1	2	3	4	5	6	7	8	9	10
	Northern region	**328**	**28.2**	**167**	**31.9**	**1,090**	**239.3**	**1,586**	**299.4**
1	Haryana	15	1.2	39	6.2	146	41.1	200	48.5
2	Himachal Pradesh	16	2.5	7	1.4	35	5.3	57	9.2
3	Jammu & Kashmir	2	0.1	4	0.3	218	10.3	225	10.7
4	New Delhi #$	-	-	-	-	70	3.8	70	3.8
5	Punjab	17	1.6	21	7.2	244	101.8	282	110.7
6	Rajasthan	278	22.8	96	16.7	375	75.6	749	115.0
7	Chandigarh #$	-	-	-	-	2	1.5	2	1.5
	North-eastern region	**17**	**1.1**	**116**	**3.4**	**192**	**8.9**	**325**	**13.5**
8	Assam	5	0.9	84	2.7	133	6.1	221	9.6
9	Arunachal Pradesh #	-	-	-	-	4	0.2	4	0.2
10	Meghalaya #	3	0.1	5	0.2	14	0.6	22	1.0
11	Mizoram #	-	-	3	0.2	4	0.2	7	0.4
12	Manipur #	-	-	1	-	5	0.4	6	0.4
13	Nagaland #	-	-	-	-	8	0.4	9	0.4
14	Tripura #	9	0.1	23	0.3	21	0.9	53	1.2
15	Sikkim #$	1	-	-	-	3	0.2	3	0.2
	Western region	**409**	**21.4**	**115**	**7.9**	**975**	**148.6**	**1,499**	**178.0**
16	Gujarat	159	6.3	34	3.1	229	46.5	422	55.8
17	Maharashtra	250	15.1	81	4.9	741	101.5	1,072	121.4
18	Goa $	-	-	-	-	4	0.6	4	0.7
19	Daman and Diu @#$	-	-	-	-	-	-	-	-
20	Dadra and Nagar Haveli @$	-	-	-	-	-	-	-	-
	Central region	**1,050**	**39.7**	**689**	**41.8**	**1,401**	**193.5**	**3,140**	**275.1**
21	Uttar Pradesh	558	9.4	551	30.6	918	114.1	2,027	154.0
22	Uttarakhand	35	2.6	8	0.8	63	10.3	106	13.7
23	Madhya Pradesh	278	21.0	75	8.0	372	63.2	725	92.1
24	Chhattisgarh	179	6.8	55	2.5	48	6.0	282	15.3
	Southern region	**472**	**18.5**	**466**	**22.8**	**3,340**	**348.3**	**4,278**	**389.5**
25	Karnataka	101	3.7	68	6.9	391	72.0	560	82.6
26	Kerala	104	6.3	69	4.7	193	33.9	366	44.9
27	Andhra Pradesh **	126	3.1	234	8.0	1,965	141.4	2,325	152.5
28	Tamil Nadu	142	5.3	94	3.1	773	98.4	1,008	106.9
29	Lakshadweep @$	-	-	-	-	-	-	-	-
30	Puducherry #	-	-	-	-	18	2.6	18	2.7
	Eastern region	**413**	**10.2**	**494**	**24.8**	**1,246**	**72.2**	**2,154**	**107.3**
31	Odisha	213	6.3	45	4.9	231	10.0	488	21.2
32	West Bengal	166	3.1	120	13.3	433	22.9	719	39.3
33	Andaman and Nicobar Islands #$	1	0.1	-	-	1	-	1	0.1
34	Bihar	16	0.5	242	4.8	356	31.8	615	37.1
35	Jharkhand**	17	0.2	88	1.9	226	7.4	331	9.6
	Total	**2,691**	**119.2**	**2,048**	**132.6**	**8,243**	**1,010.9**	**12,982**	**1,262.8**

- : Nil/Negligible.
: StCB functions as Central Financing Agency.
$: No RRB in these States/UTs.
* : Data pertaining to Commercial Banks includes 'term loan' limits also.
@ No Co-operative Banks in these UTs.
** Data under reconciliation.

Source: NABARD/Returns from Commercial Banks.

Appendix Table IV.4: Bank Group-wise Lending to the Sensitive Sectors

(As at end-March)

(Amount in ₹ billion)

Sector	Public Sector Banks		Nationalised Banks*		SBI Group		Private Sector Banks	
	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation
1	2	3	4	5	6	7	8	9
1. Capital Market #	404	5.6	323	-3.9	81	74.4	402	5.7
	(0.9)		(1.0)		(0.6)		(3.5)	
2. Real Estate @	6,135	16.1	3,843	11.7	2,291	24.3	2,481	21.2
	(13.7)		(12.4)		(16.6)		(21.7)	
3. Commodities	-	-	-	-	-	-	-	-
Total Advances to Sensitive Sectors	**6,539**	**15.4**	**4,166**	**10.3**	**2,372**	**25.6**	**2,883**	**18.8**
	(14.6)		**(13.5)**		**(17.2)**		**(25.2)**	

Sector	Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation	2012-13	Percentage Variation
1	10	11	12	13	14	15	16	17
1. Capital Market #	24	-7.3	378	6.7	69	-17.4	875	3.4
	(0.9)		(4.3)		(2.6)		(1.5)	
2. Real Estate @	335	13.9	2,146	22.4	716	14.8	9,332	17.3
	(12.4)		(24.6)		(27.2)		(15.9)	
3. Commodities	-	-	-	-	-	-	-	-
Total Advances to Sensitive Sectors	**359**	**12.1**	**2,523**	**19.8**	**785**	**11.0**	**10,206**	**16.0**
	(13.3)		**(28.9)**		**(29.8)**		**(17.4)**	

\- : Nil/Negligible.
\# : Exposure to capital market is inclusive of both investments and advances.
@ : Exposure to real estate sector is inclusive of both direct and indirect lending.
* : Includes IDBI Bank Ltd.
Note : Figures in parentheses are percentages to total loans and advances of the concerned bank group.
Source : Annual Accounts of respective banks.

Appendix Table IV.5 : Share Prices and Price/ Earning Ratios of Bank Stocks

(As on the last reporting Friday of March)

Sr. No.	Name of the Bank	Closing Prices (End-March)			Percentage Variation in Share Prices (2012-13 over 2011-12)	PE Ratio* (End-March)		
		2010-11	2011-12	2012-13		2010-11	2011-12	2012-13
1	2	3	4	5	6	7	8	9
	Public Sector Banks							
1	Allahabad Bank	230.7	186.3	126.5	-32.1	7.1	4.8	5.3
2	Andhra Bank	151.0	119.3	94.5	-20.8	5.8	5.0	4.1
3	Bank of Baroda	963.2	793.7	677.8	-14.6	8.5	5.9	5.8
4	Bank of India	478.1	361.0	302.5	-16.2	9.8	7.3	6.2
5	Bank of Maharashtra	59.4	54.6	50.9	-6.7	7.7	6.1	4.0
6	Canara Bank	626.2	473.7	384.5	-18.8	6.4	6.3	5.7
7	Central Bank of India	140.9	100.2	66.9	-33.2	5.4	13.4	5.4
8	Corporation Bank	638.2	424.8	384.2	-9.6	6.4	4.1	3.9
9	Dena Bank	104.3	90.0	89.4	-0.7	4.9	3.7	3.9
10	Indian Bank	232.5	239.7	173.4	-27.7	5.9	6.1	4.8
11	Indian Overseas Bank	146.6	239.7	65.2	-72.8	7.3	5.6	9.2
12	Oriental Bank of Commerce	387.0	252.3	250.4	-0.7	6.5	6.5	5.5
13	Punjab National Bank	1,220.2	926.1	717.5	-22.5	8.4	6.2	4.9
14	Syndicate Bank	122.0	111.1	110.0	-1.0	6.1	3.6	3.0
15	Union Bank of India	347.5	234.9	218.1	-7.2	7.6	6.0	5.6
16	Vijaya Bank	79.4	58.4	46.9	-19.7	-	-	-
17	State Bank of India	2,767.9	2,095.0	2,072.8	-1.1	16.4	8.7	7.8
18	State Bank of Bikaner and Jaipur	519.6	402.8	413.1	2.6	5.1	4.3	4.0
19	State Bank of Mysore	653.0	503.7	554.7	10.1	5.4	6.4	6.3
20	State Bank of Travancore	744.7	581.1	518.9	-10.7	5.1	5.7	4.2
21	UCO Bank	107.1	78.8	55.8	-29.2	6.5	4.5	6.0
22	IDBI Bank Ltd.	142.5	104.7	80.3	-23.4	8.2	5.2	5.6
	Private Sector Banks							
23	Axis Bank	1,403.7	1,145.9	1,301.3	13.6	17.2	11.2	10.8
24	City Union Bank Ltd.	44.8	48.5	52.7	8.7	8.4	7.0	7.9
25	Development Credit Bank Ltd.	45.9	45.1	42.7	-5.3	42.9	16.5	10.3
26	Dhanlaxmi Bank	113.4	68.2	45.8	-32.9	34.2	17.6	147.6
27	Federal Bank Ltd.	418.9	426.0	480.6	12.8	12.9	9.7	9.6
28	ING Vysya Bank	321.3	355.9	557.8	56.7	12.1	11.1	13.8
29	IndusInd Bank Ltd.	263.7	320.8	405.0	26.2	20.0	18.7	18.6
30	Jammu and Kashmir Bank Ltd.	874.5	917.4	1,190.9	29.8	6.9	5.5	5.5
31	Karnataka Bank Ltd.	107.5	95.7	130.8	36.7	7.1	7.3	7.1
32	Karur Vysya Bank Ltd.	399.1	372.9	451.8	21.2	8.9	8.0	8.8
33	Kotak Mahindra Bank Ltd.	456.9	542.5	651.4	20.1	21.1	22.0	22.2
34	Lakshmi Vilas Bank Ltd.	97.8	85.8	81.4	-5.2	9.4	7.8	8.6
35	South Indian Bank Ltd.	22.9	24.6	24.6	-0.2	8.8	7.0	6.1
36	HDFC Bank Ltd.	2,343.0	520.1	624.1	20.0	27.1	23.2	18.9
37	ICICI Bank Ltd.	1,112.8	887.3	1,045.4	17.8	20.8	13.4	12.5
38	Yes Bank	309.9	367.3	428.6	16.7	14.7	13.2	11.7

– : Not Available.
* **Source:** Bloomberg.

Appendix Table IV.6: Shareholding Pattern of Scheduled Commercial Banks *(Continued)*

(As at end-March 2013)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI - Resident	Financial Institutions- Resident	Financial Institutions- Non Resident	Other Corporates- Resident	Other Corporates- Non Resident	Total Individual- Resident	Total Individual - Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks									
1.	Allahabad Bank	55.2	21.8	9.7	2.2	-	11.1	-	90.3	9.7
2.	Andhra Bank	58.0	14.6	13.3	2.3	-	11.6	0.2	86.5	13.5
3.	Bank of Baroda	55.4	17.8	-	4.7	16.7	5.0	0.5	82.9	17.1
4.	Bank of India	64.1	16.3	13.5	0.6	-	5.1	0.4	86.1	13.9
5.	Bank of Maharashtra	81.2	10.1	0.7	1.1	-	6.7	0.2	99.1	0.9
6.	Canara Bank	67.7	13.4	12.2	2.0	-	4.7	0.1	87.7	12.3
7.	Central Bank of India	85.3	7.7	1.7	0.7	-	4.5	0.1	98.2	1.9
8.	Corporation Bank	59.8	29.4	3.6	2.1	-	4.8	0.4	96.1	3.9
9.	Dena Bank	55.2	8.9	-	2.6	-	14.6	18.7	81.3	18.7
10.	IDBI Bank Limited	71.7	13.8	3.4	1.6	-	9.1	0.4	96.2	3.8
11.	Indian Bank	80.0	6.3	7.9	3.1	-	2.6	0.1	92.0	8.0
12.	Indian Overseas Bank	73.8	12.0	2.5	1.5	-	9.7	0.5	97.1	3.0
13.	Oriental Bank of Commerce	58.0	25.3	9.6	2.4	-	4.6	0.1	90.3	9.7
14.	Punjab & Sind Bank	79.9	5.4	3.9	1.7	-	8.8	0.4	95.7	4.3
15.	Punjab National Bank	57.9	19.0	18.0	1.2	-	4.0	-	82.0	18.0
16.	Syndicate Bank	66.2	12.5	6.3	2.0	-	12.9	0.2	93.5	6.5
17.	UCO Bank	69.3	13.0	3.2	2.6	-	11.6	0.3	96.5	3.5
18.	Union Bank of India	57.9	18.0	10.6	5.4	-	8.0	0.1	89.3	10.7
19.	United Bank of India	82.2	10.6	-	3.2	-	4.0	-	100.0	-
20.	Vijaya Bank	55.0	14.2	5.3	4.2	-	20.7	0.6	94.1	5.9
	State Bank Group									
21.	State Bank of Bikaner & Jaipur	-	80.4	-	4.1	2.8	12.5	0.2	97.0	3.0
22.	State Bank of Hyderabad	-	100.0	-	-	-	-	-	100.0	-
23.	State Bank of India	62.3	15.7	13.2	2.9	-	5.8	0.2	86.7	13.3
24.	State Bank of Mysore	-	94.0	-	0.2	-	5.7	0.1	99.9	0.1
25.	State Bank of Patiala	-	100.0	-	-	-	-	-	100.0	-
26.	State Bank of Travancore	1.1	77.1	3.0	2.4	-	13.5	3.0	94.0	6.0

Appendix Table IV.6: Shareholding Pattern of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2013)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI - Resident	Financial Institutions- Resident	Financial Institutions- Non Resident	Other Corporates- Resident	Other Corporates- Non Resident	Total Individual- Resident	Total Individual - Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Old Private Sector Banks									
1.	Catholic Syrian Bank Ltd.	-	5.0	-	25.1	15.0	35.6	19.3	65.7	34.3
2.	City Union Bank Ltd.	-	7.2	22.5	11.4	4.4	51.8	2.8	70.3	29.7
3.	Dhanlaxmi Bank Limited	-	0.7	29.1	13.3	-	50.9	6.0	65.0	35.1
4.	Federal Bank Ltd.	-	21.3	49.2	10.1	4.8	14.7	-	46.0	54.0
5.	ING Vysya Bank Ltd.	-	12.5	27.4	7.8	42.4	9.1	0.8	29.4	70.7
6.	Jammu & Kashmir Bank Ltd.	53.2	4.9	24.5	5.4	-	11.5	0.5	75.0	25.1
7.	Karnataka Bank Ltd.	-	6.6	24.8	17.7	-	50.3	0.6	74.6	25.4
8.	Karur Vysya Bank Ltd.	-	11.6	25.3	9.7	-	52.7	0.7	74.0	26.0
9.	Lakshmi Vilas Bank Ltd.	-	11.7	-	21.2	11.6	54.7	0.7	87.7	12.3
10.	Nainital Bank Ltd.	-	98.6	-	-	-	1.4	-	100.0	-
11.	Ratnakar Bank Ltd.	-	2.1	4.5	27.3	29.1	33.8	3.2	63.2	36.8
12.	South Indian Bank Ltd.	-	12.3	44.0	9.2	-	32.4	2.3	53.8	46.2
13.	Tamilnad Mercantile Bank Ltd.	-	-	-	13.5	16.5	69.6	0.4	83.1	16.9
	New Private Sector Banks									
14.	Axis Bank Ltd.	-	38.4	49.1	5.7	-	6.7	0.2	50.7	49.3
15.	Development Credit Bank Ltd.	-	10.8	-	12.8	36.2	37.7	2.5	61.3	38.7
16.	HDFC Bank Ltd.	-	8.1	-	28.8	51.3	11.4	0.4	48.3	51.7
17.	ICICI Bank Ltd.	-	18.1	67.3	9.1	-	5.4	0.2	32.6	67.5
18.	IndusInd Bank Ltd.	-	8.7	52.9	14.3	15.6	7.9	0.8	30.8	69.2
19.	Kotak Mahindra Bank Ltd.	-	2.2	36.7	6.8	0.6	53.2	0.5	62.2	37.8
20.	Yes Bank Ltd.	-	13.1	49.0	11.9	-	25.4	0.6	50.5	49.6

- : Nil/Negligible.
Source: Off-site returns (domestic).

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2013)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	**26,493**	**25,009**	**19,027**	**18,033**	**88,562**	**55,760**	**58,254**	**114,014**
	Public Sector Banks	**24,124**	**19,554**	**15,080**	**13,903**	**72,661**	**40,241**	**29,411**	**69,652**
	Nationalised Banks	**17,036**	**13,539**	**11,320**	**10,585**	**52,480**	**21,533**	**15,528**	**37,061**
1.	Allahabad Bank	1,087	553	543	489	2,672	272	175	447
2.	Andhra Bank	501	493	473	397	1,864	590	617	1,207
3.	Bank of Baroda	1,434	1,157	765	907	4,263	1,790	840	2,630
4.	Bank of India	1,594	1,156	714	769	4,233	1,103	1,030	2,133
5.	Bank of Maharashtra	592	355	339	414	1,700	445	247	692
6.	Canara Bank	1,064	1,040	815	824	3,743	1,771	1,755	3,526
7.	Central Bank of India	1,529	1,180	821	759	4,289	1,389	1,140	2,529
8.	Corporation Bank	351	526	396	390	1,663	836	589	1,425
9.	Dena Bank	447	308	291	325	1,371	495	125	620
10.	Indian Bank	557	578	531	389	2,055	963	359	1,322
11.	Indian Overseas Bank	833	796	670	607	2,906	1,164	719	1,883
12.	Oriental Bank of Commerce	437	531	532	472	1,972	1,087	365	1,452
13.	Punjab and Sind Bank	379	195	260	272	1,106	146	33	179
14.	Punjab National Bank	2,255	1,343	1,055	862	5,515	3,086	3,226	6,312
15.	Syndicate Bank	901	789	664	577	2,931	1,104	202	1,306
16.	UCO Bank	948	620	523	489	2,580	850	450	1,300
17.	Union Bank of India	1,052	1,005	786	708	3,551	2,477	2,126	4,603
18.	United Bank of India	655	310	380	318	1,663	390	529	919
19.	Vijaya Bank	294	326	385	330	1,335	700	174	874
20.	IDBI Bank Ltd.	126	278	377	287	1,068	875	827	1,702
	State Bank Group	**7,088**	**6,015**	**3,760**	**3,318**	**20,181**	**18,708**	**13,883**	**32,591**
21.	State Bank of India	5,589	4,153	2,601	2,356	14,699	15,037	12,138	27,175
22.	State Bank of Bikaner and Jaipur	365	296	192	186	1,039	623	437	1,060
23.	State Bank of Hyderabad	434	488	319	299	1,540	1,079	505	1,584
24.	State Bank of Mysore	245	173	159	203	780	604	249	853
25.	State Bank of Patiala	376	296	275	176	1,123	691	263	954
26.	State Bank of Travancore	79	609	214	98	1,000	674	291	965

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2013)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**2,361**	**5,445**	**3,882**	**3,881**	**15,569**	**15,236**	**27,865**	**43,101**
	Old Private Sector Banks	**1,069**	**2,332**	**1,514**	**1,132**	**6,047**	**4,054**	**3,512**	**7,566**
1.	Catholic Syrian Bank Ltd.	18	212	106	51	387	148	60	208
2.	City Union Bank Ltd.	48	146	115	67	376	328	462	790
3.	Dhanlaxmi Bank Ltd.	24	106	82	61	273	174	222	396
4.	Federal Bank Ltd.	98	635	202	161	1,096	799	373	1,172
5.	ING Vysya Bank	87	105	167	185	544	246	254	500
6.	Jammu and Kashmir Bank Ltd.	356	117	148	64	685	402	211	613
7.	Karnataka Bank Ltd.	105	127	162	161	555	290	214	504
8.	Karur Vysya Bank Ltd.	67	201	162	118	548	589	688	1,277
9.	Lakshmi Vilas Bank Ltd.	43	103	88	57	291	189	463	652
10.	Nainital Bank Ltd.	27	32	27	22	108	-	-	-
11.	Ratnakar Bank Ltd.	25	45	25	29	124	67	117	184
12.	South Indian Bank Ltd.	95	352	171	122	740	607	193	800
13.	Tamilnad Mercantile Bank Ltd.	76	151	59	34	320	215	255	470
	New Private Sector Banks	**1,292**	**3,113**	**2,368**	**2,749**	**9,522**	**11,182**	**24,353**	**35,535**
14.	Axis Bank Ltd.	241	617	532	542	1,932	2,297	8,948	11,245
15.	Development Credit Bank Ltd.	6	22	12	55	95	88	184	272
16.	HDFC Bank Ltd.	428	1,106	705	793	3,032	4,344	6,399	10,743
17.	ICICI Bank Ltd.	436	989	786	884	3,095	3,322	7,159	10,481
18.	IndusInd Bank Ltd.	95	116	151	139	501	442	440	882
19.	Kotak Mahindra Ltd.	40	104	94	201	439	369	592	961
20.	Yes Bank Ltd.	46	159	88	135	428	320	631	951

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2013)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**8**	**10**	**65**	**249**	**332**	**283**	**978**	**1,261**
1.	AB Bank Ltd.	-	-	-	1	1	-	-	-
2.	Abu Dhabi Commercial Bank Ltd.	-	-	-	2	2	-	-	-
3.	American Express Banking Corp.	-	-	-	1	1	-	-	-
4.	Antwerp Diamond Bank NV	-	-	-	1	1	-	-	-
5.	Australia and New Zealand Banking Group Ltd.	-	-	-	1	1	-	-	-
6.	BNP Paribas	-	-	-	9	9	-	-	-
7.	Bank International Indonesia	-	-	-	1	1	-	-	-
8.	Bank of America National Association	-	-	-	5	5	-	-	-
9.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	2	2	-	-	-
10.	Bank of Ceylon	-	-	-	1	1	-	-	-
11.	Bank of Nova Scotia	-	-	1	4	5	-	-	-
12.	Barclays Bank PLC	-	1	4	4	9	-	-	-
13.	Chinatrust Commercial Bank	-	1	-	1	2	-	-	-
14.	Citibank N.A.	-	2	12	29	43	57	548	605
15.	Commomwealth Bank of Australia	-	-	-	1	1	-	-	-
16.	Credit Agricole Corporate and Investment	-	-	-	5	5	-	-	-
17.	Credit Suisse AG	-	-	-	1	1	-	-	-
18.	DBS Bank Ltd.	3	3	-	6	12	6	32	38
19.	Deutsche Bank (Asia)	1	-	6	10	17	13	40	53
20.	First Rand Bank	-	-	-	1	1	-	-	-
21.	HSBC Ltd.	1	1	10	38	50	70	72	142
22.	Industrial and Commercial Bank of China	-	-	-	1	1	-	-	-
23.	JPMorgan Chase Bank National Association	-	-	-	1	1	-	-	-
24.	JSC VTB Bank	-	-	-	1	1	-	-	-
25.	Krung Thai Bank Public Co. Ltd.	-	-	-	1	1	-	-	-
26.	Mashreqbank PSC	-	-	-	1	1	-	-	-
27.	Mizuho Corporate Bank Ltd.	-	-	-	2	2	-	-	-
28.	National Australia Bank	-	-	-	1	1	-	-	-
29.	Oman International Bank S.A.O.G.	-	-	1	1	2	-	-	-
30.	Rabobank International	-	-	-	1	1	-	-	-
31.	Sber Bank	-	-	-	1	1	-	-	-
32.	Shinhan Bank	-	1	-	2	3	-	-	-
33.	Societe Generale	-	1	-	2	3	-	-	-
34.	Sonali Bank	-	-	1	1	2	-	-	-
35.	Standard Chartered Bank	-	-	20	79	99	102	201	303
36.	State Bank of Mauritius Ltd.	-	-	-	3	3	-	-	-
37.	Sumitomo Mitsui Banking Corporation	-	-	-	1	1	-	-	-
38.	The Bank of Tokyo-Mitsubishi UFJ Ltd.	1	-	-	3	4	-	-	-
39.	The Royal Bank of Scotland N V	2	-	10	19	31	35	85	120
40.	UBS AG	-	-	-	1	1	-	-	-
41.	United Overseas Bank Ltd.	-	-	-	1	1	-	-	-
42.	WestPac Banking Corporation	-	-	-	1	1	-	-	-
43.	Woori Bank	-	-	-	1	1	-	-	-

Notes : 1. – Nil/Negligible.
2. Branches data exclude administrative offices.

Source : Reserve Bank.

Appendix Table IV.8: Statement of Complaints Received at Banking Ombudsman Office (*Continued*)

(For the period 2012-13)

Sr. No.	Name of the bank	Number of Complaints in Major Categories							Total No. of Complaints
		Deposit Account	Loans/ Advances (General & Housing)	ATM/ Credit/ Debit Cards	Pension	Failure on Commitments and Non Adherence to BCSBI Codes	Non-Observance of Fair Practices Code	Non-Adherence to Instructions on DSA and Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	**3,716**	**5,486**	**17,612**	**5,646**	**6,522**	**10,256**	**335**	**65,255**
	Public Sector Banks	**2,628**	**4,152**	**10,067**	**5,614**	**4,888**	**6,813**	**97**	**44,742**
	Nationalised Banks	**1,366**	**2,292**	**3,961**	**2,018**	**2,661**	**3,675**	**41**	**21,609**
1.	Allahabad Bank	55	118	105	103	136	151	3	908
2.	Andhra Bank	42	42	113	56	31	45	-	556
3.	Bank of Baroda	87	206	291	150	368	479	1	2,117
4.	Bank of India	82	134	298	159	203	304	1	1,649
5.	Bank of Maharashtra	15	34	49	26	37	100	4	384
6.	Canara Bank	155	214	351	182	206	247	3	1,769
7.	Central Bank of India	84	155	185	231	198	270	3	1,514
8.	Corporation Bank	46	67	148	5	56	80	-	568
9.	Dena Bank	54	53	29	42	45	152	2	539
10.	Indian Bank	50	216	112	73	133	116	4	907
11.	Indian Overseas Bank	80	185	233	101	162	125	3	1,156
12.	Oriental Bank of Commerce	40	52	157	11	71	83	3	613
13.	Punjab and Sind Bank	24	23	25	29	23	73	1	294
14.	Punjab National Bank	165	262	901	418	390	465	3	3,325
15.	Syndicate Bank	76	75	171	92	79	140	1	926
16.	UCO Bank	101	101	124	175	116	179	3	1,085
17.	Union Bank of India	83	137	341	98	224	311	2	1,610
18.	United Bank of India	40	88	104	48	47	111	1	555
19.	Vijaya Bank	24	43	68	18	32	54	2	318
20.	IDBI Bank Limited	63	87	156	1	104	190	1	816
	State Bank Group	**1,262**	**1,860**	**6,106**	**3,596**	**2,227**	**3,138**	**56**	**23,133**
21.	State Bank of India	1,066	1,447	5,461	3,261	1,934	2,720	51	20,030
22.	State Bank of Bikaner and Jaipur	74	191	165	146	169	133	-	1,171
23.	State Bank of Hyderabad	29	63	185	53	35	78	1	643
24.	State Bank of Mysore	19	23	60	41	10	48	1	266
25.	State Bank of Patiala	40	52	152	56	23	69	2	498
26.	State Bank of Travancore	34	84	83	39	56	90	1	525

Appendix Table IV.8 : Statement of Complaints Received at Banking Ombudsman Office (*Continued*)

(For the period 2012-13)

Sr. No.	Name of the bank	Number of Complaints in Major Categories							Total No. of Complaints
		Deposit Account	Loans/ Advances (General & Housing)	ATM/ Credit/ Debit Cards	Pension	Failure on Commitments and Non Adherence to BCSBI Codes	Non-Observance of Fair Practices Code	Non-Adherence to Instructions on DSA and Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**929**	**1,167**	**4,756**	**30**	**1,358**	**2,827**	**193**	**15,653**
	Old Private Sector Banks	**133**	**238**	**196**	**13**	**158**	**308**	**5**	**1,590**
1.	Catholic Syrian Bank Ltd.	3	21	1	1	1	17	-	66
2.	City Union Bank Ltd.	6	26	10	-	9	8	-	85
3.	Dhanlaxmi Bank Ltd.	8	14	5	-	12	13	-	80
4.	Federal Bank Ltd.	13	33	36	-	14	80	-	261
5.	ING Vysya Bank Ltd.	34	38	34	9	31	89	2	383
6.	Jammu and Kashmir Bank Ltd.	6	6	25	2	7	14	-	102
7.	Karnataka Bank Ltd.	7	7	25	-	7	13	2	82
8.	Karur Vysya Bank Ltd.	19	19	23	-	27	23	-	169
9.	Laxmi Vilas Bank Ltd.	9	24	12	1	9	12	-	91
10.	Nainital Bank Ltd.	1	3	-	-	3	5	-	23
11.	Ratnakar Bank Ltd.	2	-	-	-	1	6	-	16
12.	South Indian Bank Ltd.	14	28	20	-	17	21	-	137
13.	Tamilnad Mercantile Bank Ltd.	11	19	5	-	20	7	1	95
	New Private Sector Banks	**796**	**929**	**4,560**	**17**	**1,200**	**2,519**	**188**	**14,063**
14.	Axis Bank Ltd.	146	149	783	1	237	533	12	2,828
15.	Development Credit Bank Ltd.	7	7	4	-	6	19	-	66
16.	HDFC Bank Ltd.	268	286	1,842	6	433	979	82	5,143
17.	ICICI Bank Ltd.	256	419	1,603	9	381	709	77	4,571
18.	IndusInd Bank Ltd.	39	23	112	-	43	100	4	507
19.	Kotak Mahindra Bank Ltd.	65	41	192	1	80	145	13	800
20.	Yes Bank Ltd.	15	4	24	-	20	34	-	148

Appendix Table IV.8 : Statement of Complaints Received at Banking Ombudsman Office *(Concluded)*

(For the period 2012-13)

Sr. No.	Name of the bank	Number of Complaints in Major Categories							Total No. of Complaints
		Deposit Account	Loans/ Advances (General & Housing)	ATM/ Credit/ Debit Cards	Pension	Failure on Commitments and Non Adherence to BCSBI Codes	Non-Observance of Fair Practices Code	Non-Adherence to Instructions on DSA and Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**159**	**167**	**2,789**	**2**	**276**	**616**	**45**	**4,860**
1.	AB Bank Ltd.	-	-	-	-	-	-	-	-
2.	Abu Dhabi Commercial Bank Ltd.	1	-	-	-	-	-	-	2
3.	American Express Banking Corp.	2	-	59	-	5	4	-	79
4.	Antwerp Diamond Bank NV	-	-	-	-	-	-	-	-
5.	Australia and New Zealand Banking Group Ltd.	-	-	-	-	-	-	-	-
6.	BNP Paribas	1	-	-	-	-	1	-	4
7.	Bank International Indonesia	-	-	-	-	-	-	-	-
8.	Bank of America National Association	-	-	-	-	1	-	-	3
9.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	-	-	-	-	1
10.	Bank of Ceylon	-	-	-	-	-	-	-	-
11.	Bank of Nova Scotia	-	-	-	-	-	-	-	-
12.	Barclays Bank PLC	4	15	92	-	6	22	7	163
13.	Chinatrust Commercial Bank	-	-	-	-	-	-	-	2
14.	Citibank N.A.	35	28	386	1	41	136	2	778
15.	Commomwealth Bank of Australia	-	-	-	-	-	-	-	-
16.	Credit Agricole Corporate and Investment	-	-	-	-	-	-	-	-
17.	Credit Suisse AG	-	-	-	-	-	-	-	-
18.	DBS Bank Ltd.	-	-	-	-	-	1	-	1
19.	Deutsche Bank (Asia)	5	5	10	-	2	13	1	62
20.	First Rand Bank	-	-	-	-	-	-	-	-
21.	HSBC Ltd.	24	28	298	1	19	76	7	559
22.	Industrial and Commercial Bank of China	-	-	-	-	-	-	-	-
23.	JPMorgan Chase Bank National Association	-	-	1	-	-	-	-	1
24.	JSC VTB Bank	-	-	-	-	-	-	-	-
25.	Krung Thai Bank Public Co. Ltd.	-	-	-	-	-	-	-	-
26.	Mashreqbank PSC	-	-	-	-	-	-	-	-
27.	Mizuho Corporate Bank Ltd.	-	-	-	-	-	-	-	-
28.	National Australia Bank	-	-	-	-	-	-	-	-
29.	Oman International Bank S.A.O.G.	-	-	-	-	-	-	-	-
30.	Rabobank International	-	-	-	-	-	-	-	-
31.	Sber Bank	-	-	-	-	-	-	-	-
32.	Shinhan Bank	-	-	-	-	-	-	-	-
33.	Societe Generale	-	-	-	-	-	-	-	-
34.	Sonali Bank	-	-	-	-	-	-	-	-
35.	Standard Chartered Bank	78	81	1,805	-	192	326	22	2,944
36.	State Bank of Mauritius Ltd.	-	-	-	-	-	-	-	1
37.	Sumitomo Mitsui Banking Corporation	-	-	-	-	-	-	-	-
38.	The Bank of Tokyo-Mitsubishi UFJ Ltd.	-	-	-	-	-	-	-	-
39.	The Royal Bank of Scotland N V	9	10	138	-	10	37	6	260
40.	UBS AG	-	-	-	-	-	-	-	-
41.	United Overseas Bank Ltd.	-	-	-	-	-	-	-	-
42.	WestPac Banking Corporation	-	-	-	-	-	-	-	-
43.	Woori Bank	-	-	-	-	-	-	-	-

– : Nil/Negligible.

Appendix Table IV.9: Credit-Deposit Ratio and Investment *plus* Credit-Deposit Ratio of Scheduled Commercial Banks - Region/State-wise (*Continued*)

(Per cent)

Sr. No.	Region / State	Credit-Deposit Ratio				
		March 2011		March 2012		March 2013
		As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction
1	2	3	4	5	6	7
	ALL-INDIA	**75.6**	**75.6**	**79.0**	**79.0**	**78.1**
1	**NORTHERN REGION**	**82.5**	**83.4**	**87.7**	**89.6**	**88.5**
	Haryana	71.7	85.6	79.4	94.5	76.1
	Himachal Pradesh	41.6	48.6	38.9	45.0	34.6
	Jammu & Kashmir	38.1	35.7	33.8	34.1	36.7
	Punjab	77.8	92.9	80.9	83.2	81.0
	Rajasthan	90.4	95.8	90.9	96.1	92.2
	Chandigarh	121.6	119.8	115.5	114.5	125.9
	Delhi	86.8	80.8	95.6	93.8	97.6
2	**NORTH-EASTERN REGION**	**33.8**	**36.3**	**34.4**	**37.8**	**33.1**
	Arunachal Pradesh	23.7	27.4	23.9	28.4	21.2
	Assam	36.5	38.9	37.7	40.3	36.8
	Manipur	34.8	36.6	31.3	33.2	27.4
	Meghalaya	24.4	29.6	25.8	28.2	23.4
	Mizoram	46.0	49.8	38.9	41.9	35.2
	Nagaland	26.1	27.5	27.2	47.6	27.9
	Tripura	32.2	33.2	31.3	31.7	32.5
3	**EASTERN REGION**	**51.4**	**53.3**	**50.7**	**52.5**	**49.0**
	Bihar	29.5	31.6	29.7	31.7	30.1
	Jharkhand	34.4	35.6	33.9	34.3	31.6
	Odisha	52.5	55.7	47.3	50.6	46.1
	Sikkim	37.9	62.4	33.1	57.9	27.0
	West Bengal	63.7	65.1	63.8	65.1	61.6
	Andaman & Nicobar Islands	38.1	39.1	38.5	41.6	38.1
4	**CENTRAL REGION**	**46.7**	**50.9**	**47.2**	**50.7**	**47.1**
	Chhattisgarh	52.3	56.1	53.6	56.1	53.1
	Madhya Pradesh	55.6	60.1	56.6	60.7	57.7
	Uttar Pradesh	44.0	48.2	44.0	47.4	43.6
	Uttarakhand	35.4	39.1	35.6	39.0	34.8
5	**WESTERN REGION**	**79.5**	**74.1**	**87.0**	**80.7**	**84.4**
	Goa	29.1	31.1	28.1	30.1	28.2
	Gujarat	66.2	74.4	70.4	78.1	72.2
	Maharashtra	83.0	75.0	91.8	82.5	88.3
	Dadra & Nagar Haveli	34.8	56.2	30.1	60.5	38.1
	Daman & Diu	21.3	43.8	17.4	33.8	19.6
6	**SOUTHERN REGION**	**94.5**	**98.3**	**95.5**	**99.3**	**96.4**
	Andhra Pradesh	109.7	114.9	111.3	119.8	109.9
	Karnataka	72.7	76.3	71.4	74.7	71.4
	Kerala	73.1	73.8	76.4	75.7	73.3
	Tamil Nadu	115.1	119.4	116.9	119.5	123.0
	Lakshadweep	8.7	8.8	9.7	9.6	9.8
	Puducherry	62.7	63.7	71.5	69.9	83.1

Appendix Table IV.9: Credit-Deposit Ratio and Investment *plus* Credit-Deposit Ratio of Scheduled Commercial Banks - Region/State-wise *(Concluded)*

(Per cent)

Sr. No.	Region / State	Investment *plus* Credit-Deposit Ratio @				Investment *plus* Credit *plus* RIDF-Deposit Ratio @			
		March 2011		March 2012		March 2011		March 2012	
		As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation
1	2	8	9	10	11	12	13	14	15
	ALL-INDIA	**81.2**	**81.2**	**85.2**	**85.2**	**82.4**	**82.4**	**86.4**	**86.4**
1	**NORTHERN REGION**	**87.2**	**88.1**	**92.9**	**94.8**	**89.4**	**90.4**	**94.9**	**96.8**
	Haryana	78.5	92.4	88.0	103.1	79.3	93.2	88.8	104.0
	Himachal Pradesh	58.0	65.0	54.4	60.6	61.1	68.2	57.8	63.9
	Jammu & Kashmir	48.4	46.1	45.3	45.5	52.4	50.0	49.1	49.4
	Punjab	88.5	103.6	92.6	94.9	89.7	104.7	93.8	96.1
	Rajasthan	105.8	111.2	105.3	110.5	108.0	113.4	107.9	113.1
	Chandigarh	121.6	119.8	115.5	114.5	121.6	119.8	115.5	114.5
	Delhi	86.8	80.8	95.6	93.8	89.6	83.6	97.8	96.0
2	**NORTH-EASTERN REGION**	**42.6**	**45.1**	**42.4**	**45.8**	**44.4**	**47.0**	**44.5**	**47.9**
	Arunachal Pradesh	28.2	31.9	28.0	32.5	34.1	37.8	34.4	38.8
	Assam	43.8	46.2	44.1	46.7	45.2	47.6	45.4	48.0
	Manipur	54.9	56.7	49.8	51.6	55.4	57.2	52.1	54.0
	Meghalaya	32.1	37.3	32.8	35.2	34.2	39.3	35.1	37.5
	Mizoram	64.9	68.6	53.6	56.6	68.4	72.2	58.2	61.2
	Nagaland	48.0	49.4	50.5	70.9	48.0	49.4	54.5	74.9
	Tripura	40.0	41.0	38.3	38.7	43.2	44.2	41.6	42.0
3	**EASTERN REGION**	**59.2**	**61.1**	**58.5**	**60.3**	**60.4**	**62.4**	**59.9**	**61.6**
	Bihar	36.9	39.0	36.5	38.5	38.4	40.5	38.3	40.3
	Jharkhand	40.9	42.0	39.7	40.1	42.8	44.0	41.9	42.3
	Odisha	54.9	58.0	49.1	52.4	56.8	60.0	51.3	54.6
	Sikkim	51.0	75.4	43.7	68.6	55.0	79.5	47.6	72.4
	West Bengal	73.6	75.0	74.5	75.7	74.4	75.8	75.3	76.5
	Andaman & Nicobar Islands	38.1	39.1	38.5	41.6	38.1	39.1	38.5	41.6
4	**CENTRAL REGION**	**53.2**	**57.4**	**54.5**	**58.0**	**54.5**	**58.8**	**56.0**	**59.5**
	Chhattisgarh	52.6	56.4	55.7	58.2	53.5	57.3	56.5	59.0
	Madhya Pradesh	63.3	67.8	64.5	68.6	65.1	69.6	66.6	70.7
	Uttar Pradesh	50.7	55.0	51.7	55.1	51.8	56.1	53.0	56.4
	Uttarakhand	44.3	48.0	44.7	48.1	46.1	49.8	46.8	50.2
5	**WESTERN REGION**	**83.0**	**77.6**	**91.2**	**84.9**	**83.4**	**78.0**	**91.7**	**85.4**
	Goa	29.6	31.6	33.1	35.1	30.3	32.2	33.9	36.0
	Gujarat	76.1	84.3	81.6	89.3	77.7	85.9	83.1	90.8
	Maharashtra	85.5	77.5	94.7	85.3	85.7	77.6	94.9	85.6
	Dadra & Nagar Haveli	34.8	56.2	30.1	60.5	34.8	56.2	30.1	60.5
	Daman & Diu	21.3	43.8	17.4	33.8	21.3	43.8	17.4	33.8
6	**SOUTHERN REGION**	**102.2**	**106.0**	**103.9**	**107.7**	**103.2**	**107.0**	**104.9**	**108.7**
	Andhra Pradesh	120.3	125.5	122.2	130.7	121.8	127.0	123.6	132.1
	Karnataka	76.8	80.4	75.6	79.0	77.5	81.1	76.3	79.7
	Kerala	81.5	82.2	86.7	86.1	82.2	83.0	87.5	86.9
	Tamil Nadu	123.5	127.7	126.1	128.7	124.5	128.7	127.1	129.7
	Lakshadweep	8.7	8.8	9.7	9.6	8.7	8.8	9.7	9.6
	Puducherry	77.1	78.1	85.7	84.0	78.2	79.2	87.4	85.7

@: Banks' State-wise investment represent their holdings of state-level securities, such as, state Government loans and shares, bonds, debentures, *etc.* of regional rural banks, co-operative institutions, state electricity boards, municipal corporations, municipalities and port trusts, state financial corporations, housing boards, state industrial development corporations, road transport corporations and other Government and quasi-Government bodies.

All-India investments *plus* credit-deposit ratio is worked out by excluding investments in Central Government and other securities not mentioned above.

Notes: 1. Deposits and Credit (as per place of sanction and utilisation) data for 2011 and 2012 are based on BSR-1 and 2 Surveys as on March 31.

2. Deposits and Credit data (as per sanction) for March 2013 are based on BSR 7.

3. The Investment figures are based on BSR-5 survey as on March 31,2011 and March 31, 2012.

4. State-wise RIDF outstanding data are based on information provided by NABARD.

Appendix Table V.1: Select Financial Parameters of Scheduled UCBs
(As at end-March 2013)

(Per cent)

Sr. No.	Bank Name	CRAR	Net Interest Income to Total Assets	Net Interest Income to Working Funds	Non-Interest Income to Working Funds	Return on Assets	Average Cost of Deposits	Average Yield on Advances	Business per Employee (₹ Million)	Profit per Employee (₹ Million)
1	2	3	4	5	6	7	8	9	10	11
1	Abhyudaya Co-operative Bank Ltd., Mumbai	13.2	2.9	3.0	1.2	1.1	7.8	12.7	54.8	0.4
2	Ahmedabad Mercantile Co-Op Bank Ltd.	45.4	4.2	3.5	0.3	1.9	7.0	11.0	42.4	0.7
3	Amanath Co-operative Bank Ltd. Bangalore	-70.5	0.6	1.0	1.5	-	5.4	6.8	21.4	-0.1
4	Andhra Pradesh Mahesh Co-Op Urban Bank Ltd.	24.7	4.4	4.4	0.3	1.4	8.0	15.4	35.4	0.4
5	Bassein Catholic Co-operative Bank Ltd.	20.6	3.7	3.8	0.9	1.9	7.2	12.4	101.5	1.4
6	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	12.6	3.2	3.2	0.9	1.7	8.2	14.1	97.5	1.0
7	Bharati Sahakari Bank Limited.	16.0	0.8	0.9	0.4	1.3	9.7	14.1	45.5	0.4
8	Bombay Mercantile Co-operative Bank Limited	9.0	2.0	2.8	3.0	0.5	5.5	11.3	21.8	0.1
9	Citizen Credit Co-operative Bank Ltd., Mumbai	18.8	2.9	2.9	0.4	0.9	7.5	12.2	60.6	0.4
10	Cosmos Co-operative Urban Bank Ltd.	12.8	2.4	2.5	1.5	0.7	8.6	12.8	84.2	0.4
11	Dombivli Nagari Sahakari Bank Ltd.	14.1	3.1	3.2	1.2	1.1	7.4	12.2	65.9	0.5
12	Goa Urban Co-operative Bank Limited.	14.0	2.9	3.0	0.3	0.7	6.9	10.9	54.1	0.3
13	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	20.0	4.5	4.5	0.3	-	5.1	10.9	50.9	0.4
14	Greater Bombay Co-operative Bank Limited	16.9	2.9	3.0	0.7	0.1	7.5	14.5	51.4	-
15	Indian Mercantile Co-operative Bank Ltd.,Lucknow	2.5	3.2	-	-	12.0	6.8	14.0	19.6	0.1
16	Jalgaon Janata Sahakari Bank Ltd.	11.5	2.7	3.0	0.8	0.7	8.1	14.2	40.8	0.2
17	Janakalyan Sahakari Bank Ltd., Mumbai	12.9	2.1	2.4	1.4	1.0	7.3	12.7	68.2	0.4
18	Janalaxmi Co-operative Bank Ltd., Nashik	-1.1	1.6	1.9	0.9	-7.7	7.2	9.3	10.4	-1.1
19	Janata Sahakari Bank Ltd., Pune.	11.2	2.6	2.7	1.6	1.1	8.2	13.4	97.8	0.7
20	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	11.3	2.8	2.8	0.5	0.7	8.1	13.2	37.7	0.2
21	Kalupur Commercial Coop.Bank Ltd.	19.7	3.0	3.2	0.7	1.2	7.7	12.1	92.6	1.8
22	Kalyan Janata Sahakari Bank Ltd., Kalyan	12.6	3.3	3.3	1.0	1.0	7.3	12.7	54.0	0.4
23	Karad Urban Co-operative Bank Ltd.	11.6	2.8	2.9	0.9	0.7	8.3	13.7	39.5	0.2
24	Mahanagar Co-operative Bank Ltd., Mumbai	12.1	3.2	3.4	0.4	0.9	7.7	13.4	46.9	0.3
25	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-8.6	2.2	2.7	0.5	10.7	7.1	13.0	30.2	0.1
26	Mehsana Urban Co-Op Bank Ltd.	13.9	2.8	2.8	0.3	2.3	8.1	12.9	92.7	0.6
27	Nagar Urban Co-operative Bank Ltd., Ahmednagar	13.6	3.4	3.7	0.3	0.8	8.9	14.6	56.3	0.3
28	Nagpur Nagrik Sahakari Bank Ltd.	15.0	3.6	0.4	0.1	1.0	6.9	13.1	32.0	0.2
29	Nasik Merchant's Co-operative Bank Ltd.	22.1	4.0	4.3	0.6	1.5	7.8	14.7	42.4	0.5
30	New India Co-operative Bank Ltd., Mumbai	13.0	2.7	2.7	0.8	6.1	7.1	12.2	99.5	0.4
31	NKGSB Co-operative Bank Ltd., Mumbai	13.4	2.7	2.7	0.8	1.0	8.0	12.5	70.2	0.5
32	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	21.9	2.5	2.5	0.8	0.6	7.9	12.2	51.2	0.2
33	Pravara Sahakari Bank Ltd.	13.3	3.1	3.1	0.4	0.5	7.9	13.9	31.6	11.0
34	Punjab & Maharashtra Co-operative Bank Ltd.	12.8	3.2	3.3	1.1	1.1	8.4	15.2	66.7	0.4
35	Rajkot Nagrik Sahakari Bank Ltd.	13.5	2.2	2.2	1.0	1.3	8.5	13.2	78.3	0.7
36	Rupee Co-operative Bank Ltd.	-125.8	0.1	0.3	0.4	-4.0	6.1	7.2	23.2	-0.6
37	Sangli Urban Co-operative Bank Ltd., Sangli	13.7	2.4	2.7	0.7	0.5	8.5	13.7	20.5	-
38	Saraswat Co-operative Bank Ltd., Bombay	11.2	2.5	2.7	1.1	0.5	7.7	12.4	92.6	0.3
39	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	24.9	3.8	4.1	0.2	0.9	5.2	11.1	43.7	0.3
40	Shamrao Vithal Co-operative Bank Ltd.	13.4	2.5	2.7	1.0	1.0	8.4	13.5	79.0	0.5
41	Shikshak Sahakari Bank Ltd., Nagpur.	13.2	3.1	3.2	4.8	0.4	7.3	12.1	27.3	0.9
42	Solapur Janata Sahakari Bank Ltd.	11.6	3.4	3.5	0.5	0.8	8.2	14.0	52.8	0.3
43	Surat Peoples Coop Bank Ltd.	18.3	4.0	4.0	0.4	0.9	7.8	13.6	71.3	4.7
44	Thane Bharat Sahakari Bank Ltd.	13.7	3.3	3.4	0.9	0.5	7.3	12.9	43.2	0.2
45	The Akola Janata Commercial Co-operative Bank Ltd., Akola	12.5	2.9	3.0	0.6	1.4	8.1	13.7	32.6	0.2
46	The Akola Urban Co-operative Bank Ltd., Akola.	13.2	2.1	2.3	0.4	0.2	8.4	13.4	45.4	0.1
47	The Kapol Co-operative Bank Ltd., Mumbai	9.5	2.4	2.5	1.0	-	7.7	12.7	46.9	-
48	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	11.3	3.4	5.2	1.3	3.0	6.4	13.1	22.5	0.4
49	TJSB Sahakari Bank	13.5	3.0	3.1	0.6	1.3	7.7	13.0	86.3	6.2
50	Vasavi Coop Urban Bank LImited.	20.8	2.2	4.0	4.7	3.3	3.3	8.4	3.6	0.3
51	Zoroastrian Co-operative Bank Ltd., Bombay	14.9	3.2	3.2	0.5	1.5	7.3	12.3	74.0	1.1

- : Negligible.
Note: Data for 2012-13 are provisional.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Continued)*

(As per cent to total assets)

Sr. No.	Bank Name	Operating Profit		Net Profit after Taxes		Interest Income	
		2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
1	2	3	4	5	6	7	8
1	Abhyudaya Co-operative Bank Ltd., Mumbai	1.6	1.9	1.0	1.0	8.7	9.2
2	Ahmedabad Mercantile Co-Op Bank Ltd.	2.3	2.2	-	-	8.0	9.4
3	Amanath Co-operative Bank Ltd. Bangalore	-0.8	-0.2	-0.8	-0.2	2.9	2.8
4	Andhra Pradesh Mahesh Co-Op Urban Bank Ltd.	2.3	2.4	1.3	1.3	9.8	11.0
5	Bassein Catholic Co-operative Bank Ltd.	2.7	3.3	1.9	1.8	8.8	9.1
6	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	2.1	2.1	1.4	1.4	9.2	9.6
7	Bharati Sahakari Bank Limited.	2.7	2.0	1.1	1.2	6.5	6.8
8	Bombay Mercantile Co-operative Bank Limited	0.9	0.4	0.8	0.5	5.8	5.7
9	Citizen Credit Co-operative Bank Ltd., Mumbai	1.5	1.6	0.9	0.9	8.5	9.3
10	Cosmos Co-operative Urban Bank Ltd.	1.5	1.8	0.9	0.6	8.1	9.7
11	Dombivli Nagari Sahakari Bank Ltd.	2.4	2.4	1.1	1.2	8.5	9.0
12	Goa Urban Co-operative Bank Limited.	1.9	1.2	0.6	0.7	9.0	8.5
13	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	2.4	2.3	1.2	1.1	8.5	8.5
14	Greater Bombay Co-operative Bank Limited	1.0	0.5	0.6	0.1	9.6	9.6
15	Indian Mercantile Co-operative Bank Ltd.,Lucknow	-	0.6	-	0.6	7.8	9.4
16	Jalgaon Janata Sahakari Bank Ltd.	0.9	1.1	0.7	0.7	8.3	9.0
17	Janakalyan Sahakari Bank Ltd., Mumbai	1.1	1.1	1.9	0.7	8.6	8.4
18	Janalaxmi Co-operative Bank Ltd., Nashik	0.1	0.6	-6.8	-7.9	5.1	5.4
19	Janata Sahakari Bank Ltd., Pune.	1.7	2.4	1.1	1.1	8.9	9.1
20	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	1.2	1.1	0.6	0.6	8.5	9.0
21	Kalupur Commercial Coop.Bank Ltd.	2.2	2.4	1.1	1.0	7.3	8.0
22	Kalyan Janata Sahakari Bank Ltd., Kalyan	1.5	1.9	0.9	1.0	8.5	9.1
23	Karad Urban Co-operative Bank Ltd.	1.5	1.4	0.7	0.7	8.9	9.2
24	Mahanagar Co-operative Bank Ltd., Mumbai	1.3	1.6	0.8	0.8	8.7	9.1
25	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	1.0	0.4	1.0	0.4	7.9	7.8
26	Mehsana Urban Co-Op Bank Ltd.	1.9	2.0	0.9	0.9	8.9	8.9
27	Nagar Urban Co-operative Bank Ltd., Ahmednagar	1.9	1.6	0.8	0.8	9.4	9.9
28	Nagpur Nagrik Sahakari Bank Ltd.	1.8	2.0	0.7	1.1	9.0	9.1
29	Nasik Merchant's Co-operative Bank Ltd.	2.6	2.5	1.5	1.4	9.2	9.4
30	New India Co-operative Bank Ltd., Mumbai	1.0	0.9	0.6	0.6	7.9	8.3
31	NKGSB Co-operative Bank Ltd., Mumbai	1.7	1.5	1.0	1.0	8.9	9.2
32	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	1.1	0.8	0.5	0.6	7.6	8.2
33	Pravara Sahakari Bank Ltd.	1.7	1.0	0.4	0.5	9.6	9.5
34	Punjab & Maharashtra Co-operative Bank Ltd.	1.9	1.6	0.9	1.0	9.1	9.6
35	Rajkot Nagrik Sahakari Bank Ltd.	2.0	2.0	1.4	1.3	8.7	9.1
36	Rupee Co-operative Bank Ltd.	-0.8	-2.2	0.1	-1.9	3.3	3.0
37	Sangli Urban Co-operative Bank Ltd., Sangli	0.9	0.5	0.4	0.5	7.7	8.4
38	Saraswat Co-operative Bank Ltd., Bombay	1.7	1.8	1.0	0.4	7.8	8.4
39	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	1.8	1.7	0.7	0.8	6.9	7.2
40	Shamrao Vithal Co-operative Bank Ltd.	2.1	1.8	0.9	0.9	9.0	9.1
41	Shikshak Sahakari Bank Ltd., Nagpur.	1.1	1.1	2.0	0.5	8.3	9.2
42	Solapur Janata Sahakari Bank Ltd.	1.8	1.5	1.1	0.8	9.4	9.7
43	Surat Peoples Coop Bank Ltd.	2.0	2.4	0.5	0.8	8.8	9.4
44	Thane Bharat Sahakari Bank Ltd.	1.3	1.7	0.9	0.5	9.4	9.9
45	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	1.7	1.6	0.6	0.9	9.0	9.1
46	The Akola Urban Co-operative Bank Ltd., Akola.	1.5	1.3	0.6	0.2	8.5	8.5
47	The Kapol Co-operative Bank Ltd., Mumbai	0.9	0.4	0.3	-	9.2	9.1
48	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	2.2	2.0	2.6	2.3	7.7	8.0
49	TJSB Sahakari Bank	1.9	1.7	1.1	1.2	8.3	9.0
50	Vasavi Coop Urban Bank LImited.	2.7	1.9	-0.6	1.8	6.7	4.3
51	Zoroastrian Co-operative Bank Ltd., Bombay	2.1	1.4	1.5	1.4	9.1	8.8

- : Negligible.
Note: Data for 2012-13 are provisional.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Concluded)*

(As per cent to total assets)

Sr. No.	Bank Name	Interest Expended		Non-Interest Expenditure		Total Operating Expenses		Provisions and Contingencies	
		2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
1	2	9	10	11	12	13	14	15	16
1	Abhyudaya Co-operative Bank Ltd., Mumbai	5.4	6.2	2.0	1.9	7.4	8.1	0.6	1.0
2	Ahmedabad Mercantile Co-Op Bank Ltd.	4.0	5.2	2.1	2.4	6.1	7.6	2.3	2.2
3	Amanath Co-operative Bank Ltd. Bangalore	2.2	2.2	1.5	1.8	3.6	4.0	-	-
4	Andhra Pradesh Mahesh Co-Op Urban Bank Ltd.	5.7	6.6	2.0	2.3	7.7	8.9	1.0	1.0
5	Bassein Catholic Co-operative Bank Ltd.	5.0	5.4	1.5	1.4	6.5	6.7	0.9	1.5
6	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	5.8	6.4	1.8	2.0	7.6	8.4	0.7	0.7
7	Bharati Sahakari Bank Limited.	4.9	6.0	2.4	2.1	7.4	8.1	1.6	0.8
8	Bombay Mercantile Co-operative Bank Limited	3.5	3.7	2.0	2.1	5.4	5.8	0.1	-
9	Citizen Credit Co-operative Bank Ltd., Mumbai	5.6	6.4	1.7	1.8	7.3	8.1	0.6	0.7
10	Cosmos Co-operative Urban Bank Ltd.	5.9	7.3	1.3	1.4	7.2	8.6	0.6	1.2
11	Dombivli Nagari Sahakari Bank Ltd.	5.3	5.9	1.8	1.8	7.1	7.7	1.4	1.2
12	Goa Urban Co-operative Bank Limited.	5.1	5.6	2.1	2.0	7.3	7.5	1.3	0.5
13	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	3.9	4.0	2.2	2.4	6.2	6.4	1.3	1.2
14	Greater Bombay Co-operative Bank Limited	6.5	6.7	2.9	3.2	9.4	9.9	0.4	0.5
15	Indian Mercantile Co-operative Bank Ltd.,Lucknow	6.4	6.2	2.4	3.6	8.8	9.8	-	-
16	Jalgaon Janata Sahakari Bank Ltd.	5.5	6.3	2.3	2.4	7.8	8.7	0.2	0.5
17	Janakalyan Sahakari Bank Ltd., Mumbai	5.8	6.3	2.1	2.6	8.0	8.9	-0.8	0.3
18	Janalaxmi Co-operative Bank Ltd., Nashik	3.9	3.8	1.7	2.6	5.6	6.4	6.9	8.4
19	Janata Sahakari Bank Ltd., Pune.	6.3	6.5	1.5	1.8	7.8	8.3	0.6	1.3
20	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	5.7	6.2	2.0	2.2	7.6	8.4	0.6	0.5
21	Kalupur Commercial Coop.Bank Ltd.	4.5	5.0	1.2	1.3	5.7	6.3	1.1	1.4
22	Kalyan Janata Sahakari Bank Ltd., Kalyan	5.3	5.8	2.4	2.4	7.7	8.2	0.6	0.9
23	Karad Urban Co-operative Bank Ltd.	5.7	6.4	2.4	2.3	8.0	8.8	0.8	0.7
24	Mahanagar Co-operative Bank Ltd., Mumbai	5.3	5.9	3.7	2.0	9.0	7.9	0.6	0.8
25	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	5.2	5.6	2.4	2.2	7.6	7.9	-	-
26	Mehsana Urban Co-Op Bank Ltd.	6.0	6.1	1.1	1.1	7.1	7.2	1.1	1.2
27	Nagar Urban Co-operative Bank Ltd., Ahmednagar	5.7	6.5	2.1	2.0	7.8	8.5	1.1	0.9
28	Nagpur Nagrik Sahakari Bank Ltd.	5.3	5.5	2.7	2.3	7.9	7.8	1.1	0.9
29	Nasik Merchant's Co-operative Bank Ltd.	4.6	5.4	2.5	2.0	7.0	7.4	1.1	1.1
30	New India Co-operative Bank Ltd., Mumbai	5.1	5.6	2.4	2.5	7.5	8.2	0.4	0.3
31	NKGSB Co-operative Bank Ltd., Mumbai	6.0	6.5	1.7	1.9	7.7	8.4	0.7	0.5
32	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	5.1	5.7	2.1	2.3	7.1	8.0	0.6	0.2
33	Pravara Sahakari Bank Ltd.	5.7	6.4	8.2	8.9	13.9	15.3	1.2	0.5
34	Punjab & Maharashtra Co-operative Bank Ltd.	5.7	6.4	2.6	2.7	8.4	9.1	1.0	0.7
35	Rajkot Nagrik Sahakari Bank Ltd.	5.7	6.9	1.5	1.3	7.2	8.2	0.7	0.6
36	Rupee Co-operative Bank Ltd.	2.8	2.9	1.5	2.5	4.3	5.4	-0.8	-0.4
37	Sangli Urban Co-operative Bank Ltd., Sangli	5.1	6.0	2.4	2.6	7.5	8.6	0.5	-
38	Saraswat Co-operative Bank Ltd., Bombay	5.3	5.9	6.9	7.6	12.2	13.5	0.7	1.4
39	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	3.3	3.4	2.1	2.2	5.4	5.6	1.1	0.9
40	Shamrao Vithal Co-operative Bank Ltd.	6.2	6.6	7.9	1.6	14.1	8.2	1.2	1.0
41	Shikshak Sahakari Bank Ltd., Nagpur.	5.2	6.1	2.5	2.6	7.7	8.7	-1.0	0.6
42	Solapur Janata Sahakari Bank Ltd.	5.6	6.3	2.5	2.4	8.1	8.7	0.6	0.7
43	Surat Peoples Coop Bank Ltd.	4.8	5.4	2.3	2.0	7.1	7.4	1.5	1.6
44	Thane Bharat Sahakari Bank Ltd.	5.9	6.6	2.9	2.6	8.8	9.2	0.4	1.2
45	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	5.7	6.2	2.1	1.9	7.8	8.1	1.1	0.7
46	The Akola Urban Co-operative Bank Ltd., Akola.	6.2	6.4	1.2	1.2	7.4	7.6	0.8	1.1
47	The Kapol Co-operative Bank Ltd., Mumbai	6.2	6.7	3.1	3.0	9.3	9.7	0.6	0.4
48	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	4.6	4.6	1.7	2.2	6.3	6.8	-0.4	-0.3
49	TJSB Sahakari Bank	5.3	6.0	1.6	2.0	6.9	8.0	0.8	0.6
50	Vasavi Coop Urban Bank LImited.	2.2	2.1	2.3	2.9	4.5	5.0	3.3	0.1
51	Zoroastrian Co-operative Bank Ltd., Bombay	5.8	5.7	1.6	1.6	7.4	7.3	0.6	-

- : Negligible.

Note: Data for 2012-13 are provisional.

Appendix Table V.3: State-wise Distribution of UCBs
(As at end-March 2013)

Sr. No.	States / Union Territories	No. of UCBs	Number of branches (including head office-cum-branches)	Number of extension counters	Total number of ATMs	Number of districts with a UCB branch	Number of districts without a UCB branch	Deposits (₹ Billion)	Advances (₹ Billion)
1	2	3	4	5	6	7	8	9	10
	Northern region	**74**	**364**	**13**	**18**	**49**	**62**	**96**	**50**
1	Haryana	7	19	1	6	7	14	6	3
2	Himachal Pradesh	5	12	2	4	4	8	5	3
3	Jammu and Kashmir	4	23	4	-	7	15	4	2
4	Punjab	4	20	1	3	6	16	10	5
5	Rajasthan	39	213	3	5	24	9	50	27
6	Delhi	15	77	2	-	1	-	21	11
	North-eastern region	**17**	**48**	**1**	**-**	**15**	**52**	**11**	**5**
7	Assam	8	23	-	-	5	22	5	2
8	Manipur	3	10	1	-	2	7	3	1
9	Meghalaya	3	6	-	-	3	8	2	1
10	Mizoram	1	1	-	-	1	7	-	-
11	Sikkim	1	6	-	-	2	2	-	-
12	Tripura	1	2	-	-	2	6	-	-
	Eastern region	**62**	**153**	**8**	**6**	**27**	**84**	**51**	**25**
13	Bihar	3	3	1	1	2	36	1	-
14	Jharkhand	2	2	-	-	2	22	-	-
15	Odisha	11	44	4	-	12	18	12	6
16	West Bengal	46	104	3	5	11	8	38	19
	Central region	**137**	**549**	**25**	**46**	**83**	**79**	**103**	**53**
17	Chhattisgarh	12	24	1	-	9	18	5	2
18	Madhya Pradesh	51	89	1	-	23	27	17	8
19	Uttar Pradesh	69	353	21	39	42	30	52	26
20	Uttarakhand	5	83	2	7	9	4	29	16
	Western region	**757**	**5,791**	**134**	**1,697**	**59**	**4**	**2,048**	**1,378**
21	Goa	6	68	1	17	2	-	20	12
22	Gujarat	234	884	1	104	22	4	290	165
23	Maharashtra	517	4,839	132	1,576	35	-	1,738	1,201
	Southern region	**559**	**1,885**	**16**	**68**	**97**	**6**	**460**	**299**
24	Andhra Pradesh	103	300	6	20	21	2	88	55
25	Karnataka	266	864	8	40	30	-	211	133
26	Kerala	60	394	2	3	14	-	90	59
27	Tamilnadu	129	321	-	5	31	1	69	50
28	Puducherry	1	6	-	-	1	3	2	1
	All-India	**1,606**	**8,790**	**197**	**1,835**	**330**	**287**	**2,769**	**1,810**

- : Nil/Negligible.
Note: Components may not add up to the total due to rounding off.

Appendix Table V.4: Salient Indicators of Financial Health of State Co-operative Banks - Region and State-wise

(As at end-March)

(Amount in ₹ million)

Sr. No.	Region/State	Amount of Profit/Loss		NPAs as Percentage of Loans Outstanding		Recovery to Demand (Per cent as at end-June)	
		2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8
	Northern region	**1,260**	**1,268**	**2.9**	**2.6**	**97.4**	**97.5**
1.	Chandigarh	37	32	14.4	13.9	62.2	66.6
2.	Delhi	269	302	7.6	7.0	91.2	90.4
3.	Haryana	50	50	-	-	99.9	99.9
4.	Himachal Pradesh	400	414	12.5	12.6	67.0	71.9
5.	Jammu & Kashmir	2	2	26.3	26.3	52.5	52.5
6.	Punjab	258	272	1.1	0.9	99.3	99.4
7.	Rajasthan	245	196	1.1	0.8	98.4	97.0
	North-eastern region	**1,049**	**659**	**31.7**	**25.5**	**44.5**	**45.4**
8.	Arunachal Pradesh	117	3	84.4	84.4	7.7	7.7
9.	Assam	457	260	35.5	20.6	64.3	62.9
10.	Manipur	5	5	69.1	69.1	19.6	19.6
11.	Meghalaya	221	112	13.3	13.3	28.3	22.1
12.	Mizoram	22	22	14.4	14.4	63.7	63.7
13.	Nagaland	6	30	35.3	26.0	66.0	68.7
14.	Sikkim	23	29	7.0	5.0	62.2	73.0
15.	Tripura	199	199	18.1	18.1	65.7	65.7
	Eastern region	**296**	**-399**	**6.0**	**5.5**	**93.2**	**93.6**
16.	Andaman & Nicobar	24	26	9.4	19.3	92.1	70.4
17.	Bihar	64	64	24.2	24.2	72.1	72.1
18.	Odisha	108	110	5.1	5.9	96.8	97.1
19.	West Bengal	100	-599	3.1	-	93.3	93.3
	Central region	**709**	**1,068**	**6.2**	**4.1**	**94.4**	**95.4**
20.	Chhattisgarh	67	100	7.8	4.7	93.0	92.7
21.	Madhya Pradesh	403	640	3.2	1.5	97.3	97.4
22.	Uttar Pradesh	211	300	7.8	6.2	91.9	93.2
23.	Uttarakhand	28	28	10.1	4.9	95.1	97.2
	Western region	**-2,372**	**1,901**	**20.6**	**16.2**	**74.3**	**87.9**
24.	Goa	10	10	8.2	14.9	87.4	87.4
25.	Gujarat	137	137	9.0	2.1	87.8	99.1
26.	Maharashtra	-2,519	1,754	23.5	21.2	70.6	83.8
	Southern region	**1,103**	**738**	**4.9**	**4.4**	**96.2**	**95.5**
27.	Andhra Pradesh	1,117	923	2.7	1.0	95.6	96.8
28.	Karnataka	230	290	4.1	4.9	97.5	97.7
29.	Kerala	-655	-1,012	15.3	12.7	85.8	85.1
30.	Puducherry	4	-66	13.7	12.9	92.4	92.4
31.	Tamil Nadu	407	603	2.7	3.3	99.4	98.3
	All India	**2,046**	**5,235**	**8.6**	**6.8**	**91.8**	**93.9**

- : Not available.

Notes: 1. Data for 2011-12 are provisional.

2. Components may not add up to the total due to rounding off.

Source : NABARD.

Appendix Table V.5: Salient Indicators of Financial Health of District Central Co-operative Banks – Region and State-wise

(As at end-March)

(Amount in ₹ million)

Sr. No.	Region/State	2010-11					2011-12					2011		2012	
		No. of reporting DCCBs	Profit		Loss		No. of reporting DCCBs	Profit		Loss		NPA to Loans ratio (per cent)	Recovery to Demand (per cent) (At end-June)	NPA to Loans ratio (per cent)	Recovery to Demand (per cent) (At end-June)
			No. of DCCBs	Amt.	No. of DCCBs	Amt.		No. of DCCBs	Amt.	No. of DCCBs	Amt.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Northern region	**73**	**62**	**1,316**	**11**	**673**	**73**	**61**	**1,777**	**12**	**550**	**3.4**	**83.3**	**5.7**	**83.7**
1	Haryana	19	14	45	5	253	19	14	45	5	253	3.8	68.5	3.8	68.5
2	Himachal Pradesh	2	2	603	-	-	2	2	363	-	-	8.5	85.7	9.2	76.2
3	Jammu & Kashmir	3	-	-	3	229	3	-	-	3	122	22.5	58.7	22.5	58.7
4	Punjab	20	18	279	2	31	20	17	278	3	97	6.0	92.8	5.3	93.2
5	Rajasthan	29	28	390	1	160	29	28	1,092	1	78	6.8	87.5	5.3	87.1
	Eastern region	**64**	**49**	**704**	**15**	**1,662**	**64**	**50**	**803**	**14**	**873**	**11.7**	**74.1**	**10.1**	**72.4**
6	Bihar	22	13	121	9	228	22	13	121	9	228	54.5	50.7	54.5	50.7
7	Jharkhand	8	6	85	2	17	8	8	100	-	-	47.9	31.6	21.2	32.3
8	Odisha	17	14	114	3	1350	17	14	287	3	608	13.5	70.8	12.1	68.4
9	West Bengal	17	16	384	1	66	17	15	295	2	36	NA	86.5	NA	83.9
	Central region	**104**	**89**	**3,034**	**15**	**1,719**	**104**	**87**	**3,797**	**17**	**1,523**	**19.4**	**70.2**	**17.9**	**75.6**
10	Chhattisgarh	6	6	396	-	-	6	6	509	-	-	21.8	74.4	17.5	71.8
11	Madhya Pradesh	38	38	1740	-	-	38	38	1,741	-	-	16.6	70.5	17.1	75.5
12	Uttar Pradesh	50	35	484	15	1719	50	33	1,036	17	1,523	25.1	65.2	20.3	63.6
13	Uttarakhand	10	10	415	-	-	10	10	512	-	-	12.0	88.1	12.7	87.1
	Western region	**49**	**48**	**5,779**	**1**	**137**	**49**	**48**	**6,653**	**1**	**68**	**13.2**	**73.3**	**11.9**	**73.7**
14	Gujarat	18	18	2145	-	-	18	18	2,145	-	-	12.7	86.0	8.7	88.6
15	Maharashtra	31	30	3635	1	137	31	30	4,508	1	68	13.3	68.8	12.6	67.6
	Southern region	**80**	**74**	**3,465**	**6**	**339**	**80**	**72**	**4,105**	**8**	**181**	**9.5**	**86.5**	**8.0**	**90.6**
16	Andhra Pradesh	22	21	516	1	52	22	18	613	4	60	9.9	84.9	7.2	86.6
17	Karnataka	21	18	851	3	53	21	18	851	3	53	8.4	87.9	5.9	91.6
18	Kerala	14	12	399	2	235	14	13	428	1	68	9.7	86.4	9.7	86.4
19	Tamil Nadu	23	23	1699	-	-	23	23	2,213	-	-	9.5	87.4	8.0	94.5
	All India	**370**	**322**	**14,299**	**48**	**4,530**	**370**	**318**	**17,135**	**52**	**3,194**	**11.2**	**79.1**	**9.7**	**81.9**

- : Nil/Negligible.

Notes : Data for 2012 are provisional.

Source: NABARD.

Appendix Table V.6: Select Indicators of Primary Agricultural Credit Societies-State wise *(Continued)*

(As on March 31, 2012)

(Amount in ₹ million)

Sr. No.	State	No. of PACS	Deposits	Working Capital	Loans and Advances Outstanding		Societies in Profit	
					Agriculture	Non-Agriculture	No.	Amount
1	2	3	4	5	6	7	8	9
	Northern region	**10,818**	**31,917**	**194,564**	**104,968**	**6,530**	**7,071**	**3,483**
1.	Chandigarh	16	-	2	-	1	15	-
2	Haryana	640	5,317	88,051	57,782	4,295	83	424
3	Himachal Pradesh	2,117	8,292	23,512	5,013	-	1,724	232
4	Jammu & Kashmir	765	12	787	223	9	275	8
5	Punjab	1,609	4,343	12,059	11,834	356	925	1,986
6	Rajasthan	5,671	13,953	70,152	30,116	1,869	4,049	832
	North-Eastern region	**3,500**	**779**	**3,958**	**497**	**77**	**599**	**981**
7	Arunachal Pradesh	34	-	194	-	-	13	45
8	Assam	766	-	1112	56	3	309	764
9	Manipur	232	1	62	47	-	24	1
10	Meghalaya	179	27	348	147	5	86	168
11	Mizoram	133	1	32	13	-	24	2
12	Nagaland	1,719	642	1,125	20	36	-	-
13	Sikkim	169	-	72	16	-	41	-
14	Tripura	268	109	1,013	198	32	102	-
	Eastern region	**19,421**	**32,882**	**97,563**	**43,776**	**665**	**6,514**	**618**
15	Andaman & Nicobar Islands	46	13	46	36	-	15	2
16	Bihar	8,463	1,753	5,082	-	-	1,180	60
17	Jharkhand	498	774	4,878	2,866	-	118	15
18	Odisha	2,452	10,737	38,878	26,386	665	630	253
19	West Bengal	7,962	19,604	48,679	14,488	-	4,571	287
	Central region	**15,357**	**15,005**	**96,341**	**51,155**	**2,652**	**8,085**	**2,109**
20	Chhattisgarh	1,213	2,619	10,565	5,603	376	834	242
21	Madhya Pradesh	4,457	8,173	64,555	33,996	1,189	2,153	1,312
22	Uttarakhand	758	3,531	8,629	3,553	1,087	562	377
23	Uttar Pradesh	8,929	682	12,593	8,003	-	4,536	177
	Western region	**29,633**	**13,458**	**276,829**	**127,541**	**22,560**	**14,914**	**954**
24	Goa	77	317	962	123	292	51	4
25	Gujarat	8,154	11,717	94,908	46,434	2,252	4,784	921
26	Maharashtra	21,402	1,424	180,959	80,984	20,016	10,079	29
	Southern region	**13,703**	**408,480**	**935,825**	**144,445**	**316,138**	**8,250**	**5,904**
27	Andhra Pradesh	2,807	12,602	350,433	42,373	1,843	1,222	502
28	Karnataka	4,739	22,823	79,187	38,772	5,870	2,758	1,088
29	Kerala	1,566	318,786	345,579	25,446	209,670	771	1,504
30	Puducherry	53	962	1,661	149	401	27	19
31	Tamil Nadu	4,538	53,307	158,965	37,705	98,354	3,472	2,791
	All India	**92,432**	**502,522**	**1,605,080**	**472,382**	**348,621**	**45,433**	**14,049**

- : Nil/Negligible.
Source: NAFSCOB.

Appendix Table V.6: Select Indicators of Primary Agricultural Credit Societies-State wise *(Concluded)*

(As on March 31, 2012)

(Amount in ₹ million)

Sr. No.	State	Societies in Loss		Viable	Potentially viable	Dormant	Defunct	Others
		No.	Amount					
1	2	10	11	12	13	14	15	16
	Northern Region	**2,831**	**11,880**	**7,553**	**2,574**	**186**	**328**	**177**
1.	Chandigarh	1	-	15	-	1	-	-
2	Haryana	557	3,080	640	-	-	-	-
3	Himachal Pradesh	332	26	463	1,583	45	6	20
4	Jammu & Kashmir	356	150	275	173	96	219	2
5	Punjab	472	8,289	1,308	119	-	82	100
6	Rajasthan	1,113	335	4,852	699	44	21	55
	North-Eastern Region	**1,013**	**1,638**	**1,947**	**491**	**672**	**390**	**-**
7	Arunachal Pradesh	19	72	20	5	4	5	-
8	Assam	419	991	709	57	-	-	-
9	Manipur	194	96	223	-	8	1	-
10	Meghalaya	93	441	132	37	5	5	-
11	Mizoram	109	18	133	-	-	-	-
12	Nagaland	-	-	457	228	655	379	-
13	Sikkim	13	-	158	11	-	-	-
14	Tripura	166	20	115	153	-	-	-
	Eastern Region	**9,553**	**4,018**	**14,616**	**3,142**	**603**	**463**	**597**
15	Andaman & Nicobar Island	28	9	39	5	-	2	-
16	Bihar	3,962	9	8,463	-	-	-	-
17	Jharkhand	380	293	352	143	3	-	-
18	Odisha	1,792	3,488	1,471	605	10	1	365
19	West Bengal	3,391	219	4,291	2,389	590	460	232
	Central Region	**4,661**	**1,927**	**12,480**	**2,192**	**434**	**180**	**71**
20	Chhattisgarh	379	37	1,123	90	-	-	-
21	Madhya Pradesh	2,129	1,782	3,663	720	4	-	70
22	Uttarakhand	185	93	579	113	48	17	1
23	Uttar Pradesh	1,968	15	7,115	1,269	382	163	-
	Western Region	**13,152**	**995**	**20,498**	**8,431**	**531**	**80**	**93**
24	Goa	23	-	54	12	7	2	2
25	Gujarat	2,180	952	4,960	2,501	524	78	91
26	Maharashtra	10,949	42	15,484	5,918	-	-	-
	Southern Region	**5,165**	**13,811**	**9,719**	**3,145**	**208**	**66**	**565**
27	Andhra Pradesh	1,585	4,397	2,266	491	5	7	38
28	Karnataka	1,760	609	3,017	1,277	179	41	225
29	Kerala	732	3,036	1,383	123	17	18	25
30	Puducherry	26	84	25	28	-	-	-
31	Tamil Nadu	1,062	5,684	3,028	1,226	7	-	277
	ALL INDIA	**36,375**	**34,268**	**66,813**	**19,975**	**2,634**	**1,507**	**1,503**

- : Nil/Negligible.
Source: NAFSCOB.

Appendix Table V.7: Major Financial Indicators of State Co-operative Agriculture and Rural Development Banks - State-wise

(As at end-March)

(Amount in ₹ million)

Sr. No.	Region/State	Branches	Profit/Loss		NPA to Loans ratio (per cent)		Recovery ratio (per cent)	
		2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9
	Northern region	**85**	**451**	**529**	**19.7**	**21.6**	**58.5**	**60.0**
1	Haryana @	-	70	158	33.7	32.3	51.0	55.7
2	Himachal Pradesh #	33	11	11	41.0	41.0	44.3	50.9
3	Jammu & Kashmir*	45	-27	-37	34.5	20.0	31.1	31.2
4	Punjab @	-	193	207	0.2	2.9	78.3	81.4
5	Rajasthan @	7	204	191	23.1	29.4	52.4	48.8
	North-eastern region	**33**	**-62**	**-51**	**61.3**	**61.3**	**56.8**	**50.7**
6	Assam*	28	-62	-50	97.8	99.6	14.0	7.1
7	Tripura*	5	-0.5	-0.5	45.5	45.5	69.8	71.5
	Eastern region	**138**	**-2**	**-510**	**30.2**	**27.3**	**28.6**	**43.1**
8	Bihar*	131	-5.2	-503	85.3	82.8	2.0	-
9	Odisha @	5	-	-14	97.4	100.0	3.6	0.4
10	West Bengal #	2	3.0	7	18.3	16.5	60.1	60.1
	Central region	**330**	**-390**	**-1,940**	**48.3**	**54.4**	**38.8**	**14.9**
11	Chhattisgarh @	-	2	2	49.7	49.7	31.3	22.0
12	Madhya Pradesh @	7	-545	-1,293	51.7	66.2	21.1	8.4
13	Uttar Pradesh*	323	153	-649	47.2	51.0	50.1	17.3
	Western region	**181**	**-349**	**-348**	**81.8**	**79.7**	**14.7**	**47.3**
14	Gujarat*	181	371	373	49.5	43.6	47.2	47.3
15	Maharashtra @	-	-720	-721	97.7	97.7	4.2	-
	Southern region	**56**	**314**	**151**	**14.7**	**12.6**	**58.0**	**67.8**
16	Karnataka @	23	109	-58	31.5	28.5	41.0	54.2
17	Kerala @	14	185	191	4.3	3.3	95.7	94.4
18	Puducherry*	1	-1	-3	4.4	4.8	95.7	95.9
19	Tamil Nadu @	18	21	21	15.8	15.8	14.4	5.6
	All India	**823**	**-39**	**-2,168**	**32.3**	**33.1**	**40.2**	**41.3**

- : Not Available. @ Federal structure. # Mixed structure. * Unitary structure

Notes: 1. Data for 2012 are provisional.

2. Components may not add up to the total due to rounding off.

Source: NABARD.

Appendix Table V.8: Major Financial Indicators of Primary Co-operative Agriculture and Rural Development Banks -State-wise

(As at end-March)

(Amount in ₹ million)

State	2010-11				2011-12				NPA to Loans ratio (per cent)		Recovery ratio (per cent) (At end-June)	
	Profit		Loss		Profit		Loss					
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern region	**106**	**597**	**39**	**1,620**	**102**	**448**	**43**	**1,297**	**40.9**	**39.6**	**45.5**	**46.0**
Haryana	-	-	19	1,166	-	-	19	862	51.9	50.2	34.6	38.6
Himachal Pradesh	1	5		-	1	5		-	34.1	34.1	57.7	58.6
Punjab	81	455	8	95	81	359	8	88	32.7	30.2	59.6	61.4
Rajasthan	24	138	12	360	20	84	16	347	38.5	39.3	45.3	40.1
Central region	**11**	**16**	**39**	**707**	**14**	**15**	**36**	**576**	**65.2**	**65.3**	**29.9**	**11.5**
Chhattisgarh	3	4	9	194	6	4	6	63	47.2	44.4	47.6	42.4
Madhya Pradesh	8	11	30	513	8	11	30	513	68.5	68.5	27.5	8.4
Eastern region	**-**	**-**	**70**	**228**	**-**	**-**	**70**	**228**	**35.1**	**35.1**	**55.2**	**54.8**
Odisha	-	-	46	105	-	-	46	105	99.9	99.9	11.7	4.6
West Bengal	-	-	24	123	-	-	24	123	33.4	33.4	57.6	57.5
Western region	**1**	**10**	**28**	**1,142**	**1**	**10**	**28**	**1,142**	**98.3**	**98.3**	**18.8**	**-**
Maharashtra	1	10	28	1,142	1	10	28	1,142	98.3	98.3	18.8	-
Southern region	**252**	**1,730**	**151**	**745**	**242**	**1,618**	**161**	**801**	**29.5**	**25.6**	**69.8**	**60.2**
Karnataka	95	365	82	255	85	253	92	311	36.2	23.8	54.4	52.0
Kerala*	34	307	12	252	34	307	12	252	27.6	27.6	94.7	73.2
Tamil Nadu	123	1,059	57	238	123	1,059	57	238	21.9	21.9	49.9	15.2
All India	**370**	**2,353**	**327**	**4,442**	**359**	**2,091**	**338**	**4,044**	**40.6**	**38.6**	**47.3**	**44.8**

* One PCARDB in Kerala did not report profitability data.
- : Not Available.
Note: Data for 2012 are provisional.
Source: NABARD.

Appendix Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions *(Continued)*

(Amount in ₹ billion)

Institution	Loans*				Underwriting and Direct Subscription				Others#			
	2011-12		2012-13 P		2011-12		2012-13 P		2011-12		2012-13 P	
	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
A. All-India Financial Institutions (1, 2 and 3)	**463.2**	**446.2**	**430.9**	**417.0**	**16.1**	**28.4**	**2.1**	**4.5**	**0.8**	**0.3**	**0.4**	**0.4**
1. IFCI	31.5	32.1	21.2	11.7	14.8	24.7	1.0	3.3	0.5	0.0	-	-
2. SIDBI	431.7	414.1	409.7	405.3	1.3	3.7	1.1	1.2	0.3	0.3	0.4	0.4
3. IIBI	-	-	-	-	-	-	-	-	-	-	-	-
B. Specialised Financial Institutions (4, 5 and 6)	**10.3**	**7.9**	**6.4**	**5.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**0.6**	**0.7**	**0.7**
4. IVCF	3.1	2.9	2.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
5. ICICI Venture	-	-	-	-	-	-	-	-	-	-	-	-
6. TFCI	7.2	5.0	3.7	2.9	0.0	0.0	0.0	0.0	0.6	0.6	0.6	0.6
C. Investment Institutions (7 and 8)	**17.4**	**27.0**	**46.3**	**52.8**	**524.9**	**490.1**	**399.2**	**412.2**	**1.8**	**2.5**	**2.3**	**1.5**
7. LIC	17.4	27.0	46.3	52.8	512.3	477.6	381.5	394.5	1.8	2.5	2.3	1.5
8. GIC@	0.0	0.0	0	0	12.6	12.6	17.7	17.7	0.0	0.0	0	0
D. Financial Institutions (A+B+C)	**490.9**	**481.1**	**483.6**	**475.4**	**541.0**	**518.5**	**401.3**	**416.7**	**3.2**	**3.4**	**3.4**	**2.6**
E. State level Institutions (9 and 10)												
9. SFCs	..	..	..	..	..	..	..	..	..	..	..	..
10. SIDCs	..	..	..	..	..	..	..	..	..	..	..	..
F. Total Assistance by All Financial Institutions (D+E)	**490.9**	**481.1**	**483.6**	**475.4**	**541.0**	**518.5**	**401.3**	**416.7**	**3.2**	**3.4**	**3.4**	**2.6**

Appendix Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions *(Concluded)*

(Amount in ₹ billion)

Institution	Total				Percentage Variation	
	2011-12		2012-13 P		2012-13	
	S	D	S	D	S	D
1	14	15	16	17	18	19
A. All-India Financial Institutions (1, 2 and 3)	**480.1**	**474.9**	**433.4**	**421.8**	**-9.7**	**-11.2**
1. IFCI	46.7	56.8	22.2	15.0	-52.5	-73.6
2. SIDBI	433.4	418.1	411.2	406.8	-5.1	-2.7
3. IIBI	-	-	-	-	-	-
B. Specialised Financial Institutions (4,5 and 6)	**10.9**	**8.5**	**7.1**	**6.2**	**-34.9**	**-27.1**
4. IVCF	3.1	2.9	2.9	2.8	-6.5	-3.4
5. ICICI Venture	-	-	-	-	-	-
6. TFCI	7.8	5.6	4.2	3.4	-46.2	-39.3
C. Investment Institutions (7 and 8)	**544.1**	**519.7**	**447.8**	**466.6**	**-17.7**	**-10.2**
7. LIC	531.5	507.1	430.1	448.9	-19.1	-11.5
8. GIC@	12.6	12.6	17.7	17.7	40.5	40.5
D. Financial Institutions (A+B+C)	**1,035.1**	**1,003.1**	**888.3**	**894.6**	**-14.2**	**-10.8**
E. State level Institutions (9 and 10)						
9. SFCs	..	..	..	..	..	..
10. SIDCs	..	..	..	..	..	..
F. Total Assistance by All Financial Institutions (D+E)	**1,035.1**	**1,003.1**	**888.3**	**894.6**	**-14.2**	**-10.8**

P : Provisional.
S : Sanctions.
D : Disbursements.
- : Nil.
.. : Not available.
* : Include both rupee and foreign currency loans.
# : Others include guarantees.
@ : Data for GIC and its subsidiaries.
Source: Respective Financial Institutions.

Appendix Table VI.2: Financial Performance of Primary Dealers

(Amount in ₹ million)

S. No.	Name of the Primary Dealer	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 Expenses	Total Expenditure			
	1	2	3	4	5	6	7	8	9	10	11	12
1	STCI Primary Dealer Ltd.	2011-12	1,695.8	-127.9	38.8	1,606.7	1,556.0	143.5	1,699.5	-92.8	-92.8	-3.6
		2012-13	1,578.2	592.9	15.4	2,186.5	1,427.5	182.0	1,609.5	577.0	388.3	15.5
2	SBI DFHI Ltd.	2011-12	1,978.1	14.3	27.0	2,019.4	1,205.8	163.1	1,368.9	650.4	435.1	5.0
		2012-13	2,594.2	568.1	19.8	3,182.1	1,785.2	210.8	1,996.0	1,186.1	802.9	8.7
3	ICICI Securities Primary Dealer Ltd.	2011-12	4,455.3	1,349.2	179.7	5,984.2	4,034.0	675.6	4,709.6	1,274.5	856.9	13.7
		2012-13	6,138.1	2,082.3	248.9	8,469.3	5,636.6	850.2	6,486.8	1,799.8	1,206.6	17.9
4	PNB Gilts Ltd.	2011-12	1,659.3	-143.5	142.0	1,657.8	1,256.7	104.6	1,361.3	296.5	210.6	3.7
		2012-13	2,303.5	400.2	183.8	2,887.5	1,886.5	113.4	1,999.9	887.6	612.4	9.9
5	Morgan Stanley India Primary Dealer Pvt. Ltd.	2011-12	1,302.6	-305.8	61.6	1,058.4	1,016.7	206.9	1,223.6	-165.1	-166.6	-4.6
		2012-13	1,865.3	3.1	48.5	1,916.9	1,485.2	204.8	1,690.0	226.9	205.4	5.3
6	Nomura Fixed Income Securities Pvt. Ltd.	2011-12	1,629.3	-519.3	537.9	1,647.9	1,329.4	291.1	1,620.5	27.3	25.8	0.7
		2012-13	1,933.0	201.1	10.0	2,144.1	1,531.2	264.0	1,795.2	348.8	235.6	6.0
7	Deutsche Securities (India) Pvt. Ltd	2011-12	394.7	-24.5	12.7	382.9	231.6	40.0	271.6	111.2	75.1	3.3
		2012-13	506.3	66.8	18.7	591.8	331.2	65.6	396.8	201.2	135.9	5.7
8	Goldman Sachs	2011-12	706.6	393.3	11.4	1,111.3	546.3	266.2	812.5	298.9	200.5	8.3
		2012-13	993.5	361.9	8.6	1,364.0	799.4	249.8	1,049.2	314.8	207.6	8.1
Total		**2011-12**	**13,821.7**	**635.8**	**1,011.1**	**15,468.6**	**11,176.5**	**1,891.0**	**13,067.5**	**2,400.9**	**1,544.6**	**4.4**
		2012-13	**17,912.1**	**4,276.4**	**553.7**	**22,742.2**	**14,882.8**	**2,140.6**	**17,023.4**	**5,542.2**	**3,794.7**	**10.1**

Source: Returns submitted by the PDs.

Appendix Table VI.3: Select Financial Indicators of Primary Dealers

(Amount in ₹ million)

S. No.	Name of the Primary Dealer	Capital Funds (Tier I + Tier II+ eligible Tier III)		CRAR (Per cent)		Stock of Government Securities and Treasury bills (Book Value)		Total Assets (Net of current liabilities and provisions)	
		2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
	1	2	3	4	5	6	7	8	9
1	STCI Primary Dealer Ltd.	2,717	2,591	25	23	12,567	15,956	21,492	24,588
2	SBI DFHI Ltd.	8,741	9,102	94	78	24,605	24,708	30,039	36,262
3	ICICI Securities Primary Dealer Ltd.	10,559	11,641	48	26	47,067	54,975	68,990	73,592
4	PNB Gilts Ltd.	5,723	6,201	75	42	24,734	24,587	27,685	37,242
5	Morgan Stanley India Primary Dealer Pvt. Ltd.	3,667	3,869	35	62	3,732	11,362	2,455	2,265
6	Nomura Fixed Income Securities Pvt. Ltd.	4,140	4,055	41	34	15,510	17,017	16,396	16,338
7	Deutsche Securities (India) Pvt. Ltd.	2,231	2,382	185	144	3,471	7,041	3,535	7,477
8	Goldman Sachs	2,399	2,630	64	40	12,679	15,437	15,246	17,777
	Total	**40,179**	**42,473**	**54**	**39**	**1,44,370**	**1,71,090**	**1,85,838**	**2,15,541**

Source: Returns submitted by the PDs.