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AN EMPIRICAL EVALUATION OF
NON-PERFORMING ASSETS OF COMMERCIAL BANKS FOR 2003-2008

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BONAFIDE CERTIFICATE

Certified that the Project report titled "**An Empirical Evaluation of Non Performing Assets in Commercial Banks for the year 2003-2008** "is the bonafide work of Mr. **K.Balaji** who carried out the work under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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ABSTRACT

Banks play a very important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Banks are the main stimulus of the economic progress of a country. In general there are several challenges confronting of commercial banks. The main challenge confronting the commercial banks are the disbursement of funds in quality assets (loans and advances), in this project it has been attempted to study the Non-Performing Assets (NPAs) in Commercial Bank of India.

It has been discussed about the relationship between ownership and financial performance of banks in emerging markets, cross-ownership differences in credit market behavior of banks in emerging economies is sparse. Using bank-level data from India, and a portfolio-choice model, for five years (2003-04 to 2007-08), we examine banks' behavior in the context of emerging credit markets. Our results indicate that, in India, the data for the domestic banks fit to the level of NPA. The Non Performing Assets are been analyzed by the ownership pattern, Government regulations and its impact on the credit delivery system of the various sectors.

NPA of the banks have not showed an increase along with the deployment of more funds in advances. It is found that NPA is not related to the rate of deployment in loans and advances. Banks have been able to reduce the burden but have not succeeded in increasing the spread as a result of unregulated interest rate in the post – reform period. The decline in the spread is compensated and the banks could improve the profitability in the post – reform phase

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Students Signature

EXECUTIVE SUMMARY

The Project work titled as **"An Empirical Evaluation of Non Performing Assets of Commercial Banks for 2003-2008".** It has been divided in to five chapters.

The **First chapter** gives a bird's eye view of the Banking Industry, Meaning and definition of Non Performing Asset, Reserve Bank India's regulation to Non Performing Asset, General reasons for assets becoming Non Performing Asset s brief description about the Statement of the Problem, Objectives of the study, and Reasons for selecting Non Performing Asset and Survey design of the study.

The **Second chapter** includes Literature Survey brief description about the Review of Literature Survey design of the study.

The **Third chapter** explains the Methodology the data are collected and analyzed using various tools for analysis regarding Non Performing Assets.

The **Fourth chapter** deals with Analysis; in this chapter the researcher has mentioned five years loans and advances of Commercial Bank's, Gross Non Performing Assets and details about impairment losses of banks due to Non Performing Asset.

The **Fifth chapter** has been allocated for Summary of findings; it has been used to give Suggestions for solving the problems of Non Performing Asset.

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K.BALAJI

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LIST OF ABBREVIATIONS

AMC Asset Management Company

ANBC Adjusted Net Bank Credit

ARC Asset Reconstruction Company

BCBS Basel Committee on Banking Supervision

BFS Board for Financial Supervision

CMA Credit Monitoring Arrangements

CRR Cash Reserve Ratio

Cr. Crores

DICGC Deposit Insurance and Credit Guarantee Corporation

CAR Capital Adequacy Ratio

IBA Indian Banks' Association

IDBI Industrial Development Bank of India

IDFC Infrastructure Development Corporation Of India

ICICI Industrial Credit and Investment

MSME Micro, Small and Medium Enterprise Finance Company

NBC Net Bank Credit

NOF Net Owned Fund

NPA Non-Performing Asset

NPFA Non-Performing Financial Assets

NPL Non-Performing Loan

OBE Off-Balance Sheet Exposure

PSB Public Sector Bank

RBI Reserve Bank of India

ROA Return on Assets

SIDC State Industrial Development Reconstruction of Corporation

SARFAESI Securitization and Financial Assets and Enforcement of Security Interest

SBI State Bank of India

SCB Scheduled Commercial Bank

SLR Statutory Liquidity Ratio

UTI Unit Trust of India

CHAPTER –1
INTRODUCTION

CHAPTER 1 INTRODUCTION

1. INTRODUCTION

"A Man without money is like a bird without wings", the Rumanian proverb insists the importance of the money. A bank is an establishment, which deals with money. The basic functions of Commercial banks are the accepting of all kinds of deposits and lending of money. In general there are several challenges confronting the commercial banks in its day today operations. The main challenge facing the commercial banks is the disbursement of funds in quality assets (Loans and Advances) or otherwise it leads to Non-performing assets.

1.1 INDIAN BANKING – A BACKGROUND

Banking is an ancient business in India with some of oldest references in the writings of Manu. Bankers played an important role during the Mogul period. During the early part of the East India Company era, agency houses were involved in banking. Modern banking (i.e. in the form of joint-stock companies) may be said to have had its beginnings in India as far back as in 1786, with the establishment of the General Bank of India. Three Presidency Banks were established in Bengal, Bombay and Madras in the early 19^{th} century. These banks functioned independently for about a century before they were merged into the newly formed Imperial Bank of India in 1921. The Imperial Bank was the forerunner of the present State Bank of India. The latter was established under the State Bank of India Act of 1955 and took over the Imperial Bank. The Swadeshi movement witnessed the birth of several indigenous banks including the Punjab National bank, Bank of Baroda and Canara Bank. In 1935, the Reserve Bank of India was established under the Reserve Bank of India Act as the central bank of India.

In spite of all these developments, independent India inherited a rather weak banking and financial system marked by a multitude of small and unstable private banks whose failures frequently robbed their middle-class depositors of their life's savings. After independence, the Reserve Bank of India was nationalized in 1949 and given wide powers in the area of bank supervision through the Banking Companies Act (later renamed Banking Regulations Act). The nationalization of the Imperial bank through the formation of the State Bank of India and the subsequent acquisition of the state owned banks in eight princely states by the State Bank of India in 1959 made the government the dominant player in the banking industry. In keeping with the increasingly socialistic leanings of the Indian government, 14 major private banks, each with deposits exceeding Rs. 50 Crores, were nationalized in 1969. This raised the proportion of scheduled bank branches in government control from 31% to about 84%. In 1980, six more private banks each with deposits exceeding Rs 200 Crores were privatized further raising the proportion of government controlled bank branches to about 90%.

1.1.1 ECONOMIC POLICY MAKING

As in other areas of economic policy-making, the emphasis on government control began to weaken and even reverse in the mid-80s and liberalization set in firmly in the early 90's. The poor performance of the public sector banks, which accounted for about 90% of all commercial banking, was rapidly becoming an area of concern. The continuous escalation in non-performing assets (NPAs) in the portfolio of banks posed a significant threat to the very stability of the financial system. Banking reforms, therefore, became an integral part of the liberalization agenda. The first Narasimhan Committee set the stage for financial and bank reforms in India. Interest rates, previously fixed by the Reserve Bank of India, were liberalized in the 90's and directed lending through the use of instruments of the Statutory Liquidity Ratio was reduced. While several committees have looked into the ailments of commercial banking in India, three of them – the Narasimhan committee I (1992) and II (1998) and the Verma committee – have aimed at major changes in the banking system. Nevertheless, more than a decade since the beginning of economic reforms, the banking sector is still struggling under the burden of considerable NPAs and the poor performance of public sector banks continues to be a major issue.

The financial reform process is often thought of as comprising two stages – the first phase guided broadly by the Narasimhan Committee I report while the second is based on the Narasimhan Committee II recommendations. The aim of the former was to bring about "operational flexibility" and "functional autonomy" so as to enhance "efficiency, productivity and profitability". The latter focused on bringing about structural changes so as to strengthen the foundations of the banking system to make it more stable.

During the 90's quite a few new private sector banks made their appearance, predominantly floated by public sector or quasi-public sector financial institutions. Among the completely private sector banks that made their debut during this period, the Global Trust Bank ended in a major failure in 2004 and its depositors had to be bailed out by the RBI through a merger with the Oriental Bank of Commerce. Several foreign banks also made their entry into the Indian banking scenario while the existing foreign banks expanded their operations. Meanwhile, the performance of public sector banks continued to be saddled with operational and lending inefficiencies. The Verma Committee identified three public sector banks – Indian Bank, UCO Bank and United Bank of India – as the weakest of the twenty-seven public sector banks, in terms of NPAs and accumulated losses. In March 2002, the gross NPAs of scheduled commercial banks amounted to Rs. 71,000 Crores out of which Rs. 57,000 Crores or roughly 80% came from the public sector banks. The following year witnessed a marginal improvement in the situation.

In a bid to stem the lurking rot, RBI issued in 1993 guidelines based on recommendations of the Narasimhan Committee that mandated identification and reduction of NPAs. Their implementation immediately pushed many banks into the red. So serious is the problem that an RBI report suggested that reducing NPAs be treated as a 'national priority'. After that there has been many reforms taken up by the Government in controlling the NPA Level.

1.2 NON PERFORMING ASSET

Perhaps the best measure of a country's financial health and robustness is the extent of non-performing assets (NPAs) in its banking system. Broadly speaking, a non-performing advance is defined in India as one with interest or principal repayment installment unpaid for a period of at least two quarters. NPAs form a substantial drag for individual banks as well as the banking system of a country. They represent the poor quality of the assets of the bank and have to be provisioned for using capital. Obviously they have a huge negative impact on a bank's profitability and can lead to complete erosion of its asset base. NPAs are a key issue in banking and indeed financial stability around the world.

1.2.1 NPAs –MEANING

NPA is defined as an advance for which interest or repayment of principal or both remain out standing for a period of more than two quarters. An asset which ceases to generate income of the bank is called non-performing asset. The past due amount remaining uncovered for the two quarter consequently the amount would be classified as NPA for the whole year. It includes borrowers' defaults or delays in interest or principal repayment. The level of NPA in advances act as an indicator in showing the bankers credit risks and efficiency in allocation of resources.

1.2.2 DEFINITION OF NPA'S

A NPA is a loan or an advance where;

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains "out of order" in respect of an overdraft/ cash credit
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted
- The installment or interest remains overdue for two crop seasons in case of short duration crops and for one crop season in case of long duration crops

1.2.3 CATEGORIES OF NPA

- Substandard Assets – Which has remained NPA for a period less than or equal to 12 months.
- Doubtful Assets – Which has remained in the sub-standard category for a period of 12 months
- Loss Assets – where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

1.2.4 PROVISIONING NORMS

- Standard Assets – general provision of a minimum of 0.25%
- Substandard Assets – 10% on total outstanding balance, 10 % on unsecured exposures identified as sub-standard & 100% for unsecured "doubtful" assets.

- Doubtful Assets – 100% to the extent advance not covered by realizable value of security. In case of secured portion, provision may be made in the range of 20% to 100% depending on the period of asset remaining sub-standard
- Loss Assets – 100% of the outstanding

1.2.5 IMPACT OF NPAS ON OPERATIONS

- Drain on Profitability
- Impact on capital adequacy
- Adverse effect on credit growth as the banker's prime focus becomes zero percent risk and as a result turns lukewarm to fresh credit.
- Excessive focus on Credit Risk Management
- High cost of funds due to NPAs

1.3 STATEMENT OF THE PROBLEM

The issue of Non Performing Assets has been discussed at length for financial system all over the world. The problem of NPAs is not only affecting the banks but also the whole economy. NPAs reflect the quality assets of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the earnings of the bank. The NPA growth involves the necessity of provisioning, which reduces the overall profits.

This paper explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This paper aims to find the fundamental factors which impact NPAs of banks.

In fact the low level of NPAs of Indian banks reflects the state of health of the banks. Most banks that fail seem to do so because of problems in their loan portfolio. Non- performing loans grow to such an extent that revenues fall off and loan loss expenses as well as operating costs, absorb all the earnings that remain. The bad loan situation usually arises from a combination of factors. Failing banks often have inadequate systems of spotting problem loan early.

Reduction of NPA's in the Indian banking sector should be treated as a national priority item to make the system stronger, resilient and geared to meet the challenges of globalization. It is necessary that a public debate is started soon on the problem of the NPA's and their resolution.

1.4 SIGNIFICANCE OF THE STUDY

Non-performing Asset (NPA) has emerged since over a decade as an alarming threat to the banking industry in our country sending distressing signals on the sustainability and endurability of the affected banks. The positive results of the chain of measures affected under banking reforms by the Government of India and RBI in terms of the two Narasimhan Committee Reports in this contemporary period have been neutralized by the ill effects of this surging threat. Despite various correctional steps administered to solve and end this problem, concrete results are eluding. It is a sweeping and all pervasive virus confronted universally on banking and financial institutions. The severity of the problem is however acutely suffered by Nationalized Banks, followed by the SBI group, and the all India Financial Institutions.

Indian banking sector has the nation in developing the business and service sectors. But recently the banks are facing the problem of credit risk. It is found that many general people and business people borrow from the banks but due to some genuine or other reasons are not able to repay back the amount drawn to the banks. The amount which is not given back to the banks is known as the non performing assets.

Many banks are facing the problem of non performing assets which hampers the business of the banks. Due to NPAs the income of the banks is reduced and the banks have to make the large number of the provisions that would curtail the profit of the banks and due to that the financial performance of the banks would not show good results The main aim behind making this report is to know how Public Sector Banks are operating their business and how NPAs play its role to the operations of the Public Sector Banks. The report NPAs are classified according to the sector, industry, and state wise. The present study also focuses on the existing system in India to solve the problem of NPAs and comparative analysis to understand which bank playing what role with is concerned to NPA's. Thus, the study would help the decision makers to understand the financial performance and growth of Public Sector Banks as compared to the NPAs.

1.5 SCOPE OF THE STUDY

The Study has mainly focused attention to study the Non-Performing Assets **Commercial banks** in India, which were covered under schedule II of RBI Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (60) of the Act. For the purpose of assessment of performance of banks, the Reserve Bank of India categories them as public sector banks, old private sector banks, new private sector banks and foreign banks. In India, we have 106 scheduled commercial banks, but for this research in 20 banks are selected using purposive sampling technique and their financial performance are being put into the analysis.

Hence the scope of the study is restricted only 20 banks. The analysis, findings, and suggestions are pertaining to only **20 Commercial banks**, which are functioning in India. The 20 Commercial Banks taken for the study includes 5 banks each on each categories i.e. public sector banks, old private sector banks, new private sector banks and foreign banks.

1.6 OBJECTIVE OF THE STUDY

1.6.1 PRIMARY OBJECTIVE

The primary objective of the making report is:

- To know the Policy influence on advance and credit Delivery system.
- To understand the impacts of NPAs on the operations of the Various Sector Banks.

1.6.2 SECONDARY OBJECTIVE

The secondary objectives of preparing this report are:

- To understand what is Non Performing Assets and what are the underlying reasons for the emergence of the NPAs
- To know what steps are being taken by the Indian banking sector to reduce the NPAs.
- To evaluate the comparative ratios of the Various Sector Banks with concerned to the NPAs
- To determine the credit risk faced by the banks and to find out the real reason behind the high level of NPA's and also to assess the credit risk management of the banks.

1.7 PERIOD OF STUDY

The period of the study has been taken-Up from the financial year 2003-04 to 2007-08 (5 Years), a sufficient time for any bank to correct themselves according to their ups and downs.

1.8 EXPECTED DELIVERABLES

As credit information is crucial for the development of the financial system and for the addressing the problems of NPA's, dissemination of credit information on suit-filled defaulters is being undertaken. Banks and financial institutions need to review the measures taken for furnishing credit information in respect of all borrowers. The banks to should take persistent efforts in obtaining consent from all the borrowers in order to establish an enhancing the quality of credit decisions, improve the asset quality and facilities foster credit delivery. The sheltering weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA Problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective.

CHAPTER –2
LITERATURE SURVEY

CHAPTER 2 – LITERATURE SURVEY

2.1 REVIEW OF LITERATURE:

The Literature which was reviewed as part of this study includes articles and research papers related to Indian Banking Reforms, Non Performing Assets and Profitability Analysis of Modern Banking. The Available Literatures are categorized into:

1. Studies making a prospective evaluation of Indian Banking in Reform Phase.
2. Study with specific focus on Non Performing Asset.

2.1.1 STUDIES MAKING A PROSPECTIVE EVALUATION OF INDIAN BANKING IN REFORM PHASE

1. C.Rangarajan[1] (1997) in an evaluation of the Indian experience in Financial Sector Reforms Published in the RBI Bulletin gives stress to the view that the sustained improvement of the economic activity and growth is greatly enhanced by the existence of a financial system developed in terms of both operational and allocation efficiency in mobilizing savings and in channelizing them among competing demands.

2. Talwar S.P [2] (1996) in an article on the current banking Scenario and the need for the policy change, opines that a major concern addressed by the banking sector reform is the improvement of the financial health of banks. The Introduction of prudential norms is better financial discipline by ensuring that the banks are alert to the risk profile of their loan portfolios.

3. R.Narashiman [3] (2000) in a study related to Public Sector Banks Points out the "true reasons " for the crisis in the Public Sector banks:
   These are:

- Problems encountered by the banking industry globally and the response by the central bank.
- Prudential norms introduced by the RBI in 1993 and their impact on the banking system in India, and
- The transformation of the banks and the banking business due to forces unleashed by the IT revolution.

2.1.2 STUDIES WITH SPECIFIC FOCUS ON NON PERFORMING ASSET

1. Sarkar et al [4] (1998) contend that it is not ownership itself but the existence of a market for corporate control and the resulting market discipline on managerial decisions that makes the real difference. He points out that public sector banks are already feeling the heat of competition from new entrants in the banking sector and that there is no systematic evidence that private banks do better than public sector banks in emerging markets. He argues that the case for privatization is made more on the basis of perceptions than based on a comprehensive review of facts and evidence. Banks are different from other enterprises in that they directly affect thousands, if not millions, of depositors and play a crucial role in economic growth.

2. Narsimam committee [5]-"In our own country, the 'contamination coefficient' of directed credit has been shown to have a value above unity as the figures of NPAs emanating from priority sector credit testify. There is nothing inherently wrong in setting out social priorities for bank lending. Social banking need not conflict with canons of sound banking but when banks are required by directive to meet specific quantitative targets, there is as our own experience has shown the danger of erosion of the quality of the loan portfolio.

3. Banerjee, Abhijit [6] says, "For instance, argue that banks indulge in creative accounting and loan rollovers – "ever greening" – to keep the NPA figures artificially low. Topalova[6] (2004) find that the share of "potential NPAs" defined as firms whose reported interest expense is greater than their EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) has risen considerably in the period since 1989, suggesting that it is largely "ever greening" of their loans that keeps the NPAs at their reported levels. She also finds that the banks face a considerable interest rate risk in that a 2% rise in lending rates could cause a 4 percentage point increase in the share of NPAs".

4. Mukherjee[7] (2003) points out that there are broadly two ways to financially restructure a banking system out of the NPA situation. One can either follow the Asset Management/Reconstruction Company (AMC/ARC) approach to clean the balance sheet of banks of their NPAs (at a discount) and use the greater efficiency of the (government-funded) specialized AMCs in realizing the bad debts. Alternatively one could follow the creditor-led reconstruction approach. Both channels have been tried out by countries around the world with mixed results. Mukherjee (2003) argues that given the illiquid nature of securities backing the NPAs and the level of development of the legal system and financial markets, the Indian situation is more amenable to the second approach.

5. RBI Report [8]- "Over the past two years, Indian banks across the segments— public, private and foreign— have witnessed a rise in their business per employee, profit per employee, deposits, advances and investments. While these banks have also seen a rise in their cost of funds and return on assets, there has been some marginal increase in the net non-performing assets (NPA), especially for foreign and private banks.

6. Muniappan [9] (2002) points out that till 2001, traditionally the Indian legal system has been overly sympathetic to borrowers and the banks have had very little power to actually attach the assets used to securitize the loans. Clearly borrowers, aware of the situation, take full advantage of this weakness of banks. The Sick Industrial Companies Act (SICA) and the Board for Industrial and Financial Reconstruction (BIFR) have hardly helped in banks recovering their dues from companies with failing businesses owing to either unethical intent or incompetence of their mangers

7. The three pointed out by the Verma commission[10], are sinking under their weight. Recognizing these NPAs, taking the hit on the assets, and re-capitalizing banks to withstand the write-downs are all issues central to the banking sector reform process and policy. Indian banks have had their share of NPAs and many are struggling with them today. Decades of government-controlled banking with politically and socially motivated lending often marked with cronyism, favoritism and lack of transparency have saddled several banks with sizeable non-performing assets.

8. Dr Y V Reddy [11], says that, "First, it is necessary to articulate in a comprehensive and transparent manner the policy in regard to ownership and governance of both public and private sector banks keeping in view the special nature of banks. This will also facilitate the ongoing shift from external regulation to internal systems of controls and risk assessments. Second, from a systemic point of view, inter-relationships between activities of financial intermediaries and areas of conflict of interests need to be considered. Third, in order to protect the integrity of the financial system by reducing the likelihood of their becoming conduits for money laundering, terrorist financing and other unlawful activities and also to ensure audit trail, greater accent needs to be laid on the adoption of an effective consolidated know your

customer (KYC) system, on both assets and liabilities, in all financial intermediaries regulated by RBI. At the same time, it is essential that banks do not seek intrusive details from their customers and do not resort to sharing of information regarding the customer except with the written consent of the customer. Fourth, while the stability and efficiency imparted to the large commercial banking system is universally recognized, there are some segments which warrant restructuring."

9. Koeva, Petya [12] "A more appropriate measure of bank performance and efficiency is provided by an analysis of the "spread" or the difference between the interests charged and interest paid by the banks as a proportion of the working funds of the banks. A look at past shows that there has been a mild improvement in the efficiency of the banking sector in general during the decade much of which has been driven by improvements in performance of the private foreign banks. Within the private sector banks, the "new" private sector banks, those that came up in the post-reforms era, have driven the efficiency gains."

10. Rajesh Chakrabarti [13] in his report on Banking in India – Reforms and Reorganization tells, Perhaps the best measure of a country's financial health and robustness is the extent of non-performing assets (NPAs) in its banking system. Broadly speaking, a non-performing advance is defined in India as one with interest or principal repayment installment unpaid for a period of at least two quarters. NPAs form a substantial drag for individual banks as well as the banking system of a country. They represent the poor quality of the assets of the bank and have to be provisioned for using capital. Obviously they have a huge negative impact on a bank's profitability and can lead to complete erosion of its asset base. NPAs are a key issue in banking and indeed financial stability around the world.

2.2 RESEARCH GAP

The review of literature has revealed that the research was undertaken on banking sector performances on financial and impact parameters viz., Economic impact of lending policies, Merits and developments needed in the Provisions of Asset Recovery Act, Change of Banking Performance by the NPA.

In addition to this, various studies have been made elaborately in the area of:

- Economic effects due to the changes in the NPA level
- Sectors trend has been taken in account
- Credit Disbursement and Priority Sectors Lending
- Government decisions relating to the stimulus package for weak sectors
- Bankers view on the impact of the lending decision on the sector

CHAPTER –3
METHODOLOGY

CHAPTER 3 – METHODOLOGY

In this study, the NPA are analyzed by varies factors like net advances, net spread, level of operation, provisions allocated by the banks for NPA. In this process the banks are classified into nationalized bank, foreign banks and Private sector banks which are again sub-divided into old and new private sector banks. So for this calculation and analysis financial results of the banks were taken for past five years i.e. from 2003-04 to2007-08. The data which is going to be analyzed are published and audited which is secondary. The government directives on the NPA and its impact on the NPA standards are analyzed using the monetary policy pronouncements by RBI and Economic survey Presented by the Finance minister for the taken period. The banks are taken up in a Purposive way to represent all the levels of banking sectors. So it follows the Purposive Sampling method in analyzing the research.

3.1 PROJECT TYPE

The study is an exploratory study. To explore the possible causes of a NPA and the sector- wise analysis by the ownership pattern.

3.2 DATA COLLECTION & TYPE

Secondary data Via Balance sheets with schedule and profit and loss account of all the 20 banks were to be collected for the period 2003-04 to 2007-08 (5 Years). They are collected from National Institute of Banking Management (NIBM) Pune, RBI statistical department publication, Indian banks association publications, Published journals, and news papers (Banks Annual Reports).

3.3 SAMPLING TECHNIQUE AND TOOLS FOR ANALYSIS

The banks selected for the analysis is 20 varied in four categories i.e. public, old & new private and foreign. The technique adopted for this calculation was purposive as the banks are ordered according to their level of advances and been that had been taken as the base for selecting. The banks are selected from the top one and bottom line up and the middle order too. So we can know that is their any relationship with the level of advances and the NPA's of the bank. The tools used are referred to past performance analysis, Ratio analysis, correlation used if the government directives and the implementation of the directives needs to be analyzed as a different set of variables having relationship.

1. Average annual growth rate (AAG) is used for the comparison of growth rates of different variables like total funds, Advances, Income, expense.

2. Ratio analysis Using Net Spread, Net Advances, operating profit

3.4 REASON FOR CATEGORIZATION

Before taking the samples of banks for the calculation, a stratification process has been done i.e. the banks have been categorized into subgroups of public, old & New Private and Foreign. Stratification is the process of grouping members of the population into relatively homogeneous subgroups before sampling. Accordingly all the banks which have a homogenous relation have been taken into a group. The difference between the groups has majorly due to the

1) Corporate Governance 2) Policies adopted 3) Level of advances.

After the stratification process, the sampling has been done by choosing the highest lender, the lowest advances lender and the medium lender. In this purposive sampling we can ensure that estimates can be made with equal accuracy in different parts of the region, and that comparisons of sub-regions can be made with equal statistical power

3.5 LIMITATIONS OF THE STUDY

The limitations in this study are:

- It was critical for to gather the financial data of the every bank of the Public Sector Banks so the better evaluations of the performance of the banks are not possible.
- Since this study is based on the secondary data, the practical operations as related to the NPAs are adopted by the banks are not learned.
- Since the Indian banking sector is so wide so it was not possible to cover all the banks of the Indian banking sector.
- The classification of loan assets in the study are done by the regarding banks only.
- The Credit Quality is only analyzed using the Level of NPA's and the level of rise, so it cannot be taken as a complete measure of efficiency of banks
- Various accounting and statistical tools extensively used for the present study have their own limitations.Thus, the findings of the present study should be used judiciously and carefully taking into account the various limitations

CHAPTER –4

DATA ANALYSIS AND INTERPRETATION

CHAPTER 4 – DATA ANALYSIS AND INTERPRETATION

4.1 MACRO ANALYSIS

A strong and resilient financial system and the orderly evolution of financial markets are key prerequisites for financial stability and economic progress. In keeping with the vision of an internationally competitive and sound banking system, deepening and broadening of prudential norms to the best internationally recognized standards have been the core of our approach to financial sector reforms. This has been supported concurrently by heightened market discipline, pro-active and comprehensive supervision of the financial system and the orderly development of financial market segments. The calibration of the convergence with international standards is conditioned by the specific realities of our situation; however, the New Capital Accord of the Basel Committee on Banking Supervision which was released in January 2001 adds urgency to the process of convergence. It is against the backdrop of these exigencies that prudential norms are being constantly monitored and refined. In the recent period, banks are being encouraged to build risk-weighted components of their subsidiaries into their own balance sheets and to assign additional capital. Risk weights are being constantly refined to take into recognition additional sources of risk.

The concept of 'past due' in the identification of NPAs has been dispensed with. Banks and financial institutions are being urged to prepare to move to the international practice of the '90 day norm' in the classification of assets as non-performing by 2003-04.

4.1.1 BASEL COMMITTEE

The new Basel Accord, as contained in the second Consultative Paper on Capital Adequacy of the Basel Committee on Banking Supervision released in January 2001 is in response to the perceived rigidities in the 1988 Accord's capital requirements, the scope for capital arbitrage and the increased sophistication in the measurement and management of risk. The new Accord rests on three mutually reinforcing pillars i.e., minimum capital requirements, processes of supervisory review and market discipline. Under the first pillar, the current definition of capital and the minimum requirement of 8 per cent of capital to risk weighted assets is retained. Capital requirements would be extended on a consolidated basis to holding companies of banking groups. The primary emphasis of the new Accord is on improving the measurement of risk. The process of measurement of market risk is maintained. Three alternatives for calculating credit risk capital requirements are proposed to be made available to banks, depending on the complexity of their business and the quality of their risk management operations. The 'standardized approach' which can be employed by less complex banks remains conceptually the same as in the 1988 norms; however, it expands the scale of risk weights and uses external credit ratings to categories credits. Banks with more advanced risk management capabilities can employ an internal ratings based (IRB) approach –'Foundation' and 'advanced' variants are proposed on a progression scale – in which banks may categories exposures into multiple credit ratings of their approved internal rating systems. The internally estimated probability of default, the maturity of exposure and the credit type i.e., corporate or retail, will determine risk weights.

There is a new explicit capital charge proposed on operational risk. The processes of supervisory review contained in the second pillar emphasize the need for banks to develop sound internal procedures to assess the adequacy of capital based on a thorough evaluation of its risk profile and control environment, and to set commensurate targets for capital. The internal processes would be subject to supervisory evaluation, review and intervention, when appropriate. The third pillar aims at bolstering market discipline through enhanced disclosure by banks. Disclosure requirements are set out in several areas under the new Accord, including the way in which banks calculate their capital adequacy and their risk assessment methods. The Basel Committee on Banking Supervision has received more than 250 comments on the January 2001 proposals. The Committee is expected to release a fully specified proposal, based on these comments, in early 2002 and to finalize the Accord during 2002. An implementation date of 2005 is envisaged. The Reserve Bank forwarded its comments to the Basel committee in May 2001. It has supported flexibility, discretion to national supervisors and a phased approach in implementing the Accord. The Accord could initially apply to internationally active – banks with over 15 per cent of their business in cross-border transactions, as proposed by the Reserve Bank – and significant banks whose domestic market share exceeds 1 per cent – with a simplified standardized approach to be evolved for other banks. Material limits on cross-holdings of capital and eschewing of direct responsibility on external credit rating agencies in the assessment of bank assets have also been proposed by the Reserve Bank. It has also expressed its preference for external credit rating agencies that publicly disclose risk scores, rating processes and methodologies.

4.1.2 INDIAN BANKING SECTOR AND POLICY ENVIRONMENT

The Indian banking sector has undergone remarkable changes since Indian independence in 1947. The banking sector that was primarily operating under a laissez-faire regime was brought under the state regulatory framework through the Banking Regulation Act 1949. With the exception of the largest bank, State Bank of India, which was nationalized in1955, banks in India continued to be privately owned and managed through the 1950s and most part of 1960s. In 1969, the government nationalized 14 private banks to facilitate economic development through directed lending. A second round of nationalization followed in 1980 with six more private banks being nationalized. With that, over 90% of banking business was brought under the control of Government of India.

As with the rest of the economy, by the mid-1980s the need to reform the banking sector was increasingly felt with rising non-performing assets and poor performance of banks. In the 1990s, new private sector banks and several foreign banks were given licenses to operate in India, interest rates were deregulated and profit was made as a key indicator of bank performance. This brought about a marked change in the banking culture in the country.

As on 31 March 2006, there were 27 public sector banks, 30 private sector banks (of which 9, established after 1990, are called as the new generation private sector banks) and 36 foreign banks operating in India. Although the share of private and foreign banks have increased since the 1990s, the public sector banks continue to dominate the Indian banking industry

4.2 MICRO ANALYSIS

Non Performing Asset is defined as an advance for which interest or repayment of principal or both remain outstanding for a period of more than two quarters. An asset which ceases to generate income of the bank is called non-performing asset. The past due amount remaining uncovered for the two quarter consequently the amount would be classified as NPA for the whole year. It includes borrowers' defaults or delays in interest or principal repayment. The level of NPA in advances act as an indicator in showing the bankers credit risks and efficiency in allocation of resources.

INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING

The asset classification norms whereby assets are classified into four categories, *viz.*, standard assets, sub-standard assets, doubtful assets and loss assets, were prescribed with appropriate provisioning requirements for each category of assets. The concept of 'past due' in the identification of non-performing assets (NPAs) was dispensed with effect from March 2001, and the 90- day delinquency norm was adopted for the classification of NPAs with effect from March 2004.

As a major step towards tightening of prudential norms, banks were advised in May 2002 that from the year ended March 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months as against the earlier norm of 18 months. Banks were, however, permitted to phase out the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful assets from 18 months to 12 months, over a four year period, commencing from the year ended March 2005 with a minimum of 20 per cent each year.

In June 2004, the Reserve Bank advised banks to adopt graded higher provisioning in respect of: (a) secured portion of NPAs included in 'doubtful' for more than three years category; and (b) NPAs which have remained in 'doubtful' category for more than three years as on March 31, 2004. Provisioning ranging from 60 per cent to 100 per cent over a period of three years in a phased manner, from the year ended March 31, 2005 has been prescribed. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement has been stipulated at 100 per cent. The provisioning requirement for unsecured portion of NPAs under the above category was retained at 100 per cent.

Asset classification and provisioning requirements in respect of State Government guaranteed exposures were delinked from the invocation of State Government guarantee. In terms of the revised norms prescribed in August 2004, loans and advances and investments backed by State Government guarantee would attract asset classification and provisioning norms if interest and/ or principal or any other amount due to the bank remained overdue for more than 180 days for the year ended March 31, 2005 and for more than 90 days from the year ending March 31, 2006.

DEFINITIONS AND CONCEPTS USED IN THE STUDY

1. Public sector Bank: The Banks include the state bank group and the 20 nationalized banks in India.
2. Old Private Sector Banks: The banks which are incorporated before 1994-95 financial year, carrying on the banking business in India.
3. New Private Sector Bank: The banks which are incorporated after 1994-95 having share capital is more than 100 Crores and doing banking business in India.
4. Foreign Banks: Banks incorporated outside India and carrying on their banking operations in India with due permission from Reserve Bank of India.
5. Selected Banks. Twenty banks are selected from Public, Old Private, and New Private and Foreign banks as sample for the purpose of the study.

4.2.1 WHY OWNERSHIP MATTERS

The Level of NPA depends on certain policy decisions and efficiency of credit assessment made by the banks. In this study, it is aimed at the policy influence of

i) Management

ii) Government on credit delivery system

The Banking System is getting influenced by this pattern of ownership of banks Viz. government ownership, private sector ownership and foreign ownership and the new generation private sector banks. Further this government directive in lending policies also affects the banks recovery process of loan assets.

4.2.2 SECTOR CLASSIFICATION

The Reserve Bank of India broadly classifies the commercial banks into public sector banks, private sector banks, and foreign banks. The Private Sector Banks are again categorized into old Private sector banks and New Private Sector banks after the banking sector reform. For the Purpose of the Study, Foreign Banks and New Private Sector banks were excluded as the norms and regulations of the foreign Banks are different from that of other commercial Banks and the new Private sector banks started functioning only after the year 1994-95.

There are 28 Public Sector Banks, 17 old Private Sector Banks, 8 New Private Sector Banks and 29 foreign banks in India, as on march 2008. For the purpose of this study a sample of twenty banks i.e. five banks from each sector has been selected. From among the Sectors of various banking sector, the highest, lowest and median lenders are taken and the rest two will be medians of the highest and the class median and the median between median class and lowest advance lender.

By this Purposive Sampling method 5 banks are selected from each category. The Banks Selected is as Follows:

PUBLIC SECTOR BANKS:

1. Central Bank of India
2. Indian Bank
3. Union Bank of India
4. State Bank of India
5. State Bank of Saurashtra.

OLD PRIVATE SECTOR:

1. SBI Commercial & International Bank Ltd.
2. Tamilnadu Mercantile Bank Ltd,
3. The Dhanalakshmi Bank Ltd.
4. The Federal Bank Ltd.
5. The South Indian Bank Ltd.

NEW PRIVATE SECTOR:

1. Axis Bank Ltd.
2. Development Credit Bank Ltd.
3. ICICI Bank Ltd.
4. IndusInd Bank Ltd.
5. Kotak Mahindra Bank Ltd.

FOREIGN BANKS:

1. Abu Dhabi commercial Bank Limited
2. Barclays Bank PLC
3. Citibank
4. Mizuho Corporate Bank Ltd.
5. Oman International Bank.

4.3 CALCULATIONS & DEFINITIONS

Gross NPA = Sub standard + Doubtful + Loss Asset

Net NPA = Gross NPA – (Balance in Interest Suspense account + DICGC/ECGC claims received and held Pending adjustment + Part payment received and kept in suspense account +Total Provisions held)'

$$\text{Interest Spread} = \frac{\text{Interest Earned + Interest Expanded}}{\text{Total Assets}}$$

Net Profit = Operating Profit – Provision and contingencies

Net Interest Margin = Net interest margin is the net interest income divided by Average interest earning assets

$$\text{Non-Performing Advances Ratio i.e.} = \frac{\text{Non-performing advances}}{\text{Total net advances}} \times 100$$

4.4 ANALYSIS FINANCIAL PARAMETERS OF VARIOUS BANK GROUPS

4.4.1 LEVEL OF ADVANCES

The analysis of NPA by the Advances helps in finding out the credit portfolio of the bank.

TABLE 4.4.1.1

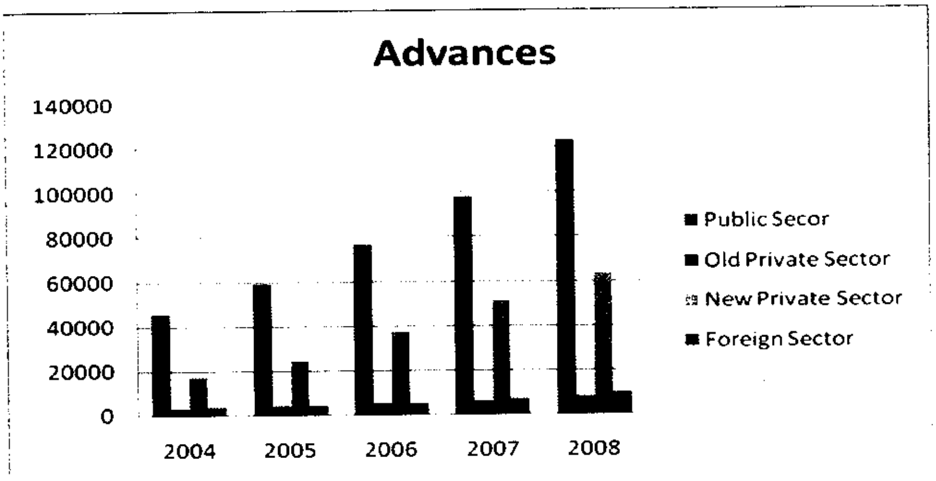
LEVEL OF ADVANCES

	Advances - Commercial Banks from 2003-08				
Banks	**2004**	**2005**	**2006**	**2007**	**2008**
Public Sector	45906	58970	76718	98332	123239
Old Private Sector	3054	3691	4616	5806	7430
New Private Sector	17230	24436	37201	51482	63539
Foreign Sector	3125	3696	4982	6776	9406

INTERPRETATION :

Its has been a steady and constant growth rate from the starting year of the study to the end. The Public sector bank tops the advances list.There has been a higher growth rate of advances in the year 2007-2008

CHART 4.4.1.1



INFERENCE :

Growth rate of various sectors played an important role in the level of increase in lending. The global economy continued on high growth path with a 5.4 per cent growth during 2006 achieving a four year spell of a sustained growth of over 4 per cent that began in 2003.In India, Consistently high GDP growth 9.2% in FY '07 (9.0% in FY'06) fastest in 18 yrs

- Industry (10%) & Services (11.2%) clock double digit growth. However, agricultural growth at 2.3% is below the 10th Plan target of 4%.

-Inflation a major concern.

-Investment rate: 33.8% in FY'06 up from 31.5% in FY'05.

- Budgets focus: inflation control, inclusive growth, infrastructure development

4.4.2 NON PERFOMING ASSET / ADVANCES

Increase in gross NPA, net NPA/total assets, net NPA/net worth, gross NPA/gross advances, increase in gross NPA/increase in gross advances, and increase in net NPA/increase in net advances are the sub-criteria selected to compare banks on credit quality. The portion of a bank's gross advances comprising gross non-performing advances, the rate of increase in gross non-performing advances compared with the rate of increase in gross advances, and the rate of increase in net non-performing advances, compared with the rate of increase in net advances are considered to be of relatively higher importance to a bank's management. The analysis of NPA by the Advances helps in finding out the credit portfolio of the bank. An increasing trend implies gradual increase in bad credit portfolio.

The NPA can be classified as

1) Gross Advances and

2) Net advances

TABLE 4.4.2.1

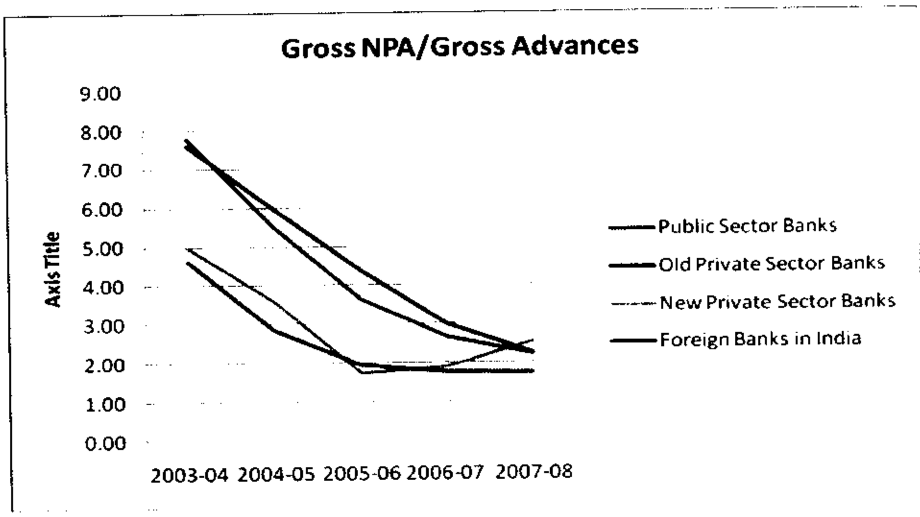
NON PERFOMING ASSET / ADVANCES

Gross NPAs/Gross Advances					
Banks	**2003-04**	**2004-05**	**2005-06**	2006-07	**2007-08**
Public Sector Banks	7.79	5.53	3.64	2.66	2.23
Old Private Sector Banks	7.59	5.97	4.39	3	2.25
New Private Sector Banks	4.99	3.59	1.74	1.9	2.54
Foreign Banks in India	4.62	2.85	1.95	1.77	1.75

INTERPRETATION:

From the above table it is revealed that the percentage of Gross NPA has been decreasing gradually from the year 2003 to 2008. The Public sector Gross NPA has declined from 7.79 to 2.23 % of the Gross advances it has. In the Year 2005-06 the gross NPA of the New Private Sector banks has increased.

CHART 4.4.2.1



INFERENCE:

Upward trend of the gross advances means bad credit portfolio. The Advances allowed by the new private sector has to be seen. The bank in the portfolio of the new private sector has to be analyzed.

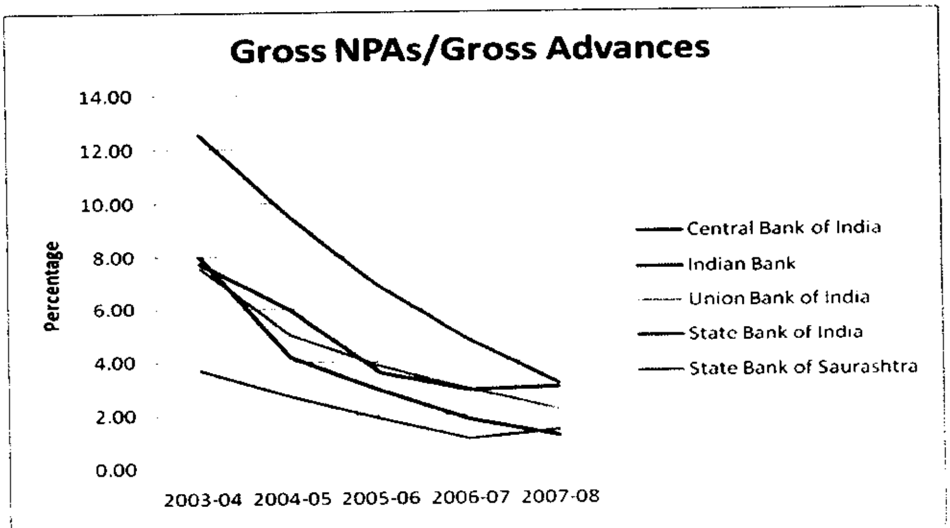
4.4.3 ANALYSIS ON GROSS NPA/ GROSS ADVANCES OF PUBLIC SECTOR BANK

TABLE 4.4.3.1

ANALYSIS ON GROSS NPA/ GROSS ADVANCES OF PUBLIC SECTOR BANK

NAME OF THE BANK	GROSS NPAS/GROSS ADVANCES				
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**
All Public Sector Banks	**7.79**	**5.53**	**3.64**	**2.66**	**2.23**
Central Bank of India	12.55	9.50	6.85	4.81	3.16
Indian Bank	7.98	4.19	2.91	1.85	1.21
Union Bank of India	7.59	5.01	3.84	2.94	2.18
State Bank of India	7.75	5.96	3.60	2.92	3.04
State Bank of Saurashtra	3.68	2.70	1.85	1.10	1.42

CHART 4.4.3.1



4.4.4 ANALYSIS ON GROSS NPA/ GROSS ADVANCES OF NEW PRIVATE SECTOR BANK:

The Gross NPA and Gross advances table shows that the NPA has a upward trend on the 2006-07 so the bank which makes the curve slope upwards are to be seen.

So, from the below table we can realize that the ICICI, IndusInd and Kotak Mahindra shows an upward trend.

TABLE 4.4.4.1

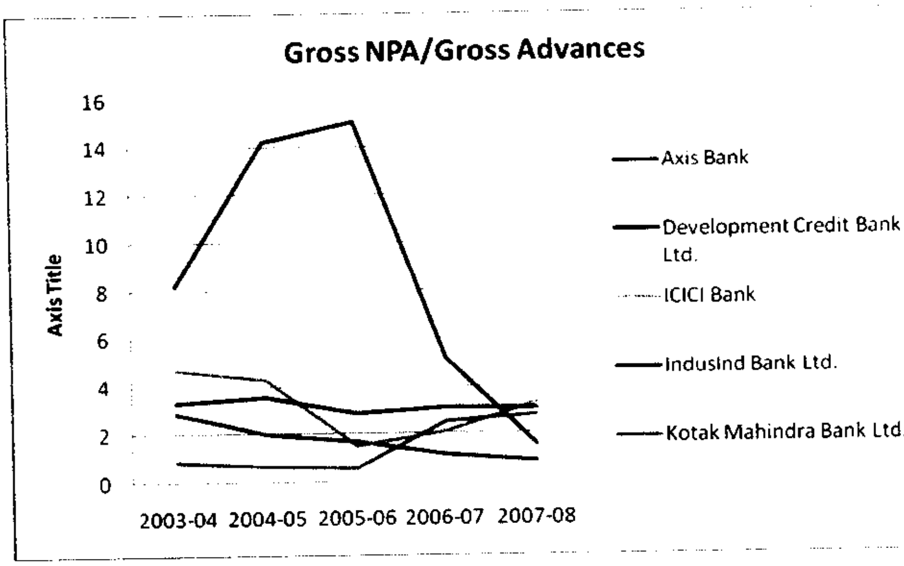
ANALYSIS ON GROSS NPA/ GROSS ADVANCES OF NEW PRIVATE SECTOR BANK

GROSS NPAS/GROSS ADVANCES					
Banks	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Axis Bank	2.88	1.98	1.68	1.13	0.83
Development Credit Bank Ltd.	8.19	14.19	15.01	5.14	1.55
ICICI Bank	4.7	4.27	1.51	2.08	3.3
IndusInd Bank Ltd.	3.3	3.53	2.86	3.07	3.04
Kotak Mahindra Bank Ltd.	0.85	0.69	0.59	2.53	2.79

INTERPRETATION:

From the year 2006-07 the NPA has shown an upward trend for ICICI, Kotak Mahindra and IndusInd bank. The major increase is led by Kotak Mahindra where the NPA has increased from 0.59 to 2.53 % and ICICI bank has shown an increase from 1.51 to 2.08 in the year 2006-07. IndusInd bank

CHART 4.4.4.1



Ratio shows a decreasing trend for the Development credit bank beginning from the year 2005-06. The ratios were lowest at the end of the study period.

INFERENCE:

The selection of potential borrower and application of money in a particular sector made the NPA to increase. The Credit portfolio of the three banks can be analyzed

TABLE 4.4.4.2

GROSS NPA/ GROSS ADVANCES OF OLD PRIVATE SECTOR BANK

GROSS NPAS/GROSS ADVANCES					
Banks	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Dhanalakshmi Bank Ltd.	11.43	8.51	6.71	5.06	2.95
Federal Bank Ltd.	7.44	7.29	4.62	2.95	2.42
SBI Commercial & International Bank Ltd.	41.28	24.06	15.2	3.28	1.45
South Indian Bank Ltd.	7.59	6.64	4.99	3.94	1.78
Tamilnadu Mercantile Bank Ltd.	13.79	11.26	7.02	4.54	2.25

CHART 4.4.4.2

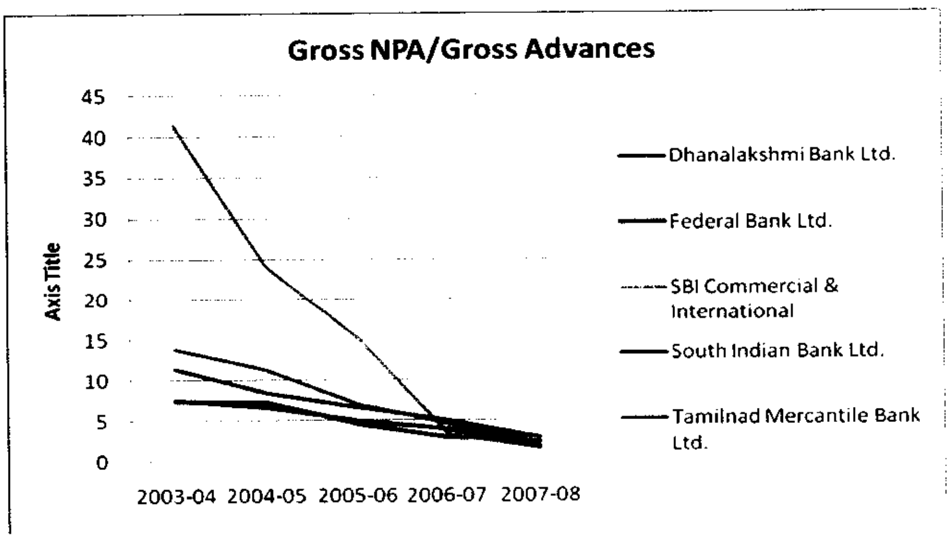
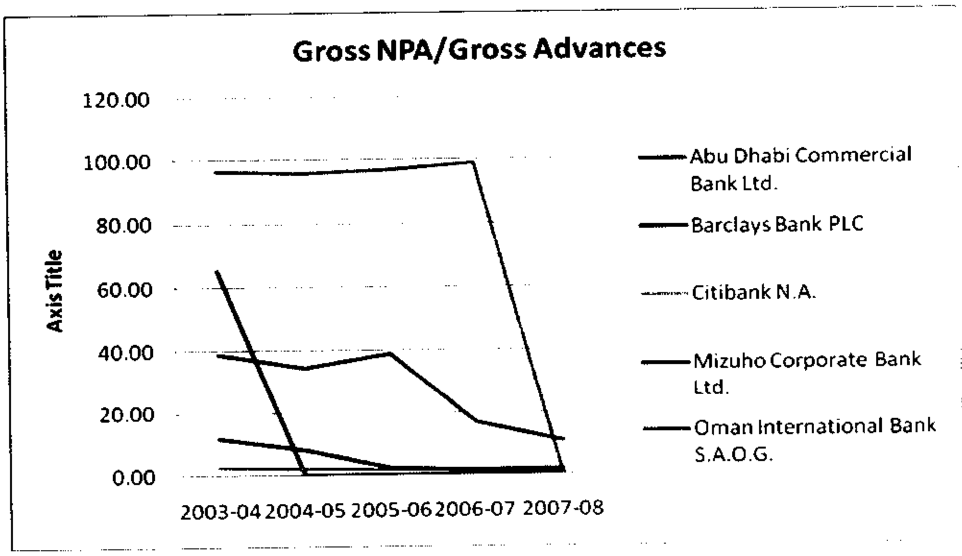


TABLE 4.4.4.3

GROSS NPA/ GROSS ADVANCES OF FOREIGN SECTOR BANK

GROSS NPAS/GROSS ADVANCES					
	2003-04	2004-05	2005-06	2006-07	2007-08
Abu Dhabi Commercial Bank Ltd.	38.78	34.42	38.80	16.44	10.73
Barclays Bank PLC	65.36	-	-	-	0.69
Citibank N.A.	2.52	2.01	1.58	1.60	2.03
Mizuho Corporate Bank Ltd.	11.93	8.22	2.13	1.02	0.76
Oman International Bank S.A.O.G.	96.51	95.85	96.86	98.87	-

CHART 4.4.4.3



INTERPRETATION :

The Gross advances to gross NPA has shown a deep fall in the year 2004-05 for the barclays bank. As the banking operations has been decreased by reducing the advancing. The Oman International bank has also shown an complete reduction in the year 2007-08.

INFERENCE :

The Barclays on year 2004-05 has reduced the advances lending and after the year 2007-08 it started its banking business with new lending policy annnounced on its annual report. The oman intenational bank has made continous NPA an average of 96% of its advances.

ANALYSIS ON NET NPA/ NET ADVANCES

The decline in NPAs was brought about by a sharp increase in recovery, a modest increase in additions and write-offs of bad assets. Reflecting significant provisions, the net NPAs registered sharper decline during 2003-04. While the decline was witnessed across all bank groups, it was more pronounced in the case of private sector banks especially the new private sector banks. Foreign banks recorded the lowest gross and net NPAs position. Improved risk management practices, greater recovery efforts, SARFAESI Act, 2002 and Corporate Debt Restructuring have contributed to the resolution of NPAs during 2003-04.

TABLE 4.4.4.4

ANALYSIS ON NET NPA/ NET ADVANCES

NET NPAS/NET ADVANCES					
Banks	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Public Banks in India	2.84	1.85	1.01	0.96	1.09
Old Private Sector Banks	3.85	2.74	1.65	0.91	0.66
New Private Sector Banks	2.36	1.85	0.78	0.97	1.21
Foreign Banks in India	1.48	0.86	0.83	0.97	1.21

CHART 4.4.4.4

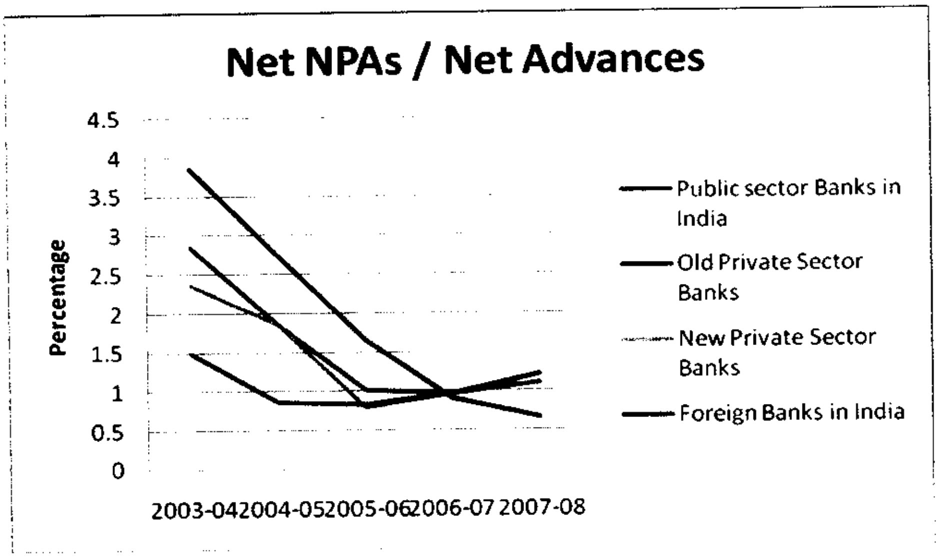

Net NPAs / Net Advances
Percentage
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
2003-04
2004-05
2005-06
2006-07
2007-08
Public sector Banks in India
Old Private Sector Banks
New Private Sector Banks
Foreign Banks in India

TABLE 4.4.4.5

ANALYSIS ON NET NPA/ NET ADVANCES OF PUBLIC SECTOR BANK

NET NPAS/NET ADVANCES					
	2003-04	2004-05	2005-06	2006-07	2007-08
Central Bank of India	5.57	2.98	2.59	1.70	1.45
Indian Bank	2.71	1.35	0.79	0.35	0.24
Union Bank of India	2.87	2.64	1.56	0.96	0.17
State Bank of India	3.45	2.65	1.88	1.56	1.78
State Bank of Saurashtra	-	1.40	1.16	0.70	0.91

CHART 4.4.4.5

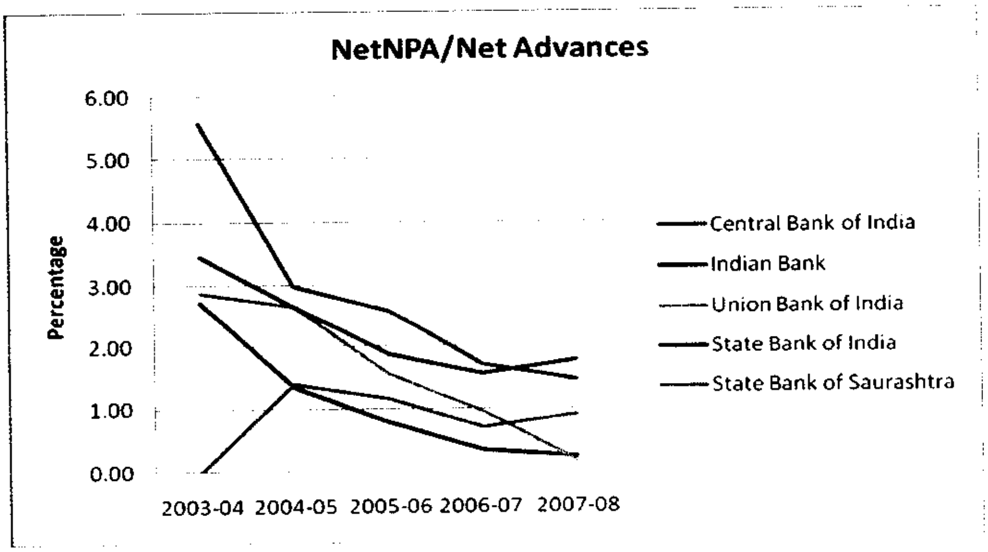


TABLE 4.4.4.6

ANALYSIS ON NET NPAS/NET ADVANCES OF OLD PRIVATE BANKS

NET NPAS/NET ADVANCES OF OLD PRIVATE BANKS					
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Dhanalakshmi Bank Ltd.	7.06	3.92	2.82	1.75	0.88
Federal Bank Ltd.	2.89	2.21	0.95	0.44	0.23
SBI Commercial & International	18.31	7.65	3.81	-	-
South Indian Bank Ltd.	4.55	3.81	1.86	0.98	0.33
Tamilnad Mercantile Bank Ltd.	5	2.95	2.17	0.98	0.38

CHART 4.4.4.6

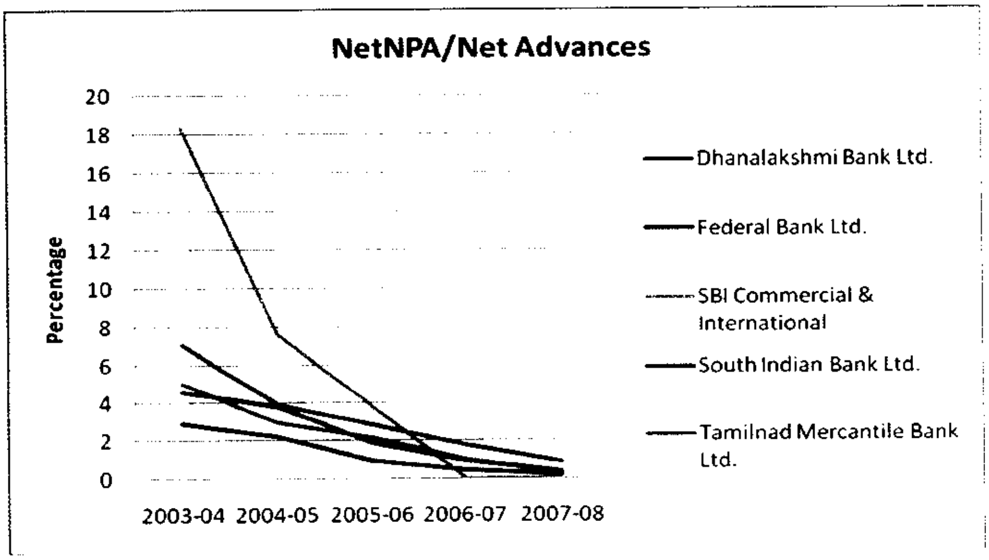


TABLE 4.4.4.7

NET NPA'S/NET ADVANCES OF NEW PRIVATE BANKS

NET NPA'S/NET ADVANCES OF NEW PRIVATE BANKS					
	2003-04	2004-05	2005-06	2006-07	2007-08
Axis Bank	1.2	1.39	0.99	0.72	0.42
Development Credit Bank Ltd.	4.87	6.34	4.5	1.64	0.66
ICICI Bank	2.21	1.65	0.72	1.02	1.55
IndusInd Bank Ltd.	2.72	2.71	2.09	2.47	2.27
Kotak Mahindra Bank Ltd.	0.17	0.37	0.24	1.98	1.78

CHART 4.4.4.7

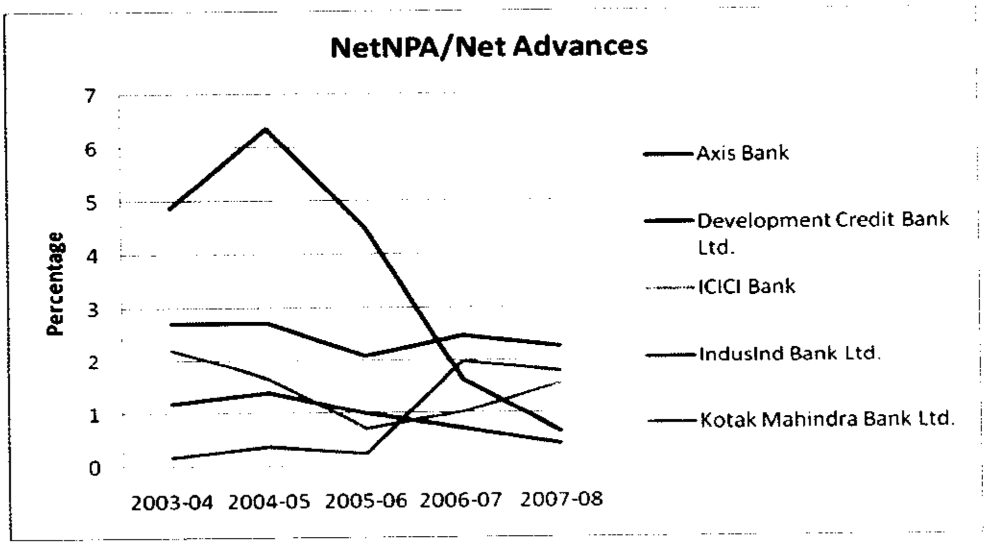
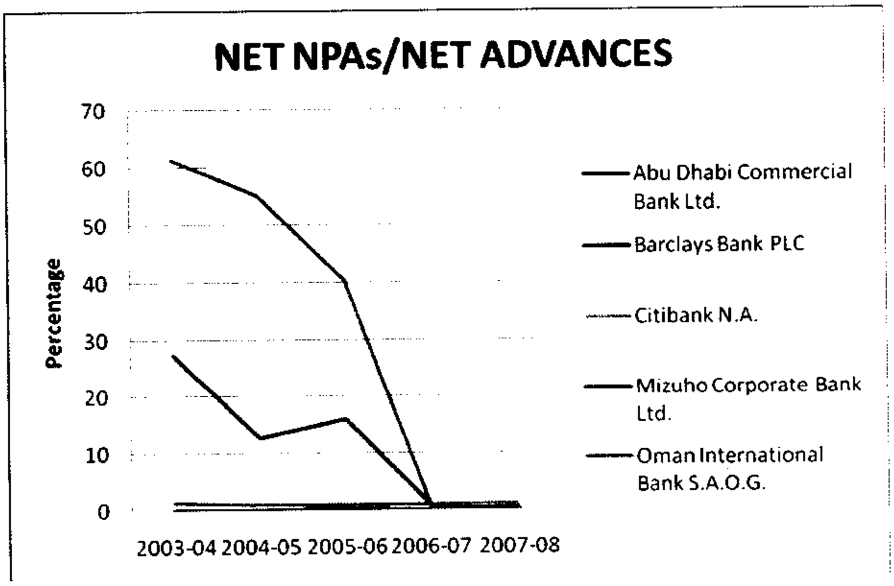


TABLE 4.4.4.8

ANALYSIS OF NET NPAS/NET ADVANCES OF FOREIGN BANKS

NET NPAS/NET ADVANCES OF FOREIGN BANKS					
	2003-04	2004-05	2005-06	2006-07	2007-08
Abu Dhabi Commercial Bank Ltd.	27.39	12.73	15.97	0.63	-
Barclays Bank PLC	-	-	-	-	0.42
Citibank N.A.	1.40	1.00	0.95	1.02	1.23
Mizuho Corporate Bank Ltd.	-	-	0.15	-	-
Oman International Bank S.A.O.G.	61.39	55.05	40.47	-	-

CHART 4.4.4.8



Provisioning made during 2007-08 was higher than write-back of excess provisioning during the year. Still, however, net NPAs increased during the year due to increase in gross NPAs. Among bank groups, provisions made during the year were higher than write back of excess provisions for new private sector banks and foreign banks whereas they were lower for public sector banks and old private sector banks. Thus, the cumulative provisions at end-March 2008 were higher than their respective levels a year ago in respect of new private sector and foreign banks whereas they were lower for public sector and old private sector banks. Cumulative provisions as percentage of NPAs declined marginally to 52.4 per cent at end- March 2008 from 56.1 per cent at end-March 2007. Bank-group wise, the ratio was the highest for old private sector banks (64.9 per cent), followed by PSBs, new private sector banks and foreign banks

Notwithstanding an increase in the fresh accretions to gross NPAs (Rs.34, 420 Crore) of SCBs during 2007-08, gross NPAs as percentage of gross advances declined during the year. The net NPA ratio (net NPAs as percentage of net advances) declined in respect of public sector and old private sector banks, while it increased in respect of

new private sector banks and foreign banks. The net NPAs to net advances ratio at end-March2008 was highest (1.2 per cent) in respect of new private sector banks, followed by public sector, foreign and old private sector banks at 1.0 per cent, 0.8 per cent and 0.7 per cent, respectively

GROSS NPA's TO TOTAL ASSETS

NPA does not yield any profit. Moreover appropriations have to be done from existing profit, which also results in lowering of profits. While no provisioning is necessary in respect of performing asset (standard asset), appropriate provision is required to be maintained on Non- Performing Assets (Sub- standard, doubtful and loss assets). Thus higher level of NPA is the singular reason for not realizing the full profit potential of the banks

TABLE 4.4.4.9

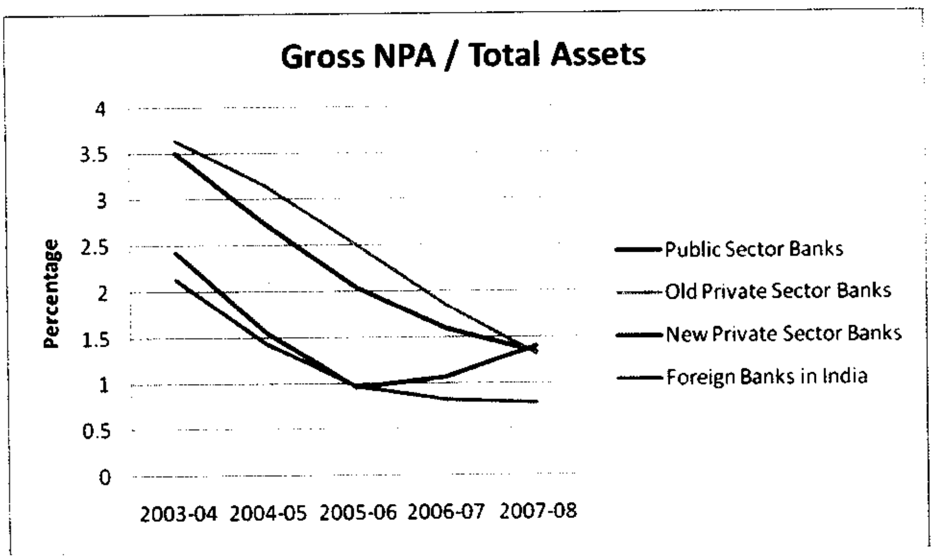
GROSS NPA's TO TOTAL ASSETS

GROSS NPAS/TOTAL ASSETS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Public Sector Banks	3.50	2.73	2.05	1.60	1.34
Old Private Sector Banks	3.64	3.15	2.51	1.85	1.31
New Private Sector Banks	2.42	1.56	0.96	1.07	1.40
Foreign Banks in India	2.13	1.43	0.97	0.82	0.78

INTERPRETATION:

In the above table the Gross NPA has been rationed by the total assets where the level of NPA on the Total Assets has reduced from the 3.5 % to 1.34 % in Public sector banks. In case of old Private sector banks which has the more than 3 % of Gross NPA in total assets has reduced the level to 1.31 which is next to the foreign bank i.e.. 0.78 %. In the different scenario occurs in case of New Private Sector banks the Level of Gross NPA to total assets has reduced from 2.4 % to below 1% but in the year 2006-07 the NPA has shooted up to more than 1 % and still continues to be on the up leading to 1.4 % in the last study year of 2007-08.

CHART 4.4.4.9



INFERENCE:

As till this analysis the new innovative financial products givers i.e the New private sector banks are the ones who are made their self in increasing NPA and the fluctuation of the NPA is not due to the government or the monetary regulations, It is mainly due to the managements own decision. So the NPA has started to reduce by the new financial products till the year 2006 and started to bull as the economy starts to slow down.

TABLE 4.4.4.10

GROSS NPAS/TOTAL ASSETS OF PUBLIC SECTOR BANKS

GROSS NPAS/TOTAL ASSETS OF PUBLIC SECTOR BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Central Bank of India	4.88	3.82	3.59	2.77	1.90
Indian Bank	3.04	1.71	1.40	0.97	0.69
Union Bank of India	4.02	2.84	2.35	1.82	1.34
State Bank of India	3.11	2.71	1.95	1.76	1.78
State Bank of Saurashtra	1.56	1.22	0.95	0.65	0.82

CHART 4.4.4.10

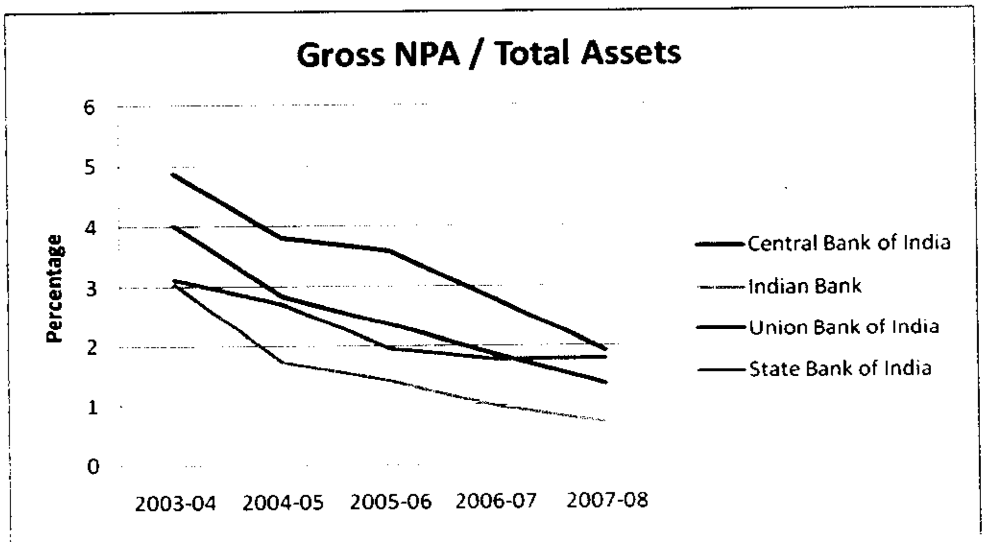


TABLE 4.4.4.11

GROSS NPAS/TOTAL ASSETS OF OLD PRIVATE SECTOR BANKS

GROSS NPAS/TOTAL ASSETS OF OLD PRIVATE SECTOR BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Dhanalakshmi Bank Ltd.	5.59	4.75	3.91	2.79	1.90
Federal Bank Ltd.	3.97	4.03	2.73	1.80	0.69
SBI Commercial & International Bank Ltd.	14.16	14.16	8.27	1.67	1.34
South Indian Bank Ltd.	3.55	3.86	3.03	2.35	1.78
Tamilnadu Mercantile Bank Ltd.	6.28	5.72	3.78	2.69	0.82

CHART 4.4.4.11

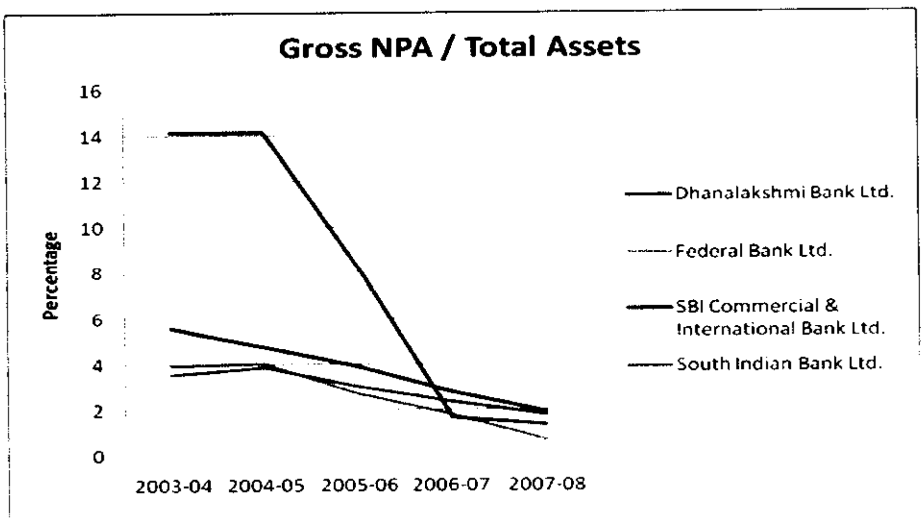


TABLE 4.4.4.12

GROSS NPAS/TOTAL ASSETS OF NEW PRIVATE BANKS

GROSS NPAS/TOTAL ASSETS OF NEW PRIVATE BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Axis Bank Ltd.	1.14	0.82	0.76	0.57	0.45
Development Credit Bank Ltd.	3.92	6.67	8.42	2.78	0.84
ICICI Bank	2.43	1.65	0.88	1.20	1.90
IndusInd Bank Ltd.	1.72	2.05	1.53	1.64	1.69
Kotak Mahindra Bank Ltd.	0.31	0.43	0.37	1.39	1.55

CHART 4.4.4.12

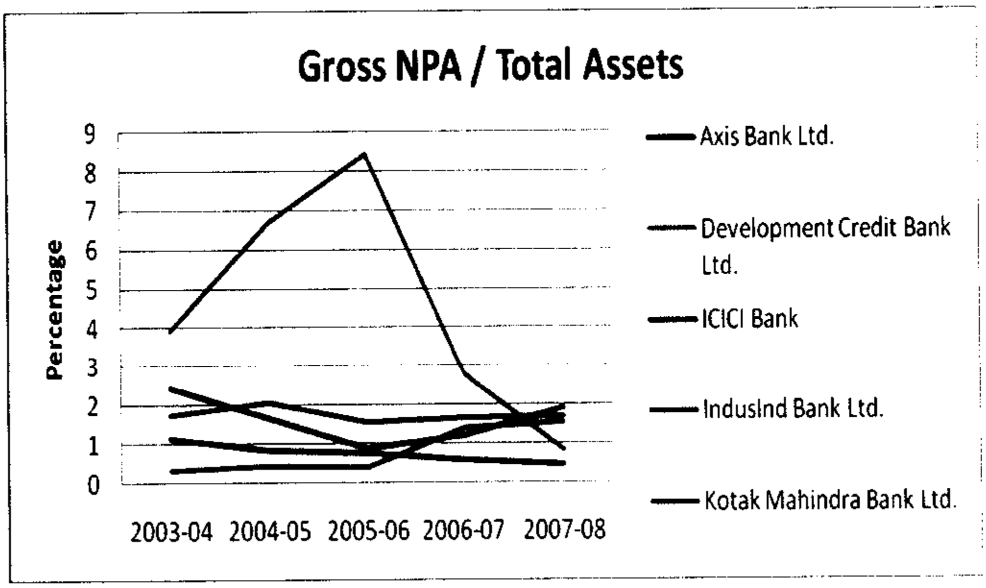


TABLE 4.4.4.13

GROSS NPAS/TOTAL ASSETS OF FOREIGN BANKS

GROSS NPAS/TOTAL ASSETS OF FOREIGN BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Abu Dhabi Commercial Bank Ltd.	3.94	2.11	9.17	5.02	3.38
Barclays Bank	0.63	-	-	-	0.41
Citibank	1.33	1.09	0.86	0.80	0.94
Mizuho Corporate Bank Ltd.	8.40	5.25	1.31	0.71	0.54
Oman International Bank	35.20	29.86	33.02	39.16	-

CHART 4.4.4.13

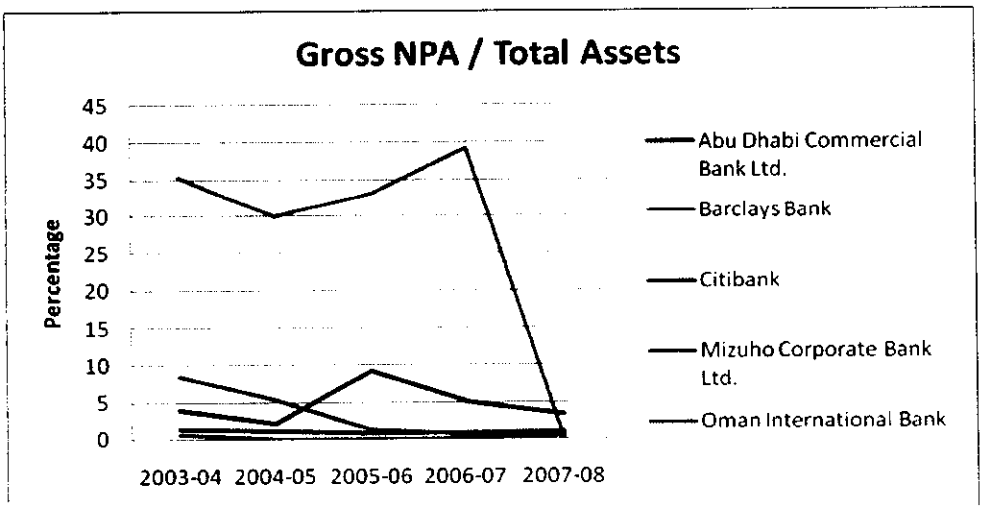


TABLE 4.4.4.14

NET NPAS/TOTAL ASSETS:

NET NPAS/TOTAL ASSETS OF PUBLIC SECTOR BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Central Bank of India	2.01	1.19	1.30	0.94	0.86
Indian Bank	0.98	0.56	0.37	0.18	0.14
Union Bank of India	1.45	1.46	0.94	0.59	0.10
State Bank of India	1.33	1.16	0.99	0.93	1.03
State Bank of Saurashtra	-	0.63	0.59	0.41	0.52

CHART 4.4.4.14

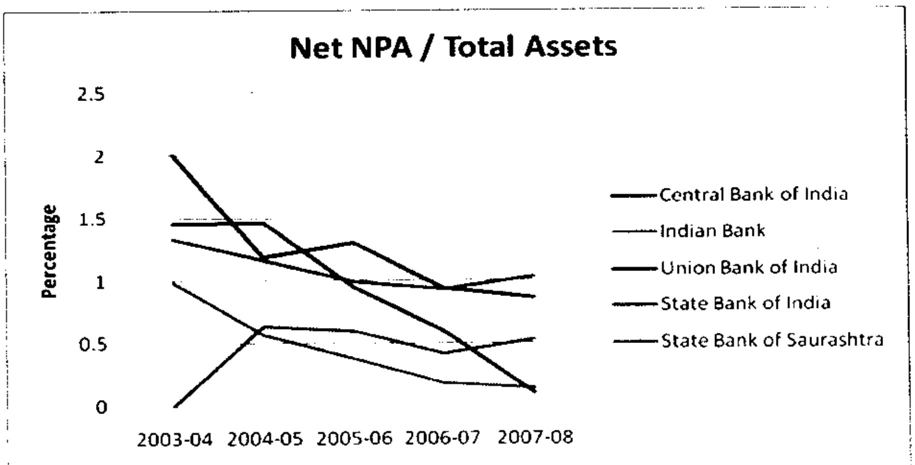


TABLE 4.4.4.15

NET NPAS/TOTAL ASSETS OF OLD PRIVATE BANKS

NET NPAS/TOTAL ASSETS OF OLD PRIVATE BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Dhanalakshmi Bank Ltd.	3.27	2.28	1.58	0.94	0.46
Federal Bank Ltd.	1.47	1.16	0.54	0.26	0.13
SBI Commercial & International Bank Ltd.	4.51	3.70	1.83	0.09	-
South Indian Bank Ltd.	2.06	2.15	1.09	0.57	0.20
Tamilnadu Mercantile Bank Ltd.	2.06	1.37	1.11	0.56	0.23

CHART 4.4.4.15

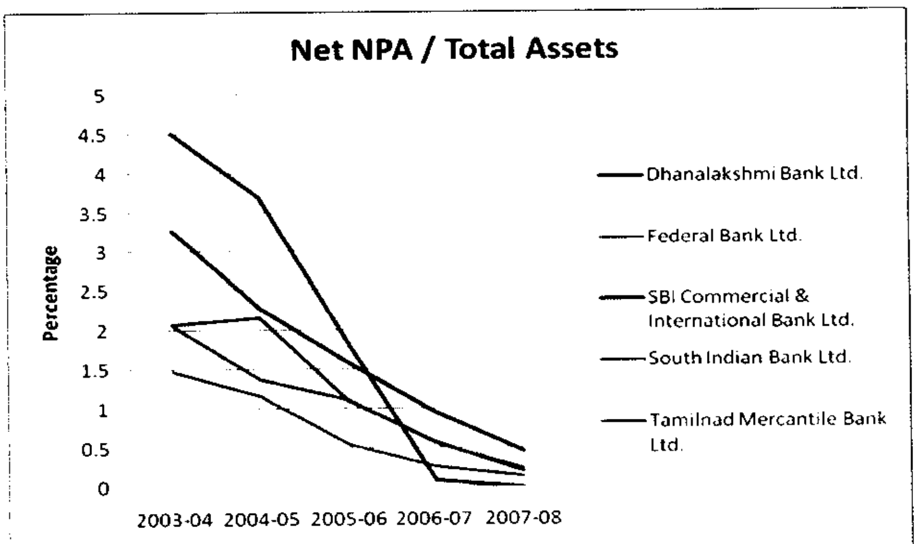


TABLE 4.4.4.16

NET NPAS/TOTAL ASSETS OF NEW PRIVATE BANKS

NET NPAS/TOTAL ASSETS OF NEW PRIVATE BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Axis Bank Ltd.	0.46	0.57	0.44	0.36	0.23
Development Credit Bank Ltd.	2.20	3.09	2.24	0.83	0.36
ICICI Bank	1.10	0.90	0.42	0.58	0.87
IndusInd Bank Ltd.	1.41	1.56	1.11	1.31	1.25
Kotak Mahindra Bank Ltd.	0.06	0.23	0.15	1.09	0.98

CHART 4.4.4.16

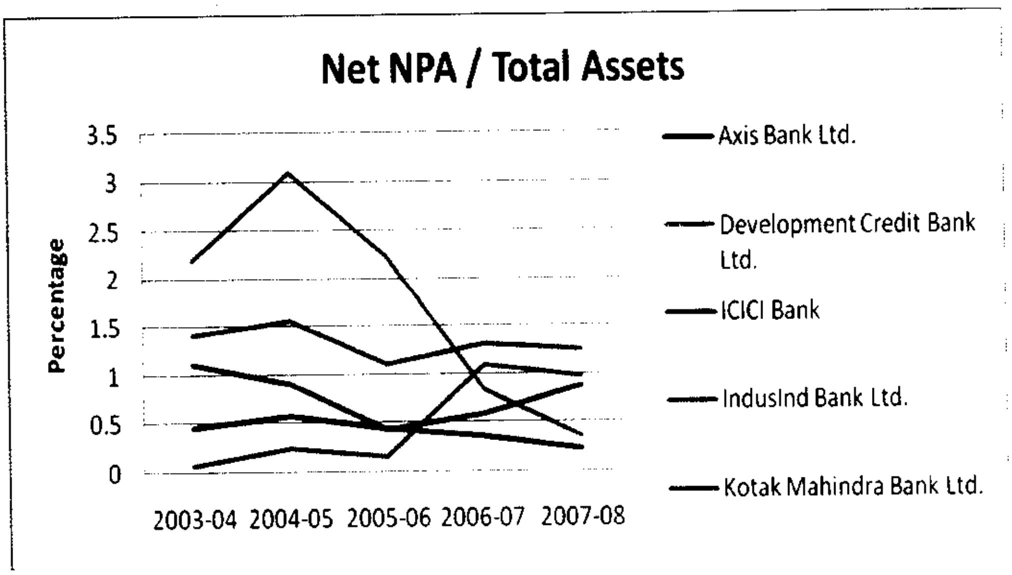
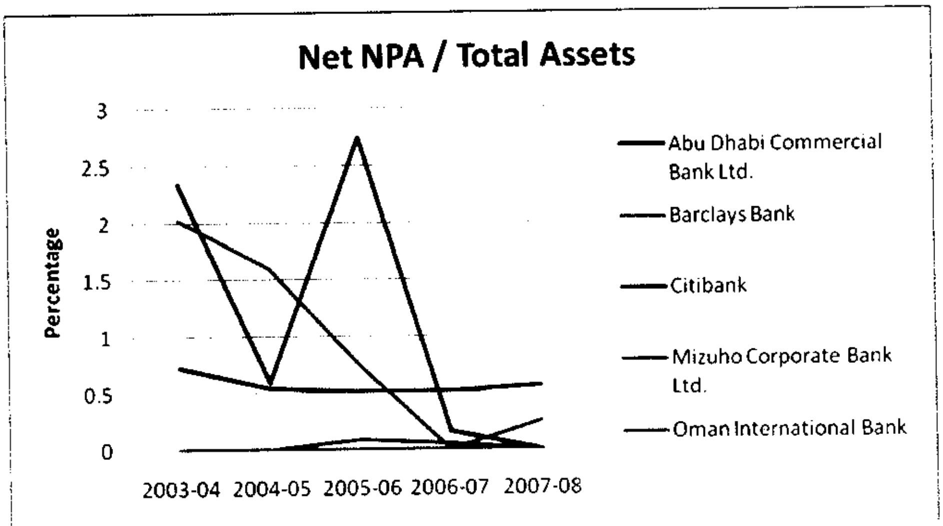


TABLE 4.4.4.17

NET NPAS/TOTAL ASSETS OF FOREIGN BANKS

NET NPAS/TOTAL ASSETS OF FOREIGN BANKS					
Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Banks					
Abu Dhabi Commercial Bank Ltd.	2.35	0.59	2.75	0.16	-
Barclays Bank	-	-	-	-	0.25
Citibank	0.72	0.54	0.51	0.51	0.56
Mizuho Corporate Bank Ltd.	-	-	0.09	0.05	-
Oman International Bank	2.02	1.59	0.73	-	-

CHART 4.4.4.17



4.4.5 FINANCIAL PERFORMANCE OF COMMERCIAL BANKS :

TABLE 4.4.5.1 Financial Performance of Public Sector Banks*

(Amount in Rs. crore)

		Item	2003-04	2004-05	2005-06	2006-07	2007-08
A.	**Income (i+ii)**		**1,37,601.81**	**1,77,199.56**	**1,59,779.73**	**1,87,869.34**	**2,45,940.50**
			(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	i)	Interest Income	1,09,496.25	1,46,630.53	1,37,874.45	1,64,184.92	2,14,024.76
			(79.57)	(82.75)	(86.29)	(87.39)	(87.02)
		Interest on Advances	49,934.15	75873.09	78,519.01	1,10,543.30	1,54,080.70
		Income on Investments	53,171.52	62921.35	51,757.04	47,117.69	54,089.23
	ii)	Other Income	28,105.56	30569.02	21,905.28	23,684.42	31,915.74
			(20.43)	(17.25)	(13.71)	(12.61)	(12.98)
		Commission & Brokerage	7,809.58	12639.74	10,128.04	12,534.47	14,999.49
B.	**Expenditure**		**1,21,055.44**	**1,58,223.75**	**1,43,241.08**	**1,67,717.16**	**2,19,348.78**
			-100	**(100.00)**	**-100**	**-100**	**-100**
	i)	Interest Expended	65,764.53	85037.71	80,504.22	1,01,959.90	1,48,902.15
			(54.33)	(53.75)	(56.20)	(60.79)	(67.88)
		Interest on Deposits	62,213.56	74663.27	70,011.89	88,796.23	1,32,717.91
	ii)	Provisions and Contingencies	22,928.35	27470.11	21,428.55	22,502.74	23,848.79
			(18.94)	(17.36)	(14.96)	(13.42)	(10.87)
		of which: Provision for NPAs	14,188.89	57.21	40.46	62.93	78.93
	iii)	Operating Expenses	32,362.56	45715.93	41,308.30	43,254.52	46,597.85
			(26.73)	(28.89)	(28.84)	(25.79)	(21.24)
		of which : Wage Bill	22,389.92	28114.40	27,378.16	27,802.87	28,562.30
C.	**Profit**						
	i)	**Operating Profit**	**39,474.72**	**46445.92**	**37,967.21**	**42,654.92**	**50,440.51**
	ii)	**Net Profit**	**16,546.37**	**18975.81**	**16,538.66**	**20,152.18**	**26,591.73**
D.	**Net Interest Income/Margin**		**43,731.72**	**61592.83**	**57,370.23**	**62,225.02**	**65,122.61**
E.	**Total Assets**		**14,71,427.67**	**22,01,872.94**	**20,14,874.09**	**24,40,165.92**	**30,22,237.21**

* :Includes IDBI Bank Ltd.

TABLE 4.4.5.2 Financial Performance of Old Private Sector Banks							
		(Amount in Rs. Crore)					
Item			**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
A.	**Income (i+ii)**		**1,37,601.81**	**1,77,199.56**	**1,59,779.73**	**1,87,869.34**	**2,45,940.50**
			(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	i)	Interest Income	1,09,496.25	1,46,630.53	1,37,874.45	1,64,184.92	2,14,024.76
			(79.57)	(82.75)	(86.29)	(87.39)	(87.02)
		Interest on Advances	49,934.15	75873.09	78,519.01	1,10,543.30	1,54,080.70
		Income on Investments	53,171.52	62921.35	51,757.04	47,117.69	54,089.23
	ii)	Other Income	28,105.56	30569.02	21,905.28	23,684.42	31,915.74
			(20.43)	(17.25)	(13.71)	(12.61)	(12.98)
		Commission & Brokerage	7,809.58	12639.74	10,128.04	12,534.47	14,999.49
B.	**Expenditure**		**1,21,055.44**	**1,58,223.75**	**1,43,241.08**	**1,67,717.16**	**2,19,348.78**
			(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	i)	Interest Expended	65,764.53	85037.71	80,504.22	1,01,959.90	1,48,902.15
			(54.33)	(53.75)	(56.20)	(60.79)	(67.88)
		Interest on Deposits	62,213.56	74663.27	70,011.89	88,796.23	1,32,717.91
	ii)	Provisions and Contingencies	22,928.35	27470.11	21,428.55	22,502.74	23,848.79
			(18.94)	(17.36)	(14.96)	(13.42)	(10.87)
		of which: Provision for NPAs	14,188.89	57.21	40.46	62.93	78.93
	iii)	Operating Expenses	32,362.56	45715.93	41,308.30	43,254.52	46,597.85
			(26.73)	(28.89)	(28.84)	(25.79)	(21.24)
		of which : Wage Bill	22,389.92	28114.40	27,378.16	27,802.87	28,562.30
C	**Profit**						
	i)	**Operating Profit**	**39,474.72**	**46445.92**	**37,967.21**	**42,654.92**	**50,440.51**
	ii)	**Net Profit**	**16,546.37**	**18975.81**	**16,538.66**	**20,152.18**	**26,591.73**
D	**Net Interest Income/Margin**		**43,731.72**	**61592.83**	**57,370.23**	**62,225.02**	**65,122.61**
E	**Total Assets**		**14,71,427.67**	**22,01,872.94**	**20,14,874.09**	**24,40,165.92**	**30,22,237.21**

TABLE 4.4.5.3 Financial Performance of New Private Sector Banks

(Amount in Rs. Crore)

		Item	2003-04	2004-05	2005-06	2006-07	2007-08
A.	**Income (i+ii)**		**21721.43**	**22099.23**	**32098.64**	**48,837.10**	**71,199.92**
			(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	i)	Interest Income	16541.52	16990.13	24301.45	38,092.46	56,434.66
			(76.15)	(76.85)	(75.71)	(78.00)	(79.26)
		Interest on Advances	10180.56	11203.57	16199.23	26,813.41	40,653.84
		Income on Investments	5511.87	5068.78	7379.11	9,807.55	14,460.33
	ii)	Other Income	5179.91	5117.20	7797.19	10,744.64	14,765.26
			(23.85)	(23.15)	(24.29)	(22.00)	(20.74)
		Commission & Brokerage	1865.04	3072.51	5014.08	7,187.99	9,720.85
B.	**Expenditure (i+ii+iii)**		**19686.42**	**19009.76**	**27989.79**	**43,493.70**	**63,655.66**
			(100.00)	**(100.00)**	**(100.00)**	**-100**	**-100**
	i)	Interest Expended	11547.82	10600.40	15260.88	25,801.93	38,534.87
			(58.66)	(55.76)	(54.52)	-59.32	-60.54
		Interest on Deposits	6824.74	6698.71	10637.63	19,594.46	30,191.09
	ii)	Provisions and Contingencies	3097.92	2345.18	4279.40	5,338.76	8,087.38
			(15.74)	(12.34)	(15.29)	-12.27	-12.7
		Provision for NPAs	1532.80	460.22	157.75	984.14	1,443.55
	iii)	Operating Expenses	5040.68	6064.18	8449.51	12,353.01	17,033.41
			(25.60)	(31.90)	(30.19)	-28.4	-26.76
		Wage Bill	1178.41	1484.13	2306.59	3,571.46	5,310.00
C.	**Profit (i+ii)**						
	i)	**Operating Profit**	**5132.93**	**5442.75**	**8388.25**	**10,682.16**	**15,631.63**
	ii)	**Net Profit**	**2035.01**	**3097.57**	**4108.85**	**5,343.40**	**7,544.26**
D.	**Net Interest Income/Margin**		**4993.70**	**6389.73**	**9040.57**	**12,290.53**	**17,899.79**
E.	**Total Assets**		**2,46,575.75**	**2,94,421.45**	**4,21,658.56**	**5,84,841.87**	**7,45,594.49**

TABLE 4.4.5.4 Financial Performance of Foreign Sector Banks							
							(Amount in Rs. Crore)
Item			2003-04	2004-05	2005-06	2006-07	2007-08
A.	**Income (i+ii)**		**13008.35**	**13036.16**	**17435.13**	**24,967.57**	**34,946.76**
			(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	i)	Interest Income	9137.04	9170.46	12235.85	17,923.83	24,416.69
			(70.24)	(70.35)	(70.18)	(71.79)	(69.87)
		Interest on Advances	5044.29	5535.19	7379.87	10,944.88	15,711.51
		Income on Investments	3551.24	2946.45	3895.48	5,333.55	7,017.03
	ii)	Other Income	3871.31	3865.70	5199.28	7,043.74	10,530.06
			(29.76)	(29.65)	(29.82)	(28.21)	(30.13)
		Commission & Brokerage	1632.21	2154.08	2590.78	3,949.28	5,356.80
B.	**Expenditure**		**10765.28**	**11053.79**	**14366.53**	**20,382.41**	**28,334.52**
			(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	i)	Interest Expended	4268.52	4041.45	5149.50	7,603.49	10,603.88
			(39.65)	(36.56)	(35.84)	(37.30)	(37.42)
		Interest on Deposits	2901.81	2591.45	3161.17	4,746.70	7,278.87
	ii)	Provisions and Contingencies	2742.46	2594.93	3592.34	5,034.31	7,375.72
			(25.48)	(23.48)	(25.00)	(24.70)	(26.03)
		Provision for NPAs	897.75	256.97	127.84	371.28	708.32
	iii)	Operating Expenses	3754.30	4417.41	5624.69	7,744.62	10,354.93
			(34.87)	(39.96)	(39.15)	(38.00)	(36.55)
		Wage Bill	1199.67	1364.76	1976.90	3,081.11	4,130.62
C.	**Profit**						
	i)	**Operating Profit**	**4985.53**	**4577.30**	**6660.94**	**9,619.47**	**13,987.96**
	ii)	**Net Profit**	**2243.07**	**1982.37**	**3068.60**	**4,585.16**	**6,612.24**
D.	**Net Interest Income/Margin**		**4868.52**	**5129.02**	**7086.35**	**10,320.34**	**13,812.82**
E.	**Total Assets**		**1,35,640.12**	**1,53,636.33**	**2,01,585.69**	**2,74,392.14**	**3,64,099.21**

TABLE 4.4.5.5

INTEREST EXPANDED

INTEREST EXPANDED					
Banks	**2004**	**2005**	**2006**	**2007**	**2008**
Public Secor	5424	5282	5887	6765	9683
Old Private Sector	412	380	411	442	662
New Private Sector	1816	1782	2564	4301	6236
Foreign Sector	253.8	222	232	366	541

Interest expended relates to the funds raised by the banks. Banks raise funds from public as deposits, from money/ capital market and RBI / Bank as borrowings.

CHART 4.4.5.5

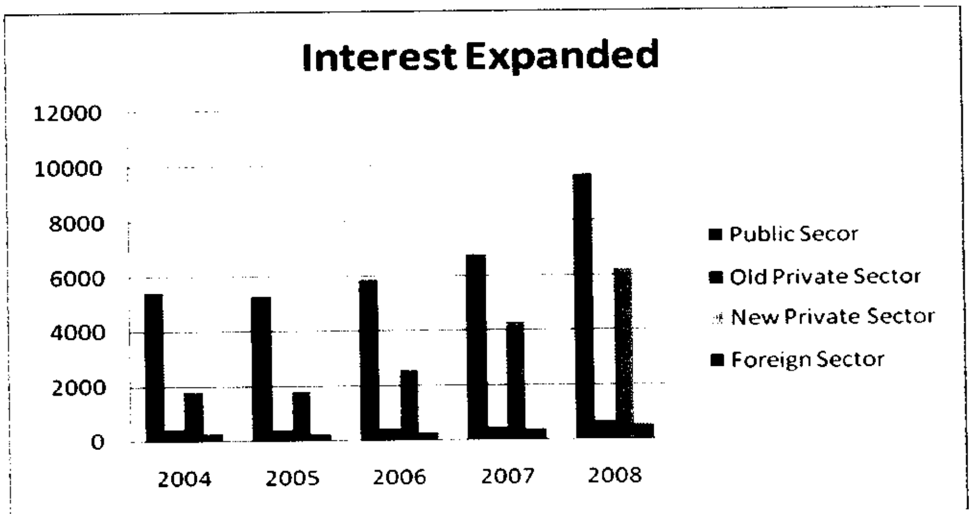
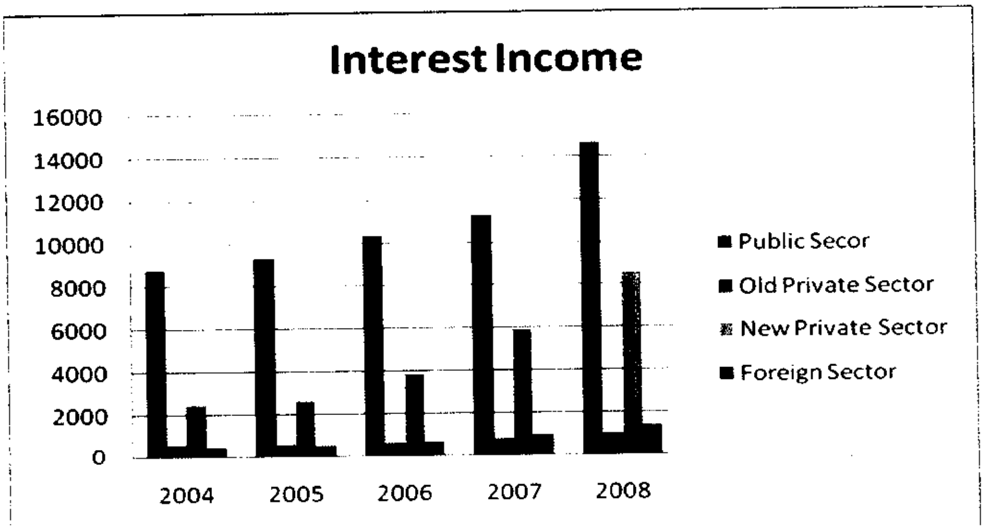


TABLE 4.4.5.6

INTEREST INCOME

Interest Income					
Banks	**2004**	**2005**	**2006**	**2007**	**2008**
Public Sector	8737	9321	10354	11270	14620
Old Private Sector	528	526	598	740	992
New Private Sector	2446	2638	3876	5925	8565
Foreign Sector	448	503	656	926	1348

CHART 4.4.5.6



INTERPRETATION:

Interest Income which sums total of discount, interest from loans, advances and investment and from balance with RBI and other interest flows has increased steadily from year 2004- 2008. The Increase is marginally higher then the year 2007 in 2008. Interest income, is an important indicator of efficiency of the intermediation process by banks. The lower net interest income in relation to assets is an indicator of higher efficiency. The net interest income (spread) of SCBs as percentage of total assets declined marginally to 2.7 in 2006-07 from 2.8 in 2005-06. The net interest margin of foreign banks and private banks increased, while that of PSBs declined during the year from their respective levels in 2005-06

INFERENCE:

The Economic development marks the need for more money i.e. Advances. The increase in interest income due to the higher level advances given by the commercial banks. The New private Sector banks have reached nearly more than the half of the interest income which is got by the public sector bank. The old sector private sector banks have not been competitive like the new private sector in the year 2005. But slowly that has also increased to reach a level of nearly 1000 Crores.

4.4.6 SPREAD % TO TOTAL ASSETS:

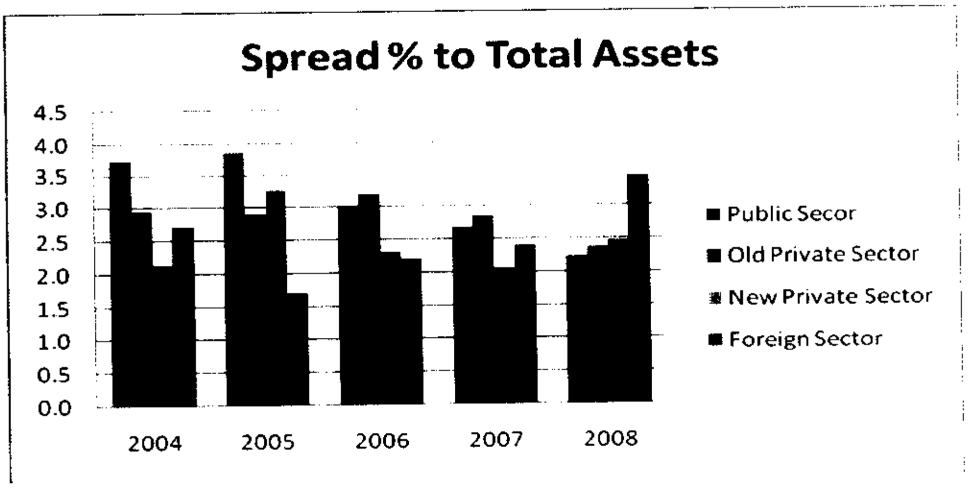
The spread or the net interest income, defined as the difference between interest income and interest expenses, constitutes an important indicator of efficiency of banks since it drives a wedge between interest received by depositors and the interest charged to borrowers on their loans.

TABLE 4.4.6.1

INTEREST SPREAD TO TOTAL ASSETS

SPREAD % TO TOTAL ASSETS					
BANKS	**2004**	**2005**	**2006**	**2007**	**2008**
Public Sector	3.7	3.9	3.0	2.7	2.2
Old Private Sector	3.0	2.9	3.2	2.9	2.4
New Private Sector	2.1	3.3	2.3	2.1	2.5
Foreign Sector	2.7	1.7	2.2	2.4	3.5

CHART 4.4.6.1



The spread of SCBs recorded a sustained growth it increased by 19.8 per cent in 2003-04 as against an increase of 19.5 per cent in 2002-03. Most bank groups had recorded a double-digit increase in the spread. The increase in spreads of private sector and foreign banks was sharper than that of PSBs.

4.4.7 OPERATING PROFIT:

Operating profits of SCBs during 2004-05 declined by 3.1 per cent in 2004-05 as against an increase of 29.3 per cent in the previous year, reflecting largely the impact of decline in non-interest income. Among bank groups, operating profits of nationalised banks, old private sector banks and foreign banks declined during 2004-05, while those of SBI group and new private sector banks increased.

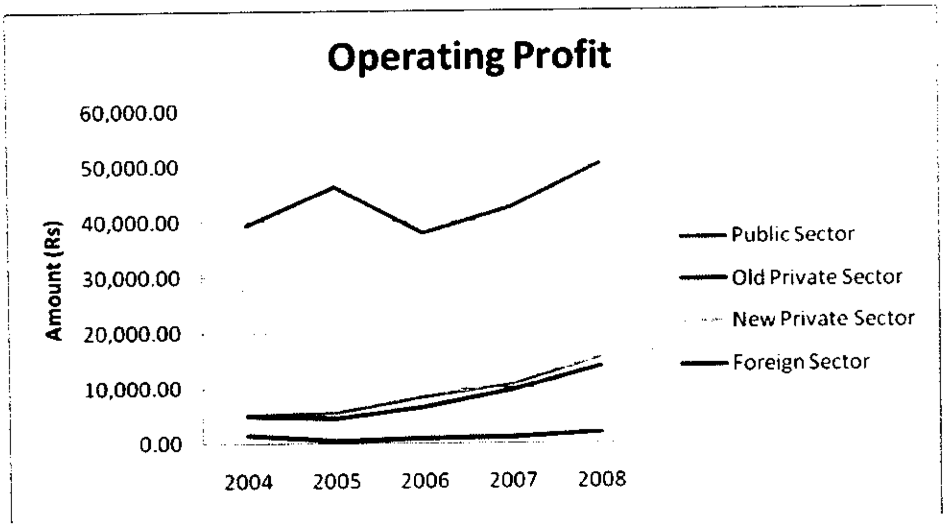
TABLE 4.4.7.1

OPERATING PROFIT

Operating Profit					
					(in Crores)
	2004	2005	2006	2007	2008
Public Sector	39,474.72	46445.92	37,967.21	42,654.92	50,440.51
Old Private Sector	1,446.48	435.82	876.36	1,121.87	1,977.64
New Private Sector	5132.93	5442.75	8388.25	10,682.16	15,631.63
Foreign Sector	4985.53	4577.30	6660.94	9,619.47	13,987.96

The strong macroeconomic environment in 2003-04, supported by monetary and financial policies, helped to restore the growth momentum and improve financial performance of the Indian banks. Access to credit was marked by record growth in bank credit to the priority sector including agriculture, small industries, and other priority sectors such as, housing. High growth was also exhibited by some non-priority sectors, especially, the retail sector. Despite low interest rates, the sharp increase in non-interest income and containment of overall expenditure enabled banks to maintain the high growth of profits witnessed in recent years. The operating profits of commercial banks increased by 29.5 per cent in 2003-04 as against a growth of 36.3 per cent in 2002-03.

CHART 4.4.7.1



Their net profits grew by 30.4 per cent over and above the strong performance recorded in 2002-03. The ratio of operating profit to assets of SCBs improved further to 2.7 per cent from 2.4 per cent in 2002-03. Notably, the increase in net profit was the highest for PSBs with a growth rate of 35 per cent, followed by foreign banks and private sector banks, which recorded growth rates of 23 per cent and 18 per cent, respectively.

4.4.8 PROVISIONS & CONTINGENCIES:

Provisions made for bad and doubtful debts, taxation, and diminution in the value of investments, transfers to contingencies .Provisioning for non-performing assets tends to follow a cyclical pattern. Although gross NPAs in absolute terms declined. net NPAs increased, reflecting the higher write back of excess provisioning than the fresh provisioning made during the year. This trend was observed across all bank groups. barring new private sector banks and foreign banks. Cumulative provisions at end-March 2007 were, thus, lower than their respective levels a year ago in respect of all bank groups, except new private sector banks and foreign banks. Cumulative provisions as percentage of gross NPAs declined marginally to 56.1 per cent at end-March 2007 from 58.9 per cent at end-March 2006. Bank-group wise, the ratio was the highest for old private sector banks (66.0 per cent), followed by PSBs, foreign banks and new private sector banks

TABLE 4.4.8.1

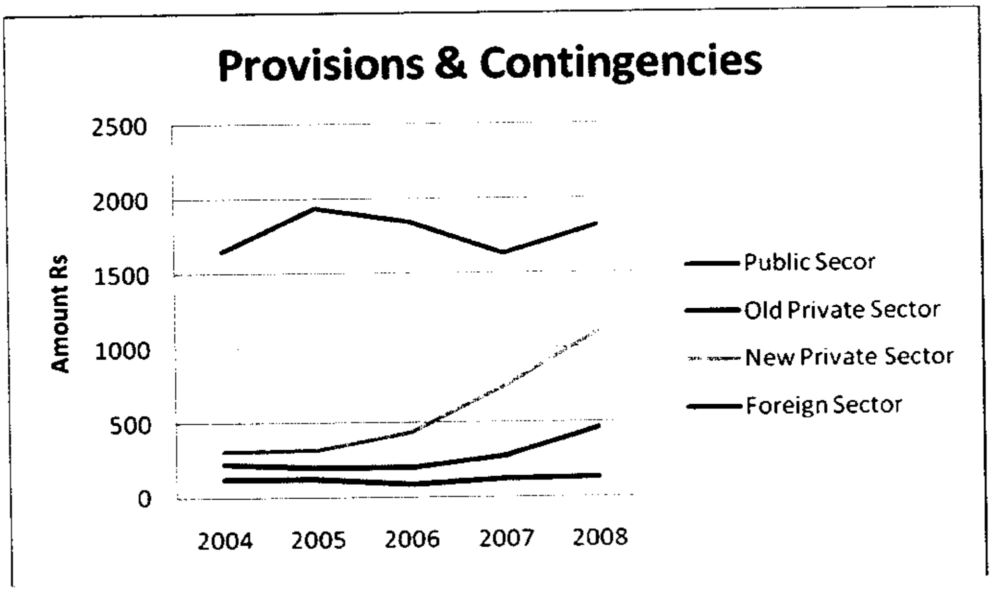
PROVISIONS & CONTINGENCIES

PROVISIONS & CONTINGENCIES					
BANKS	**2004**	**2005**	**2006**	**2007**	**2008**
Public Sector	1645	1937	1845	1628	1813
Old Private Sector	121	125	91	123	132
New Private Sector	306	316	433	738	1105
Foreign Sector	221	198	195	274	460

INTERPRETATION:

The provisions and contingencies of SCBs showed a sharp increase of 16.4 per cent in 2006-07 as against a marginal decline during 2005-06. However, provisions for loan losses and also for depreciation in value of investments declined significantly by 7.5 per cent and 23.3 per cent, respectively, during 2006-07 Bank-group wise, provisions and contingencies as percentage of total assets increased for private sector banks, while it declined for PSBs and remained unchanged for foreign banks.

CHART 4.4.8.1



INFERENCE:

In this comparison the public sector banks with the new private sector banks it can be inferred that the public sector banks are able to reduce the high level of NPA by the end of the period of study. While in private sector banks the NPA which is low in the beginning of the reform period has shown an increase by the year 2007-08

4.5 GROUP WISE CLASSIFICATION OF GROSS AND NET NPA'S

TABLE 4.5.1 GROSS AND NET NPAs OF SCHEDULED COMMERCIAL BANKS BANK GROUP-WISE

(Amount in Rupees Crores)

Year (End-March)	Advances		Non-performing Assets					
	Gross	Net	Gross			Net		
			Amt	As Percentage of Gross Advances	As %of Total Assets	Amt	As % of Net Advances	% of TA
1	2	3	4	5	6	7	8	9
			Public Sector Banks					
2003-04	661975	631383	51537	7.8	3.5	19335	3.1	1.3
2004-05	836128	807293	47325	5.7	2.8	16642	2.1	1.0
2005-06	877825	848912	48399	5.5	2.7	16904	2.1	1.0
2006-07	1134724	1106288	41358	3.6	2.1	14566	1.3	0.7
2007-08	1464493	1440123	38968	2.7	1.6	15145	1.1	0.6
			Old Private Sector Banks					
2003-04	51329	49436	4550	8.9	4.3	2598	5.2	2.5
2004-05	57908	55648	4398	7.6	3.6	2142	3.8	1.8
2005-06	70412	67742	4200	6.0	3.1	1859	2.7	1.4
2006-07	85154	82957	3759	4.4	2.5	1375	1.7	0.9
2007-08	94872	92890	2969	3.1	1.8	891	1.0	0.6
			New Private Sector Banks					
2003-04	94718	89515	7232	7.6	3.8	1365	1.5	0.7
2004-05	119511	115106	5983	5.0	2.4	1986	1.7	0.8
2005-06	127420	123655	4582	3.6	1.6	2353	1.9	0.8
2006-07	232536	230005	4052	1.7	1.0	1796	0.8	0.4
2007-08	325273	321865	6287	1.9	1.1	3137	1.0	0.5

INTERPRETATION:

The sharp rise in credit growth was underpinned by a steady improvement in asset quality. Following the trend of the previous year, reductions in NPAs for SCBs outpaced additions to NPAs during 2004-05. This trend was observed across all bank groups, barring new private sector bank which again claimed the increase in the Gross and Net NPA level of 1.9 and 1.0 percentage respectively in year 2007-08.

TABLE 4.5.1 GROSS AND NET NPAs OF SCHEDULED COMMERCIAL BANKS BANK GROUP-WISE

(Amount in Rupees crore)

Year End-March	Advances		Non-performing Assets					
	Gross	Net	Gross			Net		
			Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
1	2	3	4	5	6	7	8	9
			Foreign Banks in India					
2003-4	54184	52171	2845	5.3	2.4	903	1.7	0.8
2004-5	62632	60506	2894	4.6	2.1	933	1.5	0.7
2005-6	77026	75354	2192	2.8	1.4	639	0.8	0.4
2006-7	98965	97562	1928	1.9	1.0	808	0.8	0.4
2007-8	127872	126339	2263	1.8	0.8	927	0.7	0.3

INFERENCE:

Gross NPAs of SCBs (excluding the conversion impact) declined by Rs.6, 485 Crore between end-March 2004 and end- March 2005. In view of several options available to banks for dealing with NPAs, banks have been able to recover a significant amount of NPAs. An improved industrial climate contributed to a better recovery position. The recourse to aggressive restructuring by banks in 2004-05 also helped in reducing the level of NPAs. The setting up of the Asset Reconstruction Corporation of India (ARCIL) has provided a major boost to banks' efforts to recover their NPAs.

4.6 BANK GROUP-WISE CLASSIFICATION OF LOAN ASSETS

In a Post Reform Period, after the introduction of narashimam committee recommendations, all advances and loans are classified into performing assets and non-performing assets. An asset becomes non-performing when it ceases to generate income for the bank. A credit facility is to be treated as non- Performing if interest remains past due for two quarters or more.

TABLE 4.6.1 BANK GROUP-WISE CLASSIFICATION OF LOAN ASSETS OF SCHEDULED COMMERCIAL BANKS - 2003 TO 2008

(Amount in Rs. crore)

Bank group / Years	As on March 31					
	Standard Assets		Sub-standard Assets		Doubtful Assets	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
	(1)	(2)	(3)	(4)	(5)	(6)
Public Sector Banks						
2004	610435	92.2	16909	2.6	28756	4.3
2005	824253	94.6	10838	1.2	29988	3.4
2006	1029493	96.1	11394	1.1	24804	2.3
2007	1335175	97.2	14147	1.0	19945	1.5
2008	1656585	97.7	16870	1.0	19167	1.1
Indian Private Banks						
2004	167076	94.2	3127	1.8	6391	3.6
2005	216448	96.1	2213	1.0	5578	2.5
2006	296020	97.4	2396	0.8	4438	1.5
2007	382628	97.6	4378	1.1	3923	1.0
2008	459369	97.3	7280	1.5	4452	0.9
Foreign Banks						
2004	59619	95.2	990	1.6	1099	1.8
2005	72963	97.0	714	0.9	974	1.3
2006	96772	97.9	946	1.0	698	0.7
2007	125415	98.1	1367	1.1	631	0.5
2008	159882	98.1	1963	1.2	768	0.5

The asset quality of SCBs improved during 2006-07, which was reflected in the decline in gross and net non-performing assets as percentage of loans and advances? The trend in absolute gross NPA, however, remained divergent across bank groups. While the absolute gross NPAs of PSBs (particularly, nationalized banks) and old private sector banks declined during the year, those of new private sector banks and foreign banks showed an increase.

INTERPRETATION:

From the above table it is revealed that the percentage of standard assets has been increased gradually from the year 2003 to 2008. The level of doubtful assets has reduced from 4.8% to 1.1% for public sector which holds the maximum doubtful assets as Non Performing. The Private sector banks doubtful assets have reduced from 3.6% to 0.9 %.

INFERENCE:

The sharp rise in credit growth was underpinned by a steady improvement in asset quality. Following the trend of the previous year, reductions in NPAs for SCBs outpaced additions to NPAs during 2004-05. This trend was observed across all bank groups, barring new private sector banks.

Gross NPAs of SCBs (excluding the conversion impact) declined by Rs.6,485 Crore between end-March 2004 and end- March 2005. In view of several options available to banks for dealing with NPAs, banks have been able to recover a significant amount of NPAs. An improved industrial climate contributed to a better recovery position. The recourse to aggressive restructuring by banks in 2004-05 also helped in reducing the level of NPAs. The setting up of the Asset Reconstruction Corporation of India (ARCIL) has provided a major boost to banks' efforts to recover their NPAs.

TABLE 4.6.1: BANK GROUP-WISE CLASSIFICATION OF LOAN ASSETS OF SCHEDULED COMMERCIAL BANKS - 2003 TO 2008 (Concld.)					
					(Amount in Rs. crore)
	Loss		Total		Total
	Assets		NPAs		Advances
	Amount	Per cent	Amount	Per cent	
	(7)	(8)	(9)	(10)	(11)
			{=(3)+(5)+(7)}	{=(4)+(6)+(8)}	{=(1)+(3)+(5)+(7)}
Public Sector Banks					
2004	5876	0.9	**51541**	7.8	**661976**
2005	5771	0.7	**46597**	5.4	**870850**
2006	5181	0.5	**41379**	3.9	**1070872**
2007	4510	0.3	**38602**	2.8	**1373777**
2008	3712	0.2	**39749**	2.3	**1696334**
Indian Private Banks					
2004	825	0.5	**10343**	5.8	**177419**
2005	900	0.4	**8691**	3.9	**225139**
2006	940	0.3	**7774**	2.6	**303794**
2007	941	0.2	**9242**	2.4	**391870**
2008	1244	0.3	**12976**	2.7	**472345**
Foreign Banks					
2004	924	1.5	**3013**	4.8	**62632**
2005	569	0.8	**2257**	3.0	**75220**
2006	446	0.5	**2090**	2.1	**98862**
2007	454	0.4	**2452**	1.9	**127867**
2008	387	0.2	**3118**	1.9	**163000**

Overall banking sector has grown well in asset management which has reflected in the loan assets growth as standard assets rather than the doubtful and loss assets. The asset quality is analyzed in terms of range of indicators including sectoral and industrial credit Concentration, credit utilization ratio, exposure to sensitive sectors, retail credit, currency denomination of credit, non-performing loans, credit to sick and weak industries, connected lending, leverage ratios, off-balance sheet exposure, and corporate profitability.

4.7 TREND & PROGRESS:

4.7.1 FINANCIAL YEAR 2003-2004

The financial sector witnessed stable and easy conditions. Non-food credit of scheduled

Commercial banks (SCBs) showed a pick-up during the later half of 2003-04, in line with the resurgence in industrial growth. Non-interest income of SCBs also showed a rising trend.

Overall real GDP growth for 2003-04 at 8.2 per cent was much higher than the 4.0 per cent growth witnessed in 2002-03, facilitated primarily by a surge in agricultural GDP of over 9.1 per cent due to a healthy recovery from the drought of 2002-03. Industrial production continued its broad-based expansion with all the major components of industrial production witnessing growth rates in excess of 5.0 per cent. The services sector growth at 8.5 per cent continued to play an important role in propelling the GDP growth above the trend level and consistently witnessed a growth rate higher than 7.0 per cent in all the four quarters of 2003-04.

NPA MANAGEMENT SOUNDNESS

The gross and net NPAs of SCBs declined in absolute terms for the second year in succession, notwithstanding the changeover to the 90 day delinquency norm. The decline in NPAs was brought about by a sharp increase in recovery, a modest increase in additions and write-offs of bad assets. Reflecting significant provisions, the net NPAs registered sharper decline during 2003-04. While the decline was witnessed across all bank groups, it was more pronounced in the case of private sector banks especially the new private sector banks. Foreign banks recorded the lowest gross and net NPAs position. Improved risk management practices, greater recovery efforts, SARFAESI Act, 2002 and Corporate Debt Restructuring have contributed to the resolution of NPAs during 2003-04.

4.7.2 FINANCIAL YEAR 2004-2005:

Global economic growth remained strong in 2004 (January to December), aided by expansionary monetary policies and comfortable financial conditions1. Global growth, which was robust during the first half of 2004, slowed down somewhat in the latter part of the year, reflecting the impact of a sharp rise in commodity prices and the fear of disorderly movement of currency adjustments. However, the global economy grew by nearly 5 per cent in 2004, the highest rate for nearly three decades.

The gross and net NPAs of SCBs declined in absolute terms over and above the decline during the previous two years. The decline, however, was more pronounced in respect of net NPAs. The decline in net NPAs was witnessed across all bank groups. Various factors such as improved risk management practices, greater recovery efforts under the SARFAESI Act and Corporate Debt Restructuring mechanism, *inter-alia,* contributed to the decline in the NPAs.

Loans and advances which represent the main avenue for deployment of funds by FIs registered healthy growth during 2004-05. The spread (net interest income) and the operating profits increased both in absolute terms and as a ratio to total assets.

NPA MANAGEMENT OF BANKS

With a view to providing an additional option and developing a healthy secondary market for NPAs, guidelines on sale/purchase of nonperforming assets were issued in July 2005 where securitization companies and reconstruction companies are not involved. The draft guidelines cover the following broad areas:

(i) procedure for purchase/sale of non-performing financial assets by banks, including valuation and pricing aspects; and

(ii) prudential norms relating to asset classification, provisioning, accounting of recoveries, capital adequacy and exposure norms and disclosure requirements.

The guidelines include several specific provisions:

(i) a nonperforming asset in the books of a bank shall be eligible for sale to other banks only if it has remained a non-performing asset for at least two years in the books of the selling bank and such selling should be only on a cash basis;

(ii) a bank may purchase/sell non-performing financial assets from/to other banks only on a 'without recourse' basis;

(iii) banks should ensure that subsequent to sale of the non-performing financial assets to other banks, they do not have any involvement with reference to assets sold and do not assume operational, legal or any other type of risks relating to the financial assets sold;

(iv) A non-performing financial asset may be classified as 'standard' in the books of the purchasing bank for a period of 90 days from the date of purchase. Thereafter, the asset classification status of the account shall be determined by the record of recovery in the books of the purchasing bank with reference to cash flows estimated while purchasing the asset. The asset shall attract provisioning requirement appropriate to its asset classification status in the books of the purchasing bank;

(v) Any recovery in respect of a nonperforming asset purchased from other banks should first be adjusted against its acquisition cost. Recoveries in excess of the acquisition cost can be recognized as profit;

(vi) for the purpose of capital adequacy, banks should assign 100 per cent risk weights to the non-performing financial assets purchased from other banks;

4.7.3 FINANCIAL YEAR 2005-2006:

The banking sector presents a picture of paradoxes. There are many banks in India but none among the top twenty in the world. Our largest bank, the State Bank of India, ranks 82 in terms of business. It is universally acknowledged that the key drivers of the banking sector in the future will be Competition, Consolidation and Convergence. RBI has prepared a road map for banking sector reforms and will unveil the same. While most proposals will be implemented by the RBI on its own authority, some legislative changes would be required to be made.

RBI propose to introduce amendments to the Act –

- To remove the lower and upper bounds to the statutory liquidity ratio (SLR) and Provide flexibility to RBI to prescribe prudential norms;
- To allow banking companies to issue preference shares, since preference share Capital can be treated as regulatory capital under specified circumstances as per Basel norms.
- To introduce specific provisions to enable the consolidated supervision of banks and their subsidiaries by RBI in consonance with the international best practices in this regard

4.7.4 FINANCIAL YEAR 2006-2007:

The banking sector witnessed accelerated growth during 2006-07. The faster growth of the banking sector in relation to the real economy pushed up the ratio of assets of scheduled commercial banks to GDP to 92.5 per cent at end- March 2007. Broad based credit growth with some rebalancing in sectoral credit allocation away from housing and commercial real estate sectors was observed during the year. The accelerated growth of deposits mainly contributed by sharp increase in term deposits, however, obviated the need of unwinding of investment portfolio to finance credit growth by banks as was witnessed in the previous year. However, as a percentage of both total assets and net demand and time liabilities (NDTL), investment by banks in Government securities continued to decline. The consolidation of the banking sector continued with the merger
of three old private sector banks, bringing down the total number of SCBs to 82 from 85 at end- March 2006.

NPA Management by Banks :

Keeping in view the fact that the chances as well as the extent of recovery of NPAs reduce overtime, the Reserve Bank took several measures in recent years to expedite recovery of NPAs by banks by strengthening the various channels of NPA recovery such as debt recovery tribunals (DRTs), *Lok Adalats*, corporate debt restructuring (CDR) mechanism and the SARFAESI Act, 2002.

With a view to providing an additional option and developing a healthy secondary market for NPAs, guidelines on sale/purchase of NPAs were issued in July 2005 covering the procedure for purchase/sale of non-performing assets (NPAs) by banks, including valuation and pricing aspects and prudential norms relating to asset classification, provisioning, accounting of recoveries, capital adequacy, exposure norms, and disclosure requirements. The guidelines were partially modified in May 2007, whereby it was stipulated that at least 10 per cent of the estimated cash flows should be realized in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years.

4.7.5 Government Policies and RBI directives Influence on Bank's Lending Policy on 2007-08:

AGRICULTURE &RURAL DEVELOPMENT:

i) Measure:

1. Farm credit target of Rs.2,25,000 crore for 2007-08 and addition of 50 lakh new farmers to the banking system

Impact:

Banks to step up agricultural lending

ii) Measure:

2.Special plan over three years for 31distresses districts in four states involving Rs.16,979 cr. Waterrelated schemes and plan to provide subsidiary income to farmers through induction of high-yielding milch animals and related activities.

Impact:

Banks can meet the financial requirements of farmers who acquire irrigation facilities under the scheme, will also help banks to reduce NPAs

iii) Measure:

3. Agricultural crop insurance scheme to be extended

Impact:

Risks for farmers as well as for banks will be reduced

INFRASTRUCTURE:

i) Measure:

1. Allocation for National Highway Development Programme up Rs.12,600 cr (last year Rs.9,955cr)

Impact:

Government guarantee will help attract finance for the project from private investors and banks.

BANKING &FINANCIAL SECTOR:

i) Measure:

DRI scheme limit raised from Rs.6,500 to Rs.15,000 and housing limit from Rs.5,000 to Rs.20,000 per beneficiary

Impact:

The impact is expected to be negligible as the amount is not very significant to affect credit growth or liquidity. Weaker sections to benefit.

SMEs:

i) Measure:

Excise exemption limit for SSI units increased to Rs.1.5 cr from Rs.1 cr Surcharge eliminated for small firms with a turnover of Rs.1 cr or less

Impact:

The measure will help upscale SSI units and make them more competitive. Increase in scope for bank finance.

HOUSING

i) Measure:

Creation of housing mortgage companies.

Impact:

Help banks recover dues as it provides protection to lenders. Will help housing finance companies to offer higher mortgage loans or lower down payments.

CHAPTER –5
CONCLUSIONS

CHAPTER 5 CONCLUSION

5.1 SUMMARY OF FINDINGS:

1. All the banks have succeeded in reducing NPA by actual recovery of over dues and also by creating Provision. But they have not succeeded in controlling new NPA.

2. As till this analysis the new innovative financial products givers i.e. the New private sector banks are the ones who are made their self in increasing NPA and the fluctuation of the NPA is not due to the government or the monetary regulations, It is mainly due to the managements own decision. So the NPA has started to reduce by the new financial products till the year 2006 and started to bull the NPA level, as the economy starts to slow down.

3. Banks have been able to reduce the burden but have not succeeded in increasing the spread as a result of regulated interest rate in the post – reform period. This with a reduction in burden, the decline in the spread is compensated and the banks could improve the profitability in the post – reform phase.

4. The Slight improvement in the spread of the banks after (year 2006) points out the effectiveness of the interest rate risk management through the implementation of maturity gap.

5. NPA of the banks has not showed an increase along with the deployment of more funds in advances. It is found that NPA is not related to the rate of deployment in loans and advances.

6.Out of the total NPA, Non Priority sector NPA is more than the priority sector NPA, but the percent of default is high priority sector lending as compared to non- priority sector lending.

7. The ratio interest expended to total assets should also be low so that banks can retain its spread with larger percentage. Here all the banks were expending their interest uniformly during the study period with an average of 4 to 5% against the total assets.

5.2 SUGGESTIONS & RECOMMENDATIONS:

1. In order to attain capital adequacy norms, banks are increasing the Tier I capital mainly by increasing the reserves and surplus. Creating Tier I Capital by huge ploughing back of profit will discourage the investors. Along with the creation of reserves and Surplus, bank should make fresh equity issue to increase the owned fund.

2. Banks should appoint special officers in every branch for monitoring performing assets and for the recovery of over dues. Increasing NPA has been often attributed to reckless lending and lack of monitoring on the part of the bank management.

3. Recovery management: This is a key to the stability of the banking sector. There should be no hesitation in stating that Indian banks have done a remarkable job in containment of non-performing loans (NPL) considering the overhang issues and overall difficult environment. Let me add that for 2004, the net NPL ratio for the Indian scheduled commercial banks at 2.9 per cent is ample testimony to the impressive efforts being made by our banking system. In fact, recovery management is also linked to the banks' interest margins. We must recognize that cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the Indian banks. No doubt, improving recovery-management in India is an area requiring expeditious and effective actions in legal, institutional and judicial processes.

4. Risk management: Banking in modern economies is all about risk management. The successful negotiation and implementation of Basel II Accord is likely to lead to an even sharper focus on the risk measurement and risk management at the institutional level. Thankfully, the Basel Committee has, through its various publications, provided useful guidelines on managing the various facets of risk. The institution of sound risk management practices would be an important pillar for staying ahead of the competition. Banks can, on their part, formulate 'early warning indicators' suited to their own requirements, business profile and risk appetite in order to better monitor and manage risks.

5. Governance: The recent irregularities involving accounting firms in the US have amply demonstrated the importance of good corporate governance practices. The quality of corporate governance in the banks becomes critical as competition intensifies, banks strive to retain their client base, and regulators move out of controls and micro-regulation. As already mentioned, banks are special in emerging markets since they take a leading role in development of other financial intermediaries and of financial markets, apart from having a large recourse to public deposits. No doubt, there is nothing like an 'optimal' level of governance for one to be satisfied with. The objective should be to continuously strive for excellence. The RBI has, on its part, made significant efforts to improve governance practices in banks, drawing upon international best practices. It is heartening to note that corporate governance presently finds explicit mention in the annual reports of several banks.

The improved corporate governance practice would also provide an opportunity to accord greater freedom to the banks' boards and move away from micro regulation to macro management. Banks in India are custodians of depositors' monies, monies of the millions of depositors who are seeking safe avenues for their hard earned savings, and hence, banks must accept and perform an effective fiduciary role. In this light, improvement in policy-framework, regulatory regime, market-perceptions, and indeed, popular sentiments relating to governance in banks need to be on the top of the agenda - to serve our society's needs and realities while being in harmony with the global perspective.

5.3. CONCLUSION

The Indian banking industry has been an important driving force behind the nation's economic development. The emerging environment poses both opportunities and threats, in particular, to the public sector banks. How well these are met will mainly depend on the extent to which the banks leverage their primary assets *i.e.*, human resources in the context of the changing economic and business environment. It is obvious that the public sector banks' hierarchical structure, which gives preference to seniority over performance, is not the best environment for attracting the best talent from among the young in a competitive environment.

How close are we to the vision of a sound and well-functioning banking system that I outlined. It is fair to say that despite a turbulent year and many challenges, we have made some progress towards this goal. There has been progressive intensification of financial sector reforms, and the financial sector as a whole is more sensitized than before to the need for internal strength and effective management as well as to the overall concerns for financial stability. At the same time, in view of greater disclosure and tougher prudential norms, the weaknesses in our financial system are more apparent than before.

The NPA levels remain too large by international standards and concerns relating to management and supervision within the ambit of corporate governance are being tested during the period of downturn of economic activity. The structure of the financial system is changing and supervisory and regulatory regimes are experiencing the strains of accommodating these changes. Certain weak links in the decentralized banking and nonbank financial sectors have also come to notice.

In a fundamental sense, regulators and supervisors are under the greatest pressures of change and bear the larger responsibility for the future. For both the regulators and the regulated, eternal vigilance is the price of growth with financial stability.

We should strive to move towards realizing our vision of an efficient and sound banking system of international standards with redoubled vigor. Our greatest asset in this endeavor is the fund of technical and scientific human capital formation available in the country. The themes which are being covered in this Conference under structural, operational and governance issues should help in defining the road map for the future.

5.4 SCOPE FOR FURTHER RESEARCH:

Non Performing Asset Management in banking is a continuous process that is linked with an evolving strategy at one end the issues of practical banking on the other. Hence it requires a continuous assessment and the evaluation with regard to the effectiveness of the strategies and their implementation. This significant aspect of NPA makes the continuous evaluation and research in this area very vital and necessary for the functioning of the banking sector in addressing the challenges of the today as well as tomorrow.

EXPLANATORY NOTES

I. GENERAL

1. Scheduled Commercial Banks are categorized in five different groups according to their ownership and / or nature of operation. These bank groups are: (i) State Bank of India and its Associates, (ii) Nationalized Banks, (iii) Regional Rural Banks, (iv) Foreign Banks and (v) Other Scheduled Commercial Banks (in the private sector). For the study we have taken SBI associates and Nationalized together and left the regional rural banks in ownership pattern.

2. The public sector bank IDBI Ltd. is included in the group of Nationalized Banks

4. Total expenses shown in profit & loss account is the sum of interest expenses and operating expenses. The profit figure is computed by subtracting total expenses and provisions and contingencies (including income tax, wealth tax, fringe benefit tax and deferred tax liabilities) from total income of the bank.

5. Bank group-wise totals may not add up to the individual bank's totals due to rounding off

6. The publication, "Statistical Tables Relating to Banks in India - 1979-2007" , provides bank-wise and bank group-wise data and ratios based on annual accounts submitted by Scheduled Commercial Banks (SCBs) and also bank group-wise data and ratios based on final Form 'A' submitted by SCBs under Section 42(2) of RBI Act, 1934.

The changes in the banking sector that have taken place from 2002 onwards are as follows:

a) Kotak Mahindra Bank has been included in the Second Schedule to the RBI Act, 1934, with effect from April 12, 2003.

b). Kotak Mahindra Bank has been included in the Second Schedule to the RBI Act, 1934, with effect from April 12, 2003.

c) Yes Bank has been included in the Second Schedule to the RBI Act, 1934, with effect from August 19, 2004.

d). IDBI Ltd. has been included in the Second Schedule to the RBI Act, 1934, with effect from October 11, 2004.

e). IDBI Bank has been merged with IDBI Ltd. with effect from October 11, 2004.

f) Global Trust Bank has been excluded from the Second Schedule to the RBI Act, 1934, with effect from August 7, 2004.

Definitions of the concepts used in the ratios are as follow:

1. *Cash* in cash-deposit ratio includes cash in hand and balances with RBI.

2. *Investments* in investment-deposit ratio represent total investments including investments in non-SLR securities.

3. *Net interest margin* is defined as the total interest earned *less* total interest paid.

4. *Intermediation cost* is defined as total operating expenses.

6. *Operating profit* is defined as total earnings *less* total expenses, excluding provisions and contingencies.

7. *Burden* is defined as the total non-interest expenses *less* total non-interest income.

8. *Non-performing advances ratio* i.e. non-performing advances divided by total or net advances X 100. An increasing trend implies gradual increase in bad credit portfolio.

9. *Average working funds (AWF)* The AWF at the beginning and at the close of an accounting year or at times worked out as fortnight or monthly average. Working funds, these are total resources (total liabilities or total assets) of a bank as on a particular date. Total resources include capital, reserves and surplus, deposits, borrowings, other liabilities and provision. A high AWF shows a bank's total resources strength. There is a school of theory which maintains that working funds are equal to aggregate deposits plus borrowing. However, more pragmatic view in consonance with capital adequacy calculations is, to include all resources and not just deposits and borrowings.

10. *Net profits* are the profits net of provisions, amortization and taxes.

11. Gross advances These include overdraft, bills purchased, cash credit, loans and term loans including food credit. From a different angle, aggregate advances include advances inside India and advances outside India. When the food credit is reduced from the gross advances, it amounts to non-food credit.

12. *Investments:* Investments include investments in government securities, shares, bonds, commercial papers and debentures and other approved securities.

13. *Interest income:* The sum total of discount, interest from loans, advances and investment and from balance with RBI and other interest flows.

14. Interest income to average working funds Expressed as a percentage, this ratio shows a bank's ability to leverage its average total resources in enhancing its main stream of operational interest income.

15. Non-interest income This is other income of a bank. It includes items such as exchange commission, brokerage, gains on sale and revaluation of investments and fixed assets and profits from exchange transactions.

17. Operating expenses Equals the non-interest expenses. The operating expenses to AWF ratio explain the overall operational efficiency of a bank. In fact, this ratio is one of the indictors of profitability of a bank.

18. Interest spread This is the excess of total interest earned over total interest expended. The ratio of interest spread to AWF shows the efficiency of bank in managing and matching interest expenditure and interest income effectively. Interest spread is critical to a bank's success as it exerts a strong influence on its bottom line.

19. Net spread is an alternative term for operating profit in the banking industry. The net spread to AWF ratio reveals a lot about the overall operational efficiency of Bank.

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- ☑ Money, Banking, International Trade And Public Finance -D.M.Mithani