Financial Performance

Profits and Provisions

3.20 The operating profit of Scheduled Commercial Banks (SCBs) as a whole amounted to Rs. 18,423 crore in 1999-2000, which was higher by 33.4 per cent over that in 1998-99. Despite higher provisions, net profit of SCBs increased by 62.7 per cent during this period, mainly because the increase in income (15.3 per cent) outweighed that in expenditure (13.1 per cent) by a comfortable margin. Among the different bank groups, SBI and its 7 Associate Banks together registered an increase of 25.6 per cent in operating profit. This reflected the wide margin by which increase in their income (15.9 per cent) exceeded that (12.4 per cent) in expenditure. Unlike all other bank groups, the increase in the net profit (Rs.1211 crore or 82.6 per cent) of SBI and its Associate Banks exceeded that in their operating profit (Rs.1191 crore or 25.6 per cent) due to decline in provisions and contingencies. In the case of nationalised banks, on the other hand, provisions and contingencies increased by Rs.663 crore or 16.1 per cent, which reduced

BOX 3.4

Banks' Investment Norms

Based on the comments on the Report of the Informal Group on Banks' Investment Portfolio, the Reserve Bank finalised the Guidelines on categorisation and valuation of banks' investment portfolio. These Guidelines are in conformity with international best practices, and are effective from September 30,2000.The salient features of the Guidelines are given below: -

- The entire investment portfolio is to be classified under three categories: (a) Held to Maturity (HTM), Held for Trading (HFT) and Available for Sale (AFS). HTM includes securities acquired with the intention of being held up to maturity; HFT includes securities acquired with the intention of being traded to take advantage of the short-term price/interest rate movements; and AFS includes securities not included in HTM and HFT.
- Banks should decide the category of investment at the time of acquisition.
- In the balancesheet, investments will continue to be classified under 6 heads: (a) Government Securities,(b) Other approved securities,(c)Shares,(d)Debentures and bonds, (e)Subsidiaries&Joint Ventures and (f) Others.
- Investments classified under HTM need not be marked to market, and will be carried at acquisition cost. These investments will include (a) recapitalisation bonds, (b) investments in subsidiaries & joint ventures and (c) investments in debentures deemed as advance. HTM will also include any other investment identified for inclusion in this category subject to the condition that such investments will not exceed 25 percent of the total investment excluding (a) to (c) cited above.
- Banks, which had already marked to market more than 75 percent of their SLR portfolio, have the option to reclassify their investments under this category up to the permissible level.
- Profit on sale of investment in the HTM category should be taken to the P&L Account before being appropriated to the Capital Reserve Account. Loss on sale should be recognised in the P&L Account.
- Banks are free to decide on the extent of holdings under the HFT and AFS categories, based on relevant considerations like tax planning, risk management capabilities and trading strategies. Individual scrips in the AFS need to be marked to market at the year-end or at more frequent intervals. Individual scrips in the HFT category are to be revalued at least at monthly intervals.
- Market price of the scrip available from the trades /quotes on the stock exchange, price of SGL transactions or RBI price list would serve as the "market value" for investments in AFS and HFS.
- Investments under the HFT category should be sold within 90 days; in the event of inability to sell due to adverse factors like tight liquidity, extreme volatility, or a unidirectional movement in market, the unsold securities should be shifted to the AFS category.
- Profit or loss on sale of investments in both HFT and AFS categories should be taken in the P&L Account.
- Shifting of investments from /to HTM may be done with the approval of the Board once a year, normally at the beginning of the accounting year; investments from AFS to HFT may be done with the approval of the Board/ALCO/Investment Committee; shifting from HFT to AFS is generally not allowed.
- Under all circumstances, the shifting of investments from one category to another should be done at lowest value among acquisition cost, book value or market value; depreciation, if any, should be fully provided for.
- RBI will no longer announce the Yield to Maturity (YTM) rates for unquoted Government securities for the purpose of valuation of investments by banks.

TABLE 3.5

Working Results of Scheduled Commercial Banks for 1998-99 and 1999-2000

	SBI Group Banks		19 Nationalised Banks		27 Public Sector Banks		Foreign Banks		25 Old Pvt. Sector Banks		9 New Pvt. Sector SCBs		All	
	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
							A. Rupees Crore							
A. Income	29349	34015	49501	56886	78850	90900	9719	10328	7362	8750	4130	5407	100062	115386
i) Interest	25126	29187	44291	50273	69417	79460	7860	8176	6493	7442	3541	4429	87312	99507
ii) Other income	4223	4828	5210	6613	9433	11441	1859	2152	869	1308	590	978	12750	15879
B. Expenditure	27884	31338	47713	54449	75597	85787	9191	9360	7051	8095	3733	4838	95572	108080
i) Interest Expended	16983	19897	30857	35478	47840	55375	5201	4986	5088	5629	2777	3327	60905	69317
ii) Intermediation cost	7719	8278	12731	14183	20450	22461	2745	2655	1482	1692	669	837	25346	27646
iii) Provisions and contingencies	3182	3162	4125	4788	7307	7950	1245	1719	481	774	287	674	9320	11117
C. Operating Profit	4648	5839	5913	7225	10561	13064	1773	2687	792	1429	684	1244	13811	18423
D. Net Profit	1466	2677	1788	2437	3254	5114	528	968	311	655	397	569	4490	7306
E. Total Assets	285835	336327	484310	554625	770145	890952	76567	82850	65475	77709	38531	58857	950718	1110368
							B.Per cent of Total Assets							
A. Income	10.27	10.11	10.22	10.26	10.24	10.20	12.69	12.47	11.24	11.26	10.72	9.19	10.52	10.39
i) Interest	8.79	8.68	9.15	9.06	9.01	8.92	10.27	9.87	9.92	9.58	9.19	7.53	9.18	8.96
ii) Other income	1.48	1.44	1.08	1.19	1.22	1.28	2.43	2.60	1.33	1.68	1.53	1.66	1.34	1.43
B. Expenditure	9.76	9.32	9.85	9.82	9.82	9.63	12.00	11.30	10.77	10.42	9.69	8.22	10.05	9.73
i) Interest Expended	5.94	5.92	6.37	6.40	6.21	6.22	6.79	6.02	7.77	7.24	7.21	5.65	6.41	6.24
ii) Intermediation cost	2.70	2.46	2.63	2.56	2.66	2.52	3.59	3.21	2.26	2.18	1.74	1.42	2.67	2.49
iii) Provisions and contingencies	1.11	0.94	0.85	0.86	0.95	0.89	1.63	2.07	0.73	1.00	0.75	1.15	0.98	1.00
C. Operating Profit	1.63	1.74	1.22	1.30	1.37	1.47	2.32	3.24	1.21	1.84	1.78	2.11	1.45	1.66
D. Net Profit	0.51	0.80	0.37	0.44	0.42	0.57	0.69	1.17	0.48	0.84	1.03	0.97	0.47	0.66

their net profit in absolute terms. The operating profits of PSBs (SBI & Associate Banks plus nationalised banks) increased by 23.7 per cent from Rs. 10,561 crore to Rs. 13,064 crore.

3.21 Analysis of profits in respect of different bank groups (Tables 3.5 and 3.6) assumes significance in view of the fact that public sector banks account for around 80 per cent of the total assets of SCBs. Table 3.6 therefore presents figures of incremental profits and provisions of different bank groups *vis-à-vis* their incremental assets in 1999-2000 over 1998-99.

Table 3.6

Incremental Profits and Provisions vis-à-vis Incremental Assets (1999-2000 over 1998-99)

(Rs. Crore)

	Bank Group	Incremental Assets	% to total	Operating Profit	% to total	Provisions & Conti-ngencies	% to total	Net Profit	% to total
1.	**Public Sector(i+ii)**	**120807**	**75.7**	**2503**	**54.3**	**643**	**35.8**	**1860**	**66.0**
	(i) SBI &Associates	50492	**31.6**	1191	**25.8**	-20	**-1.1**	1211	**43.0**
	(ii) Nationalised	70315	**44.0**	1312	**28.4**	663	**36.9**	649	**23.0**
2.	**Private Sector(i+ii)**	**32560**	**20.4**	**1197**	**25.9**	**680**	**37.9**	**517**	**18.4**
	(i) Old	12234	7.7	637	13.8	293	16.3	344	12.2
	(ii) New	20326	12.7	560	12.1	387	21.5	173	6.1
3.	**Foreign**	**6283**	**3.9**	**913**	**19.8**	**473**	**26.3**	**440**	**15.6**
4.	**SCBs(1+2+3)**	**159650**	**100.0**	**4613**	**100.0**	**1796**	**100.0**	**2817**	**100.0**

3.22 Table 3.6 shows that the share of old private sector banks and foreign banks in the total incremental operating profits of SCBs exceeded their corresponding share in total incremental assets. The same was true in regard to net profits also. The share of SBI and Associates in total net profits of SCBs also exceeded their corresponding share in incremental assets. This of course reflects their negative share in provisions and contingencies in contrast to the private sector and foreign banks.

Net Interest Income (Spread)

3.23 The ratio of spread to total assets of SCBs declined from 2.78 per cent in 1998-99 to 2.72 per cent in 1999-2000. The corresponding ratio declined in respect of all bank groups except the old private sector banks and foreign banks .In the case of nationalised banks, this ratio decreased from 2.77 per cent to 2.67 per cent while it declined from 2.85 per cent to 2.76 per cent for the SBI Group during the same period. For public sector banks as a whole this ratio declined from 2.80 per cent to 2.70 per cent. In the case of old private sector banks the ratio of spread to total assets increased from 2.15 per cent in 1998-99 to 2.33 per cent in 1999-2000 while it declined from 1.98 per cent to 1.87 per cent during the same period in case of new private sector banks. As for the foreign banks, which registered the maximum spread, the corresponding ratio increased from 3.47 per cent to 3.85 per cent during the same period.

Non-Performing Assets

3.24 Loans and advances account for around 40 per cent of the assets of SCBs. However, delay/default in payment of interest and/or repayment of principal has rendered a significant proportion of the loan assets non-performing. As per RBI's prudential norms, a Non-Performing Asset (NPA) is a credit facility in respect of which interest/instalment has remained unpaid for more than two quarters after it has become past due. "Past due" denotes grace period of one month after it has become due for payment by the borrower. The Mid-Term Review of Monetary and Credit Policy for 2000-01 has proposed to discontinue this concept with effect from March 31,2001.

3.25 For SCBs as a whole, gross NPAs declined from 6.2 per cent of their total assets at the end of March 1999 to 5.5 per cent at the end of March 2000. Net NPAs (provision-adjusted NPAs) declined from 2.9 per cent to 2.7 per cent of total assets. Gross NPAs of public sector banks declined from 6.7 per cent of total assets at the end of March 1999 to 6.0 per cent at the end of March 2000. Their net NPAs declined from 3.1 per cent of total assets to 2.9 per cent during the same period. In the case of private sector banks, the share of gross NPAs in total assets declined from 4.5 per cent to 3.6 per cent while the corresponding share of net NPAs declined from 2.8 per cent at the end of March 1999 to 2.3 per cent at the end of March 2000. It is significant to mention that in the case of old private sector banks, these figures were high at 5.1 per cent and 3.2 per cent in gross and net terms respectively at the end of March 2000 as against much lower figures of 1.6 per cent and 1.1 per cent in the case of new private sector banks. In the case of foreign banks, the figure for gross NPAs was rather high at 3.2 per cent as against only 1.0 per cent in case of net NPAs at the end of March 2000.

3.26 In the case of SCBs as a whole,the share of Gross NPAs in gross advances declined from 14.7 per cent at the end of March 1999 to 12.8 per cent at the end of March 2000. The corresponding decline in respect of public sector banks was from 15.9 per cent to 14.0 per cent whereas for private sector banks, it was from 10.8 per cent to 8.5 per cent. In the case of foreign banks, the corresponding decline was from 7.6 per cent to 7.0 per cent. The decline in the per centage of net NPAs to net advances was less significant. For SCBs as a whole, net NPAs declined from 7.6 per cent of net advances as on March 31, 1999 to 6.8 per cent as on March 31, 2000. In the case of public sector banks, the corresponding decline was from 8.1 per cent as on March 31, 1999 to 7.4 per cent as on March 31, 2000 whereas in the case of private sector banks, it was from 7.4 per cent to 5.6 per cent. Net NPAs of foreign banks declined from 2.9 per cent to 2.4 per cent during the same period at the end of March 1999 to 12.8 per cent at the end of March 2000.

TABLE 3.7

Classification of Loan Assets of SCBs

(percentage distribution of total loan assets)

Asset	Public	Private	Foreign	SCBs
A. Standard				
1997-98	84.0	91.3	93.6	85.6
1998-99	84.1	89.2	92.4	85.3
1999-2000	86.0	91.5	93.0	87.2
B. Sub-standard				
1997-98	5.1	4.8	3.9	4.9
1998-99	4.9	6.2	4.0	5.0
1999-2000	4.3	3.7	2.9	4.1
C. Doubtful				
1997-98	9.1	2.9	0.8	7.7
1998-99	9.0	3.7	1.6	7.8
1999-2000	8.0	4.0	2.1	7.1
D. Loss				
1997-98	1.9	0.9	1.7	1.8
1998-99	2.0	0.9	2.0	1.9
1999-2000	1.7	0.8	1.9	1.6
E. Total				
Total Assets (Rs. Crore)				
1997-98	284971	36753	30972	352696
1998-99	325328	43049	31059	399436
1999-2000	380077	58249	37432	475758

Note: Addition of percentages for B to D may not add up to 100 minus the percentage share of standard assets (A) due to rounding.

3.27 NPAs consist of assets under three categories: sub-standard, doubtful and loss. Assets classified as NPAs for a period up to two years belong to the sub-standard category while doubtful assets are those that remain NPAs for a period beyond two years. Loss assets are those that are identified as such either by banks themselves or internal/external auditors or RBI. The following Table shows the distribution of total loan assets of banks in the public and private sectors and foreign banks for 1997-98 through 1999-2000. It is worth noting that the ratio of incremental standard assets of SCBs to their total loan assets increased from 83.1 per cent in 1998-99 to 97.2 per cent in 1999-2000. In other words, the ratio of incremental NPAs of SCBs to their total loan assets declined significantly from 16.9 per cent in 1998-99 to 2.8 per cent in 1999-2000.

Recovery Management

3.28 In order to increase the share of standard assets in the total loan portfolio of banks, the Union Budget for the current financial year proposed setting up of seven more debt recovery tribunals (DRTs), strengthening the infrastructure of DRTs, and amendment to the Recovery of Debts Due to Banks and Financial Institutions Act. Keeping in view the relatively unsatisfactory performance of Settlement Advisory Committees set up by PSBs for compromise settlement of chronic NPAs of the SSI sector, RBI issued revised guidelines in July 2000 covering all sectors, including the small scale sector, to provide for a simplified, non-discretionary and non-discriminatory mechanism for recovery of NPAs with outstanding balances of up to Rs. 5 crore. Under these revised guidelines, the 27 public sector banks together recovered Rs. 546 crore from 2,21,763 NPA accounts up to December 31, 2000. The share of the SBI Group was 46.8 per cent and 21.4 per cent in the total number of NPA accounts and recovery amount respectively.

Capital Adequacy

3.29 In line with the recommendation of the Committee on Banking Sector Reforms (Narasimham Committee II), SCBs have been asked to raise the minimum capital to risk-weighted assets ratio (CRAR) from 8 per cent to 9 per cent from the year ended March 2000. All the 27 public sector banks except one of the three identified weak nationalised banks had attained the prescribed level of CRAR in 1999-2000. A market risk-weight of 2.5 per cent has been prescribed for Government and other approved securities from March 31,2000.Banks have also been asked to assign a risk-weight of 2.5 per cent to cover market risk (in addition to the existing 100 per cent credit risk weight) in respect of investments in non-SLR securities by the year ending March 31, 2001.

Bank Supervision and Regulation

3.30 In line with international best practices, RBI initiated steps to ensure consolidated supervision incorporating risk-weights in respect of the assets of subsidiaries in the balance sheets of parent banks. Banks have also been asked to earmark additional capital in their books in a phased manner beginning from the end of the current financial year. This measure is designed to obviate possible impairment to the net worth of parent banks during the period of transition to a unified balance sheet for the group as a whole. The principal bank in the group has been made responsible for monitoring the group operations, including filing of returns prescribed by RBI for subsidiaries. Information to be furnished for individual subsidiaries relates to capital adequacy, large credit exposures, asset quality, ownership and control, profitability and contingent liabilities. The public sector banks have also been asked to annex the balance sheets of their subsidiaries to their own balance sheets beginning from the year ending March 31, 2000.

3.31 Effective regulation also implies comprehensive risk containment measures. The Asset-Liability Management by SCBs can be effective only if proper Management Information Systems are put in place. This has, however, been rendered difficult in many banks due to the low level of computerisation. Taking all these factors into consideration, SCBs have been given more time up to April 1, 2001 for covering 100 per cent of assets and liabilities.