Financial Performance

Profits and Provisions

3.18 The operating profits of Scheduled Commercial Banks (SCBs) as a whole amounted to Rs. 19,747 crore in 2000-01, registering a growth of 7.9 per cent over 1999-2000. The operating profits of public sector banks (SBI Group plus nationalised banks) amounted to Rs.13,793 crore in 2000-01, representing a growth of 5.8 per cent over the previous year. The share of public sector banks in the total operating profit of SCBs was 69.8 per cent in 2000-01 compared with 71.2 per cent in 1999-2000. Within the group of public sector banks (PSBs), the share of nationalised banks in the operating profit increased from 55.2 per cent to 58.4 per cent during this period. After the public sector banks, foreign banks accounted for the highest share in the profits of SCBs with 15.7 per cent in 2000-01 compared with 14.7 per cent in 1999-2000. Private sector banks contributed the remaining share of about 14.4 per cent and 14.1 per cent in 2000-01 and 1999-2000 respectively. Details of the financial performance are shown in Table 3.5.

3.19 For SCBs as a whole, the net profit in 2000-01 amounted to Rs.6,424 crore, registering a decline of 11.3 per cent from the previous year. Higher provisions, coupled with a relatively lower rate of growth in income vis-a-vis expenditure, contributed to this decline. For public sector banks, the corresponding decline was 15.6 per cent while it was 11.6 per cent and 2.4 per cent in the case of old private sector banks and foreign banks respectively. Among the different bank groups, only the new private sector banks registered growth (12.3 per cent) in net profits in 2000-01. Trends in incremental profits and provisions vis-a-vis incremental assets are shown in Table 3.6.

TABLE 3.5

Working Results of Scheduled Commercial Banks for 1999-2000 and 2000-01

	SBI Group Banks		19 Nationalised Banks		27 Public Sector Banks		Foreign Banks		25 Old Pvt. Sector Banks		9 New Pvt. Sector SCBs		All SCBs	
	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01
A. Rupees Crore														
A. Income	34,015	39,372	56,896	64,127	90,911	1,03,499	10,330	11,984	8,222	9,091	5,407	7,504	1,14,930	1,32,078
i) Interest	29,180	34,017	50,234	56,967	79,414	90,984	8,227	9,471	7,065	8,052	4,478	6,444	99,184	1,14,951
ii) Other income	4,835	5,356	6,662	7,159	11,497	12,515	2,103	2,513	1,217	1,039	929	1,060	15,747	17,127
B. Expenditure	31,335	37,151	54,459	62,031	85,795	99,182	9,362	11,039	7,690	8,568	4,838	6,865	1,07,685	1,25,654
i) Interest Expended	19,897	22,903	35,477	38,790	55,374	61,693	4,977	5,768	5,363	5,932	3,327	4,759	69,041	78,152
ii) Intermediation cost	8,278	10,730	14,216	17,284	22,494	28,013	2,666	3,111	1,586	1,679	837	1,376	27,583	34,179
iii) Provisions and contingencies	3,160	3,518	4,766	5,958	7,926	9,476	1,719	2,160	742	957	674	730	11,061	13,323
C. Operating Profit	5,839	5,740	7,203	8,053	13,042	13,793	2,687	3,105	1,333	1,480	1,244	1,369	18,307	19,747
D. Net Profit	2,679	2,222	2,437	2,095	5,116	4,317	968	945	592	523	569	639	7,245	6,424
E. Total Assets	3,36,394	4,02,877	5,54,206	6,26,892	8,90,600	10,29,770	82,810	1,01,824	73,123	84,605	58,931	78,776	11,05,464	12,94,974
B.Per cent of Total Assets														
A. Income	10.11	9.77	10.27	10.23	10.21	10.05	12.47	11.17	11.33	10.75	9.18	9.53	10.40	10.20
i) Interest	8.67	8.44	9.06	9.09	8.92	8.84	9.93	9.30	9.66	9.52	7.60	8.18	8.97	8.88
ii) Other income	1.44	1.33	1.20	1.14	1.29	1.22	2.54	2.47	1.66	1.23	1.58	1.35	1.42	1.32
B. Expenditure	9.32	9.22	9.83	9.90	9.63	9.63	11.31	10.84	10.52	10.13	8.21	8.71	9.74	9.70
i) Interest Expended	5.91	5.68	6.40	6.19	6.22	5.99	6.01	5.66	7.33	7.01	5.64	6.04	6.25	6.04
ii) Intermediation cost	2.46	2.66	2.57	2.76	2.52	2.72	3.22	3.05	2.17	1.98	1.42	1.75	2.50	2.64
iii) Provisions and contingencies	0.94	0.87	0.86	0.95	0.89	0.92	2.08	2.12	1.01	1.13	1.14	0.93	1.00	1.03
C. Operating Profit	1.74	1.42	1.30	1.28	1.46	1.34	3.24	3.05	1.82	1.75	2.11	1.74	1.66	1.52
D. Net Profit	0.80	0.55	0.44	0.33	0.57	0.42	1.17	0.93	0.81	0.62	0.97	0.81	0.66	0.50

3.20 The incremental amount under provisions and contingencies exceeded the incremental amount under operating profit in respect of all bank groups except the new private sector banks, which alone registered a growth in net profits in 2000-01. With 73.4 per cent of the total incremental assets of all SCBs, the public sector banks accounted for only 52.1 per cent of the total incremental operating profits of SCBs. This reflects the negative growth in the operating profits of SBI & Associates.

3.21 Analysis of financial performance of public sector banks on the basis of key parameters has shown wide inter-bank variations. In the case of nationalised banks, the return on assets varied from zero/nil in the case of Dena Bank and Indian Bank to 1.55 per cent for Corporation Bank. It was more than 0.50 per cent for 6 other nationalised banks. The ratio of net NPAs to net advances ranged from 1.98 per cent for Corporation Bank to 18.37 per cent for Dena Bank. Excluding Indian Bank which has a

TABLE 3.6

Incremental Profits and Provisions vis a vis Incremental Assets

(2000-2001 over 1999-2000)

(Rs. crore)

Bank Group	Assets	Percent to total	Operating Profit	Per cent to total	Provisions & Contingencies	Percent to total	Net Profit	Per cent to total
1. Public Sector	1,39,170	73.4	750.66	52.1	1,549.90	68.5	-799.24	97.3
(i) SBI &Associates	66,483	35.1	-99.52	**-6.9**	357.81	**15.8**	-457.33	**55.7**
(ii) Nationalised	72,686	38.4	850.18	**59.0**	1,192.09	**52.7**	-341.91	**41.6**
2. Private Sector	31,327	16.5	271.67	18.9	270.52	12.0	1.15	-0.1
(i) Old	11,482	6.1	146.55	**10.2**	215.39	**9.5**	-68.84	**8.4**
(ii) New	19,845	10.5	125.12	**8.7**	55.13	**2.4**	69.99	**-8.5**
3. Foreign	19,014	10.0	418.14	29.0	441.20	19.5	-23.06	2.8
4. SCBs(1+2+3)	1,89,510	100.0	1,440.47	100.0	2,261.62	100.0	-821.15	100.0

BOX 3.4
Weak Commercial Banks

- The Narasimham Committee (II) defined a weak bank as one whose accumulated losses and net NPAs exceed its net worth or whose operating profits less income on recapitalisation bonds was negative for three consecutive years.
- The Working Group on Restructuring Weak Public Sector Banks (Verma Committee) identified 7 parameters for identification of weak banks: CAR and Coverage Ratio under solvency; Return on Assets and Net Interest Margin under earning capacity; and three ratios under profitability, namely (i) operating profit to average working funds, (ii) costs to income and (iii) staff cost to net interest income +all other income.
- Coverage ratio is the ratio of the sum comprising equity capital+loan loss provisions-NPLs to total assets. This ratio allows simultaneous monitoring of NPA levels and equity capital.

negative Capital to Risk Weighted Assets Ratio (CRAR), the CRAR ranged from 7.73 per cent for Dena Bank to 13.40 per cent for Andhra Bank. As regards the SBI Group, the return on assets was 0.50 per cent or more for all the banks except the State Bank of Saurashtra and the State Bank of Mysore with return on assets at 0.18 and 0.27 per cent respectively. Returns on assets for the old private sector banks varied from –6.50 per cent for SBI Commercial and International Bank Ltd. to 11.08 per cent for Ganesh Bank of Kurundwad Ltd. For the new private sector banks, return on assets varied from 0.41 per cent (IDBI Bank) to 0.93 per cent (Bank of Punjab Ltd).

3.22 According to one of the two definitions given by the Narasimham Committee (II), a weak bank is one whose combined amount of accumulated losses and net NPAs exceeds its net worth or whose adjusted operating profit (operating profit less income on recapitalisation bonds) is negative for three consecutive years (Box 3.4). During 1998-99 through 2000-01,the adjusted operating profit was negative in the case of three nationalised banks, viz. Indian Bank, UCO Bank and United Bank of India, all of which have been identified as weak banks by the Verma Committee.

Net Interest Income (Spread)

3.23 The ratio of spread to total assets in respect of SCBs as a whole increased from 2.73 per cent in 1999-00 to 2.84 per cent in 2000-01.This ratio increased in respect of all bank groups except the SBI Group, and foreign banks, during the same period. While the ratio of spread to total assets remained unchanged at 2.76 per cent for the SBI Group, it declined from 3.92 per cent to 3.64 per cent in respect of foreign banks. However, despite this decline, the spread remained at the highest level (3.64 per cent) in respect of foreign banks, followed by the nationalised banks (2.90 per cent), the SBI Group (2.76 per cent), the old private sector banks (2.51 per cent) and the new private sector banks (2.14 per cent).

Non-Performing Assets (NPAs)

3.24 Table 3.7 shows the trends in gross and net NPAs of different bank groups during the

TABLE 3.7
Non-performing Assets of SCBs

	Gross NPAs (Rs. crore)			Percentage to Gross Advances			Percentage to Total Assets		
	1998-99	1999-2000	2000-01	1998-99	1999-2000	2000-01	1998-99	1999-2000	2000-01
Bank Group									
1. Public Sector	51,710	53,033	54,773	15.9	14.0	12.4	6.7	5.9	5.3
2. Private Sector	4,655	4,761	6,039	10.8	8.2	8.5	4.5	3.6	3.7
3. Foreign	2,357	2,614	3,071	7.6	7.0	6.8	3.1	3.2	3.0
4. SCBs (1+2+3)	58,722	60,408	63,883	14.7	12.7	11.4	6.2	5.5	4.9
	Net NPAs (Rs.crore)			Percentage to Net Advances			Percentage to Total Assets		
1. Public Sector	24,211	26,187	27,969	8.1	7.4	6.7	3.1	2.9	2.7
2. Private Sector	2,943	3,031	3,699	7.4	5.4	5.4	2.8	2.3	2.3
3. Foreign	866	855	800	2.9	2.4	1.9	1.1	1.0	0.8
4. SCBs (1+2+3)	28,020	30,073	32,468	7.6	6.8	6.2	2.9	2.7	2.5

last three years. In absolute terms, the gross and net NPAs increased for all bank groups except foreign banks, which registered a decline in net NPAs. However, in relative terms (percentage to advances) the magnitude of NPAs declined for all bank groups. In case of both gross and net NPAs, there had been a decline in this percentage over the period from 1998-99 to 2000-01.

3.25 An area of concern relates to the increase in incremental gross and net NPAs to Rs.3,475 crore and Rs.2,394 crore respectively in 2000-01 compared with Rs. 1,686 crore and Rs.2,053 crore respectively in 1999-2000. This of course reflects the sharp increase in the NPAs of private sector banks. While the incremental ratio of gross NPAs to gross advances of PSBs increased from 2.4 per cent in 1999-2000 to 2.8 per cent in 2000-01, the corresponding increases in the case of old private sector banks and new private sector banks were from 0.5 per cent to 14.0 per cent and from 0.9 per cent to 7.8 per cent respectively, during this period. As regards the incremental ratio of net NPAs to net advances, it declined from 3.6 per cent in 1999-2000 to 2.9 per cent in 2000-01 in the case of public sector banks while it increased from 0.8 per cent to 9.2 per cent and 0.3 per cent to 3.7 per cent in respect of old and new private sector banks respectively during the same period.

3.26 A redeeming feature is the continuing fall in gross and net NPAs as a proportion of total assets for all bank groups except private sector banks. For the public sector banks, while the percentage of gross NPAs to total assets declined from 5.9 in 1999-00 to 5.3 in 2000-01, the decline in the percentage of net NPAs was from 2.9 to 2.7 during the same period. Foreign banks recorded a marginal fall in the proportion of their gross and net NPAs to total assets. In the case of old as well as new private sector banks, there was no decline in the proportion of gross and net NPAs to total assets. For the old private sector banks, the proportion of gross and net NPAs to assets remained unchanged at 5.2 per cent and 3.3 per cent respectively in 2000-01. For the new private sector banks, there was an increase in the proportion of gross and net NPAs to total assets. While the proportion of gross NPAs to assets increased from 1.6 percent in 1999-2000 to 2.1 per cent in 2001-02, the increase in the proportion of net NPAs to total assets was from 1.1 percent to 1.2 percent during this period.

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 but not written off. The norms for recognition/identification and classification have been changed with effect from March 31,2001 (Box 3.5).

BOX 3.5

NPA Norms for SCBs

With effect from March 31, 2001, a non-performing asset (NPA) is an advance where:

- interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a Term Loan;
- the account remains "out of order" for a period of more than 180 days in respect of an Overdraft/Cash Credit (OD)/(CC);
- the bill remains overdue for a period of more than 180 days in case of the bills purchased and discounted;
- interest and/or instalment of principal remain overdue for two harvest seasons but for a period of not exceeding two half years in the case of an advance granted for agricultural purposes; and
- any amount to be received for a period of more than 180 days in respect of other accounts.
- In order to move closer to international best practices, and to ensure greater transparency, the duration for treating an asset as NPA is proposed to be reduced from 180 days to 90 days with effect from March 31, 2004.
- NPAs are classified into sub-standard, doubtful and loss assets. With effect from March 31, 2001, a sub-standard asset is one which remains NPA for a period less than or equal to 18 months while a doubtful asset is one which remains NPA for more than 18 months. A loss asset is one where the loss has been identified by the bank or internal/external auditors or the RBI inspection but the amount has not been written off.

Recovery Management

3.28 In view of the relatively unsatisfactory performance of Settlement Advisory Committees set up by PSBs for compromise settlement of chronic NPAs in respect of the SSI sector, RBI issued revised guidelines in July 2000 covering all sectors, including the small sector, to provide for a simplified, non-discretionary and non-discriminatory mechanism for recovery of NPAs with outstanding balances of upto Rs. 5 crore. These guidelines specified the settlement formula and the manner of payment of the settled dues. The expiry of the extended period of the scheme was the end of June 30, 2001. All the applications received up to this date were to be processed by September 30, 2001.Under these revised guidelines, the 27 public sector banks recovered Rs.2,600 crore from 3,65,000 accounts. Though representations were received for further extension of the scheme, no extension beyond June/September 2001 was considered necessary because the purpose of the scheme was to provide an opportunity for a "one-time settlement", within the specified time period. However, under the broad framework of settlement as per the guidelines issued by RBI in July 1995, banks are free to design and implement their own policies for recovery and write-off with the approval of their respective Boards. The Reserve Bank issued guidelines for one-time settlement of NPAs outstanding up to Rs.25,000 to public sector banks in December 2001.

Exposure to Sensitive Sectors

3.29 Advances from SCBs to the "sensitive sectors" comprising capital market, real estate and commodities constituted only 4.25 per cent of their total advances as on March 24, 2001. This was the highest at 9.15 per cent in respect of the private sector banks followed by foreign banks at 4.18 per cent and public sector banks at 3.45 per cent. Within public sector banks, the exposure was 1.96 per cent for the SBI Group compared with 4.30 per cent for the nationalised banks. In the case of private sector banks, the exposure in respect of new banks was 10.95 per cent compared with 7.72 per cent for old banks. Table 3.8 shows the composition of the total exposure of SCBs to sensitive sectors.

Capital Adequacy

3.30 As at end-March 2001, 23 out of 27 public sector banks (SBI Group plus 15 nationalised banks) had CRAR of over 10 per cent. Among the remaining 4 nationalised banks, CRAR of two was between 9 and 10 per cent while one had between 4 and 9 per cent. CRAR of the remaining one was negative. During 2000-01, three nationalised banks raised capital amounting to Rs.361.20 crore through initial public offers (IPOs). During the same year, 11 public sector banks raised subordinated debt to raise their capital.

Bank Supervision and Regulation

3.31 Responding to the increasing competition and diversification of operations in the Indian banking sector, RBI has decided to adopt a macro prudential framework for financial stability review. In order to orient the system to the requirements of the Indian banking sector, the framework relies on a set of indicators based on

TABLE 3.8
Exposure of SCBs to "Sensitive" Sectors
(As at end-March , 2001)

Bank Group	Total (Rs. Crore)	Percentage Share in Total: Capital Market	Real Estate	Commodity Sector	Total
1. Public sector	**14,297.94**	**10.3**	**39.3**	**50.3**	**100.0**
(i) SBI Group	2,947.16	4.0	46.0	50.1	100.0
(ii) Nationalised	11,350.78	12.0	37.6	50.4	100.0
2. Private Sector	**6,224.28**	**36.6**	**33.1**	**30.3**	**100.0**
(i) Old	2,930.07	18.3	40.4	41.3	100.0
(ii) New	3,294.21	53.0	26.6	20.4	100.0
3. Foreign Banks	**1,795.83**	**54.2**	**29.2**	**16.6**	**100.0**
4. SCBs	**22,318.05**	**21.2**	**36.8**	**42.0**	**100.0**

(i) peer group analysis with focus on key financial ratios and (ii) a supervisory rating system for banks. Efforts are also on to operationalise a prompt corrective action framework, based on parameters like CRAR, net NPAs, and return on assets. In response to increasing globalisation, initiatives have been taken for the preparation of roadmaps and time frame with regard to international financial standards and codes. The details are given below.