

Non-performing assets of the banking sector

3.33 Asset quality of banks registered significant improvements simultaneously with the rapid increase in the quantum of credit to the commercial sector. The robust industrial performance and wider options available to SCBs for recovery of their dues showed up in a significant reduction in the level of NPAs. A significant improvement in recovery of NPAs combined with a sharp increase in gross loans and advances by SCBs led to a sharp decline in gross NPAs to gross advances ratio to 5.2 per cent at end-March 2005 from 7.2 per cent at end-March 2004.

3.34 The setting up of the Asset Reconstruction Company (India) Limited (ARCIL) also provided a major boost to banks' efforts to recover dues. During 2004-05, several banks and some FIs sold their NPAs to the ARCIL to the extent of Rs.15,343 crore. Gross NPAs of SCBs (excluding the conversion impact) declined by Rs.6,487 crore between end-March 2004 and end-March 2005.

Capital adequacy ratio

3.35 The sharp increase in credit portfolio coupled with enhanced risk weight for housing and consumer credits led to a significant rise in the risk weighted assets of SCBs by 33.4

per cent at end-March 2005. However, banks had kept augmenting their capital base by tapping domestic as well as international capital markets to keep pace with sharp increase in risk weighted assets. The overall CRAR of SCBs at 12.8 per cent at end-March 2005 was marginally lower than the previous year's level (12.9 per cent). Nevertheless, in spite of higher requirements of capital charge for market risk, not only did the overall CRAR continue above the stipulated minimum level of 9 per cent, but so did the CRAR of all banks, other than two old private sector banks (accounting for only 0.3 per cent of the total assets of the SCBs).

3.36 Among bank groups, the CRAR of new private sector banks improved significantly, bringing them closer to other bank groups. Within the PSBs, the CRAR of nationalised banks registered a marginal improvement during 2004-05. The CRAR of the State Bank group, old private sector banks and foreign banks declined. The CRAR of five largest banks, which accounted for 39.6 per cent of total assets of SCBs, depicted divergent pattern. While CRAR of three largest SCBs witnessed moderate to sharp increase, that of two other banks registered significant decline.