

FINANCIAL PERFORMANCE OF BANKS

5.53 The working results of scheduled commercial banks under different categories available up to 2007-08 are abstracted in Table 5.8.

5.54 It is observed that during 2007-08 the performance of SCBs has showed improvement as gleaned from the operational parameters. Operating expenses as per cent of net income declined in all the categories of SCBs. It was also noticed that the spreads of public sector and old private sector banks reduced, while the spreads of foreign banks and new private sector banks increased.

5.55 Interest rate income or spread defined as the difference between interest income and interest expenses of SCBs as a proportion of total assets could serve as a measure of the cost of financial intermediation. High interest rate spreads could be indicative of the level of efficiency of the financial intermediation and also a relatively less competitive market. Net interest income or spread was 23 basis points lower at 2.35 per cent during 2007-08 compared to 2.58 per cent in 2006-07. Highest spread during 2007-08 at 3.79 per cent was observed in respect of foreign banks followed by old private banks (2.43 per cent), new private banks (2.40 per cent) and public sector banks (2.15 per cent).

Non-performing assets of the banking sector

5.56 The gross non-performing assets of SCBs, as proportion of total assets declined to 1.3 per cent during 2007-08 compared to 1.5 per cent during 2006-07. While this decline reflected an improvement, in terms of quantum of funds, the situation depicted a different picture. During 2006-07 the amount recovered and written off (Rs. 26,243 crore) was more than the fresh addition (Rs. 26,211 crore) of NPAs. In contrast, during 2007-08 the amount recovered and written off (Rs. 28,090 crore) was significantly less than the fresh addition (Rs. 34,420 crore) of NPAs.

5.57 Gross NPAs of SCBs, which had declined by Rs. 611 crore in 2006-07, increased by Rs. 5,949 crore in 2007-08. During 2007-08 a total of 1,86,535 cases for NPA recoveries were referred to the Lok Adalat for an amount of Rs. 2,142 crore of which 8.2 per cent was recovered. A total of 83,942 cases for NPA recoveries were referred under the SARFESI Act for an amount of Rs. 7,263 crore of which 61 per cent was recovered. A total of only 3,728 cases for NPA recoveries were referred to the Debt Recovery

Tribunals for an amount of Rs. 5,819 crore of which 51.9 per cent was recovered.

Capital adequacy ratio

5.58 To prepare banks for the implementation of BASEL-II norms, a three-track approach has been adopted with regard to capital adequacy rules. On the first track, commercial banks are required to maintain capital for both credit and market risks as per BASEL-I framework; on the second track, the cooperative banks are required to maintain capital for credit risk as per BASEL-I framework and through surrogates for market risk; and the RRBs, on the third track, have to maintain minimum capital which may not be on par with BASEL-I norms.

5.59 With the introduction of stiffer prudential norms by the RBI for maintaining quality of credit necessitated due to the rapid increase in credit expansion by SCBs in the system, risk-weighted assets of SCBs at the end-March 2008 increased to Rs. 31,28,093 crore from Rs. 24,12,236 crore at end-March 2007. Concomitantly, capital funds of SCBs kept pace with the risk-weighted assets and increased to Rs. 4,06,835 crore at end-March 2008 from the level of Rs. 2,96,191 crore at end-March 2007. The capital to risk-weighted assets ratio (CRAR) during 2007-08 increased from 12.3 per cent as of end-March 2007 to 13.0 per cent as of end-March 2008. CRAR for foreign and new private sector banks was at 13.1 per cent and 14.4 per cent respectively as of end-March 2008 compared to 12.4 per cent and 12.0 per cent respectively as of end-March 2007.

Technology

5.60 Banks incur large amounts of expenditure on computerization, automation and development of communication network. The cumulative expenditure during September 1999 to March 2008 was Rs. 15,016 crore. These help in changing the image and outlook of banking sector significantly by improving the processes and procedures, rapid product development through alternative delivery channels, reduction in the transaction costs and eventually leading to higher productivity. The technology is also being leveraged to expand the banking outreach particularly to rural areas. The number of branches providing "core banking solutions" (CBS) rose rapidly to 67.0 per cent as of end-March 2008 from 44.4 per cent at end-March 2007. The number of automated teller machines (ATMs) at the end-March 2008 was 34,789 compared to 27,088 at end-March 2007.

Table 5.8 : Working results of scheduled commercial banks

Items	Public sector banks		Foreign banks		Old pvt. sector banks		New pvt. sector banks		All SCB	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
	(Rs. Crore)									
A. Income	187869	245941	24968	34947	13042	16799	48837	71200	274716	368886
i) Interest income	164185	214025	17924	24417	11474	14694	38092	56435	231675	309570
ii) Other income	23684	31916	7044	10530	1568	2104	10745	14765	43041	59315
B. Expenditure	167717	219349	20382	28335	11920	14821	43494	63656	243514	326160
i) Interest expended	101960	148902	7603	10604	7055	9960	25802	38535	142420	208001
ii) Intermediation cost (operating expenses)	43255	46598	7745	10355	2967	3234	12353	17033	66319	77220
iii) Provisions and contingencies	22503	23849	5034	7376	1899	1627	5339	8087	34775	40939
C. Operating profit	63407	73190	12330	16967	4089	5212	17696	24578	97522	119946
D. Net profit (A-B)	20152	26592	4585	6612	1122	1978	5343	7544	31203	42726
E. Net interest income (spread)	62225	65123	10320	13813	4420	4734	12291	17900	89255	101570
F. Total assets	2440166	3022237	274392	364099	160562	194555	584842	745594	3459962	4326486
G. Net Income (Aii+E)	85909	97038	17364	24343	5988	6839	23035	32665	132296	160885
(As per cent of total assets)										
A. Income	7.70	8.14	9.10	9.60	8.12	8.63	8.35	9.55	7.94	8.53
i) Interest income	6.73	7.08	6.53	6.71	7.15	7.55	6.51	7.57	6.70	7.16
ii) Other income	0.97	1.06	2.57	2.89	0.98	1.08	1.84	1.98	1.24	1.37
B. Expenditure	6.87	7.26	7.43	7.78	7.42	7.62	7.44	8.54	7.04	7.54
i) Interest expended	4.18	4.93	2.77	2.91	4.39	5.12	4.41	5.17	4.12	4.81
ii) Intermediation cost	1.77	1.54	2.82	2.84	1.85	1.66	2.11	2.28	1.92	1.78
iii) Provisions and contingencies	0.92	0.79	1.83	2.03	1.18	0.84	0.91	1.08	1.01	0.95
C. Operating profit	2.60	2.42	4.49	4.66	2.55	2.68	3.03	3.30	2.82	2.77
D. Net profit (A-B)	0.83	0.88	1.67	1.82	0.70	1.02	0.91	1.01	0.90	0.99
E. Net interest income (spread)	2.55	2.15	3.76	3.79	2.75	2.43	2.10	2.40	2.58	2.35
Memo item										
1 Operating expenses as per cent of net income	50.35	48.02	44.60	42.54	49.55	47.29	53.63	52.15	50.13	48.00

Source : RBI