Report on Trend and Progress of Banking in India for the year ended June 30, 2018 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2017-18

RESERVE BANK OF INDIA

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December 28, 2018
7 Pausha 1940 (Saka)

The Finance Secretary
Government of India
Ministry of Finance
New Delhi – 110 001

Dear Sir,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I have pleasure in transmitting herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 2018.

Sincerely,

Shaktikanta Das

केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, मुम्बई - 400 001, भारत
फोन: +91 22 2266 0868 / 2266 1872 / 2266 2644 फैक्स: +91 22 2266 1784 ई-मेल: governor@rbi.org.in
Central Office Building, Shahid Bhagat Singh Marg, Mumbai - 400 001, India
Tel: +91 22 2266 0868 / 2266 1872 / 2266 2644 Fax: +91 22 2266 1784 E-mail: governor@rbi.org.in

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List of Select Abbreviations

ACP	Annual Credit Plan
AE	Advanced Economy
AFC	Asset Finance Company
AFS	Available for Sale
AI	Artificial Intelligence
AIFI	All-India Financial Institution
ALM	Asset-Liability Mismatch
AMC	Asset Management Company
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
ANBC	Adjusted Net Bank Credit
AQR	Asset Quality Review
ARC	Asset Reconstruction Company
ASF	Available Stable Funding
BCBS	Basel Committee on Banking Supervision
BC	Business Correspondent
BFS	Board for Financial Supervision
BHC	Bank Holding Company
BHIM	Bharat Interface for Money
BIFR	Board for Industrial and Financial Reconstruction
BIOS	Basic Input-Output System
BO	Banking Ombudsman
BoD	Board of Directors
BoE-CCS	Bank of England Credit Condition Survey
BoM	Board of Management
bps	Basis points
BSBDA	Basic Savings Bank Deposit Account
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Systems and Control
CAR	Capital to Assets Ratio
CASA	Current Account and Savings Account
CBCG	Correspondent Banking Coordination Group
CBR	Correspondent Banking Relationship
CBS	Core Banking Solution
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCMP	Cyber Crisis Management Plan
CCP	Central Counterparty
CD	Certificate of Deposit
C-D Ratio	Credit to Deposit Ratio
CDR	Cumulative Default Rates
CDS	Credit Default Swap
CET	Common Equity Tier
CiC	Currency in Circulation
CIC	Credit Information Company
CIC-ND-SI	NBFC - Systemically Important Core Investment Company
CIRP	Corporate Insolvency Resolution Process
CMB	Cash Management Bill
CoR	Certificate of Registration
CP	Commercial Paper
CRAR	Capital to Risk-weighted Assets Ratio
CRE	Commercial Real Estate

CRILC	Central Repository of Information on Large Credits
CRR	Cash Reserve Ratio
DBT	Direct Benefit Transfer
DCCB	District Central Co-operative Bank
DDB	Demand Deposit Balances
DICGC	Deposit Insurance and Credit Guarantee Corporation
DRT	Debt Recovery Tribunal
DSA	Direct Selling Agent
EBPT	Earnings Before Provisions and Taxes
ECB	European Central Bank
ECS	Electronic Clearance Service
EME	Emerging Market Economy
EMI	Equated Monthly Installment
EU	European Union
EXIM Bank	Export Import Bank of India
FALLCR	Facility to Avail Liquidity for Liquidity Coverage Ratio
FATF	Financial Action Task Force
FB	Foreign Bank
FC	Financial Creditor
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FEMA	Foreign Exchange Management Act
FFEIC	Federal Financial Institutions Examination Council
FIBIL	Financial Benchmark India Private Ltd.
FIP	Financial Inclusion Plan
FPI	Foreign Portfolio Investment
FSB	Financial Stability Board
FSI	Financial Stability Institute
FSWM	Financially Sound and Well Managed
GCC	General Credit Card
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GMM	Generalized Method of Moments
GNPA	Gross Non-performing Asset
G-secs	Government Securities
G-SIB	Global Systemically Important Bank
GST	Goods and Services Tax
HFC	Housing Finance Company
HFT	Held for Trade
HHI	Herfindahl-Hirschman Index
HQLA	High Quality Liquid Asset
HTM	Held to Maturity
IAC	Internal Advisory Committee
IBA	Indian Banks' Association
IBC	Insolvency and Bankruptcy Code
IBU	IFSC Banking Unit
ICAI	Institute of Chartered Accounts of India
ICT	Information and Communication Technology
IDF-NBFC	Infrastructure Debt Fund-NBFC
IFR	Investment Fluctuation Reserve
IFRS	International Financial Reporting Standards

IFSC	International Financial Services Centre
IIP	Index of Industrial Production
IMPS	Immediate Payment Service
Ind-AS	India Accounting Standard
InvIT	Infrastructure Investment Trust
IPO	Initial Public Offering
IT	Information Technology
KCC	Kisan Credit Card
KYC	Know Your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LBS	Lead Bank Scheme
LC	Loan Company
LCR	Liquidity Coverage Ratio
LDM	Lead District Manager
LEI	Legal Entity Identifier
LTV	Loan-to-Value
MDR	Merchant Discount Rate
MFIs	Monetary Financial Institutions
MFI	Micro-Finance Institution
MGC	Mortgage Guarantee Company
MHP	Minimum Holding Period
ML	Machine Learning
MPC	Monetary Policy Committee
MPP	Macro-prudential Policy
MSE	Micro and Small Enterprise
MSF	Marginal Standing Facility
MSME	Micro, Small And Medium Enterprise
MSS	Market Stabilisation Scheme
MTM	Mark-to-Market
NABARD	National Bank for Agriculture and Rural Development
NACH	National Automated Clearing House
NAFIS	NABARD All India Rural Financial Inclusion Survey
NBFC	Non-Banking Financial Company
NBFC-AA	Non-Banking Financial Company - Account Aggregator
NBFC-D	Deposit-taking Non-Banking Financial Company
NBFC-IFC	Non-Banking Financial Company Infrastructure Finance Company
NBFC-MFI	Non-Banking Financial Company -Micro Finance Institution
NBFC-ND	Non-Banking Financial Company - Non-Deposit taking
NBFC-ND-SI	Non-Deposit taking Systemically Important Non-Banking Financial Company
NBFC-P2P	Non-Banking Financial Company - Peer to Peer Lending Platform
NBFI	Non-Banking Financial Institution
NCLT	National Company Law Tribunal
NDTL	Net Demand and Time Liabilities
NEFT	National Electronic Fund Transfer
NHB	National Housing Bank
NII	Net Interest Income
NIM	Net Interest Margin
NNPA	Net Non-performing Asset

NOF	Net Owned Fund
NOFHC	Non-operative Financial Holding Company
NPA	Non-performing Assets
NPCI	National Payments Corporation of India
NPISH	Non-profit Institution Serving Household
NPL	Non-performing Loan
NRE	Non-resident External Rupee
NRLM	National Rural Livelihoods Mission
NSFR	Net Stable Funding Ratio
NSUCB	Non-scheduled UCB
NULM	National Urban Livelihoods Mission
OBE	Off-Balance Sheet Exposure
OMO	Open Market Operation
OTC	Over-the-Counter
PACS	Primary Agricultural Credit Societies
PAT	Profit After Tax
PB	Payments Bank
PCA	Prompt Corrective Action
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PCR	Public Credit Registry
PD	Primary Dealer
PLR	Prime Lending Rate
PMAY	Pradhan Mantri Awas Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
PML	Prevention of Money Laundering
PMSBY	Pradhan Mantri Suraksha Bima Yojana
PoS	Point-of-Sale
PPI	Pre-paid Payment Instrument
PSB	Public Sector Bank
PSL	Priority Sector Lending
PSLC-A	PSLC-Agriculture
PSLC-G	PSLC-General
PSLC-ME	PSLC-Micro Enterprises
PSLC	Priority Sector Lending Certificate
PSLC-SM	PSLC-Small & Marginal Farmers
PTA	Prudential Treatment of Problem Asset
PVB	Private Sector Bank
QIP	Qualified Institutional Placement
RERA	Real Estate Regulation and Development Act
RIDF	Rural Infrastructure Development Fund
RoA	Return on Assets
RoE	Return on Equity
RP	Resolution Plan
RRB	Regional Rural Bank
RSF	Required Stable Funding
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Asset
SAR	Suspicious -Activity-Reporting
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests
SBN	Specified Bank Note

SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SDL	State Development Loan
SDR	Special Drawing Right
SFB	Small Finance Bank
SGSY	Swarnajayanti Gram Swarojgar Yojana
SHG	Self-help Group
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers' Committee
SLR	Statutory Liquidity Ratio
SMA	Special Mention Account
SPD	Standalone Primary Dealer
SR	Security Receipt
StCB	State Co-operative Bank
ST-SAO	Short-term Seasonal Agricultural Operation
SUCB	Scheduled Urban Co-operative Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T-Bill	Treasury Bill
TBTF	Too-big-to-fail
TFCD	Task Force on Climate-related Financial Disclosures
T-LAC	Total Loss Absorbency Capacity
TPE	Third Party Entity
TReDS	Trade Receivables Discounting System
U.A.E.	United Arab Emirates
UCB	Urban Co-operative Bank
U.K.	United Kingdom
UPI	Unified Payments Interface
URC	Unbanked Rural Centres
U.S.	United States
VAR	Vector Auto-Regression
VC	Virtual Currency
WAC	Weighted Average Cost
WACR	Weighted Average Call Rate
WAM	Weighted Average Maturity
WLA	White-Label ATM
WOS	Wholly Owned Subsidiary

I PERSPECTIVES

The global banking reform agenda made further progress in 2017-18. In India, the Reserve Bank ushered in a revised framework with the insolvency and bankruptcy code as the focal point in pursuit of declogging of banks' balance sheets from overhang of stressed assets. Going forward, issues such as recapitalisation, improvement in banks' corporate governance, implementation of Ind-AS and containment of cyber security risks may assume prominence.

I.1 Global growth has shed some momentum in 2018 in an environment of volatile crude prices, geopolitical tensions and escalating trade wars. Financial conditions—especially in the emerging market economies (EMEs)—have tightened with capital outflows and asset price volatility sparked by interest rate increases, balance sheet normalisation by the Fed and some evidence of shortages of US dollar liquidity. Across the world, alignment of national regulatory and supervisory architectures with Basel III standards progressed, *albeit* at varying speeds in different jurisdictions.

I.2 Domestically, a pick up in GDP growth took hold in the first half of 2018-19, having shrugged off the transient effects of demonetisation and implementation of the goods and services tax (GST), and supported by incipient firming up of the investment cycle and exports. While provisioning against the overload of deterioration in asset quality pulled down the banking sector into losses in 2017-18, a strong revival in bank credit growth during the first half of 2018-19 by private and public sector banks (PSBs) suggests that an overall improvement in the health of banks is on the cards. Hearteningly, credit to industry—which constitutes the major share in the aggregate—has picked up steam after depressed conditions in the previous year. Stressed assets of scheduled commercial banks (SCBs) have begun to stabilise, *albeit* at an elevated level, capital positions have been buffered and the provision coverage ratio improved to 52.4 per cent by end-September 2018. These developments augur well for the banks and other financial intermediaries in the economy as they struggle to regain the loss of momentum in the preceding six years.

I.3 One segment of the Indian financial system that has been growing robustly in spite of the adverse macro-financial environment is the non-banking financial companies (NBFCs) sector, with a consolidated balance sheet expansion of over 17 per cent in the first half of 2018-19, led by asset finance companies and investment companies. A few large Non Banking Financial Company-Micro Finance Institution (NBFCs-MFI) have converted into small finance banks (SFBs). NBFCs maintained their profitability in H1:2018-19, and recent concerns about asset-liability mismatches are being proactively addressed.

I.4 The year 2017-18—which constitutes the period of review for this Report—can be considered a watershed in the evolution of India's banking system for five reasons. First, the foundations of a comprehensive, decisive and credible resolution architecture was laid and built upon, with the Reserve Bank armed with the legislative amendment that empowered it to direct banks on the mechanism to resolve bad loan cases, and the Insolvency and Bankruptcy Code (IBC, 2016) being established as the pivot in the architecture to resolve stressed assets. Second, urban co-operative banks (UCBs) were given an opportunity to voluntarily convert to SFBs enabling them to carry out a wider range of activities and also have a pan-India presence. Third, concerted policy initiatives were put in place as force multipliers for inclusive lending—in addition to trading of priority sector lending certificates (PSLCs) on e-Kuber facilitating indirect lending to the priority sector, the Reserve Bank also encouraged direct lending through co-origination of loans by banks and NBFCs. Fourth, the drive for financial inclusion was reinvigorated by the introduction of the modified Pradhan Mantri Jan Dhan Yojana (PMJDY). Fifth, the introduction of the newer version of Unified Payments Interface (UPI) has positioned the banking system to reap benefits from technology, while being mindful of cyber security risks.

I.5 Against this backdrop, the rest of the chapter lays out perspectives that are likely to shape the banking ecosystem in the period ahead.

Resolution

I.6 The new resolution framework adopted by the Reserve Bank with the Insolvency and Bankruptcy Code (IBC) as its lynchpin, is a game changer as it endeavours to create an environment in which maximum value can be realised from troubled assets, bolstered with the early identification of incipient stress. In developed economies, supervisors' efforts to discipline banks are complemented by market forces that anticipate banking stress and incorporate it in price discovery. Only a bank that fears losing its deposit base or incurring the wrath of its shareholders is likely to recognize losses in a timely manner (Acharya, 2017)[1]. In a developing economy like India, markets emit weak signals of imminent stress in banking (Box I.1). Consequently, policy interventions are warranted, and supervisors need to be proactive in dealing with stress right at the inception.

I.7 The progress of IBC framework so far is encouraging and has resulted in better recovery as compared to the earlier existing mechanisms. Although the number of liquidation cases so far appears to be comparatively large, a closer examination suggests that these mainly consist of long pending issues. As the intrinsic value of these assets had already eroded, liquidation was a more efficient strategy than resolution (Box III.1 on 'Insolvency and Bankruptcy: Impact so far'). The shift of power in favour of creditors in the IBC framework will facilitate speedier and impartial resolution process and help in improving the credit repayment culture. In view of the large number of cases that may be referred to National Company Law Tribunal (NCLT) in near future, there may be a case for strengthening the NCLT infrastructure in order

[1] Acharya, V.V. (2017): 'Some Ways to Decisively Resolve Bank Stressed Assets', *RBI Bulletin*, Vol. LXXI, No. 3, March.

Box I.1: Financial Markets as Predictors of Banking Sector Distress?

Debt and equity prices should ideally reflect the level of individual bank risk and convey information on the likelihood of emerging stress (Krainer and Lopez, 2004). Among the three pillars of a sound banking system (Basel Committee on Banking Supervision, 2006), market discipline is the channel through which depositors and investors penalise a bank for excessive risk-taking by withdrawing their funds or by charging a higher interest rate on the supply of funds. In such a situation, market prices and returns would reflect the level of individual bank risk. Since market investors, unlike secured depositors, demand a risk premium, they would incorporate this information while pricing the bank and forming their expectations on its likely performance in the future (Distinguin *et al.*, 2006). It is in this context that banking regulators recognise market discipline as a key pillar of their regulatory toolkit.

In the Indian context, a graphical analysis of the data suggests negative correlation between the stressed assets ratio and market-adjusted stock returns, in line with the literature (Chart 1). To investigate this further, a sample of 39 publicly-listed scheduled commercial banks (SCBs) was chosen for a closer analysis, for which accounting and balance sheet data from quarterly supervisory returns filed by banks with the Reserve Bank, along with quarterly stock returns, market capitalisation, and excess return over the S&P SENSEX were employed over the period 2010: Q1 to 2017: Q4.

Following Beck *et al* (2015), equation (1) is estimated in a fixed effect panel framework, in order to account for time-constant unobserved heterogeneity amongst the banks in the sample, The choice of this methodology is also validated by the Hausman test.

$$Y_{i,t} = \alpha_i + \beta_i R_{i,t-j} + \gamma_i F_{i,t-j} + \varepsilon_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{(1)}$$

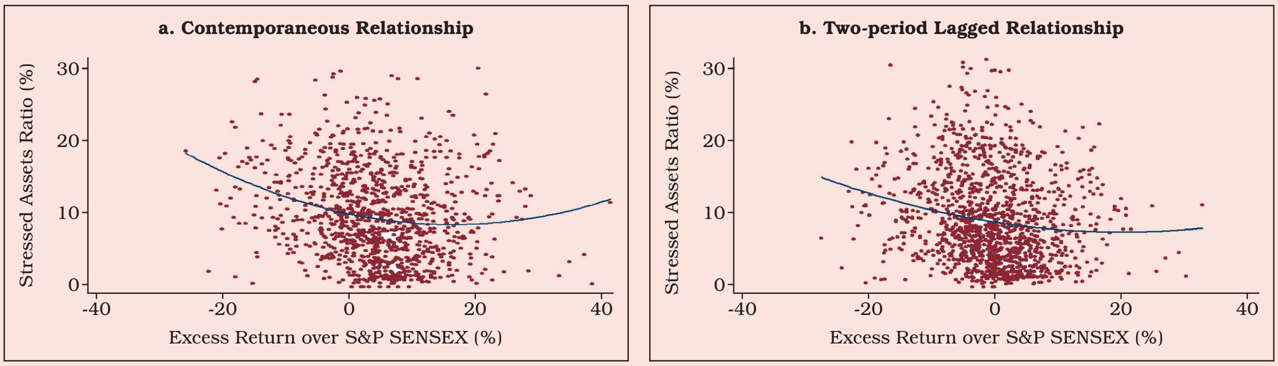
The dependent variable is the stressed assets ratio (SAR). $R_{i,t-j}$ represents a vector of supervisory ratios—return on assets, total assets and CRAR and $F_{i,t-j}$ contains excess returns in relation to the SENSEX and price-to-book value ratio, respectively. β and γ are coefficient vectors. 'j' takes the value 0, 1, 2 to indicate lagged values.

The contemporaneous relationship between bank distress, supervisory and financial market variables is evaluated first. Then, one- and two-period lagged values of independent variables are introduced in the model to ascertain predictive power. If financial markets are indeed forward looking and strongly efficient, coeficients of lagged values of market variables should be statistically significant. It needs to be noted, however, that in view of the lagged release of supervisory data (by around two months) *vis-a-vis* real time release of stock data, even a statistically significant contemporaneous relationship between the two may suggest market efficiency, *albeit* weakly, in predicting banking distress.

As expected, the SENSEX-adjusted excess return is negatively signed for contemporaneous as well as lagged relationships, although it loses statistical significance over the long run (Table.1). The price-to-book value ratio shows a statistically significant negative relationship with stressed assets contemporaneously. The R-squared and Akaike Information Criterion (AIC) of models combining supervisory information (*e.g.* RoA, CRAR and total assets) and market information improve over their levels as compared to models with only supervisory data, *albei*t marginally.

These results suggest that Indian markets have weak predictive power with respect to banking distress. In the long-run, these coefficients lose correct signs and/

Chart 1: Stressed Assets Ratio and Financial Market Variables



(Contd....)

Table 1: Fixed Effects Panel Regression Model [Dependent Variable – Stressed Assets Ratio]

	with same-period values			with one-period lagged values			with one- and two-period lagged values		
Explanatory Variables	1	2	3	4	5	6	7	8	9
Constant	-0.038	0.107***	-0.063	0.099	0.142***	0.088	0.158*	0.158***	0.156
	(0.067)	(0.006)	(0.070)	(0.079)	(0.012)	(0.082)	(0.903)	(0.015)	(0.100)
Total Assets (in Logs)	0.020***	-	0.023***	-0.066**	-	-0.06**	-0.79***	-	-0.07**
	(0.005)		(0.006)	(0.027)		(0.027)	(0.024)		(0.026)
Total Assets (-1)	-	-	-	0.07***	-	0.075***	0.063**	-	0.051
				(0.026)		(0.026)	(0.029)		(0.033)
Total Assets (-2)	-	-	-	-	-	-	0.024	-	0.027
							(0.018)		(0.020)
Return on Assets	-0.043***	-	-0.04***	-0.027***	-	-0.027***	-0.02***	-	-0.022***
	(0.003)		(0.004)	(0.003)		(0.003)	(0.002)		(0.002)
Return on Assets (-1)	-	-	-	-0.020***	-	-0.19***	-0.02***	-	-0.019***
				(0.003)		(0.003)	(0.002)		(0.002)
Return on Assets (-2)	-	-	-	-	-	-	-0.003	-	-0.003
							(0.003)		(0.003)
CRAR	-0.006***	-	-0.005***	-0.005***	-	-0.005***	-0.01***	-	-0.004***
	(0.001)		(0.001)	(0.001)		(0.001)	(0.001)		(0.001)
CRAR (-1)	-	-	-	-0.003***	-	-0.003**	-0.002**	-	-0.002**
				(0.001)		(0.001)	(0.001)		(0.013)
CRAR (-2)	-	-	-	-	-	-	-0.001	-	-0.001
							(0.001)		(0.001)
Exc. Return SENSEX	-	-0.036***	-0.005	-	-0.007	-0.014***	-	0.23**	-0.002
		(0.012)	(0.007)		(0.009)	(0.006)		(0.010)	(0.008)
Exc. Return SENSEX (-1)	-	-	-	-	-0.047***	-0.008	-	-0.010	0.001
					(0.022)	(0.010)		(0.021)	(0.008)
Exc. Return SENSEX (-2)	-	-	-	-	-	-	-	-0.05***	-0.014
								(0.019)	(0.009)
Price-to-Book Ratio	-	-0.018***	-0.008***	-	-0.034***	-0.003	-	-0.03***	-0.006
		(0.006)	(0.003)		(0.007)	(0.003)		(0.008)	(0.004)
Price-to-Book Ratio (-1)	-	-	-	-	-0.009***	-0.002	-	-0.03***	-0.002
					(0.004)	(0.003)		(0.006)	(0.004)
Price-to-Book Ratio (-2)	-	-	-	-	-	-	-	0.007	0.005
								(0.005)	(0.003)
Model Diagnostics									
R-Squared (overall)	0.6129	0.2409	0.6216	0.6720	0.3167	0.6765	0.6726	0.3753	0.6788
F-Test (Prob>F)	55.82 (0.00)	12.47 (0.00)	48.64 (0.00)	40.61 (0.00)	9.10 (0.00)	32.69 (0.00)	35.65 (0.00)	6.98 (0.00)	28.43 (0.00)
AIC	-5872	-4817	-5888	-5533	-4492	-5534	-4977	-4155	-4981

Note: Robust standard errors are given in the parentheses. '***', '**' and '*' signify level of significance at 1%, 5% and 10%, respectively.

or statistical significance, suggesting that the prices incorporate robust stress-related information only in the short-run.

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Distinguin, I., Rous, P., & Tarazi, A. (2006): 'Market Discipline and the use of Stock Market Data to Predict Bank Financial Distresses', *Journal of Financial Services Research*, 30(2), 151-176.

Krainer, J., & Lopez, J. A. (2004): 'Incorporating Equity Market Information into Supervisory Monitoring Models', *Journal of Money, Credit and Banking*, 1043-1067.

to ensure that it can deliver on its promise of time-bound resolution.

I.8 The two entities that play pivotal roles in determining the efficacy of resolution processes in the Indian context *viz.*, the committee of creditors (CoCs) and the insolvency resolution professionals (IRPs), need to ensure efficient outcomes while delicately balancing the interests of all stakeholders. Minimising the time taken to resolve cases and the development of a conducive environment that discourages unnecessary delays assume importance. Notwithstanding this, there is no alternative to proper credit appraisal and monitoring, internal controls and risk management, improved disclosures and efficient corporate governance, all of which must be strengthened to improve the efficiency of the whole process. In this context, the proposed public credit registry (PCR) will aggregate information about borrowers from multiple agencies at one place and allow safe access to the data for all important stakeholders in the financial system. This is expected to improve credit monitoring and bring about credit discipline among debtors.

Recapitalisation

I.9 The government has infused capital in PSBs intermittently. In the last three years (2015-18), however, more than 70 per cent of the infused capital was absorbed into losses incurred by them (Section 4, Chapter IV). This suggests that only if the recapitalisation amount is large enough relative to the total capital base, can it make a perceptible impact on credit growth.

I.10 The Basel III norms recommend risk weights for various credit exposures, based on cumulative default rates (CDR) and recovery rates observed internationally. However, the CDRs and the loss given default (LGD) rates observed in India are much higher than observed internationally. Therefore, applying the Basel-specified risk weights would understate the true riskiness of loan assets carried on the books of Indian banks. Moreover, the current levels of provisions maintained by banks may not be enough to cover expected losses. In particular, the adequacy of buffers becomes an important issue in order to absorb the expected losses which have not been provided for, if and when they materialize. It also needs to be recognised that the Indian banking system has a high proportion of un-provided NPAs *vis-à-vis* the capital levels although after the IBC and the Reserve Bank's revised framework for resolution of stressed assets, there are signs of improvement in the default rates and the recovery rates. Citing this, there have been calls for reducing the regulatory capital requirement. Against the foregoing however, the case for a recalibration of risk-weights or minimum capital requirements would need to be carefully assessed—frontloading of regulatory relaxations before the structural reforms fully set in and conclusive evidence on sustained improvement in CDRs and LGDs is observed—could be detrimental to the interests of the economy[2].

Corrective Action

I.11 The revised prompt corrective action (PCA) framework effected from April 2017 seeks

[2] Vishwanathan N.S. (2018): 'Some Thoughts on Credit Risk and Bank Capital Regulation', *RBI Bulletin*, Vol. LXXII No. 11, PP 33-44, November.

to intervene early and take corrective measures in a timely manner so that the financial health of the banks is quickly restored. The early intervention framework varies across countries, based on supervisory tools, the range of powers of the regulatory/supervisory authority and degrees of restrictions. The PCA framework of the US introduced in 1991 relies on capital triggers whereas the European Union's Early Intervention Measures (EIM), introduced in 2014 is based on a set of composite indicators and does not necessarily lead to intervention when triggers are breached. The competent authority is given flexibility whether to intervene or not, based on an assessment of the trigger events. The Reserve Bank's PCA framework is based on the lines of the US-PCA framework, although the threshold of the latter is based only on capital whereas in India in addition, asset quality and profitability indicators are also tracked. This is essential in the Indian context as historically banks here have maintained low provision coverage ratios, have large expected losses that are unprovided for, and need ability to generate profits to accrue to future capital. As a result, the current level of capital does not capture the additional capital requirement on account of expected future loan losses[3].

Corporate Governance

I.12 The growing size and complexity of the Indian financial system will warrant strengthening of corporate governance systems in banks. In this context, the unfinished agenda includes implementation of recommendations made by the P. J. Nayak Committee (2014) which envisages, *inter alia*, incorporation of PSBs under the Companies Act and transfer of their ownership from government to a Bank Investment Company (BIC). Although a Banks Board Bureau (BBB) has been set up in the interim period, the roadmap of transition to BIC is yet to be laid down. Moreover, the BBB is yet to be entrusted with the responsibility of appointment of non-official directors.

I.13 The Reserve Bank's guidelines on 'fit and proper' criteria for shareholder directors in PSBs which were issued in November 2007 are being comprehensively reviewed. The other issue relates to the presence of the Reserve Bank officials on banks' boards, which has been regarded as leading to serious conflict of interest. Therefore, there is a need to bring in necessary legislative changes to do away with the requirement of nominating Reserve Bank officials as nominee directors on the boards of PSBs.

I.14 An effective performance evaluation system incentivises banks to improve their financial and operating parameters. It empowers banks and at the same time builds accountability. The government, the BBB and the Reserve Bank are currently engaged to develop an objective framework for performance evaluation and this should redefine the contours of corporate governance in PSBs with a focus on transparency, accountability and skill.

I.15 Apart from this, appropriate regulatory actions were taken against some private sector banks on account of certain lapses in their

3 Acharya, V.V. (2018): 'Prompt Corrective Action: An Essential Element of Financial Stability Framework', *RBI Bulletin*, Vol. LXXII, No. 11, PP. 1-12, November.

functioning and governance. Furthermore, with a view to align the compensation policy with evolving international best practices and for an objective assessment of remuneration sought by the banks for their whole-time directors, a review of the extant guidelines on compensation is on the cards.

Non-Banking Financial Companies (NBFCs)

I.16 The non-banking financial companies (NBFCs) faced challenging times recently. The recent experience of debt default of a systemically important NBFC highlighted the vulnerability and need for strengthening regulatory vigil on the sector in general and on asset liability management (ALM) framework in particular. The extant ALM guidelines are applicable to non-deposit taking NBFCs with an asset size of ₹1 billion and above and to those deposit taking companies which have a deposit base of ₹0.2 billion and above. ALM guidelines as prescribed for the sector relate to three pillars of ALM, *i.e.*, ALM information systems, ALM organisation (including setting up of asset liability committee (ALCO) and its composition) and ALM process. These also detail out the requirement for monitoring of structural liquidity, short-term dynamic liquidity and interest rate sensitivity. However, the instructions are less granular compared to that for banks. Further, the ALM instructions for registered Core Investment Companies (CIC-NDSI) are minimal. The Reserve Bank intends to strengthen the ALM framework for NBFCs on lines similar to that for banks and harmonise it across different categories of NBFCs.

Cyber Security

I.17 While technology provides opportunities for growth and innovation in the banking sphere, it also involves newer challenges and risks. Cyber risk is threatening to engulf all the economies, with particular consequences to the banking sector. Alongside the increasing role of technology in provision of financial services, rapid growth in digital payment ecosystem, high degree of interdependence and interconnectedness between operators in financial markets and increasing diversity of attackers, cyber threats have proliferated in incidents and sophistication, necessitating an integrated approach to ensure survivability of payment system providers as well as participants. It is also equally important to ensure cyber security awareness, auditing and continuous monitoring. Payment system providers are required to establish mechanisms for monitoring, handling and follow-up of cyber security incidents and cyber security breaches. Formulation of comprehensive cyber risk and resilience policies and diligent implementation while providing for effective governance will be necessary.

I.18 The Reserve Bank plans to set up an Integrated Compliance and Tracking System portal to handle various supervisory functions including oversight of cyber security arrangements. On-line portal for reporting of cyber security incidents would be expanded to cover other regulated entities as well.

I.19 The Reserve Bank will continue to monitor asset quality of banks as well as resolution of stressed assets with a focus on implementation of the new resolution framework. Other areas where policy action is planned include implementation of Ind-AS, corporate governance in banks and a revised framework for securitisation. The

Reserve Bank also intends to issue revised prudential regulations including guidelines on exposure/investment norms, risk management framework and select elements of Basel III capital framework to the All India Financial Institutions (AIFIs). In order to promote innovation in financial services, collaboration agreements would be made with other regulators. Also, the policy on subsidiarisation of foreign banks will be reviewed with a view to fostering competition and re-orienting the banking structure in India.

I.20 Indian banking system is on the cusp of a transformation aided by recent policy measures to reduce vulnerabilities and improve its financial health. Signs of incipient improvement in the asset quality are visible although continued policy thrust is required for ensuring a resilient and robust banking system.

II GLOBAL BANKING DEVELOPMENTS

The momentum of global growth has slowed in 2018 and diverged across jurisdictions. Regulatory reforms have strengthened bank balance sheets but idiosyncratic factors are affecting profitability and asset quality of banks in certain economies. Capital positions remain comfortable and above the regulatory minimum. The recent tightening of financial conditions in emerging market economies, geopolitical risks and ongoing trade tensions could pose risks to the outlook.

1. Introduction

II.1 The global recovery, which began in mid-2016 and gained traction in 2017 has lost some momentum in 2018 so far and financial conditions have tightened especially in emerging market economies (EMEs). For the greater part of the year these economies experienced capital outflows and currency depreciations on the back of a strong US dollar, intensified trade tensions, country-specific factors—especially in Argentina and Turkey—and signs of a slowdown in China. On the other hand, market volatility subsided in the advanced economies (AEs) and risk appetite remained relatively strong.

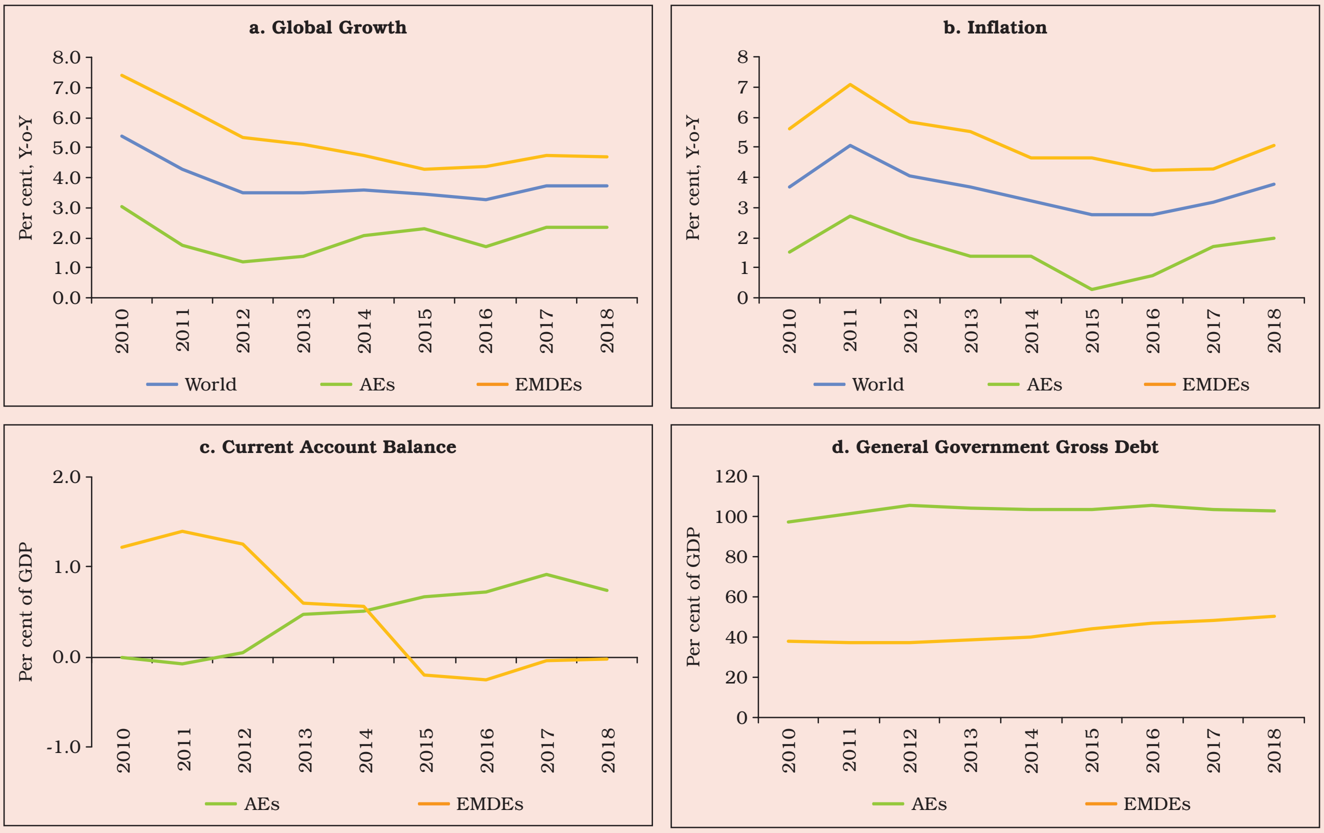
II.2 Against these macroeconomic conditions, some signs of moderation in international banking are becoming visible in 2018 after it picked up steam over most of 2017. Bank lending growth turned uneven with a noticeable slowdown in EMEs and overall cross-border bank credit contracted by $130 billion between Q1:2018 and Q2:2018.

II.3 In the rest of the chapter, section 2 sets out the macro-financial environment against which section 3 analyses the performance of the global banking system through the lens of a few key indicators. Section 4 highlights developments in the banking systems of major AEs and EMEs. The performance of the 100 largest global banks is analysed in section 5. The policy initiatives across jurisdictions in the banking arena are guided by the reform agenda initiated after the global financial crisis under the aegis of Financial Stability Board (FSB). The progress in this respect continued in 2017 and 2018 as well, which has been covered in detail in section 6. Section 7 concludes with some perspectives on the outlook.

2. The Macro-Financial Environment

II.4 After reaching a six-year high in 2017 and getting broad-based across AEs and EMEs alike, global growth appears to be shedding its momentum in 2018 so far, while becoming asynchronous and differentiated across geographies. Barring the US, growth moderated in several large AEs such as the UK and Euro area, while in EMEs, it remained almost unchanged at 2017 levels, except for some country-specific idiosyncratic developments such as in Argentina and Turkey which spread risk aversion across EMEs as an asset class. Inflation in AEs, although still benign, inched up towards targets in response to higher oil prices, while in EMEs it was somewhat higher and differentiated. The surge in trade and investment in 2017 lost speed in the first half of 2018 due to weaker capital spending in the midst of heightened uncertainties, the large overhang of debt looming

Chart II.1: The Macro Backdrop

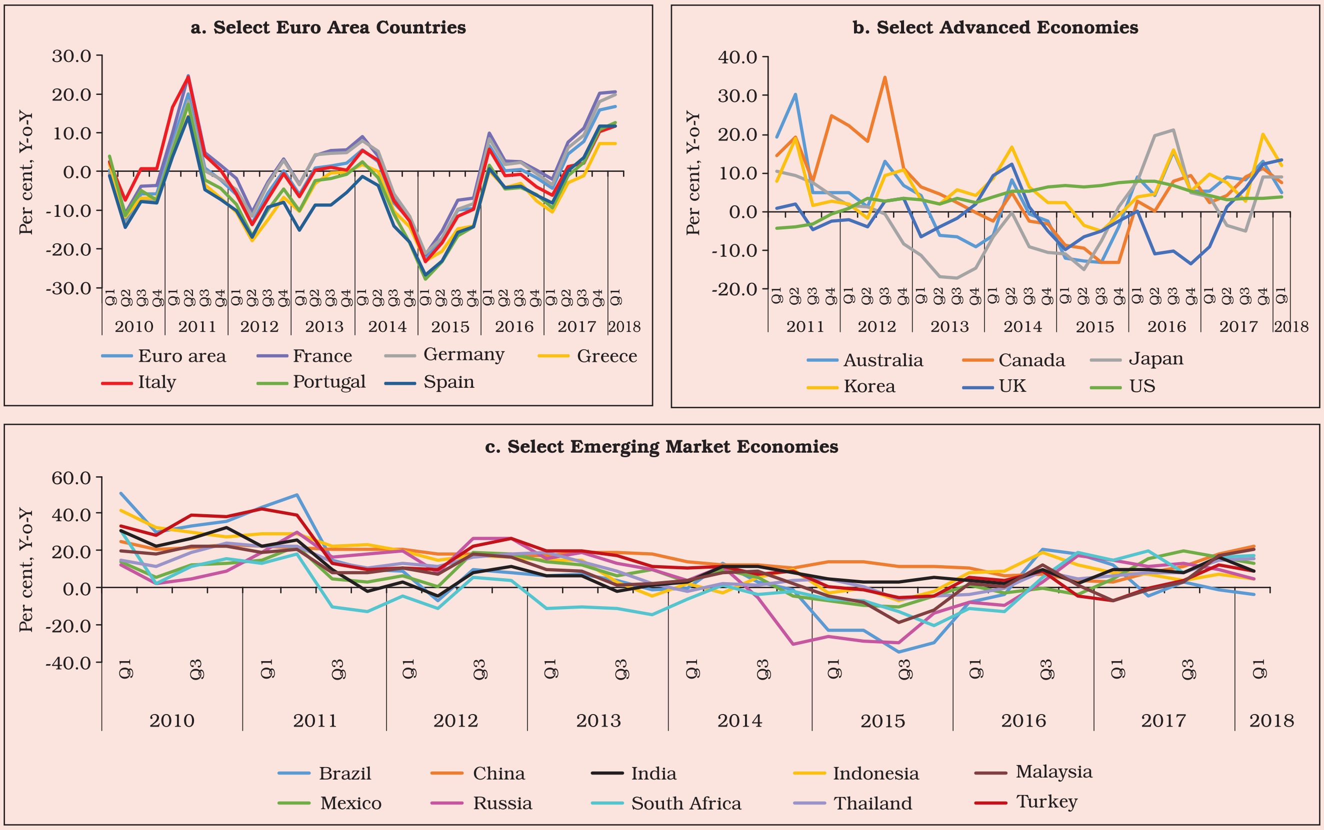


Source: World Economic Outlook Database.

over both public and private sector balance sheets and bouts of turbulence that have stirred up risk-on-risk-off swings in investor sentiment and capital flows (Chart II.I). Spillovers from trade tensions, rising US interest rates and balance sheet normalisation, and geopolitical configurations accentuate the downside tilt to the balance of risks.

II.5 Mirroring the global and country-specific macroeconomic and financial conditions, credit growth picked up in 2017 and 2018 so far across AEs and EMEs *albeit* disparately. Fluctuations in credit growth contain information not only about the state of the financial cycle but also about risks to real economic activity. Credit growth within the Euro area, which moved synchronously since 2009 among constituent economies, reflecting the common shock of the sovereign debt crisis as also shared policies in response to the shock, maintained co-movement (Chart II.2). Among other AEs, divergences in credit growth reflected differing positions in the financial cycle. In the US, there was a slowdown in credit growth in 2017 reflective of modest economic expansion in that year but in the first half of 2018, an upturn has taken hold on the shoulders of robust economic activity. Credit growth in Japan slipped into negative territory in 2017 as the high demand for funds related to merger and acquisition deals that supported significant growth in 2016 started to wane. On the other hand, credit growth in the EMEs increased in 2017 relative to 2016 exceptions being Brazil, Indonesia and Turkey. Rapid credit growth accompanied by sharp increase in household debt raised overheating concerns in China in 2017.

Chart II.2: Growth in Bank Credit to the Private Non-financial Sector



Source: Bank for International Settlements.

II.6 The Euro area bank lending survey points to credit standards easing in 2018 and supporting loan growth. Credit growth revived in the US and Japan in 2018, driven by commercial and industrial loans in the US and small firms in Japan. Banks in China, however, appear to have turned averse to lending in 2018 amidst slowing economic activity, rising credit risks, and threats of trade war.

3. Performance of the Global Banking Sector

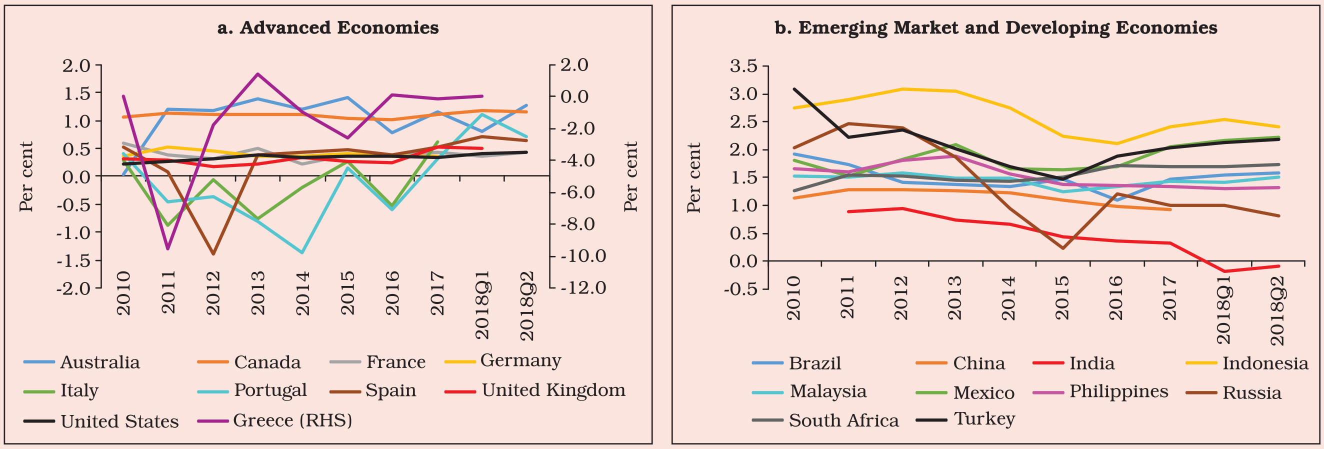
II.7 Banking systems in various parts of the world are converging to the Basel III standards *albeit* at varying speeds and from heterogeneous initial conditions. Key performance indicators of the banking sector include profitability, asset quality and capital adequacy, which taken together, help in assessing its health and resilience. Banks have strengthened their balance sheets across jurisdictions with higher levels of capital and liquidity. In this regard, a divergence was discernible between banks in AEs and in EMEs—a gradual improvement in the former, but signs of weakness in the latter due to build-up of stressed assets.

3.1 Return on Assets

II.8 Improving macroeconomic conditions in the Euro area and the fading of debilitating crisis legacies translated into higher profitability[1]

[1] Profitability is measured in terms of returns on assets (RoAs) defined as the ratio of net income to average total assets.

Chart II.3: Return on Assets: Select Economies



Source: Financial Soundness Indicators – IMF.

of banks, abstracting from country-specific differences (Chart II.3). Amongst the Euro area banks, losses incurred by banks in Italy and Portugal reversed in 2017, reflecting a drop in loan loss provisions along with improvement in operational efficiency and a significant reduction in impairments. Banks in Greece, which turned modestly profitable in 2016, sank back into losses in 2017, largely due to an increase in loan-loss provisions. Available information in 2018 so far suggests continuing improvement in bank profitability, especially in Portugal and Spain. Prolonged periods of low interest rates in the Euro area eased funding conditions, but squeezed net interest margins for banks and weighed on their profitability. Banks in other AEs such as those in Canada and Australia continued to increase profitability. RoAs of banks in the US, which had declined marginally in 2017 on account of a one-time tax increase and higher non-interest expenses, revived in 2018 owing to higher net operating revenue.

II.9 RoAs of banks in EMEs reflected mixed movements through 2017 and 2018 so far, tracking outcomes on non-performing loans. While banks in Russia, India and China suffered declines, those in Brazil, Mexico and Indonesia posted robust RoAs in 2017 as well as in 2018 (Table II.1). Notably, profitability of banks in Russia was adversely affected by additional loss provisions required by a number of large banks undergoing financial resolution. Banks in India, on the other hand, suffered from weak asset quality and recorded their lowest RoAs since 2008, in 2017 and 2018 so far. Banks in Indonesia remained the most profitable among peer Asian EMEs in 2017 and during 2018 so far as operating expenses fell, resulting in efficiency gains.

3.2 Capital Adequacy

II.10 Capital positions remained comfortable for both EMEs and AEs in 2017 and in 2018 so far, above the prescribed levels. Banks in AEs built up capital buffers in 2017 above levels achieved in 2016 (Chart II.4). Banks in the UK maintained the highest capital to risk-weighted assets ratios (CRARs), notwithstanding a marginal decline from a year ago. The high

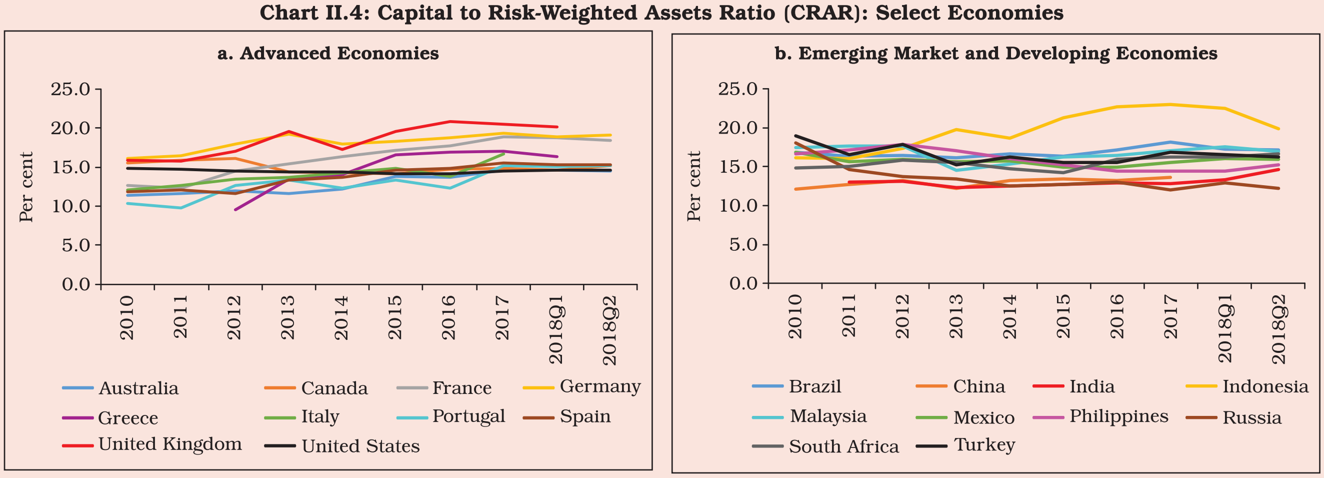
Table II.1: Return on Assets (RoAs, Per cent)

Advanced Economies												
Countries	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018Q1**	**2018Q2**
Australia	1.25	0.9	0.03	1.19	1.18	1.38	1.20	1.42	0.78	1.15	0.81	1.27
Canada	0.54	0.73	1.06	1.13	1.11	1.10	1.11	1.04	1.02	1.11	1.19	1.17
France	0.13	0.29	0.59	0.39	0.31	0.49	0.23	0.40	0.40	0.42	0.36	0.43
Germany	-0.10	0.21	0.37	0.53	0.45	0.36	0.37	0.40	0.37	0.37	-	-
Greece	0.92	0.37	0.00	-9.52	-1.79	1.44	-0.97	-2.55	0.09	-0.17	0.07	-
Italy	0.34	0.31	0.29	-0.87	-0.06	-0.77	-0.20	0.26	-0.53	0.61	-	0.29
Portugal	0.34	0.45	0.40	-0.45	-0.37	-0.80	-1.36	0.16	-0.59	0.32	1.11	0.72
Spain	0.79	0.59	0.53	0.09	-1.39	0.38	0.43	0.48	0.39	0.52	0.71	0.65
UK	-0.08	0.00	0.32	0.29	0.17	0.22	0.33	0.28	0.25	0.52	0.50	-
US	-	0.22	0.23	0.28	0.33	0.38	0.33	0.36	0.37	0.34	0.40	0.43
Emerging Economies												
Countries	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018Q1**	**2018Q2**
Argentina	2.00	3.59	3.98	3.91	4.35	5.04	6.11	6.09	5.34	4.20	3.94	4.66
Brazil	2.12	1.75	1.92	1.73	1.41	1.38	1.35	1.48	1.11	1.47	1.54	1.59
China	-	-	1.13	1.28	1.28	1.27	1.23	1.1	0.98	0.92	-	1.03
India	0.95	-	-	0.89	0.95	0.74	0.67	0.45	0.37	0.33	-0.19	-0.09
Indonesia	2.39	2.61	2.74	2.89	3.1	3.05	2.74	2.25	2.12	2.41	2.54	2.41
Malaysia	1.47	1.25	1.54	1.51	1.58	1.49	1.49	1.24	1.35	1.44	1.41	1.50
Mexico	1.40	1.48	1.81	1.54	1.83	2.08	1.66	1.63	1.69	2.05	2.17	2.23
Philippines	-	1.40	1.65	1.60	1.81	1.88	1.57	1.38	1.35	1.34	1.30	1.31
Russia	2.06	0.72	2.04	2.47	2.39	1.87	0.95	0.23	1.2	1.01	1.00	0.81
South Africa	1.58	1.15	1.26	1.54	1.52	1.45	1.43	1.51	1.71	1.70	1.70	1.73
Turkey	2.50	3.27	3.08	2.23	2.35	2.02	1.69	1.48	1.89	2.04	2.13	2.19

Note: - Not available.
Note: Deep red depicts the lowest RoA for a country over time whereas deep green reflects the highest RoA for a country over time.
Source: Financial Soundness Indicators, IMF.

ratios for banks in the UK reflect both higher capital as well as reduction in riskiness of their balance sheets. Stress tests carried out by the Bank of England in 2017 showed that no bank is required to strengthen its capital position further, thus validating the building strength of the UK banking system.

Chart II.4: Capital to Risk-Weighted Assets Ratio (CRAR): Select Economies



Source: Financial Soundness Indicators – IMF.

II.11 CRAR positions also improved across EMEs banks in 2017, well above the regulatory minimum (Table II.2), although banks in India and Russia suffered a moderation in their CRARs on account of rising non-performing loans (NPL) ratios and declines in RoAs. Reforms undertaken in Indonesia after the East Asian crisis of 1997-98 have yielded benefits in recent years as they emerged as the most capitalized among peers.

3.3 Asset Quality

II.12 Asset quality measured by the non-performing loans (NPL)[2] ratio improved across banks in AEs, except for those in Greece which are reeling under the persisting visceral effects of the sovereign debt crisis (Chart II.5). Considerable improvement was evident in other countries such as Portugal, Italy and Spain, mainly on the back of robust economic recovery.

II.13 For banks in major EMEs, NPL ratios remained low, reflecting improving macroeconomic performances which helped reduce asset quality stress. India and Russia were notable exceptions, with double digit NPL ratios in 2017 deteriorating further in 2018.

3.4 Leverage Ratio

II.14 The leverage ratio[3] has drawn interest in the post-global financial crisis period as risk weights alone were found to inadequately reflect the incipient build-up of stress in banks' balance sheets. Accordingly, specific prescriptions on the leverage ratio have become a defining feature of the Basel III framework. Bank in AEs maintained leverage ratios well above the regulatory prescription of a minimum of 3 per cent in 2017 as well as in 2018. All of them, except for banks in Spain and the UK, reported an improvement

Table II.2: Capital to Risk-Weighted Assets Ratio (CRAR, Per cent)

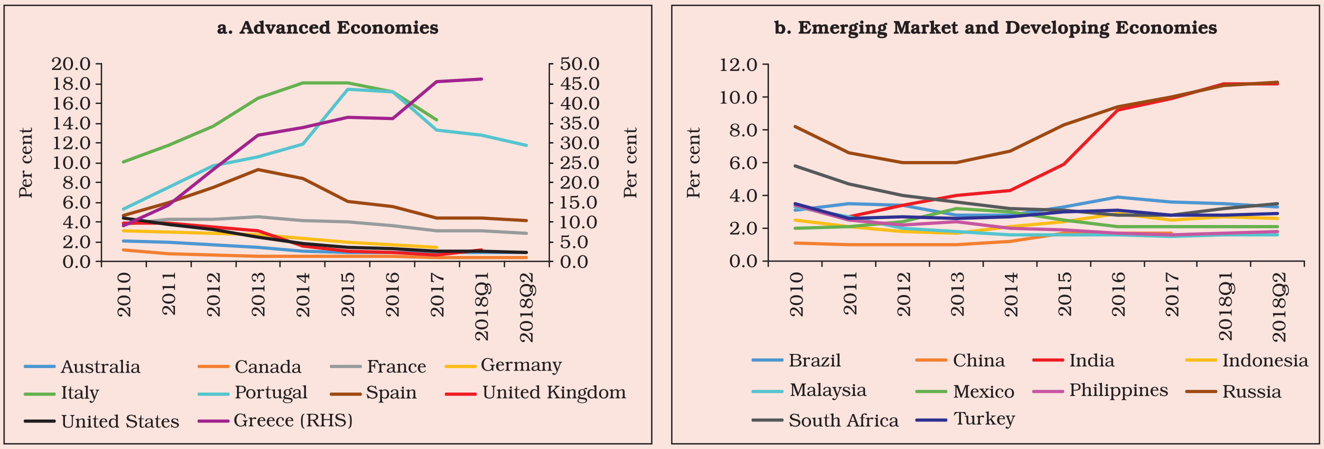
Advanced Economies												
Countries	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018Q1**	**2018Q2**
Australia	11.34	11.91	11.40	11.58	11.92	11.60	12.21	13.80	13.65	14.55	14.62	14.46
Canada	12.22	14.69	15.57	15.89	16.16	14.33	14.23	14.20	14.77	14.81	14.64	15.20
France	10.47	12.36	12.67	12.32	14.50	15.38	16.35	17.10	17.75	18.91	18.72	18.44
Germany	13.59	14.82	16.05	16.40	17.94	19.16	17.96	18.26	18.79	19.38	18.85	19.09
Greece	9.97	11.73	12.26	-	9.57	13.51	14.07	16.52	16.95	17.02	16.37	-
Italy	10.38	11.65	12.07	12.68	13.42	13.70	14.30	14.79	13.75	16.71	-	16.03
Portugal	9.36	10.54	10.33	9.78	12.64	13.31	12.25	13.33	12.27	15.19	15.01	15.20
Spain	11.29	12.22	11.87	12.11	11.59	13.28	13.68	14.66	14.85	15.54	15.31	15.30
UK	12.92	14.80	15.89	15.73	17.07	19.61	17.31	19.62	20.80	20.5	20.19	-
US	-	13.86	14.79	14.69	14.51	14.41	14.39	14.14	14.19	14.53	14.55	14.64
Emerging Economies												
Countries	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018Q1**	**2018Q2**
Argentina	16.87	18.81	17.67	15.61	17.12	13.61	14.67	13.28	16.66	15.57	15.90	14.85
Brazil	17.70	18.65	16.89	16.33	16.43	16.11	16.67	16.36	17.16	18.15	17.25	17.17
China	-	-	12.16	12.71	13.25	12.19	13.18	13.45	13.28	13.65	-	13.57
India	12.98	14.34	15.19	13.05	13.13	12.32	12.48	12.68	12.97	12.82	13.31	14.60
Indonesia	17.51	17.82	16.18	16.08	17.32	19.82	18.72	21.28	22.69	23.01	22.50	19.87
Malaysia	16.06	18.21	17.45	17.70	17.64	14.58	15.36	16.28	16.48	17.08	17.54	16.98
Mexico	15.31	16.51	16.86	15.67	15.95	15.60	15.75	14.96	14.90	15.57	16.00	15.92
Philippines	-	15.54	16.69	17.12	17.82	17.02	16.08	15.28	14.46	14.42	14.45	15.23
Russia	16.80	20.87	18.09	14.66	13.69	13.46	12.49	12.70	13.07	12.07	12.97	12.21
South Africa	13.01	14.12	14.88	15.05	15.88	15.58	14.76	14.20	15.93	16.27	16.23	16.64
Turkey	17.99	20.62	18.97	16.55	17.89	15.28	16.28	15.57	15.57	16.85	16.56	16.26

- : Not available.
Note: Deep red depicts the lowest CRAR for a country over time whereas deep green reflects the highest CRAR for a country over time.
Source: Financial Soundness Indicators, IMF.

[2] Ratio of non-performing loans to total loans.

[3] Ratio of capital to unweighted total assets.

Chart II.5: Non-performing Loans Ratio: Select Economies



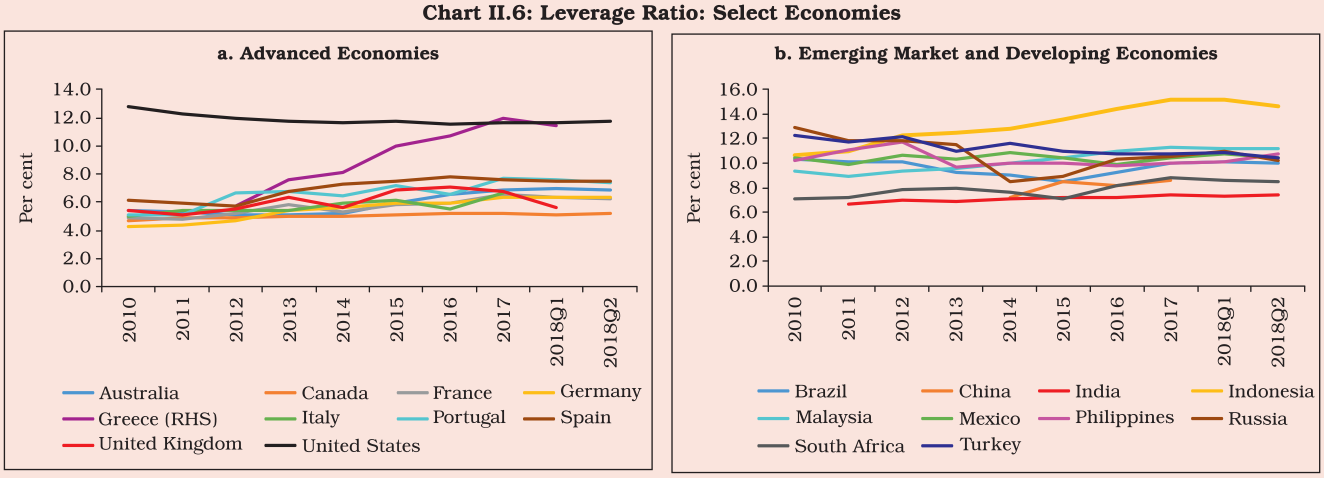
Source: Financial Soundness Indicators – IMF.

in their leverage ratios in 2017 (Chart II.6). Among EMEs, banks maintained leverage ratios of more than thrice the prescribed levels, except for those in China, India and South Africa.

3.5 Financial Market Indicators

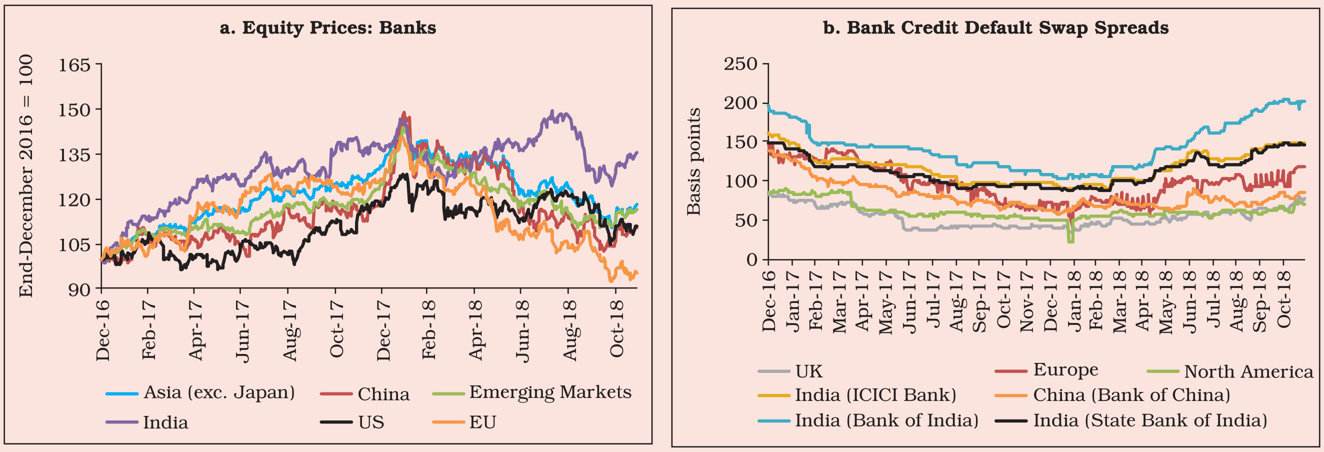
II.15 Attesting to the improvement in the overall health of banks, market-based indicators showed sustained improvement in 2017 (Chart II.7). At the onset of 2018, however, as overall business uncertainties emanating from trade wars, slowdown in the Chinese economy and European Union (EU) banking problems increased, bank equity prices nosedived. In Q2:2018, while the equity prices of banks in other jurisdictions continued to reel under pressure, Indian banks bucked the trend, surging ahead of their peers on measures such as recapitalization of banks. In Q3:2018, however, a price correction in Indian banks' scrips was evident as issues of frauds and corporate governance emerged along with continuing asset quality problems. Credit default swap (CDS) spreads narrowed in 2017 as investor optimism cautiously returned to bank stocks. The lowest CDS spreads were reported for banks in the UK and North America. On the other hand, a general repricing of risk across other AEs and EMEs led to a widening of bank CDS spreads in 2018 relative to 2017.

Chart II.6: Leverage Ratio: Select Economies



Source: Financial Soundness Indicators – IMF.

Chart II.7: Market-based Indicators of Bank Health



Source: Datastream.

4. Overall Banking Developments in Select Economies

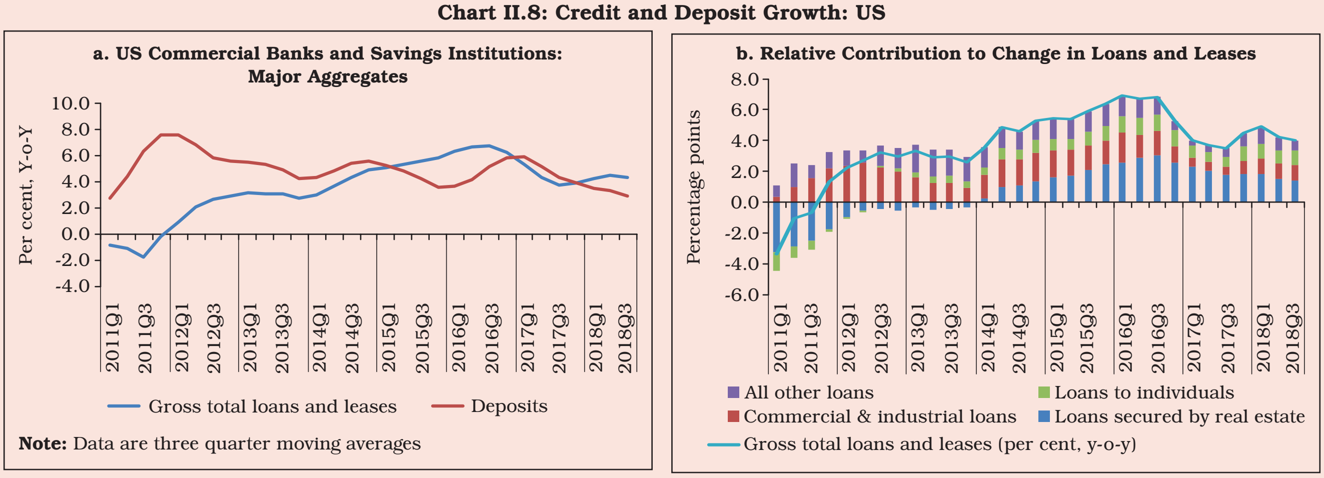
II.16 Banks in AEs generally improved their performance in 2017 through 2018 as reflected in better asset quality, improved CRARs and stronger and leaner structures. In contrast, banks in EMEs remained weighed down by country-specific and idiosyncratic factors.

4.1 The US

II.17 In the US banking system, credit growth moderated in 2017 across all segments of bank loans (Chart II.8). This is attributable to a number of factors, including but not limited to, lack of demand for business loans, reduction in customers' need to finance inventories and tightened standards for subprime credit card and auto lending. In 2018, however, there was a reversal as credit grew at robust rates, supported by a revival in commercial and industrial loans.

II.18 Asset quality in US banks was boosted by lower delinquency rates[4] in 2017, especially in respect of real estate loans since Q3:2017. In

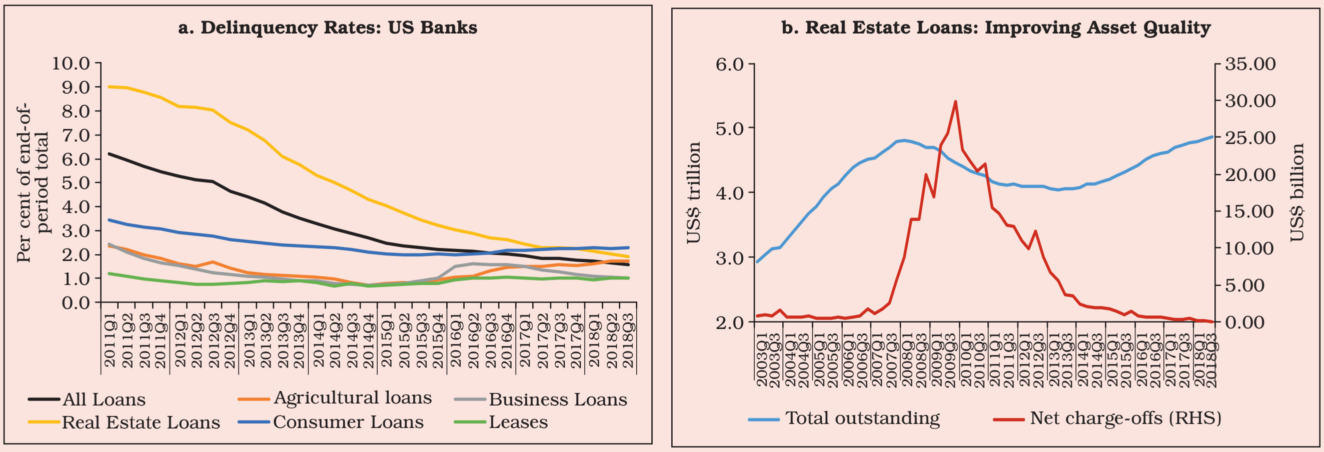
Chart II.8: Credit and Deposit Growth: US



Source: Federal Deposit Insurance Corporation.

[4] Delinquent loans are those past due thirty days or more and still accruing interest as well as those in non-accrual status. They are measured as a proportion of end-of-period loans.

Chart II.9: Improving Asset Quality: US Banks



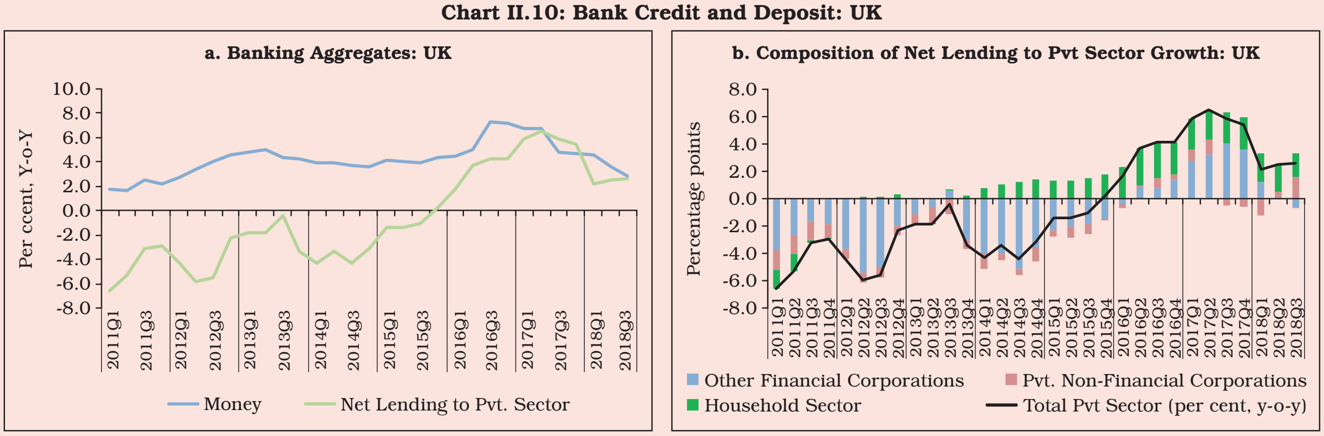
Source: Federal Deposit Insurance Corporation and Federal Reserve.

addition, the net charge-offs[5] reached a decadal low in 2017, despite an increase in outstanding real estate loans over the last four years (Chart II.9). Notably, the rise in household credit risk was not located in the mortgage segment of the market. Subprime credit card and auto loans saw major incidence of delinquency in 2017 while agriculture since early 2016 and consumer loans in the current year (up to Q3:2018) had higher delinquency rates.

4.2 The UK

II.19 Banks in the UK have become resilient over the last decade, with a steady improvement in capital ratios as well as in liquidity positions. Stronger balance sheets have enabled banks to re-engage in intermediating the credit needs of recovering economic activity, although consumer credit growth slowed since Q2:2017 and credit conditions tightened for smaller companies (Chart II.10). The cost of funding, though still

Chart II.10: Bank Credit and Deposit: UK



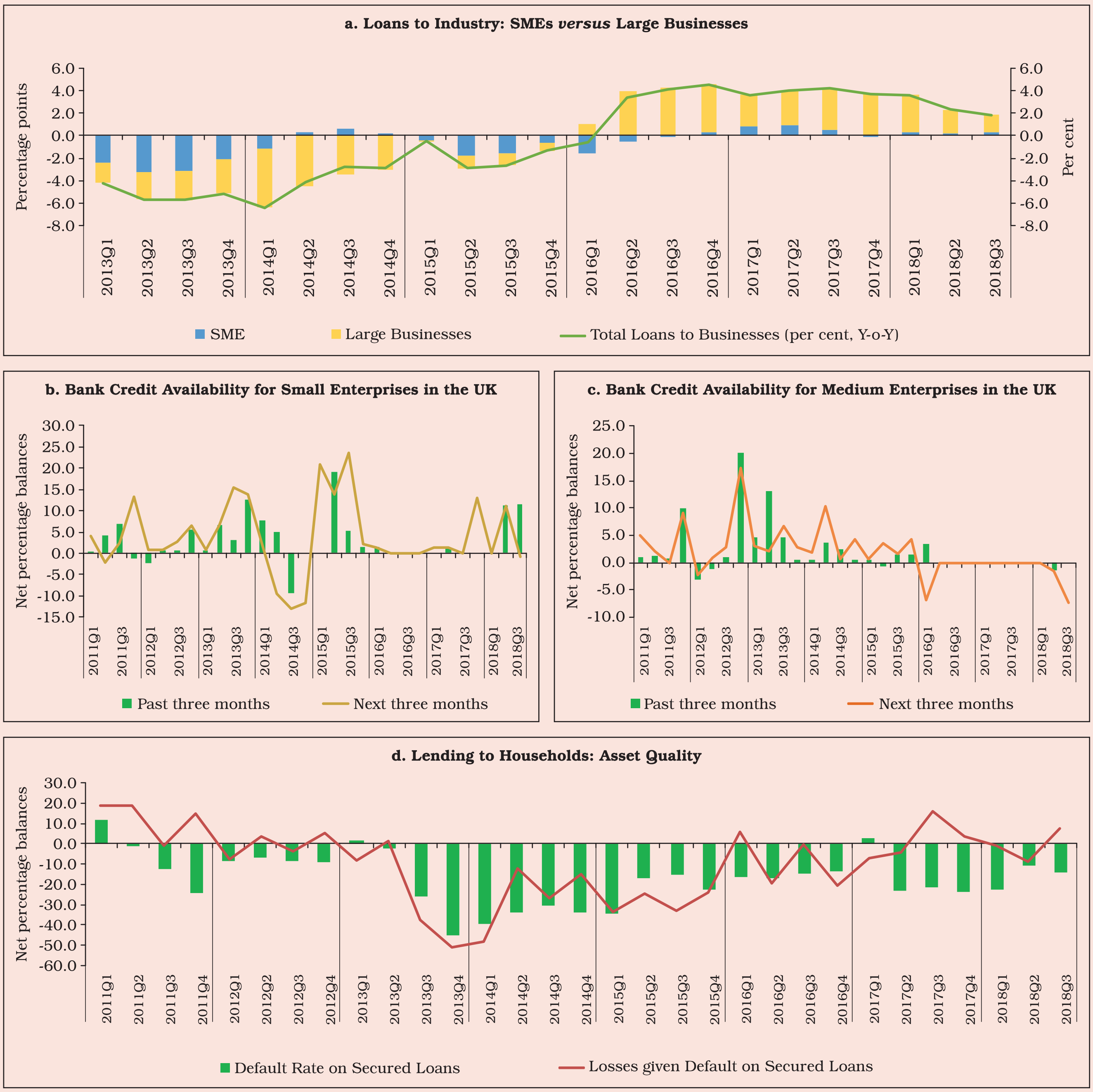
Note: In Chart II.10a, money and lending are technically known as M4 and M4-Lending and include deposits from, and lending to, households, non-financial corporations (PNFCs) and non-intermediating financial companies. Data are monthly averages for the quarter.
Source: Bank of England.

[5] Total loans and leases charged off (removed from balance sheet because of uncollectibility) less amounts recovered on loans and leases previously charged off.

low by historical standards, edged up during Q1:2018, partly reflecting an increase in swap rates. While loans to private non-financial corporations picked up in recent quarters, bank lending to other financial corporations has been on a decline.

II.20 Loans to large businesses accounted for almost all of the increase in industrial credit during 2017 (Chart II.11a). Growth in the latter has, however, been decelerating in 2018. The Bank of England's Credit Conditions Survey (BOE-CCS) suggests that loan availability to

Chart II.11: Bank Credit in the UK : Availability and Quality



Source: Bank of England.

SMEs and medium sized enterprises is likely to be compressed (Chart II.11b and c). The default rate on secured loans to households was reported to have declined in 2017, while the loss given default (LGD) increased up to Q3:2017, followed by a decrease in Q4 and in first two quarters of 2018, before inching up again in Q3:2018 (Chart II.11d).

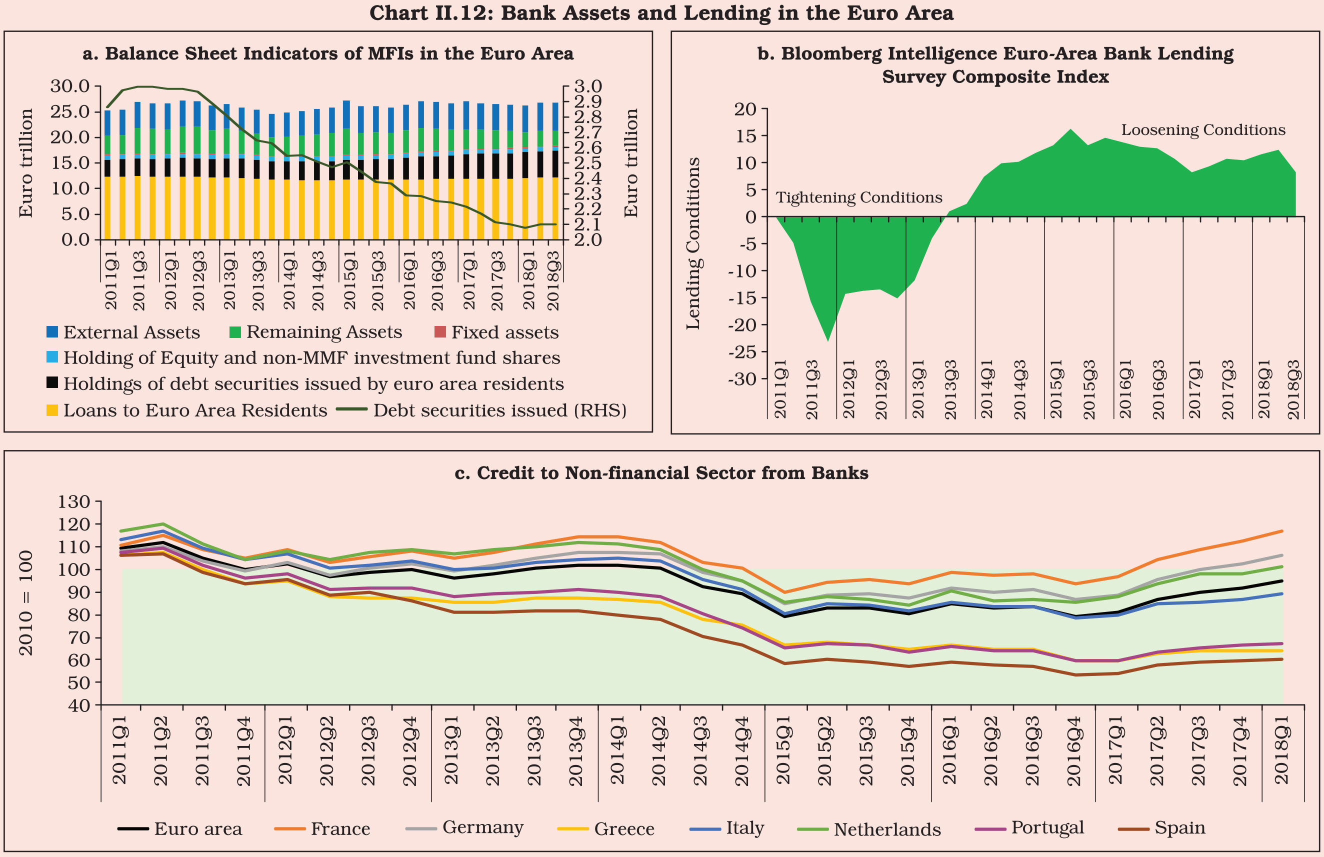
4.3 Euro Area

II.21 Banks in the Euro area have become leaner and stronger, as evident in smaller balance sheets and improved capital positions. As part of the consolidation process, balance sheets of monetary financial institutions (MFIs) have shrunk with the sizeable decline in issuances of debt securities to fund asset growth (Chart II.12a). Policy-driven reduction in bank lending rates as also expansion in availability of loans brought about easier credit conditions in the Euro area as reflected in lending surveys (Chart II.12b and c).

II.22 The asset quality of banks has improved across the Euro Area, except in Latvia and Estonia. Overall, NPL ratios have been trending down in recent years to reach 3.9 per cent in Q1:2018, but considerable heterogeneity exists across countries. For instance, banks in four countries *viz.*, Greece, Cyprus, Portugal and Italy had NPL ratios of more than 10 per cent at end-2017 as lengthy and expensive judicial processes and lack of a market for NPLs hindered faster resolution (Table II.3).

II.23 Accommodative monetary policy and large scale central bank asset purchases kept

Chart II.12: Bank Assets and Lending in the Euro Area



Source: European Central Bank, Bloomberg and Bank for International Settlements.

Table II.3: Ratio of Non-performing Loans and Advances (NPL Ratio, Per cent)

Country/Region	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Austria	7.4	6.9	6.5	6.0	5.8	5.1	4.6	4.3	4.0	3.7	3.4
Belgium	3.9	3.9	3.7	3.6	3.4	3.2	2.9	2.8	2.7	2.6	2.4
Cyprus	50.0	48.9	48.5	47.4	46.7	45.0	43.8	42.7	40.6	38.9	38.9
Estonia*	n.a.	n.a.	1.6	1.5	1.4	1.3	1.3	1.3	1.3	1.7	1.9
Finland	1.4	1.6	1.5	1.5	1.5	1.6	1.6	1.7	1.6	1.5	1.3
France	4.2	4.0	4.0	3.9	3.7	3.7	3.5	3.4	3.2	3.1	3.2
Germany	3.1	3.0	2.9	2.6	2.5	2.5	2.4	2.2	2.1	1.9	1.7
Greece	43.5	46.2	46.6	46.9	47.1	45.9	46.2	46.5	46.6	44.9	45.3
Ireland	19.6	17.8	15.1	14.6	14.4	12.3	11.5	11.8	11.4	10.5	8.2
Italy	16.9	16.8	16.6	16.4	16.4	15.3	14.8	12.2	11.8	11.1	10.8
Latvia	4.9	4.0	3.9	3.7	3.6	3.2	2.9	2.7	2.6	2.3	4.0
Lithuania	5.5	5.1	4.9	4.5	4.1	3.8	3.7	3.3	3.1	2.8	3.0
Luxembourg	1.4	1.1	1.2	1.0	1.2	1.1	1.1	1.1	1.2	0.7	0.8
Malta	6.3	6.2	5.6	5.4	4.6	4.4	4.2	3.9	3.6	3.5	3.5
Netherlands	2.8	2.8	2.7	2.7	2.6	2.5	2.4	2.5	2.4	2.3	2.2
Portugal	18.8	19.6	19.8	20.1	19.8	19.5	18.4	17.5	16.6	15.2	13.6
Slovakia	5.2	5.2	5.0	4.8	4.6	4.2	4.1	3.8	3.6	3.4	3.3
Slovenia	24.6	21.5	19.7	19.2	16.3	14.4	13.5	13.3	12.6	10.5	9.3
Spain	6.8	6.3	6.3	6.0	5.9	5.7	5.5	5.4	4.8	4.5	4.5
European Union	5.9	5.7	5.6	5.4	5.3	5.1	4.8	4.5	4.2	4.1	3.9

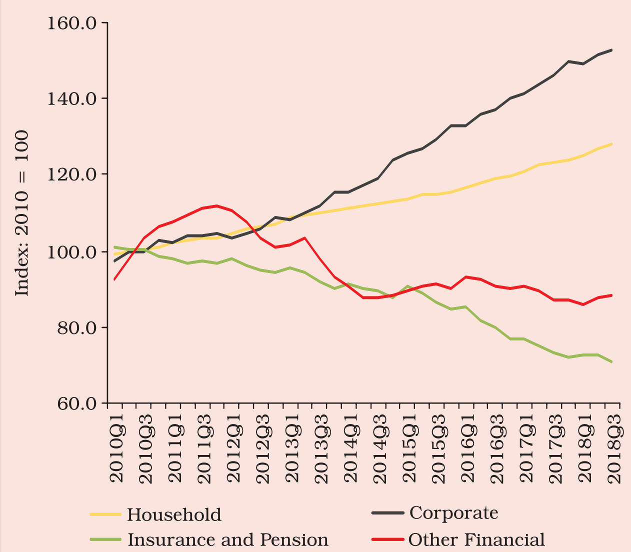
*: Data is not disclosed because it was reported for less than three institutions.
Note: Deep red depicts the highest NPL ratio for a country over time whereas deep green reflects the lowest NPL ratio for a country over time.
Source: European Banking Authority.

bank funding markets stable during 2017, with shifts away from wholesale funding towards more stable deposits of households and corporates, despite historically low deposit rates. These movements were reinforced in 2018 (Chart II.13).

4.4 China

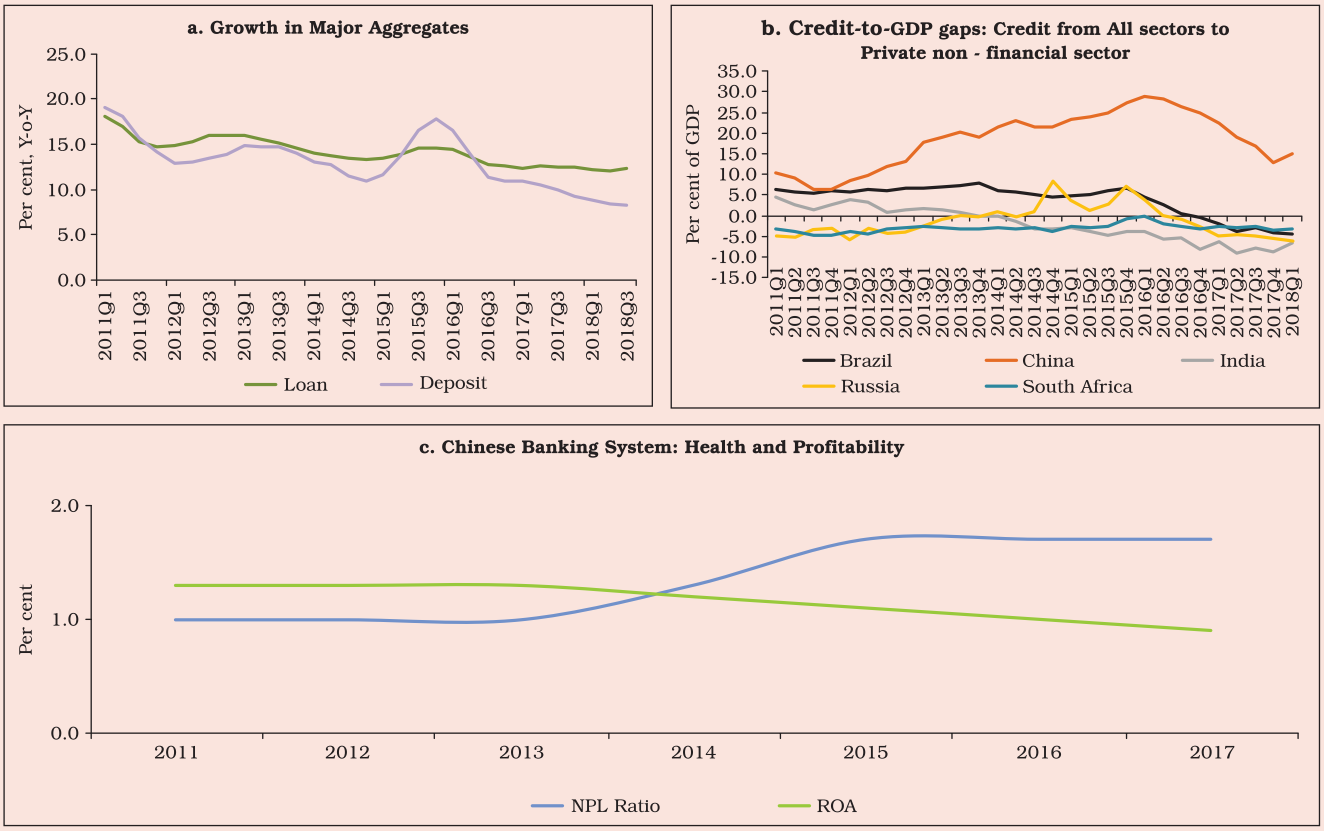
II.24 China is taking big strides in reorienting its growth strategy with deleveraging. As a result, credit growth slowed during 2017 but remained strong. Frequent reductions in reserve requirements for lenders during 2018 supported new loan growth. However, the ongoing trade war with the US and a crackdown by policymakers on shadow financing has tightened overall credit conditions in 2018 so far (Chart II.14a). New measures such as limits on reliance on wholesale funding, growth of wealth management products and better recognition of non-performing loans (NPLs) enhanced the resilience of the financial system and reduced

Chart II.13: Depositor Base in Euro Area



Source: EU Open Data Portal.

Chart II.14: The Chinese Banking System



Source: CEIC, BIS and IMF.

inter-connectedness. These dynamics are also aiding the return to more normal levels of credit/GDP ratios (Chart II.14b). While the asset quality of banks in China improved during 2017, their profitability continued to be pressurized by low net interest margins (Chart II.14c).

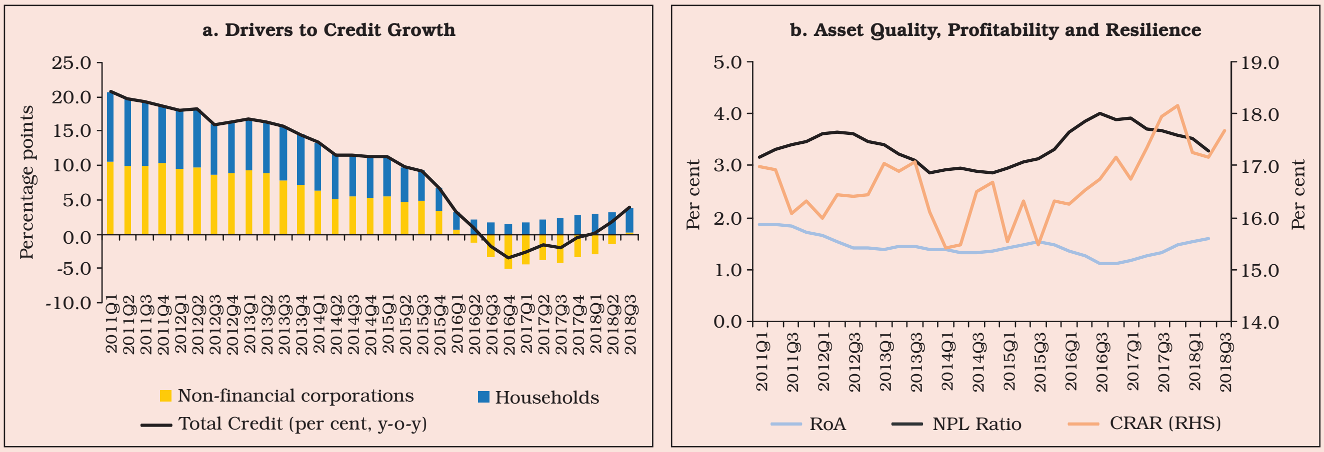
4.5 Brazil

II.25 With economic recovery and strengthening of macroeconomic fundamentals, financial institutions in Brazil saw improved profitability and credit indicators as also an increase in risk appetite in 2017. Led by households, credit growth has started to improve and turned positive during recent quarters in 2018, although still anaemic relative to historical standards (Chart II.15a). Banks' performance improved as mirrored in an increase in profitability and a reduction in the NPL ratio (Chart II.15b). As of Q3:2018, banks are well capitalized, liquid and profitable, despite incurring heavy losses during the recession.

4.6 Russia

II.26 The Russian economy is emerging from a recession on the back of rising international crude oil prices, which regenerated demand for personal and corporate loans (Chart II.16). However, the failure of some banks in 2017 highlighted the importance of bank balance sheet clean-up and checks on related party lending in its early stage. "Zombie" banks have been liquidated or rehabilitated as part of concerted policy efforts to strengthen the banking system.

Chart II.15: The Brazilian Banking System



Source: Central Bank of Brazil.

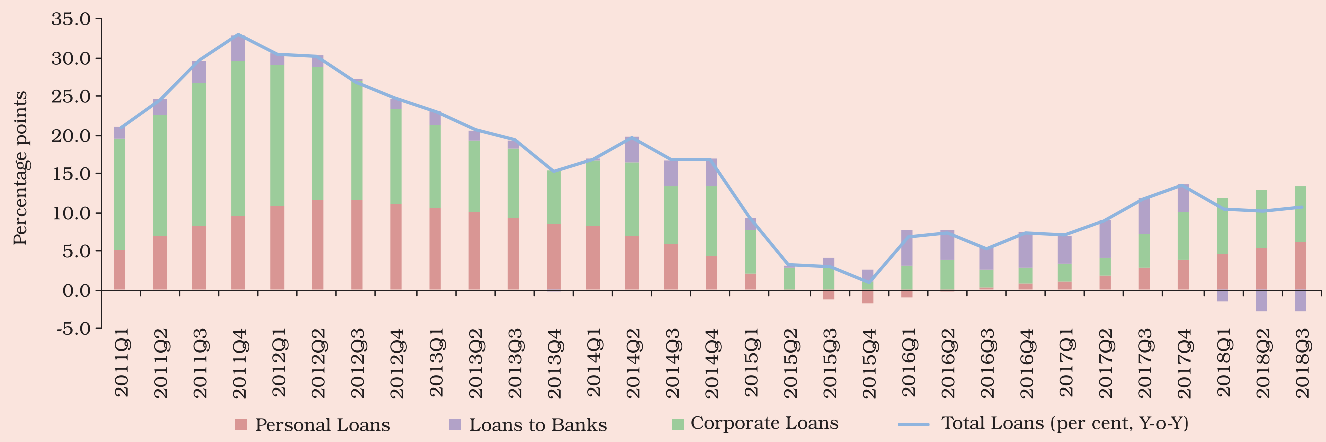
5. World's Largest Banks[6]

II.27 In a sample of the world's top 100 banks ranked by Tier 1 capital, EME banks increased their presence and held more assets in 2017 relative to their position in 2016. The US lost its share in top 100 banks to China, India, South Korea and the UAE (Chart II.17).

II.28 Return on assets, measuring profitability of the 100 largest banks was higher in 2017 relative to the previous year. Specifically, the number of banks in the top 100 with positive RoAs increased in 2017 and only one bank recorded negative returns compared to five in 2016. However, the number of banks with RoAs of more than 1.0 per cent remained unchanged (Chart II.18a and b). Declining number of banks with high NPL ratios is leading to increased profitability—fewer banks had NPL ratios of more than 5 per cent in 2017 than in 2016.

II.29 Improvement in asset quality was also accompanied by relatively stronger capital positions, leading to concomitant reduction in financial leverage when compared with

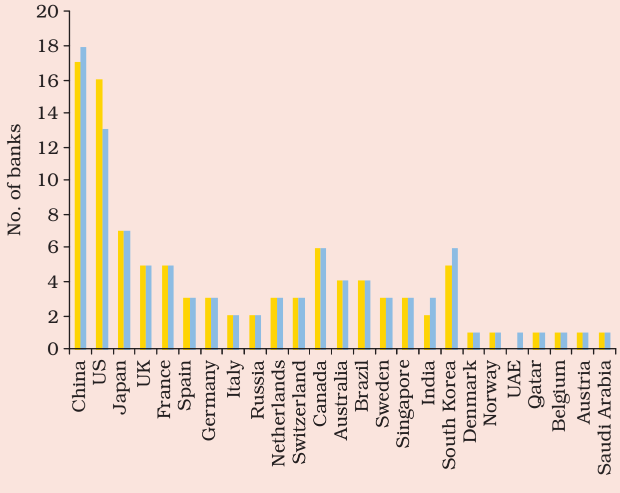
Chart II.16: Relative Contribution to Loan Growth-Russian Banking



Source: CEIC.

[6] Data are drawn from the Banker Database of the Financial Times.

Chart II.17: Distribution of top 100 banks by Tier - 1 Capital



Source: The Banker Database - Financial Times.

the previous year. Sixty banks had leverage ratios of at least 6 per cent in 2017, up from 53 banks in 2016 (Chart II.19a). Furthermore, all banks in the top 100 maintained a leverage ratio of more than 3 per cent in 2016 and 2017 *i.e.* above the regulatory minimum prescribed under Basel III.

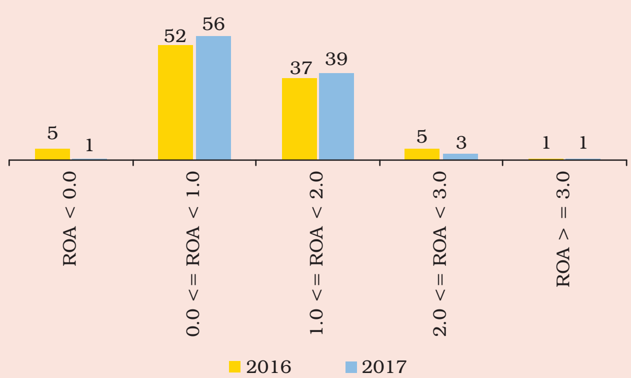
II.30 In addition to improvements in leverage ratios, capital positions relative to risk-adjusted assets remained strong during 2017. For instance, banks with capital to risk weighted asset ratio (CRAR)[7] of more than 12 per cent, *i.e.* one and a half times the level prescribed under Basel III, increased in 2017 (Chart II.19b). Nonetheless, higher capital for banks did not imply higher profitability as RoAs remained weak (Chart II.20 a). Moreover, for the only bank reporting negative RoA for the year, the NPL ratio was the highest, signifying the adverse impact of deterioration in asset quality on profitability (Chart II.20 b).

6. Global Banking Policy Developments

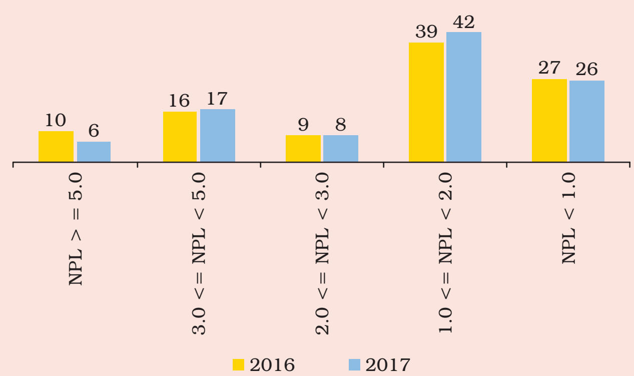
II.31 In the year 2017 and 2018 so far, policy developments in the global banking arena are shaped by two distinct challenges: first, need to strengthen the banking sector by carrying on structural reforms and plugging vulnerabilities and second, conditioning the ongoing reforms on the evolving economic and political changes.

Chart II.18: Return and Asset Quality

a. Distribution of Top 100 Banks by RoA
(Number of Banks)



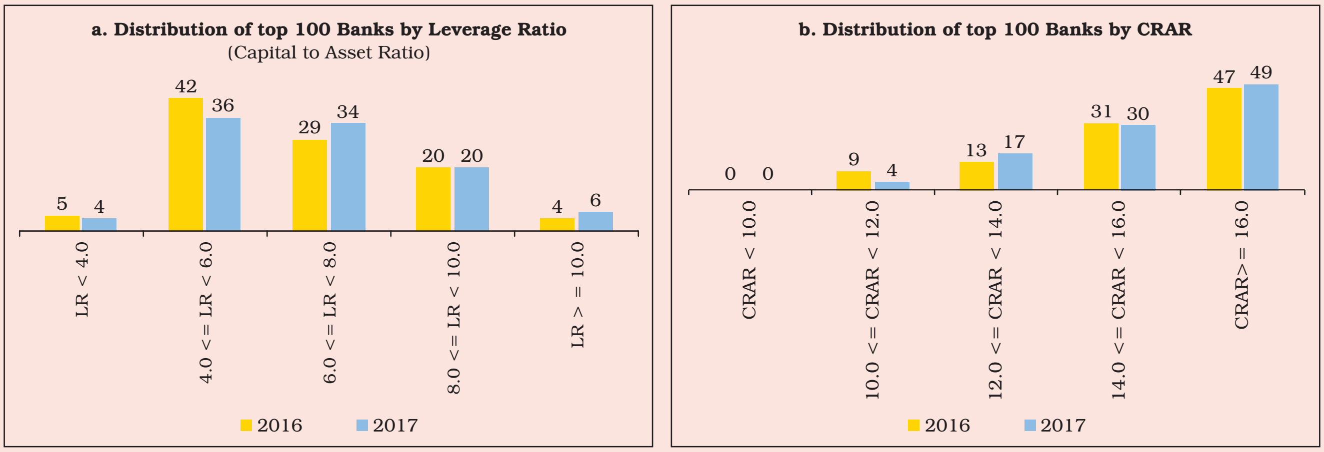
b. Distribution of Top 100 Banks by NPL
(Per cent of Banks)



Source: The Banker Database - Financial Times.

[7] CRAR is measured as the sum of tier 1 capital and tier 2 capital, both net of deductions, divided by total risk weighted assets, expressed as a per cent.

Chart II.19: Bank Soundness



Source: The Banker Database - Financial Times.

II.32 Towards fulfilment of the first goal, reforms are at various stages of implementation to build a safer and more resilient financial system a decade after the global financial crisis (Box II.1). In this context, the establishment of the Financial Stability Board (FSB) constitutes a key institutional reform invested as it is, with the mandate of identifying and assessing risks and vulnerabilities, designing remedial policies and promoting coordination among authorities responsible for financial stability.

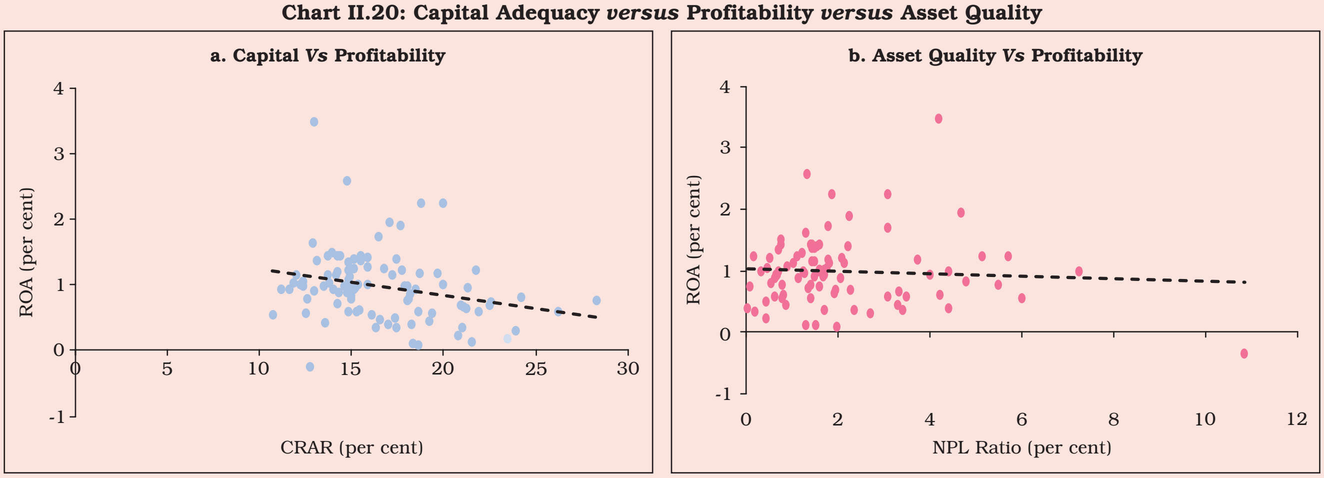
6.1 Other Global Regulatory Reforms

II.33 The Basel III processes and co-moving standard-setting initiatives have focused on four core areas: (i) making financial institutions more resilient; (ii) ending too-big-to-fail (TBTF); (iii) making derivatives markets safer; and (iv) transforming non-bank financial intermediation into resilient market-based financial intermediation.

6.2 Building Resilient Financial Institutions

II.34 Basel III is the centrepiece of the international endeavour to build more resilient

Chart II.20: Capital Adequacy *versus* Profitability *versus* Asset Quality



Source: The Banker Database - Financial Times.

Box II.1: Ten Best Global Banking Practices

Post-GFC financial sector reforms are set to reshape banking practices, leveraging on technology advances in financial services and spurred by competitive disintermediation by non-banks, capital markets, electronic trading platforms, and changing demographics and customer profiles. Against this backdrop, it is useful to track the key standard setting benchmarks that have evolved over this period and how they have influenced banking practices in jurisdictions for which authoritative information is available.

1. Capital Buffers

Basel III standards (2009) prescribe minimum regulatory capital requirements, a capital conservation buffer, a countercyclical capital buffer and a leverage ratio (Table 1).

There has been animated debate on the adverse impact of these capital requirements on bank lending *versus* the importance of these buffers in minimizing taxpayer funded bailouts. Meanwhile, banks are aligning their capital positions with these norms. In several jurisdictions, including India, national regulators have set CRAR at a level slightly higher than the Basel minimum (Table 2).

Table 1. Basel III Guidelines

a. Capital Requirements

	Regulatory Capital	As per cent to risk-weighted assets
I.	Minimum Common Equity Tier 1 (CET1) Ratio	4.5
II.	Capital Conservation Buffer (CCB)	2.5
III.	Minimum Common Equity Tier 1 Ratio plus Capital Conservation Buffer (I + II)	7.0
IV.	Additional Tier 1 Capital	1.5
V.	Minimum Tier 1 Capital Ratio (I + IV)	6.0
VI.	Tier 2 Capital	2.0
VII.	Minimum Total Capital Ratio (MTC) (V+ VI)	8.0
VIII.	MTC plus CCB (II+VII)	10.5

b. Liquidity Ratios

Liquidity Coverage Ratio : Minimum 100 per cent by Jan 1, 2019

Net Stable Funding Ratio : At least 100 per cent on ongoing basis

Table 2: Jurisdictions with Higher Capital Adequacy Norms

Jurisdiction	Minimum Common Equity Ratio	Minimum Tier 1 Capital Ratio	Minimum Total Capital Ratio
Requirement under Basel III	4.5	6.0	8.0
Brazil			11.0, gradually aligning to Basel III by 2019
India	5.5	7.0	9.0
China	5.0	6.0	8.0
South Africa	5.0	6.75	9.0
Mexico (includes CCB in minimum requirements)	7.0	8.5	10.5
Switzerland	4.5 to 10.0	6.0 to 13.0	8.0 to 19.0
Turkey	4.5	6.0	12.0
Singapore	6.5	8.0	10.0

Source: Regulatory Consistency Assessment Programme (RCAP) reports of the Bank for International Settlements (BIS).

In the US, Federal Deposit Insurance Corporation (FDIC) insured institutions maintained a (CET1) capital ratio of 13.1 per cent at end Q2:2018 while in the Euro area the ratio was over 14 per cent at end of Q2:2018. In comparison, banks in India have CET1 at 10.65 per cent as at the end of June, 2018.

2. Liquidity Buffers

Towards the end of 2010, the Basel Committee on Banking Supervision (BCBS) recommended two liquidity standards—the liquidity coverage ratio (LCR)[8] and the net stable funding ratio (NSFR)[9] (Table 1). The objective of LCR is to reduce banks' reliance on short-term, volatile funding sources that may be subject to rollover risks, while the aim of NSFR is to build liquidity resilience over the medium to long term.

While the LCR in India is being phased in during 2015-19, the Reserve Bank has notified that the NSFR guidelines will come into effect from April 01, 2020. Indian banks maintained an LCR of 139 per cent as at end-June 2018. Banks in the Euro area as of Q2:2018, maintained an LCR of 141 per cent.

(Contd....)

[8] LCR is the ratio of high quality liquid assets (HQLA) to total net (of inflows) expected cash outflows over the next 30 calendar days in a liquidity stress scenario. A value of 100 per cent corresponds to the stock of HQLA equalling total net cash outflows.

[9] The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of capital and liabilities expected to be reliable over a one-year horizon. A value of 100 per cent corresponds to ASF equalling RSF.

3. Asset Quality

There is considerable heterogeneity in prudential frameworks governing NPA recognition, classification and measurement. Recent guidelines on prudential treatment of problem assets (PTA) (BCBS, 2017) complement the existing accounting and regulatory framework for asset categorisation.

In the case of Ireland after the 2008 crisis, regulatory tightening became inevitable to arrest the rise in NPLs. In Romania a multi-faceted approach has been adopted: encouraging banks to dispose off non-collateralised and fully provisioned NPLs; recognizing the market value of collaterals; and conducting stricter on-site inspections. State empowered asset management companies (AMCs) to reduce NPLs have been adopted by many Asian countries such as Thailand, Korea and Japan. In the Indian context, the Reserve Bank has adopted a multi-pronged strategy of recognition, provisioning and resolution to address the NPA problem. The enactment of the Insolvency and Bankruptcy Code (IBC) has strengthened the NPA resolution process considerably.

4. Profitability

Banks need to maintain profitability to reward equity holders as owners, while building adequate reserves against unforeseen contingencies. In the country experience, the general tendency has been to adopt a multi-dimensional approach to the analysis of profitability indicators such as NIM, RoA and RoE. For example, a high net interest margin (NIM)—a metric for gauging asset-liability management by banks may indicate that the bank is profitable. When seen in conjunction with a low loan-to-assets ratio, however, it can point to lazy banking or even a highly leveraged bank exposed to liquidity risk. For a discussion on profitability, please refer to section 3.1 of this chapter.

5. Risk Management

Efficient risk capture is the first line of defense against build-up of vulnerabilities. To strengthen regulation, Basel III has revised standardised approaches for credit risk, market risk and operational risk under pillar 1, along with a redrawn boundary between the trading book and the banking book *etc*. Under pillar 2 of Basel III reforms, guidance for management of interest rate risk in the banking book has been published in 2016.

BCBS jurisdictions are working to implement standards for interest rate risk in the banking book, which has a deadline of implementation in 2018. As of September 2018, countries such as Argentina, Japan and Indonesia have published the final rules. In the case of India, draft regulation has been published. The BCBS deadline for implementation of revised approaches to risks is set in 2022.

6. Harnessing FinTech

Technology-enabled innovation in financial services, commonly known as FinTech, challenges the traditional brick-and-mortar banking model by lowered costs and vastly expanded financial reach. Mobile banking, P2P lending, aggregators and the like have changed the way financial services are being offered, but it is critical to be mindful of the embodied risks. In February 2018, the BIS issued sound practices for banks and bank supervisors in the context of FinTech.

Jurisdictions in which FinTech has already made a significant difference to the financial landscape include the US, China, UK, Singapore, France and India. In India, more than half of the transactions of most big banks include some form of FinTech. The use of artificial intelligence (AI) and machine learning (ML) is still relatively low, but it could ignite the next wave of banking services reform.

7. Investing in Cybersecurity

Recent cyberattacks across the globe highlight the severity of cyber risks. Studies have shown that cyber risk could have potential implications for financial stability. Guidance on cyber resilience for financial market infrastructure (Committee on Payments and Market Infrastructures, 2016), provides general directions to assess preparedness of cyber resilience capabilities. Regulators have recognised the importance of managing cyber risks among regulated entities and have rolled out approaches to enhance banks' cyber-security frameworks.

Jurisdictions such as European Union have published guidelines for assessment of Information and Communication Technology (ICT) risk (2017) in addition to setting up a risk reporting framework. The UK has developed CBEST (2015), a supervisory toolkit for testing the cyber resilience of individual institutions. The US Federal Financial Institutions Examination Council (FFEIC) developed a cybersecurity assessment tool in 2015 to assess cybersecurity risks and preparedness of institutions. A cyber-incident reporting framework of ECB has been operational since 2017. In June 2016, the Reserve Bank also put in place a cybersecurity framework for banks. In terms of the framework, banks report unusual cyber-incidents within 2-6 hours and a Cyber Crisis Management Group has been set up to analyse the incident based on its criticality.

(Contd....)

8. Financial Inclusion, Financial Literacy and Consumer Protection

Banking practices with respect to financial inclusion have differed from country to country. Kenya benefited through mobile banking, bundling of services, and digital financial services. Brazil implemented a correspondent banking model to target the under-banked. India, Indonesia and Russia have introduced no-frills accounts for low-income customers. Microfinance intuitions have helped Bangladesh in financial inclusion. A correctly implemented financial inclusion strategy has been shown to improve bank stability (Ahamed and Mallick, 2017). Also, as a best practice, inclusion needs to be complemented by financial literacy and customer protection.

India leads the BRICS in many important parameters. It has caught up with China, with 80 per cent of its adult population having access to bank accounts in 2017. The gender gap in access to banking has shrunk sharply over the last three years. Introduction of Prime Minister's Jan Dhan Yojana (PMJDY) has been a game changer for financial inclusion (Please refer to section 11 of chapter IV for details).

9. Strengthening Corporate Governance

Best practices aimed at strengthening the corporate governance have been mooted in various fora, including in multilateral agencies such as the BIS, the IMF, OECD and the World Bank as well as by national authorities. The core principle has been that the ultimate responsibility should rest with the board of banks which should be qualified, individually and collectively. The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.

There are significant differences in the legislative and regulatory frameworks across countries. The EU issued the CRD IV directive in 2013 requiring member states to ensure effective oversight by the management body, with due consideration given to knowledge, qualifications and skills. New Zealand also requires that a strict majority of the bank's board must be non-executive, and at least half of the board must be independent.

In India, the Reserve Bank has been developing and strengthening corporate governance practices in banks since early 2001, including 'fit and proper' criteria for directors of banks, processes for collecting information and exercise of due diligence, including scrutiny of declarations made by the bank directors. Banks also have independent committees like audit committees and risk committees. A Banks Board Bureau was set up by the government in 2016 with a view to improving the governance in PSBs.

10. Accounting Standards

Worldwide, banks follow a globally accepted and consistent set of accounting principles under the International Financial Reporting Standards (IFRS). With effect from January 01, 2018, the implementation of IFRS9 has begun, with a forward-looking approach embodied in an expected loss model, replacing the IAS39 based on the incurred loss model.

Among the G20 economies, 15 have adopted the use of IFRS standards for all or most companies, with notable exceptions being Japan, where IFRS standards are voluntary, the US where domestic securities issuers follow national standards, and China, India and Indonesia, which have adopted national standards modelled along the lines of IFRS. On a more global scale, 143 jurisdictions have begun using IFRS for or all or most of domestic publicly accountable entities (listed companies and financial institutions). From April 1, 2019 banks in India are expected to transition to Indian Accounting Standards (IND-AS), which are IFRS-converged. Non-banking financial companies have already transitioned to the new accounting standard.

Reference

Ahamed, M. and S. Mallick (2017): 'Is financial inclusion good for bank stability? International evidence', *Journal of Economic Behavior and Organization*, ISSN 0167-2681.

financial institutions. Globally, banks are building higher and better quality capital and liquidity buffers. In particular, significant progress has been made in the implementation of the leverage ratio and liquidity cushions. Revised standards on securitisation and market risk frameworks are evolving on agreed timelines. On the other hand, delays in implementation of some Basel III standards—capital requirements for equity investments in funds; standardised approach for counterparty credit-risk, capital requirements for exposures to central counterparties; margin requirements for non-centrally cleared derivatives; and the revised Pillar 3 framework—are impeding a full convergence to Basel III.

6.3 Too-Big-To-Fail

II.35 Most FSB members have adopted frameworks for loss absorbency for systemically important banks. Total loss absorbency capacity (TLAC) issuance strategies are now in place for almost all global systemically important banks (G-SIBs) on course to meet the 2019 requirements. However, work remains on fully transposing TLAC into domestic regulations, including the BCBS's standard on TLAC holdings and internal TLAC requirements for host authorities of material G-SIB subsidiaries.

II.36 Supervisory colleges have been established for almost all G-SIBs. Resolution regimes with comprehensive powers broadly in line with the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions have been implemented in most of the G-SIB home jurisdictions. However, the frameworks for bail-ins and early termination rights remain weak. Most G-SIBs have not fully implemented the BCBS principles on risk data aggregation and risk reporting, even as work is underway to address challenges relating to information sharing and coordinated risk assessments.

6.4 Making Derivatives Markets Safer

II.37 The FSB's agenda on over-the-counter (OTC) derivatives markets consists of standardisation, central clearing, exchange or electronic platform trading, margining and reporting of OTC derivatives transactions to trade repositories.

II.38 Implementation of OTC derivatives reforms is underway, although with delays, in some jurisdictions only on account of the sheer scale and complexity of the reforms. The implementation is most advanced for trade reporting and capital requirements for non-centrally cleared derivatives. While the central clearing framework has been implemented by 75 per cent of the FSB members, the framework for margin requirements and platform trading framework is in place in about 50 per cent of the FSB membership.

6.5 Transforming Non-bank Financial Intermediation into Resilient Market-based Finance

II.39 While a system-wide monitoring framework to assess risks and spillovers associated with the non-bank financial intermediation system has been developed by the FSB in collaboration with standard setting bodies, its implementation remains at a relatively early stage.

II.40 A FSB peer review concluded that jurisdictions should establish a systematic process for assessing non-bank financial intermediation risks, and ensure that any non-bank financial entities or activities that could pose material financial stability risks are brought within the regulatory perimeter. The FSB conducts an annual system-wide monitoring exercise to track developments in the non-bank financial intermediation system in an activity-based "economic function" approach in which authorities narrow their focus to those parts of the non-bank financial sector where financial stability risks from non-bank financial intermediation are most likely to arise.

6.6 Misconduct Risks

II.41 In recent years, the FSB has also been coordinating several initiatives—misconduct; correspondent banking and remittances; climate-related financial disclosure and Fin Tech—in order to secure financial stability on an enduring basis. The FSB is implementing an action plan to address misconduct risks through a range of preventative measures focusing on (i) improvements to financial institutions' governance and compensation structures; (ii) upgrading global standards of conduct in the fixed income, commodities and currency markets; and (iii) reforms to major financial benchmark arrangements to reduce the risks of their manipulation.

II.42 A stocktake on these efforts was published in May 2017 by the FSB, which set out areas for supervisors to mitigate misconduct risk. In May 2018, the FSB issued a consultative document on recommendations for consistent national reporting of data on the use of compensation tools.

6.7 Correspondent Banking and Remittances

II.43 In November 2015, the FSB launched a four-point action plan to assess and address the decline in correspondent banking. In March 2016, the FSB established the Correspondent Banking Coordination Group (CBCG) to coordinate and maintain efforts towards the implementation of the action plan in four areas *viz.*, (i) examining the dimensions and implications of the issue; (ii) clarifying regulatory expectations, including guidance by the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision (BCBS); (iii) domestic capacity-building in jurisdictions that are home to affected respondent banks; and (iv) strengthening tools for due diligence by correspondent banks. The FSB also publishes a Correspondent Banking Data Report which highlights the decline in the number of correspondent banking relationships (CBRs) especially for the US dollar and the Euro. The termination of CBRs is attributed *inter alia* to industry consolidation, lack of profitability, the overall risk appetite, and various causes related to anti-money laundering and countering the financing of terrorism (AML/CFT) or sanctions regimes.

6.8 Climate-Related Financial Disclosures

II.44 Access to better quality information on climate-related financial risks is essential to enable market participants to understand and manage them. The industry-led Task Force on Climate-related Financial Disclosures (TFCD) (Chairman: Michael Bloomberg) has made recommendations on climate-related financial disclosures that are applicable to organisations across sectors and jurisdictions. The recommendations are structured around four thematic areas: governance; strategy; risk management metrics; and targets.

6.9 Implications of financial technology innovations

II.45 In view of the rapid proliferation of technology-enabled innovation in financial services or FinTech, the FSB has been analysing potential financial stability implications therefrom. In its report to the G20 in June 2017, the FSB highlighted 10 areas that merit authorities' attention of which, three are seen as priorities for international collaboration: (i) managing operational risk from third-party service providers; (ii) mitigating cyber risks; and (iii) monitoring macro financial risks associated with FinTech activities.

II.46 The FSB has undertaken a review of the financial stability risks posed by the rapid growth of crypto-assets. Its initial assessment is that crypto-assets do not pose risks to global financial stability currently. The market continues to evolve rapidly, however, and this initial assessment could change if crypto-assets were to become more widely used or interconnected with the core of the regulated financial system.

6.10 Jurisdiction specific banking policy developments

II.47 In the US, the Dodd Frank Act was passed after the global financial crisis to contain excessive risk build-up and to strengthen regulatory rules. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law which modifies some provisions of the Dodd Frank Act, including, inter alia, the Volcker Rule (a ban on proprietary trading and certain relationships with investment funds), the qualified mortgage criteria under the Ability-to-Repay Rule, and enhanced regulation for large banks. The new law also provides smaller banks with an "off ramp" from Basel III capital requirements and makes other changes to the regulatory system.

II.48 In the Euro Area, the European Central Bank (ECB) reviewed and streamlined its supervisory priorities. With the United Kingdom's departure from the European Union scheduled for March 2019, banks' preparedness for Brexit remains a high priority for ECB Banking Supervision. ECB Supervisors plan to closely monitor the implementation of banks' Brexit plans to ensure that they comply with supervisory expectations.

7. Summing up

II.49 Improvement in global growth and intensification of post-global crisis reforms has lent considerable support to banks and has made them resilient, as seen in improving capital and liquidity buffers, and declining NPL ratios. Credit growth is taking hold in many jurisdictions across the world. Technology-driven banking is the next frontier, presenting risks as also opportunities. Crypto-currencies need constant monitoring on overall financial stability considerations, given the rapid expansion in their usage. Going forward, the risks emanating from geo-political conditions in some countries as also the pace of normalisation by monetary authorities in AEs need to be monitored closely. Intensification of these risks entail reversal of capital flows from EMEs, financial market volatility and institutional fragility amplified by swings in global risk sentiment.

III POLICY ENVIRONMENT

Empowered by the statutory power to issue directions to banks on resolution of stressed assets, the Reserve Bank consolidated in 2017-18 the stressed assets resolution framework, with the Insolvency and Bankruptcy Code as the lynchpin. Concomitantly, liquidity risk management practices of commercial banks were aligned with international standards. The move to allow voluntary transition of co-operative banks into small finance banks is likely to open newer growth horizons for them. In progressive alignment with the oversight framework for banks, the Reserve Bank strengthened regulatory requirements for government owned non-banking financial companies.

1. Introduction

III.1 Declogging the large overhang of stressed assets in the banking system has ascended the hierarchy of priorities in the conduct of policies to safeguard financial stability in India. In this context, the Reserve Bank has adopted a multi-pronged strategy consisting of recognition, provisioning and resolution of non-performing assets (NPAs). The rapid recovery of economic activity from the transient disruptions associated with demonetisation and the implementation of the goods and services tax (GST) in an environment of macroeconomic stability provided tailwinds for an intensification of those efforts during 2017-18. Given this overarching priority, the Reserve Bank also reviewed and refined its regulatory and supervisory policies during the year in order to catalyse the banking system into scaling up the reach and quality of the financial intermediation needs of a digitising economy. Financial inclusion and ongoing improvement in customer services remained concomitant goals. This chapter presents an overview of the policy environment for the banking system that evolved during 2017-18 and 2018-19 so far in pursuit of these goals, with a focus on regulatory and supervisory policies.

III.2 The rest of the chapter begins with developments in monetary policy and liquidity conditions as they shaped financial activity during the year in Section 2. Regulatory policies are covered in Section 3, presenting the progress made under the Insolvency and Bankruptcy Code (IBC) framework as well as under other initiatives and in the managing of liquidity risks. An empirical evaluation of the efficacy of macro-prudential policies is a special feature of this section. Measures initiated by the Reserve Bank to encourage dynamism and efficiency in niche areas of banking are covered in Section 4. A well-designed regulatory policy is best enforced by efficient supervision. Developments in supervisory policies, including cyber security measures and fraud reporting are covered in Section 5. With non-banking financial companies (NBFCs) growing rapidly in recent years, the Reserve Bank has been engaging in stronger monitoring and regulation of this sector. These policy initiatives are set out in Section 6. Policy developments in other focal areas of the Reserve Bank including credit delivery, financial inclusion, consumer protection and payment and settlements systems are covered in sections 7 to 10, respectively. Section 11 concludes with a forward-looking assessment.

2. Monetary and Liquidity Management: Policy Developments

III.3 The banking sector in India plays a crucial role in monetary policy transmission in keeping with its predominant position in the financial system. During 2017-18, the Monetary Policy Committee (MPC) voted for a 25 basis points (bps) rate cut in August 2017 and maintained *status quo* through the rest of the year in the policy rate as the balance of risks around the inflation trajectory tilted to the upside. With several of these risks materialising in the ensuing months, the MPC raised the policy rate twice – by 25 bps each in June and August 2018. In its October and December 2018 meetings, the MPC kept the policy rate unchanged. However, the policy stance was changed from neutral to calibrated tightening in the October 2018 meeting. Consistent with the stance of monetary policy, liquidity management operations endeavoured to modulate system liquidity around a position closer to neutrality by employing variable rate reverse repo auctions with a preference for longer tenors, security issuances under the market stabilisation scheme (MSS), cash management bills (CMBs)[1] and open market operations (OMOs). Variable rate reverse repo/repo operations of 14-day and 7-day tenors continued modulating frictional liquidity mismatches. The width of the policy corridor was narrowed from 100 bps in April 2016 to 50 bps in April 2017 following which, volatility in the call money market reduced - the standard deviation of the weighted average call money rate (WACR), the operating target of monetary policy, declined from 0.19 in 2016-17 to 0.10 in 2017-18.

III.4 System level liquidity went through alternative phases during the period under review and accordingly, the Reserve Bank's policy responses were varied. During Q1: 2017-18, the Reserve Bank auctioned treasury bills (tenors ranging from 312 days to 329 days) aggregating ₹1 trillion under the MSS in April and in May 2017, to drain surplus liquidity as part of daily absorption operations of ₹4.6 trillion (reverse repo, MSS and CMBs). In Q2: 2017-18, liquidity absorption had to be topped up with open market sales of ₹600 billion (₹200 billion each in July, August and September). Bolstering liquidity draining operations under the liquidity adjustment facility (LAF) in Q3: 2017-18, the Reserve Bank conducted open market sales to absorb ₹300 billion on a durable basis (₹200 billion in October and ₹100 billion in November). System liquidity flipped into deficit transiently in the second half of December due to the usual advance tax outflows and again from February, which was managed through regular LAF operations, including additional variable rate repo operations (₹250 billion each) of longer tenors (24 to 31 days) to equilibrate end-year liquidity mismatches associated with balance sheet adjustments. Standalone primary dealers (SPDs) were allowed to participate in the auction conducted on March 28, 2018.

III.5 During 2018-19, liquidity conditions alternated between largely surplus conditions in Q1 and intermittent phases of deficits in Q2. The deficits became persistent in Q3 due to sharp increase in currency in circulation (CiC) and forex operations by the Reserve Bank (up to December 19, 2018). Surplus liquidity was managed through LAF variable rate reverse repo

[1] CMBs are short-term money market instruments that are issued by the Reserve Bank on behalf of the central government to help the latter in tiding over its temporary cash flow mismatches.

auctions of various tenors. Variable rate repos of maturities ranging between 1 to 56 days were employed to assuage deficit conditions. The Reserve Bank also injected durable liquidity amounting to ₹1.36 trillion through OMO purchases during April-November 2018. For the month of December, another ₹500 billion of liquidity injection through OMO purchases has been announced of which ₹200 billion has already been conducted till December 19, 2018.

3. Regulatory Policies

III.6 During the year under review, key policy initiatives encompassed a revised framework for resolution of stressed assets. The Reserve Bank's other regulatory initiatives included, *inter alia*, progressive alignment of liquidity risk management with international standards, measures to strengthen the co-operative banking system as a purveyor of inclusive bank credit and a host of miscellaneous measures which have forward-looking implications.

3.1 Resolution of Stressed Assets

III.7 The enactment of IBC, 2016 and the amendment to the Banking Regulation Act, 1949 in 2017 marked a watershed in the evolution of the regime for resolution of financial stress in India, empowering creditors to deal with troubled financial assets in a transparent, time-bound manner (Box III.1).

Box III.1: Insolvency and Bankruptcy Code - Impact so far

Introduced in May 2016, the IBC is a game changer in the resolution of NPAs in India because it provides a framework for time-bound insolvency resolution (180 days extendable by another 90 days) with the objective of promoting entrepreneurship and availability of credit while balancing the interests of all stakeholders. The IBC represents a paradigm shift in which creditors take control of the assets of the defaulting debtors, in contrast to the earlier system in which assets remained in possession of debtors till resolution or liquidation.

The experience so far has been encouraging with IBC providing resolutions to some large corporate debtors. Raw data suggests that the number of cases ending with liquidation is about four times higher than those ending with a resolution plan (Table 1). A granular analysis however reveals that more than three-fourth of the cases closed by liquidation (163 out of 212) were earlier under the Board for Industrial and Financial Reconstruction (BIFR) or defunct or both and thus, the intrinsic value of most of these assets had already eroded before they were referred to the IBC. Liquidation could be an efficient mode of resolution for debtors in default for long time

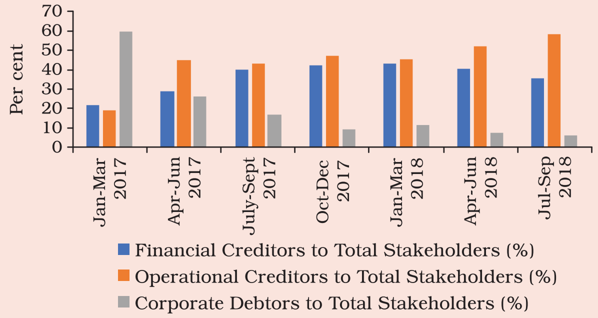
Table 1: Corporate Insolvency Resolution Process (CIRP)

Quarter	No. of CIRPs at the beginning of the Quarter	Admitted	Closure by			No. of Corporates undergoing Resolution at the end of the Quarter
			Appeal/ Review	Approval of Resolution Plan	Commencement of Liquidation	
Jan-Mar, 2017	0	37	1	0	0	36
Apr-Jun, 2017	36	129	8	0	0	157
July-Sept, 2017	157	231	15	2	8	363
Oct-Dec, 2017	363	147	33	8	24	445
Jan-Mar, 2018	445	194	14	13	57	555
Apr-Jun, 2018	555	244	18	11	47	723
Jun-Sept, 2018	723	216	29	18	76	816
Total	**--**	**1,198**	**118**	**52**	**212**	**816**

Source: Insolvency and Bankruptcy Board of India (IBBI) Newsletter.

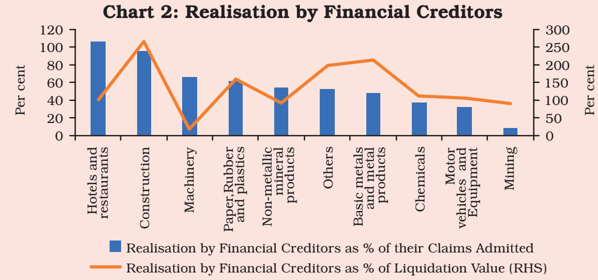
(Contd...)

Chart 1: Corporate Insolvency Resolution Initiation by Different Stakeholders



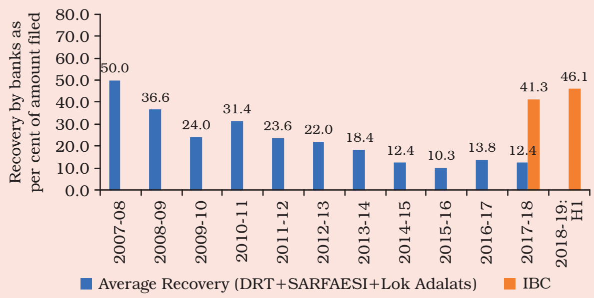
Source: IBBI.

Chart 2: Realisation by Financial Creditors



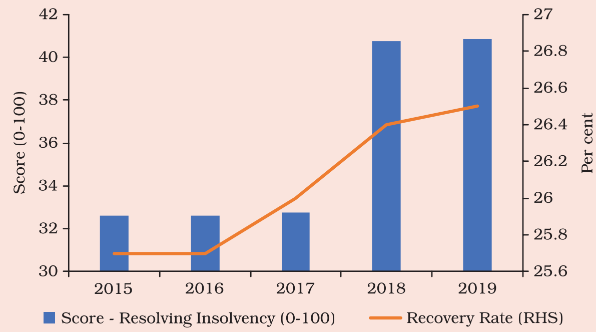
Note: Calculations pertain to 51 firms out of 52 firms for which the resolution plans were approved. Data on liquidation value and claims admitted for one firm is not available. The 51 firms can broadly be classified as Hotels and restaurants - 4, Construction – 3, Machinery – 4 Paper, rubber and plastics – 6, Non-metallic mineral products – 2, Others – 10, Basic metals and metal products –13, Chemicals – 3, Motor vehicles and equipment – 4 and Mining – 2. Classification of companies into different sectors is based on National Industrial Classification (NIC) – 2004 and information on companies is obtained from Capitalline Plus database.
Source: IBBI.

Chart 3: Recovery through Various Mechanisms



Note: Data on average recovery (DRT+SARFAESI+Lok Adalats) is not available for 2018-19: H1
Source: RBI and IBBI.

Chart 4: Insolvency Resolution and Recovery



Source: World Bank (www.doingbusiness.org)

wherein the scope for revival of the enterprise is low and liquidation value exceeded resolution value. As such, the number of liquidation orders should be seen as a natural step towards efficient reallocation of resources rather than an adverse consequence of IBC itself.

Operational creditors have filed the maximum number of CIRPs, followed by financial creditors. In May 2017, the Banking Regulation Act, 1949 was amended to empower the Reserve Bank to direct any bank to initiate insolvency resolution under the IBC framework in respect of a default, resulting in an increase in the number of cases initiated by financial creditors (Chart 1).

On an average, financial creditors have received 1.9 times the liquidation value. The realisation value as a proportion to admitted claims varies significantly across firms and sectors (Chart 2).

The average recovery through mechanisms that existed before IBC *viz.*, the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, Debt Recovery Tribunals (DRTs) and Lok Adalats has been declining over the years. The average recovery through IBC is greater than these mechanisms and is also improving gradually, pointing to the need and efficiency of such a channel (Chart 3).

Reflecting this, India's insolvency resolution score and recovery rate improved substantially in the World Bank's Ease of Doing Business Index, after the introduction of IBC, 2016 (Chart 4).

Going forward, as the IBC process matures, the proportion of cases filed by corporate debtors is expected to rise. Various amendments in the IBC have been introduced in the recent period such as giving home buyers the status of financial creditors and exempting the resolution applicants of micro, small and medium enterprises (MSMEs) from Section 29A (c) and (h) of the IBC to allow the existing promoters of MSMEs to participate in resolution process. These amendments should strengthen the resolution process and release resources for investment.

As on September 30, 2018, around 30 per cent of the ongoing resolution processes has exceeded the prescribed time limit of 270 days. Strengthening the infrastructure of insolvency resolution, including the proposed increase in the number of benches of National Company Law Tribunal (NCLT), should help reduce the overall time currently being taken for resolution under the IBC.

Reference

Insolvency and Bankruptcy Board of India: *Insolvency and Bankruptcy News*, various issues. Available on https://ibbi.gov.in/publication.html, accessed on October 19, 2018.

III.8 Two important policy initiatives taken in 2017-18 should expedite the resolution of stressed assets: First, the Reserve Bank issued guidelines on a revised framework for resolution of stressed assets on February 12, 2018. This framework, with the IBC as the lynchpin, replaced all previous resolution mechanisms in a step towards a steady state in which maximum value could be realised by all the stakeholders. While leaving the definition of a non-performing asset unchanged, it lays down broad principles that should be followed in the resolution of stressed assets, with clearly defined rules for ensuring credible outcomes. An Internal Advisory Committee (IAC) has guided these processes since June 2017, with a focus on large value stressed accounts.

III.9 In the revised framework, all lenders must put in place board-approved policies for resolution of stressed assets, including timelines for resolution. Stress in loans has to be identified immediately on default, classifying them as special mention accounts (SMA). Lenders – singly or jointly – should initiate steps to cure the default as soon as it occurs. The resolution plan (RP) may take any form – regularisation of the account by payment of all overdues by the borrower entity; sale of exposures to other investors; change in ownership; or restructuring. In respect of accounts with aggregate exposure of ₹20 billion and above, lenders are required to finalise and implement a resolution plan within 180 days from the date of first default, failing which the banks would have to refer the cases to the IBC.

III.10 Second, the IBC (Second Amendment) Act, 2018, which came into force on June 6, 2018 provided some relief to home buyers and MSMEs. The definition of financial debt was widened to include the amount raised from allottees under a real estate project, thus giving them the status of financial creditors. The promoter of a MSME would not be disqualified from bidding for the enterprise, provided that the promoter is not a wilful defaulter and does not attract other specific disqualifications. It also lays down the procedure for withdrawal of a case by the resolution applicant after its admission under IBC, 2016. The voting threshold was brought down to 66 per cent from 75 per cent for all major decisions such as approval of resolution plan, extension of corporate insolvency resolution process period, and to 51 per cent for routine decisions. The existing Section 29A of the IBC, 2016 has also been amended to exempt financial entities from being disqualified on account of NPAs. Similarly, an applicant holding an NPA by virtue of acquiring it in the past under the IBC, 2016 has been provided with a three-year grace period from the date of such acquisition during which the resolution applicant will not be disqualified under Section 29A.

3.2 Managing Liquidity and Market Risk

III.11 In contrast to the experience in other countries, the statutory liquidity ratio (SLR) has provided a segway for the smooth adoption of the liquidity coverage ratio (LCR) in India. The Reserve Bank has allowed up to 13 per cent of net demand and time liabilities (NDTL) within the SLR to be reckoned as level 1 high quality liquid assets (HQLAs) [2 per cent of NDTL under the marginal standing facility (MSF) and 11 per cent under the facility to avail liquidity for liquidity coverage ratio (FALLCR)] with effect from June 15, 2018. The FALLCR has been expanded by another 2 per cent of NDTL – within the mandatory SLR requirement, effective October 1, 2018. Hence, the carve-out from SLR under FALLCR available to banks goes up to 15 per cent of NDTL. Further, SLR would be reduced by 25 bps every quarter commencing from January 2019 until it reaches 18 per cent of NDTL.

III.12 On October 19, 2018, the Reserve Bank provided incentives to banks to lend to the NBFC sector. Banks can use government securities held by them equivalent to their incremental credit to NBFCs and housing finance companies (HFCs) as level 1 HQLA, in addition to the 15 per cent carve-out from SLR under FALLCR and limited to 0.5 per cent of each bank's NDTL. The exposure limit of banks to non-infrastructure NBFCs has also been raised to 15 per cent from the earlier 10 per cent. These initiatives are intended to ease temporary asset-liability mismatches that the NBFC sector is experiencing and will be available only up to December 31, 2018. Besides, on November 2, 2018, the Reserve Bank permitted banks to grant partial credit enhancement to bonds issued by non-deposit taking systemically important NBFCs (NBFCs-ND-SI) and HFCs registered with National Housing Bank (NHB) to improve their credit ratings and access to the bond market.

III.13 Banks were allowed to spread provisioning for mark-to-market (MTM) losses on investments held in the available for sale (AFS) and held for trade (HFT) categories for the quarters ended December 31, 2017, March 31, 2018 and June 30, 2018 with a view to addressing the systemic impact of the sharp increase in yields on government securities. The provisioning would be spread equally over up to four quarters commencing from the quarter in which the loss was incurred. Additionally, all banks have been advised to create an investment fluctuation reserve (IFR) from 2018-19 onwards to build-up adequate buffers against market risks in the form of increase in yields in the future. The same facility has also been extended to co-operative banks, effective July 6, 2018.

III.14 Banks were advised to make an objective valuation of state development loans (SDLs) reflecting their fair value, based on observed prices / yields effective December 31, 2018. Financial Benchmark India Private Ltd. (FBIL) has been entrusted with the task of making available prices of SDLs based on these principles.

III.15 Earlier, banks were permitted to exceed the limit of 25 per cent of the total investments under the held to maturity (HTM) category, provided the excess comprises SLR securities and the total SLR securities held under the HTM category are not more than 20.5 per cent of NDTL. In order to align SLR holdings under the HTM category with the mandatory SLR, the ceiling was reduced from 20.5 per cent to 19.5 per cent in a phased manner, *i.e.*, 20 per cent by December 31, 2017 and 19.5 per cent by March 31, 2018.

3.3 Macro-prudential Policies

III.16 In India, macro-prudential measures have been undertaken to address both the time dimension as well as the cross-sectional dimension of systemic risk. The time dimension of systemic risk is closely linked with pro-cyclicality of credit growth. On the other hand, the cross-sectional dimension is related to the distribution of systemic risk in the financial system. With the Indian financial system being dominated by the banking sector, macro-prudential measures have mainly addressed the banking sector while progressively striving for convergence across other regulated entities (Box III.2).

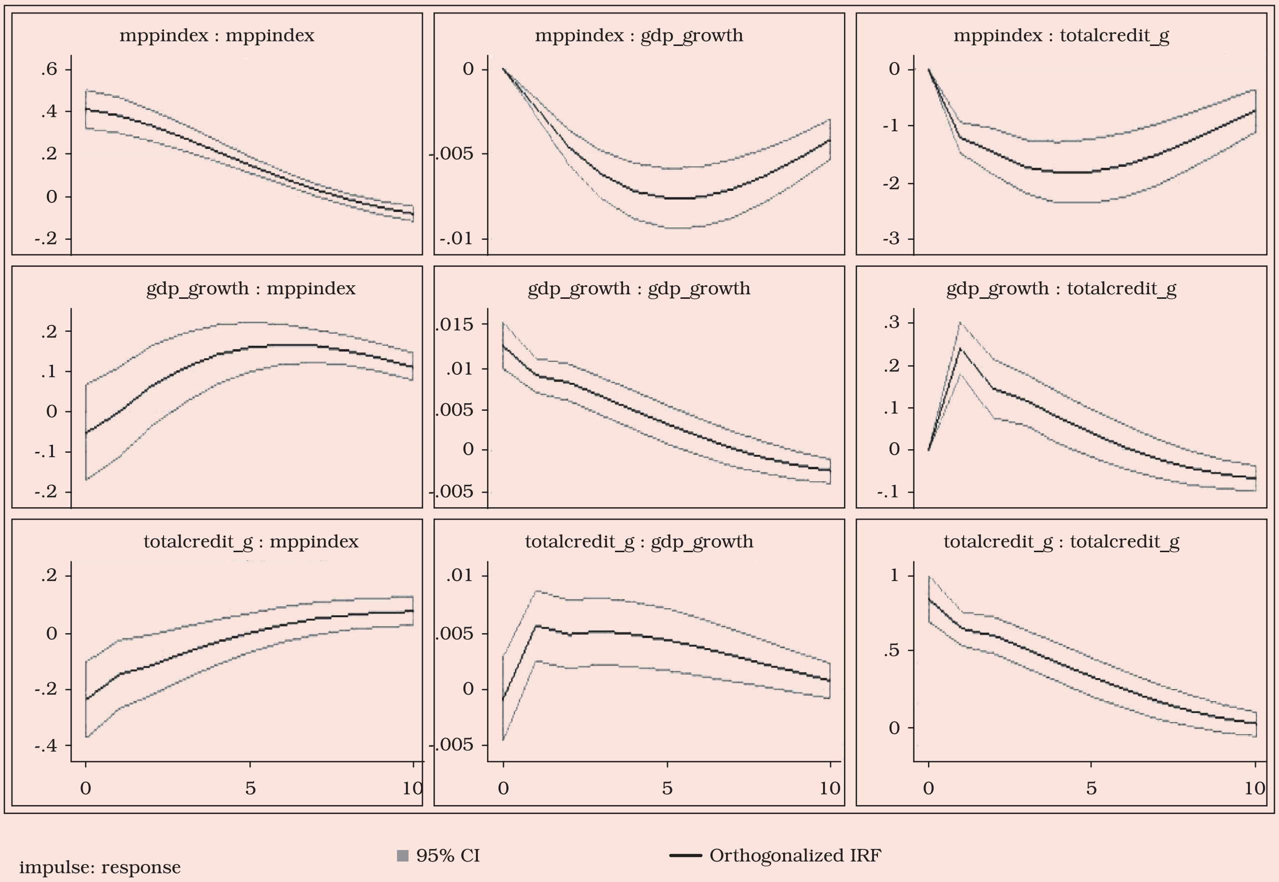
Box III.2: Macro-Prudential Policies in India

Macro-prudential instruments in the form of counter-cyclical provisioning, differentiated risk weights and loan-to-value (LTV) ratios especially for sensitive sectors such as residential housing and commercial real estate (CRE) – have been employed in India since 2004. An aggregate macro-prudential policy (MPP) index using risk weights and provisioning for standard assets in residential housing, CRE, consumer loans, capital market exposure and the cash reserve ratio (CRR) was constructed to provide a summary representation of policy interventions to preempt systemic risk (Akinci and Olmstead-Rumsey, 2017). A zero value is assigned to each of the measures in the base year 1999-2000. In the subsequent years, a value of one is added if any macro-prudential measure was introduced or tightened. Similarly, a value of one is subtracted if macro-prudential measures were loosened. If macro-prudential measures were tightened or relaxed multiple times during a year, one is added or subtracted as many times. If no action was taken in a year, there is no change in the value of the index. These individual indices are then aggregated horizontally to construct the MPP index.

The results from a panel vector auto-regression (VAR) using bank groups as panels for the period 1999-2000 to 2016 suggest that tightening of macro-prudential measures affects credit growth negatively with a one-year lag, in line with the consensus in the literature (Erdem *et al*, 2017; Verma, 2018) (Table 1). Similar results are found to be valid in case of sensitive sectors such as housing, CRE and consumer loans.

The impulse response of credit growth to one standard deviation shock to the MPP index is found to be negative up to four periods. Although tightening of MPP constrains gross domestic product (GDP) growth initially, this is neutralized within five periods (Chart 1).

Chart 1: Impulse Response of Credit Growth to Macro-Prudential Shocks



Note: Errors are 5% each side generated by Monte-Carlo simulation with 200 reps.

(Contd....)

Table 1: Impact of Macro-prudential policy (Three Variable Panel VAR)

Response of	Response to		
	Total credit growth (t-1)	GDP growth (t-1)	Ln (MPP Index(t-1))
Total credit growth(t)	-0.06 (0.096)	17.98*** (0.514)	-0.30*** (0.009)
GDP growth(t)	0.0078*** (.001)	0.6952*** (.005)	-0.0055*** (.001)
Ln (MPP Index(t))	0.1235*** (.022)	3.7632*** (.109)	0.9337*** (.004)
No. of obs. - 48			

Notes: 1. Figures in parentheses are standard errors.
2. ***p<0.01; **p<0.05; *p<0.10.

The EME country experience reinforces these results. Among various macro-prudential measures, risk weights and provisioning on standard assets are particularly effective in restraining credit growth in sectors such as housing and CRE. There are non-linearities involved in the impact of macro-prudential policies across phases of the credit cycle. In the final analysis too, this asymmetry plays out: macro-prudential measures have been able to restrain credit growth in targeted sectors during periods of exuberant growth, but their ability to lift credit growth during downturns has been limited.

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4. Policies in Niche Banking

III.17 In addition to these overarching measures, several steps were taken in 2017-18 to bring in dynamism and efficiency in niche areas of the banking space.

4.1 Reforms in Co-operative Banking

III.18 The Reserve Bank has been expanding opportunities for urban co-operative banks (UCBs) in an effort to mainstream them with differentiated banking models. It is in this context that eligible UCBs have been allowed to transit into small finance banks (SFBs) in line with recommendations made by a high-powered committee (Chairman: Shri R. Gandhi). Furthermore, participation in the LAF has been extended to scheduled state co-operative banks (StCBs) which are core banking solutions (CBS)-enabled with capital to risk weighted assets ratio (CRAR) of at least 9 per cent with effect from August 20, 2018. All scheduled UCBs and StCBs have been permitted access to the MSF, subject to eligibility criteria.

III.19 All UCBs have also been permitted to undertake eligible transactions for acquisition or sale of non-SLR investments in the secondary market in addition to undertaking eligible transactions with scheduled commercial banks (SCBs) and primary dealers (PDs). These initiatives are intended to bring efficiency in price discovery and harmonise regulations in the co-operative banking space.

III.20 The criteria for determining customer liability in the case of UCBs were reviewed in December 2017. The new directions focus on strengthening of systems and procedures, and clearly defining the responsibilities of banks and customers. In line with the criterion laid down for SCBs, the burden of proving customer liability shall lie with the UCBs that are also advised to formulate or revise board-approved customer relations policies, which clearly define rights and obligations of customers in case of unauthorised transactions in specified scenarios.

III.21 The Reserve Bank, in consultation with the Institute of Chartered Accounts of India (ICAI), has also finalised an indicative format for independent audit reports for multi-state UCBs and for UCBs registered under the Maharashtra Co-operative Societies Act, 1960 in order to address the issue of divergences in assessment of NPAs between statutory auditors and the Reserve Bank's inspection reports.

III.22 Furthermore, with a view to strengthening governance in UCBs, the Reserve Bank issued draft guidelines on constituting Board of Management (BoM) in addition to Board of Directors (BoD) in June 2018. Under the present legal framework, the BoD of a UCB performs both the executive and the supervisory roles and has the responsibility to oversee the functioning of the UCB as a co-operative society and as a bank. The draft guidelines proposed to make a provision in the UCBs' bye-laws for setting up a BoM, consisting of members with special knowledge and practical experience in banking and other relevant fields.

4.2 Legal Entity Identifier

III.23 The Legal Entity Identifier (LEI), which seeks to improve the quality and accuracy of financial data systems for better risk management, is a 20-character unique identity code assigned to entities that are parties to a financial transaction. The LEI code was introduced from June 2017 in a phased manner for participants (other than individuals) in over-the-counter markets for rupee interest rate derivatives, foreign currency derivatives and credit derivatives in India. It was made applicable for large corporate borrowers with an exposure of ₹500 million and above in November 2017 and they are required to obtain LEI codes by December 31, 2019. The LEI system will be implemented for non-derivative financial markets as well. Participants other than individuals undertaking transactions in the markets regulated by the Reserve Bank, *viz.*, government securities markets, money markets and foreign exchange markets, shall obtain LEI codes, and this process is scheduled to be completed by March 31, 2020

4.3 Prohibition on Dealing in Virtual Currencies

III.24 The Reserve Bank has repeatedly cautioned users, holders and traders of virtual currencies (VCs) about the various risks associated with them. On April 6, 2018, the Reserve Bank mandated that entities regulated by it shall not deal in VCs or provide services for facilitating dealing with or settling VCs. Regulated entities which provided such services were required to exit the relationship within three months from the date of the circular.

4.4 Loan System for Bank Credit

III.25 The guidelines mandating a minimum loan component of 40 per cent in fund based working capital finance with effect from April 1, 2019 were issued on December 5, 2018. This level would be revised to 60 per cent with effect from July 1, 2019. Effective April 1, 2019, a mandatory credit conversion factor (CCF) of 20 per cent has been prescribed for the undrawn portion of cash credit/ overdraft limits availed by large borrowers from the banking system. These guidelines intend to enhance credit discipline among the larger borrowers enjoying working capital facilities provided by banks.

4.5 Setting up of IFSC-Banking Units

III.26 The Reserve Bank modified guidelines prescribed for setting up of international financial services centres (IFSC) banking units (IBUs) effective May 17, 2018. The parent bank is required to provide a minimum capital of $20 million or equivalent in any foreign currency on an ongoing basis. While earlier, the minimum capital was required to be maintained with its IBU, the modified guidelines allow maintenance of the same at the parent level as per regulations in the home country. For foreign banks, the IBU is required to submit to the Reserve Bank a certificate to this effect obtained from the parent bank on a half-yearly basis.

4.6 Payments Banks and SFBs in Money Market

III.27 On October 29, 2018 the Reserve Bank clarified that payments banks and SFBs are eligible to participate in the call/notice/term money market both as lenders and borrowers, even before getting the SCB status. However, such participation is subject to the same prudential limits and other guidelines, as applicable in this regard, to the SCBs. This move will enable these financial institutions to access short-term liquidity and handle maturity mismatches more effectively.

5. Supervisory Policies

III.28 In its role as the financial stability watchdog and the lead supervisor of the financial system, the Reserve Bank maintains a close watch on incipient signs of financial vulnerabilities and takes timely policy measures to contain spillovers. In the recent period, supervisory efforts were aimed at realistic assessment of asset quality and ensuring adequate cyber security measures in commercial banks.

5.1 Board for Financial Supervision

III.29 The Board for Financial Supervision (BFS), constituted in November 1994, functions as a consolidated supervisor of the financial system comprising commercial banks, financial institutions and NBFCs. The BFS provided guidance on several regulatory and supervisory policy issues during the year, including the course of action to be pursued in respect of institution-specific supervisory concerns and the framework for enforcement action that might become necessary against regulated entities. Some of the major issues deliberated upon by the BFS in 2017-18 covered turnaround of banks with weak financial position, strengthening of cyber security in banks and guidelines on the role of the Chief Risk Officer and the Chief Technology Officer of banks. A sub-committee of the BFS has been constituted under the BFS Regulations, 1994 for considering agenda items on payment banks, SFBs, Local Area Banks (LABs), Credit Information Companies (CICs), small foreign banks, certain scheduled UCBs and asset reconstruction companies.

5.2 Banking Frauds

III.30 The extant guidelines require banks to report the names of third party entities (TPEs) like advocates, chartered accountants, valuers and architects involved in bank frauds to the Indian Banks Association (IBA) which, in turn, disseminates caution lists to the banks. In February 2018, the IBA was advised to initiate necessary action to put in place enhanced IT-enabled, user-friendly, web-based TPE reporting and disseminating infrastructure with suitable data security and control measures. Moreover, in view of the recent incidents relating to the Society for Worldwide Interbank

Financial Telecommunication (SWIFT) systems, banks were directed to strengthen various operational controls in their SWIFT system in a time-bound manner[2]. An expert committee (Chairman: Shri Y H Malegam) was formed in February 2018 to examine asset classification and provisioning practices of banks and the incidence of frauds.

5.3 Cyber Security Oversight Framework

III.31 The inter-disciplinary standing committee on cyber security constituted in 2017 provided strategic directions in cyber security related matters and examined concerns in the areas of card-based payments, mobile banking and vendor risk management. Recognising the importance of cyber security, IT examinations as well as focused thematic studies are being conducted to assess the level of cyber security preparedness in banks. Periodic cyber-drill exercises are undertaken, and the results are evaluated and shared with banks for improving their incident management capabilities. In order to address vulnerabilities in ATM security, banks were advised to implement security measures such as basic input-output system (BIOS) passwords, disabling auto-run facility and upgradation of operating systems in a phased manner.

III.32 The Reserve Bank introduced a basic cyber security framework for UCBs on October 19, 2018 requiring them to put in place a board-approved cyber security policy distinct from their IT policy. This would standardise technology adoption amongst UCBs and address cyber security breaches more effectively.

6. Non-Banking Financial Companies

III.33 NBFCs have been complementing banks as financial intermediaries by leveraging on their efficient and nimble operations and tailor-made products for niche areas. The need to strengthen their regulation and supervision has come to the fore in view of their rapid expansion in recent years. The Reserve Bank has been striving to harmonise regulatory requirements of various classes of NBFCs while putting in place specific policy measures for particular classes of NBFCs such as core investment companies and legacy NBFCs as needed.

6.1 Government Owned NBFCs

III.34 In 2017-18, the Reserve Bank aligned the regulatory requirements of government-owned NBFCs with those of privately owned NBFCs. Government-owned NBFCs will have to adhere to all regulations on income recognition, provisioning norms, corporate governance, conduct of business regulations, deposit directions and reserve funds by March 31, 2019. Asset classification norms have to be complied by March 31, 2020 and capital adequacy, leverage, exposure norms and statutory provisions are to be phased in progressively by March 31, 2022.

6.2 Core Investment Companies

III.35 Core investment companies registered as NBFCs primarily invest in group companies and do not carry out any other NBFC activity. They are required to invest up to 90 per cent of their net assets in equity shares, preference shares, bonds, debentures, debt or loans of group companies, while equity investments

[2] A recent large value fraud evolved partly due to the non-integration of the SWIFT system with the CBS. The risks arising from such malicious use of the SWIFT infrastructure has always been a component of banks' operational risk profile and the Reserve Bank had confidentially cautioned and advised them to put in place adequate safeguards, at least on three occasions since August 2016.

in group companies must constitute at least 60 per cent of net assets. In order to promote infrastructure development through investment in Infrastructure Investment Trusts (InvITs), core investment companies registered with the Reserve Bank as NBFCs were allowed to act as sponsors to InvIT issuances and to reckon holdings of InvIT units as part of the sub-limit of 60 per cent for equity investments in group companies. Exposures of core investment companies to InvITs are limited to their holdings as sponsors.

6.3 Regulatory Framework for NBFCs

III.36 As per the revised regulatory framework issued in November 2014, all the legacy NBFCs which were earlier allowed to carry on operations with a capital of ₹2.5 million were required to bring in a minimum capital of ₹10 million by March 31, 2016 and ₹20 million by March 31, 2017. The Reserve Bank has initiated supervisory action, including cancellation of the certificate of registration (CoR) of NBFCs that have not achieved the minimum prescribed net owned funds (NOF) by March 31, 2017.

6.4 Diversification of Activities of SPDs

III.37 The Reserve Bank enabled SPDs to provide comprehensive services to their foreign portfolio investment (FPI) clients. With effect from July 27, 2018 they have been permitted to offer foreign exchange products to their FPI clients. These activities would form part of SPD's non-core activities and they are directed to adhere to extant prudential and other regulations.

6.5 Securitisation Transactions of NBFCs

III.38 In order to encourage NBFCs to securitise/ assign their eligible assets, the minimum holding period (MHP) for securitisation of loans by NBFCs with original maturity above 5 years has been relaxed effective November 29, 2018 for a period of six months, subject to certain conditions.

7. Credit Delivery

III.39 Recognising that credit markets are prone to asymmetric information and rationing, the Reserve Bank undertook several policy initiatives in 2017-18 to expand access to bank credit to sectors vulnerable to exclusion/ pricing out. The focus was on MSMEs, and on galvanising priority sector lending to ensure credit flows for productive purposes.

7.1 Formalisation of MSME Sector

III.40 Guidelines were issued in February 2018 to facilitate the transition of MSMEs into the formal financial system by alleviating cash flow problems in the transition. The exposure of banks and NBFCs to GST-registered MSMEs continued to be classified as standard assets (180 days past due criterion) subject to certain conditions, including, *inter alia*, the aggregate exposure to the borrower not exceeding ₹250 million as on January 31, 2018 and the borrower's account being classified as standard as on August 31, 2017. In June 2018, this relaxation was extended to all MSMEs with aggregate credit facilities up to the specified limit, including those not registered under the GST. In respect of dues payable by GST-registered MSMEs from January 1, 2019 onwards, the 180 days past due criterion would be aligned to the extant 90 days past due NPA norm in a phased manner. The accounts of MSMEs that are not GST-registered as on December 31, 2018 would be governed by the 90 days NPA norm from January 1, 2019.

7.2 Co-origination of Priority Sector Loans by Banks and NBFCs

III.41 SCBs (excluding Regional Rural Banks (RRBs) and SFBs) were allowed to co-originate loans with NBFCs-ND-SI for the creation of eligible priority sector assets in order to provide a competitive environment for credit delivery to the priority sector. The arrangement entails joint contribution of credit by both lenders at the facility level and sharing of risks and rewards within an appropriate alignment of respective business objectives.

7.3 Priority Sector Lending Guidelines and Affordable Housing

III.42 Housing loan limits for eligibility for priority sector lending (PSL) were increased from ₹2.8 million to ₹3.5 million in metropolitan centres (with population of one million and above), and from ₹2 million to ₹2.5 million in other centres, in order to bring convergence between PSL guidelines for housing loans and the affordable housing scheme under the Pradhan Mantri Awas Yojana (PMAY). The overall cost of the dwelling unit in metropolitan centres and at other centres should not exceed ₹4.5 million and ₹3 million, respectively.

7.4 Priority Sector Lending by Urban Co-operative Banks

III.43 On May 10, 2018 guidelines were issued to harmonise priority sector lending (PSL) rules of UCBs with those of SCBs. Accordingly, medium-sized enterprises, social infrastructure and renewable energy will form part of the priority sector. The distinction between direct and indirect agriculture has been removed. Also, bank loans to food and agro-processing units will constitute PSL to agriculture. The achievement of priority sector targets will be included as a criterion for classifying a UCB as financially sound and well managed (FSWM).

8. Financial Inclusion

III.44 With growing empirical evidence on the potential development benefits from financial inclusion, the Reserve Bank's agenda has broadened from the initial focus on provision of credit and making available savings avenues to a larger remit of diverse services including transactions, payments and insurance, while continuing to wean away the financially disadvantaged sections of the society from informal sources of funds and the associated coercive practices. Steps were also taken during the year to strengthen existing schemes, such as business correspondents and lead bank scheme, so that they leverage on digital financial services in financial education and management of financial risks.

8.1 Business Correspondents' Registry Portal

III.45 The role of business correspondents (BCs) in expanding the reach of banking services in rural areas is gaining acceptance and recognition which is evident from the growth of 28 per cent in the number of transactions put through by BCs through the information and computer technology (ICT) channel. A registry portal developed by the IBA on the basis of the framework provided by the Reserve Bank was launched in February 2018 to enable banks to upload data pertaining to BCs employed by them. It is expected to sensitise the public with information on availability of BCs and their contact details once the portal becomes available for public consumption.

8.2 Lead Bank Scheme

III.46 The lead bank scheme (LBS) aims at co-ordinating the activities of banks and government agencies in enhancing the flow of bank finance to the priority sector and in the overall development of the rural sector. The Reserve Bank's committee of executive directors, constituted to study the efficacy of the system, has made several important recommendations in this regard. After taking into account the feedback from various stakeholders, the Reserve Bank issued guidelines aimed at improvement of the scheme in April 2018. State Level Bankers' Committee (SLBC) should focus on policy issues while routine issues may be delegated to specific sub-committee(s). Lead banks were advised to make available necessary infrastructure for lead district managers (LDMs) for their effective functioning.

9. Consumer Protection

III.47 The Reserve Bank is actively engaged in improving customer service in banks by addressing existing inadequacies and the need to benchmark it against international standards in order to instil timeliness and quality by harnessing technological developments and appropriate incentives to facilitate change.

9.1 Ombudsman Scheme

III.48 The banking ombudsman scheme is a cost-free apex mechanism for expeditious resolution of complaints of bank consumers. On similar lines, the ombudsman scheme for NBFCs was launched by the Reserve Bank under Section 45L of the Reserve Bank of India Act, 1934 with effect from February 23, 2018. To begin with, it has been operationalised for all deposit-taking NBFCs (NBFCs-D). Offices of the NBFC Ombudsman have started functioning from Chennai, Kolkata, Mumbai and New Delhi. Additionally, as the digital mode of financial transactions is gaining traction in the country, a dedicated ombudsman scheme for digital transactions would be implemented going forward.

9.2 Internal Ombudsman Scheme, 2018

III.49 The Reserve Bank issued instructions to appoint internal ombudsman to select SCBs in 2015. These were reviewed, and revised instructions were issued as Internal Ombudsman Scheme, 2018 as directions under Section 35A of the Banking Regulation Act on September 3, 2018. The Scheme covers all SCBs with more than ten banking outlets in India (excluding RRBs). It is expected to strengthen the grievance redressal mechanism in banks by enhancing the autonomy of the internal ombudsman.

9.3 Customer Protection for Users of Prepaid Payment Instruments

III.50 In order to bring all customers to the same level with regard to electronic transactions made by them, the Reserve Bank's extant guidelines on limiting customer liability in respect of unauthorised electronic transactions involving banks and credit card issuing NBFCs would be extended to the users of prepaid payment instruments (PPIs) issued by other entities currently not covered by the same.

10. Payment and Settlement Systems

III.51 An efficient payment and settlement system is the cornerstone of a modern financial system. The Reserve Bank is vested with oversight of the payment and settlement systems in India and is also the driving developmental force in ensuring safe, secure, sound, accessible and authorised payment systems in the country. Its endeavours in this area included extending the scope and enhancing the features of Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT) and Unified Payments Interface (UPI). Comprehensive directions were also issued on the operations of issuers of PPIs during the year.

10.1 Inward Remittances and UPI

III.52 Credit to the final beneficiary of a foreign inward remittance was initially allowed through RTGS and NEFT and extended to Immediate Payment Service (IMPS) in December 2013, subject to the condition that the audit trail of the entire chain of remittance is maintained and such transfers take place only to KYC-compliant accounts and that banks abide by the provisions of the Foreign Exchange Management Act (FEMA). The National Payments Corporation of India (NPCI) was allowed to process the domestic leg of foreign inward remittances through the UPI while adhering to the same conditions as applicable to processing of domestic leg through IMPS and NEFT effective May 9, 2018.

10.2 Co-operative Banks as Issuers in UPI

III.53 StCBs and district central co-operative banks (DCCBs) have been allowed to participate as issuers in the UPI, effective March 2018 through the sub-membership route enabled by the NPCI. This participation is subject to the condition that these banks have permission from the Reserve Bank to offer mobile banking services.

10.3 Merchant Discount Rate for Debit Cards

III.54 The merchant discount rate (MDR) framework for debit cards was rationalised with effect from January 1, 2018. The new MDR framework endeavoured to achieve the twin objectives of promoting debit card acceptance by a wider set of merchants, especially small merchants, while ensuring sustainability of the business for the entities involved. The framework categorises merchants on the basis of turnover, adopts a differentiated MDR for QR-code based transactions and specifies a ceiling on the maximum permissible MDR for both card-present and card-not-present transactions. Banks are required to ensure that merchants on-boarded by them do not pass on MDR charges to customers while accepting payments through debit cards.

10.4 Interoperability in Prepaid Payment Instruments

III.55 The Reserve Bank laid down the framework for implementing interoperability of PPIs through card networks and UPI, effective October 16, 2018. Interoperability allows PPI issuers, system providers and system participants to undertake, clear and settle payment transactions across systems without participating in multiple systems.

10.5 Directions for Central Counterparties

III.56 The Reserve Bank put in place a policy framework for recognition of the foreign central counterparties (CCPs) and issued directions on capital requirement and governance framework for all CCPs on October 15, 2018. The directions covered broad principles on governance, including the composition of the board, roles and responsibilities of the board, appointment of directors and constitution of committees. It also sets out net worth requirements and the ownership structure for CCPs.

11. Overall Assessment

III.57 A sound and resilient financial system is a *sine quo non* for a modern economy that involves the widest sections of its society in sharing equitably the benefits of economic and social progress. Developments in 2017-18 and 2018-19 so far point to sustained efforts gathering traction in securing and entrenching financial stability. Looking ahead, the credit cycle is likely to gain strength as the Reserve Bank's efforts towards resolution of stressed assets expedite the process of de-toxifying bank balance sheets. Carrying this drive forward will require policy initiatives that address risk management practices, the changing nature of banking – especially the increasing use of technology, ownership neutrality in regulation, and sound corporate governance so that an inclusive and sound banking sector efficiently intermediates the financing requirements of sustained high growth in an environment of macroeconomic stability.

IV OPERATIONS AND PERFORMANCE OF COMMERCIAL BANKS

The overhang of stress weighed down the consolidated balance sheet of the banking sector during 2017-18 necessitating large provisions. Despite these adversities, banks managed to improve their capital positions. Bank credit growth recovered, improving the share of bank finance in the total flow of resources to the commercial sector. The IBC framework is gaining traction and in conjunction with the revised framework for resolution of stressed assets, it should enable banks to shed the drag from asset impairments to a stronger and more resilient trajectory of balance sheet expansion consistent with the financial intermediation needs of the country going forward.

1. Introduction

IV.1 India's banking sector has been facing a large overhang of balance sheet stress. During 2017-18, the persisting deterioration in asset quality necessitated sharp increases in provisions and for the first time since 1993-94, the banking system as a whole, particularly driven by public sector banks (PSBs), registered losses. As regulator and supervisor, the Reserve Bank's approach to the revival of the banking system has been three-pronged: with the asset quality reviews (AQRs) a fuller recognition of stressed assets is nearing completion and provisioning is being policy-driven; in consonance, the implementation of a new framework for resolution of stressed assets under the overarching mandate of the Insolvency and Bankruptcy Code (IBC) is speeding up the de-stressing of balance sheets; and the government has undertaken steps for recapitalisation of the PSBs in order to bolster their financials. Reflecting these resolute efforts, asset quality of the banking sector has improved marginally in H1:2018-19[1].

IV.2 Against this background, this chapter discusses the performance of the Indian banking sector during 2017-18 and H1:2018-19, based on audited balance sheets and off-site supervisory returns in Section 2, followed by an evaluation of the financial performance of 93 scheduled commercial banks (SCBs)[2] and their financial soundness in Section 3 and 4. Other themes addressed in the chapter in Sections 5 to 11 include sectoral deployment of credit, SCBs in the capital market, ownership pattern in SCBs, foreign banks' operations in India and overseas operations of Indian banks, payment system developments, consumer protection and financial inclusion. Developments related to regional rural banks (RRBs), local area banks (LABs), small finance banks (SFBs) and payments banks (PBs) have also been analysed in Sections 12 to 15 separately. The chapter concludes by bringing together the major issues that emerge from the analysis.

1 Annual data for 2017-18 and earlier years is based on annual accounts of banks. Wherever feasible, effort has been made to update the data to gauge quarterly/semi-annual trends using other sources such as supervisory returns, sectoral deployment of credit and returns under Section 42 (2) of the Reserve Bank of India Act, 1934.

2 Detailed bank-wise data on annual accounts is collated and published in Statistical Tables Relating to Banks in India, available at https://www.rbi.org.in.

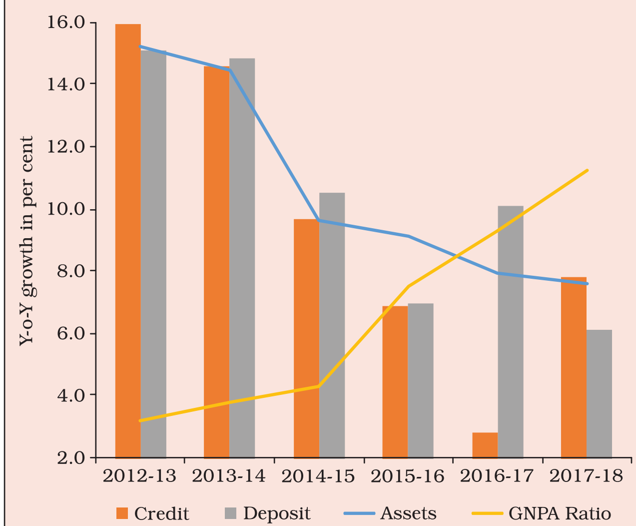
2. Balance Sheet Analysis

IV.3 The size of the consolidated balance sheet of SCBs in India has been growing at a slowing pace since 2012-13 and into 2017-18 as banks grappled with fuller recognition of stressed assets (Chart IV.1). During H1:2018-19, however, growth returned to the balance sheet of SCBs, bolstered by recovery in loan books.

2.1 Deposits

IV.4 During 2017-18, SCBs' deposit growth slackened from the high base of the preceding year when it had expanded by 10.1 per cent—highest in three years—after the demonetisation of specified bank notes (SBNs) in November 2016 (Table IV.1). During H1:2018-19, growth

Chart IV.1: Select Aggregates of SCBs



Source: Annual accounts of banks and off-site returns (global operations), RBI.

Table IV.1: Consolidated Balance Sheet of Scheduled Commercial Banks

(At end-March)

(Amount in ₹ billion)

Item	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks#		All SCBs	
	2017*	2018**	2017	2018	2017	2018	2017	2018	2017	2018
1. Capital	243	332	110	116	629	679	10	35	993	1,161
2. Reserves and Surplus	5,546	5,558	3,709	4,320	840	883	12	37	10,108	10,798
3. Deposits	80,768	82,623	25,648	30,137	4,655	4,949	43	231	111,114	117,940
3.1. Demand Deposits	5,439	5,436	3,871	4,374	1,223	1,435	1	10	10,534	11,255
3.2. Savings Bank Deposits	24,738	26,565	7,173	8,737	529	573	11	43	32,451	35,917
3.3. Term Deposits	50,591	50,622	14,605	17,026	2,904	2,941	30	178	68,130	70,767
4. Borrowings	7,219	8,470	4,835	6,882	705	1,277	49	194	12,807	16,823
5. Other Liabilities and Provisions	3,590	3,368	1,711	1,535	1,417	888	6	20	6,724	5,811
Total Liabilities/Assets	**97,366**	**100,352**	**36,014**	**42,989**	**8,246**	**8,676**	**120**	**517**	**141,746**	**152,533**
1. Cash and Balances with RBI	4,842	4,485	1,585	2,403	374	400	4	15	6,805	7,303
2. Balances with Banks and Money at Call and Short Notice	5,303	3,922	1,300	1,260	760	733	12	33	7,374	5,948
3. Investments	25,548	27,919	8,551	10,118	2,397	3,126	27	100	36,523	41,263
3.1 Government Securities (a+b)	21,183	23,113	6,317	7,574	2,068	2,598	26	80	29,593	33,365
a) In India	20,946	22,819	6,271	7,514	2,003	2,520	26	80	29,246	32,934
b) Outside India	237	294	46	59	65	78	-	-	347	432
3.2 Other Approved Securities	3	2	-	-	-	-	-	-	3	2
3.3 Non-approved Securities	4,362	4,803	2,234	2,545	330	528	1	20	6,926	7,895
4. Loans and Advances	55,572	56,973	22,195	26,628	3,323	3,510	71	349	81,161	87,460
4.1 Bills Purchased and Discounted	2,806	2,342	804	936	706	741	-	-	4,317	4,019
4.2 Cash Credits, Overdrafts, *etc.*	23,516	24,148	6,307	7,900	1,389	1,445	10	29	31,222	33,521
4.3 Term Loans	29,251	30,484	15,083	17,792	1,228	1,324	61	320	45,623	49,919
5. Fixed Assets	1,200	1,100	255	263	48	45	3	10	1,507	1,419
6. Other Assets	4,901	5,952	2,128	2,317	1,344	862	3	10	8,376	9,141

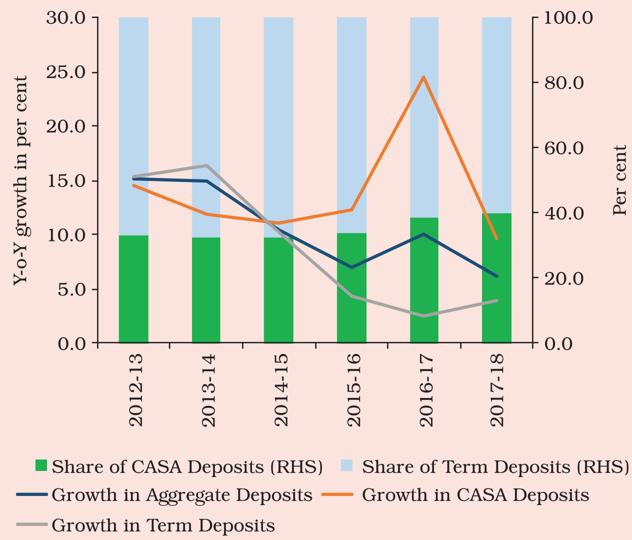
Notes: 1. -: Nil/negligible.
2. *: Includes IDBI Bank and Bhartiya Mahila Bank.
3. **: Includes IDBI Bank.
4. #: Data pertains only to those SFBs which were included in the Second Schedule to the Reserve Bank of India Act,1934. As at end-March 2017 and end-March 2018, two and six scheduled SFBs, respectively, were operating.
5. Components may not add up to their respective totals due to rounding-off numbers to ₹ billion.

Source: Annual accounts of banks.

in deposits of SCBs experienced an uptick on a *y-o-y* basis, reflecting the adjustment to demonetisation getting to completion.

IV.5 An overwhelming share[3] of deposits with SCBs has always comprised term deposits — especially in the one-to-two year maturity bucket — due to higher returns across comparable financial assets. The year 2016-17 was, however, an outlier with the share of current account and saving account (CASA) deposits surging five percentage points above the five-year average on account of the return flow of SBNs into bank deposits especially to PSBs (Chart IV.2). With the rapid pace of remonetisation, growth in CASA deposits moderated in both PSBs and private sector banks (PVBs) while it increased in foreign banks (FBs) during 2017-18. Term deposits grew concomitantly, although returns on term deposits turned unattractive relative to other competing asset classes such as mutual funds and pension funds.

Chart IV.2: Trend in CASA and Term Deposits



Source: Annual accounts of banks.

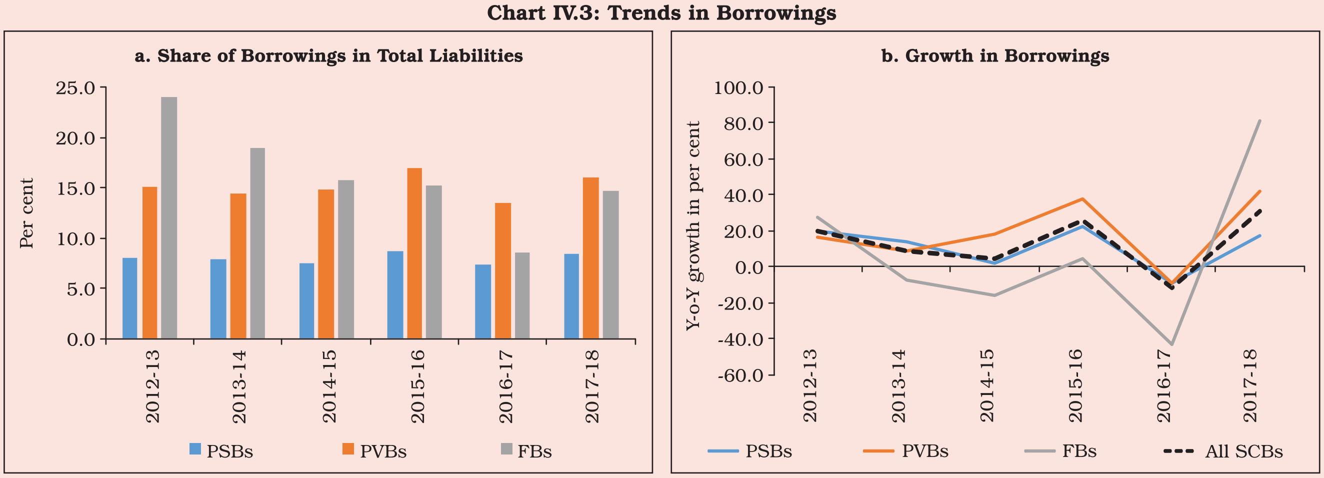
2.2 Borrowings

IV.6 Remonetisation resulted in a deceleration in deposits and consequently, borrowings by banks shot up by 31.4 per cent during 2017-18 from a significant decline (11.6 per cent) in the previous year. For PVBs and FBs, which rely heavily on borrowings relative to PSBs, the bounce back was sharp (Chart IV.3). In H1:2018-19 as well, banks stepped up borrowings by 26 per cent *y-o-y*.

2.3 Credit

IV.7 During 2017-18, credit growth revived from anaemic conditions prevailing in the

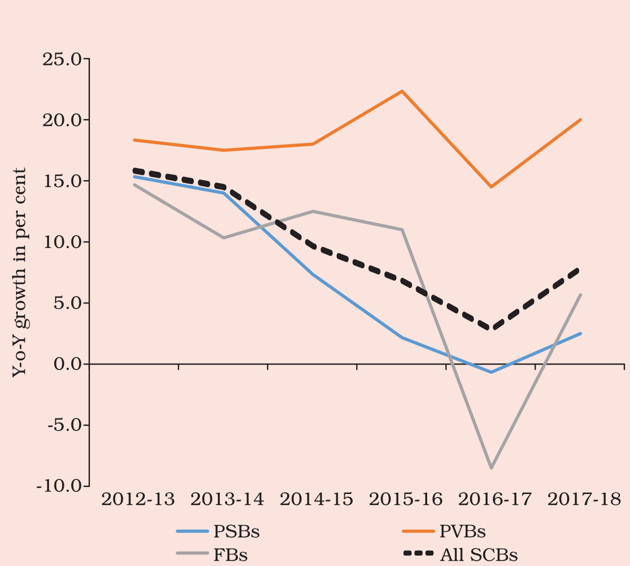
Chart IV.3: Trends in Borrowings



Source: Annual accounts of banks.

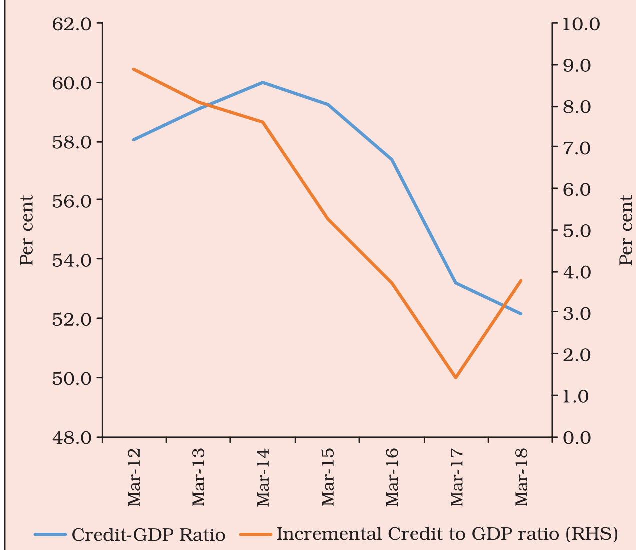
[3] The average share during 2011-16 was 66.8 per cent.

Chart IV.4: Bank Group-wise Growth in Advances



Source: Annual accounts of banks.

Chart IV.5: Credit-GDP Ratio



Source: Annual accounts of banks and DBIE, RBI.

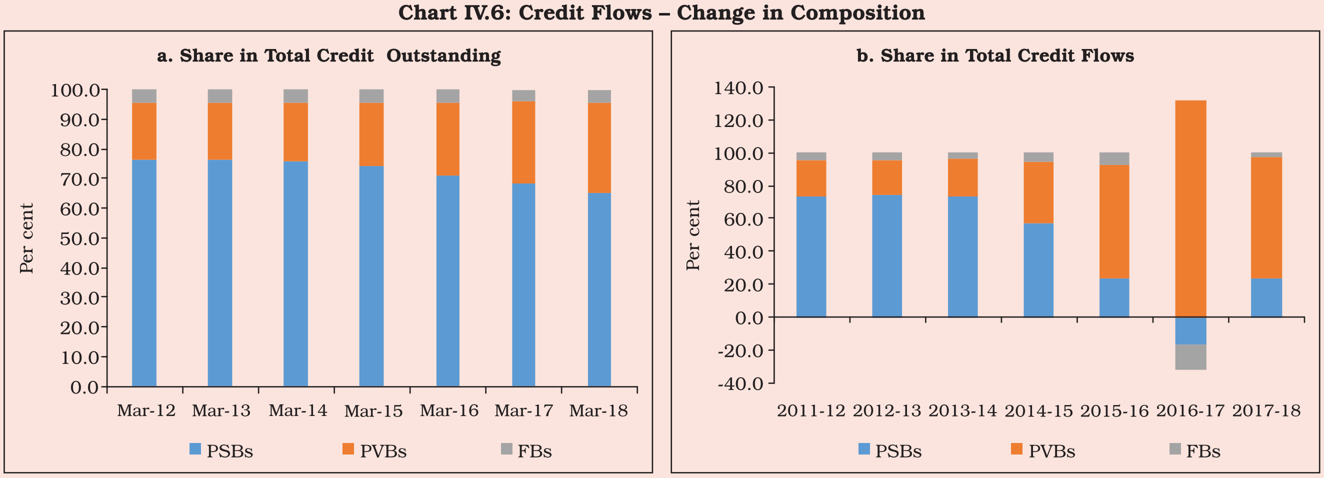
recent years (Chart IV.4)[4]. Recent data based on supervisory returns suggest that the recovery in credit growth was sustained during H1:2018-19.

IV.8 All categories—PSBs, PVBs and FBs—partook in this credit recovery (Chart IV.4). During H1:2018-19, FBs recorded the sharpest upturn in credit growth; by contrast, PSBs' loan books expanded in a more subdued manner, weighed down by impaired assets and stepped-up provisioning.

IV.9 In consonance, the incremental credit to GDP ratio, which has been consistently declining in recent years, revived in 2017-18 (Chart IV.5).

IV.10 The share of PVBs in total outstanding bank credit has consistently increased in the recent years, although they are yet to surpass PSBs (Charts IV.6a). In terms of share in

Chart IV.6: Credit Flows – Change in Composition



Source: Annual accounts of banks.

[4] Based on annual accounts of banks which may differ from the credit growth reported elsewhere such as supervisory returns, sectoral deployment of credit and returns under Section 42 (2) of the Reserve Bank of India Act, 1934.

incremental credit flows, however, the PVBs have overtaken PSBs, as the credit flows by the latter has remained low (Chart IV.6b).

IV. 11 The lending space vacated by banks, particularly PSBs, was taken up by non-banks in 2016-17 although some rebalancing was evident in 2017-18. A dip in the issuances of corporate bonds and a sharp fall in issuances of commercial papers (CPs) was reflected in a decline in the share of non-bank sources. Credit disbursements by non-deposit taking systemically important NBFCs and housing finance companies (HFCs), larger accommodation by four RBI-regulated All India Financial Institutions (AIFIs), a significant increase in short-term credit from abroad and public issuances of equity by non-financial companies more than compensated, and expanded the flow of resources from non-banks. This trend continued in H1:2018-19 on sustained bank credit growth (Table IV.2).

IV.12 These developments were reflected in movements in the credit-deposit (C-D) ratio.

Table IV.2: Trends in Flow of Financial Resources to Commercial Sector from Banks and Non-banks

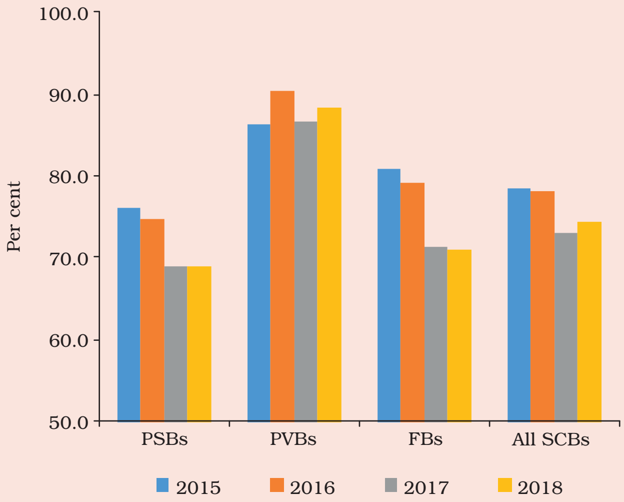
(₹ billion)

Source	April-March				April 1 to September 28	
	2014-15	2015-16	2016-17	2017-18	2017-18	2018-19
A. Adjusted Non-food Bank Credit	**5,850 (43.5)**	**7,754 (55.4)**	**4,952 (34.1)**	**9,161 (44.9)**	**1,467 (22.6)**	**3,662 (39.2)**
1. Non-food Credit	5,464	7,024	3,882	7,959	1,495	3,513
2. Non-SLR Investment by SCBs	386	731	1070	1202	-29	149
B. Flow from Non-banks (B1+B2)	**7,588 (56.5)**	**6,241 (44.6)**	**9,578 (65.9)**	**11,220 (55.1)**	**5,018 (77.4)**	**5,677 (60.8)**
B1. Domestic Sources	**5,323 (39.6)**	**3,782 (27.0)**	**6,820 (46.9)**	**7,836 (38.4)**	**3,644 (56.2)**	**4,699 (50.3)**
1. Public Issues by Non-financial Entities	87	378	155	438	111	70
2. Gross Private Placements by Non-financial Entities	1,277	1,135	2,004	1,462	675	712
3. Net Issuance of CPs Subscribed to by Non-banks	558	517	1,002	-254	17	1,872
4. Net Credit by Housing Finance Companies	954	1,188	1,374	1,986	739	998
5. Total Accommodation by Four RBI Regulated AIFIs - NABARD, NHB, SIDBI and EXIM Bank	417	472	469	951	147	619
6. Systemically Important Non-deposit taking NBFCs (Net of Bank Credit)	1,629	-277	1,539	2,875	1,785	326
7. LIC's Net Investment in Corporate Debt, Infrastructure and Social Sector	401	369	277	378	169	102
B2. Foreign Sources	**2,265 (16.9)**	**2,459 (17.6)**	**2,758 (19.0)**	**3,385 (16.6)**	**1,374 (21.2)**	**977 (10.5)**
1. External Commercial Borrowings / FCCB	14	-388	-509	-51	-129	-35
2. ADR/GDR Issues excluding Banks and Financial Institutions	96	-	-	-	-	-
3. Short-term Credit from Abroad	-4	-96	435	896	37	-234*
4. Foreign Direct Investment to India	2,159	2,943	2,833	2,540	1,466	1,246@
C. Total Flow of Resources (A+B)	**13,438 (100.0)**	**13,995 (100.0)**	**14,530 (100.0)**	**20,381 (100.0)**	**6,485 (100.0)**	**9,339 (100.0)**

Notes: 1. Higher net credit flows from NBFCs-ND-SI in 2017-18 was mainly due to higher number of government companies reporting in 2017-18 as compared to 2016-17. Negative net credit flows from NBFCs-ND-SI in 2015-16 was mainly due to change in classification norm for NBFCs-ND-SI, according to which asset size for being classified as NBFC-ND-SI was increased from ₹ one billion to ₹ five billion and more. Additionally, conversion of two large NBFCs into banks *viz.*, Bandhan Bank and IDFC Bank also contributed to the decline in credit flow from NBFCs to the commercial sector in 2015-16.
2. *: Up to June 2018; @: Up to August 2018.
3. Figures in parentheses are percentages to total.
4. -: Nil/negligible.

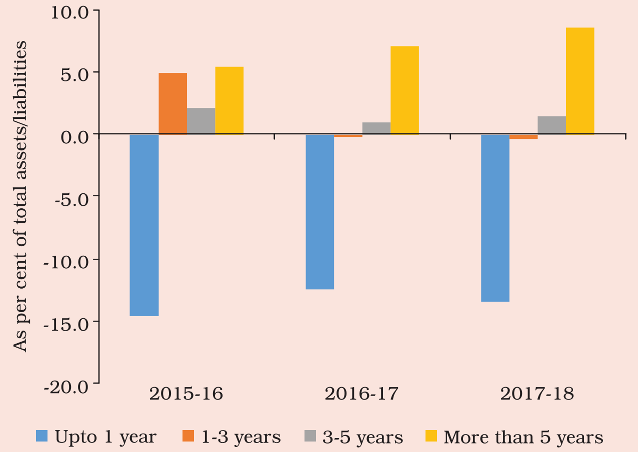
Source: RBI, SEBI, BSE, NSE, Merchant Banks, LIC and NHB.

Chart IV.7: Trend in Outstanding C-D Ratio
(At end-March)



Source: Annual accounts of banks.

Chart IV.8: Gap between Proportion of Assets and Liabilities in Various Maturity Buckets



Note: 1. Short-term is upto 1 year while long-term is more than 3 years.
2. Assets consists of loans & advances and investments. Liabilities consist of deposits and borrowings.

Source: Annual accounts of banks.

Notably, the C-D ratio of PVBs remained higher than that of other bank groups, indicative of their smaller depositor base and the marked expansion in credit that is underway (Chart IV.7). At end-September 2018, the C-D ratio of SCBs taken together increased marginally from its level a year ago.

2.4 Investments

IV.13 Investments – the second largest component in the assets side of banks' balance sheets after loans and advances – picked up, mostly driven by government securities. During H1:2018-19, however, investments slackened largely due to deceleration in investments of PSBs in SLR/other approved securities.

2.5 Maturity Profile of Assets and Liabilities

IV.14 Maturity mismatches are inherent to banking activity as short-term deposits are leveraged for extending medium to long term loans, resulting in exposure to liquidity and interest rate risk. A negative gap (liabilities > assets) was observed in the shortest maturity bucket of up to one year in 2017-18, and correspondingly, longer maturity buckets exhibited positive gaps as asset creation outpaced liabilities (Chart IV.8).

IV.15 The accentuation of maturity mismatches was largely due to PSBs (Table IV.3).

2.6 International Liabilities and Assets

IV.16 During 2017-18, total international liabilities and assets of banks located in India rebounded from a decline in the previous year *albeit* marked by lower growth in claims relative to liabilities. The ratio of international liabilities of banks to India's total external debt (original maturity) remained stable around 37 per cent (Chart IV.9).

IV.17 Liabilities due to accretions to non-resident external rupee (NRE) accounts and foreign currency borrowings rose substantially in 2017-18, spurred by interest rates differentials

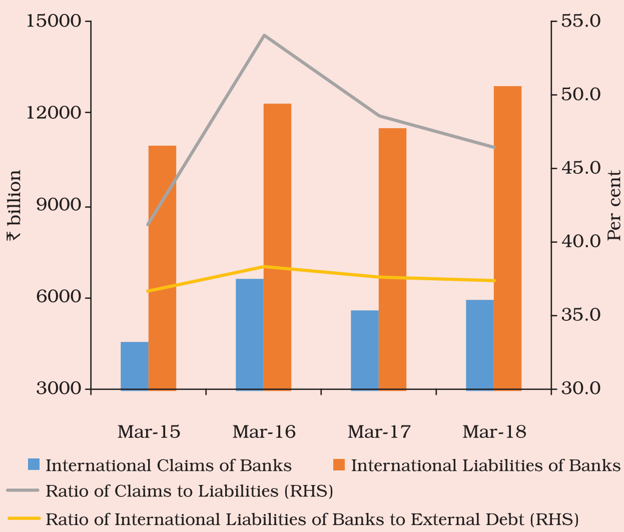
Table IV.3: Bank Group-wise Maturity Profile of Select Liabilities/Assets
(At end-March)

(Per cent to total under each item)

Liabilities/Assets	PSBs		PVBs		FBs		All SCBs#	
	2017	2018	2017	2018	2017	2018	2017	2018
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	41.6	44.8	41.5	42.4	63.0	63.0	42.5	45.0
b) Over 1 year and up to 3 years	27.9	23.2	26.0	25.3	28.9	28.9	27.5	24.0
c) Over 3 years and up to 5 years	8.6	10.0	10.5	10.7	8.0	8.0	9.0	10.0
d) Over 5 years	21.9	22.0	21.9	21.6	0.1	0.1	21.0	20.9
II. Borrowings								
a) Up to 1 year	49.9	60.2	43.9	45.7	84.7	89.1	49.5	56.3
b) Over 1 year and up to 3 years	12.9	13.4	19.3	22.2	11.8	7.2	15.4	16.9
c) Over 3 years and up to 5 years	10.4	8.4	13.1	12.9	1.2	2.2	10.9	9.8
d) Over 5 years	26.8	18.0	23.7	19.2	2.3	1.5	24.2	17.0
III. Loans and Advances								
a) Up to 1 year	28.3	32.8	32.5	31.9	62.5	59.1	30.9	33.6
b) Over 1 year and up to 3 years	34.3	26.3	33.8	33.8	18.4	20.9	33.5	28.4
c) Over 3 years and up to 5 years	10.6	12.7	12.8	12.8	8.0	8.0	11.1	12.5
d) Over 5 years	26.9	28.2	20.8	21.4	11.2	12.0	24.6	25.5
IV. Investments								
a) Up to 1 year	19.8	17.6	46.9	50.7	78.2	81.2	30.0	30.6
b) Over 1 year and up to 3 years	14.1	13.0	16.8	16.9	13.1	12.1	14.7	13.9
c) Over 3 years and up to 5 years	11.8	13.3	8.5	8.6	3.3	2.3	10.5	11.3
d) Over 5 years	54.3	56.2	27.8	23.7	5.4	4.4	44.9	44.2

Notes: 1. The sum of components may not add up to 100 due to rounding-off.
2. #: Data includes SFBs.
Source: Annual accounts of banks.

Chart IV.9: International Liabilities and Assets of Banks



Source: International Banking Statistics and DBIE, RBI.

favouring India. With banks bolstering their Tier I capital, equity holdings of non-residents drove up international liabilities during the year (Table IV.4).

IV.18 Loans to non-residents decelerated relative to a year ago, but the share of these loans in total international assets of Indian banks increased, indicating that they continued to be a major determinant of asset growth (Table IV.5).

IV.19 The consolidated international claims of banks declined across maturities and shifted away from non-financial private and official sectors in favour of banks (Table IV.6).

Table IV.4: International Liabilities of Banks in India – By Type of Instruments

(Amount in ₹ billion)

Liability Type	Amount Outstanding (At end-March) P		Percentage Variation	
	2017	2018	2016-17	2017-18
1. Loans and Deposits	**9,027 (78.4)**	**10,020 (77.8)**	**-8.5**	**11.0**
a) Foreign Currency Non-resident (Bank) [FCNR (B)] Scheme	1,343 (11.7)	1,436 (11.2)	-49.8	6.9
b) Foreign Currency Borrowings*	1,229 (10.7)	1,504 (11.7)	-23.6	22.3
c) Non-resident External Rupee (NRE) Accounts	5,100 (44.3)	5,517 (42.9)	26.1	8.2
d) Non-resident Ordinary (NRO) Rupee Accounts	674 (5.9)	790 (6.1)	12.7	17.2
2. Own Issues of Securities/ Bonds	**78 (0.7)**	**12 (0.1)**	**6.8**	**-85.1**
3. Other Liabilities	**2,410 (20.9)**	**2,841 (22.1)**	**0.8**	**17.9**
Of which:				
a) ADRs/GDRs	415 (3.6)	452 (3.5)	18.9	9.1
b) Equities of Banks Held by Non-residents	974 (8.5)	1396 (10.6)	7.8	43.3
c) Capital / Remittable Profits of Foreign Banks in India and Other Unclassified International Liabilities	1,021 (8.9)	993 (7.7)	-10.4	-2.8
Total International Liabilities	**11,515 (100)**	**12,873 (100)**	**-6.6**	**11.8**

Notes: 1. P: Provisional.
2. *: Inter-bank borrowings in India and from abroad and external commercial borrowings of banks.
3. Figures in parentheses are percentages to total.
4. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: International Banking Statistics, RBI.

IV.20 Banks' consolidated international claims also underwent geographical changes favouring the United States (U.S.) and Singapore at the cost of countries such as Germany, the United Arab Emirates (U.A.E.), Hong Kong and the United Kingdom (U.K.) as U.S. dollar interest rates firmed up (Table IV.7).

2.7 Off-balance Sheet Operations

IV.21 PVBs and FBs generally run up higher exposures to contingent liabilities than PSBs which focus more on fund-based banking. Moreover, as exposure to these instruments have different counter-party risk profiles, PSBs have been exercising prudence in view of the already elevated credit risk crystallising in their balance sheets (Chart IV.10a). At end-March 2018, on-balance sheet liabilities of FBs accounted for only 5.7 per cent of the total balance sheet size of all SCBs, but their contingent liabilities were 50.2 per cent of the total off-balance sheet exposure of the banking system. During 2017-18, off-balance sheet liabilities of PVBs and FBs witnessed significant expansion, driven by exposure to derivative products (Chart IV.10b; Appendix Table IV.2). In H1:2018-19, off-balance sheet exposures of PVBs and FBs accelerated further while those of PSBs decelerated on a *y-o-y* basis.

Table IV.5: International Assets of Banks in India - By Type of Instruments*

(Amount in ₹ billion)

Asset Type	Amount Outstanding (At end-March) P		Percentage Variation	
	2017	2018	2016-17	2017-18
1. Loans and Deposits	**5,472 (98.0)**	**5,838 (97.6)**	**-16.7**	**6.7**
Of which:				
(a) Loans to Non-residents	1,668 (29.9)	1,965 (32.9)	54.9	17.8
(b) Foreign Currency Loan to Residents	1,546 (27.7)	1,537 (25.7)	-8.1	-0.6
(c) Outstanding Export Bills	855 (15.3)	893 (14.9)	-56.8	4.4
(d) Foreign Currency in hand, Travellers Cheques, *etc.*	3.5 (0.1)	9.8 (0.2)	743.3	180.6
(e) NOSTRO Balances and Placements Abroad	1,399 (25.1)	1,433 (24.0)	-23.6	2.4
2. Holdings of Debt Securities	**66 (1.2)**	**92 (1.5)**	**8.8**	**39.6**
3. Other International Assets	**47 (0.9)**	**50 (0.8)**	**29.1**	**5.5**
Total International Assets*	**5,586 (100)**	**5,980 (100)**	**-16.2**	**7.1**

Notes: 1. *: In view of the incomplete data coverage from all the branches, the data reported under the locational banking statistics (LBS) are not strictly comparable with those capturing data from all the branches.
2. P: Provisional.
3. The sum of components may not add up due to rounding off.

Source: International Banking Statistics, RBI.

Table IV.6: Consolidated International Claims of Banks: Residual Maturity and Sector

(Amount in ₹ billion)

Residual Maturity/Sector	Amount Outstanding (At end-March) P		Percentage Variation	
	2017	2018	2016-17	2017-18
Total Consolidated International Claims	**7,168 (100)**	**6,371 (100)**	**24.2**	**-11.1**
a) Maturity-wise				
1. Short-term (residual maturity of less than one year)	4,529 (63.2)	4,474 (70.2)	2.3	-1.2
2. Long-term (residual maturity of one year and above)	2,605 (36.3)	1,774 (27.8)	99.1	-31.9
3. Unallocated	34 (0.5)	123 (1.9)	-15.1	260.0
b) Sector-wise				
1. Banks	1,841 (25.7)	2,084 (32.7)	3.2	13.2
2. Official Sector	657 (9.2)	202 (3.2)	638.8	-69.2
3. Non-Bank Financial Institutions	3 -	6 (0.1)	-98.2	91.5
4. Non-Financial Private	3,880 (54.1)	3,001 (47.1)	12.7	-22.7
5. Others	787 (11.0)	1,079 (16.9)	163.2	37.1

Notes: 1. P: Provisional.
2. -: Nil/negligible.
3. Figures in parentheses are percentages to total.
4. The sum of components may not add up due to rounding off.
5. Residual Maturity 'Unallocated' comprises maturity not applicable (for example, for equities) and maturity information not available.
6. The official sector includes official monetary authorities, general government and multilateral agencies.
7. Non-financial private sector includes non-financial corporations and households including non-profit institutions serving households (NPISHs).
8. Others include non-financial public sector undertakings and the unallocated sector.
9. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: International Banking Statistics, RBI.

Table IV.7: Consolidated International Claims of Banks on Countries other than India

(Amount in ₹ billion)

Country	Amount Outstanding P		Percentage Variation	
	2017	2018	2016-17	2017-18
1	2	3	4	5
Total Consolidated International Claims	**7,168 (100.0)**	**6,371 (100.0)**	**24.2**	**-11.1**
Of which				
1. United States of America	1,870 (26.1)	2,628 (41.2)	95.0	40.5
2. United Kingdom	427 (6.0)	401 (6.3)	-1.8	-5.9
3. Hong Kong	397 (5.5)	323 (5.1)	-12.5	-18.5
4. Singapore	404 (5.6)	425 (6.7)	20.1	5.2
5. United Arab Emirates	889 (12.4)	639 (10.0)	6.8	-28.2
6. Germany	121 (1.7)	77 (1.2)	-44.9	-36.3

Notes: 1. P: Provisional.
2. Figures in parentheses are percentages to total.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: International Banking Statistics, RBI.

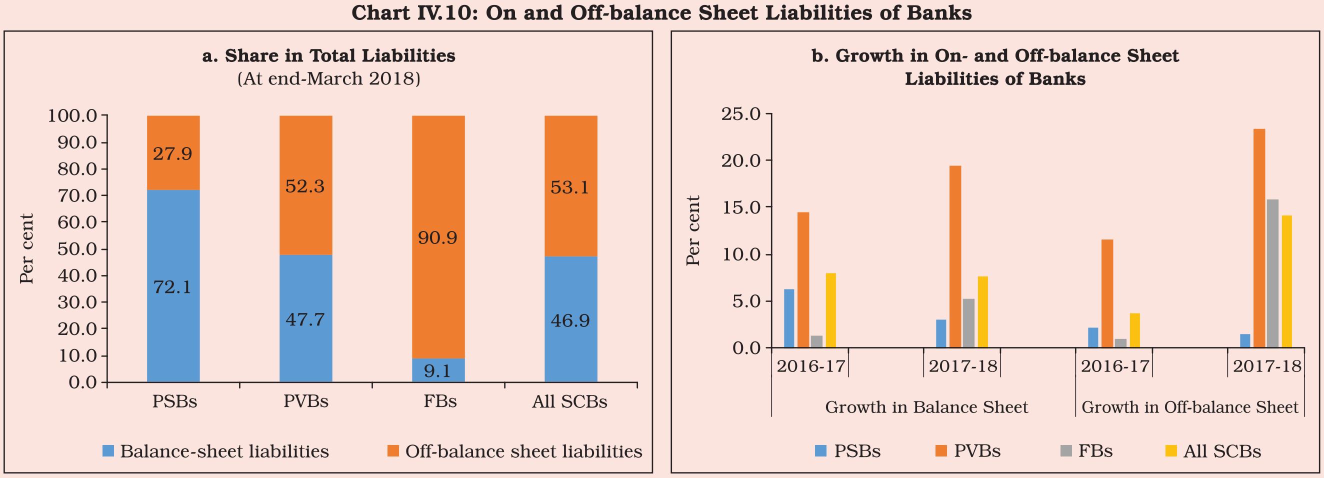
3. Financial Performance

IV.22 The financial performance of banks during 2017-18 was burdened by deteriorating asset quality and treasury losses which impacted non-interest earnings.

3.1 Income

IV.23 While interest income remained subdued during 2017-18, non-interest income was pulled

Chart IV.10: On and Off-balance Sheet Liabilities of Banks



Source: Annual accounts of banks.

Table IV.8: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ₹ billion)

Item	2016-17 Amount	2016-17 Percentage Variation	2017-18 Amount	2017-18 Percentage Variation
1. Income	12,053	6.2	12,176	1.0
a) Interest Income	10,120	2.1	10,220	1.0
b) Other Income	1,933	34.2	1,956	1.2
2. Expenditure	11,614	5.5	12,500	7.6
a) Interest Expended	6,692	0.5	6,535	-2.3
b) Operating Expenses	2,484	10.2	2,716	9.3
of which: Wage Bill	1,276	6.8	1,326	3.9
c) Provisions and Contingencies	2,438	16.4	3,249	33.3
3. Operating Profit	2,877	18.1	2,925	1.7
4. Net Profit	439	28.6	-324	–
5. Net Interest Income (NII) (1a-2a)	3,428	5.5	3,685	7.5
6. Net Interest Margin (NII as Percentage of Average Assets)	2.5		2.5	

Notes: 1. Data includes SFBs.
2. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: Annual accounts of banks.

down by higher provisioning requirements for mark-to-market losses in G-secs portfolios due to hardening of yields on the one hand, and by a decline in income from off-balance sheet operations, on the other (Table IV.8).

3.2 Expenditure

IV.24 On the expenditure side, interest expended by SCBs declined marginally from a year ago, due to slowdown in deposit growth and a decline in interest rates. This boosted net interest income (NII), although due to an uptick in average assets, the net interest margin (NIM) remained unaffected.

IV.25 Growth in operating expenses remained broadly the same as in 2016-17, although the wage bill decelerated on account of rationalisation of bank branches.

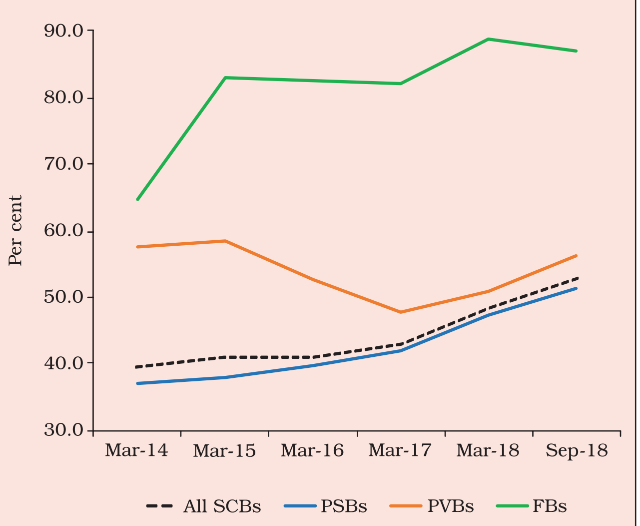
3.3 Provisioning and Profitability

IV.26 Loan loss provisioning rose sharply in 2017-18 due to elevated levels of GNPAs and time-bound referrals of large delinquent accounts to the National Company Law Tribunals (NCLTs) under the IBC. The provision coverage ratio (PCR) accordingly showed improvement across bank groups and crossed 52 per cent for all SCBs in H1:2018-19. Nonetheless, the PCRs of PSBs were the lowest among the three bank groups (Chart IV.11).

IV.27 As a result of higher provisioning, PSBs incurred net losses to the tune of ₹854 billion, while PVBs and FBs continued to report net profits. Since 2015-16, provisioning by PSBs has consistently exceeded their operating profit or earnings before provisions and taxes (EBPT), resulting in net losses (Chart IV.12).

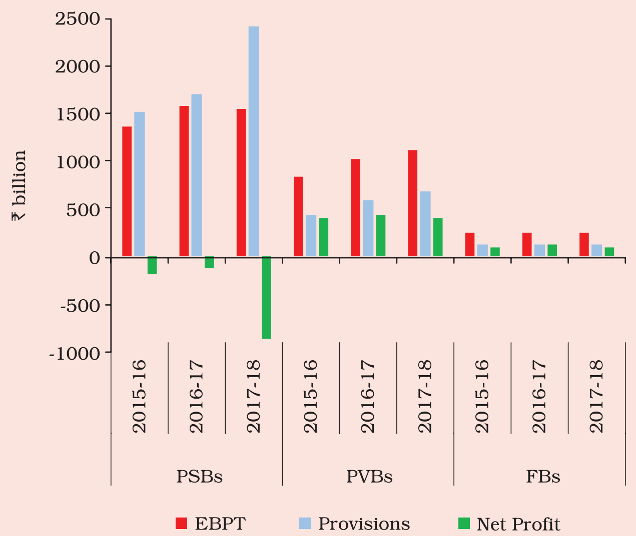
IV.28 During H1:2018-19, net interest income of SCBs picked up as interest income outpaced interest expenses sizably as lending rates rose. However, non-interest income declined on a *y-o-y* basis due to treasury losses. Operating

Chart IV.11: Provision Coverage Ratio



Note: Provision coverage ratio not adjusted for write-offs.
Source: Off-site returns (domestic operations), RBI.

Chart IV.12: Provisioning and Profitability



Source: Annual accounts of banks.

expenses continued to grow by around 10 per cent on average, leading to a marginal deceleration in operating profit growth. SCBs as a whole continued to incur net losses during H1:2018-19, mainly due to higher provisioning by PSBs.

IV.29 The return on assets (RoA) and the return on equity (RoE) of various bank groups declined during 2017-18. These ratios turned negative for SCBs as a whole. PSBs had to undergo significant erosion in RoE due to contraction in net profit (Table IV.9). RoA and RoE of all SCBs remained negative during H1:2018-19 as well.

Table IV.9: Return on Assets and Return on Equity of SCBs – Bank Group-wise

(Per cent)

Bank group	Return on Assets		Return on Equity	
	2016-17	2017-18	2016-17	2017-18
Public Sector Banks	-0.1	-0.8	-2.0	-14.6
Private Sector Banks	1.3	1.1	11.9	10.1
Foreign Banks	1.6	1.3	9.1	7.2
All SCBs	0.4	-0.2	4.2	-2.8

Notes: 1. Return on assets = Return on assets for the bank groups are obtained as weighted average of return on assets of individual banks in the group, weights being the proportion of total assets of the bank as percentage to total assets of all banks in the corresponding bank group.
2. Return on equity = Net profit/Average total equity.

Source: Annual accounts of banks.

IV.30 The spread, defined as the difference between returns and cost of funds, remained at the same level as in the previous year, although there was an uptick in respect of PVBs (Table IV.10).

Table IV.10: Cost of Funds and Return on Funds - Bank Group-wise

(Per cent)

Bank Group / Year		Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
1	2	3	4	5	6	7	8	9 = 8-5
PSBs	2016-17	5.7	4.8	5.6	8.4	7.5	8.2	2.5
	2017-18	5.1	4.7	5.1	7.8	7.1	7.5	2.5
PVBs	2016-17	5.6	6.6	5.8	10.0	7.5	9.3	3.5
	2017-18	4.9	6.2	5.2	9.5	6.9	8.8	3.6
FBs	2016-17	4.2	4.3	4.2	8.8	6.8	7.9	3.7
	2017-18	3.8	3.0	3.7	8.1	6.6	7.4	3.7
All SCBs	2016-17	5.6	5.4	5.6	8.9	7.4	8.4	2.8
	2017-18	5.0	5.3	5.1	8.3	7.0	7.9	2.8

Notes: 1. Cost of deposits = Interest paid on deposits/Average of current and previous year's deposits.
2. Cost of borrowings = (Interest expended - Interest on deposits)/Average of current and previous year's borrowings.
3. Cost of funds = Interest expended / (Average of current and previous year's deposits plus borrowings).
4. Return on advances = Interest earned on advances /Average of current and previous year's advances.
5. Return on investments = Interest earned on investments /Average of current and previous year's investments.
6. Return on funds = (Interest earned on advances + Interest earned on investments) / (Average of current and previous year's advances plus investments).
7. Data for both 2016-17 and 2017-18 include SFBs.

Source: Annual accounts of banks.

4. Soundness Indicators

IV.31 Soundness indicators are barometers of the financial health of the banking sector. During 2017-18 and 2018-19 (up to September 2018), capital adequacy remained above regulatory requirements in spite of the NPA ratio increasing. Leverage and liquidity coverage ratios (LCR) also witnessed improvement.

4.1 Capital Adequacy

IV.32 The capital to risk-weighted assets ratio (CRAR) of SCBs edged up during 2017-18 with the phased implementation of Basel III. Besides higher provisioning requirements, banks are augmenting capital partly in anticipation of the implementation of Indian Accounting Standards (Ind-AS), which would require provisions for expected credit loss from the time a loan is originated rather than waiting for trigger events. All bank groups remained well-capitalised and above the regulatory requirement of 10.875 per cent (including the capital conservation buffer (CCB)) for March 2018. While the CRARs of PVBs and FBs continued to improve, the capital position of PSBs worsened due to the persisting deterioration in asset quality and incurring of losses (Table IV.11). During H1:2018-19, CRARs of all SCBs deteriorated marginally driven by PSBs and FBs. CRARs of PVBs remained stable.

IV.33 The Tier I capital ratio of PSBs declined marginally during 2017-18 despite decline in risk weighted assets (RWAs); the ratio improved in the case of other bank groups. However, during H1:2018-19, in addition to PSBs, the Tier I capital ratio of FBs also deteriorated, while that of PVBs experienced improvement.

IV.34 The government has infused capital into PSBs from time to time to enable banks to meet regulatory requirements and to support credit growth. In October 2017, a recapitalisation package for PSBs amounting to ₹2.1 trillion was announced. The government provided ₹881 billion in 2017-18, with ₹523 billion allocated to 11 PSBs which are under prompt corrective action (PCA). The remaining ₹358 billion was allocated to nine non-PCA PSBs. The government fixed the coupon rates on recapitalisation bonds in the range of 7.35 - 7.68 per cent, with maturity dates varying from 2028 to 2033. The bonds would have to be held in the held-to-maturity category of investments by PSBs without any limit. They would not qualify for being reckoned under the statutory liquidity ratio (SLR) and would not be tradable. Apart from capital infusion by the government, banks were expected to raise ₹580 billion from markets, which remains incomplete. Recapitalisation of the order of ₹650 billion was planned for 2018-19, which was for further enhanced to ₹1,060 billion on Decemeber 20,

Table IV.11: Component-wise Capital Adequacy of SCBs
(At end-March)

(Amount in ₹ billion)

	PSBs		PVBs		FBs		SCBs	
	2017	2018	2017	2018	2017	2018	2017	2018
1. Capital Funds	**7,047**	**6,578**	**4,239**	**5,157**	**1,373**	**1,487**	**12,659**	**13,221**
i) Tier I Capital	5,480	5,270	3,643	4,470	1,292	1,407	10,414	11,147
ii) Tier II Capital	1,567	1,308	596	687	81	80	2,245	2,074
2. Risk Weighted Assets	**58,053**	**56,414**	**27,289**	**31,383**	**7,335**	**7,799**	**92,677**	**95,596**
3. CRAR (1 as % of 2)	**12.1**	**11.7**	**15.5**	**16.4**	**18.7**	**19.1**	**13.7**	**13.8**
Of which: Tier I	9.4	9.3	13.3	14.2	17.6	18.0	11.2	11.7
Tier II	2.7	2.3	2.2	2.2	1.1	1.0	2.4	2.2

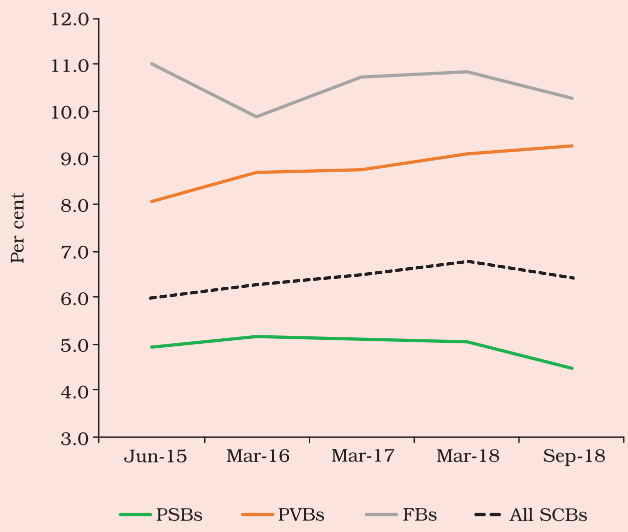
Source: Off-site returns (domestic operations), RBI.

2018. This is aimed at meeting regulatory capital norms and strengthening amalgamating banks by providing regulatory and growth capital.

4.2 Leverage Ratio

IV.35 The leverage ratio, defined as the ratio of Tier I capital to total exposure (including off-balance sheet exposures), complements risk-based capital requirements as a backstop measure. It is considered significantly more counter-cyclical than the risk weighted regulatory capital ratio and is intended to contain the system-wide build-up of leverage. At end-March 2018, the leverage ratio of SCBs was 6.7 per cent. This is above the Pillar I prescription of 3 per cent by the Basel Committee on Banking Supervision (BCBS) with effect from January 1, 2018 and also above the 4.5 per cent level monitored by the Reserve Bank. For PSBs, it was lower than PVBs and FBs. During H1:2018-19, while the leverage ratio of PSBs and FBs declined, that of PVBs witnessed a marginal uptick, resulting in a decline in the leverage ratio of all SCBs (Chart IV.13).

Chart IV.13: Leverage Ratio

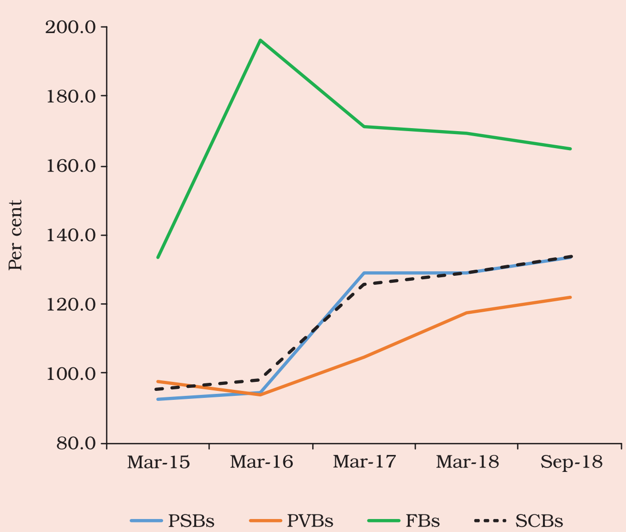


Source: Off-site returns (global operations), RBI.

4.3 Liquidity Coverage Ratio

IV.36 The liquidity coverage ratio (LCR) is intended to promote short-term resilience of banks' liquidity profile, *i.e.*, they should have sufficient high-quality liquid assets (HQLAs) to withstand a 30-day stressed funding scenario. Under the Basel III process, SCBs will have to reach the minimum LCR of 100 per cent by January 1, 2019. At present, the total carve-out from the SLR that is available to banks as Level 1 HQLAs for the purpose of computing LCR is 15 per cent of their net demand and time liabilities (NDTL), in addition to, *inter alia*, government securities held by banks in excess of the minimum SLR requirement. Furthermore, the Reserve Bank allowed a further carve-out up to 0.5 per cent of each bank's NDTL with a view to incentivising the banks to lend to NBFCs and HFCs with effect from October 19, 2018[5]. During 2017-18 and H1:2018-19, SCBs improved their LCR positions further and remained much above the Basel III requirement. FBs maintained the highest LCRs, followed by PSBs and PVBs (Chart IV.14).

Chart IV.14: Liquidity Coverage Ratio



Source: Off-site returns (global operations), RBI.

[5] Please refer to Chapter III for details.

4.4 Net Stable Funding Ratio

IV.37 In contrast to the LCR, the net stable funding ratio (NSFR) is intended to ensure reduction in liquidity mismatches over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources in order to mitigate the risk of future funding stress. Final guidelines on NFSR were issued by the Reserve Bank on May 17, 2018, which will be implemented from April 1, 2020.

4.5 Non-performing Assets

IV.38 The deterioration in asset quality of Indian banks, especially PSBs, can be traced to the credit boom of 2006-2011 when bank lending grew at an average rate of over 20 per cent. Other factors that contributed to the deterioration in asset quality were lax credit appraisal and post-sanction monitoring standards; project delays and cost overruns; and absence of a strong bankruptcy regime until May 2016.

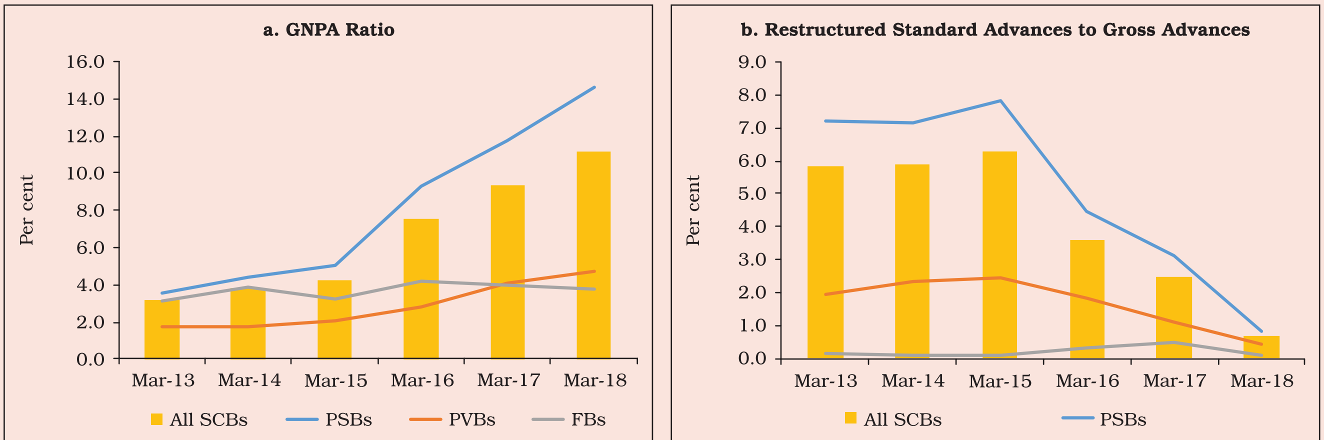
IV.39 During 2017-18, the GNPA ratio reached 14.6 per cent for PSBs due to restructured advances slipping into NPAs and better NPA recognition. For PVBs, it remained at a much lower level but rose during the year. The asset quality of FBs improved marginally (Chart IV.15). Supervisory data suggest that during H1:2018-19, the resolution of some large NPA accounts resulted in an improvement in asset quality of SCBs,

IV.40 Resolute efforts on the part of PVBs to clean up their balance sheets through higher write-offs and better recoveries also contributed to low GNPA ratios (Chart IV.16). Data from supervisory returns suggest a decline in the ratio of write-offs to GNPAs during H1:2018-19 across bank groups and an improvement in actual recoveries.

IV.41 In terms of the net NPA ratio, PSBs experienced significant deterioration during 2017-18 (Table IV.12).

IV.42 During the year, the share of doubtful advances in total GNPAs increased sizably, driven up by PSBs. The share of sub-standard and loss assets in GNPAs of PVBs declined

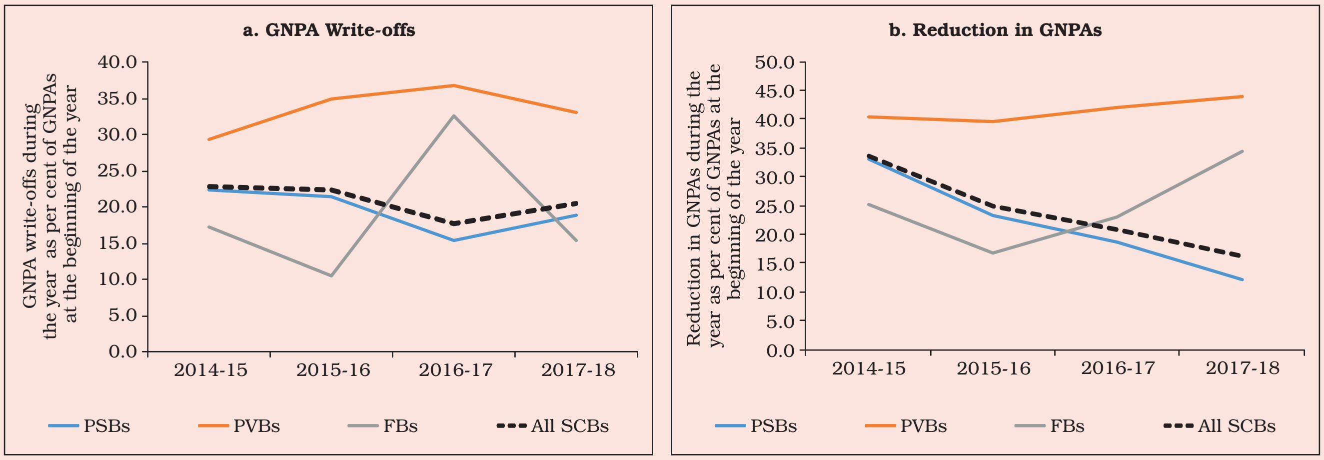
Chart IV.15: Asset Quality of Banks



Source: Annual accounts of banks and off-site returns (global operations).

Source: Off-site returns (domestic operations).

Chart IV.16: Write-offs and Reduction in GNPAs by SCBs



Source: Annual accounts of banks.

under the impact of aggressive write-offs (Table IV.13). During H1:2018-19, the share of sub-standard and doubtful advances of SCBs declined, while that of loss assets increased marginally.

Table IV.12: Trends in Non-performing Assets - Bank Group-wise

(Amount in ₹ billion)

Item	PSBs*	PVBs	FBs	All SCBs#
Gross NPAs				
Closing Balance for 2016-17	6,847 ^	932	136	7,918
Opening Balance for 2017-18	6,192 ^	932	136	7,265
Addition during the year 2017-18	4,882 ^	1,077	70	6,043
Recovered during the year 2017-18	823	408	47	1,283
Written-off during the year 2017-18	1,295	308	21	1,627
Closing Balance for 2017-18	8,956	1,293	138	10,397
Gross NPAs as per cent of Gross Advances**				
2016-17	11.7	4.1	4.0	9.3
2017-18	14.6	4.7	3.8	11.2
Net NPAs				
Closing Balance for 2016-17	3,831	478	21	4,331
Closing Balance for 2017-18	4,545	642	15	5,207
Net NPAs as per cent of Net Advances				
2016-17	6.9	2.2	0.6	5.3
2017-18	8.0	2.4	0.4	6.0

Notes: 1. *: Includes IDBI Bank Ltd.
2. #: Data includes scheduled SFBs. As at end-March 2017 and end-March 2018, two and six scheduled SFBs, respectively, were operating.
3. **: Calculated taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns (global operations).
4. ^: The opening balance of PSBs for 2017-18 does not match with that of closing balance of 2016-17 as the acquisition of associate banks and Bharatiya Mahila Bank by the State Bank of India is reflected under the head 'Addition during the year 2017-18'.

Source: Annual accounts of banks and off-site returns (global operations), RBI.

IV.43 Supervisory returns suggest that on top of the elevated level of stressed assets, fresh slippages rose during 2017-18 in respect of PSBs as against a decline in the previous year. This is largely attributable to restructured advances slipping into NPAs and a decline in standard advances. Slippages in respect of PVBs moderated. Quarterly data from supervisory returns suggest a significant decline in fresh slippages across bank groups during H1:2018-19.

IV.44 During 2017-18, the GNPA ratio of PSBs arising from larger borrowal accounts (exposure of ₹50 million or more) increased to 23.1 per cent from 18.1 per cent in the previous year. Similarly, the GNPA ratio of PVBs arising from large borrowal accounts registered an uptick, especially after the implementation of the revised framework of resolution of stressed assets from February 12, 2018. However, the share of special mention accounts (SMA–2), which have a high chance of degrading into

Table IV.13: Classification of Loan Assets - Bank Group-wise
(At end-March)

(Amount in ₹ billion)

Bank Group	Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PSBs#	2017	45,012	87.5	1,641	3.2	4,603	9.0	167	0.3
	2018	46,021	84.5	2,053	3.8	5,936	10.9	465	0.9
PVBs	2017	20,310	96.5	244	1.2	429	2.0	65	0.3
	2018	24,506	96.0	272	1.1	700	2.7	52	0.2
FBs	2017	3,302	96.0	40	1.2	82	2.4	14	0.4
	2018	3,495	96.2	38	1.1	84	2.3	16	0.4
All SCBs**	2017	68,624	90.4	1,925	2.5	5,114	6.7	247	0.3
	2018	74,022	88.5	2,364	2.8	6,720	8.0	534	0.6

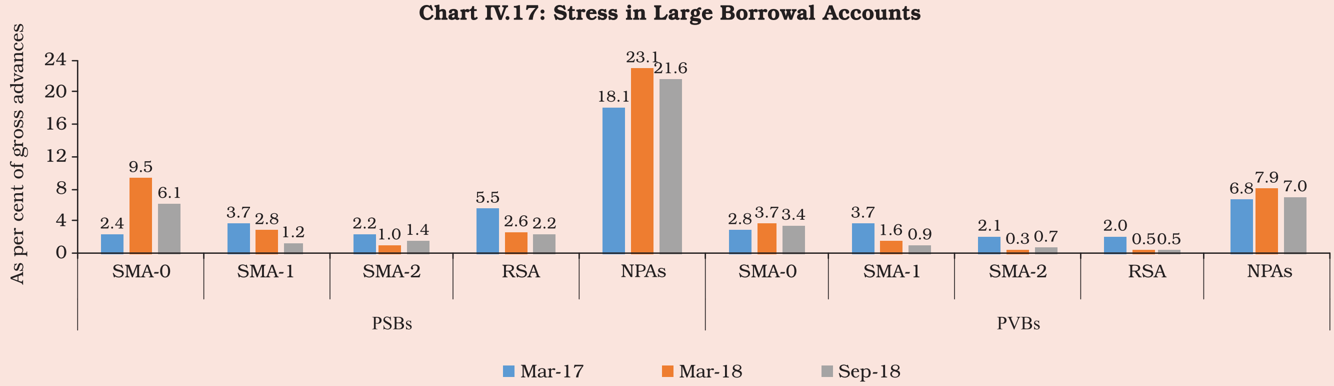
Notes: 1. Constituent items may not add up to the total due to rounding off.
2. *: As per cent to gross advances.
3. #: Includes IDBI Bank Ltd.
4. **: Data exclude SFBs.
Source: Off-site returns (domestic operations), RBI.

NPAs, recorded a decline in case of both bank groups. During H1:2018-19, NPAs in large borrowal accounts of PSBs and PVBs declined; however, the proportion of SMA-2 loans in total loans recorded an uptick (Chart IV.17).

IV.45 Although the share of priority sector NPAs in total NPAs declined marginally during 2017-18, it still constituted a fifth of the total (Table IV.14).

IV.46 Sector-wise, industrial sector receives 37.3 per cent of total loans and advances, but it contributes about three-fourth of total NPAs. Asset quality in the industrial sector deteriorated during 2017-18, mainly with better recognition. The agricultural sector posted an uptick in the GNPA ratio possibly reflecting debt waiver by several states. During H1:2018-19, some moderation in industrial NPAs occurred due to resolution of certain large accounts. At the same time, the asset quality of loans to the agricultural sector worsened further. Loan defaults in retail loans remained at a low level (Chart IV.18a). Size-wise, one-fourth of loans

Chart IV.17: Stress in Large Borrowal Accounts



Note: RSA: Restructured standard advances.
SMA-0: where principal or interest payment was not overdue for more than 30 days but the account showed signs of incipient stress;
SMA-1: where principal or interest payment was overdue for 31-60 days;
SMA-2: where principal or interest payment was overdue for 61-90 days.
Source: Central Repository of Information on Large Credits (CRILC) database.

Table IV.14: Sector-wise NPAs of Banks
(At end-March)

(Amount in ₹ billion)

Bank Group	Priority Sector		Of which						Non-priority Sector		Total NPAs	
			Agriculture		Micro and Small Enterprises		Others					
	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#
PSBs*												
2017	1,543	24.1	548	8.5	757	11.8	238	3.7	4,868	75.9	6,411	100
2018	1,875	22.2	753	8.9	821	9.7	301	3.6	6,580	77.8	8,455	100
PVBs												
2017	133	18.0	53	7.2	64	8.7	16	2.2	605	82.0	738	100
2018	184	18.0	78	7.6	80	7.8	26	2.6	840	82.0	1,024	100
FBs												
2017	24	17.8	1	0.5	4	3.1	19	14.3	112	82.2	136	100
2018	12	8.6	1	0.6	6	4.0	6	4.0	126	91.4	138	100
All SCBs (including SFBs)												
2017	1,703	23.4	602	8.3	828	11.4	273	3.7	5,587	76.6	7,288	100
2018	2,076	21.6	832	8.6	910	9.5	334	3.5	7,555	78.4	9,626	100

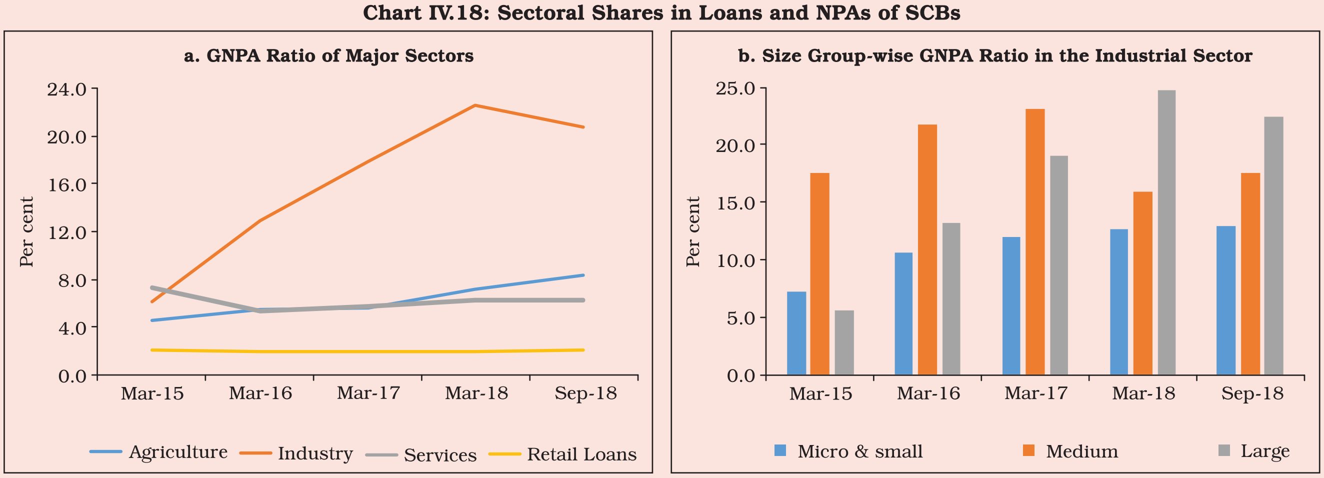
Notes: 1. Amt.: – Amount; Per cent: Per cent of total NPAs.
2. *: Includes IDBI Bank Ltd.
3. Constituent items may not add up to the total due to rounding off.
4. # Share in total NPAs.

Source: Off-site returns (domestic operations), RBI.

to large industries turned into NPAs by the end of March 2018. Medium sized industries underwent improvement in loan quality during 2017-18, although in H1:2018-19, these industries were faced with an uptick in the GNPA ratio (Chart IV.18b).

IV.47 The gems and jewellery sector faced a significant increase in GNPAs during 2017-18 with the unearthing of frauds. In contrast, the cement sector benefitted from a significant decline in the GNPA ratio with resolution of some stressed accounts and an

Chart IV.18: Sectoral Shares in Loans and NPAs of SCBs



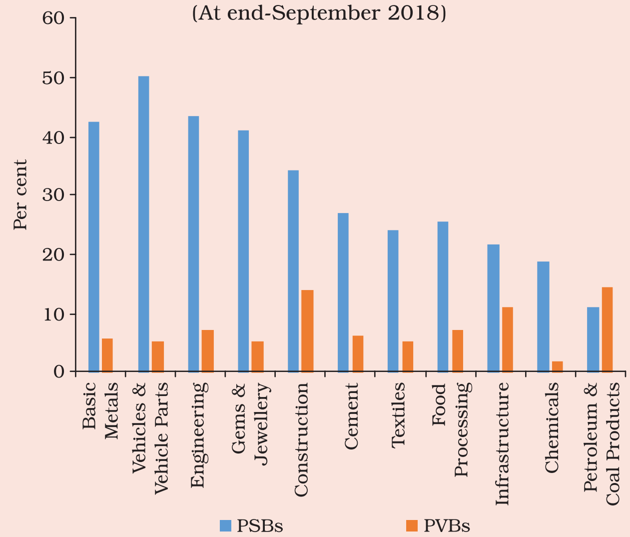
Source: Off-site returns (domestic operations), RBI.

uptick in financial performance. The basic metals and metal products sector remained highly leveraged, although the proportion of bad loans declined in H1:2018-19 due to resolution of large NPA accounts in the steel sector. Other industries with high levels of stress were engineering, vehicles, construction and textiles. In all major industries, except for petroleum and coal products, the GNPA ratio of PSBs remained higher than that of PVBs (Chart IV.19).

4.6 Recoveries

IV.48 Recovery of stressed assets improved during 2017-18 through the IBC, 2016 and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 (please see Box III.1 in Chapter III). Apart from vigorous efforts by banks for speedier recovery, amending the SARFAESI Act to bring in a provision of three months' imprisonment in case the borrower does not provide asset details and for the lender to get possession of mortgaged property within 30 days, may have contributed to better recovery. Recovery through Lok Adalats and Debt Recovery Tribunals (DRTs) declined alongside the number of cases referred partly indicative of growing clout of the IBC mechanism for resolution of stressed assets (Table IV.15).

Chart IV.19: Bank Group-wise GNPA Ratio of Major Industries
(At end-September 2018)



Source: Off-site returns (domestic operations), RBI.

Table IV.15: NPAs of SCBs Recovered through Various Channels (Corrected)

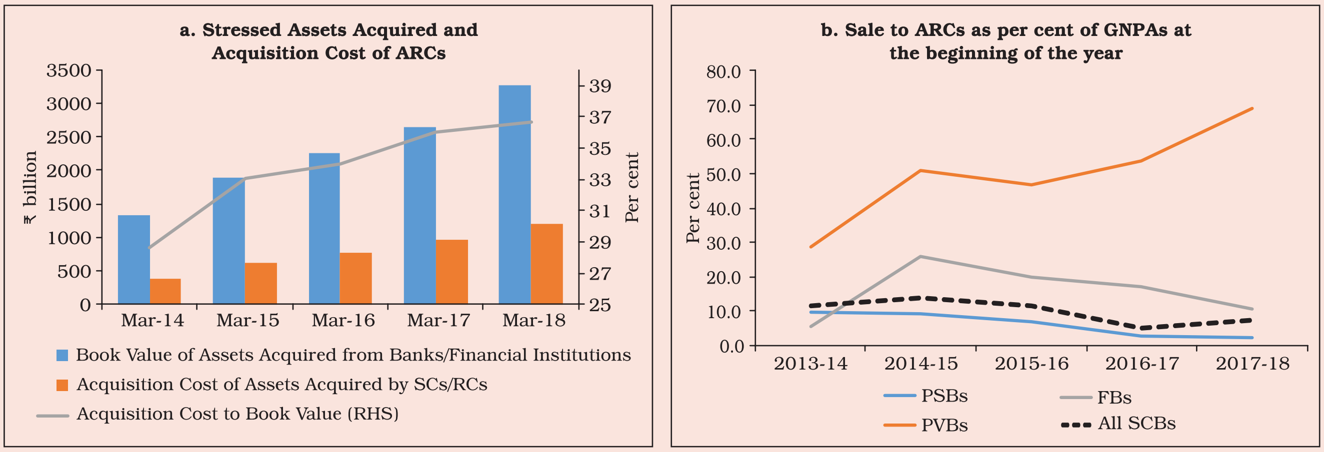
(Amount in ₹ billion)

Recovery Channel	2016-17				2017-18 (P)			
	No. of Cases Referred	Amount Involved	Amount Recovered*	Col. (4) as % of Col. (3)	No. of Cases Referred	Amount Involved	Amount Recovered	Col. (8) as % of Col. (7)
1	2	3	4	5	6	7	8	9
i) Lok Adalats	3,555,678	361	23	6.3	3,317,897	457	18*	4.0
ii) DRTs	32,418	1,008	103	10.2	29,551	1,333	72*	5.4
iii) SARFAESI Act	199,352	1,414	259	18.3	91,330	1,067	265*	24.8
iv) IBC	37@	-	-	-	701@	99#	49^	49.6
Total	**3,787,485**	**2,783**	**385**	**13.8**	**3,439,477**	**2,956**	**404**	**13.7**

Notes: 1. P: Provisional.
2. *: Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years.
3. DRTs - Debt Recovery Tribunals.
4. @: Cases admitted by National Company Law Tribunals (NCLTs).
5. #: Claims admitted of financial creditors (FCs) on 21 companies for which resolution plans were approved.
6. ^: Realisation by FCs from 21 companies for which resolution plans were approved.

Source: RBI and Insolvency and Bankruptcy Board of India.

Chart IV.20: Stressed Asset Sales to ARCs



Source: Quarterly statements submitted by ARCs and off-site returns (domestic operations), RBI.

IV.49 Apart from recovery through various resolution mechanisms, banks are also cleaning up balance sheets through sale of doubtful/ loss assets to assets reconstruction companies (ARCs) and other banks/NBFCs/financial institutions by taking haircuts. During 2017-18, the acquisition cost of ARCs as a proportion to the book value of assets increased, indicating better realisations by banks on sale of stressed assets. Bank group-wise, PVBs have been most aggressive on asset sales. PSBs lagged in asset sales mainly owing to large haircuts and various management issues (Chart IV.20). On the positive side, some PSBs have strengthened in-house expertise for recovery of NPAs, spurred by the need for faster resolution. Quarterly data suggests that during H1:2018-19, sales of stressed assets to ARCs by both PSBs and PVBs witnessed deceleration.

IV.50 The share of subscriptions by banks to security receipts (SRs) issued by ARCs declined to 79.7 per cent by end-June 2018 from 82.7 per cent a year ago (Table IV.16). Since April 1, 2017 the provisioning norms have been made progressively stringent in order to reduce their investments in SRs and incentivise ARCs and other financial institutions to bring in more capital.

4.7 Revised Prompt Corrective Action Framework

IV.51 The Prompt Corrective Action (PCA) framework was revised by the Reserve Bank with effect from April 1, 2017. Under the

Table IV.16: Details of Financial Assets Securitised by ARCs

(Amount in ₹ billion)

Item	Jun-15	Jun-16	Jun-17	Jun-18
1. Book Value of Assets Acquired	1,744	2,377	2,627	3,306
2. Security Receipts issued by ARCs	536	790	939	1,203
3. Security Receipts Subscribed to by				
(a) Banks	441	651	777	960
(b) ARCs	73	114	142	202
(c) FIIs	1	3	3	5
(d) Others (Qualified Institutional Buyers)	21	22	18	37
4. Amount of Security Receipts Completely Redeemed	62	72	74	88
5. Security Receipts Outstanding	413	641	783	981

Source: Quarterly statement submitted by ARCs.

framework, the Reserve Bank monitors key performance indicators of the banks as an early warning exercise and PCA is initiated once the thresholds relating to capital, asset quality and profitability are breached. These parameters are tracked through the CRAR/CET 1 ratio, the net NPA ratio and RoA. Additionally, leverage is monitored through the Tier 1 leverage ratio. The objective of the PCA framework is to incentivise banks to take corrective measures in a timely manner in order to restore their financial health. The framework also provides an opportunity to the Reserve Bank to pay focused attention on these banks by engaging with the management more closely. Under the PCA framework, banks eschew riskier activities and focus on conserving capital so that their balance sheets become stronger. The framework prescribes certain mandatory and discretionary actions such as restrictions on dividend pay-out, branch expansion, restriction on capital expenditure other than for technology upgradation, entering new lines of business, staff expansion, reduction in concentration of exposure, unrated exposure, expansion of risk-weighted assets, reduction in high-cost deposits and improving CASA deposits.

IV.52 Up to end-September 2018, 11 PSBs have been placed under PCA, with five PSBs in the quarter ending June 2017, another five PSBs in the quarter ending December, 2017 and one PSB in the quarter ending March, 2018. Dhanlaxmi Bank is the only PVB which remains under the old PCA framework.

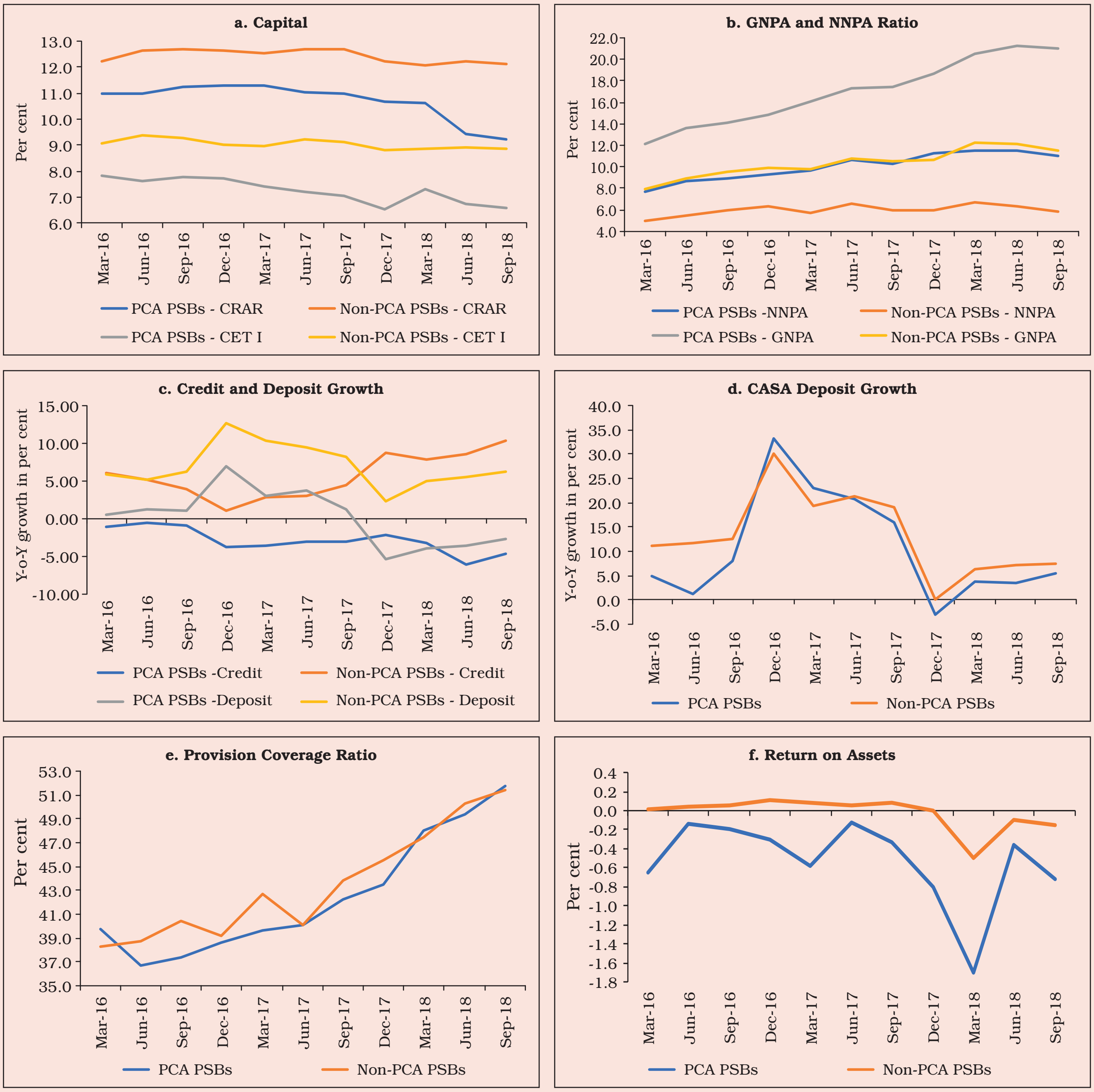
IV.53 PCA banks have shown improvement in the share of CASA deposits with a reduction in the share of bulk deposits working towards reduction in the cost of deposits. They have also increased recoveries from NPAs, while containing the growth in advances and deposits, reducing riskiness of assets and focusing on better rated assets as reflected in reduction in RWAs. They have also shown lower growth in GNPAs, relative to non-PCA PSBs. Various restrictions on PCA banks have resulted in reining in the growth in operating expenses. Some PCA banks have made efforts to identify and sell their non-core assets. However, asset quality and capital position have experienced deterioration. The sharper increase in NPA ratios compared to non-PCA PSBs is also because of decline in advances by the former. As a result, profitability has taken a hit as reflected in negative RoAs (Chart IV.21).

4.8 Frauds in the Banking Sector[6]

IV.54 Frauds have emerged as the most serious concern in the management of operational risk, with 90 per cent of them located in the credit portfolio of banks. In 2017-18, however, frauds related to off-balance sheet operations, foreign exchange transactions, deposit accounts and cyber-activity have taken the centre stage. The *modus operandi* of large value frauds involves opening current accounts with banks outside the lending consortium without a no-objection certificate from lenders, deficient and fraudulent services/certification by third party entities, diversion of funds by borrowers through various means, including through associated/shell companies, lapses in credit

[6] Frauds in banking sector have been covered in detail in *Annual Report 2017-18*. Furthermore, it will be also covered in the context of operational risk in banks in Chapter 3 of the *Financial Stability Report*, to be released shortly.

Chart IV.21: PCA vs. Non-PCA PSBs



Source: Off-site returns (global operations), RBI.

underwriting standards and failing to identify early warning signals. In terms of amount, frauds in the banking sector increased sharply in 2017-18 mainly reflecting a large value case in the jewellery sector (Table IV.17). Incidentally, large value frauds involving ₹500 million and above constituted about 80 per cent of all the frauds during the year. 93 per cent of the frauds in terms of amount of more than ₹0.1 million occurred in PSBs while PVBs accounted for six per cent.

Table IV.17: Frauds in Various Banking Operations

(Cases in number and amount in ₹ million)

Area of Operation	2013-14		2014-15		2015-16		2016-17		2017-18	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Advances	1,990	84,121	2,251	171,222	2,125	173,681	2,322	205,614	2,526	225,590
Deposits	773	3,315	876	4,369	757	8,087	695	9,027	691	4,567
Cyber	978	545	845	517	1,191	402	1,372	423	2,059	1,096
Off-balance sheet	15	10,885	10	6,994	4	1,324	5	633	20	162,877
Foreign exchange transactions	9	1,439	16	8,987	17	508	16	22,010	9	14,258
Cash	145	237	153	431	160	220	239	365	218	403
Cheques/demand drafts	180	188	254	261	234	250	235	404	207	341
Clearing, etc accounts	36	237	29	68	17	866	27	57	37	56
Inter-branch accounts	7	5	4	3	4	101	1	4	6	12
Non-resident accounts	38	96	22	76	8	88	11	34	6	55
Others	135	641	179	1,623	176	1,460	153	768	138	2,421
Total	**4,306**	**101,708**	**4,639**	**194,551**	**4,693**	**186,988**	**5,076**	**239,339**	**5,917**	**411,677**

Notes: 1 Refers to frauds of ₹0.1 million and above

2. The figures reported by banks and FIs are subject to change based on revisions filed by them.

Source: RBI.

5. Sectoral Distribution of Bank Credit

IV.55 During 2017-18, bank credit to agriculture decelerated, partly reflecting pervasive risk aversion and debt waivers by various state governments, which may have disincentivised lending to the sector. Credit growth to industries turned positive in November 2017 after a hiatus of 13 months, but it remained anaemic. Credit to NBFCs picked up, especially to those with high credit ratings. Personal loans continued to register robust growth in 2017-18. During 2018-19 (up to September) credit growth reached double digits, largely driven by services sector lending and personal loans (Table IV.18).

Table IV.18: Sectoral Deployment of Gross Bank Credit

(Amount in ₹ billion)

Sr. No	Item	Outstanding as on			Per cent variation (y-o-y)		
		Mar-17	Mar-18	Sep-18	2016-17	2017-18	2018-19 (up to Sep)
1	**Agriculture & Allied Activities**	**9,924**	**10,302**	**10,544**	**12.4**	**3.8**	**5.8**
2	**Industry,** *of which*	**26,798**	**26,993**	**27,016**	**-1.9**	**0.7**	**2.3**
	2.1 Micro and Small Industries	3,697	3,730	3,638	-0.5	0.9	-1.4
	2.2 Medium	1,048	1,037	1,053	-8.7	-1.1	3.3
	2.3 Large	22,053	22,226	22,326	-1.7	0.8	2.9
3	**Services**, *of which*	**18,022**	**20,505**	**22,014**	**16.9**	**13.8**	**24.0**
	3.1 Trade	4,279	4,669	4,815	12.3	9.1	10.8
	3.2 Commercial Real Estate	1,856	1,858	1,847	4.5	0.1	-0.8
	3.3 Tourism, Hotels & Restaurants	375	365	374	1.2	-2.7	1.0
	3.4 Computer Software	179	186	192	-6.3	4.1	6.0
	3.5 Non-banking Financial Companies	3,910	4,964	5,467	10.9	26.9	41.5
4	**Personal Loans**	**16,200**	**19,085**	**20,200**	**16.4**	**17.8**	**15.1**
5	**Non-food Credit (1-4)**	**70,945**	**76,884**	**79,774**	**8.4**	**8.4**	**11.3**
6	**Gross Bank Credit**	**71,455**	**77,303**	**80,250**	**7.5**	**8.2**	**11.3**

Notes: 1. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹ billion.

2. Data are provisional and relate to select banks which cover about 90 per cent of total non-food credit extended by all SCBs.

Source: RBI.

5.1 Retail Loans

IV.56 Banks continued to post robust growth in retail loans in 2017-18. Housing loans were supported by incentives for affordable housing such as the Pradhan Mantri Awas Yojana (PMAY) and the implementation of the Real Estate (Regulation and Development) Act (RERA). Furthermore, rationalisation of risk weights and provisioning on standard assets in certain categories of individual housing loans in June 2017 gave a fillip to the segment. Auto loans growth also edged up (Table IV.19). During H1:2018-19, retail loans continued to record robust growth driven by housing and auto loans and credit card receivables.

IV.57 PSB loan growth was comparable to PVBs in the retail loans segment, which is relatively stress-free (Chart IV.22).

5.2 Priority Sector Credit

IV.58 Priority sector credit growth recovered in 2017-18, largely driven by a recovery in credit to micro, small and medium enterprises (MSME) (Chart IV.23). In contrast to total agricultural credit, kisan credit card (KCC) loans recorded muted growth during the year (Appenidix Table IV.3).

Table IV.19: Retail Loan Portfolio of Banks
(At end-March)

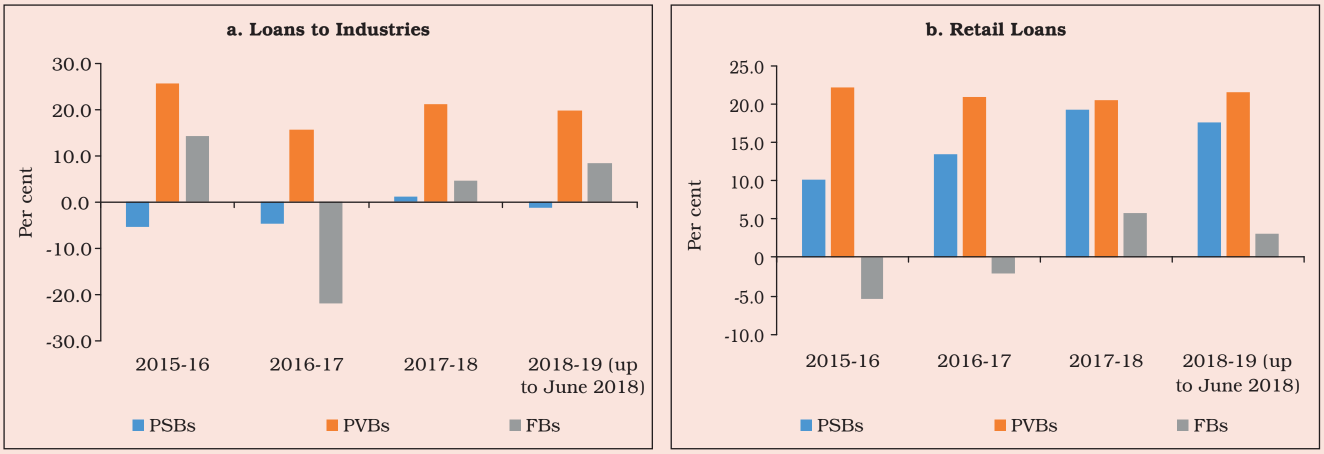
(Amount in ₹ billion)

Sr. No.	Item	Amount Outstanding		Percentage Variation	
		2017	2018	2017	2018
1	Housing Loans	8,539	10,230	12.0	19.8
2	Consumer Durables	215	190	18.4	-11.6
3	Credit Card Receivables	649	828	38.3	27.7
4	Auto Loans	1,867	2,388	21.0	27.9
5	Education Loans	729	728	7.0	-0.1
6	Advances against Fixed Deposits (incl. FCNR (B), *etc.*)	680	635	-6.0	-6.6
7	Advances to Individuals against Shares, Bonds, *etc.*	51	64	-2.8	26.1
8	Other Retail Loans	3,396	4,192	26.3	23.4
	Total Retail Loans	**16,126**	**19,255**	**15.5**	**19.4**

Note: Percentage variations could be slightly different as absolute numbers have been rounded off to ₹ billion.
Source: Off-site returns (domestic operations), RBI.

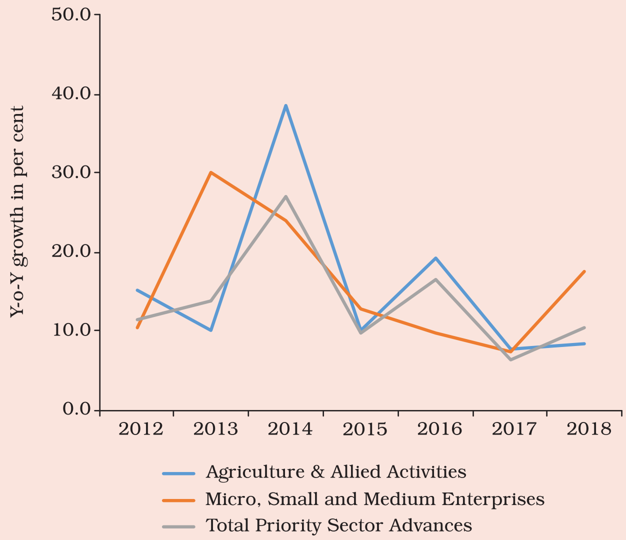
IV.59 Since 2015-16, SCBs have been directed to ensure that the overall lending to non-corporate farmers does not fall below the system-wide average of the last three years. SCBs were also directed to reach the level of 13.5 per cent direct lending to beneficiaries that constituted the erstwhile direct lending to agriculture. For

Chart IV.22: Sectoral Loans: PSBs *vs.* PVBs



Source: Off-site returns (domestic operations), RBI.

Chart IV.23: Credit to Priority Sectors
(At end-March)



Source: RBI.

2017-18, the applicable system-wide average target was 11.8 per cent.

IV.60 Foreign banks with more than 20 branches were put on a five-year roadmap (2013-18) and by March 31, 2018 they were brought on par with domestic banks with regard to achievement of the overall priority sector target and various sectoral sub-targets. Foreign banks with less than 20 branches are required to achieve the priority sector target in a phased manner by March 2020.

IV.61 PVBs managed to achieve the overall priority sector lending (PSL) target[7]. However, shortfalls were found in certain sub-targets such as agriculture and its various segments, and weaker sections. Like in the previous year, PSBs missed the overall PSL target in 2017-18 but they were able to achieve various sub-targets except in respect of micro-enterprises (Table IV.20). During Q1:2018-19, both PSBs and PVBs managed to achieve the overall priority sector lending target. However, shortfalls were observed in certain sectors and sub-sectors in the case of both PSBs (micro-enterprises) and PVBs (total agriculture, small and marginal farmers; non-corporate individual farmers; and weaker sections).

Table IV.20: Priority Sector Lending by Banks
(Average of quarterly figures for 2017-18)

(Amount in ₹ billion)

Item	Target/ sub-target (per cent of ANBC/ OBE)	Public Sector Banks		Private Sector Banks		Foreign Banks	
		Amount outstanding	Per cent of ANBC/OBE	Amount outstanding	Per cent of ANBC/OBE	Amount outstanding	Per cent of ANBC/OBE
1	2	3	4	5	6	7	8
Total Priority Sector Advances	**40**	**20,723**	**39.9**	**8,046**	**40.8**	**1,402**	**38.3**
of which							
Total Agriculture	18	9,321	18.0	3,183	16.2	330	16.7
Small and Marginal Farmers	8	4,633	8.9	1,205	6.1	103	5.2
Non-corporate Individual Farmers	11.7	6,647	12.8	2,125	10.8	131	6.6
Micro Enterprises	7.5	3,317	6.4	1,548	7.9	83	4.2
Weaker Sections	10	5,946	11.5	1,874	9.5	140	7.1

Note: Data are provisional.
Source: RBI.

[7] 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher.

IV.62 For banks that could not achieve the PSL targets and sub-targets through direct lending, Priority Sector Lending Certificates (PSLCs) were introduced as an alternative to Rural Infrastructure Development Fund (RIDF) contributions (Box IV.1). Although the RIDF

Box IV.1: Two Years of PSLCs: Rewarding the 'Over-achievers'?

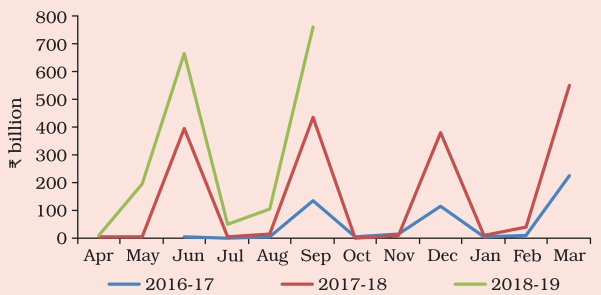
PSLCs trading were introduced in April 2016 on the lines of carbon credits to drive priority sector lending by leveraging the comparative strength of different banks. Under this arrangement, the overachievers sell excess priority sector obligations, while underachievers buy the same with no transfer of risks or loan assets. Trading in PSLCs takes place through the Reserve Bank's e-Kuber portal. Four kinds of PSLCs, *viz.*, PSLC – Agriculture (PSLC-A); PSLC – Small and Marginal Farmers (PSLC-SM); PSLC – Micro Enterprises (PSLC-ME); and PSLC – General (PSLC-G), can be bought and sold *via* the platform in order to meet the applicable priority sector targets and sub-targets.

Trading volumes: During 2017-18, the PSLCs trading volume increased by 270 per cent to ₹1,842 billion from ₹498 billion in the previous year. In H1:2018-19, trading volume more than doubled from the level a year ago. Trading volumes tend to spike at the end of each quarter as buyers vie with each other to meet quarterly priority sector targets (Chart 1). The e-Kuber portal has participation from all eligible bank categories – SCBs (including RRBs); urban co-operative banks (UCBs) and the recently operational small finance banks (SFBs).

PSBs and PVBs are major buyers and sellers of PSLCs; however, if buying and selling is netted, PVBs and FBs emerge as major buyers and PSBs, RRBs and SFBs as major sellers (Chart 2).

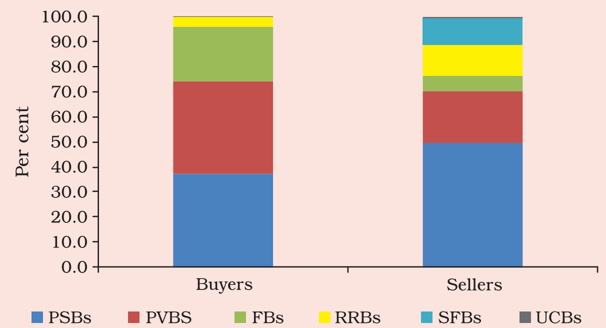
Movement in premiums: PSLCs bought during the first quarter and held till March 31st of the same financial year can be used to fulfil the priority sector norms throughout the year, while a PSLC bought during the last quarter of the year can fulfil the criterion only for a single quarter. Therefore, PSLCs commanded the highest premium during the first quarter, which declined in every subsequent quarter by approximately 0.25 percentage points. PSLC-SM commanded the highest premium among the four categories during 2017-18 as it counts for all priority sector targets and sub-targets, excluding for micro enterprises. As compared to the previous year, premiums declined by 10 to 50 percentage points across categories during 2017-18. During H1:2018-19, premiums have declined further, indicating that trades are ultimately getting settled closer to the average buy offers than average sell offers (Table 1).

Chart 1: Monthly Trading Volume of PSLCs



Note: Trading was allowed since introduction of PSLCs in April 2016. However, volume picked up in June 2016.
Source: RBI.

Chart 2: Share of Buyers and Sellers in PSLC Market - 2017-18



Source: RBI.

Table 1: Weighted Average Premium on Various Categories of PSLCs

(Per cent)

	2016-17	2017-18	2018-19 (Apr-Sep)
PSLC-A	1.87	1.29	1.18
PSLC-ME	0.75	0.61	0.57
PSLC-SM	1.72	1.54	1.39
PSLC-G	0.7	0.59	0.43

Source: RBI.

The total premium realised by banks increased to ₹18.6 billion during 2017-18 against ₹6.3 billion in the previous year. Only half of the PSLCs on offer for sale ultimately got settled during the year, reflecting the size of the unmet potential of the PSLC market.

scheme continues, the contributions of banks to it have slowed down and have been instead channelised to PSLCs.

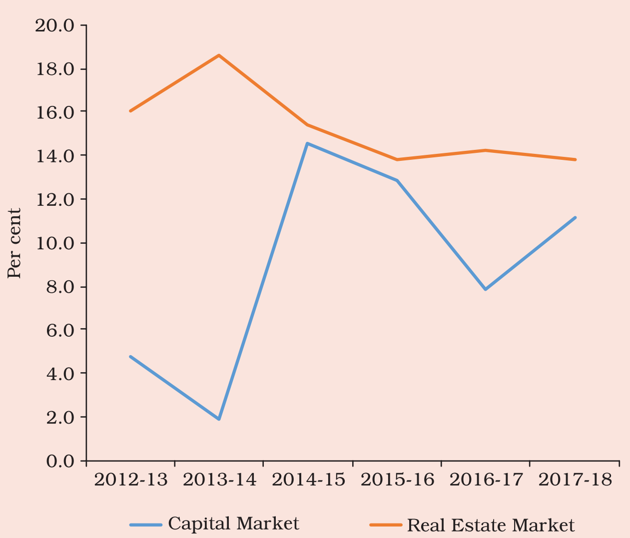
5.3 Trade Receivables Discounting System

IV.63 The trade receivables discounting system (TReDS) – an institutional mechanism to facilitate financing of trade receivables of MSMEs from corporates and other buyers including government departments and public sector undertakings (PSUs) - has been gaining traction. The three entities which were granted authorisation to set up and operate TReDS collectively registered 1,878 MSMEs, 235 corporates and 57 banks. MSME receivables worth ₹24 billion have been financed through TReDS as on October 31, 2018.

5.4 Credit to Sensitive Sectors

IV.64 Credit to sensitive sectors—real estate and the capital market—increased in 2017-18 after a mild deceleration in the previous year, attributable to some revival in housing sector activity and financing of IPOs, respectively (Chart IV.24 and Appendix Table IV.4).

Chart IV.24: Growth in Lending to Sensitive Sectors



Source: Annual accounts of banks.

6. Operations of SCBs in the Capital Market

IV.65 Capital markets enable raising of resources to strengthen banks' capital base, but while doing so, they are also expected to impose discipline and invoke the market's evaluation of their performance.

6.1 Public Issues and Private Placement

IV.66 Resource mobilisation through public issues by PVBs increased during 2017-18, mainly on account of Bandhan Bank's initial public offering (IPO) of ₹44.7 billion. There were no public issues by PSBs during the year. During 2018-19 so far (up to end-September 2018), there were no public issues either by PSBs or by PVBs (Table IV.21).

IV.67 Private placements of bonds remained the major long-term source of funding for banks. During 2017-18, the amount raised by PVBs through private placements was higher than those of PSBs though the number of issues were lower. During 2018-19 so far (up to end-September 2018), private placements by banks were limited (Chart IV.25).

6.2 Performance of Banking Stocks

IV.68 During 2017-18 and during 2018-19 so far (up to end-November 2018), the Nifty Bank Index generally outperformed the Nifty

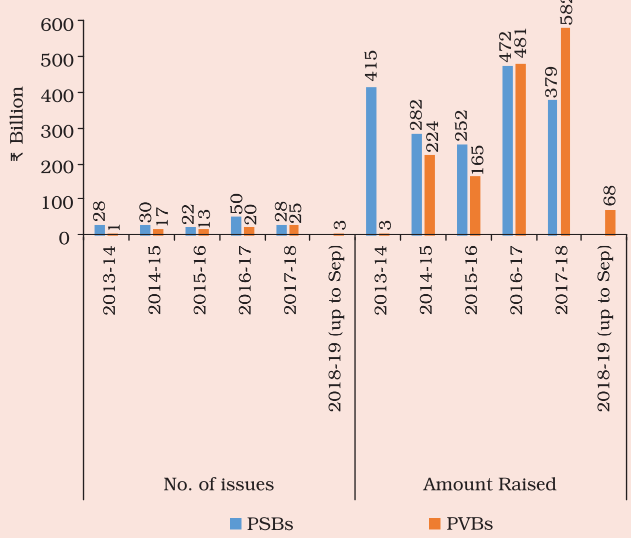
Table IV.21: Public Issues by the Banking Sector

(Amount in ₹ billion)

Year	Public Sector Banks		Private Sector Banks		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8=(6+7)
2016-17	11	-	25	-	36	-	36
2017-18	-	-	62	-	62	-	62
2018-19 (up to Sep 2018)	-	-	-	-	-	-	-

Note: -: Nil/Negligible.
Source: SEBI.

Chart IV.25: Resources Raised by Banks through Private Placements



Source: BSE, NSE and Merchant Bankers.

50 on the strength of measures taken to tackle bad loans, recapitalisation of PSBs, rising referrals to NCLTs, resolution of some large NPA accounts under the IBC and the announcement of merger of weak PSBs with stronger ones. The Nifty Private Bank Index generally yielded better returns than the Nifty PSU Bank Index during the entire period (Chart IV.26).

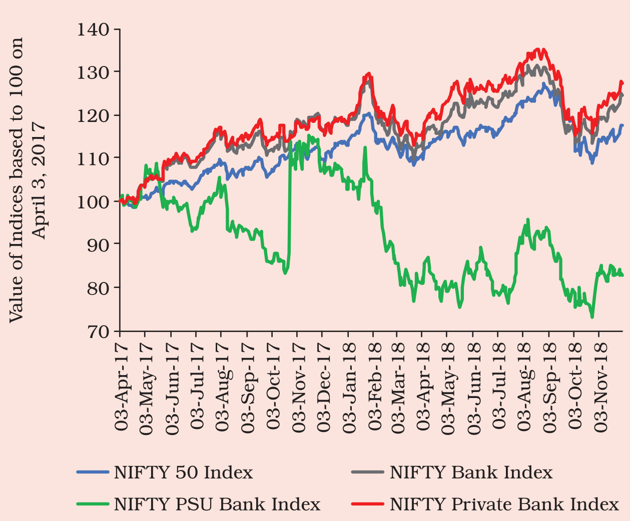
7. Ownership Pattern in Scheduled Commercial Banks

IV.69 During 2017-18, government ownership in 16 out of 21 PSBs increased due to capital infusion (Chart IV.27). At the same time, however, the government's shareholding declined in five PSBs as they raised resources through issuances of qualified institutional placements (QIPs) and other capital market instruments (Appendix Table IV.5).

8. Foreign Banks' Operations in India and Overseas Operations of Indian Banks

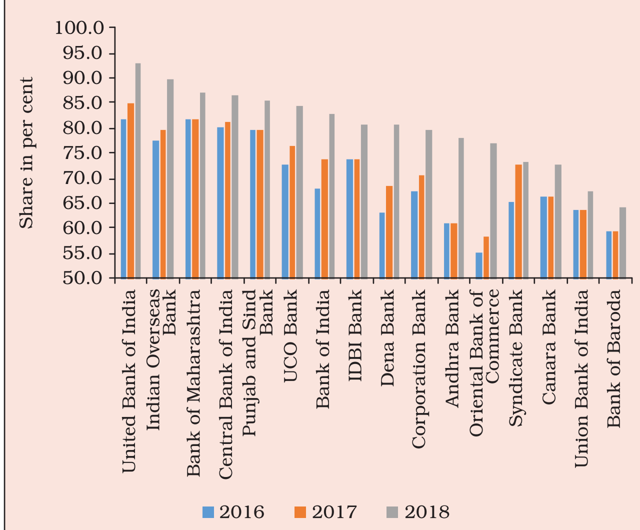
IV.70 In recent years, even as the number of foreign banks operating in the country remained stable, the number of their branches declined due to rationalisation (Table IV.22). The Reserve Bank encourages foreign banks to set up wholly owned subsidiaries (WOSs) of their parent banks by giving them near national

Chart IV.26: Relative Performance of Bank Indices and Nifty 50



Source: NSE.

Chart IV.27: Government Shareholding in Select PSBs
(At end-March)



Source: Off-site returns (domestic operations), RBI.

Table IV.22: Operations of Foreign Banks in India

Period	Foreign Banks Operating through Branches		Foreign Banks having Representative Offices
	No. of Banks	Branches	
Mar-2014	43	314	45
Mar-2015	45	321	40
Mar-2016	46	325	39
Mar-2017	44	295	39
Mar-2018	45	286	40

Source: RBI.

treatment[8]. Subsidiaries of SBM Group and DBS Bank Ltd. have been issued licences on December 6, 2017 and October 4, 2018 respectively, for carrying on banking business in India through the WOS mode.

IV.71 Indian banks, particularly PSBs, marginally reduced their overseas presence in terms of branches, representative offices and other offices (Appendix Table IV.6). Rationalisation of overseas offices was directed towards conservation/freeing up of capital as also cut in operating expenditure. Accordingly, banks closed unviable branches, converted some of their branches into smaller representative offices and merged smaller branches with bigger ones.

9. Payment System and Scheduled Commercial Banks

IV.72 The Reserve Bank is committed to building a world class payment and settlement system for a 'less-cash' India through responsive regulation, robust infrastructure, effective supervision while focusing on customer centricity as envisaged in the *Payment and Settlement Systems in India: Vision-2018* document.

IV.73 During H1:2018-19, real time gross settlement (RTGS) system remained the most dominant medium, with a share of 82.7 per cent in terms of value in total payment system transactions[9]. In terms of volume, however, the share of RTGS transactions was less than one per cent. During 2017-18 and 2018-19 (up to September), the share of retail electronic clearing and card payments rose in terms of volume and value. More than half of the transactions were carried out through card payments during 2017-18 and H1:2018-19. In terms of value too, card payments recorded a sharp rise after November 2016. In 2017-18, however, the growth in volume of card payments decelerated sharply which can be attributed to the high base in the previous year (Chart IV.28).

IV.74 Within retail payments which are characterised by large volumes, electronic fund transfers accounted for 90 per cent in terms of value with National Electronic Funds Transfer (NEFT) accounting for majority share (Chart IV.29a). In terms of volume, some relatively new mediums such as immediate payment service (IMPS) and unified payments interface (UPI) have grown in importance in the recent years (Chart IV.29b). They have emerged as multi-channel systems providing various options to customers to originate transactions.

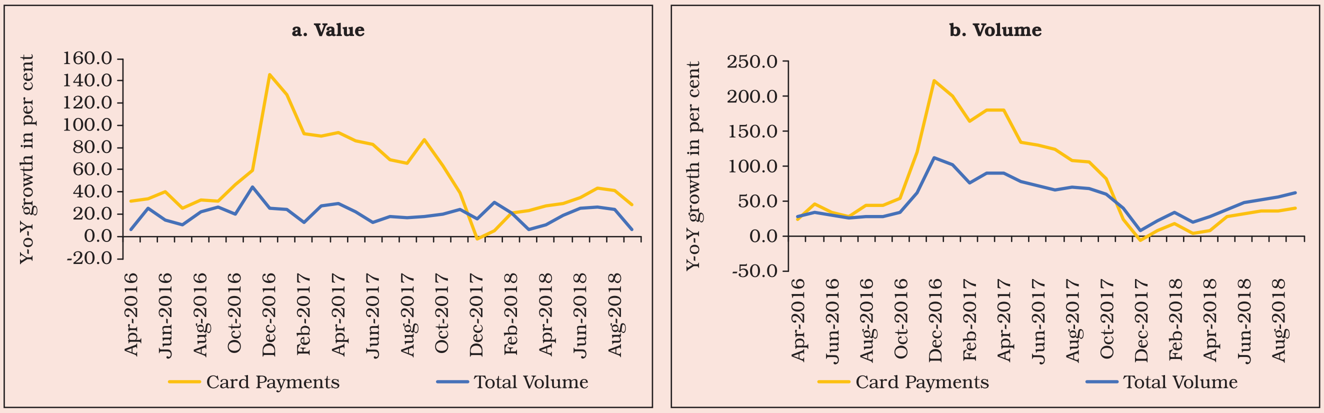
9.1 ATMs and PoS

IV.75 The number of ATMs and in particular, on-site ATMs, declined during the year on account of rationalisation of the number of branches by a few PSBs. PVBs recorded an increase in the number of their ATMs

[8] As a locally incorporated bank, the WOSs are given near national treatment which enables them to open branches anywhere in the country at par with Indian banks (except in certain sensitive areas where the Reserve Bank's prior approval is required). They can also raise rupee resources through issue of non-equity capital instruments, as allowed to domestic banks.

[9] Includes RTGS, paper clearing, retail electronic payments and card payments.

Chart IV.28: Value and Volume of Payment System Transactions



Note: Card payments include credit and debit card transactions at point of sale (PoS) terminals, online payments and payments made through pre-paid payment instruments.
Source: RBI.

(Table IV.23; Appendix Table IV.7). During 2018-19 (up to August), the number of ATMs (excluding SFBs and PBs) declined further to 204,285, attributable to the increasing use of electronic means of payments. During the same period, robust growth was observed in the deployment of PoS terminals across the country (Chart IV.30).

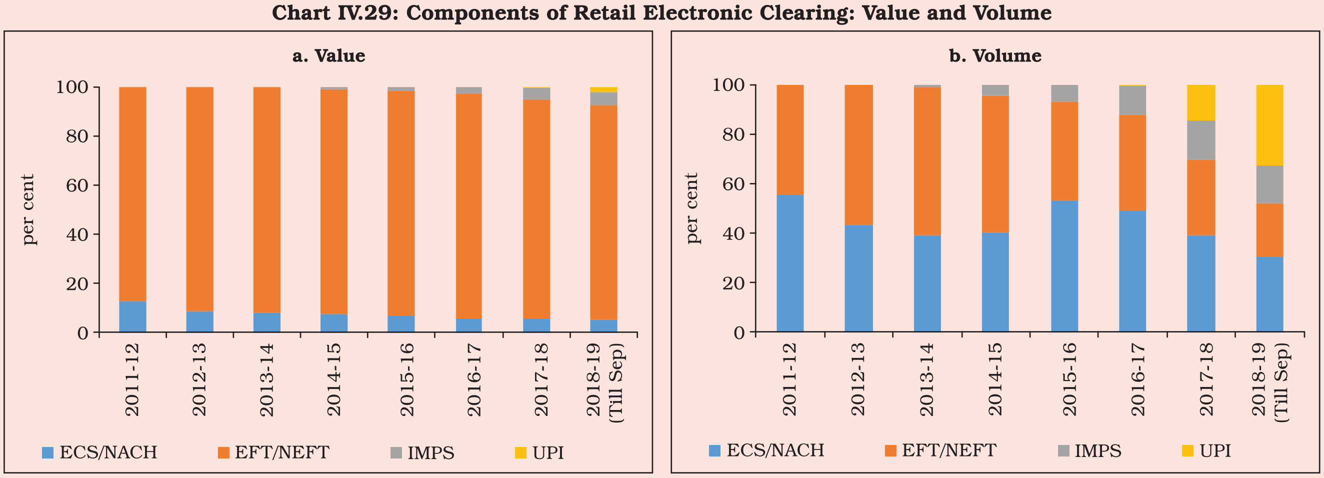
9.2 White-label ATMs

IV.76 The growth of White-label ATMs (WLAs) has tapered off in recent years, although the number of WLAs crossed 15,000 during 2017-18 (Chart IV.31). In order to facilitate cash availability for WLA operators, sourcing of cash from retail outlets in addition to banks was allowed from December 2016. As WLAs were conceived to allow non-banking entities to deploy ATMs in relatively underbanked Tier III to VI centers to help achieve financial inclusion, around three-fourth of the WLAs were deployed in rural and semi-urban centers.

9.3 Debit and Credit Cards

IV.77 The growth of credit cards continued to accelerate in 2017-18, while the rate of growth

Chart IV.29: Components of Retail Electronic Clearing: Value and Volume



Source: RBI.

Table IV.23: ATMs of Scheduled Commercial Banks
(At end-March)

Sr. No.	Bank Group	On-site ATMs		Off-site ATMs		Total Number of ATMs	
		2017	2018	2017	2018	2017	2018
1	2	3	4	5	6	7	8
I	PSBs	86,545	82,733	62,010	63,235	148,555	145,968
II	PVBs	23,045	23,829	35,788	36,316	58,833	60,145
III	FBs	219	214	747	725	966	939
IV	**All SCBs**	**109,809**	**106,776**	**98,545**	**100,276**	**208,354**	**207,052**

Note: Data excludes WLAs.
Source: RBI.

of debit cards slackened. Availability of easy equated monthly instalment (EMI) facilities, cash-backs, rewards and discounts offered on various e-commerce platforms were the major drivers of credit card growth. The average amount per transaction for credit cards remained much higher than that for debit cards, attributable to the preference for credit cards for undertaking high value transactions (Chart IV.32).

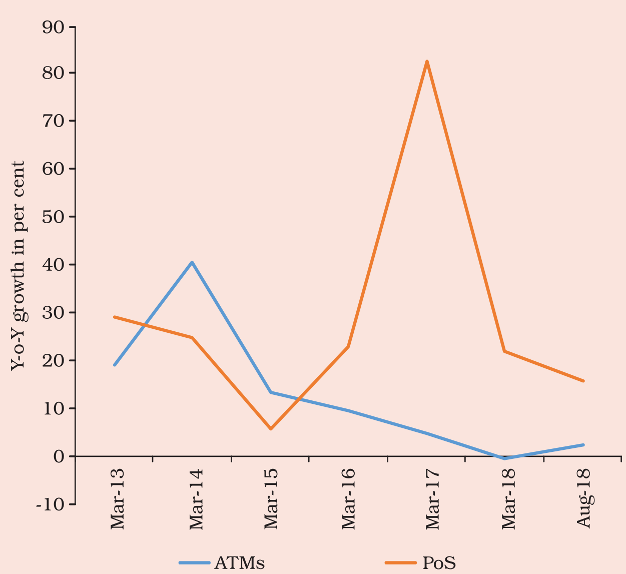
9.4 Pre-paid Payment Instruments

IV.78 Pre-paid payment instruments (PPIs) maintained robust growth in terms of volume and value during 2017-18, despite deceleration from the demonetisation-induced spurt (Chart IV.33). In order to curb frauds and money laundering through PPIs, know your customer (KYC) norms were made stringent, limits were placed on fund transfers and caps were put on the amount held in wallets. Transactions through PPIs, which aggregated to as low as ₹81 billion in 2013-14, increased manifold in subsequent years to reach ₹1,416 billion in 2017-18.

9.5 Unified Payments Interface

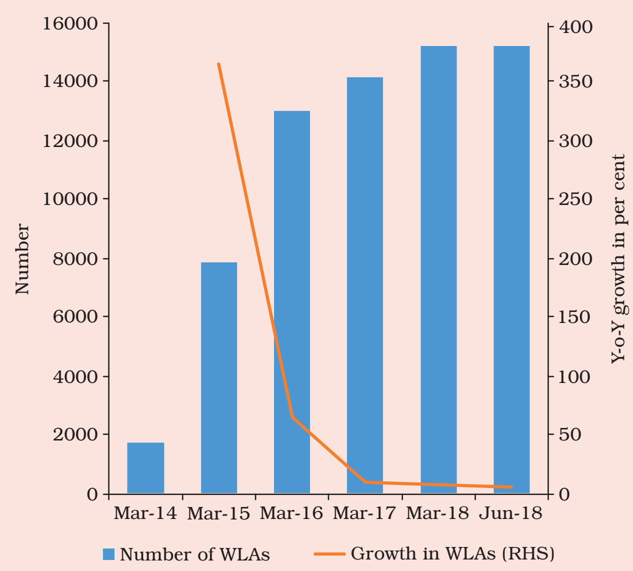
IV.79 Introduced in 2016-17, UPI powers multiple bank accounts into a single mobile

Chart IV.30: ATMs and PoS



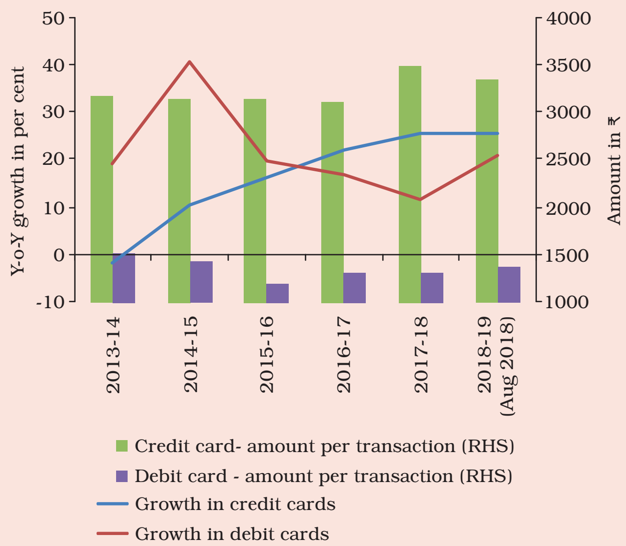
Source: RBI.

Chart IV.31: White-label ATMs



Source: RBI.

Chart IV.32: Credit and Debit Cards



Source: RBI.

Chart IV.33: Growth in Pre-paid Payment Instruments

Source: RBI.

application (of any participating bank) for immediate funds transfer and a variety of payments without parting with sensitive information. During 2017-18, 915 million transactions worth ₹1,098 billion occurred through UPI (including BHIM[10] and USSD 2.0[11]), rising to 1,579 million transactions worth ₹2,670 billion in H1:2018-19.

10. Consumer Protection

IV.80 Fair treatment of customers, transparency, product suitability, privacy and grievance redressal are the overarching principles guiding the Reserve Bank in its approach to protection of bank customers. In an environment in which technology-leveraged banking has rapidly reached out to many first-time customers in rural and semi-urban areas, financial literacy, consumer protection and awareness assume critical importance. In order to enable resolution of complaints of customers relating to various services rendered by banks, Banking Ombudsman (BO) offices have been established under the Banking Ombudsman Scheme, 2006.

IV.81 During 2017-18, the number of complaints received by the BO offices increased by 25 per cent against 27 per cent in the previous year. 97 per cent of these complaints were disposed off in the current year as compared to 92 per cent in the previous year, reflecting improved efficiency of these offices. In response to the rising number of consumer complaints, a second office of the BO was opened in Mumbai by the Reserve Bank in 2017-18, taking the total

[10] Bharat interface for money (BHIM) is an app that enables simple, easy and quick payment transactions using UPI. The customer can make instant bank-to-bank payments and pay and collect money using mobile number or virtual payment address (UPI ID).

[11] UPI is now available for non-internet based mobile devices (smartphones as well as basic phones) in the form of a dialling option (*99#) and is known as USSD 2.0. Bank customers can avail this service by dialling *99# on their mobile phone and transact through an interactive menu displayed on the mobile screen. Key services offered under *99# service include sending and receiving inter-bank account to account funds, balance enquiry, setting/changing UPI PIN, besides a host of other services.

number of BO offices in the country to 21. The BO offices in Tier I cities (New Delhi, Mumbai, Chennai, Kolkata, Bengaluru and Hyderabad) accounted for more than 57 per cent of the total complaints received by all BO offices.

IV.82 The higher proportion of complaints from urban areas in recent years is largely due to increasing awareness about grievance redressal mechanism among bank customers and also the efficacy of internal grievance redressal mechanism in banks, not being up to the desired level (Chart IV.34).

IV.83 During the year, non-observance of the fair practices code remained the major complaint against banks, followed by those related to ATM/credit/debit cards, failure to meet commitments and mobile banking (Table IV.24).

IV.84 Bank group-wise, most pension-related complaints and a majority of the ATM/debit card-related complaints were against PSBs. On the other hand, more than 50 per cent of the complaints relating to non-adherence to instructions on direct selling agents (DSAs) and recovery agents, and credit cards were filed against PVBs (Chart IV.35 and Appendix Table IV.8).

Table IV.24: Nature of Complaints at BOs

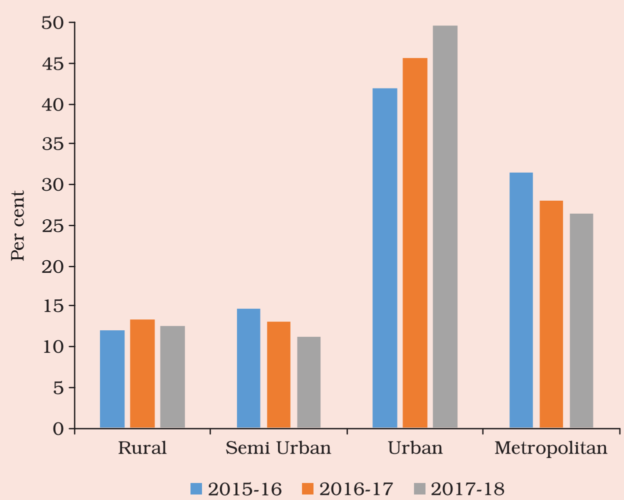
(Number of complaints)

	2016-17@	2017-18@
Deposit Account	7,190	6,719
Remittance	3,287	3,330
Credit Card	8,297	12,647
Loans and Advances	5,559	6,226
Charges without Prior Notice	7,273	8,209
Pension	8,506	7,833
Failure of Commitments	8,911	11,044
Recovery Agent	330	554
Notes and Coins	333	1,282
Fair Practices	31,769	36,146
BCSBI	3,699	3,962
Out of Subject	6,230	5,681
ATM/Debit Card	16,434	24,672
Mobile Banking/Electronic Banking*	-	8,487
Para-Banking*	-	579
Others	23,169	26,219
Total	**130,987**	**163,590**

Notes: 1. *: Fresh grounds included from July 1, 2017.
2. @: Data pertains to July-June.

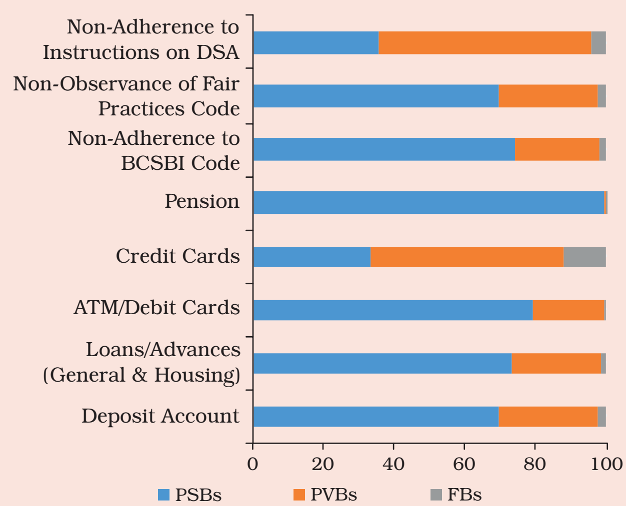
Source: Various offices of Banking Ombudsman.

Chart IV.34: Population Group-wise Complaints Received at BOs



Note: Data pertains to July-June.
Source: Various offices of Banking Ombudsman.

Chart IV.35: Bank Group-wise Break-up of Major Complaint Types: 2017-18



Note: Data pertains to July-June.
Source: Various offices of Banking Ombudsman.

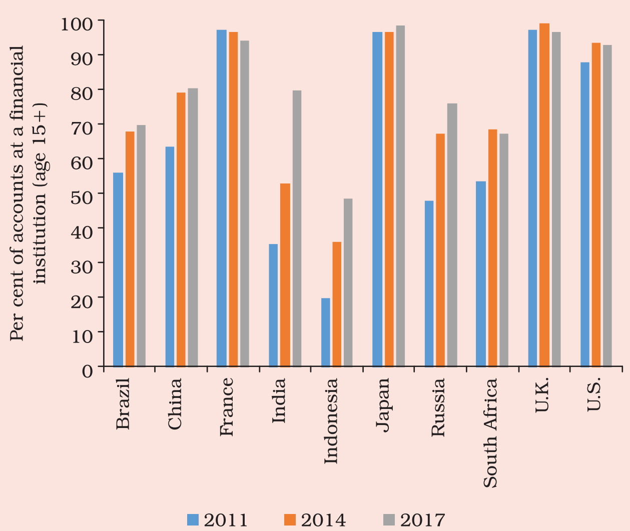
11. Financial Inclusion

IV.85 Powered by the drive to mobilise account ownership among unbanked adults through the Pradhan Mantri Jan Dhan Yojana (PMJDY), the proportion of persons joining the formal financial system in terms of an account at financial institutions has more than doubled since 2011 and by 2017, it had reached 80 per cent of the Indian population - comparable with China and better than other BRICS peers (Chart IV.36).

IV.86 In its pursuit of the goal of financial inclusion for sustainable and inclusive growth, the Reserve Bank since 2010 has encouraged banks to adopt a structured and planned approach, with commitment at the highest levels through Board-approved Financial Inclusion Plans (FIPs). Currently, the third phase of FIP (2016-19) is being implemented, where banks are advised to submit data on the progress made under the FIP on various parameters.

IV.87 During 2017-18, proximate indicators of financial inclusion presented a mixed picture. The number of brick-and-mortar branches and branches in business correspondent (BC) mode declined in rural areas partly due to rationalisation of branches by banks through closing down of branches which were either unviable or located in close proximity to each other. Furthermore, some banks disengaged with corporate BCs due to non-performance. At the same time, the number of BCs in urban areas increased partly attributable to abosorption of erstwhile pre-paid payment instruments (PPIs) providers into the BC fold.

Chart IV.36: Progress in Financial Inclusion in Select Emerging and Advanced Economies



Source: Global Findex Database, World Bank.

IV.88 The decline in the number of Basic Savings Bank Deposit Accounts (BSBDAs) opened through branches is partly reflective of the consolidation on account of the merger of the State Bank of India (SBI) and its associate banks. Furthermore, the branch authorisation policy recognises BCs which provide banking services for a minimum of four hours per day and for at least five days a week as banking outlets. This propelled a sizable increase in the number of accounts opened through BCs who are also generating robust growth in ICT-based banking services (Table IV.25).

11.1 Pradhan Mantri Jan Dhan Yojana

IV.89 The Pradhan Mantri Jan Dhan Yojana (PMJDY) launched in August 2014, has been implemented in two phases - Phase I (August 15, 2014 - August 14, 2015) and Phase II (August 15, 2015 - August 14, 2018). Phase I aimed at providing universal access to banking facilities, basic banking accounts for saving and remittance, and RuPay Debit card with an in-built accident insurance cover of ₹100,000. Phase II incorporated *inter alia* overdraft facilities of up to ₹5000, creation of a Credit Guarantee Fund for coverage of defaults in overdraft accounts, and micro-insurance and unorganised sector pension schemes like Swavalamban. In September 2018, the

Table IV.25: Progress under Financial Inclusion Plans, All SCBs (including RRBs)

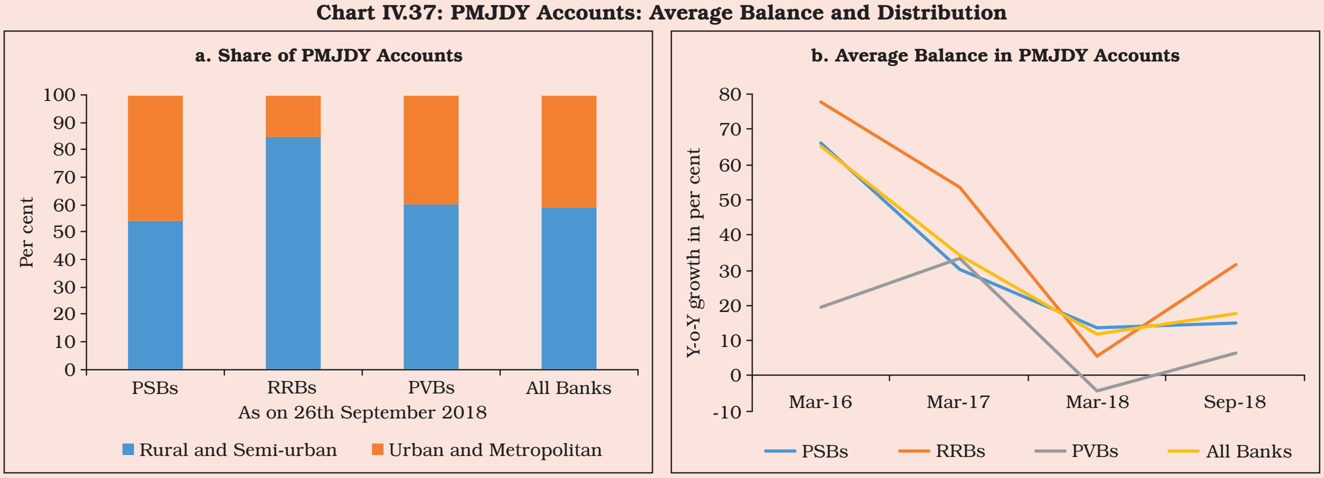
Sr. No.	Particulars	Mar-10	Mar-17	Mar-18	Y-o-Y growth in per cent (2016-17)	Y-o-Y growth in per cent (2017-18)
1	Banking Outlets in Rural location - Branches	33,378	50,860	50,805	-1.9	-0.1
2	Banking Outlets in Rural location - Branchless mode	34,316	547,233	518,742	2.4	-5.2
3	Banking outlets in Rural locations - Total	67,694	598,093	569,547	2.0	-4.8
4	Urban locations covered through BCs	447	102,865	142,959	0.3	39.0
5	BSBDA - Through branches (No. in Million)	60	254	247	6.7	-2.8
6	BSBDA - Through branches (Amt. in Billion)	44	691	731	45.8	5.8
7	BSBDA - Through BCs (No. in Million)	13	280	289	21.2	3.2
8	BSBDA - Through BCs (Amt. in Billion)	11	285	391	73.8	37.2
9	BSBDA - Total (No. in Million)	74	533	536	13.6	0.6
10	BSBDA - Total (Amt. in Billion)	55	977	1,121	53.1	14.7
11	OD facility availed in BSBDAs (No. in million)	0	9	6	0.0	-33.3
12	OD facility availed in BSBDAs (Amt. in Billion)	0	17	4	-41.4	-76.5
13	KCC - Total (No. in Million)	24	46	46	-2.1	0.0
14	KCC - Total (Amt. in Billion)	1,240	5,805	6,096	13.1	5.0
15	GCC - Total (No. in Million)	1	13	12	18.2	-7.7
16	GCC - Total (Amt. in Billion)	35	2,117	1,498	41.8	-29.2
17	ICT-A/Cs-BC-Total number of transactions (in million)	27	1,159	1,489	40.1	28.5
18	ICT-A/Cs-BC-Total number of transactions (in billion)	7	2,652	4,292	57.2	61.8

Note: Sr. No. 1-16 consist of cumulative data from the inception. Sr. No. 17-18 consist of data from the start of corresponding financial year.
Source: FIP returns submitted by banks.

PMJDY was extended beyond August 14, 2018 with new features *viz.*, opening accounts from "every household to every adult"; raising the overdraft limit to ₹10,000 from ₹5,000; overdraft facility up to ₹2,000 without any conditions; and raising accidental insurance cover for new RuPay cardholders from ₹100,000 to ₹200,000, for PMJDY accounts opened after August 28, 2018.

IV.90 Within a span of four years, the total number of accounts opened under the PMJDY expanded to 328 million, with ₹851 billion deposits as on September 28, 2018. Of these accounts, 59.1 per cent were opened at branches located in rural and semi-urban centres (Chart IV.37a). In terms of usage of these accounts, however, the initial spurt in average

Chart IV.37: PMJDY Accounts: Average Balance and Distribution



Source: Pradhan Mantri Jan Dhan Yojana, Government of India.

balances slowed down during 2017-18. The average balance in Jan Dhan accounts in PVBs contracted. However, recovery in usage of these accounts has been setting in during 2018-19 (up to September 28) (Chart IV.37b). Only 23 per cent (upto August 2018) of these accounts (all SCBs taken together) receive direct benefit transfers (DBTs).

11.2 New Bank Branches

IV.91 Opening new bank branches helps in furthering the financial inclusion agenda by attracting new customers to their fold. During 2017-18, opening of new bank branches declined by more than 25 per cent as banks with high stress on their balance sheets undertook branch rationalisation, including turning to BCs in order to contain expenditure. During the year, Tier-2, Tier-3 and Tier-4 centres increased their share of brick-and-mortar branches, reflective of high growth potential of these centres (Table IV.26).

Table IV.26: Tier-wise Break-up of Newly Opened Bank Branches of SCBs

Tier	2014-15	2015-16	2016-17	2017-18
Tier 1	3,092	3,216	2,302	1,594
	(35.3)	(35.5)	(43.3)	(40.3)
Tier 2	605	701	364	342
	(6.9)	(7.7)	(6.8)	(8.6)
Tier 3	1,041	1,202	643	595
	(11.8)	(13.2)	(12.1)	(15.1)
Tier 4	747	792	427	350
	(8.5)	(8.7)	(8.0)	(8.8)
Tier 5	835	920	655	441
	(9.5)	(10.1)	(12.3)	(11.1)
Tier 6	2,429	2,207	915	626
	(27.7)	(24.4)	(17.2)	(15.8)
Total	**8,749**	**9,038**	**5,306**	**3,948**
	(100.0)	(100.0)	(100.0)	(100.0)

Notes: 1. Tier-wise classification of centres are as follows: 'Tier 1' includes centres with population of 100,000 and above, 'Tier 2' includes centres with population of 50,000 to 99,999, 'Tier 3' includes centres with population of 20,000 to 49,999, 'Tier 4' includes centres with population of 10,000 to 19,999, 'Tier 5' includes centres with population of 5,000 to 9,999, and 'Tier 6' includes centres with population of Less than 5000.
2. All population figures are as per Census 2011.
3. Data exclude 'Administrative Offices'.

Source: Master Office File, RBI.

11.3 Distribution of ATMs

IV.92 While the spread of ATMs has been augmenting the access to banking services and thus fostering financial inclusion, it has been biased towards urban and metropolitan centres which account for 56 per cent of the total number of ATMs. During 2017-18, these numbers declined in both urban and metropolitan centres while their penetration increased modestly in rural and semi-urban centres. While ATMs of PSBs are evenly distributed across various population centres, those of PVBs and FBs are skewed towards urban and metropolitan centres, and these patterns have persisted during Q1:2018-19 (Table IV.27).

11.4 Microfinance Programme

IV.93 Launched in 1992 by the National Bank for Agriculture and Rural Development (NABARD), the self-help group (SHG)-Bank linkage programme involves micro-credit extended collectively to small groups to undertake productive activities with a view to integrating them into the formal financial

Table IV.27: Number of ATMs of SCBs at Various Centres

(At end-March 2018)

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5	6
Public Sector Banks	29,628	42,374	41,254	32,531	145,787
	(20.3)	(29.1)	(28.3)	(22.3)	(100.0)
Private Sector Banks	4,845	14,464	15,747	25,089	60,145
	(8.1)	(24.0)	(26.2)	(41.7)	(100.0)
Foreign Banks	17	17	172	733	939
	(1.8)	(1.8)	(18.3)	(78.1)	(100.0)
Total	**34,490**	**56,855**	**57,173**	**58,353**	**206,871**
	(16.7)	**(27.5)**	**(27.6)**	**(28.2)**	**(100.0)**
Growth over Previous Year	**0.9**	**1.7**	**-2.2**	**-2.2**	**-0.6**

Notes: 1. Figures in parentheses indicate percentage share of total ATMs under each bank group.
2. Total number of ATMs differs from as given in Table IV.23 as the latter table also includes the 181 ATMs of SBI abroad, which are not included in this table.

Source: RBI.

system. It has emerged as a key intervention for poverty alleviation through financial inclusion. During 2017-18, 2.3 million new SHGs were credit-linked with banks, and loans of ₹472 billion (including repeat loans) were disbursed to these SHGs. On an average, the amount of savings per SHG and the amount of credit per SHG were ₹22,405 and ₹208,683, respectively.

IV.94 The NPA ratio in these loans was 6.1 per cent, which is higher than loan delinquencies in personal loans of SCBs. During the year, the amount disbursed through micro finance institutions (MFIs) rose faster than under the SHG-Bank linkage programme though the number of MFI loans declined (Table IV.28).

11.5 Borrowing Behaviour

IV.95 The NABARD's All India Rural Financial Inclusion Survey (NAFIS), 2016-17 indicates that the highest proportion of rural households that took any loan during July 1, 2015 to June 30, 2016 was in the southern region covering Andhra Pradesh (76 per cent), Telangana (74 per cent) and Karnataka (70 per cent). This was due to higher penetration of banking, especially through the SHG and the MFI route, in these states. Rural households in states from the north-eastern region like Arunachal Pradesh (62 per cent) and Manipur (60 per cent) also reported a larger proportion of loans taken than the all-India average.

IV.96 The policy thrust on financial inclusion expanded access to credit from institutional sources in rural areas to 69.1 per cent during 2015-16[12] (NAFIS 2016-17) as against 56 per cent in 2013 (All India Debt and Investment Survey). Within non-institutional sources, a significant decline in the dominance of moneylenders is evident. According to NAFIS 2016-17, agricultural households (74.5 per

Table IV.28: Progress of Microfinance Programmes

(At end-March)

Item	Self-Help Groups							
	Number (in million)				Amount (₹ billion)			
	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18
Loans Disbursed by Banks	1.6	1.8	1.9	2.3	276	373	388	472
	(0.7)	(0.9)	(1.0)	(1.4)	(114)	(194)	(200)	(275)
Loans Outstanding with Banks	4.5	4.7	4.8	5.0	515	572	616	756
	(2.2)	(2.5)	(2.8)	(3.1)	(232)	(306)	(341)	(436)
Savings with Banks	7.7	7.9	8.6	8.7	111	137	161	196
	(3.4)	(3.9)	(4.3)	(4.6)	(55)	(73)	(87)	(118)
	Microfinance Institutions							
	Number (in million)				Amount (₹ billion)			
Loans Disbursed by Banks	597	647	2,314	1,922	147	208	193	255
Loans Outstanding with Banks	4,660	2,020	5,357	5,073	219	256	292	323
	Joint Liability Groups							
	Number (in million)				Amount (₹ billion)			
Loans Disbursed by Banks	0.5	0.6	0.7	1.0	44	62	95	140

Notes: 1. Figures in brackets give the details of SHGs covered under the National Rural Livelihoods Mission (NRLM) and the National Urban Livelihoods Mission (NULM) for 2014-15, 2015-16, 2016-17 and 2017-18 respectively.
2. Actual number of MFIs availing loans from banks would be less than the number of accounts, as most of MFIs avail loans several times from the same bank and also from more than one bank.

Source: NABARD.

[12] During July 1, 2015 to June 30, 2016.

cent) relied much more than non-agricultural households (63.8 per cent) on institutional sources for their credit needs.

12. Regional Rural Banks

IV.97 Regional Rural Banks (RRBs) were established in 1975 with the mandate to bring together the positive features of credit co-operatives and commercial banks in order to address the credit needs of backward sections in rural areas. They are regulated by the Reserve Bank and supervised by the NABARD. Leveraging on a network of 21,747 branches with 56 banks at end-March 2018, and to play a greater role in financial inclusion, the government approved a scheme of recapitalisation of RRBs in 2010-11, which was extended twice in 2012-13 and 2015-16. During 2017-18, the recapitalisation scheme received further extension till 2019-20, with ₹11 billion provided for RRBs.

Table IV.29: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ₹ billion)

Sr. No.	Item	At end-March		Y-o-Y growth in per cent	
		2017	2018P	2016-17	2017-18P
1	Share Capital	64	64	-	-
2	Reserves	231	253	11.6	9.5
3	Tier II Bonds	2	0	100.0	-
4	Deposits	3,719	4,005	18.6	7.7
	4.1 Current	107	103	20.2	-3.7
	4.2 Savings	1,881	2,010	27.1	6.9
	4.3 Term	1,731	1,892	10.5	9.3
5	Borrowings	516	626	7.7	21.3
	5.1 from NABARD	405	456	1.5	12.6
	5.2 Sponsor Bank	94	103	64.9	9.6
	5.3 Others	17	67	-22.7	294.1
6	Other Liabilities	128	248	4.1	93.8
	Total Liabilities/Assets	**4,660**	**5,196**	**16.2**	**11.5**
7	Cash in Hand	28	28	3.7	0.0
8	Balances with RBI	150	158	21.0	5.3
9	Other Bank Balances	65	54	41.3	-16.9
10	Investments	2,110	2,210	24.4	4.7
11	Loans and Advances (net)	2,115	2,518	8.4	19.1
12	Fixed Assets	11	12	0.0	9.1
13	Other Assets #	181	216	19.1	19.3

Notes: 1. P: Provisional.
2. #: Includes accumulated losses.
3. -: Nil / neglible

Source: NABARD.

12.1 Balance Sheet Analysis of RRBs

IV.98 The consolidated balance sheet of RRBs showed an expansion during the year. On the liabilities side, deposit growth decelerated as the impact of demonetisation waned and consequently, RRBs turned to borrowings to raise funds. On the assets side, loans and advances rebounded, while investments were subdued (Table IV.29).

IV.99 By end-March 2018, 90 per cent of the loan portfolio of RRBs comprised priority sector loans, with agriculture accounting for 76.1 per cent, followed by micro, small and medium enterprises (14.0 per cent). Non-priority sector loans rebounded from a low base (Table IV.30).

12.2 Financial Performance of RRBs

IV.100 The asset quality of RRBs deteriorated, resulting in decline in CRARs. Net profit fell

Table IV.30: Purpose-wise Outstanding Advances by RRBs
(At end-March)

(Amount in ₹ billion)

Sr. No.	Purpose	Amount		Y-o-Y growth in per cent	
		2017	2018P	2016-17	2017-18P
1	2	3	4	5	6
I	**Priority (i to v)**	**2,033**	**2,285**	**14.3**	**12.4**
	Per cent of total loans outstanding	89.9	90.0	4.4	0.1
	i. Agriculture	1,526	1,739	15.9	14.0
	ii. Micro small and medium enterprises	292	319	15.9	9.2
	iii. Education	27	28	3.8	3.7
	vi. Housing	145	155	9.8	6.9
	v. Others	43	43	-17.3	0.0
II	**Non-priority (i to vi)**	**229**	**242**	**-19.9**	**5.7**
	Per cent of total loans outstanding	10.1	10.0	-27.3	-1.0
	i. Agriculture	0.1	0.2	-90.0	100.0
	ii. Micro, small and medium enterprises	14	2.6	16.7	-81.4
	iii. Education	0.4	0.4	-	-
	iv. Housing	15	23	36.4	53.3
	v. Personal Loans	89	63	20.3	-29.2
	vi. Others	111	153	-41.3	37.8
Total (I+II)		**2,262**	**2,527**	**9.5**	**11.7**

Note: P: Provisional.
Source: NABARD

in 2017-18, largely attributed to a significant increase in operating expenses and elevated provisioning on account of deteriorating asset quality (Table IV.31).

13. Local Area Banks

IV.101 After conversion of Capital Local Area Bank into a SFB since April 2016, only three local area banks (LABs) operate, with a total asset size of ₹8.2 billion at end-March 2018. The credit-deposit ratio of LABs at 78.5 per cent was higher than that of RRBs (62.9 per cent). This suggests that their emphasis is on acting as financial conduits rather than being only saving avenues (Table IV.32).

Table IV.31: Financial Performance of Regional Rural Banks

(Amount in ₹ billion)

Sr. No.	Item	Amount		Y-o-Y growth in per cent	
		2016-17	2017-18P	2016-17	2017-18P
1	2	3	4	5	6
A.	**Income (i + ii)**	**392**	**421**	**10.7**	**7.4**
	i. Interest income	359	385	7.8	7.2
	ii. Other income	33	36	57.1	9.1
B.	**Expenditure (i+ii+iii)**	**370**	**401**	**10.8**	**8.4**
	i. Interest expended	234	238	7.8	1.7
	ii. Operating expenses	104	116	7.2	11.5
	of which, Wage bill	68	69	-1.5	1.5
	iii. Provisions and contingencies	32	47	52.4	46.9
C.	**Profit**				
	i. Operating profit	60	79	172.7	31.7
	ii. Net profit	22	20	10	-9.1
D.	**Total Average Assets**	**4,341**	**4,577**	**14**	**5.4**
E.	**Financial Ratios #**				
	i. Operating profit	1.4	1.7		
	ii. Net profit	0.5	0.4		
	iii. Income (a + b)	9.0	9.2		
	(a) Interest income	8.3	8.4		
	(b) Other income	0.8	0.8		
	iv Expenditure (a+b+c)	8.5	8.8		
	(a) Interest expended	5.4	5.2		
	(b) Operating expenses	2.4	2.5		
	of which, Wage bill	1.6	1.5		
	(c) Provisions and contingencies	0.7	1.0		
F	**Analytical Ratios (%)**				
	Gross NPA Ratio	8.1	9.1		
	CRAR	13.0	12.4		

Notes: 1. P - Provisional.
2. # - Financial ratios are percentages with respect to average total assets.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.

Source: NABARD.

Table IV.32: Profile of Local Area Banks

(At end-March)

(Amount in ₹ million)

	2016-17	2017-18
Assets	7,862	8,173
Deposits	6,420	6,511
Gross Advances	4,750	5,140

Source: Off-site returns (global operations), RBI.

13.1 Financial Performance of LABs

IV.102 During 2017-18, the growth of interest income of LABs was meagre while interest expenses declined. With growth in other income remaining robust, LABs recorded significant improvement in profitability (Table IV.33).

Table IV.33: Financial Performance of Local Area Banks

(Amount in ₹ million)

Item	Amount		Y-o-Y growth in per cent	
	2016-17	2017-18	2016-17	2017-18
1	2	3	4	5
1. Income (i+ii)	**1,060**	**1,158**	**10.7**	**9.2**
i) Interest income	873	898	6.7	3.2
ii) Other income	187	260	33.9	36.7
2. Expenditure(i+ii+iii)	**937**	**981**	**12.0**	**4.4**
i) Interest expended	457	420	12.3	-8.8
ii) Provisions and contingencies	82	92	-3.1	15.4
iii) Operating expenses	397	469	15.3	17.3
of which, wage bill	179	200	7.4	10.9
3. Profit				
i) Operating profit/loss	206	269	5.0	28.1
ii) Net profit/loss	123	177	1.2	47.2
4. Net Interest Income	**415**	**478**	**1.7**	**16.6**
5. Total Assets	**7,862**	**8,173**	**11.6**	**4.3**
6. Financial Ratios @				
i) Operating profit	2.7	3.3		
ii) Net profit	1.5	2.2		
iii) Income	13.5	14.1		
iv) Interest income	11.1	11.0		
v) Other income	2.4	3.2		
vi) Expenditure	12.0	12.0		
vii) Interest expended	5.9	5.1		
viii) Operating expenses	5.1	5.7		
ix) Wage bill	2.3	2.4		
x) Provisions and contingencies	1.0	1.1		
xi) Net interest income	5.2	5.8		

Note: @ - Financial ratios for 2016-17 and 2017-18 are calculated based on assets in respective years.

Source: Off-site returns (global operations), RBI.

14. Small Finance Banks

IV.103 Small Finance Banks (SFBs) have been set up to deepen financial inclusion by catering to clientele such as migrant labourers, low income households, small businesses and other unorganised sector entities. By end-March 2018, all the ten SFBs had commenced operations.

14.1 Balance Sheet of SFBs

IV.104 Since nine out of ten SFBs were earlier operating as NBFCs, their legacy reliance on borrowings continued. SFBs are, however, subject to a regulatory ceiling on inter-bank borrowings. Given their MFI background, loans and advances constituted 67 per cent of total assets, which was much higher than that of other SCBs, and the share of investments in total assets was correspondingly lower (Table IV.34).

Table IV.34: Consolidated Balance Sheet of Small Finance Banks

(Amount in ₹ billion)

Sr. No.	Item	End-March 2017*	End-March 2018**
1	2	3	4
1.	Share Capital	33.4	41.8
2.	Reserves	16.1	55.0
3.	Tier II Bonds	6.8	16.0
4.	Deposits	49.6	264.7
	4.1 Current	1.4	10.1
	4.2 Savings	12.1	45.3
	4.3 Term	36.0	209.3
5.	Borrowings (Including Tier II Bonds)	165.5	308.9
	5.1 Bank	68.7	77.2
	5.2 Others	96.8	231.6
6.	Other Liabilities	11.7	29.2
	Total Liabilities/Assets	**276.3**	**699.5**
7.	Cash in Hand	1.6	3.2
8.	Balances with RBI	6.8	18.6
9.	Balances with Banks and other Financial Institutions	24.1	49.1
10	Investments	60.3	131.5
11	Loans and Advances	168.2	467.6
12	Fixed Assets	5.5	15.2
13	Other Assets	9.8	14.3

Notes: * Based on balance sheet of six SFBs which had commenced their operations before March 31, 2017.
** Based on balance sheet of ten SFBs which had commenced their operations before March 31, 2018.
Source: Off-site returns (domestic operations), RBI.

14.2 Priority Sector Lending of SFBs

IV.105 At end-March 2018, priority sector lending of SFBs was 76.7 per cent of their total loans, which was lower than in the previous year. Consistent with their mandate, SFBs' focus remained on micro, small and medium enterprises, followed by agriculture. During 2017-18, however, these banks increased their exposure to the non-priority sector (Table IV.35).

14.3 Financial Performance of SFBs

IV.106 During 2017-18, SFBs reported positive earnings before provisions and taxes (EBPT) but high provisioning on account of elevated NPAs caused net losses. This may be attributable to exceptionally high net losses reported by one SFB which wiped out the combined net profit of other SFBs taken together (Table IV.36). In H1:2018-19, SFBs continued to report net losses.

Table IV.35: Purpose-wise Outstanding Advances by Small Finance Banks

(Share in percentage)

Sr. No.	Purpose	End-March 2017*	End-March 2018**
I	**Priority (i to v)**	**93.4**	**76.7*** **
	Per cent to total loans outstanding		
	i. Agriculture	25.7	20.1
	ii. Micro, small and medium enterprises	34.2	31.0
	iii. Education	0.8	0.0
	iv. Housing	2.6	2.1
	v. Others	30.2	23.4
II	**Non-priority**	6.6	23.3
Total (I+II)		**100**	**100**

Notes: * Based on balance sheet of six SFBs which had commenced their operations before March 31, 2017.
** Based on balance sheet of ten SFBs which had commenced their operations before March 31, 2018.
*** Calculated by dividing priority sector advances by gross advances for the respective years.
Source: Off-site returns (domestic operations), RBI.

Table IV.36: Financial Performance of Small Finance Banks

(Amount in ₹ billion)

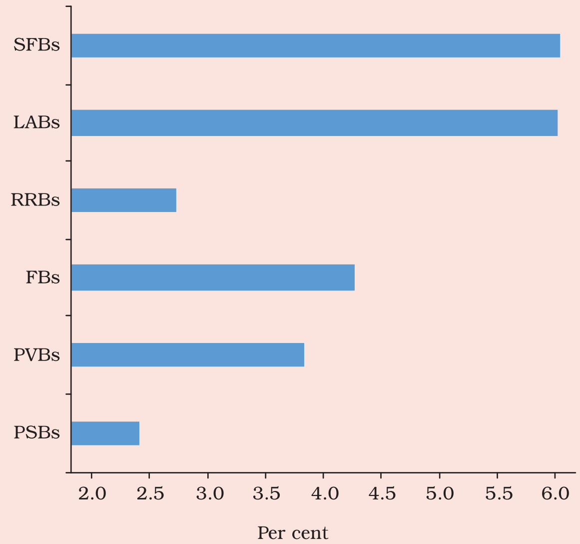
Sr. No.	Item	2016-17*	2017-18**
A	**Income (i + ii)**	**20.8**	**94.5**
	i. Interest Income	17.9	84.2
	ii. Other Income	2.9	10.4
B	**Expenditure (i+ii+iii)**	**19.4**	**115.7**
	i. Interest Expended	8.8	43.1
	ii. Operating Expenses	8.9	47.1
	of which Staff Expenses	4.9	24.1
	iii. Provisions and Contingencies	1.7	25.5
C	**Profit**	**2.2**	**-20.2**
	i. Operating Profit (EBPT)	3.1	3.9
	ii. Net Profit (PAT)	1.4	-22.5
D	**Total Assets**	**276.3**	**699.5**
E	**Financial Ratios #**		
	i. Operating Profit	1.1	0.6
	ii. Net Profit	0.5	-3.2
	iii. Income (a + b)	7.5	13.5
	(a) Interest Income	6.5	12.0
	(b) Other Income	1	1.5
	iv. Expenditure (a+b+c)	6.7	16.5
	(a) Interest Expended	3.2	6.2
	(b) Operating Expenses	3.2	6.7
	of which Staff Expenses	1.8	3.4
	(c) Provisions and Contingencies	0.3	3.6
F	**Analytical Ratios (%)**		
	Gross NPA Ratio	1.8	8.7
	CRAR	26.3	22.9

Notes: # As per cent to total assets.
* Based on balance sheet of six SFBs which had commenced their operations before March 31, 2017.
** Based on balance sheet of ten SFBs which had commenced their operations before March 31, 2018.

Source: Off-site returns (domestic operations), RBI.

IV.107 The NIM of SFBs remained higher than that of other bank groups, except for LABs (Chart IV.38). During H1:2018-19, their GNPA ratio (6.1 per cent) recorded improvement while CRAR (22.1 per cent) remained stable. The growth of SFBs so far (up to end-June 2018) has been largely driven by their strategy of offering higher deposit rates to attract customers. Providing better service delivery and garnering trust while shoring up asset quality will be a challenge as well as a key to their future success.

Chart IV.38: Net Interest Margin across Bank groups during 2017-18



Source: Off-site returns (domestic operations), RBI and NABARD.

15. Payments Banks

IV.108 The Reserve Bank has issued payments bank (PBs) licences to seven entities, out of which five PBs were operational by end-March 2018 and the remaining two were also operational at end-November 2018. The primary objective of establishing PBs is to harness technology so as to increase financial inclusion by opening small savings accounts and providing payments/ remittance services to migrant labourers, small businesses, low income households and other entities in the unorganised sector, by using the digital medium.

15.1 Balance Sheet of PBs

IV.109 At end-March 2018, other liabilities (such as unspent balances in PPIs) and provisions of the five PBs in operation accounted for more than half of their balance sheets as compared to the previous year when for two operational PBs, total capital and reserves formed the major share of liabilities. The share of deposits, though still low, increased from 5.7 per cent to 9.0 per cent during the same period.

IV.110 The asset composition of PBs reflects the nature of their operations as they are not permitted to undertake lending activities and have to maintain a minimum investment to the extent of not less than 75 per cent of demand deposit balances (DDBs) in Government securities for maintenance of the SLR. Furthermore, they are required to maintain not more than 25 per cent of their DDBs in demand and time deposits with other SCBs. During 2017-18, the share of investments in assets increased from 29.2 per cent to 50.1 per cent (Table IV.37).

15.2 Financial Performance of PBs

IV.111 The consolidated balance sheet of PBs showed net losses during 2016-17 and 2017-18. Even operating profit of PBs remained negative, although net interest income improved. The losses of PBs are attributed to high operating expenses as large capital expenditures had to be incurred in setting up initial infrastructure (Table IV.38). It may take some time for PBs to break even as they expand their customer base by offering their unique banking products.

Table IV.37: Consolidated Balance Sheet of Payments Banks

(Amount in ₹ million)

Item	End-March 2017	End-March 2018
Total Capital and Reserves	7,936	18,479
Deposits	685	4,382
Other Liabilities and Provisions	3,318	26,055
Total Liabilities/Assets	**11,939**	**48,916**
Cash and Balances with RBI	191	3,583
Balances with Banks and Money Market	7,629	12,426
Investments	3,481	24,487
Fixed Assets	102	2,357
Other Assets	535	6,063

Note: Data for end-March 2017 and end-March 2018 pertain to two and five PBs, respectively. Hence, the data for these two years are not comparable.
Source: Off-site returns (domestic operations), RBI.

Table IV.38: Financial Performance of Payments Banks

(Amount in ₹ million)

Sr. No.	Item	2016-17	2017-18
A	Income (i + ii)		
	i. Interest Income	314	1,756
	ii. Other Income	1,086	10,036
B	Expenditure		
	i. Interest Expended	7	245
	ii. Operating Expenses	3,800	16,768
	iii. Provisions and Contingencies	15	-56
	of which, Risk Provisions	4	-66
	Tax Provisions	11	10
C	Net interest income (Ai-Bi)	307	1,511
D	Profit		
	i. Operating Profit (EBPT)	-2,407	-5,221
	ii. Net Profit/Loss	-2,422	-5,165

Note: Data for 2016-17 and 2017-18 pertain to two and five PBs, respectively. Hence, the data for these two years are not comparable.
Source: Off-site returns (domestic operations), RBI.

During H1:2018-19, PBs[13] continued to incur negative operating profit/net profit.

IV.112 At the same time, the performance of PBs has improved in terms of various performance metrics such as NIM and the cost to income ratio. However, their losses as reflected in RoA, RoE and profit margins continued (Table IV.39).

15.3 Inward and Outward Remittances

IV.113 In terms of both value and volume, inward and outward remittances through e-wallets occupied the largest share in the total

Table IV.39: Select Financial Ratios of Payments Banks

(At end-March)

Item	2017	2018
Return on Assets	-25.2	-10.6
Return on Equity	-36.4	-22.4
Investments to Total Assets	29.2	50.1
Net Interest Margin	2.8	4.5
Efficiency (Cost-Income ratio)	272.7	142.2
Operating Profit to Working Funds	-25.1	-10.7
Profit Margin	-172.9	-43.8

Note: Data for end-March 2017 and end-March 2018 pertain to two and five PBs, respectively. Hence, the data for these two years are not comparable.
Source: Off-site returns (domestic operations), RBI.

[13] Based on data of six operational PBs.

Table IV.40: Remittances through Payments Banks during 2017-18

(Numbers in million and amount in ₹ million)

Sr. No.	Inward Remittances		Outward Remittances	
	Number	Amount	Number	Amount
1. NEFT	1 (0.1)	9,645 (3.2)	2 (0.2)	90,613 (18.2)
2. RTGS	-	20,098 (6.7)	-	31,737 (6.4)
3. IMPS	6 (0.4)	9,622 (3.2)	29 (3.6)	77,032 (15.5)
4. UPI	200 (13.9)	16,484 (5.5)	213 (26.4)	23,432 (4.7)
5. E - Wallets	1,232 (85.6)	243,368 (81.0)	559 (69.3)	2,65,479 (53.4)
6. Others	0.4	1,134 (0.4)	4 (0.5)	9,223 (1.9)
Total	**1,439 (100.0)**	**300,352 (100.0)**	**807 (100.0)**	**497,516 (100.0)**

Notes: 1. -: Nil / negligible.
2. Figures in parentheses are percentages to total.
Source: Off-site returns (domestic operations), RBI.

remittance business of payments banks during 2017-18. In fact, more than 81 per cent of inward remittances in terms of value were made through e-wallets (Table IV.40).

16. Overall Assessment

IV.114 In an environment of worsening asset quality of banks, resolution of stressed assets and ensuring adequate provisions as well as capital ascended the hierarchy of priorities for the Reserve Bank in 2017-18 and these concerns persisted in H1:2018-19, although some improvement was visible. Provisions for mark-to-market losses on account of hardening of yields on government securities added to these pressures, and in this context, the Reserve Bank allowed banks to spread the losses across four quarters, providing some relief. That banks managed to improve their capital positions and maintained other soundness indicators such as the leverage ratio and the LCR well above the minimum regulatory requirements testifies to the gradually building resilience of the banking sector.

IV.115 Bank credit is recovering from the risk aversion of recent years and bank intermediation in the flow of resources to the commercial sector is regaining lost ground. There are shifts underway, though, with a renewed focus on lending to less stressed sectors such as retail loans. Lending to the agricultural sector is getting adversely impacted possibly reflecting deteriorating asset quality in the sector. Policy initiatives such as expanding the ambit of PMJDY—from every household to every adult—and the ongoing third phase of the financial inclusion plan is expected to deepen formal financialisaton of disadvantaged sections of society. Furthermore, capital infusion in weak RRBs and operationalisation of an increased number of SFBs and PBs is expected to enable the expansion of the geographical penetration of banking services. On the consumer protection front, improvements in grievance redressal, introduction of innovative products for digital payments, and measures to improve cyber security in banking are all expected to leverage on the progress made so far to expand financial inclusion to encompass all Indians and to provide financial services efficiently and cost-effectively.

IV.116 Going forward, the IBC and the evolving framework for resolution of stressed assets is expected to address the bad loan problem and improve debtor-creditor relationships even as competition from NBFCs, bond market and fintech companies intensifies. In this environment, banks need to augment their capital base to guard against future balance sheet stress, and improve their credit monitoring and risk management strategies in order to support inclusive growth in the evolving financial landscape.

V DEVELOPMENTS IN CO-OPERATIVE BANKING

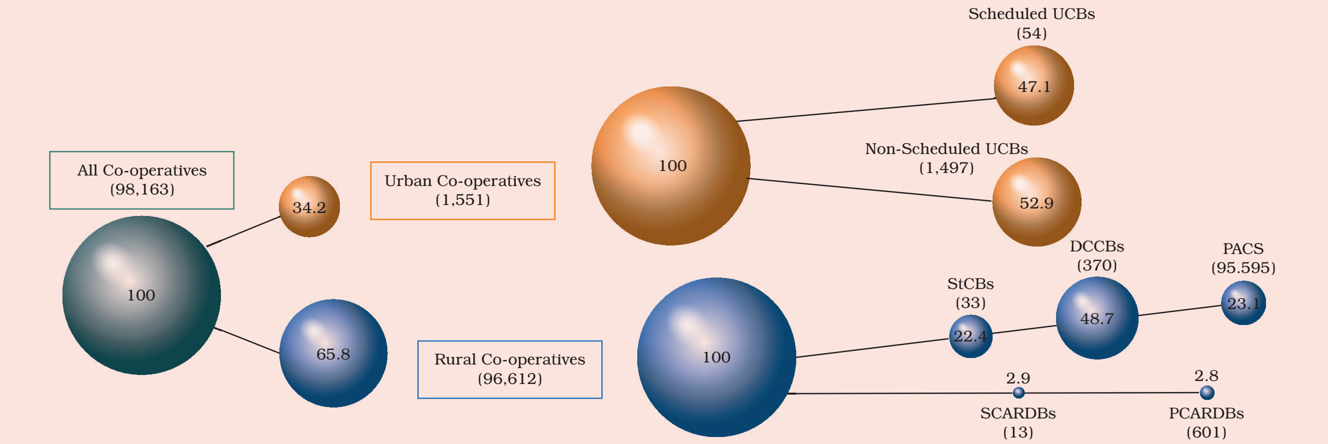
The consolidated balance sheet of urban co-operative banks (UCBs) moderated in 2017-18 as the impact of the demonetisation-induced expansion in deposits in the preceding year waned. Asset quality improved, although overall profitability moderated. Among rural co-operatives, state co-operative banks (StCBs) improved their NPA ratios and profitability, but in other segments – district central co-operative banks (DCCBs), state co-operative agriculture and rural development banks (SCARDBs) and primary co-operative agriculture and rural development banks (PCARDBs) – losses mounted alongside a rise in loan delinquency.

1. Introduction

V.1 Co-operative institutions play a significant role in credit delivery to unbanked segments of the population and financial inclusion within the multi-agency approach adopted in India in this context. They consisted of 1,551 urban co-operative banks (UCBs) at end-March 2018 and 96,612 rural co-operative banks at end-March 2017, with the latter accounting for 65.8 per cent of the total asset size of all co-operatives taken together[1,2] (Chart V.1).

V.2 While UCBs strive to deliver institutional credit at affordable costs in urban and semi-urban areas, rural co-operatives provide

Chart V.1: The Structure of Co-operatives and their Asset Size



Notes:
1. StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks
2. Figures in parentheses indicate the number of institutions at end-March 2018 for UCBs and at end-March 2017 for rural co-operatives. Out of 54 scheduled UCBs- 32 are multi-state and 22 are single-state. And out of 1,497 non-scheduled UCBs – 20 are multi-state and 1,477 are single state.
3. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.
4. Bubbles are scaled to asset size.
5. Figures in bubbles represent share in per cent.

Source: Off-site surveillance returns, RBI.

[1] Data on rural co-operatives are available with a lag of one year *i.e.*, for the year 2016-17.

[2] Among rural co-operatives, StCBs/DCCBs are registered under the provisions of the State Co-operative Societies Act of the state concerned and are regulated by the Reserve Bank. Powers have been delegated to the NABARD under Sec 35A of the Banking Regulation Act (as applicable to co-operative societies) to conduct inspection of state and district central co-operative banks. PACS and long-term credit co-operatives are outside the purview of the Banking Regulation Act, 1949 and are hence not regulated by the Reserve Bank. The NABARD conducts voluntary inspection of SCARDBs, apex-level co-operative societies and federations.

financial services in villages and small towns by leveraging on their geographical and demographic outreach. The growth of co-operative institutions has not, however, been commensurate with the overall growth of the banking sector – at the end of March 2017, they accounted for only 11 per cent of the total assets of scheduled commercial banks (SCBs) in comparison to 19 per cent share in 2004-05. While remedial measures initiated by the Reserve Bank have resulted in consolidation in the UCB sector, weaknesses in the rural co-operative segment persist, reflecting operational and governance-related impediments.

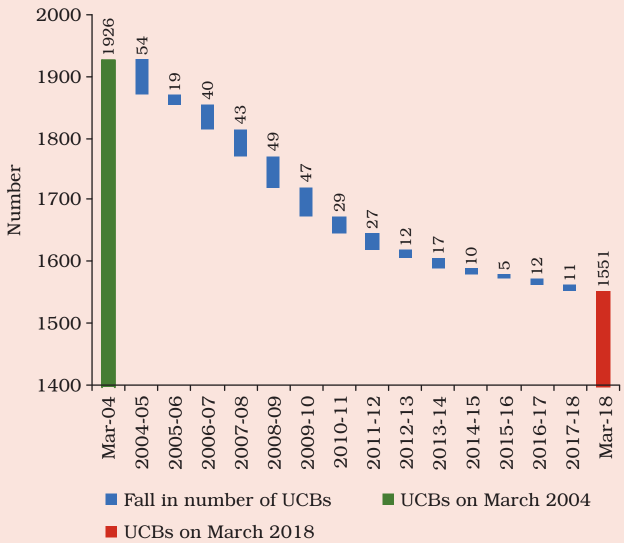
V.3 Against this backdrop, this chapter analyses the performance of UCBs and rural co-operatives in the year gone by, caveated with the lags in availability of information for the latter, as indicated earlier. The rest of the chapter is organised into four sections. Section 2 analyses balance sheet developments and the financial performance of UCBs. Section 3 assesses the overall performance of short-term and long-term rural co-operatives. The last section sets out overall perspectives on the co-operative institutions with a view to informing policy formulation.

2. Urban Co-operative Banks

V.4 The Reserve Bank pursued an active licensing policy for UCBs during 1993-2004, which led to a sharp increase in their numbers. Subsequently, as signs of incipient financial fragilities in the sector became evident, the Reserve Bank enunciated appropriate regulatory and supervisory policies in its Vision Document (2005) involving *inter alia* merger/amalgamation of weak but viable UCBs and closure of unviable ones. As a result, the number of UCBs declined (Chart V.2). Maharashtra, which has the highest number of UCBs, accounted for the largest number of mergers, followed by Gujarat (Chart V.3).

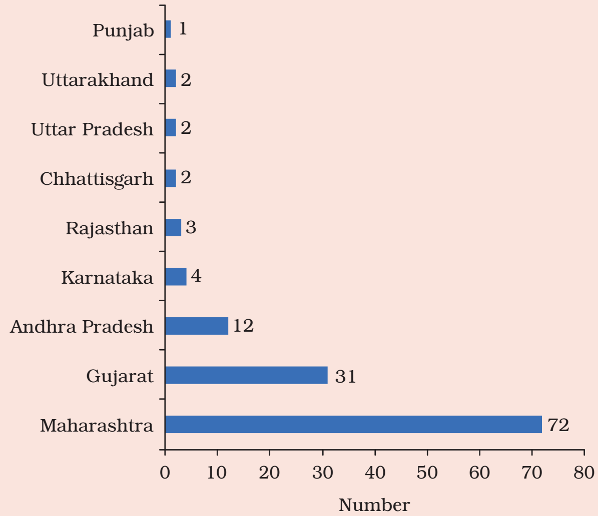
V.5 In spite of the number of UCBs coming down after consolidation, their asset size

Chart V.2: Fall in Number of UCBs since 2005



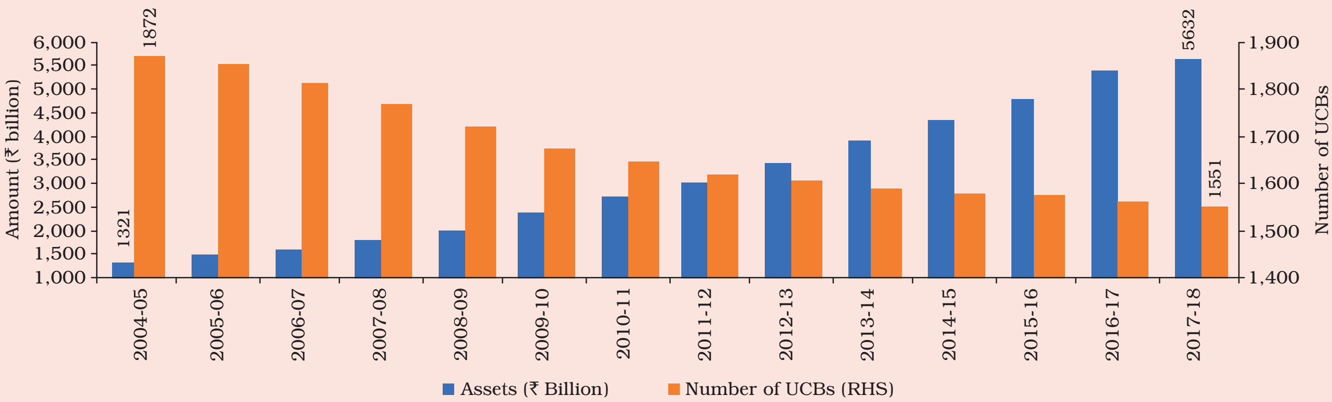
Source: Off-site surveillance returns, RBI.

Chart V.3: Number of Mergers of UCBs
(cumulative basis - between 2004 to 2018)



Source: RBI.

Chart V.4: Effect of Consolidation on UCBs



Source: Off-site surveillance returns, RBI.

increased manifold, underscoring the policy focus on strengthening their financial position (Chart V.4).

V.6 UCBs are classified into Tier I and Tier II categories, based on the depositor base[3]. Tier II category of UCBs have a larger deposit base (Table V.1).

V.7 The consolidation drive has resulted in an increase in the share of Tier II UCBs in terms of both numbers and asset size (Chart V.5).

2.1 *Balance sheet*

V.8 The consolidated balance sheet of UCBs has grown strongly during the decade after the consolidation drive as robust players with stronger balance sheets propelled balance sheet growth. Since 2013-14, however, there has been a slowdown in growth (Chart V.6).

V.9 Asset concentration among UCBs has increased over the years. The distribution of UCBs was bi-modal, with peaks in the asset size between ₹0.25 to ₹0.5 billion bracket and in

Table V.1: Tier-wise Distribution of Urban Co-operative Banks

(At end-March 2018)

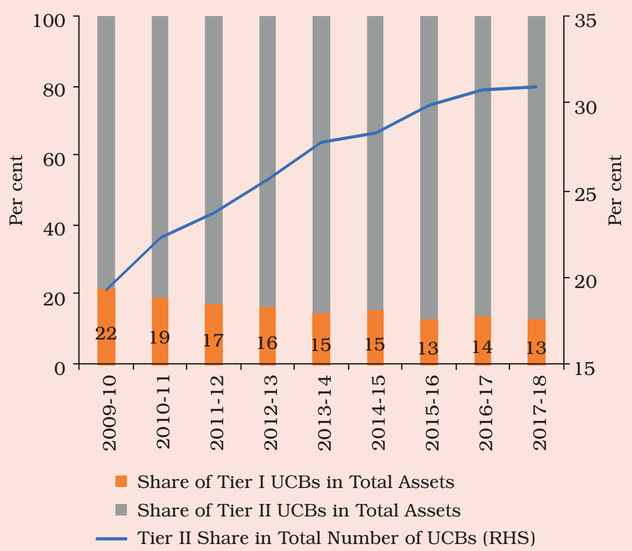
(Amount in ₹ billion)

Tier Type	Number of Banks		Deposits		Advances		Assets	
	Number	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total
Tier I UCBs	1,071	69.1	593	13.0	336	12.0	738	13.1
Tier II UCBs	480	31.0	3,972	87.0	2,469	88.0	4,894	86.9
All UCBs	**1,551**	**100.0**	**4,565**	**100.0**	**2,805**	**100.0**	**5,632**	**100.0**

Note: Data are provisional.
Source: Off-site surveillance returns, RBI.

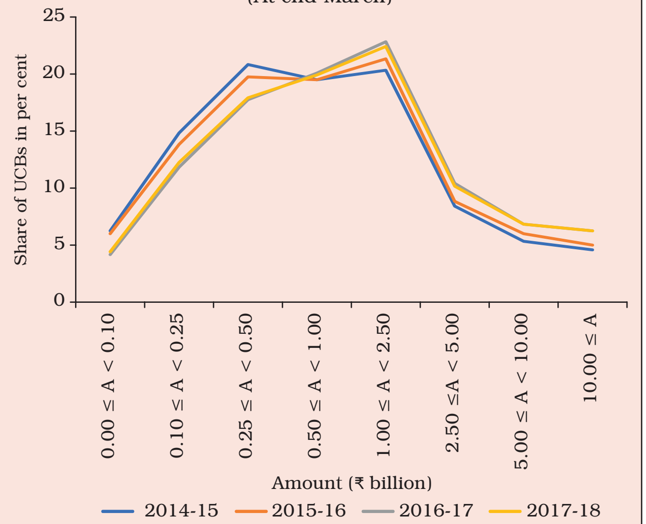
[3] Tier-I UCBs are defined as:
a) Deposit base below ₹1 billion operating in a single district, or
b) Deposit base below ₹1 billion operating in more than one district, provided that the branches of the bank are in contiguous districts, and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances, respectively.
c) Deposit base below ₹1 billion, with branches originally in a single district which subsequently became multi-district in their operations due to a re-organisation of the district.
All other UCBs are defined as Tier-II UCBs.

Chart V.5: Tier - wise Composition of UCBs



Source: Off-site surveillance returns, RBI.

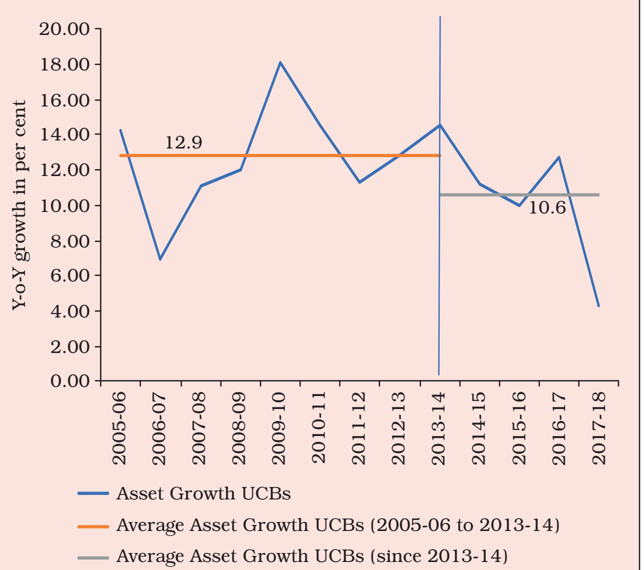
Chart V.7: Distribution of UCBs by Asset size
(At end-March)



Note: A - Assets
Source: Off-site surveillance returns, RBI.

the ₹1 to ₹2.5 billion bracket in 2014-15. Since 2016-17, however, the distribution has become uni-modal *i.e.*, in the ₹1 to ₹2.5 billion buckets. Moreover, the distribution has shifted to the right, with the share of UCBs with an asset size of more than ₹10 billion increasing to 6.2 per cent in 2017-18 from 4.6 per cent in 2014-15 (Chart V.7). The Herfindahl-Hirschman Index (HHI) score of UCBs' assets increased from 0.37 in 2015-16 to 0.41 in 2017-18, reflecting the growing concentration.

Chart V.6: Asset Growth of UCBs



Source: Off-site surveillance returns, RBI.

V.10 During 2017-18, the moderation in UCBs' consolidated balance sheet was due to slowdown in growth of deposits—which account for 81 per cent of total liabilities—from the demonetisation-driven high base of the previous year. Deceleration in capital and reserves added to the subdued expansion in their combined balance sheet, although deceleration in deposits was partly offset by a higher reliance on borrowings (Table V.2).

V.11 Consolidation has also catalysed shifts in the distribution of UCBs in terms of deposits over the decade ending 2017-18. The share of UCBs with a deposit base in the range of up to ₹0.25 billion has come down while it has increased in the range of ₹1 to ₹2.5 billion and above (Chart V.8).

Table V.2: Liabilities and Assets of Urban Co-operative Banks

(At end-March)

(Amount in ₹ billion)

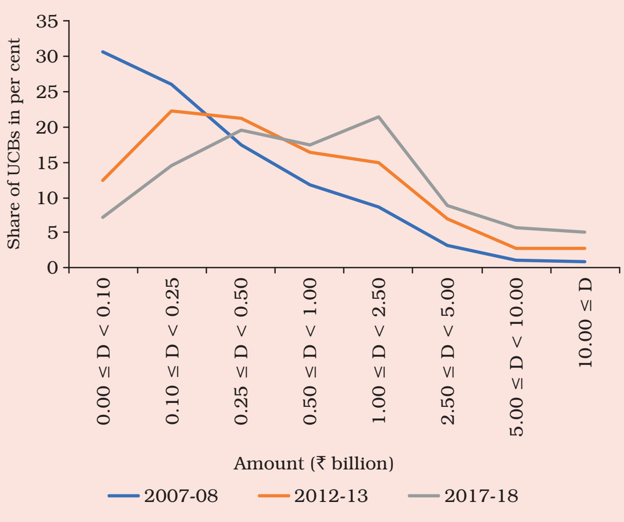
Assets/Liabilities	Scheduled UCBs		Non-scheduled UCBs		All UCBs		Rate of Growth (%) All UCBs	
	2017	2018	2017	2018	2017	2018	2016-17	2017-18
1	2	3	4	5	6	7	8	9
Liabilities								
1. Capital	39	41	82	89	121	130	10.0	7.1
	(1.5)	(1.6)	(2.9)	(3.0)	(2.2)	(2.3)		
2. Reserves	158	167	177	186	335	353	13.2	5.5
	(6.2)	(6.3)	(6.2)	(6.2)	(6.2)	(6.3)		
3. Deposits	2,072	2,120	2,362	2,445	4,435	4,565	13.1	2.9
	(81.5)	(80.1)	(82.7)	(81.9)	(82.1)	(81.1)		
4. Borrowings	31	45	3	4	34	49	31.6	41.6
	(1.2)	(1.7)	(0.1)	(0.1)	(0.6)	(0.9)		
5. Other Liabilities	243	273	232	262	474	535	8.6	12.8
	(9.5)	(10.3)	(8.1)	(8.8)	(8.8)	(9.5)		
Assets								
1. Cash in Hand	15	15	30	40	45	55	6.1	21.7
	(0.6)	(0.6)	(1.0)	(1.3)	(0.8)	(1.0)		
2. Balances with RBI	99	103	15	21	115	125	12.9	8.9
	(3.9)	(3.9)	(0.5)	(0.7)	(2.1)	(2.2)		
3. Balances with Banks	177	161	431	468	607	629	8.5	3.6
	(6.9)	(6.1)	(15.1)	(15.7)	(11.2)	(11.2)		
4. Money at Call and Short Notice	39	31	11	14	50	45	55.1	-11.0
	(1.5)	(1.2)	(0.4)	(0.5)	(0.9)	(0.8)		
5. Investments	662	689	759	809	1,421	1,498	17.5	5.4
	(26.0)	(26.0)	(26.6)	(27.1)	(26.3)	(26.6)		
6. Loans and Advances	1,292	1,369	1,320	1,436	2,612	2,805	6.6	7.4
	(50.8)	(51.7)	(46.2)	(48.1)	(48.4)	(49.8)		
7. Other Assets	259	279	290	196	549	476	39.5	-13.3
	(10.2)	(10.6)	(10.2)	(6.6)	(10.2)	(8.5)		
Total Liabilities/ Assets	**2,543**	**2,647**	**2,856**	**2,985**	**5,399**	**5,632**	**12.8**	**4.3**
	(100)	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**		

Notes:
1. Data for 2018 are provisional.
2. Figures in parentheses are proportion to total liabilities / assets (in per cent).
3. Components may not add up to their respective total due to rounding-off.
4. Y-o-Y variation could be slightly different because absolute numbers have been rounded-off to ₹1 billion in the table.

Source: Off-site surveillance returns, RBI.

Chart V.8: Distribution of UCBs by Deposits

(At end-March)



Note: D-Deposits.

Source: Off-site surveillance returns, RBI.

V.12 UCBs with deposits in the range of ₹1 billion to ₹2.5 billion turned out to be the modal class during 2017-18 (Table V.3).

V.13 On the assets side, there was a deceleration in investments and in money at call and short notice, which was partly offset by an increase in loans and advances.

V.14 A moderation in investment in central government securities, which account for around 67 per cent of total investment, drove the deceleration in total investments (Table V.4).

V.15 The credit-deposit (CD) ratio of UCBs, which ranged from 60 to 67 per cent during

Table V.3: Distribution of UCBs by Deposits and Advances

(At end-March 2018)

Deposits (₹ billion)	Number of UCBs		Amount of Deposits		Advances (₹ billion)	Number of UCBs		Amount of Advances	
	Number	% Share	Amount	% Share		Number	% Share	Amount	% Share
1	2	3	4	5	6	7	8	9	10
0.00 - 0.10	111	7.2	7	0.1	0.00 - 0.10	258	16.6	14	0.5
0.10 - 0.25	226	14.6	38	0.8	0.10 - 0.25	345	22.2	57	2.0
0.25 - 0.50	304	19.6	110	2.4	0.25 - 0.50	289	18.6	100	3.6
0.50 - 1.00	272	17.5	191	4.2	0.50 - 1.00	238	15.3	167	6.0
1.00 - 2.50	332	21.4	516	11.3	1.00 - 2.50	224	14.4	340	12.1
2.50 - 5.00	138	8.9	482	10.6	2.50 - 5.00	99	6.4	343	12.2
5.00 - 10.00	88	5.7	590	12.9	5.00 - 10.00	55	3.5	373	13.3
10.00 and above	80	5.2	2,630	57.6	10.00 and above	43	2.8	1,410	50.3
Total	**1,551**	**100.0**	**4,565**	**100.0**	**Total**	**1,551**	**100.0**	**2,805**	**100.0**

Notes: 1. Data are provisional.
2. Components may not add up to the total due to rounding-off.

Source: Off-site surveillance returns, RBI.

2009-10 to 2015-16, declined to 58.9 per cent during 2016-17 due to the demonetisation-induced bulge in deposit growth. With normalisation in deposit growth and credit growth occurring through 2017-18, the CD ratio picked up again to pre-demonetisation levels (Chart V.9a).

V.16 UCBs' investment to deposit ratio is typically higher than that of SCBs. Since 2015-16, however, this ratio has fallen below that of SCBs as their deposits with StCBs and DCCBs ceased to be reckoned under SLR investments (Chart V.9b).

V.17 Keeping in view the fast changes in the banking space and to spur growth, recent initiatives by the Reserve Bank to facilitate conversion of eligible UCBs into small finance banks (SFBs) assume importance (Box V.1).

Table V.4: Investments by Urban Co-operative Banks

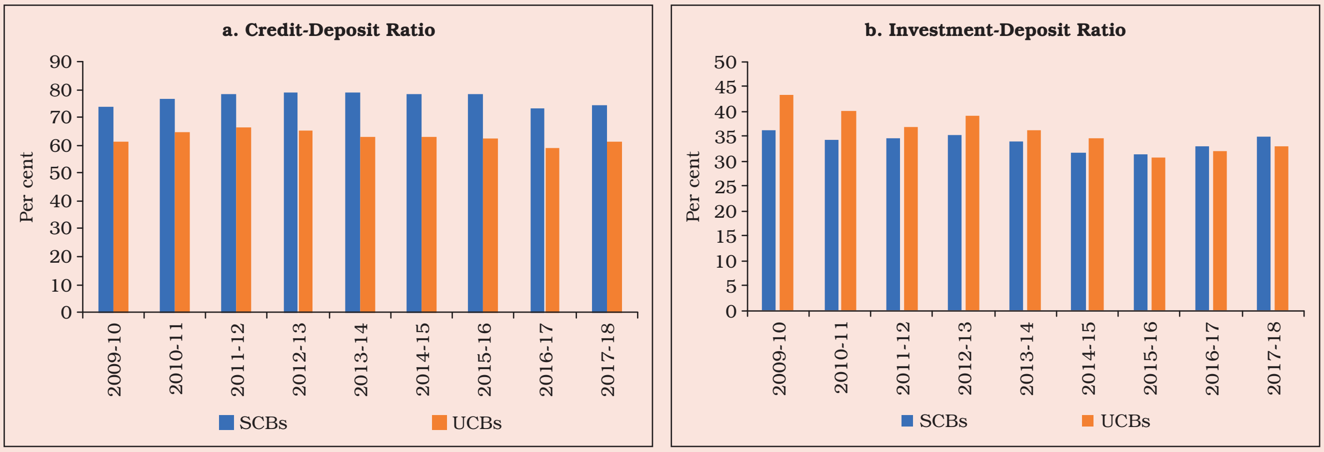
(Amount in ₹ billion)

Item	At end-March			Variation (%)	
	2016	2017	2018	2016- 2017	2017-2018
1	2	3	4	5	6
Total Investments (A + B)	**1,209**	**1,421**	**1,498**	**17.5**	**5.4**
	(100.0)	**(100.0)**	**(100.0)**		
A. SLR Investments (i to iii)	**1,096**	**1,254**	**1,361**	**14.4**	**8.6**
	(90.7)	(88.2)	(90.9)		
(i) Central Govt. Securities	878	955	999	8.7	4.7
	(72.6)	(67.2)	(66.7)		
(ii) State Govt. Securities	215	294	361	36.8	22.9
	(17.8)	(20.7)	(24.1)		
(iii) Other approved Securities	3	6	1	62.1	-79.8
	(0.3)	(0.4)	(0.1)		
B. Non-SLR Investments	**113**	**167**	**137**	**48.2**	**-18.3**
	(9.3)	**(11.8)**	**(9.1)**		

Notes: 1. Data for 2018 are provisional.
2. Figures in parentheses are share in respective type of investments.
3. Components may not add up to the total due to rounding off.
4. Y-o-Y variation could be slightly different because absolute numbers have been rounded off to ₹1 billion.

Source: Off-site surveillance returns, RBI.

Chart V.9: Credit-Deposit and Investment-Deposit Ratio: UCBs *vs* SCBs



Source: Off-site surveillance returns, RBI.

Box V.1: Voluntary Transition of UCBs into SFBs: The Path Ahead

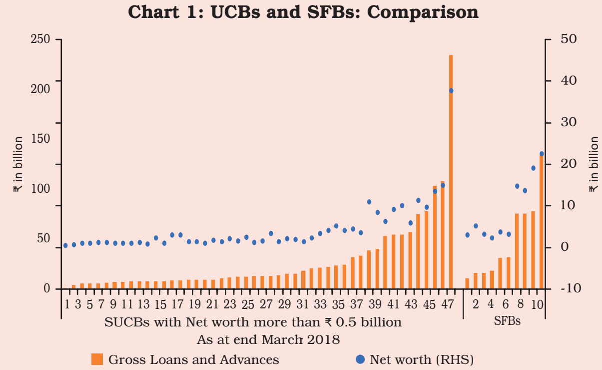
On September 27, 2018 the Reserve Bank announced a scheme for voluntary transition of eligible UCBs into small finance banks (SFBs) in line with the recommendations of the high-powered committee (Chairman: Shri R Gandhi). This would enable them to roll out most of the products which are currently permissible to commercial banks and help them in getting a pan-India presence. UCBs with a minimum net worth of ₹0.5 billion and a CRAR of 9 per cent and above are eligible for the voluntary transition. Upon commencement of business, the converted entity must have a minimum net worth of ₹1 billion, and the promoters should hold at least 26 per cent of the paid-up equity capital. They also need to maintain a CRAR of 15 per cent on a continuous basis. Additionally, they are required to comply with all SFB guidelines such as ensuring that 75 per cent of adjusted net bank credit (ANBC) goes towards priority sector lending (PSL) and 50 per cent of the loan portfolio constitutes loans up to ₹2.5 million.

At end-March 2018, scheduled UCBs (SUCBs) were comparable with SFBs in terms of net worth and gross loans and advances (Chart 1).

In terms of the regulatory regime, both SFBs and UCBs comply with the same CRR and SLR norms as SCBs; however, while UCBs are subjected to Basel I norms, SFBs and UCBs transiting into SFBs need to be Basel III compliant, maintaining a liquidity coverage ratio and a net stable funding ratio in line with SCBs.

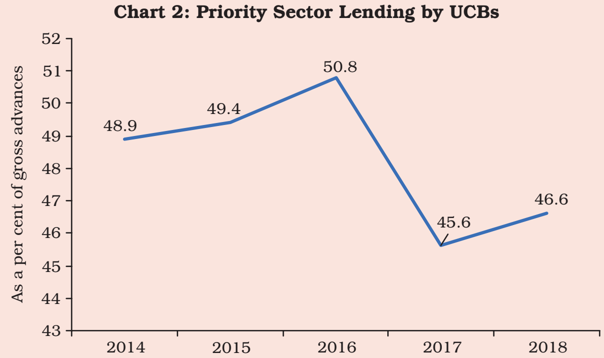
Amongst the 54 SUCBs, 45 already have a net worth of ₹1 billion or more. Besides, 50 SUCBs and 1,450 non-scheduled UCBs (NSUCBs) (out of a total of 1497 NSUCBs) have a CRAR of more than 9 per cent.

Chart 1: UCBs and SFBs: Comparison



Source: Off-site surveillance returns, RBI.

Chart 2: Priority Sector Lending by UCBs



Source: Off-site surveillance returns, RBI.

(Contd...)

Table 1: Range of loans granted by UCBs

Range of Loan	SUCBs	NSUCBs
	Amount as a per cent of total	Amount as per cent of total
Up to ₹5 lakhs	10.75	47.46
₹5-10 lakhs	6.21	12.05
₹10-15 lakhs	3.76	5.60
₹15-20 lakhs	3.04	3.84
₹20-25 lakhs	2.46	3.36
₹25-50 lakhs	6.90	7.90
₹50 lakhs -1 crore	7.28	6.55
₹1-5 crores	23.43	10.70
Above ₹5 crores	36.17	2.54

Note: Data compiled as at end-March 2015.
Source: Report of High Powered Committee on UCBs (Chairman: Shri. R. Gandhi).

At end-March 2018, PSL lending by all UCBs was 46.6 per cent of their gross advances (Chart 2). Given that the set of categories qualifying for PSL lending for UCBs has been enlarged with effect from May 10, 2018, achievement of the target of 75 per cent may not be an arduous task for them. However, SUCBs intending to transit themselves into SFBs may have to modify their current business models to satisfy the criterion of extending 50 per cent of total advances as small loans – at end-March 2015, approximately 67 per cent of loans by SUCBS were of the size of more than 50 lakhs. In contrast, the lending structure of NSUCBs is focussed on small value loans and they may not face a challenge in this regard (Table 1).

Reference

Reserve Bank of India (2015): 'Report of the High-Powered Committee on Urban Co-operative Banks', June. Available on https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/HPC3934E91FA21241B8B0ABC4C4DBF28A40.PDF, accessed on October 19, 2018.

2.2 *Soundness*

V.18 The financial robustness of UCBs is assessed through CAMELS[4] (capital adequacy; asset quality; management; earnings; liquidity; and systems and control) ratings. At end-March 2018, UCBs with ratings A and B, which indicate robust financial performance, accounted for 78 per cent of the total (Table V.5).

Table V.5: Rating-wise Distribution of UCBs

(At end-March 2018)

(Amount in ₹ billion)

Ratings	Number		Deposits		Advances	
	Banks	% share in Total	Amount	% share in Total	Amount	% share in Total
1	2	3	4	5	6	7
A	328	21.2	1,415	31.0	893	31.8
B	878	56.6	2,520	55.2	1,562	55.7
C	278	17.9	518	11.4	303	10.8
D	67	4.3	111	2.4	47	1.7
Total	**1,551**	**100.0**	**4,565**	**100.0**	**2,805**	**100.0**

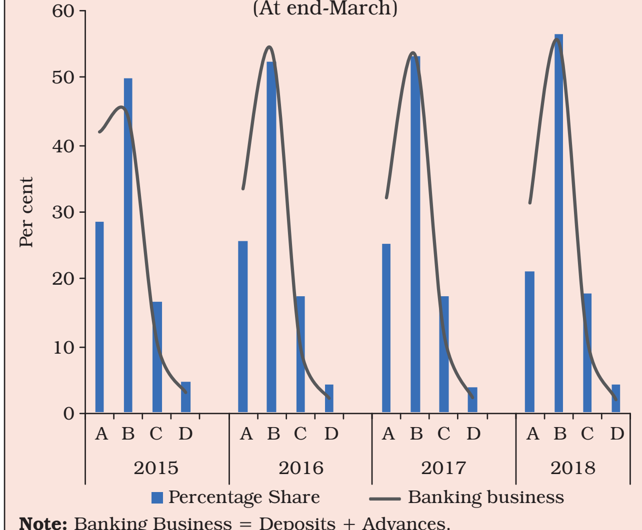
Notes: 1. Data are provisional.
2. Components may not add up to the total due to rounding off.
3. Ratings are based on the inspection conducted during the financial years 2016-17 and 2017-18.
4. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.

Source: Off-site surveillance returns, RBI.

V.19 The share of UCBs with rating B has increased steadily since 2014-15 and the share of UCBs with the lowest rating of D has declined over the years. However, there was a marginal increase in the share of UCBs with rating D in 2017-18 (Chart V.10).

Chart V.10: Distribution of Number and Business of UCBs-by Rating Categories

(At end-March)



Note: Banking Business = Deposits + Advances.

Source: Off-site surveillance returns, RBI.

4 CAMELS rating model gives a composite rating of A/B/C/D (in decreasing order of performance) to a bank, based on the weighted average rating of the individual components of CAMELS.

2.3 *Capital Adequacy*

V.20 UCBs are required to maintain minimum capital to risk-weighted assets ratio (CRAR) at par with the SCBs at 9 per cent. During 2017-18, 97 per cent of non-scheduled urban co-operative banks (NSUCBs) had CRAR of 9 per cent and above while 93 per cent of scheduled urban co-operative banks (SUCBs) had achieved the minimum ratio (Table V.6).

V.21 While the capital position of SUCBs improved in 2017-18, that of NSUCBs remained broadly stable (Chart V.11). Latest supervisory data indicate that the comfortable CRAR position of SUCBs continued in first half of 2018-19 as well. However, at end-September 2018, there were four SUCBs with negative CRAR.

2.4 *Asset Quality*

V.22 Historically, UCBs have had higher level of NPAs than SCBs. Since 2015-16, however, the position has reversed, with NPAs of SCBs increasing sharply after the asset quality review (Chart V.12). Notwithstanding these developments, UCBs' NPA ratio has deteriorated during 2014-15 to 2016-17, although a marginal improvement set in during 2017-18.

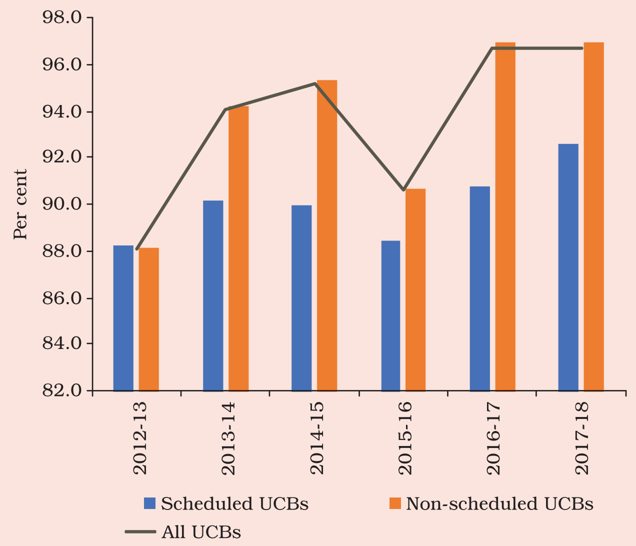
V.23 During 2017-18, the provisioning coverage ratio of UCBs was also higher than SCBs (Table V.7). The deceleration in provisions matched the slowdown in NPAs (Chart V.13).

Table V.6: CRAR-wise Distribution of UCBs
(At end-March 2018)

CRAR (in Per cent)	Scheduled UCBs	Non-scheduled UCBs	All UCBs
1	2	3	4
CRAR < 3	3	25	28
3 <= CRAR < 6	0	8	8
6 <= CRAR < 9	1	14	15
9 <= CRAR < 12	4	148	152
12 <= CRAR	46	1,302	1,348
Total	**54**	**1,497**	**1,551**

Note: Data are provisional.
Source: Off-site surveillance returns, RBI.

Chart V.11: UCBs with CRAR 9 per cent and above

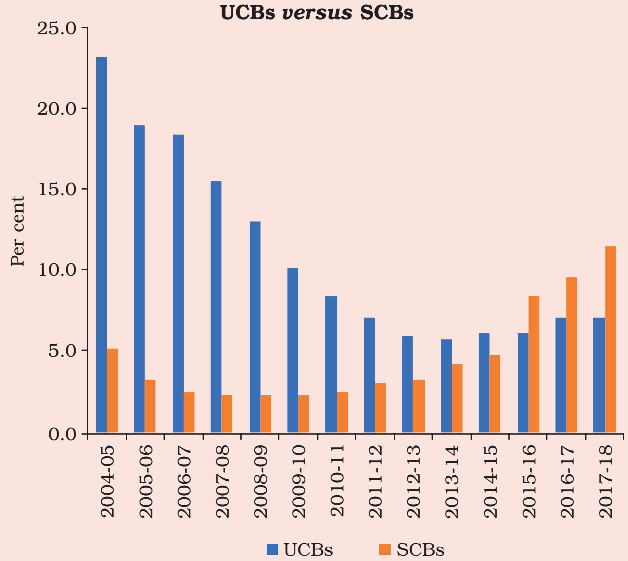


Source: Off-site surveillance returns, RBI.

2.5 *Financial Performance and Profitability*

V.24 UCBs' net profits moderated in 2017-18 on account of slowdown in interest income and decline in non-interest income from a high base. Although loans and advances expanded during

Chart V.12: Gross Non-performing Assets: UCBs *versus* SCBs



Source: Off-site surveillance returns, RBI.

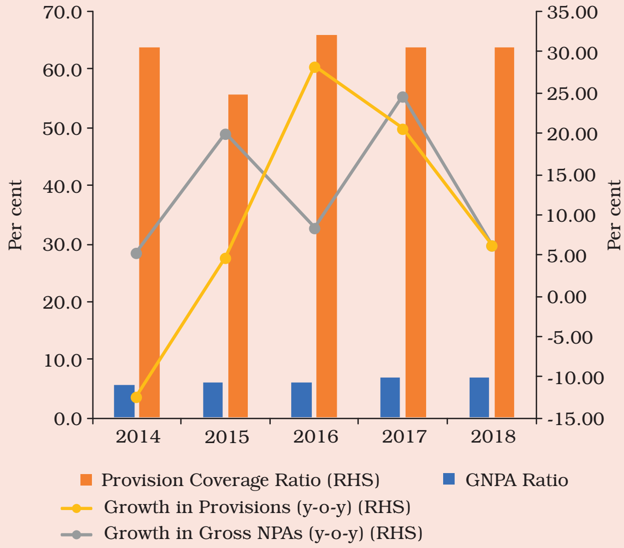
Table V.7: Non-performing Assets of UCBs

Item	All UCBs	
	End-March 2017	End-March 2018
1	2	3
1. Gross NPAs (₹ billion)	187	199
2. Gross NPA Ratio (%)	7.2	7.1
3. Net NPAs (₹ billion)	68	72
4. Net NPA Ratio (%)	2.7	2.7
5. Provisioning (₹ billion)	119	127
6. Provisioning Coverage Ratio (%)	63.7	63.7

Note: Data for 2018 are provisional.
Source: Off-site surveillance returns, RBI.

the year, subdued growth in interest income may be reflective of the easing of interest rates during the period. Total expenditure remained muted due to reduction in interest expenditure, which was pronounced for SUCBs and resulted in an increase in net interest income for both SUCBs and NSUCBs (Table V.8).

Chart V.13: NPAs and PCR - UCBs



Source: Off-site surveillance returns, RBI.

V.25 The return on assets (RoA) and return on equity (RoE) of UCBs decelerated in 2017-18 (Table V.9).

Table V.8: Financial Performance of Scheduled and Non-scheduled Urban Co-operative Banks

(Amount in ₹ billion)

Item	Scheduled UCBs		Non-scheduled UCBs		All UCBs		All UCBs Variation (%)	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
1	2	3	4	5	6	7	8	9
A. Total Income [i+ii]	**231**	**232**	**294**	**302**	**526**	**534**	**9.8**	**1.5**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**		
i. Interest Income	202	202	273	283	475	485	6.9	2.1
	(87.3)	(87.1)	(92.8)	(93.8)	(90.4)	(90.9)		
ii. Non-interest Income	29	30	21	19	51	49	48.6	-4.1
	(12.7)	(12.9)	(7.2)	(6.2)	(9.6)	(9.1)		
B. Total Expenditure [i+ii]	**194**	**194**	**253**	**256**	**447**	**450**	**8.6**	**0.7**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**		
i. Interest Expenditure	143	136	190	188	333	324	7.8	-2.6
	(73.8)	(70.1)	(75.0)	(73.5)	(74.5)	(72.0)		
ii. Non-interest Expenditure	51	58	63	68	114	126	9.9	10.4
	(26.2)	(29.9)	(25.0)	(26.5)	(25.5)	(28.0)		
of which : Staff Expenses	24	25	34	36	58	61	9.9	4.7
C. Profits								
i. Amount of Operating Profits	37	38	42	46	78	83	17.0	6.3
ii. Provision, Contingencies	14	16	11	12	25	27	49.5	8.6
iii. Provision for taxes	7	8	7	8	14	15	3.7	10.0
iv. Amount of Net Profit before Taxes	23	22	31	34	53	56	6.0	5.2
v. Amount of Net Profit after Taxes	16	14	24	26	39	41	6.8	3.5

Notes: 1. Data for 2017-18 are provisional.
2. Components may not add up to the total due to rounding off.
3. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.
4. Figures in parentheses are share in total income/expenditure.
Source: Off-site surveillance returns, RBI.

Table V.9: Select Financial Indicators of UCBs

(Per cent)

Indicators	Scheduled UCBs		Non-scheduled UCBs		All UCBs	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
1	2	3	4	5	6	7
Return on Assets	0.65	0.55	0.88	0.90	0.77	0.74
Return on Equity	8.34	7.03	9.70	9.88	9.11	8.65
Net Interest Margin	2.43	2.54	3.11	3.25	2.79	2.92

Note: Data for 2017-18 are provisional.
Source: Off-site surveillance returns, RBI.

V.26 At the disaggregated level, RoA and RoE for NSUCBs improved further and were higher than those of SUCBs as at end-March 2018 (Chart V.14). Latest data based on Reserve Bank's supervisory returns indicate that RoA of SUCBs, which had moderated in 2017-18, has revived in the first half of 2018-19 to 0.72 per cent.

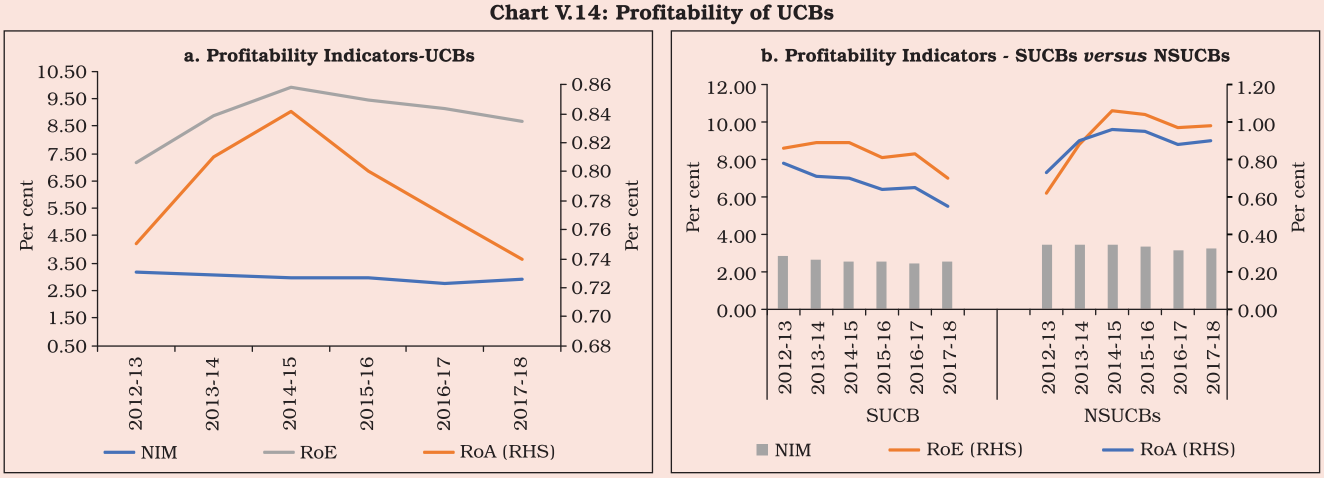
2.6 *Priority Sector Advances*

V.27 UCBs are required to meet a priority sector lending target of 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures, whichever is higher. Within this overall target, a sub-target of 10 per cent of advances to weaker sections is mandated. UCBs are not mandatorily required to lend to agriculture under priority sector lending, given their urban focus. Consequently, their share in agricultural lending is small. The Reserve Bank takes into consideration the achievement of priority sector targets by UCBs for granting regulatory clearances as well as classification of UCBs as Financially Sound and Well Managed (FSWM) with effect from April 1, 2018.

V.28 During 2017-18, the share of priority sector advances in total advances by UCBs increased after recording a dip in 2016-17. Within the priority sector advances, the share of micro and small enterprises was the highest, followed by housing loans (Table V.10). UCBs have usually exceeded their priority sector targets. In 2017-18, the share of priority sector lending constituted 46.6 per cent of UCBs' total advances.

V.29 Advances to weaker sections, which constituted more than a quarter of UCBs' priority sector lending till 2015-16, moderated in the next two years. Credit to weaker sections by UCBs, recorded an up-tick in 2017-18 after a drop in the year ago, and remained around the target of 10 per cent of their ANBC (Chart V.15).

Chart V.14: Profitability of UCBs



Source: Off-site surveillance returns, RBI.

Table V.10: Composition of Credit to Priority Sectors by UCBs

(Amount in ₹ billion)

Item	2016-17		2017-18	
	Amount	Share in Total Advances (%)	Amount	Share in Total Advances (%)
1. Agriculture [(i)+(ii)]	**76**	**3.0**	**94**	**3.4**
(i) Agriculture (Direct Finance)	32	1.2	41	1.5
(ii) Agriculture (Indirect Finance)	44	1.7	53	1.9
2. Micro and Small Enterprises [(i) + (ii)]	**732**	**28.0**	**812**	**29.0**
(i) Direct Credit to Micro and Small Enterprises	576	22.1	641	22.9
(ii) Indirect Credit to Micro and Small Enterprises	156	6.0	171	6.1
3. Micro Credit	**108**	**4.1**	**111**	**4.0**
4. State Sponsored Organisations for SCs / STs	**2**	**0.1**	**2**	**0.1**
5. Education Loans	**22**	**0.8**	**24**	**0.9**
6. Housing Loans	**253**	**9.7**	**265**	**9.4**
7. Total (1 to 6)	**1192**	**45.6**	**1,308**	**46.6**
of which, **Advances to Weaker Section**	**271**	**10.4**	**312**	**11.1**

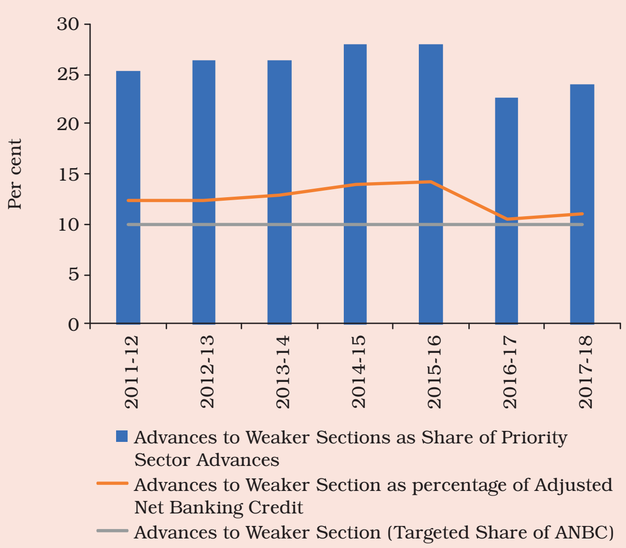
Notes: 1. Data for 2018 are provisional.
2. Components may not add up to the total due to rounding off.

Source: Off-site surveillance returns, RBI.

3. Rural Co-operatives

V.30 Rural co-operatives, which were established to address the 'last mile' problem associated with delivery of affordable credit to farmers, can be broadly classified into short-term and long-term institutions, each with distinct mandates. The focus of short-term co-operatives, *viz.*, state co-operative banks (StCBs), district central co-operative banks (DCCBs) and primary agricultural credit societies (PACS) has been primarily on providing crop loans and working capital loans to farmers and rural artisans. With refinance support from the NABARD, they have diversified into medium-term loans for investments in agriculture and the rural sector, more generally. Long-term co-operatives such as state co-operative agriculture and rural development banks (SCARDBs) and primary co-operative agriculture and rural development banks (PCARDBs) dispense medium and long-term loans for a range of activities, including land development, farm mechanisation, minor irrigation, rural industries and lately, housing. Short-term credit co-operatives account for 94.3 per cent of the total assets of rural co-operatives, while the share of long term co-operatives has diminished over the years (Chart V.16).

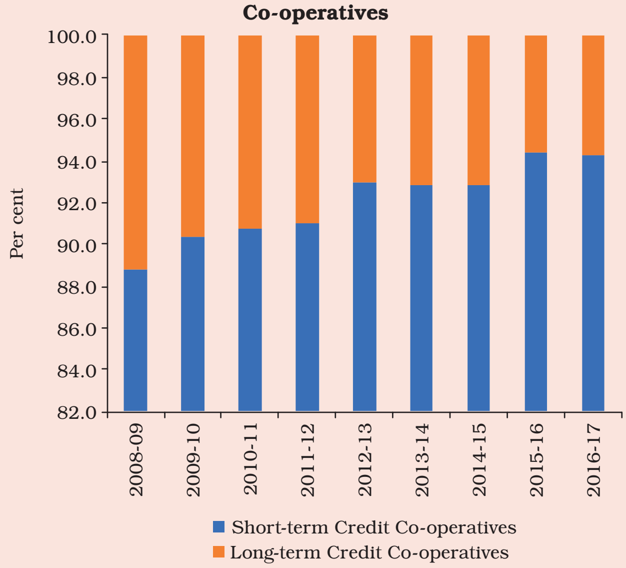
Chart V.15: Advances to Weaker Sections by UCBs



Source: Off-site surveillance returns, RBI.

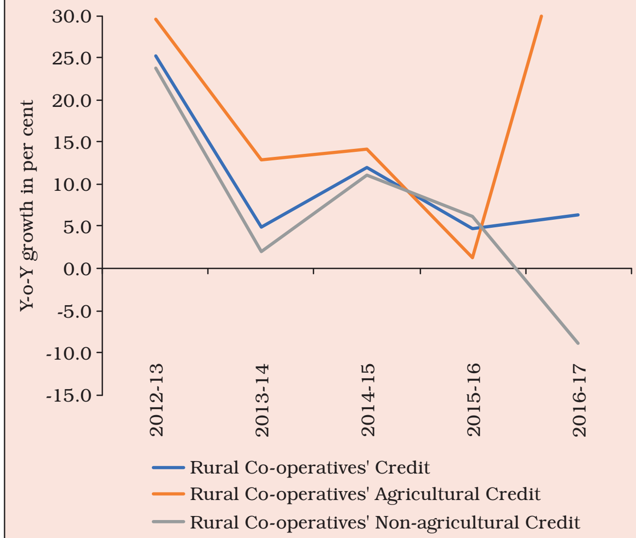
V.31 Rural co-operatives' credit to agriculture had decelerated sharply in 2015-16 under drought conditions. A normal monsoon in 2016-17 spurred a revival which more than offset the contraction in lending by these institutions to other activities (Chart V.17).

Chart V.16: Size of Short-term *versus* Long-term Co-operatives



Source: NABARD.

Chart V.17: Rural Co-operatives' Credit



Source: NABARD.

V.32 Among rural co-operatives, StCBs play a dominant role, with 33 StCBs accounting for 23 per cent of assets, in contrast to PACS numbering 95,595 and holding the same share in total assets (Table V.11).

Table V.11: A Profile of Rural Co-operatives

(At end-March 2017)

(Amount in ₹ billion)

Item	Short-term			Long-term	
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs
1	2	3	4	5	6
A. Number of Co-operatives	**33**	**370**	**95,595**	**13**	**601**
B. Balance Sheet Indicators					
i. Owned Funds (Capital + Reserves)	154	384	330	43	27
ii. Deposits	1,220	3,309	1,159	24	13
iii. Borrowings	809	914	1,248	155	155
iv. Loans and Advances	1,270	2,527	2,009	212	151
v. Total Liabilities/Assets	2,329	5,055	2,400*	304	291
C. Financial Performance					
i. Institutions in Profits					
a. No.	31	315	46,586	8	236
b. Amount of Profit	10	17	64.7	0.7	1.2
ii. Institutions in Loss					
a. No.	2	55	38,036	5	362
b. Amount of Loss	0.2	8	32.1	2.52	6.5
iii. Overall Profits (+)/Loss (-)	9.8	9	33.6	-1.83	-5.7
D. Non-performing Assets					
i. Amount	52	265	533	52	49
ii. As percentage of Loans Outstanding	4.1	10.5	26.6	23.6	33
E. Recovery of Loans to Demand Ratio (Per cent)**	93.5	78.9	73.4	50.8	44.3

Notes: StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.
*: Working Capital. **: This ratio captures the share of outstanding non-performing loan amounts that have been recovered.
Source: NABARD and NAFSCOB[5].

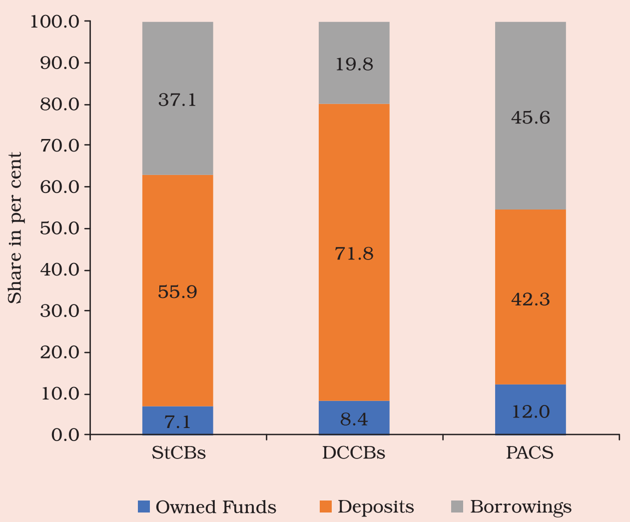
[5] NABARD: National Bank for Agriculture and Rural Development; NAFSCOB: National Federation of State Co-operative Banks.

V.33 The overall financial performance of short-term rural co-operatives has improved over the years because of various measures taken by the Reserve Bank and the NABARD. On the other hand, long-term co-operatives have struggled with persisting erosion of asset quality and profitability.

3.1 *Short-term Rural Credit Co-operatives*

V.34 The short-term rural co-operative space, consists of a three-tier structure, with StCBs as the apex institution in each state, DCCBs operating at the district level and PACS at the base (village) level. In nine states and four union territories, however, short-term credit co-operatives operate through a two-tier structure consisting of StCBs at the apex level and PACS at the field level. StCBs mobilise deposits and provide liquidity support to DCCBs and PACS. As on March 31, 2017 the resource composition of short-term co-operatives revealed a reliance of StCBs and DCCBs on deposits among sources of funding (Chart V.18). The mandate of the PACS, on the other hand, is raising deposits and providing crop loans and working capital to member farmers. When the demand for loans exceeds the supply of deposits by members, these institutions resort to borrowing which constituted 42 per cent of total borrowings by all short-term rural co-operatives taken together at end-March 2017. In 2016-17, the overall financial performance of StCBs improved in terms of asset quality and profitability, whereas there was a deterioration in the performance of DCCBs.

Chart V.18: Resource Composition: Short-term Co-operatives
(At end-March 2017)



Source: NABARD.

3.1.1 *State Co-operative Banks*

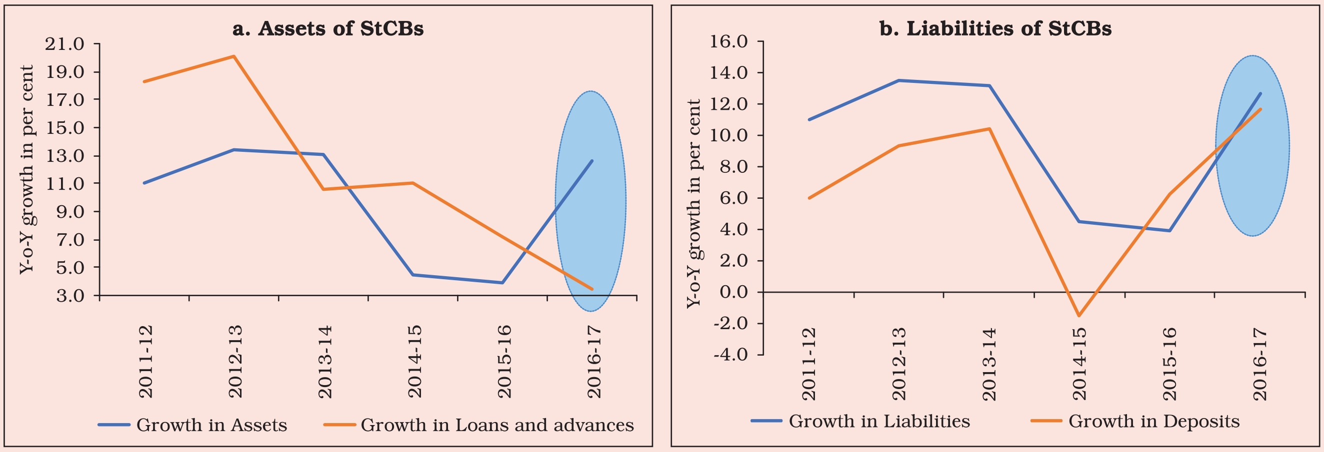
V.35 StCBs are the apex institutions in the short-term rural credit structure with the primary mandate of meeting the financial requirements of DCCBs and PACS associated with them. In addition to mobilisation of deposits, they obtain liquidity and refinance support from institutions such as the NABARD for providing liquidity and technical assistance to the lower tier institutions like PACS as mentioned earlier.

Balance Sheet Operations

V.36 The consolidated balance sheet of StCBs has generally been propelled by asset side expansion in the form of loans and advances, while shortfalls in deposits relative to credit demand are covered by borrowings on the liabilities side, as alluded to earlier. In 2016-17, their balance sheets underwent sizeable expansion in the form of investments backed by robust accretions to deposits, reversing the dampened balance sheet growth in the preceding year (Chart V.19).

V.37 The sharp acceleration in StCBs' deposits in 2016-17—a seven-year high—was largely due to demonetisation as amongst the rural

Chart V.19: Balance Sheet of StCBs



Source: NABARD.

co-operative banks, only StCBs, were allowed to accept demonetised notes. The balance sheet expansion in 2016-17 was partly offset by contraction in capital[6]. Higher borrowings of StCBs was due to an additional line of credit provided by the NABARD under its Short-term Seasonal Agricultural Operation (ST-SAO) scheme and additional ₹20,000 crore allocated by Government of India to the NABARD under the ST-SAO scheme for on-lending to StCBs.

V.38 Faced with the overhang of liquidity in 2016-17, StCBs preferred to deploy these funds in investments in low/nil yielding cash and bank balances in view of limited appetite for loans (Table V.12).

V.39 Updated information on StCBs available from Section 42(2) returns suggests that a revival of credit growth took hold in 2017-18. Moreover, investments in SLR instruments increased significantly in comparison to previous years (Table V.13).

Table V.12: Liabilities and Assets of State Co-operative Banks

(Amount in ₹ billion)

Item	At end-March		Percentage Variation	
	2016	2017	2015-16	2016-17
1	2	3	4	5
Liabilities				
1. Capital	56	52	5.0	-7.1
	(2.7)	(2.2)		
2. Reserves	94	103	7.1	9.6
	(4.6)	(4.4)		
3. Deposits	1,093	1,220	6.3	11.6
	(52.9)	(52.4)		
4. Borrowings	688	809	0.1	17.6
	(33.3)	(34.7)		
5. Other Liabilities	136	145	3.5	6.6
	(6.6)	(6.2)		
Assets				
1. Cash and Bank Balances	64	97	-3.8	51.6
	(3.1)	(4.2)		
2. Investments	690	846	-1.2	22.6
	(33.4)	(36.3)		
3. Loans and Advances	1,229	1,270	7.3	3.4
	(59.4)	(54.6)		
4. Other Assets	85	116	8.5	36.2
	(4.1)	(5.0)		
Total Liabilities/Assets	**2,067**	**2,329**	**4.0**	**12.7**
	(100.0)	**(100.0)**		

Notes: 1. Figures in parentheses are proportion to total liabilities/assets (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

[6] The reduction in capital was due to an accounting readjustment. In 2015-16, one of the StCBs classified loan waivers received from a state government in their share capital reserve. Subsequent to the NABARDs inspection, however, this was reclassified as other assets in 2016-17. Consequently, other assets showed a significant y-o-y growth in 2016-17, while capital shows a contraction.

Table V.13: Trends in Select Balance Sheet Indicators of Scheduled State Co-operative Banks

(Amount in ₹ billion)

Item	2013-14	2014-15	2015-16	2016-17	2017-18
1	2	3	4	5	6
Deposits	777 (8.7)	772 (-0.6)	796 (3.0)	903 (13.5)	988 (9.4)
Credit	939 (10.0)	1,038 (10.6)	1,074 (3.4)	1,109 (3.3)	1,180 (6.4)
SLR Investments	240 (7.0)	233 (-3.1)	242 (4.0)	262 (8.3)	334 (27.4)
Credit plus SLR Investments	1,179 (9.4)	1,271 (7.8)	1,316 (3.5)	1,372 (4.2)	1,514 (10.4)

Note: Figures in brackets are growth rates in per cent over previous year.
Source: Form B under Section 42 of RBI Act.

Profitability

V.40 Net profits of StCBs registered a marked turn-around in 2016-17 due to contraction in expenditure as moderation in interest rates brought down interest expenditure. Also, reduction in NPAs and subdued credit growth necessitated lower provisions. On the other hand, operating profit of StCBs declined further in 2016-17 on top of the contraction in 2015-16, on account of the significant increase in operating expenses (Table V.14). This is indicative of lower operational efficiency of these institutions.

Asset Quality

V.41 The asset quality of StCBs has improved consistently over the years – even relative to UCBs and SCBs – due to measures taken by the Reserve Bank and the NABARD, including the linking of the availment of refinance to their performance parameters like the NPA ratio and CRAR (Chart V.20).

V.42 This sustained improvement in asset quality of StCBs was marked by lower accretions to NPAs in 2016-17. Both sub-standard assets and doubtful assets declined, while the recovery-to-demand ratio improved (Table V.15).

Table V.14: Financial Performance of State Co-operative Banks

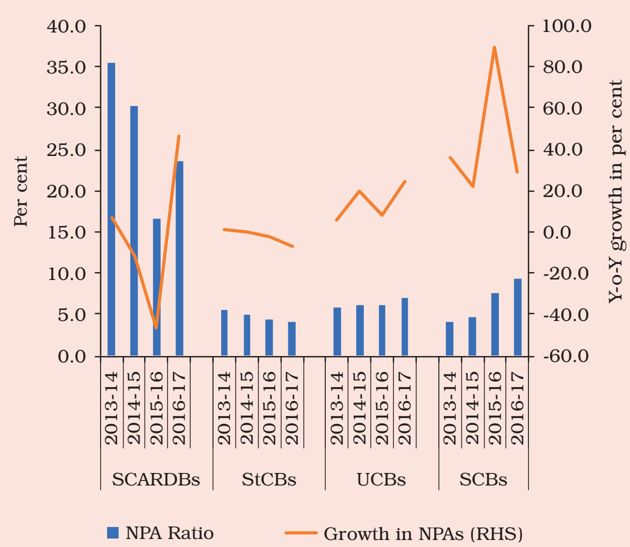
(Amount in ₹ billion)

Item	As during		Variation (%)	
	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5
A. Income (i+ii)	**153 (100.0)**	**152 (100.0)**	**2.6**	**-0.7**
i. Interest Income	145 (95.9)	149 (97.8)	1.6	2.6
ii. Other Income	8 (5.0)	3 (1.9)	27	-3.4
B. Expenditure (i+ii+iii)	**147 (100.0)**	**143 (100.0)**	**6.3**	**-2.7**
i. Interest Expended	119 (80.8)	115 (70.8)	3	-3.5
ii. Provisions and Contingencies	12 (8.0)	9 (7.9)	61.8	-33.3
iii. Operating Expenses	16 (11.2)	19 (21.2)	4.8	15.8
Of which : Wage Bill	11 (7.3)	11 (13.6)	11.6	0
C. Profitability				
Operating Profits	18	15	-1.8	-16.7
Net Profits	6	10	-44.5	66.7

Notes: 1. Figures in parentheses are proportion to total income/expenditure (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.
Source: NABARD.

V.43 Despite significant variation in the NPA ratio across regions, there has been improvement spatially and temporally, except in the central

Chart V.20: NPA Ratio: A Comparison



Source: NABARD and Off-site surveillance returns, RBI.

Table V.15: Soundness Indicators of State Co-operative Banks

(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**56**	**52**	**-2.8**	**-7.1**
i. Sub-standard	19	16	-9.1	-15.8
	(33.9)	(30.8)		
ii. Doubtful	25	24	0.9	-4
	(44.9)	(46.2)		
iii. Loss	12	12	0.6	0
	(21.2)	(23.1)		
B. NPAs to Loans Ratio (%)	**4.5**	**4.1**	-	-
C. Recovery to Demand Ratio (%)	**91.7**	**93.5**	-	-

Notes: 1. Figures in parentheses are shares in total NPA (%).
2. Absolute numbers have been rounded off, leading to slight variations in per cent.
3. Components may not add-up to the total due to rounding off.

Source: NABARD.

region (Chart V.21a). The northern region had the lowest NPA ratio and highest recovery-to-demand ratio, whereas the north eastern region had high levels of NPAs and a low recovery ratio (Chart V.21b).

3.1.2 District Central Co-operative Banks

V.44 DCCBs – the second tier of the short-term rural co-operative structure – use their deposits and borrowings from StCBs and the NABARD to provide loans to their members and for onward lending to PACS. In comparison with StCBs, the expansion in the combined balance sheet of DCCBs was moderate in 2016-17 (Chart V.22a).

V.45 The credit-deposit ratio of StCBs has always been higher than that of DCCB, as the latter have a larger deposit base. The gap between the two reduced in 2016-17 on account of the surge in deposits with StCBs (Chart V.22b).

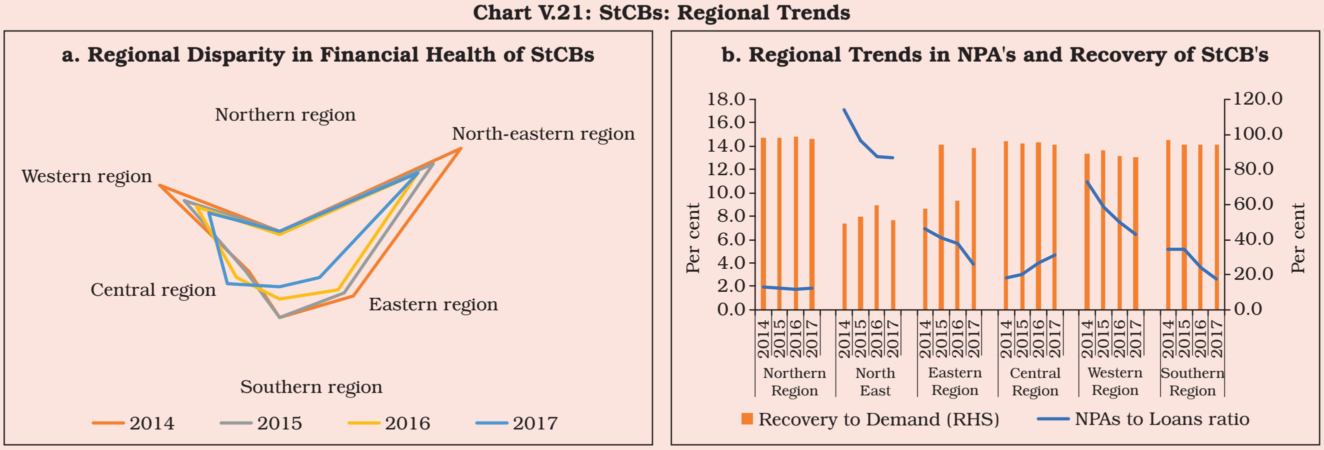
Balance Sheet Operations

V.46 The consolidated balance sheet of DCCBs decelerated in 2016-17. On the assets side, loans and advances, which along with investments account for more than 80 per cent of total assets, slowed down due to subdued credit demand. On the liabilities side, there was a moderation in the growth of capital, deposits and other liabilities. Deposits constitute more than 70 per cent of the resources of DCCBs and consequently, the deceleration in their growth impacted investments as well as loans and advances (Table V.16).

Profitability

V.47 The profitability of DCCBs in terms of both operating profits and net profits, declined in 2016-17. Although both income and

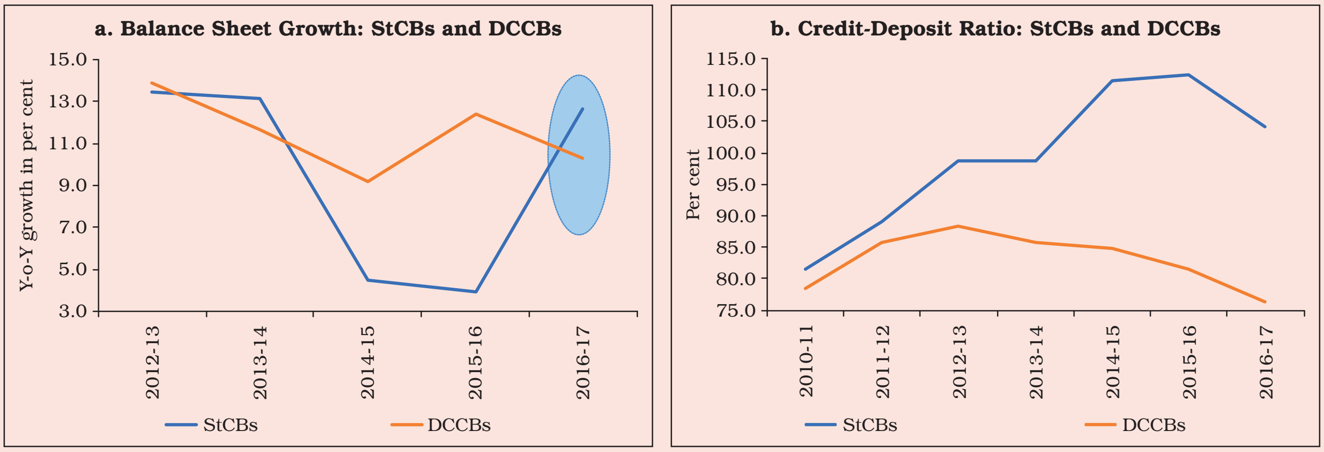
Chart V.21: StCBs: Regional Trends



Note: Contraction of the ring indicates decline in regional disparity in the financial health of StCBs. Financial health is represented by NPA ratio.

Source: NABARD.

Chart V.22: StCBs *versus* DCCBs: A Comparison



Source: NABARD.

expenditure slackened, the sharper slowdown in the former adversely affected bottom lines (Table V.17).

Table V.16: Liabilities and Assets of District Central Co-operative Banks

(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
Liabilities				
1. Capital	165	187	25.6	13.3
	(3.6)	(3.7)		
2. Reserves	175	198	7.9	13.1
	(3.8)	(3.9)		
3. Deposits	2,982	3,309	15.2	11.0
	(65.1)	(65.5)		
4. Borrowings	836	914	4.5	9.3
	(18.2)	(18.1)		
5. Other Liabilities	424	447	7.3	5.4
	(9.3)	(8.8)		
Assets				
1. Cash and Bank Balances	233	329	5.7	41.2
	(5.1)	(6.5)		
2. Investments	1,615	1,691	16.7	4.7
	(35.3)	(33.5)		
3. Loans and Advances	2,427	2,527	10.6	4.1
	(53.0)	(50.0)		
4. Other Assets	307	508	10.5	65.5
	(6.7)	(10.0)		
Total Liabilities/Assets	**4,582**	**5,055**	**12.4**	**10.3**
	(100.0)	**(100.0)**		

Notes: 1. Figures in parentheses are proportion to total liabilities/assets (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

Table V.17: Financial Performance of District Central Co-operative Banks

(Amount in ₹ billion)

Item	As during		Variation (%)	
	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5
A. Income (i+ii)	**367**	**385**	**8.4**	**4.9**
	(100.0)	**(100.0)**		
i. Interest Income	347	378	7.7	8.9
	(94.8)	(98.1)		
ii. Other Income	19	7	23.2	-63.2
	(5.2)	(1.9)		
B. Expenditure (i+ii+iii)	**355**	**376**	**7.3**	**5.9**
	(100.0)	**(100.0)**		
i. Interest Expended	250	268	8.8	7.2
	(70.4)	(71.4)		
ii. Provisions and Contingencies	29 (8.1)	30 (7.9)	-4	3.4
iii. Operating Expenses	76	78	6.9	2.6
	(21.5)	(20.7)		
Of which : Wage Bill	48	50	10.7	4.2
	(13.5)	(13.2)		
C. Profits				
i. Operating Profits	40	33	8.4	-17.5
ii. Net Profits	11	9	62.5	-18.2

Notes: 1. Figures in parentheses are proportion to total liabilities/assets (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹ 1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

Asset Quality

V.48 The asset quality of DCCBs deteriorated during 2016-17 as reflected in higher NPA ratios with increase in both sub-standard and loss categories. The deterioration could partly be attributable to several debt waiver schemes for farmers announced by state governments (Table V.18).

V.49 DCCBs usually have higher NPAs and lower recovery-to-demand ratios than StCBs (Chart V.23). They also have a higher share of operating expenses in total expenses. During 2016-17, however, the share of operating expenses in total expenses of StCBs was marginally lower than DCCBs due to a significant increase in their operating expenses (Chart V.24).

V.50 Similar to StCBs, there is considerable variation in the financial health of DCCBs across regions. In the northern and southern region, NPA ratios were lower and recovery-to-demand ratios were higher in 2016-17 whereas the central and western regions

Table V.18: Soundness Indicators of District Central Co-operative Banks

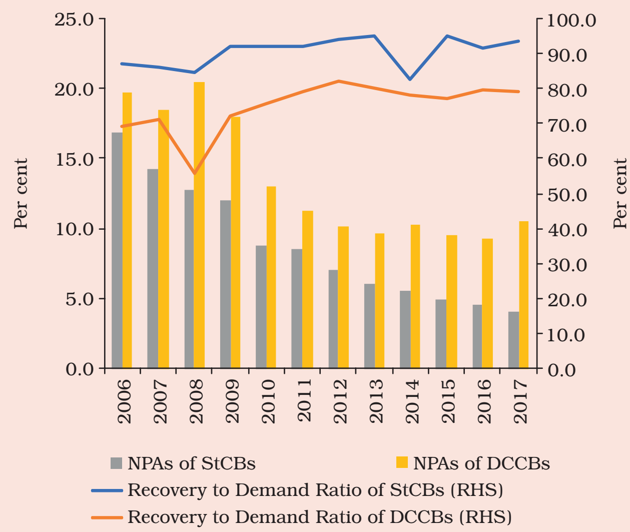
(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**227**	**264**	**9**	**16.3**
i. Sub-standard	95	120	1.6	26.3
	(41.7)	(45.4)		
ii. Doubtful	109	120	19.6	10.1
	(48.1)	(45.4)		
iii. Loss	23	24	-2.2	4.3
	(10.2)	(9.1)		
B. NPAs to Loans Ratio (%)	**9.3**	**10.5**	-	-
C. Recovery to Demand Ratio (%)	**79.6**	**78.9**	-	-

Notes: 1. Figures in parentheses are proportion to total NPAs (in per cent).
2. Y-o-y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

Chart V.23: NPAs and Recovery - StCBs *versus* DCCBs

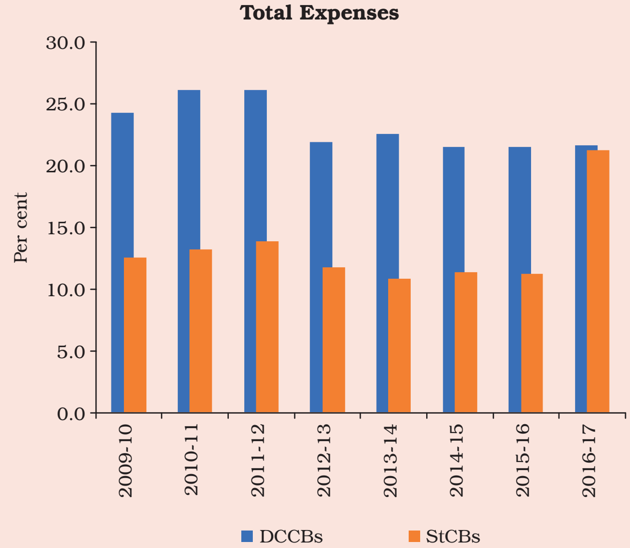


Source: NABARD.

recorded high level of NPAs and low recovery ratios (Chart V.25).

V.51 The asset quality of DCCBs has generally deteriorated across regions in recent years. Their NPA ratios continued to increase in 2016-17, *albeit* marginally, except in the eastern region (Chart V.26).

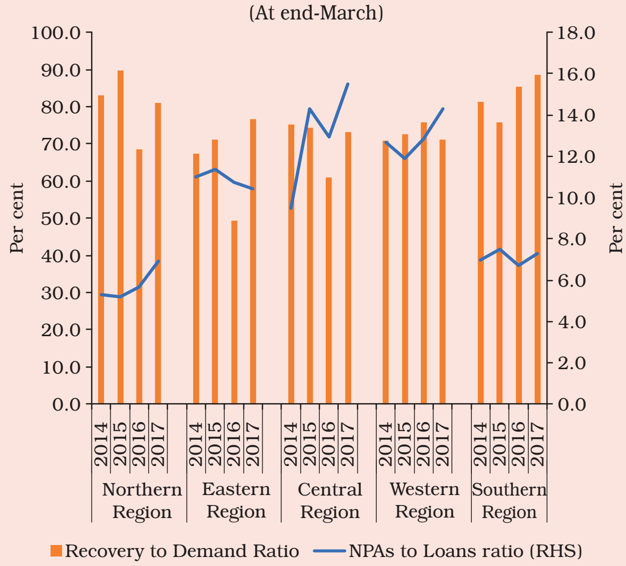
Chart V.24: Share of Operating Expenses in Total Expenses



Source: NABARD.

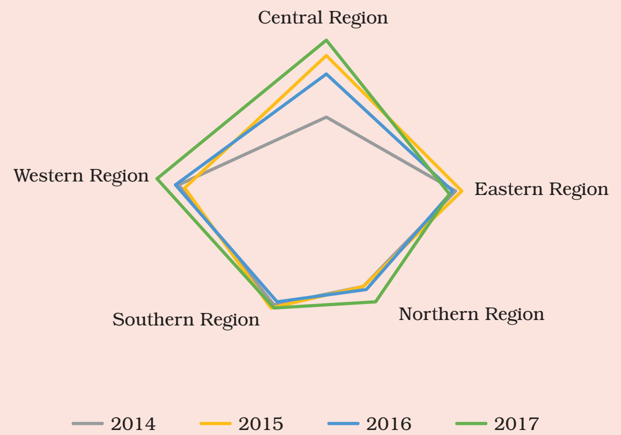
Chart V.25: Regional Movements in NPAs and Recovery- DCCBs

(At end-March)



Source: NABARD.

Chart V.26: Regional Disparity in Financial Health of DCCBs



Note: Contraction of the ring indicates decline in regional disparity in the financial health of the StCBs. Financial health is represented by NPA ratio.

Source: NABARD.

3.1.3 *Primary Agricultural Credit Societies*

V.52 PACS are at the bottom of the three-tier rural co-operative structure, but they provide vital access to finance in the form of short-term and crop loans to their members in villages, *viz.*, farmers and artisans. Over time, PACS have expanded their area of operations by providing capital for investment in agriculture/ allied activities. Besides, they also arrange other services like marketing of produce, storage and input supply.

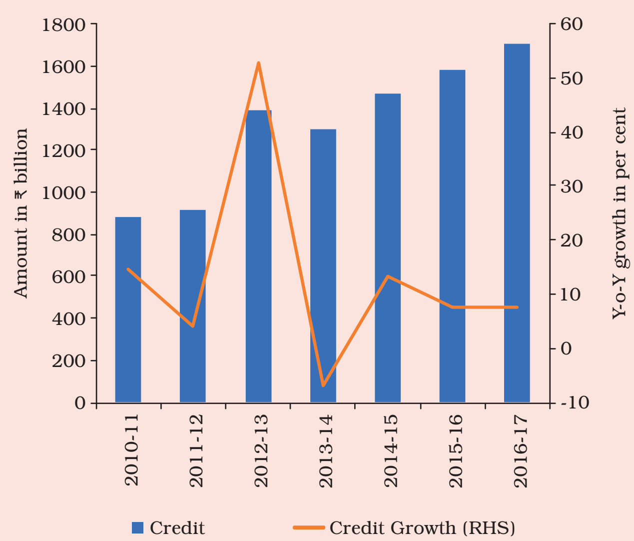
Balance Sheet Operations

V.53 The loan portfolio of PACS continued to grow, *albeit* at a lower rate in 2016-17 than in the previous year mainly reflecting muted demand conditions prevailing in the economy (Chart V.27).

V.54 In the past, PACS were highly dependent on borrowings from DCCBs and StCBs. Since 2011-12, however, the share of borrowings in their total resources has decreased gradually, while that of deposits has inched up, indicative of an expanding depositor base (Chart V.28).

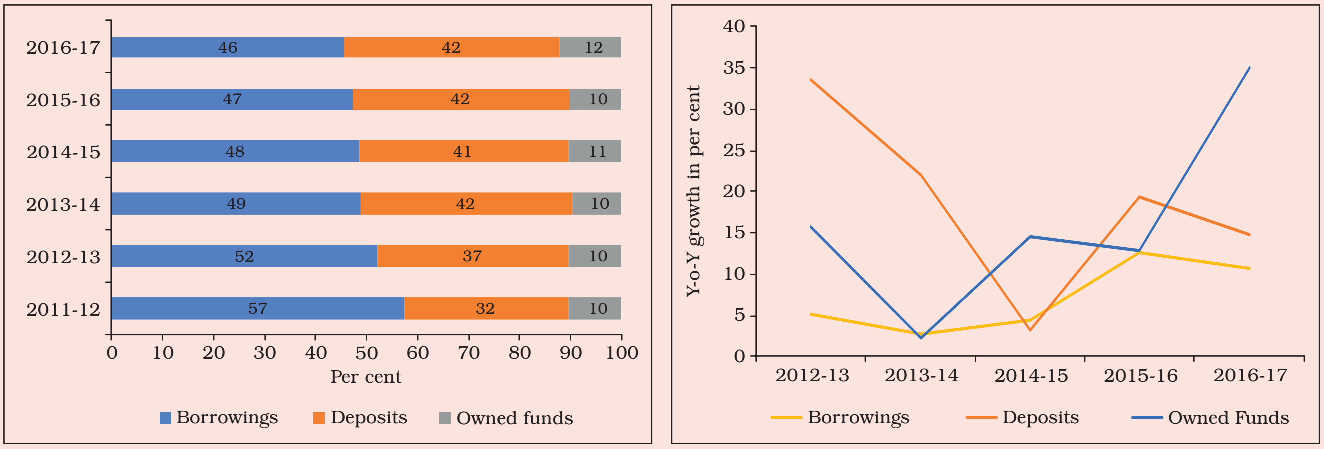
V.55 In 2016-17, both borrowings and deposits of PACS registered a slowdown. The total resources of PACS were, however, shored up by significant increase in owned funds due to a spurt in total reserves (Table V.19).

Chart V.27: Growth in Credit: PACS



Source: NAFSCOB.

Chart V.28: Total Resources of PACS



Source: NAFSCOB.

V.56 The share of agricultural loans in total loans of PACS has fluctuated in the range of 55 to 60 per cent since 2011 (Chart V.29).

V.57 Since PACS extend loans to their members only, the borrower-to-member ratio is a useful indicator of financing conditions. This ratio has remained below 50 per cent, indicating that less than half of the members are able to access credit from these institutions. The borrower to member ratio increased to 39.6 per cent in 2016-17 from 36.3 per cent in 2015-16, with the improvement spanning all categories except rural artisans (Chart V.30).

V.58 Marginal and small farmers constitute 70 per cent of PACS members. During 2016-17, the share of marginal farmers and rural artisans increased whereas the share of small farmers declined. There was a marginal decline in the

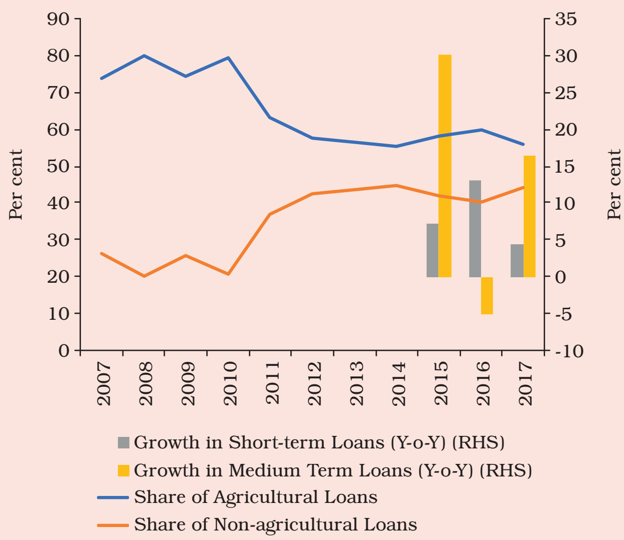
Table V.19: Primary Agricultural Credit Societies

(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	2,382	2,737	15.5	15
2. Owned Funds (a+b)	244	330	12.8	34.9
a. Paid-up Capital	123	141	11	15
Of which,				
Government Contribution	8	8	-4.3	3.9
b. Total Reserves	122	189	14.7	55.1
3. Deposits	1,011	1,159	19.4	14.7
4. Borrowings	1,127	1,248	12.7	10.8
5. Working Capital	2,013	2,400	-10	19.2
B. Assets				
1. Total Loans Outstanding (a+b)	1,585	1,705	7.7	7.6
a. Short-Term	1,171	1,222	13	4.4
b. Medium-Term	414	483	-5.1	16.5

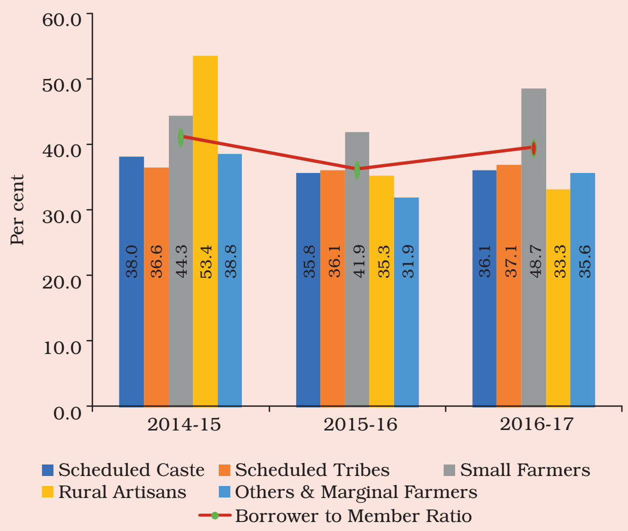
Note: Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹ billion.
Source: NAFSCOB.

Chart V.29: Growth in Loans Disbursed by PACS



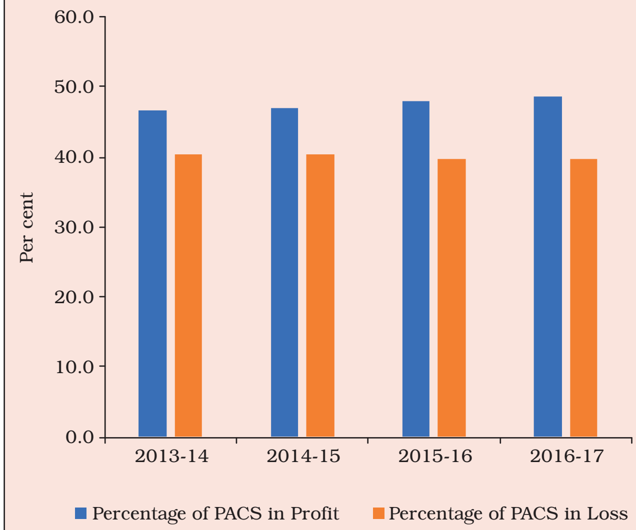
Source: NAFSCOB.

Chart V.30: Borrower to Member Ratio by Category



Source: NAFSCOB.

Chart V.32: Percentage of PACS in Profit and Loss



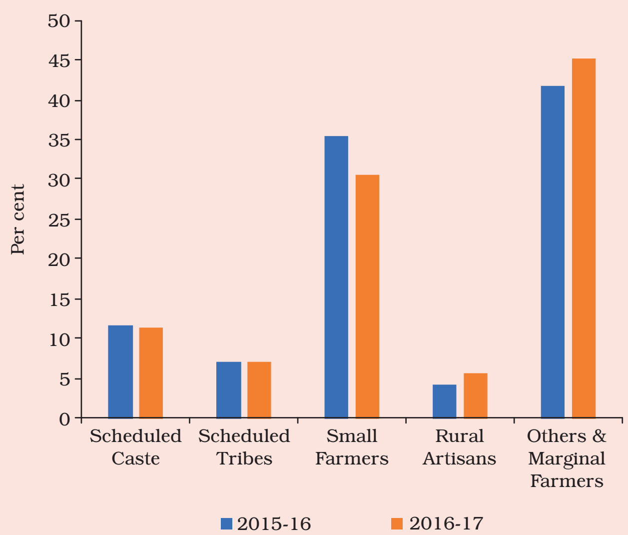
Source: NAFSCOB.

share of scheduled castes and scheduled tribes (Chart V.31).

V.59 The proportion of loss-making PACS has remained around 40 per cent over the last five years. On the other hand, there has been a steady increase in the share of profit-making PACS. At end-March 2017, loss-making PACS stood at 39.8 per cent of the total PACS (marginally higher from 39.7 per cent in March-2016) while those in profit accounted for 48.7 per cent (Chart V.32).

V.60 The regional distribution of loss-making PACS shows that their numbers exceeded those of profit-making PACS in the eastern and north-eastern regions. In contrast, profit-making PACS outpaced loss-making ones in other regions (Chart V.33).

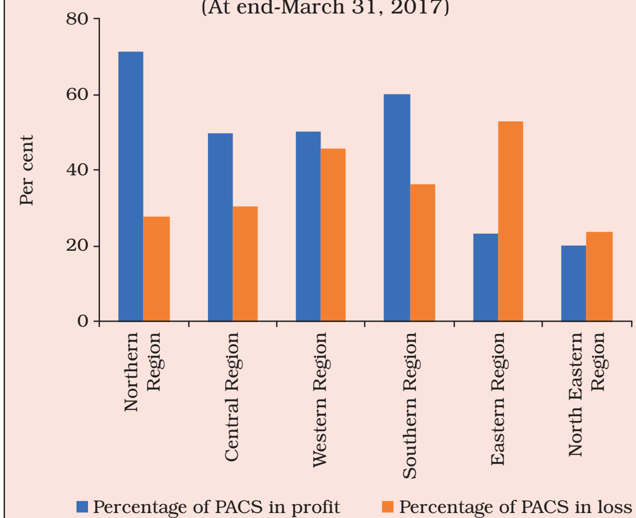
Chart V.31: Member Share by Category



Source: NAFSCOB.

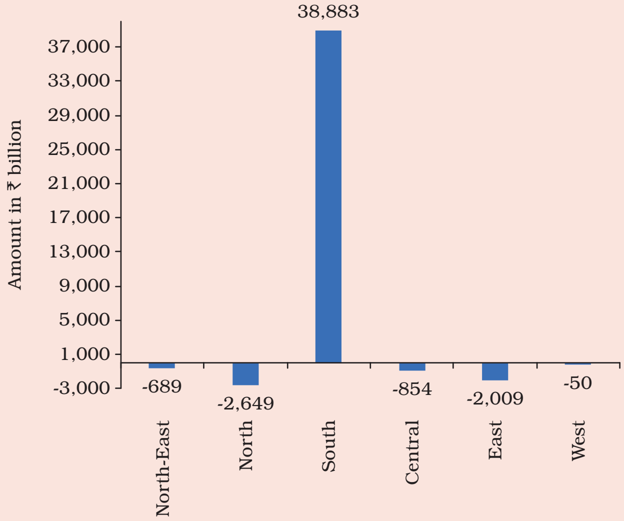
Chart V.33: Percentage of PACS in Profit and Loss - Regional Level

(At end-March 31, 2017)



Source: NAFSCOB.

Chart V.34: Net Profit of PACS by Region
(At end-March 31, 2017)



Source: NAFSCOB.

However, net profits in absolute terms were positive only in the southern region (Chart V.34).

3.2 Long-term Co-operatives

V.61 Long-term credit co-operatives play an important role in enhancing agricultural productivity and rural development by providing long term finance for capital formation and rural development projects. Long-term rural co-operatives consist of state co-operative agriculture and rural development banks (SCARDBs) operating at the state level and primary co-operative agriculture and rural development banks (PCARDBs) operating at the district/block level. Unlike short-term credit co-operatives which have a uniform three-tier structure throughout the country, the structure of long term co-operative institutions varies across states. In Bihar, Uttar Pradesh, Jammu and Kashmir, Gujarat, Assam and Tripura, there are no PCARDBs, and SCARDBs operate directly through their branches at the district level. In most other states, SCARDBs operate through PCARDBs. A mixed structure exists in Himachal Pradesh and West Bengal, where SCARDBs operate through PCARDBs and also through their branches. In contrast, in north-eastern states, there is no separate structure of long-term co-operatives, except in Assam and Tripura.

3.2.1 *State Co-operative Agriculture and Rural Development Banks*

V.62 SCARDBs purvey credit from the NABARD to PCARDBs or to farmers directly through their branches. These institutions are however, weak in terms of asset quality, profitability and capital adequacy as they continue to be afflicted by issues of a low resource base, restricted range of products and limited outreach.

Balance Sheet Operations

V.63 During 2016-17, the consolidated balance sheet of SCARDBs expanded after experiencing contraction in the previous year. On the liabilities side, deposits and capital remained broadly unchanged, while reserves declined with the deterioration in their overall financial health. On the assets side, all components experienced growth with significant increase in investments and loans and advances on a low base (Table V.20).

Profitability

V.64 SCARDBs reported net losses in 2016-17, as compared to net profits in the previous year, on account of a sharp increase in expenditure and a marginal fall in income. The increase in expenditure was due to higher interest expenses, provision and contingencies, the latter necessitated by a marked rise in delinquency. They were, however, able to contain operating expenses at

Table V.20: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
Liabilities				
1. Capital	9 (3.3)	9 (3.0)	-6.8	0.0
2. Reserves	41 (14.9)	34 (11.2)	-37	-7.1
3. Deposits	24 (8.7)	24 (7.9)	29.8	0.0
4. Borrowings	146 (53)	155 (51)	-9.5	6.2
5. Other Liabilities	55 (20.2)	82 (27.0)	-29.5	49.1
Assets				
1. Cash and Bank Balances	4 (1.6)	5 (1.5)	4	25
2. Investments	30 (10.8)	32 (10.5)	-1.3	6.7
3. Loans and Advances	204 (74.2)	212 (69.8)	-3.7	3.9
4. Other Assets	37 (13.4)	55 (18.0)	-57.3	48.6
Total Liabilities/Assets	275 (100.0)	304 (100.0)	-17.3	10.5

Notes: 1. Figures in parentheses are proportion to total liabilities/assets (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers. have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

Table V.21: Financial Performance of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	As during		Percentage Variation	
	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5
A. Income (i+ii)	**22.0** **(100.0)**	**21.9** **(100.0)**	**-12.1**	**-0.1**
i. Interest Income	22.0 (97.2)	20.7 (94.2)	-11.4	-5.9
ii. Other Income	0.6 (2.8)	1.3 (5.8)	-30.8	113.3
B. Expenditure (i+ii+iii)	**22.0** **(100.0)**	**24.0** **(100.0)**	**-23.9**	**9.1**
i. Interest Expended	14.0 (63.9)	15.0 (62.5)	-21.6	7.1
ii. Provisions and Contingencies	4.0 (17.3)	5.0 (20.8)	-37.7	25.0
iii. Operating Expenses	4.0 (18.8)	4.0 (16.7)	-15.5	0.0
C. Profits				
i. Operating Profits	4.0	6.0	71.1	50.0
ii. Net Profits	0.03	-2.0	100.8	-

Notes: 1. Figures in parentheses are proportion to total income/expenditure (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

the previous year's level, thus posting operating profits (Table V.21).

Asset Quality

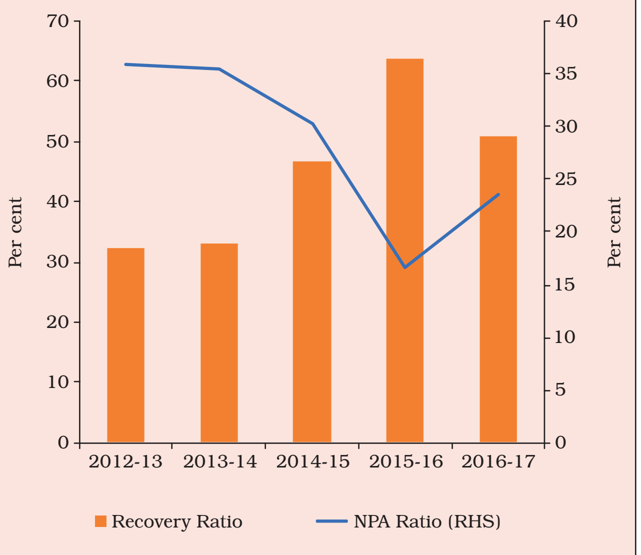
V.65 The asset quality of SCARDBs deteriorated in 2016-17, after improving consistently since 2012-13 (Chart V.35).

V.66 Doubtful assets, which constituted the largest bucket under NPAs, doubled. The ageing of NPAs suggests that the malaise may be deep-rooted (Table V.22).

Regional Performance

V.67 The financial performance of SCARDBs in the central region deteriorated during 2016-17 as NPA ratios increased while the recovery ratio declined. SCARDBs in the southern region

Chart V.35: NPA and Recovery – SCARDBs



Source: NABARD.

Table V.22: Asset Quality of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	At end-March		Percentage Variation	
	2016	2017	2015-16	2016-17
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**34**	**50**	**-47.3**	**47.1**
i) Sub-standard	19	20	-22.2	5.3
	(56.4)	(40.0)		
ii) Doubtful	15	30	-62.5	100
	(43.4)	(60.0)		
iii) Loss	0.1	0.01	-86.7	-90
	(0.2)	(0.02)		
B. NPAs to Loans Ratio (%)	**16.6**	**23.6**	-	-
C. Recovery to Demand Ratio (%)	**63.6**	**50.8**	-	-

Notes: 1. Figures in parentheses are proportions to total NPAs.
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

remain the strongest due to high recovery and low NPA ratios (Chart V.36).

3.2.2 *Primary Co-operative Agriculture and Rural Development Banks*

V.68 PCARDBs represent the lowest tier of the long-term co-operative credit structure. The mandate of the PCARDBs is to provide loans to farmers, artisans, craftsmen and other qualified persons. PCARDBs, like SCARDBs, have a small deposit base and mostly depend on borrowings for on-lending.

Balance Sheet Operations

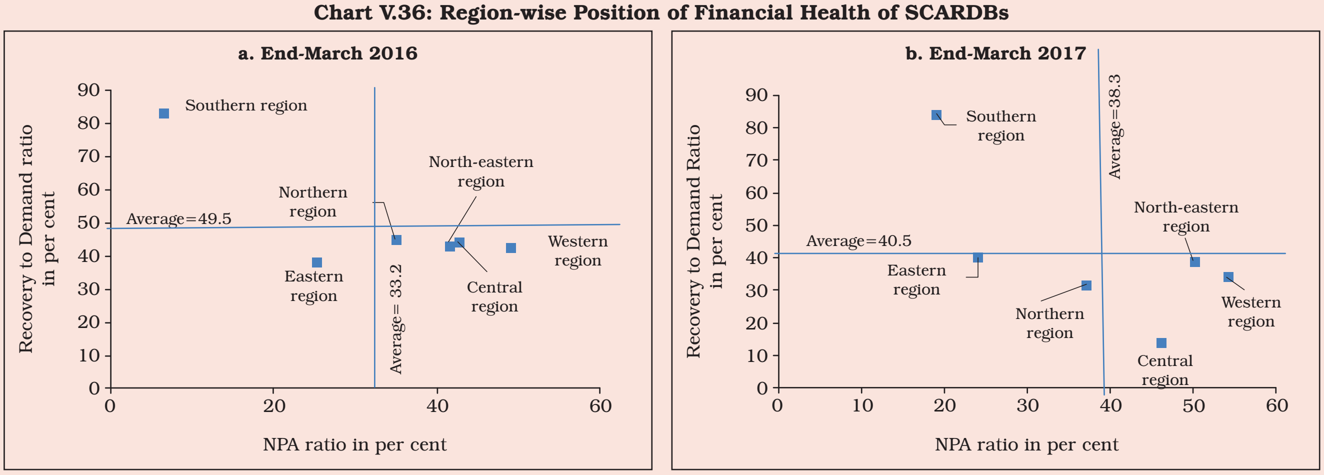
V.69 After a contraction in 2015-16, the consolidated balance sheet of PCARDBs expanded in 2016-17. On the assets side, an acceleration was evident across all major heads, and most notably in investments and loans and advances. The business model of PCARDBs is primarily based on borrowings, which constitute more than 50 per cent of total liabilities. In 2016-17, there was a sharp increase in borrowings, while other components on the liabilities side like capital and reserves decreased in reflection of the weak financial health of these institutions (Table V.23).

Profitability

V.70 PCARDBs registered losses in 2016-17 as growth in expenditure outpaced expansion in income. Interest income continued to contract, partly offset by increase in other income. Expenditure, however, expanded due to higher interest expenses and provisions. Operating profit, which was marginally positive in 2015-16, turned negative in 2016-17 (Table V.24).

V.71 PCARDBs registered higher losses and the proportion of profit-making PCARDBs in the

Chart V.36: Region-wise Position of Financial Health of SCARDBs



Source: NABARD.

Table V.23: Liabilities and Assets of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
Liabilities				
1. Capital	11 (4.5)	10 (3.5)	-17.8	-8.5
2. Reserves	25 (10.3)	17 (5.8)	-38.4	-32.5
3. Deposits	14 (5.6)	13 (4.5)	33.2	-7.1
4. Borrowings	143 (59.3)	155 (53.3)	-12.8	8.4
5. Other Liabilities	49 (20.2)	96 (33.0)	-38.7	96
Assets				
1. Cash and Bank Balances	4 (1.5)	4 (1.3)	-9.4	8.3
2. Investments	15 (6.2)	22 (7.7)	-25.9	48.7
3. Loans and Advances	127 (52.7)	151 (51.9)	-14.4	18.9
4. Other Assets	95 (39.6)	114 (39.2)	-29.2	20
Total Liabilities/Assets	**241** **(100.0)**	**291** **(100.0)**	**-21.6**	**20.7**

Notes: 1. Figures in parentheses are proportion to total liabilities/assets (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source:NABARD.

Table V.24: Financial Performance of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

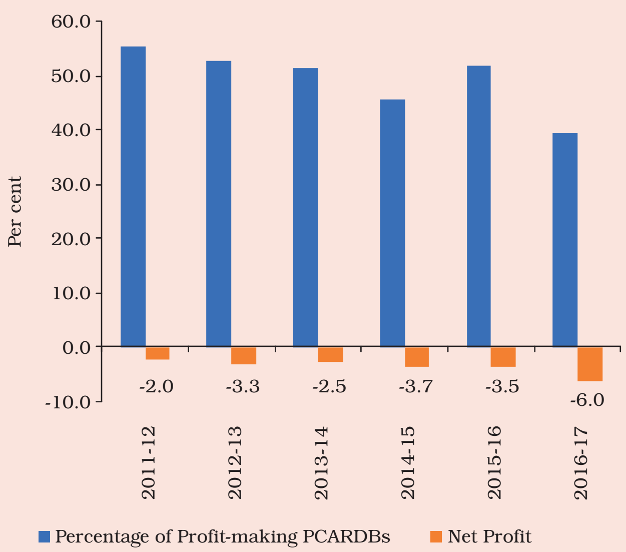
Item	As during		Variation (%)	
	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5
A. Income (i+ii)	**21** **(100.0)**	**22** **(100.0)**	**-13.4**	**4.8**
i. Interest Income	18 (83.7)	16 (72.7)	-9.3	-11.1
ii. Other Income	3 (16.3)	6 (27.3)	-29.9	100.0
B. Expenditure (i+ii+iii)	**25** **(100.0)**	**28** **(100.0)**	**-12.4**	**12.0**
i. Interest Expended	15 (60.9)	17 (60.7)	-11.4	13.3
ii. Provisions and Contingencies	5 (18.5)	6 (21.4)	-23.9	20.0
iii. Operating Expenses	5.1 (20.6)	5 (17.9)	-2.5	-2.0
C. Profits				
i. Operating Profits	1	-1	-52.4	-
ii. Net Profits	-3.5	-6.0	-5.7	-

Notes: 1. Figures in parentheses are proportion to total income/ expenditure (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

total also declined relative to the preceding year (Chart V.37).

Chart V.37: Profitability Indicators of PCARDBs



Source: NABARD.

Asset Quality

V.72 Total NPAs of PCARDBs, which had declined in 2015-16, rose again in 2016-17 across all categories *viz.*, sub-standard, doubtful and loss assets. There was, however, some improvement in the NPA ratios of PCARDBs during the year due to sharper increase in loans and advances. (Table V.25).

Financial Health of PCARDBs vis-a-vis SCARDBs

V.73 The NPA ratio of SCARDBs, which had shown improvement since 2013-14 due to better recovery, deteriorated in 2016-17 as the recovery ratio moderated. In contrast, the

Table V.25: Asset Quality of Primary Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	At end-March		Variation (%)	
	2016	2017	2015-16	2016-17
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**47**	**49**	**-12.4**	**4.3**
i) Sub-standard	25	26	-9.3	4
	(52.8)	(53.1)		
ii) Doubtful	22	23	-15.7	4.5
	(46.6)	(46.9)		
iii) Loss	0.29	0.3	-9.4	3.4
	(0.6)	(0.6)		
B. NPAs to Loans Ratio (%)	**37**	**33**	-	-
C. Recovery to Demand Ratio (%)	**43.6**	**44.3**	-	-

Notes: 1. Figures in parentheses are proportion to total NPAs (in per cent).
2. Y-o-Y variations could be slightly different because absolute numbers have been rounded off to ₹ 1 billion in the table.
3. Components may not add up to the total due to rounding off.

Source: NABARD.

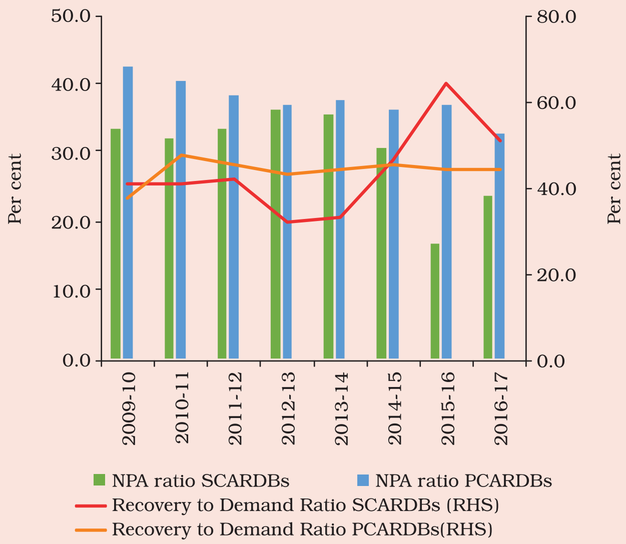
NPA ratio of PCARDBs improved in 2016-17, *albeit* remaining higher than that of SCARDBs (Chart V.38).

A Comparative Assessment of Short-term and Long-term Rural Credit Co-operatives

V.74 While NPA ratios and losses of SCARDBs have increased and return on assets (RoA) turned negative in 2016-17, the NPA ratio of StCBs declined and profitability improved (Chart V.39).

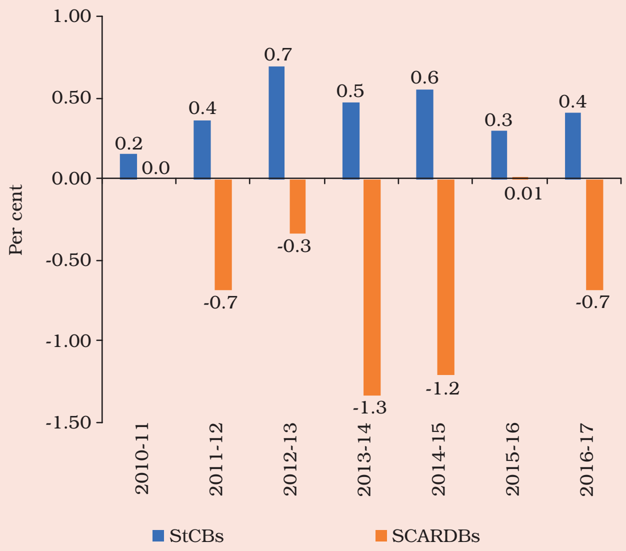
V.75 The ratio of assets, credit and capital of SCARDBs to assets/credit/capital of StCBs has declined over the years. In 2016-17, however, the capital of SCARDBs as proportion to that of StCBs improved significantly (Table V.26).

Chart V.38: Financial Health of PCARDBs *vis-à-vis* SCARDBs



Source: NABARD.

Chart V.39: StCBs *versus* SCARDBs - By RoA



Source: NABARD.

Table V.26: Comparison of Assets, Credit and Capital Size of SCARDBs and StCBs

Year	Amount of Assets of SCARDBs per ₹100 of Assets of StCBs	Amount of Credit of SCARDBs per ₹100 of Credit of StCBs	Amount of Capital of SCARDBs per ₹100 of Capital of StCBs
2013-14	18.3	20.1	29.0
2014-15	16.7	18.5	18.2
2015-16	13.3	16.6	16.1
2016-17	13.0	16.7	27.9

Source: NABARD.

4. Overall Assessment

V.76 During 2017-18, the balance sheet of UCBs moderated after the demonetisation-induced expansion of deposits in the preceding year. Although NPA ratios improved marginally, their overall profitability moderated while capital positions remained broadly unchanged.

V.77 UCBs are increasingly facing competition from new players like payments banks, SFBs and NBFCs. In order to remain competitive, it is necessary for them to adopt robust information technology (IT) systems, *inter alia,* by leveraging on the Reserve Bank's IT support. As regards governance, the separation of executive and supervisory roles is essential to improve the interests of depositors. On June 25, 2018 the Reserve Bank released draft guidelines on the constitution of boards of management (in addition to the existing board of directors) to bring in members with specialised knowledge and professional management skills. The Reserve Bank introduced a scheme for voluntary transition of UCBs into SFBs to strengthen regulation and increase opportunities for growth.

V.78 Within rural co-operatives on the other hand, performance is varied in terms of asset quality and profitability. While StCBs improved NPA ratios and profitability, both parameters deteriorated in the case of DCCBs. Over the years, the NABARD has undertaken various reforms in the short term rural co-operative sector, *inter alia,* by regularly monitoring CRAR levels and continuously following up with the state governments concerned for capital infusion as needed.

V.79 The financial performance of long-term rural co-operatives institutions has been less than satisfactory and has deteriorated further in 2016-17, with both SCARDBs and PCARDBs reporting net losses. With NPA ratios of SCARDBs increasing significantly in 2016-17, the financial health of long-term rural co-operatives remains fragile. Given their importance in capital formation in agriculture, it is necessary to undertake measures to expand their deposit base, capital and product range for improving their financial performance.

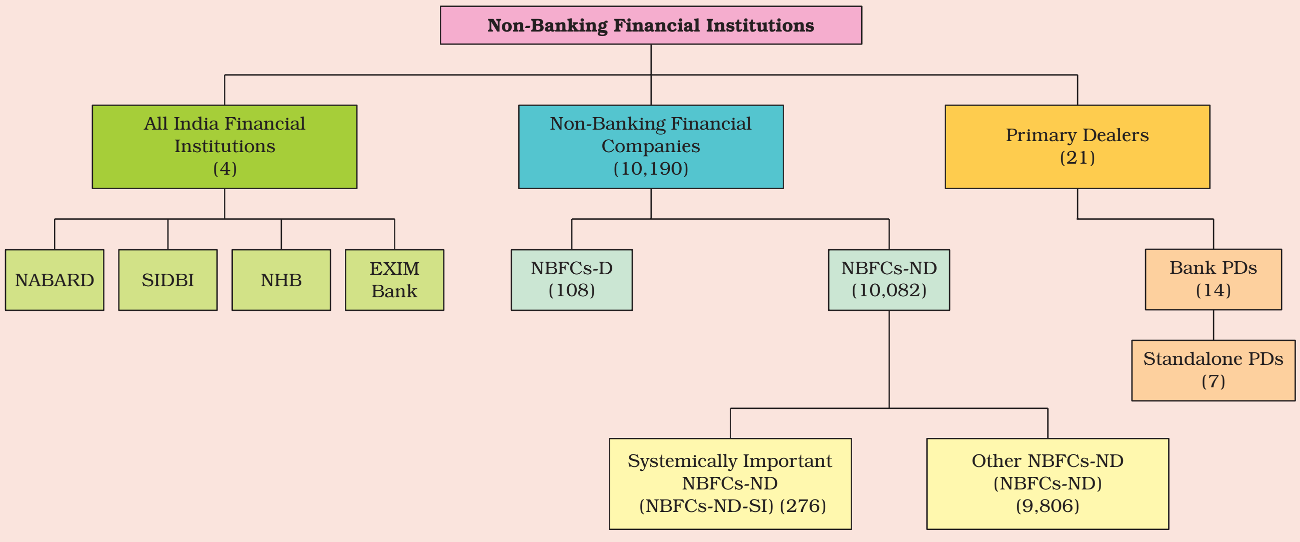
VI NON-BANKING FINANCIAL INSTITUTIONS

The consolidated balance sheet of NBFCs expanded in 2017-18 and in 2018-19 so far, buoyed by strong credit expansion. The profitability of NBFCs improved on the back of fund-based income, low NPA levels relative to banks and strong capital buffers. Recent concerns about asset-liability mismatches have been proactively addressed through liquidity provisions by the Reserve Bank. Disbursement by all AIFIs expanded during the year, with the largest expansion recorded by SIDBI through stepped-up refinancing for on-lending mainly to the MSME sector.

1. Introduction

VI.1 Non-banking financial institutions (NBFIs) comprise a heterogeneous group of financial intermediaries. Those under the regulatory purview of the Reserve Bank consist of all-India financial institutions (AIFIs), non-banking financial companies (NBFCs)[1] and primary dealers (PDs) (Chart VI.1). AIFIs are apex institutions established during the development planning era to provide long-term financing/refinancing to specific sectors such as (i) agriculture and rural development; (ii) trade; (iii) small industries; and (iv) housing. NBFCs are dominated by joint stock companies,

Chart VI.1: Structure of NBFIs under Reserve Bank Regulation
(At end-September 2018)



Notes: 1. Data are provisional.
2. Figures in parentheses indicate the number of institutions.
Source: RBI.

[1] Although housing finance companies, merchant banking companies, stock exchanges, companies engaged in the business of stock-broking/sub-broking, venture capital fund companies, nidhi companies, insurance companies and chit fund companies are also NBFCs, they have been exempted from the requirement of registration with the Reserve Bank under Section 45-IA of the RBI Act, 1934.

catering to niche areas ranging from personal loans to infrastructure financing. PDs play an important role as market makers for government securities. The Reserve Bank regulated NBFI sector grew by 15.8 per cent in 2017-18; by the end of March 2018, it was 19.8 per cent of the scheduled commercial banks (SCBs) taken together in terms of balance sheet size. Within the NBFI sector, AIFIs constituted 23 per cent of total assets, while NBFCs represented 75 per cent and standalone PDs accounted for 2 per cent.

VI.2 Against this background, this chapter presents an analysis of the financial performance of NBFIs in 2017-18 and during April-September 2018. The rest of the chapter is organised into four sections. Section 2 provides an overview of the NBFC sector–non-deposit taking systemically important NBFCs (NBFCs-ND-SI) and deposit-taking NBFCs (NBFCs-D). The activities of housing finance companies (HFCs), which are under the regulatory purview of the National Housing Bank (NHB), are also covered in this section. Section 3 discusses the performance of AIFIs, followed by an evaluation of the role of primary dealers in Section 4. Section 5 concludes with an overall assessment and policy perspectives.

2. Non-Banking Financial Companies

VI.3 NBFCs are classified on the basis of a) their liability structures; b) the type of activities they undertake; and c) their systemic importance. In the first category, NBFCs are further subdivided into NBFCs-D–which are authorised to accept and hold public deposits–and non-deposit taking NBFCs (NBFCs-ND)–which do not accept public deposits but raise debt from market and banks. Among NBFCs-ND, those with an asset size of ₹5 billion or more are classified as NBFCs-ND-SI. At the end of September 2018, there were 108 NBFCs-D and 276 NBFCs-ND-SI as compared with 168 and 230, respectively, at the end of March 2018.

VI.4 Since 1997, the Reserve Bank has endeavoured to limit the operations and growth of NBFCs-D with the objective of securing depositors' interest. This strategy was adopted in recognition of the fact that these deposits are not covered by the Deposit Insurance and Credit Guarantee Corporation (DICGC). NBFCs-D with investment grade rating are allowed to accept fixed deposits from the public for a tenure of 12 to 60 months only with interest rates capped at 12.5 per cent.

VI.5 NBFCs can also be categorised on the basis of activities undertaken as they typically focus on niche segments and fulfil sector–specific requirements. Consequently, their varied business models require appropriate modulation of the regulatory regime. Till 2010, the NBFC sector was divided into five categories *viz.*, asset finance companies; loan companies; residuary non-banking companies; investment companies and mortgage guarantee companies. Since then, however, newer types of activity have been added to the NBFC space. At the end of September 2018, there were 12 activity-based classifications of NBFCs (Table VI.1).

VI.6 At the end of September 2018, the number of NBFCs registered with the Reserve Bank declined to 10,190 from 11,402 at the end of March 2018. NBFCs are required to have a minimum net owned fund (NOF) of ₹20 million. In a proactive measure to ensure strict compliance with the regulatory guidelines, the Reserve Bank cancelled the Certificates of Registration (CoR) of NBFCs not meeting this criterion. The number of cancellations of CoRs

Table VI.1: Classification of NBFCs by Activity

Type of NBFC	Activity
1. Asset Finance Company (AFC)	Financing of physical assets including automobiles, tractors and generators.
2. Loan Company	Provision of loan finance.
3. Investment Company	Acquisition of securities for purpose of selling.
4. NBFC-Infrastructure Finance Company (NBFC-IFC)	Provision of infrastructure loans.
5. NBFC-Systemically Important Core Investment Company (CIC-ND-SI)	Makes investments and loans to group companies.
6. Infrastructure Debt Fund-NBFC (IDF-NBFC)	Facilitation of flow of long-term debt into infrastructure projects.
7. NBFC-Micro Finance Institution (NBFC-MFI)	Credit to economically dis-advantaged groups.
8. NBFC-Factor	Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount.
9. NBFC-Non-Operative Financial Holding Company (NOFHC)	Facilitation of promoters/ promoter groups in setting up new banks.
10. Mortgage Guarantee Company (MGC)	Undertaking of mortgage guarantee business.
11. NBFC-Account Aggregator (NBFC-AA)	Collecting and providing information about a customer's financial assets in a consolidated, organised and retrievable manner to the customer or others as specified by the customer.
12. NBFC–Peer to Peer Lending Platform (NBFC-P2P)	Providing an online platform to bring lenders and borrowers together to help mobilise funds.

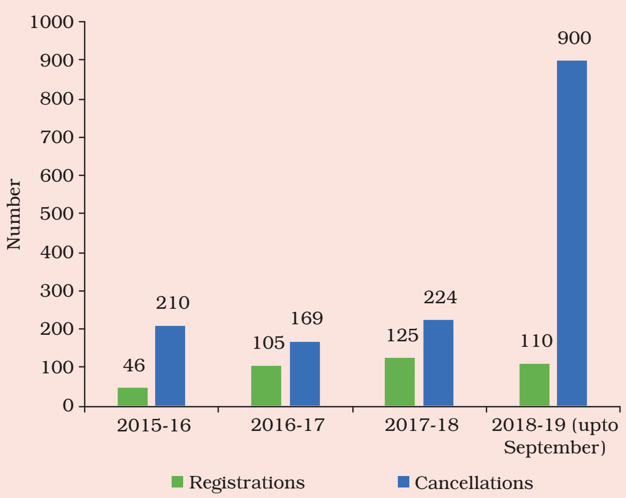
Source: RBI.

of NBFCs has exceeded new registrations in recent years[2] (Chart VI.2).

2.1 Ownership Pattern

VI.7 NBFCs-ND-SI constitute 84.8 per cent of the total assets of the NBFC sector. Within the NBFCs-ND-SI sphere, government owned NBFCs hold more than a third assets, indicating their systemic importance (Table VI.2). During 2017-18, the regulatory requirements for government-owned NBFCs—both non-deposit taking and deposit taking—were aligned with those for other NBFCs in a phased manner (Chapter III provides details).

Chart VI.2: Registrations and Cancellations of CoR of NBFCs



Note: Data are provisional.
Source: Supervisory Returns, RBI.

VI.8 NBFCs-D accounted for 15.2 per cent of total assets and 17.6 per cent of the total credit deployed by NBFCs at the end of March 2018. Non-government companies dominate this segment, accounting for 87.5 per cent of assets of all NBFCs-D. Unlike private limited NBFCs-ND-SI in which 98 companies constituted 16.1 per cent of the total assets, four private limited NBFCs-D accounted for 21.9 per cent of total assets, pointing to concentration of assets (Table VI.2).

[2] 1,293 NBFC CoRs have been cancelled since March 2016.

Table VI.2: Ownership Pattern of NBFCs
(At end-March 2018)

(Amount in ₹ billion)

Type	NBFC-ND-SI				NBFC-D			
	Number of Companies	Asset Size	Share in per cent		Number of Companies	Asset Size	Share in per cent	
			Number	Asset Size			Number	Asset Size
1	2	3	4	5	6	7	8	9
A. Government Companies	29	6,858	12.6	35.5	8	432	4.8	12.5
B. Non-government Companies (1+2)	201	12,442	87.4	64.5	160	3,028	95.2	87.5
1. Public Limited Companies	103	9,332	44.8	48.4	156	2,271	92.9	65.6
2. Private Limited Companies	98	3,110	42.6	16.1	4	757	2.4	21.9
Total (A+B)	**230**	**19,300**	**100.0**	**100.0**	**168**	**3,460**	**100.0**	**100.0**

Note: Data are provisional.
Source: Supervisory Returns, RBI.

2.2 Balance Sheet

VI.9 The consolidated balance sheet of NBFCs expanded in 2017-18 and in 2018-19 (up to September), buoyed by strong credit expansion. Category-wise, the balance sheet of NBFCs-ND-SI expanded by 13.4 per cent, while the balance sheet of NBFCs-D registered robust growth at 24.4 per cent in 2017-18 on account of a sharp rise in loans and advances (Table VI.3) (Appendix Tables VI.1 and VI.2).

Table VI.3: Abridged Balance Sheet of NBFCs

(Amount in ₹ billion)

Items	At end-March 2017			At end-March 2018			At end-Sept 2018		
	NBFCs	NBFCs-ND-SI	NBFCs-D	NBFCs	NBFCs-ND-SI	NBFCs-D	NBFCs	NBFCs-ND-SI	NBFCs-D
1	2	3	4	5	6	7	8	9	10
1. Share Capital and Reserves	4,527	4,104	423	5,153	4,590	563	5,595	4,997	598
	(19.0)	(19.8)	(11.9)	(13.8)	(11.8)	(33.1)	(15.1)	(13.5)	(30.0)
2. Public Deposits	306	-	306	319	-	319	326	-	326
	(12.9)	-	(12.9)	(4.2)	-	(4.2)	(12.0)	-	(12.0)
3. Debentures	6,481	5,813	668	7,155	6,321	834	7,551	6,681	870
	(20.2)	(19.7)	(23.9)	(10.4)	(8.7)	(24.9)	(-0.4)	(-2.1)	(14.9)
4. Bank Borrowings	3,134	2,520	614	4,039	3,319	720	4,936	4,108	828
	(-7.2)	(-7.2)		(28.9)	(31.7)	(17.3)	(49.3)	(52.8)	(34.2)
			(-7.0)						
5. Commercial Paper	1,291	1,143	148	1,406	1,224	182	1,816	1,525	291
	(51.2)	(45.1)	(124.2)	(8.9)	(7.1)	(23.0)	(19.7)	(13.0)	(74.3)
6. Others	4,058	3,436	622	4,688	3,846	842	5,795	4,909	886
	(14.8)	(12.7)	(28.0)	(15.5)	(11.9)	(35.4)	(25.0)	(26.1)	(19.2)
Total Liabilities	**19,798**	**17,017**	**2,781**	**22,760**	**19,300**	**3,460**	**26,019**	**22,220**	**3,799**
	(14.9)	(14.7)	(15.9)	(15.0)	(13.4)	(24.4)	(17.2)	(16.0)	(25.2)
1. Loans and Advances	14,800	12,347	2,453	17,643	14,533	3,110	19,842	16,427	3,415
	(12.8)	(12.2)	(15.8)	(19.2)	(17.7)	(26.8)	(16.3)	(14.4)	(26.1)
2. Investments	2,759	2,628	131	3,011	2,880	131	3,352	3,186	166
	(21.9)	(21.0)	(42.4)	(9.1)	(9.6)	(0.0)	(14.1)	(12.8)	(48.2)
3. Cash and Bank Balances	796	700	96	649	553	96	848	747	101
	(36.1)	(44.3)	(-4.0)	(-18.5)	(-21.0)	(0.0)	(27.5)	(31.3)	(5.2)
4. Other Current Assets	1,106	1,021	85	1,168	1,064	104	1,639	1,537	102
	(8.0)	(7.2)	(18.1)	(5.6)	(4.2)	(22.4)	(30.1)	(32.7)	(0.0)
5. Other Assets	336	321	15	288	270	18	337	323	14
	(40.0)	(43.9)	(-11.8)	(-14.3)	(-15.9)	(20.0)	(26.2)	(28.7)	(-12.5)

Notes: 1. Data are provisional
2. Figures in parentheses indicate y-o-y growth in per cent.
Source: Supervisory Returns, RBI.

VI.10 In the recent years, the loan companies (LCs) expanded their lending portfolio manifold against the backdrop of slow credit growth of SCBs, easy liquidity and better transmission to their interest rates *vis-a-vis* SCBs (Box VI.1). Continuing this trend, LCs continued to grow

Box VI.1: What Explains the Robust Credit Growth of NBFCs?

Four prominent determinants propelling NBFC credit growth *vis-à-vis* SCBs are examined in order to empirically explore the recent rapid growth in the share of NBFCs in the credit pie: lending rate spread between NBFCs and SCBs; credit growth of SCBs; the asset quality of NBFCs and liquidity conditions. In addition, real sector variables such as gross domestic product (GDP) growth and index of industrial production (IIP) growth are also introduced alternately in the specification to control for procyclicality. A panel generalized method of moments (GMM) framework is used in order to address possible endogeneity arising from inclusion of GDP and other variables. Supervisory data on 76 loan companies[3] for the period December 2015 to March 2018 has been used to estimate the following equation, the results of which are presented in Table 1.

$$\begin{aligned}&\textit{Credit Growth Loan NBFC}_{ijt}\\ &\quad = \textit{Ln WAL Rspread}_{ijt-1} - \textit{GNPA loan NBFCs}_{ijt-1}\\ &\quad - \textit{Credit growth SCBs}_{t} + \textit{Net LAF}_{t} - \varepsilon_{ijt}\end{aligned}$$

The results reveal insights into the NBFCs' lending behaviour, which seem to be consistent with the stylised facts. The statistically significant association between credit growth and liquidity conditions—represented

Table 1: Growth in credit of Loan Companies

Explanatory Variables	Dependent Variable: LNGROSS_ADVANCES_G					
	1	2	3	4	5	6
LNWALR_SPREAD(-1)	-0.088*** (0.0058)					
G_SCB_CREDIT	-0.077*** (0.015)	-0.257*** (0.014)				
GNPA_RATIO(-1)	-0.018*** (0.0006)	-0.035*** (0.0002)	-0.004*** (0.0003)	-0.007*** (0.0007)	-0.031*** (0.0005)	-0.031*** (0.0005)
WALR_SPREAD(-1)		-0.007*** (0.011)	-0.007*** (0.0011)	-0.006*** (0.0011)	-0.002*** (0.0007	-0.002*** (0.0006)
NET_LAF(-1)		0.499*** (0.139)				
SCB_RETAIL_G(-1)			-0.328*** (0.0007)	-0.354*** (0.0018)		
NET_LAF				0.960*** (0.1148)	1.319*** (0.5086)	2.001*** (0.4963)
G_REAL_GDP					0.763*** (0.0848)	
G_IIP						0.448*** (0.0357)
Sargan statistic	0.31	0.44	0.43	0.54	0.35	0.34
Cross-sections	60	69	69	69	69	69
Observations	257	320	252	252	320	320

***: p<0.01; **: p<0.05; and *: p<0.10.

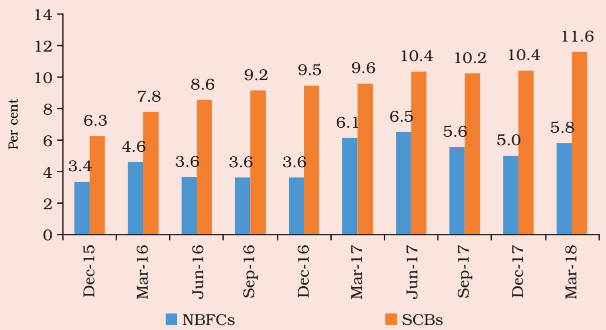
Note: LNWALR_Spread: log of spread between WALR of banks and NBFCs; G_SCB_Credit: SCB credit growth; GNPA_ratio: GNPA ratio of loan companies; Net LAF: Dummy for surplus/deficit liquidity conditions; SCB_retail_G: Growth in SCBs' retail loans; G_Real_GDP: Real GDP growth; G_IIP: IIP growth.

(Contd...)

[3] This analysis is focused on loans companies for three reasons: a) Loan companies are one of the largest components of the NBFC-ND-SI sector with a share of 38.5 per cent in credit; b) In the credit extended by SCBs and LCs to commercial real estate, consumer durables and vehicle loans, the decline in the share of SCBs from 88.1 per cent in December 2015 to 74.6 per cent in March 2018 is almost entirely explained by the increase in the share of loan companies from 11.9 per cent to 25.4 per cent; c) Loan companies and SCBs have similar business model and vie for the same clientele especially in the retail loan segment.

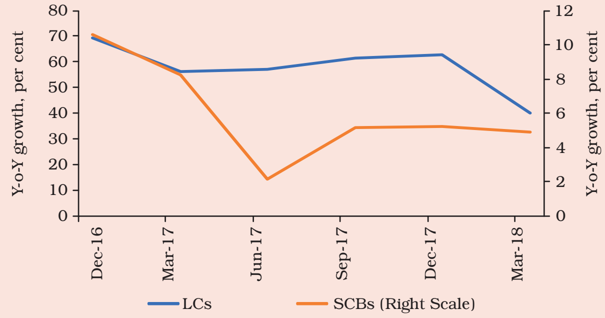
by a dummy of net liquidity adjustment facility (LAF) positions, suggests that NBFCs operate a passive strategy for managing asset-liability mismatches (ALM) by covering gaps in the wholesale funding markets, rendering them vulnerable to liquidity risks. The statistically significant coefficient with expected negative sign for spreads between NBFC lending rate over bank lending rates suggests that sharper decline in their interest rates as compared to the SCBs aided the former's credit growth. Besides liquidity conditions, aggregate demand is strongly associated with NBFCs' lending, suggesting procyclicality and warranting counter-cyclical capital buffers. Loan delinquency has the expected negative sign, although eyeballing of data suggests that levels of loan impairment are relatively low (Chart 1). The slowdown in SCBs' credit growth during the period of study provided a fillip to loan companies as substitution effects provided tailwinds. This was especially true of their lending to commercial real estate, consumer durables, and vehicle loans (Chart 2). These results are found to be robust to specification changes.

Chart 1: NPA ratio of NBFCs and SCBs



Note: Data are provisional.
Source: Business Object Database for NBFCs and DBIE, RBI for SCBs.

Chart 2: Commercial Real Estate, Consumer Durable and Vehicle Loans of SCBs and LCs



Note: Data are provisional.
Source: Business Object Database for NBFCs and DBIE, RBI for SCBs.

In conclusion, empirical findings suggest that slowdown in SCBs' credit, relative decline in NBFCs cost of lending *vis-à-vis* banks and an increase in aggregate demand contributed to the rapid expansion in NBFC credit.

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at a healthy pace in 2017-18 and in 2018-19 (up to September). The balance sheet of infrastructure finance companies (NBFCs-IFC), the other major category of NBFCs-ND-SI, grew at a higher rate in 2017-18 and 2018-19 (up to September), because of expansion in loans and advances to industries. On the other hand, the balance sheet of NBFCs-micro finance institutions (NBFCs-MFI) shrank due to conversion of a few large ones into small finance banks.

VI.11 The growth of loans and advances, constituting about three-fourth of total assets of NBFCs-ND-SI, accelerated in 2017-18 and 2018 19 (up to September) (Table VI.4). While the retail and the services sectors were the driving forces, loan books also expanded due to credit to medium and large industries sector. The more active role of these entities in 2017-18 and 2018-19 (up to September) is attributable to improved credit demand due to revival in manufacturing and

Table VI.4: Major Components of Liabilities and Assets of NBFCs-ND-SI by Classification of NBFCs

(Amount in ₹ billion)

Category/ Liability	At end-March 2017			At end-March 2018 P			At end-Sept 2018 P			Percentage Variation of Total Liabilities (Mar 2018 over Mar 2017)	Percentage Variation of Total Liabilities (Sept 2018 over Sept 2017)
	Borrowings	Other Liabilities	Total Liabilities	Borrowings	Other Liabilities	Total Liabilities	Borrowings	Other Liabilities	Total Liabilities		
1	2	3	4	5	6	7	8	9	10	11	12
Asset Finance Company	1,026	283	1,309	1,179	267	1,446	1,485	519	2,004	10.5	32.3
Core Investment Company	246	510	756	363	625	988	182	600	782	30.8	-17.9
Factoring - NBFC	15	13	28	18	20	38	18	20	38	37.7	10.5
IDF-NBFC	95	25	120	175	32	206	198	34	232	72.0	39.8
Infrastructure Finance Company	5,160	1,637	6,797	5,497	1,958	7,455	6,838	1,712	8,549	9.7	19.4
Investment Company	955	1,118	2,073	1,095	1,278	2,373	1,441	1,349	2,790	14.5	10.4
Loan Company	4,064	1,329	5,393	5,012	1,271	6,283	5,245	2,119	7,364	16.5	17.6
NBFC-MFI	390	152	542	354	158	512	309	151	460	-5.6	-15.3
Total	**11,951**	**5,066**	**17,017**	**13,692**	**5,609**	**19,300**	**15,716**	**6,504**	**22,220**	**13.4**	**16.0**
Category/ Asset	Loans and Advances	Other Assets	Total Assets	Loans and Advances	Other Assets	Total Assets	Loans and Advances	Other Assets	Total Assets	Percentage Variation of Total Assets (Mar 2018 over Mar 2017)	Percentage Variation of Total Assets (Sept 2018 over Sept 2017)
Asset Finance Company	1,026	283	1,309	1,195	251	1,446	1778	226	2,004	10.5	32.3
Core Investment Company	123	632	756	140	848	988	69	713	782	30.8	-17.9
Factoring - NBFC	25	3	28	30	8	38	31	7	38	37.7	10.5
IDF-NBFC	81	39	120	102	104	206	174	58	232	72.0	39.8
Infrastructure Finance Company	6,051	746	6,797	6,966	488	7,455	7,323	1,227	8,549	9.7	19.4
Investment Company	353	1,720	2,073	514	1,859	2,373	673	2,117	2,790	14.5	10.4
Loan Company	4,286	1,107	5,393	5,172	1,111	6,283	5,992	1,373	7,364	16.5	17.6
NBFC-MFI	402	141	542	414	97	512	388	72	460	-5.6	-15.3
Total	**12,346**	**4,670**	**17,017**	**14,533**	**4,767**	**19,300**	**16,427**	**5,793**	**22,220**	**13.4**	**16.0**

Note: Data are provisional.
Source: Supervisory Returns, RBI.

service activity, coupled with robust consumption demand, and the tepid performance of equity markets.

VI.12 Amongst NBFCs-D, the balance sheets of asset finance companies (AFCs) increased because of the inclusion of deposits garnered by government-owned NBFCs. LCs' deposit growth, on the other hand, declined by 26.4 per cent in 2017-18, and by 9.9 per cent in FY2018-19 (up to September), while borrowings increased at a faster pace. Credit, which constituted 89.9 per cent of total assets of NBFCs-D showed strong growth (Table VI.5).

2.3 *Sectoral Credit of NBFCs*

VI.13 Industry accounts for more than half of total credit extended by NBFCs, followed by retail, services and agriculture. A significant part of the credit to industry is provided

Table VI.5: Major Components of Liabilities and Assets of NBFCs-D by Classification of NBFCs

(Amount in ₹ billion)

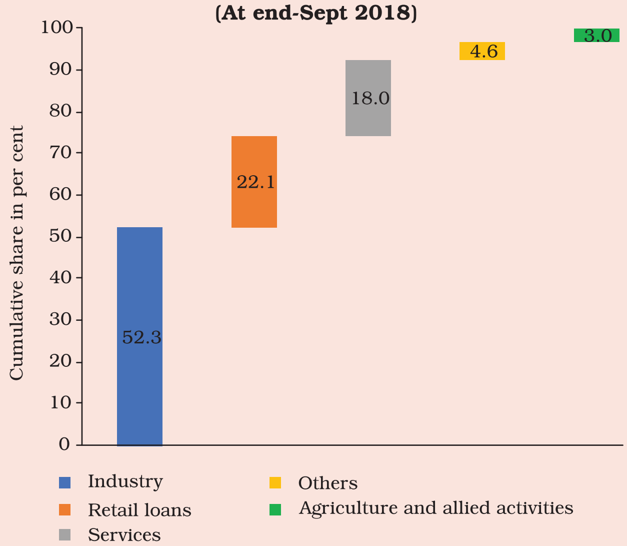
Items	Asset Finance Companies			Loan Companies			Total NBFCs-D@		
	At end-March 2017	At end-March 2018	At end-Sept 2018	At end-March 2017	At end-March 2018	At end-Sept 2018	At end-March 2017	At end-March 2018	At end-Sept 2018
1	2	3	4	5	6	7	8	9	10
No. of Companies	90	98	79	25	28	28	115	126	107
Deposits	113	177	204	193	142	128	306	319	326
Borrowings	1,059	1,320	1,280	782	998	1,133	1,841	2,318	2,413
Total Liabilities/Assets	**1,471**	**1,757**	**1,915**	**1,310**	**1,703**	**1,884**	**2,781**	**3,460**	**3,799**
Total Advances	1,304	1,576	1,739	1,149	1,534	1,676	2,453	3,110	3,415
Investments	58	58	70	73	73	96	131	131	166

Notes: 1. Data are provisional.
2. @: Total excludes investment companies.
Source: Supervisory Returns, RBI.

by government-owned NBFCs, especially by NBFCs-IFC (Chart VI.3).

VI.14 Retail loans of NBFCs grew at a robust 46.2 per cent during 2017-18—on top of a growth of 21.6 per cent during 2016-17—reflecting upbeat consumer demand, especially in the vehicle loans segment. Credit to the services sector was driven mainly by commercial real estate and retail trade. The growth in lending to commercial real estate is noteworthy in view of a sharp deceleration in SCBs' credit to this sector. Credit to agriculture and allied activities revived during 2017-18, reflecting the low base of the preceding year. NBFCs' lending to the MSME sector was also robust, compensating for the deceleration in SCBs' credit (Table VI.6). Increasingly, NBFCs are looking for newer avenues to diversify their lending portfolios (Appendix Table VI.3).

Chart VI.3: Distribution of NBFC Credit (At end-Sept 2018)



Note: Data are provisional.
Source: Supervisory Returns, RBI.

2.4 Resource Mobilisation

VI.15 The major sources of resource mobilisation of NBFCs-ND-SI have been debentures and bank borrowings with the latter being preferred during 2017-18 and in 2018-19 (up to September), in contrast to the larger recourse to debentures in 2016-17 (Chart VI. 4).

VI.16 The share of CPs which declined during 2017-18 turned around in H1:2018-19 partly replacing the reduction in share of debentures (Table VI.7).

VI.17 The compositional shift in borrowings in 2017-18 was mainly due to rising yields, which adversely affected the cost of market borrowings, especially of CPs, while lending rates of banks fell in the monetary easing cycle, making borrowing from banks more attractive

Table VI.6: Credit to Select Sectors by NBFCs

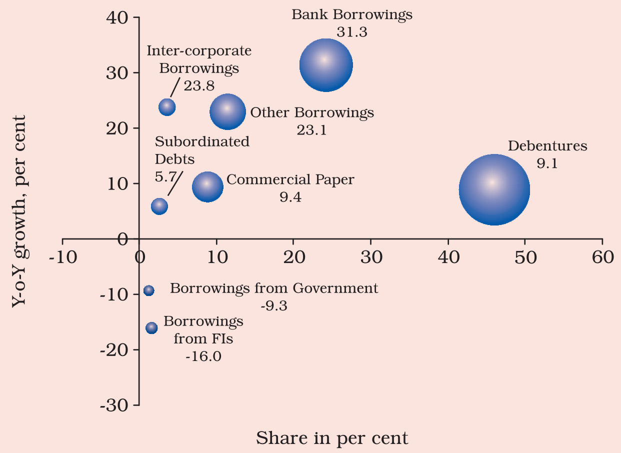
(Amount in ₹ billion)

Items	At end-March 2017	At end-March 2018	At end-September 2018	Percentage Variation (Mar 2018 over Mar 2017)
1	2	3	4	5
I. Gross Advances	14,857	17,643	19,842	18.8
II. Food Credit	1.7	2.7	5.0	64.2
III. Non-food Credit (1 to 5)	14,855	17,640	19,837	18.7
1. Agriculture and Allied Activities	354	476	596	34.4
2. Industry (2.1 to 2.4)	8,940	9,655	10,374	8.0
2.1 Micro and Small	508	561	516	10.4
2.2 Medium	172	252	325	46.7
2.3 Large	4,375	4,785	5,128	9.4
2.4 Others	3,885	4,055	4,405	4.4
3. Services *Of which,*	2,224	3,013	3,563	35.5
3.1 Commercial Real Estate	958	1,257	1,337	31.2
3.2 Retail Trade	170	275	325	61.9
4. Retail Loans *Of which,*	2,490	3,639	4,381	46.2
4.1 Housing Loans	106	135	165	27.5
4.2 Consumer Durables	57	88	111	54.2
4.3 Vehicle/Auto Loans	1,035	1,675	1,942	61.9
5. Other Non-food Credit	847	857	923	1.1

Note: Data are provisional.
Source Supervisory Returns, RBI.

(Chart VI.5). Secondly, lending to NBFCs especially to those with high credit ratings and better financial performance—presented a lucrative business alternative to banks in an environment characterised by rising non performing assets (NPAs) and pervasive risk aversion.

Chart VI.4: Components of Borrowings of NBFCs-ND-SI
(At end-March 2018)



Notes: 1. Data are provisional.
2. Bubble size corresponds to size of borrowings.
3. Figures are growth on y-o-y basis.
Source: Supervisory Returns, RBI.

VI.18 Bank lending to NBFCs revived in 2017-18 and 2018-19 (up to September) from the slowdown in 2016-17 and indirect lending decreased (Chart VI.6).

2.5 NBFCs-D: Deposits

VI.19 The Reserve Bank has been striving to wean away NBFCs from collecting public deposits as alluded to earlier. A revised

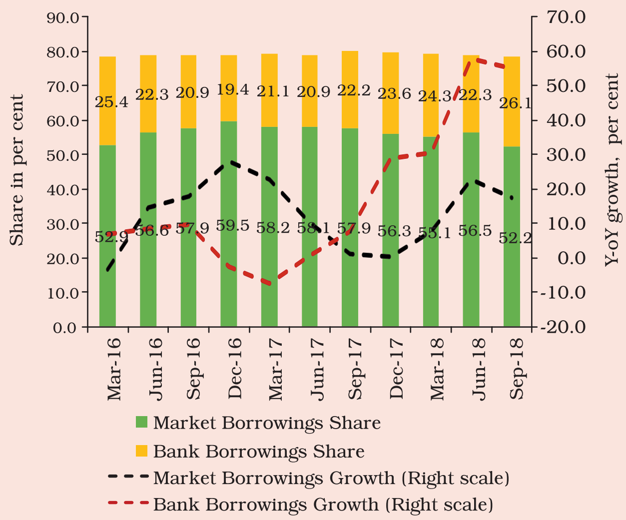
Table VI.7: Sources of Borrowings of NBFCs-ND-SI

(Amount in ₹ billion)

Items	At end-March 2017	At end-March 2018	At end-Sept 2018	Share in per cent		
				March 2017	March 2018	Sept 2018
1	2	3	4	5	6	7
1. Debentures	5,795	6,321	6,681	48.6	46.2	42.5
2. Bank borrowings	2,527	3,318	4,108	21.2	24.2	26.1
3. Borrowings from FIs	263	221	277	2.2	1.6	1.8
4. Inter-corporate borrowings	404	500	701	3.4	3.7	4.5
5. Commercial paper	1,119	1,224	1,525	9.4	8.9	9.7
6. Borrowings from government	193	175	1	1.6	1.3	0.01
7. Subordinated debts	333	352	361	2.8	2.6	2.3
8. Other borrowings	1,283	1,580	2,062	10.8	11.5	13.1
9. Total borrowings	**11,917**	**13,691**	**15,716**	**100.0**	**100.0**	**100.0**

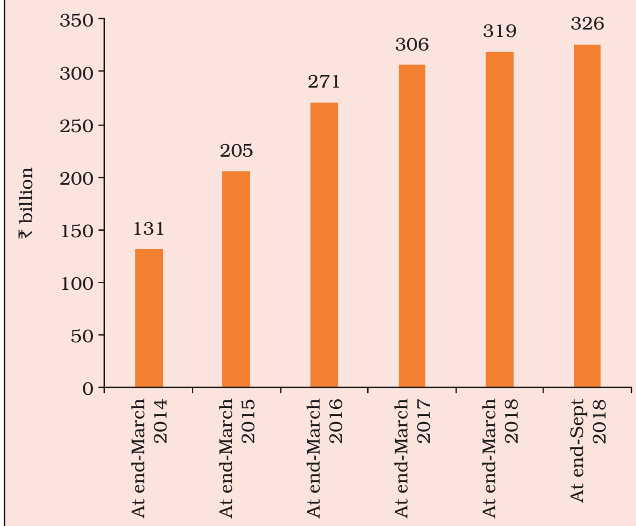
Note: Data are provisional.
Source: RBI Supervisory Returns.

Chart VI.5: Borrowings of NBFCs-ND-SI



Note: 1. Data are provisional.
2. Market borrowings comprise debentures and commercial paper.
Source: Supervisory Returns, RBI.

Chart VI.7: Public Deposits of NBFCs-D



Note: Data are provisional.
Source: Supervisory Returns, RBI.

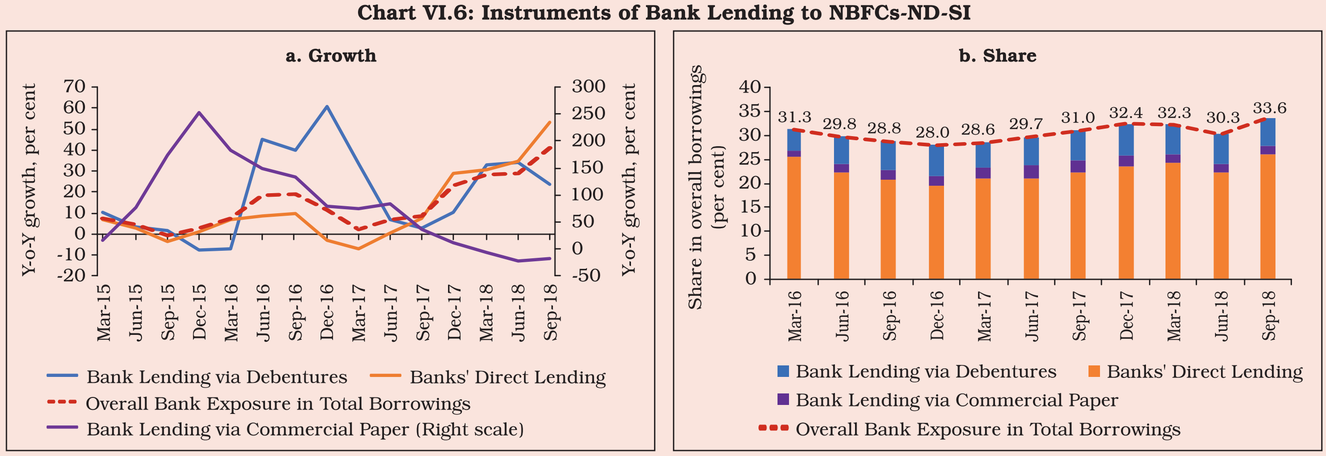
regulatory framework was issued in November 2014 mandating that only rated NBFCs-D shall accept and maintain public deposits. These guidelines also permitted AFCs to raise public deposits up to a limit of 1.5 times the NOF only, unlike 4 times the NOF allowed earlier.

VI.20 The number of companies authorised to accept deposits came down from 178 in 2016-17 to 168 in 2017-18 and 108 in 2018-19 (up to September). Deposit growth slowed down from 12.9 per cent in 2016-17 to 4.2 per cent in 2017-18 (Chart VI.7).

2.6 Financial Performance of NBFCs

VI.21 NBFCs' profitability improved during 2017-18 and 2018-19 (up to September) mainly due to an increase in fund-based income. The income of NBFCs-D increased faster than that of NBFCs-ND-SI in 2017-18. While the cost

Chart VI.6: Instruments of Bank Lending to NBFCs-ND-SI



Note: Data are provisional.
Source: Supervisory Returns, RBI.

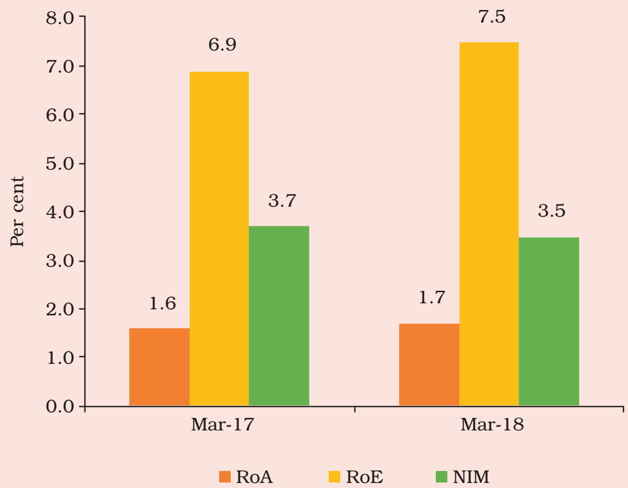
to income ratio of NBFCs and in particular of NBFCs-D declined, reflecting improvement in operational efficiency, this ratio rose in respect of NBFCs-ND-SI pointing to the increasing operating costs (Appendix tables VI.4 and VI.5). In H1:2018-19, net profits of NBFCs-ND-SI decelerated mainly due to increased expenditure (Table VI.8).

2.7 Profitability

VI.22 NBFCs' profitability indicators—returns on equity (RoE) and returns on assets (RoA)—were higher during 2017-18 than a year ago, although the net interest margin (NIM) decreased, reflecting higher interest expenses (Chart VI.8). During the current financial year so far (up to September 2018), the profitability ratios of NBFCs were marginally lesser to those reported in the previous year.

VI.23 The profitability of NBFCs-ND-SI, gauged in terms of RoA and RoE, increased in 2017-18, although NIM was lower mirroring higher interest payments. The factoring companies dragged down this segment's profitability while the bottom lines of NBFCs-IFC and AFCs improved (Chart VI.9). In H1: 2018-19, the profitability of loan companies and AFCs within

Chart VI.8: Profitability Ratios of NBFCs
(At end-March)



Note: Data are provisional.
Source: Supervisory Returns, RBI.

Table VI.8: Financial Parameters of the NBFC Sector

(Amount in ₹ billion)

Items	2016-17			2017-18			H1:2018-19		
	NBFCs	NBFCs-ND-SI	NBFCs-D	NBFCs	NBFCs-ND-SI	NBFCs-D	NBFCs	NBFCs-ND-SI	NBFCs-D
1	2	3	4	5	6	7	8	9	10
A. Income	2,310	1,909	402	2,515	2,034	480	1,395	1,111	284
	(7.8)	(6.9)	(12.6)	(8.9)	(6.5)	(19.4)	(16.7)	(7.8)	(73.2)
B. Expenditure	1,822	1,498	325	1,958	1,584	374	1069	863	206
	(11.9)	(11.5)	(14.0)	(7.5)	(5.7)	(15.1)	(16.2)	(9.8)	(53.7)
C. Net Profit	314	263	50	386	316	70	230	179	51
	(-14.4)	(-17.3)	(2.0)	(22.9)	(20.2)	(40.0)	(16.2)	(4.1)	(96.2)
D. Total Assets	19,797	17,017	2,781	22,760	19,300	3,460	26,019	22,220	3,799
	(14.9)	(14.7)	(15.9)	(15.0)	(13.4)	(24.4)	(17.2)	(16.0)	(25.2)
E. Financial Ratios (as per cent of Total Assets)									
(i) Income	11.7	11.3	14.5	11.0	10.5	13.9	5.4	5.0	7.5
(ii) Expenditure	9.2	8.9	11.7	8.6	8.2	10.8	4.1	3.9	5.4
(iii) Net Profit	1.6	1.6	1.8	1.7	1.6	2.0	0.9	0.8	1.3
F. Cost to Income Ratio (Per cent)	78.9	68.3	80.9	77.9	72.7	77.8	72.1	68.7	83.3

Notes: 1. Data are provisional.
2. Figures in parentheses indicate y-o-y growth in per cent.
Source: Supervisory Returns, RBI.

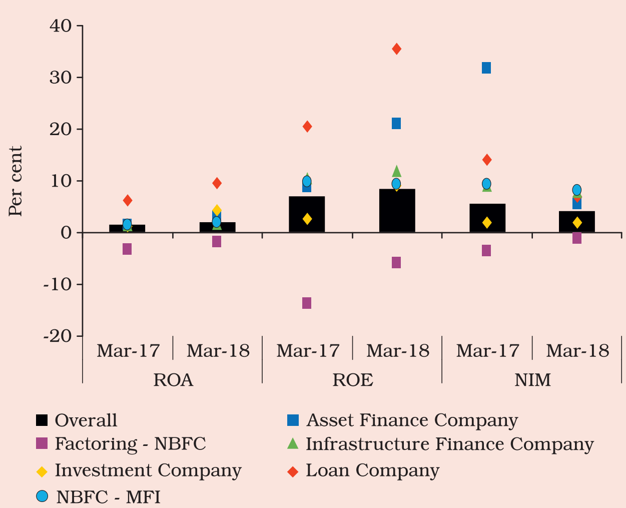
the NBFC-ND-SI classification improved, as their robust credit growth continued.

VI.24 In the case of NBFCs-D, NIM of LCs declined considerably in 2017-18 as compared to 2016-17, reflective of higher redemption of public deposits raised by these entities (Chart VI.10). In H1: 2018-19, however, the profitability of deposit taking NBFCs improved as compared to the previous year.

2.8 Asset Quality

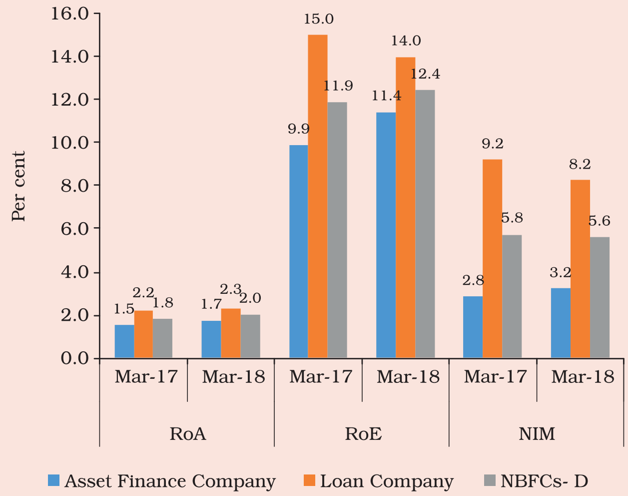
VI.25 Since November 2014, the asset classification norms of NBFCs have been incrementally aligned with those of banks, leading to higher NPA recognition[4]. During 2017-18, however, there has been an improvement in asset quality, with a part of the portfolio of assets classified as NPAs in 2016-17 being upgraded to standard assets. As a result, both the gross non-performing assets (GNPAs) ratio and the net non-performing assets (NNPAs) ratio declined during 2017-18 (Chart VI.11). In quarter-ended September 2018, however, since the GNPA ratio deteriorated marginally, NBFCs made larger provisions and hence, the NNPA ratio improved.

Chart VI.9: Profitability Indicators of NBFCs-ND-SI
(At end-March)



Note: Data are provisional.
Source: Supervisory Returns, RBI.

Chart VI.10: Profitability Indicators of NBFCs-D
(At end-March)



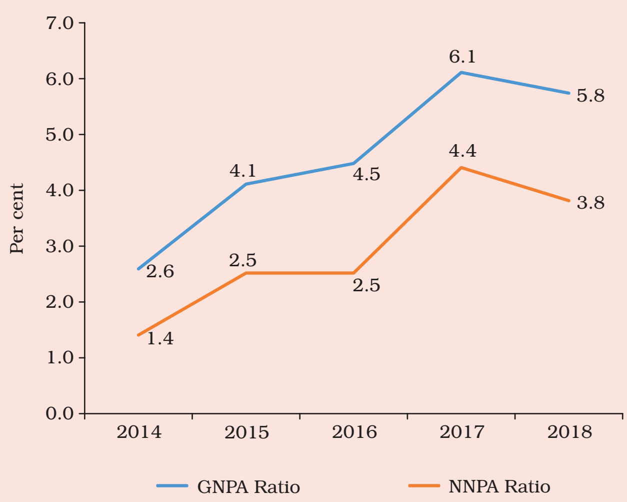
Note: Data are provisional.
Source: Supervisory Returns, RBI.

VI.26 The improvement in asset quality was reflected in the composition of NBFC assets. Advances in 2016-17 classified as sub-standard were upgraded to standard advances, while loss advances moved to the doubtful assets category in 2017-18 (Chart VI.12). However, in quarter-ended September 2018, the proportion of sub-standard assets increased as some standard assets were degraded. The upgradation of some doubtful assets to the sub-standard category, however, augurs well for the asset quality.

VI.27 Gross NPA ratio of NBFCs-ND-SI improved in 2017-18 *vis-à-vis* 2016-17 as a significant portfolio of assets classified as NPA

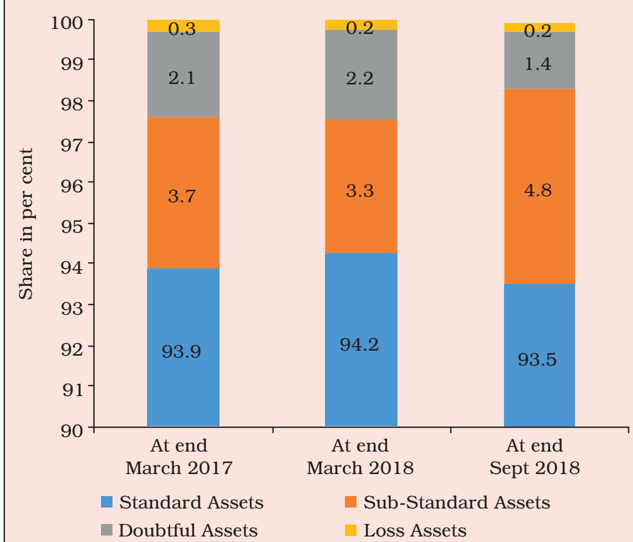
[4] The time period for classification of assets other than hire purchase as NPAs was progressively reduced to 5 months for the year ending March 2016, 4 months for the year ending March 2017 and 3 months for the year ending March 2018. For NBFCs-MFI, the NPA recognition norms have been aligned with those of SCBs from 2011.

Chart VI.11: Asset Quality of NBFCs
(At end-March)



Note: Data are provisional.
Source: Supervisory Returns, RBI.

Chart VI.12: Classification of NBFCs' Assets



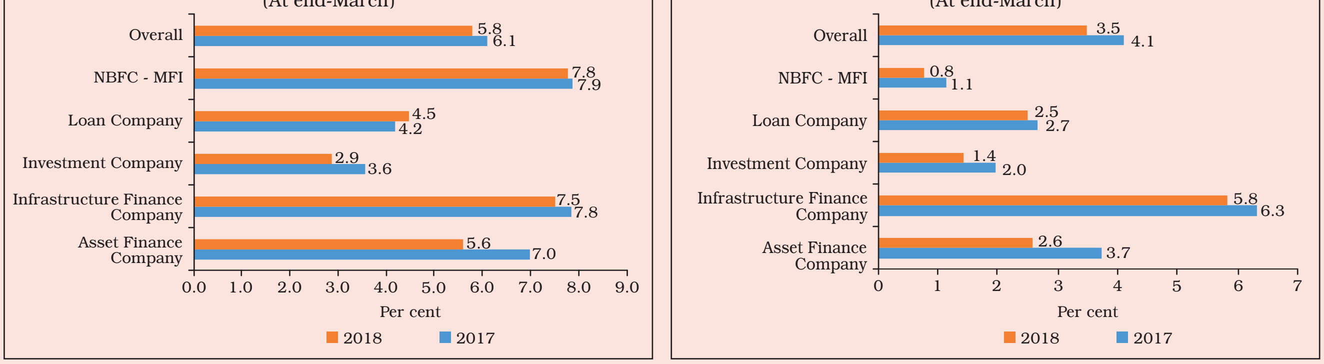
Note: Data are provisional.
Source: Supervisory Returns, RBI.

in 2016-17 was upgraded to standard assets, accompanied by a pick-up in asset growth. A few large accounts of NBFCs-IFC, which were adversely affected by the revised NPA recognition norms in 2016-17, revived in 2017-18 and were upgraded to standard assets. Except LCs, all categories of NBFCs-ND-SI reported improvement in asset quality (Chart VI.13a). The reduction in the GNPA ratio was especially significant in the case of AFCs. NBFCs-MFI reported a marginal decrease in their GNPA ratio, although it remains elevated in 2017-18. The lending operations of the NBFCs-MFI sector, which had slowed down in 2016-17 revived, but this sector is yet to recover fully from delinquencies in asset quality. Net NPAs broadly followed the pattern of gross NPAs, except for LCs which showed an improvement, unlike their GNPA ratios (Chart VI.13b).

Chart VI.13 NPAs of NBFCs-ND-SI

a. Gross NPAs as a percentage of Gross Advances of NBFCs-ND-SI (At end-March)

b. Net NPAs as a percentage of Net Advances of NBFCs-ND-SI (At end-March)

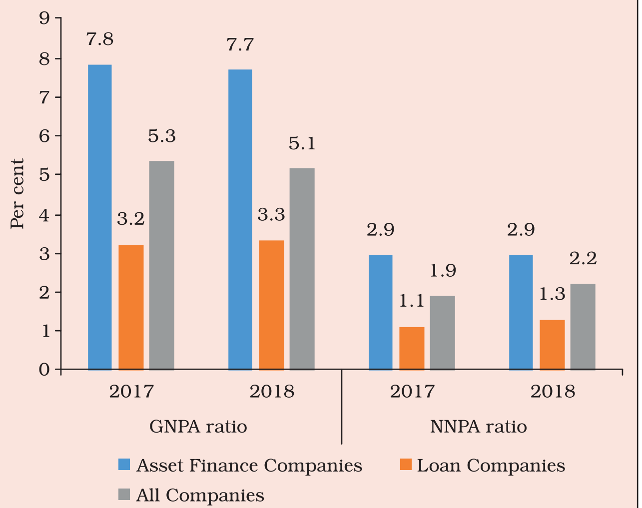


Notes: 1. Data are provisional.
2. IDF-NBFCs reported nil NPA.
Source: Supervisory Returns, RBI.

VI.28 Sectors with high stressed assets[5] ratios observed lower credit growth. During H1:2017-18, sector with high levels of stressed assets like industry received lower flows of credit, while credit to sectors with relatively lower levels of stressed assets such as services and retail grew robustly (Chart VI.14). In H2: 2017-18, the stressed assets ratio in industry and agriculture reduced and a concomitant increase in credit growth was visible.

VI.29 In the case of NBFCs-D as well, the impact of harmonisation of NPA recognition norms is waning. Asset growth also aided in the decline in the GNPA ratio. More than half of the NPAs were reported in loans to transport operators and construction sector, which were almost entirely financed by AFCs. As a result, NPAs of AFCs were higher than those of LCs (Chart VI.15).

Chart VI.15: Gross and Net NPA Ratios of NBFCs-D
(At end-March)

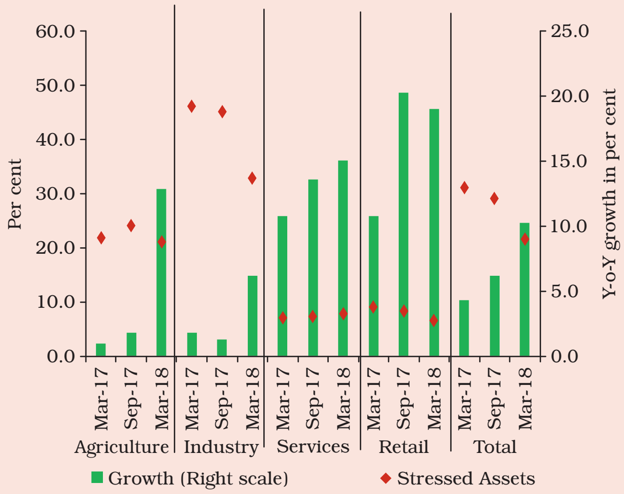


Note: Data are provisional.
Source: Supervisory Returns, RBI.

2.9 Capital Adequacy

VI.30 NBFCs are generally well capitalised, with the system level capital to risk-weighted assets ratio (CRAR) remaining well above the stipulated norm of 15 per cent. During 2017-18, the NBFC sector's CRAR improved further. In 2018-19 (up to September), however, their capital positions moderated somewhat due to the increase in non-performing assets (Chart VI.16).

Chart VI.14: Sector-wise Stressed Assets and Credit Growth of NBFCs-ND-SI
(At end-March)



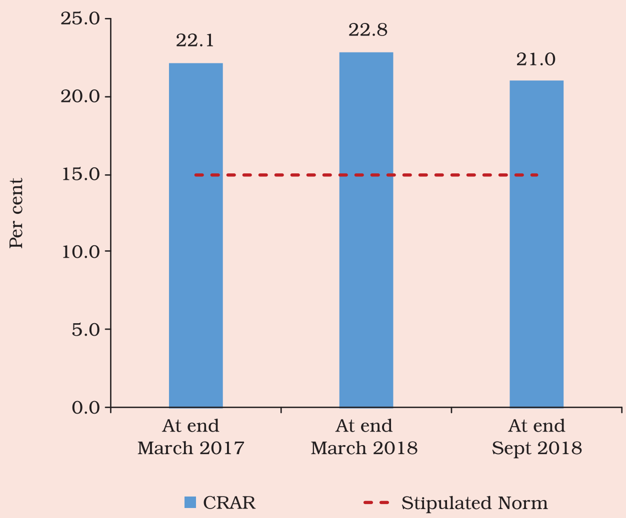
Note: Data are provisional.
Source: Supervisory Returns, RBI.

VI.31 All categories of NBFCs-ND-SI reported CRARs well above the stipulated norm during 2017-18. For the sector as a whole, capital adequacy increased due to significant improvement in respect of investment companies (Chart VI.17). In quarter ended-September 2018, capital position of NBFCs-MFI improved, after some deterioration during 2017-18.

VI.32 For the last two years, the CRAR of NBFCs-D has remained constant. The capital position of LCs, however has worsened due to delinquency in asset quality (Chart VI.18).

[5] (NPAs + restructured loans).

Chart VI.16: Capital Position of NBFC Sector

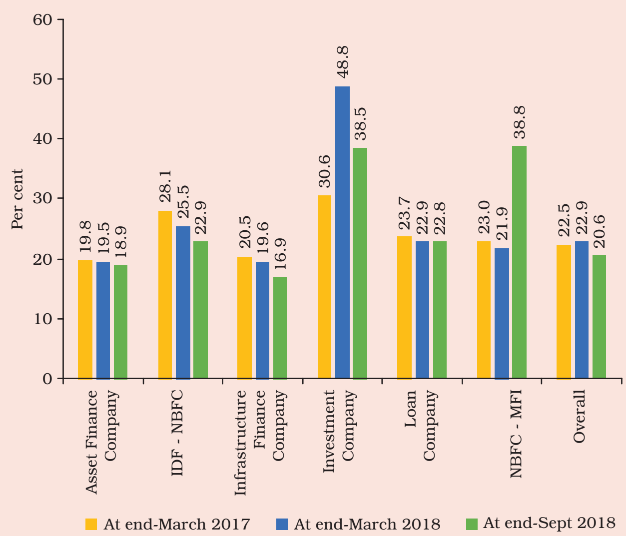


Note: Data are provisional.
Source: Supervisory Returns, RBI.

2.10 Exposure to Sensitive Sectors

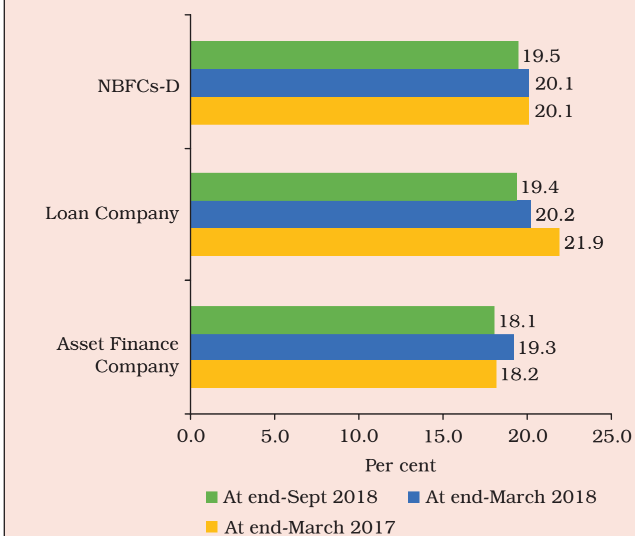
VI.33 The Reserve Bank has delineated the capital market, real estate and commodities as sensitive sectors in view of the risks associated with fluctuations in prices of these assets. While SCBs' lending to sensitive sectors accelerated, NBFCs' lending to these sectors decelerated in 2017-18 (Chart VI.19).

Chart VI.17: Category-wise CRAR of NBFCs-ND-SI



Note: Data are provisional.
Source: Supervisory Returns, RBI.

Chart VI.18: Category-wise CRAR of NBFCs-D

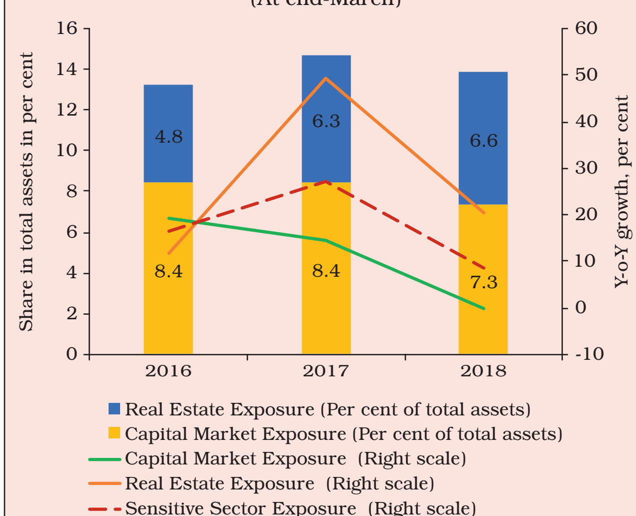


Note: Data are provisional.
Source: Supervisory Returns, RBI.

2.11 Residuary Non-Banking Companies (RNBCs)

VI.34 The principal business of RNBCs is collecting deposits and deploying them as allowed by the Reserve Bank. As of March 2015, only two RNBCs were registered with the Reserve Bank. In September 2015, the registration of one company was cancelled. Both the RNBCs

Chart VI.19: Exposure to Sensitive Sectors
(At end-March)



Note: Data are provisional.
Source: Supervisory Returns, RBI.

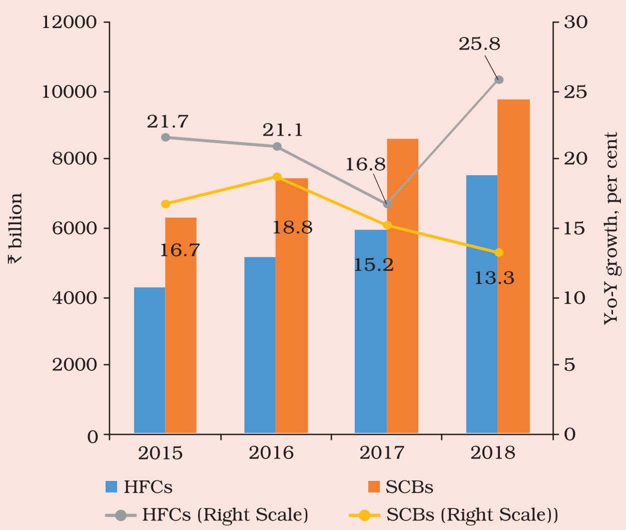
have stopped accepting deposits and are in the process of repaying old deposits.

VI.35 To sum up, the NBFC sector's consolidated balance sheet continued to expand on the back of strong credit growth on the asset side and borrowings on the liability side. The credit growth was led by retail and services sector loans. Deposit mobilisation decelerated in response to regulatory initiatives. Profitability and soundness indicators improved.

2.12 *Housing Finance Companies (HFCs)*

VI.36 The credit needs of the housing finance market are met mainly by scheduled commercial banks (SCBs) and housing finance companies (HFCs).[6] The importance of HFCs is underscored by the fact that their share was 25.3 per cent in the flow of credit to the commercial sector from non-bank domestic sources in 2017-18. HFCs' share in lending to housing increased from 41.0 per cent in 2016-17 to 43.6 per cent in 2017-18. Although the loan books of both SCBs and HFCs expanded during 2017-18, the lending of the latter grew at almost twice the pace of that of SCBs (Chart VI.20).

Chart VI.20: Credit to Housing Sector by HFCs and SCBs
(At end-March)



Source: RBI and NHB.

VI.37 At the end of March 2018, there were 91 HFCs, of which 18 were deposit-taking and the remaining 73 were non-deposit taking. Deposit-taking HFCs are all public limited companies. The only one government-owned HFC had a share of 4.2 per cent in total assets in 2017-18. The asset size of non-government owned HFCs, the dominant segment, grew at a rate of 27.5 per cent during 2017-18 (Table VI.9).

2.12.1 Balance Sheet

VI.38 A sharp increase in loans and advances of HFCs—propelled by the recent initiatives of the Government of India to boost affordable housing—was instrumental in driving the growth of their consolidated balance sheet. On the asset side, loans and advances constituted more than four-fifth of their balance sheet while more than two-third of their loan portfolio comprised housing loans in 2017-18. On the liabilities side, deposits and borrowings together accounted for almost four-fifth of the total liabilities of HFCs, with borrowings being the dominant source of funds. Borrowings, including debentures and CPs, increased at 27.7 per cent in 2017-18

Table VI.9: Ownership Pattern of HFCs
(At end-March)

(Amount in ₹ billion)

Type	2017		2018	
	Number	Asset Size	Number	Asset Size
1	2	3	4	5
A. Government Companies	1	393	1	489
B. Non-government Companies (1+2)	82	8,715	90	11,108
1. Public Limited Companies	65	8,696	72	11,093
2. Private Limited Companies	17	20	18	15
Total (A+B)	**83**	**9,109**	**91**	**11,598**

Source: NHB.

6 The HFCs are regulated by the National Housing Bank under section 29A of the National Housing Bank Act, 1987.

Table VI.10: Consolidated Balance Sheet of HFCs
(At end-March)

(Amount in ₹ billion)

Items	2016	2017	2018	Percentage Variation	
				2016-17	2017-18
Share Capital	79	93	305	18.3	228.2
Reserves and Surplus	736	932	1,247	26.6	33.7
Public Deposits	935	1,121	1,219	19.8	8.7
Debentures	2,589	3,364	4,100	29.9	21.9
Bank Borrowings	1,723	1,727	2,310	0.2	33.7
Borrowings from FIs	135	216	279	59.9	29.5
Inter-corporate Borrowings	22	20	40	-10.5	99.9
Commercial Paper	481	682	975	41.9	42.9
Borrowings from Government	-	-	-	-	-
Subordinated Debts	133	163	202	22.6	24.1
Other Borrowings	78	186	211	137.7	13.7
Current Liabilities	184	245	318	33.3	29.7
Provisions	97	83	126	-15.3	52.5
Others*	139	171	184	22.6	7.7
Total Liabilities/ Assets	**7,332**	**9,003**	**11,516**	**22.8**	**27.9**
Loans and Advances	6,053	7,286	9,354	20.4	28.4
Hire Purchase and Lease Assets	0.01	0.02	0.04	100.0	100.0
Investments	316	551	739	74.3	34.0
Cash and Bank Balances	188	227	196	20.7	-13.9
Others**	775	938	1,228	21.0	30.9

*: includes deferred tax liabilities and other liabilities.
**: includes fixed assets, tangible and intangible assets, other assets and deferred tax asset.
Note: Information submitted by 84 out of 91 HFCs as on March 31, 2018.
Source: NHB.

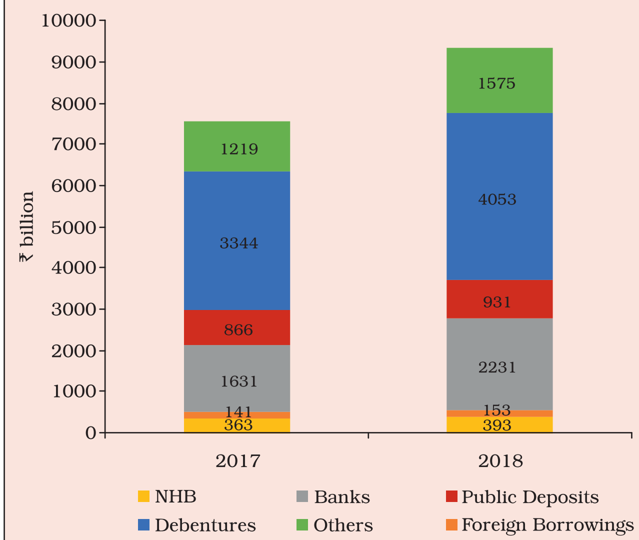
while pubic deposits grew at a more moderate rate of 8.7 per cent. HFCs raised resources largely *via* debentures, which constituted nearly half of all borrowings, followed by bank loans (Table VI.10).

2.12.2 Resource Profile of HFCs

VI.39 Apart from debentures and borrowing from banks, public deposits, external commercial borrowings, capital market instruments such as CPs and the NHB's refinance support constituted the sources of funds for HFCs (Chart VI.21).

VI.40 HFCs primarily mobilise term deposits of over one-year maturity; however, deposit growth decelerated in 2017-18, partly reflecting the high base of the previous year (Chart VI.22).

Chart VI.21: Resources Mobilised by HFCs
(At end-March)



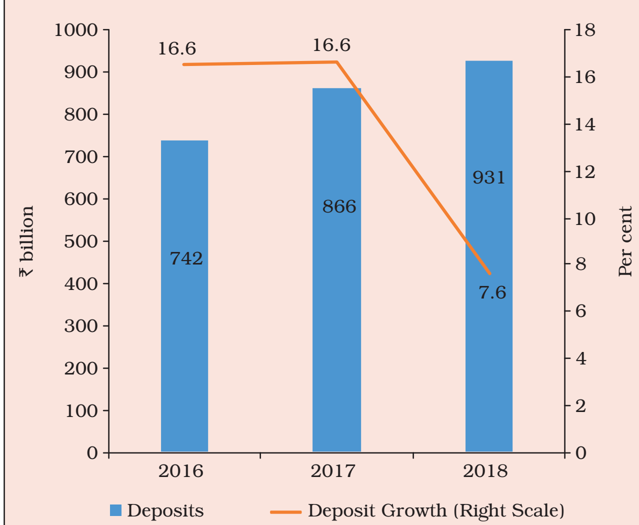
Source: NHB

VI.41 The distribution of deposits reveals a concentration in 6 per cent to 9 per cent interest rate bucket during 2017-18 (Chart VI.23 a and b), with deposit mobilisation slowing down across maturities (Chart VI.23 c and d).

2.12.3 Financial Performance

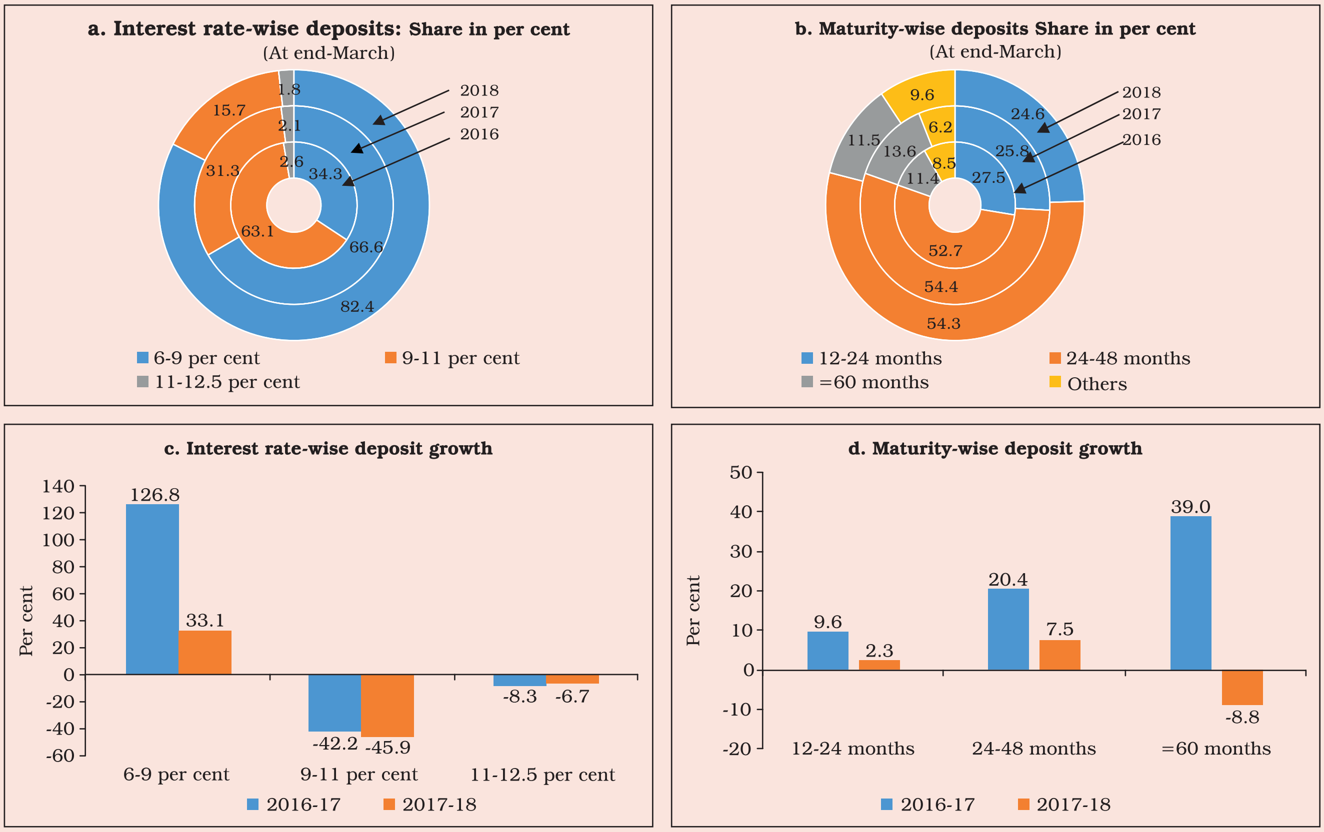
VI.42 Both income and expenditure of HFCs decelerated in 2017-18 as compared to

Chart VI.22: Deposits of HFCs
(At end-March)



Source: NHB

Chart VI.23: Dissection of HFCs' Deposits



Source: NHB.

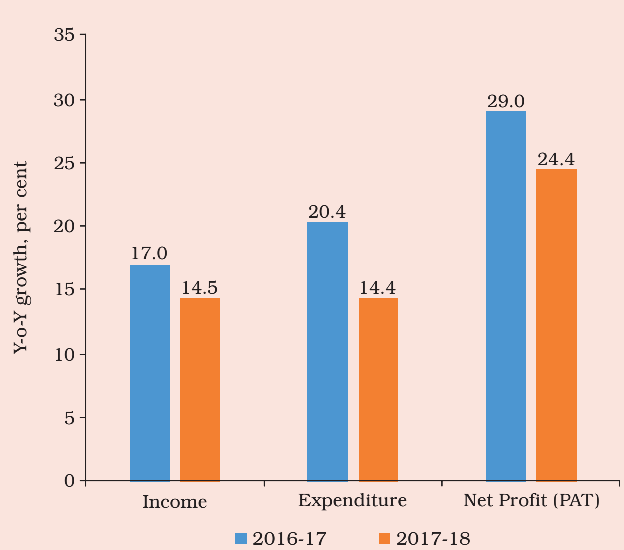
2016-17. While expenditure decelerated partly reflecting lower spending on interest payments, income growth was marred by lower fund-based income. Accordingly, net profits of HFCs grew at a lower rate in 2017-18 as compared to 2016-17 (Chart VI.24).

VI.43 While there was a marginal decline in RoAs of HFCs in 2017-18 *vis-à-vis* in 2016-17 as profitability declined, the cost to income ratio of HFCs remained fairly stable (Table VI.11)

2.12.4 Soundness Indicators

VI.44 GNPA and NNPA ratios, which had come down in 2014-15 and remained stable at 1.1 and 0.5 per cent, respectively for the next three years, inched up again in 2017-18 and 2018-19 (up to September). However, the asset quality of HFCs remained better than that of SCBs and NBFCs (Chart VI.25).

Chart VI.24: Financial parameters of HFCs



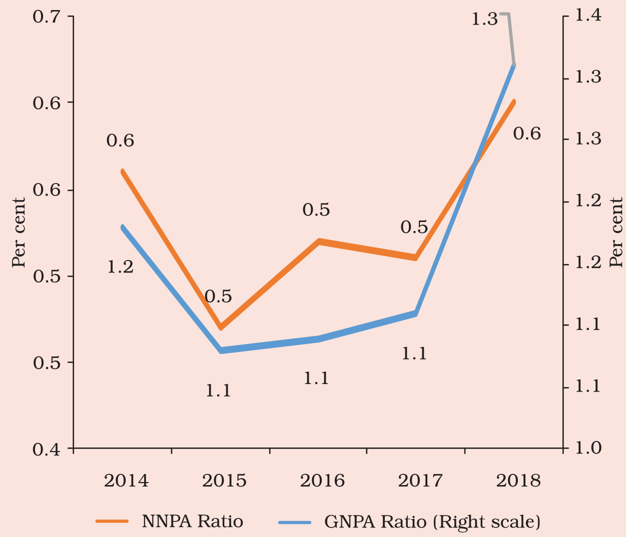
Source: NHB

Table VI.11: Financial Ratios of HFCs
(As per cent of Total Assets)
(At-end March)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	2	3	4	5	6
Total Income	**10.8**	**10.8**	**10.5**	**10.0**	**9.0**
1. Fund Income	10.6	10.6	10.3	9.8	8.8
2. Fee Income	0.2	0.2	0.2	0.2	0.2
Total Expenditure	**7.9**	**7.8**	**7.5**	**7.4**	**6.6**
1. Financial Expenditure	7.2	7.1	6.8	6.4	5.7
2. Operating Expenditure	0.7	0.7	0.7	0.9	1.0
Tax Provision	0.8	0.9	0.9	0.8	0.7
Cost to Income Ratio (Total Exp./ Total Income)	73.3	72.6	71.6	73.6	73.6
Return on Assets (RoA) (PAT/Total Assets)	2.1	2.0	2.0	2.1	2.0

Source: NHB.

Chart VI.25: NPA Ratios of HFCs
(At end-March)



Source: NHB.

3. All India Financial Institutions

VI.45 At the end of March 2018, there were four financial institutions under the regulation and supervision of the Reserve Bank *viz.*, the Export Import Bank of India (EXIM Bank), the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) (Chart VI.26).

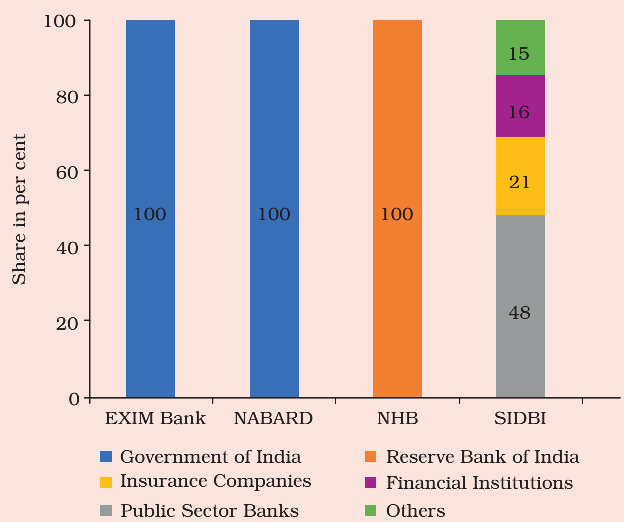
3.1 AIFIs' Operations[7]

VI.46 Financial assistance sanctioned by AIFIs during 2017-18 increased by 2.4 per cent whereas disbursement growth was robust at 21.1 per cent in line with an upturn in overall economic activity. Disbursement by all AIFIs expanded during the year, with the largest expansion recorded by SIDBI mainly reflecting increase in refinancing to the banks for on-lending to the MSME sector (Table VI.12) (Appendix Table VI.6).

3.2 Balance Sheet

VI.47 The AIFIs' consolidated balance sheet expanded by 16.4 per cent during 2017-18 on the back of loans and advances, which constituted the largest share of assets. On the

Chart VI.26: Ownership Pattern of AIFIs
(At end-March 2018)



Source: SIDBI, NABARD, NHB and EXIM Bank.

[7] The financial year for EXIM Bank, SIDBI and NABARD runs from April to March and for NHB, it runs from July to June.

Table VI.12: Financial Assistance Sanctioned and Disbursed by AIFIs

(₹ billion)

Category	2016-17		2017-18	
	S	D	S	D
1	2	3	4	5
SIDBI	406	395	588	587
NABARD	2,401	1,977	2,174	2,278
NHB	379	234	449	249
EXIM BANK	709	531	777	685
Total	**3,895**	**3,137**	**3,989**	**3,799**

S: Sanction D: Disbursement
Source: SIDBI, NABARD, NHB and EXIM Bank.

liability side, bonds and debentures and other borrowings also increased during the year to finance increased credit disbursement and investment activities (Table VI.13).

VI.48 AIFIs largely raised short-term funds for financing their activities. While the NHB accounted for more than half of the total resources raised in 2017-18, the EXIM Bank accounted for the least, with most of its funds being foreign currency borrowings (Table VI.14).

Table VI.13: AIFIs' Balance Sheet

(Amount in ₹ billion)

Items	2017	2018	Percentage Variation
1	2	3	4
Liabilities			
1. Capital	155 (2.6)	199 (2.8)	28.4
2. Reserves	490 (8.1)	511 (7.3)	4.3
3. Bonds and Debentures	1,472 (24.4)	1,850 (26.3)	25.7
4. Deposits	2,467 (40.9)	2,913 (41.5)	18.1
5. Borrowings	898 (14.9)	1,005 (14.3)	11.9
6. Other Liabilities	552 (9.1)	544 (7.8)	-1.4
Total Liabilities/Assets	**6,034**	**7,023**	16.4
Assets			
1. Cash and Bank Balances	193 (3.2)	237 (3.4)	22.8
2. Investments	408 (6.8)	495 (7.1)	21.3
3. Loans and Advances	5,283 (87.6)	6,097 (86.8)	15.4
4. Other Assets	150 (2.5)	193 (2.8)	28.7

Note: Figures in parentheses are percentages of total liabilities/assets.
Source: Audited OSMOS returns.

Table VI.14: Resources Mobilised by Financial Institutions in 2017-18

(Amount in ₹ billion)

Institution	Total Resources Raised				Total Outstanding
	Long-Term	Short-Term	Foreign Currency	Total	
1	2	3	4	5	6
1. SIDBI	79	542	3	624	870
2. NABARD	353	1,350	2	1,705	1,141
3. NHB	42	3,561	2	3,606	527
4. EXIM BANK	34	122	184	340	1,042
Total	**508**	**5,574**	**192**	**6,274**	**3,579**

Note: Long-term rupee resources comprise borrowings by way of bonds/ debentures; while short-term resources comprise CPs, term deposits, ICDs, CDs and borrowings from the term money market. Foreign currency resources largely comprise borrowings by way of bonds, *etc.* in the international market.
Source: SIDBI, NABARD, NHB and EXIM Bank.

VI.49 Resources mobilised by the AIFIs through CPs, certificate of deposits, and term deposits increased during 2017-18. This resulted in higher utilisation of borrowing limits (Table VI.15). The NABARD and the SIDBI together constituted 80 per cent of all resources raised by the AIFIs from the money market.

3.3 Sources and Uses of Funds

VI.50 Funds raised and deployed by the AIFIs doubled in 2017-18, over a year ago. This was due to the sharp increase in repayment of past borrowings mainly through external sources of funds. Resource mobilisation from the market and capital infusion from the government contributed to the internal source of funds (Table VI.16).

3.4 Maturity and Cost of Borrowings and Lending

VI.51 The weighted average cost (WAC) of rupee resources raised by all the AIFIs–except for the EXIM bank–declined in 2017-18 (Chart VI.27.a). The weighted average maturity (WAM)

Table VI.15: Resources Raised by AIFIs from the Money Market
(At end-March)#

(Amount in ₹ billion)

Instrument	2016-17	2017-18
1	2	3
A. Total	**613**	**737**
(i) Term Deposits	24	54
(ii) Term Money	22	32
(iii) Inter-corporate Deposits	0	0
(iv) Certificate of Deposits	125	189
(v) Commercial Paper	442	462
Memo Items;		
B. Umbrella Limit	**742**	**817**
C. Utilisation of Umbrella Limit* (A as percentage of B)	**82.6**	**90.2**

#: End-June for NHB. *: Resources raised under A.
Note: AIFIs are allowed to mobilise resources within the overall 'umbrella limit', which is linked to the net owned funds (NOF) of the FI concerned as per its latest audited balance sheet. The umbrella limit is applicable for five instruments– term deposits; term money borrowings; certificates of deposits (CDs); commercial paper (CPs); and inter-corporate deposits.
Source: SIDBI, NABARD, NHB and EXIM Bank.

of rupee resources increased for the SIDBI, the EXIM Bank and the NABARD, while it declined for the NHB (Chart VI.27.b). Thus, the AIFIs raised more long-term resources in the face of falling long-term average costs.

Table VI.16: Pattern of AIFIs' Sources and Deployment of Funds

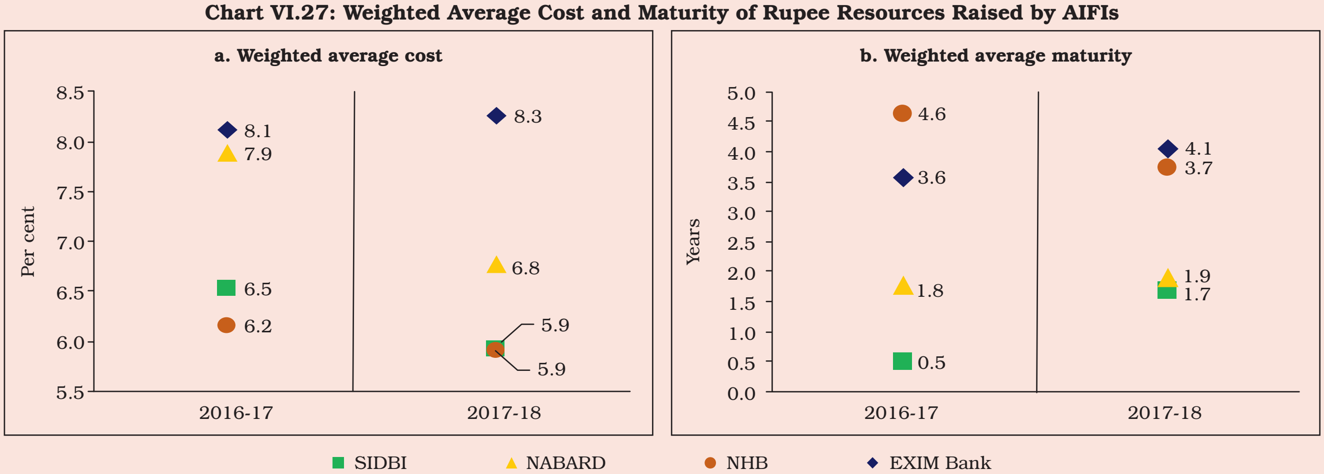
(Amount in ₹ billion)

Items	2016-17	2017-18
1	2	3
A. Sources of funds		
(i) Internal	11,331	12,887
	(67.2)	(38.2)
(ii) External	4,374	19,480
	(26.0)	(57.8)
(iii) Others*	1,148	1,325
	(6.8)	(3.9)
Total (i+ii+iii)	**16,853**	**33,692**
	(100.0)	(100.0)
B. Deployment of Funds		
(i) Fresh Deployment	3,175	6,851
	(18.8)	(20.3)
(ii) Repayment of Past	2,217	20,982
Borrowings	(13.2)	(62.3)
(iii) Other Deployment	11,460	5,859
	(68.0)	(17.4)
Of which: Interest Payments	296	322
	(1.8)	(1.0)
Total (i+ii+iii)	**16,853**	**33,692**
	(100.0)	(100.0)

*: Includes cash and balances with banks and the Reserve Bank of India.
Note: Figures in parentheses are percentages of total.
Source: SIDBI, NABARD, NHB and EXIM Bank.

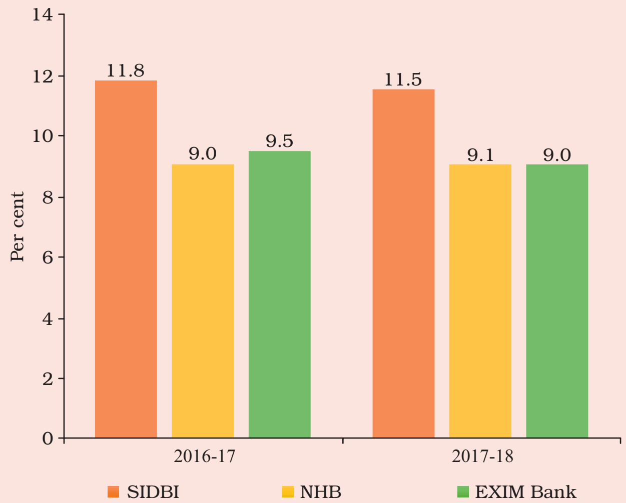
VI.52 The long-term prime lending rate (PLR) of all AIFIs declined in 2017-18 except for NHB, which reported a marginal increase. This may be attributed to the monetary easing cycle, which resulted in reduction of cost of funds. The SIDBI and the EXIM Bank had the highest and the lowest PLRs, respectively (Chart VI.28).

Chart VI.27: Weighted Average Cost and Maturity of Rupee Resources Raised by AIFIs



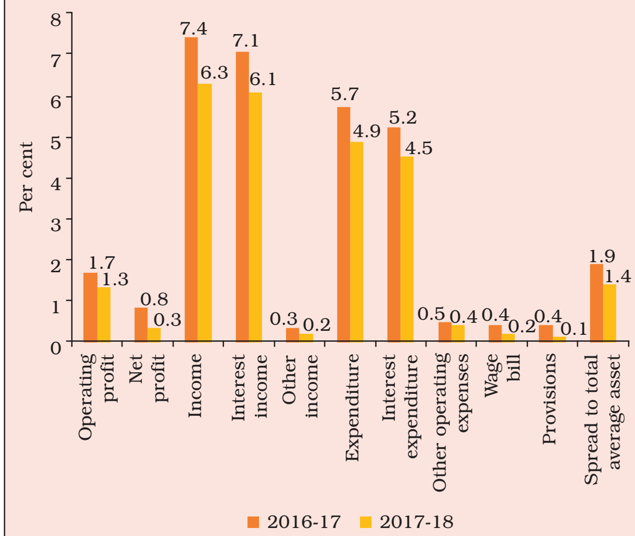
Source: SIDBI, NABARD, NHB and EXIM Bank.

Chart VI.28: Long-term PLR Structure of Select AIFIs



Note: EXIM Bank is using long-term minimum lending rate based on the base rate.
Source: SIDBI, NHB and EXIM Bank.

Chart VI.29: AIFIs' Financial Ratios



Source: SIDBI, NABARD, NHB and EXIM Bank.

3.5 Financial Performance

VI.53 AIFIs posted a modest growth in income during the year, with a decline in non-interest income operating as a drag. Expenditure increased at a greater rate than income, which resulted in a decline in net profits of AIFIs during the year. Operating expenses increased only marginally as the wage bill declined in 2017-18 relative to 2016-17 (Table VI.17).

Table VI.17: Financial Performance of Select AIFIs

(Amount in ₹ billion)

Item	2016-17	2017-18	Percentage Variation	
			2016-17	2017-18
1	2	3	4	5
A. Income	424	442	7.3	4.2
(a) Interest Income	409	430	6.0	5.1
	(96.5)	(97.3)		
(b) Non-interest Income	15	12	66.7	-19.6
	(3.5)	(2.7)		
B. Expenditure	326	347	8.3	6.3
(a) Interest Expenditure	298	316	6.8	6.2
	(91.3)	(91.3)		
(b) Operating Expenses	28	30	27.3	7.3
	(8.7)	(8.7)		
Of which Wage Bill	21	16	40.0	-22.2
C. Provisions for Taxation	26	10	18.2	-62.4
D. Profit				
Operating Profit	73	94	4.3	29.0
Net Profit	47	22	-2.1	-52.8

Note: Figures in parentheses are percentages of total income/expenditure.
Source: Audited OSMOS returns.

VI.54 All the financial ratios of AIFIs decreased in 2017-18 from a year ago (Chart VI.29).

VI.55 During 2017-18, the EXIM Bank registered losses on account of significantly higher requirement of provisions. As a result, their net profit per employee was negative. The NABARD was the only organisation which reported an increase in net profit per employee (Table VI.18). Barring the SIDBI and the NABARD, the operating profits of all the AIFIs declined, indicating loss of efficiency in the use of working capital.

VI.56 The EXIM Bank's average RoA, which was barely positive last year, turned negative this year. However, all the AIFIs posted higher CRARs than the stipulated norm of 9 per cent (Chart VI.30).

3.6 Soundness Indicators

VI.57 The total amount of the AIFIs' net NPAs as well as their net NPA ratio declined during 2017-18 as both EXIM Bank and SIDBI reported a decline (Chart VI.31). The sharp decline in net

Table VI.18: AIFIs' Select Financial Parameters

Institution	Interest Income/ Average Working Funds (per cent)		Non-interest Income/ Average Working Funds (per cent)		Operating Profit/ Average Working Funds (per cent)		Net Profit per Employee (₹million)	
	2017	2018	2017	2018	2017	2018	2017	2018
1	2	3	4	5	6	7	8	9
EXIM	7.3	7.2	0.7	0.5	2.1	1.7	1.2	-86.0
NABARD	6.8	6.5	0.1	0.1	1.2	1.2	6.0	7.4
NHB	7.4	7.2	0.4	0.1	2.6	2.1	7.2	6.3
SIDBI	7.6	6.9	0.4	0.5	2.2	2.3	9.6	1.3

Source: SIDBI, NABARD, NHB and EXIM Bank.

NPA of EXIM bank was partly reflective of higher provisioning.

VI.58 The NPAs of AIFIs experienced aging, with sub-standard assets moving to the doubtful assets category in 2017-18. This was mainly evident in the case of EXIM Bank—which accounted for 94.5 per cent of the doubtful assets of all AIFIs taken together as at end-March 2018 (Chart VI.32).

4. Primary Dealers

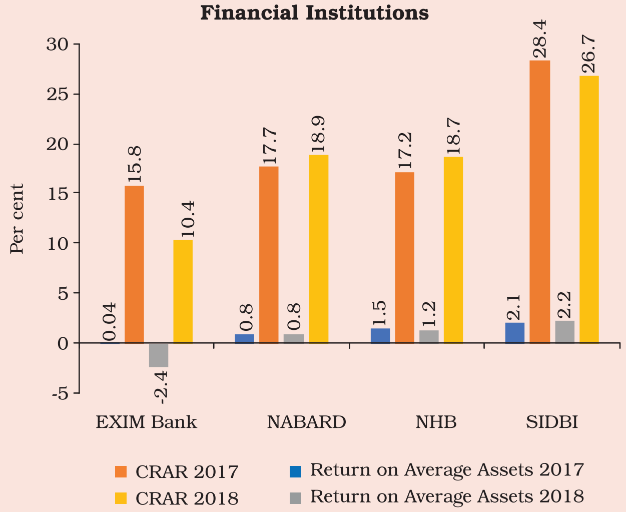
VI.59 As on March 31, 2018, there were 21 primary dealers (PDs) – 14 operating as departments of banks and 7 standalone PDs registered as NBFCs under Section 45 IA of the RBI Act, 1934.

4.1 Operations and Performance of PDs

VI.60 The PDs have mandatory obligations to participate as underwriters in auctions of government dated securities. They are also mandated to achieve a minimum success ratio (bids accepted as a proportion to bidding commitments) of 40 per cent in primary auctions of treasury bills (T-bills) and cash management bills (CMBs), assessed on a half-yearly basis.

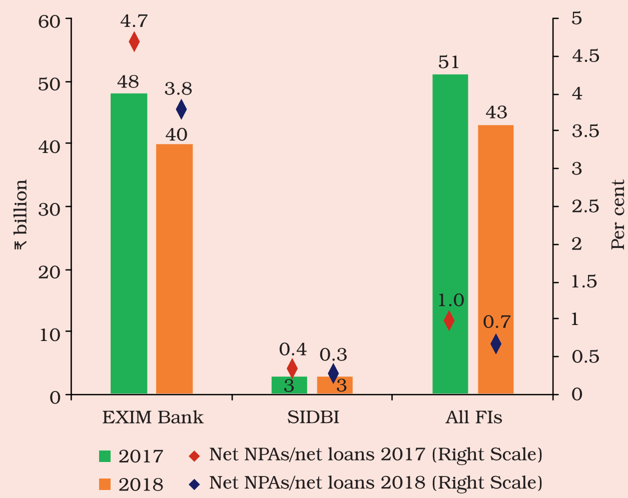
VI.61 With respect to auctions of T-bills and CMBs, all PDs achieved the stipulated minimum success ratio of 40 per cent. Outperforming their minimum prescribed performance threshold in

Chart VI.30: Select Financial Parameters of Financial Institutions



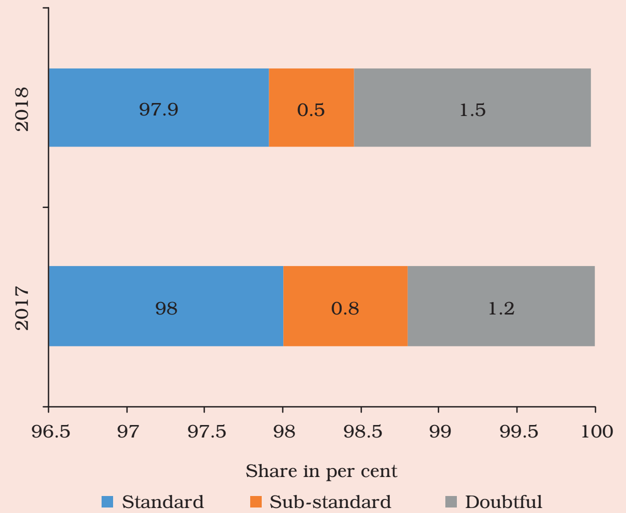
Note: Data relate to end-March for EXIM Bank, NABARD and SIDBI, and end-June for NHB.
Source: SIDBI, NABARD, NHB and EXIM Bank.

Chart VI.31: AIFIs' Net NPAs



Note: Data relate to end-March for EXIM Bank, NABARD and SIDBI, and end-June for NHB.
Source: SIDBI, NABARD, NHB and EXIM Bank.

Chart VI.32: AIFIs' Assets Classification



Note: Data relate to end-March for EXIM Bank, NABARD and SIDBI, and end-June for NHB.
Source: SIDBI, NABARD, NHB and EXIM Bank.

2017-18, the PDs achieved a share of 66.5 per cent in total issuance of T-Bills / CMBs during the year, though it was lower than 74.4 per cent in the previous year. In H1:2018-19, the PDs achieved a share of 72.1 per cent in total issuance of T-Bills/CMBs.

VI.62 During 2017-18, the government issued dated securities with face value of ₹5,880 billion through auctions, marginally higher than ₹5,820 billion during the previous year. PDs' share of allotment in the primary issuance of dated securities rose during 2017-18 to 53.7 per cent compared to 47.5 per cent in 2016-17. However, against a total issuance of ₹2,760 billion during H1:2018-19, allotment to PDs stood at 46.9 per cent as against 49.3 per cent during H1:2017-18 (Table VI.19).

VI.63 There was partial devolvement on three instances amounting to ₹103 billion during 2017-18 as against four instances amounting to ₹53 billion in 2016-17. Furthermore, there was devolvement on four instances during H1:2018-19, amounting to ₹80 billion. The underwriting

Table VI.19: Performance of PDs in the Primary Market

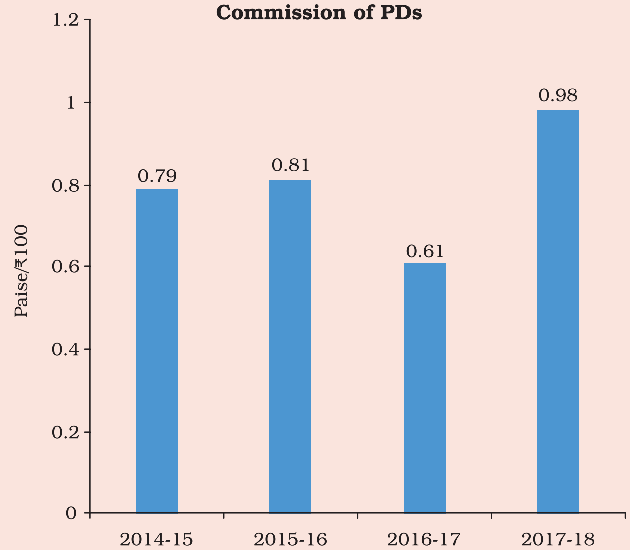
(Amount in ₹ billion)

Items	2016-17	2017-18	H1:2018-19
1	2	3	4
Treasury Bills and CMBs			
(a) Bidding Commitment	8,340	10,136	6039
(b) Actual Bids Submitted	32,365	49,352	19,650
(c) Bid to Cover Ratio	3.9	4.9	3.3
(d) Bids Accepted	4,946	5,772	3,708
(e) Success Ratio (d)/(a) (in per cent)	59.3	56.9	61.4
Central Government Dated Securities			
(f) Notified Amount	5,820	5,880	2,760
(g) Actual Bids Submitted	12,573	13,965	5,891
(h) Bid to Cover Ratio	2.2	2.4	2.1
(i) Bids of PDs Accepted	2,763	3,157	1,294
(j) Share of PDs (i)/(f) (in per cent)	47.5	53.7	46.9

Source: Returns filed by PDs.

commission paid to PDs increased significantly to ₹613.1 million in 2017-18 as compared with ₹356.6 million in the previous year due to the higher possibility of devolvement. Consequently, the average rate of underwriting commission increased in 2017-18 *vis-a-vis* 2016-17. In H1: 2018-19, underwriting commission paid to PDs amounted to ₹876.3 million (Chart VI.33).

Chart VI.33: Average Rate of Underwriting Commission of PDs



Source: Returns submitted by PDs.

VI.64 In the secondary market, all PDs individually achieved the required minimum annual total turnover ratio target in outright and repo transactions for dated G-secs and T-bills. For the period H1:2018-19 as well, the required minimum annual total turnover ratio target was achieved by all PDs individually.

4.2 Performance of Standalone PDs

VI.65 The secondary market turnover of standalone primary dealers (SPDs) decreased on a year-on-year basis in the outright segment while it increased marginally in the repo segment during 2017-18, reflecting underlying slack in the market. However, the SPDs' share in outright, repo and total market turnover increased marginally during the year. For the period H1:2018-19, the share of SPDs in the secondary market in the outright and repo segment was 31.7 per cent and 33.9 per cent, respectively. Total market share across both segments was 33.0 per cent for the period (Table VI.20).

Table VI.20: Performance of SPDs in the G-secs Secondary Market

(Amount in ₹ billion)

Items	2016-17	2017-18	H1:2018-19
1	2	3	4
Outright			
Turnover of SPDs	52,365	37,343	13,632
Market Turnover	168,741	113,999	43,045
Share of SPDs (per cent)	31.0	33.0	32.0
Repo			
Turnover of SPDs	36,586	40,454	22,874
Market Turnover	118,350	127,803	67,499
Share of SPDs (per cent)	30.9	32.0	34.0
Total (Outright + Repo)			
Turnover of SPDs	88,951	77,797	36,507
Market Turnover	287,091	241,802	110,544
Share of SPDs (per cent)	31.0	32.0	33.0

Notes: 1. Total turnover under outright is total of buy and sell.
2. Total turnover for standalone PDs for outright and repo trades includes both sides quantity that is, buy + sell.
3. In case of repo, only first leg is considered for SPDs' turnover.
4. Total market turnover includes standalone PDs' turnover for both outright and repo volume.
Source: Clearing Corporation of India Limited.

4.3 Sources and Application of SPDs' Funds

VI.66 Funds mobilised by SPDs through borrowings rose more steeply by 63.6 per cent during 2017-18 compared to 2016-17. The overall increase in borrowing compensated for the reduction in capital as well as the subdued growth in reserves and surplus due to dividend distribution and buy-back of equity shares. Hence, the share of borrowings increased from 83.7 per cent in 2016-17 to 89.1 per cent in 2017-18. For the period H1:2018-19 also, borrowings continued to remain the major source of funds amounting to 90 per cent of the total funding. Secured loans was the major component of total borrowings during the period (Table VI.21).

4.4 Financial Performance of SPDs

VI.67 SPDs' profits after tax (PAT) deteriorated significantly in 2017-18 on account of the sharp

Table VI.21: Sources and Applications of SPDs' Funds

(Amount in ₹ billion)

Items	2016-17	2017-18	H1:2018-19	Percentage Variation 2017-18 over 2016-17
1	2	3	4	5
Sources of Funds	**312**	**479**	**512**	**53.4**
1. Capital	15	14	15	-3.5
2. Reserves and Surplus	36	37	35	2.0
3. Loans (a+b)	261	427	462	63.6
(a) Secured	154	316	365	105.1
(b) Unsecured	107	112	97	4.4
Application of Funds	**312**	**479**	**512**	**53.4**
1. Fixed Assets	0.4	0.3	0.3	-21.8
2. HTM Investments (a+b)	15	21	72	39.9
(a) Government Securities	15	21	63	39.9
(b) Others	0.02	0.07	9.0	262.5
3. Current Assets	318	468	462	47.3
4. Loans and Advances	10	8	17	-15.2
5. Current Liabilities	-31	19	40	-
6. Deferred Tax	-0.31	-0.07	0.3	-
7. Others	-0.06	-0.02	0.1	-

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to ₹ billion.
Source: Returns submitted by PDs.

decline in trading profit in an environment of heightened market uncertainty. All seven SPDs posted substantially lower profits during 2017-18 than in the previous year (Appendix Table VI.7). Hence, their aggregate income declined by 27.6 per cent while their expenditure posted an increase of 8.3 per cent due to increased interest expenses. This resulted in a decline of net profits by 75.7 per cent. During H1:2018-19, PAT was negative (Table VI.22).

VI.68 Commensurate with the decrease in PAT, SPDs' return on net worth also fell in 2017-18 as compared to 2016-17. Furthermore, their cost to income ratios worsened during the year signifying an erosion in operational efficiency (Table VI.23).

VI.69 The combined CRAR for all SPDs dipped marginally in 2017-18 *vis-à-vis* 2016-17, though it remained comfortably above the regulatory stipulation of 15 per cent. Their comfortable capital buffer position continued in H1:2018-19 (Chart VI.34) (Appendix table VI.8).

Table VI.22: Financial Performance of SPDs

(Amount in ₹ billion)

Items	2016-17	2017-18	H1:2018-19	Variation 2017-18 over 2016-17	
				Amount	Per cent
1	2	3	4	5	6
A. Income (i to iii)	42	30	15	-12	-27.6
(i) Interest and Discount	27	30	19	3	9.9
(ii) Trading Profits	14	-0.02	-4	-14	-
(iii) Other Income	1	1	0	0	-
B. Expenses (i to ii)	24	26	16	2	8.3
(i) Interest	21	23	15	2	9.8
(ii) Other Expenses including Establishment and Administrative Costs	3	3	1	0	-
C. Profit Before Tax	18	5	-1	-13	-74.9
D. Profit After Tax	12	3	-1	-9	-75.7

Source: Returns submitted by PDs.

Table VI.23: SPDs' Financial Indicators

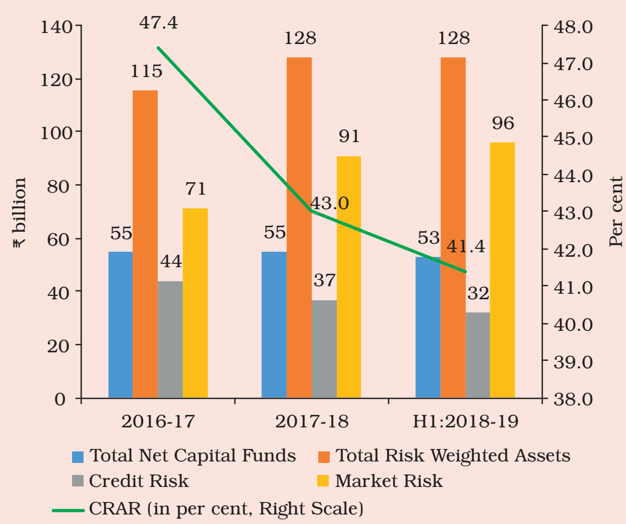
(Amount in ₹ billion)

Indicators	2016-17	2017-18	H1:2018-19
1	2	3	4
(i) Net Profit	12	3	-1
(ii) Average Assets	444	482	541
(iii) Return on Average Assets (Per cent)	2.6	0.6	-0.2
(iv) Return on Net Worth (Per cent)	22.8	5.8	-2.2
(v) Cost to Income Ratio (Per cent)	16.3	37.7	*

Note: *: Negative income reported by PDs.
Source: Returns submitted by PDs.

VI.70 During 2017-18, PDs achieved the minimum success ratio prescribed for them in primary auctions of T-bills and CMBs as well as in outright and repo transactions in the secondary market. The average underwriting commission paid to PDs during the year also increased due to an increase in devolvement. The net profits of SPDs, especially their trading profits declined considerably in 2017-18 due to the prevalence of market uncertainties. However, they have a comfortable capital position.

Chart VI.34: Capital and Risk Weighted Asset Position of SPDs



Source: Returns submitted by PDs.

5. Overall Assessment

VI.71 The NBFC sector, with a size of around 15 per cent of SCBs' combined balance sheet, has been growing robustly in recent years, providing an alternative source of funds to the commercial sector in the face of slowing bank credit. The financial performance of NBFCs, including profitability, asset quality and capital adequacy, improved during 2017-18 as they weathered the transient effects of demonetisation and GST implementation. The move to allow NBFCs-ND-SI to co-originate priority sector loans (PSL) with banks is expected to generate synergy arising from the combination of low-cost funds from banks and lower cost of operations of NBFCs relative to the latter. While in 2018-19, though concerns surrounding the sector due to debt defaults amidst temporary asset liability mismatches arose, the inherent strength of the sector, coupled with the Reserve Bank's continuing vigil on the regulatory and supervisory front, will ensure that the growth of the sector is sustained and liquidity fears are allayed.

Appendix Table IV.1: Indian Banking Sector at a Glance

(Amount in ₹ billion)

Sr. No	Items	Amount Outstanding (At end-March)		Per cent Variation	
		2017	2018*	2016-17	2017-18*
1	2	3	4	5	6
1	**Balance Sheet Operations**				
1.1	Total Liabilities/assets	141,746	152,533	8.0	7.6
1.2	Deposits	111,114	117,940	10.1	6.1
1.3	Borrowings	12,807	16,823	-11.6	31.4
1.4	Loans and advances	81,161	87,460	2.8	7.8
1.5	Investments	36,523	41,263	9.7	13.0
1.6	Off-balance sheet exposure (as percentage of on-balance sheet liabilities)	107.1	113.4	-	-
1.7	Total consolidated international claims	7,168	6,371	24.2	-11.1
2	**Profitability**				
2.1	Net profit	439	-324	28.6	-
2.2	Return on Assets (RoA) (Per cent)	0.4	-0.2	-	-
2.3	Return on Equity (RoE) (Per cent)	4.2	-2.8	-	-
2.4	Net Interest Margin (NIM) (Per cent)	2.5	2.5	-	-
3	**Capital Adequacy**				
3.1	Capital to risk weighted assets ratio (CRAR) @**	13.7	13.8	-	-
3.2	Tier I capital (as percentage of total capital) @**	82.3	84.3	-	-
3.3	CRAR (tier I) (Per cent) @**	11.2	11.7	-	-
4	**Asset Quality**				
4.1	Gross NPAs	7,918	10,397	29.4	31.3
4.2	Net NPAs	4,331	5,207	23.8	20.2
4.3	Gross NPA ratio (Gross NPAs as percentage of gross advances~)	9.3	11.2	-	-
4.4	Net NPA ratio (Net NPAs as percentage of net advances)	5.3	6.0	-	-
4.5	Provision Coverage Ratio (Per cent)**	43.5	48.3	-	-
4.6	Slippage ratio (Per cent)**	5.9	7.6	-	-
5	**Sectoral Deployment of Bank Credit**				
5.1	Gross bank credit	71,455	77,303	7.5	8.2
5.2	Agriculture	9,924	10,302	12.4	3.8
5.3	Industry	26,798	26,993	-1.9	0.7
5.4	Services	18,022	20,505	16.9	13.8
5.5	Personal loans	16,200	19,085	16.4	17.8
6	**Technological Development**				
6.1	Total number of credit cards (in million)	30	37	19.4	24
6.2	Total number of debit cards (in million)	772	861	17.0	12
6.3	Number of ATMs	208,354	207,052	4.7	-0.6
7	**Consumer Protection#**				
7.1	Total number of complaints received during the year	130,987	163,590	27.3	24.9
7.2	Total number of complaints addressed	136,511	174,805	28.0	28.1
7.3	Percentage of complaints addressed	92	96.5	-	-
8	**Financial Inclusion**				
8.1	Credit-deposit ratio (Per cent)	73.0	74.2	-	-
8.2	Number of new bank branches opened	5,306	3,948	-41.3	-25.6
8.3	Number of banking outlets in villages (Total)	598,093^	569,547^	2.0	-4.8

Notes: 1. Per cent variation could be slightly different as figures have been rounded off to million/billion.
2. #: Refers to the period July-June of the respective years.
3. ^: Refers to number of banking outlets.
4. *: Provisional.
5. **: Off-site returns (domestic operations), RBI.
6. ~: Off-site returns (global operations), RBI.
7. @: Figures are as per the Basel III framework.

Appendix Table IV.2: Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Amount in ₹ billion)

Item	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks		Scheduled Commercial Banks	
	2017-18	Percentage Variation	2017-18	Percentage Variation	2017-18	Percentage Variation	2017-18	Percentage Variation*	2017-18	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11
1. Forward exchange contract@	27,283 (27.2)	6.5	40,415 (94.0)	24.8	84,659 (975.8)	16.1	0.32 (0.1)	-	152,357 (99.9)	16.4
2. Guarantees given	6,064 (6.0)	-1.8	3,838 (8.9)	12.3	1,346 (15.5)	8.4	2 (0.3)	-	11,250 (7.4)	3.8
3. Acceptances, endorsements, *etc.*	5,538 (5.5)	-15.6	2,896 (6.7)	18.3	885 (10.2)	0.5	5 (1.0)	-	9,324 (6.1)	-5.7
Contingent Liabilities	**38,885 (38.7)**	**1.4**	**47,149 (109.7)**	**23.3**	**86,889 (1001.5)**	**15.8**	**7 (1.4)**	**-**	**172,931 (113.4)**	**14.1**

Notes: 1. Figures in brackets are percentages to total liabilities of the concerned bank-group.
2. @: includes all derivative products (including interest rate swaps) as admissible.
3. *: Number of small finance banks are not comparable across 2016-17 and 2017-18.

Source: Annual accounts of banks.

Appendix Table IV.3: Kisan Credit Card Scheme: State-wise Progress *(Continued)*

(At end-March 2018)

(Amount in ₹ billion and number of cards issued in '000)

Sr. No.	State/UT	Co-operative Banks				Regional Rural Banks			
		Number of Operative KCCs		Amount outstanding under Operative KCCs		Number of Operative KCCs		Amount outstanding under Operative KCCs	
		2017	2018	2017	2018	2017	2018	2017	2018
1	2	3	4	5	6	7	8	9	10
	Northern Region	**5,749**	**5,708**	**269.7**	**296.7**	**1,040**	**1,108**	**193.1**	**246.1**
1	Haryana	1,233	1,196	87.1	93.4	225	241	34.6	61.6
2	Himachal Pradesh	88	92	11.9	13.3	39	41	4.6	5.2
3	Jammu & Kashmir	10	11	0.4	0.6	62	65	5.3	6.1
4	New Delhi #$	1	1	0.1	0.1	-	-	-	-
5	Punjab	988	953	72.3	71.7	130	138	38.7	45.9
6	Rajasthan	3,429	3,455	97.9	117.6	585	623	109.8	127.3
7	Chandigarh #$	-	-	-	-	-	-	-	-
	North-Eastern Region	**106**	**113**	**1.2**	**1.3**	**434**	**441**	**13.6**	**14.1**
8	Assam	2	3	0.1	0.1	289	284	9.9	10.4
9	Arunachal Pradesh #	1	1	-	-	3	3	0.1	0.1
10	Meghalaya #	16	17	0.3	0.3	19	19	0.9	1.0
11	Mizoram #	1	1	NA	0.1	7	13	0.9	0.7
12	Manipur #	-	-	-	-	7	8	0.2	0.3
13	Nagaland #	4	4	0.1	0.1	1	1	-	-
14	Tripura #	73	79	0.6	0.6	107	113	1.5	1.6
15	Sikkim #$	8	8	0.1	0.1	-	-	-	-
	Western Region	**5,622**	**4,773**	**259.9**	**277.9**	**643**	**653**	**69.8**	**67.1**
16	Gujarat	1,415	1,067	78.2	85.6	284	305	36.0	42.9
17	Maharashtra	4,205	3,704	181.5	192.1	359	348	33.8	24.2
18	Goa $	2	2	0.2	0.2	-	-	-	-
19	Daman and Diu @#$	-	-	-	-	-	-	-	-
20	Dadra and Nagar Haveli @$	-	-	-	-	-	-	-	-
	Central Region	**11,632**	**11,501**	**201.5**	**231.8**	**3,876**	**3,993**	**354.1**	**379.2**
21	Uttar Pradesh	4,431	4,468	58.3	56.7	3,136	3,266	277.2	296.8
22	Uttarakhand	350	269	9.6	9.7	49	47	3.0	3.0
23	Madhya Pradesh	5,404	5,774	122.0	149.7	514	501	63.7	69.1
24	Chhattisgarh	1,447	990	11.6	15.7	178	179	10.2	10.3
	Southern Region	**7,211**	**6,821**	**273.7**	**307.0**	**3,144**	**3,355**	**250.3**	**295.1**
25	Karnataka	2,493	2,447	107.3	116.7	738	719	85.3	91.3
26	Kerala	814	629	28.3	29.9	150	149	12	12.7
27	Andhra Pradesh	1,570	1,545	68.6	73.3	767	843	65.7	81.3
28	Tamil Nadu	1,311	1,364	42.3	56.8	303	432	18.2	27.6
29	Telangana	1,017	830	27.0	30.3	1,183	1,211	68.9	82.1
30	Lakshdweep @$	-	-	-	-	-	-	-	-
31	Puducherry #	6	6	-	-	1	1	0.1	0.1
	Eastern Region	**5,563**	**4,579**	**116.1**	**130.1**	**3,134**	**2,643**	**143.4**	**132.0**
32	Odisha	3,537	2,873	77.7	90.9	596	581	23.1	24.7
33	West Bengal	1,857	1,540	34.8	35.5	511	332	23.6	13.6
34	Andaman and Nicobar Island@$	6	5	0.1	0.1	-	-	-	-
35	Bihar	136	141	3.2	3.3	1,667	1,361	84.4	79.6
36	Jharkhand	26	20	0.3	0.3	361	369	12.3	14.1
	Total	**35,883**	**33,495**	**1,122.0**	**1,244.8**	**12,271**	**12,193**	**1,024.2**	**1,133.6**

Appendix Table IV.3: Kisan Credit Card Scheme: State-wise Progress *(Concluded)*

(At end-March 2018)

(Amount in ₹ billion and number of cards issued in '000)

Sr. No.	State/UT	Commercial Banks				Total			
		Number of Operative KCCs		Amount outstanding under Operative KCCs		Number of Operative KCCs		Amount outstanding under Operative KCCs	
		2017	2018	2017	2018	2017	2018	2017	2018
1	2	11	12	13	14	15	16	17	18
	Northern Region	**4,024**	**4,108**	**1,343.7**	**1,387.8**	**10,814**	**10,924**	**1,806.4**	**1,930.6**
1	Haryana	659	677	268.4	281.4	2,117	2,114	390.1	436.4
2	Himachal Pradesh	209	213	34.7	36.4	336	346	51.2	54.9
3	Jammu & Kashmir	275	300	35.0	38.3	346	376	40.7	45.0
4	New Delhi #$	5	3	2.8	2.6	6	4	2.9	2.7
5	Punjab	863	872	492.1	488.1	1,981	1,962	603.1	605.7
6	Rajasthan	2,004	2,040	505.3	538.2	6,018	6,118	713.0	783.1
7	Chandigarh #$	10	4	5.4	2.7	10	4	5.4	2.7
	North-Eastern Region	**672**	**785**	**41.5**	**50.9**	**1,213**	**1,339**	**56.3**	**66.3**
8	Assam	497	583	31.3	38.5	789	871	41.3	49.0
9	Arunachal Pradesh #	8	9	0.5	0.6	12	13	0.7	0.7
10	Meghalaya #	57	54	3.1	3.8	92	90	4.3	5.1
11	Mizoram #	12	11	0.8	0.8	20	25	1.7	1.5
12	Manipur #	15	16	1.1	1.2	22	24	1.4	1.4
13	Nagaland #	33	28	1.6	1.4	38	33	1.7	1.6
14	Tripura #	46	79	2.6	4.3	226	271	4.7	6.5
15	Sikkim #$	5	5	0.5	0.3	13	13	0.6	0.5
	Western Region	**3,522**	**3,298**	**649.1**	**628.8**	**9,787**	**8,724**	**978.7**	**973.8**
16	Gujarat	1,071	1,086	266.7	295.8	2,770	2,457	380.8	424.3
17	Maharashtra	2,443	2,204	380.4	331.0	7,007	6,256	595.7	547.3
18	Goa $	7	7	1.8	1.8	10	9	2.0	2.0
19	Daman and Diu @#$	-	-	0.1	0.1	-	-	0.1	0.1
20	Dadra and Nagar Haveli @$	1	1	0.2	0.1	1	1	0.2	0.1
	Central Region	**6,719**	**6,333**	**1,099.5**	**1,067.4**	**22,226**	**21,827**	**1,655.1**	**1,678.2**
21	Uttar Pradesh	4,469	4,226	648.6	592.1	12,035	11,960	984.0	945.6
22	Uttarakhand	389	236	64.2	47.6	788	552	76.9	60.3
23	Madhya Pradesh	1,642	1,643	344.1	381.8	7,559	7,918	529.7	600.6
24	Chhattisgarh	219	228	42.6	45.8	1,844	1,396	64.4	71.7
	Southern Region	**4,917**	**5,424**	**979.0**	**941.1**	**15,272**	**15,600**	**1,502.9**	**1,543.2**
25	Karnataka	947	893	287.8	241.2	4,178	4,060	480.5	449.2
26	Kerala	311	310	119.8	121.2	1,276	1,088	160.2	163.8
27	Andhra Pradesh	1,777	1,875	235.9	242.9	4,114	4,263	370.3	397.6
28	Tamil Nadu	507	544	134.3	157.3	2,121	2,340	194.9	241.7
29	Telangana	1,359	1,796	195.1	177.1	3,559	3,838	291.0	289.5
30	Lakshdweep @$	-	-	-	-	-	-	-	-
31	Puducherry #	16	4	5.9	1.5	23	12	6.0	1.6
	Eastern Region	**3,514**	**3,581**	**237.2**	**255.2**	**12,211**	**10,803**	**496.7**	**517.2**
32	Odisha	604	655	45.0	48.5	4,736	4,109	145.8	164.1
33	West Bengal	824	1,004	53.4	73.6	3,192	2,876	111.8	122.7
34	Andaman and Nicobar Island@$	-	-	-	-	6	5	0.1	0.2
35	Bihar	1,444	1,322	111.2	104.8	3,247	2,824	198.7	187.6
36	Jharkhand	642	600	27.6	28.2	1,029	989	40.2	42.7
	Total	**23,368**	**23,528**	**4,350.0**	**4,331.1**	**71,522**	**69,216**	**6,496.2**	**6,709.6**

Notes: 1. -: Nil/negligible.
2. #: StCB functions as Central Financing Agencies.
3. @: No Co-operative Banks in these UTs.
4. $: No RRBs in these States/UTs.
5. Components may not add up to their respective totals due to rounding-off.

Source: NABARD/returns from commercial banks.

Appendix Table IV.4: Bank Group-wise Lending to the Sensitive Sectors

(Amount in ₹ billion)

Sector	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks		Scheduled Commercial Banks	
	2017-18	Percentage Variation	2017-18	Percentage Variation	2017-18	Percentage Variation	2017-18	Percentage Variation	2017-18	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11
1. Capital Market #	592 (1.0)	1.5	727 (2.7)	22.8	81 (2.3)	-4.8	0.0 -	-41.1	1,400 (1.6)	11.1
2. Real Estate @	11,152 (19.6)	11.1	6,478 (24.3)	20.8	1,044 (29.8)	2.6	26 (7.5)	286.3	18,700 (21.4)	13.8
3. Commodities	-	-	-	-	-	-	-	-	-	-
Total Advances to Sensitive Sectors	**11,744 (20.6)**	**10.6**	**7,205 (27.1)**	**21.0**	**1,125 (32.0)**	**2.0**	**26 (7.5)**	**285.9**	**20,100 (23.0)**	**13.7**

Notes: 1. Figures in brackets are percentages to total loans and advances of the concerned bank-group.
2. - : Nil/negligible.
3. #: Exposure to capital market is inclusive of both investments and advances.
4. @: Exposure to real estate sector is inclusive of both direct and indirect lending.

Source: Annual accounts of banks.

Appendix Table IV.5: Shareholding Pattern of Domestic Scheduled Commercial Banks *(Continued)*
(At end-March 2018)

(Per cent)

Sr. No.	Bank Name	Total Government & RBI – Resident	Financial Institutions - Resident	Financial Institutions- Non-Resident	Other Corporates - Resident	Other Corporates- Non-Resident	Total Individual - Resident	Total Individual- Non-Resident	Total – Resident	Total – Non-Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks									
1.	Allahabad Bank	64.8	16.7	3.2	1.2	-	14.0	0.2	96.6	3.4
2.	Andhra Bank	78.0	9.5	2.7	1.2	0.2	8.3	-	97.1	2.9
3.	Bank of Baroda	64.0	14.0	13.9	1.9	-	5.6	0.4	85.6	14.4
4.	Bank of India	83.1	11.3	1.5	0.7	-	3.2	0.2	98.3	1.7
5.	Bank of Maharashtra	87.0	9.2	0.1	0.5	-	3.1	0.1	99.8	0.2
6.	Canara Bank	72.6	16.9	5.1	1.2	-	4.2	0.1	94.8	5.2
7.	Central Bank of India	86.4	10.4	0.2	1.3	-	1.7	-	99.8	0.2
8.	Corporation Bank	79.9	15.2	1.1	0.4	-	3.2	0.2	98.7	1.3
9.	Dena Bank	80.7	1.7	-	9.6	1.2	6.5	0.2	98.5	1.5
10.	IDBI Bank Ltd.	81.0	12.2	1.7	0.9	-	4.1	0.2	98.1	1.9
11.	Indian Bank	81.9	8.5	-	0.5	6.5	2.6	0.1	93.4	6.6
12.	Indian Overseas Bank	89.7	5.7	0.5	0.9	-	3.0	0.1	99.3	0.7
13.	Oriental Bank of Commerce	77.2	12.1	4.4	1.3	-	4.8	0.2	95.5	4.6
14.	Punjab and Sind Bank	85.6	7.5	-	0.8	1.2	4.7	0.2	98.6	1.4
15.	Punjab National Bank	62.3	22.2	9.1	1.2	-	5.1	0.1	90.8	9.2
16.	State Bank of India	58.0	21.8	12.4	2.0	-	5.6	0.2	87.4	12.6
17.	Syndicate Bank	73.1	16.3	3.0	1.3	-	6.4	-	97.0	3.0
18.	UCO Bank	84.2	10.0	-	0.2	1.3	4.2	0.2	98.6	1.5
19.	Union Bank of India	67.4	9.0	-	12.3	5.0	6.1	0.1	94.9	5.1
20.	United Bank of India	93.1	3.8	-	0.5	-	2.5	0.1	99.9	0.1
21.	Vijaya Bank	68.8	18.6	-	1.9	-	10.2	0.5	99.5	0.5

Appendix Table IV.5: Shareholding Pattern of Domestic Scheduled Commercial Banks *(Concluded)*
(At end-March 2018)

(Per cent)

Sr. No.	Bank Name	Total Government & RBI – Resident	Financial Institutions - Resident	Financial Institutions-Non-Resident	Other Corporates - Resident	Other Corporates-Non-Resident	Total Individual - Resident	Total Individual-Non-Resident	Total – Resident	Total – Non-Resident
1	2	3	4	5	6	7	8	9	10	11
	Private Sector Banks									
1	Axis Bank Ltd.	-	34.8	52.2	3.5	3.4	6.0	0.2	44.2	55.8
2	Bandhan Bank Ltd.	-	1.8	1.8	82.7	11.9	1.9	-	86.4	13.7
3	Catholic Syrian Bank Ltd.	-	3.4	-	30.1	15.8	37.0	13.8	70.5	29.5
4	City Union Bank Ltd.	-	20.4	30.4	6.8	-	41.5	0.9	68.7	31.3
5	DCB Bank Ltd.	-	22.7	-	10.0	35.5	30.0	1.7	62.7	37.3
6	Dhanlaxmi Bank Ltd.	-	9.1	12.5	11.0	-	48.2	19.2	68.3	31.7
7	Federal Bank Ltd.	-	29.0	40.6	4.8	0.2	20.2	5.3	53.9	46.1
8	HDFC Bank Ltd.	0.1	12.3	-	5.9	72.2	9.1	0.4	27.4	72.6
9	ICICI Bank Ltd.	0.2	29.2	60.6	4.2	-	5.5	0.3	39.1	60.9
10	IDFC Bank Ltd.	7.7	4.0	14.7	56.8	0.1	15.9	0.8	84.4	15.6
11	IndusInd Bank Ltd.	0.2	10.8	57.2	9.1	15.1	6.8	0.7	26.9	73.1
12	Jammu and Kashmir Bank Ltd.	59.2	8.8	16.0	2.9	-	12.3	0.8	83.3	16.7
13	Karnataka Bank Ltd.	-	12.8	-	9.5	14.7	61.0	2.0	83.3	16.7
14	Karur Vysya Bank Ltd.	-	19.9	-	6.3	19.5	52.8	1.5	79.0	21.1
15	Kotak Mahindra Bank Ltd.	-	9.1	41.3	3.9	5.5	39.9	0.4	52.8	47.2
16	Lakshmi Vilas Bank Ltd.	-	3.7	-	40.1	6.9	47.4	1.9	91.2	8.8
17	Nainital Bank Ltd.	-	98.6	-	-	-	1.4	-	100.0	-
18	RBL Bank Ltd.	-	13.1	3.4	12.0	35.9	34.2	1.3	59.4	40.6
19	South Indian Bank Ltd.	-	15.0	-	8.3	31.7	37.7	7.4	61.0	39.0
20	Tamilnad Mercantile Bank Ltd.	-	-	-	4.8	24.9	69.3	1.0	74.1	25.9
21	Yes Bank Ltd.	-	24.7	-	10.9	42.6	21.3	0.5	56.9	43.2

Note: -: Nil/negligible.
Source: Off-site returns (domestic operations), RBI.

Appendix Table IV.6: Overseas Operations of Indian Banks

(At end-March)

Sr. No.	Name of the Bank	Branch		Subsidiary		Representative Office		Joint Venture Bank		Other Offices*		Total	
		2017	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
1	2	3	4	5	6	7	8	9	10	11	12	13	14
I.	**Public Sector Banks**	**166**	**165**	**23**	**23**	**35**	**29**	**8**	**8**	**36**	**35**	**268**	**260**
1	Allahabad Bank	1	1	-	-	-	-	-	-	-	-	1	1
2	Andhra Bank	-	-	-	-	2	2	-	-	-	-	2	2
3	Bank of Baroda	50	50	9	9	1	-	2	2	10	9	72	70
4	Bank of India	29	29	5	5	4	3	-	-	-	-	38	37
5	Canara Bank	8	8	1	1	1	1	-	-	-	-	10	10
6	Central Bank of India	-	-	-	-	2	-	-	-	-	-	2	-
7	Corporation Bank	-	-	-	-	2	2	-	-	-	-	2	2
8	Dena Bank	-	-	-	-	1	1	-	-	-	-	1	1
9	Indian Bank	4	4	-	-	-	-	-	-	-	-	4	4
10	Indian Overseas Bank	8	8	-	-	2	1	-	-	3	3	13	12
11	IDBI Bank Ltd.	1	1	-	-	-	-	-	-	-	-	1	1
12	Punjab National Bank	3	3	2	2	4	4	2	2	-	-	11	11
13	State Bank of India	53	52	5	5	7	8	4	4	23	23	92	92
14	State Bank of Hyderabad#	-	-	-	-	1	-	-	-	-	-	1	-
15	State Bank of Travancore#	-	-	-	-	1	-	-	-	-	-	1	-
16	Syndicate Bank	1	1	-	-	-	-	-	-	-	-	1	1
17	UCO Bank	4	4	-	-	1	1	-	-	-	-	5	5
18	Union Bank of India	4	4	1	1	3	3	-	-	-	-	8	8
19	United Bank of India	-	-	-	-	2	2	-	-	-	-	2	2
20	Oriental Bank of Commerce	-	-	-	-	1	1	-	-	-	-	1	1
II	**Private Sector Banks**	**20**	**20**	**3**	**3**	**18**	**19**	-	-	-	-	**41**	**42**
21	Axis Bank Ltd.	5	5	1	1	3	4	-	-	-	-	9	10
22	HDFC Bank Ltd.	3	3	-	-	3	3	-	-	-	-	6	6
23	ICICI Bank Ltd.	12	12	2	2	5	5	-	-	-	-	19	19
24	IndusInd Bank Ltd.	-	-	-	-	3	3	-	-	-	-	3	3
25	Federal Bank Ltd.	-	-	-	-	2	2	-	-	-	-	2	2
26	Kotak Mahindra Bank Ltd.	-	-	-	-	1	1	-	-	-	-	1	1
27	Yes bank Ltd.	-	-	-	-	1	1	-	-	-	-	1	1
	All Banks	**186**	**185**	**26**	**26**	**53**	**48**	**8**	**8**	**36**	**35**	**309**	**302**

Notes: 1. *: Other Offices include marketing/sub-office, remittance centres, *etc*.

2. #: State Bank of Hyderabad and State Bank of Travancore merged with State Bank of India during 2017-18.

Source: RBI.

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks *(Continued)*
(At end-June 2018)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi - Urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Public Sector Banks	**29,201**	**25,397**	**17,677**	**18,546**	**90,821**	**83,259**	**61,839**	**145,098**
1	Allahabad Bank	1,207	763	648	625	3,243	850	262	1,112
2	Andhra Bank	745	769	669	736	2,919	3,142	792	3,934
3	Bank of Baroda	1,836	1,537	932	1,169	5,474	6,263	3,352	9,615
4	Bank of India	1,834	1,455	806	983	5,078	3,328	4,095	7,423
5	Bank of Maharashtra	615	428	329	474	1,846	1,317	557	1,874
6	Canara Bank	1,811	1,991	1,165	1,255	6,222	5,003	4,218	9,221
7	Central Bank of India	1,602	1,352	834	898	4,686	3,397	1,411	4,808
8	Corporation Bank	588	795	524	557	2,464	2,357	734	3,091
9	Dena Bank	573	433	368	418	1,792	1,326	320	1,646
10	IDBI Bank Limited	415	585	504	496	2,000	2,199	1,536	3,735
11	Indian Bank	727	785	607	631	2,750	2,731	650	3,381
12	Indian Overseas Bank	921	988	678	741	3,328	2,858	750	3,608
13	Oriental Bank of Commerce	560	627	611	601	2,399	2,337	298	2,635
14	Punjab and Sind Bank	561	278	350	325	1,514	1,114	92	1,206
15	Punjab National Bank	2,579	1,698	1,199	1,105	6,581	5,298	4,142	9,440
16	State Bank of India	7,764	6,720	4,178	4,299	22,961	26,389	33,209	59,598
17	Syndicate Bank	1,241	1,129	816	847	4,033	3,945	400	4,345
18	UCO Bank	1,075	821	603	580	3,079	2,142	419	2,561
19	Union Bank of India	1,254	1,289	850	906	4,299	4,545	3,011	7,556
20	United Bank of India	779	408	471	360	2,018	1,040	1,098	2,138
21	Vijaya Bank	514	546	535	540	2,135	1,678	493	2,171

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(At end-June 2018)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi - Urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**6,160**	**9,242**	**5,926**	**7,477**	**28,805**	**23,564**	**35,601**	**59,165**
1	Axis Bank Ltd.	618	1,113	879	1,128	3,738	2,259	10,575	**12,834**
2	Bandhan Bank Ltd.	1,359	1,262	704	377	3,702	475	-	**475**
3	Catholic Syrian Bank Ltd.	44	224	88	64	420	217	43	**260**
4	City Union Bank Ltd.	91	239	120	151	601	924	710	**1,634**
5	DCB Bank Ltd.	65	81	77	96	319	283	253	**536**
6	Dhanlaxmi Bank Ltd.	20	107	65	65	257	205	141	**346**
7	Federal Bank Ltd.	154	683	212	194	1,243	1,185	501	**1,686**
8	HDFC Bank Ltd.	969	1,526	920	1,344	4,759	5,874	6,934	**12,808**
9	ICICI Bank Ltd.	985	1,449	992	1,441	4,867	5,260	9,134	**14,394**
10	IDFC Bank Ltd.	25	44	40	58	167	69	2	**71**
11	IndusInd Bank Ltd.	269	332	368	438	1,407	1,008	1,277	**2,285**
12	Jammu and Kashmir Bank Ltd.	480	162	103	167	912	691	520	**1,211**
13	Karnataka Bank Ltd.	173	190	219	228	810	531	822	**1,353**
14	Karur Vysya Bank Ltd.	126	298	161	206	791	767	1,033	**1,800**
15	Kotak Mahindra Bank Ltd.	194	278	298	618	1,388	1,083	1,148	**2,231**
16	Lakshmi Vilas Bank Ltd.	105	169	124	160	558	436	595	**1,031**
17	Nainital Bank Ltd.	37	31	36	32	136	-	-	**-**
18	RBL Bank Ltd.	51	76	43	94	264	188	181	**369**
19	South Indian Bank Ltd.	96	428	159	172	855	734	588	**1,322**
20	Tamilnad Mercantile Bank Ltd.	106	247	80	77	510	468	667	**1,135**
21	Yes Bank Ltd.	193	303	238	367	1,101	907	477	**1,384**

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(At end-June 2018)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi - Urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**9**	**10**	**36**	**231**	**286**	**214**	**724**	**938**
1	AB Bank Limited	-	-	-	1	1	-	-	-
2	Abu Dhabi Commercial Bank PJSC	-	-	-	2	2	-	-	-
3	American Express Banking Corp.	-	-	-	1	1	-	-	-
4	Australia and New Zealand Banking Group Ltd.	1	-	1	1	3	-	-	-
5	Bank of America , National Association	-	-	-	4	4	-	-	-
6	Bank of Bahrain & Kuwait B.S.C.	-	1	-	3	4	-	-	-
7	Bank of Ceylon	-	-	-	1	1	-	-	-
8	Bank of Nova Scotia	-	-	-	3	3	-	-	-
9	Barclays Bank Plc	-	1	1	4	6	-	-	-
10	BNP Paribas	-	-	-	8	8	-	-	-
11	Citibank N.A	-	-	4	31	35	47	494	541
12	Co-operative Rabobank U.A.	-	-	-	1	1	-	-	-
13	Credit Agricole Corporate and Investment Bank	-	-	-	5	5	-	-	-
14	Credit Suisse AG	-	-	-	1	1	-	-	-
15	CTBC Bank Co., Ltd.	-	1	-	1	2	-	-	-
16	DBS Bank Ltd.	2	4	-	6	12	7	25	32
17	Deutsche Bank AG	1	-	5	11	17	13	19	32
18	Doha Bank QSC	-	-	1	2	3	-	-	-
19	Emirates NBD Bank (P.J.S.C.)	-	-	-	1	1	-	-	-
20	First Abu Dhabi Bank PJSC	-	-	-	1	1	-	-	-
21	Firstrand Bank Ltd	-	-	-	1	1	-	-	-
22	Hongkong and Shanghai Banking Corpn. Ltd.	-	-	4	22	26	45	46	91
23	Industrial and Commercial Bank of China	-	-	-	1	1	-	-	-
24	Industrial Bank of Korea	-	-	-	1	1	-	-	-
25	JP Morgan Chase Bank National Association	2	-	-	2	4	-	-	-
26	JSC VTB Bank	-	-	-	1	1	-	-	-
27	KEB Hana Bank	-	-	-	1	1	-	-	-
28	Krung Thai Bank Public Company Ltd.	-	-	-	1	1	-	-	-
29	Mashreq Bank Psc	-	-	-	1	1	-	-	-
30	Mizuho Bank Ltd.	-	1	-	4	5	-	-	-
31	MUFG Bank, Ltd.	1	-	-	4	5	-	-	-
32	National Australia Bank	-	-	-	1	1	-	-	-
33	PT Bank Maybank Indonesia Tbk	-	-	-	1	1	-	-	-
34	Qatar National Bank (Q.P.S.C.)	-	-	-	1	1	-	-	-
35	Sberbank	-	-	-	1	1	-	-	-
36	SBM Bank (Mauritius) Ltd.	-	-	-	4	4	-	-	-
37	Shinhan Bank	1	-	-	5	6	-	-	-
38	Societe Generale	-	2	-	2	4	-	-	-
39	Sonali Bank	-	-	1	1	2	-	-	-
40	Standard Chartered Bank	1	-	18	81	100	102	140	242
41	Sumitomo Mitsui Banking Corporation	-	-	-	2	2	-	-	-
42	The Royal Bank of Scotland Plc	-	-	-	1	1	-	-	-
43	United Overseas Bank Ltd.	-	-	-	1	1	-	-	-
44	Westpac Banking Corporation	-	-	-	1	1	-	-	-
45	Woori Bank	-	-	1	2	3	-	-	-

Notes: 1. -: Nil/negligible.
2. Branches data exclude administrative offices.

Source: RBI.

Appendix Table IV.8: Complaints Received at Banking Ombudsman Office *(Continued)*

(For the Period July-June 2017-18)

Sr. No.	Name of the Bank	Number of Complaints in Major Categories							Total Number of Complaints
		Deposit Account	Loans/ Advances (General & Housing)	ATM/ Debit/ Credit Cards	Pension	Failure on Commitments and Non-Adherence to BCSBI Code	Non-Observance of Fair Practices Code	Non-Adherence to Instructions on Direct Selling Agents and Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Public Sector Banks	**4,385**	**4,342**	**23,017**	**7,606**	**12,683**	**22,895**	**170**	**101,965**
1	Allahabad Bank	61	70	388	122	163	506	1	1,727
2	Andhra Bank	37	52	381	60	237	298	5	1,508
3	Bank of Baroda	302	296	1,251	368	889	1,719	13	7,106
4	Bank of India	216	109	719	528	387	1,229	7	4,451
5	Bank of Maharashtra	24	27	117	16	98	356	-	831
6	Canara Bank	234	225	865	570	557	1,506	7	5,489
7	Central Bank of India	111	153	576	377	276	781	7	3,158
8	Corporation Bank	126	110	788	16	227	497	5	2,468
9	Dena Bank	57	63	208	113	149	301	2	1,229
10	IDBI Bank Ltd.	134	85	644	5	199	617	3	2,487
11	Indian Bank	85	120	364	114	141	498	4	1,694
12	Indian Overseas Bank	99	126	512	69	219	588	6	2,308
13	Oriental Bank of Commerce	70	93	573	42	147	493	1	2,096
14	Punjab and Sind Bank	28	34	81	62	71	164	1	652
15	Punjab National Bank	365	353	2,107	855	635	1,463	10	8,532
16	State Bank of India	2,054	2,054	11,816	3,722	7,318	9,312	88	46,994
17	Syndicate Bank	83	78	239	167	126	428	2	1,645
18	UCO Bank	97	94	412	215	212	544	2	2,244
19	Union Bank of India	131	111	614	87	429	1,147	3	3,498
20	United Bank of India	36	44	207	86	132	294	1	1,077
21	Vijaya Bank	35	45	155	12	71	154	2	771

Appendix Table IV.8: Complaints Received at Banking Ombudsman Office *(Continued)*

(For the Period July-June 2017-18)

Sr. No.	Name of the Bank	Number of Complaints in Major Categories							Total Number of Complaints
		Deposit Account	Loans/ Advances (General & Housing)	ATM/ Debit/ Credit Cards	Pension	Failure on Commitments and Non-Adherence to BCSBI Code	Non-Observance of Fair Practices Code	Non-Adherence to Instructions on Direct Selling Agents and Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	1,754	1,506	11,537	43	4,165	9,292	287	42,441
1	Axis Bank Ltd.	303	238	2,038	8	901	1,882	42	8,151
2	Bandhan Bank Ltd.	11	8	54	-	15	38	-	208
3	Catholic Syrian Bank Ltd.	3	16	11	-	11	50	-	117
4	City Union Bank Ltd.	14	16	42	-	15	59	1	219
5	DCB Bank Ltd.	19	32	106	-	40	107	2	415
6	Dhanalakshmi Bank Ltd.	2	3	6	-	7	44	-	79
7	Federal Bank Ltd.	20	21	157	-	61	180	-	585
8	HDFC Bank Ltd.	448	440	3,648	13	1,422	2,161	112	12,044
9	ICICI Bank Ltd.	468	402	2,650	17	879	2,367	49	10,465
10	IDFC Bank Ltd.	14	5	44	-	19	59	-	207
11	IndusInd Bank Ltd.	77	79	508	-	151	422	13	1,825
12	Jammu & Kashmir Bank Ltd.	6	6	43	2	10	37	2	187
13	Karnataka Bank Ltd.	15	14	81	-	34	53	-	291
14	Karur Vysya Bank Ltd.	26	10	76	-	28	99	1	346
15	Kotak Mahindra Bank Ltd.	186	122	995	3	299	1,048	42	4,044
16	Lakshmi Vilas Bank Ltd.	13	17	40	-	17	44	4	183
17	Nainital Bank Ltd.	2	-	6	-	2	4	-	36
18	RBL Bank Ltd.	29	18	692	-	56	155	17	1,245
19	South Indian Bank Ltd.	13	11	47	-	30	83	-	270
20	Tamilnad Mercantile Bank Ltd.	8	12	26	-	9	49	-	139
21	Yes Bank Ltd.	77	36	267	-	159	351	2	1,385

Appendix Table IV.8: Complaints Received at Banking Ombudsman Office *(Concluded)*

(For the Period July-June 2017-18)

Sr. No.	Name of the Bank	Number of Complaints in Major Categories							Total Number of Complaints
		Deposit Account	Loans/ Advances (General & Housing)	ATM/ Debit/ Credit Cards	Pension	Failure on Commitments and Non-Adherence to BCSBI Code	Non-Observance of Fair Practices Code	Non-Adherence to Instructions on Direct Selling Agents and Recovery Agents	
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**148**	**78**	**1,696**	**7**	**252**	**713**	**20**	**3,850**
1	AB Bank Limited	-	1	1	-	-	-	-	3
2	Abu Dhabi Commercial Bank Ltd.	1	-	-	-	-	3	-	4
3	American Express Banking Corp.	-	-	119	1	4	21	2	170
4	Australia and New Zealand Banking Group Ltd.	-	-	-	-	-	4	-	4
5	Bank of America N.T. and S.A.	-	-	-	1	1	5	-	14
6	Bank of Ceylon	1	-	-	-	-	-	-	1
7	Bank of Nova Scotia	-	-	-	-	-	1	-	2
8	Barclays Bank PLC	-	1	23	-	2	9	-	41
9	BNP Paribas	-	-	1	-	-	-	-	2
10	Credit Agricole Corporate and Investment Bank	-	-	-	-	-	1	-	2
11	Citibank N.A	79	26	681	1	90	215	6	1,450
12	DBS Bank Ltd.	13	-	12	-	5	14	-	83
13	Deutsche Bank (Asia)	8	5	17	-	10	35	-	110
14	Hongkong and Shanghai Banking Corp. Ltd.	18	12	199	1	24	98	1	470
15	KEB Hana Bank	-	-	-	-	-	-	-	2
16	Mashreq Bank PSC	-	-	-	-	-	1	-	1
17	Mizuho Bank Ltd.	-	1	-	-	-	-	-	3
18	MUFG Bank Ltd.	-	-	-	-	-	-	-	1
19	Royal Bank of Scotland	3	1	37	-	8	14	1	80
20	Societe Generale	-	-	-	-	-	-	-	1
21	Standard Chartered Bank	25	31	606	3	108	292	10	1,406

Note: -: Nil/negligible.
Source: RBI.

Appendix Table V.1: Select Financial Parameters of Scheduled UCBs
(As on March 31, 2018)

(Per cent)

Sr. No.	Bank Name	CRAR	Net Interest Income to Total Assets	Net Interest Income to Working Funds	Non-Interest Income to Working Funds	Return on Assets	Average Cost of Deposits	Average Yield on Advances	Business per Employee (₹ Million)	Profit per Employee (₹ Million)
1	2	3	4	5	6	7	8	9	10	11
1	Abhyudaya Co-operative Bank Ltd, Mumbai	13.1	2.1	2.3	5.5	0.1	6.0	9.4	65.7	0.0
2	Ahmedabad Mercantile Co-operative Bank Ltd.	31.5	3.4	3.5	0.4	1.4	6.3	10.6	77.3	0.9
3	Akola Janata Commercial Co-operative Bank Ltd, Akola	18.1	3.2	3.3	1.1	0.9	5.9	11.6	41.0	0.3
4	Akola Urban Co-operative Bank Ltd, Akola	10.5	2.7	3.0	0.9	0.5	5.8	10.8	37.3	0.2
5	Amanath Co-operative Bank Ltd, Bangalore	7.4	1.4	4.6	4.7	2.0	2.2	14.2	15.6	1.6
6	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	17.3	3.7	3.7	0.4	1.1	6.7	12.7	54.7	0.5
7	Apna Sahakari Bank Ltd.	12.2	3.2	3.4	1.8	0.4	5.9	11.3	81.4	0.2
8	Bassein Catholic Co-operative Bank Ltd.	18.6	3.2	3.1	0.5	1.1	6.5	10.9	179.0	1.4
9	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	13.7	2.9	2.9	1.2	0.9	6.8	11.2	132.0	0.8
10	Bharati Sahakari Bank Ltd.	16.5	3.2	3.3	0.3	0.5	6.9	12.1	75.4	0.3
11	Bombay Mercantile Co-operative Bank Ltd.	12.2	2.1	3.2	2.2	-0.3	3.9	9.9	26.2	-0.1
12	Citizen Credit Co-operative Bank Ltd., Mumbai	20.4	2.7	2.7	0.5	0.6	6.1	9.3	86.7	0.4
13	Cosmos Co-operative Bank Ltd.	13.6	1.9	1.9	2.2	-0.6	6.4	9.4	91.5	-0.4
14	Dombivli Nagari Sahakari Bank Ltd.	13.7	2.7	2.9	1.8	0.7	6.1	8.9	93.5	0.5
15	Goa Urban Co-operative Bank Ltd.	14.4	3.1	3.2	0.2	0.1	6.2	10.5	71.4	0.1
16	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	17.8	3.9	3.7	0.9	1.1	5.7	11.8	70.1	0.5
17	Greater Bombay Co-operative Bank Ltd.	9.6	2.7	2.9	0.8	0.3	6.1	10.3	81.8	0.2
18	Indian Mercantile Co-operative Bank Ltd., Lucknow	41.2	1.1	1.2	0.9	1.6	7.5	10.8	12.1	0.3
19	Jalgaon Janata Sahakari Bank Ltd.	13.2	3.4	3.5	0.8	0.7	5.6	11.3	59.0	0.3
20	Jalgaon People's Co-operative Bank Ltd.	12.4	3.0	3.0	0.8	0.5	6.3	11.3	83.6	0.3
21	Janakalyan Sahakari Bank Ltd., Mumbai	11.4	2.3	2.4	0.5	0.1	6.1	7.6	91.8	0.1
22	Janalaxmi Co-operative Bank Ltd., Nashik	31.1	1.2	2.4	3.7	1.7	6.0	7.1	10.6	0.4
23	Janata Sahakari Bank Ltd., Pune	14.0	2.5	2.6	0.8	0.4	6.7	10.1	112.5	0.3
24	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	13.6	2.4	2.3	0.7	0.5	6.3	9.7	61.7	0.2
25	Kalupur Commercial Co-operative Bank Ltd.	16.7	2.9	3.0	0.7	1.3	6.2	10.2	128.1	1.4
26	Kalyan Janata Sahakari Bank Ltd., Kalyan	12.2	2.9	2.8	1.0	0.9	6.1	10.5	90.7	0.5
27	Kapol Co-operative Bank Ltd., Mumbai	-91.4	-0.6	-0.5	0.3	-7.4	5.3	6.1	34.7	-2.3
28	Karad Urban Co-operative Bank Ltd.	12.9	2.8	2.9	0.7	-0.9	7.2	11.7	53.7	-0.4
29	Khamgaon Urban Co-operative Bank Ltd., Khamgaon	17.5	3.8	3.8	0.8	1.5	5.8	11.6	37.2	0.4
30	Mahanagar Co-operative Bank Ltd., Mumbai	14.2	3.9	4.1	0.6	0.7	6.4	12.5	55.3	0.3
31	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-37.4	1.9	3.0	0.1	-1.8	6.2	15.0	24.0	-0.5
32	Mehsana Urban Co-operative Bank Ltd.	13.3	3.4	3.1	0.4	1.1	6.6	11.6	169.4	1.2
33	Nagar Urban Co-operative Bank Ltd., Ahmednagar	13.4	4.2	4.6	0.5	1.5	6.6	14.4	54.2	0.6
34	Nagpur Nagrik Sahakari Bank Ltd.	15.5	3.3	2.4	0.9	0.4	4.7	9.7	44.8	0.1
35	Nasik Merchant's Co-operative Bank Ltd.	43.9	4.0	4.2	0.7	1.6	5.6	11.4	46.0	0.7
36	New India Co-operative Bank Ltd., Mumbai	12.8	2.5	2.4	0.5	0.2	6.6	12.3	115.7	0.2
37	NKGSB Co-operative Bank Ltd., Mumbai	12.6	2.9	3.0	0.6	0.6	6.4	10.8	106.0	0.4
38	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	13.5	2.5	2.5	1.1	0.7	6.0	9.6	92.2	0.4
39	Pravara Sahakari Bank Ltd.	13.1	2.9	2.9	0.5	0.5	6.8	12.0	36.5	0.1
40	Punjab & Maharashtra Co-operative Bank Ltd.	12.2	3.8	3.6	0.6	0.9	7.0	13.0	97.7	0.6
41	Rajarambapu Sahakari Bank Ltd.	13.4	2.9	2.8	0.5	0.8	7.0	11.4	82.2	0.4
42	Rajkot Nagrik Sahakari Bank Ltd.	16.1	1.8	2.5	1.3	1.0	6.6	11.8	67.6	0.7
43	Rupee Co-operative Bank Ltd.	-514.0	1.5	2.5	0.1	0.3	1.8	3.0	48.6	0.2
44	Sangli Urban Co-operative Bank Ltd., Sangli	14.0	2.8	3.1	0.6	0.3	6.8	11.2	41.7	0.1
45	Saraswat Co-operative Bank Ltd., Bombay	13.6	1.8	1.9	1.0	0.5	6.1	8.8	144.1	0.6
46	SBPP Co-operative Bank Ltd., Killa Pardi	19.3	3.4	3.6	0.2	0.5	5.4	10.4	83.9	0.3
47	Shamrao Vithal Co-operative Bank Ltd.	13.0	2.3	2.5	1.0	0.8	6.3	10.1	100.3	0.5
48	Shikshak Sahakari Bank Ltd., Nagpur	12.8	2.4	2.9	0.7	-0.9	6.7	11.4	38.3	-0.3
49	Solapur Janata Sahakari Bank Ltd.	12.6	2.6	2.7	0.6	0.1	7.4	12.2	68.4	0.1
50	Surat Peoples Co-operative Bank Ltd.	16.7	2.2	2.1	0.9	0.9	6.9	10.0	168.2	1.0
51	Thane Bharat Sahakari Bank Ltd.	13.4	3.1	2.9	1.0	0.3	6.0	10.6	73.7	0.1
52	TJSB Sahakari Bank	14.2	2.8	2.9	0.9	1.1	6.2	11.1	110.8	0.9
53	Vasai Vikas Sahakari Bank Ltd.	10.8	2.9	2.9	0.5	1.1	6.2	11.2	86.9	0.6
54	Zoroastrian Co-operative Bank Ltd., Bombay	18.3	3.2	3.2	0.4	0.8	6.0	10.8	77.0	0.5

Note: Data for 2017-18 are provisional.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Continued)*

(As per cent to total assets)

Sr. No.	Name of the Banks	Operating Profit		Net Profit after Taxes		Interest Income	
		2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
1	2	3	4	5	6	7	8
1	Abhyudaya Co-operative Bank Ltd., Mumbai	0.9	1.1	-	0.1	7.2	7.8
2	Ahmedabad Mercantile Co-operative Bank Ltd.	1.9	2.2	1.4	1.4	7.6	8.0
3	Akola Janata Commercial Co-operative Bank Ltd., Akola	1.4	1.8	0.7	0.9	8.1	8.0
4	Akola Urban Co-operative Bank Ltd., Akola	0.1	1.2	0.1	0.5	7.4	7.5
5	Amanath Co-operative Bank Ltd., Bangalore	-0.5	2.0	-0.7	2.0	1.8	1.7
6	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	1.7	2.1	0.9	1.1	8.8	9.2
7	Apna Sahakari Bank Ltd.	1.0	0.8	0.3	0.4	8.4	8.5
8	Bassein Catholic Co-operative Bank Ltd.	2.4	1.9	1.1	1.1	8.3	8.1
9	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	1.9	1.9	1.0	0.9	8.8	8.5
10	Bharati Sahakari Bank Ltd.	1.1	1.5	0.4	0.5	8.6	8.8
11	Bombay Mercantile Co-operative Bank Ltd.	0.3	0.4	0.3	-0.3	5.2	4.8
12	Citizen Credit Co-operative Bank Ltd., Mumbai	1.1	0.8	0.6	0.6	8.0	7.7
13	Cosmos Co-operative Bank Ltd.	1.7	1.2	0.4	-0.6	8.3	7.9
14	Dombivli Nagari Sahakari Bank Ltd.	2.3	2.4	0.7	0.7	8.6	7.6
15	Goa Urban Co-operative Bank Ltd.	1.7	1.7	0.1	0.1	8.1	8.0
16	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	2.4	2.3	1.3	1.0	8.3	8.0
17	Greater Bombay Co-operative Bank Ltd.	1.8	1.1	-0.1	0.3	8.1	8.7
18	Indian Mercantile Co-operative Bank Ltd., Lucknow	-2.7	-0.7	-2.7	1.7	8.4	6.6
19	Jalgaon Janata Sahakari Bank Ltd.	1.3	1.6	0.5	0.7	8.4	7.9
20	Jalgaon People's Co-operative Bank Ltd.	1.0	1.7	0.5	0.5	8.0	8.2
21	Janakalyan Sahakari Bank Ltd., Mumbai	0.7	0.6	-	0.1	6.5	6.9
22	Janalaxmi Co-operative Bank Ltd., Nashik	0.6	1.7	0.6	1.7	3.4	3.1
23	Janata Sahakari Bank Ltd., Pune	1.8	1.2	0.4	0.4	8.7	8.1
24	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	1.1	1.0	0.5	0.5	8.6	7.3
25	Kalupur Commercial Co-operative Bank Ltd.	1.9	2.2	1.1	1.3	7.4	7.4
26	Kalyan Janata Sahakari Bank Ltd., Kalyan	1.6	1.4	1.0	0.9	8.8	8.2
27	Kapol Co-operative Bank Ltd., Mumbai	-5.0	-6.2	-6.5	-7.7	5.2	3.9
28	Karad Urban Co-operative Bank Ltd.	1.8	1.5	0.8	-0.9	9.0	9.1
29	Khamgaon Urban Co-operative Bank Ltd., Khamgaon	1.9	2.0	1.4	1.5	7.7	8.2
30	Mahanagar Co-operative Bank Ltd., Mumbai	1.6	1.6	0.6	0.7	9.2	9.1
31	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-1.3	-1.2	-1.5	-1.9	6.4	6.8
32	Mehsana Urban Co-operative Bank Ltd.	2.1	2.5	1.0	1.0	8.6	8.6
33	Nagar Urban Co-operative Bank Ltd., Ahmednagar	1.4	2.4	0.7	1.5	8.8	9.2
34	Nagpur Nagrik Sahakari Bank Ltd.	1.0	2.0	0.3	0.4	7.4	7.3
35	Nasik Merchant's Co-operative Bank Ltd.	3.1	2.9	1.8	1.6	9.7	8.5
36	New India Co-operative Bank Ltd., Mumbai	1.2	0.7	0.5	0.2	8.6	8.4
37	NKGSB Co-operative Bank Ltd., Mumbai	1.2	1.3	0.6	0.6	8.4	8.6
38	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	1.1	1.4	0.7	0.7	7.6	7.7
39	Pravara Sahakari Bank Ltd.	0.2	0.5	0.2	0.5	8.5	8.5
40	Punjab & Maharashtra Co-operative Bank Ltd.	1.9	1.8	0.9	0.9	9.9	9.4
41	Rajarambapu Sahakari Bank Ltd.	1.8	1.6	0.7	0.7	8.9	8.3
42	Rajkot Nagrik Sahakari Bank Ltd.	1.4	1.6	0.9	0.9	6.0	5.8
43	Rupee Co-operative Bank Ltd.	0.1	-	0.8	0.3	3.1	2.7
44	Sangli Urban Co-operative Bank Ltd., Sangli	0.7	0.9	0.2	0.3	8.4	8.2
45	Saraswat Co-operative Bank Ltd., Bombay	1.4	1.1	0.5	0.5	7.2	6.4
46	SBPP Co-operative Bank Ltd., Killa Pardi	0.9	1.7	0.5	0.5	7.4	7.7
47	Shamrao Vithal Co-operative Bank Ltd.	1.3	1.2	0.7	0.7	8.2	7.7
48	Shikshak Sahakari Bank Ltd., Nagpur	0.9	0.6	0.1	-0.9	7.3	7.1
49	Solapur Janata Sahakari Bank Ltd.	1.5	1.2	0.9	0.1	9.4	8.6
50	Surat Peoples Co-operative Bank Ltd.	1.6	1.6	0.8	0.8	8.7	7.8
51	Thane Bharat Sahakari Bank Ltd.	0.8	1.4	0.5	0.3	8.7	7.8
52	TJSB Sahakari Bank	1.4	1.6	0.9	1.0	7.8	7.9
53	Vasai Vikas Sahakari Bank Ltd.	1.3	1.6	0.4	1.0	8.3	8.3
54	Zoroastrian Co-operative Bank Ltd., Bombay	1.2	1.5	0.9	0.8	8.1	8.4

-: Nil / negligible.

Note: Data for 2017-18 are provisional.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Concluded)*

(As per cent to total assets)

Sr. No.	Name of the Banks	Interest Expended		Non-Interest Expenses		Provisions and Contingencies	
		2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
1	2	9	10	11	12	13	14
1	Abhyudaya Co-operative Bank Ltd., Mumbai	5.7	5.5	2.0	6.5	1.2	0.4
2	Ahmedabad Mercantile Co-operative Bank Ltd.	4.7	4.7	1.5	1.6	-	0.2
3	Akola Janata Commercial Co-operative Bank Ltd., Akola	5.3	4.9	2.3	2.4	0.3	0.3
4	Akola Urban Co-operative Bank Ltd., Akola	5.5	4.8	3.7	2.3	-	0.7
5	Amanath Co-operative Bank Ltd., Bangalore	1.0	0.3	1.3	0.8	0.2	-
6	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	5.8	5.6	1.7	1.9	0.5	0.6
7	Apna Sahakari Bank Ltd.	6.3	5.2	2.4	4.1	0.6	0.6
8	Bassein Catholic Co-operative Bank Ltd.	5.5	5.0	1.3	1.6	0.7	0.8
9	Bharat Co-operative Bank (Mumbai) Ltd., Mumbai	6.5	5.7	2.0	2.1	0.5	0.6
10	Bharati Sahakari Bank Ltd.	6.2	5.7	1.7	1.9	0.4	0.8
11	Bombay Mercantile Co-operative Bank Ltd.	3.0	2.7	3.2	3.4	-	0.7
12	Citizen Credit Co-operative Bank Ltd., Mumbai	5.5	5.1	2.0	2.3	0.1	-
13	Cosmos Co-operative Bank Ltd.	6.5	5.9	3.2	3.0	1.1	1.8
14	Dombivli Nagari Sahakari Bank Ltd.	6.0	5.1	1.6	1.7	1.5	1.5
15	Goa Urban Co-operative Bank Ltd.	5.2	5.0	1.7	1.6	1.2	1.1
16	Gopinath Patil Parsik Janata Sahakari Bank Ltd., Thane	4.7	4.3	2.3	2.3	0.5	0.8
17	Greater Bombay Co-operative Bank Ltd.	6.0	5.9	2.9	2.5	1.6	0.7
18	Indian Mercantile Co-operative Bank Ltd., Lucknow	4.4	5.4	13.6	2.8	-	-3.0
19	Jalgaon Janata Sahakari Bank Ltd.	5.4	4.6	2.3	2.5	0.4	0.5
20	Jalgaon People's Co-operative Bank Ltd.	5.7	5.3	2.1	1.9	0.3	0.8
21	Janakalyan Sahakari Bank Ltd., Mumbai	4.7	4.6	1.7	2.2	0.6	0.6
22	Janalaxmi Co-operative Bank Ltd., Nashik	1.7	1.8	1.6	1.4	-	-
23	Janata Sahakari Bank Ltd., Pune	6.3	5.6	1.7	2.0	1.1	0.8
24	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	6.4	5.1	1.9	1.8	0.3	0.3
25	Kalupur Commercial Co-operative Bank Ltd.	4.9	4.6	1.2	1.2	0.3	0.3
26	Kalyan Janata Sahakari Bank Ltd., Kalyan	6.0	5.5	3.0	2.3	0.3	0.2
27	Kapol Co-operative Bank Ltd., Mumbai	5.4	4.5	5.8	6.0	2.3	1.5
28	Karad Urban Co-operative Bank Ltd.	6.4	6.2	1.9	2.0	0.5	2.3
29	Khamgaon Urban Co-operative Bank Ltd., Khamgaon	4.2	4.6	2.5	2.4	-	-
30	Mahanagar Co-operative Bank Ltd., Mumbai	5.9	5.2	2.5	2.8	0.6	0.4
31	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	5.2	4.8	2.9	3.2	0.2	0.8
32	Mehsana Urban Co-operative Bank Ltd.	5.7	5.5	1.1	1.0	0.6	0.8
33	Nagar Urban Co-operative Bank Ltd., Ahmednagar	5.9	5.2	2.3	2.1	0.3	0.6
34	Nagpur Nagrik Sahakari Bank Ltd.	5.1	4.1	2.6	2.5	0.4	1.6
35	Nasik Merchant's Co-operative Bank Ltd.	5.8	4.5	1.6	1.7	0.4	0.4
36	New India Co-operative Bank Ltd., Mumbai	6.4	6.0	2.3	2.1	0.8	0.5
37	NKGSB Co-operative Bank Ltd., Mumbai	5.8	5.7	2.1	2.3	0.5	0.4
38	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	5.4	5.3	1.8	2.1	0.2	0.4
39	Pravara Sahakari Bank Ltd.	6.2	5.7	2.7	2.8	-	-
40	Punjab & Maharashtra Co-operative Bank Ltd.	6.4	5.8	2.5	2.3	0.5	0.4
41	Rajarambapu Sahakari Bank Ltd.	6.3	5.6	1.3	1.6	0.7	0.9
42	Rajkot Nagrik Sahakari Bank Ltd.	4.4	4.0	1.0	1.0	0.4	0.3
43	Rupee Co-operative Bank Ltd.	1.7	1.2	2.0	1.5	-0.7	-0.2
44	Sangli Urban Co-operative Bank Ltd., Sangli	6.0	5.4	2.4	2.4	0.4	0.5
45	Saraswat Co-operative Bank Ltd., Bombay	5.3	4.7	1.5	1.4	0.6	0.4
46	SBPP Co-operative Bank Ltd., Killa Pardi	4.4	4.3	2.5	1.9	0.1	0.7
47	Shamrao Vithal Co-operative Bank Ltd.	6.0	5.4	2.2	2.0	0.3	0.3
48	Shikshak Sahakari Bank Ltd., Nagpur	5.3	4.8	2.2	2.3	0.5	1.4
49	Solapur Janata Sahakari Bank Ltd.	6.3	6.1	2.2	1.9	0.1	0.7
50	Surat Peoples Co-operative Bank Ltd.	6.2	5.7	1.4	1.4	0.3	0.5
51	Thane Bharat Sahakari Bank Ltd.	5.9	5.0	3.0	2.4	0.2	0.8
52	TJSB Sahakari Bank	5.5	5.1	1.8	2.0	0.1	0.1
53	Vasai Vikas Sahakari Bank Ltd.	6.0	5.4	1.6	1.7	0.5	0.6
54	Zoroastrian Co-operative Bank Ltd., Bombay	5.1	5.1	2.0	2.1	0.1	0.1

-: Nil/negligible.
Note: Data for 2017-18 are provisional.
Source: RBI.

Appendix Table V.3: Salient Indicators of Financial Health of State Co-operative Banks – Region and State-wise

(At end-March)

(Amount in ₹ million)

Sr. No	Region/State	Amount of Profit/Loss		NPAs as Percentage of Loans Outstanding		Recovery to Demand (Per cent at end-June)	
		2016	2017	2016	2017	2016	2017
1	2	3	4	5	6	7	8
	Northern Region	**1,064**	**2,256**	**1.7**	**1.8**	**98.8**	**97.5**
1	Chandigarh	43	29	4.0	4.4	77.1	82.7
2	Delhi	-126	199	5.3	2.9	93.9	95.5
3	Haryana	238	320	-	0.1	99.5	94.0
4	Himachal Pradesh	539	932	6.6	5.7	80.9	60.3
5	Jammu & Kashmir	26	43	19.1	10.0	55.8	64.8
6	Punjab	125	315	0.9	0.9	99.6	99.7
7	Rajasthan	219	418	0.3	1.1	99.5	99.7
	North-Eastern Region	**-507**	**533**	**13.1**	**13.1**	**59.6**	**50.9**
8	Arunachal Pradesh	2	2	67.2	50.2	-	22.2
9	Assam	27	155	11.1	10.7	37.4	51.4
10	Manipur	-736	2	90.5	91.6	11.5	7.3
11	Meghalaya	25	81	7.8	9.3	32.8	28.1
12	Mizoram	88	67	10.9	9.8	78.8	52.9
13	Nagaland	22	84	13.5	15.5	71.1	66.9
14	Sikkim	21	22	4.2	6.1	83.6	79.0
15	Tripura	44	120	3.5	3.2	80.2	81.5
	Eastern Region	**533**	**558**	**5.6**	**3.9**	**62.4**	**92.5**
16	Andaman & Nicobar Islands	51	39	21.9	18.3	64.1	61.2
17	Bihar	360	362	10.3	4.5	37.0	76.1
18	Jharkhand	-51	-32	28.2	24.4	16.2	20.5
19	Odisha	167	177	2.4	2.1	88.2	97.9
20	West Bengal	6	12	7.3	5.1	84.5	84.5
	Central Region	**1,047**	**846**	**4.0**	**4.7**	**95.5**	**94.0**
21	Chhattisgarh	215	149	3.8	3.2	85.7	80.6
22	Madhya Pradesh	561	298	4.2	4.8	95.1	93.9
23	Uttar Pradesh	201	328	4.2	5.7	96.6	95.5
24	Uttarakhand	70	71	2.5	2.5	97.7	97.4
	Western Region	**2,534**	**2,710**	**7.5**	**6.4**	**87.6**	**87.2**
25	Goa	-76	-149	9.5	9.0	89.2	83.2
26	Gujarat	181	406	2.5	2.0	98.5	97.8
27	Maharashtra	2,429	2,453	9.3	8.0	82.8	79.2
	Southern Region	**1,334**	**2,621**	**3.6**	**2.6**	**94.3**	**94.4**
28	Andhra Pradesh	331	686	0.4	1.8	91.1	98.7
29	Karnataka	315	330	3.3	2.2	96.5	97.4
30	Kerala	128	895	15.6	8.4	84.7	83.5
31	Puducherry	-151	8	5.9	5.4	85.4	36.7
32	Tamil Nadu	433	437	3.1	1.3	98.8	99.6
33	Telangana	278	266	-	0.4	82.8	77.1
	All India	**6,005**	**9,524**	**4.5**	**4.1**	**91.7**	**93.5**

-: Nil/ negligible.

Notes: 1. Components may not add up to total due to rounding off.

2. Recovery for the year 2016-17 is taken as on 30th June 2016.

Source: NABARD.

Appendix Table V.4: Salient Indicators of Financial Health of District Central Co-operative Banks – Region and State-Wise

(At end-March)

Sr. No.	Region/State	2015-2016					2016-2017					2016		2017	
		No. of reporting DCCBs	Profit		Loss		No. of reporting DCCBs	Profit		Loss		NPA to Loans ratio (per cent)	Recovery to Demand (per cent) (At end-June)	NPA to Loans ratio (per cent)	Recovery to Demand (per cent) (At end-June)*
			No of DCCBs	Amt.	No of DCCBs	Amt.		No. of DCCBs	Amt.	No of DCCBs	Amt.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Northern Region	**72**	**60**	**1,447**	**12**	**607**	**73**	**56**	**1,010**	**17**	**1,279**	**5.7**	**68.5**	**6.9**	**80.9**
1	Haryana	19	14	265	5	158	19	18	197	1	94	6.0	67.8	5.7	69.2
2	Himachal Pradesh	2	2	535	0	0	2	2	297	0	0	10.8	75.7	16.2	74.4
3	Jammu & Kashmir	3	1	25	2	243	3	0	0	3	532	15.1	49.3	20.6	62.1
4	Punjab	20	18	222	2	73	20	10	148	10	481	4.8	87.6	6.8	89.8
5	Rajasthan	28	25	399	3	133	29	26	368	3	173	3.8	88.3	4.5	83.1
	Eastern Region	**64**	**55**	**1,722**	**9**	**531**	**64**	**53**	**1,505**	**11**	**726**	**10.7**	**49.5**	**10.4**	**76.6**
6	Bihar	22	18	108	4	118	22	17	101	5	473	24.5	30.5	21.4	40.2
7	Jharkhand	8	7	417	1	11	8	5	106	3	148	47.6	25.2	51.9	35.4
8	Odisha	17	17	832	0	0	17	17	801	0	0	7.6	74.1	7.3	79.8
9	West Bengal	17	13	364	4	401	17	14	498	3	106	9.9	68.2	10.4	81.2
	Central Region	**104**	**85**	**3,395**	**19**	**2**	**104**	**85**	**2,979**	**19**	**1,911**	**13.0**	**60.9**	**15.5**	**73.1**
10	Chattisgarh	6	6	738	0	0	6	6	900	0	0	14.9	72.4	15.5	76.2
11	Madhya Pradesh	38	34	1,284	4	706	38	33	983	5	710	13.3	61.0	18.4	72.8
12	Uttar Pradesh	50	36	961	14	1,076	50	37	818	13	1,166	13.2	49.0	12.8	70.6
13	Uttaranchal	10	9	412	1	169	10	9	279	1	35	8.5	61.1	8.8	82.9
	Western Region	**49**	**41**	**4,591**	**8**	**1,218**	**49**	**43**	**5,972**	**6**	**2,348**	**12.8**	**75.7**	**14.3**	**71.2**
14	Gujarat	18	17	1,309	1	6	18	17	1,497	1	9	5.8	86.0	6.1	92.0
15	Maharashtra	31	24	3,282	7	1,212	31	26	4,475	5	2,339	15.0	65.5	16.9	61.7
	Southern Region	**81**	**78**	**5,749**	**3**	**1,369**	**80**	**78**	**5,205**	**2**	**1,311**	**6.7**	**85.5**	**7.3**	**88.5**
16	Andhra Pradesh	13	12	568	1	139	13	12	420	1	5	5.7	83.0	5.1	90.3
17	Telangana	9	9	241	0	0	9	9	251	0	0	5.4	87.7	5.5	89.8
18	Karnataka	21	21	1,134	0	0	21	21	1,038	0	0	7.7	85.1	4.5	94.7
19	Kerala	14	14	1,301	0	0	14	13	1,152	1	1,307	7.7	85.1	9.5	88.9
20	Tamil Nadu	24	22	2,504	2	1,229	23	23	2,345	0	0	8.1	79.0	8.2	76.8
	All India	**370**	**319**	**16,904**	**51**	**3,727**	**370**	**315**	**16,671**	**55**	**7,575**	**9.3**	**79.6**	**10.5**	**78.9**

Notes: 1. Components may not add up to the total due to rounding off.

2. * Recovery for the year 2016-17 is taken as on 30th June 2016.

Source: NABARD.

Appendix Table V.5: Select Indicators of Primary Agricultural Credit Societies-State-wise *(Continued)*

(At end-March 2017)

(Amount in ₹ million)

Sr. No.	State	Number of PACS	Deposits	Working Capital	Loans and Advances Outstanding		Societies in Profit	
					Agriculture	Non-Agriculture	Number	Amount
1	2	3	4	5	6	7	8	9
	Northern Region	**13,452**	**60,849**	**455,169**	**204,657**	**3,694**	**9,620**	**1,388**
1	Chandigarh	17	-	1	-	-	10	-
2	Haryana*	711	5,048	121,404	108,087	3,675	99	123
3	Himachal Pradesh	2,127	4,713	58,124	11,612	-	1,853	5
4	Jammu & Kashmir	643	42	471	439	19	478	5
5	Punjab	3,543	24,124	122,611	84,519	-	2,140	N.A.
6	Rajasthan	6,411	26,922	152,560	N.A.	N.A.	5,040	1,256
	North-Eastern Region	**3,524**	**947**	**5,844**	**617**	**89**	**708**	**837**
7	Arunachal Pradesh*	34	-	194	-	-	13	45
8	Assam*	766	-	1112	57	2	309	764
9	Manipur*	223	-	62	-	-	24	1
10	Meghalaya	179	68	317	258	5	57	8
11	Mizoram	159	63	2,655	37	-	19	-
12	Nagaland*	1,719	642	1,125	20	36	N.A.	N.A.
13	Sikkim	176	N.A.	197	71	-	71	3
14	Tripura	268	173	182	174	46	215	16
	Eastern Region	**18,620**	**37,974**	**114,174**	**64,599**	**4,657**	**4,280**	**816**
15	Andaman & Nicobar Islands	51	11	97	122	-	18	2
16	Bihar*	8,463	1,753	5,082	-	-	1,180	60
17	Jharkhand	n.a	n.a	n.a	n.a	n.a	n.a	n.a
18	Odisha	2,701	15,791	60,359	49,962	1,768	740	444
19	West Bengal	7,405	20,418	48,636	14,515	2,888	2,342	309
	Central Region	**15,478**	**21,252**	**133,889**	**62,939**	**4,270**	**8,132**	**2,356**
20	Chhattisgarh	1,333	3,902	37,862	14,830	1,848	839	741
21	Madhya Pradesh*	4,457	8,173	64,555	33,996	1,189	2,153	1,312
22	Uttarakhand*	759	8,495	18,880	6,110	1,234	604	125
23	Uttar Pradesh*	8,929	682	12,593	8,003	-	4,536	177
	Western Region	**29,782**	**10,374**	**327,113**	**194,468**	**26,882**	**14,955**	**676**
24	Goa	81	563	691	135	126	51	68
25	Gujarat	8,484	8,037	134,091	91,318	3,497	6,032	531
26	Maharashtra	21,217	1,774	192,331	103,015	23,258	8,872	77
	Southern Region	**14,739**	**1,027,447**	**1,363,481**	**333,436**	**634,804**	**8,891**	**58,655**
27	Andhra Pradesh	2,051	18,549	113,268	70,700	6,873	1,109	46,945
28	Telangana	798	6,031	40,451	29,214	1,969	527	1,081
29	Karnataka	5,679	74,970	231,608	112,131	38,993	3,858	632
30	Kerala	1,647	831,935	793,760	69,004	488,139	1,020	7,884
31	Puducherry	53	1,359	1,907	40	268	20	16
32	Tamil Nadu	4,511	94,603	182,487	52,346	98,564	2,357	2,097
	All India	**95,595**	**1,158,842**	**2,399,670**	**860,715**	**674,396**	**46,586**	**64,728**

-: Nil/negligible. n.a. - not applicable. N.A. - Not Available.

Notes: 1. *: Data relate to previous year.

2. Data are provisional for 2016-17.

Source: NAFSCOB.

Appendix Table V.5: Select Indicators of Primary Agricultural Credit Societies-State-wise *(Concluded)*

(At end-March 2017)

(Amount in ₹ million)

Sr. No.	State	Societies in Loss		Viable	Potentially viable	Dormant	Defunct	Others
		Number	Amount					
1	2	10	11	12	13	14	15	16
	Northern Region	**3,676**	**4,038**	**4,182**	**1,934**	**110**	**91**	**7,135**
1	Chandigarh	2	-	12	-	-	5	-
2	Haryana*	612	3,558	N.A.	N.A.	N.A.	N.A.	711
3	Himachal Pradesh	209	-	500	1,527	100	-	-
4	Jammu & Kashmir	79	-	466	68	10	86	13
5	Punjab	1,403	N.A.	3,204	339	-	-	-
6	Rajasthan	1,371	479	N.A.	N.A.	N.A.	N.A.	6,411
	North-Eastern Region	**829**	**1,526**	**1,954**	**412**	**667**	**384**	**107**
7	Arunachal Pradesh*	19	72	20	5	4	5	-
8	Assam*	419	991	709	57	-	-	-
9	Manipur*	194	-	223	-	-	-	-
10	Meghalaya	122	71	116	55	8	-	-
11	Mizoram	7	-	26	26	-	-	107
12	Nagaland*	N.A.	N.A.	457	228	655	379	-
13	Sikkim	15	-	153	23	-	-	-
14	Tripura	53	392	250	18	-	-	-
	Eastern Region	**9,836**	**2,825**	**14,161**	**2,867**	**591**	**411**	**590**
15	Andaman & Nicobar Island	26	8	39	5	7	-	-
16	Bihar*	3,962	9	8,463	-	-	-	-
17	Jharkhand	n.a	n.a	n.a	n.a	n.a	n.a	n.a
18	Odisha	1,865	2,661	1,711	614	10	1	365
19	West Bengal	3,983	147	3,948	2,248	574	410	225
	Central Region	**4,737**	**3,210**	**12,360**	**2,238**	**393**	**172**	**315**
20	Chhattisgarh	494	1,371	1,088	-	-	-	245
21	Madhya Pradesh*	2,129	1,782	3,663	720	4	-	70
22	Uttarakhand*	146	41	494	249	7	9	-
23	Uttar Pradesh*	1,968	15	7,115	1,269	382	163	-
	Western Region	**13,618**	**725**	**20,996**	**7,700**	**606**	**338**	**142**
24	Goa	25	180	70	9	1	1	-
25	Gujarat	1,698	468	4,744	2,813	477	308	142
26	Maharashtra	11,895	77	16,182	4,878	128	29	-
	Southern Region	**5,340**	**19,772**	**10,785**	**2,950**	**314**	**130**	**560**
27	Andhra Pradesh	927	8,700	1,820	172	26	8	25
28	Telangana	269	1,185	558	171	1	-	68
29	Karnataka	1,457	341	4,004	1,303	165	35	172
30	Kerala	558	6,714	1,462	136	33	10	6
31	Puducherry	33	197	20	33	-	-	-
32	Tamil Nadu	2,096	2,636	2,921	1,135	89	77	289
	All India	**38,036**	**32,097**	**64,438**	**18,101**	**2,681**	**1,526**	**8,849**

-: Nil/negligible. n.a. - not applicable. N.A. - Not Available.

Notes: 1. *: Data relate to previous year.

2. Data are provisional for 2016-17.

Source: NAFSCOB.

Appendix Table V.6: Major Financial Indicators of State Co-operative Agriculture and Rural Development Banks - State-wise

(At end-March)

(Amount ₹ million)

Sr. No.	Region/State	Branches	Profit / Loss		NPAs to Loans ratio (per cent)		Recovery Ratio (per cent)** (at End-June)	
		2017	2016	2017	2016	2017	2016	2017
1	2	3	4	5	6	7	8	9
	Northern Region	**115**	**-9**	**-2,043**	**34.8**	**37.0**	**44.8**	**31.8**
1	Haryana @	19	-257	-2,181	73.0	79.0	28.2	17.9
2	Himachal Pradesh #	-	-	36	26.4	26.4	54.7	54.7
3	Jammu & Kashmir*	-	-59	-62	11.5	11.5	50.6	50.6
4	Punjab @	89	254	108	3.6	6.1	86.2	61.3
5	Rajasthan @	7	53	56	38.5	40.7	35.8	30.0
	North-Eastern Region	**5**	**7**	**-6**	**41.4**	**50.0**	**44.0**	**39.0**
6	Assam*	-	-	-	-	-	-	-
7	Tripura*	5	7	-6	41.4	49.8	44.0	39.0
	Eastern Region	**2**	**6**	**6**	**25.0**	**24.0**	**38.1**	**40.1**
8	Bihar*	-	-	-	-	-	-	-
9	Odisha @	-	-	-	-	-	-	-
10	West Bengal #	2	6	6	25	23.7	38.1	40.1
	Central Region	**323**	**152**	**-270**	**42.5**	**46.0**	**44.4**	**14.0**
11	Chhattisgarh @	-	-	-	-	-	-	-
12	Madhya Pradesh @	-	-	-	-	-	-	-
13	Uttar Pradesh*	323	152	-270	42.5 ^	45.6	44.4	14.0
	Western Region	**176**	**241**	**180**	**48.9**	**54.0**	**42.5**	**34.2**
14	Gujarat*	176	241	180	48.9	53.7	42.5	34.2
15	Maharashtra @	-	-	-	-	-	-	-
	Southern Region	**52**	**265**	**311**	**6.4**	**19.0**	**83.0**	**84.1**
16	Karnataka @	25	1	15	23.5	21.6	35.0	42.6
17	Kerala @	-	243	233	0.5	0.5	98.8	98.8
18	Puducherry*	1	-6	-2	5.5	3.6	94.9	95.6
19	Tamil Nadu @	26	27	66	9.1	8.4	74.9	86.8
	All India	**673**	**662**	**-1,821**	**16.6**	**23.6**	**63.6**	**50.8**

-: Nil/ negligible. @: Federal structure. #: Mixed structure. *: Unitary structure. ^ Data taken from NAFCARD

Notes: 1. Components may not add up to the total due to rounding off.

2. In Chhattisgarh the Short-term co-operative credit structure merged with Long-term during 2014-15. Also, Assam, Bihar, Odisha, Madhya Pradesh and Maharashtra no longer have any functional SCARDBs.

3. **Recovery for the year 2016-17 is taken as on 30th June 2016.

Source: NABARD.

Appendix Table V.7: Major Financial Indicators of Primary Co-operative Agriculture and Rural Developments Banks - State-wise

(Amount in ₹ million)

State	2015-16				2016-17				NPAs to Loans ratio (per cent)		Recover ratio (per cent) (At end-June)	
	Profit		Loss		Profit		Loss					
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	2016	2017	2016	2017
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern Region	**58**	**2,593**	**106**	**2,769**	**23**	**106**	**121**	**4,527**	**43.2**	**50.4**	**41.4**	**22.1**
Haryana	1	1,465	18	1,007	-	-	19	1,651	67.1	69.2	29.3	15.5
Himachal Pradesh	9	-	11	-	-	-	-	-	5.5	29.9	60.0	58.7
Punjab	31	717	58	1,280	5	19	84	2,399	28.8	45.0	61.7	19.6
Rajasthan	17	411	19	482	18	86	18	477	43.0	42.5	35.3	33.9
Central Region	**-**	**-**	**-**	**-**	-	-	-	-	**68.4**	**-**	**-**	**-**
Chhattisgarh	-	-	-	-	-	-	-	-	-	-	-	-
Madhya Pradesh	-	-	-	-	-	-	-	-	-	-	-	-
Eastern Region	**9**	**54**	**15**	**218**	**8**	**89**	**16**	**277**	**43.4**	**40.6**	**38.5**	**36.7**
Odisha	-	-	-	-	-	-	-	-	-	-	-	-
West Bengal	9	54	15	218	8	89	16	277	43.4	40.6	38.5	36.7
Western Region	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Maharashtra	-	-	-	-	-	-	-	-	-	-	-	-
Southern Region	**239**	**657**	**174**	**1,649**	**205**	**1,000**	**224**	**1,594**	**22.0**	**27.1**	**69.0**	**74.2**
Karnataka	80	110	92	514	23	64	154	883	16.6	54.4	67.5	50.9
Kerala	40	236	21	919	22	91	50	685	26.5	26.5	76.3	76.3
Tamil Nadu	119	311	61	216	160	844	20	26	14.3	14.6	32.1	85.3
All India	**306**	**1,178**	**295**	**4,636**	**236**	**1,194**	**361**	**6,398**	**37.0**	**33.0**	**43.6**	**44.3**

-: Not applicable

Notes: 1. Components may not add up to the total due to rounding off.
2. In Chhattisgarh the Short-term co-operative credit structure merged with Long-term during 2014-15 . Also Maharashtra, Madhya Pradesh and Odisha structures are no longer functional.
3. Recovery for the financial year is taken as on 30th June.
4. Data for 2016-17 includes provisional data with respect to 8 PCARDBs.

Appendix Table VI.1: Consolidated Balance Sheet of NBFCs-ND-SI

(Amount in ₹ billion)

Item	End-March 2016	End-March 2017	End-March 2018P	End-Sept 2018	Percentage Variation 2017-18
1	2	3	4	5	6
1. Share Capital	**726**	**912**	**909**	**1,019**	**-0.4**
2. Reserves and Surplus	**2,699**	**3,192**	**3,682**	**3,978**	**15.3**
3. Total Borrowings (A+B)	**10,661**	**11,951**	**13,691**	**15,716**	**14.6**
A. Secured Borrowings	**5,317**	**5,805**	**6,788**	**7,760**	**16.9**
A.1. Debentures	2,416	2,924	3,159	3,526	8.0
A.2. Borrowings from Banks	2,167	2,130	2,786	3,186	30.8
A.3. Borrowings from FIs	137	188	195	234	3.9
A.4. Interest Accrued	131	158	157	174	-0.4
A.5. Others	466	405	492	640	21.4
B. Un-Secured Borrowings	**5,344**	**6,146**	**6,903**	**7,957**	**12.3**
B.1. Debentures	2,439	2,888	3,162	3,155	9.5
B.2. Borrowings from Banks	549	390	533	923	36.5
B.3. Borrowings from FIs	22	77	26	42	-66.4
B.4. Borrowings from Relatives	11	16	23	29	46.2
B.5. Inter-corporate Borrowings	356	406	500	701	23.2
B.6. Commercial Paper	788	1,143	1,224	1,525	7.1
B.7. Interest Accrued	152	164	175	193	6.6
B.8. Others	1,027	1,060	1,259	1,389	18.8
4. Current Liabilities & Provisions	**746**	**962**	**1,018**	**1,507**	**5.9**
Total Liabilities/Total Assets	**14,832**	**17,017**	**19,300**	**22,220**	**13.4**
1. Loans and Advances	**11,000**	**12,347**	**14,533**	**16,427**	**17.7**
1.1. Secured	8,224	9,388	11,169	12,796	19.0
1.2. Un-Secured	2,776	2,959	3,364	3,632	13.7
2. Investments	**2,172**	**2,628**	**2,880**	**3,186**	**9.6**
2.1. Long Term Investments	1,560	1,999	2,105	2,279	5.3
2.2. Current Investments	612	629	775	907	23.2
3. Cash and Bank Balances	**485**	**700**	**553**	**747**	**-21.0**
4. Other Current Assets	**952**	**1,021**	**1,064**	**1,537**	**4.1**
5. Other Assets	**223**	**321**	**270**	**323**	**-15.8**
Memo Items					
1. Capital Market Exposure	1,433	1,629	1,943	1,811	19.3
Of which: Equity Shares	673	696	765	712	9.9
2. CME as per cent to Total Assets	9.7	9.6	10.1	8.2	
3. Leverage Ratio	3.5	3.3	3.4	4.0	

Notes: 1. Data are provisional.
2. Percentage figures are rounded-off.

Source: Quarterly returns of NBFCs-ND-SI (₹ 500 crore and above), RBI.

Appendix Table VI.2: Consolidated Balance Sheet of NBFCs-D

(Amount in ₹ billion)

Item	End-March 2016	End-March 2017	End-March 2018	End- Sept 2018	Percentage Variation 2017-18
1	2	3	4	5	6
1. Share Capital	35	37	40	38	6.0
2. Reserves and Surplus	343	386	523	560	35.7
3. Public Deposits	271	306	319	326	4.2
4. Debentures	539	668	834	870	24.9
5. Bank Borrowings	660	614	720	828	17.4
6. Borrowings from FIs	23	31	35	46	10.7
7. Inter-corporate Borrowings	6	14	52	77	277.7
8. Commercial Paper	66	148	182	291	22.8
9. Borrowings from Government	30	1	20	3	1,736.0
10. Subordinated Debts	88	119	151	151	27.5
11. Other Borrowings	179	247	323	147	30.9
12. Current Liabilities	79	106	132	325	24.3
13. Provisions	79	104	128	137	23.4
Total Liabilities/Assets	**2,399**	**2,781**	**3,460**	**3,799**	**24.4**
1. Loans and Advances	2,118	2,453	3,110	3,415	26.8
2. Investments	92	131	131	166	-0.2
2.1. Govt. Securities	38	44	52	53	19.2
2.2. Equity Shares	25	34	49	66	42.9
2.3. Preference Shares	2	0	9	4	4,223.8
2.4. Debentures and Bonds	5	6	7	3	14.6
2.5. Units of Mutual Funds	5	35	3	19	-90.7
2.6. Commercial Paper	2	1	2	6	89.3
2.7. Other Investments	13	11	9	14	-20.2
3. Cash and Bank Balances	100	96	96	101	0.6
3.1. Cash in Hand	4	3	3	3	-4.7
3.2. Deposits with Banks	96	92	93	98	0.8
4. Other Current Assets	72	85	104	102	22.7
5. Other Assets	17	15	18	14	18.5

Note: Data are provisional.
Source: Quarterly returns of NBFCs-D, RBI.

Appendix Table VI.3: Credit to Various Sectors by NBFCs

(Amount in ₹ billion)

Items	End-March 2017	End-March 2018	End-Sept 2018	Percentage Variation 2017-18
1	2	3	4	5
I. Gross advances	**14,857**	**17,643**	**19,842**	**18.8**
II. Non-food Credit (1 to 5)	**14,855**	**17,640**	**19,837**	**18.7**
1. Agriculture and Allied Activities	**354**	**476**	**596**	**34.4**
2. Industry (2.1 to 2.4)	**8,940**	**9,655**	**10,374**	**8.0**
2.1 Micro and Small	508	561	516	10.4
2.2 Medium	172	252	325	46.7
2.3 Large	4,375	4,785	5,128	9.4
2.4 Others	3,885	4,055	4,405	4.4
3. Services (3.1 to 3.10)	**2,224**	**3,013**	**3,563**	**35.5**
3.1 Transport Operators	173	188	217	8.5
3.2 Computer Software	6	13	14	112.3
3.3 Tourism, Hotel and Restaurants	60	60	69	-0.6
3.4 Shipping	7	6	6	-17.9
3.5 Professional Services	71	79	90	11.7
3.6 Trade	230	349	411	51.8
3.6.1 Wholesale Trade (other than Food Procurement)	60	74	86	23.4
3.6.2 Retail Trade	170	275	325	61.9
3.7 Commercial Real Estate	958	1,257	1,337	31.2
3.8 NBFCs	198	240	357	21.3
3.9 Aviation	6	7	9	20.0
3.10 Other Services	514	813	1,052	58.2
4. Retail Loans (4.1 to 4.8)	**2,490**	**3,639**	**4,381**	**46.2**
4.1 Housing Loans (incl. priority sector Housing)	106	135	165	27.5
4.2 Consumer Durables	57	88	111	54.2
4.3 Credit Card Receivables	138	178	213	28.7
4.4 Vehicle/Auto Loans	1,035	1,675	1,942	61.9
4.5 Education Loans	44	74	98	67.1
4.6 Advances against Fixed Deposits (incl. FCNR (B), *etc.*)	2	0	0	-100.0
4.7 Advances to Individuals against Shares, Bonds, *etc.*	124	164	203	32.3
4.8 Other Retail Loans	984	1,326	1,650	34.7
5. Other Non-food Credit	**847**	**857**	**923**	**1.1**

Notes: 1. Data are provisional.
2. This format of reporting of credit to various sectors was introduced from March 31, 2017. Hence, the comparable data for previous years are not available.

Source: Supervisory Returns, RBI.

Appendix Table VI.4: Financial Performance of NBFCs-ND-SI

(Amount in ₹ billion)

Items	2016-17	2017-18	H1:2018-19
1	2	3	4
A. Income (i+ii)	**1,909**	**2,034**	**1,111**
(i) Fund-based	1,847 (96.8)	1,951 (95.9)	1,066 (95.9)
(ii) Fee-based	61 (3.2)	83 (4.1)	45 (4.1)
B. Expenditure (i+ii+iii)	**1,498**	**1,584**	**863**
(i) Financial	958 (64.0)	980 (61.9)	565 (65.5)
Of which, Interest Payment	441 (29.4)	430 (27.1)	253 (29.3)
(ii) Operating Expenses	280 (18.7)	327 (20.6)	171 (19.8)
(iii) Others	260 (17.4)	277 (17.5)	127 (14.7)
C. Tax Provisions	**147**	**134**	**70**
D. Operating Profit (PBT)	**410**	**450**	**249**
E. Net Profit (PAT)	**263**	**316**	**179**
F. Total Assets	**17,017**	**19,300**	**22,220**
G. Financial Ratios (as per cent of total assets)			
(i) Income	11.2	10.5	5.0
(ii) Fund Income	10.9	10.1	4.8
(iii) Fee Income	0.4	0.4	0.2
(iv) Expenditure	8.8	8.2	3.9
(v) Financial Expenditure	5.6	5.1	2.5
(vi) Operating Expenditure	1.6	1.7	0.8
(vii) Tax Provision	0.9	0.7	0.3
(viii) Net Profit	1.5	1.6	0.8
H. Cost to Income Ratio	**68.3**	**72.2**	**68.7**

Notes: 1. Data are provisional.
2. Figures in parentheses are share (in percent) to respective total.

Source: Quarterly Returns of NBFCs-ND-SI, RBI.

Appendix Table VI.5: Financial Performance of NBFCs-D

(Amount in ₹ billion)

Item	2015-16	2016-17	2017-18	H1:2018-19
A. Income (i+ii)	**357**	**402**	**480**	**284**
(i) Fund-based	354	398	471	278
	(99.2)	(99.0)	(98.2)	(98.0)
(ii) Fee-based	3.0	4.0	8.6	5
	(0.8)	(0.99)	(1.8)	(1.8)
B. Expenditure (i+ii+iii)	**285**	**325**	**374**	**206**
(i) Financial	167	183	203	118
	(58.5)	(56.4)	(54.4)	(57.3)
of which, Interest Payment	37	44	49	27
	(13.0)	(13.61)	(13.0)	(13.1)
(ii) Operating Expenses	79	90	113	65
	(27.7)	(27.8)	(30.1)	(31.6)
(iii) Others	39	52	58	23
	(13.8)	(15.9)	(15.4)	(11.2)
C. Tax Provisions	**23**	**26**	**36**	**26**
D. Operating Profit (PBT)	**72**	**77**	**106**	**78**
E. Net Profit (PAT)	**49**	**50**	**70**	**51**
F. Total Assets	**2399**	**2781**	**3460**	**3799**
G. Financial Ratios (as per cent of total assets)				
(i) Income	14.9	14.5	13.9	7.5
(ii) Fund Income	14.7	14.3	13.6	7.3
(iii) Fee Income	0.1	0.1	0.2	0.1
(iv) Expenditure	11.9	11.7	10.8	5.4
(v) Financial Expenditure	6.9	6.6	5.9	3.1
(vi) Operating Expenditure	3.3	3.3	3.3	1.7
(vii) Tax Provision	0.9	0.9	1.1	0.7
(viii) Net Profit	2.0	1.8	2.0	1.3
H. Cost to Income Ratio	**79.8**	**80.9**	**77.8**	**83.3**

Notes: 1. Data are provisional.
2. Figures in parentheses are share (in percent) to respective total.

Source: Quarterly Returns of NBFCs-D, RBI.

Appendix Table VI.6: Financial Assistance Sanctioned and Disbursed by Financial Institutions *(Continued)*

(Amount in ₹ billion)

Institutions	Loans*								Underwriting and Direct Subscription							
	2016-17		2017-18		Apr-Sep 2017		Apr-Sep 2018		2016-17		2017-18		Apr-Sep 2017		Apr-Sep 2018	
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
A. All India financial institutions (1 to 4)	**3,822**	**3,043**	**4,193**	**3,772**	**2,016**	**1,575**	**2,723**	**1,977**	**12**	**3**	**7**	**3**	**1**	**2**	**4**	**2**
1. NABARD	2,401	1,977	2,178	2,225	1,311	935	1,882	1,147	0	0	0	0	0	0	0	0
2. SIDBI@	394	392	588	587	145	179	520	560	12	3	7	3	1	2	4	2
3. EXIM Bank	648	447	978	711	358	349	214	233	0	0	0	0	0	0	0	0
4. NHB**	379	228	449	249	202	113	108	37	0	0	0	0	0	0	0	0
B. Specialised financial institutions (5, 6 and 7)	**13**	**7**	**13**	**8**	**6**	**3**	**5**	**1**	**2**	**2**	**2**	**2**	**1**	**1**	**1**	**1**
5. IVCF	3	2	1	1	0	0	0	0	0	0	0	0	0	0	0	0
6. ICICI venture	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7. TFCI	10	5	13	7	6	3	5	1	2	2	2	2	1	1	1	1
C. Investment institutions (8 and 9)	**3**	**8**	**8**	**5**	**0**	**4**	**0**	**0**	**684**	**329**	**849**	**632**	**293**	**229**	**147**	**126**
8. LIC	3	8	8	5	0	4	0	0	683	328	849	632	293	229	147	126
9. GIC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
D. Financial Institutions (A+B+C)	**3,837**	**3,058**	**4,214**	**3,785**	**2,022**	**1,583**	**2,728**	**1,979**	**698**	**333**	**857**	**637**	**296**	**232**	**151**	**129**
E. State level institutions (10 and 11)																
10.SFCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
11.SIDCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
F. Total assistance by all financial institutions (D+E)	**3,837**	**3,058**	**4,214**	**3,785**	**2,022**	**1,583**	**2,728**	**1,979**	**698**	**333**	**857**	**637**	**296**	**232**	**151**	**129**

S: Sanctions. D: Disbursements. _: Nil .. : Not Available. n.m.: Not Meaningful.

* : Loans include rupee loans and foreign currency loans.

**: Data pertain to end-June.

@ : Direct subscription is by way of contributing to the corpus of SEBI registered Alternative Investment Funds and not any direct investments in any company.

\# : Others include guarantees.

Notes: 1. Data for 2017-18 and 2018-19 are provisional.

2. Components may not add up to the total due to rounding off.

Source: The respective financial institutions.

Appendix Table VI.6: Financial Assistance Sanctioned and Disbursed by Financial Institutions *(Concluded)*

(Amount in ₹ billion)

Institutions	Others#								Total								Percentage variation			
	2016-17		2017-18		Apr-Sep 2017		Apr-Sep 2018		2016-17		2017-18		Apr-Sep 2017		Apr-Sep 2018		2017-18		Apr-Sep 2018	
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37
A. All India financial institutions (1 to 4)	**61**	**91**	**114**	**152**	**56**	**156**	**33**	**157**	**3,895**	**3,137**	**4,314**	**3,928**	**2,073**	**1,733**	**2,759**	**2,137**	**10.7**	**25.2**	**33.1**	**23.3**
1. NABARD	0	0	6	1	3	3	3	3	2,401	1,977	2,184	2,227	1,314	938	1,885	1,150	-9.1	12.6	43.5	22.6
2. SIDBI@	0	0	0	0	0	0	0	0	406	395	595	591	146	181	523	563	46.5	49.6	258.3	210.8
3. EXIM Bank	61	84	108	115	53	146	30	135	709	531	1,086	826	411	495	243	368	53.2	55.4	-40.8	-25.6
4. NHB**	0	6	0	36	0	7	0	19	379	234	449	285	202	120	108	56	18.6	21.7	-46.8	-53.1
B. Specialised financial institutions (5, 6 and 7)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**14**	**9**	**15**	**9**	**7**	**4**	**6**	**2**	**4.5**	**-45.1**	**-15.3**	**-55.2**
5. IVCF	0	0	0	0	0	0	0	0	3	2	1	1	0	0	0	0	-80.2	-75.4	-63.6	-79.0
6. ICICI venture	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_
7. TFCI	0	0	0	0	0	0	0	0	12	7	15	9	7	4	6	2	25.4	30.2	-13.3	-52.4
C. Investment institutions (8 and 9)	**1**	**1**	**5**	**1**	**2**	**1**	**0**	**0**	**687**	**337**	**862**	**638**	**295**	**234**	**147**	**127**	**25.4**	**89.3**	**-50.1**	**-46.0**
8. LIC	1	1	5	1	2	1	0	0	687	337	862	638	295	234	147	127	25.5	89.4	-50.1	-46.0
9. GIC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-100.0	-100.0	n.m.	n.m.
D. Financial institutions (A+B+C)	**62**	**92**	**119**	**153**	**58**	**157**	**33**	**158**	**4,597**	**3,483**	**5,191**	**4,575**	**2,375**	**1,972**	**2,913**	**2,265**	**12.9**	**31.3**	**22.6**	**14.9**
E. State level institutions (10 and 11)																				
10. SFCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
11. SIDCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
F. Total assistance by All financial institutions (D+E)	**62**	**92**	**119**	**153**	**58**	**157**	**33**	**158**	**4,597**	**3,483**	**5,191**	**4,575**	**2,375**	**1,972**	**2,913**	**2,265**	**12.9**	**31.3**	**22.6**	**14.9**

S: Sanctions. D: Disbursements. _: Nil .. : Not Available. n.m.: Not Meaningful.

* : Loans include rupee loans and foreign currency loans.

**: Data pertain to end-June.

@: Direct subscription is by way of contributing to the corpus of SEBI registered Alternative Investment Funds and not any direct investments in any company.

: Others include guarantees.

Notes: 1. Data for 2017-18 and 2018-19 are provisional.

2. Components may not add up to the total due to rounding off.

Source: The respective financial institutions.

Appendix Table VI.7: Financial Performance of Primary Dealers *(Continued)*

(Amount in ₹ million)

Sr. No.	Name of the primary dealers	Year	Income			
			Interest income (including discount income)	Trading profit	Other income	Total income
1	2	3	4	5	6	7
1	STCI Primary Dealer Ltd.	2015-16	3,591	-174	25	3,441
		2016-17	3,595	2,413	18	6,027
		2017-18	4,479	22	24	4,525
		2018-19 upto Sep 30	2,727	-315	52	2,463
2	SBI DFHI Ltd.	2015-16	3,608	648	43	4,300
		2016-17	3,753	2,223	33	6,009
		2017-18	3,510	-80	45	3,475
		2018-19 upto Sep 30	2,180	-288	25	1,916
3	ICICI Securities Primary Dealership Ltd.	2015-16	10,305	2,890	425	13,619
		2016-17	10,479	5,192	599	16,270
		2017-18	10,340	72	681	11,093
		2018-19 upto Sep 30	6,165	-1,967	261	4,459
4	PNB Gilts Ltd.	2015-16	3,596	-184	31	3,443
		2016-17	3,132	1,858	17	5,007
		2017-18	4,017	100	-16	4,101
		2018-19 upto Sep 30	2,174	-583	15	1,605
5	Morgan Stanley India Primary Dealer Pvt. Ltd.	2015-16	2,433	338	43	2,814
		2016-17	1,914	500	25	2,439
		2017-18	3,064	104	22	3,190
		2018-19 upto Sep 30	2,882	-668	24	2,237
6	Nomura Fixed Income Securities Pvt. Ltd.	2015-16	1,894	-110	9	1,794
		2016-17	3,084	1,260	7	4,351
		2017-18	3,317	-187	11	3,141
		2018-19 upto Sep 30	1,879	-435	17	1,461
7	Goldman Sachs (India) Capital markets Pvt. Ltd.	2015-16	1,117	-324	12	805
		2016-17	1,369	824	7	2,200
		2017-18	932	-50	12	894
		2018-19 upto Sep 30	585	-160	17	442
	Total	**2015-16**	**26,545**	**3,083**	**588**	**30,216**
		2016-17	**27,325**	**14,271**	**705**	**42,302**
		2017-18	**29,659**	**-19**	**779**	**30,419**
		2018-19 upto Sep 30	**18,591**	**-4,415**	**409**	**14,585**

Notes: 1. All amounts are rounded off to the nearest million.
Source: Returns submitted by the Primary Dealers.

Appendix Table VI.7: Financial Performance of Primary Dealers *(Concluded)*

(Amount in ₹ million)

Sr. No.	Name of the primary dealers	Year	Expenditure			Profit before tax	Profit after tax	Return on networth (per cent)
			Interest expenses	Other expenses	Total expenditure			
1	2	3	8	9	10	11	12	13
1	STCI Primary Dealer Ltd.	2015-16	3,057	249	3,306	136	92	2.4
		2016-17	2,920	349	3,269	2,757	1,784	36.4
		2017-18	3,660	271	3,931	593	378	7.7
		2018-19 upto Sep 30	2,341	114	2,455	8	8	0.2
2	SBI DFHI Ltd.	2015-16	2,918	291	3,209	1,090	723	7.1
		2016-17	2,973	350	3,322	2,687	1,757	16.0
		2017-18	2,616	365	2,981	495	324	3.6
		2018-19 upto Sep 30	1,769	124	1,892	24	16	0.2
3	ICICI Securities Primary Dealership Ltd.	2015-16	9,451	1,148	10,598	3,021	1,955	21.9
		2016-17	8,659	1,279	9,938	6,332	4,114	40.3
		2017-18	8,244	1,145	9,389	1,704	1,099	11.2
		2018-19 upto Sep 30	4,930	534	5,463	-1,004	-649	-7.1
4	PNB Gilts Ltd.	2015-16	2,756	172	2,929	515	345	4.6
		2016-17	2,257	214	2,471	2,535	1,653	19.1
		2017-18	3,307	241	3,548	553	366	4.1
		2018-19 upto Sep 30	1,826	90	1,916	-311	-327	-4.1
5	Morgan Stanley India Primary Dealer Pvt. Ltd.	2015-16	1,971	194	2,165	649	422	8.0
		2016-17	1,327	166	1,492	946	618	10.6
		2017-18	2,296	196	2,492	700	453	7.2
		2018-19 upto Sep 30	2,214	99	2,313	-76	-87	-1.4
6	Nomura Fixed Income Securities Pvt. Ltd.	2015-16	1,381	341	1,722	72	46	0.8
		2016-17	2,249	454	2,704	1,647	1,056	16.3
		2017-18	2,383	379	2,762	379	243	3.6
		2018-19 upto Sep 30	1,397	184	1,581	-120	-120	-1.7
7	Goldman Sachs (India) Capital markets Pvt. Ltd.	2015-16	741	252	993	-188	-128	-2.7
		2016-17	981	310	1,291	909	654	12.4
		2017-18	557	242	799	95	60	1.1
		2018-19 upto Sep 30	342	119	461	-19	-18	-0.3
	Total	**2015-16**	**22,275**	**2,647**	**24,922**	**5,294**	**3,455**	**7.5**
		2016-17	**21,367**	**3,122**	**24,489**	**17,813**	**11,634**	**22.2**
		2017-18	**23,063**	**2,839**	**25,902**	**4,519**	**2,923**	**5.7**
		2018-19 upto Sep 30	**14,818**	**1,264**	**16,081**	**-1,496**	**-1,176**	**-2.2**

Notes: 1. All amounts are rounded off to the nearest million.
Source: Returns submitted by the Primary Dealers.

Appendix Table VI.8: Select Financial Indicators of Primary Dealers *(Continued)*

(Amount in ₹ billion)

Sr. No.	Name of the primary dealers	Capital funds (Tier I + Tier II+ Eligible Tier III)					CRAR (Per cent)				
		2014-15	2015-16	2016-17	2017-18	H1:2018-19	2014-15	2015-16	2016-17	2017-18	H1:2018-19
1	2	3	4	5	6	7	8	9	10	11	12
1	SBI DFHI Ltd.	10	10	10	9	9	75	38	91	69	92
2	ICICI Securities Primary Dealership Ltd.	12	12	13	14	13	27	25	26	24	26
3	Nomura Fixed Income Securities Pvt. Ltd.	6	6	7	7	7	26	53	52	58	43
4	STCI Primary Dealer Ltd.	4	4	5	5	5	24	24	39	34	26
5	Morgan Stanley India Primary Dealer Pvt. Ltd	5	5	6	6	6	97	143	82	51	36
6	PNB Gilts Ltd.	7	7	8	9	8	65	70	51	67	50
7	Goldman Sachs (India) Capital Markets Pvt. Ltd.	5	5	5	5	5	39	164	155	144	293
	Total	**48**	**49**	**55**	**55**	**53**	**40**	**42**	**47**	**43**	**41**

Note: All amounts are rounded off to the nearest billion.
Source: Returns submitted by the Primary Dealers.

Appendix Table VI.8: Select Financial Indicators of Primary Dealers *(Concluded)*

(Amount in ₹ billion)

Sr. No.	Name of the primary dealers	Stock of government securities and treasury bills (Market value)					Total assets (Net of current liabilities and provisions)				
		2014-15	**2015-16**	**2016-17**	**2017-18**	**H1:2018-19**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**H1:2018-19**
1	2	13	14	15	16	17	18	19	20	21	22
1	SBI DFHI Ltd.	29	42	20	38	45	10	10	30	56	59
2	ICICI Securities Primary Dealership Ltd.	99	123	66	128	137	139	145	108	165	140
3	Nomura Fixed Income Securities Pvt. Ltd.	9	19	12	23	43	6	6	27	35	60
4	STCI Primary Dealer Ltd.	31	42	36	51	52	4	4	53	77	76
5	Morgan Stanley India Primary Dealer Pvt. Ltd	32	19	20	75	81	31	20	34	76	94
6	PNB Gilts Ltd.	31	34	32	40	49	7	7	44	52	64
7	Goldman Sachs (India) Capital Markets Pvt. Ltd.	18	23	11	19	16	18	24	15	17	17
	Total	**249**	**301**	**196**	**374**	**424**	**214**	**216**	**312**	**478**	**511**

Note: All amounts are rounded off to the nearest billion.
Source: Returns submitted by the Primary Dealers.