6.1. Meaning and Definitions of Performing Assets and Non-Performing Assets:

The Reserve Bank has issued directives from 31/03/1993 and presented a new concept of “Income Recognition”. This is done on the recommendations of Narshimham Committee.

According to these directives the banks have classify their credit facilities into two parts:

- Performing Assets (Standard Assets)
- Non-Performing Assets

Performing Assets (Standard Assets):

Standard Assets is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such assets are Performing Assets (PA) and should not be an NPA.

Non – Performing Assets (NPA):

With a view to moving towards international debt practices and to ensure greater transparency, ‘90 day’ overdue norms for identification of NPAs have been made applicable from the year ended March 31, 2004. As such, save and except certain relaxations mentioned for Tier – I Banks and Tier – II Banks as defined below, with effect from March 31, 2004, a non – performing asset shall be a loan or an advance where:
I. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.

II. The account remains Out of order for a period of more than 90 days, in respect of an Overdraft/ Cash Credit (OD/CC).

III. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

IV. In the case of agricultural loans, other than direct finance to farmers for agricultural purposes, identification of NPAs would be done on the same basis as non-agricultural advances.

V. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Tier I Banks (Unit Banks i.e. Banks having a single branch with deposits upto Rs. 100 Crores and banks having multiple branches within a single district with deposits upto Rs. 10 Crores) have been permitted to classify loan accounts including gold loans and small loan upto Rs 1 lakh as NPAs based on 180 days delinquency norm instead of the extant 90 days norm. This relaxation was in force upto March 31, 2008. The deposits base of Rs. 100 Crores for the above will be determined on the basis of average of the fortnightly Net Demand and Time Liabilities in the financial year concerned. For the above category of banks, an account would be classified as Non – Performing Asset if the:

VI. Interest and/or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan.

VII. The account remains Out of order for a period of more than 180 days, in respect of an Overdraft/ Cash Credit (OD/CC).
VIII. The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted.

IX. Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

**Tier II Banks** (All UCBs other than Tier – I Banks) shall classify their loan accounts as NPA as per 90-day norm as hitherto.

### 6.2. Importance of NPA:

Importance of Non – Performing Assets has become more and more since the formation of Shri M. Narshimham Committee on banking sector reform in 1991. We can say that it is a second landmark in banking sector in India after nationalization of banks. After nationalization of banks it has been given much attention on the lending policy of nationalized banks but not much attention has been given to the recovery of advances of nationalized banks by Reserve Bank of India (RBI).

Recovery of non – performing assets has become critical performance area for all banks in India. As per RBI report, March 1999, the gross NPA of all the scheduled commercial banks and primary co – operative banks have gone up to Rs. 58,554 crores (14.6%) and to Rs. 4,535 (12.2%) crores respectively. There was a lack of specific and unanimous guidelines which resulted in miss – allocation of (banks) huge funds and ruin the sustained economic growth of nation.

So, it was high time to form some specific guidelines on this. Reserve Bank of India (RBI) introduced a new set of prudential norms in April, 1992 for commercial banks and subsequently it has been extended, in stages to urban co-operative banks as well, as per the recommendations of high power committee on urban co-operative
banks constituted in May 1999 under the chairmanship of K. Madharao as a need for strengthening the co-operative sector in order to enhance operational efficiency, productivity and profitability and with the objective of implementing international. Best practices in Indian banks, it is compulsory for all banking institutions to comply with prudential norms of RBI.

6.3. History of NPA in Indian Banking Industry:

Reserve Bank of India introduced a critical analysis for a comprehensive and uniform credit and monitoring by way of the Health Code System, in banks, which provided information regarding health of individual advances in 1985 – 86. It was considered that such information would be of immense use to banks’ management for control purpose. Advances in the following eight categories with Code assigned to each borrower account.

1. SATISFACTORY: The account in which all terms and conditions are complying with and safety of advances are not in doubt.

2. IRREGULAR: The account where safety of advances is not suspected, though there may be occasional irregularities.

3. SICK – VIABLE: Advances to units which are sick but viable under nursing or revival programs are under taken.

4. SICK – NON – VIABLE / STICKY: Advances where irregularities continue to persist and there are no immediate prospects of regularization.

5. ADVANCES – RECALLED: Advances where the recalled repayment is highly doubtful and nursing is not considered worthwhile, includes accounts where decision has been taken to recall the advances.
6. **SUIT – FILE – ACCOUNTS**: Accounts where legal action or recovery proceedings have been initiated.

7. **DECREED DEBTS**: Accounts for which decrees have been obtained.

8. **BAD AND DOUBTFUL ACCOUNTS**: The accounts in which the recoverability is in doubtful due to shortfall in the value of the securities and inability / unwillingness of the borrower to repay the bank’s dues partly or wholly.

### 6.4. Technical aspects:

It was very easy for the banks to debit the interest amount to the loan account and credit the same to income account without considering the fact whether the interest will be realized and there would be return of principal amount. This practice of passing the entries in the banks of accounts in respect accrued but not realized as income results in losing the value of assets. Thus such assets become almost dead by performing anything. Such non – performing assets were accumulated to the large extent and became unbearable. On one hand the books of accounts of the banks used to show huge profit and there was no realization of income because of such accounting system. This affects the banking system adversely.

Thus major element of the financial sector reform in India was introduced in the form of prudential norms and regulations. These prudential norms and regulations are basically aimed at ensuring the safety and soundness of the financial system. Imparting of greater transparency and accountability in operation and restoring creditability in Indian Financial System. Prudential norms serve two primary purposes, which are:

1. Bringing out the true position of a bank’s loan profitability
2. Helping arrest its deterioration
A proper system for

(1) Income Recognition

(2) Classification of assets and

(3) Provisioning for bad debt on prudential basis is necessary if balance sheet of a bank is to reflect its original financial health. The committee on financial system under the chairmanship of shri M. Narshimham had examined this issue, recommended that a policy of income recognition should be objective, and on recovery rather than on any subjective consideration. Similarly, the classification of assets, which would ensure a uniform and consistent application of norms.

The recommendations of shri M. Narshimham committee regarding income recognition, asset classification and provisioning were sought to be implemented by Reserve Bank of India in a phased manner over a three – year period from the year commencing from the year 1992 – 93. In this regard RBI has issued a separate guideline for different category of commercial banks (in April, 1992), all financial institutions (in April, 1992 with some modifications considering their functioning), NBFCs (in June, 1994) RRBs (in March, 1996) at the proper time with the adequate modification. In 1993 all co – operative banks have been told that they should comply with prudential norms and regulations with income recognition, asset classification and provisioning with some modifications.

6.4.1. Income Recognition:

Internationally income from non – performing assets is not an accrual basis but is taken into account as income only when it is actually received. It has decided to adopt similar practice in country also. Banks have been advised that they should not change and take into income account on all non – performing.
The policy of income recognition has to be objective and based on the record of recovery. The criteria for treating a credit facility or borrower account as non–performing is as follows:

1) **Term Loan:**

The term loan becomes NPA when interest and/or installment remain past due for four quarters during 1992–93 and three quarters during 1993–94. From the year 1993–94 the term loan is treated as NPA in interest or installment of principal has remained overdue for any two quarters as on the balance sheet date, although the default may not be committed continuously for two quarters. This period will be reduced to one quarter with effect from 31st March, 2004. If the account is regularized before the balance sheet date by repayment of overdue amounts through genuine sources (not by sanction of additional facilities or transfer of funds between accounts) the account need not be treated as NPA. Bank should, however, ensure that the account remains in order subsequently and a solitary credit entry made in the accounts on or before the balance sheet date to adjust the overdue interest or installment of principal is not reckoned as the sole criterion for treating the account as standard assets (Performing Assets)

2) **Cash Credit and Overdraft Facility:**

A credit/overdraft account becomes NPA if it remains out of order for any two quarters in a financial year.

(a) Outstanding balance remains continuously in excess of sanctioned limit or drawing power whichever is lower.

(b) Where balance outstanding is less than sanctioned limit or drawing power.
(i) There are no credits in the account continuously for three months or

(ii) Credits are not enough to cover interest and expenses debited during three months

Flow Chart:

As on 30/09/1996, there are only four possibilities for cash credit accounts as under: [O = Out of Order, R = Regular]

<table>
<thead>
<tr>
<th>Quarter No.</th>
<th>Possibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R</td>
</tr>
<tr>
<td>2</td>
<td>R</td>
</tr>
<tr>
<td>3</td>
<td>O</td>
</tr>
<tr>
<td>4</td>
<td>O</td>
</tr>
</tbody>
</table>

Category: PA, PA, PA, NPA

As on 31/03/1997, there are twelve possibilities for cash credit accounts as under: [O = Out of Order, R = Regular]

<table>
<thead>
<tr>
<th>Quarter No.</th>
<th>Possibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R O O O O R R O R R R O</td>
</tr>
<tr>
<td>2</td>
<td>R R O O R O R O O O R</td>
</tr>
<tr>
<td>3</td>
<td>R R R O O R O O O R</td>
</tr>
<tr>
<td>4</td>
<td>R R R R R R O O O O O</td>
</tr>
</tbody>
</table>

Category: Performing Assets, Non - Performing Assets
From the above chart it is clear that if a cash credit account is regular in the fourth quarter it will be performing assets, even if it is out of order in the earlier three quarters. Regarding possibility number seven, the account is performing assets even though it is out of order in the fourth quarter because, it is regular in the earlier three quarters.

If a cash credit account is out of order in the fourth quarter and out of order for any one of the previous three quarters, the account will be non – performing assets.

Concept of past due is applicable to the interest debited to cash credit account. Which means that if a cash credit account is overdrawn only due to application of interest, then for one year, it will not be treated as over drawn.

3) Bills Purchased and Discounted:

A bill purchased / discounted account becomes non – performing assets if it remains overdue for two quarters, the position of the oldest account is to be reckoned for the purpose of income recognition.

4) Housing Loan to Staff:

In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/ advances should be classified as NPA only when there is a default in repayment of installment of principal or payment of interest on the respective due dates.
5) **Other Credit facilities:**

Any other credit facility is to be treated as NPA if it remains “Past Due” for a period of 4, 3 and 2 quarters during the year ended 31st March 1993, 1994 and 1995 onwards respectively.

✧ **EXEMPTIONS:**

1) **Credit facilities Guaranteed by Central /State Government**

   I. The credit facilities backed by guarantee of the Central Government though overdue should not be treated as NPA

   II. This exemption from classification of government guaranteed advances as NPA is not for the purpose of recognition of income.

   III. From the year ended March 31, 2006, State Government guaranteed advance and investment in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days irrespective of the fact whether the guarantee have been invoked or not.

2) **Advances against term deposits:**

Advances against fixed and other term deposits, National Saving Certificates, LIC Policies, Indira Vikash Patrak, and Kishan Vikash Patrak need not be treated as NPA although interest there in is not paid. Interest on such advances may also be taken to income account on due dates provided adequate margin is available in the accounts.
3) Fees and Commissions:

Fees and commissions earned by the banks as a result of renegotiations or rescheduling debts should be recognized on an accrual basis over the period of time covered by the renegotiations or rescheduled extension of credit.

❖ Appropriation of Recovery in NPAs:

Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are of fresh additional credit facilities sanctioned to the borrower concerned.

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs [i.e. towards principal or interest due], bank should adopt an accounting principle and exercise the right or appropriation of recoveries in a uniform and consistent manner.

6.4.2. Assets Classification:

The primary Gujarat State Financial Corporation bank should classify their assets into following broad groups, viz.
(1) **Standard Assets**

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.²

(2) **Sub-standard Assets**

(I) With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers/guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(II) An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after commencement of
production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of this condition.

(3) Doubtful Assets

With effect from 31st March, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tier – I banks, the twelve month period of classification of a substandard asset in doubtful category is effective from 1st April, 2009. As in the case of sub-standard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

(4) Loss Assets:

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
6.4.3. Norms for Provisioning on Loan and Advances:

In conformity with the prudential norms, provisions should be made on the non-performing assets on the basis of classification of assets into prescribed categories as detailed above.

(1) **Standard Assets:**

(I) From the year ended March 31, 2000, the banks make a general provision of a minimum of 0.25 per cent on standard assets.

(II) However, from the year ended March 31, 2007, Tier – II banks will be subjected to higher provisioning norms on standard Asset as under:

(a) The general provisioning requirement for ‘standard advances’ shall be 0.040 per cent from the present level of 0.25 per cent. However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.

(b) For personal loans, loan and advances qualifying as capital market exposures and commercial real estate loans and advances to systemically important NBFCs provisioning requirement would be 2.0 per cent.

(III) The provisions towards “standard assets” need not be netted from gross advances but shown separately as "Contingent Provision against Standard Assets" under "Other Funds and Reserves" in the Balance Sheet.

(IV) in case banks are already maintaining excess provision than what is required/prescribed by Statutory Auditor/RBI Inspection for impaired
credits under Bad and Doubtful Debt Reserve, additional provision required for Standard Assets may be segregated from Bad and Doubtful Debt Reserve and the same may be parked under the head "Contingent Provisions against Standard Assets" with the approval of their Board of Directors. Shortfall if any, on this account may be made good in the normal course.

(V) The above contingent provision will be eligible for inclusion in Tier II capital.

(2) **Sub-standard Assets:**

A general provision of 10 per cent on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available.

(3) **Doubtful Assets:**

(I) Provision should be for 100 per cent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse should be made and the realizable value is estimated on a realistic basis.

(II) In regard to the **secured portion**, provision may be made on the following basis, at the rates ranging from 20 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:
Tier – I Bank

<table>
<thead>
<tr>
<th>Period for which the advance has remained in ‘doubtful’ category</th>
<th>Provision requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to one year</td>
<td>20 per cent</td>
</tr>
<tr>
<td>One to three years</td>
<td>30 per cent</td>
</tr>
<tr>
<td>More than three years (D-III) (I) outstanding stock of NPAs as on March 31, 2010</td>
<td>- 50 per cent</td>
</tr>
<tr>
<td></td>
<td>- 60 per cent with effect from March 31, 2011</td>
</tr>
<tr>
<td></td>
<td>- 75 per cent with effect from March 31, 2012</td>
</tr>
<tr>
<td></td>
<td>- 100 per cent with effect from March 31, 2013</td>
</tr>
<tr>
<td>(II) advances classified as ‘doubtful for more than three years’ on or after April 1, 2010</td>
<td>100 percent</td>
</tr>
</tbody>
</table>

Tier – II Bank

<table>
<thead>
<tr>
<th>Period for which the advance has remained in ‘doubtful’ category</th>
<th>Provision requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to one year</td>
<td>20 per cent</td>
</tr>
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<td>30 per cent</td>
</tr>
<tr>
<td>More than three years (D-III) (III) outstanding stock of NPAs as on March 31, 2007</td>
<td>- 50 per cent as on March 31, 2007</td>
</tr>
<tr>
<td></td>
<td>- 60 per cent with effect from March 31, 2008</td>
</tr>
<tr>
<td></td>
<td>- 75 per cent with effect from March 31, 2009</td>
</tr>
<tr>
<td></td>
<td>- 100 per cent with effect from March 31, 2010</td>
</tr>
<tr>
<td>(IV) advances classified as ‘doubtful for more than three years’ on or after April 1, 2007</td>
<td>- 100 percent</td>
</tr>
</tbody>
</table>
Additional provisioning consequent upon the change in the definition of doubtful assets effective from March 31, 2002 has to be made in phases as under:

- As on 31/03/2002, 50 percent of the additional provisioning requirement on the assets, which become doubtful on account of new norm of 18 months for transition from sub-standard asset to doubtful category.
- As on 31/03/2003, balance of the provisions not made during the previous year, in addition to the provisions needed as on 31/03/2003.

The provisions on standard assets must not be reckoned for arriving at net NPA.

The provisions towards “standard assets” need not be netted from gross advances but shown separately as "Contingent Provision against Standard Assets" under "Other Funds and Reserves" {item.2 (viii) of Capital and Liabilities} in the Balance Sheet.

In respect of the advances covered by ECGC/DICGC guarantee banks were advised that in the case of advances guaranteed by ECGC/DICGC, provision should be made only for the balance in excess of the amount guaranteed by these corporations. From the year 1995 – 96 and onwards, bank should deduct realizable value of security from outstanding balance before the ECGC/DICGC guarantee is offset example, the following method should be adopted to find out the provisioning requirement in respect of doubtful assets:

- Outstanding balance: Rs. 10 Lacs
- ECGC/DICGC cover: 60 %
- Period for which the advanced has remained doubtful: More than 3 years
- Value of security: Rs. 3 Lacs
❖ Calculation of Provision:

➢ Outstanding balance Rs. 10 Lacs
➢ Less: value of security held Rs. 03 Lacs
➢ Balance Rs. 07 Lacs
➢ Less: ECGC/DICGC cover (60% of Balance) Rs. 4.2 Lacs
➢ Balance of amount required provisioning Rs. 2.8 Lacs
➢ Provision for unsecured portion – 100 % after adjusting the
    Guarantee covers (a) Rs.2.8 Lacs
➢ Provision for secured portion (50 % of 03 Lacs) (b) Rs. 1.5 Lacs
➢ Total provision required to be made (a + b) Rs. 4.3 Lacs

❖ Advances against gold ornaments, government securities and all other kinds of
securities are not exempted from provisioning requirements.

❖ the RBI in its circular dated on 2nd July, 1996 has advised the banks to classify
non- performing assets into sub – standard, doubtful and loss assets before
finalizing the accounts as at 31st March and submit the copy of a statement to the
RBI, duly certified by the statutory auditor of the bank who have been appointed
to audit the annual accounts of the banks.

(4) Loss Assets:

(I) The entire assets should be written off obtaining necessary approval from the
competent authority and as per the provisions of the co – operative society’s
act/rules. If the assets are permitted to remain in the books for any reason,
100 per cent of the outstanding should be provided for.

(II) In respect of an asset identified as a loss asset, full provision at 100 per cent
should be made if the expected salvage value of the security is negligible.
6.4.4. Other Provisional Norms:

(1) Treatment of NPAs of Agricultural Advances:

Where natural calamities impair the repaying capacity of agricultural borrowers, as a relief measure, banks may decide on their own to:

(a) convert the short-term production loan into a term loan or re-schedule the repayment period, and

(b) sanction fresh short-term loans

In such cases of conversion or re-schedulement, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as non-performing asset (NPA). The asset classification of these loans would, therefore, be governed by the revised terms and conditions and these would be treated as NPA under the extant norms applicable for classifying agricultural advances as NPAs.

(2) Net Worth Of Borrower/Guarantor or Value of Security:

It is clarified that availability of security or net worth of borrower/guarantor should not be taken into account for the purpose of treating advances as NPA or otherwise, as income recognition is based on record of recovery.

(3) Credit facilities Guaranteed by Central /State Government:

(I) The credit facilities backed by guarantee of the Central Government though overdue should not be treated as NPA

(II) This exemption from classification of government guaranteed advances as NPA is not for the purpose of recognition of income.

(III) From the year ended March 31, 2006, State Government guaranteed advance and investment in State Government guaranteed securities
would attract asset classification and provisioning norms, if interest
and/or principal or any other amount due to the bank remains overdue
for more than 90 days irrespective of the fact whether the guarantee have
been invoked or not.

(4) Treatment of NPAs – Borrower-wise and not Facility-wise:

In respect of a borrower having more than one facility with a bank, all the
facilities granted by the bank will have to be treated as NPA and not the particular
facility or part thereof which has become irregular.

However, in respect of consortium advances or financing under multiple banking
arrangements, each bank may classify the borrower accounts according to its own
record of recovery and other aspects having a bearing on the recoverability of the
advances.

(5) Consortium Advances:

As per the revised guidelines by the RBI in January, 1997 stating that in
respect of consortium advances each bank may classify the borrower accounts
according to its own record of recovery and other aspect having a bearing on the
recoverability of advances.

(6) Regularization of Credit Facility before a Balance Sheet date:

The RBI issued a circular in January, 1997 stating that if the accounts of the
borrower have been regularized before the balance sheet date by repayment of
overdue amounts though genuine source (not by sanction of additional facilities or
transfer of funds between accounts), the accounts need not be treated as NPA. Bank
should, however ensure that the account remains in order subsequently and a solitary
credit entry made in the account or before the balance sheet date, which extinguishes
the overdue amount of interest or installment of principal, in not reckoned as the sole
criterion for treating the accounts as standard assets (performing assets)
(7) Advances Granted under Rehabilitation Packages Approved by BIFR/Term Lending Institutions:

Banks are not permitted to upgrade the classification of any advances in respect of which the terms have been re-negotiated unless the package of re-negotiated terms has worked satisfactorily for a period of two years. thus, bank should continue to make provision in respect of existing credit facilities sanctioned to a unit under rehabilitation as per their classification as sub – standard or doubtful. As regard the additional facilities sanctioned as per package finalized by BIFR(term landing institution, bank need not make provision for a period of one ear from the date of disbursement of additional facilities. Similar relaxation also extended so SSI units which are identified as sick by banks themselves (as per RBI circular dated 20th November, 2000). In other words, RBI guidelines on income recognition, asset classification and provisioning will apply to additional facilities after a period of one year from the date of disbursement.

(8) Accrued Interest on Non – Performing Assets:

Interest accrued on non-performing assets not be debited to borrowal accounts but to 'Interest Receivable Account' and credited to 'Overdue Interest Reserve Account' and shown on the assets and liabilities side of the balance sheet respectively. In this context, it may be clarified that the amount held in the 'Overdue Interest Reserve Account' cannot be regarded as a ‘reserve’ or as part of the owned funds of the bank.

(9) Accrued Interest on Performing Assets:

In the case of performing assets, interest accrued may be debited to borrowal account and credited to Interest account. If the accrued interest for the quarter ended
March, if not realized becomes “past due” only on 30\textsuperscript{th} April of the following accounting year. If the relevant credit facility becomes NPA at a later date, the bank should reserve the entry of the unrealized interest’s amount by debiting “profit and loss account” and crediting to the 'Overdue Interest Reserve Account' should not be deducted from the advances outstanding.

(10) **Reversal of Unrealized Interest:**

If any advance including bills purchased and discounted which have been classified as non –performing assets for the first time during the current year, the interest accrued and credited to income account in the previous year which has not been realized, should be reversed or provided for during the current year. This will be applicable to unrealized interest on Government guaranteed accounts also.

(11) **Partial Recoveries of Non – Performing Assets:**

In respect of the interest partially recovered in non – performing assets, it has been clarified that banks may rake to income account interest realized in non – performing assets provided it is ensured that the credits in the accounts towards interest are not out of fresh/additional facilities sanctioned to the borrower concerned.

(12) **Interest Suspense Account:**

The amount held in the interest suspense account should not be reckoned as part of provisions. However, amounts lying in the interest suspense account should be deducted from the relative advances and provisioning should be made on the balance sheet after such deduction.
(13) Valuation of Interest:

If there is any appreciation in the value of securities on account of the method of valuation as indicated by RBI, it should not be booked as income. Further banks which have adopted a more prudent method of valuation of securities than the one suggested by RBI, these banks may continue the practice either to be followed by them.

(14) Removal of “past due” Concept:

With circular of RBI dated 8th December, 2000 stating that due to the improvement in the financial sector during the past few years, it has been decided to dispense with “past due” concept with effect from March 31st, 2001. Accordingly as from the date, a non – performing asset shall be an advance where interest and/or installment of principal of term loan, overdraft, demand draft of bills purchased and discounted, any amount to be received remains overdue more than 180 days.

(15) Advances covered by ECGC/DICGC guarantee:

In the case of advances guaranteed by DICGC/ECGC, provision should be made only for the balance in excess of the amount guaranteed by these Corporations. Further, while arriving at the provision required to be made for Doubtful assets, realizable value of the securities should first be deducted from the outstanding balance in respect of the amount guaranteed by these Corporations and then provision made as illustrated hereunder:
For Example:

Outstanding balance  Rs. 4.00 Lacs

Less: Value of security held  Rs. 1.50 Lacs

Unrealized balance  Rs. 2.50 Lacs

Less: DICGC Cover (50% of unrealizable balance)  Rs. 1.25 Lacs.

Net unsecured balance  Rs. 1.25 Lacs

Provision for unsecured portion of advance  Rs.1.25 Lacs

(@ 100 per cent of unsecured portion)

Provision for secured portion of advance  Rs.0.90 Lacs

(As on March 31 2005) (@ 60 % of secured portion)

Total provision required to be made  Rs. 2.15 Lacs

In case the banks are following more stringent method of provisioning in respect of advances covered by the guarantees of DICGC/ ECGC, as compared to the method given above, they may have the option to continue to follow the same procedure.
Chart: 6.2 Provision for Performing and Non-Performing Assets

Assets

Standard (P.A.)
0.40 %, 1 %, & 2 %

Non-Performing Assets (NPA)

Sub Standard
10 %

Doubtful

Loss Assets
100 %

Up to 1 Year

1 to 3 Years

Above 3 Years

Secured 20 %

Secured 30 %

Secured 50 %

Unsecured 100 %

Unsecured 100 %

Unsecured 100 %
6.4.5. Recent Development: [From 23rd April, 1999 by RBI]

1) Reduction in the time frame for classification of assets as doubtful assets:

With a view to moving closer to international practices in regard decided that as asset should be classified as doubtful if it has remained in sub – standard category for 18 month instead of 24 months as at present, by 31st March, 2001. The banks are permitted to achieve these norms for additional provisioning, in phases, as under:

As on 31st March, 2002 Balance of the provisioning not made during the previous year, in provisions needs as on 31st March, 2002.

2) Norms in respect of Government Guaranteed Advances:

It has been decided, as a prudent measure, to introduce provisioning norms in respect of advances guaranteed by state government where guarantee has been invoked and has remained in default for than two quarters. This measure would be effective from 1st April, 2000 as regards provisioning requirements, which stood invoked as on 31st March 2000, necessary provision should be made during the financial year ending 31st March 2000 to 31st March 2003 with a minimum of 25% each year.

3) Provision on Standard Assets: (Performing Assets)

0.25% of the outstanding performing advances under direct agriculture and advance qualifying as capital market exposure, commercial and real estate loan & loans and advances to systemically important NBFCs-Non-Deposit Taking Companies, 1% for residential housing loans beyond Rs. 20 Lakh and 0.40% on the residual outstanding performance advances.³
4) **Other Matters:**

It has been decided, in consultation with Government of India, to implement some of the recommendations made by the commits on banking sector reforms. These are given in the following table:

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendations</th>
<th>Decision Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Banks and financial institutions should avoid the practice of ever greening</td>
<td>The Reserve Bank reiterates that Banks and Financial Institutions should adhere to the prudential norms on assets classification, provisioning etc. and avoid the practice of ever greening of loan accounts.</td>
</tr>
<tr>
<td>(2)</td>
<td>Any effort at financial restructuring must go hand in hand with operational</td>
<td>The banks are advised to take effective steps for reduction of NPAs and also put to place risk management system and practices to prevent re-emergence of fresh NPAs.</td>
</tr>
<tr>
<td></td>
<td>restructuring with the cleaning up of the balance sheet, simultaneously steps,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>to be taken to prevent / limit re-emergence of new NPAs.</td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td>Bank to pay special attention to reporting and checking by the bank office of</td>
<td>While the system is already in place, banks are required to monitor this vigorously to strengthen their internal control system.</td>
</tr>
<tr>
<td></td>
<td>the trading transactions.</td>
<td></td>
</tr>
<tr>
<td>(4)</td>
<td>There is need to institute as independent loan review mechanism especially for</td>
<td>Banks should ensure a loan review mechanism for larger advances soon after its sanction and continuously monitor the weakness developing corrective measures in time.</td>
</tr>
<tr>
<td></td>
<td>large borrowal accounts and to identify potential NPAs.</td>
<td></td>
</tr>
</tbody>
</table>
6.5. Managing Non – Performing Assets:

Reasons for managing Non-Performing Assets. (Why should manage Non-Performing Assets?)

NPAs have multifold effects on the banks. It shows the weakness of management of bank. It is necessary to manage non–performing assets for following reasons:

1. To protect the interest of shareholders:

Members of the banks are true owners of bank. They contribute or invest their amount in banks to earn dividend. Being amount of NPA with their amount to banks to earn dividend because high amount of NPAs means earning assets are on deterioration consequently, means lower income of banks that will make unable to satisfy the members by paying high rate of dividend.

2. To protect the interest of depositors:

Depositors are the key person of the banks because of their deposits the banks are able to lend to borrowers. Depositors want consistence interest income on their deposit. When their deposits, advanced to borrowers, which would, later on, if become a NPA, banks would be unable to pay timely interest to depositors will switch of their deposits from one bank to another bank which is not commendable for particular bank. Thus it is very important for banks to manage efficiently their advances, which are likely to turn into NPAs.
3. For Profitability:

Non-performing Assets means an asset, which cease to generate any income. Thus more and more NPA will reduce the income of banks as interest which is main component of bank’s income thus it will jeopardize the profitability or return on assets consequently it will be constraint for bank’s growth.

4. High Provision:

Higher NPA leads banks to compel higher provision for “Bad Debts Reserve” as per the norms of RBI Provision will be cone by realized and NPA will block the actual profit of banks for current year thus NPA has a dual effect i.e. not realization of interest income and separate provision for NPA from Profit & Loss Account.

5. Creditworthiness of the Banks:

NPA works as a tool for worthiness of particular bank. If banks are having high NPA level then it will be very difficult to raise additional funds from market. It will make bad impression of banks on people.

6. Expansion Plan:

For instance banks want to start as its expansions plan and its NPA level is higher. Then prescribed by RBI that is 15% of advances, banks will not be able to get permission from the RBI for starting a new branch. Thus it is necessary to control NPA level within prescribed limit for future growth of banks.
7. Welfare of Employees:

If banks are having high NPA it will ruin the whole capital and past reserves, which raises question for existence of banks. Thus, many personnel will loss employment, but also banks cannot make any provision for welfare activities of the employee’s future benefits due to lack of availability of free reserves.

8. In the interest of sustained economic growth:

For the internet of sustained economic growth it is necessary to control and minimize NPAs of nations banking sectors. High NPA leads to inflation in economy. Further, NPASs will reduce the opportunities for productive investment, ruin the effort of directed allocation of funds, preferred investment areas, subsequently economy of country will not be able to achieve expected growth, which is decided on formation of budget.

6.6. Reducing The NPAs:

Guidelines issued by Reserve Bank of India regarding recognition, asset classification and provisioning norms have completed banks in India not to show true financial picture in the balance sheet but also to take corrective steps for improving their loan portfolio. With the adoption of these guidelines, banks are now fully vigilant about quality of their loan assets and various steps are being taken by them to reduce the NPAs. It is always better to follow the proper policy for appraisal, supervision and follow-up of advances to avoid NPAs. However, risks attached to lending cannot be completely eliminated. If certain advances are converted into NPAs, it is necessary to take corrective steps to reduce them. Reduction in NPAs is necessary to improve profitability.
Researcher would like to suggest following strategies (techniques) to Banks for reducing their NPAs.

1. Replacement of loans

2. Rehabilitation of potentially viable units

3. Acquisition of sick units by health units

4. Compromised with borrowers

5. Calling up of advances and filling of civil suits

6. Approaching debt recovery tribunal

7. Recovery of advances given under Government sponsored programs

8. Settlement of claims with DICGC / ECGC

9. Establishment of assets recovery branches

10. Write off the outstanding

1. **Replacement of loans:**

   Repayment of a term loan depends on income generating capacity of the borrowing concern. It may be difficult to get repayment of the term loans if the borrowing unit does not generate profit. A unit, which does not earn profit, may repay a few installments by borrowing from other sources of diverting short term fund for repayment. But ultimately a unit not earning profit will not be able to repay the term loan. Therefore, it is necessary to fix repayment schedule for a term loan according to income generating capacity of the unit. If repayment schedule is not fixed properly or a unit is not able to generate expected profit, possibility may be explored in
consultation with the borrowers, for replacement of loan installments. Banks are not permitted to upgrade the classification of any advances in respect of which terms have been renegotiated unless the package of renegotiated term has worked satisfactorily for a period of two years. The classification of assets may improve, if performance of the loan account remains satisfactory for two years after replacement. It may be mentioned that replacement of the loan installment should be done only when it is expected to get repayment after the replacement.

2. Rehabilitation of the potentially viable units:

If a sick unit is potentially viable, necessary efforts should be made to finalize the rehabilitation package without the loss of time. Provision need not be made for a period of additional facilities sanctioned under rehabilitation package approved by BIFRJ term lending institution. If the rehabilitation program runs smoothly, it may be necessary to make provision even after one year for additional facilities provided statutory auditors are also satisfied about the progress of rehabilitation program. If the unit becomes viable, the entire outstanding (including existing facilities) will become standard assets. Although rehabilitation of sick unit is a long drawn procedure, it may be encouraged where units are potentially viable and the management is reliable. However, non-viable sick units should be liquidated to get funds for recycling without avoidable loss of time in decision making.

3. Acquisitions of sick units by health units:

If healthy unit acquires a sick units, the outstanding loan amount of sick unit may be transferred to the healthy unit the entire NPA may be even wiped off. Therefore, banks should encourage merger/acquisition of sick units wherever they feel it may reduce the NPAs. Banks may even help the sick units to get stable buyers,
if a part of the consideration is to be received by the sick unit is likely to be used for liquidating the NPA. Banks should make a comparative study of grains of merger/acquisition and sacrifice to be made by them to clinch the deal.

4. Compromise the borrowers:

A compromise may be called a negotiated settlement in which the borrowers agree to pay a certain amount to the banker after getting certain concession. A large number of compromise proposal are being approved by banks with a view to reducing the NPAs and recycling the funds instead of resorting to expensive recovery proceedings spread over a long period. However a compromise proposal should not be approved without proper scrutiny. Banks should try to recover their dues to the maximum extent possible at minimum expenses. While entering into the compromise proposals, following points should be taken into consideration.

(a) A bank keeping in view the guidelines given in its Loan Recovery Policy should accept compromise proposal.

(b) A proper distinction should be made between willful defaulters and the borrowers defaulting the repayment due to circumstances beyond their control. Normally, compromise proposal should be accepted from non-willful defaulter, compelling reasons for resorting to the some should be spelt out in the note/memorandum prepared for is approval.

(c) Where security is available, its realizable value should be assessed taking into consideration its location, present condition, marketable title and possession.

(d) Worth of the guarantor, if any, should be assured. Many a time’s banks may be able to recover the amount with the help of guarantee available.
(e) Borrower’s creditability and his paying ability should be assured if recovery is to be made in installments as per the compromise proposal.

(f) Staff accountability should be examined expeditiously and complete within a time frame.

(g) All compromise proposal approved by any functionary should be promptly reported to the next higher authority for post-facto security.

(h) The proposal for write–off / compromise falling within the authority of Executive Director / Chairman and Managing Director / Management Committee / Board of Bank should be first processed by a committee of senior executive of the bank (i.e. Chief General Manager, General Manager).

(i) Internal inspector of the banks and statutory auditors should also examine the compromise proposal to ascertain that they have been done in the interest of the bank.

(j) While conducting inspection of banks, official of the Reserve Bank should also examine all the compromise proposals involving higher sacrifice. They may also scrutinize such proposals where the amount of loss suffered by banks as percentage to the total outstanding is very high. It may be observed from above that compromise has to be done with great care after taking in to consideration the various factors. Points to be seen while entering in to a compromise proposal can be summarized in the below chart.
## Compromise Proposal

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Reduction in NPAs</td>
<td>I. Loss suffered by the Bank and result of difference between loan outstanding and the amount actually received.</td>
</tr>
<tr>
<td>II. Recycling of funds</td>
<td>II. While calculating the loss, unapplied interest for the period up to which payment is likely to be received after compromise and other national waivers, if any, should be added in the outstanding balance.</td>
</tr>
<tr>
<td>III. Saving in time and expenses involving the legal proceedings.</td>
<td></td>
</tr>
<tr>
<td>IV. Tax relief due to writing off the unrealized portion of the outstanding.</td>
<td></td>
</tr>
</tbody>
</table>

Following points are to be considered while taking decisions on the compromise proposals:

1. Realized value of security, if any
2. Worth of the guarantor, if any
3. Financial position of the borrower
4. Amount of loss to be suffered as percentage to the total loan outstanding.
5. Time and expenses likely to be incurred in legal proceedings

As no formula can be prescribed for entering into a compromise proposals, banks should consider the above points while taking a decision on a compromise proposal.
5. **Calling up the advances and filing of civil suits:**

It is not possible to receive a unit or enter into a reasonable settlement with the borrower, it is better to recall the advances at any early state instead of waiting for a long time which may result in deterioration of the security available. Further, if it is not possible to sell the security without obtaining courts order, civil suits may be fled against such borrows who are not likely to come to reasonable settlements. Banks should not feel that their job over by filing the court case. Banks should revise the list of approval advocate from time to time keeping in view their performance. Advocates who do not perform well should not be given new cases.

6. **Approaching debt recovery tribunal:**

An act has been passed by parliament for setting up Debt Recovery Tribunal for expeditious adjudication and recovery of debts due to banks and financial institutions. The provisions of this act title as “the recovery of debts due to banks and financial institutions act, 1993”, are applicable where the amount of debt to any bank of financial intuitions of to a consortium of banks or financial institutions is not less than Rs. 10 Lakhs. The Central Government have, however, been empowered to reduce the lower limit of Rs. 10 Lakhs but not below Rs. 1 Lakhs by issuing notification.

The “Debt Recovery Tribunals” are being setup in various states and an Appellate Tribunal has also been set up at Bombay to hear the appeals against the decision of the Debt Recovery Tribunals. However, a provision has been made in this act to deposit 75% of the decrrial amount before going for appeal, which may discourage unnecessary delay in settlement of case. It is hoped that establishment of debt recovery may not only failure quick decisions but also induce borrowers to enter settlements with the banks.
7. **Recovery of advances given under Government sponsored programs:**

Banks should take advantage of the legislation enacted by the State Government for specially recovery of banks overdue. They should promptly file cases against willful defaulters with the concerned authorities of the State Government. While filing the cases, they may ensure that necessary details and settlements are submitted. Representative of the banks should also attend the courts on fixed dates. The matters relating to recovery of advances should be discussed into State Level Bankers meeting and necessary help for recovery should be obtained from the State Government authorities. Sometimes, it may be useful to organize Recovery Camp for effecting speedy recovery of the bank’s dues. A list of defaulters may be for each village before organizing the Recovery Camp with which Recovery Officers, Blocks Department officers, Patwarie, Gram Sevaks, etc. may be closely associated. Banks in rural areas should take full advantage of non-public business working days for recovery of advances. If necessary, branch wise analysis of overdue in a particular branch, proper monitoring of overdue from rural branches is also essential to reduce the outstanding advances.

8. **Settlement of claims with DICGC / ECGC:**

If DICGC / ECGC claims are available should submit their proposal for the same with necessary details. Proper follow – up with DICGC / ECGC is necessary for settlement of claims and reducing the NPAs to certain extent.
9. **Establishment of Asset Recovery Branches:**

Some banks have opened Asset Recovery Branches at critical centers for undertakings recovery. Bad and doubtful debts of various branches have been transferred to the recovery branch, which may have expert trained staff with necessary background for recovery. The specialized recovery branches may give undivided attentions to recovery of dues. Establishment of such specialized branches may help in reducing NPAs.

10. **Write-off the outstanding:**

If all the efforts for recovery fail, banks may have to writ off the advances. Such write-off should be done after exhausting all other remedies. When chances of recovery are negligible, some banks prefer to write-off an advance to reduce its income and save tax. In such cases, banks should continue to make efforts for recovery even after writing-off the advance.

It may be observed from the above that various techniques can be used for reducing NPAs. If one technique dealing with a particular NPA, the bank may have to try with other techniques for that case.
6.7. Ratio Analysis of NPAs:

6.7.1. Net NPA Ratio:

\[
Net\ NPA\ Ratio = \frac{Net\ NPAs}{Net\ Loan\ &\ Advances} \times 100
\]

Table: 6.7.1. Net NPA Ratio of GSFC

(Base Year: 2002 – 03) (Rs. In lacs)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net NPA</th>
<th>Net Loan and Advances</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2002 – 03</td>
<td>63669</td>
<td>88430</td>
<td>71.99</td>
</tr>
<tr>
<td>2</td>
<td>2003 – 04</td>
<td>65167</td>
<td>73733</td>
<td>88.38</td>
</tr>
<tr>
<td>3</td>
<td>2004 – 05</td>
<td>57184</td>
<td>61180</td>
<td>93.47</td>
</tr>
<tr>
<td>4</td>
<td>2005 – 06</td>
<td>35351</td>
<td>37461</td>
<td>94.37</td>
</tr>
<tr>
<td>5</td>
<td>2006 – 07</td>
<td>13519</td>
<td>13744</td>
<td>98.36</td>
</tr>
<tr>
<td>6</td>
<td>2007 – 08</td>
<td>04923</td>
<td>04964</td>
<td>99.17</td>
</tr>
<tr>
<td>7</td>
<td>2008 – 09</td>
<td>56722</td>
<td>56747</td>
<td>99.94</td>
</tr>
<tr>
<td>8</td>
<td>2009 – 10</td>
<td>40699</td>
<td>40719</td>
<td>99.95</td>
</tr>
<tr>
<td>9</td>
<td>2010 – 11</td>
<td>37393</td>
<td>37413</td>
<td>99.95</td>
</tr>
<tr>
<td>10</td>
<td>2011 – 12</td>
<td>34663</td>
<td>34695</td>
<td>99.91</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>40929</td>
<td>44909</td>
<td>94.55</td>
</tr>
</tbody>
</table>

Source: Computed from the annual reports and accounts of the GSFC, Gandhinagar.
The above Table and Chart presents the Net NPA Ratio of the GSFC. It shown an increasing trend during the whole study period, expected in the year 2011 – 12. And it was a very high during whole study period. It is not good sign for the unit. It was ranged between 71.99 percent in the year 2002 – 03 and 99.95 percent in the 2010 – 11 with an average of 94.55 percent. This led to the acceptances the null hypothesis and rejects the alternative hypothesis. The researcher concludes that the net NPA ratio of the GSFC has been not an effective and efficient manner. The management of GSFC has not taken enough care and not followed ideal norms in granting loan and advances, so that the recovery position of GSFC is not satisfactory leading to lower Net NPA.
6.7.2. Problems Assets Ratio:

\[
Problems \text{ Assets Ratio} = \frac{Net \ NPAs}{Net \ Assets} \times 100
\]

Table: 6.7.2.

Problems – Assets Ratio of GSFC

(Base Year: 2002 – 03) (Rs. In Lacs)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net NPAs</th>
<th>Net Assets</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2002 – 03</td>
<td>63669</td>
<td>101380.48</td>
<td>62.80</td>
</tr>
<tr>
<td>2</td>
<td>2003 – 04</td>
<td>65167</td>
<td>79894.08</td>
<td>81.57</td>
</tr>
<tr>
<td>3</td>
<td>2004 – 05</td>
<td>57184</td>
<td>66688.93</td>
<td>85.75</td>
</tr>
<tr>
<td>4</td>
<td>2005 – 06</td>
<td>35351</td>
<td>46350.35</td>
<td>76.27</td>
</tr>
<tr>
<td>5</td>
<td>2006 – 07</td>
<td>13519</td>
<td>17305.80</td>
<td>78.12</td>
</tr>
<tr>
<td>6</td>
<td>2007 – 08</td>
<td>04923</td>
<td>10450.82</td>
<td>47.11</td>
</tr>
<tr>
<td>7</td>
<td>2008 – 09</td>
<td>56722</td>
<td>2940.73</td>
<td>1928.84</td>
</tr>
<tr>
<td>8</td>
<td>2009 – 10</td>
<td>40699</td>
<td>2976.46</td>
<td>1367.36</td>
</tr>
<tr>
<td>9</td>
<td>2010 – 11</td>
<td>37393</td>
<td>4077.95</td>
<td>916.96</td>
</tr>
<tr>
<td>10</td>
<td>2011 – 12</td>
<td>34663</td>
<td>5265.04</td>
<td>658.36</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>40929</td>
<td>33733.06</td>
<td>530.31</td>
</tr>
</tbody>
</table>

Source: Computed from the annual reports and accounts of the GSFC, Gandhinagar.
The Problem Assets Ratio shows the proportion of Net NPA to Total Assets and the table and chart given above shows that the percentage of GSFC is 530.31 percent on an average for the study period. The percentage shown is, however not stable. It was ranged between 47.11 percent in 2007 – 08 and 1928.84 percent in the year 2008 – 09. It was reducing from 2009 – 10 to end of the study, it is good for the unit. It seems that the attention has been not given by the management to the proportion of Net NPA and Total Assets of the banks. This led to the acceptances of the null hypothesis and rejects the alternative hypothesis.
6.7.3. Shareholders’ Risk Ratio:

\[ Shareholder's\ Risk\ Ratio = \frac{Net\ NPAs}{Total\ Capital\ and\ Free\ Reserves} \times 100 \]

Table: 6.7.3.

Shareholders’ Risk Ratio of GSFC

(Base Year: 2002 – 03) (Rs. In lacs)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net NPAs</th>
<th>Total Capital and Free Reserves</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2002 – 03</td>
<td>63669</td>
<td>16516.40</td>
<td>385.49</td>
</tr>
<tr>
<td>2</td>
<td>2003 – 04</td>
<td>65167</td>
<td>16516.40</td>
<td>394.56</td>
</tr>
<tr>
<td>3</td>
<td>2004 – 05</td>
<td>57184</td>
<td>16516.40</td>
<td>346.23</td>
</tr>
<tr>
<td>4</td>
<td>2005 – 06</td>
<td>35351</td>
<td>31291.40</td>
<td>112.97</td>
</tr>
<tr>
<td>5</td>
<td>2006 – 07</td>
<td>13519</td>
<td>31291.40</td>
<td>43.20</td>
</tr>
<tr>
<td>6</td>
<td>2007 – 08</td>
<td>04923</td>
<td>33550.40</td>
<td>14.67</td>
</tr>
<tr>
<td>7</td>
<td>2008 – 09</td>
<td>56722</td>
<td>34358.40</td>
<td>165.09</td>
</tr>
<tr>
<td>8</td>
<td>2009 – 10</td>
<td>40699</td>
<td>34358.40</td>
<td>118.45</td>
</tr>
<tr>
<td>9</td>
<td>2010 – 11</td>
<td>37393</td>
<td>34818.88</td>
<td>107.39</td>
</tr>
<tr>
<td>10</td>
<td>2011 – 12</td>
<td>34663</td>
<td>34818.88</td>
<td>099.55</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>40929</td>
<td>28403.70</td>
<td>178.76</td>
</tr>
</tbody>
</table>

Source: Computed from the annual reports and accounts of the GSFC, Gandhinagar.
The shareholders are exposed to great risk if the Net NPA is positive or more than zero. Hence it is necessary to see that the shareholders’ funds are safe in view of the NPAs. So, this ratio becomes important from view point of the shareholders. From the table and chart given above, we can see the position of the GSFC. A risk ratio is resulted very high during the whole study period. It ranged between 14.67 percent in the year 2007 – 08 and 385.49 percent in the year 2002 – 03 with an average of 178.76 percent. However, it is a happy sign that the risk ratio shown a decreasing trend during the whole study period, expected in the year 2008 – 09. This signifies that the shareholders’ funds in the GSFC bank are not safe. This led to the acceptances of the null hypothesis and rejects the alternative hypothesis.
References:

