CHAPTER – VI
NON-PERFORMING ASSETS OF SCBs – AN ANALYSIS

The economic reforms initiated in 1991 by the then Finance minister and present Prime Minister Dr. Manmohan Singh would have been remained incomplete without the overhaul of the Indian banking sector. The Narasimham committee reports (First report) recommendations are the basis for initiation of the process, which is still continuing, though many of the sick banks are able to come out of the red after repeated doses of fund infusion. But a few of the banks are still in the red and efforts are on to resuscitate them. The bigger challenge at the momentous to deal with the worsening financial health of the banking sector.

The important financial institutions like Industrial Finance Corporation of India (IFCI) and Industrial Development Bank of India (IDBI) are also not in the pink of health, which require government support for revitalising themselves. The important aspect of the banking sector reforms is relating to liberalisation of norms and guidelines for making the whole sector vibrant and competitive. This was a gradual process undertaken with utmost care and least it should disrupt the banking sector.

Slowly the Reserve Bank of India (RBI) has freed the interest rate, but marginally increased now, both on the deposit and lending spectrums at present. Simultaneously it has relaxed the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) and also unlocking more and more funds in the financial markets. On the deposit side, the bank is free to offer any rate of interest depending upon their asset–liability position. But the RBI regulates the savings rate. Similarly the banks can charge the flexible rate on lending operations depending upon their risk perception. It is futile to say that there are no controls but they are much lesser as compared to the controls that was existed before the initiation of banking reforms. The other vibrant dimension of the banking sector is to reduce the Non-performing assets (NPA).

During 1980 to 1996, there was a crisis in the banking sector World over. According to a study 73 percent of the member countries of the International Monetary Fund (IMF) have experienced serious banking problems but most of these member countries are developing nations only. One of the prominent reasons for the
crisis is building up of Non-Performing Assets in the banking and financial sector. India has also experienced the problem of raising NPA.

Apart from compromise on object credit assessment of borrowers due to political economy considerations, laxities in legal system, accounting disclosure practices, recession and willful default have lead to the accumulation of NPA.

**Growth and Structural Changes in Banking Sector:**

In order to have proper understanding of NPA menace, it is necessary to have brief idea of growth and structural changes that have taken place in the banking sector. The growth of the banking business can be assessed in five phases.

- **Preliminary phase:** Series of births and deaths of banks in the first five decades of twentieth Century.
- **Business phase:** Laying of solid and sound foundation for banking business which was taken place between 1949 and 1969 by enacting Banking Companies’ Regulation Act 1949.
- **Branching out phase (1969 to 1985):** When 19 major commercial banks were nationalized in two phases and these banks have reached larger mass of population through opening of branches and lead bank schemes.
- **Consolidation phase:** During this phase (1985 –1991) weaknesses and defects of mass branching were identified and attended through various committees’ investigation.
- **Reforms and strengthening stage (1991 to till date):** In fact first dose of reforms started with Narasimham Committee report in 1991. Subsequently there were series of reforms in SLR, CRR, new norms of assets classification (NPA) and provisioning of capital adequacy norms, permission for entry of new generation private banks and foreign banks regulation of interest rate, setting up of Debt Recovery Tribunals and passage of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) 2002.

**Banking Risks:**

The problem of losses or lower profitability of NPAs, assets and liability mismatch in banks and financial sector depend on the following risks are managed in their businesses.
a) Credit risk  
b) Interest rate risk  
c) Exchange rate risk  
d) Liquidity risk  
e) Transfer risk  
f) Operational risk  
g) Market risk  
h) Settlement risk  
i) Counter party risk and  
j) Country risks.

What is NPA?

NPA. The three letter Strike terror in banking sector and business circle today. NPA is short form of “Non-Performing Asset”. The dreaded NPA rule says simply this: when interest or other due to a bank remains unpaid for more than 90 days, the entire bank loan automatically turns a non-performing asset. The recovery of loan has always been problem for banks and financial institution. To come out of these first we need to think is it possible to avoid NPA, no cannot be then left is to look after the factor responsible for it and managing those factors.

Definitions

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A ‘non-performing asset’ (NPA) was defined as a credit facility in respect of which the interest and/or installment of principal has remained ‘past due’ for a specified period of time.

With a view to moving towards, international best practices and to ensure greater transparency, it has been decided to adopt the ‘90 days overdue’ norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
The account remains ‘out of order’ for a period of more than 90 days, in respect of Overdraft/Cash Credit (OD/CC),

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

Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.

As a facilitating measure for smooth transition to 90 days norm, banks have been advised to move over to charging of interest at monthly rests, by April 1, 2002. However, the date of classification of an advance as NPA should not be changed on account of charging of interest at monthly rests. Banks should, therefore, continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from April 1, 2002 and 90 days from the end of the quarter with effect from March 31, 2004.

**NPAs: An Issue for Banks and FIs in India**

To start with, performance in terms of profitability is a benchmark for any business enterprise including the banking industry. However, increasing NPAs have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the sometime are forced to make provision on such assets as per the RBI guidelines. Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford defaults by borrower since NPAs affects the repayment capacity of banks.

Further, RBI successfully creates excess liquidity in the system through various rate cuts and banks fail to utilise this benefit to its advantage due to the tear of burgeoning non-performing assets.

**Indian Economy and NPAs**

Undoubtedly the world economy has slowed down, recession is at its peak, globally stock markets have tumbled and business itself is getting hard to do. The Indian economy has been much affected due to high fiscal deficit, poor infrastructure facilities, sticky legal system, cutting of exposures to emerging markets by FIs, etc.

Further, international rating agencies like, Standard & Poor have lowered India’s credit rating to sub-investment grade. Such negative aspects have often
outweighed positives such as increasing forex reserves and a manageable inflation rate.

Under such a situation, it goes without saying that banks are no exception and are bound to face the heat of a global downturn. One would be surprised to know that the banks and financial institution in India hold non-performing assets worth Rs. 110000 crores. Bankers have realised that unless the level of NPAs is reduced drastically, they will find it difficult to survive.

Global Developments and NPAs

The core banking business is of mobilising the deposits and utilising it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results into economic growth.

However, lending also carries credit risk, which arises from the failure of borrower to fulfill its contractual obligations either during the course of a transaction or on a future obligation.

A question that arises is how much risk can a bank afford to take? Recent happenings in the business world – Enron, WorldCom, Xerox. Global Crossing do not give much confidence to banks. In case after case, these giant corporate become bankrupt and failed to provide investors with clearer and more complete information thereby introducing a degree of risk that many investors could neither anticipate nor welcome. The history of financial institutions also reveals the fact that the biggest banking failures were due to credit risk. Due to this, banks are restricting their lending operations to secured avenues only with adequate collateral on which to fall back upon in a situation of default.

Problems Due to NPA

1. Owners do not receive a market return on their capital in the worst case, if the banks fails, owners lose their assets. In modern times this may affect a broad pool of shareholders.

2. Depositors do not receive a market return on saving. In the worst case if the bank fails, depositors lose their assets or uninsured balance.
3. Banks redistribute losses to other borrowers by charging higher interest rates, lower deposit rates and higher lending rates repress saving and financial market, which hamper economic growth.

4. Non-performing loans epitomise bad investment. They misallocate credit from good projects, which do not receive funding, to failed projects. Bad investment ends up in misallocation of capital, and by extension, labour and natural resources.

Non-performing asset may spill over the banking system and contract the money stock, which may lead to economic contraction. This spillover effect can channelise through liquidity or bank insolvency:

- When many borrowers fail to pay interest, banks may experience liquidity shortage. This can jam payment across the country.
- Liquidity constraints bank in paying depositors
- Undercapitalised banks exceed the bank’s capital base.

‘Out of order’ status

An account should be treated as ‘out of order’ if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for six months as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as ‘out of order’.

‘Overdue’

Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

Types of NPA

Gross and Net NPA

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non-standard assets like as sub-standard, doubtful and loss assets.

It can be calculated with the help of following formula:
Gross NPAs

\[
\text{Gross NPA Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}
\]

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. *Net NPA shows the actual burden of banks.* Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high.

It can be calculated by following formula

\[
\text{Net NPA Ratio} = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}
\]

**Classification of Loans**

**Term Loans**

A term loan account is to be treated as NPA as on balance sheet date if interest or loan installment remains overdue for a period of:

<table>
<thead>
<tr>
<th>Period Description</th>
<th>Date Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four quarters during the year ending</td>
<td>31st March 1993 (or)</td>
</tr>
<tr>
<td>Three quarters during the year ending</td>
<td>31st March 1994 (or)</td>
</tr>
<tr>
<td>More than 180 days during the year ending</td>
<td>31st March 1995-2003 and</td>
</tr>
<tr>
<td>More than 90 days during the year ending</td>
<td>31st March 2004 onwards.</td>
</tr>
</tbody>
</table>

**Due Date**

Due date is the ultimate date fixed or stipulated in the loan sanction letter for repayment of loan installment or interest. In all term loans, at the time of original sanction and at the time of re-scheduling, a repayment schedule is stipulated indicating the due date for payment of interest and installment with or without any moratorium period. The basis of installment fixation also varies depending on the nature of estimated cash generation in the business. The periodicity of installment repayment may be monthly, quarterly, half yearly, or yearly, beyond the moratorium period, where provided. The quantum of installment may be equated, where the interest component is included into the installment itself, or it may be principal installment plus interest component.
Cash Credit/Overdraft Accounts

A running account such as cash credit or overdraft account is to be treated as NPA if the account remains out of order for a period of four quarters during the year ending 31\textsuperscript{st} March 1993, three quarters during the year ending 31\textsuperscript{st} March, 1994, two quarters during the year ending 31\textsuperscript{st} March, 1995-2003 and one quarter with a view to move towards international best practices and to ensure greater transparency from the year ending 31\textsuperscript{st} March, 2004.

Out of Order

An account should be treated as “out of order’:

(a) If the outstanding balance remains continuously in excess of the sanctioned limit or drawing power (temporary deficiencies are not to be considered);

(b) In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credit continuously for the stipulated period; or

(c) Credits are not enough to cover the interest debited during the same period.

Bills Purchased/Discounted Accounts

The bills purchased/discounted account is to be treated as NPA if the bill remains overdue and unpaid for a period of 4 quarters during the year ending 31\textsuperscript{st} March, 1993, three quarters during the year ending 31\textsuperscript{st} March, 1994, two quarters between the years ending 31\textsuperscript{st} March, 1995 to 31\textsuperscript{st} March, 2003 and one quarter during the year ending 31\textsuperscript{st} March, 2004 onward. Due dates of the bills purchased/discounted should be ascertained as per accepted norms.

Overdue

Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

Other Credit Facilities

Any other credit facilities should be treated as NPA if any amount to be received in respect of that facility remains over due date for a period of four quarters during the year ending 31\textsuperscript{st} March, 1993, three quarters during the year ending 31\textsuperscript{st} March, 1994, two quarters from 31\textsuperscript{st} March, 1995 to 31\textsuperscript{st} March, 2003 and one quarter
from 31\textsuperscript{st} March, 2004 onwards, in line with and international best practices and to ensure greater transparency. The following action plan was interacted by banks, over a period of time, for an appropriate transition path to the 90-day norm:

- Banks moved over to charging of interest at monthly rates, from April 2002.
- However, banks continued to classify an account as NPA only if the interest charged during any quarter was not serviced fully within 180 days from the end of the quarter with effect from April 1, 1995.
- Banks commenced making additional provisions for such loans, starting from the year ending March 31, 2002, which strengthened the balance sheet and ensured smooth transition to the 90 days norms by March 31, 2004.
- Banks gradually enhanced provisioning requirements and voluntarily adopted practices of making provisions much above the minimum prudential levels.

Since banks were making additional provision starting from March 31, 2002 to absorb the impact due to reduction of the NPA period. Special emphasis was given to identify the accounts that may turn NPA with 90 days period norm and 10 per cent additional provision was made over a period of three years starting from the year 2001-02.

**NORMS FOR TREATING DIFFERENT ADVANCES AS NON-PERFORMING**

The following revised norms are adopted for treating different advances as non-performing with effect from the year ended 31\textsuperscript{st} March, 2004. An account will be treated as NPA if:

**Table 6.1**

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Condition</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Term Loan</td>
<td>Installments of principal and/or interest remains overdue for</td>
<td>More than 90 days</td>
</tr>
<tr>
<td>(b) Cash Credit</td>
<td>Accounts remain ‘Out of Order’ for</td>
<td>-do-</td>
</tr>
<tr>
<td>(c) Agricultural loans*</td>
<td>Installment and/or interest remains overdue for</td>
<td>Two harvest seasons not exceeding two half years</td>
</tr>
<tr>
<td>(d) Bill Purchased</td>
<td>Bills remained ‘overdue’ and discounted</td>
<td>More than 90 days and remain unpaid for</td>
</tr>
<tr>
<td>(e) Other Accounts</td>
<td>Facility remains overdue</td>
<td>-do-</td>
</tr>
</tbody>
</table>

*From 05.04.'04, for short duration crops overdue period is two harvest seasons and for long duration crops, one harvest season.
Prudential Accounting Norms

Prior to the financial sector reforms in the year 1992-'93, banks used to debit interest to the loan account on accrual basis and recognised the same as income even in accounts with prior record of recovery. Recognising income on accrual basis in account where the realisation is in doubt is not a prudential practice. As per the recommendation of the Narasimham Committee, as stated earlier, the RBI introduced prudential accounting norms applicable from the financial year 1992-'93, interest is not to be debited on the accrual basis but on the cash basis. The prudential accounting norms are based on the N.P.A concept, N for No income, P for provisioning and A for asset classification. The prudential accounting norms comprise of the following:

1. Income recognition
2. Asset classification
3. Provisioning.

INCOME RECOGNITION

Income Recognition Policy

The policy of income recognition has to be objective and based on the record of recovery. Internationally income from nonperforming assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

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

(b) If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

Reversal of Income

If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the
corresponding previous year, should be reversed or provided for if the same is not realized. This will apply to Government guaranteed accounts also.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrued in the current period and should be reversed or provided for with respect to past periods, if uncollected.

**Leased Assets**

The net lease rentals (finance charge) on the leased asset accrued and credited to income account before the asset became non-performing, and remaining unrealized, should be reversed or provided for in the current accounting period.

The term ‘net lease rentals’ would mean the amount of financial charge taken to the credit of Profit & Loss Account and would be worked out as gross lease rentals adjusted by amount of statutory depreciation and lease equalization account.

As per the ‘**Guidance Note on Accounting for Leases**’ issued by the Council of the Institute of Chartered Accountants of India (ICAI), a separate Lease Equalisation Account should be opened by the banks with a corresponding debit or credit to Lease Adjustment Account, as the case may be. Further, Lease Equalisation Account should be transferred every year to the Profit & Loss Account and disclosed separately as a deduction from/addition to gross value of lease rentals shown under the head ‘Gross Income’.

**Appropriation of recovery in NPAs**

Interest realised on NPAs may be taken into income account provided the credits in the accounts towards interest are not out 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), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a **uniform and consistent** manner.

**Interest Application**

There is no objection to the banks using their own discretion in debiting interest to an NPA account taking the same to Interest Suspense Account or maintaining only a record of such interest in proforma accounts.
Reporting of NPAs

Banks are required to furnish a Report on NPAs as on 31st March each year after completion of audit. The NPAs would relate to the banks’ global portfolio, including the advances at the foreign branches. The Report should be furnished as per the prescribed format.

While reporting NPA figures to RBI, the amount held in interest suspense account, should be shown as a deduction from gross NPAs as well gross advances while arriving at the net NPAs. Banks who does not maintain Interest Suspense Account for parking interest due on non-performing advance accounts, may furnish the amount of interest receivable on NPAs as a foot note to the Report.

Whenever NPAs are reported to RBI, the amount of technical write off, if any, should be reduced from the outstanding gross advances and gross NPAs to eliminate any distortion in the quantum of NPAs being reported.

Reporting Format for NPA – Gross and Net NPA

<table>
<thead>
<tr>
<th>Particulars</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gross Advanced*</td>
<td></td>
</tr>
<tr>
<td>2. Gross NPA</td>
<td></td>
</tr>
<tr>
<td>3. Gross NPA as Percentage of Gross Advances</td>
<td></td>
</tr>
<tr>
<td>4. Total Deduction (a+b+c+d)</td>
<td></td>
</tr>
<tr>
<td>a) Balance in Interest Suspense Account</td>
<td></td>
</tr>
<tr>
<td>b) DICGC/ECGC claims received and held pending adjustment.</td>
<td></td>
</tr>
<tr>
<td>c) Part Payment Received and kept in Suspense account</td>
<td></td>
</tr>
<tr>
<td>d) Total Provision held***</td>
<td></td>
</tr>
<tr>
<td>5. Net Advanced (1-4)</td>
<td></td>
</tr>
<tr>
<td>6. Net NPA (2-4)</td>
<td></td>
</tr>
<tr>
<td>7. Net NPA as a percentage of Net Advances.</td>
<td></td>
</tr>
</tbody>
</table>

*Excluding Technical Write-off of Rs.---------- crore.

** Banks which do not maintain an interest suspense account to park the accrued interest on NPAs may furnish the amount of interest receivable on NPAs.

***Excluding amount of Technical Write-off (Rs.-------- crore) and provision on standard assets. (Rs. --------crore).
ASSET CLASSIFICATION

Categories of NPAs

Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the reliability of the dues:

i Substandard Assets

ii Doubtful Assets

iii Loss Assets

Substandard Assets With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor 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 an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were 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.

Loss Assets a loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
## Table 6.2
### INCOME RECOGNITION, ASSET CLASSIFICATION & PROVISIONING (2008-09)

<table>
<thead>
<tr>
<th>Classification of Assets as on 31.03.09</th>
<th>Date of NPA</th>
<th>Age of NPA</th>
<th>Provisions Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>N.A</td>
<td>N.A</td>
<td>0.40% / 2.00% of Balance as on 31.03.'09</td>
</tr>
<tr>
<td>Sub-Standard</td>
<td>Between 01.04.'08 to 31.03.'09</td>
<td>Not more than 12 months</td>
<td>10% of Outstanding</td>
</tr>
<tr>
<td>i) Doubtful</td>
<td>Between 01.04.'07 to 31.03.'08</td>
<td>Between 13 to 24 months</td>
<td>100% of Shortfall + 20% of Realisable Security.</td>
</tr>
<tr>
<td>ii) Doubtful</td>
<td>Between 01.04.'05 to 31.03.'07</td>
<td>Between 25 to 48 months</td>
<td>100% of Shortfall + 30% of Realisable Security.</td>
</tr>
<tr>
<td>iii) Doubtful</td>
<td>Prior to 31.03.'03 Doubtful &gt; 3 years as on 31.03.'07 More than 48 months as on 31.03.'07</td>
<td></td>
<td>100% of Shortfall + 75% of Realisable Security (31.03.2010: 100%)</td>
</tr>
<tr>
<td>iv) Doubtful</td>
<td>Advances classified as ‘doubtful more than 3 years’ on or after April 1, ‘07 Between 01.04.’03 to 31.03.’05</td>
<td></td>
<td>100% of Shortfall + 100% of Realisable Security i.e., 100% of O/S.</td>
</tr>
<tr>
<td>Loss Asset</td>
<td>No criteria of date No criteria of date</td>
<td></td>
<td>100% of Outstanding</td>
</tr>
</tbody>
</table>

Source: RBI

### Guidelines for classification of assets

1. Classification of assets into above categories should be done taking into account the degree of well defined credit weaknesses and the extent of dependencies on collateral security for the realisation of dues.

2. Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPA’s especially in respect of high value of accounts.

3. Account with temporary Deficiencies: The classification of an asset as NPA should be based on the record recovery. Banks should not classify an advance account as NPA merely due to the existence of some deficiencies which are
temporary in nature as such as non-availability of adequate drawing power based on latest stock.

4. Asset classification to the borrower-wise and not facility-wise: It is difficult envisage a situation when only one facility to a borrower becomes a problem credit and not others. Therefore, all the facilities granted by a bank to a borrower will have to be treated as NPA and not the particular facility or a part thereof, which has become irregular.

5. Advances under consortium arrangements:
Asset classified under consortium should be based on the record of recovery of the individual member bank and other aspects having bearing on the recoverability of the advances.

6. Accounts where there is a erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

7. Agricultural Advances: In respect of advances granted for agricultural purpose where interest and/or installment of prinicpal remain unpaid after it has become past due for two harvest seasons but for a period not exceeding two half years, such an advance should be treated as NPA.
   a. Where the natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure-conversion of the short-term production loan into a term or re-schedulement of the repayment period.
   b. In such cases of conversation 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 NPA.

8. Restructuring/Rescheduling of Loans: A standard asset where the terms of the loan arrangement regarding interest and principal have been renegotiated or rescheduled after the commencement of production should be as sub-standard and should remain in such category for at least one year of satisfactory performance under the renegotiated or restructured terms. In case of substandard assets and doubtful assets also, rescheduling does not entitle a
bank to upgrade the quality of advances automatically unless there is satisfactory performance under the rescheduled-renegotiated terms.

9. Exceptions: As trading involves only buying and selling of commodities and the problems associated with manufacturing units such as bottleneck in commercial production, time and cost escalation, etc. are not applicable to them, these guidelines to traders.

**Factors Contributing NPAs:**

The factors contributing to NPAs are:

- Diversification of funds for expansion, modernization undertaking of new projects and also for helping associate concerns. This is coupled with recessionary trends and failure to tap required funds in the capital and debt market.
- Business (Product, marketing, financial) failure, inefficient management, strained labor relations, inappropriate technology, outmoded machinery, technical problems and product obsolescence.
- Recession, input and power shortage, price escalation, accidents, natural calamities, external problems in other countries leading to non-payment of over dues.
- Time and cost overrun during project implementation stage.
- Government policies like changes in excise duties, pollution control, poor credit decisions, priority sector lending and outdated legal systems.
- Willful default, siphoning off funds, fraud and misappropriation by promoters and directors dispute.
- Deficiencies on the part of banks like delay in release of funds and delay in release of subsidies by government.
- Delay in finalization of rehabilitation package by the board of Industrial and Reconstruction (BIFR).
- Absence of written policies.
- The absence of portfolio concentration limits, poor industry analysis, cursory financial analysis of borrowers.
- Inadequate customers contract
Excessive reliance on collateral, absence of follow up action by banks, poor control on loan documentation.

Absence of asset classification and loan loss provisioning standards and

The lack of co-ordination between the financial institutions and commercial banks, which provide long-term needs of industry that, enables the industry to misuse the funds.

Indian Banking Industry Saddled with High NPAs – The Reasons:

The liberalisation policies launched in 1991 opened the doors to the entrepreneurs to setup industries and business, which are largely financed by loans from the Indian banking systems. There is a shakeout with many businesses are failing and loans have become bad. In the global economy prevailing today, the vulnerability of Indian businesses has increased. A culture change is crept in where repayment of bank loans is no longer assured. A constant follow up action and vigil are to be exercised by the operating staff. Diversion of funds and willful default has become more common. As per a study published in the RBI bulletin in July 1999, diversion of funds and willful default are found to be the major contributing factors for NPAs in public and private sector banks.

Today, the situation looks optimistic with the industry succeeding in overcoming the hurdles faced earlier. The timely restructuring and rehabilitation measures have helped to overcome setbacks and hiccups without seriously jeopardising their future. The greater transparency and stricter corporate governance methods have significantly raise the credibility of the corporate sector. The attrition rate in corporate sector has come down. The challenges before the banks in India today are the raising NPAs in the retail sector, propelled by high consumerism and lowering of moral standards.

Impact of NPAs on Banking Operations:

The efficiency of a bank is not reflected only by the size of its balance sheet but also the level of return on its assets. The NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits.

The NPAs have deleterious impact on the return on assets in the following ways.
The interest income of banks will fall and it is to be accounted only on receipt basis.

Banks profitability is affected adversely because of the providing of doubtful debts and consequent to writing it off as bad debts.

Return on investments (ROI) is reduced.

The capital adequacy ratio is disturbed as NPAs are entering into its calculation.

The cost of capital will go up.

The assets and liability mismatch will widen.

The economic value addition (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital and

It limits recycling of the funds. It is due to above factors the public sector banks are faced with bulging NPAs which results in lower income and higher provisioning for doubtful debts and it will make a dent in their profit margin. In this context of crippling effect on banks operation the slew asset quality is placed as one of the most important parameters in the measurement of banks performance under the Camel’s supervisory rating system of RBI.

Credit Risks of NPAs:

The most of the public sector banks are incapable of visualising the risk they are going to face in the emerging global economic scenario. The risk management machinery adopted requires a comprehensive overhaul of the system by the banks in this changing condition. The second consultative document on the New Basle capital accord on banking supervision has given a stress on the risk management aspect of the banks by introducing a more risk sensitive standardised approach towards capital adequacy. In spite of the stringent recommendations and RBIs apprehensions of the adequate preparedness of the banking sector in adopting instructions, it is quite clear about the willingness of the banks to vigorously pursue effective credit risk management mechanism by visualising the magnitude of credit risk management to curtail the growth of mounting NPAs.

The concept of recovering debts through Debt Recovery Tribunals has become a grand failure.

The concept of establishing Asset Reconstruction Company (ARC) has greatly benefited the banks in containing the NPAs at a manageable level. The ARC is to take
over the bad debts of the public sector banks. These banks have the option of either liquidating the assets of defaulting companies or writing off these bad debts altogether. The viable solution available to the public sector banks is to go for a better credit risk management scheme, which may be considered as difficult preposition. However a clear understanding of the concept of risk, availability of instruments to curtail risk and the strategies required to be adopted for implementing a risk management system are considered to be the call of the hour.

**Credit Risk Concept:**

The risk is inherent and absolutely unavoidable in banking sector. The risk is considered to be potential loss of an asset and portfolio is likely to suffer due to various reasons. It is around for centuries and thought to be the dominant financial risk today. The risk can be defined as the risk of erosion of value due to simple default and non-payment of the debt by the borrower. The degree of risk is reflected in the borrower’s credit rating, the premium it pays for funds and market price of the debts.

**Management of Credit Risk:**

The credit risk is one of the most significant risk classes for financial institutions and banks in India. There is no liquid market for trading the credit risk. In such a situation the financial institutions may increase their net market exposure sometimes at the expense of increasing the credit risk to certain parties. The credit derivatives allow financial institutions to change their exposure to a range of credit related risks. There are various structures that allow the transference of credit risk from one party to another.

The credit risk management has two basic objectives

- It manages the asset portfolio in a manner which ensures that the banks have adequate capital to hedge their risks and
- It matches the return to the risk. It is comprising of two basic steps viz.,

**Identification and Ascertainment of Credit Default Risk:**

In order to assess the credit default risk the concerned bank has to check the following five C’s from the borrower.
Cash flows - reflecting the earning capacity of the borrower.
Collateral - the tangible assets of the borrowers who intends to mortgage.
Character - the management capabilities of the concerned party.
Conditions - the loan covenants to safeguard the lenders interest and
Capital - referring to the buffer to absorb earnings shocks.

Utilisation of credit default protection measures and instruments:

Once the credit default is ascertained and quantified, credit default protection measures and instruments like credit default swaps, credit default options and credit linked notes can be utilised.

**Credit Default Swap:**

It is a bilateral financial contract in which buyer pays a periodic fee expressed in fixed basis points on the notional amount in return for a floating payment contingent on the default of a third party reference credit. The floating payment is designated to mirror the loss incurred by creditors of the reference credit in the event of its default. The credit event varies from bank to bank and from transaction to transaction. The credit events are pre defined in the agreement, which includes

1. Bankruptcy
2. Insolvency
3. Rating, and downgrading below agreed threshold
4. Failure to adjust for new payment obligation and
5. Debt Rescheduling.

The credit event triggers the obligation of the seller of default protection to the purchaser of the same. The investors who need to protect themselves against default but do not want to sell the at risk security for accounting, tax and regulatory reasons can buy a credit default swap.

**Credit Limited Notes (CLN):**

These are known as credit swaps in which buyer makes periodic payments of a fixed percentage of the reference asset to the seller over the life of the swap. Then the seller promises a payment in the case of credit default for the reasons viz.,
bankruptcy, delinquency and credit rating down grade. The payments may be either a pre-determined amount and also decrease in the market value of the reference obligation that may cause the credit event. The seller calls the structure away from the investor and delivers the defaulting notes against them on the happening of credit event. The CLN are like bonds in character and are acceptable to certain banks. They are not allowed to involve in credit default swap.

**Impact of NPA**

**Profitability**

NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So, NPA doesn’t affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (return on investment), which adversely affect current earning of bank.

**Liquidity**

Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortest period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money, routine payments and dues.

**Involvement of Management**

Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now-a-days banks have special employees to deal and handle NPAs, which is additional cost of the bank.

**Credit Loss**

Bank is facing problem of NPA then it adversely affect the value of bank in terms of market credit. It will lose it’s goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.
Early Symptoms by which one can recognize a performing asset turning into a non-performing asset:

Four Categories of early symptoms

Financial
  ✓ Non-payment of the very first installment in case of term loan.
  ✓ Bouncing of cheque due to insufficient balance in the account.
  ✓ Irregularity of installment.
  ✓ Unpaid overdue bills.
  ✓ Declining Current Ratio.
  ✓ Payment which does not cover the interest and principal amount of that installment.
  ✓ While monitoring the accounts it is found that partial amount is diverted to sister concern or parent company.

Operational and Physical
  ✓ If information is received that the borrower has either initiated the process of winding up or are not doing the business.
  ✓ Overdue receivables.
  ✓ Stock statement not submitted on time.
  ✓ External non-controllable factor like natural calamities in the city where borrower conduct his business.
  ✓ Frequent changes in plan.
  ✓ Non-payment of wages.

Attitudinal Changes
  ✓ Avoidance of contact with bank and
  ✓ Problem between partners.

Others
  ✓ Changes in Government Policies.
  ✓ Death of borrower.
  ✓ Competition in the market.

Consequences of NPAs:

The contaminated portfolio is definitely a bane for any bank. It puts severe dent on the liquidity and profitability of the bank where it is out of proportion. The
NPAs in the public sector banks are well above the normal level. The consequences envisaged during the past several years are many.

It has become a difficult task for the banks to reduce the lending rate due to the presence of large NPAs. Ultimately this is affecting the competitiveness of the Indian banks. When the bank does not enjoy the market competitiveness naturally the credit expansion would be slumped and when it happens, the profitability gets a setback. In this way the vicious circle will go on and on.

Another important one is the reduction in the availability of funds for further expansion due to the unproductiveness of the existing portfolio. Sometimes it is found that the presence of large NPAs discourages banks to accept profitable but risky proposal loan from the customers. The NPAs also affect the risk taking ability of the banks. On the whole it affects the credibility of the bank and faces difficulty in raising fresh capital from the market for future requirements.

Underlying Reasons for NPAs in India

An internal study conducted by RBI shows that in the order of prominence, the following factors contribute to NPAs.

**Internal Factors**

- Diversion of funds for
  - Expansion/diversification/modernisation
  - Taking up new projects
  - Helping/promoting associate concerns time/cost overrun during the project implementation stage
- Business (product, marketing, etc.) failure
- Inefficiency in management
- Slackless in credit management and monitoring
- Inappropriate technology/technical problems
- Lack of co-ordination among lenders

**External Factors**

- Recession
- Input/power shortage
- Price escalation
- Exchange rate fluctuation
Accidents and natural calamities, etc.
Changes in Government policies in excise/import duties, pollution control orders, etc.

Other Factors

Liberlisation of economy/removal of restrictions/reduction of tariffs

A large number of NPA borrowers were unable to complete in a competitive market in which lower prices and greater choices were available to consumers. Further, borrowers operating in specific industries have suffered due to political, fiscal and social compulsions, compounding pressures from liberlisation (e.g., sugar and fertiliser industries)

Relax monitoring of credits and failure to recognise Early Warning Signals

It has been stated that approval of loan proposals is generally thorough and each proposal passes through many levels before approval is granted. However, the monitoring of sometimes-complex credit files has not received the attention it needed, which meant that early warning signals were not recognised and standard assets slipped to NPA category without banks being able to take proactive measures to prevent this. Partly due to this reason, adverse trends in borrowers’ performance were not noted and position further deteriorated before action was taken.

Over optimistic promoters

Promoters were often optimistic in setting up large projects and in some cases were not fully above board in their intentions. Screening procedures did not always highlight these issues. Often projects were set up with the expectation that part of the funding would be arranged from the capital markets, which were booming at the time of the project appraisal. When the capital markets subsequently crashed, the requisite funds could never be raised, promoters often lost interest and lenders were left stranded with incomplete/unviable projects.

Direct lending

Loans to some segments were dictated by Government’s policies rather than commercial imperatives.
Highly leveraged borrowers

Some borrowers were under capitalised and over burdened with debt to absorb the changing economic situation in the country. Operating within a protected market resulted in low appreciation of commercial/market risk.

Funding mismatch

There are said to be many cases where loans granted for short terms were used to fund long term transactions.

Willful Defaulters

There are a number of borrowers who have strategically defaulted on their debt service obligations realising that the legal recourse available to creditors is slow in achieving results.

Existing Systems/Procedures for NPA Identification and Resolution in India

Internal Checks and Control

Since high level of NPAs dampens the performance of the banks identification of potential problem accounts and their close monitoring assumes importance.

Though most banks have EWS for identification of potential NPAs, the actual processes followed, however, differ from bank to bank.

The EWS enable a bank to identify the borrower accounts which show signs of credit deterioration and initiate remedial action. Many banks have evolved and adopted an elaborate EWS, which allows them to identify potential distress signals and plan their options beforehand, accordingly. The early warning signals, indicative of potential problems in the accounts, viz, persistent irregularity in accounts, delays in servicing of interest, frequent devolvement of L/Cs, units’ financial problems, market related problems, etc. are captured by the system. In addition, some of these banks are reviewing their exposure to borrower accounts every quarter based on published data which also serves as an important additional warning system and asset classification norms prescribed by RBI.

The major components/processes of a EWS followed by banks in India as brought out by a study conducted by RBI at the instance of the Board of Financial Supervision are as follows:
i) Designating Relationship Manager/Credit Officer for monitoring accounts

ii) Preparation of ‘know your client’ profile

iii) Credit rating system

iv) Identification of watch-list/special mention category accounts

v) Monitoring of early warning signals.

**Relationship Manager/Credit Officer**

The Relationship Manager/Credit Officer is an official who is expected to have complete knowledge of borrower, his business, his future plans, etc. The Relationship Manager has to keep in constant touch with the borrower and report all developments impacting the borrowal account. As a part of this contact he is also expected to conduct scrutiny and activity inspections. In the credit monitoring a corporate account is vested with Relationship Manager/Credit Officer.

**‘Know your client’ profile (KYC)**

Most banks in India have a system of preparing ‘know your client’ (KYC) profile/credit report. As a part of ‘KYC’ system, visits are made on clients and their places of business/units.

**Credit Rating System**

The credit rating system is essentially one point indicator of an individual credit exposure and is used to identify measure and monitor the credit risk of individual proposal. At the whole bank level, credit rating system enables tracking the health of banks entire credit portfolio.

Most banks in India have put in place the system of internal credit rating. While most of the banks have developed their own models, a few banks have adopted credit rating models designed by rating agencies. Credit rating models take into account various types of risks viz. financial, industry and management, etc. associated with a borrowal unit. The exercise is generally done at the time of sanction of new borrowal account at the same time of review/renewal of existing credit facilities.
Watch-list/Special Mention Category

The grading of the bank’s risk assets is an important internal control tool. It serves the need of the Management to identify and monitor potential risks of a loan asset. The purpose of identification of potential NPAs is to ensure that appropriate preventive/corrective steps could be initiated by the bank to protect against the loan asset becoming non-performing. Most of the banks have a system to put certain borrowal accounts under watch list or special mention category if performing advances operating under adverse business or economic conditions are exhibiting certain distress signals. These accounts generally exhibit weaknesses which are correctable but warrant banks’ closer attention. The categorisation of such accounts in watch list or special mention category provides early warning signals enabling Relationship Manager or Credit Officer to anticipate credit deterioration and take necessary preventive steps to avoid their slippage into non performing advances.

Early Warning Signals

It is important in any early warning system, to be sensitive to signals of credit deterioration. A host of early warning signals are used by different banks for identification of potential NPAs. Most banks in India have laid down a series of operational, financial, transactional indicators that could serve to identify emerging problems in credit exposures at an early stage. Further, it is revealed that the indicators which may trigger early warning system depend not only on default in payment of installment and interest but also other factors such as deterioration in operating and financial performance of the borrower, weakening industry characteristics, regulatory changes, general economic conditions, etc.

EWS can be classified into five broad categories viz. (a) financial (b) operational (c) banking (d) management and (e) external factors. Financial related warning signals generally emanate from the borrowers’ balance sheet, income and expenditure statement of cash flows, statement of receivables etc. following common warning signals are captured by some of the banks having relatively developed EWS.

Financial warning signals

- Persistent irregularity in the account
- Default in repayment obligation
- Devolvement of LC/invitation of guarantees
Substantial increase in long term debts in relation to equity
Declining sales
Operating losses/net losses
Rising sales and falling profits
Disproportionate increase in overheads relative to sale
Rising level of bad debt losses
Operating warning signals
Low activity level in plant
Disorderly diversification/frequent changes in plan
Nonpayment of wages/power bills
Loss of critical customers
Frequent labour problems
Evidence of aged inventory/large level of inventory

Management related warning signals
- Lack of co-operation from key personnel
- Change in management, ownership, or key personnel
- Desire to take undue risks
- Family disputes
- Poor financial controls
- Fudging of financial statements
- Diversion of funds.

Banking related signals
- Declining bank balances/declining operations in the account
- Opening of account with other bank
- Return of outward bills/dishonoured cheques
- Sales transactions not routed through the account
- Frequent requests for loan
- Frequent delays in submitting stock statements, financial data, etc.

Signals relating to external factors
- Economic recession
- Emergence of new competition
- Emergence of new technology
- Changes in government / regulatory policies
- Natural calamities
NPA NORMS IN AGRICULTURAL FINANCE

As part of the prudential norms framework for banks, norms for income recognition, classification of assets and provisioning for Non-Performing Assets (NPA) were introduced by the Reserve Bank of India in the year 1992-93. These norms are aimed at identifying nonperforming assets, which have ceased to earn interest at the stipulated rates or in respect of which installments of principal which have fallen due have not be repaid within the stipulated time, and ensuring that unrealized income there from is not factored into the income stream of the bank for the purpose of preparing the profit and loss account. Further, current prudential norms on classification of non-performing loans track loan defaults not only to the specific loan account, but, also to the borrowers; recognition of any single loan account of a borrower as NPA automatically leads to classifying of all the other loans due from the same borrower as NPA, even if repayment on other loans is regular.

The extant norms for classification of agricultural loans as NPA for the commercial are as follows:

Commercial Banks

In respect of advances granted for agricultural purposes, where interest and/or installment of principal remains unpaid after it has become overdue for two harvest seasons but for a period not exceeding two half years, such an advance should be treated as NPA. These norms are applicable to direct agricultural advances only.

Identification of NPAs would be done on the same basis as non-agricultural advances. Such advances attract the 90 days delinquency norm with effect from March 31, 2004.

Need for revisiting the current NPA guidelines

Agriculture as an economic activity suffers from uncertainties mainly on account of fluctuations in rainfall, pest attacks, floods, droughts and other natural calamities. Such uncertainties are particularly severe in rain-fed areas. Inadequate rainfall, for example, results in restricted income flows to the farmer, leading to impairment of capacity to repay. However, over a period of the cycle (which may be different in different agro-climatic zones) the cash flow may get smoothened. While
during some years in the cycle the loans may not be repaid, there is always the possibility of the dues being cleared over a period, provided of course, the farmer's cash flow is not debilitated by successive droughts. Agricultural loans support livelihood activities of the farmers. Normally, they would not behave in a manner which would permanently jeopardize the credit support required to earn their livelihood. Seen from this point of view, an agricultural loan, even if it is not repaid on time in the same season on account of climate related problems, could eventually be repaid out of income in subsequent seasons, if the borrower is able to sustain himself during the intervening period and his overall debt burden does not financially annihilate him. In this background, it is considered necessary to reckon the cash flows of the borrower from farm activities and accord differential treatment for the purpose of recognition as NPAs and the extant guidelines be revised to be in tune with the ground realities and to capture the seasonal uncertainties.

The present norm of NPA of non-recovery of interest / principal up to two crop seasons or covering two half years after the due date, does not fully mirror the differing crop maturities, some of which may extend up to 18 months. There are also regional disparities in the duration of the crops. The logic of fixing the repayment dates in tune with harvesting is to link it with the cash flow of the farmer, coinciding with the harvesting/marketing of the crop. In the case of longer duration crops, the current prescription of two half years would not be adequate. It is, therefore, recommended that while the current norm of default for "two crop seasons" could be retained for classification of loan as a non-performing loan, the norm of "two half years" be removed. The "crop season" for this purpose means the period required for the crops to mature for harvesting. To avoid adoption of arbitrary norm by any individual bank, the duration of the crop season for different crops in a given area could be determined by the technical committee appointed for the purpose of fixation of scales of finance, in consultation with agricultural scientists and be ratified by DLCC/SLBC. For the purpose of arriving at "two crop seasons after the due date", only those two consecutive crop seasons may be reckoned during which the farmer borrower normally undertakes crop production.
As regards the long duration crops, it is suggested that while the cap of "two half years" may be removed, a loan may be treated as non-performing, if interest or principal remains unpaid for one crop season after becoming due.

Both the crop loans and the agricultural term loans are repaid out of the income generated from the crops grown. In the event of failure of crops due to natural calamities like earthquake, floods and droughts if the crops are affected badly not only the crop loan recovery gets affected but also that of the term loans. Therefore, the relaxations suggested in respect of crop loans may also be, mutatis mutandis, made applicable to the agricultural term loans.

The advances to allied agriculture activities at present are treated on par with non-farm activities for the purpose of asset classification without any linkage to the crop situation. The allied agriculture activities pursued by the farmers are closely linked to the agriculture sector. Further, income from these activities is also not evenly spread throughout the year. The income received from allied activities to agriculture, which are taken as subsidiary activities to augment income of a cultivating family may not be adequate to repay the bank loan and interest besides sustaining the family, once the principal activity of the farmer is adversely affected. Further, the uneven spread of surplus cash generation from these activities brings in temporary distortions in cash flows at times leading to delayed repayment of loans. The present 90 day norm for classification of NPA as applicable to these activities, does not take into account such temporary disruptions in cash flows at the farmer level. Therefore, it is suggested that the earlier delinquency norm of 180 days default for classifying a loan as NPA may be continued in respect of loans for activities allied to agriculture.

Generally, the farmers who avail of agricultural term loans also borrow for crop production. As per prevailing guidelines on classification of assets, outstanding amount of all the loan accounts of a borrower are classified as NPA even if there is a default in one of these accounts. Distinguishing between crop loan account and term loan account would facilitate the banks in ensuring availability of credit for production process. It is recommended that in such cases, where farmer has availed both production loans and investment loans, only that loan account in
which default has occurred may be considered for NPA classification and outstanding in those loan accounts which are regular not be included as NPA.

The procedure of declaration of annawari by the State Government is cumbersome and takes a long time. As a result, conversion of the existing loan and sanction of fresh credit to the farmers also gets delayed and results in loans being classified as NPA, even where it is possible to restructure these loans. To avoid such delays, the Lead District Manager of the Lead Bank, should arrange to get timely information on crop losses in the district due to flood / drought, etc. from the district authorities. On the basis of such information, a committee headed by the District Manager of the Lead Bank, with District Development Manager of NABARD, District Agriculture Officer and a few major banks operating in the district may, in consultation with agricultural scientists / local agricultural university, consider the crop losses due to weather aberrations, e.g., deficit in rainfall, etc., in the district and take a decision on conversion / restructuring of agricultural loans. All the banks operating in the district should be able to extend the facility of restructuring of loans to the eligible farmers on this basis once such a decision is made. Such a decision should be promptly reported to the convenor of the SLBC and may be recorded in the proceedings of the immediate following meeting of the SLBC. The banks may authorise their branches to take up conversion / rescheduling of loans based on the recommendations of the above mentioned district level committee.

Apart from large-scale calamities, some farmer-specific events beyond their control impair the repayment capacity temporarily. Major ailments affecting any member of the farm family, damage to house and agriculture assets through fire, localised pests, etc., are some illustrations of such events that could temporarily impair the repayment capacity. In such cases, the banks may have the freedom to allow restructuring of loans on a case-to-case basis, ensuring that this does not lead to ever greening. Such a restructuring of loans should be with the specific approval of the controlling authority of the branch.

The conversion and restructuring of farm loans should be done at reasonable rates of interest. Restructuring of any loans involves sacrifice of interest on the part of banks to ensure that the units remain viable after restructuring.
Applying this logic in the case of restructuring of agricultural loans, banks need to fix the rate of interest on restructured loans at a level lower than the original loan. This would ensure that the farming operations continue to be viable and that the farmers are able to service the restructured loans as well as the fresh loans that would be extended by banks.

In this chapter researcher has made an attempt to analyses the non-performing assets of SCBs.

**Gross NPA**

All the outstanding loans and advances including advances for which refinance has been received but excluding re-discounted bills and advances written off at head office level. Bank Group-wise Classification of Gross Non-Performing Assets of SCBs in India from 1997-1998 to 2008-2009 is exhibited in Table 6.1.
## Table 6.3
Quantum of Bank Group - wise Gross NPAs of SCBs During 1998 to 2009

(Rs. in Crore)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Public Sector Banks*</th>
<th>Private Sector Banks</th>
<th>ASCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (Rs.)</td>
<td>GR (%)</td>
<td>% To TA</td>
</tr>
<tr>
<td></td>
<td>OPSBs</td>
<td>NGPSBs</td>
<td></td>
</tr>
<tr>
<td>1997 – 1998</td>
<td>45653</td>
<td>--</td>
<td>16</td>
</tr>
<tr>
<td>1998 – 1999</td>
<td>51710</td>
<td>13.27</td>
<td>15.9</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>53033</td>
<td>2.56</td>
<td>14</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>54773</td>
<td>3.28</td>
<td>12.4</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>56507</td>
<td>3.17</td>
<td>11.1</td>
</tr>
<tr>
<td>2002 – 2003</td>
<td>54086</td>
<td>-4.28</td>
<td>9.4</td>
</tr>
<tr>
<td>2004 – 2005</td>
<td>48541</td>
<td>-5.82</td>
<td>5.7</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>38968</td>
<td>-7.45</td>
<td>2.7</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>40595</td>
<td>4.17</td>
<td>2.2</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>45156</td>
<td>11.23</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>582666</td>
<td>2.16</td>
<td>102.9</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>48555.5</td>
<td>0.2</td>
<td>8.58</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India

Note: 1. GR denotes Growth Rate, 2. CGR denotes Compound Growth Rate (in per cent, 3. PSBs includes SBI & its group and NBs
Table 6.3 depicts the **Quantum of NPAs of SCBs**.

Table 6.3 helps to infer the following

1. During the study period, absolute **Quantum of aggregate NPAs for ASCBs** stood at Rs. 68973 Crore, representing 2.3 percent of the gross total advances.
   - PSBs stood at Rs. 45156 Crore representing 2.0 percent of the Gross Total Advances.
   - OPSBs stood at Rs. 3072 Crore representing 2.30 percent of the Gross Total Advances and
   - NGPSBs stood at Rs. 13911 Crore representing 2.8 percent of the Gross Total Advances.

Hence the Gross NPAs to Advances of PSBs as on 31.03.09 are 2.0 percent lower than those for SCBs 2.3 percent.

2. During the study period, the **Growth Rate of Gross NPAs** of banking industry as a whole as well as in each bank group has shown a fluctuating trend. It ranges from
   - 2.57% to 22.22% in ASCBs
   - -4.28% to 13.27% in PSBs
   - -3.85% to 35.43% in Old PSBs and
   - 1.70% to 8.86% in NGPSBs.

Hence, the OPSBs had the highest growth rate among all other SCBs.

3. During the study period, the erratic Growth Rate could be witnessed by banking industry as a whole as well as each bank groups. This shows the improvement in the recovery pattern of NPAs of banking industry as a whole as well as in each bank group.

4. During the study period, the Gross NPAs of banking industry as a whole as well as in each bank group declined from
   - 14.4% to 2.3% in ASCBs.
   - 16.0% to 2.0% in PSBs
   - 10.9% to 2.3% in OPSBs and
   - 3.51% to 2.80% in NGPSBs.
Hence, the Performance of recovery of NPAs is good in the banking industry as a whole as well as in each bank group.

It is revealed from the above Table that the growth rate computed on semi-log scale in respect of GNPA shows a positive growth of 30.95% for ASCBs, 16.62% for NGPSBs.

The negative growth rates of GNPAs ratios for all bank groups except NGPSBs are found to be significant.

**Differences in Mean Gross NPAs Among Bank Groups**

In order to analyse whether there are significant differences in the mean GNPA among the three bank groups. F test has been applied using one-way ANOVA and the results are given in Table 6.3.1.

**Table 6.3.1**

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum of Squares</th>
<th>v</th>
<th>Mean Square</th>
<th>F</th>
<th>P Value</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance between sample</td>
<td>15533017740</td>
<td>2</td>
<td>7766508870</td>
<td></td>
<td>441.29*</td>
<td>Significant</td>
</tr>
<tr>
<td>Variance within sample</td>
<td>295753617.8</td>
<td>33</td>
<td>17599209</td>
<td></td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16113791640</strong></td>
<td><strong>35</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Computed data from Table 1.6(a)

Note: * Significant at 5% level

The table value of F for $v_1 = 2$ and $v_2 = 33$ at 5% level of significance = 3.29. The calculated value of F is greater than the table value and hence the difference in the mean values of the sample is significant.

**Net NPA:**

Gross NPA minus provisions, DICGC/ECGC claims received, payment received and kept in suspense account. Bank Group-wise Classification of Net NPA of SCBs in India from 1997-1998 to 2008-2009 is exhibited in Table 6.4
Table – 6.4
Quantum of Bank Group-Wise Net NPAs of SCBs DURING 1998 To 2009
(Rs. in Crore)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Public Sector Banks*</th>
<th>Private Sector Banks</th>
<th>ASCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>OPSBs</td>
<td>NGPSBs</td>
</tr>
<tr>
<td>1997 – 1998</td>
<td>21232 -- 8.2</td>
<td>1572 -- 6.5</td>
<td>291 -- 2.6</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>26187 8.16</td>
<td>2393 2.61</td>
<td>638 4.42</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>27969 6.80</td>
<td>2770 15.75</td>
<td>929 45.61</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>27958 - 0.04</td>
<td>3005 8.48</td>
<td>3663 294.29</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>15145 4.01</td>
<td>891 - 34.87</td>
<td>3137 74.96</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>17836 17.77</td>
<td>740 - 16.95</td>
<td>4907 56.42</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>21033 17.92</td>
<td>1165 57.43</td>
<td>6253 27.43</td>
</tr>
<tr>
<td>TOTAL</td>
<td>54017 9.49</td>
<td>22976 10.55</td>
<td>31373 554.37</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>4501.17 0.86</td>
<td>1914.67 0.96</td>
<td>2614.42 50.40</td>
</tr>
<tr>
<td>CGR</td>
<td>-29.69 4.175</td>
<td>-24.15 4.43</td>
<td>-16.32 2.61</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India
Note: 1. GR denotes Growth Rate, 2. CGR denotes Compound Growth Rate in per cent, 3. PSBs includes SBI Group and NBs
Table 6.4 depicts the Quantum of Net NPAs of SCBs– Bank Group-Wise.

Table 6.4 helps to infer the following

1. During the study period, absolute Quantum of aggregate NPAs of SCBs stood at Rs. 31424 crore, representing 1.1% of the net total advances.
   - PSBs stood at Rs.21033 crore representing 0.9% of the net total advances
   - OPSBs stood at Rs. 1165 crore representing 0.9% of the net total advances
   - NGPSBs stood at Rs. 6253 crore representing 1.4% of the net total advances

Hence the Net NPAs to advances of PSBs as on 31.03.'09 are 0.9% lower than those for SCBs 1.1%.

2. During the study period, the Growth Rate of Net NPAs of banking industry as a whole as well as in each bank group has shown a fluctuating trend. It ranges from
   - - 7.83 % to 27.05 % in ASCBs
   - - 0.04 % to 17.92 % in PSBs
   - -8.78 % to 57.43 % in Old PSBs and
   - -15.64 % to 294.29 % in NGPSBs.

Hence, the NGPSBs had the highest growth rate among all other SCBs.

3. During the study period, the erratic Growth Rate could be witnessed by banking industry as a whole as well as each bank groups. This shows the improvement in the recovery pattern of NPAs of banking industry. Hence the RBI has taken an effective measure for reducing NPA and also increasing their profitability.

It is revealed from the above Table that the growth rate computed on semi-log scale in respect of NNPA shows a positive growth of 29.80% for ASCBs, 29.69% for PSBs, 24.15% for OPSBs and 16.32% for NGPSBs. The positive growth rates of NNPAs ratios for all bank groups are found to be significant.
Differences in Mean Net NPAs Among Bank Groups

In order to analyse whether there are significant differences in the mean NNPA among the three bank groups, F test has been applied using one-way ANOVA and the results are given in Table 6.4.1.

Table 6.4.1
Significance of Difference in Net Non-performing Assets among Bank Groups – ANOVA

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum of Squares</th>
<th>v</th>
<th>Mean Square</th>
<th>F</th>
<th>P Value</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance between sample</td>
<td>2948743632</td>
<td>2</td>
<td>1474371816</td>
<td>164.5095*</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Variance within sample</td>
<td>295753617.8</td>
<td>33</td>
<td>8962230.843</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16113791640</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Computed data from Table 1.6(a)
Note : * Significant at 1% level

The table value of F for $v_1 = 2$ and $v_2 = 33$ at 5% level of significance = 3.29. The calculated value of F is greater than the table value and hence the difference in the mean values of the sample is significant.

Classification of loan assets:

It means that period for which the assets should be treated as NPA. In banks the assets are classified into four different categories namely standard assets, sub-standard assets, doubtful assets and loss assets. Classification of Loan Assets of SCBs in India from 1997-1998 to 2008-2009 is exhibited in Table 6.3.
**Table – 6.5**
Quantum of Classification of Loan Assets of SCBs During 1998 – 2009 (RS. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Standard assets</th>
<th>Sub-standard assets</th>
<th>Doubtful assets</th>
<th>Loss assets</th>
<th>Total NPAs</th>
<th>Total advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (RS.)</td>
<td>% To Ta</td>
<td>Amount (Rs.)</td>
<td>% To Ta</td>
<td>Amount (Rs.)</td>
<td>% To Ta</td>
</tr>
<tr>
<td>1997 – 1998</td>
<td>272885</td>
<td>84.8</td>
<td>16230</td>
<td>5.1</td>
<td>26896</td>
<td>8.4</td>
</tr>
<tr>
<td>1998 – 1999</td>
<td>312012</td>
<td>84.7</td>
<td>18690</td>
<td>5.1</td>
<td>30843</td>
<td>8.4</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>380100</td>
<td>86.7</td>
<td>18498</td>
<td>4.2</td>
<td>32890</td>
<td>7.5</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>452431</td>
<td>88.1</td>
<td>17330</td>
<td>3.4</td>
<td>36554</td>
<td>7.1</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>562134</td>
<td>89.2</td>
<td>21382</td>
<td>3.2</td>
<td>40197</td>
<td>6.4</td>
</tr>
<tr>
<td>2002 – 2003</td>
<td>657972</td>
<td>90.9</td>
<td>19083</td>
<td>2.6</td>
<td>38787</td>
<td>5.4</td>
</tr>
<tr>
<td>2003 – 2004</td>
<td>777511</td>
<td>92.6</td>
<td>20036</td>
<td>2.4</td>
<td>35148</td>
<td>4.2</td>
</tr>
<tr>
<td>2004 – 2005</td>
<td>1018818</td>
<td>94.7</td>
<td>13301</td>
<td>1.2</td>
<td>36728</td>
<td>3.4</td>
</tr>
<tr>
<td>2005 – 2006</td>
<td>1402524</td>
<td>96.6</td>
<td>13880</td>
<td>1.0</td>
<td>29435</td>
<td>2.0</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>1836424</td>
<td>67.4</td>
<td>18643</td>
<td>1.0</td>
<td>23803</td>
<td>1.3</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>2291335</td>
<td>97.7</td>
<td>24579</td>
<td>1.0</td>
<td>23743</td>
<td>1.0</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>2799102</td>
<td>97.8</td>
<td>31156</td>
<td>0.9</td>
<td>25994</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India

313
Table 6.5 and Plate 6.1 depicts the Quantum of Classification of Loan Assets of SCBs.

Table 6.5 and Plate 6.1 helps to infer the following

1. During the study period, the share of standard assets in total advances of SCBs increased from 84.8 % in 1997-‘98 to 97.7 % in 2007-‘08 and to 97.8 % in 2008-‘09. The NPAs of 2.2 % in 2007-‘08 consist of sub – standard (1.0%), doubtful (1.0 %) and loss assets (0.2 %) while in 2008-‘09 the share of sub-standard and doubtful assets have decreased to 0.9 % and 0.9% keeping the percentage of loss assets constant.

2. During the study period, the share of standard assets is increasing every year banking industry as a whole, both in percentage and absolute terms. As a Consequence the percentage of sub – standard, doubtful and loss assets to total advances are also reducing.

Hence the target for banks is to shift more assets to the standard category so as to make more profits and improve its financial position.

Plate – 6.1
Quantum of Classification of Loan Assets of SCBs During 1998 – 2009

Source: Reports on Trend and Progress of Banking in India
Sector-wise NPAs of SCBs:

Banks provide credit facility to various sectors viz., priority sector, public sector undertaking and non-priority sector segments. Bank Group-wise NPA of PSBs in India from 1997-1998 to 2008-2009 is exhibited in Plate 6.2 and Table 6.4.

Plate 6.2

Composition of NPAs of Public Sector Banks

Source: Reports on Trend and Progress of Banking in India
Table – 6.6
Composition Of NPAs Of PSBs
During 1998 To 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI and its Associates</th>
<th>Nationalised Banks</th>
<th>Total PSBs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Priority Sector</td>
<td>Non – Priority Sector</td>
<td>Public Sector</td>
</tr>
<tr>
<td>1997 – 1998</td>
<td>48.1</td>
<td>47.6</td>
<td>4.3</td>
</tr>
<tr>
<td>1998 – 1999</td>
<td>44.6</td>
<td>51.9</td>
<td>3.5</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>45.2</td>
<td>51.9</td>
<td>2.8</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>44.2</td>
<td>49.8</td>
<td>6.0</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>45.7</td>
<td>51.2</td>
<td>3.1</td>
</tr>
<tr>
<td>2002 – 2003</td>
<td>47.5</td>
<td>49.4</td>
<td>3.1</td>
</tr>
<tr>
<td>2003 – 2004</td>
<td>47.1</td>
<td>51.5</td>
<td>1.4</td>
</tr>
<tr>
<td>2004 – 2005</td>
<td>47.4</td>
<td>51.5</td>
<td>1.1</td>
</tr>
<tr>
<td>2005 – 2006</td>
<td>55.0</td>
<td>44.1</td>
<td>0.9</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>57.2</td>
<td>41.4</td>
<td>1.5</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>58.5</td>
<td>40.9</td>
<td>0.6</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>47.3</td>
<td>51.8</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India
Table 6.6 depicts the Compositions of NPAs of PSBs.

Table 6.6 helps to infer the following

During the study period, the Compositions of NPAs of Public Sector Banks brings to light certain interesting aspects.

It shows that in 1997-'98 for SBI Group, the shares of NPAs was

- 48.1 % for the Priority Sector.
- 47.6 % for the Non – Priority Sector.
- 4.3 % for the Public Sector.

These Percentages were

- 47.3% for the Priority Sector.
- 57.8 % for the Non – Priority Sector and
- 1.0 5 for the Public Sector.

Similarly, in the case of NBs also, the NPAs composition for Non-Priority Sector has increased, whereas, that for Priority Sector and Public Sector, there is a marginal reduction.

It shows that not only advances to the Priority Sector are going Non-Performing, but more than that, Non - Priority Sector lending is the area where the bankers need to continuously examine the possibilities of loans becoming Non-Performing.

Gross NPA and Net NPA to Total Advances Ratio:

It is the ratio use to judge the actual burden of holding NPAs to banks. Bank Group-wise Percentage Distribution Of Gross & NetNPAs To Total Advances Of SCBs in India from 1997-1998 to 2008-2009 exhibited in Table 6.6 and Plate 6.3.
<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SBI And Its</td>
<td>OP SBs</td>
<td>NGPSB</td>
</tr>
<tr>
<td></td>
<td>Associates</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gross NPAs</td>
<td>Net NPAs</td>
<td>Gross NPAs</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>12.73</td>
<td>6.26</td>
<td>12.19</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>11.23</td>
<td>5.45</td>
<td>11.01</td>
</tr>
<tr>
<td>2002 – 2003</td>
<td>8.68</td>
<td>4.12</td>
<td>9.72</td>
</tr>
<tr>
<td>2004 – 2005</td>
<td>5.32</td>
<td>2.23</td>
<td>5.82</td>
</tr>
<tr>
<td>2005 – 2006</td>
<td>3.51</td>
<td>1.63</td>
<td>3.96</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>2.59</td>
<td>1.32</td>
<td>2.69</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>2.58</td>
<td>1.43</td>
<td>2.06</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>2.5</td>
<td>1.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Reports on Trend and Progress of Banking in India
Table 6.7 and Plate 6.2 depicts the Percentage Distribution of Gross and Net NPAs to Total Advances of SCBs, Bank Group-wise.

Table 6.7 and Plate 6.2 helps to infer the following

1. During the study period, the Ratio of Gross NPAs to Gross Advances of ASCBs decreased from 15.7% in 1997-‘98 to 2.3% in 2008-‘09. Hence Bank Group-wise analysis shows the across the bank groups there has been a significant reduction in the gross Non-Performing Assets. With respect to Public Sector Banks Gross NPA have decreased from
   - 14.5% to 2.5% in SBI group and
   - 16.88% to 1.8% in NBs.
With regard to domestic Private Sector Banks, Gross NPA decreased from
   - 10.92% to 2.3% in OPSBs and
   - 3.51% to 2.8% in NGPSBs.

2. During the study period, the Ratio of Net NPAs to Net Advances of SCBs decreased from 8.1% in 1997-‘98 to 1.1% in 2008-‘09. The ratio of net NPAs to Net Advances of different Bank Groups also exhibited similar declining trend during the period from 1997-‘98 to 2008-‘09.

3. The decline in NPAs is more evidenced across bank groups. This reflects on the Positive impact of the measures taken by the Reserve Bank towards NPA reduction and specifically due to the enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, ensuring speedier recovery without intervention of courts or tribunal.

4. It is revealed from Table – 6.7 that the growth rate computed on semi-log scale in respect of GNPA and NNPA shows a negative growth for ASCBs. The negative growth rates of GNPAs and NNPAs for all bank groups are found to be significant.
Difference in Mean GNPA to Total Advances Ratio of different Bank Groups in Pre- and Post SARFAESI Act periods

Banks have been taking effort to recover the non-performing assets by enforcement of security interest under SARFAESI Act, 2002 (also called NPA Act) without the interference of the court. Hence, an attempt has been made to study the NPA of various bank groups in pre SARFAESI Act period (1998-2001) and post SARFAESI Act period (2002-2009).

For the purpose of 3 bank groups ratios namely GNPA and NNPA to Total Advances have find-out the significant different in the GNPA and NNPA ratios of different bank groups in pre- and post SARFAESI Act periods. The results of the analysis are presented in Table – 6.7.1 and Table – 6.7.2.
Table 6.7.1
Significant Difference on GNPA Ratio in Pre- and Post SARFAESI Act Period

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Mean Ratio</th>
<th>t - statistics</th>
<th>P value</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre SARFAESI Act Period</td>
<td>Post SARFAESI Act Period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SBI &amp; its group</td>
<td>14.26</td>
<td>5.42</td>
<td>5.12*</td>
<td>0.0004</td>
</tr>
<tr>
<td>NBs</td>
<td>14.75</td>
<td>5.66</td>
<td>4.59*</td>
<td>0.0009</td>
</tr>
<tr>
<td>OPSBs</td>
<td>11.47</td>
<td>5.66</td>
<td>3.40*</td>
<td>0.0068</td>
</tr>
<tr>
<td>NGPSBs</td>
<td>4.75</td>
<td>4.25</td>
<td>0.34</td>
<td>0.74</td>
</tr>
<tr>
<td>SCBs</td>
<td>14.32</td>
<td>6.35</td>
<td>4.18*</td>
<td>0.002</td>
</tr>
</tbody>
</table>

*Significant at 1% level.

There exist a significant difference between GNPA to Total Advances Ratio in Pre- and Post SARFAESI Act among SBI & its group (t = 5.12, p < 0.01), NBs (t = 4.59, p < 0.01) and SCBs (t = 4.18, p < 0.01).

There is no significant difference between GNPA to Total Advances Ratio and NGPSBs (t = 0.34, p > 0.05).

Table 6.7.2
Significant Difference on NNPA Ratio in Pre- and Post SARFAESI Act Period

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Mean Ratio</th>
<th>t - statistics</th>
<th>P value</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre SARFAESI Act Period</td>
<td>Post SARFAESI Act Period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SBI &amp; its group</td>
<td>6.92</td>
<td>2.55</td>
<td>5.50*</td>
<td>0.003</td>
</tr>
<tr>
<td>NBs</td>
<td>8.02</td>
<td>2.41</td>
<td>5.23*</td>
<td>0.0004</td>
</tr>
<tr>
<td>OPSBs</td>
<td>7.45</td>
<td>2.92</td>
<td>3.53*</td>
<td>0.005</td>
</tr>
<tr>
<td>NGPSBs</td>
<td>3.27</td>
<td>2.26</td>
<td>1.14</td>
<td>0.281</td>
</tr>
<tr>
<td>SCBs</td>
<td>7.45</td>
<td>3.04</td>
<td>4.08*</td>
<td>0.002</td>
</tr>
</tbody>
</table>

*Significant at 1% level
There exist a significant difference between NNPAs to Total Advances Ratio in Pre- and Post SARFAESI Act among SBI & its associates (t = 5.50, p < 0.01), NBs (t=5.23, p < 0.01), OPSBs (t = 3.53, p < 0.01) and SCBs (t = 4.08, p < 0.01).

There is no significant difference between NNPAs to Total advances ratio in NGPSBs (t = 1.14, p > 0.05)

**Gross and Net NPA to Total Assets Ratio:**

Gross NPA to total assets reflects the portfolio of non-standard assets to total assets of the bank while net NPA to total assets reflects the actual assets scenario after making provisions. Bank Group-wise Percentage Distribution of Gross and Net NPAs to Total Assets of SCBs in India from 1997-1998 to 2008-2009 is exhibited in Table 6.8 and Plate 6.4.
### Table – 6.8
Percentage Distribution of Gross & Net NPAs to Total Assets of SCBs – Bank Group-wise
During 1998-2009
(in Percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>ASCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBI And Its Associates</td>
<td>Nationalised Banks</td>
<td>OPSBs</td>
</tr>
<tr>
<td>1997 – 1998</td>
<td>6.67 2.89</td>
<td>7.24 3.48</td>
<td>5.06 2.84</td>
</tr>
<tr>
<td>1998 – 1999</td>
<td>6.52 2.94</td>
<td>6.83 3.26</td>
<td>5.78 3.56</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>5.88 2.60</td>
<td>6.00 3.15</td>
<td>5.22 3.27</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>5.11 2.34</td>
<td>5.45 2.95</td>
<td>5.22 3.27</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>4.39 2.00</td>
<td>5.21 2.69</td>
<td>5.20 3.23</td>
</tr>
<tr>
<td>2002 – 2003</td>
<td>3.48 1.58</td>
<td>4.66 2.16</td>
<td>4.34 2.61</td>
</tr>
<tr>
<td>2003 – 2004</td>
<td>2.91 1.09</td>
<td>3.86 1.40</td>
<td>3.64 1.77</td>
</tr>
<tr>
<td>2004 – 2005</td>
<td>2.49 1.01</td>
<td>2.96 0.91</td>
<td>3.15 1.39</td>
</tr>
<tr>
<td>2005 – 2006</td>
<td>1.92 0.88</td>
<td>2.24 0.64</td>
<td>2.50 0.91</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>1.57 0.79</td>
<td>1.64 0.53</td>
<td>1.24 0.54</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>1.53 0.84</td>
<td>1.25 0.44</td>
<td>1.38 0.60</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>1.4 0.8</td>
<td>1.1 0.4</td>
<td>1.3 0.5</td>
</tr>
</tbody>
</table>

*Source: Reports on Trend and Progress of Banking in India*
Table 6.8 and Plate 6.3 depicts the Percentage Distribution of Gross and Net NPAs to Total Assets of SCBs – Banks Group-Wise.

Table 6.8 and Plate 6.3 helps to infer the following

1. During the study period, the Ratio of NPAs to Total Assets of ASCBs decreased from 6.4 % in 1997-‘98 to 1.3 % in 2008-‘09. Hence Banks group-wise analysis shows that across the bank groups there has been a significant reduction in the gross non-performing assets.

   With respect to Public Sector Banks Gross NPAs has decreased from
   - 6.67 % to 1.4 % in SBI Groups and
   - 7.24 % to 1.1 % in NBs.

   With regard to domestic Private Sector Banks, Gross NPA decreased from
   - 7.24 % to 1.1 % in OPSBs and
   - 1.52 % to 1.8 % in NGPSBs.

2. During the study period, the Ratio of Net NPAs to Net Assets of SCBs decreased from 3 % in 1997-‘98 to 0.6 % in 2008-‘09. The ratio of Net NPAs to Total Assets of different bank groups also exhibited similar declining trend during the period from 1997-‘98 to 2008-‘09.
Plate – 6.4

Percentage Distribution of Gross & Net NPAs to Total Assets of SCBs –

Source: Reports on Trend and Progress of Banking in India

Difference in Mean GNPA to Total Assets Ratio of different Bank Groups in Pre-
and Post SARFAESI Act periods

Banks have been taking effort to recover the non-performing assets by
enforcement of security interest under SARFAESI Act, 2002 (also called NPA Act)
without the interference of the court. Hence, an attempt has been made to study the
NPA of various bank groups in pre SARFAESI Act period (1998-2001) and post

For the purpose of 3 bank groups ratios namely GNPA and NNPA to Total
Assets have find-out the significant different in the GNPA and NNPA ratios of
different bank groups in pre- and post SARFAESI Act periods. The results of the
analysis are presented in Table – 6.7(a).

325
### Table 6.8.1
Significant Difference on GNPA Ratio in Pre- and Post SARFAESI Act Period

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Mean Ratio</th>
<th>t-statistics</th>
<th>P value</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre SARFAESI Act Period</td>
<td>Post SARFAESI Act Period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SBI &amp; its group</td>
<td>6.05</td>
<td>2.46</td>
<td>5.99*</td>
<td>0.0001</td>
</tr>
<tr>
<td>NBs</td>
<td>6.38</td>
<td>2.87</td>
<td>4.13*</td>
<td>0.0020</td>
</tr>
<tr>
<td>OPSBs</td>
<td>5.32</td>
<td>2.84</td>
<td>3.19*</td>
<td>0.0095</td>
</tr>
<tr>
<td>NGPSBs</td>
<td>1.86</td>
<td>2.11</td>
<td>-0.41</td>
<td>0.6889</td>
</tr>
<tr>
<td>SCBs</td>
<td>5.75</td>
<td>2.54</td>
<td>4.58*</td>
<td>0.0010</td>
</tr>
</tbody>
</table>

*Significant at 1% level.

There exist a significant difference between GNPA to Total Assets Ratio in Pre- and Post SARFAESI Act among SBI & its group (t = 5.99, p < 0.01), NBs (t = 4.13, p < 0.01), OPSBs (t = 3.19, p < 0.01) and SCBs (t = 3.19, p < 0.01).

There is no significant difference between GNPA to Total Advances Ratio and NGPSBs (t = -0.41, p > 0.05).

### Table 6.8.2
Significant Difference on NNPA Ratio in Pre- and Post SARFAESI Act Period

<table>
<thead>
<tr>
<th>Bank Groups</th>
<th>Mean Ratio</th>
<th>t-statistics</th>
<th>P value</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre SARFAESI Act Period</td>
<td>Post SARFAESI Act Period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SBI &amp; its group</td>
<td>2.69</td>
<td>1.12</td>
<td>6.45*</td>
<td>0.00007</td>
</tr>
<tr>
<td>NBs</td>
<td>3.21</td>
<td>1.15</td>
<td>4.60*</td>
<td>0.0009</td>
</tr>
<tr>
<td>OPSBs</td>
<td>3.23</td>
<td>1.44</td>
<td>3.35*</td>
<td>0.00738</td>
</tr>
<tr>
<td>NGPSBs</td>
<td>1.24</td>
<td>1.13</td>
<td>0.33</td>
<td>0.75036</td>
</tr>
<tr>
<td>SCBs</td>
<td>2.78</td>
<td>1.09</td>
<td>4.81*</td>
<td>0.00071</td>
</tr>
</tbody>
</table>

*Significant at 1% level

There exist a significant difference between NNPA to Total Assets Ratio in Pre- and Post SARFAESI Act among SBI & its associates (t = 6.45, p < 0.01), NBs (t = 4.60, p < 0.01), OPSBs (t = 3.35, p < 0.01) and SCBs (t = 4.81, p < 0.01).

There is no significant difference between NNPA to Total advances ratio in NGPSBs (t = 0.33, p > 0.05).
<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th></th>
<th>OPSBs</th>
<th>Private Sector Banks</th>
<th>NGPSBs</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total no. of Banks</td>
<td>Upto 10%</td>
<td>Above 10% &amp; Upto 20%</td>
<td>Above 20%</td>
<td>Total no. of Banks</td>
<td>Upto 10%</td>
<td>Above 10% &amp; Upto 20%</td>
</tr>
<tr>
<td>1997 – 1998</td>
<td>27</td>
<td>17</td>
<td>9</td>
<td>1</td>
<td>25</td>
<td>21</td>
<td>4</td>
</tr>
<tr>
<td>1998 – 1999</td>
<td>27</td>
<td>18</td>
<td>8</td>
<td>1</td>
<td>25</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>1999 – 2000</td>
<td>27</td>
<td>22</td>
<td>5</td>
<td>NIL</td>
<td>24</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>2000 – 2001</td>
<td>27</td>
<td>22</td>
<td>5</td>
<td>NIL</td>
<td>23</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>2001 – 2002</td>
<td>27</td>
<td>24</td>
<td>3</td>
<td>NIL</td>
<td>22</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>2002 – 2003</td>
<td>27</td>
<td>25</td>
<td>2</td>
<td>NIL</td>
<td>21</td>
<td>19</td>
<td>1</td>
</tr>
<tr>
<td>2003 – 2004</td>
<td>27</td>
<td>27</td>
<td>NIL</td>
<td>20</td>
<td>18</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>2004 – 2005</td>
<td>28</td>
<td>19</td>
<td>7</td>
<td>2</td>
<td>20</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>2005 – 2006</td>
<td>28</td>
<td>23</td>
<td>5</td>
<td>NIL</td>
<td>20</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>28</td>
<td>27</td>
<td>1</td>
<td>NIL</td>
<td>17</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>28</td>
<td>28</td>
<td>0</td>
<td>NIL</td>
<td>15</td>
<td>15</td>
<td>NIL</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>27</td>
<td>27</td>
<td>0</td>
<td>NIL</td>
<td>15</td>
<td>14</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: Reports on Trend and Progress of Banking in India*
Table 6.9 gives the breakup of distribution of SCBs by ratio of Net NPAs to net advances, indicating that PSBs have shown the maximum improvement in containing and bringing down the NPAs.

During the study period, an analysis of the distribution of public sector banks by ratio of net NPAs to net advances indicates that during the year 2003-'04, no of PSBs with net NPAs up to 10% increased to 27 as opposed to 17% in 1997-'98 and the number of banks with net NPAs in the range of 10% to 20% declined to as opposed to 9 in 1997-'98. This shows that the PSBs are trying to approach the international benchmark of 2% to 3% as the number of banks in the category of 10% and above are continuously decreasing.

An analysis of the distribution of new private sector banks by net NPAs to net advances indicate that during the year 2003-'04, number of banks with net NPAs up to 10% decreased marginally from 9 in 1997-'98 to 9 in 2004-'05. No bank has net NPAs to net advances of over 10% since 1997-'98 but in the year 2002-'03 one bank has fallen in this category. Similarly no bank has net NPAs to net advances of over 20% since 1997-'98 but in the year 2003-'04 one bank has fallen in this category.

An analysis of distribution of OPSBs by ratio of net NPAs to net advances indicate that during the year 2003-'04 number of banks with net NPAs up to 10% decreased by 3 to 18 as opposed to 21 in 1997-'98 and the number of banks with net NPAs in the range of 10% to 20% and in the range of 20% and above had decreased to 2, though the number of banks kept on fluctuating in the intervening period.

During the period under study, the net NPAs to net advances of each of the public sector banks as at end-March, 2009 was less than 2%. The distribution of this ratio in case of other bank groups was also skewed, with only 10 banks in the above 2% and below 5% category and only one bank in the above 5% and below 10% category.

In sharp contrast to the distribution of the ratio during 2004-'05, no bank had the net NPA to net advances ratio more than 10%. This suggests that overall improvement in the financial health of Indian banks in the recent year.