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Non-Performing Assets of Indian Commercial Banks

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Abstract

High level of Non-performing Assets (NPAs) is a matter of concern for everyone involved as credit is essential for economic growth and NPAs affect the smooth flow of credit. Banks raise resources not just from fresh deposits, but they also create credit by recycling the funds received back from the borrowers. Thus when a loan becomes non-performing, it affects recycling of credit and in turn credit creation. Apart from the credit creation, NPAs affect the profitability as well, since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provisions for bad loans. Thus, the present research paper is an attempt to study the conceptual framework of NPAs in Indian banking sector, to examine the trends in NPAs of the commercial banks in India by comparing Percentage of Gross NPAs with Gross advances, Percentage of Net NPAs with net advances, Percentage of Gross NPAs with gross advances, Percentage of Net NPAs with net advances, Percentage of Gross NPAs with total assets, Percentage of Net NPAs with total assets and sector-wise NPAs, and average NPAs of scheduled commercial banks in India. In order to investigate the relationship between NPAs and profitability of commercial banks effect of regression analysis has been used. Therefore, the problem of NPAs is not the concern for the lenders alone, but it a concern of policy makers as well who are involved in putting economic growth on the fast track.

Keywords: *Non-Performing Assets, Banks, Averages, Profitability*

1. Introduction

High level of Non-performing Assets (NPAs) is a matter of concern for everyone involved as credit is essential for economic growth and NPAs affect the smooth flow of credit. Banks raise resources not just from fresh deposits, but they also create credit by recycling the funds received back from the borrowers. Thus when a loan becomes non-performing, it affects recycling of credit and in turn credit creation. Apart from the credit creation, NPAs affect the profitability as well, since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provisions for bad loans. Thus, the present research paper is an attempt to study the conceptual framework of NPAs in Indian banking sector, to examine the trends in NPAs of the commercial banks in India by comparing Percentage of Gross NPAs with Gross advances, Percentage of Net NPAs with net advances, Percentage of Gross NPAs with gross advances, Percentage of Net NPAs with net advances, Percentage of Gross NPAs with total assets, Percentage of Net

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NPAs with total assets and sector-wise NPAs, and average NPAs of scheduled commercial banks in India

2. Review of Literature

In the context of banking sector, there exist many good surveys/studies related to the issue of Non-performing assets of banking sector in India. Therefore, we mention some of the relevant papers in the Indian context as under.

Sivpuje and Kaveri (1997), conducted a study which was basically confined to identifying the factors influencing NPAs, suggesting measures that would prevent the growth of NPAs and affect their speedy recovery. The major emphasis was laid on internal factors over which banks and financial institutions have direct control.

Baiju S. and Thattil G.S (2000), highlighted the magnitude of NPAs in commercial banking sector of India taking the current position of scheduled commercial bank. They had graded all the four categories, i.e. SBI and its associates, nationalised banks, other scheduled commercial banks and foreign banks, in very good, good, bad and worst group on the basis of NPAs and capital adequacy. They concluded that banks, which got a ‘very good’ rating in terms of their NPAs, revealed that such banks were new private banks or foreign banks.

Chakrabarti (2005), investigated that the banking sector as a whole particularly the public sector banks still suffered from considerable NPAs, but the situation has improved over time. The study revealed that over time, the Indian banking industry has become more competitive and less concentrated. He has concluded that the new private sector banks are the most efficient though the recent collapse of Global Trust Bank has raised issues about efficiency and regulatory effectiveness.

C.Chandrakant, (2007), conducted a study on Non performing assets in Karnataka State financial Corporation – A case study of Gulbarga Division. The main objective of the study was to assess the impact of NPA. And he suggested that better credit risk management will be an effective tool in resolving the issue NPAs.

Ashok Khurana and Mandeep Singh (2009), stated that issue of mounting NPAs is a challenging to public to public sector banks. The study found that the asset wise classification of PSBs is in right direction and there is significant variation in the recovery of NPAs in the different sector. The research observed that PSBs should not be loaded with the twin object of profitability and social weal fair.

3. Scope of the Study

Keeping in view the scope of the study, it has been decided to include all scheduled commercial banks in India including the foreign banks operating in India.

Therefore, the present study is confined to public sector banks comprising the State Bank of India (SBI) and its seven associates – collectively termed as the SBI Group – and the nationalised banks. The classification of private banks into 'old private' and 'new private' is based on the timing of market entry. Following the RBI guidelines of 1993 to promote competition in the banking sector, new private banks entered the market in 1994. A number of foreign banks were allowed entry into the Indian banking system and consequently, the total number of foreign banks varies during the study period. The study would cover a period from 1981 to 2009.

4. Objectives of the Study

The study has been conceived with the following objectives:

1. To study the conceptual framework of NPAs in Indian banking sector.
2. To examine the trends in NPAs of commercial banks in India.
3. To evaluate the bank group-wise empirical estimates of the regression equation.
4. To offer necessary suggestions for reduction in NPAs of Indian commercial banks.

5. Research Methodology

The present research work is based on the secondary data only. The secondary data has been collected chiefly from the various RBI Bulletins, Statistical Tables relating to Banks in India, Trend and Progress Reports of Banking in India, Annual Reports of Commercial Banks, Banking Reports on Currency and Finance, Banking Statistics – Basic Statistical Returns (all brought out by the Reserve Bank of India, Mumbai).

The data used for study pertains to the period from 1981-2009. In order to find out the behaviour pattern of variables statistical tools like percentages, averages and regression analysis have been used.

Concept of Non-Performing Assets

In the banking sector, an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. For the strength and stability of the banking system, the assets of banks should yield positive returns. The assets which do not yield positive returns become non-performing assets. Before the issue of any guidelines by RBI on recognition of income from advances, different banks used to follow their own prudence in recognising income on accrual basis rather than the realisation and there was no uniform practice. It is only after the publication of the Narasimham Committee – I Report that a uniform definition came to be accepted. According to the Narasimham (1991) committee report, those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remain due for a period of four quarters (180 days) should be considered as NPAs. As norms for the recognition of non-performing assets have gradually tightened, so, with a view to moving towards international best practices and to ensure greater transparency, the grace period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days should be considered as NPAs.

In accordance with the directions or guidelines relating to asset classification issued by RBI, an asset is classified into four categories – standard, sub-standard, doubtful and loss assets. Standard assets are defined as credit facilities of which interest or principal or both are paid by due date. Here it is very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. If assets fail to be in category of standard assets, that is, amount due more than 90 days then it is NPA. A sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months with effect from March 2005. The doubtful assets are those assets which have remained NPAs for a period exceeding 12 months. An asset is classified as loss, without any waiting period, where the dues are considered uncollectible or marginally collectible.

Analysis of NPAs in Commercial Banks in India

The analysis of Table 1.1 gives a clear crystal picture about the NPAs in scheduled commercial banks in India since 1997. The table indicates that the percentages of gross NPAs to gross advances and net NPAs to net advances have been 15.7 and 8.1 respectively in 1997. These figures have continuously been declining and reached to 2.3 and 1.1 respectively in 2009. Same trend has followed in all types of bank groups, whereas, in the case of new private sector banks gross NPAs to gross advances has been 2.6 in 1997 and 3.1 in 2009.

The table further indicates that public sector banks have the largest share of NPAs. The ratio of gross NPAs to gross advances has been the highest in public sector banks (17.8 per cent), followed by old private sector banks (10.7 per cent) and foreign banks (4.3 per cent) respectively in 1997. The lowest percentage of the above variable has been found in the case of new private sector banks (2.6 per cent) during the same period. It is interesting to note that although the percentage of gross NPAs to gross advances has been falling over the period in all bank groups but in 2009, the highest percentage has been found in the case of old foreign banks (4.0 per cent) followed by new private sector banks (3.1 per cent), old private sector banks (2.4 per cent) and public sector banks (2.0 per cent). The decline in the NPAs has mainly been due to the decline in sub-standard and doubtful assets and a corresponding increase in standard assets (Table 1.3). Thus, one can say that public sector banks have managed their NPAs more efficiently than other banks.

It is not surprising that public sector banks traditionally have higher levels of NPAs than private sector banks and foreign banks. On the other hand, the new private sector banks have witnessed an increase in the share of NPAs in their portfolios till 2002. The most important reasons for the generation of NPAs may be listed under the following broad categories–diversion of funds for expansion/ modernization/ setting up new projects, time/cost overrun while implementing the project, external factors like shortage of raw materials, natural calamities industrial recession etc., business failure like failing to capture market, inefficient management, etc., government policies like excise, deregulation, etc., wilful default, fraud, misappropriation, etc. The decline in NPAs as ratio of both advances and total assets is more evidenced across bank groups especially since 2003. This might has been caused by improvement in the credit appraisal process, upturn of the business cycle, new initiatives of NPAs like promulgation of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI, 2002) Act, greater provisioning and write off of NPAs enabled by greater profitability. The preceding table also demonstrates the important fact that domestic banks have a higher proportion of their assets in NPAs than foreign banks. One possible reason for the lower proportion of NPAs for foreign banks is the less stringent lending requirements imposed on foreign banks.

It can also be said that since 2004, India has accepted the international standard of defining the assets on which interest or principal payment is overdue by 90 or more days as non- performing. This tightening of the norm not withstanding, the gross, as well as net, of provisioning NPAs has been declining. In the Indian legal system, write-offs are difficult even for fully provisioned loans. This partially explains the proportionately greater progress in bringing down the net NPAs. Unsurprisingly, it has the public sector and old private banks that had to undertake most of this reduction. The new private sector and foreign banks have had relatively low NPAs even in the mid-1990s as reflected by Table 1.1.

Table 1.2 shows sector-wise NPAs of public sector banks in India since 1996. It is interesting to find that the percentage share of NPAs in public sector banks has been the same in priority and non-priority sectors at the end of March 1996, but this figure is quite high (55.2 per cent) in the case of priority sector as compared to non-priority sector at the end of March 2009. The reason for higher NPAs by the priority sector in public sector banks is mainly due to the social obligations of these banks which always associated with them. The table further indicates that the percentage share of NPAs in priority sector has been declining till March 1999, but started increasing afterwards and has reached as high as 63.6 per cent in March 2008. The share of NPAs in non-priority sector has been 48.2 per cent in March 1996. After an increase in few initial years, the above stated figure started declining and reached to the level of 35.6 per cent in March 2008. It is also interesting to note that the percentage share of NPAs in public sector banks become declined in case of priority sector and increased in case of non-priority sector, at the end of March 2009. A comparison of SBI group with Nationalised banks depicts that the share of former is greater than the share of latter in the case of priority sector but it has shown as adverse trend in the case of non-priority sector at the end of March 1996. Interestingly, at the end of March 2009, the shares of SBI group is less than the share of Nationalised banks in the case of priority sector but it has shown as adverse trend in the case of non-priority sector. Same is true in the case of public sector undertakings. The share of public sector undertakings in the NPAs has fallen from 3.6 per cent to 1.1 per cent from 1996 to 2009. This shows that not only advances to the priority sector are getting non-performing, but more than that, non-priority sector lending is the area where the bankers need to cautiously examine the possibilities of loans becoming non-performing. Here, the question of moral hazard, adverse selection and credit rationing comes to the fore. These issues are to be addressed face on. This also goes to explode the commonly held myth that the problem of NPAs is caused mainly due to the credit allocation to priority sector.

Table 1.3 shows the bank group-wise classification of loan assets of scheduled commercial banks in which non-performing assets consist of the aggregate of sub-standard, doubtful and loss assets. It is clear from the table that while the share of standard assets in total advances of scheduled commercial banks has increased from 84.3 per cent in 1997 to 97.7 per cent in 2009, the shares of sub-standard assets, doubtful assets and loss assets have decreased from 4.8 per cent, 9.0 per cent and 1.9 per cent in 1997 to 1.2 per cent, 0.9 per cent and 0.2 per cent respectively in 2009. Approximately, similar trend is found in all bank groups but with slight variations over the period under study. For example, in the case of public sector banks, the share of sub-standard assets in total advances has fallen from 5.1 per cent in 1997 to 0.9 per cent in 2009. Similarly, the share of standard assets in total advances in the case of private sector banks including foreign banks has fallen in the late nineties, after which it has started increasing. The shares of sub-standard assets, doubtful assets and loss assets have also started decreasing in 2000 in the case of private sector banks. Thus, the assets quality of private sector banks, though comfortable has shown some signs of weakening in late nineties but improved in the next decade.

Further, the share of standard assets has been the highest in the case of new private sector banks (97.4 per cent) in 1997 followed by foreign banks (95.9 per cent) and old private sector banks (89.3 per cent). The lowest percentage of standard assets to total advances has been in the case of public sector banks in the same year (82.2 per cent). In 2009, the shares of standard assets in total advances with the percentage of 97.6 in the case of old private sector banks have been the highest. There is a remarkable improvement in the case of public sector banks as the figure has increased from 82.2 per cent to 98.0 per cent. This is due to the fact that there has been remarkable management of NPAs in these banks after financial sectors reforms. Thus, it can be said that the impact of financial sector reforms on the improvement of NPAs has been felt relatively late in the case of private sector banks as compared to public sector banks.

The widely used ratios to judge the gravity of the problem of non-performing assets are gross NPAs to gross advances, net NPAs net advances, and gross and net NPAs to total assets. The gross NPAs to total assets reflect the portfolio of non-standard assets to total assets of the bank while net NPAs to total assets reflect the actual assets scenario after making provisions. The gross NPAs to gross advances ratio depicts the proportion of unpaid loans to the total loans and advances made. The net NPAs to net advances ratio, on the other hand, reveals the actual burden of holding NPAs to banks, and is calculated by netting out interest in the suspense account, provisions, claims received and paid, etc. from gross advances.

Table 1.4 depicts the average NPAs of scheduled commercial banks during the period 1996-97 to 2008-09. The table presents four ratios which are used to judge the average value of NPAs for different bank groups. The table clearly indicates the average value of the portfolio of non-standard assets of the bank (i.e. ratio of gross NPAs to total assets) during the period under study. Within the public sector, nationalised banks have higher average (4.36 per cent) as compared to other banks. Similarly, within the private sector, old private sector banks have achieved the highest (3.81 per cent) average. The average NPAs from 1996-97 to 2006-07 measured in terms of the ratio of gross NPAs to gross advances turns out to be the highest in all bank groups as compared to other ratios. It leads to the fact that the portions of unpaid loans to total advances are quite high in banking sector in India. Amongst the three groups of banks under study, the foreign banks comprise the least average (4.59 per cent) of gross NPAs to gross advances and the public sector banks registered maximum average (9.27 per cent) of gross NPAs to gross advances. Amongst the public sector banks, the nationalised banks recorded the highest average (9.47 per cent) of gross NPAs to gross advances. Similarly amongst the private sector banks, the old private sector banks have got the highest average (7.87 per cent). The table further reveals that amongst the three groups of banks, the foreign banks comprise the least average of net NPAs to total assets and net NPAs to net advances, i.e., 0.74 per cent and 1.70 per cent respectively. It brings out the fact that the actual burden of holding NPAs to banks is the lowest in case of foreign banks. On the other hand, amongst the public sector banks, nationalised banks have recorded the highest average of net NPAs to total assets (2.00 per cent) and net NPAs to net advances (4.65 per cent). Similarly, the old private sector banks have got the maximum average of net NPAs to total assets (2.12 per cent) and net NPAs to net advances (4.62 per cent) amongst the private sector banks. It is also interesting to note that foreign banks have recorded the minimum average NPAs and the public sector banks have achieved the maximum average NPAs in respect to four ratios during the period under study. The table further provides the fact that the average value of net NPAs to total assets have declined at a faster rate than other ratios across all commercial banks. It can be inferred that actual asset scenario is improving over the period under study.

Thus, a sizeable portion of the aggregate of NPA with the public sector banks is that of chronic NPAs, i.e. loans which have remained as non-performing in their books for several years in some cases ever running into decades. There are also loans given to state or central public sector units which they failed to repay. These loans are either with or without government guarantees. The banks have been in a quandary to proceed against these units and recover their dues. However, with the introduction of financial sector reforms, the actual assets scenario is improving with the time.

Relationship between NPAs and Bank Profitability: Regression Analysis

The foregoing analysis indicates that the Indian banking sector has been facing a serious problem of NPAs, the most worrisome aspect of the financial sector. As pointed out by the Narasimham Committee (1998), the huge backlog of NPAs has been impinging severely on banks' performance and their profitability. Thus, in the current scenario, NPAs have been considered an important factor influencing the profitability of commercial banks. Thus, an attempt has been made to empirically estimate the impact of NPAs on commercial banks' profitability. For this purpose, the following regression equation has been estimated for all bank groups (for the period 1997 to 2009) with profitability as the dependent and the ratio of net NPA to net advances as the independent variable affecting the profitability of banks.

$$\pi_t = \beta_0 + \beta_1 (NPA/NA)_t + \mu_t$$

Where, π = Profitability

NPA/NA = Ratio of net NPAs to net advances

μ = residual term

't' refers to current period value of the variable under reference .

Empirical estimates of the regression equations for various bank groups have been represented in Table 1.5. From the empirically estimated equation, the following broad conclusions have been derived:

1. There exists an inverse relationship between the non- performing assets and probability in all bank groups during the period under consideration.
2. The table further indicates that the relationship between the profitability and the ratio of non-performing assets and net advances is significant at 0.05 per cent level in all bank groups except new private banks being set up may not have backlog of huge NPAs with them. The value of ? is the highest in the case of foreign banks indicating the fact that a unit increase in non-performing assets would lead to fall in profitability equal to 0.358. The latter figure is 0.062 and 0.041 in the case of new private sector banks and public sector banks respectively.
3. The values of coefficient of determination in the table indicate that 39.5 per cent of variations in profitability of foreign banks can be explained with non-performing assets. In the case of public and new private sector banks, the values of this estimate are 35.1 per cent and10.8 per cent respectively; the coefficient of determination is very low, i.e., 1.3 per cent in the case of old private sector banks.

Thus, on the whole, the more often inverse relationship between the ratio of non-performing assets and profitability indicates that the banks with above average non-performing assets have below average profitability. This confirms the hypothesis that non-performing assets and profitability are inversely related. It is particularly so because commercial banks are required to make provisions out of their income against NPAs as per the norms. Therefore, a reduction in NPAs as proportion to net advances can help in improving the profitability of commercial banks in India.

7. Suggestions

The commercial banks need to focus on the following suggestions and build required capabilities to cope up with the challenges of the dynamic banking environment.

Banks should examine the viability of project before providing financial assistance. Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advance. Disbursement of funds according to the requirements of the project, effective supervision and timely follow-up, involvement of all staff members for better recovery and update knowledge of NPA accounts are also equally essential. If proper care is taken for appraisal, supervision and follow-up of the advances, further NPAs can be avoided.

Frequency of preparing 'know your client' (KYC)/credit reports should be increased. Currently these are prepared initially at the time of sanction of credit facilities and updated on an annual basis in many banks. These need to be updated more frequently, at least every quarter.

The credit department of the banks should comprise of experienced and trained officers in credit management. The staff should have enough exposure in the credit appraisal techniques.

The NPA management strategies should also involve initiatives for making use of existing legal machinery for speedy recovery through Debt Recovery Tribunal (DRTs).

8. Conclusion

While concluding, it can be said that public sector banks have been the greatest victim of non-performing assets during nineties as compared to private sector banks. However, these banks have been able to manage their non-performing assets more efficiently than other banks. Although the percentage share of NPAs in priority sector has been quite high in the case of public sector banks due to the social obligation associated by them, but this figure is also quite high in the case of non-priority sector. Thus, this goes to explode the commonly held myth that the problem of NPAs has been mainly due to the credit allocation to priority sector. Therefore, it is better to avoid NPAs at the nascent stage of credit consideration by putting in place of rigorous and appropriate credit appraisal mechanisms.

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Table 1.1 : Bank Group- wise Gross and Net NPAs of Scheduled Commercial Banks in India : 1997 to 2009

(Amount in ₹ Crore)

Bank Group/Year	Gross NPAs				Net NPAs			
	Gross Advances	Amount or Gross NPAs	Per cent to Gross Advances	Per cent to Total Assets	Net Advances	Amount or Net NPAs	Per cent to Net Advances	Per cent to Total Assets
Scheduled Commercial Banks								
1997	3,01,968	47,300	15.7	7.0	2,76,421	22,340	8.1	3.3
1998	3,52,969	50,815	14.4	6.4	3,25,522	23,761	7.3	3.0
1999	3,99,436	58,722	14.7	6.2	3,67,012	28,020	7.6	2.9
2000	4.75,113	60,408	12.7	5.5	4,44,292	30,073	6.8	2.7
2001	5,58,766	63,741	11.4	4.9	5,26,329	32,461	6.2	2.5
2002	6,80,958	70,861	10.4	4.6	6,45,859	35,254	5.5	2.3
2003	7,78,043	68,717	8.8	4.0	7,40,473	29,692	4.0	1.8
2004	9,02,026	64,785	7.2	3.3	8,62,643	24,396	2.8	1.2
2005	11,52,686	59,373	5.2	2.5	11,15,663	21,754	2.0	0.9
2006	15,51,378	51,816	3.3	1.9	15,15,669	18,529	1.2	0.7
2007	20,12,510	50,486	2.5	1.5	19,81,237	20,101	1.0	0.6
2008	25,07,885	56,309	2.3	1.3	27,76,936	24,730	1.0	0.6
2009	30,38,254	68,973	2.3	1.3	30,00,906	31,424	1.1	0.6
Public Sector Banks								
1997	2,44,214	43,577	17.8	7.8	2,20,922	20,285	9.2	3.6
1998	2,84,971	45,653	16.0	7.0	2,60,459	21,232	8.2	3.3
1999	3,25,328	51,710	15.9	6.7	2,97,789	24,211	8.1	3.1
2000	3,79,461	53,033	14.0	6.0	3,52,714	26,187	7.4	2.9
2001	4,42,134	54,672	12.4	5.3	4,15,207	27,977	6.7	2.7
2002	5,09,368	56,473	11.1	4.9	4,80,681	27,958	5.8	2.4
2003	5,77,813	54,090	9.4	4.2	5,49,351	24,877	4.5	1.9
2004	6,61,975	51,538	7.8	3.5	6,31,383	19,335	3.1	1.2
2005	8,77,825	48,399	5.5	2.7	8,48,912	16,904	2.1	0.9
2006	11,34,724	42,106	3.7	2.1	11,06,128	14,561	1.3	0.7
2007	14,64,493	38,968	2.7	1.6	14,40,146	15,145	1.1	0.6
2008	18,19,074	40,552	2.2	1.3	17.97,401	17,836	1.0	0.6
2009	22,83,473	45,156	2.0	1.2	22,60,156	21,033	0.9	0.6

Old Private Sector Banks								
1997	21,702	2,325	10.7	5.2	20,832	1,385	6.6	3.1
1998	25,580	2,794	10.9	5.1	24,353	1,572	6.5	2.9
1999	28,979	3,784	13.1	5.8	26,017	2,332	9.0	3.6
2000	35,404	3,815	10.8	5.2	33,879	2,393	7.1	3.3
2001	39,738	4,346	10.9	5.1	37,973	2,771	7.3	3.3
2002	44,057	4,851	11.0	5.2	42,286	3,013	7.1	3.2
2003	51,329	4,550	8.9	4.3	49,436	2,548	5.2	2.5
2004	57,908	4,393	7.6	3.6	55,648	2,142	3.8	1.8
2005	70,412	4,200	6.0	3.1	67,742	1,859	2.7	1.4
2006	85,154	3,740	4.3	2.5	81,980	1,368	1.6	0.9
2007	94,872	2,969	3.1	1.8	92,887	891	1.0	0.6
2008	1,13,404	2,557	2.3	1.3	1,11,670	740	0.7	0.4
2009	1,30,352	3,072	2.4	1.3	1,28,512	1,165	0.9	0.5
New Private Sector Banks								
1997	8,257	217	2.6	1.3	7,814	154	2.0	1.0
1998	11,173	392	3.5	1.5	11,058	291	2.6	1.1
1999	14,070	871	6.2	2.3	13,714	611	4.5	1.6
2001	31,499	1,617	5.1	2.1	30,086	929	3.1	1.2
2002	76,901	6,811	8.9	3.9	74,187	3,663	4.9	2.1
2003	94,718	7,232	7.6	3.8	89,515	1,365	1.5	2.1
2004	1,19,511	5,961	5.0	2.4	1,15,106	1,986	1.7	1.1
2005	1,27,420	4,582	3.6	1.6	1,23,655	2,353	1.9	0.8
2006	2,32,536	4,042	1.7	1.0	2,30,005	1,793	0.8	0.4
2007	3,25,273	6,287	1.9	1.1	3,21,865	3,137	1.0	0.5
2008	4,12,441	10,440	2.5	1.4	4,06,733	4,907	1.2	0.7
2009	4,54,713	13,911	3.1	1.8	4,46,824	6,253	1.4	0.8
Foreign Banks								
1997	27,525	1,181	4.3	2.1	26,853	516	1.9	0.9
1998	30,972	1,976	6.4	3.0	29,652	666	2.2	1.0
1999	31,059	2,357	7.6	3.1	29,492	866	2.9	1.1
2000	37,432	2,614	7.0	3.2	35,543	855	2.4	1.0
2001	45,395	3,106	6.8	3.0	43,063	785	1.8	0.8
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8
2003	54,184	2,845	5.3	2.4	52,171	903	1.7	0.8
2004	62,632	2,894	4.6	2.1	60,506	933	1.5	0.7
2005	77,026	2,192	2.8	1.4	75,354	639	0.8	0.4
2006	98,965	1,927	1.9	1.0	97,555	808	0.8	0.4
2007	1,27,872	2,263	1.8	0.8	1,26,339	927	0.7	0.3
2008	1,62,966	2,859	1.8	0.8	1,61,133	1,250	0.8	0.3
2009	1,69,716	6,833	4.0	1.5	1,65,415	2,973	1.8	0.7

Source : Compiled from various Reports on Trend and Progress of Banking in India, Published by RBI, Mumbai

Table 1.2: Sector-wise NPAs of Public Sector Banks in India : 1996 to 2009

(Amount in `. Crore)

Bank Groups	Priority Sector	Non-priority Sector	Public Sector	Total
March 1996				
1. State Bank Group	7,041 (53.7)	5,263 (40.1)	816 (6.2)	13120
2. Nationalised Banks	12,065 (45.6)	13,804 (52.2)	595 (2.3)	26,464
3. PSBs (1+2)	19,106 (48.2)	19,067 (48.2)	1,411 (3.6)	39,584
March 1997				
1. State Bank Group	7,247 (50.4)	6,291 (43.8)	829 (5.8)	14,367
2. Nationalised Banks	13,527 (46.3)	15,050 (51.5)	632 (2.2)	29,209
3. PSBs (1+2)	20,774 (47.7)	21,341 (49.0)	1461 (3.3)	43,576
March 1998				
1. State Bank Group	7,470 (48.1)	7,390 (47.2)	662 (4.3)	15,522
2. Nationalised Banks	13,714 (45.5)	15,717 (52.2)	700 (2.3)	30,130
3. PSBs (1+2)	21,184 (46.4)	23,107 (50.6)	1,362 (3.0)	45,653
March 1999				
1. State Bank Group	8,318 (44.6)	9,668 (51.9)	655 (3.5)	18,641
2. Nationalised Banks	14,288 (43.2)	17,940 (54.3)	841 (2.5)	33,069
3. PSBs (1+2)	22,606 (43.7)	27,608 (53.4)	1,496 (2.9)	51,710
March 2000				
1. State Bank Group	8,947 (45.2)	10,266 (52.0)	560 (2.8)	19,773
2. Nationalised Banks	14,768 (44.0)	18,252 (54.5)	495 (1.5)	33,521
3. PSBs (1+2)	23,715 (44.5)	28,524 (53.5)	1,055 (2.0)	53,294
March 2001				
1.State Bank Group	8,928 (44.2)	10,050 (50.0)	1,213 (6.0)	20,190
2. Nationalised Banks	15,228 (46.1)	17,257 (52.3)	498 (1.5)	32,983
3. PSBs (1+2)	24,156 (45.4)	27,307 (51.3)	1,711 (3.2)	53,174
March 2002				
State Bank Group	9,019 (45.7)	10,105 (51.2)	619 (3.1)	19,743

1. Nationalised Banks	16,121 (43.8)	20,146 (54.8)	496 (1.4)	36,763
2. PSBs (1+2)	25140 (44.5)	30,251 (53.5)	1,116 (1.9)	56,507
March 2003				
1. State Bank Group	8,053 (47.4)	8,379 (49.4)	526 (3.1)	16,958
2. Nationalised Banks	16,885 (47.1)	18,402 (51.3)	561 (1.5)	35,848
3. PSBs (1+2)	24,938 (47.2)	26,781 (50.7)	1,087 (2.0)	52,806
March 2004				
1. State Bank Group	7,135 (47.0)	7,803 (51.4)	220 (1.4)	15,158
2. Nationalised Banks	16,705 (47.4)	17,895 (51.1)	390 (1.1)	34,990
3. PSBs (1+2)	23,840 (47.5)	25, 698 (51.2)	610 (1.2)	50,148
March 2005				
1. State Bank Group	7,017 (47.3)	7,624 (51.4)	168 (1.2)	14,809
2. Nationalised Banks	16,380 (51.2)	15,301 (47.8)	282 (0.8)	31,964
3. PSBs (1+2)	23,397 (49.0)	22925 (48.0)	451 (0.9)	47,696
March 2006				
1. State Bank Group	7,250 (54.9)	5,819 (44.1)	125 (0.9)	13,194
2. Nationalised Banks	15,124 (53.6)	12,845 (45.5)	215 (0.7)	28,184
3. PSBs (1+2)	22,374 (54.0)	18,664 (45.1)	340 (0.8)	41,378
March 2007				
1. State Bank Group	7,175 (57.1)	5,192 (41.3)	187 (1.5)	12,554
2. Nationalised Banks	15,511 (62.8)	8,861 (35.9)	292 (1.1)	24,664
3. PSBs (1+2)	22,953 (59.4)	15,157 (39.2)	490 (1.2)	38,600
March 2008				
1. State Bank Group	8,902 (58.5)	6,222 (40.9)	97 (0.6)	15,221
2. Nationalised Banks	16,385 (66.8)	7,941 (32.4)	202 (0.8)	24,528
3. PSBs (1+2)	25,287 (63.6)	14,163 (35.6)	299 (0.8)	39,749
March 2009				
1. State Bank Group	8,447 (47.3)	9,250 (51.8)	177 (1.0)	17,874
2. Nationalised Banks	15,871 (60.6)	10,001 (38.2)	297 (1.1)	26,169
3. PSBs (1+2)	24,318 (55.2)	19,251 (43.7)	474 (1.1)	44,043

Source: Compiled from various issues of Report on Trend and Progress of Banking in India Published by RBI, Mumbai.

Note: 1. Figures in parentheses are percentages to the total.

2. Constituent items may not add up to the totals due to sounding off.

Table 1.3 : Bank Group-wise Classification of Loan Assets of Scheduled Commercial Banks in India : 1997 to 2009

(Amount in ₹. Crore)

Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total Advances
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount
Scheduled Commercial Banks											
1997	2,54,446	84.3	14,500	4.8	27,165	9.0	5,634	1.9	47,300	15.7	3,01,698
1998	3,01,881	85.6	17,428	4.9	27,146	7.7	6,242	1.8	50,815	14.4	3,52,696
1999	3,40,714	85.3	19,928	5.0	31,350	7.8	7,444	1.9	58,722	14.7	3,99,436
2000	4,14,917	87.2	19,594	4.1	33,688	7.1	7,558	1.6	60,840	12.8	4,75,757
2001	4,94,716	88.6	18,206	3.3	37,756	6.8	8,001	1.4	63,963	11.4	5,58,679
2002	6,09,972	89.6	21,382	3.1	41,201	6.1	8,370	1.2	70,953	10.4	6,80,925
2003	7,09,260	91.2	20,078	2.6	39,731	5.1	8,971	1.2	68,780	8.8	7,78,040
2004	8,37,130	92.8	21,026	2.3	36,247	4.0	7,625	0.8	64,898	7.2	9,02,027
2005	10,93,523	94.9	14,016	1.2	37,763	3.3	7,382	0.6	59,161	5.1	11,52,684
2006	14,99,431	96.7	14,826	1.0	30,105	2.0	7,016	0.4	51,947	3.4	15,51,378
2007	19,61,877	97.5	20,010	1.0	24,408	1.2	6,215	0.3	50,633	2.5	20,12,510
2008	24,51,217	97.7	26,541	1.1	24,507	1.0	5,619	0.2	56,668	2.3	25,07,885
2009	29,68,070	97.7	37,069	1.2	27.058	0.9	6,056	0.2	70.063	2.3	30,31,587
Public Sector Banks											
1997	2,00,637	82.2	12,472	5.1	26,015	10.7	5,90	2.1	43,577	17.9	2,44,214
1998	2,39,318	84.0	14,463	5.1	25,819	9.1	5,371	1.9	45,653	16.0	2,84,971
1999	2,73,618	84.1	16,033	4.9	29,252	9.0	6,425	2.0	51,710	15.9	3,25,328
2000	3,26,783	86.0	16,361	4.3	30,535	8.0	6,398	1.7	53,294	14.0	3,80,077
2001	3,87,360	87.6	14,745	3.3	33,485	7.6	6,544	1.5	54,774	12.4	4,42,132
2002	4,52,862	88.9	15,788	3.1	33,658	6.6	7,061	1.4	56,507	11.1	5,09,369
2003	5,23,724	90.6	14,909	2.6	32,340	5.6	6,840	1.2	54,089	9.4	5,77,813
2004	6,10,435	92.2	16,909	2.6	28,756	4.3	5,876	0.9	51,541	7.8	6,61,975
2005	8,30,029	94.6	11,068	1.3	30,799	3.5	5,929	0.7	47,796	5.4	8,77,725
2006	10,92,607	96.2	11,453	1.0	25,028	2.2	5,636	0.5	42,117	3.7	11,34,724
2007	14,25,519	97.3	14,275	1.0	19,873	1.4	4,826	0.3	38,974	2.7	14,64,493
2008	17,78,476	97.8	17,290	1.0	19,291	1.1	4,018	0.2	40,598	2.2	18,19,074
2009	22,37556	98.0	20,603	0.9	21,019	0.9	4,296	0.2	45,918	2.0	22,83,473

Old Private Sector Banks											
1997	19,377	89.3	1,199	5.5	885	4.1	241	1.1	2,325	10.7	21,702
1998	22,786	89.1	1,402	5.5	1,068	4.2	324	1.3	2,794	10.9	25,580
1999	25,195	86.9	1,920	6.6	1,463	5.0	401	1.4	3,784	13.1	28,979
2000	31,447	88.8	1,577	4.5	2,061	5.8	347	1.0	3,985	11.2	35,432
2001	35,166	88.7	1,622	4.1	2,449	6.2	413	1.0	4,484	11.3	39,650
2002	39,262	89.0	1,834	4.2	2,668	6.0	348	0.8	4,850	11.0	44,112
2003	46,761	91.1	1,474	2.9	2,772	5.4	321	0.6	4,567	8.9	51,328
2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
2005	66,212	94.0	784	2.1	2,868	4.1	549	0.8	4,201	6.0	70,413
2006	81,414	95.6	710	0.8	2,551	3.0	479	0.6	3,740	4.4	85,154
2007	91,903	96.9	760	0.8	1,783	1.9	425	0.4	2,969	3.1	94,872
2008	1,10,847	97.7	816	0.7	1,346	1.2	395	0.3	2,557	2.3	1,13,404
2009	1,27,280	97.6	1,334	1.0	1,327	1.0	411	0.3	2,952	2.4	1,23,685
New Private Sector Banks											
1997	8,040	97.4	171	2.1	4	0.0	42	0.5	217	2.6	8,257
1998	10,781	96.5	365	3.3	9	0.1	19	0.2	392	3.5	11,173
1999	13,199	93.8	737	5.2	128	0.9	6	0.0	871	6.2	14,070
2000	21,870	95.9	560	2.5	294	1.3	92	0.4	946	4.1	22,816
2001	29,905	94.9	963	3.1	620	2.0	11	0.0	1,594	5.1	31,499
2002	70,010	91.1	2,904	3.8	3,871	5.0	41	0.1	6,816	8.9	76,826
2003	87,487	92.4	2,700	2.9	3,675	3.9	856	0.9	7,231	7.6	94,718
2004	1,13,560	95.0	1,966	1.6	3,665	3.1	321	0.3	5,952	5.0	1,19,512
2005	1,22,577	96.2	1,449	1.1	3,061	2.4	334	0.3	4,844	3.8	1,27,421
2006	2,28,504	98.3	1,717	0.7	1,855	0.8	460	0.2	4,032	1.8	2,32,536
2007	3,19,002	98.1	3,608	1.1	2,147	0.7	516	0.2	6,271	1.9	3,25,273
2008	4,02,013	97.5	6,473	1.6	3,106	0.8	849	0.2	10,428	2.5	4,12,441
2009	4,40,813	96.9	9,258	2.0	3,708	0.8	934	0.2	13,900	3.1	4,54,713
Foreign Banks											
1997	26,392	95.9	658	2.4	261	0.9	261	0.9	1,181	4.2	27,525
1998	28,996	93.6	1,198	3.9	250	0.8	528	1.7	1,976	6.4	30,972
1999	28,702	92.4	1,238	4.0	507	1.6	612	2.0	2,357	7.6	31,059
2000	34,817	93.0	1,096	2.9	798	2.1	721	1.9	2,615	7.0	37,432
2001	42,285	93.1	876	1.9	1,202	2.6	1,033	2.3	3,111	6.9	45,396
2002	47,838	94.5	856	1.7	1,004	2.0	920	1.8	2,780	5.5	50,618
2003	51,288	94.7	995	1.8	944	1.7	954	1.8	2,893	5.3	54,181
2004	59,619	95.2	990	1.6	1,099	1.8	924	15	3,013	4.8	62,632
2005	74,705	97.0	715	1.0	1,035	1.3	570	0.7	2,320	3.0	77,025
2006	96,907	98.0	946	1.0	670	0.7	441	0.5	2,057	2.2	98,965
2007	1,25,453	98.1	1,367	1.1	605	0.5	447	0.3	2,419	1.9	1,27,872
2008	1,59,882	98.1	1,962	1.2	764	0.5	358	0.2	3,084	1.9	1,62,966
2009	1,62,422	95.7	5,874	3.5	1,004	0.6	416	0.3	7,294	4.3	1,62,716

Source : *Compiled from various issues of Report on Trend and Progress of Banking in India, Published by RBI, Mumba*

Table 1.4 : Average NPAs of Scheduled Commercial Banks in India from 1996-97 to 2008-09

(Per cent)

Name of the Bank	Gross NPAs/Total Assets	Gross NPAs/Gross Advances	Net NPAs/Total Assets	Net NPAs/Net Advances
Public Sector Banks	4.18	9.27	1.91	4.56
Nationalised Banks	4.36	9.47	2.00	4.65
State Bank Group	3.92	8.92	1.72	4.28
Other Public Sector Banks	1.40	2.02	0.74	1.30
Private Sector Banks	2.99	6.30	1.67	3.74
Old Private Sector Banks	3.81	7.87	2.12	4.62
New Private Sector Banks	1.98	4.22	1.12	2.57
Foreign Banks in India	2.06	4.59	0.74	1.70

Source : Calculated from the data compiled from various issues of Report on Trend and Progress of Banking in India, Published by RBI, Mumbai.

Table 1.5: Bank Group–wise Empirical Estimates of the Regression Equation

$p_t = b_0 + b_1 \ (NPA/NA)_t + m_t$

Bank Group	Intercept (β_0)	NPA/NA ($\beta_?$)	R	R^2 (per cent)
Public Sector Banks	0.979* (10.668)	-0.041* (-2.440)	0.593	0.351
Old Private Sector Banks	0.909 (5.434)	-0.012* (-0.387)	0.116	0.013
New Private Sector Banks	1.136* (7.294)	-0.062^{NS} (-1.152)	0.328	0.108
Foreign Banks	2.024* (8.337)	-0.358* (-2.681)	0.629	0.395

Note: 1. The figures with a ' * ' are significant at 0.05 per cent level.

2. NS: Not Significant.

3. The figures given in parentheses represent t-values.