**CHAPTER 4**

Operations of the Company - different departments in the office:

• Credit Cell:

1.Creditworthiness of counterparties: Commodity trading organizations gather quantitative and qualitative data about their trading counterparties and apply weightings to the significance of these individual metrics to produce an overall score for the creditworthiness of counterparty.

2.Managing and mitigating credit exposure:

Having assessed counterparty’s creditworthiness, the credit department decides whether it is an acceptable trading counterparty. Once agreed, the department negotiates and signs a contract that outlines a framework of how the two parties will work together.

• Establishment Department:

The Establishment Department deals with matters like determination of salary structure and service conditions of all employees, wage policy determination, revision of pay scales, creation of posts, basic principles of fixation of pay, House Rent Allowance, Travelling/Daily Allowance, Dearness Allowance and various other compensatory allowances in respect of bank employees. It is also responsible for administrative matters concerning the Department of Expenditure.

• General Administration department:

Administration department deals with transfers and postings of employees, redressal and grievances, customer’s complaints. It is responsible for attending compliances.

• Liaison Department:

1.Communication and coordination between two parties, involves networking.

2. Liaoning with top executive management and extending good hospitality.

3.Providing basic infrastructure like vehicles, rooms for staying and other basic amenities.

• Risk management Department:

1.Identifying and analyze the financial impact of loss to the organization, employees, the public, and the environment.

2.Assist in the review of major contracts, proposed facilities, and new program activities for loss and insurance implications.

3.Department deals with 3 types of risks:

Credit risks- The risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Operation risk- The risk of loss resulting from inadequate or failed processes, people and systems or from external events. Operation risk includes legal risk, but excludes strategic and reputational risk.

External risks- Generally something that is uncontrollable by the first party.

• Audit Department:

Audit department deals with Recordkeeping and accounting functions. The audit department creates and implements procedures and controls to ensure that the finances of a company are managed in accordance with established principles. It also conducts periodic audits to check the accuracy of recordkeeping and accounting and to ensure that procedures and controls are working properly.

4 types of audits are deled with in the Bank: RBI Audits, Statutory Audit(Central Audit- recognized by the RBI), Internal Audit, Revenue Audit.

• Computers/I.T Department:

Digital and online process management.

• Department of Stressed asset management:

Deals with doubtful assets and NPAs.

Review of Banking Operations:

Table No. 4.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year ended 31st March | 2011 | 2012 | 2013 | 2014 | 2015 |
| Aggregate Deposits  (Percentage of growth) | 42,779  (11.3) | 49,663  (16.1) | 56,712  (14.2) | 61,087  (7.7) | 65,058  (6.5) |
| Of which Non-Bulk Deposits (%) | 29,844  (69.9) | 35,041  (70.6) | 42,360  (74.7) | 50,753  (83.1) | 58,946  (90.6) |
| Gr. In Non-Bulk Dep (%) | (7.7) | (17.4) | (20.9) | (19.8) | (16.1) |
| Deposits Market share % | 0.79 | 0.78 | 0.83 | 0.76 | 0.76 |
| Total Advances  (Percentage of growth) | 34,442  (15.3) | 40,653  (18.0) | 45,981  (13.1) | 50,862  (10.6) | 53,296  (4.8) |
| Advances Market share % | 0.87 | 0.85 | 0.85 | 0.79 | 0.78 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

The Bank has seen continuity in growth during the current year, with aggregate deposits reaching a level of ` 65,058 crores, a growth of ` 3,971 crores over the previous year at a rate of 6.5%. The growth in Non Bulk deposit at 16.1% is in tune with the past trend and in accordance with our conscious policy of shedding high cost/bulk deposits. The total advances have reached a level of ` 53,296 crores, recording a growth of ` 2,434 crores over the previous year at a growth rate of 4.8 %. As on 23.03.2015 the Bank’s market share of Deposits remained intact at 0.76%, though Bank’s market share of Advances has decreased marginally to 0.78% from 0.79%.

Key Performance Indicators:

Table No. 4.2

|  |  |  |  |
| --- | --- | --- | --- |
| Key Indicators | 2012-13 | 2013-14 | 2014-15 |
| Net Profit (`. in crores) | 416.10 | 274.25 | 409 |
| Return on Assets (%) | 0.66 | 0.40 | 0.54 |
| Return on Equity (%) | 11.05 | 6.84 | 9.40 |
| Expenses – Income Ratio (%) | 46.26 | 53.40 | 53.34 |
| Gross NPA to Gross Advances (%) | 4.53 | 5.54 | 4.00 |
| Net NPA to Net Advance (%) | 2.69 | 3.29 | 2.16 |
| Yield on Advances | 11.62 | 10.93 | 11.11 |

Income

Total Income of the Bank increased by 12%, from ` 6,895 crores as at March2014 to ` 7,706 crores in March 2015. Interest Income increased from ` 6,323 crs to ` 6940 crs (10%). Average Yield on Advances increased from 10.93% in 2013-14 to 11.11 % during 2014-15, while Average Yield on Investments increased from 7.37% in March 2014 to 7.49 % during the same period. Non -Interest Income increased by impressive34% from ` 572 crores to ` 767 crores with the growth in profit from sale of investments improving from ` 69.36 crores to ` 125 crores (81%) and Recovery from Written Off Accounts recording whopping 155% growth over ` 45 crores in Mar’14 to ` 115 crores in Mar’15.

Expenses

The Total Expenditure (before provisions and contingencies) increased by ` 574 crores, from ` 5,732 crores in 2013-14 to ` 6,376 crores in 2014-15. While Interest Expenses increased by ` 456 crores (10.5%), the Operating Expenses increased by ` 128 crores (9%) during the current year. The Average Cost of Deposits increased from 7.21% in March 2014 to 7.25.% in March,2015 owing to customers' marked preference for investment in TD of 1-3 years maturities.

Profit

While the Operating Profit increased from ` 1164 crores in 2013-14 to ` 1,331 crores in 2014-15 (14%), the Net Profit increased from ` 274.25 crores to ` 409 crores (49%). The improvement in bottom-line is on account of proactive steps taken by the Bank in recovery of NPAs and AUC and also by Strategic Sale of Assets.

Dividend

Keeping in mind the need to strengthen Tier I capital of the Bank in the current economic scenario, the Board of Directors has declared a dividend of 60% (` 6 per Equity share of ` 10/-) for the year 2014-15.

The pay-out ratio for 2014-15 works out to 8.46 %, as against 5.25 % for 2013-14.

**NPA Management**

The general economic slowdown coupled with high inflation and twin deficits of fiscal and CAD had its adverse effect on the health of the loan books of the Banks, leading to an increase in Non-Performing Assets. Though the economy showed signs of recovery, on the ground are yet to be fully realized. The problems faced by Textiles, Food processing, Steel, Gems & Jewelry and Infrastructure sectors continued to persist with Corporate sector accounting for major share in NPAs. This, coupled with problems on the agricultural front, caused by drought in some parts of the State further compounded our problems.

Consequently, the Gross NPA ratio decreased from 5.54% to 4.00%. The net NPA ratio also declined from 3.29% to 2.16%. The SBM is one of the few Banks to have bucked the trend of rising and effected substantial recovery. Provision Coverage Ratio improved to all time high of 69.34%. The provision for Non-Performing Assets (including floating provision and counter cyclical provisioning buffer) stood at ` 1,189 (LY` 872 ) crores.

**Restructuring of Debts**

The Bank continues to provide Restructuring Package within the framework of RBI guidelines to deserving borrowers under the Rehabilitation Programme or under packages approved by CDR / BIFR, subject to the viability of such units. As at Mar'15,the Bank has extended the package to 45,468 borrowal accounts with dues amounting to ` 4109 Crores as against 67,113 accounts amounting to ` 4,068 crores in the previous year. During FY15, 3,157 accounts with outstanding debts of ` 1579 crores. Were restructured. Towards diminution in their fair value on account of economic loss caused in the process of restructuring, provision to an extent of ` 256 crores (LY ` 192 crores) has been made by the Bank.

**CREDIT RISK MANAGEMENT**

Reserve Bank of India has issuedguidelines on implementation of InternalRatings Based Approach for calculationof capital charge for Credit Risk in Dec2011 and our Bank applied for permissionto RBI for migrating to AdvancedApproach for Credit Risk under Basel II.The Bank has submitted Letter of Intentto RBI in terms of the guidelines, wherethe Bank has developed the models forrisk components – Probability of DefaultEstimation (PD), Loss Given Default(LGD) & Exposure at Default (EAD) andalso adopted Basel II compliant policiesapproved by the Board of Directors.

As part of migration to Advanced Approaches under BASEL-II, State Bank Group is building a technology platform known as the Credit Risk Data Mart (CRDM) to manage all the information required for computing, verifying and monitoring credit portfolio risks. The CRDM will be the single source of data formodel implementation, risk component estimation and capital computation.

**MARKET RISK MANAGEMENT**

Bank is using Standardized Measurement Method (SMM) for computation of capital charge and the necessary systems for migration to IMA are in place. The Bank has submitted Letter of Intent to RBI in

Oct 2013 for migration to IMA. The Bank would be on parallel run for computation of capital charge under both SMM & IMA, after the approval from RBI.

**OPERATIONAL RISKMANAGEMENT:**

Reserve Bank of India has prescribed three approaches for computing capital charge for Operational Risk, viz.

a) Basic Indicator Approach (BIA)

b) The Standardized Approach (TSA)

c) Advanced Measurement Approach (AMA)

Currently the Bank is following the Basic Indicator Approach. As per AMA guidelines, Banks are allowed to switch over from BIA to AMA directly. Bank is endeavoring to move directly to the Advanced Measurement Approach in view of the minimal changes in capital requirement under TSA.

**PROVISION COVERAGE RATIO :**

The Provision to Gross NPA of the Bank as on 31st March 2015 is 69.34 % (Previous Year – 59.47%)

**Table No. 4.3**

**Sector-wise NPAs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sl no.** | **Sector** | **NPA** | **Total Advance** | **% to total advance** |
| **1.** | **Agriculture and allied activities** | **397.13** | **7861.08** | **5.05** |
| **2.** | **Industry ( micro, small, medium, large )** | **123.58** | **3128.53** | **3.95** |
| **3.** | **Services** | **119.81** | **2270.90** | **5.28** |
| **4.** | **Personal loans** | **83.05** | **3392.08** | **2.45** |
|  | **Total** | **723.57** | **16652.59** | **4.35** |

**Bank’s credit risk management policy:**

The internal controls and processes in place for the management of Credit Risk are:

a) Risk Governance structures for Credit Risk Management.

b) Delegation of financial powers for advances and allied matters with a graded authority structure.

c) Pre-sanction and post-sanction processes are examined as part of Credit Audit conducted

Credit Audit also examines identified risks and suggests risk mitigation measures.

d) Close review and monitoring of Stressed Assets to prevent deterioration in quality.

e) The Policies, Procedures and Risk Limits are circulated amongst all operating functionaries and the audit functionaries to keep them updated on an ongoing basis.

f) Various training initiatives are also undertaken for updation of knowledge on Credit Risk Management policies and practices for all functionaries. “

Table No. 4.5

**Quantitative Disclosures:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Fund based | Non Fund based | Total |
| a. | **Total Gross Credit Risk Exposures** | **53295.64** | 8120.65 | 61416.29 |
| b. | **Geographic Distribution of Exposures : FB / NFB** |  |  |  |
|  | i- Overseas  ii- Domestic | 53295.64 | 8120.65 | 61416.29 |
| c. | **Industry Type Distribution of Exposures as per DSB returns** |  |  |  |
|  | Fund based / Non Fund Based separately |  |  |  |
| d. | **Residual Contractual Maturity Breakdown of Assets as used in ALM returns** |  |  |  |
| e. | **Amount of NPAs (Gross) i.e. SUM of (i to v)** | 2136.42 |  |  |
|  | i. Substandard  ii. Doubtful 1  iii. Doubtful 2  iv. Doubtful 3  v. Loss | 458.97  570.54  855.06  190.98  60.87 |  |  |
| f. | Net NPAs | 1121.58 |  |  |
| g. | NPA ratio |  |  |  |
|  | i) Gross NPAs to gross advances (%)  ii) Net NPAs to net advances (%) | 4.00%  2.16% |  |  |
| h. | **Movement of NPAs (Gross)** |  |  |  |
|  | i) Opening balance  ii) Additions  iii) Reductions  iv) Closing balance | 2818.87  1895.502  2577.95  2136.422 |  |  |
| i. | **Movement of Provisions for NPAs** |  |  |  |
|  | i) Opening balance  ii) Provisions made during the period  iii) Write-off  iv) Write-back of excess provisions  v) Closing balance | 1188.6  517.17  690.93  1014.84 |  |  |
| j. | **Amount of Non-Performing Investments** |  |  |  |
| k. | **Amount of Provisions held for Non-Performing Investments** |  |  |  |
| L. | **Movement of Provisions for Depreciation on Investments** |  |  |  |
|  | Opening balance |  |  |  |
|  | Provision diff pertaining to 2013-14 |  |  |  |
|  | Provisions made during the period  Write-off  Write-back of excess provisions  Closing balance | 0.71  11.25  100.14 |  |  |
| m. | **GROSS ADVANCES 53295.64** | 53295.64 |  |  |
| n. | NET ADVANCES | 52025.86 |  |  |
|  |  |  |  |  |

Analysis of Non-performing Assets through Cases:

* Details of Account-

Name of the Account: M/S Karthik Agro Industries Pvt. Ltd.

Name of the Proprietor: Dr. L.M Mashyal

Name of the Branch: Bellary branch

Line of Activity: Manufacturing of ethanol and rectified spirit

Category/Classification:

Asset Classification: Doubtful-3

IRAC: NPA- doubtful

Provision made: 100%

Securities Charged: Primary Securities- Hypothecation of stocks and book depts. In Paripasu charge with State Bank of India

Equity Mortgage industrial land and building with machineries valued at Rs. 65.65 crores in Paripasu with SBI

Collateral securities: On paripasu charge with SBI: EQM of properties in the name of Smt. Vandana Lingaraj- Rs. 3.98 crores

EQM of properties in the name of Shri. Lingaraj Mashyal – 43 lakhs

EQM of properties in the name of Rachappa with the value of Rs. 5 crores

Guarantor: Personal guarantee of 3 directors with total net means of Rs. 16.3 crores as on 1st January 2011.

Date of filing DRT suit: 20/11/13

Present state of DRT suit- Applied for recovery certificate

Balance outstanding: 1.36 crores

Date of original sanctioned: 1st January, 2011

Term Loan sanctioned: Rs.3 crores (limit)

SARFAESI Action, initiated: Auction on 5/8/2013 failed due to non- participation of bidders. Fresh valuation arranged.

* Details of Account-

Name of the Account: M/S Subramanya Cold Storage

Name of the Partners: B. Bhaskar Naidu

G. Gurumala

G. Pulliah

Name of the Branch: Bellary branch

Line of Activity: Cold storage unit

Category/Classification: Partnership firm

Date of first sanction: 19th February, 2007

Status of working of the unit: closed

Date of NPA: 26th June, 2011

IRAC Status: doubtful asset- 3

Securities Charged: Primary Securities- All plant and machinery and other estimated realizable fixed assets- market value of Rs. 10 lakh, type of charge- hypothecation

Collateral securities: EQM Residential property estimated realizable value of Rs. 2.32 crores

2.16 acres of land estimated realizable value of Rs. 1.93 crores

Note: Company if defunct, therefore no financial statements available.

Balance outstanding: Rs. 1.52 crores plus other charges

Justification/ reasons for declaring willful defaulters:

1. The unit has defaulted in meeting its payment/ repayment obligations to the lender even when it has the capacity to honor the said obligation. Interest and installments not serviced as per the repayment schedule though the unit has repaying capacity.
2. Despite Banks follow up and reminders the partners had not taken seriously to repay. They have not given attention to this unit and have diverted attention to other sub-units. As a result all accounts are classified into NPA.Failed to utilize the finances from the lender for specific purposes for which finances were availed but have diverted funds for other purposes.

Date of filing DRT suit: 20/11/12

Date of Decree, if any: case decreed on 28/08/2014

Present state of DRT suit- Applied for recovery certificate

SARFAESI Action, initiated: Auction on 5/10/2013 failed due to non- participation of bidders. Fresh valuation arranged.

* Details of Account-

Name of the Account: M/S Thungabhadra Pulp and Board Mills ltd.

Name of the proprietor: RatanlalMorarka (Net Value- 4.50 lakhs)

Sushil Morarka( Net value- Rs.10 lakhs)

Name of the Branch:Hospet

Category/Classification: Small and medium scale industries ( partnership firm)

IRAC Staus: asset under custody (AUC)

Provision made: 100%

Securities Charged: Primary Securities- raw materials

Collateral securities: 24 acres of industrial land- Rs. 12.67 crores

Balance outstanding: Rs. 22, 33,811

Amount written off- Rs. 2.12 crores

Brief History:

1. The loan was sanctioned in 1986 and became NPA on 1989.The account was transferred to PB on 31/07/1991 and suit was filed on 02/08/1991. The account was written off on 08/02/1994. The suit was declared on 11/02/1999 and recovery certificate was issued in 2002.
2. Since then the borrower is dodging the sale notification issued by Recovery officer by filing petty objections and coming to compromise settlement as per RBI Guidelines in 2003 and the borrower did not remit the amount within the time frame and came with the demand draft in 2006 for settlement and was rejected by the bank. Since then the borrower is raising objections with recovery officer, filing petition with DRT Adalat and recently has filed objection in High Court, Dharwad.
3. In view of the above we have come to understand that the borrower does not have any intention to settle the matter and is dodging the sale notification several times.
4. In 2009 he sold the property mortgaged to the bank. The then manager has taken up the matter with DC, Koppal and stopped further transactions on the land. Bank had once again bought up sale notification. The purchase of the property has approached the recovery officer and filed petition with DRT for compromise settlement.

Waiver of UDI Recommended: Rs. 212 crores

Justification: Bank is in the view that the compromise offered (1.50 crore) by the purchaser is very low.

Ability of the bank to enforce the security: Doubtful dues to objections fled by the borrower in several forums.

Status of proceedings in DRT: Decreed on 11/02/1999

Total dues: 3.22 crores at 10% interest

Sacrifice: (3.22 crores- 1.50 crores) Rs. 1.72 crores

Notional loss: Rs. 1.97 cores

* Details of Account-

Name of the Account:M /S Ramalingeshwara floor and dall

Name of the Proprietor:SriNeelkanthappaBiradar

Name of the Branch: Specialized MSME Branch, Gulbarga

Line of Activity: Food Processing and dall mill

Amount due to the bank: Rs. 1,41,17,890 as on 27/09/2013 + interest from 28/09/2013

Category/Classification:

Segment: SME

Date of NPA: 27/09/2013

Asset Classification: Doubtful assets- DA1

Provision made:Rs. 40,29,324

Compromise Proposal-

1. By debit to reserve for bad and doubtful debts account- Rs. 61.17 lakhs
2. Waiver of undebated interest of Rs. 26.86 lakhs
3. Accept a sum of Rs. 125 lakhs as Compromise in full and final settlement in the dues amounting to Rs. 196.84 lakhs involving a sacrifice of Rs. 96..84 lakhs towards write-off

Securities Charged: Primary Securities- Hypothecation over stocks

Collateral securities: Factory, Land & Building, Plant and Machinary

Total security value: 352.73 lakhs

Guarantor: Sri. Ambarya (net worth- 196.84 lakhs)

Balance outstanding:Rs. 141.18 lakh + Rs. 19.99 lakh = Rs. 161.17 lakh

Brief History:

1. M/S Ramlingeshwara floor and dallis a proprietary unit by Sri NeelkanthappaBiradar. The Last sanction of credit limit was Rs. 160 lakhs.
2. During the year 2011 and 2012 due to the setback faced by dal industry, the units were affected which reflected in the conduct of accounts with frequent irregularities. Also it appears the borrower had diverted the funds. The irregularities were periodically regulated to the sanctioning authority.
3. Efforts to restructure and rehabilitation of accounts, with due discussion in detail with the borrower were undertaken initially during November 2012 and then during December 2013. The whole exercise was failed mainly due to no proactive initiative and non- cooperation from the promoters. This resulted in Account being categorized under NPA Status on 2/12/2013 and resulted in initiation of action under SARFAESI Act.A demand notice under section 14(2) was issued followed by possession notice of the properties mortgaged.
4. Auctions were not successful due to non-participation of bidders. The reserve price of mortgaged properties was Rs. 130 lacs.
5. LokAdalat Bench in DRT during its last hearing on 17/01/2015, the borrowers presented that the bank is not considering their request for compromise settlement and the bench advised to explore the possibility of any compromise settlement.
6. The borrower initially offered Rs. 125 lakhs for both the units which is very low compared to the principal and total out standings of Rs. 300 lakhs and posted the case subsequently to 02/02/2015 and then 14/03/2015 for third and final attempt for negotiation and settlement between both the parties. The borrower subsequently offered Rs. 155 lakhs + Rs. 100 lakhs as full and final settlement on the amount dues Rs. 408.57 lakhs.

**CHAPTER 5**

Suggestions

**Measures to Solve Problems of NPA:**

Maintaining the quality of loan assets and containing NPAs have received focused attention. Towards this direction, banks are taking various steps and are following up various strategies. Even though steps are improved day by day, taking into consideration the alarming non-performing assets portfolio in all banks, many more steps are to be taken.

The adage “Prevention is better than cure” is apt in NPA management. Prevention is also cheaper than cure. So banks should concentrate more on preventive strategies, some of which are listed below

1. Proper and objective selection and appraisal of borrowal accounts help to greatly weed out the potential defaulters. Proposals with likely cash flow problems should not be financed.
2. Proper documentation and ensuring end use of funds for proposed asset creation help the bank to recover the dues.
3. A performing asset does not turn into the non performing zone overnight. A dynamic monitoring mechanism enables the bank to get early warning signals of incipient problems in the loan accounts. This will help the bank to devise appropriate remedial measures.
4. There is no better substitute to cash recoveries through constant follow up.
5. An efficient legal system like that of Singapore (where say attachment of property and recovery happen in 30 days) acts as a deterrent against willful defaulters. Effective bankruptcy and foreclosure legislations increase creditors’ confidence in legally managing NPAs.
6. A nation-wide campaign should be launched to promote repayment ethics. This calls for national consensus, political will and administrative acumen. For example, electoral reforms like insistence of no-default status for prospective candidates for public office, disclosure under oath, of their assets and liabilities etc. and demonstrative criminal

Actions against the violators could send a strong signal for prompt repayment of loans from banks. Similarly, there should be no loan waiver scheme. Because, such schemes only make borrowers to wait for the next round of waiver schemes, leading to an unending stream of non-performing assets.

1. Restructuring and rehabilitation of an account is done proactively if the bank is convinced that a borrowal unit can be assisted to overcome the temporary problems faced by it. It may involve pumping in of additional funds and/or rescheduling to repayment schedule to match the revised cash flow projections.
2. Proper asset classification helps to identify the various stages of migration of a borrowal account towards non-performing assets category. Then suitable strategies can be chalked out for this in consultation with the borrower.
3. The bane of NPA management in banks in accretion of fresh non-performing assets every year due to slippage of existing standard accounts. All accounts are to be classified using “Always Best Control” analysis and commensurate preventive efforts taken.
4. CIBIL started in January, 2001 by State Bank of India, Housing Development Finance Corporation, Dun and Broad street and Trans Union, at the initiative of Reserve Bank of India, will provide the much needed credit information on prospective borrowers to check multiple financing.
5. Corporate Debt Restructuring system was set up in May 2002 by Financial Institutions and banks as a non statutory voluntary mechanism for facilitating transparent and timely debt restructuring of viable corporate entities, outside the purview of BIFR, DRT and other legal proceedings.

**CONCLUSION**

The spate of results of the public sector banks (PSBs) in recent days do not inspire confidence as they reveal the skeletons in the cupboards in the form of non-performing assets/advances (NPAs) and the due provisioning they had to make do to present a realistic snapshot. The third quarter results were dragged down by high non-performing loans they had doled out to their larger-than-life clientele of industry — the large and medium ones down the years. Cumulatively, the PSBs logged a hefty loss of Rs10,912 crore in the December quarter.It is small wonder that the RBI Governor Dr. Raghuram G Rajan has been mincing no words in deploring the “extend and pretend” proclivities of nationalized banks which do not seem to have learnt any lesson over the loss of loans they had to mark in their ledgers.

Estimates show that bad loans in PSBs constitute five per cent of their aggregate lending; that in recent days the country’s bourses witnessed bank stocks being hammered down relentlessly in the wake of widespread concerns over credit quality after reports surfaced that a massive more than one lakh crore rupees of the banking industry had been written off. Be that as it may, the RBI Governor said in Mumbai at the CII seminar that the reason the third quarter posted heavy losses was owing to the loans they had extended that turned bad, following an Asset Quality Review (AQR) of banks which zeroed in on specific accounts. This apart, the fact remains that market perceptions about the country’s banking industry cannot be wished away and the moment markets are reluctant to fund banks, their future is fraught. The entire public sector banking system (including SBI), according to experts, has a market capitalisation of less than $40 billion which is 70 per cent of the country’s banking system. This is all the more so because the Finance Minister said in Mumbai on the sidelines of a meet at the ongoing Make in India show that the government will before long whittle down its stake in PSU banks.

Before the banks are lined up in beauty contest for prospective wooers, it is better if their balance sheets do not bristle with debilitating assets. Hence managing the market perception is crucial, with sturdy firewalls in place to absorb shocks, both owing to managerial incompetence and the government’s reluctance to accord more functional autonomy to banks as board-managed entities.