

ASSOCHAM

ECO

PULSE

“Indian Banks and Basel Accord II”

March 2008

With capital adequacy intact, Basel II norms overlooked by high NPA ridden banking sector: Assocham

Most of the Indian banks have improved on their capital adequacy ratio in line with the global Basel II norms but need to do more on international risk management practices in the wake of increasing pressure of non-performing assets, according to an Assocham Eco Pulse Study.

According to the AEP on “Indian Banks and Basel Accord II”, the financial health of Indian banking system has improved significantly in terms of capital adequacy ratio (CAR) during the third quarter of the fiscal 2007-08. In comparison to the mandated limit of 9 per cent CAR posed by the Basel II, the average capital adequacy ratio of commercial banks went upto 13 per cent in FY 08 from 12 per cent in the previous year.

The Assocham Study has also expressed concern over the risk management practices of the banks. It said that net non-performing assets of 14 commercial banks, in absolute terms, have increased by 25.70 per cent in the third quarter of current financial year to Rs. 14166.65 crore from Rs. 11270.32 crore in the previous financial year. Gross NPAs of banks rose by about 14 per cent from Rs. 28392.58 crore to Rs. 32129.48 crore.

“With a view to ensuring migration to Basel II in a non-disruptive manner, the SCBs in India may need to have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels”, said Mr. Venugopal N Dhoot, President, Assocham. He also laid emphasis on the significance of reducing NPA level specifically in view of the crisis faced by the financial sector in US due to unhealthy lending practices.

Maximum rise of 266 per cent in net NPAs was witnessed by Punjab National Bank in Q3, 2007-08, followed by Centurion Bank of Punjab with an increase by 125 per cent, ICICI Bank (77 per cent), Vijaya Bank (49 per cent), HDFC Bank (37.46 per cent) and State Bank of India (25 per cent).

In terms of capital adequacy ratio, Axis bank had the maximum rise upto 16.88 per cent in Q3, FY 2007-08 from 11.83 per cent a year earlier. ICICI Bank appeared at the second position with an increase from 13.37 per cent to 15.82 per cent in the current financial year.

Other banks which registered a significant rise in CAR include ING Vysya Bank, whose ratio rose to 12.23 per cent over and above 10.70 per cent in previous year, HDFC Bank from 12.80 per cent to 13.80 per cent and Centurion Bank of Punjab from 10.50 per cent in the previous fiscal to 11.50 per cent in the current fiscal.

CAPITAL ADEQUACY RATIO (in per cent)		
BANKS	Q3 FY 07-08	Q3 FY06-07
CBOP	11.50	10.50
HDFC Bank	13.80	12.80
ICICI Bank	15.82	13.37
IDBI Bank	13.31	14.09
ING Vysya Bank	12.23	10.70
AXIS Bank	16.88	11.83
Allahabad bank	12.84	12.80
Bank of India	12.54	11.76
Indian Bank	13.51	12.29
Punjab National Bank	14.04	12.90
State Bank of India	12.28	11.86
Union Bank	13.03	13.21
Bank of Baroda	13.51	12.24
Vijaya Bank	12.21	11.31
Average	13.39	12.26

Among the public sector majors, capital adequacy ratio of Bank of Baroda reached 13.51 per cent at the end of third quarter in the FY 2007-08 as compared to 12.24 per cent in the corresponding period of the previous year.

Punjab National Bank turned the corners by marking an increase in its CAR against a decline in the previous financial year. Its capital adequacy ratio dropped to 12.9 per cent from 13.99 per cent in Q3, 2006-07. However, in Q3, 2007-08, it saw an upward trend of 14.04 per cent against 12.90 per cent in the similar period, last fiscal.

State Bank of India managed to increase its CAR to 12.28 per cent from 11.86 per cent, in contrast to a decline to 11.86 per cent from 12.49 per cent in the FY 2006-07.

However few players also experienced a decline in their respective CAR, but they still managed to remain above the nine per cent limit. Capital Adequacy Ratio of IDBI Bank has decreased to 13.31 per cent from 14.09 per cent at the end of Q3 and Union Bank's CAR went down to 13.03 per cent from 13.21 per cent.