



## **Indian Banking System: Q3/9M FY09-10: Performance Review & Outlook**

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The current ICRA research is an update on the performance of 43 Indian Banks during Q3 / 9M FY09-10. We have included 26 public sector banks and 17 private sector banks in the current analysis. These banks would account for over 90% of the Indian Banking System assets as on December 2009.

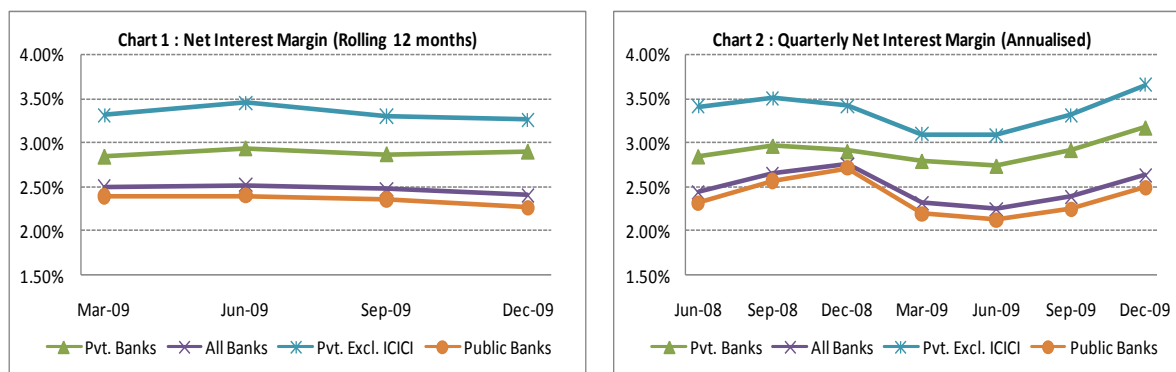
- ❑ Overall profitability indicators have been maintained during the nine months ended December 2009 for the Indian Banking System with net profits as a percentage of average total assets at around 1.04%. Improving interest margins compensated for a decline in the non-interest revenues and rise in credit costs. Some downward pressure on overall profitability expected next year due to rise in credit provisions and adverse impact of likely rise in bond yields.
- ❑ Sharper decline in the cost of funds compared to the yield on earning assets led to improvement in interest margin for most banks in Q3FY10 compared to the previous quarter. Interest margins likely to remain strong for next 2-4 months as banks reap benefit of reduction in deposit rates and expected rise in credit portfolio. Future interest margins will depend on impact of higher interest to be paid on savings deposits and impact of introduction of “Base Rate” for lending from April 2010 and the systemic liquidity levels.
- ❑ While credit growth has been muted in the current year, we are witnessing some traction since December 2009 and given the sizeable undisbursed sanctions, credit off-take expected to pick up from the current quarter.
- ❑ NPA levels have risen in the current year leading to some deterioration in the reported asset quality and solvency indicators. ICRA expects gross NPA % to rise to 3.25-3.75% in next two years as compared to around 2.40% as on December 2009.
- ❑ Expected rise in bond yields to adversely impact pre tax profits next year by 10-20%.
- ❑ Capitalisation levels for the Indian Banking System is remains comfortable with overall capital adequacy of around 14% and Tier I of around 9.5% as on December 2009 though some specific banks (especially public sector banks) require equity capital to meet their business plans for the next two years.
- ❑ Public Sector Banks will require capital of over Rs 1 trillion over next two years to maintain capital adequacy of 12% and meet business plans, while private sector banks are adequately capitalised for the time being though some of them will require capital to manage growth aspirations and also dilute the promoters' holding to the levels required by the RBI.

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## Decline in cost of funds support net interest income and interest margins

With modest credit growth and large amounts parked with the RBI via reverse repo, the average yield on earning assets declined by 30 bps in Q3FY10 over Q2 FY10. However, most of the banks continued to shed the high cost bulk deposits raised in FY09 and were able to contract fresh liabilities at significantly lower interest rates in the benign interest rate environment, particularly up to the first few weeks of Q3FY10 enabling them reduce their cost of deposits sharply by over 50 bps, compared to Q2FY10. As a result, on an overall basis banks have witnessed an increase in net interest margins (NIM) by about 25bps during the same period.

The interest margins for the private sector banks continue to remain at higher levels on the back of the higher yields on their credit portfolio and better capitalization levels as compared to the public sector banks.



On a rolling twelve month<sup>1</sup> analysis, the NIMs declined on account of the overhang of the high cost deposits raised during second half of FY08-09. As these and the other high cost deposits raised earlier got repriced, the positive impacts of the same were reflected in net interest margins every quarter in the current financial year. A significant part of the high cost bulk deposits for most of the banks would get repriced by Mar-10, the effect of which would be seen accruing from Q1FY11. However, RBI's decision on interest calculation on saving accounts<sup>2</sup> could dilute the NIM by 10-25 basis points. Moreover, tightening in liquidity conditions could push up wholesale funding rates, especially for private sector banks, which rely more on wholesale funding sources. ICRA expects the net interest margins to improve in Q4 FY10 and Q1 FY11 as the banks also expand their credit book wherein the yields are significantly better than the yields on overnight deployment of surplus funds.

## Effect of likely introduction of Base Rate from April 2010 – not fully clear yet

As per the draft guidelines issued by the RBI, the banks need to link the floating rate loans to a "Base Rate" instead of the Prime Lending Rate (PLR). The base rate computation comprises of 4 parts – namely cost of deposits (card rate for one-year retail term deposits adjusted for CASA deposit base), adjustment for the negative carry on CRR and SLR, allocation for unallocated overhead costs and expected Return on Net Worth. Currently, large corporate clients are getting loans from the banks below the PLR rates of the bank while small and medium scale entities are charged at significantly higher rates by these banks. Accordingly, the base rate would ensure transparency in the system.

While there is uncertainty in estimating unallocated overheads, ICRA believes that public sector banks will report a lower Base Rate as compared to the private sector banks. ICRA estimates that the Base Rate will range around 7.5%-9.5% for most banks. While the introduction of the Base Rate could improve bank's interest margins and consequently their profitability as the base rate would still be higher than the rate at which banks have been lending to prime corporate entities, certain aspects are not clear as on date. This includes issues like the manner in which pricing will be done for loans with

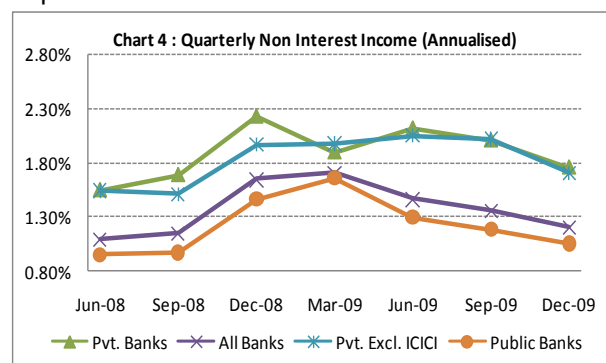
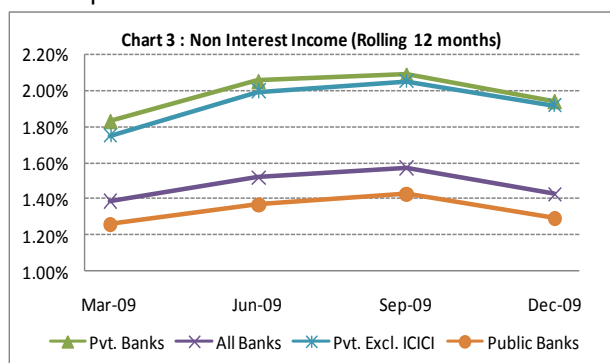
<sup>1</sup> Trailing Twelve Months

<sup>2</sup> From April 1, 2010 the interest on savings account has to be computed on a daily product basis as against the current practice of computing interest on the minimum balance in the said account from 10<sup>th</sup> and the last day of the month

tenure less than 1 year. There is a possibility that better rated corporate may move to alternate sources such as commercial paper and short term debentures for their working capital requirements and banks may end up investing in such paper to maintain client relationship and protect margins. Consequently the gains on net interest margins may be restricted.

### Non-Interest Income levels decline ...

At the system level, non interest income as percentage of average total assets has come down in the current financial year primarily on account of lower treasury gain and low fee based income. Low credit off-take have led to lower processing related fees (transaction related fees), which is one of the main sources of fee income for a majority of public sector banks. Some of the banks, particularly in the private sector space have relatively more diversified fee income profile emanating from sources like capital market activities and distribution of financial products.

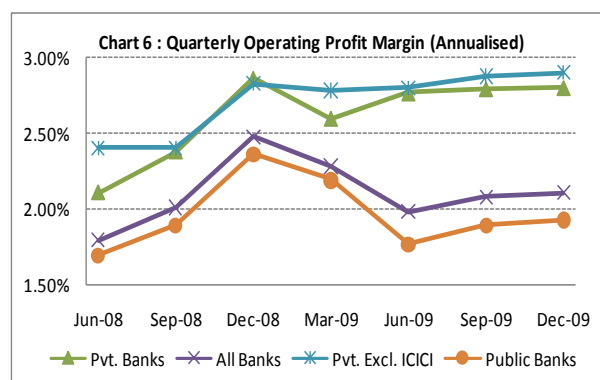
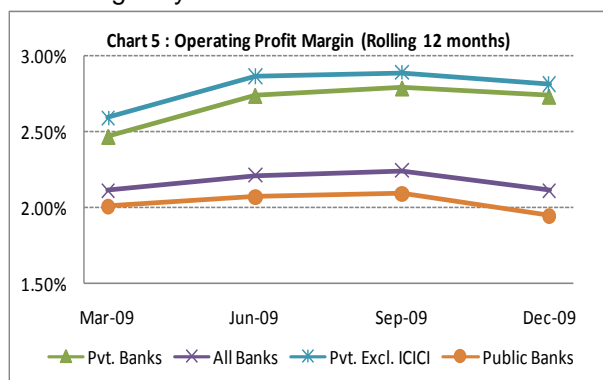


Income from the aforementioned sources (transaction related fees and income from capital market activities) are showing signs of recovery in Q3FY2010, however, it is not substantial to provide a fillip to the overall fee income. Also, some of the other broad based source of fee income like distribution income has been affected since the second quarter as SEBI banned mutual funds from charging entry load to investors while investing into the said schemes.

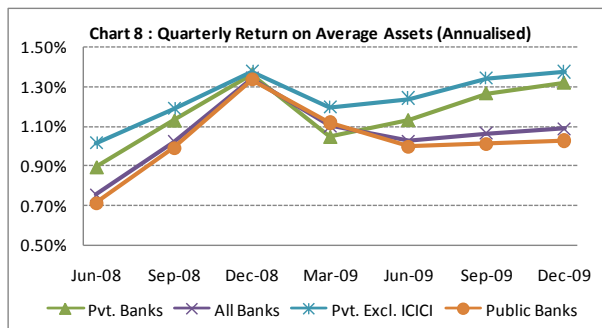
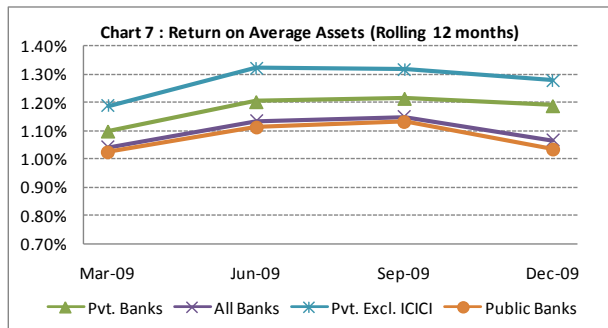
Another plausible reason for the declining non interest income has been the lower trading profits on bank's investment portfolio. As the yields on Government Securities started to harden in Q3FY10, there were fewer opportunities to make trading profits on investments. The anecdotal evidence suggests lower treasury profits for the last two quarters and is likely to remain muted in the short term.

### Operating profitability improving sequential quarter-wise; marginally weighed down by credit provisions

Despite lower non-interest income, operating income of the banks has increased primarily on account of higher rise in the net interest income. Also with control on operating expenses, banks were able to report higher operating profitability. Operating expenses remained muted during the last few quarters due to limited expansion in the number of branches and ATMs, almost flat provisioning on account of wage revision and AS-15, and lower transaction related expenses due to lower retail credit off-take during the period. Going forward, with expected rise in credit off-take coupled with banks plans to scale up their branch network and number of employees, ICRA expects the operating expenses to rise marginally in the medium term.



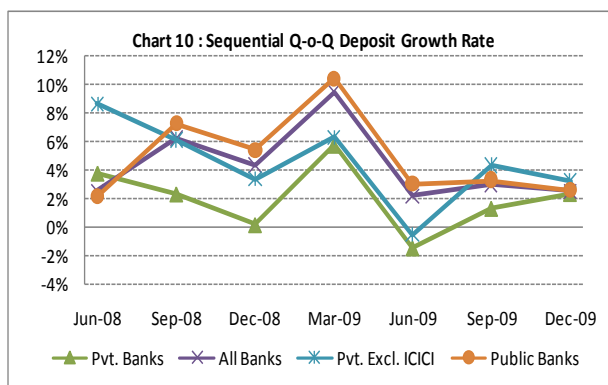
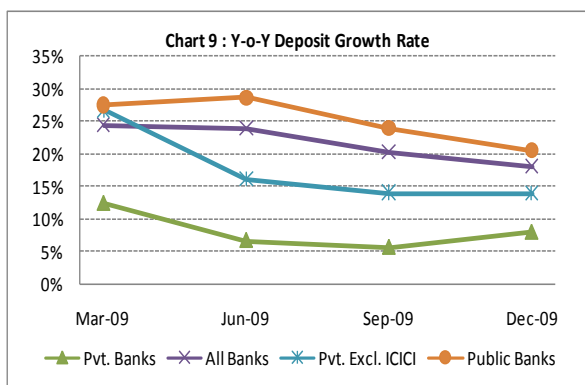
Supported by strong net interest margins, lower leverage levels and relatively higher non interest income, the private sector banks have been able to overcome their higher operating cost levels and credit costs and reported better profitability indicators as compared to that of the public sector banks. As per ICRA analysis, return on average assets of banks declined in the twelve month period ended December 2009 quarter on account of the significantly higher returns reported by the banks during Q3 of FY09.



ICRA expects that in Q4FY10 there could be increased credit provisioning as banks gear up for a higher credit provisioning coverage of 70% by September 2010 as required by the RBI. While the repricing of the bulk deposits is expected to continue for some more time, the benefit in net interest margins is likely to accrue till such time that systemic liquidity profile remains comfortable. ICRA expects the liquidity profile to tighten in the next financial year as credit growth picks up and RBI sucks excess liquidity from the system and raises benchmark rates for moderating inflationary pressures. Accordingly, in ICRA's view, in order to protect the overall profitability, the banks would need to keep a closer watch on the asset quality and also manage the interest rate risk on their investment portfolio.

### Deposits grow at faster pace for public sector banks

The deposit base for the 43 banks analysed by ICRA continues to remain robust and has grown by around 18% Y-o-Y till December 2009 (8% over March 2009 levels). Bulk of this growth has been reported by public sector banks which have reported a growth of 21% (9% over March 2009 levels). One of the main drivers would be the risk averseness demonstrated by investors during the second half of FY 2008-09 wherein one could invest in a medium term deposit at over 10% p.a. with public sector banks. Adjusted for ICICI bank, the private sector banks reported a 14% (7% over March 2009 levels) growth in deposits in the same period.

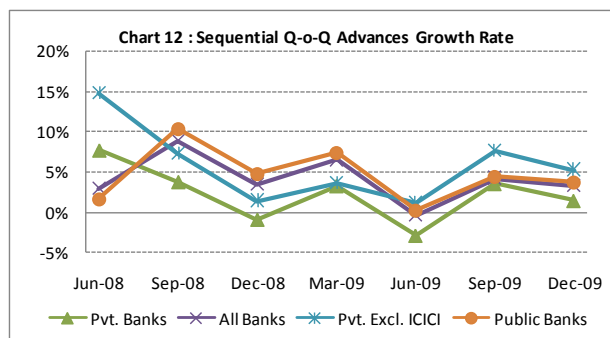
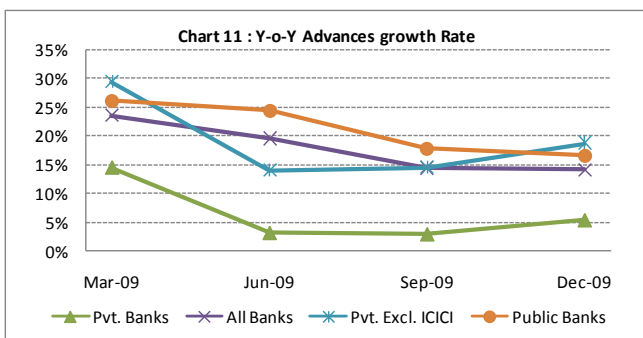


For the private sector banks as a whole, the growth has been muted as the largest player - ICICI Bank was paring its asset base in the same period and some of the larger private sector players raising substantial equity capital in the current fiscal that enabled them to go slow in mobilising term deposits. The decline in the deposit base of ICICI Bank was driven by its strategy to shrink its total asset base and focus on improving its overall profitability indicators. In this respect, ICICI bank was seen shedding its bulk and other high cost term deposits while aggressively growing the low cost CASA base and improve its deposit profile. At the industry level, the redeeming feature has been that most

banks focussed to improve on their low cost CASA deposits by expanding their franchise and reach, an initiative that could help them over the medium term.

### Credit growth remains muted till date in the current year

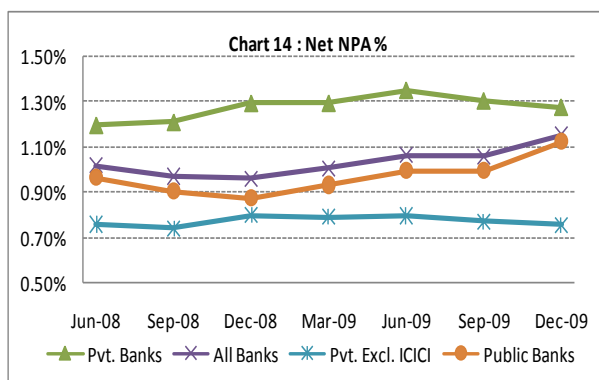
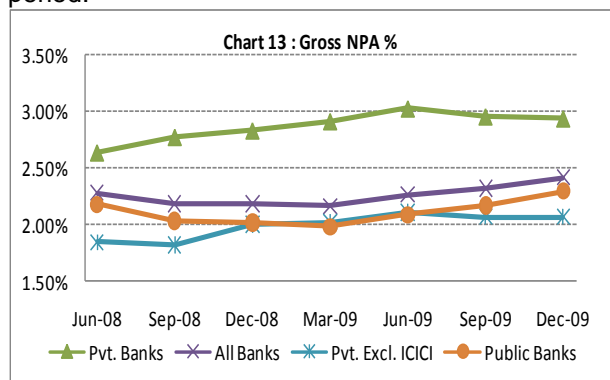
The credit pick up in the current year continues to remain well below the levels of last two financial years though there are some signs of revival in credit off take since December 2009 onwards. As is the case with deposits, the growth rate for PSU banks is better than its private sector counter parts. As on December 2009, the credit book of the PSU banks increased by 17% y-o-y and 9% over the March 2009 levels, while for the private sector banks (excluding ICICI Bank), the corresponding data were 19% and 15% respectively. However, if we were look at private sector banks including ICICI Bank, the credit growth was lower at 5% y-o-y and 2% over the March 2009 levels. As mentioned earlier, during the said period, ICICI Bank continued to shrink its asset base as it run down a large part of its unsecured credit portfolio and originated secured credit with adequate credit filters and security coverage.



An analysis of sectoral deployment of credit reveals that the credit growth in the current financial year is driven by lending to Infrastructure and Iron and Steel segments. Within individual loans category, the credit card portfolio continues to drop suggesting a reduced tolerance of the banks towards unsecured lending. The exposure levels of banks to the Real Estate sector have been relatively flat, while housing loans have reported a moderate increase in the aforementioned period.

### Rise in NPA levels in current year; overall asset quality indicators under control

During the nine month period ended December 2009, the gross NPA for public sector banks have increased by 19% over the March 31, 2009 levels largely driven by rise in slippage in few large banks, while private sector banks have been able to maintain them at almost the same levels as at March 2009 levels. In percentage terms, the gross NPA for public sector banks deteriorated to 2.30% in December 2009 as compared with 1.98% as on March 2009 while for the private sector banks it was 2.94% and 2.92% respectively. Similarly the net NPAs stood at 1.13% and 0.93% respectively for public sector banks and 1.28% and 1.30% respectively for the private sector banks in the same period.



A Few public sector banks have reported rise in slippages from the recently restructured portfolio itself despite providing moratorium on principal payments to most borrowers, indicating that some sectors/clients still are under stress. Some of these sectors include textiles, gems and jewellery, real estate and some sub segments of auto ancillary as well. In addition, ICRA believes that some part of the delinquent agriculture portfolio has not yet been classified as NPA by the banks as they are expecting some relaxation by the RBI or Government. The consequent stress coupled with poor monsoon and weak agriculture produce this season, could lead to further pressures on asset quality indicators over the next few quarters. Thus any higher delinquencies from the restructured portfolio (twice the levels of gross NPAs in the system) and proposed change in the provisioning coverage norms are likely to stress further the banks earning and asset quality indicators. In fact, few of the large public sector banks have publically indicated pressures on asset quality indicators for the next few quarters. However, a sustained recovery in demand and access to equity could lower the impact of fresh NPA slippages. ICRA believes that the Gross NPA% could rise to 3.25% - 3.75% over the next two years as against 2.17% as on March 31, 2009 and 2.42% as on December 31, 2009.

**Table 1: Gross NPAs at various levels of fresh generation and recovery from existing stock<sup>3</sup>**

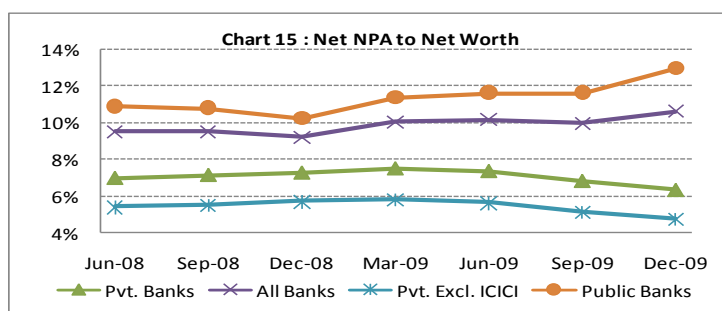
|   |     | Assumption on NPA generation Rate |       |       |       |       |  |
|---|-----|-----------------------------------|-------|-------|-------|-------|--|
| Assumption on Reduction on existing Gross NPA |     | 1.50%                             | 1.75% | 2.00% | 2.25% | 2.50% |  |
|   | 30% | 3.05%                             | 3.37% | 3.68% | 3.99% | 4.30% |  |
|   | 35% | 2.89%                             | 3.20% | 3.51% | 3.81% | 4.11% |  |
|   | 40% | 2.74%                             | 3.04% | 3.34% | 3.63% | 3.93% |  |
|   | 45% | 2.59%                             | 2.88% | 3.17% | 3.47% | 3.75% |  |
|   | 50% | 2.45%                             | 2.74% | 3.02% | 3.30% | 3.58% |  |
|   | 55% | 2.32%                             | 2.60% | 2.87% | 3.15% | 3.42% |  |

Despite this expected deterioration, the asset quality indicators are unlikely to deteriorate to historical levels as the improvement in asset quality indicators over the last decade were led by some significant internal improvements as well as improvement in regulatory environment. At the same time, higher gross NPAs and tighter provisioning norm by RBI in its policy statement in October 2009 which has proposed to increase the provisioning cover on NPAs to 70% by September 2010 would necessitate higher incremental credit provisions; however improved operating efficiency could help the banks in mitigating the impact of higher credit provisions on profitability. Introduction of norm of 70% provisioning cover by September 2010 by RBI would ensure good solvency profile for the banks over medium term though could put pressure on the profitability in the short term. ICRA expects profitability of PSBs to be impacted more on account of the following:

- Larger quantum of restructured advances (4.61% of total advances as on Jun-09 for public sector banks as against 1.56% for that of private sector banks).
- Lower reported credit provisions (PSBs made only 0.32% of average total assets as credit provisions in FY08-09 as against 0.81% for private sector banks). However, RBI guidelines also indicate inclusion of technically written off cases for the calculation of provisioning requirement of 70% which if (as the data on technically written off cases is not-available for the sector) significant would not necessitate the creation of large incremental provisions. Even after achieving the 70% provisioning cover, PSBs would need to make higher credit provisions if sizeable amounts of restructured advances were to get classified as NPAs as they strive to maintain the 70% provision coverage indicators.

### Solvency indicators deteriorate for public sector banks

Notwithstanding the steady accretion to reserves, the sharp rise in NPA levels during the current year has led to deterioration in the solvency indicators for the public sector banks. Solvency indicators deteriorated for 18 out of the 26 public sector banks analyzed for the period April to December 2009. The fact that no public sector bank raised any equity



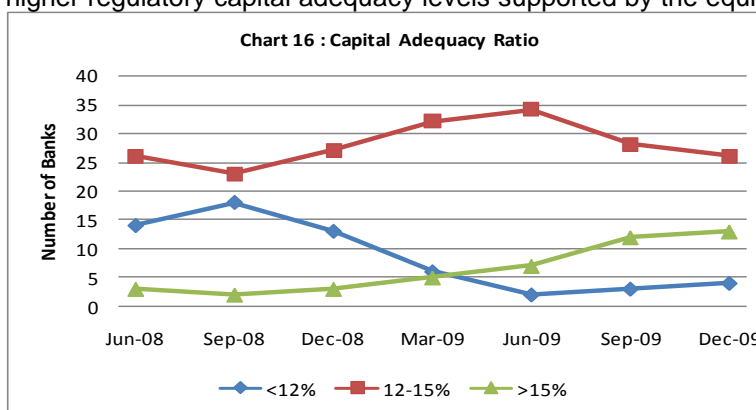
<sup>3</sup> We have assumed a credit growth 18% p.a. for next two years and 15% slippage on the restructured portfolio over the next two years.

capital during the said period also impacted the segmental indicators. The private sector banks on the other hand fared better as they managed to keep the NPA levels under check and were also helped by two large banks raising substantial equity capital in the said period. The solvency indicators deteriorated for 8 out of the 17 private sector banks analyzed for the said period.

However at a system levels, the indicators are comfortable though marginally weaker than the March 2009 levels. As on December 31, 2009 5 banks (3 public sector and 2 private sector banks) reported solvency indicators of over 20% as against 4 banks (3 public sector and 1 private sector banks) as on March 31, 2009.

### Capitalization levels comfortable for the time being

The regulatory capitalisation levels for the Indian Banking System remains comfortable at well over 12%. Most of the banks have an internal floor of 12% on the regulatory capital adequacy. The private sector banks currently have a much higher regulatory capital adequacy levels supported by the equity capital raised in the last few quarters and can easily achieve an annualised business growth of 18-20% p.a. for next two years without raising any fresh equity capital. Some of the smaller private sector banks may however need to raise equity capital to manage their growth aspirations. The public sector banks would need to raise equity in the near term to support their business plans. As of now, they are eagerly awaiting the funds from the Government in the form of Perpetual Preference shares that would support their needs for the short term.



Of the 43 banks analysed by ICRA, only 4 banks have a regulatory capital adequacy of less than 12% as on December 2009. More than three fourth of the banks have reported Tier I capital of more than 8% as on December 31, 2009. Even for the banks that are below this threshold, the regulations allow instruments like innovative perpetual debt instruments and preference capital that can be issued to shore up the Tier I capital base by up to 40%. As per ICRA's assessment, public sector banks have utilised around half of the limit available to raise capital through Tier I route while the same is negligible in case of private sector banks. Accordingly, most of the banks have significant leeway to raise Tier I capital through this route albeit investor's appetite remains the key in the situation. Overall, the number of banks having low regulatory capitalization level has declined while most of the bank are maintaining capital adequacy of around 13%.

Given the current capitalisation of most private sector banks at well over 12% on the back of strong accretion to reserves and the capital raised during the last few months, ICRA expects them to maintain a regulatory capital adequacy in excess of 12% in the next few years even if they grow by around 20% p.a. Some of the smaller private sector banks would need capital as they look to grow and also dilute the promoters' holding as required by the RBI. On the other hand, ICRA estimates that the public sector banks would need capital in excess of Rs 1 trillion over the next two years if they were to grow at around 20%p.a. and also maintain a capital adequacy of 12%. As the current regulations do not permit Government holding to go under 51% in case of public sector banks, the speed and ability of the Government to capitalise these banks by way of equity / perpetual preference shares would be a key determinant to the overall capital that PSU banks can raise from the market to meet their business plans.

### Rise in bond yields could hurt profitability

ICRA expects interest rates in the system to rise in the next few months. With banks having a minimum 25% of the balance sheet as investments, it is expected that the rising interest rates will impact the bank's profitability. We believe that the impact would be higher for most public sector

banks as they have a higher proportion of G-Secs and also with a relatively higher duration on such investments. However the adverse impact is movements is largely mitigated by the high levels of investments that are classified in the held to maturity category which do not require any mark-to-market provisioning requirements. Nevertheless with most banks having around 30-35% of their investments in the available for sale and held for trading category, they would get impacted by sudden change in interest rates. The table above indicates the impact of changes in the yield curve and modified duration of the investment portfolio as a proportion of the pre tax profits.

**Table 2: Impact on PBT due to rise in bond yields at varous Modified Duration levels<sup>4</sup>**

|                        |  | Modified Duration levels of Investment Portfolio |         |         |         |         |         |         |         |         |         |
|------------------------|--|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rise in Interest Rates |  | 2.00   | 2.25    | 2.50    | 2.75    | 3.00    | 3.25    | 3.50    | 3.75    | 4.00    |         |
|                        |  | 0.25%  | -2.88%  | -3.25%  | -3.61%  | -3.97%  | -4.33%  | -4.69%  | -5.05%  | -5.41%  | -5.77%  |
|                        |  | 0.50%  | -5.77%  | -6.49%  | -7.21%  | -7.93%  | -8.65%  | -9.38%  | -10.10% | -10.82% | -11.54% |
|                        |  | 0.75%  | -8.65%  | -9.74%  | -10.82% | -11.90% | -12.98% | -14.06% | -15.14% | -16.23% | -17.31% |
|                        |  | 1.00%  | -11.54% | -12.98% | -14.42% | -15.87% | -17.31% | -18.75% | -20.19% | -21.63% | -23.08% |
|                        |  | 1.25%  | -14.42% | -16.23% | -18.03% | -19.83% | -21.63% | -23.44% | -25.24% | -27.04% | -28.85% |
|                        |  | 1.50%  | -17.31% | -19.47% | -21.63% | -23.80% | -25.96% | -28.13% | -30.29% | -32.45% | -34.62% |

ICRA estimates that adverse impact for the banks on account of the rise in interest rates would be of the order of 10-20% of the pre tax profits. Barring few exceptions, we expect that most of the private sector banks to be near the lower end of the stated band while the public sector banks at the higher end on account of the reasons stated earlier. While ICRA expects interest rates to move up in the next year, we do not expect any significant rise in interest rates. Also with banks maintaining a lower duration on their investment portfolio we believe that the impact of rise in bond yields would not be as severe as the one we saw during H2 of FY2004-05 and H1 of FY2005-06 wherein the 10-year benchmark yields increased by around 250 basis points.

## Outlook

ICRA expects interest margins to improve in the current quarter as banks expand their credit book while continuing to replace large part of the high cost deposits raised earlier in the last 12-15 months with low cost funds. For a majority of the banks, a significant part of the high cost wholesale / retail deposits will get repriced by March 2010. The negative impact of the recent hike in CRR and the change in computing the interest on savings accounts with effect from April 1, 2010 should be more than offset by the increase in the banks credit portfolio and an impending hike in lending rates over the next few months. The introduction and adherence to the base rate by banks from April 2010 could help them partially off-set any pressures on their profitability. We expect the banks to maintain the operating expense under control though there could be some adverse impact of the wage hikes and superannuation liabilities, especially for the public sector banks.

While the asset quality indicators and solvency indicators have improved significantly over the last few years, the solvency indicators of some banks remain at over 20%. ICRA believes that the future performance of restructured loans will be a key driver for the systemic asset quality indicators. In addition, the RBI guidelines on a minimum 70% provisioning norms from September 2010 is likely to put pressure on banks overall profitability going forward.

We also believe that banks' today have a limited cushion (lower unrealized gains) on their G-Sec portfolio to protect themselves from any adverse movement in interest rates. ICRA expects higher adverse impact on the non interest income for public sector banks in case of rise in bond yields as they would get impacted more by the provisioning requirements on the investments portfolio. At the same time, any significant tightness on the liquidity front is expected to adversely impact the interest margins and consequently the profitability of the private sector banks given their general higher reliance on wholesale funds. Consequently, we could see some volatility in the overall profits depending on the movement in the interest rates.

<sup>4</sup> We have assumed an investment portfolio at 32% of the deposit base and the Available for Sale and Held for Trading portfolio accounting for 30% of the investment portfolio.

While the current capitalization levels are adequate, going forward the banking system would require significant capital not only to manage their growth aspirations but also to meet regulatory requirements which could become more stringent in line with the actions being taken by banking system regulators across the globe.

### List of Annexure

Annexure 1: List of bank rated by ICRA with the ratings

Annexure 2: List of banks analysed in the current research

Annexure 3: Snapshot financials

### Related ICRA Research Reports in Financial Sector released in FY09-10

- ❑ [Brokerage Houses: Performance Update - Profitability declines in Q3FY10 on sequential quarter basis; nevertheless better than Q3FY09](#)
- ❑ [Housing Finance Companies and the Indian Mortgage Finance Market](#)
- ❑ [Risk Appetite Amongst Funds Managers Rises Marginally](#)
- ❑ [Financial Markets & Banking Update —Vol. 1: Calendar 2010](#)
- ❑ [Brokerage Houses: Q2 FY 2010 Performance Update](#)
- ❑ [Hybrids as instruments for raising Tier I and Tier II capital: Wider options for issuers, but higher risks for investors](#)
- ❑ [ICRA's outlook on Equity Brokerage Industry](#)
- ❑ [Incremental Concerns On Credit Quality Of Mutual Fund Schemes Recede](#)
- ❑ [ICRA Comments on the RBI's third quarter review of the Annual Policy Statement for 2009-10](#)
- ❑ [ICRA Comments on the RBI's Mid-Term review of the Annual Policy Statement for 2009-10](#)
- ❑ [ICRA Comments on the RBI's Annual Policy Statement for 2009-10](#)

**Annexure 1: List of Banks rated by ICRA and ratings outstanding as on February 24, 2010**

| S. No. | Company  | Lower Tier II    | Upper Tier II/ Hybrid Tier I | Innovative Perpetual Debt Instruments | Medium Term | Short Term |
|--------|--|------------------|------------------------------|---------------------------------------|-------------|------------|
| 1      | ABN AMRO Bank NV (Indian Branches)                 |                  |                              |                                       |             | A1+        |
| 2      | Allahabad Bank                                     |                  |                              |                                       |             | A1+        |
| 3      | Axis Bank Limited                                  | LAAA (Stable)    | LAA+(Stable)                 |                                       |             | A1+        |
| 4      | Bank of Bahrain and Kuwait B.S.C (Indian Branches) |                  |                              |                                       |             | A1+        |
| 5      | Bank of Baroda                                     | LAAA (Stable)    |                              |                                       | MAAA        | A1+        |
| 6      | Bank of India                                      | LAAA (Stable)    | LAA+ (Stable)                | LAA+ (Stable)                         | MAAA        |            |
| 7      | Bank of Maharashtra                                | LAA+             | LAA                          |                                       |             | A1+        |
| 8      | Bank of Rajasthan                                  | LBBB+ (Negative) | LBBB (Negative)              |                                       |             | A2+        |
| 9      | Barclays Bank PLC (India operations)               |                  |                              |                                       |             | A1+        |
| 10     | Calyon Bank - Indian Branches                      |                  |                              |                                       |             | A1+        |
| 11     | Canara Bank  | LAAA (Stable)    |                              |                                       |             | A1+        |
| 12     | Central Bank of India                              | LAA+ (Stable)    | LAA (Stable)                 |                                       |             |            |
| 13     | Corporation Bank Limited                           | LAAA             |                              |                                       |             |            |
| 14     | Dhanalaxmi Bank Limited                            | LA-              |                              |                                       |             |            |
| 15     | ICICI Bank Limited                                 | LAAA (Stable)    |                              |                                       | MAAA        | A1+        |
| 16     | Indian Bank  | LAA+ (Positive)  |                              |                                       |             |            |
| 17     | Indian Overseas Bank                               | LAA+             | LAA                          | LAA                                   |             | A1+        |
| 18     | IndusInd Bank Limited                              | LA+              | LA                           |                                       |             | A1+        |
| 19     | Industrial Development Bank of India               | LAA+ (Stable)    | LAA (Stable)                 | LAA                                   | MAA+        | A1+        |
| 20     | Karnataka Bank Limited                             | LA+              |                              |                                       |             | A1+        |
| 21     | Karur Vysya Bank                                   | LA+              |                              |                                       |             | A1+        |
| 22     | Kotak Mahindra Bank Limited                        | LAA+             | LAA                          |                                       |             |            |
| 23     | Oriental Bank of Commerce                          | LAAA             | LAA+                         | LAA+                                  |             |            |
| 24     | Punjab & Sind Bank                                 | LAA              |                              |                                       |             | A1+        |
| 25     | Punjab National Bank                               | LAAA             |                              |                                       | MAAA        | A1+        |
| 26     | Standard Chartered Bank Limited                    | LAAA (Stable)    |                              |                                       |             |            |
| 27     | State Bank of Bikaner & Jaipur                     | LAAA (Stable)    |                              |                                       |             |            |
| 28     | State Bank of Hyderabad                            | LAAA (Stable)    | LAA+ (Stable)                |                                       | MAAA        | A1+        |
| 29     | State Bank of Indore                               | LAAA (Stable)    |                              |                                       |             |            |
| 30     | State Bank of Mysore                               | LAAA (Stable)    |                              |                                       |             | A1+        |
| 31     | State Bank of Patiala                              | LAAA (Stable)    |                              |                                       |             | A1+        |
| 32     | State bank of Saurashtra                           | LAAA (Stable)    |                              |                                       | MAAA        | A1+        |
| 33     | State Bank of Travancore                           | LAAA (Stable)    |                              |                                       |             | A1+        |
| 34     | UCO Bank   | LAA (Positive)   |                              |                                       |             |            |
| 35     | Union Bank of India                                | LAAA (Stable)    | LAA+(Stable)                 | LAA+(Stable)                          |             | A1+        |
| 36     | United Bank of India                               | LAA (Stable)     | LAA- (Stable)                |                                       |             | A1+        |
| 37     | Yes Bank Limited                                   | LAA-             | LA+                          |                                       |             | A1+        |

**Annexure 2:** List of Banks analysed in the current research

| <b>Sr. No.</b> | <b>Public Sector Banks</b>     | <b>Sr. No.</b> | <b>Private Sector Bank</b>  |
|----------------|--------------------------------|----------------|-----------------------------|
| 1              | Allahabad Bank                 | 1              | Axis Bank Limited           |
| 2              | Andhra Bank                    | 2              | Bank of Rajasthan           |
| 3              | Bank of Baroda                 | 3              | City Union Bank             |
| 4              | Bank of India                  | 4              | Dhanalaxmi Bank Limited     |
| 5              | Bank of Maharashtra            | 5              | Development Credit Bank     |
| 6              | Canara Bank                    | 6              | Federal Bank                |
| 7              | Central Bank of India          | 7              | HDFC Bank Limited           |
| 8              | Corporation Bank               | 8              | ICICI Bank Limited          |
| 9              | Dena Bank                      | 9              | IndusInd Bank Limited       |
| 10             | IDBI Bank                      | 10             | ING Vysya Bank Limited      |
| 11             | Indian Bank                    | 11             | Jammu & Kashmir Bank        |
| 12             | Indian Overseas Bank           | 12             | Karur Vysya Bank            |
| 13             | Oriental Bank of Commerce      | 13             | Karnataka Bank Limited      |
| 14             | Punjab National Bank           | 14             | Kotak Mahindra Bank Limited |
| 15             | State Bank of India            | 15             | Lakshmi Vilas Bank          |
| 16             | State Bank of Bikaner & Jaipur | 16             | South Indian Bank           |
| 17             | State Bank of Hyderabad        | 17             | Yes Bank                    |
| 18             | State Bank of Indore           |                |                             |
| 19             | State Bank of Mysore           |                |                             |
| 20             | State Bank of Patiala          |                |                             |
| 21             | State Bank of Travancore       |                |                             |
| 22             | Syndicate Bank                 |                |                             |
| 23             | UCO Bank                       |                |                             |
| 24             | Union Bank of India            |                |                             |
| 25             | United Bank of India           |                |                             |
| 26             | Vijaya Bank                    |                |                             |

## Annexure 3: Snapshot Financials

| Quarterly Performance Analysis<br>(Rs. Billion) | All Banks    |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | QE<br>Dec-09 | QE<br>Sep-09 | QE<br>Jun-09 | QE<br>Mar-09 | QE<br>Dec-08 | QE<br>Sep-08 | QE<br>Jun-08 | QE<br>Mar-08 |
| no. of months                                   | 3            | 3            | 3            | 3            | 3            | 3            | 3            | 3            |
| <b>PROFIT AND LOSS ACCOUNT</b>                  |              |              |              |              |              |              |              |              |
| Total Interest Income                           | 964          | 951          | 942          | 941          | 955          | 863          | 781          | 761          |
| Interest Expense                                | 631          | 662          | 674          | 674          | 660          | 595          | 545          | 526          |
| Net Interest Income                             | 333          | 289          | 268          | 266          | 295          | 269          | 237          | 235          |
| Non-Interest Income                             | 152          | 165          | 175          | 196          | 176          | 116          | 107          | 145          |
| Operating Income                                | 485          | 454          | 443          | 463          | 471          | 384          | 343          | 380          |
| Operating Expenses                              | 219          | 202          | 207          | 201          | 206          | 181          | 169          | 167          |
| Operating Profits                               | 267          | 252          | 236          | 262          | 265          | 203          | 174          | 213          |
| Provisions etc.                                 | 74           | 67           | 57           | 82           | 43           | 56           | 76           | 82           |
| PBT   | 193          | 184          | 179          | 179          | 221          | 147          | 98           | 131          |
| Tax   | 56           | 56           | 57           | 53           | 78           | 44           | 25           | 34           |
| PAT   | 137          | 129          | 122          | 126          | 143          | 103          | 73           | 98           |
| <b>BALANCE SHEET</b>                            |              |              |              |              |              |              |              |              |
| Net worth                                       | 3,270        | 3,094        | 2,924        | 2,807        | 2,748        | 2,601        | 2,506        | 2,407        |
| Total Deposits                                  | 40,884       | 39,883       | 38,746       | 37,924       | 34,625       | 33,185       | 31,238       | 30,483       |
| Advances  | 30,141       | 29,191       | 28,002       | 28,104       | 26,381       | 25,483       | 23,409       | 22,734       |
| Total Assets                                    | 52,001       | 49,156       | 47,770       | 47,386       | 44,242       | 41,301       | 39,434       | 38,124       |
| <b>KEY RATIOS (Q-o-Q Basis)</b>                 |              |              |              |              |              |              |              |              |
| <b>PROFITABILITY RATIOS</b>                     |              |              |              |              |              |              |              |              |
| Net Interest Margin/Avg. Tot Assets             | 2.63%        | 2.39%        | 2.25%        | 2.33%        | 2.76%        | 2.66%        | 2.44%        | 2.57%        |
| Non-Interest Income/Avg. Tot Assets             | 1.21%        | 1.36%        | 1.47%        | 1.71%        | 1.65%        | 1.15%        | 1.10%        | 1.59%        |
| Operating Expenses/Avg. Total Assets            | 1.73%        | 1.67%        | 1.74%        | 1.75%        | 1.93%        | 1.80%        | 1.75%        | 1.82%        |
| Operating Profit / Avg. Total Assets            | 2.11%        | 2.08%        | 1.98%        | 2.28%        | 2.48%        | 2.01%        | 1.79%        | 2.33%        |
| Provisions/Avg Total Assets                     | 0.58%        | 0.56%        | 0.48%        | 0.72%        | 0.41%        | 0.56%        | 0.78%        | 0.90%        |
| Profit before Tax / Average Total Assets        | 1.53%        | 1.52%        | 1.50%        | 1.56%        | 2.07%        | 1.45%        | 1.01%        | 1.44%        |
| Tax / Profit before Tax                         | 28.91%       | 30.27%       | 31.89%       | 29.68%       | 35.29%       | 29.88%       | 25.55%       | 25.59%       |
| Profit after Tax / Average Total Assets         | 1.09%        | 1.06%        | 1.02%        | 1.10%        | 1.34%        | 1.02%        | 0.75%        | 1.07%        |
| Profit after Tax / Avg. Net worth               | 17.25%       | 17.10%       | 17.00%       | 18.14%       | 21.44%       | 16.13%       | 11.89%       | 17.60%       |
| <b>EFFICIENCY RATIOS</b>                        |              |              |              |              |              |              |              |              |
| Other Income / Operating Expenses               | 69.67%       | 81.57%       | 84.53%       | 97.64%       | 85.45%       | 63.78%       | 62.95%       | 87.06%       |
| Operating Cost to Operating Income Ratio        | 45.07%       | 44.48%       | 46.75%       | 43.43%       | 43.74%       | 47.22%       | 49.33%       | 43.86%       |
| <b>LIQUIDITY RATIOS</b>                         |              |              |              |              |              |              |              |              |
| Total Liquid Assets /Total Liability            | 0.38         | 0.37         | 0.38         | 0.37         | 0.35         | 0.35         | 0.37         | 0.37         |
| Total Advances/Total Deposits                   | 0.74         | 0.73         | 0.72         | 0.74         | 0.76         | 0.77         | 0.75         | 0.75         |
| <b>ASSET QUALITY</b>                            |              |              |              |              |              |              |              |              |
| Gross NPAs                                      | 739          | 687          | 644          | 617          | 585          | 566          | 542          | 525          |
| Net NPAs  | 348          | 309          | 298          | 283          | 254          | 248          | 238          | 229          |
| Gross NPAs / Gross Advances                     | 2.42%        | 2.32%        | 2.27%        | 2.17%        | 2.19%        | 2.19%        | 2.29%        | 2.28%        |
| Net NPAs / Net Advances                         | 1.16%        | 1.06%        | 1.07%        | 1.01%        | 0.96%        | 0.97%        | 1.02%        | 1.01%        |
| Operating Profits (Annualised) / Net NPAs       | 306%         | 326%         | 316%         | 370%         | 418%         | 328%         | 292%         | 372%         |
| Net NPAs / Networth                             | 10.65%       | 9.99%        | 10.20%       | 10.07%       | 9.24%        | 9.52%        | 9.52%        | 9.53%        |
| Provision Cover                                 | 52.87%       | 55.03%       | 53.67%       | 54.23%       | 56.58%       | 56.24%       | 56.02%       | 56.33%       |
| <b>KEY RATIOS (Rolling 12 months Basis)</b>     |              |              |              |              |              |              |              |              |
| <b>PROFITABILITY RATIOS</b>                     |              |              |              |              |              |              |              |              |
| Net Interest Margin/Avg. Tot Assets             | 2.40%        | 2.47%        | 2.52%        | 2.49%        |              |              |              |              |
| Non-Interest Income/Avg. Tot Assets             | 1.43%        | 1.57%        | 1.52%        | 1.39%        |              |              |              |              |
| Operating Expenses/Avg. Total Assets            | 1.72%        | 1.80%        | 1.82%        | 1.77%        |              |              |              |              |
| Operating Profit / Avg. Total Assets            | 2.11%        | 2.24%        | 2.21%        | 2.11%        |              |              |              |              |
| Provisions/Avg Total Assets                     | 0.58%        | 0.55%        | 0.55%        | 0.60%        |              |              |              |              |
| Profit before Tax / Average Total Assets        | 1.53%        | 1.69%        | 1.67%        | 1.51%        |              |              |              |              |
| Tax / Profit before Tax                         | 28.91%       | 30.27%       | 31.89%       | 29.68%       |              |              |              |              |
| Profit after Tax / Average Total Assets         | 1.07%        | 1.15%        | 1.13%        | 1.04%        |              |              |              |              |
| Profit after Tax / Avg. Net worth               | 17.07%       | 18.26%       | 18.20%       | 17.08%       |              |              |              |              |
| <b>EFFICIENCY RATIOS</b>                        |              |              |              |              |              |              |              |              |
| Other Income / Operating Expenses               | 69.67%       | 81.57%       | 84.53%       | 97.64%       |              |              |              |              |
| Operating Cost to Operating Income Ratio        | 45.07%       | 44.48%       | 46.75%       | 43.43%       |              |              |              |              |

| Quarterly Performance Analysis<br>(Rs. Billion) | Public Banks |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | QE<br>Dec-09 | QE<br>Sep-09 | QE<br>Jun-09 | QE<br>Mar-09 | QE<br>Dec-08 | QE<br>Sep-08 | QE<br>Jun-08 | QE<br>Mar-08 |
| no. of months                                   | 3            | 3            | 3            | 3            | 3            | 3            | 3            | 3            |
| <b>PROFIT AND LOSS ACCOUNT</b>                  |              |              |              |              |              |              |              |              |
| Total Interest Income                           | 764          | 751          | 735          | 726          | 736          | 659          | 588          | 577          |
| Interest Expense                                | 513          | 535          | 536          | 531          | 512          | 459          | 415          | 406          |
| Net Interest Income                             | 251          | 216          | 199          | 196          | 224          | 199          | 172          | 171          |
| Non-Interest Income                             | 107          | 114          | 122          | 148          | 122          | 76           | 71           | 102          |
| Operating Income                                | 358          | 330          | 321          | 344          | 346          | 276          | 244          | 273          |
| Operating Expenses                              | 164          | 148          | 154          | 148          | 151          | 128          | 118          | 114          |
| Operating Profits                               | 194          | 182          | 166          | 196          | 195          | 147          | 126          | 159          |
| Provisions etc.                                 | 49           | 41           | 29           | 57           | 24           | 37           | 56           | 61           |
| PBT   | 145          | 141          | 137          | 139          | 171          | 110          | 70           | 98           |
| Tax   | 42           | 44           | 44           | 40           | 61           | 33           | 17           | 25           |
| PAT   | 103          | 97           | 93           | 100          | 110          | 77           | 53           | 72           |
| <b>BALANCE SHEET</b>                            |              |              |              |              |              |              |              |              |
| Net worth                                       | 2,116        | 2,015        | 1,924        | 1,839        | 1,782        | 1,672        | 1,601        | 1,543        |
| Total Deposits                                  | 33,592       | 32,757       | 31,711       | 30,781       | 27,869       | 26,437       | 24,642       | 24,126       |
| Advances  | 24,386       | 23,518       | 22,525       | 22,465       | 20,922       | 19,976       | 18,103       | 17,808       |
| Total Assets                                    | 41,591       | 38,932       | 37,902       | 37,051       | 34,324       | 31,788       | 30,285       | 29,147       |
| <b>KEY RATIOS (Q-o-Q Basis)</b>                 |              |              |              |              |              |              |              |              |
| <b>PROFITABILITY RATIOS</b>                     |              |              |              |              |              |              |              |              |
| Net Interest Margin/Avg. Tot Assets             | 2.49%        | 2.25%        | 2.12%        | 2.19%        | 2.72%        | 2.57%        | 2.32%        | 2.45%        |
| Non-Interest Income/Avg. Tot Assets             | 1.06%        | 1.19%        | 1.30%        | 1.66%        | 1.47%        | 0.98%        | 0.96%        | 1.46%        |
| Operating Expenses/Avg. Total Assets            | 1.63%        | 1.55%        | 1.65%        | 1.66%        | 1.82%        | 1.66%        | 1.58%        | 1.64%        |
| Operating Profit / Avg. Total Assets            | 1.93%        | 1.89%        | 1.77%        | 2.20%        | 2.36%        | 1.90%        | 1.70%        | 2.28%        |
| Provisions/Avg Total Assets                     | 0.49%        | 0.43%        | 0.31%        | 0.63%        | 0.29%        | 0.48%        | 0.75%        | 0.88%        |
| Profit before Tax / Average Total Assets        | 1.44%        | 1.46%        | 1.46%        | 1.56%        | 2.07%        | 1.42%        | 0.95%        | 1.40%        |
| Tax / Profit before Tax                         | 28.85%       | 31.07%       | 31.86%       | 28.56%       | 35.53%       | 30.30%       | 24.85%       | 26.09%       |
| Profit after Tax / Average Total Assets         | 1.03%        | 1.01%        | 1.00%        | 1.12%        | 1.33%        | 0.99%        | 0.71%        | 1.03%        |
| Profit after Tax / Avg. Net worth               | 19.99%       | 19.67%       | 19.82%       | 21.99%       | 25.54%       | 18.73%       | 13.43%       | 20.31%       |
| <b>EFFICIENCY RATIOS</b>                        |              |              |              |              |              |              |              |              |
| Other Income / Operating Expenses               | 65.33%       | 77.00%       | 78.73%       | 100.09%      | 80.73%       | 59.45%       | 60.79%       | 89.20%       |
| Operating Cost to Operating Income Ratio        | 45.72%       | 44.95%       | 48.17%       | 43.01%       | 43.57%       | 46.58%       | 48.22%       | 41.83%       |
| <b>LIQUIDITY RATIOS</b>                         |              |              |              |              |              |              |              |              |
| Total Liquid Assets /Total Liability            | 0.38         | 0.36         | 0.37         | 0.36         | 0.35         | 0.35         | 0.36         | 0.37         |
| Total Advances/Total Deposits                   | 0.73         | 0.72         | 0.71         | 0.73         | 0.75         | 0.76         | 0.73         | 0.74         |
| <b>ASSET QUALITY</b>                            |              |              |              |              |              |              |              |              |
| Gross NPAs                                      | 567          | 516          | 475          | 450          | 427          | 410          | 400          | 403          |
| Net NPAs  | 275          | 235          | 224          | 210          | 183          | 181          | 175          | 176          |
| Gross NPAs / Gross Advances                     | 2.30%        | 2.17%        | 2.09%        | 1.98%        | 2.02%        | 2.03%        | 2.18%        | 2.23%        |
| Net NPAs / Net Advances                         | 1.13%        | 1.00%        | 1.00%        | 0.93%        | 0.88%        | 0.91%        | 0.97%        | 0.99%        |
| Operating Profits (Annualised) / Net NPAs       | 283%         | 309%         | 296%         | 374%         | 427%         | 326%         | 289%         | 361%         |
| Net NPAs / Networth                             | 12.98%       | 11.67%       | 11.66%       | 11.39%       | 10.28%       | 10.82%       | 10.92%       | 11.43%       |
| Provision Cover                                 | 51.51%       | 54.48%       | 52.77%       | 53.43%       | 57.13%       | 55.91%       | 56.27%       | 56.25%       |
| <b>KEY RATIOS (Rolling 12 months Basis)</b>     |              |              |              |              |              |              |              |              |
| <b>PROFITABILITY RATIOS</b>                     |              |              |              |              |              |              |              |              |
| Net Interest Margin/Avg. Tot Assets             | 2.27%        | 2.36%        | 2.40%        | 2.39%        |              |              |              |              |
| Non-Interest Income/Avg. Tot Assets             | 1.29%        | 1.43%        | 1.37%        | 1.26%        |              |              |              |              |
| Operating Expenses/Avg. Total Assets            | 1.62%        | 1.70%        | 1.71%        | 1.65%        |              |              |              |              |
| Operating Profit / Avg. Total Assets            | 1.94%        | 2.09%        | 2.07%        | 2.01%        |              |              |              |              |
| Provisions/Avg Total Assets                     | 0.46%        | 0.43%        | 0.43%        | 0.53%        |              |              |              |              |
| Profit before Tax / Average Total Assets        | 1.48%        | 1.66%        | 1.63%        | 1.48%        |              |              |              |              |
| Tax / Profit before Tax                         | 28.85%       | 31.07%       | 31.86%       | 28.56%       |              |              |              |              |
| Profit after Tax / Average Total Assets         | 1.03%        | 1.13%        | 1.11%        | 1.02%        |              |              |              |              |
| Profit after Tax / Avg. Net worth               | 20.16%       | 21.69%       | 21.54%       | 20.06%       |              |              |              |              |
| <b>EFFICIENCY RATIOS</b>                        |              |              |              |              |              |              |              |              |
| Other Income / Operating Expenses               | 65.33%       | 77.00%       | 78.73%       | 100.09%      |              |              |              |              |
| Operating Cost to Operating Income Ratio        | 45.72%       | 44.95%       | 48.17%       | 43.01%       |              |              |              |              |

|   | Private Banks |        |         |        |        |        |        |        |
|---|---------------|--------|---------|--------|--------|--------|--------|--------|
| Quarterly Performance Analysis              | QE            | QE     | QE      | QE     | QE     | QE     | QE     | QE     |
| (Rs. Billion)                               | Dec-09        | Sep-09 | Jun-09  | Mar-09 | Dec-08 | Sep-08 | Jun-08 | Mar-08 |
| no. of months                               | 3             | 3      | 3       | 3      | 3      | 3      | 3      | 3      |
| <b>PROFIT AND LOSS ACCOUNT</b>              |               |        |         |        |        |        |        |        |
| Total Interest Income                       | 200           | 201    | 207     | 215    | 219    | 204    | 194    | 184    |
| Interest Expense                            | 118           | 128    | 138     | 144    | 149    | 135    | 129    | 121    |
| Net Interest Income                         | 82            | 73     | 69      | 71     | 70     | 69     | 64     | 64     |
| Non-Interest Income                         | 45            | 50     | 54      | 48     | 54     | 39     | 35     | 43     |
| Operating Income                            | 127           | 124    | 123     | 119    | 125    | 109    | 100    | 107    |
| Operating Expenses                          | 55            | 53     | 53      | 53     | 55     | 53     | 52     | 52     |
| Operating Profits                           | 72            | 70     | 70      | 66     | 70     | 56     | 48     | 54     |
| Provisions etc.                             | 24            | 26     | 28      | 26     | 19     | 19     | 20     | 21     |
| PBT   | 48            | 44     | 42      | 40     | 51     | 37     | 28     | 34     |
| Tax   | 14            | 12     | 13      | 13     | 17     | 11     | 8      | 8      |
| PAT   | 34            | 32     | 29      | 26     | 33     | 26     | 20     | 26     |
| <b>BALANCE SHEET</b>                        |               |        |         |        |        |        |        |        |
| Net worth                                   | 1,153         | 1,079  | 1,000   | 968    | 966    | 929    | 905    | 864    |
| Total Deposits                              | 7,292         | 7,126  | 7,036   | 7,144  | 6,756  | 6,748  | 6,597  | 6,357  |
| Advances                                    | 5,755         | 5,672  | 5,477   | 5,639  | 5,459  | 5,507  | 5,306  | 4,926  |
| Total Assets                                | 10,410        | 10,224 | 9,868   | 10,335 | 9,918  | 9,513  | 9,150  | 8,977  |
| <b>KEY RATIOS (Q-o-Q Basis)</b>             |               |        |         |        |        |        |        |        |
| <b>PROFITABILITY RATIOS</b>                 |               |        |         |        |        |        |        |        |
| Net Interest Margin/Avg. Tot Assets         | 3.17%         | 2.92%  | 2.73%   | 2.79%  | 2.90%  | 2.97%  | 2.84%  | 5.67%  |
| Non-Interest Income/Avg. Tot Assets         | 1.76%         | 2.01%  | 2.12%   | 1.90%  | 2.23%  | 1.69%  | 1.55%  | 3.84%  |
| Operating Expenses/Avg. Total Assets        | 2.13%         | 2.13%  | 2.09%   | 2.10%  | 2.27%  | 2.27%  | 2.29%  | 4.66%  |
| Operating Profit / Avg. Total Assets        | 2.80%         | 2.80%  | 2.77%   | 2.60%  | 2.86%  | 2.38%  | 2.11%  | 4.85%  |
| Provisions/Avg Total Assets                 | 0.94%         | 1.04%  | 1.11%   | 1.02%  | 0.78%  | 0.80%  | 0.88%  | 1.84%  |
| Profit before Tax / Average Total Assets    | 1.86%         | 1.75%  | 1.66%   | 1.57%  | 2.08%  | 1.58%  | 1.23%  | 3.01%  |
| Tax / Profit before Tax                     | 29.09%        | 27.71% | 32.00%  | 33.58% | 34.47% | 28.66% | 27.34% | 24.16% |
| Profit after Tax / Average Total Assets     | 1.32%         | 1.27%  | 1.13%   | 1.05%  | 1.36%  | 1.13%  | 0.89%  | 2.28%  |
| Profit after Tax / Avg. Net worth           | 12.20%        | 12.23% | 11.60%  | 10.94% | 13.97% | 11.48% | 9.13%  | 23.72% |
| <b>EFFICIENCY RATIOS</b>                    |               |        |         |        |        |        |        |        |
| Other Income / Operating Expenses           | 82.58%        | 94.28% | 101.54% | 90.81% | 98.35% | 74.28% | 67.86% | 82.40% |
| Operating Cost to Operating Income Ratio    | 43.23%        | 43.21% | 43.01%  | 44.66% | 44.22% | 48.84% | 52.03% | 49.04% |
| <b>LIQUIDITY RATIOS</b>                     |               |        |         |        |        |        |        |        |
| Total Liquid Assets /Total Liability        | 0.40          | 0.39   | 0.40    | 0.37   | 0.37   | 0.36   | 0.38   | 0.39   |
| Total Advances/Total Deposits               | 0.79          | 0.80   | 0.78    | 0.79   | 0.81   | 0.82   | 0.80   | 0.77   |
| <b>ASSET QUALITY</b>                        |               |        |         |        |        |        |        |        |
| Gross NPAs                                  | 172           | 171    | 169     | 167    | 157    | 156    | 142    | 122    |
| Net NPAs                                    | 74            | 74     | 74      | 73     | 71     | 67     | 64     | 53     |
| Gross NPAs / Gross Advances                 | 2.94%         | 2.96%  | 3.03%   | 2.92%  | 2.84%  | 2.78%  | 2.64%  | 2.45%  |
| Net NPAs / Net Advances                     | 1.28%         | 1.31%  | 1.35%   | 1.30%  | 1.29%  | 1.21%  | 1.20%  | 1.08%  |
| Operating Profits (Annualised) / Net NPAs   | 393%          | 379%   | 378%    | 360%   | 394%   | 333%   | 300%   | 410%   |
| Net NPAs / Networth                         | 6.38%         | 6.86%  | 7.40%   | 7.54%  | 7.32%  | 7.19%  | 7.03%  | 6.14%  |
| Provision Cover                             | 57.32%        | 56.66% | 56.19%  | 56.37% | 55.10% | 57.09% | 55.30% | 56.61% |
| <b>KEY RATIOS (Rolling 12 months Basis)</b> |               |        |         |        |        |        |        |        |
| <b>PROFITABILITY RATIOS</b>                 |               |        |         |        |        |        |        |        |
| Net Interest Margin/Avg. Tot Assets         | 2.90%         | 2.87%  | 2.94%   | 2.85%  |        |        |        |        |
| Non-Interest Income/Avg. Tot Assets         | 1.94%         | 2.09%  | 2.05%   | 1.83%  |        |        |        |        |
| Operating Expenses/Avg. Total Assets        | 2.11%         | 2.17%  | 2.25%   | 2.21%  |        |        |        |        |
| Operating Profit / Avg. Total Assets        | 2.74%         | 2.79%  | 2.74%   | 2.47%  |        |        |        |        |
| Provisions/Avg Total Assets                 | 1.03%         | 1.00%  | 0.96%   | 0.87%  |        |        |        |        |
| Profit before Tax / Average Total Assets    | 1.71%         | 1.79%  | 1.78%   | 1.61%  |        |        |        |        |
| Tax / Profit before Tax                     | 29.09%        | 27.71% | 32.00%  | 33.58% |        |        |        |        |
| Profit after Tax / Average Total Assets     | 1.19%         | 1.21%  | 1.20%   | 1.10%  |        |        |        |        |
| Profit after Tax / Avg. Net worth           | 11.40%        | 11.94% | 12.01%  | 11.58% |        |        |        |        |
| <b>EFFICIENCY RATIOS</b>                    |               |        |         |        |        |        |        |        |
| Other Income / Operating Expenses           | 82.58%        | 94.28% | 101.54% | 90.81% |        |        |        |        |
| Operating Cost to Operating Income Ratio    | 43.23%        | 43.21% | 43.01%  | 44.66% |        |        |        |        |

| Quarterly Performance Analysis<br>(Rs. Billion) | Private banks excluding ICICI |              |              |              |              |              |              |              |
|---|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | QE<br>Dec-09                  | QE<br>Sep-09 | QE<br>Jun-09 | QE<br>Mar-09 | QE<br>Dec-08 | QE<br>Sep-08 | QE<br>Jun-08 | QE<br>Mar-08 |
| no. of months                                   | 3                             | 3            | 3            | 3            | 3            | 3            | 3            | 3            |
| <b>PROFIT AND LOSS ACCOUNT</b>                  |                               |              |              |              |              |              |              |              |
| Total Interest Income                           | 139                           | 134          | 135          | 139          | 141          | 126          | 115          | 104          |
| Interest Expense                                | 77                            | 81           | 86           | 90           | 90           | 78           | 71           | 61           |
| Net Interest Income                             | 61                            | 53           | 49           | 49           | 51           | 48           | 44           | 43           |
| Non-Interest Income                             | 29                            | 32           | 33           | 31           | 29           | 21           | 20           | 19           |
| Operating Income                                | 90                            | 85           | 82           | 81           | 80           | 68           | 63           | 62           |
| Operating Expenses                              | 41                            | 39           | 37           | 37           | 38           | 36           | 33           | 31           |
| Operating Profits                               | 49                            | 46           | 45           | 44           | 42           | 33           | 31           | 31           |
| Provisions etc.                                 | 14                            | 16           | 15           | 15           | 9            | 9            | 12           | 11           |
| PBT   | 34                            | 30           | 30           | 29           | 33           | 23           | 19           | 20           |
| Tax   | 11                            | 9            | 10           | 10           | 13           | 7            | 6            | 6            |
| PAT   | 23                            | 21           | 20           | 19           | 20           | 16           | 13           | 14           |
| <b>BALANCE SHEET</b>                            |                               |              |              |              |              |              |              |              |
| Net worth                                       | 631                           | 566          | 496          | 473          | 467          | 442          | 431          | 399          |
| Total Deposits                                  | 5,315                         | 5,148        | 4,933        | 4,960        | 4,666        | 4,514        | 4,252        | 3,913        |
| Advances  | 3,962                         | 3,764        | 3,496        | 3,456        | 3,334        | 3,287        | 3,064        | 2,670        |
| Total Assets                                    | 6,848                         | 6,560        | 6,194        | 6,542        | 6,174        | 5,664        | 5,208        | 4,979        |
| <b>KEY RATIOS (Q-o-Q Basis)</b>                 |                               |              |              |              |              |              |              |              |
| <b>PROFITABILITY RATIOS</b>                     |                               |              |              |              |              |              |              |              |
| Net Interest Margin/Avg. Tot Assets             | 3.66%                         | 3.32%        | 3.09%        | 3.10%        | 3.42%        | 3.51%        | 3.42%        | 3.62%        |
| Non-Interest Income/Avg. Tot Assets             | 1.71%                         | 2.02%        | 2.05%        | 1.98%        | 1.97%        | 1.52%        | 1.55%        | 1.65%        |
| Operating Expenses/Avg. Total Assets            | 2.47%                         | 2.46%        | 2.34%        | 2.30%        | 2.56%        | 2.62%        | 2.57%        | 2.61%        |
| Operating Profit / Avg. Total Assets            | 2.90%                         | 2.88%        | 2.80%        | 2.78%        | 2.83%        | 2.41%        | 2.41%        | 2.66%        |
| Provisions/Avg Total Assets                     | 0.85%                         | 0.97%        | 0.92%        | 0.95%        | 0.61%        | 0.69%        | 0.95%        | 0.94%        |
| Profit before Tax / Average Total Assets        | 2.05%                         | 1.90%        | 1.88%        | 1.83%        | 2.22%        | 1.71%        | 1.46%        | 1.72%        |
| Tax / Profit before Tax                         | 32.94%                        | 29.48%       | 33.95%       | 34.70%       | 38.03%       | 30.50%       | 30.48%       | 30.61%       |
| Profit after Tax / Average Total Assets         | 1.37%                         | 1.34%        | 1.24%        | 1.20%        | 1.38%        | 1.19%        | 1.01%        | 1.19%        |
| Profit after Tax / Avg. Net worth               | 15.38%                        | 16.11%       | 16.31%       | 16.20%       | 17.93%       | 14.80%       | 12.44%       | 16.84%       |
| <b>EFFICIENCY RATIOS</b>                        |                               |              |              |              |              |              |              |              |
| Other Income / Operating Expenses               | 69.36%                        | 82.01%       | 87.59%       | 86.18%       | 76.95%       | 57.86%       | 60.54%       | 63.27%       |
| Operating Cost to Operating Income Ratio        | 46.02%                        | 46.07%       | 45.54%       | 45.23%       | 47.46%       | 52.14%       | 51.61%       | 49.48%       |
| <b>LIQUIDITY RATIOS</b>                         |                               |              |              |              |              |              |              |              |
| Total Liquid Assets /Total Liability            | 0.38                          | 0.38         | 0.40         | 0.39         | 0.38         | 0.37         | 0.39         | 0.41         |
| Total Advances/Total Deposits                   | 0.75                          | 0.73         | 0.71         | 0.70         | 0.71         | 0.73         | 0.72         | 0.68         |
| <b>ASSET QUALITY</b>                            |                               |              |              |              |              |              |              |              |
| Gross NPAs                                      | 83                            | 79           | 75           | 71           | 68           | 61           | 57           | 46           |
| Net NPAs  | 30                            | 29           | 28           | 27           | 27           | 24           | 23           | 18           |
| Gross NPAs / Gross Advances                     | 2.07%                         | 2.07%        | 2.11%        | 2.03%        | 2.00%        | 1.82%        | 1.85%        | 1.72%        |
| Net NPAs / Net Advances                         | 0.76%                         | 0.77%        | 0.80%        | 0.80%        | 0.80%        | 0.74%        | 0.76%        | 0.68%        |
| Operating Profits (Annualised) / Net NPAs       | 648%                          | 631%         | 638%         | 644%         | 628%         | 535%         | 526%         | 695%         |
| Net NPAs / Networth                             | 4.75%                         | 5.13%        | 5.63%        | 5.82%        | 5.71%        | 5.53%        | 5.40%        | 4.54%        |
| Provision Cover                                 | 63.91%                        | 63.15%       | 62.64%       | 61.23%       | 60.49%       | 59.67%       | 59.30%       | 60.95%       |
| <b>KEY RATIOS (Rolling 12 months Basis)</b>     |                               |              |              |              |              |              |              |              |
| <b>PROFITABILITY RATIOS</b>                     |                               |              |              |              |              |              |              |              |
| Net Interest Margin/Avg. Tot Assets             | 3.27%                         | 3.30%        | 3.45%        | 3.32%        |              |              |              |              |
| Non-Interest Income/Avg. Tot Assets             | 1.92%                         | 2.05%        | 2.00%        | 1.75%        |              |              |              |              |
| Operating Expenses/Avg. Total Assets            | 2.37%                         | 2.47%        | 2.58%        | 2.48%        |              |              |              |              |
| Operating Profit / Avg. Total Assets            | 2.81%                         | 2.89%        | 2.87%        | 2.59%        |              |              |              |              |
| Provisions/Avg Total Assets                     | 0.91%                         | 0.89%        | 0.85%        | 0.79%        |              |              |              |              |
| Profit before Tax / Average Total Assets        | 1.90%                         | 2.00%        | 2.02%        | 1.80%        |              |              |              |              |
| Tax / Profit before Tax                         | 32.94%                        | 29.48%       | 33.95%       | 34.70%       |              |              |              |              |
| Profit after Tax / Average Total Assets         | 1.28%                         | 1.32%        | 1.32%        | 1.19%        |              |              |              |              |
| Profit after Tax / Avg. Net worth               | 15.16%                        | 15.97%       | 16.24%       | 15.71%       |              |              |              |              |
| <b>EFFICIENCY RATIOS</b>                        |                               |              |              |              |              |              |              |              |
| Other Income / Operating Expenses               | 69.36%                        | 82.01%       | 87.59%       | 86.18%       |              |              |              |              |
| Operating Cost to Operating Income Ratio        | 46.02%                        | 46.07%       | 45.54%       | 45.23%       |              |              |              |              |



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