

Chapter III

Developments in Co-operative Banking (Part 1 of 2)

Introduction

The co-operative banking system consists of rural and urban co-operative banks; with the former being characterised by a relatively comprehensive network. It supplements the efforts of the commercial banks in mobilising savings and meeting the credit needs of the local population. The performance of the cooperative banking sector has, however, been a cause of concern in recent years especially in the context of the ongoing phase of financial sector reforms. While the business of the rural co-operative sector has shown an improvement during the year 1998-99, the rates of growth of deposits and credit have shown some decline over the year. But compared to the rural co-operative banks, the Primary cooperative banks (PCBs) which operate in the urban areas have shown better performance. The PCBs, as a group, performed better even in comparison with the scheduled commercial banks during 1998-99. However, there is significant heterogeneity in the performance of PCBs which numbers more than 1900 at present. While a large number of these banks have shown creditable performance, a fair number of them have shown signs of persistent weakness.

3.2 An issue of serious concern in recent years is one relating to growing non-performing assets (NPAs). Besides, to place the urban co-operative banking sector on a sustainable growth path, certain other issues relating to entry point norms, uneven geographical growth and branch licensing policy for the PCBs need closer attention. With a view to examining these critical issues and suggesting measures for strengthening the urban co-operative sector, the Reserve Bank has recently constituted a High Power Committee (May 1999) under the Chairmanship of Shri. K. Madhava Rao, former Chief Secretary, Government of Andhra Pradesh.

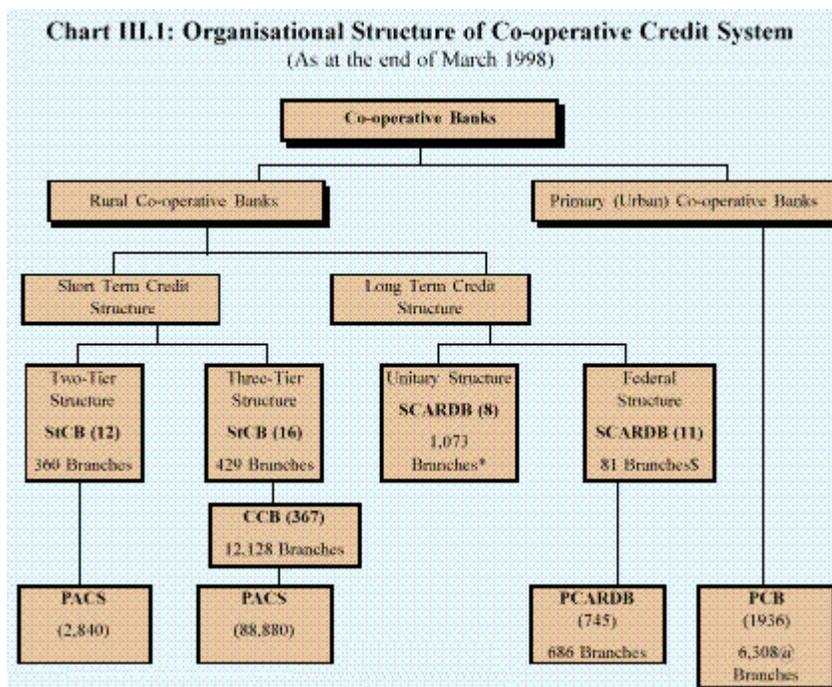
3.3 The National Bank for Agriculture and Rural Development (NABARD), which is connected closely with the co-operative system has taken a number of initiatives to improve the rural credit delivery system. While introduction of Kisan Credit Card scheme is the most important achievement during the year, the momentum gained in linking the Self Help Groups with banks as part of micro finance innovations is likely to improve the rural credit environment in the ensuing period. In view of the increase in sanction of credit limit by NABARD to cooperative banks and RRBs, an additional limit of Rs.100 crore under GLC I was sanctioned by the Reserve Bank to NABARD in April 1999.

3.4 This chapter reviews the progress of various segments of co-operative banks *viz.*, Primary Co-operative Banks (PCBs), State Co-operative Banks (StCBs), District Central Co-operative banks (CCBs), Primary Agricultural Credit Societies (PACS), State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) in terms of growth in their business and financial performance. An attempt is made to compare the performance of the co-operative banking sector with the commercial banking sector using select financial indicators. The chapter also highlights the role of NABARD in improving the co-operative banking system.

Some problems and issues relating to the cooperative banking sector are addressed in the concluding part of the chapter.

Organisational Structure of Co-operative Credit System

3.5 The organisational structure of cooperative credit institutions in India is presented in Chart III.1.



The above chart delineates that the rural cooperative banking sector is characterised by a more widespread and extended network system as compared to the urban co-operative banking sector.

2. Progress of Credit Co-operatives A. Primary Co-operative Banks (PCBs)

A. Progress Co-operative Banks (PCBs)

3.6 Primary Co-operative Banks have been set up with the objective of promoting banking habits among the lower and middle-income strata of the population. As at the end of March 1999, 1,936 PCBs were functioning in the country with 6,308 offices, including 90 salary earners' banks and 117 mahila banks. The total number of licensed PCBs increased to 1,692 as at the end of March 1999. The data available upto end-December 1998 indicate that the growth of both deposits as well as credit of PCBs slackened during the first three quarters of 1998-99. The annual growth in deposits upto December 1998 at 29.4 per cent was lower than that of 32.5 per cent recorded in the previous year¹. Similarly, the outstanding loans of PCBs at Rs.30,999 crore at the end of December 1998 registered an annual growth of 22.0 per cent as compared with the growth of 29.0 per cent during 1997-98 (Table III.1). Continuing the trend of the previous two years, the growth of deposits of PCBs outpaced the growth of credit in 1998-99. As a result, the credit-deposit (C-D) ratio of PCBs declined to 63.8 per cent as at the end of December 1998 from 68.3 per cent in end-March 1998.

Priority Sector Lending

3.7 Priority sector advances of 1,241 reporting PCBs as at the end of March 1998 amounted to Rs.15,640 crore which formed 63.5 per cent of their total loans and advances. Of the above banks, 1,044 (84 per cent) achieved the stipulated target (60 per cent of total loans and advances) of priority sector lending and 859 (69 per cent) fulfilled the required level (25 per cent of total loans and advances) of lending to weaker sections under the priority sector.

Refinance Facilities

3.8 PCBs are provided refinance facilities at the Bank Rate by the Reserve Bank for the advances granted to tiny/cottage industrial units. Refinance amounting to Rs.3.1 crore was granted to 3 banks during 1998-99, as against Rs.4.6 crore to the same number of banks in 1997-98.

Inspection of PCBs

3.9 The Reserve Bank carries out statutory inspections of PCBs under Section 35 of Banking Regulation Act, 1949 (as applicable to Co-operative Societies). During the year 1998-99 (July-March), 636 PCBs were inspected by the Reserve Bank.

Financial Performance of PCBs

3.10 Analysis of profit and loss accounts of all reporting PCBs (1,500) revealed that 1,295 made profits while (the remaining) 205 PCBs reported losses during 1997-98. The percentage of gross NPAs to total advances of PCBs which remained at around 13.0 per cent during 1995-96 and 1996-97, declined to 11.7 per cent as at the end of March 1998 and further to 10.8 per cent as at the end of March 1999 ([Table III.2](#)).

Table III.1: Primary Co-operative Banks - Selected Indicators

Item	(Amount in Rs. crore)						
	As at the end of March				Percentage Growth		
	1996	1997	1998	1999*	1996-97	1997-98	1998-99*
1	2	3	4	5	6	7	8
Number of Reporting PCBs	1,501	1,653	1,502	1,581			
Owned Funds	3,848	4,695	5,985	6,829	22.0	27.5	20.5
Deposits	24,165	30,714	40,692	48,583	27.1	32.5	29.4
Borrowings	758	619	886	932	-18.3	43.0	26.4
Loans Outstanding	17,908	21,550	27,807	30,999	20.3	29.0	22.0
Credit-Deposit Ratio	74.1	70.2	68.3	63.8			

Note: * Figures are for Dec.1998 and the growth rates are for Dec.1998 over Dec.1997.

Table III.2: Gross Non-Performing Assets of Primary Co-operative Banks: 1995-96 to 1998-99

As on	Number of reporting PCBs	Gross NPA (Rs. crore)	NPAs as a percentage of total advances
1	2	3	4
March 31, 1996	1,161	2,187.76	13.0
March 31, 1997	1,318	2,839.04	13.2
March 31, 1998	1,474	3,305.98	11.7
March 31, 1999	663	1,359.86	10.8

Note: Figures are provisional.

Analysis of Scheduled PCBs

3.11 The outstanding deposits of 29 scheduled PCBs² at Rs.16,429.3 crore as on last Friday of March 1999, posted a lower annual growth of 28.9 per cent as compared to that of 32.9 per cent during the previous year ([Table III.3](#)). The outstanding credit of scheduled PCBs at Rs.10,112.0 crore recorded a growth of 20.7 per cent in 1998-99 which was lower than that of 33.1 per cent in 1997-98. The C-D ratio of scheduled PCBs declined from 65.7 per cent as at the end of March 1998 to 61.5 per cent in end-March 1999.

3.12 Deposits are the major source of funds for the scheduled PCBs and their share in total liabilities was 75.0 per cent as at the end of March 1999. Capital and reserves constituted 9.1 per cent of the total liabilities of the scheduled PCBs ([Table III.4](#)). An analysis of the asset portfolio of scheduled PCBs indicate that loans and advances constitute the most significant component of their assets, followed by investment. During the year, the composition of assets of scheduled PCBs did not show any appreciable change. The share of loans and advances declined from 46.7 per cent to 44.1 per cent, while that of investments increased from 25.3 per cent to 26.3 per cent.

Financial Performance of Scheduled PCBs

3.13 The total income of the scheduled PCBs increased significantly by 23.7 per cent to Rs.2,534.3 crore during 1998-99 ([Table III.5](#)). A predominant portion of total income came from interest income (95.0 per cent). Total of interest and operating expenses, however, grew at a higher rate of 27.6 per cent to Rs.2,135.0 crore during the year. The spread (i.e. net interest income) of scheduled PCBs, as a percentage of total assets, declined from 3.78 per cent in 1997-98 to 3.24 per cent in 1998-99. In absolute terms, the operating profits of scheduled PCBs amounted of Rs.399.4 crore and recorded a growth of 6.4 per cent during 1998-99. As a percentage of total assets, operating profits declined from 2.03 per cent in 1997-98 to 1.68 per cent in 1998-99. The provisioning requirements of the scheduled PCBs in 1998-99 declined by

11.1 per cent from Rs.289.6 crore in 1997-98 to Rs.257.6 crore in 1998-99. As a result, the scheduled PCBs as a group posted much higher net profits of Rs.141.8 crore during 1998-99 as compared with that of Rs.85.9 crore in the previous year. As a percentage of total assets, net profits of scheduled PCBs increased from 0.46 per cent in 1997-98 to 0.60 per cent in 1998-99.

Table III.3: Operations of Scheduled Primary Co-operative Banks: 1996-97 to 1998-99

		(Amount in Rs. crore)				
Sr. No.	Item	Outstanding as on			Annual Growth	
		March 28, 1997	March 27, 1998	March 26, 1999	1997-98	1998-99
1	2	3	4	5	6	7
1.	Aggregate Deposits	9,587.4	12,743.4	16,429.3	3,156.0 (32.9)	3,685.9 (28.9)
2.	Borrowings	28.4	55.6	126.1	27.2 (95.8)	70.5 (126.8)
3.	Assets with the Banking System (i+ii)	1,013.1	1,509.6	2,154.8	496.5 (49.0)	645.2 (42.7)
	i) Balances with other banks	775.2	1,306.3	1,739.7	531.1	433.4
	(ii) Money at call and short notice	237.9	203.3	415.1	-34.60	211.8
4.	Investments (a + b)	1,849.8	2,489.9	3,745.6	640.1 (34.6)	1,255.7 (50.4)
	(a) Government securities	1,415.3	1,872.6	2,993.0	457.3	1,120.4
	(b) Other approved securities	434.5	617.3	752.6	182.8	135.3
5.	Bank Credit	6,295.7	8,377.0	10,112.0	2,081.3 (33.1)	1,735.0 (20.7)
Memorandum Items :						
1.	Credit-Deposit Ratio (per cent)	65.7	65.7	61.5		
2.	Investment-Deposit Ratio (per cent)	19.3	19.5	22.8		

Notes: 1. Figures in brackets are growth rates during the year.

2. Investments given in this table are for the purpose of SLR and, therefore, will differ from those presented in [Table III.4](#).

Source: Section 42(2) Returns.

B. Rural Co-operative Banks - Short Term Credit Structure

(a) State Co-operative Banks (StCBs)

3.14 State Co-operative Banks (StCBs) are at the apex of the three-tier co-operative structure dispensing mainly short/medium-term credit. The outstanding deposits of StCBs at Rs.25,815 crore as at the end of March 1999, posted a much lower growth of 16.3 per cent as compared with the growth of 26.9 per cent in the previous year ([Appendix Table III.1](#)). However, the borrowings of these banks at Rs.9,269 crore recorded a higher growth rate of 8.3 per cent as compared to that of 6.5 per cent in the preceding year. Loans issued increased from Rs.27,805 crore in 1997-98 to Rs.29,590 crore in 1998-99, i.e. by 6.4 per cent as against a decline of 3.0 per cent in 1997-98. However, the outstanding credit of StCBs at Rs.20,252 crore recorded a growth of only 3.4 per cent in 1998-99 as compared with that of 7.0 per cent in 1997-98. With the growth of deposits and credit of StCBs decelerating for the second consecutive year in 1998-99 ([Chart III.2](#)), the C-D ratio of StCBs declined from 88.3 per cent as at the end of 1997-98 to 78.5 per cent at end-March 1999. The bank-wise details of C-D ratio are given in [Appendix Table III.2](#). The recovery performance of StCBs (as percentage to demand) had shown a declining trend over the last few years. The ratio declined from 86 per cent in 1996-97 to 84 per cent in 1997-98 and further to 80 per cent in 1998-99. The details of recovery performance of individual StCBs are shown in [Appendix Table III.3](#).

Table III.4: Composition of Liabilities and Assets of Scheduled Primary Co-operative Banks: 1997-98 and 1998-99

Item	(Rs. crore)	
	As on March 31 of	
1	1998	1999
	2	3
Liabilities		
1. Capital	178.77 (1.0)	210.49 (0.9)
2. Reserves	1,637.49 (8.8)	1,937.86 (8.2)
3. Deposits	14,029.84 (75.8)	17,805.80 (75.0)
4. Borrowings	162.49 (0.9)	266.82 (1.1)
5. Other Liabilities	2,499.57 (13.5)	3,526.04 (14.8)
Total Liabilities	18,508.16 (100.0)	23,747.01 (100.0)
Assets		

1. Cash	1,538.25 (8.3)	1,870.35 (7.9)
2. Balances with Banks	970.70 (5.2)	1,198.81 (5.0)
3. Money at call and short notice	87.68 (0.5)	389.89 (1.6)
4. Investments	4,675.40 (25.3)	6,255.05 (26.3)
5. Loans and Advances	8,634.80 (46.7)	10,478.91 (44.1)
6. Other Assets	2,601.33 (14.1)	3,554.00 (15.0)
Total Assets	18,508.16 (100.0)	23,747.01 (100.0)

Note: Figures in brackets are percentages to total liabilities/assets.
Source: Balance sheet of respective banks.

Table III.5: Financial Performance of Scheduled Primary Co-operative Banks: 1997-98 and 1998-99

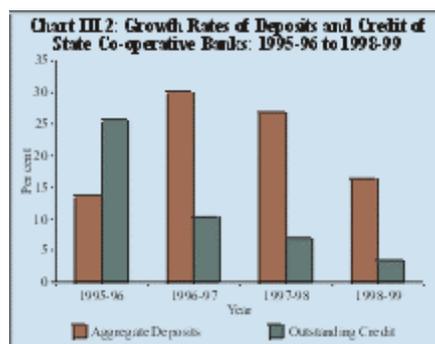
Item	(Amount in Rs. crore)			
	1997-98	1998-99	Variation of	
			Column (3) over (2)	
1	2	3	Absolute	Percentage
			4	5
A. Income (i+ii)	2,049.19 (100.00)	2,534.33 (100.00)	485.14	23.67
i) Interest Income	1,939.38 (94.64)	2,407.58 (95.00)	468.20	24.14
ii) Other Income	109.81 (5.36)	126.75 (5.00)	16.94	15.43
B. Expenditure (i+ii+iii)	1,963.27 (100.00)	2,392.52 (100.00)	429.25	21.86
i) Interest Expended	1,238.91 (63.10)	1,638.81 (68.50)	399.90	32.28

ii) Provisions and Contingencies	289.57 (14.75)	257.56 (10.77)	-32.01	-11.05
iii) Operating Expenses	434.79 (22.15)	496.15 (20.74)	61.36	14.11
<i>of which</i> : Wage Bill	260.41 (13.26)	298.61 (12.48)	38.20	14.67
C. Profit				
i) Operating Profit	375.49	399.37	23.88	6.36
ii) Net Profit	85.92	141.81	55.89	65.05
D. Total Assets	18,508.16	23,747.01	5,238.85	28.31
E. Financial Ratios (per cent) \$				
i) Operating Profit	2.03	1.68	-0.35	-
ii) Net Profit	0.46	0.60	0.13	-
iii) Income	11.07	10.67	-0.40	-
iv) Interest Income	10.48	10.14	-0.34	-
v) Other Income	0.59	0.53	-0.06	-
vi) Expenditure	10.61	10.08	-0.53	-
vii) Interest Expended	6.69	6.90	0.21	-
viii) Operating Expenses	2.35	2.09	-0.26	-
ix) Wage Bill	1.41	1.26	-0.15	-
x) Provisions and Contingencies	1.56	1.08	-0.48	-
xi) Spread (Net Interest Income)	3.78	3.24	-0.55	-

Notes: 1. \$ Ratios to total assets.

2. Figures in brackets are percentage shares to the respective total.

3.15 Detailed data on the components of liabilities and assets of StCBs are available upto March 1998 only. As at the end of March 1998, while deposits and borrowings had shares of 61.2 and 23.6 per cent respectively, share capital and reserves constituted another 8.3 per cent of the total liabilities of the StCBs ([Table III.6](#)). Loans and advances together with the investments formed more than 85 per cent of the assets of StCBs. The composition of assets of StCBs however, underwent some changes during 1997-98. The share of investments increased from 26.9 per cent to 32.4 per cent while that of loans and advances declined from 60.2 per cent to 54.1 per cent.



Financial Performance of StCBs

3.16 Total income of StCBs increased by 22.8 per cent from Rs.2,969.0 crore during 1996-97 to Rs.3,645.8 crore during the year 1997-98 ([Table.III.7](#)). Interest income accounted for 96.9 per cent of the total income. Interest and operating expenses together grew by 22.9 per cent to Rs.3,112.2 crore during the year. The net interest income (spread) as a percentage of total assets of StCBs declined from 2.09 per cent in 1996-97 to 2.01 per cent in 1997-98. The operating profits of StCBs amounted to Rs.533.6 crore and recorded a growth of 22.0 per cent during 1997-98. As a proportion of total assets, operating profits showed a negligible increase from 1.44 per cent in 1996-97 to 1.47 per cent in 1997-98. However, the provisioning requirements of the StCBs in 1997-98 showed a two-fold increase from Rs.334.2 crore in 1996-97 to Rs.657.9 crore in 1997-98. As a result, the StCBs as a group posted net losses of Rs.124.3 crore during 1997-98 as against net profits of Rs.103.0 crore in the previous year. In terms of total assets, the net profits of StCBs nosedived from 0.34 per cent in 1996-97 to (-)0.34 per cent in 1997-98.

(b) Central Co-operative Banks (CCBs)

3.17 Central Co-operative Banks (CCBs) form the middle tier in the short-term credit structure of co-operative credit institutions. Deposits constitute the major component of sources of funds of these banks, followed by borrowings. The total deposits of CCBs at Rs.41,513 crore as at end-March 1999 recorded a lower growth of 13.0 per cent as compared with that of 20.5 per cent during the previous year. The borrowings of CCBs at Rs.12,345 crore as at end March 1999 rose by 6.6 per cent ([Appendix Table III.1](#)). On the asset side, loans issued by CCBs at Rs.30,708 crore during 1998-99 declined by 3.4 per cent. Loans outstanding at Rs.33,479 crore, however, recorded a positive growth rate of 6.1 per cent during 1998-99. Deceleration in the business volumes of the rural co-operatives since 1997-98 is corroborated in the case of CCBs also ([Chart III.3](#)). The C-D ratio of CCBs declined from 85.8 per cent as at the end of 1997-98 to 80.6 per cent in end-March 1999. The recovery performance (percentage to demand) of CCBs declined

from 70 per cent in 1997-98 to 68 per cent in 1998-99.

Table III.6: Composition of Liabilities and Assets of State Co-operative Banks: 1996-97 and 1997-98

Item	(Rs. crore)	
	As on March 31 of	
	1997	1998
1	2	3
Liabilities		
1. Capital	456.53 (1.5)	490.55 (1.4)
2. Reserves	2,871.38 (9.4)	2,495.60 (6.9)
3. Deposits	17,489.95 (57.4)	22,189.39 (61.2)
4. Borrowings	8,033.09 (26.4)	8,556.93 (23.6)
5. Other Liabilities	1,594.33 (5.2)	2,495.59 (6.9)
Total Liabilities	30,445.28 (100.0)	36,228.06 (100.0)
Assets		
1. Cash and Bank Balances	1,458.89 (4.8)	1,870.83 (5.2)
2. Investments	8,175.91 (26.9)	11,738.39 (32.4)
3. Loans and Advances	18,314.15 (60.2)	19,587.62 (54.1)
4. Other Assets	2,496.33 (8.2)	3,031.22 (8.4)
Total Assets	30,445.28 (100.0)	36,228.06 (100.0)

Note: Figures in brackets are percentages to total liabilities/ assets.
Source: NABARD.

3.18 As in the case of StCBs, a complete break-up of assets and liabilities of CCBs is available only upto 1997-98. Deposits and borrowings had shares of 61.7 and 19.4 per cent, respectively in the total liabilities of CCBs as at the end of March 1998 (Table III.8). Capital and reserves accounted for another 8.6 per cent. Loans and advances formed 53.0 per cent of the assets of CCBs as on March 1998; the share of investments in the total assets was 24.5 per cent.

Financial Performance of CCBs

3.19 Total income of CCBs grew by 14.4 per cent to Rs.6,674.5 crore during the year 1997-98 (Table III.9). Interest income accounted for 94.8 per cent of the total income. On the expenditure side, the interest expenses constituted a major part (64.9 per cent) of their expenses. Total of interest and operating expenses grew by 13.6 per cent to Rs.5,761.3 crore during the year. The spread as a percentage of total assets was quite high at 3.11 per cent in 1997-98. The operating profits of CCBs during 1997-98 amounted to Rs.913.2 crore and recorded a growth of 20.2 per cent. As a proportion of total assets, operating profits increased marginally from 1.50 per cent in 1996-97 to 1.53 per cent in 1997-98. However, the provisioning requirements of the CCBs at Rs.1,137.4 crore completely wiped off their operating profits. As a result, the CCBs, as a group, posted net losses of Rs.224.2 crore during 1997-98 which was, however, lower than their net losses of Rs.821.4 crore in the previous year. In terms of total assets, the net losses of CCBs was at 0.38 per cent in 1997-98 as compared with the net losses of 1.62 per cent in 1996-97.

Table III.7: Financial Performance of State Co-operative Banks: 1996-97 and 1997-98

Item	(Amount in Rs. crore)			
	1996-97	1997-98	Variation of Column (3) over (2)	
Absolute			Percentage	
1	2	3	4	5
A. Income (i+ii)	2,968.98 (100.00)	3,645.76 (100.00)	676.78	22.80
i) Interest Income	2,926.41 (98.57)	3,534.30 (96.94)	607.89	20.77
ii) Other Income	42.57 (1.43)	111.46 (3.06)	68.89	161.83
B. Expenditure (i+ii+iii)	2,865.93 (100.00)	3,770.10 (100.00)	904.17	31.55
i) Interest Expended	2,289.81 (79.90)	2,804.48 (74.39)	514.67	22.48
ii) Provisions and Contingencies	334.20 (11.66)	657.94 (17.45)	323.74	96.87

iii) Operating Expenses	241.92 (8.44)	307.68 (8.16)	65.76	27.18
<i>of which</i> : Wage Bill	180.43 (6.30)	210.12 (5.57)	29.69	16.46
C. Profit				
i) Operating Profit	437.25	533.60	96.35	22.04
ii) Net Profit	103.05	-124.34	-227.39	-220.66
D. Total Assets	30,445.28	36,228.06	5,782.78	18.99
E. Financial Ratios (per cent) \$				
i) Operating Profit	1.44	1.47	0.04	-
ii) Net Profit	0.34	-0.34	-0.68	-
iii) Income	9.75	10.06	0.31	-
iv) Interest Income	9.61	9.76	0.14	-
v) Other Income	0.14	0.31	0.17	-
vi) Expenditure	9.41	10.41	0.99	-
vii) Interest Expended	7.52	7.74	0.22	-
viii) Operating Expenses	0.79	0.85	0.05	-
ix) Wage Bill	0.59	0.58	-0.01	-
x) Provisions and Contingencies	1.10	1.82	0.72	-
xi) Spread (Net Interest Income)	2.09	2.01	-0.08	-

Notes: 1. \$ Ratios to total assets.

2. Figures in brackets are percentage shares to the respective total.

Source: NABARD.

Table III.8: Composition of Liabilities and Assets of Central Co-operative Banks: 1996-97 and 1997-98

Item	(Rs. crore)	
	As on March 31 of	
	1997	1998
1	2	3
Liabilities		
1. Capital	1,895.12 (3.7)	2,152.29 (3.6)
2. Reserves	4,007.18 (7.9)	3,002.91 (5.0)
3. Deposits	30,512.54	36,755.30

	(60.3)	(61.7)
4. Borrowings	10,533.45	11,577.58
	(20.8)	(19.4)
5. Other Liabilities	3,640.92	6,054.49
	(7.2)	(10.2)
Total Liabilities	50,589.21	59,542.57
	(100.0)	(100.0)
Assets		
1. Cash and Bank Balance	3,828.64	5,983.19
	(7.6)	(10.0)
2. Investments	12,012.37	14,576.61
	(23.7)	(24.5)
3. Loans and Advances	28,683.59	31,547.68
	(56.7)	(53.0)
4. Other Assets	6,064.61	7,435.09
	(12.0)	(12.5)
Total Assets	50,589.21	59,542.57
	(100.0)	(100.0)

Note: Figures in brackets are percentages to total liabilities/ assets.
Source: NABARD.

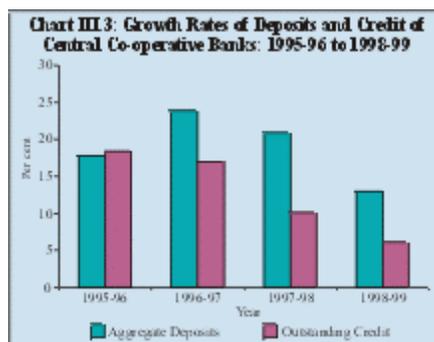


Table III.9: Financial Performance of Central Co-operative Banks: 1996-97 and 1997-98

Item	(Amount in Rs. crore)			
	1996-97	1997-98	Variation of	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	5,832.45	6,674.51	842.06	14.44
	(100.00)	(100.00)		
i) Interest Income	5,554.64	6,325.39	770.75	13.88
	(95.24)	(94.77)		
ii) Other Income	277.81	349.12	71.31	25.67

	(4.76)	(5.23)		
B. Expenditure (i+ii+iii)	6,653.83 (100.00)	6,898.76 (100.00)	244.93	3.68
i) Interest Expended	3,957.72 (59.48)	4,475.25 (64.87)	517.53	13.08
ii) Provisions and Contingencies	1,581.46 (23.77)	1,137.46 (16.49)	-444.00	-28.08
iii) Operating Expenses	1,114.65 (16.75)	1,286.05 (18.64)	171.40	15.38
<i>of which : Wage Bill</i>	870.37 (13.08)	989.51 (14.34)	119.14	13.69
C. Profit				
i) Operating Profit	760.08	913.21	153.13	20.15
ii) Net Profit	-821.38	-224.25	597.13	-72.70
D. Total Assets	50,589.21	59,542.57	8,953.36	17.70
E. Financial Ratios (per cent) \$				
i) Operating Profit	1.50	1.53	0.03	-
ii) Net Profit	-1.62	-0.38	1.25	-
iii) Income	11.53	11.21	-0.32	-
iv) Interest Income	10.98	10.62	-0.36	-
v) Other Income	0.55	0.59	0.04	-
vi) Expenditure	13.15	11.59	-1.57	-
vii) Interest Expended	7.82	7.52	-0.31	-
viii) Operating Expenses	2.20	2.16	-0.04	-
ix) Wage Bill	1.72	1.66	-0.06	-
x) Provisions and Contingencies	3.13	1.91	-1.22	-
xi) Spread (Net Interest Income)	3.16	3.11	-0.05	-

Notes: 1. \$ Ratios to total assets.

2. Figures in brackets are percentage shares to the respective total.

Source: NABARD.

(c) Primary Agricultural Credit Societies

3.20 Primary Agricultural Credit Societies (PACS) are grass-root level co-operative credit institutions playing a pivotal role in the disbursement of short-term rural credit. As at end-March 1998, there were around 92,000 PACS with a total membership aggregating 997.1 lakh, of which borrowing membership constituted 41.3 per cent. PACS continued to depend mainly on borrowings from higher financing agencies to fund their operations. Provisional data at the end of March 1997 showed that the deposits of PACS amounted to Rs.5,255 crore, while the borrowings stood at Rs.13,299 crore. The loans issued amounted to Rs.12,594 crore, while the loans outstanding amounted to Rs.15,323 crore as at end-March 1997.

C. Rural Co-operative Banks- Long Term Credit Structure

(a) State Co-operative Agriculture and Rural Development Banks

3.21 State Co-operative Agriculture and Rural Development Banks (SCARDBs) are at the top-level of the long-term credit structure of cooperative credit institutions dispensing investment credit. With a view to strengthening their resource base, SCARDBs were permitted to mobilise fixed deposits for terms of not less than 12 months. During 1998-99, deposits of SCARDBs went up by 14.0 per cent to Rs.236 crore from Rs.207 crore as at the end of the previous year. Borrowings which constituted the major resource of SCARDBs at Rs.10,936 crore at the end of March 1999, rose by 12.2 per cent during 1998-99 as against 14.9 per cent during 1997-98 ([Appendix Table III.1](#)).

3.22 On the asset side, loans issued by SCARDBs during 1998-99 at Rs.2,423 crore recorded a lower increase of 5.5 per cent than that of 6.7 per cent during the previous year. Loans outstanding at Rs.10,444 crore as at the end of March 1999 also registered a lower increase of 13.7 per cent as compared with 14.6 per cent during 1997-98. The recovery performance of SCARDBs (as percentage to demand) improved from 60 per cent in 1997-98 to 62 per cent in 1998-99.

(b) Primary Co-operative Agriculture and Rural Development Banks

3.23 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are at the bottom layer of the long-term credit structure of co-operative credit institutions. Their deposit resources are limited. Deposits rose from Rs.86 crore at the end of 1997-98 to Rs.137 crore at the end of 1998-99 ([Appendix Table III.1](#)). Borrowings of PCARDBs as at the end of March 1999 at Rs.6,701 crore increased by 13.7 per cent as compared with the growth of 22.9 per cent during the previous year.

3.24 Loans issued by PCARDBs during 1998-99 went up by 6.1 per cent to Rs.1,691 crore. Loans outstanding grew by 13.6 per cent to Rs.6,594 crore at the end of 1998-99. The recovery performance of PCARDBs (as percentage to demand) declined from 55 per cent in 1997-98 to 51 per cent in 1998-99.

D. Non-Performing Assets of Rural Co-operatives

3.25 The problems of NPAs in the commercial banking sector have been a focus of policy attention in recent years. Given the importance of rural co-operatives, it would be useful to examine whether this problem needs special focus in the co-operative sector also.

3.26 Prudential norms relating to asset classification have been extended to the StCBs and CCBs since 1996-97 and to SCARDBs and PCARDBs since 1997-98, so as to reflect their true financial health. The aggregate NPAs of StCBs were estimated at Rs.2,443 crore and formed 12.5 per cent of their outstanding loans and advances as at the end of March 1998. Disaggregated data in respect of 19 reporting StCBs showed that the gross NPAs to total loans and advances was less than 5 per cent in 5 StCBs, between 10-20 per cent in another 5 StCBs and above 20 per cent in the remaining 9 StCBs ([Table III.10](#)).

3.27 The aggregate NPAs of CCBs were estimated at Rs.5,551 crore and formed 17.8 per cent of their outstanding loans and advances as at the end of March 1998. Out of 254 reporting CCBs, the gross NPAs to total loans and advances were less than 5 per cent in 31 CCBs, between 5-20 per cent in another 132 CCBs and above 20 per cent in the remaining 91 CCBs.

3.28 In respect of the long-term credit structure, based on available data, the aggregate NPAs of SCARDBs were estimated at Rs.1,313 crore and constituted 18.6 per cent of their outstanding loans and advances as at the end of March 1998. Similarly, the aggregate NPAs of PCARDBs at Rs.637 crore constituted 16.5 per cent of their outstanding loans and advances as at the end of March 1998.

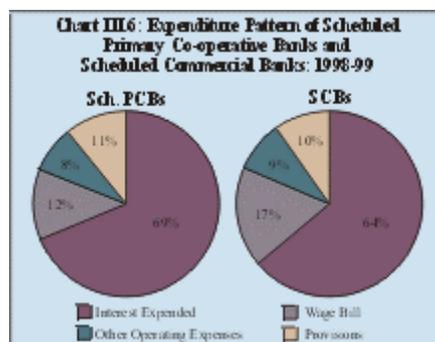
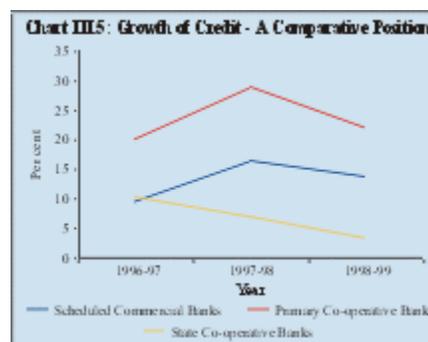
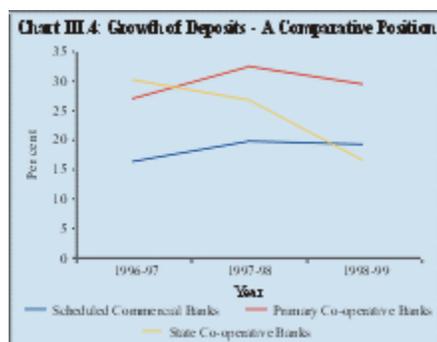
E. Comparative Position of Co-operative Banks and Scheduled Commercial Banks

3.29 One may witness a number of commonalities in the operating environment between the PCBs and scheduled commercial banks (SCBs). An attempt is made here to compare the performance of these groups. By virtue of their retail market orientation and identified customer groups, the PCBs were able to achieve higher growth rates in deposits and credit than the scheduled commercial banks ([Charts III.4](#) and [III.5](#)). As regards the financial performance, the comparison is made between scheduled PCBs and SCBs. Such comparison reveals that in relation to total assets, the spread of scheduled PCBs was higher and the operating expenses were lower than those of SCBs ([Table III.11](#)). However, the gap in the operating profit ratios of scheduled PCBs and SCBs narrowed down due to higher share of 'other income' for SCBs. Still the profitability of scheduled scheduled PCBs was higher than that of SCBs. While comparing the expenditure pattern of scheduled PCBs and SCBs, it was also observed that the interest expenses accounted for a higher share of the total expenses in the case of PCBs but their wage bill was of relatively lower order ([Chart III.6](#)).

Table III.10: Frequency Distribution of NPAs of Co-operative Banks: March 1998

Percentage of NPAs to Outstanding Loans and Advances 1	Bank-Group		
	StCBs 2	CCBs 3	SCARDBs 4
0 - 5	5 (26)	31 (12)	1 (25)
5 - 10	-	45 (18)	-
10 - 15	3 (16)	45 (18)	2 (50)
15 - 20	2 (10)	42 (16)	-
20 - 25	1 (5)	31 (12)	-
25 - 50	6 (33)	47 (19)	1 (25)
Above 50	2 (10)	13 (5)	-
Total Number of reporting banks	19 (100)	254 (100)	4 (100)
Total Number of banks	28	367	19

Note: Figures in brackets represent percentage to total number of reporting banks.
Source: NABARD.



3.30 The structure and operations of rural cooperative banks are very different from those of the commercial banks and PCBs. This is also reflected in the divergence in the growth pattern of

deposits and credit of StCBs when compared with those of SCBs and PCBs ([Charts III.4](#) and [III.5](#)). While the growth in business of SCBs and PCBs showed an upturn in 1997-98, both deposits and credit of StCBs recorded a lower growth in 1997-98 as compared to 1996-97. It is further observed that while the deposit growth of StCBs compared favourably with those of PCBs and SCBs, their credit growth suffered in the last two years and were much lower than the other two groups. For their viability, cost and profitability considerations have assumed significance in the operations of rural co-operative banks. It is observed that the spread of StCBs as percentage of assets was quite low in comparison with those of the scheduled PCBs and SCBs; and their operating expenses were also quite low. As a result, operating profit ratio of SCBs was not markedly lower than that of PCBs as evident in [Table III.11](#).

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1. Number of reporting PCBs vary from year to year.
 2. This analysis is based on 29 scheduled PCBs accounting for about 35 per cent of deposits of all PCBs as at the end of June 1998. 7 more PCBs were granted scheduled bank status in June 1999 which are, however, excluded from the analysis this year.