Vol : 3
Special Issue : 1
JANUARY 2019
E-ISSN : 2456-5571

EISSN 2456-5571

BODHI

INTERNATIONAL JOURNAL OF RESEARCH IN HUMANITIES, ARTS AND SCIENCE

An Online Peer Reviewed- Refereed and Quarterly Journal with Impact Factor

Special Issue on

BANKING & INSURANCE: A CATALYST TOWARDS INDIA'S VISION 2022

IMPACT FACTOR

Special Issue Editors

Dr. A. Mayil Murugan | Dr. S. Selvakumar
Dr. K. Hema Malini | Dr. Y. Natarajan

www.bodhijournals.com

BODHI

International Journal of Research in Humanities, Arts and Science

An Online, Peer Reviewed, Refereed and Quarterly Journal

Vol: 3 Special Issue: 1 January 2019 E-ISSN : 2456-5571

CENTRE FOR RESOURCE, RESEARCH & PUBLICATION SERVICES (CRRPS)

www.crrps.in | www.bodhijournals.com

CAR IS A KEY TO EFFICIENT FINANCIAL SYSTEM OF BANKS WITH THE SPECIAL REFERENCE TO SBI

Mr. R. Sundareswaran
Assistant Professor, Department of Commerce
The American College, Madurai -2

Dr. A. Mayil Murugan
Head, Department of Commerce
The Madura College, Madurai -11

Introduction

The Capital Adequacy Ratio (CAR) is a measure of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The Capital Adequacy Ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Tier I Capital

Tier 1 capital, used to describe the capital adequacy of a bank, is core capital that includes equity capital and disclosed reserves. Equity capital is inclusive of instruments that cannot be redeemed at the option of the holder. Tier 1 capital is essentially the most perfect form of a bank's capital

Tier II Capital

Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt. In the calculation of a bank's reserve requirements, Tier 2 capital is considered less secure than Tier 1 capital

Basel Norms on Bank Capital

Under the Basel Accords, a bank's capital is divided into Tier 1 core capital and Tier 2 supplementary capital. The minimum capital ratio reserve requirement for a bank is set at 8%; 6% must be provided by Tier 1 capital in the ratio of 3:1.

Table 1 Capital Adequacy Ratio of SBI

Year	2018		2017		2016		2015		2014	
Tier I	10.53%	82.07%	10.30%	81.23%	9.92%	75.61%	9.64%	77.43%	9.62%	80.17%
Tier II	2.30%	17.93%	2.38%	18.76%	3.32%	24.39%	2.81%	22.57%	2.38%	19.83%
CAR	12.83%	100%	12.68%	100%	13.12%	100%	12.45%	100%	12.00%	100%

In the year 2016, the overall car was 12% , though it is above the minimum standard of 8%, which follows almost the close to maximum of tier II capital proportion, again in the year 2015 and 2016, the role played by tier II capital has been increased as 2.8%(22.57%) and 3.32%, (24.39%) respectively. But in the year 2017 and 2018, it stabilizes the overall CAR by reducing the role of tier II capital and also by increasing tier II capital, an increase in tier II capital indicated that the capital of tier II and its role is less secured and normally it happens only when there is an evitable situation.

Table 2 NPA of SBI

Year	2018	2017	2016	2015	2014
% of Gross NPA	4.25	6.50	10.91	6.90	4.95
% of Net NPA	2.12	3.71	5.73	3.81	2.57
% of Return on Assets	0.76	0.46	-0.19	0.41	0.65

Table 2 shows, in 2014, percentage of NPA stood as 4.95% and it gradually increases as 6.90% in 2015, abnormally in 2016 as 10.91%, again it got under control in 2017 and 2018 as 6.50% & 4.25% respectively. The same results are happened in percentage of Net NP and Return on Assets. It shows that the SBI was in a position to acquire tier II capital in the year 2016 and 2017 for stabilizing the financial position but in 2018 it has a comfort zone of tier I as a secured capital by reducing the NPA.

Conclusion

Basel III is a common set of global standards to be implemented by banks across countries. In India, it has to adhere to these regulations from 2019. Especially after the 2008 financial crisis, need arose to strengthen the banking system further it could meet further risks. To meet these dangers, banks were asked to maintain a certain minimum level of capital in form of CAR and not lend all the money they receive from deposits.

References

1. https://www.sbi.co.in/portal/web/corporate-governance/annual-report-2017-18
2. https://www.sbi.co.in/AR1415/
3. https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=17716#
4. https://www.moneycontrol.com/financials/statebankindia/results/yearly/SBI