

# Contents

	<b>Page No.</b>
<b>Forword</b>	
<b>List of Abbreviations</b>	<b>i-iii</b>
<b>Overview</b>	<b>1</b>
<b>Chapter I : Macro-Financial Risks</b>	<b>3-15</b>
Global backdrop	3
Domestic macro-economic challenges	7
Corporate sector	10
<b>Chapter II : Financial Institutions: Soundness and Resilience</b>	<b>16-40</b>
Scheduled commercial banks	16
Performance	16
Resilience - Stress tests	21
Risks	32
Scheduled urban co-operative banks	33
Performance	33
Resilience - Stress tests	33
Non-banking financial companies	34
Performance	34
Resilience - Stress tests	35
Interconnectedness	35
<b>Chapter III : Financial Sector Regulation</b>	<b>41-62</b>
International regulatory reform agenda	41
Domestic financial system	43
Banking sector	43
Financial inclusion	51
Securities market	52
Insurance sector	56
Pension sector	57
Financial safety nets: Deposit insurance	59
Financial market infrastructure	60
Financial stability and development council	62
<b>Annex 1: Systemic Risk Survey</b>	<b>63</b>
<b>Annex 2: Methodologies</b>	<b>67</b>

**LIST OF BOXES**

1.1	In search of some old wisdom	4
2.1	Systemic risk measurement based on equity price returns	40
3.1	Implications of 'disruptions' – 'Blockchain' technology	42
3.2	Recent regulatory initiatives on asset quality	44
3.3	Some key implications of implementation of Ind AS 109 by Indian Banks	46
3.4	Payment banks and small finance banks	52
3.5	SEBI Framework for fund raising by start-ups	55

**LIST OF CHARTS**

1.1	Currency composition of official foreign exchange reserves	5
1.2	Share of various currencies in world payments	5
1.3	Terms of trade losses and inflationary pressures	5
1.4	Global GDP growth and EMDE-AE growth differential	6
1.5	Growth in emerging market corporate earnings and world trade volume	6
1.6	Select macroeconomic indicators	7
1.7	Depreciation of EM currencies – Taper tantrum versus May- November, 2015	7
1.8	Plan expenditure under capital account and improved fiscal space	7
1.9	Sluggish consumption	8
1.10	Agricultural exports and global commodity prices	8
1.11	Trends in exports and imports	8
1.12	IIP- y-o-y growth rate and 3-month moving average	9
1.13	Current account, capital account and private transfers	9
1.14	Short-term external debt stock and volatile capital flows	9
1.15	Short-term debt to foreign exchange reserves- Cross-country comparison	10
1.16	Volatile capital flows to foreign exchange reserves- Cross-country comparison	10
1.17	Corporate performance of NGNF listed companies	10
1.18	NGNF listed companies: Weak companies – current trend (2013-14 to 2015-16)	12
1.19	Risk profiles of select industries	12
1.20	Indicators of corporate sector performance: Size-wise classification	13
1.21	NGNF weak companies	14
2.1	Credit and deposit growth: y-o-y basis	16
2.2	Sectoral share of credit in total credit	17
2.3	Capital adequacy	17

	<b>Page No.</b>
2.4 Leverage ratio of SCBs	17
2.5 Asset quality of SCBs	18
2.6 NNPA's of SCBs	18
2.7 Distribution of SCBs based on stressed advances ratio	18
2.8 Stressed advances in broad sectors	18
2.9 Stressed advances in stressed sectors	19
2.10 GNPA ratios of large borrowers	19
2.11 Distribution of SCBs based on RoA (Annualised)	20
2.12 Projection of system level GNPA ratios and CRAR of SCBs	21
2.13 Projection of bank-group wise GNPA ratio and CRAR	22
2.14 Projected sectoral GNPA under various scenarios	22
2.15 Expected losses: Bank-group wise	23
2.16 Unexpected losses and expected shortfalls: Bank-group wise	23
2.17 Expected losses and unexpected losses: Bank-wise	24
2.18 CRAR-wise distribution of banks	25
2.19 Credit concentration risk: Individual borrowers	26
2.20 Share of off-balance sheet assets (credit equivalent) of SCBs	31
2.21 MTM of total derivatives	32
2.22 Stress Tests - Impact of shocks on derivatives portfolio of select banks	32
2.23 Banking stability indicator	33
2.24 Banking stability map	33
2.25 Asset quality of the NBFC sector	34
2.26 CRAR of the NBFC sector	35
2.27 Size of the interbank market	35
2.28 Share of different bank groups in the interbank market	36
2.29 Fund based and non-fund based transactions in the interbank market	36
2.30 Short-term and long-term interbank market (fund based)	36
2.31 Network structure of the Indian banking system	37
2.32 Network plot of the Indian Financial System	38
3.1 Issuance of corporate debt and commercial paper outstanding	43
3.2 Bank-group wise trends in net interest margin (NIM)	45
3.3 Trends in total assets and owned funds of ARCs	45
3.4 Trends in assets acquired by ARCs	46
3.5 Debt, capital expenditure and earnings of Indian companies	47

	<b>Page No.</b>
3.6 HHI at the system level (all SCBs)	48
3.7 Bank-wise distribution of difference between HHIs of NPAs and loans	48
3.8 Dividend received and capital infusion by the government in PSBs	50
3.9 Trends in number of BSBD accounts	51
3.10 Trends in BC-ICT transactions and value	51
3.11 Net investment in equity by DIIs and FPIs	53
3.12 Day-wise break-up of buying / selling trends of FPIs and DIIs	53
3.13 Comparative position of investment of insurance companies in capital markets	57
3.14 Trends in subscription and AUM under National Pension Scheme	58
3.15 Trends in number of 'incidents' reported during 2015	62

#### **LIST OF TABLES**

1.1 Select financial ratios of performance of NGNF listed companies (2014-15 and 2015-16)	11
1.2 NGNF listed companies: Tail risk in corporate leverage	11
1.3 Impact of weakness in debt servicing capacity of NGNF companies on bank credit	15
2.1 Exposure of SCBs to large borrowers	20
2.2 Profitability of SCBs	20
2.3 Macroeconomic scenario assumptions	21
2.4 Credit risk - shocks and impacts	25
2.5 Credit concentration risk: Group borrowers	26
2.6 Sectoral credit risk : Industry - shocks and impacts	27
2.7 Sectoral credit risk : Infrastructure - shocks and impacts	28
2.8 Sectoral credit risk: select industries	29
2.9 Interest rate risk – bank groups - shocks and impacts	30
2.10 Liquidity risk – shocks and impacts	30
2.11 Liquidity risk – shocks and impacts	31
2.12 Consolidated balance sheet of the NBFC sector: y-o- y growth	34
2.13 Financial performance of the NBFC sector	34
2.14 Connectivity statistics of the banking system	37
2.15 Inter-sector assets and liabilities of different groups	38
2.16 Pattern of insurance companies' exposure to banks	38
2.17 Exposure of SCBs, AMC-MFs and insurance companies to NBFCs	39
2.18 Contagion triggered by net borrower banks	39
2.19 Contagion triggered by net lender banks	39
3.1 Exposure of MFs to corporate bonds	54