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OFF-BALANCE SHEET EXPOSURES
(A Study With Reference to Selected Public Sector Banks in India)

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Abstract
In recent years, heightened competition, emergence of deregulatory forces, new financial market innovations, decreasing margins from traditional financial intermediary functions (i.e., collecting deposits and purchasing funds to be subsequently intermediary into loans and other assets), and rapid growth and diffusion of new technologies induced the Indian banks to move into areas of off-balance sheet (OBS) banking. Consequently there has been a significant shift in the source of income of the Indian commercial banks. The relative share of income from traditional banking activities has decreased and that of non-interest income originating from off-balance sheet activities (OBS) – like loan commitments, future and forward contracts, standby letters of credit, options arrangement, swaps, and loan-sales (securitization) - has increased significantly. It is worth noting here that banks are resorting to off- balance sheet activities not only as a potent source of income but with the purpose of retaining and expanding their customer base and for reducing their on balance sheet risks.

Key Words: Off-Balance Sheet, Public Sector Bank, Risk

Introduction
The term off-balance sheet activity refers to the various fee or commission based activities of commercial banks which do not have any direct reflection on the commercial bank's balance sheet either on the asset or on the liability side. Inter alia, these activities include foreign exchange transactions, guarantees, and endorsements etc., which constitute a supplementary source of income for the commercial banks.

For the commercial banks operating in India, off-balance sheet activities have become important in the reform years because of the following reasons.

1. The deregulation of the banking sector entry and relaxation of branch licensing policy resulted in substantial decline in banking sector (in terms of total assets) compelling the commercial banks to look for some other sources of income.

2. The introduction of asset classification, income recognition and capital adequacy norms made lending a relatively risk-proposition.

Since the advent of banking reforms programme in 1992, Indian commercial banks have undergone huge transformation. One of the most important strategic developments in post reforms years is the decline in traditional banking activities and consequent increase in fee – producing non-traditional activities. In fact, Indian banks have heavily diversified their product lines and earnings by leveraging their OBS activities. Traditionally, the core business of the Indian banks has been deposit taking and lending or the interest payments. But with the financial deregulation during the 1990s, coupled with revolutionary advances in the ICT based technology, the very nature of the activities of Indian banks has changed. Indian banks are now deriving an ever increasing percentage of income from sources other than interests from merchant banking operations such as trading in securities, commission, exchange and brokerage, portfolio management services, underwriting and providing back up liquidity. Thus, banks in India witnessed a significant shift from traditional banking activities to a more universal banking character with financial market activities such as brokerage and portfolio management growing in importance.

Objectives of the Study
This paper evaluates the trend in the off-balance sheet exposures of Public Sector Banks and Private Sector Banks during the study period 1998-99 to 2013-14. Trend analysis is basically an indicator of the quantitative changes in a data series. It shows the direction of operation over a period of time. Besides, it highlights the trend pattern, which helps in knowing the historical development as well as the possibility of future estimation over a time frame.

Table- 1, Contingent Liability to Total Liabilities Ratio of Public Sector Banks

Year	SBI	PNB	BOB	BOI	CAN	UBI	VIJ	BOM	DENA	P&S
98-99	29.85	18.25	25.30	40.28	30.80	4.50	16.09	35.36	16.85	12.40
99-00	31.50	17.67	22.70	46.65	41.24	3.47	15.98	38.29	17.72	12.62
00-01	26.51	28.67	31.14	69.75	52.98	3.56	16.44	38.68	27.54	12.71
01-02	29.35	31.39	21.03	73.03	49.89	2.52	15.49	33.23	11.99	17.21
02-03	28.23	27.34	31.96	68.09	62.37	4.83	26.61	28.00	15.63	17.32
03-04	27.44	31.50	35.62	77.45	52.68	7.07	28.57	24.82	26.35	12.22
04-05	34.66	34.06	38.78	83.99	52.23	8.08	33.47	25.27	26.58	13.13
05-06	46.34	36.51	34.57	73.76	41.33	8.33	28.80	22.43	26.90	15.18
06-07	93.01	41.10	42.88	63.39	37.12	12.37	21.36	32.43	43.55	9.50
07-08	112.37	48.71	45.86	83.59	60.86	10.28	22.47	11.35	38.10	12.00
08-09	75.04	41.98	32.38	54.22	69.11	8.52	19.06	25.86	23.74	12.59
09-10	52.06	30.95	31.56	49.13	46.97	12.74	15.33	24.80	22.88	10.25
10-11	59.69	33.55	35.48	46.57	38.59	9.06	17.06	18.84	20.94	12.02
11-12	62.34	45.40	34.09	49.70	50.80	11.76	16.39	21.35	45.79	14.44
12-13	59.00	45.00	37.00	49.00	61.00	45.00	14.00	21.00	46.00	10.00
13-14	154.00	39.00	45.00	44.00	45.00	8.00	10.00	18.00	45.00	11.00
Mean	57.59	34.44	34.08	60.79	4.56	10.01	19.82	26.23	28.47	12.79
Rank	2	3	3	1		8	7	5	4	6

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India

Table 1 exhibits contingent liability to total liability ratio of selected Public Sector Banks during the study period 1998-99 to 2013-14. In State Bank India, 154.00 percent was the highest percentage recorded in 2013-14 and 26.51 percent was the lowest percentage recorded in 2000-2001. In Punjab National Bank, 48.71 percent was the highest percentage recorded in 2007-2008 and recorded a low of 17.67 percent in 1999-2000. In Bank of Baroda, 45.86 percent was the highest percentage recorded in 2007-2008 and recorded a low of 21.03 percent in 2001-2002. In Bank of India, 83.99 percent was the highest percentage recorded in 2004-2005 and recorded a low of 40.28 percent in 1998-1999. In Canara Bank, 69.11 percent was the highest percentage recorded in 2008-2009 and recorded a low of 30.80 percent in 1998-99. In United Bank of India, 12.74 percent was the highest percentage recorded in 2009-2010 and recorded a low of 2.52 percent in 2001-2002. In Vijaya Bank, 33.47 percent was the highest percentage recorded in 2004-2005 and recorded a low of 14.00 percent in 2012-13. In Bank of Maharashtra, 38.68 percent was the highest percentage recorded in 2000-2001 and recorded a low of 11.35 percent in 2007-2008. In Dena, 45.79 percent was the highest percentage recorded in 2011-2012 and recorded a low of 11.99 percent in 2001-2002. In Punjab and Sindh Bank, 17.32 percent was the highest percentage recorded in 2002-2003 and recorded a low of 9.5 percent in 2006-2007.

Conclusion

Liberalization and financial sector reforms in 1991 brought major transformation in Banking Sector. Increased competition, deregulation in interest rate, technological innovation, new financial market innovation and new product innovation induced Commercial Banks to move into new areas of Banking. From the analysis it is clear Modern Banking activities are widely deviating from the traditional activities; Off-balance sheet (OBS) exposures are widely used today.

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