Assessing The Implementation Of Basel Iii Framework In Rural Banking Sector - A Study On The Preparedness Of Andhra Pradesh Grameena Vikas Bank (APGVB), India For Its Compliance

V. Krishna Mohan[1*], N. Madhu[2]

[1*]Professor, Department of Commerce and Management, Andhra University, Visakhapatnam, Andhra Pradesh, India, Email: vkmohan1958@gmail.com
[2]Research Scholar, Department of Commerce and Management, Andhra University, Visakhapatnam, Andhra Pradesh, India, Email: mdh.nadiminti@gmail.com

***Corresponding Author:** V. Krishna Mohan

*Professor, Department of Commerce and Management, Andhra University, Visakhapatnam, Andhra Pradesh, India, Email: vkmohan1958@gmail.com

Abstract
Basel III aims to improve the stability and resilience of global banks. Its implementation has been ongoing since 2013, and this study aims to assess its progress and effectiveness and implementation of BASEL III Norms in India in general and Rural Banking Sector in particular. This assessment will be based on a review of the literature surrounding the Basel III framework and its implementation. The review will cover the various components of the framework, such as capital adequacy, market risk, operational risk and liquidity requirements, and the various challenges faced by regulators and financial institutions, especially Rural Banks in implementing these requirements. Additionally, this study will also analyze the impact of the Basel III framework on the banking industry and the broader economy. This analysis will consider both the intended and unintended consequences of the framework, including its effects on financial stability, credit availability, and economic growth.

Keywords: BASEL III, BASEL Accords, BASEL implementation in India, Regional Rural Banks, Rural Banking Sector, Financial Evaluation of Rural Banks

INTRODUCTION

After the 2008 global financial crisis, the Basel Committee on Banking Supervision developed BASEL III, a collection of international banking regulations with the goal of enhancing the banking system's resilience. This is achieved through the improvement of risk management, promotion of transparency and disclosure, and the increase in both the quality and quantity of capital. Enhancing the quality and quantity of capital held by banks is a crucial objective of BASEL III. This is achieved by introducing stricter requirements of capital, including a new minimum common equity Tier 1 (CET1) capital ratio, which requires banks to hold more high-quality capital to absorb losses. In addition to the new capital requirements, BASEL III also includes measures to improve liquidity management in banks. Banks are required to hold a minimum amount of liquid assets that can be easily converted into cash in times of stress. This helps to ensure that banks have sufficient liquidity to meet their obligations, even in times of financial turmoil. Another key aspect of BASEL III is its focus on risk management. Banks are required to have more robust risk management practices, including the ability to identify and manage risks effectively. The regulations also require banks to conduct stress tests to assess their resilience to adverse economic conditions. The importance of BASEL III lies in its ability to promote greater financial stability and reduce the likelihood of bank failures and systemic risks. By introducing stricter capital and liquidity requirements, enhancing risk management practices, and promoting transparency and

disclosure, BASEL III aims to create a more resilient banking system that can withstand adverse economic conditions.

The acceptance of BASEL III has been mixed among stakeholders in the banking industry. While some have welcomed the new regulations as a necessary step towards improving the stability of the banking system, others have expressed concerns about the potential impact on profitability and competitiveness. Regulators and policymakers have generally been supportive of BASEL III, viewing it as an important tool for reducing the risk of financial crises and promoting greater financial stability. They have argued that the new regulations will help to strengthen the resilience of banks and reduce the likelihood of bank failures, which can have far-reaching consequences for the broader economy.

Banks, on the other hand, have been more cautious in their acceptance of BASEL III. Some have expressed concerns about the potential impact on profitability and competitiveness, particularly for smaller banks. The new capital and liquidity requirements may require banks to hold more capital and liquid assets, which can be costly and reduce profitability. In addition, the stricter risk management requirements may require banks to invest in new systems and processes, which can also be expensive. the acceptance of BASEL III has been mixed, with regulators and policymakers generally supportive, while banks have expressed concerns about the impact on profitability and competitiveness. However, the ultimate success of the new regulations will depend on their effectiveness in promoting greater financial stability and reducing the risk of bank failures. Investors and customers have generally welcomed the new regulations, viewing them as a positive step towards improving the steadiness of the banking system. By enhancing the resilience of banks and reducing the risk of financial crises, the regulations can help to protect the interests of investors and customers, who can suffer significant losses in the occurrence of a bank failure.

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1.1 Implementation of BASEL Accords at Global Level:

The implementation of Basel III has been a gradual process that began in 2010 and is ongoing. Different countries and regions have implemented Basel III at different paces and with varying degrees of stringency. Here is Global Basel III implementation overview:

a) **Europe:** The European Union (EU) has been one of the most proactive regions in implementing Basel III. The European Banking Authority (EBA) has been responsible for ensuring that the EU's banking sector is compliant with Basel III regulations. The EU has gone beyond Basel III requirements in some areas, such as imposing stricter liquidity requirements on banks.
b) **United States:** The United States has implemented Basel III through its own regulatory agencies, such as the Federal Reserve, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The US has adopted some of the Basel III rules but has also made some modifications to tailor them to the US banking system.
c) **Asia:** Asia has been slower to implement Basel III than Europe and the US, but many countries in the region have started to adopt Basel III rules. China, for example, has introduced new capital and liquidity rules in line with Basel III, while India has announced plans to implement Basel III gradually.

The implementation of Basel III has been a complex and ongoing process. Although the regulations aim to increase the resilience of the banking industry, there are concerns that they may result in higher costs for banks and hinder their ability to lend. Nevertheless, Basel III remains an important framework for ensuring the stability of the global financial system.

1.2 Implementation of BASEL III Accords in India:

In India, the RBI has been implementing the Basel III framework gradually since April 2013, and the implementation process has been completed by March 2020. The execution of Basel III in India is aimed at improving the resilience of the banking system and making it more transparent, efficient and robust. The key components of Basel III framework that have been implemented in India are as follows:

i. **Minimum Capital Requirements:** Banks are required to maintain a minimum capital ratio of 11.5%, of which at least 7.375% should be Tier 1 capital.
ii. **Capital Conservation Buffer:** Banks are required to maintain a capital conservation buffer of 2.5% in addition to the minimum capital ratio. The buffer can be used by banks during times of stress to absorb losses.
iii. **Liquidity Coverage Ratio:** Banks are required to maintain a minimum liquidity coverage ratio of 100% to ensure that they have sufficient liquid assets to meet their short-term obligations.
iv. **Net Stable Funding Ratio:** Banks are required to maintain a minimum net stable funding ratio of 100% to ensure that they have sufficient stable funding to support their long-term activities.
v. **Leverage Ratio:** Banks are required to maintain a minimum leverage ratio of 4.5% to limit their exposure to off-balance sheet risks.
vi. **Risk-Based Supervision:** Banks are required to adopt a risk-based supervision approach to ensure that their risk management practices are in line with the Basel III framework.

The implementation of Basel III in India has helped to strengthen the Indian banking system and improve the overall financial stability of the country.

1.3 Acceptance of BASEL III reforms in Indian Banking Sector:

The implementation of BASEL III norms has had a significant impact on the Indian banking industry. The new capital requirements under BASEL III have increased significantly, which has put pressure on Indian banks to raise additional capital to comply with the norms. This has led to banks increasing their focus on capital raising activities such as issuing equity or bonds, which can be a costly and time-consuming process. BASEL III norms require banks to adopt more robust risk management frameworks, including better risk measurement and monitoring. Indian banks have had to invest in technology and systems to enhance their risk management capabilities and comply with the norms. Improved asset quality: BASEL III requires banks to maintain higher levels of capital against their risk-weighted assets, which has incentivized banks to reduce their exposure to risky assets and improve their asset quality. This has resulted in a decline in non-performing assets (NPAs) and improved loan quality in the Indian banking industry, Compliance with BASEL III norms require significant investment in technology and systems, which has increased the compliance costs for Indian banks. This has put pressure on profitability, particularly for smaller banks, which have limited resources to invest in compliance and the increased capital requirements under BASEL III have reduced the lending capacity of Indian banks, particularly for smaller banks. This has resulted in a decline in credit growth, which has impacted economic growth in the country.

The acceptance of Basel III reforms in the Indian banking sector is a significant step towards making the banking system more resilient and transparent. The Basel III framework aims to strengthen the capital adequacy, liquidity, and risk management of banks. It also promotes the adoption of a risk-based supervision approach by the regulators. The Indian banking sector has faced various challenges, including high levels of non-performing assets (NPAs) and liquidity issues. The Basel III framework has helped to address these challenges by improving the quality and quantity of capital held by banks, enhancing the resilience of the banking system, and strengthening the liquidity risk management of banks.

By accepting the Basel III reforms, the Indian banking sector has aligned itself with global

standards, as this framework is widely accepted by major economies around the world. This acceptance has had a positive impact on the credibility of the Indian banking system in the global financial market. The implementation of the Basel III reforms has also been a positive development for the banking sector, as it has improved its overall health and ability to withstand shocks and crises.

1.4 Rural Banking Sector of India:

Rural banking is "the process of conducting bank transactions in a country where bank branches are too far away to be used. Rural banks are very popular in very small towns with farmers living far away from densely populated areas and are unable to visit these areas whenever they need to use banking services. Typically, a bank representative would travel to these remote regions and propose to conduct an official transaction.

The rural bank serves as an investment option that exclusively caters to the distinct financial requirements of agricultural workers and farmers in the Indian subcontinent. From a societal perspective, a community bank integrates itself into the daily affairs of its patrons and establishes itself as an ally in their prosperity and adversity. "Financial Inclusion" and "Rural Banking" are terms that are frequently used interchangeably to denote the availability of financial services to the unbanked populace through large, non-banking institutions in India.

Access to a robust financial system is a prerequisite for achieving inclusive and sustainable economic growth. It entails providing equitable opportunities that enable economically and socially marginalized individuals to effectively participate in the economy, stimulate growth, and safeguard themselves against economic risks. Amartya Sen argued that poverty is not just a lack of income but encompasses a dearth of various skills, including security and the ability to engage in economic and political programs. Consequently, there is a persistent need for policy support to utilize financial resources effectively to uplift resource-poor economies in developing countries. The rural banking industry in India has undergone significant transformations since its inception. The sector has witnessed numerous policy changes and initiatives over the years to promote financial inclusion and foster rural economic development.

The formation of Regional Rural Banks (RRBs) in 1975 was a crucial milestone in the evolution of the rural banking sector in India. These banks were created to provide banking facilities to the rural population, especially the marginalized sections of society. RRBs were set up with the objective of bridging the gap between the formal banking sector and the rural population.

The next major development in the sector was the introduction of the Lead Bank Scheme in 1969, which aimed to provide banking facilities to all the villages in the country. Under this scheme, one bank was designated as the lead bank for a district and was responsible for providing banking facilities to all the villages in the district. In 1980, the government nationalized six more banks, bringing the total number of nationalized banks to 20. This move led to the expansion of banking services in rural areas, as the nationalized banks were mandated to open branches in rural areas.

Over the years, the government has introduced numerous initiatives aimed at encouraging financial inclusion in rural regions. Some of these initiatives include the Pradhan Mantri Jan Dhan Yojana (PMJDY), which was launched in 2014 to provide access to financial services to the unbanked population in the country. As of 2021, over 43 crore accounts have been opened under the PMJDY. Today, the rural banking sector in India is characterized by a mix of banks, including RRBs, co-operative banks, and nationalized banks. While there have been challenges in the sector, such as high levels of non-performing assets (NPAs), the sector has made substantial progress in promoting financial inclusion and supporting the development of the rural economy.

1.5 RBI Key Policies towards to Rural Banking Sector:

The RBI has been playing a crucial role in the development of the rural banking sector in India. Here are some of the key policies and initiatives taken by the RBI towards rural banking in India:

a) **Priority sector lending**: The RBI has mandated that a certain percentage of the total lending by banks should go towards priority sectors, including agriculture, small and marginal farmers, and micro, small and medium enterprises (MSMEs) in rural areas. This has helped to ensure that credit is available to the rural population at affordable rates.
b) **Financial inclusion:** The RBI has taken several measures to promote financial inclusion in rural areas. This includes the introduction of the Business Correspondent (BC) model, which allows banks to use intermediaries to provide banking services in remote areas. The RBI has also launched the Financial Inclusion and Development Department (FIDD) to oversee and promote financial inclusion initiatives.
c) **Regional Rural Banks (RRBs):** The RBI has been helpful in the establishment and development of RRBs in India. The RBI provides regulatory guidance to RRBs and has also provided financial support to strengthen their capital base.
d) **Technology adoption:** The RBI has been encouraging banks to adopt technology to improve access to banking services in rural areas. This includes the use of mobile banking and digital payments, which have helped to increase financial inclusion in remote areas.
e) **Prudential norms:** The RBI has also put in place prudential norms for rural banks, which are aimed at maintaining financial stability and promoting sound banking practices. This includes guidelines on asset classification, provisioning, and capital adequacy.

RBI has been proactive in promoting the development of the rural banking sector in India, with a focus on financial inclusion and the growth of the rural economy.

1.6 RBI Initiatives in implementing BASEL III Norms in India:

The Reserve Bank of India (RBI) has been actively implementing the BASEL norms in India. The Basel norms are a set of guidelines that are designed to ensure the stability of the banking system by promoting sound banking practices and risk management. Here are some of the key initiatives taken by the RBI towards implementing the BASEL norms in India:

a) **Basel III norms:** The RBI has implemented the Basel III norms in India, which aim to improve the quality and quantity of capital held by banks, enhance the risk coverage of the capital framework, and introduce new liquidity standards. The Basel III norms were phased in over a period of time, with full implementation completed in March 2019.
b) **Capital adequacy norms:** The RBI has put in place capital adequacy norms for banks in India, which require banks to maintain a minimum level of capital to absorb losses. The norms are based on the Basel framework and are designed to ensure that banks have sufficient capital to cover their risk exposures.
c) **Supervisory framework:** The RBI has also put in place a supervisory framework for banks in India, which is based on the Basel framework. The framework includes guidelines on risk-based supervision, on-site inspections, off-site surveillance, and enforcement actions.
d) **Risk management guidelines:** The RBI has issued guidelines on risk management for banks in India, which are based on the Basel framework. The guidelines cover areas such as operational risk, credit risk, market risk, and liquidity risk.
e) **Stress testing:** The RBI has been conducting stress tests on banks in India to assess their resilience to adverse situations. The stress tests are based on the Basel framework and are aimed at identifying potential vulnerabilities in the banking system.

1.7 Impediments in Implementation of BASEL III Norms by Indian Banks:

The Basel III norms are focus on improving risk management and ensuring that banks

maintain adequate capital buffers to withstand economic shocks. However, the implementation of these norms has not been without challenges for the Indian banking sector. Some of the problems faced by the Indian banking sector in implementing Basel III norms include:

a. **Capital Adequacy:** Basel III norms require banks to maintain higher levels of capital adequacy than previous versions of the Basel Accords. However, many Indian banks struggle to meet these requirements due to non-performing assets (NPAs) and other issues. This can lead to a shortage of funds and a potential risk to the stability of the banking system.
b. **Liquidity Risk Management:** Basel III norms require banks to have robust liquidity risk management processes to ensure that they can meet their obligations during a crisis. However, many Indian banks have struggled to implement these processes effectively, which can lead to a shortage of liquidity and a potential risk to the stability of the banking system.
c. **Operational Risk Management:** Basel III norms require banks to have strong operational risk management processes to mitigate the risk of fraud, errors, and other issues. However, some Indian banks have struggled to implement these processes effectively, which can lead to an increased risk of operational failures and a potential risk to the stability of the banking system.
d. **Data Management:** Basel III norms require banks to have robust data management processes to ensure that they have accurate and timely data to make informed decisions. However, many Indian banks have struggled to implement these processes effectively, which can lead to a lack of transparency and a potential risk to the stability of the banking system.

1.8 BASEL III Norms for RRB's:

Guidelines for implementing Basel III standards for Regional Rural Banks (RRBs) in India have been issued by the RBI. The guidelines aim to ensure that RRBs maintain adequate capital buffers to withstand economic shocks and improve the resilience of the banking system. Some of the key Basel III norms for RRBs in India are:

1. **Capital Adequacy Ratio (CAR):** RRBs are required to maintain a minimum CAR of 11.5%, with a minimum Tier 1 CAR of 9%. The capital requirements for RRBs are based on their risk-weighted assets.
2. **Common Equity Tier 1 (CET1) Capital:** RRBs are required to maintain a minimum CET1 capital ratio of 6.5%. CET1 capital includes equity and other instruments that can absorb losses without triggering the winding-up of the bank.
3. **Capital Conservation Buffer:** RRBs are required to maintain a capital conservation buffer of 2.5% on top of the minimum capital requirements. The buffer is intended to ensure that banks maintain sufficient capital to absorb losses during a crisis.
4. **Leverage Ratio:** RRBs are required to maintain a leverage ratio of 4.5%. The leverage ratio is a measure of a bank's capital against its total exposure to risk.
5. **Liquidity Coverage Ratio (LCR):** RRBs are required to maintain an LCR of 100%. The LCR is a measure of a bank's ability to meet its short-term obligations during a liquidity stress event.
6. **Net Stable Funding Ratio (NSFR):** RRBs are required to maintain an NSFR of 100%. The NSFR is a measure of a bank's ability to maintain stable funding sources to support its activities over the long term.

1.9 BASEL III Norms Disclosures list:

The following is a list of disclosures that banks must make under Basel III:

1 **Capital Adequacy Disclosures:** Banks must disclose their capital position, including the amount and composition of capital, risk-weighted assets, and capital adequacy ratios.

2 **Liquidity Risk Disclosures:** Banks must disclose information about their liquidity position, including the maturity profile of assets and liabilities, sources of funding, and liquidity risk management practices.

3 **Credit Risk Disclosures:** Banks must disclose information about their credit risk exposure, including the types of credit risk, the nature of credit risk management

practices, and the amount of credit risk exposure.

4. **Market Risk Disclosures:** Banks must disclose information about their market risk exposure, including the types of market risk, the nature of market risk management practices, and the amount of market risk exposure.
5. **Operational Risk Disclosures:** Banks must disclose information about their operational risk exposure, including the types of operational risk, the nature of operational risk management practices, and the amount of operational risk exposure.
6. **Leverage Ratio Disclosures:** Banks must disclose their leverage ratio, which is a measure of a bank's total exposure relative to its capital.
7. **Counterparty Credit Risk Disclosures:** Banks must disclose information about their exposure to counterparty credit risk, including the types of counterparty credit risk, the nature of counterparty credit risk management practices, and the amount of counterparty credit risk exposure.
8. **Systemic Risk Disclosures:** Banks must disclose information about their contribution to systemic risk, including the types of activities that could contribute to systemic risk and the measures taken to mitigate those risks.

These disclosures help regulators and the public better understand the risks faced by banks and the measures taken to manage those risks.

Disclosures Templates List (Excluding LABs and RRBs):

DF-1 Scope of Application and Capital Adequacy
DF-2 Capital Adequacy
DF-3 Credit Risk: General Disclosures for All Banks
DF-4 Credit Risk: Disclosures for Portfolios subject to the Standardised Approach
DF-5 Credit Risk Mitigation: Disclosures for Standardised Approach
DF-6 Securitisation: Disclosure for Standardised Approach
DF-7 Market Risk in Trading Book
DF-8 Operational Risk
DF-9 Interest Rate Risk in the Banking Book (IRRBB)
DF-10 General Disclosure for Exposures Related to Counterparty Credit Risk
DF-11 Composition of Capital
DF-12 Composition of Capital- Reconciliation Requirements
DF-13 Main Features of Regulatory Capital Instruments
DF-14 Full Terms and Conditions of Regulatory Capital Instruments
DF-15 Disclosure Requirements for Remuneration
DF-16 Equities – Disclosure for Banking Book Positions
DF-17 Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure
Measure
DF-18 Leverage Ratio Common Disclosure Template

1.10 Excluded areas for RRB's from BASEL III Norms:

RRBs (Regional Rural Banks) in India are excluded from some of the Basel III norms, specifically the capital adequacy norms.

Under Basel III, banks are required to maintain a minimum Tier 1 capital adequacy ratio (CAR) of 7% and a minimum Total CAR of 10.5%. However, RRBs are excluded from these norms and instead are required to maintain a minimum CRAR (Capital to Risk-weighted Assets Ratio) of 9%, which is lower than the minimum Tier 1 and Total CAR required for other banks. Additionally, RRBs are also exempted from the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) requirements, which are designed to ensure that banks maintain sufficient liquidity to meet their short-term and long-term funding needs.

The rationale for these exemptions is that RRBs are typically smaller and operate in rural areas with different banking needs and challenges than larger banks. These exemptions allow RRBs to focus on expanding their reach and serving their customers rather than complying with stringent capital and liquidity requirements.

1.11 Andhra Pradesh Grameena Vikas Bank (APGVB) – An Overview:

APGVB, or Andhra Pradesh Grameena Vikas Bank, is a regional rural bank in India that was established on 31st March 2006. It is sponsored by State Bank of India (SBI), and Andhra Pradesh State Government and operates in the state of Andhra Pradesh. APGVB primarily provides banking services to rural and semi-urban areas, including small and marginal farmers, artisans, and entrepreneurs. The bank aims to promote financial inclusion by providing accessible and affordable banking services to underserved populations. APGVB offers a range of banking products and services, including savings accounts, current accounts, fixed deposits, loans, and credit facilities. The bank has a wide network of branches and ATMs, and it also provides mobile banking and internet banking services to its customers.

APGVB has a strong focus on agriculture and rural development, and it offers specialized products and services to support the agricultural sector. The bank also participates in various government-sponsored schemes and initiatives to promote rural development and financial inclusion. APGVB is committed to providing banking services to underserved populations and promoting financial inclusion in rural and semi-urban areas of Andhra Pradesh. The bank has a strong focus on agriculture and rural development and aims to support the growth and development of these sectors through its specialized products and services.

1.12 Implementation of BASEL III Norms by APGVB:

APGVB has implemented Basel III norms in several ways, including:

1. **Capital Adequacy Ratio (CAR):** APGVB has increased its capital base to maintain a minimum Tier-I capital adequacy ratio of 9%, as prescribed by the RBI. This is in line with the Basel III norms, which require banks to maintain a minimum CAR of 9%.
2. **Liquidity Risk Management:** APGVB has established a liquidity risk management framework to ensure that it has adequate liquidity to meet its obligations. This includes maintaining a sufficient level of high-quality liquid assets (HQLA) and monitoring its liquidity position regularly.
3. **Risk-Based Supervision:** APGVB has adopted a risk-based supervision approach to identify and manage risks. This involves assessing the bank's risk profile and implementing risk management practices to mitigate those risks.
4. **Asset Quality:** APGVB has implemented measures to improve asset quality, including conducting regular asset quality reviews and taking timely action to address any weaknesses or potential issues.
5. **Disclosure and Reporting:** APGVB has established a comprehensive disclosure and reporting framework to provide transparency and improve the bank's risk management practices. This includes regular reporting of capital adequacy ratios, liquidity ratios, and other key performance indicators.

Table-1: Break of Capital Funds (₹ Cr.)

Particulars	**2019-20**	**2020-21**	**2021-22**
Common Equity Tier 1 Capital (CET 1) / Paid up share capital and Reserves (- Net of Deductions)	2983.03	3986.35	4781.82
Additional Tier 1 capital /Other Tier 1 Capital	-	-	-
Tier-I Capital	2983.03	3986.35	4781.82
Tier-II Capital	75.64	76.03	155.35
Total (Tier I + Tier II)	3058.67	4062.38	4937.17
Total Risk Weighted Assets (RWAs)	3,134.31	4,138.41	5,092.52
Tier I Ratio (Tier I capital as a % of RWAs)	15.75	18.91	22.72
Tier II Ratio (Tier II capital as a % of RWAs)	0.40	0.36	0.74
Capital Risk Weighted Assets Ratio (CRAR) (Total Capital as a % of RWAs)	16.15	19.27	23.46
Leverage Ratio	-	-	-

Percentage of the Shareholding of			
a) Government of India	50.00	50.00	50.00
b) State Government	15.00	15.00	15.00
c) Sponsor Bank	35.00	35.00	35.00
Amount of Paid-up equity capital raised during the year	Nil	Nil	Nil
Amount of Tier 2 capital raised during the year.	Nil	Nil	Nil

Table-2: Capital Requirement for Credit Risk (₹ Cr.)

	2019-20	**2021-21**	**2021-22**
Portfolios subject to standardised approach	3134.31	4138.41	5092.52
Securitisation exposures	-	-	-
Total	3134.31	4138.41	5092.52

Table-3: Capital Requirement for Market Risk (₹ Cr.)

	2019-20	**2021-21**	**2021-22**
Interest rate risk	39.52	151.75	176.32
Foreign exchange risk (including gold)	-	-	-
Equity risk	9.40	9.40	9.40
Total	48.92	161.15	185.72

Table-.5: Total Gross Credit Risk Exposure by Facility (₹ Cr.)

Facility Type	**2019-20**	**2020-21**	**2021-22**
Fund Based	18,902.77	20,925.97	20,866.50
Non-Fund Based	39.52	151.75	176.32
Total	18,942.29	21,077.72	21,042.82

Table-6: Total Gross Credit Risk Exposure by Industry (₹ Cr.)

Priority Sector	**2019-20**	**2020-21**	**2021-22**
Agriculture	13154.8	15390.3	16308.3
Industries	2263.34	1306.93	1385.62
Services	71.59	271.62	315.07
Personal Loans	1886.77	2044.68	2152.05
Non-Priority Sector	-	-	-
Agriculture	-	-	-
Industries	-	-	3657.35
Services	-	-	75.49
Personal Loans	1946.43	3146.71	68.15

Table-7: Asset Quality (₹ Cr.)

Classification of Assets	**2019-20**	**2020-21**	**2021-22**
Gross Advances			
Standard Assets	19124.46	21924.69	23546.04
Sub Standard Assets	81.38	122.71	233.03
Bad & Doubtful Assets	117.1	112.82	18.18
Loss	0.00	0.00	0.00
Total	19322.94	22160.22	23961.99
Net Advances			
Standard Assets	19064.87	21864.66	23546.04
Sub Standard Assets	0.00	0.00	0.00
Bad & Doubtful Assets	0.00	0.00	0.00
Total	19064.87	21864.66	23546.04
Provision on Sub-Standard and Doubtful Assets etc.	198.49	235.51	415.94

Movement of Gross NPA			
Particulars	**2019-20**	**2020-21**	**2021-22**
Opening Balance	189.1	198.49	235.53
Additions During the Period	426.9	767.78	233.01
Less Reduction during the Period	417.5	730.74	214.97
Closing Balance	198.50	235.53	415.95
Movement of Net NPA			
Particulars	**2019-20**	**2020-21**	**2021-22**
Opening Balance	55.62	0	0
Additions During the Period	131.36	105.45	428.60
Less Reduction during the Period	186.98	105.45	428.60
Closing Balance	0.00	0.00	0.00
Gross NPA	**189.10**	**198.49**	**235.53**
Net NPA	**0.00**	**0.00**	**0.00**
Provisions to Gross NPA	**0.00**	**0.00**	**0.00**
% Gross NPA	**1.03**	**1.06**	**1.74**
% Net NPA	**0.00**	**0.00**	**0.00**

Table-8: Investments Risk

Particulars	**2019-20**	**2020-21**	**2021-22**
Investments in India			
Government Securities	3753.85	5944.75	6617.58
Shares	-	-	0.24
Bonds/Debentures	-	-	-
Joint Ventures/Subsidiaries	-	-	-
Equity shares of NPCI (Long term)	0.24	0.24	-
Others (Mutual Funds)	84.75	121.69	165.98
Total	3838.85	6066.69	6783.82
Investments outside India	Nil		

Table-9: Concentration of NPA

Particulars	**2019-20**	**2020-21**	**2021-22**
Total Exposure to top four NPA accounts	1.12	1.07	4.25
% Of exposures to the top twenty largest NPA exposure to Gross NPAs	0.56	1.07	1.02

APGVB has taken steps to comply with the Basel III norms and improve its risk management practices. By doing so, APGVB aims to enhance its resilience and maintain its financial stability while continuing to provide banking services to rural and semi-urban areas.

DISCUSSIONS

The Basel III norms implementation in the rural banking sector has been a topic of discussion among experts and stakeholders. While Basel III was primarily designed for larger banks, its implementation in regional rural banks (RRBs) and other small financial institutions has posed some challenges. One of the primary challenges is the availability of adequate capital. Rural banks typically have a smaller capital base, making it difficult to meet the increased capital requirements under Basel III. This has led to concerns that rural banks may have to reduce their lending to comply with the norms, which could have a negative impact on the rural economy. Another challenge is the need for greater liquidity management. Basel III requires banks to maintain higher levels of liquid assets, which can be a challenge for rural banks with limited access to funding sources. Rural banks may need to develop new strategies to improve their liquidity positions and manage risks effectively. Furthermore, rural banks may face challenges in implementing advanced risk management techniques such as stress testing, which is a key requirement under Basel III.

Rural banks may have to invest in technology and infrastructure to meet these requirements, which can be a significant expense for small institutions.

Despite these challenges, implementing Basel III norms in rural banking can have several benefits. For example, it can help improve the financial stability of rural banks and enhance their ability to manage risks effectively. It can also help promote greater transparency and accountability in the sector, which can improve investor confidence and attract more funding. To overcome the challenges and implement Basel III effectively, rural banks may need to work closely with regulators and other stakeholders. They may need to invest in training and capacity building to improve their risk management practices and develop new strategies to improve their capital and liquidity positions. Overall, the successful implementation of Basel III norms in rural banking can help promote financial inclusion and sustainable economic development in rural areas.

CONCLUSION

The of Basel III norms implementation in the Indian rural banking sector has been a challenging but necessary step towards improving the financial stability and sustainability of rural banks. While rural banks may face challenges in meeting the increased capital and liquidity requirements under Basel III, the benefits of implementing these norms are significant. By implementing Basel III norms, the rural banking sector can enhance transparency and accountability, which, in turn, has the potential to boost investor confidence and attract more funding. It can also help rural banks improve their risk management practices, which is essential for maintaining financial stability and sustainability. Additionally, the implementation of Basel III can help promote financial inclusion in rural areas by improving access to credit and other financial services. To successfully implement Basel III norms in the Indian rural banking sector, rural banks may need to work closely with regulators and other stakeholders. They may need to invest in training and capacity building to improve their risk management practices and develop new strategies to improve their capital and liquidity positions. With effective collaboration and planning, the Basel III norms in the Indian rural banking sector can help promote sustainable economic development and financial inclusion in rural areas.

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