IV OPERATIONS AND PERFORMANCE OF COMMERCIAL BANKS

During 2018-19, the asset quality of scheduled commercial banks turned around after a gap of seven years. With a concomitant reduction in provisioning requirements, the banking sector returned to profitability in the first half of 2019-20, while recapitalisation helped public sector banks in shoring up their capital ratios. The Insolvency and Bankruptcy Code gained traction, enhancing resolutions. Furthermore, credit growth revival that began in 2017-18 maintained momentum into 2018-19, led by private sector banks. Notwithstanding these gains, credit growth has turned anaemic in 2019-20 while the overhang of NPAs remains high; further improvements in banking sector hinge around a reversal in macroeconomic conditions.

1. Introduction

IV.1 The year 2018-19 marked a turnaround taking shape in the financial performance of India's commercial banking sector. After seven years of deterioration, the overhang of stressed assets declined, and fresh slippages were arrested. With the concomitant reduction in provisioning requirements, bottom lines improved modestly after prolonged stress and the banking sector returned to profitability after a gap of two years in the first half of 2019-20. Meanwhile, recapitalisation of public sector banks (PSBs) strengthened their capital base and the Insolvency and Bankruptcy Code (IBC) began to gain traction in enhancing resolutions.

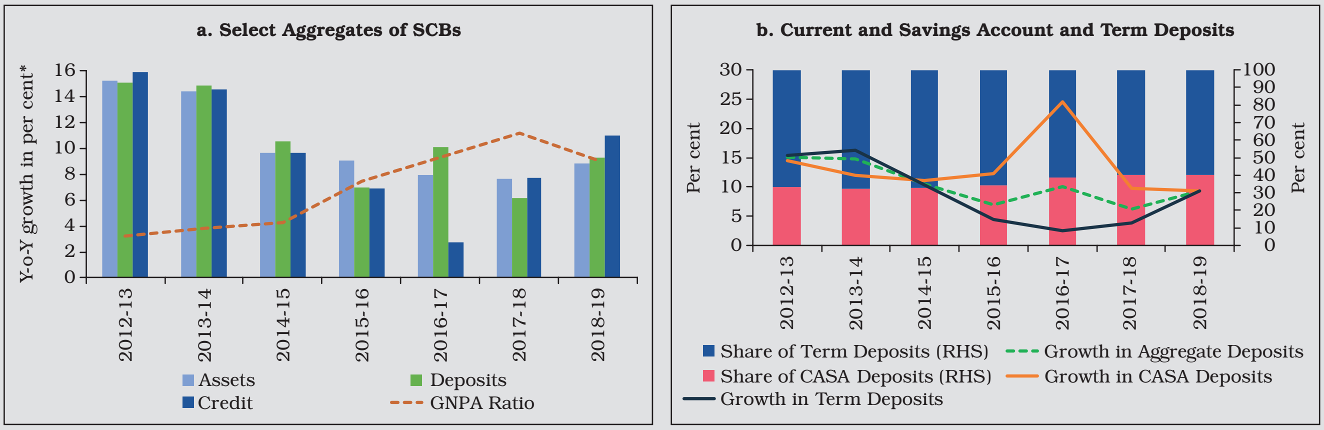
IV.2 Against this backdrop, this chapter analyses the audited balance sheets of the Indian banking sector during 2018-19 and 2019-20 so far, backed by information received through off-site supervisory returns in Section 2. On this basis, an evaluation of the financial performance of 94 SCBs and their soundness is presented in Sections 3 and 4. Sections 5 to 11 address specific themes that assumed importance during the period under review such as the sectoral deployment of credit, capital market interface, ownership patterns, foreign banks in India and overseas operations of Indian banks, payment system developments, consumer protection and financial inclusion. Developments related to regional rural banks (RRBs), local area banks (LABs), small finance banks (SFBs) and payments banks (PBs) are also analysed in Sections 12 to 15. Section 16 concludes the chapter by bringing together the major issues that emerge from the analysis.

2. Balance Sheet Analysis

IV.3 In 2018-19, the consolidated balance sheet of SCBs expanded at an accelerated pace for the first time since 2010-11, buoyed by a pick-up in deposits on the liabilities side and loans and advances on the assets side (Chart IV.1a and b).

IV.4 Although private sector banks (PVBs) account for less than a third of assets of SCBs, they led the expansion in the consolidated balance sheet of SCBs, offsetting the deceleration posted by PSBs (Table IV.1). Furthermore, despite the overall improvement in banking performance continuing during the first half of 2019-20, a slowing down of bank credit growth has emerged as an area of concern.

Chart IV.1: Balance Sheet of SCBs



*: Except GNPA ratio which is in per cent.
Source: Annual accounts of banks and off-site returns (Global operations), RBI

Table IV.1: Consolidated Balance Sheet of Scheduled Commercial Banks

(At end-March)

(Amount in ₹crore)

Item	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks#		All SCBs	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
1. Capital	33,154	51,060	11,592	21,344	67,883	77,809	3,498	4,213	1,16,127	1,54,427
2. Reserves and Surplus	5,55,840	5,46,066	4,31,966	5,27,665	88,305	96,979	3,659	5,821	10,79,770	11,76,531
3. Deposits	82,62,322	84,86,215	30,13,688	37,70,013	4,94,901	5,81,857	23,094	49,178	1,17,94,005	1,28,87,262
3.1 Demand Deposits	5,43,630	5,52,461	4,37,408	5,17,356	1,43,538	1,71,907	966	1,955	11,25,543	12,43,679
3.2 Savings Bank Deposits	26,56,496	27,99,445	8,73,671	10,45,648	57,297	59,459	4,283	7,245	35,91,747	39,11,797
3.3 Term Deposits	50,62,196	51,34,309	17,02,609	22,07,008	2,94,066	3,50,491	17,845	39,978	70,76,715	77,31,786
4. Borrowings	8,47,034	7,61,612	6,88,188	7,75,324	1,27,690	1,51,367	19,398	21,367	16,82,309	17,09,670
5. Other Liabilities and Provisions	3,36,551	3,17,985	1,53,488	2,03,591	90,777	1,48,801	2,006	2,957	5,82,822	6,73,335
Total Liabilities/Assets	**1,00,34,901**	**1,01,62,938**	**42,98,921**	**52,97,937**	**8,69,556**	**10,56,813**	**51,655**	**83,537**	**1,52,55,033**	**1,66,01,224**
1. Cash and Balances with RBI	4,48,477	4,55,974	2,40,318	2,06,654	40,017	33,657	1,519	2,328	7,30,330	6,98,613
2. Balances with Banks and Money at Call and Short Notice	3,92,213	3,59,507	1,26,056	1,75,076	73,275	91,098	3,254	4,054	5,94,797	6,29,733
3. Investments	27,91,858	27,02,386	10,11,814	12,19,517	3,12,582	3,83,415	9,983	14,952	41,26,237	43,20,270
3.1 In Government Securities (a+b)	23,19,205	21,98,041	7,57,400	9,48,803	2,59,876	3,19,575	8,031	11,632	33,44,513	34,78,051
a) In India	22,89,822	21,67,070	7,51,458	9,30,104	2,52,063	3,05,772	8,031	11,632	33,01,375	34,14,578
b) Outside India	29,383	30,970	5,942	18,699	7,813	13,803	-	-	43,138	63,473
3.2 Other Approved Securities	244	157	-	-	-	-	-	-	244	157
3.3 Non-approved Securities	4,72,409	5,04,188	2,54,414	2,70,714	52,706	63,840	1,952	3,320	7,81,480	8,42,062
4. Loans and Advances	56,97,350	59,26,286	26,62,753	33,27,328	3,51,016	3,96,724	34,879	59,491	87,45,997	97,09,829
4.1 Bills Purchased and Discounted	2,34,188	1,66,381	95,125	1,17,234	74,201	76,557	0	4	4,03,515	3,60,177
4.2 Cash Credits, Overdrafts, *etc.*	24,14,793	24,89,272	7,86,825	9,45,461	1,44,602	1,66,037	4,022	5,948	33,50,242	36,06,719
4.3 Term Loans	30,48,368	32,70,633	17,80,803	22,64,633	1,32,212	1,54,129	30,856	53,538	49,92,240	57,42,934
5. Fixed Assets	1,10,041	1,07,318	26,293	36,142	4,509	4,426	1,031	1,251	1,41,874	1,49,137
6. Other Assets	5,94,962	6,11,466	2,31,688	3,33,221	88,157	1,47,493	990	1,461	9,15,797	10,93,641

Notes: 1. -: Nil/negligible.
2. IDBI Bank Limited has been categorised as a PVB for regulatory purposes by Reserve Bank with effect from January 21, 2019. As such, in this chapter, it has been classified as a PSB in 2017-18 and as a PVB in 2018-19, unless otherwise specified.
3. #: Data pertain to six scheduled SFBs at end-March 2018 and seven scheduled SFBs at end-March 2019.
4. Components may not add up to their respective totals due to rounding-off numbers to ₹crore.
5. Detailed bank-wise data on annual accounts are collated and published in Statistical Tables Relating to Banks in India, available at https://www.dbie.rbi.org.in

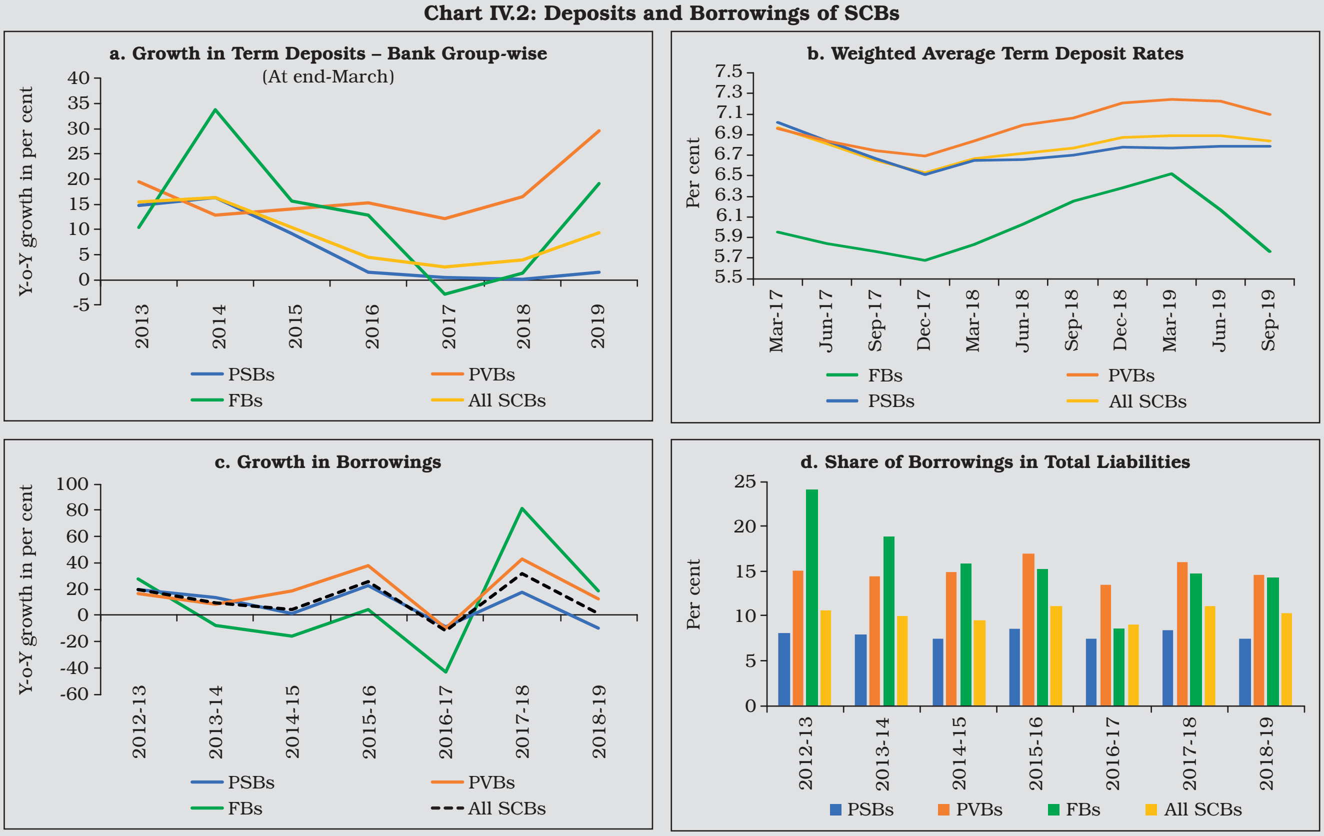
Source: Annual accounts of respective banks, *2.1 Liabilities*

IV.5 Deposits, which constituted 77.6 per cent of the total liabilities of SCBs at end-March 2019, recovered from a secular deceleration that set in from 2009-10, barring the demonetisation-induced spike in 2016-17. This turnaround overcame unfavourable base effects and was mainly driven by a pick-up in term deposits (Chart IV.2 a). PVBs attracted a significant portion – 77 per cent – of this increase in term deposits[1], primarily reflecting the higher interest rates offered by them (Chart IV.2 b). Current and savings account (CASA) deposits kept pace with term deposits and maintained their share in total deposits at 40 per cent. The expansion in deposit mobilisation tempered banks' borrowing requirements, especially those of PSBs (Chart IV.2 c and d).

2.2 Assets

IV.6 The revival in the growth of loans and advances – the most significant component in the asset side of the SCBs' balance sheet – that began in 2017-18, maintained momentum into 2018-19 (Chart IV.3). The recognition of non-performing assets (NPAs) nearing completion, recapitalisation of PSBs, and the ongoing resolution process under the Insolvency and Bankruptcy Code (IBC) helped in improving the credit environment.

Chart IV.2: Deposits and Borrowings of SCBs

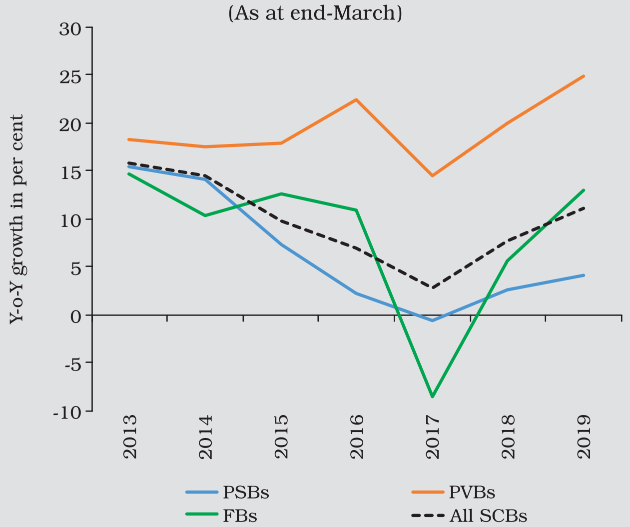


Note: IDBI Bank Ltd has been classified as a PVB in 2018-19 and as a PSB in 2017-18. Therefore, the growth rates may not be strictly comparable.
Source: Annual accounts of banks and RBI

[1] The average share of PVBs in the incremental term deposits during 2016-19 was 81 per cent *vis-à-vis* a 19 per cent in 2011-2015. Corresponding numbers for PSBs were 13 per cent and 77 per cent, respectively.

Chart IV.3: Bank Group-wise Growth in Advances

(As at end-March)



Note: IDBI Bank Ltd has been classified as a PVB in 2018-19 and as a PSB in 2017-18. Therefore, the growth rates may not be strictly comparable.

Source: Annual accounts of banks

IV.7 PVBs led the upturn in credit growth. Their share in incremental loans was 69 per cent in 2018-19 (Chart IV.4a), commensurate with their share in incremental deposits[2]. Consequently, their share in outstanding credit increased (Chart IV.4b). In H1:2019-20, however, credit growth has decelerated across all bank groups.

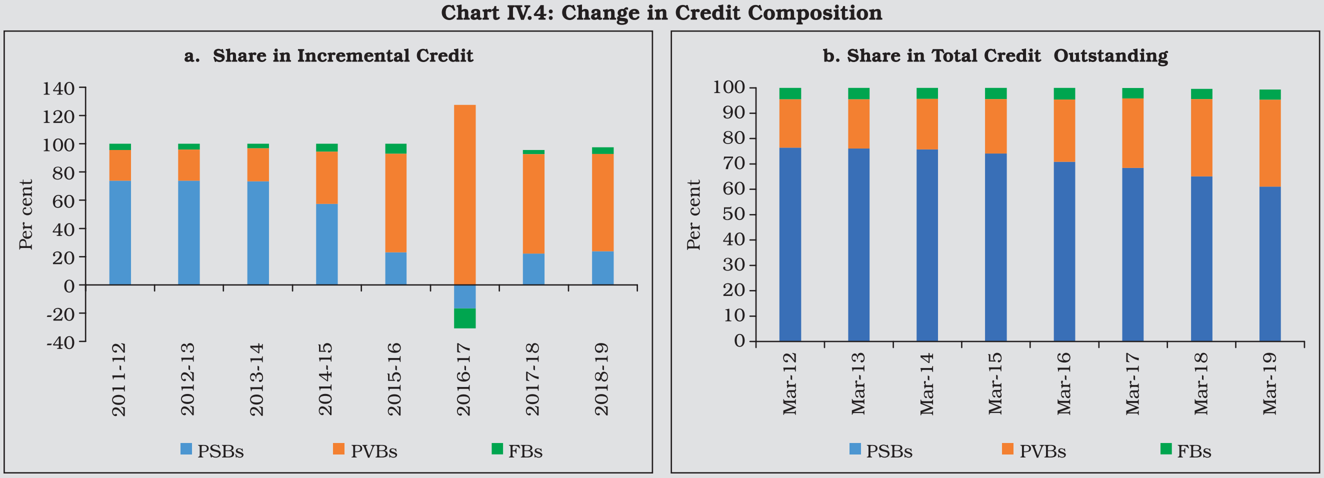
IV.8 India's credit to GDP ratio is lower than that of its emerging market peers[3]. The incremental credit to GDP ratio has been increasing since 2016-17 (Chart IV.5a), though the credit-GDP gap remains negative[4], indicative of the potential for further financial penetration. The outstanding C-D ratio increased marginally for the second consecutive year in 2018-19. The ratio was highest for PVBs as they led the credit expansion in 2018-19 (Chart IV.5b).

IV.9 Investments—the second largest component in the asset side of SCBs' balance sheet—decelerated in 2018-19, as PSBs economised on their investments in government securities and other approved securities, reflecting the shedding of excess statutory liquidity ratio (SLR) investments by them to accommodate the uptick in credit growth.

2.3 Flow of Funds to the Commercial Sector

IV.10 During 2018-19, credit flow from Housing Finance Companies (HFCs), Systemically Important Non-Deposit taking (NBFC-ND-SI)

Chart IV.4: Change in Credit Composition



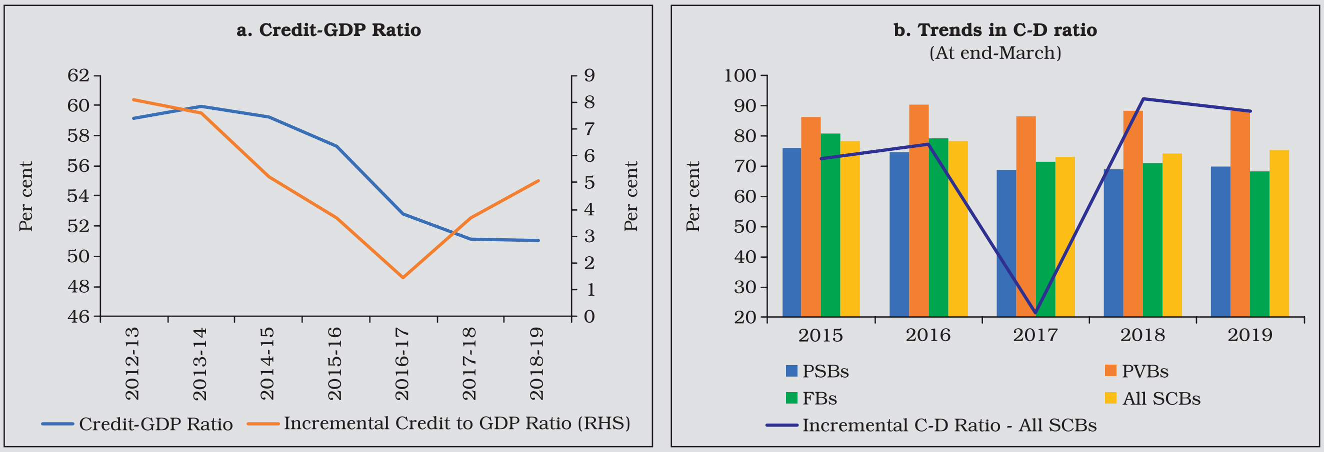
Source: Annual accounts of banks

[2] The sharp growth is partly due to the base effect, emnating from the reclassification of IDBI Ltd. as a PVB as on January 21, 2019. However, even after accounting for this reclassification, the credit growth was led by PVBs.

[3] Source: Bank for International Settlements (BIS), 2019 available at www.bis.org

[4] Source: BIS, available at www.bis.org

Chart IV.5: Trends in Credit Ratios



Source: Annual accounts of banks and DBIE, RBI

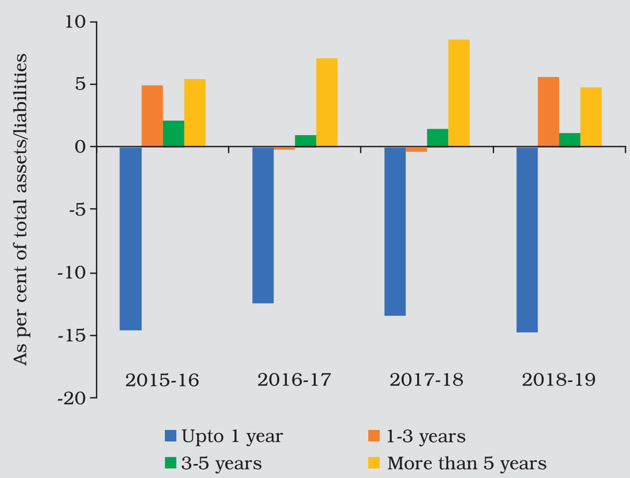
and Deposit taking NBFCs (NBFC-D) declined. Public issuances of debt and equity by non-financial entities and net investment in corporate debt by LIC also exhibited a similar pattern. On the contrary, a sharp rise in commercial paper issuances, higher accommodation provided by All India Financial Institutions (AIFIs) regulated by the Reserve Bank, and a pick-up in net flows from foreign sources partly compensated for the decline in non-bank flows. External commercial borrowings (ECB)/ foreign currency convertible bonds (FCCB) registered net inflows for the first time in four years, partly reflecting the new ECB framework introduced by the Reserve Bank to simplify overseas borrowing norms. Foreign direct investment (FDI) flows grew at 18.9 per cent in 2018-19 (Table IV.2).

IV.11 The scenario appears to have altered in the first half of 2019-20 as the total flow of resources to the commercial sector declined by 60 per cent on a year-on-year basis, largely driven by a contraction in adjusted non-food bank credit. Flows from foreign sources, in contrast, accelerated in the first half of 2019-20 as ECB norms were eased further in July 2019 (Table IV.2).

2.4 Maturity Profile of Assets and Liabilities

IV.12 As regards the maturity profile of SCBs' balance sheet, the asset-liability gap in the 1-3 years category increased sizeably, while it declined in the more than 5 years category (Chart IV.6). Although the maturity structure of liabilities for all the buckets remained broadly similar to a year ago, the share of loans with maturity above five years declined, whereas those with maturity between 1-3 years

Chart IV.6: Asset-Liability Gaps by Maturity Buckets



Notes: 1. Short-term is up to 1 years while long-term is more than 3 years.
2. Assets consists of loans and advances and investment. Liabilities consists of deposits and borrowings.

Source: Annual accounts of banks

Table IV.2: Flow of Financial Resources to Commercial Sector

(₹crore)

Source	April to March				April - September	
	2015-16	2016-17	2017-18	2018-19	2018-19	2019-20
A. Adjusted non-food Bank Credit (NFC)	**7,75,419**	**4,95,224**	**9,16,109**	**12,29,977**	**3,65,647**	**-52,971**
	(51.5)	**(33.6)**	**(42.8)**	**(52.4)**	**(36.8)**	**-(13.4)**
i) Non-Food Credit	7,02,358	3,88,247	7,95,897	11,46,677	3,50,565	-23,344*
of which: petroleum and fertilizer credit	-1,831	13,283	2,724	7,462	-6,774	-12,768
ii) Non-SLR Investment by SCBs	73,060	1,06,977	1,20,212	83,301	15,082	-29,627*
B. Flow from Non-banks (B1+B2)	**7,30,838**	**9,79,207**	**12,24,006**	**11,19,328**	**6,27,666**	**4,47,006**
	(48.5)	**(66.4)**	**(57.2)**	**(47.6)**	**(63.2)**	**(113.4)**
B1. Domestic Sources	**4,84,981**	**7,03,377**	**8,85,552**	**7,32,582**	**4,88,591**	**1,97,556**
	(32.2)	**(47.7)**	**(41.4)**	**(31.2)**	**(49.2)**	**(50.1)**
1. Public issues by non-financial entities	37,783	15,503	43,826	10,565	7,029	58,462
2. Gross private placements by non-financial entities	1,13,516	2,00,243	1,46,176	1,50,451	52,961	81,505
3. Net issuance of CPs subscribed to by non-banks	31,974	86,894	-25,377	1,36,089	1,79,232	-26,809
4. Net Credit by housing finance companies	1,18,803	1,37,390	2,19,840	1,65,893	99,780	5,874
5. Total accommodation by four RBI-regulated AIFIs - NABARD, NHB, SIDBI & EXIM Bank	47,153	46,939	95,048	1,13,568	61,881	-7,989
6. Systemically important non-deposit taking NBFCs and Deposit taking NBFCs (Net of bank credit)	98,851	1,88,748	3,68,243	1,26,006	77,547	53,862
7. LIC's net investment in corporate debt, infrastructure and social sector	36,900	27,661	37,797	30,011	10,162	32,651
B2. Foreign Sources	**2,45,858**	**2,75,829**	**3,38,454**	**3,86,746**	**1,39,075**	**2,49,450**
	(16.3)	**(18.7)**	**(15.8)**	**(16.5)**	**(14.0)**	**(63.3)**
1. External Commercial Borrowings / FCCB	-38,793	-50,928	-5,129	69,629	4,070	52,119
2. ADR/GDR Issues excluding banks and financial institutions	0	0	0	0	0	0
3. Short-term Credit from abroad	-9,607	43,465	89,606	15,184	-23,381	13,841$
4. Foreign Direct Investment to India	2,94,258	2,83,292	2,53,977	3,01,932	1,58,386	1,83,490
C. Total Flow of Resources (A+B)	**15,06,257**	**14,74,431**	**21,40,115**	**23,49,305**	**9,93,312**	**3,94,035**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Notes: $: Up to June 2019 *: Data pertain to the period April-September 27, 2019. Figures in the parentheses represent share in total flows.
Source: RBI, SEBI, BSE, NSE, Merchant Banks, LIC and NHB

increased sharply (Table IV.3). This indicates that the SCBs, especially PSBs, have shifted their lending strategy.

2.5 International Liabilities and Assets

IV.13 The total international liabilities and assets of banks located in India expanded further in 2018-19. The ratio of claims to liabilities declined marginally, as the latter outpaced the former. The ratio of international liabilities of banks to India's total external debt edged up during the year (Chart IV.7). On the liability side, accretions to Foreign Currency Non-resident Bank deposits [FCNR(B)] and Non-resident External Rupee (NRE) accounts picked-up while a build-up of NOSTRO balances, export bills and debt securities was primarily responsible for the enlargement in assets (Appendix Tables IV.9 and IV.10). India's share in global cross-border aggregates remained small – less than one per cent, as at end-March 2019[5].

[5] As per BIS data, available at https://stats.bis.org/statx/srs/table/a1?m=S.

Table IV.3: Bank Group-wise Maturity Profile of Select Liabilities/Assets
(As at end-March)

(Per cent to total under each item)

Liabilities/Assets	PSBs		PVBs		FBs		All SCBs#	
	2018	2019	2018	2019	2018	2019	2018	2019
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	44.8	43.6	42.4	42.9	63.0	64.2	45.0	44.4
b) Over 1 year and up to 3 years	23.2	22.4	25.3	26.8	28.9	28.6	24.0	24.0
c) Over 3 years and up to 5 years	10.0	10.7	10.7	9.5	8.0	7.2	10.0	10.2
d) Over 5 years	22.0	23.3	21.6	20.9	0.1	0.0	20.9	21.5
II. Borrowings								
a) Up to 1 year	60.2	61.6	45.7	47.9	89.1	87.5	56.3	57.4
b) Over 1 year and up to 3 years	13.4	14.1	22.2	19.8	5.8	8.1	16.8	16.5
c) Over 3 years and up to 5 years	8.4	8.3	12.9	14.0	2.2	1.8	9.8	10.3
d) Over 5 years	18.0	16.0	19.2	18.3	2.8	2.6	17.1	15.7
III. Loans and Advances								
a) Up to 1 year	32.8	26.0	31.9	31.3	59.1	57.8	33.6	29.2
b) Over 1 year and up to 3 years	26.3	41.2	33.8	34.1	20.9	21.0	28.4	37.9
c) Over 3 years and up to 5 years	12.7	12.4	12.8	12.9	8.0	7.9	12.5	12.4
d) Over 5 years	28.2	20.3	21.4	21.7	12.0	13.4	25.5	20.4
IV. Investment								
a) Up to 1 year	17.6	17.9	50.7	49.6	81.2	82.6	30.6	32.7
b) Over 1 year and up to 3 years	13.0	13.5	16.9	16.1	12.1	10.9	13.9	14.1
c) Over 3 years and up to 5 years	13.3	13.5	8.6	8.2	2.3	2.2	11.3	11.0
d) Over 5 years	56.2	55.1	23.7	26.1	4.4	4.2	44.2	42.2

Notes: 1. The sum of components may not add up to 100 due to rounding off.
2. #: Data includes SFBs.

Source: Annual accounts of banks

IV.14 The concentration of claims of short-term maturity in the total consolidated international claims of banks increased in 2018-19 (Appendix Table IV.11). The country-composition of international claims remained broadly stable, with the United States (US) increasing its share further (Appendix Table IV.12).

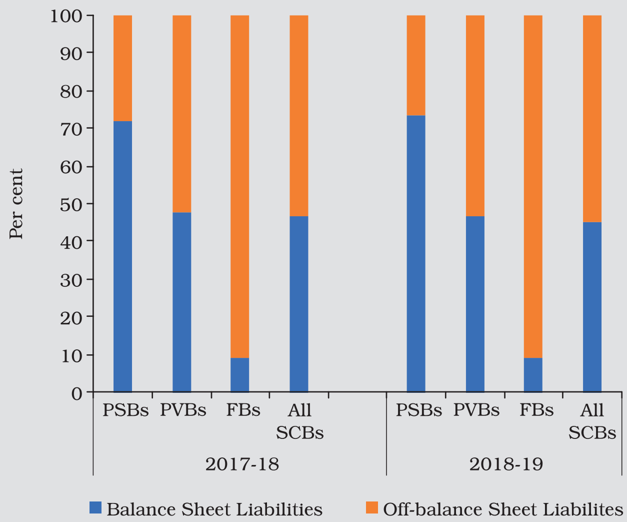
Chart IV.7: International Liabilities and Assets of Banks

Source: Annual accounts of banks and DBIE

2.6 Off-balance Sheet Operations

IV.15 The size of contingent liabilities of all SCBs in India increased to 1.2 times of their on-balance sheet as at end-March 2019, driven primarily by an expansion in forward exchange contracts, including derivative products (Appendix Table IV.2). The composition of on and off-balance sheet liabilities across bank groups has remained stable, with FBs and PVBs having significantly higher off-balance sheet exposures than PSBs (Chart IV.8).

Chart IV.8: On and Off-balance Sheet Liabilities of Banks



Source: Annual accounts of banks

3. Financial Performance

IV.16 The financial performance of SCBs in the period under review was marked by PSBs reporting positive net profits after 3 years in H1:2019-20. As provisioning requirements slackened and credit growth revived modestly, interest income increased, even though interest expenses picked up on account of the increase in deposit growth (Table IV.4). The net interest margin as well as the spread improved (Table IV.5)

IV.17 On the other hand, SCBs' income from non-interest sources declined, contributed by spreading of mark-to-market losses in government security portfolios and transfer of funds to the investment fluctuation reserve (IFR). Apart from these factors, the muted growth in off-balance sheet exposures, mainly guarantees, and a fall in income from trading and forex transactions adversely affected the PSBs. In H1:2019-20, however, the non-interest income of SCBs has revived.

Table IV.4: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ₹crore)

Item	2017-18		2018-19	
	Amount	Percentage Variation	Amount	Percentage Variation
1. Income	12,17,567	1.0	13,23,680	8.7
a) Interest Income	10,21,968	1.0	11,40,727	11.6
b) Other Income	1,95,598	1.2	1,82,953	-6.5
2. Expenditure	12,50,004	7.6	13,47,077	7.8
a) Interest Expended	6,53,510	-2.3	7,10,890	8.8
b) Operating Expenses	2,71,470	9.3	3,07,457	13.2
of which: Wage Bill	1,32,479	3.9	1,48,989	12.5
c) Provisions and Contingencies	3,25,024	33.3	3,28,731	1.1
3. Operating Profit	2,92,587	1.7	3,05,333	4.4
4. Net Profit	-32,438	-	-23,397	-
5. Net Interest Income (NII) (1a-2a)	3,68,458	7.5	4,29,837	16.7
6. Net Interest Margin (NII as Percentage of Average Assets)	2.5	-	2.7	-

Notes: 1. Data include SFBs.
2. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹crore.

Source: Annual accounts of respective banks

IV.18 While the quantum of provisions declined for PSBs, it increased for PVBs in 2018-19, due to a rise in the latter's NPAs[6] (Chart IV.9). Similar movements were discernible in H1:2019-20.

IV.19 The provision coverage ratio (PCR) of all SCBs improved to 61 per cent by end-September 2019, as PSBs' gross NPAs declined faster than the decline in their provisions and PVBs' provisioning went up markedly (Chart IV.10).

IV.20 In the case of profitability ratios as well, differentials in performance of PSBs *vis-a-vis* PVBs were evident. For PVBs, both Return on Assets (RoA) and Return on Equity (RoE) worsened in 2018-19 from the previous year, although they were considerably better than those of PSBs (Table IV.6)[7]. In contrast, the latter

[6] After accounting for the reclassification of IDBI Bank Ltd as a PVB in 2018-19.

[7] Return on assets = Return on assets for the bank groups are obtained as weighted average of return on assets of individual banks in the group, weights being the proportion of total assets of the bank as percentage to total assets of all banks in the corresponding bank group and Return on equity = Net profit/Average total equity.

Table IV.5: Cost of Funds and Return on Funds - Bank Group-wise

(Per cent)

Bank Group / Year		Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
1	2	3	4	5	6	7	8	9 = 8-5
PSBs	2017-18	5.1	4.7	5.1	7.8	7.1	7.5	2.5
	2018-19	5.0	4.8	5.0	8.1	7.2	7.8	2.8
PVBs	2017-18	4.9	6.2	5.2	9.5	6.9	8.8	3.6
	2018-19	5.1	6.6	5.4	9.8	7.0	9.0	3.6
FBs	2017-18	3.9	3.0	3.7	8.1	6.6	7.4	3.7
	2018-19	3.8	2.9	3.6	8.2	6.2	7.2	3.6
All SCBs	2017-18	5.0	5.3	5.1	8.3	7.0	7.9	2.8
	2018-19	5.0	5.5	5.1	8.7	7.1	8.2	3.1

Notes: 1. Cost of deposits = Interest paid on deposits/Average of current and previous year's deposits.
2. Cost of borrowings = (Interest expended - Interest on deposits)/Average of current and previous year's borrowings.
3. Cost of funds = Interest expended / (Average of current and previous year's deposits plus borrowings)
4. Return on advances = Interest earned on advances /Average of current and previous year's advances.
5. Return on investments = Interest earned on investments /Average of current and previous year's investments.
6. Return on funds = (Interest earned on advances + Interest earned on investments) / (Average of current and previous year's advances plus investments).
7. Data include SFBs. For PSBs and PVBs, data adjusted for reclassification of IDBI Bank Ltd.

Source: Calculated from balance sheets of respective banks

were more successful in reducing their losses, building on the improvement in their asset quality. There was an overall increase in profitability in H1:2019-20 as interest income accelerated and non-interest income revived. Supervisory data suggest that RoA of SCBs improved to 0.35 per cent at end-September 2019.

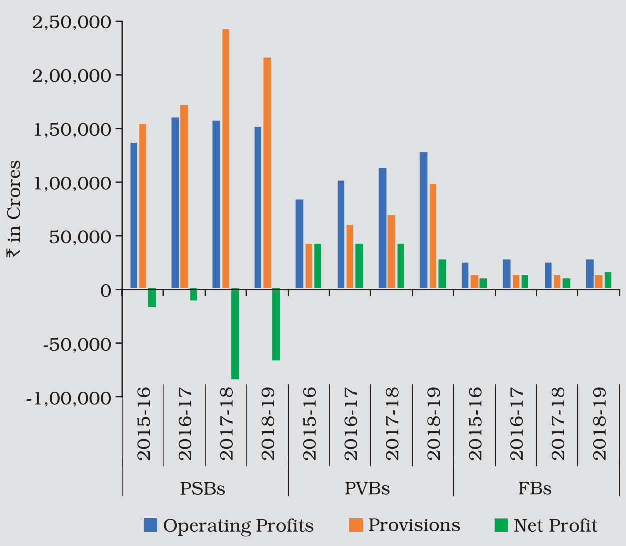
Table IV.6: Return on Assets and Return on Equity of SCBs – Bank Group-wise
(At end-March)

(Per cent)

Bank Group	Public Sector Banks		Private Sector Banks		Foreign Banks		All Scheduled Commercial Banks	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
RoA	-0.84	-0.65	1.14	0.63	1.34	1.56	-0.15	-0.09
RoE	-14.62	-11.44	10.12	5.45	7.16	8.77	-2.81	-1.85

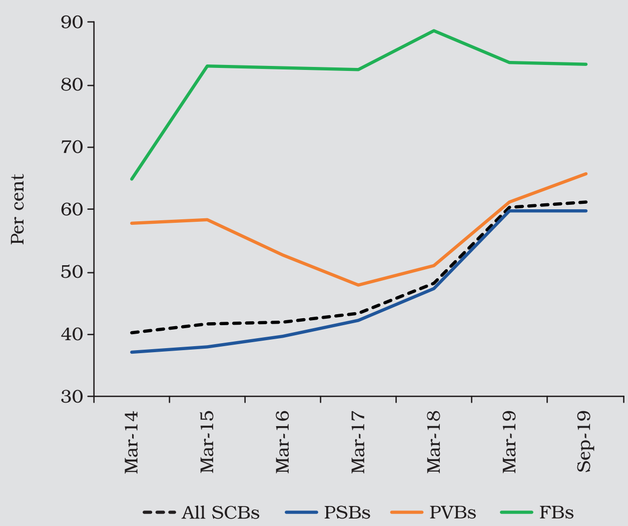
Note: For PSBs and PVBs, data adjusted for reclassification of IDBI Bank Ltd.
Source: Annual Accounts of Banks.

Chart IV.9: Provisioning and Profitability



Source: Annual Accounts of Banks

Chart IV.10: Provision Coverage Ratio



Note: Provision coverage ratio not adjusted for write-offs.
Source: Off-site returns (domestic operations), RBI

4. Soundness Indicators

IV.21 Soundness indicators are matrices that enable a comparison of financial health across banks and time. During 2018-19 and 2019-20 so far, there has been a gradual improvement in capital adequacy, liquidity and asset quality.

4.1 Capital Adequacy

IV.22 The capital to risk-weighted assets ratio (CRAR) of SCBs has been improving from the low of 13 per cent reached in 2014-15. Evidence suggests that strengthening the capital base of banks facilitates credit expansion in a non-linear fashion (Box IV.1)

Box IV.1: Threshold Bank Capital and Lending

Well-capitalised banks are able to withstand shocks without shrinking their balance sheets, especially their loans portfolio, while capital constrained banks are more likely to reduce lending (Cohen, 2013; Armstrong and Ebell, 2014). High capital cost and risk aversion act as additional impediments to lending activity. Recent empirical evidence points to a non-linear relationship between capital and lending, *i.e.*, loan books may pick up only after bank capital exceeds a critical threshold (Brei *et al.*, 2013).

A fixed effect panel threshold regression using annual data on 40 public and private sector banks for the period 2012-13 to 2018-19 suggests that the threshold CRAR – endogeneously determined in the model – is 13.2 per cent. This is higher than the minimum regulatory CRAR (including capital conservation buffer) of 10.875 per cent at end-March 2019. Testing whether this non-linear relationship has more than one threshold, the hypotheses of two and higher number of thresholds were rejected as bootstrap p-values were not found to be significant.

The relationship between CRAR and loan growth was found to be positive and significant below the threshold as well as above the threshold, although the size of β coefficients were larger below the threshold, *i.e.,* $\beta_1 > \beta_2$ (Table 1). Thus, additions to bank capital beyond the threshold have positive but declining marginal effects on lending, which is in line with empirical evidence elsewhere (Catalán *et al.*, 2017). These results remain robust even after controlling for banks' net interest margin (NIM), the share of liquid assets in total assets, deposit to loan ratio, stressed assets ratio and GDP. These results suggest that for banks in India, a 13.2 per cent CRAR would be optimal (Verma and Herwadkar, 2019).

Table 1: Estimates of Panel Threshold Regression Models with Two Regimes

Model	1	2	3
Dependent variable = Loan growth			
Threshold	13.17 p value= 0.022	13.17 p value= 0.034	13.13 p value= 0.044
CRAR			
β_1 (below the threshold)	1.495*** (-0.546)	1.395*** (0.56)	1.67*** (0.562)
β_2 (above the threshold)	0.861* (-0.476)	0.816* (0.49)	1.115** (0.485)
Control variables			
NIM	6.652*** (1.933)	6.467*** (1.835)	
Stress (-1)	-0.527** (0.266)	-0.784*** (0.268)	-0.52** (0.273)
Deposit to loan ratio (-1)		0.130** (0.059)	
Liquid assets to total assets (-1)	0.439** (0.192)		
Nominal GDP growth	0.78 (0.909)	0.992 (0.749)	1.659* (0.902)
Demonetisation dummy	Yes	No	Yes
Merger dummy	Yes	No	Yes
AQR dummy	Yes	No	Yes
Constant	-0.331*** (0.129)	-0.439*** (0.146)	-0.208 (0.129)
R^2	0.427	0.327	0.316
No. of observations	240	240	240
No. of bootstraps	500	500	500
Prob > F	0	0	0

Note: 1. Figures in parentheses refer to standard errors.
2. *$p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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Table IV.7: Component-wise Capital Adequacy of SCBs
(As at end-March)

(Amount in ₹crore)

	PSBs		PVBs		FBs		SCBs	
	2018	2019	2018	2019	2018	2019	2018	2019
1. Capital Funds	**6,57,750**	**6,38,553**	**5,15,690**	**6,01,046**	**1,48,701**	**1,69,620**	**13,22,141**	**14,09,220**
i) Tier I Capital	5,26,997	5,18,963	4,47,009	5,27,007	1,40,698	1,59,211	11,14,704	12,05,181
ii) Tier II Capital	1,30,753	1,19,590	68,681	74,039	8,003	10,409	2,07,438	2,04,038
2. Risk Weighted Assets	**56,41,360**	**52,32,524**	**31,38,270**	**37,39,838**	**7,79,937**	**8,74,407**	**95,59,566**	**98,46,768**
3. CRAR (1 as % of 2)	**11.7**	**12.2**	**16.4**	**16.1**	**19.1**	**19.4**	**13.8**	**14.3**
Of which: Tier I	9.3	9.9	14.2	14.1	18.0	18.2	11.7	12.2
Tier II	2.3	2.3	2.2	2.0	1.1	1.2	2.2	2.1

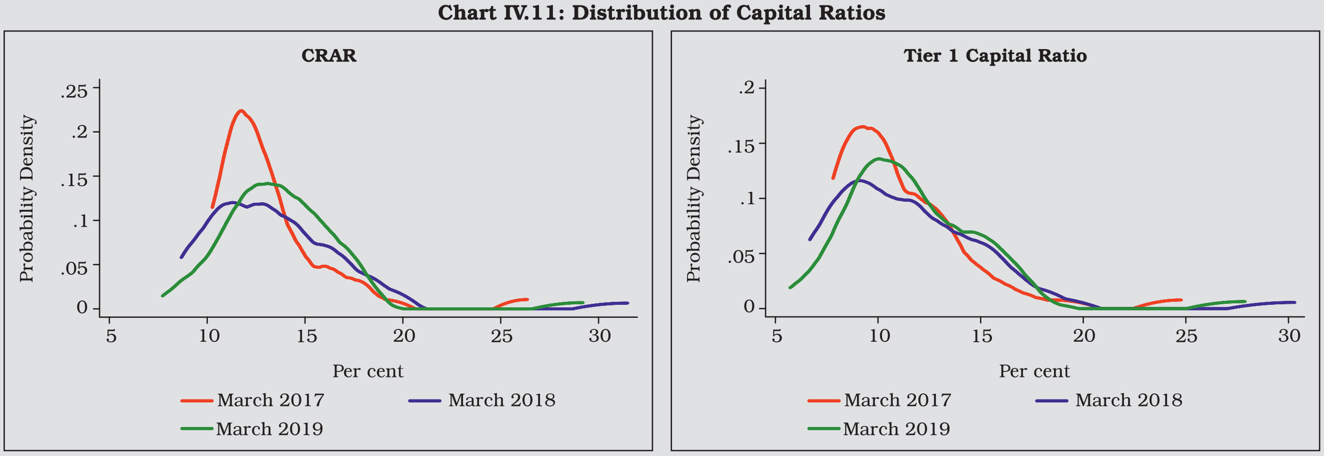
Source: Off-site returns (domestic operations), RBI

IV.23 PSBs led the recovery in capital ratios in 2018-19. Recapitalisation to the tune of ₹90,000 crores in 2017-18 and ₹1,06,000 crores in 2018-19 bolstered their capital position, even as they battled with the overhang of impaired assets. PVBs and FBs remained well capitalised and above the regulatory minimum of 10.875 per cent for March 2019, though the former experienced a marginal decline in CRAR[8] in 2018-19 (Table IV.7).

IV.24 Notably, PSBs' risk-weighted assets (RWAs) have contracted in the past two years, reflective of a change in their risk profile in favour of less risky borrowers with high credit ratings. Furthermore, all bank groups maintained robust Tier 1 capital ratios to comply with the capital conservation buffer (CCB) requirement under the Basel III norms. This improvement was broad-based as evident in the rightward shift in the distributions of capital ratios (Chart IV.11).

IV.25 In H1: 2019-20, SCBs' CRAR and the Tier 1 capital ratio improved further to 15.1 per cent and 13.0 per cent respectively, led by PSBs and PVBs. The Government has announced another tranche of recapitalisation of ₹70,000 crores in PSBs in 2019-20, which is expected to better their capital position, going forward.

Chart IV.11: Distribution of Capital Ratios



Note: The chart pertains to SCBs excluding foreign banks.
Source: Off-site returns (domestic operations), RBI

[8] Even after accounting for the reclassification of IDBI Bank Ltd as a PVB.

4.2 Leverage Ratio

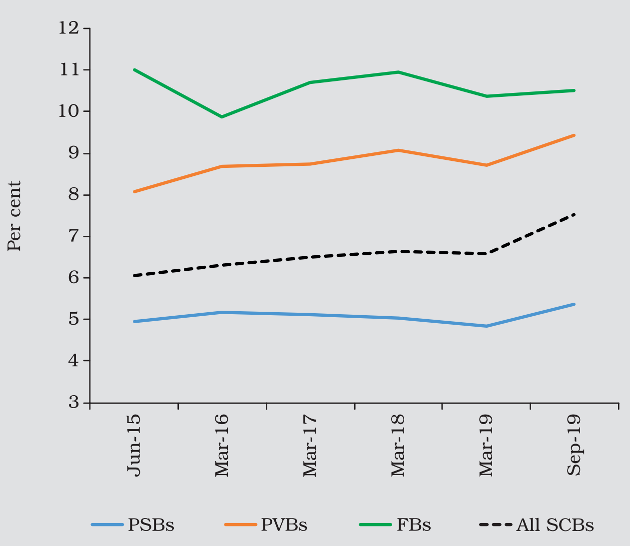
IV.26 The leverage ratio (LR), defined as the ratio of Tier 1 capital to total exposure (including off-balance sheet exposure), is calibrated to act as a supplementary measure to the CRAR under Basel III to constrain the build-up of leverage. At end-March 2019, the leverage ratio of SCBs was at 6.6 per cent, above the Pillar I prescription of 3 per cent by the Basel Committee on Banking Supervision (BCBS). All bank groups experienced a slight decrease in their LRs in 2018-19, mostly due to growth in total exposures during the year; however, this trend has been reversed in H1: 2019-20 (Chart IV.12). The Reserve Bank revised the minimum leverage ratio requirements for banks, effective October 1, 2019[9].

4.3 Liquidity Standards

IV.27 The Basel III framework prescribes two minimum liquidity standards, *viz.*, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). While the LCR promotes short-term resilience of banks in dealing with potential liquidity disruptions lasting for 30 days, the NSFR requires banks to fund their activities with stable sources of funding over the time horizon extending to one year. The former has been implemented in India since January 1, 2015 and the latter – defined as the ratio of available stable funding (ASF) to required stable funding (RSF) – will be effective from April 1, 2020.

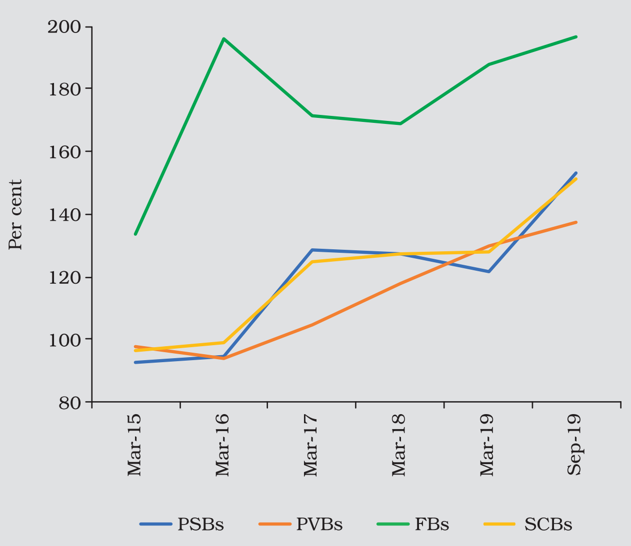
IV.28 Banks have been allowed to carve out Level 1 high quality liquid assets (HQLAs) from within the statutory liquidity ratio (SLR) for computing LCR, the limit for which is presently set at 16.5 per cent of net demand and time liabilities (NDTL). To encourage credit flow to the NBFC sector, additional carve-outs were also prescribed. The LCR of SCBs improved further in 2018-19 and in H1: 2019-20 and remained well above the Basel III requirement of 100 per cent (Chart IV.13).

Chart IV.12: Leverage Ratio



Source: Off-site returns (global operations), RBI

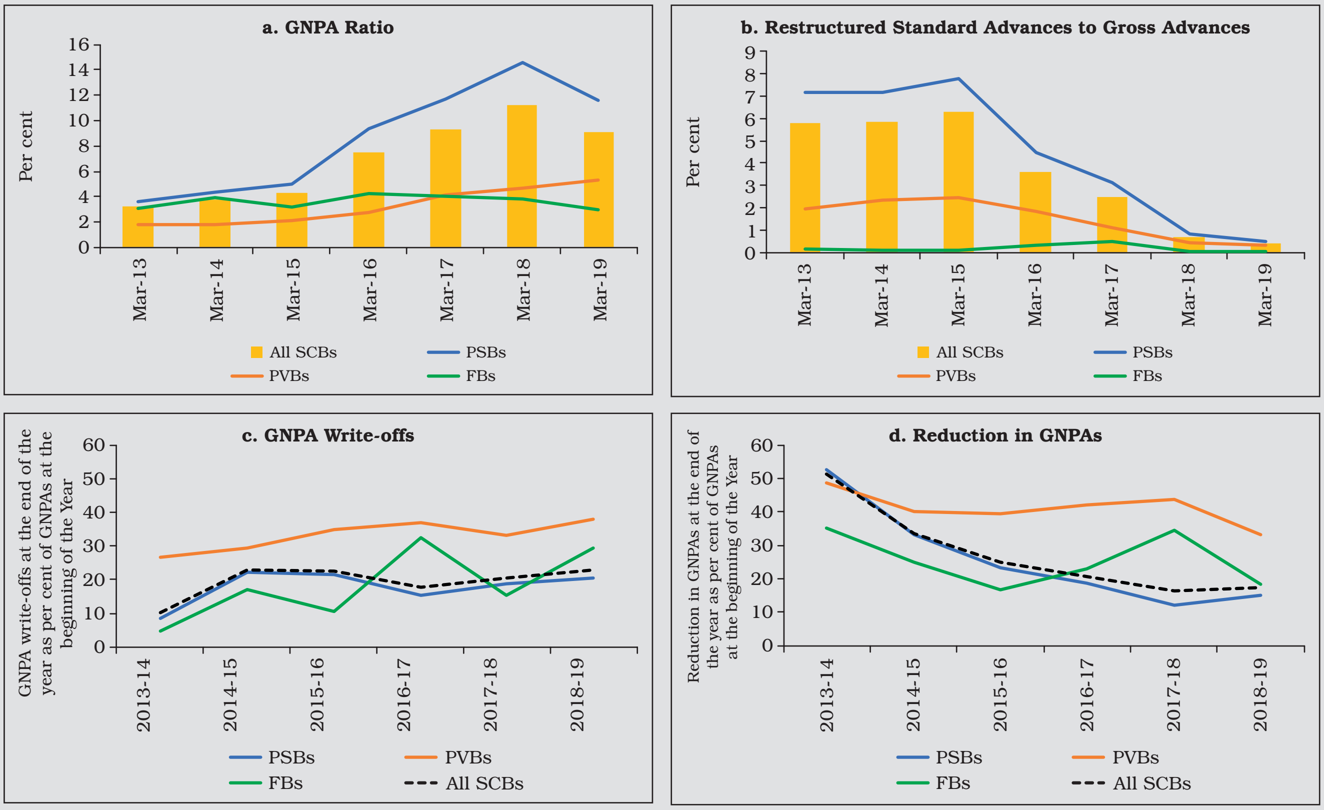
Chart IV.13: Liquidity Coverage Ratio



Source: Off-site returns (global operations), RBI

[9] Please refer Chapter III for details.

Chart IV.14: Asset Quality of Banks



Note: GNPA ratio is calculated using annual accounts of banks and off-site returns (global operations).
Source: Annual accounts of banks and Off-site returns.

4.4 Non-performing Assets

IV.29 The GNPA ratio of all SCBs declined in 2018-19 after rising for seven consecutive years (Chart IV.14 a), as recognition of bad loans neared completion. Decline in the slippage ratio[10] as well as a reduction in outstanding GNPAs helped in improving the GNPA ratio (Chart IV.14 c and d). While a part of the write-offs was due to ageing of the loans, recovery efforts received a boost from the IBC. The restructured standard advances to gross advances ratio began declining after the asset quality review (AQR) in 2015 and reached 0.55 per cent at end-March 2019 (Chart IV.14 b).

IV.30 All bank groups recorded an improvement in asset quality, with PSBs experiencing a drop both in the GNPA and in the net NPA ratios (Table IV.8). The deteriorating asset quality of PVBs in terms of the GNPA ratio is due to the reclassification of IDBI Bank Ltd as a private bank effective January 21, 2019; however, after excluding IDBI Bank Ltd, PVBs' GNPA ratio declined. Supervisory data suggest that the GNPA ratio of SCBs remained stable at 9.1 per cent at end-September 2019.

IV.31 Consistent with these developments, the proportion of standard assets in total advances of SCBs increased in 2018-19, largely because of the improved performance of PSBs. The corresponding improvement in sub-standard and doubtful assets was partly reversed by an increase in the loss account (Table IV.9).

[10] Slippage ratio is defined as (Fresh accretion of NPAs during the year/Total standard assets at the beginning of the year) *100

Table IV.8: Trends in Non-performing Assets - Bank Group-wise

(Amount in ₹crore)

Item	PSBs*	PVBs^	FBs	All SCBs#
Gross NPAs				
Closing Balance for 2017-18	8,95,601	1,29,335	13,849	10,39,679
Opening Balance for 2018-19	8,95,601	1,29,335	12,733	10,38,684
Addition during the year 2018-19	2,16,763	90,526	6,114	3,14,449
Reduction during the year 2018-19	1,33,844	42,748	2,557	1,79,711
Written-off during the year 2018-19	1,83,391	49,098	4,048	2,36,948
Closing Balance for 2018-19	7,39,541	1,83,604	12,242	9,36,474
Gross NPAs as per cent of Gross Advances**				
2017-18	14.6	4.7	3.8	11.2
2018-19	11.6	5.3	3.0	9.1
Net NPAs				
Closing Balance for 2017-18	4,54,473	64,380	1,548	5,20,838
Closing Balance for 2018-19	2,85,123	67,309	2,050	3,55,076
Net NPAs as per cent of Net Advances				
2017-18	8.0	2.4	0.4	6.0
2018-19	4.8	2.0	0.5	3.7

Notes: 1. *: Includes IDBI Bank Ltd for closing balance for 2017-18 and opening balance for 2018-19.
2. ^: Includes IDBI Bank Ltd for addition, recovery, writing off and closing balance for 2018-19.
3. #: Data include six scheduled SFBs at end-March 2018 and seven scheduled SFBs at end-March 2019.
4. **: Calculated by taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns (global operations).

Source: Annual accounts of banks and off-site returns (global operations), RBI

IV.32 NPAs in the larger borrowal accounts (exposure of ₹5 crore or more) had contributed 91 per cent of total GNPAs in 2017-18 after the Reserve Bank withdrew various restructuring schemes. In 2018-19, however, SCBs recorded a synchronised decline in all the special mention accounts (SMA-0, SMA-1 and SMA-2), restructured standard advances (RSA) and GNPAs, attesting to the broad-based improvement in asset quality. Yet, these accounts – which constituted 53 per cent of gross loans and advances – contributed 82 per cent of GNPAs at end-March 2019. Furthermore, stress in large borrowal accounts has been on the rise for both PVBs and PSBs in H1: 2019-20 (Chart IV.15).

4.5 Recoveries

IV.33 Recovery of stressed assets improved during 2018-19 propelled by resolutions under the IBC, which contributed more than half of the total amount recovered. However, recovery rates[11] yielded by major resolution mechanisms (except Lok Adalats) declined in 2018-19, especially through the SARFAESI mechanism (Table IV.10). Cases referred for recovery under various mechanisms grew over 27 per cent in volume and tripled in value during the year,

Table IV.9: Classification of Loan Assets - Bank Group-wise

(Amount in ₹crore)

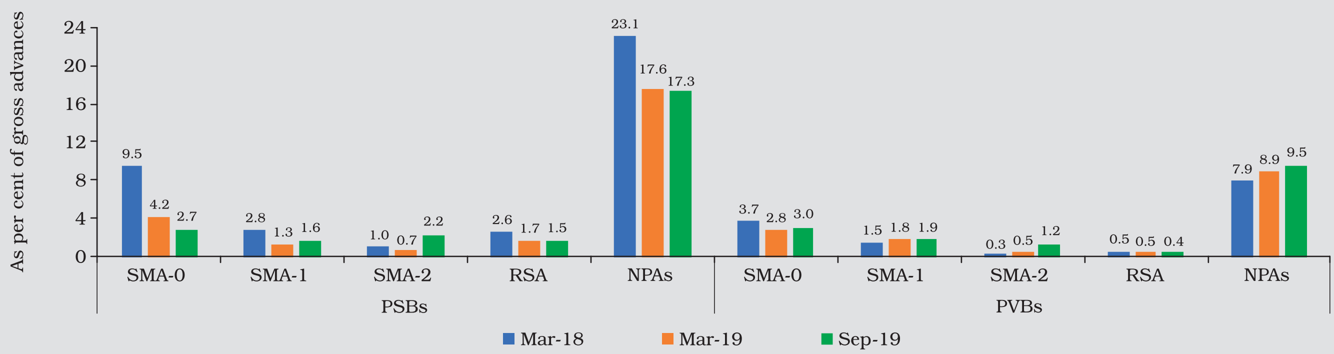
Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PSBs#	2018	46,02,125	84.5	2,05,340	3.8	5,93,615	10.9	46,521	0.9
	2019	50,86,874	87.8	1,37,377	2.4	5,06,492	8.7	66,239	1.1
PVBs^	2018	24,50,552	96.0	27,203	1.1	69,978	2.7	5,243	0.2
	2019	31,03,581	95.2	42,440	1.3	1,04,696	3.2	9,576	0.3
FBs	2018	3,49,475	96.2	3,831	1.1	8,364	2.3	1,635	0.5
	2019	3,94,699	97.0	3,163	0.8	7,985	2.0	1,034	0.3
All SCBs**	2018	74,02,152	88.1	2,36,374	2.8	6,71,957	8.0	53,398	0.6
	2019	85,85,154	90.2	1,82,980	1.9	6,19,173	6.5	76,849	0.8

Notes: 1. Constituent items may not add up to the total due to rounding off.
2. *: As per cent to gross advances.
3. #: Includes IDBI Bank Ltd for 2018.
4. ^: Includes IDBI Bank Ltd for 2019.
5. **: Excludes SFBs.

Source: Off-site returns (domestic operations), RBI

[11] Defined as the amount recovered as a per cent of amount involved.

Chart IV.15: Stress in Large Borrowal Accounts



Note: RSA: Restructured standard advances.
SMA-0: where principal or interest payment was not overdue for more than 30 days but the account showed signs of incipient stress;
SMA-1: where principal or interest payment was overdue for 31-60 days;
SMA-2: where principal or interest payment was overdue for 61-90 days.
Source: Central Repository of Information on Large Credits (CRILC) database, RBI

leading to a pile-up of bankruptcy proceedings. This highlights the need to strengthen and expand the supportive infrastructure.

IV.34 As cases referred for recovery through legal mechanisms shot up, cleaning up of balance sheets *via* sale of stressed assets to asset reconstruction companies (ARCs) decelerated on a y-o-y basis and declined as a proportion to GNPAs at the beginning of 2018-19 (Chart IV.16). However, the acquisition cost of ARCs as a proportion to the book value of assets increased further, indicating that banks had to incur lesser haircuts on account of these sales.

IV.35 The share of subscriptions by banks to security receipts (SRs) issued by ARCs declined to 69.5 per cent by end-June 2019 from 79.8 per cent a year ago, in line with the agenda to reduce their investments in SRs and to diversify investor base in SRs (Table IV.11).

4.6 Frauds in the Banking Sector

IV.36 Frauds, especially the larger ones, tend to get reported with a lag. Thus, even though

Table IV.10: NPAs of SCBs Recovered through Various Channels

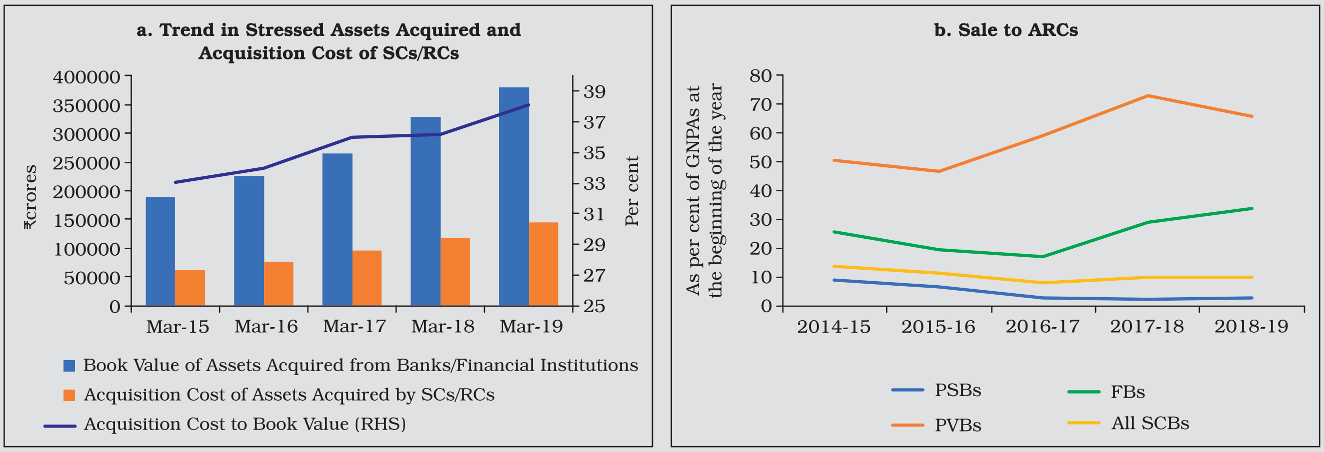
(Amount in ₹crore)

Recovery Channel	2017-18				2018-19 (P)			
	No. of cases referred	Amount involved	Amount recovered*	Col. (4) as per cent of Col. (3)	No. of cases referred	Amount involved	Amount recovered*	Col. (8) as per cent of Col. (7)
1	2	3	4	5	6	7	8	9
Lok Adalats	33,17,897	45,728	1,811	4.0	40,80,947	53,506	2,816	5.3
DRTs	29,345	1,33,095	7,235	5.4	52,175	3,06,499	10,574	3.5
SARFAESI Act	91,330	81,879	26,380	32.2	2,48,312	2,89,073	41,876	14.5
IBC	704@	9,929	4,926	49.6	1,135@	1,66,600	70,819	42.5
Total	**34,39,276**	**2,70,631**	**40,352**	**14.9**	**43,82,569**	**8,15,678**	**1,26,085**	**15.5**

Notes: 1. P: Provisional.
2. *: Refers to the amount recovered during the given year, which could be with reference to the cases referred during the given year as well as during the earlier years.
3. DRTs: Debt Recovery Tribunals; SARFAESI Act: The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002.
4. @: Cases admitted by National Company Law Tribunals (NCLTs).
5. Figures relating to IBC for 2017-18 and 2018-19 are calculated by adding quarterly numbers from IBBI newsletters.

Source: Off-site returns, RBI and IBBI.

Chart IV.16: Stressed Asset Sales to ARCs



Source: Quarterly statements submitted by ARCs and off-site returns (domestic operations), RBI

the number of cases of fraud reported by banks as well as the amount involved spiked during 2018-19, both would be trending lower if analysed on the basis of the date of occurrence (Table IV.12 and Table IV.13). In February 2018, the government issued a framework for timely detection, reporting and investigation relating to frauds in PSBs, which required them to evaluate NPA accounts exceeding ₹50 crores from the angle of possible frauds, to supplement the earlier efforts to unearth fraudulent transactions. This appears to have caused the sharp jump in reported frauds in 2018-19.

Table IV.11: Details of Financial Assets Securitised by ARCs

(Amount in ₹crore)

Item	Jun-16	Jun-17	Jun-18	Jun-19
1. Book Value of Assets Acquired	2,37,653	2,62,733	3,30,563	3,88,069
2. Security Receipt issued by SCs/RCs	79,020	93,918	1,20,308	1,46,409
3. Security Receipts Subscribed to by				
(a) Banks	65,119	77,653	95,951	1,01,733
(b) SCs/RCs	11,406	14,159	20,165	27,480
(c) FIIs	326	326	505	1,735
(d) Others (Qualified Institutional Buyers)	2,170	1,779	3,686	15,521
4. Amount of Security Receipts Completely Redeemed	7,200	7,355	8,830	12,906
5. Security Receipts Outstanding	64,117	78,312	98,118	1,14,615

Source: Quarterly statements submitted by ARCs

IV.37 Frauds have been predominantly occurring in the loan portfolio, both in terms of number and value. Incidents relating to other areas of banking *viz.*, card/internet, off-balance sheet and forex transactions, in terms of value, have reduced (in terms of date of reporting) in 2018-19 *vis-à-vis* the previous year. The *modus operandi* of large value frauds[12] – that account for 86.4 per cent of all frauds reported during the year in terms of value – involved, *inter alia,* diversion of funds by borrowers through various means, mainly *via* associated or shell companies; accounting irregularities; manipulating financial or stock statements; opening current accounts with banks outside the lending consortium without a no-objection certificate from lenders; and devolving of Letter of Credits (LCs).

IV.38 PSBs accounted for a bulk of frauds reported in 2018-19 – 55.4 per cent of the

[12] Involving ₹50 crore or above

Table IV.12: Frauds in Various Banking Operations Based on the Date of Reporting

(At end-March)

(Cases in number and amount in ₹crore)

	2014-15		2015-16		2016-17		2017-18		2018-19	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Advances	2,251	17,122	2,125	17,368	2,322	20,561	2,525	22,558	3,606	64,548
Card/Internet	845	52	1,191	40	1,372	42	2,059	110	1,866	71
Deposits	876	437	757	809	695	903	691	457	593	148
Cash	153	43	160	22	239	37	218	40	274	56
Others	179	162	176	146	153	77	138	242	197	244
Cheques/demand drafts	254	26	234	25	235	40	207	34	189	34
Off-balance sheet	10	699	4	132	5	63	20	16,288	33	5,538
Clearing, etc accounts	29	7	17	87	27	6	37	6	24	209
Foreign exchange transactions	16	899	17	51	16	2,201	9	1,426	13	695
Non-resident accounts	22	8	8	9	11	3	6	5	3	0
Inter-branch accounts	4	0	4	10	1	1	6	1	3	0
Total	**4,639**	**19,455**	**4,693**	**18,699**	**5,076**	**23,934**	**5,916**	**41,167**	**6,801**	**71,543**

Notes: 1. Refers to frauds of ₹1 lakh and above.
2. The figures reported by banks & FIs are subject to change based on revisions filed by them.
3. Frauds reported in a year could have occurred several years prior to year of reporting.
4. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved is not necessarily diverted.

Source: RBI

number of cases reported and 90.2 per cent of the amount involved – mainly reflecting the lack of adequate internal processes, people and systems to tackle operational risks. PVBs' and FBs' shares in the former stood at 30.7 per cent and 11.2 per cent, whereas their shares in the latter were 7.7 per cent and 1.3 per cent, respectively. PSBs' share in the value of large frauds was even higher at 91.6 per cent in 2018-19.

Table IV.13: Frauds in Various Banking Operations Based on the Date of Occurrence

(At end-March)

(Cases in number and amount in ₹crore)

	Prior to 2014-15		2014-15		2015-16		2016-17		2017-18		2018-19	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Advances	6,268	87,374	1,897	18,168	1,743	14,570	1,265	9,550	1,024	8,863	632	3,634
Card/Internet	271	16	918	58	1,173	43	1,367	40	2,127	101	1,477	58
Deposits	657	935	790	214	719	600	602	665	524	294	320	45
Cash	54	21	159	36	155	20	276	41	207	38	193	40
Others	236	450	161	33	133	165	132	50	98	146	83	27
Cheques/demand drafts, etc.	92	26	272	23	235	31	217	33	199	34	104	12
Off-balance sheet	23	1,980	13	1,720	11	1,132	13	15,023	4	298	8	2,569
Clearing, etc accounts	17	15	23	79	19	4	29	7	33	5	13	205
Foreign exchange transactions	20	1,004	18	3,361	9	205	15	473	5	83	4	145
Non-resident accounts	15	16	16	3	6	0	7	1	5	4	1	0
Inter-branch accounts	5	2	2	0	4	9	4	1	2	0	1	-
Total	**7,658**	**91,839**	**4,269**	**23,695**	**4,207**	**16,779**	**3,927**	**25,884**	**4,228**	**9,866**	**2,836**	**6,735**

Notes: 1. Refers to frauds of ₹1 lakh and above.
2. The figures reported by banks & FIs are subject to change based on revisions filed by them.
3. Data based on 'date of occurrence' may change for a period of time as frauds reported late but having occurred earlier would get added. For example, for frauds occurring in 2016-17, the data generated as on April 1, 2018 would be different from the one generated on April 1, 2019 because the frauds reported between April 1, 2018 and March 31, 2019 but occurred in the year 2016-17 get added in latter report.

Source: RBI

5. Sectoral Bank Credit: Distribution and NPAs

IV.39 In response to the mounting NPAs of the industrial sector since 2012-13, banks diversified their portfolios towards services and retail loans (Chart IV.17 a). Within retail loans, the dominant share of housing has increased (Chart IV.17 b).

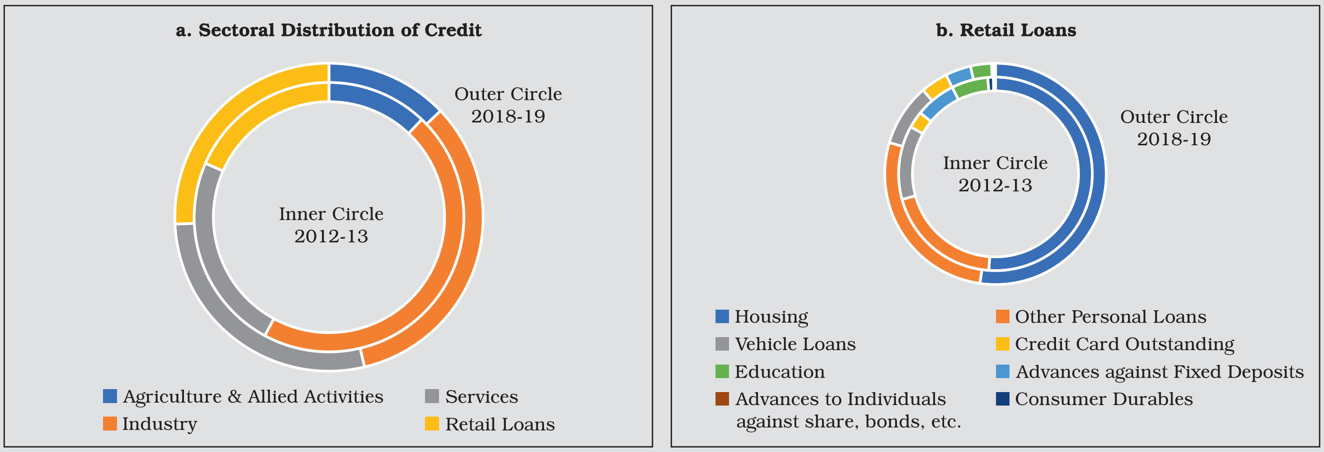
IV.40 During 2018-19, bank credit to agriculture accelerated, mainly on the back of expanding the ambit of the interest subvention scheme provided by the Government for ensuring availability of credit to the sector at a reasonable cost and enhancement of the limit for collateral free agricultural loan by the Reserve Bank; however, it has declined significantly in H1: 2019-20 (Table IV.14). Disconcertingly, the GNPA ratio in bank lending to the agriculture sector increased in 2018-19 as well as in H1: 2019-20 (Chart IV.18 a). In fact, analysis by the Internal Working Group (Chairman: Shri M. K. Jain) constituted by the Reserve Bank to review agricultural credit indicates that NPA levels have increased for those states that announced farm loan waiver programmes in 2017-18 and in 2018-19.

IV.41 Bank credit to industry decelerated in 2018-19 and in 2019-20 so far, partly tracking the slowdown in industrial production (Table IV.14). In 2018-19, out of the 19 industry sub-groups, credit accelerated only to 8 as compared with 12 in the previous year. Other sub-sectors such as food processing, textiles, paper and paper products, petroleum and coal products, gems and jewellery, and basic metals also experienced a decline in credit flows.

IV.42 The quality of banks' industrial assets improved in 2018-19 and in H1:2019-20, helped by a decline in fresh slippages and increase in recoveries through the IBC. Large industries posted the best progress in this regard (Chart IV.18 b). Notwithstanding, industrial GNPA ratio remained high at 17.4 per cent, constituting about two-thirds of total NPAs at the end of September 2019.

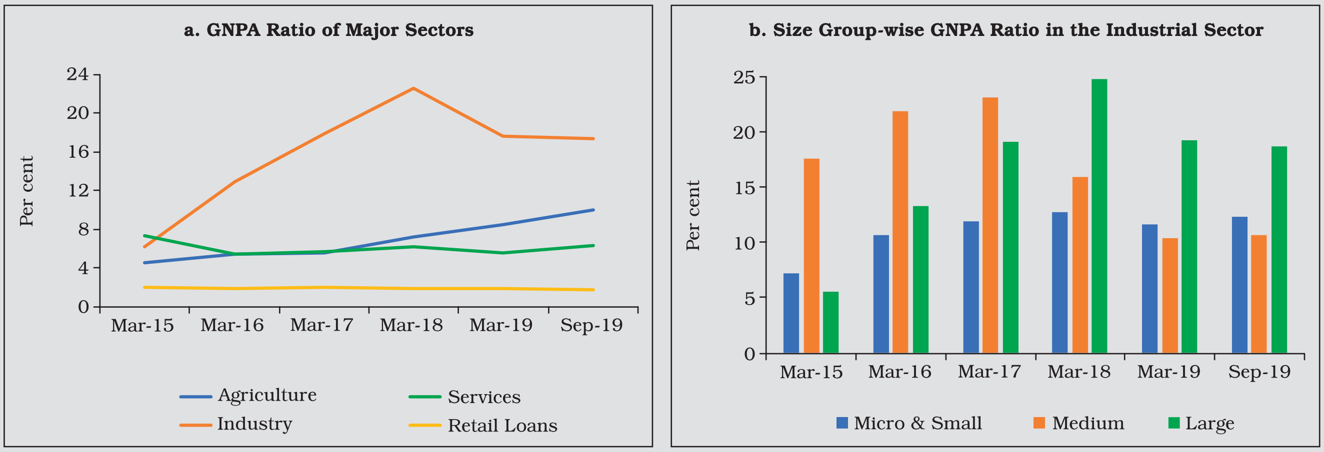
IV.43 Services sector credit growth accelerated on enhanced flows to shipping, trade, commercial real estate and NBFCs. Of the incremental non-food credit expansion, NBFCs accounted for 14.6 per cent – the highest amongst the services sub-sectors – reflecting the recent initiatives taken by the Reserve Bank and the Government

Chart IV.17: Sectoral Distribution



Source: RBI

Chart IV.18: Sectoral NPAs of SCBs



Source: Off-site returns (domestic operations), RBI

to revive the sector. Notwithstanding some moderation, retail loans grew in double digits, extending the expansion that has been underway over the past eight years. In H1: 2019-20, credit growth to both these sectors decelerated (Table IV.14).

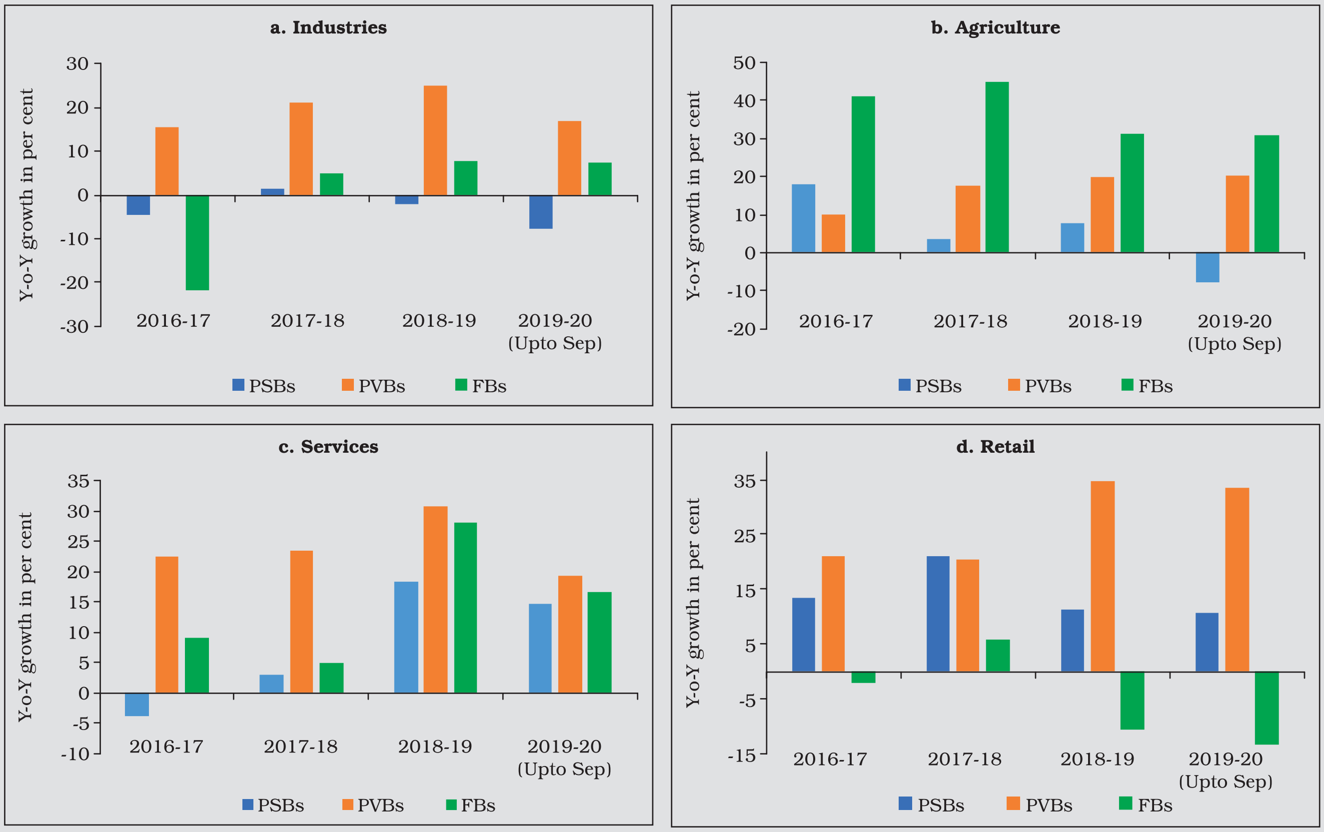
Table IV.14: Sectoral Deployment of Gross Bank Credit

(Amount in ₹crore)

Sr. No & Item	Outstanding as on			Per cent variation (y-o-y)		
	Mar-18	Mar-19	Sep-19	2017-18*	2018-19**	2019-20 (up to September)^
1. Agriculture & Allied Activities	**11,93,400**	**13,25,824**	**12,06,850**	**7.2**	**11.1**	**-0.6**
2. Industry, *of which*	**31,29,512**	**33,04,940**	**31,74,214**	**6.2**	**5.6**	**0.2**
2.1 Micro & Small Industries	4,18,225	4,38,392	4,33,908	8.8	4.8	-0.4
2.2 Medium	1,25,960	1,23,843	1,18,261	6.3	-1.7	-6.6
2.3 Large	24,62,576	26,24,288	25,30,553	4.6	6.6	1.8
3. Services, *of which*	**19,98,817**	**24,77,517**	**25,77,530**	**10.6**	**23.9**	**16.9**
3.1 Trade	5,19,398	5,83,613	5,83,264	7.5	12.4	12.7
3.2 Commercial Real Estate	2,04,414	2,43,122	2,57,959	3.4	18.9	12.4
3.3 Tourism, Hotels & Restaurants	52,095	56,194	56,766	9.9	7.9	3.2
3.4 Computer Software	22,299	22,236	22,576	14.9	-0.3	-0.7
3.5 Non-Banking Financial Companies	4,53,123	6,14,922	7,09,833	31.7	35.7	30.5
4. Retail Loans, *of which*	**19,42,501**	**23,02,173**	**24,64,985**	**20.5**	**18.5**	**18.1**
4.1 Housing Loans	10,08,013	12,04,332	13,03,629	18	19.5	**18.5**
4.2 Consumer Durables	19,036	9,195	8,902	-11.6	-51.7	**110.2**
4.3 Credit Card Receivables	82,827	1,11,361	1,21,708	27.7	34.5	30.5
4.4 Auto Loans	2,38,787	2,69,672	2,75,500	27.9	12.9	8.6
4.5 Education Loans	74,883	76,210	78,237	2.7	1.8	2.4
4.6 Advances against Fixed Deposits (incl. FCNR (B), etc.)	77,175	77,080	63,215	13.5	-0.1	**-4.8**
4.7 Advances to Individuals against Shares, Bonds, etc.	6,385	9,339	8,655	26.1	46.3	33.4
4.8 Other Retail Loans	4,35,396	5,44,983	6,05,139	28.2	25.2	24.2
5. Non-food Credit (1- 4)	**83,61,294**	**94,71,480**	**36,71,836**	**10.5**	**13.3**	8.6
6. Gross Bank Credit	**83,99,196**	**95,19,554**	**95,57,487**	**10.4**	**13.3**	8.9

*: March 2018 over March 2017. **: March 2019 over March 2018. ^: September 2019 over September 2018.
Source: Off-site returns (domestic operations), RBI

Chart IV.19: Sectoral Loans: PSBs vs. PVBs



Source: Off-site returns (domestic operations), RBI

IV.44 PVBs maintained double-digit credit growth in respect of all the major sectors. Their lending to the relatively stress-free retail and services sectors grew by over 30 per cent in 2018-19 (Chart IV.19). PSBs' credit to the services sector grew at 18.4 per cent, pulled up primarily by NBFCs, followed by commercial real estate. In contrast, PVBs exposure to services was more broad-based, even as credit to NBFCs accelerated.

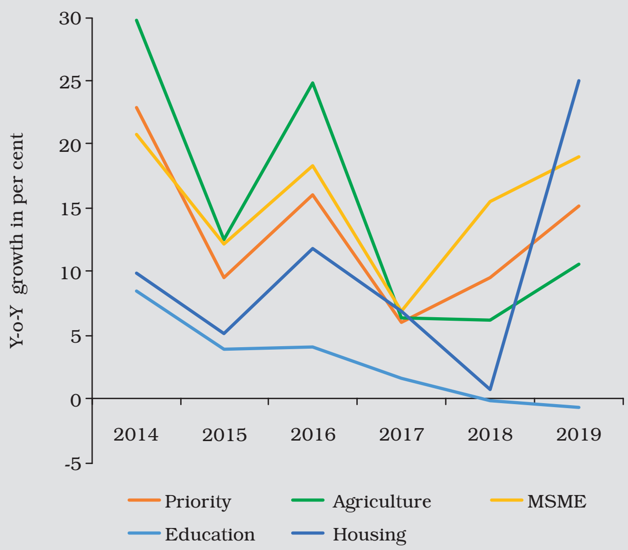
IV.45 In relation to preceding years, banks' retail loans moderated in 2018-19 as exposures to auto and consumer durables sectors were scaled back. Besides, PSBs experienced a substantial deceleration in the housing loans category, which accounts for more than half of their total retail credit. PVBs, on the other hand, compensated for the tepid growth in auto and consumer durables segments by stepping up disbursements of housing loans, which grew at over 40 per cent on a y-o-y basis in 2018-19.

IV.46 Supervisory data suggest that in H1:2019-20, PSBs' loan growth to services and retail sectors moderated, and their agricultural and industrial lending declined. PVBs' credit growth decelerated to all sectors barring agriculture but remained higher than that of PSBs (Chart IV.19). Prevalence of weak consumer demand and slowdown in economic activity seem to have impinged on the overall loan growth.

5.1 Priority Sector Credit

IV.47 Priority sector credit accelerated in 2018-19, largely driven by a recovery in credit to agriculture and housing. The steadfast drive to promote affordable housing under the ambit

Chart IV.20: Credit to Priority Sectors – All SCBs



Source: RBI.

of the Pradhan Mantri Awas Yojana (PMAY), coupled with the Reserve Bank's June 2018 initiative to expand the eligibility of housing loan limits for priority sector lending enabled a sharp jump in housing loan growth from 0.7 per cent in 2017-18 to 24.9 per cent in 2018-19 (Chart IV.20). Both PVBs and PSBs contributed to this revival.

IV.48 All bank groups managed to achieve the overall priority sector lending (PSL) target. However, shortfalls were found in certain sub-targets: PSBs in micro enterprises; PVBs in small and marginal farmers; and both PVBs and FBs in non-corporate individual farmers (Table IV.15). The total trading volume of the Priority Sector Lending Certificates (PSLC) platform – introduced in April 2016 to allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks – grew by 78 per cent to ₹3,27,429 crores as on March 31, 2019. Among the four PSLC categories, the highest trading was recorded in the case of PSLC-General and PSLC-small and marginal farmer, with transaction volumes of ₹1,32,485 crores and ₹1,12,504 crores, respectively.

Table IV.15: Priority Sector Lending by Banks
(As on March 31, 2019)

(Amount in ₹crore)

Item	Target/ sub-target (per cent of ANBC/OBE)	Public Sector Banks		Private Sector Banks		Foreign Banks	
		Amount outstanding	Per cent of ANBC/OBE	Amount outstanding	Per cent of ANBC/OBE	Amount outstanding	Per cent of ANBC/OBE
1	2	3	4	5	6	7	8
Total Priority Sector Advances	**40**	**23,05,977**	**42.55**	**10,18,993**	**42.49**	**1,54,336**	**43.41**
of which							
Total Agriculture	18	9,82,117	18.12	3,91,015	16.31	36,820	20.13
Small and Marginal Farmers	8	4,78,705	8.83	1,66,359	6.94	16,457	9.00
Non-corporate Individual Farmers#	11.99	6,80,417	12.56	2,66,883	11.13	19,394	10.61
Micro Enterprises	7.5	3,96,832	7.32	1,89,958	7.92	15,398	8.42
Weaker Sections	10	6,35,424	11.73	2,54,847	10.63	21,141	11.56

Notes: 1. #: Domestic SCBs were directed to ensure that the overall lending to non-corporate farmers does not fall below the system-wide average of the last three years' achievement. All efforts should be maintained to reach the level of 13.5 percent direct lending to the beneficiaries who earlier constituted the direct agriculture sector. The applicable system wide average figure for computing achievement under priority sector lending will be notified every year. For FY 2018-19, the applicable system wide average figure is 11.99 percent.
2. For foreign banks having less than 20 branches, the target of 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher, as on March 31 of the preceding year is to be achieved in a phased manner by March 2020.

Source: Financial Inclusion and Development Department (FIDD), RBI

Table IV.16: Sector-wise GNPAs of Banks
(As at end-March)

(Amount in ₹crore)

Bank Group	Priority Sector		Of which: Agriculture		Of which: Micro and Small Enterprises		Of which: Others		Non-priority Sector		Total NPAs	
	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#
PSBs*												
2018	1,87,511	22.2	75,274	8.9	82,094	9.7	30,143	3.6	6,57,964	77.8	8,45,475	100
2019	1,97,334	27.8	95,938	13.5	73,381	10.3	28,016	3.9	5,12,774	72.2	7,10,109	100
PVBs^												
2018	18,426	18.0	7,789	7.6	8,013	7.8	2,624	2.6	83,998	82.0	1,02,424	100
2019	29,721	19.0	12,679	8.1	12,796	8.2	4,246	2.7	1,26,991	81.0	1,56,712	100
FBs												
2018	1,184	8.6	78	0.6	552	4.0	554	4.0	12,645	91.4	13,830	100
2019	1,101	9.0	105	0.9	616	5.1	379	3.1	11,082	91.0	12,183	100
All SCBs**												
2018	2,07,120	21.5	83,141	8.6	90,659	9.4	33,321	3.5	7,54,608	78.5	9,61,728	100
2019	2,28,156	26.0	1,08,722	12.4	86,792	9.9	32,642	3.7	6,50,847	74.0	8,79,003	100

Notes: 1. Amt.: – Amount; Per cent: Per cent of total NPAs.
2. *: Includes IDBI Bank Ltd for 2018.
3. ^: Includes IDBI Bank Ltd for 2019.
3. Constituent items may not add up to the total due to rounding off.
4. # Share in total NPAs.
5. **: Does not include SFBs.

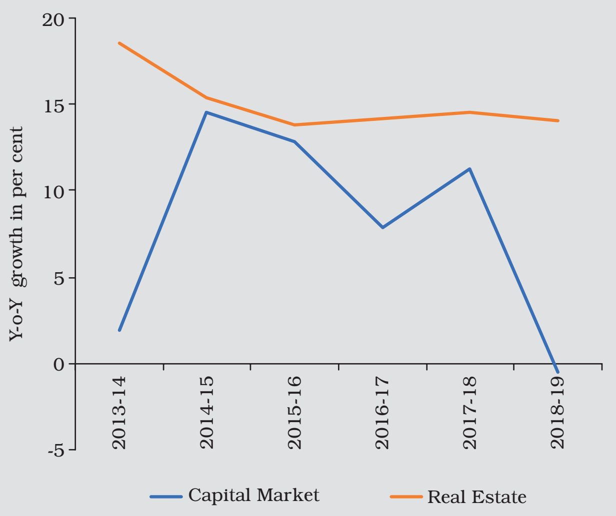
Source: Off-site returns (domestic operations), RBI

IV.49 While the priority sector accounts for approximately 36 per cent of total bank lending[13], its share in total GNPAs is 26 per cent of the total. Although the GNPA ratio of the priority sector declined marginally from 7.1 per cent at end-March 2018 to 6.8 per cent at end-March 2019, its share in total GNPAs increased during the year, mainly owing to the comparatively better performance of the non-priority sector (Table IV.16).

5.2 Credit to Sensitive Sectors

IV.50 Banks' exposure to sensitive sectors[14] edged up to 23.5 per cent of total loans and advances during 2018-19. Lending to the capital markets declined in 2018-19, as banks attempted to safeguard their balance sheets against volatile market movements (Chart IV.21 and Appendix Table IV.4).

Chart IV.21: Growth in Lending to Sensitive Sectors



Source: Annual accounts of banks.

[13] Corresponds to 43 per cent of ANBC.
[14] Sensitive sectors include capital market, real estate and commodities.

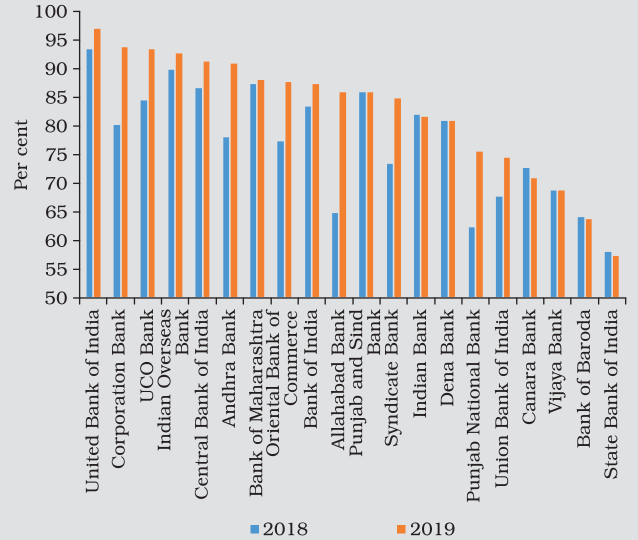
6. Operations of SCBs in the Capital Market

IV.51 Against the backdrop of volatile market conditions and other uncertainties which were not conducive to raising resources from the equity market, banks did not venture into public issues. Given their financial condition, the high interest cost on debt deterred the banks from raising funds from the bond markets. There were, thus, no public issues either by PSBs or by PVBs during 2018-19 and 2019-20 (up to September 2019). Resource mobilisation through private placement of bonds too declined, both in terms of the number of issues and the amount raised. As in the previous two years, PVBs raised resources through large-sized private placements during 2018-19 (Chart IV.22 a and b).

7. Ownership Pattern in Scheduled Commercial Banks

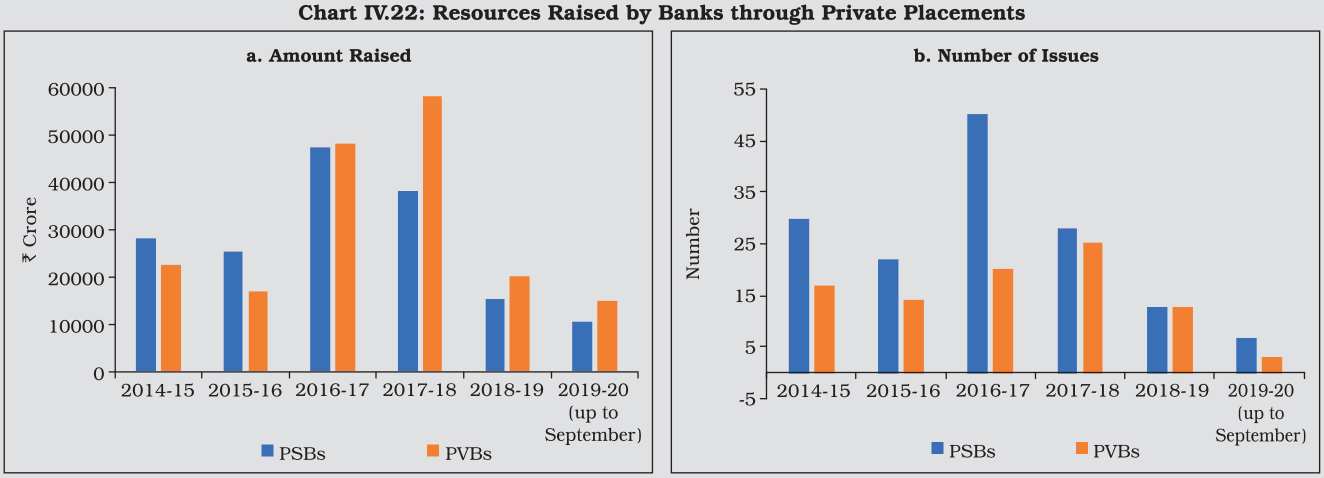
IV.52 At end-March 2019, the government's shareholding in 13 PSBs increased due to recapitalisation, whereas it reduced in four banks *albeit* marginally, and remained constant in three (Chart IV.23). Capital infusions and mergers planned for PSBs in 2019-20 are likely to change the ownership structure further. Furthermore, IDBI Bank Ltd was privatised with effect from January 21, 2019, consequent upon the Life Insurance Corporation of India (LIC) attaining 51 per cent of the paid-up equity share capital of the bank. While the maximum foreign shareholding in PSBs was 11.3 per cent, four PVBs had foreign shareholding in excess of 50 per cent at end-March 2019 (Appendix Table IV.5).

Chart IV.23: Government Shareholding in Select PSBs
(At end-March)



Source: Off-site returns (domestic operations), RBI.

Chart IV.22: Resources Raised by Banks through Private Placements



Source: BSE, NSE and Merchant Bankers.

8. Foreign Banks' Operations in India and Overseas Operations of Indian Banks

IV.53 During 2018-19, the number of branches operated by FBs in India increased, contrary to the trend in recent years (Table IV.17). This was mainly on account of opening of additional branches by DBS Bank post its conversion from branch to wholly owned subsidiary (WOS) mode. Indian PSBs, on the other hand, substantially reduced their overseas presence in terms of branches, representative offices and other offices with the objective of cost efficiency through shutting down of unviable foreign operations and rationalisation of multiple branches in same cities or nearby places. The presence of Indian PVBs remained stable in aggregate terms (Appendix Table IV.6).

9. Payment Systems and Scheduled Commercial Banks

IV.54 The core vision for the payment and settlement systems in India is that of a *less-cash* society, with an emphasis on empowering every Indian with access to a bouquet of e-payment options. In pursuit of this, the focus is on making digital payments safe, secure, accessible, and affordable through enhancing competition, optimising costs, improving convenience, and raising consumer confidence.

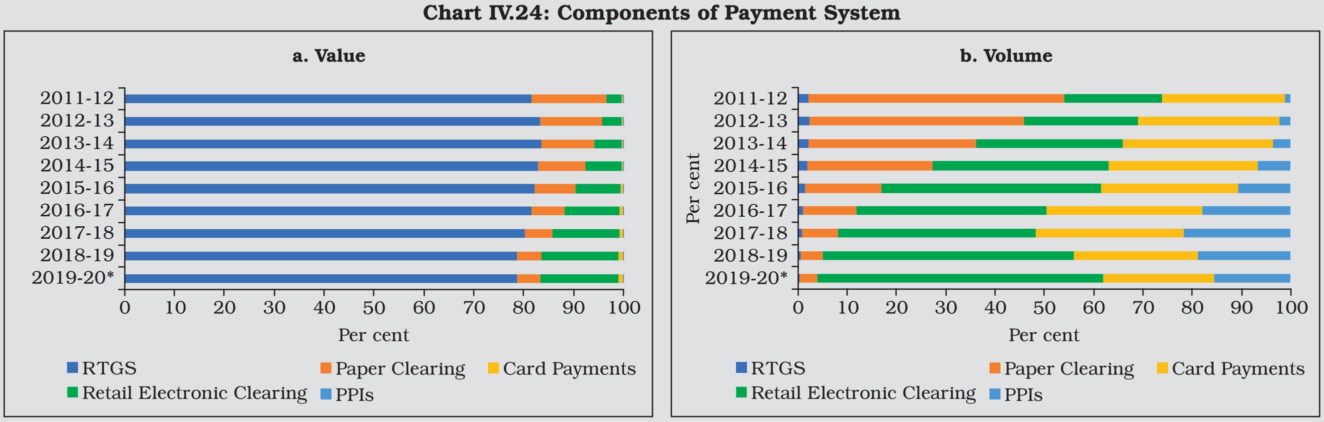
Table IV.17: Operations of Foreign Banks in India

Period	Number of Foreign Banks	Number of Branches
March 2015	45	321
March 2016	46	325
March 2017	44	295
March 2018	45	286
March 2019	45	299

Note: Two foreign banks, namely SBM Bank (India) Ltd. which is a subsidiary of SBM Group and DBS Bank India Ltd., a subsidiary of DBS Bank are operating through wholly owned subsidiary (WOS) mode. They have been issued licence on December 6, 2017 and October 4, 2018, respectively and commenced operations as WOS *w.e.f.* from December 1, 2018 and March 1, 2019, respectively.
Source: RBI

IV.55 The real time gross settlement (RTGS) system continued to dominate the payment system transactions[15] in terms of value. While the share of retail electronic clearing has been increasing in terms of value and volume, card payments (debit and credit cards) witnessed a moderation in the latter. The paper clearing segment declined both in value and volume terms, as has been the trend in recent years (Chart IV.24).

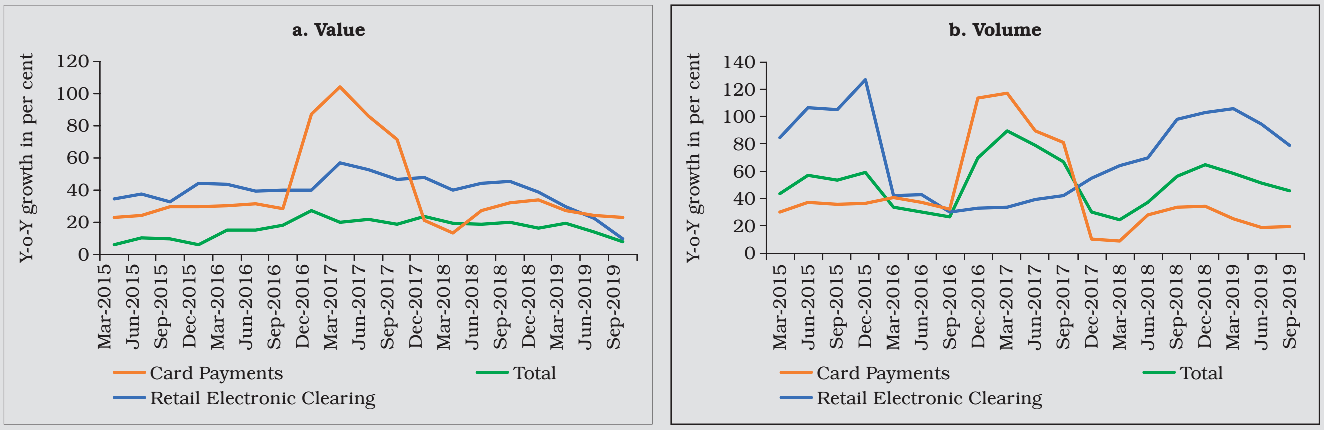
Chart IV.24: Components of Payment System



*: Till September 2019
Note: RTGS includes customer transactions and inter-bank transactions. Card payments include credit and debit card payments at point of sale (PoS) terminals and online.
Source: RBI.

[15] Includes RTGS, paper clearing, retail electronic clearing, card payments and pre-paid payment instruments (PPIs).

Chart IV.25: Payment System Transactions: Growth



Note: Card payments include credit and debit card payments at point of sale (PoS) terminals and online.
Source: RBI.

IV.56 Card payments – which had decelerated in 2017-18 after the demonetisation-induced spike of the previous year – recovered in 2018-19; however, volumes remain lower than that of retail electronic payments, indicative of the changing dynamics in the payments landscape and consumer preferences (Chart IV.25)

10. Consumer Protection

IV.57 The Reserve Bank has been striving to create an enabling environment for developing a customer-centric financial system by instituting mechanisms for addressing information asymmetries between providers and consumers of financial services, enhancing standards of disclosures and ensuring better alignment of product design *vis-à-vis* customer requirements, while providing an efficient and effective grievance redressal mechanism[16]. Recent initiatives include the Complaint Management System (CMS) which is a technology-enabled platform to effectively support the Ombudsman framework and consumer education and protection cells (CEPCs).

IV.58 The increasing trend in complaints received over the years is indicative of greater awareness among consumers, especially against the backdrop of the Reserve Bank's campaigns such as '*RBI Kehta Hai Jankar Baniye Satark Rahiye*', and 'Is Your Banking Complaint Unresolved?'. In spite of complaints increasing by 32,311 over the previous year, 94.03 per cent of the complaints filed were disposed of by Banking Ombudsman (BO) offices in 2018-19 as against 96.46 per cent in the previous year. Even though non-adherence to the fair practices code remained the main grievance against banks, complaints relating to ATM/debit/credit cards and mobile/electronic banking grew at a fast pace, in step with the increasing usage of these payment media (Table IV.18).

IV.59 The share of complaints emanating from urban and metropolitan areas account for more than three fourth of the total, indicating the higher level of awareness regarding grievance redressal mechanisms among the customers in these population groups (Chart IV.26). A disproportionately large share of complaints

[16] Consumer Protection in a Digital Financial World – Initiatives and Beyond, Shri M K Jain, Deputy Governor, Reserve Bank of India. Speech delivered at the Annual Conference of Banking Ombudsman – 2019, Mumbai on June 21, 2019.

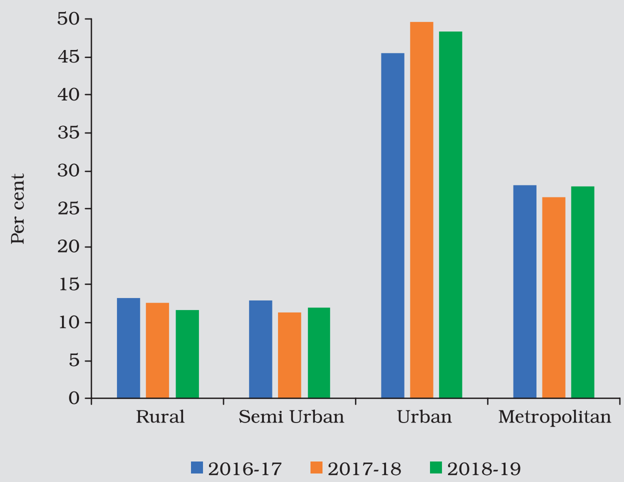
Table IV.18: Nature of Complaints at BOs

	2016-17	2017-18	2018-19
Non-observance of Fair Practice Code	31,769	36,146	37,557
ATM/ Debit Cards	16,434	24,672	36,539
Mobile / Electronic Banking*	-	8,487	14,794
Failure to Meet Commitments	8,911	11,044	13,332
Credit Cards	8,297	12,647	13,274
Deposit Accounts	7,190	6,719	10,844
Levy of Charges without Prior Notice	7,273	8,209	8,391
Loans and Advances	5,559	6,226	7,610
Pension Payments	8,506	7,833	7,066
Non-adherence to BCSBI Codes	3,699	3,962	5,981
Remittances	3,287	3,330	3,451
Para-Banking*	-	579	1,115
DSAs and Recovery Agents	330	554	629
Notes and Coins	333	1,282	480
Others	23,169	26,219	28,330
Out of Purview of BO Scheme	6,230	5,681	6,508
Total	**1,30,987**	**1,63,590**	**1,95,901**

Notes: 1. *: Fresh grounds included from July 1, 2017.
2. Data pertain to July-June.
Source: Various offices of Banking Ombudsman

relating to levy of charges without prior notice were filed against PVBs (45 per cent given that their share in total assets of the banking sector is 32 per cent). Similarly, almost all complaints relating to pensions were against PSBs (Chart IV.27).

Chart IV.26: Population Group-wise Complaints Received at BOs

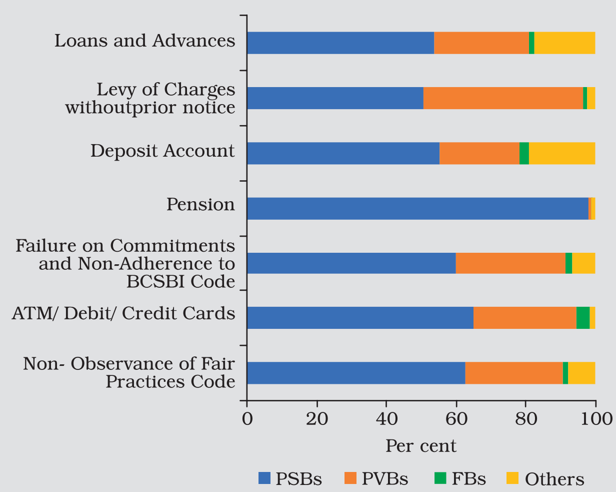


Note: Data pertains to July-June.
Source: Various offices of Banking Ombudsman.

11. Financial Inclusion

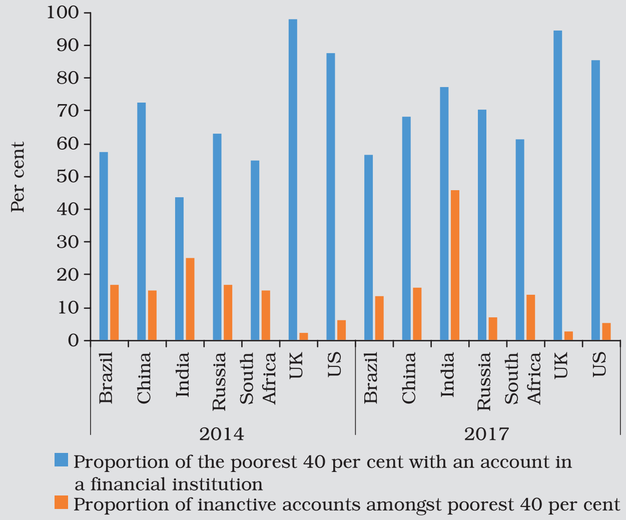
IV.60 Since the introduction of the Pradhan Mantri Jan Dhan Yojana (PMJDY) in August 2014, the national financial inclusion agenda has taken long strides across the country in pursuit of its aim of expanding access to basic financial services to the most vulnerable sections of the population. By 2017, 77 per cent of the poorest 40 per cent in India had an account with a financial institution, the highest amongst BRICS countries. Yet, engagement of the people with the financial system remains low, as reflected in a high proportion of inactive accounts (Chart IV.28). Against this backdrop, the National Strategy for Financial Inclusion for India 2019-24, prepared under the aegis of the Financial Inclusion Advisory Committee (FIAC), incorporates the views of a range of stakeholders and market players in renewing the drive to make formal financial services accessible and affordable in a safe and transparent manner.

Chart IV.27: Bank Group-wise Break-up of Major Complaint Types: 2018-19



Note: Data pertains to July-June.
Source: Various offices of Banking Ombudsman.

Chart IV.28: Financial Inclusion amongst Poorest 40 per cent



Source: Global Findex Database, World Bank.

IV.61 Under financial inclusion plans (FIPs) of SCBs, the number of brick-and-mortar branches and banking outlets through the business correspondent (BC) model in rural areas increased in 2018-19, reversing the decline in 2017-18. Moreover, the share of BCs in total banking outlets in rural areas remained around 91 per cent and the number of urban locations covered through BCs recorded more than a three-fold rise. Furthermore, accelerated growth in the number of Basic Savings Bank Deposit Accounts (BSBDAs) opened *via* BCs and the healthy expansion of Information and Communication Technology (ICT) based transactions driven by BCs point to their rising popularity. Going forward, capacity building and skill-upgradation programmes, such as the 'Train the Trainers' initiative by the Reserve Bank, are expected to boost this momentum further (Table IV.19).

11.1 Pradhan Mantri Jan Dhan Yojana

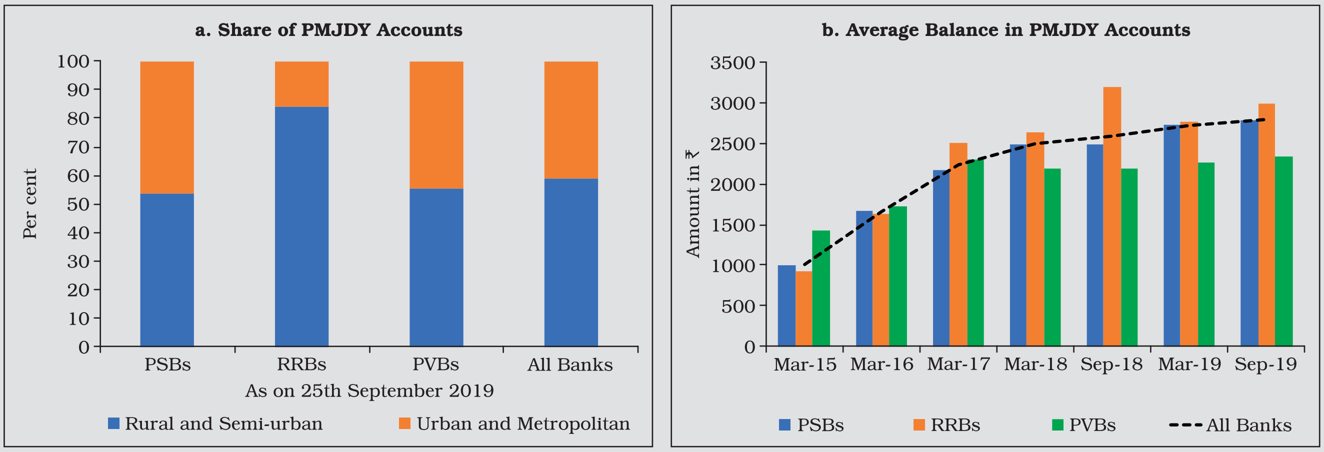
IV.62 As stated earlier, the PMJDY has contributed significantly to the cause of financial inclusion in the country. The total number of

Table IV.19: Progress under Financial Inclusion Plans, All SCBs (including RRBs)

Sr. No.	Particulars	Year ended Mar-10	Year ended Mar-18	Year ended Mar-19	Y-o-Y growth in per cent (2017-18)	Y-o-Y growth in per cent (2018-19)
1	Banking Outlets in Rural location - Branches	33,378	50,805	52,489	-0.1	3.3
2	Banking Outlets in Rural location - Branchless mode	34,316	5,18,742	5,44,666	-5.2	5
3	Banking outlets in Rural locations - Total	67,694	5,69,547	5,97,155	-4.8	4.8
4	Urban locations covered through BCs ($)	447	1,42,959	4,47,170	39	212.8
5	BSBDA - Through branches (No. in Lakh)	600	2,474	2,547	-2.6	3
6	BSBDA - Through branches (Amt. in Crore)	4,400	73,085	87,765	5.8	20.1
7	BSBDA - Through BCs (No. in Lakh)	130	2,888	3,195	3.1	10.6
8	BSBDA - Through BCs (Amt. in Crore)	1,100	39,056	53,195	37	36.2
9	BSBDA - Total (No. in lakh)	735	5,362	5,742	0.6	7.1
10	BSBDA - Total (Amt. in Crore)	5,500	1,12,141	1,40,960	14.8	25.7
11	OD facility availed in BSBDAs (No. in lakh)	2	58	59	-35.6	1.7
12	OD facility availed in BSBDAs (Amt. in Crore)	10	408	443	-76	8.6
13	KCC - Total (No. in Lakh)	240	464	491	0.9	5.8
14	KCC - Total (Amt. in Crore)	1,24,000	6,09,587	6,68,044	5	9.6
15	GCC - Total (No. in Lakh)	10	118	120	-9.2	1.7
16	GCC - Total (Amt. in Crore)	3,500	1,49,792	1,74,514	-29.2	16.5
17	ICT-A/Cs-BC-Total number of transactions (in Lakh)	270	14,886	21,019	28.4	41.2
18	ICT-A/Cs-BC-Total number of transactions (in Crore)	700	4,29,238	5,91,347	61.9	37.8

Note: Sr. No. 1-16 consist of cumulative data from the inception. Sr. No. 17-18 consist of data from the start of corresponding financial year.
$: Out of 4, 47,170 outlets, it is reported that 3, 88,868 outlets provide limited services only like remittance, or sourcing of loans, *etc*.
Source: FIP returns submitted by banks

Chart IV 29: PMJDY Accounts: Distribution and Average Balance



Source: Pradhan Mantri Jan Dhan Yojana, Government of India.

accounts opened under PMJDY increased to 37.1 crores, with ₹1.02 lakh crore of deposits as on September 25, 2019. Of these accounts, 59 per cent are operational in rural and semi-urban areas (Chart IV.29 a). Since September 2018, more than 70 per cent of the new PMJDY accounts have been opened with PSBs. The usage of these accounts, however, has stagnated in the last two years as evident from the deceleration in average balances (Chart IV.29 b). There has been a steady increase in the number of RuPay cards issued, driven by both PSBs and PVBs.

11.2 New Bank Branches

IV.63 The pace of opening of new bank branches, which had moderated in the previous three consecutive years, reversed in 2018-19. More than 50 per cent of the new branches were opened in Tier-1 and Tier-2 centres; on the other hand, the shares of Tier-5 and Tier-6 centres declined (Table IV.20). This is consistent with the banks' policy of opening branches in high population density areas where they are likely to be more commercially viable, while relying on BCs to enhance their outreach in other centres. The revised guidelines on rationalisation of branch authorisation policy introduced in May 2017 has provided banks the autonomy to decide their business strategy in facilitating financial inclusion.

Table IV.20: Tier-wise Break-up of Newly Opened Bank Branches by SCBs

Centre	2015-16	2016-17	2017-18	2018-19
Tier 1	3,247	2,336	1,581	2,114
	(35.7)	(43.6)	(40.1)	(46.7)
Tier 2	694	363	336	515
	(7.6)	(6.8)	(8.5)	(11.3)
Tier 3	1,192	639	567	700
	(13.1)	(11.9)	(14.4)	(15.4)
Tier 4	790	429	333	359
	(8.7)	(8.0)	(8.4)	(7.9)
Tier 5	934	665	455	379
	(10.3)	(12.4)	(11.5)	(8.3)
Tier 6	2,223	925	666	451
	(24.5)	(17.2)	(16.9)	(10.0)
Total	**9,080**	**5,357**	**3,938**	**4,518**
	(100)	**(100)**	**(100)**	**(100)**

Notes: 1. Tier-wise classification of centres is as follows: 'Tier 1' includes centres with population of 1, 00,000 and above, 'Tier 2' includes centres with population of 50,000 to 99,999, 'Tier 3' includes centres with population of 20,000 to 49,999, 'Tier 4' includes centres with population of 10,000 to 19,999, 'Tier 5' includes centres with population of 5,000 to 9,999, and 'Tier 6' includes centres with population of Less than 5000.
2. Data exclude 'Administrative Offices'.
3. All population figures are as per census 2011.
4. Central Information System for Banking Infrastructure data are dynamic in nature. The data are updated based on information received from banks.
5. Figures in the parentheses represent proportion of the branches opened in a particular area *vis-à-vis* the total.

Source: Central Information System for Banking Infrastructure (erstwhile Master Office File system) database, RBI

11.3 ATMs

IV.64 The total number of ATMs (on-site and off-site) operated by banks decreased during the year. This was partly compensated by growth in white label ATMs (WLAs) (Chart IV.30), boosted by policy changes introduced on March 7, 2019, to enhance the financial viability of WLAs, such as allowing their operators to source cash directly from the Reserve Bank, offer non-bank services, and advertise non-financial products in their premises.

IV.65 While PVBs recorded an increase in their on-site and off-site ATMs, PSBs reduced both, with a higher rate of decline in the latter[17]. Notably, scheduled SFBs operated more ATMs than FBs by end-March 2019 (Table IV.21). Despite transactions at ATMs decelerating both in volume and value terms, they still serve as a common medium for people to access cash[18].

V.66 The distributional pattern of ATMs of SCBs remained broadly similar in 2018-19 to the previous year. However, rural and semi-urban areas, which had recorded marginal growth in the number of ATMs in 2017-18, experienced a decline in 2018-19. PVBs and FBs continue to have more ATMs concentrated in urban and metropolitan centres, causing the skew (Table IV.22).

Chart IV.30: SCBs' ATMs *Vs* White-label ATMs

Source: RBI.

11.4 Microfinance Programme

IV.67 The self-help group (SHG)-bank linkage programme (SBLP) run by the National Bank for Agriculture and Rural Development (NABARD)

Table IV.21: ATMs

Sr. No.	Bank Group	On-site ATMs		Off-site ATMs		Total Number of ATMs	
		2018	2019	2018	2019	2018 (3+5)	2019 (4+6)
1	2	3	4	5	6	7	8
I	PSBs	82,733	78,419	63,235	57,679	1,45,968	1,36,098
II	PVBs	23,829	26,197	36,316	37,143	60,145	63,340
III	FBs	214	221	725	693	939	914
IV	SFBs*	-	1,422	-	298	-	1,720
V	WLAs	-	-	-	-	15,195	19,507
VI	All SCBs (I to IV)	1,06,776	1,06,259	1,00,276	95,813	**2,07,052**	**2,02,072**
VII	Total (V+VI)	-	-	-	-	**2,22,247**	**2,21,579**

*: 8 scheduled SFBs as at end-March 2019.
Source: RBI

[17] This is partly due to the reclassification of IDBI Bank as a private bank. Adjusted for IDBI bank, the PVBs showed a reduction in off-site ATMs and in the total number of ATMs, with no change among PSBs.

[18] During 2018-19, the value of transactions that occurred at ATMs is 2.8 times that of PoS.

Table IV.22: Number of ATMs of SCBs at Various Centres

(At end-March 2019)

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5	6
Public Sector Banks	27,683	40,183	38,498	29,734	1,36,098
	(20.3)	(29.5)	(28.3)	(21.8)	(100.0)
Private Sector Banks	5,339	15,388	16,683	25930	63,340
	(8.4)	(24.3)	(26.3)	(40.9)	(100.0)
Foreign Banks	21	18	166	709	914
	(2.3)	(2.0)	(18.2)	(77.6)	(100.0)
Small Finance Banks*	372	460	482	406	1,720
	(21.6)	(26.7)	(28.0)	(23.6)	(100.0)
Total	**33,415**	**56,049**	**55,829**	**56,779**	**2,02,072**
	(16.5)	**(27.7)**	**(27.6)**	**(28.1)**	**(100.0)**
Growth over Previous Year	**-3.1**	**-1.4**	**-2.4**	**-2.7**	**-2.3**

Notes: 1. Figures in parentheses indicate percentage share of total ATMs under each bank group.
2. *: 8 scheduled SFBs as at end-March 2019.

Source: RBI

has emerged as the world's largest micro finance movement through which credit facilities are extended to the poor by organising them into groups and connecting them to the formal financial sector. SHGs' outstanding loans with banks are approximately five times larger than those of their closest alternative model *viz.*, Micro Finance Institutions (MFIs). The NPA ratio of the former reduced to 5.2 per cent from 6.1 per cent in the previous year[19] (Appendix Table IV.13).

11.5 Credit to Micro, Small and Medium Enterprises (MSMEs)

IV.68 Credit growth to micro, small and medium enterprises (MSMEs) accelerated in 2018-19 from the anaemic conditions that prevailed during 2017-18, owing to the aggressive credit expansion by PVBs. PSBs' share in total credit to MSMEs decreased from 65 per cent in 2017-18 to 58 per cent in 2018-19. Although the number of accounts of PVBs was nearly double that of PSBs, the average amount of loans extended by PVBs was ₹2.75 lakhs – much lower than ₹7.79 lakhs by PSBs – indicative of the scale of businesses served by the two (Table IV.23).

11.6 Regional Banking Penetration

IV.69 Banking outreach in India at the sub-national level remains heterogeneous and tilted

Table IV.23: Credit Flow to the MSME Sector by SCBs

(No. of accounts in lakh, amount outstanding in ₹crore)

		2015-16	2016-17	2017-18	2018-19
Public Sector Banks	No. of Accounts	106.82	111.97	111.01	112.97
		(24.1)	(4.8)	(-0.9)	(1.8)
	Amount Outstanding	8,20,548	8,28,933	8,64,598	8,80,033
		(-3.8)	(1.0)	(4.3)	(1.8)
Private Sector Banks	No. of Accounts	96.42	119.59	148.33	205.31
		(92.0)	(24.0)	(24.0)	(38.4)
	Amount Outstanding	3,59,085	4,30,963	4,10,760	5,63,678
		(27.5)	(20.0)	(-4.7)	(37.2)
Foreign Banks	No. of Accounts	1.86	2.07	2.20	2.40
		(-34.4)	(11.1)	(6.2)	(9.3)
	Amount Outstanding	36,374	36,503	48,881	66,939
		(-1.1)	(0.4)	(33.9)	(36.9)
All Scheduled Commercial banks	No. of Accounts	205.10	233.63	261.54	320.68
		(47.4)	(13.9)	(12.0)	(22.6)
	Amount Outstanding	12,16,007	12,96,399	13,24,239	15,10,651
		(3.8)	(6.6)	(2.2)	(14.1)

Note: Figures in the parentheses indicate y-o-y growth rates.

Source: Financial Inclusion and Development Department, RBI

[19] NABARD Annual Report 2018-19.

towards the western and southern regions even after concerted efforts to further financial inclusion in hitherto unbanked areas (Chart IV.31). Concomitantly, the average population served per bank branch continues to be much higher in eastern, central and north-eastern regions than in other parts (Chart IV.32). Lower per capita income level and industrial activity, coupled with inadequate availability of infrastructural facilities are some of the factors, which are correlated with insufficient regional banking penetration in the country. However, empirical evidence suggests that regions, which historically lagged behind are catching-up (Box IV.2).

12. Regional Rural Banks

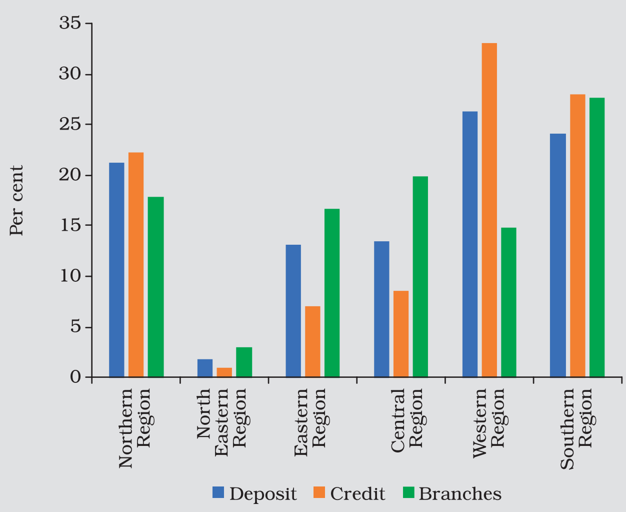
IV.70 Regional Rural Banks (RRBs) were formed under the RRB Act, 1976 with the objective of providing credit and related banking facilities to small farmers, agricultural labourers, artisans, and other rural poor. In the union budget of 2019-20, ₹235 crores were allocated for recapitalisation of RRBs to enable them to comply with regulatory requirements and to empower them to channelise a larger volume of resources for financial inclusion. From 196 in 2005, the number of RRBs has come down to 45 as at April 1, 2019. The target is to further consolidate them into 38 RRBs to minimise overhead expenses, enhance capital, and expand their area of operation.

12.1 Balance Sheet Analysis

IV.71 The consolidated balance sheet of RRBs expanded during the year, fuelled by growth in deposits and share capital on the liabilities side and loans and advances on the assets side. Furthermore, deposits – which had decelerated sharply in the previous year from a high demonetisation induced base – rebounded. Borrowings decelerated, mainly on account of a dip in funds from sponsor banks, although lending by other sources saw a sharp increase (Table IV.24).

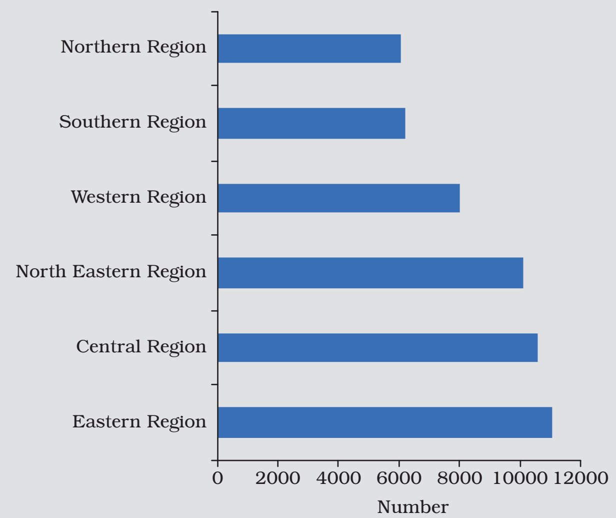
IV.72 In line with their mandate, the emphasis of RRBs' lending remained on the priority

Chart IV.31: Regional Shares in Deposits, Credit and Branches
At end-June 2019



Source: RBI

Chart IV.32: Population per Branch
At end-June 2019



Source: RBI and Ministry of Statistics and Programme Implementation, Government of India.

Box IV.2: Is Regional Banking Penetration in India Converging?

Over the period 2005-16, there has been narrowing down of inter-regional inequalities in banking outreach. Although the north-eastern region had a lower base than other regions for both deposit and credit accounts, it is fast catching up with other regions (Charts 1a and 1b).

A fixed effects panel model with regions as panel entities and coefficient of variation within the regions as the dependent variable suggests a decline in intra-regional variation in banking penetration (Table 1). Conditional β-convergence has been estimated by using annual data for 32 states/ UTs for the period from 2005 to 2018 in a generalised method of moments (GMM) framework of the following form:

$$\Delta(\ln B_{i,t}) = \alpha + \beta\,(\ln B_{i,t-1}) + \rho\, X_{i,t} + \gamma\, Z_{i,t} + \varepsilon_{i,t}$$

where B is the number of credit and deposit accounts per '000 population; X and Z represent the conditioning variables - lagged values of per capita income (post log-transformation) and number of factories per thousand population - that control for differences in economic characteristics varying levels of economic development across states. A negative and significant β implies conditional convergence.

The β is found, on an average, to be negative and significant for both the equations suggesting convergence (Table 2). States with lower base in the initial period are catching-up.

Table 1: Convergence within Regions

Dependent Variable: Within Region Coefficient of Variation

	Deposit Accounts (2005 to 2017)	Credit Accounts (2012-17)
Time	-2.57***	-1.98**
Constant	5222.9***	4039.8**
No. of obs.	78	36
Adjusted R^2	0.92	0.97

Note: * : $p < 0.05$, ** : $p < 0.01$, *** : $p < 0.001$.

Table 2: Conditional β-convergence across India

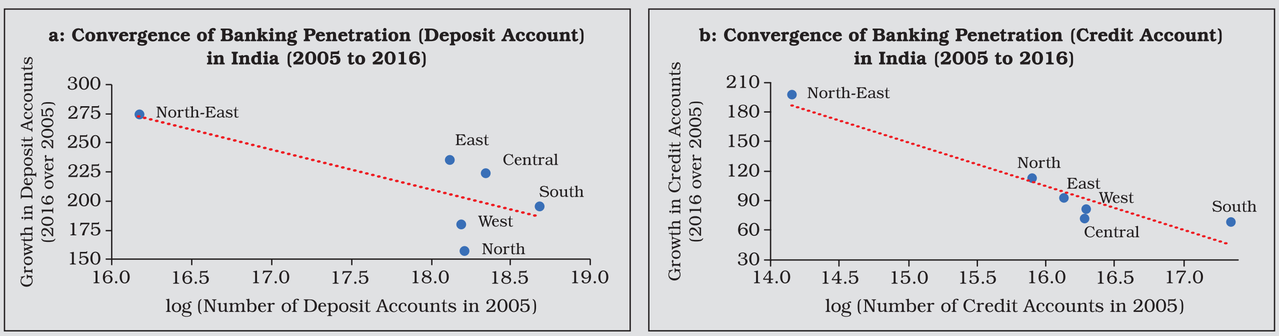
	Model 1 (Credit Accounts)	**Model 2** (Deposit Accounts)
β	-0.32***	-0.15***
ρ	0.19***	0.26***
γ	1.34***	0.10^
α	-0.72***	-1.63***
No. of obs.	310	334
AR (2) (p-value)	0.17	0.06
Sargan (p-value)	0.21	0.64

Note: ^: p<0.10;* : p<0.05; **: p<0.01; *** : p<0.001.

Source: Staff calculations.

These results also highlight the crucial role of conditioning factors such as rise in income level of populace and industrialisation in fostering convergence amongst states.

Chart 1: Scatter Plot of Convergence of Banking Penetration in India (2005 to 2016)



Source: Staff calculations.

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Table IV.24: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ₹crore)

Sr. No.	Item	At end-March 2018	At end-March 2019P	Y-o-Y Growth in Percent 2017-18	Y-o-Y Growth in Percent 2018-19P
1	Share Capital	6,437	6,721	0.6	4.4
2	Reserves	25,185	26,109	9.1	3.7
3	Deposits	4,00,459	4,34,445	7.7	8.5
3.1	Current	10,223	11,124	-3.7	8.8
3.2	Savings	2,01,038	2,24,095	6.9	11.5
3.3	Term	1,89,198	1,99,226	9.3	5.3
4	Borrowings	57,647	58,890	11.6	2.2
4.1	from NABARD	45,939	46,898	13.3	2.1
4.2	Sponsor Bank	9,316	5,784	-1.1	-37.9
4.3	Others	2,392	6,209	41.2	159.6
5	Other Liabilities	15,234	29,633	18.8	94.5
	Total liabilities/Assets	**5,04,962**	**5,55,798**	**8.3**	**10.1**
6	Cash in Hand	2,789	2,913	0	4.4
7	Balances with RBI	15,806	17,447	5.3	10.4
8	Other Bank Balances	5,607	5,469	-13.8	-2.5
9	Investments	2,22,266	2,24,818	5.3	1.1
10	Loans and Advances (net)	2,37,011	2,69,372	12.1	13.7
11	Fixed Assets	1,223	1,264	9.1	3.4
12	Other Assets #	20,259	34,515	12.2	70.4

Notes: 1. #: Includes accumulated losses.
2. P Provisional.
3. Totals may not tally on account of rounding-off of figures into ₹crore. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹crore.

Source: NABARD

Table IV.25: Purpose-wise Outstanding Advances by RRBs

(Amount in ₹crore)

Sr. No.	Purpose/End-March	2018	2019P
1	2	3	4
I	**Priority (i to v)**	**2,27,941**	**2,55,156**
	Per cent of total loans outstanding	90.4	90.9
	i Agriculture	1,73,726	1,96,632
	ii Micro, small and medium enterprises	31,549	33,435
	iii Education	2,801	2,656
	vi Housing	15,477	18,304
	v Others	4,389	4,130
II	**Non-priority (i to vi)**	**24,278**	**25,670**
	Per cent of total loans outstanding	9.6	9.1
	i Agriculture	18.3	1.2
	ii Micro, small and medium enterprises	261	306
	iii Education	46	72
	iv Housing	2,286	2,549
	v Personal Loans	6,454	6,502
	vi Others	15,213	16,239
Total (I+II)		**2,52,219**	**2,80,826**

Notes: 1. P: Provisional
2. Totals may not tally on account of rounding-off of figures into ₹crore.

Source: NABARD

sector. Within the priority sector, agriculture garnered the lion's share – 77.1 per cent. While the balance sheet of RRBs is 3.3 per cent that of SCBs, their agriculture lending constitutes 14.8 per cent of SCB's lending to the sector (Table IV.25).

12.2 Financial Performance

IV.73 The operating profits of RRBs declined in 2018-19, after two consecutive years of acceleration. The increase in interest income was lacklustre *vis-à-vis* the acceleration in operating expenses, of which the wage bill was the major contributor. The asset quality of RRBs has been worsening since 2015-16, leading to capital erosion (Table IV.26).

13. Local Area Banks

IV.74 The consolidated assets of the three local area banks (LABs) grew at 13 per cent in 2018-19 up from 4.5 per cent in 2017-18. The credit-deposit ratio, on the other hand, fell from 79 per cent in the previous year to 75 per cent in 2018-19 as deposits accelerated at a significantly higher pace than gross advances (Table IV.27).

Financial Performance

IV.75 Non-interest income of LABs declined in 2018-19, causing the growth in overall income to decelerate in comparison to 2017-18. Expenditure, however, accelerated, leading to a deterioration in profitability (Table IV.28).

14. Small Finance Banks

IV.76 Small Finance Banks (SFBs) were set up in 2016 to offer basic banking services such as accepting deposits and lending to the unserved and the under-served sections, including small

Table IV.26: Financial Performance of Regional Rural Banks

(Amount in ₹crore)

Sr. No.	Item	Amount		Y-o-Y growth in per cent	
		2017-18	2018-19P	2017-18	2018-19P
1	2	3	4	5	6
A	**Income (i + ii)**	**41,819**	**43,180**	**6.6**	**3.3**
	i. Interest income	38,337	38,953	6.7	1.6
	ii. Other income	3,481	4,228	6.1	21.4
B	**Expenditure (i+ii+iii)**	**40,317**	**42,893**	**8.9**	**6.4**
	i. Interest expended	23,868	23,684	2.1	-0.8
	ii. Operating expenses	11,019	13,510	5.8	22.6
	of which, Wage bill	7,044	9,457	2.9	34.2
	iii. Provisions and contingencies	5,431	5,698	68.8	4.9
C	**Profit**				
	i. Operating profit	7,543	5,619	25	-25.5
	ii. Net profit	1,501	-548	-31.8	-136.5
D	**Total Average Assets**	**4,76,813**	**5,16,263**	9.8	8.3
E	**Financial Ratios #**				
	i. Operating profit	1.6	1.1		
	ii. Net profit	0.3	-0.1		
	iii. Income (a + b)	8.8	8.4		
	a) Interest income	8.0	7.6		
	b) Other income	0.7	0.8		
	iv. Expenditure (a+b+c)	8.5	8.3		
	a) Interest expended	5.0	4.6		
	b) Operating expenses	2.3	2.6		
	of which, Wage bill	1.5	1.8		
	c) Provisions and contingencies	1.1	1.1		
F	**Analytical Ratios (%)**				
	Gross NPA Ratio	9.5	10.7		
	CRAR	12.1	11.5		

Notes: 1. P- Provisional.
2: # Financial ratios are percentages with respect to average total assets.
3. Totals may not tally on account of rounding-off of figures in ₹crore. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹crore.

Source: NABARD

businesses, marginal farmers, micro and small industries, and the unorganised sector. At end-March 2019, ten SFBs were operational.

Table IV.27: Profile of Local Area Banks
(At end- March)

(Amount in ₹crore)

	2017-18	2018-19
1. Assets	819.5	926.4
2. Deposits	651.1	746.9
3. Gross Advances	514.1	559.7

Source: Off-site returns, global operations, RBI

Table IV.28: Financial Performance of Local Area Banks
(At end- March)

	Amount in ₹crore		Y-o-Y growth in per cent	
	2017-18	2018-19	2017-18	2018-19
1. Income (i+ii)	**116**	**118**	**9.2**	**1.7**
i. Interest income	90	97	2.9	7.6
ii. Other income	26	21	38.8	-19
2. Expenditure (i+ii+iii)	**98**	**107**	**4.7**	**8.6**
i. Interest expended	42	45	-8.2	7.3
ii. Provisions and contingencies	9	9	11.9	-6.4
iii. Operating expenses	47	53	18.1	12.6
of which, wage bill	20	24	11.8	22.2
3. Profit				
i. Operating profit/loss	27	20	30.9	-26.3
ii. Net profit/loss	18	11	43.7	-36.7
4. Net Interest Income	**48**	**52**	**15.1**	**7.9**
5. Total Assets	**820**	**926**	**4.5**	**13**
6. Financial Ratios @				
i. Operating Profit	3.3	2.1		
ii. Net Profit	2.2	1.2		
iii. Income	14.1	12.7		
iv. Interest Income	11	10.4		
v. Other Income	3.2	2.3		
vi. Expenditure	12	11.5		
vii. Interest Expended	5.1	4.9		
viii. Operating Expenses	5.7	5.7		
ix. Wage Bill	2.4	2.6		
x. Provisions and contingencies	1.1	0.9		
xi. Net Interest Income	5.8	5.6		

Note: Financial ratios for 2018-19 are calculated based on the asset of current year only.
@ Ratios as per cent of average assets of last two years.
'Wage Bill' is taken as payments to and provisions for employees.
Source: Off-site returns, global operations, RBI

14.1 Balance Sheet

IV.77 The consolidated balance sheet of SFBs expanded in 2018-19. Their deposit base more than doubled as they shed their legacy dependence on bank borrowings. While loans and advances grew strongly during the year and constituted 70.6 per cent of total assets, investments also registered a robust growth (Table IV.29).

14.2 Priority Sector Lending

IV.78 SFBs' share in advances to the priority sector declined for the second year in a row in

Table IV.29: Consolidated Balance Sheet of Small Finance Banks

(Amount in ₹crore)

Sr. No.	Item	2018	2019	Y-o-Y growth in per cent
1	2	3	4	
1.	Share Capital	4,178.8	4,759.6	13.9
2.	Reserves & Surplus	5,502.6	6,967.1	26.6
3.	Tier II Bonds Tier II Debt	1,604.0	2,109.0	31.5
4.	Deposits	26,470.7	55,686.3	110.4
	4.1 Current Demand Deposits	1,014.3	2,155.0	112.5
	4.2 Savings	4,528.7	7,669.1	69.3
	4.3 Term	20,927.6	45,862.1	119.1
5.	Borrowings (Including Tier II Bonds)	30,884.6	27,838.9	-9.9
	5.1 Bank	7,723.3	3,466.3	-55.1
	5.2 Others	23,161.2	24,372.4	5.2
6.	Other Liabilities & Provisions	2,914.9	3,672.5	26
	Total Liabilities/Assets	**69,952.5**	**98,924.0**	**41.4**
7.	Cash in Hand	320.4	461.3	44
8.	Balances with RBI	1,859.2	3,162.1	70.1
9.	Other Bank Balances/ Balances with Financial Institutions	4,917.4	4,601.8	-6.4
10	Investments	13,154.1	17,287.0	31.4
11	Loans and Advances	46,754.7	69,856.8	49.4
12	Fixed Assets	1,523.7	1,642.7	7.8
13	Other Assets	1,427.1	1,913.3	34.1

Source: Off-site returns (domestic operations), RBI

2018-19. Their focus remained on micro, small, and medium enterprises, followed by agriculture (Table IV.30).

14.3 Financial Performance

IV.79 During 2018-19, the asset quality of SFBs improved significantly, leading to a contraction in provisions and contingencies even as their CRAR remained stable. Total income also grew, although one SFB reported exceptionally high losses which wiped out the net profit of other SFBs taken together in their combined finances (Table IV.31).

Table IV. 30: Purpose-wise Outstanding Advances by Small Finance Banks

(Share in percentage)

Sr. No.	Purpose	31-Mar-18	31-Mar-19
I	**Priority (i to v)**	**76.7**	**74.6**
	Per cent to total loans outstanding		
	i. Agriculture and allied activities	20.1	23.7
	ii. Micro, small and medium enterprises	31.0	36.7
	iii. Education	0.0	0.0
	iv. Housing	2.1	2.7
	v. Others	23.4	11.5
II	**Non-priority (i to vi)**	23.3	25.4
Total (I+II)		**100**	**100**

Source: Off-site returns (domestic operations), RBI

Table IV.31: Financial Performance of Small Finance Banks

(Amount in ₹crore)

Sr. No.	Item	2017-18	2018-19	Y-o-Y growth
1	2	3	4	5
A	**Income (i + ii)**	**9450.4**	**13239.0**	**40.1**
	i. Interest Income	8415.6	11818.8	40.4
	ii. Other Income	1034.8	1420.2	37.2
B	**Expenditure (i+ii+iii)**	**11566.2**	**13630.6**	**17.8**
	i. Interest Expended	4308.0	5710.3	32.5
	ii. Operating Expenses	4712.0	5728.4	21.6
	of which staff expenses	2409.2	2961.1	22.9
	iii. Provisions and Contingencies	2546.1	2191.9	-13.9
C	**Profit**	**-2021.2**	**-391.6**	
	i. Operating Profit (EBPT)	393.8	1800.3	357.2
	ii. Net Profit (PAT)	-2250.3	-932.3	
D	**Total Assets**	**69952.5**	**98923.7**	**41.4**
E	**Financial Ratios #**			
	i. Operating Profit	0.6	1.8	
	ii. Net Profit	-3.2	-0.9	
	iii. Income (a + b)	13.5	13.4	
	(a) Interest Income	12.0	12.0	
	(b) Other Income	1.5	1.4	
	iv. Expenditure (a+b+c)	16.5	13.8	
	(a) Interest Expended	6.2	5.8	
	(b) Operating Expenses	6.7	5.8	
	of which staff expenses	3.4	3.0	
	(c) Provisions and Contingencies	3.6	2.2	
F	**Analytical Ratios (%)**			
	Gross NPA Ratio	8.7	2.4	
	CRAR	22.9	21.5	
	Core CRAR	19.5	18.5	

Notes: # As per cent to total assets.
Source: Off-site returns (domestic operations), RBI

15. Payments Banks

IV.80 Payments Banks (PBs) were set up on the basis of the recommendations of the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (Chairman: Shri Nachiket Mor) with the objective of improving financial inclusion by harnessing technology services *via* mobile telephony. PBs cannot undertake lending activities and their design is functionally equivalent to that of pre-paid instrument (PPI) providers which are permitted to receive cash payments from customers, store them in a digital wallet, and allow customers to pay for goods and services from this wallet. Consequently, credit and market risks involved in PBs' activities are limited, though they are subject to operational and liquidity risks. The evolution of PBs since their inception suggests that they are yet to achieve the optimal scale to break-even or attain profitability.

15.1 Balance Sheet

IV.81 At end-March 2019, there were seven PBs operational in India as compared with five as at end-March 2018. The consolidated balance sheet of PBs expanded in 2018-19 as their deposits more than doubled during the year. The share of deposits in total liabilities increased from 9 per cent to 12.4 per cent during the same period, although they can accept deposits only up to ₹1 lakh per customer. While total capital and reserves witnessed a marginal increase, other liabilities (such as unspent balances in PPIs) accounted for 61.3 per cent of total liabilities at end-March 2019 (Table IV.32).

IV.82 PBs' asset composition reflected the regulatory structure under which they operate; they are required to maintain a minimum investment of 75 per cent of demand deposit balances (DDBs) in Government securities for maintenance of SLR and hold a maximum 25 per cent with other SCBs. Furthermore, balances outstanding under PPIs issued should be flexibly deployed between SLR-eligible Government securities and bank deposits in such a manner that they are able to comply with the requirements of CRR and SLR on overall outside liabilities. During 2018-19, the share of investments declined to 43.9 per cent from 50 per cent in the previous year (Table IV.32).

Table IV.32: Consolidated Balance Sheet of Payments Banks

(Amount in ₹crore)

	Item	Mar-18	Mar-19
1.	Total Capital and Reserves	1,849	1,868
2.	Deposits	438	883
3.	Other Liabilities and Provisions	2,608	4,363
	Total Liabilities/Assets	4,895	7,114
1.	Cash and Balances with RBI	377	729
2.	Balances with Banks and Money Market	1,249	1,376
3.	Investments	2,449	3,126
4.	Fixed Assets	235	547
5.	Other Assets	586	1,335

Note: Data for end-March 2018 and end-March 2019 pertain to five and seven PBs, respectively. Hence, the data for these two years are not comparable.
Source: Off-site returns (domestic operations), RBI

15.2 Financial Performance

IV.83 Despite improvement in net interest income and non-interest income, increases in operating expenses resulted in overall negative profits for PBs in 2018-19. The limited operational space available to them and the large initial costs involved in setting up of the infrastructure imply that it may take time for PBs to break even as they expand their customer base (Table IV.33).

IV.84 Net interest margin (NIM) and efficiency (cost-to income) improved during the year even

Table IV.33: Financial Performance of Payments Banks

(Amount in ₹crore)

Sr. No.	Item	Mar-18	Mar-19
A	Income (i+ii)		
	i. Interest Income	175.9	255.2
	ii. Other Income	1,003.6	2,093.7
B	Expenditure		
	i. Interest Expended	26.2	35.8
	ii. Operating Expenses	1,677.1	2,925.9
	iii. Provisions and Contingencies	-7.4	14.0
	of which Risk Provisions	-8.4	0.9
	Tax Provisions	1.0	13.0
C	Net Interest Income	151.5	219.4
D	Profit		
	i. Operating Profit (EBPT)	-523.0	-612.8
	ii. Net Profit/Loss	-515.6	-626.8

Note: Data for end-March 2018 and end-March 2019 pertain to five and seven PBs, respectively. Hence, the data for these two years are not comparable.
Source: Off-site returns (domestic operations), RBI

Table IV.34: Select Financial Ratios of Payments Banks

	Item	Mar-18	Mar-19
1.	Return on Assets	-10.6	-8.9
2.	Return on Equity	-27.9	-34.0
3.	Investments to Total Assets	50.0	44.0
4.	Net Interest Margin	4.5	5.2
5.	Efficiency (Cost-Income ratio)	142.2	124.6
6.	Operating Profit to Working Funds	-10.7	-8.6
7.	Profit Margin	-43.8	-27.0

Note: Data for end-March 2018 and end-March 2019 pertain to five and seven PBs, respectively. Hence, the data for these two years are not comparable.
Source: Off-site returns (domestic operations), RBI

as losses as reflected in RoA, RoE and profit margins continued (Table IV.34).

15.3 Inward and Outward Remittances

IV.85 In 2018-19, transactions through UPI took over from E-wallets as the most prominent channel for inward and outward remittances in terms of both value and volume (Table IV.35).

Table IV.35: Remittances through Payments Banks during 2018-19

(Number in Units, Amount in ₹crore)

Channel	Inward Remittances		Outward Remittances	
	Number	Amount	Number	Amount
1. NEFT	12,67,081 (0.2)	4,722 (5.3)	24,28,320 (0.3)	10,711 (9.7)
i) Bill Payments	1,81,542 -	2,956 (3.3)	9,88,431 (0.1)	7,174 (6.5)
ii) Other than Bill Payments	10,85,539 (0.2)	1,766 (2)	14,39,889 (0.2)	3,537 (3.2)
2. RTGS	18,341 -	11,184 (12.5)	6,390 -	7,015 (6.3)
3. IMPS	4,22,78,372 (6.4)	6,705 (7.5)	6,18,69,631 (8.7)	18,953 (17.1)
4. UPI	49,11,05,418 (74.3)	56,543 (63.1)	49,40,90,598 (69.7)	57,219 (51.8)
5. E - Wallets	11,00,94,745 (16.7)	5,659 (6.3)	13,20,65,753 (18.6)	11,562 (10.5)
6. Micro ATM (POS)	43,87,591 (0.7)	1,698 (1.9)	83,303 -	26 -
7. ATM	- -	- -	5,07,495 (0.1)	153 (0.1)
8. Others	1,17,57,286 (1.8)	3,142 (3.5)	1,81,92,884 (2.6)	4,911 (4.4)
Total	66,09,08,834	89,653	70,92,44,374	1,10,549

Notes: 1. -: Nil/ Negligible
2. Figures in the parentheses are percentage to total.
Source: Off-site returns (domestic operations), RBI

16. Overall Assessment

IV.86 The banking sector is slowly turning around on the back of improvement in asset quality, strengthening capital base, and a return to profitability. At this cusp, however, the evolving macroeconomic scenario, and particularly, the ongoing loss of pace in domestic economic activity, presents daunting challenges as widespread risk aversion has turned credit demand anaemic even as corporations deleverage their own stressed balance sheets. Notwithstanding the improvement in 2018-19, the overhang of NPAs remains high. Further reduction in NPAs through recoveries hinges around a reversal of the downturn in the economy.

IV.87 While banks have oriented their lending towards the relatively stress-free retail, the slowdown in private consumption spending has imposed limits to this growth strategy even as the possibility of defaults among retail segments rises as growth slows down.

IV.88 The recapitalisation of PSBs remains an unfinished agenda. Apart from meeting the regulatory minimum, commercial banks need to augment their capital base to guard against future balance sheet stress. Moreover, they also need to improve their valuation methodologies, credit monitoring and risk management strategies in order to build resilience.

IV.89 Over the last couple of years, the space vacated by risk-averse PSBs was taken up by PVBs; more recently, however, fault lines are becoming evident in the latter's corporate governance. This is occurring at a time when the balance sheets of PSBs have not yet regained their strength.

IV.90 Banks' lending to NBFCs has remained strong, reflecting the policy initiatives to alleviate liquidity stress in that sector. Nonetheless, appropriate risk pricing is warranted so that excessive risk-build up does not occur.

IV.91 Going forward, optimal bank capital, stringent corporate governance practices, and effective risk management strategies will help in strengthening the robustness of the banking system in an increasingly dynamic economic environment. Emergence of niche players is expected to augment innovation in financial technology and provide further impetus to the agenda of financial inclusion.