IV OPERATIONS AND PERFORMANCE OF COMMERCIAL BANKS

The Indian banking sector's asset quality improved during 2022-23 and 2023-24, with the gross non-performing assets (GNPA) ratio declining to its lowest in a decade. The combined balance sheet of scheduled commercial banks (SCBs) expanded at an accelerated pace, driven by credit to retail and services sectors, with higher net interest income and lower provisioning requirements boosting profitability.

1. Introduction

IV.1 During 2022-23, the combined balance sheet of commercial banks expanded in double digits, driven by sustained credit growth. Lower slippages helped improve asset quality across all bank groups, with GNPA to total advances ratio of SCBs dropping to a 10-year low. Higher lending rates and lower provisioning requirements helped to improve the profitability of banks and shored up their capital positions.

IV.2 Against this background, this chapter discusses the operations and performance of commercial banks during 2022-23 and H1:2023-24. An analysis of the consolidated balance sheet of SCBs is presented in Section 2, followed by an assessment of their financial performance in Section 3. The financial soundness of banks and the pattern of sectoral deployment of credit are discussed in Sections 4 and 5, respectively. Sections 6 and 7 deal with ownership patterns and corporate governance, respectively. Foreign banks' operations in India and overseas operation of Indian banks are covered in Section 8, followed by developments in payments systems (Section 9) and consumer protection (Section 10) and financial inclusion (Section 11). Developments related to regional rural banks (RRBs), local area banks (LABs), small finance banks (SFBs) and payments banks (PBs) are examined in Sections 12 to 15. Section 16 concludes the chapter and offers a way forward.

2. Balance Sheet Analysis of SCBs

IV.3 At end-March 2023, the Indian commercial banking space comprised 12 public sector banks (PSBs), 21 private sector banks (PVBs), 44 foreign banks (FBs), 12 SFBs, six PBs, 43 RRBs and two LABs. Of these 140 commercial banks, 136 were classified as scheduled while four banks were non-scheduled[1]. The consolidated balance sheet of SCBs (excluding RRBs) grew by 12.2 per cent in 2022-23, the highest in nine years. The main driver of this growth on the asset side was bank credit, which recorded its fastest pace of expansion in more than a decade (Chart IV.1 a). Deposit growth also picked up, although it trailed credit growth, resulting in higher recourse to borrowings (Chart IV.1b). This was particularly evident in the case of PSBs, for which the deposits to liabilities ratio moderated (Chart IV.1c).

[1] SCBs are classified into scheduled and non-scheduled based on their inclusion or otherwise in the second schedule of the RBI Act, 1934. Two PBs, *viz*., Jio Payments Bank Ltd. and NSDL Payments Bank Ltd and two LABs *viz*., Coastal Local Area Bank Ltd. and Krishna Bhima Samruddhi LAB Ltd. are non-scheduled commercial banks.

Chart IV.1: Select Aggregates of SCBs
(At end-March)

Source: Annual accounts of respective banks.

IV.4 The share of PSBs in the consolidated balance sheet of SCBs declined from 58.6 per cent at end-March 2022 to 57.6 per cent at end-March 2023, while PVBs gained share from 34.0 per cent to 34.7 per cent. At end-March 2023, PSBs accounted for 61.4 per cent of total deposits of SCBs and 57.9 per cent of total advances (Table IV.1).

2.1 Liabilities

IV.5 The aggregate deposits of SCBs picked up pace during 2022-23, led by term deposits of PVBs, benefitting from higher term deposit rates spurred by policy rate hikes during May 2022 – February 2023 and moderation of surplus liquidity (Chart IV.2). Interest rates on savings bank deposits — which account

Table IV.1: Consolidated Balance Sheet of Scheduled Commercial Banks
(At end-March)

(Amount in ₹ crore)

	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks #		Payments Banks		All SCBs	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital	71,176	71,176	31,243	32,468	1,01,933	1,11,612	5,800	7,811	4,287	4,512	2,14,439	2,27,580
2. Reserves and Surplus	7,27,852	8,24,250	8,08,595	9,34,742	1,39,569	1,60,607	16,548	23,563	(2,533)	(2,404)	16,90,031	19,40,759
3. Deposits	1,07,17,362	1,17,09,581	54,64,241	62,99,332	8,45,482	8,55,825	1,45,731	1,91,372	7,829	12,174	1,71,80,645	1,90,68,284
3.1. Demand Deposits	7,23,258	7,48,951	7,84,134	8,85,497	2,78,677	2,89,545	5,767	7,456	30	393	17,91,866	19,31,842
3.2. Savings Bank Deposits	38,20,486	39,79,202	17,47,958	18,89,846	92,120	56,931	43,576	54,668	7,799	11,781	57,11,939	59,92,427
3.3. Term Deposits	61,73,618	69,81,428	29,32,149	35,23,990	4,74,685	5,09,349	96,388	1,29,248	-	-	96,76,840	1,11,44,014
4. Borrowings	7,51,301	9,03,824	7,57,261	8,12,969	1,27,467	2,08,739	27,011	31,171	307	519	16,63,348	19,57,222
5. Other Liabilities and Provisions	4,39,952	5,05,961	3,10,461	3,65,692	1,60,161	2,30,921	7,989	13,600	7,662	8,156	9,26,225	11,24,330
Total Liabilities/Assets	**1,27,07,643 (58.6)**	**1,40,14,793 (57.6)**	**73,71,801 (34.0)**	**84,45,203 (34.7)**	**13,74,612 (6.3)**	**15,67,704 (6.4)**	**2,03,080 (0.9)**	**2,67,517 (1.1)**	**17,552 (0.1)**	**22,957 (0.1)**	**2,16,74,688 (100)**	**2,43,18,174 (100)**
1. Cash and Balances with RBI	7,68,668	6,41,731	5,76,127	4,13,201	1,44,544	93,411	16,414	17,840	1,529	2,295	15,07,282	11,68,479
2. Balances with Banks and Money at Call and Short Notice	4,96,434	4,23,343	1,60,149	2,36,221	1,16,468	1,19,332	2,531	4,538	3,228	4,963	7,78,810	7,88,397
3. Investments	35,95,647	38,17,201	16,26,884	18,75,137	5,05,001	6,74,077	41,661	58,062	9,937	12,064	57,79,131	64,36,540
3.1 In Government Securities (a+b)	29,93,865	32,22,899	13,68,853	15,87,677	4,68,711	6,31,129	36,683	52,137	9,924	12,049	48,78,036	55,05,891
a) In India	29,50,409	31,65,076	13,51,118	15,73,022	3,98,009	5,88,166	36,683	52,137	9,924	12,049	47,46,144	53,90,449
b) Outside India	43,456	57,824	17,735	14,655	70,702	42,963	-	-	-	-	1,31,892	1,15,442
3.2 Other Approved Securities	5	5	-	-	-	-	-	-	-	-	5	5
3.3 Non-approved Securities	6,01,777	5,94,296	2,58,031	2,87,460	36,290	42,948	4,978	5,925	13	15	9,01,090	9,30,644
4. Loans and Advances	70,43,940	82,83,763	45,53,541	53,66,675	4,65,484	4,91,029	1,35,802	1,77,887	2	0	1,21,98,769	1,43,19,355
4.1 Bills Purchased and Discounted	2,33,191	2,84,882	1,50,866	1,34,816	63,161	65,594	611	872	-	-	4,47,828	4,86,164
4.2 Cash Credits, Overdrafts, *etc.*	26,23,878	30,14,583	13,68,315	16,98,682	2,02,940	2,08,634	12,585	18,352	-	-	42,07,717	49,40,252
4.3 Term Loans	41,86,872	49,84,298	30,34,360	35,33,177	1,99,383	2,16,801	1,22,607	1,58,663	2	0	75,43,224	88,92,940
5. Fixed Assets	1,09,784	1,15,288	44,456	49,347	4,964	5,624	2,001	2,735	370	564	1,61,575	1,73,558
6. Other Assets	6,93,170	7,33,468	4,10,644	5,04,622	1,38,151	1,84,230	4,670	6,456	2,485	3,069	12,49,121	14,31,845

Notes: 1. -: Nil/negligible.
2. #: Data pertain to 11 scheduled SFBs at end-March 2022 and 12 scheduled SFBs at end-March 2023.
3. 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.
4. Figures in parentheses are shares in total assets/liabilities of different bank groups in all SCBs.

Source: Annual accounts of respective banks.

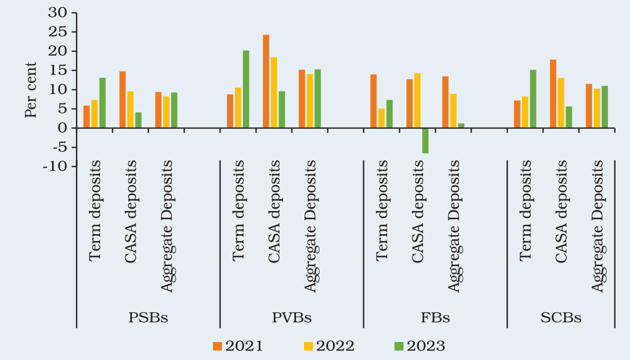
for around 31.4 per cent of total deposits — remained largely unchanged, which helped banks to post higher net interest margins (NIMs).

2.2 Assets

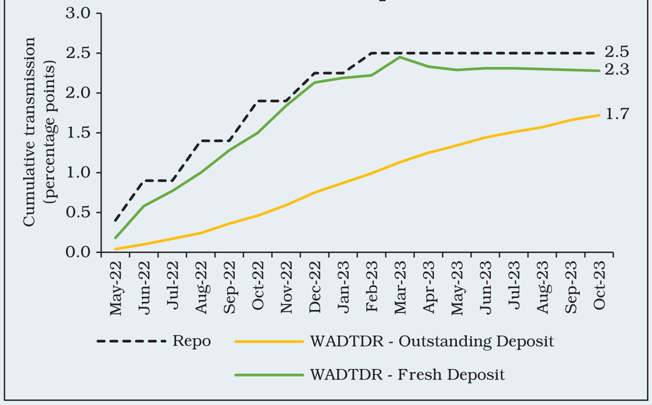
IV.6 Bank credit growth remained buoyant during 2022-23 and 2023-24. The year-on-year (y-o-y) credit growth at end-November 2023

Chart IV.2: Deposit Growth

a. Deposit Growth
(At end-March)



b. Transmission to Deposit Rates*



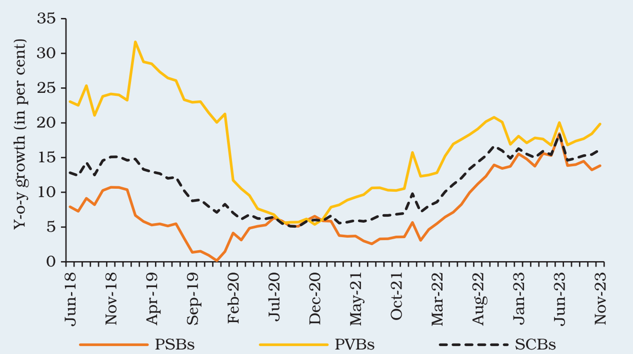
Notes: 1. WADTDR: Weighted average domestic term deposit rates.
2. * : Data exclude the impact of the merger of a non-bank with a bank effective July 2023.
Source: Annual accounts of banks and RBI.

was 16.2 per cent[2] (Chart IV.3a). PSBs' share in incremental credit increased during 2022-23 to reach 46.5 per cent at end-November 2023 (Chart IV.3b).

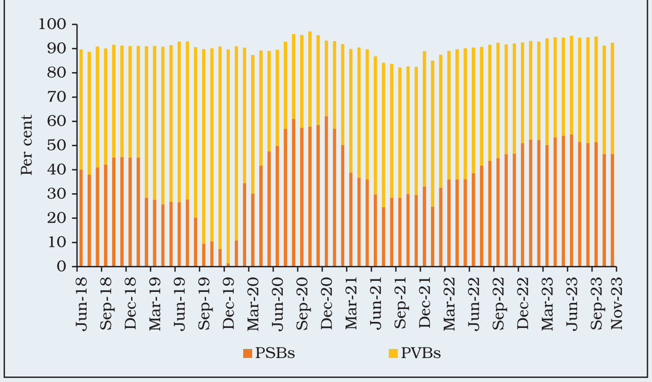
IV.7 At end-March 2023, 81.2 per cent of SCBs' investments were in government securities (G-secs) (Table IV.2). SLR investments of SCBs rose by 14.2 per cent in 2022-23 as compared with the growth of 9.0 per cent in the previous year, which pulled up the incremental investment-deposit (I-D) ratio (Chart IV.4). The held to maturity (HTM) limit of 23 per cent for SLR eligible securities was extended up to March

Chart IV.3: Credit Growth and Incremental Credit

a. Credit Growth: Bank Group-wise



b. Share in Incremental Credit



Notes: 1. Data from October 2023 onwards are provisional.
2. Data correspond to the last reporting Friday of the month.
3. Data exclude the impact of the merger of a non-bank with a bank effective July 2023.
Source: Section 42 returns of the RBI.

[2] Data exclude the impact of the merger of a non-bank with a bank effective July 2023.

Table IV.2 : Investments of SCBs
(At end-March)

(Amount in ₹ crore)

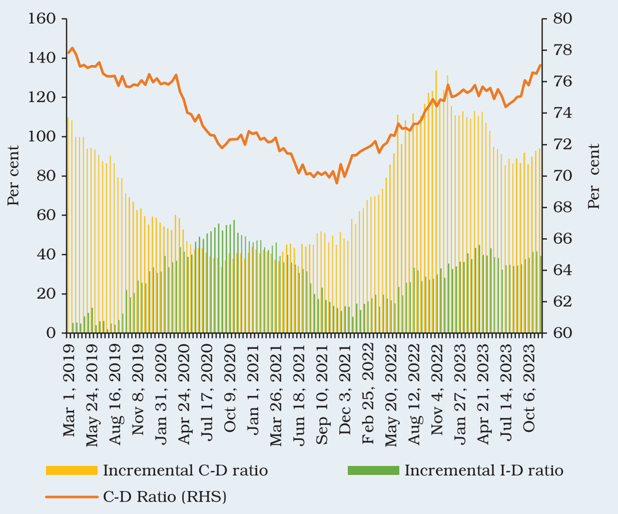
	PSBs		PVBs		FBs		SFBs		SCBs	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
1	2	3	4	5	6	7	8	9	10	11
Total Investments (A+B)	36,03,007	38,33,030	16,32,570	18,81,756	4,77,085	6,55,830	41,695	58,244	57,54,358	64,28,860
A. SLR Investments (I+ II+III)	27,87,114	30,07,757	13,40,152	15,62,365	4,06,226	5,99,061	36,711	52,151	45,70,203	52,21,335
I. Central Government Securities	16,58,556	17,45,055	11,00,902	13,10,477	4,03,539	5,93,438	28,223	40,013	31,91,220	36,88,982
II. State Government Securities	11,26,852	12,60,787	2,39,249	2,51,889	2,687	5,623	8,487	12,139	13,77,276	15,30,437
III. Other Approved Securities	1,707	1,916	-	-	-	-	-	-	1,707	1,916
B. Non-SLR Investments (I+II)	8,15,893	8,25,273	2,92,419	3,19,390	70,858	56,769	4,985	6,093	11,84,154	12,07,525
I. Debt Securities	7,61,390	7,68,545	2,75,903	3,03,474	70,482	56,404	4,922	6,016	11,12,698	11,34,439
II. Equities	54,503	56,728	16,515	15,916	376	365	62	77	71,456	73,087

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

31, 2024 and banks were allowed to include securities acquired between September 1, 2020 and March 31, 2024 within the enhanced HTM limit[3].

IV.8 The credit to deposit (C-D) ratio of banks increased from 74.9 per cent at end-November 2022 to 77.0 per cent at end-November 2023, on account of robust credit growth (Chart IV.4).

Chart IV.4: Credit-Deposit and Investment-Deposit Ratios



Note: Data exclude the impact of the merger of a non-bank with a bank effective July 2023.

Source: Weekly Statistical Supplement, RBI.

2.3 Maturity Profile of Assets and Liabilities

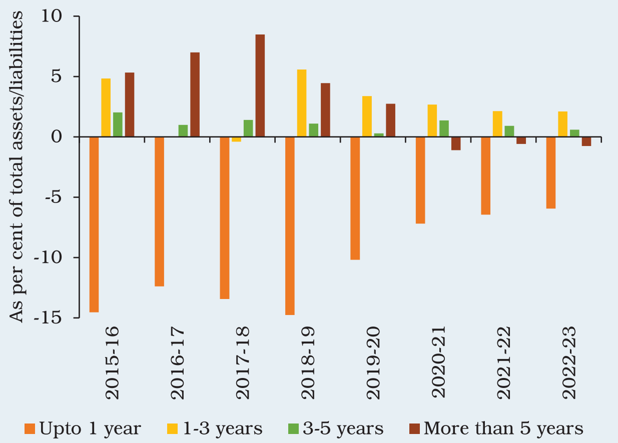
IV.9 Mismatches in the maturity of assets and liabilities are intrinsic to the banking sector as deposits – their primary source of funds – have short- to medium-term maturities, while the repayment schedule of their loans typically stretches across the medium-term. As asset-liability mismatches expose them to interest rate risk and liquidity risk, careful monitoring and management assumes importance. During 2022-23, the maturity mismatch moderated in the short-term bucket[4]. The gap between assets and liabilities in the maturity bucket of over five years increased as banks took recourse to long-term borrowings (Chart IV.5).

IV.10 All bank groups exhibited higher reliance on short-term borrowings relative to medium- to long-term borrowings, except SFBs. PVBs increased the share of their medium-

[3] Commercial banks were granted initial special dispensation of enhanced HTM limit of 22 per cent of NDTL for SLR eligible securities acquired between September 1, 2020 and March 31, 2021. The limit was further extended to 23 per cent in April 2022 and was made available till March 31, 2024.

[4] Short-term is defined as up to 1 year, medium-term is 1-5 years and long-term is defined as more than 5 years.

Chart IV.5: Maturity Brackets-wise Assets and Liabilities Gap



Notes: 1. Assets consist of loans and advances and investments. Liabilities consist of deposits and borrowings.
2. Gap is calculated as assets minus liabilities.

Source: Annual accounts of banks.

and long-term borrowings during 2022-23. PSBs' investments are typically in long-term instruments, while private sector counterparts prefer short-term exposures (Table IV.3).

2.4 International Liabilities and Assets

IV.11 In 2022-23, international liabilities of Indian banks expanded in double digits on the back of 28.5 per cent y-o-y growth in the foreign currency non-resident (Bank) (FCNR(B)) deposits, reversing the fall of (-) 21.2 per cent in the previous year. With effect from July 07, 2022, the Reserve Bank temporarily withdrew the interest rate ceiling on incremental FCNR (B) deposits until October 31, 2022, which made FCNR(B) deposits relatively attractive.

IV.12 Another factor which influenced the growth in international liabilities was a 20.0 per cent y-o-y growth in equities of banks held by non-residents, up from 8.7 per cent in the previous year. Based on the latest BIS guidelines, mark-to-market (MTM) derivatives have also been included in the international liabilities from September 2022, which constituted 3.4 per cent of their liabilities at end-March 2023 (Appendix Table IV.2).

Table IV.3: Bank Group-wise Maturity Profile of Select Liabilities/Assets

(At end-March)

(Per cent)

Liabilities/Assets	PSBs		PVBs		FBs		SFBs		PBs		All SCBs	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Deposits												
a) Up to 1 year	35.0	36.4	32.3	33.0	62.8	65.8	50.2	42.2	11.8	15.5	35.6	36.7
b) Over 1 year and up to 3 years	21.9	21.1	30.2	31.2	29.2	26.1	46.0	54.9	88.2	84.5	25.2	25.0
c) Over 3 years and up to 5 years	12.7	12.8	9.7	9.1	8.0	8.1	1.6	1.8	0.0	0.0	11.4	11.2
d) Over 5 years	30.5	29.7	27.8	26.7	0.0	0.0	2.2	1.1	0.0	0.0	27.9	27.1
II. Borrowings												
a) Up to 1 year	54.3	62.2	50.0	45.9	80.5	90.5	37.1	38.8	100.0	100.0	54.1	58.1
b) Over 1 year and up to 3 years	22.9	16.7	29.2	32.6	16.3	7.6	49.5	50.6	0.0	0.0	25.7	22.9
c) Over 3 years and up to 5 years	14.0	8.5	11.5	10.3	1.6	0.7	9.2	5.4	0.0	0.0	11.8	8.3
d) Over 5 years	8.8	12.6	9.3	11.2	1.6	1.2	4.2	5.2	0.0	0.0	8.4	10.7
III. Loans and Advances												
a) Up to 1 year	25.2	28.3	30.4	28.4	53.3	56.1	38.2	36.5	100.0	100.0	28.3	29.4
b) Over 1 year and up to 3 years	35.4	34.2	33.8	36.7	24.4	24.0	35.8	36.0	0.0	0.0	34.4	34.8
c) Over 3 years and up to 5 years	15.1	14.1	13.4	12.5	10.3	10.0	11.1	10.5	0.0	0.0	14.2	13.3
d) Over 5 years	24.4	23.4	22.3	22.4	12.1	9.9	14.9	17.1	0.0	0.0	23.0	22.5
IV. Investment												
a) Up to 1 year	25.2	26.1	48.8	55.3	84.6	86.4	53.8	61.6	98.7	99.5	37.4	41.4
b) Over 1 year and up to 3 years	16.4	14.7	22.4	19.1	10.3	8.2	25.6	27.0	0.8	0.1	17.6	15.4
c) Over 3 years and up to 5 years	13.2	12.9	7.8	7.1	1.7	1.3	4.9	5.5	0.1	0.0	10.6	9.9
d) Over 5 years	45.2	46.3	21.0	18.5	3.4	4.2	15.7	5.9	0.3	0.4	34.4	33.4

Note: Figures denote share of each maturity bucket in each component of the balance sheet.

Source: Annual accounts of banks.

IV.13 On the other hand, international assets of banks in India contracted by 13.1 per cent in 2022-23 as compared with a growth of 9.0 per cent a year ago. The fall in assets in 2022-23 was on account of a reduction in overseas loans and holdings of international debt securities as banks deployed resources to fund domestic credit (Appendix Table IV.3). Consequently, the international assets to liabilities ratio of banks in India reduced at end-March 2023, after increasing for three consecutive years (Chart IV.6).

IV.14 Banks' consolidated international claims decelerated for all major economies, except Singapore (Appendix Table IV.4). At end-March 2023, their claims shifted away from banks towards non-financial private sectors (Chart IV.7a). The proportion of longer maturity claims increased, although short-term claims remained the dominant category (Appendix Table IV.5 and Chart IV.7b).

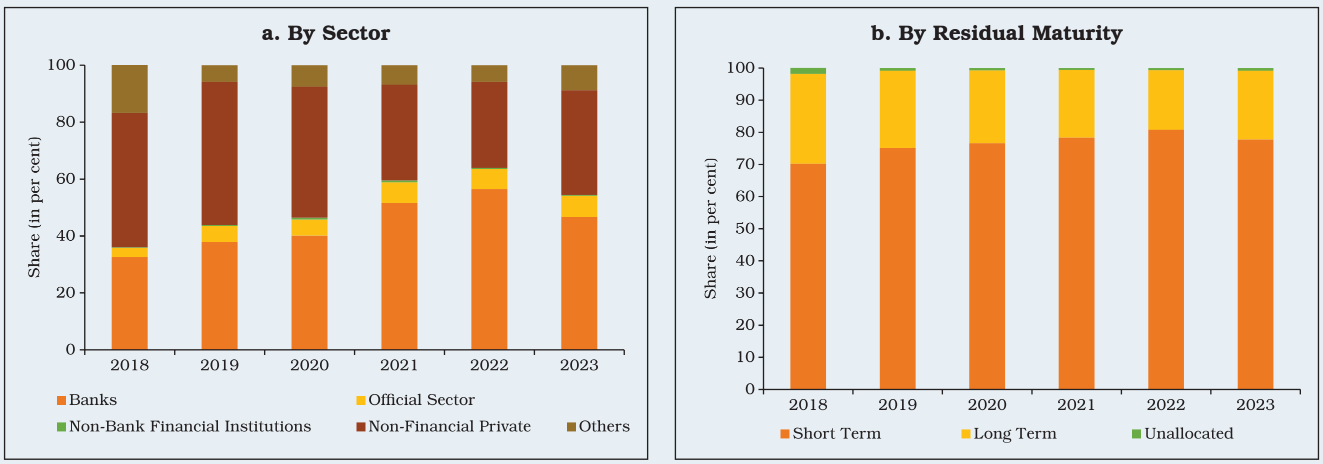
2.5 Off-Balance Sheet Operations

IV.15 Contingent liabilities of SCBs grew by 22.4 per cent in 2022-23, led by growth in forward exchange contracts (Chart IV.8a). As a proportion to balance sheet size, contingent liabilities of SCBs increased from 132.8 per cent at end-March 2022 to 144.8 per cent at end-March 2023, with those of PSBs decreasing in 2022-23 to 36.5 per cent from 41.5 per cent in 2021-22 (Appendix Table IV.6). FBs' contingent liabilities are more than 12 times their balance

Chart IV.6: International Assets and Liabilities of Banks

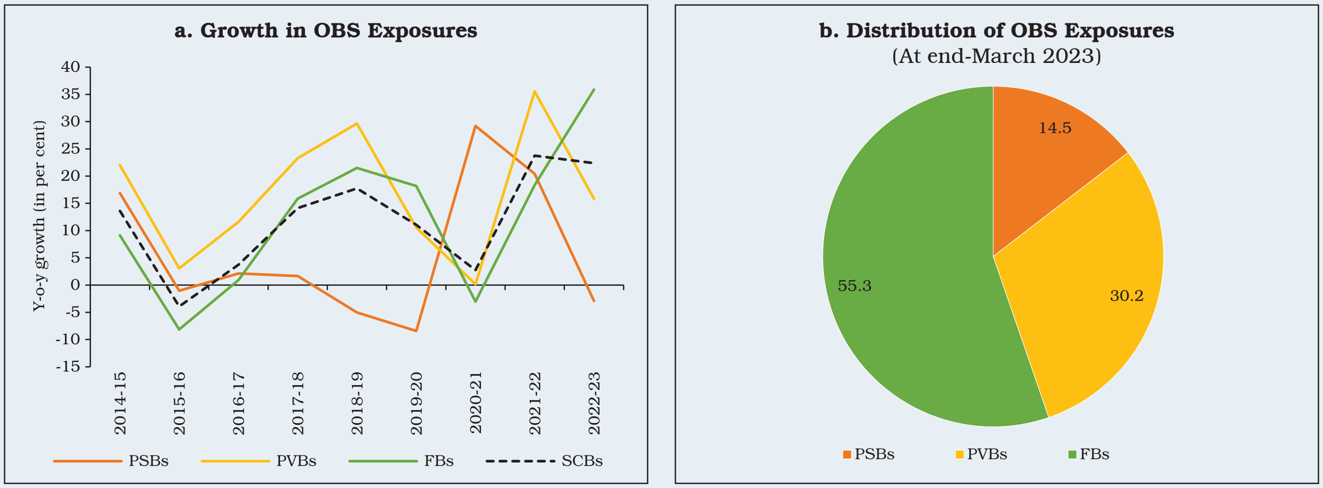
Source: Annual accounts of banks and DBIE.

Chart IV.7: Consolidated International Claims of Indian Banks
(At end-March)



Source: Annual accounts of banks and DBIE.

Chart IV.8: Off-Balance Sheet Liabilities of Banks



Source: Annual accounts of banks.

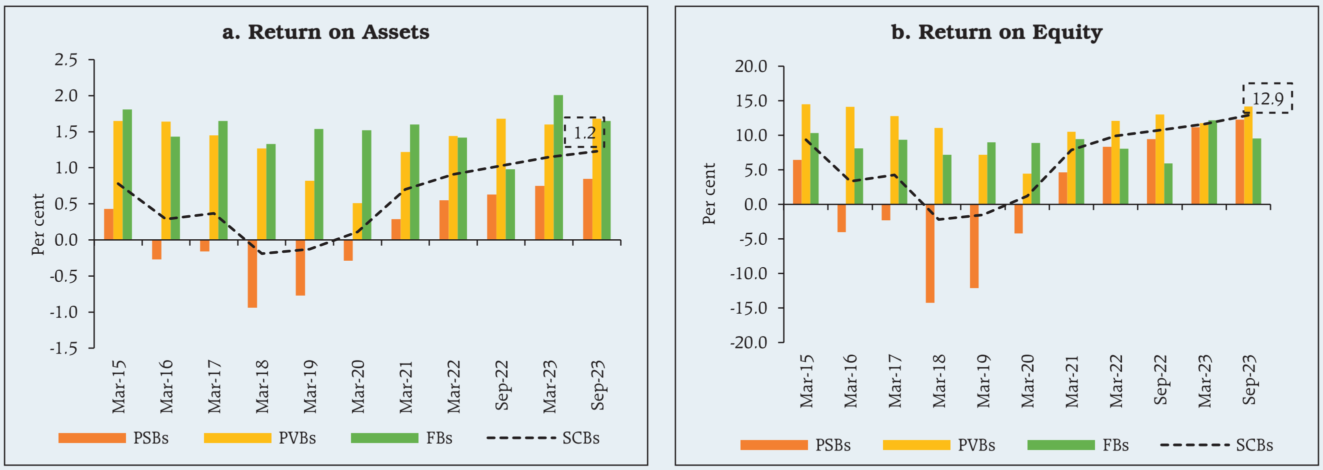
sheet size and constituted 55.3 per cent of the banking system's total off-balance sheet (OBS) exposures (Chart IV.8b).

3. Financial Performance

IV.16 The trend of improvement in the profitability of SCBs, which began in 2019-20, continued for the fourth consecutive year in 2022-23, aided by higher income and lower provisions and contingencies. Both return on assets (RoA) and return on equities (RoE) improved in 2022-23. (Chart IV.9).

IV.17 Interest expended by SCBs had contracted for two consecutive years (2020-21 and 2021-22) reflecting the accommodative monetary policy stance. With a turn in the interest rate cycle, both interest income and interest outgo rose in 2022-23; as the expansion in interest income exceeded interest outgo, net

Chart IV.9: Profitability Ratios



Note: Data of SCBs for September 2023 quarter is not comparable with earlier period due to the merger of a non-bank with a bank effective July 2023.
Source: Off-site (domestic operations) returns, RBI.

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

(Amount in ₹ crore)

	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks #		Payments Banks		All SCBs	
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Income	8,31,900	9,71,421	5,72,284	6,90,557	79,484	1,08,268	25,107	33,806	4,952	5,965	15,13,725	18,10,018
	(0.2)	(16.8)	(5.6)	(20.7)	(-1.1)	(36.2)	(12.0)	(34.6)	(393.2)	(20.5)	(2.5)	(19.6)
a) Interest Income	7,09,132	8,51,078	4,70,940	5,81,732	65,842	83,425	22,120	29,806	446	860	12,68,480	15,46,901
	(0.3)	(20.0)	(4.3)	(23.5)	(3.4)	(26.7)	(13.3)	(34.7)	(343.3)	(92.7)	(2.1)	(21.9)
b) Other Income	1,22,768	1,20,343	1,01,344	1,08,825	13,642	24,843	2,986	4,000	4,505	5,105	2,45,245	2,63,117
	(-0.3)	(-2.0)	(11.9)	(7.4)	(-18.2)	(82.1)	(3.2)	(34.0)	(398.7)	(13.3)	(4.7)	(7.3)
2. Expenditure	7,65,360	8,66,772	4,76,060	5,66,421	61,099	78,123	24,133	29,644	5,041	5,844	13,31,693	15,46,804
	(-4.2)	(13.3)	(0.7)	(19.0)	(-0.5)	(27.9)	(18.4)	(22.8)	(286.6)	(15.9)	(-1.7)	(16.2)
a) Interest Expended	4,11,181	4,87,690	2,24,231	2,75,391	21,482	31,814	9,513	12,140	156	246	6,66,563	8,07,280
	(-4.7)	(18.6)	(-3.5)	(22.8)	(-0.4)	(48.1)	(4.3)	(27.6)	(181.4)	(57.5)	(-4.1)	(21.1)
b) Operating Expenses	2,20,091	2,44,064	1,56,614	2,02,616	24,972	27,958	9,813	13,152	4,882	5,579	4,16,372	4,93,369
	(8.0)	(10.9)	(20.1)	(29.4)	(11.8)	(12.0)	(30.0)	(34.0)	(290.3)	(14.3)	(13.9)	(18.5)
of which: Wage Bill	1,32,772	1,44,686	58,849	70,610	9,180	10,028	5,305	6,707	788	914	2,06,895	2,32,944
	(6.5)	(9.0)	(17.0)	(20.0)	(16.3)	(9.2)	(23.3)	(26.4)	(98.1)	(15.9)	(10.4)	(12.6)
c) Provision and Contingencies	1,34,088	1,35,018	95,216	88,415	14,645	18,351	4,807	4,352	3	20	2,48,758	2,46,155
	(-17.8)	(0.7)	(-13.2)	(-7.1)	(-16.3)	(25.3)	(29.6)	(-9.5)	(-228.9)	(556.9)	(-15.4)	(-1.1)
3. Operating Profit	2,00,628	2,39,667	1,91,439	2,12,551	33,030	48,496	5,781	8,514	(87)	141	4,30,791	5,09,369
	(3.0)	(19.5)	(6.8)	(11.0)	(-9.4)	(46.8)	(0.6)	(47.3)	(-71.4)	(-263.0)	(3.6)	(18.2)
4. Net Profit	66,540	1,04,649	96,223	1,24,136	18,385	30,145	974	4,162	(90)	121	1,82,032	2,63,214
	(109.1)	(57.3)	(38.5)	(29.0)	(-3.1)	(64.0)	(-52.2)	(327.6)	(-70.2)	(-235.6)	(49.2)	(44.6)
5. Net Interest Income (NII)	2,97,950	3,63,388	2,46,708	3,06,341	44,360	51,611	12,608	17,666	290	615	6,01,917	7,39,621
	(8.1)	(22.0)	(12.6)	(24.2)	(5.3)	(16.3)	(21.2)	(40.1)	(541.7)	(111.7)	(10.0)	(22.9)
6. Net Interest Margin (NIM) (per cent)	2.4	2.7	3.6	3.9	3.4	3.5	6.9	7.5	2.7	3.0	2.9	3.2

Notes: 1. #: Data pertain to 11 scheduled SFBs at end-March 2022 and 12 scheduled SFBs at end-March 2023.
2. NIM has been defined as NII as percentage of average assets.
3. Figures in parentheses refer to per cent variation over the previous year.

Source: Annual accounts of respective banks.

interest income in 2022-23 was higher than in the previous year (Table IV.4).

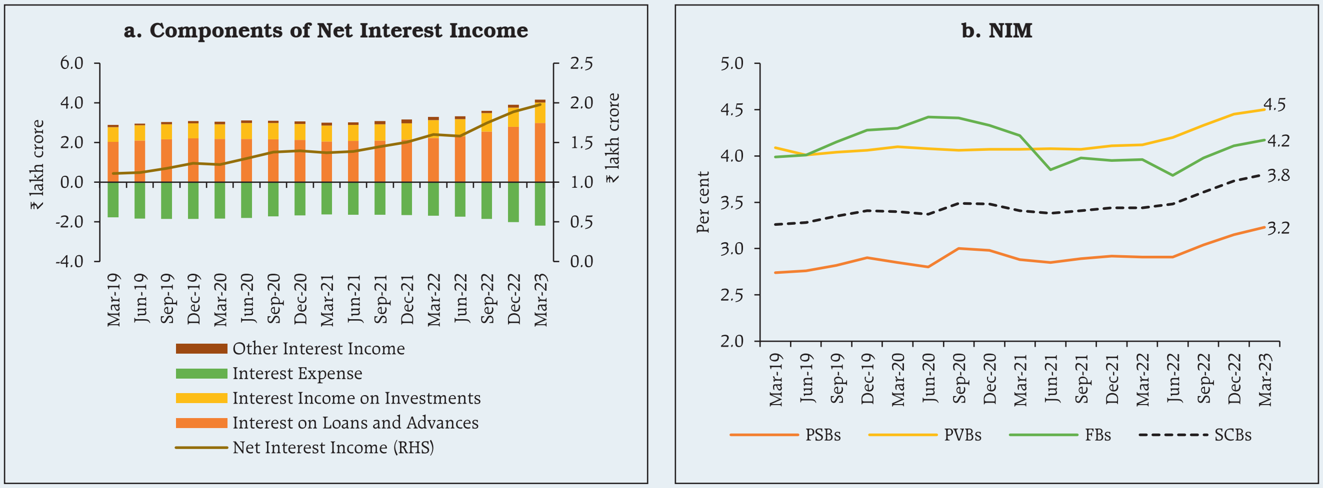
IV.18 Supervisory data indicate that interest income from loans and advances grew by 24.0 per cent during 2022-23 and by 14.6 per cent from investments. On other hand, the interest expended rose by 18.1 per cent[5]. On balance, the NIM of banks increased by 36 bps to reach 3.8 per cent in 2022-23 (Chart IV.10).

IV.19 During 2022-23, risk provisions of SCBs declined on account of lower slippages as also higher write-offs, upgradations and recoveries. This boosted banks' net profits[6], along with support from higher earnings

[5] Based on supervisory OSMOS data, which may not match with annual accounts data in Table IV.4.

[6] Net profit = Earnings before provisions and taxes (EBPT) – Provisions – write-offs.

Chart IV.10: Net Interest Income and NIM

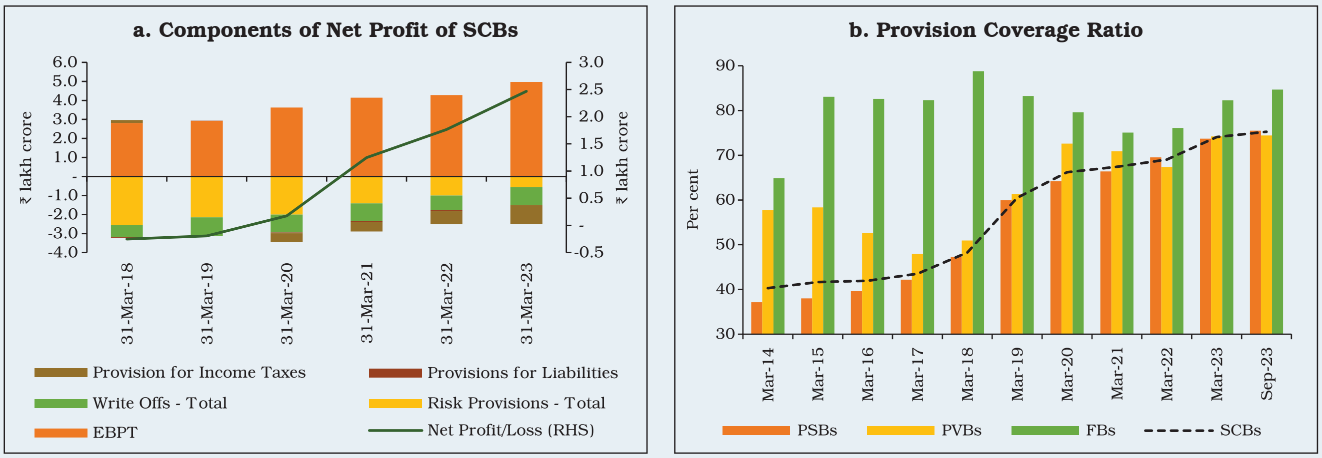


Source: Off-site (domestic operations) returns, RBI.

(Chart IV.11a). Moreover, as asset quality improved, the provision coverage ratio (PCR) (without write-off adjusted) rose to 75.3 per cent by end-September 2023 (Chart IV.11b).

IV.20 The spread between return on funds and cost of funds increased for SCBs. SFBs had wider spreads relative to other bank groups, reflecting relatively higher interest rates on advances (Table IV.5).

Chart IV.11: Profitability and Provisions



Note: Provision coverage ratio is without write-off adjusted.
Source: Off-site (domestic operations) returns, RBI.

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 (Column 8 – Column 5)
1	2	3	4	5	6	7	8	9
PSBs	2021-22	3.7	4.2	3.7	6.9	6.1	6.6	2.9
	2022-23	3.9	6.2	4.1	7.6	6.3	7.2	3.1
PVBs	2021-22	3.7	5.2	3.9	8.5	5.8	7.7	3.9
	2022-23	3.8	6.4	4.1	9.2	6.3	8.4	4.3
FBs	2021-22	2.1	3.6	2.3	7.0	5.7	6.3	4.0
	2022-23	2.9	4.1	3.1	8.2	5.8	6.9	3.7
SFBs	2021-22	5.9	7.1	6.1	15.9	5.9	13.6	7.5
	2022-23	5.9	7.3	6.1	16.5	6.7	14.2	8.0
PBs	2021-22	2.9	2.8	2.9	5.2	5.1	5.1	2.2
	2022-23	2.1	7.8	2.4	6.0	5.6	5.6	3.3
All SCBs	2021-22	3.6	4.6	3.7	7.6	6.0	7.0	3.3
	2022-23	3.8	6.1	4.0	8.3	6.3	7.7	3.6

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).

Source: Calculated from balance sheets of respective banks.

4. Soundness Indicators

IV.21 During 2022-23, SCBs strengthened their capital buffers, improved asset quality and maintained sufficient liquid assets. At end-March 2023, there was no bank under the prompt corrective action (PCA) framework as compared to one at end-March 2022.

4.1 Capital Adequacy

IV.22 The capital to risk-weighted assets ratio (CRAR) as well as Tier I capital ratio of SCBs has been rising gradually over time. Although all bank groups remained well-capitalised, the CRAR of PVBs declined marginally due to a higher increase in their risk-weighted assets (RWAs) *vis-à-vis* their capital funds (Table IV.6).

Table IV.6: Component-wise Capital Adequacy of SCBs

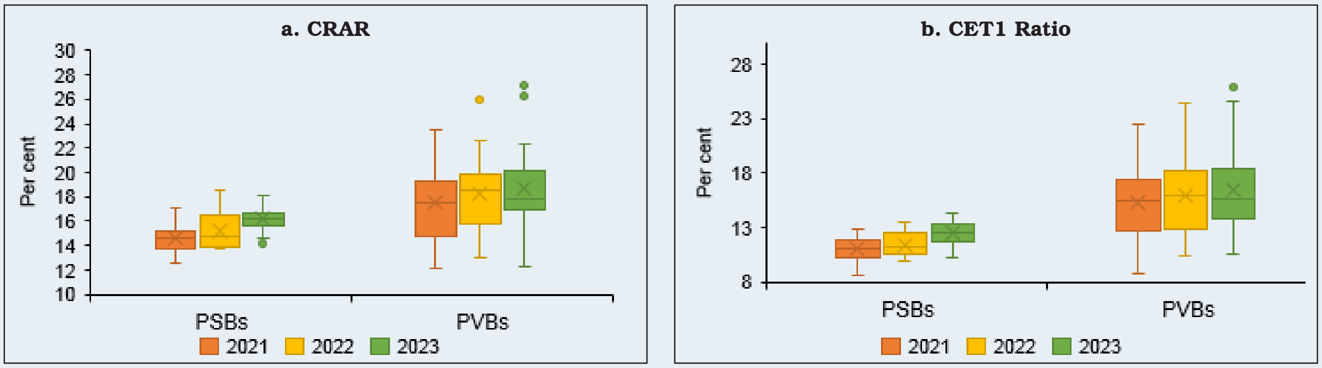
(At end-March)

(Amount in ₹ crore)

	PSBs		PVBs		FBs		SCBs	
	2022	2023	2022	2023	2022	2023	2022	2023
1	2	3	4	5	6	7	8	9
1. Capital Funds	**8,67,386**	**10,16,789**	**8,80,664**	**10,20,953**	**2,19,852**	**2,43,109**	**19,93,133**	**23,13,517**
i) Tier I Capital	7,12,071	8,47,783	8,06,269	9,11,271	2,01,206	2,20,750	17,41,694	20,08,618
ii) Tier II Capital	1,55,315	1,69,006	74,395	1,09,681	18,647	22,359	2,51,440	3,04,899
2. Risk Weighted Assets	**59,32,875**	**65,48,771**	**46,90,393**	**54,85,172**	**11,09,550**	**12,26,073**	**1,18,43,786**	**1,34,00,008**
3. CRAR (1 as % of 2)	**14.6**	**15.5**	**18.8**	**18.6**	**19.8**	**19.8**	**16.8**	**17.3**
Of which: Tier I	12	13	17.2	16.6	18.1	18	14.7	15.0
Tier II	2.6	2.6	1.6	2	1.7	1.8	2.1	2.3

Source: Off-site returns, RBI.

Chart IV.12: Bank Group-wise CRAR and CET1 Ratio
(At end-March)



Notes: 1. In the box plots, the boxes show the distance between the first and the third quartiles (interquartile range). The whiskers indicate the maximum and minimum values (excluding outliers). Observations that are more than 1.5 times the interquartile range lie beyond the whiskers and are considered outliers. The horizontal line inside each box shows the median, while 'X' shows the mean.
2. For better representation, one outlier in 2020-21 has been dropped from PVBs.
Source: Off-site returns (domestic operations), RBI.

Supervisory data indicate that the CRAR of SCBs reached 16.8 per cent at end-September 2023.

IV.23 At end-March 2023, all bank groups met the regulatory requirement of CRAR and common equity tier 1 (CET1) ratio. Although the divergence in capital positions of banks narrowed for bank groups, PVBs continued to have higher dispersion than PSBs. The first quartiles of PVBs' CRAR and CET1 ratios were higher than PSBs' third quartiles, mirroring stronger capital buffers of the former (Chart IV.12 a and b).

IV.24 The resources raised by banks through private placements of debt, qualified institutional placements and preferential allotments of equity accelerated for the second consecutive year during 2022-23. Although the number of issues by PSBs declined during 2022-23, the total amount raised increased (Table IV.7).

Table IV.7: Resources Raised by Banks

(Amount in ₹ crore)

	2020-21		2021-22		2022-23		2023-24 (Up to October)	
	No. of issues	Amount raised	No. of issues	Amount raised	No. of issues	Amount raised	No. of issues	Amount raised
1	2	3	4	5	6	7	8	9
PSBs	37	59,528	33	69,069	27	70,260	11	44,206
PVBs	9	41,232	17	41,684	14	52,903	7	16,590
Foreign Banks	-	-	-	-	2	224	-	-
Total	**46**	**1,00,760**	**50**	**1,10,753**	**43**	**1,23,387**	**18**	**60,796**

Notes: 1. Includes private placement of debt, qualified institutional placement and preferential allotment.
2. Data for 2023-24 are provisional.
Source: SEBI, BSE and NSE.

Table IV.8: Leverage Ratio and Liquidity Coverage Ratio

(in per cent)

	Leverage Ratio				Liquidity Coverage Ratio			
	Mar-21	Mar-22	Mar-23	Sep-23	Mar-21	Mar-22	Mar-23	Sep-23
1	2	3	4	5	6	7	8	9
PSBs	5.0	5.1	5.6	5.5	169.8	155.8	153.5	141.3
PVBs	9.7	9.7	9.6	9.5	136.1	127.7	127.9	122.9
FBs	10.7	11.0	10.8	10.3	178.8	171.0	154.6	144.9
All SCBs	7.0	7.2	7.4	7.4	158.9	147.1	144.6	135.4

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

4.2 Leverage and Liquidity

IV.25 The leverage ratio (LR) — Tier 1 capital as a proportion of total exposures — is a non-risk based backstop measure which complements the Basel III risk-based capital framework. Domestic systemically important banks (D-SIBs) in India are required to maintain it at 4 per cent and other banks at 3.5 per cent *vis-à-vis* the Basel III recommendation of 3 per cent. At end-March 2023, all bank groups met the minimum requirement (Table IV.8).

IV.26 The liquidity coverage ratio (LCR) is designed to ensure that banks hold a sufficient reserve of high-quality liquid assets (HQLAs) to enable them to survive a period of significant liquidity stress lasting 30 calendar days. At end-March 2023, all bank groups held significantly higher HQLAs than the stipulated requirement of 100 per cent of 30 days' net cash outflows (Table IV.8).

IV.27 The net stable funding ratio (NSFR) – the ratio of available stable funding to the required stable funding – limits overreliance of banks on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. In line with international standards, banks in India are required to maintain NSFR at a minimum of 100 per cent. At end-March 2023, all bank groups met this target (Table IV.9).

4.3 Non-Performing Assets

IV.28 The improvement in asset quality of banks, measured by their GNPA ratios, that began in 2018-19 continued during 2022-23. The GNPA ratio of SCBs fell to a decadal low of 3.9 per cent at end-March 2023 and further to 3.2 per cent at end-September 2023. During 2022-23, around 45 per cent of reduction in GNPAs of SCBs was contributed by recoveries and upgradations (Table IV.10).

Table IV.9: Net Stable Funding Ratio
(At end-March 2023)

(Amount in ₹ crore)

	Available Stable Funding	Required Stable Funding	NSFR (per cent)
1	2	3	4
Public Sector Banks	1,05,60,943	81,99,214	128.8
Private Sector Banks	61,38,281	47,68,581	128.7
Foreign Banks	6,54,059	5,12,992	127.5
Small Finance Banks	1,96,403	1,49,046	131.8
Scheduled Commercial Banks	**1,75,49,686**	**1,36,29,833**	**128.8**

Source: Off-site returns, RBI.

Table IV.10: Movements in Non-Performing Assets by Bank Group

(Amount in ₹ crore)

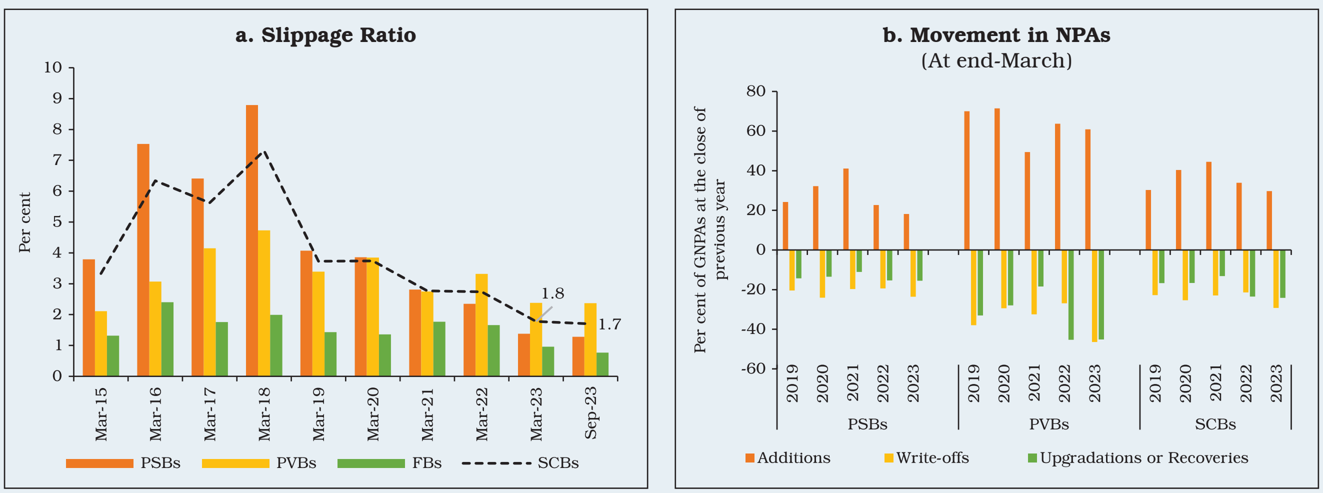
	PSBs	PVBs	FBs	SFBs#	All SCBs
1	2	3	4	5	6
Gross NPAs					
Closing Balance for 2021-22	5,42,174	1,80,769	13,786	6,911	7,43,640
Opening Balance for 2022-23	5,42,174	1,80,769	13,786	10,684	7,47,413
Addition during the year 2022-23	98,291	1,10,064	5,971	6,901	2,21,228
Reduction during the year 2022-23	2,12,268	1,65,619	10,231	8,977	3,97,095
i. Recovered	61,195	40,447	5,844	2,368	1,09,853
ii. Upgradations	23,084	41,225	3,102	2,639	70,049
iii. Written-off	1,27,990	83,947	1,286	3,970	2,17,193
Closing Balance for 2022-23	4,28,197	1,25,214	9,526	8,608	5,71,546
Gross NPAs as per cent of Gross Advances*					
Closing Balance for 2021-22	7.3	3.8	2.9	4.9	5.8
Closing Balance for 2022-23	5.0	2.3	1.9	4.7	3.9
Net NPAs					
Closing Balance for 2021-22	1,54,745	43,738	3,023	2,725	2,04,231
Closing Balance for 2022-23	1,02,532	29,507	1,672	1,622	1,35,333
Net NPAs as per cent of Net Advances					
2021-22	2.2	1.0	0.6	2.0	1.7
2022-23	1.2	0.5	0.3	0.9	0.9

Notes: 1. #: Data include scheduled SFBs.
2. *: Calculated by taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns (global operations).
3. The difference in the closing balance for 2021-22 and opening balance for 2022-23 in GNPAs for SFBs is due to the inclusion of a new SFB in the second schedule of the Reserve Bank of India Act, 1934 on July 06, 2022 with an opening balance for 2022-23.

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

IV.29 The slippage ratio — which measures new accretions to NPAs as a share of standard advances at the beginning of the year — moderated during 2022-23 and further in H1:2023-24 (Chart IV.13a). A mix of write-offs, upgradations and recoveries contributed to reduction in NPAs (Chart IV.13b).

Chart IV.13: Reduction in GNPAs



Source: Off-site returns (global operations) and annual accounts of banks.

Table IV.11: Classification of Loan Assets by Bank Group

(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	2022	61,96,644	92.4	75,855	1.1	3,29,369	4.9	1,02,403	1.5
	2023	72,86,427	94.8	62,444	0.8	2,28,806	3.0	1,10,054	1.4
PVBs	2022	43,63,690	96.3	41,251	0.9	77,394	1.7	50,619	1.1
	2023	51,99,732	97.8	34,288	0.6	52,469	1.0	29,033	0.5
FBs	2022	4,62,299	97.1	3,649	0.8	7,953	1.7	2,184	0.5
	2023	4,89,212	98.1	1,697	0.3	6,648	1.3	1,182	0.2
SFBs**	2022	1,33,092	95.1	5,039	3.6	1,833	1.3	39	0.0
	2023	1,76,199	95.3	3,035	1.6	2,491	1.3	3,082	1.7
All SCBs	2022	1,11,55,725	94.1	1,25,793	1.1	4,16,550	3.5	1,55,245	1.3
	2023	1,31,51,571	96.1	1,01,465	0.7	2,90,414	2.1	1,43,351	1.0

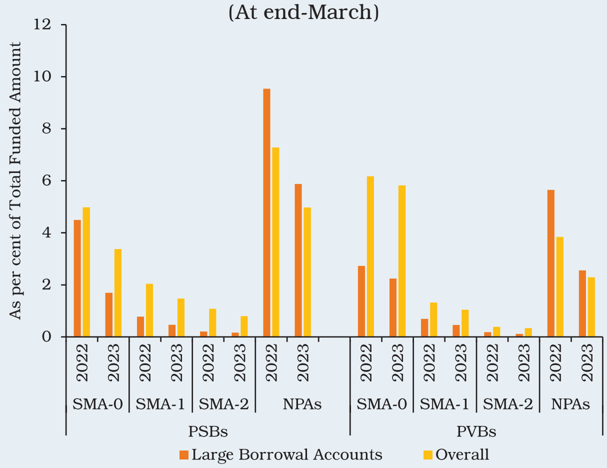
Notes: 1. *: As per cent of gross advances.
2. **: Refers to scheduled SFBs.
Source: Off-site returns (domestic operations), RBI.

IV.30 The increase in the proportion of standard assets to total advances was sustained for all bank groups during 2022-23. The amount of NPAs decreased for all bank groups, except SFBs (Table IV.11).

IV.31 The share of large borrowal accounts (accounts with total exposure of ₹5 crore and above) in total advances declined to 46.4 per cent at end-March 2023 from 47.8 per cent a year ago. Their contribution to total NPAs also fell during the year to 53.9 per cent from 64.0 per cent. The SMA-1 and SMA-2 ratios, which indicate potential stress, declined across bank groups for overall as well as large borrowal accounts (Chart IV.14).

Chart IV.14: Overall Stress *vis-à-vis* Stress in Large Borrowal Accounts

(At end-March)



Note: The ratios for large borrowal accounts and overall accounts are calculated as percentage of their respective amounts outstanding.
Source: CRILC database and off-site returns.

IV.32 In retrospect, the pandemic's impact was less than initially feared for larger and industrial sector firms. Moreover, the impact across firms and sectors was transient (Box IV.1).

Box IV.1: COVID-19 Scarring Impact on Borrowers

Borrower default probabilities are influenced by firm-specific characteristics, such as leverage, profitability, liquidity, recent sales performance, investment policy as well as default history (Bonfim, 2008 and Fukuda *et al.*, 2008). A major macroeconomic shock such as COVID-19 with large output losses and disruptions can have a sizeable impact on loan repayments. Bank-borrower-level data available in Central Repository of Information on Large Credits (CRILC) were matched with firm-level data on a quarterly basis for the period June 2018 to

(Contd.)

March 2022[7]. Using this bank-firm-time level database, the following panel fixed effects linear probability model was estimated:

$$Y_{ibt} = \alpha + \beta_1 Covid_t + \beta_2 FirmChar_{it} + \beta_3 Covid_t * FirmChar_{it} + \beta_4 ACS_t + \beta_5 X_{it} + \mu_i + \epsilon_{it}$$

where the dependent variable (Y_{ibt}) is a dummy variable taking the value of 1 in case of an asset classification downgrade, *i.e.*, if a firm *i's* loan from bank *b* in quarter *t is downgraded*, and 0 otherwise. Thus, any downward transition in period t from t-1, including from standard to special mention accounts, is considered a downgrade. $Covid_t$ is a dummy variable which takes the value of 1 in the post-pandemic period, *i.e.*, March 2020 onwards, and 0 otherwise. $FirmChar_{it}$ represents firm characteristics, *viz*., its sector[8] and size (log of total assets), which are used alternately in the regression. ACS_t, representing the asset classification standstill, takes the value of 1 for March 2020 and June 2020[9]. X_{it} represents other firm-level controls, including profitability (profit-after-tax to income ratio), liquidity (current ratio) and leverage (debt to assets ratio).

The empirical analysis suggests that the likelihood of downgrade of a typical firm was muted during the asset classification standstill period, but it edged up after the dispensation was withdrawn. The baseline specification suggests that larger, more profitable, highly liquid and less leveraged firms had lower likelihood of downgrades (Model 1). Interacting the COVID-19 dummy with firm specific characteristics reveals that larger firms could sustain the negative impact of the pandemic better and had a relatively lower likelihood of downgrades in the post-pandemic period (Model 2). Industrial sector firms had relatively lower likelihood of downgrades post-COVID, as compared with firms in the services sector, reflecting the outsize impact of the pandemic on services relative to industrial sector (Model 3).

Table IV.1.1: Regression Results

	Dependent variable (Y) = downgrade likelihood		
	(1)	(2)	(3)
COVID	0.0103*** (0.0028)	0.0202*** (0.0074)	0.0160*** (0.0031)
ACS	-0.0180*** (0.0048)	-0.0182*** (0.0049)	-0.0181*** (0.0049)
PAT-income ratio	-0.0132*** (0.0018)	-0.0132*** (0.0018)	-0.0136*** (0.0018)
Current Ratio	-0.0024*** (0.0008)	-0.0025*** (0.0008)	-0.0019** (0.0007)
Debt-Asset Ratio	0.0553*** (0.0070)	0.0552*** (0.0069)	0.0530*** (0.0070)
Log Assets	-0.0093*** (0.0024)	-0.0086*** (0.0025)	-0.0091*** (0.0025)
COVID*Log Assets		-0.0011* (0.0006)	
COVID*Sector			-0.0075*** (0.0017)
Constant	0.1010*** (0.0215)	0.0946*** (0.0225)	0.0987*** (0.0215)
Firm Fixed Effects	Yes	Yes	Yes
Observations	396,984	396,984	388,923
R-squared	0.129	0.129	0.129

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Note: Standard errors are clustered at the bank level and adjusted for heteroscedasticity.

To sum up, although the likelihood of downgrades increased in the immediate aftermath of COVID-19, the impact was relatively less on larger firms and industrial sector firms. Thus, the pandemic's scarring was transitory, facilitated by proactive monetary, regulatory and fiscal support.

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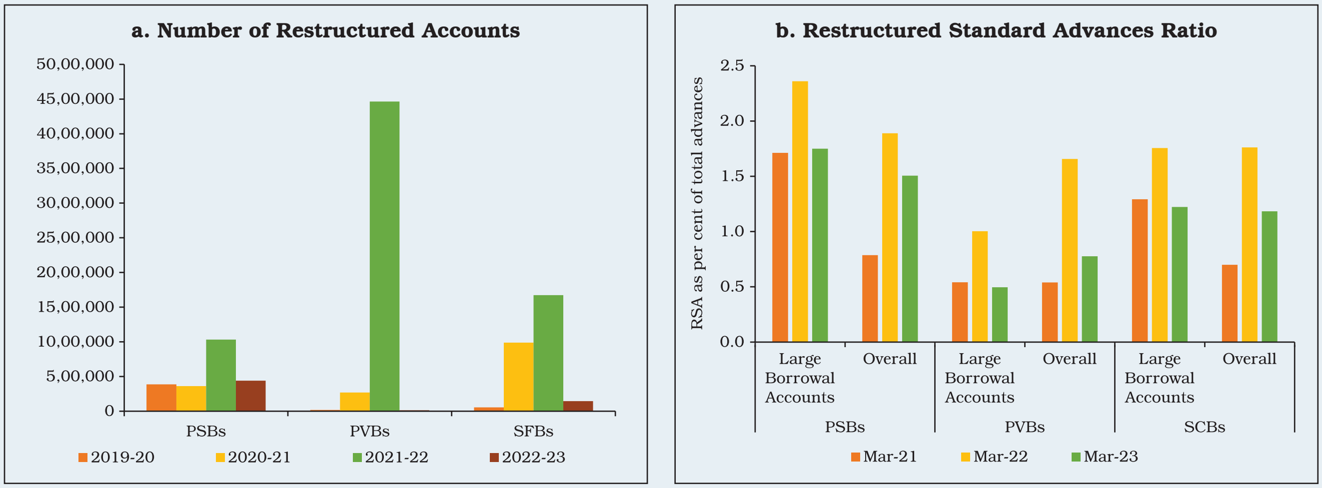
IV.33 Following the Reserve Bank's resolution frameworks 1.0 and 2.0 announced in response to COVID-19 related disruptions, the number of restructured accounts peaked in 2021-22. With this special dispensation coming to an end, they moderated in 2022-23 (Chart IV.15a). The share of restructured standard advances (RSA) in gross loans and advances decreased from 1.8 per cent at end-March 2022 to 1.2 per cent at end-March 2023, led by PVBs (Chart IV.15b).

[7] Firm level data are available in CMIE Prowess database. For matching quarterly CRILC data with annual Prowess data, the annual values were repeated for all quarters in a financial year.

[8] Sector is a dummy variable taking value 1 for industry and 0 for services.

[9] The Reserve Bank implemented a 6-month asset classification standstill from March 2020 for accounts that were granted moratorium or deferment and were standard as on March 1, 2020.

Chart IV.15: Restructuring



Source: CRILC database and off-site returns.

4.4 Recoveries

IV.34 Amongst the multiple channels through which banks resolve their stressed assets, debt recovery tribunals (DRTs) witnessed the highest growth rate in the number of referred cases as also the amount involved during 2022-23. After a sharp increase in the previous year, referred cases as well as amount involved contracted for cases under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act. The Insolvency and Bankruptcy Code (IBC) remained the dominant mode of recovery, with a share of 43.0 per cent in the total amount recovered in 2022-23 and the recovery rate also improved (Table IV.12).

IV.35 Apart from recovery through various resolution mechanisms, banks also clean up their balance sheets through sale of NPAs to asset reconstruction companies (ARCs). Sales to ARCs shot up in 2022-23, partly reflecting

Table IV.12: NPAs of SCBs Recovered through Various Channels

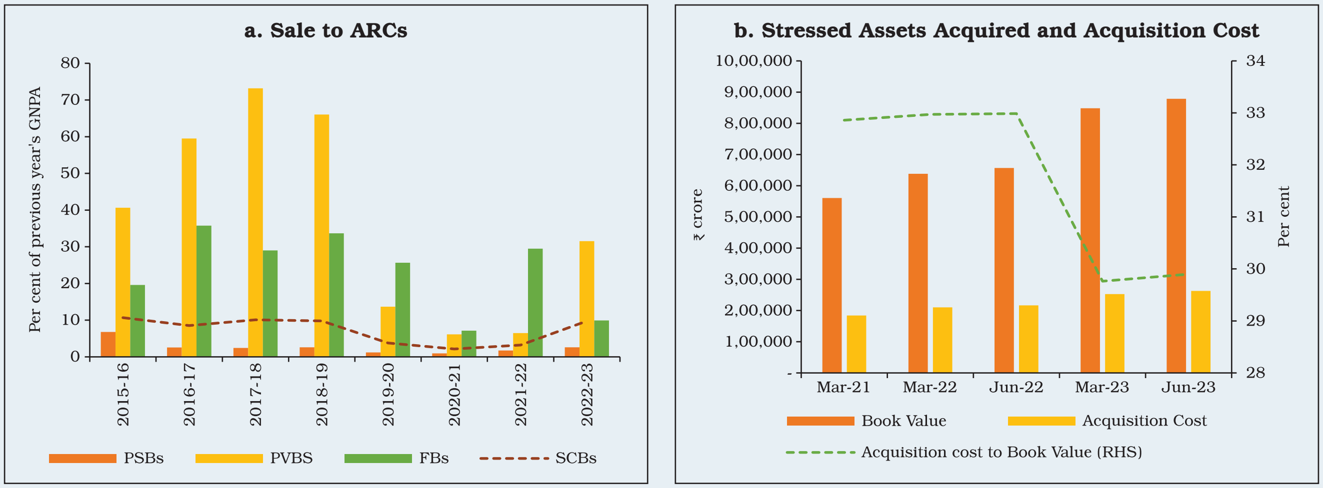
(Amount in ₹ crore)

Recovery Channel	2021-22				2022-23 (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	85,06,741	1,19,006	2,778	2.3	1,42,49,462	1,88,527	3,831	2.0
DRTs	30,651	68,956	12,035	17.5	58,073	4,02,636	36,924	9.2
SARFAESI Act	2,49,645	1,21,718	27,349	22.5	1,85,397	1,11,805	30,864	27.6
IBC @#	891	1,97,959	47,409	23.9	1,261	1,33,930	53,968	40.3
Total	**87,87,928**	**5,07,639**	**89,571**	**17.6**	**1,44,94,193**	**8,36,898**	**1,25,587**	**15.0**

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. @: Data in columns 2 and 6 are the cases admitted by National Company Law Tribunals (NCLTs) under IBC.
4. #: Data in columns 3 to 5 and 7 to 9 pertain to financial creditors. It covers 147 and 184 resolution plans approved during 2021-22 and 2022-23, respectively.

Source: Off-site returns, RBI and Insolvency and Bankruptcy Board of India (IBBI).

Chart IV.16: Stressed Asset Sales to ARCs



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

assets sold to the newly operationalised National Assets Reconstruction Company Ltd (NARCL). During 2022-23, 9.7 per cent of the previous year's stock of SCBs' GNPAs was sold to ARCs as compared with only 3.2 per cent in 2021-22 (Chart IV.16a). On the other hand, the acquisition cost of ARCs as a proportion to book values of assets declined from 33 per cent at end-March 2022 to 29.8 per cent at end-March 2023 (Chart IV.16b).

IV.36 The share of SRs subscribed by banks and FIs has steadily declined from 65.4 per cent at end-March 2021 to 60.6 per cent at end-March 2023. The amount of SRs completely redeemed, an indicator of recovery through this mode, increased further during the year (Table IV.13).

4.5 Frauds in the Banking Sector

IV.37 Frauds lead to reputational, operational and business risk for banks and undermine customers' trust in the banking system with financial stability implications. During 2022-23, the total amount of frauds reported by banks declined to a six-year low while the average amount involved in frauds was the lowest in a decade (Appendix Table IV.7). In H1:2023-24, although the number of frauds reported rose over the corresponding period a year ago, the amount involved was only 14.9 per cent of the previous year's amount (Table IV.14).

Table IV.13: Details of Financial Assets Securitised by ARCs
(At end-March)

(Amount in ₹ crore)

	2021	2022	2023
1	2	3	4
Number of reporting ARCs	28	29	28
1. Book Value of Assets Acquired	5,60,492	6,38,008	8,48,119
2. Security Receipt Issued by SCs/ RCs	1,79,560	2,04,844	2,46,290
3. Security Receipts Subscribed to by			
(a) Selling Banks/FIs	1,17,551	1,28,007	1,49,253
(b) SCs/RCs	35,522	41,353	49,519
(c) FIIs	11,427	15,069	19,383
(d) Others (Qualified Institutional Buyers)	15,060	20,415	28,135
4. Amount of Security Receipts Completely Redeemed	25,223	31,331	41,058
5. Security Receipts Outstanding	1,19,413	1,25,373	1,39,423

Note: 1. Total as at the end of quarter (Cumulative/stock figures).
2. SCs- Securitisation Companies and RCs – Reconstruction Companies.

Source: Quarterly statements submitted by ARCs.

Table IV.14: Frauds in Various Banking Operations Based on the Date of Reporting

(Amount in ₹ crore)

Area of Operation	2020-21		2021-22		2022-23		2022-23 (April-Sep)		2023-24 (April-Sep)	
	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved
1	2	3	4	5	6	7	8	9	10	11
Advances	3,401	1,17,018	3,789	43,512	4,101	25,177	1,998	16,968	1,139	1,765
Off-balance Sheet	23	535	21	1,077	15	298	5	283	4	73
Forex Transactions	4	129	7	7	13	12	10	3	5	5
Card/Internet	2,545	119	3,596	155	6,699	277	2,321	87	12,069	630
Deposits	504	434	471	493	652	258	270	135	915	103
Inter-Branch Accounts	2	0	3	2	3	0	2	0	0	0
Cash	329	39	649	93	1,485	159	589	81	210	31
Cheques/DDs, etc.	163	85	201	158	118	25	73	12	60	14
Clearing Accounts, etc.	14	4	16	1	18	3	11	2	2	0
Others	278	54	300	100	472	423	117	114	79	21
Total	**7,263**	**1,18,417**	**9,053**	**45,598**	**13,576**	**26,632**	**5,396**	**17,685**	**14,483**	**2,642**

Notes: 1. Refers to frauds of ₹1 lakh and above.
2. The figures reported by banks and financial institutions 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 are as reported and do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved in loan accounts is not necessarily diverted.

Source: RBI.

IV.38 Based on the date of occurrence of frauds, the average amount involved declined during 2022-23, with the number of cases concentrated in card or internet related frauds (Table IV.15).

IV.39 The number of fraud cases reported by PVBs accounted for 66.2 per cent of the total (Chart IV.17a). In terms of amount involved, PSBs had a higher share (Chart IV.17b). While

Table IV.15: Frauds in Various Banking Operations Based on the Date of Occurrence

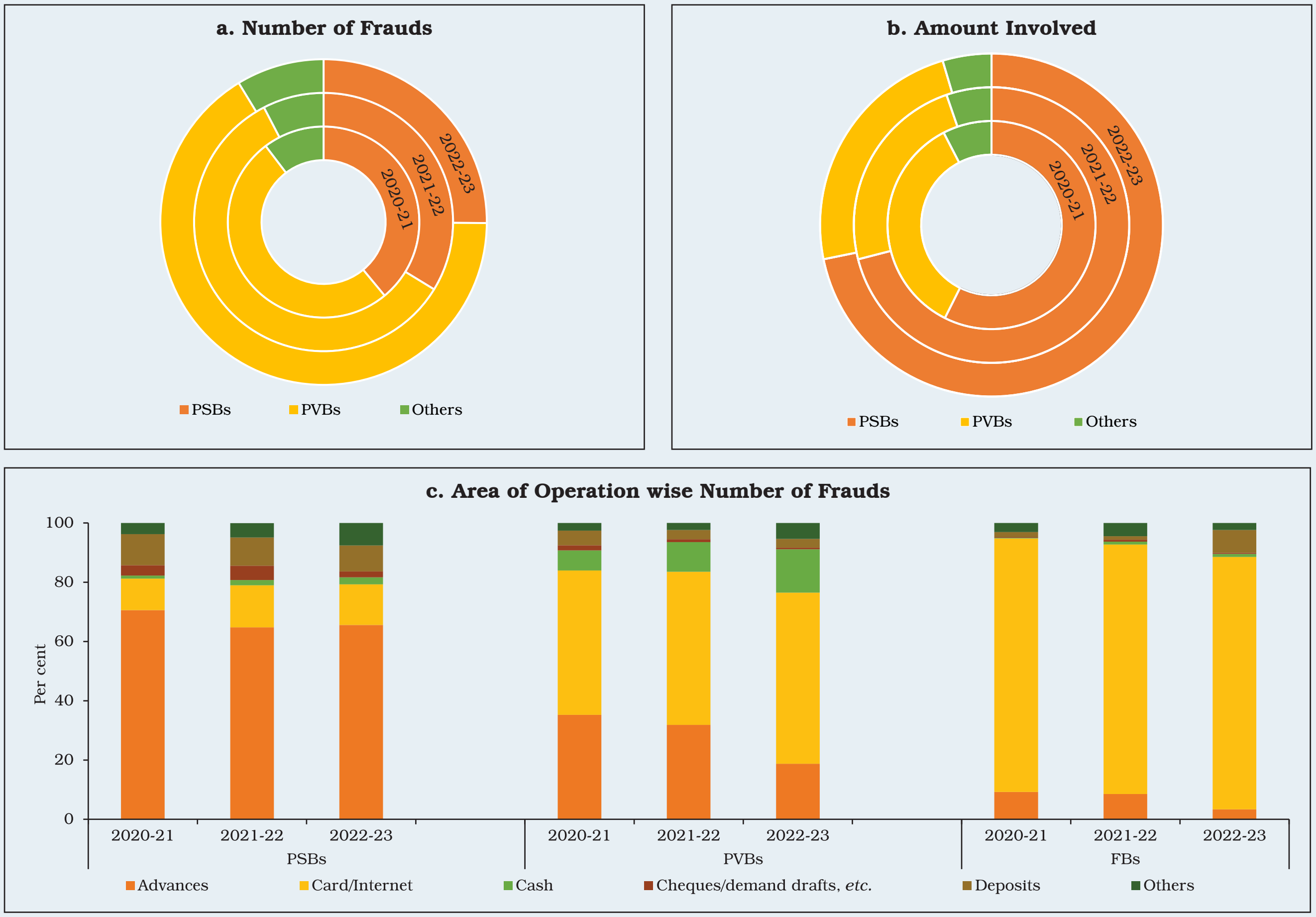
(Amount in ₹ crore)

Area of Operation	Prior to 2020-21		2020-21		2021-22		2022-23		2023-24 (April - Sep)	
	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved
1	2	3	4	5	6	7	8	9	10	11
Advances	7,530	1,69,225	1,710	10,660	1,688	6,469	1,303	1,094	199	26
Off-balance Sheet	47	1,848	11	109	2	27	3	0	0	0
Forex Transactions	3	128	4	2	9	8	11	16	2	0
Card/Internet	981	100	2,504	134	4,230	143	9,812	520	7382	285
Deposits	533	456	430	569	422	106	551	124	606	34
Inter-Branch Accounts	3	0	3	2	1	0	1	0	0	0
Cash	128	27	479	61	931	101	1011	112	124	19
Cheques/DDs, etc.	98	62	165	164	167	29	88	19	24	7
Clearing Accounts, etc.	13	1	9	3	17	4	10	0	1	0
Others	285	138	275	124	192	66	352	261	25	6
Total	**9,621**	**1,71,985**	**5,590**	**11,828**	**7,659**	**6,953**	**13,142**	**2,146**	**8,363**	**377**

Notes: 1. Refers to frauds of ₹1 lakh and above.
2. The figures reported by banks and financial institutions 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.

Source: RBI.

Chart IV.17: Bank Group-wise Frauds



Notes: 1. Frauds based on date of reporting.
2. Others include clearing accounts, foreign exchange transactions, inter-branch accounts, non-resident accounts, off balance sheet.
Source: RBI.

the majority of the frauds in PSBs were related to advances, PVBs accounted for a majority of card/internet and cash-related cases (Chart IV.17c).

4.6 Enforcement Actions

IV.40 The increase in instances of penalties imposed on regulated entities (REs) during 2022-23 was led by co-operative banks. For both PSBs and PVBs, they declined during the year. The average penalty per instance was the highest for PVBs (Table IV.16).

5. Sectoral Bank Credit and NPAs

IV.41 The acceleration in gross bank credit during 2022-23 was led by personal loans and

Table IV.16: Enforcement Actions

Regulated Entity	2021-22		2022-23	
	Instances of Imposition of Penalty	Total Penalty (₹ crore)	Instances of Imposition of Penalty	Total Penalty (₹ crore)
1	2	3	4	5
Public Sector Banks	13	17.6	7	3.7
Private Sector Banks	16	29.4	7	12.2
Co-operative Banks	145	12.1	176	14.0
Foreign Banks	4	4.3	5	4.7
Payments Banks	-	-	-	-
Small Finance Banks	1	1.0	2	1.0
Regional Rural Banks	-	-	1	0.4
NBFCs	10	1.0	11	4.4
HFCs	-	-	2	0.1
Total	**189**	**65.3**	**211**	**40.4**

Source: RBI.

credit extended to the services sector. Within personal loans, the growth in credit card receivables, which are a form of unsecured lending, rose sharply. Services sector credit was driven by lending to NBFCs (Table IV.17).

IV.42 The GNPA ratio remained the highest for the agricultural sector and the lowest for retail loans as at end-September 2023. The asset quality of the industrial sector improved further, with its GNPA ratio at 4.2 per cent at end-September 2023. The variation of asset quality between bank groups has narrowed over the years (Chart IV. 18).

IV.43 The improvement in asset quality during 2022-23 was broad-based across industries, with notable gains in mining and quarrying, construction, engineering and basic metals. The gems and jewellery industry has the highest GNPA ratio due to legacy issues (Chart IV.19).

5.1 Credit to the MSME Sector

IV.44 Credit to micro and small enterprises had accelerated during 2020-21 and 2021-22, reflecting benefits under the Emergency Credit Line Guarantee Scheme (ECLGS) launched in May 2020. Although the growth rate decelerated

Table IV.17: Sectoral Deployment of Gross Bank Credit by SCBs

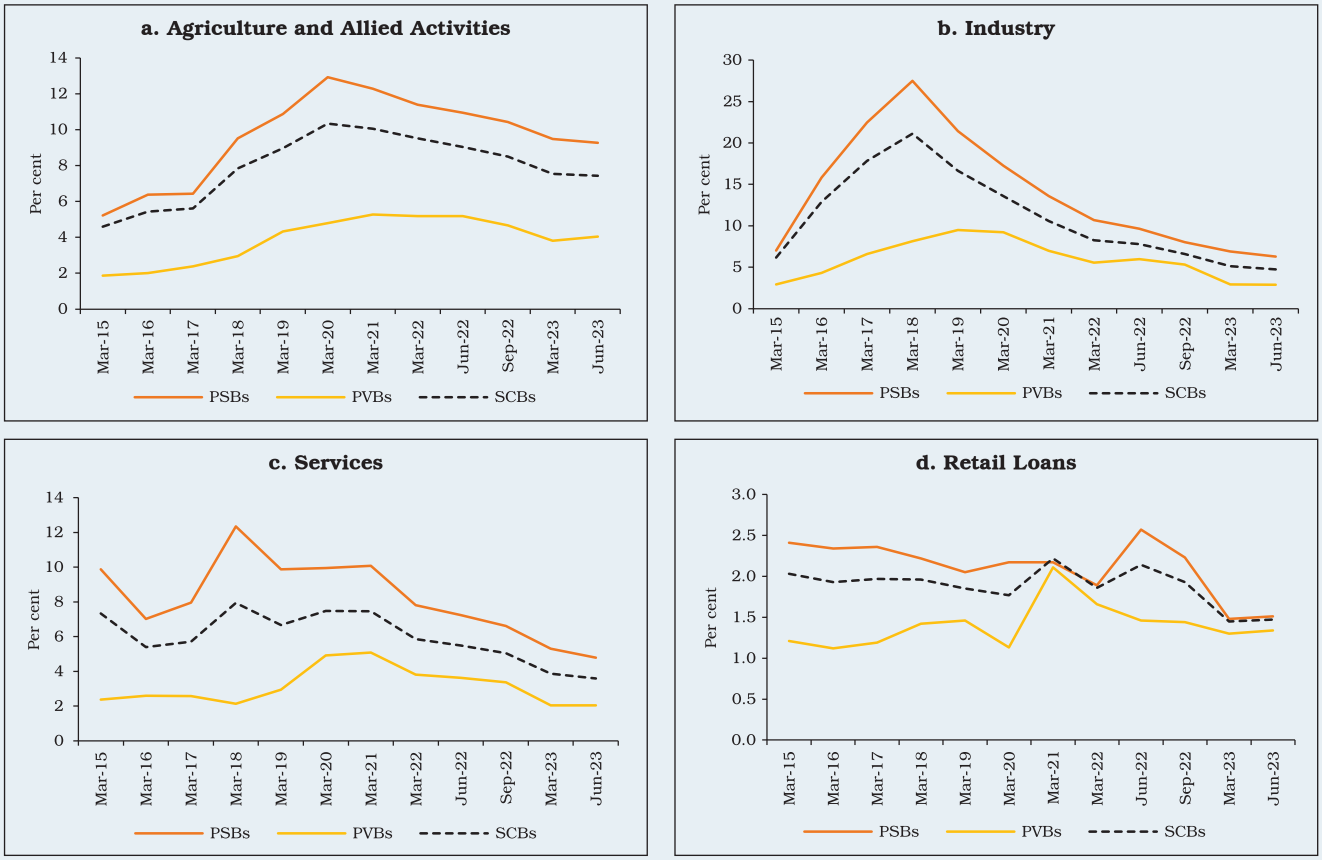
(Amount in ₹ crore)

		Outstanding			Per cent variation (y-o-y)	
		Mar-2021	Mar-2022	Mar-2023	2021-22	2022-23
1		2	3	4	5	6
1	**Agriculture and Allied Activities**	**13,29,618**	**14,61,719**	**16,87,191**	**9.9**	**15.4**
2	**Industry (Micro and Small, Medium and Large)**	**29,34,689**	**31,56,067**	**33,36,722**	**7.5**	**5.7**
	2.1 Micro and Small	4,33,192	5,32,179	5,98,390	22.9	12.4
	2.2 Medium	1,45,209	2,25,885	2,53,384	55.6	12.2
	2.3 Large	23,56,288	23,98,004	24,84,949	1.8	3.6
3	**Services**, *of which*	**27,70,713**	**30,11,975**	**36,08,574**	**8.7**	**19.8**
	3.1 Computer Software	19,816	20,899	21,559	5.5	3.2
	3.2 Tourism, Hotels and Restaurants	59,525	64,378	66,466	8.2	3.2
	3.3 Trade	6,28,249	6,96,301	8,19,921	10.8	17.8
	3.4 Commercial Real Estate	2,89,474	2,91,168	3,14,604	0.6	8.0
	3.5 Non-Banking Financial Companies (NBFCs)#	9,48,568	10,22,399	13,31,097	7.8	30.2
4	**Personal Loans**, *of which*	**30,09,013**	**33,86,982**	**40,85,168**	**12.6**	**20.6**
	4.1 Consumer Durables	17,265	17,088	20,044	-1.0	17.3
	4.2 Housing (including Priority Sector Housing)	14,92,302	16,84,424	19,36,428	12.9	15.0
	4.3 Advances against Fixed Deposits (including FCNR (B), NRNR Deposits, *etc.*)	77,928	83,379	1,21,897	7.0	46.2
	4.4 Advances to Individuals against Share, Bonds, *etc.*	5,400	6,261	6,778	15.9	8.3
	4.5 Credit Card Outstanding	1,31,704	1,48,416	1,94,282	12.7	30.9
	4.6 Education	78,131	82,723	96,847	5.9	17.1
	4.7 Vehicle Loans	3,68,412	4,00,968	5,00,299	8.8	24.8
	4.8 Loans against Gold Jewellery	75,049	73,960	88,428	-1.5	19.6
5	**Non-food Credit**	**1,08,88,255**	**1,18,36,304**	**1,36,55,330**	**9.7**	**15.4**
6	**Bank Credit**	**1,09,49,509**	**1,18,91,314**	**1,36,75,235**	**9.6**	**15.0**

Notes: 1. Bank credit and non-food credit data are based on Section-42 return, which covers all SCBs, while sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 93 per cent of total non-food credit extended by all SCBs.
2. Data are provisional.
3. Data pertains to the last reporting Friday of the month.
4. Credit data are adjusted for past reporting errors by select SCBs from December 2021 onwards.
5. #: NBFCs include HFCs, PFIs, Microfinance Institutions (MFIs), NBFCs engaged in gold loan and others.

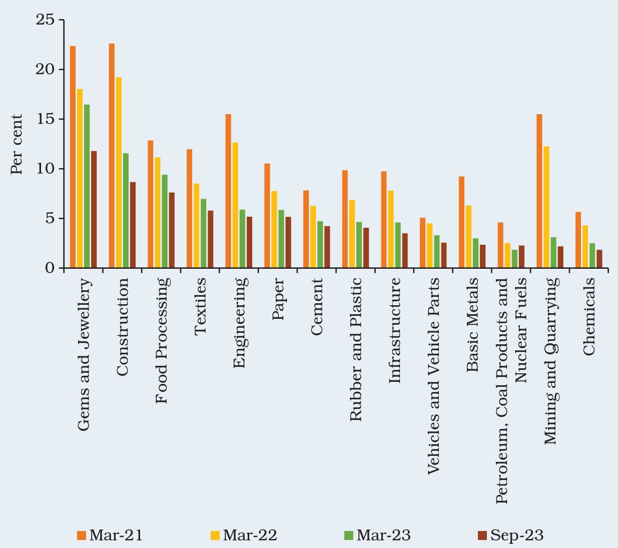
Source: RBI.

Chart IV.18: Sectoral GNPA Ratios



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

Chart IV.19: GNPA Ratio in Various Industries

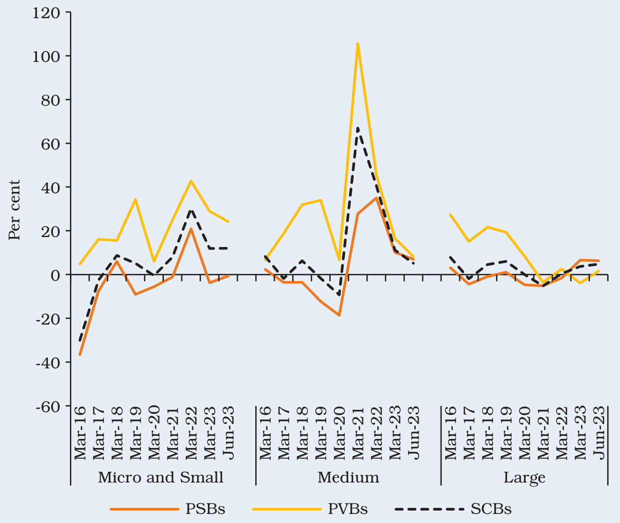


Source: Off-site returns (domestic operations), RBI.

subsequently, it remained higher than the credit growth to large industries (Chart IV.20). Within industry, the reduction in the GNPA ratio of large industries from 22.9 per cent at end-March 2018 to 4.6 per cent at end-June 2023 was noteworthy (Chart IV.21).

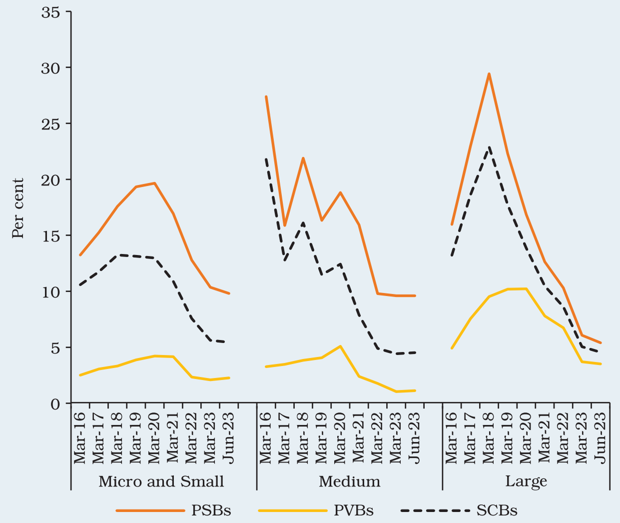
IV.45 Reversing the movements over the previous four consecutive years, PSBs' credit growth to the MSME sector in 2022-23 exceeded that of PVBs. This led to an increase in the former's share in total MSME credit from 47.5 per cent in 2021-22 to 48.0 per cent in 2022-23. The average amount of loans extended by PVBs was almost double that of PSBs (Table IV.18).

Chart IV.20: Credit Growth of Micro, Small, Medium and Large Industries



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

Chart IV.21: GNPA Ratio of Micro, Small, Medium and Large Industries



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

5.2 Priority Sector Credit

IV.46 In recent years, PVBs' overall credit growth was higher than that of PSBs. As a result, PVBs were required to accelerate their priority sector lending to meet regulatory requirements. During 2022-23, total priority sector advances grew by 10.8 per cent, led by PVBs (growth rate of 15.7 per cent). In comparison, the priority sector lending of PSBs grew by 7.1 per cent.

Table IV.18: Credit Flow to the MSME sector by SCBs

(Number of accounts in lakh, amount outstanding in ₹ crore)

Bank Groups	Items	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6	7
Public Sector Banks	No. of Accounts	113	111	151	150	139
		(1.8)	(-1.9)	(36.1)	(-0.7)	(-7.4)
	Amount Outstanding	8,80,033	8,93,315	9,08,659	9,55,860	10,84,953
		(1.8)	(1.5)	(1.7)	(5.2)	(13.5)
Private Sector Banks	No. of Accounts	205	271	267	113	73
		(38.4)	(31.8)	(-1.4)	(-57.7)	(-35.2)
	Amount Outstanding	5,63,678	6,46,988	7,92,042	9,69,844	10,89,833
		(37.2)	(14.8)	(22.4)	(22.4)	(12.4)
Foreign Banks	No. of Accounts	2	3	3	2	2
		(9.3)	(14.1)	(-5.1)	(-19.0)	(-26.3)
	Amount Outstanding	66,939	73,279	83,224	85,352	85,349
		(36.9)	(9.5)	(13.6)	(2.6)	(0.0)
All SCBs	No. of Accounts	321	384	420	265	213
		(22.6)	(19.8)	(9.4)	(-37.0)	(-19.4)
	Amount Outstanding	15,10,651	16,13,582	17,83,925	20,11,057	22,60,135
		(14.1)	(6.8)	(10.6)	(12.7)	(12.4)

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

Table IV.19: Priority Sector Lending by Banks
(At end-March 2023)

(Amount in ₹ crore)

	Target/ sub-target (per cent of ANBC/ CEOBE)	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks		Scheduled Commercial Banks	
		Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE
1	2	3	4	5	6	7	8	9	10	11	12
Total Priority Sector Advances	**40/75***	**28,36,168**	**43.7**	**19,51,075**	**45.3**	**2,30,976**	**42.8**	**94,999.3**	**88.2**	**51,13,218**	**44.7**
of which											
Total Agriculture	18	12,77,359	19.7	7,53,591	17.5	57,998	18.2	29,261	27.2	21,18,210	18.9
Small and Marginal Farmers	9.5	7,39,768	11.4	3,64,356	8.5	35,029	11.0	20,779	19.3	11,59,932	10.3
Non-corporate Individual Farmers#	13.78	9,98,667	15.4	5,52,916	12.8	42,228	13.2	28,437	26.4	16,22,248	14.5
Micro Enterprises	7.5	5,03,933	7.8	3,81,720	8.9	24,150	7.6	30,798	28.6	9,40,601	8.4
Weaker Sections	11.5	9,33,799	14.4	4,96,360	11.5	37,878	11.9	46,980	43.6	15,15,016	13.5

Notes: 1. Amount outstanding and achievement percentages are based on the average achievement of banks for all the quarters of the financial year.
2. *: Total priority sector lending target for SFBs is 75 per cent.
3. #: Target for non-corporate farmers is based on the system-wide average of the last three years' achievement. For FY 2022-23, the applicable system wide average figure is 13.78 per cent.
4. For FBs having less than 20 branches, only the total PSL target of 40 per cent is applicable.
5. Data are provisional.

Source: RBI.

IV.47 All bank groups managed to achieve their overall priority sector lending targets. However, shortfall was found in non-corporate individual farmers sub-category by FBs[10], and PVBs fulfilled their target only for micro enterprises (Table IV.19). Growth in the amount outstanding under operative *kisan* credit cards (KCC) decelerated in 2022-23 to 8.8 per cent. The slowdown was mainly contributed by northern and eastern regions (Appendix Table IV.8).

IV.48 Growth in the total trading volume of priority sector lending certificates (PSLCs) decelerated during 2022-23. Except for the general category, the trading volume of PSLCs increased for all segments and was the highest in the small and marginal farmers (SMF) category (Table IV. 20).

Table IV.20: Trading Volume of PSLCs

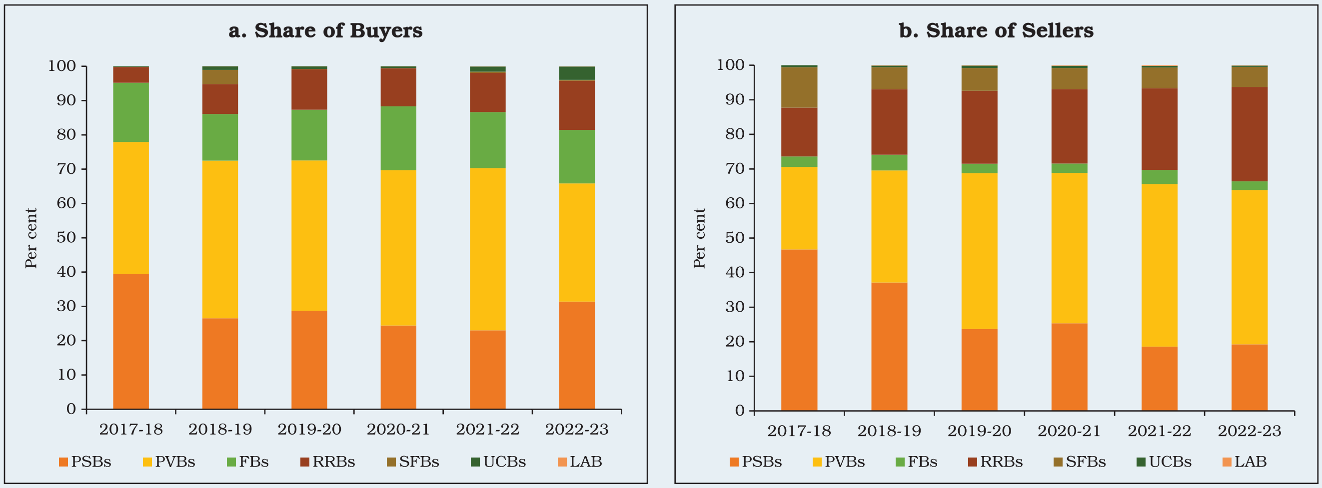
(in ₹ crore)

	PSLC-Agriculture (PSLC-A)	PSLC-Micro Enterprises (PSLC-ME)	PSLC-Small and Marginal Farmers (PSLC-SMF)	PSLC-General (PSLC-G)	Total
1	2	3	4	5	6
2016-17	4,101	2,693	22,986	20,017	49,797
2017-18	15,936	19,100	69,622	79,672	1,84,330
2018-19	37,067	45,373	1,12,505	1,32,486	3,27,431
2019-20	54,102	97,623	1,45,801	1,70,263	4,67,789
2020-21	60,823	1,03,576	1,98,231	2,26,534	5,89,164
2021-22	59,274	1,04,276	2,28,709	2,70,131	6,62,390
2022-23	88,100	1,24,777	3,21,759	1,78,690	7,13,326

Source: RBI.

[10] NCF target is applicable only for FBs having more than 20 branches.

Chart IV.22: Buyers and Sellers in PSLC Market



Source: RBI.

IV.49 In the last four years, PVBs have outpaced PSBs as sellers of PSLCs (Chart IV.22).

IV.50 During 2022-23 and H1:2023-24, the weighted average premium (WAP) decreased for all categories of PSLCs, with PSLC-SMF commanding the highest premium (Table IV.21).

IV.51 The GNPA ratio related to priority sector lending declined from 7.4 per cent at end-March 2022 to 5.6 per cent by end-March 2023. Nonetheless, the share of the priority sector in total GNPA of SCBs increased from 43.2 per cent at end-March-2022 to 51.2 per cent at end-March 2023 as NPAs in the non-priority sector declined more sharply. NPAs in the priority sector were led by agricultural defaults.

IV.52 While PSBs extended 43.7 per cent of their ANBC/CEOBE to the priority sector, this portfolio contributed to 56.2 per cent of their total NPAs. Priority sector comprises of 88.2 per cent of SFBs' ANBC/CEOBE, but its share in total NPAs has fallen significantly to 43.2 per cent in 2022-23 from 89.9 per cent in the previous year (Table IV.22).

5.3 Credit to Sensitive Sectors

IV.53 SCBs' exposure to sensitive sectors – real estate and capital markets – rose at a faster pace during 2022-23 and accounted for 24.3 per cent of their total loans and advances. Lending to the real estate sector picked up for both PSBs and PVBs (Chart IV.23a). On the other hand,

Table IV.21: Weighted Average Premium on Various Categories of PSLCs

(Per cent)

	2019-20	2020-21	2021-22	2022-23	2022-23 (Apr-Sep)	2023-24 (Apr-Sep)
1	2	3	4	5	6	7
PSLC-A	1.17	1.55	1.37	0.62	0.88	0.27
PSLC-ME	0.44	0.88	0.95	0.16	0.60	0.09
PSLC-SMF	1.58	1.74	2.01	1.68	1.97	1.93
PSLC-G	0.35	0.46	0.6	0.19	0.22	0.02

Source: RBI.

Table IV.22: Sector-wise GNPAs of Banks
(At end-March)

(Amount in ₹ crore)

Bank Group	Priority Sector		*Of which*						Non-priority Sector		Total NPAs	
			Agriculture		Micro and Small Enterprises		Others					
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13
PSBs												
2022	2,43,655	48.0	1,10,845	21.8	96,374	19.0	36,436	7.2	2,63,973	52.0	5,07,628	100
2023	2,25,638	56.2	1,14,409	28.5	80,577	20.1	30,652	7.6	1,75,666	43.8	4,01,304	100
PVBs												
2022	48,588	28.7	20,863	12.3	17,799	10.5	9,926	5.9	1,20,431	71.3	1,69,019	100
2023	42,293	36.7	19,999	17.3	14,569	12.6	7,724	6.7	73,052	63.3	1,15,345	100
FBs												
2022	2,555	18.5	481	3.5	1,638	11.9	436	3.2	11,231	81.5	13,786	100
2023	2,149	22.5	221	2.3	1,542	16.2	386	4.0	7,395	77.5	9,544	100
SFBs												
2022	6,037	89.9	1,961	29.2	2,002	29.8	2,074	30.9	682	10.1	6,719	100
2023	3,832	43.2	1,549	17.5	1,065	12.0	1,217	13.7	5,038	56.8	8,869	100
All SCBs												
2022	3,00,835	43.2	1,34,151	19.2	1,17,813	16.9	48,871	7.0	3,96,316	56.8	6,97,151	100
2023	2,73,911	51.2	1,36,178	25.5	97,753	18.3	39,980	7.5	2,61,151	48.8	5,35,062	100

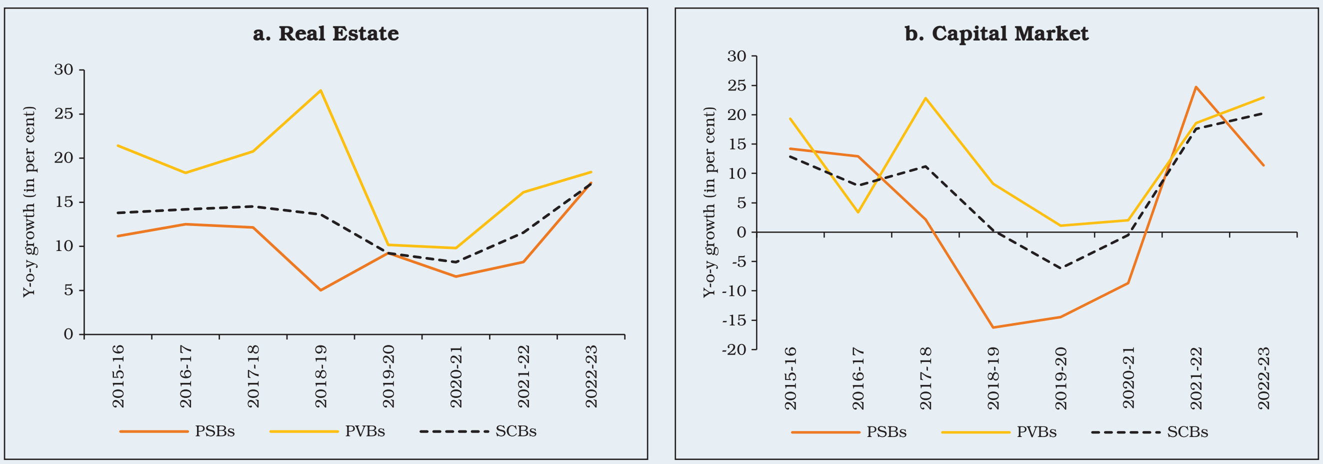
Notes: 1. Per cent: Per cent of total NPAs.
2. Constituent items may not add up to the total due to rounding off.
Source: Off-site returns (domestic operations), RBI.

capital market exposure of PSBs decelerated (Chart IV.23b and Appendix Table IV.9).

5.4 Unsecured Lending

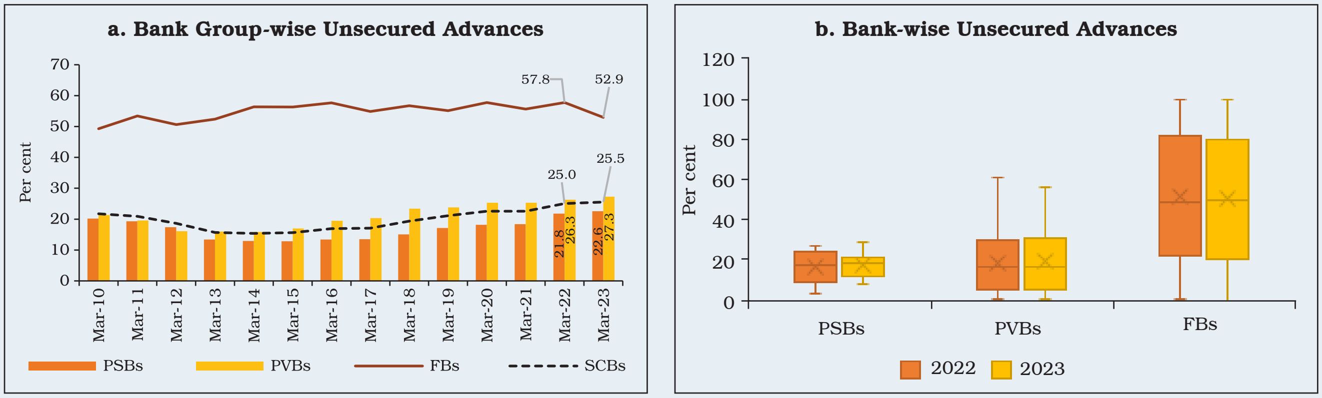
IV.54 Unsecured loans – characterised by absence or inadequacy of collateral – present a higher credit risk for banks in the event of defaults. The share of unsecured advances in total credit of SCBs has been increasing since end-March 2015, reaching 25.5 per cent by end-March 2023. More than 50 per cent of loans by FBs are unsecured, while the share is lower at

Chart IV.23: Exposure to Sensitive Sectors
(At end-March)



Source: Annual accounts of banks.

Chart IV.24: Share of Unsecured Advances in Total Advances



Notes: 1 Data exclude regional rural banks.
2. In the box plots, the boxes show the distance between the first and the third quartiles (interquartile range). The whiskers indicate the maximum and minimum values (excluding outliers). Observations that are more than 1.5 times the interquartile range lie beyond the whiskers and are considered outliers. The horizontal line inside each box shows the median, while 'X' shows the mean.

Source: Annual accounts of banks.

27.3 per cent and 22.6 per cent for PVBs and PSBs, respectively (Chart IV.24). The Reserve Bank's November 2023 measures to increase risk weights on select categories of consumer credit exposure need to be seen in this evolving milieu.

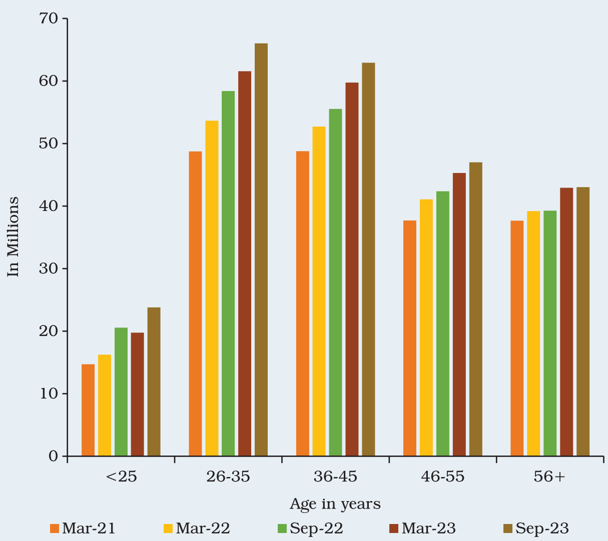
5.5 Borrower Age Profile

IV.55 Data sourced from the TransUnion Credit Information Bureau (India) Limited (CIBIL) suggest that 53.1 per cent of retail borrowers were in the 25-45 years age bracket at end-September 2023 (Chart IV.25).

6. Ownership Patterns in Commercial Banks

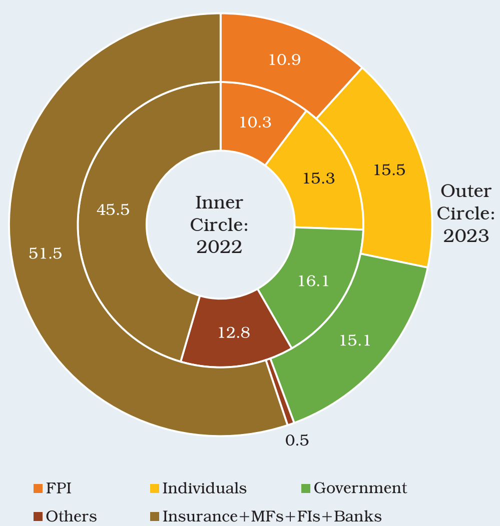
IV.56 The ownership pattern of PVBs underwent a change during 2022-23, with a decline in government ownership particularly in Jammu & Kashmir Bank and an increase

Chart IV.25: Distribution of Retail Borrowers by Age



Source: TransUnion CIBIL.

Chart IV.26: Ownership Pattern of PVBs
(At end-March)



Source: RBI.

in the share of institutional investors such as insurance companies, mutual funds, banks and financial institutions, notably in Karur Vysya Bank and in Yes Bank (Chart IV.26 and Appendix Table IV.10). In the case of PSBs, government ownership remained unchanged at 90.5 per cent of paid-up equity share capital.

IV.57 As the asset quality of PSBs has improved, the requirement of capital infusion by the government has declined (Chart IV.27).

7. Corporate Governance

IV.58 In the aftermath of the global financial crisis of 2007-09, regulatory reforms in corporate governance have focused on, *inter alia*, effective board oversight, rigorous risk management, strong internal controls, and compliance. On April 26, 2021 the Reserve Bank issued instructions aimed at achieving robust and transparent risk management and decision-making in banks, thereby promoting

Chart IV.27: Capital Infusion in PSBs

Source: RBI.

public confidence and upholding the safety and soundness of the financial system[11].

7.1 Composition of Boards

IV.59 Apart from providing checks and balances, independent directors often bring unbiased views, diverse experiences, and expertise to the board and contribute to effective risk management. In the case of PVBs and SFBs, the share of independent directors in the Board and its committees (except for Nomination and Remuneration Committee (NRC) in PVBs) improved in 2022-23 (Table IV.23).

IV.60 As per the Reserve Bank's directions, banks are required to constitute a Risk Management Committee of the Board (RMCB), with a majority of non-executive directors (NED). The chair of the Board may be a member of the RMCB only if he/she has the requisite risk management expertise. The proportion of PVBs where the chair is not a member of the RMCB decreased from 39 per cent at end-March 2022 to 38 per cent at end-March 2023. For SFBs, the proportion decreased from 50 per cent to 42 per cent during the same period.

Table IV.23: Independent Directors on the Board and its Committees
(At end-March)

(Share in per cent)

	Board		RMCB		NRC		Audit Committee of the Board (ACB)	
	2022	2023	2022	2023	2022	2023	2022	2023
1	2	3	4	5	6	7	8	9
PVBs	63	65	65	67	80	78	76	83
SFBs	68	68	74	76	83	83	83	85

Source: Annual reports and websites of the banks.

7.2 Executive Compensation

IV.61 Linking the variable component of management compensation to annual performance indicators may inadvertently shift focus to short-term gains at the expense of long-term stability. In order to maintain a balance between such myopia and an incentive-based compensation structure, the Reserve Bank's revised guidelines require that at least 50 per cent of the total compensation should be variable[12]. The share of variable pay (VP) in total remuneration (TR) for PVBs increased from 31 per cent at end-March 2021 to 39 per cent at end-March 2022[13]. For SFBs, it increased marginally from 25 per cent to 26 per cent during the same period. At end-March 2022, the share of non-cash component in the VP for PVBs and SFBs decreased to 57 per cent and 34 per cent, from 78 per cent and 41 per cent in the previous year, respectively[14].

IV.62 The disparity in remuneration between top executives and average employees may induce risk-taking behaviour and can be detrimental to the long-term objectives of the institution. In the context of Indian banks, the gap is the widest in the case of SFBs (Table IV.24).

[11] These instructions were made applicable to all PVBs (including SFBs) and wholly owned subsidiaries of FBs. In respect of State Bank of India and Nationalised Banks, these guidelines were specified to apply only to the extent that they are not inconsistent with provisions of specific statutes applicable to them, or instructions issued under the statutes.

[12] The guidelines on compensation of whole-time directors/ chief executive officers/ material risk takers and control function staff issued on November 4, 2019, became effective for the pay cycles beginning from / after April 01, 2020.

[13] VP is the actual amount paid by the bank.

[14] As per the guidelines, in case the VP is up to 200 per cent of the fixed pay, a minimum of 50 per cent of the VP and in case the VP is above 200 per cent, a minimum of 67 per cent of the VP should be via non-cash instruments.

Table IV.24: Managing Director and Chief Executive Officer's Remuneration *vis-à-vis* Average Employee Pay
(At end-March)

	PVBs	SFBs	PSBs
1	2	3	4
2021	25.1	58.9	2.3
2022	26.1	58.1	2.4

Note: For each bank, a ratio of their MD & CEO's remuneration to the average employee pay is calculated. The numbers in the table represent a median of such ratios for the particular bank group.
Source: RBI.

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

IV.63 After a steady rising trend from March 2006 to reach 46 at end-March 2020, the number of FBs in India declined to 44 at end-March 2023. The number of FBs' branches also declined for the second consecutive year during 2022-23, reflecting rationalisation for cost optimisation (Table IV.25).

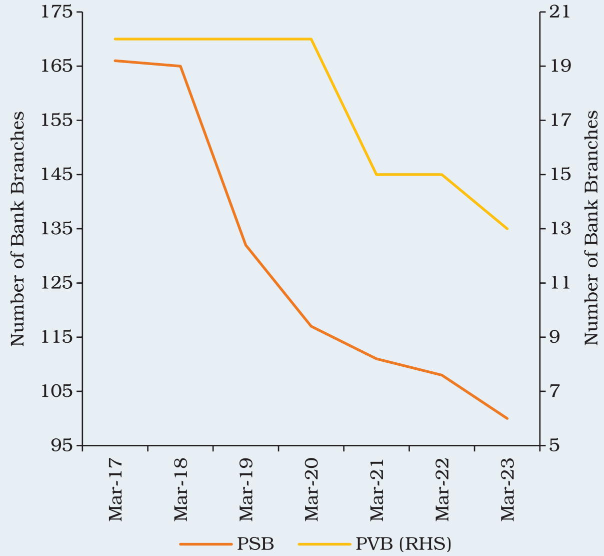
IV.64 Rationalisation of PSBs' overseas presence by closing non-viable branches and consolidating operations in the same geography has gathered focus since 2018 to improve cost efficiencies and synergies[15]. Accordingly, PSBs have shutdown 65 overseas bank branches during the last five years (March 2018 to March 2023). During the same period, PVBs have also reduced their overseas bank branches from 20 to 13 (Chart IV.28 and Appendix Table IV.11).

Table IV.25: Operations of Foreign Banks in India

	Foreign Banks Operating Through Branches		Foreign Banks Having Representative Offices
	No. of Banks	Branches	
1	2	3	4
Mar-17	44	295	39
Mar-18	45	286	40
Mar-19	45#	299*	37
Mar-20	46#	308*	37
Mar-21	45#	874*	36
Mar-22	45#	861*	34
Mar-23	44#	782*	33

Notes: 1. # Includes two foreign banks namely, SBM Bank (India) Limited and DBS Bank India Limited, which are operating through Wholly Owned Subsidiary (WOS) mode.
2. *Includes branches of SBM Bank (India) Limited and DBS Bank India Limited (including branches of amalgamated entity, *i.e.*, Lakshmi Vilas Bank as on March 2021) operating through Wholly Owned Subsidiary (WOS) mode.
Source: RBI.

Chart IV.28: Overseas Branches of Indian Banks



Source: RBI.

9. Payment Systems and Scheduled Commercial Banks

IV.65 In recent years, India has emerged as a world leader in developing and adopting new technologies in the digital payments landscape. This has been evident not only in terms of growth in digital payments but also in availability of a bouquet of safe, secure, innovative and efficient payment systems. India's Digital Public Infrastructure (DPI) and its unique open model

[15] Government of India (2018), "Responsive and Responsible PSBs — Banking Reforms Roadmap for a New India", January 26, available at https://static.pib.gov.in/WriteReadData/userfiles/Final%2023.01.18-min.pdf

has been a cornerstone of this transformation. The recognition of the importance of DPI as a priority under India's G20 presidency at the multilateral forum is expected to further aid its development and deployment.

IV.66 In order to enhance the ease of transactions, the upper limit for small value digital payments in offline mode was increased from ₹200 to ₹500 in August 2023. Additionally, 'Har Payment Digital' mission was launched during the Digital Payments Awareness Week (DPAW), March 2023 to reinforce the Reserve Bank's commitment to deepen penetration of digitalisation in the country.

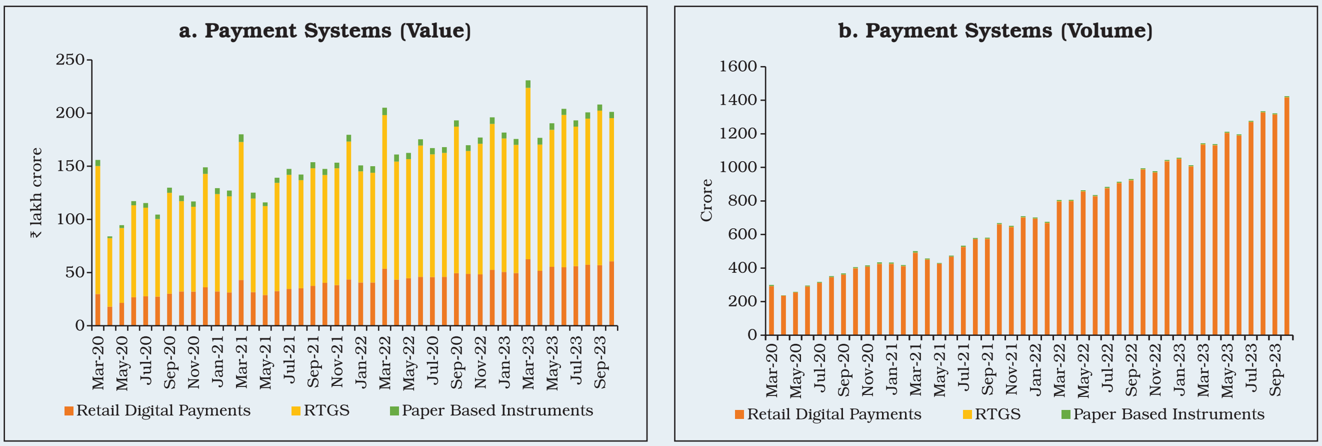
9.1 Digital Payments

IV.67 Digital modes of payments are increasingly replacing conventional paper-based instruments such as cheques and demand drafts, with the latter now constituting a negligible share in total payments. In October 2023, 99.6 per cent of total payments in terms of volume and 97.1 per cent in terms of value were made *via* digital modes (Chart IV.29).

IV.68 The growth in volume of total payments decelerated to 57.8 per cent (19.2 per cent in terms of value) during 2022-23 from 63.8 per cent (23.1 per cent in terms of value) during 2021-22 as the post-COVID-19 base effect waned (Table IV.26). Amongst the various options available, the Unified Payments Interface (UPI) has the majority share in volume of transactions, while RTGS, which facilitates high-value transactions on real time basis, accounted for the largest share in terms of value.

IV.69 The Reserve Bank launched a composite Digital Payments Index in January 2021 to capture the extent of digitalisation of payments across the country. The index is based on five broad parameters, *viz.*, payment enablers; payment performance; consumer centricity; and demand and supply side factors of payment infrastructure. It is computed semi-annually with March 2018 as the base. At end-March 2023, the index stood at 395.6 as compared to 377.5 at end September 2022, driven by enhanced payment infrastructure and performance.

Chart IV.29: Components of Payment Systems



Note: Retail digital payments include NEFT, IMPS, UPI, NACH, BHIM Aadhar Pay, AePS fund transfer, NETC, card payments and prepaid payment instruments.

Source: RBI.

Table IV.26: Payment Systems Indicators

	Volume (Lakh)			Value (₹ crore)		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
1	2	3	4	5	6	7
1. Large Value Credit Transfers – RTGS	1,592	2,078	2,426	10,55,99,849	12,86,57,516	14,99,46,286
2. Credit Transfers	3,17,868	5,77,935	9,83,621	3,35,04,226	4,27,28,006	5,50,09,620
2.1 AePS (Fund Transfers)	11	10	6	623	575	356
2.2 APBS	14,373	12,573	17,834	1,11,001	1,33,345	2,47,535
2.3 ECS	-	-	-	-	-	-
2.4 IMPS	32,783	46,625	56,533	29,41,500	41,71,037	55,85,441
2.5 NACH	16,465	18,758	19,257	12,16,535	12,81,685	15,41,815
2.6 NEFT	30,928	40,407	52,847	2,51,30,910	2,87,25,463	3,37,19,541
2.7 UPI	2,23,307	4,59,561	8,37,144	41,03,658	84,15,900	1,39,14,932
3. Debit Transfers and Direct Debits	10,457	12,189	15,343	8,65,520	10,34,444	12,89,611
3.1 BHIM Aadhaar Pay	161	228	214	2,580	6,113	6,791
3.2 ECS Dr	-	-	-	-	-	-
3.3 NACH	9,646	10,755	13,503	8,62,027	10,26,641	12,80,219
3.4 NETC (linked to bank account)	650	1,207	1,626	913	1,689	2,601
4. Card Payments	57,787	61,783	63,325	12,91,799	17,01,851	21,52,245
4.1 Credit Cards	17,641	22,399	29,145	6,30,414	9,71,638	14,32,255
4.2 Debit Cards	40,146	39,384	34,179	6,61,385	7,30,213	7,19,989
5. Prepaid Payment Instruments	49,366	65,783	74,667	1,97,095	2,79,416	2,87,111
6. Paper-based Instruments	6,704	6,999	7,109	56,27,108	66,50,333	71,72,904
Total Digital Payments (1+2+3+4+5)	**4,37,068**	**7,19,768**	**11,39,382**	**14,14,58,488**	**17,44,01,233**	**20,86,84,872**
Total Retail Payments (2+3+4+5+6)	**4,42,180**	**7,24,689**	**11,44,065**	**4,14,85,747**	**5,23,94,049**	**6,59,11,490**
Total Payments (1+2+3+4+5+6)	**4,43,772**	**7,26,767**	**11,46,491**	**14,70,85,596**	**18,10,51,565**	**21,58,57,776**

Source: RBI.

9.2 ATMs

IV.70 During 2022-23, the total number of Automated Teller Machines (ATMs) (on-site and off-site) grew by 3.5 per cent, primarily driven by increase in the number of white-label ATMs (WLAs). Amongst the ATMs operated by SCBs at end-March 2023, the share of PSBs and PVBs was 63 per cent and 35 per cent, respectively (Table IV.27 and Appendix Table IV.12).

Table IV.27: Number of ATMs
(At end-March)

Sr. No.	Bank Group	On-Site ATMs		Off-site ATMs		Total Number of ATMs	
		2022	2023	2022	2023	2022 (3+5)	2023 (4+6)
1	2	3	4	5	6	7	8
I	PSBs	75,653	78,777	59,804	59,646	1,35,457	1,38,423
II	PVBs	38,254	41,426	37,289	35,549	75,543	76,975
III	FBs	701	619	1,082	612	1,783	1,231
IV	SFBs*	2,185	2,797	22	24	2,207	2,821
V	PBs**	1	1	70	62	71	63
VI	WLAs	0	0	31,499	35,791	31,499	35,791
VII	All SCBs (I to V)	1,16,794	1,23,620	98,267	95,893	2,15,061	2,19,513
VIII	Total (VI+VII)	1,16,794	1,23,620	1,29,766	1,31,684	2,46,560	2,55,304

Notes: 1. *: 11 scheduled SFBs at end-March 2023.
2. **: 4 scheduled PBs at end-March 2023.
Source: RBI.

Table IV.28: Geographical Distribution of ATMs: Bank Group Wise@
(At end-March 2023)

Bank group	Rural	Semi - Urban	Urban	Metro-politan	Total
1	2	3	4	5	6
Public Sector Banks	29,293 (80.2)	40,334 (65.4)	35,218 (63.6)	33,578 (50.9)	1,38,423 (63.1)
Private Sector Banks	6,881 (18.8)	20,101 (32.6)	18,990 (34.3)	31,003 (47)	76,975 (35.1)
Foreign Banks	109 (0.3)	329 (0.5)	343 (0.6)	450 (0.7)	1231 (0.6)
Small Finance Banks*	239 (0.7)	875 (1.4)	837 (1.5)	870 (1.3)	2,821 (1.3)
Payments Banks**	8 (0.02)	12 (0.02)	26 (0.05)	17 (0.03)	63 (0.03)
All SCBs	36,530 (100)	61,651 (100)	55,414 (100)	65,918 (100)	2,19,513 (100)
All SCBs (y-o-y growth)	1.39	2.30	0.39	-0.47	0.82
WLAs	18,346	11,583	3,813	2,049	35,791
WLAs (y-o-y growth)	11.8	13.2	21.0	20.2	13.6

Notes: 1. Figures in parentheses indicate percentage share of total ATMs in each geographical region.
2. *: 11 scheduled SFBs at end-March 2023.
3. **: 4 scheduled PBs at end-March 2023.
4. @: Data include ATMs and Cash Recycling Machines (CRMs).
Source: RBI.

IV.71 At end-March 2023, ATMs of PSBs were more evenly distributed across geographies than other bank groups whose ATMs were skewed towards urban and metropolitan areas. In contrast, a majority (51 per cent) of WLAs were concentrated in rural areas (Table IV.28).

10. Consumer Protection

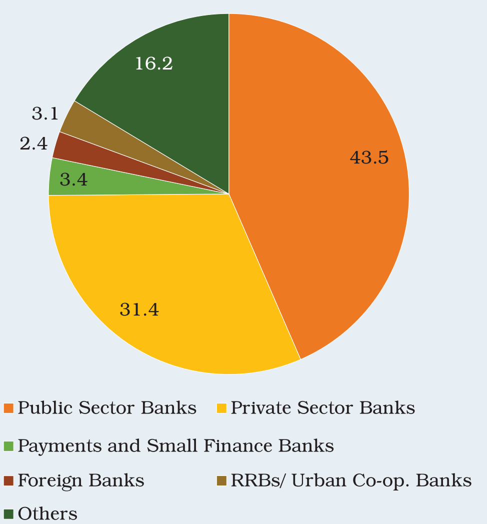
IV.72 Consumer education and protection is an integral component of the Reserve Bank's full-service central banking function. Towards this end, technology is being extensively leveraged to enhance efficiencies in the grievance redressal mechanism.

10.1 Grievance Redressal

IV.73 During 2022-23, the number of complaints received under the Reserve Bank - Integrated Ombudsman Scheme (RB-IOS) increased by 68.2 per cent, partly due to simplification of procedures for lodging of complaints. Of the 7,03,544 complaints received against REs, 33.4 per cent were handled by the Office of Reserve Bank of India Ombudsmen (ORBIOs) and the rest were disposed at the Centralised Receipt and Processing Centre (CRPC). The number of complaints against REs dealt at the ORBIOs declined y-o-y by 22.9 per cent in 2022-23 due to structural changes in the Ombudsman framework which led to filtering out of non-maintainable complaints at the level of CRPC and on the Complaint Management Portal. Majority of the complaints received at the ORBIOs during the year pertained to banks (83.8 per cent) (Chart IV.30).

IV.74 Under the RB-IOS, effective November 2021, complaint categories were rationalised to make deficiency in service the sole ground for lodging a complaint. Consequently, data on nature of complaints are not strictly comparable across the financial years. During 2022-23,

Chart IV.30: Entity Type-wise Complaints Received at ORBIOs



Source: RBI.

grievances related to loans and advances against banks, NBFCs and other REs accounted for more than one-fourth of the overall complaints received. The share of the top five categories, consisting of complaints received for loans and advances, mobile/ electronic banking, deposit accounts, credit cards and ATM/ debit cards, increased from 54.7 per cent during 2021-22 to 85.8 per cent during 2022-23 (Table IV.29).

IV.75 The share of complaints from urban, semi-urban and rural areas saw an uptick during the year, partly reflecting intensive public awareness programmes conducted across the country (Chart IV.31a). For both PSBs and PVBs, complaints related to ATM/ debit cards/ credit cards constituted the highest share during 2022-23, followed by mobile/ electronic banking related grievances in case of PSBs and complaints concerning loans and advances in case of PVBs (Chart IV.31b and Appendix Table IV.13).

10.2 Deposit Insurance

IV.76 Deposit insurance extended by the Deposit Insurance and Credit Guarantee Corporation (DICGC) is an important financial safety net which helps preserve public confidence,

Table IV.29: Nature of Complaints at RBIOs

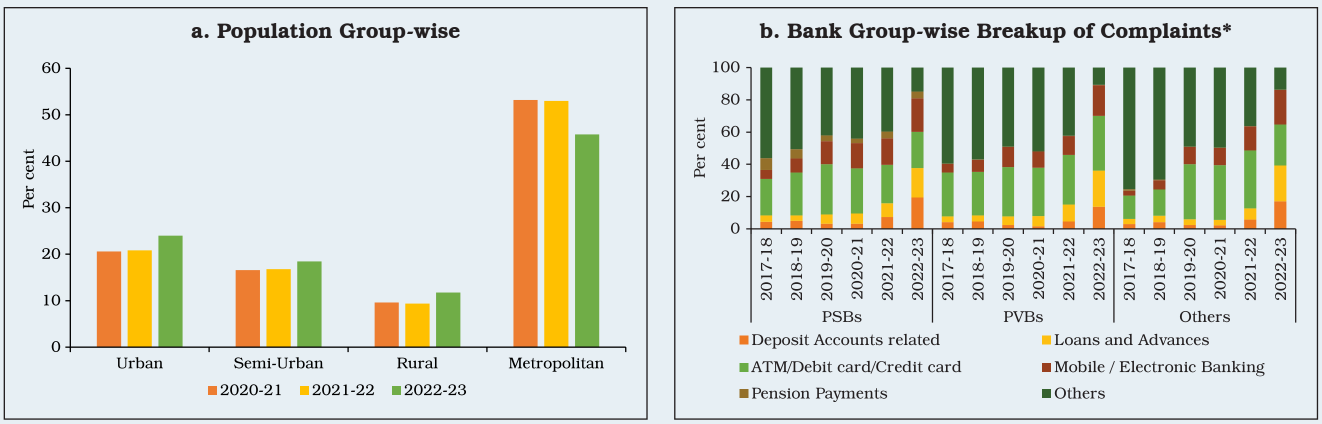
	2020-21	2021-22#	2022-23#
1	2	3	4
Loans and Advances	20,218	30,734	59,762
Mobile / Electronic Banking	44,385	42,271	43,167
Deposit Accounts	8,580	16,989	34,481
Credit Cards	40,721	34,828	34,151
ATM/ Debit Cards	60,203	41,849	29,929
Others	39,686	36,607	22,551
Pension Payments	4,966	6,206	4,380
Remittances	3,394	3,443	2,940
Para-Banking	1,236	1,608	2,782
Notes and Coins	332	302	511
Non-observance of Fair Practice Code $	33,898	37,880	20
Levy of Charges without Prior Notice $	20,949	14,519	3
DSAs and Recovery Agents $	2,440	1,640	7
Failure to Meet Commitments $	35,999	22,420	5
Non-adherence to BCSBI Codes $	14,490	5,069	1
Out of Purview of BO Scheme $	10,250	8,131	-
Total	**3,41,747**	**3,04,496***	**2,34,690^**

Notes: 1. # : Data pertain to commercial banks, NBFCs and other REs.
2. * : Excludes 1,13,688 complaints handled at CRPC.
3. ^ : Excludes 4,68,854 complaints handled at CRPC.
4. $: Decline is due to recategorisation of complaints and structural changes in the Ombudsman framework under RB-IOS, 2021.

Source: RBI.

especially of small depositors. The scheme covers all commercial banks, including LABs, PBs, SFBs, RRBs and co-operative banks with an insurance cover limit of ₹5 lakh per deposit account. As on March 31, 2023 depositors of

Chart IV.31: Distribution of Complaints



Notes: 1. *: Data for 2021-22 and 2022-23 may not be exactly comparable with previous years due to rationalisation of complaint categories under RBI-OS, 2021.
2. Data pertain to commercial banks.

Source: Banking Ombudsman.

Table IV.30: Bank Group-wise Insured Deposits
(At end-March 2023)

(Amount in ₹ crore)

Bank Groups	No. of Insured Banks	Insured Deposits (ID)	Assessable Deposits (AD)*	ID / AD (per cent)
1	2	3	4	5
I. Commercial Banks	139	79,22,120	1,83,48,838	43.2
i) Public Sector Banks	12	52,20,324	1,05,07,639	49.7
ii) Private Sector Banks	21	21,20,937	62,37,833	34.0
iii) Foreign Banks	43	50,037	8,62,909	5.8
iv) Small Finance Banks	12	66,745	1,63,183	40.9
v) Payments Banks	6	12,533	12,694	98.7
vi) Regional Rural Banks	43	4,50,675	5,63,377	80.0
vii) Local Area Banks	2	869	1,204	72.2
II. Co-operative Banks	1,887	7,09,139	11,10,076	63.9
i) Urban Co-operative Banks	1,502	3,62,991	5,34,413	67.9
ii) State Co-operative Banks	33	64,041	1,46,931	43.6
iii) District Central Co-operative Banks	352	2,82,107	4,28,733	65.8
Total	**2,026**	**86,31,259**	**1,94,58,915**	**44.4**

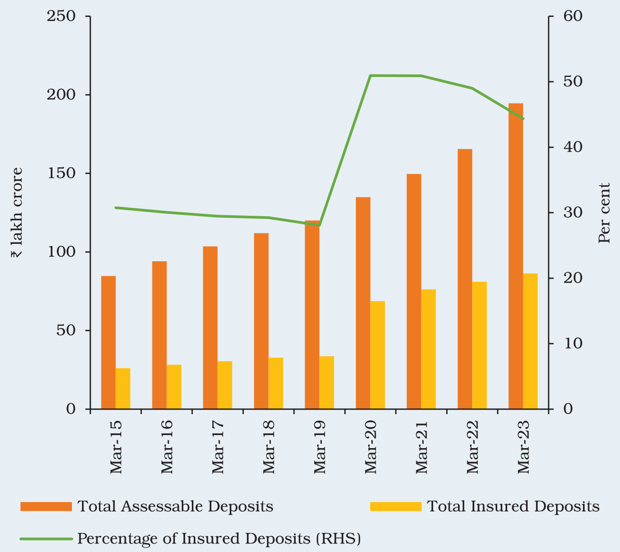
Note: *: Assessable deposits mean overall deposits, including portions which are not provided insurance cover. Inter-bank deposits and government deposits are excluded from the total deposits to get assessable deposits.
Source: Deposit Insurance and Credit Guarantee Corporation.

2,026 banks (139 commercial banks and 1,887 co-operative banks) were insured under the scheme (Table IV.30).

IV.77 Under the extant coverage limit, 98.1 per cent of the total number of accounts were fully insured at end-March 2023. The share of insured deposits in total assessable deposits increased at end-March 2020 as the insurance cover limit per account was raised from ₹1 lakh to ₹5 lakh. The share of insured deposits moderated during 2022-23 due to an increasing share of deposits with outstanding balance of more than ₹5 lakh (Chart IV.32).

IV.78 The Deposit Insurance Fund (DIF) is utilised to settle the claims of the insured depositors of banks in the event of imposition of all-inclusive directions (AID)/liquidation/merger/amalgamation[16]. DIF balance stood at ₹1,69,602 crore at end-March 2023, recording a y-o-y growth of 15.5 per cent. The reserve ratio (RR) increased from 1.80 per cent at end-March 2022 to 2.0 per cent at end-March 2023[17]. The DICGC has the mandate to recover insurance pay-outs

Chart IV.32: Insured Deposits



Source: Deposit Insurance and Credit Guarantee Corporation.

[16] DIF is built through transfer of surplus each year. The surplus consists of excess of income (mainly comprising premium received from insured banks, interest income from investments and cash recovery out of assets of failed banks) over expenditure (payment of claims of depositors and related expenses), net of taxes.

[17] Ratio of deposit insurance fund to insured deposits.

under Section 21 of DICGC Act, 1961 and rules framed thereunder. During the year, the DICGC made a total recovery of claims amounting to ₹883 crore from 83 banks, of which ₹233 crore was recovered from six UCBs placed under AID as against ₹399 crore recovered during 2021-22.

11. Financial Inclusion

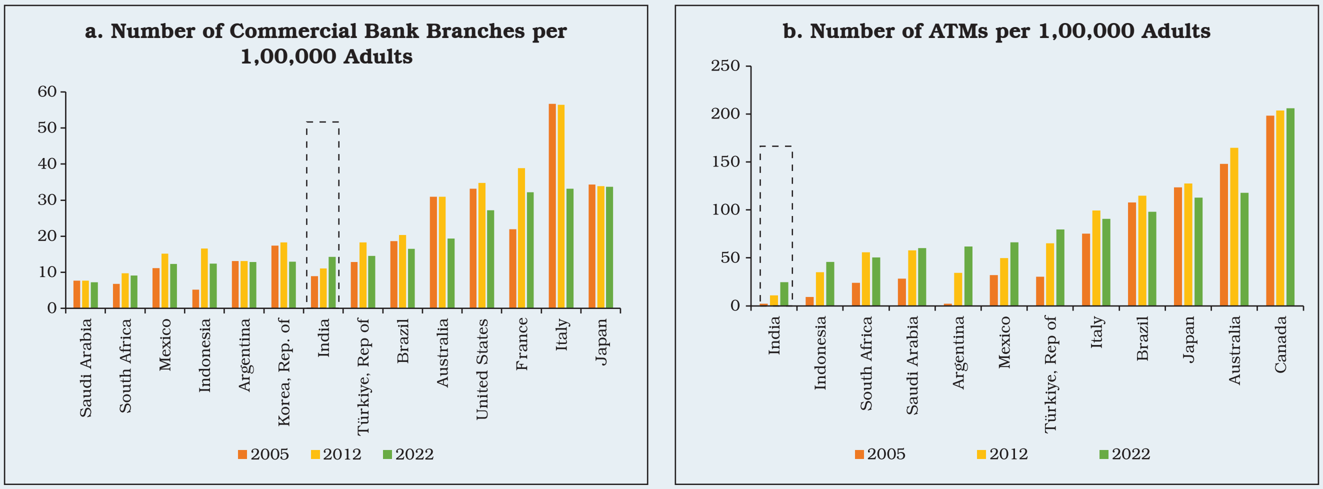
IV.79 Financial inclusion is a catalyst of balanced growth. The Reserve Bank's recent initiatives have been aimed at ensuring that the benefits of financial inclusion reach every stratum of society. The Reserve Bank continued to conduct Financial Literacy Week (FLW) to deepen financial education and awareness, with stress upon 'Good Financial Behaviour - Your Saviour' in 2022-23.

IV.80 The consistent progress in financial inclusion in the country is evident in the increase in bank branches per 1,00,000 adults. This was complemented by rapid digitalisation in banking services and an expanding network of business correspondents (BCs). This was in contrast to G20 peers where an increase in digitalisation has not been accompanied by more bank branches (Chart IV.33a). The per capita ATM deployment has more than doubled in the last decade (Chart IV.33b).

IV.81 Since the introduction of the *Pradhan Mantri Jan Dhan Yojana* (PMJDY) in 2014, the number of accounts held by both men and women in the household sector – especially loan accounts – has been steadily increasing. Although there are fewer women-owned loan and deposit accounts in comparison with their male counterparts, the former have been increasing at a much faster pace. Between 2015 and 2023, women-owned deposit and loan accounts registered a compound annual growth rate (CAGR) of 10.3 per cent and 18.1 per cent, respectively, while men-owned deposit and loan accounts grew by 6.9 per cent and 9.2 per cent, respectively (Chart IV.34a and b).

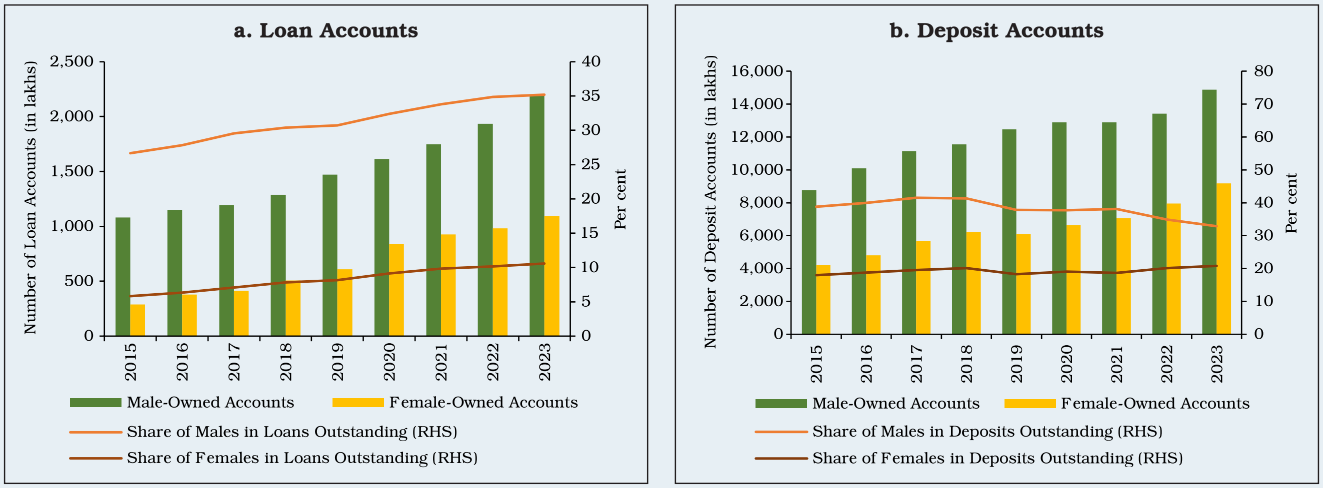
IV.82 To extend the benefit of financial services and literacy to more citizens, the Reserve Bank initiated setting up of 75 Digital Banking Units (DBUs) in 75 districts, especially in villages and small towns in April 2022. DBUs are brick-and-mortar outlets equipped with infrastructure to

Chart IV.33: Progress of Financial Inclusion in G20 Countries



Source: Financial Access Survey, IMF.

Chart IV.34: Demographic Progress in Financial Inclusion



Source: Basic Statistical Return I and II (Annual), RBI.

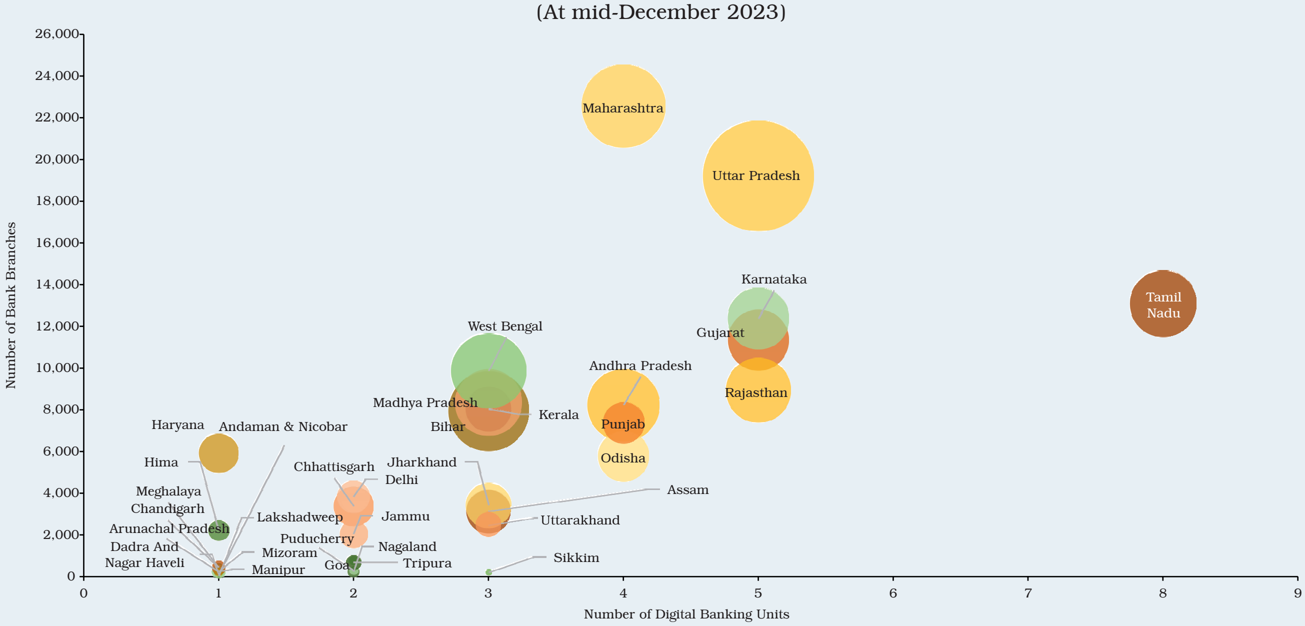
execute banking functions such as opening of accounts, accessing government schemes, and making transactions digitally. By mid-December 2023, there were 96 DBUs in the country with the largest presence in Tamil Nadu (Chart IV.35).

11.1 Financial Inclusion Plans

IV.83 Financial Inclusion Plans (FIPs) introduced by the Reserve Bank in 2010 serve as an important yardstick for measuring the progress of banks with respect to financial inclusion. The BC model has been crucial in

Chart IV.35: State-wise Distribution of Bank Branches and Digital Banking Units

(At mid-December 2023)



Notes: 1. The size of the bubbles is indicative of state population.

2. The number of bank branches includes branches of both commercial and co-operative banks.

Source: RBI and Office of the Registrar General & Census Commissioner, India Ministry of Home Affairs.

expanding financial inclusion at the grassroots level. This is evident from the higher share of basic saving bank deposit accounts (BSBDAs) continuing to be channelised through the BCs. Similarly, the value of transactions through the Business Correspondents – Information and Communication Technology (BC-ICT) model grew by 26 per cent during 2022-23, up from 6.5 per cent during 2021-22 (Table IV.31).

11.2 Financial Inclusion Index

IV.84 The Reserve Bank has constructed a multi-dimensional composite Financial Inclusion Index (FI-Index) based on 97 indicators, including availability, ease of access, usage, distribution and efficiency in services, financial literacy, and consumer protection to effectively monitor and quantify the progress of policy initiatives undertaken to promote financial inclusion. On a scale of 0 to 100, the annual FI-Index with three sub-indices, *viz.*, 'FI-access', 'FI-usage', and 'FI-quality', stood at 60.1 in March 2023 *vis-à-vis* 56.4 in March 2022, with growth witnessed across all sub-indices, especially in usage and quality.

Table IV.31: Progress in Financial Inclusion Plan
(At end-March)

	2010	2015	2020	2021	2022	2023*
1	2	3	4	5	6	7
Banking Outreach						
Banking Outlets in Villages- Branches	33,378	49,571	54,561	55,112	53,287	53,802
Banking Outlets in Villages>2000-BCs	8,390	90,877	1,49,106	8,50,406	18,92,462	13,48,038^
Banking Outlets in Villages<2000-BCs	25,784	4,08,713	3,92,069	3,40,019	3,26,008	2,77,844
Total Banking Outlets in Villages – BCs	34,174	4,99,590	5,41,175	11,90,425	22,18,470	16,25,882
Banking Outlets in Villages – Other Modes	142	4,552	3,481	2,542	2,479	2,273
Banking Outlets in Villages –Total	67,694	5,53,713	5,99,217	12,48,079	22,74,236	16,81,957
Urban Locations Covered Through BCs	447	96,847	6,35,046	4,26,745	12,95,307	4,15,218
Basic Saving Bank Deposits Account (BSBDA)						
BSBDA - Through Branches (No. in Lakh)	600	2,103	2,616	2,659	2,661	2,750
BSBDA - Through Branches (Amt. in ₹ crore)	4,400	36,498	95,831	1,18,392	1,20,464	1,33,661
BSBDA - Through BCs (No. in Lakh)	130	1,878	3,388	3,796	4,015	4,105
BSBDA - Through BCs (Amt. in ₹ crore)	1,100	7,457	72,581	87,623	1,07,415	1,29,531
BSBDA - Total (No. in Lakh)	735	3,981	6,004	6,455	6,677	6,856
BSBDA - Total (Amt. in ₹ crore)	5,500	43,955	1,68,412	2,06,015	2,27,879	2,63,192
OD Facility Availed in BSBDAs (No. in Lakh)	2	76	64	60	68	51
OD Facility Availed in BSBDAs (Amt. in ₹ crore)	10	1,991	529	534	516	572
KCC and General Credit card (GCC)						
KCC – Total (No. in Lakh)	240	426	475	466	473	493
KCC – Total (Amt. in ₹ crore)	1,24,000	4,38,229	6,39,069	6,72,624	7,10,715	7,68,339
GCC - Total (No. in Lakh)	10	92	202	202	96	66
GCC - Total (Amt. in ₹ crore)	3,500	1,31,160	1,94,048	1,55,826	1,70,203	1,90,568
Business Correspondents						
ICT-A/Cs-BC-Total Transactions (No. in Lakh) #	270	4,770	32,318	30,551	28,533	34,055
ICT-A/Cs-BC-Total Transactions (Amt. in ₹ crore) #	700	85,980	8,70,643	8,49,771	9,05,252	11,39,521

Notes: 1. *: Provisional.
2. #: Transactions during the financial year.
3. ^: Significant decrease is on account of select private sector banks.

Source: FIP returns submitted by PSBs, PVBs and RRBs.

11.3 Pradhan Mantri Jan Dhan Yojana (PMJDY)

IV.85 The PMJDY envisages universal access to banking facilities, credit, insurance, pension and financial literacy. At end-August 2023, there were 50.3 crore PMJDY accounts. The decelerating trend in the growth of new PMJDY accounts witnessed since August 2019 was reversed in August 2023. Close to two-thirds of PMJDY accounts were in rural and semi-urban areas, with the majority maintained by PSBs and RRBs.

11.4 New Bank Branches by SCBs

IV.86 New bank branches opened by SCBs increased to 5,308 in 2022-23 from 3,254 in 2021-22, primarily due to PVBs expanding their reach in smaller cities (Table IV.32). PSBs' new branch additions were led by openings in rural areas (Chart IV.36).

Table IV.32: Tier-wise Break-up of Newly Opened Bank Branches by SCBs

Centre	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5
Tier 1	2,281	1,544	1,558	2,286
	(52.4)	(50.0)	(47.9)	(43.1)
Tier 2	368	278	238	469
	(8.5)	(9.0)	(7.3)	(8.8)
Tier 3	568	478	428	811
	(13.0)	(15.5)	(13.2)	(15.3)
Tier 4	357	263	293	546
	(8.2)	(8.5)	(9.0)	(10.3)
Tier 5	282	178	228	422
	(6.5)	(5.8)	(7.0)	(8.0)
Tier 6	499	348	509	774
	(11.5)	(11.3)	(15.6)	(14.6)
Total	**4,355**	**3,089**	**3,254**	**5,308**
	(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' and 'Digital Banking Units'.

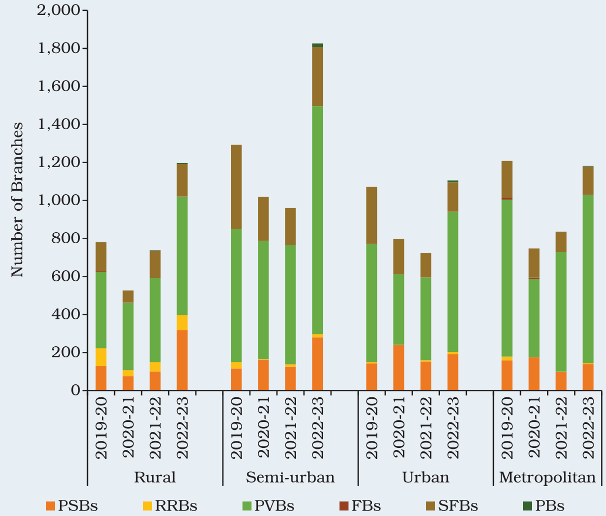
3. All population figures are as per census 2011.

4. Figures in parentheses represent shares in the total.

5. Banks scheduled as on December 01, 2023 are considered for collating the data from 2019-20 onwards.

Source: Central Information System for Banking Infrastructure database (CISBI), RBI. CISBI data are dynamic in nature and are updated based on information as received from banks and processed at our end.

Chart IV.36: Distribution of Newly Opened Bank Branches of SCBs



Source: Central Information System for Banking Infrastructure database (CISBI), RBI.

11.5 Microfinance Programme

IV.87 Microfinance involves extension of financial services, including small loans and savings accounts, to individuals or groups, often in underserved or economically disadvantaged areas. The Self-Help Group – Bank Linkage Programme (SHG-BLP) provides savings, credit and other facilities to the financially excluded poor. At end-March 2023, 16.2 crore rural households were covered under the SHG-BLP. During 2022-23, close to 43 lakh SHGs availed loans from banks as compared with 34 lakh SHGs in 2021-22, with outstanding loans growing at 25 per cent during the year (Appendix Table IV.14). In terms of savings-linked SHGs, all regions witnessed growth during 2022-23, barring the southern region due to programme saturation as it had the highest share of savings linked SHGs during 2022-23 (31 per cent). This was followed by the eastern region (29.3 per cent) and the western region (14.4 per cent). The NPA ratio of bank loans to SHGs declined to 2.8

per cent at end-March 2023 from 3.8 per cent at end-March 2022[18].

IV.88 Joint Liability Groups (JLGs) are informal credit groups of small borrowers formed for availing bank loans on an individual basis or through group mechanisms against mutual guarantees. It serves as a substitute for collateral for loans to be provided to the target group. During 2022-23, banks extended loans to 70 lakh JLGs as compared with 54.1 lakh JLGs during 2021-22. During 2022-23, the amount of loans disbursed by banks to JLGs increased by 18.3 per cent as against 93.4 per cent a year ago (Appendix Table IV.14).

11.6 Trade Receivables Discounting System (TReDS)

IV.89 TReDS, an initiative undertaken by the Reserve Bank in 2014, is an online platform that allows MSME suppliers to discount their invoices and receive payments before their due date by ensuring the conversion of their trade receivables into liquid funds in a short period. During 2022-23, the number of registered MSME sellers increased by nearly 51 per cent, while the number of buyers (corporates/other buyers, including government departments/ public sector undertakings) increased by 35 per cent, pointing towards improving participation on the platform. The number of invoices uploaded and financed on TReDS grew by more than 56 per cent during 2022-23, with the success rate remaining steady at 94 per cent[19] (Table IV.33).

Table IV.33: Progress in MSME Financing through TReDS

(Amount in ₹ crore)

Financial Year	Invoices Uploaded		Invoices Financed	
	Number	Amount	Number	Amount
1	2	3	4	5
2018-19	2,51,695	6,699	2,32,098	5,854
2019-20	5,30,077	13,088	4,77,969	11,165
2020-21	8,61,560	19,669	7,86,555	17,080
2021-22	17,33,553	44,111	16,40,824	40,308
2022-23	27,24,872	83,955	25,58,531	76,645

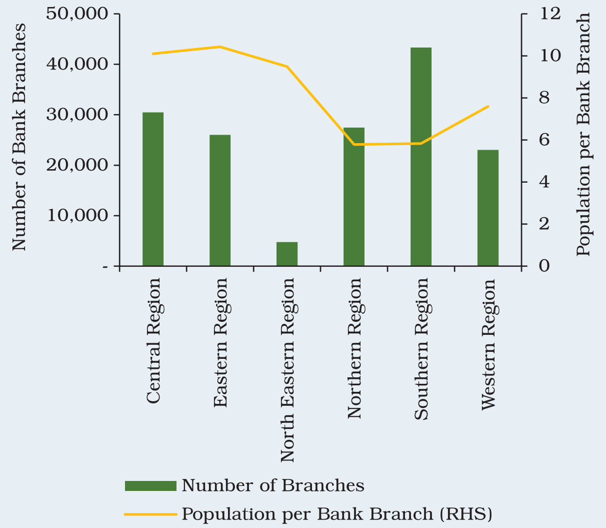
Source: RBI.

11.7 Regional Banking Penetration

IV.90 At end-March 2023, the southern region had the highest number of bank branches, followed by the central region. The population per bank branch was the highest for the eastern and central regions (Chart IV.37).

IV.91 States with lower financial inclusion records have seen faster progress, narrowing the inter-regional inequalities (Box IV.2).

Chart IV.37: Regional Penetration of Banks



Source: RBI and Office of the Registrar General & Census Commissioner, India Ministry of Home Affairs.

[18] "Status of Microfinance in India, 2022-23", available at status-of-microfinance-in-india-2022-23.pdf (nabard.org)

[19] Success rate is defined as per cent of invoices uploaded that get financed.

Box IV.2: Is Financial Inclusion Across Indian States Converging?

Several steps were undertaken during the 2010s to make financial services available across the country. This has reduced inter-regional disparities. An annual financial inclusion index (FII) for 20 states was constructed to evaluate these outcomes, using methodology of Sarma (2008). Data on four metrics, *viz*., number of bank offices per 10 lakh people; number of credit accounts per 1,000 people; deposits as a proportion to state gross domestic product (SGDP); and credit as a proportion to SGDP are used for construction of the index, employing data from the Database on Indian Economy of the Reserve Bank. A scatter plot of growth against the initial values of the index suggests that states with lower (higher) financial inclusion in 2010 have had higher (lower) growth in FII during 2010-20, which is indicative of absolute or unconditional convergence (Chart IV.2.1).

As financial inclusion may be impacted by several state-specific social and economic factors, conditional convergence is also evaluated using the following equation:

$$\ln\left(\frac{FII_{i,2020}}{FII_{i,2010}}\right) = \alpha + \beta \ln\left(FII_{i,2010}\right) + \gamma X_{i,2020} + \mu \qquad \text{...(1)}$$

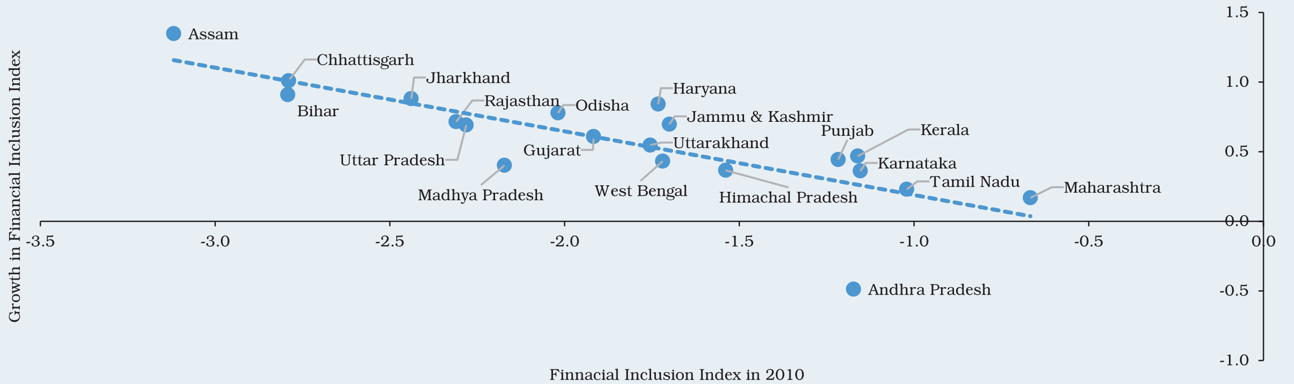
in which the dependent variable is growth in FII, while the independent variables consist of the value of FII in 2010 and *X*, a vector of control variables, *viz*., literacy rate, population, capital expenditure, females per 1,000 males ratio and per capita power availability (PCPA) in the state in 2020. Regression estimations suggest that the base value, *i.e*., the FII in 2010, had a negative and significant impact on the growth rate of financial inclusion. This implies that, even after accounting for various control variables, states with relatively lower FII in 2010 experienced higher growth in the index (Table IV.2.1).

Table IV.2.1: Regression Results

Variable	(1) Absolute Convergence	(2) Conditional Convergence	(3) Conditional Convergence
Log(FII_{2010})	-0.457*** (0.0795)	-0.576*** (0.0986)	-0.654*** (0.173)
Literacy $Rate_{2020}$		0.0268** (0.0127)	0.0289 (0.0167)
Log($Population_{2020}$)			-0.209* (0.111)
Log(Capital $Expenditure_{2020}$)			0.258* (0.145)
Log(Gender Ratio)			-1.499 (1.238)
Log(PCPA)			-0.0373 (0.113)
Constant	-0.268 (0.182)	-2.691** (1.231)	10.32 (8.269)
Observations	20	20	20
R-squared	0.636	0.768	0.804

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Chart IV.2.1: Convergence in Indian States during 2010-2020



Note: The growth in a state's financial inclusion index is calculated as the log difference of the index between 2020 and 2010.
Source: RBI staff estimates.

This empirical analysis thus suggests that the lagging states are catching up.

References

Pal, R. and Vaidya, R. R. (2011),"Outreach of Banking Services Across Indian States, 1981-2007", *India Development Report 2011*, 116-129.

Sarma, M. (2008), "Index of Financial Inclusion", *Indian Council for Research on International Economic Relations, Working Paper No. 215.*

12. Regional Rural Banks

IV.92 At end-March 2023, there were 43 RRBs sponsored by 12 SCBs with 21,995 branches, 30.6 crore deposit accounts and 2.9 crore loan accounts in 26 States and 3 Union Territories (Puducherry, Jammu and Kashmir and Ladakh). These banks offer a wide range of banking and financial products tailored to the unique needs of rural communities. 92 per cent of RRB branches are in rural/semi-urban areas. The southern region has the highest number of RRBs, followed by the eastern region (Appendix Table IV.15). RRBs' total business size, *i.e.*, deposits plus credit stood at ₹10.2 lakh crore as on 31 March 2023 with a y-o-y growth of 10.1 per cent.

12.1 Balance Sheet Analysis

IV.93 The growth in the consolidated balance sheet of RRBs accelerated during 2022-23. With the expansion in loans and advances outpacing deposit growth, the RRBs raised more resources through borrowings, largely from the National Bank for Agriculture and Rural Development (NABARD) and sponsor banks. During 2022-23, the share of NABARD and sponsor banks in their total borrowings was 90.3 per cent (96.0 per cent in the preceding year).

IV.94 The total recapitalisation assistance to RRBs sanctioned during 2021-22 and 2022-23 was ₹10,890 crore, which was more than the total capital infusion of ₹8,393 crore by all stakeholders over a period of 45 years[20] (1975 to 2021). The recapitalisation included proportionate share capital contributions by state governments (15 per cent) and sponsor banks (35 per cent) which helped shore up the share capital of RRBs. Their reserves also grew due to internal accruals from profits (Table IV.34).

IV.95 Amongst all the categories of SCBs, RRBs had the highest share of low-cost CASA deposits, constituting 54.5 per cent of their total deposits at end-March 2023. RRBs' C-D ratio reached

Table IV.34: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ₹ crore)

Sr. No.		At end-March		Y-o-y growth (in per cent)	
		2022	2023	2021-22	2022-23
1	2	3	4	5	6
1	Share Capital	14,880	17,232	77.3	15.8
2	Reserves	34,359	40,123	13.2	16.8
3	Deposits	5,62,538	6,08,509	7.1	8.2
	3.1 Current	12,042	11,945	4.7	-0.8
	3.2 Savings	2,94,438	3,19,572	8.4	8.5
	3.3 Term	2,56,057	2,76,992	5.7	8.2
4	Borrowings	73,881	84,712	8.9	14.7
	4.1 from NABARD	67,054	73,119	8.9	9.0
	4.2 Sponsor Bank	3,879	3,408	12.6	-12.1
	4.3 Others	2,948	8,185	4.1	177.7
5	Other Liabilities	19,742	20,885	-0.1	5.8
	Total liabilities/Assets	**7,05,400**	**7,71,462**	**8.3**	**9.4**
6	Cash in Hand	3,119	2,888	5.6	-7.4
7	Balances with RBI	22,174	29,332	17.0	32.3
8	Balances in Current Account	8,127	7,150	35.8	-12.0
9	Investments	2,95,665	3,13,401	7.3	6.0
10	Loans and Advances (net)	3,42,479	3,86,951	8.7	13.0
11	Fixed Assets	1,256	1,406	2.2	12.0
12	Other Assets #	32,580	30,333	3.0	-6.9
	12.1 Accumulated Losses	9,062	9,841	9.7	8.6

Notes: 1. #: Includes accumulated losses.
2. 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.

[20] In 2021-22, ₹8,168 crore was sanctioned for 22 RRBs and the entire amount was disbursed by end-March 2023. In 2022-23, ₹2,722 crore was sanctioned for 22 RRBs, of which, at end-March 2023, 10 RRBs had received the sponsor banks' share amounting to ₹651 crore.

a 15-year high of 67.5 per cent at end-March 2023 from 64.5 per cent a year ago as growth in loans exceeded that of deposits. During 2022-23, RRBs accounted for 2.9 per cent in the total loan amount of all SCBs, while their share in the number of loan accounts was 8 per cent, indicating a greater reach to smaller customers.

12.2 Performance of RRBs

IV.96 The number of loss making RRBs steadily declined from 13 in 2020-21 to six in 2022-23. After many years of losses, four RRBs turned profitable during 2022-23. The sector as a whole posted its highest ever net profit during 2022-23. An amount of ₹2,204 crore was deducted from other income towards depreciation in their investment portfolios on account of mark to market (MTM) losses during 2022-23, which was earlier reported under provisions and contingencies. This change in guidelines led to a decline in other income and provisions and contingencies, as well as deceleration in operating profit.

IV.97 Reflective of the capital infusion, the CRAR of RRBs has increased significantly in recent years. The number of RRBs with CRARs less than the regulatory minimum of 9 per cent declined from 16 at end-March 2021 to nine at end-March 2023. The improvement in capital buffers, coupled with decline in GNPA ratios, has strengthened the financial position of RRBs (Table IV.35).

Table IV.35: Financial Performance of Regional Rural Banks

(Amount in ₹ crore)

Sr. No.		Amount		Y-o-y Change (in per cent)	
		2021-22	2022-23	2021-22	2022-23
1	2	3	4	5	6
A	**Income (i + ii)**	**56,585**	**59,427**	**5.1**	**5.0**
	i Interest Income	48,048	53,640	2.7	11.6
	ii Other Income	8,537	5,787	21.0	-32.2
B	**Expenditure (i+ii+iii)**	**53,367**	**54,454**	**2.3**	**2.0**
	i Interest Expended	24,817	26,704	-3.0	7.6
	ii Operating Expenses	21,295	21,878	5.4	2.7
	of which, Wage bill	16,338	16,683	3.4	2.1
	iii Provisions and Contingencies	7,254	5,872	13.6	-19.1
	of which, Income Tax	1,278	1,424	-0.1	11.4
C	**Profit**				
	i Operating Profit	10,337	10,845	31.3	4.9
	ii Net Profit	3,219	4,974	91.3	54.5
D	**Total Average Assets**	**6,66,532**	**7,16,796**	**8.0**	**7.5**
E	**Financial Ratios #**				
	i Operating Profit	1.6	1.5		
	ii Net Profit	0.5	0.7		
	iii Income (a + b)	8.5	8.3		
	a) Interest Income	7.2	7.5		
	b) Other Income	1.3	0.8		
	iv Expenditure (a+b+c)	8.0	7.6		
	a) Interest Expended	3.7	3.7		
	b) Operating Expenses	3.2	3.1		
	of which, Wage bill	2.5	2.3		
	c) Provisions and Contingencies	1.1	0.8		
F	**Analytical Ratios (in per cent)**				
	Gross NPA Ratio	9.2	7.3		
	CRAR	12.7	13.4		

Notes: 1: # Financial ratios are percentages with respect to average total assets.
2. Totals may not tally on account of rounding off of figures to ₹ crore. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹ crore.
3. Provisions & Contingencies include Provision for Income Tax/ Income Tax paid.

Source: NABARD.

IV.98 During 2022-23, all RRBs achieved their PSL targets, with the largest shares going to agriculture and MSMEs (Table IV.36 and Appendix IV.16).

Table IV.36 Purpose-wise Outstanding Advances by RRBs

(Amount in ₹ crore)

Sr. No.	Purpose/end-March	2022	2023
1	2	3	4
I	**Priority (i to v)**	**3,24,207**	**3,62,503**
	Per cent of total loans outstanding	89.4	88.3
i	Agriculture	2,52,890	2,81,971
ii	Micro, small and medium enterprises	41,609	49,323
iii	Education	1,896	1,744
vi	Housing	22,020	24,503
v	Others	5,791	4,963
II	**Non-priority (i to vi)**	**38,631**	**48,236**
	Per cent of total loans outstanding	10.6	11.7
i	Agriculture	0	16
ii	Micro, Small and Medium Enterprises	35	84
iii	Education	139	218
iv	Housing	6,187	9,100
v	Personal Loans	10,088	12,985
vi	Others	22,181	25,833
Total (I+II)		**3,62,838**	**4,10,738**

Source: NABARD.

13. Local Area Banks

IV.99 LABs serve specific or local regions by bridging the gap in credit availability and enhancing the institutional credit framework in the rural and semi-urban areas. At end-June 2023, two LABs with 79 bank branches were operational across three states, with the majority of branches in Andhra Pradesh, followed by Telangana and Karnataka. More than half (51.9 per cent) of the LABs operate in semi-urban areas. Both deposits and advances recorded an acceleration in growth in 2022-23 (Table IV.37).

Table IV.37: Profile of Local Area Banks
(At end-March)

(Amount in ₹ crore)

	2022	2023
1	2	3
Assets	1,273 (9.2)	1,471 (15.6)
Deposits	1,020 (7.1)	1,189 (16.6)
Gross Advances	838 (8.9)	957 (14.3)

Note: Figures in parentheses represent y-o-y growth in per cent.
Source: Off-site returns (global operations), RBI.

13.1 Financial Performance of LABs

IV.100 The profitability indicators of LABs improved during 2022-23 as growth in interest income outpaced that in interest expended. Contraction in provisions and contingencies boosted profits further (Table IV.38).

Table IV.38: Financial Performance of Local Area Banks

	Amount (in ₹ crore)		Y-o-y growth (in per cent)	
	2021-22	2022-23	2021-22	2022-23
1	2	3	4	5
A. Income (i+ii)	**159**	**179**	**7.1**	**12.6**
i. Interest Income	130	153	6.2	17.1
ii. Other Income	28	26	11.7	-7.6
B. Expenditure(i+ii+iii)	**132**	**143**	**9.0**	**7.7**
i. Interest Expended	58	63	4.7	8.8
ii. Provisions and Contingencies	22	21	11.9	-6.8
iii. Operating Expenses	53	59	12.8	12.5
of which, Wage Bill	25	29	13.0	14.6
C. Profit				
i. Operating Profit/Loss	49	57	4.3	17.3
ii. Net Profit/Loss	26	36	-1.4	37.7
D. Net Interest Income	**73**	**90**	**7.4**	**23.6**
E. Total Assets	**1,273**	**1,471**	**9.2**	**15.6**
F. Financial Ratios				
i. Operating Profit	3.8	3.9		
ii. Net Profit	2.1	2.5		
iii. Income	12.5	12.2		
iv. Interest Income	10.2	10.4		
v. Other Income	2.2	1.8		
vi. Expenditure	10.4	9.7		
vii. Interest Expended	4.5	4.3		
viii. Operating Expenses	4.1	4.0		
ix. Wage Bill	2.0	2.0		
x. Provisions and Contingencies	1.7	1.4		
xi. Net Interest Income	5.7	6.1		

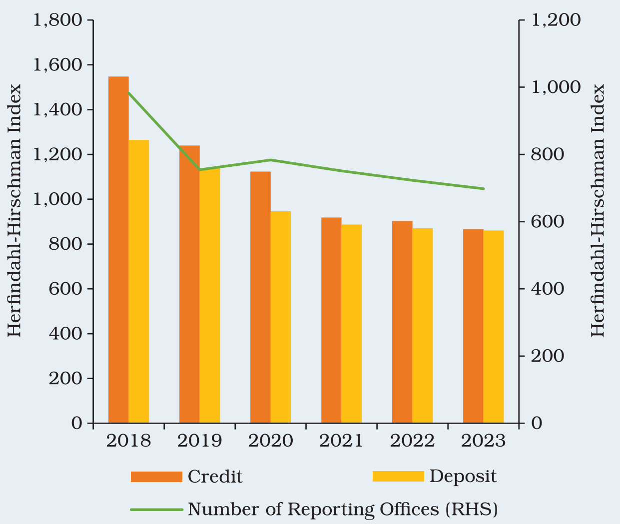
Notes: 1. Financial ratios for 2021-22 and 2022-23 are calculated based on the assets of current year only.
2. 'Wage Bill' is taken as payments to and provisions for employees.

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

14. Small Finance Banks

IV.101 SFBs were set up in 2016 to meet the financial needs of the marginalised sections of society. They are differentiated or niche banks with minimum net worth of ₹200 crore, lower than other SCBs. Considering their focus on financial inclusion, SFBs are required to lend at least 75 per cent of their ANBC to priority sectors, as compared with 40 per cent in the case of other SCBs (excluding RRBs). At end-June 2023, twelve SFBs with 6,589 domestic branches across the country were operational. The geographical concentration of SFBs – measured by the Herfindahl-Hirschman Index (HHI) – has been coming down in terms of both number of reporting offices as well as credit and deposits[21]. This indicates progressive diversification and increasing outreach of SFBs in line with their mandate of serving the marginalised sections (Chart IV.38).

Chart IV.38: Concentration of Small Finance Banks
(At end-March)



Source: RBI.

14.1 Balance Sheet

IV.102 Consistent with the trend observed since their establishment in 2016, the consolidated balance sheet of SFBs grew at a pace faster than SCBs during 2022-23, notwithstanding some moderation during the year. With deposit growth slowing down during the year, SFBs resorted to higher borrowings to fuel credit growth. On balance, their credit-deposit ratio remained flat at around 92 per cent, higher than that of SCBs (Table IV.39).

Table IV.39: Consolidated Balance Sheet of Small Finance Banks
(At end-March)

(Amount in ₹ crore)

Sr. No.		Amount		Y-o-y growth (in per cent)	
		2021-22	2022-23	2021-22	2022-23
1	2	3	4	5	6
1	Share Capital	7,192	7,811	33.8	8.6
2	Reserves & Surplus	17,074	23,557	15.4	38.0
3	Tier 2 Bonds and Tier 2 Debt	2,285	1,926	-7.4	-15.7
4	Deposits	1,49,552	1,91,372	36.6	28.0
	4.1 Current Demand Deposits	6,074	7,456	53.2	22.7
	4.2 Savings	47,063	54,667	112.0	16.2
	4.3 Term	96,414	1,29,248	15.7	34.1
5	Borrowings (Including Tier-II Bonds)	28,139	31,170	1.1	10.8
	5.1 Bank	4,528	4,241	231.4	-6.3
	5.2 Others	23,611	26,929	-10.8	14.1
6	Other Liabilities and provisions	11,926	13,606	96.3	14.1
	Total liabilities/Assets	**2,13,887**	**2,67,517**	**30.8**	**25.1**
7	Cash in Hand	1,235	1,371	17.4	11.1
8	Balances with RBI	7,490	16,468	27.6	119.9
9	Other Bank Balances/ Balances with Financial Institutions	14,460	4,484	17.5	-69.0
10	Investments	44,432	58,115	44.9	30.8
11	Loans and Advances	1,38,221	1,77,887	27.3	28.7
12	Fixed Assets	2,303	2,734	37.4	18.7
13	Other Assets	5,744	6,455	70.3	12.4

Note: Data pertain to 12 SFBs.
Source: Off-site returns (global operations), RBI.

[21] HHI is calculated by squaring the market share of each entity in the given time period and then summing the resulting numbers. The lower the value of HHI, the lesser is the market concentration.

14.2 Priority Sector Lending

IV.103 The share of priority sector in total lending of SFBs declined further at end-March 2023 to its lowest level since their inception. Within the priority sector, MSMEs and agriculture remained their main focus, although the share of both declined (Table IV.40). SFBs have exceeded their priority sector lending targets for agriculture and allied activities and MSMEs and have also been net sellers of PSLCs. This suggests that they have been developing niches in priority sector lending areas.

14.3 Financial Performance

IV.104 During 2022-23, SFBs' net interest income was buoyed by a sharp increase in interest income relative to interest expended. Their GNPA ratio, which had surged in 2020-21 under the impact of COVID-19, has been moderating since then. In line with the asset quality improvement, the provisions and contingencies contracted during 2022-23 (Table IV.41).

Table IV.40: Purpose- wise Outstanding Advances by Small Finance Banks
(At end-March)

(Per cent to total advances)

Purpose	2022	2023
1	2	3
I Priority (i to v)	**75.6**	**61.3**
i. Agriculture and Allied Activities	26.1	23.9
ii. Micro, Small and Medium Enterprises	28.8	24.3
iii. Education	0.1	0.0
iv. Housing	5.5	4.3
v. Others	15.1	8.8
II Non-priority	**24.4**	**38.7**
Total (I+II)	**100**	**100**

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

Table IV.41: Financial Performance of Small Finance Banks

(Amount in ₹ crore)

Sr. No.		Amount		Y-o-y growth (in per cent)	
		2021-22	2022-23	2021-22	2022-23
1	2	3	4	5	6
A	**Income (i + ii)**	**25,033**	**33,827**	**11.3**	**35.1**
i	Interest Income	22,120	29,805	13.3	34.7
ii	Other Income	2,913	4,021	-2.1	38.0
B	**Expenditure (i+ii+iii)**	**24,053**	**29,665**	**17.6**	**23.3**
i	Interest Expended	9,510	12,138	4.3	27.6
ii	Operating Expenses	9,814	13,154	30.0	34.0
	of which, Staff Expenses	5,304	6,706	23.3	26.4
iii	Provisions and Contingencies	4,729	4,371	24.7	-7.6
C	**Profit (Before Tax)**	**1,283**	**5,417**	**-50.3**	**321.9**
i	Operating Profit (EBPT)	5,702	8,533	-2.2	49.6
ii	Net Profit (PAT)	973	4,162	-52.2	327.5
D	**Total Assets**	**2,02,923**	**2,67,499**	**24.07**	**31.8**
E	**Financial Ratios#**				
i	Operating Profit	2.8	3.2		
ii	Net Profit	0.5	1.6		
iii	Income (a + b)	12.3	12.6		
	a. Interest Income	10.9	11.1		
	b. Other Income	1.4	1.5		
iv	Expenditure (a+b+c)	11.9	11.1		
	a. Interest Expended	4.7	4.5		
	b. Operating Expenses	4.8	4.9		
	of which Staff Expenses	2.6	2.5		
	c. Provisions and Contingencies	2.3	1.6		
F	**Analytical Ratios (%)**				
	Gross NPA Ratio	4.9	4.8		
	CRAR	23.1	24.1		
	Core CRAR	20.3	20.5		

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

15. Payments Banks

IV.105 PBs aim at providing payments and remittance services to migrant labour workforce, low-income households, small businesses, other unorganised sector entities and other users. At end-June 2023, six PBs were operational in the country, with 88 branches, the majority of which were in semi-urban regions. Out of the

Table IV.42: Consolidated Balance Sheet of Payments Banks
(At end-March)

Sr. No.		Amount (in ₹ crore)			Y-o-y growth (in per cent)	
		2020-21	2021-22	2022-23	2021-22	2022-23
1	2	3	4	5	6	7
1.	Total Capital and Reserves	1,761	2,485	2,932	41.1	18.0
2.	Deposits	4,625	7,859	12,222	69.9	55.5
3.	Other Liabilities and Provisions	6,083	7,771	8,407	27.8	8.2
	Total Liabilities/ Assets	**12,469**	**18,115**	**23,561**	**45.3**	**30.1**
1.	Cash and Balances with RBI	1,255	1,560	2,427	24.3	55.6
2.	Balances with Banks and Money Market	2,393	3,322	5,003	38.8	50.6
3.	Investments	7,116	10,178	12,414	43.0	22.0
4	Fixed Assets	355	372	565	4.7	52.1
5	Other Assets	1,350	2,683	3,153	98.8	17.5

Note: Data pertain to 6 PBs.
Source: Off-site returns (domestic operations), RBI.

six operational PBs, five PBs were profitable in 2022-23.

15.1 Balance Sheet

IV.106 The consolidated balance sheet of PBs recorded a strong growth, notwithstanding a deceleration from 45.3 per cent in 2021-22 to 30.1 per cent in 2022-23. Their growth still outpaced that of SCBs and SFBs. On the liabilities side, the balance sheet expansion was led by deposits, which constituted 51.9 per cent of liabilities. On the assets side, more than 50 per cent increase in balances with RBI and other banks was dragged down by deceleration in investments (Table IV.42).

15.2 Financial Performance

IV.107 PBs turned profitable during 2022-23, the first time since their inception, as growth in interest income exceeded that in interest expenses (Table IV.43).

Table IV.43: Financial Performance of Payments Banks

Sr. No.		Amount (in ₹ crore)			Y-o-y growth (in per cent)	
		2020-21	2021-22	2022-23	2021-22	2022-23
1	2	3	4	5	6	7
A	**Income (i + ii)**					
	i. Interest Income	360	459	877	27.5	91.1
	ii. Non-Interest Income	3,562	4,802	5,644	34.8	17.5
B	**Expenditure**					
	i. Interest Expenses	100	156	246	56.0	57.7
	ii. Operating Expenses	4,585	5,216	6,168	13.8	18.3
	Provisions and Contingencies	36	20	20	-44.4	0.0
	of which,					
	Risk Provisions	9	21	3	133.3	-85.7
	Tax Provisions	23	-3	14		
C	**Net Interest Income**	261	302	629	15.7	108.3
D	**Profit**					
	i. Operating Profit (EBPT)	-762	-111	107		
	ii. Net Profit/Loss	-798	-131	87		

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

IV.108 In line with operating profits, key profitability indicators of PBs - RoA and RoE - turned positive at end-March 2023. Furthermore, NIM of PBs increased from 2.3 per cent at end-March 2022 to 3.7 per cent at end-March 2023 after declining for three consecutive years. Over the years, the cost to income ratio of PBs has been declining, suggesting improved efficiency in their operations (Table IV.44).

Table IV.44: Select Financial Ratios of Payments Banks
(At end-March)

Sr. No.		2021	2022	2023
1	2	3	4	5
1	Return on Assets	-6.4	-0.7	0.4
2	Return on Equity	-45.3	-5.3	3.0
3	Investments to Total Assets	57.1	56.2	52.7
4	Net Interest Margin	2.8	2.3	3.7
5	Efficiency (Cost-Income Ratio)	116.9	99.1	94.6
6	Operating profit to working funds	-6.1	-0.6	0.5
7	Profit Margin	-20.3	-2.5	1.3

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

16. Overall Assessment

IV.109 During 2022-23, banks' balance sheets grew at a healthy pace, with both deposits and credit growth accelerating. Retail and services sector loans drove credit growth. Banks' financial conditions improved as they posted higher net interest margins and profits. Lower slippages and higher write-offs by banks improved asset quality across the board. With the increase in deposit rates catching up with that in lending rates, the profitability of banks may moderate going forward, while remaining robust. The share of unsecured advances in total advances has increased. In this context, the Reserve Bank's targeted macro prudential measures of November 2023 are aimed at ensuring sustained financial stability while supporting growth.

IV.110 Technology in the banking system has helped create a more inclusive and efficient financial ecosystem. Indian banks are increasingly leveraging it to enhance customer experience and address last mile issues. With the adoption of new technology, the risks of cyber-attacks, data breaches and operational failures have also increased. Going forward, banks need to better recognise and address these technology and cyber security risks to minimise potential vulnerabilities. The evolving nature of risks faced by the banking system necessitates building resilience through good governance and robust risk management practices.