IV OPERATIONS AND PERFORMANCE OF COMMERCIAL BANKS

During 2020-21, scheduled commercial banks (SCBs) reported a discernible improvement in their asset quality, capital buffers and profitability, notwithstanding the disruptions of the pandemic. While credit offtake remained subdued, elevated deposit growth on the liabilities side was matched by growth in investments on the assets side. Nonetheless, incipient stress remains in the form of higher restructured advances. Banks would need to bolster their capital positions to absorb potential stress as well as to augment credit flow when policy support is phased out.

1. Introduction

IV.1 During 2020-21, the banking sector navigated the disruptions caused by the pandemic and the economic downturn with resilience, cushioned by various policy measures undertaken by the Reserve Bank and the Government. Asset quality improved, partly attributable to imposition of the asset classification standstill. Public sector banks (PSBs) reported net profits after a gap of five years. More generally, the capital position of banks improved, aided by recapitalisation by the government as well as raising of funds from the market. Nonetheless, incipient stress remains in the form of increased proportion of restructured advances and the possibility of higher slippages arising from sectors that were relatively more exposed to the pandemic. Nevertheless, with the green shoots of recovery re-emerging in H1:2021-22, banks are expected to further shore up their financials.

IV.2 Against this background, this chapter discusses the operations and performance of the banking sector during 2020-21 and H1:2021-22. Balance sheet developments are analysed in Section 2, followed by an assessment of their financial performance and financial soundness in Sections 3 and 4, respectively. Sections 5 to 12 address specific themes relating to sectoral deployment of credit, performance of banking stocks, ownership patterns, corporate governance and compensation practices, foreign banks' operations in India and overseas operations of Indian banks, developments in payments systems, consumer protection and financial inclusion. Developments related to regional rural banks (RRBs), local area banks (LABs), small finance banks (SFBs) and payments banks (PBs) are analysed separately in Sections 13 to 16. The chapter concludes by bringing together major issues that emerge from the analysis and offers some perspectives on the way forward.

2. Balance Sheet Analysis

IV.3 The consolidated balance sheet of scheduled commercial banks (SCBs) accelerated during 2020-21, notwithstanding the pandemic and the contraction in economic activity in the first half of the year. Deposit growth on the liabilities side was matched by investments on the assets side; however, credit offtake remained subdued (Table IV.1 and Chart IV.1). Supervisory data suggest that while nascent signs of recovery are visible in credit growth, deposit growth has slowed down in 2021-22 so far.

IV.4 The share of PSBs in total advances as well as in deposits has been declining since

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

(At end-March)

(Amount in ₹ crore)

Item	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks		Payments Banks		All SCBs	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
1. Capital	72,040	59,328	26,866	30,641	85,710	91,465	5,151	5,375	1,035	1,300	1,90,802	1,88,109
2. Reserves and Surplus	5,80,886	6,49,142	5,81,749	7,07,345	1,08,987	1,24,706	11,047	14,800	-461	-704	12,82,208	14,95,289
3. Deposits	90,48,420	99,00,766	41,59,044	48,00,646	6,84,239	7,77,173	82,488	1,09,472	855	2,543	1,39,75,045	1,55,90,600
3.1. Demand Deposits	5,71,383	6,84,451	5,47,521	6,82,095	2,17,825	2,37,412	2,381	3,964	8	19	13,39,118	16,07,941
3.2. Savings Bank Deposits	30,41,902	34,62,923	11,72,739	14,56,019	70,007	87,032	10,284	22,198	847	2,524	42,95,779	50,30,696
3.3. Term Deposits	54,35,134	57,53,392	24,38,784	26,62,532	3,96,408	4,52,729	69,823	83,310	-	-	83,40,149	89,51,963
4. Borrowings	7,09,780	7,18,850	8,27,575	6,25,683	1,28,761	1,02,331	30,004	27,828	-	198	16,96,120	14,74,890
5. Other Liabilities and Provisions	3,71,706	4,03,292	2,36,890	2,66,732	2,57,381	1,68,893	4,057	6,076	216	737	8,70,250	8,45,729
Total Liabilities/Assets	**1,07,82,831**	**1,17,31,378**	**58,32,123**	**64,31,048**	**12,65,079**	**12,64,567**	**1,32,747**	**1,63,552**	**1,645**	**4,072**	**1,80,14,425**	**1,95,94,617**
	(59.9)	**(59.9)**	**(32.4)**	**(32.8)**	**(7.0)**	**(6.5)**	**(0.7)**	**(0.8)**	**(0.0)**	**(0.0)**	**(100.0)**	**(100.0)**
1. Cash and balances with RBI	4,36,774	5,39,149	2,72,616	2,92,019	51,238	59,163	5,058	6,921	33	174	7,65,720	8,97,426
2. Balances with banks and money at call and short-notice	4,66,615	5,93,721	2,12,324	2,73,711	99,468	1,51,549	8,701	12,309	455	812	7,87,563	10,32,102
3. Investments	29,40,636	34,00,895	12,93,031	15,12,480	4,31,277	4,73,418	24,203	30,660	694	2,413	46,89,842	54,19,866
3.1 In Government Securities(a+b)	24,09,182	27,89,985	10,66,313	12,57,222	3,84,102	4,30,779	20,748	27,142	694	2,412	38,81,039	45,07,541
a) In India	23,71,783	27,52,716	10,57,074	12,36,747	3,62,540	3,90,195	20,748	27,142	694	2,412	38,12,839	44,09,212
b) Outside India	37,399	37,270	9,240	20,476	21,562	40,584	-	-	-	-	68,201	98,329
3.2 In Other Approved Securities	102	12	-	-	-	-	-	-	-	-	102	12
3.3 In Non-Approved Securities	5,31,352	6,10,898	2,26,718	2,55,258	47,175	42,639	3,455	3,518	-	1	8,08,700	9,12,313
4. Loans and Advances	61,58,112	63,48,758	36,25,154	39,39,292	4,28,076	4,23,546	90,554	1,08,613	-	0.1	1,03,01,897	1,08,20,208
4.1 Bills purchased and discounted	1,60,977	1,45,894	1,25,111	1,19,295	59,273	60,380	37	124	-	-	3,45,398	3,25,694
4.2 Cash Credits, Overdrafts, etc.	24,16,408	24,91,776	9,70,317	10,11,497	2,07,717	1,75,337	6,872	8,861	-	-	36,01,314	36,87,471
4.3 Term Loans	35,80,727	37,11,087	25,29,726	28,08,501	1,61,085	1,87,828	83,646	99,628	-	0.1	63,55,184	68,07,043
5. Fixed Assets	1,06,507	1,06,826	38,268	39,713	4,129	4,457	1,671	1,676	200	222	1,50,775	1,52,894
6. Other Assets	6,74,187	7,42,030	3,90,729	3,73,832	2,50,891	1,52,434	2,559	3,373	263	452	13,18,629	12,72,121

Notes: 1. -: Nil/negligible.
2. Components may not add up to their respective totals due to rounding-off numbers to ₹ crore.
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.

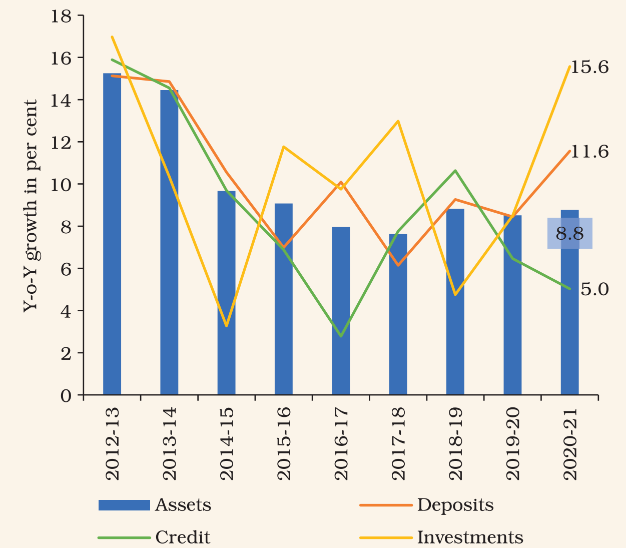
2010-11, while private sector banks (PVBs) have been improving their share.

2.1 Liabilities

IV.5 During 2020-21, deposit mobilisation by SCBs was the highest in seven years, mainly contributed by the low-cost current account and savings account (CASA) deposits (Chart IV.4). In H1:2021-22, there was a moderation in deposit growth with normalisation of economic activity and rising inflation.

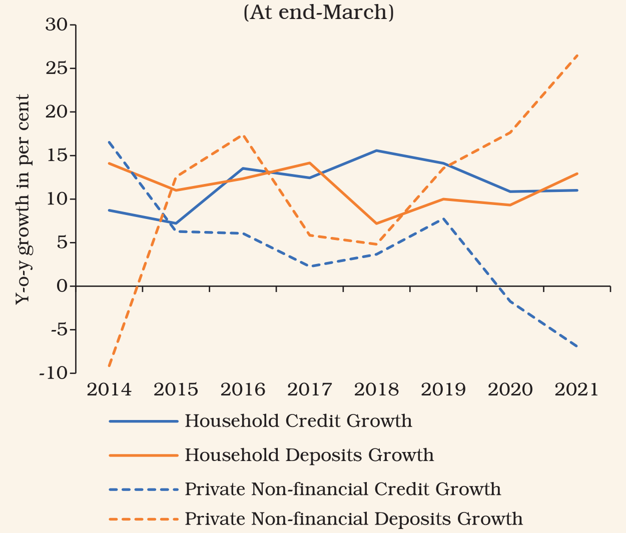
IV.6 For the last three years, private non-financial corporations have been net savers, progressively increasing their deposits with SCBs while their credit offtake has remained anaemic.

Chart IV.1: Select Aggregates of SCBs



Source: Annual accounts of banks.

Chart IV.2: Credit and Deposits: Households and Private Non-Financial Corporations
(At end-March)



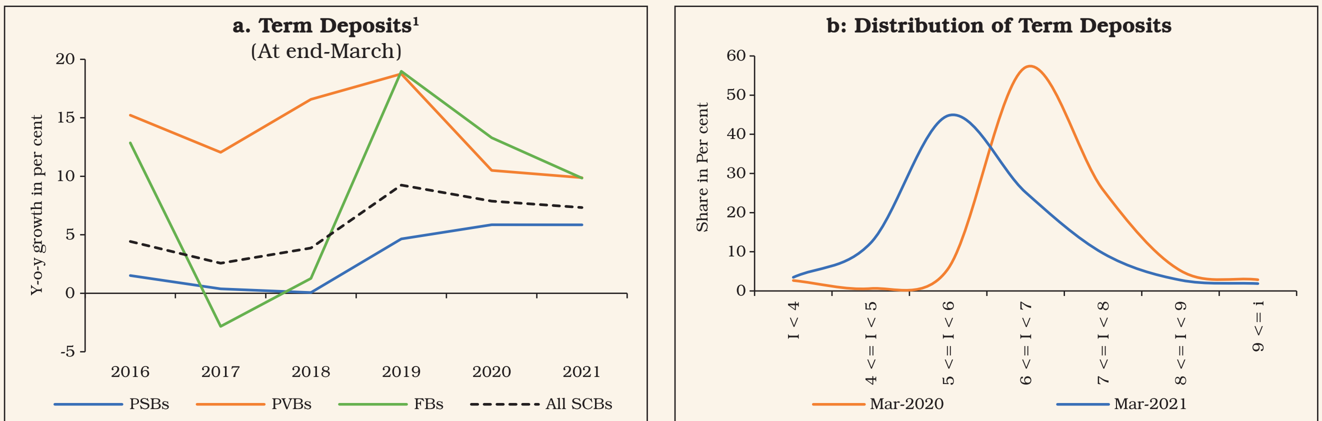
Source: Basic statistical returns I and II (annual), RBI.

Moreover, the household sector's deposits—64 per cent of the total as at end-March 2021—also picked up pace (Chart IV.2).

IV.7 With term deposit rates falling across the board, their growth moderated during 2020-21 (Chart IV.3a). Correspondingly, their distribution across interest rates shifted leftwards, with 5-6 per cent interest rate emerging as the modal class (Chart IV.3b).

IV.8 Historically, PVBs have relied heavily on borrowings to supplement their deposits and fuel credit growth. On the other hand, PSBs

Chart IV.3: Term Deposits of SCBs



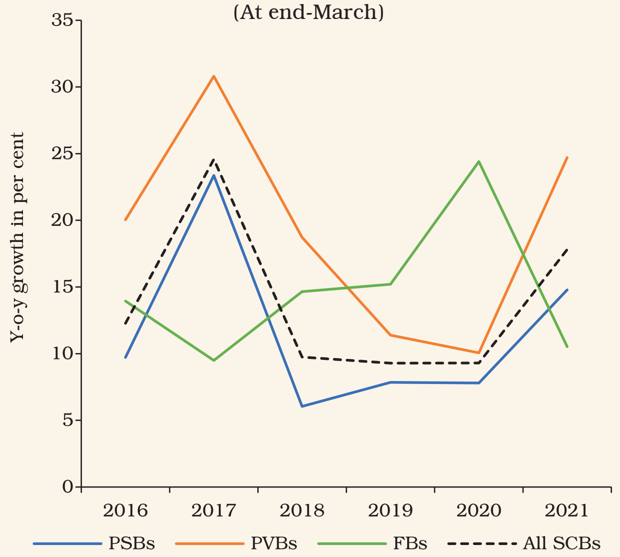
Source: Annual accounts of banks.

Note: I= interest rate in per cent.
Source: Annual accounts of banks.

[1] For charts presenting bank-group wise growth rates, the following adjustments have been made: i) Following the recategorization of IDBI Bank Ltd. w.e.f. January 21, 2019, it is excluded from PSB group and included in PVB group. The data on bank-group wise growth rate from March 2019 to December 2019 is based on the adjusted bank-group totals; ii) Following amalgamation of Lakshmi Vilas Bank with DBS Bank India, w.e.f. November 27, 2020, private and foreign bank-group wise growth rates are based on adjusted bank-group totals.

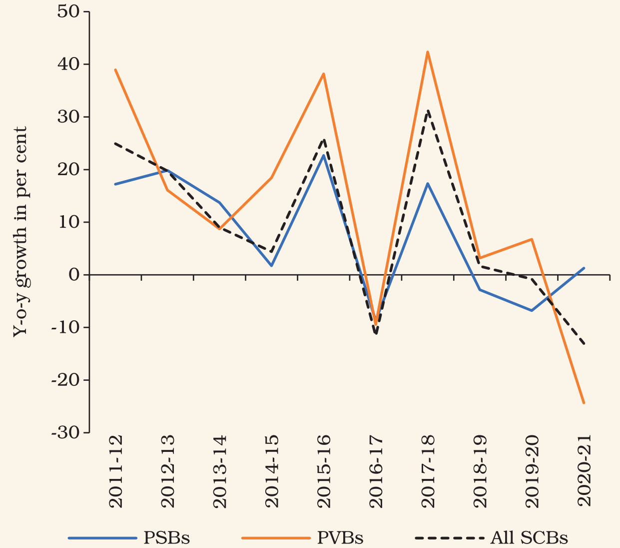
Chart IV.4: Growth in CASA Deposits

(At end-March)



Source: Annual accounts of banks.

Chart IV.5: Growth in Borrowings



Source: Annual accounts of banks.

leveraged their wide deposit base and availability of low-cost CASA deposits to fund their lending. In 2020-21, borrowings of PVBs contracted for the first time since 2016-17, while those of PSBs accelerated after contracting for two consecutive years. Despite robust CASA deposit growth, PSBs raised higher resources through borrowings than the previous year as their credit growth accelerated over the first three quarters of the year (Chart IV.5).

2.2 Assets

IV.9 SCBs' credit growth has decelerated over previous two years, largely reflecting muted demand conditions and risk aversion (Box IV.1). Signs of recovery became visible in H1:2021-22.

Box IV.1: Slowdown in Credit Growth: Supply or Demand Driven?

Persistent anemic credit growth in recent years has led to a vigorous debate amongst policymakers and analysts on the underlying causes.

In the presence of asymmetric information, stickiness of loan interest rates leads to delays in price adjustments. In the interim, there can be disequilibrium whenever supply does not equal demand at the prevailing interest rate (Stiglitz and Weiss, 1981). The observed credit C_t is assumed to be the minimum of the estimated demand for credit (C_t^d) and estimated supply for credit (C_t^s):

$$C_t = \min (C_t^d, C_t^s)$$

The disequilibrium model is estimated by using the maximum likelihood method (MLE). The model facilitates determination of probabilities with which each observation belongs to either the demand or supply equation (Maddala and Nelson, 1974).

Using monthly data for the period April 2001-March 2020, the disequilibrium model is estimated for India. The benchmark prime lending rate (BPLR) of State Bank of India is taken as a proxy for the market clearing interest rate, while the logarithm of credit is taken as dependent variable. The results suggest that the slowdown in credit is reflecting a scissors effect. Industrial activity (IIP) and investment (GFCF) constrained credit demand, while stressed balance sheets of banks[2] limited credit supply (Table 1). Hence, policies aimed at boosting aggregate demand need to be supplemented with strengthening bank balance sheets to reduce stress for a sustainable boost to credit growth.

(Contd...)

[2] Proxied by lagged values of stressed assets ratio (SAR) (GNPAs plus restructured standard advances as percentage of gross advances).

Table 1: Estimation Results

Explanatory variables/ Dependent variables	Log Credit (Model 1)		Log Credit (Model 2)	
Credit Demand				
Constant	0.1339***	(0.0114)	5.6117***	(0.036)
BPLR_lag 1	0.6222***	(0.0114)	2.8388***	(0.037)
Time trend	0.0021	(0.0022)	-0.0004	(0.001)
GFCF_lag 1			0.0253**	(0.0129)
IIP_lag 1	0.1488***	(0.0014)		
IIP_lag 2			0.0151	(0.019)
Sensex growth	0.0287	(0.0177)		
CPI Inflation_lag 1	0.9217***	(0.0003)		
BPLR_lag 2	-0.5351***	(0.0114)	-1.4109***	(0.0373)
AQR dummy			0.6648***	(0.0065)
GFC Dummy	-0.2900***	(0.0002)		

Explanatory variables/ Dependent variables	Log Credit (Model 1)		Log Credit (Model 2)	
Credit Supply				
Constant	0.0008	(0.0083)	-2.5247***	(0.0063)
Time trend	-0.00004	(0.00002)	-0.0013***	(0.00005)
SAR_lag1	-0.0006	(0.0009)	-0.0062**	(0.0029)
CRAR_lag2	0.0006	(0.0011)		
Log_deposit_lag 2			1.4017***	(0.0124)
Cost of Fund_lag 1	0.0009	(0.0009)		
BPLR_lag 2	0.0008	(0.0009)	-0.1051	(0.0807)
AQR Dummy	0.0020	(0.0023)	-0.0249***	(0.0077)
St. Dev. of demand equation error	1.1380***	(0.0005)	0.6042***	(0.0405)
St. Dev. of supply equation error	0.0073***	(0.00001)	0.0256***	(0.0001)
Log-likelihood	1114.16		-658.63	

Note: 1. AQR: Asset Quality Review; GFC: Global Financial Crisis; IIP: Index of Industrial production; GFCF: Gross Fixed Capital Formation.
2. lag 1: lagged by one period; lag 2: lagged by two periods.
3. ***, **, and * indicate 1 per cent, 5 per cent and 10 per cent levels of significance, respectively.
4. Figures in parenthesis are standard errors.

References:

Maddalla, G. S., and F. Nelson. 1974. Maximum Likelihood Methods for Models of Markets in Disequilibrium. *Econometrica* 42(6): 1013–1030.

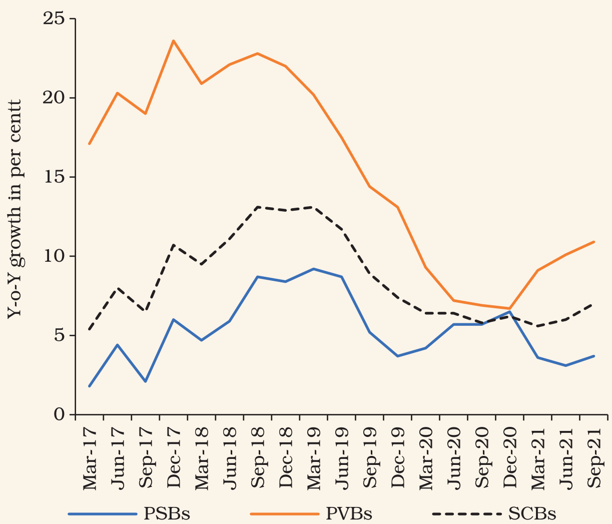
Stiglitz, Joseph E.; Weiss, Andrew (1981). Credit Rationing in Markets with Imperfect Information". The American Economic Review. 71 (3): 393–410.

Verma, R (2021). Slowdown in Credit Flow in India: Supply or Demand Driven, *mimeo*.

IV.10 Credit growth of PVBs decelerated from Q4: 2019-20 till Q3:2020-21 as the pandemic took its toll. Since Q4:2020-21, however, PVBs' credit showed signs of revival (Chart IV.6).

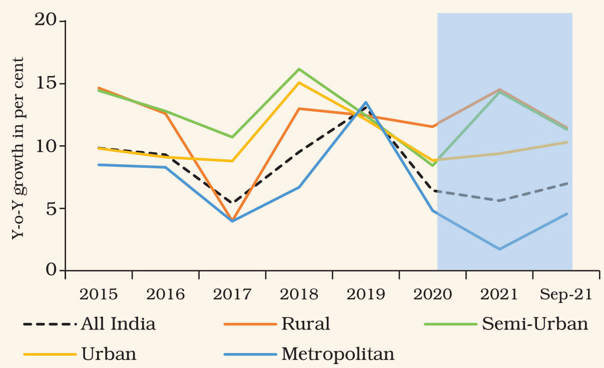
IV.11 Within population groups, the relatively higher credit growth to rural and semi-urban areas after the outbreak of COVID-19 is a bright spot (Chart IV.7). While PSBs remained the

Chart IV.6: Growth in Advances



Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks.

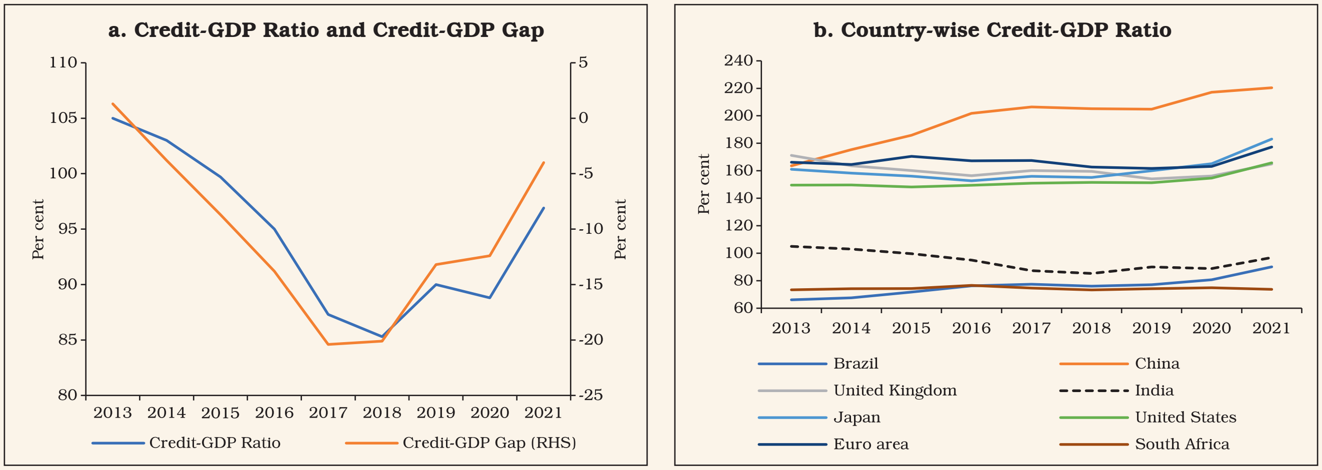
Chart IV.7: Change in Credit Composition
(At end-March)



Notes: All the centres are classified into following four population groups based on their population in the reference Census: a) 'Rural' group includes centres with population of less than 10,000. b) 'Semi-urban' group includes centres with population of 10,000 and above but less than 1,00,000. c) 'Urban' group includes centres with population of 1,00,000 and above but less than ten lakhs d) 'Metropolitan' group includes all centres with population of 10 lakhs and above.

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks.

Chart IV.8: Credit-GDP Ratio



Note: Includes credit from all sources.
Source: BIS.

major contributor of rural lending, given their reach and accessibility, the share of PVBs has also climbed up.

IV.12 The credit-to-GDP ratio increased to a five-year high, narrowing the credit-GDP gap (Chart IV.8a). India's credit-to-GDP ratio is still markedly lower than the G20 average (Chart IV.8b).

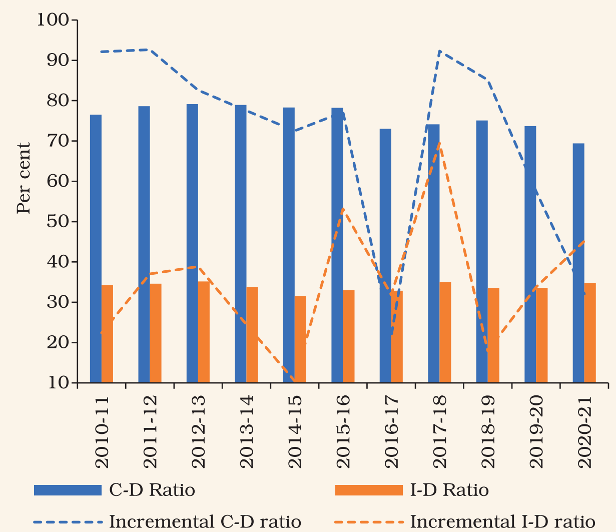
IV.13 As the share of advances in total assets fell, that of investments increased in an environment of risk aversion and limited profitable lending avenues. This resulted in a decline in the credit-deposit (C-D) ratio and a corresponding elevation in the investment-deposit (I-D) ratio, especially in incremental terms (Chart IV.9).

IV.14 Central Government and State Government securities were preferred by both PSBs and PVBs during 2020-21, indicating their preference for safer investments. Consequently, the share of other debt securities in PSBs' total portfolio declined after increasing for three consecutive years (Chart IV.10).

2.3 Maturity Profile of Assets and Liabilities

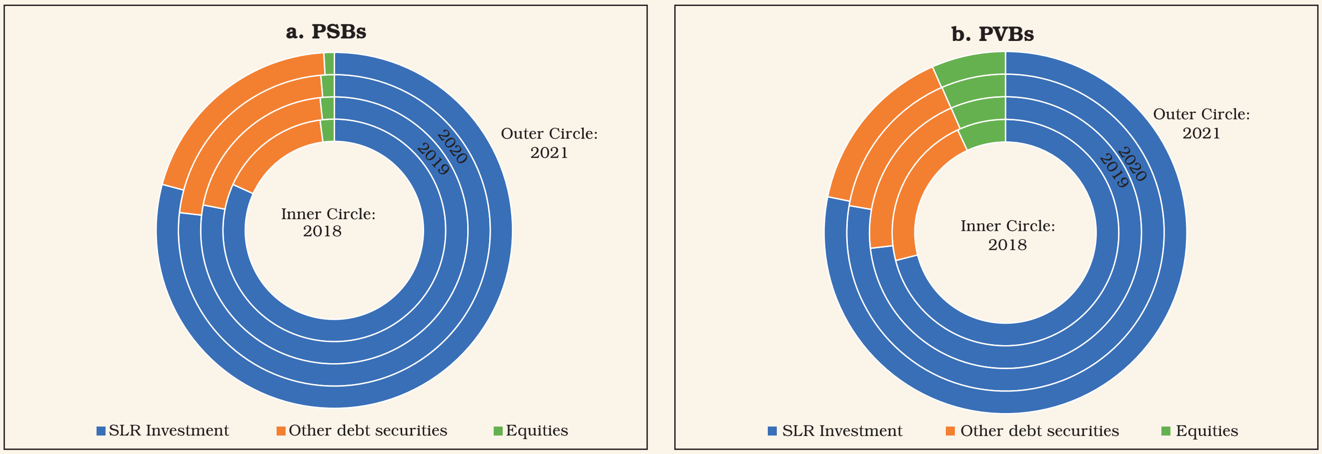
IV.15 Mismatches in the maturity of assets and liabilities are intrinsic to banking business, but they have implications for liquidity, profitability and risk exposures. During 2020-21, while the negative gap in the maturity bucket of up to one

Chart IV.9: Credit -Deposit and Investment-Deposit Ratios



Source: Annual accounts of banks.

Chart IV.10: Investment Portfolio
(At end-March)

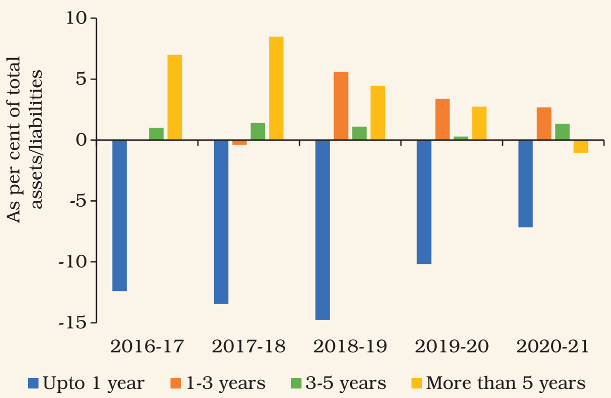


Source: OSMOS Supervisory Returns.

year moderated, the positive gap in the maturity bucket of more than five years turned negative as banks attracted less short-term CASA deposits and more longer-term deposits (Chart IV.11).

IV.16 In the case of borrowings, PSBs and PVBs displayed widely contrasting patterns. The share of short-term and long-term borrowings increased year-on-year in the case of PSBs, while PVBs relied more on borrowings with maturity between one and five years (Table IV.2).

Chart IV.11: Gap between Proportion of Assets and Liabilities in Various Maturity Buckets



Notes: 1. Short-term is up to 1 year while long-term is more than 3 years.
2. Assets consist of loans & advances and investments. Liabilities consist of deposits and borrowings.
3. Gap pertains to assets *minus* liabilities.

Source: Annual accounts of banks.

2.4 International Liabilities and Assets

IV.17 The total international liabilities of banks located in India expanded in 2020-21 on the back of rupee denominated deposits and equities held by non-resident Indians (NRIs) (Appendix Table IV.9). The sizeable increase in international assets, on the other hand, was led by their loans and debt securities (Appendix Table IV.10). However, international assets of banks in India (including foreign banks) were only 42 per cent compared to their international liabilities (Chart IV.12a).

IV.18 During the period under review, the share of claims of Indian banks (including their domestic and foreign branches) shifted away from non-financial private institutions and favoured other banks (Appendix Table IV.11 and Chart IV.12b). The country-composition of international claims remained stable, with the share of the top five out of six countries against which Indian banks held the highest share of claims increasing further (Appendix Table IV.12).

Table IV.2: Bank Group-wise Maturity Profile of Select Liabilities /Assets

(At end-March)

(Per cent)

Assets/Liabilities	PSBs		PVBs		FBs		SFBs		PBs		All SCBs	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Deposits												
a) Up to 1 year	40.4	36.2	38.1	34.3	63.9	62.4	59.6	53.6	10.0	13.0	40.9	37.0
b) Over 1 year and up to 3 years	22.8	21.9	28.1	28.9	28.3	30.8	37.5	42.1	90.0	87.0	24.8	24.7
c) Over 3 years and up to 5 years	10.2	11.3	8.5	9.2	7.7	6.7	0.7	1.7	-	-	9.5	10.3
d) Over 5 years	26.6	30.6	25.3	27.7	0.0	0.0	2.2	2.6	-	-	24.7	28.0
II. Borrowings												
a) Up to 1 year	49.2	54.5	51.7	41.4	83.4	83.8	41.1	46.9	-	100.0	52.9	50.8
b) Over 1 year and up to 3 years	27.5	21.0	24.2	34.0	10.3	11.8	44.0	37.3	-	-	24.9	26.2
c) Over 3 years and up to 5 years	13.0	12.8	11.3	13.9	2.2	2.0	11.3	13.8	-	-	11.3	12.5
d) Over 5 years	10.2	11.7	12.8	10.6	4.2	2.4	3.6	2.1	-	-	10.9	10.4
III. Loans and Advances												
a) Up to 1 year	25.1	24.8	32.3	32.2	61.4	55.4	38.1	41.8	-	100.0	29.3	28.9
b) Over 1 year and up to 3 years	40.9	36.9	33.6	34.1	19.3	22.7	42.4	34.0	-	-	37.4	35.3
c) Over 3 years and up to 5 years	10.9	14.9	12.7	12.8	7.1	9.1	9.0	11.0	-	-	11.4	13.8
d) Over 5 years	23.1	23.5	21.4	20.9	12.1	12.8	10.4	13.2	-	-	21.9	22.0
IV. Investments												
a) Up to 1 year	23.7	23.7	54.2	50.6	83.4	85.1	59.0	58.1	100.0	97.4	37.8	36.8
b) Over 1 year and up to 3 years	13.1	16.6	15.1	20.7	11.0	10.3	26.3	25.4	-	1.9	13.5	17.3
c) Over 3 years and up to 5 years	10.6	13.2	6.8	6.5	2.0	2.2	3.1	2.9	-	0.4	8.7	10.3
d) Over 5 years	52.7	46.4	23.8	22.2	3.6	2.4	11.6	13.6	-	0.2	40.0	35.6

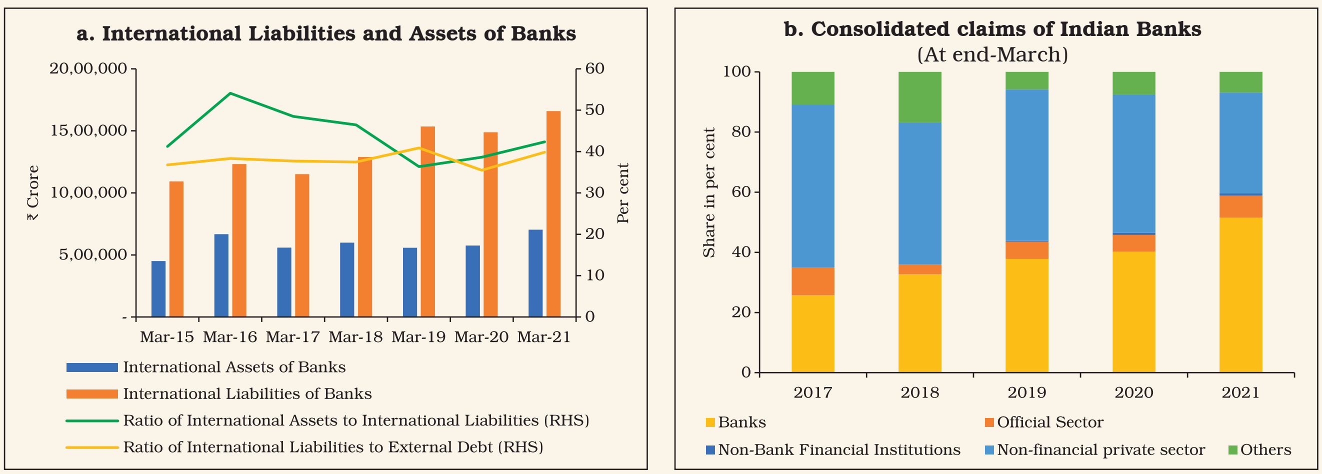
Notes: 1. - : Nil/Negligible.
2. The sum of components may not add up to 100 due to rounding off.

Source: Annual accounts of banks.

2.5 Off-Balance Sheet Operations

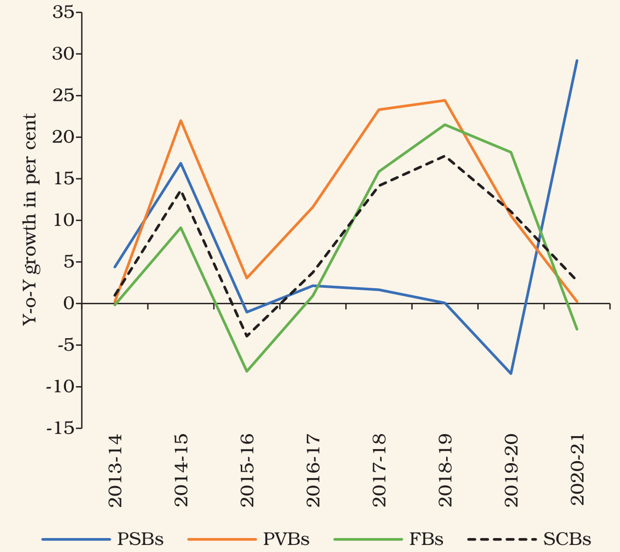
IV.19 The size of contingent liabilities of all SCBs relative to their total on-balance sheet exposures declined in 2020-21, after increasing in the previous year. For PSBs, however, the share increased as their forward exchange contracts that include all admissible derivative products increased by more than 40 per cent. For FBs, while off-balance sheet exposures decreased, they remained more than nine times their total

Chart IV.12: International Liabilities and Assets of Indian Banks



Source: Annual accounts of banks and DBIE.

Chart IV.13: Off-Balance Sheet Liabilities of Banks



Source: Annual accounts of banks.

liabilities (Chart IV.13). The overall deceleration in banks' contingent liabilities was on account of muted growth in their forward exchange contracts in line with subdued foreign exchange transactions (Appendix Table IV.2).

3. Financial Performance

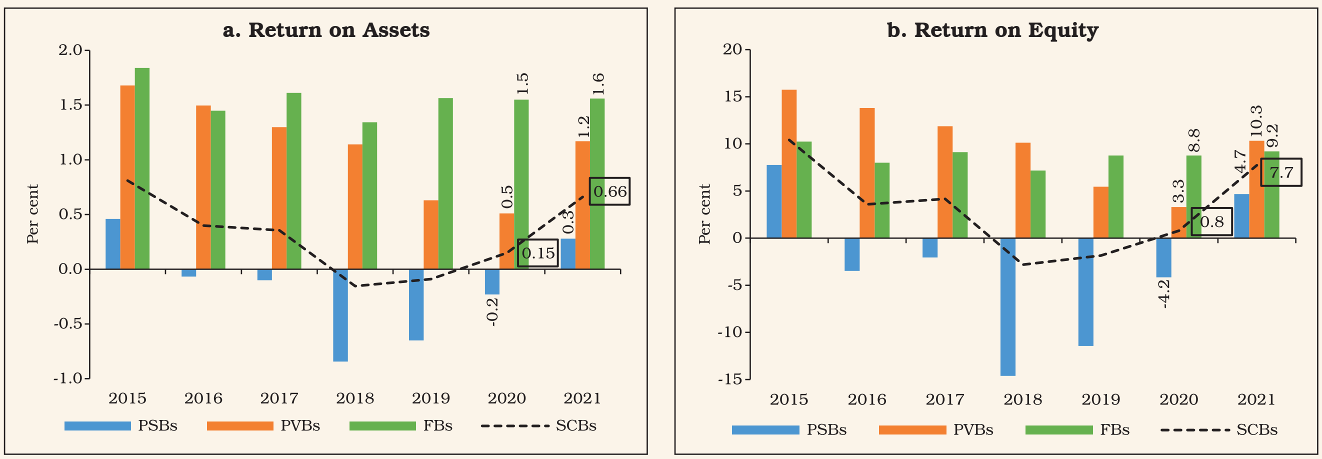
IV.20 The financial performance of SCBs in 2020-21 was marked by a discernible increase in profitability as their income remained stable but expenditure declined. This was in sharp contrast with the past five years during which PSBs incurred losses and profitability of PVBs was declining (Chart IV.14).

IV.21 The total income of banks remained stable, despite a marginal decline in its largest component *viz*. interest income, in an environment characterised by low credit offtake and interest rates (Table IV.3). The fall was cushioned by a sizeable increase in income from investments. Income from trading also accelerated, as banks booked profits on falling G-Sec yields.

IV.22 The contraction in SCBs' expenditure was led by a decline in the interest expended on deposits and borrowings on account of moderation in interest rates and contraction in total borrowings. Across bank groups,

Chart IV.14: Profitability Ratios

(At end-March)



Note: i) Following the recategorization of IDBI Bank Ltd. w.e.f. January 21, 2019, it is excluded from PSB group and included in PVB group. The bank-group wise data from March 2019 to December 2019 are adjusted accordingly; ii) Following the amalgamation of Lakshmi Vilas Bank with DBS Bank India, w.e.f. November 27, 2020, private and foreign bank-group wise data are adjusted accordingly.
Source: Annual accounts of banks and DBIE, RBI.

Table IV.3: Trends in Income and Expenditure of Scheduled Commercial Banks

(Amount in ₹ crore)

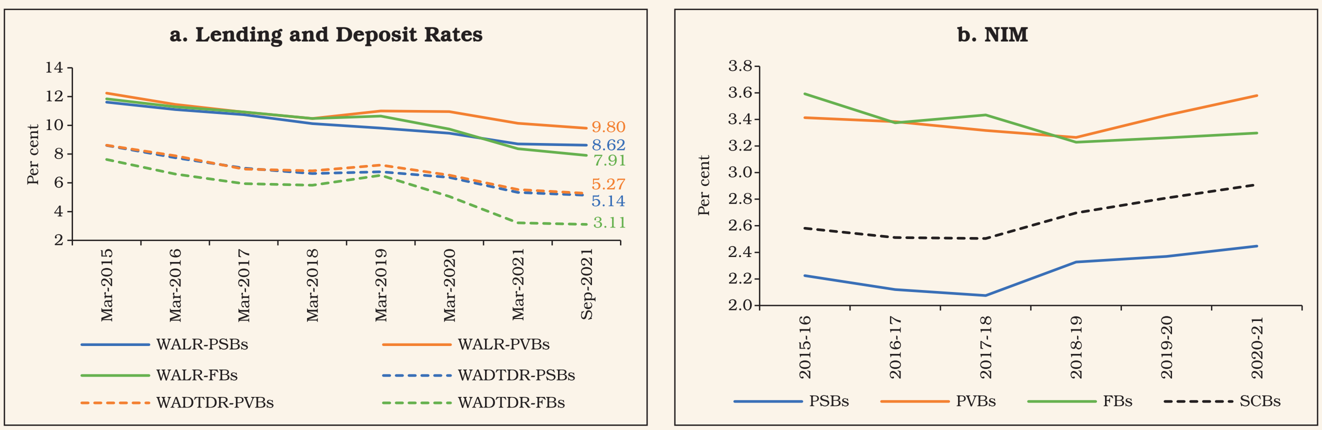
Item	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks		Payments Banks		All SCBs	
	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21
1. Income	8,34,320	8,31,882	5,46,347	5,45,833	83,223	82,081	19,219	22,500	55	1,004	14,83,164	14,83,301
	(7.6)	(-0.3)	(17.0)	(0.4)	(19.1)	(-4.3)	(76.4)	(17.1)	-	(1733.7)	(12.1)	(0.01)
a) Interest Income	7,16,203	7,07,092	4,49,006	4,51,617	66,673	63,888	16,948	19,523	46	101	12,48,876	12,42,222
	(5.1)	(-1.3)	(14.1)	(1.1)	(20.0)	(-7.2)	(75.0)	(15.2)	-	(120.1)	(9.5)	(-0.5)
b) Other Income	1,18,117	1,24,790	97,341	94,216	16,550	18,193	2,271	2,976	9	903	2,34,288	2,41,079
	(26.0)	(5.6)	(32.6)	(-2.9)	(15.5)	(7.6)	(86.7)	(31.1)	-	(9932.3)	(28.2)	(2.9)
2. Expenditure	8,60,335	8,00,064	5,27,236	4,76,357	67,043	63,116	17,251	20,462	389	1,304	14,72,253	13,61,303
	(2.2)	(-7.0)	(20.0)	(-9.1)	(21.0)	(-10.4)	(75.7)	(18.6)	-	(235.5)	(9.3)	(-7.5)
a) Interest Expended	4,68,005	4,31,627	2,58,038	2,32,555	28,810	21,769	7,928	9,122	14	55	7,62,794	6,95,128
	(3.9)	(-7.8)	(11.6)	(-9.3)	(17.7)	(-28.8)	(74.8)	(15.1)	-	(307.7)	(7.3)	(-8.9)
b) Operating Expenses	1,92,720	2,02,879	1,26,663	1,30,456	21,584	22,318	7,152	7,549	488	1,251	3,48,607	3,64,453
	(10.1)	(5.3)	(15.9)	(3.6)	(15.4)	(-0.3)	(70.3)	(5.6)	-	(156.6)	(13.4)	(4.5)
Of which : Wage Bill	1,15,839	1,23,378	47,357	50,274	7,878	7,888	3,811	4,302	264	398	1,75,149	1,86,239
	(14.1)	(6.5)	(20.8)	(6.9)	(17.2)	(-4.0)	(79.2)	(12.9)	-	(50.6)	(17.1)	(6.3)
c) Provision and Contingencies	1,99,609	1,65,558	1,42,535	1,13,346	16,648	19,029	2,171	3,791	-112	-2	3,60,852	3,01,722
	(-7.7)	(-17.1)	(44.1)	(-20.0)	(36.2)	(8.9)	(100.8)	(74.6)	-		(9.9)	(-16.4)
3. Operating Profit	1,73,594	1,97,376	1,61,646	1,82,823	32,829	37,994	4,139	5,829	-446	-302	3,71,763	4,23,720
	(16.0)	(13.7)	(27.8)	(13.1)	(22.8)	(15.8)	(91.4)	(40.8)			(21.9)	(14.0)
4. Net Profit	-26,015	31,818	19,111	69,477	16,180	18,965	1,968	2,038	-334	-300	10,911	1,21,998
			(-30.8)	(248.3)	(11.5)	(23.6)	(81.9)	(3.5)				(1018.1)
5. Net Interest Income (NII)	2,48,198	2,75,465	1,90,968	2,19,063	37,863	42,119	9,020	10,401	32	45	4,86,082	5,47,094
	(7.5)	(11.0)	(17.6)	(15.0)	(21.8)	(10.0)	(75.3)	(15.3)	-	(40.7)	(13.2)	(12.6)
6. Net Interest Margin (NIM)	2.37	2.45	3.43	3.58	3.26	3.30	8.34	7.02	1.95	1.58	2.81	2.91

Notes: 1. Figures in parentheses refer to per cent variations over the previous year.
2. Following amalgamation of Lakshmi Vilas Bank with DBS Bank India, w.e.f. November 27, 2020, private and foreign bank-group wise growth rates are based on adjusted bank-group totals.
3. Percentage variations could be slightly different as absolute numbers have been rounded off to ₹ crore.
4. NIM has been defined as NII as percentage of average assets.

Source: Annual accounts of respective banks.

the transmission of policy rate changes to term deposit rates was highest for FBs (Chart IV.15 a). At the system level, interest earned by banks outpaced their interest expenses, and hence the net interest margin (NIM) improved (Chart IV.15 b).

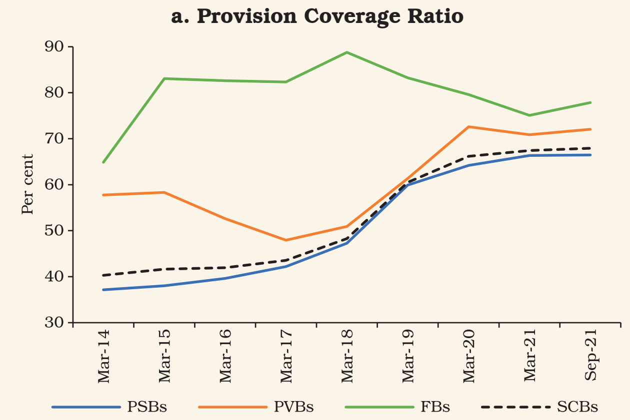
Chart IV.15: Lending Rate, Deposit Rate and NIM



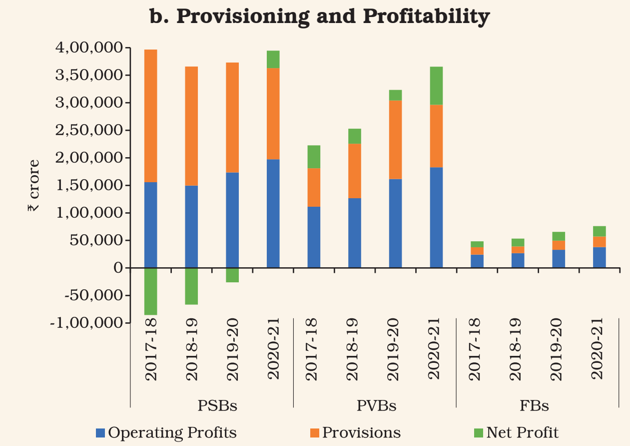
Notes: 1. WALR-Weighted average lending rates on outstanding rupee loans.
2. WADTDR- Weighted average domestic term deposit rates.
3. i) Following the recategorization of IDBI Bank Ltd. w.e.f. January 21, 2019, it is excluded from PSB group and included in PVB group. The bank-group wise data for NIM from March 2019 to December 2019 are adjusted accordingly;
ii) Following the amalgamation of Lakshmi Vilas Bank with DBS Bank India, w.e.f. November 27, 2020, private and foreign bank-group wise data for NIM are adjusted accordingly.

Source: Annual accounts of banks and RBI.

Chart IV.16: Impact of Provisioning on Profitability



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



Source: Annual accounts of banks.

IV.23 Banks were required to maintain additional provisions of at least 10 per cent on moratorium amounts, which was allowed to be spread out across two quarters *viz*. Q4:2019-20 and Q1:2020-21. Most banks, especially PVBs, frontloaded the required provisions in the March 2020 quarter resulting in a higher provision coverage ratio for the year. Combined with lower slippage, this muted the provision requirements during 2020-21 which helped in boosting banks' profitability (Chart IV.16).

IV.24 Profitability of banks, measured in terms of spread between return on funds and cost of funds, improved with the decline in the latter exceeding that in the former. The improvement was especially evident in PSBs, while niche banks in the SFB and PB categories could not maintain their spreads (Table IV.4).

Table IV.4: Cost of Funds and Return on Funds

Bank Group/ Variable	Year	Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
1	2	3	4	5	6	7	8	(8-5)
PSBs	2019-20	5.0	4.6	4.9	8.2	6.9	7.8	2.8
	2020-21	4.2	4.3	4.2	7.5	6.6	7.2	3.0
PVBs	2019-20	5.3	6.2	5.4	10.1	6.6	9.2	3.8
	2020-21	4.3	5.5	4.5	9.1	6.2	8.3	3.9
FBs	2019-20	3.7	4.1	3.7	8.5	6.7	7.6	3.9
	2020-21	2.4	3.4	2.5	7.1	6.1	6.5	4.0
SFBs	2019-20	8.2	9.8	8.7	19.9	7.5	17.3	8.7
	2020-21	6.8	8.8	7.3	17.1	6.8	14.9	7.6
PBs	2019-20	1.6	-	1.6	-	3.5	3.5	1.9
	2020-21	3.0	5.3	3.1	9.3	4.0	4.0	0.9
SCBs	2019-20	5.0	5.4	5.0	8.9	6.8	8.3	3.2
	2020-21	4.2	4.9	4.2	8.1	6.4	7.6	3.3

Notes: 1. Cost of Deposits = Interest Paid on Deposits / Average of Current and Previous Years' Deposits.
2. Cost of Borrowings = (Interest Expended - Interest on Deposits) /Average of Current and Previous Years' Borrowings.
3. Cost of Funds = (Interest Expended) /Average of Current and Previous Years' (Deposits + Borrowings).
4. Return on Advances = Interest Earned on Advances / Average of Current and Previous Years' Advances.
5. Return on Investments = Interest Earned on Investments / Average of Current and Previous Years' Investments.
6. Return on Funds = (Interest Earned on Advances + Interest Earned on Investments) /Average of Current and Previous Years' (Advances + Investments).
7. Following the amalgamation of Lakshmi Vilas Bank with DBS Bank India, w.e.f. November 27, 2020, private and foreign bank-group wise data are adjusted accordingly.

Source: Calculated from balance sheets of respective banks.

4. Soundness Indicators

IV.25 During 2020-21, SCBs bolstered their capital positions, and also improved their asset quality, liquidity and leverage ratios, despite the pandemic. The number of banks under the Reserve Banks's prompt corrective action (PCA) framework reduced from four at end-March 2020 to one at end-September 2021, reflecting bank-level as well as overall improvement in SCBs' soundness indicators.

4.1 *Capital Adequacy*

IV.26 The capital to risk-weighted assets ratio (CRAR) of SCBs has improved sequentially every quarter from end-March 2020 to reach 16.6 per cent at end-September 2021 (Table IV.5). This was essentially driven by a rise in core capital across bank groups, attributable to higher retained earnings, recapitalisation of PSBs by the government and raising of capital from the market. A slowdown in the accumulation of risk weighted assets (RWAs) of both PSBs and FBs helped to boost their capital ratios.

IV.27 The number of banks breaching the regulatory minimum requirement of CRAR (including capital conservation buffer) (10.875 per cent) declined to one during 2020-21 from three in the previous year. The fatter right tails for end-March 2021 distributions as compared with those for 2019 imply that a bigger share of banks maintained higher CRAR and CET-1 ratio, with the peak between 2.5 to 5 per cent over and above the minimum (Chart IV.17)[3]. Although the implementation of the last tranche of 0.625 per cent of capital conservation buffer (CCB) was deferred till October 1, 2021, banks proactively raised more capital to be in readiness for the imminent transition.

IV.28 Resource mobilisation by banks through public and rights issues increased sharply in 2020-21, reflecting the follow-on public offer (FPO) of equity capital by a PVB to meet its capital requirements (Table IV.6).

IV.29 In September 2020, the Parliament approved ₹20,000 crore capital infusion for PSBs which was fully disbursed by April 1, 2021. Since 2014, the government has infused ₹3.43 lakh crore in PSBs. In the Union Budget of 2021-22, the government has proposed to infuse another tranche of ₹20,000 crore into PSBs, which will help in augmenting their capital.

IV.30 The resources raised by PSBs through private placement almost doubled during 2020-21. In 2021-22 so far, both PSBs and PVBs

Table IV.5: Component-wise Capital Adequacy of SCBs
(At end-March)

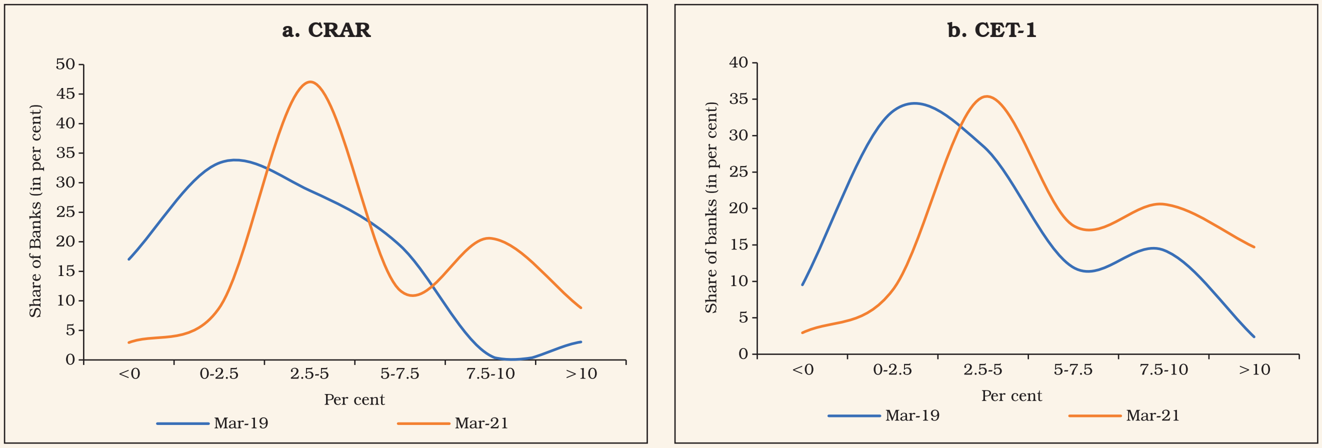
(Amount in ₹ crore)

	PSBs		PVBs		FBs		SCBs	
	2020	2021	2020	2021	2020	2021	2020	2021
1. Capital Funds	**6,99,872**	**7,93,971**	**6,54,772**	**7,72,389**	**1,88,665**	**2,04,433**	**15,56,686**	**17,90,330**
i) Tier I Capital	5,65,830	6,49,082	5,80,718	7,01,622	1,72,887	1,86,369	13,30,816	15,54,796
ii) Tier II Capital	1,34,042	1,44,889	74,054	70,767	15,777	18,064	2,25,870	2,35,535
2. Risk Weighted Assets	**54,46,253**	**56,56,060**	**39,56,956**	**41,92,303**	**10,65,889**	**10,49,878**	**1,05,35,311**	**1,09,86,622**
3. CRAR (1 as % of 2)	**12.9**	**14.0**	**16.5**	**18.4**	**17.7**	**19.5**	**14.8**	**16.3**
Of which: Tier I	10.4	11.5	14.7	16.7	16.2	17.8	12.6	14.2
Tier II	2.5	2.6	1.9	1.7	1.5	1.7	2.1	2.1

Source: Off-site returns, RBI.

[3] Skewness in the distribution of banks overachieving their CRAR and CET-1 targets progressively declined from 0.65 and 1.01 in 2018-19, to 0.23 and 0.52 in 2019-20 and (-)1.48 and (-) 0.35 in 2020-21, respectively.

Chart IV.17: Distance from Regulatory Minimum



Note: Data pertain to PSBs and PVBs.
Source: Off-site returns, RBI.

have resorted to this route for raising capital (Table IV.7).

4.2 *Leverage and Liquidity*

IV.31 The leverage ratio (LR), calculated as the ratio of tier-1 capital to total exposures, constrains the build-up of leverage by banks. Despite regulatory moderation in October 2019 requiring banks to maintain 4 and 3.5 per cent ratios for domestic systemically important banks and other banks, respectively as compared to 4.5 per cent earlier, the LR of SCBs rose for the second consecutive year during 2020-21. While the improvement was spread across all bank groups, it was led by a sharp improvement in the tier-1 capital of PVBs (Chart IV.18 a).

IV.32 The liquidity coverage ratio (LCR) - designed to help banks withstand liquidity pressures in the short-term - requires banks to maintain high quality liquid assets (HQLAs) to meet 30 days' net outgo under stressed conditions. In March 2020, banks were allowed to avail funds under the marginal standing facility by dipping into the statutory liquidity ratio (SLR) by up to an additional one per cent of their net demand and time liabilities (NDTL) for three months. This dispensation was progressively extended up to December 31, 2021 to enable banks to meet their LCR requirements and provide comfort on their liquidity needs and will expire thereafter. Additionally, the LCR requirement for SCBs was brought down from 100 per cent to 80 per cent in April 2020

Table IV.6: Public and Rights Issues by the Banking Sector

(Amount in ₹ crore)

Year	PSBs		PVBs		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8= (6+7)
2019-20	-	-	410	-	410	-	410
2020-21	-	-	15,000	-	15,000	-	15,000
2021-22*	-	-	-	-	-	-	-

Note: 1. *: Up to November 2021.
2. -: Nil/Negligible.
Source: SEBI.

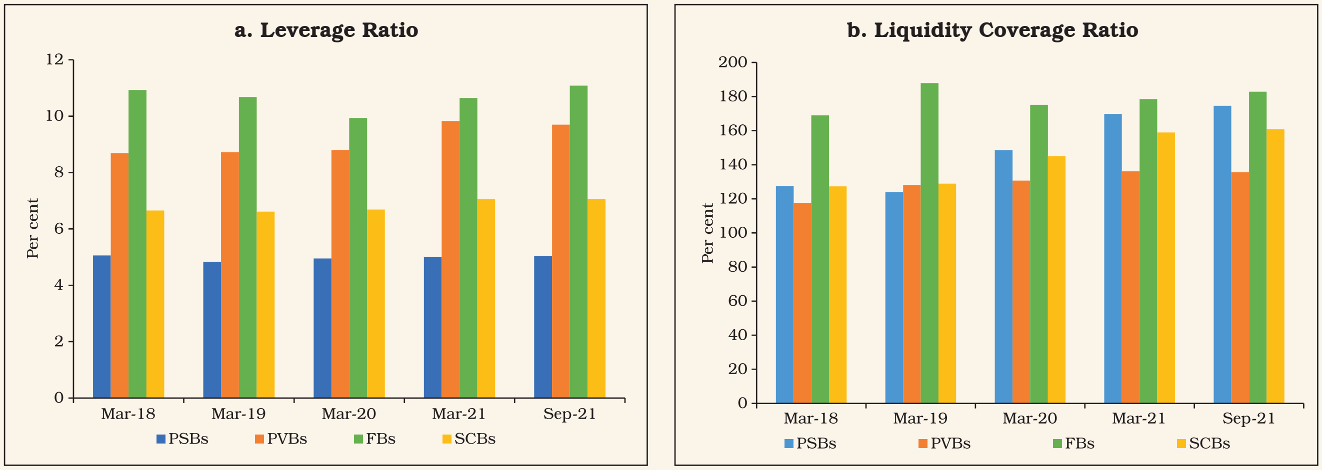
Table IV.7: Resources Raised by Banks through Private Placements

(Amount in ₹ crore)

	2019-20		2020-21		2021-22 (up to November)	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised	No. of Issues	Amount Raised
PSBs	20	29,573	36	58,697	16	32,567
PVBs	8	23,121	4	33,878	5	17,222

Note: Includes private placement of debt and qualified institutional placement. Data for 2021-22 are provisional.
Source: BSE, NSE and Merchant Bankers.

Chart IV.18: Leverage and Liquidity



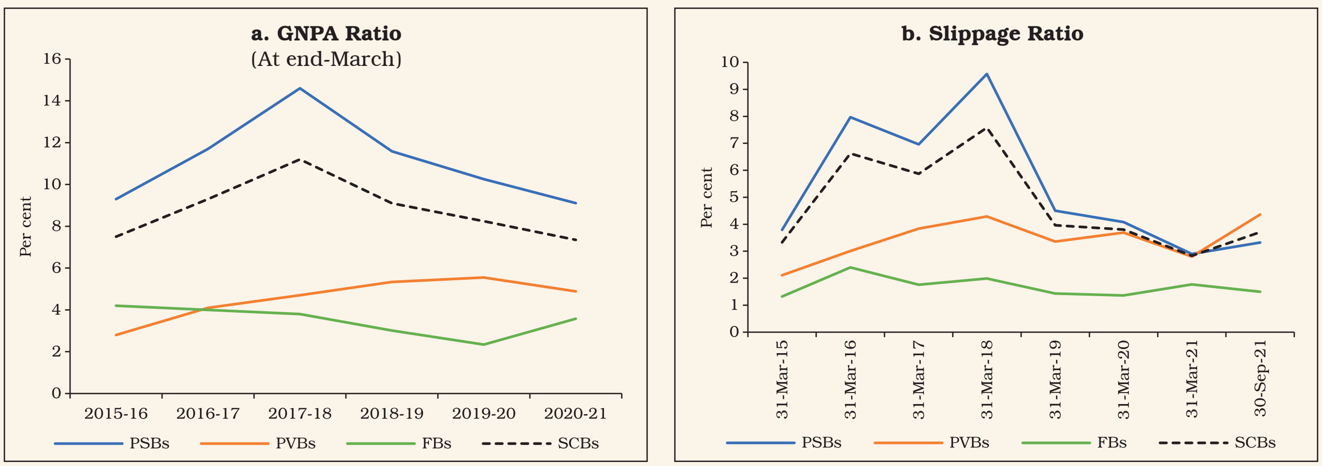
Source: Off-site returns (global operations), RBI.

and was gradually restored in two phases by April 1, 2021. Notwithstanding the regulatory relaxation, banks continued to maintain LCR above 100 per cent: the ratio increased from 145 per cent at end-March 2020 to 158.9 per cent by end-March 2021 and 160.9 per cent by end-September 2021 (Chart IV.18 b).

4.3 *Non-Performing Assets*

IV.33 The moderation in GNPA ratios of banks that began in 2019-20, continued during the period under review to reach 7.3 per cent by end-March 2021. Provisional supervisory data suggest a further moderation in the ratio to 6.9 per cent by end-September 2021. During 2020-21, this improvement was driven by lower slippages, partly due to the asset classification standstill. With the decline in delinquent assets, their provision requirements also dropped and the net NPA ratio of PSBs and PVBs eased from the previous year. On the contrary, FBs reported increasing accretions to NPAs and deteriorating asset quality due to amalgamation of a troubled PVB with an FB (Chart IV.19).

Chart IV.19: Asset Quality of Banks



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

Table IV.8: Movement in Non-Performing Assets

(Amount in ₹ crore)

Item	PSBs	PVBs	FBs	SFBs	All SCBs
Gross NPAs					
Closing Balance for 2019-20	6,78,317	2,09,568	10,208	1,709	8,99,803
Opening Balance for 2020-21	5,46,590	2,05,335	10,208	1,709	7,63,842
Addition during the year 2020-21	2,78,711	1,03,625	12,840	5,470	4,00,646
Reduction during the year 2020-21	74,685	38,824	4,698	377	1,18,584
Written-off during the year 2020-21#	1,34,000	69,995	3,307	832	2,08,134
Closing Balance for 2020-21	6,16,616	2,00,141	15,044	5,971	8,37,771
Gross NPAs as per cent of Gross Advances*					
2019-20	10.3	5.5	2.3	1.9	8.2
2020-21	9.1	4.9	3.6	5.4	7.3
Net NPAs					
Closing Balance for 2019-20	2,30,918	55,683	2,005	765	2,89,370
Closing Balance for 2020-21	1,96,451	55,809	2,987	2,981	2,58,228
Net NPAs as per cent of Net Advances					
2019-20	3.7	1.5	0.5	0.8	2.8
2020-21	3.1	1.4	0.7	2.7	2.4

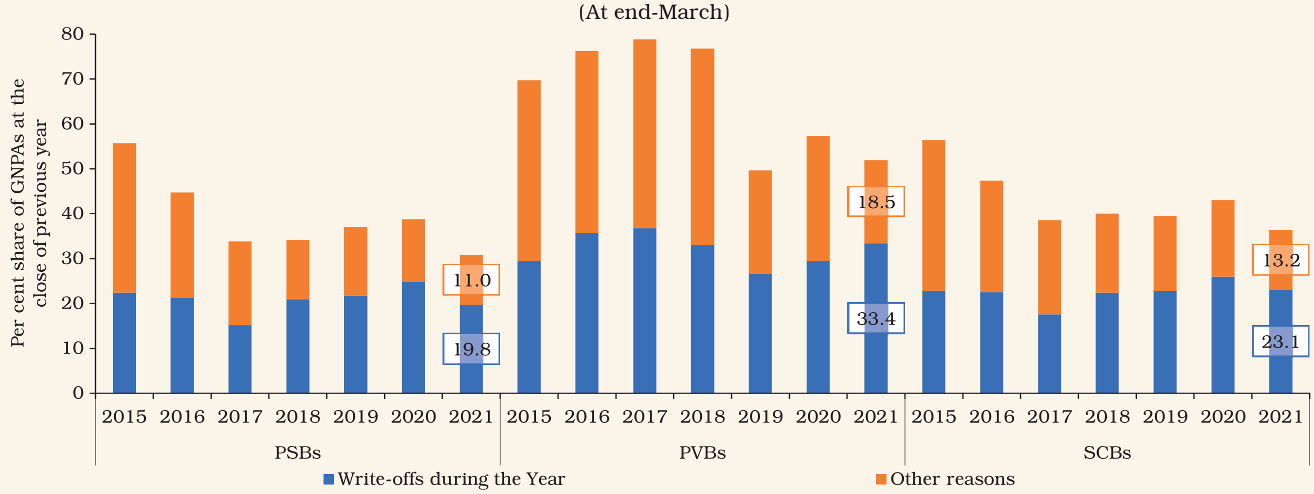
Notes: 1. #: Includes prudential as well as actual write-offs.
2. Closing balance for 2019-20 and opening balance for 2020-21 do not match due to amalgamation of banks. The amalgamated banks' GNPAs are reported under 'addition during the year'.
3. *: Calculated by taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns (global operations).

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

IV.34 As observed since 2018, write-offs were the predominant recourse for lowering GNPAs in 2020-21 (Table IV.8 and Chart IV.20). In the case of FBs, the contribution of upgradation improved substantially, but it was not enough to offset fresh slippages.

IV.35 Consistent with the improvement in asset quality, the proportion of standard assets to total advances of SCBs increased in 2020-21, largely because of the improved performance of PVBs (Table IV.9). Within standard assets, the share of restructured standard advances (RSA) increased from 0.4 per cent at end March

Chart IV.20: Reduction in GNPAs
(At end-March)



Note: Other reasons include upgradation to standard assets and actual recoveries.
Source: Annual accounts of banks.

Table IV.9: 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	2020	53,27,903	89.2	1,32,530	2.2	4,04,724	6.8	1,07,163	1.8
	2021	55,87,450	90.6	1,03,744	1.7	3,51,014	5.7	1,22,217	2.0
PVBs	2020	34,14,554	94.9	56,588	1.6	92,396	2.6	34,986	1.0
	2021	37,57,240	95.3	65,363	1.7	90,228	2.3	31,350	0.8
FBs	2020	4,25,857	97.7	3,273	0.8	5,775	1.3	1,161	0.3
	2021	4,10,418	97.6	3,648	0.9	5,566	1.3	986	0.2
SFBs**	2020	89,800	98.1	1,023	1.1	648	0.7	39	0.0
	2021	1,05,619	94.6	4,965	4.4	841	0.8	165	0.1
All SCBs	2020	92,58,114	91.7	1,93,413	1.9	5,03,543	5.0	1,43,349	1.4
	2021	98,60,726	92.7	1,77,720	1.7	4,47,648	4.2	1,54,717	1.5

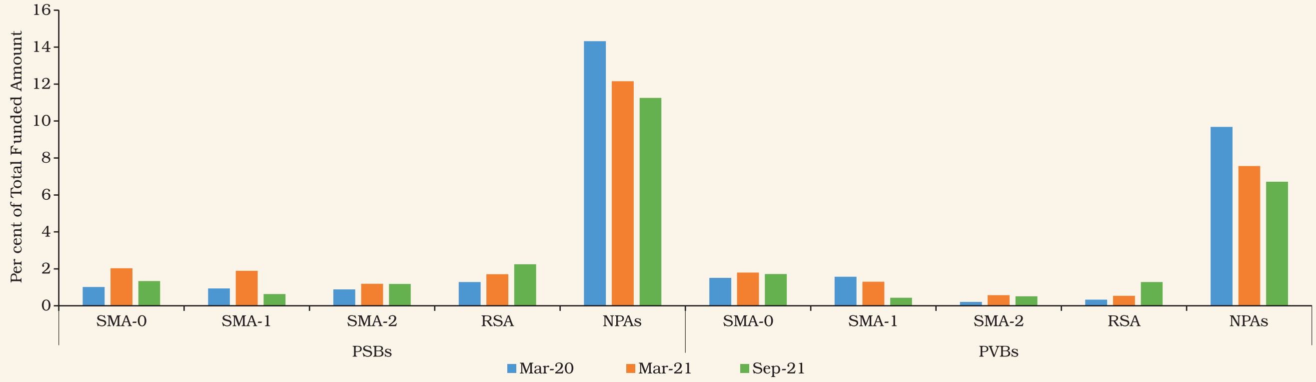
Notes: 1. Constituent items may not add up to the total due to rounding off.
2. *: As per cent of gross advances.
3. **: Refers to scheduled SFBs.

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

2020 to 0.8 per cent at end-March 2021, largely representing the onetime restructuring scheme for standard advances announced by the Reserve Bank in August 2020. The RSA further increased to 1.8 per cent at end September 2021 due to restructuring scheme 2.0 for retail loans and MSMEs which does not entail an asset classification downgrade.

IV.36 The share of large borrowal accounts (exposure of ₹5 crore or more) in total advances declined to 51 per cent at end-March 2021 from 54.2 per cent a year ago. Their contribution to total NPAs also declined in tandem from 75.4 per cent to 66.2 per cent during the same period. The special mention accounts-2 (SMA-2) ratio, which signals impending stress, has risen across bank groups since the outbreak of the pandemic. The RSA ratio has also increased during the same period, partly reflecting the impact of resolution framework (RF) 1.0 and 2.0 (Chart IV.21).

Chart IV.21: Stress in Large Borrowal Accounts



Notes: RSA: Restructured standard advances;
SMA-0, where principal or interest payment was not overdue for more than 30 days, but the account showed signs of incipient stress;
SMA-1, where principal or interest payment was overdue for 31-60 days;
SMA-2, where principal or interest payment was overdue for 61-90 days.

Source: Central Repository of Information on Large Credits (CRILC) database.

4.4 *Recoveries*

IV.37 During 2020-21, all the recovery channels, most notably Lok Adalats, witnessed a sizeable decline in the cases referred for resolution (Table IV.10). Even though initiation of fresh insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) of India was suspended for a year till March 2021 and COVID-19 related debt was excluded from the definition of default, it constituted one of the major modes of recoveries in terms of amount recovered. Allowing pre-pack resolution window for MSMEs is expected to assuage the mounting pressure of pending cases before NCLTs, reduce haircuts and improve declining recovery rates[4].

IV.38 Another important mode of asset resolution for banks, especially PVBs, has been sale of NPAs to asset reconstruction companies (ARCs) by taking haircuts. In recent years, however, the preference of banks has shifted to alternative avenues, with asset sales declining as a proportion to outstanding GNPAs across bank groups. This was partly due to the worsening acquisition cost of ARCs as a proportion of book value of assets, reflecting higher haircuts and lower realisable values in respect of their acquired assets (Chart IV.22).

IV.39 The recovery of security receipts (SRs) issued by ARCs is a critical indicator of their performance. Since 2018, the Reserve Bank has been disincentivising banks from holding SRs in excess of 10 per cent of the transaction value of sale of stressed assets through increased provisions.[5] Consequently, the share of SRs subscribed to by banks has decreased over the years, and their share hovered around 58 per cent in 2019-20 and 2020-21[6]. The share of ARCs in SR holdings has declined over the years, with the investor base having gradually diversified with an increasing share of foreign

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

(Amount in ₹ crore)

Recovery Channel	2019-20				2020-21 (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	59,86,790	67,801	4,211	6.2	19,49,249	28,084	1,119	4.0
DRTs	33,139	2,05,032	9,986	4.9	28,182	2,25,361	8,113	3.6
SARFAESI Act	1,05,523	1,96,582	34,283	17.4	57,331	67,510	27,686	41.0
IBC@	1,986	2,24,935	1,04,117	46.3	537	1,35,139	27,311	20.2
Total	**61,27,438**	**6,94,350**	**1,52,597**	**22.0**	**20,35,299**	**4,56,094**	**64,228**	**14.1**

Notes: 1. P: Provisional.
2. *: Refers to the amount recovered during the given year, which could be with reference to the cases referred during the given year as well as during the earlier years.
3. DRTs: Debt Recovery Tribunals.
4. @: Cases admitted by National Company Law Tribunals (NCLTs) under IBC.
5. The resolution plan of Essar Steel India Ltd. was approved in 2018-19. However, as apportionment among creditors was settled in 2019-20, the recovery is reflected in the latter year data.

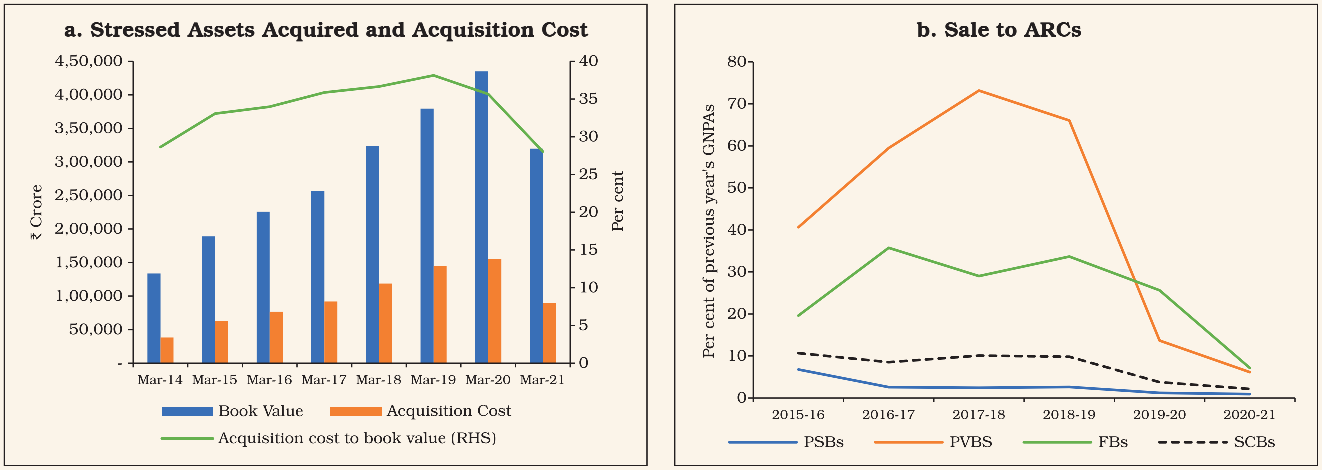
Source: Off-site returns, RBI and Insolvency and Bankruptcy Board of India (IBBI).

[4] Recovery rate is the amount recovered as a percentage of the amount involved.

[5] To ensure that asset sales by banks result in actual sale, threshold for banks holding SRs backed by their sold assets for additional provisioning was fixed at 50 per cent from April 1, 2017 and was subsequently reduced to 10 per cent from April 1, 2018.

[6] As reported by ARCs for which data are available.

Chart IV.22: Stressed Asset Sales to ARCs



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

institutional investors and other qualified buyers (Table IV.11).

4.5 *Frauds in the Banking Sector*

IV.40 Apart from eroding customer confidence, frauds present multiple challenges for the financial system in the form of reputational risk, operational risk and business risk. During 2020-21, the reported number of cases of frauds declined (Table IV.12). In terms of amount involved, a bulk of these cases occurred earlier but were reported during the year 2020-21 (Table IV.13).

IV.41 In terms of area of operations, an overwhelming majority of cases reported during 2020-21 in terms of number and amount involved related to advances, while frauds concerning card or internet transactions made up 34.6 per cent of the number of cases.

IV.42 In 2020-21, there was a marked increase in frauds related to PVBs, both in terms of number as well as the amount involved. During H1:2021-22, PVBs accounted for more than half of the number of reported fraud cases (Chart IV.23a). In value terms,

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

(Amount in ₹ crore)

Item		Mar-19	Mar-20	Mar-21
	Reporting ARCs	**18**	**23**	**21**
1.	Book Value of the Assets acquired from banks/FIs	1,86,770	2,95,097	3,19,838
	Reporting ARCs	**12**	**11**	**11**
2.	Amount of Security Receipts (SRs) issued	14,691	59,347	69,995
3.	Security Receipts Subscribed to by:			
	a Selling Banks/ Financial Institutions	10,659	34,147	41,076
	b Asset Reconstruction Companies (ARCs)	3,663	12,421	13,942
	c FIIs	151	8,750	9,861
	d Others (Qualified Institutional Buyers)	219	4,028	5,116
4.	Amount of SRs completely redeemed	558	9,062	13,283
5.	SRs Outstanding	13,087	39,618	42,266

Source: Quarterly statements submitted by ARCs.

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

(Cases in number and amount in ₹ crore)

Area of Operation	2018-19		2019-20		2020-21		2020-21 (April-September)		2021-22 (April-September)	
	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
Advances	3,603	64,539	4,608	1,81,942	3,501	1,37,023	1,669	63,529	1,802	35,060
Off-balance Sheet	33	5,538	34	2,445	23	535	14	439	10	612
Forex Transactions	13	695	8	54	4	129	1	0	1	0
Card/Internet	1,866	71	2,677	129	2,545	119	1,247	49	1,532	60
Deposits	593	148	530	616	504	434	245	149	208	362
Inter-Branch Accounts	3	0	2	0	2	0	2	0	0	0
Cash	274	56	371	63	329	39	132	22	245	51
Cheques/DDs, etc.	189	34	201	39	163	85	77	48	107	149
Clearing Accounts	24	209	22	7	14	4	4	1	9	1
Others	200	244	250	173	278	54	108	25	157	47
Total	**6,798**	**71,534**	**8,703**	**1,85,468**	**7,363**	**1,38,422**	**3,499**	**64,261**	**4,071**	**36,342**

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.

however, the share of PSBs was higher, indicating predominance of high value frauds (Chart IV.23b). While the major share of loans-related cases pertained to PSBs, PVBs accounted for a majority of card/ internet and cash-related cases (Chart IV.23c).

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

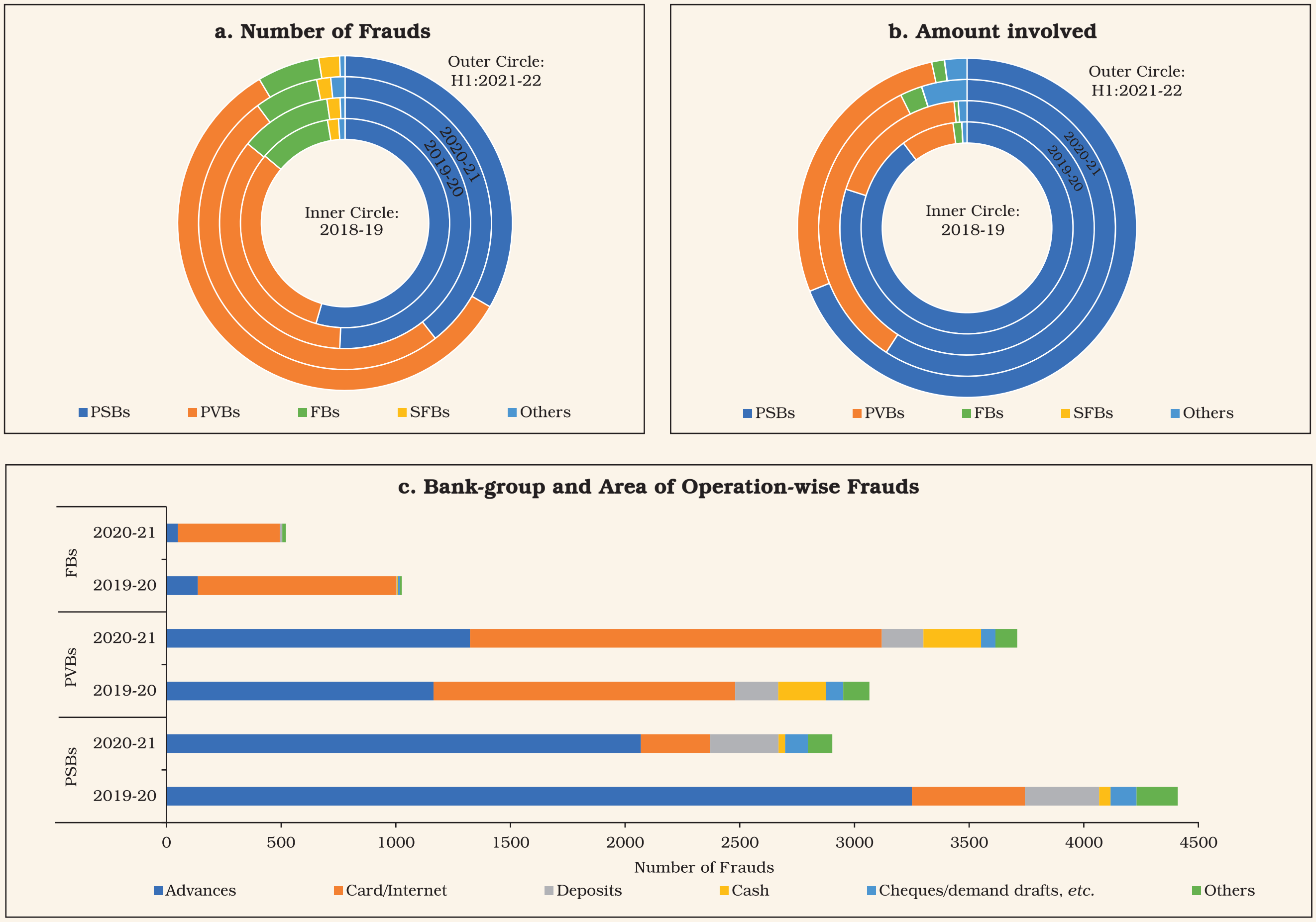
(Cases in number and amount in ₹ crore)

Area of operation	Prior to 2018-19		2018-19		2019-20		2020-21		2021-22 (April - September)	
	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
Advances	8,752	3,33,362	2,129	40,516	1,525	31,074	903	13,373	205	237
Off-balance Sheet	71	5,817	19	2,927	5	371	5	12	0	0
Forex Transactions	11	597	5	145	7	135	3	1	0	0
Card/Internet	485	31	2,090	83	2,645	130	2,296	104	1,104	32
Deposits	475	606	550	163	438	338	306	421	66	32
Inter-Branch Accounts	3	0	3	0	0	0	1	0	0	0
Cash	95	40	275	64	381	37	336	45	132	21
Cheques/DDs, etc.	109	34	165	28	201	69	144	163	41	12
Clearing Accounts, etc.	17	9	26	206	13	2	9	3	4	0
Others	289	277	201	58	144	132	206	35	45	18
Total	**10,307**	**3,40,773**	**5,463**	**44,191**	**5,359**	**32,290**	**4209**	**14,158**	**1,597**	**353**

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. Data based on 'date of occurrence' may change for a period of time as frauds reported late but having occurred earlier would get added.
4. Data in the table pertain to cases reported from 2018-19 till September 30, 2021.

Source: RBI.

Chart IV.23: Bank-Group wise Frauds



Source: RBI.

4.6 *Enforcement Actions*

IV.43 In order to separate enforcement action from the supervisory process and in accordance with international best practices, the Enforcement Department was created in the Reserve Bank in 2017. The department is entrusted with ensuring uniformity and consistency in enforcement of regulations and engendering compliance in the regulated entities (REs). During 2020-21, the number of instances of imposition of penalty reduced, with enforcement action being undertaken against 11 SCBs. Monetary penalties were imposed for non-compliance with provisions or contravention of certain directions issued by the Reserve Bank, including frauds classification and reporting, exposure norms and IRAC norms, interest rate on deposits and lending to MSMEs (Table IV.14).

Table IV.14: Enforcement Actions

Regulated Entity	April 2019 to March 2020		April 2020 to March 2021	
	Instances of imposition of penalty	Total Penalty (₹ crore)	Instances of imposition of penalty	Total Penalty (₹ crore)
Public Sector Banks	29	35.1	4	9.5
Private Sector Bank	11	11.5	3	5.9
Cooperative Banks	9	7.4	43	3.9
Foreign Banks	1	1.0	3	8.0
Payments Banks	-	-	1	1.0
Small Finance Banks	-	-	-	-
NBFCs	2	0.1	7	3.1
Total	**52**	**55**	**61**	**31**

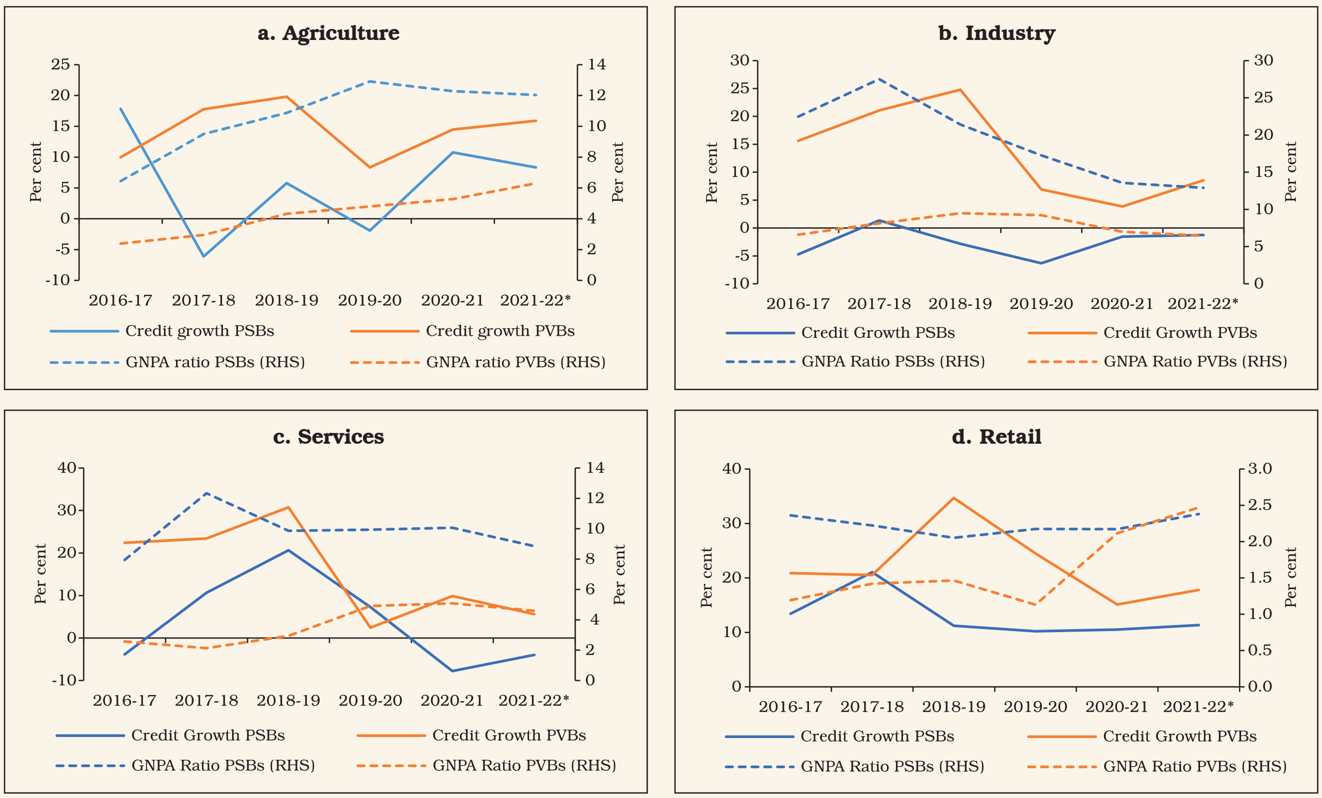
Source: RBI.

5. Sectoral Bank Credit: Distribution and NPAs

IV.44 Headline credit growth remained anaemic during 2020-21, although sectorally some bright spots appeared: agriculture credit revived from a sharp deceleration of the previous year; PVBs increased their lending to the services sector; and PSBs cushioned the deceleration in total retail credit growth, *albeit* partly. On the other hand, credit growth to services by PSBs and to retail by PVBs slowed down amidst rising NPA ratios (Chart IV.24).

IV.45 A drill down into the data reveals that although credit to large industries contracted, their medium-sized counterparts received sharply higher credit flows, incentivised by the Emergency Credit Line Guarantee Scheme (ECLGS)[7]. The higher NPAs of large industrial borrowers at the end of March 2021 as compared to better asset quality of medium enterprises may also be a driving factor. Within services, credit growth to trade surpassed its pre-pandemic growth rate in 2020-21. Remarkably, its share in services sector credit also grew sharply in 2020-21. After the IL&FS event, NBFCs—especially those with lower ratings—found raising resources from the market difficult and turned to banks. SCBs' credit to NBFCs grew in double digits during 2015-16 to

Chart IV.24: Sectoral Growth and GNPA Ratios



Note: *: Credit growth rates are for September 2021 over September 2020, GNPA ratios are as at end-September 2021.
Source: Off-site returns (domestic operations), RBI.

[7] Emergency Credit Line Guarantee Scheme was initiated by the Government of India in May 2020 to provide credit guarantee to MSMEs upto ₹3 lakh crore. The scope of the scheme was subsequently enlarged to include other sectors identified by the Kamath Committee.

Table IV.15: Sectoral Deployment of Gross Bank Credit

(Amount in ₹ crore)

Sr. No.	Item	Outstanding as on				Per cent variation (y-o-y)			
		Mar-19	Mar-20	Mar-21	Sep-21	2018-19	2019-20	2020-21	2021-22 (up to September)*
1	**Agriculture & Allied Activities**	**12,17,594**	**12,39,575**	**13,84,815**	**14,30,480**	**10.0**	**1.8**	**11.7**	**10.7**
2	**Industry,** *of which*	**32,93,638**	**32,52,801**	**32,53,636**	**32,34,613**	**5.2**	**-1.2**	**0.03**	**3.3**
	2.1 Micro & Small Industries	4,39,811	4,37,658	4,72,529	5,41,554	5.2	-0.5	8.0	16.8
	2.2 Medium	1,23,843	1,12,367	1,87,599	2,06,151	-1.7	-9.3	67.0	47.0
	2.3 Large	26,11,567	26,11,377	24,76,702	23,59,112	6.1	-0.01	-5.2	-3.4
3	**Services,** *of which*	**26,02,287**	**27,54,823**	**27,45,324**	**27,24,810**	**25.1**	**5.9**	**-0.3**	**1.3**
	3.1 Trade	5,83,930	6,28,142	7,14,210	6,75,820	12.4	7.6	13.7	3.7
	3.2 Commercial Real Estate	2,43,122	2,66,357	2,52,696	2,76,980	18.9	9.6	-5.1	8.7
	3.3 Tourism, Hotels & Restaurants	56,194	60,039	62,722	61,027	7.9	6.8	4.5	-2.1
	3.4 Computer Software	22,236	24,404	23,742	21,570	-0.3	9.8	-2.7	-4.4
	3.5 Non-Banking Financial Companies	6,27,089	7,36,447	7,98,241	8,24,189	38.4	17.4	8.4	14.8
4	**Retail Loans,** *of which*	**23,04,313**	**26,59,249**	**29,86,461**	**31,10,368**	**18.6**	**15.4**	**12.3**	**14.0**
	4.1 Housing Loans	12,04,362	13,96,444	15,61,913	15,99,395	19.5	15.9	11.8	11.2
	4.2 Consumer Durables	9,195	11,154	21,569	28,409	-51.7	21.3	93.4	69.2
	4.3 Credit Card Receivables	1,11,361	1,32,076	1,38,560	1,43,937	34.5	18.6	4.9	2.2
	4.4 Vehicle/Auto Loans	2,69,677	2,89,366	3,29,522	3,61,849	12.9	7.3	13.9	21.2
	4.5 Education Loans	76,233	79,056	78,823	82,433	1.8	3.7	-0.3	2.9
	4.6 Advances against Fixed Deposits (incl. FCNR (B), *etc.*)	77,135	80,753	74,013	72,718	-0.1	4.7	-8.3	1.7
	4.7 Advances to Individuals against Shares, Bonds, *etc.*	9,339	5,619	5,619	6,092	46.3	-39.8	0	-12.7
	4.8 Other Retail Loans	5,47,010	6,64,781	7,76,441	8,15,535	25.6	21.5	16.8	20.8
5	**Gross Bank Credit**	**95,26,932**	**1,00,98,420**	**1,06,40,811**	**1,07,52,479**	**13.4**	**6.0**	**5.4**	**6.8**

Note: 1. Figures in the table may not tally with the figures released by RBI in 'Sectoral Deployment of Bank Credit' every month due to difference in coverage of banks.
2. Percentage variations are March over March.
3. The data pertain to SCBs.
4. *September 2021 over September 2020.

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

2019-20 but decelerated in 2020-21 on a high base (Table IV.15).

IV.46 During 2020-21, retail loan portfolios of banks outgrew their services sector lending, aided by double digit acceleration in housing loans- the biggest component of retail loans. Vehicle loans gained traction, reflecting consumer interest after companies announced substantial discounts on automobiles.

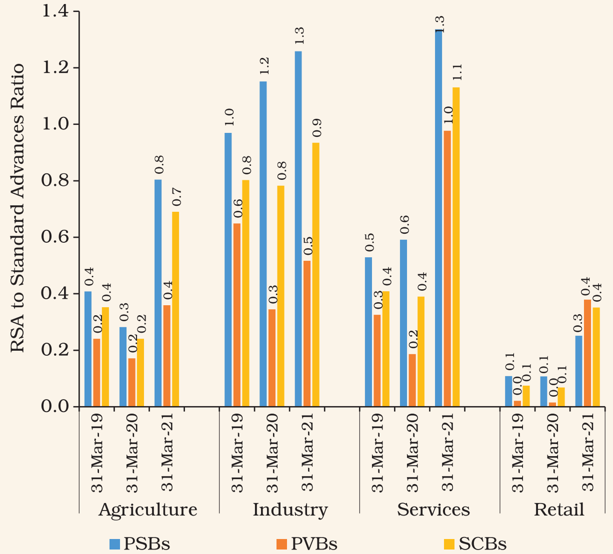
IV.47 The RSA ratio of SCBs had been decelerating for five consecutive years since 2015 on better asset quality recognition by banks after the asset quality review (AQR). With the restructuring scheme announced in August 2020 by the Reserve Bank in response to the pandemic, the RSA ratio, especially of services and retail loans increased sharply in 2020-21, led by contact-intensive services (Chart IV.25).

5.1 *Priority Sector Credit*

IV.48 Priority sector lending (PSL) accelerated in 2020-21, primarily driven by revival in credit to agriculture—especially Kisan Credit Card (KCC) loans—and micro and small enterprises (MSEs) by both PSBs and PVBs (Chart IV.26 and Appendix Table IV.3).

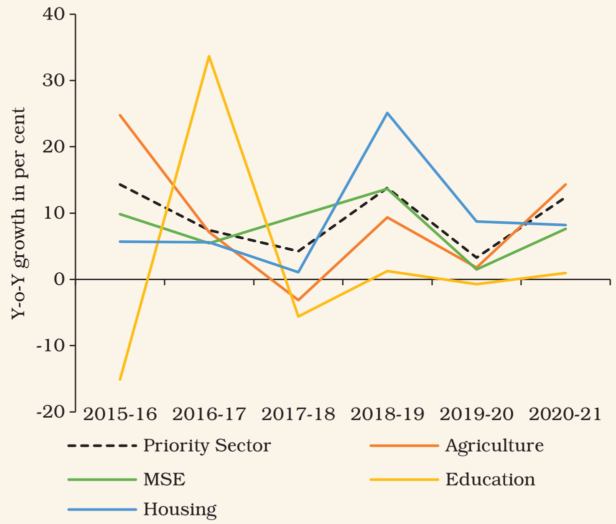
IV.49 PSL, which is typically pro-cyclical, is also influenced by bank-specific characteristics such as asset quality of the PSL *vis-à-vis* non-priority sector loans, size of the lending bank and their branch network (Box IV.2).

Chart IV.25: Restructured Standard Advances



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

Chart IV.26: Credit to Priority Sectors – All SCBs



Source: RBI.

IV.50 During 2020-21, all bank groups managed to achieve the overall PSL targets. Shortfalls were observed in certain sub-targets by PSBs (micro enterprises) and PVBs

Box IV.2: Determinants of Priority Sector Lending

Priority sector lending – aimed at meeting requirements of sectors which are credit-starved but are socially significant began in India in 1969. SCBs[8] are required to lend 40 per cent of their previous year's adjusted net bank credit (ANBC) or credit equivalent of off balance-sheet exposures (CEOBE), whichever is higher, to the priority sector. Despite uniform regulatory requirements, banks have deviated from the regulatory target in some periods across banks and bank groups. Multiple avenues are available to banks to meet regulatory obligations in case of shortfall in direct lending, including Inter-Bank Participation Certificates (IBPCs), securitisation of priority sector loans, depositing shortfalls in funds such as the Rural Infrastructure Development Fund (RIDF) and other funds with NABARD, NHB, SIDBI and MUDRA Ltd. In 2016, trading in priority sector lending certificates (PSLCs) was introduced, which was a game changer as it allowed buying for shortfall and selling for overachievement of PSL targets without corresponding transfer of loan, cash flows or risk.

Empirically, priority sector lending is found to depend on various bank-specific characteristics like the nature of ownership, size as well as performance (Kumar, Batra, & Deisting, 2016). A fixed effect panel regression for the period March 2005 till December 2020 with organic PSL by banks as the dependent variable using quarterly bank-wise data on 59 banks suggests that asset quality plays an important role in priority sector lending decisions: banks which face priority sector asset quality stress tended to lend less to it. GDP, which is a control for macro-economic factors, and bank size[9] – a bank-specific control variable – have a positive relationship with PSL. A dummy for the March quarter was found to be positive and significant, as

(Contd...)

[8] As of March 31, 2021, regional rural banks and small finance banks are required to lend 75 per cent to priority sector.

[9] Bank size = Advances + Deposits.

Table 1: Determinants of Priority Sector Lending

Variables	Dependent Variables		
	Priority Sector Advances	Priority Sector Agricultural Advances	Priority Sector MSE Advances
Dependent Variable (-1)	0.477***	0.564***	0.746***
	(0.111)	(0.0947)	(0.0313)
Priority GNPA Ratio	-0.0161***		
	(0.00314)		
Non-Priority GNPA Ratio	0.00495**		0.00492***
	(0.00192)		(0.00171)
Agriculture GNPA Ratio		-0.00606***	
		(0.000868)	
MSE GNPA Ratio			-0.0154***
			(0.00326)
March Dummy	0.0351***	0.0616***	0.0461***
	(0.0103)	(0.0161)	(0.0156)
GDP	0.0568**		0.0979**
	(0.0231)		(0.0454)
Agricultural GDP		0.0896***	
		(0.0329)	
CRAR		0.00230	0.00329
		(0.00332)	(0.00231)
PSLC Dummy	0.0597***	0.0443**	-0.0204
	(0.0217)	(0.0167)	(0.0225)
Bank Size	0.480***	0.397***	0.290***
	(0.106)	(0.0962)	(0.0515)
Branches per Asset	0.00240***		
	(0.000542)		
Rural Branches per Asset		0.00713***	
		(0.00173)	
Urban Branches per Asset			0.00344***
			(0.000623)
RoE	0.00		
	(0.000)		
Constant	-1.307***	-1.990***	-2.581***
	(0.338)	(0.495)	(0.371)
Observations	2,765	2,769	2,749
R-squared	0.970	0.938	0.948
Number of Banks	59	59	59

Notes: 1. Robust standard errors in parentheses
2. *** p<0.01, ** p<0.05, * p<0.1

banks tended to backload their PSL in the last quarter to improve their annual average and achieve the regulatory target[10]. Branches to assets ratio, a proxy for banks' reach, is also found to be significant[11].

For the sub-targets on lending to agriculture (18 per cent) and micro and small enterprises (MSEs) (7.5 per cent), similar models are estimated with rural and urban branches to assets ratio, respectively. The coefficients are significant and positive. Banks with significant brick-and-mortar presence in rural areas lend higher to priority agriculture sector while those in urban areas specialise in MSE lending.

A positive and significant PSLC dummy for overall PSL as well as sub-targets suggests that the introduction of PSLCs has given banks an opportunity to profitably trade in PSLCs while simultaneously fulfilling regulatory targets.

References:

Kumar, M., Batra, N., & Deisting, F. (2016). Determinants Of Priority Sector Lending: Evidence From Bank Lending Patterns In India. *The International Journal of Business and Finance Research*.

(agriculture; small and marginal farmers (SMFs) and non-corporate individual farmers) (Table IV.16). A phased increase in PSL targets for SMFs and weaker sections as per the revised PSL guidelines issued in September 2020 is expected to deepen credit penetration to these sectors[12].

IV.51 The total trading volume of PSLCs grew by 26 per cent to ₹5,89,163 crores during 2020-21. Among the four PSLC categories, significant growth was recorded in case of PSLC-General and PSLC-Micro Enterprises (Chart IV.27).

IV.52 The weighted average premiums (WAPs) for PSLCs increased year-on-year by 11 to 44 basis points across categories in 2020-21, with PSLC-SMF and PSLC-A categories commanding significantly higher premiums than PSLC-G and PSLC-ME. During H1:2021-22, the WAP on PSLCs-ME increased

[10] As per RBI norms, while computing priority sector target achievement, shortfall / excess lending for each quarter is monitored separately. A simple average of all quarters is arrived at and considered for computation of overall shortfall / excess at the end of the year.

[11] Data for bank branches is taken from the Handbook of Statistics on the Indian Economy.

[12] For SMFs, the sub-target will increase to 9 per cent by 2021-22, 9.5 per cent by 2022-23 and 10 per cent by 2023-24. Weaker sections target will increase to 11 per cent by 2021-22, 11.5 per cent by 2022-23 and 12 per cent by 2023-24.

Table IV.16: Priority Sector Lending by Banks
(As on March 31, 2021)

(Amount in ₹ crore)

Item	Target/ sub-target (per cent of ANBC/ CEOBE)	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance 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
1	2	3	4	5	6	7	8	9	10
Total Priority Sector Advances	**40/75***	**24,16,750**	**41.06**	**14,33,674**	**40.62**	**1,99,969**	**41.02**	**59,055**	**86.00**
of which									
Total Agriculture	18.0	10,68,112	18.15	5,29,637	15.01	45,457	18.97	19,239	28.02
Small and marginal farmers	8.0	5,53,455	9.40	2,40,754	6.82	24,233	10.11	17,798	25.92
Non-corporate Individual Farmers#	12.14	7,69,173	13.07	3,64,026	10.31	29,187	12.18	20,422	29.74
Micro Enterprises	7.50	4,18,763	7.11	2,93,072	8.30	18,050	7.53	16,580	24.14
Weaker Sections	10.0	7,27,794	12.37	3,58,002	10.14	28,037	11.70	36,377	52.97

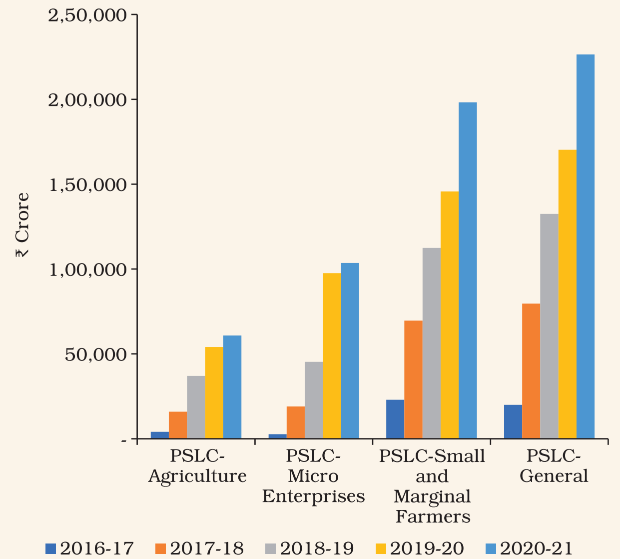
Notes: 1. Amount outstanding and achievement percentage are based on the average achievement of banks for four quarters of the financial year.
2. *: Total priority sector lending target for Small Finance Banks is 75 per cent.
3. #: Target for non-corporate farmers is based on the system-wide average of the last three years' achievement. For FY 2020-21, the applicable system wide average figure is 12.14 percent.
4. For foreign banks having less than 20 branches, only the total PSL target of 40 per cent is applicable.

Source: RBI.

sharply due to change in the definition of MSMEs. The increase in WAP across other categories may be attributed to COVID-related stress (Table IV.17).

IV.53 While the share of priority sector accounts in total bank lending increased only marginally from 35 per cent in 2019-20 to 36 per cent in 2020-21, their share in total GNPAs increased markedly from 32.8 per cent to 40.5 per cent during the same period, led by delinquencies in agricultural and micro and small enterprises PSL (Table IV.18).

Chart IV.27: Trading Volume of PSLCs



Source: RBI.

5.2 *Credit to Sensitive Sectors*

IV.54 Banks' exposure to sensitive sectors decelerated during 2020-21. Nevertheless, it grew at a higher pace than overall credit

Table IV.17: Weighted Average Premium on Various Categories of PSLCs

(Per cent)

PSLC Category	2017-18	2018-19	2019-20	2020-21	2020-21 (Apr-Sep)	2021-22 (Apr-Sep)
PSLC-A	1.29	0.79	1.17	1.55	1.61	2.00
PSLC-ME	0.61	0.57	0.44	0.88	0.54	2.03
PSLC-SMF	1.54	1.15	1.58	1.74	1.87	2.38
PSLC-G	0.59	0.31	0.35	0.46	0.49	0.85

Source: RBI.

Table IV.18: Sector-wise GNPAs of Banks
(At end-March)

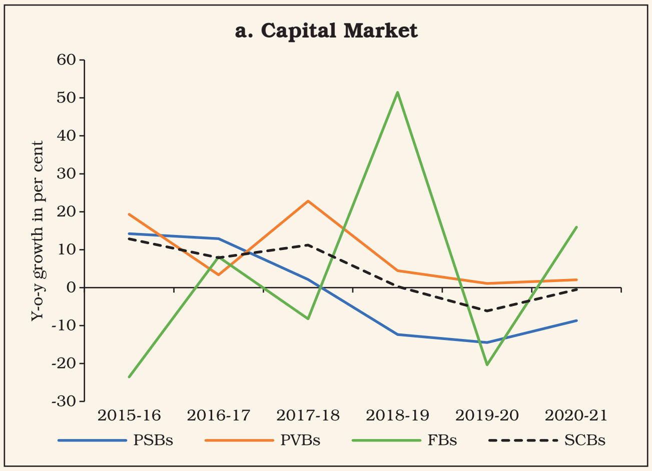
(Amount in ₹ crore)

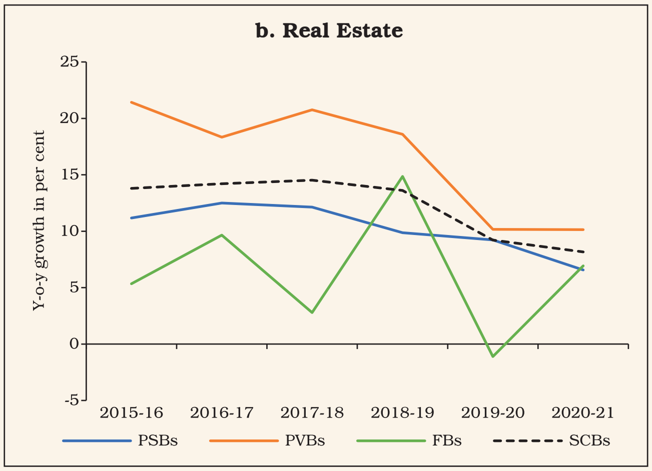
Bank Group	Priority Sector		*Of which*						Non-priority Sector		Total NPAs	
			Agriculture		Micro and Small Enterprises		Others					
	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#	Amt.	Per cent#
PSBs												
2020	2,36,212	36.66	1,11,571	17.31	90,769	14.09	33,872	5.26	4,08,205	63.34	6,44,417	100.00
2021	2,58,228	44.76	1,15,281	19.98	1,01,786	17.64	41,161	7.13	3,18,747	55.24	5,76,974	100.00
PVBs												
2020	36,219	19.69	14,462	7.86	16,111	8.76	5,646	3.07	1,47,751	80.31	1,83,970	100.00
2021	50,557	27.04	18,900	10.11	23,473	12.56	8,184	4.38	1,36,384	72.96	1,86,941	100.00
FBs												
2020	1,692	16.57	376.07	3.68	1070.24	10.48	245.66	2.41	8,516	83.43	10,208	100.00
2021	1,802	17.67	328.97	3.23	1193.62	11.70	279.48	2.74	8,397	82.33	10,199	100.00
SFBs												
2020	1,376	80.51	255.77	14.96	753.88	44.10	366.59	21.45	333	19.49	1,709	100.00
2021	4,974	83.31	1509.6	25.28	2049.4	34.32	1415.23	23.70	996	16.69	5,971	100.00
All SCBs												
2020	2,75,499	32.79	1,26,664	15.07	1,08,704	12.94	40,131	4.78	5,64,806	67.21	8,40,305	100.00
2021	3,15,561	40.45	1,36,019	17.44	1,28,502	16.47	51,039	6.54	4,64,524	59.55	7,80,085	100.00

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

growth, led by the real estate sector, especially by PVBs and FBs. Banks' capital market exposure contracted for the second consecutive year (Chart IV.28 and Appendix Table IV.4).

Chart IV.28: Exposure to Sensitive Sectors





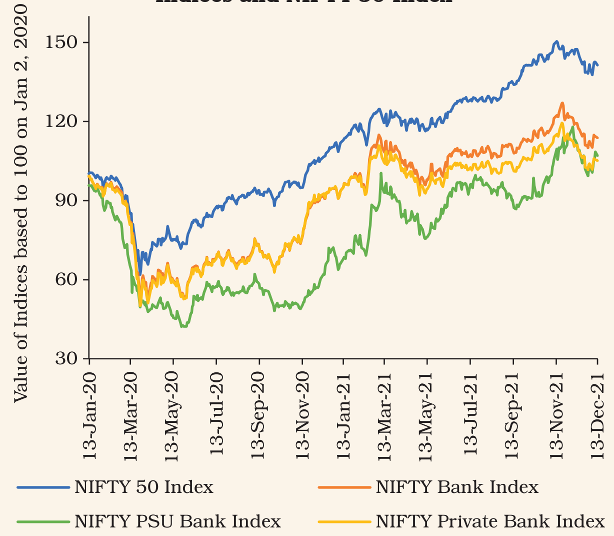
Source: Annual accounts of banks.

6. Performance of Banking Stocks

IV.55 After the outbreak of the COVID-19 pandemic, equity markets in India fell sharply, tracking global cues. Banking sector stocks were hit hard, reflecting investors' concerns about their financial health, although the impact was not homogenous across banks and bank groups. Subsequently, in response to the policy measures initiated by the Reserve Bank and the Government of India, stock prices revived (Chart IV.29)

IV.56 Empirical evidence suggests that stock prices of banks with weak balance sheets were hammered down more by investors in the pandemic shock (Box IV.3)

Chart IV.29: Relative Performance of Bank Indices and NIFTY-50 Index



Source: Bloomberg.

Box IV.3: Impact of COVID-19 Lockdown on Banking Stock Performance

Globally, the pandemic and lockdowns led to persistent underperformance of banking sector stocks *vis-à-vis* the headline index. Market anxiety over potential liquidity risks led to a sell-off in these stocks. Subsequently, however, as policy support measures were introduced, reversals also became evident (Acharya *et al.*, 2021; Kunt *et al.*, 2021).

In India, too, the imposition of a nation-wide lockdown effective from March 24, 2020 onwards triggered investors' anxiety about banking stocks. In order to unravel this phenomenon empirically, a two-step approach is adopted[13]. In the first step, an event study model (MacKinlay, 1997; Mathur *et al.*, 2021) was employed to compute equation (1), which is estimated over a period of 91 to 11 days prior to the event day, *i.e.* imposition of lockdown.

$$R_{b,t} = \alpha + \beta \cdot R_t + \epsilon_{b,t} \qquad (1)$$

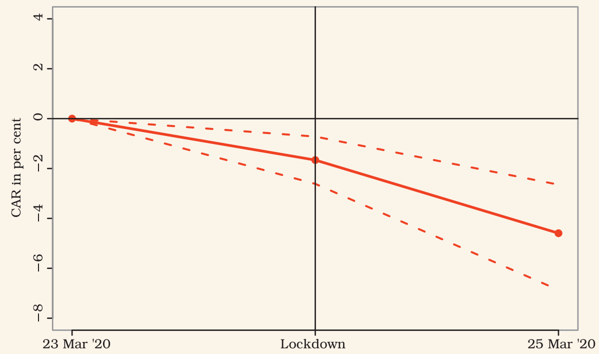
where, R_{bt} is the daily stock market return for bank b on day t, R_t is the daily return on the NIFTY-50 index and $\epsilon_{b,t}$ represents the error term. Abnormal stock market returns (ARs) for each bank b over a window of (-1, +1) days[14] are then calculated as

$$AR_{b,T} = R_{b,T} - \hat{R}_{b,T}\ \forall\, T \in (-1, 0, +1) \qquad (2)$$

where T belongs to the event window. For comparison and easier interpretation, the ARs were indexed to 0 for day (-1) and summed over the event window to obtain cumulative abnormal stock return for a given bank ($CAR_{b,T}$).

As expected, CARs for SCBs declined significantly following the announcement of the nation-wide lockdown (Chart 1). Moreover, the impact was felt across the board, irrespective of bank size and bank group (Chart 2).

Chart 1: Event Study Analysis – CARs around the Lockdown Event



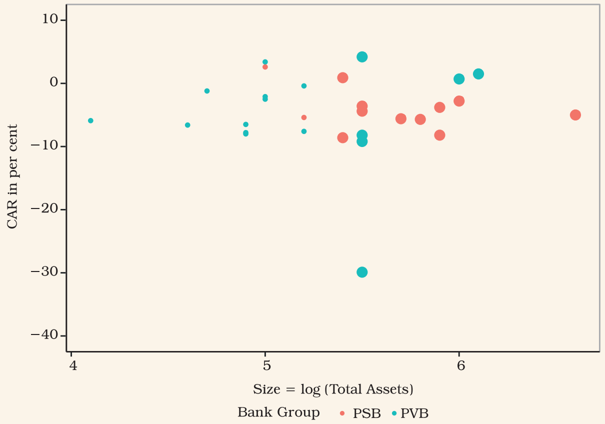
Note: The solid line represents the average CAR for the banking sector around the lockdown event. The dotted lines represent the 95 per cent bootstrapped confidence interval.
Source: RBI staff estimates.

(Contd...)

[13] Daily stock prices of 12 PSBs, 18 PVBs and NIFTY-50 index were sourced from Bloomberg.

[14] High-frequency data and a tight window around the event ensures better accounting for anticipation effects and other confounding factors.

Chart 2: CARs – Bank Group-wise and Bank Size-wise



Note: The smaller (larger) dots represent banks with asset size below (above) sample median.
Source: RBI staff estimates.

In the second step, a cross-sectional regression model (equation 3) is used to investigate the role of bank-level characteristics in explaining the CARs[15]:

$$CAR_b = \alpha + \beta.size + \gamma.bank\ group\ dummy + \theta \cdot X_b + \omega_b \quad (3)$$

where the size of the bank (proxied by log of total assets) and a binary variable for bank group (0 for PVBs and 1 for PSBs) are used as control variables. Balance sheet and financial variables such as profitability (RoE), asset quality (GNPA ratio and slippage ratio) and capital adequacy (CET-1 ratio), are represented by X_b. The results from the regression analysis suggest that controlling for size and ownership, banks which had stronger balance sheets and financial positions – such as higher RoE and CET-1 ratio – in the pre-pandemic period suffered lower losses. On the other hand, banks which entered the pandemic with higher GNPA and slippage ratios were penalised by markets with sharper price corrections (Table 1). These findings highlight the importance of robust balance sheets of banks so as to withstand large macroeconomic shocks.

Table 1: Regression Results

Dependent Variable: CAR (-1, +1)					
Categories	Model 1	Model 2	Model 3	Model 4	Model 5
Size	0.050	0.070	0.127	-0.101	0.117
	(1.070)	(0.976)	(1.005)	(0.997)	(0.782)
Bank-Group Dummy	0.731	1.259	2.108	3.943	1.806
	(2.625)	(2.404)	(2.667)	(2.814)	(1.931)
ROE	-	0.100*	-	-	-
		(0.040)			
CET-1 ratio	-	-	0.724*	-	-
			(0.282)		
GNPA ratio	-	-	-	-0.414*	-
				(0.181)	
Slippage Ratio (annualized)	-	-	-	-	-1.180***
					(0.238)
Number of Observations	30	30	30	30	30
Adjusted R^2	-0.07	0.11	0.09	0.08	0.43
BIC	206.30	203.07	203.64	204.19	189.76

Notes: 1. Figures in parenthesis represents standard errors
2. ***p < 0.001, **p < 0.01, *p < 0.5

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7. Ownership Pattern in Commercial Banks

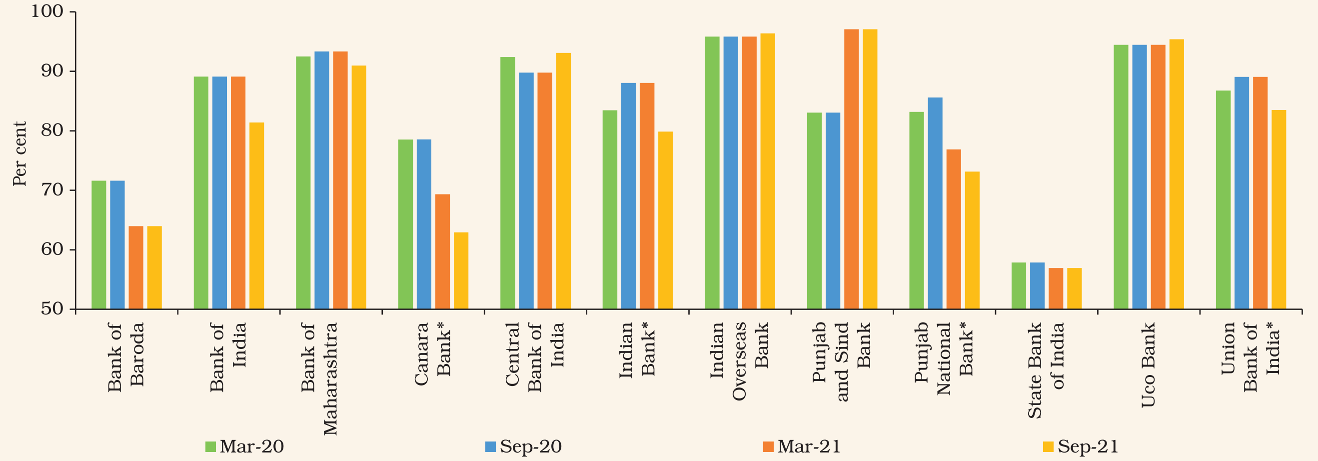
IV.57 Government ownership in Canara Bank, Punjab National Bank, Indian Bank and Union Bank of India increased substantially following the amalgamation of ten PSBs into four, effective from April 1, 2020[16]. During H2:2020-21, the government's shareholding increased in Punjab and Sind Bank due to recapitalisation[17] and decreased in Bank of Baroda, Canara Bank, Punjab National Bank and State Bank of India, owing to capital raising through private

[15] Bank-wise balance sheet data as at end December 2019 was taken from the RBI database.

[16] Syndicate Bank merged with Canara Bank, Andhra Bank and Corporation Bank merged with Union Bank of India, United Bank of India and Oriental Bank of Commerce merged with Punjab National Bank and Allahabad Bank merged with Indian Bank.

[17] In September 2020, the Parliament approved supplementary demand for grants of ₹20,000 crore for recapitalisation in PSBs, of which ₹5,500 crore was infused in Punjab and Sind Bank in November 2020.

Chart IV.30: Government's Shareholding in PSBs



Note: *: Merged entities
Source: Off-site returns (domestic operations), RBI.

placements (Chart IV.30). Furthermore, as at end-September 2021, government shareholding decreased in Bank of India, Bank of Maharashtra, Canara Bank, Indian Bank, Punjab National Bank and Union Bank of India on account of raising of fresh equity from the market. Capital infusions planned for PSBs during 2021-22 are expected to change their ownership pattern further[18].

IV.58 During the year, one private sector bank, Lakshmi Vilas Bank Limited, amalgamated with a foreign bank, DBS Bank India Limited, with effect from November 27, 2020. With this, 21 PVBs were operational in India as at end-March 2021. In terms of foreign investments, non-residents' shareholding was well within the limits of 74 per cent for PVBs including Local Area Banks (LABS) and Small Finance Banks (SFBs) and 20 per cent for PSBs (Appendix Table IV.5).

8. Corporate Governance

IV.59 Effective governance and balanced compensation practices in banks are important risk mitigation tools as they boost depositors' confidence and also reinforce financial stability. Following the discussion paper on 'Governance in Commercial Banks in India' issued in June 2020 and the feedback received thereon, the Reserve Bank issued an interim set of instructions addressing several operational subjects on April 26, 2021.

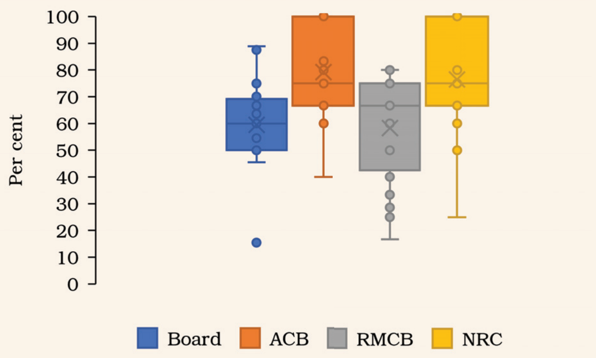
8.1 *Composition of Boards*

IV.60 Apart from ensuring competency, diversity and meeting the fit-and-proper criterion, appointment of independent directors goes a long way in ensuring board effectiveness. Most PVBs in India have achieved this in varying degrees, with the dominant presence of independent directors on their boards as well as in their key supervisory committees, including the Audit Committee of the Board (ACB), Risk Management Committee of the Board (RMCB) and Nomination and Remuneration Committee (NRC) (Chart IV.31).

IV.61 It is also necessary to limit the presence of management on the board and key supervisory

[18] In the Union Budget 2021-22, the government proposed to infuse ₹20,000 crore into PSBs.

Chart IV.31: Share of Independent Directors in PVBs
(At end-March 2021)



Note: The whiskers of the boxplots are indicative of maximum and minimum share of independent directors on the board. The coloured box shows distance between first quantile and third quantile. Horizontal line in each box shows the median while 'X' shows the mean. The points outside box represent outliers.
Source: RBI.

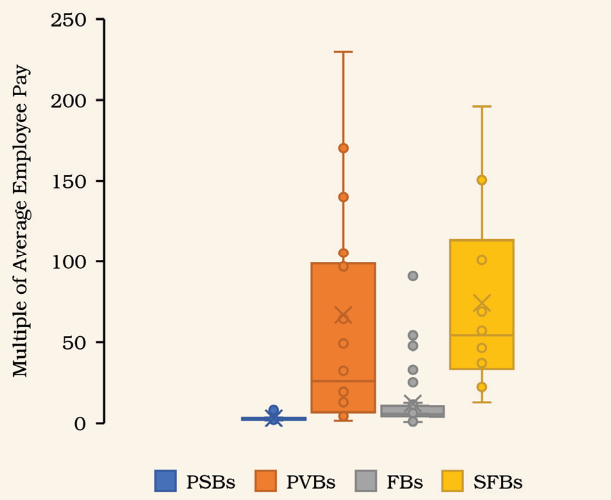
committees to ensure functional independence. Ensuring that the Chair of the board is not a member of these committees helps minimise role conflicts. The share of PVBs where the Chair is not a member of an ACB increased to 47 per cent at end-March 2021 from 35 per cent a year ago. However, the share remained unchanged at 29 per cent in the case of RMCBs[19].

8.2 *Executive Compensation*

IV.62 The compensation paid to a bank Chief Executive Officer (CEO) in comparison to a representative bank employee varies greatly across different bank groups. For PSBs, on an average, CEOs earn 3 times the typical employee[20], while the same was as high as 75 times in the case of SFBs and 67 times in the case of PVBs. The corresponding multiple was low for FBs as the remuneration received by employees is relatively high. The variation across bank groups remained consistent through 2018-19 and 2019-20 (Chart IV.32).

IV.63 Revised guidelines on compensation[21] require that the compensation of CEOs / Whole Time Directors (WTDs) / Material Risk Takers (MRTs) must be adjusted for all types of risk, their outcomes and time horizons. Moreover, the mix of cash, equity and other forms of payment must be consistent with risk alignment, wherein the variable pay component should be in the range of 50 to 75 per cent of the total pay, a minimum

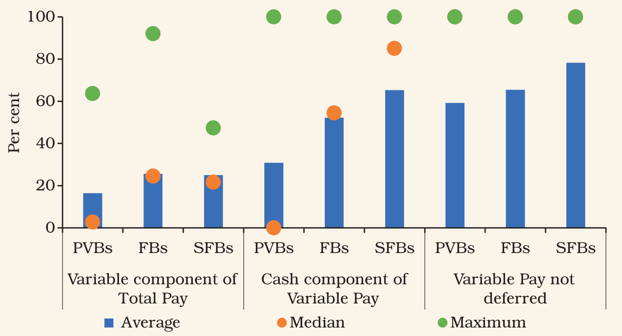
Chart IV.32: CEO Pay *vis-a-vis* Average Employee Pay
(At end-March 2020)



Source: RBI.

[19] The data presented here precedes the issuance of RBI Circular dated April 26, 2021 on Corporate Governance.
[20] Average employee pay has been calculated as a ratio of total staff costs to total employee strength.
[21] On November 4, 2019, the Reserve Bank revised its guidelines on compensation, aligning them to the Financial Stability Board norms. The new guidelines became effective from April 1, 2020.

Chart IV.33: Components of CEO Remuneration
(During 2019-20)



Note: Data in the chart precedes the applicability of the revised guidelines. Employee Stock Option Plans (ESOPs) are now a part of the variable pay under the revised compensation guidelines. It has also been clarified on August 30, 2021 that, in respect of the share-linked instruments including ESOPs granted after the accounting period ending March 31, 2021, the fair value of such instruments should be recognised as an expense, beginning with the accounting period for which the approval has been granted.
Source: RBI.

of 60 per cent of which should be under deferral arrangements. The cash component of variable pay is also capped between 33 to 50 per cent[22] under the revised guidelines (Chart IV.33).

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

IV.64 During 2020-21, the number of FBs operating in the country reduced as compared to a year ago[23], however, total branches of FBs increased due to amalgamation of Lakshmi Vilas Bank with DBS Bank, with effect from, November 27, 2020 (Table IV.19). On the other hand, PSBs have been reducing their overseas presence for the last three and a half years to achieve greater cost efficiency. PVBs also shut down their less profitable operations abroad during the year (Appendix Table IV.6).

Table IV.19: Operations of Foreign Banks in India

	Foreign banks operating through branches		Foreign banks having representative offices
	No. of Banks	Branches	
Mar-16	46	325	39
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

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 WOS mode
Source: RBI.

10. Payment Systems and Scheduled Commercial Banks

IV.65 The payment systems landscape in India is undergoing transformation due to rapid technological advancements and innovations, complemented by supportive regulatory policies. The Reserve Bank's Payment and Settlement Systems: Vision 2019-2021 envisaged payment systems that are not just safe and secure, but are also efficient, fast and affordable. In addition, there has been a greater thrust by the government for rapid adoption of digital payment services by all segments of the society.

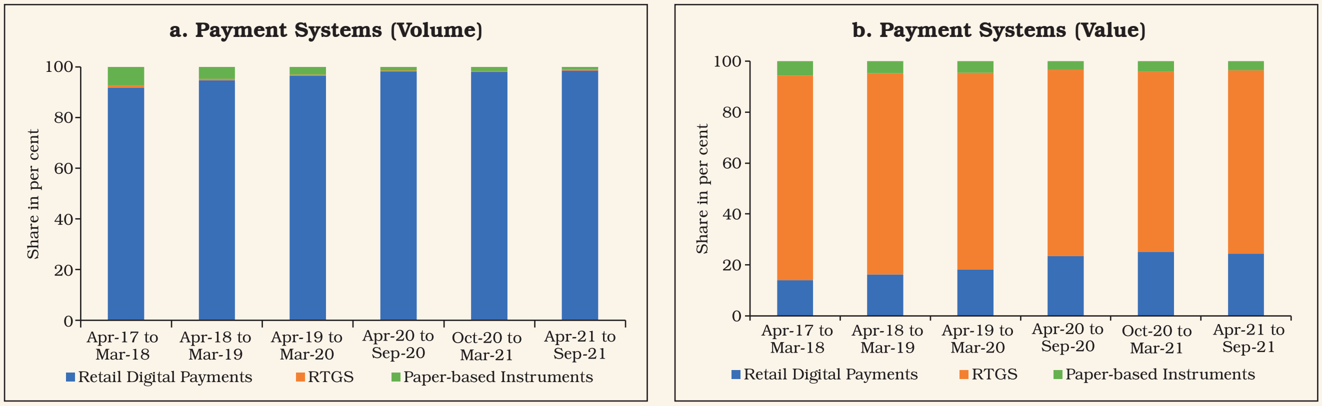
IV.66 Digital modes of payments have grown by leaps and bounds over the last few years. As a result, conventional paper-based instruments such as cheques and demand drafts now constitute a negligible share (Chart IV.34).

IV.67 The growth in volume of total payments decelerated to 26.7 per cent during 2020-21

[22] In case the variable pay is up to 200 per cent of the fixed pay, a minimum of 50 per cent of the variable pay and in case the variable pay is above 200 per cent, a minimum of 67 per cent of the variable pay should be *via* non-cash instruments.

[23] Westpac Banking Corporation was excluded from the Second Schedule to the Reserve Bank of India Act, 1934 vide notification DOR.IBD.No.99/23.13.138/2020-21 dated July 18, 2020.

Chart IV.34: Components of Payment Systems



Notes: 1. Digital modes of payments include RTGS and retail digital payments.
2. Retail digital payments include NEFT, IMPS, UPI, NACH, BHIM Aadhaar Pay, AePS fund transfer, NETC, card payments and prepaid payment instruments.

Source: RBI.

from 43.7 per cent a year ago. In terms of value, total payments contracted for the second consecutive year, mainly due to decline in value of transactions *via* RTGS and paper-based instruments (Table IV.20).

Table IV.20: Payment Systems Indicators

Item	Volume (Lakh)			Value (₹ Crore)		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
1. Large Value Credit Transfers – RTGS	1,366	1,507	1,592	13,56,88,187	13,11,56,475	10,55,99,849
2. Credit Transfers	1,18,481	2,06,297	3,17,868	2,60,90,471	2,85,56,593	3,35,04,226
2.1 AePS (Fund Transfers)	11	10	11	501	469	623
2.2 APBS	14,949	16,747	14,373	86,226	99,048	1,11,001
2.3 ECS Cr	54	18	-	13,235	5,146	-
2.4 IMPS	17,529	25,792	32,783	15,90,257	23,37,541	29,41,500
2.5 NACH Cr	8,834	11,100	16,465	7,29,673	10,37,079	12,16,535
2.6 NEFT	23,189	27,445	30,928	2,27,93,608	2,29,45,580	2,51,30,910
2.7 UPI	53,915	1,25,186	2,23,307	8,76,971	21,31,730	41,03,658
3. Debit Transfers and Direct Debits	4,914	6,027	10,457	5,24,556	6,05,939	8,65,520
3.1 BHIM Aadhaar Pay	68	91	161	815	1,303	2,580
3.2 ECS Dr	9	1	-	1,260	39	-
3.3 NACH Dr	4,830	5,842	9,646	5,22,461	6,04,397	8,62,027
3.4 NETC (linked to bank account)	6	93	650	20	200	913
4. Card Payments	61,769	72,384	57,787	11,96,888	14,34,813	12,91,799
4.1 Credit Cards	17,626	21,773	17,641	6,03,413	7,30,894	6,30,414
4.2 Debit Cards	44,143	50,611	40,146	5,93,475	7,03,920	6,61,385
5. Prepaid Payment Instruments	46,072	53,811	49,743	2,13,323	2,15,558	1,97,696
6. Paper-based Instruments	11,238	10,414	6,704	82,46,065	78,24,822	56,27,108
Total - Retail Payments (2+3+4+5+6)	**2,42,473**	**3,48,933**	**4,42,557**	**3,62,71,304**	**3,86,37,726**	**4,14,86,348**
Total Digital Payments (1+2+3+4+5)	**2,32,602**	**3,40,026**	**4,37,445**	**16,37,13,425**	**16,19,69,379**	**14,14,59,089**
Total Payments (1+2+3+4+5+6)	**2,43,839**	**3,50,440**	**4,44,149**	**17,19,59,490**	**16,97,94,201**	**14,70,86,197**

Notes: 1. RTGS system includes customer and inter-bank transactions only.
2. The figures for cards are for transactions at point of sale (POS) terminals only, which include online transactions.
3. Figures in the columns might not add up to the total due to rounding off of numbers.
4. -: nil

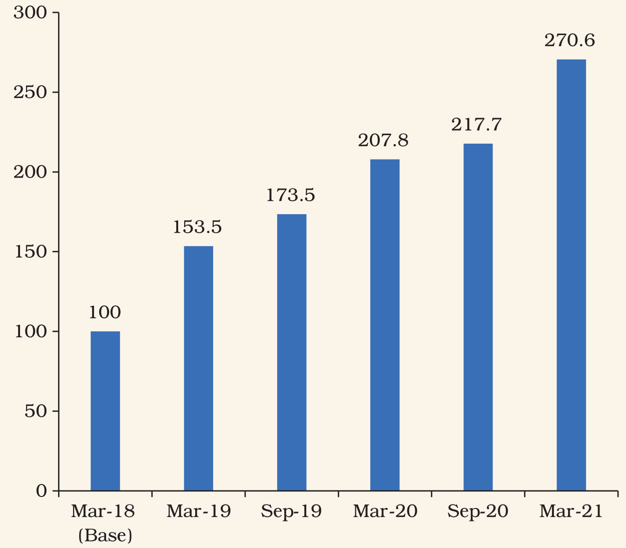
Source: RBI.

10.1 Digital Payments

IV.68 In recent years, the Reserve Bank has been encouraging wider adoption of digital modes of payments and strengthening of the required infrastructure. The pandemic provided a fillip to the faster adoption of retail digital payments. 24x7x365 availability of Centralised Payment Systems (CPS) *i.e.*, National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS), with effect from December 2019 and December 2020, respectively, reduced risks and enhanced efficiency of the entire payments ecosystem. Subsidies provided through the Payment Infrastructure Development Fund (PIDF), operationalised in January 2021, have helped to develop infrastructure in Tier-3 to Tier-6 centres and north-eastern states and are expected to give a boost, going forward. Granting non-bank Payment System Providers (PSPs)[24] direct access to the CPS will widen the reach of digital financial services to all segments of users.

IV.69 RTGS, which facilitates high value transactions on real time basis, dominates the digital payments space in value terms. On the other hand, Unified Payments Interface (UPI) from the retail segment has a majority share in transaction volume. The robust growth in transactions using innovative payment systems such as National Electronic Toll Collection (NETC), BHIM Aadhaar Pay and Aadhaar Enabled Payment System (AePS) points to greater acceptability of contactless payments during the year (Table IV.20). To measure the progress of digitisation and assess the deepening and penetration of digital payments, the Reserve Bank launched a composite Digital Payments Index (DPI) in January 2021, comprising five broad parameters (weights indicated in brackets) – (i) payment enablers (25 per cent); (ii) payment infrastructure – demand-side factors (10 per cent); (iii) payment infrastructure – supply-side factors (15 per cent); (iv) payment performance (45 per cent); and (v) consumer centricity (5 per cent). The index is computed semi-annually, with March 2018 as the base period (Chart IV.35).

Chart IV.35: RBI – Digital Payments Index



Source: RBI.

10.2 ATMs

IV.70 During 2020-21, the total number of automated teller machines (ATMs) (on-site and off-site) operated by SCBs increased for the second consecutive year after declining in 2018-19. The number of PSB ATMs, however, declined in their pursuit of greater cost efficiency by leveraging network externalities (Table IV.21, Appendix Table IV.7).

[24] These include Prepaid Payment Instrument (PPI) issuers, Card Networks and White Label Automated Teller Machine (ATM) operators.

Table IV.21: Number of ATMs
(At end-March)

Sr. No.	Bank Group	On-Site ATMs		Off-site ATMs		Total Number of ATMs	
		2020	2021	2020	2021	2020	2021
I	PSBs	80,691	78,007	57,855	59,106	1,38,546	1,37,113
II	PVBs	30,483	34,828	38,886	37,566	69,369	72,394
III	FBs	225	690	678	1,135	903	1,825
IV	SFBs*	1,870	2,079	56	52	1,926	2,131
V	PBs#	2	1	14	111	16	112
VI	WLAs	-	-	-	-	23,597	25,013
VII	All SCBs (I to V)	1,13,271	1,15,605	97,489	97,970	2,10,760	2,13,575
VIII	Total (VI+VII)	-	-	-	-	2,34,357	2,38,588

Notes: 1. *: 10 scheduled SFBs as at end-March 2020 and end-March 2021.
2. #: 1 scheduled PB (Paytm Payments Bank) as at end-March 2020 and end-March 2021.
Source: RBI.

IV.71 The densely populated urban and metropolitan areas accounted for a majority—56.3 per cent—share in total SCBs' ATMs at end March 2021. While ATMs of PSBs were more evenly distributed across geographies, those of other bank-groups were skewed towards urban and metropolitan areas. In contrast, a majority of white label ATMs (WLAs) (around 85 per cent) were concentrated in rural and semi-urban areas (Table IV.22).

Table IV.22: Geographical Distribution of ATMs – Bank-Group wise
(At end-March 2021)

Sr. No.	Bank Group	Rural	Semi - Urban	Urban	Metro-politan	Total
1	2	3	4	5	6	7
I	PSBs	28,255 (20.6)	39,349 (28.7)	39,725 (29.0)	29,784 (21.7)	1,37,113 (100.0)
II	PVBs	6,140 (8.5)	18,197 (25.1)	18,918 (26.1)	29,139 (40.3)	72,394 (100.0)
III	FBs	96 (5.3)	365 (20.0)	413 (22.6)	951 (52.1)	1,825 (100.0)
IV	SFBs*	241 (11.3)	665 (31.2)	651 (30.5)	574 (26.9)	2,131 (100.0)
V	PBs#	21 (18.8)	28 (25.0)	28 (25.0)	35 (31.3)	112 (100.0)
VI	All SCBs (I to V)	34,753 (16.3)	58,604 (27.4)	59,735 (28.0)	60,483 (28.3)	2,13,575 (100.0)
VII	All SCBs (y-o-y growth)	3.0	1.3	2.2	-0.4	1.3
VIII	**WLAs**	13,187 (52.7)	8,162 (32.6)	2,296 (9.2)	1,368 (5.5)	25,013 (100.0)
IX	**WLAs (y-o-y growth)**	14.3	3.8	-7.8	-19.8	6.0

Notes: 1. Figures in parentheses indicate percentage share of total ATMs under each bank group.
2.*: 10 scheduled SFBs as at end-March 2020 and end-March 2021.
3. #: 1scheduled PB (Paytm Payments Bank) as at end-March 2020 and end-March 2021.
Source: RBI.

11. Consumer Protection

IV.72 The Reserve Bank strives to ensure bank customer protection through an efficient and effective grievance redressal mechanism. With the advent of technology-based banking products and growing usage of these products by vulnerable sections of the society, financial literacy, consumer protection and awareness assume critical importance. The launch of the Reserve Bank - Integrated Ombudsman Scheme (RB-IOS) on November 12, 2021 aims at developing a hassle-free grievance redressal mechanism for customers of the entities regulated by the Reserve Bank. The Scheme, while doing away with the jurisdictions of each ombudsman office, covers customer complaints on all areas of 'deficiency in services' rendered by the REs and as defined in the Scheme, except those mentioned in the exclusion list.

Table IV.23: Nature of Complaints at BOs

Categories	2018-19	2019-20	2020-21
ATM/ Debit Cards	29,603	69,205	60,203
Mobile / Electronic Banking	12,051	39,627	44,385
Credit Cards	13,172	26,616	40,721
Failure to Meet Commitments	11,948	22,758	35,999
Non-observance of Fair Practice Code	39,188	40,124	33,898
Levy of Charges without Prior Notice	7,518	17,268	20,949
Loans and Advances	6,380	14,731	20,218
Non-adherence to BCSBI Codes	5,921	11,758	14,490
Deposit Accounts	8,520	10,188	8,580
Pension Payments	7,331	6,884	4,966
Remittances	3,277	4,130	3,394
DSAs and Recovery Agents	602	1,474	2,440
Para-Banking	1,127	1,134	1,236
Notes and Coins	799	551	332
Others	31,339	30,844	39,686
Out of Purview of BO Scheme	5,956	9,412	10,250
Total	**1,84,732**	**3,06,704**	**3,41,747**

Note: Data pertain to April to March.
Source: Various offices of Banking Ombudsman.

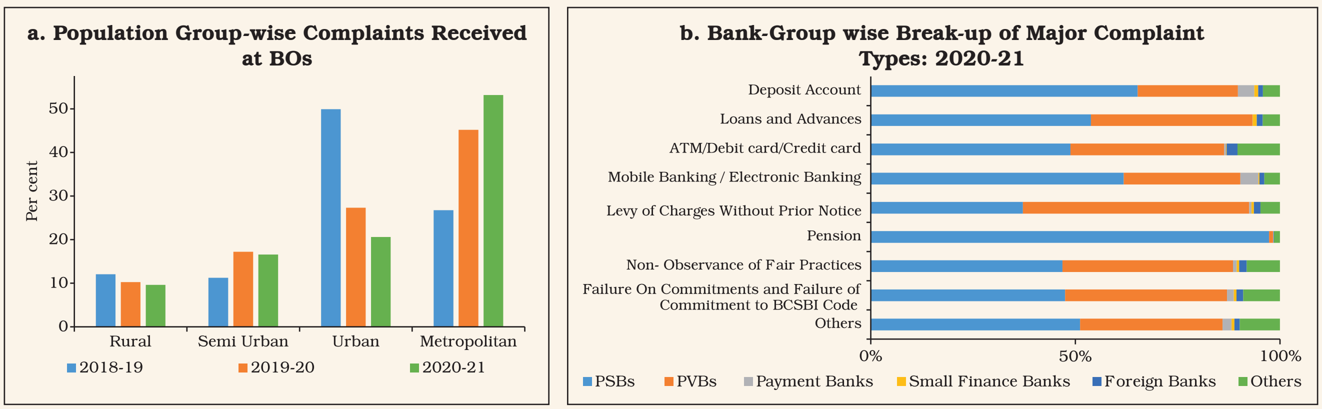
IV.73 During 2020-21, the number of complaints with Banking Ombudsman (BO) rose at a lower pace relative to the preceding year, with grievances pertaining to ATMs/debit cards, mobile/electronic banking and credit cards contributing 42.5 per cent of the total complaints (Table IV.23).

IV.74 The share of complaints emanating from urban and metropolitan areas accounted for more than 73 per cent of the total complaints received during 2020-21. Moreover, the share of complaints from metropolitan customers almost doubled in 2020-21 over 2018-19 levels, while the share of complaints from urban customers reduced significantly during the same period (Chart IV.36a).

IV.75 PSBs and PVBs accounted for more than three-fourth of the total complaints received during 2020-21. Almost all pension-related complaints were filed against PSBs, which are the traditional preference of pensioners. On the other hand, a large share of complaints (55 per cent) relating to levy of charges without prior notice were filed against PVBs (Chart IV.36b, Appendix Table IV.8).

IV.76 Deposit insurance plays a crucial role in protecting the interests of small depositors and thereby ensuring public confidence in the banking system. The Deposit Insurance and Credit Guarantee Corporation (DICGC) extends deposit insurance to all commercial banks including LABs, PBs, SFBs, RRBs and co-operative banks. By end-March 2021, 98.1 per cent depositors were insurance-protected under the ₹5 lakh cover, with the amount of deposits

Chart IV.36: Population Group-wise Distribution of Complaints and Major Complaint Types



Notes: 1. Data pertain to April to March.
2. Data on population group was not available for 120,671 complaints during 2020-21, *i.e.*, for 35% of complaints. Hence the available data has been extrapolated to all the complaints retaining the proportions from the available data.
Source: Various offices of Banking Ombudsman.

Table IV.24: Bank Group-wise Insured Deposits
(As at March 31, 2021)

(Amount in ₹ crore)

Bank Group	No. of Insured Banks	Total Assessable Deposits (AD)*	Total Insured Deposits (ID)*	ID as percentage of AD
1	2	3	4	5
Public Sector Banks	12	85,23,813	47,91,132	56.2
Private Sector Banks**	37	42,77,955	17,01,193	39.8
Foreign Banks	45	7,06,141	47,970	6.8
Regional Rural Banks	43	4,66,478	3,91,451	83.9
Co-operative Banks	1,919	9,92,491	6,88,790	69.4
Local Area Banks	2	892	714	80.1
Total	**2,058**	**1,49,67,770**	**76,21,251**	**50.9**

Notes: 1. *: Based on deposit base of September 2020 *i.e.*, six months prior to the reference date.
2. **: Data on private sector banks is inclusive of ten small finance banks and six payment banks.

Source: Deposit Insurance and Credit Guarantee Corporation.

covered by insurance close to 51 per cent of the total (Table IV.24).

IV.77 The size of the Deposit Insurance Fund (DIF), which is used for settlement of claims of depositors of banks taken into liquidation/ amalgamation stood at ₹1,29,904 crore as on March 31, 2021, yielding a reserve ratio of 1.70 per cent from 1.61 per cent a year ago[25]. Moreover, claims amounting to ₹993 crore were processed and sanctioned during 2020-21, out of which claims amounting to ₹564 crore were in respect of nine co-operative banks. The net outgo of funds towards settlement of claims was, however, lower on account of recovery of ₹569 crore during 2020-21.

12. Financial Inclusion

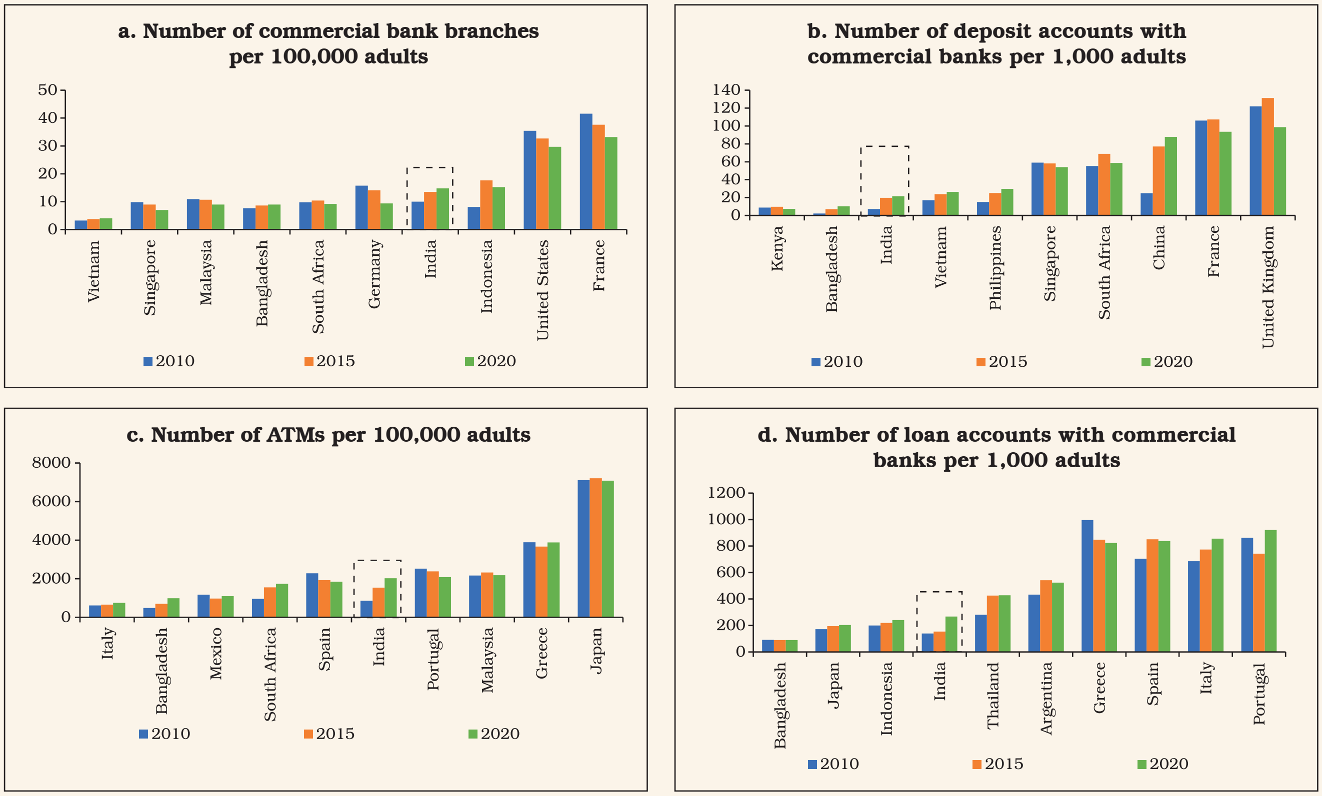
IV.78 Financial inclusion acts as a driver of balanced economic growth. The latest Financial Access Survey (FAS) of the International Monetary Fund (IMF)[26] highlights the progress made by India in dealing with the last mile problem of financial inclusion and increasing the popularity of financial products in the previous decade. The Pradhan Mantri Jan Dhan Yojana (PMJDY) and its linkage with Aadhar and mobile phones created the JAM trinity, which was a game changer not only for the welfare schemes under direct benefit transfers (DBTs) but also for financial inclusion. Over the last decade, India has taken long strides in expanding the number of commercial bank branches and deposit accounts, on a scale comparable with other emerging market economies (EMEs), although below levels achieved by advanced economies (AEs) (Chart IV.37a and b). With increase in banking outreach, the number of ATMs per 100,000 adults has also grown, however, penetration remained low in an international comparison (Chart IV.37c). The number of loan accounts with commercial banks per 1,000 adults has also remained lower than country peers (Chart IV.37d).

IV.79 The National Strategy for Financial Inclusion 2019-2024 (NSFI) and the National Strategy for Financial Education 2020-2025 (NSFE) was released by the Reserve Bank in January 2020 and August 2020, respectively, which provide a road map for accelerating the process of financial inclusion and promoting financial literacy and consumer protection. The Reserve Bank introduced the Financial Inclusion Index (FI Index) in August 2021 to monitor the progress of policy initiatives to promote financial inclusion (Box IV.4).

[25] Defined as deposit insurance fund as a per cent of insured deposits.

[26] Available at https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C

Chart IV.37: Progress in Financial Inclusion in Select Emerging and Advanced Economies



Source: Financial Access Survey, IMF.

IV.80 Two distinct pillars of financial inclusion progress in India are: (a) advancement in digital technology (FinTech); and (b) greater participation of women. Financial inclusion

Box IV.4: Financial Inclusion Index

The Financial Inclusion Index (FI Index) released by the Reserve Bank in August 2021 aggregates relevant indicators into a composite index to map the progress of financial inclusion in the country. The index captures the expansion of banking, investments, insurance, postal as well as the pension sector and is responsive to ease of access, availability, extent of usage and quality of services, inequality and deficiency in services, extent of financial literacy and consumer protection in the formal financial system.

Similar to the methodology used by the United Nations Development Programme (UNDP) for computation of the Human Development Index (HDI) and Human Poverty Index (HPI), the FI Index is based on three sub-indices (weights indicated in brackets) *viz.*, Access (35 per cent), Usage (45 per cent) and Quality (20 per cent) (Chart 1). Out of a total 97 indicators, 90 are primary indicators and the remaining 7 indicators are inequality measures which are computed as Gini coefficient based on Lorenz curve analysis. Indicators are adjusted for inflation by applying Consumer Price Index (CPI), wherever necessary. As selected indicators are measured in different units, they are normalised before aggregation based on the following formula:

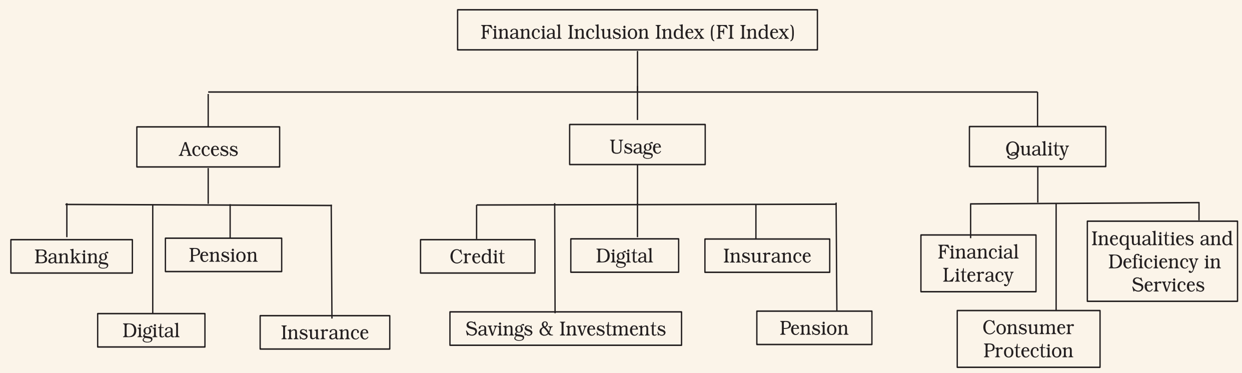
$$Normalised\ value\ (N_i) = \frac{Y_i - state\ when\ no\ financial\ services\ were\ available}{Desired\ goal\ based\ on\ policy\ thrust\ and\ resources\ (t_i)}$$

$$N_i = \frac{Y_i - 0}{t_i} = \frac{Y_i}{t_i}$$

where Y_i represent the ith indicator and t_i the desired goal of the ith indicator.

(Contd...)

Chart 1: FI – Sub-indices and Dimensions



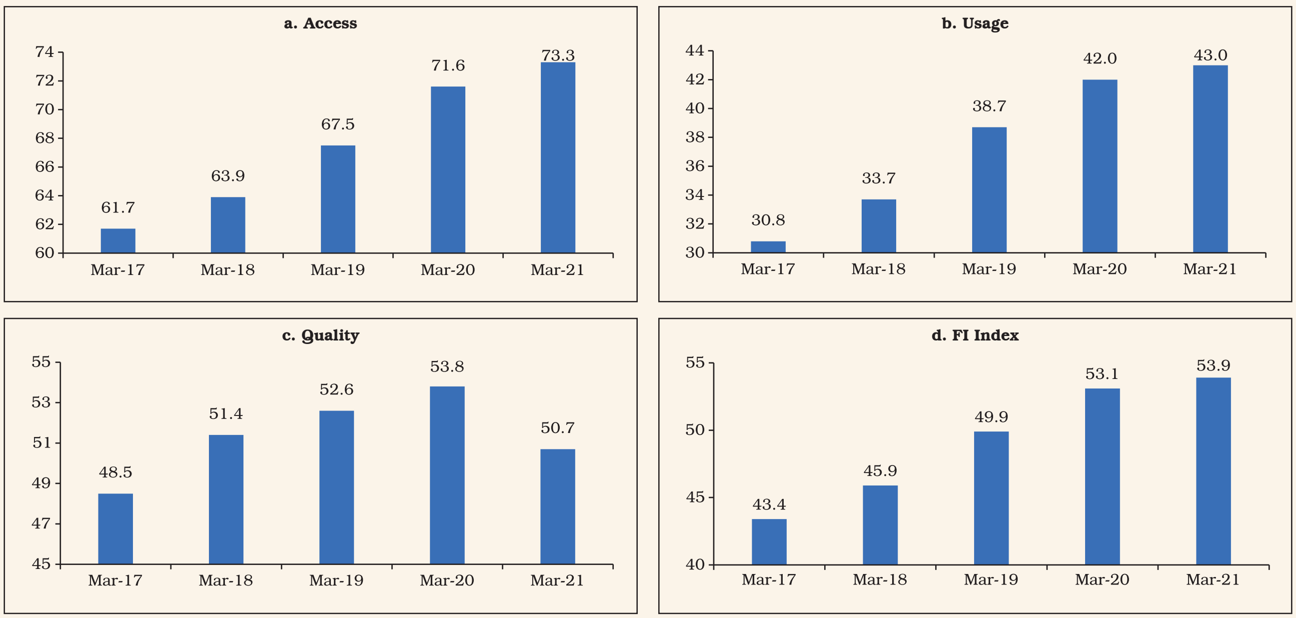
Source: RBI

Since the indicators are normalised with respect to complete absence of financial inclusion, there is no base year for the index (*i.e.*, the value of each constituent indicator depends on its own historical progress so far). Consequently, the lowest value of each normalised indicator is '0' and the highest value is '100'.

The normalised indicators are aggregated on the basis of exogenously determined weights to arrive at a single measure of financial inclusion for each dimension. The calculated dimensions are used to construct three sub-indices which in turn are aggregated to construct the composite FI Index.

Data on the index available so far suggest that FI-Access is markedly higher than FI-Usage and FI-Quality. While recognising the progress made in providing financial access, it also highlights the ground that need to be covered for improved usage and quality of financial services (Chart 2).

Chart 2: FI Index and Sub-indices

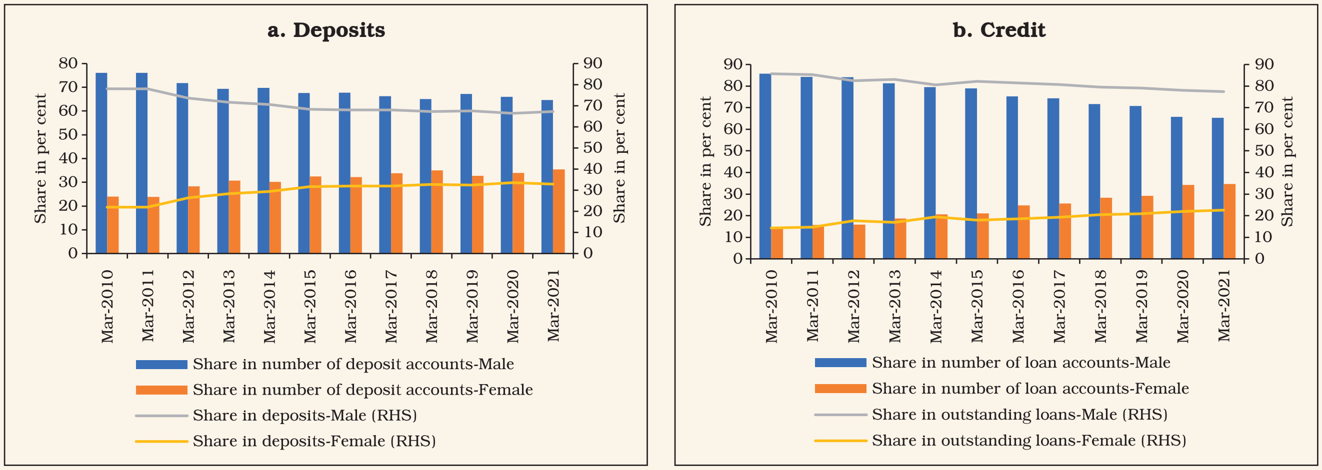


Note: Some of the data points for March-21 are provisional.
Source: RBI.

Reference

Sharma A.K., Sengupta S., Roy I., & Phukan S. (2021), RBI Bulletin, Vol. LXXV, No. 9, pp 89-95, September 2021. Available at *https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx*

Chart IV.38: Gender-wise Share in Credit and Deposits



Source: Basic statistical returns I and II (annual), RBI.

acts as a key facilitator for reducing gender inequality and helps engender women's economic empowerment. As of December 15, 2021, 24.54 crore bank accounts were opened for women beneficiaries under PMJDY, accounting for 55.6 per cent of the total account holders under the scheme. Over the last decade, the number of loan accounts and outstanding loans of female borrowers grew at a CAGR of 43.2 per cent and 22.7 per cent, as against 29.0 per cent and 16.4 per cent, respectively, for male borrowers. The number of deposit accounts and deposit balances of females also grew at a faster rate than that of males, indicating reduced gender disparity in the usage of formal financial services (Chart IV.38). Women-centric financial products and alternative delivery channels such as women business correspondents (BCs) and women self-help groups (SHGs), helped in this direction. Notwithstanding these developments, further progress needs to be made to achieve greater financial equality and inclusion of women.

12.1 Financial Inclusion Plans

IV.81 Financial Inclusion Plans (FIPs) were introduced by the Reserve Bank in 2010 with the objective of encouraging banks to adopt a planned and structured approach towards financial inclusion. FIP returns submitted by banks show that progress has been made in provisioning of banking services in the rural areas and with time, their usage have also increased. However, the growth of traditional brick and mortar banking branches has remained tepid, while banking services through BCs have gained greater prominence in the last few years. At end-March 2021, BC outlets constituted more than 95 per cent of the total banking outlets in villages, led by the rapid growth in the number of BCs in villages with population more than 2,000. On the usage front, Basic Savings Bank Deposit Accounts (BSBDA) and Information and Communication Technology (ICT) based transactions through BCs witnessed strong growth during 2020-21 (Table IV.25).

12.2 Pradhan Mantri Jan Dhan Yojana

IV.82 Since its inception in August 2014, PMJDY has been contributing towards financial inclusion of the unserved and underserved population of the country. Over the span of seven years, the number of total beneficiaries under PMJDY expanded to 44.12 crores, with

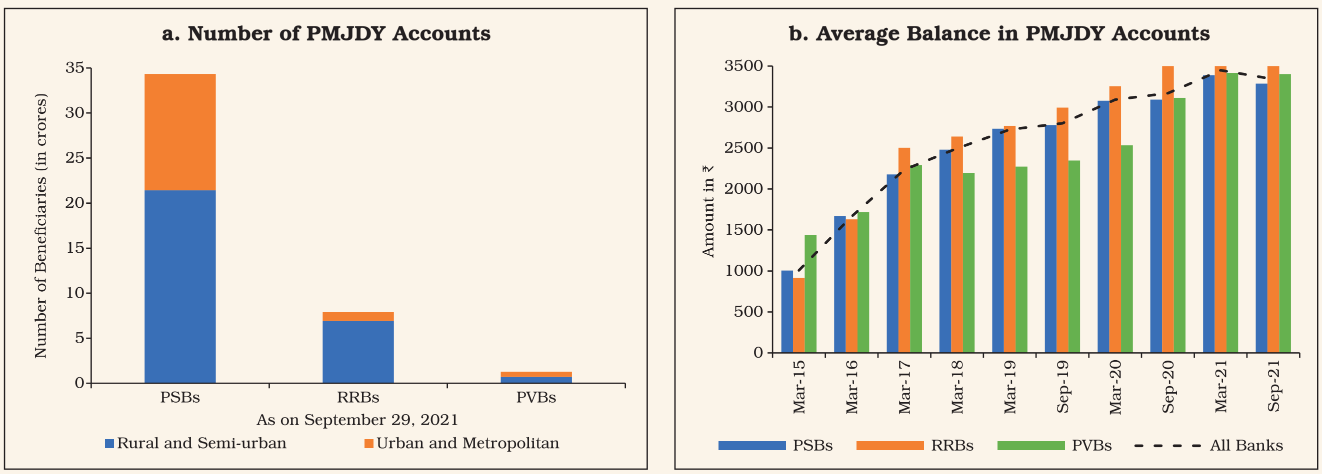
Table IV.25: Progress in Financial Inclusion Plan

Sr. No.	Particulars	End-March 2010	End-March 2015	End-March 2019	End-March 2020	End-March 2021*
1	**Banking Outlets in Villages- Branches**	**33,378**	**49,571**	**52,489**	**54,561**	**55,112**
2	Banking Outlets in Villages>2000-BCs	8,390	90,877	1,30,687	1,49,106	8,50,406^
3	Banking Outlets in Villages<2000-BCs	25,784	4,08,713	4,10,442	3,92,069	3,40,019
4	**Total Banking Outlets in Villages – BCs**	**34,174**	**4,99,590**	**5,41,129**	**5,41,175**	**11,90,425^**
5	Banking Outlets in Villages – Other Modes	142	4,552	3,537	3,481	2,542
6	**Banking Outlets in Villages –Total**	**67,694**	**5,53,713**	**5,97,155**	**5,99,217**	**12,48,079**
7	Urban Locations Covered Through BCs	447	96,847	4,47,170	6,35,046	4,26,745^
8	BSBDA - Through Branches (No. in Lakh)	600	2,103	2,547	2,616	2,659
9	BSBDA - Through Branches (Amt. in Crore)	4,400	36,498	87,765	95,831	1,18,392
10	BSBDA - Through BCs (No. in Lakh)	130	1,878	3,195	3,388	3,796
11	BSBDA - Through BCs (Amt. in Crore)	1,100	7,457	53,195	72,581	87,623
12	**BSBDA - Total (No. in Lakh)**	**735**	**3,981**	**5,742**	**6,004**	**6,455**
13	**BSBDA - Total (Amt. in Crore)**	**5,500**	**43,955**	**1,40,960**	**1,68,412**	**2,06,015**
14	OD Facility Availed in BSBDAs (No. in Lakh)	2	76	59	64	60
15	OD Facility Availed in BSBDAs (Amt. in Crore)	10	1,991	443	529	534
16	KCC - Total (No. in Lakh)	240	426	491	475	466
17	KCC - Total (Amt. in Crore)	1,24,000	4,38,229	6,68,044	6,39,069	6,72,624
18	GCC - Total (No. in Lakh)	10	92	120	202	202
19	GCC - Total (Amt. in Crore)	3,500	1,30,160	1,74,514	1,94,048	1,55,826
20	ICT-A/Cs-BC-Total Transactions (No. in Lakh) #	270	4,770	21,019	32,318	47,668
21	ICT-A/Cs-BC-Total Transactions (Amt. in Crore) #	700	85,980	5,91,347	8,70,643	11,48,237

Notes: 1. *: Provisional.
2. ^: Significant change in numbers is due to reclassification done by banks.
3. #: Transactions during the year.
Source: FIP returns submitted by banks.

deposits of ₹1.49 lakh crore deposits as on December 15, 2021[27]. The majority of these accounts are maintained with PSBs and RRBs (97 per cent), with nearly two-thirds of the total accounts operational in rural and semi-urban areas (Chart IV.39a). The usage of these accounts, however, moderated as evident from the marginal decline in average balances for September 2021 across all bank groups (Chart IV.39b). There has been a steady increase in the number of RuPay debit cards issued, driven by both PSBs and RRBs.

Chart IV.39: PMJDY Accounts: Distribution and Average Balance



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

[27] Available at https://pmjdy.gov.in/account

12.3 New Bank Branches by SCBs

IV.83 Opening of new bank branches moderated for the second consecutive year, with focus of banks shifting to leveraging the BC model and digitisation of banking operations, enabled by automation and data analytics. During 2020-21, new bank branches opened by SCBs declined by 29.2 per cent, on top of a contraction of 6.0 per cent in the previous year. The decline occurred across all population groups as well as bank groups, except for PSBs which increased their brick-and-mortar banking outreach by 15.8 per cent as compared to a year ago (Chart IV.40).

IV.84 Although fewer branches were opened across all tier centres, more than half of the new branches were opened in Tier 1 and Tier 2 centres in 2020-21 (Table IV.26).

12.4 Microfinance Programme

IV.85 Microfinance involves extension of small loans and other financial services to low-income individuals or groups who are otherwise deprived of access to formal financial services. Over the years, microfinance programmes have played a significant role in facilitating financial inclusion, particularly among the unbanked and underbanked segments of the population. The Self-Help Group – Bank Linkage Programme (SHG – BLP) promoted by the National Bank for Agriculture and Rural Development (NABARD) has emerged as the world's largest microfinance programme in terms of number of beneficiaries and micro-credit extended.

IV.86 At end-March 2021, while SHGs' savings with banks increased by 43.3 per cent, their loans outstanding with banks declined by 4.4 per cent in relation to end-March 2020 levels. Loans disbursed during 2020-21 declined by 25.2 per cent in comparison to a growth of 33.2 per cent a year ago. Micro-credit disbursements to

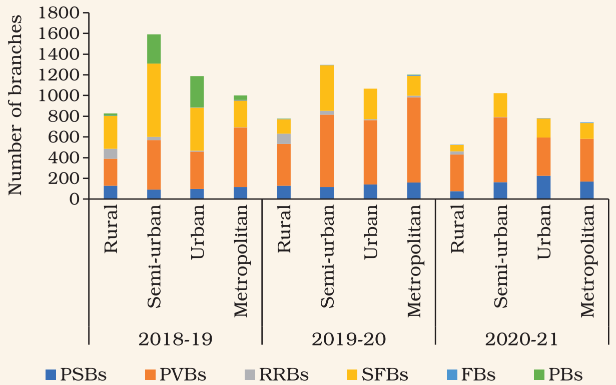
Table IV.26: Tier-wise Break-up of Newly Opened Bank Branches by SCBs

Centre	2017-18	2018-19	2019-20	2020-21
Tier 1	1694	2191	2266	1520
	(40.2)	(47.5)	(52.3)	(49.6)
Tier 2	359	520	371	280
	(8.5)	(11.3)	(8.6)	(9.1)
Tier 3	620	709	568	481
	(14.7)	(15.4)	(13.1)	(15.7)
Tier 4	374	361	354	262
	(8.9)	(7.8)	(8.2)	(8.5)
Tier 5	472	373	282	177
	(11.2)	(8.1)	(6.5)	(5.8)
Tier 6	693	454	492	346
	(16.5)	(9.9)	(11.4)	(11.3)
Total	**4212**	**4608**	**4333**	**3066**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**

Notes: 1. Tier-wise classification of centres is as follows: 'Tier 1' includes centres with population of 1, 00,000 and above, 'Tier 2' includes centres with population of 50,000 to 99,999, 'Tier 3' includes centres with population of 20,000 to 49,999, 'Tier 4' includes centres with population of 10,000 to 19,999, 'Tier 5' includes centres with population of 5,000 to 9,999, and 'Tier 6' includes centres with population of less than 5000.
2. Data exclude 'Administrative Offices'.
3. All population figures are as per census 2011.
4. Figures in the parentheses represent proportion of the branches opened in a particular area vis-à-vis the total.

Source: CISBI (erstwhile Master Office File system) database, RBI (position as on December 01, 2021). CISBI data are dynamic in nature and are updated based on information as received from banks and processed at our end.

Chart IV.40: Bank and Population Group-wise Newly Opened Bank Branches by SCBs



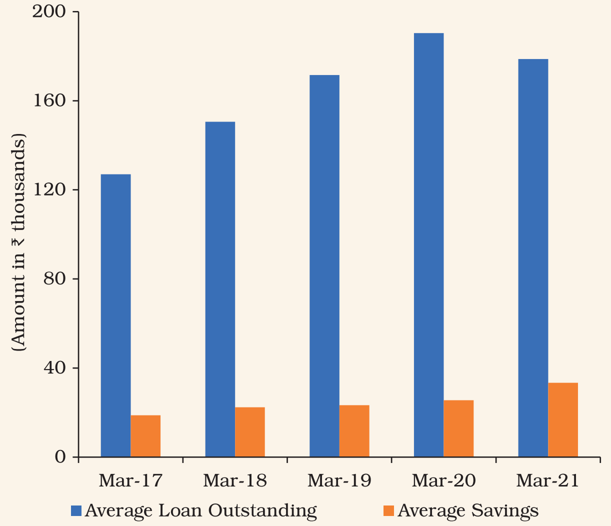
Notes: 1. Population-group wise classification of centres is as follows: 'Rural' includes centres with population of less than 9,999, 'Semi-Urban' includes centres with population of 10,000 to 99,999, 'Urban' includes centres with population of 1, 00,000 to 9, 99,999 and 'Metropolitan' includes centres with population of 10, 00,000 and above.
2. Data exclude 'Administrative Offices'.
3. All population figures are as per census 2011.

Source: Central Information System for Banking Infrastructure (CISBI) (erstwhile Master Office File system) database, RBI (position as on December 01, 2021). CISBI data are dynamic in nature and are updated based on information as received from banks and processed at our end.

Joint Liability Groups (JLGs) and microfinance institutions also contracted by 30 per cent and 37 per cent, respectively, attributable to subdued economic activity on account of nation-wide lockdowns due to the pandemic (Appendix Table IV.13).

IV.87 On an average, the amount of savings per SHG augmented by 30.8 per cent from ₹25,531 in 2019-20 to ₹33,392 in 2020-21, whereas the credit outstanding per SHG has decreased by 5.8 per cent from ₹1.90 lakh to ₹1.79 lakh during the same period (Chart IV.41). The NPA ratio of SHGs continued to improve, however, from 5.2 per cent in 2018-19 (4.9 per cent in 2019-20) to 4.7 per cent in 2020-21[28].

Chart IV.41: SHGs – Average Loan Outstanding and Average Savings



Source: NABARD.

12.5 Credit to Micro, Small and Medium Enterprises

IV.88 The number of MSME accounts decelerated for all SCBs during 2020-21, primarily driven by PVBs and FBs. The share of PSBs in total MSME credit outstanding has witnessed a secular decline since 2017-18, with corresponding increase in the share of PVBs. The average amount of credit disbursed by PVBs, however, was much lower than that by PSBs (Table IV.27).

12.6 Trade Receivables Discounting System

IV.89 The Trade Receivables Discounting System (TReDS) was launched by the Reserve

Table IV.27: Credit Flow to the MSME Sector by SCBs

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

Bank Groups	Items	2017-18	2018-19	2019-20	2020-21
PSBs	No. of accounts	111.01 (-0.86)	112.96 (1.76)	110.82 (-1.89)	150.77 (36.05)
	Amount Outstanding	8,64,597.79 (4.30)	8,80,032.90 (1.79)	8,93,314.83 (1.51)	9,08,659.06 (1.72)
PVBs	No. of accounts	148.33 (24.03)	205.30 (38.41)	270.62 (31.82)	266.81 (-1.41)
	Amount Outstanding	4,10,760.21 (-4.69)	5,63,678.47 (37.23)	6,46,988.27 (14.78)	7,92,041.95 (22.42)
FBs	No. of accounts	2.20 (6.28)	2.40 (9.09)	2.74 (14.17)	2.60 (-5.11)
	Amount Outstanding	48,881.34 (33.91)	66,939.13 (36.94)	73,279.06 (9.47)	83,223.79 (13.57)
All SCBs	No. of accounts	261.54 (11.95)	320.68 (22.61)	384.18 (19.80)	420.19 (9.37)
	Amount Outstanding	13,24,239.35 (2.15)	15,10,650.52 (14.08)	6,13,582.17 (6.81)	17,83,924.80 (10.56)

Note: Figures in the parentheses indicate y-o-y growth rates.
Source: Financial Inclusion and Development Department, RBI.

[28] NABARD Annual Report 2020-21

Bank in 2017 to facilitate financial inclusion of MSMEs. It is an electronic platform for financing/ discounting trade receivables of MSMEs due from large corporates, PSUs and government departments with banks/NBFCs through a competitive auction process. Over the last four years, there has been noteworthy growth in the financing of trade receivables of MSMEs through the TReDS platform. During 2020-21, the number of invoices uploaded and financed through the platform grew by more than 62 per cent, with the success rate[29] improving to 91.3 per cent from 90.2 per cent in the previous year (Table IV.28). Going forward, with the central government permitting non-factor NBFCs and other entities to offer factoring services, credit supply to MSMEs through the platform is expected to increase further. Onboarding of more public sector enterprises on the TReDS can make a material difference in making the scheme more effective.

Table IV.28: Progress in MSME Financing through TReDS

(Invoices in number, amount in ₹ crore)

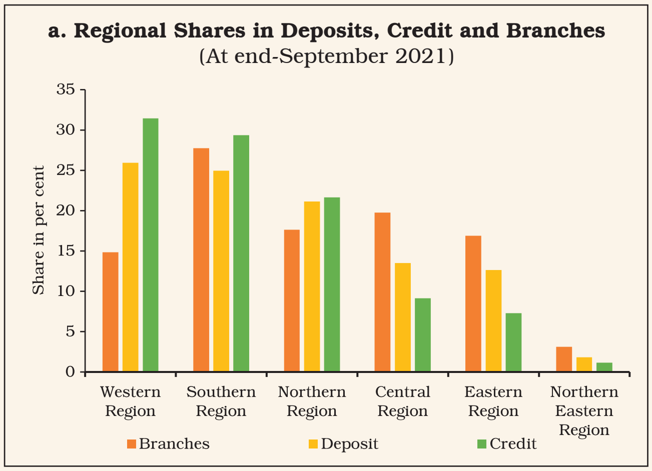
Financial Year	Invoices Uploaded		Invoices Financed	
	Invoices	Amount	Invoices	Amount
2017-18	22,704	1,094.82	19,890	814.54
2018-19	2,51,695	6,699.57	2,32,098	5,854.48
2019-20	5,30,077	13,088.27	4,77,969	11,165.86
2020-21	8,61,560	19,669.84	7,86,555	17,080.14

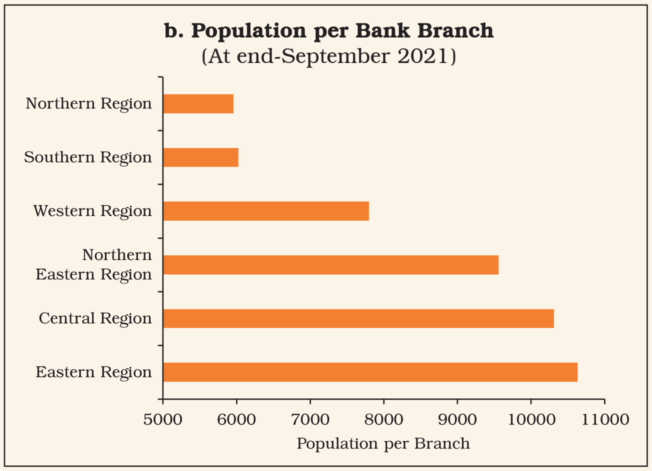
Source: RBI.

12.7 Regional Banking Penetration

IV.90 Notwithstanding concerted efforts to improve banking penetration across geographies, banking outreach at the sub-national level remains tilted towards western, southern and northern regions in terms of shares in credit, deposits and number of branches (Chart IV.42a). Accordingly, the average population served per bank branch remains significantly higher in eastern, central and north-eastern regions relative to other parts of the country (Chart IV.42b).

Chart IV.42: Regional Penetration of Banks





Source: RBI and Ministry of Statistics and Program Implementation (MoSPI).

[29] Defined as per cent of invoices uploaded that get financed.

13. Regional Rural Banks

IV.91 Combining the reach, familiarity and rural orientation of credit co-operatives and professionalism of commercial banks, regional rural banks (RRBs) attend to the basic banking and credit needs of small farmers, agricultural labourers, artisans and other rural poor. RRBs are jointly owned by the Government of India, the concerned State Government, and the sponsoring commercial bank. The ownership pattern espouses the spirit of co-operative federalism and aspires to achieve the goal of last mile financial inclusion.

IV.92 The number of RRBs reduced from 45 to 43 during 2020-21, due to amalgamation of 3 RRBs in Uttar Pradesh as a part of the third phase of their consolidation programme. Amalgamation drives in RRBs have helped boost their profitability and improved their asset quality while strengthening their capital base (Box IV.5).

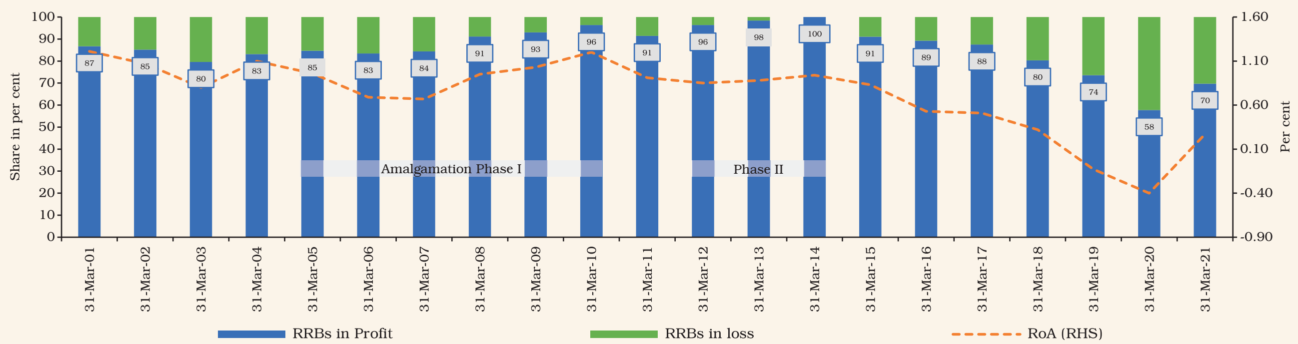
Box IV.5: Impact of Amalgamation of Regional Rural Banks

Since their inception in 1975, RRBs remained unprofitable for nearly two decades, constrained by limited operational flexibility, inadequate scope for expansion or diversification and small ticket but high-risk lending profiles. In 1994-95 the government initiated reforms which, coupled with capital infusion, helped them turn profitable. However, at end-March 2005, 42 per cent of the RRBs still carried legacy losses. In order to improve their operational viability and to take advantage of economies of scale, the government initiated a consolidation programme in 2005-06[30].

In the first phase (2005-2010), RRBs belonging to the same sponsor bank within a state were amalgamated; in the second phase (2012-2014), RRBs across sponsor banks within a state were amalgamated. The third phase of amalgamation was initiated in 2018-19 on the principle of 'One state - One RRB' in smaller states and reduction in the number of RRBs in larger states. As a result, the number of RRBs reduced from 196 in 2005 to 43 at end-March 2021, while the number of standalone RRBs that have never undergone any amalgamation since their inception came down to 9.

Impact on Profitability: The share of profitable and sustainably viable[31] RRBs improved continuously during the first two phases of amalgamation[32] (Chart 1). The quantum of accumulated losses as a percentage of total

Chart 1: Impact of Amalgamation on Profitability



Source: NABARD.

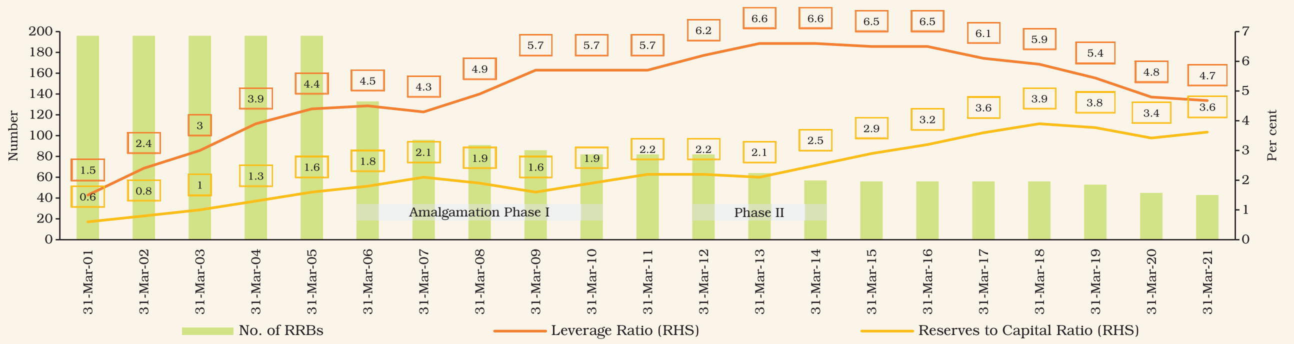
(Contd...)

[30] The amalgamation process was initiated based on the recommendations of the "Advisory Committee on Flow of Credit to Agriculture and Related Activities" (Dr.Vyas Committee, 2004) and the recommendations of the Internal Working Group on RRBs, headed by Shri A.V. Sardesai.

[31] RRBs that do not have accumulated losses and have posted net profit in the current year.

[32] The impact of the third phase of amalgamation on bank financials cannot be independently gauged since the pension scheme, implemented from April 2018, has also had a simultaneous impact.

Chart 2: Impact of Amalgamation on Capital and Leverage



Note: Leverage ratio of RRBs is calculated as a percentage of core capital (share capital+reserves-accumulated losses) to the total assets of the bank.

Source: NABARD.

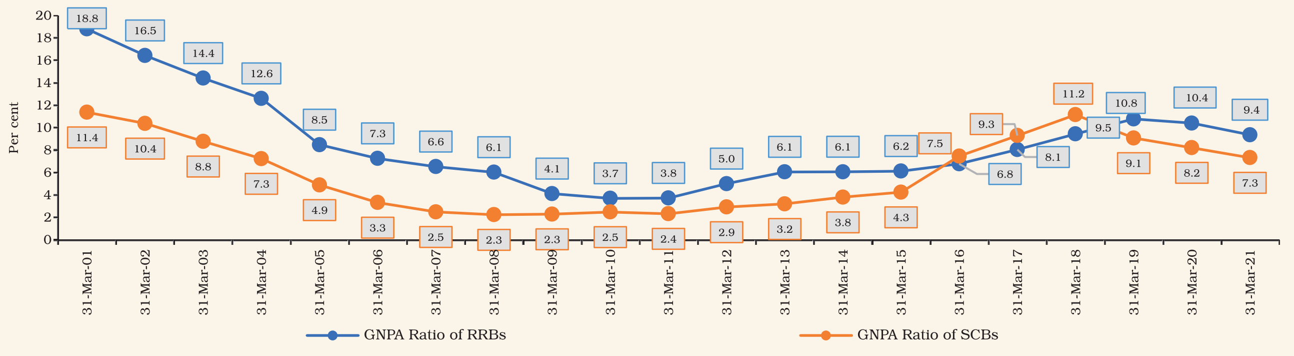
assets declined throughout the two phases. RoA increased steeply during the first phase but declined after 2009-10 due to withdrawal of income tax concessions given to them and greater recognition of asset quality.

Impact on Capital Position: Improved profitability of RRBs post amalgamation, coupled with capital infusion in weak banks, boosted their leverage ratio, as well as the reserves to capital ratio[33] (Chart 2). The percentage of RRBs requiring recapitalisation to achieve regulatory norm of 9 per cent CRAR decreased in the post amalgamation phases.

Impact on Asset Quality: RRBs have historically had higher GNPA ratio than SCBs. Since the beginning of the amalgamation process, the difference between the two has decreased, partly reflecting increased professionalism and efficiencies of scale amongst RRBs. Post the AQR, while the GNPAs of both SCBs and RRBs increased, the increase in the latter was less sharp than in the former. This asset quality deterioration of RRBs was due to more transparent recognition of NPAs that were concentrated in economically aspirational regions (Chart 3).

Impact on Business Parameters: The average growth rate in key business parameters *viz.*, credit and deposits peaked during the first phase of amalgamation. While the C-D ratio consistently improved even subsequently, growth in credit and deposits was less sanguine. After the second phase of amalgamation, the C-D ratio reached a trough in 2016-17 due to sharp increase in deposits post demonetisation (Chart 4).

Chart 3: Impact of Amalgamation on Asset Quality

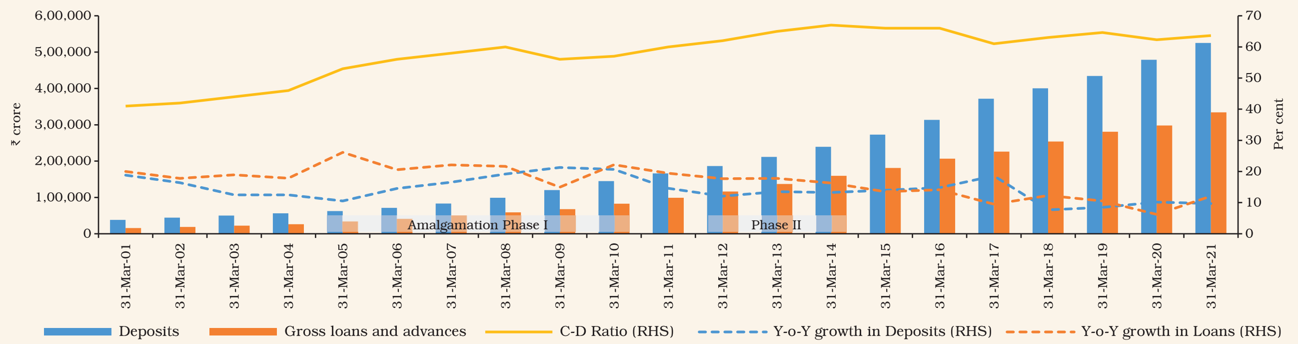


Source: NABARD and DBIE, RBI.

(Contd...)

[33] The concept of CRAR was introduced for RRBs only in 2007, and consequently, data on CRAR is not available for the period prior to amalgamation. Therefore, leverage ratio and reserves to capital ratio are used for assessing the impact of amalgamation on the capital position of RRBs.

Chart 4: Impact of Amalgamation on Business Parameters



Source: NABARD

An additional benefit of the amalgamation drive was a renewed focus on priority sector lending. The share of PSL in gross loans and advances increased from an average of 76 per cent during the pre-amalgamation phase to 88 per cent after the second phase of amalgamation. The third phase of the consolidation programme is expected to further improve profitability, capital positions and asset quality of RRBs.

13.1 Balance Sheet Analysis

IV.93 During 2020-21, ₹400 crores (of which Central Government's share was ₹200 crore) was sanctioned towards recapitalisation of 7 RRBs which had CRAR less than 9 per cent. A few RRBs also received state governments' share of recapitalisation sanctioned during the previous financial year. Catalysed by capital infusion and bolstered by growth in borrowings and deposits, the liabilities of RRBs grew robustly during 2020-21. Borrowings were mainly from NABARD, aided by the Special Liquidity Facility (SLF) and relaxations in eligibility criteria for availing refinance.

IV.94 The availability of funds helped RRBs sustain their credit growth at rates higher than SCBs, as also their own 5-year average growth rate of 10.5 per cent. As a result, the C-D ratio of RRBs improved to 63.6 per cent at end-March 2021 from 62.2 per cent at end-March 2020. During 2020-21, the prevalence of excess liquidity also prompted RRBs to park more funds with the Reserve Bank (Table IV.29).

IV.95 Priority sector lending with a focus on agriculture is the mainstay of RRBs' operations.

Table IV.29: Consolidated Balance Sheet of Regional Rural Banks

(Amount in ₹ Crore)

Sr. No.	Item	At end-March		Y-o-Y Growth in Percent	
		2020	2021P	2019-20	2020-21
1	2	3	4	5	6
1	Share Capital	7,849	8,393	16.5	6.9
2	Reserves	26,814	30,348	5.6	13.2
3	Deposits	4,78,737	5,25,226	10.2	9.7
	3.1 Current	10,750	11,499	-3.4	7.0
	3.2 Savings	2,44,414	2,71,516	9.1	11.1
	3.3 Term	2,23,573	2,42,211	12.2	8.3
4	Borrowings	54,393	67,864	1.6	24.8
	4.1 from NABARD	46,120	61,588	-1.6	33.5
	4.2 Sponsor Bank	4,519	3,444	20.6	-23.8
	4.3 Others	3,754	2,832	28.7	-24.6
5	Other Liabilities	20,227	19,754	13.2	-2.3
	Total liabilities/Assets	5,88,021	6,51,585	9.3	10.8
6	Cash in Hand	2,860	2,954	-1.8	3.3
7	Balances with RBI	16,744	18,947	-6.4	13.2
8	Balances in current account	7,613	5,987	39.2	-21.4
9	Investments	2,50,859	2,75,658	10.9	9.9
10	Loans and Advances (net)	2,80,220	3,15,181	7.0	12.5
11	Fixed Assets	1,235	1,229	-3.0	-0.5
12	Other Assets #	28,490	31,629	27.7	11.0
	12.1 Accumulated Losses	6,467	8,264	124.0	27.8

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

Source: NABARD

Table IV.30: Purpose-wise Outstanding Advances by RRBs
(At end-March)

(Amount in ₹ Crore)

Sr. No.	Purpose	2020	2021P
1	2	3	4
I	**Priority (i to v)**	**2,70,182**	**3,00,962**
	Per cent of total loans outstanding	90.6	90.1
	i Agriculture	2,08,762	2,33,145
	ii Micro small and medium enterprises	35,240	39,543
	iii Education	2,358	2,132
	vi Housing	19,814	21,127
	v Others	4,008	5,016
II	**Non-priority (i to vi)**	**28,032**	**33,209**
	Per cent of total loans outstanding	9.4	9.9
	i Agriculture	9	**29**
	ii Micro small and medium enterprises	495	434
	iii Education	**74**	**92**
	iv Housing	3,538	4,347
	v Personal Loans	7,069	8,311
	vi Others	16,847	19,996
Total (I+II)		**2,98,214**	**3,34,171**

Notes: 1. P: Provisional
2. Totals may not tally on account of rounding off of figures in ₹ crore.
Source: NABARD.

During 2020-21, agricultural lending constituted 70 per cent of total loans and advances of RRBs (Table IV.30). Even though their total asset size was only 3.3 per cent of that of SCBs, their loans to the sector were 16.8 per cent of the SCBs' advances. With all except 3 RRBs lending more than 75 per cent of the previous year's ANBC to the priority sector, they overachieved their target by 17 per cent in 2020-21 (Appendix Table IV.15).

13.2 Performance of RRBs

IV.96 During 2020-21, RRBs, as a whole, turned around from losses in the preceding two years and reported net profit despite a moderation in their interest income as their interest expenses contracted (Table IV.31). Moreover, RRBs effectively utilised their high priority sector lending portfolio (particularly agriculture) to augment their income through sale of PSLCs.

Table IV.31: Financial Performance of Regional Rural Banks

(Amount in ₹ Crore)

Sr. No.	Item	Amount		Y-o-Y Change in per cent	
		2019-20	2020-21P	2019-20	2020-21
1	2	3	4	5	6
A	**Income (i + ii)**	**49,452**	**53,858**	**15.0**	**8.9**
	i Interest income	43,698	46,803	12.2	7.1
	ii Other income	5,754	7,055	41.8	22.6
B	**Expenditure (i+ii+iii)**	**51,660**	**52,176**	**18.4**	**1.0**
	i Interest expended	25,985	25,588	9.6	-1.5
	ii Operating expenses	20,076	19,768	45.4	-1.5
	of which, Wage bill	14,654	15,101	56.2	3.0
	iii Provisions and contingencies	5,599	6,819	-8.5	21.8
	of which, Income Tax	931	1,279	12.3	37.5
C	**Profit**				
	i Operating profit	2,972	8,304	-45.6	179.5
	ii Net profit	-2,208	1,682	-	
D	**Total Average Assets**	**5,55,660**	**6,17,305**	**7.2**	**11.1**
E	**Financial ratios #**				
	i Operating profit	0.5	1.3		
	ii Net profit	-0.4	0.3		
	iii Income (a + b)	8.9	8.7		
	(a) Interest income	7.9	7.6		
	(b) Other income	1.0	1.1		
	iv Expenditure (a+b+c)	9.3	8.5		
	(a) Interest expended	4.7	4.1		
	(b) Operating expenses	3.6	3.2		
	of which, Wage bill	2.6	2.4		
	(c) Provisions and contingencies	1.0	1.1		
F	**Analytical Ratios (%)**				
	Gross NPA Ratio	10.4	9.4		
	CRAR	10.3	10.2		

Notes: 1. P- Provisional
2. # Financial ratios are percentages with respect to average total assets.
3. Totals may not tally and percentage variations could be slightly different on account of rounding off of figures in ₹ crore.
4. Provisions & Contingencies include Provision for Income Tax/ Income Tax paid.
Source: NABARD.

During 2020-21, the total volume of PSLCs traded by RRBs grew by 26 per cent and they accounted for 33 per cent of the total volume of PSLCs traded by all banks.

IV.97 During 2020-21, even as 30 of the 43 RRBs posted net profit (Appendix Table IV.14), 17 RRBs carried accumulated losses of ₹8,264 crore as at end-March 2021, and 16 of them had CRARs less than the regulatory minimum of 9 per cent.

IV.98 In the budget estimates for 2021-22, the Central Government allocated ₹1,200 crore for recapitalisation of RRBs, which is expected to further strengthen their capital buffers and help enhance their credit disbursement to the rural poor.

IV.99 According to the Fraud Vulnerability Index (VINFRA) that measures adherence to fraud management guidelines, out of the 42 RRBs (for which data are available for 2020-21), 41 RRBs were categorised as Grade A, indicating least vulnerability. However, being a self-assessment tool, the gradation does not completely preclude the vulnerability of a bank against fraud. On the other hand, the Vulnerability Index for Cyber Security Framework (VICS), which is also a self-assessment tool, during 2020-21, indicated 21 out of the 43 RRBs were categorised as Grade A, while 6 RRBs fell under Grade C, reflecting the need for strengthening their cyber security framework (CSF).

14. Local Area Banks

IV.100 Local Area Banks (LABs) were set up as private limited companies with the objective of enabling local institutions to mobilise rural savings and strengthen institutional credit mechanisms in local areas (up to three contiguous district towns). During 2020-21, the Reserve Bank cancelled the banking licence issued to Subhadra Local Area Bank Ltd., Kolhapur, Maharashtra and consequently, the number of LABs operational in the country reduced to two, accounting for a mere 0.006 per cent of the total assets of SCBs as at end-March 2021.

IV.101 The consolidated balance sheet of LABs expanded during 2020-21. However, the credit–deposit ratio remained unchanged at around 81 per cent (Table IV.32).

Table IV.32: Profile of Local Area Banks
(At end-March)

(Amount in ₹ crore)

	2019-20	2020-21
1. Assets	1026.0	1170.8
	(10.8)	(14.1)
2. Deposits	813.8	952.5
	(9.0)	(17.0)
3. Gross Advances	660.5	769.2
	(18.0)	(16.5)

Notes: Figures in parenthesis represent y-o-y growth in per cent.
Source: Off-site returns, global operations, RBI.

14.1 Financial Performance of LABs

IV.102 The profitability of LABs improved during 2020-21 as the contraction in operating expenses, especially the wage bill, outweighed that in non-interest income, which resulted in boosting profitability ratios (Table IV.33).

Table IV.33: Financial Performance of Local Area Banks
(At end-March)

	Amount (in ₹ crore)		Y-o-Y growth (in per cent)	
	2020	2021	2019-20	2020-21
1. Income (i+ii)	**135**	**148**	**14.9**	**9.5**
i. Interest income	107	123	10.6	14.8
ii. Other income	28	25	35.0	-10.4
2. Expenditure (i+ii+iii)	**121**	**122**	**13.9**	**0.2**
i. Interest expended	52	55	14.8	6.5
ii. Provisions and contingencies	13	20	53.8	47.1
iii. Operating expenses	56	47	6.7	-16.7
of which, wage bill	26	22	8.1	-15.9
3. Profit				
i. Operating profit/loss	27	46	37.3	69.7
ii. Net profit/loss	14	27	24.6	91.3
4. Net Interest Income	**55**	**68**	**6.9**	**22.7**
5. Total Assets	**1026**	**1171**	**10.8**	**14.1**
6. Financial Ratios @				
i. Operating Profit	2.7	3.9		
ii. Net Profit	1.4	2.3		
iii. Income	13.2	12.7		
iv. Interest Income	10.4	10.5		
v. Other Income	2.8	2.2		
vi. Expenditure	11.8	10.4		
vii. Interest Expended	5.0	4.7		
viii. Operating Expenses	5.5	4.0		
ix. Wage Bill	2.6	1.9		
x. Provisions and contingencies	1.3	1.7		
xi. Net Interest Income	5.4	5.8		

Notes: 1. Financial ratios for 2019-20 and 2020-21 are calculated based on the asset of current year only.
2. 'Wage Bill' is taken as payments to and provisions for employees.
3. @: Ratios as per cent of average assets of last two years.
Source: Off-site returns, global operations, RBI.

15. Small Finance Banks

IV.103 Small finance banks (SFBs), set up in 2016, provide a savings vehicle for underserved sections of the population and also meet credit needs of small borrowers, through high technology low-cost operations. These banks are expected to deploy 75 per cent of their ANBC in priority sectors, with at least 50 per cent below ₹25 lakh. As of November 2021, twelve SFBs were operational in the country, including recently licenced Shivalik Small Finance Bank Ltd. and Unity Small Finance Bank Ltd.

15.1 Balance Sheet of SFBs

IV.104 Since their inception, the consolidated balance sheet of SFBs has been growing at a pace higher than that of SCBs, mainly reflecting inorganic growth in their operations. During 2020-21, this was aided by higher deposits on the liabilities side. With SFBs offering lucrative interest rates on savings accounts, the share of CASA in their total deposits increased to 23.9 per cent in 2020-21, from 15.4 per cent in 2019-20. On the assets side, growth was supported by higher accretion to investments. Although loans and advances was the dominant constituent—with share of more than 66 per cent of total assets—their growth decelerated, reflecting the overall system wide anaemic credit growth (Table IV.34).

15.2 Priority Sector Lending of SFBs

IV.105 The share of SFBs' PSL in total lending declined for the fourth consecutive year during 2020-21, with the non-priority sector accounting for more than 28 per cent of total loans as at end-March 2021. Within the priority sector, micro, small and medium enterprises remained the main focus of SFBs' lending, although their share declined (Table IV.35).

Table IV.34: Consolidated Balance Sheet of Small Finance Bank
(At end-March)

(Amount in ₹ crore)

Sr. No.		2020	2021	Y-o-Y growth (in per cent) 2020-21
1	Share Capital	5,150.9	5,375.4	4.4
2	Reserves & Surplus	11,046.9	14,800.3	34.0
3	Tier II Bonds	3,795.4	2,468.0	-35.0
4	Deposits	82,487.8	1,09,472.5	32.7
	4.1 Current Demand Deposits	2,381.2	3,964.2	66.5
	4.2 Savings	10,283.5	22,198.3	115.9
	4.3 Term	69,823.0	83,310.0	19.3
5	Borrowings (Including Tier II Bonds)	30,004.2	27,828.2	-7.3
	5.1 Bank	3,783.8	1,366.4	-63.9
	5.2 Others	26,220.5	26,461.8	0.9
6	Other Liabilities & provisions	4,078.4	6,076.3	49.0
Total liabilities/Assets		**1,32,768.2**	**1,63,552.5**	**23.2**
7	Cash in Hand	975.9	1,052.2	7.8
8	Balances with RBI	4,082.4	5,869.2	43.8
9	Other Bank Balances/ Balances with Financial Institutions	8,700.9	12,309.1	41.5
10	Investments	24,203.1	30,659.8	26.7
11	Loans and Advances	90,576.1	1,08,612.6	19.9
12	Fixed Assets	1,649.3	1,676.3	1.6
13	Other Assets	2,580.4	3,373.2	30.7

Note: Data pertain to ten SFBs operational as at end March 2021.
Source: Off-site returns (domestic operations), RBI.

15.3 Financial Performance of SFBs

IV.106 Despite the significant acceleration in operating profits during 2020-21, net profits of

Table IV.35: Purpose-wise Outstanding Advances by Small Finance Banks
(Share in total advances)

Purpose	31-Mar-20	31-Mar-21
I Priority (i to v)	**76.0**	**71.8**
Per cent to total loans outstanding		
i. Agriculture and allied activities	22.1	21.8
ii. Micro small and medium enterprises	34.4	25.9
iii. Education	0.1	0.1
iv. Housing	3.8	4.3
v. Others	15.7	19.7
II Non-priority (i to vi)	**24.0**	**28.2**
Total (I+II)	**100.0**	**100.0**

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

Table IV.36: Financial Performance of Small Finance Banks
(At end-March)

(Amount in ₹ crore)

Sr. No.	Item	2020	2021	Y-o-Y growth (in per cent) 2020-21
1	2	3	4	5
A	**Income (i + ii)**	**19,219.1**	**22,499.9**	**17.1**
	i Interest Income	16,947.9	19,523.4	15.2
	ii Other Income	2,271.2	2,976.4	31.1
B	**Expenditure (i+ii+iii)**	**17,251.1**	**20,462.2**	**18.6**
	i Interest Expended	7,927.7	9,122.2	15.1
	ii Operating Expenses	7,152.0	7,549.0	5.6
	of which, Staff Expenses	3,811.2	4,301.8	12.9
	iii Provisions and contingencies	2,171.5	3,791.0	74.6
C	**Profit (Before Tax)**	**2,678.6**	**2,580.9**	**-3.6**
	i Operating Profit (EBPT)	4,141.4	5,828.7	40.7
	ii Net Profit (PAT)	1,969.9	2,037.7	3.4
D	**Total Assets**	**1,32,768.2**	**1,63,552.5**	**23.2**
E	**Financial Ratios #**			
	i Operating Profit	3.1	3.6	
	ii Net Profit	1.5	1.2	
	iii Income (a + b)	14.5	13.8	
	a. Interest Income	12.8	11.9	
	b. Other Income	1.7	1.8	
	iv Expenditure (a+b+c)	13.0	12.5	
	a. Interest Expended	6.0	5.6	
	b. Operating Expenses	5.4	4.6	
	of which Staff Expenses	2.9	2.6	
	c. Provisions and contingencies	1.6	2.3	
F	**Analytical Ratios (%)**			
	Gross NPA Ratio	1.9	5.4	
	CRAR	20.2	22.1	
	Core CRAR	17.2	20.1	

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

SFBs grew moderately on higher provisioning for bad and restructured loans. The GNPA ratio nearly tripled, reflecting the impact of COVID-19 on asset quality. There was improvement in capital positions (CRARs) on the back of high-quality Tier-1 capital (Table IV.36).

16. Payments Banks

IV.107 Payments banks (PBs) were set up as differentiated banks that harness technology to further financial inclusion by providing low-cost banking solutions to small businesses, low-income households and other entities in the unorganised sector. By end-March 2021, six PBs were operational in the country. Unlike commercial banks, PBs are not permitted to undertake lending activities, with restrictions on deposit balances per customer. The Reserve Bank's April 2021 move to enhance the limit of the maximum deposit balance per customer from ₹1 lakh to ₹2 lakh is expected to grant banks more flexibility in their operations.

16.1 Balance Sheet of PBs

IV.108 In contrast to the flat growth in the SCBs' balance sheet, that of PBs expanded by 48.9 per cent in 2020-21, on top of a growth of 17.5 per cent in 2019-20. The acceleration was led by deposits growth on the liabilities side and investments on the assets side (Table IV.37). The share of deposits in total liabilities

Table IV.37: Consolidated Balance Sheet of Payments Banks

(Amount in ₹ crore)

Sr. No.	Item	March-19	March-20	March-21
1.	Total Capital and Reserves	1,899	1,868	1,792
2.	Deposits	882	2,306	4,622
3.	Other Liabilities and Provisions	4,392	4,254	6,133
	Total Liabilities/Assets	**7,172**	**8,429**	**12,547**
1.	Cash and Balances with RBI	712	785	1,255
2.	Balances with Banks and Money Market	1,375	2,101	2,413
3.	Investments	3,136	4,077	7,102
4.	Fixed Assets	638	351	355
5.	Other Assets	1,311	1,115	1,421

Note: Data for end-March 2019, end-March 2020 and end-March 2021 pertain to seven, six and six PBs, respectively. Hence, the data are not comparable across years.
Source: Off-site returns (domestic operations), RBI.

increased to 36.8 per cent from 27.4 per cent a year ago and the recent enhancement in deposit balance limit is expected to further expand their deposit base.

16.2 Financial Performance of PBs

IV.109 PBs are still in a nascent stage of development, incurring extensive investment costs for developing basic infrastructure. Moreover, their customer base is yet to develop fully, making break-even challenging. As a result, since inception, they have been suffering losses. The same trend held in 2020-21, despite improvement in their non-interest income (Table IV.38).

IV.110 During 2020-21, efficiency of PBs measured in terms of cost-to-income ratio improved while their NIM declined. Their other performance metrics such as profit margin, RoA, and operating profit to working funds ratio remained negative, although the extent of losses reduced (Table IV.39).

Table IV.38: Financial Performance of Payments Banks

(Amount in ₹ crore)

Sr. No.	Item	March-19	March-20	March-21
A	**Income (i + ii)**			
	i. Interest Income	291	348	360
	ii. Non-Interest Income	2,099	3,115	3,562
B	**Expenditure**			
	i. Interest Expenses	35	62	100
	ii. Operating Expenses	3,265	4,324	4,584
	Provisions and Contingencies	26	-96	36
	of which,			
	Risk Provisions	2	3	9
	Tax Provisions	16	-100	22
C	**Net Interest Income**	255	286	260
D	**Profit**			
	i. Operating Profit (EBPT)	-911	-923	-762
	ii. Net Profit	-937	-827	-798

Note: Data for end-March 2019, end-March 2020 and end-March 2021 pertain to seven, six and six PBs, respectively. Hence, the data are not comparable across years.
Source: Off-site returns (domestic operations), RBI.

Table IV.39: Select Financial Ratios of Payments Banks

Sr. No.	Item	March-19	March-20	March-21
1	Return on Assets	-13.1	-9.8	-6.4
2	Return on Equity	-49.4	-44.3	-44.5
3	Investments to Total Assets	43.7	48.4	56.6
4	Net Interest Margin	6.1	4.8	2.8
5	Efficiency (Cost-Income Ratio)	136.6	124.8	116.9
6	Operating profit to working funds	-12.7	-10.9	-6.1
7	Profit Margin	-39.2	-23.9	-20.3

Note: : Data for end-March 2019, end-March 2020 and end-March 2021 pertain to seven, six and six PBs, respectively. Hence, the data are not comparable across years.
Source: Off-site returns (domestic operations), RBI.

16.3 Inward and Outward Remittances of PBs

IV.111 Total inward and outward remittances through PBs declined by more than 20 per cent in 2020-21, in terms of both volume and value. Given the predominance of small-value large-volume transactions in their operations, UPI had the largest share in total remittance business for the third consecutive year, followed by IMPS and E-wallets (Table IV.40).

17. Overall Assessment

IV.112 Notwithstanding a sharp downturn in global as well as domestic macroeconomic conditions, the banking sector in India remained resilient, with strong profitability indicators, and improved asset quality. Various regulatory measures initiated by the Reserve Bank in response to the pandemic played a crucial role in protecting banks' balance sheets, providing necessary liquidity support and stabilising the financial sector. Additionally, the establishment of the National Asset Reconstruction Company

Table IV.40: Remittances through Payments Banks

(Number in thousand, amount in ₹ crore)

Channel	2019-20				2020-21			
	Inward Remittances		Outward Remittances		Inward Remittances		Outward Remittances	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1. NEFT	898	19,398	1,408	43,593	1,389	26,295	826	60,649
	(0.4)	(5.3)	(0.6)	(10.1)	(0.9)	(9.8)	(0.5)	(19.8)
i) Bill Payments	63	6,103	421	8,151	9	17	23	28
	(0.0)	(1.7)	(0.2)	(1.9)	(0.0)	(0.0)	(0.0)	(0.0)
ii) Other than Bill Payments	835	13,295	987	35,442	1,380	26,278	803	60,621
	(0.4)	(3.6)	(0.4)	(8.2)	(0.8)	(9.8)	(0.5)	(19.8)
2. RTGS	20	81,411	7	56,794	19	56,460	2	35,107
	(0.0)	(22.2)	(0.0)	(13.2)	(0.0)	(21.0)	(0.0)	(11.4)
3. IMPS	14,069	34,309	34,522	1,05,366	13,627	37,466	18,988	65,866
	(6.8)	(9.3)	(15.0)	(24.5)	(8.3)	(14.0)	(11.1)	(21.5)
4. UPI	1,44,227	1,70,998	1,45,370	1,60,976	1,17,270	1,13,289	1,20,069	1,03,908
	(69.4)	(46.6)	(63.2)	(37.4)	(71.8)	(42.2)	(70.3)	(33.9)
5. E - Wallets	33,960	23,427	40,316	41,274	23,162	20,406	30,150	38,317
	(16.3)	(6.4)	(17.5)	(9.6)	(14.2)	(7.6)	(17.7)	(12.5)
6. Micro ATM (POS)	4,736	16,746	69	229	3	20	14	45
	(2.3)	(4.6)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
7. ATM	-	-	375	1,169	-	-	1	3
	-	-	(0.2)	(0.3)	-	-	(0.0)	(0.0)
8. Others	10,045	20,740	7,840	21,515	7,821	14,384	719	2,866
	(4.8)	(5.7)	(3.4)	(5.0)	(4.8)	(5.4)	(0.4)	(0.9)
Total	**2,07,955**	**3,67,030**	**2,29,908**	**4,30,916**	**1,63,292**	**2,68,321**	**1,70,768**	**3,06,761**

Notes: 1. Figures in the parentheses are percentage to total; -: Nil/Negligible.
2. Data for end-March 2020 and end-March 2021 pertain to six PBs each.

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

Limited (NARCL) by the Government of India is expected to aid the recovery process, while alleviating stress on banks' balance sheets.

IV.113 Although credit offtake by banks remained subdued in an environment of risk aversion and muted demand conditions during 2020-21, a pick up has started in Q2:2021-22, with the economy emerging out of the shadows of the second wave of COVID-19. Going forward, revival in bank balance sheets hinges around overall economic growth which is contingent on progress on the pandemic front. However, banks would need to further bolster their capital positions to absorb potential slippages as well as to sustain the credit flow, especially when monetary and fiscal measures unwind. Although most of the regulatory relaxation measures have run their course, full extent of their impact on banking is yet to unravel.

IV.114 Banks would need to strengthen their corporate governance practices and risk management strategies to build resilience in an increasingly dynamic and uncertain economic environment. With rapid technological advancements in the digital payments landscape and emergence of new entrants across the FinTech ecosystem, banks have to prioritise upgrading their IT infrastructure and improving customer services, together with strengthening their cybersecurity.