

## CHAPTER VI

### **FINANCIAL VIABILITY AND PROFITABILITY PROBLEMS OF RRBs IN WEST BENGAL**

#### **6.1 Introduction**

Any credit institution can not afford to incur losses continuously if it is to survive for long. It has to become viable sooner or later, i.e., it cannot be denied that a credit institution has necessarily to be viable, particularly a credit institution designed to serve the weaker sections in the rural areas. This is an essential aspect of any long term arrangement to institutionalize credit.

No commercial activity and organization afford to be weak itself, it has to break even and become viable in the long run. But the question is whether the concept of viability of RRBs could be the same as the concept of viability of a commercial or a business unit. A business unit has all the freedom to take decisions on many matters – opening branches, deploying its resources, staff recruitment, its purchases, methods of rendering services, etc.. But RRBs are not given freedom in many of their affairs; even its clientele is specific, scattered, remote and not assisted by anyone.

The setting up of RRBs is like setting up primary schools, primary health centres and civil hospitals and the expenditure incurred on RRBs should be regarded as an investment in weaker sections – an important component of human resource. Thus, viability of RRBs needs to be assessed in terms of increasing socio-economic gains for their clientele.

The Dantwala Committee observed in 1977 that a RRB has the potential and capability to become a profit making institution at a level of business of about Rs. 3 crores (with 50 branches) which could be reached in about 3-4 years. This observation, of course, was based on a study of RRBs which had hardly completed one year of functioning. A subsequent study of the Rural Planning and Credit Cell of the Reserve Bank about RRBs which completed 3 years or more, indicated that RRB should attain an outstanding loan business of Rs. 8 crores within five-six years of its inception to become viable (RBI Bulletin, 1981). But, other things remaining the same, after passing of 7 years that might not be possible in the case of RRBs which had a large number of infant branches. For instance, between 1980 and 1987

while the number of RRBs increased a little more than two folds (from 85 to 196), the number of branches of RRBs increased more than four folds (from 3279 to 13353) (Appendix-III). From the age structure of RRBs and their branches it does not seem realistic to assess their progress towards viability on the basis of experience of Commercial Bank-branches. In past, most of the RRBs were in losses in the state as well as country. A number of factors contributed to the mounting losses and thus led to a decline in profits. Defective loaning policies, lack of systematic loan appraisal, insufficient supervision and follow up for end use of credit, low level of margin, high operational costs, restricted area of operation, poor recovery, mounting overdues (i.e., high level of NPA), the uncertainty of the existence and the managerial inefficiency are the major reasons behind the poor financial performance of these banks. But at the end of last century many RRBs had been able to uplift their viability on the basis of prudential norms with application of income recognition norms and provisioning norms which were introduced by RBI.

## **6.2 Methodology**

In this chapter we would like to evaluate the profitability performance of the RRBs by examining the pattern and trend of income and expenditure of RRBs. To do this, we have developed a framework which is based on the framework developed by Hosamani, (Hosamani, 2002) and Sonara (Sonara, 1998) in their studies on profitability performance of the RRBs. In our framework of study 12 indicators have been used to assess and identify the various related factors of financial performance.

These indicators or ratios of our framework could be used to assess the financial status and overall efficiency of a bank. These ratios were derived by relating various components of profit and loss account statement to a common denominator – volume of business and also were used to compare the returns over the investments.

In our framework we have defined volume of business as the total of deposits and outstanding advances. These indicators are scientifically sound and practically useful and are explained as follows :

**(1) Interest -Income Ratio**

$$(r) = \frac{\text{Total Interest Income}}{\text{Volume of Business}} \times 100$$

The ratio indicates the percentage of interest income on total volume of business. An increasing trend of this ratio over the years shows the overall efficiency of the bank.

**(2) Interest Paid Ratio**

$$(k) = \frac{\text{Total Interest paid}}{\text{Volume of Business}} \times 100$$

This ratio shows the percentage of interest expenditure on volume of business. An increase in the ratio indicates a decline in the efficiency of the bank.

**(3) Man power Expenses Ratio**

$$(m) = \frac{\text{Total Manpower Expenses}}{\text{Volume of Business}} \times 100$$

This ratio is used to check the percentage of manpower expenses on total volume of business. An increasing trend of this ratio over the years indicates, also, a decline in the efficiency of the bank.

**(4) Non-interest Income Ratio**

$$(c) = \frac{\text{Total non-interest Income}}{\text{Volume of Business}} \times 100$$

This ratio is used to assess the percentage of non-interest income and total volume of business. The higher percentage of non-interest income on total volume of business represents the better off condition of the bank.

**(5) Other Expenses Ratio**

$$(o) = \frac{\text{Other Establishment Expenses}}{\text{Volume of Business}} \times 100$$

This ratio is used to find out the percentage of other establishment expenses to total volume of business. The rising trend of this ratio shows the non-satisfactory condition of the bank.

**(6) Non-interest Expenditure Ratio**

$$(n) = \frac{\text{Total non-interest expenditure}}{\text{Volume of Business}} \times 100$$

To assess the percentage of non-interest expenditure to total volume of business we can use this ratio. The higher percentage of non-interest expenditure to total volume of business indicates a decline in the efficiency of the bank.

**(7) Spread Ratio**

$$(s) = \text{Interest Income Ratio} \text{ minus } \text{Interest Paid Ratio}$$

$$\text{i.e., } (s) = (r - k)$$

This ratio is used to assess the percentage of net interest income ratio of the bank. A higher and positive spread ratio indicates greater efficiency of the bank. On the other hand, a negative or higher negative spread ratio indicate a decline in the efficiency of the bank. This ratio provides a measure of interest margin which is basically a function of (a) structure of deposits, borrowings and refinance and the interest rate applicable thereon, (b) fund deployment mix including credit and non-credit port folios (c) the level of outstanding advances and (d) incidence of bad and doubtful debts (Das, 1998).

**(8) Burden Ratio**

$$(b) = \text{Total Non-interest Expenditure Ratio} \text{ minus } \text{Non-interest Income Ratio}$$

$$\text{i.e., } (b) = (x - c)$$

This ratio shows the burden of net non-interest expenditure. An increase in the ratio indicates a decline in the efficiency of the bank. For viable performance the spread ratio has to exceed the burden ratio by a margin so as to generate a reserve surplus to take care of future growth and contingencies of business.

**(9) Profitability Ratio**

$$(p) = \text{Spread Ratio} \text{ minus } \text{Burden Ratio}$$

$$\text{i.e., } (p) = (s - b)$$

This ratio measures the excess income over the expense. A positive profitability ratio indicates a higher spread ratio than the burden ratio. To generate a reserve surplus of a bank spread ratio has to exceed the burden ratio by a margin which take care of future growth and contingencies of business also, it indicates viable performance of the bank.

**(10) Net Profit to Total Assets Ratio**

$$(\text{NP-TAR}) = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

This ratio indicates the ratio of profit on the total assets of the bank and their employment. An increasing trend of this ratio over the years indicates the overall efficiency of the bank.

**(11) Gross Ratio**

$$(\text{GR}) = \frac{\text{Total Expenses}}{\text{Gross Income}} \times 100$$

The total expenses included both interest expenses and non interest expenses. In the same manner the gross income of the bank comprised both interest income and non-interest income. This ratio helps to ascertain how efficiently the gross income of the bank was utilized.

**(12) Operating Ratio**

$$(\text{OR}) = \frac{\text{Operating Expenses}}{\text{Gross Income}} \times 100$$

This ratio indicates the proportion of the gross income being used for meeting the operating expenses. An increase in the ratio signifies a decline in the efficiency of the bank and vice-versa. Here operating cost includes the salary and other establishment expenses.

The above 12 indicators or financial ratios are used as index in the financial analysis for evaluating the financial performance of the bank. These ratios are helpful in finding significant deviations from an average or predetermined standard. These ratios are popular in the accounting system of enterprises in general and help in spotting trends towards better or poor performance.

### 6.3 The Concept of Viability and Profitability of RRBs :

A bank is said to be viable if it attains a level of loan business giving it an income level which would enable it to meet not only all the expenses but also help it build a minimum reserve over a period of time (RBI Bulletin, 1981). In other words, the economic viability of a bank denotes its long run ability to meet its total cost out of its own resources and at the same time generate reserve commensurate with future growth and diversification of business.

In broader sense, the viability level of its loan business could be a range and not a fixed figure. Besides, viability may be achieved at a lower level of business if the coverage of area is small and overheads by way of branch expenses are low. As a necessary condition, it requires a reasonable margin between return and transaction cost of the bank and leave to make some surplus for a capital build up.

In the year of establishment of RRBs ( i.e.,1975) the Working Group on Rural Banks had talked of four dimensions for judging viability of a bank, viz., (i) Area Dimension, (ii) Financial dimension, (iii) Time Dimension and (iv) Task Dimension. Generally, in the case of a RRB covering a district or two, it is expected to open 75-100 branches in its area of operation and as such its viability has to be judged on the basis of spread it has to achieve. But, also, a RRB which is found to be viable with 10 branches may become non-viable when it opens more branches till it succeeds in building up adequate business commensurate with the number of branches. This aspect has to be kept in mind in assessing the performance of RRBs from the angle of viability.

The Agricultural Credit Review Committee (ACRC) (RBI Bulletin,1989) described the profitability as a function of spread available to the bank which depends upon (i) the income earned on the loans and investment, (ii) the cost raising resources comprising deposits and borrowings, (iii) the productivity or the volume of business handled, (iv) the scope of non-fund based business, and (v) internal efficiency of the bank in handling the funds including recovery and control of other establishment cost.

It should be noted that viability of RRBs will have to be assessed in terms of increase in business per branch, recovery rate, productivity of staff, cost effectiveness of operation, closer monitoring and socio-economic upliftment and improvement in the standards of living of the clientele (Velayudham and Sankaranarayanan, 1990).

Profitability has become a new challenge before the banking sector in general and RRBs in particular. Though the welfare aspect is of chief importance in the RRB system, yet viability performance is indispensable for continuous and expanding operations of the banks to meet the basic objectives for which they are established. The profitability and viability of RRBs have gained added significance on account of several monetary policy measures initiated by the government since 1991. As a consequence, there have been vehement arguments to revamp the RRBs either by enlarging their role to include even the non-target groups (RBI, 1991). Considering that weak clientele does not make an institution strong, the RRB have been allowed to lend up to 60 percent of their lending to non-target groups (NABARD, 1997a).

The most serious problem faced by RRBs is their economic viability, i.e., sufficiency of interest revenue from agricultural loans to meet the financial and transaction costs incurred by RRBs. While the relaxation in the lending criterion may help the RRBs to attain financial vitality and allow them to graduate and become regular credit institutions.

Keeping the above aspects in mind, this study attempts to explain as to how far the RRBs could succeed as an institutional reformer in the field of rural credit and what are the important factors that influence the profitability of RRBs so that RRBs can improve upon those parameters to further enhance their viability and profitability.

#### **6.4 Profitability and Viability of RRBs in India & the State of West Bengal.**

In India, the Regional Rural Banks have come a long way since their inception in 1975 and have now become an integral part of the rural financial system. As a part of the Financial Sector Reforms, Government of India (GOI), Reserve Bank of India (RBI) and NABARD have initiated various measures during 1991-92 for improving the functioning of RRBs. These measures were aimed at improving viability, competitiveness, profitability and efficiency of financial

institutions, there is a perceptible change in the role and operations, build up of non-performing assets, accumulated losses, etc. still haunt the viability of RRBs. In the following, we have attempted to explain the profitability condition of RRBs during the period from 1991-92 to 2000-01.

#### 6.4.1 Profit / Loss Making RRBs

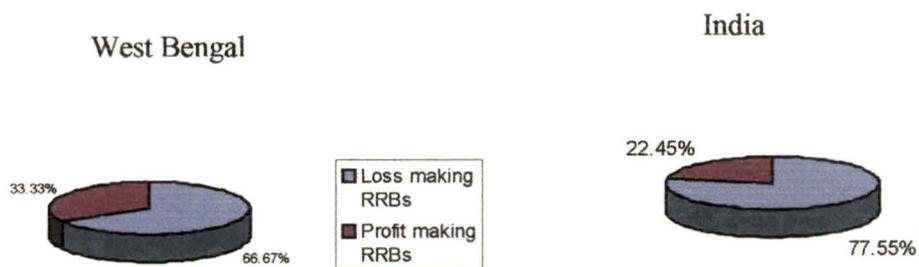
During the period from 1991-92 to 1996-97 most of the RRBs (around 80% to 90%) were incurring losses continuously and the losses were increasing. Table 6.1 reveals that though the different measures (stated above) did help many RRBs but the RRB system as a whole did not show signs of revival and even after 6 years of initiating reforms, the number of RRBs in profit continued at low level – it was around 12% (23 RRBs) in 1991-92 (pre-reform period), increased to only 22% (44 RRBs) in 1996-97 (post-reform period). In case of the state of West Bengal the corresponding figure was also disagreeable, no RRBs (0%) posted net profit in 1991-92 and in 1996-97 only 3 RRBs (33%) have earned profit. On the other hand, the result of performance of RRBs for 1997-98 were drastically different and the initial indicators which have been compiled and published by NABARD revealed a tremendous improvement over their performance in 1997-98.

**Table 6.1 Number of RRBs in Profit / Loss (1991-92 to 2000-01)**

		INDIA		WEST BENGAL	
Sl.No.	Year	No. of RRBs in profit	No. of RRBs in loss	No. of RRBs in profit	No. of RRBs in loss
1.	1991-92	23	173	0	9
2	1992-93	24	172	0	9
3	1993-94	23	173	0	9
4	1994-95	22	164	0	9
5	1995-96	44	152	1	8
6	1996-97	44	152	3	6
7	1997-98	126	70	4	5
8	1998-99	147	49	5	4
9	1999-2000	162	34	6	3
10	2000-01	172	24	9	0

Source : Compiled from data based on Bank Quest (The Journal of Indian Institute of Bankers) and Statistics on RRBs, NABARD (various issues)

**Fig. 6.1 : Profit / Loss making RRBs in West Bengal and India (1997)**



**Fig. 6.2 : Profit / Loss making RRBs in West Bengal and India (2001)**

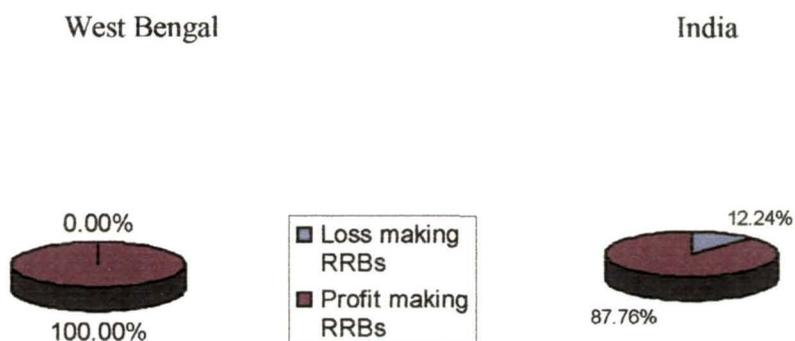


Table 6.1 shows that there was about three folds increase in profit making RRBs from 44 in 1996-97 to 126 in 1997-98 which indicated that almost two third (64%) of the RRBs earned net profit in that year. For the first time since 1975, 126 of the 196 RRBs have earned profit. In West Bengal, only one additional RRB entered into the profit arena from loss during that time.

During 2000-01, 172 RRBs (almost 88%) have earned profit as against 162 RRBs in the previous year. Besides, in the state of West Bengal all RRBs (100%) have earned profit in 2000-01 as against 6 RRBs (67%) in the previous year (Table 6.1). Gorakhpur (in Uttar Pradesh) and Pratama (in Uttar Pradesh) Kshetriya Gramin Banks continued to record the highest profit at Rs. 28.60 crores and Rs. 36.17 crores respectively. The share of these two RRBs together was 8 percent of the total net profit earning RRBs in the country, whereas the share of all RRBs (total 9) in West Bengal was only 2.57 percent. During the period 2000-01 all RRBs in the state as a whole have earned profit of Rs. 15.65 crores only and it was satisfactory as against Rs. 10.95 crores loss amount in the previous year.

At the national level RRBs incurring losses reduced from 34 in 1999-2000 to 24 in 2000-01. Balasore (Orissa), Tripura (Tripura) and Bolangir (Orissa) RRBs continued to incur maximum losses, the three together constituting 34 percent of the losses incurred by the 24 banks. But, in West Bengal RRBs incurring losses reduced from 3 to zero during the period from 1999-2000 to 2000-01.

Fourteen RRBs entered profit arena from loss and four RRBs, viz., Bilaspur-Raipur (Madhya Pradesh), Puri (Orissa), Nimar (Madhya Pradesh) and Mewar (Rajasthan) slipped from profit to losses in India, whereas in West Bengal 3 RRBs entered into profit arena from loss and no RRB slipped from profit to losses during the period from 1999-2000 to 2000-01.

In our country the aggregate accumulated losses of RRBs declined from Rs. 2978.90 crores as on 31 March 2000 to Rs. 2803.03 crores as on 31 March, 2001. Tripura Gramin Bank (Tripura) had the highest accumulated losses at Rs. 139.40 crores followed by Bolangir Gramin Bank (Orissa) at Rs. 109.78 crores and Gour Gramin Bank (West Bengal) at Rs. 92.23 crores. These three RRBs account for 12 percent of the total accumulated losses (key statistics on RRBs, 2001). On the other

hand, in West Bengal the aggregate accumulated losses of RRBs declined from Rs. 312.04 crores as on 31 March 2000 to Rs. 296.61 crores as on 31 March 2001.

During 2000-01, as many as 24 RRBs wiped off their accumulated losses. The cumulative number of RRBs, that have wiped off their accumulated losses increased from 55 as on 31 March 2000 to 79 as on 31 March 2001 at the national level, whereas at the state level it remained the same at one (Howrah Gramin Bank) during that period.

#### **6.4.2 Income, Expenditure and Productivity**

The working results regarding income, expenditure and productivity of the RRBs for the years of 1995-96 and 1999-2000 in India and West Bengal are given in Table 6.2 which revealed the following:

The gross income of the RRBs in the country was Rs. 150547.10 lakhs during 1995-96 against the gross expenditure of Rs.192840.66 lakhs at same time, which showed the losses of RRBs of Rs. 42293.56 lakhs. Out of total income of RRBs in 1995-96 interests income was Rs. 141482.14 lakhs (93.98%) and other income was Rs.9064.96 lakhs (6.02%) respectively while out of total expenditure interest expenses was Rs.15668.05 lakhs (8.13%) respectively.

During 1999-2000 the amount of interest income and non-interest income increased to Rs.394547.45 lakhs (94.88%) and Rs.21271.32 lakhs (5.12%) respectively as against the year of 1995-96 (Table 6.2), as a result the total income increased from Rs.150547.10 lakhs to Rs.415818.77 lakhs during that period. While all components of total expenditure, except provisions/ contingencies, increased in 1999-2000. As a result, the total expenditure also increased from Rs.105567.81 lakhs in 1995-96 to Rs.372821.77 lakhs in 1999-2000. The combined net profit for the year of 1999-2000 was Rs.42997.00 lakhs as against a loss of Rs.42293.56 lakhs in 1995-96.

On the other hand, at the state level, the gross income of the RRBs was Rs.8997.37 lakhs in 1995-96 against the gross expenditure of Rs. 13829.92 lakhs at the same time which showed the losses of Rs.4832.55 lakhs. Out of total income of RRBs in 1995-96 interest income was Rs.8418.39 (93.57%) lakhs and another income was Rs.578.98 ( 6.43%) lakhs respectively, while out of total expenditure

interest expenses was Rs.6941.99 lakhs (50.20%), operating expenses was Rs. 4890.96 lakhs (35.36%) and provisions / contingencies was Rs.1996.97 lakhs

**Table 6.2 : Income, Expenditure, Profit and Productivity of RRBs**

		( Rs. in lakhs)			
Sl.No	Performance Indicators	India		West Bengal	
		1995-96	1999-2000	1995-96	1999-2000
1.	Interest Income	141482.14 (93.98)	394547.45 (94.88)	8418.39 (93.57)	25756.85 (93.80)
2.	Other Income	9064.96 (6.02)	21271.32 (5.12)	578.98 (6.43)	1703.73 (6.20)
3.	Total Income(1+2)	150547.10 ((100.00)	415818.77 (100.00)	8997.37 (100.00)	27460.58 100.00)
4.	Interest Expenses	105567.81 (54.74)	256459.29 (68.79)	6941.99 (50.20)	20284.50 (70.96)
5.	Operating Expenses	71604.80 (937.13)	105664.04 (28.34)	4890.96 (35.36)	7545.10 (26.39)
6.	Provisions/Contingencies	15668.05 (8.13)	10698.44 (2.87)	1996.97 (14.44)	756.90 (2.65)
7.	Total Exp(4+5+6)	192840.66 (100.00)	372821.77 (100.00)	13829.92 (100.00)	28586.50 (100.00)
8.	Net Profit(3-7)	-42293.56	42997.00	-4832.55	-1125.92
9.	Per RRB Productivity	11067.82 (24.97)*	23154.54 (19.29)*	1590.64 (23.58)*	34952.94 (20.42)*
10.	Per-Branch Productivity	149.64 ((24.48)*	317.38 (18.33)*	165.64 (23.58)*	361.67 (20.56)*
11.	Per Employee Pr.	30.44 (24.03)*	64.57 (18.33)*	27.61 (23.58)*	60.23 (16.59)*

Source : Compiled and computed from data based on Financial Analysis of RRBs, NABARD; Statistical Tables Relating to Banks in India, RBI Bulletin; and Statistics on RRBs, NABARD (various issues).

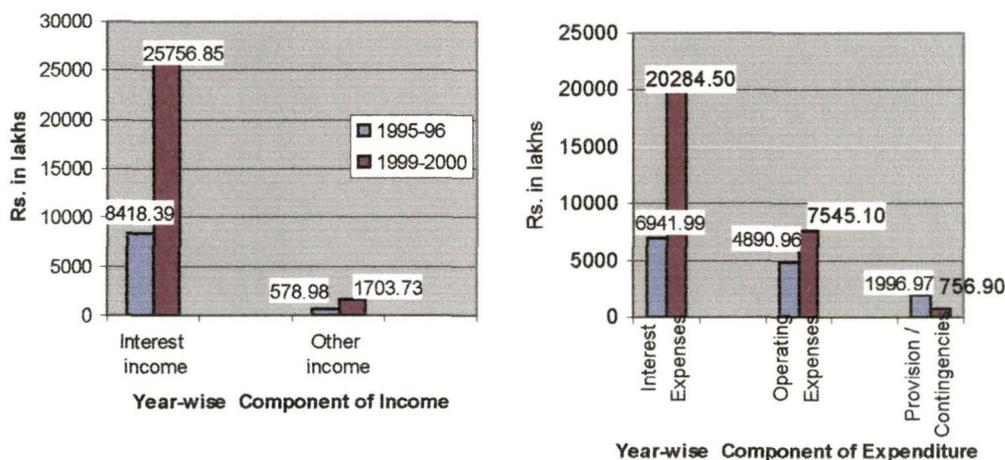
Notes : Figures in brackets are the percentages to the total amount.

\* Percentage of Growth over the previous year.

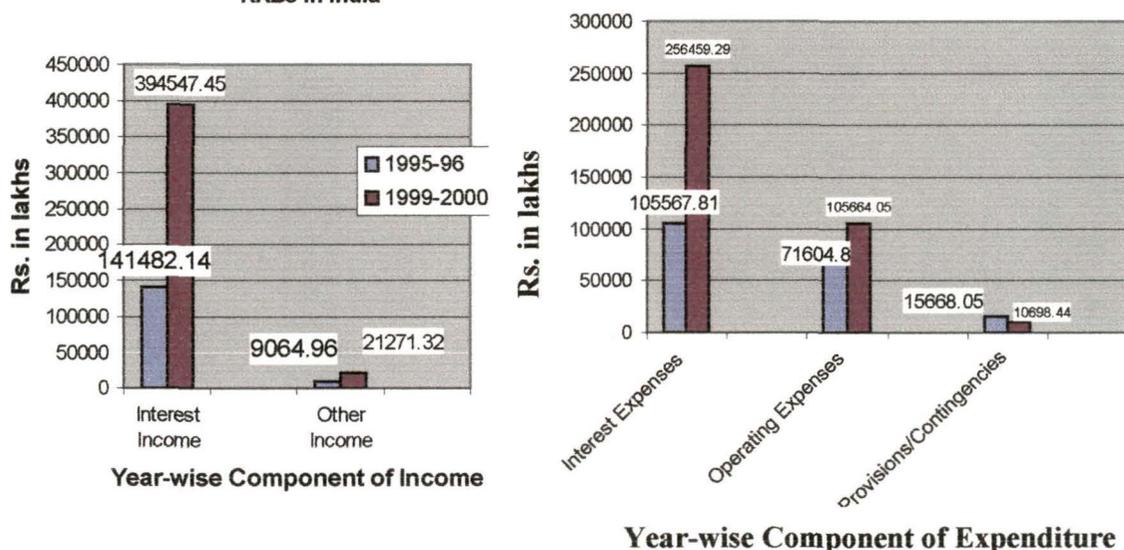
'-' indicates negative profit (i.e., loss).

(14.44%) respectively. After four years in 1999-2000 the amount of interest income and non-interest income increased to Rs. 25756.85 lakhs (93.80%) and 1703.73 lakhs (6.20%) respectively (Table 6.2) as against the year of 1995-96 as well as the total income of the RRBs increased to Rs. 27460.58 lakhs during that period.

**Fig. 6.3: Component of Income & Expenditure of RRBs in West Bengal**



**Fig.6.4 : Components of Income & Expenditure of RRBs in India**



Side by side, excepting provisions/contingencies all components of expenditure also increased in 1999-2000 as against the year of 1995-96 and consequently the total expenditure increased from Rs. 13829.92 lakhs in 1995-96 to Rs. 28586.50 lakhs in 1999-2000. But the combined net loss decreased from Rs. 4832.55 lakhs in 1995-96 to Rs. 1125.92 lakhs in 1999-2000 (i.e., the growth of income were greater than the growth of expenditure) which indicated the improvement of RRBs in the state. As a result in 2000-2001 all RRBs in the state earned a profit, the total amount of profit of their together was Rs. 1565 lakhs.

Table 6.2 shows that the average per RRB and per branch productivity of RRBs at the state level was always higher than that at the national level, but in case of per employee productivity the picture was just reverse. In the West Bengal, the amount of per RRB, per branch and per employee productivity increased from Rs. 15901.64 lakhs, Rs. 165.64 lakhs and Rs. 27.61 lakhs in 1995-96 to Rs.34952.92 lakhs, Rs. 361.67 lakhs and Rs. 60.23 lakhs respectively in 1999-2000. Whereas, in India the corresponding figures increased from Rs. 11067.82 lakhs, Rs.149.64 lakhs and Rs. 30.44 lakhs to Rs.23154.54 lakhs, Rs.317.38 lakhs and Rs.64.57 lakhs respectively during that period. As on 31<sup>st</sup> March 2000, the growth over the previous year of these three performance indicators of RRBs in West Bengal was little higher than that at the national level.

#### **6.4.3 Growth Analysis (1995-96 to 1999-2000)**

The growth rates in income and expenditure of the bank were found to be significant in all the periods. The growth in these two indicators was observed to be higher in the establishment period followed by the overall period and the development period (Hossamani, 2002). When the growth percentage of income of a bank exceeds the growth percentage of expenditure then that bank is able to earn profit and it should be noted that this depends on previous year's income and expenditure amount also. Before 1998, most of the RRBs in the country as well as in the state of West Bengal had incurred losses because their growth percentages of income were generally lower than the growth percentages of expenditure. On and after the year 1998 most of the RRBs at the both level turned from loss to profit, i.e., their growth percentages of income were higher than the growth percentages of expenditure during that time.

**Table 6.3 : Growth percentages over Five Years (1995-96 to 1999-2000)**

	India (%)	West Bengal (%)
1. Interest Income	178.87	205.96
2. Other Income	134.65	194.26
<b>3. Total Income</b>	<b>176.21</b>	<b>205.21</b>
4. Interest Expenses	142.93	192.20
5. Operating Expenses	47.57	54.27
6. Provisions/Contingencies	-31.72	-62.10
<b>7. Total Expenses</b>	<b>93.33</b>	<b>106.70</b>
8. Volume of Business	109.21	119.81
9. Per RRB Productivity	109.21	119.81
10. Per Branch Productivity	108.91	118.29

Source : Computed from data based on Financial Analysis of RRBs (1995-96), NABARD, Statistical Tables Relating to Banks in India (1999-2000), RBI Bulletin and Statistics on RRBs (various issues), NABARD.

Note : '-' sign indicates negative growth.

The growth percentages of income, expenditure, volume of business<sup>1</sup>, per RRB productivity<sup>2</sup> and per branch productivity<sup>3</sup> of RRBs in the country as well as in the state of West Bengal over five-year period between 1995-96 and 1999-2000 are given in Table 6.3 which revealed the following :

At the national level, the growth rate of interest income and other income were 178.87% and 134.65% respectively, while at the state level these were 205.96% and 194.26% respectively which showed that both were higher at the state level than national level . Consequently, the growth rate of total income at the state level (205.21%) was higher than the national level (176.21%) by 29% over the five-year period between 1995-96 and 1999-2000. On the other hand , the growth rate of interest expenses and operating expenses at the national level were 142.93% and 47.57% respectively while at the state level these were 192.20% and 54.27% respectively which show that both were higher at the state level than the national level. Consequently, also the growth rate of total expenditure at the state level (106.70%) was higher than that at the national level (93.33%) by 13.37% over the same period. But the positive difference between the growth rate of income and the growth rate of expenditure of RRBs in West Bengal was higher than that in India.

This implies that the efficiency of RRBs at the state level improved at the high level than that at the national level.

Table 6.3 also shows that excepting provisions/contingencies, for nine indicators growth rates were positive. Provisions/contingencies decreased over the five-year period at both levels, but the decreasing rate was higher at state level than the national level.

Growth rate of volume of business, per RRB productivity and per branch productivity over the five-year period between 1995-96 and 1999-2000 were 109.21%, 109.21% and 108.91% respectively at the national level, while at the state level those were 119.81%, 119.81% and 118.29% respectively during the same time period which showed that in these three cases the growth rates were higher at the state level than the national level. It also indicated that RRBs' efficiency for state level grew at higher level than that for national level.

#### **6.4.4 Ratio Analysis**

The financial ratio analysis is very helpful to show the performance of the bank. This ratio represents the relationship between the two accounting figures expressed mathematically. In the financial analysis, a ratio is used as an idea or yardstick for evaluating the financial performance or status of a bank or an institution against certain standards (Hosamani, 2002). There are various kinds of financial ratios which help in spotting trends towards better or poor performance and in finding significant deviations from an average or predetermined standard.

In this study 15 indicators or financial ratios have been used to assess and identify the various related factors of financial performance. These ratios are shown in the following Table 6.4, which revealed the following :

During the period from 1995-96 to 1999-2000 many RRBs in the country as well as in the State of West Bengal entered profit arena and their aggregate accumulated losses declined. So, significant changes have taken place in the figures of financial ratio during the same period. The interest income ratio ( $r$ ) of the RRBs at the national level showed marked improvement from 6.52 percent in 1995-96 to 8.69 percent in 1999-2000 and the interest paid ratio ( $k$ ) increased from 4.87 percent to 5.65 percent at the same time. Consequently, the spread ratio ( $r-k$ ) rose

from 1.65 percent to 3.04 percent at the same period i.e., the financial performance of RRBs improved during that time.

**Table 6.4 : Financial Ratios of RRBs in India and West Bengal.**

Sl.No.	Financial Ratios or Key Indicators	I N D I A		WEST BENGAL	
		1995-96	1999-2000	1995-96	1999-2000
1.	Interest Income Ratio( r)	6.52	8.69	5.88	8.19
2.	Interest Paid Ratio (k)	4.87	5.65	4.85	6.45
3.	Manpower Expenses Ratio(m)	2.79	2.02	2.93	2.08
4.	Non-interest Expenses Ratio (c)	0.42	0.47	0.40	0.54
5.	Other Expenses Ratio (O)	0.51	0.55	0.49	0.56
6.	Non-Interest Expenses Ratio (n)	3.30	2.57	3.42	1.64
7.	Spread Ratio (s)=(r-k)	1.65	3.04	1.03	1.74
8.	Burden Ratio(b)=(n-c)	2.88	1.69	3.02	2.10
9.	Profitability Ratio(p)=(s-b)	-1.23	1.35	-1.99	-0.36
10.	Net Profit to total Assets Ratio (NPTA)	*	1.01	*	-0.37
11.	Gross Ratio (GR)	128.09	89.66	153.71	104.10
12.	Operating Ratio (OR)	47.56	25.41	54.36	27.48
13.	Credit Deposit Ratio (CDR)	52.90	40.94	47.58	31.77
14.	Recovery percentage	55.10**	64.09**	34.35**	43.98**
15.	Gross NPA% to Advances	43.07	23.07	56.74	35.95

Source : Computed from data based on Financial Analysis of RRBs( 1995-96), NABARD, Statistical Tables Relating to Bank in India (1999-2000).

Notes : \* The value was not calculated since some data were not available

\*\* Recovery percentages as at the end of June of previous year.

On the other hand, at the state level the interest income ratio ( r) of the RRBs showed also marked improvement from 5.88 percent in 1995-96 to 8.19 percent in 1999-2000, while the interest paid ratio(k) rose from 4.85 percent to 6.45 percent. it was a major change. As a result the spread ratio (s=r-k) at the state level increased by 0.71 percent only, from 1.03 percent in 1995-96 to 1.74 percent in 1999-2000 , whereas at the national level it increased by 1.39 percent during that

period (Table 6.4). As a result, the profitability ratio became positive at the national level and it was remained at negative at the state level.

In the country the manpower expenses ratio (m) decreased significantly from 2.79 percent to 2.02 percent during that period and the other expenses ratio (o) increased a little from 0.51 percent to 0.55 percent. Consequently, the non-interest expenses (n) decreased from 3.30 percent to 2.57 percent, while non-interest income ratio (c) increased from 0.42 percent in 1995-96 to 0.47 percent in 1999-2000, resulting in decrease in burden ration ( $b=m+o-c$ , or,  $b=n-c$ ) from 2.88 percent to 1.69 percent at that period. This indicates the improvement in inefficiency of RRBs.

Table 6.4 also shows that at state level the manpower expenses ratio (m) declined from 2.93 percent to 2.08 percent and the other expenses ratio (o) rose a little from 0.49 percent to 0.56 percent, as a result the non-interest expenditure ratio (n) decreased from 3.42 percent to 2.64 percent during the period from 1995-96 to 1999-2000. On the other hand, the non-interest income ratio (c) increased from 0.40 percent to 0.54 percent. Consequently, the burden ratio (r) declined from 3.02 percent to 2.10 percent, but it was higher than the spread ratio (1.74%).

Hence, during 1995-96, due to the higher burden compared to the spread most of the RRBs at both levels (national and state level) incurred losses. At that time at the national level, the burden ratio was higher than spread ratio by 1.23 percent, as a result the profitability ratio ( $p = s - b$ ) was negative at 1.23 percent. Also, at the state level the profitability ratio was negative at 1.99 percent which was higher than the national level.

But, in 1999-2000 at the national level the spread ratio exceeded the burden ratio, the spread ratio was at 3.04 percent while the burden ratio was at 1.69 percent, as a result the RRBs showed positive profitability ratio (1.35%) instead of negative profitability ratio (1.23%) in 1995-96. On the other hand, at the state level the figure was not the same, in 1999-2000 the profitability ratio was negative too, but it declined to 0.36 percent from 1.99 percent in 1995-96, and it was positive in 2000-01. All RRBs in the state earned profit during 2000-01, the total amount was Rs. 1565 lakhs after covering the accumulated losses of the previous year (Table 6.16).

The burden was high in 1995-96 due to increased manpower expenses coupled with increased non-interest expenses, the reason was the award of higher pay scales to the bank employees. And the spread ratio was low at that time due to low level of interest earned on advances and increase in the interest paid on deposits and borrowings.

During the period from 1995-96 to 1999-2000 the RRBs at the national level earned the highest level of profit in the year 1999-2000 due to a higher spread compared to burden. In spite of increase in the interest expenditure, a higher level of spread was obtained due to increase in the interest income, earned on advances. In this year many RRBs in the country had been able to earn a profit of Rs. 42930.77 lakhs together after covering even the accumulated losses in the previous years. It was a remarkable performance and excellent recovery due to the turn around strategy adopted by the banks. Thus, the net profit to total assets ratio turned to be positive at 1.01 percent (Table 6.4) at the national level, but it was negative at 0.37 percent at the state level.

Gross ratio<sup>4</sup> compared the total expenses of a bank to its gross income earned during a given period. It was evident from Table 6.4, that the value of the gross ratio during the year 1995-96 was higher (128.09%) than that in 1999-2000 (89.66%). At the earlier period it was more than 100 percent due mainly to higher level of expenses over the gross income of the bank and at the latter period it was less than 100 percent due to faster growth rate of income than expenditure. The higher level of this ratio revealed that the major proportion of income was being utilized to meet the expenses of the bank. From the view point of service, the higher proportion of expenses in the gross income was acceptable, but from the point of view of sustainability, perhaps necessitated a higher margin of profit by reducing the total expenses of the bank on one hand and increasing the gross income of the bank on the other hand. At the state level, this ratio also declined from 153.71 percent in 1995-96 to 104.10 percent in 1999-2000. It was higher than the national level in every year during that period.

Table 6.4 also shows that the operating ratio, the ratio which shows the proportion of the gross income being used for meeting the operating expenses and indicates the operating efficiency and important to management in judging its operations, decreased from 47.56 percent in 1995-96 to 25.41 percent in 1999-

2000 in the country. It also declined in the state of West Bengal from 54.36 percent to 27.48 percent during that period, but it was higher than that at the national level. These figures indicate the improvement of operating efficiency and management system of the RRBs at the state level as well as national level.

The Credit Deposit (C-D) ratio is an important indicator for evaluating the performance of a financial institution and this ratio indicated the deployment of advances out of the mobilized resources. Table 6.4 shows that the C-D ratio decreased from 52.90 percent and 47.58 percent in 1995-96 to 40.94 percent and 31.77 percent in 1999-2000 at the national and state level respectively. At the initial period of all RRBs, the rate of growth in C-D ratio was higher due to higher rate of growth in advances over deposits which was non-significant. It was observed that the C-D ratio showed a declining trend due to higher rate of growth in deposits over the advances which was significant to improve financial performance of RRBs. A lower C-D ratio was advisable for the bank from the view point of profitability and in this regard the declining trend in C-D ratio in the development period was a right phenomenon. In an earlier study, it was observed that lowest C-D ratio was associated with the largest profit making RRBs of Uttar Pradesh and even India (Sangwan, 1989). At the end of the millennium, it was also, evidently true for the RRBs in West Bengal. It corroborated the observation that more advances were not positively associated with profits of Regional Rural Banks.

Table 6.4 shows that the percentage of recovery increased from 55.10 percent as on 31 June 1995 to 64.09% as on 31 June 1999 in the country, while in the state it increased from 34.35 percent to 43.98 percent during that period which showed improvement on recovery as well as efficiency of the bank at both levels.

It was also revealed that the NPA percentage declined from 43.07 percent in 1995-96 to 23.07 percent in 1999-2000 at the national level, while at the state level it decreased from 56.74 percent to 35.95 percent during that period which also indicated the improvement in efficiency of the bank at both levels, but it was faster at the national level than the state level. The NPA level has been high in past due to low repayment (i.e., recovery) performance of the RRBs. This was mainly due to poor quality of loan portfolio which consisted of substantial share of lending under Government sponsored programmes (Deshpande and Shrivastava, 1999). To uplift the viability and profitability conditions of RRBs prudential norms were

introduced in the year 1995-96 with application of income recognition norms in 1995-96 and provisioning norms in 1996-97 for the first time. Those contributed substantially in improving profitability of RRBs in 1997-98 and later years.

## **6.5 RRB-wise Profitability and Viability Performance in the State**

An attempt has been made in the following discussion to review the profitability and viability of the RRBs of the State for a period of four years from the year 1996-97 to 1999-2000. In the state, no RRB had been able to earn profit before the year 1996. As on 31 March 1996, only Howrah Gramin Bank earned profit of Rs. 35.4 lakhs. Two more RRBs, viz., Bardhaman and Murshidabad Gramin Bank were included to the profit arena in the next year. At the end of March of 2001, all RRBs in the state had been able to earn profit of Rs.1565 lakhs together. So, during this time period, there had been so many changes in the working results of RRBs in the state which are analyzed below :

### **6.5.1 Income, Expenditure and Productivity**

#### **6.5.1.1 Gour Gramin Bank (GGB)**

Information regarding the income expenditure and productivity which are raised by Gour Gramin Bank (GGB) during the period from 1996-97 to 1999-2000 is represented in Table 6.5, which discloses the following :

The gross income of GGB which stood at Rs. 1092.20 lakhs in 1995-96, moved up to Rs. 3364.68 lakhs in 1999-2000, exhibiting 3.08 folds increase during the period while the gross expenditure of the bank rose from Rs. 2392.11 lakhs in 1995-96 to Rs. 4196.67 lakhs in 1999-2000, showing 1.75 folds increase during that period , i.e., the growth rate of income (208.06%) over the five-year period between 1995-96 to 1999-2000 was higher than the growth rate of expenditure (75.44%). As a result, the amount of loss decreased from Rs. 1299.91 lakhs in 1995-96 to Rs. 831.99 lakhs in 1999-2000. The highest loss of the bank was in the year 1996-97 of Rs.1866.73 lakhs.

The growth rate of income of GGB over the five-year period from 1995-96 to 1999-2000 was more than the average growth rate of income of RRBs in the state (205.96%) (Table 6.3) while the growth rate of expenditure was less than the average growth rate of that at the state level (106.70%) during that period which indicated the improvement of efficiency of the bank.

**Table 6.5 : Income , Expenditure and Productivity of Gour Gramin Bank**

( Rs. in lakhs)

Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	508.86 (46.59)	734.98 ( 45.12 )	823.00 ( 38.57 )	837.75 ( 33.34)	1193.41 (35.47)
2.	Interest on Investment and Bank Balances	533.88 ( 48.88)	823.85 ( 50.58)	1214.00 ( 56.89)	1573.94 ( 62.63)	1887.61 (56.10)
3.	Commission	7.27 (0.07)	10.34 (0.63)	15.00 (0.70)	15.36 (0.61)	21.99 (0.65)
4.	Other Income	42.19 (3.86)	59.78 (3.67)	82.00 (3.84)	86.01 (3.42)	261.67 (7.78)
5	Total Income	1092.20 (100.00)	1628.95 (100.00)	2134.00 (100.00)	2513.06 (100.00)	3364.68 (100.00)
	<b>EXPENDITURE</b>					
6	Interest on Deposits	878.88 (36.74)	1484.81 (42.47)	1822.00 (58.93)	2160.77 (53.00)	2607.18 (62.12)
7	Interest on RBI/ Inter Bank Funds	12.17 (0.51)	158.32 (4.53)	0.00 (0.00)	178.11 (4.87)	196.62 (4.69)
8	Interest on others	152.04 (6.36)	0.00 (0.00)	191.00 (6.18)	0.00 (0.00)	0.00 (0.00)
9	Wage Bill	721.68 (30.17)	788.59 (22.56)	929.00 (30.05)	1090.42 (26.75)	1138.67 (27.13)
10	Other Operating Expenses	104.55 (4.37)	121.48 (3.48)	150.00 (4.85)	647.64 (15.89)	254.20 (6.06)
11	Provisions and Contingencies	522.79 (21.85)	942.55 (26.96)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
12	Total Expenditure	2392.11 (100.00)	3495.93 (100.00)	3092.00 (100.00)	4076.74 (100.00)	4196.67 (100.00)
13	Profit/Loss(5-12)	-1299.91	-1866.73	-958.00	-1563.88	-831.99
	<b>PRODUCTIVITY</b>					
14	Per Branch Productivity	164.20 (22.29)*	208.17 (26.78)*	245.60 (17.90)*	274.42 (11.73)*	318.21 (15.96)*
15	Per Employee Productivity	25.83 (22.82)*	33.00 (27.96)*	38.94 (18.00)*	44.82 (15.10)*	52.39 (16.89)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

- Notes : 1. Figures in brackets are the percentage shares to the total amount.  
2. Growth rate over the previous year.  
3. '-' indicates negative profit ( i.e., loss)

Table 6.5 also shows that the percentage share of interest on advances to the total income of the bank decreased from 46.59% to 35.47% but the percentage share of interest on investments and bank balances rose from 48.88% to 56.10% during that period from 1995-96 to 1999-2000. On the other hand, the percentage shares of commission and other income to the total amount of income were negligible, these range between 0.50% and 8.00% only though the share of other income increased from 3.86% to 7.78% during the same time, it was lower than the average share of that in the state in the year 1995-96 (6.02%), but higher in 1999-

2000 (6.20%) (Table 6.2). These results revealed the diversification of function of the bank and improvements of its efficiency.

During the period from 1995-96 to 1999-2000, the share of interest on deposits to the total amount of expenditure increased tremendously from 36.74% in 1995-96 to 62.12% in 1999-2000. The amount of interest on deposits increased from Rs. 878.88 lakhs to Rs. 2607.18 lakhs showing about 3 folds growth during that period. On the other hand, the share of provisions and contingencies to the total expenditure decreased from 21.85% to zero per cent at the same period. It was highest (Rs. 942.55 lakhs) in the year 1996-97 and in that year the amount of loss of the bank was also the highest at Rs. 1866.73 lakhs. Hence, it could be said that the cost of provisions and contingencies was an important reason behind the huge loss of the bank. The percentage shares of all other components of the expenditure were remained more or less same during that period from 1995-96 to 1999-2000.

It could be seen from the Table 6.5 that the growth rates of per branch productivity and per employee productivity over the previous year were found to be the highest in the year 1996-97 at 26.78% and 27.76% respectively which were non-significant growth, because at that time the bank incurred more losses. At the end of March, 2000 the per branch and per employee productivity of the bank were of Rs. 318.21 lakhs and Rs. 52.39 lakhs respectively, both were less than the state level (Rs. 361.67 lakhs and Rs. 60.23 lakhs, Table 6.2) and their growth rate over the previous year were 15.96% and 16.89% respectively. These growth rate over the previous year were 15.96% and 16.89% respectively. These growth rates were also less than the state level which indicated improvement in efficiency of the bank but it was lower than the average figure at the state level.

#### **6.5.1.2 Mallabhum Gramin Bank (Mal.GB)**

The working results regarding income, expenditure and productivity of Mallabhum Gramin Bank (Mal.GB) for the period of 1995-96 to 1999-2000 are given in Table 6.6 which reveal the following :

In 1995-96, the total income of Mal.GB was Rs. 1897.80 lakhs against the total expenditure of Rs. 3002.84 lakhs, so the amount of the loss was Rs. 1105.04 lakhs. The bank continued in loss up to the year 1998-99. The highest amount of loss was Rs. 1594 lakhs in 1996-97 and it was decreasing from the next year to

1998-99 and the loss turned as profit in 1999-2000 at Rs.44.33 lakhs (Table 6.6). The total income of the bank rose to Rs.5797.74 lakhs in 1994-2000, showing increasing trend, the growth over the period from 1995-96 to 1999-2000 was above 3 folds, while the total expenditure of the bank increased to Rs.5753.44 lakhs, showing mixed trend during that period and the growth of this was below 2 folds, i.e., the growth rate of income (205.50%) over the five-year period was higher than that of expenditure (91.60%). In comparison to the average figure at the state level (Table 6.3) the growth rate of income of the bank was almost same but the growth rate of expenditure was lower during that period. Consequently, the bank turned to profit from loss in the year 1999-2000.

**Table 6.6 : Income , Expenditure and Productivity of Mallabhum Gramin Bank.**  
(Rs. in lakhs)

Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	472.13 (24.88)	687.00 (24.79)	860.00 (24.56)	1001.14 (21.57)	1480.97 (25.71)
2.	Interest on Investment and Bank Balances	1256.83 (66.23)	1823.00 (65.79)	2336.00 (66.72)	3222.65 (69.42)	3959.26 (68.74)
3.	Commission	160.13 (8.44)	217.00 (7.83)	246.00 (7.03)	227.13 (4.89)	357.50 (6.21)
4.	Other Income	8.71 (0.46)	45.00 (1.62)	59.00 (1.69)	190.84 (4.11)	0.03 (0.00)
5	Total Income	1897.80	2771.00	3501.00	4641.76	5797.74
	<b>EXPENDITURE</b>					
6	Interest on Deposits	1417.41 (47.20)	2026.00 (46.41)	2896.00 (67.21)	3325.00 (67.42)	3976.54 (69.12)
7	Interest on RBI/ Inter Bank Funds	175.18 (0.00)	138.00 (3.16)	140.00 (3.25)	125.19 (2.54)	0.00 (0.00)
8	Interest on others	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
9	Wage Bill	967.66 (33.22)	1069.00 (24.49)	1151.00 (26.71)	1359.35 (27.56)	1447.09 (25.15)
10	Other Operating Expenses	131.56 (4.38)	100.00 (2.29)	106.00 (2.46)	122.40 (2.48)	132.87 (2.31)
11	Provisions and Contingencies	361.06 (12.02)	1032.00 (23.64)	16.00 (0.37)	122.40 (2.48)	132.87 (2.31)
12	Total Expenditure	3002.84 (100.00)	4365.00 (100.00)	4309.00 (100.00)	4931.97 (100.00)	5753.41 (100.00)
13	Profit/Loss(5-12)	-105.04	-1594.00	-808.00	-290.21	44.33
	<b>PRODUCTIVITY</b>					
14	Per Branch Productivity	179.13 (19.60)*	217.98 (21.69)*	259.19 (18.91)	323.00 (24.62)	391.70 (127)
15	Per Employee Productivity	26.63 (19.69)*	32.54 (22.19)*	38.69 (18.90)*	48.42 (25.15)*	58.77 (21.38)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

- Notes : 1 Figures in brackets are the percentage shares to the total amount.  
2. Growth rate over the previous year.  
3. '-' indicates negative profit (i.e., loss)

The share of interest advances to the total income of the bank remained almost same or changed marginally during the period from 1995-96 to 1999-2000. It stood between 21.00% and 26.00%, was the lowest in the year 1998-1999 at 21.57% and rose to 25.71% in the next year. This statement was also applicable regarding the share of interest on investment and bank balances which ranged between 65.50% and 60.50%. The shares of other components of income, viz., commission and other income, were not important. These figures of the bank were more or less equal to the average figures of the state level.

On the other hand, the Table 6.6 shows that the share of interest on deposits to the total amount of expenditure of Mal.GB increased from 47.20% in 1995-96 to 69.12% in 1999-2000, showing increasing trend, the growth of its amount was 2.8 folds during that time. While the share of provision and contingencies decreased from 12.02% to 0.80% which was one of the important causes to turn from loss to profit. The amount of wage bill rose from Rs. 967.66 lakhs in 1995-96 to Rs. 1447.09 lakhs in 1999-2000 which was the highest in every year during five-year period & from 1995-96 to 1999-2000 in comparison to the other RRBs in the state, because the number of employees of the bank was the highest over the period. The percentage share of wage bill to the total expenditure reduced from 32.22% in 1995-96 to 25.15% in 1999-2000 which indicated the improvement of viability performance of the bank.

Table 6.6 also shows that the per branch and per employee productivity rose from Rs. 179.13 lakhs and Rs. 26.63 lakhs in 1995-96 to Rs.391.70 lakhs and 58.77 lakhs in 1999-2000 respectively. In every year during the period from 1995-96 to 1999-2000 the per branch productivity of the bank was higher than the average figure of that at the state level, but in case of per employee productivity the figure was the reverse during that period which revealed a weak aspect of the bank in comparison with some other RRBs in the state.

#### **6.5.1.3 : Mayurakshi Gramin Bank (Mayu.GB)**

During the period from 1995-96 to 1999-2000, the amount of income, expenditure and productivity of Mayurakshi Gramin Bank (Mayu.GB) has been furnished in Table 6.7 which reveals the following :

The total amount of income of Mayu.GB increased from Rs. 744.84 lakhs in 1995-96 to Rs. 2334.06 lakhs in 1999-2000, showing increasing trend and indicated

3.13 folds growth during the period between 1995-96 to 1999-2000. While the total amount of expenditure of the bank increased from Rs. 1204.59 lakhs to Rs.2827.73 lakhs during the same period, exhibiting a continuous rising trend and indicated 2.35 folds growth over that period. The amount of loss was Rs. 459.75 lakhs in 1995-96 and Rs. 493.67 lakhs in 1999-2000. The bank incurred loss in every year during that period and the amount of loss was the highest in the year 1996-97 at Rs. 724.00 lakhs and it was the lowest in 1997-98 at Rs. 312.0 lakhs. The growth

**Table 6.7: Income , Expenditure and Productivity of Mayurakshi Gramin Bank.**  
( Rs. in lakhs)

Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	245.37 (32.94)	343.00 (30.27)	427.00 (25.10)	507.82 (29.33)	599.91 (25.70)
2.	Interest on Investment and Bank Balances	437.77 (58.77)	695.00 (61.34)	902.00 (53.03)	1130.94 (65.32)	1550.93 (66.45)
3.	Commission	53.46 (7.18)	87.00 (7.68)	70.00 (4.12)	86.78 (5.01)	124.46 (5.33)
4.	Other Income	8.24 (1.11)	8.00 (0.71)	302.00 (17.75)	5.56 (0.32)	58.76 (2.52)
5	Total Income	744.84 (100.00)	1138.00 (100.00)	1701.00 (100.00)	1731.30 (100.00)	2334.06 (100.00)
	<b>EXPENDITURE</b>					
6	Interest on Deposits	570.05 (47.32)	1005.00 (54.12)	1358.00 (67.46)	1256.28 (60.34)	1909.44 (67.53)
7	Interest on RBI/ Inter Bank Funds	60.99 (5.06)	71.00 (3.82)	71.00 (3.53)	71.79 (3.45)	82.52 (2.92)
8	Interest on others	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
9	Wage Bill	435.86 (36.18)	464.00 (24.99)	543.00 (26.97)	636.45	673.33
10	Other Operating Expenses	32.69 (2.71)	37.00 (1.99)	41.00 (2.04)	54.22 (2.60)	67.43 (2.38)
11	Provisions and Contingencies	105.00 (8.72)	280.00 (15.09)	0.00 (0.00)	63.13 (3.03)	95.31 (3.37)
12	Total Expenditure	1204.59 (100.00)	1857.00 (100.00)	2013.00 (100.00)	2081.87 (100.00)	2827.93 (100.00)
13	Profit/Loss(5-12)	-459.75	-724.00	-312.00	-350.77	-493.67
	<b>PRODUCTIVITY</b>					
14	Per Branch Productivity	174.12 (24.97)*	227.16 (30.46)*	282.00 (24.14)*	338.53 (20.05)*	396.83 (17.22)*
15	Per Employee Productivity	24.29 (25.29)*	31.75 (30.71)*	39.42 (24.16)*	47.32 (20.04)*	55.47 (17.22)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2. \* Growth rate over the previous year

4. '-' indicates negative profit (i.e., loss).

rate of income of the bank over the five-year period was 213.36% which was higher than the average growth rate of that in the state and it indicated

improvement in efficiency of the bank, but the growth of expenditure (134.75%) was also higher than the state level figure which indicated inefficiency on the part of the bank.

The amount of interest on advances of Mayu.GB rose from Rs. 245.37 lakhs in 1995-96 to Rs. 599.91 lakhs in 1999-2000, exhibiting increasing trend, but its share to the total income decreased from 32.94% to 25.70% during that period and showing a decreasing trend. While the amount of interest on investment, bank balances and others and its percentage share to the total income increased from Rs.437.77 lakhs and 58.77% in 1995-96 to Rs. 1550.93 lakhs and 66.45% in 1999-2000, showing increasing trend in amount but mixed trend in share during that period from 1995-96 to 1999-2000. On the other hand, in case of commission and other income marginal change was found during that period.

Table 6.7 shows that the amount and percentage share of interest on deposits to the total expenditure increased together from Rs. 570.05 lakhs and 47.32% in 1995-96 to Rs.1909.44 lakhs and 67.53% in 1999-2000, indicating continuous increasing trend during that period, these results had shown the improvement of the bank regarding mobilization of deposits. While the amount of interest on RBI/inter bank funds increased marginally and its percentage share decreased from 5.06% to 2.02%. Also, the amount of wage bill increased but its share to the total expenditure decreased from 36.18% to 23.81% showing mixed trend during that period. Other components of expenditure in amount and also in percentage shares were negligible.

The amount per branch and per employee productivity of Mayu.GB rose from Rs. 174.12 lakhs and Rs. 24.29 lakhs in 1995-96 to Rs. 396.83 lakhs and 55.47 lakhs in 1999-2000, showing continuous increasing trend during that time and their growth rate over the previous year first increased then decreased from 1997-98 to 1999-2000. As on 31 March, 2000 the per branch productivity of the bank (Rs. 396.83 lakhs) was higher than the average of that at the state level (Rs. 361.67 lakhs) which indicated the development of the performance of the bank regarding volume of business as well as its viability. But, at that time per employee productivity of the bank (Rs. 55.47 lakhs) was lower than the state level (Rs. 60.23 lakhs) which was non significant.

#### 6.5.1.4 Uttar Banga Kshetriya Gramin Bank (UBKGB)

The information about income, expenditure and productivity of Uttar Banga Kshetriya Gramin Bank (UBKGB) during the period from 1995-96 to 1999-2000 is presented in Table 6.8 which reveals the following :

The gross income of UBKGB was Rs. 894.78 lakhs in the year 1995-96 against the gross expenditure of Rs. 1453.97 lakhs at that time which revealed the losses of Rs. 559.19 lakhs. Out of total income, interest on investment and bank balances had highest percentage share of 61.55% (Rs. 550.78 lakhs) followed by interest on advances by 24.79% (Rs. 221.83 lakhs). While the share of commissions and other income were 10.54% (Rs.94.28 lakhs) and 3.12% (Rs. 27.89 lakhs) respectively only during that time. The total amount of income of the bank increased to Rs.1352.00 lakhs in the year 1997-98, while the total amount of expenditure increased to Rs.1338.00 lakhs at the same year which was lower than the total income and as a result the bank earned profit of Rs. 14.00 lakhs. But, in next year again incurred with loss of Rs.538.97 lakhs, because the growth rate of expenditure over previous year was higher than that of income of the bank, which indicated the diminution of efficiency of the bank.

As on 31 March, 2000 the amount of total income increased to Rs.2687.86 lakhs and total expenditure rose to Rs. 3019.14 lakhs, the growth rate of income (32.24% ) over previous year was higher than that of expenditure (17.41%), consequently the amount of loss decreased to Rs.331.38 lakhs. The bank could able to maintain that trend and turned to profit from loss in the year 2000-01 (Table 6.16).

Table 6.8 shows that the percentage share of interest on deposits and its amount increased from 44.90% and Rs. 652.76 lakhs in 1995-96 to 56.88% and Rs. 1717.23 lakhs in 1999-2000, showing mixed trend during that period. The shares of interest on RBI/inter Bank Funds were very little during that time, which lay between 0.20% and 4.78%.

Provisions and contingencies was a major component of the expenditure of the bank in the year 1996-97. Its share to the total income was 44.15% at that year, which was the most important cause behind the highest loss of the bank; the amount of loss was Rs.1138.00 lakhs. But it was astounding thing that the bank could able to decrease the amount of provisions and contingencies from Rs. 898.00

lakhs in 1995-97 to zero in 1997-98, turned to profit at Rs. 14.00 lakhs. The trend of other components of expenditure of the bank was mixed, among which wage bill was an important component and it contained from 19.32% to 34.45% share to the total expenditure of the bank during the period from 1995-96 to 1999-2000. The amount of wage bill rose from Rs.500.82 lakhs to Rs.879.10 lakhs during that period.

**Table 6.8: Income, Expenditure and Productivity of Uttar Banga Kshetriya Gramin Bank.**

		(Rs. in lakhs)				
Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	211.83 (24.79)	354.00 (39.51)	530.00 (39.20)	518.96 (25.53)	788.89 (29.35)
2.	Interest on Investment and Bank Balances	55078 (61.55)	517.00 (57.70)	787.00 (58.21)	1332.97 (65.58)	1628.17 (60.57)
3.	Commission	94.28 (10.54)	25.00 (2.79)	34.00 (2.51)	21.34 (1.05)	26.96 (1.00)
4.	Other Income	27.89 (3.14)	0.00 (0.00)	1.00 (0.07)	159.25 (7.84)	243.84 (9.07)
5	Total Income	894.78 (100.00)	896.00 (100.00)	1352.00 (100.00)	2032.52 (100.00)	2687.876 (100.00)
<b>EXPENDITURE</b>						
6	Interest on Deposits	652.76 (44.90)	633.00 (31.12)	799.00 (59.72)	1372.43 (53.37)	1717.23 (56.88)
7	Interest on RBI/ Inter Bank Funds	69.49 (4.78)	4.00 (0.20)	4.00 (0.30)	76.62 (2.98)	71.80 (2.38)
8	Interest on others	0.00 (0.00)	56.00 (2.75)	74.00 (5.53)	0.00 (0.00)	0.00 (0.00)
9	Wage Bill	500.82 (34.45)	393.00 (19.32)	433.00 (32.36)	758.91 (29.51)	879.10 (29.12)
10	Other Operating Expenses	144.50 (9.94)	50.00 (2.46)	49.00 (3.66)	191.34 (7.44)	211.24 (6.70)
11	Provisions and Contingencies	86.40 (5.94)	898.00 (44.15)	0.00 (0.00)	172.19 (6.70)	139.87 (4.63)
12	Total Expenditure	1453.97 (100.00)	2034.00 (100.00)	13338.00 (100.00)	2571.49 (100.00)	3019.24 (100.00)
13	Profit/Loss(5-12)	-55.19	-1138.00	14.00	-538.97	-331.38
<b>PRODUCTIVITY</b>						
14	Per Branch Productivity	154.50 (23.66)*	194.29 (25.75)*	220.57 (13.53)*	268.61 (21.78)*	342.86 (27.14)*
15	Per Employee Productivity	26.42 (23.28)*	33.13 (25.39)*	37.61 (13.52)*	46.28 (23.05)*	59.00 (27.66)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2.\* Growth rate over the previous year

3. '-' indicates negative profit (i.e., loss).

Table 6.8 also shows that per branch productivity of UBKGB both in amount and growth rate over the previous year increased from Rs.154.50 lakhs and 23.66% in 1995-96 to Rs.342.86 lakhs and 27.14% in 1999-2000, showing

continuous increasing trend in the case of amount but in the case of growth rate over previous year a mixed trend was found. These results were also true for the per employee productivity of the bank because the number of branch and number of employee more or less remained the same or changed marginally during that period. The amount of per branch and per employee productivity increased from Rs.154.50 lakhs and Rs.26.42 lakhs in 1995-96 to Rs.342.86 lakhs and Rs. 59.08 lakhs respectively in 1999-2000 and in every year during that period these were lower than the average figures at the state level. But the growth rates of per branch and per employee productivity of UBKGB (121.92% and 123.62%) over the five-year period from 1995-96 to 1999-2000 were higher than the average figure at the state level (119.81% and 118.29%) (Table 6.3) which indicated the faster improvement in efficiency of the bank than the state level as a whole.

#### **6.5.1.5 Nadia Gramin Bank (NGB)**

The details about the total income, expenditure and productivity of Nadia Gramin Bank (NGB) during the period from 1995-96 to 1999-2000 are presented in Table 6.9 which reveal the following :

The gross income of NGB stood at Rs.539.27 lakhs in 1995-96 moved up to Rs.1967.02 lakhs in 1999-2000, exhibiting 3.65 folds growth and showing continuous increasing trend during the period of 1995-96 to 1999-2000. While the gross expenditure of the bank rose from Rs.103.18 lakhs in 1995-96 to Rs.1787.52 lakhs in 1999-2000, indicating 1.62 folds increase during that period, i.e., the growth rate of income (264.76%) over the five-year period between 1995-96 and 1999-2000 was higher than the growth rate of expenditure (62.03%). As a result, the bank turned to profit from loss and the bank earned profit of Rs.179.50 lakhs as on 31 March, 2000.

The growth rate of income of NGB was more than the average figure of that at the state level (205.96%, Table 6.3), while the growth rate of expenditure was less than the average figure of that at the state level (106.70%) during the five-year period from 1995-96 to 1999-2000, which indicated the improvement of viability and efficiency of the bank.

Table 6.9 shows that the percentage share of interest on advance to the total income of the bank decreased from 24.87% in 1995-96 to 20.14% in 1999-2000 showing continuous increasing trend, but its amount increased from Rs.

134.10 lakhs to Rs.396.14 lakhs and exhibiting rising trend during that period. On the other hand, the share of interest on investment and bank balances to the total income was the highest in every year during that period which lay between 71.55% to 75.61%. It was the highest in the year 1999-2000 and at that time the bank earned maximum profit during that period, i.e., interest on investment and bank balances was an important reason to earn profit by the bank. The amount of other components of income were not considerable during that time.

**Table 6.9 : Income, Expenditure and Productivity of Nadia Gramin Bank.**

(Rs. in lakhs)

Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	134.10 (24.87)	232.00 (24.34)	306.00 (23.85)	373.64 (23.28)	396.14 (20.14)
2.	Interest on Investment and Bank Balances	400.35 (74.24)	709.00 (74.40)	918.00 (71.55)	1175.30 (73.24)	1487.31 (75.61)
3.	Commission	4.82 (0.89)	12.00 (1.26)	58.00 (4.52)	11.17 (0.70)	19.61 (5.00)
4.	Other Income	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	44.45 (2.78)	63.06 (3.21)
5	Total Income	539.27 (100.00)	953.00 (100.00)	1283.00 (100.00)	1604.65 (100.00)	1967.02 (100.00)
	<b>EXPENDITURE</b>					
6	Interest on Deposits	372.77 (33.79)	551.00 (40.40)	708.00 (49.82)	902.34 (58.45)	1157.41 (64.75)
7	Interest on RBI/ Inter Bank Funds	76.97 (6.98)	100.00 (7.33)	116.00 (8.16)	134.92 (8.74)	142.19 (7.95)
8	Interest on others	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
9	Wage Bill	240.23 (21.78)	287.00 (21.04)	310.00 (21.82)	367.68 (23.82)	385.64 (21.57)
10	Other Operating Expenses	54.10 (4.90)	28.00 (2.05)	30.00 (2.11)	28.28 (1.83)	44.88 (2.51)
11	Provisions and Contingencies	359.11 (32.55)	398.00 (29.18)	257.00 (18.09)	110.60 (7.16)	57.40 (3.21)
12	Total Expenditure	1103.18 (100.00)	1364.00 (100.00)	1421.00 (100.00)	1543.82 (100.00)	1787.52 (100.00)
13	Profit/Loss(5-12)	-563.91	-411.00	-138.00	60.83	179.50
	<b>PRODUCTIVITY</b>					
14	Per Branch Productivity	137.56 (30.43)*	161.11 (17.12)*	201.85 (25.29)*	248.11 (22.92)*	295.02 (18.91)*
15	Per Employee Productivity	27.94 (28.82)*	32.83 (17.50)*	41.13 (25.28)*	51.20 (24.48)*	61.07 (19.28)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2.\* Growth rate over the previous year

3. '-' indicates negative profit (i.e., loss).

Table 6.9 also shows that the per branch and per employee productivity of NGB both rose from Rs. 137.56 lakhs and Rs. 27.94 lakhs in 1995-96 to Rs. 295.02 lakhs and Rs. 61.07 lakhs in 1999-2000, showing continuous increasing trend, but their growth rate over previous year exhibited mixed trend which was the maximum in the year 1995-96 and the minimum in 1996-97. As on 31 March, 2000 the amount of per branch productivity of the bank (Rs. 205.02 lakhs) was lower than the state level (Rs. 361.67 lakhs, Table 6.2). But the amount of per employee productivity (Rs. 61.07 lakhs) was higher than the state level (Rs. 60.23 lakhs) in every year during the period. Consequently, the growth rate of per branch productivity (114.47%) over five-year period between 1995-96 and 1999-2000 was lower than the average figure of that at the state level (119.81%) and per employee productivity (118.58%) was little higher than the state level (118.29%).

#### **6.5.1.6 Bardhaman Gramin Bank (BGB)**

The details regarding income, expenditure and productivity during the period from 1995-96 to 1999-2000 of Bardhaman Gramin Bank (BGB) are given in Table 6.10, which reveal the following :

The total income of BGB which stood at Rs.1216.97 lakhs in 1995-96 rose to Rs. 3595.90 lakhs in 1999-2000, showing a rising trend and exhibiting 2.95 folds growth during the period from 1995-96 to 1999-2000. While the total amount of expenditure of the bank increased from Rs. 1411.50 lakhs to Rs. 3495.70 lakhs indicating continuous rising trend also and showing 2.48 folds growth during that period. The growth of income was greater than the growth of expenditure as a result, the bank turned from loss of Rs. 194.53 lakhs in 1995-96 to profit of Rs. 100.20 lakhs in 1999-2000 and the highest profit was earned in the year 1997-98 at Rs. 107.00 lakhs.

The amount of interest on investment and bank balances increased from Rs. 930.63 lakhs in 1995-96 to Rs. 2723.88 lakhs in 1999-2000, it had the highest percentage share to the total income in every year during the period from 1995-96 to 1999-2000 which ranged between 71.97% and 77.64%. While the second largest component of total income of the bank was interest on advances which rose from Rs. 205.35 lakhs to Rs. 667.57 lakhs during the period from 1995-96 to 1999-2000. Its share ranged between 16.45% and 19.04% during that period. The maximum share or the proportion (19.04%) was found in the year 1996-97. Like

other RRBs in the state, the amount of the other components of the income, viz., commission and other income shares were negligible, the percentage share of commission ranged between 3.81% and 6.97% only during that period.

**Table 6.10 : Income, Expenditure and Productivity of Bardhaman Gramin Bank.**

(Rs. in lakhs)

Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	205.35 (16.87)	358.00 (19.04)	380.00 (16.45)	533.92 (18.05)	667.57 (18.56)
2.	Interest on Investment and Bank Balances	930.63 (76.47)	1353.00 (71.97)	1785.00 (77.27)	2296.12 (77.64)	2723.88 (75.75)
3.	Commission	11.83 (0.97)	38.00 (2.02)	35.00 (1.52)	14.70 (0.50)	36.67 (1.02)
4.	Other Income	69.16 (5.68)	131.00 (6.97)	109.00 (4.72)	112.83 (3.81)	167.78 (4.67)
5	Total Income	1216.97 (100.00)	1880.00 (100.00)	2310.00 (100.00)	2957.57 (100.00)	3595.90 (100.00)
	<b>EXPENDITURE</b>					
6	Interest on Deposits	686.14 (48.61)	1110.00 (62.5)	1522.00 (69.09)	2061.52 (70.20)	2590.41 (74.10)
7	Interest on RBI/ Inter Bank Funds	62.68 (4.44)	60.00 (3.38)	68.00 (3.09)	67.26 (2.29)	81.87 (2.34)
8	Interest on others	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)**
9	Wage Bill	387.91 (27.43)	523.00 (29.45)	518.00 (23.51)	568.70 (19.37)	600.25 (17.17)
10	Other Operating Expenses	79.13 (5.61)	55.00 (3.10)	58.00 (2.63)	85.95 (2.93)	65.77 (1.88)
11	Provisions and Contingencies	195.64 (13.86)	18.00 (1.58)	38.00 (1.72)	153.19 (5.22)	157.38 (4.50)
12	Total Expenditure					
13	Profit/Loss(5-12)	-194.53	104.00	107.00	20.87	100.20
	<b>PRODUCTIVITY</b>					
14	Per Branch Productivity	168.24 (27.74)*	216.68 (28.99)*	251.09 (15.88)*	316.53 (26.06)*	362.15 (14.41)*
15	Per Employee Productivity	31.16 (29.08)*	40.21 (29.04)*	46.59 (15.87)*	58.50 (25.56)*	67.06 (14.63)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2.\* Growth rate over the previous year

3. '-' indicates negative profit (i.e., loss).

On the other hand, it could be seen from Table 6.10 that the interest on deposits increased from Rs. 686.14 lakhs to Rs. 2590.41 lakhs during that period from 1995-96 to 1999-2000, indicating a continuous rising trend, its percentage share to the total income also increased from 48.61% to 74.10% during the same time and its the highest proportion (74.10%) was in the year 1999-2000. It was the largest component of total expenditure of the bank in every year during that period, which revealed a continuous growth of deposits mobilization. Another component,

namely, wage bill was also important to the bank. Its share to the total expenditure ranged between 17.17% and 27.43% during that time and rest components of expenditure were negligible.

Table 6.10 also shows that the per branch and per employee productivity of BGB increased from Rs. 168.24 lakhs and Rs. 31.16 lakhs in 1995-96 to Rs. 362.1 lakhs and Rs. 67.06 lakh in 1999-2000 respectively, those were higher in every year during the period from 1995-96 to 1999-2000 than their average figures at state level (Rs. 361.67 lakhs and Rs. 60.23 lakhs, Table 3.2) which indicated an improved performance of the bank.

#### **6.5.1.7 Sagar Gramin Bank (SGB)**

In Table 6.11 the information regarding income, expenditure and productivity of Sagar Gramin Bank (SGB) during the period of 1995-96 to 1999-2000 is presented which reveals the following :

The amount of gross income of SGB raised from Rs. 1356.53 lakhs in 1995-96 to Rs. 3974.23 lakhs in 1999-2000, showing a continuous increasing trend and indicating about 2.93 folds increase during the period between 1995-96 and 1999-2000 . While the amount of gross expenditure rose from Rs. 1922.84 lakhs in 1995-96 to Rs. 3824.51 lakhs in 1999-2000, exhibiting a mixed trend and had shown about 1.99 folds during that period.

Consequently, the bank turned from loss of Rs. 566.31 lakhs in 1995-96 to profit of Rs. 149.72 lakhs in 1999-2000. The highest loss (Rs. 1676.00 lakhs) of the bank was in the year 1996-97 whereas the highest profit (Rs. 149.72 lakhs) was during 1999-2000 over the five -year period from 1995-96 to 1999-2000.

The growth of income ( 192.97%) of the bank over that period was less than that at the state level (205.21%) which was not more significant. On the other hand, the growth rate of expenditure (98.90%) was also less than that at the state level (106.70%) but it was significant for the bank.

Table 6.11 shows that the amount of interest on investment and bank balances increased from Rs. 1152.92 lakhs in 1995-96 to Rs. 3342.50 lakhs in 1999-2000, exhibiting a continuous increasing trend and indicating 2.90 folds growth during that period. Its percentage share to the total income of the SGB was highest in all the years during that period in comparison to the all others RRBs in

the state. As on 31 March 1999, the percentage share of interest on investment and bank balances to the total income of the bank was 86.84% as against 82.17% in the previous year. As a result the percentage shares of all other components of income were insignificant though the percentage share of interest on advances ranged between 11.39% and 19.49%.

**Table 6.11 : Income, Expenditure and Productivity of Sagar Gramin Bank.**

(Rs.in lakhs)

Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	171.13 (12.62)	398.00 (19.49)	412.00 (15.93)	370.50 (11.39)	493.80 (12.43)
2.	Interest on Investment and Bank Balances	1152.92 (84.99)	1540.00 (75.42)	2125.00 (82.17)	2824.07 (86.84)	3342.50 (84.10)
3.	Commission	28.93 (2.13)	85.00 (4.16)	35.00 (1.35)	56.12 (1.73)	49.01 (1.23)
4.	Other Income	3.55 (0.26)	19.00 (0.93)	14.00 (0.54)	1.21 (0.04)	88.84 (2.24)
5	Total Income	1356.53 (100.00)	2042.00 (100.00)	2586.00 (100.00)	3251.90 (100.00)	3974.23 (100.00)
	<b>EXPENDITURE</b>					
6	Interest on Deposits	941.77 (48.98)	1292.00 (34.75)	1705.00 (66.34)	2247.09 (69.38)	2804.52 (73.33)
7	Interest on RBI/ Inter Bank Funds	109.22 (5.68)	28.00 (0.75)	27.00 (1.05)	0.00 (0.00)	0.00 (0.00)
8	Interest on others	0.00 (0.00)	71.00 (1.91)	70.00 (2.72)	68.67 (2.12)	63.54 (1.66)
9	Wage Bill	548.31 (28.52)	664.00 (17.86)	685.00 (26.65)	838.92 (25.90)	847.36 (22.16)
10	Other Operating Expenses	65.54 (3.41)	163.00 (4.38)	80.00 (3.11)	83.31 (2.57)	109.09 (2.85)
11	Provisions and Contingencies	258.00 (13.42)	1500.00 (40.34)	3.00 (0.12)	0.76 (0.02)	0.00 (0.00)
12	Total Expenditure	1922.84 (100.00)	3718.00 (100.00)	2570.00 (100.00)	3238.75 (100.00)	3824.51 (100.00)
13	Profit/Loss(5-12)	-566.31	-1676.00	16.00	13.15	149.72
	<b>PRODUCTIVITY</b>					
14	Per Branch Productivity	173.72 (19.17)*	211.42 (21.70)*	266.11 (25.87)*	319.09 (19.91)*	393.74 (23.39)*
15	Per Employee Productivity	30.04 (19.68)*	36.67 (22.07)*	46.16 (25.88)*	55.59 (20.43)*	68.71 (23.60)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2. \* Growth rate over the previous year

3. '-' indicates negative profit (i.e., loss).

On the other hand, the percentage share of interest on deposits increased from 48.98% in 1995-96 to 73.33% in 1999-2000. Except the year 1996-97 in every year during the period from 1995-96 to 1999-2000 that share increased over the previous year which indicated the improvement of efficiency of the bank regarding the mobilization of deposits.

The cost of provisions and contingencies was an important reason behind the loss of the bank. In 1996-97, the bank incurred a loss of Rs. 1676.00 lakhs (the highest loss during that period) because in that year the share of provisions and contingencies to the total expenditure was 40.34% which was the highest proportion in comparison to the shares of all other components and expenditure. The bank earned profit from 1997-98 by decreasing the share of provisions of contingencies tremendously. The share of wage bill lay between 17.86% and 28.52% during that period from 1995-96 to 1999-2000 and the shares of other components of expenditure were negligible.

Table 6.11 also shows that the per branch and per employee productivity of the bank rose from Rs. 173.72 lakhs and Rs. 30.04 lakhs in 1995-96 to Rs. 393.74 lakhs and Rs. 68.71 lakhs in 1999-2000, exhibiting a continuous increasing trend and had shown 2.27 folds and 2.29 folds growth respectively over that period. In every year during that period from 1995-96 to 1999-2000 the per branch and per employee productivity of the bank was greater than that at the state level which indicated better performance of the bank regarding productivity in comparison to some other RRBs in the state.

#### **6.5.1.8 Howrah Gramin Bank (HGB)**

The details regarding income, expenditure and productivity of Howrah Gramin Bank (HGB) during the period from 1995-96 to 1999-2000 are presented in Table 6.12 which reveal the following :

The amount of total income of HGB which stood at Rs.960.28 lakhs in 1995-96, rose to Rs. 2582.10 lakhs in 1999-2000, showing a continuous rising trend, indicating 2.69 folds growth during the period from 1995-96 to 1999-2000. While the total amount of expenditure of the bank increased from Rs.924.83 lakhs to Rs. 2552.51 lakhs during that period, showing also a continuous increasing trend and indicating 2.76 folds growth during the same time.

The growth rate of income (168.89%) over the five-year period from 1995-96 to 1999-2000 was lower than that of expenditure (176.00%), consequently the profit of the bank decreased from Rs. 35.45 lakhs to Rs. 29.59 lakhs during that period. It was the only RRB in the state whose growth rate of income was lower than that of expenditure.

During the period from 1995-96 to 1999-2000 in every year HGB earned profit in the state. The highest profit of the bank was in the year 1996-97 and the lowest in 1999-2000.

**Table 6.12: Income, Expenditure and Productivity of Howrah Gramin Bank.**

(Rs. in lakhs)						
Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	214.27 (22.31)	295.00 (21.21)	284.00 (16.89)	330.21 (15.73)	411.41 (15.93)
2.	Interest on Investment and Bank Balances	696.56 (72.54)	1038.00 (74.62)	1319.00 (78.47)	1688.62 (80.44)	2055.82 (79.62)
3.	Commission	33.34 (3.47)	41.00 (2.95)	52.00 (3.09)	61.35 (2.92)	95.16 (3.69)
4.	Other Income	16.11 (1.68)	17.00 (1.22)	26.00 (1.55)	19.15 (0.91)	19.71 (0.76)
5	Total Income	960.28 (100.00)	1391.00 (100.00)	1681.00 (100.00)	2099.33 (100.00)	2582.10 (100.00)
<b>EXPENDITURE</b>						
6	Interest on Deposits	515.05 (55.69)	806.00 (64.02)	1107.00 (70.20)	1422.06 (71.45)	185.12 (72.52)
7	Interest on RBI/ Inter Bank Funds	33.30 (30.60)	36.00 (2.86)	45.00 (2.85)	50.38 (2.53)	74.22 (2.91)
8	Interest on others	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.05 (0.00)*	0.22 (0.01)
9	Wage Bill	268.30 (29.01)	295.0 (23.43)	321.00 (20.36)	364.31 (18.30)	377.51 (14.79)
10	Other Operating Expenses	32.18 (3.48)	56.00 (4.45)	52.00 (3.30)	54.46 (2.74)	65.13 (2.55)
11	Provisions and Contingencies	76.00 (8.22)	66.00 (5.24)	52.00 (3.30)	99.06 (4.98)	184.31 (7.22)
12	Total Expenditure	924.83 (100.00)	1259.00 (100.00)	1577.00 (100.00)	1990.31 (100.00)	1552.51 (100.00)
13	Profit/Loss(5-12)	35.45	132.00	104.00	109.02	29.59
<b>PRODUCTIVITY</b>						
14	Per Branch Productivity	166.76 (26.91)*	218.16 (30.82)*	273.96 (25.31)*	343.30 (25.31)*	418.32 (21.85)*
15	Per Employee Productivity	32.05 (26.93)*	42.06 (31.23)*	52.82 (25.58)*	65.98 (24.91)*	79.36 (20.28)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2.\* Growth rate over the previous year

3. '-' indicates negative profit (i.e., loss).

As other RRBs in the state the percentage share of interest on investment and bank balances to the total income stood at 72.54% in 1995-96, rose to 79.62% in 1999-2000, it was the highest in every year in comparison to the other components of income.

It is also revealed from the Table 6.12 that the percentage share of interest on advances to the total income decreased from 22.31% to 15.93% during that period and the shares of other component of the income were negligible.

In the year 1995-96, the amount of interest on deposits was Rs. 515.05 lakhs and its share to the total expenditure was 55.69%, both (amount and share) increased to Rs. 1851.12 lakhs and 72.52% respectively in 1999-2000, showing a continuous rising trend during the period from 1995-96 to 1999-2000. The share of interest on deposits to the total expenditure of the bank was the highest in every year during that period.

While the proportion of wage bill to the total expenditure decreased from 29.01% in 1995-96 to 14.79% in 1999-2000 which indicated improvement in the efficiency of the bank. The share of provisions and contingencies lay between 3.30% and 8.22% and the shares of all other components of expenditure were insignificant.

As may be seen from Table 6.12 that the per branch productivity as well as per employee productivity of HGB increased from Rs. 166.76 lakhs and Rs. 32.05 lakhs in 1995-96 to Rs. 418.32 lakhs and 79.36 lakhs in 1999-2000 respectively, exhibiting a continuous increasing trend in the both cases. The growth rates of them over the previous year was the highest in the year 1996-97 (30.82% and 31.23%) and their growth rates over the five-year period from 1995-96 to 1999-2000 (150.85% and 147.61%) were much higher than the state level (119.81% and 118.29%) and in every year during that period these were higher in comparison with all other RRBs in the state which indicated improvement in efficiency of the bank at high level than that at the state level as a whole.

#### **6.5.1.9 Murshidabad Gramin Bank (MGB)**

An analysis regarding income, expenditure and productivity of Murshidabad Gramin Bank (MGB) during the period from 1995-96 to 1999-2000 is furnished in Table 6.13, which discloses the following.

The amount of total income of MGB rose from Rs. 294.70 lakhs in 1995-96 to Rs. 1156.99 lakhs in 1999-2000, showing a continuous increasing trend and exhibiting 3.92 folds growth during the period from 1995-96 to 1999-2000. The growth rate of income (392.60%) over the five-year period was the highest

compared to all other RRBs in the state as well as the average figure of that at the state level (205.21%). While the amount of total expenditure increased from Rs. 414.06 lakhs in 1995-96 to Rs. 1129.21 lakhs in 1999-2000, showing a mixed trend and indicating 2.72 folds growth during that period which was lower than the growth of income. As a result, the bank turned from loss of Rs.119.36 lakhs in 1995-96 to profit of Rs. 27.78 lakhs in 1999-2000.

**Table 6.13 : Income, Expenditure and Productivity of Murshidabad Gramin Bank.**

(Rs. in lakhs)						
Sl.No.	INCOME	1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest on Advances	131.63 (44.67)	165.44 (32.82)	176.00 (26.79)	221.45 (26.42)	286.39 (24.75)
2.	Interest on Investment and Bank Balances	154.00 (52.26)	322.45 (63.97)	454.00 (69.10)	562.92 (67.16)	802.80 (69.39)
3.	Commission	4.18 (1.42)	7.97 (1.58)	10.00 (1.52)	5.92 (0.71)	14.36 (1.24)
4.	Other Income	4.89 (1.66)	8.20 (1.63)	17.00 (2.59)	47.85 (5.71)	53.44 (4.62)
5	Total Income	294.70 (100.00)	504.06 (100.00)	657.00 (100.00)	838.14 (100.00)	1156.99 (100.00)
<b>EXPENDITURE</b>						
6	Interest on Deposits	174.97 (42.26)	270.78 (54.38)	391.00 (60.53)	559.31 (57.42)	760.31 (67.33)
7	Interest on RBI/ Inter Bank Funds	30.15 (7.28)	28.99 (5.82)	38.00 (5.88)	38.51 (3.95)	46.38 (4.11)
8	Interest on others	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.29 (0.03)	0.20 (0.02)
9	Wage Bill	122.91 (29.68)	136.09 (27.33)	144.00 (22.29)	188.75 (19.38)	201.12 (17.81)
10	Other Operating Expenses	53.03 (12.81)	37.05 (7.44)	38.00 (5.88)	39.08 (4.01)	44.42 (3.93)
11	Provisions and Contingencies	33.00 (7.97)	25.00 (5.02)	34.00 (5.26)	148.16 (15.21)	76.78 (6.80)
12	Total Expenditure	414.06 (100.00)	497.91 (100.00)	646.00 (100.00)	974.10 (100.00)	1129.21 (100.00)
13	Profit/Loss(5-12)	-119.36	6.15	11.00	-135.96	27.78
<b>PRODUCTIVITY</b>						
14	Per Branch Productivity	143.48 (40.33)*	158.50 (10.47)*	192.22 (21.37)*	246.76 (28.37)*	321.54 (30.30)*
15	Per Employee Productivity	32.79 (40.25)*	36.23 (10.49)*	43.94 (21.28)*	56.40 (28.36)*	73.49 (30.30)*

Source : Compiled and computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : 1. Figures in brackets are the percentages shares to the total amount.

2. \* Growth rate over the previous year

3. '-' indicates negative profit (i.e., loss).

It is revealed from the Table 6.13 that the amount of interest on advances increased from Rs. 131.63 lakhs to 286.39 lakhs during that period but its share to the total income decreased from 44.67% to 24.75% at the same time. While the amount and share of interest on investment and bank balances both increased from

Rs. 154.00 lakhs and 52.26% in 1995-96 to Rs. 802.80 lakhs and 69.39% in 1999-2000. The interest earned was mainly the source of income and other components of income were not so important during that period.

On the other hand, the amount and percentage share of interest on deposits, to the total expenditure moved up from Rs. 174.97 lakhs and 42.26% in 1995-96 to Rs. 760.31 lakhs and 67.33% in 1999-2000, showing a continuous rising trend, and a mixed trend respectively during that period. The percentage share of wage bill to the total expenditure decreased from 29.68% in 1995-96 to 17.81% in 1999-2000 though its amount increased during the period between 1995-96 and 1999-2000.

As may be seen from the Table 6.13 that the amount of provisions and contingencies in the year 1998-99 was Rs.148.16 lakhs (15.2% share to the total expenditure) which was an important cause behind the loss of Rs.135.96 lakhs of the bank during that year. The percentage share, on the other hand, of other operating expenditure decreased from 12.81% in 1995-96 to 3.93% in 1999-2000, showing a continuous decreasing trend during that period which indicated the improvement of efficiency of the bank.

Table 6.13 also shows that the per branch and per employee productivity of the bank increased from Rs.143.48 lakhs and Rs.32.79 lakhs in 1995-96 to Rs. 321.54 lakhs and Rs.703.49 lakhs in 1999-2000, exhibiting a rising trend during that period of 1995-96 to 1999-2000. The growth rates of per branch and per employee productivity over the previous year was the highest in the year 1995-96 (40.23% and 40.25%), followed by the year 1999-2000 (both 30.30%), while it was the lowest in 1996-97 (10.47% and 10.49%).

Over the five-year period from 1995-96 to 1999-2000 the growth rates of both per branch and per employee productivity (124.10% and 124.12%) were higher than that at the state level (119.81% and 118.29%) which implied the growth inefficiency of the bank in comparison to some other RRBs in the state.

During the year 1999-2000, the per branch productivity (Rs. 321.54 lakhs) of MGB was lower than the average figure of that at the state level (Rs. 361.67 lakhs) while the per employee productivity of the bank (Rs. 73.49 lakhs) was higher than the state level (Rs. 60.23 lakhs) which showed that the improvement of per branch productivity was unsatisfactory, but in case of per employee productivity it was

satisfactory in comparison with the average figures of all RRBs in the state as a whole.

### 6.5.2 Per Branch and per Employee Income and Expenditure

This study also attempted to find out the comparative analysis about pattern of per branch and per employee average income, expenditure and profit or loss of all RRBs in the state of West Bengal for the year 1995-96 and 1999-2000 which are presented in Table 6.14 and Table 6.15.

**Table 6.14 : Per Branch Average Income , Expenditure and Profit/Loss of RRBs of West Bengal.**

(Rs. in lakhs)

Year →		1995-96			1999-2000		
Sl.No.	Name of the RRBs	Income per branch	Expenditure per branch	Profit/loss per branch	Income per branch	Expenditure per branch	Profit/loss per branch
1.	GGB	7.64	16.73	-9.09	22.73	28.36	-5.63
2.	Mal.GB	10.78	17.06	-6.28	32.94	32.69	0.25
3.	Mayu.GB	11.46	18.53	-7.07	35.91	43.50	-7.59
4.	UBKGB	8.06	13.10	-5.04	24.00	26.95	-2.95
5.	NGB	8.30	16.97	-8.67	30.26	27.50	2.76
6.	BGB	13.52	15.68	-2.16	39.95	38.84	1.11
7.	SGB	11.80	16.72	-4.92	34.56	33.26	1.30
8.	HGB	16.28	15.68	0.60	43.76	43.26	0.50
9.	MGB	7.37	10.35	-2.98	28.92	28.23	0.69
<b>West Bengal</b>		<b>10.41</b>	<b>16.01</b>	<b>-5.60</b>	<b>31.53</b>	<b>32.82</b>	<b>-1.29</b>

Source : Computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD (various issues).

Note : '-' sign indicates loss

During the year 1995-96, the per branch average income of HGB which stood at Rs.16.28 lakhs, rose to Rs. 43.76 lakhs in 1999-2000, showing 2.69 folds growth, was the highest in comparison with all other RRBs of the state. Followed by the BGB, its per branch income reached at Rs. 39.45 lakhs in 1999-2000 as against Rs. 13.52 lakhs in 1995-96, indicating 2.95 folds during the period from 1995-96 to 1999-2000.

On the other hand, the per branch income of MGB (Rs.7.37 lakhs) was the lowest in the state in 1995-96, followed by GGB (Rs. 7.64 lakhs), UBKGB (Rs. 8.06 lakhs) and NGB (Rs. 8.30 lakhs). It is remarkable that for GGB and NGB the losses were more than their income, the amount of losses stood at Rs. 9.09 lakhs and Rs. 8.67 lakhs respectively during that year (Table 6.14).

At the state level, the per branch average income of RRBs rose from Rs. 10.41 lakhs in 1995-96 to Rs. 31.53 lakhs in 1999-2000, exhibiting 3.03 folds growth over the period of 1995-96 and 1999-2000. While the per branch average expenditure at the state level increased from Rs. 16.01 lakhs to Rs.32.82 lakhs, showing 2.05 folds growth during that period. The growth rate of income was faster than the growth rate of expenditure, as a result the amount of per branch loss of Rs. 5.60 lakhs was reduced to Rs. 1.29 lakhs during the same time period.

It is also revealed from Table 6.14 that in the year 1995-96 the per branch expenditure of Mayu. GB was the highest at Rs. 18.53 lakhs, followed by Mal.GB at Rs. 17.06 lakhs while for MGB that was the lowest at Rs. 10.35 lakhs, followed by UBKGB at Rs. 13.10 lakhs.

In the year 1999-2000, the amount of per branch expenditure of Mayu.GB was also the highest at Rs. 43.50 lakhs, followed by HGB at Rs. 43.26 lakhs and that was the lowest for UBKGB at Rs. 26.95 followed by NGB at Rs. 27.50 lakhs. But the amount of per branch income of GGB (Rs. 22.73 lakhs) was the lowest in comparison to all other RRBs in the state during the same time.

Table 6.14 also shows that in 1999-2000 three RRBs, viz., GGB, Mayu.GB and UBKGB were in losses and out of those Mayu. GB incurred the highest per branch loss of Rs. 7.59 lakhs in the state. While NGB earned the highest profit (Rs. 2.76 lakhs) as per branch in the state at that year, followed by SGB (Rs.1.30 lakhs) which indicated the improvement of their efficiency.

It could be seen from Table 6.15 that in 1995-96 the per employee average income of HGB (Rs. 3.13 lakhs) was the highest in the state, followed by BGB (Rs. 2.50 lakhs) whereas the amount of per employee average expenditure of NGB (Rs. 3.45 lakhs) was the highest in the state at the same year. On the other hand, the amount of per employee income of GGB (Rs.1.20 lakhs) was the lowest in the state, followed by UBKGB (Rs.1.38 lakhs).

**Table 6.15 : Per Employee Average Income , Expenditure and Profit/Loss of RRBs of West Bengal.**

(Rs. in lakhs)

Year →		1995-96			1999-2000		
Sl.No.	Name of the RRBs	Income per Employee	Expenditure per Employee	Profit/loss per Employee	Income per Employee	Expenditure per Employee	Profit/loss per Employee
1.	GGB	1.20	2.63	-1.43	3.74	4.67	-0.93
2.	Mal.GB	1.60	2.54	-0.94	4.94	4.90	0.04
3.	Mayu.GB	1.60	2.59	-0.99	5.02	6.08	-1.06
4.	UBKGB	1.38	2.24	-0.86	4.15	4.66	-0.51
5.	NGB	1.69	3.45	-1.76	6.26	5.69	0.57
6.	BGB	2.50	2.90	-0.40	7.40	7.19	0.21
7.	SGB	2.04	2.89	-0.85	6.03	5.80	0.23
8.	HGB	3.13	3.01	0.12	8.30	8.21	0.09
9.	MGB	1.68	2.37	-0.69	6.61	6.45	0.16
West	Bengal	1.74	2.68	-0.94	5.25	5.47	-0.22

Source : Computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Note : '-' sign indicates loss

It is also revealed from Table 6.15 that due to the highest per employee expenditure NGB incurred the highest loss of Rs. 1.76 lakhs in the state during the year 1995-96, followed by GGB at Rs. 1.43 lakhs. While only HGB earned per employee profit of Rs. 0.12 lakhs in West Bengal and the amount of per employee loss of BGB was the lowest (Rs. 0.40 lakhs) at the same time and for the rest seven RRBs in the state the losses were between Rs. 0.69 lakhs and 0.99 lakhs.

At the state level, in the year 1995-96, the amount of per employee average income was Rs. 1.74 lakhs against the per employee expenditure of Rs. 2.68 lakhs. Consequently, the per employee loss was at Rs. 0.94 lakhs during that time. In 1999-2000, the per employee income and expenditure increased to Rs. 5.25 lakhs and Rs. 5.47 lakhs respectively and the amount of loss reduced to Rs. 0.22 lakhs. It indicates that the growth of income (3.02 folds) was higher than the growth of expenditure (2.04 folds) over the period from 1995-96 to 1999-2000.

During the year 1999-2000 for the four RRBs, viz., GGB, Mal.GB, Mayu.GB and UBKGB the per employee income were lower than that at the state level and except Mayu.GB their per employee expenditure were also lower than that at the state level. For the rest five RRBs, viz., NGB, BGB, SGB, HGB and MGB both per employee income and expenditure were higher than the figures at the state level. Out of those, HGB had the highest per employee income (Rs. 8.30 lakh) and expenditure (Rs. 8.21 lakhs), followed by BGB at Rs. 7.40 lakhs and Rs. 7.19 lakhs respectively.

At the same year, except GGB, Mayu.GB and UBKGB for all RRBs in the state the per employee profit was positive. Mayu. GB incurred the highest negative per employee profit at Rs. 1.06 lakhs while NGB could able to earn per employee profit of Rs. 0.57 lakhs.

Our above analysis indicates that regarding growth of profit the improvement in efficiency of NGB was the highest in comparison with all other RRBs in the state over the period from 1995-96 to 1999-2000. On the other hand, for Mayu.GB, it was the lowest in the state during that period.

### **6.5.3 Profit / Loss (1993-94 – 2000-01)**

The details about the profit or loss of all RRBs during the period from 1993-94 to 2000-2001 are presented in Table 6.16 which reveal the following :

All RRBs in West Bengal were in losses during the year 1993-94 and 1994-95 and only HGB turned from loss to profit in 1995-96. Except the year 1994-95, in every year from 1993-94 to 1999-2000 GGB incurred the highest losses in comparison with the all other RRBs in the state. In 1994-95, the amount of loss of Mal.GB was Rs. 1048.31 lakhs which was the highest in the state. The amount of losses of GGB and Mal.GB increased from Rs. 551.83 lakhs and 355.90 lakhs in 1993-94 to Rs. 1866.73 lakhs and Rs. 1594.00 lakhs in 1996-97 respectively. In the year 1996-97, GGB, Mal.GB, Mayu.GB, UBKGB and SGB showed their maximum losses during the period from 1993-94 to 1999-2000. As a result, the amount of total losses of all RRBs in West Bengal was the highest at Rs. 7167.58 lacs in 1996-97 during that period, followed by the year 1995-96 at Rs. 4832.55 lakhs.

**Table 6.16 : Total amount of Profit / Loss of RRBs in West Bengal (from 1993-94 to 2000-2001).**

(Rs. in lakhs)

Sl.No	Name of RRBs	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
1.	GGB	-551.83	-806.08	-1299.91	-1866.73	-958.00	-1563.88	-831.99	110.00
2.	Mal.GB	-355.90	-1048.31	-1105.04	-1594.00	-808.00	-290.21	44.33	250.00
3.	Mayu.GB	-338.36	-434.47	-459.75	-774.00	-312.00	-350.77	-493.67	155.00
4.	UBKGB	-276.58	-348.06	-559.19	-1138.00	14.00	-538.97	-331.38	70.00
5.	NGB	-167.89	-132.19	-563.91	-411.00	-138.00	60.83	179.50	184.00
6.	BGB	-163.17	-284.17	-194.53	104.00	107.00	20.87	100.20	115.00
7.	SGB	-282.71	-164.62	-566.31	-1676.00	16.00	13.00	149.72	503.00
8.	HGB	-47.89	-225.20	35.45	132.00	104.00	109.02	29.59	122.00
9.	MGB	-76.77	-299.60	-119.36	6.15	11.00	-135.96	27.78	56.00
West Bengal		-2261.10	-3748.70	-4832.55	-7167.58	-1964.00	-2675.92	-1125.92	1565.00

Source : Statistics on RRBs, NABARD (various issues) and Statistical Tables Relating to Bank in India, RBI Bulletin (1997-2000).

Note : '-' sign indicates the negative profit (i.e. loss)

For all RRBs in the state the amount of losses was decreasing from 1997-98 and finally in 2000-2001 turned from loss to profit. SGB earned the highest profit (Rs. 503.00 lakhs) in the state, followed by Mal.GB (Rs. 250.00 lakhs) and NGB (Rs. 184.00 lakhs) during the year 2000-2001. Consequently, the total profit of all RRBs in the state turned to positive figure of Rs. 1565.00 lakhs in 2000-2001 from negative profit of Rs. 1125.92 lakhs in the previous year. So it may be concluded that the financial performance of the banks in the year 2000-01 was satisfactory. In other words, the RRBs in the state were financially viable institutions and improved their profitability performance during 2000-2001.

#### 6.5.4 Ratio Analysis of Performance Indicators of all RRBs in the State

Financial ratio is an effective tool in measuring the performance of banks in general and rural financing in particular. This ratio represents the relationship between the two accounting figures expressed mathematically. In the financial analysis, a ratio is used as an index or yardstick for evaluating the financial performance or status of a bank or an institution against certain standards

(Hossamani, 2002). Ratio analysis helps in finding trends towards better or poor performance and assessing the financial health of the institution.

It is evident from the definition of profitability ratio (explained earlier in this chapter) that for improving profitability performance, a bank has to aim at increasing the magnitude of spread ratio and lowering the magnitude of burden ratio.

On one hand, increasing the magnitude of spread ratio ( $r-k$ ) can be achieved by increasing interest earned ratio ( $r$ ) more rapidly than the interest paid ratio ( $k$ ). On the other hand, lowering the burden ratio ( $m+o-c$ ) can be achieved by lowering manpower expenses ratio ( $m$ ) and other expenses ratio ( $o$ ) and increasing other income ratio ( $c$ ).

Again, lowering of manpower expenses ratio ( $m$ ) can be achieved by increasing the volume of business faster than wage bill. This phenomenon is also appropriate in case of lowering of other expenses ratio ( $o$ ).

#### 6.5.4.1 GGB

During the period between 1995-96 and 1999-2000, the financial ratios of performance indicators of GGB are given in Table 6.17 which disclose the following :

The GGB is the oldest among all the RRBs in the state but does not show good profitability performance during the period from 1995-96 to 1999-2000. Though general trend is towards improvement, yet the interest earned ratio ( $r$ ) rose from 4.44% in 1995-96 to 6.54% in 1999-2000. This was because of borrowing at a higher rate and a higher proportion of borrowed fund.

During the same period, the growth of interest income ratio ( $r$ ) was faster than that of interest paid ratio ( $k$ ), resulting in increase in spread ratio ( $r-k$ ) from 0.00% to 0.59%. There was decrease in manpower expenses ratio ( $m$ ) and other expenses ratio ( $o$ ) because their growth was lower than the growth rate of volume of business of the bank, whereas non-interest income ratio ( $c$ ) increased due to its faster growth rate than the growth rate of volume of business. As a result, the burden ratio ( $m+o-c$ ) decreased from 5.53% in 1995-96 to 2.36% in 1999-2000, this was the highest (5.98%) in the year 1996-97 due to high level of cost of provisions and contingencies.

It can be seen that there was a decline of the negative magnitude of the profitability ratio from 5.53% in 1995-96 to 1.77% 1999-2000, but it was negative (i.e., loss) in every year during the period from 1995-96 to 1999-2000 because burden ratio was higher than the spread ratio. Negative profitability ratio was higher in 1996-97 at 6.26% due to high level of burden ratio and negative spread ratio.

**Table 6.17 : Analysis of Financial Ratios of Gour Gramin Bank**

Sl.No	Financial Ratios or key Indicators	(magnitude in %)				
		1995-96	1996-97	1997-98	1998-99	1999-00
1	Interest Income Ratio (r)	4.44	5.24	5.80	5.92	6.54
2	Interest Paid Ratio (k)	4.44	5.52	5.73	5.74	5.95
3	Manpower Expenses Ratio (m)	3.07	2.65	2.64	2.68	2.42
4	Non Interest Income Ratio (c)	0.51	0.24	0.28	0.25	0.60
5	Other Expenses Ratio (o)	2.67	3.57	0.43	1.59	0.54
6	Non Interest Expenses Ratio(n)	5.74	6.22	3.07	4.27	2.96
7	Spread Ratio (s) = (r-k)	0.00	-0.28	0.07	0.18	0.59
8	Burden Ratio (b) = $\frac{m+o-c}{n-c}$	5.53	5.98	2.79	4.02	2.36
9	Profitability Ratio (p) = (s - b)	-5.53	-6.26	-2.72	-3.94	-1.77
10	Net Profit to Total Assets Ratio (NPTA)	*	*	*	4.55	-2.08
11	Gross Ratio (GR)	219.02	214.60	144.89	162.23	124.78
12	Operating Ratio (OR)	123.53	113.73	50.56	69.16	41.40
13	Credit Deposit Ratio (CDR)	55.42	53.00	44.74	42.53	38.23
14	Recovery Percentage **	30.90	30.10	48.76	50.52	34.90
15	Gross NPA% to Advances	*	*	48.76	50.52	43.52

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD; Statistical Tables Relating to Bank in India (various issues), RBI Bulletin (1999-2000); and Key Statistics on RRBs (various issues), NABARD.

Notes : \* The value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of previous year.

'-' indicates the negative profit (i.e., loss)

It could be seen that the gross ratio and operating ratio of GGB (Table 6.17) decreased together from 219.02% and 123.53% to 124.73% and 41.40% during

that period because the bank was able to increase its total income more rapidly than total expenditure as well as operating expenses.

Table 6.17 also shows that the credit deposit ratio of the bank decreased from 55.42% in 1995-96 to 38.23% in 1999 – 2000 which indicated a decrease in growth of creation of credit out of the deposit mobilized. But recovery percentage rose from 30.90% to 34.90% though these figures were lower than the average figures at the state level (34.35% and 43.98%) (Table 6.4) during those years.

As on 31 March 2000, the gross NPA percentage to total advances was 43.52% as against 50.52% in the previous year. It was higher than the average NPA percentage at the state level which indicated a less improvement in efficiency of the bank in comparison to some other RRBs in the state.

#### **6.5.4.2 Mal. GB**

Information regarding various financial ratios of performance indicators of Mal.GB during the period of 1995-96 to 1999-2000 is presented in Table 6.18 which reveals the following statement :

The interest income ratio ( $r$ ) of Mal.GB improved from 5.48% in 1995-96 to 7.89% in 1999-2000, showing an increasing trend and 1.44 folds growth during the period from 1995-96 to 1999-2000, whereas interest paid ratio ( $k$ ) of the bank also increased from 4.89% to 5.99%, exhibiting a mixed trend and 1.22 folds growth during that period, i.e., the growth rate of interest income was more rapid than the interest paid ratio. As a result, the spread ratio ( $r-k$ ) rose from 0.59% to 1.90% which indicated the improvement of efficiency of the bank regarding income from interest on advances, investment and bank balances.

On the other hand, manpower expenses ratio ( $m$ ) and other expenses ratio ( $o$ ) decreased from 3.07% and 1.56% to 2.10% and 0.26% during that period respectively. Consequently, the burden ratio ( $m+o-n$ ) reduced from 4.09% to 1.84%, which revealed the amount of non-interest expenses (i.e. total operating expenses) increased but its growth rate was lower than the volume of business.

Due to increase in spread ratio ( $s$ ) and decrease in burden ratio ( $b$ ) of the bank profitability ratio ( $s-b$ ) turned from negative figure of 3.47% to positive figure of 0.06%, i.e., the bank was able to turn from loss to profit.

**Table 6.18 : Analysis of Financial Ratios of Mallabhum Gramin Bank**  
(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio ( r )	5.48	6.54	7.01	7.43	7.89
2.	Interest Paid Ratio (k)	4.89	5.64	6.66	6.07	5.99
3.	Manpower, Expenses Ratio (m)	3.07	2.79	2.52	2.39	2.10
4.	Non-interest Income Ratio ( c )	0.54	0.68	0.67	0.74	0.52
5.	Other Expenses Ratio (o)	1.56	2.95	0.27	0.22	0.26
6.	Non-interest Expenses Ratio( n)	4.63	5.74	2.79	2.61	2.36
7.	Spread Ratio (s) = (r – k)	0.59	0.90	0.35	1.36	1.90
8.	Burden Ratio $b=(m+o-c)=(n-c)$	4.09	5.06	2.12	1.87	1.84
9.	Profitability Ratio (p)= (s - b)	-3.40	-4.16	-1.77	-0.51	0.06
10	Net Profit to Total Assets Ratio (NPTA)	*	*	*	-0.58	0.07
11	Gross Ratio (G R)	158.23	157.52	123.08	106.25	99.24
12	Operating Ratio (OR)	76.94	79.43	36.36	331.92	28.04
13.	Credit – Deposit Ratio (CDR)	55.00	39.00	34.24	33.90	34.68
14.	Recovery Percentatge **	32.99	36.00	38.21	40.05	45.14
15.	Gross NPA% to Advances	*	*	41.30	39.83	32.24

Source : Computed from data based on Statistical Tables Relating to Banks in India, RBI Bulletin and Statistics on RRBs, NABARD.

Notes : \* The value was not calculated since some data were not available

\*\* Recovery percentage as at the end of June of previous year.

'-' sign indicates loss

It is also revealed from Table 6.18 that the gross ratio and operating ratio both came down from 158.23% and 76.94% in 1995-96 to 99.24% and 28.04 in 1999-2000, indicating lower growth rate of total expenditure as well as operating expenditure than the total income, i.e., the viability and profitability condition increased during that period.

Credit deposits ratio decreased from 55.00% to 34.68%, whereas, recovery percentage increased from 32.99% to 45.14% and side by side the gross NPA percentage to total advances reduced from 41.30% in 1997-98 to 32.24% in 1999-

2000. All those results were better than the average results at the state level which exhibited the better performance of the bank in comparison to some other RRBs in the state.

#### 6.5.4.2 Mayu. GB

The details regarding the financial ratios of Mayu.GB over period from 1995-96 to 1999-2000 are shown in Table 6.19 which disclose the following :

The Mayu.GB made losses during the 1995-96 to 1999-2000. The interest income ratio (r) of the bank showed improvement from 6.04% to 8.34% and at the same time the interest expenses ratio (k) also increased from 5.58% to 7.72% and there was improvement of spread ratio (r – k) which rose slightly from 0.46% to 0.62. It is remarkable matter that the spread ratios in the years 1996-97 and 1997-98 were negative at 0.26% and 0.55% respectively. In 1998-99 it increased to 1.41% but again decreased in the next year to 0.62%.

On the other hand, the manpower expenses ratio (m) and other expenses ratio (o) decreased from 3.85% and 1.22% to 2.61% and 0.63%, showing an increasing and mixed trend respectively during the period from 1995-96 to 1997-2000. While the non-interest income ratio (c) of the bank slightly increased from 0.55% to 0.71% at the same time. As a result, the burden ratio (m+o-c) decreased from 4.52% to 2.53% during that period. Thus, the overall profitability ratio (s-b) increased from (-)4.06% to (-)1.91%, the negative figure of this ratio was highest in 1996-97 due to high level cost of provisioning and contingencies. The net profit to total assets ratio as on 31 March 2000 was also negative at 1.91%, but it was lower than the previous year(-1.72%). Thus, in the final analysis it may be concluded that the financial performance of Mayu.GB was not satisfactory. In other words, the bank was not a financially viable institution.

Table 6.19 also shows that the gross ratio of the bank declined from 161.72% in 1995-96 to 121.15% in 1999-2000, showing a mixed trend during that period. As well as, the operating ratio decreased from 77.00% to 35.82% during the same time, indicating a marked improvement in efficiency of the bank. But, compared to the average results at the state level those results were poor.

**Table 6.19 : Analysis of Financial Ratios of Mayurakshi Gramin Bank**  
(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r)	6.04	7.03	7.25	7.45	8.34
2.	Interest Paid Ratio (k)	5.58	7.29	7.80	6.04	7.72
3.	Manpower Expenses Ratio (m)	3.85	3.14	2.96	2.89	2.61
4.	Non-interest Income Ratio (c)	0.55	0.64	2.03	0.42	0.71
5.	Other Expenses Ratio (o)	1.22	2.15	0.22	0.53	0.63
6.	Non Interest Expenses Ratio (n)	5.46	5.29	3.18	3.42	3.24
7.	Spread Ratio (s) = (r - k)	0.46	-0.26	-0.55	1.41	0.62
8.	Burden Ratio (b) = (m+o-c) = (n-c)	4.52	4.65	1.15	3.00	2.53
9.	Profitability Ratio (p) = (s - b)	-4.06	-4.91	-1.70	-1.59	-1.91
10.	Net Profit to Total Assets Ratio	*	*	*	-1.72	-1.91
11.	Gross Ratio (GR)	161.72	163.90	118.34	120.25	121.15
12.	Operating Ratio (OR)	77.00	68.93	34.33	43.54	35.82
13.	Credit Deposit Ratio (CDR)	46.00	41.00	37.53	37.08	32.99
14.	Recovery Percentage**	40.17	41.82	40.74	36.97	49.14
15.	Gross NPA% to Advances	*	*	32.45	31.38	20.71

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India( various issues), RBI Bulletin and Key Statistics ( various issues). NABARD.

Notes : \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

'-' indicates the negative profitability ratio.

Credit-Deposits ratio reduced from 46.00% to 32.99% during the period from 1995-96 to 1999-2000. While recovery percentage increased from 40.17% to 49.14% and side by side gross NPA percentage to total advances decreased from 32.45% in 1997-98 to 20.71% in 1999-2000, these results were satisfactory in comparison to the average results at the state level.

### 6.5.4.3 UBKGB

Financial ratios of various performance indicators of UBKGB during the period of 1995-96 to 1999-2000 are given in Table 6.20 which indicate the following :

Interest income ratio (r) of UBKGB increased from 4.5% in 1995-96 to 6.29% in 1999-2000 due to increase in interest income on advances, investment and bank balances. Whereas, interest paid ratio (k) increased slightly from 4.21% to

**Table 6.20 : Analysis of Financial Ratios of Uttar Banga Kshetriya Gramin Bank**

		(magnitude in %)				
Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r)	4.51	4.04	5.38	6.16	6.29
2.	Interest Paid Ratio (k)	4.21	3.21	3.50	4.82	4.66
3	Manpower Expenses Ratio(m)	2.92	1.82	1.77	2.52	2.29
4	Non-interest Income Ratio (c)	0.71	0.12	0.14	0.60	0.71
5	Other Expenses Ratio (o)	1.35	4.40	0.20	1.21	0.91
6	Non-Interest Expenses Ratio (n)	4.27	6.22	1.97	3.73	3.20
7	Spread Ratio (s) = (r - k)	0.30	0.83	1.88	1.34	1.63
8	Burden Ratio (b) = (m+o-c)=(n-c)	3.56	6.10	1.83	3.13	2.49
9	Profitability Ratio (p) = (s - b)	-3.26	-27	0.05	-1.79	-0.86
10	Net Profit to Total Assets Ratio	*	*	*	-2.10	-1.02
11	Gross Ratio (GR)	162.49	227.01	98.96	126.52	112.33
12	Operating Ratio (OR)	81.78	149.67	35.65	55.22	45.77
13	Credit Deposit Ratio (CDR)	58.00	50.00	44.00	39.46	39.13
14	Recovery Percentage**	30.03	31.74	49.92	NA	51.77
15	Gross NPA% to Advances	*	*	53.96	46.98	38.00

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India(various issues), RBI Bulletin and Key Statistics (various issues). NABARD.

Notes : \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

'-' indicates the negative profit (i.e., loss)

4.66% during that period. As a result, the spread ratio (r-k) raised from 0.30% to 1.63% at the same time.

On the other hand, due to minor decrease in man-power ratio (from 2.92% to 2.29%) and other expenses ratio (from 1.35% to 0.91%) the burden ratio (b) decreased from 3.56% to 2.49% during the period from 1995-96 to 1999-2000. But except the year 1997-98, the bank was not able to earn profit during that period, so that the profitability ratio was negative though it declined from 3.26% to 0.86%.

The negative profitability ratio was the highest in 1996-97 at 5.27% during the period of 1995-96 to 1999-2000. This was because the high magnitude of cost of provisions and contingencies and low level of income (interest income and non-interest income). But the bank was able to turn from loss to profit in the next year. Unfortunately the bank again incurred losses from 1998-99 which indicated decrease in improvement of efficiency of the bank.

During the period between 1995-96 and 1999-2000, UBKGB could able to decrease the gross ratio and operating ratio from 162.49% and 81.78% to 112.33% and 45.77% respectively. A remarkable matter is that in the year 1996-97, the gross ratio was above 200% (227.01%), i.e., the total expenditure of the bank was two times higher than the of total income.

Table 6.20 also shows that the credit deposit ratio declined from 58.00% to 39.13%, showing a continuous decreasing trend during the period from 1995-96 to 1999-2000. While recovery percentage rose from 30.03% to 51.77% during that period. These results of UBKGB were better than the average results at the state level (Table 6.4). But the gross NPA percentage to total advances was higher in every year during the period from 1997-98 to 1999-2000 than that of the state level. As on 31 March 2000 the gross NPA percentage of UBKGB was 38% as against the 35.95% at the state level during the same time which indicates improvement of financial performance of the bank but lower compared to some other RRBs in the state such as SGB, BGB, Mal. GB etc.

#### **6.5.4.5 NGB**

Information regarding the financial ratios of various performance indicators of NGB information during the period from 1995-96 to 1999-2000 is presented in Table 6.21 which reveals as below :

Due to higher growth of interest income than the growth rate of volume of business, the interest income ratio (r) NGB showed a marked improvement from 5.98% in 1995-96 to 9.95% in 1999-2000, exhibiting a continuous increasing trend, showing 1.66 folds growth over the period. While the interest paid ratio (k) also rose from 5.63% to 6.86%, indicating continuous rising trend and showing 1.36 folds growth at the same time. This was because interest expenses on deposits increased more rapidly than the increase in volume of the business.

**Table 6.21 : Analysis of Financial Ratios of Nadia Gramin Bank**

(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r)	5.98	8.99	9.34	9.51	9.95
2.	Interest Paid Ratio (k)	5.03	6.22	6.28	6.37	6.86
3	Manpower Expenses Ratio (m)	2.69	2.74	2.36	2.26	2.04
4	Non-interest Income Ratio (c)	0.05	0.11	0.44	0.34	0.44
5	Other Expenses Ratio (o)	4.62	4.07	2.19	0.85	0.54
6	Non-Interest Expenses Ratio (n)	7.31	6.81	4.55	3.11	2.58
7	Spread Ratio (s) = (r - k)	0.95	2.77	3.06	3.17	3.09
8	Burden Ratio (b) = (m+o-c)=(n-c)	7.26	6.71	4.11	2.77	2.14
9	Profitability Ratio (p) = (s - b)	-6.31	-3.94	-1.05	0.37	0.95
10	Net Profit to Total Assets Ratio	*	*	*	0.35	0.89
11	Gross Ratio (GR)	204.57	143.13	110.76	96.21	90.87
12	Operating Ratio (OR)	121.17	74.82	46.53	31.57	24.81
13	Credit Deposit Ratio (CDR)	46.00	40.00	38.23	35.67	30.73
14	Recovery Percentage**	40.79	44.10	40.00	41.59	44.02
15	Gross NPA% to Advances	*	*	42.62	41.14	46.20

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India (various issues), RBI Bulletin and Key Statistics (various issues). NABARD.

Notes: \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

'-' indicates the negative profit (i.e., loss)

From Table 6.21 above, it is revealed that the growth of interest income ratio ( $r$ ) was higher than that of interest paid ratio ( $k$ ). As a result, the spread ratio ( $r-k$ ) increased from 0.95% to 3.09% during that period. On the contrary, the burden ratio ( $m+o-c$ ) declined greatly from 7.26% to 2.14% over the same period due to minor decrease in manpower ratio (from 2.69% to 2.04%) and marked decrease in other expenses ratio (from 4.62% to 0.54%), i.e. the bank was able to lower and control the other operating costs at the later part of the period from 1995-96 to 1999-2000.

Consequently, the profitability ratio ( $s-b$ ) turned from (-)6.31% to 0.95% during that period indicating a continuous improvement of efficiency of the bank. As on 31 March 2000, the net profit to total assets of the bank was 0.98% as against 0.35% in the previous year.

It could be seen from Table 6.21 that there was drastic decrease in gross ratio as well as operating ratio. These two ratios declined from 204.57% and 121.17% in 1995-96 to 90.87% and 24.81% in 1999-2000, exhibiting a continuous decreasing trend in both and indicating 2.25 folds and 4.88 folds negative growth respectively. These results indicated a great improvement of financial performance of the bank. This improvement was higher in comparison to the all other RRBs in the state during that period.

In line with other RRBs in the state, the credit deposits ratio of NGB decreased from 46.00% to 30.73% due to faster growth rate of deposits than the advances. While the recovery percentage of the bank increased from 40.79% to 44.02%. Due to increase in recovery the gross NPA percentage to advances decreased from 42.62% in 1997-98 to 41.14% in 1998-99, though it increased to 46.20% in the next year.

#### **6.5.4.6 BGB**

The details regarding the financial ratios of performance indicators of BGB during the period from 1995-96 to 1999-2000 are presented in Table 6.22, which disclose the following :

**Table 6.22 : Analysis of Financial Ratios of Bardhaman Gramin Bank**

(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r )	7.50	8.77	9.58	9.93	10.41
2.	Interest Paid Ratio (k)	4.95	6.00	7.04	7.47	8.20
3	Manpower Expenses Ratio (m)	2.56	2.68	2.29	2.00	1.84
4	Non-interest Income Ratio (c)	0.53	0.87	0.64	0.45	0.63
5	Other Expenses Ratio (o)	1.81	0.43	0.42	0.84	0.68
6	Non-Interest Expenses Ratio (n)	4.37	3.11	2.71	2.84	2.52
7	Spread Ratio (s) = (r – k)	2.55	2.77	2.54	2.46	2.21
8	Burden Ratio (b) = (m+o-c)=(n-c)	3.84	2.24	2.07	2.39	1.89
9	Profitability Ratio (p) = (s – b)	-1.29	0.53	0.47	0.07	0.32
10	Net Profit to Total Assets Ratio	*	*	*	0.07	0.30
11	Gross Ratio (GR)	115.98	94.47	95.37	99.29	97.21
12	Operating Ratio (OR)	54.45	32.23	26.58	27.31	22.90
13	Credit Deposit Ratio (CDR)	40.00	33.00	31.57	27.85	28.78
14	Recovery Percentage**	42.29	53.89	50.47	48.85	49.10
15	Gross NPA% to Advances	*	*	45.66	28.49	27.56

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India( various issues), RBI Bulletin and Key Statistics ( various issues). NABARD.

Notes: \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

‘-’ indicates the negative profit (i.e., loss)

There was a significant increase in interest earned ratio (r) of BGB from 7.50% in 1995-96 to 10.41% in 1999-2000, exhibiting a continuous rising trend during the period between 1995-96 and 1999-2000. As on 31 March 2000, the interest earned ratio (r) of the bank was the highest among all the RRBs in the state, while the interest paid ratio (k) was also the highest due to the cost of high

level interest expenditure. The interest paid ratio (k) rose from 4.95% to 8.20% during that period.

The growth of interest income ratio (r) (1.39 folds) was lower than that of interest paid ratio (1.66 folds) over the period of 1995-96 to 1999-2000, as a result of which the spread ratio (r-k) slightly decreased from 2.55% to 2.21%.

On the other side, there was marked decrease in burden ratio from 3.84% to 1.89% due to decline in manpower ratio (from 2.56% to 1.84%) and other expenses ratio (from 1.81% to 0.68%) and simultaneously slight increase in non-interest income ratio (from 0.53% to 0.63%).

As a result, the profitability ratio of the bank increased from (-)1.29% in 1995-96 to 0.32% in 1999-2000, and it was the highest (0.53%) in the year 1996-97.

Table 6.22 also shows that the gross ratio and operating ratio both declined from 115.98% and 54.45% to 97.21% and 22.99% during that period. There was a great fall in operating ratio by 2.38 folds.

Recovery percentage of BGB increased from 42.29% to 49.10%, showing a mixed trend during that period. Side by side, the gross NPA percentage to advances decreased from 45.66% in 1997-98 to 27.56% in 1999-2000. These results were more significant than the average results at the state level which indicated a good financial performance of the bank.

#### **6.5.4.7 SGB**

During the period from 1995-96 to 1999-2000, the information about various financial ratios of different performance indicators of SGB is shown in Table 6.23 which exhibits the following :

The magnitude of interest income ratio (r) of SGB which stood at 6.63% in 1995-96, rose to 8.47% in 1999-2000, while the interest paid ratio (k) also increased from 5.26% to 6.33% at the same time. Consequently, the spread ratio increased from 1.37% to 2.14% during that period. This was because the growth of income of the bank over the period was higher than that of expenditure, which indicated the improvement of financial performance of the bank.

**Table 6.23 : Analysis of Financial Ratios of Sagar Gramin Bank**

(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r)	6.63	7.97	8.29	8.71	8.47
2.	Interest Paid Ratio (k)	5.26	5.72	5.89	6.31	6.33
3	Manpower Expenses Ratio (m)	2.74	2.73	2.24	2.29	1.87
4	Non-interest Income Ratio (c)	0.16	0.43	0.16	0.16	0.30
5	Other Expenses Ratio (o)	1.62	6.84	0.27	0.23	0.24
6	Non-Interest Expenses Ratio (n)	4.36	9.57	2.51	2.52	2.11
7	Spread Ratio (s) = (r – k)	1.37	2.25	2.40	2.40	2.14
8	Burden Ratio (b) = (m+o-c)=(n-c)	4.20	9.14	2.35	2.36	1.81
9	Profitability Ratio (p) = (s – b)	-2.83	-6.89	0.05	0.04	0.33
10	Net Profit to Total Assets Ratio	*	*	*	0.04	0.33
11	Gross Ratio (GR)	141.75	182.08	99.57	99.60	96.23
12	Operating Ratio (OR)	64.27	113.96	29.70	28.38	24.07
13	Credit Deposit Ratio (CDR)	38.00	30.00	25.70	23.11	21.53
14	Recovery Percentage**	27.60	27.68	35.59	39.77	41.00
15	Gross NPA% to Advances	*	*	53.70	54.03	44.88

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India (various issues), RBI Bulletin and Key Statistics (various issues). NABARD.

Notes: \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

‘-’ indicates the negative profit (i.e., loss)

Due to decrease in manpower expenses ratio (from 2.74% to 1.87%) and other expenses ratio (from 1.62% to 0.24%) and increase in non-interest income ratio (from 0.16% to 0.30%) the bank was able to achieve decline in the burden ratio (m+o-c) from 4.20% in 1995-96 to 1.81% in 1999-2000. During the period from 1995-96 to 1999-2000, the burden ratio (b) was the highest in the year 1996-97 at 9.14% which was due to the high level of cost of provisions and contingencies. At that time the amount of provisions and contingencies was Rs. 1500.00 lakhs. But it

decreased tremendously in the next year at Rs. 3.00 lakhs only, as a result the bank was able to turn from loss to profit.

Profitability ratio (s-b) of the bank increased from (-)2.83% to 0.33% during the period from 1995-96 to 1999-2000, which indicated the improvement of profitability condition of the bank.

Gross ratio of SGB (Table 6.23) reduced from 141.75% in 1995-96 to 96.23% in 1999-2000 as well as the operating ratio from 64.27% to 24.07% during the same time. In comparison to some other RRBs in the state, these results of SGB was better during that period.

In the year 1995-96, the Credit - Deposit ratio of the bank stood at 38.00% and it declined to 21.53% in 1999-2000, showing a decreasing trend during that time. Recovery percentage increased from 27.60% in 1995-96 to 41.00% in 1999-2000 and NPA percentage decreased from 53.70% in 1997-98 to 44.88% in 1999-2000 which indicates that regarding recovery percentage and gross NPA percentage to advances performance of the bank was unpleasant in comparison to the state level average figure.

#### **6.5.4.8 HGB**

In the Table 6.24, the details regarding financial ratios of HGB during the period between 1995-96 and 1999-2000 are given which bring out the following trends :

Due to a fair increase in interest income from investment and bank balances, the interest income ratio was high in every year during the period from 1995-96 to 1999-2000. It increased from 9.26% to 9.99% during that period. But, on the other hand, there was marked increase in interest paid ratio, from 5.57% to 7.80% at the same time. As a result, the spread ratio decreased from 3.69% to 2.19% during that time which was not much significant .

On the other side, the burden ratio also declined from 3.33% to 2.07% mainly due to increase in interest expenses on deposits. During that period of 1995-96 to 1999-2000, the profitability ratio decreased from 0.36% to 0.12% which indicated decrease in profitability condition of the bank. But only HGB could be able to earn profit in every year during that period and that was why the profitability ratio (s-b) was always positive. As on 31 March 2000, the net profit to total asset

ratio of the bank was 0.11% as against 0.52% in the previous year which exhibited that the profit decreased with respect to total assets.

**Table 6.24 : Analysis of Financial Ratios of Howrah Gramin Bank**

(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r)	9.26	10.36	9.92	9.97	9.99
2.	Interest Paid Ratio (k)	5.57	6.54	7.13	7.27	7.80
3	Manpower Expenses Ratio (m)	2.73	2.29	1.99	1.80	1.53
4	Non-interest Income Ratio (c)	0.50	0.45	0.48	0.40	0.47
5	Other Expenses Ratio (o)	1.10	0.95	0.64	0.76	1.01
6	Non-Interest Expenses Ratio (n)	3.83	3.24	2.63	2.56	2.54
7	Spread Ratio (s) = (r - k)	3.69	3.82	2.79	2.70	2.19
8	Burden Ratio (b) = (m+o-c)=(n-c)	3.33	2.79	2.15	2.16	2.07
9	Profitability Ratio (p) = (s - b)	0.36	1.03	0.64	0.54	0.12
10	Net Profit to Total Assets Ratio	*	*	*	0.52	0.11
11	Gross Ratio (GR)	96.31	90.51	93.81	94.81	98.85
12	Operating Ratio (OR)	39.12	29.98	25.28	24.67	24.28
13	Credit Deposit Ratio (CDR)	38.00	32.00	27.51	26.46	25.52
14	Recovery Percentage**	24.85	26.75	40.63	NA	42.00
15	Gross NPA% to Advances	*	*	45.13	40.06	36.38

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India (various issues), RBI Bulletin and Key Statistics (various issues). NABARD.

Notes: \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

‘-’ indicates the negative profit (i.e., loss)

It could be seen from Table 6.24 that the gross ratio rose from 96.31% to 98.85%, showing a mixed trend during that period. But, there was a decreasing trend in the case of operating ratio which decreased from 39.21% in 1995-96 to 24.28% in 1999-2000. It showed that an improvement in operating efficiency of the bank.

Table 6.24 also shows that the credit deposit ratio of the bank decreased from 38.00% to 25.52%, exhibiting a declining trend at the same time which expressed that the growth rate of outstanding loan was lower than that of deposits. Recovery percentage improved from 24.85% to 42.00% during that period, whereas the gross NPA percentage to advances reduced from 45.13% in 1997-98 to 36.38% in 1999-2000 which was less significant.

#### **6.5.4.9 MGB**

In the state of West Bengal MGB is the youngest among all the RRBs. It did not show very good profitability. Data regarding its various financial ratios of performance indicators, during the period from 1995-96 to 1999-2000 is presented in Table 6.25, which reveal the following :

There was marked increase in interest income ratio of MGB from 4.98% in 1995-96 to 8.47% in 1999-2000, indicating a mixed trend during the period from 1995-96 to 1999-2000. This was because of vast rise in interest income from investment and bank balances as well as advances. Simultaneously, the magnitude of interest paid ratio rose from 3.57% to 6.27% , exhibiting a rising trend during that period. Over that period, the growth of interest income ratio increased by 3.49% (i.e., 8.47% to 4.98%), which was higher than the growth of interest paid ratio by 2.70% (i.e., 6.27% to 3.57%). As a result, the spread ratio rose from 1.41% to 2.20% which indicated an improvement in viability and profitability condition of the bank.

During the period from 1995-96 to 1999-2000, on the other side, due to decline in manpower ratio (from 2.14% to 1.56%) and other expenses ratio (from 1.50% to 0.94%) and increase in non-interest income (from 0.17% to 0.53%) the burden ratio decreased from 3.47% to 1.97%, showing a mixed trend during that period (Table 6.25).

**Table 6.25 : Analysis of Financial Ratios of Murshidabad Gramin Bank**

(magnitude in %)

Sl.No	Financial Ratios or key Indicators	1995-96	1996-97	1997-98	1998-99	1999-00
1.	Interest Income Ratio (r)	4.98	7.70	8.13	7.96	8.47
2.	Interest Paid Ratio (k)	3.57	4.73	5.58	6.07	6.27
3	Manpower Expenses Ratio (m)	2.14	2.15	1.87	1.91	1.56
4	Non-interest Income Ratio (c)	0.17	0.26	0.35	0.55	0.53
5	Other Expenses Ratio (o)	1.50	0.98	0.94	1.90	0.94
6	Non-Interest Expenses Ratio (n)	3.64	3.13	2.81	3.81	2.50
7	Spread Ratio (s) = (r - k)	1.41	2.97	2.55	1.89	2.20
8	Burden Ratio (b) = (m+o-c)=(n-c)	3.47	2.87	2.46	3.26	1.97
9	Profitability Ratio (p) = (s - b)	-2.06	0.10	0.09	-1.37	0.23
10	Net Profit to Total Assets Ratio	-2.69	0.10	0.15	-1.61	0.25
11	Gross Ratio (GR)	140.50	98.78	98.33	116.22	97.60
12	Operating Ratio (OR)	70.90	39.31	32.88	44.86	27.86
13	Credit Deposit Ratio (CDR)	76.00	50.00	35.27	32.43	33.35
14	Recovery Percentage**	34.92	52.05	36.44	58.85	59.71
15	Gross NPA% to Advances	*	46.9	26.46	24.69	23.77

Source : Computed from data based on Financial Analysis of RRBs (1996-97), NABARD ; Statistical Tables Relating to Banks in India( various issues), RBI Bulletin and Key Statistics ( various issues). NABARD.

Notes : \* the value was not calculated since some data were not available.

\*\* Recovery percentage as at the end of June of the previous year.

'-' indicates the negative profit (i.e., loss)

Consequently, the overall profitability ratio became positive from negative i.e., from (-)2.06% to 0.23%, showing a mixed trend during that period. Simultaneously, the net profit to total assets ratio turned from negative figure of 2.69% to positive figure of 0.25% which revealed the improvement of efficiency as well as profitability condition of the bank.

Table 6.25 also shows that the gross ratio and operating ratio decreased from 140.56% and 70.90% in 1995-96 to 97.60% and 27.86% in 1999-2000,

exhibiting mixed trend for both cases, which indicated the improvement of financial performance of the bank.

The credit deposit ratio of MGB decreased from 76.00% in 1995-96 to 33.35% in 1999-2000 due to lower growth rate of advances creation in comparison to the growth rate of deposits mobilization.

Recovery percentage of the bank rose from 34.92% to 59.7% at same time which was higher than the state level (Table 6.4) in every year during the period from 1995-96 to 1999-2000.

Gross NPA percentage to the total advances of the bank decreased from 46.9% in 1996-97 to 23.77% in 1999-2000, whereas the average gross NPA percentage at the state level declined from 56.74% in 1995-96 to 35.95% in 1999-2000, i.e., from these results it may be said that the improvement of efficiency of MGB was higher than some other RRBs in the state.

Thus, in the final analysis, it may be concluded that the financial performance of the bank became satisfactory. In other words, the bank was able to show itself as a viable financial institution.

### **6.6 Working of RRBs : Reviews by Various Committees**

Some researchers in the past had argued that performance of the Regional Rural Banks need not be assessed in terms of profitability since they were established with the principle of providing service to the rural people. But practically, for any financial institution to sustain in the long run, an element of profit becomes inevitable and in view of the recent changes in policy by the Government in this regard. Profitability aspect has been recognized as an important yardstick for continuation of the established institution on a sound footing to render efficient services for a longer period. Many RRBs in the country were not able to earn a reasonable amount of profit in the past and as a result their viability had been questioned by various committees. A highlight of these committees' reports is presented below :

The Dantwala Committee in 1977 reviewed the performance of 48 RRBs formed by then. It found that they had established an image of being a poor man's bank and recommended an increase in their number to cover a larger canvass.

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) recommended in 1979 to give preference to RRBs in the licensing policy for opening more branches in rural areas. It also recommended that the control of RRBs to be vested with the then proposed apex institution for rural development, NABARD.

The Working Group on RRBs (1986) headed by Mr. S.M.Kelkar, recognized their phenomenal progress in expanding the branch network, mobilizing rural savings and improving the access of the rural poor to institutional credit. It also observed that the viability of RRBs was strained, as most of them were not profitable. It recommended an increase in their capital base, permission to land to public bodies such as state scheduled caste and scheduled tribes corporations and continued support from sponsor banks for fund management, technical and managerial personnel and training.

The Agricultural Credit Review Committee (1989) observed that RRBs no longer enjoyed a low cost advantage since their pay scales were almost the same as those of Commercial Banks.<sup>5</sup> On the other hand, Commercial Banks had done well to expand their rural network at a much faster pace and induct technically qualified staff in the same period. The Committee concluded that RRBs have no place in the rural credit system and they should be merged with their sponsor banks.

The Narasimham Committee (1991) on financial systems remarked that RRBs' low earning capacity and rising expenditure had seriously affected their viability. The Committee, therefore, recommended that RRBs should be permitted to engage in all types of banking business. It also suggested separating rural branch operations of sponsor banks and forming them into subsidiaries, leaving the option to RRBs and sponsor banks to merge the former voluntarily with the latter's rural banking subsidiaries.

The Report of the Committee on Restructuring of RRBs (1994) headed by M.C.Bhandari advocated that professional and not politician be nominated on the boards, the directors on these boards be at least of the status of chairman of a sponsoring bank or any RRBs and surplus funds be invested in UTI schemes, fixed

deposits in profit making term lending institutions, bonds of nationalized banks approved by credit rating agencies, etc. Further, the Committee was of the view that the RRBs be allowed to access to the credit portfolio of sponsor banks and paid up capital of each RRBs raised to Rs one crore by March 1995.

The Expert Group on RRBs (1999) headed by Dr. N.K.Thingalaya had suggested merger of RRBs, which can not become viable in a reasonable period, with neighbouring units.<sup>6</sup> It also suggested the liquidation of very weak banks.

During the period between 1995 and 1998, there was constituted a number of another three committees, viz., Basu Committee (1995), S.C.Mahalek Committee (1996) and R.V.Gupta Committee (1998), for the revamping for RRBs, in order to examine the structure of remuneration package of RRBs and to review the agricultural credit provided by RRBs respectively.

The Narasimham Committee (1998) on banking sector reform recommended the continuance of viable and potentially viable RRBs in their present form. It also suggested selective merger of various RRBs sponsored by one bank in the same state to permit economies of scale and optimum use of human resources. It recommended further that RRBs should reach a capital adequacy ratio of 8 percent over five years.

Agarwal Committee (1999-2000) was the working group to examine the manpower planning in the case of RRBs. The Committee recommended for the reduction of manpower at each branch level of RRBs.

The Expert Committee on Rural Credit (2001) supported the Thingalaya Committee recommendation of a separate rehabilitation programme for banks operating in backward, tribal and other difficult areas. The Expert Committee included the question of making Capital Adequacy Requirement applicable to RRBs might be reviewed after 3 years based on a fresh assessment of their position in 2004-05.

## **6.7 Factors Behind Achieving Economic Viability of RRBs :**

### **6.7.1 Investment**

One of the most important sources of RRBs to earn profit is investment. On account of low yield on loans and advances due to low recovery, all RRBs in the state went for the investment in a big way particularly out of Non-SLR surplus fund. This trend resulted in very good growth in investments.

The introduction of prudential norms, coupled with the need of reducing their NPAs led the RRBs for adopting a cautious approach towards lending. This coupled with the fact that recapitalisation funds could not be immediately deployed for lending resulted in an increase in their investment portfolio. In order to improve profitability and avoid accumulation of NPAs, the RRBs apparently adopted the investment route in preference to the riskier credit route. The management of investment portfolio of RRBs, however, needs improvement to avoid mismatches and defaults to higher financing agencies. The sponsor banks will have to effectively guide the RRBs in this regard.

During the year 1995-96, RRBs were permitted to invest non-SLR surplus resources in UTI - listed schemes, fixed deposits of profit making term-lending institutions, bonds of public sector institutions etc. with a view to improve their profitability.

It could be seen from Table 6.26 that during the year 1996-97, UBKGB, Mayu.GB recorded growth of investment over the previous years by 738.93% and 455.41% respectively and it was 223.31% at the state level. The amount of investments of MGB, UBKGB and Mayu.GB increased from Rs. 900.00 lakhs, Rs. 700.10 lakhs and Rs. 1026.00 lakhs in 1995-96 to Rs. 8344.00 lakhs, Rs. 14303.00 lakhs and Rs. 15404.00 lakhs in 2000-01 respectively, exhibiting a rising trend and showing 9.27 folds, 20.43 folds and 15.01 folds over the six years period from 1995-96 to 2000-01. Side by side, their investment deposits ratios rose from 27.64% and 13.20% to 72.26%, 62.63% and 67.38% during that period respectively.

**Table 6.26 : The Amount of Investments and Investment Deposits Ratios of all RRBs in West Bengal**  
(Rs. in lakhs)

Name of RRBs	Amount of Investment						Investment Deposit Ratio* (Percent)					
	1995-96	1996-97	1997-98	1998-99	1999-2000	2000.-01	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
GGB	2200.20 (100.00)	6915.94 (214.33)	9413.90 (36.12)	11831.06 (25.68)	15028.04 (27.02)	18033.00 (20.00)	14.56	35.54	38.80	41.84	44.11	42.93
Mal.GB	4771.43 (138.57)	14805.16 (210.29)	18996.12 (28.31)	24809.01 (30.60)	33830.65 (36.36)	16104.00 (-52.40)	22.19	53.46	55.90	58.43	66.09	26.60
Mayu.GB	1026.00 (46.51)	5698.51 (455.41)	6901.60 (21.11)	17167.32 (148.74)	12591.51 (-26.65)	15404.00 (22.34)	13.20	54.26	51.78	106.95	64.93	67.38
UBKGB	700.10 (16.66)	5873.37 (738.93)	7887.88 (34.30)	9417.78 (19.40)	9417.78 (0.00)	14303.00 (51.87)	6.44	40.85	46.57	43.66	34.12	62.63
NGB	2246.95 (275.74)	5906.65 (162.87)	7704.87 (30.44)	8512.35 (10.48)	12398.77 (45.66)	14857.00 (19.83)	36.81	79.19	81.18	70.93	84.65	83.72
BGB	3471.00 (72.86)	10434.4 (200.62)	12231.61 (17.22)	17211.10 (40.71)	20919.36 (21.15)	250.65 (19.77)	32.19	71.08	71.22	77.24	82.65	86.78
SGB	4384.20 (165.71)	13140.12 (199.72)	17268.84 (31.42)	2556.95 (30.62)	28984.63 (28.50)	36252.00 (25.07)	30.37	70.49	70.93	75.69	77.79	79.62
HGB	2974.16 (87.05)	7884.93 (165.11)	10453.81 (32.59)	13787.68 (31.89)	17863.44 (29.56)	239.34 (33.98)	41.57	81.06	82.47	86.08	90.84	102.73
MGB	900.00 (NA)	2648.71 (194.30)	3456.10 (30.48)	4890.51 (41.50)	6337.50 (29.59)	8344.00 (31.66)	27.64	62.83	60.81	65.70	66.01	72.26
W.Bengal	2674.04 (142.60)	73307.79 (223.31)	94314.73 (28.66)	130183.76 (38.03)	157371.68 (20.88)	172289.00 (9.48)	23.38	57.84	59.74	66.45	65.92	60.25
All India	761925.00 (NA)	1040000.00 (36.50)	1349060.20 (29.72)	1980336.10 (46.79)	2251965.97 (13.72)	2693025.00 (19.59)	53.70	57.68	60.82	74.00	69.94	70.35

Source : Compiled and computed from data based on Statistics on RRBs (various issues); NABARD ; and Review of working of Regional Rural Banks (1997-98) NABARD.

Notes: \* Investment Deposit Ratio = Total Investment/Total Deposits X 100; '-' sign indicates negative growth; NA : Not Available; Figures in brackets are the percentages of growth over the previous year.

While at the state level and national level the amount of investment increased from Rs. 22674.04 lakhs and 761925.00 lakhs in 1995-96 to Rs. 172289.00 lakhs and 2693025.00 lakhs in 2000-01 respectively, showing increasing trend and indicating 7.60 folds and 3.53 folds growth during that period as well as the investment deposits ratios rose at the both level from 23.38% and 53.70% to 60.25% and 70.35% respectively at the same time.

Table 6.26 shows that except GGB and Mal.GB for all the RRBs in the state the investment deposits ratios in 2000-01 were higher than the average figure (60.25%) at the state level. It was highest (102.73%) for the HGB, followed by BGB and NGB at 86.78% and 83.72% respectively.

For all RRBs in the state the investments comprising balances in the deposits accounts with books, money at call and short notice and other investments during the period from 1995-96 to 2000-01 had been growing at a marked annual growth rate.

Finally, it may be concluded that all RRBs except a few took full advantage of the reforms in the sphere of investments in RRBs in order to increase the yield assets. Consequently, the RRBs could improve their financial performances, achieved economic viability and turned themselves from as loss making to profit making institution.

### **6.7.2 Non-Fund Business**

The RRBs could not make any breakthrough in the field of issuing Bank Guarantee and being a RRBs there were also some hurdles in the commercial activities. But now from almost all the branches of RRBs in the state RRBs are giving demand drafts by purchasing the same from the Sponsor Bank and the commission earned is shared equally with the sponsor Bank, i.e., perhaps all the branches of RRBs in the state have been authorized to deal with Non-Fund Business, namely arrangement for collection of cheques/bills, arrangement for procurement of demand drafts for customers from Sponsor Bank branches on a share of income at the rate of 50%.

Some branches of RRBs in the state are allowed to have locker facilities and to extend facilities of Bank Guarantee. Though the RRBs are trying hard to increase their non-fund business but due to want of locational advantages and infrastructure

support they could not achieve the good up to expected level (Review of Working of RRBs, NABARD, 1997-98).

### **6.7.3 Development Action Plan (DAP)**

All RRBs were advised by Govt. of India through NABARD to prepare Development Action Plan to attain current and sustainable viability coupled with Memorandum of Understanding (MoU) between RRBs and Sponsor Bank to guide, control and facilitate DAP implementation. This was initiated during the year 1994-95 with the basic aim for achieving break-even level in a reasonable period of time.

The DAP envisages several measures to be taken by RRBs for improving their performance such as (a) setting up an effective key performance area, (c) analysis of costs, yield and margins and computation of break-even level, (d) identification of the problems which lead to poor productivity, higher cost, lower yields, minor margins and losses in the bank, (e) planning for remedial measures which are specific to the diagnosed problems, etc.

### **6.7.4 Recapitalisation**

The process of recapitalisation which was initiated in the year 1994-95 continued through 2000-01 and most of the RRBs were brought under the programme. As on 31 March 1998, 151 RRBs out of the 196 RRBs in the country stood covered under the recapitalisation programme; 129 RRBs were fully recapitalised while 22 RRBs stood partially recapitalised. As a result, perhaps all RRBs under that programme turned from loss to net profit.

### **6.7.5 Branch Rationalisation**

RRBs have now been given more freedom in the matter of rationalization of their branch network. In December 1993, RRBs were allowed to relocate their loss making branches at new places within their service area. RRBs, freed from the Service Area Obligations, were given freedom to relocate their loss making branches preferably within the same block or convert them into satellite /mobile offices (Review of Working of RRBs, NABARD, 1997). Most of RRBs have taken advantage of this measure and relocated some of their loss making branches to better business location. They have also converted some other branches with low business level and potential into satellite offices. This led to better utilization of manpower and improvement in their business level.

Branch rationalization and the policy measures had a definite positive impact on the profitability of RRBs. All RRBs, in the state, became a viable institution, improved their net financial spread ratio over the last ten-year period. As on 31 March 2001, all of them were able to earn profit.

#### **6.7.6 Business Diversification**

All RRBs were allowed to finance non-target group (NTG) borrowers upto a ceiling of 60% of fresh loans in January 1994 as against 40% in September 1992. A special training programme for RRBs' staff on NTG lending was initiated.

The diversification of lending portfolio in RRBs through housing loans, consumer loans, NTG lendings etc. and the various non-fund based activities, have resulted in better business distribution and avoidance of concentration of risk in particular activity/group of activities, in addition to improving the income generating capacity of the RRBs (Financial Analysis of RRBs, NABARD, 1997-98).

#### **6.7.7 Linking of Self-Help-Groups**

A system of Group based lending in the form of financing of Self-Help-Groups (SHGs) by banks was introduced by NABARD in 1992 in order to make the present outreach more effective with minimal costs and to improve the utilization and recovery of loans (Review of Working of RRBs, NABARD, 1997). This programme of SHGs, which started on pilot basis from the year 1991-92, made rapid progress over the years. Most of the RRBs had participated in the linkage programme as well and the number of SHGs and the amount of total financial assistance to the SHGs increased also over the years.

#### **6.7.8 Other Restructuring Measures**

The other restructuring measures like organizational Development Initiative (ODI), Mobile Job Trainers (MJT)<sup>7</sup> Scheme, Manpower Development, Technical Monitoring and Evaluation (TME)<sup>8</sup> cells, Deregulation of Interest Rates (DIR), Monitoring and Review Mechanism (MRM), State Level Co-ordination and Review Committee (SLCRC), Management Audit (MA), Inspection of RRBs, Women Development Cells etc. also affected the overall performance of RRBs. The impact of various restructuring measures on the profitability of RRBs has been blunted due to factors like introduction of prudential norms of income recognition and provisioning, payment of provision for National Industrial Tribunal (NIT) arrears

to the staff, claims pending settlement with DICGC (Deposits Insurance and Credit Guarantee Corporation) etc..

By the help of above factors, all RRBs in the state had been able to improve per employee and per branch productivity as well as volume of business, investment level, recovery percentage, reduce provisioning for NPA and control the operating cost. As a result, they all had been able to achieve viability and earn profit as on 31 March, 2001 though for most of the RRBs of the state the profitability levels were very low.

### **6.8 Reasons for Low-Level of Profitability of RRBs in the State**

It could be seen from the above discussion that all the RRBs in the state were in losses till 1995, in 1996 HGB first earned profit and at the end of March of 2001 they all earned profit. But most of them did not show a satisfactory level of profitability. The most important reasons behind the low level of profitability of RRBs in the state are :

- (i) Some of the RRBs have very low productivity per staff indicating low volume of business ;
- (ii) Most of the RRBs are those which have been covered at delayed dates under restructuring programme. Thus they have received financial assistance for recapitalisation in late ;
- (iii) Some of them have lower recovery and higher NPA level ;
- (iv) Inadequate income generation due to supply of poor quality of assets;
- (v) Due to low productivity the cost of management works out higher in these RRBs;
- (vi) Many branches of these RRBs are located in certain disadvantaged location like in tribal regions, economically backward areas and less developed regions;
- (vii) Generally the management of these banks appears to be weaker. Perhaps late or non-selection under restructuring also led to their neglect by sponsor banks and other policy making institutions. This seems to have also resulted in low morale

among staff of these banks which further contributed to the poor performance. Perhaps the organization development initiation (ODI) could help to certain extent in such a situation;

- (viii) The urban-oriented employees find it difficult to adjust themselves with the rural people and the condition obtaining in villages. They find a great gulf between their way of living and that of the rural people and encounter the problem of finding suitable accommodation in rural areas. They are used to the basic physical amenities like furniture in the house, electricity, tap water and good sanitation and recreation facilities, etc., whereas all these are mostly lacking in villages. Besides, education of children also poses a problem for them. Thus, they stay at a great distance from the bank offices.

Also, most of the urban oriented employees are worried during office hours because they have lack of experience of the problem of dealing with the rural people, resulting increase in the lack of initiative of the bank staff to improve the overall performance of the bank.

## 6.9 Summary

The above analysis exhibits the improvement of financial performance of all RRBs in the state in particular and RRBs in the country in general by the help of various financial ratios and the growth rate of income and expenditure. From this analysis we could identify the viability and profitability conditions of RRBs and also the factors behind the achieving viability and reasons for low level of profitability. The analysis has brought to focus the following highlights :

- (i) The number of profit making RRBs increased from 23 in 1991-92 to 172 in 2000-01 at the national level, whereas this number rose from zero to 9 at the state level during the same period, i.e., all the RRBs in West Bengal earned profit in 2000-01. Out of 196 RRBs only 24 RRBs incurred losses in the country at that time.
- (ii) The amount of interest income of RRBs in the country increased from Rs. 141482.14 lakhs in 1995-96 to Rs. 394547.45 lakhs in 1999-2000, while at the state level it rose from Rs. 8418.39 lakhs

to Rs. 25756.85 lakhs during that period. At both the levels the percentages of interest income to total income were above 90%.

- (iii) The amount of interest income increased from Rs. 105567.81 lakhs and Rs. 6941.99 lakhs in 1995-96 to Rs. 256459.29 lakhs and Rs. 20284.50 lakhs in 1999-2000 at the national level and state level respectively.
- (iv) Due to the higher growth of interest income (178.87% and 205.96%) than the interest expenses (142.93% and 192.20%) the spread ratio increased from 1.65% and 1.03% to 3.04% and 1.74% during that period at the national and state level respectively.
- (v) The burden ratio at both levels decreased from 2.88% and 3.02% to 1.60% and 2.10% respectively during the same time because the growth of operating cost was lower than that of volume of business.
- (vi) Gross ratio and operating ratio also declined at both levels over the period from 1995-96 to 1999-2000.
- (vii) The average per RRB and per branch productivity of RRBs of the state were higher than that at the national level though the per employee productivity was lower at state level than the national level in every year during that period.
- (viii) Credit-Deposit ratio of RRBs at the national level decreased from 52.90% in 1995-96 to 40.94% in 1999-2000, whereas at the state level it declined from 47.58% to 31.77% during that period.
- (ix) The average recovery percentage at the state level was always lower than the national level, consequently the gross NPA percentage to total advances were higher at the former level than the latter level. Recovery percentages at the both levels (state and national) increased from 34.35% and 55.10% in 1995-96 to 43.98% and 64.09% in 1999-2000 respectively. While the gross

NPA percentage decreased from 56.74% and 43.07% to 35.45% and 23.07% during the same period at the both levels.

- (x) The per branch and per employee productivity of BGB, SGB and HGB were higher than that at the state level but for GGB and UBKGB were lower during the period from 1995-96 and 1999-2000. For Mal.GB and Mayu.GB the per branch productivity were higher but per employee productivity were lower than the state level and for NGB and MGB the corresponding aspects were opposite. For both cases HGB showed the highest figure in the state during the year 1999-2000.
- (xi) In the State of West Bengal, the per branch income of HGB was always the highest during the period from 1995-96 to 1999-2000. The spread ratio of this bank was always higher than its burden ratio, resulting in fact that the profitability ratio was always positive, i.e., in every year during that period the bank earned profit.
- (xii) Besides, the per branch incomes of BGB, SGB, Mayu. GB and Mal.GB were higher than the average per branch income at the state level in every year during that period.
- (xiii) Rest four RRBs, viz., GGB, UBKGB, NGB and MGB had not been able to exceed the every figure at state level regarding per branch income, though the NGB had been able to show very good profitability during the year 1999-2000.
- (xiv) The amount of per branch loss of Mayu. GB was Rs. 7.59 lakhs at the end of March 2000, which was the highest in the state, whereas the NGB earned the highest per branch profit of Rs. 2.76 lakhs at the same time.
- (xv) Consequently, for Mayu.GB per employee loss was the highest, and the NGB was able to earn the highest per employee profit during that time.
- (xvi) The lowest amounts of per employee income and per employee expenditure was found to exist in GGB and UBKGB respectively

and figures for both of these items were found to be the highest for HGB as on 31 March 2000.

- (xvii) At the end of March 2001 the SGB earned the highest profit of Rs. 503 lakhs, while MGB earned the lowest profit of Rs. 56 lakhs at the same time .
- (xviii) The overall financial performances of SGB, NGB and Mal.GB improved satisfactorily over the five years period of 1995-96 to 1999-2000. During the year 1999-2000, the spread ratios of these banks were higher than the average figure at the state level, they had been able to show marked positive profitability ratio. But, for GGB, UBKG and Mayu.GB these results were not satisfactory, though their financial performances improved in the next year.
- (xix) The percentage of interest income from advances to the total income for every RRB in the state decreased almost continuously during the period from 1995-96 to 1999-2000. During the year 1999-2000, it was lowest for the SGB at 12.43% only, followed by the HGB at 15.93% , while it was the highest for the GGB at 35.47%, followed by Mal.GB, and Mayu.GB at 25.71% and 25.70% respectively.
- (xx) On the other hand, the percentage of interest income from investment and bank balances increased almost continuously at that period due to lower growth rate of advances and higher growth rate of investment. This percentage of the SGB (84.10%) was the highest and followed by the HGB (79.62%) during the year 1999-2000.
- (xxi) The percentages of interest on deposits to the total expenditure of all RRBs in the state increased vehemently over the period of 1995-96 to 1999-2000. During the year 1999-2000, it was the highest for the BGB (74.10%) , followed by the SGB (73.33%), while it was the lowest for the UBKGB (56.88%) and followed by the GGB (62.12%).

<sup>6</sup>Such mergers should be based on the ability of the stronger partner to absorb the weaker one and linguistic or area or sponsor bank or age compatibility (ECRC Report, 2001).

<sup>7</sup>The scheme of Mobile Job Trainers was continued in RRBs to facilitate on the job training of staff in branches in House-keeping and day to day banking operation including familiarisation of staff with changes taking place in the banking industry (Review of Working of RRBs, 1997).

<sup>8</sup> NABARD has founded establishment of numerous Technical Monitoring and Evaluation (TME) cells to impart necessary skill to the staff in appraisal, monitoring and evaluation of projects both under Farm Sector and Non-Farm Sector, NABARD provided necessary financial assistance for the setting up of TME cells (Review of Working of RRBs, 1998).