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# Regional Rural Banks In Maharashtra State - Performance Evaluation Of Regional Rural Banks Of Maharashtra State Using CAMEL Method

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***Abstract:** The Regional Rural Banks were established "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs and for matters connected there with and incidental thereto". The necessity of rural finance was felt to provide protection & reliance to rural people who rely highly on informal source of finance like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. The problems of finance suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural ineptness.*

***Rural bank are providing finance to the weaker sections of society like small farmers, rural artisans, small producers, rural labourers etc, to provide finance to cooperative societies, primary credit societies, Agricultural marketing societies, Enhance & Improve banking facilities to semi urban, rural& other untapped market. The Regional Rural Banks help the rural people to come out from the financial problems and secured the financial assistance to agriculture in India.***

***The study concentrated on Vidharbha Gramin Bank and Maharashtra Gramin Bank situated in Maharashtra to provide financial support to agriculture and performance of the bank in various Identified potential areas. This bank focused on the rural development, reaching the uncovered and being farmer friendly.***

***Keywords:** RRB, Rural India, Economic development, Rural Economy, NABARD*



## I. INTRODUCTION

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act, 1976 to provide sufficient banking and credit facilities for agriculture and other rural sectors. These were set up on the recommendations of The Narasimham Working Group during the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2 October 1975 with the forming of the first RRB i.e. the Prathama Bank. Also on 2 October 1975 five regional rural banks were set up with a total authorised capital of 100 crores, which later increased to 500 crores. The Regional Rural Banks were owned by the Central Government , the State Government and the Sponsor Bank who held shares in the ratios of 50% - 15% - 35%.

The following are major functions of these rural financial institutions:

- ✓ To take banking to the doorsteps of the rural masses particularly in areas without banking facilities.
- ✓ To mobilize rural savings and canalize them for supporting productive activities in the rural areas.

- ✓ To make available cheaper institutional credit to the weaker sections of society, (who are to be the only clients of these banks?).
- ✓ To generate employment opportunities in the rural areas.
- ✓ To bring down the cost of providing credit in rural areas.
- ✓ To encourage small business and rural artisans.

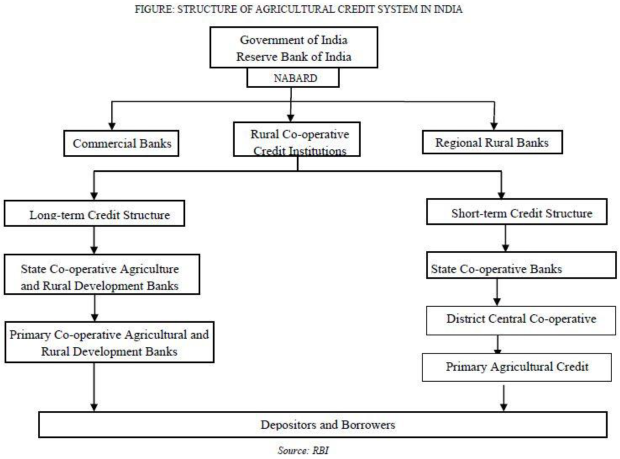


*Figure 1*

The number of RRB in India as on 31st March 2016 were 56, with a network of 19000+ branches covering 642+ districts in 26 states and UT of Puducherry and 120 Million customers.

Under PMJDY RRBs opened 23.7 million A/Cs churning Rs 1700 crore in banks.

## II. RESEARCH METHODOLOGY

The required data of the selected bank for a period of FY 2013-16 have been collected from the respective Banks Finance, Planning, Treasury and Recovery departments, published audited annual reports by the bank. So, collected data analyzed with help of statistical tools to understand the achievement done against the target assigned to RRB by their respective sponsor bank.

## III. LIMITATIONS OF THE STUDY

- ✓ Period of Study: FY 2013-2016 (Last 3 FYs) .
- ✓ Only some of key performance indicators are considered. But, however, other indicators can be covered in future research work.

Indian financial system has passed through second generation reforms by giving emphasis on individual up gradation, strengthening internal system, attention to different prudential norms like capital adequacy, containment of NPA and systemic improvements towards effecting credit delivery system. It can be done only through proper supervisory and regulatory mechanism. The CAMEL Methodology has been developed and practiced by the North American bank regulators to assess the financial and managerial soundness of US commercial banks. Subsequently Basel committee on banking supervision (BCBS) has been created in 1974 and they also accept the CAMEL as uniform financial institution rating system to evaluate and monitor the banks. In India is adapting the Basel I & II norms in total so has to ensure the better financial standing of own banks & financial Institutions.

✓ *CAMEL FRAMEWORK*

"CAMEL" refers to the eight components of a bank's financial condition Viz., Capital adequacy, Asset quality, Management Efficiency, Earnings Quality, Liquidity, Technology, Government Policy and Human Resources characters of a commercial bank. CAMEL is basically a ratio-based model for evaluating the performance of the banks periodically.

Various ratios forming this model have been explained individually and collectively. In the present study, the ratios relating to capital adequacy, asset quality, management efficiency, earning quality and liquidity has been found out. Technology, government policy and human resources played fundamental and supportive role for other components of this model.

## IV. OBJECTIVE OF THE STUDY

To study the Eight (8) Components of the CAMEL Model with description are listed below and analysis along with findings has be established on the performance evaluation.

- ✓ Capital Adequacy,
- ✓ Asset Quality,
- ✓ Management efficiency,
- ✓ Earning quality,
- ✓ Technology,
- ✓ Government policy,
- ✓ Liquidity and
- ✓ Human resources.



### *C- CAPITAL ADEQUACY*

Capital base of financial institutions facilitates depositors in forming their risk perception about the institutions. The most widely used indicator of capital adequacy is capital to risk-weighted assets ratio (CRWA). According to Bank Supervision Regulation Committee (The Basle Committee) of Bank for International Settlements, a minimum 9 percent CRWA is required. Capital adequacy determines how well financial institutions can cope with shocks to their balance sheets. Thus, it is useful to track capital-adequacy ratios that take into account the most important financial risks (foreign exchange, credit, and interest rate risks) by assigning risk weightings to the institution‘s assets.

### *A – ASSET QUALITY*

Asset quality determines the healthiness of financial institutions against loss of value in the assets. The weakening value of assets, being prime source of banking problems, directly pour into other areas, as losses are eventually written-off against capital, which ultimately expose the earning capacity of the institution. The asset quality is gauged in relation to the level and severity of non-performing assets, adequacy of provisions, recoveries, distribution of assets etc.

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Popular indicators include Gross NPA to Gross Advances Ratio, Net NPA to Net Advances Ratio, Total Investments to Total Assets Ratio and Net NPAs to Total Assets Ratio.

*M – MANAGEMENT EFFICIENCY*

Management of financial institution is generally evaluated in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. In addition, performance evaluation includes compliance with set norms, ability to plan and react to changing circumstances, technical competence, leadership and administrative ability of the bank. Sound management is one of the most important factors behind financial institutions' performance. Indicators of quality of management, however, are primarily applicable to individual institutions, and cannot be easily aggregated across the sector.

*E – EARNING ABILITY*

Earnings and profitability, the prime source of increase in capital base, is related with regards to interest rate policies and adequacy of provisioning. Further, it also helps to support present and future operations of the institutions. Good earnings and profitability of banks reflects the ability to support present and future operations. Specifically, this determines the capacity to absorb losses, finance its expansion, pay dividends to its shareholders, and build up an adequate level of capital.

*L – LIQUIDITY*

An adequate liquidity position refers to a situation, where institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It is, therefore, generally assessed in terms of overall assets and liability management, as mismatching gives rise to liquidity risk. The term liquidity is used in various ways, all relating to availability of, access to, or convertibility into cash. An institution is said to have liquidity if it can easily meet its needs for cash either because it has cash on hand or can otherwise raise or borrow cash.

*T – TECHNOLOGY*

The technology deployed in a banks or financial institutions affects its operational efficiency and determines its competitive position. It must be comparable with the standards.

Bank should analyze the level of information technology and its integration within the departments of the bank or financial institutions. The Banks should monitor the endeavors of the bank for constant up-gradation of the technology.

*G – GOVERNMENT POLICY*

In addition to the above, government policy also affects the operational efficiency for the industry in general and the government owned public sector banks in particular. This is because banks In India acts as a vehicle to fulfill the economic needs, social requirements and obligation of the Government. Government support plays a crucial role in case of banks and is duly factored in analysis. Also the extent of ownership also affects the capital raising ability of a bank in the future.

*H – HUMAN RESOURCE*

The people in a banks or financial institutions are the most valuable resources and the major driving force for successes and failures. The quality of human resources employed by a bank greatly affects its performance. Bank should analyze the recruitment process and training standard of the financial institution, which reflects the quality of the people in the organization. The banks should analyze their ability to guidance and support to operations staff, compensation package as per the industry norms and attrition rate in the financial institution, which reflect the satisfaction among the employees and staff towards their work and organization. Besides the ratios of CAMEL Model, some additional ratios were introduced in CAMEL framework for in depth analysis of performance of RRBs of Gujarat State.

The list of the ratios used for the present study is stated below.

| | |
|---|---|
| Capital Adequacy | 1. Capital Adequacy Reserve Ratio |
| | 2. Debt Equity Ratio |
| | 3. Net Advances to Total Assets Ratio |
| | 4. Government Securities to Total Investments Ratio |
| | |
| Asset Quality | 1. Gross NPA to Gross Advances Ratio |
| | 2. Net NPA to Net Advances Ratio |
| | 3. Total Investments to Total Assets Ratio |
| | 4. Net NPAs to Total Assets Ratio |
| | 5. Percentage Change in net NPAs |
| Management Efficiency | 1. Total Advances to Total Deposits Ratio |
| | 2. Business per Employee |
| | 3. Business per Branch |
| | 4. Profit per Employee |
| | 5. Profit per Branch |
| | 6. Return on Net Worth |
| Earning Quality | 1. Operating Profit to Average Working Fund |
| | 2. Net Interest Margin to Average Working Fund |
| | 3. Return on Average Working Fund |
| | 4. Interest Income to Total Income |
| | 5. Interest Income to Average Working Fund |
| | 6. Basic EPS |
| | 7. Diluted EPS |
| Liquidity | Liquidity |
| | 1. Liquid Assets to Total Asset |
| | 2. Government Securities to Total Assets |
| | 3. Liquid Assets to Demand Deposits |

| | |
|---|---|
| | 4. Liquid Assets to Total Deposits |
| | 5. Approved Securities to Total Assets |

*Table 4.1*

## A. CAPITAL ADEQUACY RATIOS

Capital adequacy has emerged as one of the major indicators of the financial health of a banking entity. It is important for a bank to maintain depositors' confidence and preventing the bank from going bankrupt. Capital is seen as a cushion to protect depositors and promote the stability and efficiency of financial system around the world. Capital Adequacy reflects the overall financial condition of the banks and also the ability of management to meet the need for additional capital. It also indicates whether the bank has enough capital to absorb unexpected losses. The following ratios measure Capital Adequacy.

### *a. CAPITAL ADEQUACY RESERVE RATIO*

The banks are required to maintain the capital adequacy ratio (CAR) as specified by RBI from time to time. As per the latest RBI norms, the banks in India should have a CAR of 9%. It is arrived at by dividing the sum of Tier-I, Tier-II and Tier-III capital by aggregate of risk weighted assets (RWA). Symbolically, CAR= (Tier-I + Tier-II + Tier-III)/RWA. Tier-I capital includes equity capital and free reserves. Tier-II capital comprises of subordinate debt of 5-7 years tenure, revaluation reserves, hybrid debt capital instruments and undisclosed reserves and cumulative perpetual preference shares. Tier-III capital comprises of short-term subordinate debt. Risk weighted assets means fund based assets such as cash, loans, investments and other assets. Degrees of credit risk expressed as percentage weights have been assigned by RBI to each such assets. Subordinate debts are fully paid up instruments which is unsecured debt. It should be subordinated to the claims of other creditors. This means that the bank's holder's claims for their money will be paid at last in order of preference as compared with the claims of other creditors of the bank. The bonds should not be redeemable at the option of the holders. This means the repayment of bond value will be decided only by the issuing bank. Higher the CAR makes the bank stronger.

| Financial Years | VKGB | MGB | Mean |
|---|---|---|---|
| 2013-14 | 9.73% | 10.88% | 10.31% |
| 2014-15 | 9.94% | 10.92% | 10.43% |
| 2015-16 | 9.21% | 10.44% | 9.83% |
| Mean | 9.63% | 10.75% | 10.19% |

*Source: Annuals reports of VKGB and MGB, NABARD reports*

*Table 1.1: Capital Adequacy Ratio (CRAR)*

From the above analysis in was revealed that capital adequacy ratio of VKGB was 9.73% in 2014 which declined to 9.21% in 2016 because of heavy growth of risk weighted assets and low growth of total capital. The growth of capital based on tier 1 and tier 2 capitals. Tier 1 and tier 2 capital includes Paid up capital, share capital Deposits, Statutory Reserves, Reserves and Surplus, General Provisions on Standard Assets etc. Bank cannot use reserve and surplus without the permission of RBI. Generally, banks do not disturb the share capital deposits. Statutory reserves are based on profit and variation in profit reflected the change in the ratio. Provision on standard assets also based on advances and the proportion of advances to total assets tends to decline which may be another reason for reduction in capital adequacy ratio. The average capital adequacy ratio of VKGB stood at 9.63%.

The capital adequacy ratio of MGB was 10.88% in 2006 which declined to 10.44% in 2016. The reason may be for the variation in the ratio is heavy / low growth of risk weighted assets and / or heavy / low growth of capital and improvement or reduction in profit. The average capital adequacy ratio of SGB stood at 10.75%.

The average capital adequacy ratio of Maharashtra region was 10.31% in 2014 which improved to 10.43% in 2015 but declined in 2016 to 9.83% because of reduction in the ratios of both the two banks. It was improved in 2015 which was 10.43% due to improvement of the ratio of VKGB and MGB. The average ratio of the Maharashtra region of the study period stood at 10.19%. Although, all the banks have maintained minimum level 9% and performed above the bench mark ratio but the management should think about reduction in the ratio and should take necessary steps to improve the capital adequacy ratio.

### *b. DEBT EQUITY RATIO*



Debt Equity Ratio of the bank indicates the risk proportion created against net worth. Debt-Equity ratio is arrived at by dividing total borrowings by shareholders' Net Worth. Net Worth of the bank includes equity capital, share capital deposit and reserves and surplus.

Generally equity capital and share capital deposit remains stable in the capital structure of the bank but the balance of reserve and surplus may change because reserves and surplus includes statuary reserves which is based on profit, general reserves and the balance of profit. Changes in reserves and surplus affect the balance of net worth which ultimately affects the debt equity ratio.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 234.55% | 285.27% | 259.91% |
| 2014-15 | 254.84% | 325.49% | 290.17% |
| 2015-16 | 152.30% | 257.16% | 204.73% |
| **Mean** | 213.90% | 289.31% | 251.60% |

*Source: Annuals reports of VKGB and MGB, NABARD reports*

*Table 1.2: Statement showing Debt Equity Ratio (In %)*

With the view to the above analysis it was noticed that the debt-equity ratio of VKGB was 234.55% in 2014 which improved and increased to 254.84% in 2015 because of 12.35% increase in borrowings against only 11.37% increase in net worth. It was dropped to 152.30% in 2016 because of 6.47% decline in borrowings may be due to heavy repayment of borrowings and 10.83% increase in net worth. The another probable reason for heavy increase in borrowings may be the borrowing for sponsor banks or scheme of NABARD for finance at lower rate for priority sector lending or for certain specific object. In FY 2016, the net worth increased by 10.83% which grown less compare to FY 2015 could be the other reason for heavy increase in debt equity ratio.

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The debt-equity ratio of MGB was 285.27% in 2014 which improved to 325.49% due to 13.02% improvement in borrowings and 11.41% improvement in net worth. It dropped to 257.16% in 2016 because of repayment of a part of borrowings which was declined by 9.58% and net worth improved by 12.12%. It was improved to 325.49% in 2014 because of huge increase in borrowings due to specific scheme of NABARD and from sponsor bank. The average debt equity ratio of MGB was 289.31% highest compare to other bank.

It was observed that the average debt ratio in FY 2016 was 204.73% which was the lowest as compared during the study period because the growth rate of borrowings of both the banks was less compared to other 2 FYs. The average debt equity ratio of the Maharashtra region stood at 251.60% because of high debt equity ratio of both the banks during the period of the study.

*c. NET ADVANCES TO TOTAL ASSETS*

The ratio of net advances to total assets indicates the percentage of total assets deployed as credit which needed for maximization of interest income as well as to reach to rural mass. Net Advances arrived after making provision which is specified by RBI on advances. Total assets mean the total of all assets shown in the balance sheet of the bank.

| Financial Years | VKGB in % | MGB in % | Mean in % |
|---|---|---|---|
| 2013-14 | 55.32 | 47.31 | 51.31 |
| 2014-15 | 54.03 | 44.37 | 49.20 |
| 2015-16 | 60.36 | 47.83 | 54.09 |
| Mean | 56.57 | 46.50 | 51.53 |

Source: Annuals reports of VKGB and MGB, NABARD reports

*Table 1.3: Statement showing Ratio of Net Advances to Total Assets. (in %)*

In accordance with the above ratio it was noticed that the ratio of net advances to total assets of VKGB was 55.32% in 2014 which declined to 54.03% in 2015 because of the growth rate of advances was less than the growth rate of total assets which implied that the bank could not convert the portion of total asset in to advances productively. In the year 2016 the ratio was improved to 60.36% due to more growth rate of advances against the growth rate of total assets. It can be said that whenever the growth rate of advances was more than the growth of total assets, the ratio of net advances to total assets was improved and when growth rate of advances was less than the growth of total assets, the ratio tends to decline. The average ratio of VKGB during the 3 years study period was 56.57%.

The ratio of MGB ratio of net advances to total assets of VKGB was 47.31% in 2014 which declined to 44.37 in FY 2014-15 because of the growth rate of advances was less than the growth rate of total assets. In FY 2015-16, the ratio stood at 47.83% with high margin because of the growth rate of advances was more than the growth rate of total assets.

It should be noted that the ratio of net advances to total assets of MGB shown more ups and downs in the study period due to some reasons but the variations was not more than 2% to 4% which shows the effective performance of the bank compare to other banks because the level of this ratio was more than the level of the ratio of VKGB. The average ratio of VKGB during the 3 years study period was 46.50%.

It should be clear that the performance of VKGB towards this ratio was effective compare to MGB. The average ratio of VKGB was 56.57% compared to 46.50% of MGB. The average ratio of Maharashtra region stood at 51.53% because of the lower average of MGB.

*d. GOVERNMENT SECURITIES TO TOTAL INVESTMENTS*

This ratio shows the risk involved in a bank's investment. Government Securities are generally, statutory liquid investments and considered as the most safe debt instrument, which, as a result, carries the lowest return. Since government securities are risk-free, the higher the Government Securities to investment ratio, the lower the risk involved in a bank's investment. It is arrived at by dividing the amount invested in government securities by net investments which are considered net of provisions on the investments.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2012-13 | 52.43 | 95.38 | 73.90 |
| 2013-14 | 55.77 | 81.29 | 68.53 |
| 2014-15 | 56.67 | 86.34 | 71.50 |
| 2015-16 | 70.14 | 71.87 | 71.01 |
| **Mean** | 58.75 | 83.72 | 71.24 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 1.4: Statement showing Ratio % of Government Securities to Total Investments (In %)*

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 44.23 | 18.71 | 31.47 |
| 2014-15 | 43.33 | 13.66 | 28.50 |
| 2015-16 | 29.86 | 28.13 | 28.99 |
| **Mean** | 39.14 | 20.17 | 29.65 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 1.5: Statement showing Ratio of Non-SLR Investments Securities to Total Investments (in %)*

Bank has to invest some portion of deposits in government securities with specified percentage as per the guidelines of RBI issued by time to time. The variations in deposits and the policy of bank to invest in non SLR investments and other approved securities affects the ratio of government securities to net investments.

Reduction in the proportion of non SLR investments to total assets reduced the risk but on the other hand bank has reduced the opportunity for earnings at higher rate because the rate of non SLR investments are more than the rates applicable in government securities.

The ratio of Government securities to total investment of VKGB in FY 2013 was 52.43% which improved on yearly basis and stood at 56.67% in Fy 2015-16. The average ratio was 58.75% over the period of study.On the other hand, it has been observed that the non SLR of VKGB also decreased over period of the study. In the beginning of the study, in FY 2014 , it was 44.23% which reduced to 43.33% in FY 2015 and then to 29.86% in FY 2016. The average ratio of Non SLR during the period of study was 39.14% which means VKGB invested 40% of its investment to gain the earnings at higher rate.

The ratio of Government securities to total investment of MGB in FY 2013 was 95.38% which declined on yearly basis and stood at 71.87% in FY 2015-16. The average ratio was 82.72% over the period of study. On the other hand, the ratio of non slr investment shows ups and downs over the period of the study. In FY 2014, it was 18.71% which reduced to 13.66% in FY 2015. In FY 2016, the ratio increased to 28.13%. the average ratio of MGB over the period of study was 20.17% which means MGB invested more in Govt securities to protect their investment and earned lower earnings as well.

The average ratio of SLR investment of Maharashtra region of the study period stood at 71.24% and for non SLR investment at 29.65%.

| Sr No | Capital Adequacy Ratios | Ranks | |
|---|---|---|---|
| | | VKGB | MGB |
| 1 | Capital Adequacy Reserve Ratio | 2 | 1 |
| 2 | Debt Equity Ratio | 1 | 2 |
| 3 | Net Advances to Total Assets | 1 | 2 |
| 4 | Government Securities to Total Investments | 2 | 1 |
| **Total of the Ranks on First Position** | | 2 | 2 |

*Source: Annuals reports of VKGB and MGB, NABARD reports*

*Table 4.1.1: Rank Based Performance Analysis of "Capital Adequacy" Ratios*

According to the rank based analysis of "Capital Adequacy" ratios, it was examined that out of the four ratios of Capital Adequacy, VKGB and MGB, both has got first position in two ratios. MGB performed well in CAR and Government securities and VKGB performed well in Debt equity and net advances ratio.

## B. ASSETS QUALITY

The quality of assets is an important parameter to gauge the degree of financial strength. The prime motto behind measuring the assets quality is to ascertain the component of Non-Performing Assets (NPAs) as a percentage of the total assets. This indicates what types of advances the bank has made to generate interest income. The following ratios are necessary to assess assets quality:

### *a. GROSS NPA TO GROSS ADVANCES*

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is a loan or an advance where;

- ✓ Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan. "Overdue" means any amount due to the bank under any credit facility is overdue if it is not paid on the due date fixed by the bank.
- ✓ The account remains 'out of order' in respect of an Overdraft/Cash Credit. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order
- ✓ The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- ✓ The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- ✓ The installment of principal or interest thereon remains overdue for one crop season for long duration crops,
- ✓ The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated 1st February 2006.
- ✓ In respect of derivative transactions, the overdue receivables representing positive mark to market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non-standard assets like as sub-standard, doubtful, and loss assets. The Gross NPAs are measured as a percentage of Gross Advances. The lower the ratio, the better is the quality of advances.

| Financial Years | VKGB | MGB | Mean |
|---|---|---|---|
| 2013-14 | 6.02% | 4.52% | 5.27% |
| 2014-15 | 6.46% | 4.90% | 5.68% |
| 2015-16 | 7.91% | 4.40% | 6.16% |
| **Mean** | 6.80% | 4.61% | **5.70%** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 1.6: Statement showing Gross NPA to Gross Advances Ratio (in %)*

The ratio of VKGB was 6.02% in the beginning of the study i.e. FY 2014 which was increased to 6.46% in FY 2015 and 7.91% in FY 2016 due to improvement in gross NPA against the growth of gross advances over the period of the study. The average ratio stood at 6.80% over the period of the study.

The ratio of MGB was 4.52% in the beginning of the study i.e. FY 2014 which was increased marginally to 4.90% in FY 2015 and reduced to 4.40% in FY 2016 . the increasing trend was observed due to improvement in gross NPA against the growth of gross advances. The declined in the ratio was because of reduction of gross NPA and marginal growth in gross advances. The average ratio over the period of the study stood at 4.61%.

The average ratio of Maharashtra stood at 5.70%.

### *b. NET NPA TO NET ADVANCES*

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Provisions for net NPA and provisions on gross advances for determination of net advances also forms a part in measurement of the ratio of net NPA to net advances. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. The lower the ratio, the better is the quality of advances.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 3.90% | 2.70% | 3.30% |
| 2014-15 | 3.57% | 2.30% | 2.94% |
| 2015-16 | 4.02% | 1.17% | 2.60% |
| **Mean** | 3.83% | 2.06% | **2.94%** |

*Source: Annuals reports of VKGB and MGB, NABARD reports*

*Table 1.7: Statement showing Net NPA to Net Advances Ratio (in %)*

During the period of study, the ratio of net NPA to net advances of VKGB was 3.90% in 2014 which was dropped to 3.57% in 2015 due to effective growth of net advances and reduction in net NPA. It was improved in 2016 and reached to 4.02% due to huge improvement in net NPA and the lower growth of net advances against last year. The average ratio observed during the period of study was 3.83%.

During the period of study, the ratio of net NPA to net advances of MGB was 2.70% in 2014 which was dropped to 2.30% in 2015 due to effective growth of net advances and reduction in net NPA. It further dropped to 1.17% in 2016 due to huge decline in net NPA and remarkable growth of net advances. The average ratio observed during the period of study was 3.83%.

Looking the average ratio of the study period of both the banks it was noticed that the average ratio of MGB was lower in comparison to VKGB mainly due to the ratio of every year of the study period of SGB was lower than the VKGB.

The average ratio of the study period of Maharashtra region stood at 2.94%.

### c. TOTAL INVESTMENTS TO TOTAL ASSETS

Total investments to total assets ratio indicates the extent of deployment of assets in investment. This ratio is used as a tool to measure the percentage of total assets locked up in investments. It is arrived at by dividing total investments by total assets. Total investments for this purpose the investment shown in the balance sheet which are net of provisions and total assets means the total of assets which is shown in the balance sheet. A higher ratio means that the bank has conservatively kept a high cushion of investments to guard against NPAs.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 17.25 | 16.59 | 16.92 |
| 2014-15 | 19.96 | 25.47 | 22.72 |
| 2015-16 | 21.65 | 28.69 | 25.17 |
| **Mean** | 19.62 | 23.58 | **21.60** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 1.8: Statement showing Ratio of Total Investments to Total Assets (In %)*

During the period of study and in consonance with the above analysis it was observed that the ratio of VKGB was 17.25% in 2014 which was constantly increased year by year. The increase in the proportion of investments to total assets mainly because of the proportion of net advances to total assets was constantly increased and bank has invested less amount in balance with other banks. The average ratio observed during the period of study was 19.62%.

The ratio of MGB was 16.59% in 2014 which was improved up to 28.69% in FY 2016 constantly because of the major proportion of total assets locked in net advances and the proportion of balance with banks was dropped. The average ratio observed during the period of study was 23.58%.

By taking the view of average ratio of the study period it was noticed that the ratio of MGB was more than VKGB because of the high ratio of MGB was recorded during the period of the study in comparison of VKGB which reflected in the improvement of the ratio.

The average ratio of the study period of Maharashtra region stood at 21.60%.

### d. NET NPAS TO TOTAL ASSETS

Net NPA to total asset ratio is a measure of the quality of total assets which indicates the portion of total assets retained in net NPA. Lower ratio indicates the efficiency of banks with respect of employment of total assets. The lower ratio indicates the better quality of total assets.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 2.16 | 1.33 | 1.75 |
| 2014-15 | 1.93 | 1.07 | 1.50 |
| 2015-16 | 2.43 | 0.59 | 1.51 |
| **Mean** | 2.17 | 1.00 | 1.58 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 1.9: Statement showing Ratio of Net NPAs to Total Assets (In %)*

The ratio of net NPA to total assets of VKGB was laid down between 2.16% and 2.43% because of movement in net NPAs against the growth of total assets.

The ratio of BGB was 1.33%in 2014 which was reduced to 1.07% in 2015 due to huge decline in net NPA against the good growth of total assets. It further lowered down to 0.59% in 2016 because of heavy reduction in net NPA with effective growth of total assets. Lower the ratio, better for the bank.

The average ratio observed during the study period of VKGB was 2.17% and MGB was 1.00% which was lowest when compared with VKGB in each year of the study period.

The average ratio of the Maharashtra state stood at 1.58%.

### e. PERCENTAGE CHANGE IN NET NPAS

This measure gives the movement in Net NPAs in relation to Net NPAs in the previous year. The higher the reduction in Net NPAs levels, the better is for the bank. It is given by the formula:

% Change in Net NPAs = (Net NPAs at the end of the year – Net NPAs at the beginning of the year)/Net NPAs at the beginning of the year.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 56.68 | 69.30 | 62.99 |
| 2014-15 | 80.80 | 66.35 | 73.58 |
| 2015-16 | 82.59 | 42.55 | 62.57 |
| **Mean** | 73.36 | 59.40 | **66.38** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.0: Statement showing Ratio of Percentage Change in Net NPAs (In %)*

From the view point of the above ratios it was noticed that VKGB shown increase in change in percentage of NPAs during the period of study due to heavy increase in net NPA. It varied between 56.68% in 2014 to 82.59% in 2016.

In case of MGB, the percentage change in net NPAs declined during the period of study because of the high reduction in Net NPAs levels of MGB. It was 69.30% in 2014 and reduced to 42.55% in 2016.

The average ratio of VKGB over the period of the study was 73.36% and MGB stood at 59.40%.

The average percentage change in net NPAs of Maharashtra region stood at 66.38% because of huge average ratio of VKGB.

| Sr No | Asset Quality Ratios | Ranks | |
|---|---|---|---|
| | | **VKGB** | **MGB** |
| 1 | Gross NPA to Gross Advances | 2 | 1 |
| 2 | Net NPA to Net Advances | 2 | 1 |
| 3 | Total Investments to Total Assets | 2 | 1 |
| 4 | Net NPAs to Total Assets | 2 | 1 |
| 5 | Percentage Change in Net NPAs | 2 | 1 |
| **Total of the Ranks on First Position** | | **0** | **5** |

With reference to the rank based analysis of "Asset Quality" ratios, it was examined that out of the five ratios of Asset Quality, MGB got first position having five ratios. VKGB got second position having zero ratio. It can be said that the performance of MGB was remarkable from the view point of asset quality ratios.

## C. MANAGEMENT EFFICIENCY

Management efficiency is another vital component of the CAMEL Model that ensures the survival and growth of a bank. The ratios in this segment involve subjective analysis and efficiency of management. The management of the bank takes crucial decisions depending on the risk perception. It sets vision and goals for the organization and sees that it achieves them.

This parameter is used to evaluate management efficiency as to assign premium to better quality banks and discount poorly managed ones. The ratios used to evaluate management efficiency are described below.

### *a. TOTAL ADVANCES TO TOTAL DEPOSITS*

The ratio measures the efficiency of management in converting the deposits available with the bank into high earning advances. it is also known as credit deposit ratio. Total deposits include demand deposits, savings deposits, term deposits and deposits of other banks.

Total advances include all advances which are before the provisions on advances and denoted as gross advances.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 70.56 | 70.12 | 70.34 |
| 2014-15 | 69.12 | 71.86 | 70.49 |
| 2015-16 | 73.86 | 71.54 | 72.70 |
| **Mean** | 71.18 | 71.17 | **71.18** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.1: Statement showing Ratio of Total Advances to Total Deposits (Credit - Deposit Ratio in %)*

During the period of the study, the ratio of advances to deposits of VKGB was 70.56% in 2014 which declined marginally to 69.12% in 2015 due to more growth rate of deposits compared to the growth rate of advances. In 2016, the ratio of advances to deposits was 73.86% due to more growth rate of advances compare to the growth rate of deposits. The average ratio of advances to deposits during the period of study stood at 71.18%.

During the period of the study, the ratio of advances to deposits of MGB was 70.12% in 2014 which increased marginally to 71.86% in 2015 due to more growth rate of advances compared to the growth rate of deposits. In 2016, the ratio of advances to deposits increased to 71.54% due to more growth rate of deposits compare to the growth rate of advances. The average ratio of advances to deposits during the period of study stood at 71.17%.

It was noticed that advances to deposit ratio of VKGB was more than MGB in each year whether it was increased or decreased. The average ratio of Maharashtra region for the year 2014 was 70.34% which improved to 70.49% in 2015 and 72.70% in 2016 subsequently. This was because of good performance of VKGB over the period of study. The average ratio of Gujarat region of the study period stood at 71.18%.

### *b. BUSINESS PER EMPLOYEE*

Per Employee Business measures the efficiency of all the employees of a bank in generating business for the bank. It is arrived at by dividing the total business by total number of employees. The term "Business" means the sum of total deposits and total gross advances in a particular year.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 4.62 | 5.26 | 4.94 |
| 2014-15 | 4.66 | 5.86 | 5.26 |
| 2015-16 | 4.97 | 6.83 | 5.90 |
| **Mean** | 4.75 | 5.98 | **5.37** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.2: Statement showing Ratio of Business per employee (in Lacs)*

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 0.65 | 5.84 | 3.24 |
| 2014-15 | 0.75 | 11.37 | 6.06 |
| 2015-16 | 6.70 | 16.54 | 11.62 |
| **Mean** | 2.70 | 11.25 | **6.97** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.3: Statement showing Growth % Business per employee (In %)*

The percentage of growth of business per employee of VKGB was 0.65% in 2014 because of the growth of 11.33% in business and % of employees by 10.67%.The growth % of business per employee was increased marginally in 2015 to 0.75% % due to marginal increase in growth rate of business by 11.39% and increase in growth rate of employees to 11.30%. It was further increased to 6.70% in 2016 because of normal improvement in business by 10.87% but decrease in number of employees to 10.19%. It was noticed that the growth rate of business tends to decline year by year and number of employees not reduced firmly because of the new branches are opened or other reason may be. The average business per employee stood at 4.75 lacs per employee with average growth rate of 2.70%

The percentage of growth of business per employee of MGB was 5.84% in 2014 because of the growth of 11.03% in business and % of employees by 10.65%.The growth % of business per employee was increased in 2015 to 11.37% % due to increase in growth rate of business by 12.16% and increase in growth rate of employees to 10.76%. It was further increased to 16.54% in 2016 because of normal improvement in business by 12.13% but decrease in number of employees to 10.49%. It was noticed that the growth rate of business tends to decline year by year and number of employees not reduced firmly because of the new branches are opened or other reason may be. The average business per employee stood at 5.98 lacs per employee with average growth rate of 11.25%.

The average growth rate of the study period of VKGB was lowest in comparison to MGB because of fall in the growth rate of business and heavy growth rate of total staff. The average business per employee of Maharashtra region stood at 5.37 lacs and the growth rate of business per employee of Maharashtra region stood at 5.37%.

*c. BUSINESS PER BRANCH*

Business per Branch shows the efficiency of the branches of the bank towards deployment of credit and deposit mobilization. It is arrived with the help of dividing business by number of branches. Increase in business per branch indicates effective performance of branches.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 17.18 | 18.45 | 17.81 |
| 2014-15 | 18.81 | 21.38 | 20.09 |
| 2015-16 | 20.00 | 25.74 | 22.87 |
| **Mean** | 18.66 | 21.86 | **20.26** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.4: Statement showing Business per Branch (in Crore)*

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 10.40 | 10.95 | 10.68 |
| 2014-15 | 10.95 | 11.59 | 11.27 |
| 2015-16 | 10.63 | 12.04 | 11.34 |
| **Mean** | 10.66 | 11.53 | **11.09** |

*Source: Annuals reports of VKGB and MGB, NABARD reports*

*Table 2.5: Statement showing % Growth in Business per Branch (In %)*

Pursuant to the above analysis of growth of percentage of business and branches of VKGB, it was examined that the growth rate of business per branch of VKGB was 10.40% because of 13.30% increase in business and only 2.72% increase in branches. It was increased to 10.95% in 2015 because of growth rate of business was increased marginally to 13.86% whereas the branches was increased by 3.97%. The growth % in business per branch was decreased to 10.63% due to decrease in % growth in business volume to 8.72% and number of branches to 2.23%. The average growth % was 10.66% during the period of study.

Pursuant to the above analysis of growth of percentage of business and branches of MGB, it was examined that the growth rate of business per branch of MGB was 10.95% because of 10.29% increase in business and only 7.69% increase in branches. In FY 2015, it was increased to 11.59% because of growth rate of business was increased to 19.85% whereas the branches was increased by 3.44%. The growth % in business per branch was increased to 12.04% due to increase in % growth in business volume to 22.25% and number of branches to 1.53%. The average growth % was 11.53% during the period of study.

The average growth rate of business per branch of the study period of Maharashtra region stood at 11.09%.

*d. PROFIT AFTER TAX PER EMPLOYEE*

This ratio measures the efficiency of employees at the branch level. It also gives valuable inputs to assess the real strength of a bank's branch network. It is arrived at by dividing the Profit after Tax (PAT) earned by the bank by the total number of employees. The higher the ratio, higher is the efficiency of the management.

| Particulars | FY 2013-14 | FY 2014-15 | FY 2015-16 | **Mean** |
|---|---|---|---|---|
| VKGB | 1.85 | 1.95 | 2.68 | 2.16 |
| MGB | 2.68 | 4.21 | 4.36 | 3.75 |
| **Mean** | 2.27 | 3.08 | 3.52 | **2.95** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

In line with the above ratio it was examined that the profit after tax per employee of VKGB was Rs. 1.85 lacs in 2014 which was increased to Rs. 1.95 lacs in 2015 because of 18.60% increase in growth in profit and 13.01% increase in the staff strength. It was reached to Rs.2.68 lacs in 2016 because of 31.36% decline in profit and 1.89% increase in the staff. The average net profit during the period of study was observed at 2.16 lacs.

In the year 2014, profit per employee of MGB was Rs 2.68 lacs and started to constant improvement in 2015 and 2016 because of effective growth in profit and reduction in the total staff. The average net profit per employee stood at 3.75 lacs over the period of the study.

The average profit after tax of Maharashtra region of the study period stood at Rs. 2.95 lacs.

*e. PROFIT AFTER TAX PER BRANCH*

Profit of the bank is the combination of the profit derived by the branches. This ratio explains the spread of total profit among the total branches of the bank. Movement in profit and in number of branches affects the ratio of profit after tax per branch. Higher ratio is desirable by the bank for strong financial position.

| Particulars | FY 2013-14 | FY 2014-15 | FY 2015-16 | **Mean** |
|---|---|---|---|---|
| VKGB | 6.89 | 7.86 | 5.28 | 6.68 |
| MGB | 9.40 | 15.35 | 16.46 | 13.73 |
| **Mean** | 5.28 | 11.60 | 10.87 | 10.21 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.7: Statement showing Net profit after Tax (In Lacs)*

The profit after tax per branch of VKGB was Rs. 6.89 lacs in 2014 which further increased to 7.86 lacs in 2007 because of 18.60% increase in profit and 3.97% improvement in number of branches. Further in FY 2016, it declined to Rs. 5.28 lacs because of decline in net profit and less number of branches. The average net profit per branch over the period of study stood at Rs.6.68 lacs.

In case of MGB, profit per branch was Rs. 9.40 lacs in 2014 which was bounce to Rs. 15.35 lacs in 2015 because of 68.95% increase in profit with 3.44% reduction in total branches. It was improved and reached to Rs. 16.46 lacs because of 8.88 % growth in profit and 1.53% increase in number of branches. The average net profit per branch over the period of the study stood at 13.73 lacs.

With the view of average profit per branch, the average profit per branch of MGB was more than VKGB because of in majority of the years of the study period; profit per branch of MGB was more in comparison of VKGB. The average profit per branch of the study period of Maharashtra region was stood at Rs. 10.21 lacs which was affected by the lower average amount of VKGB.

### *f. RETURN ON NET WORTH (RETURN ON EQUITY)*

Generally, the variations in profit affected by so many reasons i.e., changes in combination of advances, investments and balance with other banks and also because of changes in the growth rate of deposits and borrowings. Besides that, the rates of advances, deposits, investments and borrowings may vary time to time plays vital role for variations in the profit. Changes in the balances of operating expenses, provisions and other expenses are other factors for the variations in the profit. On the other hand, net worth of the bank includes equity capital, share capital deposit and reserves and surplus. Generally equity capital and share capital deposit remains sTable in the capital structure of the bank but the balance of reserve and surplus may change because reserves and surplus includes statuary reserves which is based on profit, general reserves and the balance of profit. Changes in reserves and surplus affect the balance of net worth.

| Financial Years | VKGB | MGB | Mean |
|---|---|---|---|
| 2013-14 | 11.31 | 11.52 | 11.42 |
| 2014-15 | 11.37 | 11.41 | 11.39 |
| 2015-16 | 10.83 | 5.38 | 8.11 |
| Mean | 11.17 | 9.44 | 10.30 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.8: Statement showing Return on Net Worth (in %)*

The ratio of return on net worth of VKGB was 11.31% in 2014 which improved to 11.37% in 2015 because of 18.60% increase in net profit and 13.71% increase in net worth. It declined to 10.83% in 2016 due to negative growth of 31.36% in the profit and decrease in networth growth to 8.27% from the previous FY. The average return on networth over the period of study stood at 11.17% for VKGB.

For MGB, In the year 2006, the ratio of return on net worth was 11.52% which was declined to 11.41% in 2015 due to 68.95% increase in profit and decrease in net worth to 14.10% It was further declined in 2016 to 8.11% because of effective less growth in net profit and negative growth in net worth as well. The average return ration stood at 9.44% during the period of the study.

It was found that the average ratio of return on net worth of VKGB was more than MGB. The average return ratio of Maharashtra state stood at 10.30%.

| Sr No | Asset Quality Ratios | Ranks | |
|---|---|---|---|
| | | VKGB | MGB |
| 1 | Total Advances to Total Deposits Ratio | 2 | 1 |
| 2 | Business per Employee | 2 | 1 |
| 3 | Business per Branch | 2 | 1 |
| 4 | Profit per Employee | 2 | 1 |
| 5 | Profit per Branch | 2 | 1 |
| 6 | Return on Net Worth | 1 | 2 |
| **Total of the Ranks on First Position** | | **1** | **5** |

*Table 4.1.3: Rank Based Performance Analysis of "Management Efficiency" Ratios*

With reference to the rank based analysis of "Management Efficiency" ratios, it was examined that out of the six ratios of management efficiency, MGB got first position having five ratios. VKGB got second position having one ratio. It can be said that the performance of MGB was noticeable from the view point of management efficiency ratios.

## D. EARNINGS

Earning quality reflects quality of a bank's profitability and its ability to earn consistently. The quality of earning is a very important criterion that determines the ability of a bank to earn consistently, going into the future. It basically determines the profitability of the bank. It also explains the sustainability and growth in earnings in the future. This parameter gains importance in the light of the argument that much of bank's income is earned through non-core activities like investments, treasury operation, and corporate advisory service and so on. The following ratios try to assess the quality of income in terms of income generated by core activity-income from lending operation.

### *a. OPERATING PROFIT TO AVERAGE WORKING FUNDS*

Operating profit for this purpose the profit before the provisions. Average working fund is the total resources employed by a bank. It is weekly average of total assets or liabilities during a year. The better utilization of funds will result in higher operating profit. Thus, this ratio will indicate how a bank has employed its working funds in generating profit. Operating profit may fluctuate not only because of the variations in the growth rate of deposits, borrowings, investments and advances and their rates but also affected by the variations in operating expenses and other incomes.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 1.05 | 1.67 | 1.36 |
| 2014-15 | 1.22 | 1.68 | 1.45 |
| 2015-16 | 1.37 | 1.41 | 1.39 |
| **Mean** | 1.22 | 1.59 | **1.4** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 2.9: Statement showing % Operating Profit to Average Working Funds (in %)*

The ratio of operating profit to average working fund of VKGB was 1.05% in 2014 which was increased to 1.22% in 2015 due to higher growth rate of operating profit in comparison of growth rate of average working fund. It was increased to 1.37% in 2016 because of 16.86% increase in operating profit and 4.53% increase in average working fund. The average % Operating Profit to Average Working Funds stood at 1.22% over period of the study.

The ratio of operating profit to average working fund of MGB was 1.67% in 2014 which was marginally increased to 1.68% in 2015 due to higher growth rate of operating profit in comparison of growth rate of average working fund. It was decreased to 1.41% in 2016 because of negative growth rate of -0.56% in operating profit and 19.25% increase in average working fund. The growth rate of average working fund was improved but with declining rate may be because of slow growth rate of average deposit and / or average borrowings. The average % Operating Profit to Average Working Funds stood at 1.59% over period of the study.

It was further noticed that the average ratio of MGB was highest compare to VKGB by the reason may be the bank has utilize the average working fund effectively to generate operating profit. While evaluating the ratio it should be keep in mind that besides the proportion of borrowings, deposits, advances and investments, other incomes and operating expenses also performs important role to arrive operating profit.

The average ratio of Maharashtra region of the study period stood at 1.40%.

### *b. NET INTEREST MARGIN TO AVERAGE WORKING FUND*

NIM, being the difference between the interest income and the interest expended as a percentage of average working fund. It is an important measure of a bank's core income (income from lending operations). A higher spread indicates the better earnings given the average working fund. Interest income includes interest on advances, interest on investments and interest on balance with other banks. Interest expanded includes interest paid on deposits and interest paid on borrowings. The proportion of deposits, borrowings and the proportion of advances, investments and balance with other banks to total assets and average working fund affect the net interest margin. Besides that the proportion of term deposits, term loans, non-SLR investments, the rates of advances, rates of investments, rates of deposits, rates of borrowings are the key determinants to arrive net interest margin. Net interest margin affected by all the factors which are influenced to interest income and interest paid.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 3.90 | 3.53 | 3.72 |
| 2014-15 | 3.62 | 3.44 | 3.53 |
| 2015-16 | 3.62 | 3.16 | 3.39 |
| **Mean** | 3.72 | 3.37 | 3.55 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.0: Statement showing % Net Interest Margin to Average Working Fund (In %)*

Confirming to the above analysis it was noticed that net interest margin to average working fund ratio of VKGB was 3.90% in 2014 which declined to 3.62% in 2015 because of 10.81% growth of NIM against the growth of 19.47% in average working fund. It remain constant at 3.62% in 2016 because of low growth rate of NIM compare to the growth rate of average working fund. The average growth in Net Interest Margin to Average Working Fund over the period of the study was 3.72.

The ratio of MGB was 3.53% in 2014 which decline constantly up to 2016 because of low growth rate of net interest margin compare to the growth rate of average working fund.

MGB showed 3.44% ratio in 2015 which further declined to 3.16 in 2016. The reduction in net interest margin ratio indicates that the bank has not executed its average working fund productively in the interest generating assets and/or interest bearing liabilities. The average ratio of MGB was 3.37% over the period of the study.

The average ratio of Maharashtra region of the study period stood at 3.55%.

### *c. RETURN ON AVERAGE WORKING FUND*

This ratio measures return on Average Working Fund or the efficiency in utilization of Average Working Fund. It is arrived by dividing the profit earned by average working fund.

Higher ratio indicates better utilization of average working fund in productive assets for generation of profit. Major portion of profit is based on interest earned and interest paid which is based on the growth rate of interest bearing liabilities and interest generating assets and the combination used by the bank of such assets and liabilities. Besides that, operating expenses and other incomes are significant indicators to arrive the profit. The Provisions are the important factor for the determination of the net profit because operating profit is before the provisions and net profit is after provision profit. Hence the difference in the ratio of operating profit to average working fund and return on average working fund is affected by provisions. Changes in operating profit and changes in provisions reflected the ratio of return on average working fund.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 2.37 | 1.68 | 2.03 |
| 2014-15 | 1.97 | 0.88 | 1.43 |
| 2015-16 | 1.41 | 1.59 | 1.50 |
| **Mean** | 1.92 | 1.39 | **1.65** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.1: Statement showing % return on average working fund (in %)*

In accordance with the ratio of return on average working fund of VKGB it was observed that the return on average working fund of VKGB was 2.37% in 2014 which declined to 1.97% in 2015 and further to 1.41% in 2016 because of the difference in the rate of provisions are more than the difference in the rate of operating profit to average working fund. It can be said that the return on average working fund was significantly affected by the provisions. The average ratio of return on average working fund over the period of the study was 1.92%.

The ratio of MGB was 1.68% in 2014 which reduced to 0.88% in 2015 due to rate of provisions are more than the difference in the rate of operating profit to average working fund. It further increased to 1.59% in 2016 because of the ratio of operating profit to average working fund was more than the ratio of provisions to average working fund. The difference in the rate of operating profit to average working fund was more than the rate of difference in provisions to average working fund. The average ratio of return on average working fund over the period of the study was 1.39%.

The difference in the rate of operating profit to average working fund was more than the rate of difference in provisions to average working fund. The average ratio of return on average working fund over the period of the study was 1.65.

The average return on average working fund of VKGB was more than MGB because of the ratio of provisions to average working fund was low. The average ratio of the Maharashtra region of the study period stood at 0.86%.

*d. INTEREST INCOME TO TOTAL INCOME*

Interest income is a basic source of revenue for banks. The interest income to total income ratio indicates the ability of the bank in generating income from its lending and investments as well as interest on balance with other banks. Increase in non-interest income can reduce the ratio.

| Financial Years | **VKGB** | **MGB** | **Mean** |
|---|---|---|---|
| 2013-14 | 91.70 | 94.09 | 92.89 |
| 2014-15 | 95.12 | 93.50 | 94.31 |
| 2015-16 | 95.21 | 92.49 | 93.85 |
| **Mean** | 94.01 | 93.36 | **93.68** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.2: Statement showing ratio of Interest Income to Total Income (in %)*

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 8.30 | 5.91 | 7.11 |
| 2014-15 | 4.88 | 6.50 | 5.69 |
| 2015-16 | 4.79 | 7.51 | 6.15 |
| **Mean** | 5.99 | 6.64 | **6.32** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.3: Statement showing ratio of Other Income to Total Income (in %)*

The ratio of Interest income to total income of VKGB was 91.70% in 2014 which was fluctuate in the range of maximum 95.21% with minor variations because of the ratio of other incomes to total income non much differed during the study period. MGB shown 94.09% ratio in 2014 which was dropped to 92.49% in 2016 due to huge improvement in other incomes to total income ratio which was 7.51%.

The average ratio of interest income to total income of VKGB was 94.01% which was more than MGB because of lower % of other incomes to total income.

The average ratio of Maharashtra region stood at 93.68% of the study period.

*e. INTEREST INCOME TO AVERAGE WORKING FUND (FINANCIAL RETURN)*

The ratio of interest income to average working fund is arrived by dividing interest incomes with average working fund. With the help of this ratio it can be understand that how the bank has efficiently utilize the average working fund in generation of interest income.

Higher the ratio indicates the better application of average working fund for maximizing interest income by the bank.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 9.00 | 8.77 | 8.88 |
| 2014-15 | 9.01 | 9.11 | 9.06 |
| 2015-16 | 9.23 | 8.90 | 9.06 |
| **Mean** | 9.08 | 8.93 | **9.00** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.4: Statement showing ratio of Interest Income to Average Working Fund. (in %)*

Interest income to average working fund of VKGB was 9.00% in 2014 which was constantly improved up to 2016 because of good growth of interest income compare to the growth of average working fund.

MGB shown 8.77% ratio in 2014 which was improved to 9.11 in 2015 due to more growth rate of interest income compare to the growth rate of average working fund. It tends to fall down in next one year to 8.90% because of the growth rate of interest income was less than the growth rate of average working fund.

It was noticed that the average ratio of VKGB was more than MGB because of DGB has apply its average working fund in such a way which has created more interest income compare to MGB. The average ratio of the Maharashtra region stood at 9.00% of the study period.

*f. BASIC EPS*

Earnings per share is one of the best tool to measure the earning quality of the bank. In RRBs, share capital is fixed to Rs. 300,00,000 of Rs. 100 each for each RRBs. It was not changed during the study period but the variations in the profit reflected in the movement of earning per share year to year. It is arrived by dividing profit before tax to number of shares.

| Financial Years | **VKGB** | **MGB** | **Mean** |
|---|---|---|---|
| | Employee per share ( In Rs) | Employee per share ( In Rs) | |
| 2013-14 | 148.64 | 253.64 | 201.14 |
| 2014-15 | 176.29 | 428.57 | 302.43 |
| 2015-16 | 120.93 | 464.29 | 292.61 |
| **Mean** | 148.62 | 382.17 | 265.39 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.5: Statement showing Employee per Share (in Rs)*

The earning per share of VKGB was Rs. 148.64 in 2014 which was increased to Rs.176.29 in 2015 because of increase in profit. It was fall to Rs. 120.93 in 2015 due to reduction in profit.

MGB shown EPS of Rs. 253.64 in 2013 which was constantly improved up to Rs. 428.57 in FY 2015 and reached to Rs. 464.27 in FY 2016 because of constant growth in profit.

The average EPS of the study period of MGB was more than VKGB because of high range of profit recorded in three years study period.

The average EPS of Maharashtra region of the study period stood at Rs. 265.39.

| **Sr No** | **Asset Quality Ratios** | **Ranks** | |
|---|---|---|---|
| | | **VKGB** | **MGB** |
| 1 | Operating Profit to Average Working Fund | 2 | 1 |
| 2 | Net Interest Margin to Average | 1 | 2 |

| | | | |
|---|---|---|---|
| | Working Fund | | |
| 3 | Return on Average Working Fund | 1 | 2 |
| 4 | Interest Income to Total Income | 2 | 1 |
| 5 | Interest Income to Average Working Fund | 1 | 2 |
| 6 | Basic EPS | 2 | 1 |
| **Total of the Ranks on First Position** | | 3 | 3 |

*Table 4.1.4: Rank Based Performance Analysis of "Earning Quality" Ratios*

According to the rank based analysis of "Earning Quality" ratios, it was examined that out of the seven ratios of Earning Quality, DGB got first position having five ratios. BGB got second position having two ratios out of the total ratios examined. SGB does not reached on first position in any ratios of earning quality. It can be said that DGB performed very well towards Earning Quality ratios.

E. LIQUIDITY

Liquidity is very important for any organization dealing with money. For a bank, liquidity is a crucial aspect which represents its ability to meet its financial obligations. It is of utmost importance for a bank to maintain correct level of liquidity, which will otherwise lead to declined earnings. Banks have to take proper care in hedging liquidity risk, while at the same time ensuring that a good percentage of funds are invested in higher return generating investments, so that banks can generate profit while at the same time provide liquidity to the depositors. Among a bank's assets, cash investments are the most liquid. A high liquidity ratio indicates that the bank is more affluent. The ratios suggested to measure liquidity under CAMEL Model are presented below.

*a. LIQUID ASSETS TO TOTAL ASSETS*

Liquid Assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. This ratio is arrived by dividing liquid assets by total assets. The proportion of liquid assets to total assets indicates the overall liquidity position of the bank.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 42.30 | 45.63 | 43.97 |
| 2014-15 | 34.56 | 44.43 | 39.49 |
| 2015-16 | 22.49 | 38.60 | 30.55 |
| **Mean** | 33.12 | 42.89 | **38.00** |

*Source: Annuals reports of VKGB and MGB, NABARD reports*

*Table 3.6: Statement showing ratio of Liquid assets and Total assets. (in %)*

The proportion of liquid assets to total assets of VKGB was 42.30% in FY 2014 which dropped to 34.56% in 2015 because of increase in the proportion of investments and advances to total assets.

It further dropped and stood at 22.49% in 2016 due to the progress of the proportion of investments and advances to total assets.

The proportion of MGB shown this ratio little bit lower compare to VKGB because of the major proportion of total assets were located in advances and investments. It was 45.63% in 2014 which was declined in next two years and reached to 38.06% because of betterment in the proportion of investments and advances to total assets.

It can be said that MGB has allocated majority of the total assets in liquid assets while VKGB has allocated maximum assets in to advances and investments. Major proportion of liquid assets to total assets creates less risk and Table income of interest but on the other hand reduction in the proportion of advances reduced the opportunity to earn higher interest. Besides that the basic objective of RRBs to reach rural poor hence advances must be improve as well as high earning non SLR investments should not be reduced which can reflect in reduction of interest income.

The average ratio of MGB was highest compare to VKGB because of greater part of total assets was located in liquid assets.

The average ratio of Maharashtra region stood at 38% during the study period.

*b. GOVERNMENT SECURITIES TO TOTAL ASSETS*

Government securities are the most liquid and safe investment. This ratio measures the proportion of risk-free liquid assets invested in government securities as a percentage of the assets held by the bank and is arrived by dividing investment in government securities by the total assets. This ratio measures the risk involved in the assets held by a bank.

| Financial Years | **VKGB** | **MGB** | **Mean** |
|---|---|---|---|
| 2013-14 | 34.17 | 38.02 | 36.09 |
| 2014-15 | 38.02 | 44.81 | 41.41 |
| 2015-16 | 34.50 | 34.28 | 34.39 |
| **Mean** | 35.57 | 39.03 | 37.30 |

*Source: Annual reports of VKGB and MGB, NABARD reports)*

*Table 3.7: Statement showing ratio of Investment in SLR / Govt Securities and Total assets. (in %)*

The percentage of government securities to total assets of DGB was 34.17% in 2014 which was increased in 2007 to 38.02% in spite of reduction in the proportion of total investments to total assets may be for the reason of reduction in the % of non SLR investments to total investments. It further declined to 34.50% in FY 2016 because of considerable decline in the proportion of investments to total assets. It was continual declined in last two years for the reason of reduction in percentage of total investments to total assets.

38.02% of the total assets were settled in government securities of MGB in 2014. It was increase to 44.81% in FY 2015 and declined to 34.28% in 2016 on the grounds of constant reduction in percentage of investments to total assets. It has shown ups and downs during period of the study for the reason of variations in investments to total assets ratio as well as the percentage change in non SLR investments to total assets.

It was noticed that the declining trend was seen in VKGB for government securities to total assets because of the reduction in the proportion of investments to total assets while MGB shown mix trend because of much ups and downs in the proportion of investments to total assets.

The average ratio of government securities to total assets of Maharashtra region stood at 37.30%.

*c. LIQUID ASSETS TO DEMAND DEPOSITS*

This ratio measures the ability of a bank to meet the demand from demand deposits in a particular year. The term "Demand Deposit" refers to a type of account held at banks and financial institutions that may be withdrawn at any time by the customer. The majority of such Demand Deposit accounts are currents and savings accounts. Demand Deposits also known as low cost deposit accounts. The ratio arrived at dividing the liquid assets by total demand deposits. The liquid assets include cash in hand, balance with the RBI, balance with other banks, and money at call and short notice.

| Financial Years | VKGB | MGB | **Mean** |
|---|---|---|---|
| 2013-14 | 4.78 | 4.98 | 4.88 |
| 2014-15 | 4.29 | 5.47 | 4.88 |
| 2015-16 | 3.21 | 5.16 | 4.19 |
| **Mean** | 4.09 | 5.20 | **4.65** |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.8: Statement showing ratio of Liquid Deposits and Demand Deposits (in %).*

The ratio of liquid assets to demand deposit of VKGB was 4.78% in 2014 which was reduced to 4.29% in 2015 due to reduction in the growth of liquid assets compare to the growth rate of demand deposits. It was dropped in 2016 to 3.21% because of more growth of demand deposits compare to the growth of liquid assets.

For MGB, it was 4.98% in 2014 and increased to 5.47% in 2015 because of liquid assets was growth at higher rate compare to the negative or positive growth rate of demand deposits.

MGB has shown tremendously high ratio compare to VKGB during the study period. It was fluctuated but still it was above the ratio of VKGB because of the margin of the growth of liquid assets and growth of demand deposits was very high. It should be noted that the ratio of liquid assets to total assets of VKGB was low compare to MGB but due to having lower amount of demand deposit, the ratio of liquid assets to demand deposits becomes very high.

It can be said that MGB has retained more liquid assets to meet demand deposit but still it was very high proportion and bank should take opportunity by investing some part of liquid assets in high yielding securities or should increase the accounts of demand deposits to reduce the ratio. The average ratio of the study period of Maharashtra region stood at 4.65%.

*d. LIQUID ASSETS TO TOTAL DEPOSITS*

This ratio measures the liquidity available to the depositors of a bank. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. Total deposits include demand deposits, term deposits and deposits of other financial institutions. This ratio help to know that how much portion of deposits is retain in liquid assets. Higher the ratio indicates the reduction the proportion of advances and investments from the total deposits received.

| Financial Years | **VKGB** | **MGB** | **Mean** |
|---|---|---|---|
| 2013-14 | 29.85 | 32.00 | 30.92 |
| 2014-15 | 23.89 | 31.93 | 27.91 |
| 2015-16 | 16.61 | 27.62 | 22.11 |
| **Mean** | 23.45 | 30.51 | 26.98 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 3.9: Statement showing ratio of Liquid Deposits and Total Deposits (in %)*

29.85% of the total deposits was retained as liquid assets by VKGB in 2014 which was dropped in next two years because of deposits were grown faster than the growth of liquid assets and lower growth rate of liquid assets against the growth rate of deposits.

MGB shown 32% ratio in 2014 and it was dropped in next two years because of more growth rate of deposits compare to the growth rate of liquid assets. It was dropped to 27.62% in 2016 because of growth rate of deposits was more than the growth rate of liquid assets.

It was noticed that the average ratio of VKGB was lower than MGB because the credit deposit ratio of these two banks tends to decline and the it was the main reason for increase in liquid assets because the bank has invested the balance money apart from advances may invested in liquid assets. The probable reason for lower ratio of VKGB may be the good credit deposit ratio.

The average ratio of Maharashtra region stood at 26.98% of the study period.

*e. APPROVED SECURITIES TO TOTAL ASSETS*

This ratio is arrived by dividing the total amount invested in approved securities by total assets. Approved securities are investments made in the state-associated bodies like electricity boards, housing boards, and corporation bonds.

| Financial Years | VKGB | MGB | Mean |
|---|---|---|---|
| 2013-14 | 1.93 | 2.07 | 2.00 |
| 2014-15 | 2.12 | 2.48 | 2.30 |
| 2015-16 | 2.17 | 1.97 | 2.07 |
| Mean | 2.07 | 2.17 | 2.12 |

*Source: Annual reports of VKGB and MGB, NABARD reports*

*Table 4.0: Statement showing ratio of Total assets and Approved Securities (in %)*

The ratio of approved securities to total assets of VKGB was 1.93% in FY 2014 which was little bit improved to 2.12% in FY 2015 and further slight increase to 2.17% in FY 2016 due to increase in the proportion of government securities to total investments, the ratio of other approved securities to total investments tends to decline VKGB has not invested any amount in other approved securities.

The ratio of approved securities of MGB was 2.07% in FY 2014 which increased to 2.48% in FY 2015 due due to increase in the proportion of government securities to total investments, the ratio of other approved securities to total investments tends to decline MGB has not invested any amount in other approved securities . It declined to 1.97% in FY 2016 due to decrease in investment in government securities.

The average ratio of Maharashtra region stood at 2.12% of the study period.

| Sr No | Liquidity Ratios | Ranks | |
|---|---|---|---|
| | | **VKGB** | **MGB** |
| 1 | Liquid Assets to Total Assets | 2 | 1 |
| 2 | Government Securities to Total Assets | 2 | 1 |
| 3 | Liquid Assets to Demand Deposits | 2 | 1 |
| 4 | Liquid Assets to Total Deposits | 1 | 2 |
| 5 | Approved Securities to Total Assets | 1 | 2 |
| **Total of the Ranks on First Position** | | 2 | 3 |

*Table 4.1.5: Rank Based Performance Analysis of "Liquidity" Ratios*

In keeping with the rank based analysis of "Liquidity" ratios, it was examined that out of the five ratios of liquidity, MGB got first position having three ratios. VKGB got first position having two ratios out of the total ratios examined. It can be said that MGB performed very well towards Liquidity ratios.

FINDINGS / OVERALL ANALYSIS OF CAMEL MODEL

To arrive on the conclusion for the best performance of the three RRBs of Maharashtra State, overall analysis of CAMEL model is needed which is based on the ranks assigned to specific parameters which were discussed above.

| Sr No | Parameters of CAMEL Model | Ranks | |
|---|---|---|---|
| | | VKGB | MGB |
| 1 | Capital Adequacy Ratios | 1 | 1 |
| 2 | Asset Quality Ratios | 2 | 1 |
| 3 | Management Efficiency Ratios | 2 | 1 |
| 4 | Earnings Quality Ratios | 1 | 1 |
| 5 | Liquidity Ratios | 1 | 2 |
| Total of the Ranks on First Position | | 3 | 4 |

*Table 4.1.6: Rank Based Performance Analysis of "CAMEL Model"*

Conforming to all parameters of CAMEL Model it was concluded that out of the five parameters of the model, MGB got first position on four parameters and VKGB got second position on three parameters which indicate that the performance of MGB was remarkable.

## V. CONCLUSION

- ✓ The main objective behind the establishment of Regional Rural Banks for the development of rural economy by providing financial assistance to agriculture, trade, commerce, small and house hold industry through credit and advances are being met with the establishment of various area specific Regional Rural Banks.
- ✓ The Maharashtra Gramin Bank (MGB) is one of the matured banks in Maharashtra state, which is serving small and marginal agricultural farmers. The MGB expanded its branch network all over the rural areas of 6 districts in Maharashtra and performing well through its deposits and advances, irrespective of NPAs and lending to priority sector.
- ✓ Accordingly to the profitability of both the banks, the Maharashtra Gramin Bank (MGB), it may be said, is good and is growing at healthy growth rate. There is a consistent improvement in all the thrust areas of the bank.
- ✓ Maharashtra Gramin Bank shows satisfactorily credit growth and also improvement on the other financial indicators like operating profit, net profit, capital adequacy
- ✓ The equity stakes of the central government, state government and sponsor banks and their continuous support to the Bank, comfortable capital levels and marginal deterioration in the asset quality indicators.
- ✓ It is found that the total number of Vidharbha Konkan Gramin Bank (VKGB)_bank branches during the study period is not enough to meet the growing financial needs of the rural areas. Hence, bank officials should concentrate to enhance its branch network to extend more financial services in the rural areas.
- ✓ Maharashtra Gramin Bank has been consistently meeting their annual targets setup by their sponsor Bank and also CD ratio , Investment - Deposit Ratio ( ID Ratio) , Cost to Income Ratio are well within the prescribed limits setup by the financial regulatory bodies.
- ✓ Vidharbha Gramin Bank should also work on improvement on financial indicators like CD ratio, Investment - Deposit Ratio (ID Ratio), Cost to Income Ratio so that their profitability and sustainability increases.
- ✓ Both the Banks should increase their recovery rate.
- ✓ Vidharbha Konkan Gramin Bank (VKGB) and Maharashtra Gramin Bank (MGB) should open its branches in areas where customers are not able to avail banking facilities in the five district of the Maharashtra state.
- ✓ Both the banks have implemented 100% CBS but both these banks should establish the ATMs in the rural areas to enhance its services to customers. It shall provide easy and affordable services through the best use of technology.
- ✓ Both banks should also provide e-banking facilities and create awareness among its customers.
- ✓ For both the banks, it is essential to conduct farmers' financial awareness programs in rural areas.
- ✓ Both these banks must try to reach out to more needy through micro-credit and Self-Help Groups more efficiently.
- ✓ Expand its reach in the rural areas through alternate channels – ATM, BCA model.
- ✓ Both these Bank should improve in service levels in rural areas.

PROBLEMS (WEAKNESSES) OF RRBS IN MAHARASHTRA

Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems.

- ✓ Very limited area of operations as well as limited scope of investment , Difficulties in deposit mobilization

- ✓ Delay in decision making and formation of policies as 3 they need to coordinate with 3 Government entities for approvals,
- ✓ High risk due to exposure only to the target group so their revovery rate is poor
- ✓ Inadequate skills in treasury management for profit orientation.
- ✓ Inadequate exposure and skills to innovate products limiting the lending portfolios – lack of training Facilities.
- ✓ Inadequate effort to achieve desired levels of excellence in staff competence for managing the affairs and business as an independent entity.

## VI. SUGGESTIONS (RECOMMENDATIONS) FOR IMROVEMENT OF RRBs

- ✓ Government should encourage and support banks to take appropriate steps in rural development.
- ✓ Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
- ✓ Policy should be made by government for opening more branches in weaker and remote areas of state.
- ✓ Productivity can be improved by controlling the costs and increasing the income.
- ✓ To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.
- ✓ Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.
- ✓ The RRBs have to make an important change in their decision making with regard to their investments
- ✓ The RRBs have to be very careful and reduce the operating expenses, because it has been found from our study that these expenses have increased the total expenditure of the banks.
- ✓ The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group.
- ✓ Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
- ✓ A uniform pattern of interest rate structure should be devised for the rural financial agencies.
- ✓ The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
- ✓ The credit policy of the RRB should be based on the group approach of financing rural activities.
- ✓ The RRB may relax their procedure for lending and make them easier for village borrowers.

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