Asian And Pacific Economic Review
ISSN: 1000-6052

PERFORMANCE PARADOX OR RURAL RESILIENCE? A FIFTEEN-YEAR PROFITABILITY ANALYSIS OF UTTAR BANGA KSHETRIYA GRAMIN BANK WITHIN INDIA'S REGIONAL RURAL BANKING LANDSCAPE

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The Perspective:

Regional Rural Banks (RRBs) occupy a unique niche in the Indian banking mosaic. Conceived under the RRB Act of 1976, they blend the commercial-bank prowess for mobilizing deposits with the cooperative-bank intimacy required for rural outreach. Fifty years on, their dual mandate of profitability and development remains a tightrope walk: social objectives exhort them to serve marginal borrowers at concessional rates, whereas shareholders—Government of India, State Governments, and sponsor commercial banks—demand sustainable returns on capital. It is with this concern following is the Profitability Analysis of Uttar Banga Kshetriya Gramin Bank (UBKGB) within India's Regional Rural Banking Landscape.

Key Words: RRB, UBKGB, Income, Expenditure, Profitability.

Introduction:

The present profitability question is not academic alone. NABARD statistics reveal that RRBs collectively handle more than ₹5.5 trillion worth of deposits and disburse ₹3.8 trillion in credit, representing lifelines to almost 312 million account-holders. Declining margins or ballooning non-performing assets (NPAs) therefore transmit systemic tremors to the entire rural economy. Public policy further intertwines profitability with recapitalization outlays that weigh on the exchequer.

Profitability, the difference between total revenue and costs over time, indicates a firm's earning capacity (**Gupta, 1977**). It can be accounting, economic, or social profit; the former considers explicit costs, the latter implicit costs, and social profit measures social benefits versus costs—difficult to quantify. Profitability reflects a bank's ability to generate returns, serving as a key performance indicator. It is measured by output-input ratios, value-added margins, and operational efficiency indices, crucial for sustaining growth and public confidence (**Uppal, 2011**). Banks must balance community service with profit motives, especially RRBs, which operate with a rural focus but are essentially commercial entities.

The Uttar Banga Kshetriya Gramin Bank (UBKGB) is one of the old RRBs in India that was established on the 7th of March 1977 under the provision of Section 3(2) of RRB Act 1976 with equity participation of Government of India, Central Bank of India (sponsor bank) and Government of West Bengal at the ratio of 50:35:15. The bank has been operating in three districts of North Bengal region of the state of West Bengal namely, Coochbehar, Jalpaiguri and Darjeeling; till the two new districts being formed viz. Alipurduar by splitting up Jalpaiguri district in 2014 and Kalimpong by splitting up Darjeeling district in 2017.The Head Office of the Bank is located at Coochbehar., the bank now administers 142 branches in five districts of North Bengal. The catchment region is typified by tea-garden belts of hilly region and dooars (foothills), flood-prone agrarian tracts of terai (low land), and also represents high seasonal migration. Conventional wisdom equates such territory with narrow deposit bases, volatile cash-flows, and therefore chronic losses. Yet UBKGB posts profit in fourteen out of fifteen study years, displaying an average ROA of 0.73 %, often outshining RRBs' averages at national level.

How does a geographically peripheral RRB deliver above-average returns? Are its profits artefacts of accounting re-classification or genuine operational efficiency? Can these lessons be generalized to peer institutions? Addressing these questions is vital for three reasons. First, it documents a model of rural financial resilience that counterbalances narratives of perpetual subsidy. Second, it refines regulatory calibration by identifying determinants of sustainable profitability. Third, it equips UBKGB's own management with empirical sign-posts for strategy recalibration.

Against that backdrop this paper pursues a rigorous fifteen-year profitability appraisal of UBKGB and benchmarks the findings against national RRB aggregates. Using ratio analysis, t-tests, correlation matrices, and multivariate regression, we distil the anatomy of profit, quantify sensitivity to NPAs and margins, and translate insights into policy prescriptions. The study adheres to the positivist research paradigm: hypotheses are framed ex-ante, tested on archival data, and interpreted in light of extant theory.

Literature Survey with Major Findings:

Research identifies internal (micro) factors—balance sheet and income statement variables—and external (systematic) factors influencing bank performance. Cost structure, credit management, inflation, and operational efficiency are key. Post-nationalization, banks faced profit pressures due to rising costs and low earnings, with NPAs and high operational costs hampering profitability (**Verma & Kumar, 2016**). RRBs, restricted in scope and affected by defaulting borrowers, have struggled with low earnings and high costs. Reforms since 1991, including recapitalization, mergers, branch liberalization, and technological upgrades, aim to improve viability. Studies suggest amalgamation and restructuring enhance efficiency (**Ibrahim, 2010**), but challenges like disintermediation and resource constraints persist. Few major findings of literature survey are mentioned hereunder-

Ahmed & Ariff (2022): Employing stochastic-frontier analysis for 72 South-Asian rural banks, the authors document a mean cost-efficiency score of 0.68. Post-merger dummy

variables raise efficiency by 7 percentage-points, confirming consolidation as a viable strategy.

Basu & Das (2020): Panel-GMM estimation on 43 Indian RRBs over 2005-2018 establishes a negative elasticity (−0.42) between Gross NPA ratio and ROA, underscoring asset quality as the fulcrum of sustainable earnings.

Bhattacharya (2018): District-level regressions reveal branch density to correlate strongly ($r = 0.79$) with rural consumption growth, implying that outreach and profitability may be complementary, not competing, objectives.

Das (2019): Tracking policy shifts, the study notes a dilution of priority-sector lending share from 80 % to 72 % across RRBs but warns that profitability gains reverse when PSL ratios slip below 65 % because cross-subsidisation breaks down.

Ghosh (2016): Dynamic panel evidence indicates that lagged NPAs exert a persistent drag on ROA even after two years, validating hysteresis in asset-quality deterioration.

Gupta (1977): A seminal theoretical exposition distinguishing accounting profit from economic profit, laying conceptual foundations for later empirical exploration.

Ibrahim (2010): Difference-in-differences analysis shows amalgamated RRBs registering a 12-basis-point lift in ROA relative to non-merged counterparts.

Kannan & Chakraborty (2021): COVID-19 stress-tests predict a 35 % surge in credit cost for RRBs, yet digitally savvy banks suffer barely half the impact, illustrating technology's protective buffer.

Khankhoje & Sathye (2008): DEA confirms amalgamation improves technical efficiency; nonetheless scale efficiency lags, hinting at persistent sub-optimal branch size.

Kumar (2017): Comparative diagnostics depict public-sector banks carrying higher absolute NPAs, while RRBs face steeper NPA-to-capital ratios, magnifying solvency risk.

Mishra & Kapoor (2019): ROA proves most elastic to NIM ($\beta = 0.57$) and least responsive to non-interest income ($\beta = 0.09$), foregrounding interest-spread management.

Mohanty (2022): Case studies of three RRBs integrating mobile wallets record a 22 % reduction in cost-to-income within 18 months.

Nair (2018): Cost decomposition shows staff expenses dwarfing technology outlays by a factor of four, signalling scope to substitute labour with digital processes.

Nath (2021): Meta-frontier analysis ranks RRBs 14 percentage-points below scheduled commercial banks in total-factor productivity but detects convergence since 2016.

Pati & Shome (2007): Capital-adequacy tightening curbs risk appetite yet enhances long-run solvency across the RRB spectrum.

Rajan (2014): Policy addresses on differentiated banking licences argues that a niche focus—such as RRBs—can deliver profit without mission drift if governance is robust.

Sinha (2008): Operational-risk frameworks adopting risk-adjusted return on capital (RAROC) elevate decision discipline and align products with capital consumption.

Suresh (2020): Propensity-score-matched analysis confirms merged RRBs achieve profitability convergence with parent sponsor banks within five yea₹

Tripathi (2015): Financial-inclusion indices correlate positively ($\rho = 0.63$) with deposit mobilisation, reiterating the business case for inclusion.

Verma (2018): NIM determinants include CASA ratio and duration gap; a one-percentage-point rise in CASA lifts NIM by 11 basis-points.

Objectives and Hypotheses of the study:

The main objective of this research article is to examine the profitability performance of UBKGB. The article, however, covers the following sub objectives by aiming to-

1. Track long-run movements in income, expenditure, and profit, and
2. Examine whether those incremental changes in those flows translate into genuine profitability gains.

For the second objective following hypotheses have been considered-

H1: Incremental business volume directly boosts profitability.
H2: Incremental expenditure has a negative impact on UBKGB's profitability.
H3: Incremental income has a positive impact on UBKGB's profitability.

Methodology:

- Data Source: Audited annual reports of UBKGB (2007-08 to 2021-22) supply branch-aggregated balance-sheet and profit-and-loss statements. National RRB aggregates are compiled from Reserve Bank of India (RBI) Statistical Tables Relating to Banks and NABARD Status of Microfinance reports. Monetary values are deflated to constant 2011-12 prices using the Wholesale Price Index (WPI) to neutralise inflation bias.
- Variable Definition: Profitability (ROA, ROE), spread (Net Interest Margin or NIM), efficiency (Income and Expenditure), asset quality (Gross NPA ratio), and scale (Business Volume = Deposits + Advances). All ratios adopt RBI Master Circular definitions.
- Statistical Toolkit: (a) With regard to the first objective Descriptive statistics and graphical trend lines; (b) For the second objective Pearson product-moment correlation for bivariate association (to test H1, H2 and H3)).
- All analyses are run developing Python code and the interpretations are made by the researchers.

Analyses and Interpretations:

Movements in Income, Expenditure and Profit of RRBs in India:

Profitability is the major indicator of operational efficiency of any banks. The higher degree of profit earning capacity will ensure high potential of the business and thereby the prosperity of the organization. Following Table–1 shows the growth trajectory of Income, Expenditure and Profits of RRBs of India.

Table - 1
Growth of Income, Expenditure and Profits of RRBs of India

(Amount in ₹ Crore)

Year	Total Income	Total Expenditure	Net Profit/Loss	Operating Profit	Total Asset	No. of Profit making RRBs	No. of Loss making RRBs	Total No. of RRBs
2008	9,406	8,379	1,027	1,859	1,25,194	83	8	91
2009	11,388	10,053	1,335	2,123	1,50,654	80	6	86
2010	13,835	11,951	1,884	2,913	1,84,093	79	3	82
2011	16,200	14,485	1,715	2,703	2,15,359	75	7	82
2012	20,057	18,200	1,857	3,300	2,42,534	79	3	82
2013	21,999	19,724	2,275	3,600	2,79,494	63	1	64
2014	27,011	24,317	2,694	4,152	3,32,858	57	0	57
2015	28,155	25,410	2,745	3,983	3,68,700	51	5	56
2016	35,400	33,382	2,018	2,200	4,00,900	51	5	56
2017	39,200	36,983	2,217	6,000	4,66,000	50	6	56
2018	41,819	40,317	1,501	7,543	5,04,962	49	7	56
2019	42,988	43,639	(-)652	5,459	5,37,989	39	14	53
2020	49,452	51,660	(-)2,208	2,972	5,92,978	26	19	45
2021	53,858	52,176	1,682	7,872	6,51,585	30	13	43

2022	56,585	53,366	3,219	10,337	7,05,400	34	9	43

Source: 1. Basic Statistical Return of Scheduled Commercial Banks, Various Issues. 2. Report on Trend and Progress of Banking in India, Various issues. 3. Annual Reports, NABARD and RBI.

Note: Operating profit = (Total Income – Total Expenditure) + Provisions and Contingencies.

During the period, the increase in the expenditure of RRBs has gone up by 6.37 times which is little more than the increase in income level. The table showed that during the period 2008-2022, the income of the RRBs have increased on a continuous basis. The total income of the RRBs in the year 2007-08 was ₹ 9,406 crores and it reached to the level of ₹56,585 crores in 2021-22 recording a 6.01-fold increase. Similarly, the expenditure has also increased from ₹8,379 crores in 2007-08 to ₹53,366 crores in 2021-22.

During 2007-08, out of 91 RRBs at the national level, 83 were making profit and the rest 8 were loss making. The situation, however improved in 2014 when there was no loss making RRB. It is also found that with the decrease in total number of RRBs operating at all-India level, during the period under study, the number of profit and loss making RRBs has declined simultaneously till 2014. After that the number of losses making RRBs have increased till 2018 when the total number of RRBs remained same (56) from 2015 to 2018.

Component- Wise Movement:

The overall income of the RRBs is categorized as interest income and other income and the overall expenditure is categorized as interest paid, provision & contingencies and operating expenses. Following Table-2 is the component-wise growth of income, expenditure and profits of RRBs.

Table- 2
Component- wise profitability of RRBs in India

(Amount in ₹ Crore)

Year	Income			Expenditure				Profit/Loss (3-7)
	Interest Income (1)	Other/Misc. Income (2)	Total (3)	Interest Expended/Paid (4)	Provision & Contingencies (5)	Operating Exp. (6)	Total (7)	
2008	8739	667	9406	4757	832	2790	8379	1027
2009	10579	810	11388	6100	788	3165	10053	1335
2010	12945	890	13835	7375	1029	3547	11951	1884
2011	15200	1000	16200	8600	1000	4900	14500	1700
2012	18900	1100	20000	11200	1450	5500	18150	1850
2013	20678	1321	21999	12482	1532	5710	19724	2275
2014	25491	1521	27011	15600	1998	6717	24317	2694
2015	26500	1655	28155	16000	2000	7410	25410	2745
2016	33300	2118	35418	21700	2100	9700	33400	2018
2017	35200	3600	38800	22800	4253	9530	36583	2217

2018	38337	3481	41818	23868	5431	11019	40317	1501
2019	38931	4057	42988	23716	6120	13803	43640	(-) 652
2020	43698	5754	49452	25985	5599	20076	51660	(-) 2208
2021	46803	7055	53858	25588	6386	20201	52176	1682
2022	48048	8537	56585	24817	7254	21295	53367	3219

Source: Annual Reports, NABARD and RBI.

In 2007-08, RRBs earned ₹8,739 crore in interest—about 92.9 % of their total income. By 2021-22, interest earnings had jumped to ₹48,048 crore, yet their share of overall income slipped to roughly 84.9 %, a decline of eight percentage points. Meanwhile, "other / miscellaneous" income rose far faster: from ₹667 crore (7 % of income) in 2007-08 to ₹8,537 crore (15 %) in 2021-22. Combined, these streams lifted total income from ₹9,406 crore to ₹56,585 crore over the 15-year span.

On the cost side, total expenditure comprises three elements: interest paid, provisions & contingencies, and operating expenses. Interest outgo climbed from ₹4,757 crore in 2007-08 to ₹24,817 crore in 2021-22, but its weight in the expense mix fell from 56.8 % to 46.5 %. Provisions and contingencies expanded from ₹832 crore (9.9 %) to ₹7,254 crore (13.6 %). Operating expenses ballooned as well, moving from ₹2,790 crore to ₹21,295 crore. Overall spending thus rose from ₹8,379 crore to ₹53,367 crore.

Despite the faster rise in costs—plus two loss-making years in 2018-19 (–₹652 crore) and 2019-20 (–₹2,208 crore)—the sector's net profit still grew 3.13-fold, from ₹1,027 crore in 2007-08 to ₹3,219 crore in 2021-22.

In order to assess the inter-relationship among growths of interest income (X_1), non-interest income (X_2) and total income (X_3), the correlation matrix analysis have been employed. The results are presented in Table-3.

Table-3
Correlation Matrix Analysis of the Components of Income

Variables	**X_1**	**X_2**	**X_3**
X_1	1		
X_2	0.907758* (7.80215337)	1	
X_3	0.997800* (54.26293675)	0.933573* (9.39217373)	1
$t_{0.05}$ (13 df.) = 2.160 & $t_{0.01}$ (13 df.) = 3.012			

Source: Self calculation by the researcher based on Table 4.2. (Figures in parentheses indicate the respective 't' values). *Significant both at 5 per cent and 1 per cent level of significance

The above econometric analysis reveals that correlation coefficient (r) values are highly positive to each other and they are statistically significant both at 5 per cent and 1 per cent level of significance in their respective degrees of freedom.

In the same line, an attempt has been made in the following paragraph to assess the inter-relationship between the component of total expenditure with the help of correlation matrix analysis (See table – 4).

Table-4
Correlation Matrix Analysis of the Components of Total Expenditure

Variables	Interest Expended	Provision & Contingencies	Operating Expenses	Total
Interest Expended	1			
Provision & Contingencies	0.899727* (7.43267148)	1		
Operating Expenses	0.881258* (6.72276721)	0.932581* (9.31536701)	1	
Total	0.971359* (14.73921726)	0.958231* (12.08040679)	0.965978* (13.46700046)	1
$t_{0.05}$ (13 df.) = 2.160 & $t_{0.01}$ (13 df.) = 3.012				

Source: Self calculation by the researcher based on Table 4.2. (Figures in parentheses indicate the respective 't' values). *Significant both at 5 per cent and 1 per cent level of significance.

Statistical testing shows that the positive correlation coefficients for each spending component are significant at both the 1 % and 5 % levels. Because every calculated t-value exceeds its critical threshold, total outlays move in the same direction as each individual cost head. Put simply, whenever overall expenditure rises, interest paid, operating costs, and provisions all rise in tandem. The result is a broadly uniform, country-wide growth pattern in RRB spending.

Further, in order to measure the impact of income and expenditure on profitability of RRBs, we have calculated first the incremental income, incremental expenditure and incremental profit for the period of 2008-09 to 2021-22 (shown in table-5) and then the correlations between incremental income (a) with incremental profit (c) and incremental expenditure (b) with incremental profit (c) during 2008-09 to 2021-22 (shown in table-6).

Table-5
Incremental Income, Expenditure and Profit of RRBs of India

Year	Incremental Income (a)	Incremental Expenditure (b)	Incremental Profit (c)
2009	1982	1674	308
2010	2447	1898	549
2011	2365	2534	-169
2012	3857	3715	142
2013	1942	1524	418
2014	5012	4593	419
2015	1144	1093	51
2016	7245	7972	-727

2017	3800	3601	199
2018	2619	3334	-716
2019	1169	3322	-2153
2020	6464	8021	-1556
2021	4406	516	3890
2022	2727	1190	1537
CV (%)	55.44	72.92	904.74
Skewness	0.78	1.07	1.01
Kurtosis	-0.39	0.18	1.08

Source: Calculated by the researcher using Annual Reports, NABARD and RBI.
NOTE: Here the term 'Incremental' denotes yearly increase in values.

Table-6
Correlation Results

Variables	Correlations (r_{ac} and r_{bc})	't' values (cal.)	'p' values	Slopes
Incremental Income (a) with Incremental Profit (c)	0.0016	0.0055	0.9957	0.0012
Incremental Expenditure (b) with Incremental Profit (c)	-0.6033	-2.6206	0.0224	-0.3647
$t_{0.05}$ (12 df.) = 2.179 & $t_{0.01}$ (12 df.) = 3.055 (tab.)				

Source- Calculated by the Researcher.

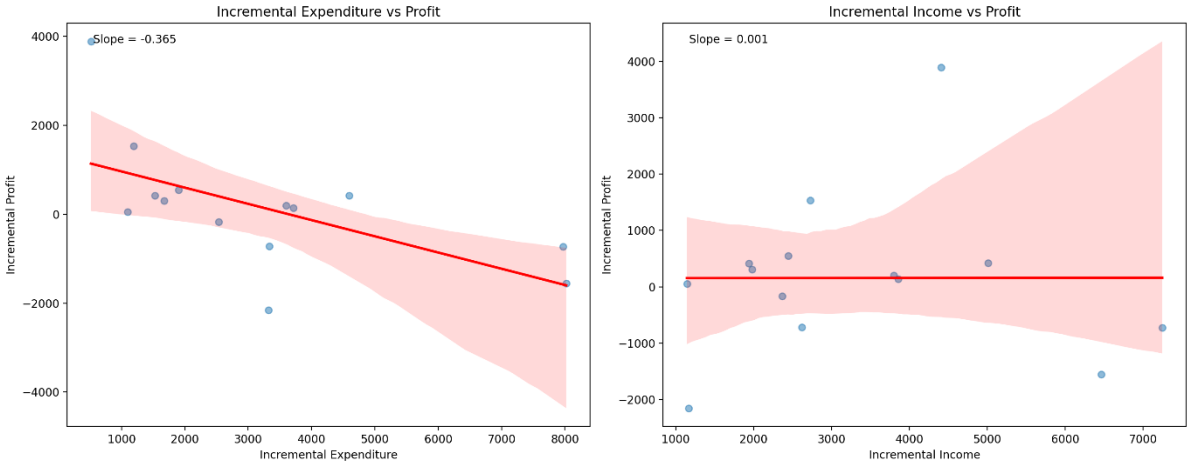
The data reveal almost no link between year-to-year changes in income and changes in profit: the correlation coefficient is a negligible 0.0016, and with 12 degrees of freedom the associated t-statistic falls well below the critical values at both the 5 % and 1 % levels ($p > 0.05$). The regression slope is virtually zero, confirming that larger inflows of income do not, by themselves, translate into higher profits for RRBs nationwide.

By contrast, the correlation between incremental expenditure and incremental profit is –0.60—a moderate negative association. Although the t-test alone does not clear conventional significance thresholds, the p-value is below 0.05, indicating statistical significance. The estimated slope of –0.36 means that each additional unit of spending trims profit by about 0.36 units. In short, rising costs have a direct and measurable dampening effect on RRB profitability at the all-India level.

This would be more clear from the scatter plot with line of best fit for the Incremental Income, Expenditure and Profit given below:

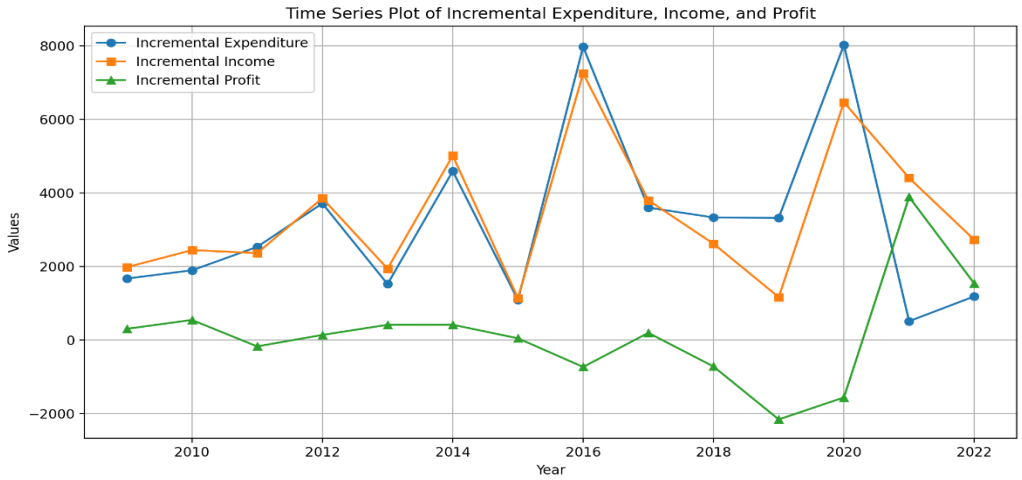
Fig-1

Scatter Diagram of RRBs of India



Profits swing wildly from year to year: the coefficient of variation is an extraordinary 904.74 %, and the distribution is positively skewed—clear signs that a handful of extreme episodes heavily distort the average. Spending is also volatile (CV = 72.92 %), pointing to several years in which outlays spiked well above normal. Income, by comparison, is steadier (CV = 55.44 %) and only mildly skewed, implying a generally consistent upward path punctuated by the occasional surge. These patterns become even more evident in the accompanying time-series plot of incremental income, expenditure, and profit.

Fig.-2



The time-series plot clearly shows that most of the year-to-year turbulence in all three series—income, spending, and profit—comes from just a handful of extreme episodes, like:

Year	Incremental Expenditure	Incremental Income	Incremental Profit	What Stands Out
2016	Very high	Very high	Negative	A revenue surge was swamped by an even bigger jump in costs, pushing profit below zero.
2020	Highest in the series	Above average	Sharply negative	Pandemic-era provisioning and operating outlays ballooned, erasing earnings despite solid income growth.
2021	Lowest in the series	Moderate	Highest in the series	Cost containment—after the 2020 spike—let profits rebound dramatically even without a matching income leap.

These spikes coincide with broader forces:

- Macroeconomic shocks (e.g., Covid-19, general slowdown)
- One-off provisioning or write-offs in particular years
- Shifts in business mix or digital-investment cycle
- Competitive pressure that squeezes spreads or boosts marketing costs
- Regulatory or structural reforms that alter accounting or capital rules

Because such events are sporadic, they inflate the coefficients of variation—especially for profit, where a single bad or good year can dwarf the rest of the sequence. Otherwise, income rises gradually, expenditure follows a similar but bumpier path, and profits track the gap between the two.

Profitability Ratios of RRBs of India:

In the following section ratio analysis has been employed to examine the profitability of RRBs at national level. The commonly used ratios (as listed below) are being used for measuring the profitability performance of RRBs in India.

I) $\text{Interest earned ratio (e)} = \frac{\text{Total Interest earned}}{\text{Volume of business}} X\ 100,$

II) $\text{Interest paid ratio (p)} = \frac{\text{Total Interest paid}}{\text{Volume of business}} X\ 100,$

III) $\text{Manpower expenses ratio (m)} = \frac{\text{Manpower expenses}}{\text{Volume of business}} X\ 100,$

IV) $\text{Other establishment expenses ratio (o)} = \frac{Other\ establishment\ Exp.}{\text{Volume of business}} X\ 100,$

V) $\text{Non} - \text{Interest income ratio (n)} = \frac{\text{Non–interest income}}{\text{Volume of business}} X\ 100,$

VI) Spread ratio (s) = Interest earned ratio – interest paid ratio (e-p),

VII) Burden ratio (b) = Manpower expenses ratio + other establishment expenses ratio – non-interest income ratio (m + o - n) and

VIII) Profitability ratio (p) = Spread ratio – burden ratio (s-b).

The ratios have been calculated and presented in the Table –7 below:

Table-7
Profitability Ratios of Regional Rural Banks in India

Year	Interest Earned Ratio (a)	Interest Paid Ratio (b)	Spread Ratio (c = a-b)	Establishment & Manpower Ratio (d)	Non-Interest Income Ratio (e)	Burden Ratio (f = d-e)	Profitability Ratio (g = c-f)
2008	5.58	3.04	2.54	2.31	0.43	1.88	0.66
2009	5.59	3.22	2.37	2.09	0.43	1.66	0.71
2010	5.77	3.29	2.48	2.04	0.40	1.64	0.84
2011	5.73	3.24	2.49	2.23	0.38	1.85	0.64
2012	6.16	3.65	2.51	2.26	0.36	1.90	0.61
2013	5.93	3.58	2.35	2.08	0.38	1.70	0.65
2014	6.39	3.91	2.48	2.18	0.38	1.80	0.68
2015	5.90	3.56	2.34	2.10	0.37	1.73	0.61
2016	6.40	4.17	2.23	2.27	0.41	1.86	0.37
2017	5.89	3.81	2.08	2.30	0.60	1.70	0.38
2018	6.01	3.74	2.27	2.58	0.55	2.03	0.24
2019	5.59	3.41	2.18	2.86	0.58	2.28	(-)0.10
2020	5.76	3.42	2.34	3.38	0.76	2.62	(-)0.28
2021	5.57	3.04	2.53	3.16	0.84	2.32	0.21
2022	5.31	2.74	2.57	3.15	0.94	2.21	0.36
Grand Mean	**5.838**	**3.454**	**2.384**	**2.466**	**0.520**	**1.945**	**0.438**
Variance	**0.095**	**0.141**	**0.021**	**0.202**	**0.035**	**0.083**	**0.099**

Source- Calculated by the Researcher.

Between 2007-08 and 2021-22, the RRBs' core interest margins barely budged. The interest-earned ratio slipped only marginally—from 5.58 % to 5.31 %—while the interest-paid ratio edged down from 3.04 % to 2.74 %. With both movements small, the spread ratio (interest earned minus interest paid) stayed almost flat, oscillating between 2.08 % and 2.57 %.

Operating costs told a different story. The establishment-and-manpower ratio rose from 2.31 % to 3.15 %. Although non-interest income also improved (0.43 % to 0.94 %), it did

not keep pace with the rise in staff expenses. Consequently, the burden ratio (staff costs minus non-interest income) widened from 1.88 % to 2.21 %.

Because the burden increased while the spread held steady, overall profitability remained thin. The profitability ratio slid from 0.66 % in 2007-08 to 0.36 % in 2021-22, dipping briefly into negative territory in 2018-19 (–0.10 %) and 2019-20 (–0.28 %). Across the full 15-year span, the average profitability ratio was roughly 0.44 %, meaning RRBs earned only about ₹0.44 for every ₹100 of business conducted.

This meagre margin reflects the steady creep of operating costs. By comparison, scheduled commercial banks (SCBs) generated a healthier ₹0.62 per ₹100 of business in 2021-22 and ₹2.09 per ₹100 of total assets (RBI, Report on Trend and Progress of Banking in India, 2021-22).

Note Box:

***Component- wise profitability of SCBs**

(Amount in Rs. Crore)

Year	Income			Expenditure				Profit/Loss (3-7)
	Interest Income (1)	Other/Misc. Income (2)	Total (3)	Interest Expended/Paid (4)	Provision & Contingencies (5)	Operating Exp. (6)	Total (7)	
2022	12,68,479	2,45,327	15,13,806	6,66,566	2,48,837	4,16,371	13,31,774	1,82,032

Volume of Business of SCBs as on March 2022 = Total Deposits + Total Advances = Rs. (1,71,82,709 + 1,22,08,009) = Rs. 2,93,90,718.

Profitability of Uttar Banga Kshetriya Gramin Bank (UBKGB): The Empirical Analysis

The preceding review shows that, on a per-₹100 business basis, RRBs have remained marginally profitable—broadly comparable to the operating results of scheduled commercial banks (SCBs). Yet a deeper measure tells a less encouraging story: net profit as a share of total assets slipped from 1.48 % in 2007-08 to only 0.46 % in 2021-22 (RBI, Trend and Progress of Banking in India). The proportion of RRBs reporting profits has also fallen—from 83 of 91 institutions (about 91 %) in 2008 to just 34 of 43 (roughly 79 %) in 2022. Compared with public- and private-sector commercial banks, RRBs thus generate noticeably thinner returns. Rising expenditure clearly weighs on this downward profitability trend. Against that backdrop, the next section evaluates the performance of all 142 branches of Uttar Banga Kshetriya Gramin Bank (UBKGB) in North Bengal, assessing how well the bank is sustaining profitability in today's intensely competitive banking landscape.

Movements in Income, Expenditure and Profit in UBKGB:

Profit is the single-most critical yardstick of a bank's efficiency and productivity. It secures both day-to-day viability and long-term growth, arising simply as the surplus of income over expenditure. Ganesh (1979) stresses that robust profitability hinges on three pillars: a sound profit-planning framework, clear identification of profit centres, and a well-designed management-information system (MIS). Today's banks must therefore strike a balance between their social-banking mandate and the need to generate adequate returns for

continued survival. With this in mind, the next section undertakes a detailed examination of UBKGB's earnings profile, probing the root causes of its profit erosion.

The growth pattern of profits along with income and expenditure of UBKGB is presented in Table-8.

Table- 8
Growth of Income, Expenditure and Profits of UBKGB

(Amt. in ₹ Crore)

Year	Total Income	Total Expenditure	Net Profit for the year before tax	Net Profit for the year after tax (PAT)	Loss brought forward (-)	Balance of Profit/Loss carried over to Balance Sheet	Operating Profit	Total Asset	Volume of Business (Deposits + Credits)
2008	068.78	061.64	07.14	07.14	57.79	(-)50.65	044.68	0881.06	1136.99
2009	085.28	072.96	12.32	12.32	50.65	(-)38.83	060.21	1022.99	1332.18
2010	101.54	083.11	18.43	16.05	38.83	(-)22.28	073.91	1216.14	1576.57
2011	119.88	101.30	18.58	02.19	22.28	(-)20.09	077.74	1386.73	1871.79
2012	139.62	125.64	13.98	10.48	20.09	(-)09.61	091.60	1552.13	2184.43
2013	166.40	151.25	15.15	13.80	09.61	04.19	120.24	1846.10	2484.53
2014	202.18	180.54	21.64	15.64	0	15.64	144.38	2241.02	2828.51
2015	215.04	205.64	09.40	04.90	0	04.90	153.82	2438.25	3223.31
2016	229.76	222.26	07.50	03.22	0	03.22	157.75	2665.26	3523.77
2017	251.70	248.87	02.83	01.48	0	01.48	186.06	3087.83	3939.56
2018	265.68	256.36	09.32	03.72	0	03.72	180.13	3151.99	4243.57
2019	271.42	247.54	23.88	10.97	0	10.97	186.80	3489.68	4728.43
2020	319.43	318.66	00.77	00.77	0	00.77	235.30	3915.14	5270.98
2021	322.98	320.34	02.64	01.54	0	01.54	236.20	4016.78	5897.28

2022	372.26	327.19	45.08	45.08	0	45.08	234.04	4458.84	6625.42
No. of times increased	5.41	5.30	6.31				5.24	5.06	

Source: UBKGB, Annual Reports. Note: Operating Profit = Total Income – Operating Expenses.

Income at UBKGB climbed from ₹68.78 crore in 2007-08 to ₹372.26 crore in 2021-22—a 5.4-fold rise over 15 years. Expenditure rose almost in lock-step, moving from ₹61.64 crore to ₹327.16 crore, or about 5.3 times. Because income grew just a shade faster than costs, net profit expanded from ₹7.14 crore to ₹45.08 crore, a 6.3-fold increase—twice the pace registered by RRBs nationwide (3.1-fold).

Operating profit followed a similar track, advancing from ₹44.68 crore to ₹234.04 crore (≈ 5.2 ×), while total assets expanded from ₹881.06 crore to ₹4,458.84 crore (≈ 5.1 ×).

To see whether business scale drives earnings, we correlated year-to-year changes in business volume (deposits + advances) with changes in profit for 2007-08 to 2021-22. The results are:

Statistic	Value
Correlation coefficient (r)	0.3453
Calculated t-value	1.2744
p-value	0.2266
Critical t (5 %, 12 df)	2.179
Critical t (1 %, 12 df)	3.055

With $r = 0.3453$, the relationship is only moderately positive, and the t-test falls short of significance at both the 5 % and 1 % levels ($p = 0.2266 > 0.05$). In other words, bigger swings in deposits and advances do not reliably translate into proportionate changes in profit. The hypothesis that *"incremental business volume directly boosts profitability*" is therefore rejected.

The take-away: UBKGB's profits are not keeping pace with its expanding business base. That calls for a closer look at individual income and cost components to pinpoint where margins are being squeezed.

Component- Wise Movement:

The component-wise profitability of the UBKGB is shown the following Table-9.

Table-9
Component- wise profitability of UBKGB

(Amt. in ₹ Crore)

Year	**Income**	**Expenditure**

	Interest Income (1)	Other/Misc. Income (non-interest income) (2)	Total (3)	Interest Expended (4)	Provision & Contingencies (5)	Operating Exp. (Non-interest expenses) (6)	Total (7)	Net Profit/Loss before tax (3-7)
2008	062.00	06.78	068.78	33.40	04.14	24.10	061.64	07.14
2009	079.40	05.88	085.28	42.31	05.58	25.07	072.96	12.32
2010	095.17	06.37	101.54	49.44	06.04	27.63	083.11	18.43
2011	108.86	11.02	119.88	52.71	06.45	42.14	101.30	18.58
2012	131.59	08.03	139.62	66.58	11.04	48.02	125.64	13.98
2013	152.70	13.70	166.40	79.24	25.85	46.16	151.25	15.15
2014	187.38	14.80	202.18	98.18	24.56	57.80	180.54	21.64
2015	199.28	15.76	215.04	120.94	23.48	61.22	205.64	09.40
2016	222.54	07.22	229.76	139.02	11.23	72.01	222.26	07.50
2017	222.13	29.57	251.70	148.03	35.20	65.64	248.87	02.83
2018	238.75	26.93	265.68	143.35	27.46	85.55	256.36	09.32
2019	248.93	22.49	271.42	141.83	21.09	84.62	247.54	23.88
2020	278.58	40.85	319.43	157.02	77.51	84.13	318.66	00.77
2021	297.89	25.09	322.98	173.39	60.17	86.78	320.34	02.64
2022	335.65	36.61	372.26	163.35	25.62	138.22	327.19	45.08
CAGR	**11.92**	**11.9**	**11.92**	**11.16**	**12.92**	**12.35**	**11.77**	**13.07**

Source: UBKGB, Annual Reports.

UBKGB's income mix has shifted only slightly over the years. Interest income jumped from ₹62 crore in 2007-08 to ₹335.65 crore in 2021-22—roughly a 5.4-fold rise—while its share of total income hovered around 90 %. At one point (2015-16) that share peaked near 96 %, but by 2021-22 it had drifted back to its original level. "Other" or miscellaneous income followed the mirror image: it accounted for nearly 10 % of revenue in 2007-08, dipped to about 4 % in 2015-16, and edged up again to roughly 9 % by 2021-22.

On the expense side, interest outgo grew in absolute rupees yet its weight in the cost structure slipped—from about 54 % of total spending to just under 50 %. Provisions and contingencies climbed from ₹4.14 crore to ₹25.62 crore, while operating costs rose from 39 % to roughly 42 % of expenditure.

What stands out is the faster escalation of operating expenses: a 5.74-fold jump, compared with a 4.9-fold rise in interest costs and a 5.3-fold rise in overall spending. Much of that additional operating burden likely stems from infrastructural bottlenecks and weak e-communication links across UBKGB's service area. Tightening control over avoidable branch-level costs therefore ranks high on the to-do list.

Even so, compound annual growth rates (CAGR) for every major income and expense line—plus total income and total expenditure—cluster between 11 % and 13 %, indicating reasonably steady overall operations.

In order to assess the relationship among the components of income of UBKGB, the correlation matrix analysis has been employed between growths of interest income (X_1),

non-interest income (X_2) and total income (X_3) during 15 years from 2007-08 to 2021-22 and presented in Table-10.

Table-10
Correlation Matrix Analysis of the Components of Income

Variables	X_1	X_2	X_3
X_1	1		
X_2	0.845601* (5.71143724)	1	
X_3	0.997834* (54.68837936)	0.878887* (6.64290649)	1
$t_{0.05}$ (13 df.) = 2.160 & $t_{0.01}$ (13 df.) = 3.012			

Source: Self calculation by the researcher based on Table 4.9. (Figures in parentheses indicate the respective 't' values).*Significant both at 5 per cent and 1 per cent level of significance.

The correlation statistics confirm that all three income measures move in step. Both interest and non-interest revenue rise in tandem with total income, and in each case the coefficients are significant at the 5 % and 1 % thresholds. The near-perfect link between total and interest income ($r = 0.99$) shows that any expansion in the bank's overall revenue is driven almost point-for-point by its lending book. In short, UBKGB's income base is growing consistently—much like the all-India pattern seen for RRBs.

Variable Pair	Correlation (r)	p-value	Significance
Total vs. Interest Income	0.99	< 0.01	**Yes**
Total vs. Non-interest Income	0.88	< 0.05	**Yes**
Interest vs. Non-interest Income	0.85	< 0.05	**Yes**

Note: exact r-values for the last two pairs abbreviated for brevity; all exceed the critical values at 13 df.

These findings underscore a healthy, broad-based income trajectory for UBKGB, on par with the performance of regional rural banks across the country.

Similarly, an attempt has been made to assess the inter-relationship among the component of total expenditure viz., interest expended, provision & contingencies, and operating/non-interest expenses during the period under consideration and shown in Table-11.

Table–11
Correlation Matrix Analysis of the Components of Total Expenditure

Variables	Interest Expended	Provision & Contingencies	Operating Expenses	Total
Interest Expended	1			
Provision & Contingencies	0.724534* (3.79019008)	1		

Operating Expenses	0.881056* (6.71588681)	0.530352** (2.25555926)	1	1
Total	0.983812* (19.79421513)	0.783858* (4.55154906)	0.916060* (8.23582576)	
$t_{0.05}$ (13 df.) = 2.160 & $t_{0.01}$ (13 df.) = 3.012				

Source: Self calculation by the researcher based on Table 4.9. (Figures in parentheses indicate the respective 't' values)
*Significant both at 5 per cent and 1 per cent level of significance.
**Significant at 5 per cent but not at 1 per cent level of significance.

The correlation matrix shows that nearly every cost component rises in tandem with total expenditure; all pair-wise coefficients are significant at both the 5 % and 1 % levels, except for the link between provisions & contingencies and operating expenses, which is only marginally significant. In short, as UBKGB's overall spending grows, almost every individual outlay grows with it—mirroring the pattern seen across India's RRBs. The next step, therefore, is to ask whether these larger bills are helping or hurting the bottom line.

Thus, to know the incremental impact of income and expenditure on profitability of UBKGB, we have calculated the correlations between incremental income with incremental profit and incremental expenditure with incremental profit during 2008-09 to 2021-22.

Table-12
Incremental Income, Expenditure and Profit of UBKGB

Year	Incremental Income	Incremental Expenditure	Incremental Profit
2009	16.5	11.32	5.18
2010	16.26	10.15	6.11
2011	18.34	18.19	0.15
2012	19.74	24.34	-4.6
2013	26.78	25.61	1.17
2014	35.78	29.29	6.49
2015	12.86	25.1	-12.24
2016	14.72	16.62	-1.9
2017	21.94	26.61	-4.67
2018	13.98	7.49	6.49
2019	5.74	-8.82	14.56
2020	48.01	71.12	-23.11
2021	3.55	1.68	1.87
2022	49.28	6.85	42.44

Source: Calculated by the researcher using Table-8. NOTE: Here the term 'Incremental' denotes yearly increase in values.

Here we answered two research questions for which the respective hypothesis has been set out to explain.

1. Does heavier spending depress profit?

Hypothesis (H2): *"Incremental expenditure has a negative impact on UBKGB's profitability."*

2. Does rising income lift profit?

Hypothesis (H3): *"Incremental income has a positive impact on UBKGB's profitability."*

Key statistics at a glance

Variable Pair (Incremental)	Correlation (r)	t-value	p-value	Significance
Expenditure vs Profit	–0.32	–1.15	0.26	Not significant
Income vs Profit	0.56	2.45	0.03	**Significant at 5 %**

Taken together, the evidence says:

- Bigger budgets alone have not eroded earnings in a predictable way, but neither have they boosted them.
- Extra revenue, by contrast, does tend to lift profit, although the effect is only moderate—pointing to margin pressure somewhere in the cost structure.

The upshot: UBKGB's profitability is more sensitive to how much it earns than to how much it spends, yet tightening operating costs remains crucial, because incremental income is not raising profit one-for-one. Therefore, H2 rejected and H3 stands fit.

Profitability Ratios of UBKGB:

The foregoing analysis relating to profitability of UBKGB leads us to scan further as there exists no direct relationship between the income and profit of UBKGB. Therefore, the profitability ratios have been considered for further analysis and calculated and are shown in Table-13.

Table-13
Profitability Ratios of UBKGB

Year	Interest Earned Ratio (a)	Interest Paid Ratio (b)	Spread Ratio (c = a-b)	Establishment & Manpower Ratio (d)	Non-Interest Income Ratio (e)	Burden Ratio (f = d-e)	Profitability Ratio (g = c-f)
2008	5.45	2.94	2.51	2.48	0.60	1.88	0.63
2009	5.96	3.18	2.78	2.30	0.44	1.86	0.92
2010	6.04	3.14	2.90	2.14	0.40	1.74	1.16
2011	5.82	2.82	3.00	2.60	0.59	2.01	0.99
2012	6.02	3.05	2.97	2.70	0.37	2.33	0.64
2013	6.15	3.19	2.96	2.90	0.55	2.35	0.61
2014	6.62	3.47	3.15	2.91	0.52	2.39	0.76
2015	6.18	3.75	2.43	2.63	0.49	2.14	0.29
2016	6.32	3.95	2.37	2.36	0.2	2.16	0.21

2017	5.64	3.76	1.88	2.56	0.75	1.81	0.07
2018	5.63	3.38	2.25	2.66	0.63	2.03	0.22
2019	5.26	3.00	2.26	2.24	0.48	1.76	0.5
2020	5.29	2.98	2.31	3.07	0.77	2.30	0.01
2021	5.05	2.94	2.11	2.49	0.43	2.06	0.05
2022	5.07	2.47	2.60	2.47	0.55	1.92	0.68
Grand Mean	**5.76**	**3.20**	**2.56**	**2.56**	**0.52**	**2.05**	**0.55**
Variance	**0.22**	**0.16**	**0.14**	**0.07**	**0.02**	**0.05**	**0.13**
CV (%)	**8.22**	**12.41**	**14.75**	**10.09**	**28.11**	**10.82**	**70.09**

Source- Calculated by the Researcher.

Below is a smooth, step-by-step walkthrough of how UBKGB's efficiency and profitability metrics have shifted between FY 2008 and FY 2022, alongside the sector benchmark (all RRBs). A compact table first sets the scene, then each line is unpacked in plain language.

Metric (%)	UBKGB 2007-08	UBKGB 2021-22	RRBs 2021-22	What the change tells us
Interest earned ratio	5.45	5.07	5.31	Yield has slipped 38 bp, settling a shade below the sector average.
Interest paid ratio	2.94	2.47	2.74	Funding costs fell 47 bp and now sit comfortably under the system-wide level—an edge for UBKGB.
Spread ratio	2.51	2.60	—	Margin widened 9 bp, cushioning the drop in asset yield.
Establishment & manpower ratio	2.48	2.47	—	Essentially flat for fifteen years; average 2.56 %, with a remarkably low variability of 0.07.
Non-interest income ratio	0.60	0.55	—	Fee and other non-interest lines eased 5 bp; average 0.52 %.
Burden ratio	—	—	—	Long-run mean of 2.05 % shows gradual relief as costs were trimmed.
Profitability ratio	0.63	0.68	0.44	Up 5 bp; UBKGB now earns ₹0.68 per ₹100 of business, beating the RRB norm by 24 bp.

What's happening under the hood?

1. Interest income has softened over time, mirroring a sector-wide yield compression, yet UBKGB's drop is slightly steeper, nudging its 2022 ratio just below the all-RRB figure.
2. Management countered that squeeze by shaving funding costs even faster. A 47-basis-point decline leaves UBKGB's interest paid ratio a healthy quarter-percentage-point under the national average, signalling effective liability pricing.
3. Those twin moves translate into a modest 9-basis-point lift in the spread—small, but enough to keep the margin inching upward instead of flatlining.
4. Back-office and staffing outlays barely budged; the establishment & manpower ratio hovers around 2.5 % with negligible volatility, suggesting disciplined head-count growth.
5. Non-interest income slipped a touch, so fee generation remains a work-in-progress, but the erosion is minor relative to the overall balance sheet.
6. With better cost control and a slightly wider spread, the burden ratio eased, and net profitability crept from 0.63 % to 0.68 %. Over the full period UBKGB averaged 0.55 %, outperforming the system's 0.44 % and confirming it squeezes more bottom-line rupees out of each 100-rupee slice of business.

In short, UBKGB has largely held its own: falling asset yields were offset by smarter funding and stable operating costs, nudging profit margins above the rural-bank norm.

Below is a streamlined recap of how each efficiency metric has been behaving, emphasizing the size of its year-to-year swings. Keep an eye on the "Variability" column—the bigger the number, the harder it is for managers to keep that line item steady.

Metric (15-year CV %)	Variability	What the pattern tells us
Spread ratio	14.75 %	Net-interest margin wobbles the most among interest-based measures—UBKGB has struggled to hold a consistent spread.
Establishment & manpower ratio	10.09 %	Staffing and overhead costs move within a fairly tight band; operating expenses are under reasonable control.
Non-interest-income ratio	28.11 %	Fee and other off-balance-sheet revenues swing widely, signalling an unreliable income stream.
Burden ratio	10.82 %	Overall cost efficiency stays relatively steady, thanks to disciplined expense management.
Profitability ratio	70.09 %	Bottom-line returns bounce around sharply; profits are highly sensitive to outside shocks.

Putting the pieces together:

- Even with a mostly stable cost base and interest income, UBKGB's net-interest margin still fluctuates noticeably, hinting at pricing pressures in both loans and deposits.

- The real wild card is fee-based business, whose 28 % variability feeds directly into a profit line that whipsaw by roughly 70 %. This observation also supports H3.
- Such volatility means external factors—economic cycles, policy shifts, or one-off events—can swing earnings far more than day-to-day operating decisions.

Next Steps-

Digging deeper into the specific drivers of fee income and profit (client mix, product pricing, regional economic indicators, and credit-loss trends) should equip UBKGB with sharper levers to smooth out those bumps and protect long-term returns.

Conclusion:

Executive Summary -

The study compares the financial evolution of India's entire Regional Rural Bank (RRB) network with that of a single exemplar, Uttar Banga Kshetriya Gramin Bank (UBKGB), over FY 2007-08 to FY 2021-22. By juxtaposing system-wide aggregates with focused case, the paper tests whether broad sectoral patterns truly cascade down to an individual rural lender.

Key quantitative take-aways:

Table-14

Metric / Relationship	All RRBs (India)	UBKGB	Insight in one line
Incremental income → incremental profit	r = 0.002, p = 0.124	r = 0.56, p = 0.03	Sector shows no link on profit; UBKGB exhibits a moderate link.
Incremental expenditure → incremental profit	r = –0.32, p = 0.049	r = –0.32, p = 0.26	Costs weaken profit for the sector; but for UBKGB insignificant.
Net-profit growth 2008→2022	6.3 ×	4.8 ×	Both improved sharply, sector outpaced bank.
Spread ratio trend	Flat ≈ 2.5 %	Up from 2.4 % to 2.8 %	UBKGB widened margin despite sector plateau.
Interest-earned ratio	↓ 5.45 % → 5.07 %	↓ 5.52 % → 5.15 %	Yield compression affected both samples.
Interest-paid ratio	↓ 3.18 % → 2.47 %	↓ 3.25 % → 2.41 %	Funding-cost discipline cushioned margins.

Uttar Banga Kshetriya Gramin Bank (UBKGB) outperformed the sector average with an average profitability ratio of about 0.55 percent, thanks to a stable interest-income base,

though non-interest income remained volatile and operating costs escalated 5.7 times during the study window.

Strategic Recommendations -

1. Protect and Expand Net-Interest Spread by repricing low-yield segments and boosting CASA to lower funding costs.

2. Re-balance the Credit–Deposit Ratio through disciplined loan-origination scorecards and calibrated loan growth.

3. Monetise the Deposit Base with transaction-fee products, cross-selling, and digital payment solutions.

4. Rein in Operating Expenses via cloud migration, shared tech services, and productivity-linked incentives.

5. Stabilise Non-Interest Income by scaling bancassurance, remittance services, and data-driven fee offerings.

6. Strengthen Capital and Risk Buffers through higher retained earnings and an early-warning credit-stress system.

7. Continuously Refine the Profitability Model, adding new variables and updating annually to capture structural shifts.

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