PERFORMANCE OF REGIONAL RURAL BANKS (RRBs) IN BIHAR : AN ANALYTICAL STUDY

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Abstract : This research topic is a study on the performance of RRBs in Bihar an analytical study. An effort has been made in the instant project to study and find out whether restructuring through consolidation have made any effect on the financial viability of the RRBs in this region. Since 1975 RRBs are being regarded as one of most important sources of institutional financing of rural credit in India. But at the end of expansion phase (1987) financial viability of the RRBs emerged as an important issue to the policy makers. Since 1991, various steps have been taken up by GOI for strengthening the RRBs e.g. cleansing of balance sheets, recapitalisation of selected RRBs etc. State-wise & Sponsor bank wise merger of RRBs is the recent route of restructuring of RRBs for improving their financial viability. There is always a need for up-gradation of the rural banking systems in India through performance evaluation in the context of necessity of institutional rural credit to the poor rural folk. Therefore, an attempt is made to study on the pre-merger and post-merger profitability performance of the RRBs in Bihar State.

***IndexTerms* - Bihar State, Institutional rural credit, Merger, Profitability, RRBs.**

I. INTRODUCTION

Beginning of regional rural banks (RRBs) can be seen as a inimitable experiment as well as practice in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narsimham committee conceptualised the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act of 1976.

Over the years, the RRBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure . They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy. The rural orientation of RRBs is formidable with rural and semi urban branches constituting over 97 per cent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilise rural savings.

The mandate of promoting banking with a rural focus, however, would be an enduring phenomenon only when the financial health of the RRBs is sound. With built-in restrictions on their operations, it is common to expect that the financial health of the RRBs itself would be a matter of concern. As regards their financial status, during the year 2004-05, 167 RRBs earned profits amounting to Rs.904.43 crore while 29 RRBs incurred losses to the tune of Rs.153.96 crore. Eighty-eight RRBs had accumulated losses to the tune of Rs. 2715.01 crore during the year 2004-05. Of the 88 RRBs having accumulated loss, 53 RRBs had eroded their entire owned funds as also a part of their deposits. Furthermore, non-performing assets (NPAs) of the RRBs in absolute terms stood at Rs.3,299 crore as on March 31,2005. The percentage of gross NPAs was 8.53 during the year ending March 31, 2005. While 112 RRBs had gross NPAs less than the national average, 84 had NPAs more than it.

At the end of expansion phase (1987) financial viability of the RRBs emerged as an important issue to the policy makers. Since 1991, various steps has been taken up by GOI for strengthening the RRBs e.g. cleansing of balance sheets, recapitalisation of selected RRBs etc. In order to improve the operational viability of RRBs and to take advantage of the economies of scale by reducing transaction cost, Government of India (GOI) initiated in 2005 the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State. It was opined that amalgamated RRBs are expected to provide need based and efficient customer services due to improved banking infrastructure, common publicity/marketing efforts, mechanization and computerization of branches, optimum utilization of available trained and experienced work force etc and also derive benefits of a large area of operation [economy of scale], enhanced mobilization of financial resources and deployment of credit and provision of more diverse banking activities. The process of amalgamation continued till 2012. Up to 31st march, 2012 there was 56 cases of merger among RRBs in India; under which a total of 173 banks were merged (there was case of re-merger also).

Among the 82 RRBs operating as scheduled commercial banks as on March 2012, within the framework of multi-agency system in India, ***four*** are functioning in Bihar state namely ***Bihar Kshetriya Gramin Bank (BKGB), Madhya Bihar Gamin Bank (MBGB), Uttar Bihar Gramin Bank (UBGB)*** and ***Samastipur Kshetriya Gramin Bank (SKGB).*** Out of these four banks, BKGB, MBGB and UBGB were emerged on the basis of merger in eight RRBs operating in this region. The merger took place in February, 2007.

Rural banking forms one of the significant parts in Indian banking. Many economists and policy makers opine that the future growth of banking sector in India depends to a large extent on the robust performance of the Rural Financial Institutions (RFIs).

Among the factors responsible for economic development and poverty alleviation in rural sector, the role of the RFIs is considered very significant as a substantial portion of the institutional rural credit by the RFIs is used for rural development to support formation of rural capital. Although the performance of RRBs may be gauged from the success of poverty alleviation programmes to which they are dedicated to act as a catalyst, their achievements as commercial banking organization can never be ignored. It is in this context that the post merger profitability performance of RRBs assumed enormous significance in the Indian rural banking scenario. The case becomes stronger when the route of merger in RRBs was primarily initiated to arrest the increasing level of huge accumulated losses (Vyas *Committee, 2001 & 2004, Sardesai committee, 2005).*

The present study aspires to make an overall evaluation over the impact of merger on profitability performance of RRBs in Bihar State. A period of twelve years from 2000-01 to 2011-12 is taken for the study. Six years each from pre-merger period (i.e. 2000-01 to 2005-06) and post-merger period (i.e. 2006-07 to 2011-12) respectively are selected for the study. To be specific, the main objectives of the study are:

- To examine the social relevance for studying in Profitability Performance of RRBs (i.e. significance of the study).
- To focus on the merger of RRBs in India as well as in Bihar state.
- To examine the impact of merger on the profitability performance of RRBs in Bihar State.

Accordingly, the reminder of the paper is organised as under. Section two laid down the review of literature and methodology of the study. Section three narrates the significance of the study while section four presents the brief sketch in consolidation of RRBs in India as well as in Bihar State. Section five focuses on impact of merger on the profitability performance of RRBs in this region. The last section is devoted for concluding observations.

II. Review of Literature

The two important issues observed in several academic studies relating to bank mergers are: first, the impact of mergers on operating performance and efficiency of banks and second, analysis of the impact of mergers on market value of equity of both bidder and target banks. **Berger et.al (1999)** provides an excellent literature review on both these issues. The first issue identified above is the study of post merger accounting profits, operating expenses, and efficiency ratios relative to the pre-merger performance of the banks. Here the merger is assumed to improve performance in terms of profitability by reducing costs or by increasing revenues. **Cornett and Tehranian (1992)** and **Spindit and Tarhan (1992**) provided evidence for increase in post-merger operating performance. But the studies of **Berger and Humphrey (1992), Piloff (1996)** do not find any evidence in post-merger operating performance. However, **Berger and Humphrey (1994)** reported that most studies that examined pre-merger and post-merger financial ratios found no impact on operating cost and profit ratios. The reasons for the mixed evidence are - the lag between completion of merger process and realization of benefits of mergers, selection of sample and the methods adopted in financing the mergers. Further, financial ratios may be misleading indicators of performance because they do not control for product mix or input prices. Some studies have also examined the potential benefits and scale economies of mergers. **Landerman (2000)** explores potential diversification benefits to be had from banks merging with non banking financial service firms. **Wheelock and Wilson (2004)** find that expected merger activity in US banking is positively related to management rating, bank size, competitive position and geographical location of banks and negatively related to market concentration.

The academic studies (Reddy, 2005; Pandit et.al.2006) encourage the examination of one important issue relating to mergers in Indian banking. Do, merger in Indian banking improve operational performance and efficiency of banks? But in India, steered by the central bank, most of the weak banks are being merged with healthy banks in order to avoid financial distress and to protect the interests of depositors. Hence the motivation behind the mergers may not be increase in operating efficiency of banks but to prevent financial distress of weak banks. In this paper an attempt is made to study whether the route of merger is able to remove financial anguish of RRBs in West Bengal in terms of improvement in profitability performance individually and as a whole as compare to other RRBs working in eastern region and in India.

III. Methodology of the Study

The study is basically exploratory in nature and depends exclusively on secondary data. Secondary data are collected from various reports on RRBs published by NABARD and the RBI bulletin, annual reports of RRBs, reports of the various committees set up by the government on RRBs and the publications of Banker Institute of Rural Development (BIRD). Parameters like ratios, percentage of growth and others are considered for some meaningful comparison and analysis to evaluate performance of the RRBs and also to derive some concrete conclusion.

IV. Significance of the Study

Viability of rural financial institutions is a *sine qua non*. However, a balanced view is necessary in the context of immense contribution made by the RRBs as a group as well as individually in the area of their operation, most of which have extremely difficult and hostile socio-economic and political environment. RRB as an entity has indeed established its unique place in the rural financial system in India in terms of branches, deposits and depositors, advances and borrower accounts and credit-deposit ratio. Besides, it has extended the much needed banking infrastructure reaching to rural masses and contributed considerably in respect of mobilization of tiny amount from a very large number of rural household depositors and providing small amount of credit to quite a large number of rural households for their social and economic liberation and help them enjoying a reasonable standard of living rather than leading a life of destitute. RRBs also have contributed quite significantly in tribal areas as all the predominantly tribal districts identified by the Planning Commission.

Since early nineties viability of RRBs has been a serious concern of the share holders (i.e. the GOI, state governments and sponsor bank). The concept of financial viability for RRBs had been considered as a serious issue at the end of its expansion phase (i.e.1987). The inherent structural weaknesses such as limited area of operation, restricted clientele, small and un-remunerative size of loans, directed lending, regulated interest rates, absence of cross subsidization, etc, mingled with certain internal factors- specific to individual RRB, eventually resulted into many RRBs accumulating huge losses. Besides, despite the fact that the Working Group had emphasized "the role of the new institutions would be to supplement and not to supplant the other institutional agencies in the field," harmful competition among the operating financial institutions, lack of enough support from their sponsor banks and interference of State Government added to the problems of business and financial viability. The financial burden on the RRBs increased substantially from September 1987, with the implementation of National Industrial Tribunal Award providing remuneration package to RRBs' staff on par with the staff of commercial banks. The fragile state of the RRBs became evident from the fact that most of them became non-viable as their accumulated losses eroded the equity base of as many as 165 RRBs as on 31st March 1994. This necessitated concerted institutional development efforts aimed at strengthening of RRBs to enable them to become viable and achieve the desired objectives. Cleansing of balance sheets and recapitalisation of selected RRBs marked the initial major step and was followed by a series of initiatives that sought to allow them to function in a free and deregulated environment.

In view of the serious concern for accelerating business, improving operational viability and financial sustainability of RRBs several options were discussed; out of which merger of all RRBs sponsored by the same bank within a State (as recommended by the Vyas Committee in 2004) was considered appropriate and legally feasible.

V. Restructuring Through Consolidation of RRBs

Profitability and financial viability of the RRBs has engaged the thought of the policy makers from time to time. In fact, as early as 1981, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) addressed the issue of financial viability of the RRBs. The CRAFICARD recommended that 'the loss incurred by a RRB should be made good annually by the shareholders in the same proportion of their shareholdings'. Though this recommendation was not accepted, under a scheme of recapitalisation, financial support was extended by the shareholders in the proportion of their shareholdings. Later, a number of committees have come out with different suggestions to address the financial non-viability of RRBs. For instance, the Working Group on RRBs (Kelkar Committee) in 1984 recommended that small and uneconomic RRBs should be merged in the interest of economic viability. Five years down the line, in a similar vein, the Agricultural Credit Review Committee (Khusro Committee), 1989 pointed out that 'the weaknesses of RRBs are rife to the system and non-viability is built into it, and the only option was to merge the RRBs with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions'. The Committee on Restructuring of RRBs, 1994 (Bhandari Committee) identified 49 RRBs for comprehensive restructuring. It recommended greater devolution of decision-making powers to the Boards of RRBs in the matters of business development and staff matters. The option of liquidation again was mooted by the Committee on Revamping of RRBs, 1996 (Basu Committee). The Expert Group on RRBs in 1997 (Thingalaya Committee) held that very weak RRBs should be viewed separately and possibility of their liquidation be recognised. They might be merged with the neighbouring RRBs. The Expert Committee on Rural Credit, 2001 (Vyas Committee I) was of the view that the sponsor bank should ensure necessary autonomy for RRBs in their credit and other portfolio management system. Subsequently, another committee under the Chairmanship of Chalapathy Rao in 2003 (Chalapathy Rao Committee) recommended that the entire system of RRBs may be consolidated while retaining the advantages of regional character of these institutions. As part of the process, some sponsor banks may be eased out. The sponsoring institutions may include other approved financial institutions as well, in addition to commercial banks. The Group of CMDs of Select Public Sector Banks, 2004 (Purwar Committee) recommended the amalgamation of RRBs on regional basis into six commercial banks - one each for the Northern, Southern, Eastern, Western, Central and North-Eastern Regions. A committee under the Chairmanship of A.V Sardesai revisited the issue of restructuring the RRBs (Sardesai Committee, 2005). The Sardesai committee held that 'to improve the operational viability of RRBs and take advantage of the economies of scale, the route of merger/amalgamation of RRBs may be considered taking into account the views of the various stakeholders'.

The main triggers for all of the above recommendations were the small size of RRBs which had made their operations unviable leading to significant amount of accumulated losses – which was not considered desirable. Thus in order to improve the operational viability of RRBs and to take advantage of the economies of scale by reducing transaction cost, GOI initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State. The first set of amalgamations took place on September 12, 2005 when 28 RRBs were amalgamated to form 9 new RRBs. The amalgamations were carried out under Section 23-A of the RRBs Act, 1976, which provides that the Central Government, after consultation with the National Bank, the concerned State Government and the Sponsor Bank may amalgamate two or more RRBs. As a result of such merger, the number of RRBs has come down to 82 as on March 31, 2012 as against 86 and 196 RRBs as on March 31, 2008 and 2005, respectively. It needs to be noted here that this consolidation has occurred only amongst the RRBs, and not with the sponsor banks, and has been achieved without amendment to the governing statute of the RRBs. The structural consolidation of the RRBs has resulted in formation of new RRBs, which are presume to be financially stronger and bigger in size in terms of business volume and outreach.

The process of state-wise & sponsor bank-wise 1st phase of merger is more or less completed. Till 31st march, 2012 there were 56 cases of merger among RRBs in India; under which a total of 173 banks were merged (there was case of re-merger also).

So far the number of cases in merger is concerned central region is at the top of the list, where 60 banks were consolidated into 20 RRBs. It was followed by eastern region (40 banks formed 12 RRBs), southern region (28 banks merged into 9 RRBs), Northern region (20 banks consolidated to 7 RRBs), western region (28 banks shaped 6 RRBs) and north-eastern region (four banks to one). The highest number of bank merger is observed at Uttar Pradesh. Baroda Eastern GB (viz. seven banks namely Raebareli Kshetriya Gramin Bank, Sultanpur KGB, Kanpur KGB, Allahabad KGB, Pratapgarh KGB, Fatehpur KGB and Faizabad KGB were consolidated into Baroda Eastern GB) and Baroda Western GB (viz. Bareilly Kshetriya Gramin Bank and Shahjahanpur KGB amalgamated into Baroda Western GB) were remerged to form Baroda Uttar Pradesh GB. A total of nine banks were consolidated within this merger process. Apart from this, there are four cases of re merger and three of them in Uttar Pradesh and one in Maharastra. The cases are: (i) Allahabad Uttar Pradesh GB, Sarva Uttar Pradesh GB and Satpura Narmada KGB in Uttar Pradesh and (ii) Wainganga Krishna GB in Maharastra.

The route to sponsor Bank wise merger of RRBs in Bihar was completed in March, 2006. Before 2006 there were sixteen RRBs (as shown in **Table: 1**). Begusarai Kshetriya Gramin Bank, Bhagalpur-Banka Kshetriya Gramin Bank and Monghyr Kshetriya Gramin Bank were consolidated to form the first merged RRB in this region on 12th September, 2005 namely - Bihar Kshetriya Gramin Bank with head office at Monghyr and sponsored by United Commercial Bank (UCO Bank). The second case of merger took place in February, 2006 when Madhya Bihar Gramin Bank (head office at Patna) were emerged on the basis of consolidation of the four RRBs sponsored by Punjab National Bank (PNB) - Bhojpur Rohtas Gramin Bank, Magadh Gramin Bank, Nalanda Gramin Bank and Patliputra Gramin Bank. On 1st march, 2006, two merger cases took place at a time. At first, Uttar Bihar Kshetriya Gramin Bank was created with the process of amalgamation of seven RRBs sponsored by Central Bank of India (CBI) - Champaran Kshetriya Gramin Bank, Vaishali Kshetriya Gramin Bank, Madhubani Kshetriya Gramin Bank, Mithila Kshetriya Gramin Bank, Gopalganj Kshetriya Gramin Bank, Saran Kshetriya Gramin Bank and Siwan Kshetriya Gramin Bank. Thereafter, on the same notification date Uttar Bihar Kshetriya Gramin Bank again merged with Kosi Kshetriya Gramin Bank to form Uttar Bihar Gramin Bank with head office at Muzaffarpur. The remaining one i.e., Samastipur Kshetriya Gramin Bank (SKGB), was not considered for merger since SKGB is the sole sponsored gramin bank of State Bank of India in this region. Details are shown in **Table: 1.**

TABLE 1:
SPONSOR BANK WISE CONSOLIDATION OF RRBS IN BIHAR STATE OF INDIA

Sponsoring Bank	Name of the RRBs	Name of the Merged entity with date of merger
United Commercial Bank (UCO Bank)	1. Begusarai Kshetriya Gramin Bank 2. Bhagalpur-Banka Kshetriya Gramin Bank 3. Monghyr Kshetriya Gramin Bank	Bihar Kshetriya Gramin Bank (BKGB), Monghyr on 12th September, 2005
Punjab National Bank (PNB)	1. Bhojpur Rohtas Gramin Bank 2. Magadh Gramin Bank 3. Nalanda Gramin Bank 4. Patliputra Gramin Bank	Madhya Bihar Gramin Bank (MBGB), Patna on 10th February 2006
Central Bank of India (CBI)	1. Champaran Kshetriya Gramin Bank 2. Vaishali Kshetriya Gramin Bank 3. Madhubani Kshetriya Gramin Bank 4. Mithila Kshetriya Gramin Bank 5. Gopalganj Kshetriya Gramin Bank 6. Saran Kshetriya Gramin Bank 7. Siwan Kshetriya Gramin Bank 8. Kosi Kshetriya Gramin Bank	Uttar Bihar Gramin Bank (UBGB), Muzaffarpur on 1st March, 2006
State Bank of India (SBI)	Samastipur Kshetriya Gramin Bank (SKGB)	Not considered for merger

VI. Impact of Merger on the Profitability Performance of RRBs in Bihar State

While evaluating the impact of merger on the profitability performance of RRBs in Bihar state, the following observation is made:

(i) The scheme of merger as a part of restructuring process made a positive impact on the profitability performance of RRBs in Bihar State as a whole and also on the individual performance of three merged RRBs. Overall profit of RRBs in this region improved significantly from Rs. 31.56 crores to Rs. 190.94 crores during the study period of 2000-01 to 2011-12 and the profitability performance of SKGB, which is not considered for merger, have also been improved after consolidation **(Table: 2).**

(ii) Remarkable improvement on the profitability performance is noticed in case of Uttar Bihar Gramin Bank (UBGB). During pre merger period from 2000-01 to 2005-06, net profit of the bank dropped to. (-) 32.44 crores from Rs. 7.36 crores. Whereas in post merger period (i.e. 2006-07 to 2011-12), the picture turn around; net profit improved from Rs. 3.21 crores to Rs. 125.59 crores. Improved trend in profitability performance, as a consequence of merger, assist UBGB to wipe off their accumulated losses at post-merger period which stood at Rs. 501.15 crores before merger process begin **(Fig: 2).**

(iii) Madhya Bihar Gamin Bank (MBGB) and Bihar Kshetriya Gramin Bank (BKGB), the other two merged RRBs in Bihar state, were also able to lift their individual financial viability by improving in earnings. Developed trend in profitability performance on merger help in MBGB to clean their accumulated losses during post-merger period which stood at Rs. 51.24

crores in 2005-06 **(Fig: 2).** Net profit of BKGB was also increased appreciably by Rs.16.76 crores to Rs. 17.91 crores during 2006-07 to 2011-12 **(Table: 2).**

(iv) Samastipur Kshetriya Gramin Bank (SKGB), the stand alone non-merged RRB in Bihar state was able to raise their individual profitability performance from Rs. (-) 3.28 crores to Rs. 5.70 crores during post-merger period**;** whereas at pre-merger period, net profit of SKGB dropped to Rs. (-) 4.04 crores from Rs. 1.31 crores **(Table: 2).**

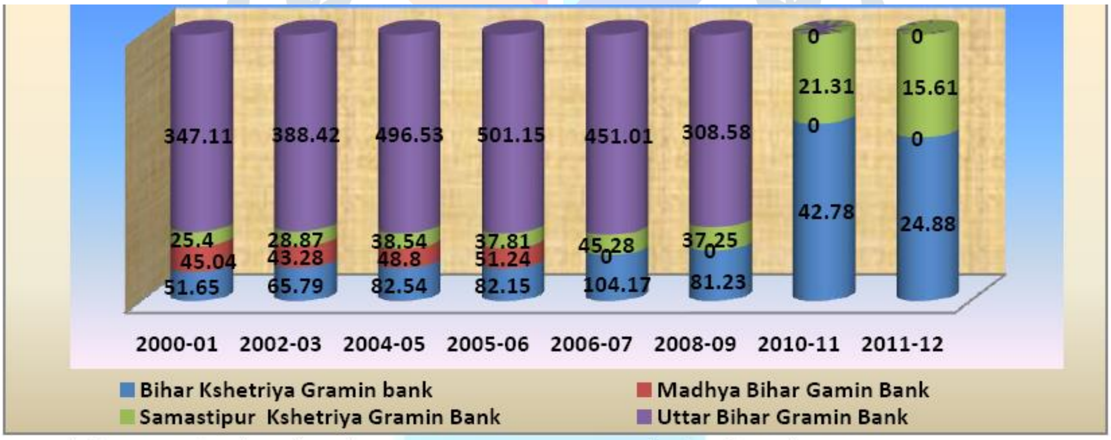
(v) As on 31st march, 2012, RRBs in Bihar state hold 3.04 % (i.e. .40.49 out of Rs.1332.57 crores) and 4.3 % (i.e. Rs.40.49 out of Rs.942.40 crores) of the total accumulated losses of RRBs in India and in eastern region respectively. The share of RRBs in Bihar State dropped considerably from 16.81 % to 3.04 % (all India) and from 37.26 % to 4.3 % (eastern region) respectively during 2000-2012 **(Fig:1).** But despite merger, RRBs except Bihar state in eastern region are unable to reduce their accumulated losses in line with other banks in India. Accumulated losses of RRBs in eastern region (except Bihar state) increased to Rs. 942.40 crores from Rs.790 crores during 2000-2012.

TABLE: 2

PROGRESS IN PROFIT & LOSSES OF RRBS IN BIHAR STATE DURING THE PERIOD 2000 -2012 (Rs. in crores)

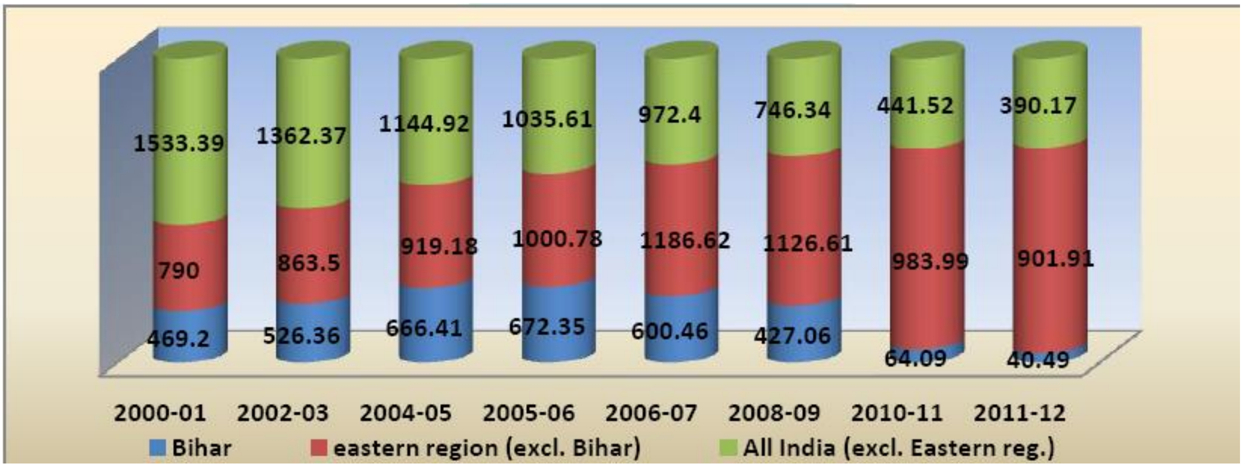
RRBs / year	**2000-01**	**2002-03**	**2004-05**	**2005-06**	**2006-07**	**2008-09**	**2010-11**	**2011-12**
Bihar Kshetriya Gramin Bank (BKGB)	0.18	(12.96)	82.54	1.49	1.15	14.40	15.82	17.91
Madhya Bihar Gamin Bank (MBGB)	22.71	35.37	48.80	31.76	17.09	16.31	51.09	41.74
Samastipur Kshetriya Gramin Bank (SKGB)	1.31	(2.08)	38.54	(4.04)	(3.28)	6.74	4.77	5.70
Uttar Bihar Gramin Bank (UBGB)	7.36	(32.96)	496.53	(32.44)	3.21	93.63	130.48	125.59
Bihar State	**31.56**	**(12.63)**	**666.41**	**(6.21)**	**18.17**	**131.08**	**202.16**	**190.94**
Eastern Region	**42.49**	**(63.02)**	**1585.59**	**(97.34)**	**(28.73)**	**181.96**	**245.03**	**313.72**
All India	**600.61**	**518.98**	**2730.51**	**602.20**	**786.13**	**1335.94**	**1785.86**	**1870.18**

FIG. 1: DISTRIBUTION OF ACCUMULATED LOSSES OF RRBS IN INDIA: 2000-2012



Source: Key Statistics on Regional Rural Banks: 2000-01 to 2011-2012, Institutional Development Department, NABARD, Mumbai.

FIG. 2: DISTRIBUTION OF ACCUMULATED LOSSES OF RRBS IN BIHAR STATE: 2000-2012



Source: Key Statistics on Regional Rural Banks: 2000-01 to 2011-2012, Institutional Development Department, NABARD, Mumbai.

VII. Conclusion

It may be sum up that till 2012, the route of merger taken up for improving operating performance of RRBs in Bihar state, was succeed in improving profitability and viability position of the respective banks in this region. Consolidation of the banks help in reducing accumulated losses position (from . 469.2 crores to . 40.9 crores). For some of the banks viz. UBGB merger process has established a turnaround story. However, story behind the success of consolidation of RRBs in this region are stated below:-

(i) After merger, the RRBs in Bihar State are gradually evolving as business entities capable of competing with other RFIs. The traditional role of catering to the credit needs of target group clientele continues with them, but the expansion of business through NTG (non-target group) financing has opened up new vistas. Thus the RRBs, particularly those banks which have business presence in urban/semi-urban areas with more sophisticated clientele, are upgrading the quality of services to meet their expectation. The merged banks are shedding their earlier image of 'narrow banking', consider providing a range of products encompassing all financial needs and focus on 'financial inclusion' thorough progressive use of technologies and low cost alternative delivery channels. They are also adopting different business models including the 'business facilitators' and 'business correspondent' models and involving intermediaries like NGOs/ MFIs, post offices for expansion of outreach and thorough use of technology based solutions.

(ii) The merged RRBs were establishing a strong links with NGOs, Government and other extension agencies, community based organizations, corporate, research institutions and socially and developmentally disposed individuals and organizations to build up people potential.

(iii) There may be occasions when the rural bank in this region would have opportunities to finance in excess of the exposure limits under regulatory norms or self-imposed norms by the Board of Directors. After consolidation merged RRBs in Bihar state are now joining in consortium finance arrangements on *pari passu* basis with public sector banks.

(iv) Merged RRBs were now playing a credit–led leadership role by providing credit across the supply chain including storage, processing, transportation, marketing and retailing. An important advantage of the approach is that credit disbursed to one segment will help in recovery of loans from another link in the chain.

(v) The relationship between sponsor banks and RRBs are now changed into a synergistic one, beneficial to both banks. After consolidation, an MOU (i.e. memorandum of understanding) are now executed between the sponsor bank and the GOI and between the RRBs with their respective sponsored banks with regard to the monitoring of performance of RRBs under various key parameters e.g., incremental growth in business, outreach, profitability, improvement in CD ratio, reduction in NPAs etc.

(vi) Mechanization and computerization of the banking services.

The structural consolidation of the RRBs through amalgamation has bought tremendous opportunities for RRBs in Bihar State to groom. It enabled them to become financially sound and bigger in terms of business volume as well as outreach. The amalgamation of loss making RRBs has improved the profitability of RRBs and has grown the number of profit making RRBs. Consolidation has set up a new dimension of rural banking culture in this region.

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