A THESIS

ON

THE STUDY OF FINANCIAL PERFORMANCE

OF

BANKING SECTOR OF INDIA

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Certificate

This is to certify that *Mr. Nathwani Nirmal Jaysukhlal* has carried out the research work in this thesis on '***The Study of Financial Performance of Banking Sector of India'*** under my guidance and supervision.

I also certify that this is his original work.

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Declaration

I hereby declare that the research work presented in this thesis on ***'The Study of financial Performance of Banking Sector of India'*** is prepared by me after studying various references.

I also declare that the research work is my original work and has not previously submitted to this or any other University for any degree or award.

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PREFACE

Banking sector reforms in India, strive to increase efficiency and profitability of the banking institutions, the existing banking institutions has to face the global competition. As a consequence, there has not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly with the entry of new private sector and foreign banks. As of now, the country has public sector, old private sector, new private sector and foreign banks operating side-by-side and giving cut-throat competition to each other. Apparently, these different types of banks differ significantly from each other in terms of financial performance including operational efficiency, profitability, productivity and credit efficiency. There is a general perception that new private sector banks and foreign banks are more efficient in financial performance than that of nationalized and old private sector banks. This study emphases on the financial performance of all the commercial banks of the country for the period of five years from the year 1997-1998 to 2001-2002.

The aim of this study is to understand and to find out different types of efficiency level of all the commercial banks in India. The operational efficiency reveals the performance of banks regarding operational aspects. The profitability tells about banks financial strength with the same and other banking groups in the industry. The productivity parameter indicates the labour productivity of the employees of a bank. The credit efficiency parameter shows how the given credits are efficient and what will be the effect on solvency of the bank. All these parameters have been taken with different ratios for the period of five years. All the scheduled commercial banks in India have been selected by the researcher. The types of banks are…

1. SBI Group.
2. Other nationalized banks
3. Old private-sector banks.
4. New private-sector banks.
5. Foreign banks.

As a layman, I firmly believe that my Journey for Ph. D. Degree began with the blessings of my parents and ended up with the grace of god. My Parents allowed me a birth on this earth, spared a lot of time and money for my growth and served me all the facilities to avail the best education. Being the excellent teacher, my grandmother who is passing her retired life with devoting all her time for praying god poured some good manners and learning habits in me resulted in my efforts to claim my eligibility for availing Ph.D.Degree. After completing my M.Com in 1990, I immediately got the Part-Time lecturership in the same year. Fortunately I selected as a full time lecturer in 1991. This event made me obligatory to do something for academic era. I express my deep sense of thanks for the full moral support of my friend and philosopher, the incharge principal of my college, Late Shri C.M. Kotak Saheb. When I thought about to register my self as a Ph. D. student, I approached Dr. (Mrs.) Daxaben Gohil, Associate professor, Department of Commerce and Business Administration, Saurashtra University and with a shining face, she allowed me for registration under her guidance.

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Dr. Daxaben Gohil guided me at her level best by contributing her precious time and her findings from the ocean of commerce

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Prof. N. J. Nathwani

CHAPTER PLAN

CHAPTER – 1

INDIAN BANKING SYSTEM – AN OVERVIEW

1.1 Development of Banking in India.

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- 1.1(b) Muslim period
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1.3 The was and post war developments.

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1.1 DEVELOPMENT OF BANKING IN INDIA

1.1 (A) Ancient India :

The origin of banking in India dates back to the Vedic period. There are repeated references in the Vedic literature to money lending which was quite common as a side business. Later, during the time of the Smritis, which followed the Vedic period, and the Epic age, banking became a full-time business and got diversified with bankers performing most of the functions of the present day banks. The Vaish community, who conducted banking business during this period, accepted deposits from the public, granted loans against pledges and personal security, granted simple open loans, acted as bailee for their customers, subscribed to public loans by granting loans to Kings, acted as treasurers and bankers to the state and managed the currency of the country.

Still later, that is, during the Buddhist period, banking business was decentralized and became a matter of volition. Consequently, Brahmins and Kshatriyas, who were earlier not permitted to take to banking as their profession except under exceptionally rare circumstances, also took to it as their business. During this period, banking became more specific and systematic and bills of exchange came in wide use. "Shresthis" or bankers became influential in society and very often acted as royal treasurers.

1.1 (B) MUSLIM PERIOD :

Indigenous banking which by the time of the Buddhist period had become fairly well developed received a setback during the Muslim period since the muslim rulers believed in the quranic injunction of charging interest as "Haraam' or a great sin. Moreover, the unending wars and royal succession feuds of this period greatly hampered the development of trade and commerce on which the development of banking and money lending dependent. Banking business was, however, partially rehabilitated during the Mughal period, particularly during the secular and settled reign of Emperor Akbar who gave the much-needed political stability to the country.

Further, during the Jahangir's reign, private banking further developed and it is recorded that there were many enterprising bankers functioning in the country at this time. During Shahjahan's reign also banking prospered without interruption and large banking houses were established at important trading centers in the country.

However, as a staunch practitioner of the quranic injunctions, Aurangzeb adopted a negative approach towards money lending and banking. Even so, some of the sagacious indigenous bankers were very influential in the country's life.

1.1 (C) BRITISH PERIOD :

The seventeenth century witnessed the coming into India of the English traders. The English traders established their own agency houses, houses at the port towns of Bombay, Calcutta and Madras. These agency houses, apart from engaging in trade and commerce, also carried on the banking business. The indigenous bankers being in conversant with the language and trade practices of the former could not take advantage of the expanding business in the hands of the English merchants. Further, the unification of the currency in 1835, gave a further blow to the indigenous bankers as it deprived them of the profitable business of money changing.

The development of the means of transport and communication causing deflection of trade and commerce along new routes, changing the nature and structure of trade activities in the country were the other factors which also contributed to the downfall of the indigenous bankers. Partly to fill the void caused by their downfall and partly to finance the growing financial requirements of English trade, the East India Company now came to favour the establishment of the banking institutions patterned after the Western style.

The first Joint Stock Bank established in the country was the Bank of Hindustan founded in 1770 by the famous English agency house of M/s. Alexander and Company. This bank failed in 1832 with the coming to grief of the firm of Alexander and Co. The Bengal Bank and the Central Bank of India were established in 1785. The Bank of Bengal, the first of the three Presidency Banks, was established in Calcutta in 1806 under the name of Bank of Calcutta. It was renamed in 1809 on the grant of the charter as the Bank of Bengal. The two other presidency banks, namely the Bank of Bombay and the Bank of Madras, were established in 1840 and 1843 respectively. All the Presidency Banks were also empowered to issue notes. After the Paper Currency Act of 1862, however, the right of the note issue was taken away from them. The Bank of Bombay carried on the speculative activities in cotton following the

American Civil war and it suffered heavy losses culminating in its final winding up in 1868. To replace this bank, a new bank of the same name was constituted under the Indian Companies Act of 1866. The Presidency Banks Act of 1876 placed certain restrictions on the functioning of these banks, which were forbidden from negotiating foreign bills. They were also forbidden from giving advances for a period exceeding six months. [1]

The Presidency Banks had branches in important towns of the country. There was, however, considerable duplication and overlapping in their activities, and therefore, public opinion favoured a single presidency bank for the whole country. In 1898, some witnesses who tendered their evidence before the Fowler Currency Committee [2] favoured the establishment of a Central bank in the country, but the Government was apathetical to the suggestion. The Presidency Banks, which were anxious to maintain their individuality, were also not in favour of a single bank by amalgamating the three Presidency Banks. The Chamberlain Commission in 1913, [2] suggested the appointment of a committee to examine the whole issue. The banking crisis of 1913 to 1917, however, brought out the serious deficiencies in the existing banking system in the country showing the need for effective co-ordination through the establishment of Central Bank. After repeated efforts, the three Presidency Banks were fused into a single bank under the name of the Imperial Bank of India in 1921. At the time of the amalgamation, the three Presidency Banks had a total of 70 branches, total paid up capital of Rs. 3.75 crores and reserves totaling Rs. 3.5 crores.

Besides, the three Presidency Banks, some other joint stock banks established in the later half of the 19^{th} Century included the Allahabad Bank (1865), the Punjab National Bank (1894), and the Peoples' Bank of India (1901). The last two banks owned their origin and development to the untiring efforts of Lala Harkishan Lal.

Around the turn of the 20^{th} Century, a great spurt was witnessed in the commercial banking activity in the country. With the spread of the Swadeshi Movement in the country in 1906 the number of banks with capital and reserves of over Rs. 5 lakh, doubled from 9 to 18 in the short period of seven years from 1906 to 1913. These banks claimed the total deposits of Rs. 22 crores while their total paid up capital and reserves exceeded Rs. 4 crores. The number of smaller commercial banks started during this period was much larger. Among the banks established during this period were now famous Banks of India, Central Bank of India, Bank of Baroda, Bank of Mysore, etc.

Soon after this 'banking boom', followed a period of crisis, which gave a rude shock to banking development in the country. During the short period of eleven years from 1913 to 1924, as many as 161 banks came to grief involving a loss of about Rs. 7 crores in the form of paid up capital. Of these banks, 15 had paid up capital each of over Rs. 5 lakh and above; 20 had paid up capital each of over Rs. 1 lakh but less than Rs. 5 lakh while the rest 126 had paid up capital each of less than Rs. 1 lakh. Thus, whatever little banking facilities survived were concentrated in a few selected urban areas. There was great disparity between the resources of the few big banks and large number of small banks. Very few commercial banks had all India character with most banks restricting their activities to particular areas of influence.

1.2 CENTRAL BANKING ENQUIRY COMMITTEE :

There were repeated demands for banking reforms in the country. The Royal Commission of Indian Finance and Currency in 1914 had suggested the appointment of committee to study certain issue relating to banking in India. The Industrial Commission in 1918 had likewise recommended the setting-up of an expert committee to consider the issue of the extent of banking facilities available for the financing of industries in the country. In 1919, Sir B. N. Sharma had moved a revolution in the Imperial Legislative Council asking the Government for appointing a banking committee. In 1927, Mr. S. N. Haji also moved a resolution in the Legislative Assembly urging the Government to appoint a commission to investigate into the existing conditions of banking in India. The trade and industrial organizations like the Associated Chambers of Commerce of India and Ceylon and the Federation of Indian Chambers of Commerce and Industry had also, by moving resolutions in their meetings, requested the Government for an early appointment of a banking enquiry committee.

Looking to these pressing demands, the Government appointed the Provincial Banking Enquiry Committees in eight provinces in 1929, besides appointing a separate Banking Enquiry Committee for the centrally administered areas. Subsequently, to complete the chain of enquiry, the Government appointed on July 22, 1929 the Indian Central Banking Enquiry Committee under the chairmanship of Sri. B. N. Mitra. The committee recommended, among other things, enactment of a comprehensive banking legislation covering the organization, management, audit and liquidation of banks in India. Some of the Committee's recommendations were implemented in 1936 when the Indian Companies Act, 1913 was amended.

These and other provisions together with the provisions of the Reserve Bank of India Act, 1934 relating to scheduled banks meant considerable regulation of the hitherto un regulative commercial banking system in the country. Besides, the establishment of the Reserve Bank of India in 1935 as the central banking institution in India was designed to bring about the much needed supervision and control of, and co-ordination among the joint stock banks in the country. The presence of the Reserve Bank of India created confidence in the joint stock banks in as much as there was now an institution the banks could go to for help when faced with difficulties.

However, it was soon realized that the provisions of the existing legislations were both inadequate and difficult to administer. Not much could, however, be done during the War on the legislation front and the activity remained confined to introducing only the abortive bills in the legislative assembly and the promulgation on the Banking Companies (Control) Ordinance, 1948. The only exceptions were the Indian Companies (Second Amendment) Act, 1942 which provided for the compulsory use of the word 'bank', 'banker' or 'banking' by every banker and the Banking Companies (Restriction on Braches) Act, 1946 requiring banks to obtain Reserve Bank's permission before opening new offices or changing the location of the existing ones.

1.3 THE WAR AND POST WAR DEVELOPMENTS :

The war years witnessed a considerable increase in the number of scheduled banks in the country. During 1942 and 1943 alone, a number of important banks were floated which included the Bharat

Bank Ltd., the Hindustan Commercial Bank Ltd., the United Commercial Bank Ltd., and the Travancore Bank Ltd. The establishment of the first three banks owned to the initiatives of three well-known industrial houses of Dalmias, Singhanias and Birlas. The Bharat Bank Ltd., was merged with the Punjab National Bank Ltd., in 1951, while the other two still continue with the United Commercial Bank being counted among the 'Big Five". The total number of the offices of scheduled banks in India during 1938-50 is shown in Table 1.3(A)

TABLE – 1.3(A)

NUMBER OF OFFICES OF SCHEDULED BANKS IN INDIA

(1938-50)

Year	*Number of Offices*		*Total*
	Imperial Bank of India	*Other Scheduled Banks*	
1938	358	677	1035
1939	381	798	1179
1940	390	860	1250
1941	401	954	1355
1942	392	974	1366
1943	398	1400	1798
1944	419	1977	2396
1945	426	2454	2880
1946	358	2441	2799
1947	362	2565	2927
1948	367	2534	2901
1949	377	2411	2788
1950	382	2355	2717

Source :- Various issues of Reserve Bank of India Bulletins and Statistical Tables relating to Banking in India. figure in the table from 1938 to 1941 relate to India and Burma; those from 1942 to 1945 to undivided Indian and there after to the Indian union.

Table 1.3(a) reveals a decline in the number of banking offices of the Imperial Bank in 1942 and 1946 and of all the banks in 1946 onwards except during 1947. The decline in the number of offices of the Imperial Bank was the result of the separation of Burma and Pakistan from India. Although, Burma was separated from India in 1937, its banking offices continued to be shown together with that of India's until 1941. Similarly, the Bank's offices in Pakistan were shown separately from those in India from 1946 onwards. Because of separately showing the bank offices in Pakistan from 1946 onward, the total number of bank offices in India also fell for 1946. The fall in the number of banking offices after 1946 was the result of a number of voluntary winding up and amalgamation schemes. In 1950, as many as 11 banks went into voluntary liquidation while four scheduled banks in Bengal were amalgamated with the United

Bank of India Ltd., In 1951, the Bharat Bank Ltd., was merged with the Punjab National Bank Ltd., As a result of these amalgamations and mergers, about 142 uneconomic offices were closed which was a healthy trend.

In short, the Indian Banking system as at the end of World War II was characterized by a large number of small and financially weak non-scheduled banks and a rapid expansion of bank offices during the War. According to the Rural Banking Enquiry Committee, a part of this expansion represented a careless and sometimes unscrupulous increase in bank branches and unsound methods of working with the result that even during 1941-46 when circumstances were generally favourable to the development of banking, as many as 254 banks went into liquidation. However, the decline in the number of banking offices during 1947-49 reflected a restrictive licensing policy pursued by the Reserve Bank of India under the powers conferred to it in 1946.

The Indian Banking system is unique and perhaps has no parallels in the banking history of any country in the world. It is interesting to study the evolution of Indian Banking over the last five decades, in terms of organizations functions, resource mobilization, socio-economic role, problems and solutions. The period of five decades witnessed many macro-economic developments, monetary and banking policies and the external situation, which influenced the evolution of Indian banking in different ways and in different periods. For this reason, it would be useful to analyze in some detail the evolution of Indian Banking system with reference to some distinct phases. The first phase covers the period from 1948 to 1968 and the second phase from 1969 to 1991. These two phases constitute the past. The period of banking reforms beginning with 1992 and till the year 2002 may be regarded as the current or present phase for the purpose of this analysis. It is the current phase, which provides the basis for looking into the future of Indian Banking System.

1.4) First Phase : 1948-1968 : Banking before Nationalization :

It is useful to trace briefly the Banking situation in India at the time of independence of the country in 1947. The country inherited a banking system that was patterned on the British Banking System. There were many joint stock companies doing banking business, and they were concentrating mostly in major cities. Even the financing activities of these banks were confined to the exports of Jute, Tea etc. and to traditional industries like textiles and sugar. There was no uniform law governing banking activity. An immediate concern after the partition of the country was about bank branches located in Pakistan and steps were taken to close some of them as desired by that country. As a result of mushroom-like growth of banking companies, bank failures were very common in those days. In 1949, as many as 55 banks either went into liquidation or went out of banking business. Banking did not receive much attention of the policy makers and disjointed efforts were made towards the regulation of the banking industry.

1.4 (A) After Independence :

The first step was to create the legislative framework appropriate for banking in a newly independent nation. The Banking regulation Act passed in 1948 provided the legal framework for the regulation of the banking system by the Reserve Bank of India. The Act, which came into force in March 1949, [3] imposed certain discipline on the joint stock companies doing banking business in

India. As a result, the banking industry came to be organized for the first time on certain uniform parameters. The Act prohibited the use of the word 'Bank' by financial companies, which were not complying with certain minimum requirements i.e. minimum, paid up capital and reserves. This stipulation, which came into force from March 1952, led to a process of weeding out financially weak banks. A number of banks went into liquidation.

The Reserve Bank of India (RBI), which was vested with greater powers of control over the banks, started collecting data from 1949 on various aspects of banking. There were 620 banking companies, big and small, scheduled and non-scheduled, operating mostly in state capitals and in urban centers. The total number of branches was 4,263. Total deposits and advances were Rs. 997 crore and Rs. 518 crore respectively. Investments were Rs. 376 crore. Imperial Bank of India was the biggest bank in those days with 433 branches. The present day subsidiaries of the state Bank of India were independent banking companies mostly in the former princely states. Besides the Indian Banks, there were 15 Exchange bank

(Foreign Banks) with branches in big cities only, and they were dealing mostly with international banking i.e. financing the export and import of commodities.

The Banking System at the time of independence was deficient in many respects. The banks were largely urban-oriented and remained beyond the reach of the rural population. A large percentage of the rural population had to depend on the moneylender as their main source of credit. Banks' rural penetration was grossly inadequate, as agriculture was not considered an economic proposition by banks in those days. Thus, the agricultural sector, the crucial segment of the Indian economy was not supported by the banking system in any form. Moreover, security oriented lending was the order of the day. Only 4% of the total advances were made without any security. Another serious deficiency was that the focus of banks was entirely on short-term credit. There were no sources of long-term finance worth the name. There was no well developed capital market, nor was there any term-lending institution except for the industrial finance corporation of India, set up in 1948.

1.4 (B) Economic Plan Era :

With the introduction of economic planning in 1951, the need was felt for aligning monetary and banking activity with the requirements of planning. The first five-year plan observed that RBI as the Central Bank should create the machinery needed for financing development and ensure that the finance available flows in the directions intended. The objective was to widen and deepen the flow of agricultural and industrial credit. The thrust was on the rejuvenation of the rural economy and the banking system had to be geared to this. The branch expansion by banks and increase in rural credit including credit to the small-scale sector became imperative. The All India Rural Credit Survey Committee appointed by the RBI reviewed the rural credit scheme in 1954 and brought out the maladies of the rural economy arising out of capital starvation. The committee made a few major recommendations for improving the flow of rural credit. On the basis of its recommendations, the Imperial Bank of India was nationalized and renamed as State Bank of India (SBI) from July 1955. The new bank was charged with the responsibility of expanding it's rural branch network within a time frame. Thus the first step was taken to induct the commercial banks into rural credit, which was till then reserved for co-operative credit agencies who were waging a battle against money lenders. As a part of the process of geographical expansion of banking facilities to meet the credit needs of co-operatives, certain banking companies functioning in former princely states were converted in 1959 into subsidiaries of SBI, later came to be known as associate banks of SBI.

In 1960, the Crash of Palai Central Bank in Kerala, shook the confidence of the public in the banking system and the RBI came out with two schemes to stabilize the banking system. One was the establishment of the deposit insurance corporation, to insure the deposits of small depositors. The second scheme was the compulsory mergers and amalgamations of banks of weak financial structure, with bigger and viable banks. Simultaneously, in terms of the banking companies (Amendment) Act-1963, RBI acquired powers to restrain control over the affairs of banks of particular groups of persons; regulate loans, advances and guarantees given by banks and to appoint or remove banks as well as executive personnel. In 1966, the co-operative banking system was brought within the statutory supervision and control of RBI. During these years, Indian Banks established overseas branches to increase their participation in external trade, e.g. foreign exchange transactions.

There were some qualitative changes in the banking activity during these years. There was a shift in the financing of Industries. There was a decline in the financing of textiles and Sugar industries and with the emphasis of the second five-year plan on heavy industry development, the financing of cement, chemicals, iron and steel and engineering industries became prominent. Export financing also attracted attention, leading to the setting up of export credit guarantee corporation in 1964 to compensate exporters for the losses they might sustain. There was also some shift in the method of lending from security based to capacity-to-produce-and-sell criteria. A review of the ownership of bank deposits during this period revealed the nexus between business houses and banking companies, indicating the nature of control of banks by business houses.

1.4 (C) **On the eve of Nationalization :**

Even though Indian Banking System made considerable progress both functionally and in terms of geographical coverage during this period, there were still many rural and semi urban areas which were not served by banks. Moreover, large industries and big and established business houses tended to enjoy a major portion of the credit facilities. Vital Sectors like agriculture, small-scale industries and exports did not receive the attention they deserved. Therefore, in 1968, the government imposed social control over banks by amending banking laws. The objective was to achieve efficient distribution of banking resources in conformity with the requirements of the economy and to meet the needs of the priority sectors. In this process, RBI acquired wider powers in matters of appointment of heads of banks, directors on the boards of banks and auditors.

The outcome of implementation of Social Control over banks is of interest. One is that the system of credit planning became an integral part of formulation of credit policy, second, the introduction of the Lead Bank Scheme was to make the banking system function as an instrument of development. Under social control the banking system including smaller banks started gaining strength as evidenced by the absence of voluntary or compulsory mergers of banks. Thus, Social Control was a milestone in the evolution of banking policy.

1.5 Second Phase:1969-1991 Nationalization and After:

This phase began in a sedate manner with the appointment in 1969 of the Banking Commission, which was to recommended changes in structure, procedures and policy for the Indian Banking System. However, the commission did not have much time to complete its task as it was overtaken by Swift Politico-economic developments, which culminated in the nationalization, on July 19, 1969 of the 14 major Indian Scheduled Commercial banks in the private sector. On 15th April, 1980, six more private sector banks were nationalized, [4] thus extending further the area of public control over the Indian Banking System. Nationalization was seen as a major step to ensure adequate credit flow into genuine productive areas in conformity with plan priorities.

1.5 (A) <u>After to Nationalization</u> :

The main objectives of nationalization were growth, reduction in region imbalance of economic activity, to make the banking system reach out to the small man in rural and semi-urban areas, extending banking facilities to areas hitherto not served by banks so that they not only mop up potential savings but also meet the credit gaps in agriculture, small scale industries and other neglected sectors of the economy. The aim was to bring large areas of economic activity within the organized banking system. The two significant aspects of nationalization were therefore; rapid branch expansion and channeling credit according to priorities. In the wake of nationalization the growth and development of the Indian Banking System was phenomena. By the end of the second decade of nationalization, Indian Banking was relatively sophisticated, with a wide range of branches, huge deposit resources and extensive credit operation. The outburst of banking activity during this period was such that it may be described as banking explosion.

1.5 (B) Branch Expansion :

In terms of the branch licensing policy laid down by the RBI, the accent was on the opening of branches in rural and semi-urban areas, backward regions and under-banked states so that inter regional disparities could be reduced. The details of the progress of branch network during the period were summarized in the table below.

TABLE NO. 1.5(B)(i)

NUMBER OF BRANCHES OF PSB

Year	*Total No. of Branches*	*Rural Branches*	*Semi-urban Branches*
1969	8262	1833	3342
1980	32419	15105	8122
1991	60220	35206	11344

Source :- Various issues of Reserve Bank of India Bulletins and Statistical Tables relating to Banking in India.

The total no. of branches increased near about eight fold between 1969 and 1991, and the bulk of the increase was on account of rural branches, which increased from less than two thousand in 1969 to over 35000 in 1991. The percentage share in the total number of branches of rural and semi urban branches rose from 22% and 4% respectively in 1969 to 45% and 25% in 1980 and to 58%

and 18% in 1991. A substantial part of the increase in branch expansion took place in the first decade after nationalization. The share of rural and semi urban branches together in the total number of branches rose from 26% in 1969 to 76% in 1991. The impact of this phenomenal growth was to bring down the population per branch from 60000 in 1969 to about 14000. Thus one of the objectives of nationalization i.e. to make banking reach out to the small man in rural and semi urban areas, may be said to have been served to a great extent. Even on the eve of banking reforms, the bank branch network was widespread.

1.5 (C) Resource Mobilization :

One of the objectives of branch expansion was to mop up national savings both actual and potential and to channel them into investments according to plan priorities. The magnitude of resources mobilized by the banks during 1969 to 1991 is indicated below.

TABLE NO. 1.5(C)(i)
Resource Mobilization

(Rs. in Crore)

Year	*Total Deposits*	*Term Deposits*	*Saving Deposits*
1969	5173	3280	1524
1980	37988	19253	10937
1991	230758	128768	56902

Source :- Various issues of Reserve Bank of India Bulletins and Statistical Tables relating to Banking in India.

Between 1969 and 1980, total deposits increased more than seven fold and between 1980 and 1991, the increase was far more than five fold. The substantial increase in total deposits and savings deposits, which represents the savings of the community. These two categories of deposits recorded a handsome increase in each of the periods 1969-1980 and 1981-1991. The share of time deposits was on an average 56% of the total deposits for the period 1969-1991, while the average share of savings deposits was 27%. It is net-worthy that deposits per bank office which was Rs. 0.6 crore in 1969 rose to Rs. 1.2 crore in 1980 and to Rs. 3.8 crore in 1991. This is the result of both widening and deepening of the branch network by banks.

1.5 (D) <u>Credit Operations</u> :

Given the objective of ensuring adequate credit flow to genuine productive sectors and in accordance with plan priorities, banks resorted to extensive credit operations after nationalization.

This was made possible by the enlarged resource base of banks during the period. The RBI's credit policy over the years laid increasing emphasis on channeling of bank credit to preferred sectors and borrowers of small means. Annual targets were laid down for lending to priority sectors as a whole with sub targets for weaker sections of the society. It was also stipulated that a major portion of the deposits mobilized in rural and semi urban areas should be deployed in respective areas i.e. credit deposit ratio.

The credit operations of banks during the period are summarized below.

TABLE NO. 1.5(D)(I)
Credit operations

(Rs. in Crore)

	1969	***1980***	***1991***
Bank Credit	3729	25371	125592
Priority Sector	659 (18%)	8501 (33%)	45425 (36%)
OF WHICH Agriculture Small Scale Industry Sector	258 (39%) 347 (52%)	3584 (42%) 3229 (37%)	18157 (42%) 18150 (42%)

Source :- Various issues of Reserve Bank of India Bulletins and Statistical Tables relating to Banking in India.

Bank credit increased near about seven fold between 1969 and 1980 and about five fold between 1980 and 1991. The share of

Priority Sector in total bank credit increased from 18% in 1969 to 36% in 1991. Within the priority group the share of agriculture was 39% in 1969, 42% in 1980 and even 42% in 1991. The share of small-scale industry sector which was 52% in 1969 showed a relative decline to 37% in 1980 and was uplifted to 42% in 1991. Bank advances per bank branch was Rs. 0.4 crore in 1969 and it rose to Rs. 0.8 crore in 1980 and further Rs. 2.1 crore in 1991.

Going by the rural spread of bank branches, deposits mobilized and credit extended, one could Justifiable conclude that there was complete transformation from class banking to mass banking during the period.

1.5 (E) Social Banking :

An important banking development after nationalization was the emergence of social banking i.e. the use of banking as an instrument for promoting socio-economic objectives. In the seventies, banking policy was reoriented for securing a progressive reduction in income inequalities, concentration of economic power and class disparities. For attaining the objectives of social banking, special institutions and schemes were sponsored by the government of India and the RBI.

The introduction of the scheme for priority sector lending was followed by the establishment in 1971 of credit guarantee corporation to provide guarantees against the risk of default in payment in respect of loans to various categories of small borrowers. This was intended to encourage banks to lend to these categories without hesitation. A number of innovations were made in the field of social banking and large volumes of credit were lent under programmes like 20-point Economic Programme, Integrated Rural Development Programme (IRDP), and programmes for self-employment of educated unemployed youth. Many of the poverty alleviation programmes in the nature of mass-lending schemes were adopted by the banking system for financing.

Though banks penetrated into rural areas, planners were not satisfied with the amount of credit extended to weaker sections of the rural society. To ensure that the benefits of development percolated sufficiently to the needy, the Government of India came out with special programmes like Small Farmers Development

Agency, the Marginal Farmers Development Agency and Agricultural Laboureres Development Agency. It was felt that to cater to the needs of these target groups, a separate credit agency was necessary. The Narsimham Committee, which went into these problems in 1974, recommended the establishment of Regional Rural Banks (RRBs). Under the RRBs Act, 1975, banks in collaboration with central and State Governments set up RRBS in selected regions where the co-operative system was weak and where commercial banks were not very active.

An important aspect of credit policy during the period was the use of administered interest rates to direct the flow of funds to preferred sectors, small borrowers and weaker sections of the society. The aim was to make credit available at low cost to the identified target groups.

1.5 (F) <u>Problems and consolidation</u> :

The phenomenal growth of the Indian Banking System over the two decades prior to the reforms, gave rise to several problems, which became more visible from the mid eighties. The rapid and substantial growth rendered the banking system un widely. Besides the constraints, both internal and external (to the banking system) under which banks were functioning, exposed their several weaknesses. These were; low operational efficiency, inadequate capital base, high level of non-performing assets, low profitability, unhealthy balance sheets and unsatisfactory customer service. In short, the very viability of the banking system came in for scrutiny.

The period 1985-1991 may be regarded as a period of consolidation for the banking system. The process of consolidation called for action on several fronts. Individual banks were asked to prepare action plans covering organization and structure, house keeping, training, customer service, credit management, recovery of loans, productivity and profitability. The banks were asked to introduce, in a phased manner, modern technology in banking operations, following the recommendations of the Rangrajan Committee on Computerization in Banks. Emphasis was laid on the financial viability of banks through improvement in profitability, strengthening the capital base of banks and allowing them flexibility in several areas of their operations.

Although the progress made by the banking system in terms of geographical and functional coverage, resources mobilized and credit deployed was laudable, it displayed all the characteristics of a repressed financial system.

1.6 Third Phase : 1992-2002 Regime of Reforms : [5]

The period 1992-2002 may be regarded as the present or the current phase in the evolution of Indian Banking. Like the second phase (1969-1991) which began with a bang i.e. nationalization of banks, the current phase also began with a radical departure from regulated banking towards market-oriented banking, as a result of the introduction of financial reforms, especially banking reforms, India's economic reforms programme began as a response to the macroeconomic crisis that developed in early 1991. The crisis manifested itself in rising inflation, high lever fiscal deficit, low growth and unsustainable current account deficit, and the gulf war of 1990 precipitated the balance of payments crisis. Faced with the most serious balance of payments problems, government of India initiated measures for stabilization and structural adjustment with far- reaching consequences.

1.6 (A) <u>The Reforms Process</u> :

The main plank of economic reforms comprised _ _ _ _

(i) Stabilization of the economy so as to keep under control inflationary and balance of payment pressures.

(ii) Deregulation of the real and financial sectors and removal of the license and permits system from all spheres of production and domestic trade, to promote competition.

(iii) Liberalization of international trade in various sectors to promote competition and efficiency by removing the high degree of protection enjoyed by the domestic industry and.....

(iv) Integration with the world economy to attract capital and modern technology.

However, economic reforms in the real sectors of the economy would not succeed without parallel reforms in the financial sector It hardly needs emphasis that a liberalized economy would be i11-served if the banking system remains highly sheltered or regulated. Just as the banking system cannot become viable or sustainable in the long run unless it adequately responds to the needs of the market-oriented economy. Thus, financial sector reforms were a necessary concomitant of liberalization of industrial and trade policies.

1.6 (B) Banking Reforms :

The broad directions of the financial reforms were improvement in the overall monetary policy framework, strengthening financial institutions and gradual integration of the domestic financial system into the global economy. Within these broad goals of policy, banking reforms have the specific task of achieving. :

(i) A suitable modification in the policy framework within which banks operate

(ii) Improvement in the financial health and competitive capabilities of banks.

(iii) Building financial infrastructure relating to supervision, audit and technology and

(iv) Up gradation of the level of managerial competence and the quality of human resources.

The banking reforms based on these specific tasks have two aspects; Macro level policy changes and micro-level policy reforms.

The former aims at removing external constraints on the banking system as a whole and thus creating a climate in which banks could function in tune with liberalization. Micro-level reforms, on the other hand, are concerned with specifics of individual banks and banks as a whole to enable them to overcome internal constraints on their functioning.

1.6 (C) Major Components of Reforms :

The basis for banking reforms was provided by the committee on financial system (Narsimham Committee) which made recommendations in November 1991, and these recommendations are a landmark in the evolution of banking policy in the country, as these transformed the Indian Banking System from a highly regulated to a more market-oriented system. The major components of banking reforms are outlined in the following paragraphs :

(i) *Modifying the policy framework* was the starting point. The pre-emption of banks' resources by way of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) was acting as an external constraint on their profitability. This constraint was relaxed in two ways. These two ratios together pre-empted as much as 63.5% of banks resources in 1991. The average CRR was reduced to 7.5% by may 2001. The SLR was also rationalized into a uniform ratio of 25% of net demand and time liabilities (NDTL) of banks. The interest paid on eligible cash balances under CRR was raised to 6%. Alongside, the bank rate was activated in April 1997 as an effective signal and as a reference rate.

There was also the deregulation of the administered structure of interest rates. The Plethora of lending rates were rationalized and interest rates were made market-oriented for most of the transactions, the exceptions being the lending rates for small borrowers and interest rate on savings bank deposit. A continuous and careful step-by-step approach has been the main feature of deregulation of interest rates. To facilitate the use of open market operations as a monetary instrument, many policy changes were made in government securities market with reference to yields, sales procedures, network of dealers and maturity patterns. These were supplemented by measures to discontinue automatic monetization of fiscal deficit by phasing out the issue of adhoc treasury bills.

The modifications in the policy framework carried out as part of the reforms have paved the way for greater reliance on indirect instruments of monetary control.

(ii) *Improving the financial soundness of banks* is the second major component. In an attempt to maintain profitability, banks developed a tendency to over extend their lending by accepting debtors of low creditworthiness, which has come to be known as ‘adverse selection’. In 1992, prudential norms and regulations were introduced, to ensure safety and soundness of banks and impart greater transparency and accountability in operations. Prudential norms introduced relate to income recognition, provisioning for bad and doubtful debts and capital adequacy. Prudential norms have helped to serve two purposes. One they have brought out the true position of the banking system's loan portfolio, and two, the norms have helped to arrest its deterioration. The norms have been progressively tightened since their introduction.

Related to the improving of financial soundness of banks are the other measures such as recapitalization of public sector banks on a selective basis by the government, improved governance in banks and a certain amount of functional autonomy to the management of public sector banks.

(iii) *Strengthening the institutional framework* is another key element of banking reforms. A more competitive environment has also been created for banks so as to raise their efficiency and performance. Efficiency is not just operational or allocational efficiency but functional efficiency as well. Banks already face competition from non-banking finance companies (NBFCs), mutual funds and from within the industry itself. While existing banks have been allowed greater flexibility, new banks are now being set up in the private sector to provide increased competition. In January 1993, RBI announced guidelines for the entry of new private sector banks. Approvals have been given for the establishment of new foreign banks to set up their operations in India and existing foreign banks have been allowed to expand their branch network.

(iv) *Strengthening of supervisory mechanism* is essential for a sound banking system. There has to be an alert mechanism for monitoring compliance with prudential norms and directives of RBI and other regulatory agencies. The system of external supervision has been revamped by the establishment of the Board for Financial Supervision, with the operational support of the Department of Banking supervision of RBI. In tune with international practices of supervision, a three-tier supervisory model comprising on-site inspection, off-site monitoring and a periodical external auditing based on CAMELS (Capital Adequacy, Asset Quality, Management Earning, Liquidity and Systems Controls) has been put in place.

Development finance institutions and non-banking finance institutions were also brought into the regulatory ambit of RBI. In terms of the Khanna Committee (1995) recommendations and the amendment in 1997 of the RBI Act, a three-tier supervisory framework was introduced in respect of Non-Banking Finance Companies (NBFCs). The CAMELS approach has been made applicable to NBFCs also. A department of non-banking supervision has been created to exclusively supervise NBFCs only.

1.6 (D) <u>The Narsimham Committee : 1998</u>

The Government Appointed a second high level "Committee on Banking Sector Reforms" headed by Shri M. Narsimham, to review the implementation of the reforms recommended by the earlier committee and to look ahead and chart the reforms necessary in the years ahead to make Indian banking strong and better equipped to compete effectively in a fast-changing environment.

The committee in its report submitted in April 1998, made wide-ranging recommendations covering various aspects of banking policy, institutional, supervisory and legislative dimensions. The committee came out with recommendations with regard to capital adequacy, asset quality, non performing assets (NPAs), directed credit, prudential norms, disclosure requirements, asset- liability management, earnings and profitability, systems and methods in banks, restructuring including mergers and amalgamations, reduction of government and RBI shareholding to 33% in the public sector banks, devising effective regulatory norms and the review of banking sector laws. These recommendations are being progressively implemented. In follow-up of Narsimham Committee's (1998) reference to weak banks in the context of restructuring of banks, Verma Committee was appointed in 1999 with the specific task of identifying weak public sector banks, examining their problems and suggesting strategies for restructuring them. The recommendations of the committee were approved in principle.

1.6 (E) <u>Reforms and Response</u> :

The progress of banking reforms in the last ten years has been impressive. The RBI made substantial progress in modifying the policy framework for reforms. The proportion of banks' resources pre-empted has been brought down. For instance, the SLR, which was 37.4% in March 1992, came down to 25% in 2001. Similarly the CRR, which was 15% in January 1992, was brought down to 5.5% in December 2001. The Bank Rate was reduced from 12% in October 1991 to 6.5% in October 2001. The interest rate regime has been rationalized and in the context of deregulation, banks have been given considerable operational flexibility and autonomy in April

2001, in determining rates with the approval of their boards. To restore the soundness of public sector banks, capital adequacy ratio was introduced in 1992 and this was accompanied by re-capitalization of banks by the government. Between 1992-93 and 1998-99 the government contributed over Rs. 20000 crore to the capital of public sector banks. New initiatives were taken to strengthen the supervisory system for banks by moving towards consolidated supervision and also towards risk based supervision.

The response of the banks to the reforms has been impressive. The banks have been adjusting very well to the new environment, though gradually. As at the end of March 2001, 23 out of 27 Public sector banks had capital adequacy in excess of 10%, the prescribed ratio being 9%, 15 nationalized banks fell into this category i.e. exceeding 10%. There has been considerable reduction in non-performing assets (NPAs). The ratio of gross NPAs to gross advances, which was 23% in 1992-93 declined to 12.4% by March 2001. Net NPAs to net advances was 6.7% in 2001. Net profit of public sector banks amounted to Rs. 2,095 crore in 2001 as against a net lose of Rs. 4705 crore in 1993-94. Deposits mobilized increased four fold between 1992 and 2000, the share of time deposits being 80% in 2000. Credit deployed in 2000 showed a fourfold increase over 1991. The share of credit to priority sector in total bank credit was a little over 30%. In 1992-93, the first post-reform year, 12 out of 27 public sector banks reported net losses; by March 2001 only 2 banks recorded net losses. The striking feature of the banking system during 1991-2001 is its continuing branch expansion. By March 2001 there were 65,901 branches and the share of rural and semi-urban branches together was 70% indicating the wide reach of the banking system. There is little doubt that the benefits of the banking reforms have been considerable.

1.7 Fourth Phase : Beyond 2002

1.7 (A) New Challenges:

The first phase of financial reforms laid the basis for a sound banking system. Considerable progress has been made in implementing the reforms and the banking system is now moving towards the second phase. Nevertheless, the Indian Banking System faces several difficult challenges; therefore, the banks have re-orient their strategies in the light of their own strengths and the kind of market in which they are likely to operate. Some of the challenges are home grown. e.g. high cost of doing business; level of non-performing assets; and low levels of customer satisfaction. Some of the challenges are external e.g. phenomenal growth in the volume of capital inflows; integration of financial markets across the globe. In view of these domestic and international developments, it is necessary to chart out a path for the development of efficient banking in the new century. There are several areas of concern, which need to be addressed.

1.7 (B) <u>New Dimension</u> :

Indian Banks will have to operate in a deregulated competitive financial sector. Competitive pressure is building up for Indian Banks both from within and from outside. Competition is likely to intensify in the coming years within the industry, from NBFCs and from foreign entities. Competition is not just in terms of number of competitors but in terms of proliferation of innovations, specialized markets cross border trade in financial services and capital flows. Our reforms have made progress but we have not become competitive internationally. We cannot lag behind other countries and we have to transform the Indian Banking System from being a largely domestic one to a truly international one; and this should enable India to emerge as an international banking centre.

The worldwide revolution in information and communication technology (ICT) has become the biggest force of change in banking. It is a source of productivity growth and facilitates effective competition. ICT reduces costs, increase volumes and facilitates customized products. It plays an important role in the payments and settlement system. Technology has opened up new avenues in banking for discharging the same functions in a cost effective manner : 24 hour banking, tele-banking internet banking; E-banking. The process of technological change is just beginning in Indian Banking. Even the use of existing technology is at low levels.

Though RBI and the banks have been taking steps in the last few years, computerization has been mostly directed towards accounting and related activities, without emphasis on critical areas relevant to management and customer service and customized products. The Indian Banking System will have to redouble its efforts to build the technological infrastructure not only to provide cost-effective and competitive customer service but also to achieve international recognition and status.

The level of non-performing assets (NPAs), though declining in recent years, continues to be high by international standards. NPAs have become a first charge on banks funds for provisioning and these affect banks performance by eating into their profitability. The most important condition for improvement in the profitability of banks is a reduction in the level of NPAs. In fact, it is a pre-condition for the stability of the banking system. The response to the efforts at debt recovery and restructuring of assets and other methods has been slow. The strategies for containing the problem of NPAs should emphasis the strict enforcement of prudential norms and requirements, transparency and disclosure and the need for legislation, which will make the recovery process smoother. Reforms have to be supported by legal changes for enforceability of contracts. In any effort to build a banking system of international stature, reduction in NPAs should be the priority target.

Asset-liability mismatches expose the banks to various types of risks i.e. risks of illiquidity and insolvency; risks arising from globalization and deregulation. Risk management is a continuous process of controlling assets and liabilities in terms of size, maturities and yields. As operations in the financial market become varied and complex, banks have to equip themselves with a variety of skills and appropriate technology. The RBI has issued guidelines to banks in April 1999, for asset-liability management, which would help the bank management to meet the challenges. Banks are encouraged to prescribe risk parameters and establish effective control system. Now the action lies entirely with banks. The general complaint that customer satisfaction is at low levels needs to be addressed in all seriousness. The effort should be not only to preserve the existing circle of clients, both corporate and individual, but also to enlarge the client base. Banks need to develop customer relationship, which has come to be known as "Relationship Banking". It is concerned essentially with maintaining relations with customers on a continuing basis. This is Customer Relationship Management (CRM) and it is not just the relationship built around raising deposits and making loans, though that is important. CRM goes well beyond that.

Two important aspects of CRM are: one that it does not view customers in totality or in the aggregate and two the devising of banking products. Regarding the first, customers' need and demands and business styles vary; and it is, necessary to consider segments of customers and build customer profiles to evolve strategies. As banking products are intangible, CRM involves personal Selling. As for the second, once the need for segment approach is recognized, product differentiation becomes important. The present methods of evolving banking products and then looking around for customers for those products would not yield the desired results. In short, banking products should be customer based. Besides, the method of pricing products should also change from cost plus to product quality. To raise the level of customer satisfaction, banks will have to set up CRM groups or CRM departments.

1.7 (C) HRD : Rigidities

Human Resource Development (HRD) is the most important need for a service industry like banking. The banking industry being largely in the public sector, certain rigidities developed in HRD within the banking system. Apart from being the preferred employer for the educated manpower, public sector banks followed a hierarchical structure, which gives preference to seniority over performance. Besides, the banks continued, until recently, their generalist orientation in the matter of recruitment. In the result, the best talent especially specialist, could not be attracted. The approach to human resources management in banks will have to change in tune with the fast changing banking environment at home and abroad. While it is difficult to bring about radical changes in the staff structure in the near future, public sector banks can effect improvements in the existing practices of recruitment, training and redeployment. The focus must shift from generalist orientation of the staff to specialist orientation i.e. the ability to imbibe and absorb technology. Information technology is an area where HRD is now critical. There is also the urgent need for training for up gradation of different types of skills. For redeployment, for changing the mindset and attitudes. It is time that banks revamp their HRD departments and evolve appropriate policies to make the best use of their primary asset i.e. human resources.

There are issues in supervision and regulation with which the banks will have to be very much concerned in the days ahead. The banks should have to prepare for tightening of prudential norms as the new Basel Accord becomes effective. The earlier Basel Accord (1988) gave recognition mainly to credit or the principal risk. Since then a number of events have taken place including the East Asian Crisis, which brought to light the inadequacy of the 1988 arrangement, as it did not recognize market risks and operational risks. It also did not distinguish between different types of exposures with different dimensions of risk. According to the New Capital Accord, banks would have to provide capital in terms of "Economic Capital" rather than the minimum regulatory capital. The concept of economic capital covers all risks embedded in the banks' balance sheet. Again in terms of the accord, supervision involves moving from the transaction-based approach to a risk based approach, to determine the level of risk that each bank is exposed to. Bank managements will therefore have to develop internal capital evaluation according to their risk profile. Risk weights are being constantly revised to take into consideration additional sources of risk.

1.7 (D) Corporate Governance :

Corporate governance is assuming greater importance in the banking sector today as a result of certain unhealthy developments in recent years. The main focus in corporate governance is how to enhance shareholder value; and this needs to be achieved in a legal and ethical manner leading to contribution to business prosperity. The major ingredients of good corporate governance would be accountability at all levels, transparency and enhancing the image of the organization in the eyes of the public. Corporate governance underlines the belief that the public good should be placed above the private good and that corporate resources cannot be used for personal benefit. Ethics is part of good governance. Ethics apart, good governance is concerned with observing rules and regulations, guidelines and clean corporate practices. Public sector banks have to pay considerable attention to corporate governance in the context of deregulation, prudential norms, risk-based supervision and globalization. As part of the ongoing reforms, bank managements and their boards have been given greater autonomy. It is very important that greater vigilance over adherence to prescribed rules, norms and regulations is exercised. It is only then that autonomy for banks would be meaningful.

The response groups in the banking system are banks. RBI, the government and the customers; and the onus is on them to raise Indian Banking to international standards.

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CHAPTER – 2

PERFORMANCE APPRAISAL

2.1) The concept of performance

2.2) The Measurement of performance

2.3) The areas of Performance in case of banking sector.

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References

2.1) The Concept of Performance

The word 'Performance' means 'the performing of an activity, keeping, in view the achievement made by it'. In other words, 'Performance' means 'the role Played by an arrangement keeping in view the achievement made by it'. In the context of the banks, it takes into account the way of their progress.

The opinion of Robert Albans [1] about performance is… "The word 'performance' is used to mean the efforts extended to achieve the targets efficiently and effectively. The achievement of targets involves the integrated use of human, financial and natural resources."

According to Erich L. Kohlar, [2] "The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time; often with reference to past or projected costs efficiency, management responsibility or accountability or the like."

On the basis of the above definitions, it can be said that the word 'Performance' not only refers to the presentation of something but it also exhibits the quality and results achieved by the management of an enterprise. It takes into account the accomplishment of objectives and goals set for an enterprise. Keeping in view the comparison of the present success with the past. However in the context of the present study, it covers financial, cost, personnel and social aspects. Thus we can say that the overall conclusion of the activities of an enterprise is called ‘Performance’.

2.2) <u>The Measurement of Performance</u>

<u>Concept of Measurement</u>

According to P.C. Tripathi [3], Measurement May be defined as “The assignment of numerals to characteristics of objects, persons, states or events accounting to rules. What is measured is not the object, person, state or event itself but some characteristics of it. When objects are counted, for example, we do not measure the object itself but only it’s characteristic of being present. We never measure people, only their age, height, weight or some other characteristics.”

According to Michael Mascon [4] “Performance is dependent on effort, abilities, traits and the individual’s perception of his role.”

While measuring the performance of a firm or an enterprise we need a measuring unit. Human aims and beliefs are mostly realized through the establishment of diverse kinds of associations. All associations were established for fulfillment of some goals and objectives. Thus association needs performance measurement to find out as to how much is organization has achieved by its course of action for its targets.

The financial appraisal is a vital unit to measure the performance of firms. Therefore, financial statements are prepared to serve the objective.

According to Eldon S. Hendriksen, [5] "The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and its components."

Erich A. Helfert [6] rightly remarks, "The measurement of business performance is more complex and difficult. Since it must deal with the effectiveness with which capital is employed, the efficiency and profitability of operations, and the value and safety of various claims against the business."

The main object of preparing financial statement is to show the result achieved by an enterprise through its operations, the revenue and the expenditure accrued to fulfill that revenues and the actual financial position for the particular period on a particular date.

In order to analyze financial statement properly, users must have a basic understanding of the concept and principles underlying their preparation. Without such an understanding users will not recognize the limits of financial statements.

In any business enterprise, accounting provides financial data through income statements, balance sheet and sources and uses of funds statements. According to Stanley B., [7] "The financial manager must know how to interpret and use these statements in the allocation of the firms financial resources to generate the best return possible in the long run. Finance is the link that integrates the economical theory with the numbers of Accounting."

Measurement of performance through the financial statement analysis provides a good knowledge about the behaviour of financial variables for measuring the performance of different units in the industry and to indicate the trend of improvement or deterioration in the organizations.

2.3) <u>Areas of Performance</u> :

There are areas where the performance can be improved by effective assessment of various activities performed by a business enterprise in different areas of operations. The areas of operations may be termed as the areas of performance. The important areas are as follows:-

2.3 (i) <u>Service Production and Productivity Performance</u>:-

Service Production is the most important area of performance, and the productivity is the systematic analysis for evaluating the service production function. The service production data can be performed as compared to other competitive banking companies of the banking industry. The service production performance of the banking industry can be compared for different years with the competitive industries.

The analysis of capacity utilization and component part analysis of service production can significantly prove the service production performance of a banking company as a whole.

2.3 (ii) **Profitability Performance**:-

Profitability is the ability of an enterprise to earn profits. The bank management is vitally interested in profit as it is often used as performance measure. Measurement of profitability is the overall measurement of performance. Profit is also important to financial institutions, bankers and creditors. Moreover, even a layman also assesses the performance of a business enterprise by its ability to earn profit. Profitability performance can be made by computing and interpreting various profitability ratios.

2.3 (iii) **Liquidity Performance**:-

By checking the fluctuations most probably in current assets, the researcher can take the estimate of liquidity performance.

2.3 (iv) **Working Capital Performance**:-

Generally working capital is said to be the excess of current assets over current liabilities. It is used for regular business operations consisting of loans and advances, Payment of wages, direct and indirect expenses, investments, credit granted to customers and cash on hand. It is lifeblood of each bank.

As soon as the heart gets blood, it circulates the same in the body. In the same manner working capital funds are obtained and circulated in banking operations. As and when this circulation stops, the banking business becomes lifeless. So we can say that the working capital has an important place in the area of performance, hence working capital performance indicates the adequacy of working capital in the bank and the efficiency as regards utilization of working capital. Analysis of working capital statements and various ratios of its kind may depict required information for the purpose.

2.3 (v) <u>Fixed Assets Performance</u>:-

According to foulke, Roy A., [8] “Some part of the capital of every master artificer or manufacturer must be fixed in the instrument of his trade. ” Usually a firm does not deal in fixed assets, so they are not trading assets. They are also not acquired for sale. The amount invested in these assets is realized gradually from every unit of sales made during the serviceable life of the assets. Analysis of fixed assets structure, average annual growth of fixed assets, impact of gross block on sales and operating profit margin and efficiency in the use of fixed assets may depict the performance of fixed assets. Since the depreciation is directly related to fixed assets, the study of depreciation and the depreciation provision policy in using fixed assets can also be useful. As fixed assets in nature are along term tangible assets, * therefore, they should basically be financed through long-term sources. In this respect, the ratio of fixed assets to net worth can be calculated to study financing of fixed assets. This ratio is very important as it shows that owners have provided enough funds to finance fixed assets.

2.3 (vi) Fund-flow performance:-

Here a fund-flow statement of bank is prepared to check the receipt & usage of fund.

2.3 (vii) Social Performance:-

The value of all the resources concerned with the banking industry is called social performance. They may be men, material, money and machines. All these resources which are to be used for the welfare of society and banking industry are included to evaluate social performance.

The social performance of any bank can be evaluated by considering different parties like government, depositors, financial institutions, investors, account holders and employees. All these parties are members of the society. Some important accounting ratios can be helpful to know the contribution made by the banks to the society.

2.4) THE CONCEPT OF 'APPRAISAL'

'Appraisal' is just an intelligent application of techniques to examine, to measure, to interpret, and then to draw some conclusions. Appraisal is mostly done by the researchers or experts, who evaluate the problem with their viewpoint.

When we correlate appraisal with performance, we mean to say 'Performance Appraisal'. The performance appraisal of any bank is depended upon the final accounts prepared and published by the bank. Performance appraisal is a close and critical study of various measures observed in the operations of a bank. Performance appraisal of bank is very similar to the concept of checking human body. As we need medical check up and routine examination for our bodies to maintain our fitness, likewise the performance appraisal of banks is needed periodically as well as regularly.

Such critical assessments not only draw our attention to remedy a deteriorating condition but also to show the way and means to raise the performance to the possible maximum limit. Thus performance appraisal is useful in two ways. In the banking industry, 'Performance Appraisal' involves a wide area of study. The perspective throughout is on the effective management of banking resources.

A careful consideration and critical analysis of financial statements can be a yardstick for the appraisal of performance of a bank. Generally, financial statements used in any bank are the profit and loss A/c and the balance sheet. Though the statements of change in financial position and value added statements are also prepared and appended to annual reports, they may be considered as additional financial statement. According to Erich A. Helfert, "The person who is making the performance appraisal of bank must have clear ideas in mind that which tests should be applied and for what specific reasons. One must define the view points to be taken, the objectives of the analysis and possible standards of comparison."

The data embodied in financial statements are rearranged in order to facilitate the performance appraisal and the monetary figures are approximated to the nearest rupee to simplify the process of appraisal. The comparative data obtained by applying the tools and techniques of performance appraisal are evaluated, interpreted and reported in an understandable form. On the basis of all the areas of performance, the final conclusions are arrived at as a result of the performance appraisal presented in the form of a report, which highlights the performance of the banking industry and the banks concerned.

Performance appraisal as a concept is purely a developmental tool for a bank. As a developmental tool, it is not as much the final product or the final assessment that is important as the whole process of appraisal. The learning opportunity for the appraiser and the appraisee starts with setting of tasks and targets and manifests in the whole appraisal procedure such as self-appraisal, appraisal interviews, final appraisal and grading, developmental planning etc.

However, the performance appraisal may not give a correct answer to every question of doubt it may bring to light, but it can and will point to the direction in which further enquiries should be made. Hence, no single attempt can give firm results of appraising banking performance. Banking conditions may differ by way of location, type of facilities, product and services, capital structure, capacity, accounting policies, levels of efficiency and the caliber of bank's management. Banking conditions have become more complicated in the advent of multi-product and multi-banks. An analyst should keep in mind all these differences at the time of appraising the performance of various banks.

2.5) THE NEED AND IMPORTANCE OF PERFORMANCE APPRAISAL

The need and importance of performance appraisal rise from the viewpoint of different parties, which are actively interested in the affairs of the banks. These parties are as below:-

2.5 (i) Management

According to Erich A. Helfert, "Managers are responsible for efficiency, current and long term profit from operations and effective development of capital and other resources in the process." Performance appraisal may help the management in evaluating the effectiveness of it's own plans and policies. The managements can measure the effectiveness of it's own plans and policies, determine the advisability of adopting new policies and procedures and document to owners as a result of their managerial efforts by doing performance appraisal.

2.5 (ii) <u>Employees and Trade Unions</u>

Employees of the banks are interested in the profits and the financial position of a bank. The employees measure the efficiency of the bank with the satisfactory profit margin and adequate cash flow. The employees can compare the past performance and the present performance of bank by performance appraisal. Even trade unions of banks use performance appraisal of banks for demanding increase in wages and facilities.

2.5 (iii) <u>Investors</u>

Investors are the real investors of any enterprise. In case of banking industry, the investors can know profitability, Productivity

& Overall efficiency of the bank by studying performance appraisal of banks.

2.5 (iv) **Depositors** :

The depositors, wanted business with the bank, generally appraise the performance of a bank before depositing the money. The depositors are interested in the rate of interest offered by different banks, cash flow and liquidity of the banks, facilities available against deposits. They can know these each aspect by referring performance appraisal of banks.

2.5 (v) **Government**

The government is keen interested in studying the performance appraisal of banking industry as a whole. By studying the performance appraisal of banks, the government can assess the growth of industries and economy. Moreover the government can take decision about tax structure and incentives for banking industry.

2.5 (vi) **Society**

In the Society, there are various agencies like media, stock exchanges, economists, tax consultants and authorities, awakened citizens who are interested in the performance appraisal of banks.

Their interest in the performance appraisal of banks becomes the interest of the society. The society at large also expects to know about the social performance such as environmental obligations, employment avenues and social welfare etc.

2.6) THE ROLE OF PERFORMANCE APPRAISAL IN PLANNING, CONTROL AND DECISION-MAKING.

Performance appraisal plays an important role in providing so many useful information to the bank management as it is inevitably needed for planning, control and decision-making. Decisions always relate to what has to be done immediately, in near future and in the long run. For this, the bank managements require various types of information, both qualitative and quantitative. Performance appraisal has taken on increasingly the task of providing the quantitative information. This term also includes provision of such information as will enable the management to exercise control over the day-to-day operations with a view to ensuring maximum efficiency and adherence to the plans of the bank managements. This control is different from control over property and assets, as it looks at things from such angles –

(A) That the work which had to be done has been done without loss of time and

(B) That the cost incurred in doing the work is not more and is within the estimated limits.

Also for planning, control and decision-making on capital projects, such as expansion and diversification, performance appraisal provides and examines a great deal of information.

2.7) THE TECHNIQUES OF PERFORMANCE APPRAISAL

Mainly there are three techniques of performance appraisal.

The techniques of Performance appraisal

Financial Techniques	Cost Techniques	Statistical Techniques
1) Ratio Analysis	**1)** Standard Costing	**1)** Diagrammatic and graphic presentation.
2)Trend Analysis	**2)** Budgetary Control	**2)** Bar Diagrams

i) Common-size

vertical analysis

ii) Common-Size

horizontal analysis

3) Comparative

Statement Analysis

i) Comparative Profit and

loss A/c analysis

ii) Comparative balance

sheet analysis

2.8) RATIO ANALYSIS AS A TOOL OF PERFORMANCE APPRAISAL

A Ratio is simply one number expressed as (i) Percentage (ii) fraction and (iii) a stated comparison between numbers. According to Hingorani, [9] "Accounting ratios are relationships expressed in mathematical terms between figures with a cause and effective relationship or which are connected with each other in some manner or the other." Ratio may be based on figures in the profit and loss A/c or in the balance sheet or in both. So the Ratio Analysis is the study of specific relationship and forms the heart of the statements analysis.

Analysts use ratio to link different parts of the financial statements in an attempt to find clues about the status of particular aspects of the banks or any other business. The general procedure in ratio analysis involves the selection of two items from the financial statements and division of one item into the other to form a ratio. It points out either the financial condition of a bank or business is good or bad. It is universally used for appraising the performance of a bank or business. The interpretation of ratios involves making comparison over time. Under this, the same ratio or for that matter a group of ratios is studied over a period of years with the result that significant trends indicating rise, decline or stability are highlighted. Sometimes, the average value of a ratio for a number of years in the past can serve as a standard against which to judge current performance. The ratios of any given bank or business firm may be compared with the ratios of other banks or business firms existing in the same industry. Such an exercise can also be known as 'Inter-firm comparison' or "Inter-bank comparison'. Such comparisons are usually significant as in most cases, members of the same industry face the same or similar financial problems. Because of ratio analysis and comparison, much useful information can usually be brought under banks or business firms knowledge.

Further, the ratio analysis can be of invaluable aid to the bank or business firm in the discharge of its basic functions like planning, co-ordination, communication, control and forecasting. By an analytical study of the past performance and projecting the future, it assists in communication by conveying information which is pertinent and purposeful, to those for whom it is meant. It promotes co-ordination by a study of the efficiency of the bank or any other business. It paves the way for effective control of banking or business operations by undertaking an appraisal of both the physical and monetary targets. It is also true that, no one ratio will give the entire picture but they do tend to indicate, which cumulatively assists considerably in appraisal of the financial position and operations of the organizations.

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CHAPTER - 3

RESEARCH METHODOLOGY

Introduction:

Banking industry has been changed after reforms process. The government has taken this sector in a basic priority and this service sector has been changed according to the need of present days. Banking sector reforms in India strive to increase efficiency and profitability of the banking institutions as well as brought the existing banking institutions face to face with global competition in globalization process. Now, there has been a rapid expansion in the number of banks including new private sector and foreign banks. At present, public sector banks, old private banks, new private banks and foreign banks are playing on equal field with the important role. Considering the performance of 2001-2002, all the banks are remarkable. These different types of banks differ from each other in terms of operations efficiency, productivity, profitability and credit efficiency. The objective of this study is to identify this difference within banking groups.

Review of Literature – Problem Identification

Some studies conducted in context with the financial efficiency or profitability or productivity of Banks are being reviewed as below.

"Performance of commercial Banks in Kerala" - An Autopsy by K. P. Mani and Chacko Jose; P. emphasized the significant changes in the Banking scenario in Kerala after 1986. The Autopsy performed on the statistics of commercial Banks in Kerala for the period 1988-1996 revealed that on the front of deposits mobilization, the state's performance was relatively better while the deployment side was weak which brought down the credit deposit ratio and adversely affected the profitability of the Bank.

Banking Infrastructure in Harayana by R. S. Nandal and Arjun Singh highlighted that in Harayana all commercial, co-operative and other banking institution have made tremendous progress by opening their new branches in order to boost up the economy of the state. As a result, the average population covered under the new branches increased and efficiency of Banks was more utilized in advancing loan facilities to the people. Deposits have also increased significantly. But over the passage of time the Credit-Deposit ratio instead of increasing started decreasing. Thus Banks needed improvement in their functioning and steps were to be taken to increase the percentage of their Credit Deposit ratio.

An article on Banking cost structure - Changing with times by P. R. Bhasker which expressed, that the government was planning further measures to strengthen the Indian Banking Industry as a part of on going second phase of reforms but they were nevertheless inadequate.

"Comparative Performance of Scheduled Commercial Banks Operating In India : An Econometric Study" - by Subodh Chandra Garai, Sanjib Chandra Basu and Prabir Ghosh applied multivariate discriminant analysis technique for differentiating a priori bank group operating in India using the data of some financial ratios published by the RBI relating to individual banks for the financial year 1995-96, 1996-97 and 1997-98.

In their study, to consider the efficiency of banks with regard to management of lending activity, ratios regarding non-performing assets were given due importance. The discriminate scores, which combined the properly defined variable taking their weighted aggregate, were termed as performance scores, in this particular case. The existence of group difference was tested using parametric test procedure. Eventually selected banks were ranked on the basis of their performance for three years and revealed that in general public sector banks were trailing private sector banks and most foreign banks were able to score higher runs as compared to other banks in the group.

"Liquidity, Productivity and Profitability of Foreign Banks and Domestic Banks in India, A comparative analysis" by D.N. Nayak described the high rate of growth in the business of foreign banks during the last decade. The performance of those banks in terms of other indicators like productivity and profitability made that group of banks a better performer than all other Domestic Banks in India.

The study questioned as to "Does the better performance of Foreign Banks relative to Domestic Banks indicate that foreign banks adopt better management practices, policies and procedures and possess superior organizational skills and know how or are there any special factors which are responsible for the relatively good performance of foreign banks ?

"Determinants of profitability of SBI group other Nationalized Banks and Foreign Banks in India" by Saveeta and Satish Verma. They examined the profitability of commercial banks. they have depicted a declining trend in profitability since 1969, showing a comparatively better performance of foreign banks.

Their study was based on time series data from 1971-1996 and have analyzed the data using a number of statistical tools like ratios, averages, percentages etc. The performance of SBI group and other nationalized banks improved during 1981-1990 and it further improved after the initiation of the financial sector reforms in 1991 and the profitability of SBI group was observed to be higher as compared to that of foreign banks.

Report on the Working Group headed by Shri M.S. Verma on Restructuring Weak Public Sector Banks for which the group observed the good performance of some strong banks and that it was neutralized by the persistent under performance of a handful of banks. The banks specific efficiency levels varied and therefore to identify the factors responsible for weaknesses they stressed on solvency, earning capacity and profitability of banks Seven parameters were selected covering the above mentioned three major areas in order to assess a bank's strength or weakness.

V. B. Angadi and V. J. Devaraj in their paper discussed the main factors contributing to difference in productivity and profitability ratios of the Banks were interest earning, Banking services, funds management other than income, expansion of Banking business, difference in the cost of working fund and social Banking.

A paper on the recovery from NPAS - Emerging Challenges by Dr. V. S. Kaveri was an attempt to review the developments not only in the recovery and prevention of NPAS but also suggested future strategies for management of NPAS to in improve the profitability of Banks.

A. K. Vashisht presented the 'Performance Appraisal of public sector Commercial Banks in India' where he evaluated the performance of public sector commercial banks in light of factors like branch expansion priority sector advances, credit, deposits, net profit and DRI advances.

J. Oza made an international comparison of productivity and profitability of Public Sector Banks in India and studied the substantial growth in productivity per employee.

J. Panda and G. S. Lall in their paper attempted to develop internal management techniques for improving the profitability of Indian Banks. They identified certain important factors, which influence profitability i.e., quality of advances information system, organizational set up, development of funds and branch expansion policy.

'New Competition, Deregulation and emerging changes in India Banking by B. N. Anantha swamy was an article which was an analysis of the Comparative Performance of different Bank groups over the period of 1995-96 to 1999-2000.

S. G. Hamdekar studied the productivity aspect of the Regional Rural Banks. He studied the operational efficiency; profitability and productivity in Rural oriented Bijapur Gramin Bank and concluded stating that the operating profitability of the Gramin Banks has been very poor.

S. Singh in his paper profitability of Commercial Banks in India has enumerated several factors, which have been creating stress and strain for the Banking system. These factors according to him were a continuous increase in SLR, CRR, persistent branch expansion in rural areas, unfavourable changes in the deposit mix, growing incidence of industrial sickness, emphasis on social goals etc.

Vipan shah has analyzed the Cost and Efficiency in Banking in order to evaluate the working of Banks at the branch level in view of the declining profitability and increasing operational costs. This study attempted to contribute the understanding of factors influencing costs, earnings and efficiency of banking services at the branch level.

A paper on "Assessing Financial system Stability Efficiency and Structure at the Bank of England" by Andrew C. Haldane, Glenn Hoggarth and Victoria Saporta described some f the techniques used by the Banks of England to monitor financial stability risks in the United Kingdom. it has also described some policy work to improve the infrastructure for managing those risks.

Micheal Woodford at Princeton University has discussed Financial Market Efficiency and the Effectiveness of Monetary Policy. in this paper, the description was about a possible conflict between increasing microeconomic efficiency and preserving macroeconomic stability. Issues like reducing the role of commercial banks, advantage of payment of interest on the balances on Federal Reserve System, the disappearances of required reserves and Central Bank control of interest rates have been studied.

A Ph.D. thesis on Appraisal of Financial performance of State Banks of India by Vijaykumar Bhatasana examined the Financial Performance of State Bank of India in the light of factors like profitability, employee productivity, branch productivity and other social issues like priority sector lending.

Though there have been many works carried out in the area of financial performance, profitability, productivity of various banks, there is no specific study made to compare the financial efficiency of different types of banks. Hence, the study is a sincere effort to enable some contribution to the existing literature and to suggest some measures to improve the overall financial efficiency of banks in Gujarat State.

Ms. Swati Katira in her Ph.D. thesis has presented comparative Analysis of financial efficiency of the selected banks.

Many of earlier studies for instance swami & subramanyam (1993) attempted to focus on profitability within public sector banks in an attempt to set benchmarks for laggards. Das (1999) compares performance among public sector banks for three years in post reform period 1992, 1995 and 1998. He notes that while there is a welcome increase in emphasis on non-interest income, banks have tended to show risk adverse behaviour by opting for risk free investment over risky loans. Sankar and Das (1997) compare performance of public, private and foreign banks for the year 1994-95 by using measures of profitability, productivity and financial management. They find PSBs comparing poorly with others. Bhattacharya (1997) studied the impact of the limited liberalization initiated before the deregulation of the nineties on the performance of the different categories of banks, using Data Envelopment Analysis. They covered 70 Banks in the period 1986-91. Ram Mohan (2000) studied the performance of public sector banks with private & foreign banks for the period of 1994-95 to 99-2000 regarding profitability and credit efficiency. Beside that the survey of top banks has been made by 'Financial Express' for the year 2000-01 regarding the financial performance. But, according to the researcher, the whole banking sector is not covered and if it is covered, it is only for the particular year. The five years study for the whole banking sector divided into five groups has not been found so far. So, it was the need felt by the researcher to focus this topic.

Swami & Subramanyam (1993) attempted to focus on profitability within public sector banks in an attempt to set benchmarks for laggards. Das (1999) compares performance among public sector banks for three years in post reform period 1992, 1995 and 1998. He notes that while there is a welcome increase in emphasis on non-interest income, banks have tended to show risk adverse behavior by opting for risk free investment over risky loans. Sankar and Das (1997) compare performance of public, private and foreign banks for the year 1994-95 by using measures of profitability, productivity and financial management. They find PSBs comparing poorly with others. Bhattacharya (1997) studied the impact of the limited liberalization initiated before the deregulation of the nineties on the performance of the different categories of banks, using Data Envelopment Analysis. They covered 70 Banks in the period 1986-91. Ram Mohan (2000) studied the performance of public sector banks with private & foreign banks for the period of 1994-95 to 99-2000 regarding profitability and credit efficiency. Furqan Qamar has studied about the profitability and resource use efficiency in commercial banks. Besides that the survey of top banks has been made by 'Financial Express' for the year 2000-01 regarding the financial performance.

The optimism that the process of liberalization, privatization and globalization would transform the otherwise archaic and morose banking organizations into a multi-modal, technology-savvy, customer-centric, growth and profit-oriented modern financial intermediaries, has also been marred with the fear that the conventional public sector banks would not be able to face the onslaught of competition from the Indian and foreign private sector banks and would be pushed to the brinks of bankruptcy. These fear wee found to be true by studies on performance and profitability of public sector banks but the research evidences in this regard have been only sporadic and often contradictory. It has been reported that in the post-reform period the public sector banks were looser in terms of their market share in deposit mobilization and credit deployment and were saddled with relatively higher share in the non-performing assets [Chansarkar, 1999, Shirai, 2002]. Share of public sector banks in deposit base which as high as 91 percent in 1991, has already shrunk to 82 percent in 2001 and most of these losses have been in favour of the private sector banks whose deposit base has skyrocketed from a mere 4 percent in 1991 to 12 percent in

2001. Interestingly, however, the share of foreign banks in the deposit base during the corresponding period has increased only marginally, from 5 percent to 6 percent [Shirai, 2002]. Employee morale and motivation in the public sector banks have also been reported to be low resulting into lower business and profitability per employee in such banks [Charansarkar, 1999]. In contrast, studies have also shown that the public sector banks have continued to enjoy the confidence, faith and trust of common public and are still considered to be their favoured banking destination (Qamar, 2003). There have been strong perceptions that the public sector and old private sector banks have an edge over the new private sector and foreign banks [Ramamoorthy, 1998] and that they have the potential to compete successfully, particularly if they could leverage technology. There are also views that the public sector banks have been doing quite well except for the political intervention [Saikia].

Gaps:

According to the researcher, the whole banking sector is not covered in some studies or if it is covered, the period of study has been of a particular year or till the year 2000. But, the five years study from the year 1997-1998 to 2001-2002 for the whole banking sector divided into five groups has not been found so far. So, the need felt by the researcher to focus on the latest development and performance till the year 2002. The topic is selected as under :

The Topic :

"The study of financial performance of Banking Sector of India."

Research Methodology :

The research methodology of the selected topic follows in these dimensions :

(1) Population of The Study :

In this study, whole the census is covered for Indian banking sector. All the banks in Indian banking sector are divided in following groups from the year 1997-1998 to 2001-2002 :

Banking group	No. of banks
SBI group	8
Other nationalized banks	19
Old private sector banks	23
New private sector banks	08
Foreign banks	42
Total	100

Within the last two years, some mergers and acquisitions have been made in foreign banks, which are considered by the researcher for the study. Some foreign banks, which have very limited functions and branches in India are ignored from the study.

(2) The Period of The Study :

The study is covered for five years from the year 1997-1998 to 2001-2002. This period is selected by the researcher for the study because it is a period after the submission of The Narsimham committee report II. The second phase of reforms process can be covered during this time period.

(3) Scope of The Study :

This study is based on census of nationalized, private and foreign banks in India for the period of five years from 1997-1998 to 2001-2002. It covers the evaluation of financial performance regarding profitability, credit efficiency, operational efficiency and productivity of banks. The study is limited for only financial performance covering ten ratios. The tool for appraisal of financial performance is ratio analysis. So, the scope of the study is still very wide.

(4) **Investigative questions** :

This study focuses the functional aspects of the banks as well as it cleans the financial consideration for efficiency measurement. Through this study, operational efficiency and commercial viability is considered by the researcher. The researcher would like to address the following questions :

A) Either the banking sector in India is operationally efficient or not.

B) Either the profitability of all the groups of banks is consistent and different or not.

C) Either there is any difference in productivity of all the groups or not.

D) The credit efficiency is differing within the banking groups or not.

5) **Objectives of the study** :

The broader objectives of the study are as under :

I) To known the banking sector and its current trends.

II) To evaluate operational efficiency in all the five banking groups.

III) To examine the profitability of banks.

IV) To compare the credit efficiency of banks.

V) To compare the productivity of banks.

VI) To evaluate the best banking group regarding financial performance.

(6) Hypothesis :

The broader hypothesis are as under :

A) There is no significant difference in operational efficiency among all the banking groups.

B) There is no significant difference in profitability trends within all the five banking groups.

C) There is no significant difference regarding credit efficiency among all the banking groups.

D) There is no significant difference regarding Productivity of all the banking groups :

E) There is no significant difference regarding overall performance of all the banking groups.

(7) **Nature of the study** :

It is a functional study and it focuses on the functional aspects of the bank. No sampling technique is required as the researcher wants to take a census for the study.

(1) **Data Collection** :

This study is based on secondary data. For this purpose, the researcher has used the data published in IBA Bulletins, Annual IBA Bulletins for March 2002 and 2003, the survey pubished in financial express for top banks and other related websites. Moreover, the journals, articles, reports and surveys have been referred.

(2) **Data Analysis** :

A census is selected by the researcher, but for the comparison between the groups, some statistical tests have been used according to the nature and objectives of the study. The collected informations are suitably classified and tabulated with the help of statistical tools like ratios, trends, co relation, regression, T test, F test, Z test, anova and X^2 test. The conclusions have been drawn on the basis of 5% level of significance.

Chapter plan :

I) Indian Banking System – An Overview

II) Performance appraisal – a conceptual framework.

III) Research methodology.

IV) Analysis of operational efficiency of Indian banking sector.

V) Analysis of profitability of Indian banking sector.

VI) Analysis of credit efficiency and productivity of Indian banking sector.

VII) Summary, Findings and Suggestions

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CHAPTER – 4

ANALYSIS OF OPERATIONAL EFFICIENCY OF INDIAN BANKING SECTOR

4.1 INTEREST INCOME TO AVERAGE WORKING FUNDS RATIO

4.1.1 Interest Income To Average Working Funds Ratio for SBI Group during 1997-98 to 2001-02.

4.1.2 Interest Income To Average Working Funds Ratio for other nationalized banks during 1997-98 to 2001-02.

4.1.3 Interest Income To Average Working Funds Ratio for old private sector banks during 1997-98 to 2001-02.

4.1.4 Interest Income To Average Working Funds Ratio for new private banks during 1997-98 to 2001-02.

4.1.5 Interest Income To Average Working Funds Ratio for foreign banks during 1997-98 to 2001-02.

4.1.6 Interest Income To Average Working Funds Ratio for all the five banking groups during 1997-98 to 2001-02.

4.2 NON-INTEREST INCOME TO AVERAGE WORKING FUNDS RATIO

4.2.1 Non-Interest Income to Average Working Funds Ratio for SBI Group during 1997-98 to 2001-02.

4.2.2 Non-Interest Income To Average Working Funds Ratio for other nationalized banks during 1997-98 to 2001-02.

4.2.3 Non-Interest Income To Average Working Funds Ratio for old private sector banks during 1997-98 to 2001-02.

4.2.4 Non-Interest Income To Average Working Funds Ratio for new private banks during 1997-98 to 2001-02.

4.2.5 Non-Interest Income To Average Working Funds Ratio for foreign banks during 1997-98 to 2001-02.

4.2.6 Non-Interest Income To Average Working Funds Ratio for all the five banking groups during 1997-98 to 2001-02.

4.3 CAPITAL ADEQUACY RATIO (CAR) / CAPITAL TO RISK ASSETS RATIO (CRAR) / CAPITAL TO RISK ADEQUACY RATIO (CRAR)/ CAPITAL TO RISK-WEIGHTED ASSETS RATIO (CRWAR)

4.3.1. Capital Adequacy Ratio for SBI Group during 1997-98 to 2001-02

4.3.2. Capital Adequacy Ratio for other nationalized banks during 1997-98 to 2001-02.

References

This chapter deals with the operational efficiency of banks, which is one of the key parameters for evaluating the financial performance. There are hundred banks at present in Indian Banking Sector. All these banks are divided into five groups as discussed earlier. To evaluate operational efficiency of each group, three ratios have been observed for the period of five years. Each group is having the bunch of banks, so, an individual performance of each bank has been discussed here from the point of operational efficiency ratios. The purpose of this analysis is to know the operational efficiency of each group and to observe which is the best group according to operation functions. The ratios, formula and terms defined for this operational efficiency are as under :

4.1) <u>Interest Income as % to Average Working Funds</u> :

This ratio deals with the major income of interest in banks. But only the interest income is not important, how the average working funds, is also important. The efficiency will be measured according to this ratio. If this ratio is high, the operational efficiency will be also good. The formula of this ratio is –

$$\frac{\text{Interest Income}}{\text{Average Working Funds}} \; 2 \; 100$$

<u>Total Interest Income (TII)</u>

The sum total of discount, interest income from loans and advances, interest income from investments. Interest income from balances with RBI and other interest inflows. There is a strong rationale behind include income from aggregate investments in TII. And the rationale is that all interest income streams are Policy-driven as far as a bank is concerned. A bank investigating in securities is quite unlike a corporate entity investigating its surplus cash in other corporate securities.

<u>Total Interest Income to Average Working Fund (TII / AWF)</u>

Expressed as a percentage, this ratio shows a bank's ability to leverage its average total resources in enhancing its mainstream operational interest income.

Average Working Funds (AWF) :

The average of the working funds at the beginning and at the close of an accounting year. In this study, it is the average of the working funds as on the date of the last two balance sheets i.e. 31 March 2000 and 31 March 2001.

Working Funds (WF) :

Working funds are total resources (total liabilities or total assets) of a bank as on a particular date total resources include capital, reserves and surplus, deposits, borrowings, other liabilities and provisions. A higher AWF shows a bank's total resource strength. There is a school of theory, which maintains that working funds are equal to aggregate deposits plus borrowings. However, is defined working funds more Pragmatically and in Consonance with capital adequacy calculations to include all resources, not just deposits and borrowings, for, all these resources are put to work.

4.2) Non-Interest Income as % to Average Working Funds

The other operational income of a bank is Non-Interest Income, which includes commission, brokerage, gains on revaluation of assets etc. This ratio also represents the operational efficiency of a bank. The operational efficiency of a bank will be high if this ratio is high. The formula of this ratio is –

$$\frac{\text{Non-Interest Income}}{\text{Average Working Funds}} \; 2 \; 100$$

Non-Interest Income (NII)

This is the other income of a bank. It includes items such as exchange commission, brokerage, gains on sale and revaluation of investments and fixed assets, and profits from exchange transactions. Since Non-Interest Income includes, among other things, items such as profit on sale of assets, it is certainly preferable to replace both the ratios Interest Income to AWF and Non-Interest Income to AWF with fund based income to AWF and non-fund based income to AWF.

However, given the state of disclosures in the annual reports of Indian banks and given the unwillingness of banks in parting with such information, the ratios interest income to AWF and Non-Interest Income to AWF have been retained in the appraisal scheme.

Non-Interest Income to AWF (NII / AWF)

This ratio denotes a bank's ability to earn from non-conventional sources. In a liberalized environment, this ratio assumes greater significance for; it mirrors a bank's ability to take full advantage of its operational freedom. Some foreign banks term non-interest income as other income.

4.3) Capital Adequacy Ratio :

The Basle Committee report on the Convergence of Capital and Standards, 1988, passed a directive that a Capital Adequacy Ratio (CAR) of 8% was necessary for banks operating International. Subsequently, The Narasimham Committee recommendation that all Indian Banks should achieve a capital adequacy of 8% by March 1996 was implemented with successful results by the reserve Bank of India (RBI). The capital Accord of Basle Committee was reviewed and amended in 1996. The Narasimham Committee on Banking Sector Reforms proposed an increase in the CAR of Banks. Consequently, a CAR target of 9% by March 2000 was fixed. The RBI has proposed to increase CAR to 10% by March 2002. The New Capital Adequacy Framework issue by Basle Committee in June, 1999 is yet another step towards the strengthening of capital adequacy in Banks.

Capital to Risk Assets Ratio

Capital adequacy is indicated by a minimum numerical ratio which the Banks are expected to maintain to ensure stability and strength. International l prudential norms stipulate the use of Capital to Risk Assets Ratio (CRAR) as a measure of capital adequacy. CRAR is the ratio of capital funds to risk weighted assets (both on and off balance sheet) expressed as a percentage.

$$\text{CRAR} = \frac{\text{Capital Funds}}{\text{Risk Weighted Assets}} \, 2 \;\; 100$$

All assets in the balance sheet, including off balance sheet items are given an artificial weight and their total is compared to the net worth of the Bank.

Capital Funds

The Capital Funds will comprise Tier-I capital (shareholders equity and retained profits) and Tier-II capital (supplementary capital) and Tier-III capital (subordinated debt with a minimum maturity of two years - This criteria is suggested by Basle-II committee, which will come into effect by March-2005).

Risk weighted assets

Funded Risk Assets i.e., on balance sheet items and Non-Funded Risk Assets, i.e., off - balance sheets items are ranked from less risky to more risky categories. BIS has prescribed five categories of risk weights viz., 0,10,20,50,100. The higher the risk, greater the weightage. Funded Risk Assets are those appearing in the balance sheet excluding equity investments in subsidiaries and intangible assets and losses. Non - funded assets are contingent liabilities viz., guarantees letters of credit, forward exchange contract, etc.

Risk weights of various Assets

Sl. No.		Assets	Risk weight (%)
1		Cash in hand	0
2		Balance with RBI	0
3		All claims on Banks	20
4		Investments:	
	a.	Investments in Govt. & Govt. Guaranteed Securities*	2.5
	b.	Investments in Bonds/Debentures of Public Financial Institutions	20
	c.	All other Investments	100
5		Advances:	
	a.	Advances Guaranteed by Govt.**	0
	b.	Advances to staff	100
	c.	Advances against Deposits	0
	d.	Advances against life policies, IVP, KVP	0
	e.	Advances to Banks / Guaranteed by Banks	50
	f.	Advances Guaranteed by DICGC / ECGC	50

	g.	All other Advances	100
6		Fixed Assets (Premises, Furniture & Fixtures)	100
7		Other Assets	
	a.	Tax Deducted at source	0
	b.	Interest Accrued on govt. Securities	0
	c.	Claims on RBI	0
	d.	d. All other Assets	100

* RBI issued a directive in April 2000 to assign a risk weight of 100% only on those State Govt. Guaranteed securities issued by defaulting entities and not on all the securities issued or guaranteed by that State Govt.

** 20% risk weight for State Govt. Guaranteed Advances in default as on 31 March 2000. 100% risk weight for continued default after 31 March 2000.

Compiled from Report on trend and Progress of Banking in India and RBI Reports.

New Framework of Capital Adequacy Ratio :

Basle I Committee had recommended CAR framework for credit risk only during 1988, which RBI had implemented during 1992. Subsequently the market risk for investment in securities, including govt. Securities, was implemented in India w.e.f. March 31, 2000. Meanwhile Basle II, June 1999, suggested capital adequacy not only for credit and market risk but also for operational risk also. The new framework will come into effect by 2005 and replace the earlier framework of 1988. In terms of the new framework, the capital fund will comprise Tire I (shareholders' equity and retained profits), Tire II (subordinated deft of 5.7 year tenures) and Tire III capital (subordinated debt with a minimum maturity of 2 years). Risk on the other hand, would comprise Credit Risk + Market Risk + Operational Risk. Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and system or from external events. So far, the measurement of operational risk has not been quantified but the committee has suggested a 20% risk weight for the operational risk. TO monitor the operational risk, the information technology and

MIS systems are expected to play very important role. The risk management is expected to lend to lower capital requirement but to implement risk management, banks will have to invest heavily in technology.

CRAR of 9% by March 2000, was the norm set by RBI. All Public Sector Banks (PSBs) expect one attained 9% CRAR. 21 out of 24 Old Private Sector Banks, all 8 New Private Sector Banks and all 42 Foreign Banks in India achieved the norm.

The RBI hoped that all Banks achieve 10% CRAR by March 2002. But 22 PSBs, 19 Old Private Sector Banks, 7 New Private Sector Banks and 37 Foreign Banks had CRAR excess of 10% by March 2000 itself.

All the banks except one have achieved capital adequacy. Banks in India are becoming competitive and sound in their financial health. But the CRAR has a few limitations, besides the weightage of assets. The risk weightage of government guaranteed assets are minimal. This necessitates constant review of CRAR as a measure of banking health. In order to ensure greater capital adequacy and strength of banks the RBI has come out with Prompt Corrective Action (PCA) framework which complies with the Core Principles of BIS. PCA is based on three parameters viz., CRAR, Net Non performing Assets (NPA) and Return on Assets (RoA). Each parameter has trigger points with discretionary ad mandatory, preventive and corrective actions under each trigger point.

Table 4.1.1 to 4.1.5 indicates the interest income to average working funds ratio according to individual bank of each banking group. Table 4.1.6 is the indicator of average performance regarding interest income of Indian Banking sector. The Analysis can be shown as under :

After discussing the ratios and the terms, the actual performance according to operation efficiency in each group analyzed here.

4.1) Interest Income to Average Working Funds Ratio :

Table 4.1.1
Interest Income to Average Working Funds for SBI Group during 1997-98 to 2001-02

Banks	Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	8.86	8.60	8.17	8.70	8.56	8.58
II. **ASSOCIATES OF SBI**						
2 State Bank of Bikaner & Jaipur	10.88	10.64	10.09	10.15	8.73	10.10
3 State Bank of Hyderabad	10.29	10.34	10.13	9.23	8.67	9.73
4 State Bank of Indore	10.63	10.79	10.06	9.89	8.83	10.04
5 State Bank of Mysore	10.71	10.35	10.33	9.96	9.38	10.15
6 State Bank of Patiala	11.18	9.38	10.76	10.76	8.68	10.15
7 State Bank of Saurashtra	8.93	9.36	10.56	10.50	8.99	9.67
8 State Bank of Travancore	10.11	8.42	10.38	10.18	8.82	9.58
Average of State Bank Group [I+II]	10.20	9.74	10.06	9.92	8.83	9.75

[**Source** : IBA bulletin March 2002, 2003]

Tale 4.1.1 shows the interest income ratio to average working funds for SBI group. This group includes the SBI main and associate Bank's ability, to leverage its average total resources ending in its operational interest income.

(By observing this table, one can see that) in 1997 – 98, highest ratio gained by state Bank of Patiala that is 11.87%, but the lowest of SBI main equivalent to the ratio of SBS in 1997-98 the average to whole the group in II/AWF is 10.20%.

In 1998-99 the average goes down because of weak ratio of Bank of Patiala & SBI main, that shows less ability to leverage again in 1999-2000, this ratio goes higher than the previous year. The consistency in all the associate banks regarding interest income to awf. But still in this year SBI main's performance looks week. In the year 2000-2001, the overall average goes down again and it falls by 0.14% camp to the previous year. And in the year, 2001-2002, the average of SBI group regarding this ratio is slightly reduced because of the lower interest rates as per RBI.

By seeing this table, it can be said that in each year associate Banks' performance for II/AWF is higher than the SBI main. The average of associate Banks in higher than SBI main in each year. This table shows a good ability to leverage its resources.

Table 4.1.2
Interest Income to Average Working Funds for other nationalised Banks during 1997-98 to 2001-02

Banks	Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Allahabad Bank	9.81	9.68	9.64	9.77	9.62	9.70
10 Andhra Bank	11.00	10.64	10.71	10.66	9.69	10.54
11 Bank of Baroda	10.09	9.96	8.83	9.09	8.40	9.27
12 Bank of India	9.10	9.16	8.61	9.23	8.03	8.83
13 Bank of Maharashtra	10.42	10.42	10.47	10.41	9.31	10.21
14 Canara Bank	10.01	10.64	9.54	9.70	8.82	9.74
15 Central Bank of India	10.76	10.68	10.56	10.43	8.85	10.26
16 Corporation Bank	10.95	10.12	10.63	10.68	8.24	10.12
17 Dena Bank	11.33	10.98	10.38	9.69	9.07	10.29
18 Indian Bank	8.31	8.02	8.59	8.58	7.58	8.22
19 Indian Overseas Bank	9.64	9.49	9.28	9.47	8.95	9.37
20 Oriental Bank of Commerce	11.10	11.20	10.90	10.60	9.42	10.64
21 Punjab & Sind Bank	10.29	10.27	9.99	9.83	9.20	9.92
22 Punjab National Bank	9.98	10.03	10.12	9.84	9.12	9.82
23 Syndicate Bank	9.52	9.98	9.79	9.84	9.08	9.64
24 Uco Bank	8.96	9.33	9.09	9.71	8.10	9.04
25 Union Bank of India	10.47	10.50	10.46	10.49	9.05	10.19
26 United Bank of India	10.40	10.20	9.46	10.07	8.93	9.81
27 Vijaya Bank	10.29	10.49	10.53	10.34	9.53	10.24
Average of 19 Nationalised Banks [III]	10.13	10.09	9.87	9.92	8.89	9.78

[**Source** : IBA bulletin March 2002, 2003]

Table 4.1.2 shows the II / AWF ratio for other 19 nationalized Banks. By studying the table, some Banks one looking try consistent in the higher ratio of II / AWF. These banks are, CBI, Oriental Bank of commerce, Andhra bank, corporation Bank & Dena Bank. These banks have maintained a good ratio during these five years.

But there are some banks who have the lower ratio in the period of years, and these are – Indian Bank and UCO bank whose II / AWF ratio is between 8 to 9%. The average performance can be seen between 8 to 10% is there in some banks like Bank of India, Indian overseas Bank, Allahabad Bank, etc.

The overall average for ability to leverage goes consistently from the year 1997-98 to 2001-02 this result indicates the lower interest in come trend. May be it is so because of the interest rates fell down in every year according to RBI.

Table 4.1.3
Interest Income to Average Working Funds for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	10.61	9.96	10.30	10.22	7.93	9.80
2 City Union Bank Ltd.	11.21	10.77	11.19	10.49	9.51	10.63
3 Development Credit Bank Ltd.	10.80	11.76	10.72	11.28	9.01	10.71
4 Lord Krishna Bank Ltd.	13.32	12.23	10.74	10.09	8.36	10.95
5 SBI Commercial & International Bank Ltd.	8.43	11.39	9.40	9.94	8.07	9.45
6 Tamilnad Mercantile Bank Ltd.	11.81	11.35	11.30	11.32	10.12	11.18
7 The Bank of Rajasthan Ltd.	10.80	9.84	10.33	10.44	9.42	10.17
8 The Benares State Bank Ltd.	10.07	9.15	9.26	8.88	-	9.34
9 The Catholic Syrian Bank Ltd.	12.60	11.36	10.83	10.49	9.68	10.99
10 The Dhanalakshmi Bank Ltd.	12.26	11.44	10.94	10.52	9.59	10.95
11 The Federal Bank Ltd.	13.19	11.97	11.70	11.54	10.28	11.74
12 The Ganesh Bank of Kurundwad Ltd.	12.45	12.06	12.02	11.30	10.05	11.58
13 The Jammu & Kasmir Bank Ltd.	10.97	11.06	10.57	10.51	9.21	10.46
14 The Karnataka Bank Ltd.	12.77	11.50	11.20	10.89	9.57	11.19

15 The Karur Vysya Bank Ltd.	12.57	12.21	12.36	11.69	9.44	11.65
16 The Lakshmi Vilas Bank Ltd.	11.39	11.03	10.94	10.39	9.53	10.66
17 The Nainital Bank Ltd.	11.27	10.86	10.58	10.40	9.55	10.53
18 The Nedungadi Bank Ltd.	12.52	12.27	11.69	9.80	9.85	11.23
19 The Ratnakar Bank Ltd.	12.23	12.25	11.76	11.61	9.39	11.45
20 The Sangli Bank Ltd.	10.99	10.41	10.46	11.05	8.00	10.18
21 The South Indian Bank Ltd.	13.11	12.24	11.83	11.55	9.39	11.62
22 The United Western Bank Ltd.	10.75	10.74	10.67	10.52	9.59	10.45
23 The Vysya Bank Ltd.	11.07	10.68	10.63	10.54	8.61	10.31
Average of 23 Private Sector Banks [I]	11.62	11.24	10.93	10.67	9.28	10.75

[**Source** : IBA bulletin March 2002, 2003]

There are 23 old private sector Banks in banking industry. Table 4.1.3 shows the Interest Income / AWF ratio of these 23 banks during 1997-98 to 2001-02. All the banks' performance regarding this ratio, is excellent, the overall average in 1997-98 is 11.59%, 99-2000 is 10.67% and 2001-02 is 9.36% for achieving this much good ratio; each bank has given a good result. Each bank has maintained the higher ratio and consistency in the period of 5 years. Some of these banks have achieved excellent ratios like. The Federal Bank Ltd., The south Indian Bank Ltd., The Catholic Syrian Banks Ltd., The Karur Vysya Bank Ltd., The Nedungadi Bank Ltd., etc.

This table shows that the old private sector Bank has got more interest income in each year with reference to their average working funds. The result shows a positive sign.

Table 4.1.4
Interest Income to Average Working Funds for New Private Banks during 1997-98 to 2001-02

Banks		Interest Income as % to Average Working Funds					AVG
		1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
	NEW PRIVATE SECTOR BANKS						
24	Bank of Punjab Ltd.	10.72	10.57	10.82	11.20	9.35	10.53
25	Centurion Bank Ltd.	11.26	14.61	10.95	10.24	11.63	11.74
26	Global Trust Bank Ltd.	12.20	11.27	11.59	10.35	9.91	11.06
27	HDFC Bank Ltd.	4.52	4.17	4.74	3.89	7.16	4.90
28	ICICI Bank Ltd.	11.15	11.22	10.59	10.07	2.07	9.02
29	IDBI Bank Ltd.	12.06	11.45	11.25	10.89	7.67	10.66
30	Indusind Bank Ltd.	12.49	12.32	10.99	10.59	6.96	10.67
31	UTI Bank Ltd.	10.88	11.71	10.81	10.07	8.21	10.34
Average of 8 New Private Sec.Banks [I]		10.66	10.92	10.22	9.66	7.87	9.87

[**Source** : IBA bulletin March 2002, 2003]

Table 4.1.4 indicates the II / AWF for the new private sector banks. This group is having 8 private sector banks. By studying this table, we can see that the overall average is lower because of only one Bank's weak ratio. That is HDFC Bank. HDFC has acquired a very much lower ratio of interest income related to AWF and it falls only 4 to 5 % during all the five years. Global Trust Bank Ltd., Indusind Banks Ltd. and IDBI Bank Ltd. has achieved a good ratio of interest income, may be because of industrial advances. Most of the Banks have got consistency in this ratio. Naturally from 1997-98 to 2001-02 it will go down slightly because of policy matter of lower interest rates.

The overall average is however can said as a good average, consistently lower than the previous year because of lower interest rates offered by the banking sector.

Table 4.1.5
Interest Income to Average Working Funds for Foreign Banks during 1997-98 to 2001-02

Banks		Interest Income as % to Average Working Funds					AVG
		1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
	FOREIGN BANKS						
1	ABN-Amro	9.64	10.68	10.35	10.73	10.16	10.31
2	Abu Dhabi Commercial	9.74	8.59	10.98	6.54	10.03	9.18
3	American Express	10.50	10.54	10.96	9.88	8.60	10.10
4	Arab Bangladesh	5.98	7.85	7.92	7.88	6.26	7.18
5	Bank International l Indonesia	12.26	11.65	9.85	5.59	4.26	8.72
6	Bank Muscat International l	-	3.34	4.88	9.89	10.99	7.28
7	Bank of America	12.07	10.39	7.72	10.63	8.90	9.94
8	Bank of Bahrain and Kuwait	12.45	12.01	12.43	11.65	8.55	11.42
9	Bank of Ceylon	11.07	10.75	13.70	9.88	8.32	10.74
10	Barclays	10.22	11.61	9.16	8.97	4.60	8.91
11	BNP Pariba	11.95	11.87	11.26	10.99	7.54	10.72
12	Chinatrust Commercial	11.28	11.12	11.96	11.21	13.35	11.78

13 Cho Hung	13.87	8.81	8.80	9.38	7.11	9.59
14 Citibank	10.89	10.20	10.86	10.23	8.89	10.21
15 Commerz	12.05	11.30	11.01	10.26	46.14	18.15
16 Credit Agricole Indosuez	8.18	9.21	8.77	8.05	5.95	8.03
17 Credit Lyonnais	14.50	14.90	14.20	10.60	10.44	12.93
18 Deutsche	6.38	6.14	5.40	5.83	8.19	6.39
19 Dresdner	10.98	11.76	11.07	8.72	2.58	9.02
20 Ing Bank	8.18	11.01	11.49	6.31	4.65	8.33
21 JP Chase Manhattan	4.62	8.57	10.68	10.87	6.32	8.21
22 KBC	-	0.98	10.57	11.64	7.33	7.63
23 Krung Thai	8.00	7.47	9.03	9.57	8.70	8.55
24 Mashreq	11.18	10.31	9.42	9.49	11.18	10.32
25 MIZUHO Corporate Bank Ltd. -Fuji	6.45	11.74	9.44	10.51	8.39	9.31
26 Morgan Guaranty Trust	-	1.60	6.56	5.78	-	4.65
27 Oman International l	8.76	8.52	9.48	7.71	4.42	7.78
28 Oversea-Chinese	8.19	9.09	9.34	10.00	8.22	8.97
29 Sakura	12.23	13.59	12.65	11.28	-	12.44
30 Societ Generale	10.18	10.82	9.17	8.02	7.57	9.15
31 Sonali	N.A.	7.93	2.27	5.30	3.54	4.76
32 Standard Chartered	11.55	11.93	11.95	11.83	8.70	11.19
33 Standard Chartered Grindlays	11.33	10.44	11.06	10.11	9.29	10.45
34 State Bank of Mauritius	11.33	8.79	9.84	9.77	9.27	9.80
35 Sumitomo	7.00	13.19	11.74	10.20	12.97	11.02
36 The Bank of Nova Scotia	10.67	11.10	10.58	10.61	8.73	10.34
37 The Bank of Tokyo - Mitsubishi	8.58	7.16	10.31	10.15	8.61	8.96
38 The Development Bank of Singapore	8.89	11.88	11.01	11.61	7.92	10.26
39 The Hongkong & Shanghai	9.26	8.90	9.27	9.27	7.83	8.91
40 The Siam Commercial	14.40	12.45	12.25	8.43	4.97	10.50
41 Toronto Dominion	5.43	14.63	14.20	12.14	11.06	11.49
42 UFG / Sanwa	12.08	11.35	9.05	8.38	9.62	10.10
Average of 42 Foreign Banks in India	9.10	9.91	10.06	9.43	9.00	9.50

[**Source** : IBA bulletin March 2002, 2003]

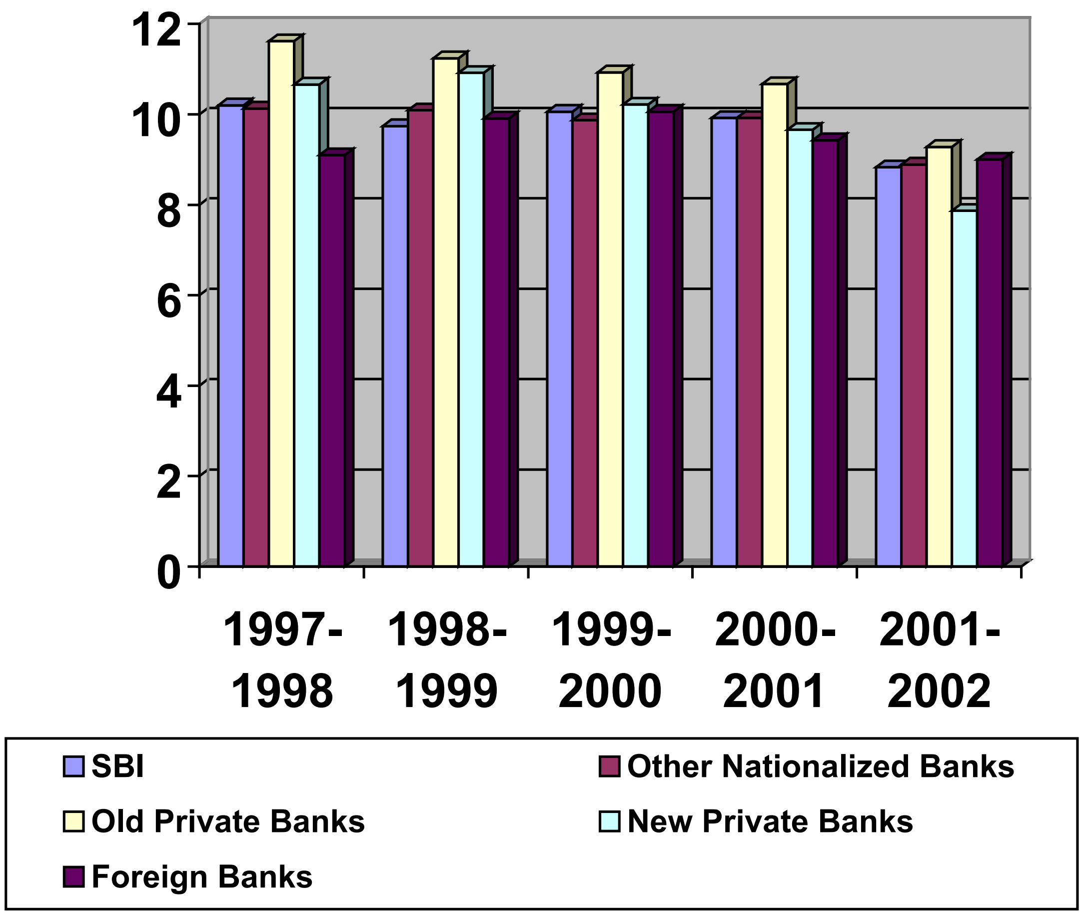
Table 4.1.5 shows the II/AWF ratio for the foreign Banks in India. Amongst these 42 Banks, 2 are merged with another at this time. 26 Banks out of 40 Banks have only one or two branches in

India. There are major 14 banks in these group of which performance can be attended. No. 1 to 14 are the major foreign Banks. In this group there is no consistency in other Banks. Sometimes it is very much high, sometimes low. But seeing the performance of Bank of America, & credit lyonnais are excellent except one year. The weak ratio of Deutsche Bank reflects in the overall average, this banks ratio is between 5 to 6% which or II/AWT in this group is 8.83% (1997-98), 9.91% (1998-99), 10.06% (1999-2000), 9.43%(2000-01), and in (2001-02).

The trend shows a little bit improvement in leverage ability during these five years.

Table 4.1.6
Interest Income to Average Working Funds for all the five Banking groups from 1997-98 to 2001-02(in percent)

	Banking Groups	**1997-1998**	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**Avg (%)**
1	SBI	10.20	9.74	10.06	9.92	8.83	9.75
2	Other Nationalized Banks	10.13	10.09	9.87	9.92	8.89	9.78
3	Old Private Banks	11.62	11.24	10.93	10.67	9.28	10.75
4	New Private Banks	10.66	10.92	10.22	9.66	7.87	9.87
5	Foreign Banks	9.10	9.91	10.06	9.43	9.00	9.50
	AVG (%)	10.34	10.38	10.23	9.92	8.78	9.93



In above Table no. 4.1.6 and chart year wise average of Interest Income to Average Working Funds ratio is showing almost diminishing trend it is seen so due to diminishing interest rates. Old private sector banks group leads the banking sector of India during all the five years (1997-98 to 2001-02). While foreign banks are found less interested in Interest Income as their other sources of income life brokerage, commissions are sound.

Interest Income to Average Working Funds Ratio

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Interest Income to Average Working Funds Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null Hypothesis :

There is no significant difference regarding the Interest Income to average working funds Ratio among all the five banking groups during 1997-98 to 2001-02.

$H0 = \mu1 = \mu2 = \mu3 = \mu4 = \mu5$

$H1 = \mu1 \neq \mu2 \neq \mu3 \neq \mu4 \neq \mu5$

ANOVA TABLE

Interest Income to Average Working Funds

Source of Variable	SS	DF	MS	F Ratio	5% F Limit (From table F)
Between Sample	2471.01	(5-1) = 4	61775	1009.83	F (4,20) 2.87
Within Sample	12.23	(25-5) = 20	0.61		

The above Anova table reveals the table value of F at 5% level of significance is 2.87, and the calculated value of F is 1009.83.

Hence the calculated value is more than the table value of F, so Null hypothesis is rejected. It means that there is a difference among all the five banking groups regarding the Interest Income to Average Working Funds ratio. The performance of all the banking groups regarding this ratio is different.

4.2) Non-Interest Income to Average Working Funds Ratio :

Table No. 2.1 to 2.6 indicate about Non-Interest Income to Average Working Funds Ratio for each bank and each group. The analysis is as under:

Table 4.2.1

Non Interest Income to Average Working Funds for SBI Group during 97-98 to 01-02

Banks	Non Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	1.57	1.48	1.31	1.34	1.20	1.38
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	1.69	1.61	1.82	1.57	1.93	1.72
3 State Bank of Patiala	1.17	1.22	1.59	1.36	1.65	1.40
4 State Bank of Travancore	1.53	1.26	1.74	1.50	2.73	1.75
5 State Bank of Bikaner & Jaipur	2.08	1.81	1.99	1.92	2.25	2.01
6 State Bank of Mysore	1.69	1.78	2.12	1.86	1.53	1.80
7 State Bank of Indore	1.89	1.94	2.41	2.27	1.85	2.07
8 State Bank of Saurashtra	1.66	1.42	1.73	1.54	1.40	1.55
Average of State Bank Group [I+II]	1.66	1.57	1.84	1.67	1.82	1.71

[**Source** : IBA bulletin March 2002, 2003]

The Non-Interest Income includes exchange commission, brokerage, gains on sale & revaluation of investment & fixed assets, profits from exchange etc. the NII/AWF ratio shows the ability to earn from non-conventional sources. If this ratio is higher, it indicates the good sign for non-conventional earning performance. It is an operational parameter for performance of a Bank.

Table 4.2.1 shows the Non-Interest Income to Average Working Funds (NII/AWF) ratio in percentage for SBI group, which includes 7 associate Banks. By observing this table, the highest overall average is in 1999-2000 that is 1.84%. The Non-Interest Income is higher in State Bank of Bikaner & Jaipur, state Banks of Mysore & State Bank of Indore. However, the overall average is seen lower because of the performance of SBI main and state Bank of Patiala. The overall average during these five years is however, consistent and is above 1.50% and below 2%. This shows the average performance regarding the Non-Interest Income. If it is more than 2%, it is a very good sign of operational efficiency.

Table 4.2.2
Non Interest Income to Average Working Funds for other nationalized Banks during 97-98 to 01-02

Banks	Non Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Canara Bank	1.60	1.43	1.64	1.58	1.55	1.56
10 Punjab National Bank	1.59	1.23	1.43	1.31	1.45	1.40
11 Bank of Baroda	1.31	1.20	1.16	1.12	1.40	1.24
12 Bank of India	1.34	1.14	1.43	1.50	1.58	1.40
13 Central Bank of India	1.31	1.14	1.24	1.15	1.43	1.25
14 Union Bank of India	0.87	0.96	0.94	0.88	1.98	1.13
15 Indian Overseas Bank	1.01	1.04	0.99	1.03	1.14	1.04
16 Syndicate Bank	1.24	1.30	1.23	0.99	1.62	1.28
17 Oriental Bank of Commerce	1.10	1.00	1.00	1.00	1.87	1.19
18 Indian Bank	1.15	0.98	1.25	1.29	1.66	1.27
19 Uco Bank	1.19	1.03	1.14	1.27	1.50	1.23
20 Allahabad Bank	1.46	1.27	1.34	1.15	1.47	1.34
21 United Bank of India	1.10	0.80	0.78	0.86	1.65	1.04
22 Andhra Bank	1.40	1.48	1.73	1.16	1.34	1.42
23 Bank of Maharashtra	0.98	0.99	1.32	1.36	0.87	1.10
24 Corporation Bank	1.54	1.48	1.79	1.73	1.86	1.68
25 Dena Bank	1.71	1.13	1.38	1.10	1.12	1.29
26 Vijaya Bank	1.04	1.14	1.03	1.19	1.73	1.23
27 Punjab & Sind Bank	1.41	1.17	1.37	1.32	1.17	1.29
Average of 19 Nationalised Banks [III]	1.28	1.15	1.27	1.21	1.49	1.28

[**Source** : IBA bulletin March 2002, 2003]

Table 4.2.2 shows the NII/AWF in percentage for other 19 nationalized Banks. The weaker performance in operational efficiency can be seen in Union Bank of India, United Bank of India and Bank of Maharashtra which is below 1% in most of the years. Compared to this, Canara Bank, Punjab National Bank, Bank of India, Corporation Bank & Dena Bank have gotten good Non-Interest Income. Other Banks' performance is average and consistent. However the overall average is below 1.50% in every year, which is very much lower to SBI Group. Surprisingly a sudden swing must be considered in case of Union Bank of India in 2001-02.

Table 4.2.3

Non Interest Income to Average Working Funds for Old Private Sector Banks during 1997-98 to 2001-02

	Banks	Non Interest Income as % to Average Working Funds					AVG
		1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
	PRIVATE SECTOR BANKS						
1	Bharat Overseas Bank Ltd.	1.18	1.27	1.47	1.66	2.35	1.59
2	City Union Bank Ltd.	1.95	1.98	2.11	1.64	2.15	1.97
3	Development Credit Bank Ltd.	4.20	1.70	2.73	1.41	2.29	2.47
4	Lord Krishna Bank Ltd.	1.77	1.73	2.09	1.72	4.37	2.34
5	SBI Commercial & International Bank Ltd.	2.00	2.19	2.34	1.53	2.28	2.07
6	Tamilnad Mercantile Bank Ltd.	2.22	1.94	1.81	1.54	1.46	1.79
7	The Bank of Rajasthan Ltd.	1.40	1.23	1.38	1.33	2.02	1.47
8	The Benares State Bank Ltd.	1.83	1.04	1.66	1.52	-	1.51
9	The Catholic Syrian Bank Ltd.	1.61	1.08	1.61	1.62	2.84	1.75
10	The Dhanalakshmi Bank Ltd.	1.34	1.08	1.65	1.54	3.11	1.74
11	The Federal Bank Ltd.	1.75	1.57	1.76	1.57	2.17	1.76
12	The Ganesh Bank of Kurundwad Ltd.	1.03	0.97	0.66	0.49	1.44	0.92
13	The Jammu & Kasmir Bank Ltd.	1.19	0.69	1.25	0.79	1.75	1.13
14	The Karnataka Bank Ltd.	1.42	1.13	1.40	1.49	3.10	1.71
15	The Karur Vysya Bank Ltd.	3.09	1.47	1.71	1.37	2.05	1.94
16	The Lakshmi Vilas Bank Ltd.	2.56	2.37	2.94	2.44	3.02	2.67
17	The Nainital Bank Ltd.	0.50	0.51	0.59	0.44	0.52	0.51
18	The Nedungadi Bank Ltd.	2.03	1.42	1.69	1.60	4.44	2.24
19	The Ratnakar Bank Ltd.	1.32	1.05	1.95	1.73	3.92	1.99
20	The Sangli Bank Ltd.	2.49	1.47	1.71	1.04	1.96	1.73
21	The South Indian Bank Ltd.	1.00	1.13	1.88	1.55	2.11	1.53
22	The United Western Bank Ltd.	3.11	1.82	3.08	1.03	2.97	2.40
23	The Vysya Bank Ltd.	2.39	1.64	2.50	1.47	2.62	2.12
	Average of 23 Private Sector Banks [I]	1.89	1.41	1.82	1.41	2.50	1.81

[**Source** : IBA bulletin March 2002, 2003]

Table 4.2.3 shows the NII/AWF ratio in percentage for the old private sector 23 banks. By seeing this table, the overall average falls from 1.89 to 1.47 in 1998-99, again it goes up to 1.82 % in 1999-2000 and it goes down to 1.41% in 2000-01. The ratio is seen exceptionally higher in 2001-02 of 2.5 %. This exceptional ratio improves the overall scenario of five years duration.

The overall average reflects better Non-Interest Income performance of United Western Bank Ltd. in 1997-98 and 1999-2000 respectively. Moreover in 1997-98, the highest ratio of 4.20% of Development Credit Bank Ltd. is seen, may be there due to big profit in exchange or revaluation at assets. Very weak performance related to this ratio is of The Nainital Bank Ltd., which is below 0.60%

The overall average is much higher than the nationalized banks except SBI group in every year. Here there are some banks, which are able to show the brighter performance merely in a single year and are able to show better average. Such banks are Development Credit Bank Ltd., Lord Krishna Bank Ltd., The Bank of Rajasthan

Ltd., The Catholic Syrian Bank Ltd., The Dhanalaxmi Bank Ltd., and The Karnataka Bank Ltd.

Table 4.2.4
Non Interest Income to Average Working Funds for New Private Banks during 97-98 to 01-02

Banks	Non Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	3.65	1.84	2.41	1.78	3.02	2.54
25 HDFC Bank Ltd.	2.71	1.93	1.92	1.43	1.71	1.94
26 UTI Bank Ltd.	2.59	1.46	2.04	1.85	3.14	2.22
27 Global Trust Bank Ltd.	3.93	3.36	3.06	1.90	1.40	2.73
28 Indusind Bank Ltd.	3.51	1.72	2.50	1.69	0.55	1.99
29 Centurion Bank Ltd.	1.61	1.65	2.20	1.83	1.85	1.83
30 IDBI Bank Ltd.	1.43	1.12	1.46	1.41	1.81	1.45
31 Bank of Punjab Ltd.	2.99	2.42	1.90	1.41	2.89	2.32
Average of 8 New Private Sec.Banks [I]	2.80	1.94	2.19	1.66	2.05	2.13

[**Source** : IBA bulletin March 2002, 2003]

Table 4.2.4 shows NII/AWF ratio for new 8 private sector Banks. The overall average is highly impressive in this sector because of its operational efficiency in exchange commission of brokerages.

During the year 1997-98, ICICI Bank Ltd. Global Trust Bank Ltd. and Indusind Bank Ltd. have gotten excellent performance of above 3.50%. During 1998-99, only global Trust Bank has maintained this ratio and during 1999-2000, again global Trust Bank is the best. But in 2000-01, whatever may be the cause, every bank has the NII/AWF ratio of below 2%. During this year, global Trust Bank has the good performance of 1.90%. Thus among all the new private sector banks, as per as the Non-Interest Income / Average Working Funds Ratio is concerned, Global Trust Bank Ltd. is the best bank.

However, it can be seen that the overall average in operational efficiency to earn from non-conventional resources is higher that old private sector Banks in this group. It is also higher than nationalized banks.

Table 4.2.5
Non-Interest Income to Average Working Funds for Foreign Banks during 97-98 to 01-02

Banks	Non Interest Income as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
FOREIGN BANKS						
1 ABN-Amro	3.75	2.84	2.14	2.26	2.63	2.72
2 Abu Dhabi Commercial	1.75	1.47	1.51	0.81	0.46	1.20
3 American Express	4.05	3.53	5.14	6.80	6.47	5.20
4 Arab Bangladesh	2.68	3.01	2.55	2.91	2.82	2.79
5 Bank International l Indonesia	1.57	2.83	2.62	1.95	1.51	2.10
6 Bank Muscat International l	-	0.92	2.30	1.61	1.65	1.62
7 Bank of America	2.57	1.22	2.39	1.74	2.32	2.05
8 Bank of Bahrain and Kuwait	0.87	1.60	2.37	1.87	2.94	1.93
9 Bank of Ceylon	4.13	2.83	4.63	3.18	2.36	3.43
10 Barclays	4.79	1.93	0.62	1.45	5.45	2.85
11 BNP Pariba	2.18	2.37	2.22	1.76	1.12	1.93
12 Chinatrust Commercial	1.26	0.13	0.45	0.64	1.34	0.76

13 Cho Hung	2.62	2.26	1.79	2.34	2.06	2.21
14 Citibank	3.85	3.99	2.83	3.05	3.73	3.49
15 Commerz	2.60	2.95	1.60	1.50	6.56	3.04
16 Credit Agricole Indosuez	2.48	0.61	0.54	0.91	1.14	1.14
17 Credit Lyonnais	2.90	3.00	2.80	13.50	2.78	5.00
18 Deutsche	4.62	3.70	4.40	5.09	4.06	4.37
19 Dresdner	3.34	2.84	1.36	-0.10	2.94	2.08
20 Ing Bank	4.25	2.12	4.81	3.37	2.53	3.42
21 JP Chase Manhattan	12.46	16.17	21.75	16.93	12.22	15.91
22 KBC	-	-0.31	1.27	-0.09	2.82	0.92
23 Krung Thai	4.78	3.51	0.43	1.08	0.00	1.96
24 Mashreq	-0.55	1.17	1.50	1.54	2.92	1.32
25 MIZUHO Corporate Bank Ltd. -Fuji	1.23	0.71	0.72	1.19	1.03	0.98
26 Morgan Guaranty Trust	-	0.44	6.89	2.74	-	3.36
27 Oman International	1.79	2.15	1.71	2.10	1.06	1.76
28 Oversea-Chinese	2.64	3.62	2.36	1.58	0.00	2.04
29 Sakura	-2.27	-2.73	-1.28	0.84	-	-1.36
30 Societ Generale	1.59	1.80	2.28	2.30	1.51	1.90
31 Sonali	N.A.	21.72	7.98	12.41	8.78	12.72
32 Standard Chartered	3.38	2.93	2.83	3.16	2.73	3.01
33 Standard Chartered Grindlays	2.90	1.86	2.08	1.63	2.77	2.25
34 State Bank of Mauritius	2.56	1.95	1.95	1.70	3.05	2.24
35 Sumitomo	3.00	2.04	1.10	0.87	1.39	1.68
36 The Bank of Nova Scotia	2.49	2.68	2.54	1.13	1.24	2.02
37 The Bank of Tokyo - Mitsubishi	1.38	2.11	4.31	7.17	3.23	3.64
38 The Development Bank of Singapore	3.75	2.06	1.83	2.16	1.92	2.34
39 The Hongkong & Shanghai	2.97	2.23	2.38	2.78	2.50	2.57
40 The Siam Commercial	1.56	1.12	1.73	1.30	0.37	1.22
41 Toronto Dominion	9.67	0.68	1.85	1.58	0.00	2.76
42 UFG / Sanwa	0.87	1.59	1.19	1.39	0.93	1.19
Average of 42 Foreign Banks in India	2.68	2.75	2.82	2.96	2.68	2.78

[**Source** : IBA bulletin March 2002, 2003]

Table 4.2.5 shows the NII/AWF Ratio of foreign Banks the overall average is highly impressive in all the years although there are some fluctuations in some banks. The overall average of these 42 banks regarding efficiency in operational performance is more than

2.50% and it is a very good sign. This shows that the foreign banks are earning income from other sources more than interest may be the customers getting the services from these banks are not of loans but of exchanges and other services.

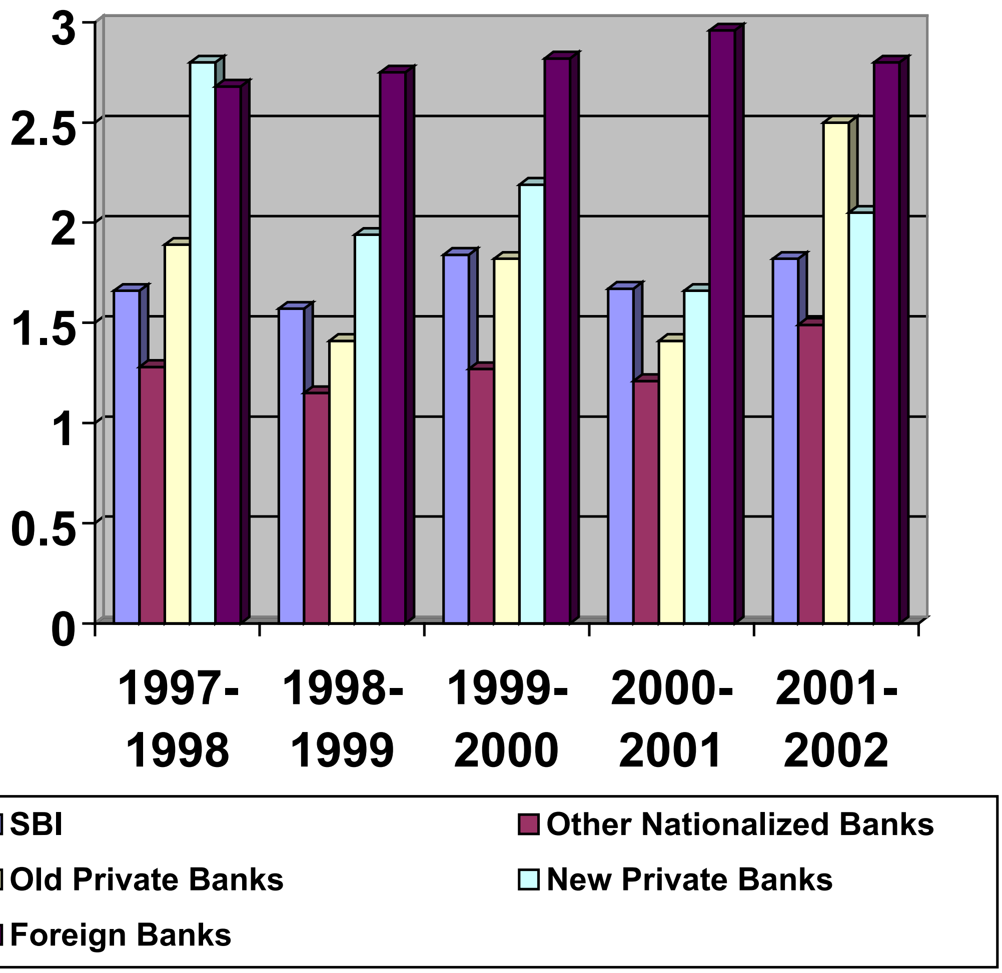
In this table, the main feature is that, some banks have gotten negative results. Mashreq and Sakura Bank, which are merged with Sumitomo now, KBC Bank and Dresdner Bank have gotten ratios which are negative in some years. No doubt, the performance of Mashreq Bank has been extremely improved after 1997-98. But Sakura performing poorly may be a reason of merger of Sumitomo.

The strong and good performance regarding this ratio is of American Express, Citibank, Hongkong & Shangai Bank, Standard Chartered ABN-Amro, Deutsche Bank (the highest), American express Banks etc. The excellent foreign bank in NII/AWF Ratio is J.P.Chase Manhattan Bank. Which has achieved NII/AWF Ratio of 12.46%, 16.17%, 21.75%, 16.93% & 12.22% respectively from 1997-98 to 2001-02. For a year only in 1998-99, Sonali Bank had provided inspiration to other banks to perform like it with the ratio of 21.72%.

The cause of Negative NII/AWF Ratio may be more Non-Interest payment than Non-Interest Income.

Table 4.2.6
Non-Interest Income to Average Working Funds for all the five Banking groups from 1997-98 to 2001-02 (in percent)

	Banking Groups	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	AVG (%)
1	SBI	1.66	1.57	1.84	1.67	1.82	1.71
2	Other Nationalized Banks	1.28	1.15	1.27	1.21	1.49	1.28
3	Old Private Banks	1.89	1.41	1.82	1.41	2.50	1.81
4	New Private Banks	2.80	1.94	2.19	1.66	2.05	2.13
5	Foreign Banks	2.68	2.75	2.82	2.96	2.68	2.78
	AVG (%)	2.06	1.76	1.99	1.78	2.11	1.94



Above table no. 4.2.6 and above chart show Non-Interest Income to Average Working Funds in % for all the banking groups for five years from 1997-98 to 2001-02. As Interest Income was very low in case of foreign banks, here Non-Interest Income, which is the main source of Income of foreign banks is seen very attractive. The culture of earning more interest, attitude of ignoring subsidiary services is clearly reflected in above table & chart as Non-Interest Income in case of SBI Group and other nationalized banks is seen less in the most cases comparatively.

Non-Interest Income to Average Working Funds Ratio

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Non-Interest Income to Average Working Funds Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

<u>Null Hypothesis</u> :

There is no significant difference regarding the Non-Interest Income to Average Working Funds among all the five banking groups in the period during 1997-98 to 2001-02.

$H0 = \mu1 = \mu2 = \mu3 = \mu4 = \mu5$

$H1 = \mu1 \neq \mu2 \neq \mu3 \neq \mu4 \neq \mu5$

Anova Table

Source of Variable	SS	DF	MS	F Ratio	5% F Limit (From table F)
Between Sample	100.13	(5-1) = 4	25.03	295.91	F (4,20) 2.87
Within Sample	1.69	(25-5) = 20	0.08		

Since the calculated value of F is 295.91, which is more than the table value 2.87 at 5% level of significance, the null hypothesis is rejected. It says that there is a significant difference between all the five banking groups regarding non-interest income to average working funds ratio.

4.3) <u>Capital Adequacy Ratio (in Percent)</u>

Capital adequacy Ratio is a solid indicator of Bank's long-term solvency. The RBI has bound the minimum 9% CAR based on Tier. I/II capital. It is a Ratio between Net Worth and risk-weighted assets. If this ratio is higher, it means that the bank is well capitalized vis-à-vis its perceived risks.

Table 4.3.1
Capital Adequacy Ratio for SBI Group during 1997-98 to 2001-02

Banks	Capital Adequacy Ratio (in Percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	14.58	12.51	11.49	12.79	13.35	12.94
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	10.83	10.65	10.86	12.28	13.42	11.61
3 State Bank of Patiala	13.24	12.47	12.60	12.37	14.03	12.94
4 State Bank of Travancore	10.27	11.09	11.09	11.79	12.78	11.40
5 State Bank of Bikaner & Jaipur	10.65	12.26	12.35	12.39	11.81	11.89
6 State Bank of Mysore	11.61	10.23	11.50	11.16	12.55	11.41
7 State Bank of Indore	9.83	12.35	11.26	12.73	13.20	11.87
8 State Bank of Saurashtra	18.14	14.35	14.48	13.89	12.54	14.68
Average of State Bank Group [I+II]	12.39	11.99	11.95	12.43	12.96	12.34

[**Source** : IBA bulletin March 2002, 2003]

Table 4.3.1 shows CAR in SBI group. The average shows more than or around 12% CAR in all the years. It is 3% more than the minimum CAR. This shows that SBI group is well capitalized. SBS, State Bank of Patiala and SBI main, State Bank of Bikaner & Jaipur etc. are well capitalized to its perceived risks. It shows operational efficiency also. Other Banks have also tried to maintain good CAR. State Bank of Saurashtra has obtain the highest capital adequacy ratio in all the years among the Banks of SBI group. It shows a very good operational efficiency as well as capital adequacy.

Table 4.3.2

Capital Adequacy Ratio for other nationalized Banks during 1997-98 to 2001-02

Banks	Capital Adequacy Ratio (in Percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Canara Bank	9.54	10.96	9.64	9.84	10.62	10.12
10 Punjab National Bank	8.81	10.79	10.31	10.24	12.59	10.55
11 Bank of Baroda	12.05	13.30	12.10	12.80	11.32	12.31
12 Bank of India	9.11	11.45	10.57	12.23	10.68	10.81
13 Central Bank of India	10.40	11.88	11.18	10.02	11.16	10.93
14 Union Bank of India	10.86	10.09	11.42	10.86	11.88	11.02
15 Indian Overseas Bank	9.34	10.15	9.15	10.24	9.58	9.69
16 Syndicate Bank	10.50	9.57	11.45	11.72	17.90	12.23
17 Oriental Bank of Commerce	15.28	14.10	12.72	11.81	7.64	12.31
18 Indian Bank	1.41	-9.00	-12.00	-	1.70	-4.47
19 Uco Bank	9.07	9.63	9.15	9.05	10.82	9.54
20 Allahabad Bank	11.64	10.38	11.51	10.50	10.99	11.00
21 United Bank of India	8.40	9.60	9.60	10.40	10.70	9.74
22 Andhra Bank	12.37	11.02	13.36	13.42	10.70	12.17
23 Bank of Maharashtra	10.90	9.76	11.66	10.64	12.12	11.02
24 Corporation Bank	16.90	13.20	12.80	13.03	9.64	13.11
25 Dena Bank	11.88	11.14	11.63	7.73	11.07	10.69
26 Vijaya Bank	10.30	10.00	10.61	11.50	12.02	10.89
27 Punjab & Sind Bank	11.39	10.94	11.57	11.42	12.25	11.51
Average of 19 Nationalised Banks [III]	10.53	9.95	9.92	10.39	10.81	10.32

[**Source** : IBA bulletin March 2002, 2003]

The above table reveals that during these five years, other nationalized bank's performance regarding capital adequacy ratio is average. It is around to 10%. The table shows that there is a very poor condition regarding adequate capital in Indian bank. It is negative and negligible during last 3 or 4 years. In the year of 2000-

01, Dena Bank's CAR is also very low. In 2001-02, CAR of oriental bank of commerce is seen of 7.64%, which hurts RBI guidelines-advocating CAR of 9%. The other banks have maintained the standards.

Table 4.3.3
Capital Adequacy Ratio for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Capital Adequacy Ratio (in Percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	13.00	13.70	12.68	14.43	15.09	13.78
2 City Union Bank Ltd.	11.60	14.30	13.33	13.59	13.97	13.36
3 Development Credit Bank Ltd.	19.79	16.90	11.34	11.28	11.49	14.16
4 Lord Krishna Bank Ltd.	8.22	11.85	11.25	12.90	16.50	12.14
5 SBI Commercial & International l Bank Ltd.	27.69	28.90	24.32	19.85	22.10	24.57
6 Tamilnad Mercantile Bank Ltd.	19.11	18.40	18.02	17.59	18.02	18.23
7 The Bank of Rajasthan Ltd.	5.54	0.83	5.73	10.57	12.07	6.95
8 The Benares State Bank Ltd.	4.12	-	-	-	-	4.12
9 The Catholic Syrian Bank Ltd.	3.04	6.06	5.94	6.08	9.57	6.14
10 The Dhanalakshmi Bank Ltd.	11.39	10.06	10.02	9.69	11.23	10.48
11 The Federal Bank Ltd.	9.43	10.32	11.33	10.29	10.63	10.40
12 The Ganesh Bank of Kurundwad Ltd.	8.04	8.26	9.14	9.11	10.08	8.93
13 The Jammu & Kasmir Bank Ltd.	20.48	22.48	18.82	17.44	15.46	18.94
14 The Karnataka Bank Ltd.	13.23	10.85	11.04	11.37	12.96	11.89
15 The Karur Vysya Bank Ltd.	14.47	14.53	15.16	15.56	16.90	15.32
16 The Lakshmi Vilas Bank Ltd.	10.35	9.64	10.45	10.21	11.54	10.44
17 The Nainital Bank Ltd.	9.46	13.81	15.11	15.81	14.88	13.81
18 The Nedungadi Bank Ltd.	12.85	10.24	9.04	-	-1.99	7.54
19 The Ratnakar Bank Ltd.	10.41	9.72	11.56	10.00	13.60	11.06
20 The Sangli Bank Ltd.	10.98	11.58	12.13	11.47	11.64	11.56
21 The South Indian Bank Ltd.	9.40	10.40	10.41	11.17	11.20	10.52
22 The United Western Bank Ltd.	9.87	11.64	11.94	9.59	9.79	10.57
23 The Vysya Bank Ltd.	12.48	10.63	12.24	12.05	11.57	11.79
Average of 23 Private Sector Banks [I]	11.95	12.50	11.78	11.31	12.65	12.04

[**Source** : IBA bulletin March 2002, 2003]

Table 4.3.3 indicates the capital adequacy ratio of old private sector banks. By observing this table, it can be said that the Jammu & Kashmir Bank Ltd., The Tamilnad Mercantile Bank Ltd., and The SBI commercial & International Bank Ltd., have the out-standing performance regarding capital adequacy to their risk weighted assets. It shows their long-term solvency also. The poor performance regarding CAR can be seen in Catholic Syrian Bank, The Bank of Rajasthan Ltd., and The Benares State Bank Ltd. Other Banks have obtained CAR almost more than the RBI standards.

Table 4.3.4
Capital Adequacy Ratio for New Private Banks during 1997-98 to 2001-02

Banks	Capital Adequacy Ratio (in Percent)					AVG
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	13.48	11.06	19.64	11.57	12.82	13.71
25 HDFC Bank Ltd.	13.92	11.86	12.19	11.09	4.16	10.64
26 UTI Bank Ltd.	9.72	11.64	11.37	9.00	11.21	10.59
27 Global Trust Bank Ltd.	10.28	11.97	13.68	12.71	13.93	12.51
28 Indusind Bank Ltd.	17.91	15.16	13.24	15.00	11.44	14.55
29 Centurion Bank Ltd.	20.00	8.45	9.31	9.61	9.59	11.39
30 IDBI Bank Ltd.	9.82	11.26	11.80	11.72	12.51	11.42
31 Bank Punjab Ltd.	16.34	14.64	9.81	11.02	10.65	12.49
Average of 8 New Private Sec.Banks [I]	13.93	12.01	12.63	11.47	10.79	12.16

[**Source** : IBA bulletin March 2002, 2003]

Table 4.3.4 shows the capital adequacy ratio of new private sector banks. The performance regarding CAR is outstanding in Indusind Bank Ltd. ICICI Bank and HDFC Bank are also having sufficient capital vis-à-vis their risk weighted assets as per RBI standards. The average falls within 11 to 13% in this period of five years which seems consistent. Aggregately new private sector banks have performed superbly in the ear of CAR.

Table 4.3.5
Capital Adequacy Ratio for Foreign Banks during 1997-98 to 2001-02

Banks	**Capital Adequacy Ratio(in Percent)**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
FOREIGN BANKS						
1 ABN-Amro	9.82	9.27	10.09	11.42	13.17	10.75
2 Abu Dhabi Commercial	10.29	10.01	10.61	10.05	10.42	10.28
3 American Express	9.86	9.25	10.09	9.59	10.71	9.90
4 Arab Bangladesh	146.00	124.00	123.00	96.34	138.51	125.57
5 Bank International Indonesia	28.03	57.26	59.92	103.78	123.03	74.40
6 Bank Muscat International	-	212.45	70.06	34.55	28.33	86.35
7 Bank of America	8.95	9.26	12.93	13.03	21.07	13.05
8 Bank of Bahrain and Kuwait	10.48	13.38	12.30	11.83	17.03	13.00
9 Bank of Ceylon	40.05	37.05	29.07	36.49	30.94	34.72
10 Barclays	14.52	12.90	17.75	26.97	63.56	27.14
11 BNP Pariba	8.80	9.09	9.55	9.92	9.66	9.40
12 Chinatrust Commercial	146.33	28.25	25.56	28.27	40.11	53.70
13 Cho Hung	46.00	42.00	38.00	35.00	27.65	37.73
14 Citibank	8.61	10.00	10.62	11.24	11.04	10.30
15 Commerz	12.81	15.81	17.58	15.05	171.58	46.57
16 Credit Agricole Indosuez	8.41	8.59	11.82	11.60	11.23	10.33
17 Credit Lyonnais	8.70	9.90	9.70	10.60	10.30	9.84
18 Deutsche	9.69	9.50	10.68	12.67	14.55	11.42
19 Dresdner	16.89	19.36	18.69	10.66	39.00	20.92

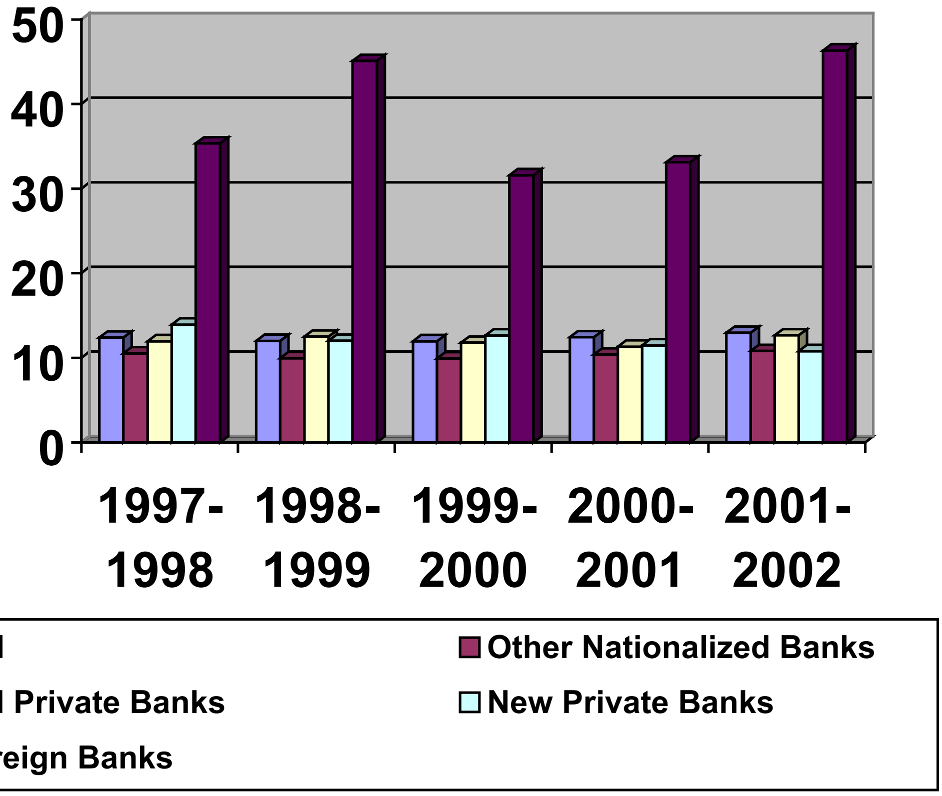
20 Ing Bank	12.91	12.79	21.15	15.00	12.47	14.86
21 JP Chase Manhattan	13.03	12.53	45.86	43.79	85.88	40.22
22 KBC	-	95.00	18.51	23.01	96.75	58.32
23 Krung Thai	347.22	236.00	197.74	148.99	167.65	219.52
24 Mashreq	29.84	12.13	9.04	10.54	20.54	16.42
25 MIZUHO Corporate Bank Ltd. -Fuji	43.45	23.62	25.29	18.38	11.14	24.38
26 Morgan Guaranty Trust	-	413.00	89.00	79.00	-	193.67
27 Oman International	13.38	9.07	11.08	14.21	18.86	13.32
28 Oversea-Chinese	90.93	94.00	98.34	168.11	192.12	128.70
29 Sakura	11.84	10.29	15.01	16.21	-	13.34
30 Societ Generale	10.74	12.50	13.95	13.93	12.82	12.79
31 Sonali	27.80	38.39	24.91	88.14	113.64	58.58
32 Standard Chartered	8.50	8.30	9.50	9.60	9.28	9.04
33 Standard Chartered Grindlays	9.05	9.04	10.93	12.52	13.08	10.92
34 State Bank of Mauritius	73.50	46.78	35.23	30.78	46.78	46.61
35 Sumitomo	40.67	16.58	18.54	19.40	20.96	23.23
36 The Bank of Nova Scotia	10.30	9.06	9.67	9.97	10.12	9.82
37 The Bank of Tokyo - Mitsubishi	8.73	9.92	17.62	15.51	15.36	13.43
38 The Development Bank of Singapore	31.47	23.26	18.14	15.93	13.31	20.42
39 The Hongkong & Shanghai	9.82	9.31	10.30	12.37	10.92	10.54
40 The Siam Commercial	30.00	39.00	30.06	33.23	-13.33	23.79
41 Toronto Dominion	86.61	74.23	51.98	57.87	173.28	88.79
42 UFG / Sanwa	30.35	31.97	36.17	34.91	29.44	32.57
Average of 42 Foreign Banks in India	35.34	45.10	31.57	33.11	46.32	38.29

[**Source** : IBA bulletin March 2002, 2003]

Table 4.3.5 shows a highly fluctuated CAR in foreign banks within this period of five years. The average of CAR in all the foreign Banks is highly impressive. In some banks CAR is more than 50% and more than 100% also. This indicates that it may be over capitalized bank in relation to its risk weighted assets. The business of foreign banks is very much selective to some class and risk is minimum. On the other hand, capital is sufficient. This may be a reason for this much good result. Even though maintaining RBI guidelines of CAR, some foreign banks are seen weaker comparatively. These banks are American Express Bank BNP Pariba Bank, Credit Lynnais Bank, standard chartered Bank and The Bank of Nova scotia.

Table 4.3.6
Capital Adequacy Ratio for all the five banking groups from 1997-98 to 2001-02 (in percent)

	Banks Groups	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	AVG (%)
1	SBI	12.39	11.99	11.95	12.43	12.96	12.34
2	Other Nationalized Banks	10.53	9.95	9.92	10.39	10.81	10.32
3	Old Private Banks	11.95	12.50	11.78	11.31	12.65	12.04
4	New Private Banks	13.93	12.01	12.63	11.47	10.79	12.16
5	Foreign Banks	35.34	45.10	31.57	33.11	46.32	38.29
	AVG (%)	16.83	18.31	15.57	15.74	18.71	17.03



Above stated Table no. 4.3.6 and chart represent Capital Adequacy Ratio for all the five banking groups. Primarily CAR represents the soundness of capital funds but on another side it represents the performance of risk-weighted assets. CAR is seen at the highest level in case of foreign banks. This does not only mean that the capital funds are very much sound in foreign banks but is also means that there is lack of courage in investing in risk-weighted assets. Here, we must appreciate SBI group, other nationalized banks group, Old Private Bank group, and New Private Bank group, which have invested large amount in the core sector of India and shown their attachment and firm intension for the development of nation. As the risk-weighted assets are very high in the banking groups except foreign banks, even though the capital funds are very sound, their capital Adequacy Ratio is very low comparatively.

Capital Adequacy Ratio (CAR)

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to capital Adequacy Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null Hypothesis :

There is no significant different in capital adequacy ratio among all the five banking groups during 1997-98 to 2001-02.

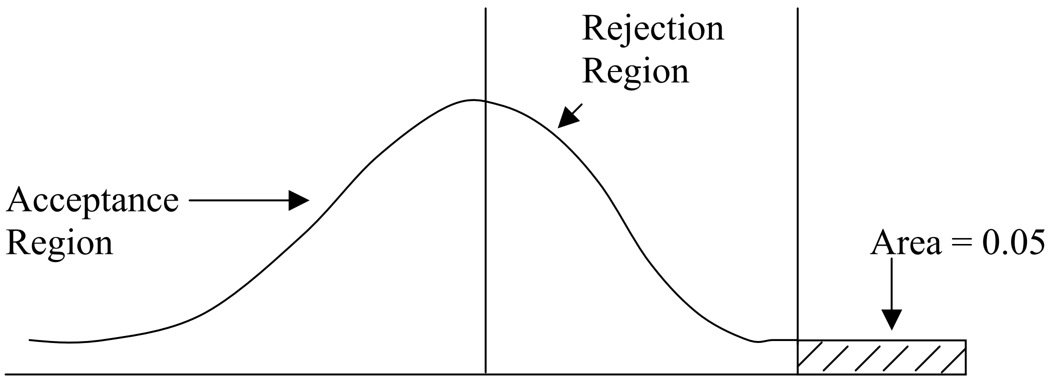
$$H0 = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$$

$$H1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$$

Anova Table

Source of Variable	SS	DF	MS	F Ratio	5% F Limit (From table F)
Between Sample	10288.59	(5-1) = 4	2572.15	5.21	F (4,20) 2.87
Within Sample	9866.55	(25-5) = 20	493.33		

The above ANOVA table indicates that the calculated value of F is 5.21, which is more than the table value of 2.87 at 5% level of significance. Hence, the null hypothesis is rejected. It means that there is a significant difference in capital adequacy ratio between all the five banking groups.



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CHAPTER – 5

ANALYSIS OF PROFITABILITY OF INDIAN BANKING SECTOR

5.1 OPERATING PROFIT TO AVERAGE WORKING FUNDS RATIO

5.1.1 Operating Profit To Average Working Funds Ratio for SBI group during 1997-98 to 2001-02.

5.1.2 Operating Profit To Average Working Funds Ratio for other nationalized banks during 1997-98 to 2001-02.

5.1.3 Operating Profit To Average Working Funds Ratio for old private sector banks during 1997-98 to 2001-02.

5.1.4 Operating Profit To Average Working Funds Ratio for new private banks during 1997-98 to 2001-02.

5.1.5 Operating Profit To Average Working Funds Ratio for foreign banks during 1997-98 to 2001-02.

5.1.6 Operating Profit To Average Working Funds Ratio for for all the five banking groups during 1997-98 to 2001-02.

5.2 REPORTED NET PROFIT TO REPORTED NET WORTH RATIO (RETURN ON ASSETS RATIO)

5.2.1. Return on Assets Ratio for SBI group during 1997-98 to 2001-02

5.2.2. Return on Assets Ratio for other nationalized banks during 1997-98 to 2001-02.

5.2.3. Return on Assets Ratio for old private sector banks during 1997-98 to 2001-02.

5.2.4. Return on Assets Ratio for new private banks during 1997-98 to 2001-02

5.2.5. Return on Assets Ratio for foreign banks during 1997-98 to 2001-02

5.2.6. Return on Assets Ratio for all the five banking groups during 1997-98 to 2001-02

Profitability is the most important parameter for performance appraisal of any business organization. In the changing economic environment, it is very important to get idea of profitability of various banking groups. This chapter deals with the profitability analysis of Indian Banking Sector.

The ratios, formulas and terms related to profitability of banks are as under :

5.1 Operating Profit To Average Working Funds Ratio

This ratio relates bank's operating profit with its average working funds. The profit from operations is very much important as well as its percentage to average working funds. Higher the ratio shows higher profitability of a bank. The formula to calculate this ratio is-

$$\frac{\text{Operating Profit}}{\text{Average Working Fund}} \; 2 \; 100$$

Operating Profit (OP) :

Operating Profit means net profit before provisions and contingencies. This is an indicator of a bank's Profitability at the operating level. In other words it shows a bank's operating efficiency.

Average Working Funds (AWF)

This term is explained in chapter-4.

Working Funds (WF)

This term too is explained in chapter-4.

5.2 Return on Assets Ratio

This is another indicator to measure profitability. How much return achieved on the assets, is an important factor. After the deductions from operating profit, net profit is found. The formula of this ratio is

$$\text{ROA in \%} = \frac{\text{Reported Net Profit}}{\text{Reported Net Worth}} \; 2 \; 100$$

Reported Net Profit To Reported Net Worth (RNP/RNW) or Return on Assets (ROA) in % :

This ratio is the equivalent of the return on net worth ratio used in other industries too. It is a good indicator of Profitability and return on Shareholders' funds.

Net Profit :

The net profit will be achieved by deducting provisions and contingencies from the operating profit. It is an important indicator to measure the profitability of a bank on any other organization.

Net Worth :

Net Worth can be found by deducting total liabilities from the total assets. The another way to get net worth is total capital + reserves & surplus. The bank's long-term solvency can be measured with the use of net worth. It is the strength of a bank.

5.1 Operating Profit To Average Working Funds Ratio

This ratio is a profitability parameter for the performance of a bank. This Ratio relates to operating profit with average working funds. It is an indicator of bank's profitability at the operating level. If this ratio improves, operating efficiency is believed increased.

Table 5.1.1
Operating Profit to Average Working Funds Ratio for SBI Group during 1997-98 to 2001-02

Banks	Operating Profit as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	1.96	1.55	1.55	1.33	1.74	1.63
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	2.85	2.30	2.81	2.44	2.51	2.58
3 State Bank of Patiala	2.48	2.34	3.24	3.19	2.71	2.79
4 State Bank of Travancore	2.06	1.30	1.75	1.78	3.40	2.06
5 State Bank of Bikaner & Jaipur	2.50	1.79	2.15	2.15	2.27	2.17
6 State Bank of Mysore	2.21	1.79	2.10	1.50	3.26	2.17
7 State Bank of Indore	2.37	2.50	2.32	2.91	2.36	2.49
8 State Bank of Saurashtra	2.12	1.91	2.46	1.59	1.95	2.01
Average of State Bank Group [I+II]	2.32	1.94	2.30	2.11	2.53	2.24

[**Source** : IBA bulletin March 2002, 2003]

In SBI group, OP/AWF ratio has been decreased from 1997-98 to 2000-01 in SBI main. In Associate Banks, the OP of state Bank of patiala has drastically improved from 2.48% to 3.19. There is a point to be noted that in 98-99, all the Banks' Ratio goes down except State Bank of India, indicate the profit from the operation of banks is low. The banks are weak in their operations. So it is challenge before the management of banks to improve operations. The overall average in 1998-99 goes down from 2.32 to 1.94%. Then again in 1999-2000, the performance related to operating level, is improved in all the banks except State Banks of Indore. It remains almost consistent for the next year also. The table indicates the higher profitability at operating level.

Table 5.1.2
Operating Profit to Average Working Funds Ratio for other nationalized Banks during 1997-98 to 2001-02

Banks	Operating Profit as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Canara Bank	1.74	2.17	1.82	1.95	1.65	1.87
10 Punjab National Bank	2.00	1.85	1.61	1.59	2.03	1.82
11 Bank of Baroda	1.95	1.95	1.79	1.64	1.85	1.84
12 Bank of India	1.61	1.41	1.24	1.34	2.02	1.52
13 Central Bank of India	1.29	0.89	1.11	1.15	1.93	1.27
14 Union Bank of India	1.46	1.13	1.24	1.44	2.29	1.51
15 Indian Overseas Bank	0.75	0.59	0.70	1.04	1.34	0.88
16 Syndicate Bank	0.76	0.89	1.13	1.05	2.64	1.29
17 Oriental Bank of Commerce	2.60	2.30	2.20	2.00	1.78	2.18
18 Indian Bank	-	-	0.11	0.25	1.01	0.46
19 Uco Bank	0.09	0.21	0.81	0.91	1.74	0.75
20 Allahabad Bank	1.65	1.42	1.32	1.26	2.84	1.70
21 United Bank of India	1.28	0.30	0.47	0.71	1.19	0.79
22 Andhra Bank	1.86	1.58	2.15	1.41	2.02	1.80
23 Bank of Maharashtra	1.30	1.24	1.65	1.46	1.12	1.35
24 Corporation Bank	3.23	2.28	2.82	3.15	1.52	2.60
25 Dena Bank	2.55	1.59	1.43	0.38	1.96	1.58
26 Vijaya Bank	0.81	1.13	1.10	1.36	1.04	1.09
27 Punjab & Sind Bank	1.22	0.95	0.87	0.82	1.56	1.08
Average of 19 Nationalised Banks [III]	1.48	1.26	1.35	1.31	1.76	1.43

[**Source** : IBA bulletin March 2002, 2003]

Table 5.1.2 shows the OP/AWF ratio for other 19 nationalized banks. The overall average is very low compared to SBI group. It was highest of 3.23% in 1997-98 and the lowest of 0.09% too in

1997-98. For Indian Bank, this ratio is not seen in 1997-98 & 1998-99, after that too it is very much low. Same way, UCO Bank, Indian Overseas Bank & Syndicate Bank are very much poor in case of operating profit. That's why the overall average has come down. While in some banks, Operating efficiency has been high, because the ratio is also high. This is a very good sign. Operating profit may be more because of interest and Non-Interest Income are more. Canara Bank, Punjab national Bank, Bank of Baroda, Oriental Bank of Commerce, Corporation Bank & Dena Bank are very good at the profitability point of view. But in Dena Bank, Operating profit has gone down from 2.55% in 1997-98 to 0.38% in 2000-01.

This profitability trend goes down may be because of competition with other private sector Banks. Since 1998-99, the private sector banks are becoming more popular as they provide good facilities and better banking environment to their customers. Due to increasing banking share of private sector banks, interest and Non-Interest Income might have come down in other nationalized banks.

Table 5.1.3

Operating Profit to Average Working Funds Ratio for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Operating Profit as % to Average Working Funds					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	1.68	1.17	1.50	2.37	2.93	1.93
2 City Union Bank Ltd.	1.98	1.79	3.12	2.81	2.92	2.52
3 Development Credit Bank Ltd.	3.60	1.59	2.56	1.86	2.47	2.42
4 Lord Krishna Bank Ltd.	1.68	0.91	1.61	1.24	2.93	1.67
5 SBI Commercial & International Bank Ltd.	2.27	2.32	3.19	1.31	1.86	2.19
6 Tamilnad Mercantile Bank Ltd.	4.02	2.73	2.63	3.08	2.82	3.06
7 The Bank of Rajasthan Ltd.	0.89	-0.31	0.47	1.36	1.69	0.82
8 The Benares State Bank Ltd.	0.13	-0.95	0.06	-0.70	-	-0.37
9 The Catholic Syrian Bank Ltd.	1.02	0.22	0.98	1.63	2.60	1.29
10 The Dhanalakshmi Bank Ltd.	1.74	1.07	2.02	1.01	2.68	1.70
11 The Federal Bank Ltd.	1.87	0.69	1.80	2.35	3.01	1.94
12 The Ganesh Bank of Kurundwad Ltd.	9.92	0.59	0.89	0.44	1.14	2.60
13 The Jammu & Kasmir Bank Ltd.	3.33	2.74	2.77	2.66	3.14	2.93
14 The Karnataka Bank Ltd.	3.03	1.69	1.57	2.27	3.23	2.36
15 The Karur Vysya Bank Ltd.	3.92	2.23	3.23	2.80	3.17	3.07
16 The Lakshmi Vilas Bank Ltd.	2.05	1.70	2.73	2.49	2.72	2.34
17 The Nainital Bank Ltd.	1.64	2.00	1.88	1.80	1.83	1.83
18 The Nedungadi Bank Ltd.	2.23	1.08	1.77	0.04	2.20	1.46
19 The Ratnakar Bank Ltd.	1.70	1.32	1.74	1.99	3.69	2.09
20 The Sangli Bank Ltd.	2.83	1.15	1.43	1.31	1.50	1.64
21 The South Indian Bank Ltd.	1.16	1.08	2.02	2.29	2.64	1.84
22 The United Western Bank Ltd.	3.29	2.06	3.63	1.13	2.99	2.62
23 The Vysya Bank Ltd.	1.98	0.91	1.62	1.36	1.91	1.56
Average of 23 Private Sector Banks [I]	2.52	1.29	1.97	1.69	2.55	2.00

[**Source** : IBA bulletin March 2002, 2003]

Table 5.1.3 shows the OP /AWF ratio of 23 Old Private Sector Banks. Negative results means operating loss has been seen in some Banks also. The average is good but not as good as SBI group. Only 1997-98 & 2001-02 have a good average and it is 2.52% & 2.55%

respectively. In Ganesh Bank in 1997-98, the ratio is of 9.92% surprisingly and after that, the average has drastically fallen down. The Jammu & Kashmir Bank Ltd. Which was India's best Bank in 2001-02 (according to Financial Express Survey) has gotten a very good profitability. The Karur Vysya Bank Ltd., United Western Bank Ltd., Development & Credit Banks Ltd. are also having better performance in profitability at operating level. As far as the poor profitability is concerned, we must not some banks, which are The Bank of Rajasthan Ltd., and The Benaras State Bank Ltd.

Table 5.1.4

Operating Profit to Average Working Funds Ratio for New Private Banks during 1997-98 to 2001-02

Banks	**Operating Profit as % to Average Working Funds**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	4.31	2.57	2.81	2.35	1.92	2.79
25 HDFC Bank Ltd.	4.49	3.52	4.18	2.83	0.35	3.07
26 UTI Bank Ltd.	2.32	2.14	2.60	1.50	2.03	2.12
27 Global Trust Bank Ltd.	3.93	2.40	4.13	2.32	2.29	3.01
28 Indusind Bank Ltd.	4.56	2.29	3.29	2.51	0.52	2.63
29 Centurion Bank Ltd.	2.42	1.16	1.61	1.08	1.85	1.62
30 IDBI Bank Ltd.	2.32	1.67	2.22	1.39	2.47	2.01
31 Bank Punjab Ltd.	3.11	2.36	2.22	2.13	2.85	2.53
Average of 8 New Private Sec.Banks [I]	3.43	2.26	2.88	2.01	1.79	2.48

[**Source** : IBA bulletin March 2002, 2003]

Table 5.1.4 shows the operating efficiency of 8 new private Banks. It is clear that the profitability at operating level is excellent in each Bank in each year. However, the ratio trend goes down from 1997-98 to 01-02 because of may be lower operating profit or higher working funds. But compared to all nationalized & private Banks groups, this group has gotten the consistent performance. ICICI, HDFC, Indusind Bank, & Global Trust Banks are better in profitability. This shows an efficiency of these banks at operating level. The strategies & policies of these banks may be more attractive than others.

Table 5.1.5
Operating Profit to Average Working Funds Ratio for Foreign Banks during 1997-98 to 2001-02

Banks	**Operating Profit as % to Average Working Funds**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
FOREIGN BANKS						
1 ABN-Amro	4.03	4.13	3.92	3.61	3.68	3.87
2 Abu Dhabi Commercial	2.58	2.43	2.50	1.35	0.90	1.95
3 American Express	3.62	1.79	2.70	2.13	3.80	2.81
4 Arab Bangladesh	3.96	6.19	6.12	6.91	6.47	5.93
5 Bank International Indonesia	0.62	-5.79	-9.81	-8.05	0.22	-4.56
6 Bank Muscat International	-	-	0.88	1.20	1.93	1.34
7 Bank of America	4.94	3.10	2.15	3.46	3.47	3.42
8 Bank of Bahrain and Kuwait	0.18	1.00	2.14	1.75	2.72	1.56
9 Bank of Ceylon	8.28	7.19	10.12	5.75	5.50	7.37
10 Barclays	2.44	1.91	-0.45	-0.11	4.51	1.66
11 BNP Pariba	4.05	3.01	2.66	1.53	-0.60	2.13

12	Chinatrust Commercial	1.09	0.52	1.07	2.13	4.18	1.80
13	Cho Hung	9.24	6.65	2.26	8.00	6.44	6.52
14	Citibank	4.41	3.89	3.87	4.05	3.97	4.04
15	Commerz	2.74	2.01	0.66	1.01	-12.05	-1.13
16	Credit Agricole Indosuez	0.13	0.49	-0.10	0.02	0.49	0.21
17	Credit Lyonnais	4.80	5.00	4.40	3.80	2.26	4.05
18	Deutsche	7.77	5.58	5.60	6.50	4.39	5.97
19	Dresdner	2.51	1.92	1.73	-2.42	-10.87	-1.43
20	Ing Bank	2.98	1.22	4.39	-3.17	0.06	1.10
21	JP Chase Manhattan	5.35	4.14	11.78	13.56	8.29	8.62
22	KBC	-	-0.91	1.80	0.68	-6.17	-1.15
23	Krung Thai	5.50	5.85	3.53	5.00	4.37	4.85
24	Mashreq	0.21	0.05	0.40	0.47	3.26	0.88
25	MIZUHO Corporate Bank Ltd. -Fuji	3.79	1.55	-0.31	1.60	1.10	1.55
26	Morgan Guaranty Trust	-	-	2.10	0.21	-	1.16
27	Oman International	1.36	0.04	-	-	-2.05	-0.22
28	Oversea-Chinese	1.26	5.05	4.15	4.21	-7.17	1.50
29	Sakura	3.84	2.36	2.93	3.26	-	3.10
30	Societ Generale	2.12	1.96	0.68	0.65	-0.13	1.06
31	Sonali	N.A.	18.30	5.22	8.54	3.67	8.93
32	Standard Chartered	2.80	3.47	4.15	4.07	4.12	3.72
33	Standard Chartered Grindlays	4.90	2.99	4.12	2.58	2.45	3.41
34	State Bank of Mauritius	9.60	3.76	4.62	4.12	4.56	5.33
35	Sumitomo	3.00	4.16	2.60	0.72	3.30	2.76
36	The Bank of Nova Scotia	4.03	4.32	4.07	2.64	2.70	3.55
37	The Bank of Tokyo - Mitsubishi	-18.01	-2.67	-2.13	8.88	3.04	-2.18
38	The Development Bank of Singapore	2.92	2.90	3.97	3.81	3.49	3.42
39	The Hongkong & Shanghai	3.70	2.11	2.85	3.18	2.50	2.87
40	The Siam Commercial	6.29	5.12	5.48	-0.41	-1.59	2.98
41	Toronto Dominion	7.06	9.79	10.01	7.12	6.28	8.05
42	UFG / Sanwa	5.55	5.24	3.02	1.95	3.34	3.82
Average of 42 Foreign Banks in India		2.99	3.14	2.90	2.77	1.77	2.71

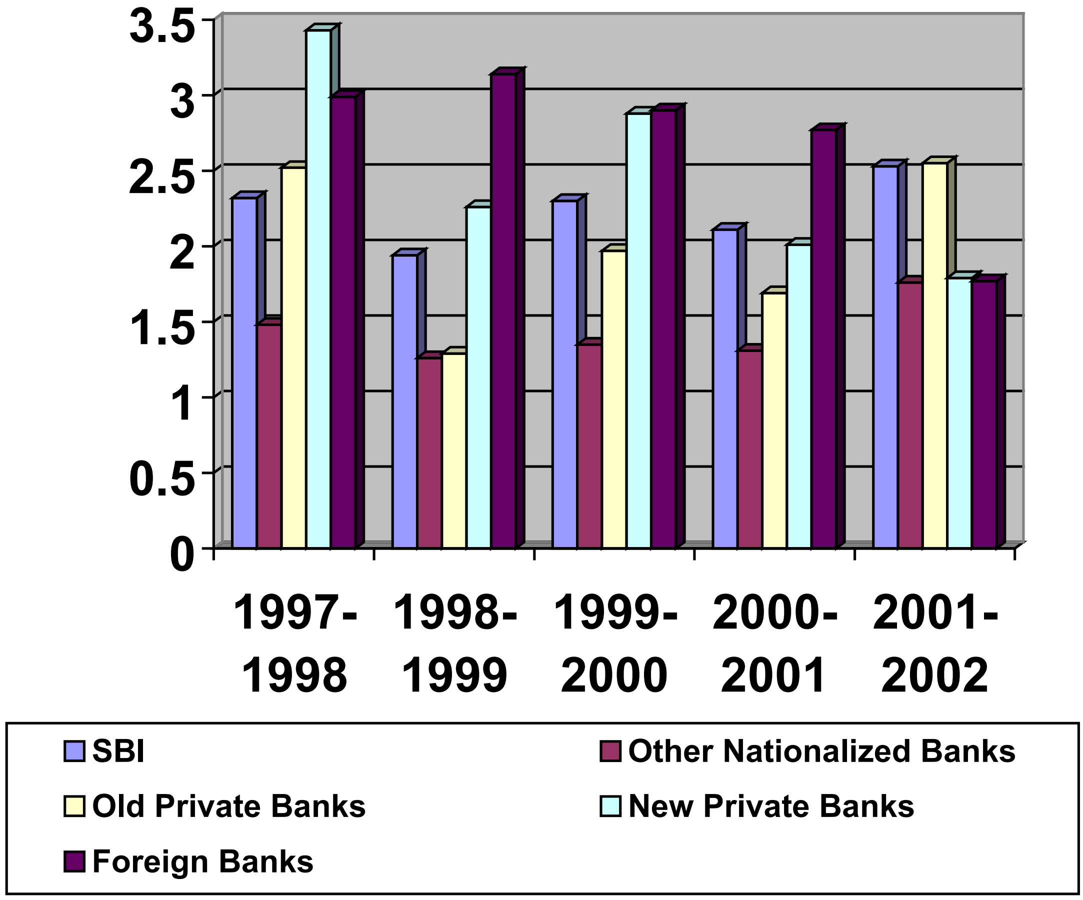
[**Source** : IBA bulletin March 2002, 2003]

There are so many ups & downs in this table regarding ratios. Sometimes it is very high, positively shown. Sometimes it is very low and shows negative performance. The foreign Banks who have one or two branches in India, shows good performance at operating level. But it is not the picture of the senses of Foreign Banks group. Because major 1 to 12 Banks, Ratios are more important. Among these Banks, CitiBank, Stanchart Bank, Deusche Bank, Bank of America Cho Hung Bank, J.P. Chase Manhattan Bank, Sonali Bank, Toronto Dominion Bank are the leading banks relating to operating efficiency or profitability. The Non-Interest Incomes of these banks were also higher and that's why operating profit may be high. The weaker banks in this census are Bank International Indonesia, Commerze, Credit Agricole Indosuez, Dresdner, KBC, Oman International and The Bank of Tokyo-Mitsubishi.

The overall average of this group is the excellent amongst all the group which is above 2.50% almost in every year.

Table 5.1.6
Operating Profit to Average Working Funds Ratio for all the five Banking Groups during 1997-98 to 2001-02 (in percent)

	Banking Groups	1997-1998	1998-1999	1999-2000	2000-20001	2001-2002	AVG (%)
1	SBI	2.32	1.94	2.30	2.11	2.53	2.24
2	Other Nationalised Banks	1.48	1.26	1.35	1.31	1.76	1.43
3	Old Private Banks	2.52	1.29	1.97	1.69	2.55	2.00
4	New Private Banks	3.43	2.26	2.88	2.01	1.79	2.48
5	Foreign Banks	2.99	3.14	2.90	2.77	1.77	2.71
	AVG (%)	2.55	1.98	2.28	1.98	2.08	2.17



The above stated Table No. 5.1.6 and Chart show Operating Profit earned in % on Average Working Funds. The above seen situation is quite normal in its nature. Even though there are some fluctuations, consistency upto some extent is seen in Operating Profit. The Operating Profit to Average Working Funds Ratio is seen very low in case of each year reflects cut-throat competition in banking sector. The customers are enjoying the maximum benefit in the banking sector.

Operating Profit To Average Working Funds Ratio

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Operating Profit to Average Working Funds Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as below.

Null Hypothesis :

There is no significant difference regarding Operating Profit to Average Working Funds Ration among all the five banking groups during 1997-98 to 2001-02.

$H_0 = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$

$H_1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$

ANOVA TABLE

Source of variable	SS	Df.	MS	F Ratio	5% F limit(from table F)
Between sample	127.38	(5-1) = 4	31.85	8.67	F (4.20) 2.87
Within Sample	73.48	(25-5) = 20	3.67		

The above anova table represents the analysis of variance between and within the five banking groups. The anova is about operating profit to average working funds ratio. It can be seen from above table, that the table value of F is 2.87, and the calculated value of F is 8.67 at 5% level of significance. Hence, the calculated value is more than the table value. So null hypothesis is rejected. It indicates that there is a significant difference regarding operating profit to Average Working Funds Ratio among all the five banking groups.

5.2 <u>Reported Net Profit To Reported Net Worth Ratio or Return on Assets in %</u> :

This ratio is a profitability parameter for the performance of a bank. It relates to net profit (after provisions, and taxes) with total assets. It is an indicator of bank's profitability and ability to get return on assets. The higher the ratio is, a good sign for the bank.

Table 5.2.1

Return on Assets in % for SBI Group during 1997-98 to 2001-02

Banks	Return on Assets in %					
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**AVG (%)**
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	1.04	0.46	0.75	0.50	0.68	0.69
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	0.91	0.85	0.82	0.82	0.90	0.86
3 State Bank of Patiala	1.48	0.99	1.06	1.12	1.31	1.19
4 State Bank of Travancore	0.69	0.40	0.53	0.67	0.71	0.60
5 State Bank of Bikaner & Jaipur	1.08	0.98	1.06	0.80	1.03	0.99
6 State Bank of Mysore	3.56	0.49	0.58	0.27	0.63	1.11
7 State Bank of Indore	0.68	0.63	0.80	0.89	1.18	0.84
8 State Bank of Saurashtra	2.32	0.38	1.14	0.18	0.81	0.97
Average of State Bank Group [I+II]	1.47	0.65	0.84	0.66	0.91	0.90

[**Source** : IBA bulletin March 2002, 2003]

Table 5.2.1 shows the ROA of SBI group. In 97-98 the ROA average of whole the group is 1.47% in 98-99 it is 0.65%, 1999-2000 it is 0.84%, and in 2000-01, it is 0.66%.

If we begin from 1997-98, as far as Return on Assets is concerned, State Bank of Patiala, State Bank of Mysore and State Bank of Saurashtra are showing better profitability than other banks in the group. The average of Return on Assets in % is 1.47% of this group in 1997-98. But after this year, the average is seen below 1%, which shows increasing competition among banking groups and it's impact on SBI group.

Table 5.2.2

Return on Assets in % for other nationalized Banks during 1997-98 to 2001-02

Banks	Return on Assets in %					AVG
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
III. **NATIONALISED BANKS**						
9 Canara Bank	0.47	0.47	0.43	0.43	0.97	0.55
10 Punjab National Bank	1.20	0.80	0.75	0.73	0.03	0.70
11 Bank of Baroda	1.00	0.81	0.90	0.45	0.73	0.78
12 Bank of India	0.79	0.40	0.31	0.44	0.68	0.52
13 Central Bank of India	0.61	0.43	0.38	0.10	0.30	0.36
14 Union Bank of India	0.97	0.51	0.29	0.40	0.67	0.57
15 Indian Overseas Bank	0.53	0.23	0.15	0.38	0.63	0.38
16 Syndicate Bank	0.45	0.71	0.89	0.91	0.77	0.75
17 Oriental Bank of Commerce	1.40	1.20	1.10	0.80	0.96	1.09
18 Indian Bank	-	-	-	-	0.11	0.11
19 Uco Bank	-0.57	-0.36	0.18	0.14	0.51	-0.02
20 Allahabad Bank	0.85	0.77	0.35	0.18	0.31	0.49
21 United Bank of India	0.07	0.09	0.17	0.10	0.52	0.19
22 Andhra Bank	0.84	0.78	0.76	0.59	0.92	0.78
23 Bank of Maharashtra	0.55	0.43	0.59	0.24	0.65	0.49
24 Corporation Bank	1.49	1.43	1.54	1.55	1.25	1.45
25 Dena Bank	0.86	0.75	0.38	-	0.06	0.51
26 Vijaya Bank	0.26	0.28	0.38	0.53	0.79	0.45
27 Punjab & Sind Bank	0.76	0.53	0.52	0.18	0.17	0.43
Average of 19 Nationalised Banks [III]	0.66	0.54	0.53	0.43	0.58	0.55

[**Source** : IBA bulletin March 2002, 2003]

Table 5.2.2 indicates the ROA for 19 other nationalized banks. For this group, the overall average in each year is below 1%. It is the lowest in 2000-01, which is only 0.43% that shows that profitability of these nationalized banks has fallen down. The result of Indian bank &Uco bank is negligible or negative respectively. Operating profit ratio is also same. The united bank of India's performance is also very weak regarding profitability. The best performance in operating profitability, can be seen in corporation bank, which is higher in all the years. The Oriental Bank of Commerce follows Corporation Bank with the good record of 1.09%. The syndicate bank has improved the profitability in odd circumstances also. Punjab national bank & Bank of Baroda are also showing good performance of profitability. These all become possible while operating profit is much higher. Net profit is depended naturally on operating profit.

Table 5.2.3
Return on Assets in % for Old Private Sector Banks during 1997-98 to 2001-02

	Banks	**Return on Assets in %**					**AVG**
		1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
	PRIVATE SECTOR BANKS						
1	Bharat Overseas Bank Ltd.	0.87	0.74	0.07	1.04	0.90	0.72
2	City Union Bank Ltd.	1.06	0.88	1.28	1.21	1.25	1.14
3	Development Credit Bank Ltd.	2.10	1.13	1.18	0.87	0.72	1.20
4	Lord Krishna Bank Ltd.	0.53	0.16	0.70	0.41	1.12	0.58
5	SBI Commercial & International Bank Ltd.	2.65	1.59	1.84	-6.50	0.44	0.00
6	Tamilnad Mercantile Bank Ltd.	1.98	1.43	1.32	1.37	1.22	1.46
7	The Bank of Rajasthan Ltd.	-2.64	-1.90	0.30	0.74	0.78	-0.54
8	The Benares State Bank Ltd.	0.14	-2.86	-0.57	-1.19	-	-1.12
9	The Catholic Syrian Bank Ltd.	0.34	0.02	0.25	0.38	1.04	0.41
10	The Dhanalakshmi Bank Ltd.	0.69	0.28	0.71	0.40	0.52	0.52
11	The Federal Bank Ltd.	0.69	0.04	0.62	0.69	0.78	0.56
12	The Ganesh Bank of Kurundwad Ltd.	11.43	11.90	11.55	11.08	0.50	9.29

13	The Jammu & Kasmir Bank Ltd.	1.16	1.14	1.13	1.32	1.74	1.30
14	The Karnataka Bank Ltd.	1.72	0.97	0.77	0.73	1.12	1.06
15	The Karur Vysya Bank Ltd.	1.73	1.19	1.90	1.70	2.04	1.71
16	The Lakshmi Vilas Bank Ltd.	1.59	0.85	1.14	1.02	1.02	1.12
17	The Nainital Bank Ltd.	0.45	0.79	0.95	0.93	0.86	0.80
18	The Nedungadi Bank Ltd.	0.78	0.62	0.84	0.00	0.08	0.46
19	The Ratnakar Bank Ltd.	0.92	0.92	0.83	0.77	0.99	0.89
20	The Sangli Bank Ltd.	0.37	0.35	0.36	0.40	0.50	0.40
21	The South Indian Bank Ltd.	0.68	0.17	0.65	0.89	0.94	0.67
22	The United Western Bank Ltd.	1.13	0.95	1.16	0.00	0.45	0.74
23	The Vysya Bank Ltd.	1.14	0.40	0.55	0.37	0.58	0.61
	Average of 23 Private Sector Banks [I]	1.37	0.95	1.28	0.81	0.89	1.06

[**Source** : IBA bulletin March 2002, 2003]

Seeing table 5.2.3, which is related to ROA for old private sector banks, again, the profitability is the highest in 97-98 and then in 99-2000. But, in 98-99, and 2000-01, it is much less like other Banks. In this group also, there is Net loss in some banks who give negative results in this Ratio. These Banks are The Bank of Rajasthan Ltd., The Benares state Bank Ltd., and SBI Commercial & International Bank Ltd. (in 2000-01). SBI Commercial & International Bank's Ratio is -6.50% in 2000-01, which affects the overall average of this group. The Nedungadi Bank & United westan Bank Ltd's Ratio for ROA is Nil. So that in 2000-01, the average ratio looks down.

Table 5.2.4
Return on Assets in % for New Private Banks during 1997-98 to 2001-02

Banks	Return on Assets in %					AVG
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	1.53	0.91	0.87	0.82	0.92	1.01
25 HDFC Bank Ltd.	2.23	1.89	1.84	1.62	-3.80	0.76
26 UTI Bank Ltd.	0.51	0.79	0.77	0.80	0.48	0.67
27 Global Trust Bank Ltd.	2.12	1.36	1.44	0.85	1.20	1.39
28 Indusind Bank Ltd.	1.81	0.60	0.70	0.47	0.24	0.76
29 Centurion Bank Ltd.	1.39	0.92	0.82	0.13	0.73	0.80
30 IDBI Bank Ltd.	0.91	0.90	1.35	0.41	0.47	0.81
31 Bank Punjab Ltd.	2.09	1.53	1.04	0.93	0.89	1.30
Average of 8 New Private Sec. Banks	1.57	1.11	1.10	0.75	0.14	0.94

[**Source** : IBA bulletin March 2002, 2003]

Table 5.2.4 shows the Return on Assets for new private sector banks. The performance of each bank is almost consistent in almost all the years. The best performance can be seen in HDFC Bank Ltd. regarding profitability and Return On Assets except in 2001-02. The centurion Bank's performance is going down year by year related to ROA except 2001-02. There may be cause of low profitability or NPAS. The lowest performance below 1% is of UTI Bank. There is a point to be noted in all the Banking group that overall ROA of each group has declined in 1998-99. Again it improves in 1999-2000 or rather may be consistant. Again in 2000-01 it goes down. This group has low average in 2000-01 because of Centurion Bank, IDBI

Bank and Indusind bank's low ROA. However, it is more than nationalized Banks. In 2001-02 ROA in % is the lowest of 5 years may be showing the initial stage of branch expansion. Due to branch expansion, a huge amount is invested in the assets. While return on assets remains low naturally.

Table 5.2.5
Return on Assets in % for Foreign Banks during 1997-98 to 2001-02

Banks	Return on Assets in %					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
FOREIGN BANKS						
1 ABN-Amro	2.33	2.20	1.58	0.40	1.43	1.59
2 Abu Dhabi Commercial	0.42	0.32	0.52	0.44	0.45	0.43
3 American Express	2.11	0.25	1.02	-0.62	0.26	0.60
4 Arab Bangladesh	1.96	3.67	3.05	3.68	2.25	2.92
5 Bank International Indonesia	-3.69	-17.99	-8.10	-2.96	0.22	-6.50
6 Bank Muscat International	-	-	0.46	1.05	0.31	0.61
7 Bank of America	2.95	1.99	1.17	1.25	1.54	1.78
8 Bank of Bahrain and Kuwait	0.70	0.71	0.90	0.81	1.18	0.86
9 Bank of Ceylon	2.55	2.33	2.62	0.95	0.02	1.69
10 Barclays	1.71	0.33	-2.23	1.65	1.78	0.65
11 BNP Pariba	0.98	1.06	0.94	0.33	-0.82	0.50
12 Chinatrust Commercial	0.03	-0.26	0.25	0.64	0.95	0.32
13 Cho Hung	4.15	2.34	0.51	3.16	1.18	2.27
14 Citibank	2.85	2.32	3.40	3.24	1.41	2.64
15 Commerz	-0.20	0.33	0.44	0.18	-12.01	-2.25
16 Credit Agricole Indosuez	-1.54	-0.64	-9.83	-1.62	0.94	-2.54
17 Credit Lyonnais	-0.60	1.70	1.60	0.20	0.27	0.63
18 Deutsche	3.58	1.11	1.10	1.71	1.91	1.88
19 Dresdner	1.02	-1.57	-11.37	-24.38	-10.87	-9.43
20 Ing Bank	2.04	0.03	-2.72	-3.96	-0.43	-1.01
21 JP Chase Manhattan	3.65	1.86	2.87	6.66	3.18	3.64
22 KBC	-	-0.91	0.82	0.30	-6.34	-1.53
23 Krung Thai	5.90	4.31	1.69	2.21	0.03	2.83
24 Mashreq	-2.84	-2.78	-3.60	-3.10	1.54	-2.16
25 MIZUHO Corporate Bank Ltd. -Fuji	3.70	0.16	-2.76	-3.53	-1.35	-0.76
26 Morgan Guaranty Trust	-	2.02	2.02	0.25	-	1.43

27 Oman International	1.01	-	-	-	-3.99	-1.49
28 Oversea-Chinese	0.92	4.84	-	0.74	-3.90	0.65
29 Sakura	0.19	-3.35	-0.70	-2.11	-	-1.49
30 Societ Generale	0.93	-2.37	0.02	0.04	-1.89	-0.65
31 Sonali	N.A.	12.91	4.11	5.87	1.41	6.08
32 Standard Chartered	1.04	3.12	3.65	3.14	1.89	2.57
33 Standard Chartered Grindlays	2.27	1.49	4.02	2.67	-3.54	1.38
34 State Bank of Mauritius	4.47	1.81	1.48	1.05	0.76	1.91
35 Sumitomo	2.00	3.14	2.75	0.70	-2.97	1.12
36 The Bank of Nova Scotia	0.84	2.14	1.91	1.28	0.91	1.42
37 The Bank of Tokyo - Mitsubishi	-26.29	-4.45	4.88	7.57	3.84	-2.89
38 The Development Bank of Singapore	0.97	1.31	1.44	1.58	1.95	1.45
39 The Hongkong & Shanghai	0.98	0.58	0.96	1.29	0.79	0.92
40 The Siam Commercial	3.32	2.70	2.25	-2.28	-33.38	-5.48
41 Toronto Dominion	5.76	3.48	2.90	4.84	2.99	3.99
42 UFG / Sanwa	1.13	0.96	0.12	0.27	0.04	0.50
Average of 42 Foreign Banks in India	0.79	0.79	0.38	0.37	-1.15	0.24

[**Source** : IBA bulletin March 2002, 2003]

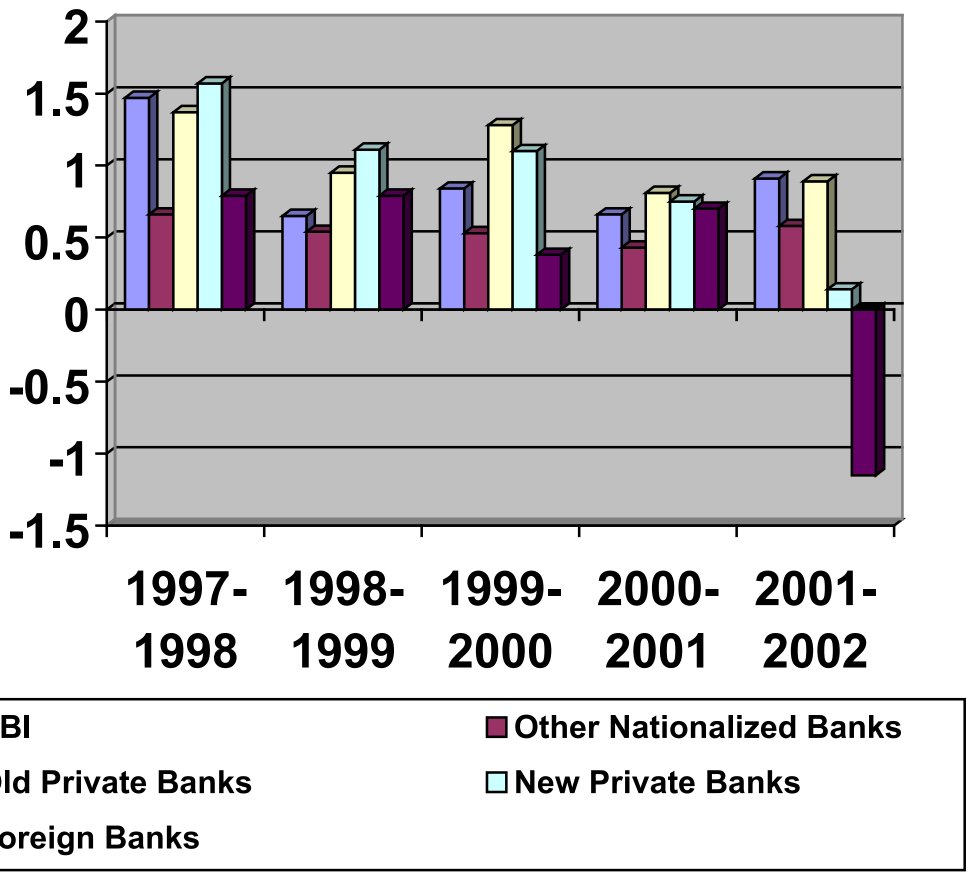
The trend of ROA in foreign Banks for all these years is highly fluctuated. It gets many fluctuations in every year. Sometimes it falls in negative mark also. That shows inconsistency and negative profitability with assets.

The best performance in ROA is of Arab Bangladesh Bank, Citibank and Stanchart Bank. They have gotten more then 2% in the most years and maintained it or improved it. The overall average is below 1% in all the five years. There are only one or two branches of most of the foreign Banks, and that single Branch's result is reflected on this overall average. One interesting matter in case of most of the foreign banks is that, they want to maintain their international status and services in case of each branch. So they prefer the best location, the best construction, the best infrastructure etc., so a huge investment is made in assets and naturally ROA in % remains low.

Table 5.2.6

Return on Assets (in percent) for all the five banking groups during 1997-98 to 2001-02

	Banking Groups	**1997-1998**	**1998-1999**	**1999-2000**	**2000-20001**	**2001-2002**	**AVG (%)**
1	SBI	1.47	0.65	0.84	0.66	0.91	0.90
2	Other Nationalised Banks	0.66	0.54	0.53	0.43	0.58	0.55
3	Old Private Banks	1.37	0.95	1.28	0.81	0.89	1.06
4	New Private Banks	1.57	1.11	1.10	0.75	0.14	0.94
5	Foreign Banks	0.79	0.79	0.38	0.37	-1.15	0.24
	AVG (%)	1.17	0.81	0.83	0.60	0.27	0.74



The above stated Table no 5.2.6 and Chart represent Very low Return On Assets. Among all the five banking groups, old private banks are showing better scenario, while foreign banks are making very poor show as far as Return On Assets is concerned. Surprisingly in 2001-02, the foreign banks are showing negative Return On Assets. It happens so mostly in case of foreign banks as they spread their branches all over the world with a view to serve their existing customers at their level best instead of merely attracting the new customers.

Return On Assets in %

Hypothesis Testing

The researcher wanted to find that if there is any significant difference regarding the performance related to Return On Assets among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as below.

Null Hypothesis :

There is no significant difference regarding Return On Assets in % among all the banking groups during 1997-98 to 2001-02.

$H0 = \mu1 = \mu2 = \mu3 = \mu4 = \mu5$

$H1 = \mu1 \neq \mu2 \neq \mu3 \neq \mu4 \neq \mu5$

ANOVA TABLE

Source of variable	SS	Df	Ms	F Ratio	5% F limit (from table F
Between sample	20.29	(5-1)=4	5.07	52.73	F(4,20),2.87
Within sample	1.92	(25-5)=20	0.10		

The above anova table shows that the calculated value of F is 52.73, which is more than the table value of 2.87, at 5% level of significance. So, the null hypothesis is rejected again. It shows that there is significant difference among all the five banking groups from 1997-98 to 2001-02 related to performance of Return On Assets in %.

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CHAPTER – 6

ANALYSIS OF CREDIT EFFICIENCY AND PRODUCTIVITY OF INDIAN BANKING SECTOR.

6A) CREDIT EFFICIENCY

6A.1) TIER-I CAPITAL TO RISK-WEIGHTED ASSETS RATIO

6A.1.1) Tier-I Capital to Risk-Weighted Assets Ratio for SBI group during 1997-98 to 2001-02.

6A.1.2) Tier-I Capital to Risk-Weighted Assets Ratio for other nationalized banks during 1997-98 to 2001-02.

6A.1.3) Tier-I Capital to Risk-Weighted Assets Ratio for old private banks during 1997-98 to 2001-02.

6A.1.4) Tier-I Capital to Risk-Weighted Assets Ratio for new private banks during 1997-98 to 2001-02.

6A.1.5) Tier-I Capital to Risk-Weighted Assets Ratio for foreign banks during 1997-98 to 2001-02

6A.1.6) Tier-I Capital to Risk-Weighted Assets Ratio for all the five banking groups during 1997-98 to 2001-02.

6A.2) TIER-II CAPITAL TO RISK-WEIGHTED ASSETS RATIO

6A.2.1) Tier-II Capital to Risk-Weighted Assets Ratio for SBI group during 1997-98 to 2001-02.

6A.2.2) Tier-II Capital to Risk-Weighted Assets Ratio for other nationalized banks during 1997-98 to 2001-02.

6A.2.3) Tier-II Capital to Risk-Weighted Assets Ratio for old private banks during 1997-98 to 2001-02.

6A.2.4) Tier-II Capital to Risk-Weighted Assets Ratio for new private banks during 1997-98 to 2001-02.

6A.2.5) Tier-II Capital to Risk-Weighted Assets Ratio for foreign banks during 1997-98 to 2001-02

6A.2.6) Tier-II Capital to Risk-Weighted Assets Ratio for all the five banking groups during 1997-98 to 2001-02.

6A.3) NET NON-PERFORMING ASSETS TO NET ADVANCES RATIO

6A.3.1) Net Non-Performing Assets To Net Advances Ratio for SBI group during 1997-98 to 2001-02.

6A.3.2) Net Non-Performing Assets To Net Advances Ratio for other nationalized banks during 1997-98 to 2001-02.

6A.3.3) Net Non-Performing Assets To Net Advances Ratio for old private banks during 1997-98 to 2001-02.

6A.3.4) Net Non-Performing Assets To Net Advances Ratio for new private banks during 1997-98 to 2001-02.

6A.3.5) Net Non-Performing Assets To Net Advances Ratio for foreign banks during 1997-98 to 2001-02.

6A.3.6) Net Non-Performing Assets To Net Advances Ratio for all the five banking groups during 1997-98 to 2001-02.

6B) PRODUCTIVITY

6B.1) BUSINESS PER EMPLOYEE (Rs. In lakh)

6B.1.1) Business Per Employee (Rs. In lakh) for SBI group during 1997-98 to 2001-02.

6B.1.2) Business Per Employee (Rs. In lakh) for other nationalized banks during 1997-98 to 2001-02.

6B.1.3) Business Per Employee (Rs. In lakh) for old private banks during 1997-98 to 2001-02.

6B.1.4) Business Per Employee (Rs. In lakh) for new private banks during 1997-98 to 2001-02.

6B.1.5) Business Per Employee (Rs. In lakh) for foreign banks during 1997-98 to 2001-02.

6B.1.6) Business Per Employee (Rs. In lakh) for all the five banking groups during 1997-98 to 2001-02.

6B.2) OPERATING PROFIT PER EMPLOYEE (Rs. In lakh)

6B.2.1) Operating Profit Per Employee (Rs. In lakh) for SBI group during 1997-98 to 2001-02.

6B.2.2) Operating Profit Per Employee (Rs. In lakh) for other nationalized banks during 1997-98 to 2001-02.

6B.2.3) Operating Profit Per Employee (Rs. In lakh) for old private banks during 1997-98 to 2001-02.

6B.2.4) Operating Profit Per Employee (Rs. In lakh) for new private banks during 1997-98 to 2001-02.

6B.2.5) Operating Profit Per Employee (Rs. In lakh) for foreign banks during 1997-98 to 2001-02.

6B.2.6) Operating Profit Per Employee (Rs. In lakh) for all the five banking groups during 1997-98 to 2001-02.

In this chapter, the two key parameters have been discussed. One is the credit efficiency of banks and another is the productivity of banks. Banks who are giving credit to all types of customers, have to know whether this credit is efficient or not. To measure the credit efficiency, three ratios are discussed here :

6A) <u>Credit Efficiency</u> :

To measure the credit efficiency of banks, the three ratios are as under :

6A.1)<u>Tier-I Capital To Risk-Weighted Assets Ratio</u> :

Tier-I capital is called core capital. It includes the equity capital and retained profits. Tier-I Capital is calculated with the risk-weighted assets.

$$\frac{\text{Tier-I Capital}}{\text{Risk-Weighted Assets}} \; 2\ 100$$

6A.2)<u>Tier-II capital To Risk-Weighted Assets Ratio</u> :

Tier-II capital is called supplementary capital. It includes the hidden reserves, revaluation reserves, general provisioning, subordinated debt of maturity greater than 5 years, and hybrid debt equity instruments such as cumulative preference shares and convertible bonds. It is calculated with the risk-weighted assets.

$$\frac{\text{Tier-II Capital}}{\text{Risk-Weighted Assets}} \; 2\ 100$$

6A.3)<u>Net Non-Performing Assets To Net Advances</u> :

This ratio indicates how good are a bank's provisioning practices. If the ratio is lower, it is a very good sign of credit efficiency of a bank. The higher ratio leads to weak performance of a bank NPA is the latest debatable and manageable issue now a day for every bank.

$$\frac{\text{Net Non-Performing Assets}}{\text{Net Advances}} \; 2\ 100$$

6A.1) <u>Tier-I Capital To Risk-Weighted Assets Ratio</u> :

Tier-I Capital is a core capital of a bank and by which strength of a bank can be determined. The position of Tire I capital in different banks for the period of five years from 1997-98 to 2001-02, is as under :

Table 6A.1.1

Tier-I Capital To Risk-Weighted Assets Ratio for SBI Group during 1997-98 to 2001-02

Banks	**Tier-I Capital (in percent)**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	10.69	9.36	8.28	8.58	9.22	9.23
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	N.A.	N.A.	9.27	9.56	12.06	10.30
3 State Bank of Patiala	10.60	10.54	10.83	10.69	9.86	10.50
4 State Bank of Travancore	8.00	7.75	7.54	7.73	8.15	7.83
5 State Bank of Bikaner & Jaipur	8.40	10.45	11.09	11.62	6.70	9.65
6 State Bank of Mysore	7.62	7.49	7.38	6.76	9.97	7.84
7 State Bank of Indore	9.42	8.70	8.55	9.12	12.11	9.58
8 State Bank of Saurashtra	16.66	13.65	14.13	13.65	7.79	13.18
Average of State Bank Group [I+II]	8.92	8.49	9.63	9.71	9.48	9.25

[**Source** : IBA bulletin March 2002, 2003]

Table No 6A1.1 discloses the Tier-I capital in state Bank of India group, which has a set of 8 banks. Considering the periodical average of each bank, it can be seen that the highest core capital is of State Bank Of Saurashtra, that is 13.18%. State Bank of Hyderabad and State Bank of Patiala have also the good ratio regarding Tier-I capital, which is above 10%. There is little bit weak core capital situation in State Bank of Mysore and State Bank of Travancore, considering the periodical average. State Banks of India has improved its performance regarding Tier-I capital in 2001-02 compared to previous 2 years.

Table 6A.1.2

Tier-I Capital To Risk-Weighted Assets Ratio for other nationalized Banks during 1997-98 to 2001-02

Banks	Tier-I Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Canara Bank	8.81	8.57	7.77	7.31	6.22	7.74
10 Punjab National Bank	5.45	6.42	6.73	6.84	8.80	6.85
11 Bank of Baroda	9.47	9.05	8.86	8.49	7.56	8.69
12 Bank of India	7.46	7.21	6.91	7.62	6.37	7.11
13 Central Bank of India	7.20	7.21	6.65	5.74	6.56	6.67
14 Union Bank of India	8.05	7.87	6.66	6.19	8.07	7.37
15 Indian Overseas Bank	5.84	5.53	5.16	5.81	5.20	5.51
16 Syndicate Bank	5.92	5.49	7.21	7.88	16.80	8.66
17 Oriental Bank of Commerce	15.28	14.05	12.54	11.45	4.36	11.54
18 Indian Bank	0.71	-9.00	-12.00	-	0.85	-4.86
19 Uco Bank	6.07	7.22	6.59	5.36	6.17	6.28
20 Allahabad Bank	6.68	6.57	7.10	6.70	9.60	7.33
21 United Bank of India	6.60	8.10	8.20	7.00	6.37	7.25
22 Andhra Bank	11.82	10.44	10.01	9.78	6.34	9.68
23 Bank of Maharashtra	8.67	7.89	7.41	6.39	8.47	7.77
24 Corporation Bank	16.00	12.80	12.70	13.00	4.89	11.88
25 Dena Bank	7.71	6.91	7.07	4.38	6.16	6.45
26 Vijaya Bank	7.40	5.70	6.01	8.04	8.84	7.20
27 Punjab & Sind Bank	7.08	7.73	7.51	6.87	8.86	7.61
Average of 19 Nationalized Banks [III]	8.01	7.15	6.79	7.10	7.18	7.25

[**Source** : IBA bulletin March 2002, 2003]

Table 6A.1.2 focuses on the situation of Tier-I capital in other nationalized Banks. Considering the year wise average of whole the group, the average declines in 1999-2000 and again improved and reached to 7.18% in 2001-2002. However, the year wise average of this group is quite less than of SBI group.

Considering the periodical average, Oriental bank of commerce has gained above 10% ratio of Tier-I capital in spite of lower ratio in 2001-02. The other consistent bank is Corporation Bank, which has maintained the Tier-I ratio around 12% in spite of poor performance regarding core capital in the year 2001-02. Other banks have achieved this ratio almost within 5 to 8%, except the negative result of Indian Bank.

Table 6A.1.3

Tier-I Capital To Risk-Weighted Assets Ratio for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Tier-I Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	11.78	12.97	12.29	12.48	12.55	12.41
2 City Union Bank Ltd.	11.60	14.24	13.05	13.26	12.81	12.99
3 Development Credit Bank Ltd.	18.47	16.01	10.83	10.69	10.93	13.39
4 Lord Krishna Bank Ltd.	5.47	9.11	9.70	8.60	12.75	9.13
5 SBI Commercial & International Bank Ltd.	26.96	28.37	24.12	19.48	21.11	24.01
6 Tamilnad Mercantile Bank Ltd.	17.62	17.15	15.99	15.81	16.88	16.69
7 The Bank of Rajasthan Ltd.	4.86	0.42	5.10	8.91	10.01	5.86
8 The Benares State Bank Ltd.	3.76	-	-	-	-	3.76
9 The Catholic Syrian Bank Ltd.	2.22	3.56	3.89	4.47	5.97	4.02
10 The Dhanalakshmi Bank Ltd.	9.13	8.50	7.66	7.33	9.36	8.40
11 The Federal Bank Ltd.	9.18	6.48	7.72	7.72	6.96	7.61
12 The Ganesh Bank of Kurundwad Ltd.	4.08	4.11	4.66	5.26	6.36	4.89
13 The Jammu & Kashmir Bank Ltd.	14.28	19.47	15.51	14.33	12.41	15.20
14 The Karnataka Bank Ltd.	11.85	10.62	10.64	11.06	11.10	11.05
15 The Karur Vysya Bank Ltd.	12.96	13.28	14.48	15.12	15.62	14.29
16 The Lakshmi Vilas Bank Ltd.	9.93	9.64	8.10	8.52	8.44	8.93
17 The Nainital Bank Ltd.	8.37	12.86	14.32	13.72	12.92	12.44
18 The Nedungadi Bank Ltd.	8.47	6.76	5.73	-	-1.99	4.74
19 The Ratnakar Bank Ltd.	7.63	8.05	10.60	9.42	11.93	9.53
20 The Sangli Bank Ltd.	6.40	7.39	8.54	8.37	9.14	7.97
21 The South Indian Bank Ltd.	6.30	8.40	8.07	8.36	7.68	7.76
22 The United Western Bank Ltd.	9.58	7.99	8.55	6.62	6.98	7.94
23 The Vysya Bank Ltd.	12.28	9.27	8.20	8.44	7.97	9.23
Average of 23 Private Sector Banks [I]	10.14	10.20	9.90	9.48	10.36	10.02

[**Source** : IBA bulletin March 2002, 2003]

Table 6A.1.3 focuses the Tier-I capital in old private sector banks. The ratio for periodical average can be seen higher than previous groups. There are some notable results regarding periodical average of Tier-I capital in this group. These are of SBI commercial and International Bank Ltd., Tamilnad Mercantile Bank Ltd., the Jammu & Kashmir Bank Ltd. and the Karur Vysya Bank Ltd. They have made the overall average of 10.02%, which is very much attractive. The average rose from the year 2000-01 to 2001-02 from 9.48% to 10.36% in this group which shows a better capital strength for the banks.

Table 6A.1.4

Tier-I Capital To Risk-Weighted Assets Ratio for New Private Banks during 97-98 to 01-02

Banks	Tier-I Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	12.46	13.38	17.42	10.42	8.47	12.43
25 HDFC Bank Ltd.	10.21	8.34	9.56	8.69	2.58	7.88
26 UTI Bank Ltd.	9.63	11.60	7.99	5.84	7.44	8.50
27 Global Trust Bank Ltd.	9.49	7.62	9.85	8.79	10.81	9.31
28 Indusind Bank Ltd.	17.91	15.11	12.09	12.56	7.47	13.03
29 Centurion Bank Ltd.	20.00	8.45	6.31	6.88	6.36	9.60
30 IDBI Bank Ltd.	9.82	11.21	8.43	7.89	10.45	9.56
31 Bank of Punjab Ltd.	16.34	14.64	9.81	8.52	6.42	11.15
Average of 8 New Private Sec.Banks [I]	13.23	11.29	10.18	8.70	7.50	10.18

[**Source** : IBA bulletin March 2002, 2003]

Table 6A.1.4 reveals the Tier-I capital ratio for the group of new private sector banks having 8 banks. The year wise average trend is showing decline in this ratio. It goes down from 13.23% in 1997-98 to 7.50% in 2001-02. The periodical average of each bank indicates that the leading banks regarding core capital are ICICI Bank, Indusind Bank and The Bank of Punjab Ltd. which have more than 10% average ratio of Tier-I capital. Centurian Bank and HDFC Bank need more core capital because they have a lower ratio regarding Tier-I capital in last year i.e. 2001-02.

Table 6A.1.5
Tier-I Capital To Risk-Weighted Assets Ratio for Foreign Banks during 97-98 to 01-02

Banks	Tier-I Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
FOREIGN BANKS						
1 ABN-Amro	9.43	8.94	8.23	9.51	11.15	9.45
2 Abu Dhabi Commercial	9.17	8.76	9.36	8.80	9.17	9.05
3 American Express	9.68	9.08	9.91	9.36	10.28	9.66
4 Arab Bangladesh	144.05	124.00	123.00	96.34	138.51	125.18
5 Bank International Indonesia	28.03	57.26	59.92	103.78	123.03	74.40
6 Bank Muscat International	-	212.45	70.06	34.55	28.15	86.30
7 Bank of America	8.54	8.89	12.44	12.51	13.45	11.17
8 Bank of Bahrain and Kuwait	9.59	13.20	12.14	11.64	16.20	12.55
9 Bank of Ceylon	40.05	37.02	29.04	36.46	30.77	34.67
10 Barclays	13.99	12.45	17.63	26.75	62.81	26.73
11 BNP Pariba	6.24	6.92	6.25	6.59	5.61	6.32
12 Chinatrust Commercial	73.06	28.22	25.45	27.50	39.61	38.77
13 Cho Hung	46.00	42.00	38.00	35.00	27.43	37.69
14 Citibank	8.29	7.23	7.02	7.91	8.36	7.76
15 Commerz	12.81	15.50	17.58	14.76	171.58	46.45

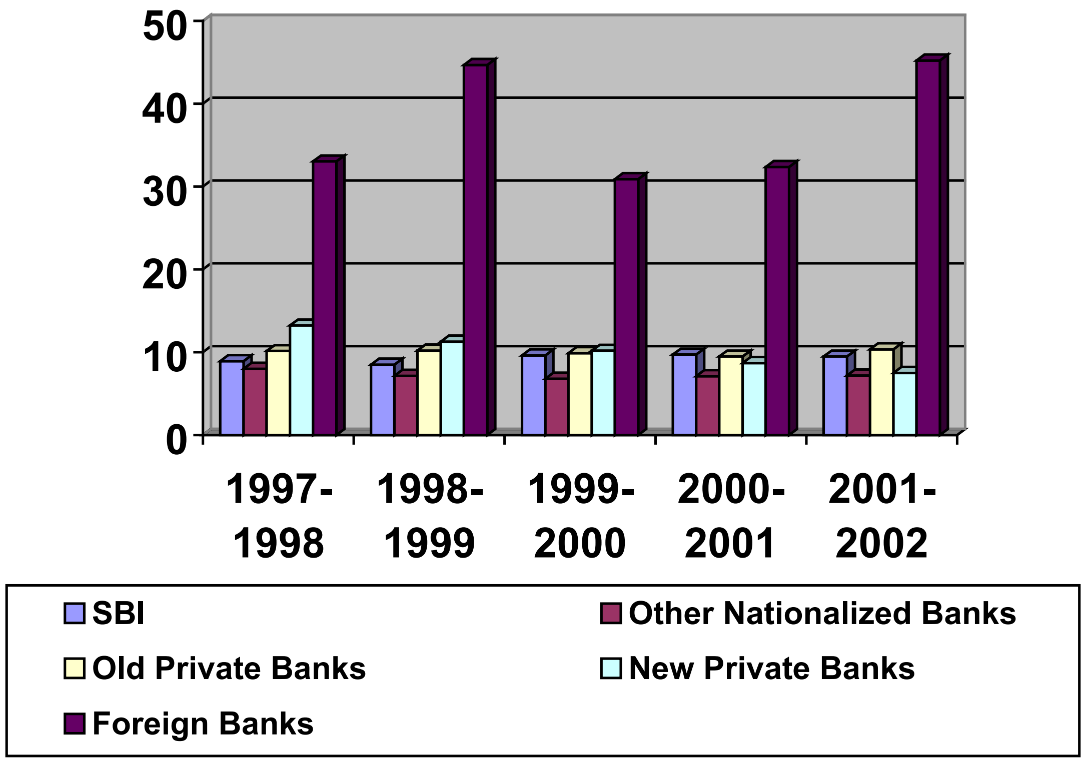
16 Credit Agricole Indosuez	7.83	8.08	11.29	11.16	11.02	9.88
17 Credit Lyonnais	7.80	8.90	8.50	9.50	9.10	8.76
18 Deutsche	9.69	9.50	10.68	12.51	13.67	11.21
19 Dresdner	16.89	19.36	18.69	10.66	39.00	20.92
20 Ing Bank	12.91	12.79	21.15	15.00	12.39	14.85
21 JP Chase Manhattan	13.00	12.53	45.86	43.77	85.21	40.07
22 KBC	-	95.00	18.51	22.86	96.75	58.28
23 Krung Thai	342.00	236.00	197.42	148.75	166.21	218.08
24 Mashreq	29.26	12.13	9.04	10.42	20.31	16.23
25 MIZUHO Corporate Bank Ltd. -Fuji	43.45	23.62	25.29	18.21	11.01	24.32
26 Morgan Guaranty Trust	-	413.00	89.00	79.00	-	193.67
27 Oman International a	13.01	9.07	9.65	12.82	17.28	12.37
28 Oversea-Chinese	90.93	94.00	98.34	167.82	191.78	128.57
29 Sakura	11.84	10.29	15.01	16.07	-	13.30
30 Societ Generale	10.37	12.21	13.71	13.28	11.60	12.23
31 Sonali	27.80	38.39	24.91	88.14	113.64	58.58
32 Standard Chartered	6.90	6.80	6.00	6.70	6.90	6.66
33 Standard Chartered Grindlays	6.58	6.48	5.98	6.90	6.54	6.50
34 State Bank of Mauritius	73.50	46.69	35.16	30.55	46.20	46.42
35 Sumitomo	40.67	16.58	18.43	19.24	20.86	23.16
36 The Bank of Nova Scotia	10.29	9.06	9.59	9.71	9.73	9.68
37 The Bank of Tokyo- Mitsubishi	8.73	9.92	17.62	15.51	15.21	13.40
38 The Development Bank of Singapore	31.47	23.26	18.13	15.56	12.73	20.23
39 The Hongkong & Shanghai	6.62	6.58	5.68	8.63	7.47	7.00
40 The Siam Commercial	30.00	39.00	29.97	33.05	-13.51	23.70
41 Toronto Dominion	86.28	73.58	51.21	56.60	172.05	87.94
42 UFG / Sanwa	30.35	31.97	36.17	34.91	29.44	32.57
Average of 42 Foreign Banks in India	33.03	44.68	30.88	32.35	45.22	37.23

[**Source** : IBA bulletin March 2002, 2003]

Table No. 6A.1.5 shows a very fluctuated Tier-I capital ratio for the foreign banks. The remarkable and unbelievable higher ratios are found in some foreign banks like Arab Bangladesh, Morgan Guaranty Trust Bank, Krung Thai, Oversea-Chinese. The leading foreign Banks having more branches like ABN–Amro Bank, American Express Bank, Citibank and Stanchart Bank have the periodical average ratio of Tier-I capital is less than 10%. The overall average of whole the group for the period of five years is 37.23, which is showing very strengthening position of core capital in foreign banks.

Table 6A.1.6
Tier-I Capital To Risk-Weighted Assets Ratio for all the five banking groups during 1997-98 to 2001-02 (in percent)

	Banking Groups	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	AVG (%)
1	SBI	8.92	8.49	9.63	9.71	9.48	9.25
2	Other Nationalized Banks	8.01	7.15	6.79	7.10	7.18	7.25
3	Old Private Banks	10.14	10.20	9.90	9.48	10.36	10.02
4	New Private Banks	13.23	11.29	10.18	8.70	7.50	10.18
5	Foreign Banks	33.03	44.68	30.88	32.35	45.22	37.23
	AVG (%)	14.67	16.36	13.48	13.47	15.95	14.78



In Table No. 6A.1.6 and Chart Tier-I Capital, which comprises of equity capital and retained profits is seen remarkably high in case of foreign banks group and remarkably low in case of SBI group and other nationalized banks group. According to the researcher, Tier-I capital reflects the real strength of any bank or banking group. Here one has to think about risk-weighted assets too. In case of foreign banks, their Tier-I capital is seen quite more and their risk-weighted assets are seen quite less in comparison with other banking groups. This matter shows shrewd attitude of foreign banks. While in case of SBI group and other nationalized banks group, their core capital is very low and their risk-weighted assets are very high with comparison to other banking groups. So their average of five years is seen lower. Old Private Sector Banks and New Private Banks are showing in- between satisfactory performance.

Tier-I Capital To Risk Weighted Assets Ratio

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Tier-I Capital To Risk-Weighed Assets Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null Hypothesis :

There is no significant difference in Tier-I capital To Risk-Weighted Assets Ratio among all the five banking groups during 1997-98 to 2001-02.

$Ho = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$

$H_1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$

ANOVA TABLE

Source of variable	**SS**	**Df**	**ms**	**F Ratio**	**5% F limit (from table F)**
Between sample	8864.25	(5-1) = 4	2216.60	5.22	F (4,20) 2.87
Within sample	8497.84	(25-5) = 20	424.89		

The above anova table discloses that the calculated value of F is 5.22, which is more than its table value at 5% level of significance. Hence, null hypothesis is rejected. It indicates that there is a definite and significant difference in all the banking groups regarding Tier-I capital. The core capital is different in all the banking groups for the period of 5 years from 1997-98 to 2001-02.

6A.2) Tier-II Capital To Risk-Weighted Assets Ratio :

Tier-II capital is a supplementary capital for the banks with reference to Tier-I capital. The situation of this ratio is as under for all the five banking groups :

Table 6A.2.1

Tier-II Capital To Risk-Weighted Assets Ratio for SBI Group during 1997-98 to 2001-02

Banks	**Tier-II Capital (in percent)**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	3.89	3.15	3.21	4.21	4.13	3.72
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	N.A.	N.A.	1.59	2.72	1.36	1.89
3 State Bank of Patiala	2.64	1.93	1.77	1.68	4.17	2.44
4 State Bank of Travancore	3.48	2.52	3.55	4.06	4.63	3.65
5 State Bank of Bikaner & Jaipur	2.25	1.81	1.26	0.77	5.11	2.24
6 State Bank of Mysore	3.99	2.74	4.12	4.40	2.58	3.57
7 State Bank of Indore	0.41	3.65	2.71	3.61	1.09	2.29
8 State Bank of Saurashtra	1.48	0.70	0.35	0.24	4.75	1.50
Average of State Bank Group [I+II]	2.27	2.06	2.32	2.71	3.48	2.57

[**Source** : IBA bulletin March 2002, 2003]

The reserves and surplus position of the banks can be seen by Tier-II Capital Showing in table 6A.2.1. In the year 2001-02, the ratio is 3.48 for the whole group, which reflect improvement than previous years.

The reason for this improvement is the higher ratio in this year for State Bank of Patiala, State Bank of Travancore and State Bank of Bikaner & Jaipur as well as State Bank of Saurashtra. These banks have improved the situation of subordinate capital, which is a good sign. Still the periodical averages for State Bank of Hyderabad and State Bank of Saurashtra have yet to be improved, as they are less than 2% mostly.

Table 6A.2.2
Tier-II Capital To Risk-Weighted Assets Ratio for other nationalised Banks during 1997-98 to 2001-02

Banks	Tier-II Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Canara Bank	0.73	2.39	1.87	2.53	4.40	2.38
10 Punjab National Bank	3.36	4.37	3.58	3.40	3.79	3.70
11 Bank of Baroda	2.58	4.25	3.24	4.31	3.76	3.63
12 Bank of India	1.65	4.24	3.66	4.61	4.31	3.69
13 Central Bank of India	3.20	4.67	4.53	4.28	4.60	4.26
14 Union Bank of India	2.81	2.22	4.76	4.67	3.81	3.65
15 Indian Overseas Bank	3.50	4.62	3.99	4.43	4.38	4.18
16 Syndicate Bank	4.57	4.08	4.24	3.84	1.10	3.57
17 Oriental Bank of Commerce	0.00	0.05	0.18	0.36	3.28	0.77
18 Indian Bank	0.70	-	-	-	0.85	0.78
19 Uco Bank	3.00	2.41	2.56	3.69	4.65	3.26
20 Allahabad Bank	4.96	3.81	4.41	3.80	1.39	3.67
21 United Bank of India	1.80	1.50	1.40	3.40	4.33	2.49
22 Andhra Bank	0.55	0.58	3.35	3.64	4.36	2.50
23 Bank of Maharashtra	2.23	1.87	4.25	4.25	3.65	3.25
24 Corporation Bank	0.90	0.40	0.10	0.03	4.75	1.24
25 Dena Bank	4.17	4.23	4.56	3.35	4.91	4.24
26 Vijaya Bank	2.90	4.30	4.60	3.46	3.18	3.69
27 Punjab & Sind Bank	4.31	3.21	4.06	4.55	3.39	3.90
Average of 19 Nationalised Banks [III]	2.52	2.80	3.12	3.29	3.63	3.07

[**Source** : IBA bulletin March 2002, 2003]

The above table indicates the situation of other nationalized banks regarding Tier-II capital. The year wise average for whole the group is an indicator of progressive performance regarding Tier-II capital. It increases from 2.52% in 97-98 to 3.63 in the year 2001-02. Yet some banks have to improve their position of Tier-II capital as they have less then 2% ratio. These banks are oriental Bank of commerce Indian Bank and corporation Bank. How ever, corporation Bank has increased the capacity in last year i.e. 2001-02.

Table 6A.2.3

Tier-II Capital To Risk-Weighted Assets Ratio for Old Private Sector Banks during 97-98 to 01-02

Banks	Tier-II Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	1.22	0.73	0.39	1.95	2.54	1.37
2 City Union Bank Ltd.	-	0.06	0.28	0.33	1.16	0.46
3 Development Credit Bank Ltd.	1.32	0.89	0.51	0.59	0.56	0.77
4 Lord Krishna Bank Ltd.	2.75	2.74	1.55	4.30	3.75	3.02
5 SBI Commercial & International Bank Ltd.	0.73	0.53	0.20	0.37	0.99	0.56
6 Tamilnad Mercantile Bank Ltd.	1.49	1.25	2.03	1.78	1.14	1.54
7 The Bank of Rajasthan Ltd.	0.68	0.42	0.63	1.66	2.06	1.09
8 The Benares State Bank Ltd.	0.36	-	-	-	-	0.36
9 The Catholic Syrian Bank Ltd.	0.82	2.50	2.05	1.61	3.60	2.12
10 The Dhanalakshmi Bank Ltd.	2.26	1.56	2.36	2.36	1.87	2.08
11 The Federal Bank Ltd.	0.25	3.84	3.61	2.57	3.67	2.79
12 The Ganesh Bank of Kurundwad Ltd.	3.96	4.15	4.48	3.85	3.72	4.03
13 The Jammu & Kashmir Bank Ltd.	6.20	5.02	3.31	3.11	3.05	4.14
14 The Karnataka Bank Ltd.	1.38	0.23	0.40	0.31	1.86	0.84
15 The Karur Vysya Bank Ltd.	1.51	1.25	0.68	0.44	1.28	1.03
16 The Lakshmi Vilas Bank Ltd.	0.42	0.00	2.35	1.69	3.10	1.51
17 The Nainital Bank Ltd.	1.09	0.95	0.79	2.09	1.96	1.38
18 The Nedungadi Bank Ltd.	4.38	3.48	3.31	-	-	3.72
19 The Ratnakar Bank Ltd.	2.78	1.67	0.96	0.58	1.67	1.53
20 The Sangli Bank Ltd.	4.58	4.19	3.59	3.10	2.50	3.59
21 The South Indian Bank Ltd.	3.10	2.00	2.34	2.81	3.52	2.75
22 The United Western Bank Ltd.	0.29	3.65	3.39	2.97	2.81	2.62
23 The Vysya Bank Ltd.	0.20	1.36	4.04	3.61	3.60	2.56
Average of 23 Private Sector Banks [I]	1.82	1.85	1.88	1.83	2.29	1.93

[**Source** : IBA bulletin March 2002, 2003]

Table 6A.2.3 shows the position of various banks of old private sector banks. During the first four years of this study, the overall average remains consistent for whole the group at lower than

2%. But it improves in the year 2001-02. By observing Bank wise performance, some banks have very weak position regarding the subordinate capital, like City Union Bank Ltd., Development Credit Bank Ltd., SBI Commercial and International Bank Ltd., The Benares State Bank Ltd., The Karnataka Bank Ltd., etc. Other Banks are going well as they have the average of 1% to 4% regarding Tier-II capital.

Table 6A.2.4
Tier-II Capital To Risk-Weighted Assets Ratio for New Private Banks during 1997-98 to 2001-02

Banks	Tier-II Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	0.10	3.74	2.22	1.15	4.35	2.31
25 HDFC Bank Ltd.	3.71	3.52	2.63	2.40	1.58	2.77
26 UTI Bank Ltd.	0.09	0.04	3.38	3.16	3.77	2.09
27 Global Trust Bank Ltd.	0.79	4.35	3.83	3.92	3.12	3.20
28 Indusind Bank Ltd.	-	0.05	1.15	2.44	3.97	1.90
29 Centurion Bank Ltd.	-	-	3.00	2.73	3.23	2.99
30 IDBI Bank Ltd.	-	0.05	3.37	3.83	2.06	2.33
31 Bank of Punjab Ltd.	-	-	-	2.50	4.23	3.37
Average of 8 New Private Sec.Banks [I]	0.59	1.47	2.45	2.77	3.29	2.11

[**Source** : IBA bulletin March 2002, 2003]

The above table reflects the position of Tire II capital of new private sector Banks. As they are new, and the incorporation was made from 1994, Tire II capital ratio is lower in the starting years i.e. 1997-98 and 1998-99 for some banks. However, all the banks excluding HDFC Bank have improved the position of supplementary capital. The year wise average is going up for whole the group from 0.59% to 3.29%. That is a good sign for credit efficiency.

Table 6A.2.5
Tier-II Capital To Risk-Weighted Assets Ratio for Foreign Banks during 1997-98 to 2001-02

Banks	Tier-II Capital (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
FOREIGN BANKS						
1 ABN-Amro	0.39	0.33	1.86	1.91	2.02	1.30
2 Abu Dhabi Commercial	1.12	1.25	1.25	1.25	1.25	1.22
3 American Express	0.18	0.17	0.18	0.23	0.43	0.24
4 Arab Bangladesh	-	-	-	-	-	-
5 Bank International Indonesia	-	-	-	-	-	-
6 Bank Muscat International	-	-	-	-	0.18	0.18
7 Bank of America	0.41	0.37	0.49	0.52	7.62	1.88
8 Bank of Bahrain and Kuwait	0.89	0.18	0.16	0.19	0.83	0.45
9 Bank of Ceylon	-	0.03	0.03	0.03	0.17	0.07
10 Barclays	0.53	0.45	0.12	0.22	0.75	0.41
11 BNP Pariba	2.56	2.17	3.30	3.33	4.05	3.08
12 Chinatrust Commercial	73.27	0.03	0.11	0.77	0.50	14.94
13 Cho Hung	-	-	-	-	0.22	0.22
14 Citibank	0.32	2.77	3.60	3.33	2.68	2.54
15 Commerz	-	0.31	-	0.29	-	0.30
16 Credit Agricole Indosuez	0.58	0.48	0.53	0.44	0.21	0.45
17 Credit Lyonnais	0.90	1.00	1.20	1.10	1.20	1.08
18 Deutsche	-	-	-	0.16	0.88	0.52
19 Dresdner	-	-	-	-	-	-
20 Ing Bank	-	-	-	-	0.08	0.08
21 JP Chase Manhattan	0.03	-	-	0.02	0.67	0.24
22 KBC	-	-	-	0.15	-	0.15
23 Krung Thai	5.22	-	0.32	0.24	1.44	1.81
24 Mashreq	0.58	-	-	0.12	0.23	0.31
25 MIZUHO Corporate Bank Ltd. -Fuji	-	-	-	0.17	0.13	0.15
26 Morgan Guaranty Trust	-	-	-	-	-	-
27 Oman International a	0.37	-	1.43	1.39	1.58	1.19
28 Oversea-Chinese	-	-	-	0.29	0.34	0.32

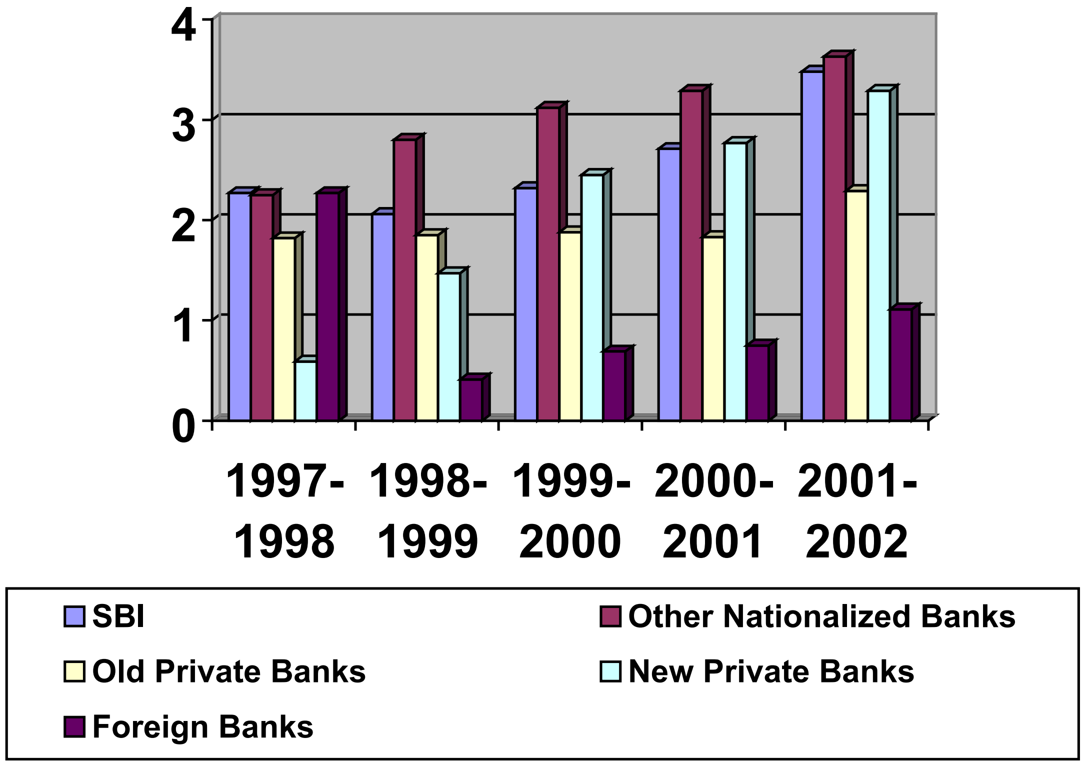
29	Sakura	-	-	-	0.14	-	0.14
30	Societ Generale	0.37	0.29	0.24	0.65	1.25	0.56
31	Sonali	-	-	-	-	-	-
32	Standard Chartered	1.60	1.50	3.50	2.90	2.38	2.38
33	Standard Chartered Grindlays	2.47	2.56	4.95	5.62	6.54	4.43
34	State Bank of Mauritius	-	0.09	0.07	0.23	0.58	0.24
35	Sumitomo	-	-	0.11	0.16	0.10	0.12
36	The Bank of Nova Scotia	0.01	-	0.08	0.26	0.39	0.19
37	The Bank of Tokyo - Mitsubishi	-	-	-	-	0.15	0.15
38	The Development Bank of Singapore	-	-	0.01	0.37	0.58	0.32
39	The Hongkong & Shanghai	3.20	2.77	4.62	3.74	3.45	3.56
40	The Siam Commercial	-	-	0.09	0.18	0.18	0.15
41	Toronto Dominion	0.33	0.65	0.77	1.27	1.23	0.85
42	UFG / Sanwa	-	-	-	-	-	-
	Average of 42 Foreign Banks in India	2.27	0.41	0.69	0.75	1.11	1.05

[**Source** : IBA bulletin March 2002, 2003]

The position of Tier-II capital in foreign banks can be seen in Table no.6A.2.5. as all the banks generally are in the initial stage of their business, Tier-II capital can not be there. In some banks, it is -(-), in some banks, it is negligible (-), and in some banks, it is less than 1%. The notable performance regarding subordinate capital like reserves, surplus and cumulative preference shares, Stanchart Bank and Stanchart Grindlays Bank as well as BNP Pariba Bank and The Hong Kong & Shanghai Bank are ahead from others. In 1997-98 in case of Chinatrust Commercial Bank, this ratio is the highest ever in the group of 73.27%.

Table 6A.2.6
Tier-II Capital To Risk-Weighted Assets Ratio for all the five banking groups during 1997-98 to 2001-02 (in percent)

	Banking Groups	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	AVG (%)
1	SBI	2.27	2.06	2.32	2.71	3.48	2.57
2	Other Nationalised Banks	2.52	2.80	3.12	3.29	3.63	3.07
3	Old Private Banks	1.82	1.85	1.88	1.83	2.29	1.93
4	New Private Banks	0.59	1.47	2.45	2.77	3.29	2.11
5	Foreign Banks	2.27	0.41	0.69	0.75	1.11	1.05
	AVG (%)	1.89	1.72	2.09	2.27	2.76	2.15



The above Table No. 6A.2.6 and Chart represent Tier-II capital relationship with Risk-Weighted Assets of all the five banking groups. Tier-II capital comprises of subordinate capital. The above chart represents almost adverse scenario than that of Tier-I capital chart. Here the chart shows the least Tier-II Capital to Risk-

Weighted Assets of foreign banks group except 1997-98. The Tier-II capital to Risk-Weighted Assets is seen remarkably high in case of SBI group and other nationalized banks group. This means that Tier-II capital to Risk-Weighted Assets is mostly very high in the capital structure of the banks in SBI group and of the banks in other nationalized banks group. Once again the shrewdness of foreign banks is reflected here.

Tier-II Capital To Risk-Weighted Assets Ratio

Hypothesis Testing

The Researcher wanted to find out that if there is any significant difference regarding the performance related to Tier-II Capital To Risk-Weighted Assets Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null hypothesis :

There is no significant difference in Tire II Capital To Risk-Weighted Assets Ratio among all the five banking groups during 1997-98 to 2001-02.

$Ho = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$

$H_1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$

ANOVA TABLE

Source of Variable	SS	df	MS	F Ratio	5% F limit (From table F)
Between sample	135.62	(5-1) = 4	33.91	8.22	F (4, 20) 2.87
Within sample	82.50	(25-5) = 20	4.13		

The above anova table reveals that the table value of F is 2.87 at 5% level of significance, while the calculated value of F is 8.22. As the calculated value of F is more than its table value, null hypothesis is rejected again. It shows that there is a significant difference in Tier-II Capital- supplementary capital in all the five banking groups. Nationalized banks have a better average than other groups.

6A.3) <u>Net Non-Performing Assets To Net Advance Ratio</u>:

This is a credit efficiency parameter. It indicates how good are a Bank's provisioning practices and gets recovery from advances. If the ratio is lower, it is a sign of credit efficiency. There is a big problem of NPAs for all the banks now a day. Some regulations from RBI related to NPAs have been also imposed.

Table 6A.3.1

Net NPAs to Net Advances Ratio for SBI Group during 1997-98 to 2001-02

Banks	Net NPAs to Net Advances (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	6.07	7.18	6.41	6.03	5.63	6.26
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	10.88	8.78	7.30	7.82	5.72	8.10
3 State Bank of Patiala	7.04	8.23	6.09	4.92	4.97	6.25
4 State Bank of Travancore	12.21	10.80	8.58	7.75	3.58	8.58
5 State Bank of Bikaner & Jaipur	7.13	10.45	10.14	7.83	7.36	8.58
6 State Bank of Mysore	10.75	10.55	8.12	7.65	2.94	8.00
7 State Bank of Indore	10.96	10.10	7.55	5.91	4.95	7.89
8 State Bank of Saurashtra	6.57	7.70	7.87	7.30	5.77	7.04
Average of State Bank Group [I+II]	8.95	9.22	7.76	6.90	5.12	7.59

[**Source** : IBA bulletin March 2002, 2003]

Table 6.3.1 shows the NPA /NA in percentages for the SBI group. By observing the average, it goes up from 1997-98 to 1998-99 and than goes down respectively. However, the ratio is high, this trend is good. It shows the improvement in credit efficiency. The high ratio of NPA, which is not good, can be seen in State Bank of Hyderabad, State Bank of Travancore, State Bank of Bikaner & Jaipur and State Bank of Mysore. Other banks from this group have normal ratio of NPA, somewhat higher than private banks. This shows average credit efficiency not much more efficient. May be the reason of giving advances without preventions or rural advances or industrial advances. The recovery efficiency is also weak in this group.

Table 6A.3.2

Net NPAs to Net Advances Ratio for other nationalised Banks during 1997-98 to 2001-02

Banks	Net NPAs to Net Advances (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
III. **NATIONALISED BANKS**						
9 Canara Bank	7.52	7.09	5.28	4.84	10.57	7.06
10 Punjab National Bank	9.57	8.96	8.52	6.69	2.45	7.24
11 Bank of Baroda	6.60	7.70	6.95	6.77	5.06	6.62
12 Bank of India	7.34	7.55	8.61	6.72	6.02	7.25
13 Central Bank of India	12.21	9.79	9.84	9.72	5.81	9.47
14 Union Bank of India	7.66	8.70	7.97	6.87	3.89	7.02
15 Indian Overseas Bank	6.26	7.30	7.65	7.01	7.98	7.24
16 Syndicate Bank	5.78	3.93	3.17	4.05	2.31	3.85
17 Oriental Bank of Commerce	4.50	4.50	3.80	3.60	16.31	6.54
18 Indian Bank	26.01	21.67	16.18	10.06	8.28	16.44
19 Uco Bank	11.14	10.83	8.75	6.35	6.32	8.68
20 Allahabad Bank	15.09	12.54	12.24	11.23	3.20	10.86
21 United Bank of India	14.10	14.70	12.70	10.50	11.70	12.74
22 Andhra Bank	2.92	4.26	3.47	2.96	5.32	3.79
23 Bank of Maharashtra	8.59	8.72	6.97	7.41	4.52	7.24
24 Corporation Bank	2.93	1.98	1.92	1.98	5.45	2.85
25 Dena Bank	8.28	7.67	13.47	18.37	6.26	10.81
26 Vijaya Bank	7.56	6.72	6.09	6.23	7.90	6.90
27 Punjab & Sind Bank	10.84	10.48	9.39	12.27	6.02	9.80
Average of 19 Nationalised Banks [III]	9.21	8.69	8.05	7.56	6.60	8.02

[**Source** : IBA bulletin March 2002, 2003]

For getting more business, some banks offer advances on higher risk. After giving advances, no efficiency to recover that money can be seen in nationalized banks. The govt. policies for giving advances in rural &industrial areas reflect in this table.

The above table shows higher NPA ratio, which leads to weak performance related to credit efficiency. A bank can move to progress only if its credit efficiency is good. But, hear, we can see that the average of NPA in this group is very high. Indian Bank, Allahabad Bank, united Bank of India Dena Bank and Punjab & Sind Bank are very much weak related to credit efficiency.

Again the Corporation Bank's NPA ratio is very much low, that shows efficiency in credit /recovery. That's why, other ratios gives good favour to this bank. Andhra Bank and Syndicate Bank are also good in the race of credit efficiency and recovery operations.

Table 6A.3.3

Net NPAs to Net Advances Ratio for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Net NPAs to Net Advances (in percent)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	(%)
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	4.40	4.13	6.39	4.14	4.38	4.69
2 City Union Bank Ltd.	7.54	7.96	7.26	8.20	8.22	7.84
3 Development Credit Bank Ltd.	5.02	4.79	5.86	5.94	6.47	5.62
4 Lord Krishna Bank Ltd.	14.09	20.60	13.94	12.92	9.85	14.28
5 SBI Commercial & International Bank Ltd.	7.89	21.88	13.96	22.56	23.43	17.94
6 Tamilnad Mercantile Bank Ltd.	5.37	5.67	5.77	5.99	6.66	5.89
7 The Bank of Rajasthan Ltd.	9.14	9.50	9.65	-	8.86	9.29
8 The Benares State Bank Ltd.	16.85	29.71	24.70	23.70	-	23.74
9 The Catholic Syrian Bank Ltd.	11.27	14.88	12.41	9.99	9.92	11.69
10 The Dhanalakshmi Bank Ltd.	11.01	12.33	11.08	11.34	11.66	11.48
11 The Federal Bank Ltd.	5.28	7.53	8.56	10.08	8.60	8.01
12 The Ganesh Bank of Kurundwad Ltd.	6.18	7.03	9.93	10.12	14.08	9.47
13 The Jammu & Kashmir Bank Ltd.	4.57	3.79	3.22	2.45	1.88	3.18
14 The Karnataka Bank Ltd.	3.06	4.99	5.73	6.93	5.90	5.32
15 The Karur Vysya Bank Ltd.	1.87	4.35	3.77	4.73	6.33	4.21
16 The Lakshmi Vilas Bank Ltd.	6.07	6.72	5.38	6.47	9.13	6.75
17 The Nainital Bank Ltd.	5.99	2.84	0.82	-	-	3.22
18 The Nedungadi Bank Ltd.	9.41	12.23	15.65	21.04	31.05	17.88
19 The Ratnakar Bank Ltd.	6.84	7.79	8.70	7.58	8.60	7.90
20 The Sangli Bank Ltd.	9.43	8.26	7.56	6.64	5.97	7.57
21 The South Indian Bank Ltd.	6.35	11.06	8.67	7.13	6.64	7.97
22 The United Western Bank Ltd.	5.73	8.28	4.83	9.48	10.72	7.81
23 The Vysya Bank Ltd.	8.45	14.31	9.11	4.77	4.59	8.25
Average of 23 Private Sector Banks [I]	7.47	10.03	8.82	8.79	9.22	8.87

[**Source** : IBA bulletin March 2002, 2003]

The above table shows that the average of NPA ratio in old private Banks is very high. Almost it is around or above 8% in 1998-99. It is 10.03% in 1998-99, which is very high. The Catholic Syrian

Bank Ltd., The Nedungadi Bank Ltd., The Dhanalakshmi Bank Ltd., Lord Krishna Bank Ltd., The Benares State Bank Ltd., & SBI Commercial & International Bank Ltd., are very much poor in performance related to credit efficiency. That shows the weak operations of these banks in providing advances and getting recovery from the customers. Non-reliable & prompt advances to get more business are highly given here. The good performance can be seen in Jammu & Kashmir Bank Ltd., The Karur Vysya Bank Ltd., The Nainital Bank Ltd., Bharat Overseas Bank Ltd., and The Karnataka Bank Ltd.

Table 6A.3.4

Net NPAs to Net Advances Ratio for New Private Banks during 1997-98 to 2001-02

Banks	**Net NPAs to Net Advances (in percent)**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	1.14	2.88	1.53	2.19	2.93	2.13
25 HDFC Bank Ltd.	1.18	0.73	1.09	0.45	5.82	1.85
26 UTI Bank Ltd.	5.63	6.32	4.54	3.43	9.23	5.83
27 Global Trust Bank Ltd.	2.98	2.15	0.87	3.75	0.50	2.05
28 Indusind Bank Ltd.	3.96	7.20	5.98	5.25	5.48	5.57
29 Centurion Bank Ltd.	0.38	3.73	2.70	2.96	2.21	2.40
30 IDBI Bank Ltd.	0.32	1.28	1.95	5.24	6.59	3.08
31 Bank of Punjab Ltd.	1.14	3.66	2.32	2.31	2.74	2.43
Average of 8 New Private Sec.Banks [I]	2.09	3.49	2.62	3.20	4.44	3.17

[**Source** : IBA bulletin March 2002, 2003]

The above table is looking very much impressive related to NPA ratio because the average in all the years is comparatively very low to other groups. It is below to 3.5% from 1997-98 to 2000-01. It is a good sign of credit efficiency & recovery of this group.

Most impressive performance related to credit efficiency in this group is of ICICI Bank, and HDFC Bank (the best). Others have the average performance around 3 to 5%, but batter than old private and nationalized banks.

The poor performance in this group is of Indusind Bank, because it works in local industrial areas and gives advances as to most of the industrial groups. Because of the slack period over 5 years recovery problem are there UTI Bank has also low credit efficiency related to other banks in the group.

Table 6A.3.5
Net NPAs to Net Advances Ratio for Foreign Banks during 1997-98 to 2001-02

Banks	**Net NPAs to Net Advances (in percent)**					**AVG**
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**(%)**
FOREIGN BANKS						
1 ABN-Amro	0.42	0.45	0.30	1.22	1.34	0.75
2 Abu Dhabi Commercial	5.94	3.59	2.10	1.92	13.43	5.40
3 American Express	1.21	2.32	4.32	6.20	7.56	4.32
4 Arab Bangladesh	-	-	6.07	4.24	1.39	3.90
5 Bank International Indonesia	-	10.53	48.78	50.75	61.39	42.86
6 Bank Muscat International	-	-	2.38	0.81	1.10	1.43

7	Bank of America	0.17	-	1.85	0.68	0.18	0.72
8	Bank of Bahrain and Kuwait	15.20	11.34	7.69	11.51	11.40	11.43
9	Bank of Ceylon	9.62	16.43	22.14	28.74	23.88	20.16
10	Barclays	9.30	3.35	-	-	36.04	16.23
11	BNP Pariba	-	0.63	0.08	0.64	1.62	0.74
12	Chinatrust Commercial	-	4.73	4.61	3.76	-	4.37
13	Cho Hung	1.41	1.88	1.48	0.91	0.47	1.23
14	Citibank	0.57	2.08	1.05	0.70	0.40	0.96
15	Commerz	3.88	7.06	7.14	13.64	100.00	26.34
16	Credit Agricole Indosuez	16.40	24.75	6.13	1.21	0.36	9.77
17	Credit Lyonnais	3.10	-	4.10	3.50	3.80	3.63
18	Deutsche	1.28	1.28	5.33	1.23	0.38	1.90
19	Dresdner	12.33	16.16	13.50	29.45	-	17.86
20	Ing Bank	-	5.67	13.26	5.94	26.82	12.92
21	JP Chase Manhattan	-	-	0.00	-	-	0.00
22	KBC	-	-	-	0.24	-	0.24
23	Krung Thai	-	-	-	-	35.36	35.36
24	Mashreq	22.49	24.21	20.96	13.39	-	20.26
25	MIZUHO Corporate Bank Ltd. -Fuji	-	6.02	10.28	3.24	4.75	6.07
26	Morgan Guaranty Trust	-	-	0.00	-	-	0.00
27	Oman International	25.40	38.03	33.79	37.11	41.52	35.17
28	Oversea-Chinese	-	-	15.97	18.44	100.00	44.80
29	Sakura	3.61	12.59	16.49	1.03	-	8.43
30	Societ Generale	14.24	11.94	8.53	7.27	0.52	8.50
31	Sonali	-	-	-	-	1.58	1.58
32	Standard Chartered	2.42	3.18	2.04	1.53	0.40	1.91
33	Standard Chartered Grindlays	0.59	0.26	0.03	0.41	0.59	0.38
34	State Bank of Mauritius	1.79	10.55	7.76	18.93	16.30	11.07
35	Sumitomo	-	-	16.13	16.76	18.52	17.14
36	The Bank of Nova Scotia	2.80	2.80	1.15	2.04	2.72	2.30
37	The Bank of Tokyo - Mitsubishi	15.20	13.45	2.40	0.01	-	7.77
38	The Development Bank of Singapore	9.18	4.93	0.00	-	-	4.70
39	The Hongkong & Shanghai	1.99	0.91	1.04	0.99	2.27	1.44
40	The Siam Commercial	-	10.51	5.17	39.18	71.95	31.70
41	Toronto Dominion	-	-	-	-	-	-
42	UFG / Sanwa	0.69	12.33	17.67	9.61	12.69	10.60
Average of 42 Foreign Banks in India		4.90	6.28	7.42	8.03	15.02	8.33

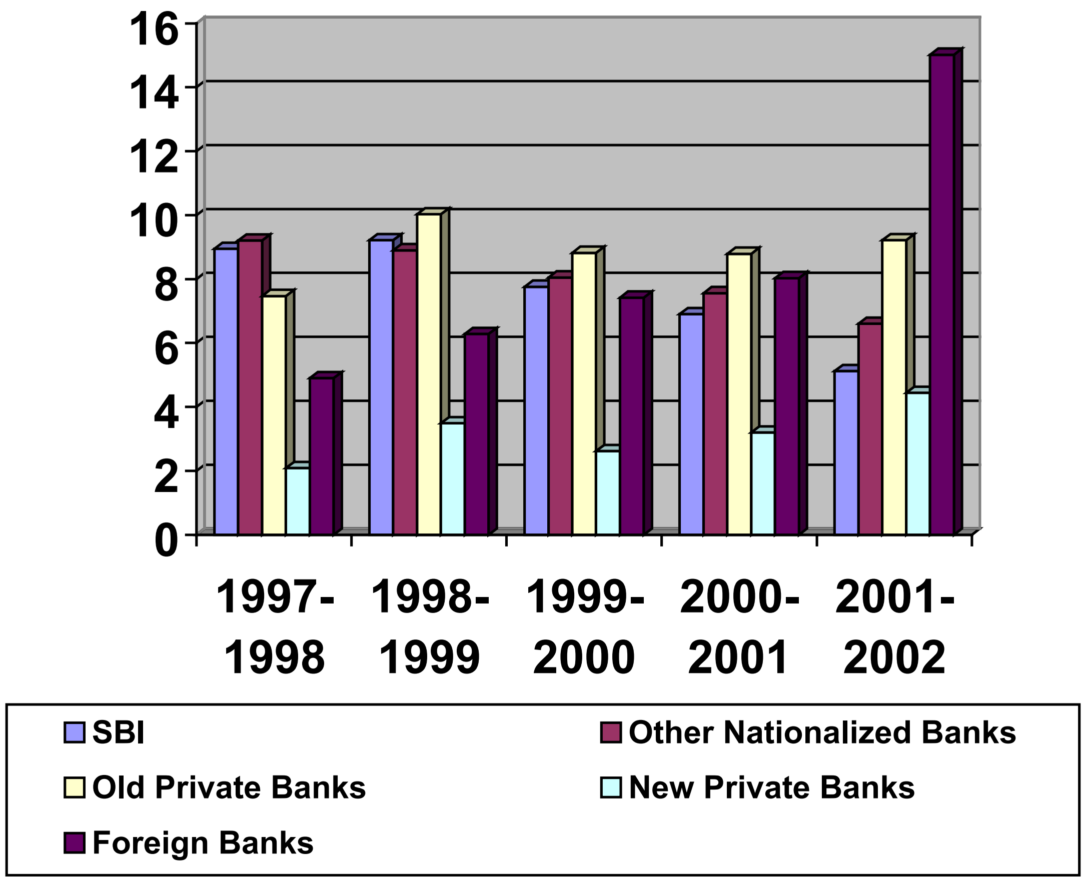
[**Source** : IBA bulletin March 2002, 2003]

NPA ratio in foreign banks is as equal as old private banks and nationalized banks. Major 10 to 12 banks, which are on Top have the lower ratio of NPA that shows the higher credit efficiency. These Banks are Citibank, The Hongkong & Shanghi Bank, Stanchart Bank, ABN-Amro Bank, Bank of America, Deutsche Bank, BNP Pariba Bank, etc. These banks' NPA Ratio is less than 1% to 2%.

The average reflects the poor performance of single branch banks, which is not so much important. Some of these banks have the NPA Ratio more than 15% to 20%. The good credit efficiency may be due to careful advances to reliable customers and efficient and prompt recovery from the customers. The worst performance seen in this area is in Bank International Indonesia, Commerze Bank, Krung Thai Bank, Oman International Bank, Oversea-Chinese Bank and The Siam Commercial Bank.

Table 6A.3.6
Net NPAs to Net Advances Ratio for all the five banking groups during 1997-98 to 2001-02 (in percent)

	Banking Groups	**1997-1998**	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**AVG (%)**
1	SBI	8.95	9.22	7.76	6.90	5.12	7.59
2	Other Nationalized Banks	9.21	8.69	8.05	7.56	6.60	8.02
3	Old Private Banks	7.47	10.03	8.82	8.79	9.22	8.87
4	New Private Banks	2.09	3.49	2.62	3.20	4.44	3.17
5	Foreign Banks	4.90	6.28	7.42	8.03	15.02	8.33
	AVG (%)	6.52	7.54	6.94	6.90	8.08	7.20



The above Table no 6A.3.6. and Chart exhibit the Net Non-Performing Assets to Net Advances Ratio as far as the credit efficiency is concerned. If this ratio is higher, we have to believe that the credit efficiency is lower. By seeing the above table and chart we can know that as this ratio is the lowest of new private banks among all the five banking group, the credit efficiency of new private banks group must be very high. Surprisingly this ratio is seen very high in old private sector banks group and in foreign banks. Due to the absence of effective provisions of securitisation Act, this ratio is seen very high in case of SBI group and other nationalized banks group too.

Net NPAs to Net Advances Ratio

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Net Non-Performing Assets to Net Advances Ratio among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null Hypothesis :

There is no significant difference in Non Performing Assets to Net Advances Ratio among all the five banking groups during 1997-98 to 2001-02.

$Ho = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$

$H_1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$

ANOVA TABLE

Source of variable	SS	df	MS	F Ratio	5% F limit (from table F)
Between Sample	1483.43	(5-1) = 4	370.86	5.68	F (4,20) 2.87
Within Sample	1305.16	(25-5) = 20	65.26		

The above table indicates that the table value of F is 2.87 at 0.05 level of significance. As the calculated value of F is 5.68, which is more than its table value, so null hypothesis is rejected. There is a difference in all the banking group regarding the ratio of Net NPA to Net Advances. The average is the lowest in new private banks and highest in old private banks, which is a very warning factor for old private banks.

6B) <u>PRODUCTIVITY</u> :

The last parameter for the appraisal of banks is labour productivity, which can be measured by the following two ratios.

6B.1)<u>Business Per employee (Rs. in lakh)</u> :

This is a productivity parameter. It comes in Rs. in lakh. This ratio is an indicator of degree of labour or employee's productivity of Banks Naturally, if the ratio is higher, it indicates more productivity of labour in Banks. The analysis of BPE is as under in each group.

<u>Business</u> :

Business is equal to aggregate of deposits plus aggregate advances.

Employees :

In case of the foreign banks, employees in India as at the end of the year. Employees in India include officers, clerks and subordinates (part time and full time). However, in the case of all other banks, employees means total employees, that is inclusive of employees based overseas as at the end of the year.

This ratio shows the productivity of the employees. The formula is __

$$\text{Business Per Employee (In Rs.)} = \frac{\text{Business}}{\text{No. of Employees}}$$

Table 6B.1.1

Business per Employee (Rs. in lakh) for SBI Group during 1997-98 to 2001-02

Bank	Business per Employee (Rs. in lakh)					AVG
	1997-1998	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	75.44	93.64	111.20	136.58	186.84	120.74
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	90.00	109.00	126.00	165.00	132.34	124.47
3 State Bank of Patiala	91.23	106.67	123.62	143.45	191.64	131.32
4 State Bank of Travancore	89.81	99.97	121.65	157.32	186.75	131.10
5 State Bank of Bikaner & Jaipur	63.24	74.17	86.47	105.19	136.14	93.04
6 State Bank of Mysore	62.35	70.75	81.61	112.15	191.16	103.60
7 State Bank of Indore	75.02	80.52	96.23	126.00	157.44	107.04
8 State Bank of Saurashtra	79.28	82.10	98.28	123.87	172.16	111.14
Average of State Bank Group [I+II]	78.30	89.60	105.63	133.70	169.31	115.31

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.1.1 shows the BPE (Rs. in lakh) for SBI group. The overall average trend is going higher that can be seen in this table. In SBI group Rs.78.3 lakh was the Business per employee. It improves in every year and reaches at Rs. 169.31 lakh in 2001-02. The productivity seems better because of competition and strategically administration. There may be any other reason for looking better improvement in 2000-01 & 2001-02 and that is VRS. Because of VRS, the no. of employees had gone down and so that the BPE Ratio is looking high. The highest BPE of Rs. 191.64 lakh is seen in case of State Bank of Patiala in 2001-02 of which average is the highest in SBI group during 1997-98 to 2001-02.

Table 6B.1.2
Business per Employee (Rs. in lakh) for other nationalised Banks during 1997-98 to 2001-02

Banks	Business per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
III. **NATIONALISED BANKS**						
9 Canara Bank	102.33	116.88	135.20	190.67	169.48	142.91
10 Punjab National Bank	75.65	89.58	106.48	141.95	219.86	126.70
11 Bank of Baroda	117.24	134.75	142.82	166.11	245.42	161.27
12 Bank of India	99.14	131.00	135.65	184.26	225.75	155.16
13 Central Bank of India	66.38	79.55	93.30	110.38	193.61	108.64
14 Union Bank of India	96.98	112.94	135.44	183.23	203.27	146.37
15 Indian Overseas Bank	90.79	103.78	116.87	141.40	172.65	125.10
16 Syndicate Bank	53.26	88.83	111.36	133.68	292.16	135.86
17 Oriental Bank of Commerce	134.80	169.70	218.20	263.20	213.81	199.94

18 Indian Bank	87.73	97.87	110.00	135.00	156.80	117.48
19 Uco Bank	56.00	0.73	89.00	97.00	190.37	86.62
20 Allahabad Bank	77.00	90.00	105.00	129.00	313.83	142.97
21 United Bank of India	72.01	85.95	100.28	120.00	181.67	111.98
22 Andhra Bank	67.69	81.14	111.71	153.62	167.76	116.38
23 Bank of Maharashtra	78.91	90.62	114.84	164.77	169.86	123.80
24 Corporation Bank	141.50	185.02	207.68	245.31	155.10	186.92
25 Dena Bank	101.00	126.00	145.00	207.00	236.92	163.18
26 Vijaya Bank	71.68	89.86	105.49	122.83	147.19	107.41
27 Punjab & Sind Bank	92.76	111.49	124.96	168.88	176.52	134.92
Average of 19 Nationalised Banks [III]	88.57	104.51	126.80	160.96	201.69	136.51

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.1.2 indicates BPE (Rs. in lakh) for other 19 nationalized Banks. For the first time the overall averages in all the means are higher than SBI group. May be there is a reason than no of employee are less in this group than SBI group. The average is very much impressing in 2001-02 and that is Rs. 201.69 lakh. The trend is improving in all the years.

The notable results are of three Banks – Oriental Bank of commerce, Corporation Bank, and Dena Bank. In last three years, these Banks have gotten more business per employee, and it is more than Rs. 20lakh . This is a remarkable thing. Only one bank is weaker in this group and that is UCO Bank. Other Banks has a improving result and that may be because of VRS factor.

Table 6B.1.3

Business per Employee (Rs. in lakh)for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Business per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	158.00	188.00	205.00	233.00	274.03	211.61
2 City Union Bank Ltd.	116.31	138.89	155.94	167.35	219.31	159.56
3 Development Credit Bank Ltd.	173.00	227.82	344.00	429.39	443.44	323.53
4 Lord Krishna Bank Ltd.	154.00	149.00	200.00	226.00	246.41	195.08
5 SBI Commercial & International Bank Ltd.	391.00	575.38	724.99	706.37	762.18	631.98
6 Tamilnad Mercantile Bank Ltd.	117.97	141.48	180.28	214.94	246.98	180.33
7 The Bank of Rajasthan Ltd.	93.94	99.00	111.37	123.55	138.06	113.18
8 The Benares State Bank Ltd.	66.95	71.79	86.03	100.13	-	81.23
9 The Catholic Syrian Bank Ltd.	84.00	94.00	107.00	125.42	146.06	111.30
10 The Dhanalakshmi Bank Ltd.	120.57	131.17	153.66	184.28	202.91	158.52
11 The Federal Bank Ltd.	142.00	153.00	161.00	190.00	225.23	174.25
12 The Ganesh Bank of Kurundwad Ltd.	70.98	81.76	94.77	105.40	113.68	93.32
13 The Jammu & Kashmir Bank Ltd.	116.00	137.00	175.00	212.00	297.69	187.54
14 The Karnataka Bank Ltd.	127.46	156.29	177.68	210.28	251.42	184.63
15 The Karur Vysya Bank Ltd.	126.00	137.00	169.00	192.00	231.77	171.15
16 The Lakshmi Vilas Bank Ltd.	100.23	124.58	158.00	192.00	209.11	156.78
17 The Nainital Bank Ltd.	59.76	70.13	79.05	93.07	114.72	83.35
18 The Nedungadi Bank Ltd.	87.39	107.92	133.34	145.80	125.38	119.97
19 The Ratnakar Bank Ltd.	82.29	90.47	114.75	145.87	162.54	119.18
20 The Sangli Bank Ltd.	54.93	59.38	66.82	74.58	105.32	72.21
21 The South Indian Bank Ltd.	85.00	109.00	129.00	171.00	247.52	148.30
22 The United Western Bank Ltd.	113.00	139.00	179.00	212.00	213.59	171.32
23 The Vysya Bank Ltd.	111.76	123.89	186.14	199.59	231.88	170.65
Average of 23 Private Sector Banks [I]	119.68	143.74	177.91	202.35	236.78	176.09

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.1.3 shows the BPE Ratio in old 23 private sector Banks. The notable point is above Rs. 100 lakh in each year (overall) and in 2001-02 it is Rs. 236.78 lakh per employee. Yet the overall average would go high, but there is an effect of low productivity of employees in Sangli Bank Ltd., The Ganesh Bank of Kurundwad Ltd., and The Nainital Bank Ltd. The highest productivity of labour can be seen in and SBI Commercial and International Bank Ltd. related to BPE (Rs. in lakh). Many of these Banks have gotten improvement in productivity till 2001-02. The higher productivity of this group than SBI group and other nationalized banks group may be because of motivation provide to employees in old private banks.

Table 6B.1.4
Business per Employee (Rs. in lakh) for New Private Banks during 1997-98 to 2001-02

Banks	Business per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	420.17	513.91	829.52	815.22	519.90	619.74
25 HDFC Bank Ltd.	460.00	522.00	922.00	643.00	534.81	616.36
26 UTI Bank Ltd.	993.00	1000.00	1101.00	959.00	826.13	975.83
27 Global Trust Bank Ltd.	809.00	690.00	855.00	832.00	653.86	767.97
28 Indusind Bank Ltd.	1747.51	1506.19	1656.91	1582.36	1024.07	1503.41
29 Centurion Bank Ltd.	755.01	553.62	688.73	636.16	689.88	664.68
30 IDBI Bank Ltd.	913.06	923.01	923.01	684.67	1893.54	1067.46
31 Bank of Punjab Ltd.	290.57	379.57	712.05	545.68	1024.96	590.57
Average of 8 New Private Sec.Banks [I]	798.54	761.04	961.03	837.26	895.89	850.75

[**Source** : IBA bulletin March 2002, 2003]

The new private sector banks have a unique motivation and incentive programmes. These banks give targets to the employees and after achieving it, they are highly motivated and get many of incentives. These programmes affect on the BPE. Moreover these Banks provide a wide service network under one roof, so the overall average related to BPE in these 8 new private banks is highly impressive. It starts from Rs. 798.54 lakh per employee in 1997-98 then Rs. 761.04 lakh in 1998-99, then Rs. 961.03 lakh in 1999-2000 and Rs. 837.26 lakh in 2000-01. And the amount of Rs. 895.89 lakh in 2001-02.

This is a very good sign and shows very high productivity of employees. The greatest performance can be seen in Indusind Bank Ltd., and IDBI Bank Ltd. These Banks have gotten more than Rs.100 lakh in the average of five years.

All these private banks (23+8) are showing brighter performance related to this ratio compared to SBI group and Other Nationalized Banks group. The average of BPE in new private Banks are at least 5 to 6 times more than nationalized Banks. There may be the reasons of less business and overstaffing in SBI group and other nationalized banks group as well as less motivation for employees in this groups.

Table 6B.1.5

Business per Employee (Rs. in lakh) for Foreign Banks during 1997-98 to 2001-02

Banks	Business per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
FOREIGN BANKS						
1 ABN-Amro	649.11	731.53	857.06	868.15	975.18	816.21
2 Abu Dhabi Commercial	775.16	880.66	1033.87	2454.49	2392.25	1507.29
3 American Express	342.44	314.40	290.24	252.92	764.25	392.85
4 Arab Bangladesh	133.26	133.05	151.18	218.13	252.29	177.58
5 Bank International Indonesia	385.19	195.60	490.33	306.40	86.76	292.86
6 Bank Muscat International	-	75.29	278.57	367.11	863.20	396.04
7 Bank of America	997.27	997.74	1221.14	1978.32	1640.04	1366.90
8 Bank of Bahrain and Kuwait	-	611.90	736.80	808.00	810.81	741.88
9 Bank of Ceylon	458.00	460.00	560.00	757.00	735.15	594.03
10 Barclays	319.00	581.32	412.10	366.53	435.31	422.85
11 BNP Pariba	394.98	465.66	555.25	553.45	623.66	518.60
12 Chinatrust Commercial	127.35	447.63	661.78	689.79	635.34	512.38
13 Cho Hung	512.96	728.45	710.00	766.01	1161.94	775.87
14 Citibank	803.75	831.89	1160.64	1336.24	1811.40	1188.78
15 Commerz	710.18	752.21	464.83	520.63	252.00	539.97
16 Credit Agricole Indosuez	784.45	697.02	565.93	835.59	1362.09	849.02
17 Credit Lyonnais	1029.35	875.89	1228.12	1581.04	1639.95	1270.87
18 Deutsche	674.33	743.77	757.13	835.25	980.79	798.25
19 Dresdner	673.32	593.31	593.48	2968.29	-	1207.10
20 Ing Bank	294.69	702.66	252.43	409.54	415.47	414.96
21 JP Chase Manhattan	14.32	6.29	65.49	93.91	223.86	80.77
22 KBC	-	-	443.56	910.59	496.45	616.87
23 Krung Thai	52.35	54.79	119.92	174.86	126.73	105.73
24 Mashreq	429.06	558.83	591.24	574.51	1385.73	707.87
25 MIZUHO Corporate Bank Ltd. -Fuji	501.88	570.67	693.02	544.30	888.77	639.73
26 Morgan Guaranty Trust	-	-	124.11	217.39	-	170.75
27 Oman International a	606.51	741.85	818.23	938.40	741.16	769.23
28 Oversea-Chinese	297.29	334.94	307.40	211.05	29.88	236.11
29 Sakura	691.28	640.60	615.02	608.14	-	638.76
30 Societ Generale	104.46	677.20	669.00	475.50	367.93	458.82
31 Sonali	N.A.	66.99	120.81	66.83	69.39	81.01
32 Standard Chartered	276.63	311.12	570.01	617.78	984.08	551.92
33 Standard Chartered Grindlays	333.08	370.60	404.74	442.72	309.73	372.17
34 State Bank of Mauritius	754.65	899.80	1304.40	1292.10	985.60	1047.31
35 Sumitomo	732.99	1086.94	760.18	1189.13	568.27	867.50
36 The Bank of Nova Scotia	843.18	1054.22	833.77	1300.40	2062.10	1218.73
37 The Bank of Tokyo - Mitsubishi	584.87	569.74	381.66	354.55	521.98	482.56
38 The Development Bank of Singapore	432.23	478.20	753.28	830.89	1237.57	746.43

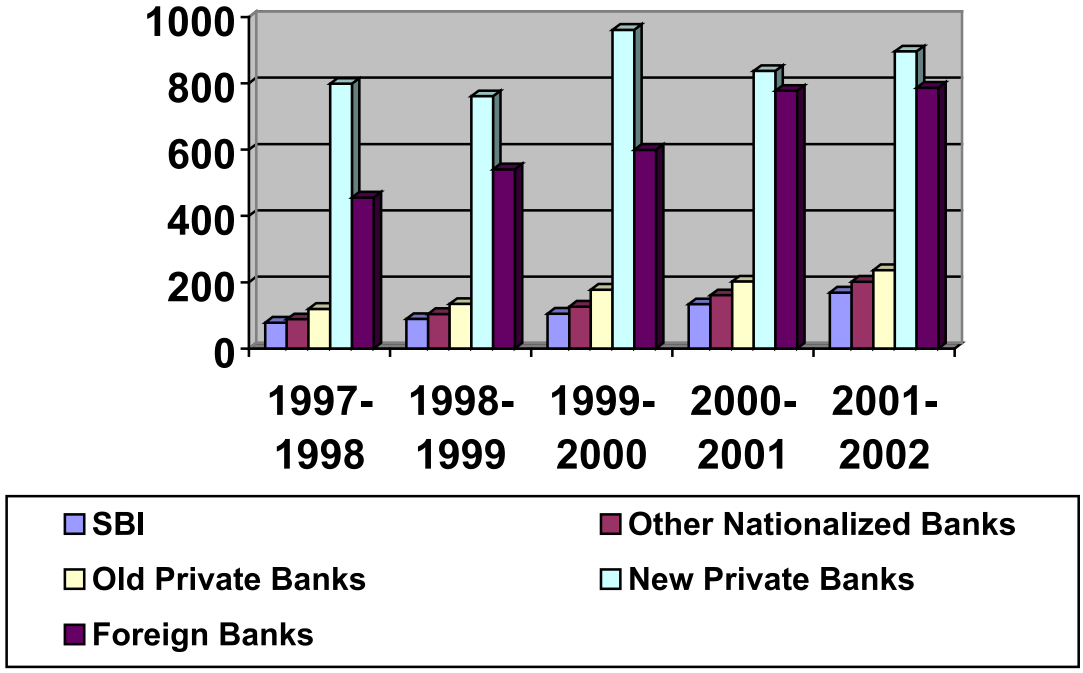
39	The Hongkong & Shanghai	328.46	357.74	467.44	528.67	601.40	456.74
40	The Siam Commercial	1048.63	932.57	976.72	941.20	807.89	941.40
41	Toronto Dominion	112.48	353.64	384.68	645.63	214.32	342.15
42	UFG / Sanwa	917.85	805.38	781.79	825.68	1000.94	866.33
	Average of 42 Foreign Banks in India	455.40	540.29	599.22	777.55	786.54	631.80

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.1.5 shows BPE (Rs. in lakh) for the Foreign Banks. The overall average is above Rs. 50 lakh in each year except 1997-98. The trend is of improvement from Rs. 455.4 lakh per employee to Rs.786.54 lakh per employee. This shows that the productivity of labour has been improved year by years in Foreign Banks also. Some of the banks have gotten remarkable performance and it is reflected in overall average. These banks are Citibank, Bank of America, Abudhabi Commercial Bank, Credit Lyonnais Bank, and Dresdner Bank. The more Business can be achieved because of services offered to NRIs and foreign exchange services provided by these Banks.

Table 6B.1.6
Business per Employee (Rs. in lakh) of all the five banking groups during 1997-98 to 2001-02

	Banking Groups	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	AVG
1	SBI	78.30	89.60	105.63	133.70	169.31	115.31
2	Other Nationalised Banks	88.57	104.51	126.80	160.96	201.69	136.51
3	Old Private Banks	119.68	143.74	177.91	202.35	236.78	176.09
4	New Private Banks	798.54	761.04	961.03	837.26	895.89	850.75
5	Foreign Banks	455.40	540.29	599.22	777.55	786.54	631.80
	AVG	308.10	327.83	394.12	422.36	458.04	382.09



In above Table No. 6B.1.6 and Chart, Business Per employee (Rs. in lakh) is stated year wise in case of all the five banking groups during 1997-98 to 2001-02. The acceleration implemented by new private banks and foreign banks is clearly reflected in above Table No. 6B.1.6 and in the Chart. New private banks offer Handsome remuneration and attractive offers package to their staff for achieving higher business. The staff members of new private banks almost devote their 3/5 time to their bank to avail financial as well as non-financial benefits. With this strategy, the new private banks achieve their business targets upto their expectations. The foreign banks have limited braches and valuable customers in India, so their

Business Per employee (Rs. in lakh) is too seen higher than other banking groups except new private banks group. As the trade unions are very strong, number of employees are very high, dedication of employees is very less and the volume of cut-throat competition faced by SBI group, other nationalized banks group and old private banks group is very high, their Business Per employee (Rs. in lakh) is quite less compared to new private banks groups and foreign banks group.

Business Per employee (Rs. in lakh)

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Business Per Employee (Rs. in lakh) among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null hypothesis :

There is no significant difference in Business Per Employee among all the five banking groups during 1997-98 to 2001-02.

$Ho = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$

$H_1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$

ANOVA TABLE

Source of Variable	SS	df	MS	F Ratio	5% F limit (from table F)
Between sample	6062583.37	(5-1) = 4	1515645.84	5.10	F (4,20), 2.87
Within sample	6053122.68	(25-5) = 20	302656.13		

The above anova table shows the calculated value of F 5.10, which is more than its table value, 2.87, at 5% level of significance. It indicates that null hypothesis is rejected. There is a significant difference in business per employee as per the group of the Bank. private banks are looking more efficient compared to the nationalized banks.

6B.2)<u>Operating Profit Per Employee (Rs. in lakh)</u> :

This ratio shows the labour productivity of banks with the angle of operating profit.

Operating Profit per employee can be obtained in Rupees. It indicates the profitability and productivity per employee for the bank. Sometimes the figure of Business may be in crores in Rs., but the operating profit may not be that much high. So, the profitability per employee must be considered for the bank's performance. Positive and higher ratio indicates higher labour productivity.

The formula is ……

$$\text{Operating Profit Per Employee (In Rs.)} = \frac{\text{Operating Profit}}{\text{No. of Employees}}$$

The result and the analysis of each bank and bank group of Indian Banking sector is as under :

Operating Profit

Explained in Chapter-5.

No. Of Employees

As earlier explained in this Chapter

Table 6B.2.1
Operating Profit Per Employee (Rs. in lakh) for SBI Group during 1997-98 to 2001-02

Banks	Operating Profit per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
PUBLIC SECTOR BANKS						
I.1. State Bank of India (SBI)	0.77	0.43	0.87	0.70	1.16	0.79
II. **ASSOCIATES OF SBI**						
2 State Bank of Hyderabad	0.68	0.76	0.87	1.13	1.24	0.94
3 State Bank of Patiala	1.09	0.77	0.99	1.23	1.68	1.15
4 State Bank of Travancore	0.51	0.35	0.54	0.85	1.91	0.83
5 State Bank of Bikaner & Jaipur	1.30	1.14	0.86	0.77	0.67	0.95
6 State Bank of Mysore	1.13	1.05	1.42	0.26	1.97	1.17
7 State Bank of Indore	1.33	1.67	1.87	2.60	1.10	1.71
8 State Bank of Saurashtra	1.58	0.31	1.09	0.21	1.00	0.84
Average of State Bank Group [I+II]	1.05	0.81	1.06	0.97	1.34	1.05

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.2.1. shows OPPE (Rs in lakh) for the SBI group. Naturally, this ratio is related with Operating profit, so that, the profitability trend discussed previously will affect on this ratio. The OPPE Ratio can be seen around Rs. 1 lakh by observing the average. SBI, State Bank of Travancore and State Bank of Saurashtra have a low profitability per employee in average. The performance of the employees related to profitability is very much impressive in State Bank of Indore.

If the BPE is high but OPPE is low, there may be the reasons of more expenses and or Non-Planned expenses.

Table 6B.2.2

Operating Profit per Employee (Rs. in lakh) for other nationalised Banks during 1997-98 to 2001-02

Banks	Profit per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
III. **NATIONALISED BANKS**						
9 Canara Bank	0.39	0.43	0.45	0.63	0.40	0.46
10 Punjab National Bank	0.72	0.57	0.63	0.80	1.58	0.86
11 Bank of Baroda	1.00	0.91	1.07	0.59	1.40	0.99
12 Bank of India	0.69	0.38	0.33	0.57	1.16	0.63
13 Central Bank of India	0.35	0.30	0.31	0.10	1.03	0.42
14 Union Bank of India	0.81	0.52	0.33	0.55	1.55	0.75
15 Indian Overseas Bank	0.40	0.20	0.14	0.45	0.41	0.32
16 Syndicate Bank	0.39	0.42	0.66	0.81	3.01	1.06
17 Oriental Bank of Commerce	1.50	1.60	1.90	1.50	0.11	1.32
18 Indian Bank	-	-	-	-	0.15	0.15
19 Uco Bank	-0.30	-0.20	0.12	0.12	0.93	0.13
20 Allahabad Bank	0.57	0.60	0.31	0.19	2.36	0.81
21 United Bank of India	0.04	0.07	0.15	0.10	0.23	0.12
22 Andhra Bank	0.50	0.61	0.82	0.95	0.97	0.77
23 Bank of Maharashtra	0.34	0.32	0.56	0.32	0.98	0.50
24 Corporation Bank	1.73	1.89	2.20	2.55	0.64	1.80
25 Dena Bank	0.71	0.76	0.45	-	1.22	0.79
26 Vijaya Bank	0.17	0.22	0.36	0.53	0.66	0.39
27 Punjab & Sind Bank	0.53	0.46	0.51	0.13	1.11	0.55
Average of 19 Nationalised Banks [III]	0.55	0.53	0.59	0.57	1.05	0.66

[**Source** : IBA bulletin March 2002, 2003]

The OPPE in 19 nationalized Banks can be seen in Table 6B.2.2. By observing the overall average of this group, seems below 0.60 (Rs. in lakh) upto 2000-01 is very frustrating. But the average of this group improves in 2001-02 and touches Rs. 1.05 lakh.

The Indian Bank has gotten no positive operating profitability per employee for first four years while UCO Bank has shown negative operating profitability in first two years. Only two Banks are impressive in this group related to OPPE and these are oriental Bank of commerce and Corporation Bank. There is an interesting point that some of this banks have gotten fine business but not operating profitability per employee. The Operating expenses in these banks may be so much high that profitability per employee goes down. May be the other reason of non-planed expenses. Again good performance of Corporation Bank can be seen here.

Table 6B.2.3
Operating Profit per Employee (Rs. in lakh) for Old Private Sector Banks during 1997-98 to 2001-02

Banks	Operating Profit per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
PRIVATE SECTOR BANKS						
1 Bharat Overseas Bank Ltd.	1.07	1.08	0.10	1.67	3.13	1.41
2 City Union Bank Ltd.	0.83	0.90	1.48	1.58	2.09	1.38
3 Development Credit Bank Ltd.	2.36	1.67	2.26	2.35	2.54	2.24
4 Lord Krishna Bank Ltd.	0.59	0.18	0.93	0.65	2.09	0.89

5 SBI Commercial & International Bank Ltd.	10.01	7.21	9.63	-36.20	3.06	-1.26
6 Tamilnad Mercantile Bank Ltd.	1.86	1.64	1.89	2.29	2.48	2.03
7 The Bank of Rajasthan Ltd.	-2.00	-1.54	0.28	0.75	0.94	-0.31
8 The Benares State Bank Ltd.	0.07	-1.43	-0.40	-1.04	-	-0.70
9 The Catholic Syrian Bank Ltd.	0.23	0.01	0.21	0.37	1.23	0.41
10 The Dhanalakshmi Bank Ltd.	0.67	0.28	0.82	0.52	0.79	0.62
11 The Federal Bank Ltd.	0.82	0.04	0.72	7.00	1.31	1.98
12 The Ganesh Bank of Kurundwad Ltd.	0.04	0.04	0.09	0.16	0.41	0.15
13 The Jammu & Kashmir Bank Ltd.	0.88	1.36	1.91	2.58	4.00	2.15
14 The Karnataka Bank Ltd.	1.48	1.08	1.00	1.11	2.20	1.37
15 The Karur Vysya Bank Ltd.	1.77	1.39	2.60	2.52	3.79	2.41
16 The Lakshmi Vilas Bank Ltd.	1.09	0.73	1.37	1.38	1.56	1.23
17 The Nainital Bank Ltd.	0.26	0.50	0.69	0.79	0.89	0.63
18 The Nedungadi Bank Ltd.	0.48	0.53	0.91	0.00	0.07	0.40
19 The Ratnakar Bank Ltd.	0.59	0.55	0.64	0.75	1.27	0.76
20 The Sangli Bank Ltd.	0.18	0.20	0.24	0.30	0.49	0.28
21 The South Indian Bank Ltd.	0.51	0.15	0.64	1.11	1.69	0.82
22 The United Western Bank Ltd.	0.99	1.08	1.64	0.00	0.77	0.90
23 The Vysya Bank Ltd.	1.21	0.50	0.76	0.63	1.28	0.88
Average of 23 Private Sector Banks [I]	1.13	0.79	1.32	-0.38	1.73	0.92

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.2.3 shows the OPPE (Rs. in lakh) for old 23 private banks. The overall average goes down from 1997-98 to 1998-99, again it improves in 1999-2000 and declines very much in 2000-01 as it goes negative. It is – 0.38 in 2000-01. Once again in 2001-02 it improves satisfactorily and reaches upto Rs. 1.73 lakh per employee. There is a point to be noted that BPE ratio is higher in 2000-01, But OPPE Ratio is negative. A major reason for this result is very much negative. OPPE in SBI Commercial and International Bank Ltd. This is – 36.20 and it is reflected in overall average.

The other reason of negative or low OPPE in average is negative or low OPPE in The Bank of Rajasthan Ltd., and The Benares State Bank Ltd.

The good and consistent performance can be seen in The Jammu & Kashmir Bank Ltd, which was the first ranked in 2001-02, Development Credit Bank Ltd., Tamilnad Merchantile Bank Ltd., and The Karur Vysya Bank Ltd.

Table 6B.2.4

Operating Profit Employee (Rs. in lakh) for New Private Banks during 1997-98 to 2001-02

Banks	Operating Profit per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
NEW PRIVATE SECTOR BANKS						
24 ICICI Bank Ltd.	8.33	7.11	10.92	10.45	3.74	8.11
25 HDFC Bank Ltd.	9.57	9.96	9.60	8.61	-16.77	4.19
26 UTI Bank Ltd.	4.00	6.00	6.91	7.27	3.51	5.54
27 Global Trust Bank Ltd.	15.00	9.00	12.00	7.00	7.94	10.19
28 Indusind Bank Ltd.	25.96	8.46	10.93	6.98	3.34	11.13
29 Centurion Bank Ltd.	15.45	4.81	9.14	7.04	4.34	8.16
30 IDBI Bank Ltd.	6.06	7.34	11.15	2.50	6.88	6.79
31 Bank of Punjab Ltd.	6.43	6.13	6.03	4.94	7.79	6.26
Average of 8 New Private Sec.Banks [I]	11.35	7.35	9.59	6.85	2.60	7.55

[**Source** : IBA bulletin March 2002, 2003]

Table 6B.2.4. shows the operating profitability per employee (Rs. in lakh). By seeing average, it can be said that it has gone down in 1998-99 and 2000-01. This is because of lows operating profit in both these years. There are much of ups & downs in the performance related OPPE of Global Trust Bank Ltd., & Indusind Banks Ltd., the shocking negative operating profitability is seen of -16.77 (Rs. in lakh) in HDFC Bank Ltd., in 2001-02, which affects the average of new private banks group for that year. In 2000-01, ICICI has the largest OPPE and it is Rs. 10.45 lakh. This may be the result of its merger, high targets, training & development programmes of employees and higher operating Profit.

The average OPPE is much more higher in this group than all the other groups.

Table 6B.2.5

Operating Profit per Employee (Rs. in lakh) for Foreign Banks during 1997-98 to 2001-02

Banks	Operating Profit per Employee (Rs. in lakh)					AVG
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	
FOREIGN BANKS						
1 ABN-Amro	14.11	17.55	13.91	3.80	13.32	12.54
2 Abu Dhabi Commercial	2.53	2.64	4.39	10.36	10.46	6.08
3 American Express	7.58	0.86	3.17	-2.11	2.79	2.46
4 Arab Bangladesh	4.20	9.77	9.42	14.92	10.06	9.67
5 Bank International Indonesia	-22.10	-53.06	-44.00	-	1.24	-29.48
6 Bank Muscat International	-	N.A.	3.77	6.63	2.08	4.16
7 Bank of America	15.43	20.22	30.14	23.42	29.37	23.72
8 Bank of Bahrain and Kuwait	-	4.16	5.60	5.70	9.47	6.23
9 Bank of Ceylon	14.00	11.00	16.00	6.00	0.14	9.43
10 Barclays	7.81	3.06	-16.27	14.28	35.28	8.83
11 BNP Pariba	5.91	6.84	6.25	19.60	-6.90	6.34
12 Chinatrust Commercial	0.91	-1.58	1.92	4.87	5.75	2.37
13 Cho Hung	27.46	35.18	4.93	27.84	40.77	27.24

14 Citibank	7.81	7.64	19.22	19.34	22.14	15.23
15 Commerz	-1.65	2.42	3.63	1.89	-169.19	-32.58
16 Credit Agricole Indosuez	-14.04	-5.19	-63.14	-20.05	15.66	-17.35
17 Credit Lyonnais	-5.15	15.26	15.81	2.36	3.91	6.44
18 Deutsche	21.56	9.80	9.86	17.81	27.64	17.33
19 Dresdner	9.44	-10.08	-76.36	-413.99	-	-122.75
20 Ing Bank	2.95	0.32	-19.33	-23.56	-3.32	-8.59
21 JP Chase Manhattan	10.13	4.26	17.41	30.06	38.61	20.09
22 KBC	-	2.33	5.61	4.29	-44.53	-8.08
23 Krung Thai	20.88	17.66	7.82	9.88	0.12	11.27
24 Mashreq	-10.25	-16.58	-24.73	-38.24	23.36	-13.29
25 MIZUHO Corporate Bank Ltd. -Fuji	16.40	1.20	-26.79	-25.01	-11.81	-9.20
26 Morgan Guaranty Trust	-	-	24.09	4.24	-	14.17
27 Oman International	-	-	-	-	-45.39	-45.39
28 Oversea-Chinese	3.84	21.43	-	4.44	-16.02	3.42
29 Sakura	15.70	-24.90	-4.80	-14.83	-	-7.21
30 Societ Generale	9.70	21.40	0.10	0.30	-16.56	2.99
31 Sonali	N.A.	11.30	6.00	5.77	1.32	6.10
32 Standard Chartered	2.49	0.14	10.27	11.21	23.25	9.47
33 Standard Chartered Grindlays	6.86	5.33	5.77	2.85	-12.60	1.64
34 State Bank of Mauritius	37.86	16.20	20.60	14.10	8.58	19.47
35 Sumitomo	1.06	28.89	1.88	-14.65	-21.54	-0.87
36 The Bank of Nova Scotia	0.73	17.42	14.35	15.70	16.06	12.85
37 The Bank of Tokyo - Mitsubishi	-104.15	-16.15	13.62	23.51	17.29	-13.18
38 The Development Bank of Singapore	4.79	9.28	14.49	22.48	35.98	17.40
39 The Hongkong & Shanghai	2.88	2.11	4.36	6.62	4.97	4.19
40 The Siam Commercial	38.29	26.47	22.20	-25.89	-345.18	-56.82
41 Toronto Dominion	13.77	23.74	31.99	37.57	19.72	25.36
42 UFG / Sanwa	8.81	7.23	1.02	2.23	0.46	3.95
Average of 42 Foreign Banks in India	4.25	5.61	1.77	-4.86	-6.83	-0.01

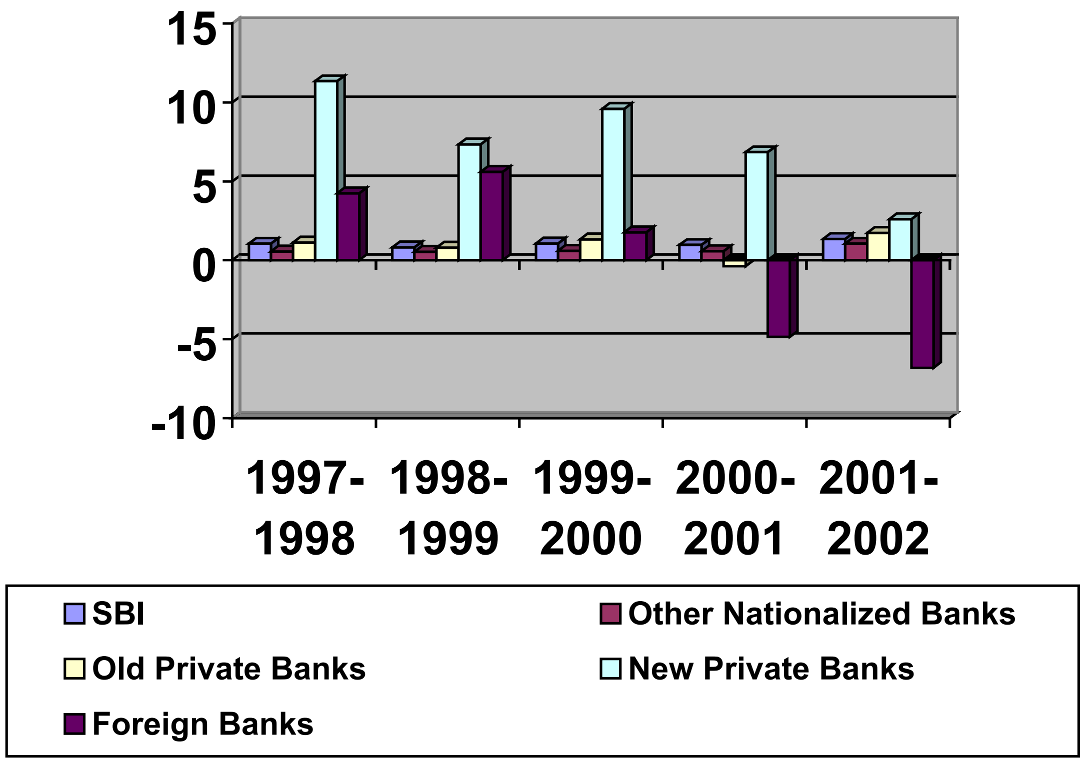
[**Source** : IBA bulletin March 2002, 2003]

Table 6B.2.5 shows OPPE (Rs. in lakh) for the foreign banks. There are much more fluctuations in almost all the banks. Some times the PPE is too high, some time it is too low and sometimes highly negative. In the year 2000-01 & 2001-02 the average is negative and that is respectively -4.86 (Rs. in lakh) & -6.83 (Rs. in lakh). It is highly negative. Again the single branch bank's result is reflected on this average Dresdner Bank's business is very much impressive, but operating profitability per employee is highly negative in 2000-01 which is –413.99 (Rs. in lakh). This shows very high operating expenses or non-planned expenses or losses written-off.

Bank of America, Cho Hung Bank, CitiBank, State Bank of Mauritius and Toronto Dominion Bank, are very consistent and impressive in OPPE. They have gotten good business as well as operating profitability per employee.

Table 6B.2.6
Operating Profit per Employee (Rs. in lakh) in all the five banking groups during 1997-98 to 2001-02

	Banking Groups	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	AVG
1	SBI	1.05	0.81	1.06	0.97	1.34	1.05
2	Other Nationalised Banks	0.55	0.53	0.59	0.57	1.05	0.66
3	Old Private Banks	1.13	0.79	1.32	-0.38	1.73	0.92
4	New Private Banks	11.35	7.35	9.59	6.85	2.60	7.55
5	Foreign Banks	4.25	5.61	1.77	-4.86	-6.83	-0.01
	AVG	3.67	3.02	2.87	0.63	-0.02	2.03



Above Table No. 6B.2.6 and Chart exhibit operating profit per employee (Rs. in lakh) for all the five banking groups during 1997-98 to 2001-02. Operating Profit Per Employee (Rs. in lakh) is a better parameter than Business Per Employee (Rs. in lakh) as far as labour productivity is concerned. We can not Judge the labour productivity only by business but by operating profit in better way. Sometimes it happens that the business may be more while operating profit may be less. Here in case of foreign banks it happens so. New Private Banks group is able to maintain the highest Operating Profit Per Employee (Rs. in lakh). Simultaneously with the highest

Business Per Employee (Rs. in lakh). While in case of foreign banks group, shocking scenario is seen. It's Business Per Employee (Rs. in lakh) is better than other banking groups except new private banks group, though it's Operating Profit Per Employee (Rs. in lakh) is worse than all other banking groups in 2000-01 & 2001-02.

Operating Profit Per Employee (Rs. in lakh)

Hypothesis Testing

The researcher wanted to find out that if there is any significant difference regarding the performance related to Operating Profit Per Employee (Rs. in lakh) among all the five banking groups during 1997-98 to 2001-02 or not. This was tested as under.

Null hypothesis :

There is no significant difference in Operating Profit Per Employee (Rs. in lakh) among all the five banking groups during 1997-98 to 2001-02.

$Ho = \mu 1 = \mu 2 = \mu 3 = \mu 4 = \mu 5$

$H_1 = \mu 1 \neq \mu 2 \neq \mu 3 \neq \mu 4 \neq \mu 5$

ANOVA TABLE

Source of Variable	SS	df	MS	F Ratio	5% F limit (from table F)
Between sample	466.19	(5-1) = 4	116.55	5.61	F (4,20) 2.87
Within sample	415.40	(25-5) = 20	20.77		

The above anova table indicates that the table value of F is 2.87 at 5% level of significance and the calculated value of F is 5.61. As the calculated value of F is more than its table value null hypothesis is rejected. It means that the performance regarding operating profit is different in all the five banking groups. Private banks are ahead than SBI group and other nationalized banks group regarding operating profit per employee because of better labour productivity.

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CHAPTER – 7

SUMMARY, FINDINGS AND SUGGESTIONS

I) FINDINGS :

II) **THE COMPARISON OF PERFORMANCE OF ALL THE FIVE BANKING GROUPS :**

Table No. 7.1 Distribution of No. of Banks in terms of their operational efficiency

Table No. 7.2 Distribution of No. of Banks in terms of their profitability.

Table No. 7.3 Distribution of No. of Banks in terms of their credit efficiency

Table No. 7.4 Distribution of No. of Banks in terms of their productivity

III) <u>SUGGESTIONS</u> :

Indian banking sector has a long journey of growth since 1955, started with the nationalization of the State Bank of India. The first nationalization phase was in 1969, and the second phase in 1980, it lead to rapid expansion of Banks branches all over India. Deposit mobilization and priority sector lending in highly protected environment with extremely regulated framework adversely affected the financial resource mobilization and allocation by the commercial banks. The reforms again needed in this industry. In 1991, The Narsimham Committee report gave a new dimension to Indian Banking sector. The private Banks and foreign banks have entered in the market. So, now, there is a global competition in the banking industry in India.

As an effect of liberalization, privatization and globalaisation policy, there have not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly. The foreign banks, which accounted for only 32% of the total number of banks in the country in 1991, grew up to 42% by 2001. In view of the fact that the public sector banks that have been operating in an extremely protected economic environment and may lost out in the wave of competition from the private and foreign banks, the schemes of financial assistance for capital restructuring for the economically weak public sector banks were also introduced during last decade. Besides to that, the public sector banks were also given time to meet the prudential and capital adequacy norms as well as norms to manage Non-Performing Assets. So, most of the public sector banks are now working on the concept of universal banking and service oriented banking. The whole process of reforms has intensified competition leading to overall improvement in financial performance.

In this study, the financial performance of all the commercial banks has been evaluated. All the banks have been divided into five groups and for each bank and each group, different types of parameters have been used with the help of ratios to evaluate the financial performance for the period of five years from the year 1997-98 to 2001-02. The four parameters are operational efficiency, profitability, credit efficiency and productivity.

After evaluating the individual performance, group wise evaluation was made in previous chapters. In this chapter, the researcher has made an attempt to review the overall efficiency related to each ratio in each parameter. The average of five years has been taken into the consideration for the comparison of each group. The major findings are as under.

I) FINDINGS

1. The operational efficiency in all the banking groups was significantly differing in this analysis; basic three ratios have been calculated. Interest Income as % to Average Working Funds in SBI group is fluctuating. In 1998-99, the ratio indicates the weak performance of State Bank of Patiala, SBI main and State Bank of Travancore. It indicated that the ability of leverage on its average total resources against operational income was low.

   On this aspect, the other nationalized banks were consistent in performance. Andhra Bank, Corporation Bank, Dena Bank, CBI, and Oriental Bank of Commerce are performing effectively in banking business where as UCO Bank and IOB, were weak. The old private banks performance was excellent. Same trend can be observed in new private sector banks also. Foreign Banks shows a very little ability. Thus, the efficiency related to leverage aspects was not remarkable in foreign banks group.

2. Non-Interest Income to Average Working Funds Ratio of SBI group showed consistent average among all associate banks. But, State Bank of Patiala showed lower ratio relating to NII/AWF. On other side, other nationalized banks, have weak performance in this efficiency ratio on an average, it reflected lower ratio than SBI group. The old private sector banks indicated effective performance for this ratio. But The Nainital Bank Ltd., had performed very weak efficiency. In case of new private sector banks, they were very good to this ratio. It showed that through the operational efficiency, this group has earned more income from non-conventional resources; where as nationalized banks were slightly weak. The foreign banks

performance was remarkable. But few foreign banks indicated fluctuating trends.

3. Capital Adequacy Ratio was comparatively high than RBI guideline in all the associate banks of SBI group. e.g. SBI main Bank of Patiala and State Bank of Saurashtra. Which indicated effective operational efficiency. But some other nationalized banks were little bit behind to the minimum standard fixed by RBI. Other nationalized banks growth shows high fluctuations during the period of study. Old private sector banks showed mixed ratio. The Jammu & Kashmir Bank Ltd., The Tamilnad Mercantile Bank Ltd., The SBI Commercial & International Bank Ltd., were outstanding where as The Bank of Rajasthan Ltd., The Benareas State Bank Ltd., showed poor performance in long term solvency. But New Private Sector Banks showed outstanding performance. Foreign Banks also indicated good performance on this aspect.

4. The profitability is an important aspect of performance appraisal, which indicated the ability to perform various tasks in the most effective way. The overall profitability of Indian

Banking Sector had been significantly differed in all the five groups during the period of study. Operating Profit to Average Working Funds Ratio in SBI group was constant. But there was some drastic change in State Bank of Patiala during the year 1999-2000. In other nationalized banks, the overall average was very low as compared to SBI group. The profitability trend had gone down in this group. For old private sector banks, this Operating Profit to Average Working Funds Ratio was moderate and some fluctuations were seen during the period of study. Against this, new private sector bank indicated the excellent profitability in each bank as well as in each year. Foreign Banks recorded negative and positive trends of profitability. Few banks had performed excellent, but some of the foreign banks reflected slightly negative picture in terms of profitability.

5. The Return On Assets in SBI group indicated fluctuating trend in average of all banks. Where as for other nationalized banks overall average of each year was below 1% and average during the period of study of all the units is 0.55%, which indicated

sad picture of the profitability. The performance of operating profit was not proper. In case of old private sector banks, the picture was not much more different from other nationalized banks. But, for new private sector banks, the performance was consistant in all the banks during the period of study. while in case of foreign banks, the ROA is highly fluctuating and some time sad too.

6. In this study, the significant difference was found among all the five banking group regarding all the ratios relating to credit efficiency. Tier-I capital, which is a core capital of a bank and shows the soundness of a bank was tested. In SBI group, Tier I capital ratio had shown increasing trend in 1999-2000 and 2000-01. But after that the trend had gone down because of weak performance of State Bank of Bikaner & Jaipur. Tier I capital of State Bank of Saurashtra and State Bank of Patiala was found tremendous. In other nationalized banks, performance regarding to this ratio was weaker compared to SBI group. Corporation Bank and Oriental Bank of commerce had very sound position during the period of study except the

year 2001-02. In case of old private sector banks, good capital strength could be seen and it was higher compared to SBI group Capital soundness of new private sector banks was very good during the initial 3 years of study. But after that, the ratio had shown decreasing trend during the year 2000-01 and 2001-02. Whereas, foreign banks are looking highly sound regarding this ratio. The average is at least 4 to 5 times more than other banking groups.

7. The another aspect of credit efficiency is Tier II capital, the subordinate capital of a bank. In SBI group, the position was consistently improved during the period of study. State Bank of Saurashtra had a very poor performance till 2000-01. But after that, the position of Tier-II capital was improved. In case of other nationalized banks, the average had shown improvement year by year. The major attraction in this group is Corporation Bank, which had improved magically. The average of Tier II capital in Old Private Sector Banks is slightly less than the other nationalized banks group. New private sector banks had consistently improved the trend in

Tier II capital and a very good contribution was from Global Trust Bank Ltd., and Bank of Punjab Ltd. Foreign Bank group had also less Tier II capital because of its initial stage in Banking Sector. However, the notable performance was of Standard Chartered Bank Standard Chartered Grindlays Bank, Chinatrust Commercial Bank, BNP Pariba Bank and Hong Kong & Shanghai Bank.

8. The third aspect of credit efficiency was taken by the researcher was net NPA to Net advances, which was a solid problem for the banks. NPA of SBI group is quite high, however, showed decreasing trend during the period of study. State Banks of Bikaner & Jaipur had a very high NPA compared to others. Other nationalized banks had shown higher NPA compared to SBI group. Even though, the trend was decreasing was a very good sign. Indian Bank, Allahabad Bank, and United Bank of India were trying to control on NPA, but the ratio was very high Allahabad Bank had reduced the ratio in 2001-02 which was only 3.20%. Old private sector banks had also the higher ratio of NPA and it was 10.03% in

the year of 1998-99, which showed poor credit efficiency. The Nedungadi Bank Ltd., The Dhanalakshmi Bank Ltd., The Benares State Bank Ltd. and SBI Commercial and International Bank Ltd., were very poor in recovery. The performance regarding NPA to Net Advance in % was found excellent in case of new private sector banks which was below 4.5% during the period of study. Surprisingly increasing NPA trend was found in case of foreign banks.

9. Productivity was also another parameter in this study. The researcher has found a significant difference in labour productivity among all the five banking groups. Two ratios had been calculated to evaluate labour productivity. First was Business per employee which was found in (Rs. in lakh). In case of SBI group BPE was showing improvement during the period of study which reached from Rs. 78.30 lakh to Rs. 169.31 lakh in 2001-02. All the banks had made good business. More business was found in other nationalized banks compared to SBI group. Oriental Bank of commerce, Bank of Baroda, Dena Bank and Corporation Bank were found

outstanding regarding BPE. Old private sector Banks had performed somehow better than other nationalized banks with slight increase. But the performance of new private sector banks and foreign banks was excellent regarding BPE. It showed that they had earned maximum business by using minimum human resources.

10. The second ratio regarding productivity was found as Operating Profit Per Employee (Rs. in lakh). Bank can make more business, but it is also important to earn more profit per employee. In SBI group OPPE was found around Rs. 1 lakh only. State Bank of Indore had shown extra-ordinary performance. Very poor picture was found in case of other nationalized banks, regarding OPPE, which was below Rs. 1 lakh till the year 2000-01. Some banks in this group were very frustrating, like Indian Bank Uco Bank, Indian Overases Bank, etc. Compared to this group, old private sector banks have a mixed and fluctuating performance. In the year 2000-01, the average goes negative because of highly negative ratio of SBI Commercial and International Bank because of a big loss of

the bank. The Bank of Rajasthan Ltd., and The Benares State Bank Ltd., were also very frustrating regarding operating profit. Again, in case of new private sector banks, OPPE was found very high in each year and in each bank except HDFC Bank in 2001-02. The ratio is very much high compared to other groups, but however, it shows decreasing trend excellent 1999-2000. Operating Profit condition in foreign banks was highly fluctuated which had shown fluctuations with too many positive and negative trends. It may be the effect of a single branch business and more revenue expenses of foreign banks. During last two years of this study, foreign banks have the negative result in average regarding operating profit per employee.

II) <u>THE COMPARISON OF PERFORMANCE OF ALL THE FIVE BANKING GROUPS.</u>

The researcher has compared all the five banking groups regarding each parameter of performance as under.

TABLE NO 7.1

Distribution of No. of Banks in terms of their operational efficiency

	Parameters	Number & type of Bank						
		SBI	Other Nationalized Banks	OPSB	NPSB	FB	ALL SCBS	
1	Interest Income To Average Working Funds Ratio (in percent)							
	3 to 6.99	0	0	0	1	3	4	
	7 to 9.99	4	11	3	1	20	39	
	10 to 12.99	4	8	20	6	18	56	
	13 & above	0	0	0	0	1	1	100
2	Non Interest Income To Average Working Funds Ratio (in percent)							
	Negative	0	0	0	0	1	1	
	0 to 0.99	0	0	2	0	3	5	
	1 to 2.99	8	19	21	8	26	82	
	3 & 4.99	0	0	0	0	9	9	
	5 & above	0	0	0	0	3	3	100
3	Capital Adequacy Ratio (in percent)							
	Negative	0	1	0	0	0	1	
	0 to 8.99	0	0	5	0	0	5	
	9 to 14.99	8	18	14	8	19	67	
	15 & above	0	0	4	0	23	27	100

[**Source** : Computed from IBA bulletin March 2002, 2003]

Above table No. 7.1 shows that operational efficiency was measured by studying three ratios. Each ratio was divided into various groups and then the study was made whether the particular bank comes in which group.

The first ratio is Interest Income to Average Working Funds Ratio. It was divided into four groups 3 to 6.99 %, 7 to 9.99%, 10 to 12.99% and above 13%. This part shows that in SBI group, 4 Banks have achieved a periodical average of 7% to 10% and other 4 Banks have achieved average in 10% to 12% group. Very lower ratio has been found in one new private sector bank and 3 foreign banks that is below 7%. 8 nationalized, 20 old private Sector Banks, 6 new private sector Banks and 18 foreign banks have a very good average in Interest Income to Average Working Funds and the average is in the group of 10% to13%.Only one foreign Bank has the excellent performance which is more then 13% regarding Interest Income. It can be said that old private Sector Banks have better performance regarding this ratio than others.

The second ratio in operation efficiency is Non-Interest Income to Average Working Funds ratio which was divided into 5 groups - Negative, 0 to 0.99%, 1 to 2.99 %,. 3 to 4.99 %, and 5 or above 5%. This ratio comparison indicates that only one foreign bank has gotten the negative result. All the banks from SBI group, other nationalized and new private Sector Banks have the periodical average regarding this ratio in the group of 1% to 3%. Nine foreign Banks have the ratio between 3% to 5% and other 3 foreign Banks have the ratio more then 5%. It shows that foreign banks are leading in the race of Non-Interest Income. Other four groups have almost nearer performance regarding this ratio.

The third ratio in this category is Capital Adequacy Ratio. This ratio is also an indicator of bank's long term solvency. According to the RBI's norms, minimum capital adequacy ratio should be 9% at this time (2001-02). As this is only an average of five years period, it shows the general trend. All the banks of SBI group, 18 other nationalized banks, 14 old private banks, all the new private banks and 19 foreign banks have fulfilled the norms because they have Capital Adequacy Ratio more than 9% and below 15%.

Table 7.2

Distribution of No. of Banks in terms of their Profitability

	Parameters	Number & type of Bank						
		SBI	Other Nationalized banks .	OPSB	NPSB	FB	ALL SCBS	
1	Operating Profit to Average Working Funds Ratio (in percent)							
	Negative	0	0	1	0	6	7	
	0 to 2.99	8	19	20	6	17	70	
	3 to 5.99	0	0	2	2	14	18	
	6 & above	0	0	0	0	5	5	100
2	Return On Assets (in percent)							
	Negative	0	1	2	0	13	16	
	0 to 0.99	6	16	13	5	11	51	
	1 to 2.99	2	2	7	3	15	29	
	3 & 4.99	0	0	0	0	2	2	
	5 & above	0	0	1	0	1	2	100

[**Source** : Computed from IBA bulletin March 2002, 2003]

Table 7.2 reveals the average profitability for the period of five years of all the five banking groups. Profitability parameter includes two ratios – Operating profit to average working funds and Return on Assets.

The first ratio is Operating Profit to Average Working Funds Ratio. It can be seen from the above table that all the banks of SBI group and other nationalized bank have the periodical average of Operating Profit to Average Working Funds Ratio more than 0 but below 3%. This is the average performance. Very weak performance can be seen in 1 old private bank and 6 foreign banks. 2 new private and 2 old private banks as well as 14 foreign Banks have a good average of Operating Profit to Average Working Funds Ratio. It shows a very good profitability in banking operations. 5 foreign banks have an extraordinary performance regarding profitability as it goes up to 6% or above to it. It is clear that the private banks are achieving higher profitability than nationalized banks.

The second ratio is Return On Assets. If the average is higher, it is a good sign for profitability and credibility of a Bank. By observing the above table, 16 banks from all the groups have the negative average which is a sign of inefficiency. Most of the banks in all the five groups have the periodical average more than 0 but less than 1%. The interesting thing is that, 2 banks of SBI group, 2 other nationalized banks, 7 old private banks, 3 new private banks and 15 foreign banks remain with average between 1 to 3% regarding Return On Assets. Again 3 foreign banks have a very good average regarding this ratio.

Table 7.3

Distribution of No. of Banks in terms of their credit efficiency

	Parameters	Number & type of Bank						
		SBI	Other Nationalized Banks	OPSB	NPSB	FB	ALL SCBS	
1	Tier I Capital to Risk-Weighted Assets Ratio (in percent)							
	Negative	0	0	0	0	0	0	
	0 to 4.99	0	19	4	0	0	23	
	5 to 9.99	5	0	10	5	11	31	
	10 to 14.99	3	0	6	3	8	20	
	15 & above	0	0	3	0	23	26	100
2	Tire II Capital to Risk-Weighted Assets Ratio (in percent)							
	Negative	0	0	0	0	0	0	
	0 to 0.99	0	2	5	0	30	37	
	1 to 1.99	2	1	7	1	6	17	
	2 & 2.99	3	3	6	5	2	19	
	3 & above	3	13	5	2	4	27	100
3	Net NPA to Net Advances Ratio (in percent)							
	0 to 1.99	0	0	0	1	15	16	
	2 to 4.99	0	3	4	5	6	18	
	5 & 9.99	8	12	13	2	6	41	
	10 & above	0	4	6	0	15	25	100

[**Source** : Computed from IBA bulletin March 2002, 2003]

Table 7.3 shows the distribution of banks in terms of their credit efficiency. This parameter includes three ratios – Tier I capital to Risk-Weighted Assets Ratio, Tier II capital to Risk-Weighted Assets Ratio and Net Non-Performing Assets to Net Advances Ratio in %.

In reference to Tier-I Capital, higher ratio leads to good performance. All the other nationalized banks and four old private banks have less than 5% average of Tier-I capital. The extraordinary capital strength can be seen which falls in 10 to 15%, in 3 banks of SBI group, 6 old private banks, 3 new private banks and 8 foreign banks. Besides 23 foreign banks among 42 banks, have the excellent capital strength more than 15% average of Tier I capital.

The Tier II capital is also an indicator of good capital structure as well as credit efficiency. Higher ratio is a good sign of bank's performance. Most interesting part in this table can be observed in Tier-II capital because the nationalized banks are performing very well compared to private banks including foreign banks. Most of the nationalized banks have the average more than 3% regarding Tier-II capital.

Regarding the Net Non-Performing Assets, which is the latest challenge for all the banks, the performance of new private sector banks seems very good because no bank has the ratio more than 10%. The lower ratio indicates a good credit efficiency. All the nationalized banks have not a very good credit efficiency because they fall in the category of 5 to 10%. 3 other nationalized banks have tried to reduce the NPA by maintaining the ratio in 2% to 4.99%. Foreign banks group has two equal no. of banks, below 5% and more than 5% but upto 9.99%, which is also notable.

Table 7.4

Distribution of No. of Banks in terms of their Productivity

	Parameters	**Number & type of Bank**						
		SBI	Other Nationalized Banks	OPSB	NPSB	FB	ALL SCBS	
1	Business Per Employee (Rs. In lakh)							
	50 to 99.99	1	1	4	0	2	8	
	100 to 249.99	7	18	17	0	4	46	
	250 to 449.99	0	0	1	0	10	11	
	500 to 749.99	0	0	1	4	11	16	
	750 & above	0	0	0	4	15	19	100
2	Profit Per Employee (Rs. In lakh)							
	Negative	0	0	3	0	13	16	
	0 to0.99	5	16	11	0	0	32	
	1 to 1.99	3	3	5	0	1	12	
	2 to 4.99	0	0	4	1	7	12	
	5 to 9.99	0	0	0	5	9	14	
	10 & above	0	0	0	2	12	14	100

[**Source** : Computed from IBA bulletin March 2002, 2003]

The Fourth parameter of financial performance is productivity with reference to employees. Table No. 7.4 shows the distribution of banks in terms of their productivity. The productivity parameter includes two ratios – Business Per Employee (Rs. in lakh) and Profit Per Employee, (Rs. in lakh). The banks having good amount of profit may not be efficient because of the large number of employees.

Again new private sector banks and foreign banks have not only good business, but the good periodical average of business per employee. No nationalized bank has the business above Rs. 250 lakh per employee. The situation is almost same for old private banks.

There are 4 new private banks and 15 foreign banks who have achieved more than Rs. 750 lakh Business per employee. This is an excellent performance because of higher incentives and high targets in private sector.

The another ratio is relating profit per employee. It may be possible that profit per employee is lower although a very good business per employee. So, the higher profit per employee is also needed for availing good productivity. By observing the table, all the nationalized banks including SBI group have the Profit Per Employee less than Rs. 2 lakh. In old private sector banks, different types of results from negative to Rs. 5 lakh. But all the new private banks have a very good average regarding this ratio and it is Rs. 5 lakh or more than Rs, 5 lakh. From 42 foreign banks, 13 have negative results and 12 have the result of Rs. 10 lakh or more than that. In case of Profit Per Employee among all the five banking groups, new private banks are leading in the race.

III) SUGGESTIONS FOR THE STUDY

By referring all these findings, there are some suggestions by the researcher for better performance of the banks. These suggestions are as under :

IMPLEMENTATION OF THE RESTRUCTURING PLAN

Successful implementation of any Restructuring Plan requires the wholehearted involvement and sustained efforts of staff at all levels. Accordingly, the Plan should be prepared, discussed and vetted at various levels - with further discussions with Unions and Association for carrying the entire team along and getting a commitment for whole-hearted support from them. Vertical Integration Programmes involving various cadres in the Bank should be organized to create necessary congenial and conducive climate for forging ahead as a team in the implementation of the Plan.

There should be greater transparency and involvement of the tiers in the Bank, which are fundamental to the successful implementation the Plan. The most important part of the restructuring exercise is that there is an effective and continuous communication channel so that message of growth and performance, even if it be a small achievement, reaches all staff quickly thus enthusing them to perform better.

MONITORING THE PLAN

The Plan drawn up should be followed up effectively to achieve the desired results. The field level functionaries at the Circle/Regional level should be called for periodical Review Meetings, say every Quarter, to discuss the results as also the strategies proposed by them to achieve the accepted goals. The Heads of the Circle/Region should be asked to visit/conduct meetings at the branch level to review the progress made by them vis-à-vis Plan targets and also provide solutions to problems faced by them to achieve the results.

STRATEGIES FOR RESTRUCTURING

1. Improving The Spread

It is necessary to reduce cost to the maximum extent possible to ensure that the bank is able to maintain a decent spread.

Improving the deposit mix with higher proportion of low cost deposits is the best way to contain the interest cost. Further, non-salary non-interest expenditure should be contained to the barest minimum. Wherever possible, branches may be considered for rationalization, as a means to cut costs. The number of tiers in the organization could be curtailed not only to reduce expenditure but also to make the organization compact and dynamic. Capital Expenditure other than those for Technological Upgradation should be subject to a stringent scrutiny and allowed only if absolutely essential. Even in respect of capital expenditure for Technology Upgradation, the cost vis-à-vis the benefit thereof, the sustenance of the technology for a reasonably long period and the provisions available for further upgradation should be thoroughly analyzed. Unutilized/under-untilized premises and other assets should be sold or rented out to augment income. Loss making Subsidiaries/branches should be considered for hiving off.

In an environment of intense competition on interest rates, with bankers vying with each other to lure borrowers by offering finer rates and terms, it may not be possible to augment interest income in a big way. At best, they may look for non-interest or fee based income to compensate for the loss of interest income. The surest way to achieve better spreads, therefore, is by containing cost.

2. TACKLING NON PERFORMING ASSETS (NPAs)

NPAs are a severe drain on the profitability of the banks. On the one hand, no income on such accounts can be recognized and on the other hand, certain amount of provision has to be made from the profits, depending on the asset classification and availability of security.

This has a double-impact on profitability - No interest on such dead asset and Need to maintain capital on the Risk Weighted Asset. Profits of majority of Public Sector Banks were affected by the sudden introduction of the concept of NPAs and Income Recognition. Some banks landed up in losses and some of them continued to incur losses for quite some time, due to their historical legacy of such NPA accounts, and they were categorized as 'Weak Banks'.

In the circumstances, the recovery of NPAs is vital. In fact, it tantamounts to booking of new business, as capital is freed and can be deployed profitably in the creation of new assets. The problem of tackling NPAs has two aspects - one of recovery of NPAs and the other of avoidance of slippage. The latter is more important and it calls for improved credit assessment and credit processes. Though several measures are initiated with regard to recovery of NPAs, the generation of fresh NPAs, every year is a matter of grave concern. While recovery of NPAs can be tackled to some extent through compromise settlements, filing of cases in DRTs, conduct of Recovery Camps etc., slippage can be avoided through proper training to staff members in credit skills and through proper monitoring and collection processes. Once this improved level of knowledge is achieved, credit as a product can be more proactively sold, rather than reactively granted as in the past.

Some of the steps to tackle the problem of NPAs are:

- Building an effective credit appraisal system within the Bank and bringing professionalism in appraisal.
- Monitoring of assets on an ongoing basis with intelligence on the industry to which the borrower belongs and initiating the trouble shooting exercise at the beginning itself.

- Building a sound and reliable information base through networking.
- Establishing a tested credit-risk evaluation model with features for risk management in dynamic market conditions.
- Evolving policies with focus and thrust on sound risk management systems.
- Putting in place proper control mechanism for feedback and analysis for corrective action.
- Eliminating the fear psychosis and creating a climate of confidence among the Bank personnel through proper motivation and creating a healthy environment based on trust and confidence.
- Setting NPA management as the organizational goal and ensuring that the spirit pervades all through the organization.
- Motivating employees and giving adequate training in te nuances of recovery mechanism.
- Ensuring changes in the mindset to cope with the market realities in Credit Risk and NPA management.

Banks should develop proper risk forecasting techniques, which should enable them to check generation of fresh NPAs.

More than recovery of NPAs, the checking of further slippage of standard assets into NPAs is very vital in the restructuring process. An effective monitoring mechanism is called for to oversee the standard assets. In this direction, the system of Special Mention Accounts is a welcome introduction to put the banks on notice about the impending dangers.

3. LEADERSHIP AND MANAGING CHANGE

Change in the leadership style is one of the main contributory factors for a successful restructuring of an organization. There is a need for a dynamic and visionary leadership at the top level to provide the broad framework of strategy and values within which the organization can move forward and satisfy the various stakeholders. The person should have a shared vision and should possess the qualities required of an effective leader. This will lead to a total transformation in the mindset of the staff down the line and will improve the initiative and decision making skills, courage, will-power to stand by the decisions, etc at all levels. One core quality of all successful leaders is their total commitment to the highest values of integrity.

It requires such a leader to restructure of turnaround a 'weak' organization which has several odds stacked against it. He or She should not only be a Leader by Example, but also a Leader by staring. As our President, Bharat Ratna A.P.J. Abdul Kalam, has put it "A quality leader should be a person with a vision and should be brave enough to support change. The traditional role of leader as a Commander has to change to that to a Coach. Instead of being a Manager, he should be a mentor. A leader instead of demanding Respect, should facilitate Self-Respect". A Bank on the path of restructuring should have such leaders to pull it out of its deep-rooted problems.

At the Circle / Regional level, there is a need for integrative leadership, taking the Corporate Vision, Values and Strategy and making it operational within the unit and in relation to possible conflicting interest as between contiguous units, and also interpreting it according to the needs of the particular context of the unit. This level of leadership will additionally require the development of appropriate systems and process for operational needs.

At the Branch level, the leader should achieve the targeted results with the requisite quality and efficiency. He should have an orientation towards results and the tactics of pleasing the customer. At the branch level, the leader should be capable of unlocking the potential in the individuals in the team. It is for the Chief Executive to identify his core team by hand picking them and giving them suitable postings for a quick turnaround. They should be given not only responsibilities but also adequate authority and then asked to show results. The persons who show results should be suitably rewarded through promotions, postings, overseas training etc.

Managers / Circle Managers should have a say in the postings / promotions of staff members working under them which will enable them to have good command over them for enlisting their full support and ensuring better results.

4. TECHNOLOGY UPGRADATION

In the deregulated environment, technology will be the key to reducing transaction costs, offering customized products and managing risks. The world is being swept by technological changes, and technology related products are having shorter life cycles and, therefore, bank executives must start formally planning as to how their institutions would survive and thrive in the new banking environment. It will, of course, be a very big challenge but in meeting this challenge lies their future.

A giant leap forward on the technology front has to be taken now. It needs to be understood that every future business is an information business. However, in adopting technology, there will be challenges in managing personal, in training the workforce, in educating customers, in infrastructure support that is not evenly available across their large networks-all have to be addressed. The high investment has to be justified with increased business volumes. Relocating the back-office functions in every branch to a centralized location can, to some extent, do this.

It is important to remember that technology is only an enabler. Success lies in aligning technology with the business strategy and redefining processes to get maximum advantage.

5. INNOVATION

Innovation with technology can add to a Bank's competitive edge in rendering services to its clients. If it is not possible to be the first in the market, the next best is to become a fast follower i.e. to quickly adapt to the new idea and operationalise it at the earliest. It is necessary to stay ahead, constantly upgrade the products and create new markets. Those who develop innovative methods to reduce cost and provide cheaper and quality products and services at reasonable prices will win.

6. MANAGING COMPETITION

Banks, apart from competing with each other, are facing competition from Post Offices, Mutual Funds, Stoke Markets, Financial Institutions, Non-Banking Financial Institutions etc. Deregulation of interest rates has increased the intensity of competition. The competition is more pronounced in metro and urban centres, as private and foreign players have not entered the rural and semi-urban areas in a big way because of disproportionate return vis-à-vis cost involved. With the entry of new Private Sector Banks, the state owned Banks have lost their market monopolies and face stringent competition. Success for weak Banks will depend primarily on their organizational effectiveness and imaginative corporate planning combined with organizational restructuring. Any further delay in the recoup of operational efficiency will prove an irreparable loss.

7. HUMAN RESOURECES MANAGEMENT

The employees of a Bank which need restructuring will normally be low in morale, with a bleak outlook about the future. With such employees, it is very difficult to plan a quick turnaround. Hence, it is necessary for the management to first build confidence in the minds of the employees that their future is in safe hands and that if all the employees and the management work in unison with one mission and total commitment, the Bank would turnaround at the quickest possible time.

Human resource management basically deals with finding the right people, placing them in the right job, training and developing them for better performance, providing career path, sustaining their motivation through proper and timely rewards/recognition so that both the employer and the employee can achieve their objectives.

One of the keys to early turnaround is a motivating HR policy. Optimal Utilization of human resources is imperative. There must be a comprehensive plan to ensure that sufficient skilled personnel are available to match the organizational needs. The organization should function smoothly by placing the right kind of people at the right place at the right time and cost. The manpower planning should address important issues like recruitment, proper training, incentive to the talented staff and punishment to the inactive. There should be proper tools to measure various competencies and to match them with the key responsibility areas. Apart from performance appraisal system, there should be well-laid internal system to gauge the acumen of each of the employee, as also their potential to take up higher responsibility with commitment. The appraiser should be a capable person himself to assess the performance of the employee.

There should be a system of communicating the deficiencies to the employee concerned to give him an opportunity to correct himself. This can be achieved through motivation including self-motivation and attitudinal change.

To reap the full benefits of the HR, the policy on HRM should be thoroughly positive, motivating, and transparent and which should make every employee feel that they are part of the organisation and they are part of the decision making process. The policy should be redefined to making the employees committed to the organisation and to the changes that are taking place and to face the future challenges as a cohesive team.

8. RETAINING CUSTOMER LOYALTY

Retaining customer loyalty is one of the important ingredients in the restructuring process. In fact, it is cheaper to retain an existing customer than to get a new one. Also, a dissatisfied customer can spread a bad image about the Bank, which would be detrimental to the turnaround process. No organisation on the turnaround path can afford adverse publicity. Any spread of rumor about the financial viability of a weak bank is likely to trigger a panic reaction, which will be difficult to contain. A satisfied customer, on the other hand, will be a good Ambassador to the Bank and facilitate growth and new business.

While all state-run banks offer the same sovereign buffer for the deposits placed with them, it is only the service that is rendered which makes customers to continue to bank with a weak Bank. Customer service has turned a full circle and has become a fulcrum of all the activities of all classes of banks. Further, gone are the days when customers of state-run banks had to stand in queues to verify their balance, deposit and withdraw cash. These days, it is becoming patently clear that sustained competitive advantage in the market is possible only through improvement in quality and efficiency of services rather than new product features alone. In other words, the services sector is a standing testimony to the adage "Customer is the King".

Banks need to focus more on quality of services in tune with the expectations of the public at large. This is more so for banks which are under or in need of restructuring. Now customers are highly discerning and have a very low tolerance for poor service. They have a greater propensity to switch service providers. Hence, weak banks should identify and anticipate customer requirements and develop the capability of servicing those needs. Relationship management is the name of the game in the banking industry today and customers never had it so good before. In a savings-driven economy like ours, banks have finally come of age and the emphasis is now on making the customer feel that he is the master. In an ever changing environment where loyalties are fickle and competition is fierce, weak banks should woo customers with a plethora of value added services, as now the race is to be better than the best.

CONCLUSION

The above strategies, if implemented and monitored closely, will ensure the early restructuring / turnaround of a bank. The quality of products, services and process will be highly critical for the success of any business enterprise in the new era. Only the business that offers top quality products and services will succeed in the days to come. The road ahead has immense potential and opportunities but with challenges at every turn. It is only those banks which adapt themselves to the changes, innovate and introduce new technologies to meet the needs of the customer will succeed. Banks which have new and innovative business models in place will be geared to meet the challenges and compete effectively in the market. It is these banks which would attain higher reaches of success in the days to come.

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