AN EMPIRICAL EVALUATION OF

FINANCIAL PERFORMANCE OF STATE BANK AND ITS ASOCIATES

By

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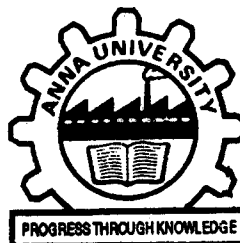
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BONAFIDE CERTIFICATE

Certified that the Project report titled "**An Empirical Evaluation of the Financial Performance of State Bank and its Associates** "is the bonafide work of **Mr. D. SIVA SHANMUGAM** who carried out the work under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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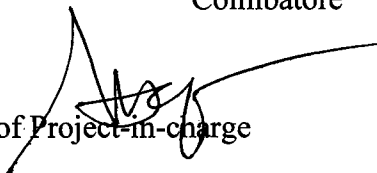
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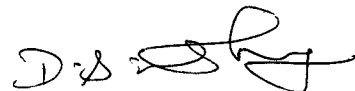
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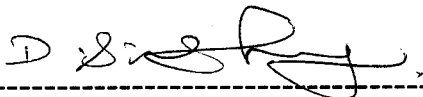
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ABSTRACT

Banking system remains focal point in the financial setup of any developing country. Banks are regarded as special in view of their specialized functions in the financial intermediation and payment system. Banking plays an increasingly important role in Nation's Economy. Occupying a pivotal position in the organized money market, it has acquired a special place with its large network of branches, with its huge deposits and advances. With the gradual change in the very concept of banking and with the entry of State in its administration, banking has assumed enormous importance as a subject of analysis and research.

The face of banking is changing rapidly. There is no doubt that banking sector reforms has improved the profitability and efficiency of banks, but in the days ahead banks will have to prepare themselves to face new challenges. This scale of operations bestows upon a higher bargaining power enabling them to play a dominant role in the liquidity and interest rate level in the system. However the scenario in the future may undergo a change with the growth of the New Private Sector Banks. These banks are in more advantageous position because of their superior technology based operations, lower manpower and lower NPA level.

It has been discussed about the relationship between ownership and financial performance of banks in emerging markets, literature about cross-ownership differences in credit market behavior of banks in emerging economies is sparse. Using State Bank of India and its Associate Banks data for five years, we examine banks' behavior in the context of Capital Adequacy, Resource Deployed, Assets Quality, Management Efficiency, Earnings Capacity and Liquidity. Our results indicate that, in India, the data for the domestic banks fit well. Various ratios are analyzed by the Investment, credit pattern, Profit per Employee, Business per Employee, Return on Assets and its impact on the performance and growth of these banks.

Students Signature

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CHAPTER 1 – INTRODUCTION

1. INTRODUCTION:

"A Man without money is like a bird without wings", the Rumanian proverb insists the importance of the money. A bank is an establishment, which deals with money. The basic functions of Commercial banks are the accepting of all kinds of deposits and lending of money. In general there are several challenges confronting the commercial banks in its day today operations. The main challenge facing the commercial banks is the disbursement of funds in quality assets.

1.1 BACKGROUND OF THE STUDY

Banking system remains focal point in the financial setup of any developing country. Banks are regarded as special in view of their specialized functions in the financial intermediation and payment system. Banking plays an increasingly important role in Nation's Economy. Occupying a pivotal position in the organized money market, it has acquired a special place with its large network of branches, with its huge deposits and advances. With the gradual change in the very concept of banking and with the entry of State in its administration, banking has assumed enormous importance as a subject of analysis and research.

The gains to the economy depend upon how efficiently the bank performs this basic function of financial intermediation. The efficiency of banks is judged among others by their profitability and contribution to the maximization of share holder's value. The banking industry in India is in a midst of transformation, thanks to the economic Liberalization of the Country, which has changed business environment in the country. During the preliberalization period, the industry was merely focusing on deposit mobilization and branch expansion. But with liberalization, it is found that many of its advances under the NPA list. More importantly, the sector has become very competitive with the entry of many foreign and private sector banks.

The face of banking is changing rapidly. There is no doubt that banking sector reforms has improved the profitability and efficiency of banks, but in the days ahead banks will have to prepare themselves to face new challenges. This scale of operations bestows upon a higher bargaining power enabling them to play a dominant role in the liquidity and interest rate level in the system. However the scenario in the future may undergo a change with the growth of the New Private Sector Banks. These banks are in more advantageous position because of their superior technology based operations, lower manpower and lower NPA level.

1.2 STATEMENT OF THE PROBLEM

Bank failure has been relatively high in recent years. While each bank failure is a somewhat a unique experience, recent studies have identified a few factors that most common. Most banks that fail seem to do so because of problems in their loan portfolio. Non-performing loans grow to such an extent that revenues falls off and loan loss expenses, as well as operating costs absorb all the earnings that remain. The bad loan situation usually arises from a combination of factors.

Failing banks often have inadequate systems for spotting problem loans early. Failing banks frequently have expense control problems. Management may invest the Bank's money in lavish offices and enjoy handsome fringe benefits that the bank's earnings simply cannot support. It was imperative that a vibrant and competitive financial system should be put in place to sustain the ongoing process of reforms in the real sector. The result of the changes has led to efficient use of manpower, technological and financial resources. The reforms have succeeded in easing external constraints on operation, introducing transparency in reporting procedures, restructuring and recapitalizing banks and enhancing the competitive elements in the market through the entry of New Banks. The researcher has aimed to identify solution for the following problems.

Banks incur costs to mobilize funds and earn interest on the loan. The difference between the spread and burden is a measure of the banks profits. Impairment of loans has an adverse impact on the profit, as impaired loans cease to generate income. A small degree of impairment

may not affect the profits of a bank but the substantial level of NPAs results in losses. To the extent that they do not generate any income the NPAs are drag on the net interest income of the bank. NPAs in short are not just a problem for the banks. They are bad for the economy.

The banking scenario in the country has been undergoing a qualitative shift towards internationalism. Global best practices are finding greater acceptance and systematic deficiencies which are a legacy of the past, are being addressed. The future therefore, seems to be exciting but only for those who can with stand the stress and strain that reforms bring along. In a nutshell, it would not be an overstatement that the present banking system in India is quite competitive with the presence of public and private banks.

1.3. NEED FOR THE STUDY

The macro economic policies initiated by the Government since July '91 saw the economy performing in a much better way. The accelerated pickup in the capital goods pointed to a higher growth trajectory for the economy in the near future. The RBI has taken up various reform measures to improve the performance of banks with an eye on the betterment of the society and the economy.

They are:

i) Approval to several new private sector banks to commence business; ii) Enabling legislation for public sector banks to restructure their capital and public subscription for augmenting capital; iii) Extensive regulatory powers to SEBI for effective supervision and control of stock market; iv) Establishment of the debt recovery tribunal s including a appellate tribunal at Bombay; v) Introduction of capital adequacy norms for financial institutions/ non banking financial institutions

Several new banks commenced their operations mainly at metropolitan centers with a strong financial base which would enable computing in a real time environment at branches besides providing connectivity between them. This is turn prompted other banks to embark on strengthening systems and sharpening skills in providing efficient customer service indicating far reaching beneficial changes to come in the banking sector in the near future.

1.4. OBJECTIVES AND SCOPE OF THE PROJECT

The objectives of the study is to discover the most critical financial problems inside each bank and develop ways to deal with those problems so that management and the pubic can act on their own way.

i) To **analyze** the financial performance of State Bank and Its Associate Banks in India through financial ratios.

ii) To **assess** the extent of variation in profits and profitability of State Bank and Its Associate Banks in India.

iii) To **identify** the factors responsible for the profitability of State Bank and Its Associate Banks in India

iv) To **present** the progress of State Bank and Its Associate Banks in India.

v) To **offer** suitable suggestions for the development of the State Bank and Its Associate Banks in India.

The study broadly aims at examining the following hypotheses with the available data and techniques.

i) The increase in the **CRAMEL** has an indirect and positive / negative effect on the profitability of banks.

ii) The growth of working funds contributes much towards the profitability of banks.

iii) The increase in credit has an indirect and positive effect on the profitability of banks

iv) The increase in NPA has direct and negative impact on the profitability of banks.

v) The incremental flow of deposits has positive relation to the bank's profitability.

For the purpose of deriving the results the correlation analysis have been adopted.

1.5 PERIOD OF STUDY

The period of the study has been taken-Up from the financial year 2002-03 to 2006-07 (5 Years), a sufficient time for any bank to correct themselves according to their ups and downs.

CHAPTER 2 – LITERATURE SURVEY

2.1 REVIEW OF LITERATURE:

The Literature which was reviewed as part of this study includes articles and research papers related to Indian Banking Reforms, Non Performing Assets and Profitability Analysis of Indian Banking system. The Available Literatures are categorized into:

Goiporia (1992)[1] in his article has made a general view about the profitability of banks and maintained that if adequate profits have to flow, the following priorities will have to be observed by the banks: (a) among fund-based operations the lending operations have to be directed to areas which would maximize profitability and growth, consistent with the long-term objectives of the institutions, after priority sector lending goals are attained; (b) to promote non-fund based operations; (c) charging fees for banks' services after taking into consideration the cost benefit of service offered, etc.

Henage, Richard, T (1995)[2] made a study on prediction of bank failure. This study is comprised of a series of three separate research papers on bank failure prediction. Through the series of the three papers, a bank failure prediction model is developed using commercial bank failures, tested on the full population of commercial banks from 1988 to 1993. Among the three papers, the first paper develops a bank failure prediction model, which is consistent with financial analysis techniques. The resultant model limits the large menu of predictive variables found significant in prior studies to a set of five variables, which represent liquidity, leverage, size, profitability, and loan quality. The paper demonstrates that it is possible to increase predictive accuracy over data-driven models by relying on a set of logically developed variables. This model improves on the predictive accuracies of all past research.

Kishore C. Raut & Santosh K. Das (1996)[3] have studied "Commercial Banks in India – Profitability, Growth and Development". In their study an attempt is made to examine, measure and analyse the profitability trends of the Indian banking sector over the period 1980-92. In the process of analysis, the various factors responsible for the variation of banks' profitability in

either direction have been gleaned over. He also incorporates empirical analysis of profitability as well as of its determinants of the sample bank groups. In the final chapter they encompass the summary of the findings and conclusion of the study, which are more informative.

Talwar S.P (1996)[11] in an article on the current banking Scenario and the need for the policy change, opines that a major concern addressed by the banking sector reform is the improvement of the financial health of banks. The Introduction of prudential norms is better financial discipline by ensuring that the banks are alert to the risk profile of their loan portfolios.

C.Rangarajan (1997)[10] in an evaluation of the Indian experience in Financial Sector Reforms Published in the RBI Bulletin gives stress to the view that the sustained improvement of the economic activity and growth is greatly enhanced by the existence of a financial system developed in terms of both operational and allocation efficiency in mobilizing savings and in channelizing them among competing demands.

Sarkar (1998)[9] contend that it is not ownership itself but the existence of a market for corporate control and the resulting market discipline on managerial decisions that makes the real difference. He points out that public sector banks are already feeling the heat of competition from new entrants in the banking sector and that there is no systematic evidence that private banks do better than public sector banks in emerging markets. He argues that the case for privatization is made more on the basis of perceptions than based on a comprehensive review of facts and evidence. Banks are different from other enterprises in that they directly affect thousands, if not millions, of depositors and play a crucial role in economic growth.

A study was conducted by **Ganesan, P** (1998)[14] titled "Priority Sector Advances vis-à-vis Profits and Profitability of Public Sector Banks in India (1969-1993)". In his study, he focused his main attention to analyse the following aspects: i) economies of priority and non-priority sector transactions with reference to spread, burden and surplus; ii) the use of efficiency, liquidity and profitability ratios to assess the operational efficiency; iii) determinants of profitability to derive a profit function model; and iv) the economies of scale regarding cost, production and profit functions. Finally, the study pinpoints certain ideas for the improvement of

profitability and the technical change to be made to recover the overdues of priority sector advances

2.2 RESEARCH GAP

The review of literature has revealed that the research was undertaken on banking sector performances on various angles and parameters viz.,Social Obligations of Nationalized Banks, Pros and Cons of Provisions of the Act, Change of Banking Performance and Productiivity.

In addition to this, various studies have been made elaborately in the area of :

- ❖ Banking Growth imbalances since nationalization in Branch Expansion
- ❖ Deposit Mobilization
- ❖ Credit Disbursement and Priority Sectors Lending
- ❖ Relative performance of banks with respect to three selected variables
- ❖ Banker Customer Relationship
- ❖ Importance of Computers in Banking Industry

The financial performance of State Bank And Its Associate Banks for a period of a five years (2002-2003 to 2006-2007) with its breakup of State Bank Group have been taken up by the research scholar. The aim is to study the bank's individual financial performance for every year of the period of study along with its group.

CHAPTER 3 – METHODOLOGY

3.1 TYPE OF PROJECT

"An Empirical Evaluation of the Financial Performance of State Bank and its Associates" is a analytical project to study the financial performance of State Bank and its Associate Banks over a period of five years through the data collected from published sources.

3.2 DATA COLLECTION

Secondary data Via Balance sheets with schedule and profit and loss account of all the 8 banks were to collected for the period 2002-03 to 2006-07 (5 Years). They are collected from National Institute of Banking Management (NIBM) Pune, RBI statistical department publication, Indian banks association publications, Published journals, and news papers (Banks Annual Reports).

The selected schedule commercial banks taken for the study are

1. The State Bank of India
2. The State Bank of Bikaner and Jaipur.
3. The State Bank of Indore,
4. The State Bank of Mysore,
5. The State Bank of Patiala,
6. The State Bank of Saurastra,
7. The State Bank of Hyderabad
8. The State Bank of Travancore

3.3 LIMITATIONS OF THE STUDY:

Taking into consideration the objectives of the study and its coverage both in terms of time span and the number of banks, the study is prone to many limitations. Some of the major unavoidable **limitations** of the present work are as follows:

i.   Financial information collected for the present study is entirely secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data and financial information.

ii.   While computing the data for the purpose of analysis, the approximation of decimal places leads to minor variations in ratios and percentage analysis, which are bound to exist in the present study.

iii.   The study has been undertaken only through the analysis of quantitative financial data. The qualitative aspects of the banking sector having a bearing on the profitability could not be incorporated. Thus, the qualitative aspects of profitability have not been taken into consideration in the present study.

iv.   Various accounting and statistical tools extensively used for the present study have their own limitations.

Thus, the findings of the present study should be used judiciously and carefully taking into account the various limitations

3.4 TOOLS FOR ANALYSIS

To suit the objectives of the study, the following tools and techniques were applied for the study.

    i)   Ratio Analysis

    ii)   Correlation Analysis

    iii)   Graphs and Charts

3.4.1 RATIO ANALYSIS – CRAMEL ANALYSIS

Ratio analysis was carried out on CRAMEL basis to find out the actual performance of the banks individually and collectively.

The relative performance of each bank has been assessed in the context of CRAMEL variables.

C - Indicates Capital Adequacy. In this category three ratios has been accommodated namely

        C_1- Capital Adequacy

        C_2 – CAR Tier –I

$$C_3 - CAR \quad Tier - II$$

R – Indicates Resources Deployed. In this category four ratios has been accommodated namely

$R1 -$ Priority Sector Advances / Advances
$R_2 -$ Investment / Deposit
$R_3 -$ Credit / Deposit
$R_4 -$ Credit + Investment / Deposit

A – Indicates Assets Quality. In this category four ratios has been accommodated namely,

$A_1 -$ Term Deposit / Deposit
$A_2 -$ Deposit / Liabilities
$A_3 -$ Term Loan / Advances
$A_4 -$ Secured Advances / Advances

M – Indicates Management Productivity and Efficiency. In this category six ratios has been accommodated namely,

$M_1 -$ Wage Bill / Total Income
$M_2 -$ Operative Expenses / Assets
$M_3 -$ Interest Expended / Assets
$M_4 -$ Profit per Employee (Rs Lakhs)
$M_5 -$ Business per Employee (Rs Lakhs)
$M_6 -$ Net NPA / Net Advances

E – Indicates Earning Capacity. In this category six ratios has been accommodated namely,

$E_1 -$ Return on Equity
$E_2 -$ Operating Profits / Assets
$E_3 -$ Spread / Assets
$E_4 -$ Return on Investments
$E_5 -$ Return on Advances
$E_6 -$ Return on Assets (Dependent variable – Y)

L – Indicates Liquidity. In this category two ratios has been accommodated namely,

$L_1 -$ Investment in Non – Approved Securities / Investment
$L_2 -$ Cash / Deposit

3.4.2 CORRELATION ANALYSIS

This involves measuring the magnitude and direction the relationship between two or more variables. Interdependence among variables is a common characteristic of most multivariate technique, and correlation matrix is a table used to display correlation coefficient between these variables. The study aimed at identifying the most important variables or independent variables which have higher significant association with the dependent variable. The degree of association i.e., Strength and Direction of Partial Correlation coefficients between the selected variables C_1 to L_2 (E_6 – y is Dependent variable Return on Assets) were studied for the period year ended 2003 to year ended 2007 (5 years) for State Bank and its Associate Banks.

CHAPTER 4 – DATA ANALYSIS AND INTERPRETATION:

4.1 INDIAN BANKING SECTOR AND POLICY ENVIRONMENT

The Indian banking sector has undergone remarkable changes since Indian independence in 1947. The banking sector that was primarily operating under a laissez-faire regime was brought under the state regulatory framework through the Banking Regulation Act 1949. With the exception of the largest bank, State Bank of India, which was nationalized in1955, banks in India continued to be privately owned and managed through the 1950s and most part of 1960s. In 1969, the government nationalized 14 private banks to facilitate economic development through directed lending. A second round of nationalization followed in 1980 with six more private banks being nationalized. With that, over 90% of banking business was brought under the control of Government of India.

As with the rest of the economy, by the mid-1980s the need to reform the banking sector was increasingly felt with rising non-performing assets and poor performance of banks. In the 1990s, new private sector banks and several foreign banks were given licences to operate in India, interest rates were deregulated and profit was made as a key indicator of bank performance. This brought about a marked change in the banking culture in the country.

4.2 GROWTH OF COMMERCIAL BANKING

As on 31 March 2006, there were 27 public sector banks, 30 private sector banks (of which 9, established after 1990, are called as the new generation private sector banks) and 36 foreign banks operating in India. Although the share of private and foreign banks have increased since the 1990s, the public sector banks continue to dominate the Indian banking industry

There were nearly 59,400 offices of commercial banks by the end of June, 1990. This number was nearly 7 times the number of such offices in 1969. On account of opening of new offices, the population per bank branch which was 55,000 in June, 1969 has come down to 11,500 by the end of June, 1990. With greater emphasis on opening up of new branches in rural

areas, nearly 58percent of the total branches are in rural areas in 1990 against nearly 22 per cent in 1969. There has been considerable expansion of bank credit which has gone up from Rs 3,600 Crores in 1969 to more than 70,000 Crores in 1990.

Of the total bank credit nearly 15 per cent was for food procurement. The total credit to priority sectors comprising agriculture, small scale industries and other priority sectors was nearly 37 per cent which was significantly higher than 14 per cent of the total credit made available to these sectors at the time of nationalization of banks.

In recent years, the commercial banks have opened several new offices overseas. With an addition of 2 such offices in the year June, 1990 the total number of such branches abroad has gone up to 115 in 25 countries.

Growth brings new opportunities as well as problems. The far-reaching changes in banking have been achieved at a price. Profits have been, and are under tremendous pressure. Declining trends in profits and profitability have become a major cause of concern for all and in order to ensure the survival and growth of this vital sector of economy it becomes necessary to identify various factors which have steadily contributed towards the decline in bank profitability so that corrective action can be taken and future profitability be ensured.

4.3 DEFINITIONS

Tier I Capital:

Tier I Capital is the core capital or basic equity that serves as a buffer against losses. It is considered as the sum of equity capital and disclosed reserves minus investments in subsidiaries and accumulated losses.

Tier II Capital:

Tier II Capital includes undisclosed reserves, revaluation reserves, general provision, general loan loss reserve, hybrid debt-equity instruments and subordinated term debt available to absolute losses.

Profit is a financial measure of a firm's operations during a period. It is the difference between the income earned and the expenditure incurred to earn the said income during the period. It is, therefore called the 'net result'. It is an accounting entity where,

Profit = Income – Expenditure.

❖ Profit has many variants, like operating profit, profit before tax, net profit, and retained profit, etc.

❖ Operating Profit is the result of the primary operations of the firm. Non-operating income and non-operating expenses are excluded while computing operating profit.

❖ Profit before Tax is the result of both main operations and other activities before calculation of tax. It shows the overall performance of a firm prior to the tax incidence, which is a matter of law and beyond the control of the firm.

❖ Net Profit is the net result of the firm during the period. It is computed after payment of business expenses, including tax (NP=PBT – Tax).

❖ Retained Profit is the profit retained in business after payment of dividends. It is computed as net profit less dividends. Dividends are a charge relating to capital. Since it is discretionary, it does not figure in the accounting statement prior to net profit.

Each of the above variants of profit has its own managerial uses. Operating profit measures the efficiency of the operations. PBT measures the overall performance before tax and net profit measures the net performance and retained profit amount ploughed back into business out of a year's operation. A manager is expected to use the appropriate measure of profit depending on the view- point taken. The above principles also apply to banks. The only difference here is that the major income and expenses of banks are by way of interest income and interest expenses respectively.

Profitability performance of the banks can be studied using three set of ratios (expressed in percentage form). They are:

1. spread ratios   2.Burden Ratios   3.Profitability Ratios

4.3.1 SPREAD RATIOS

Spread, which is the difference between interest earned (on loans and advances) and interest paid (on deposits and borrowings) by the banks, plays a major role in determining the

profitability of banks. It is the net amount available to the banks for meeting their operating, administrative and managerial expenses. In order to analyze the profitability performance of commercial banks, the researcher must study the magnitude of this spread and its components i.e., interest earned and interest paid in relation to total working funds of banks. More specifically, the spread ratios to be studied are:

1. Ratio of Interest Income to Working Funds,
2. Ratio of Interest Expended to Working Funds and
3. Ratio of Spread to Working Funds.

4.3.1.1 Spread Related Ratios

The interest earned and interest paid is the main ingredients of spread ratio. But the magnitude of changes in the contents of interest earned and interest paid are much important to analyze the spread ratios in a more imperative way. Therefore, the following further ratios relevant to spread are derived:

1. Ratio of Interest Income to Total Income,
2. Ratio of Interest Expenses to Total Expenses and
3. Ratio of Interest Cost on Deposits to Total Expenses.

4.3.2 BURDEN RATIOS

Burden is defined as the difference between non-interest expenditure and non-interest income of the banks. It represents non-interest expenditure not covered by non-interest income and is an important factor in determining the profitability of banks. Three burden ratios to be employed in the present work are:

1. Ratio of Non-Interest Expenditure to Working Funds,
2. Ratio of Non-Interest Income to Working Funds and
3. Ratio of Burden to Working Funds.

4.3.2.1 Burden Related Ratios

The sub-items involved in the non-interest expenditures and non-interest incomes are the root cause for the changes in the respective variables, which ultimately affect the burden ratio. Hence, to probe into further the sub-elements of non-interest expenses and non-interest incomes are studied as:

1. Ratio of Non-interest Income to Total Income,
2. Ratio of Establishment Expenses to Total Expenses,

3. Ratio of Operating Expenses to Total Expenses and

4. Ratio of Burden to Total Income.

4.3.3 PROFITABILITY RATIOS

Profitability is a ratio of earnings to the funds used. It stands for profits deflated by the size of the unit and indicates the efficiency with which a bank deploys its total resources to maximize its profits. The study seeks to analyze the following profitability ratios:

4.3.3.1 Interest income: Banks depend on the size of the asset portfolio, the rate of interest and the percentage of standard assets, ie. the earning assets.

It consists of Interest on advances and discount on bills, which includes interest and discount on all type of loans and advances like cash credit, demand loans, overdrafts, export loans, term loans, domestic and foreign bills purchased and discounted , overdue interest and also interest subsidy, if any, relating to such advances/bills.

Income on investment, which includes all income derived from the investment portfolio by way of interest and dividend.

Interest on balance held with RBI and other banks, call loans, money market placements etc., Others, i.e., any other interest/discount income not included above. Earlier, RBI used to administer the interest rates offered by banks and banks were required to lend a major part of their resources to directed priority sectors of the economy. As such, banks had less scope of interest rate management than now. At present, bank fixes the interest rate for borrowers based on prime lending rate, risk rating of the borrower and other related factors.

4.3.3.2. Other income: Other income of banks arises from sources other than money lent. It is also called non interest income and comprises:

❖ Commission, exchange and brokerage, they includes all remuneration on services such as commission on collections, commission /exchange on remittances and transfers, commission on letters of credit , letting out of lockers and on guarantees, commission on Government business, commission on other permitted agency business including consultancy and other services, brokerage etc., on securities. It does not include foreign exchange income.

❖ Profit on sale of investments.

- ❖ Profit on revaluation of investments.
- ❖ Profit on sale of land, buildings and other assets.
- ❖ Profit on foreign exchange transactions.
- ❖ Income earned by way of dividends etc., from subsidiaries, companies, joint ventures abroad / in India.
- ❖ Lease income including lease rental, management fee, financial charges, overdue charges etc.,
- ❖ Miscellaneous income, which includes recoveries from constituents for godown rents, income from bank's properties, securities charges, insurance etc., and any other miscellaneous expenses recovered from customers.

Out of the above, commission / brokerage and profit from exchange transactions are major contributors to other income. The importance of other income for banks cannot be overemphasized. Since it is earned without addition to assets, it contributes to a large increase in return on assets (ROA).

4.3.3.3 Expenditure: Bank expenditure could be on account of interest expenditure (i.e. interest paid on deposits and borrowings) and non interest expenditure. The later category has two major elements, i.e. Operating expenditure and the provisions of loans and other assets. As such Bank expenditure could be classified into three heads namely: i.) interest expended, ii) Operating expenses, and iii) Provisions and contingencies as explained below.

4.3.3.4 Interest expended: Interest expended relates to the funds raised by the banks. Banks raise funds from public as deposits, from money/ capital market and RBI / Bank as borrowings. As such, interest expenditure is of three types:

- ❖ Interest on deposits, which includes interest paid on all types of deposits including deposits from banks and other institutions.
- ❖ Interest on borrowings from RBI and other banks, which includes discount / interest on all borrowings and refinance from RBI and other banks.
- ❖ Others i.e., discount / interest on all borrowing / refinance from financial institutions. All other payments like interest on participation certificates, penal interest paid etc., are also included here.

❖ Interest expenditure depends on the size of the deposit portfolio, the term structure and the interest rate etc., Interest expenditure of banks is lower than that of other companies / institutions as banks are able to raise low cost deposits through their branch network.

4.3.3.5 Operating expenses: It is also called the establishment cost. It is incurred for maintaining the staff, premises etc., and for carrying out day-to-day operations.

Major types of operating expenditure are:

Payment to and provisions for employees, which includes staff salaries / wages, allowances, bonus, other staff benefits like payment of provident fund, pension, gratuity, liveries to staff, leave fare concessions, staff welfare, medical allowances to staff, house rent allowances and other similar payments etc.,

❖ Rent, taxes, and lighting, which include rent, paid by the bank on buildings and municipal and other taxes paid (excluding income-tax and interest tax), electricity and other similar charges and levies.

❖ Printing and stationary, which includes books and forms and stationery used by the bank and other printing charges which are not incurred by way of publicity expenditure.

❖ Advertisement and publicity, which includes expenditure incurred by the bank for advertisement and publicity purpose including printing charges of publicity materials.

❖ Depreciation on bank's property which includes depreciation on bank's own property , motor cars and other vehicles, furniture, electric fittings, vaults, lifts, leasehold properties, non-banking assets etc.,

❖ Director's fees and expenses which includes the fees paid.

❖ Auditors and branch auditors for professional services rendered and all expenses for performing their duties, even though they may be in the nature of reimbursement of expenses.

❖ Law charges including reimbursement of expenses incurred in connection with legal services.

❖ Postage, telegrams, telephones etc.,

❖ Repairs and maintenance of bank's property.

❖ Insurance, which includes insurance charges on bank's property, insurance premium paid to Deposit Insurance and Credit Guarantee Corporation, etc, to the extent they are not recovered from the concerned parties.

❖ Other expenditure like license fees, donations, subscriptions to newspapers, periodicals, entertainment expenses, travel expenses and all expenses other than those not included in any of the other heads.

Payment to employees is the major element in operating cost. Because of industry- wide wage agreements banks in India have very little flexibility in rationing the same.

4.3.4 NET PROFIT:

The difference between the income and the expenditure shows the net profit for the accounting year. Net Profit is essential to increase capital, offset losses and build confidence of the public in banks. Net Profit is appropriated as under:

❖ Transfer to statutory reserves

❖ Transfer to other reserves

❖ Transfer to dividends payable account

❖ Carried over to Balance sheet

Banks usually pay lower dividends than non-banking companies, as they need to build up capital and reserves with retained profits. The retained profits or the amount carried over to the balance sheet result in capital appreciation for the investors.

The major variables for the purpose of management control are the Spread and the Burden. Spread or net interest income accounts for a major part of the operating income. Similarly, the burden forms the major part of the operating expense. Enhancing profit of a bank is essentially about managing the spread and burden well.

4.4 ANALYSIS OF FINANCIAL PARAMETERS

4.4.1 RATIO ANALYSIS AND CHARTS

TABLE- 1

CAPITAL ADEQUACY

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	13.35	13.43	14.02	12.78	11.81	12.55	13.20	12.54	12.96	0.64	4.92
2003-2004	13.50	13.08	14.91	13.09	11.62	13.57	13.68	11.30	13.09	1.09	8.29
2004-2005	13.53	12.93	14.29	13.29	11.53	13.56	14.53	11.36	13.13	1.08	8.26
2005-2006	12.45	12.60	11.74	11.61	12.05	14.21	11.45	11.05	12.15	0.92	7.54
2006-2007	11.88	12.08	12.08	11.40	11.37	13.55	12.03	11.15	11.94	0.70	5.83
MEAN	12.94	12.82	13.41	12.43	11.68	13.49	12.98	11.48	12.65		
SD	0.66	0.46	1.26	0.78	0.23	0.53	1.11	0.54	1.15		
CV	5.12	3.57	9.41	6.26	2.01	3.95	8.57	4.71	9.4		

DIAGRAM-1
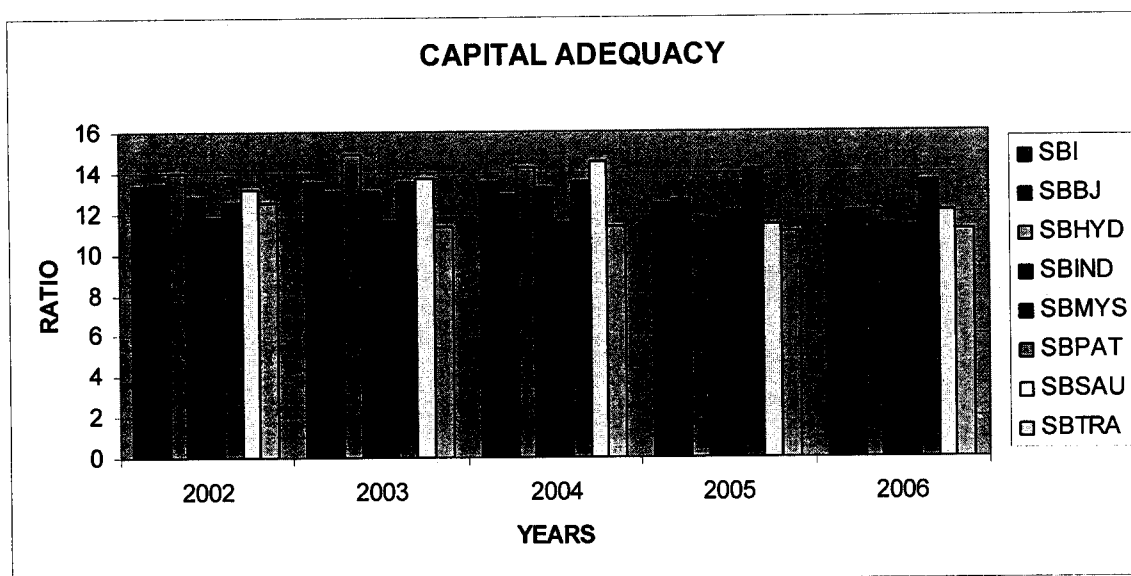
Interpretation:

From the above table it is observed that capital adequacy formation is found to be more than the specified norms of RBI which is 12%.Eventhough State bank of Mysore and State Bank of Travancore are below the specified norms but they are very close to the specified norms. In the case of State bank of Hyderabad and State bank of Patiala they have an excellent capital adequacy of more than 13.4%.

TABLE -2

CAPITAL ADEQUACY - TIER 1

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	9.22	12.06	9.86	8.15	6.7	9.97	12.11	7.79	9.48	1.82	19.15
2003-2004	8.81	10.52	9.84	9.4	7.23	10.39	11.66	6.8	9.33	1.55	16.65
2004-2005	8.34	9.03	8.42	8.31	7.18	9.87	10.89	6.23	8.53	1.36	15.95
2005-2006	8.04	7.95	7.58	6.67	7.12	11.05	8.68	6.17	7.91	1.40	17.75
2006-2007	9.36	8.5	8.95	7.55	7.44	9.84	9.02	7.24	8.13	0.91	11.19
MEAN	8.75	9.61	8.93	8.46	7.13	10.22	10.47	6.85	8.80		
SD	0.50	1.49	0.87	0.90	0.24	0.46	1.38	0.61	0.64		
CV	5.75	15.54	9.73	10.64	3.40	4.48	13.22	8.97	6.96		

DIAGRAM-2

CAPITAL ADEQUACY TIER - I

Interpretation:

It is found that expect the State Bank of Travancore and State Bank of Mysore all the other banks maintains the capital adequacy – Tier I in the range of 8.46 to 10.47 . State Bank of Sourashtra ranks first in maintaining the capital adequacy- Tier I with a mean of 10.47 for the 5 years and followed by State Bank of Patiala.

TABLE-3

CAPITAL ADEQUACY - TIER II

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	4.13	1.36	4.17	4.63	5.11	2.58	1.09	4.75	3.48	1.48	42.54
2003-2004	4.69	2.56	5.07	3.69	4.39	3.18	2.02	4.5	3.76	1.02	27.13
2004-2005	5.19	3.9	5.87	4.08	4.35	3.69	3.54	5.13	4.47	0.78	17.48
2005-2006	4.41	4.65	4.16	4.94	4.96	3.16	2.77	4.88	4.24	0.79	18.54
2006-2007	2.52	3.58	3.13	3.85	3.93	3.71	3.01	3.91	3.46	0.48	13.91
MEAN	4.19	3.21	4.48	4.238	4.55	3.26	2.49	4.63	3.88		
SD	0.90	1.14	0.93	0.47	0.43	0.42	0.85	0.42	0.76		
CV	21.60	35.61	20.70	11.18	9.49	12.75	34.28	8.96	22.71		

DIAGRAM-3

CAPITAL ADEQUACY TIER - II

Interpretation:

It is found that expect the State Bank of Sourashtra all the other banks have an average of capital adequacy – Tier II in the range of 3 to 4.5 .

TABLE- 4

PRIORITY SECTOR ADVANCES/TOTAL ADVANCES

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	26.15	40.59	34.41	42.27	35.40	36.45	41.97	30.40	35.96	5.33	14.83
2003-2004	25.49	43.16	32.54	43.97	36.46	40.98	40.81	33.60	37.13	5.93	15.96
2004-2005	27.04	43.86	39.51	46.32	36.52	39.39	42.67	37.22	39.07	5.52	14.12
2005-2006	28.59	45.10	39.69	43.69	40.44	44.04	38.95	38.36	39.86	4.87	12.23
2006-2007	30.58	41.30	41.68	42.85	42.45	44.04	41.61	41.10	40.70	3.93	9.66
MEAN	27.57	42.80	37.57	43.82	38.25	40.98	41.20	36.14	38.54		
SD	1.83	1.65	3.48	1.39	2.71	2.89	1.28	3.74	0.90		
CV	6.63	3.86	9.25	3.17	7.09	7.05	3.10	10.36	2.33		

DIAGRAM-4

PRIORITY SECTOR ADVANCES/TOTAL ADVANCES
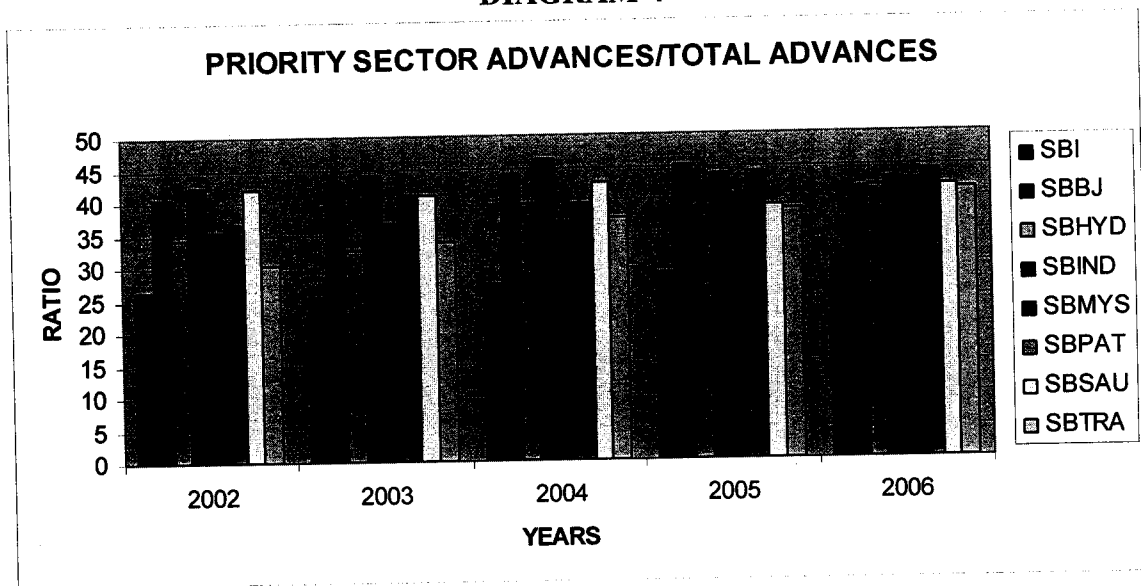
Interpretation:

It is found that except the State Bank of India all the other banks rendered more than 40% against its total advances to priority sector which drew lesser rate of interest and is not commercially viable for banks . But in the case of State bank of India which gave at an average of 27% of its total advances to priority sector which in turn draw a clear line between profitability and social justice.

TABLE- 5

INVESTMENT / DEPOSIT

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	53.65	54.07	56.47	57.22	48.78	40.9	46.64	47.34	50.63	5.28	10.43
2003-2004	58.2	58.05	60.77	55.74	52.82	45.45	52.59	50.47	54.26	4.63	8.53
2004-2005	58.28	53.89	61.91	52.11	49.5	49.44	54.77	54.65	54.32	3.96	7.30
2005-2006	53.7	43.92	53.61	46.58	42.66	46.46	48.24	48.73	47.99	3.78	7.87
2006-2007	42.77	36.57	41.9	30.68	34.78	38.08	42.81	40.89	38.56	4.08	10.57
MEAN	53.32	49.30	54.93	48.47	45.71	44.07	49.01	48.42	49.15		
SD	5.66	7.89	7.17	9.62	6.37	4.06	4.26	4.49	3.12		
CV	10.61	16.01	13.04	19.85	13.94	9.21	8.69	9.28	6.61		

DIAGRAM- 5
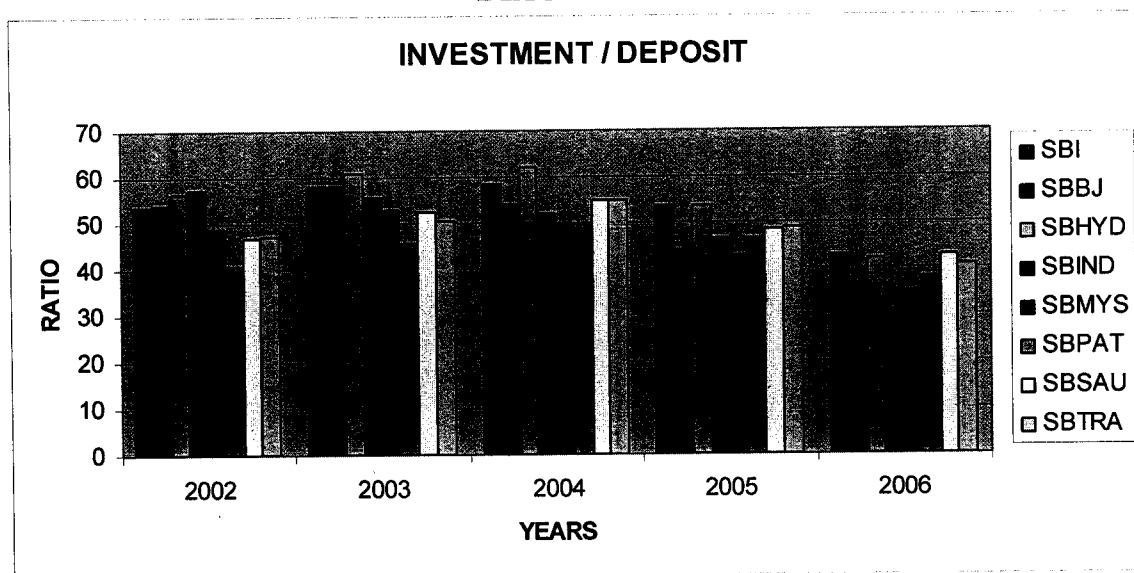
Interpretation:

While observing the investment to deposit ratio it is found that all the banks maintains its investment to total deposit at an average of 50%.

TABLE-6

CREDIT / DEPOSIT

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	44.65	50.86	48.4	54.17	57.65	62.23	54.07	55.24	53.41	5.10	9.56
2003-2004	46.52	51.18	46.91	56.23	58.37	60.14	51.36	57.58	53.54	4.92	9.20
2004-2005	49.57	54.96	48.7	61.48	58.9	58.23	49.09	56.45	54.67	4.65	8.51
2005-2006	52.35	58.13	50.54	63.52	60.7	58.09	53.23	59.24	56.98	4.20	7.37
2006-2007	68.84	73.27	61.32	71.28	71.81	65.66	61	72.57	68.22	4.66	6.82
MEAN	52.39	57.68	51.17	61.34	61.49	60.87	53.75	60.22	57.36		
SD	8.64	8.24	5.20	6.02	5.26	2.83	4.01	6.32	2.54		
CV	16.49	14.28	10.17	9.81	8.55	4.65	7.46	10.49	4.43		

DIAGRAM-6
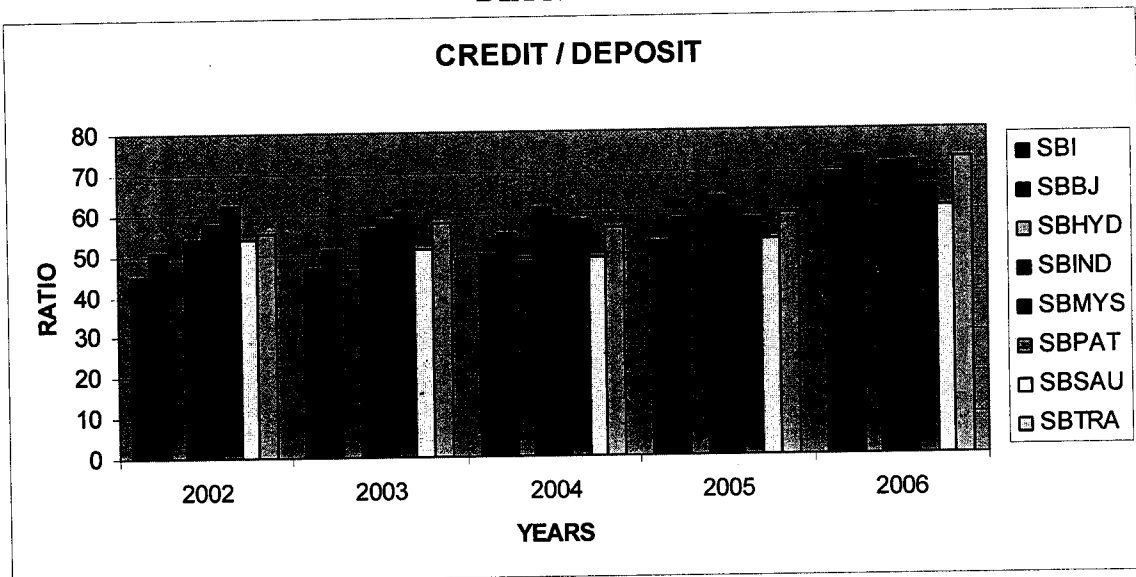
Interpretation:

As the banks primary function is to accept deposit and lending it to the needy, all the banks invariably lend credit out of its deposit at an average of nearly 60%. Except State Bank of Hyderabad which maintain its credit to deposit ratio at an average of 51%.

TABLE-7

CREDIT + INVESTMENTS / TOTAL DEPOSITS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	98.3	104.93	104.87	111.68	106.53	103.13	100.71	102.59	104.09	3.76	3.61
2003-2004	104.72	109.23	107.68	111.97	111.19	105.59	103.75	108.06	107.77	2.78	2.58
2004-2005	107.84	108.85	110.61	113.59	106.4	107.67	103.86	111.10	108.74	2.83	2.60
2005-2006	108.83	107	104.25	108.2	107.3	104.44	101.47	105.42	105.86	2.28	2.16
2006-2007	111.61	109.84	103.22	101.96	106.59	103.74	103.81	113.46	106.78	4.05	3.79
MEAN	101.32	107.97	106.13	109.48	107.60	104.91	102.72	108.13	106.03		
SD	6.23	1.79	2.69	4.15	1.82	1.60	1.35	3.88	1.82		
CV	6.15	1.66	2.53	3.79	1.69	1.53	1.32	3.59	1.77		

DIAGRAM-7
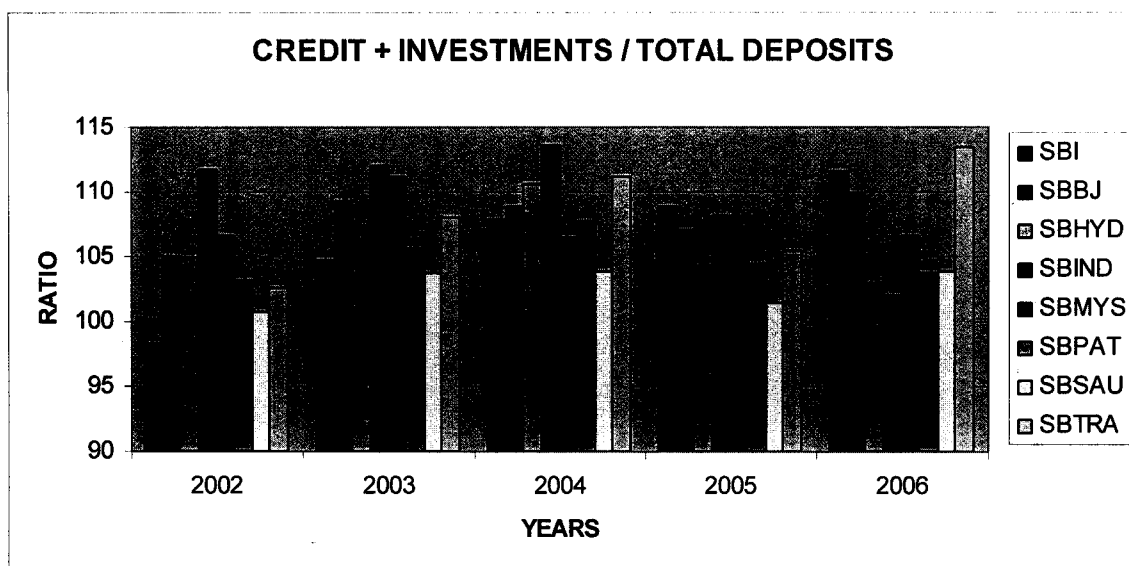
Interpretation:

It is just the addition of the previous two ratios so it stands at an average of more than 100% in which State Bank of Indore maintains an excellent record throughout the period of study whose average stands at 109.48%.

TABLE-8

TERM DEPOSIT / TOTAL DEPOSIT

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	63.52	56.57	65.38	66.85	64.82	58.26	65.59	68.04	63.63	3.82	6.01
2003-2004	62.67	53.07	66.42	67.37	63.55	61.91	69.18	68.74	64.11	4.90	7.65
2004-2005	59.23	54.49	65.61	65.65	63.77	65.59	69.34	68.30	64.00	4.58	7.16
2005-2006	58.72	56.88	67.37	69.17	64.31	68.37	70.84	70.38	65.76	4.98	7.58
2006-2007	52.45	57.94	65.66	69.17	64.49	70.42	63.64	69.6	64.17	5.83	9.09
MEAN	59.32	55.79	66.09	67.64	64.19	64.91	67.72	69.01	64.33		
SD	3.91	1.76	0.73	1.37	0.47	4.38	2.67	0.87	4.27		
CV	6.59	3.16	1.11	2.02	0.73	6.75	3.94	1.25	6.64		

DIAGRAM-8
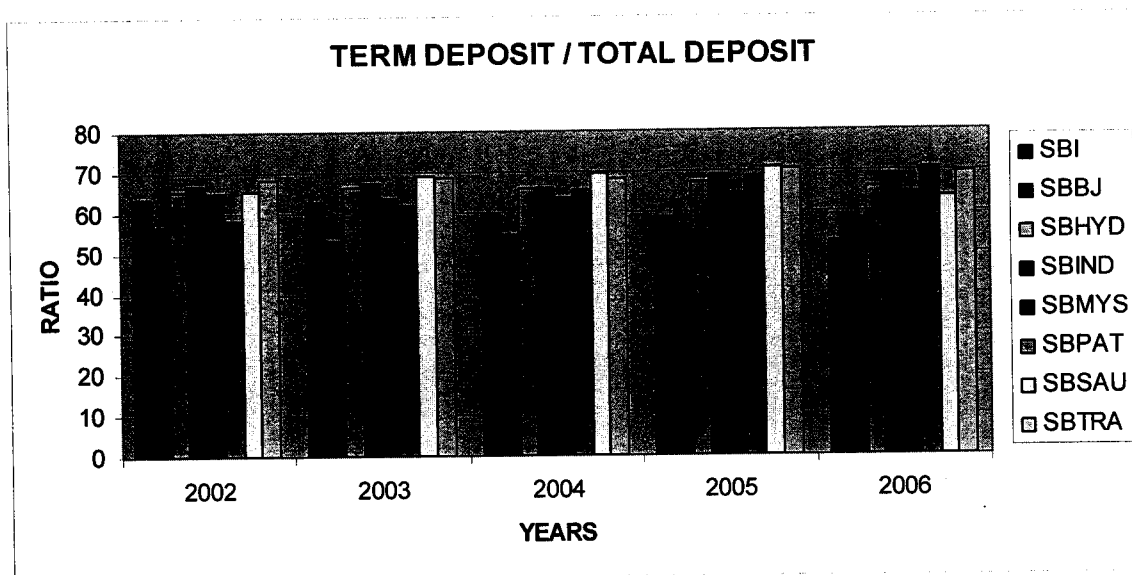
Interpretation:

It is observed that the term deposits to total deposit stands more than 60% and above in all the banks except State Bank of Bikaner and Jaipur.

TABLE-9

TERM LOANS/TOTAL ADVANCES

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	37.31	26.6	30.47	33.98	29.86	34.35	23.37	27.37	30.41	4.32	14.21
2003-2004	40.82	29.41	36.65	37.83	35.29	39.03	27.38	33.53	34.99	4.36	12.47
2004-2005	46.69	34.46	45.46	47.8	45.03	44.26	31.97	37.65	41.67	5.67	13.61
2005-2006	52.87	42.81	54.84	54.04	48.37	56.69	45.7	44.1	49.93	5.00	10.02
2006-2007	53.89	48.08	58.14	55.69	56.6	59.61	46.98	47.86	53.36	4.70	8.81
MEAN	46.32	36.27	45.11	45.87	43.03	46.79	35.08	38.10	42.07		
SD	6.51	8.08	10.49	8.64	9.49	9.84	9.60	7.31	4.52		
CV	14.05	22.26	23.26	18.83	22.05	21.02	27.36	19.20	10.73		

DIAGRAM-9

TERM LOANS/TOTAL ADVANCES
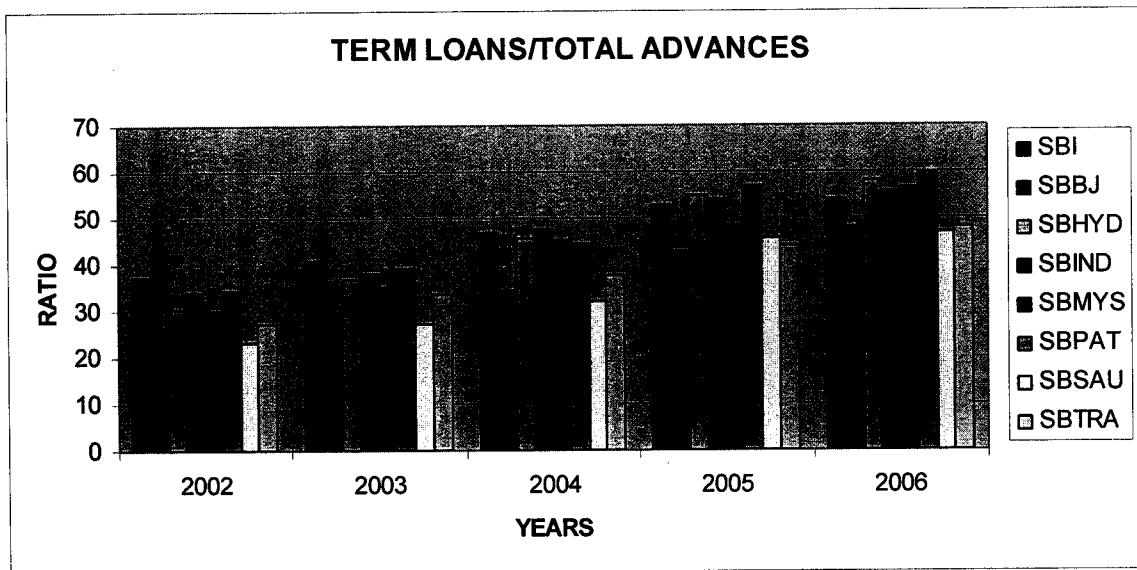
Interpretation:

From the above table it is observed that except State Bank of Bikaner and Jaipur , State Bank of Saurastra and State Bank of Travancore all other banks maintains their term loans to advances at an average of 45% and above whereas the exception maintains below 38%.

TABLE-10

DEPOSITS / TOTAL LIBILITIES

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	77.7	74.98	78.67	78.76	82.34	80.45	81.14	81.61	79.46	2.26	2.85
2003-2004	78.78	73.36	78.83	81.02	79.51	83.94	83.24	83.68	80.30	3.30	4.11
2004-2005	78.13	77.22	79.15	79.87	80.56	83.55	83.15	82.16	80.47	2.17	2.70
2005-2006	79.81	81.36	82.84	81.71	82.07	84.1	83.86	83.59	82.42	1.37	1.66
2006-2007	76.95	78.85	83.74	80.44	82.07	81.56	83.74	81.59	81.12	2.18	2.69
MEAN	78.274	77.15	80.646	80.36	81.31	82.72	83.026	82.526	80.75		
SD	0.97	2.82	2.18	1.01	1.10	1.45	0.98	0.93	1.99		
CV	1.24	3.65	2.71	1.25	1.35	1.76	1.18	1.13	2.47		

DIAGRAM-10
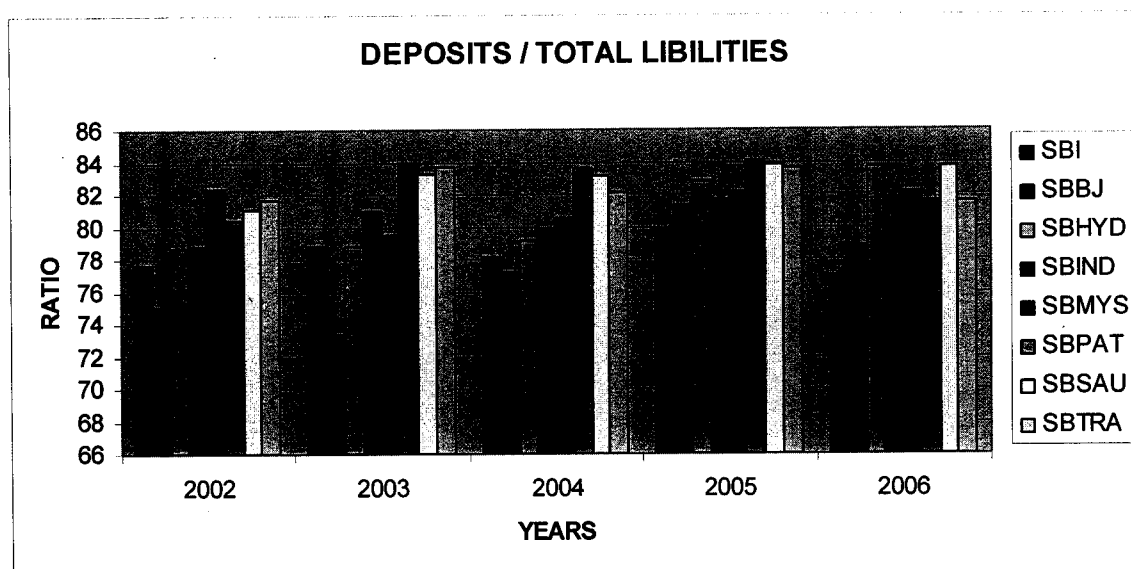
Interpretation:

All the banks invariably maintain the deposits to total liabilities at an average of 80% except State Bank of Bikaner and Jaipur and State Bank of India.

TABLE -11

SECURED ADVANCES / TOTAL ADVANCES

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	86.78	93.42	92.43	89.64	93.56	89.48	93.12	82.36	90.10	3.69	4.10
2003-2004	86.46	91.69	88.65	93.68	95.62	89.27	92.89	87.1	90.67	3.08	3.40
2004-2005	83.15	90.03	86.94	88.48	94.74	87.28	87.54	86.67	88.10	3.10	3.52
2005-2006	77.06	87.39	78.54	89.16	91.89	83.38	85.55	83.26	84.53	4.74	5.60
2006-2007	76.74	88.23	80.12	88.61	86.09	84.83	76.15	85.98	87.35	4.66	5.34
MEAN	82.04	90.15	85.34	89.91	92.38	86.85	87.05	85.07	87.35		
SD	4.38	2.21	5.24	1.93	3.38	2.41	6.20	1.90	3.11		
CV	5.34	2.45	6.14	2.14	3.66	2.78	7.12	2.24	3.56		

DIAGRAM-11

SECURED ADVANCES / TOTAL ADVANCES
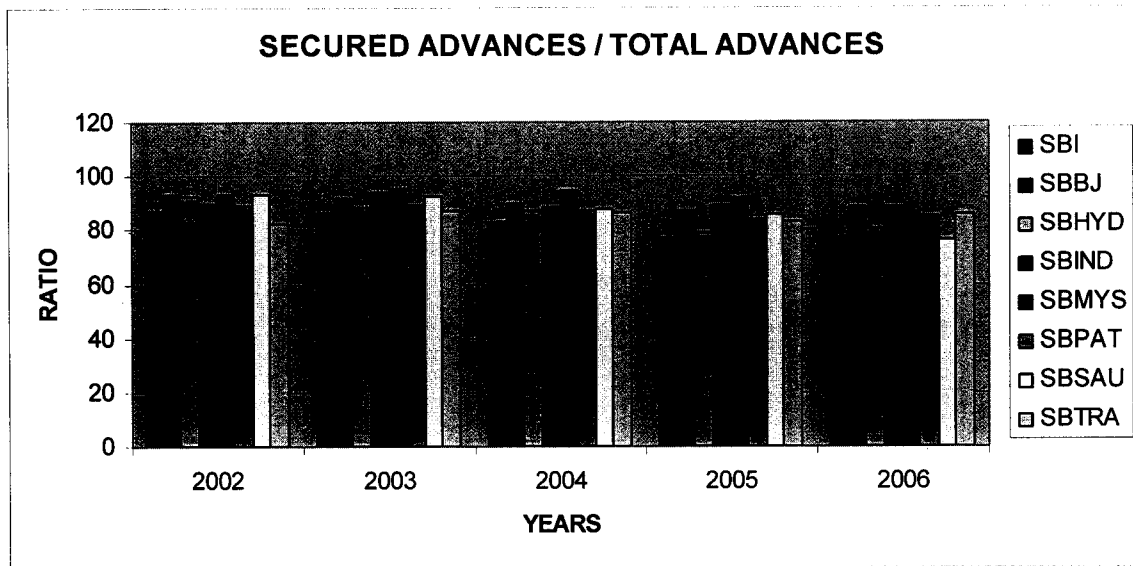
Interpretation:

All the banks have an excellent record of secured advances to total advances at an average of 82% and above. Further State Bank of Mysore ranks first at an average of 92.38 followed by State Bank of Bikaner and Jaipur at an average of 90.15%.

TABLE-12

WAGEBILL /TOTAL INCOME

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	15.16	17.43	12.4	13.16	20.05	14.01	14.51	14.55	15.16	2.31	15.26
2003-2004	15.45	17.98	12.13	12.9	18.65	12.44	13.81	14.29	14.71	2.31	15.73
2004-2005	16.94	17.46	11.69	12.61	18.97	11.16	12.49	14.33	14.46	2.77	19.16
2005-2006	17.47	18.68	13.33	15.16	21.28	11.81	13.24	13.97	15.62	3.02	19.37
2006-2007	18.81	21.25	15.91	13.4	17.48	13.25	17.49	15.28	16.61	2.40	14.44
MEAN	16.77	18.56	13.09	13.45	19.29	12.53	14.31	14.48	15.31		
SD	1.34	1.42	1.51	0.90	1.29	1.01	1.72	0.44	2.41		
CV	8.01	7.65	11.52	6.67	6.69	8.07	12.05	3.03	15.71		

DIAGRAM-12

WAGEBILL /TOTAL INCOME
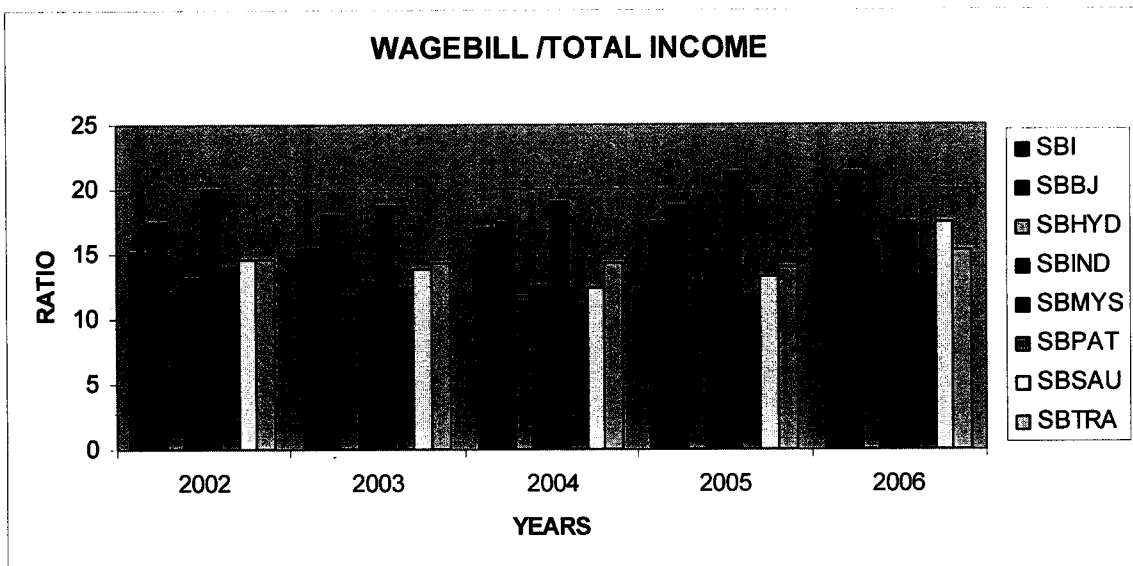
Interpretation:

From the above table State Bank of Patiala, State Bank of Indore and State Bank of Hyderabad have controlled cost of employee to total income with 12.53% , 13.46% and 13.092 respectively. The rest of the banks have crossed above 14% which are not appreciable.

TABLE-13

OPERATING EXPENSES/TOTAL ASSETS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	2.07	2.58	1.88	2.28	3.03	2.05	2.48	2.02	2.30	0.36	15.49
2003-2004	2.11	2.5	1.73	2.18	2.89	1.86	2.15	1.93	2.17	0.35	16.13
2004-2005	2.27	2.62	1.74	2.16	2.69	1.67	2	1.88	2.13	0.36	16.75
2005-2006	2.19	2.66	1.92	1.94	2.89	1.52	1.69	1.74	2.07	0.45	21.82
2006-2007	2.46	2.98	2.29	2.11	2.9	1.69	1.95	2.08	2.31	0.42	18.30
MEAN	2.22	2.67	1.912	2.134	2.88	1.758	2.054	1.93	2.19		
SD	0.14	0.16	0.20	0.11	0.11	0.18	0.26	0.12	0.36		
CV	6.23	6.17	10.63	5.23	3.78	10.32	12.64	6.10	16.58		

DIAGRAM-13

OPERATING EXPENSES/TOTAL ASSETS
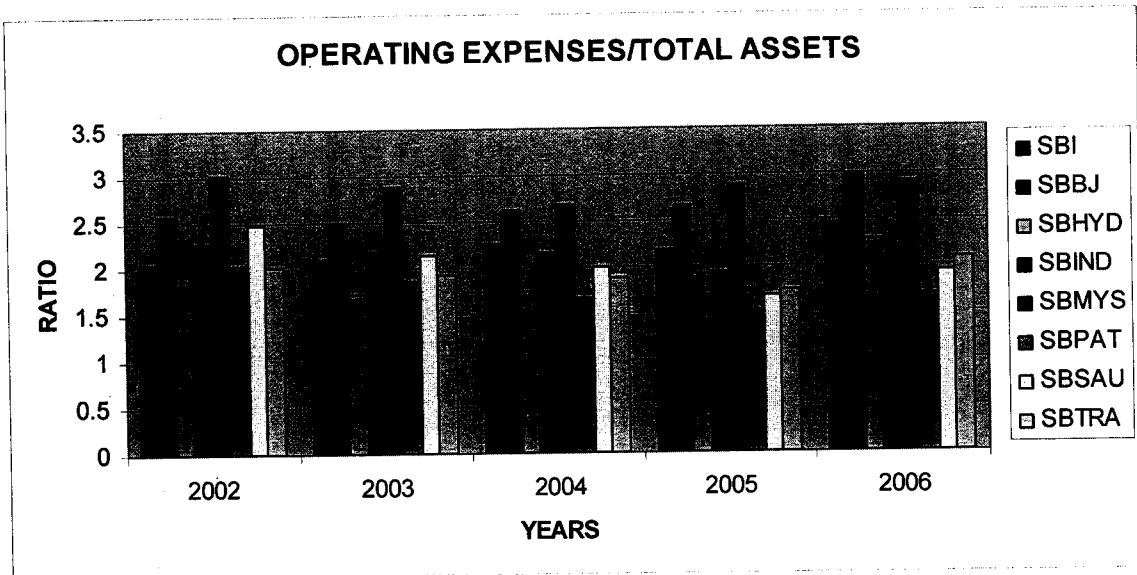
Interpretation:

Operating expenses should be the lowest for the betterment of banks. Here State Bank of Patiala holds their operating expenses with an average of 1.76%. While State Bank of Hyderabad maintained with 1.91%along with State Bank of Travancore which is 1.93%. The rest of the banks could not hold it likewise and they have crossed more than 2%.

TABLE-14

INTEREST EXPENDED/TOTAL ASSETS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	5.95	5.59	5.74	6.09	6.33	4.88	6.01	6.24	5.85	0.43	7.39
2003-2004	5.62	4.93	5.05	5.45	5.74	4.58	5.11	5.28	5.22	0.36	6.85
2004-2005	4.73	4.26	4.48	4.54	4.38	3.96	4.47	4.40	4.40	0.21	4.77
2005-2006	4.02	3.76	3.9	3.6	3.76	3.67	4.15	3.85	3.84	0.17	4.43
2006-2007	4.08	3.53	4.05	3.8	3.8	3.53	4.22	4.21	3.90	0.26	6.70
MEAN	4.88	4.41	4.64	4.70	4.80	4.12	4.79	4.80	4.64		
SD	0.79	0.76	0.68	0.95	1.05	0.52	0.70	0.86	0.24		
CV	16.12	17.20	14.60	20.29	21.81	12.67	14.54	17.97	5.12		

DIAGRAM-14
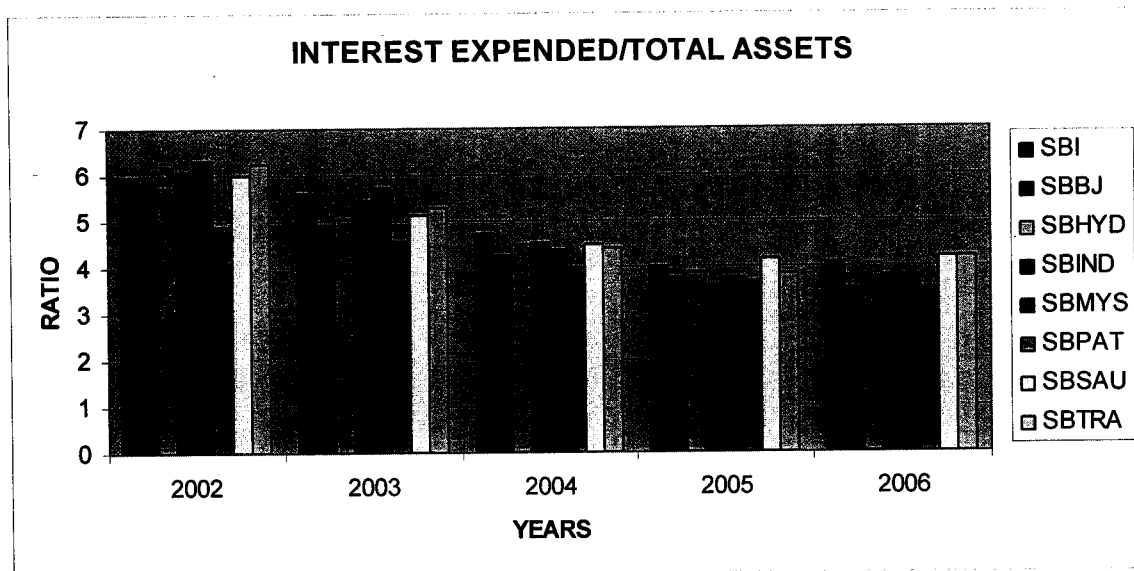
Interpretation:

The ratio interest expended to total assets should also be low so that banks can retain its spread with larger percentage. Here all the banks were expending their interest uniformly during the study period with an average of 4 to 5% against the total assets.

TABLE-15

PROFIT / EMPLOYEE (Rs. IN LAKHS)

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	1.16	1.31	1.68	1.91	0.67	1.97	1.1	1.06	1.36	0.43	31.40
2003-2004	1.47	1.63	2.25	3.06	1.19	2.76	1.25	1.51	1.89	0.67	35.21
2004-2005	1.77	2.44	2.87	3.45	1.82	3.69	2.4	2.16	2.58	0.66	25.82
2005-2006	2.07	1.69	1.91	2.07	2.16	2.48	0.56	2.21	1.89	0.55	28.91
2006-2007	2.17	1.2	3.26	2.09	2.22	2.66	0.64	2.34	2.07	0.76	36.87
MEAN	1.73	1.65	2.39	2.52	1.61	2.71	1.19	1.86	1.96		
SD	0.38	0.43	0.59	0.62	0.60	0.56	0.66	0.49	0.49		
CV	21.70	26.27	24.65	24.60	37.00	20.64	55.43	26.45	25.12		

DIAGRAM-15

PROFIT / EMPLOYEE (Rs. IN LAKHS)
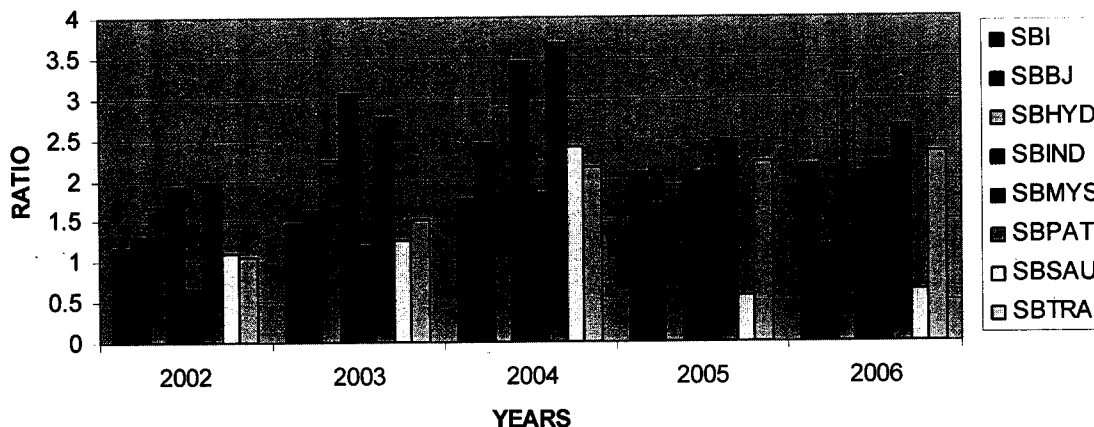
Interpretation:

Profit/ Employee depict the efficiency of the banks in handling the different variable parameters. From the above table all the banks fared uniformly with 1.6 lakh rupees /employee to 2.26 lakh rupees.

TABLE-16

BUSINESS / EMPLOYEE (Rs. IN LAKHS)

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
002-2003	173.01	129.42	166.04	171	124.96	194.31	152.12	178.78	161.21	22.56	13.99
003-2004	191	145.64	226.2	220.52	146.49	246.37	167.87	217.68	195.22	35.92	18.40
004-2005	210.56	169.82	265.86	230.77	162.81	305	193.16	271.78	226.22	47.98	21.21
005-2006	243.08	220.29	340	293.88	204	361	263.06	346	283.91	56.54	19.92
006-2007	299.23	276.25	414	429.32	290	493	304	381	360.85	74.66	20.69
MEAN	223.38	188.28	282.42	269.10	185.65	319.94	216.04	279.05	189.93		
SD	44.48	53.64	86.73	89.15	58.25	103.01	58.10	75.83	45.82		
CV	19.91	28.49	30.71	33.13	31.37	32.20	26.89	27.17	24.13		

DIAGRAM-16

BUSINESS / EMPLOYEE (Rs. IN LAKHS)
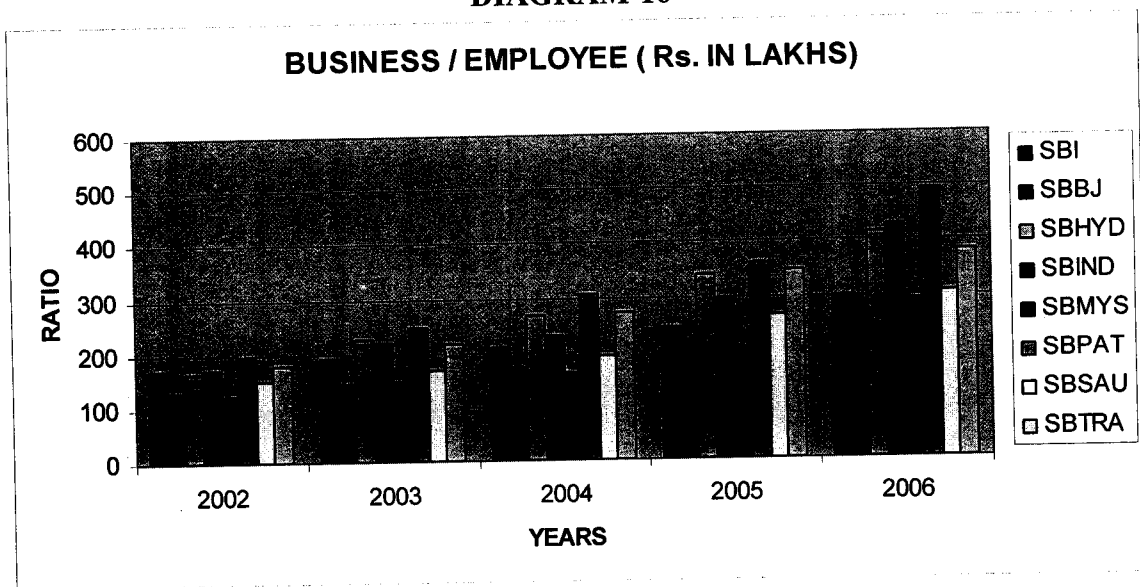
Interpretation:

Business / Employee should also be high which reveals handling of the turn over of the banks. State Bank of Patiala excelled others with 320 lakh rupees per employee followed by State Bank of Travancore at 280 lakh rupees. State Bank of Mysore has miserably failed to come to line with other banks.

TABLE-17

NET NPA / NET ADVANCES

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	5.63	5.72	4.97	3.58	7.36	2.94	4.95	5.72	5.11	1.28	25.12
2003-2004	4.5	4.13	3.25	2.66	5.19	1.49	3.53	3.06	3.48	1.08	30.93
2004-2005	3.48	1.24	0.65	2.01	2.96	1.34	2.1	1.39	1.90	0.88	46.59
2005-2006	2.65	1.61	0.61	1.06	0.92	1.23	1.4	1.81	1.41	0.59	41.72
2006-2007	1.87	1.18	0.36	1.83	0.74	0.99	1.16	1.47	1.20	0.49	40.42
MEAN	3.63	2.78	1.97	2.23	3.43	1.60	2.63	2.69	2.62		
SD	1.33	1.83	1.83	0.85	2.54	0.69	1.42	1.63	0.64		
CV	36.66	65.97	93.20	38.00	74.01	43.21	54.21	60.56	24.63		

DIAGRAM-17
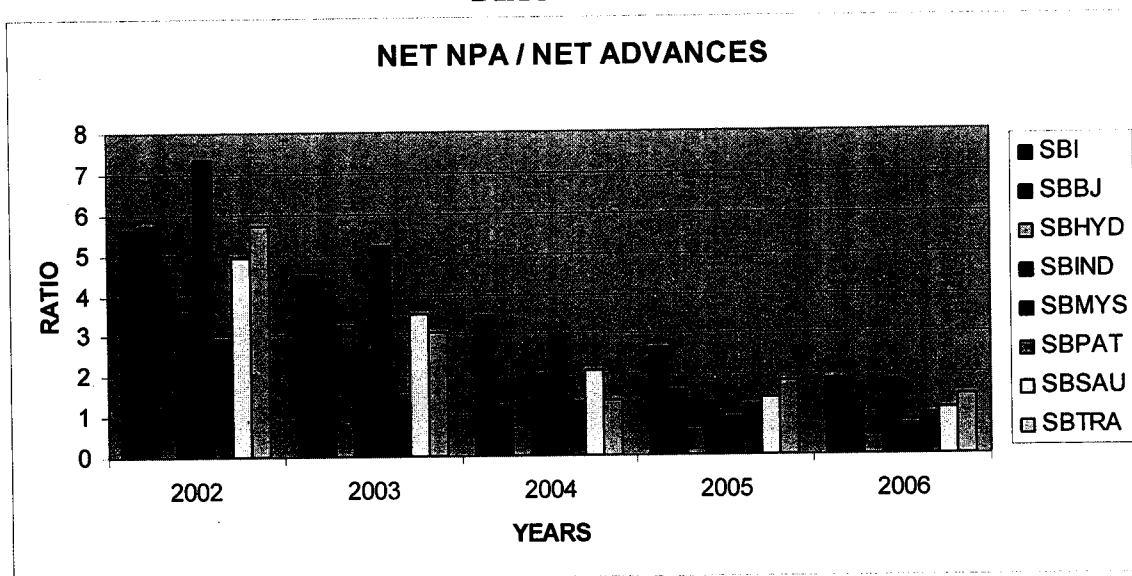
Interpretation:

From the above table State Bank of India has the highest NPA level of 3.6 % against its net advances followed by State Bank of Mysore of 3.43 %. State Bank of Patiala holding its NPA level to 1.6% being the lowest and rest of the banks fall between the two.

TABLE-18

RETURN ON EQUITY

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	16.95	24.17	25.74	34.56	20.49	22.48	15.16	21.5	22.63	5.57	24.62
2003-2004	19.15	24.56	26.8	40.21	29.63	25.22	15.51	25.66	25.84	6.85	26.50
2004-2005	19.67	29.39	26.99	32.96	34.83	27.39	25.47	29.68	28.30	4.37	15.43
2005-2006	19.43	16.81	18.73	15.73	30.82	15.21	5.27	24.05	18.26	6.89	37.72
2006-2007	17.04	10.73	22.01	14.48	25.62	14.26	6.79	21.02	16.49	5.82	35.28
MEAN	18.45	21.13	24.05	27.59	28.28	20.91	13.64	24.38	22.30		
SD	1.20	6.57	3.21	10.48	4.88	5.29	7.25	3.14	4.53		
CV	6.49	31.11	13.35	37.99	17.25	25.28	53.14	12.89	20.31		

DIAGRAM-18
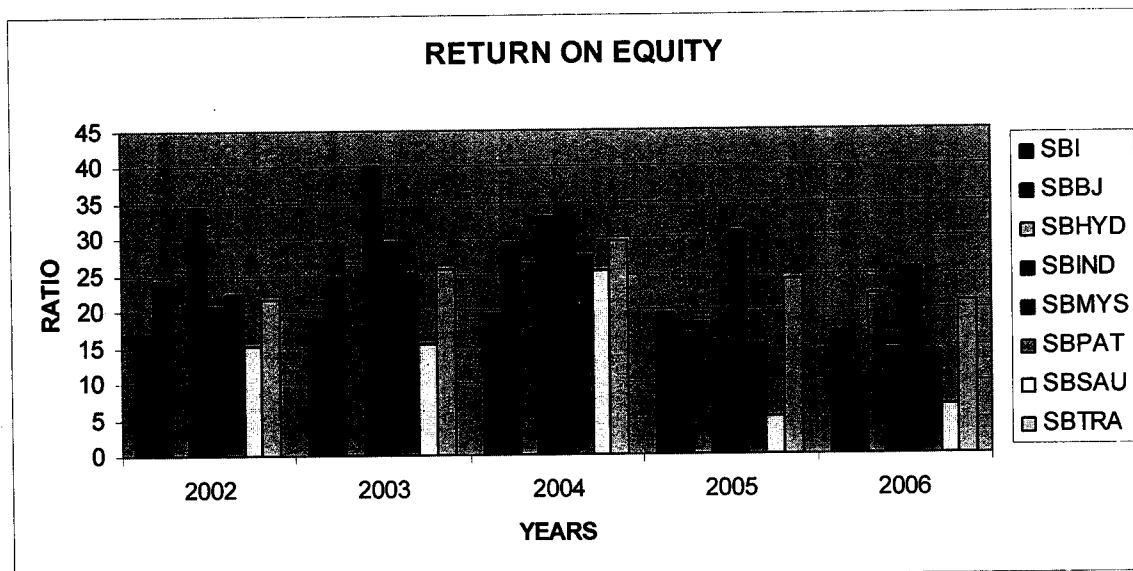
RETURN ON EQUITY

Interpretation:

From the above table State Bank of Mysore has a higher rate of return on equity followed by State Bank of Indore and then State Bank of Hyderabad whereas State Bank of Saurastra has a very low rate of Return on Equity.

TABLE-19

OPERATING PROFITS/TOTAL ASSETS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
002-2003	1.82	2.06	2.97	3.75	2.38	3.57	2.46	2.07	2.64	0.67	25.60
003-2004	2.15	2.62	3.14	3.93	3.25	3.87	2.83	2.56	3.04	0.59	19.36
004-2005	2.44	3.56	3.57	4.36	3.39	4.17	3.82	3.26	3.57	0.55	15.50
005-2006	2.53	3.34	2.04	2.35	2.73	2.7	2.45	3.03	2.65	0.38	14.30
006-2007	2.37	2.33	2.3	2.23	2.44	2.01	1.94	2.22	2.23	0.16	7.29
MEAN	2.26	2.78	2.80	3.32	2.84	3.26	2.70	2.63	2.83		
SD	0.25	0.58	0.56	0.87	0.41	0.80	0.63	0.46	0.32		
CV	11.24	20.76	19.95	26.11	14.56	24.40	23.24	17.38	11.30		

DIAGRAM-19

OPERATING PROFITS/TOTAL ASSETS
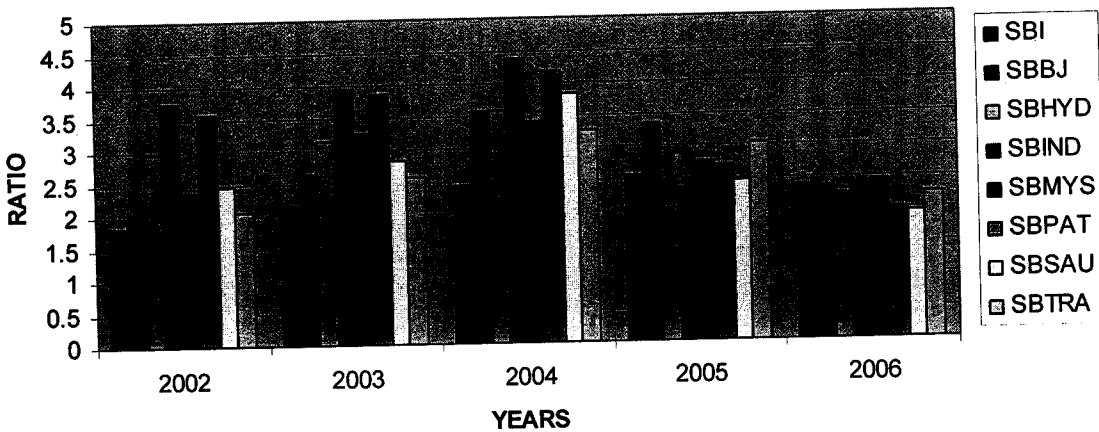
Interpretation:

While observing the data it is very clear that State Bank of Patiala excelled with an average of 3.26%, a good operating profit average along with State Bank of Indore with an average of 3.32. The rest of the banks maintain the operating profit below 3 %.

TABLE-20

SPREAD / TOTAL ASSETS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	2.61	3.16	2.94	2.94	3.04	3.78	2.93	2.57	3.00	0.35	11.71
2003-2004	2.65	3.07	2.86	3.23	3.41	3.69	2.79	2.75	3.06	0.34	11.13
2004-2005	2.74	3.56	2.75	3.48	3.3	3.06	3.15	2.85	3.11	0.30	9.60
2005-2006	3.03	3.71	2.76	2.97	3.29	3.1	3.38	3.1	3.17	0.27	8.56
2006-2007	3.28	3.9	2.9	2.88	3.41	2.73	3.03	3.15	3.16	0.35	11.03
MEAN	2.86	3.48	2.84	3.10	3.29	3.27	3.06	2.88	3.10		
SD	0.26	0.32	0.08	0.22	0.14	0.40	0.20	0.22	0.22		
CV	8.93	9.14	2.66	7.24	4.11	12.23	6.56	7.52	7.05		

DIAGRAM-20

Interpretation:
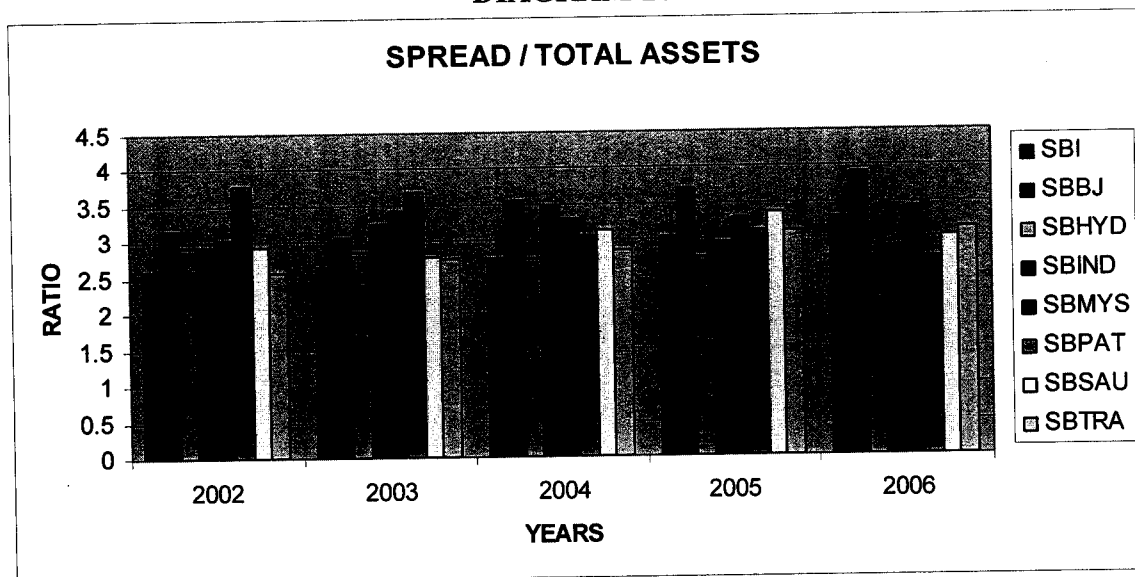
While observing the data it is very clear that State Bank of Patiala excelled with an average of 3.27%, a good spread average along with State Bank of Bikaner and Jaipur with an average of 3.48 and State Bank of Indore with an average of 3.1%. The rest of the banks fall below 3%.

TABLE-21

RETURN ON INVESTMENTS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	10.65	11.13	10.65	10.71	11.33	11.87	11.96	11.5	11.23	0.50	4.43
2003-2004	9.61	10.23	9.94	9.79	10.72	10.14	11.01	10.06	10.19	0.44	4.30
2004-2005	8.78	10.22	8.86	9.96	9.37	8.31	9.63	8.80	9.24	0.62	6.69
2005-2006	8.37	9.49	7.82	8.01	8.46	7.85	9.7	8.58	8.54	0.67	7.82
2006-2007	7.77	8.85	8.21	7.76	7.66	7.11	9.11	8.47	8.12	0.63	7.70
MEAN	9.04	9.98	9.10	9.25	9.51	9.06	10.28	9.48	9.46		
SD	1.00	0.77	1.06	1.16	1.37	1.73	1.05	1.16	0.43		
CV	11.12	7.71	11.63	12.51	14.36	19.06	10.18	12.22	4.54		

DIAGRAM-21
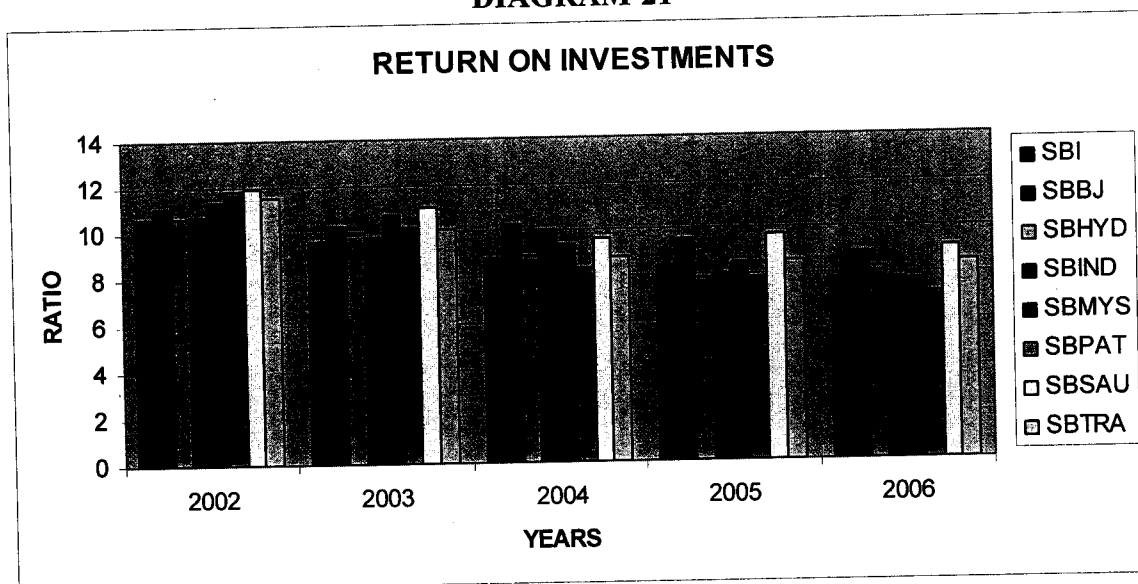
RETURN ON INVESTMENTS

Interpretation:

Return on Investment depicts the efficiency of the banks in effective handling of funds. From the above table all the banks fared uniformly with an average Return of 9% and above.

TABLE-22

RETURN ON ADVANCES

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	9.44	10.91	11.06	10.33	10.8	10.28	10.56	9.87	10.41	0.51	4.93
2003-2004	8.69	10.29	10.05	10.27	10.38	10.13	9.55	9.51	9.86	0.54	5.46
2004-2005	7.62	8.99	8.93	8.57	9.65	8.33	8.46	8.55	8.64	0.55	6.35
2005-2006	7.24	8.73	7.1	8.05	8.7	7.95	7.95	7.79	7.94	0.55	6.95
2006-2007	7.63	8.59	8.15	8.09	8.5	8.03	7.62	7.9	8.06	0.33	4.13
MEAN	8.12	9.50	9.06	9.06	9.61	8.94	8.83	8.72	8.98		
SD	0.82	0.93	1.39	1.03	0.90	1.04	1.09	0.84	0.43		
CV	10.05	9.75	15.35	11.34	9.39	11.61	12.29	9.61	4.82		

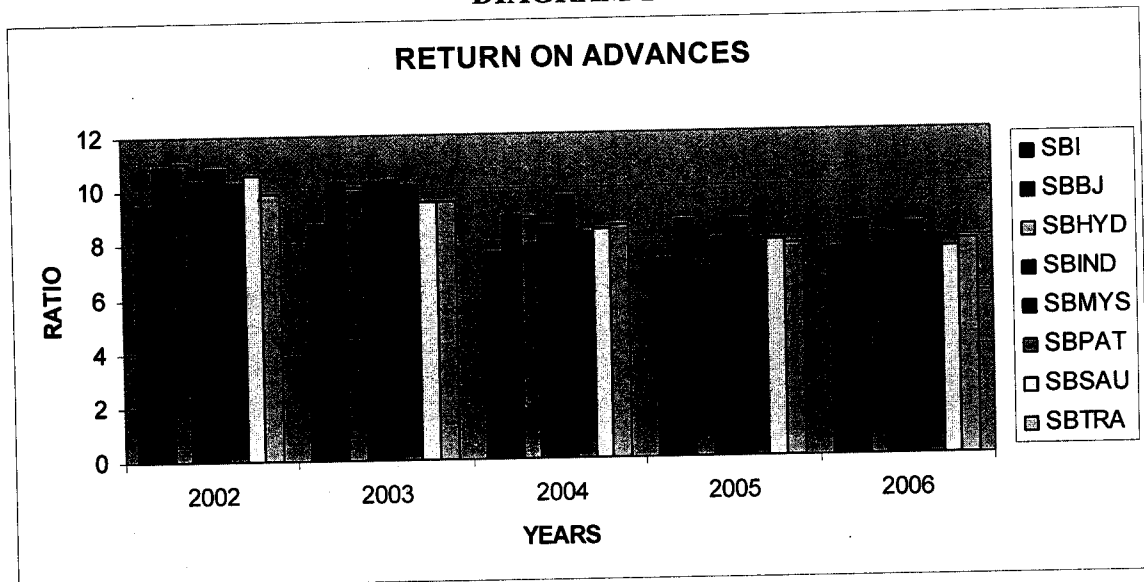## DIAGRAM-22

RETURN ON ADVANCES

Interpretation:

Return on Investment depicts the efficiency of the banks in effective handling of loans. From the above table all the banks fared uniformly with an average return of 9% and above except the State Bank of India which has a low return of 8.12% average.

TABLE-23

RETURN ON ASSETS ----- Y

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
002-2003	0.7	1.06	1.02	1.24	0.64	1.34	0.88	0.73	0.95	0.24	25.35
003-2004	0.86	1.13	1.15	1.76	1.02	1.51	0.85	0.9	1.15	0.31	26.78
004-2005	0.94	1.49	1.25	1.73	1.28	1.6	1.38	1.02	1.34	0.25	19.04
005-2006	0.99	0.88	0.72	0.79	1.24	1.01	0.31	0.86	0.85	0.25	29.72
006-2007	0.89	0.53	1.13	0.76	1.23	0.73	0.31	0.86	0.81	0.28	34.72
MEAN	0.88	1.02	1.05	1.26	1.08	1.24	0.75	0.87	1.02		
SD	0.10	0.31	0.18	0.43	0.24	0.32	0.40	0.09	0.17		
CV	11.25	30.89	17.29	34.56	22.08	26.19	53.98	10.63	16.49		

DIAGRAM-23
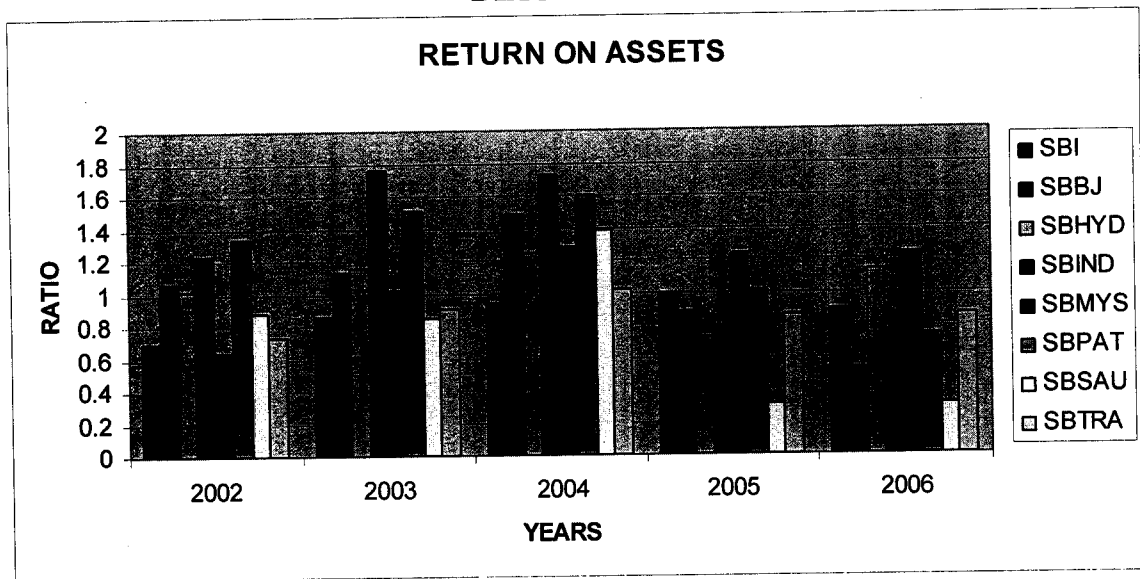
RETURN ON ASSETS

Interpretation:

From the above table it is observed that State Bank of India, State Bank of Saurastra and State Bank of Travancore whose return on assets average for the study period are 0.87%, 0.746% and 0.87% respectively. The rest of the banks cross well above 1.0 % which is a good note. Especially State Bank of Patiala and State Bank of Indore excelled with an average of 1.24 and 1.25 respectively and stood in order.
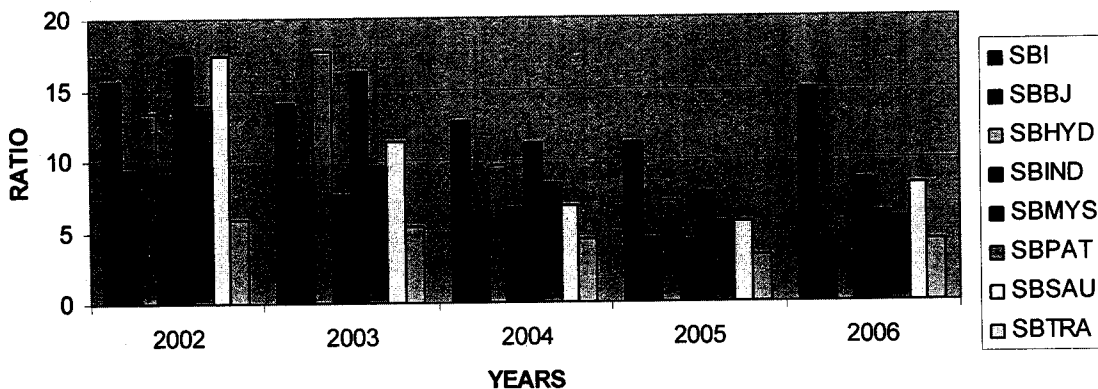
TABLE-24

INVESTMENTS IN NON APPROVED SECURITIES / INVESTMENTS

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	15.57	9.39	13.43	9.14	17.39	13.93	17.37	5.83	12.76	3.95	30.97
2003-2004	13.98	8.73	17.6	7.58	16.23	9.62	11.36	5.37	11.31	4.03	35.59
2004-2005	12.79	5.44	9.6	6.64	11.13	8.32	6.78	4.45	8.14	2.69	32.99
2005-2006	11.13	4.38	6.97	4.27	7.71	5.59	5.61	3.27	6.12	2.33	38.11
2006-2007	14.98	4.39	5.54	8.53	6.26	5.88	8.14	4.29	7.25	3.26	44.93
MEAN	13.69	6.47	10.63	7.23	11.74	8.67	9.85	4.64	9.12		
SD	1.59	2.16	4.40	1.71	4.44	3.03	4.22	0.89	2.77		
CV	11.62	33.45	41.40	23.60	37.84	34.98	42.86	19.23	30.40		

DIAGRAM-24

INVESTMENTS IN NON APPROVED SECURITIES / INVESTMENTS

Interpretation:

Banks should be very careful in dealing with Investment in Non Approved Securities because it may turn to NPA in future. From the above table State Bank of India has a highest level of 13.67% which is not fair. On the other hand State Bank of Travancore has a lower level of 4.64%, which shows its efficiency in handling investments.

TABLE-25

CASH / DEPOSIT

YEAR ENDED	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA	MEAN	SD	CV
2002-2003	8.08	7.79	7.54	6.2	6.73	5.12	5.55	7.38	6.80	1.02	14.94
2003-2004	4.3	6.64	8.87	6.76	5.16	6.58	6.35	6.2	6.36	1.24	19.50
2004-2005	5.98	8.06	7.5	5.3	6.41	4.84	6.88	4.86	6.23	1.13	18.09
2005-2006	4.58	4.86	4.81	4.1	6.93	5.63	6.76	6.89	5.57	1.07	19.29
2006-2007	5.7	7.52	6.69	6.88	4.56	4.47	5.97	4.76	5.82	1.08	18.57
MEAN	5.73	6.97	7.08	5.85	5.96	5.33	6.30	6.02	6.15		
SD	1.34	1.16	1.33	1.04	0.93	0.73	0.49	1.06	0.57		
CV	23.36	16.63	18.84	17.73	15.63	13.73	7.84	17.54	9.21		

DIAGRAM-25

CASH / DEPOSIT
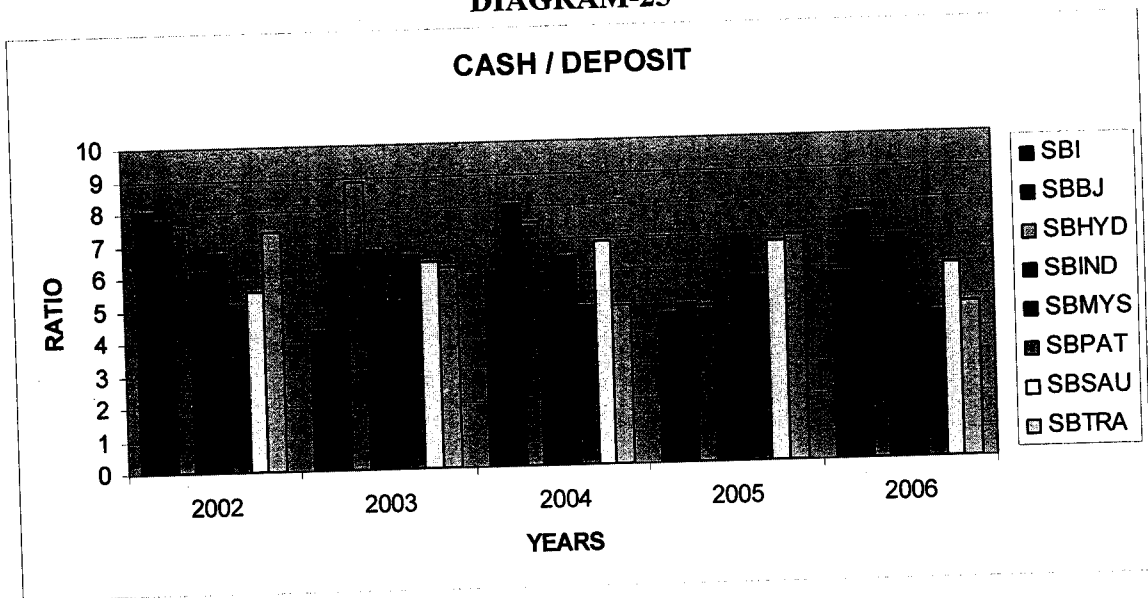
Interpretation:

Cash to Deposits shows the liquidity position of the banks. Higher the liquidity shows under utilization of funds. Here all the banks fared well with an average cash to deposit ratio of 5-6%.

Bank Wise Consolidated Statement of Ratio Analysis – CRAMEL Based

Table - 26

	Ratio	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTI
C1	Capital Adequacy	12.94	12.82	13.41	12.43	11.68	13.49	12.98	11.48
C2	Capital Adequacy Tier –I	8.75	9.61	8.93	8.02	7.13	10.22	10.47	6.85
C3	Capital Adequacy Tier –II	4.19	3.21	4.48	4.24	4.55	3.26	2.49	4.63
R1	Priority Sector Advances /Total Advances	27.57	42.80	37.57	43.82	38.25	40.98	41.20	36.14
R2	Investment / Deposit	53.32	49.30	54.93	48.47	45.71	44.07	49.01	48.42
R3	Credit / Deposit	52.39	57.68	51.17	61.34	61.49	60.87	53.75	60.22
R4	Credit + Investment/ Total Deposit	106.26	107.97	106.13	109.48	107.60	104.91	102.72	108.1
A1	Term Deposit / Total Deposit	59.32	55.79	66.09	67.64	64.19	64.91	67.72	69.01
A2	Term Loan / Total Advances	46.32	36.27	45.11	45.87	43.03	46.79	35.08	38.10
A3	Deposit / Total Liabilities	78.27	77.15	80.65	80.36	81.31	82.72	83.03	82.53
A4	Secured Advances / Total Advances	82.04	90.15	85.34	89.91	92.38	86.85	87.05	85.07
M1	Wage Bill / Total Income	16.77	18.56	13.09	13.45	19.29	12.53	14.31	14.48
M2	Operative Expenses / Total Assets	2.22	2.67	1.91	2.13	2.88	1.76	2.05	1.93
M3	Interest Expended / Total Assets	4.86	4.42	4.57	4.64	4.77	4.13	4.76	4.71
M4	Profit per Employee	1.73	1.65	2.39	2.52	1.61	2.71	1.19	1.86
M5	Business per Employee	223.38	188.28	282.42	269.10	185.65	319.94	216.04	279.0
M6	Net NPA / Net Advances	3.63	2.78	1.97	2.32	3.43	1.61	2.78	2.69
E1	Return on Equity	18.45	21.13	24.05	27.59	28.28	20.91	13.64	24.38
E2	Operating Profits / Total Assets	2.26	2.78	2.80	3.32	2.84	3.26	2.70	2.63
E3	Spread / Total Assets	2.86	3.48	2.84	3.10	3.29	3.27	3.06	2.88
E4	Return on Investments	9.04	9.98	9.10	9.25	9.51	9.06	10.28	9.48
E5	Return on Advances	8.12	9.50	9.06	9.06	9.61	8.94	8.83	8.72
E6	Return on Assets	0.88	1.02	1.05	1.26	1.08	1.24	0.75	0.87
L1	Investment in Non – Approved Securities / Investment	13.69	6.47	10.63	7.23	11.74	8.67	9.85	4.64
L2	Cash / Deposit	5.73	6.97	7.08	5.85	5.96	5.33	6.30	6.02

Interpretation:

It is found through the consolidated statement of ratio analysis compiled on CRAMEL basis, the following observations are made.

In order to narrate the financial performance of individual banks a few important ratios were taken into consideration. In brief to find out the efficiency of management, productivity and profitability and they are,

- C_1 - Capital Adequacy
- M_1 – Wage Bill / Total Income
- M_2 – Operative Expenses / Assets
- M_3 – Interest Expended / Assets
- M_4 – Profit per Employee (Rs Lakhs)
- M_5 – Business per Employee (Rs Lakhs)
- M_6 – Net NPA / Net Advances
- E_3 – Spread / Assets
- E_6 – Return on Assets (Dependent variable – Y)

While observing, capital adequacy formation it is found all the 8 banks fared well. Eventhough State Bank of Mysore and State Bank of Travancore are just below the specified norms.

In variable Wage Bill / Total Income, State Bank of Patiala, State Bank of Indore and State Bank of Hyderabad have controlled cost of employee to total income with 12.53% , 13.46% and 13.092 respectively. The rest of the banks have crossed above 14% which are not appreciable.

Similarly Operating expenses should be the lowest for the betterment of banks. Here State Bank of Patiala holds their operating expenses with an average of 1.76%. While State Bank of Hyderabad maintained with 1.91%along with State Bank of Travancore which is 1.93%. The rest of the banks could not hold it likewise and they have crossed more than 2%.

The ratio interest expended to total assets should also be low so that banks can retain its spread with larger percentage. Here all the banks were expending their interest uniformly during the study period with an average of 4 to 5% against the total assets.

Profit/ Employee depict the efficiency of the banks in handling the different variable parameters. From the above table all the banks fared uniformly with 1.6 lakh rupees /employee to 2.26 lakh rupees.

Business / Employee should also be high which reveals handling of the turn over of the banks. State Bank of Patiala excelled others with 320 lakh rupees per employee followed by State Bank of Travancore at 280 lakh rupees. State Bank of Mysore has miserably failed to come to line with other banks.

The financial performance on profitability can easily be judged by the handling of various variables as mentioned earlier. The ratio net NPA to net advances itself proves beyond the double about the financial performance directly. This NPA should be negligible as against the advances rendered and it becomes 0% the efficiency of the bankers in handling the variables positively leads to 100%

From the above table State Bank of India has the highest NPA level of 3.6 % against its net advances followed by State Bank of Mysore of 3.43 %. State Bank of Patiala holding its NPA level to 1.6% being the lowest and rest of the banks fall between the two.

The difference between Interest income and Interest expended is spread. Higher the interest income and lower the interest expenditure leaves a larger gap between these two variables have been called as NIM- Net Interest Margin also.

Higher the spread is always a great advantage for the bankers in handling the unpredictable, uncontrollable and sometimes unimaginable contingencies.

While observing the data it is very clear that State Bank of Patiala excelled with an average of 3.27%, a good spread average along with State Bank of Bikaner and Jaipur with an average of 3.48 and State Bank of Indore with an average of 3.1%. The rest of the banks fall below 3%.

The ultimate ratio proves the efficiency is the variable which we have taken here as dependable for comparison with other variables is return on assets. From the above table it is observed that State Bank of India, State Bank of Saurastra and State Bank of Travancore whose return on assets average for the study period are 0.87%, 0.746% and 0.87% respectively. The rest of the banks cross well above 1.0 % which is a good note. Especially State Bank of Patiala and State Bank of Indore excelled with an average of 1.24 and 1.25 respectively and stood in order.

CORRELATION ANALYSIS

The degree of association i.e., Strength and Direction of Partial Correlation coefficients between the selected variables C_1 to L_2 ($E_6 - y$ is Dependent variable Return on Assets) were studied for the period year ended 2003 to year ended 2007 (5 years) for State Bank and its Associate Banks.

TABLE-27

NO		Ratio	SBI	SBBJ	SBHYD	SBIND	SBMYS	SBPAT	SBSAU	SBTRA
1	C1	Capital Adequacy	-0.35	0.69	0.65	0.96	-0.25	-0.28	0.97	-0.65
2	C2	Capital Adequacy Tier –I	-0.73	0.30	0.52	0.87	0.82	-0.14	0.73	-0.78
3	C3	Capital Adequacy Tier –II	0.15	-0.11	0.41	-0.48	-0.59	-0.21	0.05	0.31
4	R1	Priority Sector Advances / Advances	0.45	0.33	-0.12	0.61	0.62	-0.70	0.70	0.47
5	R2	Investment / Deposit	0.03	0.83	0.20	0.72	-0.41	0.68	0.79	0.58
6	R3	Credit / Deposit	0.35	-0.77	0.04	-0.64	0.44	-0.61	-0.75	-0.02
7	R4	Credit + Investment/ Deposit	0.85	-0.12	0.60	0.83	-0.08	0.66	0.23	0.66
8	A1	Term Deposit / Deposit	-0.50	-0.75	-0.75	-0.86	-0.46	-0.68	0.24	0.00
9	A2	Deposit / Liabilities	0.80	-0.68	-0.26	-0.62	0.84	-0.82	-0.73	0.34
10	A3	Term Loan / Advances	0.50	-0.43	-0.45	-0.25	-0.20	0.29	-0.42	0.25
11	A4	Secured Advances / Advances	-0.68	0.45	0.47	0.53	-0.31	0.74	0.57	0.78
12	M1	Wage Bill / Total Income	0.64	-0.88	-0.15	-0.74	-0.20	-0.35	-0.60	-0.20
13	M2	Operative Expenses / Assets	0.46	-0.76	-0.13	0.56	-0.77	0.39	0.45	-0.36
14	M3	Interest Expended / Assets	-0.80	0.46	0.21	0.63	-0.89	0.63	0.40	-0.52
15	M4	Profit per Employee	0.82	0.84	0.62	0.85	0.93	0.41	0.96	0.61
16	M5	Business per Employee	0.54	-0.75	-0.18	-0.68	0.62	-0.81	-0.74	0.27
17	M6	Net NPA / Net Advances	-0.78	0.17	0.06	0.57	-0.90	0.38	0.61	-0.78
18	E1	Return on Equity	0.72	0.98	0.82	0.92	0.80	0.98	1.00	0.87
19	E2	Operating Profits / Assets	0.98	0.51	0.77	0.95	0.43	1.00	0.90	0.81
20	E3	Spread / Assets	0.52	-0.52	0.18	0.86	0.76	0.62	-0.28	0.30
21	E4	Return on Investments	-0.82	0.67	0.35	0.76	-0.83	0.56	0.31	-0.65
22	E5	Return on Advances	-0.95	0.31	0.46	0.59	-0.81	0.55	0.45	-0.37
23	L1	Investment in Non – Approved Securities / Investment	-0.85	0.35	0.30	0.16	-0.82	0.57	0.13	-0.38
24	L2	Cash / Deposit	-0.77	0.29	0.80	0.22	-0.23	0.43	0.22	-0.72

INTERPRETATION:

The State Bank of India:

It has been observed from the above table-26, the variables E2 of 0.98, M4 of 0.82, R4 of 0.84, A2 of 0.80 and E1 of 0.72 are significantly positively correlated with return on assets.

The other variables namely M2 of -0.8, E4 of-0.82, E5 of -0.95, L1 of-0.85 and M6 of-0.78 are negatively correlated with respect to the dependable variable return on assets.

The State Bank of Bikaner and Jaipur.

On observing the above table, it is found that E1 of 0.98, M4 of 0.84, R2 of 0.83 are significantly positively correlated with return on assets whereas M1of -0.88, M2 of -0.76 and M5 of -0.75 are negatively correlated with the dependable variable.

The State Bank of Indore

While observing the above table, the following five variables are very closely related with return on assets and they are C1 of 0.96, E2 of 0.95, E1 of 0.92, C2 of 0.87 and M4 of 0.85 There are three variables which are significantly negatively correlated and they are A1 of -0.86, M1 of -0.74 and M5 of -0.68.

The State Bank of Mysore

It is observed that four variables namely M4, A2, C2 and E1 are significantly positively correlated with return on assets with 0.93, 0.84, 0.82 and 0.80 respectively. While observing the negatively correlated with the dependable variable, it is found that M6 with -0.90, M3 with -0.89, E4 with -0.83 and L1 with -0.82.

The State Bank of Patiala

It is observed that the positively correlated variables are E2 of 1.0, E1 of 0.98, A4 of 0.74. The variables A2 of -0.82, M5 0f -0.81 and R1 0f -0.70 are negatively correlated with the dependable variable return on assets.

The State Bank of Saurastra

On observing the readings most of the following variables are very closely and significantly positively correlated with return on assets. They are C1 of 0.97, E2 0f 0.90, M4 of 0.96 and E1 of 1. R3, M5 and A2 are negatively correlated with values of -0.75, -0.74 and -0.73 respectively.

The State Bank of Hyderabad

In this case, there are two variables which are significantly positively correlated with return on assets and they are E1 of 0.82 and E2 0f 0.77 whereas A1 is negatively correlated with -0.75.

The State Bank of Travancore

From the above table E1 of 0.87, E2 of 0.81 and A4 of 0.78 are positively correlated with return on assets while C2 of -0.78 and M6 of -0.78 are negatively correlated.

CHAPTER 5 - CONCLUSION

5.1 SUMMARY OF FINDINGS:

While observing, capital adequacy formation it is found all the 8 banks fared well.

In variable Wage Bill / Total Income, State Bank of Patiala, State Bank of Indore and State Bank of Hyderabad have controlled cost of employee to total income .The rest of the banks have crossed above 14% which are not appreciable.

Similarly Operating expenses should be the lowest for the betterment of banks. Here State Bank of Patiala holds their operating expenses with an average of 1.76%. While State Bank of Hyderabad maintained with 1.91%along with State Bank of Travancore which is 1.93%. The rest of the banks could not hold it likewise and they have crossed more than 2%.

The ratio interest expended to total assets should also be low so that banks can retain its spread with larger percentage. Here all the banks were expending their interest uniformly during the study period with an average of 4 to 5% against the total assets.

Profit/ Employee depict the efficiency of the banks in handling the different variable parameters. From the above table all the banks fared uniformly well.

Business / Employee should also be high which reveals handling of the turn over of the banks. State Bank of Patiala excelled others with 320 lakh rupees per employee followed by State Bank of Travancore at 280 lakh rupees. State Bank of Mysore has miserably failed to come to line with other banks.

State Bank of India has the highest NPA level of 3.6 % against its net advances followed by State Bank of Mysore of 3.43 %. State Bank of Patiala holding its NPA level to 1.6% being the lowest and rest of the banks fall between the two.

The difference between Interest income and Interest expended is spread.

While observing the State Bank of Patiala excelled with a good spread average along with State Bank of Bikaner and Jaipur and State Bank of Indore.

The ultimate ratio proves the efficiency is the variable which we have taken here as dependable for comparison with other variables is return on assets. State Bank of India, State Bank of Saurastra and State Bank of Travancore whose average return on assets for the study period are 0.87%, 0.746% and 0.87% respectively. The rest of the banks cross well above 1.0 % which is a good note. Especially State Bank of Patiala and State Bank of Indore excelled with an average of 1.24 and 1.25 respectively and stood in order.

5.2 SUGGESTIONS & RECOMMENDATIONS:

In spite of reforms for the Banking sector made by RBI earlier in 1991, for the betterment of effective functioning and also by liberalization, the purpose has not served much in apparition. There is every scope that the SCBs can deliver excellence in the financial performance provided the following steps are adhered to in full spirit.

In the noble task of fulfilling socio – economic responsibilities commercial viability of the banking sould not be ignored. Most of the banks other than State Bank of India has rendered more than 40% against its total advances which will reduce the yield of interest as according to RBI priority sectors drew lesser interest, which is not commercially viable for banks to draw a line between profitability and social justice.

The cost of employee has got to be reduced and wage bill ratio should never exceed the affordable cost. Today, computerization of branches reduces manual labour and thus brings down the cost.

Operating expenses also has got to be minimum most against the ratio with total assets. Improve the quality of advances through credit appraisal and screening process, so that Non Performing Assets can be minimized. Effective recovery measures has got to be initiated whenever NPA level exceeds.

Holding the lowest liquidity leads to higher the profitability because profitability is inversely proportional to liquidity and directly proportional to risk.

Assets Liability Management- ALM to be implemented in full spirit so that entire liability of deposits can be converted to assets by lending out as loans.

Strict supervision as per BASEL-II proposal for every branch of every bank and fortnightly reports on the above said variables to be reviewed.

5.3. CONCLUSION

In the name of banking sector reforms, what has been done is nothing more than applying imported prudential norms to the banks. No doubt these reforms are welcome but they do not tackle the core problem affecting State Bank and its Associates. A historical perspective to understand the specific socio- economic milieu in which State Bank and its Associates are functioning is needed to find a more pragmatic solution to the ills of State Bank and its Associates. Transplanting solutions from abroad would be of little help.

From the study, it is very clear that State Bank of Patiala excelled with a good spread, and controlled the expenses in the areas of Wage Bill / Total Income, Operating expenses and also shows its efficiency in the areas of Profit/ Employee and Business /Employee. On the other hand State Bank of India has the highest NPA level against its net advances followed by State Bank of Mysore which is not advisable.

Autonomy is the first step towards making banks both viable and vibrant. While rendering loans and advances no external pressure by way of government machinery should force. The liquidity should be the lowest and the entire deposits by the lenders should be converted as assets for rendering to the borrowers at higher rate of interest leaving only lesser liquidity at bank hands. Investment made in Government securities with lesser rate of interest with the fear of clearing the liquidity should be stopped and the entire investment made with the RBI for the lesser interest should be converted into advances and loans, so that spread can be increased.

5.4 FURTHER EXTENSION OF THE STUDY

Attempts have been made to make the study more intensive, but due to time constraints, there exists certain gaps in the present study. Hence, future work may be undertaken to bridge the gap so as to enhance the scope of the study. Productivity, which is one of the important factors responsible for bank performance and as such it has been excluded in the present study. Hence, while judging the financial performance of banks' profitability their productivity aspect can also be analysed in future. More refinements can be introduced by adding qualitative information such as customer service, employees' satisfaction, morale of the employees and so on. It is hoped that the analysis presented in this study will act as a base for further extension of this important investigation.

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☑ Banking And Practice-P.N.Varshney

☑ Business Management-CAIIB Examination

☑ Money, Banking, International Trade And Public- Finance -D.M.Mithani