Abstract

Banking means transacting business with a bank depositing or withdrawing funds or requesting a loan etc. or engaging in the business of banking maintaining savings and checking accounts and issuing loans and credit etc. The banks provide the necessary financial assistance to the government in the process of attaining its socio and economic objectives. Nowadays the banks have taken the primary responsibility in the implementation of various schemes and program sponsored by the government. A bank may be defined as a credit institution. It is an institution which studied deals in and guarantees credit. While the bank receives large sum of money in the form of deposits and lend to public in the form of loans. Such operations are subordinate to the one great function that of granting credit. Banking has been developed to meet the needs of business. Hence the extensively bank credit is used and the more extensively bank credit is used and the more important banking becomes in the transaction amount of money.

1. Introduction

Banking means transacting business with a bank depositing or withdrawing funds or requesting a loan etc. or engaging in the business of banking maintaining savings and checking accounts and
issuing loans and credit etc. Banking means accepting the deposits from the customers for lensing to the needy and extending the other services as to issue of DD, MT, etc. The banks provide the necessary financial assistance to the government in the process of attaining its socio and economic objectives. Nowadays the banks have taken the primary responsibility in the implementation of various schemes and program sponsored by the government. Nowadays after introduction of private sector banks the banks have become a project sector centre and the function become changed and now banks are doing the insurance and mutual fund also, but nationalized banks are still service oriented in extending loans for education loan, rojgor yojana, swaranajauanthi gram swarpzgar yojana (SGSY) and swarnajayanti shahari rozgariyana (SJSRY) and rural development activities. A bank may be defined as a credit institution. It is an institution which studied deals in and guarantees credit. While the bank receives large sum of money in the form of deposits and lend to public in the form of loans. Such operations are subordinate to the one great function that of granting credit. Banking has been developed to meet the needs of business. Hence the extensively bank credit is used and the more extensively bank credit is used and the more important banking becomes in the transaction amount of money.

Bank is important organ of the modern trade and commerce. Banking in India is regulated by the banking regulation Act 1949. Any company which is engaged in the manufacturer of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as manufacturer or trader shall not be deemed to transact the business of banking. Some banks are included in the second schedule to the resent bank of India act 1934 these are called scheduled banks. The reserve banks include a bank in this schedule if it fulfills certain conditions. The reserve bank gives certain facilities to scheduled bank including the following:

- The purchase, sale and re-discounting of certain bills of exchange or promissory notes.
- Purchase and sale of foreign exchange.
- Purchase sale and re-discounting of foreign bills of exchange
- Making of loans and advances to scheduled banks.
- Maintaining of accounts of the scheduled bank in its banking department and issue department
- Remittance of money between different branches of scheduled banks through the offices branches or agencies of reserve bank free of cost or at nominal rates.

The definition of a bank varies from country to country. A banker is defined as a person who carries on the business of banking. A customer defined as a person who has an account with the banker. The bank defined as the banking regulation act 1949 is the basis for regulation of banking in India. Section 5(b) of the act defines banking as “Banking” means the accepting for the purchase of lending or investment of deposit of money from the public repayable on demands or otherwise, and withdraw able by cheque, draft, order or otherwise. Finance is the life blood of trade, commerce and industry. Nowadays banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advance and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. Oxford dictionary
defines a bank as “an establishment for custody of money, which it pays out a customer’s order”.

2. Review of Literature

The year 2013-2014 was a year that witnessed perfect storm-volatile oil prices, asset bubbles and over leveraged banks, in a much interconnected world-all leading to unarguably the greatest global financial crisis witnessed in the human history? The Indian banking industry has not seen a collapse like that of Lehman Brothers or Merrill Lynch, or not fully recession proof. The year 2013-2014 was a very difficult year for the Indian banks. Many large Indian banks were facing the problem of achieving a satisfactory financial performance. Thus, it becomes important to analyze the performance of leading banks of India for the year from 2013-2014. This study tests the performance of a set of five leading Indian banks during the year 2013-2014. The banks selected for the study are the banks that got the top five ranking in the category of balance sheet size of more than amounts in the survey by a leading business magazine business today during the year 2013-2014. The year 2013-2014 was chosen for this study because of the fact that it is was a crucial year for the financial systems of the whole world. This study evaluates the performance of the banks based on eight parameters- Net Interest Income, Cost to Income Ratio, Capital Adequacy Ratio, Net NPAs, Deposit Growth, Return on Assets, Return on Capital Employed and Operating Profit. These parameters have been identified as the key performance indicators of banks by industry experts. This study helps us to understand the commonly used performance measures of banks. It helps to identify the bank that performs the best with regard to each performance parameter. This study also analyses the strengths and weaknesses of each bank selected for the study. Review of literature has vital relevance with any research work due to literature review the possibility of repetition of study can be eliminated and another dimension can be selected for the study. The literature review helps researcher to remove limitations of existing work or may assist to extend prevailing study. Several researches have been conducted to analyze the different aspects of performance of commercial banks in India and abroad. But there are very few research and literature available on the subject related to financial reforms and its impact on Indian banks. The available literature and research are divided into four major parts according to the area of research i.e., literature related to:

i. Review of literature related to performance appraisal of banks
ii. Review of literature related to policy framework and recommendations for banks.
iii. Review of literature related to impact of reforms on Indian banks
iv. Review of literature related to service quality of Indian banks

The above mentioned literature have been obtained from following four major sources such as

i. Ph.D. research conducted in India,
ii. The research/studies carried over by the institutions like RBI, ICRA Limited and business magazines like financial express, business today, money outlook, business India etc.
iii. Research studies of individual scholars published in journals and magazines and
iv. Websites of RBI, Govt. of India and websites of various banks.

The present study is undertaken in the light of the methodology adopted and conclusions emerged in the earlier studies relating to the performance evaluation, financial reforms and their impact on the Indian banking sector and a comparison between the two.
3. Research Methodology

The study is based upon secondary data. The secondary data means the data obtained from the Annual Report of the five leading mid-sized public sector banks (Bank of India; Punjab National Bank; Bank of Baroda; Indian Bank; Union Bank of India) for 2013-2014. All the information relating to the study is taken from these banks. With the help of the information we constructed the tables and diagrams. Besides we used tools like ratio and trend values.

4. Objective of the study

This study is an attempt to analyses the financial performance of leading banks this study had the following objects:

I. To test the performance of leading five mid-sized public sector banks during the year 2013-2014, with the help of various parameters.
II. To identify the strengths and weaknesses of each bank.
III. To offer suggestions based on the study.

5. Analysis And Interpretation Of Data

The data collected from published annual reports was tabulated and analyzed using appropriate ratio. The ratio were calculated with the help of Microsoft excel. The comparative analyses of performance of banks were done with the help of tables, bar charts and pie charts. The period selected for study is the year 2013-2014, as this year was a very crucial year for the financial systems around the world due to the financial meltdown faced by the world.

6. Comparative analysis of performance of leading banks of India during 2013-2014

In this part, a comparison has been made of the performance of the top five banks (as per the Business Today Survey) during the year 2013-2014 by testing their performance with the help of various ratios. Business today had given the following ranking for banks, with a balance sheet size of more than amount during the year 2013-2014.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank of India</td>
</tr>
<tr>
<td>2</td>
<td>Punjab National Bank</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>4</td>
<td>Indian Bank</td>
</tr>
<tr>
<td>5</td>
<td>Union Bank of India</td>
</tr>
</tbody>
</table>

These banks performances are analyzed with the above mentioned parameters. The advantages of these parameters are that many of them are specifically designed for evaluating bank performance. A detailed analysis of these performance parameters is done. Which is as follows?

I. Operating Profit:

The profit earned from a firm’s normal core business operations. This value does not include any profit earned from the firm’s investments (such as earnings from firms in which the company has partial interest) and the effects of interest and taxes. It is also known as “earnings before interest and tax” (EBIT) or “operating income”. Calculated as:
Operating revenue-operating expenses (Or) Operating profit per share (Rs)* Number of shares

Here, the operating profit of various banks is compared in order to know their operational efficiency. The table 2 below shows the operating profit of the selected five banks for the year 2013-2014.

Table 2: Operating profit Ratio of five Leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>1489.26</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>7160.15</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>5173.31</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>1633.48</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>2590.34</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks

Interpretation:

The table 2 indicates that the operating profit of Punjab national bank (7160.15) is the highest profit among the top five banks, the bank of India (1489.26) shows that the lowest profit among the five banks.

II. Net Interest Income:

The difference between the revenue that is generated from a bank’s assets and the expenses associated with paying out its liabilities. A typical bank’s assets consist of all forms of personal and commercial loans, mortgages and securities. The liabilities are, of course, the customer deposits. The excess revenue that is generated from the spread between interest paid out on deposits and interest earned on assets is the net interest income.

\[ \text{Interest payments on assets} - \text{Interest payments on liability} \] (or) Loan & Advance – Deposit

The net interest income of some banks is more sensitive to changes in interest rates than others. This can very according to several factors, such as the type of assets and liabilities that are held. Banks with variable rate assets and liabilities will obviously be more vulnerable to changes in interest rates than those with fixed-rate assets. Banks with liabilities that reprise more often or
quicker than its assets will also be affected by interest rate changes. The following figure 2 gives
the pictorial representations of net interest income of top five banks of India for the year 2013-
2014.

Table 3: Net Interest Income Ratio of five Leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Net Interest Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>2.11</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>3.14</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>1.98</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>2.49</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>2.37</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks

Interpretation:
The table-3 indicates that the Net Interest Income is highest for Punjab national bank (3.14%). The
net interest income is very less for Bank of Baroda (1.98%), so it should take urgent measures to
improve its net interest income, so that it can improve its profitability.

Figure 2: Net Interest Income of Top Five Banks in India

III. Cost to Income Ratio:
The cost to income ratio is an efficiency measure similar to operating margin. Unlike
the operating margin, lower is better. The cost income ratio is most commonly used in the
financial sector. It is useful to measure how costs are changing compared to income – for
example, if a bank’s interest income is rising but costs are rising at a higher rate looking at
changes in this ratio will highlight the fact. The cost to income ratio reflects changes in the
cost/assets ratio. The cost income ratio, defined by operating expenses divided by operating
income.

Operating Expenses / Operating Income

Table 4: cost to Income Ratio of five Leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Cost to Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>0.44</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>0.45</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>0.43</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>0.49</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>0.51</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks

Interpretation: The table-4 shows that the performance of bank of Baroda is the best regarding
cost to income ratio, as it has the lowest ratio (0.43) among the five banks, union bank of India has
high cost to income ratio (0.51). Thus union bank of India has to take urgent measures to lower its costs, so that it can improve its profitability.

Figure 4: Cost to Income ratio of Top Five Banks

IV. Capital Adequacy Ratio:
It is a measure of a bank’s capital. It is expressed as a percentage of a bank’s risk weighted credit exposures.

\[ \text{CAR} = \frac{\text{Capital}}{\text{Risk}} \]

Also known as “Capital to Risk Weighted Assets Ratio (CRAR). “ This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding up and so provides a lesser degree of protection to depositors.

Table 5: Capital Adequacy Ratio of five leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Capital Adequacy Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>10.76</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>12.29</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>12.28</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>13.10</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>10.80</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks

Interpretation:
The table -5 indicates that the capital adequacy ratio of Indian bank (13.10) is the highest ratio among the top five banks, the bank of India (10.76) shows that the lowest ratio among the top five banks.

Figure 5: Capital Adequacy Ratio of five Banks in India
V. Net NPA / Net Advances:
A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset.
Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs. The Indian banking sector are facing a serious problem of NPA. The extent of NPA is comparatively higher in public sector banks. The Net NPA levels help us to know the efficiency of credit risk Management system of the bank. The ratio of Net NPAs to Net Advance is measure of quality of assets of the bank. Hence the lower the Net NPA level, the better is the quality of the assets of the bank.

Gross Advances – Related Party Loan

Table 6: Net NPAs Levels of five leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Net NPA/Net Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>0.67</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>0.40</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>0.54</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>0.74</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>0.57</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks

Interpretation:
The table 6 Net NPAs/Net Advance ratio of Punjab National bank (0.40) is the lowest. This shows that Punjab national bank has efficient credit risk management techniques. Bank of India and Indian bank have high net NPA levels, so they have to take steps to improve the quality of their assets.

VI. Deposit Growth:
Deposit growth rate is also one of the important performance parameters adopted for measuring the performance of the bank. Higher deposit growth can be a result of better interest on deposits or due to the increasing customer loyalty of banks. The table 7 represents the deposit growth of selected five leading banks for the year 2013-2014.

\[
\text{Difference} = \frac{\text{Current Year Deposit} - \text{Last Year Deposit}}{\text{Last Year Deposit}} \times 100
\]
Table 7: Deposit Growth of five leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Deposit growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>24.91</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>15.28</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>20.05</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>14.29</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>12.86</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks

Interpretation:
The Table-7 portrays that the deposit growth of bank of India is the highest (24.91). The deposit growth rate of and Union Bank of India (12.86) are comparatively low.

Figures 7: Deposit Growth of top five Banks in India

VII. Return On Assets:
The profitability ratio is measures in terms of the relationship between net profit and assets. The return on assets may also be called profit to asset ratio. There are various possible approaches to define net profits and assets, according to the purpose and intent of the calculation of the ratio. Depending upon how these two terms are defined, many variations of return on asset are possible.
The concept of net profit may be:
1. Net profits after taxes
2. Net profits after taxes plus interest
3. Net profits after taxes plus interest minus tax savings.
Assets may be defined as:
1. Total Assets
2. Fixed assets
Accordingly, the different variants of the ratio: ROA = Net Profit After Taxes / Average Total Assets * 100

Table 8: Return on Assets of five leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Deposit growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>465.37</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>991.39</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>838.03</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>298.40</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>291.36</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks
Interpretation:
The table 8 shows the return on assets of the leading banks for the year 2013-2014. From the table 8 we can understand that the return on assets of Punjab national bank (991.39) is the highest among these banks. The return of assets of union bank of India (291.36) is the lowest. Hence, they should utilize their assets effectively.

![Return on Assets in Top five banks of India](image)

VIII. Return on Capital Employed:
The return on capital employed is the second type of ROI. It is similar to the ROA except in one respect. Here the profits are related to the total capital employed. The term capital employed refers to long term funds supplied by the creditors and owners of the firm. It can be computed in two ways. It is equal to non-current liabilities plus owner’s equity. Alternatively, it is equivalent to net working capital plus fixed asset. Thus the capital employed basis provides a test of profitability related to the sources of long term funds. A comparison of this ratio with similar firms, with the industry average and over time would provide sufficient insight into how efficiently the long term funds of owners and creditors are being used. The higher the ratio the more efficient is the use of capital employed. The return on capital employed can be computed in different ways, using different concept of profits and capital employed.

\[
\text{Net profit after taxes} / \text{EBIT} \times 100
\]

\[
\text{Average total capital employed}
\]

Table 9: Return on Capital Employed of five Leading Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Return on Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of India</td>
<td>8.23</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>9.29</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>7.19</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>9.49</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>9.67</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Banks
Interpretation:
The table-9 it is clear that return on capital employed is highest for union bank of India (9.67)followed by Indian bank, Punjab national bank, bank of Baroda has comparatively very low return on capital employed, so it should take urgent measures in this direction for improvement.

Figures 9: Return on Capital Employed of top five banks of India

7. Major Findings of the Study

i. Among the five banks selected for the study, Punjab National Bank was having the highest operating profit for the year 2013-2014.

ii. In the area of Net Interest Income, Punjab National Bank was in the topmost position among the five banks selected for the study.

iii. In cost to Income Ratio Bank of Baroda was the best performer, as it had the lowest cost to income ratio. Thus, it had chances of earning higher profits.

iv. Among the top five leading Bank of India, Capital Adequacy Ratio was highest for Indian bank in the year 2013-2014. Thus, Indian bank was in a better position to absorb losses.

v. In the area of NPAs, Punjab National bank was the best performer among the leading five banks, as it had the lowest Net NPA ratio. Thus, it had a very efficient Credit Risk management system for reducing its NPAs.

vi. The Deposit Growth Rate was highest for bank of India bank. Thus, bank of India bank had a good customer loyalty among the top five banks.

vii. Among the top five leading banks of India, the Return on Assets was the highest for Punjab National Bank. Thus, the assets of Punjab National Bank were more profitable in generating revenue compared to other banks.

viii. Return on Capital Employed was highest for Union Bank of India. Thus, Union Bank of India was efficiently utilizing its capital.

8. Scope and Direction for Future Research

In this study, the performance of only five leading banks of India is done, but further studies can be done on more public sector and private sector banks. Besides that, we can also use many other performance parameters for analyzing the performance of banks. This study can also be conducted in case of foreign banks. Moreover, the academic researchers in a developing economy like India can gain further, by using the result of this study for similar studies.
9. Conclusion
The year 2013-2014 was a very crucial year for the financial systems of the world, as it witnessed the recovery of the banks after global financial crisis in the human history. The financial systems and banks of many countries on the recovery side after collapsed during the year 2008. This study throws light into the performance of the major five banks of India during the year 2013-2014. Eight performance parameters were used for measuring the performance of the leading Indian Banks. This study helps us to gain substantial knowledge about the various performance parameters uses for evaluating the performance of banks. From the study, it was found that the performance of Indian Banks during the year 2013-2014 was satisfactory in spite of recession affecting the whole globe. The major banks in India have their own respective strengths and weaknesses. But in spite of that, their performance is at par with that of the major banks in the world. This shows that the Indian banking has grown to a great extent for the past few years, and it has gained efficiency in handling risk element. This study includes both public and private sector banks, thus it gives an overall idea about the efficiency of Indian Banking system.

References
[2] Nagarajan focused his attention on ‘other income of the banks’ and analyzed the trend from 1993-94 onwards in a wider perspective.
[4] Ramasastri, A.S., Achamma Samuel and Gangadaram, made an attempt to compare the behavior of interest and non-interest income of scheduled commercial banks in India.
[8] Wahab (2001) has analyzed the performance of the commercial banks under reforms. He also highlighted the major issues need to be considered for further improvement.
[10] In a paper published in the Financial Express in 2004, titled “India’s Best Banks” has been doing for several years through its annual exercise to evaluate and rate Indian banks.
[11] Alamelu and Chidambaram emphasized the profitability aspect in commercial banks. In this paper, the scholar analyzed and compared the performance of public and private sector bank on profitability angle.