CHAPTER I

INTRODUCTION

India is one of the fastest developing countries in the world. Generally the growth of economy is measured by its Gross Domestic Products (GDP). The average growth rate of GDP of India during 1990-99 was 5.57 per cent and average GDP growth rate for the period of ten years from 2000 to 2011 was 7.78 per cent (Source: International Monetary Fund, Database, April, 2013). It indicates the recent development of Indian economy. Though India is an agricultural based country, the contribution of agricultural sector to GDP is meager. More than 50 per cent of the population of India are depending on agricultural sector for employment directly and indirectly, but its contribution to GDP is lesser than other sectors. But the contribution of service sector to GDP is more than 50 per cent to national GDP followed by manufacturing. Hence, service sector is a progressing sector in Indian economy, which gives more employment to the people and it has been acting as backbone for other sectors in the economy. Finance is the life blood of any business, trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business by providing financial facilities and other financial supports. Development of any country mainly depends upon the banking system. Banking industry is the key industry in service sector. Hence strong financial system is essential for the development of an economy.

Financial system is based on the very fundamental concept of channeling the funds from where it is surplus to where it is deficient. The channeling of the funds is not new, it has been prevailing from the time immemorial. Banking industry does the work. All business, trade, commerce, industry, government and people need finance
for various purposes and they need a safety place to keep their excess money along with the benefit of minimum return for their money. For these purposes the banking industry is needed. So, banking system plays an essential role in the economy as it intermediates between the surplus fund generation places to the place where it is required for the purposes of asset creation, thus playing a vital role in building major economies. It is necessary to know about bank, its origination and its growth in India.

As, finance is the life blood of any business, trade, commerce and industry, now-a-days, banking sector acts as the backbone of modern business by providing financial facilities and other financial supports. Development of any country mainly depends upon the banking system. The term bank is either derived from old Italian word *banca* or from a French word *banque* both mean a Bench or money exchange table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging.

A bank is a financial institution which deals with deposits and advances 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.

**Definition of bank**

Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."

The Indian Banking Regulation Act of 1949, defines the term "Banking company as any company which transacts the business of Banking in India", and the term Banking as “accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.”
From the above definitions it could be understood that banks are channelizing the funds from where it is surplus to the place where it is deficit and required. These definitions give the following characteristics of banks.

**Characteristics of a Bank**

1. **Dealing in Money**

   Bank is a financial institution which deals with other people's money i.e. money given by depositors.

2. **Form of a bank**

   A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

3. **Acceptance of Deposit**

   A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers. It gives nominal return for the deposits made by the people.

4. **Providing Advances**

   A bank lends money in the form of loans and advances to those who require it for their financial purposes.

5. **Payment and Withdrawal**

   A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts. It also brings bank money in circulation. This money is in the form of cheques, drafts, etc.
6. Agency and Utility Services

A bank provides various banking facilities to its customers. They include general utility services and agency services, such as locker facility, collection of cheques, financial advices and so on.

7. Profit and Service Orientation

A bank is a profit seeking institution having service oriented approach.

8. Ever increasing Functions

Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank.

9. Connecting Link

A bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money.

10. Banking Business

A bank's main activity should be to do business of banking which should not be subsidiary to any other business.

11. Name Identity

A bank should always add the word "bank" to its name to enable people to know that it is a bank and that it is dealing in money.

Development of Banks

Banking sector is in practice from the time immemorial in the world as well as in India. In line of the banking development all over the world, banking in India has also travelled a long journey. Banking as an activity during the past was fairly simple in terms of deposits and advances. Although this fundamental activity forms the core
activity of banking the banking scenario has assumed a total new dimension. Banking has become a different ball game in terms of its service and the array of products. Banks have been changing their activities from time to time according to the requirement of people. In olden ages banks accepted deposits and lent money for the people who required money. But now a day people need banks to do some additional financial functions also. In the view of expanding their market, banks are providing specialised services and introducing innovative products and services through introducing technologies in this sector. More importantly the use of technology has brought about a revolution in the way the bank conducts its business.

The ease of communication and the availability of strong network have made banking truly globalized. No banks can or rather want to remain isolated if it aspires to grow. But, the very basic fundamental dimension which makes banks very special is the trust and the confidence people thrust on the institution. The majority of the banks are till now successful in keeping with the confidence of the stakeholders. Risk plays a very important role in the banking activity. As it is told by wise man that banking is not No risk taking business but it is calculated risk taking business. Thus the understanding of the risk dimension, its quantification and finally its management forms the crux of banking business. Over the years seasoned bankers are able to identify the areas of risk and intuitively device ways and means to diversify the risk. However, with the changing dynamics of banking business, banking as an activity has become more than diversified bringing in all sorts of services under its fold. The balance sheet items are increasing every year and the off Balance sheet items constitute even more complex names and functionality. The transition of banks to these new areas of business eventually brings in new kind of risk exposure in the
portfolio. Even the seasoned bankers have to turn back to class rooms to understand the new dimensions of risk that is being added to the banking business. But the question which pops up in mind: How an ordinary person with no complicated financial understanding can understand the banks? Well the answer is, it all depends on the quantum of faith and trust that the banking system commands. The banking system is well equipped to do what it can do best. There is absolutely no doubt in the dexterity of banks to manage its business. However faith is a very fragile subject matter. Hence in order to continue with the faith and the confidence of the general public in the banking system the Reserve Bank of India have included risk based assessment of banks and also plan to bring it into public domain.

**Banking System in India**

Indian banking system is one of the old systems in the world. It has been developing fast compared to other countries. India banking system is the strongest system in the world, it was proved during the recent global financial crisis which was happened during 2008. Indian banking system consists of,

a) The Reserve Bank of India, which has been acting as the Central Bank of the country,

b) Commercial banks, which consists Public Sector Banks, New Private Sector Banks, Old Private Sector Banks, Foreign banks and Regional Rural Banks,

c) Cooperative Banks and

d) Development Banks (development finance institutions)

Commercial banking has been one of the oldest businesses in India. The establishment of the General Bank of India in the year 1786 marked the development
of a structured banking system in India. Later the Bank of Hindustan and Bengal Bank came into existence. The East India Company established three banks. These three banks were amalgamated in the year 1920 to form the new Imperial Bank of India. The Imperial Bank was nationalised and renamed as the State Bank of India with the passing of the Act in 1955. The Swadeshi Movement witnessed the birth of several indigenous banks, such as Punjab National Bank, Bank of Baroda and Canara Bank (ICFAI, 2004). In order to increase its control over the banking sector, the Government of India had nationalised 14 major private sector banks with deposits exceeding Rs.500 million in 1969. This had raised the number of scheduled bank branches under government control to 84 per cent from 31 per cent (Chakraborty, 2006).

Since the establishment of first bank in pre independent period to till date many catastrophic changes have taken place in the banking industry.

The development of Indian banking sector may be discussed in three phases. They are,

(i) Pre-Independent period
(ii) Post-Independent period and
(iii) Post-liberalisation period

**Banking in India during Pre-Independence Period**

Banking in India originated in the first decade of 18 century The General Bank of India, which came into existence in 1786. This was followed by Bank of Hindustan. The oldest bank in existence in India is the State Bank of India being established as "The Bank of Bengal" in Calcutta in June 1806. Bank of Hindustan and Bengal Bank came into existence immediately after the establishment of Bank of India. The East
India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. The first fully Indian owned bank was the Allahabad Bank, which was established in 1865. By the 1900s, the market expanded with the establishment of banks such as Punjab National Bank, in 1895 in Lahore and Bank of India, in 1906, in Mumbai. Between 1906 and 1913 Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. To regulate the issue of bank notes and for keeping reserves to secure monetary stability in India the Reserve Bank of India Act was passed in 1934. The Reserve Bank commenced operations on 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. During the same time period public has lesser confidence in the banking industry. During this time period even though there were 1100 (approximate) small banks were in existence the savings bank facility provided by the Postal Department was considered comparatively safer. Moreover, funds were largely given to traders.

**Banking in India during Post-Independence Period**

Government took major reforms in Indian Banking Sector after independence. In 1948, the Reserve Bank of India (central bank) was nationalized, and it became an institution owned by the Government of India. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. On
19th July 1969; major process of nationalization was carried out with the sincere and concerned efforts of the Prime Minister of India; Mrs. Indira Gandhi. During her regime 14 major commercial banks in the country were nationalized. Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80 percent of the banking segment in India under Government ownership. After the nationalization of banks, the branches of the public sector bank India raised to approximately 800 percent in deposits and advances took a huge jump by 11,000 percent. Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions. The major aim of nationalization was to give priority to meet the credit requirement of neglected sectors. This credit facility was supposed to be extended at considerably low rates. With nationalization there was all-around growth in branch network deposit, credit disbursement, assets & employment. In this process, profitability & competition has lost the front seat.

Post-Nationalisation Period

Although nationalization of banks helped in the spread of banking to the rural and hitherto uncovered areas, the monopoly granted to the public sector and lack of competition led to overall inefficiency and low productivity. By 1991, the country’s financial system was saddled with an inefficient and financially unsound banking sector. Some of the reasons for this were (i) high reserve requirements, (ii) administered interest rates, (iii) directed credit and (iv) lack of competition (v) political interference and corruption. As recommended by the Narasimhan Committee Report (1991) several reform measures were introduced which included reduction of reserve requirements, de-regulation of interest rates, introduction of prudential norms,
strengthening of bank supervision and improving the competitiveness of the system, particularly by allowing entry of private sector banks. With a view to adopting the Basel Committee (1988) framework on capital adequacy norms, the Reserve Bank introduced a risk-weighted asset ratio system for banks in India as a capital adequacy measure in 1992. Banks were asked to maintain risk-weighted capital adequacy ratio initially at the lower level of 4 per cent, which was gradually increased to 9 per cent. Banks were also directed to identify problem loans on their balance sheets and make provisions for bad loans. The period 1992-97 laid the foundations for reform in the banking system (Rangarajan, 1998). The second Narasimhan Committee Report (1998) focused on issues like strengthening of the banking system, upgrading of technology and human resource development. The report laid emphasis on two aspects of banking regulation, viz., capital adequacy and asset classification and resolution of NPA-related problems. After adequate skills are developed, both at the banks and at the supervisory levels, some banks might be allowed to migrate to the internal rating based (IRB) approach (Reddy 2005). At present, banks in India are venturing into non-traditional areas and generating income through diversified activities other than the core banking activities. Strategic mergers and acquisitions were being explored and implemented. With this, the banking sector is currently on the threshold of an exciting phase.

In the early 1990s the then Narasimha Rao Government embarked on a policy of liberalizations and gave licenses to a small number of private banks, which came to be known as New Generation tech-savvy banks, which included banks such as UTI Bank(now re-named as Axis Bank), ICICI Bank ,HDFC Bank etc.. This move, along with the rapid growth in the economy of India, kick started the banking sector in India, which has seen rapid growth with strong contribution from banking industry.
Banking Sector Reforms in India

The banking sector in India has undergone remarkable changes since independence. In 1969, 14 major banks were nationalized and in 1980, 6 major private sector banks were taken over by the government. The government did not nationalize the banks whose deposits were less than Rs.50 crore. Nationalization of commercial banks in 1968 and 1980 was a mixed blessing to the Indian banking sector. After nationalization, there was a shift of emphasis from industry to agriculture. The country witnessed rapid expansion in bank branches, even in rural areas. Banking development in India after nationalization was wonderful and received global compliments. The commercial banking system gained substantial strength to improve nation building programs. However, the nationalization process created its own problems, like excessive bureaucratization, red-tapism and disruptive tactics of trade unions by bank employees. Reforms in the commercial banking sector have two distinct phases. The first phase of reforms introduced subsequent to the release of the Report of the Committee on Financial System (Chairman-M. Narasimham), 1992 focused mainly on enabling and strengthening measures. The second phase of reforms, introduced subsequent to the recommendations of the Committee on Banking Sector Reforms (Chairman-M. Narasimham) in 1998 placed greater emphasis on structural measures and an improvement in standards of disclosure and levels of transparency, in order to align the Indian standards with the best international practices. Reforms have brought about considerable improvements, as reflected in various parameters relating to capital adequacy, asset quality, profitability and operational efficiency.
Indian Banking System

The present banking system can be classified into the following categories:

(i) Public Sector Banks

(ii) Regional Rural Banks

(iii) Old Private Sector Banks

(iv) New Private Sector Banks

In India the role of public sector banks are playing an important role even in rural areas also. Presently there are 20 public sector banks in India. The list of public sector banks is listed below. But recently the development of private sector banks is rapid and they attract more customers through innovative services and technologies. Private-sector banks have been functioning in India since the very beginning of the banking system. Initially, during 1921, the private banks like bank of Bengal, bank of Bombay and bank of Madras were in service, which all together formed Imperial Bank of India. The private sector banks can be classified into two, such old private sector banks and new private sector banks.

The banks, which were not nationalized at the time of bank nationalization that took place during 1969 and 1980 are known to be the old private-sector banks. These were not nationalized, because of their small size and regional focus. Most of the old private-sector banks are closely held by certain communities their operations are mostly restricted to the areas in and around their place of origin. Their Board of directors mainly consist of locally prominent personalities from trade and business circles. One of the positive points of these banks is that, they lean heavily on service and technology and as such, they are likely to attract more business in days to come with the restructuring of the industry round the corner.
The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks". Banking regulation act was then amended in 1993, which permitted the entry of new private-sector banks in the Indian banking sector. However, there were certain criteria set for the establishment of the new private-sector banks, some of those criteria being:

1. The bank should have a minimum net worth of Rs. 200 crores.
2. The promoters holding should be a minimum of 25% of the paid-up capital.
3. Within 3 years of the starting of the operations, the bank should offer shares to public and their net worth must increased to 300 crores.

The following paragraphs give the details of public sector banks, regional rural banks, old sector banks and new private sector banks. According to the Department of Financial Services, Ministry of Finance, Government of India. There are 20 public sector banks, six State Bank group banks, 82 regional rural banks, 13 old private sector banks and 7 new private sector banks and the details are given below.

(i) **Public Sector Banks**

<table>
<thead>
<tr>
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<th>Allhabad bank</th>
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<tbody>
<tr>
<td>2</td>
<td>Andhra bank</td>
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<tr>
<td>3</td>
<td>Bank of baroda</td>
</tr>
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<td>4</td>
<td>Bank of india</td>
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<tr>
<td>5</td>
<td>Bank of maharashtra</td>
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<tr>
<td>6</td>
<td>Canara bank</td>
</tr>
<tr>
<td>7</td>
<td>Central bank of india</td>
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<tr>
<td>8</td>
<td>Corporation bank</td>
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<tr>
<td>9</td>
<td>Dena bank</td>
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<tr>
<td>10</td>
<td>Indian bank</td>
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<tr>
<td>11</td>
<td>Indian overseas bank</td>
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<tr>
<td>Sl. No.</td>
<td>State Bank groups</td>
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<td>--------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>State bank of india</td>
</tr>
<tr>
<td>2</td>
<td>State bank of Bikaner and Jaipur</td>
</tr>
<tr>
<td>3</td>
<td>State bank of Patiala</td>
</tr>
<tr>
<td>4</td>
<td>State bank of Hydrabad</td>
</tr>
<tr>
<td>5</td>
<td>State bank of Mysore</td>
</tr>
<tr>
<td>6</td>
<td>State bank of Trivangore</td>
</tr>
</tbody>
</table>

Source: http://financialservices.gov.in/banking/

(ii) **Regional Rural Banks**

According to the Department of Financial Services, Ministry of Finance, Government of India there are 82 regional rural banks in India.
(iii) Old-Private Sector Banks

<table>
<thead>
<tr>
<th></th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Catholic Syrian Bank Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>City Union Bank Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>Dhanalakshmi Bank Ltd.</td>
</tr>
<tr>
<td>4</td>
<td>Federal Bank Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>ING Vysya Bank Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>Jammu &amp; Kashmir Bank Ltd.</td>
</tr>
<tr>
<td>7</td>
<td>Karnataka Bank Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>Karur Vysya Bank Ltd.</td>
</tr>
<tr>
<td>9</td>
<td>Lakshmi Vilas Bank Ltd.</td>
</tr>
<tr>
<td>10</td>
<td>Nainital Bank Ltd.</td>
</tr>
<tr>
<td>11</td>
<td>Ratnakar Bank Ltd.</td>
</tr>
<tr>
<td>12</td>
<td>South Indian Bank Ltd.</td>
</tr>
<tr>
<td>13</td>
<td>Tamilnad Mercantile Bank Ltd</td>
</tr>
</tbody>
</table>

Source: [http://financialservices.gov.in/banking/](http://financialservices.gov.in/banking/)

(iv) New-Private Sector Banks

<table>
<thead>
<tr>
<th></th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Axis Bank Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>Development Credit Bank Ltd</td>
</tr>
<tr>
<td>3</td>
<td>HDFC Bank Ltd.</td>
</tr>
<tr>
<td>4</td>
<td>ICICI Bank Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>IndusInd Bank Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>Kotak Mahindra Bank Ltd.</td>
</tr>
<tr>
<td>7</td>
<td>Yes Bank Ltd.</td>
</tr>
</tbody>
</table>

Source: [http://financialservices.gov.in/banking/](http://financialservices.gov.in/banking/)

Importance of private Banks

A private bank is a bank whose major stake is owned by private stakeholders. Government has a very little role to play when it comes to private sector banking.
Private banks play a essential role for a country's economic development. They are the major players in today's financial market. Private banking has invited foreign economies to invest in a developing country like India. They have smoothen the process of business expansion, especially for multinationals. Private banks are progressing at a faster rate in India than Government-owned banks. Private banks have been functioning in India ever since the origin of banking system in India. But private banks were not given importance in the earlier years. The dominance of public sector banks did not allow the private sector banks to participate in the overall development of our country. Therefore, private banks were less active and non-participative before liberalization. The year 1969 was a landmark in the history of commercial banking in India. In July 1969, the government nationalized 14 major commercial banks of the country. In 1980, government nationalized 6 more commercial banks. But the importance of the private sector banks remained the same even after nationalization. The RBI decided to liberalize the banking policies. The liberalization policy gave license to private banks to operate in a more flexible environment. The private banks before nationalization are called old private banks and the ones after nationalization are called new private banks. The post-nationalization period noticed a remarkable change in the economy's banking sector. A leading bank of the country had the following objectives post-nationalization: To break the ownership and control of banks by a few business families. To prevent concentration of wealth and economic power. To mobilize savings of the masses from every nook and corner of the country. To pay greater attention to the credit needs of the priority sectors like agriculture and small scale industries.

Private banks in India has a got a great response in terms of service and quality banking. Globalization has encouraged multinationals and foreign
banks to set up their business unit in a developing country like India. In the private banking is all about delivering sophisticated service to customers. It is about providing appropriate solutions to customer's financial problems and providing financial advice to customers. Private banking works for optimum utilization of financial resources of the country.

In India the new private sector banks are playing pivotal role in financial field in India. They render their services to rural people also and recently they are establishing more branches in rural areas also. The following table gives branch and number of ATM centre details of private sector banks in India.
Table 1.1
Branch and ATM Details of Old Private Sector Banks

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Bank</th>
<th>No. of branches</th>
<th>No. of ATM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Catholic Syrian Bank</td>
<td>379</td>
<td>186</td>
</tr>
<tr>
<td>2</td>
<td>City Union Bank</td>
<td>300</td>
<td>500</td>
</tr>
<tr>
<td>3</td>
<td>Dhanlaxmi Bank</td>
<td>268</td>
<td>400</td>
</tr>
<tr>
<td>4</td>
<td>Federal Bank</td>
<td>950</td>
<td>1005</td>
</tr>
<tr>
<td>5</td>
<td>ING Vysya Bank</td>
<td>531</td>
<td>430</td>
</tr>
<tr>
<td>6</td>
<td>Jammu and Kashmir Bank</td>
<td>603</td>
<td>508</td>
</tr>
<tr>
<td>7</td>
<td>Karnataka Bank</td>
<td>503</td>
<td>352</td>
</tr>
<tr>
<td>8</td>
<td>Karur Vysya Bank</td>
<td>451</td>
<td>825</td>
</tr>
<tr>
<td>9</td>
<td>Lakshmi Vilas Bank</td>
<td>290</td>
<td>541</td>
</tr>
<tr>
<td>10</td>
<td>Nainital Bank</td>
<td>101</td>
<td>NA</td>
</tr>
<tr>
<td>11</td>
<td>Ratnakar Bank</td>
<td>108</td>
<td>103</td>
</tr>
<tr>
<td>12</td>
<td>South Indian Bank</td>
<td>700</td>
<td>663</td>
</tr>
<tr>
<td>13</td>
<td>Tamilnad Mercantile Bank Limited</td>
<td>293</td>
<td>367</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the respective banks

Table 1.1 shows the list of old private sector banks, number of branches and ATM centres of such banks as on 31.3.2012. It showed that there are 13 old private sector banks are in India. Among them Federal bank had more number of branches, it
had 950 branches and 1005 ATMs throughout India followed by South Indian Bank, which had 700 branches and 663 ATMs. Jammu and Kashmir Bank, ING Vysya Bank and Karnataka Bank had more than 500 branches at 603 branches, 531 branches and 503 branches respectively and 508, 403 and 352 ATMs respectively. Karur Vysya bank, Catholic Syrian Bank and City Union Bank had more than 300 branches and all other banks had less than 300 branches throughout India.

Table 1.2

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Bank</th>
<th>No. of branches</th>
<th>No. of ATM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Axis Bank (earlier UTI Bank)</td>
<td>1622</td>
<td>9924</td>
</tr>
<tr>
<td>2</td>
<td>Development Credit Bank</td>
<td>84</td>
<td>134</td>
</tr>
<tr>
<td>3</td>
<td>HDFC Bank</td>
<td>2544</td>
<td>8913</td>
</tr>
<tr>
<td>4</td>
<td>ICICI Bank</td>
<td>2752</td>
<td>9006</td>
</tr>
<tr>
<td>5</td>
<td>IndusInd Bank</td>
<td>400</td>
<td>692</td>
</tr>
<tr>
<td>6</td>
<td>Kotak Mahindra Bank</td>
<td>355</td>
<td>848</td>
</tr>
<tr>
<td>7</td>
<td>Yes Bank</td>
<td>350</td>
<td>600</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the respective banks

Table 1.2 shows that there are seven new private sector banks in India, among them ICICI bank, HDFC bank and Axis bank are having more than 1000 branches and nearly 10,000 ATMs each and other new private sector banks had less than 500 branches. It was also noted that ICICI bank had 2,752 branches and 9,006 ATMs, HDFC bank had 2,544 branches and 8,913 ATMs and Axis bank had 1,622 and 9,924 ATMs. It was known that among the private sector banks both old private sector
banks and new private sector banks ICICI bank, HDFC bank and Axis bank had more
number of branches almost equal to public sector banks and had more number of
ATMs all over the country. Hence the study has chosen these three new private sector
banks for analysis.

**Profile of the Selected Banks**

The following paragraphs give the profile of the selected banks.

**Profile of AXIS Bank**

AXIS Bank is one of the fastest growing banks in private sector. The Bank
operates in four segments, namely treasury, retail banking, corporate/ wholesale
banking and other banking business. The treasury operations include investments in
sovereign and corporate debt, equity and mutual funds, trading operations, derivative
trading and foreign exchange operations on the account, and for customers and central
funding. Retail banking includes lending to individuals/ small businesses subject to
the orientation, product and granularity criterion. It also includes liability products,
card services, Internet banking, automated teller machines (ATM) services,
depository, financial advisory services, and non resident Indian (NRI) services. The
corporate/ wholesale banking segment includes corporate relationships not included
under retail banking, corporate advisory services, placements and syndication,
management of publics issue, project appraisals, capital market related services, and
cash management services.

The registered office of Axis bank is located at Ahmedabad and their Central
Office is located at Mumbai. The Bank has a very wide network of more than 1042
branches (including 56 Service Branches/ CPCs as on June 30, 2010). The Bank has a
network of over 4,474 ATMs providing 24 hrs a day banking convenience to their customers. This is one of the largest ATM networks in the country. The Bank has five wholly-owned subsidiaries namely Axis Securities and Sales Ltd, Axis Private Equity Ltd, Axis Trustee Services Ltd, Axis Asset Management Company Ltd and Axis Mutual Fund Trustee Ltd.

**Mile Stones of Axis Bank**

Axis Bank was incorporated in the year 1993 with the name UTI Bank Ltd. The Bank was the first private banks to have begun operations after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the specified undertaking of the Unit Trust of India (UTI - I), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and other four PSU insurance companies, i.e. National Insurance Company Ltd, The New India Assurance Company Ltd, The Oriental Insurance Company Ltd and United India Insurance Company Ltd.

In the year 2001, the bank along with Global Trust Bank (GTB) had a merger proposal to create the largest private sector bank, but due to media's issues both the banks withdrew the merger proposal.

In the year 2003, the Bank was given the authorized to handle Government transactions such as collection of Government taxes, to handle the expenditure related payments of Central Government Ministries and Departments and pension payments on behalf of Civil and Non-civil Ministries such as defense, posts, telecom and railways. In December 20003, the Bank launched their merchant acquiring business.
In the year 2005, the Bank raised $239.3 million through Global Depositary Receipts. They won the award 'Outstanding Achievement Award' for the year 2005 from Indian Banks Association for IT Infrastructure, delivery capabilities and innovative solutions.

In December 2005, the Bank set up Axis Securities and Sales Ltd (originally incorporated as UBL Sales Ltd) to market credit cards and retail asset products.

In October 2006, they set up Axis Private Equity Ltd, primarily to carry on the activities of managing equity investments and provide venture capital support to businesses.

In the year of 2007, the bank again raised $218.67 million through Global Depository Receipts. They opened 153 new branches during the year, which includes 43 extension counters that have been upgraded to branches and 8 Service branches/CPCs. They also opened new overseas offices at Singapore, Dubai and Hong Kong and a representative office in Shanghai.

During the year 2007-08, the Bank opened 143 new branches, taking the number of branches to 651 which included 33 extension counters that have been upgraded to branches. Also, they expanded overseas with the opening of a branch at the Dubai International Finance Centre. The Bank changed their name from UTI Bank Ltd to Axis Bank Ltd with effect from July 30, 2007 to avoid confusion with other unrelated entities with similar name.

During the year 2008-09, the Bank opened 176 new branches that include 12 extension counters that have been upgraded to branches taking the total number of branches and ECs to 835. During the year, they opened 831 ATMs, thereby taking the
ATM network of the Bank from 2,764 to 3,595. Also, they opened a Representative Office in Dubai.

In May 2008, the Bank established Axis Trustee Services Company Ltd as a wholly owned subsidiary company, which is engaged in trusteeship activities.

In December 2008, they launched their new investment advisory service exclusively for High Net Worth clients.

In January 2009, the Bank set up Axis Asset Management Company Ltd to carry on the activities of managing a mutual fund business. Also, they incorporated Axis Mutual Fund Trustee Ltd to act as the trustee for the mutual fund business.

During the year 2009-10, the Bank opened 200 branches taking the total number of branches Extension Counters (ECs) to 1,035.

In March 2009, 2010, they opened their 1000 branch at Bandra West, Mumbai. In September 2009, Axis Bank launched the private banking business in the domestic market, christened 'Privee' to cater to highly affluent individuals and families offering them unique investment opportunities During the year, the Capital Markets SBU was restructured with the debt capital market business (hitherto a part of the capital markets) carved into a separate vertical. As a result, the Bank's Capital Markets SBU comprises equity capital markets (ECM) business, mergers and acquisitions and private equity syndication.

In February 24, 2010, the Bank launched the 'AXIS CALL & PAY on atom', a unique mobile payments solution using Axis Bank debit cards. Axis Bank is the first bank in the country to provide a secure debit card-based payment service over IVR.
During the year 2010-11, 407 new branches were added to the Bank's network taking the total number of branches and extension counters (ECs) to 1,390. Of these, 564 branches/ECs are in semi-urban and rural areas and 826 branches/ECs are in metropolitan and urban areas. The Bank is present in all states and Union Territories (except Lakshadweep) covering 921 centres. The ATM network of the Bank increased from 4,293 to 6,270. During the year, the Bank also opened a Representative Office in Abu Dhabi. This was in addition to the existing branches at Singapore, Hong Kong and DIFC (Dubai International Financial Centre) and representative offices at Shanghai and Dubai.

In March 7, 2011, the Bank incorporated a new subsidiary namely Axis U.K. Ltd. as a private limited company registered in the United Kingdom (UK) with the main purpose of filing an application with Financial Services Authority (FSA), UK for a banking license in the UK and for the creation of necessary infrastructure for the subsidiary to commence banking business in the UK.

Profile of HDFC Bank

HDFC Bank Ltd is one of the leading banking companies in India. It has been functioning all over India, its head office is situated in Mumbai. The Bank is a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. Presently HDFC Bank has a network of 2201 branches and 7110 ATMs spread in 996 cities across India. They also have one overseas wholesale banking branch in Bahrain, a branch in Hong Kong and two representative offices in UAE and Kenya. The Bank has two subsidiary companies also, namely HDFC Securities Ltd and HDB Financial Services Ltd. The Bank has three primary business segments, namely banking,
wholesale banking and treasury. The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides other services with the help of specialist product groups to such customers. The wholesale banking segment of this bank provides loans, non-fund facilities and transaction services to corporate, public sector units, government bodies, financial institutions and medium-scale enterprises. The treasury segment includes net interest earnings on investments portfolio of the Bank. The Bank's ATM network can be accessed by all domestic and international Visa/MasterCard, Visa Electron/Maestro, Plus/Cirrus and American Express Credit/Charge cardholders. The Bank's shares are listed on the Bombay Stock Exchange and The National Stock Exchange. The Bank's American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) and the Bank's Global Depository Receipts (GDRs) are listed on Luxembourg Stock Exchange.

**Milestones of HDFC Bank**

HDFC Bank Ltd Was incorporated on August 30, 1994 by Housing Development Finance Corporation Ltd. In the year 1994, Housing Development Finance Corporation Ltd was amongst the first to receive an 'in principle' approval from the Reserve Bank of India to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry.

HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

In the year 1996, the Bank was appointed as the clearing bank by the NSCCL.

In the year 1997, the launched retail investment advisory services.
In the year 1998, they launched their first retail lending product, Loans against Shares.

In the year 1999, the Bank launched online, real-time Net-Banking.

In February 2000, Times Bank Ltd, owned by Bennett, Coleman & Co. / Times Group amalgamated with the Bank Ltd. This was the first merger of two private banks in India. The Bank was the first Bank to launch an International Debit Card in association with VISA (Visa Electron).

In the year 2001, they started their Credit Card business. Also, they became the first private sector bank to be authorized by the Central Board of Direct Taxes (CBDT) as well as the RBI to accept direct taxes. During the year, the Bank made a strategic tie-up with a Bangalore-based business solutions software developer, Tally Solutions Pvt Ltd for developing and offering products and services facilitating online accounting and banking services to SMEs.

During the year 2001-02 the bank was listed on the New York Stock Exchange. Also, they made the alliance with LIC for providing online payment of insurance premium to the customers.

During the year 2002-03, the Bank increased the number of branches from 171 Nos to 231 Nos and the size of the Bank's ATM network expanded from 479 Nos to 732 Nos. They also expanded their presence in the 'merchant acquiring' business.

During the year 2003-04, the Bank expanded the distribution network with the number of branches increased from 231 Nos to 312 Nos and the size of the Bank's ATM network increased from 732 Nos to 910 Nos.
In September 2003, they entered the housing loan business through an arrangement with HDFC Ltd, whereby they sell HDFC Home Loan product.

During the year 2004-05, the Bank expanded the distribution network with the number of branches increased from 312 Nos to 467 Nos and the size of the Bank's ATM network increased from 910 Nos to 1147 Nos.

During the year 2005-06, the Bank launched the 'no-frills account', a basic savings account offering to the customer. Also, the distribution network was expanded with the number of branches increased from 467 Nos (in 211 cities) to 535 Nos (in 228 cities) and the number of ATMs from 1147 Nos to 1323 Nos.

During the year 2006-07, the distribution network was expanded with the number of branches increased from 535 Nos (in 228 cities) to 684 Nos (in 316 cities) and the number of ATMs from 1323 Nos to 1605 Nos. They commenced direct lending to Self Help Groups. Also, they opened a dedicated branch for lending to SHGs, in Thudiyalur village (Tamil Nadu). In September 28, 2005, the Bank increased their stake in HDFC Securities Ltd from 29.5% to 55%. Consequently, HDFC Securities Ltd became a subsidiary of the Bank.

During the year 2007-08, the Bank added 77 Nos new branches take the total to 761 Nos branches. Also, 372 Nos new ATMs were also added taking the size of the ATM network from 1605 Nos to 1977 Nos. HDB Financial Services Ltd became a subsidiary company with effect from August 31, 2007.

In June 2, 2007, the Bank opened 19 branches in a day in Delhi and the National Capital Region (NCR). During the year 2008-09, the Bank expanded their distribution network from 761 branches in 327 cities to 1,412 branches in 528 Indian
cities. The Bank's ATMs increased from 1,977 to 3,295 during the year. As per the scheme of amalgamation, Centurion Bank of Punjab Ltd was amalgamated with the Bank with effect from May 23, 2008. The appointed date for the merger was April 01, 2008.

In October 2008, the bank opened their first overseas commercial branch in Bahrain. The branch offers the bank's suite of banking services including treasury and trade finance products for corporate clients and wealth management products for Non-resident Indians.

During the year 2009-10, the Bank expanded their distribution network from 1,412 branches in 528 cities to 1,725 branches in 779 cities. The Bank's ATMs increased from 3,295 Nos to 4,232 Nos during the year.

During the year 2010-11, the Bank expanded their distribution network from 1,725 branches in 779 cities to 1,986 branches in 996 Indian cities. The Bank's ATMs increased from 4,232 to 5,471 Nos.

Profile of ICICI Bank

ICICI Bank Ltd is a major banking and financial services organization in India. The Bank is the second largest bank in India and the largest private sector bank in India by market capitalization. They are a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. The Bank and their subsidiaries offers a wide range of banking and financial services including commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking and treasury products and services. They
offer through a variety of delivery channels and through their specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management. The Bank has a network of 2,035 branches and about 5,518 ATMs in India and presence in 18 countries. They have subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany. The Bank’s equity shares are listed in India on Bombay Stock Exchange and the National Stock Exchange of India Limited and their American Depositary Receipts (ADRs) are listed on the New York Stock Exchange. The Banks is the first Indian Bank listed on New York Stock Exchange.

Mile Stones of ICICI Bank

ICICI Bank Ltd was incorporated in the year 1994 as a part of the ICICI group with the name ICICI Banking Corporation Ltd. The initial equity capital was 75.0% by ICICI and 25.0% by SCICI Ltd, a diversified finance and shipping finance lender of which ICICI owned 19.9% at December 1996. Pursuant to the merger of SCICI into ICICI, ICICI Bank became a wholly-owned subsidiary of ICICI.

In September 10, 1999, the name of the Bank was changed from ICICI Banking Corporation Ltd to ICICI Bank Ltd.

In March 10, 2001, ICICI Bank acquired Bank of Madura, an old private sector bank, in an all-stock merger. ICICI Ltd along with their wholly owned retail finance subsidiaries, namely ICICI Capital Services Ltd and ICICI Personal Financial Services Ltd amalgamated with the Bank with effect from May 3, 2002.
In May 2003, the bank acquired the entire paid-up capital of Transamerica Apple Distribution Finance Pvt Ltd (now known as ICICI Distribution Finance Pvt Ltd) which primarily engaged in financing in the two-wheeler segment.

In September 12, 2003, the Bank incorporated ICICI Bank Canada as a 100% subsidiary company.

In May 2005, the Bank acquired the entire paid-up capital of Investitsionno-Kreditny Bank, a Russian bank with their registered office in Balabanovo in the Kaluga region and a branch in Moscow. Thus, IKB became a subsidiary of Bank with effect from May 19, 2005.

In August 2005, the Bank acquired additional 6% of the equity share capital of Prudential ICICI Asset Management Company Ltd and Prudential ICICI Trust Ltd from Prudential Corporation Holdings Ltd and thus these two companies became the subsidiaries of the Bank.

During the year 2006-07, ICICI Bank Canada incorporated ICICI Health Management Inc as a subsidiary company.


In 2007 June, the Bank entered into an agreement with networking solutions provider GTL Ltd to lease out their call centre facility at Mahape worth of around Rs 100 crore for a period of 25 years.

During the year 2007-08, the Bank increased their branches & extension counter from 755 Nos to 1,262 Nos, including the addition of about 200 branches through the merger of Sangli Bank. They increased their ATM network from 3,271
ATMs to 3,881 ATMs. They launched mobile banking service enabling a wide range of banking transactions using the mobile phone.

During the year 2008-09, the Bank increased their branches & extension counter from 1,262 Nos to 1,419 Nos. They also received licenses for 580 additional branches from RBI. They increased their ATM network to 4,713 ATMs from 3,881 ATMs.

In April 22, 2009, ICICI Prudential Pension Funds Management Company Ltd was incorporated as a subsidiary company of ICICI Prudential Life Insurance Company Ltd.

During the year 2009-10, the Bank increased their branches & extension counter from 1,419 Nos to 1,707 Nos. They also increased their ATM network from 4,713 ATMs to 5,219 ATMs. ICICI Wealth Management Inc., a subsidiary of ICICI Bank Canada, has been dissolved effective December 31, 2009.

In January 2010, the Bank and First Data, a company engaged in electronic commerce and payment services, formed a merchant acquiring alliance and a new entity named ICICI Merchant Services, 81% owned by First Data, was formed, which acquired ICICI Bank's merchant acquiring operations for a total consideration of Rs.3,744 million.

In May 2010, the Bank approved the scheme of amalgamation of Bank of Rajasthan Ltd with the Bank through share-swap in a non-cash deal that values the Bank of Rajasthan at about Rs 3,000 crore. Each 118 shares of Bank of Rajasthan will be converted into 25 shares of ICICI Bank Ltd.
In August 2010, as per the scheme of amalgamation, Bank of Rajasthan was amalgamated with the Bank with effect from the close of business on 12 August 2010. The merger of Bank of Rajasthan added over 450 branches to the network. Including these, their branch network increased from 1,707 branches at March 31, 2010 to 2,529 branches at March 31, 2011. They also increased their ATM network from 5,219 ATMs at March 31, 2010 to 6,055 ATMs at March 31, 2011.

**Statement of the Problem**

The term bank is defined as "an establishment for custody of money, which it pays out on customer's order." by the Oxford Dictionary. From the definition it could be understand that banks are handling people money. Banking sector is playing vital role in the development of the economy of a country. Banks provide benefits to the economy in several ways such as increase in national gross domestic products, helps in generating employment opportunity to the people, make way for capital formation, channelizing funds from the people who have surplus money to the deficit one and so on. In recent decades private sector banks are developing and it gives financial services to the people more than what the public sector banks provides to the people. They often introduce new technologies in banking sector and they have been introducing innovative services to its customers such as ATM services, internet banking, mobile banking and so on. Private sector banks have become big competitors to the public sector banks because of providing various technologies and innovative services to the customers. Hence private sector banks are able to attract many customers and they have been establishing new branches and ATM centers throughout the country. Once they provided services in cities and towns only, but now they are establishing branches and ATM centers in the rural area also. Establishing new branches and expanding the quantum of business provides more
employment opportunities to the people. The private sector banks contribute as much as that of public sector banks in the economic development of the country. There is much scope for the expansion of private sector banks in current scenario and they could play a greater role in the Indian financial system. Provided that operational performance is comparatively good. In this context assessing the operational performance of the private sector banks has become the need of the hour. Moreover in recent trend a detained study measuring the operational performance of private sector banks has not come out. Therefore the present study makes an attempt to evaluate the operational performance of private sector banks in India.

**Objectives of the Study**

The objectives of the study are,

1. To study the funds management of selected private sector banks.
2. To assess the efficiency of assets management of selected private sector banks.
3. To study the profitability of selected private sector banks.
4. To analyse the performance of select banks on the basis of primary data collected from bank employees.
5. To summarise findings, offer suggestions and draw conclusions of the study.

**Methodology**

The present study is analytical in nature. It required various accounting factors. They were extracted from the annual reports of the concerned banks. It required various standard ratios for analysis. They were calculated for ten years period.
Sample selection

There are 20 public sector and 20 private sector banks in India. Among them 13 were old private sector banks and 7 new private sector banks. In terms of quantum of business new private sector banks have been performing well than old private sector banks. Among the private sector banks ICICI bank ltd., HDFC bank ltd., and Axis bank ltd. are the leading banks in terms of quantum of business, number of branches and ATMs. Hence these three banks have been selected for the study.

Data Collection

The study required secondary data for the analysis. Its primary analysis required annual reports of the selected banks. It was collected from various databases such as PROWESS database maintained by Centre for Monitoring Indian Economy (CMIE). It also required other secondary data, they were collected from journals, magazines, newspapers, internet sources and books. The study also included primary data which were obtained from bank employees. For this purpose throughout the country 24 select banks were selected, which included 6 banks each of ICICI bank, HDFC bank and Axis bank in north, south, west and east of the country and they were analysed and interpreted subsequently.

Study period

The period of the present study is ten years from 2002-03 to 2011-12. So the required data were collected for the ten years and they were duly analysed for ten years and they have tabulated and properly interpreted.
Tools Used

The study primarily needed Ratio analysis, Simple percentage, Trend analysis, Arithmetic mean, Standard deviation, Co-efficient of variation and Compound Annual Growth Rate (CAGR) for analysis.

Scope of the Study

There are many operational measures of a bank. Among the financial performance is necessary one. Hence the study has analysed the financial performance of the selected private selected banks in three aspects such as, financial performance in terms of funds management, assets management and profitability analysis. Other aspects of operational performances are assumed out of the scope of the study. Among the private sector banks only three new-private sector banks were considered for the study and other private banks are not considered for the study and they are assumed out of scope.

An efficient financial management of a bank will reflect in its profit earning. Both efficient management of funds and assets of a bank will lead to earn more profit. Not only the above, other aspects such as spread, burden and etc. also will have its impact on profit earning of a bank, hence it is essential to study profitability of a bank.

Limitations of the study

1. The study had selected three new private sector banks such as ICICI Bank, HDFC Bank and Axis Bank and the same result may not be expected for other banks.
2. The study used secondary data, hence the limitations for the secondary data is applicable to this study.
3. The study primarily used variables which were collected from annual reports of the selected private sector banks. So reliability of the results depends on reliability of the data provided in the annual reports of the banking companies.

**Chapter Scheme**

The first chapter gives introduction, profile of the selected banks, statement of the problem, objectives of the study, methodology, sample selection, data collection, study period, tools used, scope of the study, limitations of the study and chapter scheme.

Second chapter gives relevant review of literature.

Third chapter analysed the efficiency of funds management of the selected private sector banks.

Fourth chapter assessed the efficiency of assets management of the selected private sector banks.

Fifth chapter gives the analysis of profitability of the selected private sector banks and

Sixth chapter provides the results of performance analysis of select banking companies on the basis of primary data collected from the respondents.

Seventh chapter summarises the findings of the study, offers suggestions and draft conclusion of the study.