Chapter-IV

Profitability Analysis

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Introduction

The term profit is an accounting concept which shows the excess of income over expenditure viewed during a specified period of time. Profit is the main reason for the continued existence of every commercial organization. On the other hand, the term profitability is a relative measure where profit is expressed as a ratio, generally as a percentage. Profitability depicts the relationship of the absolute amount of profit with various other factors. Profitability is a relative concept which is quite useful in decision-making. Another main issue here is profit planning, which consists of various steps to be taken to improve the profitability of the bank.

Profit is the very reason for the continued existence of every commercial organization. The rate of profitability and volume of profits are therefore, rightfully considered as indicators of efficiency in the deployment of resources of banks.\(^1\)

Profitability indicates earning capacity of the banks. It highlights the managerial competency of the banks. It also portrays work culture, operating efficiency of the bank.\(^2\)
Profitability is the most important and reliable indicator as it gives a broad indication of the ability of a bank to raise its income level. Profitability of banks is affected by a number of factors. Some of these are endogenous, some are exogenous and yet structural. Changes in policies made by RBI are exogenous to the system. This includes changes in momentary policy, changes in quantitative credit control like changes in CRR, SLR, manipulation of bank rates, qualitative credit controls like selective credit control measures, C/D ratio, regionwise guidelines on lending to priority sectors, changes in interest rates on deposits and advances, levy of tax on interest income etc. Various other factors like careful control of expenditure, timely recovery of loans are endogenous. Various structural factors include geographical spread of bank branches, decentralization in the management and structural changes in deposits and advances. Banking structure and profitability structure of banking system across countries have a bearing on the profitability of banks. The profitability of banks is affected one way or the other by these factors, either individually or jointly. Bank profitability is causing concern to all. After liberalisation, profitability has regained its lost importance. Now efforts are being directed to achieve the profitability targets. The profitability of public sector banks has been indicating a fast declining trend in the past and the situation in future may not be different if all the concerned do not take timely preventive measures before the situation goes out of control. Since all the banks in the country function under similar environments, the low performance
of any bank can be attributed to a larger extent to their managerial inefficiency and structural deficiency. Certain populistic Central Government disregarding the basic banking principles, coupled with lethargic attitude of the management of nationalized banks lead to inefficiency, in-competency and deceleration in performance. The major reasons for this declining profitability can be summarized as under:

1. Non-Performing advances leading to bad debts.
2. Legal Expenses to recover the bad debts.
3. Cut Throat competition among banks to lure deposits.
5. Branch Expansion on unviable consideration.
6. Ineffective organizational restructuring.
7. Lack of proper management of resources.
8. More concentration on deposit orientation than profit orientation.
9. Increasing burden of administrative expenses.
10. Increasing establishment expenses.
11. Ineffective marketing strategies resulting in reduction in market share.
12. No turn-over strategies.
14. Subsidized service charges like concession granted.
15. Ineffective environment scanning.
The problem of low profitability and designing profitability has been historical to the banking system. “The banks are virtually suffering from scissors crisis, with a declining rate of increase in earnings and rising costs.”

The profitability analysis of commercial banks used to be a frustrating experience as the financial statements of banks concealed much and revealed less. But now-a-days, after liberalization under pressure from regulatory agencies and the public, the trend has changed. So now the profitability analysis of commercial banks means something. The financial statements of commercial banks are now prepared keeping in mind are the various changes, so they reveal each and every aspect.

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 essential to identify various factors which have studiedly contributed towards the decline in bank profitability so that corrective action can be taken and future profitability is ensured. The major factors that have a bearing on the financial viability of the banks are:

1. Priority Sector Lending.
2. Credit Policies.
4. Industrial Sickness.
5. Growing Competition.
6. Deposit Composition.
7. Increasing Establishment Expenses.
8. Low Income from Ancillary Business.
10. Miscellaneous Factors (Like declining credit AND mounting overdue).6

The present trend of low and declining profitability can be arrested and reversed if the remedial measures are tried in right direction to ease the pressure on profitability.7

The profit rates obtained by using sales or value added as denominators will therefore give us a short-term perspective of profitability. The return on capital employed on investments or total assets or fixed assets as variously defined, on the other hand will give us long-term perspective of profitability8.

As far as, profitability analysis is concerned, the present study employs the following methods. These are:
1. Trend Analysis
2. Concentration Index
3. Ratio Analysis

**Trend Analysis**

Trend Analysis becomes imperative to evaluate the overall profits and profitability performance of commercial banks. It clearly indicates the magnitude and direction of operations over a period of time; it also helps to identify certain banks in respect of their level of
efficiency in operations. It shows the trend pattern in order to identify the historical development. The study attempts to assess the profits and profitability of banks, through trend analysis of the following parameters:

1. Net Profit
2. Total Income
3. Total Expenditure
4. Spread
5. Burden
6. Working Funds
7. Advances
8. Deposits

1. **Net Profit**

Every business exists in order to earn profit. Without profit no commercial activity can sustain for a long period. Similarly, profit earning has become the main motive of commercial banks operating in India. Profit earning and timely growth in the profit earning is an essential feature for the continued success of a bank. On the basis of trends in net profits of all the 27 PSBs under study, as shown in the Table 4.1, the maximum growth rate (exponential) was witnessed by SB. While the minimum exponential growth rate was witnessed by IB i.e. 27.54 per cent followed by DB i.e. 17.78 per cent An analysis of data on the basis of percentage growth rate (as shown in Table 4.2) over the base year i.e. 1996 shows that the maximum percentage growth rate was recorded in the case of BOB i.e. 169 per cent followed
by PNB *i.e.* 157.35 per cent and for the same period lowest growth rate was shown by PSB *i.e.* -28.42 per cent and SB *i.e.* -15.04 per cent respectively. In absolute terms SBI recorded the highest total income among all the 27 PSBs in all the years under study *i.e.* from 1996 to 2007.

2. **Total Income**

The total income of a bank depends upon the interest and discount earned, commission, exchange and brokerage and the other miscellaneous receipts. On the basis of trends in total income of all the 27 PSBs under study, as shown in the Table 4.3, the maximum growth rate (exponential) was witnessed by CB *i.e.* 25.59 per cent followed by OBC *i.e.* 24.73 per cent While the minimum exponential growth rate was witnessed by IB *i.e.* 7.21 per cent followed by UCB *i.e.* 8.64 per cent An analysis of data on the basis of percentage growth rate (as shown in Table 4.4) over the base year *i.e.* 1996 shows that the maximum percentage growth rate was recorded in the case of BOI *i.e.* 83 per cent followed by SBH *i.e.* 68 per cent and for the same period minimum growth rate was shown by SB *i.e.* 12.16 per cent followed by 13.42 per cent in the case of VB. In absolute terms SBI recorded the highest total income among all the 27 PSBs in all the years under study *i.e.* from 1996 to 2007.

3. **Total Expenditure**
As far as the expenditure of public sector banks is concerned, it is fixed to a large extent because these banks cannot reduce labour force as the other industries can do in order to minimize their expenditure but in the recent years banks have taken some steps in this respect. The main components of the bank expenditure are interest on deposit, establishment expenditure and other expenditure. On the basis of trends in total expenditure of all the 27 PSBs under study, as shown in the Table 4.5, the maximum growth rate (exponential) was witnessed by OBC i.e. 24.82 per cent followed by CB i.e. 23.76 per cent. While the minimum exponential growth rate was witnessed by UCB i.e. 7.36 per cent followed by IB i.e. 7.54 per cent An analysis of data on the basis of percentage growth rate (as shown in Table 4.6) over the base year i.e. 1996 shows that the maximum percentage growth rate was recorded in the case of SBS i.e. 33.69 per cent followed by IB i.e. 31.52 and the minimum growth rate for the same period was witnessed by SB i.e. 8.06 per cent followed by VB i.e. 9.265. In absolute terms SBI recorded the highest total expenditure among all the 27 PSBs in all the years under study i.e. from 1996 to 2007.

4. Spread

Spread, which is the difference between the interest earned on loans and advances and interest paid on deposits and borrowings by the banks. It is the net amount available to banks for meeting the
various expenses. To make an analysis of the profitability of commercial banks, it is necessary to make a study of exponential growth rate of trends. On the basis of trends in total spread of all the 27 PSBs under study, as shown in the Table 4.7, the maximum growth rate (exponential) was witnessed by UntBI i.e. 29.67 per cent followed by 24.80 per cent in the case of IOB. While the minimum exponential growth rate was witnessed by IB i.e. 6.79 per cent followed by 12.52 per cent in case of UBI. An analysis of data on the basis of percentage growth rate (as shown in Table 4.8) over the base year i.e. 1996 shows that the maximum percentage growth rate was recorded in the case of SBP i.e. 391.26 per cent followed by BOB i.e. 213.78 per cent whereas for the same period, the lowest growth rate was shown by UntBI i.e. 6.78 per cent and SB i.e. 9.6 per cent respectively. In absolute terms SBI recorded the highest total spread among all the 27 PSBs in all the years under study i.e. from 1996 to 2007.

5. Burden

It is a difference between non-interest expenditure and non-interest of a commercial bank. While making an profitability analysis of commercial banks, burden plays an important role. On the basis of trends in total burden of all the 27 PSBs under study, as shown in the
Table 4.9, the maximum growth rate (exponential) was witnessed by IOB *i.e.* 17.47 per cent followed by BOB *i.e.* 16.18 per cent. While the minimum exponential growth rate was witnessed by COB *i.e.* -8.03 per cent followed by CB *i.e.* 4.86 per cent. An analysis of data on the basis of percentage growth rate (as shown in Table 4.10) over the base year *i.e.* 1996 shows that the maximum percentage growth rate was recorded in the case of SBP *i.e.* 75.39 per cent followed by UCB *i.e.* 42.68 per cent and for the same period minimum growth rate was SBI *i.e.* -32.26 per cent followed by – 29.78 per cent in the case of CB.

6. **Working funds**

In order to refine the study, the trend of working funds has also been taken into consideration. All the 27 banks have been put under the study to know the exponential growth rate of the working funds. On the basis of trends in total working funds of all the 27 PSBs under study, as shown in the Table 4.11, the maximum growth rate (exponential) was witnessed by COB *i.e.* 24.44 per cent followed by OBC *i.e.* 23.57 per cent. While the minimum exponential growth rate was witnessed by UCB *i.e.* 7.68 per cent followed by IB *i.e.* 9.09 per cent. An analysis of data on the basis of percentage growth rate over
the base year *i.e.* 1996 shows that the maximum percentage growth rate (as shown in Table 4.12) was recorded in the case of SBM *i.e.* 18.92% followed by SBT *i.e.* 15.99 per cent and for the same period the lowest growth rate was witnessed by VB *i.e.* -23.31 per cent and -6.78 per cent in case of CB respectively. In absolute terms SBI recorded the highest total working funds among all the 27 PSBs in all the years under study *i.e.* from 1996 to 2007.

7. Advances

The main earning of a commercial bank is from the advances provided to the public and the industry. Ultimately, the interest is to be earned from this major factor only. Interest constitutes the main part of the total income of the commercial bank. So the exponential growth rate of advances of various PSBs under study has been taken into consideration. On the basis of trends in total advances of all the 27 PSBs under study, as shown in the Table 4.13, the maximum growth rate (exponential) was witnessed by CB *i.e.* 27.3 per cent followed by OBC *i.e.* 22.86 per cent. While the minimum exponential growth rate was witnessed by UCB *i.e.* 1.52 per cent followed by IB *i.e.* 4.05 per cent. An analysis of data on the basis of percentage growth rate (as shown in Table 4.14 ) over the base year *i.e.* 1996 shows that the maximum percentage growth rate was recorded in the
case of UCB i.e. 21.15 per cent followed by SBH i.e. 20.23 per cent and for the same period minimum growth rate was shown by VB i.e. -7.10 per cent followed by SB i.e. -2.39 per cent. In absolute terms SBI recorded the highest total advances among all the 27 PSBs in all the years under study i.e. from 1996 to 2007.

8. Deposits

It is the main component of the liability side of the balance sheet of a bank. Interest is to be paid on the deposits received from the public and the other parties. Interest paid constitutes the major part of the total expenditure of a commercial bank. Keeping in mind the significance of this factor, the EGR of deposits has been computed. On the basis of trends in total deposits of all the 27 PSBs under study, as shown in the Table 4.15, the maximum growth rate (exponential) was witnessed by OBC i.e. 23.95 per cent followed by COB i.e. 23.86 per cent. While the minimum exponential growth rate was witnessed by UCB i.e. 9.98 per cent followed by IB i.e. 9.58 per cent and for the same period, the lowest growth rate was shown by SBP i.e. -9.63 per cent and -5.6 per cent in case of SBBJ respectively. An analysis of data on the basis of percentage growth rate (as shown in Table 4.16) over the base year i.e. 1996 shows that the maximum percentage growth rate was recorded in the case of SBS i.e. 33.69 per cent followed by IB i.e. 31.52 per cent. In absolute terms SBI recorded
the highest total deposit among all the 27 PSBs in all the years under study \textit{i.e.} from 1996 to 2007.

**Concentration Indices**

In order to judge the overall performance of all the PSBs, it becomes imperative to know the relative efficiency of each bank. For this purpose Herfindhal’s index of concentration has been computed. The results of the study are as under:

1. **Performance in Sharing Total Income**

   Table 4.17 shows that SBI made maximum contribution \textit{i.e.} 70.97 per cent followed by BOI \textit{i.e.} 5.66 per cent. However, the trend differed in the other years for other banks excluding SBI which maintained its position throughout the period under study. In the year 2002, again maximum contribution to the overall index was made by SBI \textit{i.e.} 74.15 per cent followed by BOB \textit{i.e.} 4.27 per cent. The overall index of total income had also witnessed ups and downs over the years. It has moved from 0.1.0874 in 1996 to 0.11094 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI and CB had the maximum relative share; and SBS and SBIn had the minimum relative share in 2007. Another main observation is that there was no sudden change in the performance of sharing total income by all the PSBs. Over the period under study \textit{i.e.} from 1996 to 2007, the share of SBI, PNB, OBC and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOB, BOI, CBI and IB.
2. Performance in Sharing Net Profit

Table 4.18 presents the concentration indices of relative performance of Public Sector Banks with regard to sharing of NP during the period under study. During 1996, maximum contribution to the overall index was made by the leader (SBI) \textit{i.e.} 49.09 per cent followed by CB \textit{i.e.} 24.79 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by SBI \textit{i.e.} 80.28 per cent. The overall index of NP had also witnessed ups and downs over the years. It has moved from 0.10785 in 1996 to 0.11711 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI and CB and the maximum relative share; and DB and IB had the minimum relative share in 2007. Another main observation is the general tendency towards almost similar degree of efficiency over the years as shown by the banks. Over the period under study \textit{i.e.} from 1996 to 2007, the share of SBI, COB, BOI, DB and UntBI in the total Concentration Index has gone up, whereas it has come down in the case of BOB, CB and PNB.
3. Performance in Sharing Deposits

Table 4.19 presents the concentration indices of relative performance of Public Sector Banks with regard to sharing of deposits during the period under study. During 1996, maximum contribution to the overall index was made by SBI i.e. 61.87 per cent followed by BOI i.e. 7.61 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was again made by SBI to the extent of 64.91 per cent and this time No.2 was BOB with 5.48 per cent share. The overall index of total deposits had also witnessed ups and downs over the year. It has moved from 0.09248 in 1996 to 0.10669 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI and PNB had the maximum relative share; whereas SBIn and SBS had the minimum relative share in 2007. The share of SBI has shown an improvement from 61.87 per cent in 1996 to 73.11 per cent in 2007. Over the period under study i.e. from 1996 to 2007, the share of SBI, CB and UBI in the total Concentration Index has gone up, whereas it has come down in the case of BOB, BOI, IOB and PNB.

4. Performance in Sharing Total Advances

Table 4.20 presents the concentration indices of relative performance of Public Sector Banks with regard to sharing of total
advances during the period under study. During 1996, maximum contribution to the overall index was made by SBI with 75.96 per cent followed by BOI with just 5.88 per cent. Regarding advances, the trend was almost the same in the other years also. SBI remained the king and for the distant second position BOI and BOB etc. played. In all the years, maximum contribution to the overall index was made by SBI. The overall index of total advances had also witnessed ups and downs over the years. It has moved from 0.12628 in 1996 to 0.09604 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI and BOI had the maximum relative share and SBIn and SBS had the minimum relative share in 2007. Another main observation is that even the share of SBI has shown declining trend. Over the period under study i.e. from 1996 to 2007, the share of SBI, BOB, BOI, CB, CBI, PSB and PNB in the total Concentration Index has gone up, whereas it has come down in the case of IB and UCB.

5. Performance in Sharing Total Burden

Table 4.21 presents the concentration indices of relative performance of public sector banks with regard to sharing of total burden during the period under study. During 1996, maximum contribution to the overall index was made by SBI with 73.76 per cent followed by CB with just 4.40 per cent. Regarding burden, the trend was almost the same in the other years also. SBI remained at the top.
In 2002, maximum contribution was by SBI and then stood PNB. In all the years, maximum contribution to the overall index was made by SBI. The overall index of total burden had also witnessed ups and downs over the years. It has moved from 0.10913 in 1996 to 0.12837 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI had the maximum relative share; In 2007, SBIn and SBH had the minimum relative share. Over the period under study i.e. from 1996 to 2007, the share of BOB, CBI, IOB, PNB, SB and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOI, IB, OBC, DB, CB and COB.

6. Performance in Sharing Total Spread

Table 4.22 presents the concentration indices of relative performance of public sector banks with regard to sharing of total spread during the period under study. During 1996, maximum contribution to the overall index was made by SBI with 72.46 per cent followed by CB with just 5.70 per cent. Regarding spread, the trend was almost the same in the other years also. SBI remained the king. In 2002, share of SBI was 76.57 per cent, showing some improvement and for the second position was occupied by PNB with 3.94 per cent share. In all the years, maximum contribution to the overall index was made by SBI. The overall index of total spread had also witnessed changes over the years. It has moved from 0.10717 in 1996 to 0.11043 in 2007. Thus from the above analysis of concentration
indices, it becomes clear that among the 27 public sector banks, SBI and PNB had the maximum relative share; and SBIn and SBS had the minimum relative share in 2007. Another main observation is that even the share of SBI has shown ups and downs. Over the period under study *i.e.* from 1996 to 2007, the share of SBI, BOB, PNB, UntBI and BOI in the total concentration index has gone up, whereas it has come down in the case of CB, CBI, IB and SB.

7. **Performance in Sharing Total Expenditure**

Table 4.23 presents the concentration indices of relative performance of public sector banks with regard to sharing of total expenditure during the period under study. During 1996, maximum contribution to the overall index was made by SBI with 71.16 per cent followed by BOI with just 5.72 per cent. Regarding expenditure also, the trend was almost the same in the other years also. The total expenditure of SBI remained the highest in all the years under study, so maximum contribution to the overall index was made by SBI. The overall index of total expenditure had also witnessed ups and downs over the years. It has moved from 0.10918 in 1996 to 0.11130 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI and BOI had the maximum relative share; and SBIn and SBM had the minimum relative share in 2007. Another main observation is that the share of SBI has shown an upwards trend which is not desirable. Over the
period under study *i.e.* from 1996 to 2007, the share of SBI, CB, PNB and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOB, BOI, IB and CBI.

8. **Performance in Sharing Spread per Employee**

Table 24 presents the concentration indices of relative performance of public sector banks with regard to sharing of spread per employee during the period under study. During 1996, maximum contribution to the overall index was made by OBC *i.e.* 8.66 per cent followed by CB *i.e.* 6.32 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by COB with 9.96 per cent share followed by OBC with 9.57 per cent share. The overall index of spread per employee had also witnessed ups and downs over the years. It has moved from 0.03827 in 1996 to 0.03994 in 2007. It is also clear from the table that among the 27 public sector banks, UntBI and OBC had the maximum relative share; and UCB and IB had the minimum relative share in 2007. Another main observation is the general tendency towards almost similar degree of efficiency over the years. Over the period under study *i.e.* from 1996 to 2007, the share of SBI, BOB, BOI, OBC and UntBI in the total concentration index has gone up, whereas it has come down in the case of AB, CB, CBI, PSB and PNB.
9. Performance in Sharing Net Profit Per Employee

Table 4.25 presents the concentration indices of relative performance of public sector banks with regard to sharing of NP per employee during the period under study. During 1996, maximum contribution to the overall index was made by OBC *i.e.* 35.64 per cent followed by CB *i.e.* 15.17 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by COB with 23.51 per cent share, and after it was OBC with 23.27 per cent share. The overall index of NP per employee had also witnessed ups and downs over the years. It has moved from 0.06394 in 1996 to 0.04994 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, COB and OBC had the maximum relative share; and DB and IB had the minimum relative share in 2007. Another main observation is that it has shown a declining trend, it was 35.64 per cent in 1996 and in 2007 it was just 18.90 per cent, it shows the real impact of liberalisation on PSBs. Over the period under study *i.e.* from 1996 to 2007, the share of SBI, COB, AB, BOI and PSB in the total concentration index has gone up, whereas it has come down in the case of AIIB, CB, OBC and PNB.

10. Performance in Sharing Total Expenditure per Employee

Table 4.26 presents the concentration indices of relative performance of public sector banks with regard to sharing of total
expenditure per employee during the period under study. During 1996, maximum contribution to the overall index was made by IB i.e. 8.09 per cent followed by BOB i.e. 7.84 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by OBC with 6.31 per cent share. The overall index of total expenditure per employee had also witnessed changes over the years. It has moved from 0.03852 in 1996 to 0.03922 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, OBC and UntBI had the maximum relative share; whereas UCB and SBBJ had the minimum relative share in 2007. Another main observation is the marginal increase in the sharing of expenditure during the period under study. Over the period under study i.e. from 1996 to 2007, the share of AB, COBDB, OBC and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOB, BOI, IB, CB, AIIB and SBI.

11. Performance in Sharing Total Income per Employee

Table 4.27 presents the concentration indices of relative performance of public sector banks with regard to sharing of total income per employee during the period under study. During 1996, maximum contribution to the overall index was made by IB with 8.09 per cent followed by BOB 7.82 per cent share. However, the trend was not exactly the same in the other years. In the year 2002,
maximum contribution to the overall index was made by COB with 7.65 per cent share. The overall index of total income per employee had also witnessed ups and downs over the years. It has moved from 0.03851 in 1996 to 0.03921 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, OBC and UntBI had the maximum relative share; and UCB and SBM had the maximum relative share in 2007. Another main observation is the general tendency towards almost similar degree of efficiency over the years. Over the period under study i.e. from 1996 to 2007, the share of SBH, AB, COB, DB, OBC and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOB, BOI, IB, AIIB and SBI.

12. Performance in Sharing Advances per Employee

Table 4.28 presents the concentration indices of relative performance of public sector banks with regard to sharing of advances per employee during the period under study. During 1996, maximum contribution to the overall index was made by IB i.e. 9.35 per cent followed by BOI with 8.70 per cent share. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by BOB with 7.72 per cent share. The overall index of advances per employee had also witnessed ups and downs over the years. It has moved from 0.03944 in 1996 to 0.04049 in 2007. Thus from the above analysis of
concentration indices, it becomes clear that among the 27 public sector banks, UntBI and COB had the maximum relative share; and UCB and SBBJ had the minimum relative share in 2007. No major change was noticed over the years. Over the period under study i.e. from 1996 to 2007, the share of SB, COB, OBC and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOB, IB, IOB, AIIB and SBI.

13. Performance in Sharing Deposit per Employee

Table 4.29 presents the concentration indices of relative performance of public sector banks with regard to sharing of deposit per employee during the period under study. During 1996, maximum contribution to the overall index was made by BOB i.e. 7.07 per cent followed by BOI i.e. 7.02 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by OBC i.e. 7.54 per cent. The overall index of deposits per employee had also witnessed ups and downs over the years. It has moved from 0.03852 in 1996 to 0.03863 in 2007. From the above analysis of concentration indices, it is clear that among the 27 public sector banks, OBC and COB had the maximum relative share; On the other hand, SBM and SBBJ had the minimum relative share in 2002. Another main observation is the general tendency towards almost similar degree of efficiency over the years. Over the period under study i.e. from 1996 to 2007, the share of SBI, COB, OBC, AB and SBM in the total Concentration Index has gone
up, whereas it has come down in the case of SBBJ, BOI, BOB, SBP, AIIB and PNB.

14. Performance in Sharing Burden per Branch

Table 4.30 presents the concentration indices of relative performance of public sector banks with regard to sharing of burden per branch during the period under study. During 1996, maximum contribution to the overall index was made by CB i.e. 8.22 per cent followed by SBI i.e. 7.67 per cent. But the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by SBI to the extent of 8.31 per cent. The overall index of burden per branch had also witnessed ups and downs over the years. It has moved from 0.03921 in 1996 to 0.05316 in 2007. Thus from the above analysis of concentration indices, it becomes evident that among the 27 public sector banks, SB and UntBI had the maximum relative share; and COB and SBH had the minimum relative share in 2007. Main observation is the similar degree of efficiency was not shown this time. In 1997, maximum percentage was 8.22 which became 17.15 in the last year under study over the period under study i.e. from 1996 to 2007, the share of SBI, CBI, AIIB, IOB, SB and UntBI in the total concentration index has gone up, whereas it has come down in the case of SBM, SBS, CB, COB and IB.
15. **Performance in Sharing Spread per branch**

Table 4.31 presents the concentration indices of relative performance of public sector banks with regard to sharing of spread per branch during the period under study. During 1996, maximum contribution to the overall index was made by CB *i.e.* 10.26 per cent followed by SBI *i.e.* 7.26 per cent. However, the trend was not repeated in the other years. In the year 2002, maximum contribution to the overall index was made by COB with a share of 9.58 per cent. The overall index of spread per branch had also witnessed ups and downs over the years. It has moved from 0.03950 in 1996 to 0.04074 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, UntBI and OBC had the maximum relative share; and UCB and UBI had the minimum relative share in 2007. Another main observation is that almost every time there was a change in the total percentage and the top slot also shown a change. Over the period under study *i.e.* from 1996 to 2007, the share of SBI, COB, SBP, BOI and UntBI in the total concentration index has gone up, whereas it has come down in the case of AB, CB, PSB, UCB and PNB.

16. **Performance in Sharing Net Profit Per Branch**

Table 4.32 presents the concentration indices of relative performance of public sector banks with regard to sharing of NP per branch during the period under study. During 1996, maximum
contribution to the overall index was made by OBC *i.e.* 32.73 per cent followed by CB *i.e.* 23.41 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by COB *i.e.* 22.24 per cent. The overall index of NP per branch had also witnessed changes over the years. It has moved from 0.06786 in 1996 to 0.05087 in 2007. Thus from the above analysis of concentration indices, it is clear that among the 27 public sector banks, COB and OBC had the maximum relative share; and DB and IB had the minimum relative share in 2007. Concentration index has shown a major decline from 32.73 per cent in 1996 to 18.53 per cent in 2007. Over the period under study *i.e.* from 1996 to 2007, the share of SBI, COB, SBM, SBIn and BOI in the total concentration index has gone up, whereas it has come down in the case of SBP, AIIB, CB, OBC and PNB.

### 17. Performance in Sharing Total Expenditure per Branch

Table 4.33 presents the concentration indices of relative performance of public sector banks with regard to sharing of total expenditure per branch during the period under study. During 1996, maximum contribution to the overall index was made by BOI with 8.85 per cent share followed by SBI *i.e.* 8.23 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by SBI *i.e.* 7.54 per cent followed by CB with a 5.97 per cent share. The overall index of total expenditure per branch had also witnessed ups and downs
over the years. It has moved from 0.03979 in 1996 to 0.03967 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, OBC had the maximum relative share \textit{i.e.} 9.56 per cent; and AIIB and UCB had the minimum relative share in 2007. Another main observation is the general tendency towards almost similar degree of efficiency over the years as shown by almost all the banks. Over the period under study \textit{i.e.} from 1996 to 2007, the share of SBI, SBP, AB, OBC and PSB in the total concentration index has gone up, whereas it has come down in the case of BOB, BOI, IB, BOM and AIIB.

18. Performance in Sharing Total Income per Branch

Table 4.34 presents the concentration indices of relative performance of public sector banks with regard to sharing of total income per branch during the period under study. During 1996, maximum contribution to the overall index was made by BOI \textit{i.e.} 8.67 per cent followed by SBI \textit{i.e.} 8.13 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by SBI and that was 8.36 per cent whereas second position was achieved by COB with 7.33 per cent. The overall index of total income per branch had also witnessed ups and downs over the years. It has moved from 0.03979 in 1996 to 0.03992 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, SBI and OBC and had the maximum relative share; and AIIB and UCB
had the minimum relative share in 2002. Another main observation is the general tendency towards almost similar degree of efficiency over the years. Over the period under study *i.e.* from 1996 to 2007, the share of SBI, COB, SBP, OBC and PNB in the total Concentration Index has gone up, whereas it has come down in the case of BOB, BOI, AIIB and CBI.

19. **Performance in Sharing Advances per Branch**

Table 4.35 presents the concentration indices of relative performance of public sector banks with regard to sharing of advances per branch during the period under study. During 1996, maximum contribution to the overall index was made by BOI *i.e.* 11.07 per cent followed by SBI with 10.69 per cent. However, the trend was not exactly the same in the other years. In the year 2002, maximum contribution to the overall index was made by BOI to the tune of 8.93 per cent followed by SBI with 7.98 per cent share. The overall index of advances per branch had also witnessed ups and downs over the years. It has moved from 0.04129 in 1996 to 0.04127 in 2007. Thus from the above analysis of concentration indices, it becomes clear that among the 27 public sector banks, COB and UntBI had the maximum relative share; and UCB and AIIB had the minimum relative share in 2007. Another main observation is the general tendency towards almost similar degree of efficiency over the years. Over the period under study *i.e.* from 1996 to 2007, the share of
SBP, AB, CB, OBC and UntBI in the total concentration index has gone up, whereas it has come down in the case of BOB, BOI, SBI, AIIB, PSB and PNB.

**Ratio Analysis**

It is the most widely used technique of financial analysis of commercial banks. It establishes the relationship between two accounting figures, enabling the banks to identify the causes of the changes in their profits over a period of time and then, deciding the future course of action, in the light of the given results. In order to evaluate the profitability performance of public sector banks, the following ratios have been used:

- Interest Income to Working Funds Ratio
- Interest Expended to Working Funds Ratio
- Spread to Working Funds Ratio
- Non-Interest Income to Working Funds Ratio
- Non-Interest Expenditure to Working Funds Ratio
- Burden to Working Funds Ratio
- Net Profit to Working Funds Ratio
- Interest Income to Total Income Ratio
- Interest Expended to total Expenditure Ratio
- Staff Expenditure to Operating Expenditure Ratio
**Interest Income to Working Funds Ratio**

It is the main ratio showing the profitability of a commercial bank. Interest income is the primary source of income of a commercial bank. This ratio is an indicator of the rate at which a commercial bank earns income by lending the funds to the public. The ratio of interest income as a percentage of working funds for all the 27 PSBs for the time period under study *i.e.* 1996 to 2007 has been shown in Table 4.36. In the year 1996, this ratio was the highest in SB *i.e.* 9.27 per cent followed by SBM *i.e.* 8.84 per cent. In 1996 this ratio was the lowest in the case of SBP *i.e.* 5.85 per cent followed by SBI *i.e.* 6.48 per cent. In 2007, this ratio was highest in the case of AB *i.e.* 9.69 per cent followed by VB *i.e.* 9.53 per cent. In 2007, this ratio was the lowest in the case of IB *i.e.* 7.58 per cent followed by BOI *i.e.* 8.03 per cent. As far as bank wise statistical analysis is concerned, the maximum average ratio is in the case of SBT *i.e.* 9.93 per cent followed by SBM *i.e.* 9.91 per cent, while the ratio was minimum for PSB *i.e.* 8.20 per cent followed by UCB *i.e.* 8.21 per cent. Therefore the ratio had changed from 8.20 per cent to 9.93 per cent over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of PSB *i.e.* 31.89 per cent followed by SBP *i.e.* 14.10 per cent whereas the ratio in terms of dispersion was more consistent in the case of AB *i.e.* 5.21 per cent followed by DB *i.e.* 5.88 per cent. Yearwise the average ratio which was 7.89 per cent in 1996 became 8.06 per cent in 2007. But it must be noted that this increase in
the ratio had not been consistent for some years it had declined also. The ratio in terms of dispersion has moved from 9.60 per cent in 1996 to 5.44 per cent in 2007.

**Interest Expended to Working Funds Ratio**

The interest paid on deposits and on borrowings constitutes the major components of the bank. Interest Expended to Working Funds Ratio shows the rate at which a commercial bank incurs expenditure by borrowing funds. Table 4.37 shows that in the year 1996 this ratio was the highest in BOB *i.e.* 7.04 per cent followed by IOB *i.e.* 6.77 per cent. In 1996 this ratio was the lowest in the case of SBP *i.e.* 4.59 per cent followed by SBIn *i.e.* 4.77 per cent. In 2007 this ratio was the highest in the case of AB *i.e.* 6.94 per cent followed by PSB *i.e.* 6.90 per cent. In 2007 this ratio was the lowest in the case of SBP *i.e.* 4.88 per cent followed by BOI *i.e.* 5.39 per cent. As far as bank-wise statistical analysis is concerned, the maximum average ratio is in the case of IB *i.e.* 7.24 per cent followed by SBT *i.e.* 7.22 per cent, while the ratio was minimum for SBP *i.e.* 5.62 per cent followed by SBI *i.e.* 5.84 per cent. Therefore, the ratio had changed from 5.62 per cent to 7.24 per cent over 12 years period *i.e.* 1996 to 2007. The ratio in terms of dispersion was more variable in the case of PSB *i.e.* 31.98 per cent followed by VB *i.e.* 15.44 per cent whereas the ratio in terms of dispersion was more consistent in the case of AB *i.e.* 5.84 per cent followed by SBM *i.e.* 6.08 per cent. Yearwise the average ratio which was 5.93 per cent in 1996 became 6.06 per cent in 2007. But it must be noted that this
increase in the ratio had not been consistent for some years it had declined also. The ratio in terms of dispersion has moved from 10.81 per cent in 1996 to 7.71 per cent in 2007.

**Spread to Working Funds Ratio**

Another main ratio to study the profitability of commercial banks is spread to Working Funds Ratio. The ratio of spread as a percentage of working funds for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.38 in the year 1996 this ratio was the highest in SBM *i.e.* 2.83 followed by SB *i.e.* 2.72 per cent. In 1996 this ratio was the lowest in the case of BOB *i.e.* 1.07 per cent followed by UCB *i.e.* 1.17 per cent. In 2007 this ratio was the highest in the case of SBP *i.e.* 3.78 per cent followed by SB *i.e.* 3.48 per cent. In 2007 this ratio was the lowest in the case of IB *i.e.* 1.75 per cent followed by PSB *i.e.* 2.30 per cent. As far as bank wise statistical analysis is concerned, the maximum average ratio is in the case of SBP *i.e.* 3.67 per cent followed by SBIn *i.e.* 3.49 per cent, while the ratio was minimum for IB *i.e.* 1.39 per cent followed by UCB *i.e.* 1.87 per cent. Therefore, the ratio had changed from 1.39 per cent to 3.67 per cent over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of UntBI *i.e.* 46.72 per cent followed by PSB *i.e.* 41.78 per cent where as the ratio in terms of dispersion was more consistent in the case of SBM *i.e.* 12.78 per cent followed by VB *i.e.* 14.28 per cent. Yearwise the average ratio which was 1.97 per cent in 1996 became 2.80 per cent in 2007. But it must be
noted that this increase in the ratio had not been consistent for some years it had declined also. The ratio in terms of dispersion has moved from 25.90 per cent in 1996 to 14.07 per cent in 2007.

**Non-Interest Income to Working Funds Ratio**

The ratio of Non-Interest income as a percentage of working funds for all the 27 PSBs for the time period under study *i.e.* 1996 to 2007 has been shown in Table 4.39. In the year 1996 this ratio was the highest in SBP *i.e.* 1.80 per cent followed by SBBJ *i.e.* 1.14 per cent. In 1996 this ratio was the lowest in the case of PNB *i.e.* 0.48 per cent followed by OBC *i.e.* 0.47 per cent. In 2007 this ratio was the highest in the case of SBIn *i.e.* 2.73 per cent followed by SBM *i.e.* 2.25 per cent. In 2007 this ratio was the lowest in the case of SB *i.e.* 0.86 per cent followed by UntBI *i.e.* 1.12 per cent. As far as bank wise statistical analysis is concerned, the maximum average ratio is in the case of SBBJ *i.e.* 1.67 per cent followed by SBM *i.e.* 1.65 per cent, while the ratio was minimum for UntBI *i.e.* 0.78 per cent followed by OBC *i.e.* 0.92 per cent. Therefore the ratio had changed from 0.78 per cent to 1.67 per cent over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of PSB *i.e.* 39.99 per cent followed by PNB *i.e.* 33.47 per cent whereas the ratio in terms of dispersion was more consistent in the case of SBBJ *i.e.* 12.37 per cent followed by SBH *i.e.* 13.49 per cent. Yearwise average ratio which was 0.80 per cent in 1996 became 1.59 per cent in 2007. But it must be noted that this increase in the ratio had not been consistent for some
years it had declined also. The ratio in terms of dispersion has moved from 25.35 per cent in 1996 to 23.86 per cent in 2007.

**Non-Interest Expenditure to Working Funds Ratio**

The ratio of Non-Interest expenditure as a percentage of working funds for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.40. In the year 1996 this ratio was the highest in SBM *i.e.* 3.65 per cent followed by SBBJ *i.e.* 3.25 per cent. In 1996 this ratio was the lowest in the case of BOI *i.e.* 1.70 per cent followed by ALLB *i.e.* 1,992 per cent. In 2007 this ratio was the highest in the case of UCB *i.e.* 3.33 per cent followed by SB *i.e.* 3.23 per cent. In 2007 this ratio was the lowest in the case of COB *i.e.* 1.62 per cent followed by OBC *i.e.* 1.63 per cent. As far as bank-wise statistical analysis is concerned, the maximum average ratio is in the case of SB *i.e.* 3.45 per cent followed by SBM *i.e.* 3.42 per cent, while the ratio was minimum for COB *i.e.* 2.161 per cent followed by OBC *i.e.* 2.164 per cent. Therefore, the ratio had changed from 2.161 per cent to 3.45 per cent over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of PSB *i.e.* 32.21 per cent followed by COB *i.e.* 19.29 per cent where as the ratio in terms of dispersion was more consistent in the case of SBM *i.e.* 6.12 per cent followed by SB *i.e.* 6.50 per cent. Yearwise the average ratio which was 2.59 per cent in 1996 became 2.40 per cent in 2007. But it must be noted that this increase in the ratio had not been consistent
for some years it had declined also. The ratio in terms of dispersion has moved from 18.88 per cent in 1996 to 17.68 per cent in 2007.

**Burden to Working Funds Ratio**

The ratio of burden as a percentage of working funds for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.41. In the year 1996 this ratio was the highest in SBM *i.e.* 2.69 per cent followed by SB *i.e.* 2.66 per cent. In 1996 this ratio was the lowest in the case of BOB *i.e.* 0.88 per cent followed by SBP *i.e.* 0.85 per cent. In 2007 this ratio was the highest in the case SB *i.e.* 2.36 per cent followed by UCB *i.e.* 1.60 per cent. In 2007 this ratio was the lowest in the case of SBIn *i.e.* 0 per cent followed by COB *i.e.* 0.01 per cent. As far as bankwise statistical analysis is concerned, the maximum average ratio is in the case of SB *i.e.* 2.46 per cent followed by BOM *i.e.* 2.13 per cent, while the ratio was minimum for COB *i.e.* 0.75 per cent followed by BOB *i.e.* 1.05 per cent. Therefore, the ratio had changed from 0.75 per cent to 2.46 per cent over 12 years period *i.e.* 1996 to 2007. The ratio in terms of dispersion was more variable in the case of COB *i.e.* 79.18 per cent followed by SBIn *i.e.* 42.16 per cent whereas the ratio in terms of dispersion was more consistent in the case of CBI *i.e.* 9.28 per cent followed by SB *i.e.* 9.99 per cent. Year wise the average ratio which was 1.79 per cent in 1996 became 0.83 per cent in 2007. But it must be note that this increase in the ratio had not been consistent for some years it had increased also. The ratio in
terms of dispersion has moved from 28.37 per cent in 1996 to 63.78 per cent in 2007.

**Net Profit To working Funds Ratio**

This ratio indicates efficiency with which a bank deploys its total working funds in order to increase its profitability. In other words, net profit to working funds ratio shows an index to the degree of asset utilization by the bank. The ratio of Net Profit as a percentage of working funds for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.42. In the year 1996 this ratio was the highest in OBC *i.e.* 0.66 per cent followed by CB *i.e.* 0.43 per cent. In 1996 this ratio was the lowest in the case of UCB *i.e.* 0 per cent followed by VB *i.e.* 0.06 per cent. In 2007 this ratio was the highest in the case of SBP *i.e.* 1.34 per cent followed by COB *i.e.* 1.30 per cent. In 2007 this ratio was the lowest in the case of IB *i.e.* 0.11 per cent followed by CBI *i.e.* 0.31 per cent.

As far as bankwise statistical analysis is concerned, the maximum average ratio is in the case of OBC *i.e.* 1.03 per cent followed by COB *i.e.* 0.99 per cent, while the ratio was minimum for IB and UCB *i.e.* 0.064 per cent followed by UntBI *i.e.* 0.13 per cent. Therefore, the ratio had changed from 0.064 per cent to 1.03 per cent over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of UCB *i.e.* 238.60 per cent followed by UntBI *i.e.* 158.60 per cent whereas the ratio in terms of dispersion was more consistent in the case of OBC *i.e.* 40.11 per cent followed by SBH *i.e.* 41.94 per cent. Yearwise the average ratio which was 0.18 per cent in 1996 became 0.73 per cent in 2007. But it must be noted that this increase in the ratio had not been consistent for some years it had
declined also. The ratio in terms of dispersion has moved from 77.42 per cent in 1996 to 46.32 per cent in 2007.

**Interest Income to Total Income Ratio**

The ratio of Interest income as a percentage of total income for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.43. In the year 1996 this ratio was the highest in OBC *i.e.* 94.40 per cent followed by PNB *i.e.* 93.74 per cent. In 1996 this ratio was the lowest in the case of SBP *i.e.* 83.22 per cent followed by SBM *i.e.* 87.74 per cent. In 2007 this ratio was the highest in the case of SB *i.e.* 91.26 per cent followed by VB *i.e.* 89.07 per cent. In 2007 this ratio was the lowest in the case of SBIn *i.e.* 76.36 per cent followed by SBM *i.e.* 80.63 per cent. As far as bankwise statistical analysis is concerned, the maximum average ratio is in the case of OBC *i.e.* 91.50 per cent followed by UntBI *i.e.* 91.49 per cent, while the ratio was minimum for SBIn *i.e.* 84.83 per cent followed by SBBJ *i.e.* 84.91 per cent. Therefore, the ratio had changed from 84.83% to 91.50% over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of SBIn *i.e.* 4.41 per cent followed by IOB *i.e.* 4.08 per cent whereas the ratio in terms of dispersion was more consistent in the case of CBI *i.e.* 1.16 per cent followed by SB *i.e.* 1.39 per cent. Yearwise the average ratio which was 90.69 per cent in 1996 became 84.84 per cent in 2007. But it must be noted that this increase in the ratio had not been consistent for
some years it had risen also. The ratio in terms of dispersion has moved from 2.82 per cent in 1996 to 3.72 per cent in 2007.

**Interest Expended to Total Expenditure Ratio**

The ratio of interest expended as a percentage of total expenditure for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.44. In the year 1996 this ratio was the highest in BOI *i.e.* 79.30 per cent followed by BOB *i.e.* 77.99 per cent. In 1996 this ratio was the lowest in the case of SBI *i.e.* 62.19 per cent followed by SBM *i.e.* 62.17 per cent. In 2007 this ratio was the highest in the case of COB *i.e.* 77.46 per cent followed by AB *i.e.* 76.21 per cent. In 2007 this ratio was the lowest in the case of SB *i.e.* 63.32 per cent followed by UCB *i.e.* 65.39 per cent. As far as bank-wise statistical analysis is concerned, the maximum average ratio is in the case of SBT *i.e.* 74.01 per cent followed by IB *i.e.* 73.97 per cent, while the ratio was minimum for SB *i.e.* 63.88 per cent followed by SBM *i.e.* 65.31 per cent. Therefore, the ratio had changed from 63.88 per cent to 74.01 per cent over 12 years period *i.e.* from 1996 to 2007. The ratio in terms of dispersion was more variable in the case of COB *i.e.* 6.17 per cent followed by AB *i.e.* 5.78 per cent whereas the ratio in terms of dispersion was more consistent in the case of PSB *i.e.* 1.74 per cent followed by SBBJ *i.e.* 2.61 per cent. Yearwise the average ratio which was 69.71 per cent in 1996 became 71.28 per cent in 2007. But it must be noted that this increase in the ratio had not been consistent for some years it had declined also. The ratio in terms of
dispersion has moved from 6.35 per cent in 1996 to 4.76 per cent in 2007.

**Staff Expenditure to Operating Expenditure Ratio**

The ratio of staff expenditure as a percentage of operating expenditure for all the 27 PSBs for the time period under study *i.e.* from 1996 to 2007 has been shown in Table 4.45. In the year 1996 this ratio was the highest in DB *i.e.* 76.40 per cent followed by UCB *i.e.* 73.52 per cent. In 1996 this ratio was the lowest in the case of OBC *i.e.* 61.04 per cent followed by VB *i.e.* 61.66 per cent. In 2002 this ratio was the highest in the case of UCB *i.e.* 86 per cent followed by UBI *i.e.* 82 per cent. In 2007 this ratio was lowest in the case of OBC *i.e.* 54.54 per cent followed by COB *i.e.* 55.67 per cent. As far as bankwise statistical analysis is concerned, the maximum average ratio is in the case of UCB *i.e.* 79.85 per cent followed by UntBI *i.e.* 78.11 per cent, while the ratio was minimum for OBC *i.e.* 58.56 per cent followed by COB *i.e.* 61.69 per cent. Therefore, the ratio had changed from 58.56 per cent to 79.85 per cent over 12 years period *i.e.* 1996 to 2007. The ratio in terms of dispersion was more variable in the case of IB *i.e.* 12.08 per cent followed by UBI *i.e.* 8.51 per cent whereas the ratio in terms of dispersion was more consistent in the case of SBBJ *i.e.* 2.68 per cent followed by SBIn *i.e.* 2.75 per cent. Yearwise the average ratio which was 68.76 per cent in 1996 became 71.45 per cent in 2007. But it must be noted that this increase in the ratio had not been consistent for
some years it had declined also. The ratio in terms of dispersion has moved from 6.05 per cent in 1996 to 71.42 per cent in 2007.

**Overall Profitability Performance**

In order to judge the overall profitability performance of various nationalized banks, following seven indices have been applied:

1. Index of Interest Earned to working funds
2. Index of Interest paid to working funds
3. Index of Spread of working funds
4. Index of Non-Interest Expenditure to working funds
5. Index of Non-Interest Income to working funds
6. Index of Burden to working funds
7. Index of Net Profit to working funds

To compute these indices, first of all the respective ratios has been calculated over the period 1996-2007, then these ratios have been averaged bankwise and the respective indices be computed by the method given below:

\[
\text{Index} = \frac{\text{Average Ratio for the concerned nationalized bank}}{\text{Average Ratio for aggregate of all nationalized banks}}
\]

Further, the study seeks to classify the banks with regard to these selected profitability indices at four performance levels *viz.*, excellent, good, fair and poor. Excellent performance level includes the banks lying at the top 25 per cent area of the normal distribution
where growth index value is greater than \((X+0.6745\sigma)\). Good performance category stands for banks whose growth index score lies between 50-75 per cent areas of the normal distribution \(i.e.\) where growth index value is between \(X\) to \((X + 0.6745\sigma)\). Fair category includes those banks whose growth index lies between 25-50 per cent area under normal curve \(i.e.\) where growth index value is between \((X-0.6745\sigma)\) to \(X\). Poor category comprises the banks which shows their growth lying at the bottom 25 per cent area of the normal distribution \(i.e.\) where growth index value lies below \((X-0.675\sigma)\). In this way the various indices of profitability parameters have been calculated.

Table 4.46 shows the indices of selected profitability parameters over the period (1996-2007). The mean and standard deviating (used or making classification of all PSBs) of each parameter has also been shown in the table. Table 4.47 presents the profitability performance levels of the PSBs over the period under study. It is very much clear from the table that six banks namely SBI, SBM, SBS, SBT, DB and OBC achieved excellent performance with regard to index of interest earned to working funds ratio. A point worth mentioning here which emerged from the results is that SBI has not performed well in this regard, it held poor performance level. Another noteworthy point is that the majority of banks which had excellent or good performance level with respect to the index of spread to working funds obtained poor or fair performance levels in respect of the index of burden to working funds and \textit{vice versa}. As far as, PNB and UBI are concerned,
both of these banks obtained good performance level in respect of the index of spread to working funds as well as in regard to the index of

**Table 4.47**

**Profitability Performance Level of PSBs**

*Over the Period (1996-2007)*

<table>
<thead>
<tr>
<th>Index Performance</th>
<th>Int. Earned to working funds</th>
<th>Interest paid to working funds</th>
<th>Spread to working funds</th>
<th>Non-Interest Expenditure to working funds</th>
<th>Non-Interest Income to working funds</th>
<th>Burden to working funds</th>
<th>Net profit to working funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>SBI, SBM, SBS, SBT, DB, OBC</td>
<td>SBM, SBI, SBT, OBC, UntBI, AIIB, VB, AB, BOB, DB, IB, IOB</td>
<td>SBBJ, SBH, SBI, SBT, OBC</td>
<td>SBI, SBBJ, SB, SBI, VB, SBBJ, SBH, SBS, BOM, CBI</td>
<td>SBI, SBBJ, CB, COB, SBH, SBI, SBT, SBS, SBBJ</td>
<td>BOM, CB, DB, SB, UntBI, UBI, VB</td>
<td>SBI, SBBJ, SB, SBS, SBBJ</td>
</tr>
<tr>
<td>Good</td>
<td>SBI, PNB, VB, CB, BOB, SBH, SBBJ</td>
<td>PNB, UBI, SBI, SBT, PNB, SB, BOB, BOM, UBI, VB, CB, CB, COB, DB</td>
<td>AB, DB, UCB, AIIIB, BOB, BOI, IOB</td>
<td>SBI, SBBJ, SBS, SBBJ, AIIIB, UBI, UntBI, CB, IB</td>
<td>SBI, SBBJ, SBS, AB, PNB, UBI, UntBI, UBI, CB, IOB</td>
<td>SBI, SBBJ, SBS, SBBJ, SBI, SBBJ</td>
<td>SBI, SBBJ, SBS, SBBJ, SBI, SBBJ</td>
</tr>
<tr>
<td>Fair</td>
<td>AIIIB, AB, BOM, CBI, COB, SB</td>
<td>SBBJ, SB, SBI, SBT, UCB, SBS, BOM, CB, CBI, PSB</td>
<td>AB, BOI, CBI</td>
<td>SBH, SBI, SBT, IOB, PSB, PNB, AIIIB, UBI, UntBI, CB, IB</td>
<td>DB, VB, IB, SBBJ, SBS, AIIIB, AB, PNB, UBI</td>
<td>SBI, SBBJ, SBS, SBBJ, SBI, SBBJ</td>
<td>SBI, SBBJ, SBS, SBBJ, SBI, SBBJ</td>
</tr>
<tr>
<td>Poor</td>
<td>SBI, BOI, IB, IOB, PSB, UntBI, UCB</td>
<td>SBI, SBH, SBBP, COB, AIIIB, IB, IOB, PSB, UntBI, UCB</td>
<td>SBBP, BOB, BOI, COB, OBC</td>
<td>BOM, CBI, SBBJ, SBS, BOI, SBT, PSB, BOI, COB, UCB</td>
<td>SBI, SBBJ, SBS, BOI, COB, UCB</td>
<td>SBI, SBBJ, SBS, SBBJ, SBS, SBBJ, SBI, SBBJ</td>
<td>SBI, SBBJ, SBS, SBBJ, SBI, SBBJ</td>
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</table>

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burden to working funds. In this context, it must be noticed that DB and BOM achieved excellent performance level in respect of the index of burden to working funds and both of these banks achieved good performance level in respect of the index of spread to working funds. As far as the index of interest paid to working funds is concerned SBM, SBT, AIIB, AB, BOB, DB, IB, IOB, OBC, UntBI and VB obtained the excellent performance level whereas SBI, SBH, SBP and COB held the poor performance level. Here, it must be noticed that DB, OBC, SBM and SBT achieved excellent performance level in respect of the index of interest earned to working funds as well as in respect of the index of interest paid to working funds. As far as the index of non-interest expenditure to working funds is concerned SBBJ, SBIn, SBM, SBS, BOM, CBI, SB and VB achieved excellent performance level, AB, DB and UCB achieved good performance level, SBI, SBH, SBT, AIIB, CB, IB, IOB, PSB, PNB, UBI and UntBI got fair performance level, and SBP, BOB, BOI, COB and OBC held poor performance level. Banks can reduce their non-interest expenditure by adopting effective budgeting techniques and by implementing various cost reduction programmes. In respect of the index of non-interest income to working funds, SBI achieved the excellent performance level along with various other banks but BOM, CBI, OBC, PSB, SB, UntBI and UCB held poor performance level. Regarding the index of net profits to working funds SBH, SBP, COB
and OBC achieved excellent performance level, SBI, SBBJ, SBIn, SBS, BOB, CB, PNB and UBI achieved good performance level, SBT, SBM, SB, AIIB, AB, BOI, BOM and DB got fair performance level, and CBI, IB, PSB, UntBI, UCB, VB and IOB held poor performance level.

Conclusions

To conclude it can be said that evaluation of banks in terms of profitability is very essential. In order to study the trend in profitability and other variables, both EGR and Simple growth rates have been used, the results of which have been shown in relevant tables. One noteworthy point in this context is that share of PSBs in total deposits and total advances have been declining. PSBs have been struggling hard to maintain their profitability position. As far as the results of per employee and per branch performance parameters are concerned, it can be concluded that majority of PSBs (except SBI) have enjoyed almost similar degree of efficiency with nominal variations. As far as the index of interest paid to working funds is concerned SBM, SBT, AIIB, AB, BOB, DB, IB, IOB, OBC, UntBI and VB obtained the excellent performance level whereas SBI, SBH, SBP and COB held the poor performance level. Here, it must be noticed that DB, OBC, SBM and SBT achieved excellent performance level in respect of the index of interest earned to working funds as well as in respect of the index of interest paid to working funds. As far as the index of non-interest expenditure to working funds is concerned SBBJ, SBIn, SBM, SBS, BOM, CBI, SB and VB achieved excellent
performance level, AB, DB and UCB achieved good performance level, SBI, SBH, SBT, AIIB, CB, IB, IOB, PSB, PNB, UBI and UntBI got far performance level, and SBP, BOB, BOI, COB and OBC held poor performance level. Banks can reduce their non-interest expenditure by adopting effective budgeting techniques and by implementing various cost reduction programmes.

References


