CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction
1.2 Statement of the Problem
1.3 Objectives of the Study
1.4 Scope of the Study
1.5 Significance of the Study
1.6 Methodology
1.7 Sources of Data
1.8 Framework of Analysis
1.9 Concepts and Definitions
1.10 Scheme of the Study
1.1 Introduction

An efficient and sound banking system plays a vital role in promoting economic growth. A well functioning banking and financial system, by facilitating efficient allocation of resources from savers to investors, it will promote growth of economic condition. Within the financial system, the banking system has important ramifications for the level and growth rate of national income through the identification and funding of productive investments. The policy makers and academics also believed that ‘management’ of the financial system was a better tool of achieving social objectives. An efficient functioning of the banking sector results in enormous benefits in terms of more efficient allocation of resources. Banks have played an important role in the economic development of India. Apart from financing growth, the banking system is the conduit through which monetary policy impulses are transmitted to the rest of the financial system and ultimately the real economy. Banks are also the main participants in the payment and settlement systems. A secure, safe and efficient payment and settlement system is a major pre-requisite for the stability of the financial system. Banks are, thus, important from the point of view of economic growth and both price and financial stability.¹

Banking system is an important constituent of the overall economic system. It plays important role in mobilizing the nation’s savings and in channelizing them into high investment priorities and better utilization of the available resources. Hence, banking can better be described as the kingpin of the chariot of economic progress.²

Banking, if equated with money lending, is perhaps as old as the civilization itself. The modern banking is something really different from mere lending. It is far more sophisticated and complicated in a developing economy. The role of banks is more

¹Reserve Bank of India Report, 2008-09.

formative and purposeful in developing countries than in the developed ones. In a developing country, where the banking habits is very important people are not developed, the task of creating and spreading the banking habits because they act as a bridge between those who require finance and those who have finance.

In India, banking is an important segment of the tertiary sector. It acts as the backbone of the economic progress and prosperity. It plays the all-pervasive role of a catalyst in development. Indian banking has undergone major transformation during the past three decades and has been made more socially relevant and development oriented. Nationalization of fourteen major banks in 1969 and of another six banks in 1980 marked a significant step towards this transformation. Financial sector reforms following the Narasimhan Committee Report further transformed Indian banking system.

The banking companies are doing their business entirely based on funds available with them. Therefore financial management of banks is completely different from that of the other organisation even in the banking sector. The fund utilisation and the efficiency of performance are always different in commercial bank. In the context of the developing economy, the role of banks are more challenging than that in a developed economy. The primary task of banks is to mobilise the savings of the people and direct them into productive channels. In a developing country, where people are not in the habit of depositing their savings with banks, the task of creating and spreading the banking habit and of mobilization of country’s resources becomes a challenging one. An equally important function of banks is to help in improving the effective utilisation of available resources. It is here that banks play a crucial role because they act as a bridge between those who require finance and those who have surplus funds but are unable to make an effective and productive use of it. Banks thus become an instrument of a more efficient use of available savings. An important outcome of this process is a raise in the rate of savings and investment and thereby in the rate of growth in the economy.
The importance of financial development in the economic growth process gained prominence again in the early 1970’s, when it was recognized that financial development has a two–pronged effect, viz., increasing the efficiency of investments and savings.

A weak financial system could be serious threat to the real economy. In recent years, therefore, increased emphasis has been placed on strengthening the financial system.

While the significance of finance is now widely recognized, it was less clear until recently as to what were the essential features of a successful financial system. This issue related to the debate about the role of financial institutions such as banks versus financial markets, which are two generic mechanisms for transferring resources from savers to investors and each one of them has its own district advantages.

Financial institutions have an advantage in information gathering and processing to distinguish between a good borrower and a bad one. The financial institutions can monitor the efficiency and productivity of a project much more effectively than the markets.

The banking industry all over the world has undergone transformation since the early 1980s under the impact of deregulation, advances in information technology and globalization. The forces of deregulation, technology and globalization have increased competitive pressures, which have (a) unleashed the strong forces of restructuring and consolidation with the number of banks declining all over the world, and (b) prompted banks to seek new sources of revenue beyond traditional products. Under the forces of liberalization and globalization, many banking institutions have expanded beyond their home countries and traditional lines of business leading to emergence of large international banks.

Banking in India has a long history and it has evolved over the years passing through various phases. At the time of independence, the Indian banking system was weak. The entire banking sector was in the banks of the private owners and the credit
requirements of agriculture and other needy sectors were ignored. With a view to better aligning the banking system to the needs of planning and economic policy, the policy of social control over the banking sector began in 1967. The nationalisation of private sector bank in 1969 was a major turning point in the history of the banking sector in India. With the nationalisation banks (fourteen in 1969 and again six in 1980) the major segment of the banking sector came under the control of the Government. Massive expansion of the branch network that followed the nationalisation of banks resulted in stepping up the overall savings rate of the economy. During this period, a major portion of banks resources were pre-empted at below market rates by way of directed credit and directed investments. Profitability of the banking sector was affected. Banks were also saddled with large non-performing assets. Their capital base also became weak.

With a view to creating a strong, competitive and vibrant banking system, several measures were initiated beginning in the early 1990s. First, the banking system was strengthened by introducing prudential norms, which were subsequently tightened in line with international best practices. Second, competition in the banking sector was enhanced by allowing entry of new private sector banks and enhanced presence of foreign banks. Foreign direct investment in private sector banks was also allowed up to 74 percent. Third public sector banks were allowed to access the capital market and also provided with operational flexibility and functional autonomy. Fourth, the system of administered interest rates was almost dismantled and preemptions in the form of reserve requirements were reduced. Fifth, the supervisory system was revamped in view of its crucial role in the creation of a sound banking system. Sixth, corporate governance practices and disclosure standards were strengthened. Seventh, regional rural banks, urban co-operative banks and rural co-operatives were also strengthened.

As a result of constant evolution, the size and structure of the banking sector have undergone a significant change. The present banking structure in India consists of commercial banks, urban co-operative banks, regional rural banks and rural co-operative banks. The banking sector in India plays a crucial role in the economy by mobilizing
savings and channelising them into investments. It also contributes directly to the GPP and generating employment. Financial assets of the household sector are a major form of saving. By mobilizing household sector saving, the banking sector plays a significant role in promoting investments and growth.

The banking system in India has undergone significant transformation following financial sector reforms since the early 1990s. The thrust of the banking sector reforms was on increasing operational efficiency. Strengthening the prudential and supervisory norms, removing external constraints, creating competitive conditions and developing the technological and institutional infrastructure. The impact of the reform measures is reflected in an improvement in profitability, financial health, soundness and overall efficiency of the banking sector.

In India, the entry of new private sector banks has increased the presence of the foreign banks. The Indian banking sector has also become more competitive. The public sector banks have also been raising capital from the market and are subject to market discipline. Efficiency, productivity and soundness of the banking sector improved significantly in the post reform phase. Banks have been increasing by diversified into non-traditional activities, as a result of which several financial conglomerates have emerged. This has posed several regulatory and supervisory challenges. Deregulation has opened up new avenues for banks to augment incomes. It has also entailed greater risks. The banking sector has witnessed the emergence of new banks, new instruments, new windows, new opportunities and, along with all this, there have been new challenges.

The banking system is an integral part of any economy. It is one of the many institutions that impinges on the economy and affects its performance. Economists have expressed a variety of opinions on the effectiveness of the banking systems in promoting or facilitating economic development. As an economic institution, the banks are expected
to be more directly and more positively related to the institutions. Banks are considered to be the mart of the world, the nerve centre of economies and finance of a nation and the barometer of its economic perspective. They are not merely dealers in money but are in fact dealers in development.

Banks are important agencies for the generation of savings of the community. They are also the main agents of credit. They divert and employ the funds to make possible fuller utilisation of the resources of a nation. They transfer funds from regions where it is available in plenty to where it can be efficiently utilised. The distribution of funds between regions paves the way for the balanced development of the different regions. They are thus catalytic agents that create opportunities for the development of the resources to speed up the tempo of economic development.

In the India financial system, the commercial banks are the major mobilisers and disbursers of financial resources. They have an all pervasive role in the growth of a developing country like India. The role of banks in accelerating the economic development of a country like India has been increasingly recognised following the nationalisation of fourteen major commercial banks in July 1969 and six more banks in April 1980. With nationalisation, the concept of banking has undergone significant changes. Banks are no longer viewed as mere lending institutions. They are to serve the society in a much bigger way with a socio-economic oriented look. They are specially called upon to use their resources to attain social upliftment and speedier economic development.

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To achieve the varied objectives of nationalisation, the nationalised banks have introduced innovative schemes in the mobilisation of resources as well as its disbursement. Nationalisation resulted in a comprehensive programme of branch expansion, innovations in mobilisations of savings, lending to priority sectors and weaker sections of the society and so on.

The horizon of commercial banking in India that enlarged with nationalisation has further widened with the implementation of the banking sector reforms in the years from 1992 to 1993. Banks are now increasingly identifying themselves with national problems and there by trying to bring about social and economic transformation in the country. To quote Bhabha, “Banking is the kingpin of the chariot of economic progress. As such its role in expanding the economy of a country like India can neither be underestimated nor overlooked.”

In this context, the present study highlights the financial performance of the nationalised banks in India.

1.2 Statement of the Problem

The Indian Banking system is very broad and complicated. Maximum number of branches is located in rural areas. The rural masses are illiterates and earn very low income for their livelihood. The major portion of their earning is used only for basic requirements. Therefore, the amount realized from rural masses through the deposits is very low. With the results many rural banks are continuously incurring losses. But the Indian Government is not ready to close down the non-profit making branches due to the social compulsion.

Deposits are the lifeblood of the commercial banks. They are maintaining bank funds and account for about 98% of bank liabilities. Mobilisation of resources forms an integral part of the development process in India. In this process of mobilization banks are at a great advantage, chiefly because of their network of branches in the country and

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banks have to place considerable reliance on the mobilization of deposits from the public to finance development programmes.

The increasingly competitive and dynamic environment of banking puts severe strains on the viability and effectiveness of bankers and regulations. Competition also affects the behaviour of the players in the industry directly. More competition could induce banks to take more risks, which could undermine the stability of the industry.

The nationalised banks give top priority to the agriculture and social sectors. The performance and the profitability of banks controlled by the private management vary from those controlled by public sector. So it is highly necessary to analyze the financial efficiency of Nationalised Banks in India.

The Government of India has evolved several schemes for the rural poor for improving their standard of living. Most of these schemes are well conceived but not implemented properly. Deficiencies in the implementation of these scheme have been found not only with the government but also with the implementing banks. Many of the nationalised banks face overdue problems only because of priority sector lending.

The NPAs are the most crucial factors that govern the performance of banks. Higher NPAs in public sector banks are often attributed to baggages of direct lending during the last four decades. Indian nationalised banks have not only been perceived as vehicles of social change but also as stepping up credit for agricultural and rural development. Banks in India have also been shouldering the responsibility of social banking for a variety of poverty alleviation self-employment programmes. The NPAs have a direct impact on the profitability of a bank, its liquidity and equity. The NPAs of Indian nationalised banks are considered relatively high by international standards. The biggest ever challenge that the banking industry how faces is management of the NPAs.

The developments of banking industry were witnessed only in the field of expansion and spread of bank branches, generation of huge employment and mobilisation
of savings rather than improvement in the efficiency that counts a lot. Besides, corruption, fraud, misutilisation of public money, outdated technology and politicalising in policy making were found to be major drawbacks in the real progress of the banks. As the banking sector plays an important and crucial role in the economy of a country for its stabilization and balanced growth, major reforms were urgently felt, long after 22 years of nationalization, to revive Indian banks in the field not only of profitability but also for overall efficiency, viz., better management of non-performing asset (NPA), satisfying capital requirements, increased cost effectiveness and control, enhanced customer service, improved technology, establishing competitive interest rate, effective manpower planning, introduction of asset-liability management, better productive, launching new products, and becoming more competent to face the upcoming challenges and competition from foreign as well as private sector banks in the era of globalisation and liberalisation.7

In this context, the present study focuses on the comparative study on the financial performance of the Nationalized Banks in India.

1.3 Objectives of the study

The following are the important objectives of the present study,

1. To analyse the growth and the development of the banking sector in India

2. To analyse the capital adequacy, quality of assets and profitability of nationalised banks.

3. To evaluate the management efficiency and earning quality of nationalised banks.

4. To make a comparative analysis of financial performance of nationalised banks in India.

5. To put forward concrete suggestions and recommendations to make the performance of the nationalised banks effective and efficient.

1.4 Scope of the Study

A comparative study on the financial performance of nationalised banks in India since 2000 is undertaken for a comparative analysis, the performance of all the nationalised banks in India is evaluated since 2000. A period of ten years from 2000 to 2009 is taken for the study. The present study is undertaken by reviewing and analysing a comparative study on the financial performance of the nationalised banks in India by using six parameters namely, capital adequacy, asset quality, management efficiency, earning assets, liquidity and profitability.

1.5. Significance of the Study

Though a number of studies are available on banking industry in general, there is no comprehensive academic study on the financial performance of the nationalised banks as a comparative study. A review of the available literature on banking reveals that no exclusive comparative study on the financial performance of the nationalised banks has so far been attempted in India. In this context the present study may fill the gap to a certain extent. Further, it would throw some light on the performance of the nationalised banks on the basis of the Banking Sector Reforms introduced in the country since 1992-93, as the study also covers a period of eighteen years since the introduction of the reform measures.

1.6. Methodology

Financial performance evaluation is an important pre-requisite for sustained growth and development of any institution. As in the case of any institution, the evaluation of a bank’s financial performance too has to be undertaken in relation to its goals and objectives. Though many studies have been undertaken in India for evaluation of the financial performance of banks, no single or universally acceptable
technique/methodology has emerged so far. Assessment of a bank’s financial performance is beset with many difficulties on account of its diverse objectives that influence its performance. The affairs of the nationalised bank are conducted not merely on financial or business considerations in which case it would have been easier to evolve suitable parameters and thereby evaluate a comparative study on the financial performance of the nationalised banks.

The researcher, after much deliberations has attempted to convert the broad objectives of the nationalized banks in terms of certain specific parameters to facilitate the evaluation of comparative study on the financial performance. This is done in the light of the objectives of nationalization as well as on the basis of the recommendations of the Narasimham Committee on the Financial System.

After observing the various performance evaluation studies and assessing the gaps/deficiencies that exist in this study to evaluate and assess the comparative study on financial performance of the nationalized banks so as not to overlook the various aspects of the problem. The following are the six basic parameters used in the study to evaluate the performance of the individual nationalized banks.

i. Capital adequacy
ii. Asset quality
iii. Management efficiency
iv. Earning quality
v. Liquidity position
vi. Profitability.

1.7. Sources of Data

The data required for the study are collected from secondary sources. The financial analysis of banks and performance highlights of public sector banks both published by the Indian Banks Association form the most important source based on which the present study is accomplished. The annual reports of the nineteen nationalized banks, the Reserve Bank of India publications, publications of the Indian Banks Association Bombay, publications of the Indian Institute of Bankers Bombay,
publications of the National Institute of Bank Management, Pune and the publications of Individual Banks are also the main sources.

1.8. Framework of Analysis

For the purpose of analysing the financial data, the following metrics have been used. Performances of the nationalized banks are measured using the number of ratios with help of the following parameters, namely capital adequacy, asset quality, management efficiency, earning quality, liquidity position and profitability. The total number of ratios used in this research is 51. The name of the ratios and formula used for the calculation are presented below:

Cash in Hand + Balances with RBI

(i) Cash-Deposit Ratio = \( \frac{\text{Cash in Hand + Balances with RBI}}{\text{Deposit}} \times 100 \)

(ii) Credit-Deposit Ratio = \( \frac{\text{Total Advances}}{\text{Total Deposit}} \times 100 \)

(iii) Investment-Deposit Ratio = \( \frac{\text{Total Investment}}{\text{Total Deposit}} \times 100 \)

(iv) (Credit + Investment)-Deposit Ratio = \( \frac{\text{Total Advances + Total Investment}}{\text{Total Deposit}} \times 100 \)

(v) Deposit to Total Liabilities Ratio = \( \frac{\text{Total Deposit}}{\text{Total Liabilities}} \times 100 \)

(vi) Term Deposit to Total Deposit Ratio = \( \frac{\text{Term Deposit}}{\text{Total Deposit}} \times 100 \)
(vii) Priority Sector Advances to Total Advances Ratio = \( \frac{\text{Priority Sector Advances}}{\text{Total Advances}} \times 100 \)

(viii) Term Loan to Total Advances Ratio = \( \frac{\text{Term Loan}}{\text{Total Advances}} \times 100 \)

(ix) Secured Advances to Total Advances = \( \frac{\text{Secured Advances}}{\text{Total Advances}} \times 100 \)

(x) Investments in Non-Approved Securities to Total Investment Ratio = \( \frac{\text{Advances Secured by Tangible Assets + Advances covered by Bank or Govt. Guarantees}}{\text{Total Investments}} \times 100 \)

(xi) Interest Income to Total Assets Ratio = \( \frac{\text{Interest Income}}{\text{Total Assets}} \times 100 \)

(xii) Net Interest Margin to Total Assets Ratio = \( \frac{\text{Interest Income – Interest Expenses}}{\text{Total Assets}} \times 100 \)

(xiii) Non Interest Income to Total Assets Ratio = \( \frac{\text{Non-Interest Income}}{\text{Total Assets}} \times 100 \)

(xiv) Intermediation Cost to Total Assets Ratio = \( \frac{\text{Operating Expenses}}{\text{Total Assets}} \times 100 \)
Payment to and Provisions for Employees

(xv)  Wage Bills to Intermediation Cost Ratio = \[ \frac{\text{Wage Bills}}{\text{Operating Expenses}} \times 100 \]

Payment to and Provisions for Employees

(xvi) Wage Bills to Total Expenses Ratio = \[ \frac{\text{Wage Bills}}{\text{Total Expenses}} \times 100 \]

Payment to and Provisions for Employees

(xvii) Wage Bills to Total Income Ratio = \[ \frac{\text{Wage Bills}}{\text{Total Income}} \times 100 \]

Operating Expenses – Other Income

(xviii) Burden to Total Assets Ratio = \[ \frac{\text{Operating Expenses} - \text{Other Income}}{\text{Total Assets}} \times 100 \]

Operating Expenses – Other Income

(xviii) Burden to Total Assets Ratio = \[ \frac{\text{Operating Expenses} - \text{Other Income}}{\text{Total Assets}} \times 100 \]

Operating Expenses – Other Income

(xix) Burden to Interest Income Ratio = \[ \frac{\text{Operating Expenses} - \text{Other Income}}{\text{Interest Income}} \times 100 \]

Operating Profit

(xx) Operating Profit to Total Assets Ratio = \[ \frac{\text{Operating Profit}}{\text{Total Assets}} \times 100 \]

Net Profit

(xxi) Return on Assets Ratio = \[ \frac{\text{Net Profit}}{\text{Average Assets}} \times 100 \]
(xxii) Return on Equity Ratio = \[ \frac{\text{Capital + Reserves and Surplus}}{\text{Interest Paid on Deposits}} \times 100 \]

(xxiii) Cost of Deposits Ratio = \[ \frac{\text{Deposits}}{\text{Interest Paid on Deposits}} \times 100 \]

(xxiv) Cost of Borrowings Ratio = \[ \frac{\text{Borrowings}}{\text{Interest Paid on Borrowings from RBI and Other Agencies}} \times 100 \]

(xxv) Cost of Funds Ratio = \[ \frac{\text{Deposits + Borrowings}}{\text{Interest Paid on Deposits + Interest Paid on Borrowings from RBI and Other Agencies}} \times 100 \]

(xxvi) Return on Advances Ratio = \[ \frac{\text{Advances}}{\text{Interest Earned on Advances and Bills}} \times 100 \]

(xxvii) Return on Investments Ratio = \[ \frac{\text{Investments}}{\text{Interest Earned on Investments}} \times 100 \]

(xxviii) Return on Advances Adjusted = Return on Advances – Cost of Funds to Cost of Funds Ratio

(xxix) Return on Investments Adjusted = Return on Investments – Cost of Funds to Cost of Funds Ratio

Total Deposits + Total Advances
(xxx) Business Per Employee Ratio = \frac{\text{Net Profit}}{\text{Number of Employees}} \times 100

(xxxi) Profit Per Employee Ratio = \frac{\text{Net Profit}}{\text{Number of Employees}} \times 100

(xxxii) Capital Adequacy Ratio = \frac{\text{Capital}}{\text{Risk Weighted Assets}} \times 100

(xxxiii) Net NPA to Net Advances Ratio = \frac{\text{Net NPA}}{\text{Net Advances}} \times 100

(xxxiv) Provisions & Contingencies to Total Assets Ratio = \frac{\text{Provisions & Contingencies}}{\text{Total Assets}} \times 100

(xxxv) Net Profit/Loss to Total Assets Ratio = \frac{\text{Net Profit / Loss}}{\text{Total Assets}} \times 100

(xxxvi) Interest Expended to Total Assets Ratio = \frac{\text{Interest Expenses}}{\text{Total Assets}} \times 100

(xxxvii) Gross NPAs to Total Assets Ratio = \frac{\text{Gross NPAs}}{\text{Total Assets}} \times 100

Net NPAs
(xxxviii) Net NPAs to Total Assets Ratio = \[ \frac{\text{Net NPAs}}{\text{Total Assets}} \times 100 \]

(xxxix) Gross NPAs to Gross Advances Ratio = \[ \frac{\text{Gross NPAs}}{\text{Gross Advances}} \times 100 \]

(xl) Debt to Equity Ratio = \[ \frac{\text{Borrowings and Deposits}}{\text{Capital + Reserves and Surplus}} \]

(xli) Advances to Total Assets Ratio = \[ \frac{\text{Advances}}{\text{Total Assets}} \times 100 \]

(xlii) Total Investments to Total Assets Ratio = \[ \frac{\text{Total Investments}}{\text{Total Assets}} \times 100 \]

(xliii) Operating Expenses to Total income Ratio = \[ \frac{\text{Operating Expenses}}{\text{Total Income}} \times 100 \]

(xlv) Interest Income to Total income Ratio = \[ \frac{\text{Interest Income}}{\text{Total Income}} \times 100 \]

(xlvii) Non-Interest Income to Total income Ratio = \[ \frac{\text{Non-Interest Income}}{\text{Total Income}} \times 100 \]

Liquid Assets
(xlvii) Liquid Assets to Total Deposits Ratio = \[
\frac{\text{Liquid Assets}}{\text{Total Deposits}} \times 100
\]

(xlviii) Balance with RBI to Total Deposits Ratio = \[
\frac{\text{Balance with RBI}}{\text{Total Deposits}} \times 100
\]

(xlix) Deposits Per Employee Ratio = \[
\frac{\text{Total Deposits}}{\text{Number of Employees}}
\]

(l) Advances Per Employee Ratio = \[
\frac{\text{Total Advances}}{\text{Number of Employees}}
\]

(li) Cost – Income Ratio = \[
\frac{\text{Operating Cost}}{\text{Interest Spread + Other Income}} \times 100
\]

1.9 Concepts and Definitions

1.9.1 Paid-up Capital

Paid-up Capital is that part of the subscribed capital which the subscribers are actually called upon to pay. Generally, only a part of the subscribed capital is called up to be paid and the other part is kept as a reserve. The paid-up capital is, thus, that amount which is actually paid by the subscribers and is usually equal to the amount of called-up capital though it can be less than the called-up capital when there are certain arrears of payments.

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1.9.2. Reserve Fund

Every bank maintains a reserve fund. This fund is constituted by the accumulated profits of the bank. It is used by the bank to offset its unexpected losses in certain years. According to the Indian Law, the reserve fund of the bank should be equal to its paid-up capital.

1.9.3. Deposits

This includes those deposits which are received by the bank from the public. In fact, the deposits constitute the working capital of the bank. After keeping a certain cash reserve, the bank invests the balance in securities or utilizes it for giving loans and advances to its customers.

1.9.4. Loans from other Banks

Under this head, the bank shows those loans, which it has received from other banks. As it is well known, a bank takes loans from other banks, especially the Central Bank, in certain extraordinary circumstances.

1.9.5. Bills Payable

Under this head are included those bills which it is the responsibility of the bank to pay from its resources.

1.9.6 Bills for Collection

Under this head, the bank shows the total amount of those bills which it has accepted from its customers for collection. The amount when collected is credited to the accounts of the customers. Hence, the amount under this head is shown in both the
columns of the balance sheet. Before collection, they are the assets but after collection they become the liabilities of the bank.

1.9.7 Acceptances and Endorsements

An important function of the bank, as already stated, is that of accepting or endorsing the bills of exchange on behalf of the customers. Accepting a bill of exchange means giving guarantee for the payment of the bill on its maturity. When the bank accepts the bill of exchange on behalf of its customers, it simply means that the bank accepts the responsibility of paying the bill in case the customer fails to settle it at the time of its maturity. Hence, this is a liability for the bank.

1.9.8 Contingent Liabilities

Under this head, the bank shows those liabilities which are not known in advance or which are unforeseeable. Every bank makes some provision for these liabilities in its balance sheet.

1.9.9 Profit and Loss

The profit earned by the bank in the course of the year is shown under this head. Since the profit is payable to the shareholders, it represents the liability of the bank.

1.9.10 Cash

Every bank has to keep some cash with itself to meet the requirements of its depositors. In addition, the bank also maintains some cash reserve with the other banks or with the Central Bank of the country. For example, the Indian banks have to maintain a fixed percentage of their demand and time liabilities with the Reserve Bank of India. It can make use of these reserves at times of emergencies. This cash represents the 'First Line of Defence' of the bank. In technical language, it is known as vault cash.

1.9.11 Call Money
Under this head are shown those loans which are repayable to the bank on demand. Such types of loans are given to the customers for a maximum period of 15 days and the bank can recall them at its own option. The call loans are of three types— (i) Loans which are given for one night only. These loans are mostly taken by speculators, (ii) Loans which can be recalled by the bank without notice. (iii) Short-period loans which are repayable to the bank within 15 days. Call money represents the 'Second Line of Defence' of the bank.

1.9.12 Bills Discounted

Under this head, the bank shows the total amount of those exchange and treasury bills which it has discounted itself. The bank collects the amount of these bills when they mature. In case, the bank needs cash before the maturity of these bills, it can get them rediscounted by the Central Bank of the country. This represents the 'Third Line of Defence' of the bank.

1.9.13 Bills for Collection

This item figures both on the liabilities as well as on the assets side. Before collection, these bills represent the assets but after collection they become the liabilities of the bank. Hence, this item appears on the both sides of the balance sheet.

1.9.14 Investments

Under this head, the bank shows the total amount of its profit-yielding assets. The different types of investments are shown separately in the balance sheet. The amount invested in government and non-government securities is also indicated separately.

1.9.15 Loans and Advances

Under this head, the bank shows the total amount of loans and advances that it has extended to its customers. As already pointed out, these loans and advances are given
against certain physical securities offered by the borrowers. This item represents the 'Fourth Line of Defence' of the bank. Actually, loans and advances are the bread and butter of the banks.

1.9.16 Acceptances and Endorsements.

Under this head are included the total value of those exchange bills which the bank has accepted on behalf of its customers. This item is also shown on the liabilities side of the balance sheet.

1.9.17 Building, Furniture and other Properties

Under this head is included the total volume of the movable and immovable properties of the bank. It includes the office buildings, furniture, stationery and miscellaneous assets of the bank. This is often referred to as 'dead stocks'. Generally speaking, the bank does not evaluate this property at the market rate. In fact, the bank undervalues this item deliberately in the balance sheet. This is done by the bank to build up its secretre, which can be availed of if the bank unfortunately fails on account of loss of public confidence. The relative importance of different types of assets or the proportion in which the bank distributes its total resources among the different assets varies from country to country, depending upon the economic and financial situations in the country. It is, therefore, not possible to lay down certain ratios or norms of distribution to be followed by all the banks in all the countries and at all the times.

1.10. Scheme of the Study

The first chapter “Introduction and Design of Study” starts with a introduction characterising the importance of banking sector in economic development. It is followed by statement of the research problem, objectives, scope, significance of the study,
methodology and sources of data of the study. The scheme of the research report and concepts and definitions of the study are also incorporated in the introductory chapter.

The second chapter “Review of Literature” highlights the available literature related to the problem under investigation.

The third chapter “Profile of Nationalised Banks in India” reviews the history of the nationalised banks. The vision and mission, branches and business, product and services of growth and development of the nationalised banks are also outlined.

The fourth chapter “Growth and Development of Public Sector Banks in India” presents the growth of Indian banking sector, nationalisation of commercial banks, objective of nationalisation, role of commercial banks, development of commercial banks after nationalisation, technological development in Indian public sector banks, challenges for public sector banks in India, management of non-performing assets of nationalised banks.

The fifth chapter “Financial Performance of Nationalized Banks: - A Comparative Analysis” analyses the financial performance of the nationalised banks in India. It consists of theoretical and analytical part of the analysis.

The sixth and final chapter “Summary of Findings, Suggestions and Conclusion” deals with the summary of findings and the various suggestions based on the research of the study.

CHAPTER II