CHAPTER 7

CONCLUSION

Synopsis
7.1 Introduction
7.2 Evolution and growth of private sector banks
7.3 Asset management
7.4 Liabilities management
7.5 Risk management
7.6 Profitability management
7.7 Conclusion
7.8 Suggestions
7.9 Scope for further research
CHAPTER 7
CONCLUSION

7.1 INTRODUCTION

The Indian Banking Sector has passed through several distinctive phases over the years. The first phase which lasted upto independence, that is, upto 1947, has been ‘infancy’ phase during which banking system developed on privatised basis. On the eve of independence total number of commercial banks have been 648 with total deposits of Rs.1080 crore, advances of Rs.475 crore and Credit Deposit ratio of 43.99 percent.

Several important steps have been taken up for development and growth of banking sector such as nationalisation of Reserve Bank of India in 1948, enactment of Banking Regulation Act in 1949, emergence of State Bank of India in 1955 and its subsidiary banks during 1959-60 etc. Government of India initiated the scheme of social control in 1967 and 14 major Indian Scheduled Commercial Banks have been nationalised. On the eve of nationalisation, there have been 73 scheduled commercial banks having total deposits of Rs.4661 crore, advances of Rs.3599 crore and credit-deposit ratio of 77.5 percent.

Nationalisation of banks has been a bold and major economic step in the process of banking sector reforms in India resulting into evolution of Public Sector Banks controlling over 90 percent of banking business. During this period, Indian banking structure emerged as strong and viable with rigorous control enforced by the RBI.

Banking Operations and Policies have been aligned with planning priorities. As at the end of 1986, there have been 272 Scheduled Commercial banks with total number of bank branches to the tune of 53287, controlling total deposits of Rs.92,233 crore, advances of Rs.57,229 crore and credit-deposit ratio of 62.3 percent.

The post nationalisation period has been earmarked with rapid branch expansion, wide geographical penetration impressive growth in deposit
mobilisation as well as in credit expansion. However, there have been several adverse factors such as high reserve requirements deterioration in quality of loan assets, priority and weaker section advances, high fixed and operating costs, organisational weakness, lack of internal control, defective accounting policies, undercapitalisation, political interference etc. which severely damaged productivity, profitability and efficiency of banking sector.

It has been against these background, the financial sector reforms have been initiated to bring about a paradigm shift in the banking sector. A high level Committee under the Chairmanship of Mr. M. Narsimham has been constituted in 1991 which submitted its reports in 1992. The committee made far reaching recommendations for changing the policies, practices and procedures of the banking sector. Some of the important recommendations which have been implemented in phased manner have been:

- Deregulation of interest rate structure.
- Introduction of prudential norms as regards income recognition, asset classification and provisioning for bad and doubtful debts.
- Capital Adequacy Norms.
- Entry of private sector banks and easier branch licencing norms for foreign banks.
- Debt Recovery Tribunals (DRT) and Asset Reconstruction Fund
- Autonomy in operations
- Regulation and supervision

On the eve of implementation of financial sector reforms, that is the year 1992, the total number of Scheduled Commercial Banks (SCBs) have been 272 with total number of branches 60570, having total deposits of Rs.2,37,107 crore and advances of Rs.1,31,520 crore with a credit-deposit ratio of 55.4 percent.

As a consequence of liberalisation and globalisation, there have been significant environmental changes in financial sector. Interest rate deregulations, free product pricing, introduction of innovative products and services, increasing competition among various bank groups. All these have
induced the Government of India to constitute another Committee under the Chairmanship of Mr. M. Narsimham to suggest changes in ongoing financial sector reforms. The Committee submitted its report in 1998 with important recommendations covering various areas including:

- Strict prudential and disclosure norms.
- Asset / Liability Management and Risk Management.
- Internal Control System and Operational Methods.
- Technology upgradation
- Various Structural aspects etc.

On the eve of ushering into IIInd phase of financial sector reforms, at the end of 1999, the number of SCBs have been 302 with an aggregate deposit base of Rs.7,14,025 crore and total advances portfolio of Rs.3,68,873 crore having a credit-deposit ratio of 51.7 percent.

The implementation of recommendation of second Narsimham Committee commenced from 1999 onwards. Therefore, the period commencing from 1999 onwards has been earmarked as Reform Phase (II). The important developments that have taken place during this phase are:

1. Consolidation of players through mergers and acquisitions
2. Globalisation of operations
3. Development of new technology
4. Universalisation of banking
5. Product Innovation and Process Re-engineering
6. Integrated Risk Management

7.2 EVOLUTION AND GROWTH OF PRIVATE SECTOR BANKS

During pre independence period, the banking sector in India has been dominated by private sector banks. In 1951, there have been total 566 private sector banks of which 474 were non scheduled and 92 scheduled banks. The Government of India entered into banking business with nationalisation of
Imperial Bank of India and its conversion into State Bank of India in 1955, followed by nationalisation of subsidiary banks of SBI in 1959-60. Nationalisation of 14 major scheduled banks in 1969 and 6 (six) more private banks in 1980 have been major steps towards setting up of public sector banks in India.

However, in order to introduce greater competition in the banking system, as per the recommendations of Narsimham Committee (1991), the RBI issued guidelines in 1993 for establishment of new private sector banks. Accordingly, ten new private sector banks have come into existence during 1994-1996. In a deregulated environment, level playing field has been set up for both the category of players, that is, public sector and private sector. An attempt has been made to study their comparative growth for the period 1993 to 2005. The following revelations have appeared:

7.2.1 Private sector banks' share in total deposits of all banks has been 5.16 percent during the year 1993 which has subsequently and gradually increased to 17.17 percent during the year 2005. The annual average growth rate achieved in deposit mobilisation has been 28.68 percent. The annual average growth rate of all banks taken together has been 16.25 percent. It has been evident that private sector banks have captured better market share of deposits as well as managed comparatively much higher growth rate in deposit mobilisation as compared to other bank groups.

7.2.2 The share of private sector banks in total investments has been 4.39 percent during the year 1993 which has gradually increased to 16.16 percent in the year 2005. They have managed to achieve an average annual growth rate of 32.72 percent during the period under consideration. All banks' have achieved average annual growth rate of 18.33 percent during the period. It has been evident that the private sector banks have significantly increased their investment portfolio and
have managed significant share in the total investments of the banking sector.

7.2.3 Private Sector Banks’ share in total advances has been 4.65 percent in the year 1993 which has gradually increased to 19.26 percent in the year 2005. The annual average growth rate achieved has been 32.70 percent.

7.2.4 Private Sector Banks’ share in the total income of the banking industry has been 4.53 percent in the year 1993 which has gradually increased to 17.24 percent in the year 2005 with an average annual growth rate of 27.93 percent. The average annual growth rate of the banking industry as a whole has been 13.57 percent during the period under consideration. It is evident that private sector banks have outperformed other bank groups in terms of earnings and growth of earnings.

7.2.5 Private Sector banks’ share in the total expenditure of banking industry has been 4.38 percent in the year 1993 which has increased to 17.73 percent in the year 2005. The growth rate in expenditure has been 26.59 percent on an annual basis. The annual average growth rate in expenditure of entire banking industry has been 11.78 percent during the period. The higher amount of expenditure of private sector banks can be assigned to capital expenditure and expenditure on account of wage bill as well as information technology expenditure.

7.2.6 Private Sector Banks’ share in the total operating profit of the banking industry has been 5.90 percent in the year 1993 which has increased to 15.02 percent in the year 2005 with average annual increase of 37.84 percent. The annual average growth rate in operating profit of the entire banking industry has been 25.19 percent. It is obvious that private sector banks have managed to earn higher share of operating profit as well as achieved comparatively higher growth rate in earning operating profits.

7.2.7 Private Sector Banks’ share in the net loss of the banking sector has been -1.30 percent in the year 1993 which has significantly increased to
16.88 percent in the year 2005 and with a impressive annual average growth rate of 50.73 percent. The entire banking industry has managed to achieve growth rate in net profit at 33.15 percent on annual basis.

7.2.8 It has been observed that in 1997 the share of private sector banks in total gross NPAs has been 5.37 percent which has increased to 17.14 percent in the year 2003 and then declined to 14.90 percent in the year 2005. The average annual growth rate in gross NPAs of the banking sector has been 3.02 percent during the period.

7.2.9 The share of private sector banks in total net NPAs has been 6.89 percent in the year 1997 which has increased to 21.07 percent in 2003 but has reduced to 18.63 percent in the year 2005. The annual average growth rate of the entire banking sector has been 0.54 percent.

Financial sector reforms have changed the structure, operations, policies, procedures of the banking industry in a significant manner. The importance of financial management function has increased in such volatile environment. The present study has attempted to understand and analyse various financial management techniques in relation to management of assets, management of liabilities, management of risks and management of profitability adopted by selected private sector banks. Important findings, as derived from the study have been presented chapterwise in the following paragraphs.

7.3 ASSET MANAGEMENT

Asset management refers to management of various components of assets such as cash and bank balances, investments and advances in a such a way that they generate maximum possible revenues and also provide adequate liquidity.

Management of cash and bank balances

7.3.1 All SCBs have maintained an average annual balance of liquid assets at Rs.1,78,547 crore with average annual growth rate of 7.92 percent whereas all PSBs have maintained the average annual balance at
Rs.26,713 crore and achieved average growth rate of 18.72 percent which is comparatively higher than all PSBs. All selected private sector banks have managed an average annual growth rate of 34.41 percent.

7.3.2 All PSBs and all SCBs have been found maintaining an average 17 percent of total deposits in the form of liquid assets whereas all selected banks have maintained the proportion at 18.8 percent.

7.3.3 Banking industry aggregate figure shows that all PSBs have an average 130 percent of their demand deposits in the form of liquid resources whereas the proportion is an average 122 percent in case of all SCBs. The average proportion of all selected banks is 127.4 percent. HDFC bank has maintained average proportion at 68 percent. However, it is evident from the data that the proportion has gradually declined over the period of study.

7.3.4 All PSBs, all SCBs and all selected banks have maintained the proportion of cash and bank balances including money at call to total assets at an average 12.66 percent, 13.26 percent and 15.39 percent respectively during the period of study. However, it can be generalised that all the selected banks have preferred to maintain higher proportion of liquid resources in relation to their total assets as compared to the average of the banking sector as a whole.

Management of Investments

7.3.5 The average annual growth in total investments of selected banks as well as of all PSBs and all SCBs during the period of study. All PSBs have maintained an average annual balance of Rs.81,902 crore with the annual average growth rate of 28 percent whereas all SCBs have maintained an average annual balance of Rs.5,55,318 crore with the annual average growth rate of 17.69 percent. The selected banks have attained an average annual growth rate of 35.98 percent. HDFC bank
and UTI bank have attained average annual growth rate at 59.06 percent and 55.53 percent respectively.

7.3.6 The average proportion of investment to total assets of selected banks, all PSBs and SCBs have been 37 percent, 33.76 percent and 36.02 percent respectively. HDFC bank has maintained the average proportion at 44.15 percent.

7.3.7 All PSBs have maintained an average annual balance of investments in government securities of Rs.54,698 crore with the annual average growth rate of 29.34 percent whereas all SCBs have maintained an average balance of Rs.4,18,399 crore with annual average growth rate of 20.52 percent. It has been observed that during 2004-05, all the selected banks as well as all PSBs and all SCBs have registered negligible or negative growth rate in their investment in government securities, except in case of UTI bank.

7.3.8 The proportion of government securities to total investments of selected banks, all PSBs and all SCBs have been 64.23 percent, 65.25 percent and 73.65 percent respectively. This proportion reflects the faith in government securities as compared to other avenues of investments. HDFC bank and Indusind bank have maintained average proportion at 51 percent and 79 percent respectively.

7.3.9 All SCBs have managed to attain an average annual growth rate of 15.85 percent whereas all PSBs have registered the same at an average 28.73 percent. It has been generally observed that all the selected banks as well as all PSBs and all SCBs have made investments in Non-SLR securities in higher proportion during 1997 to 2000. However, from the year 2001 onwards, the banks have decelerated their investments in such securities. HDFC bank and UTI bank have registered average annual growth rate of 53.63 percent and 64.82 percent respectively.
7.3.10 All scheduled commercial banks have maintained an average proportion of Non SLR investments to total investments at 21.33 percent whereas all private sector banks have maintained an average proportion of 32.69 percent indicating comparative higher investments in non SLR securities. It has been observed that during the initial years of study period i.e. from 1996-97 to 2000-01, the proportion of non SLR securities in total investments was higher in case of all selected banks as well as for the industry in general. HDFC bank has maintained average annual proportion of 48.93 percent.

7.3.11 It has been observed that Bank of Rajasthan, Indusind Bank and J&K Bank have maintained higher proportion of investments in government securities and they have managed to earn higher rate of return on their investments. The banks referred above have allotted 65 percent, 79 percent and 63 percent of their total investments in government securities and their return on investments are 10.12 percent, 9.82 percent and 9.90 percent respectively.

Management of Advances

7.3.12 All PSBs have made average annual advances to the extent of Rs.1,05,960 crore and achieved annual average growth rate of 30.94 percent whereas all SCBs have attained average annual advances to the extent of Rs.6,27,349 crore with annual average growth rate of 19.25 percent. It has been evident that all PSBs have achieved better growth rate as compared to all SCBs. The average annual growth rate of selected banks, all PSBs and all SCBs have been observed at 34.6 percent, 30.94 percent and 19.25 percent respectively. HDFC bank and UTI bank have achieved average annual growth rate of 63.67 percent and 51.21 percent respectively.

7.3.13 It has been observed that on an average 42 percent, 44.47 percent and 42.27 percent of the total assets of all selected banks, all PSBs and all SCBs have been allocated towards making advances during the period
of study. It has been observed that during the initial four years of the study i.e. from 1996-97 to 1999-2000, the fund allocation towards advances has been found to be declining. However, from the year 2001-02 onwards it has accelerated.

7.3.14 It has been observed that all PSBs have attained an average C – D ratio of 58.58 percent during the period of study. During the period 1997-98 to 2000-01, it was around average 49 percent but from the year 2001-02 it has accelerated significantly and rose to as high as 70.29 percent during 2004-05 indicating higher allocation towards advances from the deposits mobilised. All SCBs have attained an average 52.68 percent C – D ratio during the period of study. During the period 2001-02 to 2004-05, all SCBs have also experienced higher C – D ratio. It has been found that the C-D Ratio has been low in case of all selected banks as compared to all PSBs and all SCBs. Generally credit is the major source of income towards which selected banks have been found allotting lower amount. Lower C-D Ratio may reduce the income of the bank.

7.3.15 All SCBs have maintained healthy incremental C-D ratio throughout the period of study at an average of 54 percent. All selected banks have maintained an average proportion of 46.38 percent.

7.3.16 All PSBs have made short term advances at an annual average of Rs.46,055 crore with annual growth rate of 16.67 percent whereas all SCBs have registered annual average of such advances at Rs.3,54,517 crore and achieved annual average growth rate of 13.11 percent during the period of study. HDFC bank has achieved average annual growth rate of 62.52 percent which is comparatively much higher than that of other selected banks.

7.3.17 It has been observed that all PSBs have deployed an average 53.31 percent of their total advances into short term credit. It is interesting to note that the ratio was as high as 74.65 percent in the year 1997-98 which has continuously declined over the period of study and reduced to
33.22 percent for the year 2004-05. All SCBs have deployed an average 59.21 percent of their advances in the form of short term advances. It has been generalised that all the selected banks except HDFC bank have been found deploying significantly higher proportion of their total advances in short-term credit during 1996 to 2000. From the year 2001-02 onwards the trend has been reversed and comparatively smaller proportion has been deployed in short term credit. The similar generalisation can be made for all the PSBs and all SCBs representing banks industry.

7.3.18 All PSBs have expanded their long term credit portfolio at an annual average growth rate of 58.40 percent which is comparatively a better performance as compared to all SCBs where the annual growth rate has been 28.54 percent during the period of study.

7.3.19 It has been observed that at the banking industry level, all PSBs have deployed an average 46.66 percent of the total advances in the form of long term advances whereas all SCBs have deployed an average 40.78 percent during the period of study. It can also be observed that for all PSBs the ratio was 25.35 percent in the year 1996-97 which has gradually risen to 66.77 percent during 2004-05 indicating changed term preference for deploying advances. In case of all SCBs it has been observed that term preference for advances have changed slowly and gradually in favour of long term advances. It can be generalised that with the exception of HDFC bank, rest of the selected banks deployed lesser proportion of funds in long term advances during 1996 to 2001. However, 2001-02 onwards all of them have deployed higher proportion of funds in long term advances. Compared to all SCBs, all PSBs have made higher proportion of advances in long term tenure during 2001-02 onwards.

7.3.20 In any financial institution, NPAs are inevitable in the loan portfolio. However, effective NPA management is essential to maintain a
reasonable level of NPAs. Table 3.14 explains the asset quality of selected banks by analysing proportion of gross NPAs to gross advances. It can be observed that at industry level, all PSBs have been able to contain NPAs an average of 8.6 percent of their gross advances whereas the ratio was 11.17 percent for all SCBs during the period. All PSBs have managed to keep NPAs at lower level as compared to all SCBs. The selected banks’ proportion of Gross NPA to Gross Advances has been found at 6.54 percent. If the average of Bank of Rajasthan is excluded, then the average of other selected banks stands at 4.63 percent which can be described as efficient NPA management.

7.3.21 Banking industry as a whole has been successfully able to contain the proportion of net NPAs to net advances at an average 4.96 percent in case of all PSBs and at 5.64 percent in case of all SCBs. The average proportion of all selected banks amounts to 3.77 percent which is comparatively better than the performance of all PSBs and all SCBs.

7.4 LIABILITIES MANAGEMENT

It refers to management of various constituents of liabilities such as Capital, Deposits and Borrowings in such a way that average cost of deposits and or borrowings are minimised and adequate liquidity is ensured.

Management of Capital

7.4.1 It can be observed that all the selected banks have maintained paid up equity capital as required by Reserve Bank of India norms.

7.4.2 It is evident that banking sector has successfully complied with capital adequacy requirements as can be seen from the data over the period of study. Old and new private sector banks, as a distinct segment of banking sector, have managed to achieve CRAR ratio marginally higher than the Reserve Bank of India norms.
Management of Reserves and Surplus

7.4.3 Bank of Rajasthan has attained negative growth in the year 1997-98 and 1998-99. Similarly Indusind bank managed to grow their reserves and surpluses at a very marginal growth rate except during the year 1997-98. Negative growth rate indicates use of reserves.

7.4.4 Bank of Rajasthan could not generate growth in retained earnings during the major part of study period. It is also noteworthy that the bank had retained earnings during the initial years of study period which were significantly declined during the later part of study. Indusind bank faced similar type of decline in annual growth rate in retained earnings. It could achieve the average annual growth of 114 percent which is due to huge 920.56 percent increase in reserves only in the year 2003-04. Otherwise, the bank has been exposed to negative growth rate during four important years of study period.

Management of Deposits

7.4.5 All PSBs have managed to achieve an average annual growth rate of 26.23 percent of deposit mobilisation whereas all SCBs have achieved an average growth rate of 16.58 percent. Also, on comparison with selected banks, HDFC bank and UTI bank have registered much higher average growth rate of 58 percent and 50 percent respectively.

7.4.6 All PSBs and all SCBs have registered an average annual growth in mobilising demand deposits at 30.10 percent and 13.58 percent respectively. Comparatively it can be inferred that all PSBs have been successful in raising low cost demand deposits during the study period. Also, among the selected banks, HDFC bank and UTI bank have achieved more than 100 percent average growth rate in raising demand deposits.

7.4.7 All PSBs have registered an annual growth rate of 32.6 percent whereas it is 18.72 percent in case of all SCBs. Comparing with industry aggregates, it can be inferred that HDFC bank, UTI bank and Indusind
bank have effectively outperformed the banking industry in mobilising savings deposit whereas Bank of Rajasthan and J&K bank have not been able to raise savings deposits equivalent to other selected banks.

7.4.8 Generally, savings deposits are no cost deposits and demand deposits are low cost deposits for banks. HDFC bank has an average 28.69 percent no cost deposits whereas 16.7 percent low cost deposits. In contrast, Indusind Bank has very negligible low cost deposits and an average 9 percent of no cost deposits and 88.5 percent in the form of high cost deposits. Overall all PSBs carry average 25 percent low cost deposits and 75 percent high cost deposits whereas all SCBs carry an average 35 percent low cost deposits and 65 percent high cost deposits. It has been inferred that all SCBs have efficiently mobilised low cost deposits which contributes towards profitability of the bank.

7.4.9 HDFC bank has efficiently managed their average low cost deposits of 45 percent to reduce their cost on deposits at an average 5.59 percent. Other selected banks have not been able to manage reduction in cost on deposits. In case of Bank of Rajasthan, increase in low cost deposits has effected reduction in cost on deposits. Similarly in case of UTI bank the proportion of demand and saving deposits have gradually increased which helped the bank to reduce their cost on deposits during the later part of the study.

Management of Borrowings

7.4.10 It has been observed that average annual growth rate in borrowings of all PSBs has been 96.41 percent whereas it is 25.29 percent for all SCBs. It can be inferred that PSBs have relied on market borrowings in a comparatively much higher proportion as compared to all SCBs during the period of study. Overall, it can be inferred that selected PSBs as well as all PSBs as an important segment of banking sector have shown their preference towards market borrowings as compared to all SCBs as a whole banking sector. However, the year on year growth rate in case of
selected banks has shown a erratic trend. HDFC bank and UTI bank have undertaken borrowings at an average annual growth rate of 72.42 percent and 81.38 percent respectively. Indusind bank has undertaken borrowings in a erratic manner which is evident from an abnormal average figure.

7.4.11 A close look at the composition of borrowings of selected banks reveal that HDFC bank and UTI bank have relied more on banks whereas Bank of Rajasthan and J&K bank have relied more on financial institutions for their borrowings. Indusind bank has relied on RBI to some extent for borrowings during the period 1998 to 2002. Balance sheets of all the selected banks show accelerated borrowings from other sources during the last 3 year i.e. 2002-03 to 2004-05. It is an indication that subordinated debts have been raised for the purpose of inclusion in Tier II capital. During the same period, it has been observed that the selected banks have increased borrowings from foreign market.

**Off Balance Sheet Transactions (OBS)**

7.4.12 It has been observed that new PSBs have entered into OBS transactions at an average of Rs.158781 crore which are 99.74 percent of their average total liabilities. Old PSBs have transacted OBS to the extent of Rs.26413 crore which are 28.72 percent of their average total liabilities. All SCBs have off-balance sheet exposure of an average Rs.11,16,276 crore which are 69.44 percent of their average total liabilities. It can be inferred that new PSBs have undertaken OBS more aggressively as compared to old PSBs. All SCBs have registered higher average amount of OBS exposure due to aggressive participation of foreign banks and new PSBs. HDFC bank and UTI bank have attained an average growth rate of 109.31 percent and 98.11 percent in their OBS transactions.

7.4.13 Among the various bank groups, OBS exposures of Old Private Sector’s bank have been found comparatively much lower than the new private
sector’s banks and all SCBs. As regards composition of OBS exposures, NPSBs have entered into Forward Exchange Transactions at an average 56.73 percent of their total liabilities whereas the average proportion of OPSBs and all SCBs have been 20.29 percent and 48.14 percent respectively. Among the selected banks, HDFC bank and UTI bank have contracted Forward Exchange Transactions at 73 percent and 80 percent of their total liabilities respectively.

7.5 RISK MANAGEMENT

Credit Risk Exposures

7.5.1 Among the selected banks, J&K bank has been observed as safe bank from credit risk exposure point of view as it has made unsecured advances at an average proportion of 6 percent during the period of study. HDFC bank has made comparatively higher amount of unsecured advances to the extent of an average of 18.68 percent during the period of study.

7.5.2 Indusind bank has been found having higher proportion of bad debts at an annual average of 4.17 percent. HDFC bank and J&K bank have managed comparatively lower bad debts amounting to an average 1.36 percent and 1.39 percent respectively.

7.5.3 It has been observed that HDFC bank, UTI bank, Indusind bank and Jammu & Kashmir bank have significant exposures to sensitive sectors. Jammu & Kashmir bank has registered a growth rate of 244.62 percent in such exposures.

Liquidity Risk

7.5.4 All the selected banks have maintained negative ratio throughout the period of study. It has been inferred that the selected banks have not relied upon volatile liabilities to finance their assets, however HDFC bank has been observed having positive FVR during 2003-04 and 2004-05.
Interest Rate Risk

7.5.5 The HDFC bank has funded short term assets with long term liabilities. In the event of increase in interest rate, the bank’s net interest income increases. Alternatively, in case of decrease in interest rate, the bank’s net interest income decreases.

7.5.6 UTI bank has maintained negative GAP in all time buckets except in case of 15 to 28 days buckets. It has been inferred that the bank has funded long term assets with short term liabilities. In case of liability sensitive bank, the increase in interest rate reduces the net interest income and vice versa.

7.5.7 The Bank of Rajasthan has maintained negative GAP in respect of majority of the time buckets except in case of 6 months – 1 year bucket and 3 years and more time buckets and bank has been significantly liability sensitive that means liabilities mature before assets. GAP Ratio which has been less than one in respect of majority of time buckets. It has been inferred that bank has funded long term assets with short term liabilities except in few time buckets. In the event of decrease in interest rate, the net interest income increases.

7.5.8 The Jammu and Kashmir bank has maintained negative GAP in respect of all time buckets upto three years which indicates that the bank has financed long term assets with short term liabilities. Also the GAP ratio has been less than one in respect of each of the time bucket upto 3 years indicating that the bank has been liability sensitive

7.5.9 The Indusind bank has maintained negative GAP in respect of all time buckets as on 31st March 2004 except in case of time bucket of more than 5 years. It has been inferred that short-term liabilities have financed long-term assets. It has been evident from the GAP ratio which has been less than one in respect of all time buckets except the last one. In case of
bank having more RSL than RSAs, net interest income decreases with the increase in interest rate and vice versa.

7.6 PROFITABILITY MANAGEMENT

Bank profitability has been a function of interest income, non interest income, interest expenditures and non interest expenditures and provisions and contingencies. However, all these components of profitability have been greatly affected by environmental changes such as deregulation of interest rates, free pricing strategies, competition, adoption of stricter accounting practices, prudential provisioning and asset classification norms, capital adequacy norms and transparent financial reporting requirements. An attempt has been to decompose various components of profits and analyse them separately in the following paragraphs.

Management of Spread

7.6.1 HDFC bank and UTI bank have managed to attain average annual growth rate in their total income at 46.56 percent and 38.50 percent respectively. Bank of Rajasthan have attained higher growth in interest income during the period 1996-97 to 2000-01. From the year 2001-02 onwards, the growth rate have decelerated significantly. The trend of growth rate of all SCBs also show the similar readings. Average annual growth rate of all selected banks, all PSBs and all SCBs stood at 26.39 percent, 36.61 percent and 11.55 percent respectively.

7.6.2 HDFC bank and UTI bank have attained average annual growth rate of 44.09 percent and 37 percent respectively in their interest expenditure. The annual average growth rate has been 6.99 percent, 36.13 percent and 9.60 percent for old PSBs, New PSBs and all SCBs respectively during the period of study.

7.6.3 All SCBs have managed to earn interest income at an average 8.53 percent of their total assets during the period of study whereas all PSBs
have an annual average of 8.34 percent of their total assets. It is also evident that the rate of earning has declined continuously from 10.51 percent in 1996-97 to 6.14 percent in 2004-05 in case of all PSBs whereas it has come down from 9.88 percent to 6.73 percent during the same period in case of all PSBs.

7.6.4 All SCBs have managed to contain interest expenditure which is an average 5.69 percent of total assets during the period of study whereas in case of all PSBs the proportion is an average 6.12 percent.

7.6.5 HDFC bank and J&K bank have managed to achieve NIM at an average annual growth rate of 3.22 percent and 3.06 percent respectively. All SCBs have managed to earn an average annual net interest margin of 2.84 percent whereas all PSBs have earned an average NIM of 2.23 percent during the period of study.

Management of Burden

7.6.6 All SCBs have managed to earn non-interest income at an average Rs.21,946.25 crore with an average annual growth rate of 18.37 percent during the period of study whereas for all PSBs the average amount of such income has been Rs.3753.45 crore with an annual average growth rate of 32.44 percent. However, the trend of earning such income has been quite erratic as evident from the table indicating higher amount of uncertainty and volatility in earning of such income.

7.6.7 The average amount of non-interest expenditure has been Rs.32,502.57 crore per annum with an annual average growth rate of 13 percent in case of all SCBs which is significantly lower than that of all PSBs having attained annual average growth rate of 25.82 percent. In case of all SCBs, the average amount of non-interest income has been Rs.21,946.25 crore whereas non-interest expenditure are Rs.32,502.57 crore. The average growth in non-interest income has been 18.37 percent whereas the average growth rate in non-interest expenditure has been 13 percent in case of all SCBs. In case of PSBs, the average annual
growth rate in non interest income has been 32.44 percent whereas average annual growth rate in non interest expenditure has been 25.82 percent indicating their inability to control ‘burden’.

7.6.8 Indusind bank has maintained the highest average proportion of provisions and contingencies to total assets at 1.65 percent among the selected banks. Looking at the overall banking sector, it has been observed that all SCBs have maintained an average 1.18 percent of total assets towards provisions and contingencies during the period of study.

7.6.9 All SCBs have managed to earn operating profit at an annual average growth rate of 22.11 percent whereas all PSBs have posted an average 28.75 percent during the period of study indicating better performance by all PSBs as compared to that of all SCBs. It has also been observed that except HDFC bank, all other select ed banks as well as all PSBs and all SCBs have experienced negative growth rate in operating profit during 2004-05, the last year of the study period.

7.6.10 All PSBs have managed to achieve the average annual proportion of operating profit to total assets at 1.98 percent whereas for all SCBs the proportion has been 1.95 percent. All PSBs have performed marginally higher than all SCBs in this regard. However, in case of all PSBs the proportion has been higher during the earlier years of the study which subsequently declined during the later years of the study. In case of all SCBs, the proportion has been lower during the earlier years of study which has steadily gone up and improved during the later years of the study.

7.6.11 All PSBs have earned an average net profit of Rs.1812.33 crore with average annual growth rate of 26.17 percent whereas all SCBs have earned an average Rs.11288.19 crore net profit with average annual growth rate of 26.75 percent. HDFC bank and UTI bank have been found achieving consistent growth in their net profit at an average growth rate of 44.29 percent and 53.55 percent respectively. The growth
rate of Indusind bank and Bank of Rajasthan have been found erratic and fluctuating.

7.6.12 At the overall banking industry level the average proportion of net profit to total assets attained by all PSBs has been 0.88 percent whereas the average proportion of all SCBs has been 0.77 percent indicating comparative better asset deployment by PSBs. HDFC bank and J&K bank have attained average proportion of 1.53 percent and 1.25 percent respectively.

7.6.13 Among the selected banks, HDFC bank, UTI bank and J&K bank have been found consistent in earning PAT whereas the remaining two banks, Bank of Rajasthan and Indusind bank have earned PAT in a very erratic manner. It has also been observed that all the selected banks have witnessed significant decline in their PAT in the year 2004-05. In case of HDFC bank and UTI bank the growth rate has reduced but in case of Bank of Rajasthan and Indusind bank and J&K bank the growth rate has been found negative.

7.6.14 J&K bank has achieved the highest average annual proportion of profit after tax (PAT) to networth of 23.73 percent. HDFC bank and UTI bank have managed to achieve an average annual proportion of 21.44 percent and 21.32 percent respectively. Indusind bank has achieved an average annual proportion of 15.67 percent. The Bank of Rajasthan has ended up with negative average of 3.77 percent due to bank’s poor performance during 1997-98 and 1998-99.

7.6.15 Indusind bank has been found with the higher dividend pay out ratio of 42.62 percent. The average annual proportion for HDFC bank has been 29.26 percent. UTI bank has attained the proportion at 23.16 percent. Bank of Rajasthan has attained the average proportion at 17.39 percent.
Statistical Analysis and Interpretation

Various statistical tools and techniques such as Averages, Standard Deviations, Coefficient of Variations, and Correlations have been applied and conclusions interpreted. In order to test hypothesis an Analysis of Variance (ANOVA) has been made using Fisher’s ‘F-test’.

7.6.16 The average investment income to the total investment (return on investments) of all five selected banks ranged from 7.94 percent to 10.12 percent. The highest investment income is of Bank of Rajasthan that is 10.12 percent but this highest investment income has highest CV of 22.20 that is higher inconsistency than that of other four banks is observed with the bank.

7.6.17 None of the selected private sector banks’ Credit Deposit Ratio matches with all private sector banks or scheduled commercial banks which is 58.58 and 52.68 percent respectively. All scheduled commercial banks in India has the lowest coefficient of variation at 7.83 percent which shows efficient consistency maintained by scheduled commercial banks in India that is very low fluctuations in C-D ratio during the period of study are observed.

7.6.18 The highest among all selected banks UTI bank has 18.77 percent return on advances but simultaneously this average return on advances is with highest fluctuations at 45.03 percent as coefficient of variation. The returns on advances of J&K are consistent so reliable which is uncomparable with the highest return on advances at 18.77 percent with 45.03 coefficient of variation of UTI.

7.6.19 All private sector banks are successful in maintaining average CRAR at 13.43 percent for period of study with lower fluctuations that is CV at 13.01 percent whereas all scheduled commercial banks also has maintained higher than requirement the CRAR at 11.96 percent at ever lowest standard deviation of 0.74 percent and CV at 6.98. It can be
concluded that on average all the banks have been successful in maintaining the capital adequacy requirement with lower fluctuations except the Bank of Rajasthan.

7.6.20 HDFC bank has been successful in maintaining lowest average cost of deposits for the period of study at 5.59 percent that too with 1.32 percent as SD. The highest cost of deposits is of Bank of Rajasthan at 7.85 percent with the highest SD of 2.30 percent and CV at 29.34 percent. The J&K bank has 7.21 percent the cost of deposits which is consistently followed during the period of study at 1.03 SD and the lowest coefficient of variation 14.31 percent.

7.6.21 It is worth noting that old private sector banks have highest interest income to total assets at 9.13 percent with 1.22 percent SD and 13.31 coefficient of variation whereas new private sector banks have lower interest income to total assets at 7.72 percent with the higher fluctuations at 23.41 percent coefficient of variation. If old and new private sector banks are taken together, then average interest income to total assets is reflected at 8.34 percent at coefficient of variation at 19.02 percent. Comparatively all scheduled commercial banks have high interest income at 8.53 percent with ever lowest fluctuation in it at 11.73 percent as coefficient of variations.

7.6.22 HDFC bank has been successful in earning higher operating profit to total assets at 2.7 percent with lower fluctuations at 19.75 percent as coefficient of variation amongst selected private sector banks whereas the Bank of Rajasthan has lowest operating profit to total assets at 1.23 percent with the highest fluctuations as 69.52 percent the coefficient of variation.

**Test of Hypothesis**

7.6.23 There is a significant difference in the Mean Credit Deposit Ratio for the period of study for five selected private sector banks. Alternatively, the
five selected private sector banks between the samples, there is significant difference at 5° of freedom.

7.6.24 There is a significant difference in the Mean Gross Non Performing Assets for the period of study of five selected private sector banks. Alternatively, the five selected private sector banks between the samples, there is significant difference at 5° of freedom.

7.6.25 There is a significant difference in the Mean Net Non Performing Assets for the period of study of five selected private sector banks. Alternatively, the five selected private sector banks between the samples, there is significant difference at 5° of freedom.

7.6.26 There is a significant difference in the Mean Operating Profits for the period of study of five selected private sector banks. Alternatively, the five selected private sector banks between the samples, there is significant difference at 5° of freedom.

**Correlation Analysis**

7.6.27 Highest degree of correlation has been observed in case of HDFC bank which is positive correlation at 0.98. It can be interpreted that every increase in loans and advances of the HDFC bank brings proportionate increase in the operating profit. All private sector banks' operating profit is positively correlated with their loans and advances at high degree correlation and there is a scope for private sector banks to increase the loans and advances to earn more operating profit.

7.6.28 Highest degree of correlation has been observed in case of HDFC bank which is positive correlation at 0.99. It can be considered that it is perfect positive correlation between operating profit of the HDFC bank and deposits for the period of study. All private sector banks' operating profit is positively correlated with their deposits at high degree correlation and there is a scope for private sector banks to increase the volume of deposits to earn more operating profit.
### Table 7.1 Comparative Statement of Asset Management
(Figures in percentage)

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Particulars</th>
<th>HDFC</th>
<th>UTI</th>
<th>BOR</th>
<th>INDUS</th>
<th>J&amp;K</th>
<th>PSBs</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Avg. Growth of Liquid Assets</td>
<td>54.80</td>
<td>43.32</td>
<td>21.90</td>
<td>25.10</td>
<td>26.94</td>
<td>18.72</td>
<td>7.92</td>
</tr>
<tr>
<td>2</td>
<td>%age of Liquid Assets to Demand Deposits</td>
<td>68.00</td>
<td>153.00</td>
<td>126.00</td>
<td>174.00</td>
<td>116.00</td>
<td>130.00</td>
<td>122.00</td>
</tr>
<tr>
<td>3</td>
<td>Avg. Growth in Total Investments</td>
<td>59.00</td>
<td>55.53</td>
<td>18.35</td>
<td>21.95</td>
<td>25.05</td>
<td>28.00</td>
<td>17.69</td>
</tr>
<tr>
<td>4</td>
<td>%age of Investments to Total Assets</td>
<td>44.15</td>
<td>34.33</td>
<td>37.96</td>
<td>29.41</td>
<td>39.28</td>
<td>33.76</td>
<td>36.02</td>
</tr>
<tr>
<td>5</td>
<td>Avg. Growth in Govt. Securities</td>
<td>67.40</td>
<td>52.49</td>
<td>24.92</td>
<td>28.31</td>
<td>21.80</td>
<td>29.34</td>
<td>20.52</td>
</tr>
<tr>
<td>6</td>
<td>%age of Govt. Sec. to Investments</td>
<td>51.00</td>
<td>61.79</td>
<td>65.56</td>
<td>79.20</td>
<td>63.63</td>
<td>65.25</td>
<td>73.65</td>
</tr>
<tr>
<td>7</td>
<td>Avg. Growth in Non SLR Securities</td>
<td>53.65</td>
<td>64.82</td>
<td>23.36</td>
<td>137.56</td>
<td>42.26</td>
<td>28.73</td>
<td>15.85</td>
</tr>
<tr>
<td>8</td>
<td>%age of Non SLR Sec. to Investments</td>
<td>48.93</td>
<td>38.15</td>
<td>20.75</td>
<td>19.72</td>
<td>31.40</td>
<td>32.69</td>
<td>21.33</td>
</tr>
<tr>
<td>9</td>
<td>Avg. Return on Investments</td>
<td>7.95</td>
<td>7.94</td>
<td>10.12</td>
<td>9.82</td>
<td>9.90</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>10</td>
<td>Avg. Growth in Advances</td>
<td>63.67</td>
<td>51.21</td>
<td>8.87</td>
<td>22.02</td>
<td>27.22</td>
<td>30.94</td>
<td>19.25</td>
</tr>
<tr>
<td>11</td>
<td>%age of Advances to Total Assets</td>
<td>34.61</td>
<td>44.27</td>
<td>39.20</td>
<td>50.71</td>
<td>41.20</td>
<td>44.47</td>
<td>42.27</td>
</tr>
<tr>
<td>12</td>
<td>Avg. Credit Deposit Ratio</td>
<td>38.95</td>
<td>35.91</td>
<td>41.65</td>
<td>52.09</td>
<td>44.85</td>
<td>58.58</td>
<td>52.68</td>
</tr>
<tr>
<td>14</td>
<td>Avg. Growth in Long Term Advances</td>
<td>66.81</td>
<td>81.14</td>
<td>15.94</td>
<td>63.03</td>
<td>48.66</td>
<td>58.40</td>
<td>28.54</td>
</tr>
<tr>
<td>15</td>
<td>%age of Gross NPAs to Gross Advances</td>
<td>2.25</td>
<td>4.74</td>
<td>14.18</td>
<td>5.60</td>
<td>5.94</td>
<td>8.06</td>
<td>11.17</td>
</tr>
<tr>
<td>16</td>
<td>%age of Net NPAs to Net Advances</td>
<td>0.48</td>
<td>3.60</td>
<td>7.34</td>
<td>4.53</td>
<td>2.94</td>
<td>4.96</td>
<td>5.64</td>
</tr>
<tr>
<td>17</td>
<td>Avg. Return on Advances</td>
<td>14.43</td>
<td>18.77</td>
<td>13.02</td>
<td>13.74</td>
<td>12.05</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

The above table shows comparative picture of asset management policies adopted by selected banks during the period of study on an average basis. It has been evident that selected private sector banks have performed better than the scheduled commercial banks. Among the selected banks, except Bank of Rajasthan, all other banks have managed their assets well.
Table 7.2 Comparative Statement of Liabilities Management
(Figures in percentage)

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Particulars</th>
<th>HDFC</th>
<th>UTI</th>
<th>BOR</th>
<th>INDUS</th>
<th>J&amp;K</th>
<th>PSBs</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Avg. CRAR</td>
<td>12.33</td>
<td>11.27</td>
<td>8.90</td>
<td>13.20</td>
<td>17.86</td>
<td>--</td>
<td>11.96</td>
</tr>
<tr>
<td>2.</td>
<td>Avg. Growth in Reserves</td>
<td>89.43</td>
<td>75.82</td>
<td>44.54</td>
<td>21.17</td>
<td>33.24</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>4.</td>
<td>Avg. Growth in Demand Deposits</td>
<td>57.54</td>
<td>61.98</td>
<td>10.58</td>
<td>24.31</td>
<td>21.77</td>
<td>30.10</td>
<td>13.58</td>
</tr>
<tr>
<td>5.</td>
<td>Avg. Growth in Savings Deposits</td>
<td>96.77</td>
<td>121.95</td>
<td>16.62</td>
<td>47.86</td>
<td>21.19</td>
<td>32.60</td>
<td>18.72</td>
</tr>
<tr>
<td>6.</td>
<td>Avg. Growth in Term Deposits</td>
<td>51.08</td>
<td>45.73</td>
<td>15.68</td>
<td>19.73</td>
<td>28.24</td>
<td>22.13</td>
<td>15.68</td>
</tr>
<tr>
<td>7.</td>
<td>Avg. Cost on Deposits</td>
<td>5.59</td>
<td>7.79</td>
<td>7.85</td>
<td>7.38</td>
<td>7.21</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>8.</td>
<td>Avg. Growth in Borrowings</td>
<td>72.42</td>
<td>80.38</td>
<td>67.26</td>
<td>139.38</td>
<td>300.00</td>
<td>96.41</td>
<td>25.29</td>
</tr>
</tbody>
</table>

The above table shows liability management policies adopted by selected banks during the period of study on an average basis. It has been inferred that selected banks have successfully carried out liability management as compared to scheduled commercial banks. Among the selected banks, except Bank of Rajasthan, all other banks have managed their liabilities well.

Table 7.3 Comparative Statement of Profitability Management
(Figures in percentage)

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Particulars</th>
<th>HDFC</th>
<th>UTI</th>
<th>BOR</th>
<th>INDUS</th>
<th>J&amp;K</th>
<th>PSBs</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Avg. Growth in Interest Income</td>
<td>46.56</td>
<td>38.50</td>
<td>4.71</td>
<td>14.21</td>
<td>19.08</td>
<td>--</td>
<td>11.15</td>
</tr>
<tr>
<td>2.</td>
<td>Avg. Growth in Interest Expenditure</td>
<td>44.09</td>
<td>37.00</td>
<td>2.07</td>
<td>11.44</td>
<td>18.98</td>
<td>--</td>
<td>9.60</td>
</tr>
<tr>
<td>3.</td>
<td>Avg. NIM</td>
<td>3.22</td>
<td>1.62</td>
<td>2.51</td>
<td>2.10</td>
<td>3.06</td>
<td>2.23</td>
<td>2.84</td>
</tr>
<tr>
<td>4.</td>
<td>Avg. Growth in Non Interest Income</td>
<td>51.95</td>
<td>49.34</td>
<td>18.83</td>
<td>37.19</td>
<td>44.46</td>
<td>32.44</td>
<td>18.37</td>
</tr>
<tr>
<td>5.</td>
<td>Avg. Growth in Non Interest Expenditure</td>
<td>55.00</td>
<td>52.42</td>
<td>13.93</td>
<td>31.38</td>
<td>17.51</td>
<td>25.82</td>
<td>13.00</td>
</tr>
<tr>
<td>6.</td>
<td>Avg. %age of Provisions to Total Assets</td>
<td>1.18</td>
<td>1.11</td>
<td>1.23</td>
<td>1.65</td>
<td>1.27</td>
<td>1.10</td>
<td>1.18</td>
</tr>
<tr>
<td>7.</td>
<td>Avg. Growth in Operating Profit</td>
<td>46.17</td>
<td>51.35</td>
<td>42.64</td>
<td>29.09</td>
<td>24.07</td>
<td>28.75</td>
<td>21.11</td>
</tr>
<tr>
<td>9.</td>
<td>Avg. Growth in PAT</td>
<td>42.63</td>
<td>49.67</td>
<td>-12.05</td>
<td>-15.64</td>
<td>35.66</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>10.</td>
<td>Avg. %age of PAT to Networth</td>
<td>21.44</td>
<td>21.32</td>
<td>-3.77</td>
<td>15.67</td>
<td>23.73</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

- 312 -
The above table shows the component-wise performance of selected banks as regards income, expenditure, operating profits, net profits and profit after tax. It has been inferred that selected banks, except Bank of Rajasthan have been able to maintained fair profitability during the period of study.

7.8 SUGGESTIONS

Since past two decades, banking sector has witnessed significant environmental, regulatory, structural and technological changes. Such changes are expected to continue in the future also. The impact of uncertainties are such that policies, techniques, strategies earlier adopted for the purpose of profit as well as wealth maximisation and survival of the bank have not yielded results in the present scenario. Similarly, the techniques, strategies identified in the present study may not hold good in future ever-changing environment. However, some suggestions are offered as follows:

7.8.1 It has been perceived from the present study that among the selected banks, HDFC bank and UTI bank (to an extent) have merged as successful banks based on examination and analysis of various parameters of income, expenditure, assets and liabilities. Underperforming banks such as Bank of Rajasthan may adopt business model of successful banks subject to their own constraints, regulatory requirements and risk appetite.

7.8.2 The Bank for International Settlement (BIS) through Basel Committee have prescribed various guidelines as regards management of various categories of risk. Accordingly, the Reserve Bank of India has adapted those guidelines as per Indian conditions and issued the same from time to time. However, implementation of such guidelines in the form of setting up effective risk management structure may be possible in case of new generation private sector banks such HDFC bank and UTI bank. These banks have acquired appropriate expertise and technology to handle the installation of risk management system. But it has to be accepted that old generation private sector banks such as Bank of
Rajasthan may not have the necessary risk management expertise and sophisticated technology to become Basel-II compliant. Also these banks are facing severe competition from various bank groups. They will have to augment their capital in order to comply with new Basel Norms on capital adequacy. In such a situation, as envisaged by Narsimham Committee, better performing private sector banks may propose a friendly take over of underperforming bank. Such a merger may prove beneficial to both the banks as well as to the banking sector as a whole.

7.8.3 It has been observed that annual reports of the selected banks have commenced disclosing various important information such as maturity profile of assets and liabilities, movement in NPA account, movement in provision account, exposures to sensitive sectors and such others. However, such important information are only published as on the date of year end. If such information are published at the end of the month or end of the quarter basis, it would help in carrying out meaningful research particularly covering short run decisions.

7.8.4 It has been observed that old private sector banks such Bank of Rajasthan and Jammu and Kashmir bank have undertaken comparatively lesser exposures to Off Balance Sheet (OBS) transactions. Some of the derivative instruments such as credit derivatives, interest rate options, interest rate swap etc. offer 'safe' hedging strategies. New private sector banks have gradually acquired necessary skills and expertise for the same. Old private sector banks will have to acquire necessary expertise in terms of qualified manpower and technology. However, banks should undertake derivative transactions as per their risk appetite and regulatory compliance and should keep away from indiscriminate use of derivatives.

7.8.5 The enactment of SRFACI Act 2002 has been the landmark policy and regulatory decision in the banking sector. It enables the bank to
effectively reduce NPA level. It has been expected that banks shall take maximum advantage of the Act subject to due restrain and social limitations.

7.8.6 Generally, policy decisions affecting banking sector at large are taken by the Government of India and in particular by the Reserve Bank of India. However, it has been observed that banks, which are on the forefront of the system, may not have been taken into consideration in some of the policy decisions such as sudden discontinuance of payment of interest on CRR balances with RBI. Such decision has adversely affected the profitability of the banks at large.

7.9 SCOPE FOR FURTHER RESEARCH
Bank Financial Management has become a favourite subject of study for Researchers and Academicians. The present study has been a comprehensive attempt to study various facets of Bank Financial Management taking into consideration almost all the parameters affecting Bank Profitability and Financial Management. However, it would be advisable to segregate various parameters and carry out their exclusive and in-depth study, such as

❖ Study of Credit-Risk Exposures of banks and their management techniques
❖ Study of Liquidity Risk Exposures of banks and their management techniques.
❖ Study of Interest Rate Risk Exposures of banks and their management techniques.
❖ Study of Maturity and Repricing Profile of assets and liabilities of banks and such others.