International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

FINANCIAL EXAMINATION OF FIVE BANKS

Koti Reddy Gogulamoodi

Tehar ,Algeria, Koti Reddy @gmail.com

Article Info

Received: 07-02-2022 Revised: 11 -03-2022 Accepted: 26-04-2022

Published:05/05/2022

ABSTRACT:

One of the most crucial sectors for economic development is the banking industry.The nation's development is implied by the banking industry's progress. In a similar vein, every othersectorisnegativelyimpactedwhenthesamefails.

The primary factor influencing financial behavior is risk. The financial system would be much simpler if there were no risk. However, in the actual world, danger is everywhere. For financial institutions to thrive in a very unpredictable environment, risk management must be done effectively. The dynamics of risk management will surely determine the direction of banking in the future. In the long term, only banks with effective risk management will be able to stay in business. One of the most important aspects of comprehensive risk management that is necessary for a financial institution's long-term performance is the efficientmanagementofcreditrisk.

KEYWORDS: financial institutions, banking industry, concept of banks, prudential norms , disclosure requirements , acceleration of pace and reach of latest technology , streamlining.

INTRODUCTION:

In response to this adage, attempts have sometimes been made to gauge the financial performance of two significant banks that operate in northern India. CAMEL has been used to conduct this assessment. The most recent financial analysis model is called Parameters. Through this model, it is highlighted that the banks under investigation are in a solid and adequate situation with regard to their capital adequacy, asset quality, managerial competencies, and liquidity. Due to the very nature of their operations, banks are inherently exposed to the oldest and largest risk: credit risk. However, for a variety of reasons, this has become more prominent in the recent past. One of the most significant of these is the global trend of economic liberalization. This shift to a market-driven economy is not unique to India. A bank's sound financial standing provides a guarantee to its depositors, but it also has equal importance for its shareholders, staff, and the whole economy.

RISK MANAGEMENT

The future of banking will undoubtedly rest on risk management dynamics . Only those banks that have efficient risk management system will survive in the market in the long run . The effective management of credit risk is the critical component of comprehensive risk management essential for long term success of banking institution . Credit risk is the oldest and the biggest risk that bank , by virtue of its very nature of its business , inherits .This has however , acquired a greater significant in the recent past for various reasons .Foremost among them is the wind of economic liberalization that is blowing across the globe . India is no exception to this swing towards market driven economy . Competition from within and outside the country has intensified . This has

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

resulted in multiplicity of risks both in number and volume resulting in volatile markets . A precursor to successful management of credit risk is a clear is a clear understanding about risks involved in lending, quantifications of risks within each item of the portfolio and reaching a conclusion as to the likely composite credit risk profile of a bank.The corner stone of credit risk management is the establishment of a framework that defines corporate priorities , loans approval process , credit risk rating system , risk adjusted pricing system, loan-review mechanism and comprehensive reporting system.With the integration of Indian financial sector with the rest of the world , the concept of banks and banking has undergone a paradigm shift . Before financial reforms , Indian Banks were enjoying , in a protected environment with a strong cushion of the government and their banks . This has made them

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

operationally inefficient and commercially almost wreck , as they had cumulated too much NP Advances .However with the RBI taking strong measures based on the recommendations of the Narsimahan Committee , the landscape of the Indian banking changed altogether . All the banks are directed to follow the norms of capital adequacy , asset quality , provisioning for NPA's , prudential norms , disclosure requirements , acceleration of pace and reach of latest technology , streamlining the procedures and complying with the accounting standards and making financial transparent . Towards this end , they redefined their objectives , strategies , policies , processes , methods and technologies which have a direct bearing on the financial health and performance of these banks . In this way , these banks were not only required to take the above steps but always evaluate their financial health and performance of these banks .

The progression of an economy is significantly dependent upon deployment as well as optimum utilization of the resources and most importantly operational efficiency of various sectors , of which banking play a vital role . Banking sector helps in stimulation of capital formation , innovation and monetization in addition to the facilitation of monetary policy . It is imperative to carefully evaluate and analysis the performance of the banks to ensure a healthy financial system and an efficient economy . The present study attempts to evaluate the performance of five commercial Banks in India using CAMEL model approach for a period of five years period from 2012 -16 .

Objective of the study

The present study attempts to achieve the following objectives :

The main objective of the study is to analyse the financial position and performance of the public sector banks in India using CAMEL model .

Apart from it, credit risk management practices of commercial banks in India and the standards set out under the New Basel Capital Accord , analysis of concentration of risk in the commercial banks in public sector banks has been highlighted.

Also the factors has been briefed which have led to the current financial performance.

Significance of the study

The fundamental business of lending has brought trouble to the individual banks and entire banking system . It is , therefore , imperative , that the banks are the adequate systems for the credit assessment of individual projects and evaluating risk associated therewith as well as the industry as a whole . Generally , banks in India evaluate a proposal through the traditional tools of project financing , computing maximum permissible limits , assessing management capabilities and prescribe a ceiling for an industry exposure .

Credit risk, that is, default by the borrower to repay lent money , remains the most important risk to manage till date . The predominance of the credit risk is even reflected in the composition of economic capital , which banks are required to keep a side for protection against various risks . According to one estimate , Credit Risk takes about 70% and 30% remaining is shared between the other two primary risks , namely Market risk and operational risk . Quality borrowers (Tier 1 borrowers)were able to access the capital market directly without going through the debt route . Hence, the credit route is now more open to the lesser mortals (Tier 11 borrowers).

With margin level going down , banks are unable to absorb the level of loan losses . There has been very little efforts to develop a method where risks could be identified and measured . Most of the banks have developed internal rating systems for their borrowers , but there has fine - tune the rating system .Also risks peculiar to each industry are also not identified and evaluated openly .

There is a need for Strategic approach to CREDIT RISK MANAGEMENT in Indian Commercial banks , particularly in view of ;

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

1 Higher NPA s level in comparison with global benchmarks
2 RBI's stipulation about dividend
3 Revised NPAs level and CAR norms
4 New Basel Capital Accord (Basel 11) revolution

RESEARCH METHODOLOGY

Five major players in Banking sector in India have been analysed for the purpose of

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	12.92	12.96	12.00	13.12	13.11	12.82	2
BOB	13.30	12.28	12.60	13.17	13.17	12.904	1
PNB	12.72	12.11	12.89	11.28	11.66	12.132	3
BOI	11.02	9.97	10.73	12.01	12.14	11.174	5
Canara	12.40	10.63	10.56	11.08	12.86	11.506	4

the study -STATE BANK OF INDIA

- BANK OF BARODA
- PUNJAB NATIONAL BANK
- BANK OF INDIA
- CANARA BANK

The present study attempts to evaluate the performance of five commercial Banks in India using CAMEL approach for a five period from 2012-13 to 2016-17

RESEARCH DESIGN

CAMEL is a ratio based model used to evaluate the performance of the banks with the help of different criteria, vizCapital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity. The present study is a descriptive research study based on analytical research design .

DATA ANALYSIS

Each bank is assigned a uniform composite rating and is standardized procedure providing an assessment of the quality of the bank based on standard criteria.

When assigning a composite rating , some components may be given more weight than others depending on the situation at the banks .Composite ratings may include factors that have a significant bearing on overall condition and soundness.

The ratios under respective five heads are calculated and then ranked .

DATA ANALYSIS

1 Capital Adequacy Ratio (Amount in Cr.)

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	0.66	0.675	0.634	0.620	0.580	0.634	1
BOB	0.599	0.601	0.598	0.571	0.551	0.584	5
PNB	0.644	0.634	0.630	0.617	0.582	0.622	2
BOI	0.639	0.646	0.649	0.588	0.585	0.621	3
Canara	0.587	0.612	0.602	0.587	0.586	0.594	4

All the five banks namely State Bank Of India , Bank Of Baroda , Punjab National Bank , Bank Of India , Canara Bank have fairly equal amount of CRAR with 12.82, 12.904, 12.132, 11.174, 11.506 which means these banks have greater capacity to adapt the loss if occur. And among these, Bank of baroda has highest ranking in CRAR (basel 2) . Likewise, Bank of India scored minimum rank. Still we can conclude that the banks are able to maintain the minimum CRAR of 9% as per RBI norms.

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

2 Debt Equity Ratios (Amount in Cr.)

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	13.87	13.34	13.87	14.24	15.08	14.08	1
BOB	15.65	16.83	16.39	15.11	15.69	15.934	3
PNB	13.80	14.48	14.51	17.28	17.39	15.492	2
BOI	17.44	17.56	18.19	18.19	18.83	18.042	4
Canara	16.47	18.57	18.88	19.37	18.89	18.436	5

State Bank of India secured first rank among all five with 14.08 followed by Punjab Nationl Bank, Bank Of Baroda, Bank Of India and lastly Canara Bank which secured fifth rank which means State Bank Of India and Punjab Natonal Banks are more secured and their respective depositors and creditors are at less risk than other three banks.

3 Total Advances to Total Assets Ratio

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	0.051	0.057	0.043	0.073	0.79	0.2028	1
BOB	0.54	1.28	1.52	3.09	4.72	2.231	3
PNB	1.52	2.35	2.85	4.097	8.556	3.875	5
BOI	1.47	2.05	2.00	2.78	2.22	2.102	2
Canara	1.46	2.17	2.00	3.951	5.74	3.064	4

State Bank of India secured highest position in the advances to assets ratio by Avg. Of 0.634 followed by Punjab National Bank, Bank Of India, Canara Bank and lastly Bank Of Baroda. It is clearly noticeable that the performance of all Banks are approximately the same , which implies that the banks are able to maintain good lending policy , State Bank Of India and Punjab National Bank have better lending policy than other three banks which states that the profit of such banks will boost favourably.

4 Net NPA to Total Advances Ratio

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	0.224	0.22	0.23	0.244	0.283	0.241	4
BOB	0.221	0.176	0.171	0.179	0.186	0.1869	1
PNB	0.0217	0.261	0.250	0.236	0.259	0.205	3
BOI	0.209	0.199	0.193	0.194	0.204	0.200	2
Canara	0.293	0.257	0.265	0.257	0.2575	0.2662	5

State Bank Of India got first position with lower NPA of 0.2028 against Total Advances followed by Bank Of India , Bank Of Baroda , Canara Bank and finally Punjab National Bank. It clearly denotes that State Bank Of India has been able to manage Net Performing Assets in a better way than rest other banks.

5 Net NPA to Total Assets Ratio (Amount in Cr.)

Banks	2012	2013	2014	2015	2016	Avg	Rank
SBI	0.86	0.8676	0.8244	0.8457	0.76834	0.833208	1
BOB	0.6925	0.6978	0.6934	0.6685	0.6369	0.62782	5
PNB	0.7884	0.7737	0.7589	0.7455	0.6747	0.74824	2
BOI	0.7578	0.7772	0.7558	0.7001	0.6786	0.7339	3
Canara	0.6805	0.7155	0.6965	0.6767	0.69054	0.691948	4

Bank Of India secured first position with the lowest NPA of 1.232 followed by Bank Of Baroda , State Bank Of India , Punjab National Bank and finally Canara Bank which states that Bank Of India has better credit policy and are able to recover the loan from the debtors than the other banks. They are at lower risk of increasing Non-Performing Assets whereas NPA of other four banks is comparatively high, it means that these banks are not making much efforts to decrease their NPA as BOI is doing.

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

6 Total Investments to Total Assets Ratio

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	0.063	0.051	0.061	0.047	0.0519	0.05478	2
BOB	0.12	0.10	0.098	0.068	-0.0105	0.07526	1
PNB	0.084	0.080	0.054	0.044	-0.05613	0.04133	3
BOI	0.064	0.064	0.062	-0.1335	-0.0342	-0.23584	5
Canara	0.082	0.069	0.050	0.050	-0.050	0.0402	4

Bank Of Baroda got first position with 0.1869% and Bank Of India secured 0.200% in investments to assets ratio which means both the Banks are focusing on advancing the money rather than investing , for the further growth of the business and adopting an aggressive policy whereas SBI and Canara Bank focuses on making a cushion against Non performing assets by investing the money more with investments to assets ratio. These both banks are using conservative policy.

7 Total Advances to Total Deposits (Amount in Cr.)

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	0.009	0.006	0.006	0.004	0.0021	0.0055	1
BOB	0.008	0.006	0.004	-0.008	0.001	0.002	4
PNB	0.009	0.006	0.005	-0.005	0.001	0.003	3
BOI	0.006	0.004	0.002	-0.009	-0.002	0.0002	5
Canara	0.006	0.004	0.004	0.005	0.001	0.004	2

SBI stands first with advances to deposits ratio of 0.833 followed by Punjab National Bank , Bank Of India , Canara Bank and lastly Bank Of Baroda which signifies that SBI has made efficient and appropriate utilisation of its depositors deposit by advancing the money for the bank whereas other four banks has though utilised their money but not as appropriately as done by SBI in an efficient way.

8 Profit per Employee (Amount in Cr.)

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	20.12	20.56	20.21	20.28	20.11	20.256	1
BOB	20.21	20.33	21.42		24.06	17.204	3
PNB	20.10	10.83	20.51			10.288	5
BOI	20.12	20.56	20.21	20.28	20.11	20.256	2
Canara	20.05	20.80	20.01			12.172	4

Bank Of Baroda secured first position which indicates it has higher profit for the employees and the company SBI, PNB, Canara Bank and then finally Band of India secured second , third , fourth and fifth position. While second, third , fourth positional banks are approximately on the same average but the fifth one i.e. Bank Of India is earning (-ve) profits with the average of (-0.23584) which states that BOI is not able to earn sufficient profits for employees and the company.

9 Return on Net Worth

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	8.25	8.12	7.94	7.44	6.98	7.74	3
BOB	7.08	6.45	6.25	6.36	6.18	6.46	5
PNB	8.97	8.42	8.05	7.49	6.85	7.95	2
BOI	7.63	7.39	7.29	6.80	6.36	7.094	4
Canara	8.71	8.82	8.50	8.08	7.35	8.292	1

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

State Bank Of India secured first position with average of 9.448 followed by PNB, BOB, Canara and lastly BOI. It signifies that SBI is able to earn good amount of profits for the company based on the fund with which the company conducts it business. PNB , BOB and

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

Canara are earning almost eaqual profit but BOI is earning least profit among all which denotes that BOI is not able to deploy the shareholder's fund in the most appropriate manner.

10 Net Profit to Total Assets Ratio

Higher the Net Profits, better the earning capacity of the bank. Here, SBI secured first position as it is able to maintain adequate earning potential followed by Canara, PNB, BOB and lastly BOI with second, third, fourth and fifth position, which denotes that BOI is not earning good amount of return on their total assets then rest other banks.

11 Dividend Payout Ratio

A payout ratio greater than 100% may be interpreted to mean that the company is paying out more in dividends that it is earning , which is an unsustainable move. SBI have secured first position with average of 20.256 which denotes that the company is able to distribute 20.256 of average earnings to its investors BOI, BOB , Canara and PNB secured second, third, fourth and fifth positions which states that these banks are not paying as much as like SBI to its shareholders.

12 Intrest Income To Total Funds Ratio

Interest Income is the major income of banks and is generated by its assets like loans, advance overdrafts, cash credits and discount from the bills. Higher the ratio, better it is. Canara scored first position to earn average of 8.292 which indicates that its assets are strong enough to generate interest in an adequate manner.

PNB, SBI, BOI secured second, third and fourth position and lastly BOB with fifth position which signifies that BOB is generating least income from its assets among rest.

13 Liquid Assets To Total Deposits

Higher the Liquid assets to total deposits , higher the cash available for depositors of the bank , from the above table we can conclude that Canara bank is on the first position with the average of 0.28 for their depositors to fulfil their demand, whereas BOB is on second place followed by BOI, PNB , and finally SBI , which denotes that all these banks has lesser capacity to fulfil the demand and advance the money to the people than Canara Bank.

14 Liquid Assets To Total Assets Ratio

Higher the liquidity, better the solvency and working capital of the bank which is required for day to day operations. Bank of baroda scored first position which indicates that the BOB is more solvent and has required potential to fulfil the demand whereas BOI scored second followed by Canara at third, PNB forth and finally SBI at fifth which indicates that these banks has maintained less liquid assets with them and hence , less working capital fordaily operating activities then BOB.

CONCLUSION

According to the research conducted by the CAMEL Model for leading Five banks , itis noted that the SBI has performed better in Capital Adequacy and has good risk management system . All the banks may take stringest poilicies to overcome increasing NPA,s in the fiture . BOI must take appropriate steps to overcome its negative profit per employee . PNB should try to improve its earnings to distribute more dividend to its investors . Canara bank has generate adequate income from its assets . There has been significant change in the performance of these banks over few years . BOB has better solvency and working capacity for day to day operations . SBI has lesser capacity to fulfil the demand and advance the money to the people . Due to the technological advancement , banks all around the world has increase their supervision quality too. Overall , we can say that BOB and SBI has performed better than other banks as due to passage of time their has been fluctuations in the other selected banks .

International journal of application or innovation in engineering and management

ijaiem.com/may 2022/ Volume 11/Issue 1/Article No-1/16-24
ISSN: 2319-4847

REFERENCES

1. The BOB Annual Report for 2012–2016
2. SBI's 2016–2016 Annual Report
3. The PNB Annual Report for 2012–2016
4. The BOI Annual Report for 2012–2016
5. Annual Report of Canara Bank, 2012–2016
6. The website moneycontrol.com
7. www.iba.org.in
8. "A Camel model Analysis of State Bank Group" by Aspal P.K. (2013)
9. "Financial performance analysis of selected public sector banks: A Camel Model Approach" by Jaspreet and Manpreet Kaur (2015)
10. Additional relevant bank websites