

A Study of Ten Indian Commercial Bank's Financial Performance using CAMELS Methodology

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Abstract

Globalization, rapid Industrialization with overall development and volatile stock market has created an unparalleled competitive environment which is necessary for the rapid economic growth which implies a long term rise in per capita of nation. To match the ever growing economic appetite India requires huge investment which can be possible if nations saving are sound and investor are willing to challenge market risk. Ever since Indian economy opened its doors to liberalization and globalization which ultimately explored the financial market potential are prudent result of the foundations laid through the first and second generation reforms, contribution of Reserve Bank of India (RBI) and other policy maker due to which Indian banking industry witnessed radical changes, transformational regulatory requirements and enormous growth in terms of new products and services and overall competition. Thus for competitive survival banks depends on their profitability, efficient management, growth rate and the risk exposure which has a direct impact on its market potential. In the light of these recent developments, a systematic analysis of the profitability and overall performance of Indian scheduled commercial banks is inevitable. The present study attempts to analyze financial performance of ten selected Indian Commercial Banks like SBI, ICICI, Axis, HDFC, BOI, PNB, IDBI, UBI, BOB and Canara Bank during the period 2005-2010 using CAMEL methodology. The variables taken for the study are Capital Adequacy in which Capital Adequacy Ratio (CAR), Debt–Equity Ratio (DER), Advance to Assets (ADV/AST), Asset Quality, in which (NNPAs), Management Efficiency in which Total Advances to Total Deposits (TA/TD), Profit Per Employee (PPE), Return on Net Worth (RONW), Earning Efficiency in which Percentage Growth in Net profit, Net Interest Margin (NIM), Non Interest Income / Total funds (NII/TF) and in Liquidity, Loans to Deposit Ratio (LDR), Liquid Assets / Total Assets (LA/TA) are been evaluated. The study brings out the competitiveness, effectiveness of selected major Commercial banks and in last conclusive remarks been given.

Keywords: CAMEL, CA, CAR, DER, LDR, ADV/AST, AQ, NNPA, TA/TD, PPE, RONW, NIM, NII/TF, LA/TA, PAT, **JEL Codes:** G18, G21, G24, G29, G30, N20, F30

1. Introduction

After the world war two economic activities all over the world witness cataclysmic change in the sphere of commercial banking. With passing time it has transformed itself into global industry which knows no geographic and territorial boundaries. With the dawn of commercialization, liberalization, Privatization and Globalization, survival of economic entities has become a challenge. India being growing economy with large population has positioned itself but growing globalization, technological advancements, confused and volatile stock market have explored unparalleled competitive setting for organizations across the world especially banks and India too have to face the heat of it. Indian banking was evolved basically to meet the financial need of the industry when came into existence; lending and borrowings activities were the only activities which were looked at as the main functions of the bank.

To counter the economic pace and match the global standardized competition Indian banking system has establish protective and balance approach for smooth banking future. With varying its origin and sizes in view to flourish nations economic strength globally the banking in India has reached a fair amount of maturity in terms of services provided product range and

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extensive reach especially in rural area. The constituents of the present banking system in India, at the apex is the Reserve banks of India (RBI) the Central bank of the country which enjoy the status of bankers bank followed by State bank of India, major nationalize scheduled banks, other joint stock banks, co-operatives banks, Regional rural Banks. Thus, the banking sector in India comprises the public sector commercial banks, private sector banks, co-operative banks and regional rural banks.

Commercial banking system of India is divided into scheduled and non scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. At present in India 93080 operational branches of Scheduled banks operating under authoritative and fundamental regulation of RBI. In order to develop efficient and effective banking system, India adopted phase wise nationalization. First phase of financial reforms was exercised in 1969 and 14 major Indian banks were nationalized. This prudent move strategically converted class banking to mass banking. Since then consolidated growth of the banking industry in India has been a continuous process.

Nationalization and expansion of Indian banking system was the outcome of the Government policy to penetrate un-banked areas of the country which explored Indian economic potential to a great extent which are visible, but also have hidden drawbacks which are to be minimized. It is been witnessed that public sector banks (PSBs), which are the core foundation of the Indian Banking system account for more than 78 per cent of total banking industry assets with growing nonperforming Assets (NPAs), inefficient, lethargic and corrupt manpower, lack of modern technology, excessive political interference and corruption are now facing competitive war with growing private sector national and multinational banks having efficient workforce with effective utilization of modern technology like "Internet banking, mobile banking, phone banking, ATMs" etc.

Impact of Economic Reforms on Banking Industry

The transformed banking structure from class banking to mass banking in India is an ultimate result of systematic and socio scientific process of reforms, expansion, reorganization, consolidation, competition and enabling measures. The impact of reforms witnessed phenomenal growth especially after the nationalization of the Indian banks in 1969 followed by the latest reforms initiated in 1992. In pre independence era, economic considerations were the important parameter and nation's economic growth was the index which banking industry accepted as its growth. But with growing economy priority have been changed, approach became macro, depending upon social and economic objective which resulted increased penetration of banking activities and opportunities in rural and untouched area which are reflected in the prudential indicators on capital adequacy, asset quality, profitability and productivity, etc. This herculean achievement distinct India from others and Indian banking industry consolidated itself as largest network in the world.

Focus of banking sector in India at present is largely on growth with stability and reforms with core objective to strengthening and enabling them to become internationally transparent and competitive. The reforms process also initiated measures for improving the productivity, efficiency and profitability of the banking system. It is expected that the banking industry is slated

for growth in future with a more qualitative rather than quantitative. With largest services providing network in the world, with deep penetration in rural and untouched area, with wider product range and with the help of securitization and derivatives trading Indian social sector bank has reflected fair amount of maturity which is still an uphill task for private sector and foreign banks and will remain till they lack in developing confidence among the mass especially in terms of quality of assets and capital adequacy in which government banks have clean and smooth string and transparent balance sheet. In order to protect the faith and promote the confidence among mass for betterment of banking industry Reserve Bank of India (RBI) as an autonomous body with least pressure from the government have to play instrumental role in maintaining rupee volatility without any fixed exchange rate.

India with growing economy and transformed banking sector have to response the growing demand of banking services, particularly in retail banking, corporate banking, mortgages and investment portfolio services which have high appetite along with M&As, takeovers and assets sales which are on growing trend. According to a report by ICRA Limited, a rating agency, the public sector banks (PSB) hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. The total assets of all scheduled commercial banks comprise around 65% of GDP at current market prices and bank's assets are estimated to grow at an annual composite rate of growth of 13.4 % (Indian Business Directory).

At present (2011) India have 167 Commercial Banks (CBs) in which 163 are Scheduled Commercial Banks (SCBs) including 82 Regional Rural Banks and 4 Non-Scheduled Commercial Banks - 28 public sector banks, 29 private banks, and 34 out of 37 reporting foreign banks. SCBs have 926028 working employees handling banking work through over 93080 nationwide branches which comprise of "Rural (33602), Semi-Urban (23048), urban (19156) and Metropolitan (17274) apart from 320 overseas branches. The aggregate deposits of SCBs are Rs. 5207969 crore which include Demand deposit of Rs. 641705 crore, Time deposit of Rs. 4566264 crore. SCBs have Bank credit of Rs. 5207969 crore, SLR investment of Rs. 1501619 crore, Per capita deposit of Rs. 46321, Per capita credit of Rs. 34800, Advances to priority sector Rs. 1315861 crore which is 30.6 percent of total advances of SCBs. The deposit of SCBs as percentage of GNP at factor cost at current prices is 71.9 with Current deposit ratio (CDR) of 76.5 percent, Investment deposit ratio (IDR) of 34.1 percent, and Cash deposit ratio is 8.2 percent.

Indian Banking industry with offensive approach in modernization is now equipped with 74743 operating ATMs with 40000 white label ATM which are not owned by any single banks, have entire operation on outsourcing are expected to be included quarterly base, 7% of total bank account holders using net banking which is seven fold jump since 2007. It is estimated that with prudent reforms and protective measures, credit market of India will grow to the tune of 23 trillion US dollars by 2050 and will establish as a third largest banking destination of the globe by 2040.

Objective of the Research

The objective of the study is to examine qualitative and

quantitative relevancy of various factors involves in evaluating financial performance of Indian commercial banks and to judge and justify the adequacy of CAMELS and assign overall ratings through CAMELS model which can be considered as a recommendation for improvements of the bank performance.

Research Methodology

The study is done with special reference to Indian Scheduled Commercial Banks. For the purpose secondary data are been used from 2005-6 to 2009-10 and CAMELS model applied which minutely evaluates and examine relevant components like Capital Adequacy, Asset Quality, Management Efficiency, Earning Efficiency, Liquidity and Sensitivity to Market risk for their smooth functioning. After judicious evaluation of all performance parameters required in CAMELS model banks are compared and ranked accordingly.

Data Collection and Sampling

The data has been collected from the annual report of the banks from 2005-6 to 2009-10 which are readily available from respective banks annual reports and other corporate databases. A finite sample size of ten banks listed on the National Stock Exchange (NSE) has been taken for the purpose of the study which involves in depth comparative study of all selected banks "ICICI, SBI, AXIS, HDFC, Bank of India, PNB, IDBI, Union Bank of India, Bank of Baroda, Canara Bank".

Literature Review

A survey of literature revealed that worldwide large numbers of academicians, corporate analyst independent researchers have carried out extensive research in the field of working and performance of banking industry, Ayub, Anghazo, Brasil, Barajas et al. Dasgupta, Bharathi, Bandt, Oung, Mohi-ud-Din Sangmi and Dr. Tabassum Nair Necmi Avkiran, Hawast and John, S.M. Tariq Zafar, Hilbers, Krueger & Moretti Hiroshi Morita, Scott Whisenant, Patricia M. Fairfield, Stephen Sault and Emma Welch, Neeley and Wheelock, M. Syed Ibrahim, Minakshi and Kaur, and produced significant truth which became ultimate parameter in this arena. However most of the investigative studies were done by advance countries having capital economic structure. The judicious analysis of these studies reflects that studies carried out by UK, USA, and Europeans have any relevant relation and impact in context to Indian financial system. Further it is been observed that no systematic and scientific study has been carried out yet to adjudicate the authenticity and validity of financial performance of Indian Scheduled Commercial Banks and of other developing nations banks. Thus the present paper seeks to make a humble beginning in these respects.

Kenton Zumwalt studied soundness of Indonesian banks during the crisis by using Indonesia's non-public CAMELS ratings data and found that during stable period four of five Camels component were present into the financial soundness of Indonesian banks and during crisis period CAMELS ratings declined and only one of the traditional CAMELS components was recognized, Hawast and John (1977) in their study concluded that cost control methods adopted by a bank determine their profitability. It is found that banks with high profit earning have recorded lower operating costs, Rebel Cole and Jeffery Gunther in their study revealed that the lower

predictive accuracy for CAMELS ratings "older" than two quarters causes the overall accuracy of CAMELS ratings to fall substantially, Varde and Singh (1979) in their study concluded that profitability of nationalized banks in India declined during 1964-1977, Sheeba Kapil, examined the degree to which supervisory CAMELS ratings reflect level of risk taken and ability of risk taking by banks, Amandeep (1983) in his study examined various factors which affect the profitability of commercial banks in India by applying multiple regression analysis along with trend analysis and ratio analysis, Chakraborty (1986) in his study examined the relative performance of different groups of banks based on three basic parameters viz. (i) profit, (ii) earnings, and (iii) expenses, Demirc'uc-Kunt (1989) in his study found that this methodology was also used by financial institutions as a governance mechanism to identify their risk positions internally, Demirc'uc-Kunt (1989) and Whalen (1991) in their study concluded that non-performing loans (NPSs) of banks and quality of asset and their utilization are important indicators of bank efficiency and insolvency, Verma and Malhotra (1993) in their study brought out frauds in commercial banks which have contributed to the declining profitability, Lovell and Sahay (1997) in their study found that Indian banks with low risk portfolios, as indicated by a higher capital ratio, are less efficient because they prefer safer and lower earning portfolios over riskier higher earning portfolios and concluded that capital adequacy does not have a significant impact on the performance of public sector banks in India, Kwan and Eisenbeis (1997) in his study observe that financially sound institutions operate more efficiently and smoothly than less capitalized bank, Saltzman & Salinger (1998) in his study revealed that it was North American Bank regulators who originally adopted CAMEL methodology to evaluate financial and managerial soundness of U.S. banking, Das, Abraham and Ramanathan, T.V. (2000) in their study concluded that much of the lost output of Indian Commercial banks during 1998 was the result of underutilization of resources. Dasgupta (2000), Dasgupta (2001) in their study found that researchers realized the need of evaluating, measuring and managing the financial performance of Indian banks due to growing problem of nonperforming assets in post liberalized era, Bandt and Oung (2004) in their studies express the usefulness of stress testing which were used for measuring risks in French banking system, Das and Ghosh (2006) in his study found that banks having higher profitability attract more customers, create more deposits and lending and are thus efficient in intermediation activities and vice-versa, Arora, S. and Kaur, S (2008) in their study investigated the internal determinants of diversification moves adopted by the banks taking two dependent variables, (i) net interest margin, (ii) non-interest margin, Haldane (2009) in his study justifies the stress testing for banking industry and concluded that in extraordinary financial crisis many banks failed in stress testing, Mohi-ud-Din Sangmi and Tabassum Nair (2010) in their research study, analyzed through the CAMEL Approach, that both the Punjab National Bank and Jammu & Kashmir Bank have adopted prudent policies of financial management and both banks have shown significant performance as far as asset quality is concerned, Sangmi and Nazir (2010) in their study by using CAMEL parameters highlighted the overall status of banks in northern India after evaluating their capital adequacy, asset quality, management capability and liquidity.

Data Analysis of Indian Scheduled Commercial Banks Using Camels Methodology

Capital Adequacy

Capital adequacy is an ultimate indicator of overall financial health of the banking system. It is measured by the Capital to Risk - Weighted Assets Ratio (CRAR) and defined as the ratio of a bank's capital to its total risk weighted assets or said to be a single number that was the ratio of banks capital to its assets. Its basic objective is to protect depositors and minimize the cascading effects of financial sector crises which are unforeseen and erupt unexpectedly by consolidating the soundness and stability of the banking system. In banking two type of capital are measured: Tier one capital, which can absorb losses without a bank being required to cease trading, and Tier two capitals, which can absorb losses in the event of a winding up and so provides a lesser degree of protection to depositors.

Capital Adequacy Ratio

CRAR is a ratio of Capital Fund to Risk Weighted Assets. It reflects the ability of a bank to deal with probable loan defaults. It in general determine the capacity of banks in meeting out their liabilities and other risk like credit risk, operational risk etc. It is arrived by dividing the Tier I and Tier II capital by risk weighted assets. Tier I capital includes equity capital and disclosed reserves. Tier II capital includes items such as undisclosed reserves, general loss reserves, subordinated term debt.

Table (3.1)

A) Capital Adequacy Ratio					
Banks	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	11.88	12.34	13.47	14.25	13.39
ICICI	13.35	11.69	13.97	15.53	19.41
AXIS	11.08	11.57	13.73	13.69	15.8
HDFC	12.16	11.41	13.08	13.6	15.69
BOI	10.75	11.75	12.04	13.01	12.94
PNB	11.95	12.29	13.46	14.03	14.16
IDBI	14.8	13.73	11.95	11.57	11.31
UBI	11.41	12.8	12.51	13.27	12.51
BOB	13.65	11.8	12.91	12.88	12.84
Canara Bank	11.22	13.5	13.25	14.1	13.43

Interpretation: From the above table it is found that ICICI have better Capital adequacy ratio than other selected competitive banks in the year 2009-10 and even in 2008-9 which are 19.41 and 15.53 and followed by HDFC, AXIS bank, PNB, Canara Bank, SBI, BOI, BOB, UBI and IDBI respectively. IDBI has the lowest 11.31 among all the selected banks. It has been noted that all the banks have maintained the required CRAR by the RBI according to existing norms even they are above to Basel III norms of 10.5 which will be implemented in future for the same. Their higher CAR enabled them in risk taking capabilities and consolidated them in facing unexpected loss arising in the banking portfolio and also provided them edge in negotiating the risk. Further it is found that, to control unexpected losses selected banks have adopted defensive approach in disbursement of loans and advances due to which they have higher capital adequacy ratio.

A) Debt-Equity Ratio (D/E): The Debt to Equity Ratio is tool which measures the strength of banks ability to borrow over long periods of time. Generally, any bank that has a debt to equity ratio of over 40% to 50% should be looked at more carefully to make sure there are no liquidity problems. It is arrived at by dividing the total borrowings and deposits by shareholders net worth, which includes equity capital and reserves and surpluses

Table (3.2)

Banks	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	13.75	13.91	10.96	12.81	12.19
ICICI	7.45	9.5	5.27	4.42	3.91
AXIS	13.97	17.28	9.99	11.49	8.81
HDFC	10.53	10.62	8.76	9.75	7.78
BOI	13.75	13.91	10.96	12.81	12.19
PNB	13.19	13.79	15.44	15.96	15.36
IDBI	20.38	15.1	10.74	6.95	4.08
UBI	19.31	19.66	18.47	18.0	18.1
BOB	15.96	14.99	13.77	14.44	11.94
Canara Bank	16.64	17.55	18.57	18.62	18.71

Interpretation: From the above table it is been found that in the year 2009-10 debt to equity ratio of Canara Bank is the highest as it relies more on cheaper funds i.e. CASA, the bank has largest amount of current accounts and saving accounts, followed by the UBI, PNB, BOI, SBI, BOB, Axis Bank, HDFC, IDBI and ICICI has the lowest ratio.

B) Advance to Assets (ADV/AST): This is the ratio of the Total Advances to Total Assets which also include receivable and reflect bank's positions and risk taking ability in lending funds. A higher Advances/Asset ratio shows that the bank is aggressively lending fund and vice versa. In this ratio the value of Total Assets excludes the revaluations of all the assts. It is generally adopted that increase in advance means growth in investments which lead to profitability.

Table (3.3)

C) Advances to Assets					
Banks	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	0.53	0.60	0.58	0.56	0.60
ICICI	0.58	0.57	0.56	0.58	0.50
AXIS	0.21	0.50	0.54	0.55	0.58
HDFC	0.48	0.51	0.48	0.54	0.57
BOI	0.58	0.60	0.63	0.63	0.61
PNB	0.51	0.59	0.60	0.63	0.63
IDBI	0.60	0.60	0.63	0.60	0.59
UBI	0.60	0.61	0.60	0.60	0.61
BOB	0.53	0.58	0.59	0.63	0.63
Canara Bank	0.60	0.59	0.59	0.63	0.64

Interpretation: The study revealed that public sector banks have maintained their ADV/AST ratio better than private sector. The advance to asset ratio of all PSB is found strong and constant during the entire period of 2006-2010, BOI and Canara banks have better aggregate (sum of all years) followed by other banks IDBI, UBI, BOB, PNB, SBI, ICICI, HDFC, and AXIS. In the fiscal year 2009-10 Canara banks has the best ratio, closely followed by BOB and ICICI has the lowest ratio among all the selected banks. In private sector, Axis Bank improves his ratio year by year which shows its maturity and appetite of investment and growth.

Asset Quality

The asset quality is to ascertain the proportion of non-performing as a percentage of the total assets. It also ascertains the NPA movement and the amount locked up in investment as a percentage of the total assets.

A) Net NPAs to Loan given (NNPAs)

Table (3.4)

A) Net NPAs to Loan given					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	1.88	1.56	1.78	1.79	1.72
ICICI	0.72	1.02	1.55	2.09	2.12
AXIS	0.98	0.72	0.42	0.40	0.40
HDFC	0.44	0.43	0.47	0.63	0.31
BOI	1.49	0.95	0.52	0.44	1.31
PNB	0.29	0.76	0.64	0.17	0.53
IDBI	1.01	1.12	1.30	0.92	1.02
UBI	1.56	0.96	0.17	0.34	0.81
BOB	0.87	0.60	0.47	0.31	0.34
Canara Bank	1.12	0.94	0.84	1.09	1.06

Interpretation: The study show that HDFC bank Net NPA's in 2009-10 was the lowest at (0.31) times and (0.78) times the total assets, followed by BOB (0.34) and AXIS (0.40). The ICICI bank has the highest ratio that is (2.12) followed by SBI (1.72). There has been gradual decrease in the NPA in all the PSBs especially in BOI. But Axis bank has constant decrease without any upward swing. In aggregate (sum of all the years) HDFC has the lowest ratio that is 2.25 followed by PNB (2.39) and SBI has the highest aggregate that is (8.73) followed by ICICI (7.5). Banks with lowest Net NPA's indicate that they have good asset quality as well as securitization of the portfolio of loans and vice-versa. Further SBI being largest branch holder and biggest provider of loans in India is highly exposed to risk followed by ICICI.

Management Efficiency:

It refers to the efficiency of the Management in managing the bank

A) Total Advances to Total Deposits (TA/TD):

This ratio measures the efficiency of the management in converting the deposits available with the bank (excluding other funds like equity capital, etc.) into advances.

Table (3.5)

A) Total Advances to Total Deposits					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	0.69	0.77	0.78	0.73	0.79
ICICI	0.89	0.85	0.92	1.00	0.90
AXIS	0.56	0.63	0.68	0.69	0.74
HDFC	0.63	0.69	0.63	0.69	0.75
BOI	0.69	0.71	0.76	0.75	0.73
PNB	0.62	0.69	0.72	0.74	0.75
IDBI	2.03	1.44	1.13	0.92	0.82
UBI	0.72	0.73	0.72	0.70	0.70
BOB	0.64	0.67	0.70	0.75	0.73
Canara Bank	0.68	0.69	0.70	0.74	0.72

Interpretation: The study shows the investment of the bank through approving the loans against accepting the loan in PNB has continuously improved year by year from (0.62 in 2005-06 to 0.75 in 2009-10), similar trend is revealed in BOI (0.69 in 2005-06 to 0.75 in 2008-09) with decline in 2010 to (0.73106). It has been found that IDBI is the only bank who have complete declining trend (2.03 in 2005-06 to 8.2 in 2009-10). The study found that "SBI, AXIS Bank, HDFC, PNB", have improved their performance from previous year and ICICI, BOI, IDBI, BOB, Canara Bank have underperformed than previous year and UBI maintained it equal status. Overall trend of "SBI, AXIS, HDFC, BOI, PNB, BOB" and Canara Bank were improvised year by year. Banks "ICICI, UBI" have more or less constant. For smooth survival banks have to make balance growth in TA / TD. One side growth will lead to risk, as have to pay return on deposit and also making advance and investment with minimum risk of NPA.

B) Profit Per Employee (PPE)

This ratio measures the efficiency of the employee at the branch level as how efficiently a bank is utilizing its employees. Ideally it also gives valuable inputs to assess the real strength of a bank's branch network. In general bank wants the highest business per employee, as it denotes higher productivity. It is arrived by dividing the net profit of the bank by total number of branches.

Table (3.6)

B) Profit per Employee (Rs. In Lakhs)					
BANK	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	2.17	2.37	3.73	4.74	4.46
ICICI	10.00	9.00	10.00	11.00	12.00
AXIS	8.69	7.59	8.39	10.02	12.00
HDFC	7.39	6.13	4.97	4.18	5.98
BOI	1.66	2.71	4.95	7.49	4.39
PNB	2.48	2.68	3.66	5.64	7.31
IDBI	12.45	8.44	8.86	8.42	8.44
UBI	2.66	3.25	5.39	6.28	7.47
BOB	2.13	2.13	2.13	2.13	2.13
Canara Bank	3.02	3.24	3.65	4.97	7.35

Interpretation: The study found that maximum profit per employee of ICICI bank is Rs. 12 lakhs in 2009-2010. It has constantly maintained its profit better than other selected banks and this shows the quality of work force with ICICI bank which has increased the profit year on year. Followed by Axis bank "12 Lakh", IDBI "8.44 lakh" and Canara Bank with "7.35 lakh" in the same period? BOB have unique distinction of maintaining constant profit that is 2.13 lakh in all the respective years. In aggregate (sum of all the years) ICICI has the highest followed by AXIS, IDBI respectively and BOB has the lowest among all the selected banks. The maximum amount of profit that the employee generates would determine the skill sets of the employee as well as the HR policies of the bank. Good HR policies would benefit the banks with respect to the profit increment

C) Return on Net Worth (RONW)

Return on net worth determines the management quality as how the assets are used and also measure of the profitability of the organization. This ratio would help the shareholders determine is the management being able to generate additional value for them.

Table (3.7)

C) Return on Net Worth					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	15.94	14.5	13.72	15.74	13.89
ICICI	14.33	13.17	8.94	7.58	7.79
AXIS	18.28	19.37	12.21	17.77	15.67
HDFC	14.72	16.42	17.75	13.82	15.29
BOI	15.37	21.25	22.76	25.51	13.6
PNB	17.01	16.03	19	23.52	24.06
IDBI	9.12	10	10.72	11.53	12.53
UBI	18.67	19.16	24.66	24.47	23.55
BOB	10.85	12.17	15.07	19.48	22.19
Canara Bank	20.65	18.78	18.86	20.64	24.09

Interpretation: The study found that Canara bank has the highest RONW of (24.09 %) followed by PNB (24.06) UBI (23.55) BOB (22.19) AXIS (15.67) HDFC (15.29) SBI (13.89) BOI (13.6) IDBI (12.53) and ICICI has the lowest return on net worth that is 7.79 %. In aggregate (sum of all the years) UBI has the highest followed by Canara bank, PNB, BOI, Axis, BOB, HDFC, IDBI and SBI in last? Thus it has been noted that Canara bank has used the assets optimally and benefited with high profitability among the selected banks. With good RONW Canara bank has developed extra advantage over others and promoted confidence among share holder and costumer.

Earning Efficiency: For smooth survival earning efficiency is important for all economic activities. In bank's most of the income is earned through non-core activities like investments, treasury operations, and corporate advisory services and so on and thus require high degree of efficiency in all regards.

Percentage Growth in Net profit

It is the percentage change in net profit over the previous year in which profit after tax play significant role in determining the

efficiency of banks in using their assets and also how have they generated the revenues and could be compared with that of the previous years and with that of competitors to determine the trend in the net profit margins of the bank and its performance in the industry.

Table (3.8)

A) Percentage Growth in Net Profit					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	2.37%	2.37%	2.37%	2.37%	2.37%
ICICI	26.67%	22.45%	33.68%	-9.61%	7.10%
AXIS	49.82%	35.86%	62.52%	69.50%	38.51%
HDFC	228.17%	23.89%	15.02%	41.18%	31.35%
BOI	106.28%	60.12%	78.90%	49.66%	42.11%
PNB	2.07%	7.00%	33.03%	50.87%	26.35%
IDBI	34.99%	12.38%	15.73%	17.70%	20.10%
UBI	-6.10%	25.21%	64.07%	24.48%	20.18%
BOB	55.15%	-2.25%	39.85%	55.15%	37.32%
Canara Bank	21.07%	5.78%	10.15%	32.42%	45.79%

Interpretation: The study found that all selected banks have positive profit after tax in 2009-10 and generated revenues. Comparatively Canara bank has better percentage than other banks that is 45.79% which shows that it has efficiently used its assets than other banks and generated better percentage revenue. Followed by BOI, AXIS, BOB, HDFC, PNB, UBI, IDBI, ICICI and SBI has the lowest that is 2.3%. It is found that UBI have negative percentage in 2005-06, BOB in 2006-07, ICICI in 2008-09. It is also noted that HDFC was having highest percentage growth in 2005-06 that is 228.17% but fallen drastically in 2006-07 to 23.89% and so in. Similarly BOI was having 106.28% in 2005-06 but fallen down but maintained further positively. SBI is the only bank which has unique growth percentage that is 2.37%.

Net Interest Margin (NIM)

Net Interest Margin (NIM) is defined as the difference between interest earned and interest expanded as a proportion of average total assets. It includes dividend income and interest expanded includes interest paid on deposits, loan from RBI, and other short-term and long term loans. The bank NIM normally depends on efficient utilization of banks assets which are consists of all forms of personal and commercial loans, mortgages and securities. It justifies the efficiency of banks and its ability to respond the changes in economic conditions

Table (3.9)

B) Net Interest margin					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	3.40%	3.25%	3.28%	3.34%	3.32%
ICICI	2.40%	2.19%	2.22%	2.40%	2.50%
AXIS	2.85%	2.74%	3.47%	3.33%	3.75%
HDFC	4.04%	4.03%	4.35%	4.25%	4.20%
BOI	3.03%	2.99%	2.95%	2.97%	2.51%
PNB	3.77%	3.85%	3.58%	3.52%	3.57%
IDBI	0.50%	0.80%	0.70%	0.90%	1.20%
UBI	2.97%	3.00%	3.00%	3.00%	2.60%
BOB	3.20%	3.05%	2.90%	2.91%	2.74%
Canara Bank	3.36%	3.15%	2.42%	2.78%	2.80%

Interpretation: The study found that the Net Interest Margin of HDFC bank is the highest that is 4.20% as the bank depends more on CASA and the quality of its assets is also found good. Followed by AXIS, PNB, SBI, Canara Bank, BOB, UBI, BOI, and ICICI, IDBI respectively, IDBI have the lowest NIM among the selected banks that is 1.20% though it has improvised year to year. In entire selected period HDFC has maintained better and constant 4 plus NIM followed by PNB, SBI, and AXIS Bank. Positive NIM reflects that banks management have taken care of the capital structure and largely employed cheaper form of debt to avoid risk and to maintained profitability and liquidity.

Non Interest Income / Total funds (NII/TF)

Non Interest Income measures the income from operations other than lending as a percentage of Total funds and helps us to determine the ability of the bank to earn revenue from sources other than the core activities of the bank. In general lending and borrowing is the core activities of banks supported by other activities like treasury operations and investment activities which have emerged developed over the years. Banks earning quality reflects its profitability and sustainability and growth which are measured by Non Interest Income / Total funds.

Table (3.10)

C) Non-interest Income/Total Funds					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	0.3	0.19	0.14	0.11	0.1
ICICI	0.22	0.1	0.02	0.08	0.08
AXIS	0.01	0.03	0.02	0.06	0.12
HDFC	0.04	0.05	0.13	0.04	0
BOI	0.36	0.4	0.41	0.29	0.22
PNB	0.1	0.12	0.13	0.25	0.16
IDBI	0.26	0.22	0.12	0.08	0.13
UBI	0.2	0.27	0.34	0.36	0.41
BOB	0.37	0.38	0.43	0.35	0.3
Canara Bank	0.51	0.45	0.44	0.46	0.45

Interpretation: The study found that Canara bank has the highest ratio in 2009-10 among all the selected banks that is (0.45) and also have the distinction of maintaining better ratio than others throughout the study period. Followed by UBI, BOI, PNB, IDBI, AXIS, ICICI, BOB, SBI respectively and HDFC have the lowest ratio of (0) in 2009-10. It is found that AXIS Bank has the lowest ratio throughout the study period except in 2009-10 than other banks.

Liquidity: Liquidity in general term means ability to realize value in money, the most liquid of assets. It refers to the ability to pay in cash, the obligations that are due. It is divided in two parts that is qualitative and quantitative.

A) Loans to Deposit Ratio

This ratio measures the ability of a bank to meet the demand from demand deposits in a particular year. It helps banks to determine its capability of meeting the liquidity requirements arising from current account and saving account withdrawals at any period of time.

Table (3.11)

A) Loans to Deposit Ratio					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	62.11	73.44	77.51	74.97	75.96
ICICI	87.59	83.83	84.99	91.44	90.04
AXIS	52.79	59.85	65.94	68.89	71.87
HDFC	64.87	65.79	66.08	65.28	66.64
BOI	70.15	70.21	73.51	75.47	74.24
PNB	60.6	65.97	70.55	72.88	74.34
IDBI	238.79	166.12	124.35	100.13	86.28
UBI	68.78	72.68	72.33	70.45	69.91
BOB	59.04	65.67	68.72	72.78	73.6
Canara Bank	65.44	68.65	69.4	71.99	72.96

Interpretation: The study found that the ICICI has the best liquidity position in the market among all the selected banks that is 90.04% in 2009-10 and followed by IDBI, SBI, PNB, BOI, BOB, Canara bank, AXIS, UBI and HDFC has the lowest that is 66.64. Banks with good liquidity position in the market would be helpful to cater to short term loans and are in save passage. But taking short term loans would be expensive. It would affect the liquidity as well as proper functioning of the bank.

A) Liquid Assets / Total Assets (LA/TA)

Liquid Assets include cash in hand, balance with RBI, balance with other banks (both in India and abroad), and money at call and short notice. The ratio is arrived by dividing liquid assets by total assets.

Table (3.12)

B) Liquid Assets/Total Assets					
BANKS	2005-06	2006-07	2007-08	2008-09	2009-10
SBI	0.09	0.09	0.09	0.11	0.09
ICICI	0.07	0.11	0.10	0.08	0.11
AXIS	0.07	0.09	0.11	0.10	0.08
HDFC	0.09	0.10	0.11	0.10	0.13
BOI	0.10	0.12	0.10	0.10	0.11
PNB	0.17	0.10	0.09	0.09	0.08
IDBI	0.06	0.07	0.07	0.07	0.06
UBI	0.07	0.08	0.08	0.10	0.08
BOB	0.12	0.13	0.12	0.11	0.13
Canara Bank	0.10	0.10	0.10	0.08	0.07

Interpretation: The study show that banks much part of the deposits is invested into the liquidity asset, which can be easily covert in to monetary value in the time of need. All the banks have variation in the percentage due to the changes in the liquid assets base accept SBI who have constant ratio with increase in 2008-09. BOB and HDFC have topped the group in 2009-10 and have the highest percentage of the liquid assets to total assets and IDBI has the lowest. BOB also has managed it better than other selected competitive banks throughout the study period accept in 2005-06 in which PNB has the highest ratio. Further high percentage of the liquid assets to total assets indicate that banks have major investment in short term assets which is important for them in meeting investment and withdrawal contingencies.

Sensitivity to Market Risk

The sensitivity to market risk is an assessment of the effect of changes in market prices, changes in interest rates, currency exchange rates, and stock prices on the banks earnings and capital. It indicates the degree to which changes can adversely affect financial institutions earning or capital. It manly focus on an institutions/management ability to identity, measures monitor and control interest rate as well as price and foreign exchanges risk and also provide management relevant indication of supervisory concerns in this area.

To develop confidence in banking industry under the shadow of sensitivity and market risks, ranking of banks became important and has been calculated which are as''

Ranking of all the banks on the basis of Capital Adequacy

Table (3.13)

BANKS	CAR (%)		D/E (times)		ADV/AST (times)	
	2009-10	RANKS	2009-10	RANKS	2009-10	RANKS
SBI	13.39	6	12.19	4	0.60	6
ICICI	19.41	1	3.91	10	0.50	10
AXIS	15.8	2	8.81	7	0.58	8
HDFC	15.69	3	7.78	8	0.57	9
BOI	12.94	7	12.19	5	0.61	4
PNB	14.16	4	15.36	3	0.63	2
IDBI	11.31	9	4.08	9	0.59	7
UBI	12.51	10	18.1	2	0.61	5
BOB	12.84	8	11.94	6	0.63	3
Canara Bank	13.43	5	18.71	1	0.64	1

From the above data it is clear that in Capital adequacy 'Canara bank tops the list and is in better position than other selected competitive banks. The study witness that there is adequate capital in the banks which will boost the confidence of investor and depositors and further banks with their efficient services will translate this confidence into future growth which is ultimate requirement for their survival in competitive economic environment. Thus in Capital adequacy Canara banks have positioned itself in advantage.

Ranking of all the banks on the basis of Asset Quality

Table (3.14)

BANKS	NNPA/LOAN GIVEN	
	2009-10	RANKS
SBI	1.72	2
ICICI	2.12	1
AXIS	0.4	8
HDFC	0.31	10
BOI	1.31	3
PNB	0.53	7
IDBI	1.02	5
UBI	0.81	6
BOB	0.34	9
Canara Bank	1.06	4

In Asset quality ICICI bank has outperformed others by managing its assets efficiently with good mixture of loan portfolio and prudence risk management and followed by SBI. On contrary, HDFC have to revise its policies for better fortune as it has secured last rank in asset quality and performed worse among the selected banks.

Ranking of all the banks on the basis of Management Efficiency

Table (3.15)

BANK	TA/TD (times)		PPE (Rs. In Lakhs)		RONW (%)	
	2009-10	RANKS	2009-10	RANKS	2009-10	RANKS
SBI	0.79	3	4.46	7	13.89	7
ICICI	0.90	1	12.00	1	7.79	10
AXIS	0.74	6	12.00	1	15.67	5
HDFC	0.75	4	5.98	6	15.29	6
BOI	0.73	7	4.39	8	13.6	8
PNB	0.75	5	7.31	5	24.06	2
IDBI	0.82	2	8.44	2	12.53	9
UBI	0.70	10	7.47	3	23.55	3
BOB	0.73	8	2.13	9	22.19	4
Canara Bank	0.72	9	7.35	4	24.09	1

The above table indicates that ICICI bank as well as IDBI bank is been able to perform efficiently on the management front. This has led to an increase confidence in the mind of the customers and investors. The management efficiency performance of UBI, PNB, and AXIS are more or less consistent with balance variation but need introspection. Other banks 'Canara, HDFC, SBI, BOI and BOB are more or less below to average and require greater degree of attention to avoid risk of cost and loss arising due to it.

Ranking of all the banks on the basis of Earnings Efficiency:

Table (3.16)

BANKS	PAT growth (%)		NIM (%)		NII/TF (times)	
	2009-10	RANKS	2009-10	RANKS	2009-10	RANKS
SBI	2.37	9	3.32	4	0.1	8
ICICI	7.1	8	2.5	9	0.08	9
AXIS	38.51	2	3.75	2	0.12	7
HDFC	31.35	4	4.2	1	0	10
BOI	-42.11	10	2.51	8	0.22	4
PNB	26.35	5	3.57	3	0.16	5
IDBI	20.1	7	1.2	10	0.13	6
UBI	20.18	6	2.6	7	0.41	2
BOB	37.32	3	2.74	6	0.3	3
Canara Bank	45.79	1	2.8	5	0.45	1

From the above table it is found that performance of a all selected banks in all the three parameter of earning efficiency are different i.e. Canara bank has performed well with respect to PAT growth and in NII/TF and topped the rank among all selected banks and justified its efforts in generating revenue from non core activities and followed by AXIS, BOB, HDFC, PNB, UBI, IDBI, SBI, BOI and ICICI respectively. ICICI has ranked lowest with 8% 9% and 9% in all the tree parameters which reflect that its performance is below to average and need justified efforts to come at par. Higher PAT reflects aggressive approach of the banks which is a sign of sound financial health with efficient and effective utilization of it potential in which Canara bank has topped the list with ICICI at last.

Ranking of all the banks on the basis of Liquidity

Table (3.17)

BANKS	LA/DD(times)		LA/TA(times)	
	2009-10	RANKS	2009-10	RANKS
SBI	75.96	3	0.09	3
ICICI	90.04	1	0.11	2
AXIS	71.87	8	0.08	4
HDFC	66.64	10	0.13	1
BOI	74.24	5	0.11	2
PNB	74.34	4	0.08	4
IDBI	86.28	2	0.06	6
UBI	69.91	9	0.08	4
BOB	73.6	6	0.13	1
Canara Bank	72.96	7	0.07	5

From the above table it is been revealed that in liquidity parameter ICICI Bank has topped the list with 1st and 2nd rank respectively followed by SBI who have 3rd rank in both parameter and UBI ranked last with 9th and 4th rank respectively. PNB has the distinction of maintaining constant rank with 4th rank in both. It is to be noted that sound liquidity of banks show its sound health which is helpful for the banks to cover the short term needs. Banks with weak liquidity position contrary will hamper their growth and market confidence and it ultimately affect the NII and PAT position.

Sensitivity to Market Risk

All of the Indian Scheduled Commercial Banks have become sensitive and responsive to customers' needs as well have migrated to BASEL II norms and have leaped into universal banking even they are mentioning better ratio required by Basel III which is yet to be implemented. It is found that selected banks management is efficient and has ability to identify, measures monitor and control interest rate as well as price and foreign exchanges risk for their smooth growth and survival which is paramount as they have to operate under various scenarios and stress environments arising due to uncontrolled and unknown circumstances.

Finding

- The study found that all the banks have maintained the minimum CRAR requirement of RBI and in 2009-10 ICICI has the most favored Capital adequacy ratio and IDBI has the lowest ratio among the selected banks.
- The study found that Canara Bank has the highest debt to equity ratio and ICICI has the lowest ratio.
- The study found that public sector banks were in better position in ADV/AST ratio in comparison to private sector banks. In the facial year 2009-10 Canara banks has the best ratio and ICICI has the lowest ratio among all the selected banks. In aggregate Canara bank has the best ratio
- The study found that all the PSBs have gradual decrease in the NPA especially BOI. In the year 2009-10, HDFC Net NPA's was the lowest and ICICI bank has the highest ratio. In aggregate we found that HDFC has the lowest ratio and

SBI has the highest aggregate.

- The study found that PNB has performed better in total advances to total deposits (TA/TD) among selected banks followed by BOI and IDBI has the complete declining trend. In general all the banks have improvement in their (TA/TD) except Canara bank which has underperformed than previous year and "ICICI, UBI" have more or less constant trend.
- The study found that in 2009-2010, ICICI bank has Profit per Employee (PPE) better than other selected competitive banks followed by Axis bank, IDBI and BOB has constant profit. In aggregate ICICI has the highest followed by AXIS, IDBI respectively and BOB has the lowest among all the selected banks.
- The study found that in the year 2009-10 Canara bank has the highest return on net worth (RONW) among the selected banks followed by PNB and ICICI has the lowest. In aggregate UBI has the highest RONW followed by Canara Bank and SBI has the lowest.
- The study found that in 2009-10 Canara bank has better percentage than other selected banks followed by BOI and SBI has the lowest.
- The study found that in 2009-10, Net Interest Margin (NIM) of HDFC bank is the highest among all the selected banks followed by AXIS bank and IDBI has the lowest NIM.
- The study found that in the fiscal year 2009-10 Canara bank has performed well and has the highest Non Interest Income / Total funds (NII/TF) ratio and HDFC have the lowest ratio among all the selected banks.
- The study found that in 2009-10 BOB and HDFC has the highest percentage of the liquid assets to total assets than other selected banks and IDBI has the lowest.
- The study found that in Capital adequacy Canara bank has performed better than other banks, in Asset quality ICICI bank has performed better than other banks, in Management Efficiency ICICI bank and IDBI bank performed better than other selected banks, in Earnings Efficiency Canara bank has performed better than other banks in respect to PAT growth as well in respect to NII/TF and in Liquidity ICICI Bank has outperformed other banks in all parameter.
- The study found that all of the banks under study have become sensitive and responsive to customers' needs and have very well migrated to BASEL II norms. It is also found that their performance in the year 2010 has been much better as against their performance during the previous year ended 2009.

Conclusion

Banking industry play important role in nation's growth/development and entire economy revolves around its strength. Its modernization and growth is mirror of nation's economy which can be only achieved by heavy investment 'largely borrowed funds'. Banks being socio-economic entity depending largely upon leverage financing are bound to satisfy their investors and stakeholders and have to justify risk undertaken by them.

Global economic slowdown and political uncertainty casted its shadow on banking sector in general and hampered the economic balance but the Indian banking sector having shown

extraordinary financial performance even amidst the financial crisis and performed better in the year 2010 than 2009. Since liberalization and globalization the Indian banking sector has come a long way, a hallmark of which has been the coming of age of the Public Sector Banks, in particular. This study revealed that public sector commercial banks have performed remarkably better on every CAMEL parameter in comparison to their private competitive banks. As far as private sector banks are concerned ICICI banks has shown better performance and outperformed other private sector banks but lag behind public sector commercial banks.

The financial performance of public sector scheduled commercial banks in the year 2009-2010, has boosted their confidence to a great level. With prudent consolidation and aggressive reforms Indian banks started positioning themselves universally which is much required to support mergers and acquisitions by the Indian companies abroad and also to share business in foreign land. To achieve this feat Indian banks have converted themselves from local to global in size, in overall strength, in aggressiveness, in risk absorbing capacity and stability as to compete effectively with their foreign counterparts, which are much bigger in size and are efficient as future belongs to bigger banks. With the support of the regulators Indian banks have already started proving that they are matured enough and became competitive and efficiently following Basil I & II norms and are maintaining better ratio which is required in Basil III norms.

Further, for their smooth survival banks have to overcome their deficiencies. They have to maintain their Capital adequacy, Asset quality, Management Efficiency, Earnings Efficiency and Liquidity in better position. They must reduce if cannot eliminate NPAs. They must utilize their overall resources to optimum. They must reduce the risk of cost by employing cheapest source of funds which can be availed through current accounts and saving accounts. They must become consumer friendly and explore the potential which are still not been explored. Expansion with prudence is required they must support small scale units in balance form as they generate massive employment. They have to become more sensitive and responsive to customers' needs especially in remote area not only for products and services, but also for improved quality of life and education which is essential for balance growth and development in all regards. They have to consolidate Securitization / Reconstruction companies and credit recovery. They have to scale up their assets size at least more than five times and capital to meet the growing needs of the country.

In last, Banks are organizer; promoter and architect of nation economy, their growth is regarded as mirror of nations economical strength. In order to become global from local they have to become competitive and fundamentally strong. This study has revealed the fact that future of Indian banks is bright, they are achieving the expected targets and will grow with time and become more competitive under unforeseen circumstances and will make India proud of their strategic universal economic domination.

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Annexure I





