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FINANCIAL PERFORMANCE ANALYSIS OF SELECTIVE PRIVATE AND PUBLIC SECTOR BANK

Management

KEYWORDS : Financial Performance, Public Bank, Private Bank, Metrics

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ABSTRACT

The growth of banks is basically based on customer's satisfaction or net asset held by the banks. It also depends upon the efficiency of the management for both public and private banks. In India banks have applied many technologies in the banking system, and have also many network channels. Thus they are one among the world banks and have a strong banking system. A banking sector mainly deals with customer's service especially in public sector banks. It is one of the biggest ways to attract customers for investment.

INTRODUCTION:
According Gran Josh "Banking is a business of accepting deposit and lending money. It is carried out by financial intermediaries, which performs the functions of safe guarding the deposits providing loans to the public. Private banks are banks where majority of the shares are held by private people and not by the government. Private sectors banks which are new have got their banking license. In public sector banks majority of the shares are held by the government only. They are being quoted in the stock exchange. Thus the habit of savings from the public came into the existence in all parts of the country. Modern technologies have been applied to the banking sector, which has lead to decrease the work load in the banking sector on large scale. Banks have control over the circulation of money which is important in the economic development of nation. (Spathis and Doumpos 2002) The report used multi criteria methodology for classifying Greek banks and to know the profit efficiency in large and small banks. (Duncan and Elliott 2004) They showed the financial performance is related to the relationship between the output of the system and input of the production. (Chaudhary and Sharma 2011)They have made the comparative analysis of public and private banks and have come to the conclusions that the cost has been reduced due to modern technology. (Das and Drine 2011). The banking sectors have promoted online transactions on a large scale. All online transactions can be done with a debit or credit cards. Customers can transfer money to any account with a help of mobile or a laptop. For both debit and credit transactions SMS alerts are available in present day banking.

THEORITICAL BACKGROUND:
Khrawish (2011)ROE is a financial ratio where a shareholders looks for the returns that he has invested. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation.ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how effectively a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholders capital.

(Khrawish, 2011) ROA is also another major ratio that indicates the profitability of a bank. It is a ratio of Income to its total asset. It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution .Wen (2010), state that a higher ROA shows that the company is more efficient in using its resources.

(Gul etal., 2011) NIM is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest earning) assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets). The NIM variable is defined as the net interest income divided by total earnings assets Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is. Thus, it is one of the key measures of bank profitability.

Jha and Sarangi (2011) analyzed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

(Chaudhary, S., & Singh, S., 2012) Non Performing Assets engender negative impact on banking stability and growth. The banking industry has not given much importance for the asset quality and they focus mainly on network, different channels and technological development. This lead to an alarming NPAs in the banking industry. The committee recommended measures to improve "operational flexibility" and "functional autonomy" so as to enhance "efficiency, productivity and profitability" The main cause of mounting NPAs in public sector banks is malfunctioning of the banks. Narasimham Committee identified the NPAs as one of the possible effects of malfunctioning of public sector banks (Ramu, N., 2009)

Bad loans portfolio:
Loans are classified as current loans and bad loans . The current loans are those which are up to date i.e. the borrowers pay back the principle as well as the Interest correctly . The term bad loans as described by Basu (1998), is used interchangeably with nonperforming and impaired loans as identified in Fofack (2005). Kaminsky and Reinhart (1999) made a point that indicators of business failures and nonperforming loans are also usually available only at low frequencies. To analyse the financial performance of banks all types of data including complex should be fully available for finding the financial performance of banks . Thus credit facilities show the financial performance of banks in Ghana .

Liquidity versus profitability:
There is always a trade-off between liquidity and profitability. An attempt to gain more in any of them means giving up some of the other. For a company to estimate its performance, it must

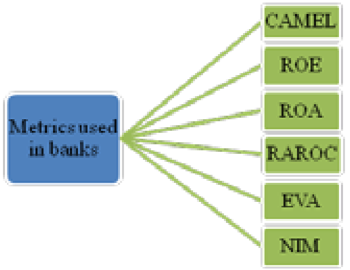
pursue both liquidity and profitability. This is in line with Charles Whittlesey's assertion cited at (National Bureau of Statistics, 2011) that the determination of a bank's portfolio policy requires a balancing act between its cash and income.

Measuring financial performance of banks:
Nimalathasan (2008) stated the financial performance research is that, increasing financial performance analysis will bring about improvement in functions and processes of the organisation. An array of performance indicators is necessary to expose the different aspects of the performance of a bank as in Gibson and Cassar (2005). Different aspect of the DuPont financial ratios appears to be applicable to the banks and other financial institutions as in Dietrich (1996) and Avkiran (1995). Financial Markets Department (2000) affirmed that ratio analysis is a reflection of the true state of affairs of the performance of any business. There are certain limitation in banking performance limitations.

Banking fraud:
Fraud is referred by Olufidipe (1994) as "Deceit or trickery deliberately practiced in other to gain some advantage dishonestly". Orjih (1998) also defined bank fraud as a conscious or deliberate attempt to obtaining unlawful financial advantage at the detriment of an owner of funds or holder of accounts. Banking fraud is an old phenomenon that is manifested in different forms including money transfers fraud, fraudulent lending, cheque kitting, transaction fraud, letter of credit fraud, borrowing from the till, Anti-money laundering, credit and debit card fraud, first party fraud, internet fraud etc. Sadia (2010) also supports the view that bank fraud has far reaching consequences on the performance of banks and the banking sector as a whole. According to Dr Paul Acquah, former Governor of Bank of Ghana, the effects of fraud on financial institutions and their stakeholders not excluding the national economy can be devastating and the vulnerability of banks to such fraud has been raised due to technological advancements (Bank for International Settlement, 2006).

(Avkiran,1995) says financial performance of banks and other financial institution is the combination of financial ratio analysis, benchmarking, measuring performance against budget or mix of these methodologies. (Nimalathasan, 2008) compares financial performance of banking sector by using CAMELS rating system Performance of selected Indian commercial banks has done by growth in asset, profit, revenue, investment and deposit (Jaladhar, Anchula and Achari,2011). EVA (Economic Value Added) is modern financial measurement tool that determines if a business is earning more than its true cost of capital (Gabriela et al, 2009). The financial performance of commercial bank measured in terms of capital adequacy and methodology used as ordinary least square method (Onaolopo and olufemi 2012). Using data for Taiwan Province of China**,** Lin, Penm, Garg, and Chang (2005) study the direct effects of capital regulations and capital requirements. More specifically, they study three areas: (i) the relation between capital adequacy and the bank insolvency risk index, (ii) the relation between capital adequacy and financial performance, and (iii) the interaction and relationship between the insolvency risk of banks and financial performance.

METRICS OF BANK IN FINANCIAL PERFORMANCE



Source: Author's Compilation

CAMEL - Capital adequacy asset quality management efficiency earning ability and Liquidity
ROA - Return on asset
ROE - Return on equity
RAROC - Risk-Adjusted Return on Capital
EVA - Economic value added
NIM - Net interest margin

CONCLUSION:
Banking system plays a key role in the economic development of the country. Banks play an important role as a credit institution , it requires to participate in building the nation socio-economic changes. Profitability is a bank's first line of defence against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. The bank should try to enhance customer's satisfaction by giving effective training to staff and monitoring the services .Bank should also give the customers the services that they require provided they have their products that is required by the customer's as each customer require different type of products. The performance is based after the application of modern technologies and different channels that are available . All the banks have been used the metrics to improve the financial performance like EVA,CAMEL, ROA, ROE, RAROC, NIM .Thus meeting the customers' needs Hence we can conclude that banks, by using all these metrics and their technologies have improved the efficiency of their performance of the banks and thus also exhibits their growth and development.

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