

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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IMPACT OF INTEREST AND OPERATING EXPENSES ON THE PROFITABILITY OF PUNJAB NATIONAL BANK AND STATE BANK OF INDIA: A COMPARATIVE STUDY

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ABSTRACT

A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses. So banks also accept deposit and lend money for the purpose of earning profits. In today's world running business without banking is impossible as every commercial organization run for profits. Banks also have to maintain the liquidity so that customers demand on time is met. Sometime there is contradiction between the profitability and liquidity of the banks. If banks want to increase liquidity their profitability reduces and if want to increase the profitability the liquidity suffers. So ever bank has to maintain the balance between the two. This paper aims at analyzing the profitability of PNB and SBI. A comparative study is made for 10 years by taking the data from 2004-2013 of both the banks. The main parameter of the study are interest earned, other income, total income, interest paid and operating expenses of the banks.

KEYWORDS

Profitability analysis, PNB, SBI.

INTRODUCTION OF THE BANK

Bank is an important organ of the modern trade and commerce. Banks in India are regulated by the Banking Regulation Act, 1949. Under Section 5(b) of the said Act "Banking" means, the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise. Any bank which transacts this business in India is called a banking company. However, any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as manufacturer or trader shall not be deemed to transact the business of banking.

Section 6 of the Banking Regulation Act, 1949 specifies the forms of business in which a banking company may engage. These are : (i) borrowing, raising or taking up of money; lending or advancing of money; drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, etc.; (ii) acting as agents for any government or local authority or any other person; (iii) directing for public and private loans and negotiating and issuing the same; (iv) effecting, insuring, guaranteeing, under-writing, participating in managing and carrying out of any issue of shares, stock, debentures etc.; (v) carrying on and transacting every kind of guarantee and indemnity business; (vi) managing, selling and realizing property which may come into the possession of the banking company in satisfaction of its claim; (vii) acquiring and holding and generally dealing with any property or any right, title or interest in such property which may form the security for any loans and advances; (viii) underwriting and executing trusts; (ix) establishing and supporting or aiding in the establishment and support of institutions, funds, trusts etc. (x) acquisition, construction, maintenance and alteration of any building and works necessary for the purpose of the banking company; (xi) selling, improving, managing, developing, exchanging, leasing, mortgaging, depositing of or turning into account or otherwise dealing with all or any part of the property and rights of the company; (xii) acquiring and undertaking whole or any part of the business of any person or company; (xiii) doing all such other things as are incidental or conducive to the promotion or advancement of the business of the banking company; (xiv) any other business which the Central Government may specify by notification in the Official Gazette. No banking company shall engage in any form of business other than those referred to above.

INTRODUCTION OF PNB AND SBI

Punjab National Bank (PNB) is an Indian financial services company based in New Delhi, India. Founded in 1895, the bank has over 5,800 branches and over 6,000 ATMs across 764 cities. It serves over 80 million customers. Punjab National Bank was registered on 19 May 1894 under the Indian Companies Act, with its office in Anarkali Bazaar, Lahore. Punjab National Bank, popularly called P. N. B., initially started its business on 12th April of the year 1895. With their mission to provide banking services to the un-banked, they aim to be the leading player in global banking. Over the time, they have become a known name, especially in the Indo-Gangetic plains.

The State Bank of India, popularly known as SBI, is one of the leading banks in India. The bank traces its origin to the first decade of the 19th century. Later on, it was merged with the Imperial Bank. In the year 1955, the Government of India nationalized the Imperial Bank along with the Reserve Bank of India. Ever since that time, the bank acquired its present name that is SBI.

The State Bank of India is India's largest commercial bank. The bank has been striving sincerely to adhere to the efforts of providing utmost customer satisfaction to the best possible extent.

RESEARCH METHODOLOGY

The information of the banks has been collected from various sources. Data related to study basically collected from the website of the both banks. Profitability statement published by the banks has been used in the study. Information has also been collected from the annual report of the banks. The data collected has been classified and tabulated in such a manner so that eye catching results are derived. Mainly techniques are used for analysis of data are **arithmetic technique which contain the %age and statistical technique such as mean, standard deviation and coefficient of variation**. The main parameters of the study are interest earned by the banks, other income of banks, total income of the banks, interest paid by the banks and operating expenses of the banks.

NEED OF THE STUDY

Through this study the investors, depositors and creditors will get knowledge about the profitability of the Punjab National Bank and State Bank of India. They will also able to make comparison regarding the interest earned, interest expanded and profitability of the Punjab National Bank and State Bank of India.

REVIEW OF LITERATURE

Research on the profitability of PNB and SBI has focused on the interest earned, interest expanded (paid), other income and operating expenses of the both banks.

Using accounting decompositions, as well as panel regressions, Al-Haschimi (2007) studies the determinants of bank net interest rate margins in 10 SSA countries. He finds that credit risk and operating inefficiencies³ (which signal market power) explain most of the variation in net interest margins across the region.

Bourke (1989) notices a significant positive relation between capital adequacy and profitability. He shows that the higher the capital ratio is, the more profitable.

The studies of Berger (1995) and Anghazo (1997) conclude that banks which are well-capitalised are more profitable than the others in the USA. Zacharias Thomas (1997) in his study of 'Performance Effectiveness of Nationalized Banks' concluded that five nationalized banks showed low performance, seven low priority performance & eleven low efficiency performance in comparison to syndicate bank. Prashanta Athma (2000) evaluated the performance of public sector banks. In his study he analyzes the trend in studies. Wahab (2001) has analyzed the performance of commercial banks under reforms. He concluded that reforms have produces positive effects on the performance of the banks. Muniappan (2002) concluded in his studied that banks should have to lay down the sound risk management strategies to increase the profitability of the banks. Ram Mohan TT (2003) in his paper ' Long run performance of public & private sector bank stock' concluded that PSBs performed significantly better than the private sector banks but not differently from foreign banks. Singh (2003) analyzed profitability management of banks under the deregulation environment. He concluded that banks should prefer non-interest income sources. Naceur (2003) in Tunisia and Jiang *et al.* (2003) in Hong Kong, implying that larger banks achieve a lower level of profits than smaller ones. Subbaroo PS (2007) in his paper concluded that the Indian banking system has undergone transformation itself from domestic banking to international banking to increases the profitability. Uppal and Kaur (2007) notified that the efficiency of all the bank groups has increases in the second reforms period. Reforms have increased the profitability of the banks.

STATEMENT OF THE PROBLEM

Today's era is the era of competition. If any institution wants to survive then it must prove itself best than others. PNB and SBI both are the government banks and it is essential to know the impact of interest and operating expenses on the profitability of the both banks.

OBJECTIVES OF THE STUDY

The main objective of the study:

1. To know the impact of interest expanded & interest earned on the profit management of the both banks.
2. To know the impact of operating expenses on the total expenditure of the banks.

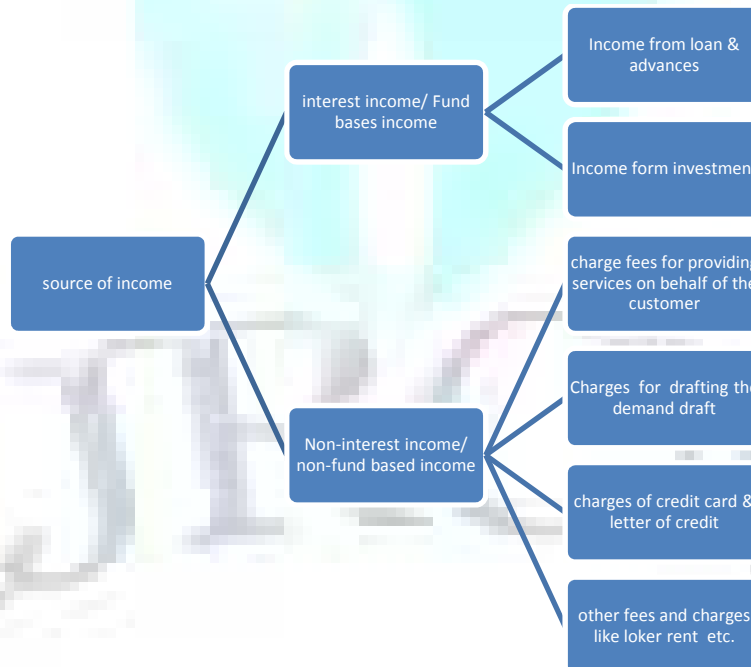
MEANING OF PROFITABILITY

Profitability is basically known as earning. Every organization whether big or small always wants to maximize the profits. Profitability shows the efficiency of the banks. Profitability of the banks directly linked with interest received and paid. Banks also performed other functions through which they earn income. Bank's efficiency to collect the debt also reflects in the profitability of the banks. Profitability is compulsory for the smooth running of the banks. So management of all the parameters who affect the profitability of the banks is compulsory.

INCOME SOURCE OF BANKS

PNB & SBI both basically both perform the banking activity. The amount of income of PNB & SBI mainly contain interest on bill discounted, interest on advances, income from investment, interest received from housing loan, interest on balance with RBI, interest on overdraft limit, interest on other loan & advances etc. However PNB & SBI also receive income from other sources like brokerage, commission, locker rent, advisory commission, profit (loss) on sale of the assets etc. The detailed analysis of source of income of the both banks has been discussed as follow:

FIGURE-1 DIFFERENT SOURCES OF INCOME OF BANKS



INTEREST EARNED

Interest earned is the major source of revenue of the banks. Banks advances loans to individual & institutions and charge interest for the same. Interest earned divided into following heads as per schedule 13:

- (i) Interest on advances and discount on bill
- (ii) Income on investment
- (iii) Interest on balance with RBI
- (iv) Other

TABLE-1 INTEREST EARNED TO TOTAL INCOME State Bank of India (in crores)

Year	Interest earned	Total income	%of int earned to total income	Interest earned	Total income	% of int earned to total income
Mar 2004	7779.7	9764.38	79.67	30460.49	38073.16	80.05
Mar 2005	8459.85	10314.39	82.01	32428	39547.90	81.99
Mar 2006	9584.15	11062.38	86.64	35794.93	43183.62	82.89
Mar 2007	11537.48	12881.12	89.56	39491.03	46937.79	84.13
Mar 2008	14265.02	16262.58	87.71	48950.31	58348.74	83.89
Mar 2009	19326.16	22245.85	86.87	63788.43	76479.78	83.40
Mar 2010	21466.91	25032.22	85.75	70993.92	85962.07	82.58
Mar 2011	26986.48	30599.066	88.19	81394.36	96324.78	84.49
Mar 2012	36428.03	40630.63	89.65	106521.45	120872.90	88.12
Mar 2013	41893.33	46109.25	90.85	119657.10	135691.94	88.18

(Source: Annual report of PNB & SBI. www.moneycontrol.com)

Table-1 reveals the %age of total income to interest earned of the PNB & SBI. The given %age of PNB initially increases from the period of march 2004 to march 2007 but from the period of march 2008 to march 2010 decreases from 87.71 to 85.71. again from the year of march 2011 to march 2013 increases from 88.19 to 90.85. In case of SBI initially % increases from the march 2004 to march 2007 from 80.05 to 84.13 & start decline from the year of March 2008-10. This %age again starts increases from the period of mar 2011 to march 2013.

Descriptive Statistics (Punjab National Bank)			
	Mean	Std. Deviation	N
int_earned	19772.7110	11998.16291	10
total_income	22490.1866	13043.17440	10

(With the use of SPSS)

$$C.V (Int\ earn). = S.D./ MEAN$$

$$= 11998.16291/ 19772.711$$

$$=.6068$$

$$C.V. (total\ income) = S.D./ MEAN$$

$$= 13043.17440/ 22490.1866$$

$$=.5799$$

Descriptive Statistics (STATE BANK OF INDIA)			
	N	Mean	Std. Deviation
int_earn	10	62948.0020	31606.33129
total_income	10	74142.2680	35047.67784

(With the use of SPSS)

$$C.V (Int\ earn). = S.D./ MEAN$$

$$=31606.33129/ 62948.002$$

$$=.5021$$

$$C.V. (total\ income) = S.D./ MEAN$$

$$=35047.67784/74142.2680$$

$$=.4727$$

From the above calculations we can conclude that average of interest earned & total income of SBI is greater than the average of interest earned & total income of the PNB. If we see the C.V. of the both banks then there is more uniformity in SBI bank in the case of interest earned & total income. Because we know that higher the C.V. higher will be the variability & lower the uniformity. The C.V. of interest earned and total income in case of SBI is lesser as compare to the C.V. of the PNB. So from the above discussion we can say that the performance of the SBI is better than the PNB in case of interest earned and total income.

OTHER INCOME

Non – interest income of the bank is known as other income. It is contain under schedule-14 of profit & loss account of banking company. It include the following:

1. Commission & Brokerage
2. Profit on sale of investment less loss on sale of investment
3. Profit on revaluation of investment less loss on revaluation of investment.
4. Profit on sale of land, building & other assets less loss on sale of land , building & other assets.
5. Profit on exchange transaction less loss on sale of transaction.
6. Income by way of dividend.

TABLE-2 OTHER INCOME TO TOTAL INCOME (Amount in crores)

Yr	Punjab National bank			State Bank of India		
	Other Income	Total Income	% age	Other Income	Total Income	% age
Mar04	1984.68	9764.38	20.32	7612.67	38073.16	19.99
Mar05	1854.54	10314.39	17.98	7119.90	39547.90	18.00
Mar06	1478.23	11062.38	13.36	7388.69	43183.62	17.11
Mar07	1343.64	12881.12	10.43	7446.76	46937.79	15.86
Mar08	1997.56	16262.58	12.28	9398.43	58348.74	16.11
Mar09	2919.69	22245.85	13.12	12691.35	76479.78	16.59
Mar10	3565.31	25032.22	14.24	14968.15	85962.07	17.41
Mar11	3612.58	30599.06	11.81	14930.42	96324.78	15.50
Mar12	4202.60	40630.63	10.94	14351.45	120872.90	11.87
Mar13	4215.92	46109.25	9.14	16034.84	135691.94	11.82

(Source: Annual report of PNB & SBI. www.moneycontrol.com)

Table-2 reveals the % of other income on the total income. This % of PNB & SBI fluctuate every year. The other income of PNB is 20.32% in march 2004 & 9.14% in march 2013 whereas in case of SBI other income is 19.99% in march 2004 & 11.82% in march 2013.

Descriptive Statistics (PUNJAB NATIONAL BANK)			
	N	Mean	Std. Deviation
other_income	10	2717.4750	1117.28517
total_income	10	22490.1860	13043.17399

(From the use of SPSS)

$$\begin{aligned} \text{C.V (other income).} &= \text{S.D./ MEAN} \\ &= 1117.28517/ 2717.4750 \\ &= .411 \end{aligned}$$

$$\begin{aligned} \text{C.V. (total income)} &= \text{S.D./ MEAN} \\ &= 13043.17440/ 22490.1860 \\ &=.5799 \end{aligned}$$

Descriptive Statistics (STATE BANK OF INDIA)			
	N	Mean	Std. Deviation
other_income	10	11194.2660	3727.09002
total_income	10	74142.2680	35047.67784

(From the use of SPSS)

$$\begin{aligned} \text{C.V (other income).} &= \text{S.D./ MEAN} \\ &= 3727.09002/11194.2660 \\ &= .3329 \end{aligned}$$

$$\begin{aligned} \text{C.V. (total income)} &= \text{S.D./ MEAN} \\ &=35047.67784/74142.2680 \\ &=.4727 \end{aligned}$$

From the above discussion we can conclude that average other income of the SBI is greater than the average other income of the PNB. C.V. of other income of SBI is .3329 as compare to the C.V. of the PNB which is .411. So we can conclude that the performance of the SBI is better than the PNB in case of other income also.

Interest Expanded: Banks pay interest on their deposits. This interest is expenditure for the banks. Customers may open various types of accounts with the banks & receive interest on their deposit from the banks at the different rates. Banks use the deposits made by people who keep their savings or checking accounts with them. Banks convince people to make deposits by paying interest rates. Banks are paying depositors for the right of using their money. Banks then use that money to make loans. Banks charge borrowers a little higher interest rate than they pay depositors for that same money so they can profit for providing these services. Banks want to charge as much interest as possible on loans, and pay as little as possible on deposits, so they can be more profitable. At the same time, banks are competing with each other for those same deposits and loans. This competition keeps interest rates in a similar range.

TABLE-3: % AGE OF INTEREST EXPENDED ON TOTAL EXPENDITURE (amount in crores)

Yr	Punjab National bank			State Bank of India		
	Interest Expended	Total Exp	% age	Interest Expended	Total Exp	% age
Mar04	4154.99	8655.68	48.00	19274.18	33694.45	57.20
Mar05	4453.11	8904.27	50.01	18483.38	35243.40	52.44
Mar06	4917.39	9623.07	51.10	20159.29	3876.93	51.98
Mar07	6022.91	11341.04	53.10	23436.82	42396.4	55.28
Mar08	8730.86	14213.80	61.42	31929.08	51619.62	61.85
Mar09	12295.30	19154.96	64.18	42915.29	67358.55	63.71
Mar10	12944.02	21126.87	61.26	47322.48	76796.02	61.62
Mar11	15179.14	26165.56	58.01	48867.96	88954.45	54.93
Mar12	23013.59	35746.43	64.38	63230.37	109165.61	57.92
Mar13	27036.82	41361.57	65.36	75325.80	121586.96	61.95

(Source: Annual report of PNB & SBI . www.moneycontrol.com)

Table-3 Reveals the % of interest expanded on the total expanded. In the year march 2004 interest expanded is 48% of total expenditure in case of PNB & 57.20% in case of SBI. This %age increase year by year in both of the banks. In March 2013 this %age increased to 65.36% in case of PNB & 61.95% in case of SBI. If we calculate the average of %age of interest payable then we finds average %age of of interest expanded is 57.62 in case of PNB & 57.88% in case of SBI. So from this %age we can say that SBI pays more interest as compare to the PNB.

Descriptive Statistics (PUNJAB NATIONAL BANK)			
	N	Mean	Std. Deviation
interest_expanded	10	11874.8130	7981.99144
total_expenditure	10	19629.3250	11599.03246

(From the use of SPSS)

$$\begin{aligned} \text{C.V. (Interest expanded)} &= \text{S.D./ MEAN} \\ &=7981.99144/ 11874.8130 \\ &= .672 \end{aligned}$$

$$\begin{aligned} \text{C.V. (Total expenditure)} &= \text{S.D./ MEAN} \\ &=11599.03246/19629.3250 \\ &=.590 \end{aligned}$$

Descriptive Statistics(STATE BANK OF INDIA)			
	N	Mean	Std. Deviation
interest expanded	10	39094.4650	19848.81090
total expenditure	10	63069.2390	36705.14796

(From the use od SPSS)

C.V. (Interest expanded) = S.D./ MEAN
 =19848.81090 / 39094.4650
 =.507

C.V. (Total expenditure) = S.D./ MEAN
 = 36705.14796 / 63069.2390
 =.582

From the above analysis we can conclude that the average interest expanded of the SBI is greater than the PNB. The average of total expenditure of SBI is greater than that of PNB. Coefficient of variation of SBI is .507 in case of interest expanded and .582 in case of total expenditure and in the case of PNB coefficient of variation is .672 in case of interest expanded and .590 in case of total expenditure. So from this data we can analyze that SBI is more uniform in case of interest expanded as compare to the PNB.

OPERATING EXPENSES

An expense incurred in carrying out an organization's day-to-day activities, but not directly associated with production. Operating expenses include such things as payroll, sales commissions, employee benefits and pension contributions, transportation and travel, amortization and depreciation, rent, repairs, and taxes. These expenses are usually subdivided into selling expenses and administrative and general expenses. Similarly in case of banks, some operating expenses are paid and all the operating expenses shown in the schedule-16 of profit & loss account of banks. These operating expenses include salary paid to employees, depreciation on the assets of the banks etc.

TABLE-4 %AGE OF OPERATING EXPENDITURE ON TOTAL EXPENDITURE (amount in crores)

r	Punjab National bank			State Bank of India		
	Operating Exp	Total Exp	% age	Operating Exp	Total Exp	% age
Mar04	3611.26	8655.68	41.72	12938.86	33694.45	38.40
Mar05	3257.26	8904.27	36.58	11278.18	35243.40	32.00
Mar06	3263.15	9623.07	33.91	11872.89	38776.93	30.62
Mar07	3926.05	11341.04	34.62	13251.78	42396.48	31.26
Mar08	3902.55	14213.80	27.45	14609.55	51619.62	28.30
Mar09	5026.81	19154.96	26.24	18123.66	67358.55	26.90
Mar10	5761.36	21126.87	27.27	24941.01	76796.02	32.47
Mar11	6364.22	26165.56	24.32	23015.44	88954.45	25.87
Mar12	7002.75	35746.43	19.59	26068.99	109165.61	23.88
Mar13	8165.05	41361.57	19.74	29284.42	121586.96	24.08

(Source: Annual report of PNB & SBI.www.moneycontrol.com)

Table-4 reveals the %age of operating expenses on total expenditure. This %age decreases year by year in case of PNB & SBI. In case of PNB the operating expenses are 41.72% on total expenditure in the year of the Year of March 2004 as against 19.74% in the year of March 2013. But in case of SBI the operating expenses are 38.40 in the year March 04 as against 24.08% in the year of March 2013. The average of the %age of operating expenses is 29.144 in case of PNB but in case of SBI the average of the %age of operating expenses is 29.378. So from the discussion we can say that the operating expenses are more in case of SBI.

Descriptive Statistics(PUNJAB NATIONAL BANK)			
	N	Mean	Std. Deviation
Operating_exp	10	5028.0460	1725.69863
Total_expenditure	10	19629.3250	11599.03246

(From the use of SPSS)

C.V.(Operating expenditure) = S.D./ MEAN
 = 1725.69863/5028.0460
 = .343

C.V.(total expenditure) = S.D./ MEAN
 = 11599.03246 / 19629.3250
 =.591

Descriptive Statistics(STATE BANK OF INDIA)			
	N	Mean	Std. Deviation
Operating expenses	10	18538.4780	6710.48038
Total expenditure	10	66559.2470	31780.48484

(From the use of SPSS)

C.V. (Operating expenditure) = S.D./ MEAN
 = 6710.48038 / 18538.4780
 = .362

C.V. (total expenditure) = S.D./ MEAN
 = 31780.48484 / 66559.2470
 =.477

From the above discussion we can say that SBI's operating expenses are 18538.4780 on average and total expenses are 66559.2470 as on average basis. In case of PNB operating expenses are 5028.0460 on average basis and total expenditure are 19629.3250 on average basis. So we can conclude that on average basis SBI incurred more operating expenses as compare to PNB. C.V. is 0.362 in case of SBI C.V. is .343. So SBI has more variation in case of operating expenses as compare to PNB.

ANALYSIS AND FINDINGS

1. Average of interest earned & total income of SBI is greater than the average of interest earned & total income of the PNB. If we see the C.V. of the both banks then there is more uniformity in SBI bank in the case of interest earned & total income.
2. The C.V. of interest earned and total income in case of SBI is lesser as compare to the C.V. of the PNB. So we can say that the performance of the SBI is better than the PNB in case of interest earned and total income.
3. Average other income of the SBI is greater than the average other income of the PNB. C.V. of other income of SBI is .3329 as compare to the C.V. of the PNB which is .411. So we can conclude that the performance of the SBI is better than the PNB in case of other income also.
4. The average of total expenditure of SBI is greater than that of PNB. Coefficient of variation of SBI is .507 in case of interest expanded and .582 in case of total expenditure and in the case of PNB coefficient of variation is .672 in case of interest expanded and .590 in case of total expenditure. So from this data we can analyze that SBI is more uniform in case of interest expanded as compare to the PNB.

5. SBI's operating expenses are 18538.4780 on average and total expenses are 66559.2470 as on average basis. In case of PNB operating expenses are 5028.0460 on average basis and total expenditure are 19629.3250 on average basis. So we can conclude that on average basis SBI incurred more operating expenses as compare to PNB. C.V. is 0.362 in case of SBI C.V. is .343. So SBI has more variation in case of operating expenses as compare to PNB.

CONCLUSION

On the basis of comparative study of PNB and SBI which is based on the parameter of interest earned, total income, operating expenses and total expenses, it can conclude that the study of last 10 years i.e. from 2004-2013 that SBI has performed better than PNB. Interest earned of SBI shows more uniformity as compare to the PNB. The average of the interest earned and total income also higher in case of SBI as compare to PNB. So according to the object of the study I conclude that average of the interest earned and other income of the SBI is higher than the PNB. As all we know that interest earned and other income has more impact on the profitability of the banks. So SBI performed well as compare to PNB.

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