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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

NPA MANAGEMENT IN PUBLIC SECTOR BANKS: A STUDY OF CANARA BANK AND STATE BANK OF INDIA

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ABSTRACT
Non performing assets (NPA) pose major challenge for banking sector which affect adversely the financial performance of banks. The accumulation of huge non-performing assets in banks has assumed great importance and now NPAs is a matter of concern to the entire banking industry to focus on non performing assets management. It has been found that Non performing assets do result as a failure on the part of monitoring and effective control measures. The banks and financial institutions have to take the initiative to reduce NPAs in a time bound strategic approach. Management of NPAs has become central performance area for all banks both public sector and private sector. Public sector banks figure prominently in the debate not only because they dominate the banking industry, but also since they have much larger NPAs compared with the private sector banks. Gross NPA reflects the quality of the loans made by banks while Net NPA shows the actual burden to banks. In order to help the management of NPA, non performing assets are classified based on the period for which the asset has remained nonperforming and the realisability of the dues as standard assets, sub-standard assets, doubtful assets and loss assets. The passing of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002; Debt Recovery Tribunals (DRTs); Lok Adalats (public courts); Corporate Debt Restructuring mechanism have been suggested to address the problem of NPA recovery.

KEYWORDS
Doubtful assets, Loss assets, Non performing assets, Public sector banks, and Sub-standard assets.

INTRODUCTION
NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPAs not only affect current profit but also future stream of profits, which may lead to loss of some long-term beneficial opportunity.
In India, the NPAs that are considered to be at higher levels than those in other countries have of late, attracted the attention of public. The Indian banking system had acquired a large quantum of NPAs, which can be termed as legacy NPAs. It was in early 1990s the problem of bad debts was first realised. The magnitude of NPAs in banks and financial institutions is over Rs.150,000 crores during the period of 2009-10. NPA management is a most important aspect of banks performance irrespective of the fact whether it is public sector or private sector. It is generally felt that NPAs reduce the profitability of banks, weaken their financial health and erode their solvency. For the recovery of NPAs a broad framework was evolved for the management of NPAs under which several options are provided for debt recovery and restructuring. Banks and Financial institutions have the freedom to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements.
An asset is to be treated as Non-performing under the following circumstances:
(i) when it ceases to generate any income for the bank
(ii) Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a Term Loan.
(iii) The account remains 'Out of Order' for a period of more than 90 days, in respect of an Overdraft/ Cash Credit (OD/CC).
(iv) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
(v) Interest and/or installment of principal remains overdue for two harvest (crop) seasons but for a period not exceeding one crop season in the case of an advance granted for agricultural purpose, and
(vi) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
(vii) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
(viii) Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank becomes overdue.
An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

TYPES OF NPA
Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non- standard assets like as sub-standard, doubtful, and loss assets. Gross NPA ratio is calculated with the help of following ratio.
Gross NPA Ratio = Gross NPAs **/** Gross Advances
Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPAs is quite high. Net NPA ratio is calculated by following.
Net NPA = Gross NPAs – Provisions **/** Gross Advances – Provisions

TREATMENT OF ACCOUNTS AS NPAs
Record of Recovery
The treatment of an asset as NPA should be based on the record of recovery. Banks should not treat an advance as NPA merely due to existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power, balance outstanding exceeding the limit, non-submission of

stock statements and the non-renewal of the limits on the due date, etc. Where there is a threat of loss, or the recoverability of the advances is in doubt, the asset should be treated as NPA.
A credit facility should be treated as NPA as per norms given. However, where the accounts of the borrowers have been regularized by repayment of overdue amounts through genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the accounts need not be treated as NPAs. In such cases, it should, however, be ensured that the accounts remain in order subsequently and a solitary credit entry made in an account on or before the balance sheet date which extinguishes the overdue amount of interest or installment of principal is not reckoned as the sole criteria for treatment the account as a standard asset
Treatment of NPAs – Borrower-wise and not Facility-wise
In respect of a borrower having more than one facility with a bank, all the facilities granted by the bank will have to be treated as NPA and not the particular facility or part thereof which has become irregular. However, in respect of consortium advances or financing under multiple banking arrangements, each bank may classify the borrower accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances. Identification of assets as NPAs should be done on an ongoing basis.
The system should ensure that identification of NPAs is done on an on-going basis and doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per prescribed norms. Banks should also make provisions for NPAs as at the end of each calendar quarter i.e. as at the end of March/ June/ September/ December, so that the income and expenditure account for the respective quarters as well as the P&L account and balance sheet for the year end reflects the provision made for NPAs.
The impact of priority sector advances on NPAs and the incidence of NPAs in priority sector is much higher in view of the fact that priority sector advances constitute 30-32 per cent of the gross bank credit (Department of Banking Supervision 1999). To reduce the extent of NPAs, Non-performance assets of the various banks and various strategies are to be employed by the banks for which RBI should induce certain new policies/strategies to prevent NPAs (Kaveri 2001).
The problem of NPAs is related to several internal and external factors confronting the borrowers (Muniappan, 2002). The internal factors are diversion of funds for expansion/diversification/modernization, taking up new projects, helping/promoting associate concerns, time/cost overruns during the project implementation stage, business (product, marketing, etc.) failure, inefficient management, strained labor relations, inappropriate technology/technical problems, product obsolescence, etc., while external factors are recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities.
An assessment on the causes and consequences of NPAs of commercial banks has revealed that a strong political will only be able to find satisfactory solution to the problem of mounting NPAs (Rajesham and Rajender 2007).The commercial banks under national priorities has been providing financial assistance the priority sector lending in the post reform period and suggested for a balanced approach as development agent and sustainability of directed lending's keeping in view the quantum of NPA in priority sector advances (Sooden and Kumar 2007).
Management of NPAs has become central performance area for all nationalised banks. Lot of strategies is worked out to combat this phenomenon as when the circumstances demand. The following are the broad reasons for assets turning non-performance Tardy judicial process, Internal and external diversions of loan funds by the promoters, Time and cost overruns in project implementation, Shortage of raw materials and Power shortage, Change in Government policies like liberalized imports with lesser incidence of custom duties, Poor recovery of receivables especially by SSI units with respect to the dues from public sector/public limited unit, Industrial recession, Excess capacities created on non-economic costs, National calamities like floods, cyclones, Failure of Corporates to raise debt/Equity forms the market, to support bank debt, Business failure, Inefficient / Dishonest management, Political compulsions and corruption, Total disregard of fundamentals of bank lending, Speculative lending to real estate and capital market segments.
On the analysis of the above said reasons it clearly indicates deficiencies on both sides namely Banks and Promoters. Many of the reasons for increase of NPAs may not be under the control of both parties. But a sizable reasons for NPAs may be attributable to Banks such as poor appraisal of the proposals for grant of loans at the initial stage, monitoring of the execution of proposals by promoters at frequent stages especially when the stage of disbursement of loan etc.
On the part of the promoter's reasons attributable is the ineffective assessment of growth of their industry while asking for loans, diversion of loan amount sanctioned to other areas, management practices and set up, excess capacities created on non- economic costs etc. Both sides should put their heads together to contain reasons under their control for reducing the proportion of NPAs. At frequent intervals mutual discussion without blaming the other side will go a long way to contain the proportion of NPAs.
Bank Managers must be very attentive and fairly impartial in examining the proposal in such a way that the Bank may not fail to realise the debts. No doubt Indian Banking system is relatively more disciplined in observing basic lending norms. Due to that discipline only the disaster experienced in Japan and South Asian Countries are avoided in India in 1998.
"Loan Melas" were very common in eighties Ministers and politicians used to reveal in Melas as if they are parting with their money for social benefits. No doubt social sector has to be looked after by banks. But that spread-lending ways can not be allowed to go out of hand as the money comes from-investing public. Interference from political big wigs in Banking industry has to be avoided considerably, if not fully.

ASSET CLASSIFICATION AND PROVISIONING

As per prudential norms on Asset Classification and provisioning and Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the realisability of the dues.
Standard Assets are those assets which do not carry more than the normal credit risk attached to business. As such, all performing assets could be classified as standard assets.
Sub-standard Assets: are those assets that remains a Non performing for a period not exceeding 18 months with effect from the year ended March 2001. However, the period of 18 months has been reduced to 12 months by Reserve Bank of India with effect from March 31, 2005. An asset would be classified as sub-standard with effect from March 31, 2005 if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers/ guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.
An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the re-negotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of this condition.
Doubtful Assets are those assets classified as a Doubtful asset if it remains as Non performing for a period exceeding 18 months w.e.f 01.04.2000. From 31.3.2005 onwards the period of 18 months have been reduced to 12 months. An asset is required to be classified as doubtful, with effect from March 31, 2005 if it has remained NPA for more than 12 months. For Tier I banks, the 12-month period of classification of a substandard asset in doubtful category will be effective from April 1, 2009. As in the case of sub-standard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
Loss Assets are those assets where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. Only those advances would be classified here, where no security is available. Accounts where any security/ECGC/DICGC cover is available are not to be reported under loss category.
In order to assure better NPA management in the banking sector Provisioning requirements are to be adhered by every bank. Namely

STANDARD ASSETS

Monetary and Credit Policy Measures have instructed that Banks have to make a general provision on standard assets of a minimum of 0.25% on Direct Agriculture & SME Loans & 0.40% on General Accounts from the year ending 31st March 2000.

SUB-STANDARD ASSETS

A flat provision of 10% has to be made on the outstanding of the amount borrowed if the security value as a percent of total exposure is greater than 10% or 20% of the Outstanding, only if security value as a percent of total exposure is less than 10%.

DOUBTFUL ASSETS

For the computation of the provision requirements in respect of doubtful assets, the doubtful assets are sub classified as DI, D2 and D3 according to the age of NPA and provision is calculated as follows:

Category	Age of NPA	Provision requirement
D1	A/c which have not completed More than one year in Doubtful Category	20% on the secured portion
D2	A/c which have completed More than one year but less than Three years in the doubtful category	30% on the secured portion
D3	A/c which have completed Three years in the doubtful category	100% on the secured portion

If the outstanding not fully covered by security and DICGC/ECGC cover, 100% provision has to be made on the balance unsecured portion.

LOSS ASSETS

In respect of loss assets, as there will be no security available, 100% provision has to be made on the net outstanding after deduction DICGC/ECGC cover if available. If substantial security is available, which is considered realizable, the credit facility should be treated as doubtful. However, if realizable/salvage value of the security is negligible, then the account after deducting the salvage value. For example, the due to the bank is Rs.1 lac and the account is identified as loss asset. If the salvage value of the security is Rs 0.01 lac, the provision should be made for Rs.0.99 lac.

Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The banks may fix a minimum cut-off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.

Responsibility and validation levels for ensuring proper asset classification may be fixed by the bank. The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines. RBI would continue to identify the divergences arising due to non-compliance, for fixing accountability. Where there is willful non-compliance by the official responsible for classification and is well documented, RBI would initiate deterrent action including imposition of monetary penalties.

NPAs are largely fallout of banks' activities with regard to advances, both at the management and implementation levels (including overall controls by the top management), the credit appraisal system, monitoring of end-usage of funds and recovery procedures. It also depends on the overall economic environment, the business cycle and the legal environment for recovery of defaulted loans. Since the overall environment is more or less same for all banks, non-performing loans of individual banks are mainly a result of management controls and systems. A bank with an efficient credit appraisal and loan recovery system will grow stronger over the years. Such banks have good management control and also inherent strengths in terms of a highly motivated staff, good checks and balances, which are further enhanced by a regulatory and supervisory system.

As the growth in advances is largely determined by the economic and business environment, such banks will be able to push their credit portfolio aggressively, especially when the economy is booming. Also, as such banks have a diversified credit portfolio; it would act as a cushion during economic downturns. This will result in lower NPAs, allowing them to grow stronger and even adopt a more aggressive growth strategy and, thereby, withstand marginally higher incidences of default.

However, a bank without inherent strengths will not be able to push their credit portfolio the way they want to. They are characterized by poor management control, inadequate credit appraisal and even low levels of motivation among the staff. When such banks push their advances portfolio, chances of their asset quality deteriorating are higher. Since asset quality will be visible only after credit disbursal, which itself depends on the regulatory definition of NPAs, any deterioration will be reflected after a time lag. Thus, banks without inherent strength will have higher NPA levels, especially when they are seen above average credit growth.

FACTORS AFFECTING NPAs

General environmental factors: These include business cycles, the legal framework, ethical standards, the regulatory and supervisory system, and the political environment.

Bank specific factors*:* The credit appraisal system; credit recovery procedures; controls, checks and balances adopted by the top management; the risk management system in place; and the motivation level of staff.

Thus, for both healthy and not-so-healthy banks, asset quality after an above average credit growth has a major effect on NPAs. One way to capture the effect of deterioration in the asset quality is to consider cumulative growth rates of credit, which also captures the time-lag effect of credit migration.

VEHICLES FOR NPA RECOVERY

Several institutional mechanisms have been developed in India to deal with NPAs such as tightening of legal provisions; the passing of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002; introduction of Debt Recovery Tribunals (DRTs); Lok Adalats (public courts); Corporate Debt Restructuring (CDR) mechanism for large advances to corporate borrowers; etc. have been suggested to address the problem of NPA recovery. Among these are:

Debt Settlement Tribunals: Since the DRT has to function in the normal frame of judiciary machinery and hence suffers from the delays due to judicial processes, it is desirable to think of some alternative agencies to expedite recovery of bank dues. The Debt Settlement Tribunal may provide a good opening for banks to get these recoveries fast as the system provides for an appointment of a Recovery Officer by the bank itself who will issue the demand notice and pass the award. The defaulter may apply to the Debt Settlement Tribunal for settlement of the debt suggesting the terms on which he wants to settle. The Tribunal may hear both the parties and pass the final award which will be binding on both the parties.

Lok Adalats: For recovery of smaller loans the Lok Adalat have proved a very good agency for quick justice and settlement of dues. The Gujarat State Legal Service Authority and the DRT, Ahmedabad have nominated and appointed Conciliators to deal with the cases before the Lok Adalat comprising of retired High Court Judge and two members from Senior Advocates/ Industrialists/Executives of the banks. These Adalats in the State of Gujarat have been found to be useful as a supplement to the efforts of recovery by the DRTs. Such agencies should be established in all the states.

Asset Reconstruction Company**:** The setting up of Asset Reconstruction Company may be another channel to transfer the NPAs of the banks to such an agency and developing the process of securitization of banks' loan assets for providing liquidity. Perhaps, secondary market of derivatives based on securitized assets could also be developed as in developed countries.

Amendment to banking related laws: The necessary changes in the legal framework i.e., B.R. Act and other bank related Acts may be expedited providing therein repossession of the collateral, foreclosure and bankruptcy procedures for defaulting borrowers. In absence of any reliable credit investigation/ information agency in India, amendment to related banking laws for publishing names of borrowers who have settled their dues either through compromise or court wherein sacrifice by the bank was of substantial amount say, Rs. 25 lakhs or more should also be considered to deny further facilities by other banks to such borrowers, at least, for certain period.

Revenue Recovery Act: In some states Revenue Recovery Act has been made applicable to banks. Since this is also an expeditious process of adjudicating claims, banks may be notified to be covered under the Act by states having such Act. Devising Policies with a long term perspective the Government and other authorities should devise policies having a bearing on the industrial sector, agriculture and trade with a long term perspective to avoid sickness in the industry and adverse impact on borrowers because of sudden shift in the policy.

RESTRUCTURING / RESCHEDULING OF LOANS

A standard asset where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after comparative analysis on NPA of Private & Public sector Banks commencement of production should be classified as sub-standard and should remain in such category for at least one year of satisfactory performance under the renegotiated or rescheduled terms. In the case of sub-standard and doubtful assets also, rescheduling does not entitle a bank to upgrade the quality of advance automatically unless there is satisfactory performance under the rescheduled /renegotiated terms. Following representations from banks that the foregoing stipulations deter the banks from restructuring of standard and sub-standard loan assets even though the modification of terms might not jeopardize the assurance of repayment of dues from the borrower, the norms relating to restructuring of standard and sub-standard assets were reviewed in March 2001. In the context of restructuring of the accounts, the following stages at which the restructuring / rescheduling / renegotiation of the terms of loan agreement could take place, can be identified: Before commencement of commercial production; After commencement of commercial production but before the asset has been classified as sub standard, After commencement of commercial production and after the asset has been classified as sub standard. In each of the foregoing three stages, the rescheduling, etc., of principal and/or of interest could take place, with or without sacrifice, as part of the restructuring package evolved.

Liquidity: Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shorter period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money. Routine payments and dues also get affected.

Involvement of management: Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now day's banks have special employees to deal and handle NPAs, which is additional cost to the bank.

Credit loss: Bank is facing problem of NPA then it adversely affects the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks To sum up, NPAs in banks need tackling promptly through a double pronged approach viz. preventive and creative measures by banks at macro and micro levels. This may include a well structured NPA management policy, formulating risk rating system, introducing pre-disbursement audit and credit audit system for large advances, and also systems to tackle potential problem loans well in time. Further, maximizing recovery through transparent compromise proposals, setting up of internal committees at different levels in the bank for quick disposal of settlement proposals and forming of special recovery/NPA cells at controlling offices will accelerate the pace of recovery. Actions such as making accountable the concerned staff for recovery, opening up of specialized rehabilitation branches for providing focused attention to cases marked for recovery through legal means may also help in this regard. Upgradation of information technology will facilitate better credit administration and help sharing vital information between branches as also between banks and FIs and this should be the priority area for bank managements. The bank should also start playing the role of friend, philosopher and guide by counseling corporate borrowers to sell out assets not necessary for their core area of production/competence. All these measures are necessary in order to improve the bottom lines of the banks and shore up their image, particularly in the context of the opening up of the economy and the major Indian banks starting to look for overseas expansion. Since credit risk is by far the major risk the banks take in their working, elimination of NPAs altogether is not possible. The efficiency of a bank depends on its ability in judicious risk taking, effective monitoring of the portfolio, identifying potential non-performance early, expeditious remedies/ foreclosure to minimize the NPAs and ensuring that the effect of the NPAs on its financials is minimum. Management of NPA is need of the hour. To be effective, NPA management has to be an exercise pervading the entire bank from the Board down the last level. Time is of prime essence in NPA management. The course open to the banker is to ensure that an asset does not become NPA. If it does, he should take steps for early recovery failing which the profitability of the bank will be eroded. That can trigger other problems to undermine the bank's financial condition.

An asset is to be treated as Non-performing when it ceases to generate any income for the bank and if interest or installment remains past due for two or more quarter as on the Balance Sheet date.

In other words for classifying an advance as standard asset, there should not be more than one quarter installment or interest remaining past due as on Balance sheet date.

Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. Today, Canara Bank occupies a premier position in the comity of Indian banks Widely known for customer centricity with an unbroken record of profits since its inception, Canara Bank has several firsts to its credit.

State Bank of India (**SBI**) is the largest banking and financial services company in India by revenue, assets and market capitalisation. It is a state-owned corporation with its headquarters in Mumbai, Maharashtra. The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding in 1806 of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent. Bank of Madras merged into the other two presidency banks—Bank of Calcutta and Bank of Bombay—to form the Imperial Bank of India, which in turn became the State Bank of India. SBI is ranked No. 292 globally in Fortune Global 500 list in 2011 SBI is a regional banking behemoth and is one of the largest financial institutions in the world. It has a market share among Indian commercial banks of about 20% in deposits and loans. The State Bank of India is the 29th most reputed company in the world according to *Forbes*. Also, SBI is the only bank featured in the coveted "top 10 brands of India" list in an annual survey conducted by Brand Finance and The Economic Times in 2010.

TABLE 1.1: GROSS NPAs (Rs. In Crores)

Year	Canara Bank	SBI
2000-01	2242.89	15874.97
2001-02	2112.44	15485.85
2002-03	2474.78	13506.07
2003-04	3126.84	12667.21
2004-05	2370.55	12455.73
2005-06	1792.61	9628.14
2006-07	1493.43	9998.22
2007-08	1272.62	12837.34
2008-09	2167.97	15714.00
2009-10	2590.31	19534.89

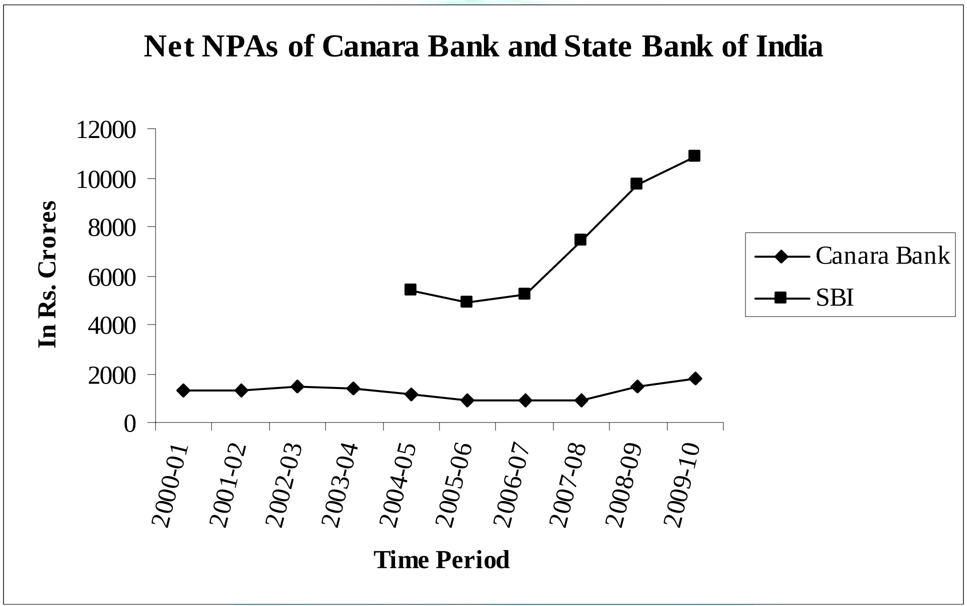
Source: Respective Annual Reports

TABLE 1.2: NET NPAs (Rs .In Crores)

Year	Canara Bank	SBI
2000-01	1345.99	6856.26
2001-02	1288.39	6810.20
2002-03	1453.88	6183.00
2003-04	1378.31	5442.00
2004-05	1125.28	5348.89
2005-06	879.18	4911.41
2006-07	926.97	5257.72
2007-08	899.03	7424.33
2008-09	1507.25	9677.42
2009-10	1799.70	10870.17

Source: Respective Annual Reports

FIGURE 1.1: NPAs OF CANARA BANK AND SBI



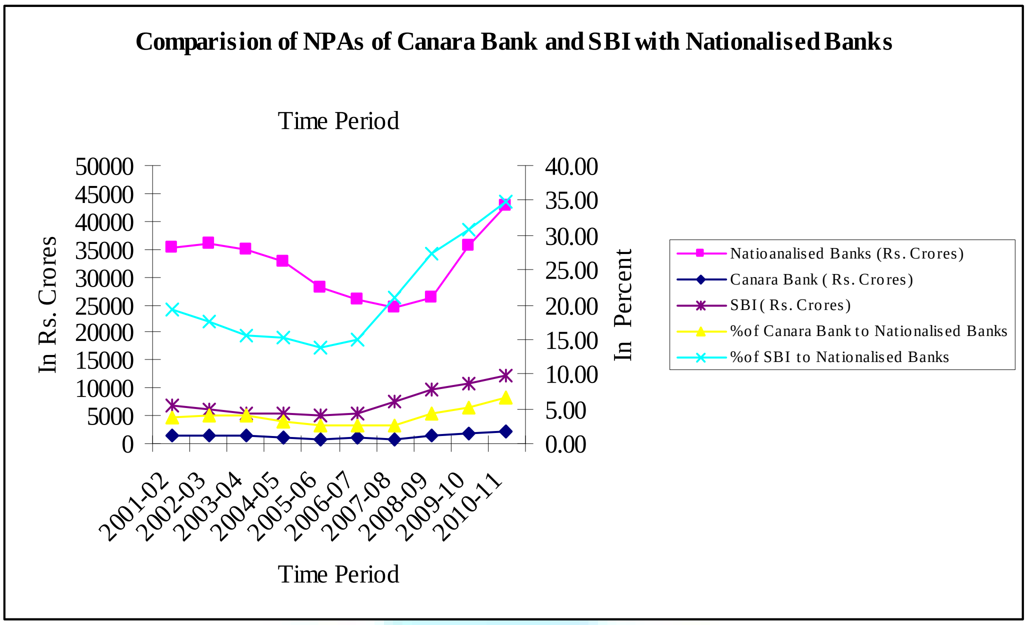
From the above analysis of table 1.1, table 1.2 and figure 1.1 it is observed that Canara Bank is showing fluctuating trend for the years 2000-01, 2001-02, 2006-07 and 2007-08. while period from 2003-04 to 2005-06 has shown a decrease in trend indicating improvement in its asset quality and performing well on settlements and recovery front and periods 2008-09 and 2009-10 has shown a increase in trend. Canara Bank with its unrelenting focus on quality assets, backed up by a prudent risk management mechanism, has enabled the Bank to progressively improve its asset quality during the period 2005-06 has shown an excellent recovery of advances where in recorded lowest Net NPA of Rs 879.18 crores under the period under consideration. SBI has been focusing on restructuring of impaired Standard Assets as well as viable non-performing assets, both under CDR mechanism as well as under Bank's own scheme, have been given top priority for arresting new additions and reducing the existing level of NPAs has shown a consistent downward trend for the period 2000-01 to 2005-06 and an upward trend for the period 2006-07 to 2009-10. During the year 2008-09 the bank has reported fresh slippages of standard assets to NPA category Rs 11,015 crores.

TABLE 1.3: COMPARISION OF NPAs OF CANARA BANK AND SBI WITH NATIONALISED BANKS

Time Period	Nationalised Banks (Rs. Crores)	Canara Bank (Rs. Crores)	SBI (Rs. Crores)	% of Canara Bank to Nationalised Banks	% of SBI to Nationalised Banks
2001-02	35328	1288.39	6810.20	3.65	19.28
2002-03	35849	1453.88	6183.00	4.12	17.50
2003-04	34990	1378.31	5442.00	3.90	15.40
2004-05	32888	1125.28	5348.89	3.19	15.14
2005-06	28185	879.18	4911.41	2.49	13.90
2006-07	26046	926.97	5257.72	2.62	14.88
2007-08	24528	899.03	7424.33	2.54	21.02
2008-09	26169	1507.25	9677.42	4.27	27.39
2009-10	35470	1799.70	10870.17	5.09	30.77
2010-11	42907	2329.91	12346.90	6.60	34.95

Source: Compiled from Department of Banking Supervision, RBI 2010-2011

FIGURE 1.2: COMPARISION OF NPAs OF CANARA BANK AND SBI WITH NATIONALISED BANKS



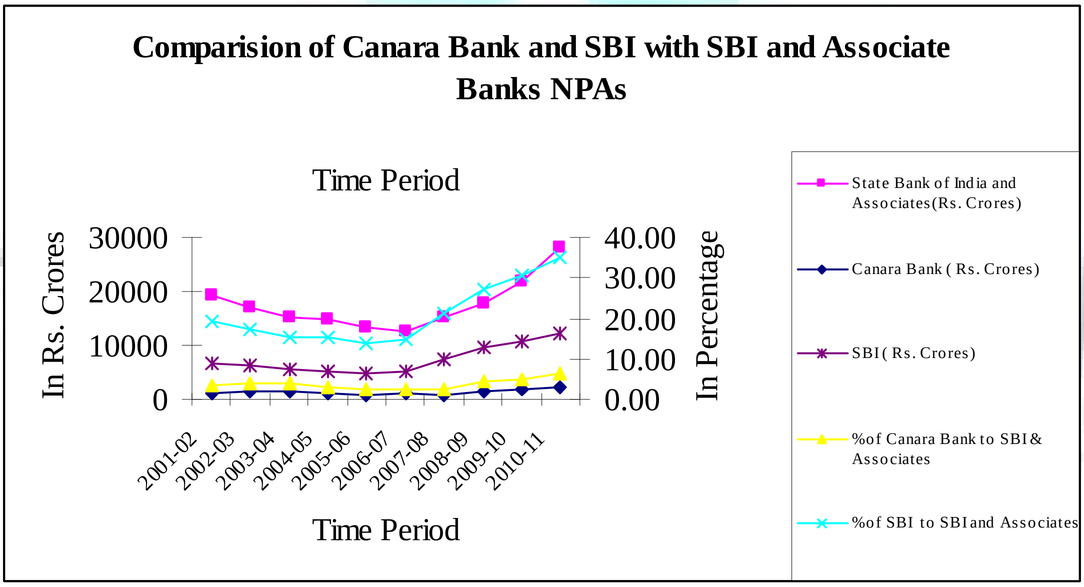
From the above analysis of table 1.3 and figure 1.2 it is observed that the Canara Bank's share in NPAs of nationalised banks in percentage terms has shown a fluctuating trend from 2001-02 to 2007-08. Further during the period of 2008-09 to 2010-11 it has shown an increasing trend and it has been found that the NPAs of nationalised banks were also showing the same trend. The SBI's contribution to NPAs of nationalised banks has shown a decreasing trend from 2002-03 to 2005-06 and has shown an increasing trend during the remaining period of study i.e., 2006-07 to 2010-11.

TABLE 1.4: COMPARISION OF CANARA BANK AND SBI WITH SBI AND ASSOCIATE BANKS NPAs

Time Period	State Bank of India and Associates(Rs. Crores)	Canara Bank (Rs. Crores)	SBI (Rs. Crores)	% of Canara Bank to SBI & Associates	% of SBI to SBI and Associates
2001-02	19095	1288.39	6810.20	3.65	19.28
2002-03	16958	1453.88	6183.00	4.12	17.50
2003-04	15159	1378.31	5442.00	3.90	15.40
2004-05	14808	1125.28	5348.89	3.19	15.14
2005-06	13193	879.18	4911.41	2.49	13.90
2006-07	12556	926.97	5257.72	2.62	14.88
2007-08	15220	899.03	7424.33	2.54	21.02
2008-09	17874	1507.25	9677.42	4.27	27.39
2009-10	21831	1799.70	10870.17	5.09	30.77
2010-11	28140	2329.91	12346.90	6.60	34.95

Source: Compiled from Department of Banking Supervision, RBI 2010-2011

FIGURE 1.3: COMPARISION OF CANARA BANK AND SBI WITH SBI AND ASSOCIATE BANKS NPAs



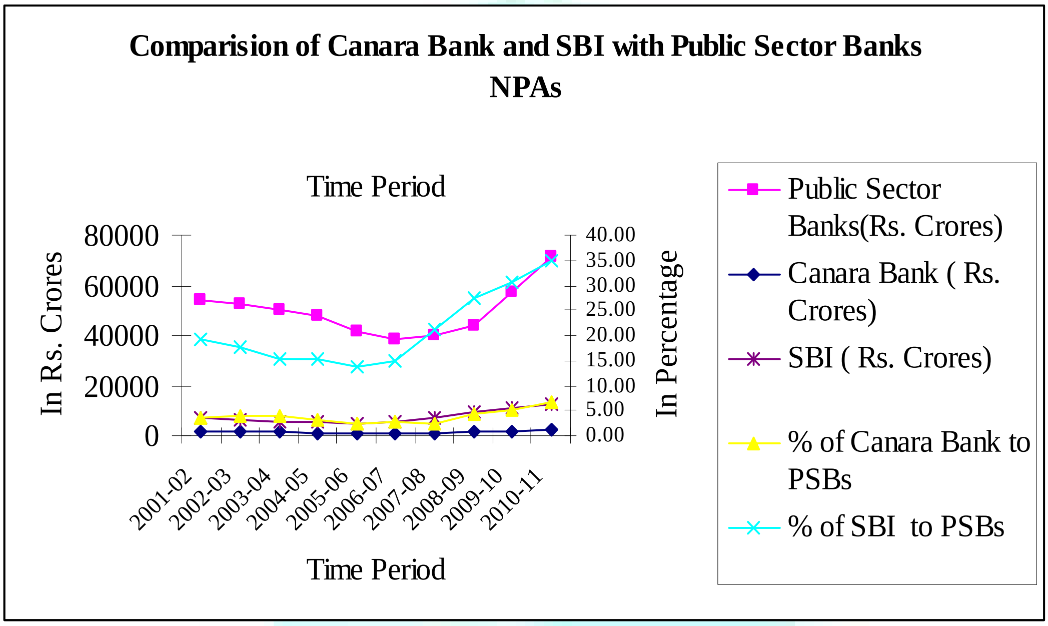
From the above analysis of table 1.4 and figure 1.3 it is observed that the Canara Bank's share in NPAs of SBI and its associated banks has shown a fluctuating trend through out the study period. The SBI was showing an increase in trend during the period 2003-04 to 2008-09 while for the period 2009-10 and 2010-11 showing a decrease in trend.

TABLE 1.5: COMPARISON OF CANARA BANK AND SBI WITH PUBLIC SECTOR BANKS (PSBs) NPAs

Time Period	Public Sector Banks(Rs. Crores)	Canara Bank (Rs. Crores)	SBI (Rs. Crores)	% of Canara Bank to PSBs	% of SBI to PSBs
2001-02	54423	1288.39	6810.20	2.37	12.51
2002-03	52807	1453.88	6183.00	2.75	11.71
2003-04	50148	1378.31	5442.00	2.75	10.85
2004-05	47696	1125.28	5348.89	2.36	11.21
2005-06	41378	879.18	4911.41	2.12	11.87
2006-07	38602	926.97	5257.72	2.40	13.62
2007-08	39749	899.03	7424.33	2.26	18.68
2008-09	44042	1507.25	9677.42	3.42	21.97
2009-10	57301	1799.70	10870.17	3.14	18.97
2010-11	71047	2329.91	12346.90	3.28	17.38

Source: Compiled from Department of Banking Supervision, RBI 2010-2011

FIGURE 1.4: COMPARISON OF CANARA BANK AND SBI WITH PUBLIC SECTOR BANKS (PSBs) NPAs



From the above analysis of table 1.5 and figure 1.4 it is observed that percentage of Canara Bank's NPAs to PSBs NPAs is showing fluctuating trend throughout the study period i.e., during the year 2001-02 percentage of Canara bank to PSBs was 2.37 and shown an increase to 2.75 in the period 2002-03 and while two consecutive years i.e., 2004-05 and 2005-06 has shown a decline percentage. It has been observed that the Canara Bank's NPAs to PSBs NPAs during the period 2008-09 to 2010-11 has increased. Further the percentage of SBI's contribution to PSBs has shown a decreasing trend for the period 2001-02 to2003-04 i.e., 12.51% to 10.85%. The period from 2004-05 to 2008-09 has shown an increase in trend while the period from 2009-10 and 2010-11 has shown a decreasing trend compared to the year 2008-09.

CONCLUSION

Public Sector Banks are playing an important role in developing the economy. The Indian Banking sector is the prominent contributor in service sector towards achieving the socio economic objectives. NPAs are the biggest challenge to the public sector banks and it has proven to be the most important bench mark in evaluating the financial performance of banks. Today the major challenge for public sector banks is problem of non performing assets. If the proper management of the NPAs is not undertaken it would be hampers the business of the banks. The NPAs would affect business cycles, legal framework, ethical standards, regulatory and supervisory system and bank specific factors like credit appraisal system, credit recovery procedures risk management system and the motivational level of employees. The selected banks i.e., Canara Bank and State Bank of India has shown during the period 2000-01 to 2009-10 a consistent downtrend in Gross NPAs and NPAs. The analysis of the banks for the period under consideration has indicated that the banks have established appropriate systems internally to eliminate at the earliest failure to identify NPAs, adherence to the classification norms of Reserve Bank of India and by utilising effectively in the management of NPAs Debt recovery and corporate debt restructuring more specifically for corporate large advances.

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