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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	ASSESSING THE CONTRIBUTION OF MICROFINANCE INSTITUTION SERVICES TO SMALL SCALE ENTERPRISES OPERATION: A CASE STUDY OF OMO MFI, HAWASSA CITY, ETHIOPIA <i>GELFETO GELASSA TITTA & DR B. V. PRASADA RAO</i>	1
2.	OPTIMAL RESOURCE ALLOCATION EARLY RETURNS BUSINESS USING GOAL PROGRAMMING MODEL (GP) <i>MOHAMMAD REZA ASGARI, AHMAD GHASEMI & SHAHIN SAHRAEI</i>	10
3.	CORRELATION FOR THE PREDICTION OF EMISSION VALUES OF OXIDES OF NITROGEN AND CARBON MONOXIDE AT THE EXIT OF GAS TURBINE COMBUSTION CHAMBERS <i>LISSOUCK MICHEL, FOZAO KENNEDY F, TIMBA SADRACK M. & BAYOCK FRANÇOIS N.</i>	19
4.	CORPORATE GOVERNANCE AND PERFORMANCE: THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND FINANCIAL PERFORMANCE AMONG COMPANIES LISTED ON THE NAIROBI SECURITIES EXCHANGE <i>JAMES O. ABOGE., DR. WILLIAM TIENG'O & SAMUEL OYIKE</i>	25
5.	AN IMPACT ASSESSMENT OF THE CONTRIBUTORY PENSION SCHEME ON EMPLOYEE RETIREMENT BENEFITS OF QUOTED FIRMS IN NIGERIA <i>SAMUEL IYIOLA KEHINDE OLUWATOYIN, EZEGWU CHRISTIAN IKECHUKWU & UMOGBAI, MONICA E.</i>	31
6.	IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY OF MANUFACTURING COMPANIES OF COLOMBO STOCK EXCHANGE (CSE) IN SRI LANKA <i>S.RAMESH & S.BALAPUTHIRAN</i>	38
7.	THE RESPONDENTS PERCEPTION OF CUSTOMER CARE INFLUENCE ON CUSTOMER SATISFACTION IN RWANDAN COMMERCIAL BANKS - A CASE STUDY: BANQUE POPULAIRE DU RWANDA <i>MACHOGU MORONGE ABIUD, LYNET OKIKO, VICTORIA KADONDI & NDAYIZEYE GERVAIS</i>	43
8.	TOWARDS CASH-LESS ECONOMY IN NIGERIA: ADDRESSING THE CHALLENGES, AND PROSPECTS <i>AGUDA NIYA A.</i>	50
9.	PERFORMANCE ANALYSIS: A STUDY OF PUBLIC SECTOR BANKS IN INDIA <i>DR. BHAVET, PRIYA JINDAL & DR. SAMBHAV GARG</i>	54
10.	ANALYSIS OF MANAGEMENT EFFICIENCY OF SELECTED PRIVATE SECTOR INDIAN BANKS <i>SULTAN SINGH, NIYATI CHAUDHARY & MOHINA</i>	59
11.	DETERMINANTS OF CORPORATE CAPITAL STRUCTURE WITH REFERENCE TO INDIAN FOOD INDUSTRIES <i>DR. U.JERINABI & S. KAVITHA</i>	63
12.	AN OVERVIEW OF HANDLOOM INDUSTRY IN PANIPAT <i>DR. KULDEEP SINGH & DR. MONICA BANSAL</i>	68
13.	CONTACT OF GLOBALISATION ON EDUCATION AND CULTURE IN INDIA <i>R. SATHYADEVI</i>	74
14.	A STUDY ON BRAND AWARENESS AND CUSTOMER PREFERENCE TOWARDS SAFAL EDIBLE OIL <i>DR. S. MURALIDHAR, NOOR AYESHA & SATHISHA .S.D</i>	78
15.	COMPETENCY MAPPING: CUTTING EDGE IN BUSINESS DEVELOPMENT <i>DR. T. SREE LATHA & SAVANAM CHANDRA SEKHAR</i>	89
16.	MANAGEMENT OF SIZE, COST AND EARNINGS OF BANKS: COMPANY LEVEL EVIDENCE FROM INDIA <i>DR. A. VIJAYAKUMAR</i>	92
17.	SELECTION OF MIXED SAMPLING PLAN WITH QSS - 3(n;cN,cT) PLAN AS ATTRIBUTE PLAN INDEXED THROUGH MAPD AND LQL <i>R. SAMPATH KUMAR, M.INDRA & R.RADHAKRISHNAN</i>	98
18.	AN ANALYSIS ON MEASUREMENT OF LIQUIDITY PERFORMANCE OF INDIAN SCHEDULED COMMERCIAL BANKS <i>DR. SAMBHAV GARG, PRIYA JINDAL & DR. BHAVET</i>	102
19.	IMPLEMENTATION OF MULTI AGENT SYSTEMS WITH ONTOLOGY IN DATA MINING <i>VISHAL JAIN, GAGANDEEP SINGH & DR. MAYANK SINGH</i>	108
20.	THE INSTITUTIONAL SET UP FOR THE DEVELOPMENT OF COTTAGE INDUSTRY: A CASE STUDY OF MEGHALAY'S COTTAGE SECTOR <i>MUSHTAQ MOHMAD SOFI & DR. HARSH VARDHAN JHAMB</i>	115
21.	AN EMPIRICAL STUDY ON THE DETERMINANTS OF CALL EUROPEAN OPTION PRICES AND THE VERACITY OF BLACK-SCHOLES MODEL IN INDIAN OPTIONS MARKET <i>BALAJI DK & DR. Y.NAGARAJU</i>	122
22.	FINANCIAL PERFORMANCE EVALUATION OF PRIVATE SECTOR AND PUBLIC SECTOR BANKS IN INDIA: A COMPARATIVE STUDY <i>KUSHALAPPA. S & SHARMILA KUNDER</i>	128
23.	A REQUIRE FOR MAPPING OF HR-MANAGERIAL COMPETENCY TO CONSTRUCT BOTTOM LINE RESULTS <i>DR. P. KANNAN & DR. N. RAGAVAN</i>	133
24.	CORPORATE FRAUD IN INDIA: A PANORAMIC VIEW OF INDIAN FINANCIAL SCENARIO <i>AKHIL GOYAL</i>	136
25.	INCREASING PRESSURE OF INFLATION ON INDIA'S MACROECONOMIC STABILITY: AN OVERVIEW <i>DR. JAYA PALIWAL</i>	140
26.	A STRATEGIC FRAMEWORK FOR MANAGING SELF HELP GROUPS <i>AASIM MIR</i>	145
27.	A STUDY ON HUMAN RESOURCE PLANNING IN HEALTH CARE ORGANIZATIONS <i>S PRAKASH RAO PONNAGANTI & M.MURUGAN</i>	149
28.	IFRS IN INDIA – ISSUES AND CHALLENGES <i>E.RANGAPPA</i>	152
29.	AWARENESS ABOUT FDI MULTI BRAND RETAIL: WITH SPECIAL REFERENCE TO BHAVNAGAR CITY <i>MALHAR TRIVEDI, KIRAN SOLANKI & RAJESH JADAV</i>	155
30.	A STUDY OF CHANGING FEMALE ROLES AND IT'S IMPACT UPON BUYING BEHAVIOUR OF SELECTED HOUSEHOLD DURABLES IN BARODA CITY <i>DEEPA KESHAV BHATIA</i>	159
	REQUEST FOR FEEDBACK	167

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PERFORMANCE ANALYSIS: A STUDY OF PUBLIC SECTOR BANKS IN INDIA**DR. BHAVET****FACULTY****M M INSTITUTE OF MANAGEMENT****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****Email: bhavetgarg@gmail.com****Voice: +91-9896989571****PRIYA JINDAL****FACULTY****DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****DR. SAMBHAV GARG****FACULTY****M M INSTITUTE OF MANAGEMENT****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****Email: jaisiyaramki@gmail.com****Voice: +91-9996009890****ABSTRACT**

A better performance of banking sector is must for a flourishing economy to ensure that growth and development. Since the adoption of Liberalization, Privatization and Globalization in 1991 the banking sector has undergone significant changes. Further, lowering of economic barriers by the majority of other countries is also expected to full the competition and affect the baking's operations. In Indian context, banking sector has always played a significant role in building up the economy of the country and hence its performance is continuously monitored. Its energy and vitality indicate the health and prosperity of the nation. The Indian banking Industry has been dominated by the Public Sector Banks. About 80% of commercial banking at present belongs to the Public Sector Banks. In this study, an attempt has been made to review the performance of banking sector in India during the post reform period. The main objective of this article is to make an evaluation of the financial performance of Indian Public Sector Banks. The performance of a bank is measured by a number of indicators with reference to Deposits, Advances, Total Income, Investment and Net Profit etc. Recommendations and suggestions have been given for improving the performance of Public Sector Banks in India.

KEYWORDS

Financial Sector Reforms, Public Sector Banks, Performance Parameters.

INTRODUCTION

Banking sector being a base of Indian financial system has undergone metamorphic changes over the past three decades. In particular, first phase of reforms was initiated both at micro and macro level in 1991. Financial sector reforms were initiated in India as a part of overall economic reforms. The reforms aimed at creating a more diversified, profitable, efficient and resilient banking system. The blueprint of these reforms was provided by Narasimham Committee Report, during the Parliamentary session of December 17, 1991. The recommendations of the committee touched upon almost all aspects of banking operations against the back drop of problems in front of Indian banks from the forces of Globalization and also from country's banking system. It was followed by the second phase of reforms in 1998 where the main emphasis was to strengthen the banking system against international best practices and standards which will have lasting effects on the entire fabric of Indian financial system. Financial sector have reacted positively in the implementation of these reforms. These reforms have enhanced the overall efficiency and viability of the banks which have resulted in the entry of new players in the field in the form of new generation private sector banks and foreign banks. These banks entered in the market with the high tech and professional capabilities with quality services. The Public Sector Banks with an international presence have forced to reanalyze their performance and approach. After the implementation of reforms and freeing from regulatory clutches, they have improved significantly over the last decade.

OVERVIEW OF INDIAN COMMERCIAL BANKS

India's financial system broadly consists of "non-scheduled Banks" and "scheduled banks". Further, scheduled banks consist of "scheduled commercial banks" and "scheduled cooperative banks". The former are further divided into four categories: (1) Public Sector Banks (that are further classified as "nationalized banks" and the "State Bank of India (SBI) Banks," (2) Private Sector Banks (3) Foreign banks in India (4) regional rural banks. The most active sector of the Indian money market is the commercial banking sector. The majority of commercial banking in India is in the public sector with the State Bank of India and its associate's banks. After liberalization, several Private sector banks and foreign banks were allowed to open their business in the Indian financial system. In terms of business, the public sector banks now have a dominant position. They account for more than 80 percent of the entire banking business in the country. Public Sector Banks are the most important medium for savings, capital mobilization and financial resource allocation. Consequently, these roles make them important in economic growth and development. In performing this role, it must be realized that an efforts must be made to review the performance of banking sector in India during the post reform period.

REVIEW OF LITERATURE

Sogala and Ramasastry (1998) analyzed the trends in excess capacity in the banking sector, during the period from 1992-93 to 1995-96, by comparing the return on earning assets of banks with a minimum threshold return. They noted that excess capacity, as measured by the percentage of banks along with the

percentage of earning assets at sub-optimal level, showed a decreasing trend. It was highest among nationalized banks and lowest among foreign banks. **Das (2002)** developed a model to rank nationalized banks during 1999-2000 and 2000-2001. He covered 17 nationalized banks, excluding the Indian Bank and the UCO Bank. Corporation Bank emerged as the top-most bank, followed by Andhra Bank and Oriental Bank of Commerce (OBC). While, in business performance, Punjab National Bank (PNB) was the top ranker, in efficiency and labour productivity, Corporation Bank was at the top. In terms of safety and soundness, Andhra Bank obtained the highest rank. **Arora and Verma (2005)** analyzed the banking-sector reforms and evaluated the performance of 27 public-sector banks, during the period 1992 to 2003. They considered 31 indicators to measure the growth rate. Their study revealed that Corporation Bank had highest and Indian Bank had the lowest financial parameters. While, UCO Bank scored a negative growth in productivity and profitability parameters, Vijaya Bank scored top in profitability parameters and UBI got the highest rank in productivity parameters. **Dangwal and Kapoor (2010)** evaluated the financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability indices. The data for 19 nationalized banks, for the post-reform period from 2002-03 to 2006-07, was used to calculate the index of spread ratios, burden ratios, and profitability ratio. They found that while four banks had excellent performance, five achieved good performance, four attained fair performance, and six had poor performance. **Jha and Sarangi (2011)** analyzed the performance of seven public-sector and new 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, BOI, PNB, SBI, IDBI, and HDFC, in that order.

OBJECTIVE OF THE STUDY

The main objective of the study is to classify Indian public sector banks on the basis of their financial characteristics and to assess their financial performance with reference to Deposit, Advances, Profit per Employee, Business per Employee and Return on Assets.

RESEARCH METHODOLOGY

Period of the study: The post-reform period of five years has been taken for measuring the financial performance of public sector banks in India. The years selected for analysis are 2008-2012.

Sample size: The study include 20 public sector banks operating in India. It comprises of Nationalized Banks as well as State Bank of India.

Data collection: The data for the accomplishment of the afore mentioned research objectives used was secondary data with a view of evaluating performance and calculating financial ratios. The data was gathered from bank's financial statements as published in their annual reports (2008 to 2012). The data base of Indian Banking Association has also been utilized.

Data Analysis: The following accounting and statistical techniques are used:

- The arithmetic mean of each parameter for bank has been calculated for the period of study.
- Growth Rate in Percentage was calculated for measuring the performance of each Public Sector Bank.

ANALYSIS AND DISCUSSION

DEPOSITS: In general terms money deposits in banks are known as bank deposits. Deposits mobilization gets added attention in a developing country like India where resources mobilization acts as a prime mover of the development process. Expansion of Public Sector Banks deposits has been an important feature in recent years. Planned economic development, deficit financing and increase in currency issue have led to increase in Public Sector Banks deposits. At the same time Public Sector Banks have contributed greatly to the development of banking habit among the people. The deposits pattern of Public Sector Banks is given in Table-1.

TABLE 1: DEPOSITS OF INDIAN PUBLIC SECTOR BANKS (Rs. In Crore)

Banks	2008-09	2009-10	2010-11	2011-12	G.Rate	Average
Allahabad Bank	84971.79	106055.75	131887.16	159593.08	87.81	120626.95
Andhra Bank	59390.02	77688.21	92156.28	105851.22	78.23	83771.43
Bank of Baroda	192396.95	241044.26	305439.48	384871.11	100.04	280937.95
Bank of India	189708.48	229761.94	298885.81	318216.03	67.79	259143.07
Bank of Maharashtra	52254.92	63304.07	66844.74	76528.65	46.45	64733.1
Canara Bank	186892.51	234651.44	293436.64	327053.73	75	260508.58
Central Bank of India	131271.85	162107.47	179356.02	196173.33	49.44	167227.17
Corporation Bank	73983.91	92733.67	116747.5	136142.2	84.01	104901.82
Dena Bank	43050.61	51344.28	64209.62	77166.8	79.25	58942.83
Indian Bank	72581.83	88227.66	105804.18	120803.8	66.44	96854.37
Indian Overseas Bank	100115.89	110794.71	145228.75	178434.18	78.23	133643.38
Oriental Bank of Commerce	98368.85	120257.59	139054.26	155964.92	58.55	128411.41
Punjab & Sind Bank	34675.65	49155.09	59723.19	63123.98	82.04	51669.48
Punjab National Bank	209760.5	249329.8	312898.73	379588.48	81	287894.38
Syndicate Bank	115885.14	117025.79	135596.08	157941.06	36.29	131612.01
UCO Bank	100221.57	122415.55	145277.6	154003.49	53.66	130479.55
Union Bank of India	138702.83	170039.74	202461.29	222868.95	60.68	183518.2
United Bank of India	54535.9	68180.32	77844.8	89116.26	63.41	72419.32
Vijaya Bank	54535.42	61931.75	73248.32	83055.51	52.3	68192.75
State Bank of India	742073.13	804116.23	933932.81	1043647.36	40.64	880942.38

Source: Compiled from the Annual Reports of the Banks

Table 1 shows Total Deposits for all the selected Indian Public Sector Banks from 2007-2008 to 2011-12 and also reveal growth rate thereof based on 2007-08 as base year. It also provided the average of total deposits for various Indian Public Sector Banks. Bank of Baroda shows the highest growth rate in its deposits (100.04%) in 2011-12 comparing with its deposits in 2007-08. State Bank of India shows the highest Average Total Deposits of Rs. 880942.38 Crores.

ADVANCES: Bank credit means the loan (advances) made by the banks to the customers. Credit deployment is the major force through which banks helps in the transformation of saving into capital. This is considered to be the single most important causal factor in the process of economic development with the expansion of bank deposits. There has been continued expansion of bank credit reflecting the rapid expansion of agricultural and industrial output. The data relating to the advances pattern of the Public Sector Banks is presented in Table-2.

TABLE 2: ADVANCES OF INDIAN PUBLIC SECTOR BANKS (Rs. In Crore)

Banks	2008-09	2009-10	2010-11	2011-12	G.Rate	Average
Allahabad Bank	58801.76	71604.87	93624.89	111145.1	89.01	83794.15
Andhra Bank	44139.26	56113.51	71435.36	83641.83	89.5	63832.49
Bank of Baroda	143251.41	175035.29	228676.36	287377.29	100.61	208585.09
Bank of India	142909.37	168490.71	213096.18	248833.34	74.12	193332.4
Bank of Maharashtra	34290.77	40314.7	46880.77	56059.76	63.45	44386.5
Canara Bank	138219.4	169334.63	211268.29	232489.82	68.2	187828.03
Central Bank of India	85483.2	105383.49	129725.41	147512.85	72.56	117026.24
Corporation Bank	48512.16	63202.56	86850.4	100469.02	107.1	74758.54
Dena Bank	28877.54	35462.44	44828.05	56692.54	96.32	41465.14
Indian Bank	51396.54	62146.13	75249.91	90323.6	75.74	69779.04
Indian Overseas Bank	74885.27	79003.93	111832.98	140724.44	87.92	101611.67
Oriental Bank of Commerce	68500.37	83489.3	95908.22	111977.69	63.47	89968.9
Punjab & Sind Bank	24615.35	32639.11	42637.85	46151.41	87.49	36510.93
Punjab National Bank	154702.99	186601.21	242106.67	293774.76	89.9	219296.41
Syndicate Bank	81532.27	90406.36	106781.92	123620.18	51.62	100585.18
UCO Bank	68803.86	82504.53	99070.81	115540.01	67.93	91479.8
Union Bank of India	96534.23	119315.3	150986.08	177882.08	84.27	136179.42
United Bank of India	35393.55	42330.04	53502.44	63043.29	78.12	48567.33
Vijaya Bank	35467.67	41521.72	48718.63	57903.74	63.26	45902.94
State Bank of India	542503.2	631914.14	756719.45	867578.89	59.92	699678.92

Source: Compiled from the Annual Reports of the Banks

Table 2 Shows Total Credits, Growth Rate of credits and the average of total credits during 2007-08 to 2011-12 for the selected Public Sector Banks in India. State Bank of India has the highest average total credits of Rs. 699678.92 crores. Despite its State Bank of India has the lowest Growth Rate (59.92%) in its total credit. Therefore, it indicates that the bank with good growth rate of total credits during the study period does not always mean having the highest average of total credits.

INVESTMENT: Investment as a window of deployment of funds was given more emphasis than lending. Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. "Investment is made in assets. Assets in all are of two types- real assets (land, building, factories etc.) and financial assets (stock, bond, etc.). Highly developed financial institutions greatly facilitate real investment. "Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income" (Delhi Stock exchange 2002). The data relating to Investment of the Public Sector Banks is presented in Table-3.

TABLE 3: INVESTMENT OF INDIAN PUBLIC SECTOR BANKS (Rs. In Crore)

Banks	2008-09	2009-10	2010-11	2011-12	G.Rate	Average
Allahabad Bank	29651.05	38428.62	43247.06	54283.24	83.07	41402.49
Andhra Bank	16911.11	20881	24204	29628.9	75.2	22906.25
Bank of Baroda	52445.88	61182.38	71396.5	83209.4	58.66	67058.54
Bank of India	52607.18	67080.18	85872.42	86753.59	64.91	73078.34
Bank of Maharashtra	18382.14	21323.85	22491.08	22911.36	24.64	21277.1
Canara Bank	57776.9	69676.95	83636.02	102057.43	76.64	78286.83
Central Bank of India	43060.72	50562.87	54504.49	59243.27	37.58	51842.84
Corporation Bank	24937.77	34522.63	43452.74	47474.63	90.37	37596.94
Dena Bank	12473.08	15694.23	18768.91	23027.65	84.62	17490.97
Indian Bank	22800.57	28268.33	34783.76	37976.03	66.56	30957.17
Indian Overseas Bank	31215.44	37650.56	48610.45	55565.88	78.01	43260.58
Oriental Bank of Commerce	28488.95	35785.32	49545.41	52101.33	82.88	41480.25
Punjab & Sind Bank	12627.43	17886.84	18643.65	20064.13	58.89	17305.51
Punjab National Bank	63385.18	77724.47	95162.35	122629.47	93.47	89725.37
Syndicate Bank	30537.23	33010.93	35067.62	40815.06	33.66	34857.71
UCO Bank	29384.78	43521.43	42927.28	45771.5	55.77	40401.25
Union Bank of India	42996.96	54403.53	58399.14	62363.56	45.04	54540.8
United Bank of India	17924.21	26067.74	26258.95	29058.8	62.12	24827.42
Vijaya Bank	17387.7	21107.45	25138.58	28643.8	64.74	23069.38
State Bank of India	275953.96	285790.07	295600.57	312197.61	13.13	293285.55

Source: Compiled from the Annual Reports of the Banks

Table 3 shows That Punjab National Bank has the highest growth rate in its investment (93.47%) in 2011-2012 comparing with its investment in 2007-08 as well as it has the second highest average of Rs. 89725.37 in Crore. On the other hand State Bank of India has the highest average of total investment of Rs. 293285.55 crore.

TOTAL INCOME: Banks borrow money in the form of deposits and lend money as advances (loans) to the needy borrowers. Their main income is therefore, interest income. Interest Income of banks depends on the size of the asset portfolio, the rate of interest and the percentage of standard performing assets, i.e. the earning assets. It consists of: Interest on advances, discount on bills and Income on investments, etc. Non-interest income of banks arises from sources other than money lent. It comprises of- Commission, exchange, brokerage, Profit on sale of investment, Profit on sale of land, buildings and other assets and Profits on Foreign exchange transaction. Total Income pattern of Public Sector Banks is given in Table-4.

TABLE 4: TOTAL INCOME OF INDIAN PUBLIC SECTOR BANKS (Rs. In Crore)

Banks	2008-09	2009-10	2010-11	2011-12	G.Rate	Average
Allahabad Bank	8506.65	9885.1	12385.1	16821	97.74	11899.46
Andhra Bank	6140	7337.49	9188.23	12198.66	98.68	8716.01
Bank of Baroda	17849.24	19504.7	24695.1	33096.05	85.42	23786.27
Bank of India	19399.22	20494.62	24393.5	31801.84	63.94	24022.3
Bank of Maharashtra	4791.58	5326.81	6093.95	7854.63	63.93	6016.74
Canara Bank	19430.27	21609.86	25751.53	33778.22	73.84	25142.47
Central Bank of India	11525.16	13799.55	16485.61	20544.8	78.26	15588.78
Corporation Bank	7174.57	8481.03	10391.13	14510.4	102.25	10139.28
Dena Bank	3877.62	4598.99	5567.37	7376.3	90.23	5355.07
Indian Bank	7865.77	9030.78	10542.92	13463.48	71.17	10225.74
Indian Overseas Bank	11237.23	11389.03	13326.57	19578.13	74.23	13882.74
Oriental Bank of Commerce	9927.79	11475.17	13047.89	17055.13	71.8	12876.5
Punjab & Sind Bank	3654.86	4345.98	5369.59	6891.96	88.57	5065.6
Punjab National Bank	22191.9	25032.22	30599.06	40630.63	83.08	29613.45
Syndicate Bank	10440.01	11214.64	12365.98	16344.23	56.55	12519.22
UCO Bank	9141.28	10492.55	12296.22	15597.93	70.63	11881.99
Union Bank of India	13371.93	15277.42	18491.4	23476.66	75.57	17654.35
United Bank of India	4802.73	5807.68	6978.51	8694	81.02	6570.73
Vijaya Bank	5936.64	5880.1	6377.25	8516.03	43.45	6677.51
State Bank of India	76479.22	85962.07	97218.96	120872.9	58.04	95133.29

Table 4. Shows that Vijaya Bank has the lowest growth rate (43.45%). On the other hand State Bank of India has the second lowest growth rate (58.04%) with the highest average of total income i.e. 95133.29 Rs. in Crore.

NET PROFIT: Profit is a financial measure of a firm's operations during a period. It is the difference between the income earned and the expenditure incurred to earn it during the period. It is, therefore, called the 'Net Result'. It is an accounting entity where-

Profit= Income- Expenditure. The balance of operating profit after the provisions and contingencies is known as net profit. Net Profit mainly depends upon productivity of the bank and growth of profit per employee. The data relating to Net Profit of Public Sector Banks are given in Table-5.

TABLE 5: NET PROFIT OF THE INDIAN PUBLIC SECTOR BANKS (Rs. in Crore)

Banks	2008-09	2009-10	2010-11	2011-12	G.RATE	Average
Allahabad Bank	768.6	1206.33	1423.11	1866.79	142.88	1316.21
Andhra Bank	653.05	1045.85	1267.07	1344.67	105.91	1077.66
Bank of Baroda	2227.2	3058.33	4241.68	5006.96	124.81	3633.54
Bank of India	3007.35	1741.07	2488.71	2677.52	-10.97	2478.66
Bank of Maharashtra	375.17	439.58	330.39	430.83	14.84	394.1
Canara Bank	2072.42	3021.43	4025.89	3282.71	58.4	3100.61
Central Bank of India	571.24	1058.23	1252.41	533.04	-6.68	853.73
Corporation Bank	892.77	1170.25	1413.27	1506.04	68.7	1245.58
Dena Bank	422.66	511.25	611.63	803.14	90.02	587.17
Indian Bank	1245.32	1554.99	1714.07	1746.97	40.28	1565.34
Indian Overseas Bank	1325.79	706.96	1072.54	1050.13	-20.79	1038.36
Oriental Bank of Commerce	890.42	1134.68	1502.87	1141.56	28.2	1167.38
Punjab & Sind Bank	431.18	508.8	526.17	451.29	4.66	479.36
Punjab National Bank	3090.88	3905.36	4433.5	4884.2	58.02	4078.49
Syndicate Bank	912.82	813.32	1047.95	1313.39	43.88	1021.87
UCO Bank	557.72	1012.19	906.54	1108.67	98.78	896.28
Union Bank of India	1726.55	2074.92	2081.95	1787.3	3.51	1917.68
United Bank of India	184.71	322.36	523.97	632.53	242.44	415.89
Vijaya Bank	262.48	507.3	523.82	581	121.35	468.65
State Bank of India	9121.23	9166.05	8264.52	11707.29	28.35	9564.77

Source: Compiled from the Annual Reports of the Banks

Table-5 shows that Punjab National Bank has the highest growth rate (242.44%) followed by Allahabad Bank (142.88%). On the other hand, State Bank of India has the highest Average during the study period.

RECOMMENDATIONS TO IMPROVE THE PERFORMANCE OF PSBs

The forgoing analysis reveals that through there is a Phenomenal development in the performance, still public sector banks lagging behind some major thrust areas. Some recommendations to improve the performance of public sector banks are given below:

- TECHNOLOGY:** In a deregulated environment, managing a wide range of products on shrinking margin create a fiercely competitive environment and new challenges. In this context, technology will be the key to reduce transaction cost, offering customized products and managing risk. Foreign sector banks and private sector banks have competitive edge in terms of updated technology and infrastructure which is easy and ready to be adapted from the beginning to operation. Our Public Sector Banks are lagging behind in technology when we compare them with their counterparts.
- COMPETITION:** Due to LPG, the banks are facing a severe competition. To stay ahead in the race, therefore, banks will have to leverage technology development as well as developing sophisticated financial products. Public sector banks in particular will have to develop new tech-savvy products to beat the competition.
- EFFECTIVE HANDLING OF NPAs:** For effective handlings of NPAs there is an urgent need that public sector banks should improve the quality of their appraisal for loan proposals. Further, they should also strengthen their loan monitoring system. More importance should be given to actual verification of the information provided.
- ISSUE OF HRM:** Human resources development is a crucial factor which can play a vital role in increasing business per employee and profit per employee. Training, development and retraining is a major emerging challenge before the Public sector banks. Public sector banks should make proper policies for training, developing and retraining to the new and old employees. More and more training cells should be organized with highly skilled and having friendly staff to learn new techniques.

5. **CHECK ON OPERATING COST:** High operating cost is a major hurdle impacting the profitability of public sector banks. The financial position of public sector banks can be enhanced by keeping a control on operating cost through higher labour productivity, updated technology, low cost funds and restructuring of unremunerating branches.

CONCLUSION

In order to ensure the sustainable development of the banking sector, it is imperative to initiate some concrete actions. Application of recent technology in public sector banks, debt recovery mechanism, and improved manpower skills could be some way outs for improving the financial performance of the sector. Public sector banks are needed to devise innovative ways of responding to the evolving challenges. So, in the era of liberalization and globalization, the banks should adopt the latest framework as per the Basel-III Accord, and evolve cost- reduction strategies and should venture into integrated banking services. Further, to ensure the resilience of the banking sector and to avoid the volatility of other sector banks more stringent provisions may be enacted. This study may help the decision makers of Indian Public sector banks and other categories of banks in Indian Banking sector to concentrate on banking activities and thereby to increase the bank ranking and financial performance of the banks. It may help the management in formulating appropriate strategies for achievement of objectives.

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