The name 'bank' is usually used in the sense of commercial banks. The word 'bank' seems to have originated from the German word 'banck' which means a joint stock fund or heap. It is possible that the word has also been derived from the "French word 'banque' and the Italian word 'banco'.

The Italian word 'banco' refers to a bench at which the money changers or medieval bankers used to change one kind of money into another to transact their banking business. Thus, the early banking was associated with the business of money changing. "The first public banking institution was the Bank of Venice, founded in 1157. The Bank of Barcelona and the Bank of Genoa were established in 1401 and 1407 respectively". These banks are regarded as the recognized forerunners of modern commercial banks. Exchange banking was developed after the installation of the Bank of Amsterdam in 1609 and Bank of Hamburg in 1690. The credit for laying the foundation of modern banking in England goes to the Lombard's of Italy who had migrated to other European countries. The bankers of Lombard developed the money lending business in England. "The Bank of
England was established in 1694. The development of joint stock commercial banking started functioning in 1833. The modern banking system actually developed in the nineteenth century. "In India, the first modern bank, 'Bank of Bengal' was established in 1806 in the Bengal presidency".

**DEFINITION OF BANK:**

On account of multifarious activities of modern banks, the 'Bank' or 'Banking' has been defined by several economists as follows:

Dr. L. Herber and L. Hart define the banker, "as one who in the ordinary course of business honours cheques drawn upon him by persons from and for whom he receives money on current accounts".

Chamber's Twentieth century Dictionary defines a bank as an, "institution for the keeping, lending and exchanging etc. of money".

According to Crowther, "The banker's business is to take the debts of other people to offer his own in exchange, and thereby create money".

It is evident from the above definitions that a bank is an institution which accepts deposits from the public and in turn advances loans by creating credit.
COMMERCIAL BANKS:

A commercial bank is an institution that operates for profit. The traditional functions of a commercial bank relate to the acceptance of deposits from the public and provision of credit to different sectors of the economy.

However, with the evolution of modern banking and growth of banking system as an integral part of the national economy, there has been a perceptible change in the attitude and outlook of the commercial banks. These banks have started providing a host of banking services to their customers.

Nevertheless, the basic character of commercial banking remains unchanged. In the early days, commercial banks were organized as a joint stock company to earn profit. They cater to the needs of short-term, medium term credit and provide capital to businessmen and industrialists. In the present scenario, the banks lend long term funds to businessmen and industrialists.

Structure of Commercial Banks:

The following figure represents the structure of commercial banks in the country.\textsuperscript{8}
Commercial banks can be divided into two main categories as mentioned below:

1. **Scheduled banks**:

   (1) Scheduled banks:

   (2) Non-scheduled banks.

2. **Scheduled Banks**:

   A scheduled bank is so called because it has been included in the Second Schedule of the Reserve Bank of India Act 1934. To be included in the schedule, a bank must satisfy the following three conditions:
(i) it must have a paid-up capital and reserves of an aggregate value of at least Rs. 5 lakhs:

(ii) it must satisfy the Reserve Bank that its affairs are not conducted in a manner detrimental to the interest of its depositors; and

(iii) it must be a corporation or co-operative society and not a partnership or a single owner firm.

"The commercial banking system in India consisted of 297 scheduled banks (including foreign banks) and one non-scheduled bank at the end of December 2000. Of the scheduled banks, 223 are in public sector and these account for about 82% of the deposits of all scheduled banks".  

2. **Non-Scheduled Banks:**

Banks whose names do not figure in the Second Schedule of the Reserve Bank of India Act are non-scheduled banks. These banks are also subject to the statutory cash reserve requirements. But unlike scheduled banks, they are not required to keep them with the Reserve Bank of India. The categories of non-scheduled banks are on the way out. Their number was 16 in June 1969 which has decreased to 1 only on June, 1997.
The share of Non-Scheduled Banks (NSBs) has been declining progressively over the years. It has become almost nil is recent times.

Scheduled banks can be further categorised into

(a) Indian banks
(b) Foreign banks.

Indian Banks:

Indian banks are those banks which are registered or incorporated in the country. These banks are the dominant segment of total commercial banks and have their presence in every nook and corner of the country. Indian banks can be categorised into:

(1) Public Sector Banks;
(2) Private Sector Banks.

1. Public Sector Banks:

Public sector banks dominate commercial banking of India. The Government of India entered commercial banking when it took over the Imperial Bank of India in 1955 and converted it into the State Bank of India on 1 July 1955. Presently the State Bank of India has seven subsidiary banks. These banks are
collectively known as the State Bank Group. It is notable to disserve that the State Bank of India at no stage was wholly owned by the Government of India.

In July 1969, the Government of India took an important step of nationalising 14 large banks. In April 1980, six more banks were nationalised increasing the number of nationalised banks to 20.

In view of the recommendations in second report (1998) of Narasimhan Committee, some mergers or closures of banks may take place in future.

Public sector banks are further classified into:

(i) State Bank of India
(ii) Nationalised Banks
(iii) Regional Rural Banks.

State Bank of India:

The public sector commercial banking in India started with setting up of State Bank of India, in 1955, by taking over the Imperial Bank of India. In next 5 years the princely states banks were made associate banks of the State Bank of India. These banks taken together are known as State Bank of India Group or SBI Group.
Nationalised Banks:

Another important step towards public sector banking was taken in July 1969, when 14 banks with a deposit base of Rs. 50 crores or more were nationalised. Again in 1980, six more private sector banks were nationalised bringing up the total number of banks nationalised to twenty.

Out of these banks in 1993-94, New Bank of India was merged with Punjab National Bank.

Regional Rural Banks (RRB's)

Regional Rural Banks were set up on the recommendations of a working group headed by M. Narasimham in 1975. The objective was to provide credit and other facilities to small and marginal farmers, agricultural labourers and artisans. The need was felt as commercial banks and co-operative banks were not able to serve these segments adequately. These banks are the third component of the multi-agency credit system for agriculture sector. There are regional banks with rural orientation. These are scheduled banks which are being governed by Regional Rural Banks Act, 1976.

Private Sector Banks:

In the post independence period, it was noticed that the private sector banks controlled by industrial houses or business houses were ignoring the rural areas and agricultural sector.
In accordance with the recommendations and as an attempt to deregulate the banking industry, the Reserve Bank of India, in January 1993, announced guidelines for entry of new commercial banks. For the first time in five decades, the banking policy for starting new private sector banks was framed.

The role of private sector banks will become more important, noteworthy and catalytic as most of them are backed by established financial institutions.

**FUNCTIONS OF COMMERCIAL BANKS:**

The various functions performed by commercial banks can be classified as follows:

1. Commercial banks accept deposits by mobilizing the savings of the people. In the form of (a) Saving deposits, (b) Demand deposits, (c) Fixed deposit.

2. Banks adopt several ways for granting loans and advances.
   "These operations take different forms (a) Cash credit, (b) Provision of overdraft facilities, (c) Discounting bills of exchange".\(^{10}\)

3. Every loan sanctioned by the banker creates a deposit. When a bank sanctions loan to a customer, an account is opened in his name and the loan amount is credited into
his account. The borrower withdraws money whenever the amount is required. The creation of such deposits leads to increase in the money stock of the economy and through its circulation creates new money.

4. Other important functions performed by the commercial banks are "(a) Transfer of funds, (b) Agency functions, (c) General utility services."

**INDIAN BANKING SECTOR:**

The banking sector is an important component of the growth equation in any economy. Time and history has shown that a weak banking sector has led to the collapse of entire economy.

Banks play a positive role in development of a country as repositories of community's savings and purveyors of credit. Indian Banking has aided the economic development during the last sixty years (1949-2009) in an effective ways. The banking sector has shown remarkable responsiveness to the needs of planned economy. It has brought about a considerable progress in its efforts at deposit mobilisation and has taken a number of measures in the recent past in accelerating the rate of growth of deposits. As a recourse of this, the commercial banks have
opened a number of branches in urban semi-urban and rural areas. Banks have introduced a number of accelerative schemes to foster economic development.

The activities of commercial banking have grown in multi-directional ways as well as in multi-dimensional manner. Banks have been playing a catalyst role in area development, backward area development, extended assistance to rural development helping agriculture, industry, international trade in a significant manner. Hence, commercial banks have emerged as the key financial agencies for rapid economic development.

"Banks in India started on the British pattern in the beginning of the 19th century". During that period, all the banks were working as joint stock company and were governed by the companies law. Banks are socially classified into those that statutory as those that are based on the area of their operations.

"The scheduled commercial banks in the country comprise the State Bank of India and its associates banks (8), the nationalized banks (19), private sector banks (29), regional rural banks (196) and foreign banks (44)."

The Indian banking sector in pre-liberalization Era can be divided into various part for academic interest. The beginning of
the modern commercial banking in India was made with the establishment of the Bank of Bengal in 1806 to liberalization of Economy.

Evolutions of Banking Sector In India (From 1806 To 1934):

"Indian banking was established in the nineteenth century with the establishment of three presidency Banks, namely the Bank of Bengal (1806), the Bank of Bombay (1840), and the Bank of Madras (1846)". During the second half of the 19th Century, few exchange banks and Indian Joint stock banks were set up. In 1900, there were nine Indian Joint Stock banks, eight exchange banks, and three Presidency Banks. "The aggregate private deposits was Rs. 3146 lakh in 1900, the shares of each of these banks were respectively 25.68 percent, 33.38 percent and 40.94 percent". The slow rate of the banking business till the beginning of the present century can be attributed to:

(a) A high rate of failure of the banks, because most of them had been created in speculative rush.

(b) Stagnant economic condition during the period.

(c) A decline in price.

(d) The passing of the currency Act, 1861 which took away the power of banks to issue notes.
Establishment of RBI Act 1934 to Nationalization (1935 to 1969):  

During the first half of 21st century, the banking sector progressed rapidly. "The deposits in banks increased from Rs. 82 crore in 1910 to Rs. 957 crore in 1948". Except during the depression of the 1930s, the rate of economic progress was quite high during this period. In 1921, the three presidency Banks were amalgamated to form the Imperial Banks of India (IBI). Before 1935 the IBI functioned as a quasi-central banks. The Reserve Bank of India (RBI) was established in 1935 as a central bank of India. After establishing RBI, the IBI continued to act agent of RBI and as a banker for other banks (to a very limited extent). It used to discount Hundies and grant demand loans against government securities. All these functions were performed by the State Bank of India (SBI), and the special position of SBI in the banking system today.

Around 1950, the banking sector in India comprised the RBI, IBI, cooperative banks, exchange banks, and Indian joint stock banks. "Indian joint stock banks were divided into four classes, according to the amount of paid up capital and reserves held by them. Class A had Rs. 5 lakh and over; class B (Rs. 1 lakh and over but not more than Rs. 5 lakh); class C (Rs. 50,000 and over but not more than Rs. 1 lakh); and class D (less than Rs. 50,000)".
After the creation of RBI, banks were divided into scheduled and non-scheduled banks. Class A banks, which became scheduled banks were as class A. banks; while other came to be known as class A2 banks.

**Table-1.1 Structure of Commercial Banks in 1950**

<table>
<thead>
<tr>
<th>Category of Banks</th>
<th>No. of Banks</th>
<th>Deposits (Rs. Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. All banks</td>
<td>1205</td>
<td>1,30,428</td>
</tr>
<tr>
<td>2. Commercial Banks</td>
<td>605</td>
<td>1,00,217</td>
</tr>
<tr>
<td>3. Indian Joint stock banks</td>
<td>584</td>
<td>82,217</td>
</tr>
<tr>
<td>4. Imperial Banks</td>
<td>1</td>
<td>23,164</td>
</tr>
<tr>
<td>5 (a) Class A1 banks</td>
<td>74</td>
<td>52,270</td>
</tr>
<tr>
<td>(b) Class A2 banks</td>
<td>73</td>
<td>4,659</td>
</tr>
<tr>
<td>(c) Class B banks</td>
<td>189</td>
<td>2,176</td>
</tr>
<tr>
<td>(d) Class C banks</td>
<td>123</td>
<td>370</td>
</tr>
<tr>
<td>(e) Class D banks</td>
<td>124</td>
<td>131</td>
</tr>
<tr>
<td>6. Exchange banks</td>
<td>15</td>
<td>17039</td>
</tr>
</tbody>
</table>

Source: RBI, Banking and Monetary. Statistics in India, Bombay. 1954

Under the Reserve Bank of India Act, 1934 banking companies incorporated in India should have minimum paid-up capital and reserve - Rs. 5 lakh if a bank has offices in more than one state and Rs. 10 lakh if it has branches in Mumbai and Kolkata on both.

These conditions were fixed in the 1930's if those who fulfilled these conditions were banks as the scheduled banks and those which did not fulfill were non scheduled banks. RBI, therefore speaks of all:

**(a) Schedule Commercial Banks:**

Public sector banks and foreign banks are included.
(b) **Scheduled Banks:**

In this category we include cooperative banks along with commercial banks.

(c) **Public Sector Banks:**

In this category only banks which are associated with the Government are included. It can be divided in two parts:

(i) State banks of India and its seven associates banks known as state bank of Group;

(ii) "Nationalized banks - 19 in number". 18

**Priority Sector Lending:**

Before 1969, commercial banks had completely neglected agriculture on the other ground that rural credit was to be undertaken by co-operative credit societies and co-operative banks. According by they remained largely indifferent to the credit needs of farmers for agricultural operations and for land improvement. This was regarded as a major reason for failure of economic planning in the country. At the same time, as the commercial banks were owned and controlled by big industrialists before nationalization, small industrial units and business organisations were ignored by banks.

After nationalization, the commercial banks were required to take special concern with the financing of priority sectors, viz.,
agriculture, small scale industries and small transport operators. In with the passage of time, other priority sectors were also added, like retail trade, professionals and consumption loans.

"In 1980, RBI issued certain directives to the commercial banks regarding priority sector lending and expected their co-operation and compliance".19

(a) Priority sector advances should constitute 40 percent of aggregate bank credit.

(b) Out of priority sector advances, at least 18% should be allocated to agriculture;

(c) Direct advances in agriculture and allied activities in rural areas should form at least 50% of total direct lending to agriculture; and

(d) "Bank credit to rural artisans, village craftsmen and cottage industries should at least be 12.5% of the total advances to small scale industries".20

**NATIONALIZATION OF BANKS IN INDIA:**

The nationalisation of Bank in India took place in 1969 by Mrs. Indira Gandhi, the Prime Minister then. Twenty-eight big banks were to be nationalized in four stages. "The State Bank of..."
India and its 7 associates Banks in 01-07-1955, 14 banks on 19-07-1969 and 6 banks on 15.04.1980 were nationalised. With the merger of these banks there are at present 27 banks in the public sector”.21

"The primary objective of bank nationalization in 1969 was to spread banking infrastructure in rural areas to make available cheap finance to Indian farmers”.22 Pursuant to the nationalization, the banking sector became dominate by a plethora of rules and regulations.

**Causes of Nationalization of Banks:**

"After the Independence the banking sector is facing a lot of problem due ownership during 1913-48 about 1100 banks failed”.23 The banks unable to fulfill the objective of the banks it is only concentrating on profit without taking the social responsibility. According to banking companies Act. 1970, the aim of nationalization of banks in India's "to control the heights of the economy and to meet progressively the needs of development of the economy in conformity with national policy and objectives" The main causes of nationalization of banks are:

1. **To avoid ownership and control of few:**

"According to an unpublished reserve bank sample survey,
at the end of 1965, of the total equity capital of Rs. 21.4 crores, out of its 33 accounts holders kept the 40% of the share and in rest of 60% there was more than 88,000 accounts." The Indian banks were owned and controlled by a few big shareholders. They generally influenced the pattern of allocation of bank credit in accordance with their own interests. The nationalization of banks would hence bring banks under the control of the government for meeting the general interest of the public.

2. **Concentration of wealth and power from few hands to public Interest:**

"According to a survey conducted, in mid-sixties, 70% of total industrial advances went to only one percent of the total number of borrowed each with credit and standing of over Rs. 5 lakh." This indicates the concentration of wealth and power in few hands. In general public interest, it was necessary for the interference of government.

3. **To Minimize Speculative Activities:**

"Before 1969, the banks maximum funds were used for hoarding and speculative purposes". The reason could be the huge profits in anti social affirm. Such misappropriation of bank resource would be controlled through the nationalization of banks.
4. **To Avoid Discrimination Against Small Business:**

Small businesses were not able to approach to Indian banks for meeting their credit needs and were usually discriminated against providing the finance to large industries. "Nationalization was the option in order to extend financial help to the small business units".\(^{27}\)

5. **Safety of Deposits:**

"Nationalization will provide 100% safety to the deposits of the public"\(^{28}\) which will inspire public confidence in the banking system and thus increase the banks deposits.

6. **To Eliminate Indifference to Agricultural Sector:**

The agriculture is the backbone of Indian Economy which was almost ignored by the Indian banks. Majority of the banks and their branches existed in the urban areas and were catering the needs of the industry and trade. "Nationalization of banks was hoped to contribute to the development of agriculture".\(^{29}\)

7. **Financing Economic Plans:**

"There was a need for the providing resources to the government for financing economic plans of the country".\(^{30}\) It is possible by the banks only after the nationalization of the banks etc.
NEED OF THE STUDY:

The banking sector plays a pivotal role in any economy for they provide the flow of funds to the various sector. The Indian banking sector has played an important role in the economic development of the country. With the passage of time they have traveled a long journey and have face tremendous challenges in their operation. With the era of globalization and with the emergence of banking sector reforms, Indian banks started operating in public, private & foreign collaboration. These new entries had brought technology, new banking culture, innovative products, mergers and amalgamations.

Thus there is a need to study the financial performance of the banks in the post liberalization period.

OBJECTIVE OF THE PRESENT RESEARCH:

The objectives of the present research are:-

1. To study the financial performance of public and private sector banks in Post Liberalization era.

2. To study the financial performance of SBI & ICICI Bank using CAMEL model.

3. To understand the financial performance of the Indian banks.

4. To describe the CAMEL model of ranking.
5. To analyse the performance of Indian Banks through CAMEL model and give suggestions for improvement if necessary.

HYPOTHESIS:

Hypothesis are assumption which are made to validate the objective. The hypothesis to be tested in the present research are:-

1. Financial performance of Private Sector Bank is better than Public Sector Bank in post liberalization era.

2. Performance of Private Sector Bank is better than Public Sector Banks through CAMEL model approach.

SAMPLE SELECTION:

The sample selections for the research work consist of one public sector bank namely State Bank of India and one of the private sector bank i.e. Industrial Credit and Investment Corporation bank. The research work involves purposive sampling. The purpose of selecting these banks were that they are the top bank with regard to investment, advances, deposits and assets.

DATA COLLECTION:

Any information which is useful is called data. The research work consists of secondary data.
The secondary data is based on information from annual reports, banking journals, research journals, periodicals, newspapers and websites.

**ANALYSIS OF DATA:**

The analysis of the secondary data in done by the application of CAMEL model.

**PERIOD OF RESEARCH:**

Since the study in related to the banking sector to the post liberalization period. The present research work relate to the financial performance public and the private sector banks for the period of 2000 to 2009.

**TYPES OF RESEARCH:**

The research work is analytical in nature as for it is based on secondary data only.

**SCOPE OF STUDY:**

The performance of banking sector especially in the post liberalization period has seen vast changes. It is in this aspect. That the present study will provide an in-depth analysis of financial performance of both public sectors and private sector banks operation in India.

The research work would be of immense help to the managers, top-level financial experts, academician and the researches who are continuously striving for bringing about excellence in the banking sector.
REVIEW OF LITERATURE:

The number of studies have been conducted by eminent scholar in both National and International Journals regarding the financial performance of Indian banks in pre and post liberalization era. Some of the profound literature that could be put down in this research which can provide a glimpse of work done by them. This will also provide have insight of research in this thesis.

In the paper entitled "Relative Efficiency of Indian Commercial Banks" the authors have investigated the nature and extent of relative Technical efficiency in Indian Commercial banks from 1990-2008.

The authors have used the value addition approach and income approach to study the technical efficiency of Indian Bank. The results indicate that majority of commercial banks are good performers in terms of income approach. With entry of private banks. It was observed that their efficiency were far better than public sector bank in the post liberalization period. The efficiency of banks have reduced to their previous period.

The paper entitled "Liquidity Management of the Indian Banks" in-depth knowledge of liquid management in Indian banks. The authors observed that though Indian banks have increasing current ratio but still they have in sufficient liquid.
The Indian banks increase ratio indicates that the banks have increasing margin of safety, increase high current ratio etc. The bank balances and money at short notice and advances has strong degree of association with liquidity and cash balances with Reserve Bank of India.

In the paper titled "Banking Sector Development in India 1980-2005" the author have underlined the trends in banking from 1980-2005, covering pre & post reform period. The study has clearly brought out the positive effects of reform measure in the banking industry in general.

A comparative analysis of various bank groups with respect of different variables have been considered in the study. The pace of reform process is recent time is the cause of concern and criticism, but there seems to be a great wisdom in this gradualism.

In the paper entitled "Financial Sector Reforms and Bank Efficiency in India" the author have studied the efficiency of public, private and foreign banks operating in India. The parameter that is considered analysing deficiency ownership, competition in profitability, spread, and productivity.

The author concluded that private sector banks showed significant gains relative to public sector banks in terms of profitability. They were of opinion that public sector banks have
million of the success to achieve to Indian private sector in assets and cost management, if the stated policy objective of high efficiency and profitability have to be achieved in future.

The paper "Technical Efficiency and its decomposition in Indian Banks in Post Liberalisation Era"\textsuperscript{35} examines the competitiveness of Indian commercial bank from 1996-2002. The author was of opinion that bank profit increased and interest margin decrease during the year 1990-2002.

The results indicate that there is an increase in technical efficiency and scale efficiency in most of the banks. Increasing asset quality and priority sector lending can improve scale efficiency. The foreign banks being new private banks showed most productive scale size due to their technological advancement.

The paper "Performance and Profitability of Indian Banks in Post Liberalization Period"\textsuperscript{36} investigates efficiency of Indian Banks since 1990. The study examines the long run impact of reform in liberalization on individual banks and efficiency and profitability.

The author was of the opinion that foreign banks were the most efficient, followed by new private banks while the efficiency of all banks increased over the reform period. The nationalized
banks have registered the strongest gain which reflect inclusion of new capital and increasing competition, which the banks have seen recent year.

The paper "Size Efficiency and Financial Reforms in Indian Banks"\(^{37}\) analyzed the cost structure in Indian banking focusing on the issue of economic size and cost efficiency. The author expressed and opinioned that most of Indian Banks are operating at scales before the optimum size. They viewed that further emphasis on branch expansion is not desirable in hence there is a need for significant mergers and amalgamation in future.

The author in "Banking Sector Reforms in India and Overview"\(^{38}\) was of the view that in the current scenario banks are consistent pushing the formation of risk management, arising out of increasing competition as well. Agency problem between management, ownership and stakeholders are inducing banks to look for new sources of revenue and at the same time reducing cost.

The author opined that consolidation, competition, and risk management are critical to the future of banking but governance and financial inclusion emerge as key issues for Indian banking at the stage of socio-economic stage.

The present study is divided into six chapters along with comprehensive bibliography.
The first chapter begins with introduction, provide a glimpse of the evolution and growth of Indian banking. The chapter provides an insight into the causes and need of nationalization of Indian Banks. As the economic development, it started with the introduction of economic reforms. The Indian Banking Sector needed the reforms. The Narsimham committee was formed for this purpose to provide the guideline for its development.

The second chapter discusses the need, causes and impact of reform in the Indian banking sector. The chapter studies the various committees which were formed to provide guidelines so that the Indian banks operating in public, private and foreign sector may work in a conducive environment.

The third chapter elaborates on the profile of the samples selected for the research. The chapter focuses on the financial aspect relating to the capital, assets, liabilities, number of branches, capital adequacy and technology.

The fourth chapter studies the financial performance of State Bank of India and Industrial Credit and Investment Corporation of India. The financial performance of two sample has been analysed by the application of CAMEL model. The parameters that are considered in analyzing the financial performance are net profit, return on investment, return on assets, earning per share, return of net worth etc. The above
parameter plays a significant role in analyzing the financial performance of banking sector with the application of CAMEL model.

The fifth chapter provides the findings derived from the analysis of primary and secondary data.

The last chapter makes an attempt to provide suggestions which may be helpful to the management and the companies operating in banking sector. The chapter incorporates the conclusive result of the research work being done.
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