A CRITICAL ANALYSIS OF THE LOANS AND ADVANCES OF THE PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT

The loans and advances granted by the public sector banks (PSBs) are highly beneficial to individuals, firms, companies, industrial concerns and so on. The growth and diversification of business activities are effected to a large extent through bank financing. The purpose of loans and advances granted by the banks help in meeting short-term and long term financial needs. The public sector banks have played a crucial role in the development of the business world by way of loans and advances.

Loans and advances can be arranged from PSBs in keeping with the flexibility in business operations. The amount raised as loan may be repaid within a short period to suit the convenience of the borrower. Loans and advances from banks are found to be 'economical' for traders and businessmen, because banks charge a reasonable rate of interest on such loans and advances. The interest charged by banks is regulated by the Reserve Bank of India (RBI). But it generally does not interfere with the other bank operation. Bank loans are found to be convenient as far as the repayment is concerned. The PSBs include the nationalized banks (NBs) and the SBI and its associate banks (SBI and Its Asso. Banks)

Key words: *Loan and advances, public sector banks, CARCH model, SEM model, banking in India*

INTRODUCTION

The banking system in India is significantly different from that of other Asian nations because of the country's uniqueness in geographic, social, and economic scenario. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among the people but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. About 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of "growth-led exports" rather than the "expected growth" of other Asian economies, with emphasis on self-reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector.

The banking sector plays an important role in the development of Indian economy. Before the dawn of independence, the development of the banking sector was not

satisfactory. Initially the East India Company established the banks namely Bank of Calcutta in 1806, Bank of Bombay in 1840, and Bank of Madras in 1843. Later in 1921, these banks were amalgamated and Imperial Bank of India was formed. Soon after independence, the banking sector underwent a remarkable change. Moreover, the government was unable to control the commercial banks and divert the funds in accordance with the expectation of the government. Hence, these banks were brought under the control of government during 1969. As a result in 1980, 14 major commercial banks were nationalized and another 6 banks were nationalized in 1980. In 1993, New Banks of India merged with Punjab National Banks (PNB), which brought the number of nationalized banks in India to 19. It was a state sponsored commercial banking institutions, entrusted with the specific task of providing bank facilities to the low income group of sections and enlarging the branch network. It has also been entrusted with the responsibility of branch expansion in remote areas. So, the bankers introduced new and innovative schemes in the year 2005-06, that is, appointed the Business Correspondence / Business Facilitator (BC/BF) model to serve the poor people.

This paper highlights the advances offered by the PSBs in India which consist of total advances, total bill finance, total demand loans, total term loans, total secured advances, unsecured advances, priority sector advances, and so on.

STATEMENT OF THE PROBLEM

Finance is the lifeblood of a business and is also a problem to business. A business cannot move without adequate finance. Every business house requires money for which they approach the banks for the finance, and the banks provide loan to the business institutions after assessing the repayment capacity and other aspects of business units. Lending money is one of the core functions of banks. By deploying money in the form of loans and advances, banks earn interest which is the dominant source of income for them. The banks adopt cautions in lending money. Scientific appraisal of the project, timely disbursement and proper monitoring of credit pave way for better credit management in banks.

OBJECTIVES OF THE STUDY

This study is undertaken with the following objectives:

1. To evaluate the loans and advances offered by the public sector banks in India.
2. To analyse advances provided by PSBs through SEM.
3. To assess the loans and advances lent by banks through GARCH.

RESEARCH METHODOLOGY

The study was purely based on the secondary data. These were collected from annual accounts of the RBI report, books, magazines, journals and the like. Moreover, unstructured interview schedule has been prepared by the researcher and the discussions were also held with various branch managers and the special officers of the bank, to collect the relevant information relating to effective credit management.

SAMPLE COMPOSITION

The study covers the credit portfolio of all scheduled Commercial Banks in India except foreign banks and Regional Rural Banks (RRBs). Thus, the study includes the following groups of commercial banks:

a) State Bank of India and its associate banks (SBI & its associate banks) ,
b) Nationalized Banks (NBs),

For this purpose, the detailed information were also collected from the various special issues of RBI publication from the RBI bulletin, as this study public sector banks in India.

PERIOD OF THE STUDY

This study covers a period of 11 years commencing from 2002 – 03 to 2012-13.

SOURCE OF DATA

The data were collected from the annual accounts, reports of trends and progress of banking in India, reports of State Level Bankers Committee, RBI bulletin, IBA bulletin, www.iba.org, www.rbi.org.in, www.financeindia.org.in, political and economic weekly, published and unpublished M Phil dissertations, Ph.D theses and Business World news paper of the public sector banks in India.

REVIEW OF LITERATURE

S. Rajamohan and D. Durairaj (2012) in this article stated that employment generation has been seen as means of alleviating poverty, increasing the level of economic activities which translate into economic growth. The informal sector provides more employment opportunities to people, so the government as well as banks should lend credit to informal sector at liberalized interest rate under the priority sectors advances.

S. Rajamohan and D. Durairaj (2012) in their study quoted that the educational loan forms a part of the priority sector advances offered by the commercial banks and most of the educational loans are taken for pursuing higher educational courses in India and abroad. In the present scenario the higher education has gained significance all across the world. India also has faced financial crisis in the early nineties and higher education suffered in terms of allocations of credit for this sector. The pursuit and access ratio of higher education is huge. In this regard the private institutions entered the field and there has been steep rise in user charges in most sought of the professional courses like engineering and management in India in the post-reforms period. In the light of the facts that scholarships given to higher education have declined, in real terms, and it is a fruitful one for those who purpose the higher education, especially the below poverty line students, the educational loan scheme comes in to focus in order to raise access ratio in higher education loan during the period 2002-03 to 2011-2012 in India.

Narasaiah and Naik (2007) observed that although great strives have been made in the last decade to ensure finance for micro enterprises; rare initiative has been taken to help SSIs.

As a result, SSIs have been constrained to seek loans for new ventures from commercial banks.

Mohi-ud-Din Sangmi and Tabassum Nair (2010) in their research study, analyzed through the CAMEL Approach, that both the Punjab National Bank and Jammu and Kashmir Bank have adopted prudent policies of financial management and both banks have shown significant performance as far as asset quality is concerned.

LOANS AND ADVANCES OF PSBS – ANALYSIS

DETAILS OF ADVANCES OFFERED BY THE PSBs IN INDIA

The banks offer various loans and advances for the development of segments like agricultural development, industry development, housing development, business development and so on, to the public for the purpose of upliftment of their business and living standards. Table 1 elucidates the total advances offered by the PSBs.

TABLE 1

DETAILS OF ADVANCES OFFERED BY THE PSBs IN INDIA

(Rs. in crore)

	SBI & its Asso. Banks				NBs			
Year	Bill finance	Term loan	Demand loan	Total	Bill finance	Term loan	Demand loan	Total
2002-03	17625 (9.31)	97450 (51.51)	74129 (39.18)	189204 (100)	24273 (6.74)	194231 (53.92)	141643 (39.34)	360147 (100)
2003-04	20987 (9.52)	99889 (45.30)	99640 (45.18)	220516 (100)	26939 (6.54)	199723 (48.45)	185562 (45.01)	412224 (100)
2004-05	27454 (9.63)	109131 (38.33)	148143 (52.04)	284728 (100)	35189 (6.71)	239425 (45.64)	249917 (47.65)	524531 (100)
2005-06	31369 (8.43)	139908 (37.66)	200242 (53.91)	371519 (100)	42118 (6.18)	306330 (44.92)	333421 (48.90)	681869 (100)
2006-07	37087 (7.68)	180696 (37.46)	264643 (54.86)	482426 (100)	53314 (5.96)	371172 (41.42)	470740 (52.58)	895226 (100)
2007-08	44280 (7.45)	221771 (37.36)	327672 (55.19)	593723 (100)	60860 (5.44)	462470 (41.22)	598239 (53.34)	1121569 (100)
2008-09	53465 (7.22)	300331 (40.62)	385809 (52.16)	739605 (100)	71605 (5.05)	582858 (41.12)	762659 (53.83)	1417122 (100)
2009-	56321	332541	402154	791016	74879	620132	798752	1493763

10	(7.12)	(42.04)	(50.84)	(100)	(5.01)	(41.52)	(53.47)	(100)
2010-11	60231	356211	436521	852963	78954	645213	865211	1589378
	(7.05)	(41.76)	(51.19)	(100)	(4.96)	(40.60)	(54.44)	(100)
2011-12	59623	396587	489562	945772	83261	685471	886984	1655716
	(6.32)	(41.92)	(51.76)	(100)	(5.03)	(41.41)	(53.56)	(100)
2012-13	63598	402135	532104	997837	89654	736210	923564	1023893
	(6.37)	(40.31)	(53.32)	(100)	(5.14)	(42.08)	(52.78)	(100)
Total	472040	3360619	2636650	6469309	641046	5043235	6216692	11900973
Avg	42912.7	305510.8	239695.4	588119.0	58276.9	458475.9	565153.8	1081906.6
SD	16811.9	158776.0	121433.5	295714.6	23352	205106.1	300362.7	528289.3
CV	39.18	51.97	50.66	50.28	40.29	44.73	53.14	48.82
CAGR	32.71	13.75	19.62	16.32	33.39	12.88	18.58	15.45

Source: Statistical Tables Published by the RBI (Figures in bracket indicates percentage to total)

Table 1 elucidates the details of loans and advances offered by the PSBs. The loans and advances offered by the SBI and Asso. Banks had increased gradually in all the years. The bill finance had increased in all the years from Rs. 17625 crores in 2002-03 to Rs. 63598 crores in 2012-13, except 2011-12. The term loan had increased from Rs.97450 crores in 2002-03 to Rs.396587 crore in 2012-13 during the study period and the demand loan had also increased between Rs. 74129 crores in 2002-03 and Rs.532104 crores in 2012-13. It shows that the SBI and its Asso. Banks offered advances were steadily increased all the years. The standard deviation for bill finance was 168119, the term loan is 158776.1 and the demand loan is 121433.5. The higher deviation rate reflects high performance. The CAGR of SBI and its Asso. Banks for bill finance, term loan and demand loan was 32.71, 13.75 and 19.62 percent respectively.

The nationalized banks performance had gradually increased between 2002-03 and 2012-13. The bill finance had increased from Rs. 24273 crores in 2002-03 to Rs. 89654 crores in 2012-13. The term loan had increased between Rs.194291 crores in 2002-03 and Rs.736210 crore in 2012-13 and the demand loan had increased from Rs. 141643 crores in 2002-03 to Rs.923564 crores in 2012-13. The loans and advances of NBs were in upward trends during the study period. The standard deviation for bill finance, term loan and demand loan was 23352, 205106.1 and 300362.7 respectively. The CAGR showed 12.88, 18.58 and 15.45 percent for bill finance, term loan and demand loan respectively.

Out of the total advances the SBI and its Asso. Banks had lent more than 50 percent as demand loan in all the years except 2002-03 and 2003-04. Similarly the NBs

also had lent more than 50 percent as demand loan in all the years except four years from which it is inferred that banks prefer to lend demand loan to lend other form of loans.

LOANS AND ADVANCES BY THE PSBs – SEM COMPARISON

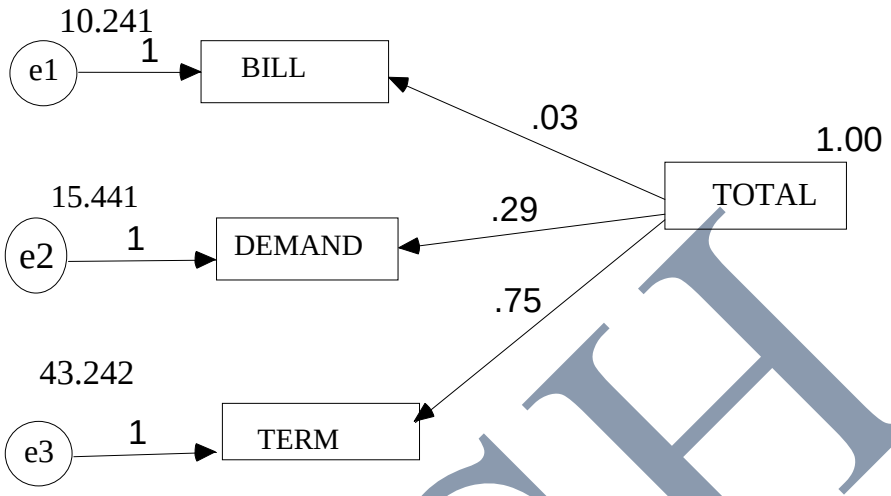
Banking is service oriented industry which constitutes a hybrid type of offering that consists of both tangible and intangible products and services. It requires high level of professionals to create innovation in this field. Customer services are the hall mark of this industry. Being a service oriented industry, the primary duty of the banks is to satisfy the customer by providing quality services. Therefore, the banking institution should be made more responsive to the needs of the public. In the current context, customer satisfaction has become much more important. Moreover, the banks are in the process of enhancing their level of customer services and fulfil their needs. The banks offer variety of loans under schedule 9 of banking balance sheets and those loans are namely bill finance, demand loans, term loans, secured advances, unsecured advances, priority sector advances, public sector advances, advances outside India, advances due from banks and so on.

In this study, the researcher has made an attempt to construct structural equation model (SEM) to identify and compare the level of loans and advances in the respect of bill finance, demand loans, and term loans by using SEM. It is a statistical modelling technique to establish relationship among the different groups of variables. It helps to measure the relationship among the variables in terms of percentage. The feature of SEM is that the observed variables are understood to represent a small number of latent constructs that cannot be directly measured, but can be only inferred from the observed variables. But no variable has manipulated this model. The factor might be classified as independent variables and dependent variables. The classification is made on the basis of a theoretical casual model. The casual model is presented in a diagrammatic form.

Through this model goodness- of- fit index (GFI) can be understood. The GFI measures the relative variance and covariance in the simple covariance matrix that is jointly explained by the population covariance matrix. The GFI values range between 0 to 1 percent, if the value is close to one percent it is indicative of good fit. The goodness-of-fit index used in the analysis can be classified as incremental indices of fit which are based on a comparison of the hypothesized model against some standard.

Comparative fit analysis (CFA) is useful to take sample size into account. The CFI values range from 0 to 1 percent, whereas .90 percentage was considered a good fit for GFI, a revised cut off of .95 has recently been advised for CFI. The statistics used in the analysis focuses on the root mean square of error approximation (RMSEA). This discrepancy, as measured by the RMSEA, is expressed as per degree of freedom, thus making the index sensitive to the number of estimated parameters in the model values less than .05 which indicate good fit, values between .08 and 1.00 indicate average fit, and those greater than 1.00 indicate poor fit. It is also possible to use confidence intervals to assess the precision of RMSEA estimates; AMOS (the statistical program is used to run the SEMs) reports a 90 percent interval around the RMSEA value.

FIGURE 1
LOANS AND ADVANCES BY THE PSBs – SEM



Source: secondary data by using AMOS 5 version

The figure 1 shows the outcome of SEM analysis, here the researcher has taken total loans and advances as dependent variable and the independent variables are bill finance, term loan and demand loan. Among the independent variables term loan is a major influencing variable towards the total loan of the PSBs.

OUTCOME OF THE - SEM

The SEM is a model for analyzing a number of dependent and independent variables. Table 2 explains the lending performance by the PSBs towards bill finance, term loan and demand loan.

TABLE 2
BILL FINANCE, DEMAND LOAN AND TERM LOANS OF PSBs- SEM

Variables	*Values*	*Significance*	*Result*
Chi square	21.130		The model highly fits the analysis for this study.
P – Value	0.001	>0.05 is model fit	
GFI	1.000	> 90% model shows the goodness of analysis	
AGFI	0.967		
CFA	1.000		
RMR	0.001	Error may be <0.10 is > 10 %	
RMSEA	0.001		

Source: www.rbi.org.in.

Table 2 explains the outcome of model, the loans and advances offered by the PSBs. The Chi-square value is more than the 0.05 percent (21.130 percent) at 5 percent level, which shows that the model which is constructed is fit. If the model has to be fit, the P value should be less than 5 percent level. The GFI has 0.967 percent that indicates that the model is good. The CFA is 1.000 indicates that the model is highly fit and shows goodness. The

RMR 0.001 and shows that error value is smaller which is less than 10 percent and the RMSEA 0.001 indicates that it lies between the confidence interval of less than 0.06 to 0.08.

Hence the analysis concludes that the PSBs have offered term loan higher than the bill finance and demand loan, the term loan is the highest level influencing variable towards the total advances of the PSBs. So banks need to improve the lending performance of bill finance and demand loan in future.

ADVANCES MADE AGAINST SECURITIES OFFERED BY THE BORROWERS

The PSBs offer advances based on the security offered by the borrowers. The PSBs are ready to offer loans to the certain sector on the basis of securities offered by them. They are agriculture, small scale industry, food credit, non food credit and so on. The level of loans offered by the PSBs against the secured tangible asset, government guarantee and unsecured advances are presented in Table 3.

TABLE 3
ADVANCES MADE AGAINST SECURITIES OFFERED BY THE BORROWERS

(Rs. in crore)

	SBI & its Asso. Banks				NBs			
Year	Secured Tangible	Govt guarantee	Unsecure advances	Total	Secured Tangible	Govt guarantee	Unsecure advances	Total
2002-03	152064 (80.37)	13606 (7.19)	23533 (12.44)	189203 (100)	287766 (79.90)	26097 (7.25)	46284 (12.85)	360147 (100)
2003-04	170405 (77.28)	16231 (7.36)	33880 (15.36)	220516 (100)	330302 (80.13)	26946 (6.54)	54976 (13.34)	412224 (100)
2004-05	212786 (74.73)	12432 (4.37)	59509 (20.90)	284727 (100)	442448 (77.63)	41303 (7.25)	86193 (15.12)	569944 (100)
2005-06	268786 (72.35)	24853 (6.69)	77881 (20.96)	371520 (100)	556904 (75.81)	47478 (6.46)	130227 (17.73)	734609 (100)
2006-07	352144 (73.02)	26865 (5.57)	103260 (21.41)	482269 (100)	732692 (76.49)	59141 (6.17)	166044 (17.33)	957877 (100)
2007-08	430102 (72.44)	25535 (4.30)	138086 (23.26)	593723 (100)	899312 (74.71)	63215 (5.25)	241254 (20.04)	1203781 (100)
2008-09	513218 (69.39)	83871 (11.34)	142517 (19.27)	739606 (100)	1136947 (74.77)	87365 (5.75)	296237 (19.48)	1520549 (100)
2009-10	546258	86597	165472	798327	132541	90125	310241	172577

	(68.43)	(10.85)	(20.73)	(100)	2 (76.80)	(5.22)	(17.98)	8 (100)
2010-11	598641 (68.44)	89564 (10.24)	186542 (21.33)	874747 (100)	1652487 (79.31)	94657 (4.54)	336521 (16.15)	2083665 (100)
2011-12	635410 (68.16)	93621 (10.04)	203214 (21.80)	932245 (100)	1965874 (80.91)	98754 (4.06)	365214 (15.03)	2429842 (100)
2012-13	669874 (66.77)	96874 (9.66)	236541 (23.58)	1003289 (100)	2365140 (82.48)	100212 (3.49)	402154 (14.02)	2867506 (100)
Total	4549688	570049	1370435	6490172	11695284	735293	2435345	14865932
Avg	413608	51822	124585	590015	1063207	66844	221395	1351447
SD	192231	37091.3	70739	297406	696241	28671	129813	848468
CV	46.48	71.57	56.78	50.40	65.48	42.89	58.63	62.78
CAGR	34.80	38.20	39.99	36.00	38.30	35.06	41.15	38.53

Source: www.rbi.org.in. (Figures in brackets indicate percentage to total)

Table 3 elucidates the details of loans and advances offered by the PSBs in India based on the securities offered by borrowers. The advances of SBI and its Asso. Banks had increased gradually in all the years. The loan against secured tangible assets had increased all the years from Rs. 152064 crores in 2002-03 to Rs. 669874 crores in 2012-13.

The government guaranteed loan programme had also increased from Rs.13606 crores in 2002-03 to Rs.96874 crore in 2012-13 and the unsecured advances had increased from Rs. 23533 crores in 2002-03 to Rs.236541 crores in 2012-13. The standard deviation of the secured advances for SBI and its Asso. Banks was 192231, the government guaranteed loan programmee was 37091.3 and the unsecured advance was 70739. The CAGR shows 34.80, 38.20 and 39.99 percent of the advances.

The NBs lending performance had increased gradually in all the years. The secured advances had increased from Rs. 287766 crores in 2002-03 to Rs. 2365140 crores in 2012-13. The government guaranteed loan programme had increased from Rs.26097crores in 2002-03 to Rs.120212 crore in 2012-13 and the unsecured advances had also increased from Rs. 46284 crores in 2002-03 to Rs.402154 crores in 2012-13. The standard deviation of the advances against securities was 696241, against the government guaranteed loan programme was 28671 and the unsecured advance was 129813. The higher deviation shows higher performance of the banks. The CAGR shows 38.30, 35.06 and 41.15 percent for the secured tangible asset, government guaranteed loan and unsecured advances respectively. Of the total advances majority of the loans

were given to secured advances and the rest were to government guaranteed advances and unsecured advances by both the SBI and its associate banks and NBs.

Hence it is concluded that the PSBs offered more number of secured advances by tangible assets loan rather than the government guaranteed loan and unsecured loan to their customers.

LOANS AND ADVANCES OFFERED BY THE PSBs - GARCH MODEL

The loans and advances granted by the PSBs are highly useful and fruitful to individuals, firms, companies, industries and so on. The growth and diversification of business activities are effected to a large extent through bank financing. The advances are granted by banks for meeting short term and long term financial needs of business enterprises. In order to assess the level of lending performance and forecasting future lending performance of loans by the PSBs, the GARCH model has been applied. This is a statistical model for evaluating and forecast the future financial status of the banks. A correct assessment of future volatility is crucial for asset allocation, better and efficient credit management by the banks as well as industries. It helps to assess the performance and forecast future trends as well as makes a portfolio investment to financial institutions. Many studies have made an attempt to examine the time variation in volatility and the factors behind this time variation, and documented a clustering pattern. Different variants of the GARCH model have been pursued in different directions to deal with these phenomena.

The researcher has applied this GARCH model to assess the volatility of loans and advances of the PSBs, to examine the effect of the loans and advances variables on the bank volatility. The researcher mainly focuses on variance predictability and aims to analyze if adding loan variables can improve the forecasting abilities of the traditional volatility models. Using GARCH decompose the volatility to their short-term and long-term components, this model examines a large group of variables which includes PSBs loans and advances like, bill finance, term loan, demand loan, banks lend to other banks and so on; The researcher tries to investigate the ability of the banks through GARCH model with different types of loans and advances as a variables in predicting both short term and long term volatilities. The performance of these models is compared with GARCH (1, 1) model as a benchmark. The researcher has checked the stationary of the data, based on the stationary at 2 percent level; the data was significant at 2 percent. Hence the researcher fit GARCH model. Table 7 shows the volatilities performance of loans and advances by the PSBs.

TABLE 7
LOANS AND ADVANCES BY THE PSBs - GARCH MODEL

Dependent Variable: Total Loans Method: Least Squares Included observations: 8 after adjustments Convergence achieved after 26 iterations				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.319350	0.018868	69.92614	0.0000
AR(1)	0.390579	0.546816	0.714279	0.0066
AR(2)	1.202655	0.552845	2.175393	0.0001
MA(1)	1.772389	0.074538	23.77826	0.0002
MA(2)	0.828663	0.064604	12.82685	0.0010
R-squared	0.763969	Mean dependent var		1.256010
Adjusted R-squared	0.449262	S.D. dependent var		0.269577
S.E. of regression	0.200058	Akaike info criterion		-0.111251
Sum squared resid	0.120069	Schwarz criterion		-0.061600
Log likelihood	5.445004	Hannan-Quinn criter.		0.000027
F-statistic	2.427553	Durbin-Watson stat		0.000093

Source: Statistical Package of E-Views 7 Date: 02/21/14 Time: 22:15

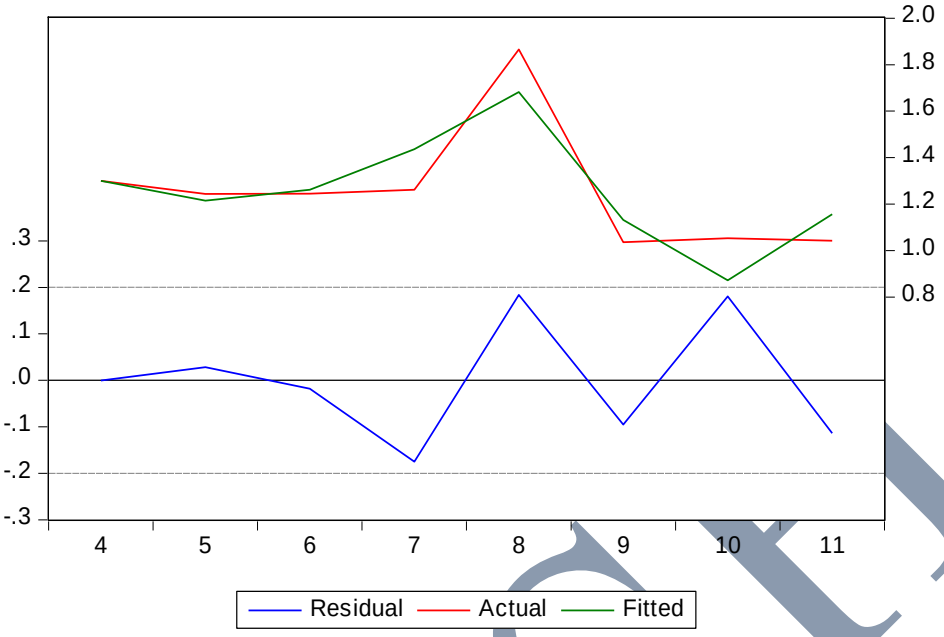
Table 7 explains the volatility of loans and advances by the PSBs through GARCH model. This is the model to assess the volatility of the bank current performance and predict the future performance. The GARCH model is fitted by using E views7 statistical package. The total loans and advances are dependent variable. The data were rotated by using package to check the normality of the data through unit root method at level 2 percent the data has been significant, and the following formula were used br-c-ar (1)ar (2)ma(1)ma(2). Through this formula the GARCH outcome had significance at 5 percent level of GARCH (2.1. 2). The GARCH (2.1.2) obtained from ar (2) has significance of 0.0001 percent, ma (1) has significance at 0.0002 percent and ma (2) has significance at 0.0010 percent. The results for the first two principal components constructed based on thirteen variables. The estimation covers the period from 2002 to 2013; A sample of 10 years observations have been used to estimate the exponentially moving average of the included variables in the GARCH equation. The moving average of this model is fitted at the level of AR (2) MA (1) and MA (2) finally GARCH (2.1.2).

LOANS AND ADVANCES BY THE PSBs - GARCH MODEL

This is the model for the financial analysis to predict and forecast the future performance of the banks regarding the loans and advances. Figure 2 shows the performance of the loans and advances of the PSBs.

FIGURE 2

FORECASTING THE TRENDS OF LOANS AND ADVANCES - GARCH MODEL



Source: Statistical Package of E-Views 7 Date: 21/02/14 Time: 22:15

The figure 2 demonstrates the estimated long-term variance of the loans and advances of the PSBs based on three alternative specifications of the GARCH equation, a model that includes only the realized volatility of total loans of the PSBs, a model that includes the realized volatility as well as the level and the variance of the loan variables like bill finance, term loan, demand loan, public advance, priority sector, other advances and so on, and finally a model with only the level and the variance of the loan variables. The results for the first two principal components were constructed based on thirteen variables. The estimation covers the period from 2002 to 2013; A sample of 10 years observations have been used to estimate the exponentially moving average of the included variables in the GARCH equation. The moving average of this model is fitted at the level of AR (2) MA (1) and MA (2) finally GARCH (2.1.2).

Hence it is concluded that PSBs volatility and trends is moving upward, so performance of banks is good.

SUGGESTIONS OF THE STUDY

1. The bank should try to initiate measures to promote more liquid assets so that the lending performance may be improved.
2. The PSBs may lend liberally the bill finance for the establishment and expansion of the business ventures.
3. The banks may provide short term loan to the business houses in order to increase their working capital position.
4. The tangible advances should be provided to the individuals for strengthening their resources.
5. The banks may provide secured loans even to the non – account holders.

CONCLUSION

Banks perform mainly two functions namely accepting deposits and granting loans and advances. It allocates the deposits made by public in the form of loans and advances. PSBs in addition to carrying out the normal banking functions have a development aspect added to it. This service is a catalyst strengthening the country's economic development. The PSBs provide advances through cash credit, overdraft, bill discounted and term loans and thus satisfies its social obligation of fulfilling the credit needs of various sections of the society. It also earns profit from its lending activities. So this study provides a clear picture of to what extent the banks were able to fulfil their social obligation, earn profit and the extent to which the assets have been optimally utilized by them.

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