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A Study on Financial Performance of Selected Foreign Banks in India

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ABSTRACT

Banks were considered as a backbone to the nation. The enlargement of banking sector plays a crucial role in the monetary development and social uplifting of the nation. The fiscal development of the nation is largely linked with mobilization of financial resources and its investment in a proper manner. For the last couple of years the Indian banking sector has been facing serious problems of raising non-performing assets, misuse of funds, decreasing operating revenue to the banks and decreasing return on assets. The objective of this study is to analyze the financial performance of selected foreign banks based on their financial indicators. Hence these study constituting two year period commencing from 2014-15 to 2015-16.

1. Introduction

Banks play an important role in economic resource mobilization of an economy .An efficient banking sector is recognized as a basic need for the economic development of a country. Indian financial market is dominated by large number of banks with different kinds of ownership viz. Public Sector Banks, Private Sector Banks and Foreign Banks. Since the Banking Sector Reforms in 1991, a number of significant changes have occurred in the Indian Banking Sector. Reforms brought about a stiff competition among different categories of banks both at national and international level. It also increased the efficiency of Indian Banking Industry. An efficient and profitable banking system is also required for sustainable economic development. Therefore, analysis of financial performance of selected foreign banks is a matter of great interest in the field of academic as well as industrial research.

The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people and economy. CAMELS approach and Basel Standards are significant tools to assess the relative financial strength of banks and to recommend measures to overcome weaknesses of banks. Today's the operational performance of foreign banks in India becoming more complex due to raising non-performing assets, misuse of funds, decreasing operating revenue and decreasing return on assets meanwhile banks are struggling in their core activity.

2. Scope of the Study

As far as the scope of the study is concerned, the study covers the composition of financial performance of selected foreign banks operating in the country.

3. Objectives of the Study

1. To study the operational efficiency of the selected foreign banks operating in the country.
2. To evaluate the relative financial performance of the selected foreign banks.
3. To investigate the overall financial performance of the selected foreign banks in India.

Hypothesis

Null Hypothesis (H_0): There is no significant difference between the financial performances of selected foreign banks.

Alternative Hypothesis (H_A): There is a significant difference between the financial performances of selected foreign banks.

4. Methodology of the Study

Methodology describes the research route to be followed, the tools to be used, and sample of the study for the data to be collected and the tools of analysis.

Tools for data collection

This study is completely based on secondary data. The data required for the study has been collected from annual reports of respective banks, Journals, Magazines, Previous research works and Reserve bank of India website.

Tools for data analysis

Data gathered from financial statement is analyzed by using the statistical techniques of Mean, Standard Deviation and Two-way Analysis of Variance without replication (ANOVA).

Period of the study

This study covers a period of two years i.e. 2015 and 2016 financial years.

Table – 1

Deposits, Advances, Total Income, Interest earned, Operating profit of selected foreign Banks

(In Rs. Crore)

Year	Financial Indicator	Bank of America	Growth in %	Citibank	Growth in %	HSBC	Growth in %	Standard Chartered Bank	Growth in %
2015 2016	Deposits	9,587.2 13,038.6	36	88,912.0 1,00,215.4	12.7	85,255.5 87,943.8	3.2	77,848.3 75,193.1	3.2
2015 2016	Advances	9,263.6 12,346.4	33.3	60,896.3 61,550.5	1.1	46,617.2 54,970.3	17.9	68,402.0 66,536.0	-2.7
2015 2016	Total Income	2,304.8 2,599.6	12.8	13,541.6 13,863.0	2.4	10,463.9 10,308.2	-1.5	13,449.2 12,012.6	-10.7
2015 2016	Interest Earned	1,613.7 2,024.9	25.5	10,210.5 10,697.6	4.8	8,372.6 8,478.0	1.3	10,144.5 10,019.1	-1.2
2015 2016	Operating Profit	1,108.9 1,214.5	9.5	6,033.0 6,161.6	2.1	2,956.8 3,481.6	17.7	5,913.1 4,941.0	-16.4

Source: *Banking Annual, December, 2016, Volume 8, Issue.*

Hypotheses:

Null Hypotheses

H_{0A} = μ_1= μ_2= μ_3 i.e. Deposits do not differ significantly between the banks.

H_{0B} = μ_1= μ_2= μ_3 i.e. Deposits do not differ significantly between the years.

Alternative Hypotheses

H_{AA} at least two of the means are different i.e. Deposits differ significantly between the banks.

H_{BB} at least two of the means are different i.e. Deposits differ significantly between the years.

Table – 2

Two-Way ANOVA-Deposits in Selected Foreign Banks

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F-ratio	Critical Value
Between Banks	1.55	4	3.87	280.89	3.77
Between Years	21871156	1	21871156	1.59	0.28
Error	55106873	4	13776718		
Total	1.56	9			

Critical value μ_1= 4 and μ_2 = 4 = 3.77 at 5% level of significance.

Critical value of μ_1= 1 and μ_2 = 4 = 0.28 at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 280.89 is greater than the critical value of 3.77 at 5% level of significance. Hence we reject null hypothesis and accept alternative hypothesis. We concluded that deposits differ significantly between the banks.

The calculated value of the test statistic F_B = 1.59 is greater than critical value 0.28 at 5% level of significance. Hence we reject null hypothesis and accept alternative hypothesis. We conclude that deposits differ significantly between the years.

Hypotheses:

Null Hypotheses

H_{0A} = μ_1= μ_2= μ_3 i.e. Advances do not differ significantly between the banks.

H_{0B} = μ_1= μ_2= μ_3 i.e. Advances do not differ significantly between the years.

Alternative Hypotheses

H_{AA} at least two of the means are different i.e. Advances differ significantly between the banks.

H_{BB} at least two of the means are different i.e. Advances differ significantly between the years.

Table -3

Two-Way ANOVA- Advances in Selected Foreign Banks

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F-ratio	Critical Value
Between Banks	7.21	4	1.80	231.53	5.53
Between Years	10455267	1	10455267	1.34	0.31
Error	31138668	4	7784667		
Total	7.25	9			

Critical value μ_1= 4 and μ_2 = 4 = 5.33 at 5% level of significance.
Critical value of μ_1= 1 and μ_2 = 4 = 0.31 at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 231.53 is greater than the critical value of 5.53 at 5% level of significance. Hence we reject null hypothesis and accept alternative hypothesis. We concluded that advances differ significantly between the banks.

The calculated value of the test statistic F_B = 1.34 is greater than critical value 0.31 at 5% level of significance. Hence we reject null hypothesis and accept alternative hypothesis. We conclude that deposits differ significantly between the years.

Hypotheses:

Null Hypotheses

H_{0A} = μ_1= μ_2= μ_3 i.e. Total income do not differ significantly between the banks.
H_{0B} = μ_1= μ_2= μ_3 i.e. Total income do not differ significantly between the years.

Alternative Hypotheses

H_{AA} at least two of the means are different i.e. Total income differ significantly between the banks.
H_{BB} at least two of the means are different i.e. Total income differ significantly between the years.

Table - 4
Two-Way ANOVA- Total income in Selected Foreign Banks

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F-ratio	Critical Value
Between Banks	2.54	4	63425976	242.99	5.03
Between Years	95082	1	95082	0.36	0.58
Error	1044052	4	261013		
Total	2.55	9			

Critical value μ_1= 4 and μ_2 = 4 = 5.03 at 5% level of significance.
Critical value of μ_1= 1 and μ_2 = 4 = 0.58 at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 242.99 is greater than the critical value of 5.03. Hence we reject null hypothesis at 5% level of significance and accept alternative hypothesis. We concluded that total income differ significantly between the banks.

The calculated value of the test statistic F_B = 0.36 is less than the critical value of 0.58. Hence we accept null hypothesis at 5% level of significance and reject alternative hypothesis. We conclude that total income do not differ significantly between the years.

Hypotheses:

Null Hypotheses

H_{0A} = μ_1= μ_2= μ_3 i.e. Interest earned do not differ significantly between the banks.
H_{0B} = μ_1= μ_2= μ_3 i.e. Interest earned do not differ significantly between the years.

Alternative Hypotheses

H_{AA} at least two of the means are different i.e. Interest earned differ significantly between the banks.
H_{BB} at least two of the means are different i.e. Interest earned differ significantly between the years.

Table -5
Two-Way ANOVA- Interest earned in Selected Foreign Banks

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F-ratio	Critical Value
Between Banks	1.48	4	37086379	1065.11	2.64
Between Years	77316.85	1	77316.85	2.22	0.21
Error	139276.7	4	34819.18		
Total	1.49	9			

Critical value μ_1= 4 and μ_2 = 4 = 2.64 at 5% level of significance.
Critical value of μ_1= 1 and μ_2 = 4 = 0.21 at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 1065.11 is greater than the critical value of 2.64. Hence we reject null hypothesis at 5% level of significance and accept alternative hypothesis. We concluded that interest earned differ significantly between the banks.

The calculated value of the test statistic F_B = 2.22 is greater than critical value 0.21 at 5% level of significance. Hence we reject null hypothesis and accept alternative hypothesis. We conclude that interest earned differ significantly between the years.

Hypotheses:

Null Hypotheses

H_{0A} = μ_1= μ_2= μ_3 i.e. Operating profit do not differ significantly between the banks.

H_{0B} = μ_1= μ_2= μ_3 i.e. Operating do not differ significantly between the years.

Alternative Hypotheses

H_{AA} at least two of the means are different i.e. Operating profit differ significantly between the banks.

H_{BB} at least two of the means are different i.e. Operating profit differ significantly between the years.

Table -6
Two-Way ANOVA - Operating profit in Foreign Banks

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F-ratio	Critical Value
Between Banks	36348637	4	9087159	58.67	0.000833
Between Years	4498.64	1	4498.641	0.03	0.87
Error	619543.2	4	154885.8		
Total	36972679	9			

Critical value μ_1= 4 and μ_2 = 4 = 0.00083 at 5% level of significance.

Critical value of μ_1= 1 and μ_2 = 4 = 0.87 at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 58.67 is greater than the critical value of 0.0008. Hence we reject null hypothesis at 5% level of significance and accept alternative hypothesis. We concluded that operating profit differ significantly between the banks.

The calculated value of the test statistic F_B = 0.03 is less than the critical value of 0.87. Hence we accept null hypothesis at 5% level of significance and reject alternative hypothesis. We conclude that operating profit do not differ significantly between the years.

5. Results and Discussion

- From the study we know that operational efficiency has been measured with the help of operating profit, hence as per the study the operational efficiency of all selected foreign banks except Standard Chartered Bank banks.
- Operating profit of Bank of America increased by 9.5%, Citibank by 2.1%, HSBC bank by 17.7 %, in 2016 compare to that off 2015.
- As per as deposits, advances, total income and interest earned are concerned Bank of America stood first place with a growth rate of 36.0%, 33.3%, 12.8% and 25.5%, as per operating profit HSBC stood first place with 17.7%% during the year 2016 and compare with 2015.
- It is observed that deposits differ significantly between the banks and between the years.
- It is found that advances differ significantly between the banks and between the years.
- From the analysis it is concluded that total income differs significantly between the banks and it does not differ significantly between the years.
- From the inference it is clear that total income differs significantly between the banks and it does not differ significantly between the years.
- It is found that interest earned differ significantly between the banks and between the years.
- From the output it is observed that operating profit differs significantly between the banks and it does not differ significantly between the years.
- The overall financial performance of the foreign banks in India is not up to the mark because the foreign banks are facing tough competition with domestic banks. Hence, the foreign banks have to make more initiatives to extent their business and improve their operational efficiency.

6. Conclusion

The non-performing assets are a serious problem and danger to the banking sector because it destroys the entire financial positions of the banks. The customers and public would not have credibility and loyalty on banking sector due to willful defaulters The Government, Reserve Bank of India and management of banks should make more reforms in financial sector especially in banking to control and avoid the bad loans and advances and improving the operational efficiency and overall financial performance of the banks.

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