"AN ANALYSIS OF FINANCIAL STATEMENT IN BANK OF INDIA-2008 TO 2013"

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Abstract

A Sound and effective banking system is the backbone of an economy. The economy of a country can function smoothly and without many hassles if the banking system backing it is not only flexible but also capable of meeting the new challenges posted by the technology and other external as well as internal factors. In this paper analysis and interpretation of financial statement are made to determine the financial position and result of operation.

Definition of Banking

Banking Regulation Act 1949 defines banking as "Accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise".

Every finance manager is involved in his financial decision and financial planning. In order to take right decisions right time should be equipped either sufficient present and past information about the firm and its operations how it is changing over time. Much of this information that is used by the finance manager is known as financial information and derived from the financial statements. An understanding of basic financial statement and analysis of the statements is therefore a necessary step in the financial management.

Industry Profile

Banking in India originated in the first decade of 18th century with the General Bank of India coming into existence in 1786. This was followed by Bank of Hindustan. Both these banks are now defunct. The oldest bank in existence in India is the State Bank of India being established as the Bank of Bengal in Calcutta in 1806. A couple of decades later, foreign banks like Credit Lyonnais started their Calcutta operations in the 1850s. At the point of time, Calcutta was the most active trading port, mainly due to the trade of the British Empire, and due to which banking activity took roots there and proposed. The first fully Indian owned bank was the 'Allahabad Bank', established in 1865.

By the 1990s, the market expanded with the establishment of bank such as Punjab National Bank, in 1895 in Lahore and bank of India, in 1906, in Mumbai – both of which were found under private ownership. The Reserve Bank of India formally took on the responsibility of regulation the Indian banking sector from 1935. After India's independence in 1947, the reserve bank was nationalized and given broader powers.

Bank of India

Type	Public (BSE: BOI)
Industry	Financial services
Founded	7 September 1906
Headquarters	Mumbai, India
Key people	Alok Kumar Misra (CMD)
Products	Commercial Banking Retail Banking Private Banking Asset Management Mortgages Credit Cards
Revenue	₹24,393.50 crore (US$4.87 billion)[1] total_asset = ₹364,556.48 crore (US$72.73 billion)[2]
Operating income	₹5,384.23 crore (US$1.07 billion)[3]
Net income	₹2,488.71 crore (US$496.5 million)[4]
Website	www.bankofindia.com

Bank of India (BoI)

(BSE: BOI) is a state-owned commercial bank with headquarters in Mumbai. Government-owned since nationalization in 1969, It is India's 4th largest PSU bank, after State Bank of India, Punjab National Bank and Bank of Baroda. It has 4157 branches as on 21/04/2012, including 29 branches outside India, and about 1679 ATMs. BoI is a founder member of SWIFT (Society for Worldwide Inter Bank Financial Telecommunications), which facilitates provision of cost-effective financial processing and communication services. The Bank completed its first one hundred years of operations on 7 September 2006.

Early History

At the end of late -18th century, there were hardly any banks in India in the modern sense of the term. At the time of the American Civil War, a void was created as the supply of cotton Lancashire stopped from the Americas. Some banks were opened at the time which functioned as entities to finance industry, including speculative trades in cotton. With large exposure to speculative ventures, most of the banks opened in India during that period could not survive and failed.

The banking in India was controlled and dominated by the presidency banks, namely, the Bank of Bombay, the Bank of Bengal, and the Bank of Madras – which later on merged to form the imperial Bank of India, upon India’s independence, was renamed the

State Bank of India. She was also some exchange banks, as also a number of Indian joint stock banks. All these banks operated in different segments of the economy.

Post -Independence

The partition of India in 1947 had adversely impacted the economies of Punjab and Bengal, and banking activities had remained paralyzed for months. India's independence marked the end of a regime of the Laissez – fair for the Indian banking.

The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy include banking and finance. The major steps to regulate banking included. In 1948, the Reserve Bank of India, India's central banking authority, was nationalized, and became an institution owned by the Government of India. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India."

The Banking Regulation Act also provided that no new bank or branch of an existing bank may be opened without a license from the RBI, and no two banks could have common directors. However, despite these provisions, control and regulations, bank in India except the State Bank of India, continued to be owned and operated by private persons. This changed with nationalization of major banks in India on 19th July, 1969.

Nationalization

By the 1960s the Indian banking industry has become an important tool to facilitate the development of the Indian economy. At the same time, it has emerged as a large employer, and a debate has ensued about the possibility to nationalize the banking industry. The GOI issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980.

Liberalization

In the early 1990s the then Narasimha Rao government embarked on a policy of liberalization and gave licenses to a small number of private banks, which came to be known as new generation tech-savvy banks, which included banks such as UTI bank to be setup), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, kick started the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for foreign direct investment, where all foreign investors in bank may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 49% with some restrictions.

Current Situation

Currently banking in India is generally fairly mature in terms of supply, product and reach-even though reach in rural India still remains a challenges for the private sector and foreign banks. In terms of equality of asset and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region.

The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the bank on the Indian rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true.

With the growth in the Indian economy expected to be strong for quite some time – especially in its services sector the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and assets sales.

In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its state in Kodak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them. Currently, India has 88 scheduled commercial banks (SCBs)-28 public sector banks (that is with the Government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks. They a combined network of over 53000 branches and 17000 ATMs.

According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total asset of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

Techniqes of Financial Analysis

The analysis and interpretation of financial statement are made to determine the financial position and result of operation. A number of techniques are used to study the relationship between different statements. They are as follows.

Financial Statement

A financial statement or financial report is a formal record of the financial activities of a business, person, or other entity. In British English—including United Kingdom company law—a financial statement is often referred to as and account, although the term financial statement is also used, particularly by accountants.

For a business enterprise, all the relevant financial information, presented in a structured manner and in a form easy to understand, are called the financial statements.

Financial Statement Analysis

Financial performance analysis refers to the process of the critical examination of the financial information contained in the financial statement in order to understand and make decisions regarding the operation of the banks. The financial statement analysis is basically a study of relationship among various financial facts and figures as given in a set of financial statements. The process of establishing relationship and interpretation thereof to understand the working and financial position of banks is called financial performance analysis.

Common size Statement

The common-size statements, balance sheet and income statement are shown in analytical percentage. Sales are taken as the common base in the common size income statement .All expense is recorded as a percentage of sales. In the common size balance sheet, total of assets or liabilities is taken as the common base. Each item is expressed as a percentage of the total. Common size statements are useful to a financial analyst. The make Comparison easy and meaningful.

i. Common -size Balance sheet,

ii. Common - size income statement.

(i) Common -size Balance sheet

A statement in which balance sheet are expressed as the ratio of each asset to total assets and the ratio of each liability is expressed as a ratio of total liabilities is called common –size Balance sheet.

(ii) Common – size income statement

The items in income statement can be shown as percentages of sales to show the relation of each item of sales. A significant relationship can be established between sales and other items in income statement and this relationship is helpful in evaluating operational activities of the enterprise.

Comparative Statement

The comparative financial statement is statements of the financial position at different periods; of time. Financial position is shown in a comparative form so as to give an idea of financial position at two or more periods. Any statement prepared in a comparative form will be covered in comparative statements.

Two type of comparative statements

(i). Comparative balance sheet

The comparative balance sheet analysis is the study of the trend of the same items, group of items and computed items in two or more balance sheet of the same business enterprise on different dates. The changes in periodic balance sheet items reflect the conduct of a business. The changes can be observed by comparison of the balance sheet at the beginning and at the end of a period and these changes can help in forming an opinion about the progress of an enterprise.

(ii) Comparative Income statement

The Income statement gives the results of the operations of a business. The Comparative Income statement gives an idea of the progress of a business over a period of time. The changes in absolute data in money values and percentages can be determined to analyses the profitability of the business.

Research Methodology

Method of Research

The method of research adopted for the study is 'Descriptive research'. The purpose of descriptive research is to describe the state of affairs as it exists at present. The study describe about the financial position and soundness of the bank.

Collection of Data

The data required for the analysis of the study were collected from the secondary sources. The figures were taken from the bank's websites and the bank's annual reports. The data relate to all over India. The Official website of the bank

Objectives of the Study

1. To Study Relationship between Net Profit and Total Income of the study area.
2. To Analyze the Relationship between Total Income and Total Assets.

Research Design

By mean of analysis published annual reports and balance sheets the researcher prepared the report of the study.

Pilot Study

This study covers a period of 5 years from 2008-2009 to 2012-2013. Data relate to 5 years were collected from the websites of the Bank of India

Analysis of Data – Tools Applied

The data were analyzed applying certain financial tools in the study which are as follows:

- Ratio Analysis

Ratio Analysis

Ratio analysis is the systematic use of ratio to interpret the financial statement. So that the strength and weakness of the firm as well as its historical performance and current financial condition can be determined. An accounting ratio show the relationship in mathematical terms between two inter related accounting figures through ratio analysis, we can get adequate information useful for the performance of various function like planning organization, coordinating controlling, communication, forecasting.

Net Profit Ratio

Net profit ratio helps in determining the efficiency with which affairs of the business are managed. It is the relationship between profit & total Income.

$$\text{NET PROFIT RATIO} = \frac{\text{NET PROFIT}}{\text{TOTAL INCOME}} \times 100$$

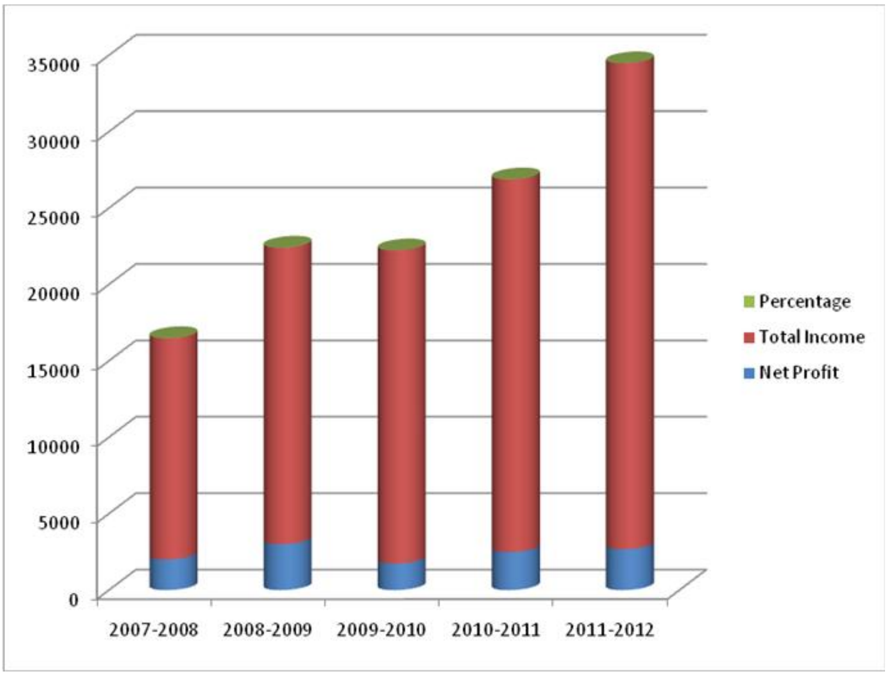
Table -1.1 **Rs. in Cr**

Year	Net Profit	Total Income	Percentage
2008-2009	2009.40	14474.15	13.9
2009-2010	3007.35	19399.22	15.5
2010-2011	1741.07	20494.63	8.5
2011-2012	2488.71	24393.49	10.2
2012-2013	2677.52	31801.84	8.4

Interpretation

The bank net profit is fluctuating for every year. It shows high in 2010-2011(8.5) and low in 2012-2013(8.4).

Chart-1.2



Total Asset turnover Ratio

It is the relationship between total income and total assets

$$\textbf{TOTAL ASSET TURNOVER RATIO} = \frac{\text{TOTAL INCOME}}{\text{TOTAL ASSETS}}$$

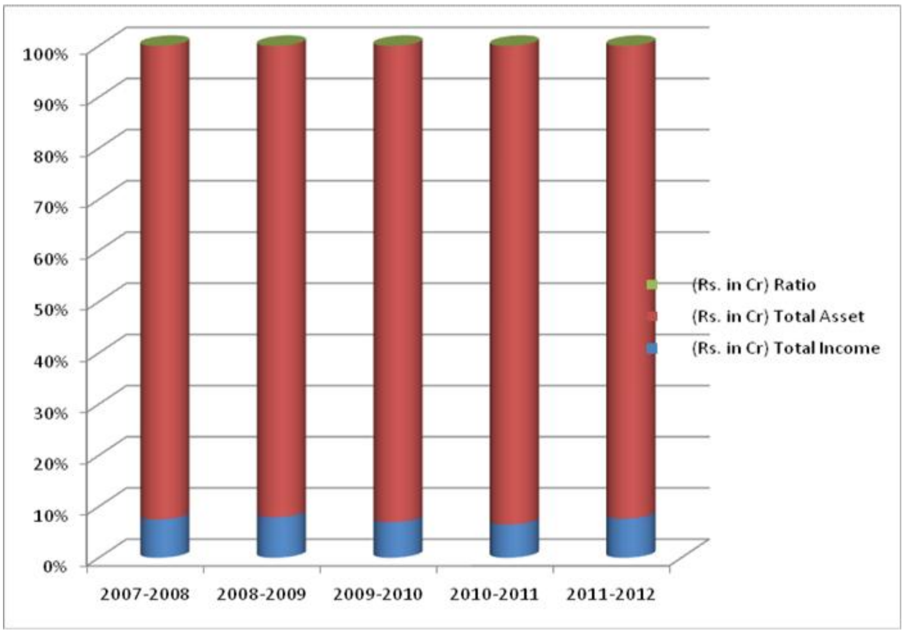
Table - 2.1

Year	Total Income	Total Asset	Ratio
2008-2009	14472.15	178830.00	0.08
2009-2010	19399.22	225501.75	0.08
2010-2011	20494.63	274466.46	0.07
2011-2012	24393.49	351172.55	0.06
2012-2013	31801.84	384535.47	0.08

Interpretation

The total assets of bank increased for the every year. The changes were also very little every year. It shows high in 2012-2013(0.08) and low in 2011-2012(0.06).

Chart 2.2



Ratio Analysis

- This ratio was fluctuation in nature over the period of the study. It shows high in 2008-2009(23.09) and low in 2012-2013(21.90).
- The total assets of bank increased for the every year. The changes were also very little every year. It shows high in 2012-2013(0.08) and low in 2011-2012(0.06).

Conclusion

Performance of any institution is important and must be better especially financial performance .Financial Performance of the banks in India is competitive today. Every bank has to compete with other banks through performance. The bank of India is a leading commercial bank wise and what its financial performance at present is highlighted as the conclusion of the study based on analysis. During the periods of under study, the total income of the bank increased and the expenditure of the bank decreased; Borrowings and Other liabilities decreased; Advances and Net block increased. The trend shows that the total assets increased more than the increase of total liabilities .Finally, the net profit of the ban**k steadily increased.**

Ratios applied on various items of financial operations show better position. In detail the ratios relating to the net profits return on total assets current ratio advances over deposits slightly increased which is good during the five years period.

To conclude, the overall financial performance of Bank of India at all India level is highlighted as good and appreciable .It is sure that the Bank of India in our country will have sustainable growth in the competitive banking scenario as per the study.

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