International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 7.098 Volume 12, Issue 06, June 2025
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EVALUATION OF FINANCIAL PERFORMANCE OF STATE BANK OF INDIA USING CAMELS ANALYSIS

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Abstract:

State Bank of India is a public sector bank and the largest bank in India with a 23% market share by assets and a 25% share of the total loan and deposits market. It became the third lender and seventh Indian company to cross the ₹ 5-trillion market capitalisation on the Indian stock exchanges. Several initiatives have been undertaken in reshaping SBI into a technologically advanced universal banking institution, with optimised operational efficiency and with 'Delighting Customers' as its strategic driving priority. Today, these transformative initiatives have made SBI highly competitive and relevant to its diverse base of customers. With this backdrop, the present study has been undertaken to evaluate the financial performance of SBI in delivering superior value creation through sustainable growth.

Keywords:

Deposits, Loans & Advances, CAMEL Analysis, Profitability, Capital Adequacy and Non-Performing Assets

1. INTRODUCTION

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payment banks to be created recently, thereby adding to the type of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64% of the total assets held by the financial system.

India's banking sector has undergone significant changes over the past few decades, In addition to traditional banking services such as deposit-taking and lending, Indian banks also offer a range of financial products and services, including insurance, mutual funds, and investment banking services. The Government of India has introduced several reforms to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for MSMEs, issuing guidelines to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by Government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

Public Sector Banks are a major type of government owned banks in India, where a majority stake (i.e. more than 50%) is held by the Ministry of Finance (India) of the Government of India or State Ministry of Finance of various State Governments of India. Banks classified as public sector banks are those in which the federal or state governments hold a majority stake. Public sector banks are established through parliamentary acts. The public sector, which makes up a percentage of the nation’s overall economy, is under the jurisdiction of the government or other governmental agencies.

The backbone of the Indian economy is the public sector banking system. There are 27 public sector banks in total as of 2017. On August 30, 2019, the announcement of public sector bank mergers by Finance Minister Nirmala Sitharaman resulted in the reduction of the number of public sector banks to 12. There are now 12 public sector banks in India. After major mergers, these are the 12 public sector banks in 2023.

1.1.State Bank of India

State Bank of India (SBI), state-owned commercial bank and financial services company, nationalized by the Indian government in 1955. SBI maintains thousands of branches throughout India and offices in dozens of countries throughout the world and its headquarters are in Mumbai. The original name of the State Bank of India was Imperial Bank of India. The Imperial Bank of India was formed in 1921 by amalgamating the three Presidency banks of Bengal, Bombay and Madras. Prior to Independence, the Imperial Bank was handling the entire business and banking transactions of the Government.

The core values of the State Bank of India are:

- Service
- Transparency
- Ethics
- Politeness
- Sustainability

Figure 1: Vision, Values, Mission & Services of SBI

The State Bank of India emerged as a pacesetter, with its operations carried out by the 480 offices comprising branches, sub offices and three Local Head Offices, inherited from the Imperial Bank. Instead of serving as mere repositories of the community's savings and lending to creditworthy parties, the State Bank of India catered to the needs of the customers, by banking purposefully. The bank served the heterogeneous financial needs of the planned economic development.

At State Bank of India (SBI), is the firm believers of the '*Reform, Perform and Transform'* mantra. They are passionately driven to meet the future needs of a transforming India and are guided by unflinching commitment towards sustained value generation.

2. LITERATURE REVIEW

Chakraborty and Debnath (2021) conducted a study on the impact of financial inclusion on the financial performance of banks in India, including SBI. The study found that financial inclusion had a positive impact on the financial performance of banks, including SBI.

G. Kumar and G. Kapoor (2022) highlight that Public Sector Banks (PSBs) dominate the Indian banking sector, holding a significant market share. This study indicate that SBI's solvency and asset utilization are superior to those of the industry and its competitors. Additionally, SBI demonstrates a more effective use of shareholder funds and a stronger Current Account Savings Account (CASA) ratio compared to the industry and other banks.

Gupta and Bhatia (2019) analyzed the financial performance of Indian public sector banks, including SBI, using a composite scorecard approach. The study found that SBI had a higher score compared to other public sector banks, indicating better financial performance.

Nayak and Singh (2020) conducted a study on the financial performance of Indian banks during the COVID-19 pandemic, including SBI. The study found that the pandemic had a negative impact on the financial performance of banks, including SBI. However, SBI's financial performance was relatively better compared to other banks due to its strong digital infrastructure.

Jha, S., and Hui, X. (2012) found that public sector banks are significantly less efficient than their counterpart are; however domestic private banks are equally efficient to foreign-owned (joint venture) banks. Furthermore, the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio, interest expenses to total loan and net interest margin, while capital adequacy ratio had considerable effect on return on equity.

K. Gayathri and M. Chandraiah (2020) highlighted that SBI experienced the greatest variability in profitability, whereas Indian Bank had the least. Overall, SBI outperformed all other public sector banks in terms of profitability.

Kumbirai, M., and Webb, R. (2010) found that overall bank performance increased considerably and a significant change in trend is noticed at the onset of the global financial crisis in 2007, reaching its peak during 2008-2009. This resulted in falling profitability, low liquidity and deteriorating credit quality in the South African Banking sector.

Mishra et al. (2021) found that SBI had a higher ROA and ROE compared to other banks in India. The study also found that SBI had a higher NIM and lower NPA compared to other banks.

Navyashree S, Dr. D Jogish (2023) focuses on the management of non-performing assets (NPAs) at the State Bank of India (SBI), one of the largest public sector banks in the country. The study is guided by four main objectives: to examine the gross and net NPAs at SBI, to analyze the NPAs across different sectors and segments, to evaluate the provisions made for NPAs, and to assess the impact of NPAs and these provisions on SBI's profitability. The findings indicate that SBI has enhanced its asset quality and credit risk management over the five-year period, as demonstrated by a downward trend in both gross and net NPAs, a reduction in NPAs within high-risk sectors, and an increase in provisions and profitability.

Padhan and Naik (2018) found that SBI had a higher ROA and ROE compared to other public sector banks. The study also found that SBI had a higher NIM and lower NPA compared to other public sector banks.

Palamalai, S., and Britto, J. (2017) found that the financial performance of private sector banks is relatively better than the public sector banks throughout the study period. Besides, the study examines the impact of liquidity, solvency and efficiency on the profitability of the selected Indian commercial banks by employing the panel data estimations, *viz.* the Fixed Effect and Random Effect models. The empirical results from the panel data estimations revealed that the liquidity ratio and solvency ratio, and the turnover ratio and solvency ratio are found to have positive and significant impact on the profitability of selected public sector and private sector banks, respectively, bearing testimony to the fact that profitability is a function of those ratios.

Patel Bhavesh Kumar K (2020), study the Financial performance of SBI bank, mainly to find out the profitability, liquidity ratios and solvency ratios to measure the financial health of SBI bank. The market position of SBI is better. Financial analysis is used to find the banks position in maintaining the day to day operations. SBI have more profitability because it enters into the industry as well as commercial market also and regularly it improving the service quality level. In this highly competitive global environment it is imperative for the SBI bank to show outstanding performance in various parameters.

Pinto, P., Hawaldar, I. T., Rahiman, H. U., TM, R., and Sarea, A. (2017) in the study "An evaluation of financial performance of commercial banks" indicate that the profitability has an impact on capital adequacy and financial leverage, whereas the study did not ratify the relationship between the profitability and efficiency of the banks. This study also reveals that enforcement of higher capital adequacy ratio will adversely affects the profitability of the banks. The impact of financial and oil crisis might have influenced the financial leverage of the banks there by resulted in an adverse effect on the profitability of the banks.

Priyadarshan, R. Sarvamangala (2022) conducts a comparative analysis of the performance of two prominent banks in India: the public sector State Bank of India (SBI) and the private sector HDFC Bank and the study evaluates various performance metrics, including interest earned, operating profit, net profit, Earnings Per Share (EPS), non-performing assets (NPA), and return on assets. The analysis employs statistical methods such as calculating the arithmetic mean, standard deviation, and hypothesis testing to derive conclusions based on the gathered data.

Prof. Bhoomi Ahuja and Shivam Premshankar Gupta (2023) conducted a comparative study of the financial reports of SBI and ICICI Bank, highlighting that the analysis and interpretation of financial statements have become crucial techniques in credit appraisal. Consequently, it is imperative for all organizations, whether in finance, manufacturing, or other sectors, to prepare and analyze their financial statements.

Raut and Gupta (2021) analyzed the impact of the COVID-19 pandemic on the financial performance of SBI bank during the year 2020. The study found that SBI bank had a decline in its financial performance during the pandemic due to an increase in provisions for bad loans. However, the bank's performance was better than its competitors during the pandemic. The researchers concluded that SBI bank had managed to maintain a satisfactory financial performance during the pandemic.

Shabbir et al. (2018) conducted a study on the impact of corporate governance on the financial performance of banks in India, including SBI. The study found that good corporate governance practices had a positive impact on the financial performance of banks, including SBI.

Shah, S. Q., and Jan, R. (2014) finds that Bank size and Operational Efficiency is negatively related with ROA and positive relationship was found with Assets management ratio. While, Bank size is positively related with Interest Income and Asset Management and Operational Efficiency is negatively related with Interest Income.

Singh and Sahu (2019) analyzed the financial performance of SBI bank after its merger with five associate banks in 2017. The study found that SBI bank had a significant growth in terms of assets, deposits, and loans after the merger. The researchers concluded that the merger had a positive impact on the financial performance of SBI bank.

3. OBJECTIVES OF THE STUDY:

The financial significance of banking institutions in the world is increasing today. Banks play the role and function of keeping the savings of people, generation of capital for doing business, growth of the economy of the country, and promoting innovative activities, and forming the monetary policies of the country. Measuring the achievement of a bank is a very efficient method of checking the stability of a company in the economic and financial sense.

The main objective of the present study is to evaluate the Financial performance of State Bank of India through trend ratio analysis for the period of four years i.e., from 2018-19 to 2021-22.

The Study specially aimed at:

1) To evaluate the profitability of SBI with key ratios
2) To find the asset quality of the bank, focusing specifically on the NPAs and their consequences to the profitability of SBI.
3) To know the liquidity and solvency positions of the bank
4) To analyze the efficiency of the cost-to-income ratio of the bank in managing its cost as an expense.
5) To examine and compare the financial performance of SBI with the industry averages from the view point of a neural onlooker.
6) To examine and compare the overall profitability of SBI with the industry averages.

4. DATABASE & METHODOLOGY:

The study is based on two sets of data viz., Primary and Secondary. The Primary data was obtained from interviews and discussions with Executives of concerned Departments relating to subject information in the Bank. The secondary data was collected from the various publications & websites of The RBI, The Directorate of Economics and Statistics. Data relating to Axis Bank in India was obtained from the annual reports & websites of Axis Bank in India.

The collected data was suitably classified and tabulated for the purpose of analysis and interpretation. For analyzing the data for the present study, the financial tools used are CAMELS Analysis, Trend Ratios and Compound Annual Growth Rate (CAGR) and the data are represented in tables and graphs.

❖ **CAMELS Analysis**

For analysing the financial performance of SBI, CAMELS approach is used. This approach is an international system used by banks and companies to evaluate its economic and financial performance.

This approach is mostly used by rating bodies of developed countries and is a very trusted approach since the financial crunch of 2008. It is a very dependable system especially in the case of a risky banking institution (Finance, 2020). This study involves the comparison of the ratios of the CAMELS analysis of 2019 with the previous years (Al Muhairi and Nobanee, 2019).

5. RESULTS & DISCUSSIONS:

The study is chosen on financial performance of the State Bank of India through CAMELS Approach and Compound Annual Growth Rate (CAGR) with a view to evaluate Bank's performance over a period of 5 years i.e., from 2017-18 to 2021-22.

Profitability is one of the most important objectives of the banks. It is an evidence of the efficiency of its management and its ability to attract money and investments. Considered CAMELS Analysis and Compound Annual Growth rate as proxy for measurement of banks' profitability and liquidity. The factors affecting the profitability of the Bank are as follows:

- High cost of funds.
- Low yield of funds
- Poor cash management
- Absence of qualitative lending.
- NPA Management
- Volume of business & Reduction of spread
- Good House Keeping
- Non-Fund Business.

Keeping in view of the above areas, the performance of the Bank is analyzed through the following CAMELS analysis and interpreted by way of tables and graphs.

5.1. CAMELS ANALYSIS:

The CAMELS rating system assesses the strength of a bank through six categories. CAMELS is an acronym for Capital Adequacy, Assets, Management Capability, Earnings, Liquidity, Sensitivity. The rating system is on a scale of one to five, with one being the best rating and five being the worst rating. The CAMELS analysis – Capital Adequacy, Asset Quality, Management, Earnings and Liquidity – was created by bank regulatory agencies in the US in 1979. In 1997, a sixth component was added to measure banks' 'Sensitivity' to market risk, thereby becoming CAMELS.

It is calculated based on six factors.

C - Capital Adequacy

A - Asset Quality

M – Management Efficiency

E - Earnings

L - Liquidity

S - Sensitivity.

The following are some of the most important metrics that investors need to know while researching a banking firm:

1. Capital Adequacy Ratio (CAR)
2. Gross and Net Non-Performing Assets
3. Provision Coverage Ratio
4. Return On Assets
5. CASA Ratio
6. Net Interest Margin
7. Cost To Income

Figure 2: Components of CAMELS Analysis

❒ **Capital Adequacy Ratios:**

Capital adequacy assesses an institution's compliance with regulations on the minimum capital reserve amount. Regulators establish the rating by assessing the financial institution's capital position currently and over several years. Future capital position is predicted based on the institution's plans for the future, such as whether they are planning to give out dividends or acquire another company. The CAMELS examiner would also look at trend analysis, the composition of capital, and liquidity of the capital.

Table 1: Capital Adequacy Ratios of SBI for the period 2017-18 to 2021-22

	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Capital Adequacy Ratio	12.6	12.72	13.06	13.74	13.83
Advances to Assets Ratio	56.01	59.38	58.85	54.02	54.82
Debt Equity Ratio	14.83	14.68	15.56	14.53	15.27

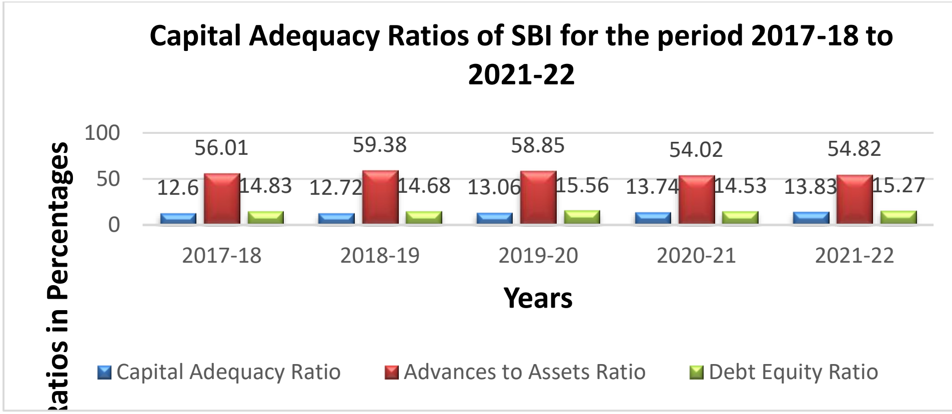

Figure 3: Capital Adequacy Ratios of SBI for the period 2017-18 to 2021-22

During the period of study, the Capital Adequacy and debt-equity ratios are increasing whereas the Assets-Advances ratio is decreased in last two years.

- **Assets Quality Ratios**

This category assesses the quality of a bank's assets. Asset quality is important, as the value of assets can decrease rapidly if they are high risk. The examiner looks at the bank's investment policies and loan practices, along with credit risks such as interest rate risk and liquidity risk. The quality and trends of major assets are considered. If a financial institution has a trend of major assets losing value due to credit risk, then they would receive a lower rating.

Table 2: Asset Quality Ratios of SBI for the period 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
Net NPA to net advances	5.73	3.01	2.23	1.50	1.02
Total investments to total assets	30.71	26.27	26.50	29.81	29.70
Net NPA to Total Assets	2.05	1.48	1.08	0.60	0.28

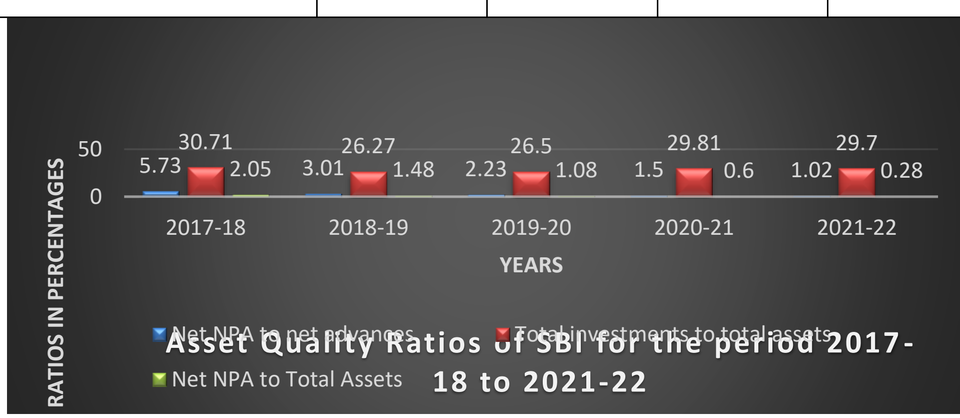

Figure 4: Asset Quality Ratios of SBI for the period 2017-18 to 2021-22

The above table and figure depicts that the Assets quality Ratios of the bank are not satisfactory as all the three are showing down-trend.

❒ Management Capability

Management capability measures the ability of an institution's management team to identify and then react to financial stress. The category depends on the quality of a bank's business strategy, financial performance, and internal controls. In the business strategy and financial performance area, the CAMELS examiner looks at the institution's plans for the next few years. It includes the capital accumulation rate, growth rate, and identification of the major risks.

Table 3: Management Efficiency Ratios of SBI for the period 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
Total Advances to Total Deposits	71.49	75.08	71.73	66.54	67.48
Return on Assets Ratio	-1.90	2.34	0.37	0.45	0.64

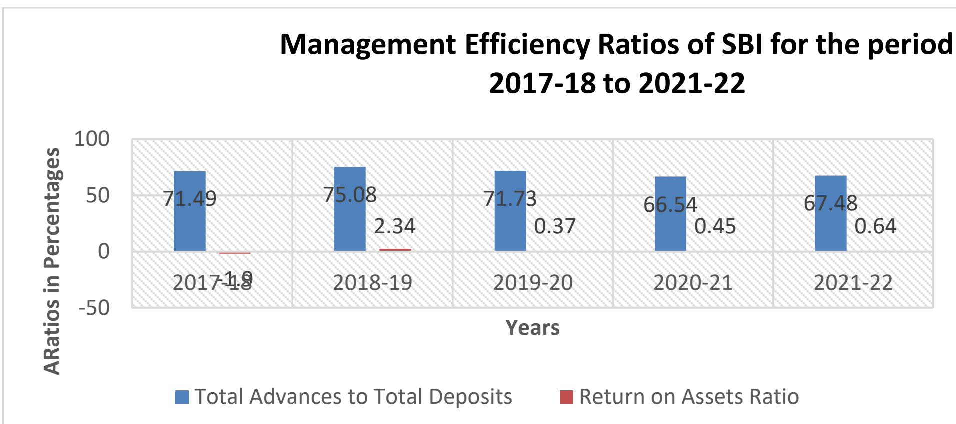

Figure 5: Management Efficiency Ratios of SBI for the period 2017-18 to 2021-22

During the study period, the Management Capability Ratios are also not satisfactory are ratios are in down trend only.

❒ Earnings

Earnings help to evaluate an institution's long term viability. A bank needs an appropriate return to be able to grow its operations and maintain its competitiveness. The examiner specifically looks at the stability of earnings, return on assets (ROA), Net Interest Margin (NIM), and future earnings prospects under harsh economic conditions. While assessing earnings, the core earnings are the most important. The core earnings are the long term and stable earnings of an institution that is affected by the expense of one-time items.

Table 4: Earnings Quality Ratios of SBI for the period 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
Interest Income to Total Income	77.17	74.69	76.6	73.46	75.42
Operating Profit to Total Assets	1.99	1.65	1.43	1.56	1.87
Net Interest Margin to Total Assets	2.36	2.28	2.51	2.36	2.15

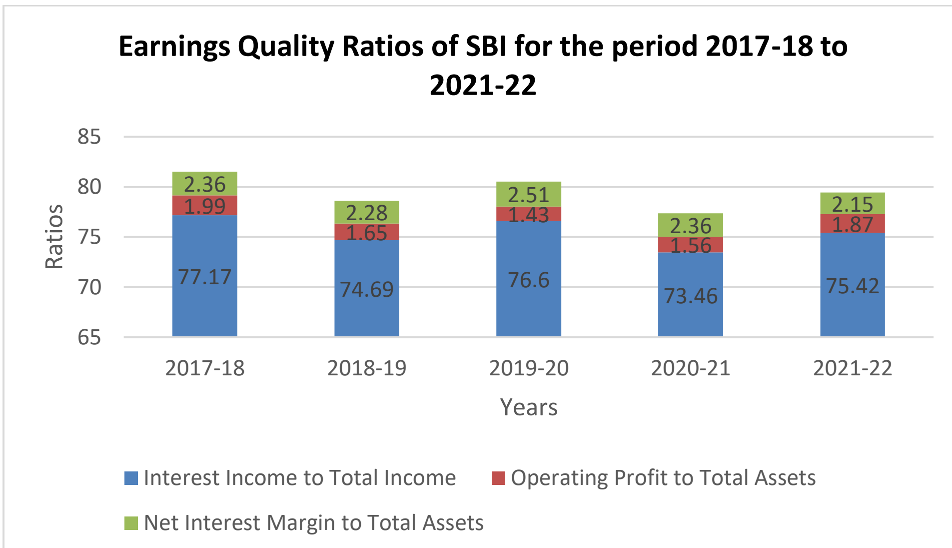

Figure 6: Earnings Quality Ratios of SBI for the period 2017-18 to 2021-22

The above table and figure gives the clear picture of the Earning quality of the Bank, which is not satisfactory.

- **Liquidity**

For banks, liquidity is especially important, as the lack of liquid capital can lead to a bank run. This category of CAMELS examines the interest rate risk and liquidity risk. Interest rates affect the earnings from a bank's capital markets business segment. If the exposure to interest rate risk is large, then the institution's investment and loan portfolio value will be volatile. Liquidity risk is defined as the risk of not being able to meet present or future cash flow needs without affecting day-to-day operations.

Table 5: Liquidity Ratios of SBI for the period 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
Liquid Asset to Total Asset Ratio	7.93	5.4	5.79	6.43	7.38
Liquid Asset to Total Deposits Ratio	10.51	7.17	7.67	9.61	10.36

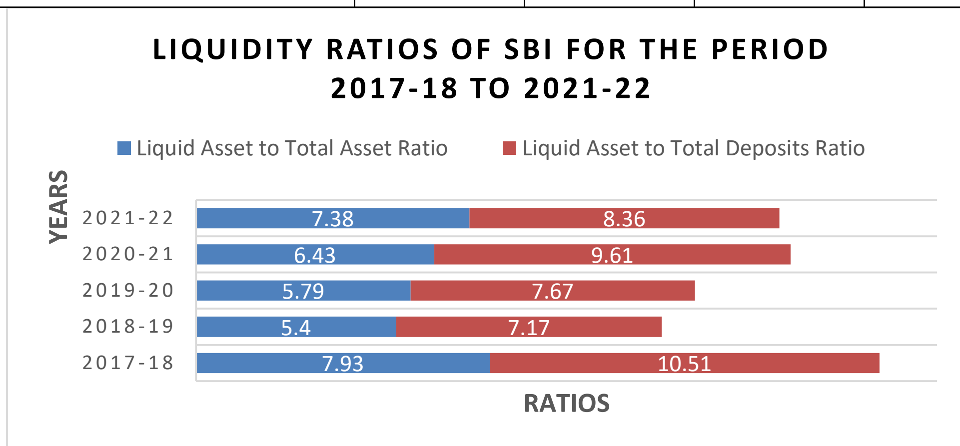

Figure 7: Liquidity Ratios of SBI for the period 2017-18 to 2021-22

The above table reveals that the liquidity position of the Bank is satisfactory as it is showing increasing trend.

❒ **Sensitivity**

Sensitivity is the last category and measures an institution's sensitivity to market risks. For example, assessment can be made on energy sector lending, medical lending, and agricultural lending. Sensitivity reflects the degree to which earnings are affected by interest rates, exchange rates, and commodity prices, all of which can be expressed by Beta.

4.2. Compound Annual Growth Rate (CAGR)

The Compound Annual Growth Rate (CAGR) is the Rate of Return (RoR) that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span. It is often used to measure and compare the past performance of investments or to project their expected future returns.

To calculate the compounded annual growth rate on investment, use the CAGR calculation formula and perform the following steps:

- Divide the investment value at the end of the period by the initial value.
- Increase the result to the power of one divided by the tenure of the investment in years.
- Subtract one from the total.

CAGR = [(Ending Value/Beginning Value) ^ (1/N)]-1

Table 6: CAGR of Deposits during the Period 2017-18 to 2021- 22

S. No.	Year	Deposits (In Rs.)	CAGR (in %)
1	2018- 19	27,06,344	**8.40**
2	2019- 20	29,11,386	
3	2020- 21	32,41,621	
4	2021- 22	36,81,277	

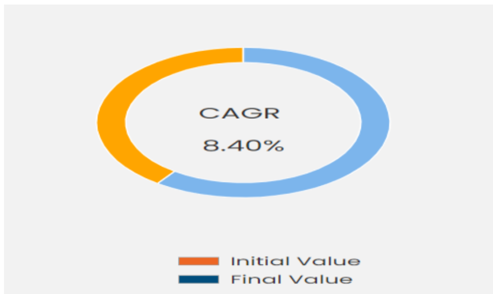

Figure 8 CAGR of Deposits during the Period 2018 - 22

The CAGR of Deposits during the period 2017-18 to 2021-22 is 8.4 %.

Table 7: CAGR of Advances during the Period 2017-18 to 2021- 22

S. No.	Year	Advances (In Rs.)	CAGR (in %)
1	2018- 19	19,34,880	**7.16**
2	2019- 20	21,85,877	
3	2020- 21	23,25,290	
4	2021- 22	24,49,498	

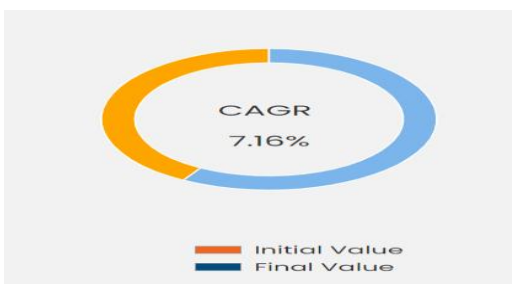

Figure 9: CAGR of Advances during the Period 2018 - 22

The Compound Annual Growth Rate of Advances during the period 2017-18 to 2021-22 is 7.16 %, which is less than CAGR of Deposits.

Table 9: CAGR of EPS during the Period 2018 - 23

CAGR of Earning Per Share During the Period 2019-22			
S. No.	**Year**	**EPS (In Rs.)**	**CAGR (in %)**
1	2017- 18	7.67	**35.85%**
2	2018- 19	0.97	
3	2019- 20	16.23	
4	2020- 21	22.87	
5	2021-22	35.49	

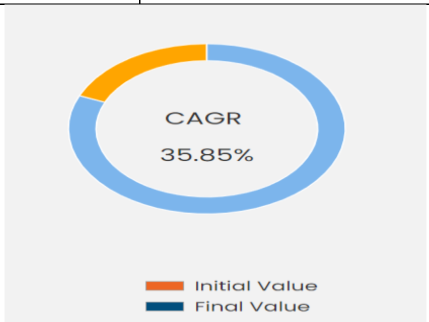

Figure 10: CAGR of EPS during the Period 2018 - 23

The CAGR of Earning per Share is 35.85 % which shows the efficiency of the Bank during the study period.

TREND ANALYSIS:

Trend analysis shows changes in a ratio over time, which helps the company to compare its current performance with the past and forecast future events. Trend analysis consists of using ratios to compare company performance on an indicator over time, often to forecast or inform future events.

5.3.1. Trend Percentages:

A trend percentage, also called an "index number," lets you compare financial information, such as net sales, cost of goods sold, operating expenses, gross profit and inventory, over time to a base period or year. It's a form of horizontal analysis that reveals a change or trend in a company's financial statement accounts over a period of time.

Table 10: Trend Growth of Advances during 2017-18 to 2021-22

Year	Advances (Rs. In Crores)	Increase/Decrease (Rs. In Crores)	Increase/Decrease (Rs. In Percentage)	Trend Ratios
2017-18	19,34,880	-	-	100
2018-19	21,85,877	2,50,997	12.97	112.97
2019-20	23,25,290	3,90,410	20.18	120.18
2020-21	24,49,498	5,14,618	21.01	121.01
2021-22	27,33,967	7,99,087	41.30	141.30

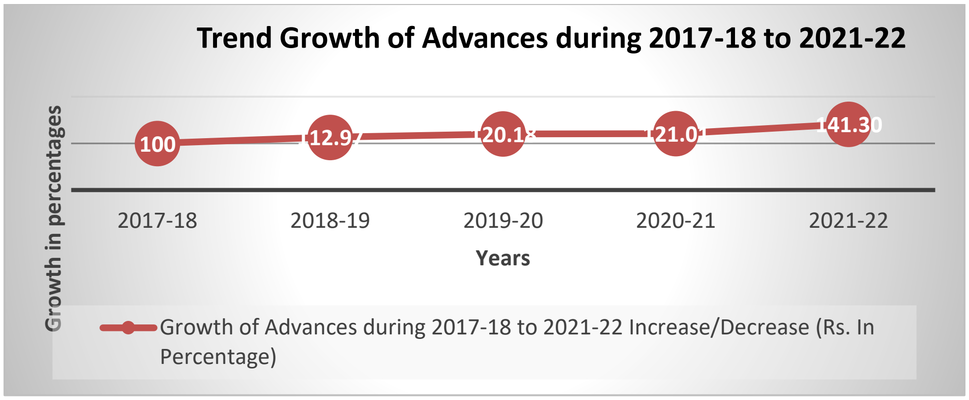

Figure 11: Trend Growth of Advances during 2017-18 to 2021-22

During the study period, the trend of advances shows an increasing trend, which is very satisfactory.

Table 11: Trend Growth of Deposits during 2017-18 to 2021-22

Year	Deposits (Rs. In Crores)	Increase/Decrease (Rs. In Crores)	Increase/Decrease (Rs. In Percentage)	Trend Ratios
2017-18	27,06,344	-	-	100
2018-19	29,11,386	2,05,042	7.58	107.58
2019-20	32,41,621	5,35,277	19.78	119.78
2020-21	36,81,277	9,74,933	36.02	136.02
2021-22	40,51,534	13,45,190	49.71	149.71

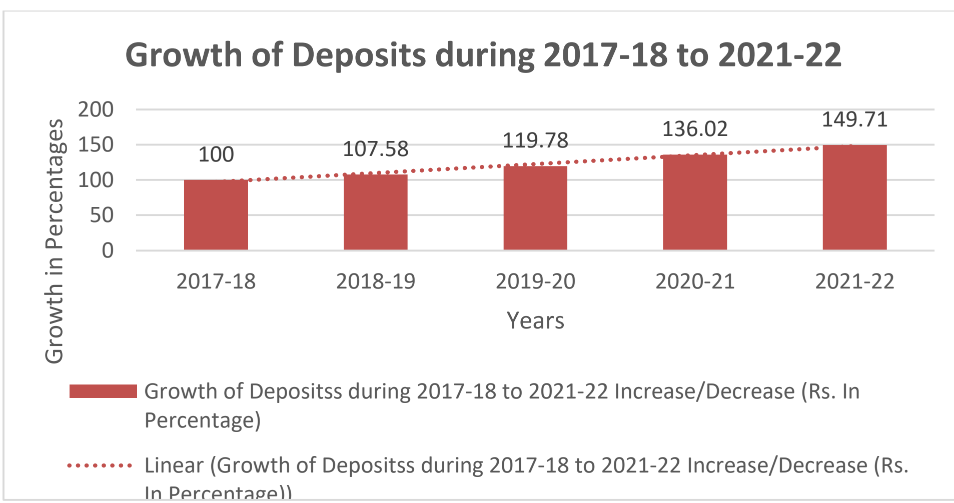

Figure 12: Trend Growth of Deposits during 2017-18 to 2021-22

During the study period, the trend ratios of Deposits also satisfactory as the trend line is increasing. The results indicate that profitability of the State Bank of India is affected by both internal and external factors. Strength of equity capital, operational efficiency, ratio of banking sector deposits had significantly positive effect on profitability of banks and credit risk, cost of funds, non-performing assets (NPA) ratio has significantly negative influence on banks' profitability while bank size and ratio of priority loans to total loans do not have any influence on the profitability.

6. CONCLUSIONS:

State Bank of India is one of the greatest banks in India. Although it has an above average performance in most of the years after it was created, the performance was a bit down in the year 2017 and 2018. In the later years of 2019, the performance again began to recover. Also, in order to improve the profitability and solvency of the bank, it is necessary to improve upon the decision making. SBI should put an emphasis on increasing the level of working capital. This combined with good decision making will increase the liquidity, solvency and directly increase the income of the bank (Alhadhrami and Nobanee, 2019). There should be more effective utilization of assets to improve the Return on Assets status of the bank. The Debt to Assets ratio indicate that the bank should take measures to limit the level of debts. It is finally suggested that the bank increases the lending or loans from the deposits.

However, as seen from the detailed study made on the financial performance of the Bank, I am with the opinion that the performance of the Bank is very satisfactory. The Bank has to take effective measures in all aspects to in order to improve the performance of the Bank to the brighter mode. The Bank could increase its' profitability by making effective funds management, increasing Share capital, low cost deposits, decreasing high cost borrowings, maintaining good lending portfolio and finally strengthening recovery mechanism, which reduces Non-Performing Assets drastically.

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