CHAPTER II

FINANCIAL APPRAISAL – AN OVERVIEW
2.1 Introduction

2.2 Frame work of Financial Appraisal

2.3 BEPA- Borrowers Employees Profitability Analysis

2.4 DISCA- Depositors Investors Shareholders Creditors Analysis

2.5 Summary
2.1 INTRODUCTION

The stakeholders in banking industry may be interested in financial aspects of banking performance and management. In particular, they will be interested in how it performance is likely to impact upon them. The way in which financial information is used and compiled into financial reports and statements is heavily influenced by perceptions of what these users need and expect. The parties who have a primary interest in the financial performance of banking industry are Borrowers, Employees, Depositors, Investors, Shareholders and Creditors. Each of these groups is concerned that the banking provides an adequate financial return on its assets employed, and that it maintains a positive cash flow to service current obligations such as interest rate, bonus and to provide adequate dividends. Banking industry is concerned in minimizing the risk of default or bankruptcy. To manage financial stakeholders, the banking industry should focus on increasing profitability.

2.2 FRAME WORK OF FINANCIAL APPRAISAL

In the changing economic scenario, a professional approach to business development is essential and the survival of a banking institution depends on its ability to take up challenges coming up in the environment. Developing business through marketing of bank’s services is one of the crucial areas which need attention of the bankers to ensure profitable survival. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure in financial statement. Different stakeholders may wish to consider financial information available to them from slightly different perspectives. For example,
employees may be interested in the stability of their employer in terms of risk to their jobs but may also look at the profitability with a view to pay expectations and negotiations. Creditors may wish to assess the creditworthiness of banker and view their ability to pay their debts when they fall due and are they financially stable. Customers both depositors and borrowers may wish to assess the profitability and be interested in the financial stability of the banking as a way of judging the reliability of future. A shareholder may want to consider the likely returns and risks associated with investing in an organization. Investors may consider the stewardship of their funds – has the money been spent wisely and in line with the objectives of the concern. On the above aspects, financial position is framed on stakeholders view.
2.3 BEPA - BORROWERS EMPLOYEES PROFITABILITY ANALYSIS

Banks need to shore up their capital base to support higher credit growth and provide adequate resources needed by a growing economy. Loan book, with higher credit ratings, attracts lower risk weights leading to better capital to risk weighted assets ratio for the bank. Lesser delinquencies result in lower provisioning which increases the internal accruals. Borrower’s ratio will ultimately result in profitability. Employees are internal stakeholders. The primary internal stakeholders for any organization are the management and the employees. Both of these groups are concerned with the degree of internal environmental excellence that a firm exhibits. Employees focus mainly on salary, provisions, profitability and overall results of their efforts need to be measured and communicated across the organization. Like all businesses, banks profit by earning more money than what they pay in expenses. The major portion of a bank's profit comes from the fees that it charges for its services and the interest that it earns on its assets. Its major expense is the interest paid on its liabilities. Commercial banks essentially being commercial, the profit factor cannot be ignored at all. Profitability ratio examines whether bank is able to stand in negative shocks and contribute to the stability in the financial performance.

2.3.1 BORROWERS RATIOS

2.3.1. a) Advances to Working Funds

This is the ratio of the total advances to working funds. This ratio indicates bank aggressiveness in lending which ultimately results in better profitability. Higher ratio of advances of bank deposits (assets) is preferred to a lower one. Total advances also include receivables. The value of total assets is excluding the revaluation of all the assets.
2.3.1.b) Return on Advances Ratio

The return on advances includes interest/discount on advances/bills. It describes the bank’s ability in generating the income on advances. Higher the ratio is the better the position.

2.3.1. c) Bills Purchased and Discounted to Total Advances

Bill purchased and discounted to total advances ratio is determined as the proportion of bill purchased and discounted to total advances. The bank may purchase or discount clean or documentary bills at the current rate of interest. A higher ratio is considered better in generating income.

2.3.1. d) Cash credits, Overdrafts & loans to Total Advances

Cash credits, overdrafts and loans to total advances ratio is determined as the proportion of cash credits, overdrafts and loans to total advances. The bank may charge interest to the drawn amount. A higher ratio is considered better in generating income.

2.3.1. e) Term loan to Total Advances

Term loan to total advances ratio is determined as the proportion of term loan to total advances. Interest is charged on the total amount of the loan. A higher ratio is considered better in generating income.

2.3.1. f) Priority Sector Advances to Total Advances

Priority sector advances includes advances to small scale industries, agro industries, small business etc. This ratio is determined as the proportion of priority sector advance to total advances.

2.3.1. g) Public Sector Advances to Total Advances

This ratio is determined as the proportion of public sector advance to total advances. Public sector includes government sector (central and state), local authorities, quasi government bodies etc.
2.3.1. h) Bank Sector to Total Advances

Bank sector to total advances ratio is determined as the proportion of Bank sector to total advances.

2.3.1. i) Other Sector to Total Advances

Other sector to total advances ratio is determined as the proportion of other sector to total advances.

2.3.1. j) Secured Advances to Total Advances

Secured advance to total advances is represented as advances secured by tangible assets and advances covered by bank or government guarantees to total advances.

2.3.1. k) Unsecured Advances to Total Advances

Unsecured advances to total advances ratio is represented as advances as personal loan (high risk) to total advances. Unsecured advances are often more expensive and less flexible than secured loans. Higher rate of interest is charged.

2.3.1. l) Cost of Advances

The return on advances includes interest/discount on advances/ bills. It describes the bank’s ability in generating the income on advances. Higher the ratio is the better the position. This is the ratio of the total advances (including receivables).

2.3.1. m) Return on Advances adjusted to Cost of Funds

The return on advances includes interest/discount on advances/ bills. It describes the bank’s ability in generating the income on advances. Higher the ratio is the better the position. An adjustment to the return on advances that accounts to cost of funds.
2.3.1. n) Net NPA to Net Advances

Net NPAs are Gross NPAs net of provisions on NPAs and suspense account. In this ratio, Net NPAs are measured as a percentage of Net advances. It is the most important yardstick of assets quality. Lower the ratio, better the asset quality.

2.3.1. o) Gross NPA to Gross Advances

It is a measure of the quality of assets in that situation, where provisioning has not been made for loss of NPAs. This ratio is computed as proportion of Gross NPAs as a percentage of Gross Advances. Lower the ratio, better the asset quality.

2.3.2 EMPLOYEES RATIO

2.3.2. a) Wage Bill to Total Income Ratio

Wage bill to total income ratio is represented as payments to and provision for employees to total income. It is apparent that the wages incurred in a year occupies a major portion in the operating expenses hence a lower ratio is always preferred.

2.3.2. b) Wage Bill to Total Expenses Ratio

Wage bill to total expenses ratio is represented as payments to and provision for employees to total expenses. It is apparent that the wages incurred in a year occupies a major portion in the operating expenses hence a lower ratio is always preferred.

2.3.2. c) Wage Bill to Intermediation Costs Ratio

Wage bill to intermediation costs ratio is represented as payments to and provision for employee’s intermediation costs. Intermediation costs refer to total operating expenses. It is apparent that the wages incurred in a year occupies a major portion in the operating expenses hence a lower ratio is always preferred.

2.3.2. d) Business per Employee

This is an employee productivity measurement ratio. This tool measures the efficiency of all the employees of a bank in generating business for the bank. It is
arrived at by dividing the total business by the total number of employees. A higher ratio is considered better.

2.3.2. e) Profit per Employee

This ratio shows surplus earned per employee. It is arrived at by dividing the Profit after Tax (PAT) earned by the bank by the total number of employees.

2.3.2. f) Operating Expenses to Total Income

Expense incurred during the ordinary course of the business is otherwise called operating expenses. Considering the impact of operating expenses on the profitability of the bank this ratio is always preferred at lower level. Operating Expenses to Total Income ratio is represented as proportion of operating expenses to total income.

2.3.2. g) Non- Interest Income to Working Funds

Fee based income account for a major portion of the bank’s other income. The bank generates higher fee income through innovative products and adapting the technology for sustained service levels. The higher ratio indicates increasing proportion of fee-based income. The ratio is also influenced by gains on government securities, which fluctuates depending on the interest rate movement in the economy.

2.3.2. h) Non- Operating Expenses to Working Funds

Non-operating expenses are constituted by provision and contingencies and other expenses. It is the prime responsibility of the bank to check the non operating expenses. The percentage of non-operating expenses on the total assets indicates the effective utilization of the assets in generating income.

2.3.2. i) Intermediation cost to Working Funds

Intermediation costs refer to total operating expenses. Considering the impact of operating expenses on the profitability of the bank this ratio is always preferred at lower level. Intermediation costs to Total Assets ratio is represented as proportion of Intermediation costs to Total Assets.
2.3.3 PROFITABILITY RATIO

2.3.3. a) Operating Profit to Interest Income

Operating profit is defined as total earnings less total expenses, excluding provisions. Interest Income is a basic source of revenue for banks. The interest income total to income indicates the ability of the bank in generating income from its lending. In other words, this ratio measures the operating profit as a percentage of the interest income. Interest income includes income on advances, interest on deposits with the RBI and dividend income.

2.3.3. b) Operating Profit to Total Income

Operating profit is defined as total earnings less total expenses, excluding provisions. This ratio indicates how much a bank can earn from its operations net of the operating expenses for every rupee spent on total income. In other words, this ratio measures the operating profit as a percentage of the total income generated by the bank.

2.3.3. c) Net Profit to Interest Income

Net Profit is defined as the total income less total expenses. Interest Income is a basic source of revenue for banks. The interest income total to income indicates the ability of the bank in generating income from its lending. In other words, this ratio measures the net profit as a percentage of the interest income.

2.3.3. d) Net Profit to Total Income

Net Profit is defined as the total income less total expenses. This ratio indicates how much a bank can earn net profit for every rupee spent on total income. In other words, this ratio measures the net profit as a percentage of the total income generated by the bank.

2.3.3. e) Net Profit to Working Funds

Net Profit is defined as the total income less total expenses. Net profit to total asset indicates the efficiency of the banks in utilizing their assets in generating profits.
A higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future. A higher ratio indicates the better income generating capacity of the assets and better efficiency of management.

2.3.3. f) **Net Profit to Total Deposits**

Net Profit is defined as the total income less total expenses. Total deposits include demand deposits, savings deposits, term deposits and deposits of other financial institutions. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. This ratio is determined as proportionate of net profit to total deposits.

2.3.3. g) **Return on Equity Capital**

Return on equity is an important measure of the profitability of a company. Higher values are generally favourable meaning that the bank is efficient in generating income on new investment.

2.3.3. h) **Burden to Interest Income**

Burden is defined as the total non-interest expenses less total non-interest income. Interest Income is a basic source of revenue for banks. In other words, this ratio measures the Burden as a percentage of Interest income generated by the bank.

2.3.3. i) **Burden to Total Income**

Burden is defined as the total non-interest expenses less total non-interest income. Total Income is revenue for banks. In other words, this ratio measures the Burden to Total Income.

2.3.3. j) **Burden to Working Funds**

Burden is defined as the total non-interest expenses less total non-interest income. The ratio is the proportion of burden on working fund. It is accepted that higher the ratio better will be position.
2.3.3. k) Spread to Working Funds

Spread otherwise is known as the net interest margin is to understand the surplus generated by interest income over interest expended. If the spread is more naturally the earning quality is higher. Spread to working fund ratio establishes the effective application of working fund in the business hence a higher ratio is preferred.

2.3.3. l) Net Interest Margin to Total Income

NIM is the difference between the interest income (including dividend income) and the interest expended (including interest paid on deposits, loan from the RBI, and other short-term and long-term loans). As a percentage of total assets, shows the ability of the bank to keep the interest on deposits low and interest on advances high. It is an important measure of a bank's core income (income from lending operations). A higher spread indicates better earnings.

2.3.3. m) Interest Expended to Total Expenses

The interest component will be the decisive factor in determining the profitability of the bank and also the efficiency of the same. A meticulous planning and control technique is required to maintain a ratio at the lower level which would definitely result in higher profitability hence a lesser ratio is preferred.

2.3.3. n) Interest Coverage Ratio

Interest Coverage ratio is the relationship between the available EBIT and interest expended. A high ratio is preferred by the banking company so as to meet the requirement with comfort. This will further ensure that the required liquidity position of the bank. Since interest is the major source of income for a banking company, it is obvious that the deployment of funds should generate more income. The banking companies have to suffer if there is more amount in the name of nonperforming assets.
2.4 DISCA – DEPOSITORS INVESTORS SHAREHOLDERS CREDITORS ANALYSIS

Banking is a system which consists of processes like deposit, savings, account, credit facility and loans. All over the world the banking system will be more or less same. In commercial banking system depositor's money is the capital of a bank. Banks mobilize deposits and deploy the funds prudently keeping in view the safety and security of the depositors' funds. Depositor’s ratio is an important aspect to measure the financial position of the bank. Our debt and equity investors are key stakeholders in our business. In addition to ensuring a solid and sustainable investment return, banks are committed to maintain good relationships with investor. Investor's ratio helps to ascertain information on banking processes and procedures to ensure the financial performance to meet investors' expectations. Shareholders ratios mainly focus on the profitability growth, share price growth, Capital Adequacy ratios. Going forward, banks also need to increase their capital base, in view of the enhanced Basel-II regime as there may be some negative impact arising from shifting deductions from Tier-1 and Tier-2 capital to common equity. Impending implementation of Basel-III and IFRS puts further pressure on the Banks' capital. While banks have been raising capital from the market, the Government has also been supporting them through timely capital infusion. Creditors’ ratio determines on Borrowings. It determines the borrowings made through different sources. Also it indicates the financial position of the bank and the ability to meet all its financial requirements.

2.4.1 DEPOSITORS RATIOS

2.4.1. a) Cash to Deposit Ratio

The cash in hand comprises of Cash in hand, balances with other banks, balances with RBI, where the absolute liquidity is determined. This ratio measures the ability of a bank to meet the demand from deposits and other operating expenses in a
particular year. Here the banker must make sure that there should not be any idle cash balances but at the same time it has to comply with the regulation of RBI. This ratio measures the liquidity available to the deposits of a bank. Total deposits include demand deposits, savings deposits, term deposits and deposits of other financial institutions. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice.

2.4.1. b) Credit to Deposit Ratio

The total advances of the banks is broadly into three categories viz., type wise advances, security wise advances and sector-wise advances. The deposit comprises of type wise deposits, term deposits and location wise deposits. The credit deposit ratio is expressed as the proportion of total advances in the deposits of a bank. The ratio indicates the banks assertiveness in lending. Higher the ratio better will be utility of the available deposits. This ratio measures the efficiency and ability of the banks management in converting the deposits available with the banks (excluding other funds like equity capital, etc.) into high earning advances.

2.4.1. c) Cost of Deposits

The interest rate paid by financial institutions for the funds that they deploy in their business. The cost of funds is one of the most important input costs for a financial institution, since a lower cost will generate better returns when the funds are deployed in the form of short-term and long-term loans to borrowers. For lenders such as banks and credit unions, cost of funds is determined by the interest rate paid to depositors on financial products including savings accounts and time deposits.

2.4.1. d) Interest on Deposits to Interest Expended

Interest expended is the expenses incurred on the total deposits and borrowings. The interest component will be the decisive factor in determining the profitability of the bank and also the efficiency of the same
2.4.1. e) Deposits to Working Funds Ratio

The major source of fund required for liquidity for a bank is mobilized through deposits. By understanding the percentage of deposits the percentage of deposit in the total value of the assets; it helps one to know the bank’s performance in deposit mobilization.

2.4.1. f) Demand Deposits to Total Deposits Ratio

The major source of fund required for liquidity for a bank is mobilized through deposits. By understanding the percentage of demand deposit in the total value of the deposits; it helps one to know the bank’s performance in demand deposit mobilization.

2.4.1. g) Savings Deposits to Total Deposits Ratio

The major source of fund required for a bank is mobilized through deposits. Savings ratio of the depositors helps to know the banks performance in mobilizing fund from customer. By understanding the percentage saving deposit in the total value of the deposits; it helps one to know the bank’s performance in liquidity position.

2.4.1. h) Term Deposits to Total Deposits Ratio

Term deposit to total deposit ratio indicates the time period for fund disbursement. By understanding the percentage of term deposits in the total value of the deposits; it helps one to know the bank’s performance in term deposit mobilization.

2.4.1. i) Interest Income to Total Deposits

This is yet another measure to assess bank's ability to earn income from its core lending operations, expressed as a percentage of the total income generated by the bank in a year. Interest income is the basic source of revenue for a bank. Interest income includes income on advances, interest on deposits with the RBI and dividend income. Banks with higher ratio will be contented with their performance.
2.4.1. j) Net Interest Margin to Total Deposits

NIM is the difference between the interest income (including dividend income) and the interest expended (including interest paid on deposits, loan from the RBI, and other short-term and long-term loans). As a percentage of total assets, shows the ability of the bank to keep the interest on deposits low and interest on advances high. It is an important measure of a bank’s core income (income from lending operations). A higher spread indicates better earnings given the total assets.

2.4.1. k) Interest Income to Total Income

Interest Income is a basic source of revenue for banks. The interest income total to income indicates the ability of the bank in generating income from its lending. In other words, this ratio measures the income from lending operations as a percentage of the total income generated by the bank in a year. Interest income includes income on advances, interest on deposits with the RBI and dividend income.

2.4.1. l) Interest Income to Working Funds Ratio

Interest Income is a basic source of revenue for banks. It includes income on advances, interest on deposits with the RBI and dividend income. It is appropriate to understand the percentage of interest earned on the total assets. Banks with higher ratio will be contented with their performance. The ratio represents the proportion of interest income on total assets value.

2.4.1. m) Interest Expended to Interest Earned

Interest expended is the expenses incurred on the total deposits and borrowings. Here the net interest margin is derived as the excess of interest earned over the interest expended. A lower level of this ratio indicates the advantages of higher profitability.
2.4.2 INVESTORS RATIO

2.4.2. a) Investment to Working Funds

Investment to total asset ratio is determined as the proportion of investment on the total value of assets of a bank. The investment is an item included in the total value of the assets.

2.4.2. b) Credit and Investment to Deposit Ratio

The credit and investment to deposit ratio is expressed as the percentage of the sum of credit and investment to the deposits in a bank. It expresses the utility of the total deposit mobilized by the bank.

2.4.2. c) Investment to Deposit Ratio

It expresses the percentage of investment to the deposits of the bank. The banks must find the avenues for investments with the available fund whenever the lending is not on the higher side it shall be offset with the help of investment portfolio.

2.4.2. d) Investments to Advances Ratio

The percentage of investment to total advances is a very important indicator, which shows the risk taking ability of the bank. It indicates a bank’s strategy as being high profit high risk or low profit low risk. Investments are generally considered with the highest safety and high returns. It also indicates how the banking company has focused towards their customers in lending loan rather in investing on its own.

2.4.2. e) Return on Investment

It is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. This ratio determines the interest earned on advances and bills to Investments.
2.4.2. f) Income on Investments to Interest earned

It is obvious that the bank’s major source of income is interest on advances. It is appropriate to understand the percentage of interest earned on the total assets. Banks with higher ratio will be contented with their performance.

2.4.2. g) Government Securities to Total Investments

The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in G-Secs. It also reflects availability (or dearth) of alternative investment opportunities. Government Securities offer lowest returns, being virtually risk free. A higher proportion of banks investment made in G-Secs indicates that banks' investments have lower risk.

2.4.2. h) Other Approved Securities to Total Investments

The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in other approved securities. Other approved Securities offer higher returns than G-/Secs, being virtually less risk free. A higher proportion of banks investment indicates that banks' investments have lower risk.

2.4.2. i) Shares to Total Investments

The proportion of its investments made in shares. Shares offer higher returns than any other investment.

2.4.2. j) Debentures and Bonds to Total Investments

This ratio proportionate Debentures and Bonds to total Investments. The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in Debentures and Bonds. A higher proportion of banks investment indicates that banks' investments have lower risk.
2.4.2. k) Subsidiaries and Joint venture to Total Investments

The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in subsidiaries and joint venture. A higher proportion of banks investment indicates that banks' investments have high risk.

2.4.2. l) Other Securities to Total Investments

The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in other securities. Other Securities offer higher returns being virtually high risk. A higher proportion of banks investment indicates that banks' investments have high risk.

2.4.2. m) Investment in Non-approved Securities to Total Investments

The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in non approved securities. A lower proportion of banks investment indicates that banks' investments have lower risk.

2.4.2. n) Return on Investment Adjusted to Cost of funds

This ratio describes Return on investment adjusted to cost of funds. It is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. This ratio determines the interest earned on advances and bills to Investments. It describes the bank’s ability in generating the income on cost of funds. Higher the ratio is the better the position.

2.4.3 SHAREHOLDERS RATIO

2.4.3. a) Equity Paid-up to Capital Employed

It establishes the relationship between the equity paid up capital employed. A judicious mix of fund is required to bring in healthy financial position.
2.4.3. b) Equity Paid up to Net Worth

It establishes the relationship between the equity paid up net worth. A judicious mix of fund is required to bring in healthy financial position. It is understood that Net worth is the Combination of Capital and Reserves & Surplus.

2.4.3. c) Return on Net Worth

Return on net worth is a measurement of profit earned on the net worth in a year. It is already described as the sum of capital and reserves. Ratio of return on net worth specifies how well a company leverages the investment in it.

2.4.3. d) Return on Capital Employed

The return on capital employed is an attempt to find the income generated before tax on the total capital employed in a year. Higher the ratios better the position.

2.4.3. e) Net Worth to Capital Employed Ratio

It is understood that Net worth is the Combination of Capital and Reserves & Surplus. Capital Employed on the other hand is the combination of Net worth and Long term debt. It requires a long term planning in order to face the implication in the extended period. The ratio establishes the relationship between the Net worth and Capital employed.

2.4.3. f) Net NPA to ROI

Net NPAs are Gross NPAs net of provisions on NPAs and suspense account. (ROI) is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

2.4.3. g) Return on Working Funds

Net profit to total asset indicates the efficiency of the banks in utilizing their assets in generating profits. A higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future.
2.4.3. h) Fixed Assets to Net Worth Ratio

Net Worth is the combination of Capital and Reserves and surplus. It presents the organizations capacity in investing fixed assets out of its own fund. It requires a long term planning in order to face the implication in the extended period.

2.4.3. i) Operating Profit to Working Funds

Operating profit is defined as total earnings less total expenses, excluding provisions. This ratio indicates how much a bank can earn from its operations net of the operating expenses for every rupee spent on working fund. The higher the ratio, the better it is. This ratio determines the operating profits generated out of working fund employed. The better utilization of the funds will result in higher operating profits.

2.4.3. j) Provision and Contingencies to Working Funds Ratio

It is estimated as the percentage of provision and contingencies on working fund. A lesser ratio is preferred where the banking institutions are accurate in forecasting the expenses to be incurred.

2.4.3. k) Debt- Equity Ratio

This ratio indicates the degree of leverage of a bank. It indicates how much of the bank business is financed through debt and how much through equity. This is calculated as the proportion of total borrowing and deposit to net worth. ‘Net worth’ includes equity capital and reserves and surplus. Higher the ratio indicates less protection for the creditors and depositors in the banking system.

2.4.3. l) Earnings Per Share

EPS is the ratio of the net earnings of the company and the total number of common shares issued by the company. Earnings per share serve as an indicator of a company's profitability.
2.4.3. m) Capital Adequacy Ratio

The banks are required to maintain the minimum CAR as specified by RBI from time to time, which currently stands at 9%. It is arrived at by dividing the sum of Tier-I and Tier-II capital by aggregate of Risk Weighted Assets (RWA). CAR= (Tier-I + Tier-II)/ RWA. The higher the CAR, the stronger the bank is considered, as it insures the bank against bankruptcy.

2.4.3. n) Capital Tier – I

Tier-1 capital includes equity capital and free reserves. Tier I capital is the core measure of a bank's financial strength.

2.4.3. o) Capital Tier – II

Tier-II capital includes subordinate debts of 5-7 years tenure, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments and undisclosed reserves and cumulative perpetual preference shares.

2.4.3. p) Rural Banks to Total Banks

It expresses the percentage of rural banks to the total bank. It helps to find the avenues in increasing the business for branch expansion and growth.

2.4.4 CREDITORS RATIO

2.4.4. a) Borrowings to Working Funds

Borrowings to working funds ratio indicate the financial position of the bank and the ability to meet all its financial requirements. It shows the percentage of assets that are financed with loans and other financial obligations. As this ratio is calculated yearly, decrease in the ratio would denote that the bank is faring well, and is less dependent on debts for their business needs.

2.4.4. b) Borrowings in India to Working Funds

Borrowings in India to working funds ratio indicate the financial position of the bank and the ability to meet all its financial requirements. It shows the percentage of
assets that are financed with loans and other financial obligations borrowed within India. Decrease in the ratio would denote that faring well, and is less dependent on debts for their business needs.

2.4.4. c) Borrowings outside India to Working Funds

Borrowings outside India to working funds ratio indicate the financial position of the bank and the ability to meet all its financial requirements. It shows the percentage of assets that are financed with loans and other financial obligations Borrowed outside India.

2.4.4. d) RBI to Borrowings

This ratio proportionate RBI to Borrowings. It describes borrowings made from RBI.

2.4.4. e) Other Banks to Borrowings

This ratio proportionates other banks to total borrowings. It describes the borrowings made from other banks.

2.4.4. f) Other Institutions and Agencies to Borrowings

This ratio proportionates other institutions and agencies to borrowings. It describes the portion of other institutions and agencies out of total borrowings.

2.4.4. g) Other Liabilities to Working Funds

The other liabilities comprises of bills payable, inter-office adjustment, interest accrued and other including provisions. Bank would prefer a low ratio in this regard. It is worked out as the percentage on the total assets.

2.4.4. h) Bills Payable to Other liabilities

This ratio determines to proportionate Bills payable to other liabilities. The other liabilities comprises of bills payable, inter-office adjustment, interest accrued and other including provisions.
2.4.4. i) Inter-office Adjustments to Other liabilities

A bank having several branches will receive periodical statements from them regarding the inter branch transactions. This ratio determine to proportion Inter-office adjustments to other liabilities.

2.4.4. j) Interest Accrued to Other liabilities

Interest accrued is a basic source of revenue for banks. The interest accrued indicates the ability of the bank in generating income from its lending. The other liabilities comprises of bills payable, inter-office adjustment, interest accrued and other including provisions. This ratio describes proportionate of interest accrued to other liabilities.

2.4.4. k) Interest on RBI/Inter- Bank Borrowings to Interest Expended

This ratio determines to proportion Interest on RBI/inter-bank borrowings to Interest expended. Interest expended is the expenses incurred on the total deposits and borrowings.

2.4.4. l) Cost of Borrowings

This ratio determines to proportion Interest paid on borrowings to Total Borrowings.

2.4.4. m) Liquid Assets to Total Borrowings

Liquid Assets include cash in hand balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. The ratio is expressed in terms of percentage of Liquid assets on the total Borrowings.

2.4.4. n) Other Assets to Total Borrowings

The other assets comprises of inter office adjustment (net), interest accrued, tax paid, stationary and stamps and other assets. The ratio is determined as the proportion of the sum of the above mentioned items on the total borrowings of the bank.
2.4.4. o) Fixed Assets to Total Borrowings

The fixed assets consist of premises, fixed assets under construction and other fixed assets. The ratio is expressed in terms of percentage of fixed assets on the total Borrowings.

2.5 SUMMARY

The current chapter provides a clear view about financial stakeholders. As Indian banking has finally worked up to the competitive dynamics of the ‘new’ Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization. In fact, economic development of all advanced countries in Europe, America and Japan in Asia has been accompanied by growth of commercial banking. It will be equally true to state that without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. In view of this, new attempt on study on financial position of scheduled commercial banks in India with special reference to stakeholders’ perspective helps to focus on various dimensions such as Borrowers, Employees, Profitability, Depositors, Investors, Shareholders and Creditors ratios on financial position. The performance on banking can be observed by evaluating financial statements on various dimensions.