Financial Performance Analysis of Select Banks
Financial Analysis is a process of synthesis and summarization of financial and operative data with a view to getting an insight into the operative activities of a business enterprise. By establishing strategic relationships between the components of the Balance Sheet and profit and loss Account and other operative data, it unveils the meaning and significance of the various items embodied in the financial statements—the financial blue prints—of a business concern (Wessel, 1961). Financial Analysis consists of comparisons for the same company over periods of time and/or comparisons of different companies either in the same industry or in different industries. It may be done for a variety of purposes, which may range from a simple analysis of the short term liquidity position of the firm to a comprehensive assessment of the strengths and weaknesses of the firm in various areas. It is helpful in assessing corporate excellence, judging credit worthiness, forecasting bond ratings, predicting bankruptcy and assessing market risk. The financial analysis can be performed by analysts who work for the firm or by outsiders like investors, creditors, lenders, suppliers, customers, security analysts, academics, researchers, environmental protection organizations, government and other regulatory bodies, special interest lobbying groups and so on. So the financial analysis, which aims at measuring the performance of the organization is intended for both (a) for internal use by management and (b) for external use by external parties. Exhibit 5.1 lists the parties who are interested in the financial statement analysis, their
focus of interests and purposes of analysis; and the nature of the information that they need for taking their decisions. Shareholders and potential investors use the analysis for investment decision purposes; lenders, and suppliers have an interest to know whether the company can pay back the amount they lend or supply; customers are interested in the company’s ability to sustain so that their warranty, guarantee and quality of products is ensured; employees are interested in knowing the position of the company so that their salary, retirement benefits, and other incentives and benefits are not in jeopardy; the security analysts focus on knowing

Exhibit 5.1
Target Audience for Financial Statement Analysis

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Interested Parties</th>
<th>Purpose for which information is Required</th>
<th>Type of information Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shareholders and Potential investors</td>
<td>(a) Investment focus: For investment decisions, i.e. which Shares to buy, retain or sell? At which time should such transactions be made? (b) Stewardship focus: How does management use resources under its control? Is the capacity fully utilised.</td>
<td>Risk, return, dividend yield liquidity and so on. The shareholders want to predict the timing, amounts &amp; uncertainties of future cash flows of the firm. Sustainability of cash flows earnings, etc.</td>
</tr>
<tr>
<td>2.</td>
<td>Lenders and Suppliers</td>
<td>Do they get back their money in time? What are the prospects of the firm?</td>
<td>Short-term and long-term liquidity and profitability.</td>
</tr>
<tr>
<td>3.</td>
<td>Customers</td>
<td>Customers have a vested interest in monitoring the financial viability of firms with which they have long-term relationships e.g. guarantees, warranties, deferred benefits, etc.</td>
<td>Profitability, liquidity, efficiency with which resources are put to use.</td>
</tr>
<tr>
<td>4.</td>
<td>Security analysts</td>
<td>They help shareholders, investors, lenders and auditors. The focus of their attention varies depending upon the needs of their clients.</td>
<td>Risk, return, sustainability of cash flows, efficient management of resources, etc.</td>
</tr>
<tr>
<td>5.</td>
<td>Government/other regulatory bodies</td>
<td>Revenue raising (direct and indirect taxes), government contract (cost plus information), regulatory intervention (whether to provide a loan guarantee to a financially distressed firm), equitable resource allocation, etc.</td>
<td>All such information that may help in ascertaining and maintaining good health of the capital market and the economy through good corporate governance.</td>
</tr>
<tr>
<td>6.</td>
<td>Employees</td>
<td>Employees have a vested interest in the continued and profitable operations of the firm. In the long-term, they are interested in pension, stock option, payment of retirement benefits, etc. In the short-term, their focus of attention would be bonus, incentive schemes, etc.</td>
<td>Production, profits, liquidity, solvency, and stability.</td>
</tr>
<tr>
<td>7.</td>
<td>Management</td>
<td>Managers need financial statement information for financial, investment, dividend and operating decision. They also need to estimate the linkages between compensation (or incentives schemes) and financial statement variables such as earnings per share, cash flows per share, etc.</td>
<td>Information for capital structure planning, investment decisions, dividend decision, etc.</td>
</tr>
</tbody>
</table>

the risk and return, sustainability of company’s returns, efficient management of resources etc. so that they can advise their clients so far as their investment in the organization’s securities are concerned. Similarly, the govt. is interested to know whether the company follows the legal norms as a corporate citizen. The management of the company uses the financial analysis in taking investment, financing and dividend decisions, as well as use the input of analysts in future planning and control activities (Banerjee, 2005).

**Tools of Financial Analysis**

Just like a doctor examines a human being by measuring his body temperature, blood pressure and making diagnostic tests like X-Ray, ECG, USG, etc. before making his conclusion regarding the illness, a financial analyst analyses the financial statements with various tools of analysis before commenting upon the financial health or illness of an enterprise. These tools are comparative analysis, trend analysis, common size analysis, fund flow analysis, cash flow analysis and Ratio Analysis. Of all the tools, the most popular tool/technique is Ratio Analysis.

**Financial Ratio Analysis**

A ratio shows an arithmetical relationship between two figures. It is an assessment of the significance of one figure in relation to the other. It takes the form of a quotient by dividing one figure by the other. In financial analysis, these ratios are customarily expressed in the form of ‘times’, ‘proportion’, ‘percentage’, or ‘per one’. They describe the significant relationship which exists between figures shown on a Balance Sheet, in a Profit & Loss a/c or in any other part of the accounting organization (Batty, 1966).

Financial ratios provide the analyst with a very useful tool for gleaning information from a firm’s financial statements. The particular ratio or ratios selected for use by the analyst depends upon the reason for performing the analysis. For example, a Commercial Loan Officer analyzing a loan application
would be interested in determining the ability of the applicant to repay the loan when due. In this case, the analyst would be concerned with the level of cash flow of the firm in relation to its existing and proposed levels of interest and principal payments. There exist an almost limitless number of conceivable financial ratios that can be devised. (Bowlin, Martin & Scott, 1990). A purposeful financial ratio analysis could lead the highlighting of management issues and problems and thus aid in identifying alternative courses of actions for responding to such issues and problems, and thus aid in identifying alternative courses of actions for responding to such issues and problems. Such issues and problems could give birth to find answers to the following questions:

I. whether the profitability of the enterprises is satisfactory,
II. whether the enterprise’s financial condition is basically sound?
III. whether the company is credit worthy;
IV. whether the capital structure of the business is in proper alignment; &
V. whether the companies operations are doing well so far as turnover is concerned.

To answer the above questions to gauge the financial performance of a company, various ratios over the years have been developed. These are profitability ratios, solvency ratios, and liquidity ratios and turn over ratios (Keown, Martin, Petty & Scott, 2002).

A brief description of these ratios is given hereunder:

**Profitability Ratios**

Profitability reflects the final result of business operations. There are two types of profitability ratios: Profit margins ratios and rate of return ratios. Profit margin ratios show the relationship between profit and sales. The two popular profit margin ratios are: gross profit margin ratio and net profit margin ratio. Rate of return ratios reflects the relationship between profit and investment. The important rate of return measures are: return on total assets, earning power, and return on equity.
Solvency Ratios

Financial solvency refers to the use of debt finance. While debt capital is a cheaper source of finance, it is also a riskier source of finance. Solvency ratios help in assessing the risk arising from the use of debt capital. Two types of ratios are commonly used to analyse financial solvency: Structural ratios and coverage ratios. Structural ratios are based on the proportions of debt and equity in the financial structure of the firm. The important structural ratios are: debt-equity ratio and debt-assets ratio. Coverage ratios show the relationship between debt servicing commitments and the sources for meeting these burdens. The important coverage ratios are: interest coverage ratio, fixed charges coverage ratio, and debt service coverage ratio.

Liquidity Ratios

Liquidity refers to the ability of a firm to meet its obligations in the short run, usually one year. Liquidity ratios are generally based on the relationship between current assets (The sources for meeting short-term obligations) and current liabilities. The important liquidity ratios are: Current ratio, acid-test ratio, and bank finance to working capital gap ratio (Chandra, Prasanna-1997).

Turnover Ratios

Turnover ratios, also referred to as activity ratios or asset management ratios, measure how efficiently the assets are employed by a firm. These ratios are based on the relationship between the level of activity, represented by sales or cost of goods sold, and levels of various assets. The important turnover ratios are: inventory turnover, average collection period, receivables turnover, fixed assets turnover, and total assets turnover.

Financial Analysis of Banks

So far as the financial analysis of a bank is concerned its analysis can be done with the help of ratio analysis. Ratio analysis enables the management of banks to identify the causes of the changes in their advances, income, deposits,
expenditure, profits and profitability over the period of time and thus help in pinpointing the direction of action required for increasing the deposits, income, advances and reducing the expenditure and for altering the profitability prospects of the banks in future. To be really helpful and practically useful for the bankers, the package of ratios should be small in size, simple in calculations, logically consistent and statistically valid. Over the years, various experts propounded a plethora of ratios for analyzing the financial position of a bank Sinkey (1998) argues that the financial analysis of a bank can be done with the help of four general categories of ratios viz. profitability ratio, liquidity ratio, leverage ratio and activity ratio.

Profitability is the most important and reliable indicator as it gives a broad indication of the capability of a bank to increase its earnings. Evaluation of banking companies in terms of profitability instead of profits is better since the former is obtained after purging with effect of size variable on the absolute level profits. It is the relative concept and indicates net profits as percentage of working funds. It serves as an index to the degree of asset utilization and managerial effectiveness by sharing the efficiency with which a bank deploys its total resources for optimizing its profits (Joo, 1996). Generally, the profitability is measured with the help of net interest margin, spread ratios, burden ratios, interest earned and expended as % of working funds, etc.

The major components of bank profitability are net interest margin, establishment costs, and provisioning and the best route to higher earnings is through improvement in the net interest margin which is the difference between interest earnings and interest expenses, expressed as a percentage of working funds. A good margin reflects effective deployment of high quality earning assets, a judicious mix of liabilities and good yields (Discussion paper, Govt. of India, 1993) of late, the most important measure of profitability has came up as Return on Equity.
Return on Equity (ROE) measures profitability from the shareholder’s perspective. Accounting ROE, however, should not be confused with investment profitability (or return) as measured by dividends and stock-price appreciation. Accounting ROE measures bank accounting profits per dollar / rupee of book equity capital. It is generally defined as net income divided by average equity. Because ROE can be decomposed into a leverage factor (the equity multiplier, or EM) and return on assets (ROA), \( \text{ROE} = \text{ROA} \times \text{EM} \). Return on assets (ROA), defined as net income divided by average or total assets, measures bank profits per dollar of assets. The equity multiplier (EM) is average assets divided by average equity, the reciprocal of the capital-to-asset ratio. It provides a gauge of bank’s leverage \((1-1/\text{EM} = \text{debt-to-asset ratio})\) or the dollar amount of assets pyramided on the bank’s base of equity capital. The equity multiplier provides the leverage that makes ROE a multiple of ROA.

**The ROE Model**

\[
\begin{align*}
\text{Return on Equity} & = \text{Return on Assets} \times \text{Equity Multiplier} \\
& = \text{ROA} \times \text{EM} \\
& = \text{Profit Margin} \times \text{Asset utilization} \times \text{Equity Multiplier} \\
& = \text{PM} \times \text{AU} \times \text{EM}
\end{align*}
\]

\[
\text{Net Income/ Average Equity} = \frac{\text{Net Income} \div \text{Operating Income} \times \text{Operating Income}}{\text{Average Assets} + \frac{\text{Average Assets}}{\text{Average Equity}}}
\]
ROA = Return on Assets; PM = Profit Margin; AU = Asset Utilization.


= Net Income / Average Assets \times \text{Average Assets} / \text{Average Equity}
= \text{Net Income} / \text{Average Equity}
The ROE model contains three alternative measures of profitability:

(1) return on equity, (2) return on assets, and (3) profit margin. Because the ratios ROE, ROA, and PM all have the same numerator (net income), the different denominators (i.e., average or total equity capital, average or total assets, and total revenue) simply provide alternative perspectives on the measurement of profitability. Accounting ROE measures profitability from the owner's perspective. Its primary shortcoming as a measure of bank performance is that ROE can be high because a bank has inadequate equity capital. In addition, a bank with negative book equity (book insolvency) and positive profits would show a negative return on equity, whereas a bank with negative book equity and negative profits would show a positive return on equity. By splitting ROE into ROA and EM, we can resolve this dilemma. Thus, ROA is the preferred accounting measure of overall bank performance. It measures how profitable all of a bank's (on-balance sheet) assets are employed. By splitting ROA into PM and AU, we focus on the third measure of profitability, PM, and on asset utilization, AU, or "total asset turnover". (Because banks do not generate sales volumes greater than their total assets, as most non-financial corporations do, "asset utilization" describes the ratio better than "asset turnover"). Given a bank's ability to generate revenue (sales) as measured by AU, the profit-margin component of the ROE model focuses on a bank's ability to control expenses. (Sinkey, 1998).

**Liquidity Rating is Based On:-**

I. the volatility of deposits;
II. reliance on interest sensitive funds and level of borrowings;
III. technical competence relative to structure of liabilities;
IV. availability of assets readily convertible into cash and
V. access to money market and other sources of funds.

Liquidity is evaluated on the basis of the bank's capacity to promptly meet
the demand payment of its obligations and to readily satisfy the reasonable credit needs of the community it serves. Consideration is given to the overall asset-liability management strategies and compliance with the laid down policies. The main liquidity ratios applied are Cash Reserve Ratio (CRR), Liquid Assets to total Deposits Ratio, Demand deposits to aggregate deposits etc. (Patheja, 1994).

**Capital Adequacy / Leverage Ratio**

For a longtime, the ratio of capital to deposits was conceived as an ideal measure of capital adequacy. However, over the years, the capital adequacy norms in terms of capital deposit ratio was found to be inadequate in as much as it did not truly reflect the shock absorption capacity of capital. Even this proved to be an ineffective indicator as it did not take into account the composition of the assets classified in terms of risk associated with each category of assets. These basic inadequacies of the system gave rise to the present concept of capital adequacy of the banks in terms of “Risk-Asset Ratio” approach. The modified concept of capital adequacy ratio became a key parameter for assessing a bank’s intrinsic strength. In the current decade because of the importance of capital adequacy ratio, on the basis of modified concept, has remained potent subject of research for banking economists world over (Joo, 1996).

Capital is rated in relation to (1) the volume of risk assets; (2) the volume of marginal and inferior quality assets; (3) bank growth experience, plans and prospects and (4) the strength of the management in terms of 1 to 3 above. Consideration is also given to the bank’s capital ratios compared to its peer group, its earnings retention and its access to capital markets or its other appropriate sources of financial assistance (Godse, 1996). Capital adequacy, an indicator of long-term solvency, is measured by capital adequacy ratio, leverage ratio (shareholder’s equity to total capital) net worth protection rate (Shareholder’s equity to non-performing loan) (Purohit and Mazumdar, 2003).
Activity Ratios

Activity ratios are also known as efficiency ratios. These ratios measure how efficiently the firm is using its resources like turnover of working capital and turnover of fixed assets etc. (Gupta, R.K. 1990).

Camel Parameters

The recent innovation in the area of financial performance evaluation of banks is CAMEL Rating. Although the system was evolved by US regulating agencies in 1979, but in recent years it became widely applicable tool in the hands of all regulators worldwide. In India, the system was adopted by the RBI on the recommendations of the Padmanabhan Committee. Under this system, the rating of individual banks is done along five key parameters-capital adequacy, Asset quality, Management Capacity, Earnings analysis, and liquidity-yielding the rating system’s acronym, CAMEL (Cole and Gunther, 1996). Each of the five dimension of performance is rated on a scale of 1 to 5. Rating 1 denotes that the bank is fundamentally sound, while the rating 2 signifies that the bank is fundamentally sound, but may show modest weaknesses. Rating 3 indicates that the bank has a combination of weaknesses fair to moderately severe. The bank with marginal performance that is significantly below average is rated as 4. The worst rating is 5, meaning thereby that the institution has critical financial weaknesses that render the probability of failure extremely high in the near future. The aggregate rating is the sum total of the ratings under all five components. These ratings 1 to 5 are described as strong, satisfactory, fair, marginal and unsatisfactory in that order (Godse, 1996). In the present study the CAMEL Parameters have been used to test the performance of the banks under study. This model has already been applied and proved useful by the researchers like Cole and Gunther, 1996, Purohit et. al , 2003, Kapil, et.al 2003 and so on. The CAMEL dimensions as evaluated in the banks under study are discussed as follows:
CAPITAL ADEQUACY ANALYSIS

Capital adequacy is a reflection of the inner strength of a bank, which would stand it in good stead during times of crisis. Capital adequacy may have a bearing on the overall performance of a bank, like opening of new branches, fresh lending in high risk but profitable areas, manpower recruitment and diversification of business through subsidiaries or through specially designated branches, as the RBI could think these operational dimensions to the bank's capital adequacy achievement (Shankar, 1997). Realizing the importance of capital adequacy, the Reserve Bank of India (RBI) issued directive in 1992, whereby each banks in India was required to meet the capital adequacy standard of 8%, the norm fixed on the basis of the recommendations of Basel Committee. As a sequel to this direction almost all banks in India try to adhere to this norm, thus compute the ratios of capital adequacy.

The computation of capital adequacy ratio is done by taking ratio of equity capital and loan loss provisions minus non-performing loans to total assets. Expressed as a percentage, the ratio shows the ability of a bank to withstand losses in the value of its assets. The simultaneous monitoring of two important elements, viz. the level of NPAs and equity capital is facilitated by the use of this ratio (Joshi & Joshi, 2002). For computation of the capital adequacy ratio, capital is classified as Tier-1 and Tier-2 capitals. Tier-1 capital comprises the equity capital and free reserves, while Tier-2 capital comprises subordinated debt of 5-7 year tenure. The higher the capital adequacy ratio (CAR), the stronger the bank. However, a very high CAR indicates that the bank is conservative and has not utilized the full potential of its capital. The capital adequacy ratios of the banks under study are given in tables 5.1 and 5.2.
TABLE 5.1
CAPITAL ADEQUACY RATIOS OF PUNJAB NATIONAL BANK

<table>
<thead>
<tr>
<th>S. No</th>
<th>Capital Adequacy Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Capital Adequacy Ratio</td>
<td>10.24%</td>
<td>10.70%</td>
<td>12.02%</td>
<td>13.10%</td>
<td>14.78%</td>
<td>12.16%</td>
<td>1.843</td>
</tr>
<tr>
<td>b</td>
<td>Leverage Ratio</td>
<td>1.762</td>
<td>1.682</td>
<td>1.580</td>
<td>1.876</td>
<td>1.827</td>
<td>1.746</td>
<td>0.119</td>
</tr>
<tr>
<td>c</td>
<td>Net worth protection</td>
<td>7714.235</td>
<td>7768.841</td>
<td>8098.281</td>
<td>10731.622</td>
<td>21813.839</td>
<td>11225</td>
<td>6050</td>
</tr>
</tbody>
</table>

Source: Annual Reports of PNB (2001-2005.)

The position of capital adequacy of the Punjab National Bank (PNB) has been measured with the help of Capital Adequacy Ratio (CAR), Leverage ratio and Net worth protection. An introspection of the table 5.1 reveals that the capital adequacy ratio of the PNB in the last five years have been well above the norm of RBI i.e. 8% level. This ratio has been increasing year after year 10.24% in the year 2001 and 14.78% in the year 2005. The average of the five years also is good 12.16% which seems quite consistent as standard deviation being only 1.84.

Similarly the leverage ratio (Total outside liability to shareholders funds also show a healthy sign; Although the ratio declined from 1.76 in 2001 to 1.68 in 2002, but has picked up in the subsequent years.

However, the mean value of the leverage ratio is 1.74 with .119 standard deviation. So far as Net worth protection (Net Worth to Non-Performing assets) is concerned. The ratio has been all along rising during the period under study with 7714.235 in 2001 to 21813.839 in 2005 with the mean value 11225.

To maintain the capital adequacy, the bank has mobilised capital from the stock market. Thus the bank has been able to maintain the confidence of investors and depositors.

The position of capital adequacy of the Jammu & Kashmir Bank (JKB) has been measured with the help of Capital Adequacy Ratio (CAR). Leverage
ratio and Net worth protection. An introspection of the table 5.2 reveals that the capital adequacy ratio of the JKB in the last five years has been well above the norm of RBI i.e. 8% level, although decreasing year after year 17.44% in the year 2001 and 15.15% in the year 2005. But still it is comfortably much above the minimum stipulated standard. The average of the five years also is good 16.28% which seems quite consistent as standard deviation being only .961.

**TABLE 5.2**

**CAPITAL ADEQUACY RATIOS OF JAMMU & KASHMIR BANK**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Capital Adequacy Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Capital Adequacy Ratio</td>
<td>17.44%</td>
<td>15.46%</td>
<td>16.48%</td>
<td>16.88%</td>
<td>15.15%</td>
<td>16.282%</td>
<td>0.961</td>
</tr>
<tr>
<td>b</td>
<td>Leverage Ratio</td>
<td>1.217</td>
<td>0.907</td>
<td>0.706</td>
<td>0.596</td>
<td>0.702</td>
<td>0.828</td>
<td>0.246</td>
</tr>
<tr>
<td>c</td>
<td>Net worth protection</td>
<td>28,786.493</td>
<td>39,539.240</td>
<td>49,090.758</td>
<td>55,725.052</td>
<td>52,536.343</td>
<td>45136</td>
<td>10968</td>
</tr>
</tbody>
</table>

Source: Annual Reports of JKB (2001-2005)

Similarly, the leverage ratio (Total outside liability to shareholders funds) also shows a bit weak sign as the ratio declined from 1.21 in 2001 to 0.90 in 2002 and has gone down in the subsequent years. The mean value of the leverage ratio is .82 with .246 standard deviation. The bank needs to be careful here about the declining trend of leverage ratio. So far as Net worth protection (Net worth to Non-performing assets) is concerned, the ratio has been all along rising during the period under study with 28786.493 in 2001 to 52536.343 in 2005 with the mean value 45136. To maintain the capital adequacy, the bank has mobilised capital from the stock market. Thus the bank has been able to maintain the confidence of investors and depositors. Also the bank continued its efforts to reduce its non-performing assets. With the strenuous efforts and enhanced recovery drive coupled with stress on sound asset quality and prevention of fresh slippages, the bank has been able to further reduce its NPA level. Which has strengthened its capital base as otherwise too many loss making efforts would have eroded the capital position of the bank.
Asset Quality Analysis

Asset quality is another important aspect of the evaluation of a bank’s performance under the Reserve Bank of India guidelines, the advances of a bank are to be disclosed in a classified manner as:

(i) Standard
(ii) Sub-Standard
(iii) Doubtful and loss asset

(i) Standard Asset/Advance

Standard assets are those assets that are performing and loanee is paying interest and installment at due date, further they do not carry more than normal risk. Formerly, no provisions were required. However, banks will now have to make a general provision of 0.25 percent on standard assets as well.

(ii) Sub-Standard Asset/Advance

Sub-standard assets are those assets that have been classified as non-performing for a period less than or equal to three quarters. In such cases, the current networth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery fully. It has fully developed weaknesses that jeopardize the liquidation of a debt.

(iii) Doubtful Asset/Advance

Doubtful assets are those assets that have remained substandard for 18 months. The provision of 100% of the provisions are to be made by the realizable value of the security to which a bank has recourse. The provisions for this is to be done as:

First year of doubtful status ----- Deficit +20% of security
Second year of doubtful status ----- Deficit + 30% of security
Third year of doubtful status ----- Deficit + 50% of security.

(iv) Loss Asset/Advance

Loss assets are the ones where loss has been identified but the amount has not been written off wholly or partly. Such an asset is uncollectable/
unrecoverable and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage value. Since the loss assets are to be written off, 100% provision needs to be made for loss assets.

Under the above classification, the advance/asset which cease to earn income/interest is termed as non-performing asset and a bank has to keep a provision for its probable loss. More NPAs means more sub-standard, doubtful and loss assets which is total for the future financial performance of a bank. Therefore, keeping the NPAs minimum should be the attempt of every conscious bank. The main ratios of asset quality of the banks under study is given in tables 5.3 and 5.4.

### TABLE 5.3
ASSET QUALITY RATIOS OF PUNJAB NATIONAL BANK

<table>
<thead>
<tr>
<th>S. No</th>
<th>Asset Quality Ratios.</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Net NPA to NET Advances</td>
<td>6.74%</td>
<td>5.32%</td>
<td>3.86%</td>
<td>0.98%</td>
<td>0.20%</td>
<td>3.42%</td>
<td>2.79</td>
</tr>
</tbody>
</table>

**Source:** Annual Reports of PNB (2001-2005).

The analysis in table 5.3 reveals that the PNB has been successful to manage its NPAs. The Net NPAs which were 6.74% of total Net advances of the bank in 2001 have comedown to 0.20% in 2005. This has been possible by using various strategies by the bank. The bank through a well defined Recovery Management Policy, was able to effect reduction of Rs 1647 crore in NPAs during the year as against Rs 1354 crore last year. NPAs with outstanding of Rs 1 crore and above continued to be monitored at corporate level. The bank also made effective use of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002(SARFAESI) to accelerate reduction of NPAs. For enforcement of security interest under SARFAESI Act, notices were issued to 9640 defaulters and consequently a large number of borrowers came forward for resolution of their accounts. Sale of financial assets
to Asset Reconstruction Company (ARC) enabled the bank to take off NPAs from its books and release funds for further recycling. During the year, 34 non-performing loans amounting to Rs. 239 crore were sold to ARC.

Moreover, under the scheme of one time settlement of the cases for small and marginal farmers, NPAs to the tune of Rs. 513 lakhs were cleared during the period 2004-2005.

Thus the bank has been able to manage the Net NPA to Net Advances at an average of 3.42%.

To be secure and safe the bank has been maintaining the provisions for NPAs as per norms fixed by RBI. It has been in a position to consistently maintain such provision with 9.415% of Gross NPAs in 2001 with an average of 8.28% having standard deviation of 2.156. In this way the asset quality position of the bank seems good as the loan loss cover for NPAs has been provided prudently.

Under RBI's non-discretionary and non-discriminatory guidelines for compromise settlements, there was an encouraging response from the borrowers. During April-October, 2004, settlements were approved in 2610-cases for Rs. 44.46 crore.

Recovery of NPAs received focussed attention. Apart from other recovery efforts, the bank also organized 20661 Recovery Camps during the year 2004-05 compared to 17125 camps organized in the previous year. In most of such camps locally elected representatives also participated. Awareness campaigns for recovery were also launched in different Zones. Besides these, services of Debt Recovery Tribunals and Lok Adalats were also utilized for supplementing the recovery efforts. The bank also initiated the process of engaging Recovery Agencies for effecting recovery in NPAs. A special drive was launched in the bank towards execution of decrees allowed by the courts. In deserving cases, restructuring of debts under CDR mechanism was pursued with encouraging results.
TABLE 5.4

ASSET QUALITY RATIOS OF JAMMU & KASHMIR BANK

<table>
<thead>
<tr>
<th>S.No</th>
<th>Asset Quality Ratios.</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Net NPA to Net Advances</td>
<td>2.45%</td>
<td>1.88%</td>
<td>1.58%</td>
<td>1.48%</td>
<td>1.41%</td>
<td>1.76%</td>
<td>0.425</td>
</tr>
<tr>
<td>b</td>
<td>Loan Loss Cover</td>
<td>8.691%</td>
<td>11.552%</td>
<td>5.110%</td>
<td>10.374%</td>
<td>11.902%</td>
<td>9.52%</td>
<td>2.77</td>
</tr>
</tbody>
</table>

Source: Annual Reports of PNB (2001-2005)

The analysis in table 5.4 reveals that the JKB has been successful to manage its NPAs. The Net NPAs which were 2.45% of total Net advances of the bank in 2001 have comedown to 1.41% in 2005. This has been possible by using various strategies by the bank. The bank continued its efforts to reduce its non-performing assets. With the strenuous efforts and enhanced recovery drive, the bank has been able to further reduce its NPA level. Thus the bank has been successful to manage the Net NPA to Net Advances at an average of 1.76%. To be secure and safe, the bank has been maintaining the provisions for NPAs as per norms fixed by RBI. It has been in a position to consistently maintain such provision with 8.691% of Gross NPAs in 2001 with an average of 9.52% having standard deviation of 2.77. In this way, the asset quality position of the bank seems quite good as the loan loss cover for NPAs has been provided prudently.

Management Capability Ratios

The Performance of Management capacity is usually qualitative and can be understood through the subjective evaluation of Management systems, organization culture, control mechanisms and so on. However, the capacity of the management of a bank can also be gauged with the help of certain ratios of off-site evaluation of a bank. The capability of the management to deploy its resources, aggressively to maximize the income, utilize the facilities in the bank productively and reduce costs etc. (Purohit, et.al-2003).

This can be evaluated with reference to the following ratios given in tables 5.5, 5.6, 5.7 and 5.8.
TABLE 5.5
MANAGEMENT CAPABILITY RATIOS OF PUNJAB NATIONAL BANK

<table>
<thead>
<tr>
<th>S. No</th>
<th>Mgt. Capability Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Expenditure to Income Ratio</td>
<td>0.857</td>
<td>0.806</td>
<td>0.734</td>
<td>0.676</td>
<td>0.732</td>
<td>0.762</td>
<td>0.071</td>
</tr>
<tr>
<td>b</td>
<td>Credit-Deposit Ratio</td>
<td>0.499</td>
<td>0.535</td>
<td>0.530</td>
<td>0.537</td>
<td>0.585</td>
<td>0.540</td>
<td>0.032</td>
</tr>
<tr>
<td>c</td>
<td>Asset Utilization Ratio</td>
<td>0.104</td>
<td>0.104</td>
<td>0.101</td>
<td>0.094</td>
<td>0.080</td>
<td>0.064</td>
<td>0.008</td>
</tr>
<tr>
<td>d</td>
<td>Diversification Ratio</td>
<td>11.719%</td>
<td>12.821%</td>
<td>14.313%</td>
<td>19.360%</td>
<td>16.532%</td>
<td>14.95%</td>
<td>3.05</td>
</tr>
<tr>
<td>e</td>
<td>Earnings per employee</td>
<td>79.514</td>
<td>97.169</td>
<td>142.791</td>
<td>188.427</td>
<td>241.752</td>
<td>149.9</td>
<td>66.5</td>
</tr>
<tr>
<td>f</td>
<td>Expenditure per employee</td>
<td>976.983</td>
<td>1063.237</td>
<td>1088.151</td>
<td>1109.080</td>
<td>1273.521</td>
<td>1102.2</td>
<td>108.2</td>
</tr>
</tbody>
</table>

Source: Annual Reports of PNB (2001-2005)

In the table 5.5, it is exhibited that the PNB has been a quite successful bank so far as its business is concerned. During the period under reference the bank has been able to mark a rising trend in its advances and deposits with Rs. 28029.05 crores, and 56131.13 crores respectively in the year 2001 to Rs. 60412.75 crores and 103166.88 crores in 2005. Thus advances and deposits have registered a compound growth rate of 16% and 13% respectively, with the total fund based business (advances + deposits) marking a growth of 14% p.a.

The management has been successful to manage a compound growth rate
of 24% in its operating and Net profits but keeping the total expenses under control, as they grew only at a growth rate of 5% p.a. In the similar way, the efficiency of the management is explained by the growth of earning per share it grew at about 15% of compound growth rate.

The Management Capacity has also been explained in the table 5.6 with the help of various productivity rates, like expenditure to Income ratio, credit deposit ratio, asset utilization ratio, Diversification ratio, earnings per employee and expenditure per employee. The ratio of expenditure visa-viz to Income which was 0.857 in 2001 has gone down to 0.732, in 2005 explaining thereby that for every rupee generated as income only 0.85 paise were incurred as cost in 2001 and so on. The mean value of this ratio is 0.76 with minor standard deviation of 0.071 is an encouraging fact. The credit deposit ratio which was 0.499 in 2001 has slightly improved to 0.585 in 2005 with the mean value 0.540 shows its consistency during the period under study. However, the asset utilization ratio which was 0.104 in 2001 has shown a declining trend as it has come down to 0.080 in 2005, but the mean value of the ratio remains by and large consistent at 0.09 level. Since modern days, the opportunities of sustaining on spread are squeezing day in and day out, the success of any bank lies in diversifying its business from fund based business to the fee based business. In this direction, the bank understudy has also achieved good results as the ratio of non-interest income to total income has increased from 11.71% in 2001 to 16.53% in 2005. This ratio has shown consistency with the average of 14.95% having a standard deviation of 3.05. The trend in the productivity of employees so far as earnings are concerned are significantly improved. The earnings per employee were 79.51 in 2001 which has gone up to 241.75 in the year 2005, with the mean value 149.9. However, the expenditure per employee has gone up from 976.98 in 2001 to 1273.52 in 2005 which needs to be taken care of.
In the table 5.7, it is exhibited that the JKB has been a quite successful bank so far as its fund based business is concerned. During the period under reference, the bank’s business has shown a rising trend in its advances and deposits with Rs. 4762.89 crores, and 11168.08 crores respectively in the year 2001 to Rs. 11517.14 crores and 21644.97 crores in 2005. The advances have registered a compound growth rate of 24% and a growth rate of 14% is observed in case of deposits, with the total business marking a growth of 16% p.a. A further analysis of the table reveals that management has been successful to manage a compound growth rate of 5% and 1% in its operating profits and Net Profits and keeping the total expenses under control, as the expenditure only grew at a growth rate of 7% p.a. In the similar way, the efficiency of the management is explained by the growth of earning per share which grew at about 1% of compound growth rate.

The Management capacity has also been explained in the table 5.8 with the help of various productivity ratios, like expenditure to Income ratio, credit deposit ratio, asset utilization ratio, diversification ratio, earnings per employee and expenditure per employee. The ratio of expenditure vis-a-vis to Income
which was 0.764 in 2001 has gone slightly up to 0.782 in 2005, explaining thereby that for every rupee generated as income only 0.76 paise were incurred as cost in 2001 and so on. The mean value of this ratio is 0.71, with minor standard deviation of .051 is an encouraging fact. The credit deposit ratio which was 0.426 in 2001 has slightly improved to 0.532 in 2005 with the mean value 0.48 shows its consistency during the period under study. However, the asset utilization ratio which was 0.090 in 2001 has shown a declining trend as it has come down to 0.066 in 2005, but the mean value of the ratio remains by and large consistent.

So far as diversifying the business from fund based to fee based, the JKB has not achieved good performance in the last two years as the ratio of non-interest income to total income has decreased from 6.97% in 2001 to 5.02% in 2005. This ratio is highly skewed, with the average of 12.25% having a standard deviation of 5.75.

### Table 5.8

**Management Capability Ratios of Jammu & Kashmir Bank**

<table>
<thead>
<tr>
<th>S. No</th>
<th>Mgt. Capability Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Expenditure to Income Ratio</td>
<td>0.764</td>
<td>0.713</td>
<td>0.677</td>
<td>0.655</td>
<td>0.782</td>
<td>0.718</td>
<td>0.051</td>
</tr>
<tr>
<td>b</td>
<td>Credit-Deposit Ratio</td>
<td>0.426</td>
<td>0.497</td>
<td>0.545</td>
<td>0.467</td>
<td>0.532</td>
<td>0.502</td>
<td>0.045</td>
</tr>
<tr>
<td>c</td>
<td>Asset Utilization Ratio</td>
<td>0.090</td>
<td>0.109</td>
<td>0.102</td>
<td>0.085</td>
<td>0.068</td>
<td>0.092</td>
<td>0.014</td>
</tr>
<tr>
<td>d</td>
<td>Diversification Ratio</td>
<td>6.979%</td>
<td>15.961%</td>
<td>16.750%</td>
<td>16.550%</td>
<td>5.028%</td>
<td>12.25%</td>
<td>5.75</td>
</tr>
<tr>
<td>e</td>
<td>Earnings per employee</td>
<td>258.982</td>
<td>400.001</td>
<td>474.902</td>
<td>573.507</td>
<td>167.421</td>
<td>375.0</td>
<td>163.2</td>
</tr>
<tr>
<td>f</td>
<td>Expenditure per employee</td>
<td>1367.052</td>
<td>1770.009</td>
<td>1632.219</td>
<td>1685.992</td>
<td>1856.237</td>
<td>1622.3</td>
<td>185.6</td>
</tr>
</tbody>
</table>

Source: Annual Reports of JKB (2001-2005)

The trend in the productivity of employees so far as Earnings are concerned have gone done. The earnings per employee were 258.98 in 2001 which has gone up to Rs. 573.50 in 2004, however, declined to Rs. 167.42 in the year 2005, with the mean value 375.0. Similarly, the expenditure per employee has gone up from 1367.05 in 2001 to 1856.23 in 2005 which needs to be taken
care of if the banks wants to be successful in the long run.

Earnings Ratios

The ‘Earnings/Profit’ is a Conventional Parameter of measuring financial performance. Higher income generally reflects a lack of financial difficulties and so would be expected to reduce the likelihood of failure of a bank (Cole and Gunther, 1996). In the pre-liberalization phase (before 1991), interest income used to be reckoned on accrual basis with little variation therein. In the absence of any uniform norm on provisioning against bad debts and depreciation in investment, the variation in accounting profit was mainly due to provisions and contingencies. Some semblance of uniformity was first introduced in 1992-93 with the phased implementation of prudential accounting standards which however brought about a wide variation in the current period income, as interest income was henceforth required to be reckoned on a realization basis. This is reflected in the emergence of operational performance measure in the shape of earnings analysis (Hansda, 1995). The earnings analysis has been done by analysts like Sankaranarayan, (1995). Business India Study (2002), I’apil et.al, (2003), Parera, et.al (2005), Mohite Vikram (2005), and so on, with the help of various accounting ratios. However, for the present study the accounting ratios calculated for the purpose of earnings analysis are depicted in tables 5.9 and 5.10.

**TABLE 5.9**

**EARNINGS (PROFITABILITY) RATIOS OF PUNJAB NATIONAL BANK**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Earnings Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R.O.A</td>
<td>0.729%</td>
<td>0.771%</td>
<td>0.976%</td>
<td>1.083%</td>
<td>1.117%</td>
<td>0.936%</td>
<td>0.177</td>
</tr>
<tr>
<td>2</td>
<td>R.O.E</td>
<td>13.027%</td>
<td>12.793%</td>
<td>14.970%</td>
<td>15.043%</td>
<td>13.424%</td>
<td>13.850%</td>
<td>1.078</td>
</tr>
<tr>
<td>3</td>
<td>(a) Spread Ratio</td>
<td>0.306</td>
<td>0.300</td>
<td>0.367</td>
<td>0.375</td>
<td>0.395</td>
<td>0.350</td>
<td>0.043</td>
</tr>
<tr>
<td></td>
<td>(b) Net Interest Margin</td>
<td>0.032</td>
<td>0.031</td>
<td>0.036</td>
<td>0.035</td>
<td>0.031</td>
<td>0.034</td>
<td>0.005</td>
</tr>
</tbody>
</table>

Source: Annual Reports of PNB (2001-2005)

It is exhibited in the table 5.9 that the return on assets which is equal to
Net profit to working funds has significantly gone up from 0.729% to 1.117% in the year 2001 to 2005, with the mean value of 0.93% having consistency, as the standard deviation is 0.177. However, the return on shareholders funds (R.O.E) has by and large remained constant with the mean value of 13.85%. In this way it seems the profitability of the bank is quite satisfactory. A further analysis of the table 5.9 reveals that the spread i.e. Interest earned on loans minus interest paid on deposits has been constantly rising from 0.306 in 2001 to 0.395 in 2005, with the mean value of .35 having a standard deviation of .043. Similarly, the contribution of the spread vis-à-vis to total earning asset has slightly shown a down trend from 0.032 in 2001 to 0.031 in the year 2005, with the mean value of 0.03.

TABLE 5.10

<table>
<thead>
<tr>
<th>EARNINGS (PROFITABILITY) RATIOS OF JAMMU &amp; KASHMIR BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. No.</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports of JKB (2001-2005)

It is exhibited in the table 5.10 that the return on assets which is equal to Net Profit to working funds has gone down from 1.317% to 0.470% in the year 2001 to 2005, with the mean value of 1.49% having consistency, as the standard deviation is 0.633. However, the return on shareholders funds (R.O.E) has by and large remained constant with the mean value of 20.57%. In this way, it seems the profitability of the bank is quite satisfactory. A further analysis of the table 5.10 reveals that the spread i.e. Interest earned on loans minus interest paid on deposits has been constantly rising from 0.308 in 2001 to 0.365 in the year 2005, with the mean value of .32 having a standard deviation of .037. Similarly, the contribution of the spread vis-à-vis to total earning asset has slightly shown a down trend from 0.028 in 2001 to 0.024 in the year 2005, with the mean value of .02.
Liquidity Ratios

a) The ability of a bank to provide liquidity requires the existence of a highly liquid and readily transferable stock of financial assets. Liquidity and transferability are the key ingredients for such transactions. The liquidity requirement means that financial assets must be available to owners on short notice (a day or less) at par. The transferability requirement means that ownership rights in financial assets must be portable, at par, to other economic agents, and in a form acceptable to the other party (Sinkey, Joseph F, JR. 1998).

b) Liquid assets such as investment securities, enable a bank to respond quickly to unexpected demands for cash and typically reflect relatively conservative financial strategies, whereas volatile liabilities, such as large certificates of deposits, often reflect relatively aggressive financial strategies impose high interest expenses, and are subject to quick withdrawal. As a result, we expect higher values of investment securities to reduce the chance of failure, whereas higher values of large certificates of deposit should increase the probability of failure (Cole and Gunther, 1996). Thus liquidity management is one of the most important functions of a bank. If funds tapped are not properly utilized, the institution should suffer loss. Idle cash balance in hand has no yield. On the other hand if the bank does not keep balanced liquid cash in hand, it cannot be able to pay the demand withdrawal of depositors, as well as, instalment of creditors and ultimately payment for other contingent liabilities. These will lead overtrading position to the institution and create problems to borrow funds at high rate. So proper balanced liquidity should be maintained by avoiding inadequate cash position, or excess cash position (Panigrahi, 1996). The liquidity position of the banks understudy is presented in tables 5.11 and 5.12.
TABLE 5.11
LIQUIDITY RATIOS OF PUNJAB NATIONAL BANK

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Liquidity Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Liquid Assets to total Assets Ratio</td>
<td>0.095</td>
<td>0.087</td>
<td>0.093</td>
<td>0.086</td>
<td>0.064</td>
<td>0.086</td>
<td>0.015</td>
</tr>
<tr>
<td>b</td>
<td>Govt. &amp; other Securities to total Assets (Investment to total Assets)</td>
<td>0.392</td>
<td>0.383</td>
<td>0.392</td>
<td>0.409</td>
<td>0.398</td>
<td>0.394</td>
<td>0.011</td>
</tr>
<tr>
<td>c</td>
<td>Liquid Assets to Deposits</td>
<td>0.108</td>
<td>0.099</td>
<td>0.106</td>
<td>0.100</td>
<td>0.078</td>
<td>0.100</td>
<td>0.012</td>
</tr>
<tr>
<td>d</td>
<td>Investment to Deposits.</td>
<td>0.443</td>
<td>0.436</td>
<td>0.445</td>
<td>0.476</td>
<td>0.488</td>
<td>0.460</td>
<td>0.023</td>
</tr>
</tbody>
</table>

Source: Annual Reports of PNB (2001-2005)

In the table 5.11, it is depicted that the liquid assets which consist of cash, balances with RBI and other banks as well as money at call and short notice, formed Re 0.095 vis-à-vis to rupee 1 (total assets). This ratio has gone down in 2005 0.064, but at an average it has remained consistent with average 0.08. The investment in Govt. and other securities held by the bank vis-à-vis to total assets are clear indicators of banks liquidity position, as this investment ratio has remained consistent around an average of 0.39. The total liquid assets (combination of the above two ratios vis-à-vis to depositors has brought the fact to the forefront that the bank has the ability to meet any eventuality in case of depositors demand cash/liquid assets, as this ratio has also remained by and large consistent at an average of 0.10 with the standard deviation of 0.012. Similarly, the investment in securities (Govt. as well others) shows a satisfactory position of the bank as the ratio of investment in securities compared to deposits also remained consistent around an average of 0.46 with 0.023 standard deviation.

In the table 5.12, it is depicted that the liquid assets which consist of cash, balances with RBI and other banks as well as money at call and short notice, formed Re. 0.161 vis-à-vis to (total assets). This ratio has gone down in 2005 0.129, but at an average it has remained consistent with average 0.13. The investment in Govt. and other securities held by the bank vis-à-vis to total assets...
are clear indicators of banks liquidity position, as this investment ratio has remained consistent around an average of 0.39. The total liquid assets (combination of the above two ratios vis-à-vis to depositors has exposed the fact that the bank has the ability to meet any eventuality in case of depositors demand for cash/liquid assets, as this ratio has also remained by and large consistent at an average of 0.14 with the standard deviation of 0.029. Similarly, the investment in securities (Govt. as well others) shows a satisfactory position of the bank as the ratio of investment in securities compared to deposits also remained consistent around an average of 0.45 with 0.022 standard deviation.

**TABLE 5.12**

LIQUIDITY RATIOS OF JAMMU AND KASHMIR BANK

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Liquidity Ratios</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Liquid Assets to total Assets Ratio.</td>
<td>0.161</td>
<td>0.133</td>
<td>0.090</td>
<td>0.137</td>
<td>0.129</td>
<td>0.130</td>
<td>0.025</td>
</tr>
<tr>
<td>b</td>
<td>Govt. &amp; other Securities to total Assets (Investment to total Assets)</td>
<td>0.421</td>
<td>0.390</td>
<td>0.400</td>
<td>0.398</td>
<td>0.370</td>
<td>0.396</td>
<td>0.018</td>
</tr>
<tr>
<td>c</td>
<td>Liquid Assets to Deposits</td>
<td>0.184</td>
<td>0.152</td>
<td>0.103</td>
<td>0.156</td>
<td>0.146</td>
<td>0.148</td>
<td>0.029</td>
</tr>
<tr>
<td>d</td>
<td>Investment to Deposits</td>
<td>0.480</td>
<td>0.444</td>
<td>0.458</td>
<td>0.452</td>
<td>0.419</td>
<td>0.450</td>
<td>0.022</td>
</tr>
</tbody>
</table>

Source: Annual Reports of JKB (2001-2005)

**Overall Financial Performance of the Banks understudy**

The overall Financial Performance of the Banks as exhibited in the table 5.13 reveals that both the Banks have maintained their capital adequacy ratio well above the RBI standard of 10%. The other three ratios viz Expenditure to Income, Net Interest Margin, and Return on Assets show a mixture of behaviour, some are more in PNB and less in JKB and vice-versa. However, the overall Index (which has been calculated by dividing the average of individual banks by the average of all items of both banks in part first of table 5.13) which is more in case of PNB compare to JKB but part second and part third in the table show a reverse trend.
Table 5.13
OVERALL FINANCIAL PERFORMANCE OF THE BANKS UNDERSTUDY

<table>
<thead>
<tr>
<th>Part I</th>
<th>PNB</th>
<th>JKB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td>12.16</td>
<td>16.28</td>
</tr>
<tr>
<td>Expenditure/Income</td>
<td>76.2</td>
<td>71.8</td>
</tr>
<tr>
<td>Net Interest Margin</td>
<td>3.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>0.93</td>
<td>1.49</td>
</tr>
<tr>
<td>Overall Index</td>
<td>1.006</td>
<td>0.998</td>
</tr>
<tr>
<td>Rank</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part II</th>
<th>PNB</th>
<th>JKB</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPA to Net Advances</td>
<td>3.42</td>
<td>1.76</td>
</tr>
<tr>
<td>Index</td>
<td>3.42</td>
<td>1.76</td>
</tr>
<tr>
<td>Rank</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part III</th>
<th>PNB</th>
<th>JKB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid assets to Total Deposits</td>
<td>10.00</td>
<td>14.8</td>
</tr>
<tr>
<td>Rank</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>


Note: Overall Performance Index has been calculated by dividing the average of individual banks by the average of all items of both banks in Part I.

Conclusion

The analysis and the discussion in the preceding pages reveals that both the banks are financially viable as both have adopted prudent policies of financial management. Both the banks have managed their capital adequacy ratio well above the minimum standard of 10% fixed by RBI. The average leverage ratio in case of PNB is more (1.746) compared to JKB (0.828).

So far as Asset quality is concerned both the banks have shown significant performance. The PNB has been able to maintain the ratio of Net NPAs to Net advances at 3.42%. The JKB bank has been more efficient by maintaining the average ratio of Net NPAs to Net advances at 1.760%. Similarly, the average
loan loss cover maintained by JKB (9.52%) is more than that of PNB (8.288%).

The business (Advances + Deposits) of the PNB and the JKB have registered a compound growth rate of 14% & 16% respectively. However, the compound growth rate of operating profit has been 24% in PNB and 5% in JKB. The PNB has succeeded in diversifying its business from fund-based to fee-based activities and registered an average income of 14.95% while as JKB has generated 12.25% from this activity. The JKB, in view of the squeezing of spread scenario needs to add more fee based products and services in its portfolio. However, the productivity ratios like earnings per employee and expenditure per employee are more in case of JKB compare to the PNB.

The PNB has generated an average Net Interest margin of 0.034 compare to 0.028 generated by JKB. However, return on assets is more (1.498%) in case of JKB compare to PNB (0.936%).

The spread management shows that PNB has received more interest on advances vis-à-vis interest paid on deposits, the average spread ratio being 0.350. With average spread ratio of 0.320, the JKB has not been as successful as PNB in the management of its spread (interest received-interest paid).

The liquidity in a bank is what is blood in a human body. The bank should be in a position to meet its liability holders as an when demand arises. Thus the appropriate mixture of liquid and non liquid asset is maintained. For this an appropriate strategy of liability and assets management is designed. The liquidity position of JKB, with 0.148 liquid assets to deposits ratio is better than the PNB where the same ratio is only 0.100. However, the investment to deposit ratio is better in PNB (0.460) compare to JKB (0.450).
REFERENCES


