CHAPTER IV

THEORETICAL BACKGROUND

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REFERENCES

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4.1 Introduction:

Henry Ford had once remarked; "Money is an arm or a leg, you either use it or lose it." This statement, through apparently simple, is quite meaningful. It brings home the significance of money or finance. In the modern money oriented economy. Finance is one of the basic foundations of all kinds of economic activities; it is the master key which provides access to all the sources for being employed in manufacturing and merchandising activities. The sanskritphrase "ArthahSachivh" which means "Finance reigns supreme" spokes volumes for the significance of the finance function of an organization. It has rightly been said that, business needs money to make more money. However, it is true that money begets more money, only when it is properly managed. In conclusion we can say that, "Finance is the backbone of every business."[1]

Finance is a scare resource particularly in a country like India, which is characterized by poverty unemployment and double digit inflation. In a wise, economy both lending and recovery are considered to be sides of the same coin. While inadequate allocation of credit endangers the basic socio economic philosophy of the country mounting of over dues of credit endangers the foundations of banking system. Timely recovery of funds, non repayments of loan by the borrowers leads to blocking of funds in the hands of few and ultimately the benefits of credit cannot be passed on the large section of people who are in acute need of credit.

On the other hand, mounting of over dues weaknesses the corporate strength of banks therefore, deployment of credit and also timely repayments of loans are very important for health and effective functioning of bank.

Since, the nationalization of banks has been a fundamental change from class banking to mass banking. The banks have been called upon to protect the interest of the poor and downtrodden in the society to achieve, "Socieostic Pattern of Society" as a result Reserve Bank of India started to open banks in rural areas.

Financial Management:--

We looked at the contents of the financial statements and pointed towards the danger of imputing economic significance to accounting numbers. Yet, financial analysts depend primarily on these statements to diagnose financial performance, why? There are three principal reasons;[2]

i. As long as the accounting biases remain more or less the same over time, meaningful inferences can be drawn by examining trends in raw data and in financial ratios.
ii. Since similar biases characterize various banks in the banking industry.
iii. Experience seems to suggest that financial analysis "works" it one is aware of accounting biases and makes adjustments for the same.

While information found in published financial statements is often not enough to form conclusive judgment about bank performance, financial statements are provide important clues about what needs to be examined in greater detail. Analysis of financial statements is the interest of shareholders, lenders (short-term as well as long-term), investors, security analysts, bank managers, Director Bodies, regulators and others. Financial statements analysis done for a simple analysis of the short-term liquidity position of the bank to a comprehensive assessment of the strengths and weaknesses of the bank in various areas. It is helpful in assessing bank excellence, judging creditworthiness, forecasting bond ratings, predicting bankruptcy, and assessing market risk.

Financial Analysis is the process of determining the significant operating and financial characteristics of a bank from accounting data. The Profit and Loss account and Balance Sheet are indicators of two significant factors, "Profitability and Financial Soundness."[3]

Analysis of financial statements means a treatment of the information contained in the two statements as to afford a full diagnosis of the profitability and financial position of the bank. Financial Statement Analysis is largely a study of relationship among the various financial sectors in business as disclosed by a

single set of statements and a study of the trends of these factors as shown in a series of statements. The main function of financial analysis is the pinpointing of the strength and weakness of a business undertaking by regrouping and analysis of figures contained in the financial statements, by making comparisons of various components and by examining their content. The financial statement analysis are the best media of documenting the results of managerial efforts to the owners of the business, its employees, its customers and much more important of shareholders of the bank. Analyses are used toestablish a relationship between various amounts mentioned in Balance Sheet and Profit and Loss account.

Financial Analysis included an analysis of accounting quality, earnings protection, cash flows adequacy, and financial flexibility.

i) Accounting equality is known by the study of method of income recognition, inventory valuation, depreciation policies, auditor's remarks, off balance liabilities, and so on.
ii) Earnings protections areexamined with reference to profitability ratios, earnings growth, and projected earnings, among others.
iii) Adequacy of cash flows includes a study of future cash flows, working capital needs, and capital budgets.
iv)Financial flexibility is examined in terms of whether alternative financing plans has been developed and the feasibility of such plans, among other aspects.

4.2 Meaning of Financial Statement Analysis:

Financial statement analysis is basically concerned with regrouping and analysis ofInformationprovided by financial statements to establish crucial relationship to throw light on the points of strengths & weaknesses of a business. Financial statement analysis means analysis and regrouping of data contained in historical financial statements after analysis of financial, interpretation of analyzed information is done by the decision maker to forecast future, profitability, financial strengths and liquidity position of the business.

Financial statements are providing financial data which require to analysis, comparison and interpretation for taking decision by the users of accounting information. External users like shareholders, investors, creditors take their decisions after careful analysis of financial statements, in the point of view of internal users it will be analyze for evaluating efficiency of management.

4.3 Definition of Financial Statement Analysis:

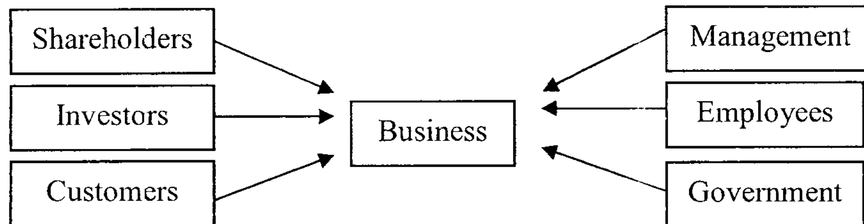
"Financial statement analysis is a judgmental process which aims to estimate current and past financial position and the results of the operation of an enterprise, with the primary objective of determining the best possible estimates and predictions about future conditions."[4]

- Bern Stein

4.4 Need and Use of Financial Statement Analysis:

Every banking concern requires knowing the financial position of the bank. In this various users are interested to know the financial soundness of the bank. Financial analysis and interpretation are closely related to each other, without analysis and short of interpretation analysis is useless. Hence, interpretation of financial statements analysis must be meaningful. A Financial Statements are consist not only figures but accounting balances also, which usually are the results of a number of debit and credit entries for a variety of transaction, these figure do not represent homogeneous data and therefore, it is difficult to interpreted them. This necessities and analysis of the total in financial statements in to their components.So as to restore some sort of homogeneity to the financial statement data. Financial statement analysis is important to identify the strengths and weaknesses of the bank but the properly establishing relationships between the items of the balance sheet and the profit and loss accounts.

Financial analysis can be undertaken by the any business management, outside parties and others. The parties are interested to knowing the financial position of the business concern.It includes shareholders,investors, management, employees, customers and government and others. These are as follows:



1. Shareholders:

   Shareholders are the real owners of the bank. They possess curiosity in knowing whether the bank is being conducted on sound lines or not and whether the capital is being employed properly or not.

2. Investors:

   Who have invested their money in the bank's shares, are most concerned about the banks earnings. They restore more confidence in those banks that show steady growth in earnings.

3. Management:

   Business management would be interested in every aspects of the financial analysis. It is their overall responsibility to see that the resources of the bank are used most effectively and efficiently.

4. Employees:

   The more important point is that the workers expect regular income for the bread. Payment of bonus depends upon the size of the profit earned by the business. The demand for salary rise, bonus rise and other incentives depend upon the profitability of the business and in turn depend upon the financial position, for these reasons, employees are interested in financial statements.

5. Customers:

   Customer's wants to know the information related to financial statements because they interested to more interest rate on the investment. Whenever, customer'ssearching new investment schemes to invest their money, they are interested to the financial statements of the business whether these businesses are working satisfactorily or not.

6. Government:

   Government keeps a close watch on the banking industry. The state and central government are interested in the financial statements to know the earrings for the purpose of taxation.

4.5 Objective of Financial Statement Analysis:

The Financial Statement may include disclosures about the risks and uncertainties affecting the bank and any resources and obligations in the balance sheet and profit and loss account. The important objectives of the Financial Statement Analysis are given below.

1. To information about economic decision.

   Financial statements require an evaluation of the ability of enterprises to generate cash and cash equivalents and of the timing and certainty of their generation. It helps to users for the take economic decisions.
2. To information about financial position:

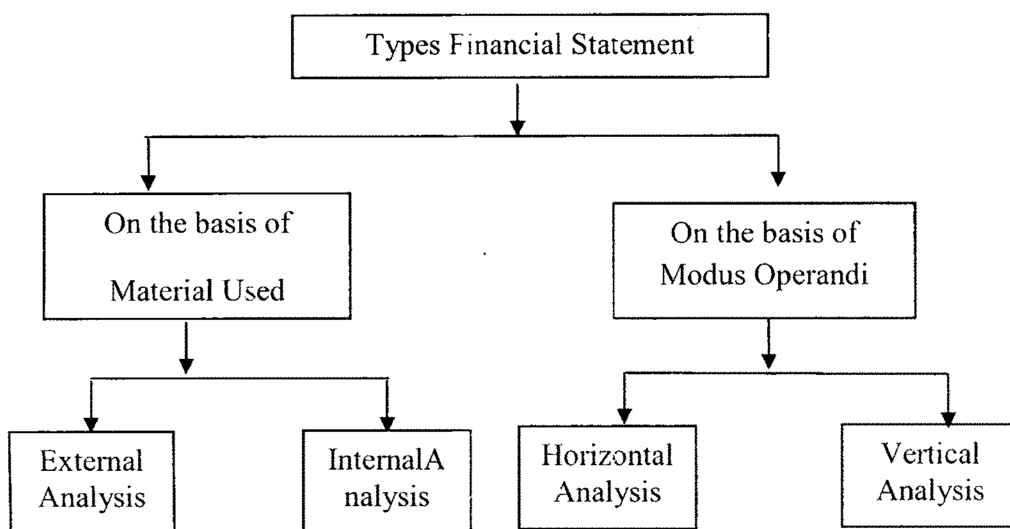
   Information about the Financial Statement structure is useful in predicting the future borrowing needs and how future profits and cash flows will be distributed those with an interest in the enterprise.
3. Information about performance of an bank:

   Financial Statement provides information about the performance and in particulars its profitability, which is required in order to assess potential changes in the economic resources that are likely to control in future. It is also useful in forming judgment about the effectiveness with which enterprise might employ additional resources.
4. Information about changes of Financial position:

   The financial statement provides information concerning changes in the financial position of a business, which is useful for investing, financing and operating activities during the reporting period.

Financial statements are prepared for this purpose to meet the common needs of most users. It also shows the results of the stewardship of management and accountability of management for the entrusted to it.

4.6Types of Financial Statement Analysis:



On the basis of Material Used:

The analysis of financial statements classified into a) External Analysis b) Internal Analysis.

a) External Analysis:

This analysis is meant for the outsiders of the business concerns. Outsiders may be Shareholders, investors, customers, creditors, suppliers, government agencies etc. these external people have to rely only on these published financial statements for important decision-making. This analysis serves only a limited purpose because of the non-availability of detailed information.

b) Internal Analysis:

Internal analysis is performed by those who are within the organization. These internal people have access to the books of accounts and other information

related to the business. Such analysis can be done for the purpose of assisting managerial personnel to take corrective action and appropriate decisions.

On the basis of Modus Operandi:

a) Horizontal Analysis:

Horizontal analysis is also termed as Dynamic Analysis, under this type of analysis,comparison of the trend of each item in the financial statements over the number of years is reviewed or analyzed. This type of comparison helps to indentify the trend in various indicators of performance. Here, current year. figures are compared with the base year, for figures are presented horizontally over a number of columns.

b) Vertical Analysis:

Vertical analysis is also termed as Static Analysis, under this type of the analysis, a number of ratios are used for measuring the meaningful quantitative relationship between the items of financial statements during the particular period. This type of analysis is useful in comparing the performance, efficiency and profitability of several companies in the same group or divisions in the same company.

4.7 Limitations of Financial Statement Analysis:

In the business various users are interested to knowing the financial position during the financial year. Along with these users interest financial statements has more limitation to not showing the properly business affairs. These limitations are as follows:

1. The financial statements are generally prepared from the point of view of shareholders and their use is limited in decision making by the management.
2. Even the audited financialstatement does not provide complete accuracy.
3. In Profit and Loss account net profit is ascertained on the basis of historical costs.
4. The Profit and loss account does not disclose factors like efficiency of management.

5. Management force is the tangible assets of the business but is not disclosed in the financial statements.
6. The book value of the assets is shown as per original value less depreciation but in practice these values may differ depending upon the technological and economic changes.

4.8 Introduction to Ratio Analysis:-

Financial statement is playing a dominant role in setting the framework of managerial decisions. Financial statement is written records of business finances, including balance sheet, profit and loss accounts and other statements. The information provided in the financial statement is of immense use in decision making through analysis and interpretation of financial statements. Financial analysis is the process of identifying the financial strength and weaknesses of the business by properly relationship between the items of balance sheet and profit and loss accounts. A financial statement helps to determine past and present situation of operating and financial characteristics of the accounting data. In financial statement, balance sheet represents the true and fair view of the business concern, and profit and loss accounts focused on operating result of business concerns. Financial statements are the means with the help of which the accounting system performs its main function of providing summarized information about the financial affairs of the business.

The purpose of financial statement analysis is merely to regard the results, as signals which require further investigation to determine their cause. The purpose is to suggest questions or areas for further investigation, rather than provide answers.

There are various principle tools and techniques of financial analysis these are as follows:

1) Comparative financial statement analysis.
2) Common size financial statement analysis.
3) Trend analysis.

4) Fund flow statement analysis.
5) Cash flow statement analysis.
6) Ratio analysis.

4.9 Definition of Ratios:-

"A ratio is a simple arithmetical expression of the relationship of one number to another."[5]

"Ratio is the indication of quotient of two mathematical expressions."

4.10 Advantages of Ratio Analysis:-

1. Simplifies financial conditions-

Ratio analysis tells the whole story of changes in the financial conditions of the business over the period of time.

2. Inter firm comparison-

Ratio highlights the factors associated with successful and unsuccessful firm. They also reveals about strong and weak and also overvalued and undervalued firms. Ratio analysis also makes possible the performance of different divisions of the firm. It facilitates the inter firm comparison ratio helps to determines the efficiency of the firm.

3. Significant of the planning-

Ratio helps planning and forecasting of the business concerns. Ratio analysis can assist the management, in its basic function of forecasting, planning, co ordination, control, and communication.

4. Investment decision-

Ration analysis has play significant role for the taking investment decisions. It helps investors to take investment decision, and for bankers it helps to take lending decisions.

4.11 Limitations of Ratio Analysis:-

1.Limited to only financial statements-

Ratio analysis is based on information which has been recorded in the financial statement. This statement themselves are subject to limitations. Financial statements are affected very greatly by accounting conventions and concepts. Personal judgment plays a great part in determining the figure for financial statement.

2. Price level changes-

A change in price level may affect the ratios and its validity which is calculated for the particular time period. In such causes ratio analysis may not clear the trends in solvency and profitability of the company. Price level changes get lack in meaningful comparison.

3. Personal Bias-

Ratios are only means of financial analysis and not a mean of itself. Ratios have to interpret and different people do it in their own way.

4. Incomparable-

Business differed into the size and the accounting procedures; it makes comparison of the ratios difficult and misleading.

5. Comparativeness-

Ratios compared with the past results of the business. It only provides glimpse of the past situations and not shows any future may unable to prove, and it may affects the future operations.

4.12 Classification of Ratio Analysis:

There were various ratios calculated in the ratio analysis. The main ratios calculated under the ratio analysis are as follows:

1. Profitability Ratios:

These ratio measure overall performance of the bank and earning capacity of the business. They also define the total effect of the business transactions on the profit position of the bank.

2. Solvency Ratios:

These ratios measure the short term as well as long term solvency of the business. It was showing the business ability to meet the interest and principle payment to the customers. It is important ratio to long term future of the business.

3. Liquidity Ratios:

These ratios measure the liquid position of the business i.e. whether the current assets are sufficient current liabilities. It also shows the short term solvency of the business. It is the measurement of the business ability to meet its obligations.

4. Operating Ratios:

This ratio is useful to measure the operating activities done by the management of the bank. This ratio is important to improve the management efficiency of the bank.

5. Activity Ratios:

These ratios measure the efficiency in the employment of the funds in the business operations. This ratio reflects the companies' level activities. This ratio is also called as turnover ratio.

Table No.4.1

Classification of Ratios

Sr. No.	Classification	Ratios
1	Profitability Ratios	1. Capital Adequacy Ratio 2. Volume of Business per Employee 3. Net Profit Ratio 4. Operating Profit to Net Worth Ratio 5. Interest Earned to Total Income 6. Net Profit to Total Deposits 7. Non-Interest Income to Total Expenses 8. Operating Expenses to Total Expenses 9. Total Investment to Working Capital 10. Interest Paid to Total Income

		11. Total Expenses to Total Income 12. Net Profit to Total Income 13. Return on Net Worth 14. Net Profit per Branch 15. Return on Eq. Share Capital
2	Solvency Ratios	1. Credit Deposit Ratio 2. Interest Coverage Ratio 3. Cash Balance to Total Deposits 4. Total Investment to Total Deposits 5. Total Loans and Advances per Branch 6. Total Loans and Advances per Employee
3	Liquidity Ratios	1. Cash & Bank Balance to Total Assets 2. Investment in Government Securities to Total Assets 3. Total Investment to Total Assets
4	Operating Ratios	1. Interest Income to Working Capital 2. Non- Interest Income to Working Capital 3. Operating Expenses to Working capital
5	Activity Ratios	1. Fixed Assets to Working Capital 2. Non-Interest Income per Employee 3. Loans Overdue per Employee 4. Total Expenditure per Employee 5. Total Income per Employee

4.12.1 Profitability Ratios:

1. Capital Adequacy Ratio-

The ratio of capital plus reserves to working capital are examined to know the capital adequacy. The bank must have adequate capital to cover the natural hazards in its operations. A strong capital base provides more scope for diversification and expansion of banking business.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital + General Reserve}}{\text{Working Capital}} \times 100$$

2. Volume of Business per Employee –

Volume of business concludes aggregate deposits and advances. Productivity of the any bank is measured in terms of per employee business. In any bank, it is expected that per employee business are around Rs. 17 lakhs. Higher ratio shows more business done by the employees.

$$\text{Volume of business} = \frac{\text{Total Business}}{\text{No. of Employee}} \times 100$$

3. Net Profit Ratio-

Net Profit ratio is used to measure the overall profitability of the bank. The ratio is very useful as if the net profit is not sufficient, the bank should not be able to achieve a satisfactory return on its investment. Higher ratio cause to better profitability.

$$\text{Net Profit} = \frac{\text{Net Profit}}{\text{Total Loans \& Advances}} \times 100$$

4. Operating Profit to Net Worth-

It is a measurement of a banks operating efficiency. Operating Profit to Net Worth ratio is a corollary to the return on Net Worth. It is another indicator of shareholders return.

$$\text{Operating Profit to Net Worth} = \frac{\text{Operating Profit}}{\text{Net Worth}} \times 100$$

5. Interest Earned to Total Income Ratio-

The main function of the bank to provide loans and advances to their customers, naturally the income of bank depends upon interest received on such loans and advances. If the interest earned to total income ratio is higher it shows that the earning capacity of the bank is high.

$$\text{Interest Earned to Total Income} = \frac{\text{Interest earned}}{\text{Total Income}} \times 100$$

6. Net Profit to Total Deposits Ratio-

Net Profit to Total Deposits ratio shows that the productivity reflection. It indicates deposit mobilized by the bank.

$$\text{Net Profit to Total Deposits Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits Ratio}} \times 100$$

7. Non Interest Income to Total Expenses-

In this ratio Non- interest income play an important role to decide the earning capacity of the bank. High ratio indicates that the bank should provide timely need based services to customers.

$$\text{Non-Interest Income to Total Expenses} = \frac{\text{Non Interest Income}}{\text{Total Expenses}} \times 100$$

8. Operating Expenses to Total Expenses-

Non-interest expenses are known as operating expenses. If the operating expensesof the bank are increased, naturally the total expenses of the bank are increased. Increase in the total expenses there by reducing the earning capacity of the bank.

$$\text{Operating Expenses to Total Expenses} = \frac{\text{Operating Expenses}}{\text{Total Expenses}} \times 100$$

9. Total Investment to Working Capital –

Interest received from investment help to increase the income of the bank. Every banks, Govt. securities, shares, bonds etc. and maintain the risk. If the ratio is high the risk is less and vice versa.

$$\text{Total Investment to W.C.} = \frac{\text{Total Investment}}{\text{Working Capital}} \times 100$$

10. Interest Paid to Total Income-

This ratio has been computed by the amount interest paid divided by total income.

$$\text{Interest Paid to Total Income} = \frac{\text{Interest Paid}}{\text{Total Income}} \times 100$$

11. Total Expenses to Total Income-

Total expenses to total income ratio is the relationship between the total expenses of the bank divided by the total income of the bank.

$$\text{Total Expenses to Total Income} = \frac{\text{Total Expenses}}{\text{Total Income}} \times 100$$

12. Net Profit to Total Income-

This ratio has been computed by the amount total net profit of the bank divided by total income of a bank.

$$\text{Net Profit to Total Income} = \frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

13. Return on Net Worth-

Return on Net Worth is a good indicator of profitability and return on shareholders funds. It is the prime indicator of a management capability to provide adequate returns. This ratio can be used for the interbank comparison which will reflect the relative efficiency.

$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100$$

14. Net Profit per Branch –

This ratio shows the relationship between the net profit and branches earning of the bank. If the ratio is high, it means more amount of profit has been earned by bank.

$$\text{Net Profit per Branch} = \frac{\text{Net Profit}}{\text{No. of Branches}} \times 100$$

15. Return on Equity share capital (ROEC) Ratio:-

The ratio is more meaningful to the equity shareholders who are interested to know profits earned by the bank higher are the ratio better for bank.

$$\text{ROEC Ratio} = \frac{\text{Net Profit (After Tax \& Pref. Dividend)}}{\text{Equity share capital}} \times 100$$

4.12.2 Solvency Ratios:-

1. Credit Deposit (CD) Ratio –

Bank mobilizes the deposits from the customer and the granted loans and advances to needy peoples. If low cost lending. It will increase the profitability of the bank. Higher ratio indicates the extent of utilization of deposits for providing loans and advances.

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$$\text{Credit Deposit (CD) Ratio} = \frac{\text{Total loans \& advances}}{\text{Total deposits}} \times 100$$

2. Interest Coverage Ratio-

This ratio indicates that how many times interests are covered for the ability to support it also indicates the current ability to support current debt services charges. Higher the number, higher ability to service the debt.

$$\text{Interest Coverage Ratio} = \frac{\text{NP before Interest \& Tax}}{\text{Interest Paid}} \times 100$$

3. Cash Balance to Total Deposits Ratio-

This ratio indicates the cash position in hand for return to the depositors of a bank.

$$\text{Cash Balance to Total Deposits Ratio} = \frac{\text{Cash Balance}}{\text{Total Deposits Ratio}} \times 100$$

4. Total Investment to Total Deposits Ratio-

This ratio shows that the out of the total deposits what is the portion of the investment made by a bank. Higher ratio shows the more investment of a bank to other institutions.

$$\text{Total Investment to Total Deposits Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}} \times 100$$

5. Total Loans & Advance per Branch-

This ratio is used to measure the performance of the bank. This ratio is calculated by total loans and advances divided by number of branches of the bank.

$$\text{Total Loans \& Advance per Branch} = \frac{\text{Total Loans \& Advance}}{\text{No. of Branches}} \times 100$$

6. Total Loans & Advance per Employees-

Total Loans & Advance per Employees shows the relationship between the credit assistance by bank to number of employees.

$$\text{Total Loans \& Advance per Employees} = \frac{\text{Total Loans \& Advance}}{\text{No. of Employees}} \times 100$$

4.12.3 Liquidity Ratios:-

1. Cash & Bank Balance to Total Assets Ratio -

This ratio indicates the proportion of cash & bank balance in the total assets of a bank. High ratio shows the more involvement in total assets.

$$\text{Cash \& Bank Balance to Total Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Assets}} \times 100$$

2. Investment in Government Securities to Total Assets Ratio-

This ratio indicates that the proportion of investment made by the bank in more safe government securities. This ratio helps to improv credit deposit ratio by keeping investment lower.

$$\text{Invt.in Govt. Securities to Total A.} = \frac{\text{Investment in Govt. Securities}}{\text{Total Assets}} \times 100$$

3. Total Investment to Total Assets Ratio-

This ratio indicates how a bank are leveraging its resources to credit and investment. This ratio shows the liquidity position at the time of the interbank comparison.

$$\text{Total Investment to Total Assets Ratio} = \frac{\text{Total Investment}}{\text{Total Assets}} \times 100$$

4.12.4 Operating Ratios:-

1. Interest Income to Working Capital Ratio-

This ratio shows that the bank ability to leverage its average to total resources in enhancing its main stream operational interest income. This ratio expressed as a percentage.

$$\text{Interest Income to W. C. Ratio} = \frac{\text{Interest Income}}{\text{Working Capital}} \times 100$$

2. Non-Interest Income to Working Capital Ratio-

This ratio shows the bank ability to earn from non-conventions sources. In a liberalized environment, the ratio assumes significance. For, it mirrors a bank's ability to take full advantages of its operational freedom.

$$\text{Non-Interest Income to W. C. Ratio} = \frac{\text{Non-Interest Income}}{\text{Working Capital}} \times 100$$

3. Operating Expenses to Working Capital Ratio-

Operating expenses are called as non-interest expenses of a bank. This ratio shows that the overall operational efficiency of a bank. It is one of the indicator of profitability.

$$\text{Operating Expenses to W. C. Ratio} = \frac{\text{Operating Expenses}}{\text{Working Capital}} \times 100$$

4.12.5 Activity Ratios:-

1. Fixed Assets to Working Capital Ratio-

This ratio indicates to the extent the working capital has been utilized for investment in fixed assets. Higher ratio indicates the more amounts invested in fixed assets.

$$\text{Fixed Assets to W.C. Ratio} = \frac{\text{Fixed Assets}}{\text{Working Capital}} \times 100$$

2. Non – Interest income per Employee Ratio –

Non – Interest income is the source of income for the bank. It includes various services rendered by the bank. It depends upon the performance of the employees. Higher ratio indicates the productivity of the employees.

$$\text{Non – Interest Income per employees Ratio} = \frac{\text{Non – Interest Income}}{\text{No. of Employees}} \times 100$$

3. Loans overdue per Employees Ratio –

Overdue amount is a non performanceasset which does not produce any income to the bank. Overdue represent due amount of loans and advances. Every bank wants to reduce the overdue amounts. Higher ratio shows the more responsibility of the employees to collecting the dues.

$$\text{Loans overdue per Employees Ratio} = \frac{\text{Loans overdue}}{\text{No. of Employee}} \times 100$$

4. Total Expenses per Employees Ratio-

Total Expenses per Employees Ratio reveals the proportion of total expense to number of employees of a bank.

$$\text{Total Expenses per Employees Ratio} = \frac{\text{Total Expenses}}{\text{No. of Employees}} \times 100$$

5. Total Income per Employees Ratio-

This ratio shows the overall performance of the employees of the bank. It is computed with the help of total income divided by number of employees.

$$\text{Total Income per Employees Ratio} = \frac{\text{Total Income}}{\text{No. of Employees}} \times 100$$

4.13 Introduction to NPA:-

In 1985 RBI introduced "Health Code System" and asked Indian banks to make necessary provisions to debts classified as bad doubtful. The concept of Non-Performing Asset (NPA) is of recent origin in India. A NPA is defined generally as a credit facility in respect of which interest or installments of principle is in arrears for certain specified period of time. As per the International Accounting Standard (ATS), Banks should recognize income on the basis of recovery. It means interest amount should be credited only when it is actually received by the bank.[5]

"An NPA is an advance where due payment has not been received for the last 180 days."[6] If the bank gets interest regularly, it will be treated as earning or performing assets and on the other hand, if bank does not receive due interest more in six month, it is NPA.

Impact of NPA:-

If the NPAs have increases following impacts on the banks.

1. NPAs do not generate income.
2. Provisions are required to be made for NPAs.
3. NPA decreases the profitability of the bank.
4. It affects on decisions taken for fresh loan proposals.
5. If affects the creditability of the bank.
6. It locks up the recycling of funds.
7. It hampers the competitiveness of the bank.
8. It slumps the credit expansion of the bank.

Table No. 4.2 Classification of Assets and Provisions to be made

1.	Standard Assets	Standard assets are those assets which do not disclose any problem and do not carry more than the normal risk attracted to the bank. The Co- operative banks have to make 0.25%

		provision for such assets. In this fixed deposits are to be treated as standards assets.
2.	Sub-Standard Assets	In this assets have credit weakness, which may dangers in the recovery of the debt in full and there is distinct possibility that the bank will sustain some loss, if the deficiencies are not corrected, the co-operative banks have to make provisions for such assets at 10 percent.
3.	Doubtful Assets	All have assets, which are NP and which have continued to be so for a period exceeding two years are referred to as "doubtful assets" such type of loans cannot be renewed. The provision as shown below is required to be made by cooperative bank. 1. Up to one year -20%. 2. One year to three years -30%. 3. More than years -50%.
4.	Loss Assets	An assets which has been identified by the bank as assets, but the amount has not yet been written off, wholly or partly are referred to as" lass assets" such assets is uncollectible and such little value that its continuance as a bankable asset is not justifiable and warranted, although there may be some recovery value.

(Source: Compiled from www.rbi.org)[7]

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