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Abstract

The paper consolidates the summarised financial statements of the main banks operating in Malta during the year 2002, to form a Typical Large Bank and a Typical Small Bank. The profitability, risk and growth prospects of the two institutions are analysed through Return on Equity decomposition and the use of other financial ratios. Various differences between large and small institutions emerge. In particular, larger institutions realised higher profitability and cost control; they were more capitalised in absolute terms and relied relatively less on interest income. Smaller institutions generated comparatively more revenue; they were more capitalised in relative terms, were relatively more provisioned against loan losses and held a higher proportion of liquid assets.

Introduction

This study gleans key indicators from the financial statements of the main banks operating in Malta as at 2002, and discusses the profitability, risks and growth prospects of these institutions. The next section describes the compilation of the data set and the limitations of this study. The main computations are undertaken in the subsequent section. This is followed by an analysis which highlights the differences between the larger and smaller banks. The conclusion summarizes the main findings and outlines potential areas for further research.

Data and Limitations

The initial data set comprised a summary of the Balance Sheet and Income Statement for six individual banks: APS Bank Ltd., Bank of Valletta plc (BOV), First International Merchant Bank plc (Fimbank), HSBC Bank Malta plc, Lombard Bank (Malta) plc, and Volksbank Malta Ltd. This data relates to the year 2002, and was obtained from Bankscope database.¹ The final accounts of the individual banks were dated December 2002, except for the accounts of BOV and Lombard which were compiled as at the end of October 2002. The accounts of Volksbank and Fimbank which were denominated in Euros and USD respectively were converted to Maltese Lira at end of period middle rates.

The end of year Balance Sheet and Income Statement figures were summed up as follows:

- BOV, HSBC and Volksbank were consolidated to form a “Typical Large Bank” (TLB);² and
- APS, Lombard and Fimbank were consolidated to form a “Typical Small Bank” (TSB).

The data pertaining to TLB and TSB thus comprises the major banks, and we may be confident that it is representative of the Maltese banking system at the time.³ As noted below, the business activities of Volksbank and Fimbank are different from those of the other sampled banks. Given this, the inclusion of the former banks in the sample is considered important since otherwise the study’s focus would shift towards those commercial banks having a significant exposure to Malta; whereas the aim of this analysis is to examine the Maltese banking system in general, irrespective of the nature of activities.

This analysis concentrates on the core indicators of TLB and TSB. Where the data was not detailed enough to calculate an indicator relating to TLB or TSB, a weighted average of the component banks’ indicators was taken. In those cases where some ratio for an individual bank was unavailable, the weighted average of the remaining two banks was taken.

The business activities of the banks included in the data set are mainly of a commercial banking nature, with subsidiary involvement in investment banking, life assurance, private banking and fund management. The main share of activities of these banks originates in Malta, with the exception of Volksbank and Fimbank. Volksbank was set up as an offshore bank in 1995 and therefore transacted exclusively with non-residents. Whilst it is now an onshore financial institution, its customer base is still internationally-oriented and the bank is aiming to enhance business links between European and North African countries. Fimbank’s main business area is assisting and financing of international trade activities in a variety of countries.

Overall, the sample includes a hybrid of different banking activities, and we cannot rule out the possibility that the differences between TLB and TSB are due to heterogeneous combinations of business lines. Yet, this is not a central issue to this research.

The data set for Fimbank merits a specific note. This was the only bank with a negative Net Income (NI) for the year 2002. Fimbank's service range and corporate structure have altered since then, partly through the acquisition of London Forfaiting Company plc. Fimbank's negative Net Income resulted in a loss-making TSB when consolidating the data with APS and Lombard's figures. Yet, the latter banks registered profits and therefore paid related taxes. When summing up the Income Statement figures for the three small banks, TSB resulted in a loss-making institution which is still penalised in terms of taxation. These notions imply that the analysis of the TSB data may not in fact reflect the general state of the "minor" Maltese banks at the time.

Methodology and Computations

The methodology adopted in this study is to analyse the basic financial ratios for TLB and TSB and to highlight the differences between such institutions. Ratio interpretation is widely applied to financial institutions due to clarity and simplicity reasons. Other alternatives commonly used by researchers include the estimation of regression models in order to infer whether bank size is a significant variable in explaining the topic being analysed. Yet, such a methodology may not be easily applied in the Maltese context, given that a cross-section of data for different banks does not yield a sample of sufficient size. In fact, even if the sample size is extended to all banks operating in Malta, one is still unlikely to have sufficient observations that enable cross-sectional regressions with reliable inferences.

As stated above, the Financial Statements for different banks as at 2002 were consolidated to form TLB and TSB. Summarised Financial Statements for TLB and TSB are shown in Tables 1 and 2.

Tables 1 and 2 about here

Following the consolidation of the accounts of the individual banks, we now focus on decomposing the Return On Equity (ROE) of TLB and TSB as proposed by Cole (1972).

The ROE ratio may be decomposed into Return on Assets (ROA) and Equity Multiplier as shown below:

$$ROE = \frac{NI}{Equity} = \frac{NI}{TA} \times \frac{TA}{Equity} \quad (1)$$

where NI is the Net Income and TA refers to the Total Assets of the bank. Thus, when multiplying the numerator and denominator of ROE by TA we obtain ROA and the Equity Multiplier (i.e. Total Assets: Equity). The latter ratio may be used as a measure of capital adequacy and is therefore an indicator of the gearing risk of the institution.

ROA may be decomposed further by multiplying the numerator and denominator by the Total Revenue (TR) of the bank as follows:

$$ROA = \frac{NI}{TR} \times \frac{TR}{TA} \quad (2)$$

The first term of Equation 2 is the Profit Margin (PM), whilst the second term is the Asset Utilisation (AU) which indicates the amount of revenue generated by each unit of assets.⁴ The latter ratios may be investigated further, depending on data availability. In this case, AU is elaborated upon by splitting TR into Net Interest Income (NIR) and Other Operating Income (OOI). Similarly PM is explained by investigating the expenses which “consume” the profits. The available data permitted the investigation of Loan Loss Provisions (LLP), Overheads and Taxes.

The ROE decomposition ratios of TLB and TSB are shown in Figure 1.

Figure 1 about here

This analysis also uses further ratios relating to TLB and TSB in order to focus on specific aspects of these institutions. In particular, ratios relating to Capital Adequacy, Asset Quality, Liquidity and the Operations of the institutions were calculated as summarised in Table 3.

Table 3 about here

Having calculated the key ratios for TLB and TSB, we now proceed with the analysis of the above figures.

Discussion

The computations shown in the previous section are now analysed, in terms of profitability, risks and growth prospects.

1. Profitability

The fundamental yardstick in the ROE decomposition model is the Return on Equity. ROE for TLB stands at around 9.3% - considering that the coupons offered on fixed rate securities were decreasing at the time, this may be considered as acceptable. Yet, one should also scrutinize this rate of return in view of the profits earned elsewhere, and investors might be justified in expecting higher rates of return.⁵ The ROE ratio for TSB is negative and may be wholly attributed to Fimbank's negative NI. When accounting for the latter fact by eliminating Fimbank from the TSB group, the tendency for smaller banks to operate on a lower ROE still prevails. Such comments also apply to the ROA where the negative figure for TSB may be attributed to Fimbank, and there is a tendency for the smaller banks to realise a lower ROA.

The lower return for TSB may be explained by relatively higher costs which decrease PM. As shown in Table 3 Panel D, the Cost to Income ratio of TSB stands at around 62% as compared to TLB's ratio of 49%. A relatively higher level of overheads for TSB may be attributed to economies of scale concepts, whereby smaller banks may take longer to recoup fixed costs. For instance, the implementation of IT systems, risk management functions and investment in technical expertise may give rise to economies of scale, since the former costs are likely to be higher for smaller banks when expressed in relative terms i.e. for each Lira of deposits or loans.

A second factor which accounts for the higher costs realised by TSB is the Loan Loss Provision (LLP). When scrutinising the LLP ratios for the individual banks (not reported here), it seems that TSB's high LLP ratio is "inflated" by Fimbank's provision charge for

the particular year. This may reflect a higher credit risk relating to this bank's portfolio, due to sizeable exposure to North African businesses. Yet, one should note that the higher LLP charges on part of TSB result in a more adequately provisioned institution. As shown in Table 3 Panel B, the ratio of Loan Loss Reserves: Impaired Loans stood at around 47% for TSB as compared to TLB's 21%. The two individual institutions with the highest ratio of Loan Loss Reserves: Impaired Loans were APS Bank (112%) and Fimbank (93%). Both of these figures are included under the TSB umbrella. The Loan Loss Reserves: Impaired Loans ratio for the rest of the banks was below 30%.⁶

TSB has a higher revenue generation capacity when considering the ratios of Asset Utilisation, NIR: Average Assets and OOI: Average Assets. This may be attributed to the fact that TSB holds relatively less fixed and non-earning assets as compared to TLB. TSB generates higher NIR for each Lira invested in assets. This may be attributed to TSB's higher net interest margin as shown in Table 3 Panel D. The fact that TSB realised a higher ratio of NIR: Average Assets becomes more significant when considering that one of the component banks of TSB (Fimbank) does not concentrate as much on NIR. Fimbank's main source of business is not related to deposit and loan activity and it is the only bank with OOI which is higher than NIR.

We may thus summarize that TLB has higher cost efficiency, whilst TSB has a more effective revenue-generation process. The net result in terms of profitability is tilted in favour of TLB, as shown in Figure 1. One possibility is that the higher profitability of TLB is related to market power as found by various empirical studies such as Chirwa (2003). Yet, this may not necessarily be the case. Whilst there is an evident difference in the size of the banks comprising TLB and TSB, the former bank does not necessarily have a higher market power as compared to TSB. For instance, Fimbank which is included under TSB figures has a considerable market power and specialisation in trade finance.

The overall results give more support to those studies suggesting that cost management is a more important source of profitability as compared to market concentration.

Empirical evidence regarding this notion was presented by various authors and the reader is referred to Berger and Humphrey (1997) for a comprehensive survey. Another possibility is that the differences between TLB and TSB emanate from a different combination of business activities; however the data set at hand does not permit the investigation of this issue.

2. Risks

Risk constitutes an integral part of a proper financial analysis, since the profitability of an institution should be evaluated in the context of its risk. Higher profits might be the result of higher risk levels and vice-versa. Banks are exposed to different risk categories, including financial risks, environmental risks, management risks, and delivery risks which are incurred in delivering a product or service. This section focuses on the main types of financial risks of banks: leverage risks, credit risk, liquidity risk and interest rate risk. Operating risks are discussed as well, although these are usually classified under the delivery risk category. Possible future changes in the banks' risk profiles are also outlined.

This risk analysis is not meant as a comprehensive evaluation of each kind of risk, since this would require information about the portfolio composition in terms of different maturities, types of obligations and counterparty details. In addition, this analysis does not consider foreign exchange risk and market risk, due to the lack of data on the exposures to foreign currency, marketable securities and derivatives of the respective banks.

Leverage Risk: The leverage risk of an institution is directly related to capital adequacy, since a higher capital base translates into lower leverage. Whilst TLB accumulated more capital in absolute terms, the ratios shown in Table 3 Panel A indicate that TSB is more capitalised in relative terms. The Equity: Net Loans ratio is considerably higher for TSB, although this may be partly attributed to TSB's policy of allocating a lower proportion of funds to loans, as discussed below.

The capital ratios of TLB and TSB, disguise considerably higher ratios for two of the component banks – Volksbank and Fimbank. The latter banks have an Equity: Total Assets ratio of 21% and 25% respectively, and this might be partly attributed to the banks' lower asset bases, which emanate from comparatively low earning assets, non-earning assets and fixed assets. The latter is related to the banks' policy of not relying on extensive branch networks. In the case of Fimbank, the institution is not reliant on traditional deposit-loan activities and this translates in comparatively lower financial assets and liabilities, making the institution resemble a non-financial services business in terms of its leverage. This explains the overall lower gearing ratios (and therefore lower leverage risks) for these banks.

Credit risk: The ratio of Impaired Loans: Gross Loans, as shown in Table 3 Panel B indicates that the asset quality of TLB is marginally better than that of TSB. Yet, the latter bank is more adequately provisioned for loan losses than TLB. For instance, the Loan Loss Reserves: Impaired Loans ratio of TSB is roughly double that of TLB. We may attribute the latter difference to a policy of allocating a relatively higher LLP on part of TSB, rather than better loan selection policies. The LLP policies of TLB and TSB were discussed above.

The Loan Loss Reserves figures reflect the necessity for TLB to build up higher LLPs against possible loan defaults as at 2002. In addition there may be a potential for both

TLB and TSB to improve their asset quality through more rigorous use of credit scoring systems. Local banks tend to apply credit scoring and statistical techniques only in case of personal loans, as outlined by McCarthy (2001). Assisting lending officers with automated decision procedures may translate into more prompt decisions on loan proposals, and this may improve the operating efficiency of banks.

Liquidity Risk: The ratios presented in Table 3 Panel C indicate that TLB takes on higher liquidity risks than TSB. The former bank allocates a higher proportion of funds to loans, which in the Maltese context may be considered as illiquid assets due to the absence of securitisation activity. In addition TLB tends to hold a lower proportion of funds in liquid assets. The inter-bank ratios indicate that TLB is a net borrower from other banks, whilst TSB is a net lender to other banks. These results are in line with the notion that smaller banks tend to be more prudent in their liquidity management policies. This may be attributed to the fact that larger banks tend to have easier access to tap additional funding from external sources, such as issuing new debt or equity.

Interest Rate Risk: As stated above, a thorough assessment of interest rate risk requires detailed data about the re-pricing procedures of different assets and liabilities. For instance, the interest rate on some deposits or loans may change only at maturity, whilst the interest rate on other accounts might change more frequently. The net effect in terms of interest rate risk is mainly dependent on the re-pricing mismatches of assets and liabilities.

The available indicators for the assessment of interest rate risk are the Net Interest Margin (NIM) and the NIR / NI ratio. NIM indicates that TSB was realising higher earnings on its deposit-loan function in relative terms. This makes TSB more capable of absorbing adverse fluctuations in interest rates, and in this sense it is less exposed to

interest rate risk. Yet, when considering the NIR / NI ratio, TSB's profits rely to a larger extent on interest earnings and in this sense it is more prone to interest rate risk.⁷ TLB is less reliant on interest earnings and this is in line with the notion that as banks become larger, they endeavour to broaden the income obtained from alternative sources of business.

Operating Risk: Operating risks are related to the bank's operating costs. Increased operating costs decrease NI. The management of operating costs encompasses a wide array of issues including proper management structure, internal controls and contingency planning. Such items cannot be assessed from the above data, however we may infer the extent of operating risk through various indicators such as the Cost: Income Ratio and Overheads: Revenue ratio. Such indicators as shown on Table 3 Panel D reveal that TSB is exposed to a higher degree of operating risk as compared to TLB. The Cost: Income ratio is considerably higher for TSB, although this may be partly attributed to this bank's policy of allocating a relatively higher LLP. The Overheads: Revenue ratio excludes the LLP allocation, and therefore the difference between TLB and TSB becomes less pronounced when considering this criterion.

The above assessment does not reveal any clear-cut difference in TLB's or TSB's capacity to absorb the risks discussed above. Both banks have their own strong and weak points, and this makes comparisons difficult to undertake. TLB has higher capital adequacy in absolute terms, is less reliant on Interest Income, and has a lower Cost: Income ratio. TSB's strong points are higher capital adequacy in relative terms, higher Loan Loss Reserves to counter credit risk, and a higher level of liquidity stored in the Balance Sheet.

Possible Future Developments: A consideration of the possible future developments in terms of bank risk is warranted. As banks move away from traditional sources of business, they might reduce their risk exposures through wider diversification as argued by Llewellyn (1990). In particular, a lower dependence on the deposit-lending function might reduce interest rate risk, although banks might also become more exposed to other kinds of risks such as market risk.

Through Malta's accession in the EU, the country's banking system is likely to become exposed to additional competition. As argued by Vives (2001), banks should avoid the trap of unduly increasing their risk exposure in order to protect profitability. Empirical evidence of banks taking on additional risks as a response to increased competition was presented by Wright (2002) in a study focusing on the Australian banking industry during the late 1980's. A counter-argument was presented by González (2003) who analysed bank data encompassing different countries. The author claimed that liberalisation of the banking industry makes bank licences more valuable on the grounds that banks can take on additional business in a deregulated environment. Thus, banks would have further incentive to diversify their activities and limit their risks, so as to avoid losing their licences. This may result in a lower level of risk.

3. Growth

Growth is an important business aspect given that larger businesses are more likely to survive on the market. This is especially relevant to the banking industry where the largest banks are often considered as "too big to fail". Growth constitutes an integral part of this analysis, given that some of the component institutions might be focusing on increasing market share rather than on profitability – at least in the short term. This might well be the case with Fimbank, the only sampled bank registering losses during 2002; yet

subsequently acquiring London Forfaiting Company plc, as a way to increase and diversify its customer base.

Forecasting the future growth of an institution is not a straightforward task, and this would also require additional data. For instance, Molyneux, Remolona, and Seth (1998), in an empirical study focusing on banks operating in the US but originating overseas, found that one important determinant of loan growth was the previous period's loan growth – which is not available in this data set.

Two aspects which are required to achieve growth are a growth-oriented strategy and funding availability. This section focuses on the latter aspect. Growth may be financed through internal sources or external sources. The main internal sources of funds are liquid assets and fresh capital generated by the business. External sources of funding are inter-bank loans, and debt or equity issues. Irrespective of the chosen funding source, the bank should remain adequately capitalised at all times. An assessment of the capital adequacy of the institutions was undertaken above, in terms of gearing ratios.

As regards the banks' liquid assets, TSB has a policy of holding a higher proportion of liquid assets as discussed above; although the *absolute* amount of liquid assets is perhaps of higher relevance, since growth strategies are likely to require large amounts of funding. TLB holds a higher amount of liquid assets in absolute terms.

The internal capital generation rate (ICGR) is an indicator of the “fresh” funds generated by the business. It refers to the amount of profits which are retained in the business rather than distributed as dividends. The ICGR as shown in Table 3 Panel A may be misleading. In case of TLB, it represents ratios of around 9%, 4% and 1% for the individual banks. The ICGR of TSB is negative since this institution is registering a negative NI. The ICGR of the component banks is 6%, 5% and negative in case of the loss-making bank. In this way, the different ICGRs of TLB and TSB do not allow us to

derive any inferences, since each of the individual banks should be taken on its own merits. In this context, the ICGR reveals how relying exclusively on the analysis of particular ratios might be misleading. For instance Fimbank has the lowest ICGR for the year 2002; yet it is the bank which subsequently pursued the most aggressive growth strategy through the acquisition of a forfeiting company.

Institutions with insufficient internal sources of funds may still finance growth through external sources such as inter-bank loans, debt issues and equity issues. The inter-bank ratio for TSB is particularly high and shows that it should not be a problem for this bank to obtain more funds from other banks. Yet, smaller banks usually prefer to leave their inter-bank credit lines unconsumed and it might also be optimal to finance growth through more permanent funding sources.

All external sources of funding affect the institution's gearing. As discussed above, TSB is more adequately capitalized in terms of gearing ratios whilst TLB is more adequately capitalized in absolute terms. However, tackling growth issues in absolute terms might be more reasonable, as discussed above. For instance, borrowing a given sum of money may increase the gearing of TSB by a higher proportion as compared to TLB. Thus, borrowing from external sources might be a more suitable option for the latter bank rather than for TSB. TSB might still resort to external funding sources, but it might be more reasonable to issue equity rather than debt, or alternatively a mixture of debt and equity.

Overall, TLB holds more liquid assets and equity in absolute terms, and this facilitates the financing of growth strategies through both internal and external sources of funding. As for TSB, the funding of a growth strategy might require additional capital, and therefore further equity issues might be optimal.

Conclusion

The analysis started with a description of the data set and the computation of key indicators which are commonly used for the interpretation of bank financial statements. A discussion of the profitability, risks and growth prospects for TLB and TSB followed. The main findings may be summarised as follows:

- During the year 2002, TLB realised a higher level of profitability and cost control, whilst TSB generated more revenue for each Lira invested in assets.
- TLB and TSB have differing strengths which are relevant in mitigating risks. TLB holds more capital in absolute terms, relies relatively less on Interest Income, and operates on a lower Cost: Income ratio. TSB is more adequately capitalised in relative terms, has accumulated relatively higher Loan Loss Reserves, and holds a higher proportion of liquid assets.
- TLB may be better equipped to finance growth strategies given that it holds higher amounts of capital in absolute terms. In case of TSB, supplementing the equity base with additional capital might constitute a vital aspect of a growth strategy.

The above findings still leave a number of unanswered questions. Topics which may offer potential for further research include the issue of economies of scale of Maltese banks in the context of the larger European banks. For instance, as discussed by Altunbas and Molyneux (1996) economies of scale should prove to be an important element that affects profitability within the EU environment. A further issue emanates from the trend for merger and consolidation activity in European banking. The responses of European banks to such changes were discussed by different authors such as Gardener *et. al.* (1997) and McNutt (2002). The application of such notions to the

Camilleri, Silvio John, 2005, An Analysis of the Profitability, Risk and Growth Indicators of Banks Operating in Malta, *Bank Of Valletta Review*, 31, 32-48, Spring.

Maltese banking system would be an interesting exercise in assessing future strategies for Maltese banks.

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Footnotes

1. www.bankscope.com
2. Volksbank's inclusion in TLB deserves further explanation. Analysing the loan figures for the year ending 2002, Volksbank lies in between the other large banks and the small banks included in TSB. Yet, when considering equity statistics, a clear difference between Volksbank and the smaller banks emerges, placing Volksbank more in line with the larger banks. Given that nowadays bank size tends to be measured in terms of equity rather than loan activity, Volksbank was included in TLB.
3. The following banks which operated in Malta during the period, are not accounted for in this analysis: Akbank TAS, Disbank Malta Ltd., Erste Bank (Malta) Ltd., HSBC Home Loans (Malta) Bank Ltd., Investkredit International Bank Malta Ltd., Izola Bank Ltd., Raiffeisen Malta Bank plc, Sparkasse Bank Malta plc, and Turkiye Garanti Bankasi AS.
4. The Total Revenue Figures for TLB and TSB were not available, and therefore an approximation was taken by adding up Net Interest Revenue (NIR) and Other Operating Income (OOI). This procedure is likely to understate the TR figure, resulting in a higher PM and a lower AU.
5. For instance, according to Koskenkylä (2002), the average profitability of EU banks during the first quarter of 2002 stood at around 11%. The author also specified that the profitability of EU banks during 2001 and 2002 was on the decline, and therefore one may argue that investors are accustomed to a higher level of bank profitability.
6. Some of the sampled banks subsequently addressed this feature by allocating higher LLPs.

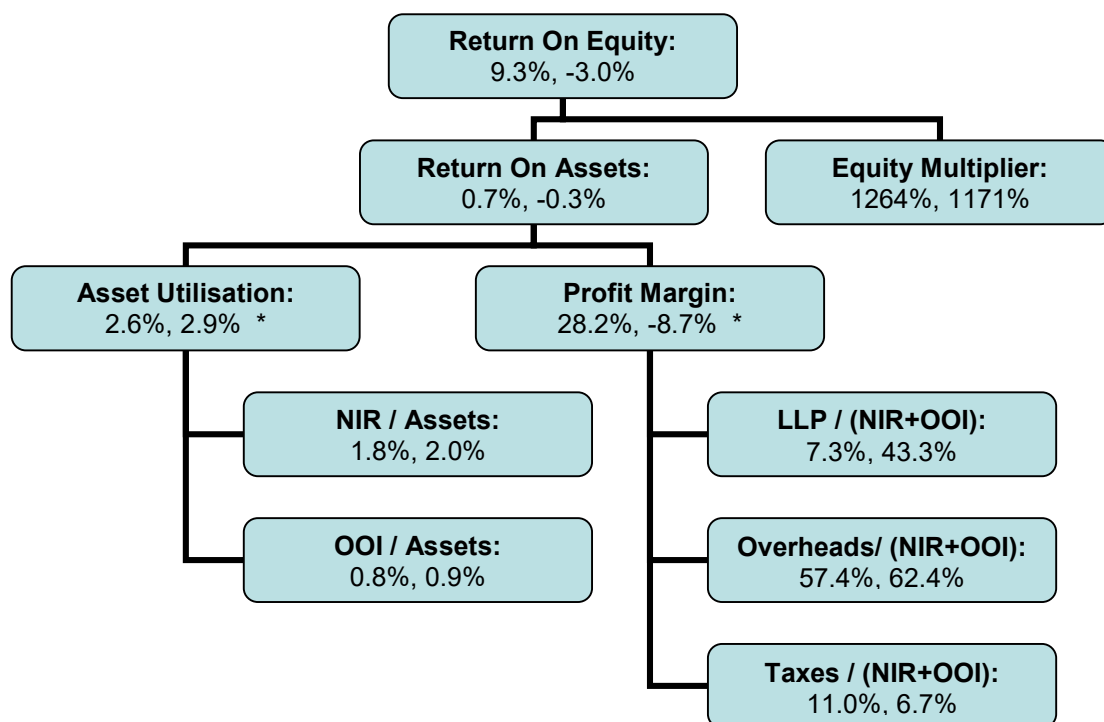
7. TSB is more reliant on interest rate income, despite the fact that one of its component banks (Fimbank) does not emphasise interest income as its main source of revenue.

Table 1: Summarised Balance Sheet (TLB and TSB) as at 31-12-02					
	LM million	LM million		LM million	LM million
Assets	TLB	TSB	Liabilities & Equity	TLB	TSB
Non-Earning Assets	127.5	9.2	Customer & Short term funding	3281.0	328.5
Loans	1883.0	116.0	Other Funding	117.9	1.4
Other Earning Assets	1743.2	239.6	Other (Non-Interest bearing)	107.4	7.9
Fixed Assets	53.9	4.5	Equity	301.1	31.5
Total Assets	3807.5	369.3	Total Liabilities & Equity	3807.5	369.3
<p>Figures may not add up due to rounding.</p> <p>Each figure is a summation of the balance for the component banks that form TLB and TSB. In this way, the term "Typical Bank" may be misleading since one should look at the average figures, rather than a summation to obtain a picture of a "Typical Bank". Yet, this does not affect the financial ratios of TLB and TSB, which are the main indicators used in the discussion.</p>					

Table 2: Income Statement (TLB and TSB) for the year ending 31-12-02		
	LM million	LM million
	TLB	TSB
Net Interest Revenue	67.8	7.4
Other Operating Income	31.3	3.4
Overheads	(56.9)	(6.7)
Loan Loss Provisions	(7.2)	(4.6)
Other	3.7	0.4
Tax	(10.9)	(0.7)
Net Income	27.9	(0.9)
<p>Refer to explanatory notes shown in Table 1.</p>		

Table 3: Key Ratios for TLB and TSB as at 31-12-02.		
	TLB	TSB
Panel A: Capital		
Equity / Total Assets	7.91%	8.54%
Equity / Net Loans	15.99%	27.17%
Equity / Customer and Short Term Funding	9.18%	9.60%
Equity / Liabilities	8.89%	9.37%
Internal Capital Generation Rate = ROE x (1-Dividend Payout Ratio)	5.26%	-2.15%
Panel B: Asset Quality		
Impaired Loans / Gross Loans	13.13%	13.90%
Loan Loss Reserves / Gross Loans	2.75%	6.51%
Loan Loss Provisions / Net Interest Revenue	10.62%	63.01%
Loan Loss Reserves / Impaired Loans	20.95%	46.81%
Panel C: Liquidity		
Inter-bank Ratio = Money Due from Banks / Money Due to Banks	71.12%	508.65%
Net Loans / Total Assets	49.46%	31.42%
Net Loans / Customer and Short Term Funding	57.39%	35.33%
Liquid Assets / Customer and Short Term Funding	13.02%	15.15%
Panel D: Operations		
Net Interest Margin	1.96%	2.26%
Net Interest Revenue / Average Assets	1.85%	2.12%
Net Interest Revenue / Net Income (See Note a)	243%	381%
Other Operating Income / Average Assets	0.85%	0.96%
Non Interest Expenses / Average Assets	1.75%	3.34%
Return On Average Assets	0.76%	-0.27%
Dividend Pay-Out (See Note b)	43.31%	27.24%
Non Operating Items / Net Income (See Note a)	13.33%	23.70%
Cost To Income Ratio	48.79%	62.30%
Overheads / (Net Interest Revenue + Other Operating Income)	57.44%	62.39%
<p>The table shows ratios relating to Capital Adequacy, Asset Quality, Liquidity and the Operations of TLB and TSB as per the Financial Statements for the year 2002.</p> <p>a) TSB's negative Net Income figure, leads to negative ratios whenever NI is included in the calculation. Given that in some instances, a negative ratio might in fact be meaningless, a weighted average of the ratios of the component banks was taken.</p> <p>b) The Dividend Payout ratio of TSB is a weighted average of the ratios of APS Bank and Lombard Bank, due to Fimbank's negative NI.</p>		

Figure 1: Return on Equity Ratio Decomposition



Each node shows the relevant ratio for TLB followed by the ratio for TSB

* The Total Revenue figures for TLB and TSB were not available, and therefore an approximation was taken by adding up Net Interest Revenue (NIR) and Other Operating Income (OOI). This procedure is likely to understate the TR figure, resulting in a higher Profit Margin (PM) and a lower Asset Utilisation (AU).