

**FINANCIAL ANALYSIS OF ORIENTAL BANK OF COMMERCE (OBC)**

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*Abstract*

*The main purpose of this research paper is financial statement analysis of oriental bank of commerce. Data of this study is taken from balance sheet and profit and loss account of bank. Findings of this paper concluded that bank has healthy financial position in market and stakeholders of this bank are also satisfied.*

*Keywords: financial analysis, operating expenses, liabilities.*

**I. INTRODUCTION**

**Concept of Financial Analysis:** Financial analysis is a process of selecting, evaluating and interpreting financial data along with other relevant information in order to formulate a valuation position of an organization with a view to getting an insight into the operative activities of a business enterprise and its present and future financial position and performance. According to Wessel (1961) financial analysis is the establishment of strategic relationship among the components of the Balance Sheet and profit and loss account and other operative data. It fulfills a series of purposes which can vary from simple assessment of short term liquidity position of an organization to a comprehensive analysis of the weaknesses and strength of the concerned organization.

Managers need financial statement analysis for financial, investment, dividend and operating decision. They also need to estimate the relationship between compensation and financial statements variables such as earnings per share, cash flows per share, share price and for many more purposes. Now a day, banks are under great burden to perform due to ever rising expectations of their stockholders, employees and depositors. Entry of banks in open market for funds enhancing means their financial statements are being scrutinized by investors and general public regularly. As a result, there is a need of performance evaluation not only for banks itself but also for stakeholders, employees, depositors, borrowing customers and government regulators.

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**II. MEASURES TAKEN BY RBI AND GOVERNMENT OF INDIA**

- Swavalamban
- Swabhiman
- Opening of bank branches
- Simplification of know your customer (KYC) norms
- Aadhaar - Unique identification authority of India (UIDAI)
- Ensuring reasonableness of bank charges
- Business correspondence model
- Setting up of ultra small branches (UBSs)
- Expansion of ATM network
- General credit card
- Pradhan mantri jan dhan yojana (PMJDY)

**III. BANK PROFILE**

Oriental Bank of Commerce (OBC) was established on 19th February 1943. OBC is one of the public sector banks in India that was nationalized in 1980. The first founder Chairman of the OBC were Late Rai Bahadur Lala Sohan Lal, Within four years of its existence, the country partitioned, the Bank shifted its Registered Office from Lahore to Amritsar. OBC has a 530 branches and 505 ATM's spread throughout India, out of which 490 branches offer centralized banking solutions.

**Research methodology**

Data for this study are taken from balance sheet and profit and loss account of 2016 of oriental bank of commerce.

**Financial analysis of oriental bank of commerce:**

Total Assets are given below:

a) Balance With RBI Banks:-	Rs-	27,22,186/
b) Balance SBI and Subsidiaries:-	Rs-	10,13,634.09/
c) Loan and Advances (Term loan,Cash Credit limit and Overdraft limit):-		
	Rs-	6,83,87,565.22/
d) Total of other assets:-	Rs-	80,470/
e) Total of bill lodged:-	Rs-	54,298/
f) Total of Head Office account:-	Rs-	6,61,75,301.15/

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Total Assets : Sum of a+b+c+d+e+f = Rs- 13,84,33,454.46/

Total Liabilities are given below :

a) Total Demand Deposit:-	Rs- 7,19,37,651.51/
b) Total Time Deposit:-	Rs- 6,21,06,977/
c) Total Deposit (a+b):-	Rs- 13,40,44,628.51/
d) Total of other liabilities:-	Rs- 4,94,708.88/
e) Bill lodged:-	Rs- 54,298/
f) Draft account balance:-	Rs- 4,70,527/
g) Net Profit:-	Rs- 33,69,292.07/
Total Liabilities = c+d+e+f+g :	Rs- 13,84,33,454.46/

This result shows that assets and liabilities of bank are equal. It means balance sheet of oriental bank is in balance.

**Detail of Expenditure:**

**1. Total interest paid on Deposit**

These are the expenses which are occurred by paying interest to the Depositor

Total Interest paid on Saving Deposit +Total Interest paid on Time Deposit:-

Rs. 18, 42,024.38 + Rs. 42, 80,892= Rs. 61, 22,916.38

**2. Operating Expenses**

These are the expenses which include Various Establishment expenses, Rent & Taxes, Electricity, Postage & Telephone, Repair and maintaince, Conveyance, Entertainment, Security and watch, Travelling, Clearing and were found to be Rs. 42, 77,264.76 for the assessment year.

**3. Commission Paid**

These are the expenses which include commission paid to insurance agents, Bills, Demand Drafts, Bank Guarantee etc. and were worth Rs. 7437.02.

**4. Net Profit**

It can be determined by reducing total expenses from total income

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$$\begin{aligned} \text{Net Profit} &= \text{Total Income} - \text{Total Expenditure} \\ &= \text{Rs. } 1,37,76,910.23 - \text{Rs. } 104,07,618.16 \\ &= \text{Rs. } 33,69,292.07 \end{aligned}$$

Net profit, also referred to as the bottom line, net income, or net earnings is a measure of the profitability of a venture after accounting for all costs. It is the actual profit without inclusion of working expense in the calculation of gross profit.

$$\begin{aligned} \text{Total Expenditure} &= \text{I} + \text{II} + \text{III} + \text{IV} \\ &= \text{Total of interest paid on deposit} + \text{Total of Operating Expenses} \\ &\quad + \text{Total of commission paid} + \text{Total of Net Profit} \\ &= \text{Rs. } 61,22,916.38 + \text{Rs. } 42,77,264.76 + \text{Rs. } 7,437.02 + \\ &\quad \text{Rs. } 33,69,292.07 \\ &= \text{Rs. } 1,37,76,910.23 \end{aligned}$$

The sum of the price paid for one or more products or services multiplied by the amount of each item purchased. Many business managers operate under the idea that changes in a consumer's total expenditure can be affected by price, but the nature of this relationship depends on the relative price elasticity of demand that can vary considerably for different products and services.

**Details of Income:**

**1. Interest Income on Advances**

It is an income which is received on interest occurred on advances given by the banks to borrowers. Higher the Advances higher will be interest income. Advances should be good quality. It is total of interest income of Term loans, Cash Credit, Over Draft, Demand Loans, recorded interest and other miscellaneous.

$$43,92,264.43 + 15,37,259 + 10,17,878 + 1,608 + 24,516 + 112 + 15 = 69,73,652.43$$

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**2. Interest Income received by Head Office on Deposit**

It is income which is given by the Head Office to branch office on their excess deposit (higher than the Loan to Deposit ratio LTD ratio) which is utilized by head office which included Rs. 61, 02,000.

**3. Other Income**

These are the income like process fees on loans, Bills Collection, Rent of Lokers, commission on Demand Draft, Letter of Credit, Bank Guarantee, Life and General Insurance, Medical Insurance, RTGS, NEFT, incidental Charges and were found to be worth Rs. 7,01,257.80

**Total of Income**

$$: \quad I + \quad II + III$$

Total of Interest income on advances + Interest Income on deposit by Head Office + Other Income

$$Rs. 69,73,652.43 + Rs. 61,02,000 + Rs. 7,01,257.80 = Rs.1,37,76,910.23$$

The sum of all money received by a bank, including income from employment or providing services, revenue from sales or other sources. Total income may be calculated for purpose of assessing taxes, evaluating the net worth of a company, or determining bank's ability to make payments on debt.

**Table 1: Various Ratios of the Oriental Bank of Commerce**

Item	Ratios (in %age)
CD Ratio	51.02
Return on Assets	2.43
interest Income to Total Income	50.62
Interest Expenses To Total expenses	58.83
Spread	850736.05
Spread to Total Assets	0.61

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**Credit deposits ratio (CD ratio)**

It represents how much credit lend by bank out of its total deposit. Higher the ratio better for bank. CD ratio of OBC bank is percentage 50.02 that is average.

**CD Ratio**= total advances/total deposit

**Return on Assets**

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how capable management is at using its assets to generate earnings. ROA is calculated by dividing the bank's annual earning by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

**Return on asset**= Net profit/total assets\*100

=percentage 2.43

**Interest income to total income**

Interest income is a basic source of revenue for banks. The interest income total income indicates the ability of the bank in generating income from its lending. In other words, this ratio measures the income from lending operations as a percentage 50.62 of the total income generated by the bank in a year. Interest income includes income on advances, interest on deposits with the RBI, and dividend income.

**Interest income to total income**= interest income/total income

= percentage 50.62

**Interest Expenses to Total expenses**

This ratio is calculated by dividing the interest expenses by the total expenses of a bank. It explains the proportions of the total interest expenses in the total expenses of the bank. Interest to expenses of OBC bank is percentage 58.83.

**Spread to Total Assets**

Spread is also called as net interest margin. It is calculated by subtracting the total interest expenses from the total interest income of a bank. Net interest margin is a performance metric that examines how much successful the bank's investment decisions are compared to its debt situations. A negative value of spread to total assets denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of returns generated by investments.

**Spread to total assets= interest income - interest expenses/total assets**

#### **IV. SALIENT FINDINGS**

Sound Income generation by increasing the advances of good quality:

- As per Profit and Loss Statement see In Financial Year 2015-16, interest Income received on advanced was Rs-56.42 Lakh. In Financial Year 2016-2017, interest Income received on Advanced are Rs-69.73 Lakh.
- In This Financial Year Advanced Interest Income increased by Rs-13.30Lakh due to increasing outstanding amount of advances
- Profit increase by increasing low cost deposit: Low cost Deposit means the Deposit on which banks have to give low rate of interest (Current and Saving Deposit). As low interest given by banks which will be helpful in reducing expenses of bank.
- As on Current Deposit, bank gives Zero per cent rate of Interest which is utilized for Advances purpose which generate 100 % interest margin income.

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