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Financial Performance of EXIM Bank: Analysis through CAMEL Model

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Abstract: ***Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this adage, efforts have been made from time to time, to measure the financial performance of each bank and manage it efficiently and effectively. Financial performance measures the results of a firm's policies and operations in monetary terms. It is a subjective measure of how well a firm can use assets for its primary mode of business and generate revenues. Financial performance is also used as a general measure of firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries in aggregation. For meeting the objective of the present study deals with analyzing the financial performance of EXIM Bank through "CAMEL" model, the latest model of financial analysis. Through this model, it is highlighted that the position of the EXIM Banks under study is sound and satisfactory as far as their capital adequacy, assets quality, management efficiency, earning capacity and liquidity position is concerned.***

Keywords: ***Financial Performance, Capital Adequacy, Assets Quality, Management Efficiency, Earning Capacity and Liquidity Position.***

I. Introduction

Financial Institutions like Banking Institutions are mainly concerned with the financial activities. In order to ascertain the financial status of every Banking Institution prepares certain statements, known as financial statements. Financial statements are mainly prepared for decision making purposes. But the information as is provided in the financial statements is not adequately helpful in drawing a meaningful conclusion. Thus, an effective analysis and interpretation of financial statements is required. Analysis means establishing a meaningful relationship between various items of the two financial statements with each other in such a way that a meaningful conclusion is drawn. By financial statements we mean two statements:

(i) Profit and loss Account or Income Statement

(ii) Balance Sheet or Position Statement

Financial performance of the EXIM Bank can be judged through the financial analytical tools and techniques. Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. Thus, the analysis and interpretation of financial statements is very essential to measure the efficiency, profitability, financial soundness and future prospects of the EXIM Bank. The financial statements of EXIM Bank have been prepared in accordance with the accounting principles followed in India and it is also consistent with international accounting standards (IAS). The form and manner in which the balance sheet and the profit and loss account of EXIM Bank are prepared have been provided in Export-Import Bank of India, General Regulations, 1982, approved by the Board of Directors, with the previous approval of Government of India, under section 39 (2) of Exim Bank of India Act, 1981.

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Generally, these are prepared at the end of every financial year i.e. 31^{st} March. They are the indicators of profitability and financial soundness of the business concern. The term financial analysis is also known as analysis and interpretation of financial statements. Profit and loss Account and Balance Sheet determines financial strength and weaknesses of the firm. Financial statements give complete information about assets, liabilities, equity, reserves, expenses and profit and loss of an enterprise during concerned financial year. They are not readily understandable to interested parties like creditors, shareholders, investors etc.

CAMEL Model

Sound financial health of a bank is the genuine guarantee not only to its depositors but also vital for the shareholders, employees and economy as a whole. As a sequel to this maxim, significant efforts have been made from time to time, to assess the financial position of each bank so that it could be managed effectively as well as efficiently. This assessment can be done through CAMEL parameter that is nothing but the latest model of financial analysis. CAMEL model was originally developed in the 1970s by the three federal banking supervisors of the U.S (the Federal Reserve, the FDIC and the OCC) as part of the regulators' "Uniform Financial Institutions Rating System", to provide a balanced summary of bank condition at the time of its on-site assessment. The banks were judged on five different aspects under the acronym C-A-M-E-L:

C – Capital Adequacy

A – Asset Quality

M – Management efficiency

E – Earnings Capacity

L – Liquidity

CAMEL model is basically a ratio-based model for examining the performance of banks. In India, it was incorporated on the recommendations of the Padmanabhan committee.

II. Objective of the Study

The objectives of the study includes-

1. Analyze the capital adequacy and assets quality of EXIM Bank of India.
2. Assessing the management efficiency and earning quality of EXIM Bank of India.
3. Analyze the liquidity position of EXIM Bank of India.

III. Scope of the Study

The scope of the study tries to cover financial performance of EXIM bank in India in relation to CAMEL model analysis. In this regard, the researcher made an attempt to examine the scope of the study that includes in-depth analysis of financial performance of the bank through judged on five different aspects under the acronym C-A-M-E-L; - capital adequacy, assets quality, management efficiency, earning capacity and liquidity.

IV. Period of the Data

The study takes into consideration period from the year 2000 onwards in relation to financial performance with special reference to EXIM bank of India. In totality, 15 years data have been considered.

V. Collection of Data

The current study is purely based on secondary data. The data so collected have been taken from annual reports of EXIM bank. In addition to this, different books and research papers have also been considered to collect related information.

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VI. Analysis and Interpretation of Data

The secondary data so collected is properly analyzed with the help of CAMEL ratio of capital adequacy, assets quality, management efficiency, earning capacity and liquidity position.

VII. Limitations of the Study

The study is purely based on secondary data. Therefore, the reliability of results of the study will be based on the accuracy of the secondary data. Further, the study is carried out for a period of 15 years (2000-01 to 2014-15) only.

VIII. Analysis of the Study

Capital Adequacy (C) and Assets Quality (A)

Capital base of financial institutions provides information to depositors in forming their risk perception regarding the financial institutions. Also, it is the crucial parameter for financial managers to maintain appropriate levels of capitalization. This ratio is mainly used to protect depositors as well as promoting the stability and efficiency of financial systems around the world. In this way, Capital adequacy ultimately determines how well financial institutions can cope with shocks with respect to their balance sheets. Although various indicators are used to determine Capital Adequacy, the commonly used indicator is Capital to Risk Assets ratio. **Table 3.1** shows the capital adequacy of the EXIM Bank for the period of 15 years from 2000-01 to 2014-15.

Table: 3.1 Capital Adequacy (C) of EXIM Bank (from 2000-01 to 2014-15)

Year	Capital Adequacy (Capital to Risk Assets Ratio) (%)
2000-01	23.8
2001-02	33.1
2002-03	26.9
2003-04	23.5
2004-05	21.6
2005-06	18.4
2006-07	16.4
2007-08	15.1
2008-09	16.8
2009-10	18.9
2010-11	17
2011-12	16.4
2012-13	15.3
2013-14	14.3
2014-15	15.3

Source: Annual Report of EXIM Bank, Various Years

As per the CAMEL model, capital adequacy has created the benchmark for measuring the financial health of a banking firm. It is defined as ratio of bank's self-capital to its risk-carrying assets. Further, it is said that the higher the capital adequacy ratio, the bank is considered to be stronger and safer as it ensures true safety against bankruptcy.

In this regard, the table 3.1 reveals that during the span of 15 years the capital adequacy ratio displays a decline from 23.8 % 2000-01 to 15.3 % in 2014-15. But, it is well above the minimum ratio requirements norms for a banking financial institution India i.e. 9 % stated by RBI. Hence, we may say that EXIM Bank is in healthy position with respect to capital requirements.

Asset quality reflects the overall soundness of financial institutions against loss of value in the assets. In recent times, the weakening value of assets, being prime source of banking problems, that directly pours into other areas, as losses are eventually

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written-off against capital, which ultimately expose the earning capacity of the institutions. In this regard, major indicators of Asset Quality include nonperforming loans to advances, loan default to total advances, and recoveries to loan default ratios. Out of this, the most widely used indicator is NPA to Total Assets ratio. The maintenance of assets quality in healthy form is an essential feature of banking. It is the second indicator of CAMEL Model that is a significant component in evaluating the current situation and future viability of bank. Hence, for obtaining the efficiency of bank in assessing credit risk (NPA) to total loan assets ratio is used. **Table 3.2** shows the assets quality of the EXIM Bank for the period of 15 years from 2000-01 to 2014-15.

Table: 3.2 Assets Quality (A) of EXIM Bank (from 2000-01 to 2014-15)

Year	NPA (Rs. In Crore)	Loan Assets (Rs. In Crore)	NPA to Loan Assets (%)
2000-01	461	5644	8.17
2001-02	488	6826	7.15
2002-03	196	8774	2.23
2003-04	136	10775	1.26
2004-05	114	13410	0.85
2005-06	106	17593	0.60
2006-07	116	22886	0.51
2007-08	85	28777	0.30
2008-09	79	34156	0.23
2009-10	78	39036	0.20
2010-11	91	45656	0.20
2011-12	156	53890	0.29
2012-13	302	64353	0.47
2013-14	321	74598	0.43
2014-15	509	84910	0.60

Source: Annual Report of EXIM Bank, from the Years 2000-01 to 2014-15

The table reveals that assets quality of EXIM Bank is significantly high and has been increasing over the years. As one can observes that NPA to Loan Assets (%) which was 8.17 % in 2000-01 reduced to 0.60 % in 2014-15 on account of increase in activities of the bank.

Management Efficiency (M) and Earnings Capacity (E)

Management efficiency is the third element of CAMEL Model which ensures the survival and relative growth of a bank. It is the management that takes certain crucial decisions in the process of achievement of organizational goals depending upon risk perception. Hence, for assigning premium to orderly managed banks and discount to poor managed banks. Management efficiency is a subjective measure which aims at reducing the operating cost and importing the profitability standards of the banks. In this regard, profit per employee (PPE) ratio reveals the surplus earned per employee. It is calculated through dividing the Net Profit of bank by total number of employees in banks. Hence, higher the efficiency ratio, greater is said to be management efficiency.

Management of financial institutions is mainly evaluated and judged in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. Sound management is one of the most significant factors behind financial institutions' performance. Still, it is difficult to judge the soundness of management just by looking the financial accounts of the banks given qualitative nature of management. In this regard one important indicator is profit per employee (PPE) ratio. PPE ratio exhibits the surplus earned per employee. It is arrived at by dividing profit after tax earned by the bank by the total number of employee. The higher the ratio shows good efficiency of the management and vice-versa. **Table 3.3** shows the management efficiency of the EXIM Bank for the period of 15 years from 2000-01 to 2014-15.

Table: 3.3 Management Efficiency (M) of EXIM Bank (from 2000-01 to 2014-15)

Year	Profit Before Tax (PBT) (Rs. In Crore)	Employee/Staff (Numbers)	Profit per Employee (Rs. In Crore)
2000-01	205	154	1.33
2001-02	221	163	1.36
2002-03	269	167	1.61
2003-04	304	190	1.60
2004-05	314	193	1.63
2005-06	377	200	1.89
2006-07	391	212	1.84
2007-08	533	222	2.40
2008-09	610	232	2.63
2009-10	772	232	3.33
2010-11	868	244	3.56
2011-12	1013	253	4.00
2012-13	1089	275	3.96
2013-14	1020	295	3.46
2014-15	1135	312	3.64

Source: Annual Report of EXIM Bank, Various Years

The table reveals that EXIM Bank management efficiency has been improved over the spam of 15 years from 2000-01 to 2014-15. Although it registered highest efficiency in the year 2011-12 (i.e. Rs.4 crore), it increased significantly from Rs.1.33 crores in 2000-01 to Rs.3.64 crores in 2014-15.

Earnings capacity reflects the ability to support current and future operations of the banks. More precisely, this earnings capacity determines the capacity to absorb losses, finance its expansion, pay dividends to its shareholders, and build up an adequate level of capital. Although different indicators are used in the context of earnings capacity, the best and most popularly used indicator is Return on Assets (ROA). **Table 3.4** shows the earning capacity of the EXIM Bank for the period of 15 years from 2000-01 to 2014-15.

Table: 3.4 Earning Capacity (E) of EXIM Bank (from 2000-01 to 2014-15)

Year	Interest Income (Rs. In Crore)	Non-Interest Income (Rs. In Crore)	Net-Interest Income (Rs. In Crore)	Total Assets (Rs. In Crore)	Interest Income/Total Assets (%)	Non-Interest Income/Total Assets (%)	Net-Interest Income/Total Assets (%)
2000-01	674	19	222	7398	9.11	0.26	3.00
2001-02	601	83	175	8273	7.26	1.00	2.12
2002-03	693	107	203	12319	5.63	0.87	1.65
2003-04	864	108	244	15519	5.57	0.70	1.57
2004-05	1026	79	288	18427	5.57	0.43	1.56
2005-06	1358	100	333	20140	6.74	0.50	1.65
2006-07	1843	120	331	26244	7.02	0.46	1.26
2007-08	2434	381	430	34940	6.97	1.09	1.23
2008-09	3127	323	713	44202	7.07	0.73	1.61
2009-10	2856	132	785	47071	6.07	0.28	1.67
2010-11	3318	232	993	54751	6.06	0.42	1.81
2011-12	4202	350	1275	63673	6.60	0.55	2.00
2012-13	5607	372	1491	76118	7.37	0.49	1.96
2013-14	6846	430	2162	87149	7.86	0.49	2.48

2014-15	7148	473	1813	98425	7.26	0.48	1.84

Source: Annual Report of EXIM Bank, Various Years

The table 3.4 exhibits the earning quality of EXIM Bank that is 4^{th} indicator of CAMEL Model. In this regard, it becomes obvious from the table that ratio between interest incomes to total assets indicates that the banks' ability to raise income from its lending operations reduced from 9.11 % in 2000-01 to 7.26 % in 2014-15. Secondly, the study of ratio of non-interest income to total assets increased from 0.26 % to 0.48 % (although ups and down trend recorded during the period of study). The main reason behind this is that EXIM Bank has increased his range by including a number of advisory and financial services. Thirdly, the Net interest income (NII) upon total assets (%) shows a decrease from 3 % in 2000-01 to 1.84 % in 2014-15. The main reason behind such downfall of NII is those banks have been provided loans to exporters at concessional interest margin on a number of times.

LIQUIDITY POSITION (L)

An appropriate liquidity position refers to a situation, where institution can obtain adequate funds, either through increasing liabilities or by converting its assets promptly at a reasonable cost. Generally, the term liquidity is used in different ways, but all relating to availability of, access to, or convertibility into cash. Although various indicators are applied in the context of liquidity position, but most significant is Liquid Assets to Total Assets Ratio. **Table 3.5** shows the liquidity position of the EXIM Bank for the period of 15 years from 2000-01 to 2014-15.

Table: 3.5 Liquidity Position of EXIM Bank (from 2000-01 to 2014-15)

Year	Liquid Assets (Rs. In Crore)	Investment in Govt. Securities (Rs. In Crore)	Total Assets (Rs. In Crore)	Liquid Assets/Total Assets (%)	Investment in Govt. Securities/Total Assets (%)
2000-01	6293	75	7398	85.06	1.01
2001-02	6910	113	8273	83.52	1.37
2002-03	10044	573	12319	81.53	4.65
2003-04	13352	322	15519	86.04	2.07
2004-05	16153	314	18427	87.66	1.70
2005-06	18069	329	20140	89.72	1.63
2006-07	23474	563	26244	89.45	2.15
2007-08	30102	832	34940	86.15	2.38
2008-09	38772	787	44202	87.72	1.78
2009-10	42111	1137	47071	89.46	2.42
2010-11	48990	1245	54751	89.48	2.27
2011-12	57620	1814	63673	90.49	2.85
2012-13	71240	1714	76118	93.59	2.25
2013-14	79722	1858	87149	91.48	2.13
2014-15	89422	2556	98425	90.85	2.60

Source: Annual Report of EXIM Bank, Various Years

The table 3.5 depicts the liquidity of the EXIM Bank. Generally, the bank's liquidity is judged on 2 grounds- firstly the ratio between total liquid assets to total assets.

Secondly, calculation of ratio between the investments make in government securities to total assets.

In this regard, the ratio of liquid assets to total assets varied in between 81.53 % to 93.59 %. But, as per the study, it has increased from 85.06 % in 2000-01 to 90.85 % in 2014-15. Similarly, Govt. securities/Total assets (%) also registered like from 1.01 % in 2000-01 to 2.60 % in 2014-15. The all-round development of EXIM Bank calls for like in liquidity standards and investment in govt. securities as a % of total assets of bank.

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IX. Finding and Conclusion of the Study

The study reveals that, Capital Adequacy (C) of EXIM Bank reveals that during the span of 15 years the capital adequacy ratio declined from 23.8 % in year 2000-01 to 15.3 % in year 2014-15. In feel, the minimum ratio requirements norms for a banking financial institution in India i.e. 9 %. So we can conclude that the capital adequacy ratio has been high from standard ratio during the period under study. The Assets Quality (A) of EXIM Bank during the span of 15 years reveals that assets quality of EXIM Bank is significantly high and has been increasing over the years. As one can observe that, NPA to Loan Assets (%) which was 8.17 % in 2000-01 reduced to 0.60 % in 2014-15 on account of increase in activities of the bank. Further, the Management Efficiency (M) of EXIM Bank during the span of 15 years reveals that EXIM Bank management efficiency has been improved over the span of 15 years from 2000-01 to 2014-15. Although it registered highest efficiency in the year 2011-12 (i.e. Rs.4 crore), it increased significantly from Rs.1.33 crores in 2000-01 to Rs.3.64 crores in 2014-15.

As per the findings, Earning Quality (E) of EXIM Bank during the span of 15 years, it is obvious that ratio between interest income to total assets indicates that the bank ability to raise income from its lending operations reduced from 9.11 % in 2000-01 to 7.26 % in 2014-15. The study of ratio of non-interest income to total assets increased from 0.26 % to 0.48 % showing ups and down trend during the period of study. The main reason behind this is that EXIM Bank increased its range of advisory & financial services.

Further, the ratio between the net interest income and total assets (%) shows a decrease from 3 % in 2000-01 to 1.84 % in 2014-15. The main reason of such downfall of NII (Net Interest Income) is that bank has been provided loans to exporters at concessional interest margin on a number of times.

The finding of the study shows that, Liquidity (L) Position of EXIM Bank during the span of 15 years, the ratio of liquid assets to total assets varied between 85.06 % to 90.85 %. But, as per the study, it has increased from 85.06 % in 2000-01 to 90.85 % in 2014-15. Similarly, Government Securities/Total Assets (%) also registered like from 1.01 % in 2000-01 to 2.60 % in 2014-15.

The analysis of EXIM Bank’s financial performance shows that the application of CAMEL Model describes that the Bank is in a satisfactory position in all the five dimensions of this model i.e. capital adequacy, assets quality, management efficiency, earnings capacity and liquidity.

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