CHAPTER - IV

ASSSETS MANAGEMENT

Commercial banks are the financial intermediaries in the economy. Every commercial bank performs primary function of accepting deposits from surplus units and lending to the deficit units. So, the profit of a bank is the difference between interest earned through lending and interest paid to the depositors. So, the earning of a bank primarily depends on bank lending. The assets management of a bank refers to the distribution of funds among cash, security investments, loans and other assets. But the bank assets management is complicated due to several factors. First, the bank funds must be managed within the legal and regulatory framework established by statutory and supervisory authorities. Second, the relationship between a bank and its loan and deposit customers is one of trust as well as accommodation. Finally, the stock holders of a commercial bank as is true for other investors, require a rate of return commensurate with the risk of the investment and should be competitive enough with the return available on similar investments.

The profit of a bank depends upon the volume of assets, types of assets and quality of assets. At the same time, the assets management has the statutory, regulatory and liquidity constraints. However, the bank management has to strike an idle balance between minimum liquidity and maximum profitability, because increased liquidity increase the carrying cost of funds (i.e., inventory cost) to a bank. So, the conflict between liquidity and profitability is regarded as central problem in assets management of a bank. Therefore, in assets management, the bank has to maintain required liquidity to

meet the uncertain demand of its depositors on counter and maintaining the confidence of its customers. At the same time the bank has to lend money to its customers. The profit of a bank directly depends upon the volume of credit. There is a relationship between cost of deposits and borrowed funds and returns on advances from different types of assets. A critical and thorough analysis of the marginal cost (M.C.) reveals that it tends to equate with the marginal revenue (M.R.). As loans and investments can increase, the profitability of a bank increases, of course, within a given constraints of liquidity.

Bank Assets

Bank management performs a crucial decision making function in allocating the available funds into different uses. The bank management's assets allocation policy determines the volume, types, quality, cost of assets and returns over assets to the bank. Therefore, let us examine conceptually the categories of bank assets. In fact, the commercial bank assets are classified into two basic categories :

Basic Categories of Assets :

(I) Non-earning assets

(II) Earning assets

Non-Earning Assets (NEA)

The cash assets with commercial banks are non-earning assets. They are as under :

(i) Cash holdings of banks.

(ii) Balances with the Central Bank.

(iii) Demand deposits with other banks.

The primary task in assets allocation of the bank is to keep required cash assets. They are known as primary reserves in banking terminology. The primary reserve is created to maintain sufficient liquidity in the commercial bank. By this, the commercial bank can satisfy the uncertain demand for cash of its depositors on counter. It helps to meet the credit demand of the customers and also to make payment for expenses. So, the objective function is not to earn interest but to overcome the liquidity crisis of a bank. The commercial banks decision for its liquidity (percentage of cash to total deposits) requirements is govern by several factors. They are principally, banking habits of the people in the area; the business conditions, the conventional practice of commercial banks to maintain reserve in the area, the volume of deposits, inflow of cash, the money market, future demand of its customers and banking structure. In the developing countries, the cash transactions are frequently practiced by people. Therefore, the commercial banks have to maintain a higher ratio of cash to deposits to meet the demand of cash of its depositors.

Income Earning Assets (IEA)

The earning assets generate incomes for the bank. Therefore, their size, types and qualities determine the income of a bank. By increasing the size of earning assets the bank can meet its total expenses and create surplus income. The loans and investments can be short-term as well as long-term. The short-term loans and investments cement the liquidity position of the bank. The earning assets of the commercial banks are categorised as under :

(i) Income earning liquid assets.
(ii) Loans, and
(iii) Investments

Income Earning Liquid Assets (IELA)

The second priority task in the assets allocation is the provision for non cash liquid assets. They are also known as secondary reserves. The secondary reserve has to supplement the primary reserve. The short term loans and investments are the income earning assets. They must satisfy three conditions; high quality, short maturity, and marketability. The investments in government securities and call loans are near liquid earning assets. They can be easily converted into liquid cash in times of emergency. So, these near liquid assets provide liquidity and also income to a bank. Hence, they possess the qualities of sound banking assets i.e., liquidity and profitability.

Loan Portfolio (LP)

After allocation of funds to primary and secondary reserves, the bank management has the priority task of allocating remaining funds to loan portfolio. The lending is one of the main functions of commercial bank. The lending provides major source of income to a bank. The bank lends money to the various sections of the community. The bank lends to industries, agriculture, infrastructure, trade and commerce, and households. The commercial banks through their lending operations to the growing sectors contribute immensely to the development of the leading sectors. The commercial banks also lend to the people of the various sections of the society. The bank credit provides the means and motivations to the needy persons to improve their socio-economic conditions. Thus, commercial banks by expanding volume of bank lending increase the deposits in the banking system. So, alongwith income earning, the commercial banks contribute to the socio-economic development of the community. The

commercial banks are mainly dependent on lending for their earning. The income earned by the commercial bank is used to meet the expenses, like interest (to be paid on deposits), establishment, to build up reserve, and to pay dividend to its shareholders.

However, the task of bank lending in the banks portfolio management is the most complex task. The bank management has to possess required skills, expertise and knowledge in bank lending. The bank management must make proper and an in-depth study of the loan proposal and screen the same with utmost care. It must take into consideration the creditworthiness of the borrower, nature of business, potential of business prospects, character of the borrower, and the business history of the borrower. Therefore, sound lending policies and practices alone can help the bank in recovery of loans and generating incomes.

Investments (I)

After meeting the needs of primary reserve, secondary reserve and the credit requirements of the community, the last priority is the allocation of remaining funds to the investment portfolio.

The bank management uses the surplus funds for investment, in order to maximise the earnings with liquidity and safety. These investments are preferably in government securities. The bank management takes decisions of investing excess funds in short-term and long-term securities which is undertaken for earning. Investments in secondary reserves provide income as well as liquidity. These are near liquid assets.

Other Assets (OA)

The other assets of the bank are building, furniture, fixtures, acceptance and endoresement as per contract. The furniture, fixtures and buildings cannot be converted into cash at the time of requirements. So, they are not an important category of assets from the point of view of bank management.

Assets Allocation Methods (AAM)

There are different approaches to allocation of funds to assets. The following are the main approaches to allocate the funds commensurate with the assets of the banks.

(i) The Pool of Funds Approach.

(ii) The Assets Allocation Approach.

(iii) The Linear Programming Model.

(iv) The Assets Liability Management.

(i) The Pool of Funds Approach

The commercial banks collects funds from different sources. The commercial banks mainly collect funds in the form of demand deposits, saving deposits, time deposits and capital funds. The main objective of this approach is to pool the funds together from different sources and allocate them according to the priorities of the assets management policies of the commercial bank. The commercial banks generally allocate the pooled funds from different sources towards loans, investment in government securities, primary reserves and secondary reserves. So, the commercial banks have to allocate their funds

within given stautory and regulatory framework at the given interest rate. The commercial banks have to exercise a lot of care, skill and expertise in allocation of pooled funds from different sources to strike an idle balance between conflicting objectives of liquidity and profitability. The Pool Funds Model (PFM) is demonstrated in the exhibit - IV.1.

(ii) The Assets Allocation Approach

This approach is also known as the conversion of funds approach. In this approach, it is highlighted that the liqudity required by a bank is directly linked with the sources of funds. The same is illustrated in the exhibit-2. The Assets Allocation Model (AAM) shows different liquidity-profitability centres within a bank. They are demand deposit centre, savings deposit centre, time deposit centre, and a capital funds centre. The bank management has to formulate the policy for allocation of funds generated within an individual centre.

A relatively high proportion of primary and secondary reserves have been contributed from demand deposits. The remaining small amount is used for short-term loans. These deposits have greater turnover rate. The saving deposits and time deposits are mainly used for allocating funds to loans and investments. These savings and time deposits require relatively less liquidity. So, they constitute the potential source for making loans and investments for increasing the earnings of the commercial banks. The remaining capital funds are deployed for land, building and furniture. The capital funds require less liquidity since they are invested in fixed assets and therefore, the remaining amount may be allocated for loans and investments to generate incomes.

Exhibit - IV.1

The Pool of Funds Model

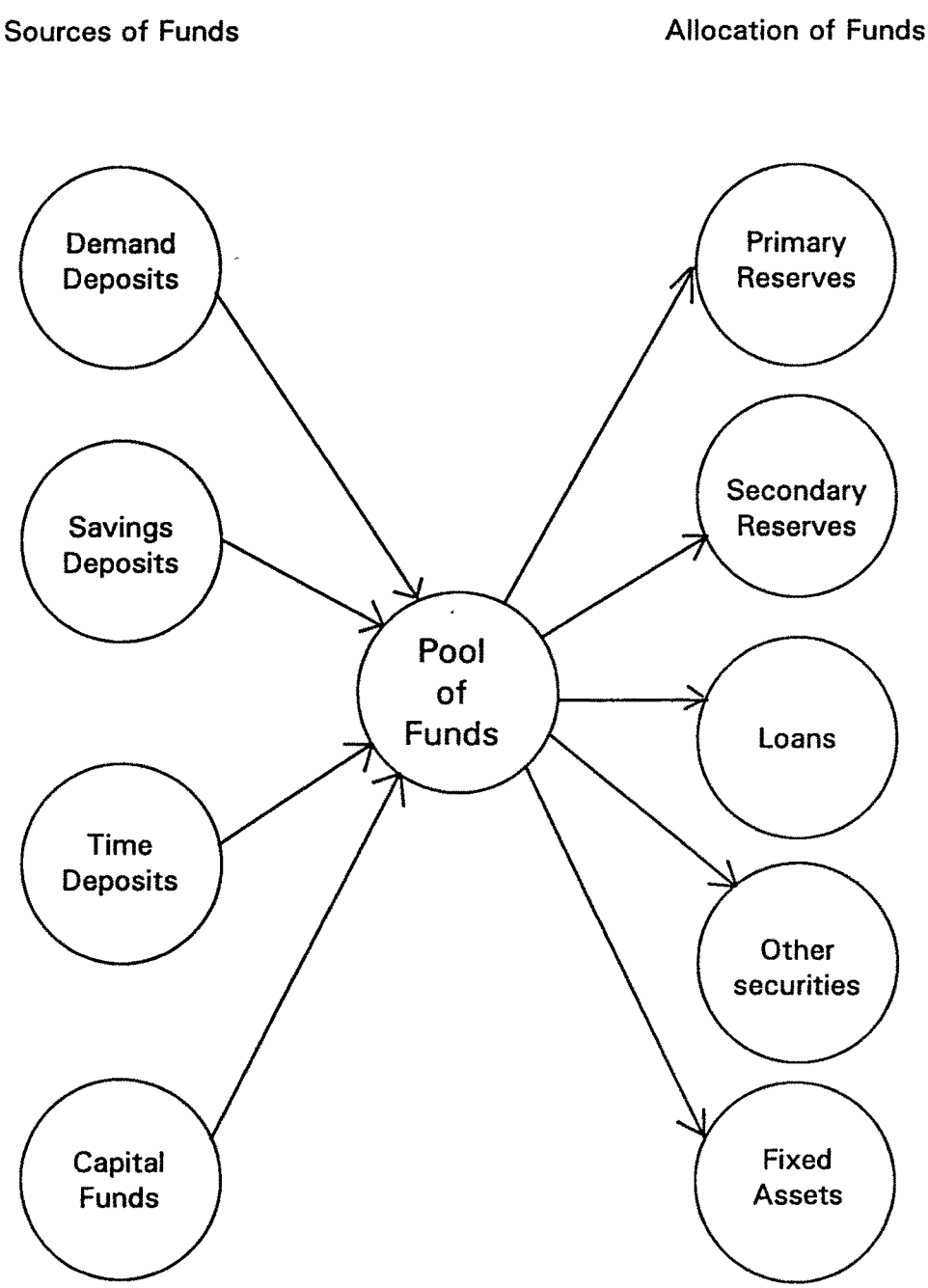
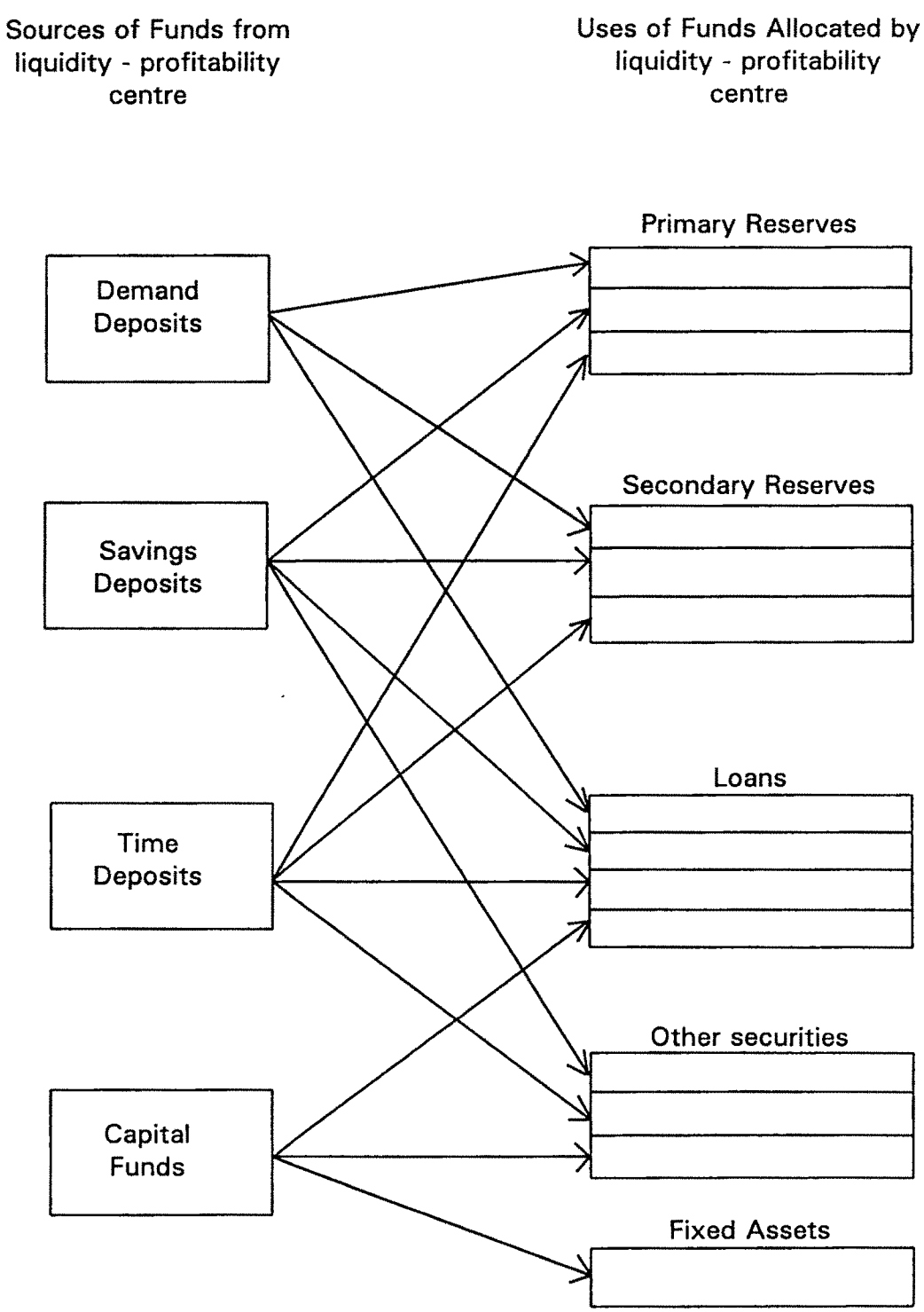


Exhibit - IV.2

The Asset Allocation Model



(iii) The Linear Programming Model (LPM)

It is also called as mathematical programming. The linear programming considers only the linear relationship between two or more variables. By linear relationship we mean that the relation between the variables can be represented by straight lines. Programming means planning of decision making in a systematic way. Linear programming (LP) refers to technique for the formulation and solution of problems in which some linear function of two or more variables is to be optimised subject to a set of linear constraints. The linear programming (LP) is a technique used by management scientists in allocating scarce input resources for maximisation of profit or minimisation of cost. The main aim of this linear programming (LP) technique is to optimise the objective function of a firm in the business. Therefore, the linear programming (LP) can be used by the bank management as a technique in assets management. The linear programming technique combines, the problem of asset management and liability management with liquidity and profitability constraints.

The linear programming (LP) technique requires the statement of objective to be optimised. The bank management has the objective of maximisation of profit from allocation of funds to the different types of assets. The bank management has different decision alternatives for assets allocation. For example, bank management wants to optimise the profit by allocating the funds into different categories of assets having different net yields. Suppose short-term government securities yield 5 per cent, long-term government securities yield 6 per cent, commercial loans yield 6 per cent, long-term loans to business firms yield 8 per cent, automobile instalment yield 9 per cent and

consumer instalment loans yield 13 per cent. All these are net yields. The variable Y represent the amount of funds to be invested by the bank management in different assets. The profit (P) is to be maximised from these allocations can be stated as under :

$$P = 0.05Y + 0.06Y_2 + 0.07Y_3 + 0.08Y_4 + 0.09Y_5 + 0.013Y_6$$

In above hypothetical example of assets allocation, the bank management would prefer to allocate its funds in consumer instalment loans (Y_6) for yield of 13 per cent. However, this is not feasible, because every commercial bank has to take decision of allocating its funds among different categories of assets within regulatory framework, statutory requirement, monetary policy and strategy of development of the Government.

The linear programming model can be used by the bank management in allocating the funds in different categories of assets for maximising the profitability with given constraints. However, the cost of separate management department, poor quality of data and changes in composition are the major constraints in the application of the linear programming technique.

We will further examine the liability management of the selected commercial banks in Jordan. In these Chapters attempts will be made to analyse the assets utilisation and carrying cost of liabilities of the commercial banks for 1979-92. This research exercise will show the efficiency of assets management in generating incomes to the banks. In liability management we will diagonise the problem of carrying cost of liabilities of the commercial banks.

As concluded in the earlier Chapter, it may be stated that the banks through an appropriate asset utilisation improve their interest surplus ratio and for this purpose, they have to improve their interest earnings. According to us the profitability of a bank is directly affected on account of the assets - mix since there is a positive correlation between the degree of asset utilisation and profitability, provided that the banks apply a uniform degree of expenditure control.

The profitability of a bank, as an important element, is undoubtedly, determined by the degree of its asset management efficiency. In order to improve the asset management efficiency, a regular monitoring and simultaneous evaluation and analysis of the assets mix is imperative since it directly affects the earnings of a bank and is related to its aggregate assets position.

In order to identify strong and weak elements of asset utilisation, a continuous analysis of asset utilisation is imperative. With a view to attain better asset utilisation and profitability, a bank should try and make efforts to evaluate its own asset management efficiency, relative to other, from time to time through monitoring.

Behaviour of Return on Assets (ROA)

Thus, the asset utilisation and profitability of the commercial banks are positively related. In order to analyse this positive relationship, the Assets Utilisation Indicator has been developed. The Asset Utilisation Indicator (AUI) is applied to measure the asset utilisation efficiency of the selected commercial banks in Jordan at micro and macro levels.

Table IV.1 shows the asset utilisation of the selected commercial banks during 1979-1992. The Asset Utilisation Indicator of a national individual commercial bank and all the national commercial banks taken together behaved inconsistently for the period covered under the study. The Asset Utilisation Indicator of a national individual commercial bank has declined in 1992 compared to 1979. The Asset Utilisation Indicator of all the national commercial banks taken together has also declined from 7.22 per cent in 1979 to 6.69 per cent in 1992.

The Asset Utilisation Indicator of the foreign commercial banks in Jordan, also lacked consistency in their behaviour at micro and macro levels during 1979-1992. However, the Asset Utilisation Indicator of each and every individual foreign commercial bank, (except Citi Bank) has recorded rise in 1992 as compared to 1979. The Asset Utilisation Indicator of all foreign commercial banks taken together has gone up from 7.29 per cent in 1979 to 8.36 per cent in 1992. In the same manner the Asset Utilisation Indicator of all the commercial banks taken together has declined from 7.24 per cent in 1979 to 6.92 per cent in 1992.

Thus, the analysis of Asset Utilisation Indicator of national commercial banks at micro and macro levels has revealed that the same has declined for the period covered under the study. As a result, the profitability of bank lending of the national commercial banks has adversely affected during 1979-1992.

In case of foreign commercial banks in Jordan the Asset Utilisation Indicator at micro and macro levels have increased. Therefore, the profitability of bank lending has shown an improvement during the time frame of the study.

Table IV.1

ASSET UTILISATION INDICATOR (AUI)

(In Percentage)

NATIONAL BANKS YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC	6.83	7.49	7.44	7.47	7.00	7.63	6.90	7.70	8.66	8.45	5.57	5.91
Jordan National Bank	7.71	8.64	8.83	8.91	9.17	9.04	8.31	8.63	9.24	10.36	8.31	8.85
Jordan Bank	9.29	8.81	9.12	9.14	8.90	8.32	7.95	8.04	9.10	8.20	6.85	8.40
Cairo Amman Bank	6.86	9.37	8.77	9.01	6.59	8.41	7.59	7.86	8.27	8.68	6.95	8.45
Jordan Kuwait Bank	7.58	9.97	8.60	8.62	8.84	8.61	7.64	8.33	8.48	10.60	6.28	6.93
GROSS INCOME/ASSETS RATIO OF NATIONAL BANKS	7.22	8.32	8.09	8.12	7.58	8.06	7.33	7.91	8.68	8.77	6.07	6.69
FOREIGN BANKS												
Arab Land Bank	7.77	9.73	8.20	8.26	7.14	7.87	7.51	7.97	8.05	8.78	7.30	9.63
British Bank of the Middle East	6.78	8.81	9.14	9.25	9.44	9.44	8.97	9.19	9.67	11.36	8.87	8.68
CitiBank	7.34	13.22	10.01	10.04	10.70	9.39	9.31	10.44	16.58	11.41	7.02	6.27
ANZ Grindlays Bank	7.32	7.96	7.78	7.99	9.41	9.12	9.33	7.25	8.01	10.05	8.20	8.03
GROSS INCOME/ASSETS RATIO OF FOREIGN BANKS	7.29	9.81	8.80	8.96	9.35	9.08	8.84	8.69	10.01	10.41	8.00	8.36
GROSS INCOME/ASSETS RATIO OF COMMERCIAL BANKS IN JORDAN	7.24	8.61	8.22	8.25	7.85	8.21	7.54	8.02	8.89	9.01	6.33	6.92

$$AUI = \frac{G.R.}{TOTAL\ ASSETS} \times 100$$

Source for Total Assets and Gross Revenues - Al Bunuk Walmuasassaat al Maliya al Ukhra fe al Urdun (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

The asset utilisation of commercial banks is also influenced by the cash balances and reserve of the banks. Therefore, an inquiry is made by expressing cash balances and reserve of banks as a percentage to total assets.

Cash Balances and Reserves As a Percentage to Total Assets

Table IV.2 shows the trend behaviour of the cash balances and reserves as a percentage to total assets for the period 1979 to 1992. The cash balances and reserves as percentage to total assets of each national commercial bank and all the national commercial banks taken together lacked consistency in their behaviour during the period under the study. However, the same has increased in 1992 of an individual national commercial bank and all commercial banks taken together. The cash balances and reserves as percentage to total assets of all the national commercial banks has gone up from 23.23 per cent in 1979 to 58.20 per cent in 1992. Similarly, the same for foreign commercial banks has recorded rise from 31.84 per cent in 1979 to 53.10 per cent in 1992. Therefore, the declined in the profitability of the national commercial banks is on account of decline in the assets utilisation is further attributed by the finding that the cash balances and reserves as percentage to total assets has recorded increase during the period under the study.

Investment as Percentage to Total Assets

The analysis of cash balances and reserves as percentage to total assets has increased. As a result, the bank earnings have declined and the carrying cost of fund has increased. This has adversely affected the assets utilisation of the commercial banks.

Table IV.2

CASH BALANCE AND RESERVES AS A PERCENTAGE TO TOTAL ASSETS OF COMMERCIAL BANKS IN JORDAN

(In Percentage)

NATIONAL BANKS YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC	19.63	33.02	32.80	31.61	33.38	35.01	28.64	32.58	41.35	45.98	68.50	65.83
Jordan National Bank	21.34	17.69	15.68	11.35	14.99	15.69	20.46	22.46	30.66	26.89	30.08	35.42
Jordan Bank	23.51	22.08	18.00	16.27	23.59	25.16	23.36	28.01	33.51	28.75	44.39	38.89
Cairo Amman Bank	28.88	20.39	22.46	18.99	23.84	19.24	17.75	21.98	33.37	34.98	46.45	46.39
Jordan Kuwait Bank	37.74	30.21	31.43	27.73	27.24	25.66	23.83	25.59	31.59	33.77	57.45	52.70
CASH BALANCES & RESERVES AS A % TO TOTAL ASSETS OF NATIONAL BANKS	23.23	27.93	27.78	25.92	28.56	28.92	25.32	29.07	37.63	40.46	60.53	58.20
FOREIGN BANKS												
Arab Land Bank	35.54	30.73	26.52	24.96	28.09	25.40	26.21	28.74	41.68	34.37	37.90	32.44
British Bank of the Middle East	27.85	26.14	24.44	23.01	23.43	26.24	26.95	30.60	36.21	37.55	53.00	59.00
CitiBank	55.10	49.03	51.71	44.74	51.31	52.35	54.76	71.70	77.73	67.16	75.88	70.83
ANZ Grindlays Bank	25.64	17.77	18.36	18.10	22.92	16.95	17.89	23.17	38.86	41.12	51.90	55.63
CASH BALANCES & RESERVES AS A % TO TOTAL ASSETS OF FOREIGN BANKS	31.84	29.86	30.59	27.94	30.82	29.33	29.88	36.27	44.89	42.02	52.05	53.10
CASH BALANCES & RESERVES AS A % TO TOTAL ASSETS OF COMMERCIAL BANKS IN JORDAN	25.32	28.30	28.27	26.24	28.90	28.98	25.96	30.11	38.75	40.69	59.37	57.50

$$\frac{\text{CASH BALANCES \& RESERVES}}{\text{TOTAL ASSETS}} \times 100$$

Source for Cash Balances & Reserves and Assets - Al Bunuk Walmuasassaat al Maliya al Ukhra fe al Urdun (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

Table IV.3 shows the behaviour of investment as percentage to total assets of the commercial banks during 1979-92. The investment as percentage to total assets at micro and macro levels have remained fluctuating. The .pn20 investment as percentage to total assets of all the national commercial banks taken together has declined from 12.94 percent in 1979 to 9.59 percent in 1992. It means the earning assets of the commercial banks in total assets have declined. This has reduced the earnings of the national commercial banks. In case of the foreign commercial banks the same trend of investments as percentage to total assets has been observed at the micro as well as at the macro levels.

(iv) Assets as percentage to Total Liabilities

The assets utilisation of the commercial banks in terms of assets utilisation indicator has declined. The empirical findings are supported by an increase in the cash balances as percentage to total assets and decline in investment as percentage to total assets. We will further examine the behaviour of assets utilisation indicator with the help of Assets Liabilities Ratio (ALR). The total assets (i.e. total credit) constitute the source of earnings to the commercial banks. The Total Liabilities (i.e. total deposits) constitute the bank expenses. If Assets Liabilities Ratio (ALR) increases, it means banks earnings increase more than proportionate to their expenses. At the same time, if Assets Liabilities Ratio (ALR) decreases, it implies that the banks earnings have increased less than proportionate to expenses.

Table IV.4 reveals the bahaviour of Assets Liabilities Ratio (ALR) of commercial banks at micro and macro levels during 1979-92. The Assets Liabilities Ratio (ALR) has remained inconsistent at micro and macro levels during the period covered under the

Table IV.3

*INVESTMENTS AS A PERCENTAGE TO TOTAL ASSETS

(In Percentage)

NATIONAL BANKS YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC	14.58	9.37	11.13	18.36	19.16	21.23	24.72	23.92	19.08	19.52	8.88	8.25
Jordan National Bank	18.35	15.67	21.15	20.51	15.24	15.82	16.23	11.98	9.51	11.27	14.77	8.71
Jordan Bank	15.51	13.63	14.52	15.10	14.18	12.86	14.20	12.85	20.07	23.23	11.21	12.82
Cairo Amman Bank	8.17	9.70	12.51	13.56	13.29	14.47	20.31	17.66	20.91	20.31	21.57	15.43
Jordan Kuwait Bank	1.61	9.22	9.14	10.08	11.01	13.48	14.55	11.45	13.22	3.91	6.82	9.70
NET SECURITIES PORTFOLIO AS % TO TOTAL ASSETS OF NATIONAL BANKS	12.94	10.60	12.61	16.71	16.60	18.08	21.10	19.63	17.91	18.13	10.79	9.59
FOREIGN BANKS												
Arab Land Bank	4.99	9.21	8.13	9.33	7.36	9.13	8.29	6.81	6.29	6.25	4.94	6.19
British Bank of the Middle East	23.02	12.50	13.66	11.01	10.11	10.96	10.10	4.87	3.71	2.49	5.48	1.99
CitiBank	4.07	8.11	4.99	6.11	6.22	6.06	5.45	2.59	0.98	2.99	5.85	5.53
ANZ Grindlays Bank	14.18	8.27	13.86	12.58	14.01	14.41	13.45	6.86	4.17	4.03	6.85	10.51
NET SECURITIES PORTFOLIO AS % TO TOTAL ASSETS OF FOREIGN BANKS	12.96	9.29	10.38	9.85	9.75	10.48	9.68	5.31	3.86	3.83	5.80	6.07
NET SECURITIES PORTFOLIO AS % TO TOTAL ASSETS OF COMMERCIAL BANKS	12.95	10.35	12.22	15.62	15.57	16.98	19.51	17.55	15.74	16.02	10.11	9.11

* Investment = Securities, bonds and shares

$$\frac{\text{INVESTMENTS}}{\text{TOTAL ASSETS}} \times 100$$

Source for Investments and Assets - Al Bunuk Walmuasassaat al Maliya al Ukhra fe al Urdun (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

Table IV.4
ASSETS LIABILITY RATIO (ALR)

(In Percentage)

NATIONAL BANKS YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC	74.71	63.04	57.54	51.46	48.23	42.43	49.70	47.09	43.01	37.52	23.71	27.47
Jordan National Bank	66.72	86.16	80.10	84.68	83.18	79.64	74.71	77.71	67.64	69.18	61.67	63.15
Jordan Bank	67.40	72.62	78.68	84.74	73.61	79.85	79.06	74.05	54.66	53.72	50.06	55.17
Cairo Amman Bank	78.40	84.38	82.68	86.61	81.81	82.15	74.26	70.91	50.18	47.11	34.51	40.21
Jordan Kuwait Bank	78.82	71.79	68.54	73.01	70.71	69.21	69.26	71.55	61.68	67.14	35.61	37.27
ASSETS AS % TO TOTAL LIABILITIES OF NATIONAL BANKS	73.99	70.32	66.30	64.03	60.11	56.93	59.88	57.63	48.92	44.83	30.12	34.07
FOREIGN BANKS												
Arab Land Bank	73.22	75.01	81.66	80.59	85.30	83.03	79.75	79.27	61.45	65.34	61.01	66.49
British Bank of the Middle East	56.61	71.66	70.52	73.68	74.85	71.25	71.36	75.40	69.96	70.40	45.49	42.26
CitiBank	40.22	50.58	51.93	61.46	52.75	53.52	50.28	30.85	27.48	35.74	20.52	25.54
ANZ Grindlays Bank	67.31	81.82	75.01	77.55	71.32	77.35	75.53	82.27	66.04	60.08	43.91	39.25
ASSETS AS % TO TOTAL LIABILITIES OF FOREIGN BANKS	61.82	70.72	68.53	72.63	70.41	71.23	70.33	69.48	60.75	61.45	45.36	44.73
ASSETS AS % TO TOTAL LIABILITIES OF COMMERCIAL BANKS IN JORDAN	70.94	70.40	66.69	65.39	61.61	58.92	61.31	59.29	50.68	47.24	32.16	35.53

$$ALR = \frac{A}{L} \times 100$$

Where; ALR = Assets Liabilities Ratio.
A = Assets (i.e., Total Credit)
L = Liabilities (i.e., Total Deposits)

Source for Total Deposits & Total Credits - Al Bunuk Walmuasassaat al Maliya al Ukhra fe al Urdun (Imhaysin, 1994) (Banks and Other Financial Institutions in Jordan)

study. The Assets Liabilities Ratio (ALR) of all the national commercial banks taken together has declined from 73.99 per cent in 1979 to 34.07 per cent in 1992. The Assets Liabilities Ratio (ALR) of all the foreign commercial banks taken together has also recorded fall from 61.82 per cent in 1979 to 44.73 per cent in 1992. So, it implies that the earnings of the commercial banks have increased less than proportionate to increase in the expenses of the commercial banks during the period covered under the study.

The assets utilisation of the commercial banks has declined on account of decline in the assets utilisation indicator. The assets utilisiation indicator has declined due to increase in the cash balances and reserves, fall in the Investment Assets Ratio (IAR) and Assets Liabilities Ratio (ALR) during the period covered under the study.