

CHAPTER - VI

LIABILITY MANAGEMENT

In our previous analysis of commercial banks expenditure, which was done with the help of an 'Expense Indicator' it has revealed that the national commercial banks have, by and large, spent more than proportionately, on various items of expenditure, in relation to the revenue earned by them. The 'profit Margin' (PM) has as matter of fact been reduced due to an increase in the 'Expense Indicator'. Therefore, it is necessary to examine the carrying cost of liabilities, to explain the increase in 'Expense Indicator', because the carrying cost of liabilities is an important and major componenet of expenditure. Our analysis therefore, concentrates on the parameters such as profitability and carrying cost liabilities, to ascertain whether an increase in the carrying cost of liabilities has affected the profitability of bank lending negatively. To undertake this analysis, we will analyse and examine throughly the management of liabilities of commercial banks, for the period 1979-92.

Therefore, let us examine, and test the hypothesis mentioned below, for this

***"The carrying cost of liabilities and size of
liabilities are positively related"***

In carrying out this analysis, let us first analyse the changes in the size of liabilities of the selected commercial banks in Jordan and then relate these to their carrying cost.

Changes in the Size of Liabilities

For the purpose of analysing the changes in the size of liabilities, we have developed an 'Equity Multiplier'. It considers the size of liabilities in relation to the respective equity base of commercial banks.

The 'Equity Multiplier' (EM) is as under -

$$EM = \frac{TL}{E}$$

Where,

EM = Equity Multiplier
 TL = Total liabilities
 E = paid up Capital + Reserves

The 'Equity Multiplier' (EM) of the selected commercial banks in Jordan, is calculated for the year 1979-1992. The Table VI.1 shows that the total liabilities of all the national commercial banks taken together were 17.75 times their equity base in 1979. The same has recorded a rise to 26.59 time their equity base in 1992. The 'Equity Multiplier' (EM) of the national commercial banks in Jordan at micro level remained inconsistent but recorded a rise in 1992 in relation to 'Equity Multiplier' of 1979.

The total liabilities of all the foreign commercial banks in Jordan taken together were 23.65 times their equity base in 1979. The same has decreased to 14.43 times their equity base in 1992. The 'Equity Multiplier'. (EM) of the foreign commercial banks at micro level remained fluctuating throughout the period of analysis covered under the study.

Table VI.1

EQUITY MULTIPLIER

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		32.83	25.61	25.27	30.66	34.15	29.98	29.20	31.39	32.90	36.34	43.43	38.07
Jordan National Bank		10.59	4.57	5.25	5.63	6.07	6.76	7.25	7.18	7.91	7.18	8.78	8.93
Jordan Bank		16.47	11.20	11.33	11.31	12.25	11.21	10.57	10.94	12.61	13.62	17.68	18.07
Cairo Amman Bank		14.33	16.49	16.71	14.68	13.37	13.93	16.34	19.10	20.82	21.40	30.59	24.64
Jordan Kuwait Bank		7.24	11.03	12.84	13.58	13.98	13.65	15.49	16.76	18.04	13.81	22.75	23.35
EQUITY MULTIPLIER OF NATIONAL BANKS		17.75	13.19	14.22	15.68	16.75	16.39	17.23	18.77	20.56	21.36	29.00	26.59
FOREIGN BANKS													
Arab Land Bank		11.53	10.35	10.72	9.94	6.01	6.44	7.69	8.00	9.93	10.86	17.91	15.45
British Bank of the Middle East		17.46	11.15	11.75	13.80	11.03	12.13	12.82	14.57	15.69	15.48	16.66	15.80
CitiBank		27.38	8.25	9.86	10.78	8.54	7.48	6.61	6.86	6.34	5.83	8.56	9.90
ANZ Grindlays Bank		36.82	18.74	17.66	15.86	9.53	9.90	9.82	12.91	14.77	14.81	17.85	15.85
EQUITY MULTIPLIER OF FOREIGN BANKS		23.65	11.65	12.23	12.56	8.80	9.02	9.25	10.40	11.48	11.74	15.19	14.43
EQUITY MULTIPLIER OF COMMERCIAL BANKS IN JORDAN		18.90	12.86	13.82	15.09	14.75	14.65	15.37	16.81	18.33	19.06	25.81	23.83

$$EM = \frac{TL}{E}$$

Where, EM = Equity Multiplier

TL = Total Liabilities

E = Equity + Reserves

Source for Liabilities & Equity + Reserves - Al Bunuk Walmuasassat al Maliya al Ukhra fe al Ukhra (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

Carrying Cost of Liabilities (CCL)

For analysing the impact of expansion in the size of liabilities on the carrying cost of liabilities, we have developed a 'Liability Cost Indicator' (LCI). The 'Liability Cost Indicator' (LCI) is derived by -

$$LCI = \frac{IE}{TL} \times 100$$

Where;

LCI = Liability Cost Indicator.

IE = Interest Expenses.

TL = Total Liabilities.

Table VI.2 reveals that the 'Liability Cost Indicator' (LCI) of all national commercial banks taken together has increased from 2.67 per cent in 1979 to 3.77 per cent in 1992. The 'Liability Cost Indicator' (LCI) of an individual national commercial bank has remained fluctuating throughout the period covered under study.

The 'Liability Cost Indicator' (LCI) of all the foreign commercial banks taken together has declined from 4.16 per cent in 1979 to 3.94 per cent in 1992. The Liability Cost Indicator (LCI) of foreign commercial banks at micro level behaved inconsistently for the period under consideration of our study.

Table VI.2

LIABILITY COST INDICATOR (LCI)

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
(Percentage)													
Arab Bank PLC		2.74	3.93	4.34	4.59	5.08	5.27	4.74	4.94	5.30	5.57	3.76	3.81
Jordan National Bank		2.43	2.97	2.75	3.39	3.98	4.23	3.91	4.08	4.14	4.77	3.66	3.20
Jordan Bank		3.23	3.36	3.60	3.93	4.34	4.36	4.43	4.33	4.75	5.00	3.91	4.13
Cairo Amman Bank		2.41	4.55	4.35	4.78	3.21	5.00	4.71	4.98	4.99	5.00	3.85	3.46
Jordan Kuwait Bank		2.46	4.32	4.11	4.52	5.21	5.45	4.79	5.15	5.55	7.26	3.70	3.97
LIABILITY COST INDICATOR OF NATIONAL BANKS		2.67	3.89	4.05	4.41	4.68	5.05	4.62	4.83	5.13	5.51	3.77	3.77
FOREIGN BANKS													
Arab Land Bank		2.29	2.61	2.56	3.07	2.75	3.14	3.51	3.71	3.76	4.28	3.74	4.96
British Bank of the Middle East		2.91	4.29	4.43	4.60	5.16	5.33	4.94	4.72	5.30	6.05	4.19	3.69
CitiBank		4.80	9.30	5.94	6.68	6.84	5.67	5.26	4.49	6.31	6.10	3.17	2.82
ANZ Grindlays Bank		4.89	4.44	4.20	4.50	4.80	4.54	4.35	3.63	4.18	5.68	4.67	3.88
LIABILITY COST INDICATOR OF FOREIGN BANKS		4.16	5.42	4.50	4.92	5.06	4.82	4.57	4.20	4.85	5.58	4.08	3.94
LIABILITY COST INDICATOR OF COMMERCIAL BANKS IN JORDAN		3.03	4.19	4.13	4.49	4.74	5.02	4.62	4.74	5.09	5.52	3.81	3.79

$$LCI = \frac{IE}{TL} \times 100$$

Where, LCI = Liability Cost Indicator

IE = Interest Expenses

TL = Total Liabilities

Source for Total Liabilities & Interest Expenses - Al Bunuk Walmuasasaat al Maliya al Ukhra fe al Ukhra (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

Now, let us proceed further to analyse the functional relationship between 'Equity Multiplier' (EM) and 'Liability Cost Indicator', (LCI) of commercial banks in Jordan for the period 1979-1992. The Table VI.3 shows the 'Equity Multiplier' (EM) of all the national commercial banks taken together has increased from 17.75 in 1979 to 26.59 in 1992. As a consequence of it, the liability cost indicator has also increased from 2.67 per cent in 1979 to 3.77 per cent in 1992. In the case of individual bank also, we find more or less a similar behaviour of 'Equity Multiplier' (EM) and Liability Cost Indicator (LCI).

In case of all the foreign commercial banks taken together, the 'Equity Multiplier' (EM) has declined from 23.65 per cent in 1979 to 14.43 per cent in 1992. As a result, the 'Liability Cost Indicator' (LCI) has recorded fall from 4.16 per cent in 1979 to 3.94 per cent in 1992.

Therefore, logically, it proves that the 'Liability Cost Indicator' (LCI) of national commercial banks has increased due to an increase in their 'Equity Multiplier' (EM). The main reasoning behind this conclusion could be that the proportion of interest cost carrying liabilities has significantly increased and the equity base of those banks has significantly declined resulting in an increase in the carrying cost of liabilities more than proportionately to the increase in their total size.

The analysis of functional relationship between 'Equity Multiplier' (EM) and 'Liability Cost Indicator' (LCI) has shown that an increase in 'Equity Multiplier' (EM) has increased the size of the liabilities of the commercial banks. As a consequence, the 'Liability Cost Indicator' has also recorded an increase. Therefore, we will now analyse an impact of an increase in carrying cost of liability on banks' profitability of lending through 'Profit Margin' (PM).

Table VI.3

EQUITY MULTIPLIER AND LIABILITY COST INDICATOR

NATIONAL BANKS	1979		1992	
	EM	LCI	EM	LCI
Arab Bank PLC	32.83	2.74	38.07	3.81
Jordan National Bank	10.89	2.43	8.93	3.20
Jordan Bank	16.47	3.23	18.07	4.13
Cairo Amman Bank	14.33	2.41	24.64	3.46
Jordan Kuwait Bank	7.24	2.46	23.35	3.97
NATIONAL BANKS	17.75	2.67	26.59	3.77
FOREIGN BANKS				
Arab Land Bank	11.53	2.29	15.45	4.96
British Bank of the Middle East	17.46	2.91	15.80	3.69
Citi Bank	27.38	4.80	9.90	2.82
ANZ Grindlays Bank	36.82	4.89	15.85	3.88
FOREIGN BANKS	23.65	4.16	14.43	3.94
COMMERCIAL BANKS	18.90	3.03	23.83	3.79

TL

$$EM = \frac{TL}{E}$$

$$LCI = \frac{IE}{TL} \times 100$$

Equity Multiplier (EM) and Profit Margin (PM)

In order to examine, the impact of change in the size of liabilities of the commercial banks on their 'Profit Margin' (PM), we will test the following hypothesis.

"The 'Equity Multiplier' and 'Profit Margin' are inversely related".

Table VI.4 explains the relationship between 'Equity Multiplier' and the 'Profit Margin' of the commercial banks in Jordan. The equity multiplier of all the national commercial banks taken together has recorded rise from 17.75 per cent in 1979 to 26.59 per cent in 1992, this substantial increase in the equity multiplier has seriously affected the profit margin of the national commercial banks. The profit margin of all national commercial banks taken together has declined from 23.46 per cent in 1979 to 7.38 per cent in 1992.

The equity multiplier in case of all the foreign commercial banks taken together has recorded a fall from 23.65 per cent in 1979 to 14.43 per cent in 1992. As a consequence, the fall in equity multiplier of all the foreign commercial banks, the profit margin of all the foreign commercial banks taken together has increased from 6.12 per cent in 1979 to 16.82 per cent in 1992.

The equity multiplier of all the commercial banks taken together has increased from 18.90 per cent in 1979 to 23.83 per cent in 1992. As a result the profit margin of all the commercial banks taken together has declined from 19.21 per cent in 1979 to 8.95 per cent in 1992. Therefore the above mentioned hypothesis is sustained.

Table VI.4

EQUITY MULTIPLIER AND PROFIT MARGIN

NATIONAL BANKS	1979		1992	
	EM	PM	EM	PM
Arab Bank PLC	32.83	28.66	38.07	6.54
Jordan National Bank	10.59	16.50	8.93	11.09
Jordan Bank	16.47	13.09	18.07	7.62
Cairo Amman Bank	14.33	15.50	24.64	10.80
Jordan Kuwait Bank	7.24	28.38	23.35	2.86
NATIONAL BANKS	17.75	23.46	26.59	7.38
FOREIGN BANKS				
Arab Land Bank	11.53	8.53	15.45	6.85
British Bank of the Middle East	17.46	9.04	15.80	17.08
Citi Bank	27.38	8.36	9.90	20.80
ANZ Grindlays Bank	36.82	3.90	15.85	25.27
FOREIGN BANKS	23.65	6.12	14.43	16.82
COMMERCIAL BANKS	18.90	19.21	23.83	8.95

$$EM = \frac{TL}{E}$$

$$PM = \frac{NP}{TE} \times 100$$

Liability Cost Indicator (LCI) and Profit Margin (PM)

We have analysed the relationship between equity multiplier and profit margin of the commercial banks. Our analysis has shown that an increase in the equity multiplier of the national commercial banks has adversely affected the profit margin of the national commercial banks. Therefore, we propose to further examine the relationship between Liability Cost Indicator and profit margin of the commercial banks in Jordan. For this purpose, we would like to test the following hypothesis.

***"Other things being equal", there is an
inverse relationship between Liability Cost
Indicator and Profit Margin of banks".***

In order to test the above hypothesis, we have tabulated the data regarding, 'Liability Cost Indicator' and 'Profit Margin' for the years 1979 and 1992.

The Table VI.5 shows the liability cost indicator and profit margin of the commercial banks in Jordan. The liability cost indicator of all the national commercial banks taken together has gone up from 2.67 per cent in 1979 to 3.77 per cent in 1992. The increase in the liability cost indicator of all the national commercial banks has adversely affected the profit margin of all the national commercial banks. So, the profit margin of all the national commercial banks taken together has declined from 23.46 per cent in 1979 to 7.38 per cent in 1992.

Table VI.5

LIABILITY COST INDICATOR AND PROFIT MARGIN

NATIONAL BANKS	1979			1992		
	LCI	PM		LCI	PM	
Arab Bank PLC	2.74	28.66		3.81		6.54
Jordan National Bank	2.43	16.50		3.20		11.09
Jordan Bank	3.23	13.09		4.13		7.62
Cairo Amman Bank	2.41	15.50		3.46		10.80
Jordan Kuwait Bank	2.46	28.38		3.97		2.86
NATIONAL BANKS						
	2.67	23.46		3.77		7.38
FOREIGN BANKS						
Arab Land Bank	2.29	8.53		4.96		6.85
British Bank of the Middle East	2.91	9.04		3.69		17.08
Citi Bank	4.80	8.36		2.82		20.80
ANZ Grindlays Bank	4.89	3.90		3.88		25.27
FOREIGN BANKS						
	4.16	6.12		3.94		16.82
COMMERCIAL BANKS						
	3.03	19.21		3.79		8.95

$$PM = \frac{NP}{TE} \times 100$$

$$LCI = \frac{IE}{TL} \times 100$$

The liability cost indicator of all the foreign commercial banks taken together has declined from 4.16 per cent in 1979 to 3.94 per cent in 1992. As a consequence, the profit margin of all the foreign commercial banks taken together has increased from 6.12 per cent in 1979 to 16.82 per cent in 1992.

So, the findings of the analysis sustained the hypothesis that the increase in the liability cost indicator is one of the critical strong factor responsible for decline in the profit margin of the national commercial banks during the period 1979-1992.

Our analysis has shown that equity multiplier and profit margin as well as liability cost indicator and profit margin are inversely related. The increase in the cost of liabilities of the national commercial banks mainly due to an increase in the interest expenses of the national commercial banks because deposits constitute approximately more than 80 per cent of the total liabilities of these banks. Therefore, it is logical to step forward to examine the interest expenses in relation to total deposits during the period 1979-1992.

Interest Expenses as a Percentage to Total Deposits

Table VI.6 shows the interest expenses as percentage to total deposits of the commercial banks in Jordan for the period 1979-92. The interest expenses as percentage to total deposits of all the national commercial banks taken together has increased from 3.33 per cent in 1979 to 4.53 per cent in 1992. All national commercial banks experienced increase in their interest expenses as percentage to total deposits in 1992 as compared to 1979.

The interest expenses as percentage to total deposits of all the foreign commercial banks has declined from 5.63 per cent in 1979 to 4.68 per cent in 1992.

Table V.6

INTEREST EXPENSES AS PERCENTAGE TO TOTAL DEPOSITS

YEAR	INTEREST EXPENSES	1979 TOTAL DEPOSITS	INT.EXP.AS % TO TOTAL DEPOSITS	1992 INTEREST EXPENSES	TOTAL DEPOSITS	INT.EXP.AS % TO TOTAL DEPOSITS
NATIONAL BANKS						
Arab Bank PLC	6300	195848	3.22	73900	1722816	4.29
Jordan National Bank	1167	37726	3.09	6589	149186	4.42
Jordan Bank	1192	29850	3.99	10545	208789	5.05
Cairo Amman Bank	1527	43160	3.54	11515	180727	6.37
Jordan Kuwait Bank	931	27574	3.38	9085	200429	4.53
NATIONAL BANKS	11117	334158	3.33	111634	2461947	4.53
FOREIGN BANKS						
Arab Land Bank	428	13046	3.28	5935	99459	5.97
British Bank of the Middle East	697	19542	3.57	5309	124290	4.27
Citi Bank	961	17286	5.56	2024	56130	3.61
ANZ Grindlays Bank	3477	48938	7.10	5354	124650	4.30
FOREIGN BANKS	5563	98812	5.63	18622	404530	4.60
COMMERCIAL BANKS	16680	432970	3.85	130256	2866477	4.54

Source for Interest-Expenses & Total Deposit : Annual reports of the selected commercial banks in Jordan from 1979 - 1992.

Our performance analysis has shown that the liability cost indicator of the national commercial banks has increased during 1979-92. This has increased the carrying cost of liabilities of the national commercial banks which has adversely affected their profitability of bank lending. The liability cost indicator of all the national commercial banks taken together has increased from 2.67 per cent in 1979 to 3.77 per cent in 1992. In order to identify the critical strong factor responsible for the change in the liability cost indicator, we would like to test the following hypothesis.

"Other things remaining the same, a change in the structure, of deposit-mix of the commercial banks, bring change in the carrying cost of liabilities of the commercial banks."

For the purpose of testing the above hypothesis, we have processed the data of deposit-mix of the commercial banks for the period 1979-1992.

The Table VI.7 shows that the current deposit as percentage to total deposits of all the national commercial banks taken together has declined from 44.46 per cent in 1979 to 22.53 per cent in 1992. The saving deposits as percentage to total deposits which is shown in Table VI.8 have also declined from 13.81 per cent in 1979 to 10.27 per cent in 1992. While the Fixed deposit as percentage to total deposits in Table VI.9 have increased from 41.73 per cent in 1979 to 67.20 per cent in 1992. So, the share of low costs carrying current and saving deposits in total deposits of the national commercial banks has declined. But the proportion of high cost carrying fixed deposits has increased

Table VI.7

CURRENT DEPOSIT AS A PERCENTAGE TO TOTAL DEPOSIT

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		45.40	37.59	33.68	33.02	24.27	18.86	20.17	23.31	22.96	22.29	23.54	21.74
Jordan National Bank		44.84	43.41	40.02	34.53	30.57	28.70	28.84	31.53	34.56	34.21	34.08	32.95
Jordan Bank		57.44	43.94	37.82	38.92	34.64	23.54	20.20	21.97	22.06	20.88	22.51	22.27
Cairo Amman Bank		39.29	27.48	28.83	28.03	27.89	24.81	20.15	27.49	30.88	21.76	23.36	26.49
Jordan Kuwait Bank		31.26	29.86	26.49	24.23	21.56	20.46	19.66	19.18	18.48	19.39	19.06	18.31
CURRENT DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF NATIONAL BANKS		44.46	36.53	33.25	31.99	25.75	20.97	21.00	24.01	24.43	22.80	23.67	22.53
FOREIGN BANKS													
Arab Land Bank		53.93	44.56	40.81	37.62	34.19	29.57	25.64	26.50	22.48	20.95	17.24	14.59
British Bank of the Middle East		26.10	19.86	17.61	15.66	13.51	10.02	8.84	11.05	12.44	12.43	14.26	15.26
CitiBank		10.55	20.93	15.68	11.14	9.61	9.74	10.64	7.31	7.37	9.30	10.54	13.87
ANZ Grindlays Bank		24.90	24.77	27.35	23.74	21.44	21.69	22.66	21.70	21.68	21.76	20.54	24.08
CURRENT DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF FOREIGN BANKS		26.46	25.88	24.24	20.29	18.05	16.07	15.73	15.84	16.43	16.99	16.43	17.62
CURRENT DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF COMMERCIAL BANKS		40.35	34.65	31.79	30.17	24.62	20.32	20.28	22.90	23.24	21.97	22.67	21.84

Source for Current Deposit & Total Deposit : Annual Reports of the selected Commercial Banks in Jordan, from 1979 - 1992.

Table VI.8

SAVING DEPOSIT AS A PERCENTAGE TO TOTAL DEPOSIT

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		15.88	13.83	12.97	11.52	10.34	18.86	10.16	9.79	9.11	22.29	23.54	21.74
Jordan National Bank		13.65	13.19	11.81	11.58	9.68	8.11	8.05	7.95	7.21	34.21	34.08	32.95
Jordan Bank		12.97	8.56	7.15	6.47	5.88	5.35	5.56	5.62	4.39	20.88	22.51	22.27
Cairo Amman Bank		7.38	6.65	6.05	5.81	5.59	4.98	3.92	6.21	6.91	21.76	23.36	26.49
Jordan Kuwait Bank		10.29	12.22	10.48	9.48	8.20	7.82	7.94	7.51	6.25	19.39	19.06	18.31

SAVING DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF NATIONAL BANKS	13.81	12.14	11.23	10.27	9.20	14.13	8.67	8.63	7.99	7.42	9.51	10.27
--	-------	-------	-------	-------	------	-------	------	------	------	------	------	-------

FOREIGN BANKS

Arab Land Bank	19.79	14.96	14.04	13.01	10.73	9.43	7.01	6.24	4.39	3.67	1.86	1.70
British Bank of the Middle East	57.09	38.66	37.24	29.04	25.44	22.59	22.04	20.71	17.18	15.51	12.79	12.67
CitiBank	16.39	9.46	12.47	11.37	10.47	14.72	14.90	11.81	12.70	15.39	20.93	23.53
ANZ Grindlays Bank	24.69	24.29	25.92	25.78	25.95	22.45	21.37	17.64	11.70	9.60	8.55	7.82

SAVING DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF FOREIGN BANKS	29.00	23.37	23.90	21.49	20.08	19.01	17.99	15.73	12.49	11.23	10.08	9.99
---	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	------

SAVING DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF COMMERCIAL BANKS	17.27	14.12	13.28	12.01	10.79	14.77	9.95	9.60	8.65	7.96	9.58	10.23
--	-------	-------	-------	-------	-------	-------	------	------	------	------	------	-------

Source for Saving Deposit & Total Deposit : Annual Reports of the selected Commercial Banks in Jordan from 1979 - 1992.

Table VI.9

FIXED DEPOSIT AS A PERCENTAGE TO TOTAL DEPOSIT

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		38.72	48.58	53.35	55.46	65.39	62.27	69.67	66.91	67.93	68.71	65.73	66.76
Jordan National Bank		41.51	43.40	48.17	53.89	59.75	63.18	63.11	60.51	58.23	58.95	59.41	60.86
Jordan Bank		29.59	47.50	55.02	54.61	59.47	71.10	74.24	72.41	73.55	76.19	74.61	71.97
Cairo Amman Bank		53.33	65.87	65.11	66.17	66.52	70.20	75.93	66.29	62.21	75.77	73.28	68.66
Jordan Kuwait Bank		58.45	57.92	63.03	66.29	70.24	71.72	72.40	73.31	75.27	74.62	66.54	69.33
FIXED DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF NATIONAL BANKS		41.73	51.33	55.52	57.75	65.05	64.91	70.33	67.36	67.58	69.79	66.83	67.20
FOREIGN BANKS													
Arab Land Bank		26.28	40.48	45.15	49.37	55.08	61.00	67.35	67.25	73.12	75.38	80.90	83.71
British Bank of the Middle East		16.82	41.48	45.16	55.30	61.05	67.39	69.12	68.24	70.37	72.05	72.95	72.07
CitiBank		73.06	69.61	71.84	77.49	79.92	75.54	74.46	80.88	79.93	75.31	68.54	62.60
ANZ Grindlays Bank		50.41	50.95	46.73	50.48	52.61	55.87	55.97	60.66	66.61	68.64	70.91	68.10
FIXED DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF FOREIGN BANKS		44.54	50.75	51.86	58.22	61.87	64.92	66.28	68.42	71.08	71.78	73.50	72.40
FIXED DEPOSIT AS PERCENTAGE TO TOTAL DEPOSIT OF COMMERCIAL BANKS		42.37	51.23	54.93	57.82	64.59	64.91	69.77	67.50	68.10	70.07	67.75	67.93

Source for Fixed Deposit & Total Deposit : Annual Reports of the selected Commercial Banks in Jordan from 1979 - 1992.

in total deposits of the national commercial banks. Even in case of all foreign commercial banks taken together, the current deposits as percentage to total deposit has declined from 26.46 per cent in 1979 to 17.62 per cent in 1992. The saving deposits as percentage to total deposits also declined from 29.00 per cent in 1979 to 9.99 per cent in 1992. But the Fixed deposits as percentage to total deposits has increased from 44.54 per cent in 1979 to 72.40 per cent in 1992. The same behaviour is observed for current deposits as percentage to total deposits, saving deposits as percentage to total deposits and fixed deposits as percentage to total deposits of all the commercial banks taken together in Jordan for the period covered under study.

Thus, the increase in the interest expenses of the commercial banks is mainly due to increase in the high interest carrying fixed deposits of the banks. Further, it has increased the liability cost indicator and declined profit margin of the national commercial banks. Therefore, the change in the liability-mix of the national commercial banks in Jordan is the major factor responsible for increased liability cost indicator and decline in the profit margin of the national commercial banks. Hence, the hypothesis is sustained.

Equity Utilisation Efficiency Indicator (EUEI)

We have analysed the major item of liabilities i.e., deposit-mix of the commercial banks. The analysis of carrying cost of deposits has shown that the change in favour of high cost, carrying fixed deposit has adversely affect the profitability of bank lending. Therefore, it is also imperative to examine the second important item of liabilities i.e.,

Table VI.10

EQUITY UTILISATION EFFICIENCY INDICATOR (EUEI) OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		64.29	24.14	1.70	30.29	8.47	21.62	11.90	16.18	34.44	40.07	20.00	14.71
Jordan National Bank		13.46	4.89	8.39	7.36	7.76	7.12	6.96	7.16	7.06	5.37	6.65	8.77
Jordan Bank		20.03	16.25	18.09	16.31	14.46	11.66	6.19	9.79	8.34	2.54	0.00	11.56
Cairo Amman Bank		15.24	20.26	17.69	20.98	15.51	9.28	8.29	4.47	4.51	4.17	4.09	22.49
Jordan Kuwait Bank		15.57	22.86	17.06	16.43	13.70	10.28	1.93	5.66	6.50	2.72	5.60	4.63
EQUITY UTILISATION EFFICIENCY INDICATOR OF NATIONAL BANKS		30.08	15.60	9.80	17.96	10.78	12.93	8.01	10.15	16.89	17.14	11.18	13.14
FOREIGN BANKS													
Arab Land Bank		7.64	12.80	5.67	2.57	1.34	2.02	1.87	2.70	4.45	5.15	9.27	10.19
British Bank of the Middle East		10.71	3.82	7.79	11.10	3.20	6.14	7.21	11.66	14.79	17.18	19.82	23.42
CitiBank		16.80	15.21	18.76	13.72	11.47	9.34	9.92	20.58	39.03	11.21	12.99	12.91
ANZ Grindlays Bank		10.52	-39.79	-24.46	-26.60	-2.84	0.71	0.74	-4.57	21.24	9.76	28.85	32.14
EQUITY UTILISATION EFFICIENCY INDICATOR OF FOREIGN BANKS		10.55	-0.28	4.04	1.76	3.31	4.69	5.17	8.70	21.50	11.00	18.09	20.29
EQUITY UTILISATION EFFICIENCY INDICATOR OF COMMERCIAL BANKS IN JORDAN		26.28	12.21	8.66	14.86	8.90	10.99	7.35	9.81	18.03	15.67	12.78	14.76

$$\text{EUEI} = \frac{\text{NET INCOME AFTER TAX}}{\text{SHARE HOLDER EQUITY}} \times 100$$

Source for Net Income and Equity - Al Bunuk Walmuassaat al Maliya al Ukhra fe al Ukhra (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

equity capital of the commercial banks. So, an attempt is made to measure the equity utilisation efficiency of the commercial banks in Jordan. For this purpose, we have developed the equity utilization efficiency indication (EUEI). The same is as under -

$$\text{EUEI} = \frac{\text{N.P.}}{\text{E}} \times 100$$

Where;

EUEI = Equity Utilisation Efficiency Indicator.

N.P. = Net profit

E = Equity

The Table VI.10 reveals the equity utilisation efficiency indicator with the help of return on equity (ROE). The equity capital is interest free, commitment free and charge free capital. The financial efficiency highlighted through an index of profitability can be improved with the help of equity utilisation efficiency of the banks. The return on equity of an each national commercial bank and all commercial banks have remained fluctuating throughout the analysis but it has recorded rise in 1992. The return on equity of all national commercial banks taken together has deeped down from 30.08 per cent in 1979 to 13.14 per cent in 1992. However the same in case of all foreign banks has increased from 10.55 per cent in 1979 to 20.29 per cent in 1992. Thus, the declining profitability of national commercial banks is also attributed by decline in the equity utilisation efficiency indicator (EUEI).