Formula:

Concept Capsule 2: Key Banking Ratios

Characteristic	Net Interest Margin (NIM)	Cost to Income Ratio (CIR)	Credit Cost	Return on Assets (ROA)
Meaning	Profitability of core lending	Efficiency of operations	Credit risk impact	Asset utilization effectiveness
Formula	(Interest Income − Interest Expense) ÷ Average Interest-Earning Assets × 100	Operating Expenses ÷ Operating Income × 100	Loan Loss Provisions ÷ Average Total Loans × 100	Net Profit ÷ Average Total Assets × 100
Ideal Ratio	3%–4% for commercial banks	Below 50% is efficient	Lower is better; typically <1%	1%–2% is considered good

Formula:

Concept Capsule 2: Key Banking Ratios

Characteristic	Return on Equity (ROE)	Capital Adequacy Ratio (CAR)	Leverage Ratio	Risk-Weighted Assets to Advances
Meaning	Measures return on equity	Indicates bank's financial strength	Prevents excessive borrowing	Reflects credit risk exposure
Formula	Net Profit / Average Shareholders' Equity	(Tier 1 + Tier 2 Capital) / Risk-Weighted Assets	Tier 1 Capital / Total Exposure (Assets)	Risk-Weighted Assets / Total Advances
Ideal Ratio	12%–15% is considered healthy	≥ 10.5% (Basel III)	3% (Basel III); 6% (US SIFIs)	Lower ratio indicates lower risk