RESOURCE MANAGEMENT IN URBAN CO-OPERATIVE BANKS IN THRISSUR DISTRICT

By

BABU C. V.

THESIS

Submitted in partial fulfilment of the requirement for the degree

Master of Science in Co-operation & Banking

(CO-OPERATIVE MANAGEMENT)

Faculty of Agriculture

Kerala Agricultural University

COLLEGE OF CO-OPERATION AND BANKING

Mannuthy - Thrissur

1993

DECLARATION

I hereby declare that this thesis entitled "Resource Management in Urban Co-operative Banks in Thrissur District" is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me of any degree, diploma, associateship, fellowship or other similar title of any other University or Society.

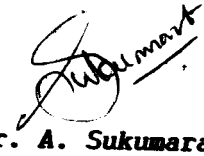
Mannuthy,

24th May, 1993.

BABU, C.V.

CERTIFICATE

Certified that this thesis entitled ***"Resource Management in Urban Co-operative Banks in Thrissur District"*** *is a record of research work done independently by* ***Sri. Babu, C.V.*** *under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to him.*



Dr. A. Sukumaran
Chairman
Advisory Committee
Assistant Professor
Department of Co-operative
Management and Accounting
College of Co-operation and
Banking, Mannuthy

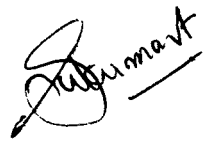
Mannuthy,

24th May, 1993.

APPROVED BY:

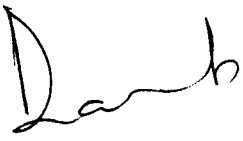
Chairman

Dr. A. Sukumaran
Assistant Professor
Department of Co-operative
Management and Accounting
College of Co-operation and
Banking, Mannuthy



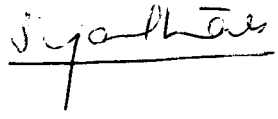
Members

1. ***Dr. N. Rajan Nair***
Professor & Head of the
Department of Co-operative
Management and Accounting
College of Co-operation and
Banking, Mannuthy

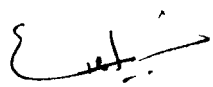


2. ***Dr. K.P. Mani***
Assistant Professor
Department of Co-operative
Management and Accounting
College of Co-operation and
Banking, Mannuthy

3. ***Smt. K.S. Sujatha***
Assistant Professor
Department of Statistics
College of Co-operation and
Banking, Mannuthy



External Examiner



Dr. K P Sainul Abdeen

ACKNOWLEDGEMENT

With great respect, I place on record my profound gratitude to my guide, ***Dr. A. Sukumaran****, Assistant Professor, Department of Cooperative Management and Accounting , Chairman of the Advisory Committee for his expert guidance and supervision of my work.*

I wish to record my gratitudes to members of the Advisory Committee, Dr. N. Rajan Nair, Professor and Head of the Department of Co-operative Management and Accounting, Dr. K.P. Mani, Assistant Professor, Department of Co-operative Management and Accounting and Smt. K.S. Sujatha, Assistant Professor, Department of Statistics for their valuable comments in the preparation of the thesis.

I owe my gratitude to my former guide Sri. M. Mohanan, Assistant Professor, Department of Co-operative Management and Accounting who have helped me in the preliminary stages of the study.

I extend my thanks to Sri. N. Ravindranathan, Associate Professor, Department of Statistics and Officer in charge of academic matters, for his hospitable approach and encouragement rendered throughout my course of study.

I am grateful to Associate Dean, Sri. M. Mohandas and other faculty members of the College of Co-operation and Banking for their all kinds of assistance during my academic career in this College.

I also express my sincere thanks to the staff of the Urban Co-operative Banks in Thrissur District, particularly to the key personnel of Kodungallur Town Co-operative Bank, Guruvayur Co-operative Urban Bank and Irinjalakuda People's Co-operative Bank for furnishing the required information for the study.

I take this opportunity to express my deep sense of love and gratitude to my friends, Sri. George Thomas, Sri. Ranjithkumar, Sri. James, T.P., Sri. Subhash, P.S. and Kum. Tharunya, M.A. for their timely help and moral support given throughout my academic career.

I owe my profound gratitude to my well-wisher, Rev. Fr. Hilarios, V.C., Vicar, St. Mary's Church Ambakad for his affectionate treatment, valuable advice and constant encouragement during my academic periods.

The inspiring and tolerant attitude of my parents Sri. & Smt. Varkey Chittilappilly have been very valuable throughout the study. I dedicate this humble work to them without whose grace and blessings this would not have been possible.

I extend thanks to the Kerala Agricultural University for the award of Junior Fellowship.

I acknowledge my heartfelt thanks to M/s Peagles, Mannuthy for executing the typing of the thesis to my satisfaction.

BABU, C.V.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF DIAGRAMS AND GRAPHS

LIST OF APPENDICES

CHAPTER I

INTRODUCTION

The success of business enterprises to a very large extent depends on how effectively they utilise the scarce resources mobilised for the accomplishment of the goals and objectives of the organisation. Banks like other financial institutions, entirely depends on the availability of financial resources for their successful functioning. The Banking Regulation Act of 1949 defines banking as "accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise". This definition of banking makes it clear that banks are the financial institutions which mobilise deposits from the public and deploy the funds mobilised in an efficient manner.

Urban Co-operative Banks are the growing co-operative credit institutions of the urban sector and they enjoy a unique position in filling the gaps in the banking and credit needs of the urban masses, especially in states like Maharashtra and Gujarat. Like any other banking institution, an urban bank, to be sound and financially strong, should build up its resources. In developing a strong resource base for its survival and growth, banks are expected to conduct

their affairs in such a manner as to conform to efficient business norms, both in collecting funds from different sources and the manner in which such funds are utilised (Mushi, 1990). They must also develop their funds in a balanced manner, giving importance to accepted priorities in accordance with the national, economic and social policies. As banking institutions, the principles such as liquidity, safety and profitability in the funds deployment must also be safeguarded. Therefore, resource management process of urban banks should aim at ensuring liquidity and adequate profitability in the raising and deploying of funds, while at the same time responding to the policies laid down in accordance with national objective.

The greatest task of the bank management is to reconcile the conflicting objectives of liquidity and profitability. Normally, banks are following the pool-of-funds approach in the allocation of the funds. Under this method of funds allocation, all the available funds are pooled together and allocated to various income generating assets without ascertaining the liquidity needs of sources of funds. Sometimes this leads to liquidity problems in the banks. On the contrary to this, if all funds are retained as cash or other liquid assets to solve the problem of liquidity there would be no revenue or profit. Therefore, the problem of

maintaining liquidity and maximising profitability necessitates a sound resource management strategy for the banks.

Although, the banks in India have contributed much to the nation-building activities in accordance with national plans and priorities, they were not proved to be efficient in the management of their resources. Jain (1984) observed that the problem of fund management in banks is becoming more acute, critical and complex due to day to day fluctuations and frequent movement of funds. The freedom available to banks in relation to the mobilisation and deployment of funds are curtailed by the various rules and regulations. In maximising the return on their resources, the banks have to operate within the broad limit set by the monetary and credit policy and the banking policy. The stipulated reserves and the impounded proportion of incremental liabilities account for a lion's share of lendable resources and thus margin available with the banks to improve their profitability is very small (Birla Institute of Scientific Research, 1981). Because of the existence of straight-jacket stipulation for the funds utilisation, resource management has become a headache to the bank management.

Urban Co-operative Banks, like other banking institutions are also confronted with the problems of resource management.

Comparing the urban banks with commercial banks which are also functioning more or less similar to the urban banks, the resource management problem in urban banks has become more complicated as they are confining to the legal provisions of cooperative institution on one hand and those of banking on the other.

There are 71 urban banks (1989-90) in the state of Kerala, out of which 53 came under purview of the Banking Regulation Act as extended to the Co-operative Banks. Data reveal that urban banks in Kerala have made remarkable progress in their accepting and lending business. For instance, in the year 1989-90, banks had a total deposit of Rs.186 crore and total loans advanced came to Rs.161 crore. The growth rate in deposits and advances compared to 1975-76 worked out to be 13 and 11 per cent respectively. But contrary to this growth, some symptoms of deficiencies are also found in their functioning. About 26 per cent of the urban banks are running at a loss. Among many reasons, the deficiencies associated with the management of sources and uses of funds and its resultant impacts on the profitability of the banks may also be responsible for this adverse situation. So far urban co-operative banks in Kerala have not been a matter of close study and appraisal. Therefore, an earnest attempt is made here to study in detail the resource

management practices of urban co-operative banks with the following objectives.

1.1 Objectives of the study

1. To examine the resource management practices of Urban Co-operative Banks with special reference to the management of sources and uses of funds

2. To identify the problems and to suggest remedial measures thereof.

1.2 Scope of study

The geographical scope of the study is limited to Thrissur district in the Kerala State. The analytical scope of the study is restricted to the following aspects of resource management.

1. Nature and composition of source portfolio of funds.
2. Nature and composition of use portfolio of funds.
3. Variations in the sources and uses of funds.
4. Short term and long term composition of sources and uses of funds.
5. Operational efficiency of resource management.
6. Risk-return trade-off in the funds portfolio.

1.3 Structure of the report

The report is divided into six chapters. The first chapter gives the introduction of the study. The review of literature is presented in the second chapter. A brief description of resource management in Urban Co-operative Banks is dealt with in the third chapter. The fourth chapter deals with the materials and methods of the study. The results and discussions of the study are presented in the fifth chapter. Final chapter, summarizes the study, followed by selected bibliography, appendices and abstract of the report.

CHAPTER II

REVIEW OF LITERATURE

In this chapter, an attempt is made to review the available literature pertaining to bank resource management. A general scanning of literature indicates that very few detailed studies have been conducted in the field of co-operative banking. However, efforts have been made to present those literature available in the fields of resource management studies of banking industry in general and urban co-operative banks in particular.

Swaminathan (1972) commented that portfolio management is an art or science of balancing the various types of assets in bank's portfolio in such a way as to maximise income without incurring the danger of insolvency. Further he opined that the commercial banks in India have much scope for portfolio management even with 67 per cent of their lonable funds after providing for the legal requirements.

Baughn and Walker (1977) observed that the management of a bank's investment portfolio is an important function in the successful operation of a commercial bank and an integral part of the overall problem of asset management. Once the portfolio manager has satisfied loan demands and met the

liquidity problem, he is charged, with the responsibility of investing the 'residual' funds to maximise long run earnings within the framework of a sound bank investment practices. The over riding problem facing management in the use of its funds is to reconcile the conflicting objectives of liquidity and long-term profitability. In other words, within the broad functional framework, management must adjust its use of funds to meet demands when they occur and yet generate a satisfactory return on capital funds.

Hukku (1977) in an analysis of the sources of funds of the scheduled commercial banks revealed that deposits constitute the main source of funds and they provide the base for creation of 'derivative deposits' and multiple expansion. Banks have shown an apathy towards increasing their paid-up capital. The study further revealed that their capacity to augment their resources by increasing their reserve funds has been largely affected by the inadequacy of the profits.

Pancras (1978) defines fund management as the procedure and actions by which the finance of co-operative banks are handled daily. His study revealed that co-operative banks are forced to keep more cash/liquid assets due to their location being far away from the apex banks.

Shah (1979) concludes that profitability cannot

and will not improve merely by increasing the margin between lending and borrowing rates, or by minimum service charges for all banks. On the contrary, any increase in income will be observed by latent efficiencies in cost structure. Further, the spread between interest earned and interest paid is declining, not because interest margin has been squeezed but because staffing and working patterns are inefficient, funds and investment management is poor, credit is not supervised and procedures and forms are complex and wasteful.

Clifford (1980) concludes that asset-liability management involves much more than the establishment of a series of ratios to be applied to a balance sheet. It is a complex process that must encompass a thorough understanding of the particular bank's asset and liability mix, customer behaviour and how these relate to the external economic and competitive pressures that the structure will encounter. He concluded that there is no universally applicable asset-liability management system for all commercial banks.

Knight (1980) determines that, in the future, bank profitability is likely to depend increasingly on the differential between loan rates and the cost of funds. Since profitability analysis tends to focus on this spread, it represents an important innovation for commercial banks. He further stated that by combining numerous aspects of a

customer relationship into a single analysis, it allows for a more accurate measure of customer profitability and overcomes some of the limitations of an account analysis.

Birla Institute of Scientific Research, Economic Research Division (1981) suggested that the sources and uses of funds need to be such as to keep the bank liquid and profitable. The deployment of funds is highly controlled and the resources lendable in the free market are heavily curtailed. The stipulated reserves and the impounded proportion of incremental liabilities account for 44 per cent of the loanable resources on which the banks earn less than six per cent against seven per cent which is considered to be the average cost of bank's funds. The study concluded that since the margin available with the banks to improve their profitability is very small, banks have to handle the available funds most efficiently and in the best possible manner.

Winfred (1982) pointed out that an important indicator of the success and efficiency of the co-operative banks is the extent to which they are able to tap the savings in the form of deposits. To induce the prospective depositors, deposit promotion compaign should be organised. As the importance of share capital is great for building up the resources of the

banks, systematic efforts must be taken to strengthen the owned funds.

Singh (1983) says that profitability of any banking institution is affected mainly by three factors: size of the earning assets, earning power of these assets and financing cost of earning assets. Therefore, banks must identify different types of assets on the basis of their earning capacities and prefer those sources for raising funds which are comparatively cheaper. It was observed that borrowings and refinancing arrangements can help creation of assets with greater profitability and should be used as supporting sources of funds.

Jain (1984) opined that the three most common usage of the term 'funds' are cash, working capital and total financial resources. He further stated that the problem of funds management in a bank is more acute, critical and complex due to day to day fluctuations and frequent movement of funds. This calls for rational planning and careful canalising of funds. He suggested that funds planning will not be meaningful unless it is supported by extensive and intensive studies of funds management policies.

Joshi (1984) suggests that so long as banks have to operate within the existing straight-jacket of employing their

resources, there is hardly any scope for improving their profitability. He expressed the view that the existing credit and statutory liquidity requirements affect the profitability adversely which in turn results in the weakened resource position of the bank. Hence he suggested that banks have to break such a vicious circle of operation which makes their operation vulnerable.

Satya Sundaram (1984) expressed the view that the profitability of banks depends not only on interest spread but on conscious and innovative search for profitable avenues of business, measures to improve labour productivity and cost control measures. He found that though the banks succeeded to some extent to control physical operations (branch expansion), they by and large failed in respect of sound fund's management control. Therefore, banks have to pay special attention to performance budgeting, focusing the areas of credit, deposit, profit, manpower, branch expansion etc. in order to take corrective steps in cases of unusual divergence between expectation and performance.

Deobhankar (1986) identified the following factors which affected the overall position of loan issued by the District Co-operative Banks.

a. Competition of other lending institutions

b. Poor resource mobilisation

c. Rate of interest charged

d. Political pollution in top management

e. Absence of professionalisation of management

f. Weak performance of bank employees

g. Mounting overdues

h. Loose contacts with the borrowing co-operatives

i. Lack of perspective planning

The study pointed out that the co-existence of three agencies (Commercial Banks, Regional Rural Banks and Co-operatives) in a district has resulted in overlapping and keen competition amongst them for augmenting their business. It was suggested that co-ordination among the district level institutions can be made effective by territorial demarcation of functioning regards to lending operations of District Co-oper-ative Banks, Commercial Banks and Regional Rural Banks.

Deshpande (1986) identified that the accumulated interest loss on cash reserves and penalties paid to Reserve Bank of India for defaults in maintenance of obligatory Cash Reserve Ratio and Statutory Liquidity Ratio though not shown separately in the published balance sheets, may work out to enormous amounts, severly affecting the profitability of the banks. It was also pointed out that as far as possible keeping excess cash with RBI and refinance facility from other external sources should be avoided.

Joshi (1986) reveals that profitability of the banks has been declined due to both declining rate of growth of revenue and increasing costs. The statutory pre-empted funds earn a lower rate of return than advances and therefore the income from these pre-empted funds affects the overall interest income of banks. The maximum availment of refinance and a deliberate policy of improving the credit-deposit ratio are the essential ingredients of profit planning at the bank level. The study concluded that a constant vigil on funds management is crucial for profit planning in the banks.

Kulandaiswamy and Nagarajan (1986) argued that in order to improve the viability, the co-operative banks should continue to improve their profitability, without altering the margin between lending and borrowing rates. For this, banks have to increase the manpower efficiency of employees and bring down the cost of establishment. The banks must adopt a positive approach in cost reduction ie., by enhancing the level of business in the form of larger deposits and greater and diversified lending programmes, with the given level of establishment cost.

Srinivas (1986) in his study on 'Organisation and Management of Central Co-operative Banks in Andhra Pradesh' attempted to apply the concept of source elasticity funds use. It refers to a positive change in uses of funds on account of

the changes in sources of funds. He opined that if the change in sources of funds and changes in uses of funds do not move hand in hand, then the elasticity of funds use will be less than unity and tells upon the inefficient management of funds.

Angadi (1987) stated that the financial (portfolio management) and production functions (real resource cost) of a banking firm are interdependent and inter-related and not mutually exclusive. The financial function of a banking firm examine the problems of finding out optimal asset portfolio of reserves and other income earning assets on the asset side of the balance sheet. Whereas, the production function focus on real resources cost incurred by the banking firm in generating a continuous flow of customer services for the purpose of maintaining certain stock of assets/liabilities. The decomposition analysis of earnings and expenses has identified three sets of factors affecting profitability of banks, viz.

a. Exogenous (such as rise in Cash Reserve Ratio, Statutory Liquidity Ratio, priority sector lending, branch expansion), market condition (competing from other financial/non-financial institutions), etc.

b. Endogenous (declining cost effectiveness, weaknesses in asset and liability management, high proportion of non-performing accounts, bad debts, high cost of deposit

mobilisation, improper house-keeping, lack of manpower planning and development, innovative banking, etc.), and

c. Structural (rapid growth of time deposits, sharp rise in small accounts, growing concentration in the administrative set up of the banks with the growth in banking business, etc.).

Borali (1987) viewed that the co-operative banks, like other economic units entirely depend on the availability of resources for its successful functioning. He identified two chief functions of a co-operative bank such as mobilisation of resources and deployment of resources, which obviously calls for a comprehensive strategy, to be followed by it. It is further stated that judicious and profitable utilisation of the resources mobilised in the form of share capital, deposits and borrowings is the most important aspect of bank resource management. It is all the more important in case of co-operative banks in as much as the responsibility of judicious use of resources is encumbered with social obligation.

Narayanaswamy and Ramachandran (1987) attempted to findout the relationship between profitability and spread and burden ratio by applying correlation and regression techniques and discovered that the profitability of the bank has decreased due to higher rate of decline in the spread ratio

compared to the burden ratio. Further, it was observed that there is a vast scope to increase the profit and profitability, if proper attention is paid on areas like recovery, deposit mobilisation, branch expansion, reduction in manpower and operating expenses, building up of more owned funds, and scientific management of funds.

Pandey (1987) stressed that proper management of cash with banks acquired added significance in the recent period which was witnessed quick expansion of bank facilities. He viewed that while idle cash involved cost to banks for resource mobilised, simultaneously banks haveto incur loss on account of non-availability of funds - kept as idle asset, for profitable deployment.

Purushotham (1987) viewed that the funds management should aim at mobilisation of funds at the lowest cost possible. The cost of funds consists of two elements namely; interest cost and servicing cost. As the servicing cost is mostly dominated by the manpower cost, it requires control by setting cost-standards. The interest cost of funds may be controlled by having a judicious "mix of funds". The banks have to endeavour to increase their (1) own funds (2) floating funds and (3) the deposits. In the case of co-operative banks, the increase in own funds depends on the expansion of advances and the profitability. The co-operative banks should

try to mobilise more of "floating funds" by issuing demand drafts, mail transfers etc. Since there is no interest cost in the case of owned funds and floating funds, their increase in share of the total funds will definitely reduce the average cost of total funds.

Shah (1987) discovered that though size variable (volume of business) is significant, other variables in structural characteristics, particularly variables in deposit-mix, and loan mix, are also important in explaining variation in operating cost and earnings. The study revealed that in rural branches, variables in deposit portfolio, namely time deposits is more important in explaining variation in operating cost, whereas in urban branches, variables in loan portfolio, particularly interest and discount income and head office interest are more important in explaining variation in operating cost.

Venkiteswaran (1987) found that pattern of credit utilisation, saving habits of people, borrower satisfaction arising from simplified loaning procedure, participative and democratic leadership and active participation of members in the functioning of the co-operatives are some of the important factors responsible for the success of the Primary Agricultural Credit Societies in Kerala.

John (1988) opined that the cost of the legal liquidity requirements is the loss that may result from the maintenance of liquid assets in the prescribed forms where these give no return or less than the interest paid on deposits. The Central Banks are placed in a disadvantageous position as the current and saving deposits put together formed below forty per cent of the funds and this naturally increased the overall cost of deposits. The researcher observed that the establishment expenses within 21.5 per cent of the gross income is found to be reasonable and sufficient for a central bank to function satisfactorily.

Subba Rao (1988) observed that management of investment depends to a greater extent on the management of liquidity as banks plan for investible funds on the basis of requirements of liquidity maintenance. It was suggested that the following factors to be considered in the management of liquidity in banks.

a. Philosophy of the bank management
b. Availability of the liquid assets like securities
c. Banking habits of the public
d. Number and magnitude of the monetary transactions in the country
e. Nature of business considerations in the country
f. Economic considerations like inflation and deflation

Balashanmugam (1989) commented that strategic planning and its day to day execution are necessary for financial institutions to achieve and maintain optimum level of liquidity, risk and profitability. The technique of managing bank funds evolved due to a number of factors such as,

a. Increasing competition for funds

b. Competition for credit worthy customers and viable projects, and

c. Volatile interest rates

Mishkin (1989) investigated that in managing the assets and liabilities of the banks, management should consider four primary aspects. Firstly, the bank must engage in liquidity management to make sure that the bank has enough ready cash to pay its depositors. Second is to minimise risk by acquiring assets that have a low rate of default risk and by diversifying assets holdings (asset management). Third is to acquire funds at low cost (liability management). Fourth is to minimise the interest-rate risk, the riskiness of earnings and returns that results from interest rate changes.

Rama and Venkataram (1989) used solvency, liquidity, profitability and turnover ratios to analyse the financial performance of the Farmers Service Society (FSS) and found that society had utilised its financial resources efficiently and maintained a sound and stable financial structure. It was

observed that the FSS had strictly adhered to the service motto of an ideal cooperative without impairing altogether the sound business principles which are essential for any institution.

Abdul Noor Basha (1990) studied the impact of certain important factors over deposits, advances and net profits of the bank with an object to identify the strong and weak factors of growth. It was found that the selected cogent variables explain more than 98 per cent variability in respect of deposits and advances. While time and share capital by societies were found to be significantly playing a positive role in promoting deposits of the bank, number of individual share holders was also found to have been significantly contributing to the advances of the bank.

Ananthakrishnan (1990) opined that improvement in credit deposit ratio can be brought about by:

(i) augmenting the lendable resources of the bank, and

(ii) making concerted efforts to step up the credit portfolio.

The principle reason for the sharp decline in the credit deposit ratio can be attributed to the progressive rise in the CRR and SLR. This was also due to the higher pace of

deposit growth and the inability to absorb additional credit by certain industrially backward states.

Goiporia (1990) felt that prudent funds management is the key to success which revolves around our ability to adopt measures towards flexibility of deposits, lending and call money rates as also instruments like 182 days' Treasury Bills, CDs etc. This has led to fluid situations on the day-to-day basis funds management. He felt that in any funds management, strict adherence to CRR is a must. To tide over the temporary liquidity crunch, it is necessary to have 182 days' Treasury Bills, recourse to call money market and refinance should be based on the relative costs of these borrowing modes.

Jain (1990) classified the factors affecting the utilisation of resources into two broad categories, viz., (1) external, which relates to policy-induced and environment induced and (2) internal factors dictated by the structure of deposits, advance and other sources of refinance and rediscount facilities. Since there are several items both on the sources and uses side, it would be difficult to specify a particular level of these items which will ensure the optimal use of resources. Thus, it is desirable and necessary to reduce these into a single composite index and this index would be the credit deposit ratio. He suggested that an aggregate model of a bank which focuses on the optimal C.D

ratio as an important indicator would help to a great extent in dealing with the optimum levels of various operations.

Kanthala (1990) expressed the view that optimum utilisation of resources should be the financial policy of a commercial bank. In the Indian situation, under credit and monetary policy, credit deposit ratio is given up and it is very difficult to maximise profits or profitability through the optimisation of credit deposit ratio. Qualitative aspects of advances and the management of other assets determine the profitability of a bank. He concluded that banking industry at present cannot function effectively under resources/ business constraints if the twin objectives of social banking along with viability of banking institutions are to be achieved.

Mohandas (1990) made an attempt to study Deposit Mobilisation Campaigns (DMC) by Co-operative banks and found that the DMCs have helped the banks to increase appreciably the quantum of working capital as well as the proportion of deposits in the working capital. The study observed that the main weakness of the programme could be the obsession of the staff with the targets and achievements in deposit mobilisation and neglect of corresponding expansion in lending activities and emphasised that special efforts need to be made

in this direction to maximise the lending operations in order to optimise the interest income.

Pareek (1990) in an analytical study of the financial appraisal of Central Cooperative Banks in the State of Rajasthan found that the short term liquidity of the Central Cooperative Banks of the state in general was satisfactory as the quantum of cash assets/liquid assets maintained by them was much above their requirements, but this has been done at the cost of profitability and the Central Cooperative Banks have failed to make the optimum use of the assets at their disposal.

Parulkar (1990) in an attempt to analyse the cost-benefit implications of inter-bank deposits concluded that the existing deregulation of interest rates on the inter-bank term deposits has tended to benefit the relatively less efficient segment of the banking system (Co-operative sector) in as much as they can afford to squeeze a higher return on the zone from the accepting banks (Commercial banks). It is hoped that the various concessions allowed by the Monetary Authorities, will be fruitfully utilised by the Co-operative sector for improving their financial soundness.

Rangarajan (1990) underlined that banks have to evolve a proper corporate strategy to move to a situation of improved

profits through better management of their loans, investment and short-term funds as well as their borrowings from the money market. The strategy of SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is as much relevant to banks as to any other business organisation.

Gupta (1991) opined that the scrutiny of the funds flow statement enables a banker to have a clear idea about inflow of funds and utilisation thereof in the working of the business. While scrutinising such fund flow statement, the banker has to thoroughly analyse that the projections as regards production, capacity utilisation, sales etc. are pragmatic and the unit would be in a position to generate funds as reflected in the funds flow statement.

Turan (1991) made an attempt to analyse the various variables of financial structure of banks constituting the three-tier cooperative credit system in the state of Haryana. The credit to deposit ratio, outsiders claims to owned funds ratio, return on working capital ratio and deposits to total business ratio were used to draw inferences and establish the relationship between different sources of finance. The study opined that the cooperative banks in a bid to form a sound financial base will have to increase the membership of borrowers and non-borrowers both, mobilise deposits, enlarge

the volume of business, and revitalise their credit portfolios.

Kishore (1992) argued that commercial banks find it increasingly difficult to mobilise deposits against the continuous onslaught from saving instruments of non-banking institutions. The non-banking agencies are making significant dent in mobilising deposits from the household sector as they offer better yields and tax benefits. The study pointed out that a mass marketing effort to mobilise household savings is to be introduced which in turn necessitates improvement in the bank services and customer relations.

The above mentioned review of literature is pertaining to resource management of banking industry in general. An attempt is also made to review the available literature in the fields of resource management in Urban Co-operative Banks.

Naidu (1988) tested Cobb-Douglas production function by taking the variables, viz., loans, deposits, reserve fund, membership and working capital to study the factors determining the overdues pattern and net profits in Co-operative Urban Banks and identified that the overdues of the bank have alarmingly increased because of the little attention of the bank personnel on one hand and their concentration in building up of the reserve fund on the other hand. Therefore,

the study opined that the bank should pay more attention towards the recovery of loans besides keeping pace with the building up of the reserve fund and mobilisation of the deposits.

Samentaray (1988) in his perception towards development of Urban Co-operative Banks in India expressed that Urban Co-operative Banks are the self-reliant sector within the Co-operative Movement. With regard to funds management, he opined that over 60 per cent of the loan portfolio of the urban banks has been made to priority sectors.

Hundekar (1989) observed that there is a scope for introducing zero base budgeting in Urban Co-operative Banks in view of the gradual erosion in profits, dividling interest spread, and increasing cost of operations. Zero Base Budgeting is useful to urban banks in the are of (a) cost minimisation, (b) improving the income and thereby improving the level of profit. It is pointed out that the areas that are suitable for application of Zero Base Budgeting may differ from bank to bank.

Patil and Malati (1989) opines that the Urban Co-operative Banks must function with a sense of "deep commitment" in discharging their social obligations, and they must be given "overriding priority" to the cause of weaker

sections, while developing their resources. They viewed that the increased resources would enable the banks to lend more funds to the middle and low income group people, which constitute their main clientele.

Gojare (1990) while attempting to find out steps to increase productivity and profitability in Urban Cooperative Banks emphasised the need for introducing long term profit planning as a means for improving allocation and operation efficiency. Efficiency can be improved by: increasing productivity, motivating employees, taking the management decisions of pegging the staff cost and improving customer services.

Munshi (1990) studied the utilisation of business potential by urban banks in terms of twin basic functions of raising the deposits and advancing the loans. The study showed that urban banks have not fully developed their business. Further noted that deposits are the principal source of their funds and the relative share of fixed deposit in total deposit was higher. This created larger interest burden and necessitated fruitful deployment of the funds by the urban banks. In case of use of funds a large part is diverted to short and medium term advances. This reduces the interest differential. Therefore, there should be fair

balance between the availability and period of resources and the quantum and direction of loans.

Babu (1991) while attempting to identify the operational problems of Urban Banks in Kerala found that banks were not able to utilise the financial resources at their command effectively or productively. This was indicative of the extent of loanable fund kept idle by these banks. The study concluded that banks have to find ways and means for optimum deployment of loanable resources by evolving suitable schemes to fetch the competitive returns.

CHAPTER III

RESOURCE MANAGEMENT IN URBAN CO-OPERATIVE BANKS - AN OVERVIEW

The management of resources to a greater extent determines the success or failure of the business operations. Financial resources, manpower resources, material resources, production resources and market resources are the broad categories of resources available to the firms for undertaking their business operations. Although, all kinds of resources are essential for the functioning of the firms, the nature and functions of business enterprises make it compulsory to attach certain degrees of importance to one or two categories of resources which are critical to their success or failure. This statement is particularly true in case of banking institutions where financial resources constitute the major inventory in their business. Therefore, resource management in banks implies the financial resources management.

The concept of resource management in banks is used to describe the ways and means by which the banks mobilise the financial resources and deploy them judiciously with the dual objectives of maintaining an optimal level of liquidity and maximising profitability. Accordingly, resource management in banks consists of three aspects, viz., portfolio of sources

and uses of funds, liquidity maintenance, and profit maximisation. Since the sources of funds represent the liabilities of a bank, the management of sources of funds is otherwise known as liabilities management. The term asset management is used to refer the uses of funds among different investment alternatives. The uses of funds show the means and methods by which resources entrusted to the bank are allocated among the various assets.

The allocation of bank funds to various asset categories is constrained by the need to maintain a high degree of liquidity, and by the need to earn sufficient income. Vanhorne (1978) defined liquidity as the ability to realise value in money. Applying this definition in banking, liquidity is the capacity of the bank to repay its depositors in cash on demand. In order to maintain a sufficient degree of liquidity, the banks may invest their funds in cash or other readily realisable assets. Profitability is the capacity of the firms to generate profit out of their business operations. According to Howard and Upton (1953), profitability is the ability of a given investment to earn a return from its use. Every firm has to make profit for its survival and continuance, irrespective of their nature and objectives. Banks are the business institutions, the main object of which is to secure maximum profit. Therefore, banks

must deploy their funds in different types of earning assets and arrange its assets in such a manner that is able to derive maximum return.

Thus generating return on capital and meeting the demands for money when they occur are the dual tasks of resource management in banks. In other words, the sources and uses of funds need to be arranged in such a way as to keep the bank liquid and profitable (Nayan, 1985). If all funds were retained in cash, there would be no problem of liquidity, but there would be no revenues or profits. On the contrary, if all funds were employed in loans and other high yielding securities, profit would be increased, but the capacity of the bank to meet the liquidity demands would be affected adversely. This is the critical problem facing management in the use of its funds ie. to reconcile the conflicting objectives of liquidity and profitability (Baughn, 1977). This problem can be tackled by distributing resources between various forms of assets in such a way as to get a sound balance between liquidity and profitability. Therefore, a sound resource management strategy is required in the management of sources and uses of funds to see that there is enough cash to meet the liquidity demands and at the same time enough return for the bank.

Many attempts have been made in the recent past to develop approaches/techniques of resource management in banks to resolve the liquidity-profitability dilemma. The commonly used approaches identified in this regard are the pool-of-funds approach, the asset allocation approach and the management science approach. But none of these approaches can be considered as a panacea for bank management because of the problems and deficiencies associated with each. These approaches to resource management as discussed by Reed Edward and others (1984) are briefly explained below.

1. The pool-of-funds approach: The basic idea behind this technique of funds management is that all the available funds from all sources are pooled together and allocated in fixed proportion to the various assets. The source from which funds were derived to make a particular investment is immaterial to the pool-of-funds model so long as the investment will contribute to meeting objectives of the bank. This approach necessitates the bank management to identify its liquidity and profitability requirements and allocate funds to asset categories that best satisfy such requirements. Management prepares a list of priorities regarding where and to what extent funds ought to be committed to the different assets. Although this approach is helpful in

solving the dilemma between liquidity and profitability it has been criticised on the ground that pool-of-funds approach places too much emphasis on asset liquidity and fails to determine the liquidity needs of different kinds of deposits and capital funds.

2. The asset allocation approach: The asset allocation model recognizes that the amount of liquidity needed by a bank is related to the sources from which its funds are obtained. The model attempts to distinguish different sources of funds according to legal reserve requirements and the turnover of the sources. The model establishes several liquidity-profitability centers within a bank for allocating funds obtained from different sources. Once the liquidity-profitability centers have been identified and established, management must formulate a policy regarding the allocation of funds generated within each center. The principal advantage claimed for this asset allocation approach is that it reduces liquid assets and allocates additional funds to the loans and investments. Advocates of this approach states that improvement in profitability is obtained by eliminating excess liquid carried against time and saving deposits and capital funds.

3. The management science approach: The management science or operations research approach to asset management uses sophisticated models and advanced mathematical techniques to analyse the complex interrelationships among various components of the balance sheet and income statement. The models are used to prescribe how a bank's management should allocate whatever funds are available for investment to provide adequate profitability while operating within the liquidity constraints imposed by management, or by regulatory authorities. The scientific method for the solution of problems involved in bank asset management requires a statement of objective, identification of the relationships among various elements of the problem, identification of variable elements that are, and are not, under the control of management, an estimate of the way non-controlled variables may behave, and identification of constraints imposed, on the behaviour of management. One of the technique used by management scientists is the linear programming which combines the asset and liability management problems and can incorporate both profitability and liquidity constraints.

Resource management in Urban Co-operative Bank Scenario

Urban Cooperative Banks can be considered as banks

organised in urban and semi urban areas for the promotion of economic interest of members based on co-operative priciple and registered under Co-operative Societies Act (Singh, 1985). According to Munshi (1990) they are a special type of banking institutions as they are confining to the principles of co-operation on one hand and those of banking on the other. Promotion of the thrift, provision of credit facilities and extention of banking services to customers are the basic objectives of an urban bank.

There was no distinct definition of Urban Co-operative Banks in India till the year 1938. The 'Study Group on Credit Co-operative in the Non-agricultural Sector' (1963) was suggested that an urban bank is (1) a credit co-operative registered under the State Co-operative Societies Act in urban and semi-urban areas (2) has a minimum paid up share capital of Rs.20,000/- and (3) provides banking facilities. The Banking Regulation Act (as applicable to Co-operative Societies) was made applicable to urban banks from 1st March 1966. It defines an urban bank as primary co-operative bank having paid up share capital and reserve of Rs.1 lakh and above. Madhav Das Committee appointed by Reserve Bank of India, submitted its report in 1978. The committee opines that "an urban bank is called as a primary co-operative bank and is defined as a co-operative society other than primary

agricultural credit society, (i) the primary object of which is the transaction of banking business (ii) the paid up share capital and reserves of which are not less than Re.1 lakh and (iii) the byelaws of which do not permit admission of any other co-operative society as a member.

At present, there are two types of urban banks:

1. A Co-operative Society registered with a share capital as per the criteria in force presently and which begins banking business after getting licence under section 22 (1) of the Banking Regulation Act, 1949, from the Reserve Bank of India.

2. A Co-operative Society registered with a share capital as per the criteria in practice and carrying on banking business as a primary credit society which obtains licence under section 22 (1) of Banking Regulation Act, 1949 from Reserve Bank of India after its share capital reaching the level prescribed for registration of urban banks.

Thus at present there is uniformity in the definition of urban co-operative banks. Madhav Das Committee remarks that instead of primary co-operative bank 'Urban Bank' is a term which is more popular in common parliance.

Like any other banking institution the dual tasks

involved in the resource management of urban banks are the mobilisation and deployment of resources. The sources of finance of the urban banks consist of their owned funds and borrowed funds. Owned funds consist of paid up share capital and accumulated reserves created out of appropriations from profits. Borrowed funds consist mainly of the different types of deposits received from members and non-members as well as borrowing from the central co-operative banks. The resources of the banks are mostly invested in the forms of loans and other investments. A certain percentage of resources are kept in the form of liquid cash or assets, besides a smaller proportion of investments in fixed assets. In order to attain the desired growth and to retain flexibility in the resource management operation, banks should plan their resource mix carefully. In doing so, care should be taken to meet their social obligations, while at the sametime preserving the sound principles of funds deployment such as liquidity, safety and profitability.

It is worth noting that in order to ensure liquidity, maintenance of minimum balance of cash and other liquid assets has been prescribed by the Reserve Bank of India for the Co-operative Banks. As per the sections 18 and 24 of the Banking Regulation Act (As applicable to Co-operative Societies), 1965, urban banks have to keep three per cent of its total

Demand and Time Liabilities as liquid cash and 25 per cent of total Demand and Time Liabilities in the form of liquid assets. Thus, at least 28 per cent of the funds of urban banks has to be kept as liquid cash and assets. The remaining 72 per cent of the bank's deposit resources is available to it for lending or investment according to priorities. However, the lendable resources available to the urban banks when compared to commercial banks are sufficiently attractive to improve their financial strength and profitability. To conclude, the urban banks have to arrange their portfolio of funds efficiently taking into consideration those exogeneous and endogenous factors obstructing the prudent management of resources.

CHAPTER IV

MATERIALS AND METHODS

This chapter presents the materials and methods adopted for analysis under the following sections:

1. Location of the study
2. Selection of sample banks
3. Parameters selected
4. Analytical tools and techniques
5. Limitations of the study
6. Working definition of concepts

4.1 Location of the study

Thrissur district was identified as the study area because of the easy proximity of the researcher.

4.2 Selection of sample Banks

As per the information collected from the office of Joint Registrar of Co-operative Societies, Thrissur, there are Seven Urban Co-operative Banks in the district. Of this Thrissur Town Co-operative Credit Society is excluded from the purview of this study as it remained closed down during the majority of the years under study. Of the remaining six, three banks were selected on the basis of following criteria.

a. Volume of business

b. Geographical location

The yearwise information on the volume of business (total of the outstanding balances of deposits, borrowings and loans) was collected from the audited reports of the respective banks for the study period. Then the banks were arranged in a descending order of average volume of business. Based on the volume of business, three banks were selected in such a manner that not more than one bank will be selected from one taluk. Thus, the Kodungallur Town Co-operative Bank (KTCB) in Kodungallur taluk and the Irinjalakuda People's Co-operative Bank (IPCB) in Mukundapuram taluk were selected as the banks with highest and lowest average volume of business respectively. Among the middle most banks, the Guruvayur Co-operative Urban Bank (GCUB) in Chavakad taluk was also selected as the bank with medium volume of business and thus three banks representing different geographical location (taluks) were finally selected for the detailed study.

4.3 Parameters selected

Table 4.1 Principal parameters selected for the study

Sources of funds	Uses of funds
A. Owned funds	1. Loans and advances
1. Share capital	2. Investments
2. Reserves	3. Cash on hand
3. Profit	4. Fixed assets
B. Borrowed funds	
1. Deposits	
2. Borrowings	

4.4 Analytical tools and techniques

The information in the audited financial statements of the banks selected for the study for a period of ten years from 1980-81 to 1989-90 was used for analysing the source portfolio and use portfolio of funds. The compound growth rates of the sources and uses of funds were ascertained from the time series data for comparing their growth pattern over the period of time. The percentage share of the different components of total fund sources and total fund uses were worked out to analyse their relative share in the fund portfolio. The implications of deposit mix and loan mix of

the banks were studied by analysing the nature and composition of different types of deposits mobilised and loans advanced.

Variations in the sources and uses of funds, and business operations (accepting and lending business) were worked out by applying the statistical measure, coefficient of variation. This is obtained by the formula,

$$\text{Coefficient of variation} = \frac{\sigma}{\bar{X}} \times 100$$

where,

σ = Standard deviation ie. $\sqrt{\frac{\Sigma(X-\bar{X})^2}{N}}$

$\bar{x}$ = Arithmatic mean

The composition of short-term and long-term sources and uses of funds was analysed to know the extent to which the banks were mobilised and deployed their funds from the point of view of periodicity. Operational efficiency of resource management of the banks was also studied by applying the ratios related to profitability, liquidity and business efficiency.

For analysing the profitability performance, ratios developed in the analytical frame work designed by Varsha S. Varde and Sampat P. Singh (1983) were employed with appropriate modifications. In this analytical frame work, profitability ratio was measured by the formula.

$$P = S - B$$

where,

S = Spread ratio

B = Burden ratio

P = Profitability ratio

Spread ratio is the difference between interest earned ratio and interest paid ratio. Burden ratio is the difference between non-interest expense ratio and non-interest income ratio. The formula is,

$$S = (r-k), \text{ and } B = (m + o - c)$$

where,

$r = R/v$

$k = K/v$

$m = M/v$

$o = O/v$

$c = C/v$

where,

R = Total interest earned

K = Total interest paid

M = Total manpower expenses

O = Total other expenses

C = Total non-interest income

V = Volume of working funds

The absolute amounts of R, K, M, O and C have little meaning unless they are related to the total funds collected and employed (V). Therefore, the analytical frame work relates each of the above variables to the common factor, total funds employed. That is the total working funds (share capital + reserves + deposits + borrowings - investments in fixed assets) which provides the pool of funds to make the profitable investments.

For analysing the liquidity performance, ratios such as liquid assets - deposits ratio and cash asset - deposit ratio were used. The business strength of the banks was studied with the help of credit-deposit ratio, owned fund-borrowed fund ratio and overdue-demand ratio.

The risk-return trade-off in the funds portfolio of banks was studied by comparing the financial risk measured by the financial management technique namely, Equity Multiplier with the profit of the banks. Equity Multiplier shows the incremental rupee amount of the total debts, due to the change in the equity base of the banks. It is worked out by applying the following equation.

$$\text{Equity Multiplier} = \frac{\Delta D}{\Delta E}$$

where,

ΔD = Change in debts (borrowed fund)

ΔE = Change in equity (owned fund)

According to this concept, larger the equity multiplier computed, greater will be the risk exposure of funds portfolio.

4.5 Limitations of the study

Major limitations of the study are the following:

1. The major portion of the study is based on the secondary data which is available from the financial statements and the behavioural aspects of resource management practices have been ignored.

2. Since there was no uniformity in the definitions of parameters and concepts involved in the study, certain working definitions have been developed to suit the requirements of the study.

3. The Urban Co-operative Banks in Kerala belong to two categories, namely those banks not coming under the purview of Banking Regulation Act and those banks ~~not~~ coming under the purview of the Act. However, in the present study, all the sample banks have been considered as a single group.

4.6 Working definition of concepts

The working definition of the important terms and concepts used in the study are the following:

1. Reserves: It refers to the total of statutory reseves, bad and doubtful debt reserve, credit stabilisation fund, building fund, common good fund and other accumulated reserves.

2. Profit: It refers to the accumulated surplus of the bank.

3. Investments: It refers to the total of investment of money in government and other securities, shares in co-operatives and deposit of money in different accounts with other banks.

4. Total sources of funds: It refers to the total of owned funds and borrowed funds.

5. Total uses of funds: It refers to the total of loans and advances, investments, cash on hand and fixed assets.

6. Borrowed funds: It refers to the total of deposits and other borrowings.

7. Owned funds: It refers to the total of share capital, reserves and profit.

CHAPTER V

RESULTS AND DISCUSSION

This chapter is divided into six sections. The first section deals with source portfolio of funds, the second section examines the use portfolio of funds, the third section presents variations in the sources and uses of funds, the fourth section focuses on the short term and long term composition of sources and uses of funds. The fifth section studies the operational efficiency of resource management. The last section examines the risk-return trade-off in the funds portfolio of banks.

5.1 Source portfolio of funds

The sources of funds of Urban Cooperative Banks are: (i) the owned funds raised from the internal sources and (ii) the borrowed funds, mobilised from the external sources. The owned funds refer to the funds contributed by members and generated in the form of profits and reserves. They constitute share capital, reserves and surpluses. The borrowed funds refer to funds procured in the form of deposits from institutions and general public and borrowings from higher financing agencies.

This part of the chapter is intended to analyse the nature and extent of various sources of funds raised by the banks under study for a period of 10 years from 1980-81 to 1989-90. Such an analysis will help us:

1. to understand the composition of owned funds and borrowed funds in the total funds procured and their growth pattern over the period of time.

2. to understand the composition of each sources of funds in the total funds procured and their growth pattern over the period of time.

3. to examine the nature and types of deposits and their relative share in the total deposits mobilised. Generally, deposits constitute the major chunk of the total resources. Hence a study of deposit mix of the banks would be helpful in analysing the implications of the source portfolio of funds.

The information about the share of the components of total sources of funds for the the period 1980-81 to 1989-90 is shown in Table 5.1 (a). It also presents the percentage share of each source in the total funds mobilised and the compound growth rate of variables over the years.

Table 5.1 (a) reveals that the share of total borrowed

Table 5.1(a). Source portfolio of funds of the sample banks for the period 1980-81 to 1989-90

(Rupees in lakh)

Sources of funds of Banks	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Compound growth rate	Average
A. KTCB												
1. Share capital	7.81 (2.78)	9.54 (2.99)	11.29 (2.87)	13.85 (2.82)	15.87 (2.33)	18.05 (2.26)	19.97 (2.03)	21.55 (1.90)	23.18 (1.76)	24.99 (1.45)	13.80	16.61 (2.04)
2. Reserves	14.88 (5.29)	21.09 (6.59)	26.29 (6.69)	32.97 (6.69)	41.70 (6.12)	53.09 (6.62)	71.20 (7.20)	93.30 (8.19)	122.16 (9.26)	145.53 (8.40)	28.84	62.22 (7.63)
3. Profit	6.22 (2.21)	6.53 (2.04)	7.82 (1.99)	10.29 (2.09)	15.04 (2.21)	16.81 (2.09)	24.85 (2.51)	28.17 (2.48)	30.22 (2.29)	32.42 (1.87)	20.13	17.84 (2.19)
4. Deposits	252.27 (89.72)	282.77 (88.38)	347.81 (88.45)	435.19 (88.40)	608.47 (89.34)	703.08 (87.72)	863.00 (87.31)	986.93 (86.71)	1136.46 (86.15)	1523.09 (87.92)	22.11	713.91 (87.52)
5. Borrowings	--	--	--	--	--	10.49 (1.31)	9.39 (0.95)	8.21 (0.72)	7.08 (0.54)	6.18 (0.36)	22.43	4.14 (0.62)
Owned funds (1 + 2 + 3)	**28.91 (10.28)**	**37.16 (11.62)**	**45.40 (11.55)**	**57.11 (11.60)**	**72.61 (10.66)**	**87.95 (10.97)**	**116.02 (11.74)**	**143.02 (12.57)**	**175.56 (13.31)**	**202.94 (11.72)**	**24.18**	**97.67 (11.86)**
Borrowed funds (4 + 5)	**252.27 (89.72)**	**282.77 (88.38)**	**347.81 (88.45)**	**435.19 (88.40)**	**608.47 (89.34)**	**713.98 (89.03)**	**872.39 (88.26)**	**995.14 (87.43)**	**1143.54 (86.69)**	**1529.27 (88.28)**	**22.17**	**718.05 (88.14)**
Total sources of funds	**281.18 (100)**	**319.93 (100)**	**393.21 (100)**	**492.30 (100)**	**681.08 (100)**	**801.52 (100)**	**988.41 (100)**	**1138.16 (100)**	**1319.10 (100)**	**1732.21 (100)**	**31.32**	**815.72 (100)**

Contd.

Table 5.1 (a) (Contd.)

Sources of funds of Banks	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Compound growth rate	Average
B. GCUB												
1. Share capital	10.95 (7.66)	11.69 (6.18)	12.36 (5.44)	13.66 (4.46)	15.76 (3.47)	16.97 (3.80)	17.20 (3.60)	17.57 (3.22)	18.82 (3.01)	19.71 (2.50)	6.75	15.47 (3.68)
2. Reserves	8.61 (6.01)	11.18 (5.91)	12.51 (5.50)	14.25 (4.65)	17.30 (3.81)	21.36 (4.79)	25.23 (5.28)	30.10 (5.52)	32.48 (5.20)	35.21 (4.47)	16.94	20.82 (4.96)
3. Profit	2.91 (2.03)	2.59 (1.37)	3.52 (1.55)	2.26 (0.74)	3.09 (0.68)	3.32 (0.74)	3.08 (0.64)	3.22 (0.59)	3.74 (0.60)	2.32 (0.29)	-2.49	3.01 (0.72)
4. Deposits	120.68 (84.30)	160.76 (84.96)	198.95 (87.51)	276.35 (90.16)	418.15 (92.04)	404.67 (90.67)	432.14 (90.47)	494.15 (90.66)	569.33 (91.13)	729.63 (92.73)	22.13	380.48 (90.57)
5. Borrowings	--	3.00 (1.58)	--	--	--	--	--	--	--	--	--	0.30 (0.07)
Owned funds (1 + 2 + 3)	22.47 (15.70)	25.46 (13.46)	28.39 (12.49)	30.17 (9.84)	36.15 (7.96)	41.65 (9.33)	45.51 (9.53)	50.89 (9.34)	55.04 (8.82)	57.24 (7.27)	10.95	39.30 (9.36)
Borrowed funds (4 + 5)	120.68 (84.30)	163.76 (86.54)	198.95 (87.51)	276.35 (90.16)	418.15 (92.04)	404.67 (90.67)	432.14 (90.47)	494.15 (90.66)	569.33 (91.13)	729.63 (92.73)	22.13	380.78 (90.64)
Total sources of funds	143.15 (100)	189.22 (100)	227.34 (100)	306.52 (100)	454.30 (100)	446.32 (100)	477.65 (100)	545.04 (100)	624.37 (100)	786.37 (100)	20.85	420.08 (100)

Contd.

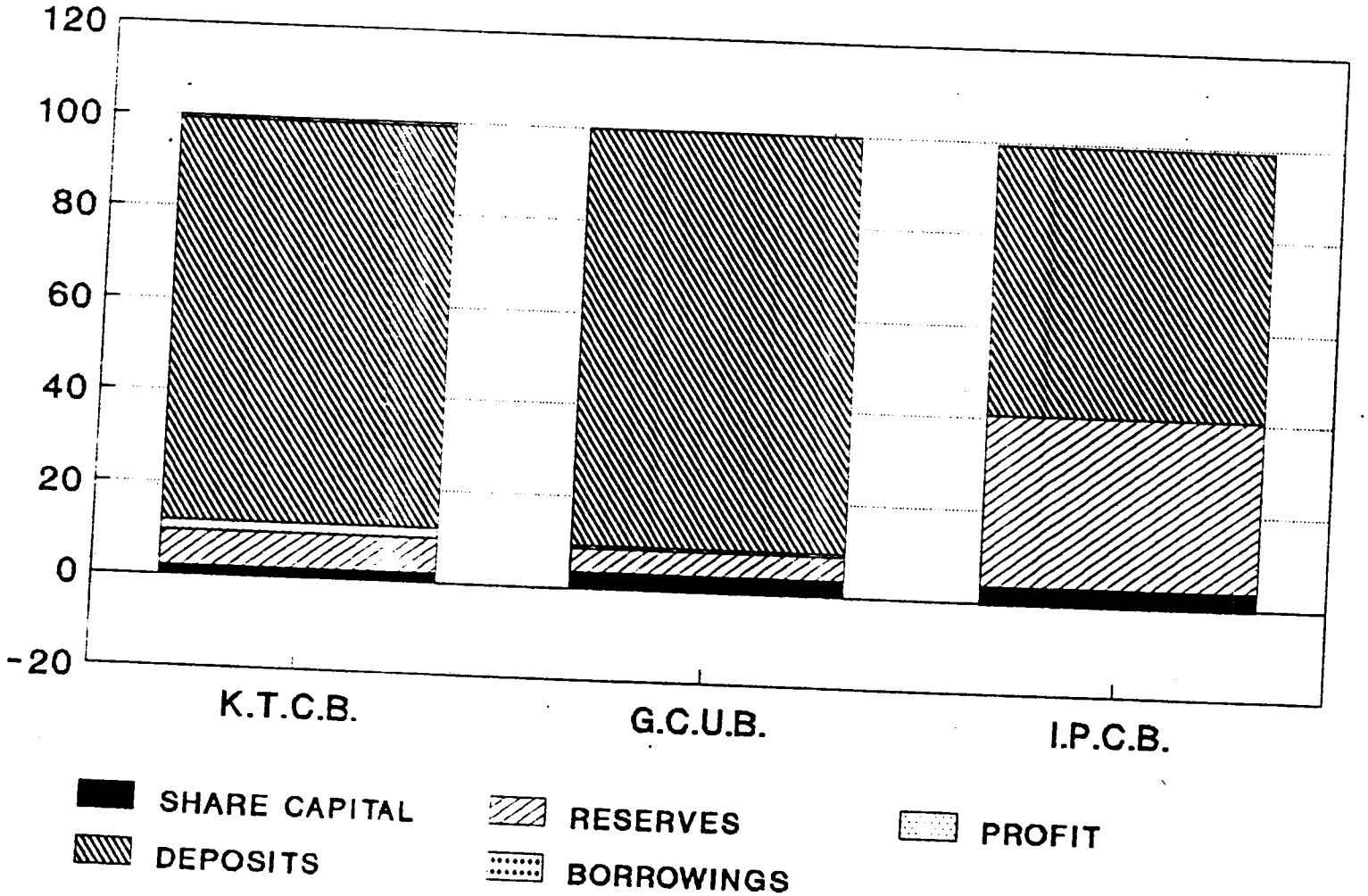
Table 5.1(a) (Contd.)

Sources of funds of Banks	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Compound growth rate	Average
C. IPCB												
1. Share capital	0.19 (4.60)	0.19 (4.42)	0.18 (3.83)	0.19 (3.93)	0.20 (3.50)	0.20 (3.32)	0.20 (2.83)	0.20 (3.05)	0.23 (2.97)	0.30 (5.51)	5.21	0.21 (3.72)
2. Reserves	2.41 (58.35)	2.40 (55.81)	2.41 (51.39)	2.42 (50.10)	1.79 (31.35)	2.06 (34.22)	2.02 (28.61)	2.13 (32.52)	1.33 (17.18)	1.96 (36.03)	-2.27	2.09 (37.06)
3. Profit*/loss	0.03 (0.72)	0.06 (1.39)	0.26 (5.54)	0.40 (8.27)	0.27* (4.73)	0.09 (1.49)	0.41 (5.80)	0.47 (7.17)	1.84* (23.78)	0.07 (1.28)	-49.60	0.03 (0.53)
4. Deposits	1.56 (37.77)	1.77 (41.16)	2.36 (50.32)	2.62 (54.24)	3.45 (60.42)	3.85 (63.95)	5.25 (74.36)	4.69 (71.60)	4.34 (56.07)	3.25 (59.74)	8.50	3.31 (58.69)
5. Borrowings	--	--	--	--	--	--	--	--	--	--	--	--
Owned funds (1 + 2 + 3)	2.57 (62.23)	2.53 (58.84)	2.33 (49.68)	2.21 (45.76)	2.26 (39.58)	2.17 (36.05)	1.81 (25.64)	1.86 (28.40)	3.40 (43.93)	2.19 (40.26)	-1.76	2.33 (41.31)
Borrowed funds (4 + 5)	1.56 (37.77)	1.77 (41.16)	2.36 (50.32)	2.62 (54.24)	3.45 (60.42)	3.85 (63.95)	5.25 (74.36)	4.69 (71.60)	4.34 (56.07)	3.25 (59.74)	8.50	3.31 (58.69)
Total sources of funds	4.13 (100)	4.30 (100)	4.69 (100)	4.83 (100)	5.71 (100)	6.02 (100)	7.06 (100)	6.55 (100)	7.74 (100)	5.44 (100)	3.11	5.64 (100)

Source: Audited financial statements of the Banks

Note : Figures in parenthesis show percentage share of each source to total sources of funds

SOURCE PORTFOLIO OF FUNDS OF BANKS



5.1(a) Source portfolio of funds of banks

funds of KTCB in the total funds procured accounted for about 88 per cent and the remaining 12 per cent was the share of owned fund. The total sources of funds of KTCB increased from Rs.281 lakh in 1980-81 to Rs.1732 lakh in 1989-90 recording a 6 time increase during the period of study. The compound growth rate of total source of funds was 31.32 per cent. The percentage share of owned fund and total borrowed funds were remained more or less steady during the period under study. About 88 per cent of the total source of funds was mobilised through the deposits which is the only main source of the borrowed funds. Other borrowings of KTCB in the total source of fund was very meagre. Deposits recorded a considerable increase during the period of study. Among the components of owned funds, the share of reserves was noticeable in the total source of funds mobilised. Average reserves contributed about 8 per cent of the total source of funds. Its compound growth rate was 28.84 per cent. Only a negligible share of 2 per cent each in the total source of fund was found in case of share capital and profit.

Table 5.1 (a) also depicts that total funds mobilised by GCUB had steadily raised to Rs.787 lakh in 1989-90 from Rs.143 lakh in 1980-81, indicating an increase of about 5 ½ times. The compound growth rate of the total funds source was 20.85 per cent. The share of total borrowed funds in the

total came to about 91 per cent and the share of owned fund was 9 per cent. The other borrowings of the bank were quite negligible. Therefore, deposit amount is the total borrowed fund for the bank. While the total borrowed funds showed an increase of 6 times, the owned fund showed only a rise of 2.5 times. This is an indication of the fact that while the proportion of deposits in the total sources of funds was increasing year by year, a declining trend was observed in case of owned funds. The compound growth rate of deposits (borrowed funds) was 22.13 per cent, while that of owned fund was only 10.95 per cent. This may be due to the fact that the owned funds are not increasing directly proportionate to borrowed funds. The table clearly showed that the percentage share of deposits in the total fund had increased from 84.30 in 1980-81 to 93.73 in 1989-90. Contrary to this, the proportionate share of the owned fund had decreased from 15.27 to 7.27 per cent. Reserves which is the major source of owned fund supplied about 5 per cent of the total fund. It is worth noting that the proportion of share capital and profit in the total fund had been declining considerably. However the absolute figures showed a steady growth in share capital and profit of the Bank.

The information about the share of the components of total sources of fund of IPCB indicates that the share of

total borrowed fund in the total fund mobilised was about 59 per cent. The owned fund supplied about 41 per cent of the total fund. The total source of fund showed an increasing trend except in the year 1989-90. This decrease in the total source of fund for the year 1989-90 may be attributed to considerable decline in the share of deposit in 1989-90. The total source of fund of the Bank in 1980-81 was Rs.4.13 lakh. It is noticed that the Bank had no other borrowings throughout the period under study. Total borrowed fund (deposit) showed a steady increase except in the year 1989-90. While the total borrowed funds over the years showed a compound growth rate of 8.50 per cent, a negative compound growth rate of 1.76 per cent was found in case of owned fund. This was mainly due to the decreasing share of the reserves and profit over the years. The bank could make profit only in two years (1984-85 and 1988-89) out of the 10 years of the study period. That too was not considerable. Among the owned funds, share capital registered an increasing trend and the compound growth rate of which was 5.21 per cent.

On the basis of the above analysis (source portfolio of funds), it may be concluded that -

Deposit liability constitutes the major chunk of the total resources mobilised in all the banks under study. Other borrowings of the banks are quite negligible. Thus it can be

infered that deposit is the only major source of total borrowed fund in all the banks. The share of deposit in the total source of funds mobilised was highest in GCUB (91 per cent), followed by KTCB (88 per cent) and lowest in IPCB (59 per cent) This comparatively low percentage of deposits of IPCB should essentially get the attention of policy makers of the Bank for augmenting the share of deposits in their source portfolio.

The share of owned fund in the total source of fund of IPCB was highest (41 per cent). Comparing the proportion of owned fund and total borrowed fund of IPCB, it is revealed that the bank had failed to maintain a desirable proportion of owned and borrowed fund Normally owned fund of Urban Co operative Banks may range between 10 to 15 per cent of the total source of fund Therefore immediate steps should be taken to accelerate the composition of deposit mobilised in the total funds mobilised The share of owned fund in KTCB and GCUB was about 12 per cent and 9 per cent respectively. This reveals that a satisfactory and desirable proportion of owned fund and borrowed fund had been kept by KTCB and GCUB

Of the three components of the owned fund the share of reserves was found to be high in all the banks It is important to note that reserves of KTCB showed a substantial increase over the years This may be due to the fact that as

the profit of the bank was increasing year by year, the accumulated reserves created out of profit was also subjected to a corresponding increase.

While the percentage share of share capital was decreasing over the years, the absolute figures showed a steady growth in all the three banks. With regard to profit, KTCB, had shown considerable progress and contributed about 2 per cent of the total fund. Against this, IPCB was running at a loss in the majority of years under study. Whereas, GCUB had retained its profit as more or less constant over the years.

Table 5.1 (b) presents the source-wise deposit during the period 1980-81 to 1989-90 along with the year-wise actual and percentage growth in deposits.

Total deposit of KTCB in the year 1980-81 was Rs.252.27 lakh. It had increased to Rs.1523.09 in 1983-84. The share of fixed deposit in the total deposit amount was found to be maximum (78 per cent). Saving deposits accounted for about 18 per cent and current deposit accounted for about 4 per cent. The contribution of fixed deposit more or less remained constant over the years. But the percentge share of saving deposit showed a declining trend. Although the contribution of current deposit is meagre, it registered a

Table 5.1(b). Composition of deposits of the sample banks for the period 1980-81 to 1989-90

(Rupees in lakh)

Year	KTCB				GCUB				IPCB			
	Current deposit	Saving deposit	Fixed deposit	Total	Current deposit	Saving deposit	Fixed deposit	Total	Current deposit	Saving deposit	Fixe deposit	Total
1980-81	1.84 (0.73)	48.41 (19.19)	202.02 (80.08)	252.02 (100)	0.68 (0.56)	40.88 (33.87)	79.12 (65.57)	120.68 (100)	--	0.49 (31.41)	1.07 (68.59)	1.56 (100)
1981-82	1.89 (0.67)	57.50 (20.33)	223.38 (79.00)	282.77 (100)	0.51 (0.32)	40.36 (25.10)	119.89 (74.58)	160.76 (100)	--	0.44 (24.86)	1.33 (75.14)	1.77 (100)
1982-83	6.89 (1.98)	78.50 22 .57)	262.42 (75.45)	347.81 (100)	1.65 (0.83)	52.19 (26.23)	145.11 (72.94)	198.95 (100)	--	0.27 (11.44)	2.09 (88.56)	2.36 (100)
1983-84	9.55 (2.19)	99.30 (22.82)	326.34 (74.99)	435.19 (100)	3.46 (1.25)	83.69 (30.28)	189.20 (68.47)	276.35 (100)	--	0.35 (13.36)	2.27 (86.64)	2.62 (100)
1984-85	11.44 (1.88)	123.50 (20.30)	473.53 (77.82)	608.47 (100)	4.03 (0.96)	96.57 (23.09)	317.55 (75.95)	418.15 (100)	--	0.51 (14.78)	2.94 (85.22)	3.45 (100)
1985-86	24.98 (3.55)	132.63 (18.86)	545.47 (77.59)	703.08 (100)	6.52 (1.61)	92.61 (24.37)	299.54 (74.02)	404.67 (100)	--	0.45 (11.69)	3.40 (88.31)	3.85 (100)
1986-87	46.21 (5.35)	166.13 (19.25)	650.66 (75.40)	863.00 (100)	1.25 (0.29)	97.80 (22.63)	333.09 (77.08)	432.14 (100)	--	0.81 (15.43)	4.44 (84.57)	5.25 (100)
1987-88	77.13 (7.82)	164.08 (16.63)	745.72 (75.55)	986.93 (100)	0.92 (0.19)	91.95 (18.61)	401.38 (81.20)	494.15 (100)	--	0.29 (6.18)	4.40 (83.82)	4.69 (100)
1988-89	28.31 (2.49)	179.85 (15.83)	928.30 (81.68)	1136.46 (100)	1.98 (0.35)	108.66 (19.09)	458.69 80.56)	569.33 (100)	--	0.68 (14.98)	3.66 (85.02)	4.34 (100)
1989-90	42.79 (2.81)	236.23 (15.51)	1244.07 (81.68)	1523.09 (100)	0.89 (0.12)	112.08 (15.36)	616.66 (84.52)	729.63 (100)	--	0.49 (15.08)	2.76 (84.92)	3.25 (100)
Compound growth rate	41.85	19.26	22.38	22.11	3.04	11.86	25.63	22.13	--	--	11.10	8.50
Average	25.10 (3.52)	128.61 (18.02)	560.19 (78.46)	713.90 (100)	2.19 (0.58)	82.28 (21.62)	296.02 (77.80)	380.49 (100)	--	0.48 (14.46)	2.84 (85.54)	3.32 (100)

Source: Audited financial statements of the Banks

Note : Figures in parenthesis show the percentage share of each type of deposits to total deposits

COMPOSITION OF DEPOSITS OF BANKS

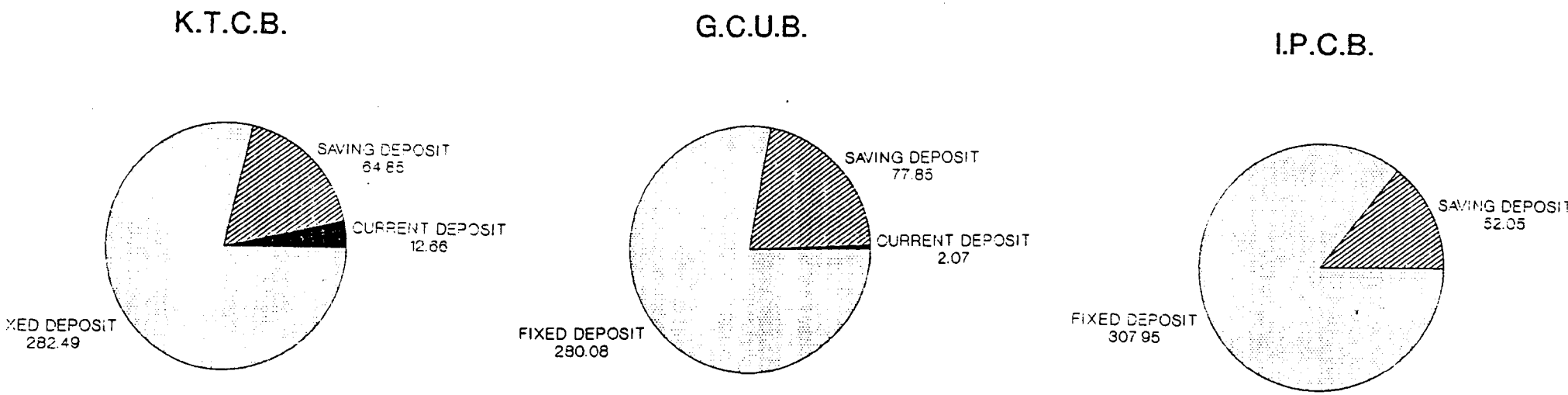


Fig.5.1(b) Composition of deposits of banks

compound growth rate of 41.85 per cent which is the highest when compared to that of other deposits.

As evidenced from the Table 5.1 (b), the total deposit of GCUB had increased from Rs.120.68 lakh in 1980-81 to Rs.729.63 lakh in 1989-90, marking a six-fold increase. About 78 per cent of the total deposit was mobilised through the fixed deposit operation. Remaining 22 per cent was obtained from saving and current deposits. But the share of current deposit was very small, viz., only half per cent. A substantial rise in the amount of fixed deposit from 1980-81 to 1989-90 had been witnessed. Over the years figures showed that the amount of fixed deposit had increased from Rs.79.12 lakh to Rs.616.66 lakh, showing an eight fold growth. The corresponding percentage share increased to 84.52 per cent in 1989-90 from 65.57 per cent per cent in 1980.81. Table also shows that the proportionate share of saving and current deposits had been gradually declining over the years.

The Bank, IPCB had a total deposit of Rs.1.56 lakh in 1980-81. But it increased to 3.25 lakh in 1989-90. Total deposit money of the bank was contributed by saving and fixed deposits as there were no current deposits during the period of study. Fixed deposits and saving deposits provided about 86 per cent and 14 per cent of the total deposit money respectively. While the percentage share of fixed deposit had

increased from 68.59 to 84.92 per cent, that of saving deposit had declined to 15.08 from 31.41 per cent.

To conclude, in all the banks under study, the fixed deposits have a highest share in the total deposits. The percentage share of it varied between 78 to 86 per cent of the total deposits. Saving deposits stood as second and current deposit ranked as the last. The high proportion of fixed deposits in the banks provides greater scope for well planned deployment of funds. Nevertheless, banks should take caution to deploy the fixed deposit mobilised tactfully as the fixed deposits under normal circumstances create relatively heavier interest liability than the other forms of deposits. Banks may also encourage the mobilisation of saving and current deposits, as the interest cost of which is relatively low.

5.2 Use portfolio of funds

Urban banks are deploying their funds generally in the form of loans and advances and other investments. A portion of funds mobilised will also be kept as liquid cash and assets, besides some nominal investments in fixed assets. This section of analysis is devoted to:

1. compare the nature and extent of various uses for which funds have been invested by the banks.

2. examine the composition and growth pattern of each variables of uses of funds in the total funds deployment, and to

3. know the nature of loans and advances from the point of view of periodicity and their relative share in the total loans and advances. Normally, most of the deployment of bank funds are in the form of loans and advances. Therefore, an analysis of loan mix of the banks can derive some inferences which may be helpful in the overall evaluation of financial strength and profitability.

The information on the share of the components of total uses of funds of the banks during the period of study are given in Table 5.2 (a). The percentage share and the compound growth rate of each use in the total funds deployed are also depicted in the table.

Table 5.2 (a) reveals that the total funds deployed by KTCB had steadily increased to Rs.1777.94 lakh in 1989-90 from Rs.290.40 lakh in 1980-81. This would also be evident, if we look into the compound growth rate computed for the total use of funds (31.31 per cent). Table shows that a major part of the funds were deployed in the form of loans and advances (58 per cent), while the deployment of funds in investments stood

Table 5.2(a). Use portfolio of funds of the sample banks for the period 1980-81 to 1989-90

(Rupees in lakh)

Uses of funds of Banks	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Compound growth rate	Average
A. KTCB												
Loans and advances	172.49 (59.39)	230.66 (70.27)	266.92 (66.05)	329.63 (64.14)	449.18 (63.80)	505.77 (61.16)	572.95 (56.85)	726.72 (63.46)	852.85 (62.98)	777.44 (43.73)	18.21	488.46 (58.48)
Investments	99.66 (34.33)	78.84 (24.02)	109.03 (26.97)	151.57 (29.50)	212.19 (30.14)	277.97 (33.62)	369.98 (36.71)	358.16 (31.27)	387.75 (28.65)	892.00 (50.17)	25.57	293.72 (35.16)
Cash on hand	14.26 (4.91)	14.06 (4.28)	20.41 (5.05)	20.93 (4.07)	30.75 (4.37)	32.86 (3.97)	52.34 (5.19)	46.60 (4.07)	63.97 (4.72)	59.21 (3.33)	17.14	35.54 (4.26)
Fixed assets	3.99 (1.37)	4.68 (1.43)	7.78 (1.93)	11.82 (2.29)	11.90 (1.69)	10.35 (1.25)	12.63 (1.25)	13.70 (1.20)	49.47 (3.65)	49.29 (2.77)	32.22	17.56 (2.10)
Total uses of funds	**290.40 (100)**	**328.24 (100)**	**404.14 (100)**	**513.95 (100)**	**704.02 (100)**	**826.95 (100)**	**1007.90 (100)**	**1145.18 (100)**	**1354.04 (100)**	**1777.94 (100)**	**31.31**	**835.28 (100)**
B. GCUB												
Loans and advances	80.75 (57.89)	114.59 (61.36)	137.03 (61.43)	172.67 (56.72)	193.44 (43.00)	276.90 (63.46)	245.35 (52.51)	297.65 (55.07)	329.98 (52.69)	359.49 (46.11)	18.05	220.79 (53.16)
Investments	52.65 (37.74)	61.65 (33.01)	68.33 (30.63)	108.11 (35.51)	233.88 (52.00)	128.36 (29.42)	210.74 (45.11)	231.98 (42.92)	277.28 (44.28)	403.60 (51.77)	25.40	177.66 (42.77)
Cash on hand	4.81 (3.45)	8.77 (4.70)	15.14 (6.79)	21.11 (6.93)	19.90 (4.42)	28.11 (6.44)	5.68 (1.22)	5.21 (0.96)	13.39 (2.14)	10.61 (1.36)	9.19	13.27 (3.19)
Fixed assets	1.29 (0.92)	1.76 (0.93)	2.56 (1.15)	2.56 (0.84)	2.61 (0.58)	2.94 (0.68)	5.37 (1.16)	5.61 (1.05)	5.57 (0.89)	5.90 (0.76)	18.40	3.62 (0.88)
Total uses of funds	**139.50 (100)**	**186.74 (100)**	**223.06 (100)**	**304.45 (100)**	**449.83 (100)**	**436.31 (100)**	**467.14 (100)**	**540.45 (100)**	**626.22 (100)**	**779.60 (100)**	**24.49**	**415.34 (100)**

Contd.

Table 5.2(a) (Contd.)

Uses of funds of Banks	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Compound growth rate	Average
C. IPCB												
Loans and advances	1.36 (63.85)	0.84 (53.16)	0.82 (48.24)	0.89 (37.26)	0.90 (30.51)	0.76 (28.25)	0.60 (19.17)	0.50 (19.61)	0.99 (28.37)	1.57 (35.12)	1.61	0.91 (33.96)
Investments	0.53 (24.88)	0.53 (33.54)	0.53 (31.18)	0.90 (42.45)	1.08 (36.61)	1.33 (49.44)	1.36 (43.45)	1.40 (54.90)	1.46 (41.83)	1.57 (35.12)	12.82	1.07 (39.93)
Cash on hand	0.22 (10.33)	0.19 (12.03)	0.33 (19.41)	0.40 (18.87)	0.93 (31.53)	0.56 (20.82)	1.12 (35.78)	0.60 (23.53)	0.99 (28.37)	1.28 (28.64)	21.61	0.66 (24.62)
Fixed assets	0.02 (0.94)	0.02 (1.27)	0.02 (1.17)	0.03 (1.42)	0.04 (1.35)	0.04 (1.49)	0.05 (1.60)	0.05 (1.96)	0.05 (1.43)	0.05 (1.12)	10.71	0.04 (1.49)
Total uses of funds	**2.13 (100)**	**1.58 (100)**	**1.70 (100)**	**2.12 (100)**	**2.95 (100)**	**2.69 (100)**	**3.13 (100)**	**2.55 (100)**	**3.49 (100)**	**4.47 (100)**	**8.58**	**2.68 (100)**

Source: Audited financial statement of the Banks

Note : Figures in parenthesis show percentage share of each uses to total uses of funds

USE PORTFOLIO OF FUNDS OF BANKS

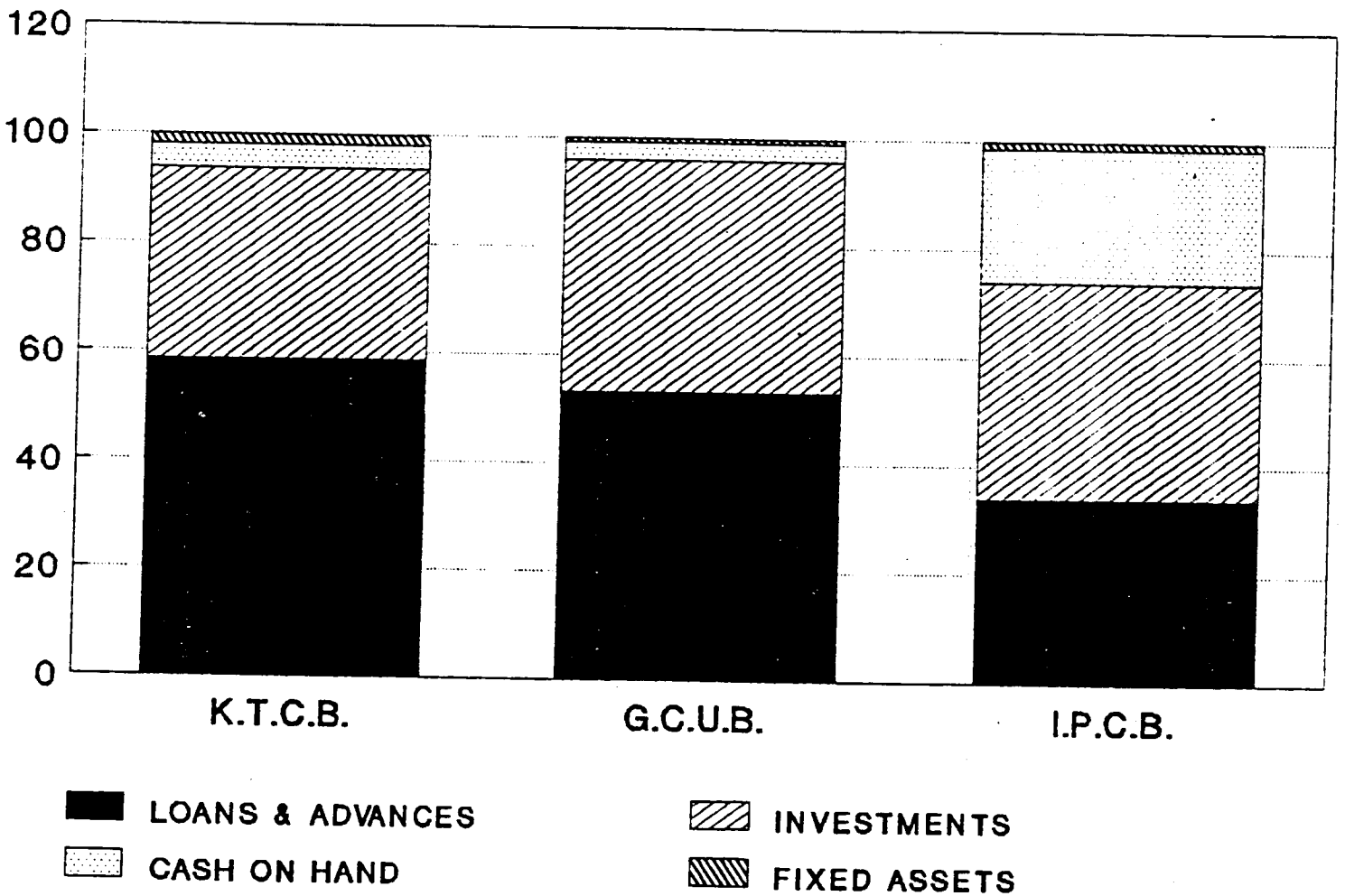


Fig.5.2(a) Use portfolio of funds of banks

as second (35 per cent). Bank's deployment of funds in the form of cash and fixed assets were not very significant. The funds invested in fixed asset and kept as liquid cash togetherly came to about only 7 per cent. All uses of funds depicted a consistent trend in absolute figures. While the percentage share of the investments showed an upward trend throughout the study period, a declining trend had been found in the case of loans and advances.

The principal uses of funds of GCUB has also been presented in the Table 5.2 (a). There was an increase of about 5 1/2 times in the amount of total funds deployed. Total funds deployed went up to Rs.779.60 lakh in 1989-90 from Rs.139.50 lakh in 1980-81. The absolute figures given in the table showed that there was a steady growth in all uses of funds. Like KTCB, loans and advances occupy the first place in the funds deployment. Its share in the total fund was about 53 per cent. However, it is found that the proportionate share of loans and advances had registered a declining contribution. Whereas the investments of the bank recorded a steady increase, representing 43 per cent of the total fund deployment. Only a nominal investment of money was made in fixed assets (0.88 per cent) and the percentage of the total fund kept as liquid cash was also meagre (2 per cent).

The composition of uses of funds of IPCB is depicted in the Table 5.2 (a). As table presents, the total use of funds went up ~~by~~ to 4.47 lakh in 1989-90 from Rs.2.13 lakh in 1980-81. Looking at the yearwise data, the share of investments in total deployment was the highest both in absolute and relative terms. The share of loans and advances in the total funds deployment in absolute as well as relative terms showed a downward trend. While the proportionate share of investments accounted for about 40 per cent, the share of loans and advances came to about only 34 per cent. Another striking observation is that a significant portion of total funds had kept as liquid cash. This will adversely affect the profitability of the Bank. In the year 1988-89, the proportion of fund kept as idle cash was about 29 per cent. The part of the fund invested in fixed assets was not considerable. It was ranged between 0.02 to 0.05 lakh representing about 1.5 per cent share in the total funds deployment.

On the basis of the foregoing analysis the following inferences have been emerged.

Normally loans and advances yield more income to the banks than investments. Setting apart a certain percentage of deposit money as liquid cash and asset, at least 60 to 70 per cent of the total funds may be deployed in loans and advances

so as to be efficient in the effective utilisation of the funds. Deployment of funds in the form of loans and advances of the banks under study was not upto the desirable level of investments in loans and advances. It was about 58, 53 and 34 per cent in KTCB, GCUB and IPCB respectively. This low percentage of investment in loans and advances may partly due to gradual decrease in the genuine loan application and partly due to the high degree of liquidity consciousness on the part of the management of the banks.

Investment of banks mainly consists of investment in government and other securities, in fixed deposits with other banks and other investments. But such investments yield lesser income compared to the loans and advances. Although the pattern of investments of the banks to a greater extent is governed by the statutory obligations, there should have a rational investment policy for striking a balance between the conflicting aims of liquidity and profitability. In all the banks under study, it has been observed that the proportionate share of investment increased year by year in absolute as well as relative terms. This is not a healthy feature. Therefore, care should be taken to reduce investments and maintain it in the range of 25 to 30 per cent of the total funds.

A uniform pattern of growth in cash balances was witnessed in all the three banks. The absolute figures show

that the amount of cash balances of banks were increased from year to year. This may be due to the lack of rational and well-thought of liquidity policy on the one hand and lack of proper investment opportunity on the other. To attain higher efficiency, all the banks should attempt to maintain their cash balances in such a way as to meet the statutory obligation, while at the same time, keeping the cash balance without effecting the profitability of the banks. Deployment of funds in fixed assets was not very significant in all the banks under study. Investments in fixed assets ranged between one per cent to two per cent.

Table 5.2 (b) presents the composition of loans and advances of banks from the point of view of periodicity. As the table shows, in all the banks under study, a large share of the funds and advances were deployed in short term loans. On an average, 59 per cent, 51 per cent, and 52 per cent of the total loans of the banks, KTCB, GCUB and IPCB respectively were deployed in the form of short term loans and advances. Except in the IPCB, very nominal investments were made in long term loans and advances. In IPCB, about 14 per cent of the total loans was invested in long term loans. But in the absolute figure, the amount of investment was not significant. In KTCB,about 39 per cent of loans was deployed in medium term, while it was 48 per cent in case of GCUB.

Table 5.2(b). Composition of loans and advances of the sample banks for the period 1980-81 to 1989-90

(Rs. in lakh)

Year	KTCB				GCUB				IPCB			
	Short term	Medium term	Long term	Total	Short term	Medium term	Long term	Total	Short term	Medium term	Long term	Total
1980-81	102.45 (59.39)	69.65 (40.38)	0.39 (0.23)	172.49 (100)	29.76 (36.85)	50.99 (63.15)	--	80.75 (100)	1.01 (74.26)	0.23 (16.91)	0.12 (8.83)	1.36 (100)
1981-82	130.78 (56.70)	99.46 (43.12)	0.42 (0.18)	230.66 (100)	55.42 (48.36)	59.17 (51.64)	--	114.59 (100)	0.38 (45.23)	0.31 (36.90)	0.15 (17.87)	0.84 (100)
1982-83	147.24 (55.16)	119.22 (44.67)	0.46 (0.17)	266.92 (100)	74.06 (54.05)	62.97 (45.95)	--	137.03 (100)	0.32 (39.02)	0.33 (40.24)	0.17 (20.74)	0.82 (100)
1983-84	178.38 (54.12)	150.45 (45.64)	0.80 (0.24)	329.63 (100)	91.05 (52.73)	81.62 (47.27)	--	172.67 (100)	0.32 (40.51)	0.30 (37.97)	0.17 (21.52)	0.79 (100)
1984-85	260.04 (57.89)	188.14 (41.89)	1.00 (0.22)	449.18 (100)	89.59 (46.31)	103.85 (53.69)	--	193.44 (100)	0.41 (45.56)	0.36 (40.00)	0.13 (14.44)	0.90 (100)
1985-86	280.39 (55.44)	213.94 (42.30)	11.44 (2.26	505.77 (100)	152.01 (54.90)	124.72 (45.04)	0.17 (0.06)	276.90 (100)	0.25 (32.89)	0.28 (36.84)	0.23 (30.27)	0.76 (100)
1986-87	320.53 (55.94)	241.95 (42.23)	10.47 (2.33)	572.95 (100)	125.99 (51.35)	119.20 (48.58)	0.16 (0.07)	245.35 (100)	0.17 (28.33)	0.29 (48.33)	0.14 (23.34)	0.60 (100)
1987-88	451.85 (62.18)	258.25 (35.54)	16.62 (2.28)	726.72 (100)	161.25 (54.17)	134.35 (45.14)	2.05 (0.69)	297.65 (100)	0.22 (44.00)	0.18 (36.00)	0.10 (20.00)	0.50 (100)
1988-89	558.95 (65.54)	277.21 (32.50)	16.69 (1.96)	852.85 (100)	174.65 (52.93)	146.56 (44.41)	8.77 (2.66)	329.98 (100)	0.60 (60.63)	0.30 (30.30)	0.09 (9.07)	0.99 (100)
1989-90	461.56 (59.37)	297.32 (38.25)	18.56 (2.38)	777.44 (100)	163.20 (45.39)	187.09 (51.06)	9.20 (3.55)	359.49 (100)	1.04 (65.41)	0.49 (30.82)	0.04 (3.77)	1.59 (100)
Compound growth rate	18.20	17.50	53.58	18.21	20.81	15.54	27.96	18.05	0.33	8.77	-11.49	1.61
Average	289.21 (59.20)	191.56 (39.21)	7.69 (1.59)	488.46 (100)	111.70 (50.59)	107.05 (48.48)	2.04 (0.93)	220.79 (100)	0.47 (51.65)	0.31 (34.07)	0.13 (14.28)	0.91 (100)

Source: Audited financial statements of the Banks

Note : Figures in parenthesis show percentage share of each type of loans to the total loans

COMPOSITION LOANS AND ADVANCES OF BANKS

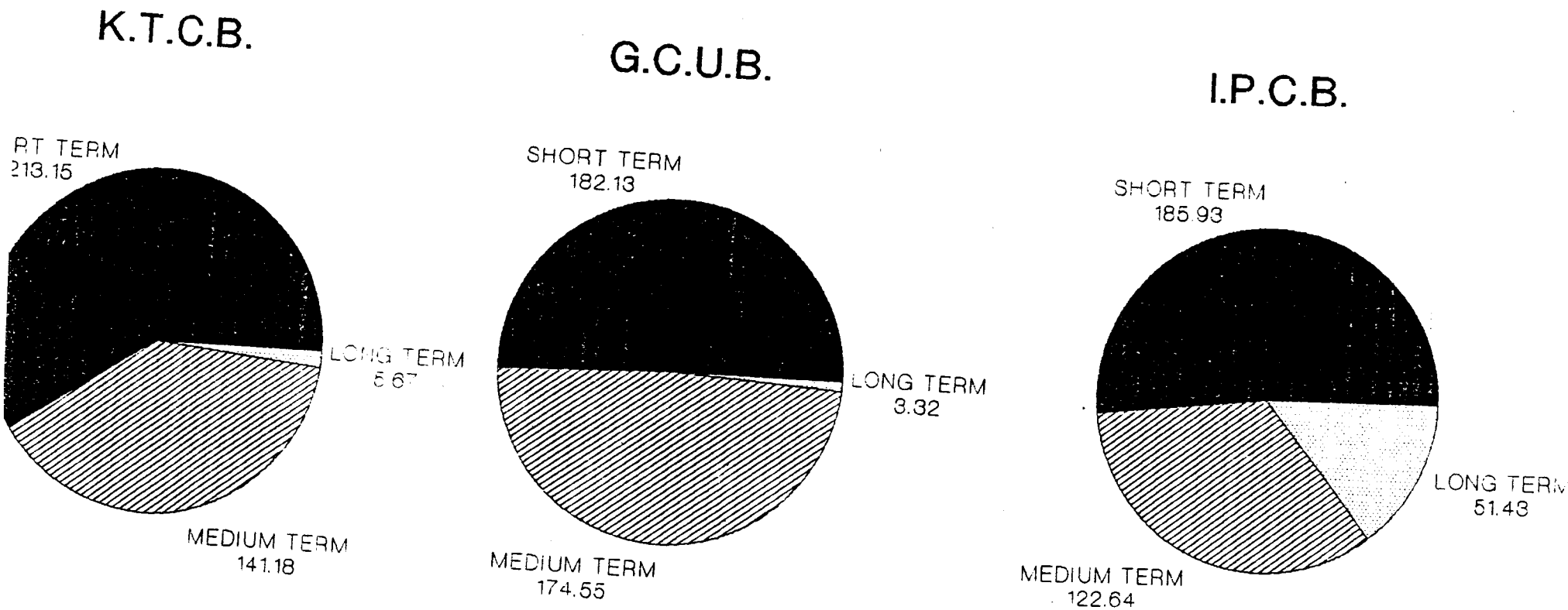


Fig.2(a) Composition of loans and advances of banks

The foregoing analysis reveals that of the three types of loans and advances, the short term loans and advances occupied a significant place in absolute as well as in relative terms in all the banks. This may be partly due to the higher level of liquidity consciousness of the banks and partly due to the profit making motto of the Banks. Normally, the banks yield higher income from the short term funds deployment, since their investments for short periods facilitate frequent recycling of funds. When comparing the deposit mix of the banks with their loan mix, it is found that short term loans and advances of the banks which account for a lion's share of total loans and advances were financed through the fixed deposits which constituted the bulk of the total deposits. This implies that funds were not rationally allocated from the view point of periodicity of funds.

5.3 Variations in the sources and uses of funds

In this section of analysis, an attempt is made to find out variations in the sources and uses of funds, and business operations (accepting and lending business) by applying the statistical measure, coefficient of variation. If the variabilities of the source of funds and use of funds measured by coefficient of variation are identical, then there may be efficiency in the management of funds. Similarly in the case of business operations, if the variations worked out

in the accepting and lending business are one and the same, it indicates the efficiency in the business operations.

Table 5.3. Coefficient of variation in the sources and uses of funds and business operations of the sample banks

(Figures in percentages)

Sl.No.	Parameters	KTCB	GCUB	IPCB
A.	**Sources and uses of funds**			
1.	Source	55.71	46.23	21.22
2.	Use	55.43	46.61	24.70
3.	Difference	0.28	0.38	3.48
B.	**Business operations**			
1.	Accepting business	55.18	48.09	35.52
2.	Lending business	55.27	48.19	24.96
3.	Difference	0.09	0.10	10.56

Table 5.3 reveals that the net difference of coefficient of variation of funds source and use, and business operations was the lowest in KTCB (0.28 and 0.09), followed by GCUB (0.38 and 0.10) and highest in IPCB (3.48 and 10.56). This leads to the conclusion that the fund management practices in KTCB seems to be better in comparison with GCUB and IPCB. It may also be noted that the efficiency in funds management is very low in IPCB.

5.4 Short term and long term composition of sources and uses of funds

Usually, the short term sources of funds are mobilised at a lower cost compared to long term funds. So the banks should encourage the mobilisation of short term funds. Similarly banks yield higher income from the short term funds deployment. Therefore, the resource management policy of the banks should aim at developing the portfolio of their short term sources and uses of funds, which may improve their margin between the interest income and interest expense at the maximum extent. This section is devoted to compare the short term and long term composition of the total funds mobilised and deployed of the banks under study.

Table 5.4 shows that over the years, the composition of the short term fund mobilised and deployed were highest in GCUB, (21.51 per cent and 73.84 per cent). Next to GCUB, KTCB had 19.68 per cent of the total funds mobilised as short term and 71.95 per cent of the total fund deployed as short term. But a lowest proportion of short term funds mobilised and deployed was found in IPCB (8.19 per cent and 40.40 per cent). Thus it may be inferred that the management of short term sources and uses of funds is good in GCUB when compared to other banks.

But it is interesting to note that while the

Table 5.4. Percentage share of funds mobilised and deployed (short term & long term) of the banks for the periods 1980-81 to 1989-90

Year	KTCB				GCUB				IPCB			
	Mobilisation		Deployment		Mobilisation		Deployment		Mobilisation		Deployment	
	Short term fund	Long term fund	Short term fund	Long term fund	Short term fund	Long term fund	Short term fund	Long term fund	Short term fund	Long term fund	Short term fund	Long term fund
1980-81	17.87	82.13	74.29	25.71	29.03	70.97	87.22	37.48	11.86	88.14	57.75	42.25
1981-82	18.56	81.44	68.00	32.00	23.18	76.82	67.39	32.61	10.23	89.77	36.08	63.92
1982-83	21.72	78.28	68.35	31.65	23.68	76.32	70.62	29.38	5.76	94.24	38.24	61.76
1983-84	22.11	77.89	68.13	31.87	28.43	71.57	72.35	27.65	7.25	92.75	33.96	66.04
1984-85	19.81	80.19	71.34	28.66	22.14	77.86	76.33	23.67	8.93	91.07	45.42	54.58
1985-86	20.97	79.03	71.40	28.60	23.55	76.45	70.70	29.30	7.48	92.52	30.11	69.89
1986-87	22.43	77.57	73.41	26.59	20.74	79.26	73.30	26.70	11.47	88.53	41.21	58.79
1987-88	21.91	78.09	74.54	25.46	17.02	82.98	73.72	26.28	4.43	95.57	32.16	67.84
1988-89	16.32	83.68	72.72	27.28	17.72	82.28	74.31	25.69	8.79	91.21	45.56	54.44
1989-90	16.46	83.54	78.00	22.00	14.36	85.64	74.06	25.94	9.00	91.00	51.90	48.10
Grand mean	19.68	80.15	71.95	27.81	21.51	77.87	73.84	28.23	8.19	91.45	40.40	58.11

Source: Audited financial statements of the Banks

S.T.&L.T. FUNDS: MOBILISATION&DEPLOYMENT
K.T.C.B.

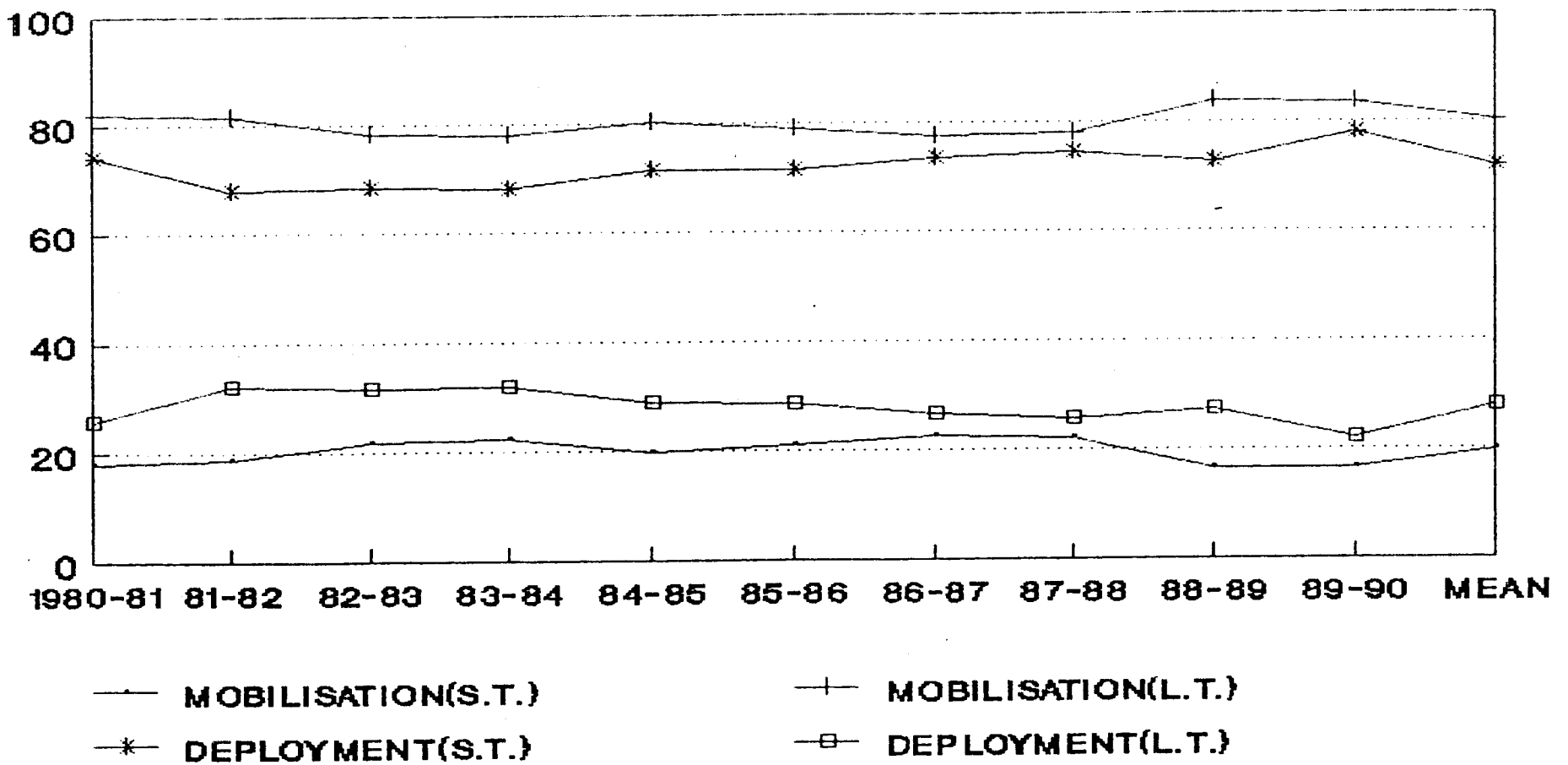


Fig.5.4(a) ST & LT Funds : Mobilisation & Deployment : KTCB

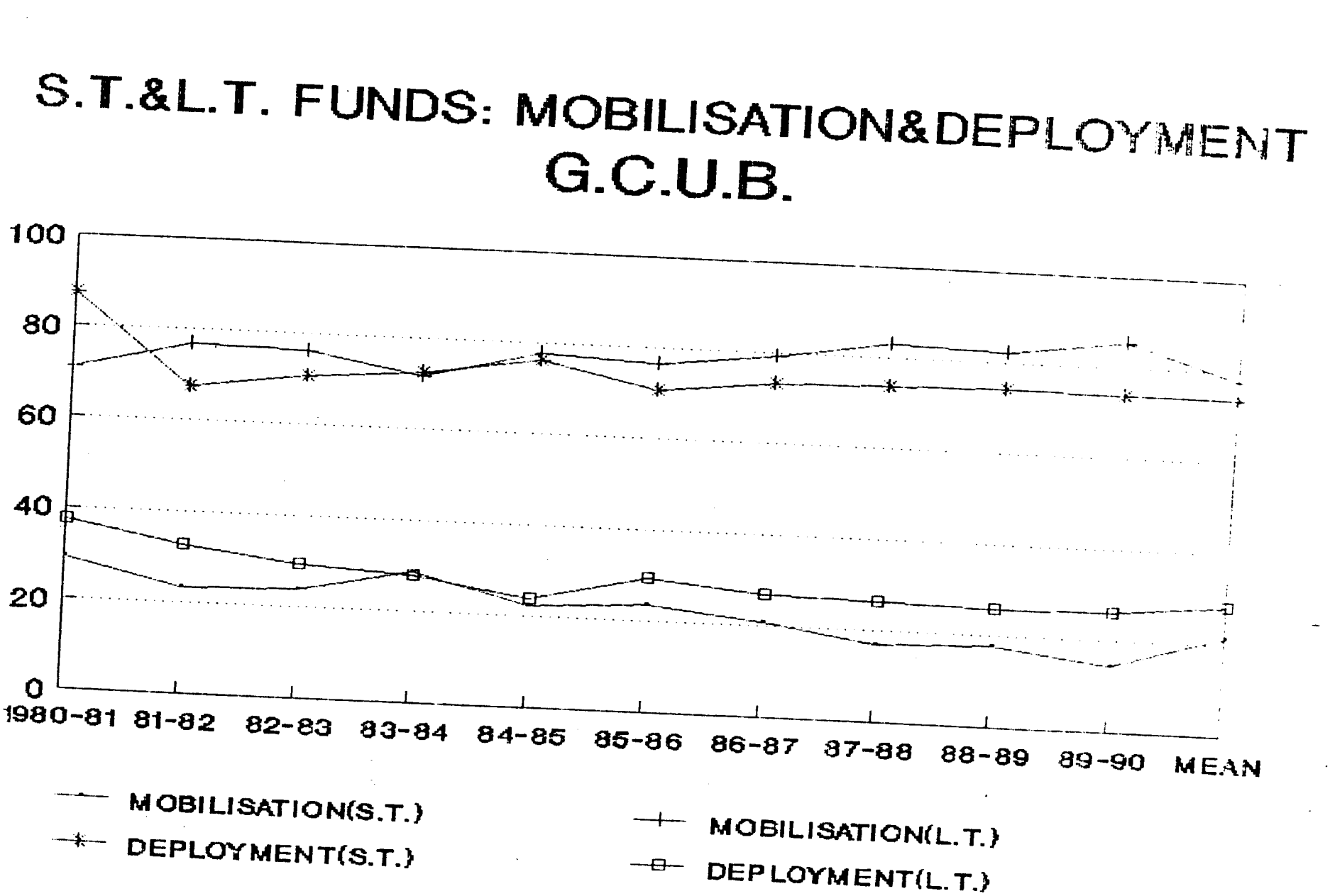


Fig.5.4(b) ST & LT Funds : Mobilisation & Deployment : GCUB

S.T.&L.T. FUNDS: MOBILISATION&DEPLOYMENT
I.P.C.B.

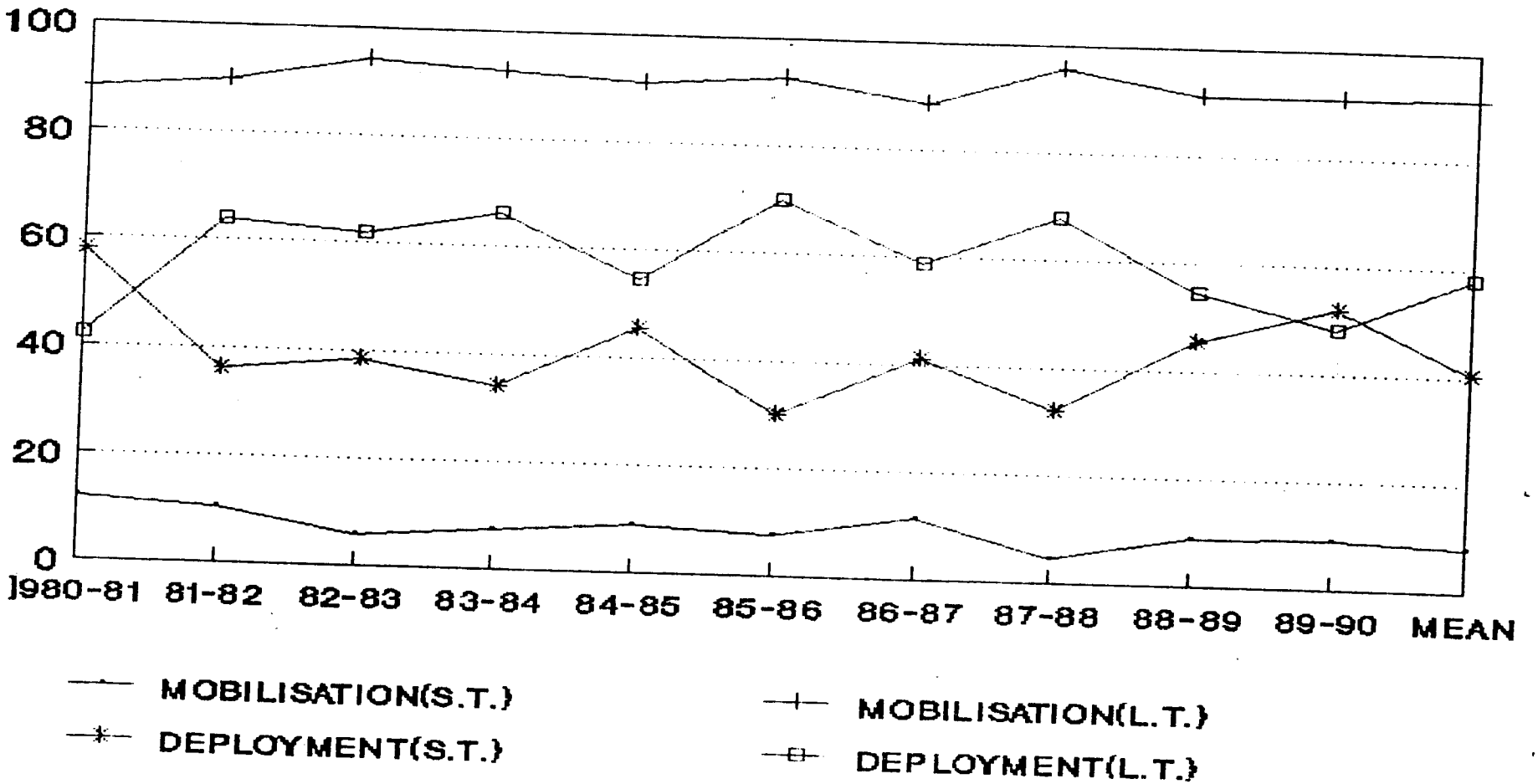


Fig.5.4(c) ST & LT Funds : Mobilisation & Deployment : IPCB

proportionate share of short term fund mobilised and deployed of KTCB was increasing over the years, that of GCUB showed a declining trend. In the year 1980-81, short term fund mobilised and deployed of GCUB was 29.03 per cent and 87.22 per cent respectively. But it had been steadily declining to 14.36 per cent and 74.06 in the year 1989-90. Whereas the KTCB had short term fund mobilisation of 16.46 per cent and short term fund deployment of 78 per cent in the year 1989-90. Therefore, if we compre the last year proportion, KTCB had showed better performance in developing the portfolio of short term funds source and use. The share of long term fund in the total funds mobilised of the banks shows that, banks were incurring much interest cost in mobilising funds as their long term fund constitute about 80 per cent of the total funds mobilised. This is not a sound situation. As far as possible, banks should augment the composition of funds mobilised for short periods.

5.5 Operational efficiency of resource management

The operational efficiency in the management of resources is reflected in maintaining an optimal level of liquidity and maximising profitability. Therefore, an attempt is made to evaluate resource management efficiency of banks with regard to their liquidity and profitability performance by analysing and interpreting financial information. Ratio

analysis is one of the tools of financial analysis. The advantage claimed by the ratio analysis over the other techniques of financial analysis is that, it facilitates the easy comparison of related figures and information and yields significant inferences. In this section, various ratios relevant to cooperative banks are used to evaluate the business performance of the banks in general, and the liquidity and profitability performance in particular.

5.5(a) Profitability performance

The main objective of a cooperative bank is to work for the social, ethical and economic upliftment of its memebers and earning of profit is only subsidiary to it. However, an efficiently managed bank must generate reasonable profit, in order to remain viable and to ensure a moderate growth rate.

Profitability ratios of KTCB, GCUB and IPCB for the year 1980-81 and 1989-90 are presented in the Table 5.5 (a). The table also depicts the grand mean of the pfotiability ratios of the banks computed for the 10 years of study. The profitability ratios of banks for the period of 10 years have been given in Appendix-I.

The table indicates that profitability ratio of KTCB had come down to 2.03 in 1989-90 from 3.67 in 1980-81, showing

Table 5.5(a). Profitability ratios of the sample banks for the periods1980-81 and 1989-90

Name of Bank	Interest earned ratio	Interest expenses ratio	Spread ratio	Manpower expenses ratio	Other expenses ratio	Non-interest income ratio	Burden ratio	Profit-ability ratio
A KTCB								
1980-81	11.19	5.99	5.20	2.19	0.32	0.98	1.53	3.67
1989-90	11.77	8.23	3.54	1.53	1.61	1.63	1.51	2.03
Grand mean	11.85	7.41	4.36	1.96	0.79	1.15	1.73	2.61
B GCUB								
1980-81	10.41	6.58	3.83	2.78	1.19	0.71	3.26	0.57
1989-90	10.66	7.15	3.51	1.89	1.35	0.25	2.99	0.52
Grand mean	10.28	6.64	3.60	2.16	1.04	0.31	2.88	0.69
C IPCB								
1980-81	3.62	2.66	0.96	3.14	0.06	0.10	0.09	-0.05
1989-90	3.66	8.06	-4.40	6.59	0.16	0.74	-0.22	-0.02
Grand mean	2.25	5.06	0.47	3.76	0.09	0.18	0.40	0.13

an average profitability ratio of 2.61 per cent. The decrease in profitability ratio was due to considerable fall in spread ratio. Although, the Bank had a spread ratio of 5.20 in the year 1980-81, it had been gradually declined to 3.54 in 1989-90. This decline in spread ratio may be attributable to the increase in interest expenses of the Bank without a corresponding growth in interest income. However, the fall in manpower expense ratio and improvement in non-interest income ratio gives the positive signals of efficient funds management. But the increase in other expense ratio is unfavourable for the Bank.

Table further depicts that GCUB had an average profitability ratio of 0.69 which is much below that of KTCB. This decline in poriftability ratio was partly on account of the rise in burden ratio and partly because of the fall in spread ratio. Burden of the Bank had increased on account of highest manpower and other expense ratio and lowest non-interest income. The lowest rate of income earned from lending operations was responsible for the decline in the spread ratio.

Profitablity ratios worked out for IPCB reveals that bank's total performance in its business operation was very poor. It had an average profitability ratio of only 0.13 per cent. In majority of the years under study, the Bank was

running on loss. As evidenced from the table, many reasons are attributable for this poor performance. Firstly, the interest income of the Bank was disproportionate with interest expenses. Actually, in the accepting and lending operation too, the Bank had no spread. Secondly, manpower expense ratio of the Bank was very high which in turn resulted into highest burden ratio. Another striking observation is that the profitability ratios of the Bank were negative in majority of the years under study.

A comparative analysis of the three banks based on their profitability performance reveals that KTCB made commendable headway in their ability to make profit. KTCB had a very good spread ratio, as there was considerable margin between the interest income and interest expense of the Bank. However, a deficiency is found with regard to steep rise in the bank's interest expense. In spite of the considerably low interest expense, the profitability of GCUB had come down enormously mainly because of the low interest income and high manpower and other expenses. With regard to IPCB, it is better not to have a comparison. The unique feature of IPCB is that, Bank had no spread in majority of the years and was running at a loss continuously.

5.5(b) Liquidity and business efficiency ratios

Liquidity performance of the banks are examined with the help of liquid asset-deposit ratio and cash asset - deposit ratio. Liquid asset-deposit ratio is computed to bring into light the proportion of deposits mobilised kept as liquid assets and the proportion of deposit fund used for profitable investments. Cash asset to deposit ratio shows the proportionate share of deposits which is kept as idle fund. As per the Banking Regulation Act as applicable to Cooperative Banks (1965) they have to maintain 25 per cent of Time and Demand Liabilities of the bank in the form of liquid assets and 3 per cent in form of liquid cash. Usually banks keep a higher percentage of deposits mobilised in the form of fluid funds in order to meet the money needs of depositors on demand. But a holding of lower proportion of fund as liquid may cause difficulties in meeting the obligations of depositors, while a large proportion would not allow the banks to make the optimum use of its resources and would affect its profitability adversely.

Table 5.5 (b) presents liquidity and business efficiency ratios of KTCB, GCUB and IPCB for the year 1980-81 and 1989-90. The table also depicts the grand mean of the ratios for the 10 years of the study. The liquidity and business efficiency ratios for the period of 10 years have

Table 5.5(b). Liquidity and business efficiency ratios of the sample banks for the periods 1980-81 and 1989-90

Name of Bank		Liquidity ratios		Business efficiency ratios		
		Liquid asset-deposit	Cash asset-deposit	Credit-deposit	Owned fund-borrowed fund	Overdues-demand
A. **KTCB**	1980-81	45.16	5.65	68.38	11.46	5.98
	1989-90	62.45	3.88	51.04	13.28	9.72
	Grand mean	42.50	4.44	70.93	13.09	7.04
B. **GCUB**	1980-81	47.61	3.99	66.91	18.62	15.75
	1989-90	56.77	1.45	49.27	7.85	16.45
	Grand mean	48.14	3.38	60.29	11.27	15.04
C. **IPCB**	1980-81	48.08	14.10	87.18	164.74	36.76
	1989-90	87.69	39.38	48.31	67.38	20.38
	Grand mean	50.16	17.75	28.03	74.44	34.15

been presented in Appendix-II. In this section, firstly we may discuss the liquidity performance of the banks.

In the table, it is found that the ratio of liquid assets to total deposits of KTCB ranged between 45.16 (1980-81) and 62.45 (1989-90) per cent. On an average 42.50 per cent of the total deposit was retained in the form of liquid assets during the period of 10 years. Table further shows that on an average 4.44 per cent of the aggregate deposit was retained as cash assets. When we compare the ratio of liquid assets and cash assets to total deposit from the year 1980-81 to 1989-90, it is observed that while the ratio of liquid asset showed an increasing trend, the ratio of cash asset depicted a declining trend. Therefore, the practice of investing more funds in liquid assets must be discouraged as the excess funds invested in liquid assets would result in greater loss of income and ultimately affects the profitability of the Bank.

Table 5.5 (b) reveals that the ratio of liquid assets of GCUB had increased from 47.61 in 1980-81 to 56.77 in 1989-90. On an average Bank had maintained 48.14 per cent of deposit in the form of liquid assets and 3.38 per cent of deposit in the form of cash assets. These percentages show that Banks have kept excess fund for liquidity.

Table 5.5 (b) indicates that IPCB had kept on an average, 50.16 and 17.75 per cent of the aggregate deposit in the form of liquid assets and cash assets respectively. It is also worthnoting that the ratio of liquid assets and cash assets were increased to 87.69 and 39.38 per cent in the year 1989-90 from 48.08 and 14.10 per cent in the year 1980-81 respectively. This gives the impression that year by year the liquid assets kept over and above the actual requirements are enormously increasing.

An overall analysis of the liquidity performance of the banks shows that although all banks are keeping excess liquid assets and liquid cash over and above the minimum requirements, the excess cash balance and liquid assets maintained was found to be uncontrollable in IPCB when compared to KTCB and GCUB. If proper attention is given, the excess amount hold in liquid assets and cash can be reduced at the desired level and the tendency of keeping more fund in liquid assets year by year can be brought in controllable limit. This calls for the scientific evaluation of the liquidity requirements of the Banksat regular intervals and utilising the excess fund kept as idle for profitable deployment.

Besides, profitability and liquidity performance ratios, credit-deposit, owned fund-borrowed fund and overdue-

demand ratios are used to judge the business strength of the banks. Credit-deposit ratio shows the proportion of aggregate deposit of a bank distributed as credit. Higher credit deposit ratio stands for better performance in credit disbursement for a given level of deposits. Capital adequacy of the banks can be examined by computing the owned fund - borrowed fund ratio. Generally, more than 90 per cent of the borrowed funds of urban banks is in the form of deposits accepted by the banks. Therefore, it is essential that the owner's equity of the banks should cover at least a minimum per cent of the total deposit liability of the banks. In such a situation, banks can retain and repose the confidence of the depositors. The efficiency of any lending institution depends to a great extent on the efficient recycling of funds. Therefore, an attempt is also made to study the overdue position of the banks in relation to the total loans outstanding.

Table 5.5 (b) also presents the business efficiency related ratios such as credit-deposit ratio, owned fund-borrowed fund ratio and overdue-demand ratio.

The table shows that credit deposit ratio of KTCB had come down to 51.04 per cent in 1989-90 from 68.38 per cent in 1980-81. On an average the Bank had maintained credit-deposit ratio of 70.93 per cent. It shows that a lion's share of

aggregate deposit of the Bank were distributed as credit. Owned fund-borrowed fund ratio shows that Bank had an average of 13.09 per cent of borrowed fund as the owned fund. It gives the indication that the proportion of owned fund of the Bank is enough to retain the confidence of the depositors. Table also depict that Bank is efficient in recycling of funds as the overdue-demand ratio was kept as low (7.04 per cent).

The table also points out that GCUB could distribute about 60.29 per cent of the aggregate deposit as credit. However, an uneasy trend is observed if we compare the ratio in the year 1980-81 and 1989-90. The credit-deposit ratio had been steadily declined to 49.27 per cent in 1980-81 from 66.91 per cent in 1989-90. This was because, the year by year investment of deposit money in liquid assets and cash was on an increasing scale. The owned fund-borrowed fund ratio points out that on an average the Bank had 11.27 per cent of the borrowed fund as owned fund. This brings out the fact that Bank is adequate in capital and therefore the safety of the deposit liability of the Bank is not questioned. On an average, 15.04 per cent of the total loans outstanding of the Bank was found to be overdue. This reveals that Bank had shown poor performance in the recycling of funds.

Information furnished in the Table 5.5 (b) reveals that on an average IPCB had a very low credit-deposit ratio of

28.03 per cent. This was because, lion's share of the aggregate deposit of the Bank was invested in liquid assets and cash. Owned fund-borrowed fund ratio shows that 74.44 per cent of the borrowed fund was owned fund. This gives the warning that deposit liability of the Bank is not adequate and ultimately it may leads to lower volume of business and poor profit for the Bank. The table also depict that the overdue-demand ratio was also high (34.15 per cent). This means that the lending efficiency of the Bank is adversely affected due to its inefficiency in the recycling of funds.

A comparison of the business performance of the banks in relation to credit-deposit ratio, owned fund-borrowed fund ratio and overdue-demand ratio shows that KTCB was found to be considerably superior in their business operation. Next to KTCB, GCUB is stood as second in its business performance. The lowest and poor performance were witnessed in IPCB on a whole. Thus it can be safely infered that KTCB had shown comparatively performance in resource management, GCUB had an average performance, and the IPCB is stood as the bank with poor performance.

5.6 Risk-return trade-off in the funds portfolio

Financial institutions including banks, in a bid to maximise owner's wealth should strive to maximise return while

minimising risk. In doing so, a proper balance between return and risk should be maintained. Such a balance is called risk-return trade-off. A totally equity financed firm will have no financial risk. But when debt is used in the capital structure, financial risk of the firms is added. Normally deposit liability constitutes a lion's share of finance mix of the banks. Analysis of source portfolio of funds revealed that the debt-equity ratio will be higher in banks. When the debt (borrowed funds) in relation to equity (owned funds) is higher, naturally the risk exposure of the banks will also be greater. One of the measures of financial risk is the "Equity Multiplier". It shows the incremental rupee amount of the total debts, due to the change in the equity base of the banks. According to this concept, larger the equity multiplier computed, greater will be the risk exposure of funds portfolio.

In this section of analysis, an attempt is made to compare the financial risk measured by the equity multiplier with the profit of the banks. Such an analysis will help us -

1. to examine whether the banks have maintained a proper balance between their risk and return.

2. to examine the pros and cons of matching or mis-matching of risk and returns of the banks under study.

Table 5.6 (a) presents information about the total equity of owners, total debts, change in equity and debts, equity multiplier and profit of the banks during the period 1980-81 to 1989-90. In all the banks under study, the equity multiplier worked out over the years did not show a uniform pattern of growth. This indicates the fact that rate of growth of equity and debts were not proportionate. Except in the Bank, IPCB, there had a steady growth of equity and debt over the years.

The table also clearly reveals that the value of equity multiplier computed for IPCB was higher than the KTCB and GCUB. Therefore, according to the concept of equity multiplier, the risk exposure of funds portfolio of IPCB would be greater. The lowest risk exposure of funds portfolio was found in KTCB as the equity multiplier worked out over the years showed relatively small figures. Next to KTCB, the risk exposure of GCUB was also lowest when compared with that of IPCB. The absolute figures of profits given in the table indicates that there had a steady growth of profit in KTCB. While GCUB had maintained its profit more or less steady, IPCB was running at a loss during the majority of years under study.

A comparison of equity multiplier (risk) and profit (return) reveals that although there had no direct

Table 5.6(a) Risk-return trade-off in the funds portfolio of the sample banks for the period 1980-81 to 1989-90

(Rs. in lakh)

Sl. No.	Parameters	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
A.	**KTCB**										
1.	Equity	28.91	37.16	45.40	57.11	72.61	87.95	166.02	143.02	175.56	202.94
2.	Change in equity (ΔE)	--	8.25	8.24	11.71	15.50	15.34	28.07	27.00	32.54	27.38
3.	Debt	252.27	282.77	347.81	435.19	608.47	713.98	872.39	995.14	1143.54	1529.27
4.	Change in debt (ΔD)	--	30.50	65.04	87.38	173.28	105.51	158.41	122.75	148.40	385.73
5.	Equity multiplier	--	3.70	7.89	7.46	11.18	6.88	5.64	4.55	4.56	14.09
6.	Profit	6.22	6.53	7.82	10.29	15.04	16.81	24.85	28.17	30.22	32.42
B.	**GCUB**										
1.	Equity	22.47	25.46	28.39	30.17	36.15	41.65	45.51	50.89	55.04	57.24
2.	Change in equity (ΔE)	--	2.99	2.93	1.78	5.98	5.50	3.86	5.38	4.15	2.20
3.	Debt	120.68	163.76	198.95	276.35	418.15	404.67	332.14	494.15	569.33	729.63
4.	Change in debt (ΔD)	--	43.08	35.19	77.40	141.80	-13.48	27.47	62.01	75.18	160.30
5.	Equity multiplier	--	14.41	12.01	43.48	23.71	-2.45	7.12	11.53	18.12	72.86
6.	Profit	2.91	2.59	3.52	2.26	3.09	3.32	3.08	3.22	3.74	2.32
C.	**IPCB**										
1.	Equity	2.57	2.53	2.33	2.21	2.26	2.17	1.81	1.86	2.13	2.19
2.	Change in equity (ΔE)	--	-0.04	-0.20	-0.12	0.05	-0.09	-0.36	0.05	0.27	0.06
3.	Debt	1.56	1.77	2.36	2.62	3.45	3.85	5.25	4.69	4.34	3.25
4.	Change in debt (ΔD)	--	0.21	0.59	0.26	0.83	0.40	1.40	-0.56	-0.35	-1.09
5.	Equity multiplier	--	-5.25	-2.95	-2.16	16.60	-4.44	-3.89	-11.20	-1.30	-18.17
6.	Profit	-0.03	-0.06	-0.26	-0.40	0.27	-0.09	-0.41	-0.47	1.84	-0.07

Note: Equity multiplier = $\frac{\Delta D}{\Delta E}$

relationship between risk and return over the years in all the banks under study, the lowest risk exposure Bank, KTCB had made commendable profit compared with other two banks. In other words, with the existing level of risk, KTCB could make adequate profit. From this it may be inferred that KTCB was efficient in maintaining a proper balance between risk and return, as it had only a reasonably manageable level of risk. Under normal situation, higher the risk handled by the banks, greater may be the return from their operations. Since the level of risk maintained by the Banks, GCUB and IPCB was over and above the moderate risk to be managed, the returns of these banks were not in proportionate with their risk.

However, an indepth analysis of pros and cons of the mismatching of risk and return in GCUB and IPCB is also attempted here whereby comparing the results obtained in the previous sections of analysis of these banks with that of KTCB which could maintain a comparatively good risk-return trade-off in their funds portfolio.

Table 5.6 (b) presents the information about the result of the selected funds management indicators of risk and return of the banks under study. Firstly we may discuss the equity-debt composition of funds of the banks. Equity-debt ratio which is directly explaining the risk factor of funds portfolio was found to be moderate in KTCB (13.09 per cent).

Table 5.6(b). Selected funds management indicators of risk and return of the banks under study

(Figures in percentage)

Sl. No.	Parameters	KTCB	GCUB	IPCB
1.	Borrowed fund (Debt)	88.14	90.64	58.69
2.	Owned fund (Equity)	11.86	9.36	41.31
3.	Equity-debt ratio	13.09	11.27	74.44
4.	Fixed deposit in the total deposit	78.46	77.80	85.54
5.	Loans and advances in the total deployment	58.48	53.16	33.96
6.	Short term loans in the total loans & advances	59.20	50.59	51.65
7.	Credit-deposit ratio	70.93	60.29	28.03
8.	Short-term mobilisation	19.68	21.51	8.19
9.	Short-term deployment	71.95	73.84	40.40
10.	Liquid asset-deposit ratio	42.50	48.14	50.16
11.	Overdue-demand ratio	7.04	15.04	34.15
12.	Spread ratio	4.36	3.60	0.47
13.	Burden ratio	1.73	2.88	0.40
14.	Profitability ratio	2.61	0.69	0.13
15.	Net difference of coefficient of variation in funds source & use	0.28	0.38	3.48
16.	Net difference of coefficient of variation in business operation	0.09	0.10	10.56

Note: Compiled from the results obtained under the previous sections of results and discussion chapter

The ratio indicates that KTCB had an equity of Rs.13.09 out of the debt of rupees hundred. This level of contribution of equity in the total debt may be responsible for the moderate risk exposure of the Bank, KTCB. GCUB had an equity-debt ratio of 11.27 per cent which is smaller compared to that of KTCB. But an extremely high equity-debt ratio of 74.44 per cent was found in IPCB. It shows that Bank, IPCB had not fully traded on equity. Like other financial institutions, trading on equity is an essential feature of the banks. However, an extremely high and low trading on equity may not be feasible for the successful functioning of the banks. In the case of IPCB, due to the biggest share of equity in the total fund (41.31 per cent), it had much low trading on equity which is against the principles of normal functioning of the banks. Unlike IPCB and GCUB, KTCB had an affordable level of equity-debt ratio which may be one of the reasons for the matching of risk and return in KTCB.

The share of fixed deposit in the total deposits mobilised was about 78 per cent each in KTCB and GCUB. But in IPCB, the share of fixed deposit was about 86 per cent. This very high proportion of fixed deposit naturally brings about heavy interest expense for the banks which may adversely affect the profitability of the banks unless the funds mobilised through fixed deposits are productively employed in

funds for profit yielding activities, ensure frequent recycling of funds, and retain sufficient margin between the interest income and interest expense. Ratios computed such as spread, burden and profitability ratios also prove that KTCB had made commendable headway in its ability to make profit when compared to that of GCUB and IPCB.

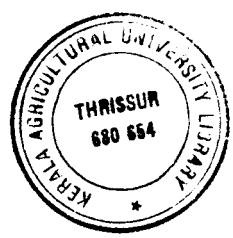
On the other hand, poor credit-deposit ratio, unfavourablve liquid assets-deposit ratio, relatively low share of loans and advances in the total funds deployment, and mounting overdues, adversely affected the frequent recycling of funds, and resulted in low margin for the banks, GCUB and IPCB. Profitability ratios also revealed that these banks had not come-up with KTCB in improving the margin between spread and burden. In spite of the slightly higher short term mobilisation and deployment which may yield more profit under normal situations, GCUB could not improve its profitability due to the increased manpower and other expenses.

From the earlier discussions of cause and effect relationship of risk and return of the banks under study, it can be observed that there are valid reasons to establish that KTCB had maintained compatibility in their risk and return. The comparison of the selected funds management indicators of GCUB and IPCB with KTCB reveals that these banks were not followed a scientific approach in the mobilisation and

deployment of funds and consequently lacked a proper balance between risk and return.

To sum up, although KTCB had made comparatively satisfactory level of performance in resource management, certain deficiencies are also identified. Therefore, the future resource management strategies of KTCB should aim at: (1) reducing high dependence on fixed deposits for finance, (2) improving the share of mobilisation and deployment of funds for short periods (3) utilising the excess fund kept as idle cash and liquid asset for profitable deloyment (4) bringing down the administrative and other expenses, and (5) deploying more amount of funds in short term loans and advances. The Bank, GCUB had shown an average performance in the management of mobilisation and deployment of funds. Besides, strictly following all the remedial measures to be taken by KTCB, steps may also be taken to improve equity debt ratio, reduce excess deployment of funds in liquid assets and cash over and above the statutory requirements to enhance credit-deposit ratio, reduce mounting overdues, improve profitability through tactful deployment of funds, and thus finally build up a proper risk-return trade-off in the funds portfolio. An extremely poor management of resources was observed in IPCB. A thorough restructuring of existing portfolio of funds of IPCB is required to make the Bank feasible and operationally

viable. This in turn, invites the attention of the policy makers of the Bank. Among many changes to be initiated in the funds portfolio, developing a desirable proportion of owned funds and borrowed funds merits highest priority so as to retain the very essential feature of trading on equity in its business operations.



CHAPTER VI

SUMMARY

Urban Co-operative Banks, like other banking institutions entirely depends on the availability of financial resources for their successful functioning. But in developing a strong resource base for its survival and growth, Urban Co-operative Banks were not proved to be efficient. Among many reasons, the deficiencies associated with the management of sources and uses of funds may be responsible for their poor performance. Therefore, an attempt was made to study the resource management practices of Urban Co-operative Banks in Thrissur district.

The study which throws light into the composition of sources and uses of funds and operational efficiency of resource management in general, enables to understand the various problems associated with the management of funds which in turn may help the banks to formulate a more scientific method for resource management. Based on the volume of business and geographical location, three banks out of the seven Urban Co-operative Banks in Thrissur district were selected for detailed study. Data collected from the audited financial statements of the banks were analysed using the

pretested statistical and financial management techniques, like, coefficient of variation and equity multiplier.

The major inferences emerged out of the findings of the study are briefly explained as follows.

6.1 Source portfolio of funds

Analysis of source portfolio of funds revealed that deposits constitute the major source of fund for Urban Co-operative Banks. It shows the credibility of the member depositors and public at large in the functioning of these banks. The borrowings of the banks are quite negligible. Hence, the total borrowed funds of the banks are mainly comprised of the deposits. The share of deposit in the total funds was highest in KTCB (91 per cent), followed by GCUB (88 per cent) and lowest in IPCB (59 per cent). The decreased share of deposits in IPCB should essentially get the attention of the policy makers in order to augment the composition of deposits of the Bank.

The study reveald that KTCB and GCUB had adequate and strong capital base so as to retain and repose the confidence of the depositors. The share of owned fund of KTCB and GCUB was about 12 per cent and 9 per cent respectively. The proportion of owned fund in the bank, IPCB, was about 41 per

cent of the total fund. This adverse situation was because, Bank has not come up with KTCB and GCUB in the case of mobilisation of deposits.

The study observed that the accumulated reserves have contributed significantly to the increase of the funds of the banks. Among the other components of the owned fund, share capital had a steady growth in all the banks. With regard to profit, while the profit of KTCB contributed upto 2 per cent of the total fund, GCUB retained its profit more or less constant over the years. Against this, IPCB was making loss continuously.

Deposit mix analysis showed that the proportionate share of fixed deposit in the total deposits was the highest in all the banks. Its share varied between 78 per cent to 86 per cent of the total deposits. Higher the share of fixed deposits, the interest liability of the banks would be greater. Therefore, in order to meet the interest cost incurred on such deposits and to create profit, banks have to deploy their funds efficiently. Since there are limits to check the interest cost on deposits, as they are statutory and beyond the control of banks, banks should economise their non-interest cost like administrative cost, and improve their revenue by the profitable deployment of funds. Banks may also encourage the mobilisation of more amount of saving and

current deposits the interest cost of which are comparatively low.

6.2 Use portfolio of funds

Deployment of funds in loans and advances of KTCB, GCUB and IPCB (58, 53 and 34 per cent) was found below the desirable level, as the banks can deploy upto 60 to 70 per cent of the total funds for profitable purposes after meeting their statutory obligations. This poor investment in loans and advances may be partly due to gradual decrease in the genuine loan application and partly due to the high degree of liquidity consciousness.

Of the three types of loans and advances, short term loans and advances occupied the highest place in the deployment of funds. This may be attributable to the policy taken by the banks to deploy their funds for short periods which would facilitate the frequent recycling of funds, ultimately leading to the increased profit, and easy accessibility to meet the liquidity needs of the banks. The study also observed that funds were not rationally allocated from the view point of periodicity of funds on the ground that short term loans and advances of the banks which account for a lion's share of total loans and advances were financed through the fixed deposits which constituted the bulk of the total deposits (see Table 5.1(b) and 5.2(b).

An unhealthy trend was noticed that the proportionate share of investment increased year by year in absolute as well as relative terms. Under normal situations, deployment of funds in investments yield lesser income and therefore, care should be taken to reduce investments and maintain it in the range of 25 to 30 per cent of the total funds.

The amount of fund kept as idle cash was enormous in IPCB (29 per cent). This may be one of the reasons for the poor profitability of the Bank. The banks, KTCB and GCUB had maintained their cash balances somewhat near the statutory cash reserve ratio of 3 per cent. However, to attain higher performance, all the banks especially IPCB, should reduce their cash balances.

Investments of funds in fixed assets was very nominal and ranged between one per cent to two per cent. From this, it can be said that, urban banks have made lesser commitment of resources to fixed assets. Sometimes, this may be occurred in the absence of expansion progrmmes of the banks during the period of study.

6.3 Variations in the sources and uses of funds

Net difference of coefficient of variation worked out for the sources and uses of funds and business operations showed that KTCB had maintained consistency in the management

of funds, just followed by GCUB. However, the Bank, IPCB has shown less consistency in the management of their funds.

6.4 Short term and long term composition of funds

The composition of the short term fund mobilised and deployed were highest in GCUB (22 and 74 per cent), followed by KTCB (20 and 72 per cent) and lowest in IPCB (8 and 40 per cent). In the banks, KTCB and GCUB, although they had 80 per cent and 72 per cent of the funds mobilised respectively as long term, they could deploy about 72 per cent and 74 per cent of the total fund as short term. This might have helped these banks to generate profit as their investments for short periods facilitated the frequent recycling of funds. In IPCB, because of the higher proportion of long term fund mobilisation (82 per cent) and lower short term fund deployment (40 per cent), it could not improve the spread between interest income and interest expense and created loss in majority of the years under study. Therefore, as far as possible, banks may increase the mobilisation of short term funds and deploy the funds in the high yielding short term loans and advances.

6.5 Operational efficiency of resource management

Profitability performance analysis revealed that KTCB had made remarkable progress in their ability to make profit.

Due to the considerable margin between the interest income and interest expense, KTCB had a very good spread ratio. However, a steep rise in the Bank's interest expense was observed in the study. In spite of the considerably low interest expense, the profitability of GCUB had come down enormously mainly because of the low interest income and high manpower and other expenses. With regard to IPCB, Bank had no spread in the majority of the years and was making loss continuously.

Although all banks had kept excess liquid assets and liquid cash over and above the statutory requirements, the excess cash balance and liquid assets maintained was found to be uncontrollable in IPCB. In KTCB and GCUB, if proper attention is given, the excess amount blocked in liquid assets and cash can be reduced to a desired level. This calls for the scientific evaluation of the liquidity requirements of the banks at regular intervals and utilising the excess fund kept as idle for profitable deployment.

While KTCB had maintained a credit-deposit ratio of 74 per cent, GCUB and IPCB could provide only 60 per cent and 28 per cent of aggregate deposit as credit. The very poor credit-deposit ratio in IPCB was due to the bulk investment of funds in liquid asset and cash. The owned fund-borrowed fund ratios showed that KTCB and GCUB had adequate capital base and therefore the safety of deposit liability is not questioned.

The high owned fund-borrowed fund ratio in IPCB gives the warning that deposit liability of the Bank is not adequate. The overdue demand ratio showed that KTCB was somewhat efficient in the recycling of funds as the ratio was kept as low (7 per cent). Contrary to this, GCUB and IPCB had 15 per cent and 34 per cent of the total loans outstanding as overdue. This may adversely affect the lending efficiency of the banks. Therefore, banks should take follow up actions in issuing loans to improve recovery percentage of loans.

6.6 Risk-return trade-off in the funds portfolio

A comparison of equity multiplier (risk) and profit (return) of the banks revealed that the lowest risk exposure Bank, KTCB had made commendable profit. KTCB was efficient in maintaining a risk-return trafe-off, as it had only a manageable level of risk. Against this, there had no proper balance between risk and return in GCUB and IPCB. Unlike, GCUB and IPCB, KTCB had an affordable level of equity-debt ratio which is responsible for the matching of risk and return in KTCB. Because of the extremely high equity-debt ratio in IPCB and relatively low equity-debt ratio in GCUB, trading on equity was not favourable in these banks.

Highest share of fixed deposit in the total deposits without a corresponding share of short term loans and advances

caused to reduce the margin between interest income and interest expense which in turn adversely affected the profitability of the banks, especially IPCB. Another reason responsible for the mismatching of risk and return in GCUB and IPCB was that these banks had maintained less consistency in the growth pattern of their funds portfolio. Poor credit-deposit ratio, unfavourable liquid assets-deposits ratio, relatively low share of loans and advances, and mounting overdues, adversely affected the frequent recycling of funds and resulted in low margin for the banks, GCUB and IPCB. Profitability ratios also indicated that these banks had not come up with KTCB in improving the margin between spread and burden. Because of the above mentioned reasons, GCUB and IPCB had not maintained compatibility in their risk and return and naturally lacked a risk-return trade-off in their funds portfolio.

6.7 Conclusion

Eventhough a number of problems and deficiencies on the resources management practices of the banks were identified, the performance of KTCB in general was found to be fairly well. GCUB had also showed an average performance. Nevertheless, the performance of IPCB in the management of financial resources was very poor. The progress made by the banks in the deposit mobilisation indicates the confidence of

public in the working of Urban Co-oprative Banks. Because of the relatively high share of fixed deposits in the total funds procured, banks have to generate adequate profit through the tactful deployment of funds sufficiently enough to cover the huge interest liability incurred on fixed deposits and to retain margin for the banks. Besides enhancing the mobilisation of deposits through saving and current deposits, the interest burden of which are relatively low, banks should adopt a positive approach to bring down the administrative expenses. More amount of money should be invested in short term loans and advances. Deployment of funds for short periods can ensure frequent recycling of funds, maximise profit and keep the liquidity needs met. As far as possible banks may minimise keeping of excess liquid assets and liquid cash and thus utilise the excess fund kept as idle for income yielding activities. Banks must also take sufficient care to maintain a manageable level of risk which may help to build up a proper risk-return trade-off in their funds portfolio. To attain this objective, trading on equity of the banks must be moderate and operationally viable. To sum up, the operational efficiency of banks can be improved, if proper attention is paid on the areas like deposit mobilisation, reduction in manpower and operating expenses, deployment of funds, risk management and recovery of loans. This in turn calls for the scientific evaluation of the source and use of funds portfolio of the banks at regular intervals.

BIBLIOGRAPHY

BIBLIOGRAPHY

Abdul Noor Basha et al. (1990). Factors affecting deposits, advances, and profits of DCCBs (A case study of Vijayawada Cooperative Central Bank Ltd. (AP). Indian Cooperative Review 27 (4): 368-374.

Ananthakrishnan, E.P. (1990). Management of liquidity and credit deposit ratio in banks. Banker 37 (9): 22-23.

Angadi, V.B. (1987). Integrated approach to study bank's profitability. Prajanan 16 (4): 523-538.

Babu K. Satheesh et al. (1991). Urban banking in Kerala vexed by operational problems. Tamil Nadu Journal of Cooperation 83 (7): 401-406.

Bala Shunmugam. (1989). Managing the funds of financial institutions. Chartered Accountant 37 (7): 615-622.

Baughn, W.H. and Walker, C.E. (1977). The Bankers Handbook, Dow Jones - Irwin, Hamwood, Illinois.

Bhorali, D. (1987). Co-operative Banking and Economic Development. Deep and Deep Publications, New Delhi.

Birla Institute of Scientific Research, Economic Research Division. (1981). Banks Since Nationalisation. Allied Publishers Private Limited,, New Delhi.

Clifford, John. T. (1980). A perspective on asset liability management. Part I & II, in. Brick John. R. Edr. Bank Management Concepts and Issues, Reston Publishing Company, Inc., Virginia.

Deobhankar, S.G. (1986). Lending operation of DCBs in Gujarat, Sahakarita Samsoda **11** (1):

Deshpande, D.D. (1986). An aspect of bank profitability analysis. State Bank of India Monthly Bulletin **6** (8): 1-3.

Gajare, L.H. (1990). Steps to increase productivity and profitability in Urban Co-operative Banks. Urban Credit **12** (3):

Goiporia, M.N. (1990). Optimum utilisation of resources under the constraints of credit policy - Impact on profitability and viability of the banking system. in. Proceedings and Papers of Bank Economists conference 1990, United Bank of India, Calcutta.

Government of India (1963). Report of the study group on Credit Co-operatives in the non-agricultural sector.

Government of Kerala (1989). Handbook on Co-operative Movement in Kerala, 1988-89.

Gupta Sen (1991). Analysis of funds flow statements - Banker's view point, Indian Banking Today and Tommorrow, **16** (5): 3-9.

Howard, Bion, B. and Upton, M. (1953). Introduction to Business Finance, Mc Graw-Hill Co., New York.

Hukku, V.N. (1977). Analysis of Bank Deposits in India, Ph.D. Thesis, University of Jodhpur, Jodhpur.

Hundekar, S.G. (1989). Zero base budgeting in Urban Co-operative Banks, Tamil Nadu Journal of Co-operation, **80** (7): 412-418.

Jain, J.L. (1990). Optimum utilisation of resources under the constraints of credit policy, in Sen, A.K. et al. ed. Banking in the 1990s, Himalaya publishing House, Bombay.

Jain, M.K. (1984). Funds Management in selected Nationalised Banks, Ph.D. Thesis, Kurukshetra University, Gwalior.

John, W.A. (1988). Funds Management in DCCBs - Cost and return analysis, Indian Co-operative Review, **25** (3): 235-242.

Joshi, N.C. (1984). Financial aspects of bank mismanagement, Journal of Indian Institute of Bankers, (1): 47-51.

Joshi, P.N. (1986). Profitability and profit planning in banks, Journal of Indian Institute of Bankers, **57** (2): 128-143.

Kanthale, A.R. (1990). Optimum utilisation of resources under the constraints of credit policy, in. Proceedings and Papers of Bank Economists Conference 1990, United Bank of India, Culcutta.

Kishore, C.R. (1992). Strategies of deposit mobilisation by commercial banks, Southern Economist, **30** (24): 5-8.

Knight, Robert, E. (1980). Customer profitability analysis, in. Brick, John, R. Edr. Bank Management Concepts and Issues, Reston Publishing Company, Inc., Virginia.

Kulandaiswamy, V. and Nagarajan, C. (1986). Viability of Urban Co-operative Banks : A study of Coimbatore District (Tamil Nadu) Indian Co-operative Review, **24** (1): 56-64.

Mishkin, F.S. (1989). The Economics of Money, Banking and Financial Markets, Scott, Foresman and Company, Glenview, Illinois.

Mohandas, M. (1990). Deposit Mobilisation Campaigns by Co-operative Banks : Performance of a District Co-operative Bank, Prajanan, **19** (2): 151-167.

Munshi, K.G. (1990). Financial Management Techniques, Anmol Publications, New Delhi.

Naidu, M.R. et al. (1988). Factors determining the overdues pattern and net profits in Co-operative Urban Bank - A case study, Indian Co-operative Review, **26** (1):

Narayana Swamy, N. and Ramachandran, S.R. (1987). Profitability Performance of a District Central Co-operative Bank - A case study, Indian Co-operative Review, **25** (2): 210-215.

Nayan Kamal (1985). Commercial Banks in India - Performance Evaluation, Deep & Deep Publications, New Delhi.

Pancras, V. (1978). Fund Management in Co-operative Banks, Indian Co-operative Review, **15** (4): 443.

Pandey, D.P. (1987). Cash management in banks, Pigmy Economic Review, **32** (11): 2-5.

Pandey, I.M. (1986). Financial Management, Vani Educational Books, New Delhi.

Pareek, Govind (1990). Central Co-operative Banking in a Developing Economy, National Publishing House, Jaipur.

Parulkar, A.V. (1990). Cost-benefit implications of inter-bank deposits, in. Proceedings and Papers of Bank Economists' Conference 1990, United Bank of India, Culcutta.

Patil, S.G. and Malati Anagol (1989). Priority sector advances by Urban Co-operative Banks - Some observations and suggestions, Indian Co-operative Review, **27** (2): 133-140.

Purushotham, K. (1987). Productivity and Cost Control in Banks. Tamil Nadu Journal of Co-operation **78** (11): 691-696.

Rama, B.R. and Venkatram, J.V. (1989). Application of financial ratio analysis in agri-business firms - A case study of Farmers Service Society (FSS) in Bangalore District, Karnataka, Indian Co-operative Review, **26** (4):

Rangarajan, C. (1990). Optimum utilisation of resources under the constraints of credit policy, in. Proceedings and Papers of Bank Economists' Conference 1990, United Bank of India, Culcutta.

Reed, Edward, W. et al. (2984). Commercial Banking Prentice Hall, Inc. Englewood Cliffs, New Jersey.

Reserve Bank of India (1965). Banking Laws (Applicable to Co-operative Societies) Act, 1965, Bombay.

Reserve Bank of India (1979). Report of the Committee on Urban Co-operative Banks, Bombay.

Samentaray, P.C. (1988). Development of Urban Co-operative Banks in India and its role, Urban Credit, **10** (3):

Satya Sundaram (1984). Banks :Improving productivity and profitability, Journal of Indian Institute of Bankers, **55** (3): 155-160.

Shah, S.G. (1979). Bank Profitability : The real issues, The Journal of Indian Institute of Bankers, **50** (3): 25-27.

Shah Vipin (1987). Factors Affecting Costs and Efficiency of Banking Services at Branch Level, Ph.D. Thesis, M.S. University, Baroda.

Singh, R.K.P. (1983). Profitability of RRBs in Bihar, Journal of Indian Institute of Bankers, **54** (2): 98-104.

Srinivas, M. (1986). Organisation and Management of Central Co-operative Banks in Andhra Pradesh : A case study, Ph.D. Thesis, Kakatiya University, Warrangal.

Subba Rao, P. (1988). Principles and Practice of Bank Management, Himalaya Publishing House, Bombay.

Swaminathan, R. (1972). Portfolio Management of Commercial Banks, Journal of Indian Institute of Bankers, **44** (4): 436-440.

Tannan, M.L. (1990). Banking Law and Practice in India, Orient Law House, New Delhi.

Turan, M.S. (1991). Financial base in co-operative banks - A study of three tier structure in Haryana, Indian Co-operative Review, **29** (1): 55-61.

Vanhorne, C.J. (1978). Fundamentals of Financial Management, Prentice Hall of India, New Delhi.

Varde, V.S. and Singh, S.P. (1983). Profitability of Commercial Banks, National Institute of Bank Management, Pune.

Venkiteswaran, S. (1987). Performance of Co-operative Banks in Kerala - A case study of the operational efficiency of PACS, Sahakarita Samshodhan, **3** (1): 53-56.

Winfred, John, A. (1982). Mobilisation of resources by Co-operative Banks - An assessment, Land Bank Journal, **20** (3): 31-39.

APPENDICES

Appendix - I

Profitability ratios of the banks for the period 1980-81 to 1989-90

Sl. No.	Ratios	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Grand mean
A.	**KTCB**											
1.	Interest income	11.19	10.98	11.08	11.60	11.84	11.63	12.66	12.75	13.17	11.72	11.85
2.	Interest expense	5.99	6.48	6.40	6.56	7.79	7.72	8.33	8.69	8.89	8.23	7.41
3.	Spread	5.20	4.50	4.68	5.04	4.05	3.91	4.33	4.06	4.28	3.50	4.36
4.	Manpower expense	2.19	2.25	2.52	2.35	2.12	1.89	1.64	1.65	1.84	1.53	1.96
5.	Other expense	0.32	0.35	0.30	0.80	0.80	1.00	1.31	1.28	1.53	1.61	0.79
6.	Non-interest income	0.98	0.96	0.89	0.66	1.17	1.02	1.23	1.45	1.41	1.63	1.13
7.	Burden	1.53	1.64	1.83	2.03	1.78	1.84	1.72	1.49	1.96	1.51	1.73
8.	Profit	3.67	2.86	2.75	3.01	2.27	2.07	2.61	2.57	2.62	2.03	2.61
B.	**GCUB**											
1.	Interest income	10.41	8.88	10.07	10.38	8.57	10.43	10.80	11.44	11.60	10.66	10.20
2.	Interest expense	6.58	5.24	6.01	6.41	5.81	7.68	7.08	7.43	7.52	7.15	6.64
3.	Spread	3.83	3.64	4.06	3.97	2.76	2.75	3.72	4.01	4.08	3.51	3.60
4.	Manpower expense	2.78	2.49	2.12	2.45	1.60	1.60	2.28	2.78	2.25	1.89	2.16
5.	Other expense	1.19	1.08	1.17	1.04	0.70	0.84	1.03	0.91	1.43	1.55	1.04
6.	Non-interest income	0.72	0.47	0.47	0.38	0.73	0.21	0.30	0.25	0.36	0.25	0.31
7.	Burden	3.26	2.83	2.99	3.19	2.17	2.23	3.01	3.34	3.33	2.99	2.83
8.	Profit	0.27	0.28	1.24	0.78	0.58	0.52	0.71	0.67	0.75	0.52	0.69

Contd.

Appendix - I (Contd.)

Sl. No.	Ratios	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Grand mean
C.	**IPCB**											
1.	Interest income	3.62	4.84	1.22	1.73	8.33	2.80	1.62	3.87	0.17	3.66	2.25
2.	Interest expense	2.66	3.10	2.64	5.77	4.44	6.26	4.85	8.75	9.23	8.06	5.06
3.	Spread	0.96	1.74	-1.42	-4.04	3.89	-3.46	-3.23	-4.88	-9.06	-4.40	0.47
4.	Manpower expense	3.14	2.30	2.64	3.27	3.33	4.12	4.18	3.87	6.15	6.59	3.76
5.	Other expense	0.06	0.06	0.06	0.07	0.06	0.14	0.11	0.17	0.11	0.16	0.09
6.	Non-interest income	0.10	0.03	0.07	0.04	0.05	0.53	0.21	0.44	2.62	0.74	0.18
7.	Burden	0.09	0.13	0.12	0.20	0.19	-0.14	0.21	--	-2.15	-0.22	0.40
8.	Profit	-0.05	-0.07	-0.19	-0.41	0.02	-0.07	-0.45	-0.34	1.62	-0.02	0.13

Appendix - II

Liquidity and business performance ratios of the banks for the period 1980-81 to 1989-90

Sl. No.	Ratios	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Grand mean
A.	**KTCB**											
1.	Liquidity Ratios											
	a. Liquid asset -deposit	45.16	32.85	37.22	39.64	39.93	44.21	48.93	41.01	39.75	62.45	42.50
	b. Cash asset -deposit	5.65	4.97	5.87	4.81	5.05	4.67	6.06	4.72	5.63	3.88	4.44
2.	Business Efficiency Ratios											
	a. Credit-deposit	68.38	81.57	76.74	75.74	73.82	71.94	66.39	73.63	75.04	51.04	70.93
	b. Owned fund-borrowed fund	11.46	13.14	13.05	13.12	11.93	12.32	13.30	14.37	15.35	13.28	13.09
	c. Overdues-demand	5.98	4.99	5.21	6.17	5.33	8.33	9.19	7.86	9.95	9.72	7.04
B.	**GCUB**											
1.	Liquidity Ratios											
	a. Liquid asset -deposit	47.61	43.80	41.96	46.76	60.69	38.67	50.08	48.00	51.05	56.77	48.14
	b. Cash asset -deposit	3.99	5.46	7.61	7.64	4.76	6.95	1.31	1.05	2.35	1.45	3.38
2.	Business Efficiency Ratios											
	a. Credit-deposit	66.91	71.28	68.88	62.48	46.26	68.43	56.78	60.23	57.96	49.27	60.29
	b. Owned fund-borrowed fund	18.62	15.55	14.27	10.92	8.64	10.29	10.53	10.29	9.67	7.85	11.27
	c. Overdues-demand	15.75	13.71	14.97	11.34	13.41	13.79	20.98	17.88	14.19	16.45	15.04

Contd.

Appendix - II (Contd.)

Sl. No.	Ratios	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Grand mean
C.	IPCB											
1.	Liquidity Ratios											
	a. Liquid asset -deposit	48.08	40.68	36.44	49.62	58.26	49.09	47.24	42.64	56.45	87.69	50.16
	b. Cash asset -deposit	14.10	10.73	13.98	15.27	26.96	14.55	21.33	12.79	22.81	39.38	17.75
2.	Business Efficiency Ratios											
	a. Credit-deposit	87.18	47.46	34.75	30.15	26.09	19.74	11.43	10.66	22.81	48.31	28.03
	b. Owned fund-borrowed fund	164.74	142.94	98.73	84.35	65.51	56.36	34.48	39.66	78.34	67.38	74.44
	c. Overdues-demand	36.76	34.52	65.85	48.10	34.44	35.53	31.67	24.00	28.28	20.38	34.15

Appendix - III

Average volume of business and geographical location of Urban Co-operative Banks in Thrissur District

Name of the Bank	Volume of business (Rs. in lakh)	Taluk
Kodungallur Town Co-operative Bank	1206.50	Kodungallur
Trichur Urban Co-operative Bank	758.24	Trichur
Guruvayur Co-operative Urban Bank	601.57	Chavakad
Irinjalakuda Town Co-operative Bank	438.81	Mukundapuram
Kunnamkulam Urban Co-operative Bank	80.33	Thalapilly
Irinjalakuda People's Co-operative Bank	4.23	Mukundapuram

RESOURCE MANAGEMENT IN URBAN CO-OPERATIVE BANKS IN THRISSUR DISTRICT

By

BABU C. V.

ABSTRACT OF A THESIS

Submitted in partial fulfilment of the requirement for the degree

Master of Science in Co-operation & Banking

(CO-OPERATIVE MANAGEMENT)

Faculty of Agriculture

Kerala Agricultural University

COLLEGE OF CO-OPERATION AND BANKING

Mannuthy - Thrissur

1993

ABSTRACT

Study on [illegible] Management in Urban Co-operative Banks in [illegible] was conducted with the objective of examining [illegible] management practices of Urban Co-operative [illegible] with special reference to the management of sources and uses of funds. To identify problems and to suggest remedial measures [illegible] funds, observed that deposits constituted the [illegible] of total sources of funds of Banks. The [illegible] of the banks were negligible. The strong capital [illegible] the banks helped to retain the credibility of the depositors. Reserves which contribute the major chunk of the owned funds, increased the total source of funds. The high proportion of fixed deposits in the funds mobilised caused to raise the interest liability of the banks. Since there was little to control the interest cost, banks have to bring down their [illegible] and other expenses, improve income by the [illegible] deployment of funds, besides enhancing the mobilisation of deposits for short periods.

[illegible] the major share of loans and advances, short term [illegible] occupied highest place. However, banks may further [illegible] share of short term loans in the funds deployment, which [illegible] frequent recycling of funds, maximise profit and keep the liquidity needs met. The

major part of investment in short term loans and advances were financed through fixed deposit mobilisation. Funds were not rationally allocated from the view point of periodicity. Yielding lesser income to the banks, the investments increased enormously. The disproportionate growth of equity and debts of the banks intensified the risk exposure of funds portfolio. There had no direct relationship between risk and return of the banks and a proper risk-return trade-off is lacking in majority of the banks. Banks had kept excess liquid assets and liquid cash over and above the statutory requirements. This necessitates scientific evaluation of the liquidity needs to identify the funds blocked as idle and utilise the excess fund kept for profitable deployment. Credit-deposit ratio of the banks was below the desirable level and this affected the profitability adversely. The lending efficiency of the banks had also affected by the poor recycling of funds. Therefore, steps may be taken to improve, the credit deposit ratio, reduce mounting overdues, and ensure efficient management of risk and return which in turn calls for the scientific management of funds.