A STUDY ON FINANCIAL PERFORMANCE OF IRINJALAKUDA TOWN CO-OPERATIVE BANK (ITCB) LTD NO. 55

By

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(2005 – 05 – 113)

PROJECT REPORT

Submitted in partial fulfilment of the

requirement for the degree of

Bachelor of Science in Co-operation & Banking

Faculty of Agriculture

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

KERALA AGRICULTURAL UNIVERSITY

VELLANIKKARA, THRISSUR – 680 656

KERALA, INDIA

2009

Declaration

DECLARATION

I hereby declare that this project report entitled **A STUDY ON FINANCIAL PERFORMANCE OF IRINJALAKUDA TOWN CO-OPERATIVE BANK (ITCB) LTD NO. 55** is a bonafide record of research work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree / diploma, associateship, fellowship or other similar title of any other University or Society.

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Vellanikkara

17-12-2009

Betssy Baby Edattukaran

(2005 – 05 – 113)

Certificate

CERTIFICATE

Certified that this project report entitled **A STUDY ON FINANCIAL PERFORMANCE OF IRINJALAKUDA TOWN CO-OPERATIVE BANK (ITCB) LTD NO. 55** is a record of research work done independently by **Miss.Betssy Baby Edattukaran, (2005-05-113)** under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to her.

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CERTIFICATE

We, undersigned members of the Board of examination of **Miss. BETSSY BABY EDATTUKARAN, (2005–05–113)** a candidate for the degree of **B.Sc (Co-operation and Banking)** agrees that the project report entitled **A STUDY ON FINANCIAL PERFORMANCE OF IRINJALAKUDA TOWN CO-OPERATIVE BANK (ITCB) LTD NO. 55** may be submitted in partial fulfilment of the requirement for the degree.

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Betssy Baby Edattukaran

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Design of Study

1. Introduction

Banking system of a country plays a significant role in prompting economic development of every nation. A banking institution is an indispensable part of the modern society. It mobilizes the financial resources of the community and making them to flow into the desired channels. Indian banking system comprises of both organized and unorganized banking sector. The organized sector mainly consists of money market, commercial banks, regional rural banks, etc. Unorganized sector comprises of money lenders and indigenous banks.

2. Statement of the problem

The Irinjalakuda Town Co-operative Bank Ltd No. 55 was registered as a co-operative society on 3rd May, 1918. Later the society was converted into Urban Co-operative Bank in the year 1996 then the bank comes under the purview of the Banking Regulation Act, 1949.

According to the financial year 2007-08 there has been tremendous increase in the share capital which came up to Rs.323.37 lakhs. In the same year the membership increased from 23976 to 26358 members. The Non Performing Assets of the bank has been reduced to 4.06 percent and the Capital Adequacy Ratio (CAR) has been increased to 12.78 percent in the same year.

Even though the increased use of information technology and effects of globalisation, which have created more competition environment in which a lowest cost structure often becomes a critical success factor.

The main motto of the Co-operative Bank is service rather than attaining profit. Therefore, bank have to plan their activity, plan their funds efficiently and effectively, utilise their work force to the maximum in order to get a reasonable profit and to survive in the present competitive world. Hence, the evaluation of financial performance is an important pre-requisite which helps to identify the strength and weakness of the bank.

3. Objective of the study

The main objective is to examine the financial performance of Irinjalajuda Town Co-operative Bank Ltd No. 55 1993-94 to 2007-08 (15 years).

4. Observations to be made

- Share capital
- Deposits
- Loans and advances
- Borrowed fund
- Reserve fund
- Interest received
- Interest paid
- Cash in hand and bank
- Undistributed profit
- Non interest income
- Non interest expenses

5. Methodology

The data required for the study were drawn from the audited annual reports, balance sheets, receipts and disbursement statements of the bank. The data will be collected for a period of 15 years i.e. from 1993-1994 to 2007-2008.The performance analysis has been done with the help of different ratios showing efficiency in mobilisation, efficiency in deployment and efficiency in operations.

- **Efficiency in mobilisation**

1) Borrowed fund to Working capital ratio

$$\left(\frac{\textit{Borrowed Fund}}{\textit{Working Capital}}\right) \times 100$$

Borrowed fund includes deposits and borrowings. The bank is self sufficient with the own fund there is no borrowings. Hence borrowed fund includes only deposits

Working capital = (Share capital + Reserves + Deposits – Investment in fixed assets)

2) Owned fund to Borrowed fund ratio

$$\left(\frac{\textit{Owned Fund}}{\textit{Borrowed Fund}}\right) \times 100$$

Owned fund = (Share capital + Reserves + Undistributed Profits)

Borrowed fund includes deposits and borrowings. The bank is self sufficient with the own fund there is no borrowings. Hence borrowed fund includes only deposits.

3) Deposits to Working capital ratio

$$\left(\frac{Deposits}{Working\ Capital}\right) \times 100$$

Deposits are the deposits received by the bank

Working capital = (Share capital + Reserves + Deposits – Investment in fixed assets)

- **Efficiency in deployment**

1) Credit to Deposit ratio

$$\left(\frac{Credit}{Deposits}\right) \times 100$$

Credits are the loans and advances given by the bank

Deposits are the deposits received by the bank

2) Credit to Working capital ratio

$$\left(\frac{Credit}{Working\ Capital}\right) \times 100$$

Credits are the loans and advances given by the bank

Working capital = (Share capital + Reserves + Deposits – Investment in fixed assets)

3) Credit to owned fund ratio

$$\left(\frac{Credit}{Owned\ Fund}\right) \times 100$$

Credits are the loans and advances given by the bank

Owned fund = (Share capital + Reserves + Undistributed Profits)

- **Efficiency in operation**

1) Net profit to Interest received ratio

$$\left(\frac{\textit{Net Profit}}{\textit{Interest Recevied}}\right) \times 100$$

Net profit is the profit of the bank

Interest received is the amount received as interest on lending

2) Net profit to Working capital ratio

$$\left(\frac{\textit{Net Profit}}{\textit{Working Capital}}\right) \times 100$$

Net profit is the profit of the bank

Working capital = (Share capital + Reserves + Deposits – Investment in fixed assets)

3) Interest paid to Interest received ratio

$$\left(\frac{\textit{Interest Paid}}{\textit{Interest Recevied}}\right) \times 100$$

Interest paid is the amount paid as interest on deposits

Interest received is the amount received as interest on lending

4) Interest paid to Deposit ratio

$$\left(\frac{\textit{Interest Paid}}{\textit{Deposits}}\right) \times 100$$

Interest paid is the amount paid as interest on deposits

Deposits are the deposits received by the bank

5) Interest received to loans and advances ratio

$$\left(\frac{\textit{Interest Recevied}}{\textit{Loans and Advances}}\right) \times 100$$

Interest received is the amount received as interest on lending

Loans and advances are the amount given by the bank.

6) Spread ratio

$$\left(\frac{\textit{Interest Recevied} - \textit{Interest Paid}}{\textit{Total Fund}}\right) \times 100$$

Interest received is the amount received as interest on lending

Interest paid is the amount paid as interest on deposits

Total fund is the total of owned fund and borrowed fund.

7) Burden ratio

$$\left(\frac{\textit{Non Interest Expenses} - \textit{Non Interest Income}}{\textit{Total Fund}}\right) \times 100$$

Non interest expenses includes manpower expenses, administrative expenses, provisions and other expenses

Non interest income includes commission and miscellaneous income.

Total fund is the total of owned fund and borrowed fund.

8) Profitability

$$(\textit{Spread Ratio} - \textit{Burden Ratio})$$

6 Scope of the study

The present study is restricted to the financial performance of the Irinjalajuda Town Co-operative Bank Ltd No. 55. It helps them to understand their financial position of the bank.

7 Limitation of the study

a) Study is limited to the financial performance of ITCB Ltd No. 55

b) Audit of previous years financial statements (2008-09) were not completed, so analysis of previous year could not be done.

8 Scheme of the study

The study is presented in four chapters. The first chapter presents the design of the study. Second chapter gives the organisational profile of the bank. The third chapter examines the financial performance of the bank. The last chapter highlights the summary of findings and conclusions of the study.

Table 1.1 Ratios used for the study

Sl.No:	Ratios	Formula
1.	**Efficiency in Mobilisation**	
a.	Borrowed fund to Working capital ratio	$\frac{Borrowed\ Funds}{Working\ Capital} x\ 100$
b.	Owned fund to Borrowed fund ratio	$\frac{Owned\ Funds}{Borrowed\ Funds} x\ 100$
c.	Deposits to Working capital ratio	$\frac{Deposits}{Working\ Capital} x\ 100$
2.	**Efficiency in Deployment**	
a.	Credit to Deposit ratio	$\frac{Credit}{Deposits} x\ 100$
b.	Credit to Working capital ratio	$\frac{Credit}{Working\ Capital} x\ 100$
c.	Credit to owned fund ratio	$\frac{Credit}{Owned\ Fund} x\ 100$
3.	**Efficiency in Operation**	
a.	Net profit to Interest received ratio	$\frac{Net\ Profit}{Interest\ Received} x\ 100$
b.	Net profit to Working capital ratio	$\frac{Net\ Profit}{Working\ Capital} x\ 100$
c.	Interest paid to Interest received ratio	$\frac{Interest\ Paid}{Interest\ Received} x\ 100$
d.	Interest paid to Deposit ratio	$\frac{Interest\ Paid}{Deposit} x\ 100$
e.	Interest received to loans and advances ratio	$\frac{Interest\ Received}{Loans\ and\ Advances} x\ 100$
f.	Spread ratio	$\frac{(Interest\ Received - Interest\ Paid)}{Total\ Fund} x\ 100$
g.	Burden ratio	$\frac{(Non\ Interest\ Expenses - Non\ Interest\ Income)}{Total\ Fund} x\ 100$
h.	Profitability	$(Spread\ Ratio - Burden\ Ratio)$

REVIEW OF LITERATURE

Rama Rao (1989) enumerated causes of decline in profitability and suggested remedies. The study found that low profitability is the result of low margin on interest rates, risky lending, unviable rural branches, low proportion of non-fund business, NPA accumulation, etc

Ananthakrishnan (1990) opined that the banks can improve their CD ratio by augmenting the lendable resources of the bank and making concerted efforts to set up the credit portfolio. The branch manager should know the fund management as to enable the banks to derive the maximum utilization of lendable resources without violating the CRR and SLR requirements. He also pointed out that the banks have to reduce the idle cash held in hand barest minimum level.

Kanvinde (1991) in the effort to study the strategic issues and profitability of the bank opined that the major factor responsible for the declining profitability of the bank was increase proportion of fund locked up in CRR and SLR.

Sukumaran and Shaheena (1991) in their study on spread, burden and profitability remarked that lack of effective management of spread and burden led to unfavourable trends in profitability. It was found that the increase in burden ratio could contribute to the increase in the non-interest expenditure ratio.

Subash (1991) the interest allowed on deposits and charged on advances was too small to increase the profitability of the banks and therefore it was advisable to increase the margin between lending and borrowing to increase bank profitability.

Shanavas (1991) conducted a study in a selected service co-operative bank and concluded that the declining profitability of the bank is a combined result of increasing interest paid ratio, low interest in interest earned ratio, insufficient non interest income, necessity of maintaining increased amount of reserves due to mounting overdue arising out of banks inability to collected the principal and interest in time etc.

Krishna Rao (1994) in his study 'Role of co-operative banks in financing Agricultural credits' found that capital was one of the factors constraining development in developing countries. Agricultural credit was considered as an economic ladder helping in the upliftment of the poor peasantry.

Khalid Mustafa (1995) in his study states that though co-operatives are undertaking many, credit is one which has come to be regarded as an essential function. In most of the developing countries, credit is usually necessary for farmers' especially low income farmers, to attend innovations that can lead to increased productivity.

Garg (1996) in his study on improving productivity and profitability in the bank stated that productivity and profitability are inter related. By way of increasing deposits and advances at a pace higher than that of the number of employees and by increasing income and or decreasing expenditure, productivity and profitability could be improved. He suggested reducing costs, increasing the revenue and improving the efficiency so as to optimize the productivity and profitability.

Babu (1997) evaluated resource management efficiency of three urban co-operative banks in Thrissur district with regard to their liquidity and profitability performance. Using the various ratios relating to profitability, liquidity and business efficiency, he proved that one the banks were superior to the other two as it had higher spread ratio, higher credit –deposit ratio and higher owned fund- borrowed fund ratio as compared to the other two.

Nanjunda (1997) observed that profitability and capital adequacy were closely linked and higher profitability normally accompanied higher risk weighted asset build up. The extensive risk asset build up would bring down the viability also.

Shekhar and Shekhar (1998) observed that Credit Deposit ratio is often considered to be an important indicator of the contribution made by bank to the development activities of the concerned state. Further, they observe that credit – deposit ratio not only depends on the efforts made by banks but also on various other factors like credit absorption capacity of the region, infrastructural support and the overall policy framework in the region.

Kulwant Singh (1998) in his study in a selected state co-operative bank concluded that in the context of globalisation and liberalisation of the economy, co-operative banks should ensure their business on healthy lines by having professional manpower and infuse some competition and check the amount directed for any unproductive purpose.

Reddy and Ravivarma (1999) in their efforts to study about "Management of funds in PACS" pointed out that the proportion of share capital in the working capital of PACS was very low and the PACS were mainly depending on borrowings from external agencies. The study highlighted the need for improving the share capital base of the bank. It also argued that the lending rate of the bank for short term, medium term and long term should be commensurate with the borrowing rates of the bank.

Tiruttani (2000) identified a number of strategies to increase spread in banks. These include timely recovery of interest and instalments on loans and advances, recovery of interest on substandard, doubtful and loss assets, acceleration of the flow of credit to high yielding advances of good quality cost, consciousness while mobilizing high cost certificate of deposit and term deposit. According to him, the problem of burden in banks could be tackled by focussing attention on loss making branches to turn them into profit making ones, improving the clientele base in commercial pockets and improving staff productivity.

Suresh and Gersappa (2001) conducted a study on "Fund Management" in this study they observed that profit was a great motivating factor and in a favourable market, such is the power generated by greed for profits that find managers needed minimum organisational backing to put in to play their natural instincts of pursuit of profits.

Debashish (2002) viewed that performance of a bank can be measured by a number of indicators. Profitability is the most important and reliable indicator as it gives a board indication of the capability of the bank to increase its earnings. The study focused on identifying the most critical profitability ratios using multivariate analysis and identified five variables that are priority sector advances to net advances; interest income to total assets; non interest income to total assets and wages bills/ total expenses among the thirteen variables as the significant discriminations of bank profitability.

Raikar (2003) stated that deposits comprise an important component of the banks working fund and the profitability of the latter depends on the costs effective mobilisation of deposit. In fact, profitability of bank is significantly correlated to the efficient deployment of the funds.

According to Renjanakumar (2004) the financial and banking sector reforms initiated in recent years have brought about sea changes in the banking sector. The deregulation of interest rates has unleashed the market forces in determining the pricing policies on banks leading to the squeeze on business spreads. This has severely impacted the co-operative banks that traditionally have been functioning with the high financial and management cost regime.

Sadare (2004) in his study revealed that lower is the ratio of operating cost to total asset, better is the efficiency. These are many banks which are having higher ratio in terms of operating expenses to total assets. If an attempt is made to reduce such ratios the same will help these banks to show better performance in terms of efficiency as well as profitability.

Raja (2005) remarked that it is difficult to specify the criteria by which the efficiency and the health of an organisation can ne assessed. The accounting ratio can speak of solvency and profitability of a business concern. As far as banks are concerned there are several factors that determine the operating efficiency and profitability. They are: levels of deposits, level of advances, number of branches operating, level of capital and reserves, level of customer service and the hike. These entire factors act as indicators of efficiency and profitability. To conclude, burden rate should be reduced and spread rate be increased. So that profitability can be at higher rate.

Ramesh (2006) in his study states that a vibrant and effective credit flow in rural India depends on the strength of the co-operative credit societies in different tiers. The study reveals that the financing mechanism in this vital sector is lopsided and infested with a number of problems. The restructuring of the institutional financing of agriculture will lead to productive use of bank credit.

Vinayagamoorthy (2006) opined that the need of the hour for the co-operative sector in the era of liberalized environment is to seize every opportunity available to it. Thus the future vision of co-operative movement would have to be based on efficiency parameters relating to promotion of excellence, improvement of operational efficiency and strengthening of financial resource base.

Nanda (2007) highlighted some issues relating to credit co-operative. The first and foremost issue bothering the credit co-operatives is its resources. According to him the percentage of recoveries to demand at the State Co-operative Bank or District Credit Co-operative Bank or Primary Agricultural Credit Societies are not sustainable and the co-operatives also face interference in recovery of their dues. The other issues identified are absence of professionalism, various operational constraints, absence of democratic management etc.

Murugesan (2007) conducted a study about the performance indicators of PACS and said that a co-operative society does not exist for earning profit for its share holders, but for improving the conditions of its members. They are expected to meet the common economic needs of its members effectively and efficiently. The main aim of co-operative society is not to maximise the return on capital employed but to render effective services to its members. The performance of a co-operative society cannot be merely judged on the basis of the amount of loans advanced or the volume of business transacted or the quantum of profits earned. Therefore the typical measuring yardstick of rate of profitability or return on capital employed applicable to profit oriented enterprises is not adequate to measure the performance of co-operative institution.

Ramu (2007) Studied Performance and challenges of urban co-operative bank in India. The studied revealed that it is important for the urban co-operative banks to about and bring about changes to face the challenges of the growing competitive market and also strengthen its operations. The 100 years of its existence of urban co-operative banks in India have clearly shown that the resources base of the bank is so strong that it is able to run the business with its own funds and is truly financially independent. But at the same time urban co-operative banks are facing different problems like organisational, managerial, financial and operational issues

Mohan (2008) in his study concluded that the success of banks, by and large depends upon the management of funds. The fund management in co-operative banks requires new orientation for achieving higher productivity and profitability. Cost reduction in mobilising resources and yield increase in deployment of funds are to be ensured. The banks have to keep a constant watch on the movement of funds to make sure not only they are used to the best advantage, but also that no financial difficulty arises in due course.

A Profile

CHAPTER 2

Organisational Profile of Irinjalakuda Town Co-operative Bank

INTRODUCTION

The Irinjalakuda Town Co-operative Bank Ltd No. 55 was registered as a co-operative society on 3rd May 1918 and started functioning on 19th July 1918. It came under the purview of co-operative societies act and rules of 1969 as a Primary Non Agricultural Credit Society. The Irinjalakuda Town Co-operative Bank was first promoted by Rev Father Pouis Akkara, Vicar St George church, Irinjalakuda. The bank was Primary Non Agricultural Credit Society in its origin and it developed in to Urban Bank in November 1996.

The area of operation of the bank extends to whole of Irinjalakuda Municipality which situates just 22 kms south of Thrissur town. The head quarter of the bank is at Tana, which is at the heart of the town. The registered office of the bank is situated at Irinjalakuda town of Mukudhapuram Taluk of Thrissur district. There are six branches excluding the main branch, they are placed in Cheloor, Thanissery, Market, Kattungachira, Karukulangara and Nada. The written permission from Reserve Bank of India and Co-operative Registrar is essential for making any expansion in the area of operation.

In case of deposit mobilization this bank has received First prize continuously for Five years at District level among all kinds of co-operative institutions. This bank has a good reputation in the local banking activities. As on 31.03.2008 banks paid up capital is Rs 323.37 lakhs and there are 26358 members. The deposits are 14462.27 lakhs and loans amount to Rs 9031.82 lakhs. The working capital is 149.52 lakhs.

OBJECTIVES

1. To create self-help, mutual help, thrift and co-operation among members.
2. Accepting deposits from the members and nonmembers and utilizing it for giving loans or keep as deposit which can be withdrawal on demand by cheque, draft.
3. To allocate and mobilize the funds of the members.
4. To give loans and advances to members and non members
5. Accepting the instruments like bill of exchange, promissory notes, coupons, drafts, bill of lading, railway receipts, warrants, certificates, and scrips for discounting, selling and purchasing.
6. Accepting and distributing the letters of credit, traveler's cheque and circular notes.
7. To buy and sell of foreign exchange
8. To accept and distribute the investments like stocks, funds, debentures, debenture stock, bonds and securities on commission basis.
9. To buy and sell of bonds, scrips and other securities for transactions.
10. Accepting valuables and securities for the safe custody.
11. To carry out the business transactions on guarantee of third party.
12. To construct or purchase buildings for the smooth functioning of the bank.
13. To open new branches to expand its services to the customers

14. To provide pensions to the employees for their as well as their families betterment.

15. Various financial schemes are planned to give financial stability for the members

16. To provide financial and technical assistance to the business people

17. To provide housing loans and vehicle loans to employees

18. To conduct any other business according to the Banking Regulation Act,1949 (Co-operative Societies)

19. To carryout the objectives of the bank, conduct any other business.

20. To undertake any other business activities on instruction by central and state government, Reserve Bank of India or Co-operative Banks.

FUNDS

The funds of the bank are mobilized through:

1. Shares.
2. Entrance fees.
3. Deposits.
4. Loans, cash credit, overdraft and advances.
5. Donations, Grants and subsidies.
6. Or any other kind which has been sanctioned by the Registrar.

Table 2.1 Detailed Data of ITCB Profile for the past 15 years

Year	Members	Share capital (in Rs Lakhs)	Deposits (in Rs Lakhs)	Loans and advances (in Rs Lakhs)	Net profit (in Rs Lakhs)	Reserve (in Rs Lakhs)
93-94	10389	85.58	1998.18	1620.34	21.17	5.29
94-95	12872	114.62	2540.21	2190.82	45.10	6.21
95-96	13492	130.81	3109.24	2460.63	50.17	7.97
96-97	14244	143.32	3655.33	2848.32	60.01	9.49
97-98	14661	147.18	4573.23	2753.00	60.03	11.35
98-99	14981	159.81	5777.69	3638.44	50.37	12.59
99-'00	15510	175.58	6360.30	4702.34	50.41	13.11
00-'01	15965	176.06	7393.24	5329.61	37.96	12.14
01-'02	16506	175.81	8165.40	5581.88	41.00	10.25
02-'03	17398	182.29	8566.55	5631.54	46.01	13.38
03-'04	22527	338.73	8985.67	6358.49	64.34	21.14
04-'05	23342	251.24	11388.38	7746.39	151.79	101.39
05-'06	23658	238.64	11862.79	8081.78	149.51	38.51
06-'07	23976	271.15	12973.83	8709.27	45.40	11.47
07-'08	26358	323.37	14462.27	9031.82	42.47	6.37

Source: Audited annual reports of ITCB for 15 years

MEMBERSHIP

The membership of the banks is of:

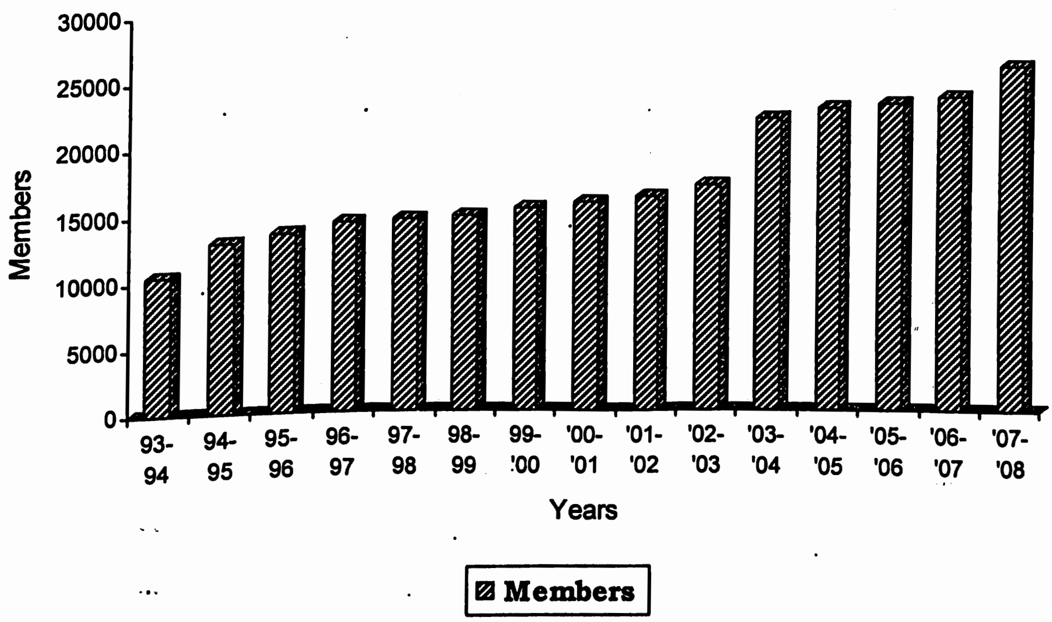
1. Individuals.

   Any person who has attained the age of 18 years, who is of sound mind, residing in or having land property within the jurisdiction of the bank.

2. Kerala government.
3. Kerala State Co-operative Bank
4. Thrissur District Co-operative Bank.

Fig 2.1 show the membership position of ITCB for the past fifteen years as per Table no.2.1

FIG 2.1 Members of ITCB for 15 Years



Tables 2.1 show the membership of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The membership of the bank is increasing. During the year 1993-1994 the membership of the bank was 10389 and in the year 2007 -2008 the membership was 26358.

SHARES OF THE BANK

The shares of the bank have been classified in to three classes of shares they are:

- A class shares: from individuals, 10 lakhs of shares of Rs 100 per share is Rs 10 crore.
- B class shares: from individuals or institutions, 10 lakhs of shares of Rs 5 per share is Rs 50 lakhs.
- C class shares: from Central – State Government, Central - State Co-operative Institutions.

Fig 2.2 show the Share capital of ITCB for the past fifteen years as per Table no.2.1

FIG 2.2 Share capital Of ITCB For 15 years

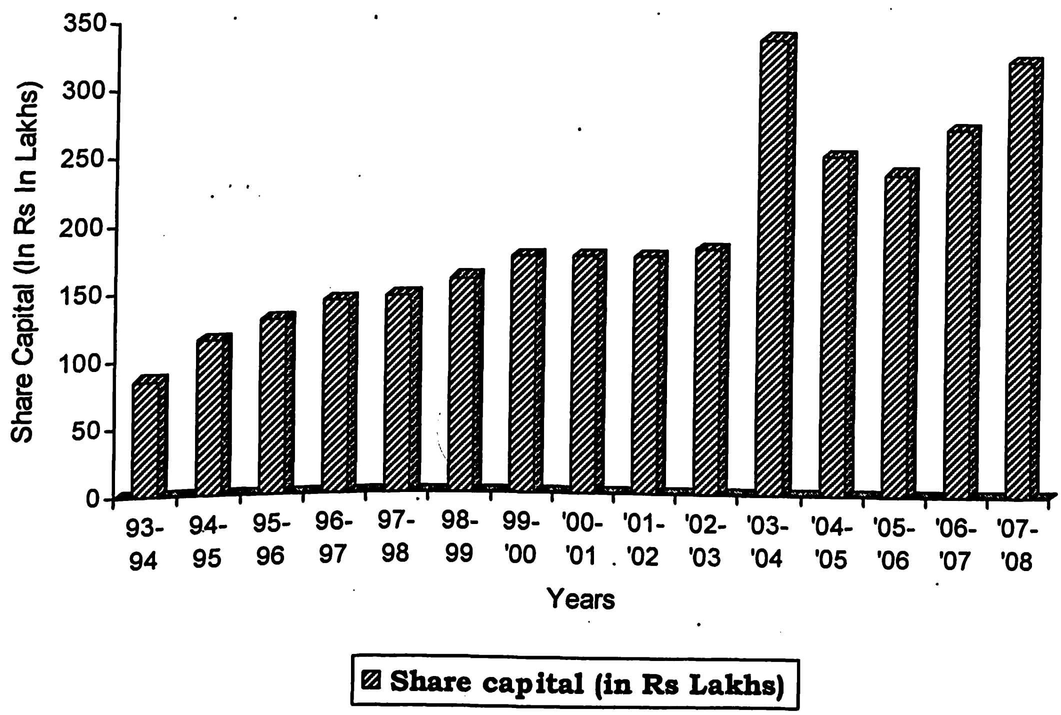


Table 2.1 show the share capital position of the bank from 1993-1994 to 2007-2008. The highest amount of share capital was during the year 2003-2004 which was Rs 338.73 lakhs and lowest was during the year 1993-1994 which was Rs 85.58 lakhs. The trend show a fluctuating trend but it is increasing.

DEPOSITS

The bank fixes the interest rates for the deposits according to the Reserve Bank of India Instructions, the decisions taken in the Board and also by the Co-operative Societies Act and Rules. The various kinds of deposits accepted by the bank are:

- Current deposits
- Savings deposits
- Fixed deposits
- Recurring deposits
- Cumulative deposits

Fig 2.3 show the Deposits of ITCB for the past fifteen years as per Table no.2.1

FIG 2.3 Deposits of ITCB for 15 Years

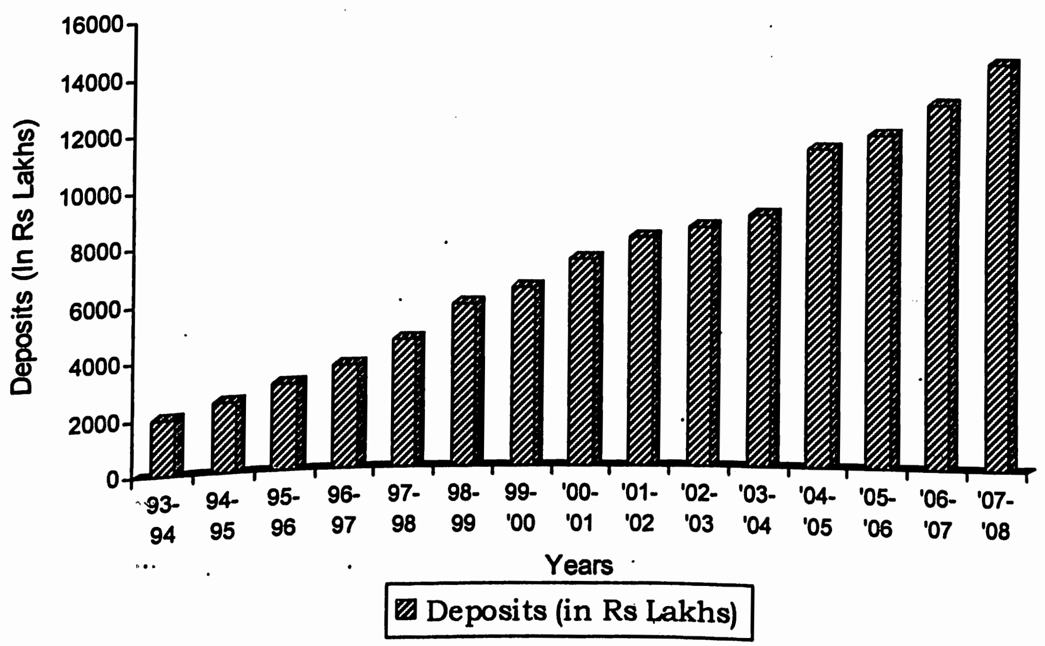


Table 2.1 show the deposits received by the bank during the study period, 1993-1994 to 2007-2008. The highest amount of deposit was received during the year 2007-2008 which was Rs 14462.27 lakhs and lowest was during the year 1993-1994 which was Rs 1998.18 lakhs. The deposit of the bank is increasing.

LOANS AND ADVANCES

The bank gives loans and advances on the instructions of Reserve Bank of India of various securities or on securities which have been sanctioned by the Board of Directors. The securities can be:

- Self-security or on third party guarantee
- Loans are given on the collateral security of fixed deposits
- Securities can be given on pledging Government securities, authorized companies shares, debentures, banks fixed deposits and insurance policies.
- By pledging gold
- Loans and advances given on other tangible securities

Fig 2.4 shows the Loans and advances of ITCB for the past fifteen years as per Table no.2.1

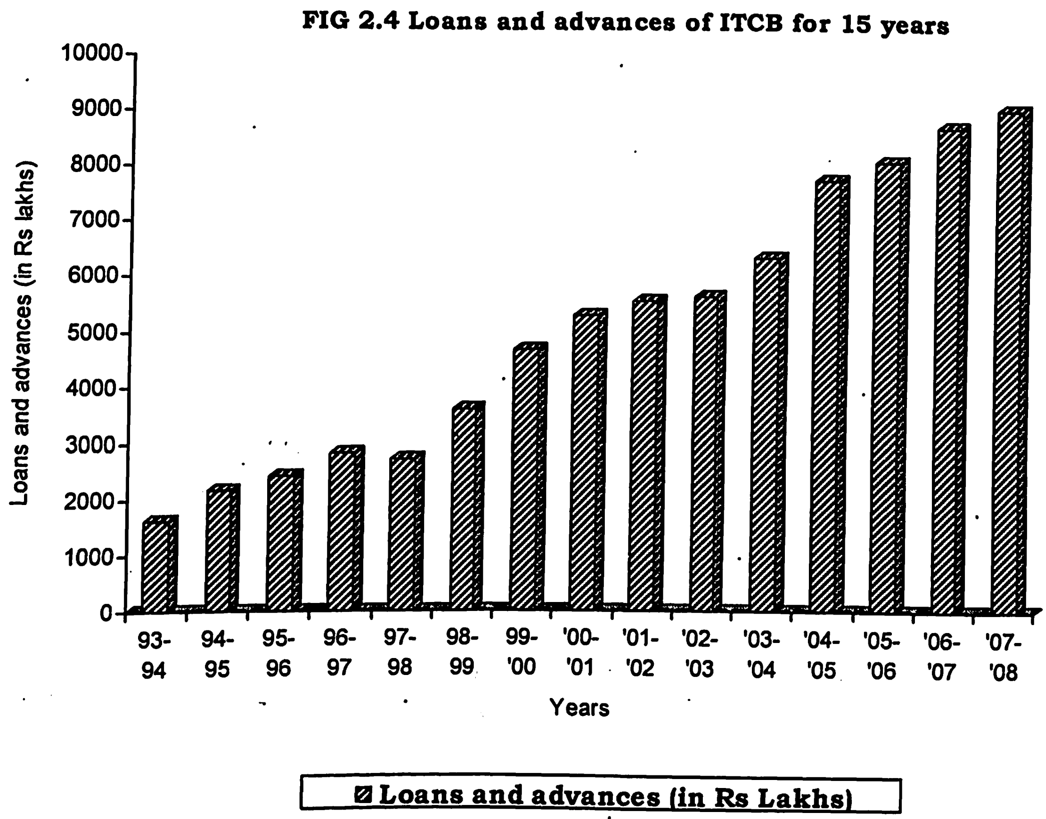


Table 2.1 show the loans and advances disbursed by the bank during the study period, 1993-1994 to 2007-2008. The highest amount of loans and advances was disbursed during the year 2007-2008 which was Rs 9031.82 lakhs and lowest was during the year 1993-1994 which was Rs 162.34 lakhs. The loans and advances disbursed by the bank are increasing, which shows that bank is satisfying the need of customers through deployment of funds.

NET PROFIT

The financial stability of the institution will be measured with reference to the operational results. A positive operational result of the bank is an evidence for its success.

The net profit of the bank will be distributed on the following basis:

1. Reserve fund: not less than 15 % of the net profit will be transferred to reserve fund
2. Co-operative Education fund: 5% of the net profit will be transferred to Co-operative Education fund
3. Rest of the amount will be distributed as follows:
   - Dividend fund
   - Bad debts fund
   - Building fund
   - Common good fund – not more than 10%
   - Bonus fund
   - Death fund
   - Investment fluctuation reserve
   - Or in any reserve as recommended by Reserve Bank of India

Fig 2.5 show the Net profit position of ITCB for the past fifteen years as per Table no.2.1

FIG 2.5 Net Profit of ITCB for 15 years

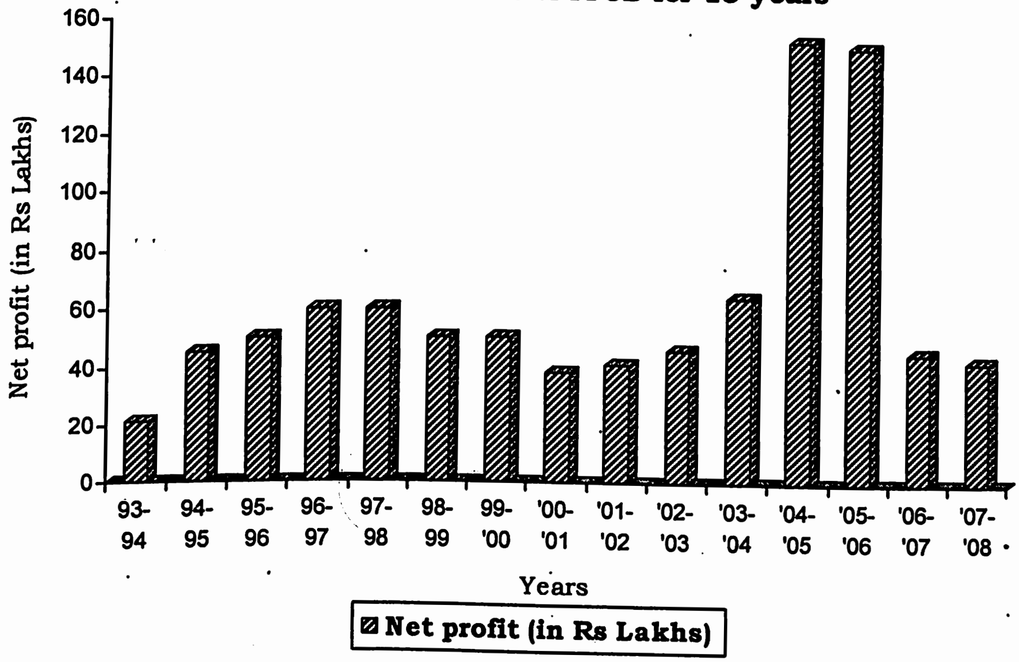


Table 2.1 show the net profit position of the bank during 1993-1994 to 2007-2008. The net profit was at maximum during the study period was in the year 2004-2005 which was Rs 151.79 and lowest was in the year 1993-1994 which was Rs 21.17 lakhs. The net profits of the bank show a fluctuating trend.

RESERVES

Reserves are the money set aside for accounting purpose to protect any depreciation or unforeseen losses in asset for a specific purpose. Reserve fund serve as a cushion against hard times. Reserve fund which is deposited in the District Co-operative Bank is meant to meet unforeseen losses of the bank. According to the byelaws of the bank reserve fund is indivisible and no members shall have the right to claim on it. A withdrawal from reserve fund is usually not allowed unless there is special permission from Registrar. Reserves are one of the important parts of owned funds of the bank. Reserves are of two types:

- Statutory reserves include Reserve fund, Agricultural Credit Stabilization Fund, Reserve for bad and doubtful debts etc,
- Non statutory reserves include Reserve for damaged stocks, Common Good Fund, Building Fund, Depreciation Fund etc.

Fig 2.6 show the Reserves of ITCB for the past fifteen years as per Table no.2.1

FIG 2.6 Reserves of ITCB for 15 years

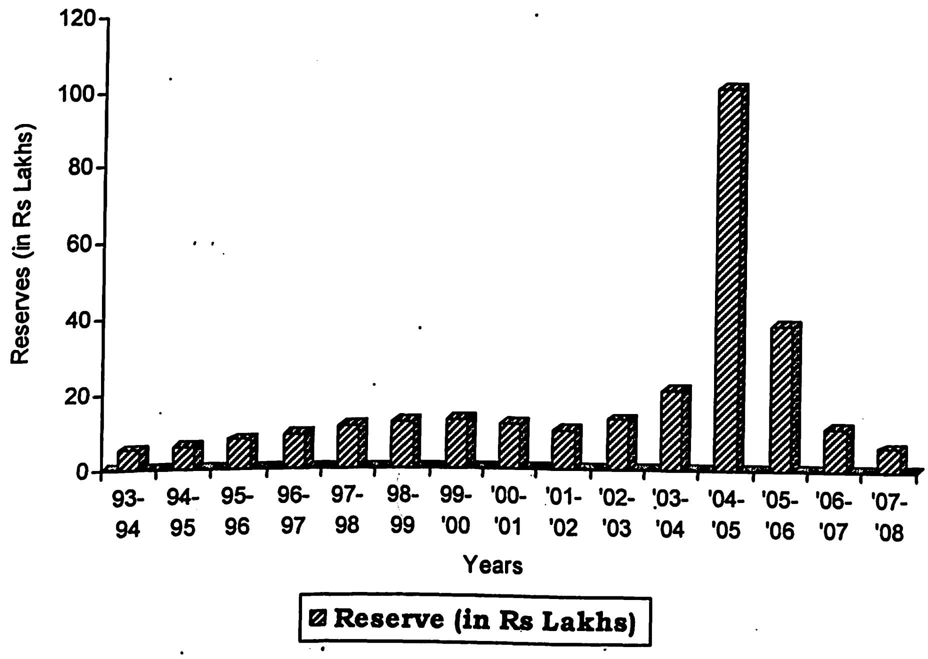
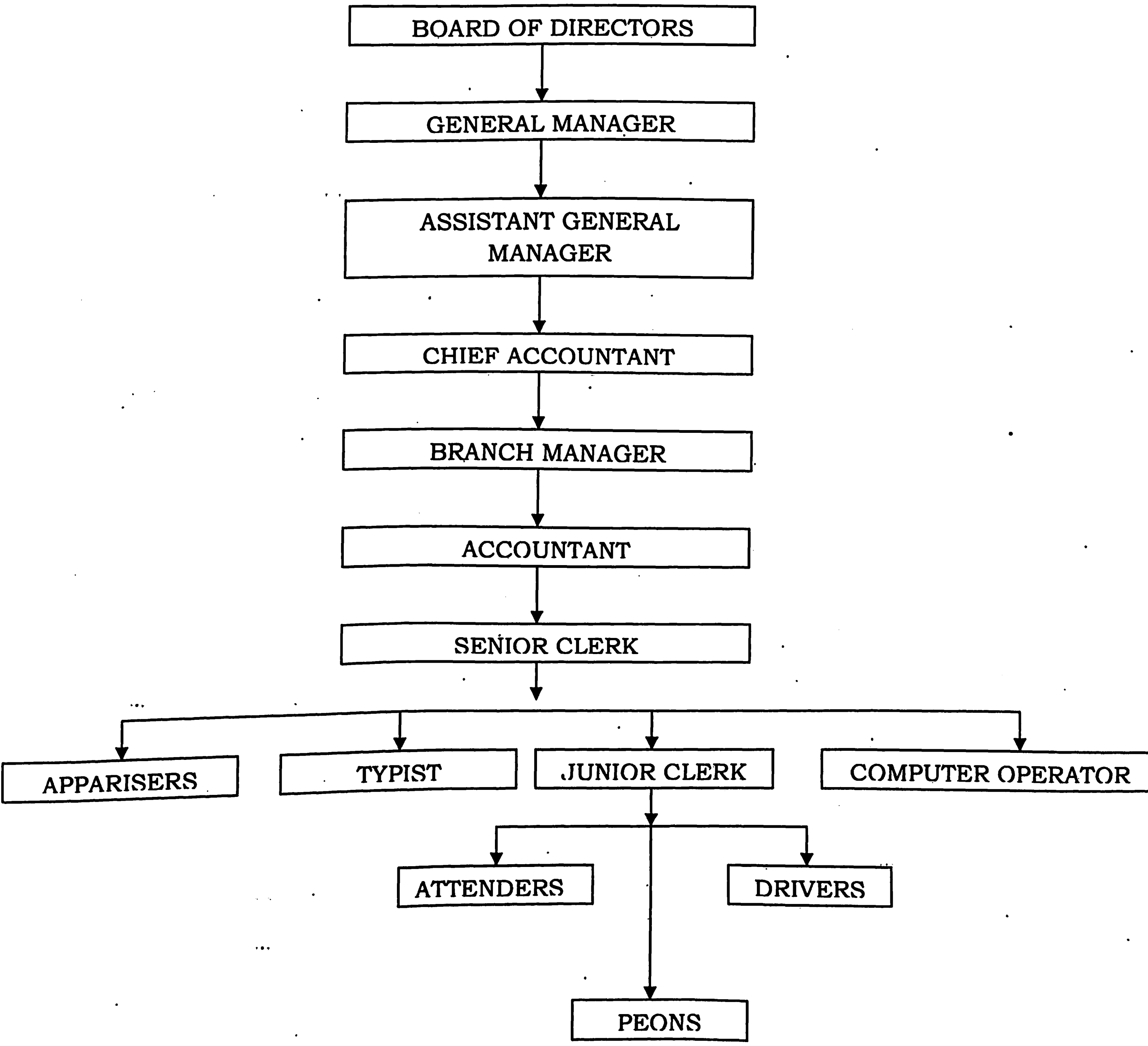


Table 2.1 show the reserves of the bank during the study period, 1993-1994 to 2007-2008. The highest amount of reserves was during the year 2004-2005 which was Rs 101.39 lakhs and lowest was during the year 1993-1994 which was Rs 5.29 lakhs. The reserves of the bank show a fluctuating trend.

ORGANISATIONAL STRUCTURE OF THE BANK

Chart 1: Organisational structure of the bank



CONCLUSION

Irinjalakuda Town Co-operative Bank is acting as a financial intermediary, mobilizes savings of the bank and supplements their resources through borrowings for providing credit to the needy sectors. Efficient management, viability of the bank and sound banking practices do a lot to get public confidence. Through the process of taking deposits, making loans and responding to interest rates signals, this banking system helps to channel funds from savers to borrowers in an efficient manner

Financial Analysis of Irinjalakuda Town Co-operative Bank

CHAPTER 3

Financial Analysis of Irinjalakuda Town Co-operative Bank

A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheets and profit and loss accounts.

Financial performance analysis is the process of evaluating the relationship between different types of financial statement to obtain a better understanding of firm's position. This not only helps the management in decision making and control but also serve as a useful tool for all concerned to the firm.

In this study, an attempt has been made to evaluate the financial performance of Irinjalakuda Town Co-operative Bank, by using ratio analysis.

Ratio analysis is one of the most powerful tools of financial analysis. Accounting ratios are relationships expressed in mathematical terms between figures which are connected with each other in some manner. Ratio analysis is a technique of analysis and interpretation of financial statements.

The operational efficiency of the bank is administered through the following headings:

- Efficiency in mobilization.
- Efficiency in deployment.
- Efficiency in operation.

3.1) Efficiency in mobilization

Efficiency in mobilization is of great important because mobilization of funds has a vital role in building a sound financial structure. The following ratios are used to analysis the efficiency of ITCB in the mobilization of funds:

- Borrowed fund to working capital ratio
- Owned fund to borrowed fund ratio
- Deposits to working capital ratio

3.1.1) Borrowed fund to working capital ratio

The ratio highlight the share of borrowed fund in working capital. A higher ratio is an indicative of higher share of borrowed funds in the working capital and smaller ratio indicates the dominance of owned fund in the working capital. The borrowed fund would affect cost and unless the bank ensures profitable deployment of such funds, the bank may have to suffer losses.

Borrowed fund to working capital ratio

$$\left(\frac{\textit{Borrowed Fund}}{\textit{Working Capital}}\right) \times 100$$

Borrowed fund include deposits and borrowings. The bank is self sufficient with the own fund there is no borrowings. Hence borrowed fund includes only deposits

Working capital

= [Share capital + Reserves + Deposits – Investment in fixed assets]

Table 3.1 Borrowed fund to working capital ratio of ITCB from 1993-1994 to 2007-2008

Year	Borrowed fund (In Rs Lakhs)	Working capital (In Rs lakhs)	Borrowed to Working Capital Ratio
1993-1994	1998.19	2034.87	98.19
1994-1995	2504.22	2571.22	97.39
1995-1996	3109.25	3186.88	97.56
1996-1997	3655.34	3736.78	97.82
1997-1998	4573.23	4662.01	98.10
1998-1999	5777.69	5880.84	98.25
1999-2000	6360.30	6476.99	98.20
2000-2001	7393.24	7499.68	98.58
2001-2002	8165.40	8267.91	98.76
2002-2003	8566.55	8674.34	98.76
2003-2004	8985.67	9185.86	97.82
2004-2005	11388.38	11593.42	98.23
2005-2006	11862.79	11991.50	98.93
2006-2007	12973.83	13079.92	99.19
2007-2008	14462.27	14604.61	102.83

Source: Audited annual reports of the ITCB

Fig 3.1 Borrowed fund to Working capital ratio

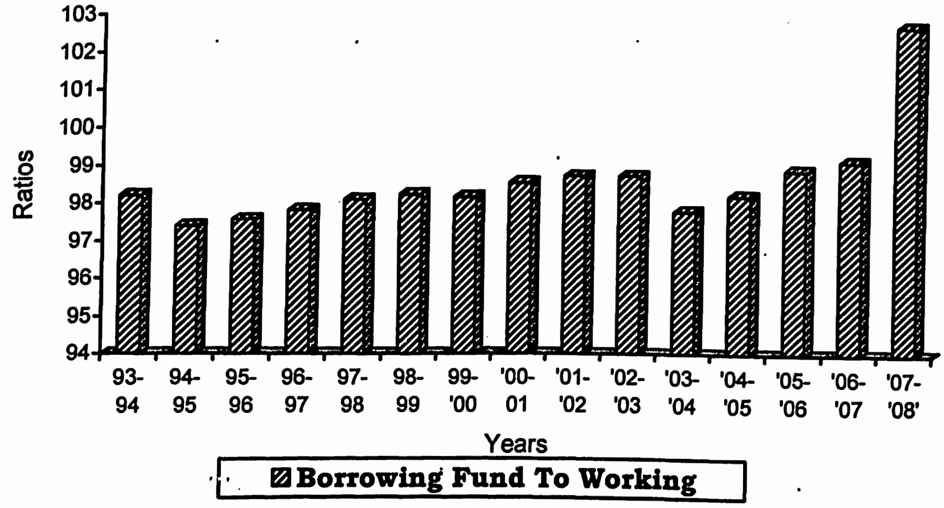


Table 3.1 exhibit the ratio of borrowed fund to working capital of the bank for a period of fifteen years from 1993-1994 to 2007-2008. As per the table an increasing trend was shown during the period of fifteen years. The ratio showed that borrowed fund constitutes a major share of working capital of the bank. As the share of borrowed fund in the working capital increases, the interest expense of the bank will also increase. So a lesser ratio is always good for the bank. At the same time a very lower ratio indicates the inability of the society to mobilize deposits also.

3.1.2) Owned fund to Borrowed fund ratio:

This ratio show whether the bank depends more on owned fund or borrowed funds. Higher ratios indicate the increased share of owned funds in the functioning of the bank. Owned fund includes share capital, reserves and undistributed profits. Borrowed fund includes deposits and borrowings. The bank is self sufficient with the own fund hence borrowed fund includes only deposits.

Owned fund to borrowed fund ratio

$$\left(\frac{\textit{Owned Fund}}{\textit{Borrowed Fund}}\right) \times 100$$

Table 3.2 Owned fund to borrowed fund ratio of ITCB from 1993-1994 to 2007-2008

Year	Owned fund (In Rs Lakhs)	Borrowed fund (In Rs Lakhs)	Owned Fund To Borrowed Fund Ratio
1993-1994	134.09	1998.19	6.71
1994-1995	205.07	2504.22	8.19
1995-1996	218.89	3109.25	7.04
1996-1997	282.95	3655.34	7.74
1997-1998	315.23	4573.23	6.89
1998-1999	258.16	5777.69	4.47
1999-2000	311.45	6360.30	4.90
2000-2001	238.61	7393.24	3.23
2001-2002	224.02	8165.40	2.74
2002-2003	236.67	8566.55	2.76
2003-2004	406.18	8985.67	4.52
2004-2005	416.97	11388.38	3.66
2005-2006	428.94	11862.79	3.62
2006-2007	320.39	12973.83	2.47
2007-2008	486.88	14462.27	3.37

Source: Audited annual reports of the ITCB

Fig 3.2 Owned fund to borrowed fund ratio

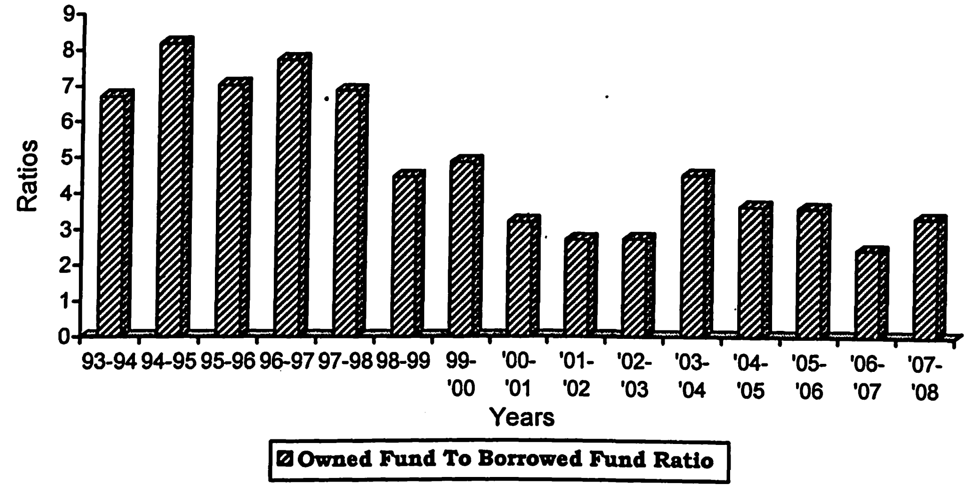


Table 3.2 exhibit the ratio of owned fund to Borrowed fund of the bank for a period of fifteen years from 1993-1994 to 2007-2008.As per the table the ratios show a decreasing trend over the years. The ratio had declined from 6.7 percent in 1993-1994 to 3.3 percent in 2007-2008. In the year 1994-1995 the ratio was highest that is 8.1 percent. The decline in the ratio was because of the lower rate of growth of owned fund. This may not be concern for the banking institutions which was efficient in deployment of funds.

3.1.3) Deposits to working capital ratio:

A higher ratio is the indication of higher share of borrowed funds in working capital since deposits are the only component of borrowed funds. A smaller fund indicates the dominance of owned fund in working capital. The ratio also implies the efficiency of the bank in the deposit mobilization and at the same time imposes certain additional responsibility on the bank to ensure deployment of funds in profitable channels otherwise the bank may have to suffer the loss.

Deposits to working capital ratio:

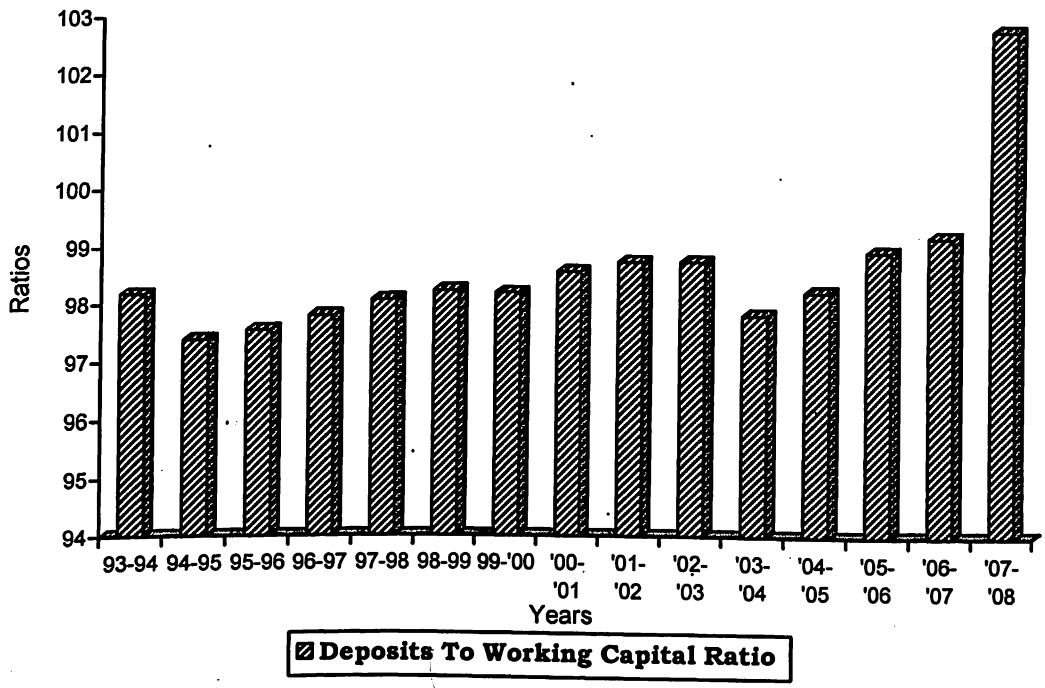
$$\left(\frac{\textbf{\textit{Deposits}}}{\textbf{\textit{Working Capital}}}\right) \times 100$$

Table 3.3 Deposits to working capital ratio of ITCB from 1993-1994 to 2007-2008

Year	Deposits (In Rs Lakhs)	Working capital (In Rs Lakhs)	Deposits To Working Capital Ratio
1993-1994	1998.19	2034.87	98.19
1994-1995	2504.22	2571.22	97.39
1995-1996	3109.25	3186.88	97.56
1996-1997	3655.34	3736.78	97.82
1997-1998	4573.23	4662.01	98.10
1998-1999	5777.69	5880.84	98.25
1999-2000	6360.30	6476.99	98.20
2000-2001	7393.24	7499.68	98.58
2001-2002	8165.40	8267.91	98.76
2002-2003	8566.55	8674.34	98.76
2003-2004	8985.67	9185.86	97.82
2004-2005	11388.38	11593.42	98.23
2005-2006	11862.79	11991.50	98.93
2006-2007	12973.83	13079.92	99.19
2007-2008	14462.27	14604.61	102.83

Source: Audited annual reports of the ITCB

Fig 3.3 Deposits to working capital ratio



Deposits are the deposits received by the bank. Working capital includes share capital, reserves, deposits and investment in fixed assets.

Table 3.3 exhibit the ratio of deposits to Borrowed fund of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The ratios show that deposits constitute a major portion of working capital of the bank. The ratio increased from 98.19 percent in the year 1993-1994 to 102.83 percent in the year 2007-2008. The ratio implies the efficiency of the bank in deposit mobilization and at the same time imposes certain additional responsibility on the bank to ensure deployment of funds in profitable channels.

3.2) Efficiency in Deployment

Fund deployment is an important function as far as co-operatives are concerned. Efficiency in deployment is as equally important as efficiency in mobilization. The long term existence of any co-operative depends upon the effective deployment of funds mobilized. The following ratios are considered for analyzing the efficiency in deployment:

- Credit to Deposit ratio
- Credit to working capital ratio
- Credit to Borrowed fund ratio

3.2.1) Credit to Deposit ratio

Since deposits are mobilized for the purpose of giving credit, the relationship with this two is very much relevant. The relationship show the efficiency of the bank in successfully getting rid of the high cost source. The ratio is an important measure of banks efficiency in converting the funds available with it into loans and advances. A high ratio indicates greater efficiency in the deployment of funds.

Credit to deposit ratio:

$$\left(\frac{\textbf{\textit{Credit}}}{\textbf{Deposits}}\right) \times \mathbf{100}$$

Credits are the loans and advances given by the bank

Deposits are the deposits received by the bank.

Table 3.4 Credit to Deposits ratio of ITCB from 1993-1994 to 2007-2008

Year	Credit (In Rs Lakhs)	Deposits (In Rs Lakhs)	Credit To Deposits Ratios
1993-1994	1620.34	1998.19	81.09
1994-1995	2190.82	2504.22	87.49
1995-1996	2460.63	3109.25	79.14
1996-1997	2848.32	3655.34	77.92
1997-1998	2753.00	4573.23	60.20
1998-1999	3638.44	5777.69	62.97
1999-2000	4702.34	6360.30	73.93
2000-2001	5329.61	7393.24	72.09
2001-2002	5581.88	8165.40	68.36
2002-2003	5631.54	8566.55	65.74
2003-2004	6358.49	8985.67	70.76
2004-2005	7746.39	11388.38	68.02
2005-2006	8081.78	11862.79	68.13
2006-2007	8709.27	12973.83	67.13
2007-2008	9031.82	14462.27	62.45

Source: Audited annual reports of the ITCB

Fig 3.4 Credit to Deposits ratio

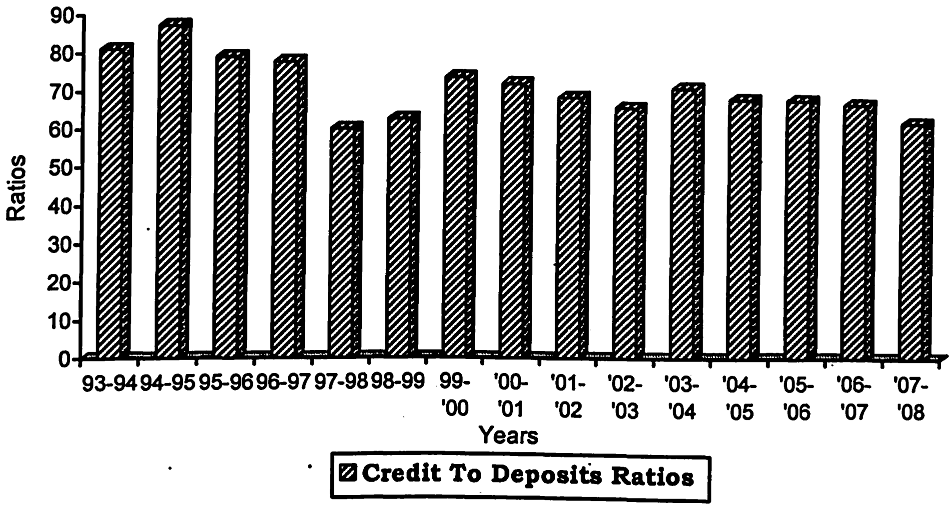


Table 3.4 exhibit the ratio of Credit to deposits of the bank for a period of fifteen years from 1993-1994 to 2007-2008. It showed a fluctuating trend. The highest ratio was 87.49 percent in the year 1994-1995 and lowest ratio was 60.20 percent in the year 1997-1998. A declining trend in the Credit deposit ratio is not a good sign. So the bank should take care to fix the target for deployment in proportion to the deposits mobilization targets.

3.2.2) Credit to working capital ratio

The credit to working capital is comprehensive indicator to study the efficiency in fund management of the bank. The ratio show the relationship between the deployment in loans and advances and the available funds. This ratio reveals that the quantum of credit given from hundred rupees available. Higher the ratio higher will be the efficiency in managing the funds.

Credit to working capital ratio:

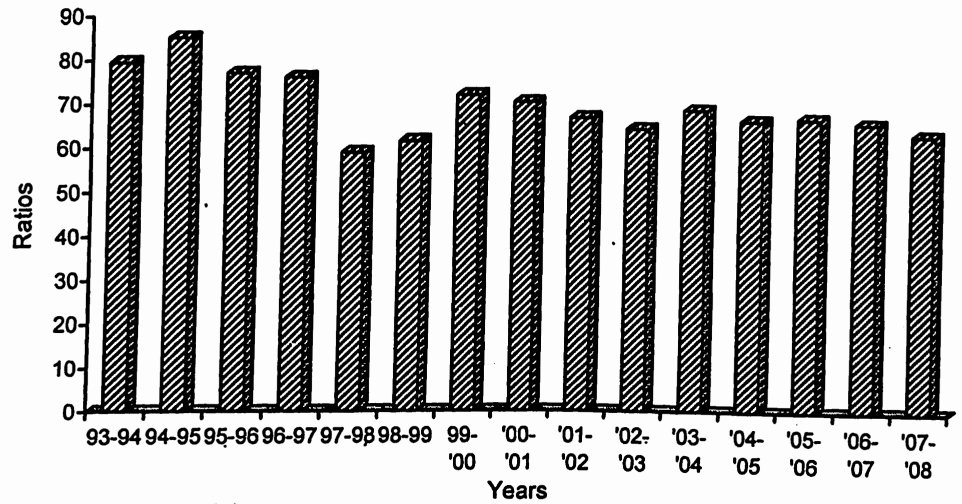
$$\left(\frac{Credit}{Working\ Capital}\right) \times 100$$

Table 3.5 Credit to working capital ratio of ITCB from 1993-1994 to 2007-2008

Year	Credit (In Rs Lakhs)	Working capital (In Rs Lakhs)	Credit To Working Capital Ratios
1993-1994	1620.34	2034.87	79.63
1994-1995	2190.82	2571.22	85.21
1995-1996	2460.63	3186.88	77.21
1996-1997	2848.32	3736.78	76.22
1997-1998	2753.00	4662.01	59.05
1998-1999	3638.44	5880.84	61.87
1999-2000	4702.34	6476.99	72.60
2000-2001	5329.61	7499.68	71.06
2001-2002	5581.88	8267.91	67.51
2002-2003	5631.54	8674.34	64.92
2003-2004	6358.49	9185.86	69.22
2004-2005	7746.39	11593.42	66.82
2005-2006	8081.78	11991.50	67.40
2006-2007	8709.27	13079.92	66.59
2007-2008	9031.82	14604.61	64.22

Source: Audited annual reports of the ITCB

Fig 3.5 Credit to working capital ratio



Credits are the loans and advances given by the bank. Working capital includes share capital, reserves, deposits and investment in fixed assets

Table 3.5 exhibit the ratio of Credit to working capital of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The highest ratio was 85.21 percent in the year 1994-1995 and the lowest ratio was 59.05 percent in the year 1997-1998. If deployment of credit is lagging, naturally affect the interest earning capacity. So the bank has to increase the amount of loan disbursed to increase the interest income.

3.2.3) Credit to owned fund ratio

Credit to owned fund ratio measure the capacity of the bank to convert owned fund to credit. A higher ratio is a positive indication to the efficiency in deployment of funds.

Credit to owned fund ratio:

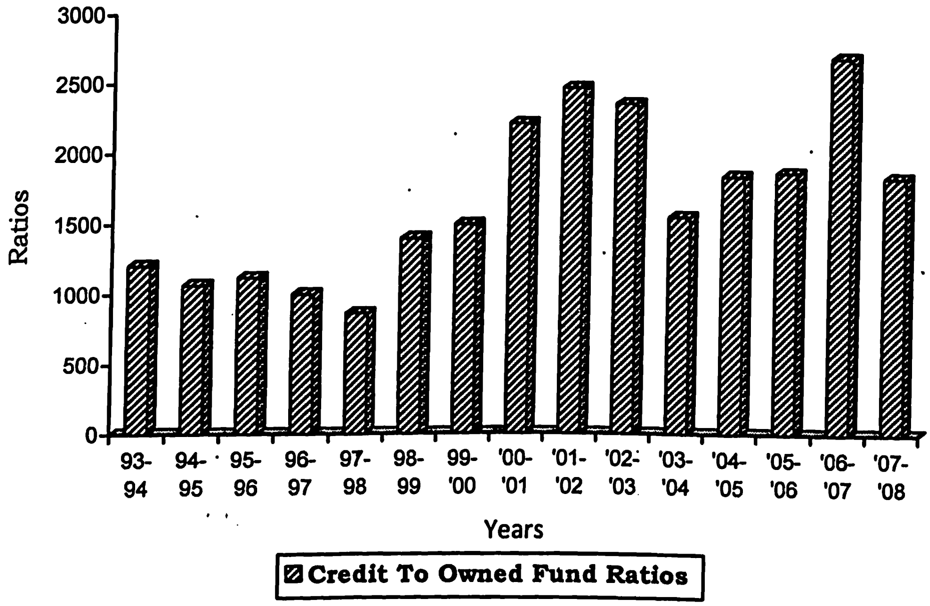
$$\left(\frac{\textit{Credit}}{\textit{Owned Fund}}\right) \times 100$$

Table 3.6 Credit to owned fund ratio of ITCB from 1993-1994 to 2007-2008

Year	Credit (In Rs Lakhs)	Owned fund (In Rs Lakhs)	Credit To Owned Fund Ratios
1993-1994	1620.34	134.09	1208.40
1994-1995	2190.82	205.07	1068.33
1995-1996	2460.63	218.89	1124.14
1996-1997	2848.32	282.95	1006.65
1997-1998	2753.00	315.23	873.33
1998-1999	3638.44	258.16	1409.37
1999-2000	4702.34	311.45	1509.82
2000-2001	5329.61	238.61	2233.61
2001-2002	5581.88	224.02	2491.69
2002-2003	5631.54	236.67	2379.49
2003-2004	6358.49	406.18	1565.44
2004-2005	7746.39	416.97	1857.78
2005-2006	8081.78	428.94	1884.13
2006-2007	8709.27	320.39	2718.33
2007-2008	9031.82	486.88	1855.04

Source: Audited annual reports of the ITCB

Fig 3.6 Credit To Owned Fund Ratios



Credits are the loans and advances given by the bank

Owned fund = Share capital + Reserves + Undistributed Profits.

Table 3.6 exhibit the ratio of Credit to owned fund of the bank for a period of fifteen years from 1993-1994 to 2007-2008. It was at fluctuating trend. The highest ratio was 2718.33 percent during the year 2006-2007 and lowest ratio was 873.33 percent during the year 1997-1998. Increasing efficiency of the bank to create credit from owned fund.

3.3) Efficiency in operation

The operational efficiency of any firm depends to a large extent on its capacity to manage the fund as well as the deployment of such funds. Even though Co-operative is driven by service motive, profit is also needed for their existence and growth. Hence an analysis of the profitability of the bank is equally important as mobilization and deployment. The various ratios used are:

- Net profit to interest received ratio
- Net profit to working capital ratio
- Interest paid to interest received ratio
- Interest paid to deposit ratio
- Interest received to total loans and advances ratio
- Spread ratio
- Burden ratio
- Profitability ratio

3.3.1) Net profit to interest received ratio

This ratio is excellent evidence which show the efficiency of the bank in its operations. The interest received on loans and advances is the major source of income of the bank. Both net profit and interest received are directly related. When the interest received increases the profitability of the bank also increases and vice versa.

Net profit to interest received ratio

$$\left(\frac{\textit{Net Profit}}{\textit{Interest Recevied}}\right) \times 100$$

Net profit is the profit of the bank

Interest received is the amount received as interest on lending

Table 3.7 Net profit to Interest received ratio of ITCB from 1993-1994 to 2007-2008

Year	Net profit (In Rs Lakhs)	Interest received (In Rs Lakhs)	Net Profit To Interest Received Ratios
1993-1994	21.17	235.37	8.99
1994-1995	40.86	352.82	11.58
1995-1996	31.90	407.67	7.82
1996-1997	37.96	402.40	9.43
1997-1998	45.43	707.03	6.43
1998-1999	50.37	893.47	5.64
1999-2000	50.41	765.08	6.59
2000-2001	37.96	890.51	4.26
2001-2002	41.00	979.19	4.19
2002-2003	46.01	965.43	4.77
2003-2004	64.34	741.95	8.67
2004-2005	151.80	996.45	15.23
2005-2006	149.52	791.94	18.88
2006-2007	45.40	1171.84	3.87
2007-2008	42.47	1302.46	3.26

Source: Audited annual reports of the ITCB

Fig 3.7 Net profit to Interest received ratio

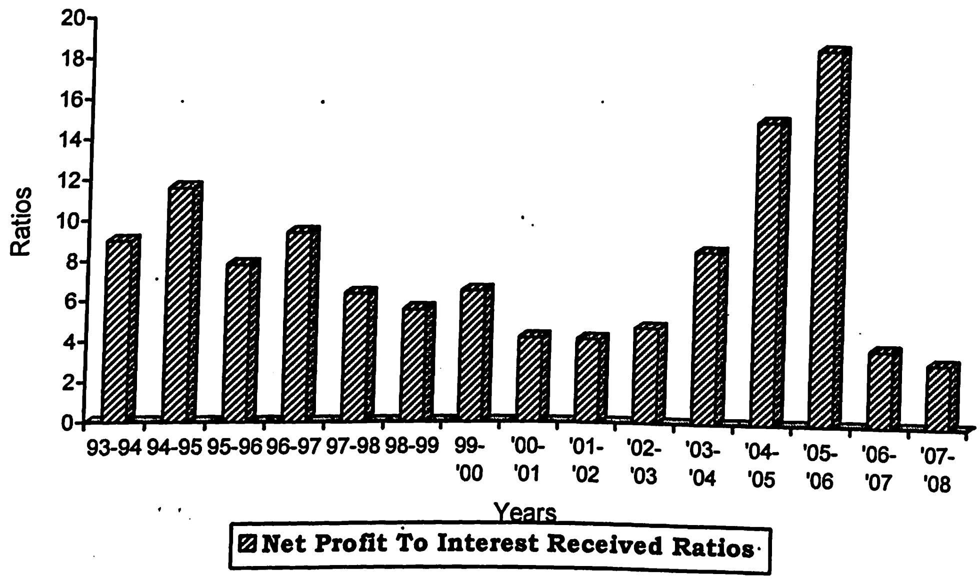


Table 3.7 exhibit the ratio of Net profit to interest received of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The net profit and interest received show a fluctuating trend. Hence the ratio was also in a fluctuating trend. The highest ratio was 18.88 percent during the year 2005-2006 and the lowest ratio was 3.26 percent during the year 2007-2008.

3.3.2) Net profit to working capital ratio

Ratio indicate the efficiency of a bank to deploy its total working funds so as to maximize its profits. The net profit should be adequate enough to provide optimum returns on the working capital which is the soul of any organisation. Hence bank has to maintain a reasonable profit and manage working capital in an effective manner. Net profit is the profit of the bank. Working capital include share capital, reserves, deposits and investment in fixed assets

Net profit to working capital ratio:

$$\left(\frac{Net\ Profit}{Working\ Capital}\right) \times 100$$

Table 3.8 Net profit to working capital ratio of ITCB from 1993-1994 to 2007-2008

Year	Net profit (In Rs Lakhs)	Working capital (In Rs Lakhs)	Net Profit To Working Capital Ratios
1993-1994	21.17	2034.87	1.04
1994-1995	40.86	2571.22	1.59
1995-1996	31.90	3186.88	1.00
1996-1997	37.96	3736.78	1.02
1997-1998	45.43	4662.01	0.97
1998-1999	50.37	5880.84	0.86
1999-2000	50.41	6476.99	0.78
2000-2001	37.96	7499.68	0.51
2001-2002	41.00	8267.91	0.50
2002-2003	46.01	8674.34	0.53
2003-2004	64.34	9185.86	0.70
2004-2005	151.80	11593.42	1.31
2005-2006	149.52	11991.50	1.25
2006-2007	45.40	13079.92	0.35
2007-2008	42.47	14604.61	0.30

Source: Audited annual reports of the ITCB

Fig 3.8 Net profit to working capital ratio

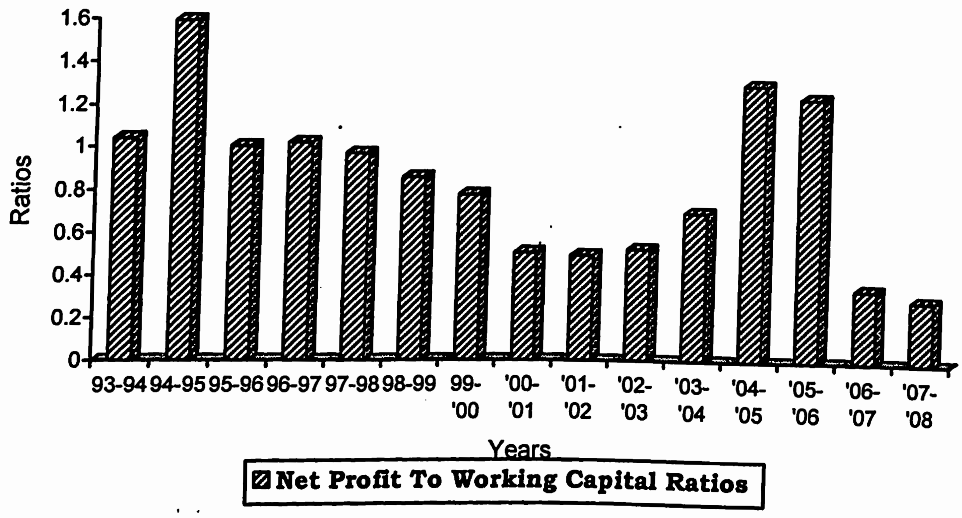


Table 3.8 exhibit the ratio of Net profit to working capital of the bank for a period of fifteen years from 1993-1994 to 2007-2008.The ratio was at decreasing trend. The highest ratio is during the year 1994-1995 that was 1.59 percent and the lowest ratio was during the year 2007-08 with 0.30 percent. The low ratio is not a sign of healthy banking operation.

3.3.3) Interest paid to interest received ratio

This show the extent of income from the operations of the bank. The bank makes profit mainly on account of the differences in interest paid on deposits and that charged on loans and advances. An increased ratio indicates decrease in profitability.

Interest paid to interest received ratio

$$\left(\frac{\textit{Interest Paid}}{\textit{Interest Recevied}}\right) \times 100$$

Interest paid is the amount paid as interest on deposits

Interest received is the amount received as interest on lending

Table 3.9 Interest paid to interest received ratio of ITCB from 1993-1994 to 2007-2008

Year	Interest paid (In Rs Lakhs)	Interest received (In Rs Lakhs)	Interest Paid To Interest Received Ratios
1993-1994	240.66	235.37	102.25
1994-1995	281.24	352.82	79.71
1995-1996	390.22	407.67	95.72
1996-1997	331.95	402.4	82.49
1997-1998	524.14	707.03	74.13
1998-1999	663.41	893.47	74.25
1999-2000	362.55	765.08	47.39
2000-2001	369.93	890.51	41.54
2001-2002	464.41	979.19	47.43
2002-2003	501.33	965.43	51.93
2003-2004	543.57	741.95	73.26
2004-2005	490.74	996.45	49.25
2005-2006	473.87	791.94	59.84
2006-2007	502.79	1171.84	42.91
2007-2008	644.01	1302.46	49.45

Source: Audited annual reports of the ITCB

Fig 3.9 Interest paid to interest received ratio

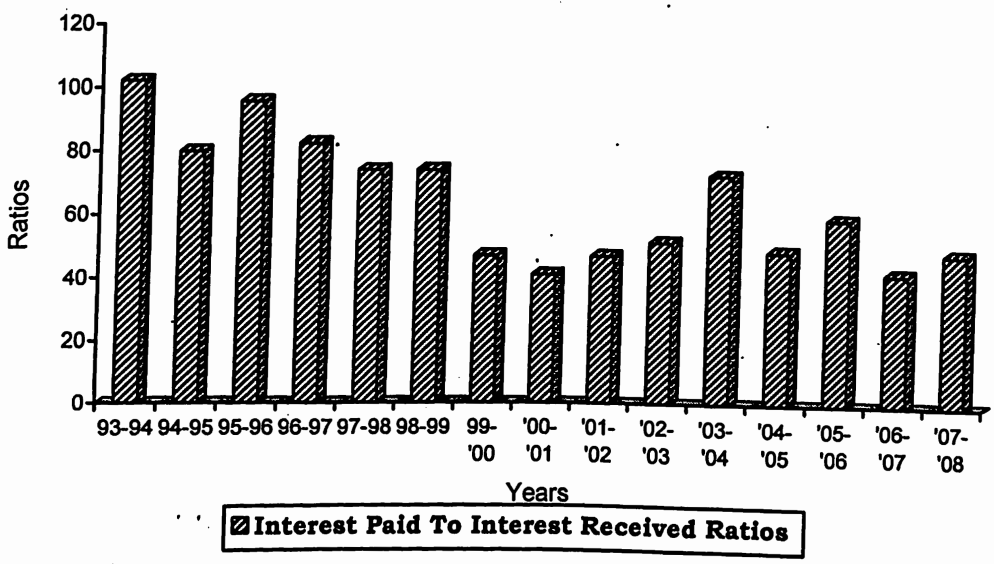


Table 3.9 exhibit the ratio of Interest paid to interest received of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The ratio showed a fluctuating trend. The highest ratio was during the year 2003-2004 that is 137.25 percent and lowest ratio was during the year 1996-1997 that is 82.49 percent. High ratio leads to decrease in profitability.

3.3.4) Interest paid to Deposits ratio

The term interest paid include interest paid and payable. One of the main expenditure of the bank is the interest paid on deposits. There is an inverse relationship between interest paid and profitability that is when interest paid increases, profitability decreases and vice versa. But to attract depositors the bank has to pay a reasonable rate of interest on deposits.

Interest paid to Deposits ratio

$$\left(\frac{\textit{Interest Paid}}{\textit{Deposits}}\right) \times 100$$

Interest paid is the amount paid as interest on deposits. Deposits are the deposits received by the bank.

Table 3.10 Interest paid to deposits ratio of ITCB from 1993-1994 to 2007-2008

Year	Interest paid (In Rs Lakhs)	Deposits (In Rs Lakhs)	Interest Paid To Deposits Ratios
1993-1994	240.66	1998.19	12.04
1994-1995	281.24	2504.22	11.23
1995-1996	390.22	3109.25	12.55
1996-1997	331.95	3655.34	9.08
1997-1998	524.14	4573.23	11.46
1998-1999	663.41	5777.69	11.48
1999-2000	362.55	6360.30	5.70
2000-2001	369.93	7393.24	5.00
2001-2002	464.41	8165.40	5.69
2002-2003	501.33	8566.55	5.85
2003-2004	543.57	8985.67	6.05
2004-2005	490.74	11388.38	4.31
2005-2006	473.87	11862.79	3.99
2006-2007	502.79	12973.83	3.88
2007-2008	644.01	14462.27	4.45

Source: Audited annual reports of the ITCB

Fig3.10 Interest paid to deposits ratio

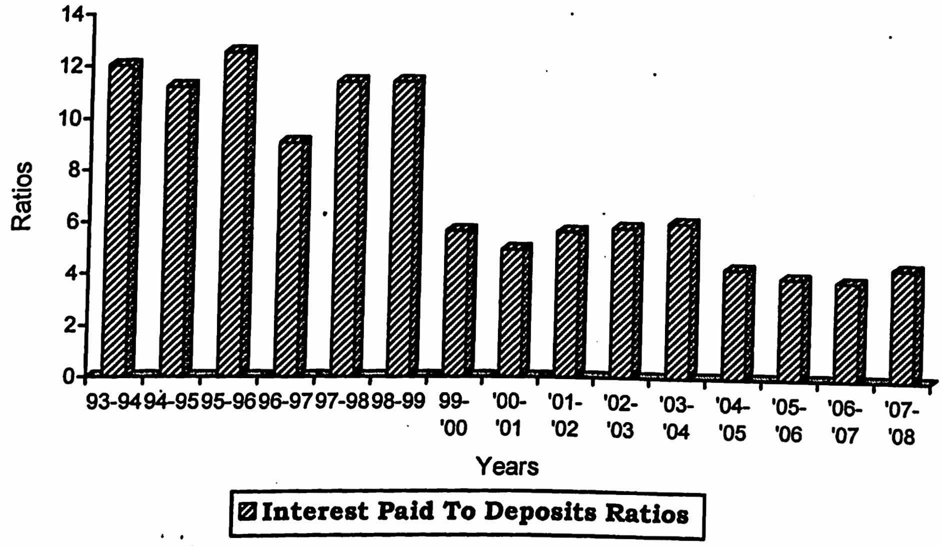


Table 3.10 exhibit the ratio of Interest paid to Deposits of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The ratio showed a fluctuating trend. The highest ratio was during the year 1999-2000 that is 12.76 percent and lowest ratio was during the years 2005-2006 and 2006-2007 that is 7.93 percent. A high ratio will affect the profitability of the bank adversely. Therefore lower ratio is good for the bank.

3.3.5) Interest received to loans and advances ratio

The term interest received include interest received and accrued. One of the main incomes of the bank is the interest received on loans and advances. There is a direct relationship between interest received and profitability that is when interest received increases, profitability of the bank increases and vice versa.

Interest received to loans and advances ratio

$$\left(\frac{\textit{Interest Recevied}}{\textit{Loans and Advances}}\right) \times 100$$

Interest received is the amount received as interest on lending. Loans and advances are the amount given by the bank.

Table 3.11 Interest received to loans and advances ratio of ITCB from 1993-1994 to 2007-2008.

Year	Interest received (In Rs Lakhs)	Loans and advances (In Rs Lakhs)	Interest Received To Loans and Advances Ratio
1993-1994	235.37	1620.34	14.53
1994-1995	352.82	2190.82	16.10
1995-1996	407.67	2460.63	16.57
1996-1997	402.4	2848.32	14.13
1997-1998	707.03	2753.00	25.68
1998-1999	893.47	3638.44	24.56
1999-2000	765.08	4702.34	16.27
2000-2001	890.51	5329.61	16.71
2001-2002	979.19	5581.88	17.54
2002-2003	965.43	5631.54	17.14
2003-2004	741.95	6358.49	11.67
2004-2005	996.45	7746.39	12.86
2005-2006	791.94	8081.78	9.80
2006-2007	1171.84	8709.27	13.46
2007-2008	1302.46	9031.82	14.42

Source: Audited annual reports of the ITCB

Fig 3.11 Interest received to loans and advances ratio

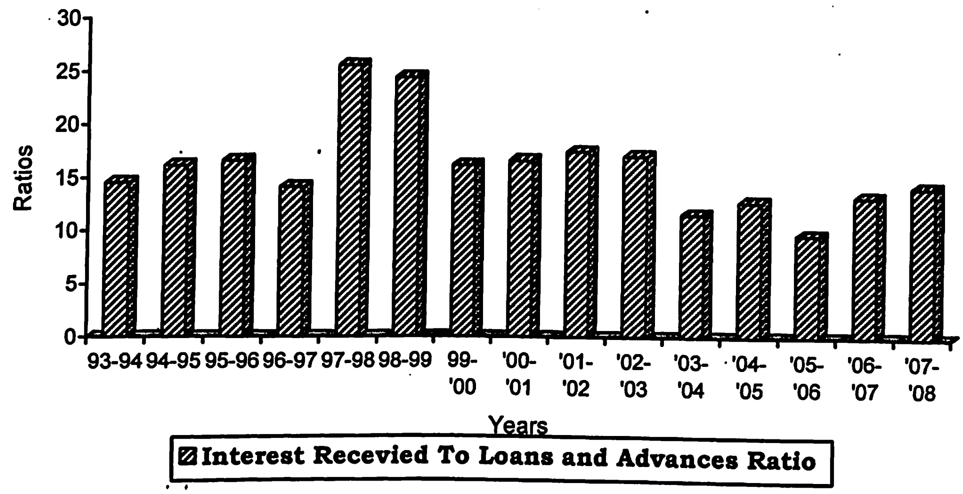


Table 3.11 exhibit the ratio of Interest received to loans and advances of the bank for a period of fifteen years from 1993-1994 to 2007-2008. The ratio showed a fluctuating trend. The highest ratio was during the year 1997-1998 that is 25.68 percent and lowest ratio was during the year 2005-2006 that is 9.80 percent.

3.3.6) Spread ratio

Spread is the difference between interest received and interest paid and which is used by the bank for its operational expenses. Higher the spread ratio indicates higher profit and vice versa. Major source of interest income are interest earned from loans and advances. Interest paid is the expenses paid by the bank on the deposits. It is actually the cost of funds. Interest received is the amount received and receivable as interest on lending. Interest paid is the amount paid and payable as interest on deposits. Total fund is the total of owned fund and borrowed fund

Spread ratio

$$\left(\frac{\textit{Interest Recevied} - \textit{Interest Paid}}{\textit{Total Fund}}\right) \times 100$$

Table 3.12 Spread ratio of ITCB from 1993-1994 to 2007-2008

Year	Interest received (In Rs Lakhs)	Interest paid (In Rs Lakhs)	Total funds (In Rs Lakhs)	Spread Ratios
1993-1994	235.37	240.66	2132.28	-0.25
1994-1995	352.82	281.24	2709.29	2.64
1995-1996	407.67	390.22	3328.14	0.52
1996-1997	402.4	331.95	3938.29	1.79
1997-1998	707.03	524.14	4888.46	3.74
1998-1999	893.47	663.41	6035.85	3.81
1999-2000	765.08	362.55	6671.75	6.03
2000-2001	890.51	369.93	7631.85	6.82
2001-2002	979.19	464.41	8389.42	6.14
2002-2003	965.43	501.33	8803.22	5.27
2003-2004	741.95	543.57	9391.85	2.11
2004-2005	996.45	490.74	11805.35	4.28
2005-2006	791.94	473.87	12291.73	2.59
2006-2007	1171.84	502.79	13294.22	5.03
2007-2008	1302.46	644.01	14949.15	4.40

Source: Audited annual reports of the ITCB

Fig 3.12 Spread ratio

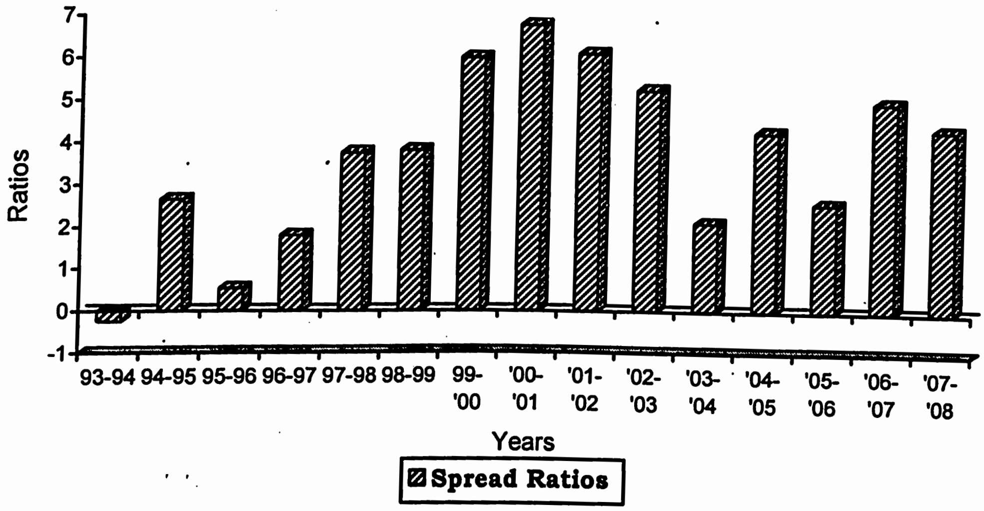


Table 3.12 exhibit the spread ratio for a period from 1993-1994 to 2007-2008. The ratio was an excellent mark of the banks efficiency in lending operations and in planning the deposit mix and loan mix of the bank. Higher ratio is preferable and it will be possible only if interest received on loans and advances is more than interest paid on deposits. Positive ratio is a good sign showing the capacity of the bank in maintaining regular banking practices.

3.3.7) Burden ratio.

Burden ratio is the proportion of burden to total fund of the bank. Although the banks constantly try to increase their non interest income and reduce its non interest expenses, the latter usually exceeds the former such that the difference is labelled as banks burden. Reducing burden will improve the profitability of the bank. Non interest expenses include manpower expenses, administrative expenses, provisions and other expenses. Non interest income includes commission and miscellaneous income.

Burden ratio

$$\left(\frac{\textit{Non Interest Expenses} - \textit{Non Interest Income}}{\textit{Total Fund}}\right) \times 100$$

Table 3.13 Burden ratio of ITCB from 1993-1994 to 2007-2008.

Year	Non Interest expenses (In Rs Lakhs)	Non interest income (In Rs Lakhs)	Total funds (In Rs Lakhs)	Burden Ratio
1993-1994	68.11	94.58	2132.28	-1.24
1994-1995	110.20	79.48	2709.29	1.13
1995-1996	115.25	129.71	3328.14	-0.43
1996-1997	128.25	95.76	3938.29	0.82
1997-1998	147.52	10.06	4888.46	2.81
1998-1999	195.24	15.56	6035.85	2.98
1999-2000	284.91	19.26	6671.75	3.98
2000-2001	451.49	105.76	7631.85	4.53
2001-2002	422.59	34.78	8389.42	4.62
2002-2003	638.33	280.25	8803.22	4.07
2003-2004	737.95	546.10	9391.85	2.04
2004-2005	759.43	361.03	11805.35	3.37
2005-2006	489.95	314.52	12291.73	1.43
2006-2007	628.14	27.75	13294.22	4.52
2007-2008	627.76	43.55	14949.15	3.91

Source: Audited annual reports of the ITCB

FIG 3.13 Burden Ratio

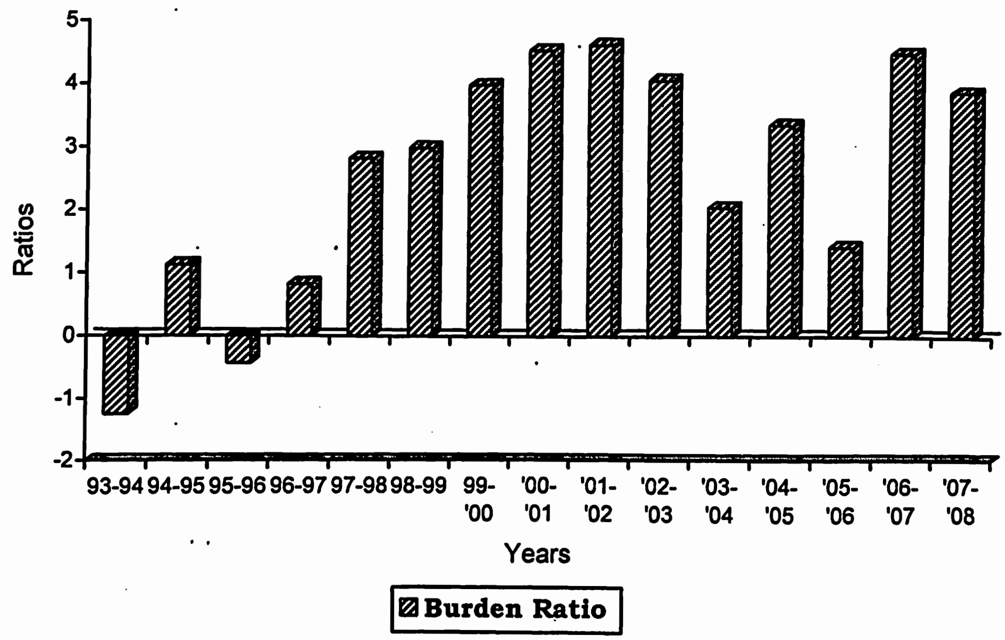


Table 3.13 exhibit the Burden ratio for a period of fifteen years from 1993-1994 to 2007-2008. A lower ratio is always favourable for the bank. Maintaining a lower burden by the bank is good for increasing the efficiency in its operations.

3.3.8) Profitability ratio

Profitability ratio expressed in absolute terms indicates whether the banks operations are satisfactory or not. It is the final figures of analysis. It is necessary to relate profit and working funds for analysing operational efficiency and there by profitability of the bank.

Profitability ratio

$$(\textit{Spread Ratio} - \textit{Burden Ratio})$$

Table 3.14 Profitability ratio of ITCB from 1993-1994 to 2007-2008.

Year	Spread Ratio	Burden ratio	Profitability
1993-1994	-0.25	-1.24	0.99
1994-1995	2.64	1.13	1.51
1995-1996	0.52	-0.43	0.95
1996-1997	1.79	0.82	0.97
1997-1998	3.74	2.81	0.93
1998-1999	3.81	2.98	0.83
1999-2000	6.03	3.98	2.05
2000-2001	6.82	4.53	2.29
2001-2002	6.14	4.62	1.52
2002-2003	5.27	4.07	1.20
2003-2004	2.11	2.04	0.07
2004-2005	4.28	3.37	0.91
2005-2006	2.59	1.43	1.16
2006-2007	5.03	4.52	0.51
2007-2008	4.40	3.91	0.49

Source: Audited annual reports of the ITCB

FIG 3.14 Profitability Ratio

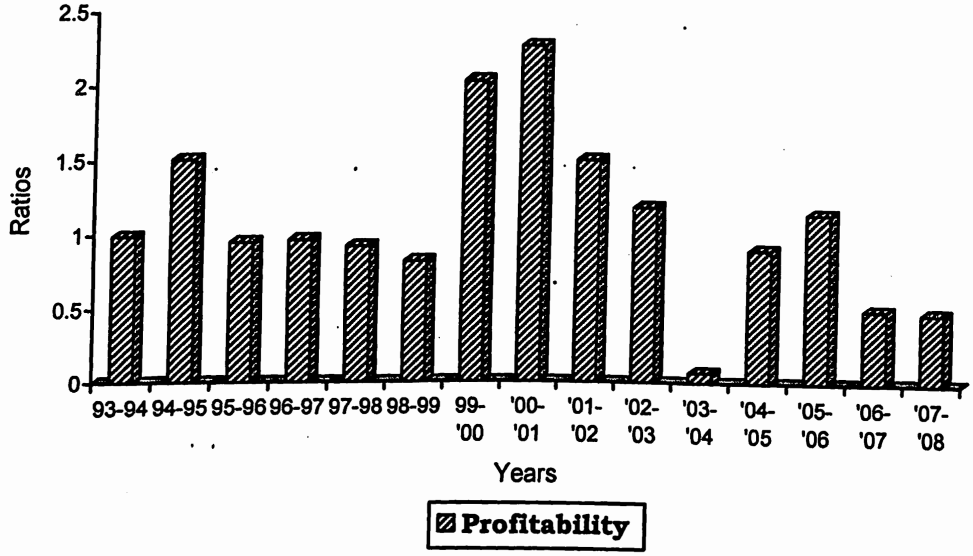


Table 3.14 exhibit the Profitability ratio for a period of fifteen years from 1993-1994 to 2007-2008. It is worth mentioning that the bank is putting all its efforts to improve the spread margin in their competitive environment.

Conclusion.

The analysis of the financial performance of Irinjalakuda Town Co-operative Bank reveals that the efficiency shown by the Bank in deposit mobilization, deployment of funds and in operations is appreciable. For the past fifteen years the bank is running in profit. The study marks that the ratios shows favourable to the Bank. Cost reduction in mobilizing resources and yield increase in deployment of funds are to be ensured. The bank has to give more concentration to improve the spread margin by reducing interest expenses.

Summary of Findings & Conclusion

CHAPTER 4

Summary of Findings and Conclusions

The Irinjalakuda Town Co-operative Bank Ltd No. 55 was registered as a co-operative society on 3rd May, 1918. Later the society was converted into Urban Co-operative Bank in the year 1996 then the bank comes under the purview of the Banking Regulation Act, 1949.

The study on the financial performance of ITCB was undertaken with the objective of analyzing its financial performances. For the purpose of analysis, the secondary data were collected. The performance analysis has been done with the help of different ratios showing efficiency in mobilization, efficiency in deployment and efficiency in operations.

4.1 Findings of the study

- The membership of the bank is increasing over the last fifteen years. During the year 1993- 94 the membership was 10389 and in the year 2007-08 the membership was 26358.
- The share capital of the bank shows a fluctuating trend in the last fifteen years especially during the last five years.
- The deposits of the bank show an increasing trend. During the year 1993- 94 the deposits were Rs 1998.18 lakhs and in the year 2007-08 the deposits were Rs 14462.27 lakhs.
- The credit provided by the bank also shows an increasing trend.
- As a bank it is self sufficient with its owned fund so there are no borrowings for the bank.
- The bank has been working in profit during the study period.
- The reserves of the bank show a fluctuating trend.

Efficiency in Mobilization

Throughout the study we can see that the bank has efficiently managed to mobilize its funds.

- Borrowed fund to Working Capital ratio and Deposits to Working capital ratio shows a slight fluctuations but it is at increasing trend.
- There has been decline in Owned fund to Borrowed fund ratio because of lower rate of growth of owned fund.

Efficiency in Deployment

The study shows that the bank has properly deployed its funds to the members and the society.

- Credit to Deposit ratio shows a fluctuating as well as declining trend.
- Credit to Working Capital ratio shows a fluctuating trend.
- Credit to Owned fund ratio shows the efficiency in disbursement of funds.

Efficiency in Operations

The performance of the bank with respect to the operational efficiency is satisfactory. Even though, the bank should make adequate surplus through effective functioning.

- Net Profit to Interest Received ratio shows a positive trend but fluctuating over the fifteen years.
- Net Profit to Working capital ratio shows a positive trend but at lower rates.
- Interest paid to Interest Received ratio shows a decreasing as well as fluctuating one.

- Interest Paid to Deposit ratio also shows a decreasing as well as fluctuating one.
- Interest Received to loans and advances ratio shows a fluctuating trend.
- Spread ratio of the bank is an excellent mark of banks efficiency; the banks spread ratio is fluctuating.
- Burden ratio of the bank shows a positive trend. Reducing the burden will improve the profitability of the bank.
- Profitability ratio of ITCB for the past fifteen years was positive, the highest profitability was during the year 2000-01 which was 2.29 percent.

4.2 Conclusion

The analysis of ITCB shows that the efficiency of bank in mobilization, deployment of funds and in operations is appreciable. The objective of the analysis was to examine where the organisation in the past was, where it is now and where it could be in the future. The bank must concentrate on reducing the interest paid and to increase the spread margin. These ratio analysis give fair idea of the past performances of the bank. As part of profit planning the bank should device strategies for reduction of costs and maximization of revenue and optimal utilization of all its resources including the human resources.

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A STUDY ON FINANCIAL PERFORMANCE OF IRINJALAKUDA TOWN CO-OPERATIVE BANK (ITCB) LTD NO. 55

By

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(2005-05-113)

ABSTRACT OF PROJECT REPORT

Submitted in partial fulfilment of the requirement for the degree of

Bachelor of Science in Co-operation & Banking

Faculty of Agriculture

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

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2009

ABSTRACT

The study entitled "Financial Performance of Irinjalakuda Town Co-operative Bank (ITCB) Ltd. No. 55" was undertaken to examine the financial strength and weakness of Irinjalakuda Town Co-operative Bank. For the purpose of the study secondary data were collected from annual reports of the bank. The data were collected for a period of 15 years i.e. from 1993-94 to 2007-08. The financial performance was studied from detailed observation of financial ratios. From the above discussion and analysis the study revealed that the bank was able to attract more deposits every year but this should match with equally efficient deployment of funds. The bank should take care to fix the target for deployment of funds in proportion to the deposit mobilization targets. Otherwise it will affect the interest earning capacity of the bank and hence the profits. By reducing the cost of production and other direct expenses the bank can achieve the gross profit. The bank can start any other trading activities for improving its profitable position.

Appendix

Appendix -1

Rs.in lakhs

Sl. No	Year	Share capital	Reserves	Undistibuted profit	Owned fund	Share capital	Reserves	Deposits	Investment in fixed assets	Working capital	Borrowed fund	Owned fund	Total funds
1	93-94	85.58	5.29	43.22	134.09	85.58	5.29	1998.19	54.19	2034.87	1998.19	134.09	2132.28
2	94-95	114.63	10.21	80.23	205.07	114.63	10.21	2504.22	57.84	2571.22	2504.22	205.07	2709.29
3	95-96	130.82	7.97	80.10	218.89	130.82	7.97	3109.25	61.16	3186.88	3109.25	218.89	3328.14
4	96-97	143.18	9.49	130.28	282.95	143.18	9.49	3655.34	71.37	3736.78	3655.34	282.95	3938.29
5	97-98	147.18	11.35	156.70	315.23	147.18	11.35	4573.23	69.75	4662.01	4573.23	315.23	4888.46
6	98-99	159.81	12.59	85.76	258.16	159.81	12.59	5777.69	69.75	5880.84	5777.69	258.16	6035.85
7	99-'00	175.59	12.60	123.26	311.45	175.59	12.60	6360.30	71.50	6476.99	6360.3	311.45	6671.75
8	00-'01	176.06	12.14	50.41	238.61	176.06	12.14	7393.24	81.76	7499.68	7393.24	238.61	7631.85
9	01-'02	175.81	10.25	37.96	224.02	175.81	10.25	8165.40	83.55	8267.91	8165.40	224.02	8389.42
10	02-'03	182.29	13.38	41.00	236.67	182.29	13.38	8566.55	87.88	8674.34	8566.55	236.67	8803.22
11	03-'04	338.73	21.44	46.01	406.18	338.73	21.44	8985.67	159.88	9185.86	8985.67	406.18	9391.85
12	04-'05	251.24	101.39	64.34	416.97	251.24	101.39	11388.38	147.59	11593.42	11388.38	416.97	11805.35
13	05-'06	238.64	38.51	151.79	428.94	238.64	38.51	11862.79	148.44	11991.50	11862.79	428.94	12291.73
14	06-'07	271.15	11.47	37.77	320.39	271.15	11.47	12973.83	176.53	13079.92	12973.83	320.39	13294.22
15	07-08	323.37	6.37	157.14	486.88	323.37	6.37	14462.27	187.40	14604.61	14462.27	486.88	14949.15

NOTE:

Owned fund = Share capital + reserves +undistributed profit

Working capital = Share capital + reserves +deposits - Investment in fixed assets

Borrowed fund includes only deposits because there is no borrowing for the bank as it is self sufficient with its fund.

Total funds = owned funds + borrowed funds

Appendix II

Rs in Lakhs

Sl. No	Year	Manpower expenses	Administrative expenses	Provisions	Other expenses	Non interest expenses	Miscellaneous income	Commission	Non interest income	Loans and advances	Net profit	Interest recevied	Interest paid
1	93-94	26.59	6.07	21.51	13.94	68.11	94.58	0.00	94.58	1620.34	21.17	235.37	240.66
2	94-95	30.55	39.82	22.60	17.23	110.20	79.48	0.00	79.48	2190.82	40.86	352.82	281.24
3	95-96	43.08	30.99	22.90	18.28	115.25	129.71	0.00	129.71	2460.63	31.90	407.67	390.22
4	96-97	35.54	6.12	70.73	15.86	128.25	95.76	0.00	95.76	2848.32	37.96	402.40	331.95
5	97-98	58.38	7.37	72.06	9.71	147.52	9.78	0.28	10.06	2753.00	45.43	707.03	524.14
6	98-99	66.18	19.66	99.30	10.10	195.24	13.72	1.84	15.56	3638.44	50.37	893.47	663.41
7	99-'00	81.59	23.51	159.27	20.54	284.91	18.08	1.18	19.26	4702.34	50.41	765.08	362.55
8	00-'01	119.89	26.61	285.23	19.76	451.49	14.23	91.53	105.76	5329.61	37.96	890.51	369.93
9	01-'02	98.99	29.40	271.14	23.06	422.59	22.37	12.41	34.78	5581.88	41.00	979.19	464.41
10	02-'03	101.31	35.23	483.00	18.79	638.33	19.77	260.48	280.25	5631.54	46.01	965.43	501.33
11	03-'04	161.12	18.98	532.26	25.59	737.95	26.83	519.27	546.10	6358.49	64.34	741.95	543.57
12	04-'05	175.40	14.13	545.80	24.10	759.43	47.44	313.59	361.03	7746.39	151.80	996.45	490.74
13	05-'06	161.12	18.98	284.26	25.59	489.95	21.95	292.57	314.52	8081.78	149.52	791.94	473.87
14	06-'07	257.87	27.27	303.69	39.31	628.14	23.66	4.09	27.75	8709.27	45.40	1171.84	502.79
15	07-'08	287.19	29.81	279.81	30.95	627.76	36.92	6.63	43.55	9031.82	42.47	1302.46	644.01

NOTE:

Non interest expenses = Manpower expenses + Administrative expenses + provisions + other expenses

Non interest income = miscellaneous income + commission