

A STUDY ON THE MANAGEMENT OF FUNDS IN URBAN CO-OPERATIVE BANKS IN KERALA

Thesis submitted to the University of Calicut
for the award of the Degree of
Doctor of Philosophy in Commerce

By

RAVEENDRAN P.V. (PUTHIA VEETIL)

Under the guidance of

Dr. P. MOHANAN
Reader, DCMS.

Department of Commerce and Management Studies
University of Calicut
Kerala
January, 2006

DECLARATION

I, **Raveendran P.V. (Puthia Veettil)**, hereby declare that the thesis, titled **“A STUDY ON THE MANAGEMENT OF FUNDS IN URBAN CO-OPERATIVE BANKS IN KERALA”** submitted to the University of Calicut in partial fulfilment of the requirements for the award of the Degree of Doctor of Philosophy in Commerce is a record of original and independent research work done by me under the supervision and guidance of **Dr. P. Mohanan**, Reader, Department of Commerce and Management Studies, University of Calicut, and it has not formed the basis for the award of any degree/ diploma/ associateship/ fellowship or other similar title to any candidate in any University.

10-01-06
CU Campus.


Raveendran P.V. (Puthia Veettil)

Dr. P. Mohanan
Reader
Dept. of Commerce & Management Studies
University of Calicut
Kerala – 673 635

CERTIFICATE

Certified that this thesis, titled “A STUDY ON THE MANAGEMENT OF FUNDS IN URBAN CO-OPERATIVE BANKS IN KERALA” submitted to the University of Calicut in partial fulfilment of the requirements for the award of the Degree of Doctor of Philosophy in Commerce, is a record of original research work done by **Raveendran P.V. (Puthia Veettil)**, under my supervision and guidance and the thesis has not formed the basis for the award of any degree/ diploma/ associateship/ fellowship or other similar title to any candidate of any University.

10/01/06
CU Campus.


Dr. P. Mohanan
(Supervising Teacher)

ACKNOWLEDGEMENT

I would like to express my deep sense of gratitude to Dr. P. Mohanan, Reader, Department of commerce and management studies, University of Calicut, who had been a constant source of inspiration since the conception of the problem and throughout the work. I thank him for his expert advice, able guidance, unstinted support, critical comments and valuable suggestions for making the study more effective. I express my sincere thanks to his loving family for the kind consideration and affection given to me.

I extend my sincere thanks to Dr. Muraleedharan, the Head of the Department of Commerce and Management Studies, Dr A. K. Sarada, former Head of the Department, Dr. E. P. Zainul Abdeen, Professor, Dr. Suresh P. Thampi, Reader, all other teachers, administrative staff and Sri. G. Narayanankutty, Librarian, Department of Commerce and Management Studies, Calicut University for their help, encouragement and support to complete my research work.

I am extremely thankful to Prof. N.K. Abdual Rahiman, former Principal and Head, Department of Commerce, Prof. K.T. Ahammed Kutty, Principal, teachers of the Department of Commerce, librarian, other members of staff and Management of Sir Syed College Taliparamba for their help and encouragement for completing my research work.

I am highly grateful to Sri.E. P. Sreekumar, General Manager, Peoples Urban Co-operative Bank, Tripunithura, Sri. Abdual Nazar, General Manager, Calicut Urban Co-operative Bank, Sri.Rahmathulla, General manager, Manjeri Urban Co-operative Bank, Sri. Mathew, General Manager, Meenachil East Urban Co-operative Bank, Sri. Dileep Kumar General manager, Irinjalakuda UrbanCo-operative Bank, Sri. P. Thampan, Assistant Secretary Urban Co-operative Bank, Payyanur, Sri. Sathyapalan, Chief Accountant, Urban Co-operative Bank, Kannur, Jayendran, former secretary, Thrissur, Urban Co-operative Bank, Sri. Hari B., Senior clerk Thiruvananthapuram Urban Co-operative Bank, for giving the required data, and other information for the work. I am indebted to the members of staff and management of these UCBs who extended their help and co-operation in collecting data for the research.

I am very much obliged to Sri. Mohandas, Deputy General Manager, Urban Bank Division, RBI, Thiruvananthapuram, and Sri. Suresh Babu, Additional Registrar, Department of Co-operation, Government of Kerala, for extending whole hearted co-operation for my research work.

I am thankful to colleagues, friends and others who encouraged and assisted me in the completion of this research work.

I am very much obliged to my family for the enormous support in uncountable ways. I express my gratitude to my beloved parents who showered blessings on me to complete this work. I thank my wife for her moral support, sacrifices, endurance and help given to me and to my children and brother Unnikrishnan who had always encouraged me to complete the research work in time.

I am thankful to Dr. T.P.M. Fareed, Department of Statistics, Farook College, Calicut and Mr. Jabir K, who helped me in the statistical analysis and typing the manuscript. I am also thankful to Microtech Computer Centre, Calicut University, for the typing work with care.

I would like to express my sincere thanks to Prof. Kishore Kumar P., Department of English, Sir Syed College and Mr. Pratheesh who had carefully scrutinized the manuscript and had given their critical comments about the thesis.

This list is not complete. I know how much I owe to my colleagues and friends who had motivated me to complete the thesis were to name some, Prof. B.K.M.H. Ansari, Prof. A.P. Kuttikrishnan, Mr. Jayamohan. T, Mr. Sasikumar, Mr. Dharmarajan and Mrs. Preethi.

Lastly I thank all those who extended support, motivation and love to me for completing this thesis work.

Raveendran P.V. (Puthia Veetil)

CONTENTS

List of Tables

List of Figures

List of Charts

List of Abbreviations

Chapter		Page No
1	INTRODUCTION	1-20
2	HISTORY OF URBAN CO-OPERATIVE BANKS	21-60
3	REVIEW OF LITERATURE	61-114
4	FUNDS MANAGEMENT IN THE UCBs	115-194
5	ASSET- LIABILITY MANAGEMENT IN THE UCBs	195-239
6	EVALUATION OF FINANCIAL PERFORMANCE OF URBAN CO-OPERATIVE BANKS	240-281
7	SUMMARY, FINDINGS AND RECOMMENDATIONS	282-304
	BIBLIOGRAPHY	305-320
	APPENDICES	

LIST OF TABLES

No.	Title	Page No.
1.1	Weights of selected parameters of banks in the sample	14
1.2	Selected Details of Sample UCBs as on 31-3-2003	15
2.1	Number of UCBs set up in the four states of India prior to 1993 and between 1993 and 1999.	33
2.2	Progress of reporting urban co-operative banks	34
2.3	State/Union Territory wise position of urban co-operative banks in India (2001 and 2003)	36
2.4	Weak / sick banks - Criteria for UCBs	39
2.5	Structure of the UCBs as on 31 March 1999	40
2.6	Structure of the UCBs as on 31 March 1999	41
2.7	Status Position of the Licensed UCBs as on 31-3-2003	42
2.8	Coverage of the UCBs in India as on 30 June 1994	43
2.9	State Wise Spread of the UCBs	44
2.10	State/Union Territory Wise Particulars of UCBs For the Year 2000-2001	45
2.11	CRAR Fixed for the UCBs	49
2.12	Growth of the UCBs (BR Act) in Kerala	52
2.13	Selected details of the Urban Co-operative Banks (BR Act) in Kerala as on 31 March, 1993	53
2.14	Selected details of the Urban Co-operative Banks (BR Act) in Kerala as on 31 March, 1993	54
2.15	Selected details of the Urban Co-operative Banks (BR Act) in Kerala for the period 1998-1999	55
2.16	Selected details of the Urban Co-operative Banks 1998 – 1999	56
2.17	Selected details of the Urban Co-operative Banks (under BR Act) in Kerala as on 31-3-2004	57
3.1	Maturity wise pattern of assets and liabilities and gap analysis	104
4.1	ANOVA table of Share Capital	119
4.2	Average Share Capital of the Sample UCBs and their Groups (1994-2004)	120

No.	Title	Page No.
4.3	ANOVA Table of Reserves and other Funds of the Sample UCBs	124
4.4	Average Reserves and other Funds of the Sample UCBs and their Groups (1994-2004)	125
4.5	Average Amount of Owned Funds of the Sample UCBs and their Groups (1994-2004)	128
4.6	ANOVA table of Deposits	131
4.7	Average Total Deposits of the Sample UCBs and their Groups (1994-2004)	132
4.8	Average Current Deposits of the Sample UCBs and their Groups (1994-2004)	135
4.9	Average Savings Deposits of the Sample UCBs and their Groups (1994-2004)	139
4.10	Average Fixed Deposits of the Sample UCBs and their Groups (1994-2004)	141
4.11	Correlation Matrix of Deposits of the sample UCBs in Kerala (1994-2004)	143
4.12	Average Borrowings of the Sample UCBs and their Groups (1994-2004)	145
4.13	Average Other Liabilities of the Sample UCBs and their Groups (1994-2004)	148
4.14	Deposits to working capital of the sample UCBs in Kerala for the period from 1994 to 2004	151
4.15	Average Cash in Hand of the Sample UCBs and their Groups (1994-2004)	157
4.16	Average Cash in Hand and Balance with Other Banks of the Sample UCBs and their Groups (1994-2004)	158
4.17	Average Deposit with Other Banks of Sample UCBs and their Groups (1994-2004)	160
4.18	Average amounts of investments, its relation to total funds, demand and time liabilities of the sample UCBs and their Groups (1994-2004)	165
4.19	Average Loans and Advances of the Sample UCBs and their Groups (1994-2004)	168
4.20	Average amount of Short-term Loans and Advances of the Sample UCBs and their Groups (1994-2004)	171

No.	Title	Page No.
4.21	Average amount of Medium-term Loans and Advances of the Sample UCBs and their Groups (1994-2004)	173
4.22	Average Long-term Loans and Advances of the Sample UCBs and their Groups (1994-2004)	176
4.23	Correlation Matrix of Loans and Advances of sample UCBs in Kerala	178
4.24	Average Fixed Assets of the Sample UCBs and their Groups (1994-2004)	180
4.25	Average Other Assets of Sample UCBs and their Groups (1994-2004)	183
4.26	Correlation Matrix of Sources and Uses of Funds of sample UCBs in Kerala (1994-2004)	185
4.27	Credit–deposit ratio of the sample UCBs in Kerala for the period between 1994 and 2004	187
4.28	Average Credit Deposit Ratio of the Sample UCBs and their Groups (1994-2004)	188
4.29	Earning assets of the sample UCBs from 1994 to 2004	190
4.30	Earning assets to total assets of the sample UCBs from 1994 to 2004	192
5.1	Average Effective Cost of Funds of the Group One UCBs in 1994	199
5.2	Average Effective Cost of Funds of the Second Group UCBs in 1994	200
5.3	Average Effective Cost of Fund of the Third Group UCBs in 1994	201
5.4	Average Effective Cost of Funds Group One UCBs in 2004	202
5.5	Average Effective Cost of Funds of the Group Two UCBs in 2004	203
5.6	Average Effective Cost of Funds of the Third Group UCBs in 2004	204
5.7	Operating Expenses as a Percentage of Total Funds of Sample UCB Groups in Kerala for the period between 1994 and 2004	205
5.8	Average Core Deposit of the sample UCBs and their Groups (1994 to 2004)	208

No.	Title	Page No.
5.9	Average Time Deposit of the sample UCBs and their Groups (1994-2004)	210
5.10	Average Demand Liabilities of the sample UCBs and their Groups (1994-2004)	212
5.11	Average Liquid Assets of the Sample UCBs and their groups	213
5.12	Asset and liabilities position of the UCB groups for the year 1994	216
5.13	Asset and liabilities position of the UCB groups for the year (2004)	217
5.14	Amount of Average Rate Sensitive Assets of Selected UCBs and their Groups	219
5.15	Position of NPAs of the UCBs in India	222
5.16	Amount of the NPAs of the Sample UCBs in Kerala from 2000 to 2004	224
5.17	Trend in NPAs of the Sample UCBs in Kerala from 2000 to 2004	226
5.18	NPA to Share Capital of the Sample UCBs in Kerala from 2000 to 2004	228
5.19	Net NPAs to Owned Funds of the Sample UCBs from 2000 to 2004	229
5.20	Net NPAs to Total Assets of the sample UCBs in Kerala and in the Public Sector Banks from 2000 to 2004	230
5.21	Net NPA to Loans and Advances of the sample UCBs in Kerala and public sector banks from 2000 to 2004	232
5.22	Net interest Income to NPA of the sample UCBs from 2000 to 2004	234
5.23	Amount of Average NPA of the Sample UCBs and their groups	235
6.1	Mean Net Profits of the sample UCBs (1994-2004)	245
6.2	Average Total Income of the Sample UCBs (1994-2004)	248
6.3	Interest income to total assets of selected UCB groups and public sector banks	250
6.4	Average Non-Interest Income of the Selected UCBs	253

No.	Title	Page No.
6.5	Average Total Expenses of the Sample UCBs (1994-2004)	258
6.6	Average Interest Expenses of the Sample UCBs (1994-2004)	260
6.7	Amount of Non-Interest Expenses of the Sample UCBs (1994-2004)	263
6.8	Average Amount of Staff Expenditure of the Sample UCBs	264
6.9	Average amount of Spread and its relation with selected variables of Sample UCBs (1994-2004)	268
6.10	Average amount of burden and its relation with selected variables of Sample UCBs (1994-2004)	271
6.11	Average Net Income and its relation with selected variables of Sample UCBs (1994-2004)	274

LIST OF FIGURES

No	Title	Page No
4.1	Trend in the Growth of Share Capital of the sample UCBs in Kerala	118
4.2	Trend in the Growth of Total Reserves of the sample UCBs in Kerala	123
4.3	Trend in the Growth of Owned Funds of the sample UCBs in Kerala	127
4.4	Trend in the Growth of Deposits of the sample UCBs in Kerala	130
4.5	Trend in the Growth of Current Deposit of the sample UCBs in Kerala	134
4.6	Trend in the Growth of Savings Deposit of the sample UCBs in Kerala	137
4.7	Trend in the Growth of Fixed Deposit of the sample UCBs in Kerala	140
4.8	Trend in the Growth of Borrowings of the sample UCBs in Kerala	144
4.9	Trend in the Growth of Other liabilities of the sample UCBs in Kerala	147
4.10	Trend in the growth of Working Capital of the sample UCBs in Kerala	149
4.11	Sources of funds of the selected UCBs for the years 1994 and 2004	153
4.12	Trend in the Growth of Cash in Hand of the sample UCBs in Kerala	155
4.13	Trend in the Growth of Cash Balance and Deposit with other banks of the sample UCBs in Kerala	161
4.14	Trend in the Growth of Cash in Hand, Balance and Depoist with Other Bank of the sample UCBs in Kerala	162
4.15	Trend in the Growth of Invests in Govt and approved Securities of the sample UCBs in Kerala	163

No	Title	Page No
4.16	Trend in the Growth of Loans & advances of the sample UCBs in Kerala	167
4.17	Trend in the Growth of Short Term Loans & Advances of the sample UCBs in Kerala	170
4.18	Trend in the Growth of Medium Term Loans & Advances of the sample UCBs in Kerala	172
4.19	Trend in the Growth of Long Term Loans & Advances of the sample UCBs in Kerala	175
4.20	Trend in the Growth of Fixed Assets of the sample UCBs in Kerala	179
4.21	Trend in the Growth of Other Assets of the sample UCBs in Kerala	182
5.1	Trend in the Gross NPAs of Banks in India and Public sector	223
5.2	Trend in the Growth of Net Non Performing Assets of the sample UCBs in Kerala	225
5.3	Increment in NPA of the sample UCBs in Kerala	227
5.4	Net NPA to total assets of the sample UCBs and Public sector banks	232
5.5	Net NPA to Loans and Advances of the sample UCBs in Kerala and public sector banks	234
6.1	Trend in the Growth of Net profit of the sample UCBs in Kerala	241
6.2	Trend in the Growth of Interest income of the sample UCBs in Kerala	249
6.3	Interest Income to total assets of the sample UCBs (group) in Kerala and Public sector bank	251
6.4	Trend in the Growth of Non interest income of the sample UCBs in Kerala	252
6.5	Interest income and Non interest income of the sample UCB groups	255
6.6	Trend in the Growth of Total Expenses of the sample UCBs in Kerala	256

No	Title	Page No
6.7	Operating expenses to total assets of the sample UCBs (group) in Kerala and Public sector banks	257
6.8	Trend in the Growth of Interest Expenses of the sample UCBs in Kerala	259
6.9	Trend in the Growth of Non interest expenses of the sample UCBs in Kerala	262
6.10	Staff Expenditure to Total Expenses and Allowances of the sample UCBs in Kerala and Public sector banks	265
6.11	Trend in the Growth of Spread of the sample UCBs in Kerala	266
6.12	Trend in the Growth of Burden of the sample UCBs in Kerala	270
6.13	Trend in the Growth of Net Income of the sample UCBs in Kerala	273
6.14	Spread Burden relationship of the UCBs (Group) in Kerala	275

LIST OF CHARTS

No	Chart Name	Page No
2.1	Co-operative Banking Structure	22
2.2	Structure of the UCBs	28
2.3	Organisation structure of UCB	29
3.1	Elements of UCB Funds	87
3.2	Flow chart of loan –credit management	93
3.3	Model of repayment behaviour of borrowers	102
3.4	Spread – Burden – Net profit relationship	108

LIST OF ABBREVIATIONS

B R Act	Banking Regulation Act, 1949
C A G R	Compound Annual Growth Rate
C R A R	Capital to Risk Assets Ratio
C R R	Cash Reserve Ratio
D C C B	District Central Co-operative Bank
D T L	Demand and Time Liabilities
E P N	Entry Point Norm
F G D	Focus Group Discussion
G O I	Government of India
H P C	High Power Committee
I B A	Indian Banks Association
N A F C U B	National Federation Of Urban Co-operative Banks &Credit Societies
N P A	Non Performing Assets
P C A R D B I	Primary Co-operative Agricultural and Rural Development Bank of India
P C B	Primary Co-operative Bank
R B I	Reserve Bank of India
R B I Act	Reserve Bank of India Act 1934
R R B	Regional Rural Banks
S C B	State Co-operative Bank
S I D B I	Small Industries Development Bank of India
S L R	Statutory Liquidity Ratio
U B D	Urban Bank Department
U C B	Urban Co-operative Bank

INTRODUCTION

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter One

INTRODUCTION

INTRODUCTION

The role of banking and financial institutions in economic development has been well recognised in economic theory and policy. Recognising their importance, planners and policy makers of all countries, particularly developing countries, have made conscious efforts to develop a network of these institutions. Social pressures and policy interventions led to wide spread formation and development of banking institutions. Among these, co-operative financial institutions have wider and deeper penetration in rural and semi-urban areas.

It is true that banking industry in India has recorded a phenomenal growth in the last few decades. Extensive branch expansion, rural net working, priority sector lending and internalisation of banking activities have been under taken by the industry. Banks have adopted a variety of schemes for mobilisation of resources and their subsequent deployment. This has contributed to rapid growth in volume of business and has in turn increased the complexity of banking operations. The nationalisation of banks in India in 1969 gave a new turn to the outlook and approach to banking operations. Banks, which were concentrating their activities on commercial and industrial financing, in cities and towns, started extending their activities to agriculture and small-scale industrial units in rural villages. After the nationalisation, the banks were bound to cover the weaker sections in society and as such they have tried to reach out to the sectors like those of petty traders, self-employed persons, transport operators etc.

Dealing with the socio-economic objectives underlying the nationalization of banks, The Ministry of Finance (Department of Economic Affairs), Government of India has stated that banks have, in fact, traversed a long distance in terms of territory, function, and segments of society they serve. They have moved from towns to villages, from large and medium industry to

small business and to peddlers of sundry wares, from qualified professionals to rickshaw pullers, barbers and washer men, to convicts still in jail and ex-convicts, to tribals and the physically handicapped, from the privileged to the under privileged and to the unprivileged; in short to all those who work for a living or looking for opportunities to work for a living and believe in dignity of labour and self respect.

The economic reforms focusing on liberalisation, privatisation and globalisation, introduced in India since 1991, offered new challenges to banking and financial institutions. The entry of multi national institutions and agencies in the credit and banking sector has posed new problems at operational and administrative levels. The recent boom in information technology and software development has led to huge investment of capital in technology and high cost of skilled and trained manpower. On account of this, the workings of the various segments of Indian economy have shifted towards competitiveness, quality, effectiveness etc. Indian banks are moving towards becoming financial super markets, where customer can expect the full range of financial services. The growing sophistications in the banking sector have their attendant risks. They are to remain in the market to meet the requirements of customers, by keeping the overall risk exposure within the acceptable level. They are to evolve effective practices to manage their activities to gain maximum spread in the process of raising and deploying of funds.

In India, co-operative banks are a part of the vast and powerful super structure of co-operative institutions. When national planning began in India, co-operative banks were made an integral part of the institutional framework of community development and extension services. They became a part of the arrangements for decentralized plan formulation and implementation. The co-operative banking sector in India has been playing a significant role in promoting rural development. The economic growth of the country was boosted by the activities of various forms of co-operatives in sectors like production,

processing, marketing, distribution and other services. Urban Co-operative Banks (UCBs) focused their activities on meeting the credit requirements of poor and middle class people of the urban and semi-urban areas.

The UCBs have achieved significant progress since their inception. “Over a century old urban co-operative credit movement has a net work of 2104 UCBs with 7368 branch outlets spread over the country. The deposit resources of UCBs rose from a meagre sum of Rs. 153 crore at the end of the financial year 1966-67 to Rs 110,000 crore (9% of commercial bank deposits) and outstanding loan accounted for Rs 67,000 crore and working capital Rs 1,20,000 crore by the end of March 2004”¹.

“The UCBs emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle class and marginalised sections of the society”².

The rules for registration, membership, election, financial assistance, business operations, loan policies, investment of surplus resources, loan recovery, audit, reserves and dividend declared are framed by the State Government and the Reserve Bank of India. The UCBs have to obtain permission of the RBI to open new branches or to extend their activities beyond their district of registration.

The UCBs have access to various sources of funds - owned and borrowed - with varying costs and repayment obligations. The funds that they may raise will have to be profitably deployed. While doing this the operating cost will have to be kept low. To maintain their credibility as the “common man’s bank” they need to conduct their business in an efficient and transparent manner.

The Urban Co-operative Banking sector has recently undergone many ups and downs. On the one side, there is the problem of loss of business. On the

other side, the problem is that of abundance of funds waiting for deployment. Surplus funds, coupled with falling interest income and spread, heavy burden, increasing over-dues, non performing assets (NPA) and operating expenses are some of the issues that need to be addressed urgently. The crux of all these problems is entered around funds management. “Many bankers have felt like tempest - tossed mariners and are probably yearning for safe harbours”³.

As observed by Trivedi,⁴ “the Indian banking industry till 1985 was largely under regulatory provisions from the RBI and Government of India. The regulations helped the spread of banking network to every nook and corner of the country. Though it enabled the mobilisation of rural savings, loan facilities and services to the neglected sector, it led to accumulation of non-performing assets, low profitability, poor customer services etc.”. The funds management thus presents an interesting area of study and research.

The UCBs were finding it difficult to manage their funds profitability due to rising cost of funds, mounting overdue and less opportunities for profitable investment.

Though a number of studies are available on banking industry, there is dearth of a comprehensive study of funds management in the UCBs in Kerala. A review of the available literature about banking revealed that an exclusive study of funds management in the UCBs was done in Kerala prior to 1995. Many changes have taken place since the completion of the study. In this context, the present study may fill the gap to a certain extent and evaluate the effect of business and regulatory changes in the urban co-operative bank’s funds management activities. Further it may throw some light on the performance of the UCBs in Kerala based on the Banking sector reforms introduced in the country since 1991.

STATEMENT OF THE PROBLEM

Banking industry in general and urban banks in particular are now passing through a transition stage on account of the impact of restructuring and liberalisation initiated in our country since 1991. A number of new legislations and regulatory measures were introduced recently. Use of technology is very extensive in the banking sector. New and innovative products and services are being offered at competitive prices. These regulatory measures exposed banking sector to many risks which were not prevalent in the past. Banks were forced to adopt new strategies to manage their day-to-day affairs.

Urban co-operative banks in India have the characteristics of both commercial banks and co-operative banks. They are facing problems present in the commercial banking sector together with those of the co-operative banking sector. These problems are putting additional stumbling blocks in the path of urban co-operative banks.

A way out is to be sought to help them serve the society, particularly the urban poor and the middle class, better and to compete with others in the sector. Thus the challenge before the UCBs is how the available resources are to be effectively utilised to increase business by ensuring adequate returns, reasonable liquidity and affordable risks.

Kerala State is poor in industrialisation, industrial infrastructure and development. The ideal type of industrial units suggested for the state is small and medium. As an agency to promote urban development by meeting the credit requirements of urban people, the role of the UCBs are economically important and politically significant. Management of credit, a specialised profession, requires knowledge of customers, their needs, assessment of risks, risk-return relationship, pricing of various products, monitoring credit and means to manage liquidity, spread and profit. These are the dominant concerns in funds management of any financial institution.

Kerala has a fairly wide spread network of commercial bank branches, district central co-operative and primary agricultural co-operative banks. Urban co-operative banks do not have significant presence in the state as in other states like Gujarat, Maharashtra, Andhra Pradesh and Tamil Nadu. As on March 31 2004 there were 79 urban co-operative banks in Kerala of which only 57 were under the Banking Regulations Act (BR. Act) and the rest were outside the purview of the BR. Act and are known as non BR. Act UCBs.

Of the total UCBs coming under B. R Act, statistics show that 36 banks earned profit while 21 incurred losses at the end of March 2004. Of the 22 non BR. Act UCBs, 10 made profits and the rest suffered losses. On an average 42 percent of UCBs were unprofitable.

In all matters relating to banking activities, there is competition among commercial banks, state and district co-operative banks, regional rural banks and urban banks. Unlike states like Maharashtra, Karnataka and Gujarat, Kerala does not have a vibrant urban and industrial economy. Consequently, the scope for profitable deployment of funds is limited when compared to other industrially developed states.

“It is a well-recognized fact that the overall performance of UCBs is determined by the manner in which they manage their various assets and liabilities. This aspect of management, generally known as portfolio management, involves allocation of the real and financial assets in such a way as to optimise liquidity, profitability, and security. In doing so the UCBs have to take into consideration factors like risk and uncertainty, prices of assets, rate of return, maturity period etc. It has been argued that, it is the quality of management of funds that determines the survival of UCBs. Good corporate governance and professionalisation of management of UCBs have been emphasised by several experts and committees”⁵.

The concept of funds management involves proper acquisition of resources like share capital and deposits from members, non-members and institutions, loans and assistances from apex institutions and a judicious utilisation of these resources. This would be possible through proper mix of various deposits and other funds and their proper deployment for credit and asset creation. The UCBs are now confronted with declining spread, net profit and increasing burden on the one hand and accumulation of deposits, and idle cash on the other. The problems of excess liquidity, falling credit-deposit ratio, mounting over-dues etc. are other threats that merit immediate attention. So the question here is how, these resources with varying costs, repayment obligations and maturity period are to be deployed to increase the spread and profits of the UCBs.

Funds management is thus the core competence area for the success of urban banks. The study thus focuses on how the UCBs mobilised and deployed their resources, how efficiently they performed these operations and how they could be improved to serve the society better thereby strengthening their financial base.

OBJECTIVES OF THE STUDY

The major objectives of the study are

- To examine the efficiency of funds management of the UCBs in Kerala.
- To study the asset liability management and the NPAs of the UCBs in Kerala.
- To examine the financial performance of the UCBs in Kerala.
- To develop and test models for earnings, cost of funds, and spread.
- To make policy recommendations on the basis of the findings of the study to improve managerial decisions about fund raising and using.

HYPOTHESES OF THE STUDY

The study is based on the assumption that funds management plays an important role in maximising the spread thereby increasing the profits of the banks. Accordingly the following hypotheses were developed.

- UCBs raised their funds through conventional sources.
- UCBs deployed their funds mostly on traditional assets.
- Deposits are the main source of funds for the UCBs.
- Interest rate of fixed deposits decides to a large extent the weighted cost of funds.

SIGNIFICANCE OF THE STUDY

Management of funds in the UCBs essentially consists of raising funds at the lowest cost and their investment subject to profitability, safety and liquidity criteria.

There is fierce competition between nationalised commercial banks, indigenous and international private banks on the one side and district co-operative banks, regional rural banks and other urban credit institutions on the other in all matters relating to banking activities. The present study makes a modest attempt to analyse and provide answers to some of the problems in the areas of funds management of the UCBs.

The UCBs are now facing problems like mounting cost of funds, rising over dues, fewer avenues for profitable investments and the fall in profitability. Though funds management is a very broad concept, the present study explores only the sources and utilisation of funds and their management efficiency in assets and liability management, non performing assets and profitability of the UCBs.

METHODOLOGY

Research Design

This study is based mainly on data collected from a sample of the nine Urban Co-operative Banks in Kerala. The data are analysed in detail to identify the underlying trends and patterns using accepted statistical and financial analysis tools. Hence, this study is basically descriptive in character.

List of Study variables

The following factors were identified as study variables.

1. Share capital
2. Reserves and other funds
3. Owned funds
4. Deposits – current deposit, saving deposit, fixed deposit.
5. Miscellaneous sources
6. Cash in hand
7. Cash balance with other banks
8. Liquid assets
9. Investments
10. Loans and advances – short-term, medium-term, long-term
11. Other assets
12. Core deposit
13. Time deposit
14. Credit deposit ratio
15. Number of employees
16. Number of branches

17. Credit risk
18. Effective cost of funds
19. Recovery rate
20. Liquidity risk, Assets-Liability of UCB groups
21. Non-performing asset
22. Net Profit
23. Interest income
24. Interest expense
25. Non-interest income
26. Non-interest expense
27. Spread
28. Burden

Sources of Data

Both primary and secondary data were used for the study. For analysing the trend and pattern of funds and profitability, data were collected from the nine UCBs for a period of eleven years. The annual reports of these were used extensively where ever required. Statistics of the UCBs in India and Kerala since 1910 were also taken to get an overall idea about the growth and status of the UCBs.

Primary Data

Primary Data were collected by using a structured questionnaire. This was used for collecting information relating to financial performance of UCBs.

Focus Group Discussion

A Focus Group Discussion (FGD) involving top functionaries of selected UCBs; General Managers, Office Administrators and Staff members was held on

26th January 2005 at Calicut. General Managers and Top Executives numbering 20 were invited to the FGD. Twelve of them participated in the FGD. Structured questions were used in the FGD to elicit the responses of the panel. The various aspects of the problem under study were subjected to detailed deliberation by most of the members. The guide acted as the moderator of the discussion and tried to exploit the experience and expertise of the panellists. The panel members whole - heartedly participated in the discussion and expressed their opinion. The whole discussion was highly useful in giving a final shape to the study. The whole programme was video graphed and was later transcribed for documentation and content analysis. Summary of the FGD is given as appendix 1 and was used for analysis.

Personal Interviews

Data were collected through field visits and personal interviews. Separate interviews were conducted with Assistant General Manager, Urban Bank Division, Reserve Bank of India, Thiruvananthapuram, Joint-Registrar of Co-operative Societies, Thiruvananthapuram, officers of the Co-operative Department, members of the Department of Co-operation and Banking, Agricultural University, Mannuthy, Trichur, members of the Institute of Co-operative Management, Kannur, staff members, Board of Directors and presidents of the various Urban Co-operative Banks for collecting data.

Secondary Data

Secondary data were collected from the following sources:

- 1) Annual accounts, annual reports and audit reports of UCBs.
- 2) Publications of the Registrar of Co-operative Societies, Govt. of Kerala.
- 3) Reserve Bank of India and NABARD publications.

- 4) Publications of National Federation of the UCBs and Credit societies, Bangalore.
- 5) State level UCBs Association.
- 6) Publications of the Department of Co-operation, NCUI, VAMNICOM Pune.
- 7) Other publications such as books, periodicals, newspapers, etc.
- 8) Library of DCMS, University of Calicut and other various University libraries in Kerala.
- 9) Library of Sir Syed College, Taliparamba.
- 10) Library of the Institute of Co-operative Managements, Parassinikkadavu.

Sample Design

The universe of the study consisted of 57 Urban Co-operative Banks registered under the Kerala Co-operative Societies Act of 1969 and regulated by Reserve Bank of India. For the study, nine UCBs (15.7 per cent) were randomly selected using stratified random sampling method. The study was been confined to the eleven-year-period between 1993-94 and 2003-04.

For the purpose of data collection, the state was divided into three regions as North, Central and South. The districts included In the Northern region were Kasargod, Kannur, Calicut, Wayanad, Malappuram and Palakkad. The total number of the UCBs in this area was 25. The districts in the central region of Kerala were Thrissur, Ernakulam, Aleppy and Kottayam. The number of UCBs in this area was 17. Districts such as Idukky, Pathanamthitta, Kollam and Thiruvananthapuram were included in the southern region and the total number of UCBs in this region was 15.

Four UCBs from the northern region, three from the central region and two from the southern region were selected randomly. The nine UCBs selected from the population of 57 UCBs (under the B.R. Act) were as follows.

Result of Random selection

Northern Region

1. Calicut Co-operative Urban bank
2. Payyannur Co-operative Town Bank
3. Manjeri Co-operative Urban Bank
4. Cannanore Co-operative Urban Bank

Central Region

5. Trichur Urban Co-operative Bank
6. Peoples Urban Co-operative Bank, Thripunithura
7. Town Co-operative Bank, Iringalakkuda

Southern Region

8. Thiruvananthapuram Co-operative Urban Bank
9. Meenachil East Urban Co-operative Bank

For making the study more effective and meaningful, these nine banks were grouped into three on the basis of their overall performance considering the figures relating to selected parameters for the first year of the study (1993-94).

The important financial parameters considered for classification were share capital, working capital, deposits, loans, net profit/loss and number of branches.

A nine point scale was developed and points were assigned from one to nine (as weight) on the basis of the values of the variables in the ascending order.

Table 1.1 illustrates the weights of the values of the selected parameters for the year 1994.

Table 1.1
Weights of selected parameters of banks in the sample

Name of the bank	Criteria and Weight (Based on values of 1994)						Total (weight points)
	Share Capital	Working Capital	Deposits	Loans	Net Profit / Loss	No. of Branches	
Calicut Co-op. Urban bank	6	4	5	6	2	1	24
Payyannur Co-op. Town Bank	1	1	2	2	4	2	12
Manjeri Co-op. Urban Bank	3	5	6	4	6	5	29
Cannanore Co-op. Urban Bank	2	2	1	1	1	1	8
Trichur Urban Co-op. Bank	5	7	8	7	7	6	40
Peoples Urban Co-op. Bank, Thripunithura	4	6	3	3	5	4	25
Town Co-op. Bank, Iringalakkuda	9	9	9	9	9	3	48
Thiruvananthpuram Co-op. Urban Bank	7	3	4	5	3	1	23
Meenachil East Urban Co-op. Bank	8	8	7	8	8	7	46

On the basis of the total weights derived for each UCB in the sample, the banks were grouped into three as 1, 2 and 3. The banks in the first group were with lowest total weights, second with moderate weights and third were with the highest weight values. The banks in the first group were Cannanore Co-operative Urban Bank (1A), Payyannur Co-operative Town Bank (1B) and

Thiruvananthapuram Co-operative Urban Bank (1C). The banks in the second group were Manjeri Co-operative Urban Bank (2A), Calicut Co-operative Urban bank (2B) and Peoples Urban Co-operative Bank, Thripunithura (3C). Banks in the third group were Trichur Urban Co-operative Bank (3A), Meenachil East Urban Co-operative Bank (3B) and Town Co-operative Bank, Iringalakkuda (3C).

Selected details of the UCBs in the sample, as on 31st December 2004 are given in table 1.2.

Table 1.2

Selected Details of Sample UCBs as on 31-3-2003

Sl No.	Area/ District	Name of Bank	Year Estd	Br	Membership A class	Deposit Rs lakhs	Loans Rs lakhs	Profit/Loss Rs lakhs	No. Of employees
1A	Kannur	Co-op Urban Bank	1915	4	13097	1481.88	949.75	-36.55	28
1B	Payyannur	Co-op Town Bank	1979	6	22723	2262.54	1601.16	25.51	39
1C	Thiruvananthapuram	Co-op Urban Bank	1932	4	38301	4022.23	3143.26	93.00	28
2A	Manjeri	Co-op Urban Bank	1937	15	11840	9010.04	6059.85	74.51	119
2B	Calicut	Co-op Urban bank	1915	4	55503	11110.33	7831.31	56.22	61
2C	Thripunithura	Peoples Urban Co-op Bank	1917	8	44237	10094.72	5563.05	80.31	73
3A	Trichur	Urban Co-op Bank	1921	16	16785	10266.58	4404.06	26.26	105
3B	Meenachil East	Urban Co-op Bank	1958	19	29916	11361.42	7228.71	90.97	110
3C	Iringalakkuda	Town Co-op Bank	1918	7	17398	8985.66	6358.47	64.34	80

Source: Compiled from the annual reports and records of banks.

For analysing the funds management operations of the UCBs in Kerala, an all group average has been worked out. It has been done on the basis of the data related to selected variables and it was used in the analysis.

Statistical tools used in the research

The data analysis was carried out using graphical and statistical tools. In order to analyse the trend and pattern of sources and uses of funds, compound growth rates were worked out. Graphical interpolation of the data was also made in the study to know the trend in variables of the banks and their groups.

Statistical Tools

The analysis tools used were:

1. Simple Average

It is worked out for values of the sub groups and the sample group.

2. Simple Correlation

Correlation coefficient 'r' between selected variables was calculated to know the inter-relationship.

3. ANOVA

It was used to test the significance between the banks in the sample and between the sub groups in respect of selected variables.

4. Ratio analysis (by using percentage values)

The ratios used in the analysis are (1) ratio of each source of funds to total funds/assets (2) ratio of each fund used to total funds (3) Credit-deposit ratio (4) Liquidity ratios (5) Earning asset ratio (6) Rate sensitive assets to rate sensitive liabilities (7) Non-performing assets ratios (8) Profitability ratios (9) Spread-burden-profit ratios etc.

The study has also focussed on the development of certain models to be used in the working of the UCBs. They are:

- 1) Model for calculating effective cost of funds of the UCBs.
- 2) Model for pricing the products of the UCBs based on effective cost.
- 3) Model of best management practices for UCBs' Chief Executives.
- 4) Model showing expected spread for any given volume of business and comparison of expected spread with actual spread with the help of Data Envelopment Analysis (DEA).

Detailed tables are shown in the appendix, since they are lengthy and larger in numbers. The year shown in the table represents the period ending 31st March of the year (financial year) concerned.

SCHEME OF THE STUDY

The study is presented in seven chapters and the scheme is as follows:

The first chapter gives an introduction to the study. It includes the statement of problem, objectives of the study, methodology used and the research design adopted for the work.

The second chapter has two sections. Section one gives a review of relevant literature. This section has three parts. Part I reviews studies relating to mobilisation and deployment of funds in commercial and urban co-operative banks. Part II reviews literature on asset - liability management and non-performing assets. The third part reviews literature on general performance and profitability. Conceptual frame work of the study is briefly explained in section II.

The third chapter gives a brief description of the evolution and growth of Urban Co-operative movement in India and in Kerala State.

Chapters four, five and six present the analysis of data. Chapter four examines the funds management of the UCBs. It is arranged in two sections. Section I deals with the various sources of funds for the UCBs such as share capital, reserve fund and other funds, deposits, borrowings and other liabilities. Section II describes the deployment of funds in various forms such as cash in hand, balance with other banks, loans and advances, investments, fixed assets and other assets. The data related to banks in the sample, their group average, and the overall average (sample average) were studied to have a look at the trend and pattern of deployment of funds of the UCBs in Kerala.

Chapter five is divided into two sections. Section one examines Asset Liability Management (ALM) practices in the UCBs with special emphasis on credit risk, return, cost of funds, pricing of loans, gap analysis etc. Section II makes an analysis of the non-performing assets of the UCBs.

The sixth chapter is presented in two sections. Section one deals with the profitability analysis of the UCBs. Accepted profitability ratios are used to test the profits earned by the different UCBs and their groups. Section II deals with

the spread-burden-profit analysis. An analysis of optimal model for the UCBs in relation to spread and business performance has also been made in the section.

In all the three analysis chapters, the data related with selected variables of the UCBs were compared with public sector banks with a view to analysing the performance of the UCBs in relation with the national figures in the same sector.

The seventh and the last chapter gives summary, findings and recommendations of the study.

Limitations of the study

- The study covered only the Licensed UCBs in Kerala coming under the preview of the RBI Act 1949 made applicable to UCBS by 1966. Though unlicensed UCBs and a number of non-agricultural co-operative societies are functioning in urban centres, they were not included in the study.
- The study mainly focussed on areas of funds management with a special coverage of asset-liability management and non-performing assets of the UCBs. Though other areas like human resources development, marketing of bank products, application of information technology, need for corporate governance, cash management, investment management etc. are topics related to funds management in the UCBs, for want of time, they were excluded from the study.
- Detailed analysis of data was restricted to eleven years. Analysis of the NPA was made only for five years. The trend shown by the study was applicable only to the period covered by the study.
- The UCBs are co-operative institutions formed and run on co-operative principles and following strictly the RBI guidelines in banking operations.

Hence in the operational area, they are more a bank than a co-operative institution. This view has been given emphasis in the analytical part of the study.

- As a co-operative institution, the varied social objectives to be satisfied by the UCBs, which required qualitative measurement of data were not covered in this study.

Further areas for research

The following areas are suggested for further research.

- 1) Human resource development in urban co-operative banks
- 2) Impact of technology and e-governance on the UCBs.
- 3) Corporate governance in the UCBs.
- 4) Investment management-strategy for the UCBs.
- 5) Professionalisation of management in the UCBs.
- 6) Priority sector advances and UCBs.
- 7) Over-dues and recovery management in UCBs.
- 8) Product design and marketing strategies for UCBs.

References

1. Arvind, G. Deshpande, A century of Cop-operative banking, *Banking Frontiers*, November 2004, p.33
2. *Reserve Bank of India Bulletin* Supplementary, 2004-March, p.140.
3. Vasant, C. Joshi; Vinay V. Joshi, (Paul S. Nadler), *Managing Indian banks - The challenges ahead*, 2 ed., Response Books, Sage Publications India Pvt. Ltd., New Delhi, 1998, p.50.
4. Rangarajan, *Reserve Bank of India Bulletin*, 1999,2000, p. 66, 775
5. Dash, D.K., Funds Management: Prime Agenda before Urban Co-operative, *Urban Credit*, XXII.(3), September 2000, p. 9.

HISTORY OF URBAN CO-OPERATIVE BANKS

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter Two

HISTORY OF URBAN CO-OPERATIVE BANKS

HISTORY OF URBAN CO-OPERATIVE BANKS

URBAN CO-OPERATIVE BANKS

Introduction

The objective of this chapter is to present a brief review of the evolution and growth of urban co-operative banks in general and Kerala state in particular. It helps to understand the need for co-operative urban credit, objectives, structure, growth position and recent trends in urban co-operative banking sector.

Urban Co-operative Movement - A Profile

Co-operative endeavour is not an alien phenomenon to India. Kautiliya, in his 'Arthashastra' described, "Guild of workmen as well as those who carry on any co-operative work shall divide their earnings either equally, or agreed up on among themselves."¹ The co-operative credit movement in modern India, was never a spontaneous development as in advanced countries. It was a government initiated programme and has been largely nurtured and guided by the governments. The co-operative credit institutions, as a modern concept, are well over hundred years old.

Germany was the first country in the world to apply the principles of co-operation in the field of credit. It was in the middle of 19th century that Herr F.W.Raiffesien and Herr. Franz Schulze took initiative and started friendly societies and credit associations for relief in sickness. In German cities and urban areas, the poor artisans started the formation of their co-operative societies for their economic benefits. Most of these societies were able to provide relief for their members and were successful in attaining their objectives. In 1852, Schulze founded a society on co-operative principles at Delitzsch, where he was the Mayor. A number of banks were started by him

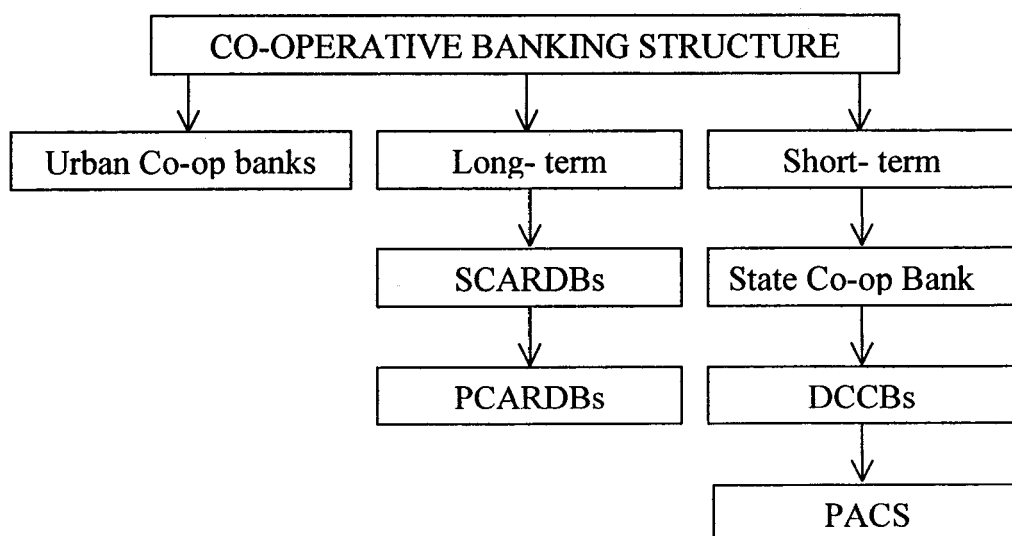
and in 1859, he organised a congress of these banks. Dr. Hass was another German who did some useful work in the field of co-operative credit.

The objective of Raiffisen was to improve the situation of the members of the society, both materially and morally. The rural masses especially farmers and cultivators were granted loans for the development of their business. The objective of the Schulze's societies was to fulfil the credit requirements of traders, artisans and middle class people residing in urban areas.

Credit co-operatives constitute an important segment of Indian financial system. The co-operative credit institutions operating in the rural areas consist of Primary Agriculture Co-operative Banks (PACS), District Co-operative Banks (DCBs) and State Co-operative Banks (SCBs), which are participants of short- term credit delivery system. The State Co-operative Agriculture and Rural Development Banks (SCARDBs) and the Primary Co-operative Agriculture and Rural Development Bank (PCARDBs), are meeting the requirements of long- term credit. Urban co-operative banks meet the credit requirements of the urban poor and middle class.

The co-operative credit structure is shown in chart No 2.1.

Chart 2.1



Urban credit movement in India

The urban Co-operative credit movement in India was started to cater the banking and credit requirements of the lower and middle class urban people. They include traders, businessmen, artisans, factory workers, and salaried people with fixed income in urban and semi-urban areas.

The motive behind the starting of urban credit movement in India was the success stories of urban credit institutions organized by Hermann Schultze in Germany and Luigi Luzzatti in Italy. It was the middle class Maharashtrian families settled in the erstwhile Baroda state, who started the first mutual aid society named as “Anyonya Sahakari Mandali” (Mutual aid society) in Vadodara (Baroda) on 5th February 1889 under the leadership of Sri Vithal Laxman Kavathekar².

The erstwhile Madras presidency had organised co-operative undertakings in the form of indigenous ‘Nidhis’ much before the official launching of the co-operative movement. The spread of the news of achievements and success in Nidhis helped its birth in other states like Uttarpradesh, Punjab and Bengal under semi-official auspices³.

Madras Government took some pioneering effort in the initiation of co-operative movement. In 1892, the Madras Government appointed Sir F.Nicholson to enquire into the possibilities of starting a system of land banks in that province. His report to the Madras Government in 1899 recommended the starting of co-operative societies. This led to the formation of co-operative credit societies in different parts of India, as a policy and programme of the government. Following this, in 1904, the Co-operative Societies Act was passed in India and co-operative credit societies obtained legal status. The first co-operative credit society was registered in October 1904 at Kanjeevaram in the erstwhile Madras province. The Betegiri Co-operative Credit Society in Dharwar district, the undivided district of the then Bombay province, and the

Bangalore City Co-operative Credit Society in the erstwhile Madras state, which were registered in October 1905 and December 1905 respectively.

After passing the Co-operative Societies Act 1912, co-operative societies started organising at a faster rate. But the urban co-operative movement did not receive much momentum.

The urban credit movement in India got a big boost after the publication of the Report of the Maclagan committee on Co-operation in India (1915). The committee observed that a good number of urban people were indebted to moneylenders who charged exorbitant rates of interest on borrowings. The borrowers were in debt trap and to rescue them the only remedy was to start urban co-operatives.

In the words of Maclagan Committee (1915) "Urban credit societies might serve useful purpose in raining the upper and middle class to understand ordinary banking principles. With rising prices, insufficient and unsanitary conditions, wages often held in arrears, and a desire for higher standard of living consequent upon the spread of education, industrial difficulties are bound to increase, and we are of the opinion that any form of organisation, such as co-operative that has a tendency to alleviate these difficulties is worthy of support"⁴. This committee provided a favourable climate for the development of urban credit societies. Further the growth of societies was accelerated by the large-scale failure of local joint stock banks. During the period between 1913-1917, banks failed were 87, with a total paid up capital of over Rs 1.75 crore, which was more than half of the paid up capital of all the joint stock banks that survived in 1917⁵.

A number of urban credit societies were organized in the erstwhile provinces of Bombay and Madras during the period between 1919-1938. The failure of Swadeshi joint stock bank created an opportunity for co-operative banking to develop as a medium for mobilizing savings of persons of modest means.

The great depression of 1930s, though made a visible set back in rural credit co-operatives, did not make any significant adverse impact on the development of urban credit movement in the country. The Indian Central Banking Enquiry Committee (1931) observed, "The duty of these urban banks should be to try to do for the small traders, the small merchant and the middle class population what the commercial banks are doing for the big Merchant"⁶.

The economic boom that followed the Second World War (1939-45) made a significant growth in their number, area and activities of business. The working capital of non-agricultural credit societies at the end of 1945-46 amounted to Rs 38.32 crores compared to Rs 25.89 crores of the agriculture societies⁷. The UCBs were asked to assist the small and medium operations like the artisans, small trader, and businessmen and professionals in the overall economic matrix of the Indian economy.

The economic boom, after the Second World War, helped urban credit societies to grow quickly. The hesitation on the part of commercial banks to give credit to the middle-income class and the small traders made them approach urban credit societies for their needs. The credit societies thus expanded their activities and operations similar to that of banks and came to be known as urban banks. The Co-operative Planning Committee in 1946 have recognized the usefulness of urban banks in financing the urban middle class people and factory workers. During the period of war the number of urban credit banks increased from 6731 to 7185; membership from 13.14 lakh to 16.39 lakh⁸.

When the Banking Regulation Act and The Banking Companies Act (1949) came into existence, the UCBs were excluded from the purview of these Acts for the reason that they were registered under the Co-op Societies Acts of the respective state. But with the growth in operations of these banks both in size and complexity, it necessitated a specialized control over these banks by the Reserve Bank of India. Considering this,

certain provisions of the Banking Regulation Act of 1949 have been extended to the UCBs with effect from March 1, 1966. By this, incorporation, management, audit and winding up of urban co-op banks are controlled by Co-op Societies Act of the respective state and the banking activities were regulated by the Reserve Bank of India Act (BR Act 1949) applicable to UCBs. The areas under RBI control are maintenance of cash reserves and liquid assets, regulation of loans and advances, opening of new place of business and publication of Balance Sheet and Profit and Loss account and issue of licenses for commencing banking business.

After independence, the co-operative movement in the country gained momentum and was given full support and help by the Government of India and State governments. The plan statements specifically state the role of co-operatives in bringing about changes in socio-economic spheres. The RBI, in 1958-59, the study Group Credit Co-operatives in Non Agricultural sector in 1963 (V.P.Vardhe Committee), and P.N. Damry Committee (appointed by RBI), 1967, pointed out that the only agency particularly suited to meet the credit needs of small scale units is UCBs and they should be properly strengthened.

The Banking Enquiry Committee appointed by the Government of India 1972 (R.G. Saraiya Committee) also observed the significant role of UCBs in providing housing loans to the members. The report of the committee on problems of urban co-operative banks in Maharashtra, 1976 (V.M Jogleker committee) and the Committee on UCBs appointed by RBI in 1978 (Madhavadas Committee) were of the opinion that the activities of UCBs were apt to fill the gap in the credit and banking needs of small entrepreneurs in the urban and semi-urban areas. The recommendations of the Madhavadas Committee were followed up with the creation of a separate Urban Bank Department (UBD) in 1984 for the regulation and management of the UCBs⁹.

The New Economic Policy initiated by the Government in 1991-92 brought about major changes in the financial and banking sectors. Reserve Bank of India introduced measures to improve the efficiency and profitability of the banking system. Major policy changes, as a part of reform measures, made banking highly competitive and risky. Prudential norms including provisioning were made applicable to UCBs.

Objectives and Functions of UCBs

Prior to the introduction of the Banking Regulation Act of 1949 (as applicable to co-operative societies) there was no uniformity in the operations of UCBs in India. Till 1938, all UCBs were included in the category of non-agricultural credit societies. These include salary earners societies and credit societies organized by special category of people and there was no difference between urban credit societies and Urban Co-operative Banks.

Functions of UCBs

1. To mobilise funds from members and non-members and encourage thrift and self-help among members.
2. To grant loans to members for various productive purposes.
3. To act as agents and arrange for the safe custody of valuables and other requirements of the members
4. To undertake collection of bills, to carry out instructions for periodical collections, remittances etc of the members and the depositors.
5. To provide all other banking facilities provided by commercial banks.

A special feature of UCBs is that they are regulated and controlled by the Reserve Bank of India Act and Co-operative Societies Act of the respective states.

Functions of National and State Federation of UCBs

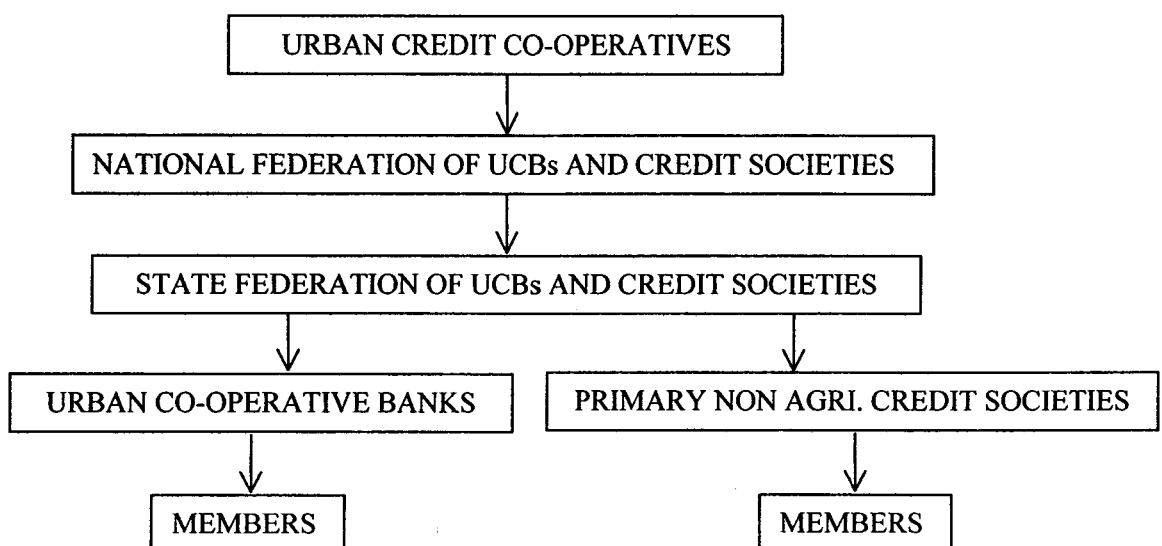
To co-ordinate the activities of the UCBs in states and at the national level, there are the state federations of UCBs and the national federation of UCBs. Their main functions are as follows:

- Protect interests of member banks.
- Promote urban credit movement and undertake research.
- Publication of literature relating to urban credit movement
- Maintain liaison with Government (both central and State), RBI, NABARD, SBI and other institutions at national and international levels.

Structure of Urban Credit Co-operatives

The structure of urban credit institutions is given below.

Chart 2.2
Structure of the UCBs



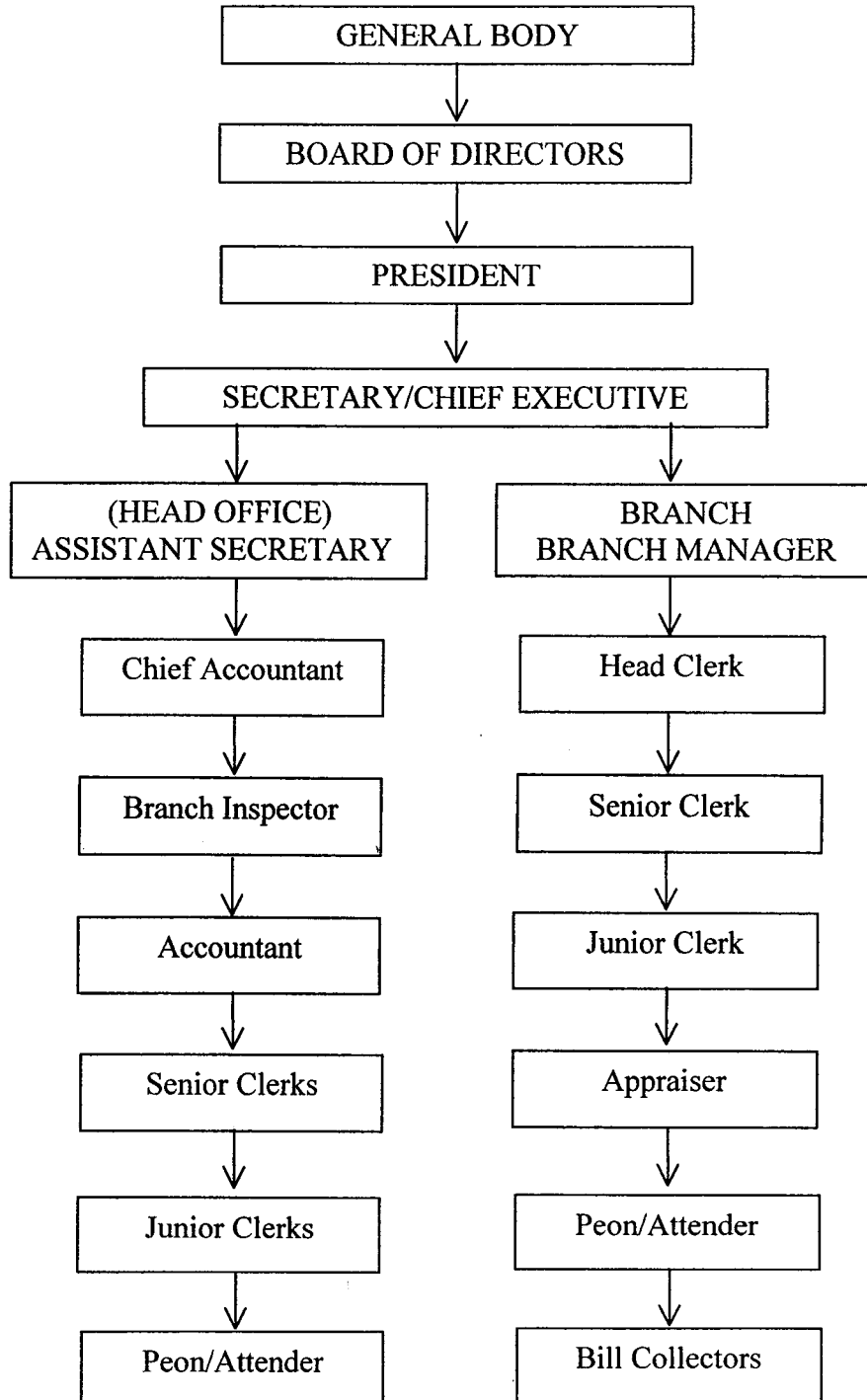
ORGANIZATION AND MANAGEMENT OF UCBs

The organization structure of a UCB with branches is represented below.

Chart 2.3

Organisation structure of UCB

ORGANIZATION CHART



Status Position of UCBs

The growth and progress of UCBs can be broadly divided and presented into three phases as follows:-

- a) Phase I – Pre 1966.
- b) Phase II - Between 1966-1992.
- c) Phase III - Post 1992.

Position Before 1966

Followed with the enactment of the Co-operative Credit Societies Act of 1904, the first urban credit co-operative society was registered in Kanjivaram town in Madras province and few societies in Bombay and Madras provinces. Since then, the number of co-op UCBs showed only a slow growth rate. The Maclagan Committee's recommendations made some positive contributions in this direction.

In the formative phase, urban credit societies came to be organized on community basis and their lending activities were confined to meeting the consumption oriented credit needs of their members. The term bank was very loosely used by many societies in the initial phase. Many Urban Credit societies, which were not engaged in any banking functions, too, used the term bank. It was the Joint Re-organization committee popularly known as Mehta Bhansali Committee (1939) in the Bombay province, which, for the first time, made an attempt to define urban co-operative bank. The committee defined a credit society as an Urban Cooperative Bank (UCB) whose paid up share capital was Rs. 20,000 or more and was accepting deposits of money on current accounts or otherwise subject to withdrawal by cheque, draft or order.

In Madras Province, Urban cooperative credit societies accepting current account deposits and maintaining certain amount of liquid resources, as

prescribed by Registrar of Co-operative societies, were known as urban co-operative banks (UCBs)¹⁰.

Till 1948, the number of UCBs in the country was 815. They were concentrated in states like Maharashtra Gujarat, Karnataka and Tamilnadu. No special provision was made for their development either in the first plan or in the second five year plan periods. Report of the Survey of UCBs 1961 (RBI, Bombay) pointed out the need for promotion and development of UCBs and the fuller utilization of their potentialities and the role of state Govt to ensure their audit, inspection and supervision. By the end of 1966-67, the number of UCBs increased to 1106. During this period between 1948 -1966, the deposits held by UCBs rose from Rs. 17 crore to Rs. 153 crore.

b) Phase II-Between 1966-1993

The Government of India and the Reserve Bank of India extended some of the provisions of Banking Regulations Act 1949 to UCBs to enable RBI control over them. This was a landmark in the evolution of urban banking movement in India and as a consequence, the UCBs came under dual control. During this period, the demand for extension of deposit insurance was gaining momentum on account of the significant increase in the operations of UCBs and their volume of deposits. By the end of June 1970, the number of non-agricultural credit societies was 14,816. Of these 923 societies were reporting urban co-operative banks. Their share capital, which was Rs. 78.88 lakh in 1968-69 increased to Rs 79.42 lakh in 1969-70. During the same period the growth in the working capital was from Rs 368.12 crore to Rs 404.5 crore and loans from Rs 370.2 crore to Rs 441.73 crore. By the end of 1969-70 there were Rs 18.9 crore (six percent of loans) outstanding. At this stage, the deposit was Rs 225.91 crore which formed 63% of working capital.

The Report on UCBs (1979 RBI, Bombay, Agriculture and Credit Department) suggested a balanced development of UCBs along with commercial banks. "No doubt, urban banks, where established, are eminently suited to fill the gap in banking and credit needs in urban and semi-urban areas at comparatively less cost of operation and, can enjoy the confidence of people"¹¹. By 1974, though the number of UCBs went down to 1016, the registration rose to 1162 by 1977, 1194 by 1979, 1203 in 1980 and 1206 by June 1989 .

During the period between 1966-67 and 1990-91, owned funds have increased from Rs. 58 crore to Rs. 1481 crores, showing an average growth rate of 15.27 percent. Deposits mobilized rose from Rs. 153 crore at the end of 1967 to Rs. 10157 crore by the end of 1991, to Rs. 10973 crore at the end 1992 and, Rs. 13531 crore by the end of 1993.

The National Federation of Urban Co-op Banks and Credit societies was formed in 1977 with head quarters at Delhi. Priority sector lending policy for UCBs was introduced in 1983. The UCBs were required to deploy not less than 60 percent of their advances to priority sector and its 25 percent to the weaker sections. (It was against the 40 percent stipulation for commercial banks as on 31 March 1999).

During the year 1988-89, eleven primary co-operative banks each with demand and time liabilities of over Rs 50 crore were included in the second schedule to RBI Act, 1934. (Eight banks were registered in Maharashtra State and the remaining three in the State of Gujarat)¹². The loans outstanding increased from Rs 8003 crore as at 1991 to Rs 8643 crore by 1992. The owned funds of UCBs rose by 22.3 percentage during the same period¹³.

The period between 1966-1993 can be termed as an over regulated regime. The licensing policy of RBI was too restrictive. The UCBs were not allowed to expand beyond municipal limits. But with the liberal licensing

policy stance of RBI from May 1993, states like Madhya Pradesh and Andhra Pradesh have shown high growth in urban banking sector.

Phase III: Post 1992

The year 1993 was a turning point in the history of urban co-operative banking movement. In line with the Narasimham Committee (Report 1), The Marathe Committee was appointed to look into the issues related to urban co-operative banks. Based on the recommendations of the committee, RBI came out with its new licensing policy (dispensing the policy of “one district- one bank”) for UCBs.

Between 1993 May and 1999 March, the RBI has issued 537 licenses for the setting up of new UCBs. Table 2.1 shows the number of UCBs set up in the four states of India prior to 1993 and between 1993 and 1999.

Table 2.1
Number of UCBs set up in the four states of India prior to 1993 and between 1993 and 1999.

State	No. of Banks prior to 1993	Licenses issued Between 1993 to 1999
Andhra Pradesh	65	89
Madhya Pradesh	42	44
Rajasthan	26	15
Uttar Pradesh	47	32

Source: RBI bulletin various issues.

The number of UCBs registered between the 1993-1999 was more than the total UCBs existed in states of Andhra Pradesh and Madhya Pradesh prior to 1993. For the other two states, the new registration was around 60 percent of their number prior to the said period.

The Table 2.2 gives the progress of urban co-operative banks since 1948.

Table 2.2
Progress of reporting urban co-operative banks
(Rs crore)

Year	Number	Own fund	Deposits	Loans
1947-48	815	4	17	12
1952-53	716	7	24	20
1955-56	1585	9	32.00	32.00
1958-59	1242	17	61	58
1966-67	1106	58	153	167
1967-68	925	50	156	157
1968-69	946	55	183	176
1969-70	989	52	179	177
1970-71	946	56	217	197
1971-72	964	66	264	229
1972-73	967	70	301	258
1973-74	1066	81	343	305
1974-75	1123	96	386	354
1975-76	1142	108	467	393
1976-77	1105	117	519	407
1977-78	1051	132	591	460
1978-79	1059	158	761	566
1979-80	1078	188	988	762
1980-81	1095	230	1331	1034
1981-82	1174	282	1650	1377
1982-83	1207	345	1994	1711
1983-84	1245	429	2656	2102

Year	Number	Own fund	Deposits	Loans
1984-85	1260	511	3258	2525
1985-86	1280	613	3939	3046
1986-87	1293	734	4338	3694
1987-88	1308	886	5790	4636
1988-89	1324	1082	7232	5820
1989-90	1307	1256	8660	7802
1990-91	1306	1481	10157	8003
1991-92	1311	1765	11108	8713
1992-93	1306	2224	13531	10132
1993-94	1305	2723	16769	12172
1994-95	1300	3312	20101	14795
1995-96	1327	3848	24165	17908
1996-97	1355	4691	30701	21538
1999-98	1502	5985	40692	27807
1998-99	1499	6923	50544	32653
2000	1782	9312	71183	45993

Source: Co-operative sector in India – after independence Sami Uddin: S Chand and Co (1983) pp 183. RBI Bulletin various issues.

It is evident from Table No 2.2 that over a period of 55 years the number of UCBs in India rose from 815 to 2206 while the amount of owned funds made a substantial growth from a meagre sum of Rs 4 crore to Rs 9312 crore by 2000. The deposit which was Rs 17 crore in 1947-48 grown to Rs 71183 crore and the loan outstanding which was Rs. 12 crore reached to Rs. 45993 crore, with a credit- deposit ratio of 65 per cent by 2000.

State wise position of the UCBs at the end of 31 March 2001 and 31 March 2003 is shown in table 2.3.

Table 2.3
State/Union Territory wise position
of urban co-operative banks in India (2001 and 2003)

Sl.No.	State	2001	2003
1.	Andra Pradesh	175	169
2.	Arunachal Pradesh	0	0
3.	Assam	12	13
4.	Bihar	9	9
5.	Chastisgath	Na	14
6.	Gujarat	358	362
7.	Haryana	8	8
8.	Himachal Pradesh	5	5
9.	Jammu Kashmir	4	4
10.	Jharkhand	1	1
11.	Karnataka	322	324
12.	Kerala	63	65
13.	Madhya Pradesh	89	77
14.	Maharastara	635	670
15.	Meghalaya	3	3
16.	Manipur	6	5
17.	Mizoram	1	1
18.	Nagaland	1	1
19.	Orrisa	13	19
20.	Punjab	5	5
21.	Rajas than	40	44
22.	Sikkim	00	1

23.	Tamilnadu	134	136
24.	Tripura	1	1
25.	Uttar Pradesh	75	78
26.	Uthranchal	NA	5
27.	W.Bengal	52	55
28.	Andaman and Nicobar	0	0
29.	Delhi	19	19
30.	Goa	7	7
31.	Lakshadweep	0	0
32.	Pondicherry	1	1
33.	Chandigarh	5	5
	Total	2044	2206

Source: RBI bulletin various issues, Out Look Money, 30 September 2004, P17.

By the end of 2003, UCBs were present in all states except Hymachal Pradesh and two Union territories. The concentration is high in states like Maharastara, Gujarat, Karnataka, Andra Pradesh and Tamilnadu.

The branch network of UCBs has increased from 3691 to 6619 between March 1993 and March 1999. The number of UCBs rose to 1936 at the end of March 1999. The deposits strength increased form Rs 13,531 crore to Rs. 50,544 crore during the corresponding period. The average deposits per bank which stood at a meagre sum of Rs 13.83 lakh as at the end of March 1967 rose to Rs 26.11 crore by 1999.

UCBs were allowed to extend their area of operation to the entire district of their registration, without specific approval of the RBI. With prior approval of RBI, banks were allowed to extend their area of operation to other districts and those with deposits of Rs. 50 crore and above were allowed to cross the borders of the state of their registration. They were given freedom to finance

direct to agriculture operations, to invest 10 percent of their surplus funds outside cooperative fold, deregulated the interest rates on deposits, and scheduled UCBs were allowed to do merchant banking, forex operations and have been given freedom to install ATMs.

In order to review the activities of UCBs and to determine the activities regarding entry point norms, branch licensing, area of operation, capital adequacy norms and measures to strengthen urban movement, The High Power committee under the Chairmanship of Shri. K Madhavroa was appointed in May 1999. The major proposals of the committee were strong capital and corporate governance, with at least two directors, with banking experience or other relevant professional qualifications, in the management body. The Capital to Risk Assets Ratio (CRAR) norm was put to UCBs by linking borrowings with share capital. The share capital contribution of the borrowing members, subjected to conditions, was fixed at 2.5 percent (now 1.5%) of the loan amount, if it is secured, and 5 percent if unsecured.

The recommendations of the High Power Committee resulted in the introduction of minimum CRAR norms to UCBs in a phased manner over a period of three years with effect from 31-3-2002. Scheduled and non scheduled UCBs are to achieve CRAR norms at eight percent and six percent with effect from 31 March 2002, and non-scheduled UCBs at seven percent by 31 March 2003 and 9 percent by 31 March 2004 and so on.

“A striking feature of UCBs sector, when compared to commercial banking sector, is its heterogeneous character and geographical spread. There are a large number of small UCBs as well as quite a few scheduled UCBs who account for substantial resources of this sector. There are highly efficient and professionally managed banks along with a number of weak banks and banks

that have little professional talent in their management. 'Local feel' is the biggest strength of UCBs¹⁴.

UCBs which do not comply with the provisions of the BR Act, 1949, and not complying with the viability standards prescribed by BR Act are considered and classified as weak or sick banks. UCBs with increased NPAs, CRAR falling below the norm fixed for the bank, making losses for two consecutive years during the immediate preceding three years, etc. are considered as weak or sick banks.

The High Power committee suggested the following criteria (table 2.4) for the identification of banks into weak or sick banks.

Table 2.4
Weak / sick banks - Criteria for UCBs

Parameter	Weak Bank	Sick Bank
CRAR	If CRAR falls below the level of 75% of the minimum prescription OR	If CRAR falls below the level of 50% of the minimum prescription OR
Net NPA	10% or more but less than 15% of loans and advances outstanding as on 31 March OR	15% or more of loans and advances outstanding as on 31 March OR
History of losses	Showing net losses in operation for two years out of the last three consecutive financial years.	Showing net losses in operation for the last three consecutive financial years

Source: "Report of the high power committee on urban co-operative banks" Reserve bank of India, Mumbai p. 1.

The amount of deposits and their share in the total deposits of the number of reporting banks given in table 2.5 gives a clear picture of the structure (based on deposits) of the UCBs in India.

Table 2.5
Structure of the UCBs as on 31 March 1999

Banks with deposit base	No of reporting banks	Deposits in crores	% to total deposits
Scheduled UCB's	29	17474.46	34.55
Others, above Rs 100 crore	60	10030.48	19.84
Between Rs 100 crore and Rs. 50	123	8538.27	16.89
Between Rs 25 and Rs 50 core	186	6412.68	12.69
Between Rs 10 core and Rs 25 core	322	5138.50	10.17
Below Rs 10 crore	779	2960.02	5.86
Total	1499	50544.41	100.00

Source: RBI Bulletin, January 2000.

From table 2.5 it is clear that 34.55 percent of deposits was commanded by just 29 scheduled UCBs. More than 50 percent banks were having deposits less than Rs. 10 crore. As on March 31 1999, out of the total reporting 1499 banks, the number of banks with deposits more than Rs. 10 crore was 729 and they commanded only 5.86 percent of total deposits.

The structure of UCBs, based on the owned funds by the end of 1999 and 2004 is given in Table 2.6.

Table 2.6
Structure of the UCBs as on 31 March 1999

Banks with owned funds	31-3-1999		31-3-2004	
	No. of reporting banks	Owned funds (Rs. crore)	No of reporting banks	
More than 1000 crore	Nil	Na	9	
500-1000 crore	Nil	Na	17	
250-500 crore	Nil	Na	42	
100-250 crore	8	1504.85	137	
Between Rs. 50 and Rs. 100 crore	8	580.76	205	
Between Rs. 25 and Rs. 50 crore	26	886.64	226	
Between Rs. 10 crore and Rs. 25 crore	88	1261.40	459	
Below Rs. 10 crore	1369	2699.87	846	
Total	1499	6922.52	1941	

Source: RBI Bulletin, January 2000.

Table 3.6 makes it clear that there was a marked growth in the number of reporting UCBs and their owned funds as on 31 March 1999 and 31 March 2004. It is evident from the above table that, till 1999 there was no UCB with Rs. 250 crore of owned funds. But by 2004 their number in the category was 58, and those with owned funds of more than Rs 1000 crore was nine. The number of UCBs with owned funds less than Rs ten crore, which was 1369

prior to 1999 declined to 846. This is a quantitative and qualitative improvement as far as UCBs are concerned.

Status position of licensed UCBs in India and in Kerala as on 31st March 2003 is given in table 2.7.

Table 2.7
Status Position of the Licensed UCBs as on 31-3-2003

Selected Particulars	No /%. In India	No / % in Kerala
UCBs	2104	63
Scheduled UCBs	55	Nil
UCBs with offices in more than one state	33	Nil
UCBs under liquidation	163	3
Employees credit societies	110	3
Women UCBs	246	Nil
SC/ST UCBs	24	Nil
Branches	7368	252
Gross NPA	17.55%	21%
Net NPA	11.1%	13%

Source: Dr. Roy P. P "Management of UCBs "Himayala Publications, New Delhi, First Edition 2001, PP 447.

It is clear from table 2.7 that, in Kerala, there were no scheduled UCBs, no licensed women UCBs, no Scheduled caste (SC) or Scheduled Tribe (ST) UCBs or multi state UCBs till the end of 2003. The NPA position was somewhat high in Kerala state compared to that of all India statistics.

Owned funds, deposits and advances which were Rs 2723 crore, Rs. 16719 crore, and Rs. 12172 crore respectively in 1994 increased to Rs. 4541, crore, Rs 71183 crore and Rs. 45993 crore respectively in 2000. The change in working capital was from Rs. 13990 crore to Rs. 90301 crore while the borrowings stood at Rs. 1475 as against Rs. 376 crore in 1991. The credit - deposit ratio, which was 78.79 percent in 1991, went down to 64.61 percent in 2000 and to 63.9 percent in 2003.

Coverage of UCBs in India

The geographical coverage of UCBs in India is shown in Table 2.8.

Table 2.8
Coverage of the UCBs in India as on 30 June 1994

Sl. No.	Description	1994
1	Total No. of UCBs in the country	1400
2	Number of Districts covered by UCBs	234
3	Number of Districts devoid of UCBs	231
4	Number of states fully covered	4
5	States substantially covered	5
6	No of Union Territories / states completely Devoid of UCBs	7
7	No. Banks with area of operation extending more than one states	8

Source: Compiled from data published in Urban Credit, various issues.

State Wise Spread of UCBs

In India, UCBs were concentrated mainly in five states. The spread of UCBs in India in 1966, 1991 and in 2003 were as shown in table 2.9.

Table 2.9
State Wise Spread of the UCBs

SI No	State	1966	1991	2003
1	Maharashtra	84 (27.43)	358 (27.43)	670 (31.84)
2	Gujarat	62 (15.38)	288 (22.07)	362 (17.21)
3	Karnataka	64 (15.88)	201 (15.40)	324 (15.40)
4	Tamil Nadu	87 (21.59)	128 (9.81)	136 (6.46)
5	Andhra Pradesh	34 (8.44)	63 (4.82)	169 (8.03)
6	Other states	72 (17.87)	267 (20.47)	443 (21.06)
	Total	403 (100)	1305 (100)	2104 (100)

Figures in parentheses indicate percentage to total

Source: RBI bulletin, various issues.

Table 2.9 shows that concentration as well as growth was high in Maharashtra. In Tamilnadu the spread was high in earlier years but failed to maintain the growth on a continuous basis. Other states were able to improve their positions only marginally. By March 31-2003 the total number of banks were 2104, (which included 89 salary earners banks and 133 Mahila banks, 163 were under liquidation) of which 80 percentage was registered in five states.

State/Union Territory wise Particulars of UCBs

Some major parameters of related with UCBs based on figures of 2001 are shown in table 2.10.

Table 2.10
State/Union Territory Wise Particulars of UCBs For the Year 2000-2001

(Rs. Lakhs)

No.	State	No.	Membership	Share Capital	Working capital	Reserves	Deposits	Loans & advances	Borrowings
1	Andra pradesh	175	679000	9900	394400	19500	320400	130500	6100
2	Arunachal	0	0	0	0	0	0	0	0
3	Assam	12	26127	100	12400	1900	9400	3500	145.04
4	Bihar	9	2100	22.11	93.65	3.29	61.78	100	332.47
5	Gujarat	358	3455000	37200	2242900	256900	1670900	1092300	48600
6	Haryana	8	39000	500	11700	800	7900	5200	205
7	Himachal Pradesh	5	13403	177.04	9600.38	368.29	8176.29	14653.08	18.05
8	Jammu&Kashmr	4	----	200	13500	500	15508	5500	---
9	Karnataka	322	1944138	20514.27	587187.64	39002.06	502964.13	268149.24	4303.68
10	Kerala	63	1091597	3900	162400	9400	136500	87400	300
11	Madya Pardesh	89	261000	3400	92300	7700	70200	42700	500
12	Maharastra	635	7283000	108600	4667500	357200	3724200	3496000	74100
13	Meghalaya	3	7513	61.34	939.11	34.16	1056.30	90.76	36.44
14	Manipur	6	13360	135.91	6024.65	400	4400	2480	3.99
15	Mizoram	1	4157	72.17	947.35	17.28	857.9	1059.83	603.83
16	Nagaland	1	50	13.61	70.81	00	129.11	22.48	101

17	Orrisa	13	125000	1400	54100	4600	40400	21400	300
18	Punjab	5	13000	800	21100	1300	16900	12200	81
19	Rajasthan	40	200291	1916.21	62955.36	3284.29	51449.13	12020.98	1100
20	Sikkim	0	0	0	0	0	0	0	0
21	Tamilnadu	134	1472000	10700	334400	18300	272900	179900	5700
22	Tripura	1	7687	38.95	1082.34	43.92	762.14	206.05	36.08
23	Utter Pradesh	75	121258	3800	113900	5700	86600	41300	900
24	W.Bengal	52	424100	6200	136400	10500	87700	61300	2100
25	Andaman & N	0	0	0	0	0	0	0	0
26	Delhi	19	240840	2854.12	77208	5800	95879.54	23298	00
27	Goa,	7	245219	1783.83	94888.06	7128.75	78247.90	17193.61	614.17
28	Lakshdweep	0	0	0	0	0	0	0	0
29	Pondichery	1	15958	200	4200	300	3400	2400	00
30	Chandigrah	0	0	0	0	0	0	0	0
31	Dadar &NH	0	0	0	0	0	0	0	0
32	Goa	7	245219	1783.83	94888.06	7128.75	78247.9	17193.61	614.17
33	Daman &diu	0	0	0	0	0	0	0	0
	Total	2038	17684789	214489.56	9102197.35	750682.04	7206892.22	4420874.42	146180.75

Source: Indian co-operative movement: A Profile, 2000-2001, National co-operative union of India various issues; New Delhi

Table 2.10 shows that the two states with out UCBs in India were Arunachalpradesh and Sikkim. Maharastra, Gujarat, Karnataka and Tamilnadu accounted for the highest number of UCBs. Membership was highest in the state of Maharastra followed by Gujarat and Karnataka.

During the last hundred years, urban co-operative banking has passed through several stages. It has attained significant progress and has been occupying a prominent place in the financial structure of our country and is playing a key role in the liberalized financial market. The total deposit amounts to Rs 101546 crores and the outstanding loans accounted for Rs 45856 crores¹⁵. Out of 1854 UCBs reported during the year, 2001-02. 1569 UCBs registered profits and remaining incurred losses. Of the 55 scheduled UCBs, 10 banks reported losses during the same period. Over 50 percent of UCBs are unitary in nature. The position of NPA as a percent of total advances in UCB for the period 1999 to 2003 was not a satisfactory one. For the 1474 number of banks reported, the amount of gross NPA was Rs 3306 crore and it accounts for about 11.7 percent of total advances. By the end of 2003, 1941 banks reported a total of Rs 13647 crore as gross NPA, which works out to 21 percent of total advances¹⁶.

Regarding priority sector lending, out of 1467 reporting banks 1266 banks achieved the target of deploying at least 60 per cent of their outstanding advances to priority sector lending, 990 banks achieved the target of at least 25 per cent of their priority sector credit to weaker sections during the year ended 31st March. The five states, Andra Pradesh, Gujarat, Karnataka, Maharashtra and Tamilnadu accounts for 78.97 Per cent of total UCBs in the country. Of this, Maharashtra alone accounts for 32.85 per cent of the UCBs.

The new licensing policy based on population criteria, professionalisation of Board of Management, criteria for Capital Adequacy Ratio, Statutory Liquidity Ratio, Revised bench mark on sickness, Abolition of

Minimum Lending Rate etc. were changes enacted recently in the urban credit sector. UCBs are to maintain three percent of their demand and time liabilities as CRR and 25 percent as SLR.

Capital Adequacy Norms and Urban Co-operative Banks

The Government of India first introduced capital adequacy norms to Banking Industry along with other Prudential Norms of Income Recognition, Asset Classification and Provisioning as a result of the acceptance of the Narasimham Committee's Report on Financial sector Reforms, 1992-93 in tune with the Basiel Committee¹⁷. This proposal was with the intention of strengthening the capital base of financial institutions.

The Committee on Banking Sector Reforms (Narasimham Committee, II, 1998) has rightly pointed out that "adequacy of capital has traditionally been regarded as a sign of banking strength irrespective of whether the institution is owned by Government or other wise."¹⁸ Most regulatory authorities have adopted allocation of capital to risk assets ratio system as a basis of assessment of capital adequacy which takes in to account the element of risk associated with various types of assets reflected in the Balance sheet as well as in respect of off balance sheet assets¹⁹.

As per the recommendation of the Committee on Banking Sector Reforms made in 1998, the UCB are required to maintain the minimum CRAR as shown in Table 2.11.

Table 2.11
CRAR Fixed for the UCBs

Date	Scheduled UCB	Non Scheduled UCB
31 March 2001	8%	6%
31 March 2002	9%	7%
31 March 2003	Applicable to Commercial Banks	9%
31 March 2004	Applicable to Commercial Banks	Applicable to Commercial Banks

Source: Capital Adequacy Norms & Urban Co-Operative Banks, Urban credit Vol XXII. No .4 December 2000, p15.

The UCBs are to transfer not less than 50 percent of their net profits to reserve fund and are allowed to declare dividends on a conservative basis till reaching the required CRAR.

Committees on UCBs

So far as the development and progress of urban co-operative banks are concerned, the contributions made by various committee are worth noting. The committees and groups reviewed the working of UCBs and made recommendations for improving the performance. Some of the committees that made commendable contributions in this area were RBI 1961, Varde Committee 1963, Damry Committee 1963, R. Gsaraiya Committee 1972, Madhava Das Committee 1984, Marathe Committee 1993, Chitale Committee 1996, and High Power Committee –Madhav Rao 1999.

CO-OPERATIVE MOVEMENT – KERALA PROFILE

The Kerala State came in to existence on 1st November 1956. The land area of the state is about 38863 square kilometres and its population was 3,18,38,619. The population density per square km was 819 persons. The literacy rate was 90.92 while its male–female literacy was 94.02 percent and 87.86 percent. The sex ratio was 1058 women for 1000 men. There are fourteen

districts, 63 Taluks, 1452 revenue villages, five municipal corporations and 53 municipalities. (2001 census details.)

Its geographical area consists of the former Travancore state, the Cochin princely states and Malabar area of the former Madras province. At the time of formation of the state, these three parts of Kerala had their own Co-operative Societies Act²⁰.

The co-operative movement, in the Travancore State was started after the enactment of the Co-operative Act Societies Act of 1912. The first co-operative legislation in the former Travancore state was the Travancore Co-operative Societies Regulation of 1914. The first co-operative society registered under this Act was The Travancore Central Co-operative Bank set up in 1915, with the object of providing financial assistance to primary societies at the time of their registration.

In order to have an effective control over the mobilization of the savings of the people, taluk banks were set up in between the central bank and primary societies. The first taluk bank was started in 1923 at Nagarcoil. Other taluks too started taluk banks in their area. Memberships in these banks were given to individuals and co-operative societies working within the Taluk. These banks are acting as a connecting link between the primary societies and the central bank. The Travancore Co-operative Institute was set up as the union of taluk supervising units, who were to inspect and supervise the activities of primary societies.

In 1936, The Travancore Co-operative Societies Act was passed and was in existence till 1951. In the Cochin State, the first Co-Operative Society started was at Edavanakkad under the provisions of the Cochin Co-operative Societies Act of 1913. The Central Co-operative Bank was set up at Trichur and number of societies was registered under it.

In Malabar area, which was part of Madras State, the Co-operative societies Act of 1904, replaced by 1912 Act was in force till 1932, when the Madras Co-operative Societies Act was passed. This was in operation in the Malabar area until the passing of the Kerala Co-operative Societies Act of 1969. The first Co-operative society formed in Malabar area was the Koduvayoor Agricultural Credit Society registered in 1909.

The Travancore Cochin Co-operative Societies Act 1951, was passed with the merger of the two states in the year 1949 which too existed till the passing of Kerala Co-operative Societies Act of 1969. With the unification of the two states, the Travancore Central Co-operative Bank's area of operation was extended to Cochin State and the Cochin Central Bank was made the subsidiary of it. District level co-operative banks were also found in these areas during the period.

By the formation of the Kerala state, the Kerala Co-operative Land Mortgage Bank Act was passed in 1960. Since then the long-term loan requirements were met by the Land Mortgage Banks of the respective areas.

Even after the formation of the state, the co-operative societies existing all over Kerala were working under the respective provincial Acts till 1969. The State Co-operative Bank, (the state level apex bank), district central Co-operative banks, primary agricultural credit societies and urban banks were allowed to continue without any change under the Kerala Co-operative Societies Act of 1969.

Urban Banks – A Kerala Profile

Kerala is a state with a fairly large number of co-operative societies of varied types. As on March 2004 it has over 12661 co-operative societies spread in 63 different classes. But the spread of urban co-operative credit movement was not a marked one. The first urban co-operative society (bank) in the state was registered in the year 1912 at Koduvayur. During the same year another

UCB was registered at Kasargod. Between the period 1912 and 1920, the total number of UCBs registered in Kerala was only seven. By the end of 1930, the total number of UCBs registered went up to 20. The number of UCBs registered between the periods from 1930 to 1940 was eight. The decade between 1940-50 showed only a very slow growth (two) in the registration of UCBs. The total UCB registrations during the period between 1950-60 were eight as against only a single registration during the decade between 1960-70. But the period between 1970-80 showed an improvement in registration. The number of UCBs registered during the period was seven as against three in 1980-90. As on 30th June 1988 the number of UCBs under BR Act in Kerala was 49. The number of licensed UCBs by the end of September 2000 was 60. But the total number of functioning banks was only 57 as three banks were went into liquidation.

Till now, no UCBs in Kerala had attained scheduled urban co-operative bank status.

Details of Urban Co-operative banks registered in Kerala since 1912 is shown in table 2.12.

Table 2.12
Growth of the UCBs (BR Act) in Kerala

Period	No. Of Registrations	Total registrations
1910-20	7	7
1920-30	13	20
1930-40	8	28
1940-50	2	30
1950-60	8	38
1960-70	1	39
1970-80	7	46
1980-90	3	49
After 1990	11	60

Source: Compiled from the Handbook on Cooperative movement in Kerala issued by then Registrar of Cooperatives, various years.

It is observed from table 2.13 that the number of registrations was the highest during periods 1920-1930 and was the lowest during 1960-1970. The registration after 1990 was comparatively less in Kerala state compared to that in Tamilnadu and some other states of north India.

District wise details of the licensed UCBs in Kerala and data on selected parameters are shown in table 2.13 and 2.14.

Table 2.13
Selected details of the Urban Co-operative Banks (BR Act)
in Kerala as on 31 March, 1993

(Rupees in Lakh)

Sl. No.	District	No. of banks	Member-ship Total	Borrowing Members	Share Capital	Reserves	Borrowings	Deposits
1	Trivandrum	5	111769	36431	141.42	173.65	17.67	1699.97
2	Kollam	4	32563	11274	55.83	73.49	-	1302.66
3	Pathanamthitta	3	51985	49193	77.42	226.67	.53	3007.01
4	Alappuzha	1	8628	1685	7.39	9.92	.57	71.63
5	Kottayam	6	96931	40044	188.32	257.89	-	3922.69
6	Idukki	2	12347	7362	28.51	21.74	29.36	281.69
7	Ernakulam	5	60426	40434	146.48	196.13	10.83	2397.68
8	Trichur	4	72590	58639	79.96	350.43	-	4468.39
9	Palakkad	6	87109	58406	70.54	165.19	26.89	1878.59
10	Malappuram	6	43791	69988	83.90	312.39	-	3963.05
11	Calicut	4	80984	30002	84.25	88.87	42.89	1429.37
12	Wayanad	1	2313	121	6.48	6.53	-	217.50
13	Kannur	4	82345	25117	34.33	36.56	13.08	929.96
14	Kasaragod	1	3600	1671	12.07	60.13	-	417.52
	Total	52	747381	431367	1016.90	1979.59	141.82	25987.71

Source: Hand book on co-operative movement in Kerala issued by the Registrar of co-operatives (various issues)

Table 2.14
Selected details of the Urban Co-operative Banks (BR Act)
in Kerala As on 31 March, 1993

District	Rupees in Lakh					
	Working capital	Investment	Profit. (No of banks)	Loss (No of banks)	Loan Outstanding	Loan Overdue
Trivandrum	2562.8	4.20	4	1	1748.86	288.15
Kollam	1722.11	26.89	4	-	1167.39	111.18
Pathanamthitta	5271.40	79.32	2	1	2400.56	186.42
Alappuzha	108.52	.45	-	1	68.25	5.414
Kottayam	4948.94	8.82	3	3	3052.52	548.188
Idukki	775.24	4.08	1	1	351.36	33.15
Ernakulam	4399.25	36.72	4	1	2887.78	299.87
Trichur	5767.54	35.41	2	1	2829.70	307.30
Palakkad	3251.66	14.60	3	3	2306.09	224.22
Malappuram	6611.61	67.60	6	-	4214.61	344.84
Calicut	1895.40	262.34	2	3	1245.88	251.39
Wayanad	251.43	.59	1	-	76.96	26.13
Kannur	1222.51	38.90	3	1	606.31	68.29
Kasaragod	974.54	3.11	1	-	743.81	27.31
Total	39762.95	583.03	36	16	23699.78	28891.557

Source: Hand book on co operative movement in Kerala issued by the Registrar of co operatives (various issues)

It is clear that the total number of banks was 52 with a total membership of 7.47 lakh and share capital of Rs 1016.09 lakh. The reserves amounted to Rs. 1979.59 lakh and deposits were to the tune of Rs. 25987 lakh while the borrowed funds were a meagre sum of Rs. 141.82 lakh. The total amount of investments was about Rs 583 lakh and the loans and

advances were to the tune of Rs. 23699 lakh. The number of UCBs earned profits was 36 and the number suffered losses were 16.

The credit deposit ratio was around 90 per cent and ratio of owned funds to borrowed funds was about 10.14 per cent.

Table 2.15
Selected details of the Urban Co-operative Banks (BR Act)
in Kerala for the period 1998-1999

Rupees in lakh

Name of District	No. of banks	Membership	Share capital	Reserves	Borrowings
Trivananthapuram	5	129217	246.49	348.72	0
Kollam	5	35386	113.59	114.35	29.88
Pathanamthitta	3	58979	170.86	359.77	0.53
Alapuzha	1	12662	27.08	230.3	1.84
Kottayam	6	112339	422.01	852.54	82.02
Idukki	2	27338	54.46	106.47	26.82
ernakulam	6	93793	477.61	881.07	13.3
Trissur	4	255212	424.11	1199.64	0
Palaghat	6	49894	517.15	1273.5	312.59
Majlapuram	6	54639	343.64	1663.58	2398.35
Kozhikode	6	130834	263.5	315.4	92.36
Waynad	1	5764	49.34	68.07	43
Kannur	5	36781	109.2	193.4	31
Kasargod	1	4436	21.61	121.9	0
Total	57	1007274	3240.65	7728.71	3031.69

*Source: Co-operative in Kerala, Statistical abstract. 1999-2000 Hand Book
Statistics Wing Registrar of Co-operative Societies Kerala.*

Table 2.16
Selected details of the Urban Co-operative Banks 1998 - 1999

Name of District	Deposits	Working capital	Fixed assets	investments	Loans & advanced
Trivananthapuram	5110.19	6269.39	43.82	1.68	3252.44
Kollam	1888.15	2498.24	11.08	5.42	1347.13
Pathanamthitta	7616.11	8795.62	26.13	610.68	3118.14
Alapuzha	74.05	490.03	2.55	4.15	203.51
Kottayam	14312.65	1723.45	72.18	205.71	9367.67
Idukki	1623.55	1882.75	59.53	43.03	922.02
ernakulam	15043.21	21499.98	42.26	282.84	9081.38
Trissur	20663.49	24843.5	91.33	728.01	11067.54
Palaghat	9800.85	17120.55	36.96	229.4	7510.84
Majlapuram	12233.06	22360.97	87.19	361.82	10468.41
Kozhikode	5359.6	6617.66	11.15	8.04	4198.21
Waynad	1984.47	2432.21	0	8.91	1437.5
Kannur	4001.81	4734.95	5.17	2.59	2406.74
Kasargod	1047.51	1295.21	17.83	4.85	546.7
Total	100758.7	122564.51	507.18	2497.13	64928.23

*Source: Co-operative in Kerala, Statistical abstract. 1999-2000 Hand Book
Statistics Wing Registrar of Co-operative Societies Kerala..*

It is clear from the above table that the total number of UCBs was 57 with a total membership of 1007274 and with a share capital of Rs. 3240.65 lakh. The deposits, which were Rs. 25987.71 lakhs in 1993 rose to Rs. 100758.7 lakhs by 1999. During the year the amount of loans outstanding was Rs. 64928.23. The credit deposit ratio was 64.44 percent. The working capital which was Rs. 39763 lakhs rose to Rs. 122564.51 lakh by the end of 1999.

Table 2.17
Selected details of the Urban Co-operative Banks (under BR Act)
in Kerala as on 31-3-2004

(Rs in lakhs)

Sl. No.	Name of Bank	Share cap	Deposit	Advances	Profit/loss
1.	Adoor UCB Ltd.	28.76	652.87	367.12	3.35
2.	Alleppy Co-op. U. bank Ltd.	45.47	617.91	445.49	2.86
3.	Alwaye Urban Co-operative Bank Ltd.	97.5	2164.6	1358.7	2.86
4.	Anandasayanam Co-op. Bank Ltd.	70.46	1658.41	796.1	4.39
5.	Balussery Co-operative UB Ltd.	24.77	606.22	426.1	(20.66)
6.	Calicut UCB Ltd.	369.9	11110.96	7831.34	52.45
7.	Cannannore Co-operative urban bank Ltd.	55.99	1458	949.01	(13.39)
8.	Chenganacheery Co-op. UCB Ltd.	65.84	1885.24	1194.39	4.14
9.	Cherpalassery Co-op. UCB Ltd.	49.69	2672.3	1904.19	13.03
10.	Coastal urban Co-operative bank Ltd.	200	6531	5005	99
11.	Co-op. UCB Kottarakkara Ltd.	88	2422	1944	(14)
12.	Feroke UCB Ltd.	43.02	1120.83	829.94	5.22
13.	Guruvayur UCB Ltd.	14.24	3629.61	2250.23	(2314.8)
14.	Iringalakuda Town Co-operative Bank Ltd.	338.73	8985.67	6358.49	64.34
15.	Kaduthuruthy UCB Ltd.	170.36	4858.15	3226.63	21.39
16.	Karamana Co-operative bank Ltd.	112.4	1718.62	1274.43	(81.63)
17.	Karunagapally Thaluk UCB Ltd.	43	886	591	55
18.	Kasargod UCB Ltd.	39.37	2240.93	1177.1	4.03
19.	Kattappana UCB Ltd.	25.19	339.51	272.94	(53.71)
20.	Kodungallur Town Co-operative Bank Ltd.	273.91	10414.34	5752.27	29.43
21.	Kottakkal UCB Ltd.	259.42	7951.68	5716.69	141.33
22.	Kottayam UCB Ltd.	183.41	4860.17	3620.48	(28.88)
23.	Kerala Merchantile Co-op. Bank Ltd.	52.9	534.8	376.42	1.79

24.	Kuttiyadi Urban Co -operative bank Ltd.	13.82	148.8	120.79	(5.23)
25.	Manjerry UCB Ltd.	195.62	9010.43	6058.84	74.5
26.	Mattanjery Mahajanik Co-op. Bank Ltd.	217.3	4095.6	3088.6	(238)
27.	Mattancherry Sarvajenic UCB Ltd.	198.3	4900	2481.1	(189.4)
28.	Meenachil East UCB Ltd.	202.85	11361.42	7228.71	90.97
29.	Muvattupuzha UCB Ltd.	87.8	3305	2030.2	27.3
30.	Nadapuram UCB Ltd.	15.96	400.45	216.57	(12.44)
31.	Nedumangad UCB Ltd.	41.67	1414.49	989	3.7
32.	Nenmara Co-op UCB Ltd.	61.16	790.29	416.97	(56.43)
33.	Neyyattinkara UCB Ltd.	71.81	1690.8	1152.33	1.05
34.	Nbilamdbur UCB Ltd.	181.08	8718.38	5779.4	94019
35.	Ottappalam Co-op. UCB Ltd.	161.29	6440.6	4714.61	23.64
36.	Pala UCB Ltd.	66.2	1969.87	1313.14	14.52
37.	Palghat UCB Ltd.	164.4	6581.5	4207.3	40.03
38.	Payyannur co-op. urban bank Ltd.	119	2339	1601	25
39.	Payyoli UCB Ltd.	66.71	2091.39	1664	(19.63)
40.	Pazha yagadi UCB Ltd.	89.04	822	631	6.33
41.	Peoples UCB Ltd.	282.5	10094.7	5563	80.8
42.	Perinthal manna UCB Ltd.	500	12089.99	9299.65	127.73
43.	Ponnany UCB Ltd.	94.83	2630	1755	27.64
44.	Quilon UCB Ltd.	246	10658	5916	52
45.	Shornur UCB Ltd.	48.69	1185.42	807.25	9.17
46.	Sulthqan bathery UCB Ltd.	72.29	2798.94	1962.21	0.99
47.	Taliparamba UCB Ltd.	26	861	452	(13)
48.	Thannur UCB Ltd.	10.1	96.62	58.55	(17.2)
49.	Tellicherry UCB Ltd.	75.1	2502.57	1774.86	13.4
50.	Thirruvala UCB Ltd.	67.36	721.24	593.18	(25.58)
51.	Thodupuzha UCB Ltd.	182	2662	1737.66	1075
52.	Thirur UCB Ltd.	177.35	7609.61	4175.66	112.16
53.	Tiruvalla East Co-op. bank Ltd.	194.12	9485.91	3732.16	(96.08)
54.	Trichur UCB Ltd.	147.77	10266.7	4404.07	26.26
55.	Trivandrum UCB Ltd.	143.57	4022.21	2926.36	(263.48)
56.	Vaikom UCB Ltd.	80.87	1771.54	981.46	(13.88)
57.	Vadakara UCB Ltd.	32.62	741.06	524.44	(43.76)

Source: Co-operative in Kerala, Statistical abstract. 1999-2000 Hand Book Statistics Wing Registrar of Co-operative Societies Kerala. (figures in parantheses are loss)

It is evident from table 2.17 that the number of UCBs in Kerala incurred losses by the end of the year 2004 March was 21. The number of UCBs with share capital of more than Rs 300 lakh was four, between Rs 100 to 300 lakh was 18 and the remaining were having a share capital less than Rs. 100 lakh. The number of UCBs with deposits more than Rs. 10,000 lakhs was five while that with less than Rs. 1,000 lakhs was 16. The number of UCBs with advances over Rs. 6,000 lakh was five and 19 were with less than Rs. 1000 lakhs. 37 UCBs were graded as weak, of which 27 UCBs were given grade III, 10 were graded IV.

It is clear from the above discussion that UCBs in India do not have a balanced distribution throughout the country. It was concentrated in few states like Maharashtra, Gujarat, Karnataka, Tamil Nadu, Andhra Pradesh. In Kerala UCBs are sparsely populated. In some Districts, the number of UCBs were very small. Since 1990 the new registrations were only nine. Many UCBs are suffering from losses and there were no UCBs with scheduled status. These statistics throw light on the current state of affairs of UCBs in Kerala.

The next chapter presents a review of relevant literature for the study.

References

1. Rao, Madhav, Genesis and Architecture of Urban Co-operative Banks, *Committee Report*, 1999, p1.
2. Kulkarni, S. R., *Urban Co-op Banks an Appraisal*, Anmol publications New Delhi, 1996, p 1-2.
3. Sudhakaran, *Performance Evaluation of Urban co-operative Banks in Kerala*, Ph.D. Thesis, University of Calicut, Kerala, 1996.
4. Maclagan Committee (1915). In Bhatia, B.S.; Verma, H.L., *et.al.*, *Encyclopaedia of Co-operative Management*, Deep and Deep Publications, New Delhi, 1998.
5. Government of India, *Report of Committee on Co-operatives in India*, 1915, Delhi.
6. *The Report of Indian Central Banking Enquiry Committee* (1931), Majority Report published by Government of India New Delhi, p 255.
7. Government of India (1946), *Report of Committee on Co-operatives in India*, Delhi, p116.
8. Sisodia, S. S., Adding Value to Membership—A Challenge in the New Millenium for Urban Co-operative Banks, *Urban Credit*, September 1999, p.3.
9. Satyanarayana G.S, Challenges before Scheduled and Large UCBs in the New Millennium, *Urban Credit*, 21 (4), Dec 1999, pp 27-29.
10. *Report on the High Power Committee on Urban Co-operative Banks*, Reserve bank of India, Mumbai, p. 19.
11. Report on UCBs (1979 RBI, Bombay, Agri Credit Dept).
12. *RBI Annual Report*, 1988-89, p 131.
13. *RBI Bulletin*, May, 1994.
14. Urban Co-operative Banks. Future Reforms, Excerpts from presentations made by D. KRISHNA on the occasion of the seminar on Urban co-Banks: future reforms, 10th May 2000, *The Co-operator*, XXXVIII (12), p. 547.
15. RBI Bulletin 2002,03,04 Report of trends and progress banking in India, Mumbai.
16. *Ibid.*
17. *RBI Circular* No. UBDI & L-3 / J.1-92-93 dated 09-02-93.
18. Report on trends and progress of banking in India, 1999-2000, supplement to *RBI bulletin*, Dec. 2000, p.95.
19. *RBI Circular*, UBD no. pt .cb 45/09.116/2000-01 dated 25-4-2001.
20. Thankapan, E.O., *A guide on Kerala Co-operative Societies Act and Rules 1969 and Allied Laws*, Swamy Law House, Ernakulam, 2004, p 3-7.

REVIEW OF LITERATURE

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter Three

REVIEW OF LITERATURE

REVIEW OF LITERATURE

This chapter is divided into two sections. Section one deals with review of literature related to the topics. This section has three parts. The first part highlights literature related to mobilisation and deployment of funds, the second parts focuses on topics related to assets liability management and the third part examines literature related to general performance, profitability, spread burden analysis etc. Section II gives a brief theoretical background of the various terms, concepts and their operational definition.

SECTION ONE

The traditional concept of banking preaches that banks must canvas deposits and from deposits mobilised lending should take place. But the modern concept consists in lending first and mopping up deposits as a fall out and over a period of time, the advances given will be helpful to build up a growing deposit base. For a practical banker both deposits and lending are equally important. Banks serve as financial intermediary between the people who have money to save and those that require it. Deposits and credit operations should go hand in hand. In this process banks earn a spread (difference between interest earned on assets and interest paid on deposits), which is the most important factor affecting profitability of banks. While collecting deposits from a locality, the banker should also study the credit gap in the locality, possibility of loss, default in credit allotted and problems related to recoveries.

The review of literature reveals that the concept of funds management is well developed abroad even though it is fairly a new concept for banks in India. A general scan of the literature available in India and review of the bibliography of doctoral dissertations submitted to the Indian universities,

published by Association of Indian Universities (AIU), New Delhi, indicates that much of the researches done in areas of banking is related to the financial performance of the banks. A number of articles are appearing in journals like *Vikalpa*, *Preganan*, *Journal of Indian Institute of Bankers*, the *Indian Banks Association*, *Co-operative review*, *Co-operator*, *Urban Credit*, *Southern Economist*, *Yojana*, *Kerala Calling*, *Outlook Money*, *Business India*, *Professional Banker* etc. Since the introduction of the financial sector reforms, *Asset Liability Management (ALM)*, *Non Performing Assets Management*, *Spread-burden analysis* etc. are gaining greater attention from academicians and practitioners.

In the banking category we can see a number of division such as the commercial banks, co-operative banks, central banks, foreign banks and a number of international financial institutions. Though a number of studies on these institutions are available, the present review is limited to literature on co-operative banks and commercial banks. The reason for including literature on commercial banks is that, from operational point of view, co-operative and commercial banks more or less identical and are organized and operated by the rules and regulations of the and Reserve Bank of India and Banking Regulations Act.

PART I

Studies Relating to Mobilisation and Deployment of Funds

The literature on Urban Co-operative Banks (UCBs) is not prolific in the state of Kerala barring very few Ph.D theses submitted in 1995 and 1998. On funds management *per se* there does not exist even a single published study. Funds management is only a variant of portfolio management. The basic premises of portfolio management are applicable to funds management as well. An attempt is made here to briefly review the available literature relating to studies on funds management in general and the UCBs in particular.

Cohen and Hammer (1967)¹ developed a model dealing with asset management decisions using linear programming technique.

Weight George Dale (1970)², in his thesis "The Development and Applications of Demand Deposit Costing Model", developed a model of demand deposit service costs for small banks. The model, utilising the deposit ratio (Average Balance per account) as the output variable is subjected to regression analysis for the purpose of forecasting specific cost relationship and determining the presence of economies of scale.

Walker (1971)³ in a study of Portfolio Behaviour of Commercial Banks indicated that deposit stability increases as deposit size increases and also as the ratio of time deposits to total deposit rises.

Pancras (1978)⁴, studied the funds management in co-operative banks and opined that co-operative banks in remote areas are forced to keep more cash /liquid assets due to their distant location from apex banks. He also stated that profitability in co-operative banks - matter of efficient management of funds - acquisition and its use. By efficient control of cost associated with funds management, the profitability of banks may be improved.

Goyal (1979)⁵ conducted a study on "Deposit Mobilization by Apex Co operative Banks in India" and found that they mobilised deposits from both individuals and institutions and the process was found satisfactory during the period from 1971 to 1977. The savings and fixed deposits recorded a steady growth and growth in deposits was more than the growth registered in owned funds.

Venkiteswaran (1984)⁶ studied about the operational efficiency of Primary Agricultural Co-operative Societies (PACS) in Kerala to measure the extend of achievement of PACS in credit disbursements and related aspects and its impact on agricultural production in Kerala. His studies revealed that PACS

working on profit had a strong resource base, high rate of deposit mobilization, low borrowings, high distribution of agricultural advances and high rate of loan recovery compared to those incurring losses. He observed that PACS were the basic units engaged in providing rural credit and uplifting the weaker sections of the society. The PACS with sound financial footing were able to mobilise more deposits from their area of operation. The study also identified the major factors contributing to the resources of the PACS, such as cropping pattern and occupational structure of the members, saving habits of the people, satisfaction to the beneficiaries arising from simplified loaning procedures and active participation of members in the affairs of the society. Among many proposals, the demand for deposit insurance was highly emphasized in his study.

Singh (1985)⁷, in his book “Financial Analysis for Credit Management in Banks” has stated that, during the last decade, bank lending has shown a number of significant changes. He pointed out that the basis of lending has changed from “security” to “viability” of the projects.

John Winfred (1986)⁸ studied the Funds Management of Central Co-operative Banks in India and found that fund mobilization is an important function of the UCBs. To keep the credit system in the most efficient order and to reduce the dependence on outside funds, they have to tap resources locally. To derive maximum benefits with minimum cost the resources have to be utilised judiciously without sacrificing the objectives of liquidity, safety and profitability. A judicious deployment of funds not only improves the income earning capacity of the banks but also reduces the regional and functional imbalances. He, in another context, discussed the need to analyse the cost and return of funds to understand the margin available for banks in the funds management process. The study found that the cost of deposits varied from bank to bank depending upon the level of current and saving deposits. In a study conducted on the district co-operative banks of Tamilnadu, he observed

that slackness in recovery of loans resulted in mounting overdues and suggested regular and timely recovery action throughout the year instead of action at the close of the year. A suggestion made by him was that the interest rate structure of the DCBs may be so devised as to provide for interest rate rebate, a reward for prompt repayment of loan in time. Another suggestion was that the State Government should ensure the observance of financial discipline by all parties concerned for a sound and sustained growth of co-operative credit system.

Auralandam and Namasivayam (1987)⁹ opined that the level of deposit mobilization by any co-operative bank depends upon the efforts made by it to identify the saving potential of the target groups and their proper channelisation into the orbit of the banks. The overall image of the bank, the quality of service offered, the type of innovative deposit schemes and the extent of branch network also affect deposit mobilization. It was also observed that Co-operative banks should try to increase the deposits disregarding the volume of deposits.

Patil (1987)¹⁰ in his study, observed that “A striking feature of UCB sector, compared to commercial banking sector, is its heterogeneous character and geographical spread. There are a very large number of small UCBs as well as quite a few scheduled UCBs which account for substantial resources of this sector. There are extremely efficient and professionally managed banks along with a number of weak banks and banks that have little professional talent in their management.” In the opinion of the author; the ‘Local feel’ is the biggest strength of Urban Co operative Banks.

Hanumappa (1988)¹¹ in his article suggested the idea of remodelling the UCBs for undertaking development banking activities in order to serve the urban poor and middle class. In this respect, a local area approach may be followed for identifying the right type of urban poor and their requirements. He

suggested that the frame work of development banking can be imposed on the UCBs only after suitably restructuring them to withstand the changing needs of the urban society particularly the urban middle and poorer sections.

Marathe (1988)¹², in his article "Management of Resources In Urban Co-Operative banks stated that the essence of management of resources in the UCBs, like any business enterprise is to achieve the best possible utilization of available resources. This is possible by restricting the cost to the minimum and increasing the earnings to the maximum. To enable this, the personnel policies about training, education, delegation of responsibility and authority, merit rating etc. are highly significant. He studied the data on 366 reporting UCBs of Maharashtra state and found that they regularly plough back considerable portion of profits in different reserves, which helped them to attain the capital base. The borrowings of UCBs were very insignificant, the overall credit deposit ratio was 71 percent and the CD ratios of 67 banks were more than 100 percent. The net profit was 10.1 percent and the cost of management to working capital ranged between 1.5 and 3.5 percent.

Bhoslae and Dangat (1989)¹³ conducted a study on co-operative societies in Kolhapur district. The study probed the extent of medium term borrowings of farmers from co-operative societies, repayment position of the loan borrowed and the factors responsible for overdues. In their opinion, the main reason for overdues was misutilisation of loans. They observed that there was a direct relationship between the total amount borrowed and the amount of overdues and hence suggested a careful scrutiny of loan request by financing banks.

Lakshmi Narayana and Adinarayana (1990)¹⁴ conducted a study on borrowers of crop loans in Visakhapatnam district. Their study, which was on 'pattern and factors influencing overdue both under co-operative and commercial banks, observed that the repayment capacity of a borrower is a

measure of his ability to return the funds acquired. Repayment capacity was worked out, as a residue after meeting the requirements of family consumption needs, payment of other dues, debt outstanding and instalment payments. They observed that the repayment capacity of farmers who borrowed from co-operative banks was less than that of those who borrowed from commercial banks. The authors opined that the inadequacy of funds obtained from co-operative banks was the reason for mounting over dues.

Chinnappa (1992)¹⁵ studied the problems of DCBs in Andhra Pradesh and opined that the managing committees of the primary co-operatives and directors of District Co-operative Banks have shown a general inertia in the matter of recovery. It was found that a large number of members in the managing committees had themselves defaulted in the repayment of dues and the managements were not prompt in initiating cohesive action against disobedient members. He noted that the DCBs were supposed to be autonomous in character. It was also noted that the institutions at the base level took no policy decisions and all the rules and regulations were framed from above and mostly they were ill timed and unsuited to the varied circumstances that prevailed in various parts of the country.

Another piece of literature, which will be of interest to researchers on UCBs, is the comments made by Shivamaggi (1993)¹⁶. According to him several UCBs are characterized by heavy erosion of their owned funds, high level of overdues, non compliance with minimum share capital requirements and viability norms. He opined that some of the UCBs have become victims of vested interests resulting in restricting membership and advances to certain select groups.

The critical comments of Sadare (1993)¹⁷ on the viability norms prescribed by RBI also fall under this category. Reserve Bank of India appointed a committee to recommend viability norms for licensing new urban

co-operative banks. The norms prescribed by the committee were later accepted by RBI. According to him, instead of giving numerical norms, the Reserve Bank should have put stress on improving the quality of management of urban co-operative banks. Risk management and customer services are the factors, which the management of the UCBs have to take in to consideration seriously.

Thampan (1994)¹⁸ in his thesis, "Role of Co-operative Banks in the Upliftment of the Poor" observed co-operative banks as the prime agency for alleviation of poverty. He observed, on the basis of the relationship between shares obtained by the different groups that, how far lending operations helped the poor. These banks are not willing to allocate large amounts of loans to this poor people. It is found that poor people are eligible only for small size loans as per the norms set by these banks under conventional type of lending.

As pointed out by Berthil Marthsson (1995)¹⁹ "the principle of owned capitalism motivated by the necessity to ensure freedom of action for the cooperative movement. It is when the movement is independent of out side credit giving institution that it can most effectively protect the interest of its members".

Thirupathy Rao (1995)²⁰ in the study of Srikakulam District Central Co-operative Banks observed that the finance function of these banks was highly regulated by the Reserve Bank of India and Registrar of Co-operative Societies. He found that this bank failed to observe the financial discipline and failed to maintain the required cash reserves and liquid assets through out the study period between 1980-81 and 1992-93.

Toomkuzhy (1995)²¹ made a review of the changing environment of co-operatives and examined the need for professionalisation of management in co-operatives. He noted that the environment in which the co-operatives

operate has been changing very fast and it has been characterised by growing size, complexity and magnitude. To cope with this new environment, he suggested the practice of professional management in co-operatives.

Shafiqur Rahman (1996)²² studied “Management of Co-operative Banks in Bangladesh” to know the growth and development of co-operative societies and Co-operative Land Mortgage Banks, to study the management process of the banks from the different perspective and to measure the impact of this banks on the socio-economic development of the beneficiaries. For the purpose he selected samples of co-operative land mortgage banks and members by using multi-stage random sampling technique. From the analysis he concluded that the functioning of co-operative land mortgage banks in Bangladesh have not achieved any significant success in attaining the basic objectives of agrarian development for which it was established. Absence of a well structured policy framework, improper credit administration, poor policy implementation were some of the reasons for this affairs. Moreover co-operative movement could not gain confidence of the people during the last several years from its inception.

Jagannatha Mishra (1996)²³, Union Minister for Agriculture, while addressing the General Council Meeting of the National Co-operative Development Corporation, held on March 25 1996, commented on the need for co-operatives to be self reliant, managerially more efficient and autonomous in par with the private sector.

Kshatrapati Shivaji (1996)²⁴ in his study on “Strategic Management in Co-operative banks- A case study of Kerala State Co-operative Bank”, made an attempt to quantify the implications of the major policy bottlenecks to arrive at maximum profitability of co-operative banks. With the help of financial data, for the period from 1976 to 1995, he analysed the trend of growth of the Kerala

State Co-operative Bank (KSCB). He has developed a dynamic simulation model for the bank to enable policy formulations. He further observed that KSCB, being the apex organization in co-operative credit, in the state of Kerala, failed to undertake appropriate and systematic environmental scanning for decision making.

The address by Rangarajan (1996)²⁵, Governor of RBI, while inaugurating the National Conference on Co-operative Rural Credit Institutions at Bangalore on 10 Feb 1996, stressed the requirements of reforms to be made in the co-operative sector. He added that there should be sustained interest among the three groups namely members and their elected leaders, professional managers and government officials in the matters of organisational and functional control over the co-operative credit institutions.

The Committee on Banking Sector Reforms (Narasimham Committee, II.1998)²⁶ has rightly pointed out that “adequacy of capital has traditionally been regarded as sign of banking strength irrespective of whether the institution is owned by Government or other wise.” Most regulatory authorities have adopted allocation of capital to risk assets ratio system as a basis of assessment of capital adequacy, which takes in to account the element of risk associated with various types of assets reflected in the Balance sheet as well as in respect of off balance sheet assets.

Roy (1999)²⁷ in his article presented the progress made by the Vardhamana (Mahila) Co-operative Urban bank between 1990-1998 and concluded by stating that the bank was able to achieve progress by the entrepreneurship role played by the directors and the professional touch in the management affairs of the bank.

Sisodia (1999)²⁸, in his article “Revitalisation of Co-Operative Credit Institutions” brought to light problems faced by co-op credit societies. Lack of

proper and sincere effort on the part of the institutions concerned, deficiencies in the working of the system in areas such as recycling of funds, overdues, imposition of financial discipline by RBI etc are the serious problems of co-operative credit.

Venugopala Rao (2001)²⁹ in his article stated that “in the context of competition, success of co-op banks depend upon the level of profitability.” He opined that profitability will be sustained only if high level efficiency is ensured in the management of funds. The mobilization of resources at the lowest cost, deployment of funds for higher yield, good recovery performance and reduction of NPAs are factors that ensure profitability. Funds management should also focus on reduction of risks in bank business and also on maintaining desired level of matching maturities.

Amardeep Walia (2002)³⁰, in his study on “Funds Management In Central Co-operative Banks-A case study of the Jalandhar Central Co-operative Bank Ltd.” for the period between 1993-2002 observed that the main sources of funds for the bank has been deposits (91 percent). The loan portfolio of the bank was found unsound with 60 percentage deployed in investments instead of loans. The Credit-Deposit ratio of the bank was less than 39 percent. The solvency position and recovery position of the bank were found to be sound, CRAR was 12 percent and recovery rate was 97 percent. However, the liquidity position of the bank was found to be unsatisfactory. The bank has always maintained surplus cash reserves. He suggested that the bank should come out with innovative loan schemes for income generation by deploying excess funds.

Prabal K. Sen (2002)³¹ observed that the UCBs in India have evolved in the wake of people’s efforts to create an institutional mechanism for meeting their credit requirements. Financial sector reforms have increased the

interdependence between financial institutions and any deformity developed in one segment of the system gets quickly transmitted to other segments. The revised licensing policy, Capital adequacy ratio, maintenance of statutory liquidity ratio, abolition of minimum lending rate, absence of corporate governance lack of transparency, irregular entry in to capital market, absence of risk weighted asset-liability management framework are problems requiring serious studies. They need to be addressed effectively on an urgent basis for ensuring future growth and an orderly progress in the sector.

Satheesh Chandran (2002)³² examined the operational performance of PACS, by taking area of operation, resource mobilization, advances of loans and over dues of 177 PACS, using both primary and secondary data and came to the conclusion that the loan over dues of the primary Agriculture societies were an alarming one. The Co-operative societies Acts and Rules, though are subjected to administrative and bureaucratic interferences, are not acting as hurdles in the management process. He observed that there was a high level of political interference in all areas of management of PACS. The profitability of PACS was poor and reasons for low profitability were high administrative cost, poor recovery process, lack of expertise in management etc.

Amardeep Walia (2003)³³ in his article studied about the funds management of the bank and found that deposits constitute 91 percent of funds. The loan portfolio of the bank was found unsound with 60 percent in investments and 35-49 percent in loans. The Credit Deposit ratio was less than 39 percent, the recovery was 97 percent and solvency position was also sound with CRAR of 12 percent. However the liquidity management was found to be unsatisfactory.

Sivachithappa (2003)³⁴ in his article observed that the UCBs were facing the threat of weak banks on account of the problem of mounting overdues.

Improper credit appraisal, absence of periodical follow-up by the management or board of directors, grant of loans for unproductive purposes, overlooking extravagant habits of borrowers and undue leniency in recovery of loans are major problems. The UCBs require greater financial discipline in the present era of liberalization. He optimistically stated that properly directed and encouraged UCBs are capable of facing the challenges of liberalisation.

Subash (2003)³⁵ in his article "Strategic Management for Co-operatives" highlights the need for co-operatives to cope with the changes occurring in the economy and suggests that an effective and judicious management of physical and human sources available with the co-operatives. For this, strategic planning is necessarily important for co-operatives. It helps the determination of over all objectives, policies and strategies to achieve these objectives.

Maasali (2004)³⁶, in his study "Performance of co-operative banks - A study of Co-operative Urban banks in Belgaum, by examining the nine urban co-operative banks in Belgaum district of Karnataka state observed that UCB's have to compete with local credit co-operatives for getting deposits and nationalized banks and private banks giving loans. Non-interest incomes were quite negligible and suffer from heavy non-performing assets, employee performance was only average. He further stated that absence of large branch network, smaller area of operation, absence of training expertise to staff and management, delay in decision-making etc. were problems UCBs in Belgaum district.

Part II

Studies relating to assets liability management and non-performing assets

In this part, a review of studies relating to asset - liability management and non-performing assets of banks, particularly related to UCBs is presented. The analysis of the relevant earlier studies will provide an insight into the various aspects that are to be given due weight in the study.

Ferry (1970)³⁷ in a study on “Optimal Asset/Liability Management for rural banks” observed that decreasing capital and liquidity constraints increased the profits of the bank.

Subash Chandra Sarkar (1974)³⁸ examined the over dues of co-operative banks in India and found that the heavy over dues at DCB levels are due to the failure of these banks to execute appropriate measures to recover the dues .In addition, political patronage to defaulters, defective lending policy, administrative weakness of institutions were also considered serious problems in this matter.

Desnga Rao (1977)³⁹ in his article “Co-operative credit movement in Andra Pradesh” explained the position of PACS in 1956, their growth over the past twenty years. Though the co-operatives in Andra Pradesh showed phenomenal growth rate in quantitative terms, they lag behind in qualitative terms. The problems of overdues, dormancy, low entrepreneurial traits etc. stand in the way of credit dispensation and growth of the sector.

Pandey and Muralidharan (1978)⁴⁰ opined that the major factors affecting overdues at co-operative credit institutions were the size of loan and the pattern of consumption expenditure. They were of the opinion that loans were issued without verifying the repayment capacity.

Promila Goel (1983)⁴¹ observed in the study ‘The Menacing problems of over dues in Co-operatives’, that mounting over dues may eventually bring the credit co-operatives into the brink of liquidation. It is therefore useful to make an in depth study of the problem in Rajasthan where the co-operative movement was not in a happy position. Though there are a number of factors influencing the level of overdues, certain weighty factors like weak managerial competence, natural calamities etc. have pronounced impact on the overdues.

Reddy (1993)⁴² has conducted a study on over-dues management in co-operative banks. He stated that the idea of co-operative bank is a holy one. Co-operative banks achieved phenomenal growth in the flow of credit. But the ever increasing over-dues is a serious problem to be guarded against. To him the causes of over-dues are insufficient credit, attitude of loanees, lack of adequate arrangement for the supply of inputs to farm and factory, absence of a climate for recovery etc.

Harry M. Markowitz (1993)⁴³, conceptualised the relationship between expected risk and return in an investment portfolio and provided a technique to measure them quantitatively in the selection of portfolio, selection and efficient diversification of investments. He classified the risk in investment into two namely a) diversifiable and non diversifiable. He claimed and proved that risk can be reduced or spread through diversification.

Dash (1997)⁴⁴ in his article “A Practical Guide for Urban Co-operative Banks on Income Recognition, Asset Classification & Reduction of NPAs” gives an insight into the complexities involved in recovery management and the role of recovery as the key performance area in order to prevent the blocking of huge funds in non performing assets. He suggested follow up visits

and liaison with borrowers as effective measures for reducing the NPAs in the UCBs.

Puyalvannan (1997)⁴⁵, in his article, “A Study of Overdues, Recovery performance and erosion of funds in Central Co-operative Banks” analysed the recovery performance of credit agencies like PACS, DCCBs, LDBs and RRBs for the period between 1982-92 and found that the recovery rate was on an average 50 percent of loans advanced. The reasons for heavy overdues were growing politicisation, legal protection and government and wilful neglect of the borrowers.

Vasant C. Joshi and Vinay V. Joshi (1998)⁴⁶, in their Book, *Managing Indian Banks, The Challenges Ahead*, started their chapter on Asset/Liability management with the quotation “If there is any area of banking that has undergone drastic change, it is the whole subject of asset/ liability management”. In their opinion the asset- liability management (ALM) is an integral part of the planning process of banks and deals with an overall, coordinated management of the entire portfolio. ALM focuses on the measures to increase net interest income of banks.

Trivedi (1999)⁴⁷, in his paper “Asset Liability Management: A Task to Mandate” stresses the need for a proper understanding of the composition of assets and liabilities to enable proper and timely decisions. The need for the setting up of ALM Committee (ALCO) Management Information System (MIS), Strategic Planning, Gap Analysis, etc. was also stressed in the study. He considered ALM as an essential tool in the hands of top management which will help to maintain the right balance between the objectives of profit and risk undertaken.

Pandnis (1999)⁴⁸ stated that “no other single indicator amply reflects the status quality of assets and its impact on banks viability than the figure of net NPAs.” He found that the NPAs of PCBs were around 13 percent and was high in priority sector advances. He suggested two measures to reduce NPAs. They are (a) arresting degradation of NPAs and (b) the upgradation of existing NPA to standard status at an accelerated pace”

The active and effective management of a bank’s assets and liabilities has assumed increasing importance and greater complexity in recent years. “Asset –Liability Management (ALM) is co-ordinating the bank’s portfolios of assets and liabilities in order to maximise earnings and profitably consistent with safety and liquidity needs. This can be accomplished through effective planning regarding the volume, mix and pricing of earning assets and liabilities that fund them”⁴⁹.

The paper entitled “Recovery-The Life Line of Co-operative Credit Institutions-An Experience of Kanara DCC bank, Sirsi, Karnataka” (1999)⁵⁰, presented in the seminar highlighted the importance of recovery in co-operative credit. Co-operatives that lag behind in recovery of loans, will meet with the fall in income, reduced profit and heavy provisioning and thus will adversely affect their growth. The recovery position was around 95 percent during the three-year period from 1995-98. Some of the measures adopted by the bank to strengthen the recovery of loans were: a) Spontaneous involvement of the staff and office bearers of PACS, b) Effective field supervision, c) linkage of credit with marketing, d) incentives for fuller recovery of dues, e) need based credit, f) provision for helping the farmers to go for subsidiary occupation etc. Above all, real co-operation and understanding between the management of the PACS, the DCCB and the borrowers and the staff at all levels were the basis of sustained success in recovery management.

Trivedi, (1999)⁵¹ in his paper “Asset Liability Management: A Task to Mandate” stated that the Indian banking industry till 1985 was largely under regulatory provision from the RBI and Government of India. The regulation helped in spreading of branch network to every nook and corner of the country. It, though enabled the mobilization of rural savings and loan facilities and services to the neglected sector, made an accumulation in the non performing assets (NPA), low profitability, poor customer service, etc”.

Murthy (2000)⁵², in a study on “Branch Level of NPA-Credit Monitoring”, brought to light the threat of rising NPAs in banks. He observed that NPAs are caused by deficiencies in monitoring and control of credit portfolio and appraisal of credit requests. To quote, “Any attempt at arresting the growth of NPAs should start with effective monitoring of loan accounts and implementation of timely remedial measures at branch levels”. He suggested various tools for monitoring credit as measures for reducing NPAs.

Sathyanarayana (2000)⁵³ in his study “Managing banks through Balance sheet-A theme for planning” stated that banks cannot continue their planning process in the conventional style of centering around a selected few parameters like deposits, advances, profits, non performing assets etc. Equity management, risk adjusted spread management, and burden management reflected in projected balance sheet, and profit and loss account areas to be concentrated at present. He emphasised the need for efficient operations to minimise the operational costs as well as risk for a given level of income and to concentrate on quantity, quality and pricing of assets.

Selvan and Samwel KakukoLopoyetum (2000)⁵⁴ in a “Study on Non-Performing Assets in Dharmapuri Town Co-operative bank - A case study” observed that the bank should strive hard and take early steps to recover the

dues in time. Other wise the profitability and viability of the bank will be eroded. Hence the improvement of the recovery and management of NPAs is the need of the hour.

Sarker and F.S. Hanamashetty (2002)⁵⁵ conducted a study about the performance appraisal of the UCBs of Maharashtra to explore the possibility of diversification of lending portfolios. They selected six UCBs satisfying the NABARD refinance criteria and observed that better performing UCBs have resorted to effective implementation of management principles and sought policy measures to attain high rate of performance.

Samal (2002)⁵⁶ observed that the real problem before the bank has been the mounting NPAs and its hangover. NPAs not only erode the quality of assets but also hinder the profit, growth, and adversely affect the health of the banks. He also observed that the NPAs in priority sector was decreasing, while NPAs in the non-priority sector was increasing. The factors and causes for this can be classified into natural - calamities, recession, government policies, deficiencies in credit delivery system - improper identification of borrower, delay in sanction, inadequate system of monitoring, diversion of funds, human indiscretion - erosion in ethics, wilful defaulters, socio political system, legal process, absence of proper legal framework, prolonged legal system, globalisation - increasing market competitive pressure, inadequate technical knowledge, unskilled labour force and lack of competitive advantage. Some solutions suggested were- risk based supervision of lending, critical analysis, restructuring dues, one time settlement etc.

Sarkar (2003)⁵⁷ in his article "NPA in public Sector and Co-operative Banks: Measures for their minimisation", expressed concern over the significant progress of NPAs, though RBI introduced prudential norms and asset classification in banks since 1992. NPA of the priority sector, non-priority

sector, DCCBs, SCARDBs and PCARDBs showed substantial increase during the period between 1995-2001. He observed that the major causes of NPAs are poor credit appraisal, slow recovery of loans and directed schematic lending to certain sectors etc.

Kausick Saha (2003)⁵⁸ in his article, “Can the Ordinance Recover NPAs?” observed that lack of project appraisal, political favour and incorrect projection of future demand in the industrial sector together with recession in the last few years have resulted in the default of many loan accounts resulting in non-performing assets (NPAs). As on March 31st, 2001, the gross NPAs of the scheduled commercial banks was Rs 63,883 crore and their net NPAs stood at Rs 32,468 crore. The Securitisation, Reconstruction of Financial Assets and Enforcement of the Security Ordinance 2002, though gives lot of powers to the lending bank, it is in a fuss in its implementation.

Shivaprasad (2003)⁵⁹ in his article “Advantage Customer” observed that the introduction of prudential norms of income recognition, asset classification and provisioning resulted in the growing menace of non-performing assets. Banks are competing with each other and are trying to make their product more and more attractive with several offers. “Here is a bank offering free of cost insurance coverage along with their home loan product. There is an agency offering zero interest customer loans and at another bank offering a service freely to their credit card holders and the list goes on...”.

Dharmarajan (2004)⁶⁰ in his article, “Implementng Asset Liability Management (ALM) in Co-operative Banks”, observed that though introduction of ALM system in co-operative banks is not compulsory, the system enables them to have a highly professional funds management practice. This may be useful to meet the information requirements of the regulatory body in the near future and to ensure their financial discipline.

Part III

GENERAL PERFORMANCE AND PROFITABILITY

After going through studies relating to funds management, assets liability management and management of non-performing assets, a review of studies relating to performance and profitability of UCBs is made in this part.

Studies were made by Gupta (1981)⁶¹ on performance of commercial banks. The performance of commercial banks, trends in banking after nationalization and the extent of deprivation of banking facilities in rural and remote areas of our country were the main focus. Their main suggestions include the need to regulate the service charges including interest rates which are not uniform even in the nationalized banks, necessity of developing suitable models of 'performance budget' in these banks covering all major banking functions, need for steps to improve quality of customer service standards measures to improve recovery of loans and need for professionalisation of management.

Ojha, (1986)⁶² while delivering the key note address at the seminar of chairmen of the UCBs in Maharashtra by the urban co-operative banks federation at Bombay spoke on the rationale behind the UCBs and the effort made by RBI to promote them through refinancing of their advances, allowing them to pay higher rate of interest on their deposits, reduced CRR and SLR. The rationale behind these concessions was that the UCBs should pool the resources of the low and middle income groups, inculcate a sense of thrift among them and use these resources for the economic benefit of the people in that area. Excessive concentration of advances in the hands of a few borrowers or connected groups of borrowers or a particular trade or industry opens up new and enhanced risks in their financial health.

Namboothiri (1987)⁶³, in his doctoral thesis examined the numerous and varied activities of the co-op banking system and the extent of competition faced by them from commercial banks and private financiers. In his opinion the operational efficiency of a bank is related to its internal organizational system, quality with which it transacts its business, the degree of service it provides to its constituents etc. He stressed the need for co-operative banks to equip themselves with adequate and competent management. Lack of uniformity in staff recruitment, high labour turn over, poor training to staff and inefficient evaluation and merit rating are serious areas of interest to co operative bank management. For a fuller and detailed understanding of the working of the UCBs in Kerala, a comparison of the working of the UCBs with those of the UCBs in other state is also essential.

Sudhakaran (1996)⁶⁴ in his study on “Performance Evaluation of Urban co-operative Banks in Kerala” observed that the beneficiaries of the UCBs are poor, unemployed or under employed, semi- literate belonging to the low salaried and small enterprises group of urban population. He suggested that the UCBs should be strengthened for the benefit of this low income group. The UCBs have to go a long way to make up the deficiencies in urban credit. He also observed that the UCBs have not adopted any innovative projects to channelise their surplus resources.

Ramesh and Patel (1997)⁶⁵ are two scholars who have done original work on the UCBs in Goa. They studied the growth trends of UCBs in Goa with selected variables for the period between 1965 to 1995. The brief macro level evaluation of the UCBs by them revealed that there was an overall improvement in performance of the UCBs and was satisfactory. But the growth trend during the second sub period was less than the growth recorded in the first sub period. Hence they suggested that the UCBs have to formulate appropriate strategies to improve their performance. Further, they opined that,

vast majority of the UCBs are concentrated in four states namely Maharashtra, Andra Pradesh, Tamilnadu and Karnataka. This wide regional imbalance in the growth and spread of the UCBs is a cause of concern also.

Dash (2000)⁶⁶ in his article remarked that the economic reform and liberalization process in India have paved the way for the UCBs to face onslaught of competition from both domestic and foreign financial institutions. Withstanding the volatility of market is a Herculean task for these banks. But as its positive side, he advised the UCBs to take these changes and challenges as opportunity. For this, the UCBs should manage their funds in a judicious manner by formulating strategies in the area of deposits mobilisation, credit management, investment and assets management.

Though the funds management in UCBs, is a rarely discussed topic in Kerala, a number of studies on funds mobilisation, deployment, asset liability management, NPA management and profitability were made in other parts of the country. All these studies focus attention on the need for effective mobilisation and deployment of funds to ensure and enhance spread and profitability. It was also felt that banks are to manage their assets and liabilities in a balanced way to avoid surplus or shortage of funds both in the long run and in the short run. All these have a very high significance in the new liberalised and globalised economic regime where even big banks are aiming at consolidation and merger. To add fuel to fire, government is also planning to introduce new regulations and stringent rules in the running of the UCBs.

SECTION II

CONCEPTUAL FRAME WORK

Operational definitions and description of the various terms and concepts used in this study are mentioned in the following section. The theoretical base of the analysis is also included in this section.

Operational definitions

Bank

The word bank was originally derived from the German word “bank” which means a joint stock fund. This word was Italianised it to “banco” by the Germans. The French again changed this term into “banck”. After wards the Britishers converted the term into ‘bank’, which has now been universilised. The term bank or banker is used in almost all the countries of the world to denote a financial institution dealing in money⁶⁷.

Co-operative Bank

A Co –operative Bank is an institution established on the co-operative basis and dealing in ordinary banking business. The co-operative banking structure is based on a three-tier system. At the top there is the State Co-operative Bank (in each state), at the district level, there are Central Co-operative Banks and at the base of the pyramid there are Primary Credit Co-operative Banks/Societies.

Urban Co-operative Banks

According to Bhansali-Mehta Committee (1939) “an Urban Co-operative Bank is an urban credit society having paid up share capital of Rs. 20000 or more and accepting deposits of money on current account or other wise subject to withdrawal by cheque, draft or order”⁶⁸.

In the erstwhile Madras province, an urban bank was defined as a credit society accepting deposits on current account and maintaining fluid reserves according to the standard prescribed by the Registrar of Co-operative Societies.

In the opinion of Co-operative Planning Committee, Government of India (1946)- An urban bank is one which has a paid up capital of Rs. 20,000/-, receives deposits on current account, maintains fluid resources on the scale prescribed by the Registrar of Co-operative Societies, carries to the reserve fund at least their net profits till it equals the paid up share capital and there after at least one fourth of the net profits.

The Report of the Study Group on Credit Co-Operatives in the Non Agricultural Sector (1963), New Delhi, Ministry of Community Development & Co-operation, Government of India considered an Urban Co operative Bank as any credit organization which is registered under the State Co-operative Societies Act, which has a minimum paid up capital of Rs 50,000 and which provides banking facilities to its members and customers in urban and semi urban areas.

According to the Banking Regulation Act 1949, which was made applicable to the UCBs from 1 March, 1966, "an urban bank is called "a primary co – operative bank" and is defined as "a co-operative society, other than a primary agricultural credit society whose: (a) primary object of which is the transaction of banking business (b) paid up share capital and reserves of which are not less than Rs one lakh, and (c) by-laws of which do not permit any other co-operative society as a member and accept deposits from members and non members".

Fund

Fund means measurable economic resources raised and used by a business organisation. It is the purchasing power arising out of cash/credit /exchange transactions. In this study fund is used to mean resources raised by banks (UCBs) through various sources and surplus retained for deployment in various avenues.

Funds Management

In brief, funds management is the art of raising resources and utilizing them in the most efficient and profitable manner for the smooth running of the business. For a bank it is the continual rearrangement of its balance sheet to maximise profits, to maintain adequate rate spreads and liquidity, and to make safe investments. It includes management and control of all items on a balance sheet including assets, liabilities, and capital, to optimise banks earnings with out taking excessive risk or liquidity exposure.

The objectives of funds management in UCBs are raising resources at minimum cost and lending and investing them profitably without any adverse effects on liquidity and safety. The various sources of funds for UCBs are share capital reserves and other funds deposits, refinance and discount facilities from apex institutions, call money and recoveries of loans and advance.

Mobilisation of funds

Mobilisation of funds, as the first function of the UCBs, is the process of collecting the funds required for the various operations from different sources. These sources can be broadly classified into two categories as Owned funds and Borrowed funds.

Owned Funds

Owned funds are permanent funds and are not generally repayable except in the case of closing down of the business or in the case of membership

resignation. This includes share capital, reserves and other funds, balance of profit, if any, remaining undistributed among share holders.

Borrowed funds

These are funds generated from entities not within the ambit of the organisation such as deposits from customers, loans from apex agencies etc.

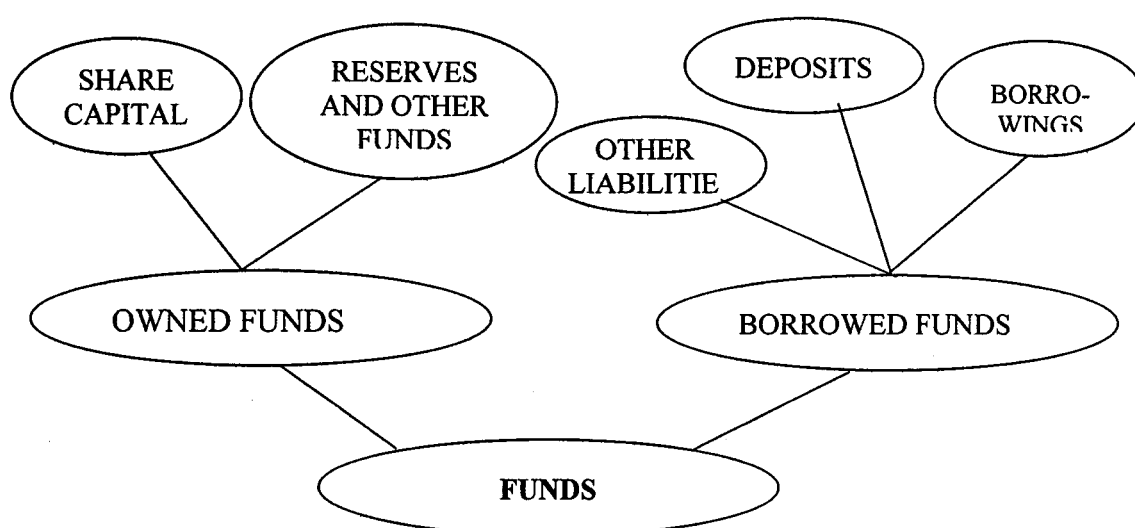


Chart 3.1: Elements of UCB Funds

Share Capital

Share capital is the amount contributed at the time of taking membership or at the time of availing loans from the bank. The most obvious purpose of capital is that it provides funds for fixed assets purchases necessary for the bank's business. It serves three purposes namely (a) to ensure against banks insolvency or failure by the losses in bank's loans and other assets; (b) to protect against temporary losses of liquidity; and (c) to ensure public confidence in the banks ability to cope with shifts in economic conditions. Capital is also the basis on which regulators of bank (RBI) set limits on lending.

Capital Adequacy Norms in the UCBs

The Government of India first introduced Capital adequacy to norms to banking industry along with other prudential norms of income recognition, asset classification and provisioning. This was in connection with the acceptance of the Narasimham Committee's Report on Financial Sector Reforms, from 1992-93 in tune with the Basiel Committee⁶⁹. This proposal was with the intention of strengthening the capital base of financial institutions.

To increase the capital base, unlike the commercial banks, the UCBs cannot go for public issues. They can raise it only from their own members. Till the attainment of the required capital to risk assets ratio, they are to transfer not less than 50 percent of their net profits to reserve fund and declare dividends on a conservative basis.

The UCBs failing to maintain 75 percent of the required CRAR will be classified as weak and those failing to maintain 50 percent of the required ratio will be classified as sick.

Reserve and other funds

Reserve and other funds are the funds that are set aside to meet any adversity in future and are mobilised every year out of earnings and profits. Retained profits, which can be used in business as a long-term or medium-term source of finance, unless contingency arises (except statutory reserve). The creation of reserve increases the quantum of cost free deployable funds. Together with share capital, reserve funds constitute a cushion to absorb over dues and risky advances.

The reserves maintained by UCBs include statutory reserves, bad and doubtful reserves, reserve for NPA, reserve for overdue interest, depreciation reserve, reserves for building fund and other reserves like dividend equalisation fund, provident fund, gratuity, common good fund etc.

Deposits

Acceptance of deposits and maintenance of deposit accounts are core activities of every bank. Deposits are the amounts collected from members and non-members that determine the loanable resources of UCBs. Higher deposits will enable the banks to reduce the dependence on external borrowings. The size and the cost of deposits decide the lending activities and ultimately the earnings of the bank.

Classification of Deposits

Time Deposits

A time deposit is an interest-earning deposit that technically cannot be withdrawn without advance notice or before a specified maturity date. Theoretically savings accounts are treated as time deposits, but in practice most banks regularly convert saving deposits into cash on demand. Since accurate data regarding time deposit portion of savings accounts was not available, discussion with UCB managers made it that, on an average, 70 percent of savings deposits would not be withdrawn in short duration. Hence, in this study 100 percent of fixed deposits and 70 percent of saving deposits were treated as time deposits.

Demand Deposits

A demand deposit is one, which allows the depositor to get payments or withdraw funds on demand, usually by writing cheques or by using an automated teller machine. In this study total current deposit and 30 percent of savings deposits were treated as demand deposits.

Core deposits

Core deposits are deposits whose balances are insensitive to changes in interest rates namely current deposits and savings deposits. For current deposits UCBs pay no interest while for savings account, the interest is payable

on the minimum balance outstanding in an account between the period 10 to 30th of every month at the rate of 4 to 5 percent.

Working funds

Working funds are the total funds deployed by UCBs in different avenues such as loans and advances, investments, fixed assets, and floating funds.

Borrowings

Borrowings are another external source for funds which are obtained from apex institutions like State Co-operative Bank, District Co-operative Banks, SIDBI, State Agriculture and Rural Development Banks (SCARDBS), Primary Co-operative Agriculture and Rural Development banks (PCARDBS.) etc. for meeting short term and medium term financial requirements of UCBs.

Other liabilities

These are amounts payable by UCBs in items like interest unpaid, staff salaries unpaid, dividend unpaid, miscellaneous expenses outstanding and unearned items like deposits of staff etc.

Deployment of funds

It refers to the utilisation of funds by UCBs in avenues such as loans and advances, investments, acquisition of fixed assets and other assets together with the Cash Required Ratio (CRR) and Statutory Liquidity Reserves (SLR).

Cash in Hand

It is the amount of money that a bank keeps in their custody to meet the customers' withdrawals, loan requests from members and to pay for the other obligations. Cash is usually needed in banks to meet the immediate

requirements of depositors and borrowers. Banks are to keep a minimum of 3 percent of their demand and time liabilities in the form of liquid cash. Obviously, it does not give any yield to the organisation.

Cash Balance with Other Banks

These are the amounts maintained by UCBs in the current accounts, call deposits and fixed deposits with District Central Co-operative Bank (DCCB) and State co-operative Bank (SCB). Deposits with DCCB and SCB are reckoned for the purpose of cash reserve (current account only) under section 18 and liquid assets (all types of deposits) under section 24 of the Banking Regulation Act 1949 (as applicable to co-operative societies).

Liquid assets

Liquid assets are assets like cash in hand; balances and deposit with other banks and money at call and short notice.

Investments

According to section 24 of the Banking Regulation Act, an Urban Co-operative bank, with a demand and time liability (DTL) of Rs. 25.00 crore or more should invest a minimum of 15 percent of the liquid assets in government and other trustee securities. All the banks whose DTL is less than Rs. 25 crore are required to invest in government and other trustee securities a minimum of 10 percent of the net demand and time liabilities.

Loans and Advances

The loan portfolio of UCBs comprises mainly of short-term loans such as cash credits, overdrafts and bills discounted given to individuals and medium-term loans and long-term loans advances to members against tangible securities and personal securities.

The loan policies of the UCBs are usually laid down in their bye-laws in compliance with the directives of RBI.

Short-term loans and advances

These are loans sanctioned for a period less than one year.

Medium-term loans and advances

If the period of the loan sanctioned is more than one year but less than three years, the loan is termed as medium term loans and advances.

Long-term loans and advances

If the period of the loan sanctioned is more than three years, the loan is treated as long-term loans and advances.

Fixed Assets

These are investments made by urban co-operative banks to acquire assets (capital expenditure) such as premises to house their office, furniture and fixtures, office appliances, vehicles etc.

Other Assets

Other assets of urban co-operative banks consist of, interest due on loans and advances, interest due on reserve funds and miscellaneous receipts from various other accounts. These assets are also of the non-earning category.

Earning Assets

These are assets like loans and advances, investments, etc. that generate income for the bank by way of interest, dividends, etc.

Working Capital

Working capital of UCBs is defined as the sum total of owned capital and borrowed funds less investment made in fixed assets.

A flow chart of loan - credit management is given below to understand the steps in the lending and recovery process.

FLOW CHART FOR LOAN-CREDIT MANAGEMENT

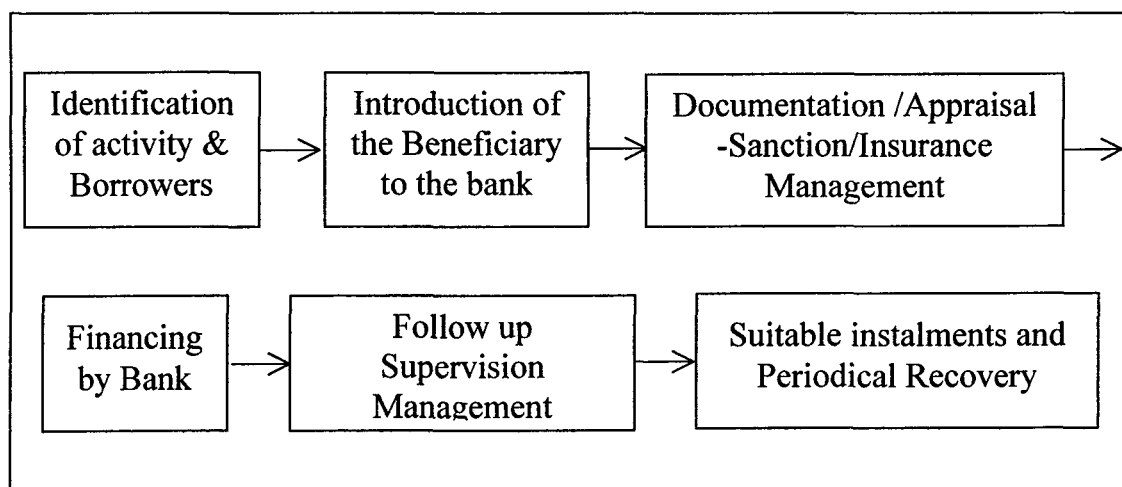


Chart 3.2: Flow chart of loan – credit management

Credit - Deposit Ratio

Credit - deposit ratio indicates the total amount of loans and advances given in relation to total deposits collected by the UCB. It indicates the management's alertness to improve the income of the bank. Higher ratios indicate larger deployment and to a large extent, it is a sign of effective utilization of available funds.

Asset- Liability Management

It refers to management of a bank's assets and liabilities to maximize long-term wealth for the bank's shareholders. It deals with achieving, on an on going basis, the optimum size and composition of banks assets, liabilities and capital. A balanced asset liability combination ensures maximum growth and profits to the bank commensurate with its level of risk and liquidity.

Asset Liability Management (ALM) is defined as the process of adjusting bank liability to meet loan demands, liquidity needs, and safety requirements. It is a philosophy under which banks can target asset growth by adjusting liabilities to suit their needs. It involves matching of short-term

liabilities with short-term assets, medium-term liabilities with medium-term assets and long-term liabilities with long-term assets. The asset -liability management committee normally coordinates all these activities.

Assets

Assets are things of value owned by a business or individual that has commercial, exchange or book value. Assets may be tangible (physical in character) such as land, buildings machinery or intangible (characterized by legal claims or rights) such as amounts due from customer and patents. The assets of UCBs are the sum of funds deployed in different avenues.

Asset management

This involves the management and control of asset maturities and rates to achieve banking goals of safety, liquidity and profitability.

Liability

The liabilities of UCBs are the amounts owed by them. They are sources of finance, such as deposits, borrowing, share capital etc.

Liability management

It means the management and control of liabilities to optimize banks earnings with out excessive risk or liquidity exposure. A proper liability management ensures co-ordination and control of a bank's sources of funds so that the funds are available at reasonable cost.

UCBs are yet to introduce asset liability management technique, in the scientific sense, in their regular operations. The details in this regard are as follows:

Objectives of ALM

- Prudent management of funds through the analysis of the current sources of funds and its estimates for short and long terms to ensure adequate liquidity of banks
- Analysing maturity profile of different types of assets and liabilities.

- Improve profit through effective management of interest spread including cost and returns.
- Assessment and management of risk factors associated with assets
- Strengthen the solvency of banks by fulfilment of capital adequacy norms etc.

Levels of Objectives of ALM

Levels of objectives of ALM can be classified broadly in to two as Business objectives and Process objectives⁷⁰.

Business objectives are:

- a) Maximising solvency through reserve efficiency
- b) Maximising surplus in balance sheet
- c) Maximising asset yield and
- d) Maximising balance sheet size.

Process Objectives are:

- a) Matching the cash flow
- b) Addressing prudential limits

Areas of ALM

- 1) Interest spread management.
- 2) Liquidity gap management.
- 3) Interest risk management

Interest spread management

Interest spread is the difference between the interest income and interest expenses. Major factors affecting the volume of spread are deposit mix, credit mix, rate of interest, credit-deposits ratio, level of non-performing assets, level of cash reserve ratio, amount of over dues etc.

Liquidity gap management

Liquidity gap occurs in banks due to cash flow miss-matches or maturity miss-matches. Grouping of asset and liabilities under different maturity time buckets helps to know the future cash flows of the bank. A maturing asset will be a cash inflow to the bank and maturing liability is cash out flow. Liquidity gap may be negative or positive. The negative gap can be managed by resorting to borrowings from other financial agencies. The positive gap implies surplus funds and may be used to repay earlier borrowings or deployment in other alternative avenues.

Interest risk management

These are risks arising out of changes in the interest rates caused by the intervention of the RBI. UCBs are given operational freedom to price their loans and deposits. The interest rates on term deposits are fixed at the time of accepting deposits. The loans and advance portfolio is mostly floating and their rates are determined according to terms and conditions of loans. This helps the bank to re-price the loans and advances portfolio favourably. Interest gap analysis measures the mismatch between rate sensitive assets and rate sensitive liabilities.

Risk

In statistical terms risk is the degree of variability or volatility of possible outcomes over time. In financial terms risk is associated with the loss that is expected to be incurred due to the happening or non-happening of a certain event. In finance theory risk is the dispersion of expected outcomes due to movements in financial variable⁷¹. In short, risk means an uncertainty with known probability.

Risk analysis provides a means of exploring the trade-off between risk and return.

Quantification of Risks

To measure the risk, the information required are the probability of an event to occur and its consequence. Accordingly risk is the product of the probability of an event and the consequence of that event. The probability varies from zero to one (from experience, analytical power and intuition, probabilities can be assigned). Consequences are subjective and the magnitude of loss will vary from institution to institution. As far as banks are concerned it may be in the form of fall in spread and interest income or increase in burden, increase in non-performing assets, etc.

Credit Risk

Credit risk is potential loss that a bank may be subjected to because of the inability of a borrower to meet his obligation or fail to pay their obligations as per contracted terms. Credit risk arises when parties to a contract do not fulfil contractual obligations. The amount of NPAs explicitly measures the credit risk in lending. Its effect is measured by the cost of replacing cash

flows if the borrower defaults. So the banks are to identify their defaulters, measure the intensity of default and fix the rate of interest accordingly.

Management of Credit Risk

Credit risk has two components namely: the 'quantity risk' or default risk and the 'quality risk' or severity of losses. It is the combined outcome of (a). Default risk (b). Exposure risk and (c) Recovery rate. The combined effect of all these three contributes to the credit risk of a bank.

Expected Loss

Expected loss is the money that the bank is expected to lose on account of credit risk. If payments are received regularly and contractual rate is equal to expected rate of return, the expected loss in lending is equal to zero. In all other cases, banks have to price their loans over and above the expected returns. It is a function of credit exposure (balance of loans outstanding) and default rate (which is 1 - recovery rate) and probability of default.

The formula for measuring credit risk (expected loss) is as follows:

$$EL \text{ (Expected loss)} = P \times X \times (I - R)^{72}.$$

Where P = Default % i.e. the Probability of the event of default.

X = Exposure Value (balance of loans/credit outstanding)

R = Recovery Rate (%).

The quantity of credit risk manageable to bank is a subjective topic. Zero risk is attained by total abstinence from lending. At the other extreme, accepting every loan proposal would mean exposure to maximum risk. In between are cases where banks lend funds at interest rates which are to be

fixed, on the basis of the level of risks. To manage a credit risk, the loan pricing is one of the measures.

Credit risk can also be managed by using the conventional methods of diversification (distribution of the risk by taking exposure to different types of borrowers) and through asset securitisation, such as credit derivatives, factoring and forfeiting.

While pricing a loan three things need to be quantified namely, cost of funds, overhead cost, and credit risks. Banks are able to quantify the first two factors based on historical data. Therefore in order to effectively price the assets they need to quantify the credit risk factor.

Credit risk can be managed through appropriately pricing the loan portfolio. Different types of loans to different borrowers are to be priced according to the element of credit risk. A credit with low risk and strong financial position is to be priced at a lower rate in relation to loans with high risks. Hence pricing of bank products (loans and advances) is primary in asset liability management.

The credit risk of the loan portfolio of selected UCBs was measured by computing ratios such as incremental net NPAs to opening gross advances, net NPAs to equity, NPA to owned funds, NPA to total assets, net NPA to total advances, and net income to net NPA.

The most important factor affecting cost of funds is the deposit cost. For maintaining the deposit accounts, the UCBs do not charge anything from their customers. In the case of demand deposits, (the interest cost is zero) the cost is the indirect expenses such as administrative costs and portion of identified overheads. For saving deposits and fixed deposits, the actual cost is the explicit interest paid to the depositor plus the indirect expenses such as

administrative costs and overheads identified to that account. Therefore the cost of the deposit is the sum of the interest earnings to the depositor plus service charges. Reserve requirements are also key factors in evaluating the relative cost of various types of deposit accounts of banks.

Pricing loans and advances

Banks are able to price the loans and advances by taking in to account the effective cost of funds, expected loss in lending and unexpected losses that are likely to arise in future.

$$\begin{aligned} \text{Risk adjusted rate of return} &= \text{Expected rate of return} + \text{Expected losses} \\ &+ \text{Unexpected losses} \end{aligned}$$

$$\begin{aligned} \text{Where Expected rate of return} &= \text{Effective cost of funds} + \text{Administrative cost} \\ &+ \text{Margin for profit.} \end{aligned}$$

Effective cost and administrative cost are ascertained from historical data.

Calculation of effective cost of funds of UCBs

It is determined by taking the account, the proportion of each source of funds to the total funds, rate of interest to be paid on each, the cash reserve ratio to be maintained and idle cash (excess cash balance) with the UCBs.

For this purpose, the sources of funds are divided into current deposits, savings deposits, fixed deposits, borrowing and other liabilities (including owned funds). The interest rate payable on each source (%), service cost applicable (%), cash reserve ratio to be maintained (%) and idle cash (%) in each group are also estimated.

534-6275003 FR/S
NB 4918

The effective cost of each source and the overall cost (weighted cost) of funds is determined at two levels as follows:

1) Cost of each source

$$C_i = [\text{Percentage of each source of funds to total funds}] \times \frac{[\text{interest cost (\%)} + \text{servicing cost(\%)}]}{[100 - \{\text{CRR (\%)} + \text{idle cash (\%)}\}]}$$

2) Effective cost or weighted cost of funds $C = \sum_{i=1}^N C_i$

- C = Effective (weighted) cost of funds
- C_i = Cost of each source of funds
- i = the different sources from 1 to N.

The effective cost of funds of the three groups of the UCBs was calculated by using the proportion of each source to total sources of funds, rate of interest paid on each (prevailed during respective periods), CRR (3%) and average idle (excess) cash kept by them.

Recovery rate

Recovery rate (r) is the percentage of principal and interest that can be recovered normally or legally. The recovery rate can be calculated from the past data considering the actual percentage of NPA, actual write off on account of NPA and unrealised interest.

$$\text{Recovery rate} = \frac{U1 + P + W0}{OL + W0}$$

Where U1 = cumulative unrealised interest balance

P = cumulative net provision (percentage of net NPA)

W0 = cumulative write off of loans (amount charged to profits)

OL = outstanding gross loans

Probability of default

The probability of default can be identified with the re-grading of loans (as per the crediting chart) and the historical repayment behavior of that grade of loans.

Model of repayment behaviors of borrowers

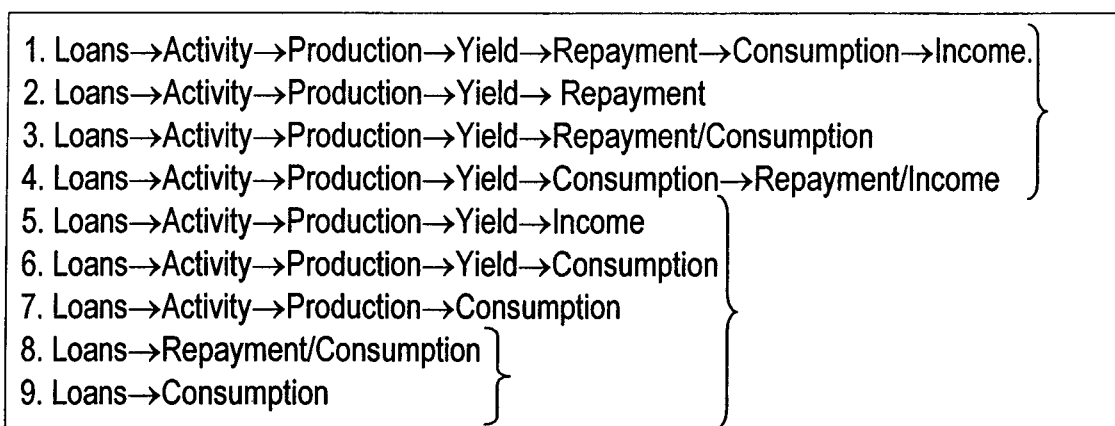


Chart 3.3: Model of repayment behaviors of borrowers

The different link relationship behaviour has varying levels of repayments. A customer with a will to repay the loan will be from 1 to 4 and others including a purposive defaulter will be from 5 to 9. Links from 5 to 7 are though defaulters, their position is different from link 8 and 9. 5 to 7 categories are not wilful defaulters. The fifth category is using the earnings for future income generation. They are more of business/income oriented. The sixth class has no other source to live other than the yield from production. Hence the income might have been used for consumption. The seventh link represents customer who never bothers about, but, for production and consumption.

The last two types are high potential defaulters. They never go for income generation. The loans availed may be used either for repayment of earlier loans or for consumption. A careful analysis of these factors helps the banks to avoid customers in the potentially high default category.

Liquidity

Liquidity is the state of ability of a UCB to meet its current obligations. It is the quality that makes an asset convertible into cash readily and quickly.

Liquidity risk

It is the risk of loss due to inadequate liquidity. It may arise when a bank is unable to acquire the required funds in the market at reasonable cost.

Liquidity risk arises when there is a mismatch in the pattern of assets and liabilities. The imbalance between the maturities of borrowing and lending and investment exposes banks to liquidity risk.

Measurement of liquidity risk

The liquidity of banks can be measured by using static approach⁷³ on the basis of ratio analysis or by dynamic approach such as the working fund approach and the cash flow approach.

The liquidity risk analysis of UCBs is made in the study by using ratios that help to measure liquidity in the Balance sheet.

Maturity wise Asset-liability classification

As per cash flow approach, assets and liabilities are classified on the basis of their maturity pattern. The cash flow and the net deficit or surplus (difference between cash in-flows and out-flows) in each 'bucket' is ascertained on the basis of maturity pattern.

The assets of banks could be classified on the basis of their maturity pattern into short-term, medium-term, long-term and permanent (or fixed assets).

Short - Term Assets (cash in hand, cash with bank, short-term loans, deposit with banks and other assets) - A1

Medium -Term Assets (investment in government/others medium-term loans) - A2

Long -Term Assets (long-term loans) - A3

Fixed assets (land, building, etc) - A4

Based on the cash flow approach, the liabilities of the banks are classified as short-term liabilities (less than one year), medium-term liabilities (1- 3 years) and long-terms liabilities (above 3 years) and permanent liabilities (capital and reserves).

Short-Term Liabilities (demand deposits, borrowings, other liabilities and 30 % of saving deposits) - L1

Medium-Term Liabilities (70% of savings deposit) - L2

Long-Term Liabilities (fixed deposits) - L3

Permanent Liabilities (share capital, reserves, profit) - L 4

Maturity wise pattern of assets and liabilities and gap analysis

Based on future cash flows of banks, RBI has identified and suggested the time 'buckets' for classification of assets and liabilities as shown in table 3.1.

Table 3.1

Maturity wise pattern of assets and liabilities and gap analysis

Maturity time buckets	Assets	Liabilities	Gap
1 to 14 days	A1	L1	G1
15 to 28 days	A2	L2	G2
29 days to 3 months	A3	L3	G3
Over 3 months to 6 months	A4	L4	G4
Over 6 months to 12 months	A5	L5	G5
Over 1 year and up to 3 years	A6	L6	G6
Over 3 years and up to 5 years	A7	L7	G7
Over 5 years	A8	L8	G8

The total assets of a bank at any time period is the sum total of assets in each time bucket (A1 to A8) and total liabilities are the sum total of all

liabilities in each 'bucket' (L1 to L8). A maturing asset will be a cash inflow and maturing liability cash out flow.

The difference between assets and liabilities at a particular time bucket is called Liquidity Gap (G). The value of G may be positive, negative or zero depending on the asset-liability position. G, if is positive, the cash inflows are more than cash outflows during that time horizon which the bank can deploy in profitable source. If gap is negative, cash inflows are less than cash out flows and is a situation of ill liquidity, which the bank is to manage by resorting to borrowings from other financing agencies.

The mismatches during 1 to 14 days and 15 to 28 days in normal course may not exceed 20 percent of each outflow in each time bucket.

If cash inflow is equal to cash outflow, gap is zero and the bank is said to be equally funded. If cash inflows are greater than cash outflows the surplus need to be deployed to avoid excess liquidity, which may affect the net income and profitability.

Non-Performing Assets

An advance or a loan or an asset, which ceases to generate income, is called a non-performing asset. In other words when a party could not pay interest and /or instalments on a loan, which remain past due for two quarters of a year, then it becomes non-performing loan.

The definition of non-performing assets drawing on the norms of Income Recognition, Assets classification and the Provisioning requirements in the Indian banking sector has been developed during the post reform era, as a follow up of the recommendations of the Narasimham Committee on economic reforms. This concept came in to effect from April 1992 when RBI introduced prudential accounting standards for banks. It is to ensure safety, soundness, transparency and accountability.

The prudential norms of income recognition, asset classification, provisioning and capital adequacy, which were made applicable to commercial banks since 1992 were also made applicable to State Co-operative Banks and District Co-op Banks from 1996-97 and to SCARDBs / PCARDBs from 1997-98.

An advance or a loan is considered as NPA where, on the balance sheet date, in respect of loan or advances

- 1) Interest and / or instalment of principal remains due for a period of more than 180 days in respect of a term loan.
- 2) The account remains “out of order” for a period of more than 180 days in respect of an over draft, cash credit.
- 3) The bill remains overdue and unpaid for a period of more than 180 days in the case of bills purchased or discounted.
- 4) Interest or/and instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agriculture purpose; and
- 5) Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

Monetary and credit policy (2001-02) announced that, after March 31,2004, instead of the present 180 days norm, the system would move to a 90 day norm for NPA classification, with a view to moving towards international best practices and ensuring greater transparency. But RBI via letter UDB. PCB. Cif. 17/ 13. 04 .00 / 2004 - 05 dated 04 September, 2004 intimated the UCBs that the 90 day loan NPA norm will be applicable to gold loans and small loans up to Rupees one lakh with effect from the financial year ending on March 31,2007. Till then, they will be governed by the 180-day norms).

The provisioning norms for different asset classes vary with a general provision of 10 percent for total outstanding for ‘substandard’ assets; 20-50 percent for assets in the ‘doubtful’ category, (depending up on the duration);

and 100 percent for 'loss' assets that are permitted to remain on the books and not entirely written off.

NPA can also be classified into two groups as Gross NPA and Net NPA. Gross NPA refers to the percentage of bad loans on the total advances. Net NPA is calculated by deducting from gross NPAs (i) balance in the suspense account (ii) part payment received and kept in the suspense account and (iii) total provision held.

Profitability

Profitability measures the ability to make profits or earnings. It is determined by management's success in achieving earnings spread between the amount of loan and investments (assets) interest the bank receives and the amount of interest it pays for its deposits and borrowings (liabilities).

Return on assets

It is a profitability ratio, which is equal to net income divided by average total assets.

Interest

The amount paid by a borrower to a lender in exchange for the use of the lender's money for a certain period is interest. Interest paid on loans and advances by borrowers and on investments in debt security is interest income. Interest paid to depositors and for borrowings is interest expense.

Interest spread / Interest margin / Net interest

It is the difference between the interest income and interest expense.

Burden

When manpower expenses and other operating expenses are higher than the income, the difference is called burden.

Spread –Burden- Profit Relation ship

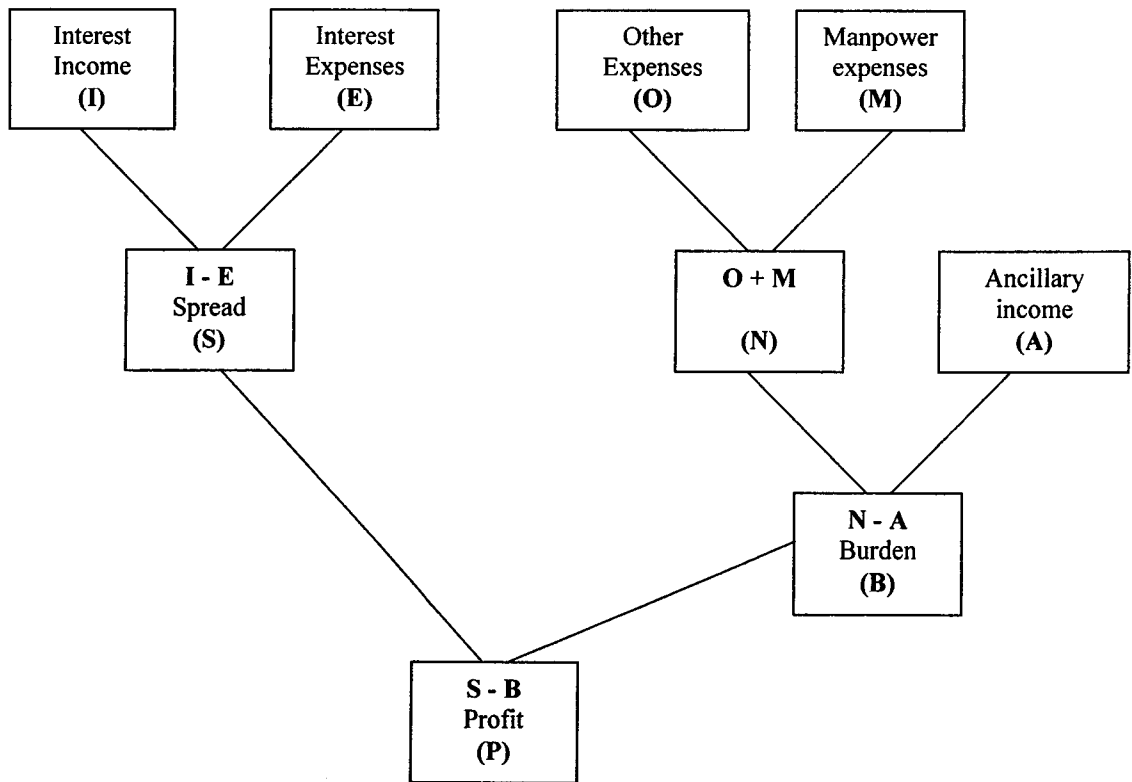


Chart 3.4: Spread – Burden – Net profit relationship of UCBs

Non-interest expenses

Staff salaries and allowances and other expenses constitute non- interest expenses.

1) Net profit ratios

These ratios measure the level of net profits of the selected banks with total assets, loans and advances, working capital, earning assets, per employee etc.

2) Operating profit ratios

They measure the level and distribution of total operating cost of the banks, particularly the expenses related to staff and management cost. The ratios used here are - operating expense ratio, operating expense to operating

income, establishment expenses to operating expenses, interest expense to operating expense.

3) Interest margin ratios:

These ratios measure the rate of return on earning assets. The banks efficiency in generating income, management of overheads and need for generating non-interest income are also identified from this. These are in fact the key monitors of financial health and indicate the necessity of adequate returns to maintain the flow of funds.

Conclusion

The review of literature given in the first section provides an idea about the various studies related to the topic and the relevance of the topic in the present time.

The conceptual framework provides a theoretical background and context for analysis.

The next chapter presents a detailed analysis of sources and uses of funds and their deployment by the sample UCBs.

References

1. Cohen, K.J. Hammer F. S., Linear and Optimal Bank Assets Management Decisions, *Journal of Finance*, 31 (5), May 1967, p.147-65.
2. Weight, George Dale, *The Development and Applications of Demand Deposit Costing Model*, (1970),
3. Walker, Michael Clande, *Deposit size, Deposit Mix and Commercial Bank Assets Portfolio Competition*, Ph. D Thesis, Houston University, 1971.
4. Pancras, The funds management in co-operative banks”, *Indian Co-operative Review*, 15 (4), July 1978.
5. Goyal, M.K, Deposit Mobilisation by Apex Co operative Banks in India, *Indian Co-operative Review*, XVII(1), October 1979. pp. 13-17.
6. Venkiteswaran, S., *Performance of Co-operative Banks in Kerala A study on the Operational efficiency of Primary Agricultural Co-operative Societies (PACS) in Kerala*, Ph. D Thesis, University of Kerala. 1984.
7. Singh, *Financial Analysis for Credit Management in Banks*, 1985.
8. John, Winfred A., Funds Management in Co-operatives, *Journal of Co-operation*, Tamil Nadu, 27(8), February 1986.
9. Auralandam and Namasivayam, Deposit Mobilisation by District Central Co-operative banks – A Challenging Task, *Journal of Co-operation*, Tamil Nadu, 29(3), September 1987.
10. Patil, M.B., *A swot Analysis On Urban Co-operative Banks - Development Banks and Urban Co-operative Banks*, Rainbow printers, Coimbatore, 1987.
11. Hanumappa, H.G., *Development Banking, Urban Co-op Banks And The Urban Poor Some Conceptual And Implementation Issues”*, *Development Banks and Urban Co-operative Banks*, Rainbow printers, Coimbatore, 1988.
12. Marathe, L.S., *Management of Resources In Urban Co-operative banks*, 1988.
13. Bhoslae; Dangat, Repayment of Overdues of Medium Term Loans of Co-operative Society in Kolhapur District, *Indian Co-operative Review*, XXVI (3), January 1989.
14. Lakshmi Narayana; Adinarayana, An Appraisal of Repayment Capacity of Crop Loans in Co-operative and Commercial Banks in Kashkotta Panchayath Samithi of Visakhapattanam District, *Indian Co-operative Review*, XXVII (3) January 1990.

15. Chinnappa, Problems of District Co-operative Banks, *Indian Co-operative Review*, XXVI (3), January 1989.
16. Shivamaggi, H. B., Policy for Urban Co-operative Banks: Need for New Approach, *Economic and Political Weekly*, 26(45), 1991, p. 25-56.
17. Sadare, A. M., A Comment on Viability Norms related to Urban Co-operative Banks, *Prajnan*, No,(22), 1993, p.53-56.
18. Thampan, M. R., *Role of Co-operative Banks in the Upliftment of the Poor*, Ph.D. Thesis (Manuscript), University of Kerala, 1994.
19. Resource Mobilisation and utilisation –A study with reference to Central Cooperative banks A. John Winfred (page) Encyclopaedia of Co-operative Management –3, p.53.
20. Rao, Thirupathy V., Financial Management of District Central Co-operative Banks in Andhra Pradesh, *Indian Co-operative Review*, XXXII (4), April 1991.
21. Toomkuzhy, T. J., Professionalisation of Management in Co-operatives, *The Co-operator*, XXXII (11), May 1995.
22. Shafiqur Rahman, A.F.M., *Management of Co-operative Banks in Bangladesh – A Study with reference to the role of primary credit societies in Agricultural Development*, Unpublished Ph.D. Thesis, University of Calicut, Kerala, 1996.
23. Jagannatha Mishra, Union Minister for Agriculture, while addressing the General Council Meeting of the National Co-operative Development Corporation, held on March 25 1996.
24. Kshatrapati, Shvaji, *Strategic Management in Co-operative banks- A case study of Kerala, State Co-operative Bank*, Ph. D Thesis, 1996, University of Kerala.
25. Rangarajan, C, Growth of urban Banks: Some issues, *Reserve Bank of India Bulletin*, 51 (10), 1996, p. 783-785.
26. Capital Adequacy Norms & Urban Co-operative Banks, *Urban credit*, XXII. (4), December 2000, p13.
27. Roy, A. K., A.P.Vardhaman (Mahila) Co-operative Urban bank: A case study in Women Entrepreneurship”, *Urban Credit*, XXI (3), September 1999.
28. Sisodia, “Revitalisation of Co-operative Credit Institutions”
29. Venugopala Rao, Funds Management In Co-op Banks- Need For New Approach, *Journal of Co-operation*, Tamilnadu, July, 2001.

30. Amardeep Walia, Funds Management In Central Co-operative Banks-A case study of the Jalandhar Central Co-operative Bank Ltd., *Co-operative Perspective*, 37 (4), Jan-March 2003, p. 44.
31. Prabal, K. Sen, Urban Co-operative Bank in India: past, present and Future, *Co-operative Perspective*, 2002.
32. Satheesh Chandran, S., *Management Of Co-operatives in Kerala with Emphasis On Primary Credit Societies*, Ph. D Thesis, Kerala University, 2002.
33. Amardeep, Walia, Funds Management in Central Co-operative Banks – A Case Study of the Jalandhar Central Co-operative Bank Ltd, *Co-operative Perspective*, 37 (4), Jan Mar 2003.
34. Sivachithappa, K., UCBs in the Contest of Economic Liberalisation, *Journal of Co-operation*, Tamilnadu, May 2003.
35. Subash, T., Strategic Management for Co-operatives, *Co-operative Perspective*, 37 (4), March 2003, p 1-5.
36. Maasali, S. S., Performance of Co-operative banks: A study of Co-operative Urban banks in Belgaum, *Indian Co-operative review*, July 2004, p. 66.
37. Fery, Thjomas Lee, *Optimal Asset Liability Decisions for a bank : Application of Multi period Linear Programming*, Ph. D Thesis, Urbana Champaign University of Illinois.
38. Sarkar, Subash Chandra, Overdues of Co-operative Financial Institutions, *Journal of Indian Institute of Bankers*, 45 (3), 1974.
39. Rao, Desnga N., Co-operative credit movement in Andra Pradesh, *Indian Co-operative Review*, XIV, April 1977, p.229-240.
40. Pandey, U. K.,;Muralidharan, M.A., Socio-economic Factors influencing the Overdues in Co-operative Credit Societies, *Indian Co-operative Review*, XV (2), 1978.
41. Promila, Goel The Menacing problems of over dues in Co-operatives, *Indian Co-operative Review*, XXI (3), January 1983, p.260-293.
42. Reddy, C.R., *Overdues Management in Co-operative Banks*, Himalaya Publishing, New Delhi, 1993.
43. Donald, E. Fischer; Ronald, J. Jordan, *Security Analysis and portfolio management* , Prentice Hall India Private Limited, 1993, p.637-665.
44. Dash, N. K. A practical Guide For UCBs on Income Recognition: Asset classification Norms & Reduction of NPAs, *Co-operative perspective*, July-September 1997, p.1.

45. Puyalvannan, P, A Study of Overdues, Recovery performance and erosion of funds in Central Co-operative Banks, *Co-operative Perspective*, July September 1997.
46. Vasant, C.Joshi; Vinay, V. Joshi, (Paul S. Nadler), *Managing Indian Banks -The Challenges Ahead*, 2nd ed., Response Books, Sage Publications. India Pvt. Ltd., New Delhi, 1998, p.226.
47. Asset Liability Management: A Task to Mandate, *Urban Credit*, XXI (3), Sept 1999, p. 31-37.
48. Pandnis, S.G., NPA Management: Experience of Co-operative Banks, *Urban Credit*, XX (1), March 1999, p.29-33.
49. Gerald, O. Hatler, *Bank investments and Funds Management*, Macmillan, Delhi, p.30
50. Recovery-The Life Line of Co-operative Credit Institutions–An Experience of Kanara DCC Bank, Sirsi, Karnataka” *National Seminar on Best Performing Co-operative Banks*, conducted by NABARD at New Delhi, 199 May, pp. 98-105.
51. Trivedi, A K, Asset Liability Management: A Task to Mandate, *Urban Credit*, XXI. (3), September 1999, p.31.
52. Murthy, G.R.K., Branch Level of NPA-Credit Monitoring, *Vinimaya*, (4), 1999, 2000, p.10-20.
53. Managing Banks Through Balance sheet-A Theme for Planning, *Vinimaya*, XX (4), 1999-2000, p.5- 9.
54. Selvan, K.G.; Samwel, Kakuko Lopoyetum, A Study on Non-performing Assets Management in Dharmapuri Town Co-operative Bank- A Case Study, *Co-operative Perspective*, 34 (4), January-March 2000, p.45-55.
55. Sarker, A. N.; Hanamashetty, F. S., The performance appraisal of UCBs of Maharashtra to explore the possibility of diversification of lending portfolios, *Urban Credit*, XXVI (1), March 2002, p.7-14.
56. Samal, B., The NPA Overhang: Magnitude, Solution and Legal Reforms, *Vinimaya*, XXIII (3), 2002-03, p.12-17.
57. Sarkar, A.N., *Urban Credit*, XXV (4), Quarterly. December 2003.
58. Kausick, Saha, Can the Ordinance Recover NPAs?, *Management Review*”, IIMB, Bangalore, 15 (1), March 2003, p.19-27.
59. Shivaprasad, V.V.S., Advantage Customer, *Vinimaya*, XXIII (4b), Jan-Mrch 2003, p.33.
60. Dharmarajan, S., Implementing Asset-Liability Management (ALM) System in Co-operative Banks, *Vinimaya*, September 2004, p.21-27.

61. Gupta, Cost Benefit Analysis of Services provided by Commercial Banks, *The Chartered Accountant*, XXIX (9), March 1981.
62. Ojha, P.D., Speech delivered at Fourth All India Conference of Urban Co-operative Banks and Credit Societies, *Reserve Bank of India Bulletin*, 40 (11), 1986, p. 693-96.
63. Krishnan Namboothiri, K., *A Study on the Co-operative Banking System in Kerala*, Ph.D. Thesis, Cochin University of Science and Technology, 1987.
64. Sudhakaran, *Performance Evaluation of Urban co-operative Banks in Kerala*, Ph.D Thesis, University of Calicut, Kerala, 1996.
65. Ramesh, B; Patel, M.R., Growth of UCBs in Goa, A Time Series Analysis, *Co-operative perspective*, July-Sept, 1997, pp.60-66.
66. Dash, D. K., Funds management: Prime Agenda before Urban Co-operative management Banks, *Urban Credit*, XXII (3), September 2000.
67. Chhabra, T. N., *Banking Theory and Practice*, Dhanpat Rai & Company, Delhi, 2003, p.1-2.
68. Jain, S. C; *et al.* Practice o& Law of Banking, New Heights, *Urban Co-operative Bank*, New Delhi, 1985-86, p. 2-3.
69. *RBI Circular* No. UBDI & L-3/ J.1-92-93 dated 09-02-93.
70. Mishra, K.C.A, Clinical Approach to Asset liability management, *A SCI Journal of Management*, 29(1), 1999, p.1-8.
71. Amaranda, Mohan, Risk, Credit Risk and Market Risk – a Conceptual Paradigm, *Journal of Indian Institute of Bankers*, 72(4), 2001, p.3-13.
72. Murthy, G.K.R., Credit Risk – Management in a Market Driven Economy: The Acid Test for Banks, *IBA Bulletin*, March 2001, p.105.
73. Bhasker; Vijay *Liquidity risk management*, Banker's training College, Mumbai, 2000, p.4-6.

FUNDS MANAGEMENT IN THE UCBs

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter Four

FUNDS MANAGEMENT IN THE UCBs

FUNDS MANAGEMENT IN THE URBAN CO-OPERATIVE BANKS

Like any other bank, mobilisation and deployment of funds are, in fact, the two vital functions of the UCBs. Therefore an attempt has been made in this chapter to examine these two functions in detail in two sections. Section one analyses the mobilisation of funds and the second section discusses the deployment of funds.

Urban Co-operative Banks are co-operative banks, which work in urban areas and controlled by the Reserve Bank of India. They operate in competition with other banks and financial institutions. These banks accept deposits from customers who want the safety and convenience of deposit services and the opportunity to earn interest on their savings. They put depositor's funds to profitable use by lending and investing.

Managing funds is the art of raising resources and utilising them in the most efficient and profitable manner so that the bank's long term survival is assured. Funds management is of great significance in all types of business organization. It is of utmost importance in banks, whose business is dealing in funds.

The profitability of a bank is determined by management's success in achieving an earnings spread between the amounts of interest the bank receives on loans and investments (assets) and the amount of interest it pays for its deposits and borrowings (liabilities). This can be determined by examining balance sheet and income statement of banks.

Banks are to strike a golden mean between liquidity and profitability while lending and investing their funds. They have constraints in raising and investing funds. In India, RBI controls the banking industry in order to protect the interest of depositors and to ensure stability and development through its directives, guidelines and regulations.

Possibility of getting stable and low cost funds depends upon bank's size, location, and local and national economic conditions. In certain cases, banks may have adequate and relatively stable sources of low cost funds. If the availability of fund is short, the banks may have to compete regularly and aggressively for funds even at high market rates.

To generate sufficient profits on a sustained basis, funds are to be properly managed. The two aspects of funds management are (a) mobilisation of funds and (b) deployment of funds.

SECTION ONE

SOURCES OF FUNDS IN THE UCBs

The Urban Co-operative Banks, like all other banks, have four major sources of funds for its business operations namely – share capital and reserves and surplus, deposits from customers and borrowings from other institutions. Within these basic categories, there are many funding instruments with varying maturities, costs, and applications.

OWNED FUNDS

The efficient function of an Urban Co-operative Bank is influenced by the amount of its owned funds. Owned funds reflect the financial strength and stability. Higher the amount of owned funds, lesser the need to borrow from outside agencies.

The owned funds of banks are available on a permanent basis and are not required to be repaid ordinarily. The cost of owned funds, unlike the borrowed funds, is not fixed or pre-determined.

SHARE CAPITAL

The most obvious purpose of capital is that it provides funds for creating fixed assets and other infrastructure necessary for the bank's business. The major purpose of capital in banking is three fold.

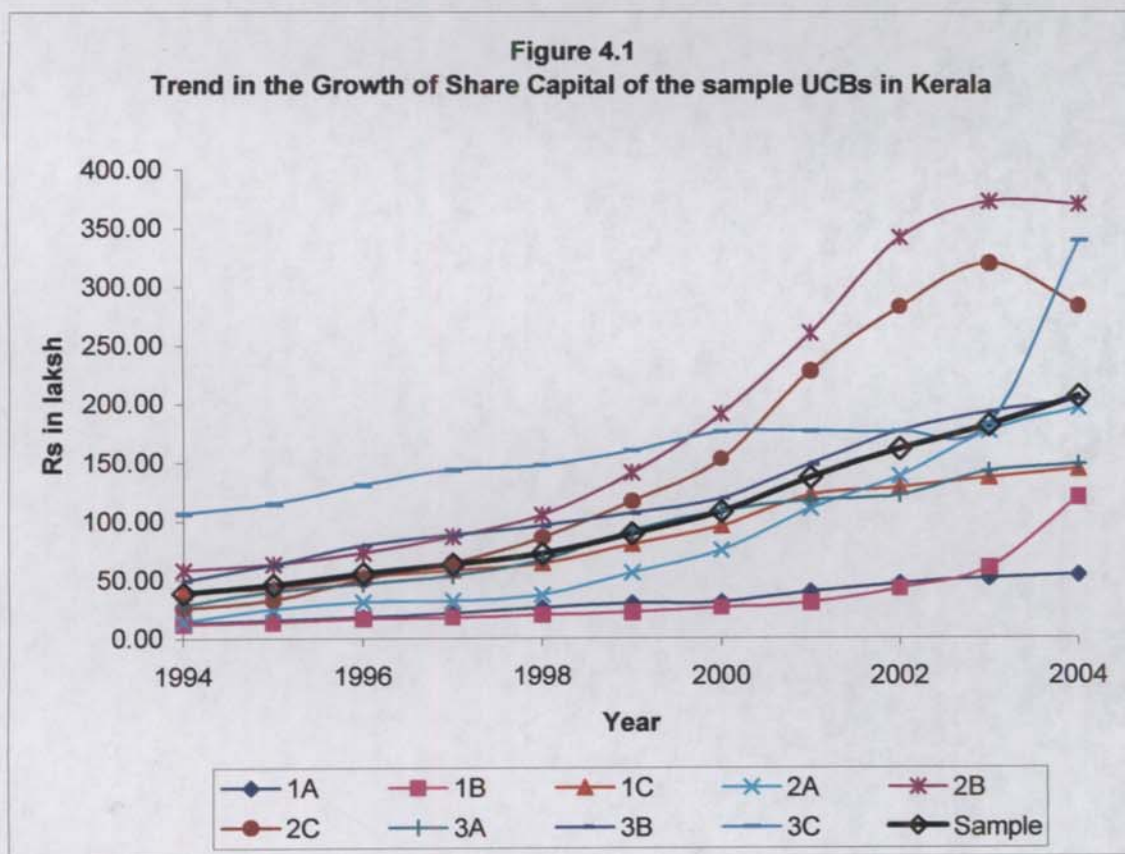
- (a) To ensure against bank's insolvency or failure by the losses in bank's loans and other assets.
- (b) To protect against temporary losses of liquidity; and
- (c) To ensure public confidence in the banks ability to cope with shifts in economic conditions that might lead to loan losses and ultimately sale of securities. The greater the capital cushion, the more a bank's ability to assume risk in long -term lending. In short, banks must have adequate capital to operate safely and profitability.

The UCBs issue shares to individuals and institutions to collect share capital. The shares of UCB's fall into two categories, namely, A and B. 'A' class

shares enjoy voting right while 'B' class shares, with nominal value, are issued for obtaining loans. Shares are issued to institutions like Central Co-operative Bank of the District, State Co-operative Bank, and to respective State Government where the bank is registered.

The UCBs are also having the policy of linking share holding with the loans and advances granted to their members.

The growth and trend in share capital of the sample UCBs in Kerala for the period between 1994 and 2004 are shown in table A.1 (Appendix) and in Figure 4.1.



Share capital of all the selected banks in the sample showed an increasing trend throughout the study period except for 2C and the average for the second group in the year 2004. In the first group, the compound annual growth rate (CAGR) was the highest for 1B (26.79 %) and the lowest for 1C. In the second group, it was the highest for 2A (26.79 %) followed by 2C (24.38 %). In the third group, CAGR was the highest for 3A (16.27 %) and the lowest was in 3C (11.04 %). Among the three groups the highest growth rate (21.67 %) was for the second group.

The share capital position of 3C was comparatively sound from the very beginning of the study period. Bank 2B and 2C made substantial progress during the period. These three banks were above the sample average throughout the period of study. Bank C was able to cross the sample average by 1997. 1A and 1B showed no significant improvement till 2003, but a sudden jump was observed in 1B in 2004.

In 1994 the amount of share capital was the highest for 3C (Rs. 107 lakh) which retained the position till 1999 (Rs. 159.81 Lakh). In 2000, it was the highest for 2B (Rs. 190.68 lakh) and was able to retain the position (Rs. 369.91 lakh) till 2004. In 2004 1A was able to mobilise only Rs 53 lakh. The average amount of share capital mobilised by the UCBs showed differences. To know the significance of the difference among the banks, ANOVA test was carried out. The result of the test is shown in table 4.1.

Table 4.1

ANOVA table of Share Capital

	df Effect	MS Effect	df Error	MS Error	F	p-level
Share Capital	8	33823.6	90	4836.204	6.993833	0.0000004

Since the 'p' value was less than 0.05 ($p=0.0000004<0.05$), it is inferred that the average amount of share capital raised by the UCBs in the sample showed marked significance

It can be observed from table 4.1 that that the first group performed poorly, second group more or less at par with the over all average in the first term of the study period (between 1994 – 1999) and well during the second term (between 2000 – 2004). The performance of the third group was fairly well through out the study period.

The average amount of share capital in the sample UCBs in the sample for the period between 1994 and 2004 is shown in table 4.2.

Table 4.2

Average Share Capital of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Share Capital to	
			Total Assets (%)	Owened Fund (%)
1A	30.99	13.64	2.79	36.61
1B	34.46	23.15	2.49	37.96
1C	87.42	12.3	3.01	29.11
Group One	50.96	15.44	2.83	32.13
2A	80.76	26.79	1.48	12.34
2B	187.3	18.33	2.98	24.62
2C	149.01	24.38	1.75	24.14
Group Two	139.02	21.67	2.06	20.52
3A	87.55	16.27	1.27	18.52
3B	119.9	13.81	1.79	16.06
3C	168.35	11.04	2.3	18.4
Group Three	125.27	12.75	1.8	17.61
All groups	105.08	16.44	2.03	20.37

Data presented in table 4.2 reflect the average share capital of the nine UCBs. The average share capital was the lowest for 1A (Rs. 30.99 lakh). The highest average amount of Rs. 187.3 lakh was for 2B. The growth rate (CAGR) was the highest for 2A (26.79%) and the lowest growth rate was for 3C (11.04%).

The percentage of share capital to total assets of these banks ranged between 1.27 and 3.01, whereas the percentage of their share capital to owned funds ranged between 12.34 (bank 3A) and 37.96 (bank 1A).

The average share capital of the UCB groups, as showed in table 4.2 above, made it clear that, the second and the third UCB groups had their share capital much above the sample average. For the first group, it was less than half of the average share capital of the sample.

The CAGR of share capital was higher for the second group, when compared to the growth rate of the sample (16.44%).

The percentage of share capital to total assets (Table 4.3) was higher for the first and the second group compared to the sample value.

The share capital to owned funds was also higher for the first and second group. Among the three groups, second group banks performed better, in share capital mobilisation and growth rate.

There is high positive correlation between share capital and loans and advances ($r = 0.931$); share capital and total assets ($r = 0.8810$). The correlation between share capital and membership was 0.559.

The average share capital of the sample UCBs stood at Rs. 105.08 lakh, which was 2.03 percentage of total assets, 20.37 percentage of owned funds and has been growing at the rate of 16.44 percent. The UCBs which has share capital less than the sample.

From the above analysis it is clear that the UCBs in Kerala differ widely in terms of their size of share capital and their growth rate. There was no uniformity as regards the contribution of share capital to total assets. Majority of the UCBs had only low amount of share capital.

The percentage of share capital to total assets was lower for those UCBs with higher amounts of share capital. There is a high positive relationship between share capital and total assets. The growth in share capital was less than the growth in reserve funds and growth in owned funds. This obvious conclusion leads to a fact that capital finds its way into infrastructure and not into investment.

The focus group discussion highlighted the need on the part of the UCBs to enhance the capital base as a part of the capital adequacy norms fixed by RBI. The UCBs were to create capital equal to 6 percent (now it is 9 %) or more of the risk weighted assets. If the minimum required were not met, such UCBs would be rated as weak or sick. To overcome this trouble, the UCBs had enhanced the face value of the shares already held by their members through byelaw amendment.

There was a high positive correlation between share capital and loans and advances.

Three points that require special mention are:

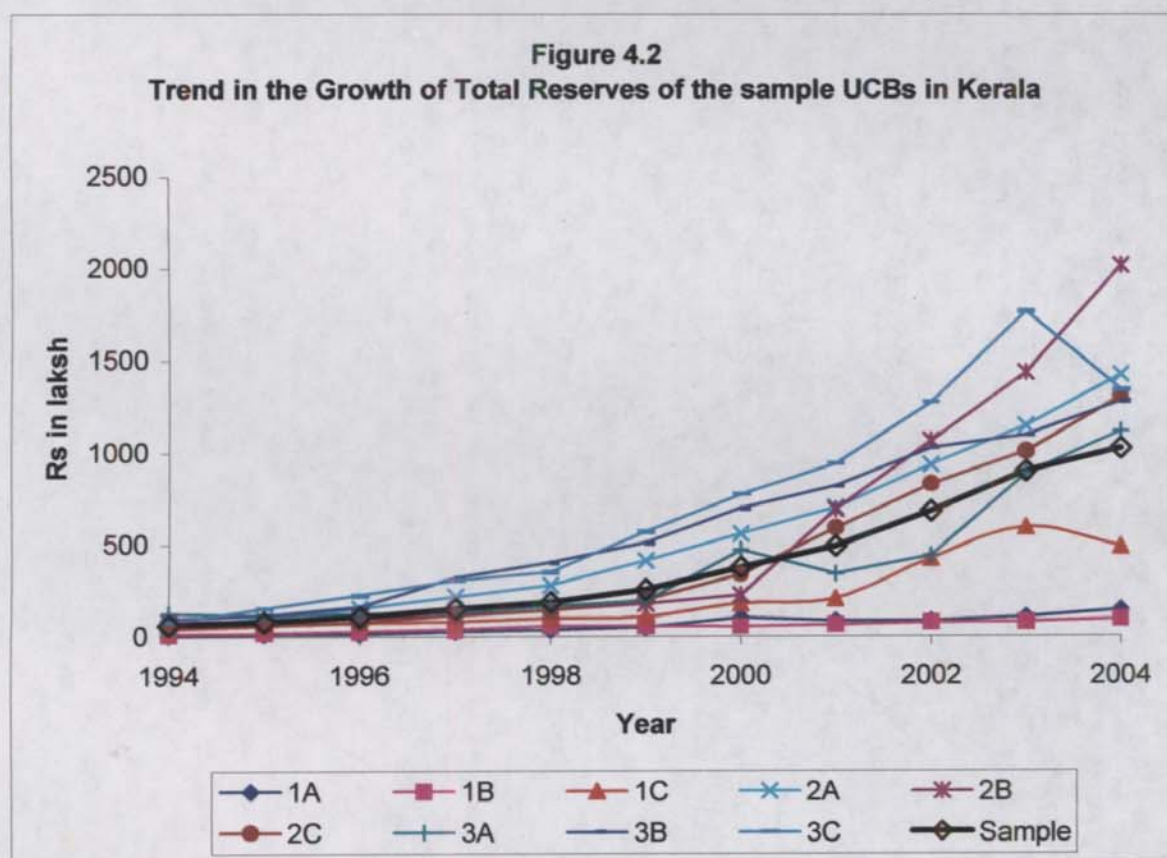
1. UCB's raised their share capital mainly by allotting shares to individuals by establishing a linkage between share capital and loans sanctioned.
2. Not much attention was paid by UCB's to enhance share capital according to growth in their total funds.
3. UCB's had not collected any amount as share capital from government or other agencies.

RESERVES AND OTHER FUNDS

Reserves and other funds is an important constituent of owned funds. These amounts are set aside to meet any adversities that may arise in future and are created every year out of profits. The creation of reserve increases the quantum of cost free deployable funds also.

The reserves and other funds of the UCBs include statutory reserves, bad and doubtful reserves, reserve for NPA, reserve for overdue interest, depreciation reserve, reserves for building fund, other reserves like dividend equalisation fund, provident fund, gratuity, common good fund etc.

Growth of reserves and other funds created by the sample UCBs is shown in table A.2 (Appendix) and figure 4.2.



It can be observed from table A.2 (Appendix) and figure 4.2 that there was a continuous growth in the amount of reserves and other funds of all the selected UCBs in the sample. But the growth rate was poor for 1A and 1B. The performance of 2A, 3B and 3C were better. Since 2001, 2B and 3A improved markedly.

The CAGR was the highest for 2A (34.13%), followed by 2B and 2C. The lowest growth was identified for 1B (18.04%). The CAGR for the second term (2000-2004) was higher than the first term (1994-1999), for all banks in the 2nd group, 1C, and 3A. The amount of reserve was the highest in 3A, in the year 1994.

The amount of reserves accumulated by the sample UCBs over the study period showed significant improvement. At the top, it was 2B, with a total of Rs. 2013.08 lakh, followed by 2A with Rs. 1419.17 lakh. At the tail end of the list, it was 1B with only Rs. 91.89 lakh. In the first group, the performance of 1A was poor during the first term of the study period and was able to excel 1B during the second term. In the other two groups, the banks were able to retain their position through out the period of study.

To study the significance of the difference between the average reserves and other funds of the selected banks in the sample, analysis of variance was performed. The result of the test was shown in the table 4.3.

Table 4.3

ANOVA Table of Reserves and other Funds of the Sample UCBs

	df Effect	MS Effect	df Error	MS Error	F	p-level
Reserve	8	613926.4	90	165006.1	3.720628	0.0008472

It was clear from the ANOVA that the (value of $F= 3.70$ and $p= 0.0008 < 0.05$) the selected banks differ significantly as far as the average amount of reserves and other funds was concerned.

To know the significance of reserves and other funds in the total assets and in the owned funds, a comparison was made between reserves to total assets and owned funds. The average amount of reserves and other funds of the selected UCBs in the sample for the period between 1994 and 2004 is shown in tables 4.4.

Table 4.4
Average Reserves and other Funds of the Sample UCBs and their Groups
(1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Reserves and other Funds to	
			Total Assets (%)	Owned Fund (%)
1A	58.65	26.84	5.28	69.29
1B	50.81	18.04	3.67	55.96
1C	211.59	24.5	7.29	70.44
Group One	107.02	23.77	5.95	67.47
2A	540.17	34.13	9.92	82.57
2B	555.2	33.52	8.83	72.99
2C	425.96	33.18	5	69
Group Two	507.11	33.6	7.51	74.86
3A	370.67	21.67	5.37	78.38
3B	589.33	26.43	8.8	78.95
3C	703.97	29.49	9.63	76.95
Group Three	554.66	25.62	7.96	77.97
All groups	389.59	28.79	7.53	75.53

The average reserves and other funds created by the UCBs as per table 4.4 was the highest for 3C (Rs. 703.97 lakh) and the lowest for I B (Rs. 50.81 lakh).

The growth rate was the highest for 2A (34.13%) and was the lowest for 1B (18.04%).

The percentage of reserves and other funds to total assets was the highest for 2A (9.92%) and the lowest for 1B (3.67%).

It could be observed from table 4.4 that the reserves and other funds in relation to owned funds was 82.57 percent for 2A; while it was 55.96 percent for 2B. There existed significant difference between the UCBs in raising reserves and other funds ($P= 0.000847$) at 5 percent level of significance.

The average of reserves and other funds for the three groups (table 4.4) reflects significant difference between the groups. The growth for the first group was only about 20 percent of the third group. The percentage of reserve funds to total assets and to owned funds were less in the first group compared with second and third group and the group average.

The amount or reserves and other funds of the all group average was three times more than the share capital and had been growing over the period at a compound annual growth rate of 28.79 percent. It stood at 7.53 percent of total assets.

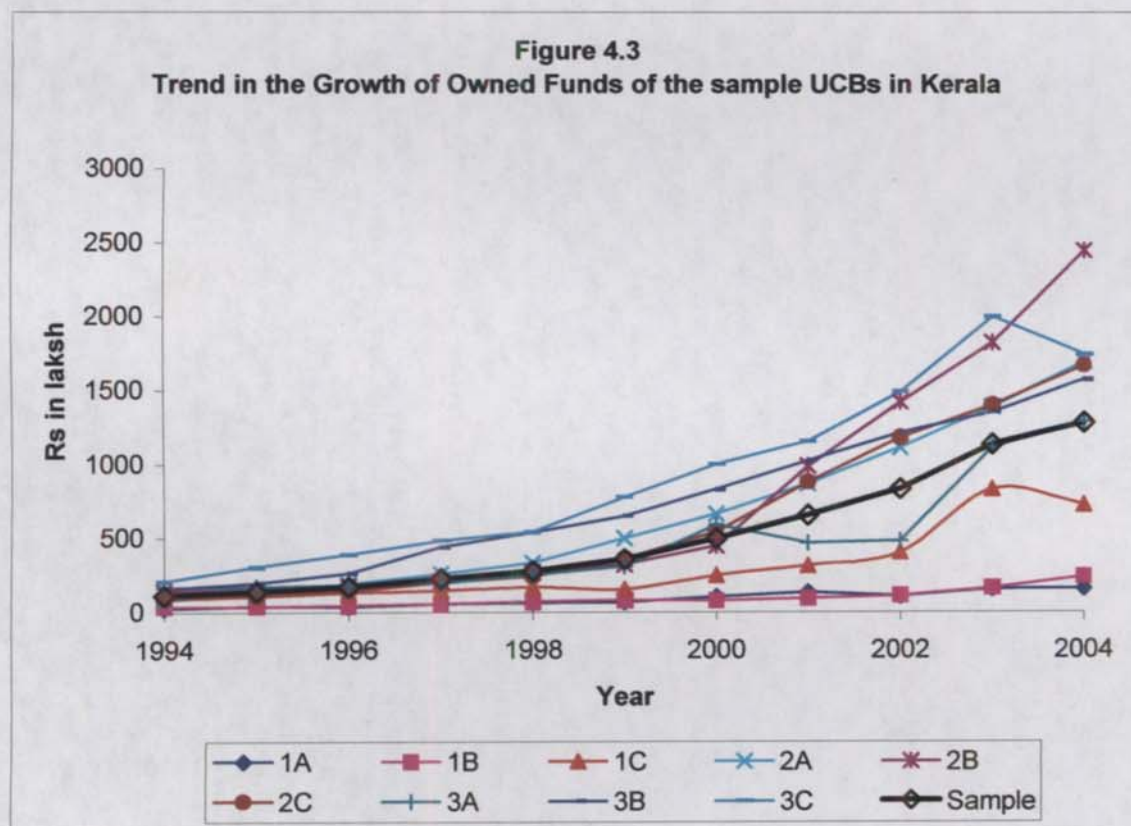
The correlation between reserves and other funds to owned funds was 0.994 and to total assets it was 0.877.

It was inferred from the above analysis that the growth in owned fund was highly related to growth in reserves and other funds of the UCBs.

Owned Funds

Owned funds of the UCBs are the amounts collected through share capital, reserve funds and other funds and undistributed profits to share holders.

The growth trend of owned funds of the sample UCBs and their groups, for the period from 1994 to 2004 was shown in table 4.3 (Appendix) and figure 4.3



The analysis of the owned funds of all the selected banks and their groups shown in table 4.3 (Appendix) makes it clear that there was a continuous growth in the absolute amount for all the selected banks in general, but a slight decline was noted for 1C and 3C. In the beginning of the study period, all the banks of the third group showed high performance.

At the end of the study period, 2B out performed all other banks and it was able to create a total of Rs. 2439.21 lakh as owned funds when the group average was Rs. 1930.63 lakh and the sample average was Rs. 1277.66 lakh. During the period between 1994-1999, though the amounts of owned funds of 2A and 2C were less than the sample average, they were able to show better performance during the period between 2000-2004.

The growth rate as shown by CAGR was the highest for 2A (31.88 per cent) and the lowest for 1A (17.6 per cent).

The average amount of owned funds of the selected UCBs in the sample for the period between 1994 and 2004 is shown in tables 4.5.

Table 4.5
Average Amount of
Owned Funds of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Owned Funds to Total Assets (%)
1A	89.64	17.6	7.63
1B	85.27	19.14	6.55
1C	299.01	20.84	10.35
Group One	158.6	19.95	8.82
2A	620.92	31.88	12.01
2B	742.49	29.14	12.09
2C	574.97	30.44	7.25
Group Two	677.41	30.25	10.03
3A	458.22	20.27	6.86
3B	709.24	23	11.14
3C	872.32	21.41	12.52
Group Three	711.4	21.58	10.21
All groups	515.81	24.83	9.97

The average amount of owned funds of the sample UCBs, their growth and percentage to total amounts shown in table 4.6 reflect that the amount was the highest for 3C (Rs. 872.32 lakh). The growth rate was the highest for 2A (31.88%). The lowest amount of owned funds was for 1B (Rs. 85.27 lakh) while; the growth rate was the lowest for 1A (17.60%).

Banks 1B had the lowest percentage of owned funds to total assets (6.55%) and the highest percentage was for 3C (12.52%). Owned funds funded 9.97 percent of the total assets of the sample UCBs. It comprised about 10 percent of total assets. Four UCBs in the sample mobilized less than the average amount for the sample.

The all group CAGR was 24.83 percent. The second group was able to attain a CAGR of 30.25 percent in one year.

The percentage of owned funds to total assets of the second and third groups were higher than that of the sample average (9.97%).

A high positive correlation was found between loans and advances and owned funds (0.926) The correlation between membership and owned funds was very low(.304) This information led to the fact that growth in owned funds led to larger loans and advances and acquisition of assets in the UCBs. The correlation between loans and owned funds was high ($r = 0.926$), correlation to total assets was 0.90 and to membership, it was low ($r=0.304$).

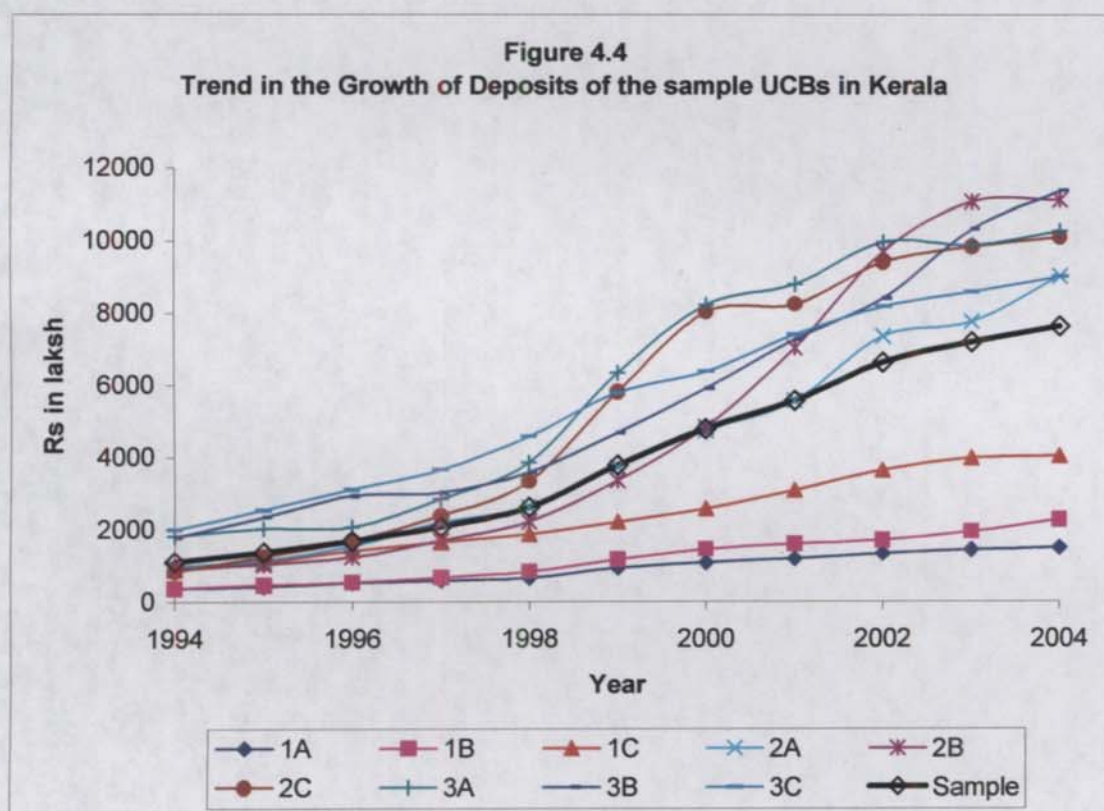
The percentage of owned funds to total assets of the five UCBs was comparably good.

An over all inference made from this analysis was that, the owned funds showed a continuous increase. But first group banks were not able to perform well at the same pace as that of the second and third group banks.

DEPOSITS

Acceptance of deposits and maintenance of deposit accounts are core activities of every bank. Deposit is a key factor that determines the loanable resources of any bank. Higher deposits will enable the banks to reduce the dependence on external borrowings. Deposits not only help the banks immediately by enabling them to cushion their over-dues and thereby maintaining an uninterrupted flow of credit from other financing agencies.

The table A.4 (Appendix) and figure 4.4 shows the trend in the growth of total deposits of the sample UCBs in Kerala for the period 1994-2004.



The total deposits, in absolute terms, mobilized by the sample UCBs in Kerala for the period between 1994 and 2004 is shown in table A.4 (Appendix) indicated that there was a continuous increase in deposits of all the banks in the sample.

The CAGR, during the first term of the study period, was the highest for 2C (25.31 %) and was the lowest for 1A (13.14 %). The CAGR for the second term was less than the rate of growth during the first term of the study period. During the first term, maximum growth rate and during the second term, the minimum growth rate, both were recorded by 2C.

Table 4.6

ANOVA table of Deposits

	df Effect	MS Effect	df Error	MS Error	F	p-level
Deposits	8	44427096	90	7823798	5.678456	0.0000077

The amount of deposits mobilised by the UCBs as tested by ANOVA showed significant difference among the banks in the amount of deposits collected.

The average amount of total deposits of the selected UCBs in the sample for the period between 1994 and 2004 are shown in table 4.7.

Table 4.7
Average Total Deposits of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Total Deposits to	
			Total Assets (%)	Working capital (%)
1A	909.41	13.14	81.94	95.38
1B	1177.73	17.62	85.03	97.9
1C	2401.98	14.61	82.8	92.81
Group One	1496.4	15.07	83.19	94.62
2A	4235.53	22.26	77.77	93.89
2B	4928.99	25.19	78.37	91.81
2C	5531.84	25.31	64.92	96.78
Group Two	4898.8	24.26	72.55	94.23
3A	6005.7	16.98	87.07	92.5
3B	5594.32	18.35	83.51	96.98
3C	5556.69	14.65	76.03	96.06
Group Three	5718.9	16.69	82.07	95.07
All groups	4038	19.09	78.06	94.68

The table 4.7 showed the particulars of average deposits, their growth over the period, their percentage to total assets and working capital. Only 1A had average deposit less than Rs. 1000 lakh. Two banks in the sample (1B and 1C) had deposits between Rs. 1000 and Rs. 2500 lakh. The remaining six banks had deposits over Rs. 4000 lakh. The highest amount was mobilised by 3A (Rs. 6005.07 lakh). The compound annual growth rate (CAGR) was the highest for 2C (25.31%) while the lowest growth rate was for 1A (13.14%).

Deposits formed 87.07 percent of total deposits for 3A, while it was 64.92 for 2C. The percentage of the banks which had deposits above 80 percent was five. One bank (2C) had deposits less than 65 percent of their total assets.

Percentage of deposit to working capital of all the banks in the sample was more than 90 percent. Five banks had deposits to working capital more than 95 percent.

In the three groups, second group had total deposits more than the all group average of Rs 4038.02 lakh. The growth rate was higher for the second group than the all group rate of growth.

The percentage of deposits to total assets, for the UCBs as a whole was 78.06 and to working capital, it was 94.68 percent.

The correlation between deposit and loans was very high ($r = 0.954$).

The implication was that when the amount of deposits increased, the amount of loans also increased and vice versa. Alternatively, banks were able to larger loans and advances since they had sufficient funds available with them. If the funds were not chanelised appropriately, the very goal of banking would be defeated. Hence a high positive correlation between deposits and loans and advances was a sign of good funds management .The banks showed significant difference in the amount of deposit mobilised during the period ($p = 0.0000077$).

It was observed in the above analysis that deposit was the only single source that constitutes three-fourth of the total funds and working capital of the UCBs.

The deposit growth was not uniform in periods before and after 1999 for the UCBs. Two things were primarily accounted for this change. They are:

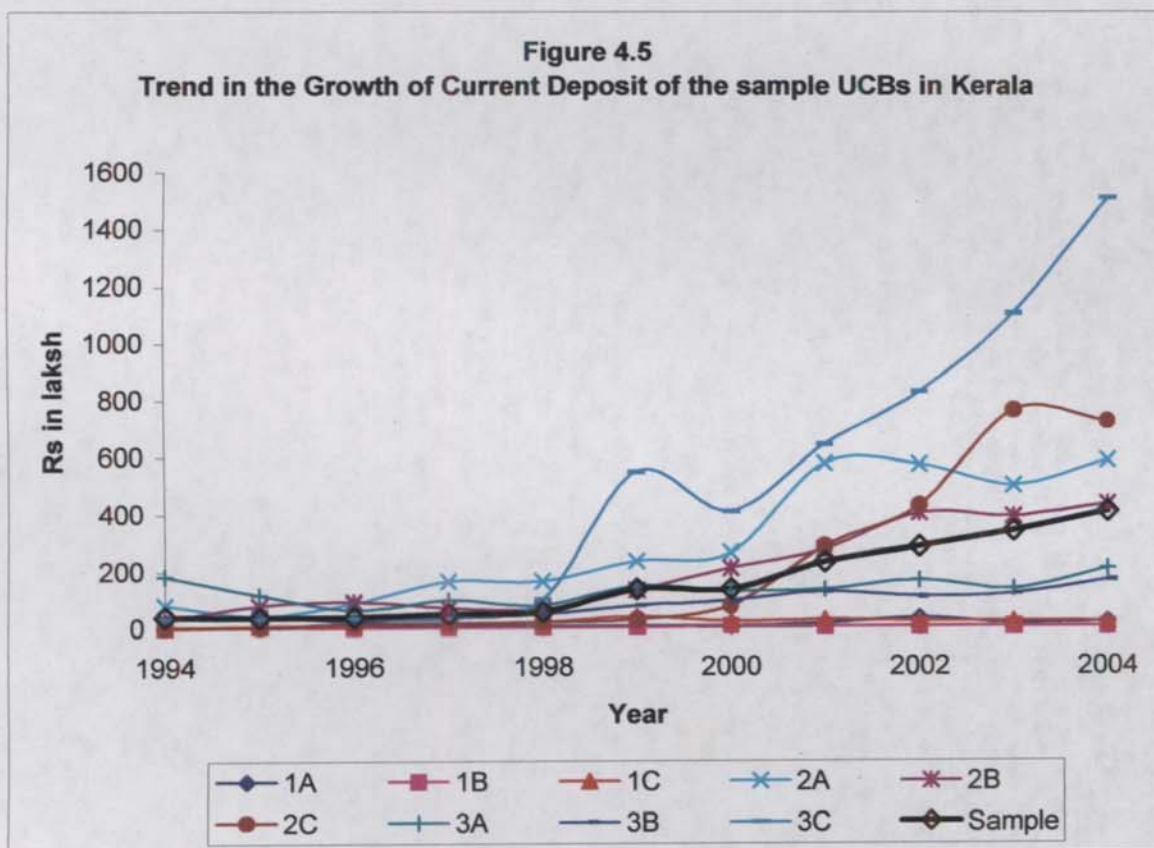
(1) Growth in internal source namely capital and reserves and conscious effort on the part of banks to control the deposits, a costly source, and

(2) Fall in the rate of interest on deposits as a result of interest deregulation.

The amount collected through the different types of deposits such as current, savings and fixed deposits have varied significance and importance in the total funds of the UCBs. Hence, an analysis of these three types of deposits is made in the following part.

Current Deposits

The amount current deposits of the sample UCBs in Kerala for the period 1994-2004 is shown in table A.5 (Appendix) and figure 4.5.



The amount of current deposits collected by the sample UCBs showed an increasing trend for all the years during the study period. The amount at the beginning of the study period was the highest for 3A (Rs 184.82 lakh) and the lowest for 1B (Rs 0.33 lakh). A faster growth rate was identified with 2A, 2C and 3C banks since 1998.

The rate of growth was high for group one during the first term (1994-1999) and very low in the second term (2000-2004) compared to other groups.

The current deposits were low for first group while moderately high for second and third groups.

The average amount of current deposits of the sample UCBs, their growth and their relations to total assets in the sample for the period between 1994 and 2004 are shown in Tables 4.8.

Table 4.8
Average Current Deposits of the Sample UCBs and
their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Current Deposits to Total Deposits (%)
1A	10.29	17.27	1.13
1B	3.20	21.42	0.27
1C	19.22	11.61	0.81
Group One	10.90	14.41	0.73
2A	296.91	19.71	6.97
2B	197.74	27.47	4.01
2C	214.39	65.06	3.87
Group Two	236.34	28.13	4.81
3A	132.68	1.03	2.14
3B	79.63	14.16	1.42
3C	479.53	41.08	8.49
Group Three	230.61	20.09	3.97
Sample	159.29	23.04	3.91

From table 4.8, it is seen that the amount of average current deposit was very less for all the sample UCBs. A little difference was observed in bank 2A, 2C and 3C. The lowest amount was for 1B (Rs. 3.20 lakh) and the highest was for 3C (Rs. 479.53 lakh).

The percentage of current deposits to total deposits varied between 0.27 (1B) and 8.49 (3C). With the exception of 3C (8.49%) and 2A (6.97%), all other banks, current deposit were less than 5 percent.

CAGR of 3C showed the highest percentage (41.08%) as against the lowest growth rate of 1.03 percent for 3A.

The average amount of current deposit for the three groups showed wide difference. First group had average deposit of Rs. 10.9 lakh, for the second and third groups, this was about twenty three times more than the first group. The growth rate was also low (14.41%) for the first group.

Between the three groups, the percentage of current deposit to total deposits ranged from 0.73 to 4.81. The average current deposit for the whole UCBs was less than 4 percent.

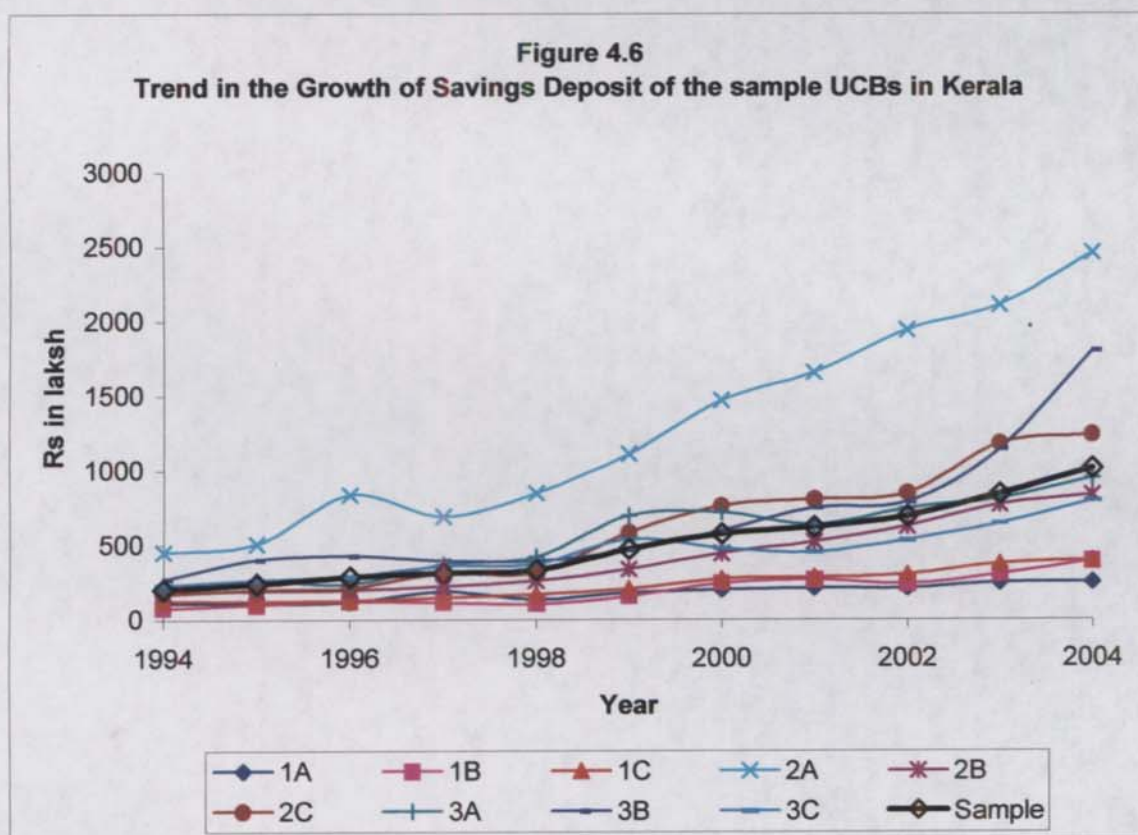
The low positive correlation between the amount of current deposits and total deposit showed that current deposit had not changed according to changes occurred in total deposit. Similarly, the correlation between current deposit and total deposit was 0.64. There was a steady increase in total deposits but the increases in current deposit was not proportional to the change in total deposits.

The correlation between current deposits and total assets was 0.68; while current deposits to total deposits was 0.64.

From the above analysis it is clear that current deposit to total deposit, though was low, showed an increasing trend over the study period. No interest is payable on current deposit. An increase in current deposit in the total fund leads to decrease in total cost of funds. Hence its proportion is to be enhanced to the level possible to bring down average cost of funds.

Savings Deposits

Savings deposits of the sample UCBs from 1994 to 2004 are shown in table A.6. (Appendix) and figure 4.6.



It is evident from table A.6 (Appendix) and figure 4.6 that the savings deposits of the sample banks showed a continuous growth during the study period. The sample average was Rs. 202.99 lakh in the year 2004. The rate of growth was less during the period between 2000-2004 (12%) of the study period compared to the first term (15.1%) of 1994-1999.

In 1994, the smallest amount of savings deposits was for 1B (Rs. 76.01 lakh) while the largest was for 2A (Rs. 453.27 lakh). The amount was the highest for 2A (Rs. 2457.29 lakh) and the lowest for 1A (Rs. 247.83 lakh). The CAGR was the highest for 2C (19.61%) and the lowest for 1A (7.38%). The savings deposit of first group was Rs 105.38 lakh in 1994. This amount rose to Rs 343.34 lakh by 2004. The CAGR was 11.34 percent. For the second group absolute amount of savings deposits which was Rs 268.7 lakh in 1994 rose to Rs 1508.45 lakh by 2004. During this period the CAGR was 16.56 percent. In the case of third group, the savings deposits which was Rs 234.9 lakh, rose to Rs 1178.34 lakh between 1994 to 2004

The average amount of savings deposits of the selected UCBs for the period between 1994 and 2004 is shown in tables 4.9.

Table 4.9
Average Savings Deposits of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Savings Deposits to Total Deposits (%)
1A	176.4	7.38	19.43
1B	190.24	16.02	16.07
1C	228.06	10.81	9.64
Group One	198.23	11.34	13.34
2A	1278.3	16.61	30
2B	414.78	14.91	8.41
2C	600.39	19.61	10.83
Group Two	764.49	16.98	15.57
3A	548.28	14.99	8.86
3B	672.96	18.79	12.03
3C	448.21	11.85	7.93
Group Three	556.48	15.79	9.58
Sample	506.4	15.7	12.45

The average amount of savings deposit as shown in table 4.9 makes it clear that, bank 2A had the highest average savings deposit (Rs. 1278.30 lakh) and 1A had the lowest average deposit of Rs. 176.40 lakh.

CAGR was the highest for 2C (19.61%), and the lowest for 1A (7.38%). Percentage of savings deposit to total deposits for bank 2A was 30. All the remaining banks have savings deposit less than 20 percent of their total deposits.

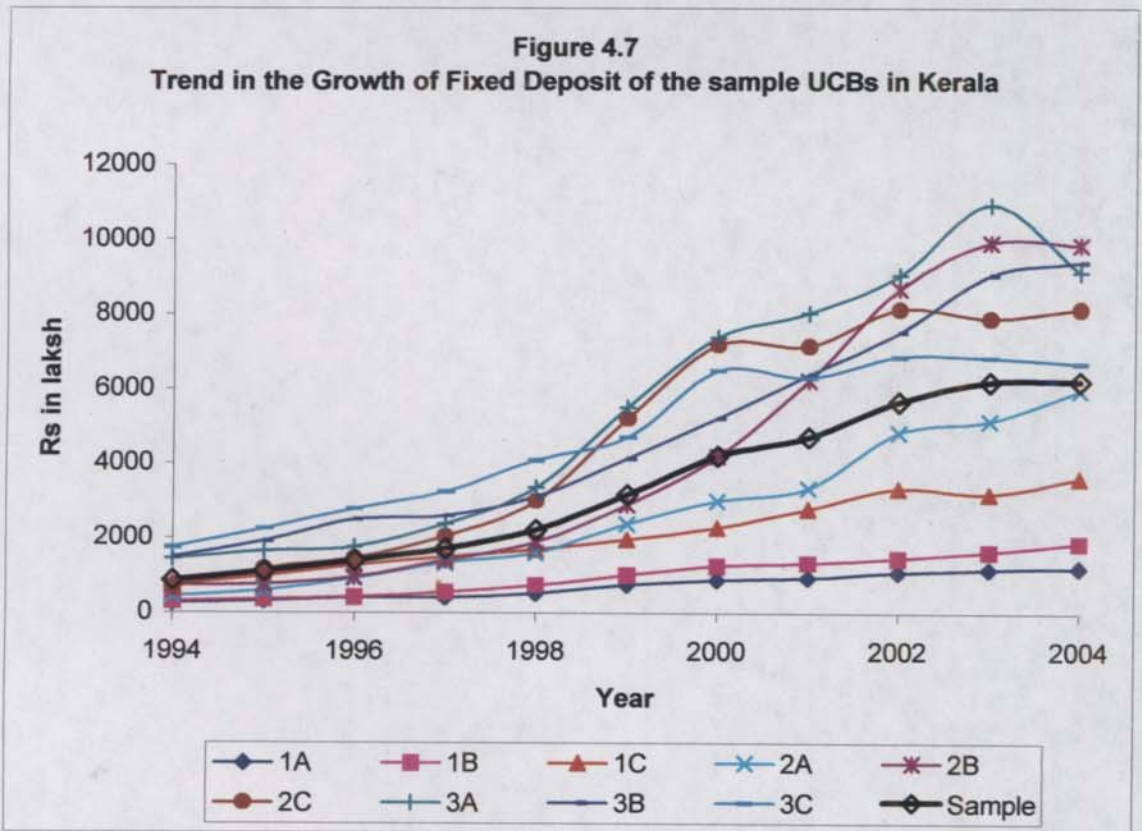
The analysis showed that the growth in the savings deposit of the sample was 15.7 percent. The percentage of savings deposit to total deposit was 12.45. Six UCBs in the sample had percentage of savings deposits to total deposits less than the sample average. The average savings account for the sample was Rs 506.40 lakh. The banks in the first group had savings deposit less than half of the average amount for the sample.

Correlation between savings deposit and total deposit was 0.69. From this it was inferred that the growth in savings deposits of the UCBs was proportional to growth in total deposits.

Savings deposit, a less costly source of funds, (effective cost of savings deposit of the UCB groups in the sample is shown in chapter five.) was comparatively low in majority of the UCBs. Hence an increase in savings deposit may help to reduce the over all cost of funds of the UCBs.

Fixed Deposits

Fixed deposits of the sample banks for the period from 1994 to 2004 are shown in table A.7 (Appendix) and figure 4.7.



The growth in the absolute amount of fixed deposits of the selected UCBs, their groups and the over all average showed a marked increase over the study period. The highest amount out standing in 1994 was for 3C (Rs. 1736.51 lakh) followed by 3B (Rs. 1477.46 lakh) while the lowest amount in the same year was Rs. 264.45 lakh (1A).

The highest absolute amount at the end of the study period (2004) was Rs. 9846.79 lakh (2B).

The CAGR was the highest for 2B(26.7%) and the lowest for 3C (13.04%). The CAGR for the three groups first, second, third and the over all average were 15.8 percent, 26.21 percent, 16.59 percent and 19.54 percent respectively. The CAGR in fixed deposits in the second term was less for all the UCBs than that of the first term.

The average amount of fixed deposits of the sample for the period between 1994 and 2004 are shown in table 4.10.

Table 4.10
Average Fixed Deposits of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Fixed Deposits to Total Deposits (%)
1A	721.31	14.86	79.44
1B	990.31	17.98	83.66
1C	2118.33	15.15	89.55
Group One	1276.7	15.8	85.92
2A	2685.12	26.39	63.03
2B	4316.57	26.7	87.57
2C	4727.06	25.51	85.3
Group Two	3909.6	26.71	79.62
3A	5505.37	18.76	88.99
3B	4842.34	18.32	86.55
3C	4721.03	13.04	83.58
Group Three	5022.9	16.59	86.45
Sample	3403.1	19.54	83.64

From table 4.10, it is evident that the average fixed deposit mobilised by the selected UCBs ranged between Rs. 721.31 lakh (1A) to Rs. 5505.37 lakh (3A). CAGR was the highest for 2B (26.7%) and the lowest for 2C (13.04%)

The percentage of fixed deposit to total deposit was the lowest for bank 2A (63.03%) and was the highest for 1 C (89.55%). For all the UCBs in the sample, except for 2A, the percentage of fixed deposit to total deposit was more than 79 percent. The second and third group had fixed deposits above the all group average. The CAGR for the second group was higher than the sample average of 83.64 percent.

The average fixed deposit to total deposit for the sample UCBs was Rs. 3403.05 lakh and its percentage to total deposit was 83.64.

The correlation between fixed deposit and total deposit was 0.97 and between fixed deposit and interest expenses was 0.98. The high positive correlation implied the fact that with every increase in fixed deposits, interest expenses also be increased. Hence to exercise control over interest cost of funds, the predominance of fixed deposit in the total deposit is to be reduced.

To enable reduction in interest expenses one of the methods is reduction in the proportion of fixed deposits to total deposits. In the analysis it was observed that till 1999, urban co-operative banks mobilised fixed deposits in larger volumes (the CAGR in fixed deposit was 24.02 percent). But by 2000, fixed deposits mobilised grew only at reduced rate of 8.11 percent.

The higher the percentage of fixed deposit, in the composition of funds, the higher would be the interest expense component in the total expenses (Interest cost of the sample UCBs and the three groups is shown in chapter five).

Hence to compete in the lending market by reducing rate of interest, the proportion of fixed deposit is to be lowered and that of the current and saving deposit need to be increased.

The relationship between current deposits, savings deposits and fixed deposits to total deposits is shown in table 4.11.

Table 4.11

Correlation Matrix of Deposits of the sample UCBs in Kerala (1994-2004)

Banks		Current Deposits	Savings Deposits	Fixed Deposits
1A	Total Deposits	0.761626	0.936937	0.998871
1B		0.240425	0.970464	0.998983
1C		0.500947	0.969251	0.999721
2A		0.945423	0.994776	0.998807
2B		0.988235	0.991077	0.999951
2C		0.824371	0.968223	0.996628
3A		0.494141	0.947814	0.999616
3B		0.952355	0.919431	0.998062
3C		0.902765	0.909876	0.990438
Sample		0.636433	0.696438	0.989802

From the correlation matrix, it was observed that the Correlation between total deposits and current deposits fluctuated widely. For savings deposits, the correlation was high and for fixed deposits there was almost perfect positive correlation. The coefficient of correlation between current deposits and total deposit was 0.64. The coefficient of correlation between savings deposits and total deposit was 0.70. The coefficient of correlation between fixed deposits and total deposit was 0.99. This high positive correlation showed by fixed deposit with total deposits indicates the role of fixed deposits in the total deposits. If funds at the disposal of the UCBs are in excess, make fixed deposits less attractive and vice versa.

It is clear from table A.8 and figure 4.8 that the sample UCBs in the sample had only a small amount as borrowed funds.

In the first group, 1A had borrowings of Rs. 0.33 Lakh in the year 1994. 1B, had nominal amounts of Rs. 2.12 lakh and Rs. 2.5 lakh respectively in the years 1996 and 2004. Though some of the UCBs had borrowings in the initial years, no such borrowing were there by the end of the study period.

The average position of borrowings of the selected UCBs in the sample for the period between 1994 and 2004 is shown in table 4.12.

Table 4.12
Average Borrowings of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	Borrowings to Total Funds (%)
1A	0.01	0.00
1B	0.42	0.03
1C	0.00	0.00
Group One	0.14	0.01
2A	86.20	1.58
2B	64.94	1.03
2C	12.12	0.14
Group Two	54.42	0.81
3A	0.00	0.00
3B	33.01	0.49
3C	6.91	0.09
Group Three	13.31	0.19
Sample	22.62	0.44

Table 4.12 presents the average borrowings of the sample UCBs. There are UCBs with little borrowings and others have only insignificant borrowings. The highest average borrowing of Rs. 86.20 lakh and 64.94 lakh respectively

were found in 2A and 2B. These amounts were less than 1.60 percent of total funds.

Group position was also more or less same. Overall borrowings stood at Rs. 22.62 lakh, which was 0.44 percent of total funds.

Correlation borrowings and share capital was (-) 0.06, borrowings and reserve was = - 0.09 and borrowings and deposit was = (-) 0.11.

It is inferred from the co-relation analysis that the borrowing of the UCBs decreased as share capital reserves and other funds and deposits increased. The steady increase in the share capital, reserves and deposits helped the UCBs to reduce dependence on borrowings. This helped the UCBs to reduce the average cost of funds.

The analysis of variance test showed significant differences between banks regarding the amount of borrowings during the study period ($p= 0.00 < 0.05$).

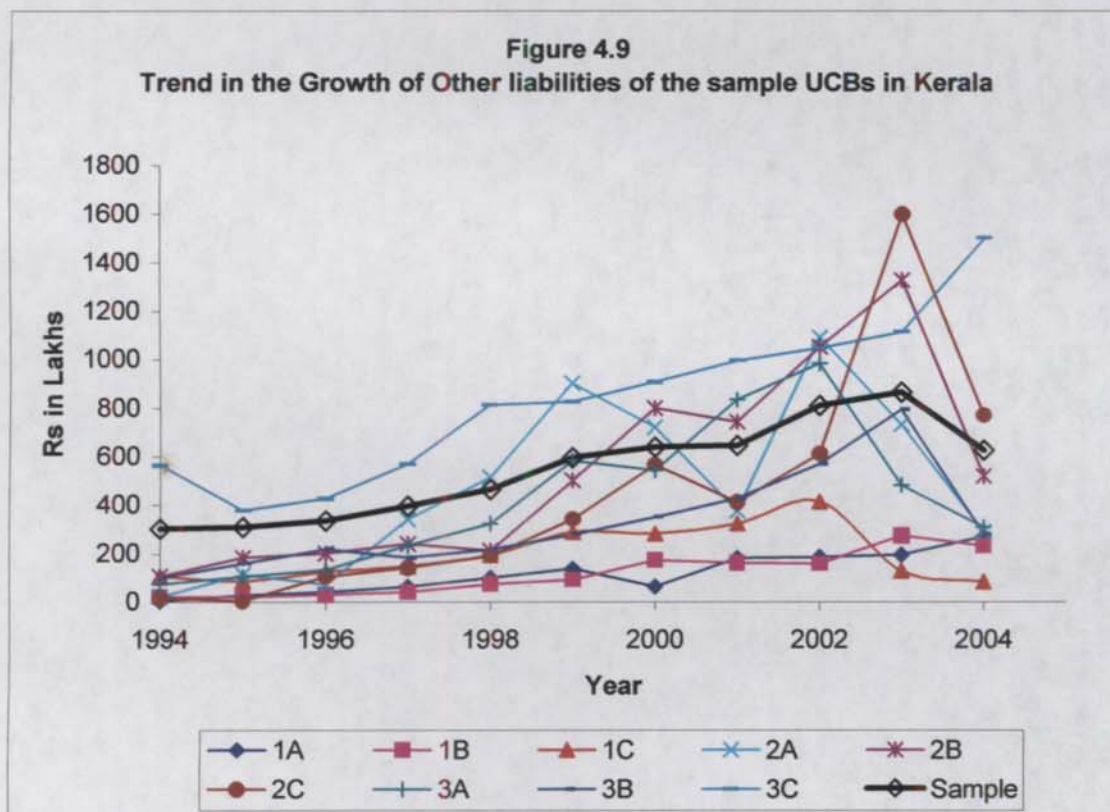
The analysis throws light on the fact that the UCBs had very little borrowings from other institutions. They were self-reliant and were able to manage with their own funds and deposits. From operational point of view it was a sign of efficiency. By 2004, 90 percent of the sample UCBs were able to do business without external borrowing.

The present problem, as indicated by many chief executives of the UCBs, was surplus funds. The UCBs are now searching for avenues to deploy their surplus fund profitably.

OTHER LIABILITIES

These are amounts due by the UCBs by way of items like interest payable, salaries for the staff and dividend unpaid, miscellaneous expenses outstanding and unearned items like deposits of staff etc.

Table A.9 (Appendix) and figure 4.9 shows the amount of other liabilities of the sample UCBs, for the period from 1994 to 2004.



Other liabilities of the UCBs as shown by table A.9 (appendix) makes it clear that it has been increasing for all the banks till 2002 the amount of other liabilities of most of the UCBs in the sample showed a decline in 2003 and 2004.

The average amount of other liabilities of the selected UCBs in the sample for the period between 1994 and 2004 is shown in table 4.13.

Table 4.13
Average Other Liabilities of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	Other Liabilities to Total Funds (%)
1A	115.83	10.44
1B	116.18	8.39
1C	198.55	6.84
Group One	143.52	7.98
2A	470.42	8.64
2B	534.78	8.50
2C	2359.65	27.69
Group Two	1121.60	16.61
3A	418.80	6.07
3B	325.38	4.86
3C	830.42	11.36
Group Three	524.87	7.53
Sample	596.67	11.53

In the group analysis, the amount of other liabilities was the highest to the second group with Rs. 1121.62 lakh and it was 16.61 percent of total funds. The average amount for sample was Rs. 596.67 lakh and was on an average 11.53 percent of the total funds of the sample UCBd.

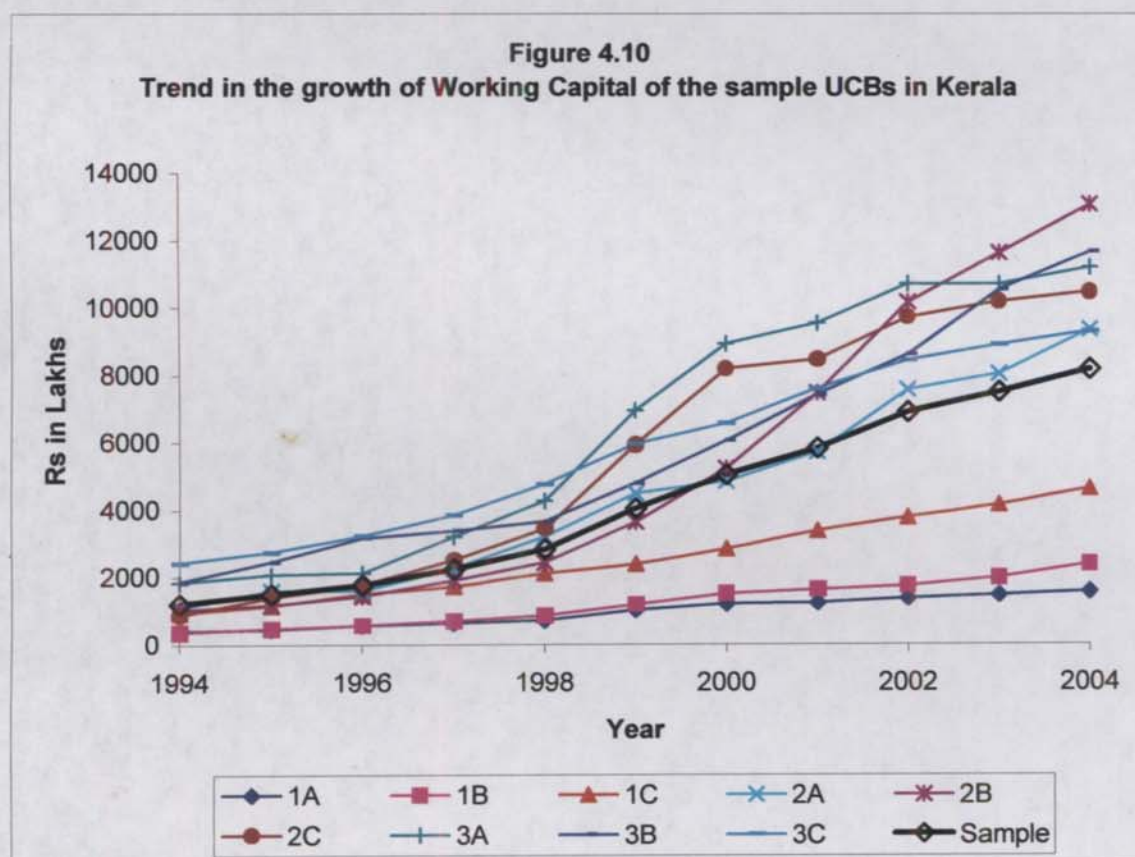
The average amount of other liabilities being the unpaid or unearned items, present in the UCBs on a continuous basis comes about 11 percent of the total funds. For other liabilities no interest is paid by the UCBs. Hence it is a cost

free fund. Other liability component in the total funds reduces the average cost of funds of the UCBs

It is inferred from the above analysis that the management of other liabilities in favour of the UCBs helps in reducing the cost of funds of the UCBs. A strategic planning of other liabilities, in a consistent manner, may lowers the interest cost of funds of the UCBs. (The cost of funds calculated is shown in chapter 5).

Working Capital

Growth and position of working capital of the sample UCBs for the period between 1994 and 2004 is given in table A.10 (Appendix) and figure 4.10.



There was a continuous growth in the working capital of the sample UCBs. The CAGR was the highest for 2B (25.94) and the lowest for 3C (13.01). The average working capital of the many UCBs in the sample was much above the sample average. There were banks with very low amount of working capital and there after till 2000. The growth in the working capital between 19994-1999 point per cent was 22.26 till 2000 and thereafter a fast growth rate of 10.18 percent was observed.

Deposits to Working Capital

The deposits of sample UCB in relation to their working capital are shown in table 4.14.

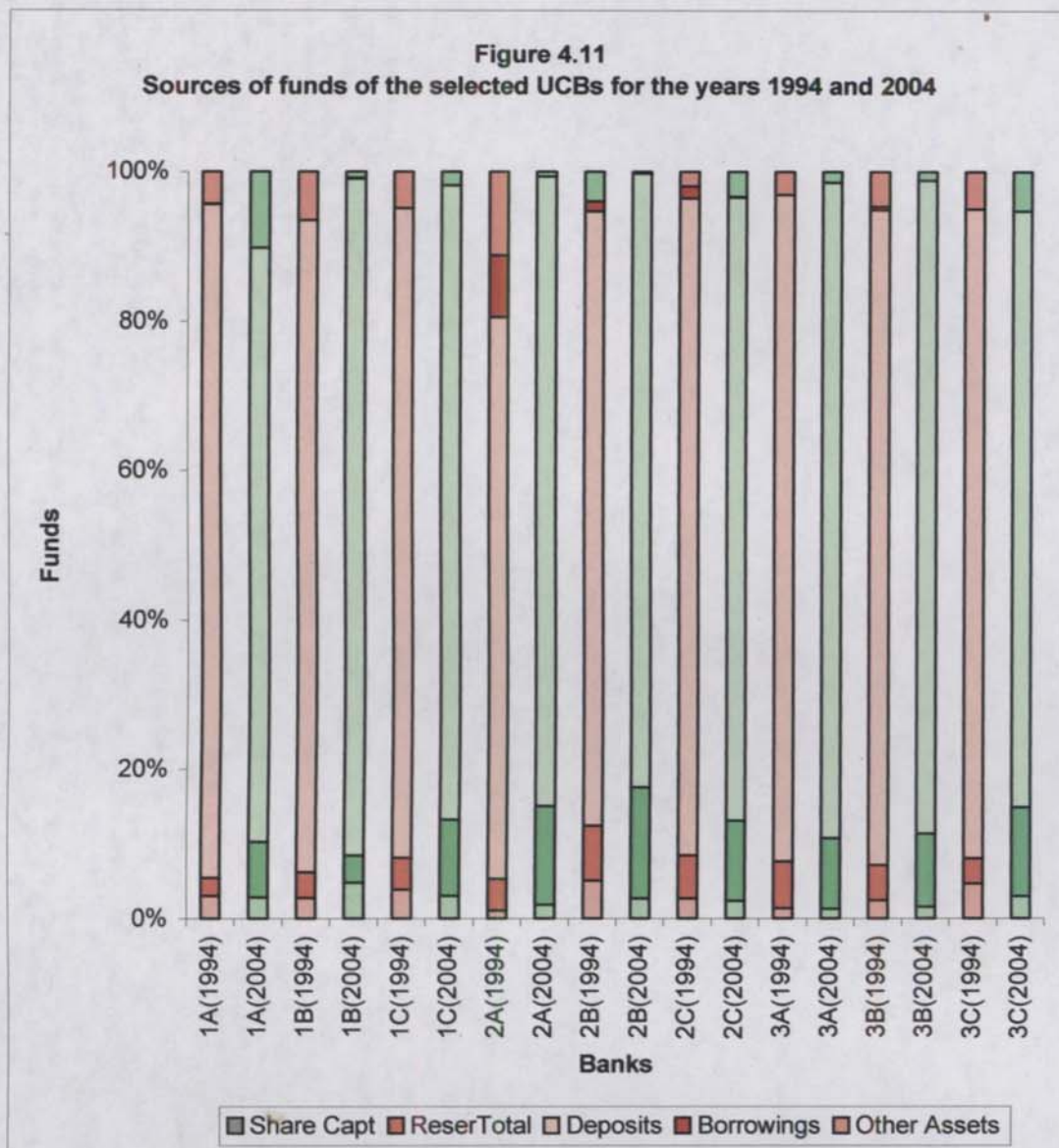
Table 4.14
Deposits to working capital of the sample UCBs in Kerala for the period
from 1994 to 2004 (percent)

Year	Group	A	B	C	Average	Sample Average
1994	1	95.30	101.86	94.67	96.37	92.42
	2	90.55	90.98	95.08	92.03	
	3	98.97	95.59	82.63	91.50	
1995	1	94.84	100.98	95.68	96.68	91.36
	2	72.26	88.56	90.25	82.88	
	3	97.39	94.92	92.47	94.70	
1996	1	94.89	97.53	94.91	95.47	94.89
	2	97.19	87.30	95.86	93.74	
	3	97.80	92.89	96.17	95.36	
1997	1	94.76	97.62	96.22	96.24	93.07
	2	97.17	89.33	94.43	93.90	
	3	89.17	89.92	95.16	91.62	
1998	1	92.03	97.33	88.41	91.18	92.61
	2	82.02	91.27	96.89	90.14	
	3	90.58	97.89	96.17	94.79	
1999	1	92.98	98.64	92.83	94.36	93.68
	2	82.91	92.49	97.97	91.74	
	3	91.38	97.70	97.17	95.04	
2000	1	91.27	96.23	90.88	92.42	95.38
	2	97.69	92.77	97.98	96.41	
	3	92.11	97.81	97.20	95.26	
2001	1	97.02	99.05	91.65	94.63	95.84
	2	97.62	94.24	97.37	96.36	
	3	92.33	98.03	97.62	95.69	
2002	1	97.75	98.39	97.04	97.52	96.26
	2	97.27	95.52	96.84	96.47	
	3	93.16	97.68	97.07	95.75	
2003	1	98.30	98.63	96.21	97.24	96.00
	2	96.75	95.37	96.55	96.15	
	3	92.35	98.01	96.48	95.55	
2004	1	96.10	95.97	87.29	91.30	93.41
	2	96.55	85.13	96.53	92.00	
	3	91.89	97.67	96.79	95.40	

Source: Compiled from the annual reports and records of banks

It is evident from table 4.14 that the percentage of deposits formed more than 90 percent of working capital of all banks and their groups in the sample. For 1B, it was more than 100 percent in the year 1994 - 95. The average deposits to working capital for the sample was about 95 percent. The percentage a showed an increase in the later years of the study period.

The different sources in the total funds of the selected UCBs in the years 1994 and 2004 as shown in figure 4.11 make it clear that there were five sources of funds, namely, share capital, reserves and other funds, deposits, borrowings and other liabilities. Of total funds for the sample UCBs, average share capital formed 2.03 percent, reserves and other funds 7.53 percent, deposits 78.06 percent, borrowing 0.44 percent and other liabilities 11.53 percent. No other sources were present in any of the year of the study period. Hence the hypothesis that the UCBs have conventional sources of funds is accepted. Various sources of funds of UCBs for the year 1994 and 2004 are presented in figure 4.11.



Average deposits form 78.06 percent of total funds and 94.68 percent of working capital for the whole group.

SECTION II

DEPLOYMENT OF FUND OF URBAN CO-OPERATIVE BANKS

Urban Co-operative banks mobilised their funds from different sources such as owned sources, deposits and borrowings. Careful forecasting of the funds needs, competitively attracting deposits and borrowings, and effectively deploying funds in safe, profitable and earning assets are the needs of the time. Hence, the funds mobilised are to be deployed most effectively in line with their objectives and priorities and according to the directions from the controlling authorities. If the funds were not channeled in the proper direction, they would endanger the safety of deposits and existence of the banks themselves. Thus profitable deployment of resources is one of the crucial functions of the UCBs funds management.

In this section, an attempt has been made to study how the funds were deployed by the UCBs.

Since the UCBs are dealing with the deposits of the urban poor and middle class, they have to avoid undue risk in utilizing funds. In the utilisation of funds, the UCBs are to consider the liquidity needs and maturity periods of different types of deposits collected, borrowings made, loans and advances and investments done.

The total funds raised by the UCBs through deposits and other sources cannot be fully utilized for purposes of lending business. The UCBs are to keep three percentage of their demand and time liabilities in the form of cash or balance with other banks and 25 percent in government or trust securities or deposit with higher financial agencies. The cash reserve ratio (CRR) required to be maintained are to be kept in liquid form either with the bank itself or with District Central Cooperative Bank or State Co-operative Bank. The UCBs are, thus, left with only the balance amount for lending purpose.

The various avenues for the deployment of funds in the UCBs, as traced out from the assets side of the bank's balance sheet, were broadly classified as

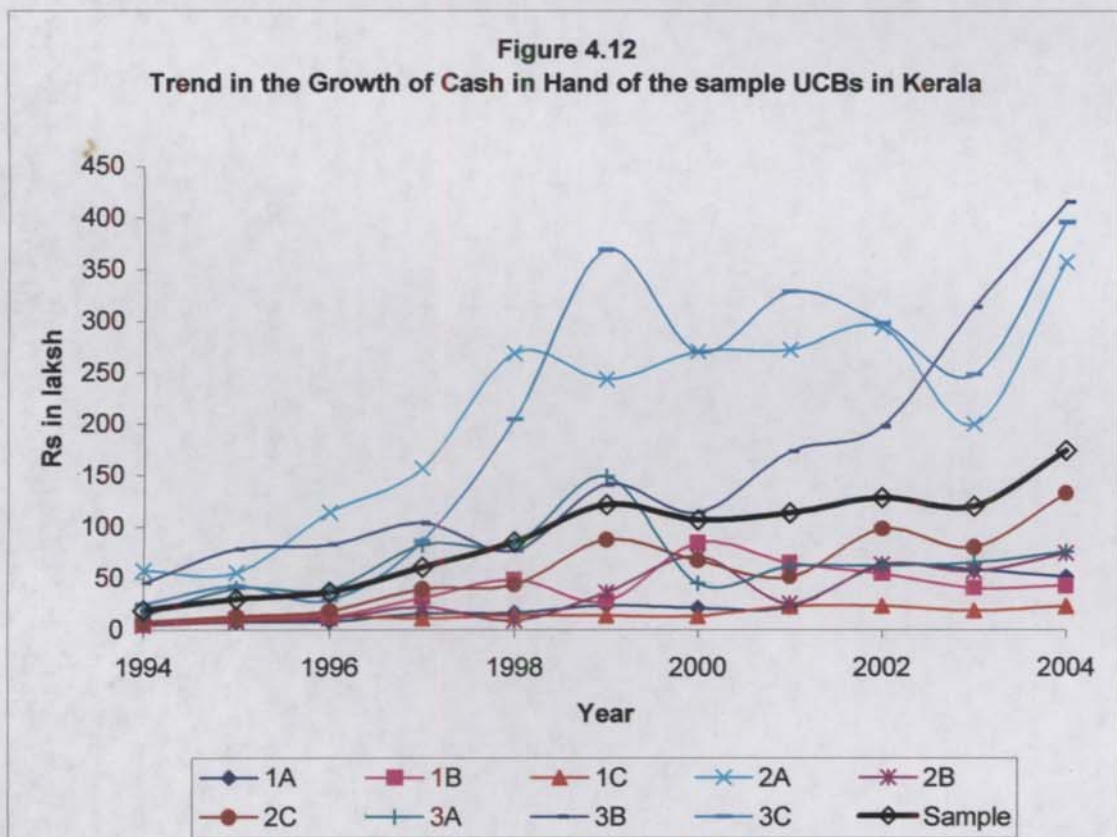
cash in hand and cash balance with banks, deposits with banks, investments, loans and advances, fixed assets, and other assets. These different avenues are discussed in detail in the succeeding part of the section.

CASH IN HAND

Cash in hand is the most liquid of all assets and as such it is highly volatile. The anticipated quantity of future cash requirements and the availability of cash to meet the obligations must be properly planned. Cash budgeting enables the bank to know the net cash flow and helps to operate on minimum cash balance.

Cash is usually needed in banks to meet the immediate requirements of depositors and borrowers. Any excess cash maintained can be considered as an idle fund and has a cost (opportunity cost) associated with it.

The cash in hand maintained by the selected UCBs in the sample is shown in figure 4.12. See also the table given in appendix (A.11)



The cash in hand maintained by the selected UCBs in the sample as shown in figure 4.12, table A.11 and appendix makes it clear that there was an increasing trend with minor fluctuations. The absolute amount maintained was largest for 2A in the year 1994 (Rs. 57.72 lakh) and 3B in the year 2004 (Rs. 414.37 lakh). The lowest amount in the year 1994 was for 2B (Rs. 4.88 lakh) and in 2004, it was the least for 1C (Rs. 22.79 lakh).

The CAGR for the second term of the study period (10.37 percent) was much less than the growth rate recorded in the first term of the study period for all banks in the sample except 1B (35.81 percent).

The average cash maintained by the three groups of UCBs for the period from 1994 to 2004 also highlights the fact that it was the highest, through out the period, for the third group and the least for the first group. The amount of cash in hand, for all the three groups, showed a continuous increase during the study period.

Among the different banks in the sample, 2A, 3B and 3C maintained larger amounts of cash balance in most of the years.

The average sample amount of cash maintained in 1994 was rupees 19.31 lakh. This went up to 173.85 lakh by end of March 2004. Over the period of eleven years the absolute amount had grown eight times for the sample.

The average position of Cash in Hand in the selected UCBs in the sample for the period between 1994 and 2004 are shown in table 4.15.

Table 4.15
Average Cash in Hand of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Cash in Hand to	
			Total Assets (%)	Demand Liabilities (%)
1A	26.69	21.99	2.41	14.91
1B	38.35	21.83	2.77	21.74
1C	15.82	10.39	0.55	5.53
Group One	26.96	18.35	1.50	12.60
2A	207.79	18.01	3.82	18.06
2B	34.86	28.07	0.55	4.07
2C	58.07	28.53	0.68	2.11
Group Two	100.24	20.72	1.48	6.31
3A	65.21	16.19	0.95	9.11
3B	158.00	22.28	2.36	26.03
3C	208.38	28.66	2.85	14.43
Group Three	143.86	23.80	2.06	15.60
Sample	90.35	22.11	1.75	9.95

Table 4.15 presents the average cash in hand of the selected UCBs during the study period. The average liquid cash maintained was the highest (Rs 208.38 lakh) in 3C. It was 2.85 percent of total assets and 14.43 percent of demand liabilities. The lowest amount was observed in 1C (Rs. 15.802 lakh). The cash in hand to total asset was the lowest for 1C and 2B (0.55%).

The average amounts of cash in hand to total assets for the three groups were between 1.48 and 2.06 percent. The percentage of cash to total asset for the sample group was 1.75. Only one group had cash balance in excess of sample average.

The correlation between cash in hand and demand liabilities was low (0.407). The average cash in hand grew at a CAGR of 22.11 percent.

It is clear from the above analysis that the amount of cash balance was not much high for the sample UCBs. 2A had the highest percentage (3.82). This bank had some other special attributes like high percentage of savings deposits, current deposit and a lower percentage of fixed deposit to total assets. When contacted the chief executive of the bank said that the members of the bank and the public in the area of operation were in favour of opening current accounts and savings accounts rather than fixed deposit account.

To get a clear picture of liquid assets of the UCBs, the cash balance with other banks as given in table 4.16 was analysed.

Table 4.16
Average Cash in Hand and Balance with Other Banks of the
Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	Cash in Hand and Balance with Other Banks to	
		Total Funds (%)	Demand Liabilities (%)
1A	48.07	4.33	26.85
1B	49.49	3.57	28.05
1C	120.12	4.14	41.97
Group One	72.56	4.03	33.92
2A	415.82	7.63	36.13
2B	217.12	3.45	25.34
2C	2117.18	24.85	76.87
Group Two	916.71	13.58	57.75
3A	234.63	3.40	32.77
3B	244.45	3.65	40.28
3C	281.20	3.85	19.47
Group Three	253.43	3.64	27.47
Sample	414.23	8.01	45.63

Cash in hand and balance with other banks to total assets of the selected UCBs as shown by table 4.16 makes it clear that cash in hand and balance with banks of all the UCBs in the sample except 2C and 2A were less than five percent.

The figure for 2A was Rs 415.82 lakh (7.63 % of total assets) and for 2C, it was Rs 2117.21 lakh (24.85% of total assets).

The group position of cash in hand and balance with other banks was the lowest for group three (3.64%) and the highest for group 2 (13.58%). The overall percentage was 8.01 percent.

The CRR to be maintained by the UCBs, as specified by RBI, was three percent of demand and time liabilities. It was more than three percent of total funds for all the UCBs. Hence the UCBs maintained larger amounts of funds in cash in hand and balance with other banks. To some banks it was even up to 25 percent of total funds. There were banks maintaining low percentage of cash and balances with other banks also (3.45 % for 2B).

Since the average cash and balance with banks were 8.01 percent of the total assets for the sample the overall cash management in the UCBs was not considered ideal. Keeping the resource idle for any period of time is not remunerative.

It was found that the banks in the sample differed from one another significantly in keeping the cash and balance with other banks during the period of study. ($P= 0.00 < 0.5$).

The average amount of deposit with other banks by the sample UCBs for the period between 1994 and 2004 are shown in table 4.17.

Table 4.17
Average Deposit with Other Banks of Sample UCBs and their
Groups (1994-2004)

Bank	Amount (Rs. lakhs)	Deposit with Other Banks to	
		Total Funds (%)	Demand Liabilities (%)
1A	364.51	32.84	40.08
1B	459.65	33.18	39.01
1C	848.62	29.25	35.33
Group One	557.59	31	37.26
2A	1411.83	25.92	32.67
2B	1099.28	17.48	22.01
2C	2507.88	29.43	45.24
Group Two	1673	24.78	33.78
3A	2645.37	38.35	44.05
3B	1686.73	25.18	29.97
3C	1879.64	25.72	33.78
Group Three	2070.6	29.71	36.12
Sample	1433.7	27.71	35.31

Table 4.17 gives a clear idea about the deposits in different accounts (current and fixed), made by the sample UCBs. These amounts varied between Rs 364.51 lakh and Rs. 2645.37 lakh. The deposits with other banks to total funds was the highest (38.35 %) in 3A and was the lowest (17.48%) in 2B. The percentage of deposits in other bank to total demand liabilities ranged between 29.97 percent (3B) and 45.23 percent (2C).

The percentage of deposits in other banks total funds for the sample was 27.71. For the sub groups, it was between 24.78 percent and 31 percent. The percentage of average deposits with other banks to demand liabilities was between 33.77 percent and 37.25 percent. These deposits were also made as a part of the statutory requirements. The amount maintained was much higher than the stipulated 28 percent throughout the period.

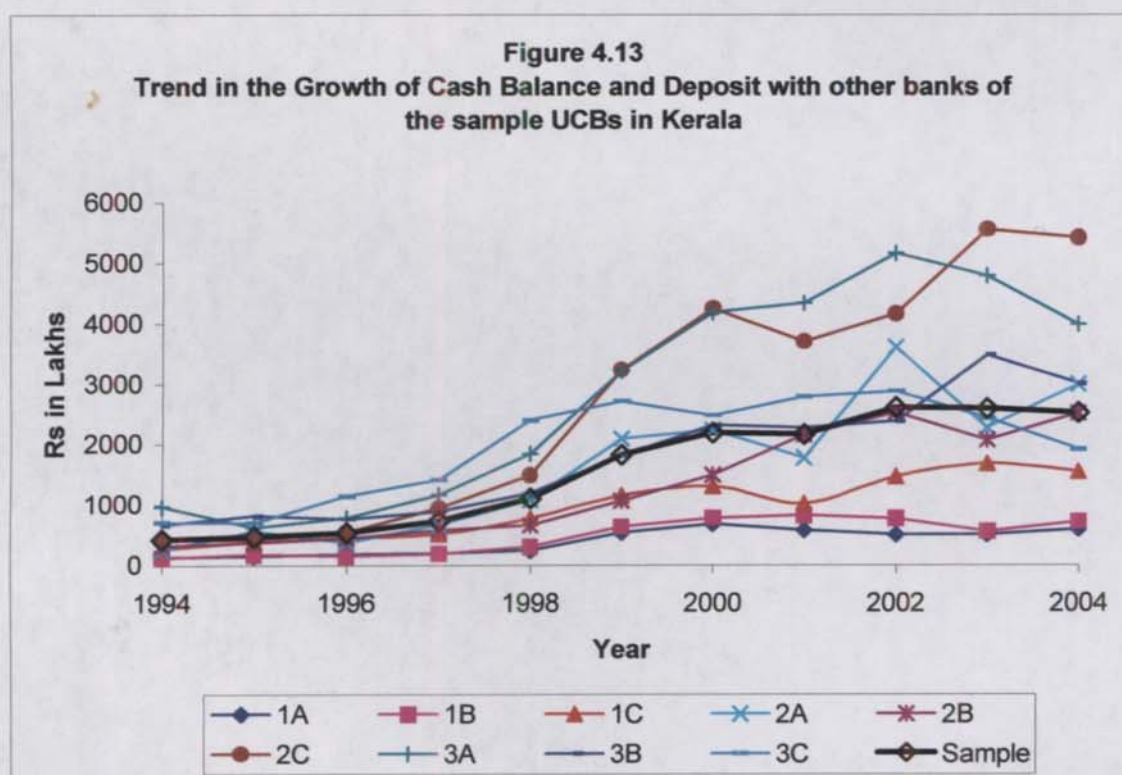
The correlation between deposits made by customers to the bank and deposits made by the UCBs to other banks was 0.50. The low positive correlation indicated the fact that deposits by the banks and deposits by the

costumers are not closely related. There was no uniformity the amounts of deposits with other banks. When asked, chief executives the responded that the directions from the co-operative department was to keep the funds with the District Co-operative Bank / State Co-operative Banks and hence they were kept with the UCBs in the district of their operation.

CASH BALANCE AND DEPOSITS WITH OTHER BANKS

The UCBs maintain certain balance of cash in current accounts, call deposits and fixed deposits with DCCB and SCB. Deposits (current account) with DCCB /and SCB are reckoned for the purpose of cash reserve. All other types of deposits, under section 24 of the banking regulation Act 1949, are considered for the purpose of SLR. Current account balances earn practically nothing and hence unduly high balances should not be kept in current accounts.

Cash with other banks (both current account balance and fixed deposits) of the selected UCBs in Kerala for the period from 1994 to 2004 is shown in table A.12 (Appendix) and figure 4.13.

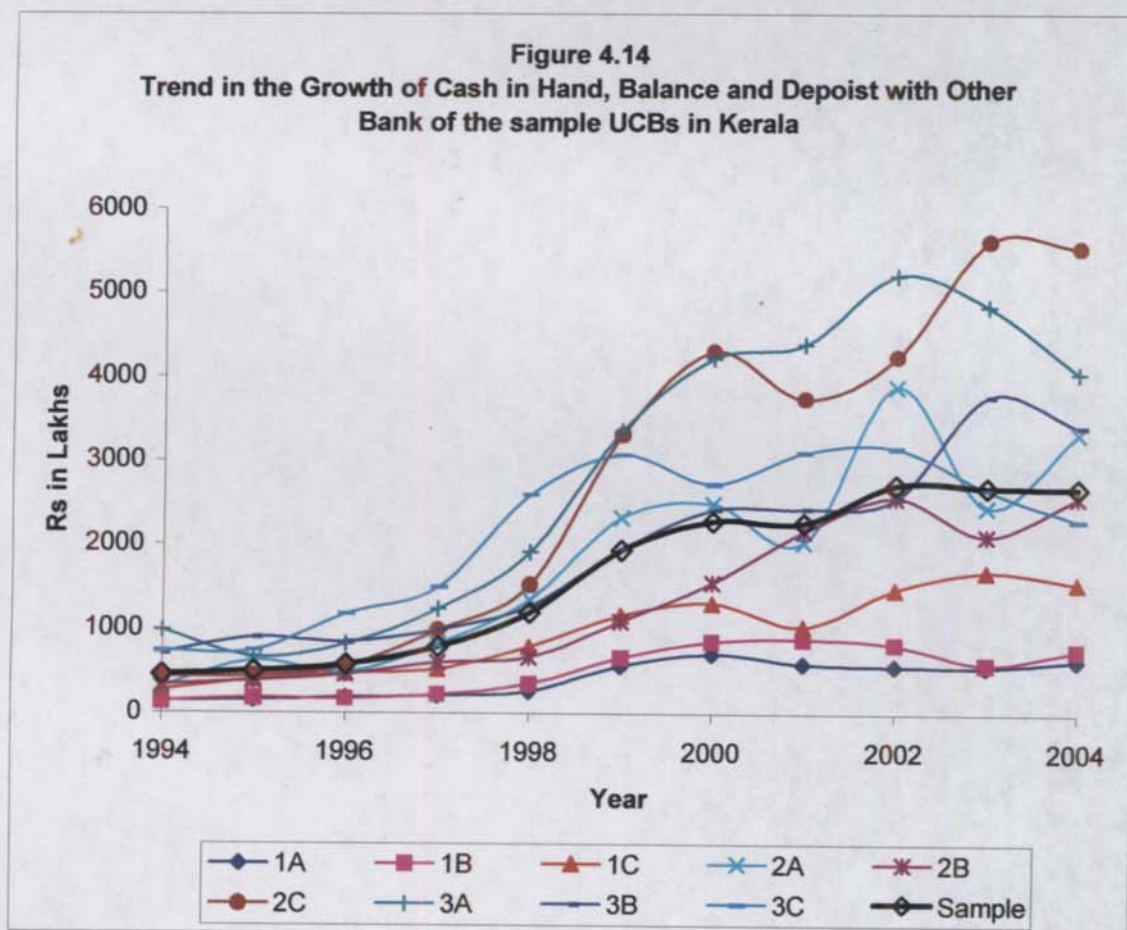


Cash with other banks of the sample UCBs for the period from 1994 to 2004 as shown in table A.12 and figure 4.13 illustrates that there was an over all growth in the amount deposited by the selected UCBs with other banks. The highest deposits in the year 1994 was for 2C (Rs. 292.57 lakh), while the lowest was for 1A (Rs. 7.13 lakh) At the end of the study period, the highest amount was Rs. 3987.12 lakh (2C) and the lowest was Rs. 20.26 lakh (1B).

There was no uniformity in maintaining cash with other banks. Bank 1B had only low amount of money with other banks in most of the years.

CASH IN HAND, BALANCE AND DEPOSITS AT BANK

The growth in the aggregate of cash in hand, balance with other banks and deposits in other banks of the sample UCBs are shown in table A.13 (Appendix) and figure 4.14.



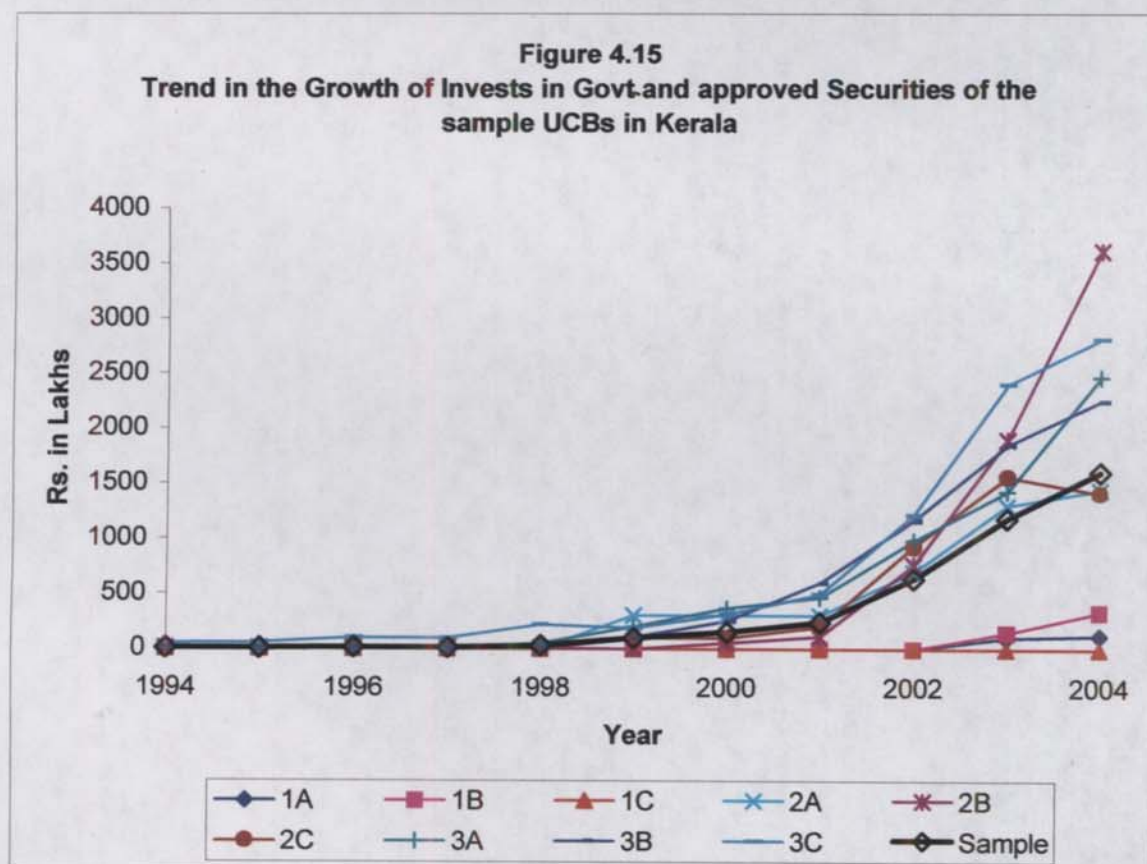
From the figure 4.14 and table A.13 (appendix) it was observed that there was a continuous growth in the aggregate of cash in hand, balance with banks and deposits in other banks of the sample UCBs. The amount was minimum for 1A while it was maximum for 2C. Three banks in the first group performed poorly while banks in the second and third groups showed marginal growth. The maximum amount was maintained by 2C throughout the period.

It was also inferred that three UCBs were maintaining average amount less than the sample average

INVESTMENTS

The investments of the sample UCBs were mainly in Central and State government securities, Treasury bills, Central Land Mortgage Debentures, Shares in Co-operative institutions etc.

Table A.14 (Appendix) and Figure 4.15 show the average amount of investments and its growth trend for the period from 1994 to 2004.



The amount of investments made by the selected UCBs as shown in table A.14 (Appendix) and figure 4.15 make it clear that, for 1C it was zero for all the years and was negligible for 1A and 1B for all the years of the study period. In the second group, the amounts were very meager during the first five years of the period under study for all the three UCBs. For banks in the third group, the absolute amount of investments was very low till 1998 (except for 3C). The growth rate between 1994-1999 was much higher than that for the first term.

For the first group, the amount of investments was very low till 2002. In the case of second group, from 1999 to 2004, the amount of investments increased from Rs 134 lakh to Rs 2161 lakhs. For the third group, in 1994 the investments, which were Rs 17.56 lakhs, rose to 164.67 lakhs by 1999. From there onwards, it showed a significant increase in the amount invested.

From figure 4.15, it was also clear that the average amount of investments of the sample till 2000 was less. From 2001 onwards, the amount of investments of the sample showed a high growth.

The proportion of resources deployed in Investments to total assets indicated the aggressiveness of banks in funds management. Larger the proportion, the more aggressive the bank is and vice versa.

The average amount of investment in government and other securities in the sample UCBs for the period between 1994 and 2004 is shown in table 4.18.

Table 4.18
Average amounts of investments, its relation to total funds, demand and time liabilities of the sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Investments to	
			Total Funds (%)	Demand and Time Liabilities (%)
1A	21.06	64.82	1.90	2.32
1B	45.81	56.92	3.31	3.89
1C	0	0	0	0
Group One	22.29	-	1.24	1.49
2A	396.62	91.98	7.28	9.18
2B	588.22	81.14	9.35	11.78
2C	393.05	99.29	4.61	7.09
Group Two	459.30	85.89	6.80	9.27
3A	543.92	150.86	7.89	9.06
3B	571.36	81.55	8.53	10.15
3C	724.00	44.43	9.91	13.01
Group Three	613.09	57.05	8.80	10.70
Sample	364.89	-	7.05	8.99

The amount of funds invested in government securities, other approved securities and investments was shown in table 4.18. The average amount of investment was zero to 1C and it was Rs. 724 lakh for 3C.

The UCBs in the third group (3B and 3C) had comparatively good amount of investments since the beginning of the study period. When 2A and 2C started investments by 1999, other banks started investment in government and other securities recently. Huge investments by these banks were due to serious involvement of committees constituted for the purpose. The investment committee took decision regarding buying, selling and other transactions. Though good margin was realised from the sale of securities, they were concerned about the payment of high rate of commission and consequent reduction in the margin.

The coefficient of correlation between investments and reserve funds was 0.90 and to deposits it was 0.80. These imply that the increase of reserve funds and deposits increases the chance for investment also. The first group does not have any systematic investment plans while second and third groups, though started making investments vary recently, they have investment committee constituted for the purpose of managing investments and were able to do good investments.

There was no significant difference between banks as far as average investments made in government securities was concerned ($P= 0.0990 > 0.05$).

The UCBs with low average financial status made small amounts of investments in government securities.

The growth in investments in the later years of the study period had two benefits to the UCBs. Firstly it served the purpose of reserves that were to be made as a part of SLR requirement and secondly, they earned a reasonable rate of return by way of interest on investments and appreciation in value by changes in market prices of securities.

It was evident from the above analysis that the UCBs, in general, do not have systematic approach towards investments in government or other approved securities. The reasons for small amounts of investments as stated in the FGD were lack of expertise, less funds for investment, low risk bearing capacity, co-operative department approvals etc.

LOANS AND ADVANCES

The loan and advances policies of the UCBs usually are laid down in their bye- laws. They are to comply with the directives of RBI on maximum limit in

lending, interest rates on lending, lending to priority sectors, advances against securities etc.

The loan operations of the UCBs comprise mainly of cash credits, overdrafts and bills discounted etc given to individuals, medium- term loans and long-term loans advances to members against tangible securities and personal securities. Based on the time period these loans and advances are classified into three as short- term, medium-term and long- term

The total amount of loans and advances of short- term, medium- term and long- term of the sample UCBs, are shown in table A.15 (Appendix) and figure 4.16.

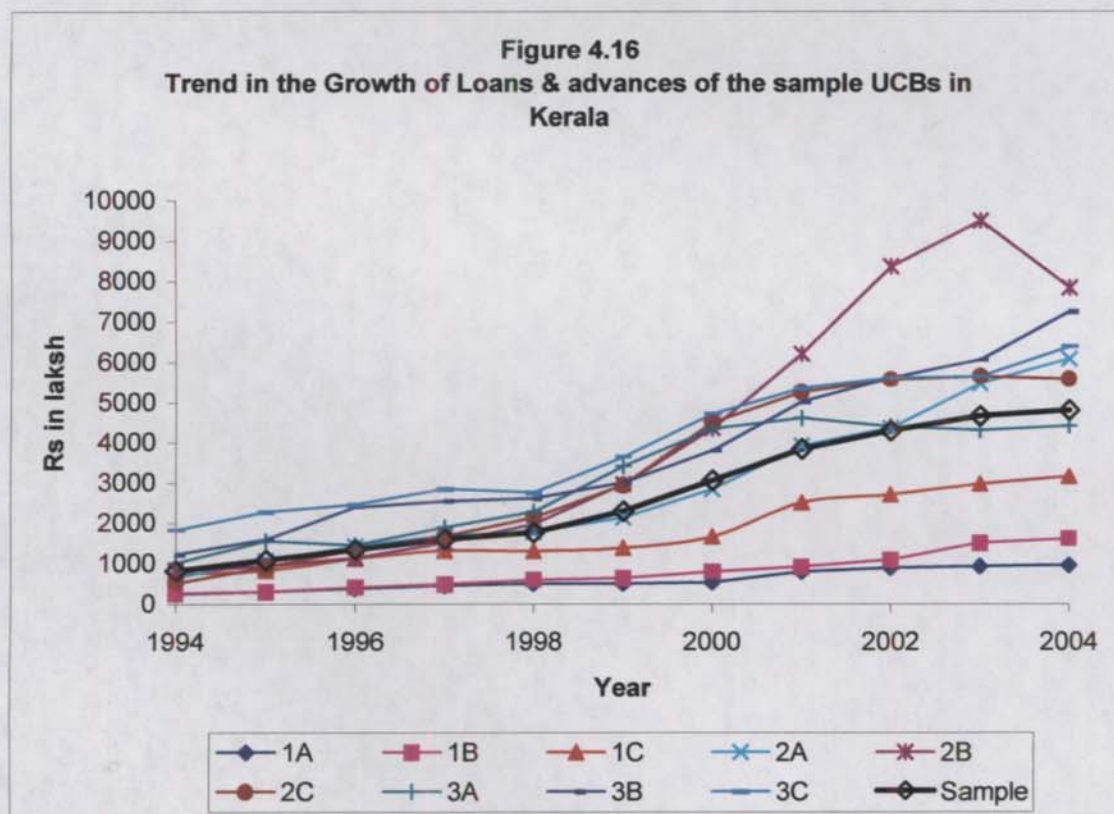


Table A.15 and figure 4.16 exhibits total amount of loans and advances issued by the nine UCBs and their growth trend for the period from 1994 to 2004. The loans and advances during the period of study showed a continuous increase for the sample. The amount of loans outstanding in 1994 was the lowest for 1A (Rs. 251.52 lakh) and the highest was for 3C (Rs. 1831.44 lakh). The amount of loans showed a slight decline for 2B and 2C in the year 2004. Still, 2B was able to keep ahead of others with the highest deposits of Rs. 7831.31 lakh in the year 2004.

The CAGR in loans and advance still 1999 was high (18.8) compared to growth after 2000 (9.45).

The average amount of loans and advances of the selected UCBs in the sample for the period between 1994 and 2004 is shown in table 4.19.

Table 4.19
Average Loans and Advances of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Loans and Advances to	
			Total Funds (%)	Demand and Time Liabilities (%)
1A	587	12.84	52.89	64.55
1B	779.77	17.67	56.3	66.19
1C	1788.66	13.83	61.66	74.47
Group One	1051.8	14.57	58.48	70.28
2A	2850.15	22.33	52.33	65.95
2B	4139.92	22.79	65.82	82.9
2C	3273.32	24.18	38.41	59.04
Group Two	3421.1	23.02	50.67	69.07
3A	3055.63	14.31	44.3	50.88
3B	3728.23	17.54	55.65	66.25
3C	3947.09	11.98	54	70.95
Group Three	3577	14.48	51.33	62.4
Sample	2683.3	17.48	51.87	66.08

The average loans and advances of the selected UCBs as shown in table 4.19 makes it clear that UCBs in the second group made the highest growth rate (23.02%). The growth rate for the sample was 17.48 percent. Banks in the first

group (14.57) percent and the third group (14.48) showed a low growth rate than the growth rate of the sample.

The loans and advances to total assets were varying between 38.41 percent and 65.82 percent for the banks in the sample. As a percentage of demand and time liabilities it ranged between 50.08 and 74.47. A higher percentage of loans and advances to total assets and to demand and time liabilities are an indication of better asset utilisation in the UCBs.

The credit deposit ratio (table 4.27) for the sample was 66.45 percent. Majority of the UCBs showed better position than the sample amount.

The analysis of the three groups of the UCBs made the position of loans and advances more clear. The first group had less than one third of the loans and advances given by the other two groups. But their percentage to total funds and working capital was more than that of the other two groups.

The high positive correlation between loans and deposits (0.95) implied the fact that UCBs could improve loan business at par with deposits mobilised.

It was inferred from the analysis that the UCBs with lesser funds were using larger proportion of their total funds for loans and advances compared to the UCBs with more resources. The over all loans and advances in the UCBs were about 52 percent of total funds.

The correlation coefficient 'r' between loans and advances and total assets was highly positive.

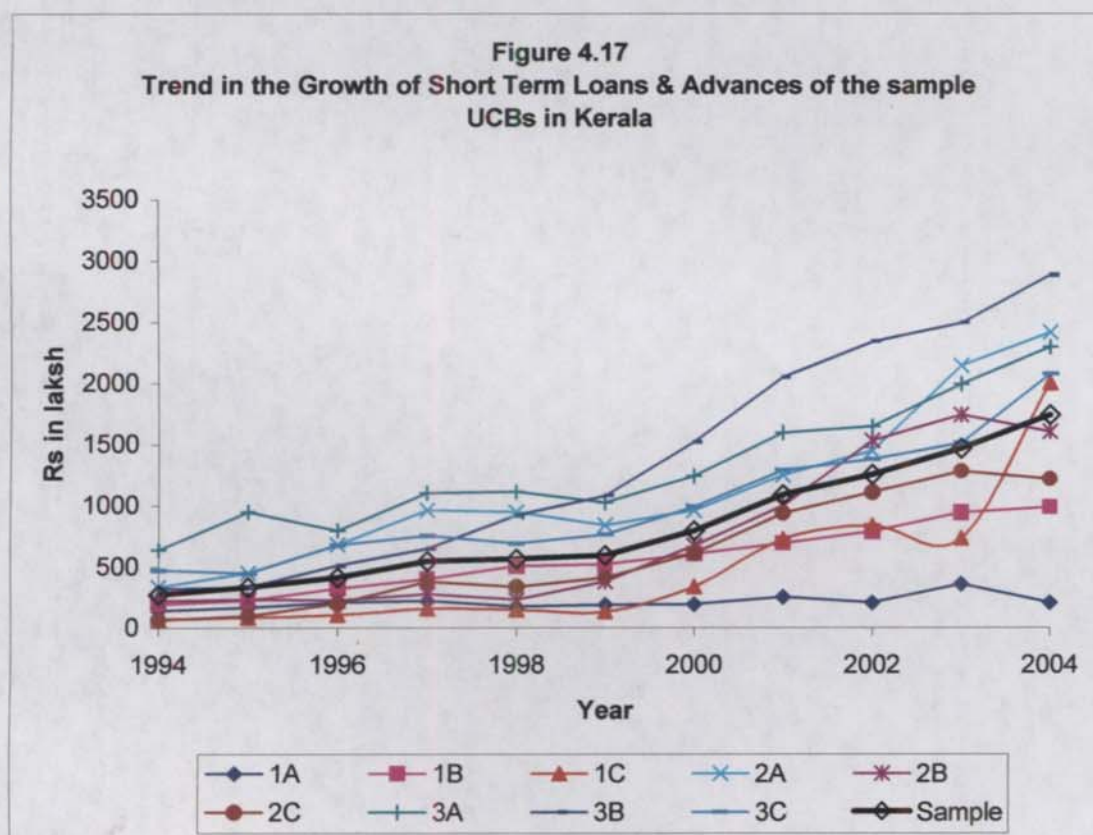
CLASSIFICATION OF LOANS

The performance of the different types of loans and advances of the UCBs and their groups were made in the following section.

Short-term Loans and Advances

Table A.16 (Appendix) and Figure 4.17 exhibit the amount of short-term loans issued by the selected UCBs and their three groups for the period from 1994 to 2004.

The absolute amount of short-term loans and advances (Table A.16 appendix and figure 4.17) issued by the UCBs showed an increasing trend but with fluctuations over the study period. The absolute amounts were the highest, for 3A (640.63 lakh) followed by 3C and 2A in the year 1994. While the highest amount of short-term loans outstanding in 2004 was, for 3B (Rs 2881.28 lakh) followed by 2A and 2B. The growth in the amounts of short-term loans outstanding, showed an increasing trend for all banks in the sample.



The average amount of short -term loans and advances of the selected UCBs in the sample, their growth and relation with total funds and loans and advances for the period 1994 -2004 are shown in table 4.20.

Table 4.20
Average amount of Short-term Loans and Advances of the
Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR	Short-term Loans and Advances to	
			Total Funds (%)	Total Loans and Advances (%)
1A	209.98	3.5	18.92	35.77
1B	562.65	15.93	40.62	72.16
1C	484.62	35.14	16.71	27.09
Group One	419.09	20.57	23.3	39.84
2A	1129.42	19.65	20.74	39.63
2B	737.86	19.74	11.73	17.82
2C	603.05	30.9	7.08	18.42
Group Two	823.44	21.41	12.2	24.07
3A	1308.15	12.29	18.97	42.81
3B	1370.96	22.13	20.46	36.77
3C	1003.68	14.39	13.73	25.43
Group Three	1227.6	15.88	17.62	34.32
Sample	823.37	18.33	15.92	30.69

Table 4.20 showing particulars of the average short- term loans and advances makes it clear that, about 16 percentage of the total funds of the UCBs were lent for short- term requirements. This comes about 30 percent of the total loans and advances of the sample UCBs. The growth rate in short-term loans and advances was 18.33 percent.

Banks in the first group were lending about 40 percent for short-term. The CAGR was 20.57 percent for the first group. There were five banks with short-term loans and advances less than that of the sample average (Rs 823.73 lakh).

Two banks were with short-term loans and advances less than 50 percent of the sample average.

The CAGR for the sample for the first term (1994-1999) was lesser (13.8%) than the rate after 1999 (17.08%). This seems to be a positive sign in the sense that UCBs can role the funds more productively and profitably and can manage the loan recovery timely and effectively.

Medium- term loans and advances

The amount of medium- term loans and advances, in absolute figures, of the selected UCBs during the period studied are shown in table A.17 (Appendix) and Figure 4.18.

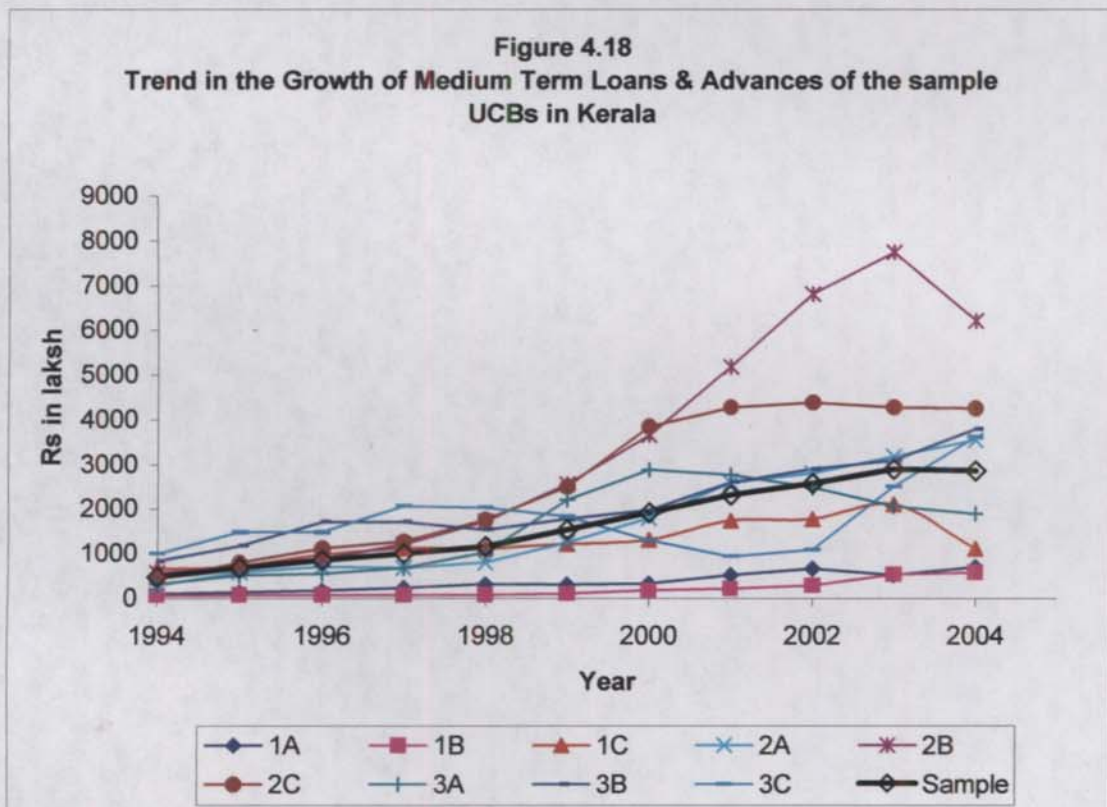


Table A.17 and figure 4.18 showed that medium-term loans and advances of selected UCBs had shown growth during 1994 - 2004. In the year 2004, the amount lent by way of medium-term loans showed a slight decline in 1B, 2B, 2C and 3A. In the beginning, the highest amount was lent by 3C (Rs. 999.63 lakh) and the lowest amount outstanding was in 1B (Rs. 73.53 lakh).

The CAGR for the sample UCBs during the second term (8.26%) was lesser than the rate of growth for the first term (21.31) The CAGR was 17.56% for the sample UCBs during the period of study.

The average amount of medium-term loans and advances of the selected UCBs in the sample, their growth and relation with total funds and total loans and advances for the period 1994 -2004 are shown in table 4.21.

Table 4.21
Average amount of Medium-term Loans and Advances of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Medium-term Loans and Advances to	
			Total Funds (%)	Total Loans and Advances (%)
1A	363.1	18.4	32.71	61.86
1B	208.72	20.59	15.07	26.77
1C	1256.64	4.91	43.32	70.26
Group One	609.48	9.96	33.89	57.95
2A	1654.45	25.11	30.38	58.05
2B	3384.16	24.01	53.81	81.74
2C	2627.23	23	30.83	80.26
Group Two	2555.3	23.95	37.84	74.69
3A	1577.53	17.37	22.87	51.63
3B	2098.8	14.69	31.33	56.29
3C	1756.98	12.38	24.04	44.51
Group Three	1811.1	14.16	25.99	50.63
Sample	1658.6	17.58	32.06	61.81

Table 4.21 showed average amount of medium- term loans issued by the selected UCBs during the study period. CAGR of 1C was less than 5 percent. The highest growth was made by 2A (25.11%).

The growth rate for the sample as a whole was 17.58 %. Two UCBs groups and four UCBs had growth less than the sample.

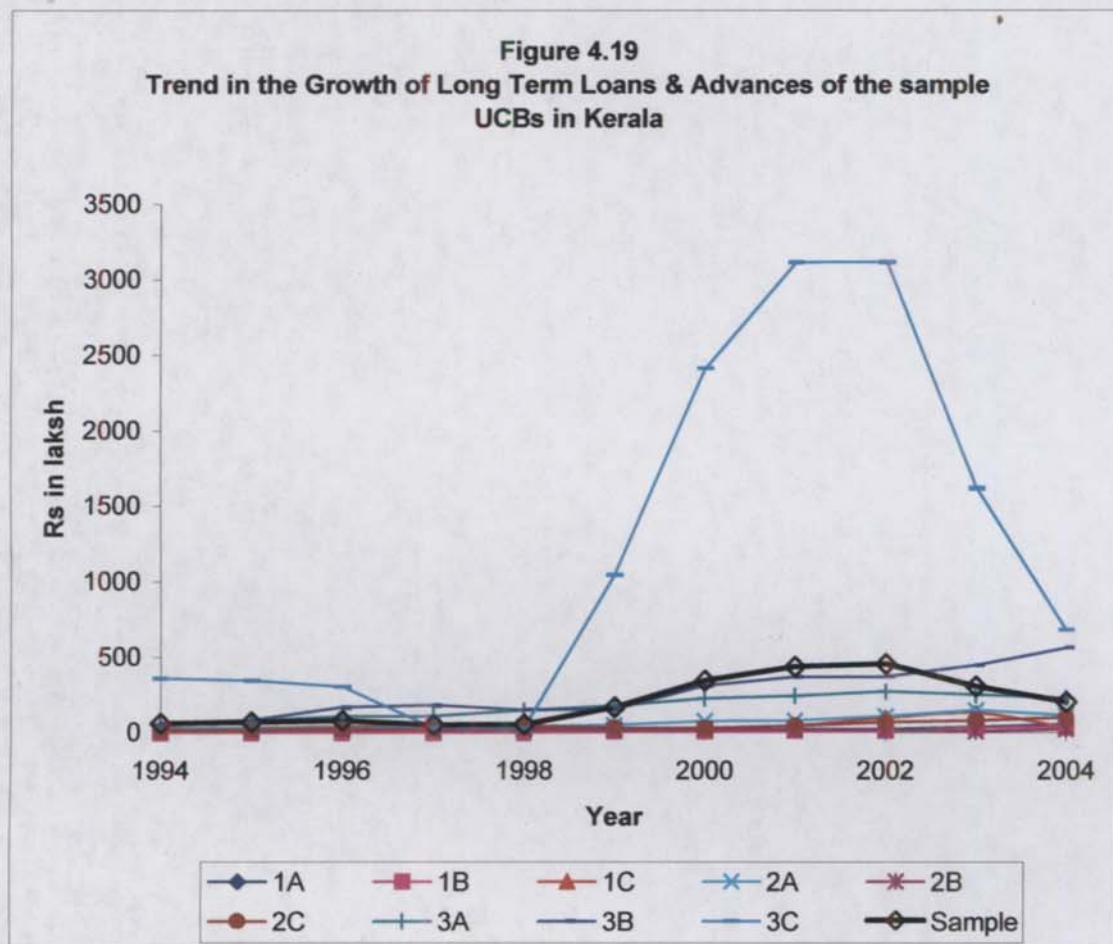
The percentage of medium- term loans to total assets of the selected UCBs was between 15.06 and 53.8. The average medium- term loans to total funds of the sample was 32.06 percent. There were five UCBs with average that was less than 32.06. The percentage was 53.81 for 2C.

The percentage of medium- term loans to total loans for the sample was 61.81. To total loans and advances it was the lowest (44.51%) in 2C and the highest in 2B (81.74%).

The second and third groups had absolute amounts of medium-term loans higher than the overall average. The percentage of average medium-term loans to total funds was 32.06 and to total loans, it was 61.8 percent. Most of the UCBs in the in the sample had medium- term loans more than 50 percent of the total loans and advances.

Long-term Loans and Advances

The UCBs have been providing only small amounts by way of long -term loans and advances to customers. Table A.18 (Appendix) and figure 4.19 shows the long-term loans and advances of the selected UCBs from 1994 to 2004.



It is clear from table A.18 and figure 4.19 that 1A and 1B were lending small amounts by way of long-term loans till 2000. 1C, 2B, and 2C were very poor in lending for long term. Banks in the third group and 2A made reasonable advances. The CAGR was low during the second term of the study period compared to the first term.

The average amount for first and second groups had not improved much till the end of 2004. But banks in the third group, particularly 3C, attained very good progress in the amount of long-term loans.

The average amount of long- term loans and advances of the selected UCBs, the CAGR and the percentage to total funds are shown in table 4.22.

Table 4.22
Average Long-term Loans and Advances of the Sample UCBs
and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Long-term Loans and Advances to	
			Total Funds (%)	Total Loans and Advances (%)
1A	13.92	31.01	1.25	2.37
1B	8.4	-	0.61	1.08
1C	47.4	1.63	1.63	2.65
Group One	23.24	1.29	2.21	23.24
2A	66.28	15.23	1.22	2.33
2B	17.91	2.88	0.28	0.43
2C	43.05	18.76	0.51	1.32
Group Two	42.41	0.63	1.24	42.41
3A	169.95	15.35	2.46	5.56
3B	258.47	21.86	3.86	6.93
3C	1186.4	5.92	16.23	30.06
Group Three	538.28	7.72	15.05	538.28
Sample	201.31	3.89	7.5	201.31

Table 4.22 showed that the long- term loans and advances of the sample UCBs was very less. The percentage of long term loans was less than one percent of total funds for three banks (1B, 2B and 2C), between three and five percent for five UCBs and was greater than 10 percent in one bank (3C) in the sample.

Bank 3C had about 5.75 times (Rs 1186.43 lakh) of the average amount of long-term loans than the sample average (Rs 201.31 lakh). Seven UCBs had long-term loans less than the sample amount. All the UCBs, except 3C, had

average long-term loans to total funds less than the sample average of 3.89 percent.

The average amount of long-term loans to total loans and advances of UCBs in the sample was also less than the sample average except for 3C.

The low amount of long-term loans coupled with high amount of fixed deposits, fall in the rate of return from investments and advances suggests for seeking and making a change in the lending pattern of the UCBs.

The low correlation ($r=0.35$) between long-term loans and total loans also made the fact clear that long-term loans made not much effect on total loans as in the case of short term and medium term loans.

The deposits that the UCBs received were largely of the long-term type. It is inferred that these deposits are for lengthy periods. The lending portfolio of UCBs was mainly for short-term and medium-terms. Hence the UCBs are to make efforts to identify avenues for lending funds safely for longer periods.

The correlation between the various types of loans and advances with the total loans and advances is given in table 4.23.

Table 4.23

Correlation Matrix of Loans and Advances of sample UCBs in Kerala

Banks		Short Term	Medium Term	Long Term
1A	Loans and Advances	0.659204	0.978358	0.877697
1B		0.981719	0.967567	0.919732
1C		0.863077	0.785894	0.631683
2A		0.967629	0.990331	0.96068
2B		0.985667	0.999242	-0.2745
2C		0.963595	0.996478	0.808163
3A		0.820548	0.952563	0.975519
3B		0.991225	0.99113	0.985876
3C		0.945861	0.386773	0.696674
All Banks		0.809551	0.912196	0.357698

The correlation between medium term loans and total loans and advances was highly positive. While the short-term loans and advances to total loans was moderately high and between long-term loans and total loans was very low.

From the analysis, it was inferred that the UCBs loans and advances were increased mainly by the increase in medium term and short-term loans and advances.

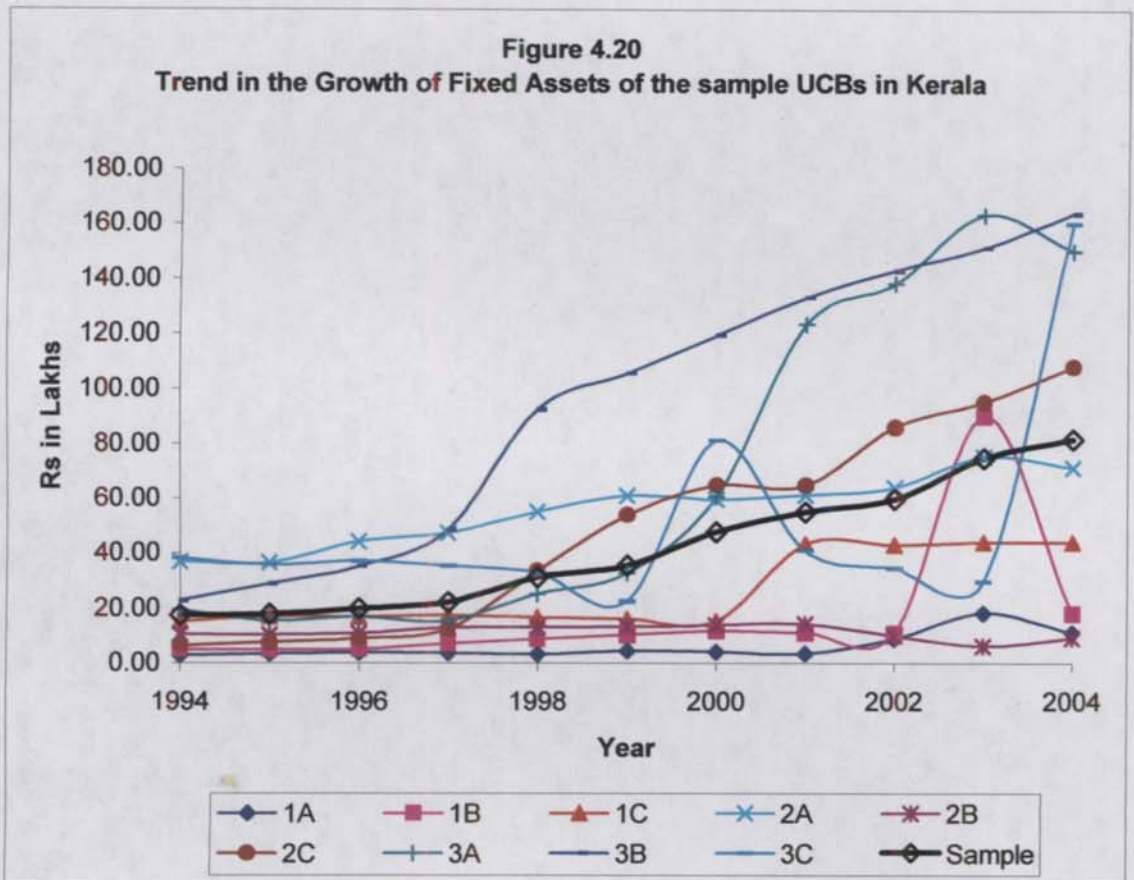
A high positive correlations were found between short term loans and advances and total advances ($r=0.81$) and medium-term loans and advances to total loans ($r=0.91$). For 2B, the correlation between medium-term loans to total loans was 0.999 and for 3B, the correlation between short-term loans to total loans was 0.99.

The correlation between long- term loans to total loans for the sample was 0.36. A low correlation of -0.27 (2 B) and a high correlation of 0.98 (3B) were also found between short-term loans and total loans in the sample.

FIXED ASSETS

Assets such as office premises, furniture and fixtures, office appliances, vehicles etc constitute fixed assets of the UCBs. These are non- yielding assets helping the operations of the bank.

The amount of fixed assets owned (after depreciation) and its growth during the study period was shown in tables A.19 (Appendix) and figure 4.20.



The fixed assets owned by the sample UCBs, in absolute terms (after depreciation), their three groups and growth were exhibited in table A.19 and figure 4.20. The UCBs in sample had small amounts of investment in fixed assets. All banks, except 2B, made additional investments in fixed assets during the period of study. Bank 3B made the highest amount of investment. It had completed the construction of the head office building and the computerisation of all its branches by 1998 itself. Though 3C had the highest amount in the year 1994, no growth was found till 2003 in its fixed assets. By 2004, 3C also invested a good amount in fixed assets.

The sample UCBs made substantial investments in fixed assets (especially for computerisation), and head office building in recent years.

The CAGR during the second term (2000-2004) of the study period, for the sample was (11.31) less than the CAGR (11.31) for the first term (1994-2000).

The average amount of fixed assets of the selected UCBs in the sample, their growth and relation to total assets and share capital for the period 1994 -2004 are shown in table 4.24.

Table 4.24
Average Fixed Assets of the Sample UCBs and their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Fixed Assets to	
			Total Assets (%)	Share Capital (%)
1A	6.04	11.24	0.54	19.50
1B	16.56	12.28	1.20	48.05
1C	26.19	10.27	0.90	29.96
Group One	16.27	11.14	0.90	31.92
2A	55.65	6.16	1.02	68.91
2B	11.26	-1.27	0.18	6.01
2C	49.23	29.33	0.58	33.04
Group Two	38.71	12.88	0.57	27.85
3A	69.10	20.44	1.00	78.93
3B	94.87	19.71	1.42	79.12
3C	49.81	13.87	0.68	29.59
Group Three	71.26	17.50	1.02	56.89
Sample	42.08	15.07	0.81	40.04

The average amount of fixed assets held by the sample UCBs was Rs .42.08 lakh. Four UCBs had fixed assets less than the sample average.

The growth rate (CAGR) for the sample (15.07) was higher than the growth rate of six UCBs in the sample. The highest growth rate was found in 2C (29.33%) and the lowest for 2B (-1.27).

The details of average fixed assets held by the selected UCBs in relations to total assets were less than 1.42 percent (3B) for all the UCBs. The lowest percentage of 0.18 was for 2B, while the percentage for the sample average was 0.81. Two banks in the first group (1B and 1C), one in the second group (2A) and two banks in the third group (3A and B) had fixed assets to total funds more than the sample average.

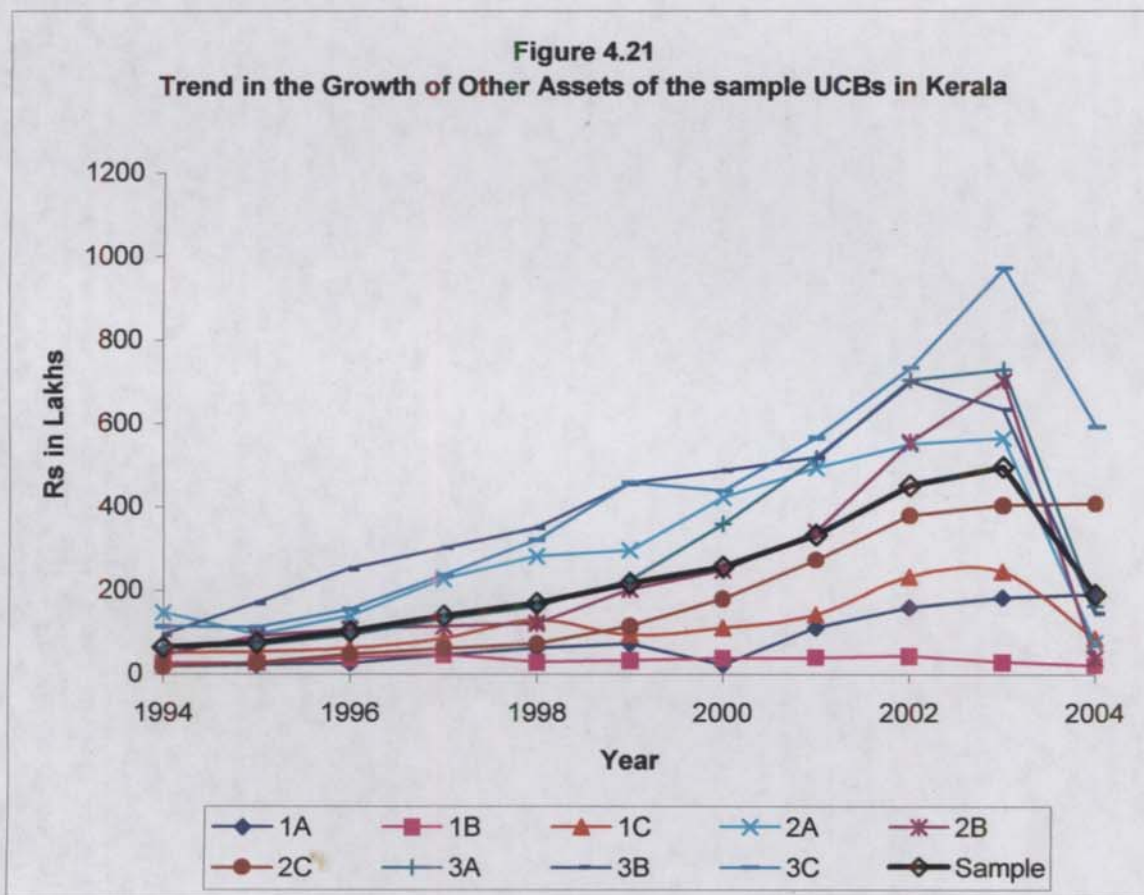
The funds invested in fixed assets were very less for all UCBs. Fixed assets are permanent assets and are deemed to be funded by the permanent source of funds namely share capital. The relationship between share capital and fixed assets made clear that the UCBs in the third group used 57 percent (the highest) of their share capital in fixed assets development. The second group made investments in fixed assets of about 28 percent of share capital and first group used 32 percent of their share capital. The sample average (percentage) of share capital to fixed assets was only 40.04.

Five UCBs in the sample had lower average investment of share capital than the sample average.

From the above analysis, it was inferred that the UCBs on an average, made only small amounts of investment in fixed assets during the study period. The fixed assets to share capital for the sample were less than 50 percent of the amount of average amount of share capital.

OTHER ASSETS

The amount of other assets of the selected UCBs was shown in table A.20 (Appendix) and figure 4.21.



The absolute amount of other assets of the sample UCBs shown in table A.20 and figure 4.21 made clear that there was a fluctuating trend in the amount of other assets through out the study period. The least amount of Rs. 18.36 lakh was for 1A and the highest amount of Rs. 115.04 lakh was for 3C in the year 1994. The amount was the least for 1B (Rs. 21.10 lakh) and the highest for 2C (Rs. 407.36 lakh) in the year 2004. The CAGR was the highest for 2C and the least for 1B (-2.61 percent).

The amount of other assets of the sample UCBs made a steady growth till 2003 and there was a sharp decline in 2004.

The average amount of other assets of the selected UCBs in the sample, their growth and relation with total assets for the period between 1994 and 2004 are shown in table 4.25.

Table 4.25
Average Other Assets of Sample UCBs and
their Groups (1994-2004)

Bank	Amount (Rs. lakhs)	CAGR (%)	Other Assets to Total Assets (%)
1A	83.23	23.73	7.50
1B	33.86	-2.61	2.44
1C	117.30	4.87	4.04
Group One	78.13	10.69	4.34
2A	316.26	-5.92	5.81
2B	233.58	-1.77	3.71
2C	180.32	32.22	2.12
Group Two	243.39	8.50	3.60
3A	348.74	8.89	5.06
3B	373.56	4.02	5.58
3C	427.11	16.05	5.84
Group Three	383.14	11.44	5.50
Sample	234.88	10.33	4.54

Average other assets of the sample UCBs, showed a mixed trend. The CAGR was negative for many UCBs. The other assets, as percentage to total assets, were less than 8 percent for all the UCBs in the sample. The three groups had other liabilities less than 5.5 percent.

The average amount of other assets for the sample was Rs 234.88 lakh and its growth rate for the period was 10.33 percent. It was about 4.54 percent of total assets. Five UCBs and the second group had other assets less than that of the sample average.

Other liabilities, being amounts due to UCBs, the lesser the proportion to total assets, the better the position from the point of view of funds management and collection of dues to the bank.

Correlation Matrix of Sources and Uses of Funds

The relationship between the various sources and uses of funds of the sample UCBs, is given in an abridged form in table 4.26.

The analysis of the various assets of the sample UCBs made clear that the UCBs in general, deployed their funds in conventional avenues like loans and advances, investments in central and state government securities, treasury bills and cash for meeting statutory requirements. The investments in fixed assets and other assets were very less.

The correlation was negative for borrowings with all other sources and uses. The positive correlation existed in the remaining sources and uses indicates that such sources and uses are growing during the period. The growth between the various sources and uses differ according to the value of correlation.

Table 4.26
Correlation Matrix of Sources and Uses of Funds of
sample UCBs in Kerala (1994-2004)

Sources and uses of funds	Share Capital	Reserves	Deposits	Borrowings	Other assets	Loans and advances	Cash and Bank	Investment to govt.	Fixed assets	Other assets
Share Capital	1.000	0.839	0.859	-0.061	0.622	0.931	0.513	0.732	0.444	0.602
Reserves	0.839	1.000	0.885	-0.094	0.426	0.902	0.354	0.896	0.556	0.708
Deposits	0.859	0.885	1.000	-0.118	0.581	0.954	0.496	0.796	0.704	0.744
Borrowings	-0.061	-0.094	-0.118	1.000	-0.084	-0.046	-0.072	-0.120	-0.083	-0.031
Other assets	0.622	0.426	0.581	-0.084	1.000	0.525	0.963	0.339	0.345	0.369
Cash and Bank	0.513	0.354	0.496	-0.072	0.963	0.418	1.000	0.280	0.323	0.205
Investment to govt.	0.732	0.896	0.796	-0.120	0.339	0.761	0.280	1.000	0.555	0.533
Loans and advances	0.931	0.902	0.954	-0.046	0.525	1.000	0.418	0.761	0.572	0.733
Fixed assets	0.444	0.556	0.704	-0.083	0.345	0.572	0.323	0.555	1.000	0.598
Other assets	0.602	0.708	0.744	-0.031	0.369	0.733	0.205	0.533	0.598	1.000

EFFICIENCY IN DEPLOYMENT OF FUNDS/LENDING OPERATIONS

The management of lending operations of the urban co-operative banks involve a number of processes such as credit appraisal, sanction and disbursement of loans, documentation, monitoring and supervision, management of loan recovery etc. All these steps have their significance and importance in all types of lending. But credit appraisal and management of recovery assume greater significance.

While lending funds by the UCBs, proper assessment of the credit requirements, repayment capacity, past relationship etc should be carefully reviewed. In the case of lending to institutions, technical feasibility, economic

viability marketing potential and managerial capability of the institution which seek financial help should be assessed properly. Sanctioning the loans with proper backing of securities (both primary and collateral) periodical inspection, getting statements at periodical intervals, insurance coverage, etc. help the UCBs to reduce the risk of assets becoming non-performing.

The criteria for sanctioning loans should be the repaying capacity, reproductive capacity, value of security and credit worthiness of borrowers. Care should also be taken to see whether the bank has fully utilized all the available funds and also some cheaper resources such as refinance from apex agencies.

For the assessment of the efficiency and effectiveness of the UCBs funds management, the commonly used tools of ratio analysis are: the ratio of deposits to loans and advances, earning assets ratio and assets utilisation ratio.

CREDIT- DEPOSIT RATIO

Credit–deposit ratio indicates the total advances in relation to total deposits collected by each bank. It shows the management’s alertness to improve the income of the bank. The higher the ratio, the larger the funds deployed and is a sign of effective utilization of available funds. But if, the ratio exceeds the tolerance level, the liquidity will be adversely affected.

The credit –deposit ratios of the selected UCBs are given in table 4.27.

Table 4.27
Credit–deposit ratio of the sample UCBs in Kerala for
the period between 1994 and 2004

Year	Group	A	B	C	Average	Sample Average
1994	1	65.99	70.46	84.24	76.89	73.06
	2	66.80	87.12	60.92	71.90	
	3	55.29	68.63	91.51	72.49	
1995	1	72.61	65.95	75.67	72.78	79.28
	2	93.40	89.68	66.96	84.35	
	3	76.58	67.70	89.82	78.62	
1996	1	73.01	75.66	79.31	77.17	80.34
	2	77.02	90.54	79.26	86.82	
	3	70.39	81.41	79.15	77.74	
1997	1	75.21	72.74	79.70	77.43	77.08
	2	77.38	89.00	70.72	78.01	
	3	66.66	83.83	78.50	76.37	
1998	1	75.88	70.28	69.68	71.15	67.70
	2	68.22	89.03	64.34	72.26	
	3	59.16	73.37	60.33	63.64	
1999	1	53.96	54.76	62.40	58.51	60.65
	2	57.43	88.25	50.66	62.41	
	3	53.81	64.18	62.98	59.85	
2000	1	48.21	52.60	64.82	58.46	63.69
	2	59.88	89.89	55.99	66.37	
	3	52.77	64.37	63.89	62.69	
2001	1	68.43	57.13	81.20	71.80	68.85
	2	70.39	88.20	63.76	73.78	
	3	52.24	69.12	72.10	63.73	
2002	1	66.85	63.92	74.33	70.20	64.56
	2	59.20	86.20	59.06	69.04	
	3	44.06	66.62	67.97	58.68	
2003	1	64.15	78.07	82.72	73.37	64.76
	2	70.40	85.75	57.36	71.85	
	3	36.17	58.48	65.74	55.51	
2004	1	64.09	70.77	78.15	73.32	62.89
	2	67.26	70.48	55.11	64.39	
	3	42.90	63.61	70.76	58.77	

Source: Compiled from the annual reports and records of banks

The credit–deposit (C-D) ratio (percent), as shown in table 4.27, made clear that the C-D ratio was ranging between 58.46 and 79.8 percent for the first group.

The C-D ratio for the second group UCBs was between 57.43 and 93.40 percent for 2A, for 2B, it was 70.48 to 90.54 percent and 55.11 to 79.26 percent for 2C. The average for the sample was between 62.41 and 86.82 percent.

The Credit-Deposit ratio of the selected UCBs in the third group during the period studied was between 36.17 and 76.58 in 3A, 58.48 to 73.37 in 3B and 60.33 to 91.51 in 3C. The ratio for the third group was 55.51 to 78.62 percent.

The C-D ratio for the sample UCBs ranged between 60.65 percent (1998) and 80.34 percent (1996). The ratio showed a fluctuating trend. In 1994, the ratio which was 73.03 percent went up to 80.34 percent by 1996. There after, the ratio declined sharply and gone down to 60.65 in 1998. After a slight recovery; it was again gone down to 62.89 percent by the end of the study period. Over the years, the credit deposit ratio showed a continuous decline.

Table 4.28
Average Credit Deposit Ratio of the Sample UCBs and
their Groups (1994-2004)

Bank	CD Ratio	Interest Income	Interest Expenses	Net Profit
1A	64.55	116.92	83.3	-4.99
1B	66.21	166.71	117.06	5.53
1C	74.47	341.41	237.72	1.35
Group One	70.29	208.35	146.03	0.63
2A	67.29	518.61	291.94	33.26
2B	83.99	822.71	564.57	18.19
2C	59.17	766.09	546.14	42.4
Group Two	69.84	702.47	467.55	31.28
3A	50.88	753.04	590.83	14.66
3B	66.64	646.39	528.46	37.25
3C	71.03	897.94	641.56	42.51
Group Three	62.55	765.79	586.95	31.47
Sample	66.45	558.87	400.18	21.13

The average credit deposit ratio of the sample UCBs for the eleven years were ranging between 50.88 percent (3A) and 83.99 percent (2B). Some UCBs were granting loans to the extent of 84 percent of their deposits. The lowest ratio was in 3A (50.87 percent).

The C-D ratio for the groups was the highest in the first group and the lowest in the third group. The over all average was 66.45 percent Five UCBs were with C-D ratio higher than the all group average.

The average C-D ratio of all banks in Kerala for the period 1995- 2004 was 43.3 percent. The C-D ratio for the selected Public Sector Banks (PSBs) in India was 54.8 percentage. The inference made from the above analysis was that the UCBs had higher C-D ratio compared to the credit deposit ratio of the public sector banks in India.

1. Earning Assets of UCBs

These are assets that generate income to the banks by way of interest, dividends, etc. The earning assets of the UCBs consist of : (a) Loans and advances given to borrowers, depositors, and other customers and (b) Investments in government and other securities, treasury bills, deposits in other banks.

The amount of earning assets of the selected UCBs for the period 1994 to 2004 is shown in table 4.29.

Table 4.29
Earning assets of the sample UCBs from 1994 to 2004 (Rs. in lakhs)

Year	Group	A	B	C	Average	Sample Average
1994	1	378.48	384.99	997.41	586.96	1222.52
	2	890.56	1114.96	933.28	979.60	
	3	1926.24	1846.97	2529.77	2100.99	
1995	1	441.09	471.96	1182.95	698.67	1536.87
	2	1590.51	1263.11	1389.81	1414.48	
	3	2143.45	2389.25	2959.69	2497.46	
1996	1	558.61	559.99	1532.69	883.76	1849.81
	2	1677.89	1521.68	1875.06	1691.54	
	3	2200.99	3129.57	3591.83	2974.13	
1997	1	629.92	671.32	1773.32	1024.85	2288.66
	2	2309.18	2020.22	2621.19	2316.86	
	3	2966.49	3384.69	4221.62	3524.27	
1998	1	717.33	881.86	1993.62	1197.60	2813.04
	2	2584.24	2549.12	3623.57	2918.98	
	3	4022.45	3761.07	5184.14	4322.55	
1999	1	1004.95	1243.54	2429.66	1559.38	4097.89
	2	4103.81	3918.95	6267.54	4763.43	
	3	6596.11	4866.24	6450.22	5970.86	
2000	1	1154.12	1556.92	2841.99	1851.01	5272.07
	2	4950.38	5732.10	8820.77	6501.08	
	3	8645.16	6281.91	7465.24	7464.10	
2001	1	1316.14	1726.34	3383.45	2141.98	6128.92
	2	5837.62	8206.12	9136.78	7726.84	
	3	9132.12	7820.40	8601.33	8517.95	
2002	1	1371.28	1827.79	4003.71	2400.93	7371.34
	2	8347.67	11233.30	10631.90	10070.96	
	3	10247.77	9010.35	9668.33	9642.15	
2003	1	1495.96	2180.88	4415.45	2697.43	8095.26
	2	8915.93	13047.41	11164.34	11042.56	
	3	10189.79	11075.89	10371.70	10545.79	
2004	1	1630.29	2631.82	4455.82	2905.98	8624.76
	2	10036.82	13494.75	11452.52	11661.36	
	3	10623.54	12283.14	11014.14	11306.94	
CAGR 94-04	1	14.20	19.09	14.58	15.65	19.44
	2	24.63	25.44	25.60	25.25	
	3	16.79	18.80	14.31	16.53	
CAGR 94-99	1	17.67	21.58	16.00	17.69	22.34
	2	29.00	23.31	37.36	30.16	
	3	22.77	17.52	16.88	19.02	
CAGR 00-04	1	7.15	11.07	9.41	9.44	10.35
	2	15.18	18.68	5.36	12.40	
	3	4.21	14.35	8.09	8.66	

Source: Compiled from the annual reports and records of banks

The earning assets of the selected UCBs for the period from 1994 to 2004 shown in table 4.46 illustrates that there was a continuous increase in the amount of earning assets during the period of study for all the banks. The lowest amount was for 1A, both in the year 1994 (Rs. 378.48 lakh) and 2004 (Rs. 1630.29 lakh). It was the highest (Rs. 2529.77 lakh) for 3C in 1994 and for 2B (Rs. 13494.75 lakh) in 2004.

The earning assets of the three groups and the all group average also showed a steady growth during the period of study. The all group average, which was Rs. 1222.52 lakh in 1994, rose to Rs. 8624.76 lakh by 2004.

The CAGR for the period between 1994 and 1999 was higher for all the UCBs compared to the period after 2000. The highest growth was for group second and the lowest growth was for 1A in the two sub periods.

The interest incomes and earning assets showed similar pattern in their growth.

During the year 1994, 3C earned the highest amount of interest income and the minimum amount was earned by 1A. In 2004, the highest amount of interest was earned by 2B and the lowest amount by 1A.

It can be inferred from above that, other things being the same, the larger the amount of earning assets, the greater the amount of interest income earned and vice versa.

2. ASSET UTILISATION RATIO

The assets of the UCBs are cash in hand and at bank, investments, loans and advances, fixed assets and other assets. Cash and bank balance kept for CRR purpose and a portion of assets in SLR may not earn anything. Fixed assets though are essential for doing business and earning income, they are subjected to deterioration in value due to depreciation. If the ratio of earning assets to total assets is increasing the position of the bank also will be improving.

The ratio earning assets to total assets (percent) of the selected UCBs is given in table 4.30.

Table 4.30
Earning assets to total assets of the sample UCBs (percent)
from 1994 to 2004

Year	Group	A	B	C	Average	Sample Average
1994	1	91.75	88.44	91.17	90.68	87.51
	2	77.03	92.39	67.77	78.58	
	3	92.96	90.06	91.40	91.47	
1995	1	90.44	90.41	91.42	90.98	88.50
	2	87.75	89.33	73.86	83.07	
	3	93.29	88.65	91.77	91.17	
1996	1	92.04	89.67	91.75	91.36	87.90
	2	80.53	89.13	77.73	81.81	
	3	92.46	88.63	91.54	90.72	
1997	1	88.92	88.08	91.39	90.14	86.40
	2	82.96	90.37	73.99	81.18	
	3	90.45	87.23	89.67	89.09	
1998	1	87.74	90.68	89.45	89.40	84.40
	2	74.63	91.89	71.58	77.50	
	3	90.80	86.91	87.53	88.33	
1999	1	88.23	93.20	91.73	91.33	85.07
	2	80.17	91.76	72.64	79.31	
	3	91.24	86.83	87.43	88.63	
2000	1	92.61	92.01	91.80	92.02	87.29
	2	81.10	92.24	77.93	82.51	
	3	92.51	88.75	90.35	90.71	
2001	1	87.96	93.68	90.98	91.04	86.26
	2	85.79	92.95	70.65	81.15	
	3	90.49	89.92	90.19	90.21	
2002	1	85.07	93.57	89.84	89.79	86.24
	2	87.46	91.67	71.95	82.60	
	3	89.69	88.59	90.06	89.47	
2003	1	84.28	92.28	89.49	89.20	86.25
	2	90.39	91.81	71.06	83.26	
	3	88.93	88.99	88.58	88.84	
2004	1	85.47	96.26	92.30	92.07	88.92
	2	91.34	95.93	71.19	85.03	
	3	94.50	92.99	90.08	92.48	

Source: Compiled from the annual reports and records of banks

The ratio of earning assets to total assets of the sample UCBs and their groups shown in table 4.47 made clear that it was ranging between 78 to 91 percent for the banks in the sample. For the first group, the range for the percentage was 89.20 and 92.7 .For the second group, earning assets to total assets was between 77.50 and 85.03 percent. For the third group, the ratio of earning assets to total assets was ranging between 88.33 and 92.48 percent.

The point noted was that, for second group, though the ratio of earning assets to total assets was less, had the highest absolute amounts.

The average of the earning assets to total assets of the sample UCBs showed more or less the same percentage throughout the study period. At the beginning of the study period it was 87.51 percent. In the year 1998, though it declined to 84.40 percent, the all group ratio of earning assets to total assets reached 88.92 percent by 2004.

Conclusion

Analysis of the various sources and uses of funds made clear that the UCBs in Kerala had five major sources of funds and six avenues for its deployment. Deposits constitute the single major source of funds. Among the various types of deposits, fixed deposits come about 80 percent of total deposits. The current and saving deposits and borrowings were very less.

The UCBs were able to increase the amount of loans and advances significantly. The cash and bank balances together with deposits in apex institutions were more than the minimum required amount. Investments in

government securities were less and the UCBs were not able to make high amounts of investments till 2002. Short-term and medium-term loans constitute the major component of loans. Earning assets of the UCBs showed a steady progress.

This chapter had given a clear idea about how the UCBs mobilised their resources and deployed in different types of assets. The UCBs are to make sure that the deployed funds generate adequate returns by ensuring liquidity of the deployed funds. Determination of the rate for the of loans and advances, construction of assets portfolio, ensuring liquidity of funds to pay off the liabilities, earning of incomes on a substantial basis etc are core areas of funds management. There should not have any problem for the money lent. The assets should be performing and income generating. The next chapter titled as asset-liability management examines these aspects in detail.

ASSET-LIABILITY MANAGEMENT IN UCBs

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter Five

ASSET-LIABILITY MANAGEMENT IN UCBs

ASSET-LIABILITY MANAGEMENT IN THE URBAN CO-OPERATIVE BANKS

This chapter is presented in two sections. Section one describes the need for asset-liability management and tools for asset-liability management in the UCBs. Section two deals with the impact of non-performing assets and the need for NPA management.

SECTION – ONE

Introduction

The Indian economy is in the consolidation phase of the liberalisation and globalisation process initiated in the year 1991. Policy frame work for banking sector like allowing freedom for fixing interest rate, transparency in performance, diversification of banking and financial activities, adoption of sophisticated technology etc have been introduced since then. Banks in India have been experiencing risks associated with the reform. Credit risk, liquidity risk, interest rate risk and exchange rate risk are some of the major sources of concern to the banks.

Banks can minimise these risks to a certain extent provided they follow sound business practices. They have to undertake rigorous exercises in different fields to optimise earnings and to satisfy the requirements of safety and liquidity. The introduction of Asset-Liability Management (ALM) is a measure to manage some of these risks.

If banks go on increasing loans and investments portfolio with the interest of maximising spread, the liquidity will be affected. On the contrary, if high liquidity is maintained, the profitability would be adversely affected. In this context, the management of funds by keeping liquidity, profitability and safety is a crucial task.

Asset liability management is a process of managing the net interest margin (spread) within the overall risk bearing capacity of the bank.

As part of funds management process, the UCBs are to make strategic planning of their assets and liabilities. To make the balance sheet more transparent in line with the capital adequacy and provisioning norms, there is a need to micro manage assets and liabilities by considering their maturity profiles, risks and spread.

Asset Liability Management in the UCBs

ALM was introduced in commercial banks with the objective of enlarging the interest spread and profitability. To the UCBs, it is a new concept and it has not been implemented so far. Intense competition, both in the asset and liability markets, falling spread, changing regulatory environment, introduction of new financial products etc may make it mandatory for the UCBs to frame policy to implement ALM.

The UCBs mobilised their resources mainly from deposits. Fixed deposits, a costly source, constitute on an average about 85 percent of the total deposits. Current and savings deposits, which are less costly, make up about three to five percent and 12 to 15 percent respectively of total deposits.

In the process of resource mobilisation, the two possible mismatches that may occur simultaneously are:

- a) Maturity miss-match between assets and liabilities, and
- b) Interest rate miss-match between interest rate sensitive assets and interest rate sensitive liabilities.

Considering these two aspects in the whole area of sources and the avenues for mobilisation and deployment of funds, the ALM system can be focused to the following:

- 1) Interest Risk Management
- 2) Liquidity Gap Management
- 3) Interest Spread Management.

Quantification of risks

To measure the risk, the information required is the probability of an event to occur and its consequence. Accordingly risk is the product of the probability of an event and the consequence of that event. The probability varies between 0 and 1. It is possible to assign probability of an event based on the past experience of decision makers. Consequences are subjective and the magnitude of loss varies from bank to bank. The consequences may be in the form of fall in spread, fall in interest income and increase in burden, etc.

Risks in Urban Co operative Banks

The various types of risks confronted by the UCBs in general can be grouped into credit risk, liquidity risk, interest rate risk and other risks. As a part of risk management, the UCBs have to identify and measure the risk they face.

CREDIT RISK

Credit risk is a major risk that the UCBs are facing now. It has a serious effect on banking operations. It has linkage with interest risk on one side and liquidity risk on the other. Hence credit risk is primary to all risks, and therefore it must be properly measured and managed.

Management of Credit Risk

The best way of avoiding credit risk would be to choose borrowers of high credit quality at the time of loan sanction itself. But UCBs do not have any method to distinguish between good and bad credit. So, criteria based method may be evolved to categorise customers. This may help the UCBs to sell different products appropriately designed (different types of loans with

different security conditions and rates of interest, instalments, personal follow up etc) and priced.

Other ways to manage credit risk are increasing interest rate, but the bad and risky customers can apply for loans even if interest rate is high on the belief that they are not going to repay it. Increasing the security (additional security) cover for loan funds is another measure.

Three things are to be quantified while pricing a loan. They are: cost of funds, overhead cost or operating expenses and credit risks. Banks are able to quantify the cost of funds and overhead costs by using past data. Therefore in order to price the assets effectively, the variable to be quantified is the credit risk related to lending.

Credit risk can be managed by appropriately pricing the loan portfolios. Different types of interest rates are to be fixed in accordance with the element of credit risk. A credit with low risk and strong financial position is to be priced at a low rate. Hence, differential pricing of bank products (loans and advances) assumes significance as part of ALM.

Cost and Pricing of Bank Products

The single most important factor affecting price of bank product (interest rate) is the deposit cost. The mix of deposits in the source pool, its volatility, and the extent of deposit services also influence cost of funds. A reasonable profit margin is added to cost to arrive at the interest rates for different customers.

For current deposit accounts, the UCBs neither pay nor charge interest on account balances. The cost in connection with current accounts therefore, is the administrative cost and other identified overheads.

For saving deposits and fixed deposits, the actual cost is the interest paid to the depositors and operating cost related to these accounts. Therefore the cost of the deposit funds is the sum of the interest earned by depositor and expenses connected with its maintenance.

On deposit accounts, UCBs are to keep minimum CRR and SLR. These reserve requirements related to deposit accounts also are important in evaluating relative cost of bank products.

Effective cost of funds

The effective cost of funds of the three groups of the sample UCBs was calculated by including factors such as the proportion of each source to total source of funds, rate of interest paid on each, CRR and idle cash (arbitrary) kept by the three UCB groups.

Table 5.1 gives the effective cost of funds of the first group for the end of the year 1994 .The effective cost of funds of the other two groups for the year 1994 and 2004 are presented in tables 5.2 to 5.6.

Table 5.1
Average Effective Cost of Funds of the Group One UCBs in 1994
(Percent)

Sl. No	Particulars	Current deposit	Savings deposit	Fixed deposits	Borrowings	Other liabilities
1	Population Funds	0.49	16.28	68.64	0.01	14.59
2	Interest cost%	0	5.5	10	8	0
3	Servicing cost%	3	2	0.5	0	1
4	CRR% of deposit	3	3	3	3	3
5	Idle cash% of deposit	8	4	0.5	0	0
6	Cost of funds (2+3)/(100 – (4+5))	0.03371	0.08065	0.10881	0.08247	0.01031
7	Effective cost of funds (6 * 1)%	0.016456	1.312856	7.468152	0.00051	0.150416
	Weighted cost/ Effective cost %					8.948389

(6*1= row number six multiplied by row number one)

Effective cost is the cost that directly attributed to a particular type of fund which comprises of interest cost and servicing cost of the particular account, after deducting CRR and idle cash maintained.

Effective cost of funds of first group UCBs, on an average at the end of the year 1994 was 8.95 percent.

It is clear from table 5.1 that savings accounts formed 16.28 percent and current account formed 0.49 percent of total funds, fixed deposits formed 68.64 percent and others accounted for 14.6 percent of total funds. The percentage of each cost in the total cost was respectively 1.31 percent, 0.016 percent 7.46 percent and 0.15 percent. The cost of fixed deposit was approximately five times the cost of savings deposits.

Table 5.2
Average Effective Cost of Funds of the Second Group UCBs in 1994
(Percent)

Sl No	Particulars	Current deposit	Savings deposit	Fixed deposits	Borrowings	Other liabilities
1	Funds	3.04	21.55	49.48	3.73	22.19
2	Interest cost	0	5.5	10	8	0
3	Servicing cost	3	2	0.5	0	1
4	CRR	3	3	3	3	3
5	Idle cash	8	4	0.5	0	0
6	Cost of funds (2+3)/(100 - (4+5))	0.03371	0.08065	0.10881	0.08247	0.01031
7	Effective cost of funds 6 * 1	0.102488	1.738091	5.384093	0.307696	0.228804
	Weighted cost/ Effective cost					7.761172

(6*1= row number six multiplied by row number one)

Effective cost of funds of second group UCBs, on an average for the year 1994 was 7.76 percent.

It is clear that the current and savings deposit account to fixed deposit account was in the proportion of 24.59:49.48. While the proportion of cost components in the total effective costs were 1.84 percent and 5.58 percent.

Borrowings and other liabilities, though constituted about 26 percent of total funds, its cost was 0.52 percent. Fixed deposits constituting 50 percent of total funds accounted for 3.5 times the cost of other funds.

Table 5.3
Average Effective Cost of Fund of the Third Group UCBs in 1994
(Percent)

Sl No	Particulars	Current deposit	Savings deposit	Fixed deposits	Borrowings	Other liabilities
1	Funds	3.64	10.22	67.52	0.15	18.48
2	Interest cost	0	5.5	10	8	0
3	Servicing cost	3	2	0.5	0	1
4	CRR	3	3	3	3	3
5	Idle cash	8	4	0.5	0	0
6	Cost of funds (2+3)/(100 - (4+5))	0.03371	0.08065	0.10881	0.08247	0.01031
7	Effective cost of funds 6 * 1	0.122736	0.824258	7.346307	0.011962	0.190484
	Weighted cost/ Effective cost					8.495747

(6*1= row number six multiplied by row number one)

Effective cost of funds of third group, on an average, for the year 1994 was 8.5 percent.

It is clear from table 5.3 that savings and current accounts formed 14.84 percent of total funds, fixed deposits formed 67.52 percent and others accounted for 18.63 percent of total funds. The cost of each source was respectively 0.94 percent, 7.34 percent and 0.20 percent. The Cost of fixed deposit was six times more than the cost of the other two sources put together.

Table 5.4

Average Effective Cost of Funds Group One UCBs in 2004 (Percent)

Sl No	Particulars	Current deposit	Savings deposit	Fixed deposits	Borrowings	Other liabilities
1	Funds	0.44	10.88	70.70	0.03	17.95
2	Interest cost	0	4.5	7	6	0
3	Servicing cost	3	2	0.5	0	1
4	CRR	3	3	3	3	3
5	Idle cash	8	4	0.5	0	0
6	Cost of funds (2+3)/(100 - (4+5))	0.033708	0.069892	0.07772	0.06186	0.01031
7	Effective cost of funds 6 * 1	0.0148337	0.76027	5.49509	0.00163	0.185074
	Weighted cost/ Effective cost					6.45691

(6*1= row number six multiplied by row number one)

Effective cost of funds of group one, on an average at the end of the year 2004 was 6.46 percent.

It is clear from table 5.4 that savings and current account formed 11.32 percent of total funds, fixed deposits formed 70.7 percent and others accounted for 17.95 percent of total funds. The cost of each source was respectively 0.90 percent, 5.5 percent and 0.19 percent. The cost of fixed deposit was five times more than the cost of the other two sources put together.

Table 5.5
Average Effective Cost of Funds of the Group Two UCBs in 2004
(Percent)

Sl No	Particulars	Current deposit	Savings deposit	Fixed deposits	Borrowings	Other liabilities
1	Funds	4.22	11.00	58.22	0.02	26.54
2	Interest cost	0	4.5	7	6	0
3	Servicing cost	3	2	0.5	0	1
4	CRR	3	3	3	3	3
5	Idle cash	8	4	0.5	0	0
6	Cost of funds (2+3)/(100 - (4+5))	0.033708	0.069892	0.07772	0.06186	0.01031
7	Effective cost of funds 6 * 1	0.142405	0.76876	4.52458	0.00092	0.27365
	Weighted cost/ Effective cost					5.71034

(6*1= row number six multiplied by row number one)

Effective cost of funds of second group, on an average at the end of the year 2004 was 5.71 percent.

It is clear from table 5.5 that savings and current account formed 15.22 percent of total funds, fixed deposits formed 58.22 percent and others accounted for 26.56 percent of total funds. The cost of each source was respectively 0.80 percent, 4.52 percent and 0.27 percent. The cost of fixed deposit was five times more than the cost of the other two sources put together.

Table 5.6
Average Effective Cost of Funds of the Third Group UCBs in 2004
(Percent)

Sl No	Particulars	Current deposit	Savings deposit	Fixed deposits	Borrowings	Other liabilities
1	Funds	5.13	9.64	68.70	0.00	16.53
2	Interest cost	0	4.5	7	6	0
3	Servicing cost	3	2	0.5	0	1
4	CRR	3	3	3	3	3
5	Idle cash	8	4	0.5	0	0
6	Cost of funds (2+3)/(100 - (4+5))	0.033708	0.069892	0.07772	0.06186	0.01031
7	Effective cost of funds 6 * 1	0.172865	0.67356	5.33937	0	0.17046
	Weighted cost/ Effective cost					6.35626

(6*1= row number six multiplied by row number one)

Effective cost of funds of third group, on an average for the year 2004 was 6.36 percent.

It is clear from table 5.6 that savings and current account formed 5.13 percent 9.64 percent of total funds, fixed deposits formed 68.7 percent and others accounted for 16.53 percent of total funds. The cost of each source was respectively 0.84 percent, 5.34 percent and 0.17 percent. The cost of fixed deposit was eleven times more than the cost of the other two sources put together.

Form the above analysis it is clear that over the period of eleven years, the effective cost of funds has decreased by two to three percentages. This decrease was mainly due to change in the rate of interest paid on fixed deposit accounts (from tables 5.3 and 5.6), the fixed deposits were 67.52 and 68.7 percent of total funds. The costs of fixed deposits was 7.34 percent in 1994

and it declined to 5.33 percent in 2004. The rate of interest paid on fixed deposit in 1994 was 10 percent and in 2004 it was only 7 percent.

Taking the average operating cost for the sample UCBs as 2 percent (table 5.7), the expected rate of return on funds lend = effective cost of funds + operating cost + margin required (determined by UCBs).

Based on the effective cost calculated for the first group, the expected rate of return in 2004 is determined as 6.46 percent + 2 percent + margin. If margin is assumed as 2 percent, the expected rate of return of the first group is 10.46 percent. For the second group, in 2004, the expected rate of return = 5.79 + 2 + margin. For the third group, in 2004, the expected rate of return = 6.45 + 2 + margin.

Operating Cost computation

The operating cost of the three UCB Groups and sample for the period of study was calculated by using average amount of non interest expenses obtained from sample banks and relating them with average total funds of the three groups for the respective years as shown in table 5.7.

Table 5.7
Operating Expenses as a Percentage of Total Funds of Sample UCB Groups in Kerala for the period between 1994 and 2004 (percent)

Year	Group one	Group Two	Group three	Sample Average
1994	4.63	3.97	1.81	2.89
1995	4.22	2.63	1.76	2.40
1996	3.86	3.21	2.01	2.69
1997	3.69	2.48	1.73	2.28
1998	3.46	1.96	1.72	2.04
1999	2.84	1.48	1.45	1.63
2000	3.11	1.42	1.47	1.63
2001	5.41	1.65	1.97	2.20
2002	3.89	1.14	1.51	1.58
2003	3.02	1.22	1.46	1.51
2004	2.66	1.32	1.80	1.67

Using the effective cost, operating cost and profit margin required the expected rate of return of the UCBs can be calculated by the method discussed above. If payments are received regularly and lending rate is equal to expected rate of return, the expected loss in lending is equal to zero. However, this assumes that there is no credit risk for such lendings. If credit risk is expected, the expected loss in credit risk is to be quantified and risk adjusted rate is to be charged for such loans.

Liquidity Risk

Liquidity is the state of having enough assets that can be easily converted in to cash. It is the ability to make timely payment for all obligations. Liquidity risk arises when there is a mismatch in the pattern of assets and liabilities. This mismatch in lending and borrowing causes to loss to bank. In the process of liquidity management, banks are to raise new funds when there is a shortage of funds and invest surplus where there are excess funds. The basic principle, here should be to borrow for short- term and lend for long- term for realising spread and thereby maintaining profitability.

Measurement of liquidity risk

The liquidity in the UCBs can be measured by using static approach on the basis of ratio analysis or by dynamic approach such as the working fund approach and the cash flow approach. An attempt is made here to measure the liquidity risk of the selected UCBs in Kerala with the help of liquidity ratios calculated from balance sheet figures.

1) Core deposits to total funds

Core deposits are deposits whose balances are insensitive to changes in interest rate, namely, current deposits and savings deposits. These are less

costly compared with fixed deposits. The proportion of core deposits to total funds shows the total fund growth that is funded by core deposits or costless funds. The higher the ratio the larger the liquidity requirements and vice versa. The core deposits to working funds of the sample UCBs are presented in table A.21 (Appendix).

The core deposits to total funds given in table 5.8 showed a fluctuating trend during the period of study. The percentage was the highest for 2A throughout the study period but declined from 59.98 percent (in 1994) to 30.31 percent (in 2004). The lowest ratio, which was 10.47 percent (3C) in 1994, improved during the period and reached 20.87 percent by 2004.

The core deposits to total funds make it clear that, for first group, it was 18.49 percent in 1994. This declined to an all time low of 11.08 percent in 2002 and regained slightly by the end of the study period. For the second group, the ratio was highest in 1994, which declined to 17.90 by the end of 2004. For the third group, the ratio, which was 15.16 percent in 1994, reached the lowest of 10.67 percent in 2001 but went up to 15.97 percent by the end of 2004.

The core deposit to total funds for the sample UCBs was 14.01 percent at the beginning of the study period. This declined to 10.55 percent by 1998 and by 2004 it made an up trend and reached at 17.61 percent.

The increase in this ratio at the end of the study period was a sign of profitable way of raising funds and a reduction in the overall cost of funds.

The average amount and correlation of the core deposits of the sample UCBs and their groups are shown in table 5.8.

Table 5.8
Average Core Deposit of the sample UCBs and their Groups (1994 to 2004)

Bank	Amount (Rs lakh)	Core Deposit to	
		Total Funds (%)	Total Deposits (%)
1A	186.69	16.82	20.53
1B	193.45	13.97	16.43
1C	247.27	8.52	10.29
Group One	209.14	11.63	13.98
2A	1575.2	28.92	37.19
2B	612.52	9.74	12.43
2C	814.77	9.56	14.73
Group Two	1000.83	14.82	20.43
3A	680.96	9.87	11.34
3B	752.59	11.23	13.45
3C	927.74	12.69	16.7
Group Three	787.1	11.3	13.76
Sample	665.69	12.87	16.49

The average core deposit of the selected UCBs was the highest in 2A (Rs. 1575.20 lakh). This accounted for 28.92 percent of total funds and 37.19 percent of total deposits. All the other banks had lower core deposits both in absolute and relative measures. There were four banks with core deposits less than 10 percent of total funds. Core deposit to total deposits was the highest in 2A (37.9%). This made the second group register the highest proportion of 20.43 percent.

As regards the groups of UCBs, the second group was at the top in core deposits with Rs. 1000 lakhs. The second and third groups core deposits were higher than the rest of the sample UCBs. The overall percentage of core deposits to total funds was 12.87 and its share was 16.48 percent in total deposits.

The correlation between core deposits with total deposit and total funds was positive, but not very high. The proportion of core deposits in total

funds, lowers average cost of funds. Hence, second group, and bank 2A in particular, are more advantageously posited than others.

In the light of the above, the bank balance maintained by 2A can be justified. It had been collecting the highest core deposits and maintaining the highest cash and bank balances over the study period.

2) Time deposits to total working funds

Time deposits carry fixed maturity. A high ratio of time deposits to total deposits is an indication of stable funds. It also means high cost of deployable funds. This requires a careful policy of deploying funds in long-term investments fetching higher earnings. The ratio of time deposit to working funds of the selected UCBs is shown in table A.22 (Appendix).

The percentage of time deposits in the working funds for the selected UCBs was very high during the study period. The ratio showed an upward trend in the initial years, but afterwards declined steeply. For banks in the first group, the percentage ranged between 77.99 and 93.89 percent. The group ratio fluctuated between 81.83 and 89.58 percent during the study period.

For banks in the second group, the lowest percentage of time deposits to total funds of 59.36 was in 2A while it was the highest (93.70%) for 2C. But 2A could not maintain this low ratio in the subsequent years. The group had a declining trend in this ratio over the study period.

As far as third group banks were concerned, the lowest percentage of 70.10 was for 3C while the highest of 112.71 percent was for 3A, that too in the year of 2003. The group had a rising trend during the study period..

Thus the declining trend in the proportion of time deposits to total working funds of the first and second groups was favourable for spread and cost aspect.

The overall average was between 78.03 and 90.49 percent for the entire period of study.

To get a clear picture of the time deposits, the average amounts for the eleven year period, the average amount of time deposits of the selected UCBs and their groups and its proportion in total funds and total deposits are shown in table 5.9.

Table 5.9
Average Time Deposit of the sample UCBs and
their Groups (1994-2004)

Bank	Amount (Rs. Lakhs)	% of time deposits to working funds	% of time deposits to Total Deposits
1A	844.79	76.11	92.89
1B	1123.48	81.11	95.39
1C	2277.97	78.53	94.84
Group One	1415.4	78.69	94.59
2A	3579.93	65.73	84.52
2B	4606.92	73.25	93.47
2C	5147.33	60.41	93.05
Group Two	4444.7	65.83	90.73
3A	5889.17	85.38	98.06
3B	5313.41	79.31	94.98
3C	5034.78	68.89	90.61
Group Three	5412.5	77.67	94.64
Sample	3757.5	72.64	93.05

The average time deposits, of the sample UCBs were ranged between 60.41 percent and 85.38 percent during the study period. The percentage of time deposits to total deposits (84.52% to 98.06%) was obviously higher than the percentage to total funds.

If the ratio of time deposits to total deposits is higher, less of liquid assets need to be maintained. But the UCBs were maintaining large liquid assets throughout the period.

The overall percentage of time deposits to total funds was 72.63, and to total deposits, it was 93.05. The overall average cash in hand and balance with other banks to demand liabilities was 19.46 percentage. The deposits with other banks were 35.31 percent of time and demand liabilities. Investments to demand and time liabilities was 9.00 percent

It was inferred from the above analysis that the UCBs maintained high level of liquidity against the demand and time liabilities during the study period. This was much more than what was optimally required.

3. Liquid assets to Demand and Time Liabilities

Liquid assets for banks consist of cash in hand, balance with other banks, money at call and short notice, and investments held for the purpose of trading. The ratio of average demand and time liabilities of the sample UCBs, in the three groups and their overall average is shown in table A.23 (appendix).

The proportion of liquid assets to total demand and time liabilities shown in table A.23 (appendix) makes it clear that, in the first group 1A with 64.71 percent stood at the top (in year 2000). The lowest percentage of 30.28 was for 1C in the year 1994.

Among the three groups, second group had the highest liquid asset (39.11% to 67.97%). The average liquid assets to demand and time liabilities ranged between 35.67 percent and 57.41 percent for the entire sample.

The average demand liabilities of the sample UCBs and its proportion to total liabilities are shown in Table 5.10.

Table 5.10
Average Demand Liabilities of the sample UCBs and
their Groups (1994-2004)

Bank	Amount (Rs. Lakhs)	Demand Liabilities to Total Liabilities (%)
1A	179.04	16.13
1B	176.46	12.74
1C	286.18	9.87
Group One	213.89	11.89
2A	1150.81	21.13
2B	856.95	13.63
2C	2754.15	32.32
Group Two	1587.30	23.51
3A	715.96	10.38
3B	606.89	9.06
3C	1444.41	19.76
Group Three	922.42	13.24
Sample	907.87	17.55

The first group UCBs have demand liabilities less than Rs. 300 lakh. For the second group, the range was between Rs 856 lakh and Rs. 2,755 lakhs. It was between Rs 606 lakh and Rs. 1,445 lakh for the third group.

The percentage of demand liabilities to total liabilities ranged between 9.05 percent and 32.32 percent. The liquid assets to demand and time liabilities were between 174.47 percent and 450.96 percent respectively. The average amount for the sample UCBs was Rs. 907.87 lakh and its proportion to the total liabilities was 17.55 percent.

It follows from the analysis that the UCBs in Kerala had a tendency to keep high margin for meeting liquidity. The positive gap that was present in liquid assets and liability position indicated a low liquidity risk. The high positive gap was also present in table A.23 (appendix).

4. Liquid assets to total assets

The percentage of liquid assets to total assets of the three groups of UCBs and the sample average was given in table A.24 (appendix).

The proportion of liquid assets to total assets of group one showed an increasing trend. Few sample UCBs were able to reduce the proportion of liquid assets in their total assets. Still most of them were maintaining liquid assets much more than the minimum required. The average liquid assets of the sample UCBs and their proportion to total assets and demand liabilities (in percentage) are given in table 5.11.

Table 5.11
Average Liquid Assets of the Sample UCBs and their groups

Bank	Amount (Rs in Lakh)	Liquid Assets to	
		Total assets (%)	Demand Liabilities (%)
1A	495.81	44.67	276.93
1B	543.00	39.20	307.72
1C	1086.04	37.44	379.49
Group One	708.28	39.38	331.14
2A	2143.91	39.36	186.30
2B	1549.99	24.64	180.87
2C	4805.38	56.39	174.48
Group Two	2833.10	41.96	178.48
3A	3228.74	46.81	450.97
3B	2304.74	34.40	379.76
3C	2587.95	35.41	179.17
Group Three	2707.10	38.85	293.48
Sample	2082.80	40.26	229.42

The average of the percentage liquid assets to total assets of the four UCBs in the sample (table 5.11) were less than the average percent for the entire sample. Banks with small liquid assets and with large liquid assets were maintaining more or less the same percentage of total funds in liquid assets form (38.85% to 41.96%). But the ratio to demand liabilities was not the same.

Group one and three maintained high liquid assets to total assets compared to group two. This was less than the over all percentage of 229.42 maintained by the entire sample. The follows from the above analysis that the UCBs were maintaining much more liquid assets than liquid liabilities (average 1:2.3)

5. Demand Liabilities to Total Liabilities

Demand Liabilities are deposits made by customers in current account, savings account (a portion only) and other obligations that are to be met in short periods. The proportion of demand liabilities to total liabilities indicates the requirements for liquid funds in the regular operations. A higher ratio indicates a larger liquidity requirement and vice versa.

The percentage of demand liabilities to total liabilities shown in table A.25 (Appendix) makes it clear that the selected banks in the sample were having demand liabilities of 16.26 percent to 19.71 percent through out the period of study. For the group one, it was less than 14.19 percent, for second group it was between 19.99 and 26.93 percent and for third group the ratio ranged between 12.08 and 17.43 percent.

The general trend in demand liabilities as a proportion to total liabilities was a declining one.

6. Liquid Assets To Demand Liabilities

Liquid assets are required for meeting the demands from customers for funds deposited in current accounts, saving accounts and other dues. If the bank fails to meet this in time, the liquidity is at risk and the bank is likely to suffer from credibility deficit.

The percentage of liquid assets to demand liabilities maintained by the sample UCBs is shown in table A.26 (Appendix). On an average, liquid assets to demand liabilities was 200 percent for the sample UCBs. The proportion of liquid assets to demand liabilities, during the study period initially showed an increasing trend. For 1A, 1B, 2A, 2C, 3B and 3C, there was a declining trend. It was interesting to note that, though the demand liabilities and liquid assets went up, the ratio between the two showed a declining trend. This was taken as a sign of better fund management. Still the proportion was much above the rate to be maintained as per banking regulations.

Maturity wise Asset- liability classification

As per cash flow approach, the assets and liabilities were classified on the basis of their maturity patterns as short-term assets, medium-term assets, long-term assets, and fixed assets. The liabilities were also classified into short-term, medium-term, long-term, and permanent liabilities. The difference between short-term assets and liabilities in the particular class shows the liquidity position of the UCBs.

Table 5.14 shows the asset liability position of sample UCBs.

The Assets and Liabilities of the three groups of UCBs, (maturity wise, based on the average of the values obtained from the respective banks in the group) were classified and the figures for the year 1994 and 2004 are shown in table 5.12.

Table 5.12
Asset and liabilities position of the UCB groups for the year
1994 (Rs Lakh)

	1	2	3	Sample Average	percentage
100 Short Term Assets	349.56	768.72	1374.98	831.09	59.49
Medium Term Assets	280.10	441.80	738.30	486.73	34.84
Long Term Assets	10.04	18.24	156.87	61.71	4.42
Fixed assets	7.60	17.93	26.79	17.44	1.25
Total Assets	647.30	1246.69	2296.94	1396.98	100.00
Short Term Liabilities	79.00	336.29	403.61	272.97	19.54
Medium Term Liabilities	73.76	188.09	164.43	142.09	10.17
Long Term Liabilities	444.28	616.91	1551.69	870.96	62.35
Permanent Liabilities	50.26	105.44	178.53	111.41	7.98
Total liabilities	647.30	1246.73	2298.25	1397.43	100.03

Source: compiled from the financial statements of the sample UCBs

From the table 5.12 it is clear that, in 1994 the ratio of the different types of assets in the sample UCBs were 59.49:19.54 for short-term assets and liabilities. For the medium-term assets and medium-term liabilities the ratio was 34.84:10.17 percent. For the long-term assets and liabilities, the ratio was 4.42:62.35 percent and for fixed assets to permanent liabilities, the ratio was 1.25:7.98 percent. The position of the three groups of UCBs was also more or less the same.

From the analysis it is clear that most of the assets were held in the short- term and medium-term classes. As against this, liabilities were high in the long-term category for all the three groups and the sample UCBs. This high concentration of assets in the short-term and medium-term classes is an indication of high and readily available liquid assets.

Table 5.13
Asset and liabilities position of the UCB groups for the
year (2004) (Rs Lakh)

Total assets	1	2	3	Sample Average	percentage
Short Term Assets	2144.20	6748.30	5968.16	4953.55	51.07
Medium Term Assets	946.38	6824.20	5612.32	4460.97	45.99
Long Term Assets	41.15	78.85	487.84	202.61	2.09
Fixed assets	24.30	62.84	157.92	81.69	0.84
Total assets	3156.02	13714.19	12226.24	9698.82	100.00
Short Term Liabilities	312.54	2743.80	1471.11	1509.15	15.56
Medium Term Liabilities	240.34	1055.94	824.84	707.04	7.29
Long Term Liabilities	2231.65	7984.02	8399.99	6205.22	63.98
Permanent Liabilities	371.82	1930.63	1531.13	1277.86	13.18
Total Liabilities	3156.34	13714.39	12227.06	9699.27	100.00

Source: compiled from the financial statements of the sample UCBs

From the table 5.13 it is clear that in 2004, the ratio of the different types of assets in the sample UCBs were 51.07:15.56 for short-term assets and liabilities. For the medium-term assets and medium-term liabilities the ratio was 45.99:7.29 percent. For the long-term assets and liabilities, the ratio was 2.09:63.98 percent and for fixed assets to permanent liabilities, the ratio was 0.84:13.18 percent. The position of the three groups of UCBs was also more or less the same. The short-term assets of the sample UCBs in 2004, showed a slight decline over 1994 and a moderate improvement was also found in the medium-term assets during the period of study.

From the above analysis, it is clear that UCBs held most of their assets in short-term and medium-term class assets as against this the long-term liabilities were largest in the liabilities group for all the three UCB groups and the sample. The assets held in liquid form were much more than requirements. There was a clear mismatch between assets and liabilities for the two years

considered for this analysis. Over the period of eleven years, though there were a substantial increases in the quantity of assets and liabilities, not much improvement in the utility aspect for all the three groups have been recorded.

GAP Analysis

The difference between assets and liabilities on a particular time bucket called liquidity gap helps to measure the liquidity needs of the UCBs. The positive, negative, or zero gap depends on the position of assets whether in excess of, short, or equal to of liabilities. One measure of gap is comparison of rate sensitive assets and rate sensitive liabilities. The proportion of rate sensitive assets to rate sensitive liabilities of the three groups of UCBs for the period from 1994 to 2004 was shown in table A.27 (appendix).

The ratios (percentage) of loans and advances (rate sensitive assets) to fixed deposits and borrowings (rate sensitive liabilities) of the sample UCBs were less than 100 percent for all the three banks in the first group except for 1A in the year 1997 and for 1B in 2003 and 2004. Over the period of eleven years, there was a mixed trend as far as this ratio was concerned. The proportions for 2A and 2B were more than 100 percent for most of the years and 2C showed an up trend in later years of the study period.

From the above analysis it is evident that the second group UCBs were at a better position in respect of gap, when compared to first and third groups. Higher the ratio of rate sensitive assets to rate sensitive liabilities, better the position of the bank in the deployment of funds. The amount they lent by way of loans and advances will bring revenue to the bank to meet the interest obligations accruing from deposits and borrowings and leave a part to meet the non-interest expenses also.

The position of average rate sensitive assets of the sample UCBs was given in table 5.14.

Table 5.14

Amount of Average Rate Sensitive Assets of Selected UCBs and their Groups

Bank	Amount (Rs. lakhs)	Rate Sensitive Liabilities (Rs.)	Rate sensitive assets to Rate Sensitive Liabilities (%)
1A	608.05	721.31	84.3
1B	825.57	990.31	83.36
1C	1788.66	2118.33	84.44
Group One	1074.1	1276.7	84.13
2A	3246.77	2685.12	120.92
2B	4728.14	4316.57	109.53
2C	3666.37	4727.06	77.56
Group Two	3880.4	3909.6	99.25
3A	3599.55	5505.37	65.38
3B	4299.58	4842.34	88.79
3C	4671.09	4721.03	98.94
Group Three	4190.1	5022.9	83.42
Sample	3048.2	3403.1	89.57

The average rate sensitive assets and rate sensitive liabilities of selected UCBs showed that assets were, on an average, more than 65 percent but less than 121 percent for all the UCBs in the sample. The higher the ratio of rate sensitive assets to rate sensitive liabilities, the more advantageous the position the UCB concerned in spread management.

The percentage for the groups was higher in second group and the overall percentage was around 90. If bank finance is perfectly competitive, with no potential for adding margins, spread will be negative in banks with less than 100 percent rate sensitive assets to rate sensitive liabilities.

Hence, when banking industry becomes more competitive, the UCBs will be forced to find other avenues (investments and other non banking services) for business and earnings, growth.

As a powerful tool of the Asset–Liability Management technique, Gap analysis helps the UCBs management to know the excess liquidity, ill-liquidity or mismatches in cash flows. To enable this, a systematic beginning, supported by adequate and timely information about the various assets and liabilities, their maturity pattern, availability of alternative investment avenues and their maturities, interest rates etc. are sine-qua non.

The assets-liability management, which is the nucleus of funds management, discussed in this section highlights the need for planning banks portfolio of assets, the role and significance of credit risk, assessing credit risk, pricing bank's loan portfolio etc. In the near future, the UCBs will have to introduce the asset - liability management in full rigour. The maturity wise classification and matching of assets and liabilities help to reduce the liquidity risks and proper deployment of funds. Another serious problem that UCBs now facing is the ever-growing non-performing assets. They reduce the deployable funds, reduce the earnings, spread and affect the capital base and even threaten the existence of the bank. Hence an attempt is made to analyse the non-performing assets of the selected UCBs in the ensuing section.

SECTION II

MANAGEMENT OF NON PERFORMING ASSETS IN THE UCBs

The efficiency of funds management in the UCBs depends upon how far the banks are able to recover the amount lent by way of loans and advances and interest thereon. Performing assets only add value and wealth to the UCBs in their regular operations. Hence an attempt is made in this section to see how far the UCBs are able to manage their performing and non-performing assets

The banking system of our country has several outstanding achievements to its credit. Geographical coverage, branch net work, development, facilitation, large customer base etc are some of them. In the banking circle it is often heard that “Depositors make business possible and borrowers make it profitable but NPAs make it perishable”. But some of the developments taking place nationally and internationally put our banking system to several difficulties. One such serious problem that banks presently facing is the increasing level of Non Performing Assets.

High level Non-Performing Assets adversely affects the growth, profitability, liquidity and solvency of any bank. As on March 31, 2004, the gross NPAs of the public sector banks were Rs 51538 crore, (7.8 per cent of advances and 3.5 per cent of total assets), and their net NPA stood at Rs 18,860 crore (3 per cent of net advances and 1.3 percent of total advances).

Loan and advances are earning assets of a bank. The share of loans and advances in the total assets was about 60 percent in urban cooperative banks. The strength and soundness of the banks primarily depend on the quality of their advances.

The substandard, doubtful and loss assets are individually or collectively called non-performing assets.

The problem of NPAs is not a new one to Indian banking sector. Various committees appointed at various periods expressed their concern about the alarming position of NPAs of Indian banks.

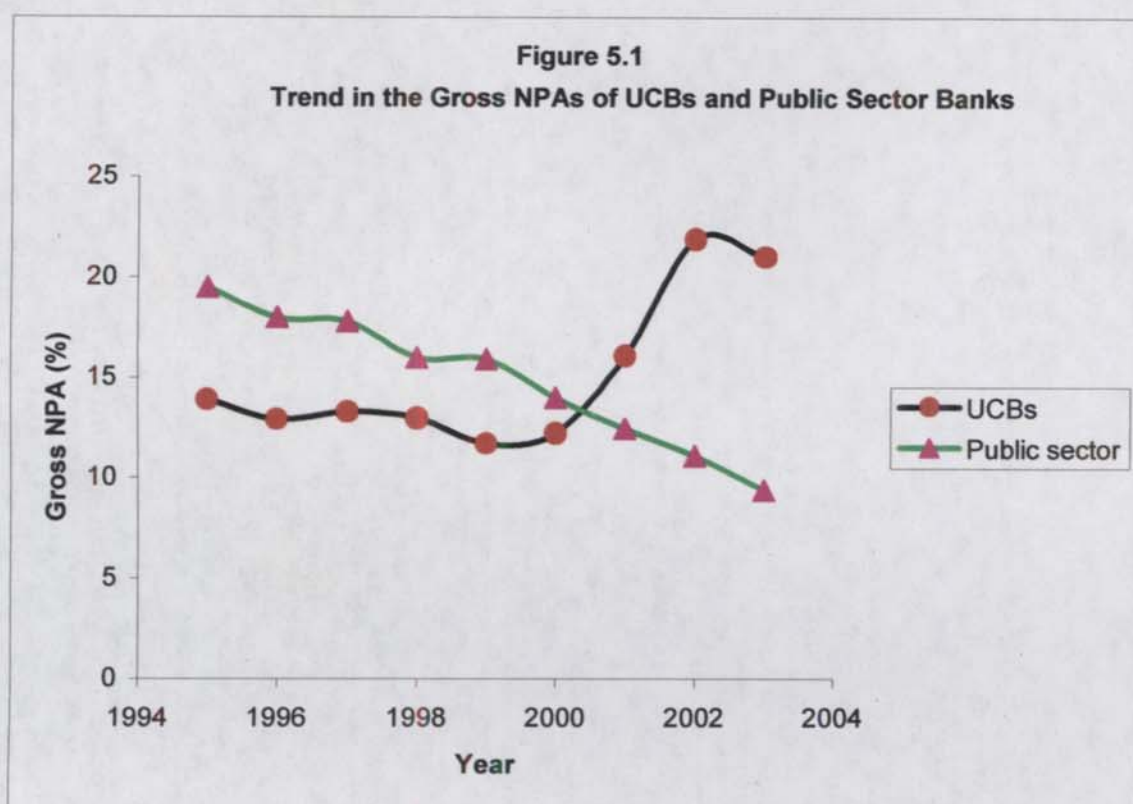
The position of NPAs of reporting UCBs in India for the period between 1995 to 2003 and its percentage to total advances are given in table 5.15 and represented in figure 5.1.

Table 5.15
Position of NPAs of the UCBs in India

Year	UCBs	Public sector banks	
	Gross NPAs (to total advances) %	Gross NPAs (to total advances) %	Net NPA to total advances %
1995	13.9	19.5	10.7
1996	12.9	18.0	8.9
1997	13.3	17.8	9.2
1998	13.0	16.0	8.2
1999	11.7	15.9	8.1
2000	12.24	14.0	7.4
2001	16.10	12.46	6.7
2002	21.90	11.1	5.8
2003	21.00	9.4	4.5

Source: RBI Bulletins, various issues.

The position of NPA as a percentage of total advances showed an up trend for the sample UCBs. It rose from 13.9 percent to 21.0 percent between 1995 and 2003. The gross NPA to total advances in the public sector banks showed a declining trend during the same period (19.5% to 9.4%). The net NPA to total loans and advances declined from 10.7 percent to 4.5 percent during the same period.



From the figure, it is clear that the amount of NPAs prior to 2000 was less in UCBs than that of the public sector banks in India. But by 2001 the NPAs of UCBs crossed the level of the public sector banks and made an upward trend afterwards.

Analysis of the NPAs

The impact of the NPAs on operational efficiency of the selected UCBs was analysed by assessing the growth in the NPAs, percentage of NPAs to loan advances, NPAs to total assets, NPAs to share capital, NPAs to owned funds, NPAs to profits etc.

Table 5.16 gives details of net NPAs of the selected UCBs, their groups and the over all averages for the period from 2000 to 2004.

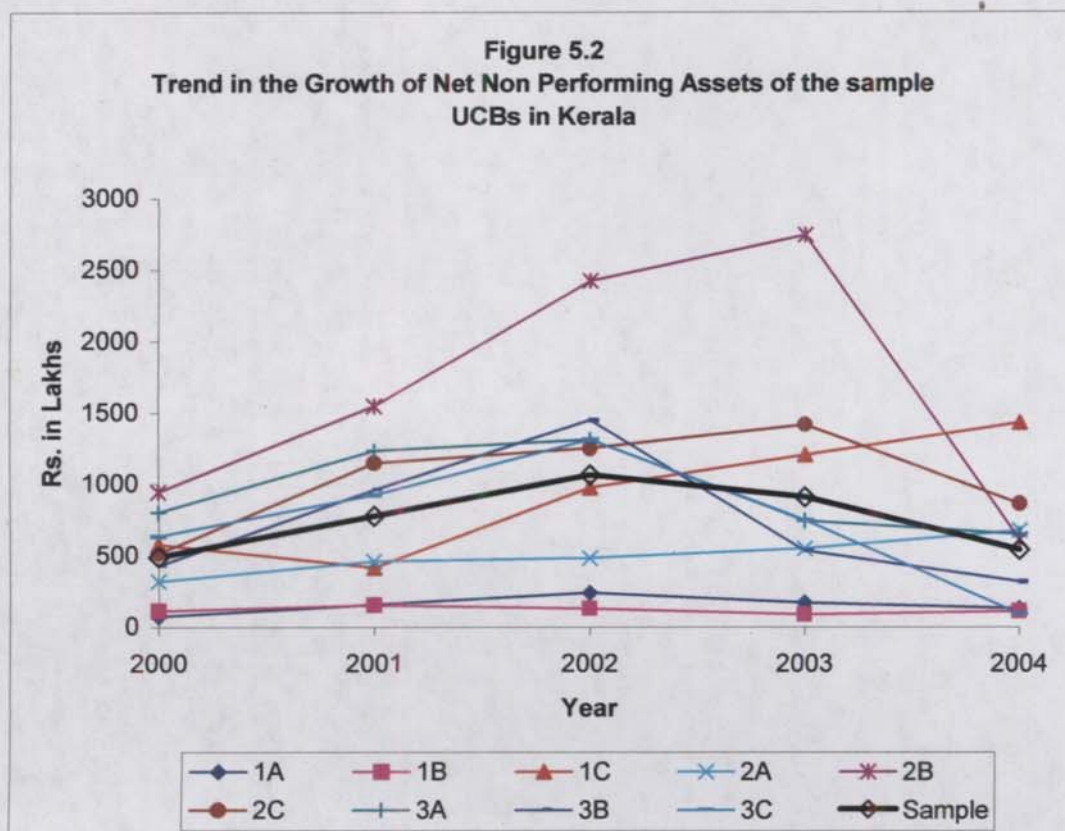
Table 5.16
Amount of the NPAs
of the Sample UCBs in Kerala from 2000 to 2004 (Rs. in lakhs)

Year	UCBs	A	B	C	Average	Sample Average
2000	1	72.87	115.79	576.18	254.95	490.32
	2	319.31	946.22	513.87	593.13	
	3	801.90	429.11	637.64	622.88	
2001	1	158.45	152.85	414.95	242.08	777.38
	2	459.98	1547.84	1147.55	1051.79	
	3	1231.34	959.82	923.62	1038.26	
2002	1	237.80	129.93	976.33	448.02	1062.91
	2	480.75	2423.82	1250.15	1384.91	
	3	1310.94	1446.98	1309.51	1355.81	
2003	1	168.58	88.88	1205.37	487.61	909.79
	2	546.64	2742.17	1412.64	1567.15	
	3	743.52	533.57	746.74	674.61	
2004	1	127.27	111.76	1428.30	555.78	541.03
	2	673.86	610.06	861.16	715.03	
	3	647.40	316.62	92.83	352.28	

Source: compiled from the financial statements of the selected UCBs

From table 5.16 and figure 5.2, it can be understood that there was growth in absolute amount of NPAs for all the years in 1C and 2A. Remaining banks showed a rising trend in the first two to three years and a considerable decrease in 2003 - 04.

The NPAs for the first group showed an upward trend throughout. For the second and third groups they showed a fluctuating trend. The growth in the NPAs was much more than the growth in loans and advances during the period. In 2004 there was a sharp decline in the NPAs of most of the banks in the second and third groups.



The figure 5.2 shows the trend in NPAs of the UCBs in the sample during the period between 2000 and 2004. 2B showed the highest growth till 2003, but its NPA declined sharply and became very small by 2004. The bank was on intensive recovery drive in this period. The NPAs of 1C showed continuous increase.

1. Incremental net NPAs to opening loans and advances

The relationship between NPAs and gross advances was a measure of the banks ability to manage the credit risk, efficiency of the bank in collecting the loans and advances and controlling the NPAs. If the rate growth in the NPAs is higher than the growth in advances the credit risk management of the bank is poor and vice versa.

The incremental net non-performing assets to opening loans and advances of the selected UCBs are given in table 5.17.

Table 5.17
Trend in NPAs of the Sample UCBs in Kerala
from 2000 to 2004 (percent)

Year	Bank	A	B	C	Group Average	Sample average
2001	1	10.80	4.08	-6.44	2.81	6.57
	2	3.59	9.72	12.08	8.46	
	3	9.35	10.59	5.37	8.43	
2002	1	8.98	-2.12	20.75	9.20	6.43
	2	0.48	10.48	1.85	4.27	
	3	1.81	8.71	6.91	5.81	
2003	1	-7.56	-2.73	7.74	-0.85	-3.72
	2	1.21	3.36	2.89	2.48	
	3	-13.23	-15.15	-9.99	-12.79	
2004	1	-4.35	1.43	7.09	1.39	-5.15
	2	2.10	-27.23	-9.91	-11.68	
	3	-2.18	-3.00	-10.28	-5.16	

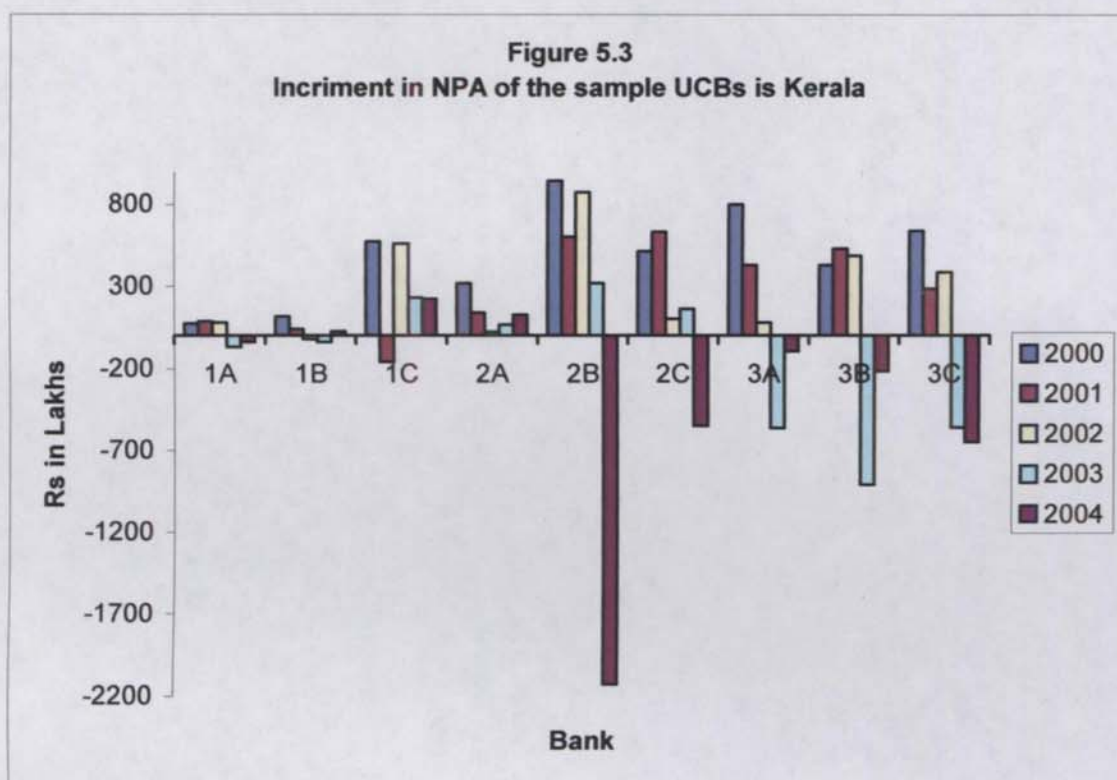
Source: compiled from the financial statements of the sample UCBs

The analysis of the trend in the NPAs to loans and advances as shown in table 5.17 makes it clear that, the average increase in the NPA of the UCBs in the first group was 2.81 percent, for the second group it was 8.46 percent and for the third group the growth was 8.43 percent in the year 2001 over 2000. The growth in the sample average during the same period was 6.57 percent.

The growth in the percentage of NPA to loans and advances was less in 2002 compared to 2001 for group two, group three and the sample average. By 2003 the growth became negative for the first group, third group and the sample average (-3.72 %).

A further decline was observed in the trend of NPA in 2004. The decline in the percentage of NPA over the previous year for the sample UCB was (-)5.15 percent. It is inferred that though there was increase in the absolute amount of NPAs over the period, as a percentage to loans and advances, there was a declining trend in NPA.

The position of increment in NPAs to total loans and advances is illustrated in Figure 5.3.



2. Net NPAs to share capital

The NPA to share capital measures the proportion of non-performing assets to total share capital funds of the bank and indicates the burden of the NPA on the shareholders of the banks. If the total of NPA is more than the amount of share capital, that portion is to be borne by the depositors and it is a threat in the long run to the shareholders and depositors

The percentage of net NPAs to share capital of the sample UCBs is given in table 5.18.

Table 5.18
NPA to Share Capital of the Sample UCBs in Kerala from 2000 to 2004
(percent)

Year	Bank	A	B	C	Average	Sample Average
2000	1	239.71	447.74	604.21	430.56	446.17
	2	426.14	496.23	337.69	420.02	
	3	739.28	361.35	363.14	487.93	
2001	1	405.66	510.00	341.92	419.19	555.05
	2	416.99	596.43	504.22	505.88	
	3	1047.68	647.96	524.61	740.08	
2002	1	519.10	309.88	761.92	530.30	637.57
	2	348.90	710.46	442.94	500.77	
	3	1077.55	822.52	744.84	881.64	
2003	1	335.21	149.53	884.09	456.28	452.28
	2	310.25	737.38	442.65	496.76	
	3	523.87	277.89	409.65	403.80	
2004	1	240.13	93.18	994.84	442.72	307.10
	2	344.45	164.92	304.76	271.38	
	3	438.11	156.08	27.41	207.20	

Source: compiled from the financial statements of the sample UCBs

The non-performing assets of the UCBs were much above the share capital contributed by their members. For banks in the first group, the highest percentage was for 1C (994.84 percent) in 2004 and the lowest was 93.18 percent for 1B in 2004. In the second group, the highest and the lowest percentages were for 2B in the years 2003 and 2004. For the third group, the highest was 1077.55 percent was for 3A in 2002 and the lowest was for 3C (27.42 percent) in the year 2004.

For the first and the second groups the percentage of the NPAs to share capital showed a declining trend.

In the case of third group, the ratios were much above those of the other two groups. The general trend for the third group was an increasing one. The percentage of the NPAs to share capital, on an average for the whole

group was between 478.30 percent and 685.52 percent during the period 2000 and 2004.

The analysis makes it clear that the NPAs were much more than the share capital of the UCBs concerned.

3. Net NPAs to Owned Funds

A comparison between the owned funds and the amount of net NPAs was made to know the potential of the UCBs to manage the NPAs by themselves. Net NPAs to owned funds of sample UCBs are shown in table 5.19.

Table 5.19
Net NPAs to Owned Funds of the Sample UCBs from 2000 to 2004(percent)

Year	Year	A	B	C	Average	Sample Average
2000	1	70.81	148.77	233.73	151.10	117.81
	2	48.32	211.97	94.69	118.33	
	3	136.24	51.71	64.03	83.99	
2001	1	120.39	166.92	132.28	139.86	133.47
	2	53.15	157.44	131.12	113.90	
	3	265.50	94.10	80.29	146.63	
2002	1	229.14	119.92	243.12	197.39	154.85
	2	43.39	171.24	106.26	106.96	
	3	272.90	119.49	88.18	160.19	
2003	1	110.43	55.33	145.46	103.74	82.96
	2	39.49	150.73	101.21	97.14	
	3	66.87	39.63	37.48	47.99	
2004	1	81.66	47.09	197.75	108.83	57.68
	2	39.89	25.01	51.77	38.89	
	3	50.38	20.20	5.33	25.30	

Source: compiled from the financial statements of the sample UCBs

A comparison of the NPAs of the different banks in relation to their owned funds, as shown in table 5.19, reveals that the banks in the first group were able to reduce the NPAs to 47.09 percent by 2004. The position of second group during the same period was 25 .01 percent. As against this, the NPAs to the owned funds of third group stood at 5.33 percent.

The trend in the percentage NPA to the owned funds for the all group average during the period was a declining one.

4. Net NPAs to Total Assets

Another significant factor that holds information about efficiency of banks in credit risk management operation is the ratio of the NPAs to the total assets.

Data on net NPA to the total Assets of the sample UCBs in Kerala from 2000 to 2004 are given in table 5.20.

Table 5.20
Net NPAs to Total Assets of the sample UCBs in Kerala and in the Public Sector Banks from 2000 to 2004 (in percentage)

Year	Bank/ UCBs	A	B	C	Average	Sample Average	Public sector banks
2000	1	5.85	6.84	18.61	10.43	8.74	2.9
	2	5.23	15.23	4.54	8.33		
	3	8.58	6.06	7.72	7.45		
2001	1	10.59	8.29	11.16	10.01	10.68	2.7
	2	6.76	17.53	8.87	11.05		
	3	12.20	11.04	9.68	10.97		
2002	1	14.75	6.65	21.91	14.44	12.72	2.4
	2	5.04	19.78	8.46	11.09		
	3	11.47	14.23	12.20	12.63		
2003	1	9.50	3.76	24.43	12.56	9.85	1.9
	2	5.54	19.30	8.99	11.28		
	3	6.49	4.29	6.38	5.72		
2004	1	6.67	4.09	29.59	13.45	7.23	1.3
	2	6.13	4.34	5.35	5.27		
	3	5.76	2.40	0.76	2.97		

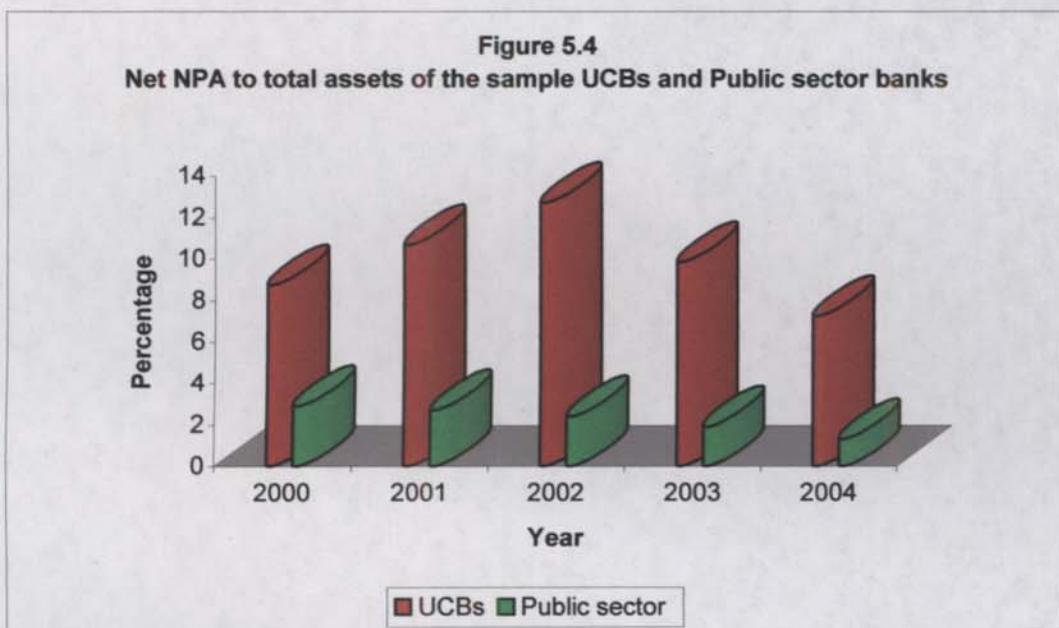
Source: compiled from the financial statements of the sample UCBs and Publications of RBI

As regards the percentage of the NPAs to the total assets for the first group, the percentage, which was 10.43 in 2000, rose to 14.4 by 2002 but declined to 13.45 percent at the end of the study period.

In the case of second group, the percentage was 8.33 in 2000. It came down to 5.27 percent in the year 2004. The position of the NPAs of the third group, which was 7.45 percent in 2000 came down to 2.97 percent by 2004.

The NPA of sample UCBs was between 7.23 percent and 8.00 percent during the period 2000 to 2004. The net NPAs of the public sector banks during the same period ranged between 2.9 percent and 1.3 percent and it was much less than that of the UCBs.

The overall trend in NPA to the total assets was a declining one. The proportion of the NPA to total assets of the sample UCBs and public sector banks is shown in figure 5.4.



It is clear from figure 5.4 that the level of NPA in the UCBs was much higher than that of the NPA of the selected public sector banks. So the loan recovery management and advances in the UCBs was poor in comparison with that of public sector banks.

Net NPA to Loans and Advances

When loans and Advances become over due and are out of order for the specified period they are treated as NPA. When a good asset (loan) becomes a non performing asset, provision is to be made against such assets. Net NPA to the total loans and advances is another measure of credit risk. The

higher this ratio, the poor, the credit management and vice versa. The net NPA to loans and advances of the sample UCBs is given in the table 5.21.

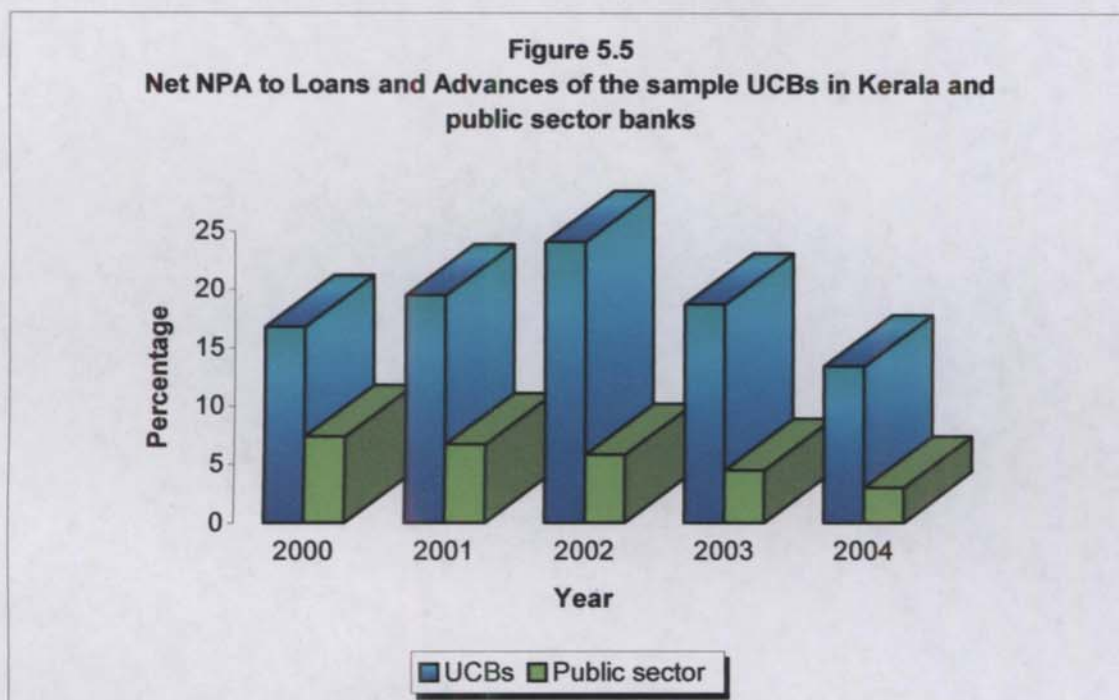
Table 5.21
Net NPA to Loans and Advances of the sample UCBs in Kerala and public sector banks from 2000 to 2004 (in percent)

Year	Bank	A	B	C	Average	Sample Average	Public sector banks
2000	1	14.00	14.67	34.63	21.10	16.80	7.4
	2	11.29	21.77	11.45	14.84		
	3	18.50	11.30	13.56	14.45		
2001	1	20.00	16.84	16.58	17.81	19.48	6.7
	2	11.75	25.00	21.87	19.54		
	3	26.80	19.15	17.33	21.09		
2002	1	26.90	12.04	36.08	25.01	24.09	5.8
	2	11.07	29.00	22.52	20.86		
	3	29.87	25.88	23.46	26.40		
2003	1	18.40	5.90	40.75	21.68	18.72	4.5
	2	10.02	28.90	25.10	21.34		
	3	17.33	8.85	13.26	13.15		
2004	1	13.40	6.98	45.44	21.94	13.42	3.0
	2	11.12	7.79	15.48	11.46		
	3	14.70	4.38	1.46	6.85		

The net NPA to the total loans and advances as shown by table 5.21 make it clear that it was 21.10 percent, 14.84 percent, and 14.45 per cent respectively for the first, second and third group UCBs in the year 2000. The percentage of net NPA to loans and advances for the three groups for the year 2004 was 21.94, 11.46 and 6.25 respectively. It is clear that, for the first group, the ratio was almost the same as at the beginning and at end of the study period. For the second group, third group and the sample average, the ratios showed an upward trend initially and then declined. The NPA of public

sector banks was 7.4 percent in 2000. It declined and reached at 3 percent by 2004 while the sample UCB average was 13.42 percent. During the same period the NPA to the loans and advances of public sector banks was very low and it showed a gradual declining trend.

The net NPA to total Loans and advances in the UCBs in Kerala and public sector banks in India are given in figure 5.5.



From figure 5.5 it is clear that the average NPA of the UCBs was much higher than the NPA of the public sector banks in India.

6. Net interest income to the NPA

To know the strength of earnings of the UCBs to meet the NPA, a comparison was made between the net interest income and the NPA as shown table 5.22.

Table 5.22
Net interest Income to NPA of the sample UCBs
from 2000 to 2004 (percent)

Year	Bank	A	B	C	Average	Sample Average
2000	1	47.69	30.00	14.87	30.85	15.65
	2	28.83	10.83	-2.97	12.23	
	3	6.99	-5.35	9.99	3.88	
2001	1	28.75	26.59	17.97	24.44	13.51
	2	23.39	10.55	0.20	11.38	
	3	6.88	1.32	5.90	4.70	
2002	1	18.24	35.47	10.63	21.45	10.77
	2	21.43	5.42	5.28	10.71	
	3	6.57	-6.81	0.69	0.15	
2003	1	33.89	63.73	11.17	36.26	17.33
	2	32.53	3.51	7.85	14.63	
	3	16.27	-29.67	16.65	1.08	
2004	1	44.43	70.75	10.68	41.95	16.96
	2	35.05	33.58	7.16	25.27	
	3	23.97	-60.53	-12.49	-16.35	

The net interest income of the three groups of the UCBs in relation to the NPA for the period between 2000 and 2004 (table 5.22), reveals that the net interest income of the first group, which was 30.85 percent in 2000, came down to 21.45 percent by 2002 but rose to 41.45 by 2004.

For the second group, the ratio was 12.23 percent in 2000. It made a steady increase and reached 25.27 percent by 2004.

The percentage of net interest income to the NPA of the third group was the lowest in 2000 (3.80 percent). After showing a slight increase in 2001, it has fallen to (-) 16.35 percent (Net income was negative) by the end of 2004. The sample average of net interest income to NPA in 2000 was 15.56 percent it went down to 10.77 percent by 2002 but again went up and reached at 16.96 percent by 2004. From the above analysis it is clear that the NPA of the UCBs in Kerala were higher when compared with those of public sector

banks. Though the position of the NPA showed improvements since 2003, the NPAs were much more than the share capital, the owned funds and the net interest income earned.

The average NPA of the sample UCBs during the period, shown in table 5.23, makes the position more clear.

Table 5.23

Amount of Average NPA of the Sample UCBs and their groups

Bank	Amount (Rs. lakhs)	Average NPA to					
		Total Assets (%)	Loans and Advances (%)	Share Capital (%)	Owne d Funds (%)	Net Income (%)	Provision for Bad and Doubtful Debts (%)
1A	152.99	9.52	18.83	350	118.26	842.85	245.95
1B	119.84	5.66	10.18	216.21	88.68	206.53	288.91
1C	920.23	21.88	35.46	736.45	183.11	1022.5	316.72
Group One	397.69	15.04	26.03	532.39	155.54	717.95	302.63
2A	496.11	5.73	10.98	356.99	43.46	202.56	175.44
2B	1654.02	14.88	22.84	539.42	116.42	381.35	343.34
2C	1037.07	7.32	19.58	410.33	91.72	192.1	232.39
Group Two	1062.4	9.39	18.68	456.4	86.31	261.57	263.24
3A	947.02	8.74	21.51	742.93	120.49	291.16	335.24
3B	737.22	7.14	13.33	440.05	61.7	111.13	284.83
3C	742.07	7.07	13.44	353.88	50.38	88.11	170.3
Group Three	808.77	7.67	15.7	480.74	70.25	132.52	248.33
Sample	756.29	9.26	18.35	476.94	86.01	211.68	263.61

The average non-performing assets of the sample UCBs shown in table 5.23 were the highest in 2B (Rs. 1,654.02 lakh), which accounts for 14.88 percent of total assets. In terms of percentage to total the assets the NPA were maximum in 1C (21.87%). The average NPA was minimum for 1B (5.66%). The average NPA to the total assets for sample were 9.26 percent.

A comparison of the NPA to the total assets of the sample (9.26 %) and the NPAs to total assets of the public sector banks (2.5%) brings out that the level of NPA was very high for the UCBs in Kerala. But the all India NPA

figure among the UCBs (20.8%) was much higher than that of the sample. As such it could be concluded that on average the performance of the UCBs in Kerala was better than that of the UCBs in the rest of the country.

The Net NPA, as a percentage of loans and advances, ranged between 10.18 and 35.46 for the sample UCBs. The sample had a mean NPA to total loan and advances of 18.94 percent. Whereas, the NPA to the loans and advances of public sector banks was 5.5 percent.

The NPA, as a percentage of share capital in the UCBs was high. The mean level of NPA for groups ranged between 456.40 percent and 532.40 percent and the sample it was 476.94 percent

In terms of owned funds, NPA position was also high. Two banks in the first group and one each in the second and third groups were with more than 100 percent NPA. Group one performed poorly compared to other groups of the sample UCBs.

The proportion of net income to the NPA makes it clear that except 3C, all the UCBs in the sample were unable to generate net income sufficient to meet the amount of the NPAs. The average for the sample was 211.68 percent.

Hence, it can be concluded that NPA management in the UCBs in Kerala is poor. This resulted in larger provisioning and consequent reduction in profits. Banks with small financial base were suffering from higher NPA compared to banks with large financial base.

Management of NPA – Summary of Focus Group Discussion

In the focus group discussion, participating managers deliberated on reasons for the mounting NPA and to suggest measures to be initiated by the banks to recover the NPA and spell out the strategy for NPA management.

The experts present at the meeting, after an animated discussion, came to the conclusion that the reasons for the assets becoming NPAs were varied and the major causes were: Poor credit appraisal

- Reckless advances to achieve the budgetary targets
- Procedure delay in sanctioning loans
- Diversion of the funds for other purposes
- Poor documentation and improper evaluation of securities
- Lack of sustained liaisoning and the follow up with borrowers.
- Political interference and the general slow down in economy
- Favouritism on the part of the management in sanctioning loans
- Purposeful default.

Impact of the NPA : The experts further discussed the impact of NPA and their conclusions were:

- It earned no interest and blocked the flow of funds.
- Funding costs have to be met by the banks
- provisioning for the NPA reduces profit.
- Capital adequacy requirements have to be met on the basis of higher risk weight

Management of NPA: The measures suggested by the experts to tide over the situation arising out of above mentioned impact were:

(a) Prevention

To prevent an asset from becoming NPA, proper planning and analysis of loan requirements of the applicants before disbursement are essential. Technical, commercial, organisational and financial aspects of the loan requirement are to be assessed carefully. A proper assessment of the credentials and credit worthiness of the customer is to be made to avoid the

recurrence of NPA. Recovery of loan is to be given top priority and others secondary considerations only

(b) Control / management

Controlling and management of the NPAs occur at the post disbursement stage.

The proposals for the management of NPA are:

- 1) Plan a realistic repayment schedule based on harvesting, income generation, amount of repayment, period of recovery etc.
- 2) Use a selective approach by classifying the loans into different groups such as most preferable, moderate, less, least, never etc.
- 3) Proper documentation of securities by appropriate and authorised persons.
- 4) Pay greater attention to accounts involving high stakes in terms of outstanding balances and recovery potential.
- 5) Follow the technique of “A B C D” approach.
 - ‘A’- high value accounts showing symptoms of distress - Direct attention of the CEO
 - ‘B’- high value accounts with a potential for recovery - requiring constant follow up and steering attention of the CEO.
 - ‘C’- medium size accounts - supervision by the next in command.
 - ‘D’- all other accounts - manager to delegate power to the next for the follow up.
- 5) Monitoring loans at branch levels by constituting management committees and timely intervention, dialogue, rehabilitation packages, remedial measures and legal measures in accordance with the suggestions made by the committee.
- 6) The management committee is to be made accountable for the loan and the staff are to be committed to the recovery of the same.
- 7) Motivate the staff with incentives for the timely recovery of the loans.

Strategy for NPA Recovery

1. Rebate for prompt repayment of dues
2. Conducting recovery camps
3. Updating data regarding collateral securities
4. Recovery planning - area wise approach,
5. Strict compliance with norms for granting advances, obtaining additional securities etc.
6. Approaching Recovery Tribunal and filing of suits

Conclusion

The level of NPA of UCBs of Kerala was high during the study period. But the levels of NPA show a gradual decline towards the end of the period. The UCBs were trying to reduce the quantum of the NPA. This would help them to solve many of the problems persisting today.

The mobilisation and deployment of funds are the core activities of the UCBs. Assets are acquired and liabilities are created. Proper asset liability management helps to reduce risks and enhances earnings. Asset - liability miss match minimization and the optimum fund utilisation would help to earn better spread, and higher net profits. The difference between the interest income and interest expenses determines spread and profitability of the UCBs. Hence in the following chapter presents an analysis of the working result and profitability of the sample UCBs.



EVALUATION OF FINANCIAL PERFORMANCE OF URBAN CO-OPERATIVE BANKS

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter Six

EVALUATION OF FINANCIAL PERFORMANCE

EVALUATION OF FINANCIAL PERFORMANCE OF URBAN CO-OPERATIVE BANKS

Introduction

Banking, being a business activity, it should logically and legitimately be concerned about profits. It is more so when business is done other people's money, which may be called back any time. The whole structure of banking is built on public trust, which in turn depends on viability of banking institutions. The income generated should be adequate to meet their regular expenses, to offset loan losses, to market products and services, to pay dividends to share holders and to keep a part of the surplus for contingencies.

The health of business unit is often measured by the amount of profit it generates. Profit is an absolute measure of firm's performance. To measure the relative performance over time, the term profitability, which is a function of cost reduction and return maximisation, is preferred.

For a bank, maximisation of earnings is possible by increasing the interest income and reducing interest expenses and management cost.

The financial results of UCBs are indicators of their performance efficiency and viability. Some major indicators like interest income, non-interest income, profits, spread, and burden were selected and their relationship with parameters like total owned funds, borrowed funds, loans and advances, investments, working capital, expenses etc. were analysed in the following section. The performance of the sample UCBs was compared with the performance of some of the public sector banks in India to get a relative view of their performance.

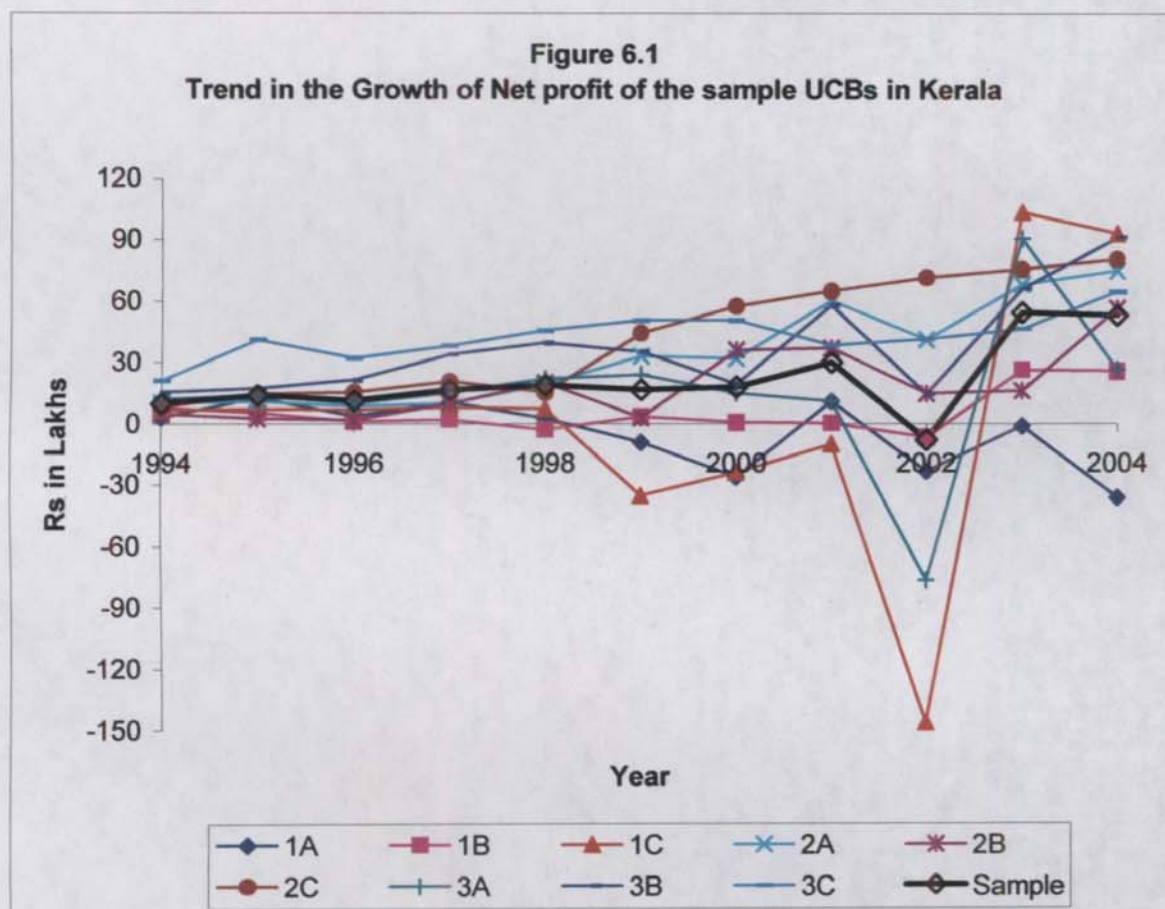
This chapter has two sections. Section – I deals with the profitability analysis of the sample UCBs and their subgroups. Section II deals with deals with spread-burden analysis.

Section I

PROFITABILITY ANALYSIS

Net profit earned is the final measure of a firm's performance. It reflects the result of operations and indicates the amount by which revenues earned during the period exceeds the expenses incurred during the same period.

The amount of net profit earned and its growth trend of the sample UCBs in Kerala are shown in table A.28 (Appendix) and figure 6.1 below.



The UCBs in the first group suffered losses in some of the years during the period of study. The other UCBs made profit in all the years except 3A in 2002. The trend in the growth of profit of all UCBs was flat for the study period upto 2000 in 2001, it went up, 2002 it was negative and thereafter recovered to reach higher levels in 2003 and 2004. The CAGR in net profit for 1A was negative (-225.48 percent), and the highest growth in profit in the second group was for 2B (25.55 percent).

The CAGR of the UCBs in the third group showed better performance during the period 2000-20004 compared to 1994-1999.

In the absolute terms, first group UCBs had net losses in three years and 2002, for the third groups. The second group had profits for all the years during the study period. The average for the whole group was negative in 2002 only. In general the amount of net profit showed a fluctuating trend for first and third groups, but a steady increase for the second group.

Profit, becoming negative was not a sign of efficient funds management. Losses indicated either loss of income or increase of expenditure or both.

To get a clear picture of the profitability of the UCBs, profitability ratios were computed by using the actual amounts and the average of the amounts of the variables for each bank, their group and for the entire sample.

Net Profit to Total Funds

Net profit to total funds ratio measures the percentage of net profit earned on total funds. Table A.29 (Appendix) showed net profit to total funds of the selected UCBs in Kerala for the period 1994 to 2004 (Please see table 6.1 also).

The net profit was less than one percent of total funds in most of the years for many banks in the sample. The percentage of net profit to total funds was the lowest for second group (0.42%) and the highest for 1B (1.83%) in the year 1994. The amount in 2004 was the lowest for 1A (-2.23%) and the highest was for 1C in 2004. There was a mixed trend in this for banks in the sample and their groups. The average for the sample was 0.41 percent during the period of study.

The percentage of net profit to total funds was less than 1.41 percent and was negative for three out of the eleven years for first group. In the case of second group, it was between 0.35 percent 0.61 percent. For the third group the ratio showed a continuous decline until 2002 (-0.09%) but recovered at the end of the study period. Banks in the first group exhibited losses more frequently than others.

Five banks in the sample had less than the sample average. The second and third groups had net profit to total assets higher than the sample average.

There was a declining trend in the average amount for the groups. The coefficient of correlation between net profit and total funds was 0.54.

The percentage of net profit to total assets of the public sector banks, though was poor in earlier years, showed improvements at the end of the study period. They were able to earn 1.10 percent of total funds in 2004. But the overall average was 0.53 percent. The UCBs all India statistics about net profit ratio to total assets was 0.40 percent.

An inference that can be made from the above analysis is that many UCBs in Kerala had low average profits when compared to the total funds used. The performance of the UCBs in Kerala was not up to the mark when compared with public sector banks.

Net profit to Earning Assets

This relates mean annual net profit earned by the UCBs to their earning assets. Net profits to earning assets of the sample UCBs (in percentage) are given in table A.30 (Appendix).

The net profit to earning assets of the banks in the sample and the three groups (table A.30 Appendix) showed a position similar to net profit to total funds. The ratio was the lowest for 2B (0.41 per cent) and the highest for 2A (1.12 percent) in the year 1994. At the end of the period of study, the net profit to earning assets was the least for 1A (-2.24 %) and the highest for 1C (2.09 percent).

Through out the period of study, the ratio was less than 1.58 percent, less than 0.77 percent and less than 0.96 percent respectively for first, second and third groups. The mean net profit for the entire sample varied between (-)0.11 percent and 0.90 percent during the period of study.

The average net profit to earning assets of the sample UCBs was 0.47 percent (table 6.1). Five banks in the sample had lower mean profit than that of the sample. The highest mean profit (0.71%) was earned by 2A and heaviest loss was for 1A (-0.57 %). The average net profit to earning assets for the first group

was very low (0.04%). The mean net profit of the second and third groups was more than five percent of their earning assets.

Net profit to owned funds

Owned funds of the UCBs consist of share capital, reserve funds and other reserves. The percentage of net profit to owned funds showed the rate of return on owned funds. The percentage of net profit to owned funds of the sample UCBs was shown in table A.31 (Appendix). Please see table 6.1 as well.

Net profit to owned was the highest (21.98%) for first group in the initial years followed with a sharp decline, it became negative by 1999 (-13.81) but recovered and showed a margin of 7.35 percent by the end of 2004. For second group, the ratio, which was positive through out, showed a decreasing trend and reached at 3.64 percent by 2004. As far as group three was concerned, the ratio that was 9.08 percent in 1994 declined gradually and turned negative (-0.69 percent) in 2002. But the group ended positive at 3.95 percent by 2004. The mean profit to owned funds of the sample also showed a trend similar to that of the third group.

The mean amount of net profits of the selected UCBs in the sample for the period between 1994 and 2004 are shown in table 6.1.

Table 6.1
Mean Net Profits of the sample UCBs (1994-2004)

Bank	Amount (Rs. Lakh)	Net Profit to			
		Total Assets (%)	Share Capital (%)	Owned Funds (%)	Earning Assets (%)
1A	-4.99	-0.45	-16.09	-5.89	-0.51
1B	5.53	0.4	16.04	6.09	0.43
1C	1.35	0.05	1.54	0.45	0.05
Group One	0.63	0.03	1.24	0.4	0.04
2A	33.26	0.61	41.19	5.08	0.71
2B	18.19	0.29	9.71	2.39	0.31
2C	42.4	0.5	28.45	6.87	0.69
Group Two	31.28	0.46	22.5	4.62	0.56
3A	14.66	0.21	16.75	3.1	0.23
3B	37.25	0.56	31.07	4.99	0.62
3C	42.51	0.58	25.25	4.65	0.65
Group Three	31.47	0.45	25.13	4.42	0.5
Sample	21.13	0.41	20.11	4.1	0.47

Table 6.1 shows that the mean net profits to owned funds for the sample was 4.10 percent. Four UCBs in the sample earned more profits than that of the sample. The percentage loss was 5.89 for 1A. The percentage for 2A was 5.08. The first group earned only 0.40 percent net profit to its owned funds.

The correlation between net profit and own funds was low ($r=0.58$). From the above analysis it is clear that majority of the UCBs earned only lower mean net profits in relation to their total funds employed.

Net profit to Share Capital

The mean net profit to share capital of the UCBs (table 6.1) was 20.11 percent for the sample. The loss suffered by 1A was 16.09 percent. The highest mean profit as a percentage of share collected was earned by 2A (41.19%). Most of the UCBs in the sample had low average net profit per share capital employed. The second group and the third group could earn an average of 22.5 and 25.13 percent of their share capital as their mean annual net profit. The correlation coefficient was positive but low ($r= 0.49$). The co-operative rules of

Kerala permitted the UCBs to pay dividends up to 20 percent on their paid up capital, if there was adequate profit. Only very few UCBs were able to declare such rate of dividends during the period of study. Hence it is concluded that the rate of profit earned by many UCBs was low and inadequate to pay the highest rate of dividend permitted by the law.

To get a clear picture of the operating efficiency, the income earned (including interest income and non interest income) by the sample UCBs with was analysed by relating it with important parameters like, total assets, total income, earning assets, working capital etc.

Total Income to Total Assets

The total income, as ratio to total assets, indicates the ability of the assets to generate income to the bank. The total income is the sum total of interest income and non-interest income. The average amount of total income of the three groups and the sample and its measurement as a percentage of total assets, earning assets and working capital are given in table 6.2.

The mean income earned by the UCBs during the period of study ranged between Rs. 161, 36 lakh and Rs. 1237 lakh. For the groups, it was Rs. 247 lakh and Rs. 1073 lakh. The mean income for the sample was Rs. 701.56 lakh. Four banks had less mean total income than that of the sample. On the whole, banks in the third group, 2B and 2C in the second group out performed the sample in terms of the mean percentage of total income to total assets. The mean total income to total assets for the sample was 13.62 percent. Five banks in the sample had this ratio more than the sample average. The highest ratio of 16.92 percent was for 3C.

Total Income to Earning Assets

The ratio of total income to earning assets of the selected UCBs is shown in table 6.2. The mean total income to earning assets for the sample was 15.72 percent. This percentage ranged between 11.83 to 18.88 percent for the sample.

The group average range was 14.31 percent and 17.12 percent. Six banks had the percentage of total income to total assets less than that of the sample.

Total Income to Working Capital

Another measure of earning efficiency of a bank is the ratio of total income to working capital. The ratio of total income to working capital of the sample UCBs and their three groups are presented in table 6.2.

The mean total income to total working capital for the sample was 16.52 percent. Five UCBs in the sample had lower percentage than that of the sample. The third group only had a higher percentage (17.12%) than that of the sample.

From the above analysis it is clear that the UCBs in the first group earned low mean total income, but its percentage to total assets, earning assets, and working capital was more or less the same for all the banks in the sample and were at par with that of the sample (sample).

Though the total income was positive for all the UCBs in the sample, analysis of the interest income, non interest income and operating expenses was made in the following part of the section to learn more about the qualify of such income generation.

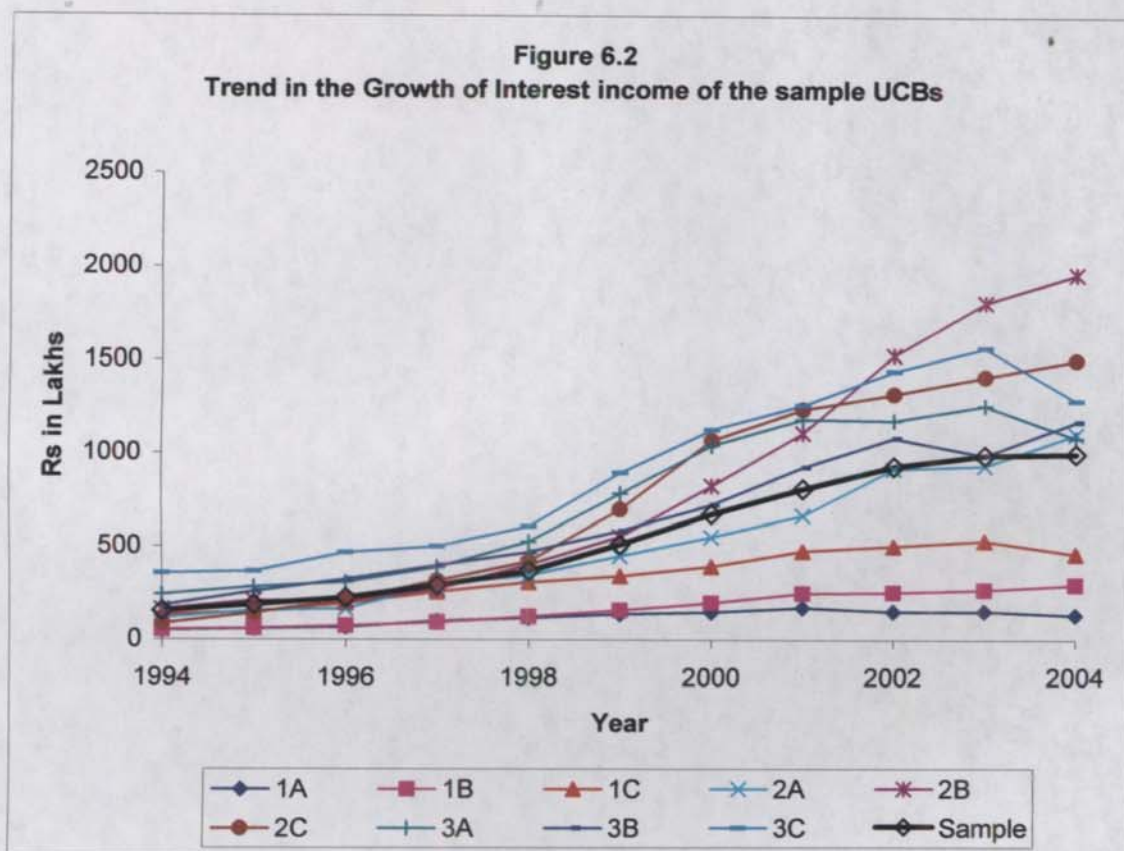
Table 6.2
Average Total Income of the Sample UCBs (1994-2004)

Bank	Amount (Rs. lakhs)	Total Income to		
		Total Assets (%)	Earning Assets (%)	Working Capital (%)
1A	161.36	14.54	16.59	16.92
1B	192.25	13.88	14.96	15.98
1C	387.46	13.36	14.69	14.97
Group One	247.03	13.73	15.14	15.62
2A	551.31	10.12	11.83	12.22
2B	907.7	14.43	15.58	16.91
2C	924.54	10.85	14.97	16.17
Group Two	794.52	11.77	14.31	15.28
3A	907.65	13.16	14.53	13.98
3B	1071.74	16	17.9	18.58
3C	1237	16.92	18.88	21.38
Group Three	1072.1	15.39	17.12	17.82
Sample	704.56	13.62	15.72	16.52

Interest income

Interest income is the major component of the total income of the UCBs. They arise out of lending, investments and from deposits of surplus funds in higher financial institutions.

The average amount of interest income earned by the UCBs in the sample was shown in table A.32 (Appendix) and figure 6.2 shows the trend in the growth of interest income to total assets.



There was a continuous increase in the amount of average interest income earned for the sample till 2003. In 2004, a slight decline was registered for in 1C, 3A and 3C. In 1994, the least amount of interest was earned by 1A (Rs. 49.45 lakh) and the highest amount was earned by 3C (Rs. 356.37 lakh). The amount in 2004 was the least for 1A (Rs. 132.56 lakh) and the highest was recorded in 2B (Rs. 1963.69 lakh). For many banks the compound average growth was low during the period 2000-2004 compared to the period 1994-1999.

There was a continuous increase in the amount of interest income for the three groups and the mean amount for the sample. The compound average growth rate of the sample for the first six years of the study period was 22.16 percent and was the least in 3C (12.37%). The CAGR during the five years from 2000-2004 was the highest for 2B (18.91%) and the lowest was in 1A.(-2.15%). From the above

it follows that UCBs with large amount of interest income made great progress compared to the UCBs with low interest income.

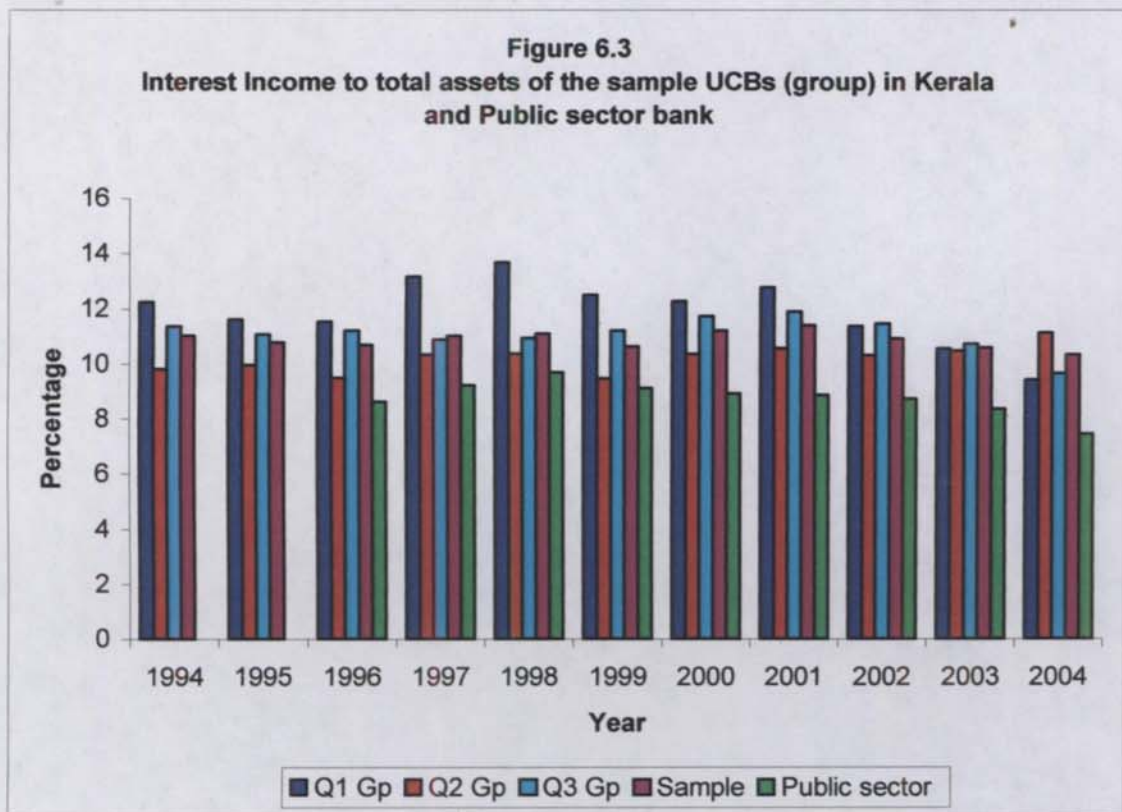
The mean interest income in 1994 ranged between Rs. 306.92 lakh and in 2004 it was Rs 1831.13 lakh, between the banks. This indicated that the banks were not able to maintain the interest income earned in earlier years. Two reasons that can be attributed to this may be: 1) Fall in the rate of interest on loans and advances and 2) stagnation or rather a slow decline in the amounts of loans and advances made by the UCBs.

Interest income to total assets

The amount interest income to total assets of the sample UCBs, their three groups and the selected public sector banks during the study period are presented in table 6.3 and in figure 6.3.

Table 6.3
Interest income to total assets of selected UCB groups and public sector banks (percent)

Year	1	2	3	Sample Average	Public sector banks
1994	12.25	9.79	11.35	11.02	NA
1995	11.60	9.95	11.06	10.78	NA
1996	11.53	9.47	11.19	10.68	8.61
1997	13.16	10.33	10.86	11.00	9.2
1998	13.68	10.36	10.93	11.08	9.69
1999	12.49	9.46	11.19	10.62	9.1
2000	12.26	10.35	11.72	11.19	8.92
2001	12.76	10.56	11.90	11.39	8.85
2002	11.35	10.30	11.46	10.90	8.72
2003	10.53	10.45	10.71	10.57	8.34
2004	9.41	11.11	9.66	10.32	7.44



The mean of the interest income to total assets for the sample UCBs was 10.86 percent. For the selected public sector banks the average interest income to total assets was 8.76 percent.

The average interest income to total assets of the UCBs was higher for the three groups and for the sample UCBs than the average interest income to total assets of the public sector banks throughout the period of study.

It is inferred from the above that UCBs showed better performance than the public sector banks in the ratio of interest income to total assets.

Non-Interest Income

Non-interest income, a major component of the total income, is received in the form of dividend, commission and other charges, recovery of lost assets, profit from sale of investment etc.

The amount of non-interest income for the UCBs in the sample is shown in table A.33 (Appendix) and the trend in the growth is graphically represented in figure 6.4.

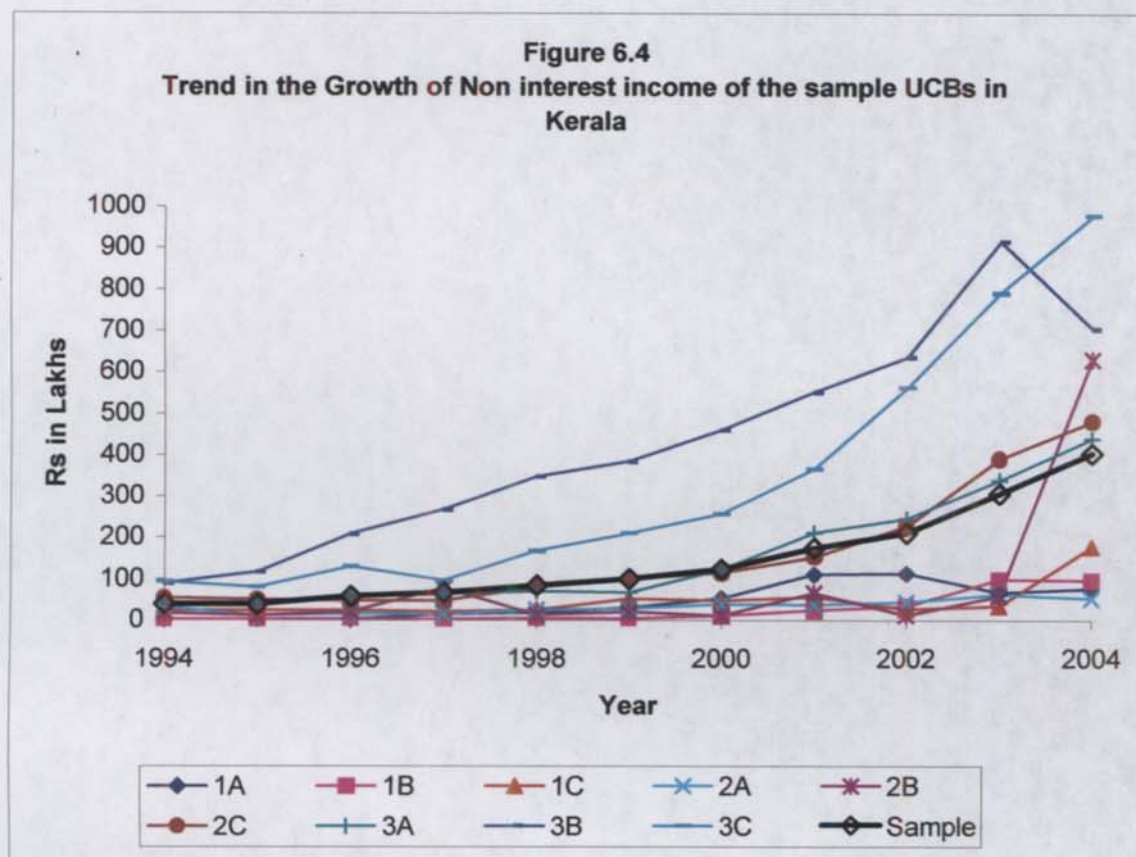


Table A.33 and figure 6.4 show that all the UCBs had received non-interest income from their operations. The growth trend was upward. The range for the non-interest income at the beginning of the study was low. But by the end of the study period, the range was much high. The difference was less significant between all the banks at the beginning, but showed significant difference between the second and the third group banks at the end of the study period.

The CAGR for the five year period from 2000-2004 was (26.80%) much higher than the growth rate before 1999 (16.54%).

Thus there was a continuous increase in non-interest income for all the three groups and the entire sample.

The analysis reveals that the growth in non-interest income was strong in the recent years and is significantly favourable from the profitability angle. The growth in non-interest income was an indication of the greater attention being given by the UCBs to activities other than lending and investment.

Non- Interest Income to Total Assets, Earning assets and Total Income

The average amount of non-interest income and its relationship with total assets, earning assets and total income are shown in table 6.4.

The average amount of non-interest income of the UCBs in the sample ranged between Rs 25.54 lakh and Rs 425.35 lakh. The amount for the three groups ranged between Rs 38.68 lakh and 306.34 lakh and the mean for sample was Rs 145.69 lakh. All the banks in the first group, 2A and 2B earned non-interest income less than that for the sample average.

Table 6.4

Average Non-Interest Income of the Selected UCBs

Bank	Amount (Rs. lakhs)	Non-Interest Income to		
		Total Funds (%)	Earning Assets (%)	Total Income (%)
1A	44.44	4.00	4.57	27.54
1B	25.54	1.84	1.99	13.29
1C	46.06	1.59	1.75	11.89
Group One	38.68	2.15	2.37	15.66
2A	32.71	0.60	0.70	5.93
2B	85.00	1.35	1.46	9.36
2C	158.45	1.86	2.57	17.14
Group Two	92.05	1.36	1.66	11.59
3A	154.61	2.24	2.48	17.03
3B	425.35	6.35	7.11	39.69
3C	339.06	4.64	5.18	27.41
Group Three	306.34	4.40	4.89	28.57
Sample	145.69	2.82	3.25	20.68

The percentage of non interest income to total was the least for 2A (0.60 %) and the highest for 3B (6.35%). Only three banks had this percentage greater

than that of the all sample. Both the first group and the second group had non-interest income less than that of the sample.

The earning assets ratio for the sample was 3.25 percent. Six banks (three banks in the sample and the third group) had their percentage of non-interest income higher than that of the entire sample.

The percentage of non-interest income to total income for the sample was 20.68. As many as (three banks) earned higher percentage of interest income to total assets.

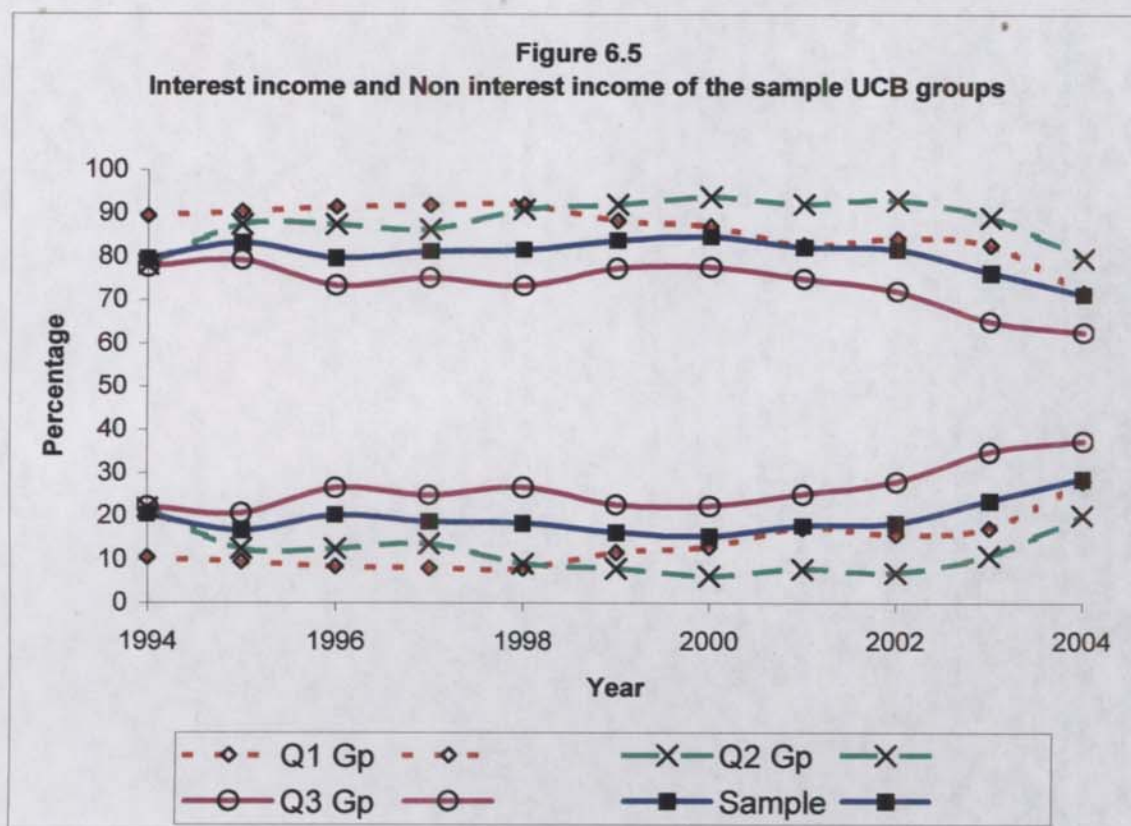
The percentage of non-interest income to earning assets showed more or less the same trend of growth as that of in terms of non-interest total assets. Income, compared to total income, the highest percentage (39.69%) was found in 3B, while the lowest (5.93%) in 2A. The sample had an average of 20.68 percent and the group range was between 11.59 percent and 28.27 percent.

When compared to interest income the proportion of non-interest income was low in the total income.

From the above analysis, it is evident that there has been steady increase in non-interest income of the UCBs during the study period.

Comparison between Interest Income and non-interest Income (percentage)

The relationship between interest income and non-interest income of the three groups of the UCBs and their over all average is shown in figure 6.5.



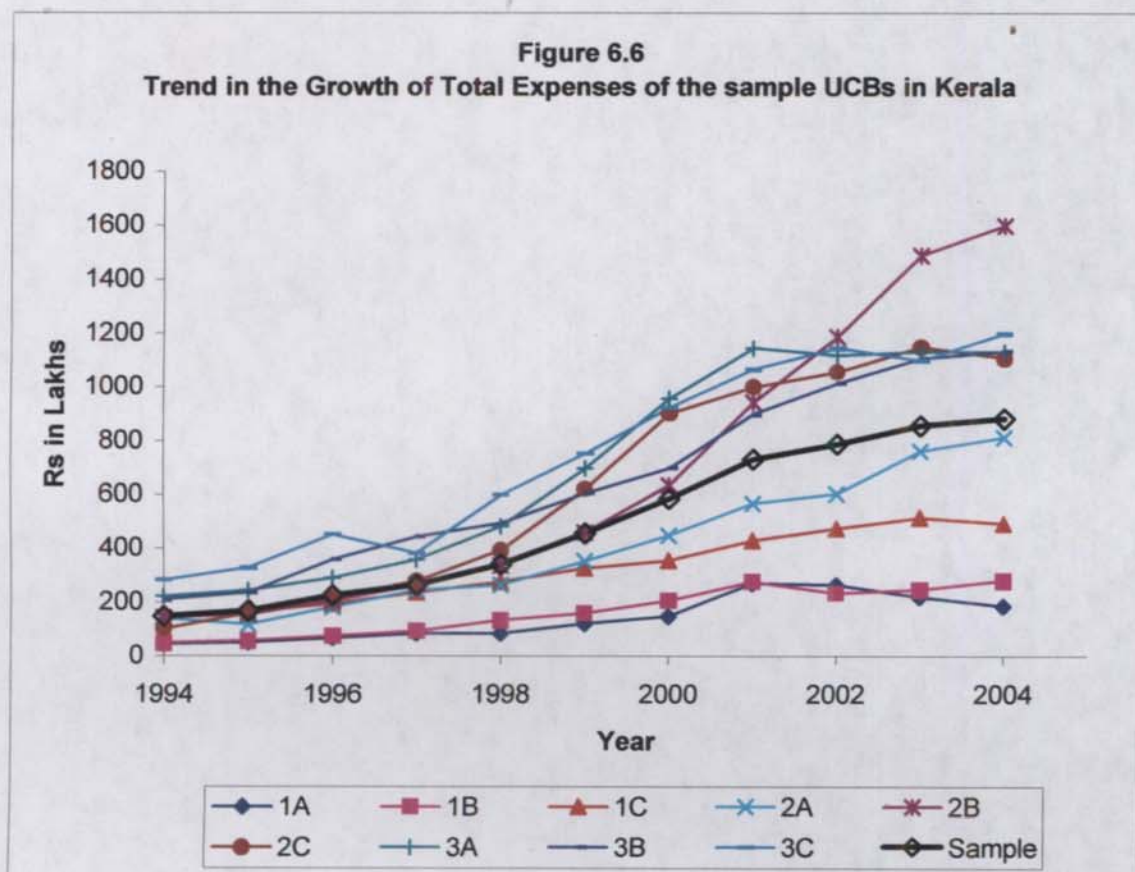
It is clear from figure 6.5 that non-interest incomes were one-fourth of the interest income in the year 1994. A gradual up trend was observed in the percentage of non-interest income to interest income when the trend for interest income was a declining one.

Groups with low non-interest income had high interest income and vice-versa. An increasing trend was observed in non-interest income and decreasing trend in interest income. If this trend in growth continuous for some more years, the non-interest incomes of the UCBs might exceed the interest income.

Expenses in the UCBs

The expenses connected with banking operations are of two types. They are interest expenses and non-interest expenses. Trend in expenses is a decisive factor determining the profit trend.

The total expenses of the selected UCBs are given in table A.34 (Appendix) and figure 6.6 present them graphically.



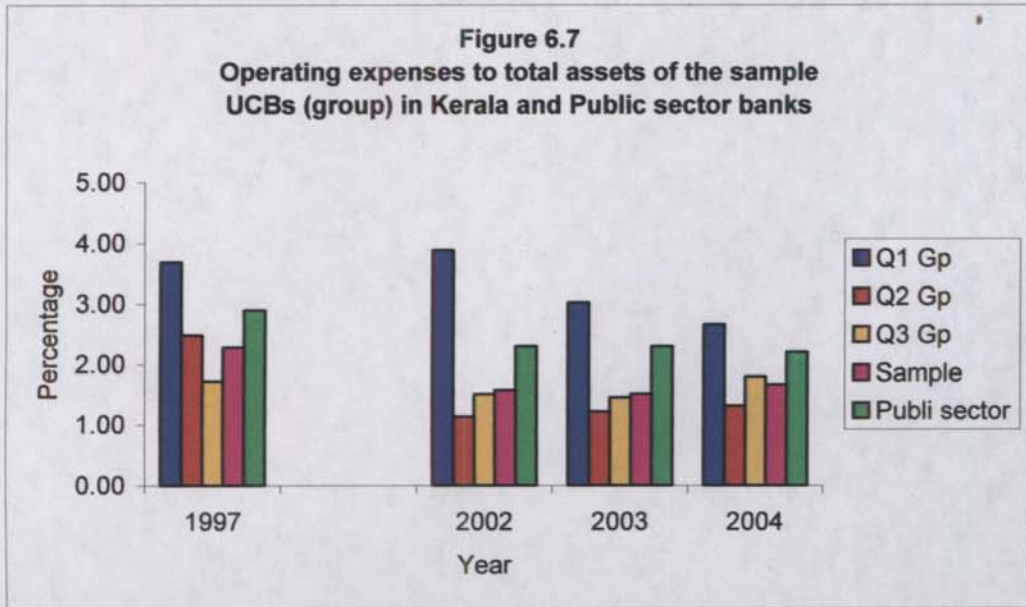
There is a steady increase in total expenses of all the three UCBs and the average interest expenses of the sample.

There was a steady growth in the average amount of total expenses in UCBs during study period. The range in the amount at the beginning was less. At the end of study period there was high difference between the banks as far as the amount of total expenses were concerned.

Analysis of total expenses revealed that there was a rising trend in the total expenses of the sample UCBs.

Operating expenses to total assets

The comparative position of operating expenses to total assets of UCB groups in Kerala and public sector banks is shown in Figure 6.7.



It is clear from figure 6.7 that banks in the first group had average amount of operating expenses more than that of the sample and the public sector banks for all the years. For the second group, third group and the entire sample, the average operating expenses were much less than that of the public sector banks in India. Most of the UCBs were able to operate at an operating cost lower than the average operating expenses of the selected public sector banks.

Total Expenses to Total Income

To know the net income earned by the sample UCBs, a comparison was made between the total expenses and the total income over the period of study.

Table 6.5 shows the percentage of total expenses to total income of the sample UCBs between 1994-2004.

Table 6.5
Average Total Expenses of the Sample UCBs (1994-2004)

Bank	Amount (Rs. lakh)	Total Expenses to			
		Total Funds (%)	Earning Assets (%)	Total Income (%)	Interest Income (%)
1A	111.32	10.03	11.45	68.99	95.21
1B	140.58	10.15	10.94	73.12	84.32
1C	282.43	9.74	10.71	72.89	82.73
Group One	178.11	9.9	10.92	72.1	85.49
2A	349.57	6.42	7.5	63.41	67.41
2B	619.01	9.84	10.62	68.19	75.24
2C	590.14	6.93	9.56	63.83	77.03
Group Two	519.57	7.69	9.36	65.39	73.96
3A	648.41	9.4	10.38	71.44	86.11
3B	590.96	8.82	9.87	55.14	91.42
3C	694.42	9.5	10.6	56.14	77.34
Group Three	644.6	9.25	10.3	60.12	84.17
Sample	447.43	8.65	9.98	63.5	80.06

From table 6.5, it is clear that the average amount of total operating expenses of the sample UCBs ranged between Rs. 111.32 lakh and Rs. 694.42 lakh. For the three groups it was ranging between Rs 178.11 lakh and Rs 644.6 lakh. The mean for the sample was Rs 447.43 lakh. Only four banks in the sample had operating expenses less than these of the sample.

A comparison of average total expenses and their relationship with total assets, earning assets and income (table 6.5) reveals a clear picture of the earnings and working effectiveness of the UCBs. The average total expenses to total income ranged between 55.14 percent and 73.12 percent for the sample UCBs. To interest income, the percentage of the operating cost was between 67.41 and 95.21 for the UCBs in the sample. There was wider disparity between banks in their total income and total expense.

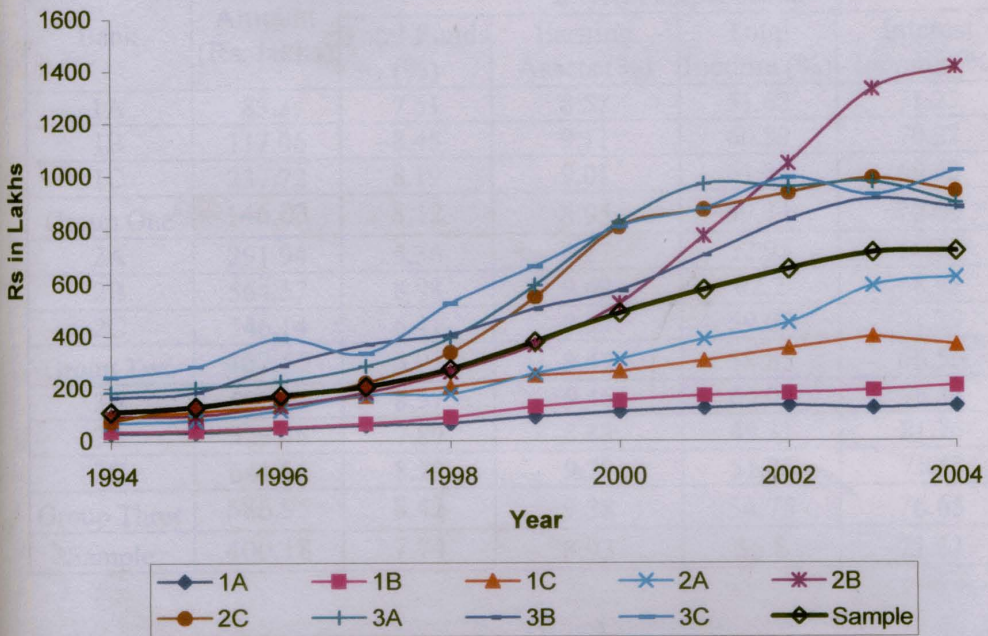
The average total expense to total funds for the sample was 8.65 percent. For earning assets it was 9.98 percent, to total income 63.50 to interest income 80.06 percent. The higher ratio of expense to income, the lesser the operating efficiency and vice versa.

Among the three groups, the second group performed well in most of the efficiency ratios.

Interest Expenses

These are amounts paid or due for the money obtained from depositors and borrowed from higher financial institutions. Interest expenses of the sample UCBs for the eleven year period is shown in table A.35 (Appendix) and graphically presented in figure 6.8.

Figure 6.8
Trend in the Growth of Interest Expenses of the sample UCBs in Kerala



The interest expenses constituted a major component of the total expenses of UCBs. The interest expenses of the sample UCBs showed a steady increase till 2003. In 2004 average amount of interest expenses showed a slight decline for 1C, 2C, 3A and 3B. The amount was the lowest for 1A (Rs. 28.96 lakh) and the highest for 3C in the year 1994. In 2004, the lowest amount was for 1A (Rs. 129.89 lakh), and the highest was for 2B (Rs 1412.97 lakh).

There was a continuous increase in the amount of interest expenses for all the three groups and in the average of the sample except in 2004 for first and third groups. The range of the amount of interest expenses between banks was very thin in the initial years. The growth rate was low for the first group. By the end of the study period the range in the amount of interest expenses between the banks in the sample had grown wide.

The means of the interest expenses of the sample UCBs for the period between 1994 and 2004 are shown in Table 6.6.

Table 6.6

Average Interest Expenses of the Sample UCBs (1994-2004)

Bank	Amount (Rs. lakhs)	Interest Expenses to			
		Total Funds (%)	Earning Assets (%)	Total Income (%)	Interest Income (%)
1A	83.3	7.51	8.57	51.62	71.25
1B	117.06	8.45	9.11	60.89	70.22
1C	237.72	8.19	9.01	61.35	69.63
Group One	146.03	8.12	8.95	59.11	70.09
2A	291.94	5.36	6.27	52.95	56.29
2B	564.57	8.98	9.69	62.2	68.62
2C	546.14	6.41	8.85	59.07	71.29
Group Two	467.55	6.92	8.42	58.85	66.56
3A	590.83	8.57	9.46	65.09	78.46
3B	528.46	7.89	8.83	49.31	81.76
3C	641.56	8.78	9.79	51.86	71.45
Group Three	586.95	8.42	9.38	54.75	76.65
Sample	400.18	7.74	8.93	56.8	71.61

The average of the interest expenses of the sample UCBs for 1994-2004 was Rs 400.18 lakh. Four UCBs in the sample had average interest expense less than that of the sample. The average interest expense for the first group was only one-third of the average expenses of the entire sample UCB bank. 1A had only 20 percentage of the average expense of the sample.

The percentage of interest expenses to total income ranged between 49.39 to 62.20 percent and to total assets it was 5.36 to 9.98 percent. The percentage of

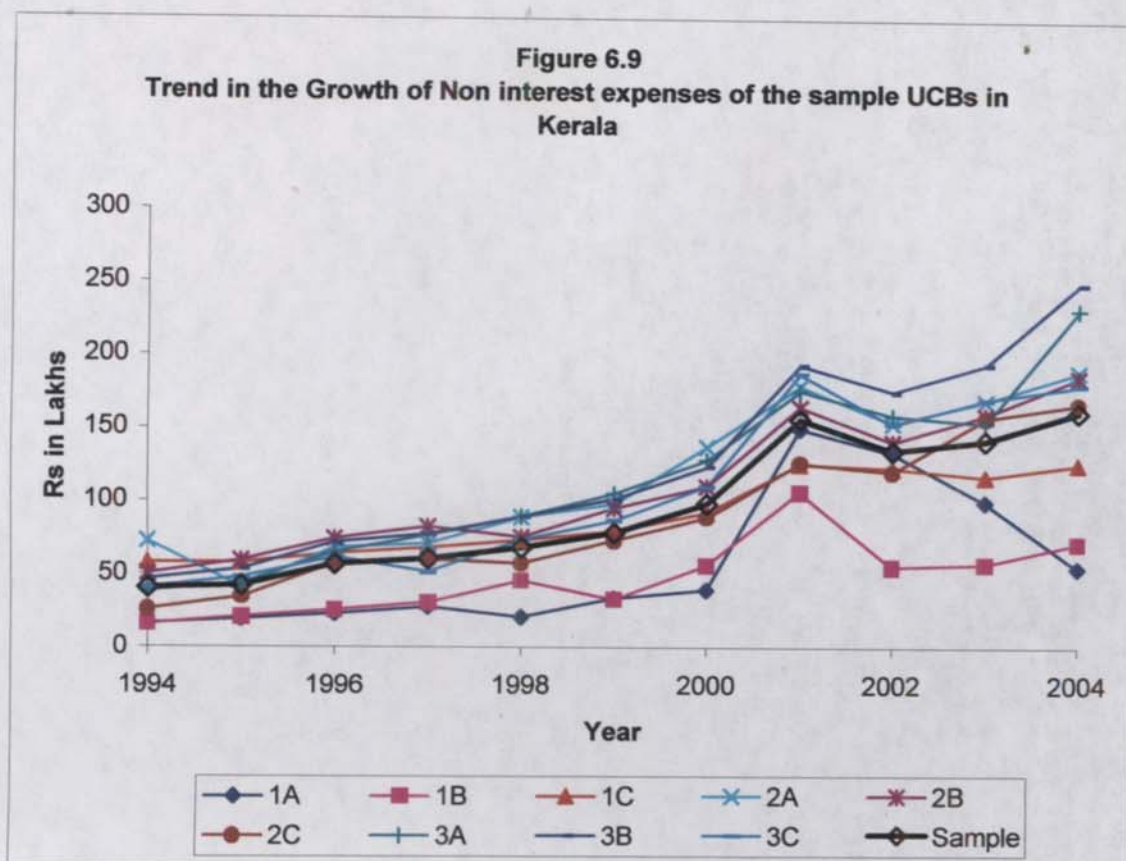
interest expense to interest income varied between 56.29 and 81.76 for the sample.

The percentage of interest expenses to total funds was 7.74 for the sample. Seven of the nine UCBs had percentage of interest expenses to total funds higher than that of the sample. The percentage of interest expense to earning assets was 8.93.

From the above analysis it can be inferred that the average interest expenses to total funds and that to earning assets had more or less the same trend. Interest expense of sample UCBs was around 7.75 percent of total assets. More than 70 percent of interest income is used for meeting interest expenses. Bank 2B was able to limit the interest expense to 56.29 percent of its interest income. They were able to meet all interest expenses out of interest income and still have a reasonable surplus to meet other expense.

Non Interest Expenses

Non-interest expense is a major component of the total expense of the UCBs. The two major constituents of the non-interest expense are staff salaries and allowances and other expenses. The non-interest expense of the entire sample and the three groups are shown in table A.36 (Appendix) and the same is presented in figure 6.9.



There was a continuous increase in the amount of non-interest expense for all the three groups and the sample except in 2002. The compound annual growth rates (CAGR) for the period from 1994 to 1999 for the three groups and the mean for the sample were 8.34, 10.22, 15.25, and 11.67 percent. The CAGR for the period between 2000 and 2004 were 6.06, 10.03, 12.83 and 10.45 percent respectively for the three groups and the sample. The growth rate in the second term was much below the growth rate prior to 2000. Further, the CAGR (2000 to 2004) was low compared to the CAGR for the whole study period of eleven years (1994 to 2004) which were respectively 9.83, 12.51, 16.36 and 13.45 percent. This reduction in non-interest expense after 2000 was also a good sign as far as profitability analysis was concerned.

The average amount of non-interest expense of the sample for the period between 1994 and 2004 is shown in table 6.7.

Table 6.7

Amount of Non-Interest Expenses of the Sample UCBs (1994-2004)

Bank	Amount (Rs. lakhs)	Non-Interest Expenses to			
		Total Assets (%)	Earning Assets (%)	Total Income (%)	Interest Income (%)
1A	28.02	2.52	2.88	17.36	23.96
1B	23.52	1.70	1.83	12.23	14.11
1C	44.71	1.54	1.70	11.54	13.1
Group One	32.08	1.78	1.97	12.99	15.4
2A	57.63	1.06	1.24	10.45	11.11
2B	54.44	0.87	0.93	6.00	6.62
2C	44.00	0.52	0.71	4.76	5.74
Group Two	52.02	0.77	0.94	6.55	7.41
3A	57.58	0.83	0.92	6.34	7.65
3B	62.5	0.93	1.04	5.83	9.67
3C	52.86	0.72	0.81	4.27	5.89
Group Three	57.64	0.83	0.92	5.38	7.53
Sample	47.25	0.91	1.05	6.71	8.45

It is evident from table 6.7 that the average non-interest expenses were low in most of the UCBs. The mean interest expense for the sample UCBs was Rs 47.25 lakh. The percentage of non-interest expense to earning assets was 1.05 and that to total income was 6.71. The interest expense to interest income was 8.45 percent. Four UCBs had non-interest expenses less than the mean non-interest expense of the sample.

The average non-interest expense was 4.76 to 17.36 percent of total income in certain banks and were 5.74 percent to 23.96 of interest income of the entire sample.

Non-interest expense showed a high positive correlation (0.89) with total funds of the UCBs in the sample. Non-interest expenses were less than about 25 percent of the interest income of the UCBs.

Staff Expenditure

Employee salaries and provisions for staff welfare were major elements in the operating expenses of the UCBs. Staff salaries and allowances of the sample UCBs and the three groups are given in table 6.8.

Table 6.8

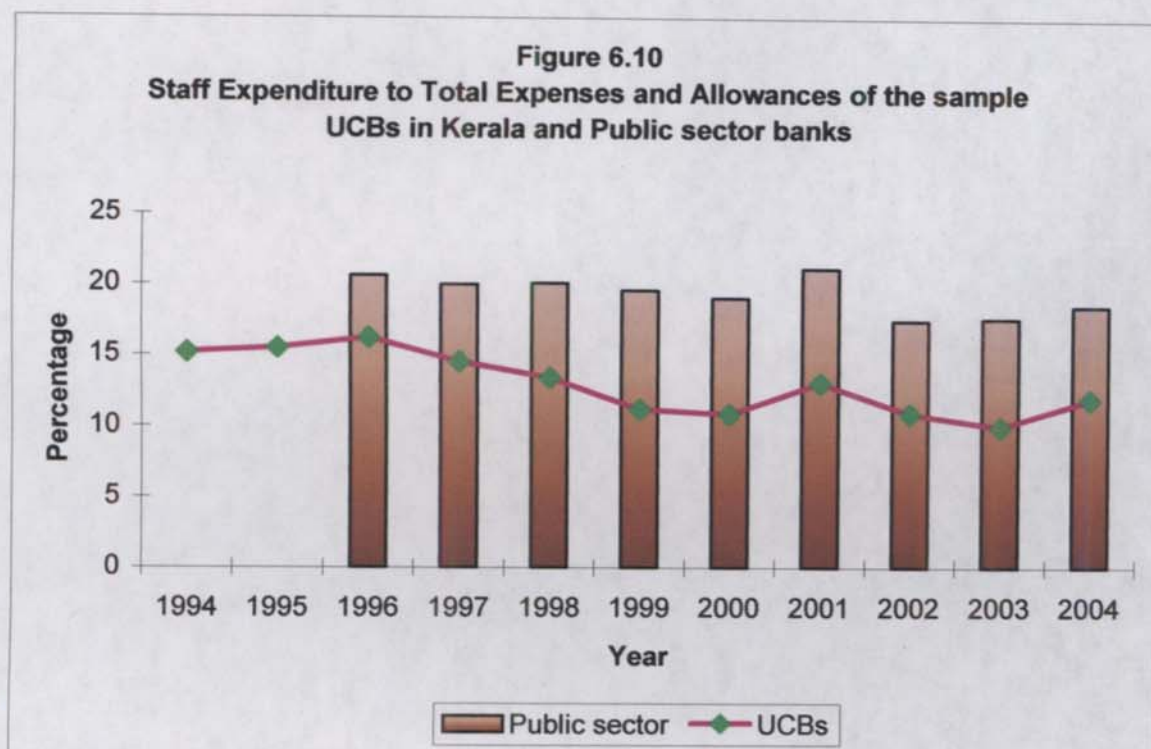
Average Amount of Staff Expenditure of the Sample UCBs

Bank	Amount (Rs. lakhs)	Staff Expenditure to			
		Total Business (%)	Total Income (%)	Total Expenses (%)	Other Non- Interest Expenses (%)
1A	24.81	1.66	15.38	22.29	88.56
1B	23.2	1.18	12.07	16.50	98.64
1C	59.78	1.43	15.43	21.17	133.7
Group One	24.81	0.97	10.05	13.93	77.35
2A	77.35	1.09	14.03	22.13	134.22
2B	67.66	0.75	7.45	10.93	124.3
2C	51.3	0.58	5.55	8.69	116.59
Group Two	23.2	0.28	2.92	4.46	44.59
3A	79.58	0.88	8.77	12.27	138.21
3B	82.92	0.89	7.74	14.03	132.68
3C	70.91	0.75	5.73	10.21	134.15
Group Three	59.78	0.64	5.58	9.27	103.7
Sample	77.35	1.15	10.98	17.29	163.71

The average amount of staff expenditure to total business of the selected UCBs was between 0.58 percent (2C) and 1.66 percent (1A). Larger these percentage were larger for banks in the first group. It varied between 8.69 (2C) and 22.69(1A). The staff expenditure to other non-interest expenses ranged between 88.56 percent (1A) and 138.21 percent (3A).

The staff expenditure as a percentage of total business, total income and total expense was less for the second group. The mean staff expenditure for the sample was 1.15 percent of total business, 10.98 percent of total income, 17.29 percent of total expenses. The average amount of staff expenditure to total assets was 19 percent for public sector banks and it accounted for 163.71 percent of non-interest expenses. The staff expenses were low in the UCBs in comparison with those of the selected public sector banks whose average staff expenditure to

total expenses was 19 percent. The staff salaries of the UCBs and public sector banks are presented graphically in figure 6.10.



The staff salaries of the UCBs and public sector banks showed a similar pattern during the study period. But for the public sector banks the staff expenditure to total expenditure was much higher.

From the financial analysis of the UCBs in this section it is clear that the net profits of the UCBs were higher in early years but showed a declining trend in later years in comparison with the public sector banks. The percentage of interest income to total business was high for the UCBs when compared to that for the public sector banks. The operating expenses, staff expenditure etc were low for the UCBs compared to that for the public sector banks. The position of the first group in various parameters was poor while second group showed good performance in such parameters. A better picture of financial performance can be had by analysing the spread burden position of the sample UCBs.

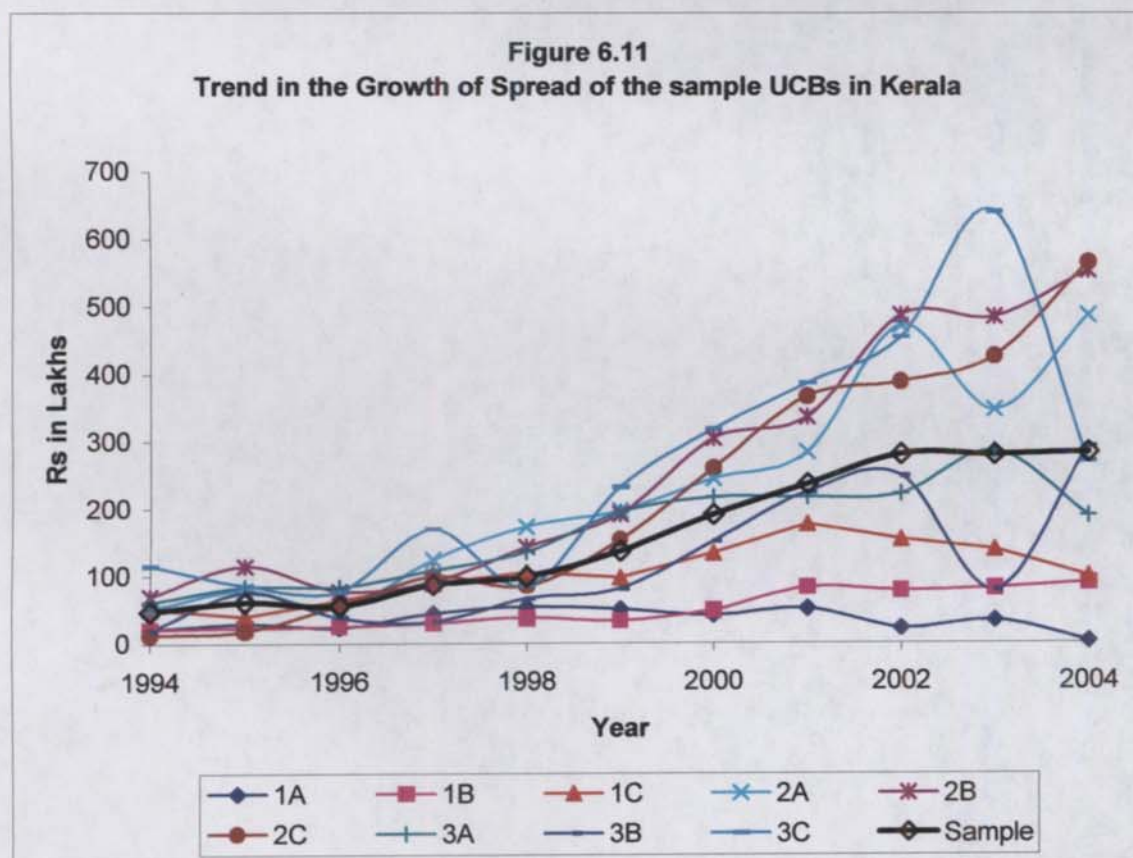
SECTION II

SPREAD – BURDEN ANALYSIS

Profitability is a measure of efficiency with which the operations of a business organization are carried out. The UCBs should maintain profitability to improve their resource position. Profit provides strong financial base for continued internal growth and stability. The survival and sustained growth are possible only if there is regular and increasing net income. The spread –burden are the tripoles of efficiency structure of UCBs fund management. This section deals with spread-burden and net income earned by sample UCBs.

SPREAD

Spread is the interest earned on advances and investments less interest paid on deposits. (That is, Interest income – Interest expenses). Spread is a major indicator of profitability and efficiency of the banks. The spread of the sample UCBs and their groups are shown in table A.37 (Appendix) and figure 6.11.



The spread was positive for all the banks in the sample during the study period. For 1A, there was an upward trend in the initial years and a decline later. For 1B, 2A, 2B and 2C the upward trend was continuous through out the period. The remaining banks in the sample, though showed an up trend till 2002, had a decline in 2003 and 2004. The spread was the highest for 3C and the lowest for 1C in 1994. In the year 2004, the position was weak for 1A and strong for 2C. There was a tremendous improvement in the spread of 2C from the beginning to the end of the study period. Banks 2A and 2B too did well in the management of their spread during the period of study.

There was an increasing trend in respect of spread earned by all the three groups and the entire sample, except in 1996. The compound annual growth rate (CAGR) for the first term (1994 to 1999) for the three groups and the over all average were 11.52, 26.15, 17.01 and 19.32 percent. The CAGR for the period between 2000 to 2004 were (-)3.02, 14.75, 1.75 and 8.21 percent respectively for the three groups and the entire sample. The negative sign indicates that growth in interest income was less than the growth in interest expenses. The growth rate after 2000 in the amount of interest income was lower than the growth rate before to 2000. The CAGR for the whole study period was respectively 6.65, 25.32, 12.87 and 17.66 percent for the three groups and the sample.

The average spread of the sample UCBs for the period between 1994 and 2004 is shown in table 6.9.

Table 6.9
Average amount of Spread and its relation with selected
variables of Sample UCBs (1994-2004)

Bank	Amount (Rs. in Lakhs)	Spread to						
		Total Assets (%)	Earning Assets (%)	Share Capital (%)	Owned Funds (%)	Deposits (%)	Loans and advances (%)	Total Business (%)
1A	33.62	3.03	3.46	108.48	39.71	3.7	5.73	2.25
1B	49.65	3.58	3.86	144.07	54.68	4.22	6.37	2.54
1C	103.69	3.57	3.93	118.6	34.52	4.32	5.8	2.47
Group One	62.32	3.46	3.82	122.29	39.29	4.16	5.92	2.45
2A	226.67	4.16	4.87	280.68	34.65	5.35	7.95	3.2
2B	258.13	4.1	4.43	137.82	33.93	5.24	6.24	2.85
2C	219.95	2.58	3.56	147.61	35.63	3.98	6.72	2.5
Group Two	234.92	3.48	4.23	168.98	34.68	4.8	6.87	2.82
3A	162.2	2.35	2.6	185.26	34.3	2.7	5.31	1.79
3B	117.93	1.76	1.97	98.35	15.8	2.11	3.16	1.26
3C	256.37	3.51	3.91	152.29	28.02	4.61	6.5	2.7
Group Three	178.83	2.57	2.86	142.76	25.14	3.13	5	1.92
Entire sample	158.69	3.07	3.54	151.01	30.77	3.93	5.91	2.36

All the sample UCBs had positive spread during the study period. The highest amount of spread was observed in 2B (Rs. 258.13 lakh) and the lowest amount (Rs. 33.62 lakh) was for 1A.

The average amount of spread to total assets of the UCBs ranged between 1.76 percent and 4.16 percent. Among the three groups, second group with 3.48 percentage recorded the highest spread to total funds ratio. The mean spread to total funds was 3.07% for the entire sample

Earning assets and spread also showed a trend similar to that of spread and total assets.

The average spread in relation to share capital ranged between 280.68 percentage (2B) and 98.35 percentage (3B). The mean percentage of spread for the sample was 151.0 and the second group did better than other groups.

As regards owned funds, group first and second had higher percentage spread to owned funds than that of the sample (30.77 percent).

Spread in relation to deposits ranged between 2.11 percentage and 5.24 percentage. The highest group average was for the second group (4.80 percent), for the sample UCBs it was 3.93 percent. The spread as a percentage of loans and advances for the sample was 5.91 percent. About 55 percent of the UCBs in the sample were with spread to loans and advances higher than the all group average. In the group analysis, second group showed better performance than others.

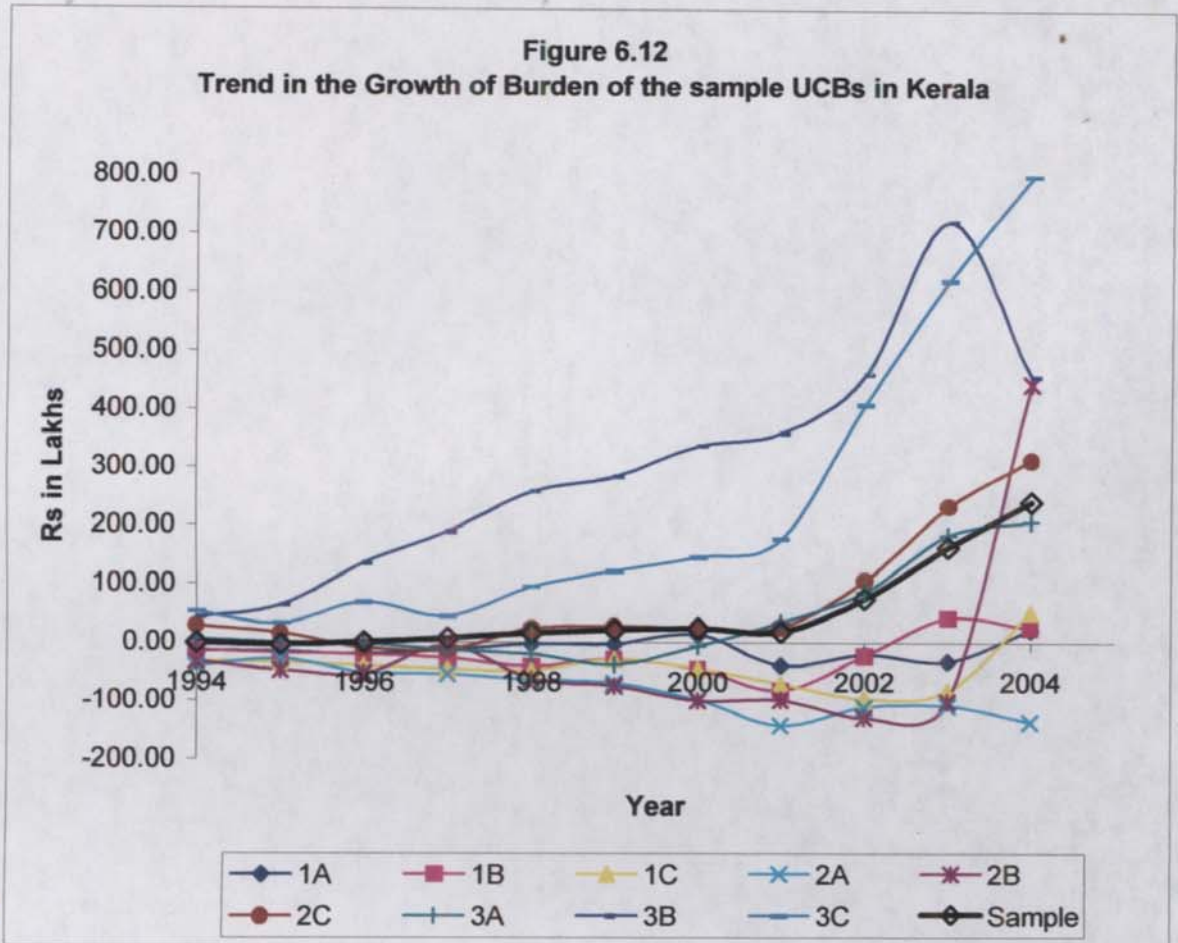
The spread in relation to total business was the highest for second group. In the seven parameters selected for the performance evaluation of the sample UCBs, bank 2A did better than others in six parameters referred in table 6.9. In the group analysis also second group showed better performance than the other two groups in six parameters. So, second group and 2A seemed to be model for efficient spread management.

BURDEN

Technically, burden is the aggregate of manpower expenses and other operating expenses as reduced by non-interest income. It is ascertained by subtracting non-interest income from non-interest expenses.

The burden of the selected UCB, their three groups and that for the entire sample are given in table A.38 (appendix) and represented in figure 6.12.

Figure 6.12
Trend in the Growth of Burden of the sample UCBs in Kerala



The burden of the sample UCBs for the period from 1994 to 2004 presented in table A.38 (appendix) indicated that it was negative for most of the banks in the sample. The absolute amount of burden for the first year was negative for all banks in the first group. It was the highest for 1B (Rs. 33.95 lakh). In the second group the burden was the highest for 2A (Rs. 40.99 lakh). In the third group all the banks had burden, and was the highest for 3C (Rs. 52.04 lakh). The mean for the sample was Rs. (-)0.88 lakh. This indicated that the banks with negative burden were unable to earn non-interest income sufficient to pay off non-interest expenses. Banks in the third group were capable of earning excess of non-interest income over non-interest expenses in most of the years. In

2004, all banks except 2A, earned surplus non-interest income over non-interest expenses. The group average and the mean for the sample were positive for nine years and the amounts in the later years were increasing steadily.

Burden of the three groups of the UCBs and the mean for the sample is shown in table A.38 (Appendix) showed that, burden was negative for first group in all the years except 2004. To the second group, the values were positive only for the years 2003 and 2004. It was positive for third group for all the years during the study period. The mean for the sample was negative for the first two years of the study period.

The average burden of the sample UCBs for the period 1994 to 2004 were shown in table 6.10.

Table 6.10
Average amount of burden and its relation with selected
variables of Sample UCBs (1994-2004)

Bank	Amount (Rs. in Lakhs)	Burden to							
		Total Assets (%)	Earning Assets (%)	Share Capital (%)	Owned Funds (%)	Deposits (%)	Loans (%)	Total Business (%)	Spread (%)
1A	11.6	1.04	1.19	37.42	13.7	1.28	1.98	0.77	34.5
1B	21.49	1.55	1.67	62.36	23.67	1.82	2.76	1.1	43.29
1C	43.36	1.49	1.64	49.6	14.44	1.81	2.42	1.03	41.82
Group One	25.48	1.42	1.56	50.01	16.07	1.7	2.42	1.00	40.89
2A	82.55	1.52	1.77	102.23	12.62	1.95	2.9	1.17	36.42
2B	23.87	0.38	0.41	12.75	3.14	0.48	0.58	0.26	9.25
2C	-70.45	-0.83	-1.14	-47.28	-11.41	-1.27	-2.15	-0.8	-32.03
Group Two	11.99	0.18	0.22	8.63	1.77	0.24	0.35	0.14	5.1
3A	-39.46	-0.57	-0.63	-45.07	-8.34	-0.66	-1.29	-0.44	-24.33
3B	-300.36	-4.48	-5.02	-250.5	-40.24	-5.37	-8.06	-3.22	-254.7
3C	-233.35	-3.19	-3.56	-138.61	-25.51	-4.2	-5.91	-2.46	-91.02
Group Three	-191.1	-2.74	-3.05	-152.5	-26.86	-3.34	-5.34	-2.06	-106.8
Sample	-51.19	-0.99	-1.14	-48.72	-9.92	-1.27	-1.91	-0.76	-32.26

The average burden (non interest expenses – non interest incomes) as shown in table 6.10, to the selected parameters was negative for 2C, 3A, 3B, and

3C and these were cases where non interest expenses were less than non interest incomes.

The positive signed figures were burdens on spread (figures with negative signs are not burdens) of the UCBs in the real sense.

The percentage of burden to total assets was the highest to 1B (1.55%) while bank 3B (with -4.48%) showed the excess of non interest income over non-interest expenses as a percentage of total funds. Burden as percentage of share capital, 2A had it the highest (102.23 percent). The position was worse for 1B (23.67 percent). On comparison Burden as a percentage of total deposits, loans and to total business, the burden was the highest for 2A.

As far as spread-burden was concerned, the burden accounted for between (-) 254.70 percent and 43.29 percent.

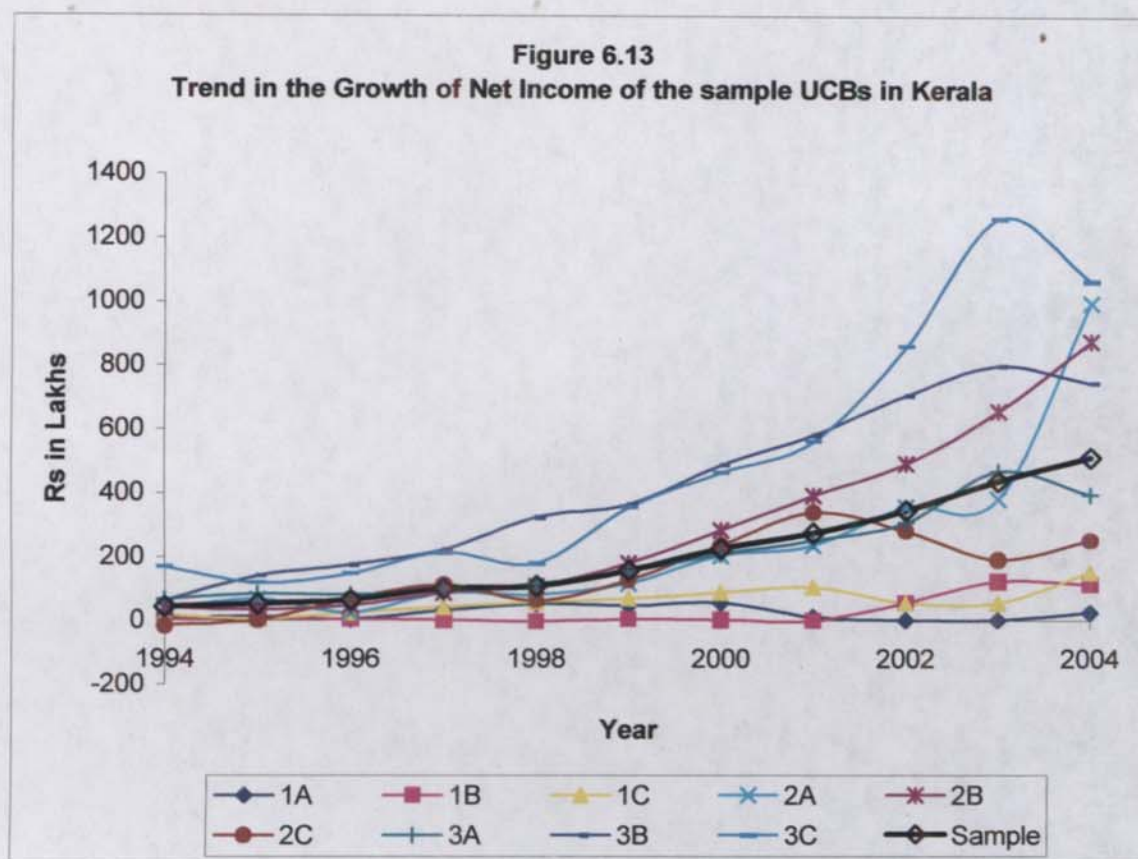
The group performance analysis carried out, showed a different picture. Only group three had negative figures. The burden for second group was less than that of the first group. The overall performance in the burden related parameters were also negative.

The relationship between spreads and burden was positive for all the UCBs in the sample.

NET INCOME

Net income, an indicator of profitability and efficiency, is the difference between spread and burden. Position of net income of the sample UCBs was shown in figure 6.13.

Figure 6.13
Trend in the Growth of Net Income of the sample UCBs in Kerala



The net income figures of the sample UCBs was positive for all the banks in the sample except for 1B (in 1998 and 2001) and for 2B in the year 1994.

Net income is the difference between banks operating income and gross operating expenses. This measure the rate of return on total funds of the bank, which was a measure of efficiency of utilisation of assets. Table 6.11 shows averages net income earned by the sample UCBs and their groups.

Table 6.11
Average Net Income and its relation with selected variables
of Sample UCBs (1994-2004)

Bank	Amount (Rs. lakh)	Net Income to		
		Total Funds (%)	Earning Assets (%)	Working Capital (%)
1A	22.02	1.98	2.26	2.31
1B	28.16	2.03	2.19	2.34
1C	60.32	2.08	2.29	2.33
Group One	36.83	2.05	2.26	2.33
2A	144.11	2.65	3.09	3.19
2B	234.26	3.72	4.02	4.36
2C	290.4	3.41	4.7	5.08
Group Two	222.92	3.3	4.01	4.29
3A	201.66	2.92	3.23	3.11
3B	418.28	6.24	6.99	7.25
3C	489.72	6.7	7.48	8.47
Group Three	369.89	5.31	5.91	6.15
All groups	209.88	4.06	4.68	4.92

The average amount of net income was the highest for 3C (Rs. 489.72 lakh). The percentage of net income to total funds (6.760%), net income to earning assets (7.48%) and net income to working capital (8.47%) was the highest to 3C. The lowest amount (Rs 22.02 lakh) and its percentage to total assets were also for 1A (1.98%). The ratio of earning assets to net income was the lowest in 1B (2.19%) and ratio of earning assets to working capital it was the lowest for (2.31%).

UCBs in the first group were having low net income and low percentages in relation to other parameters. UCBs in the third group recorded higher net income and percentages.

The group amount was the highest for the third group (Rs 369.89 lakh). The mean net income as a percentage of total Funds was 4.06, as percentage of earning assets was 4.68 and of working capital was 4.92 percent. Banks with higher financial base were able to earn higher net income. Hence by improving the business, banks were able to increase net income. The comparison of spread-burden was presented in figure 6.14.

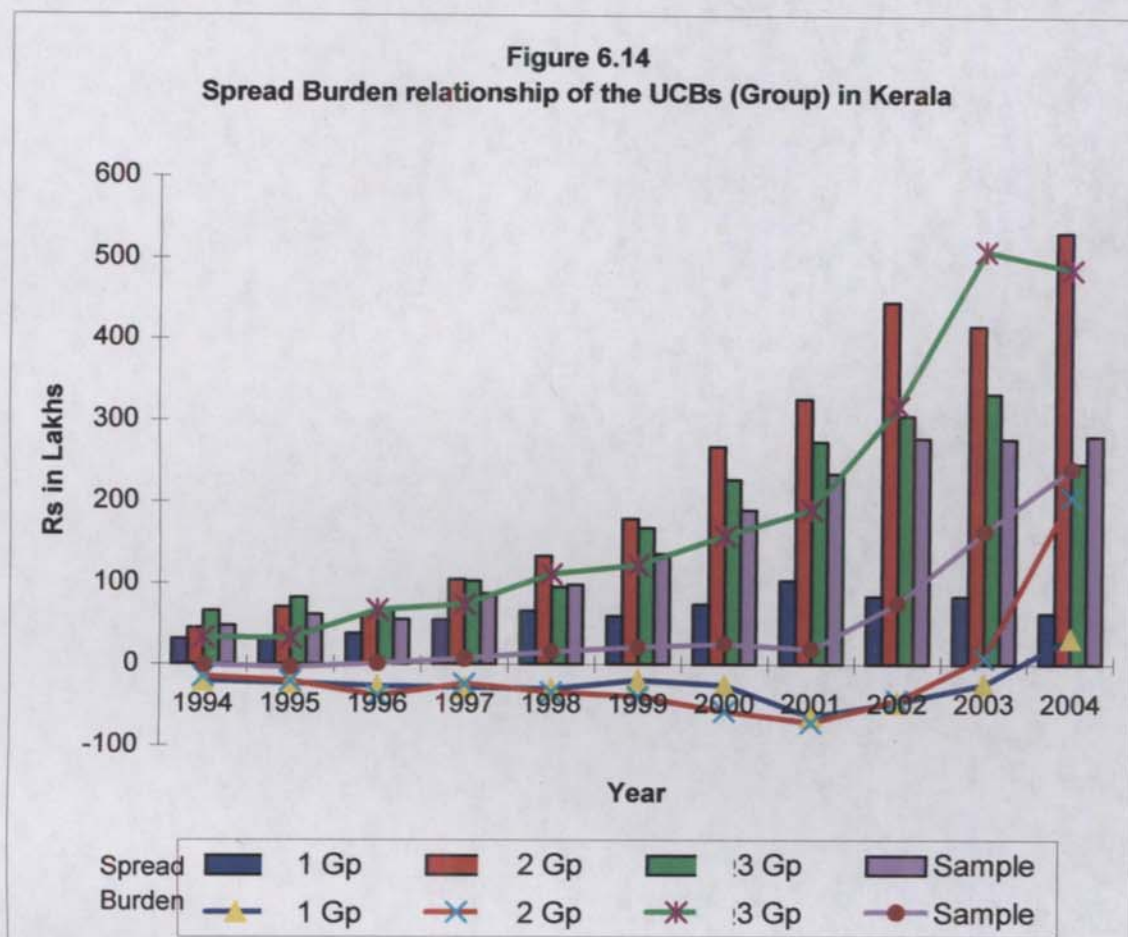


Figure 6.14 shows the spread–burden relationship of the sample UCBs for the period between 1994 and 2004. Spread of the three groups of the UCBs and mean of the entire sample for all the eleven years were positive. It was the highest for the second group in most of the years. The amount of spread showed a continuous growth and its growth rate was high for the second group, particularly in later years of the study period.

The burden for the first and second groups was negative till 2002. By 2003, they too crossed the zero level and showed a tendency to go up. The third group had positive burden throughout the period of study and rose at a faster rate than the other two groups and the sample.

Since the burden of the first and the second groups were negative, the net income of the two groups were increased by the extent of burden over spread. While the net income of the third group was adversely effected by the extend of the positive burden in their accounts. To sum up, the UCBs should aim at managing their activities to make their burden negative.

The UCBs like any other banks were in the business of borrowing and lending of money. Interest is the price paid or received for the use of money for the period. The margin of interest earned and interest paid is the primary source for meeting operating expenses. The analysis showed that, during the period of study there had been a marked decline in the amount of spread in the first group. The burden was also high for the group. Net profits of the banks in the group were also low. In the Focus Group discussion, panel members mentioned that most banks did not have planned funds management and asset portfolio construction. As far as funds management of UCBs is concerned, the mobilisation and deployment of funds are the two core activities. The funds raised are to be deployed optimally to earn spread and net income to the bank. The funds lent should be earning, and ensuring liquidity. The confidence of the depositors and the public at large depends on, among other things, the performance efficiency of the bank.

Thus management of funds is an art and science of rising resources and its deployment in the most economic and prudent manner. The performance efficiency is the result of careful, systematic and a planned approach towards funds management. Success in bank business is not a matter of chance but a matter of conscious planning.

Model for Spread Management

Spread is found to be the most important factor affecting profitability and proper of spread improves profits. Spread management includes increasing of interest income and reducing of interest expenditure by proper management of assets and liabilities.

The Data Envelopment Analysis (DEA) also called Frontier Analysis was first developed by Charles, Cooper and Rhodes in 1978, a performance measurement technique used to measure the relative efficiency of decision making units such as banks with others in the banking industry.

Using DEA the relative efficiency of the banks are measured and optimal net interest margin (NIM) was arrived at in the following way.

To reach the optimum net interest margin, banks have the following options

1. Reallocation of assets
2. Increase asset ways
3. Improving the yield on assets and reducing cost of liabilities

The assets of the banks are dividend into

Liquid assets (a₁), Investments (a₂), Loans and advances (a₃) and Other assets (a₄)

The relationship among the various assets is stated as under:

$$(a_1) + (a_2) + (a_3) + (a_4) = A \text{ -----(1)}$$

Liabilities of banks are classified into

Capital and reserves (L₁), Deposits (L₂), Borrowings (L₃) and Others (L₄)

The relationship among the various liabilities is stated as under:

$$(L_1) + (L_2) + (L_3) + (L_4) = A \text{ ---(2)}$$

Constraints on the operation of the banks

Constraints on the operation of the banks are

1. **Statutory constraints:** Keeping of the CRR, SLR, Capital adequacy, Department rulings (co-operative department, RBI, Finance ministry)
2. **Administrative constraints:** Cash maintenance, social obligations, priority lending etc.

Taking into account the statutory and administrative constraints on deposits, the deposit form around 75 percent of total resources of the banks.

Liquid assets to deposit ratio (c₁)

Liquid assets (a₁) = cash in hand and with other banks

The relationship between liquid assets and deposits is fixed as follows

$$a_1 = c_1 L_2 \quad (3)$$

(Banks are required to keep 3% of their total deposits in the form of liquid cash in the bank and with other banks which will not generate any income)

Investments to deposits ratio (c_2)

Investments = investments for the purpose of complying with SLR + Other investments (non SLR)

The following equation explains the relation between investments and deposits

$$a_2 = c_2 L_2 \quad (4)$$

where c_2 is the investments to deposits ratio

As against 25% of the SLR the UCBs were maintaining and average around 30 – 35% during the study period in SLR.

Credit deposit ratio (c_3)

The following relationship between credit (loans and advances) and deposit is fixed

$$a_3 = c_3 L_2 \quad (5)$$

where c_3 is the credit deposit ratio

Other assets to deposit ratio (c_4)

The following relationship between other assets and deposit is fixed as:

$$a_4 = c_4 L_2 \quad (6)$$

where c_4 is the other assets to deposit ratio

Capital adequacy ratio (c_5)

Banks are to maintain a certain percentage of their risk weighted assets in the form of owned funds. Thus

$$L_1 = c_5 (r_1 a_1 + r_2 a_2 + r_3 a_3 + r_4 a_4) \text{-----}(7)$$

Where r_1 to r_4 are the various predetermined risk factors that can vary from 0 to 1.

The main objective of bank is to maximise net interest margin which is calculated as a ratio of spread to total working funds (A). Spread is the difference between interest earned and interest expended and is calculated as:-

Spread = Interest earned on investment + interest earned on advances - Interest paid on deposits and borrowings.

$$S = [i_2 a_2 + i_3 a_3] - i_1 (L_2 + L_3) \text{ -----(8)}$$

Where i_1 is the cost on deposits and borrowings, i_2 is the yield on investment and i_3 is the yield on advances.

Solving equations in 1 to 8 simultaneously, the values of assets and liabilities are arrived at as follows:

$$L_2 = A / (c_1 + c_2 + c_3 + c_4)$$

$$a_1 = c_1 A / (c_1 + c_2 + c_3 + c_4), \quad a_2 = c_2 A / (c_1 + c_2 + c_3 + c_4)$$

$$a_3 = c_3 A / (c_1 + c_2 + c_3 + c_4), \quad a_4 = c_4 A / (c_1 + c_2 + c_3 + c_4)$$

$$L_1 = c_5 A [(r_1 c_1 + r_2 c_2 + r_3 c_3 + r_4 c_4)] / (c_1 + c_2 + c_3 + c_4)$$

$$L_3 = \{A(i_2 c_2 + i_3 c_3 - L_1) / i_1 (c_1 + c_2 + c_3 + c_4)\} - S / i_1$$

$$L_4 = (A + S / i_1) - \{A[(c_5)(r_1 c_1 + r_2 c_2 + r_3 c_3 + r_4 c_4) / (c_1 + c_2 + c_3 + c_4) + (i_2 c_2 + i_3 c_3) / i_1]\}$$

Giving different values for c (constraints), r (risk factor) and i yield on assets, and c (the cost on liabilities), the values of assets and liabilities are computed.

Conditions

Condition 1

The constraints c_1 to c_4 are faced to total deposits. Deposits form a major portion of working funds, but have to be less than the working funds. It can therefore be construed that c_1 , c_2 , c_3 and c_4 should be greater than 1.

Hence $c_1 + c_2 + c_3 + c_4 > 1$.

Condition 2

The values of a_1 to a_4 and L_1 to L_4 should be positive. Since c_1 to c_5 and A are positive, the values of a_1 to a_4 , L_1 and L_2 will be positive. For L_3 to have a positive value $\{A(i_2 c_2 + i_3 c_3 - i_1) / i_1 (c_1 + c_2 + c_3 + c_4)\}$ should be greater than S / i_1 .

$\therefore (i_2 c_2 + i_3 c_3 - i_1) / i_1 (c_1 + c_2 + c_3 + c_4)$ should be greater than S / A .

Condition 3

For i_4 to have a positive value; $A + (S/i_1)$ should be greater than $\{A(i_2c_2 + i_3c_2 + i_1c_5)(r_1c_1 + r_2c_2 + r_3c_3 + r_4c_4)\} / i_1(c_1 + c_2 + c_3 + c_4)$.

Therefore $S(c_1 + c_2 + c_3 + c_4) - A\{i_1c_5(r_1c_1 + r_2c_2 + r_3c_3 + r_4c_4) + c_2(i_2 - i_1) + c_3(i_3 - i_1) - i_1(c_1 + c_4)\}$ must be greater than 1.

Testing the Model

Using the actual data for the year 2004, obtained from the three banks 1B, 2B and 3B the model is tested. The actual values of the assets and liabilities, given the constraints (c), yield /cost (i) and the risk factors (r) are compared with the computer values and the results are analysed in the following table.

Particulars	1B		2B		3B	
	Actual	Case 1	Actual	Case 1	Actual	Case 1
Cost of funds	0.0640	0.0540	0.0640	0.0540	0.0640	0.0540
Yield on investment	0.1022	0.1022	0.1022	0.1022	0.1022	0.1022
Yield on advances	0.0907	0.0907	0.0907	0.0907	0.0907	0.0907
c1	0.0279	0.0279	0.0473	0.0473	0.0543	0.0543
c2	0.4443	0.4443	0.5047	0.5047	0.4369	0.4369
c3	0.7077	0.7077	0.7049	0.7049	0.6363	0.6363
c4	0.0172	0.0172	0.0042	0.0042	0.0273	0.0273
c5	0.0882	0.0882	0.8504	0.8504	0.1276	0.1276
r1	0.9	0.9	0.2	0.2	0.9	0.9
r2	0.7	0.7	0.2	0.2	0.7	0.7
r3	1	1	0.2	0.2	1	1
r4	1	1	0.2	0.2	1	1
A	2708.44	2708.44	14011.25	14011.25	13118.45	13118.45
S	83.64524	106.2956	476.1637	587.267	347.5119	461.1261
L1	211.83	211.83	2382.99	2382.99	1476.23	1476.23
L2	2262.54	2262.54	11110.33	11110.33	11361.42	11361.42
L3	2.5	2.5	0	0	0	0
L4	231.57	231.57	517.93	517.93	280.8	280.8
a1	63.16	63.16	525.87	525.87	616.45	616.45
a2	1005.15	1005.15	5607.2	5607.2	4963.46	4963.46
a3	1601.16	1601.16	7831.31	7831.31	7228.71	7228.71
a4	38.97	38.97	46.87	46.87	309.83	309.83

For generating the model, data on the actual cost of funds, and the various assets and liabilities for the year 2004 of the three banks 1B, 2B and 3B are used. The risk factors, rate of return from loans and advances and investment used in

the model are assumed. The actual spread earned by the three banks using the assets and liabilities were Rs. 88.69 lakh, Rs. 550.72 lakh and Rs. 289.13 lakh respectively.

The estimated values for the spread, given conditions for the various risks and rate of return on loans and advances (10 %) and investment (8%) are Rs. 83.64 lakh, Rs. 476.16 lakh and Rs. 347.51 lakh given the actual cost of fund 6.4 percent.

Given the same conditions except a change in cost by 1 percent (5.4%) the spread for the three banks respectively are Rs. 106.29 lakh, 587.26 lakh and 461.13 lakh as shown in case 1.

In this manner, by changing the various parameters used in the DEA analysis, the different levels of spread may be attained.

The following chapter gives summary, findings and recommendations.

SUMMARY, FINDINGS AND RECOMMENDATIONS

Raveendran P.V. (Puthia Veetil) “A study on the management of funds in urban co-operative banks in Kerala ” Thesis. Department of Commerce and Management Studies , University of Calicut, 2006

Chapter Seven

SUMMARY, FINDINGS AND RECOMMENDATIONS

SUMMARY, FINDINGS AND RECOMMENDATIONS

INTRODUCTION

The role of banking and financial institutions in the development of any economy is pivotal. In India, there exists a well-developed network of banking and financial institutions. Among these, co-operative financial institutions, have a deeper penetration in rural and semi-urban areas in meeting credit requirements of the middle class and low class people.

The Urban Co-operative banks are primary co-operative societies working in urban areas and doing banking business under the RBI rules and guidelines. They have been catering to the credit needs of urban people by providing short-term and medium-term credit and with other banking facilities. The funds of the UCBs are generally raised through share capital, deposits, borrowings reserve and some other funds maintained by them. These funds are mainly used for providing loans and advances and making investments after keeping a certain portion as cash in hand and balance with other banks.

The economic reforms focusing on liberalization and globalisation presented many challenges to the banking sector. Urban co-operative banking sector has witnessed a number of changes as a result of the policy interventions and regulatory measures. UCBs are facing problems that are present both in the co-operative and commercial banking sector.

In Kerala, only very few studies on funds management of UCBs was available. A review of studies on funds management in other parts of the country and in other sectors showed that funds were the lifeblood of banking institutions, whose management was the key to their success.

Effective fund management is the way to success of banking institutions. The available funds are to be used most effectively without compromising the

liquidity need and credit risks. The funds deployed are to generate adequate returns to pay for the cost of funds, to meet the management expenses and leave a certain portion for its own growth. It is the spread, which determines the efficiency of banking business. Spread maximisation is considered as the primary objective in regular operations. At the same time efforts should be made to minimize the assets becoming non-performing.

The concept of funds management involves proper acquisition of resources, like raising of share capital, and mobilising of deposits from members, non-members and institutions, loans and assistance from apex institutions and a judicious utilization of these resources. This would be possible through proper mix of these resources and through their proper deployment.

UCBs are now confronted with declining spread, net profit and increasing NPAs on the one hand and accumulation of deposits and idle cash on the other. The problems of excess liquidity, falling credit-deposit ratio, poor assets-liability management etc. are threats that merit immediate attention. These formed the problem for this enquiry.

Management of funds is the core competence area for the success of urban banks. The present study is undertaken to evaluate how the various resources with varying costs, repayment obligations, and maturity period are to be deployed to earn the spread and profits by ensuring adequate liquidity.

There are 57 licensed UCBs in Kerala working under the dual control of the RBI and the Government of Kerala. Stratified random sampling, method was used for selecting a sample of nine UCBs from Kerala for the study. The sample was divided into three groups as one (1), two (2) and three (3). In each group there were three banks and were named as Group 1: 1A, 1B and 1C; Group 2: 2A, 2B and 2C and Group 3: 3A, 3B and 3C respectively. For the purpose of the study information are collected for a period of eleven years (1994-2004) from the sample UCBs.

As a part of data collection, a focus group discussion (FGD) was conducted, where in by using structured questionnaire, opinion of the panel members were obtained. The whole programme was video graphed and transcribed. The summary of the transcript form, which was given in the appendix, was also included in the analysis part. The study was presented in seven chapters.

The UCBs raised their funds from five major sources such as share capital, reserves and other funds, deposits from customers, borrowings from apex institutions and other liabilities. The funds mobilised are deployed in six major avenues such as loans and advances, investments, fixed assets, other assets, deposits with other banks and the balance as cash in hand and with apex banks.

FINDINGS

The findings from the study are as follows:

Efficiency of Funds Management

UCBs utilised five sources of funds and six avenues for deployment of funds. Five sources of funds in UCBs were share capital, reserves and other funds, deposits, borrowing from other financial institution and other liabilities.

- ◆ The share capital of the UCBs was contributed by their members only. There was no institutional or government contributions towards share capital of UCBs. The average amount of share capital of the sample UCBs was very low. It amounts to only two percent of the total funds and about 20.37 percent of owned funds. Not much attention was paid, by the UCBs, to enhance their share capital in tune with the growth in total funds.
- ◆ Reserves and other funds showed increasing trend during the study period. The ratio of reserves and other funds to total funds was around 7.5 percent but it was about 75 percent of owned funds.

- ◆ A high positive correlation was found between owned funds and reserves and other funds. High positive correlation existed between loans and advances and total assets, but a low correlation was found between membership and share capital.
- ◆ Owned funds of the UCBs showed a continuous growth. It accounted for about 10 percent of total funds and showed high positive correlation (0.93) with total funds.
- ◆ Deposit of UCBs comprised current deposits, savings deposits and fixed deposits. The compound growth rate in total deposits was 19.08 percent during the study period. Deposits constitute about 78.06 percent of total assets and 94.78 percent of working capital. There was high significant difference among the banks in the amount of deposit collected by them.
- ◆ The amount of current deposits of the UCBs showed an increasing trend. The percentage of current deposit to total deposit was only 3.9 percent; its compound growth rate during the study period was 23.0 percent. Correlation between current deposit and total deposit was 0.63 and the same between current deposit and total deposit was 0.68. This implies that the current deposit did not grow at the same pace as the total deposits and the incremental growth in current deposit was not resulting in adequate earning assets.
- ◆ The amount of savings deposit mobilized by UCBs was low, though a continuous growth trend was observed in the average amount of savings deposit mobilized by the sample UCBs.
- ◆ The savings deposit constituted 12.45 percent of total deposits of the sample UCBs. But for bank 2A, the savings deposit to total deposit was 30 percent. The compound average growth rate in savings deposit was 15.7 percent for the sample during the period of study. Wide disparity was present among the UCBs in the sample in terms of their deposit mobilisation.

- ◆ The amount of fixed deposit collected by the sample UCBs showed a high growth rate (19.34%). Fixed deposit constituted a lion's share of the total deposits of the UCBs (83.67 %). Fixed deposit to total deposit varied between 63.03 percent (bank 2A) and 88.99 percent (3A) for the banks in the sample during the period of study. High positive correlation was found between fixed deposits and total deposits (0.99) and between fixed deposits and interest expenses (0.98). This implies that fixed deposits are major sources of funds to UCBs and funds availability depends to a large extent on the fixed deposit growth.

Hence it is concluded that UCBs in Kerala relied more on fixed deposits for their funds and fixed deposits form a major component of total deposits and resources.

The UCBs used mainly six avenues for the deployment of funds such as loans and advances, investments, fixed assets, other assets, deposits in apex banks and the balance in cash and bank accounts.

- ◆ Cash in hand constituted 1.75 percent of total assets, but 9.95 percent of demand liabilities of the sample UCBs. Cash in hand and bank balance constituted 8.01 percent of total funds and 45.65 percent of demand liabilities. This is much above the minimum cash balance to be maintained. A high liquidity was observed in the funds of the UCBs. Invariably all the UCBs had over liquidity as they retained more assets in near cash assets than are required by law or by prudent asset management.
- ◆ Investment made of the UCBs in the initial years was very low. A fast growth in investment was observed since 2001. The average investment formed 7.05 percent of total assets.
- ◆ Average amount of loans and advances of UCBs constitute 51.87 percent of total funds and 66.08 percent of working capital. UCBs were able to improve the loans and advances during the study period. The growth in the

average loans and advances was 17.48 percent. High positive correlation existed between total loans and advances and total assets (0.94).

- ◆ Average amount of short-term loans and advances constituted 30.69 percent of total loans. Medium-term loans and advances constituted 61.81 percent of total loans and advances and long-term loans followed only 7.5 percent. High positive correlation existed between short-term and medium-term loans to total loans and a low correlation between long-term loans and total loans.
- ◆ UCBs had been concentrating largely on short and medium term loans and advances. But their funds (deposits) are mostly long-term deposits. There existed a conflict between liquid funds and demand liabilities.
- ◆ This implies that UCBs deployed their long-term funds for short-term and medium-term lending. This is one reason for the over liquidity of assets.
- ◆ Average amount of investment in fixed assets was very low in all the UCBs. It was only 0.81 percent of total assets and 40 percent of share capital. It is financial prudence on the part of the management to keep the fixed asset investment low. But this also has resulted in poor infrastructure development. The UCBs have to invest more in building the required infrastructure.
- ◆ Average other assets in UCBs was 4.54 percent of total funds.
- ◆ The credit-deposit ratio (C-D ratio) for UCBs ranged between 62 to 70 percent for the sample and the average CD ratio was 66.45 percent. It was much above the national average of 54.8 percent and the state average of 43.3 percent for the public sector banks.
- ◆ The UCBs were thus successful in granting more credit to customers.
- ◆ The earning assets of UCBs showed a continuous increase. The average earning assets of UCBs increased about seven times during the period

between 1994-2000. The ratio of earnings assets to total assets was about 87.51 percent of total assets.

No systematic asset liability management practice exists in the UCBs in Kerala.

- ◆ Ratio of liquid assets to total assets showed a fluctuating trend, which was 40.26 percent of total assets; and 229 percent of demand liabilities. The demand liabilities were only 16.26 percent of total funds.
- ◆ The average effective cost of funds was 6.45 for the first group, 5.71 for the second group and 6.35 for the third group in the year 2004.

The UCBs did not have effective cost calculation to price the loans and other services offered by them. Cost of fixed deposit is the major factor determining the cost of funds.

- ◆ Effective cost has declined by 2-3 percent in the UCBs during the study period. Operating cost showed a marked decline, 2.89 percent to 1.67 percent between 1994-2004.
- ◆ The ratio of core deposits to total funds was only 12.87 percent. The percentage core deposit to total deposits was 16.4 percent. These two are low cost sources of funds.
- ◆ The ratio of time deposits to total funds were 72.64 percent and to total deposit, it was 93.05 percent.

It was found that funds management of UCBs was not efficient in general. This was very conspicuous in banks in the first group of the sample. Banks in the second group made some notable advancement in selected areas. The third group on an average performed moderately.

Asset Liability Management

As regards asset liability management, the UCBs in Kerala were yet to introduce it as a conscious programme. They were not employing tools for

credit-risk management, interest-risk management, liquidity gap management and spread management which are part of asset liability management (ALM). The liquidity risk of funds in UCBs was analysed by using three ratios namely, core-deposits to total funds, time-deposit to total funds and liquid assets to demand and time liabilities and asset liability position in two years 1994 and 2004. The gap analysis was made by looking rate sensitive assets to rate sensitive liabilities.

- ◆ Asset liability classification showed that most of the assets were in the short-term group compared to long-term and medium term assets. As against this most of the liabilities were in the long-term category and less in medium and short-term liabilities. There existed a mismatch in UCBs in the proportion of assets and liabilities in different time buckets.
- ◆ The percentage of rate sensitive assets to rate sensitive liabilities for the sample was 89.57 percent.
- ◆ The level of non-performing assets in the UCBs was a bit alarming. It was relatively high till 2003. Since then it showed marginal decline.

The level of NPA in UCBs is still higher than that of the public sector banks. Yet it was more or less the same as that of UCBs in the country.

- ◆ The borrowed funds of the UCBs were negligible. The amount of borrowed funds showed a declining trend. It was almost Rs 0.44 lakh for the sample UCBs. There were no borrowings in IA, IC and 2A. The correlation between borrowings and total funds was negative (-0.09). This showed that UCBs were now becoming self-reliant and were able to manage the business with their own funds and deposits. The elimination of borrowed funds helped to reduce the overall cost of funds.
- ◆ The NPA to share capital was 476.94 percent in 2004. But to owned funds, it was 86.01 percent.

- ◆ The NPA to total asset was 9.26 percent as against 1.3 percent for the public sector banks.. The public sector banks had it at three percent. Net interest income to NPAs was only 16.96 percent in 2004
- ◆ The NPA as a percentage of loans and advances in UCBs was 18.35 percent.

From the various analysis stated above it is found that there was mismatch between liquid asset and liquid liabilities. High amount of liquid assets were present in almost all UCBs. Rate sensitive liabilities were much more than the rate sensitive assets. So it was inferred that the asset liability management particularly related with liquidity management was poor in UCBs and not much difference was found between the three groups of UCBs in terms of liquidity management. It was also inferred that the non-performing assets of the UCBs was a little bit high during the period of study.

Financial Performance

In the performance analysis it was found that net profit of UCBs was low, though total income in relation to earning assets was 15 percent. Interest income was only around ten percent of earning assets showing a decline, total expenses showed an increase, non-interest expenses showed an increase, but share of staff salaries showed a decrease.

- ◆ Net profit of UCBs was very low. It was 0.41 percent of total assets, 0.47 percent of assets, 4.1 percent of owned asset and 20.11 percent of share capital.
- ◆ Average interest income in absolute amounts showed a continuous growth. It was on an average 10.86 percent of total assets of UCBs as against 8.76 percent for Public Sector Banks. Interest income accounted for about 80 percent of total income. Non-interest income was 20.68 percent of total income and it showed a continuous increase over the study period. It was 2.82 percent of total assets and 2.35 percent of total earning assets.

- ◆ Average Interest income and average non interest-income showed inverse relationship. In the total income, an increasing trend was observed in non-interest income and a declining trend in interest income.
- ◆ Total expenses of UCBs showed a marked increase in absolute figures. The total expenses as a percentage to total assets was 8.65. To total income it was 63.50 percent and to interest income it was 80.06 percent. To earning assets the ratio was 9.98 percent. As a percentage to total assets and average total expenses showed a declining trend.
- ◆ The Interest expenses in absolute figures showed a marked increase. As a percentage of total assets interest expenses was 7.74 percent, to total income it was 56.08 percent, to interest income it was 71.61 percent. To earning assets, the percentage of interest expenses was 8.93.
- ◆ Absolute amount of non-interest expenses also showed an increasing trend and was only 0.91 percent to total asset, 6.71 percent of total income and 8.45 percent of interest income. Since 2000, a declining trend was observed in non-interest expense.
- ◆ Staff expenditure to total expenditure was 17.29 percent. It was less than the staff salaries and allowances of the public sector banks. Where it was about 19 percent. The trend in the growth of staff expenditure in UCBs and public sector banks were more or less the same.
- ◆ The spread, that is the difference between interest income and interest expenses, in the UCBs was positive throughout. Average spread was 3.07 percent to total assets, 3.54 percent of earning assets, 3.93 percent of total deposits, 5.91 percent of loans and advances, and 2.36 percent of total business.
- ◆ The 'burden' was negative in most of the UCBs. The average burden, as a percentage of total asset was 0.99 percent, of loans 1.91, of loans, 0.76, of total business, 32.26 percent of spread.

- ◆ Spread to total deposits and spread to total business were low.

From the profitability angle, it was concluded that financial performance of majority of UCBs was not satisfactory.

- ◆ The spread – burden relationship showed that for the banks in the first group and second group had negative burden, with positive spread. While banks in the third group showed both spread and burden as positive. But the net income was low in the first group, moderate in second group, but high in the third group. Net profit was also less or in some cases net losses were reported in the first group, but positive throughout for banks in the second and third groups.

From the spread-burden analysis, spread was positive for all UCBs, burden was negative for some and positive for some others. Hence, it is concluded that for UCBs, there were reasonable operating profits, but low net profits. The reason for the net profit being low or negative was the high amount of provisions made for non-performing assets. It was inferred that operationally UCBs were viable, but provision for non-performing assets made them appear unviable.

Model for earnings, cost of funds and spread

A model for determining optimum spread was developed by using the Data Envelopment Analysis (DEA) developed by Charles Cooper and Rhodes in 1978, which is a performance measurement technique used to measure the relative efficiency of decision making units such as ‘banks’ with others in the banking industry. The effective cost of funds used in lending and the determination of expected earnings was also worked out to help the determination of loan pricing in the UCBs.

TESTING OF HYPOTHESIS

Hypothesis I

UCBs raised their funds through conventional sources

To test this hypothesis, the various sources funds of UCBs were considered. The sample UCBs, tapped five sources of funds such as share capital, reserves and other funds, deposits from customers, borrowings from other institutions and other liabilities. Share capital constituted only 2.03 percentage of total funds reserves and other funds accounted for about 7.5 percent. Borrowings from other institutions were only 0.44 percentage of total funds. Other liabilities to total funds were 11.5. The deposits collected by the sample UCBs, on an average, were 70.8 percentage of total funds.

No other sources than those mentioned above were present in any of the bank selected in sample. Hence it is concluded that UCBs raised their funds through conventional sources as described above. Hence the hypothesis is accepted.

Hypothesis II

UCBs deployed their funds mostly on traditional assets.

This hypothesis was tested by analyzing the various assets created by the sample UCBs. The total resources deployed by the sample UCBs were in avenues like deposits with other banks, investments in government securities, fixed assets, other assets and loans and advances after keeping a certain portion in liquid cash form. Among these various assets cash in hand of the sample UCBs, on an average, was 2.85 percent. The balance with other banks, during the study period was around four percent of total assets. The deposits with other banks were around 26 percent. Investments were very low (0.44 %) and other assets was about 10 percent. The loans and advances of the sample UCBs amounted to 51.87 percent of total assets. From the above it is clear that none of

the UCBs were deploying their funds for innovative or novel assets creation. They stuck to the old ways lending and limited investment. Hence it is concluded that UCBs used their funds mostly to create traditional financial assets.

Hypothesis III

Traditional deposits are the main source of funds for UCBs.

The deposits of UCBs comprise current deposits, savings deposits and fixed deposits. Total deposits of sample UCBs were 78.06 percent of total assets. It was 94.68 percent of working capital. The compound growth in fixed deposits was 19.09 percent during the study period.

During the period of study, the proportion of deposits to total funds of the three groups of UCBs was respectively 83 percent, 72.5 percent and 82 percent. The range for the total deposits to working capital during the study period was 94.23 percent to 95.07 percent.

For the individual banks in the sample, the range for the deposits to total funds was between 64.92 percent and 87.07 percent. The total deposits to working capital for these banks ranged between 91.81 percent and 97.90 percent. Hence it is concluded that the traditional deposits are the main sources of funds for UCBs.

Hypothesis IV

Interest rate of fixed deposits decides to a large extent the weighted cost of funds.

To test the hypothesis, the effective cost of the various sources of funds and the different types of deposits was calculated by using the historical data relating to the percentage of various types of sources and their respective costs.

For the first group, the effective costs of the various sources of funds were 0.16 percent for current deposits, 1.31 percent for savings deposits and 7.47

percent for fixed deposits. For the remaining sources it was only 0.15 percent in the year 1994. The proportion of fixed deposits to other deposits was 69: 31.

For the second group the effective cost of the various sources were 0.10 percent for current deposits, 1.74 percent for savings deposits and 5.38 percent for fixed deposits. For the remaining sources, it was only 0.22 percent in the year 1994. The proportion of fixed deposits to other deposits was 50: 50.

For the third group, the effective cost of the various sources were 0.12 percent for current deposits, 0.82 percent for savings deposits and 7.35 percent for fixed deposits. For the remaining sources it was only 0.19 percent in the year 1994. The proportion of fixed deposits to other deposits was 67: 33.

In 2004, for the first group, the effective cost of the various sources were 0.01 percent for current deposits, 0.76 percent for savings deposits and 5.5 percent for fixed deposits. For the remaining sources it was only 0.18 percent. The proportion of fixed deposits to other deposits was 71: 29.

In 2004, for the second group, the effective cost of the various sources were 0.14 percent for current deposits, 0.77 percent for savings deposits and 4.52 percent for fixed deposits. For the remaining sources it was only 0.27 percent. The proportion of fixed deposits to other deposits was 58: 42.

For the two years 1994 and 2004 the proportion fixed deposits cost was much higher than the cost of other sources put together.

From the above it is inferred that cost of funds is largely determined by the fixed deposits interest rate.

In sum, it is concluded that the UCBs were not professional and innovative enough in managing their funds and assets. They were still very conservative in deposit mobilisation and fund deployment. The much required hunger for growth and aggressiveness in marketing their products and services are conspicuously absent in most of the UCBs studied for this work.

RECOMMENDATIONS

The process of liberalization and globalisation of Indian economy has become irreversible and will be intensified in future. In such an environment banks in general and UCBs in particular will have to equip themselves to meet overview challenges. They have to ensure that their foundation remains strong and work on sound and prudent banking principles.

The analysis of the management of the funds in the UCBs in Kerala identified a number of shortcomings and pitfalls.

No systematic funds mobilization plans and deployment programmes were found in the UCBs in Kerala, They are yet to begin the implementation of asset liability management in the proper form. High non-performing asset, increased provisioning, lowering profits etc require immediate attention. The recommendations of the study are presented in the following sections.

1.0. Capital adequacy

- 1.1. The loans and advances of UCBs have been growing at a rate of 18.48 percent while the growth in share capital was 16.44 percent. The proportion of share capital to total assets was only 2.03. The percentage of loans and advances to total assets was 51.87. The ratio of capital to risk assets must increase along with business growth. Thus UCBs have to chalk out plans to reach the required ratio of capital fixed by the RBI in a time-bound manner. The UCBs need to project the asset growth for the next few years and accordingly they must develop a time bound programme to increase the capital base.
- 1.2. The UCBs are found to have low fixed assets investments particularly in IT infrastructures. This is a critical resource and sufficient investment must be made without delay.

- 1.3. The State Government may amend the Co-operative Societies Act to remove the quantitative ceiling fixed on individual share holdings in UCBs to facility capital raising.

2.0. Deposit related

- 2.1. The cost of funds to UCBs is relatively high. UCBs must concentrate on the mobilisation of low cost funds such as current deposits and savings deposits in place of high cost fixed deposits, which now constitute about 75 percent of total funds.
- 2.2. To attract more current deposits from business customers and savings deposits from individuals, the UCBs must offer incentives and additional facilities such as insurance to customers, payment of insurance bills, rent, water etc. to encourage customers to make current deposit and savings deposits.
- 2.3. The UCBs need to explore low cost re-finance facility from apex institutions to bring down cost of funds.

3.0. Deployment related

- 3.1. The UCBs maintain high liquid assets. They raise mostly long-term deposits. But deployment is in short-term and medium-term assets creation. They need to use the funds to create more profitable assets which may be for longer duration.
- 3.2. They need to explore and deploy in call money and treasury markets.
- 3.3. The UCBs need to carefully plan the seasonality requirements and flow of funds both in the lending and investments.
- 3.4. There is asset liability mismatches in various time buckets of their classification. UCBs need to carefully plan resource raising and deployment to avoid this mismatch.

4.0. Assets related

- 4.1. Effective management of assets and liabilities requires the UCBs to use IT for monitoring and managing assets and liabilities.
- 4.2. The law does not put much constraints on UCBs resource deployment. They still are resorting themselves to traditional assets creation. They need to break the conventional lending pattern (UCBs are permitted to carry out a number of activities other than personal loans, gold loans, house property loans, etc.)
- 4.3. They need to explore the viability of new services or sources of business like participation in NRI business, money transfer, insurance product selling, financing industries and agriculture.
- 4.4. Exploit new business possibilities like advances to contractors by pledging bill, financing projects on the basis of group security, consortium-based large lending, new schemes for salaried class, issue of traveler cheque, letter of credit etc.

5. 0. Non-performing assets

- 5.1. Develop a programme to significantly reduce the non-performing assets from the current high level. The UCBs with high NPA may target zero NPA within a short span of time.
- 5.2. UCBs need to spend more time and attention on loan appraisal so as to reduce occurrence of NPA accounts.
- 5.3. A thorough check list may be drawn up along with a risk model to minimise chances of NPA.
- 5.4 Managers may be trained in analysing various business risks including credit risk to improve quality of assets acquisition and management.
- 5.5. UCBs need to tighten account monitoring and collection. A follow up system may be developed to ensure financial discipline on the part of the

borrowers. To this connection learnings from expertise of focus group discussion thrown up may be referred.

The proposals for the management of NPA are:

- 1) Plan a realistic repayment schedule based on harvesting seasons, income generation, convenient repayment installments, period of recovery etc. Financial consultancy may also be offered to customers on repayment planning.
- 2) Use a selective approach by classifying the loans into different groups such as most preferable, moderate, less, least, never etc.
- 3) Proper documentation of securities by appropriate and authorised persons.
- 4) Pay greater attention to accounts involving high stakes in terms of outstanding balances and recovery potential.
- 5) Follow the technique of “A B C D” approach as follows.

Class	Features	Action
A	High value accounts showing symptoms of distress	Direct attention of the CEO
B	High value accounts with a potential for recovery	Requiring constant follow up and steering attention of the CEO.
C	Medium size accounts	Supervision by the next in command.
D	all other accounts	Manager to delegate power to the next for the follow up.

- 6) UCBs may constitute management committee at branch levels for monitoring and managing recovery. It may plan timely intervention, dialogue, rehabilitation package, remedial measures and legal measures in accordance with the seriousness of the accounts.

- 7) The management committee is to be made accountable for the loan sanctioning and the staff are to be committed to recovery of the same.
- 8) Motivate the staff with incentives for the timely recovery of the loans.

6.0. Profitability Related

- 6.1. UCBs are not exploiting new business opportunities. As a Co-operative institution, UCBs are to ensure adequate returns on funds instead of losing the funds and business. They need to exploit more fund-based and non-fund based business opportunities to enhance profitability.
- 6.2. They need to raise spread by controlling cost of funds mobilised and deploying the funds for creating high yield but low risk assets such as Government Securities, Housing Loans and Money Market Instruments.

7.0. Risk Related

- 7.1. UCBs need to identify and measure risk related with every assets created.
- 7.2. UCBs need to develop risk assessment models for investment and lending.
- 7.3. They need to develop criteria for loans and advances to manage credit risk, liquidity risk and return variability.
- 7.4 They need to update risk assessment models with changes and train the managers in using the models developed.
- 7.5. UCBs need to price the loans and advances and other assets according to the amount of risk involved and expected return.
- 7.6. They need to maintain a database of customers with data on customer history. This may be used in identifying credit risk and appropriately pricing (in terms of interest, service charges etc.) the bank products.

8.0. Management related

- 8.1. There is an urgent need to introduce professionalism in the UCB management.

- 8.2. Extensive training needs to be given to operational, supervisory and managerial staff in the various aspects of bank management.
- 8.3. The staff needs to be given more operational freedom along with accountability. Systems and procedures may be developed to monitor their performance and reward good performance.
- 8.4. A 15 point Best Management Practices is suggested for implementation in UCBs.

Best management practices for UCBs

1. Daily 'Morning meeting' participated by General Manager and Managers of Head Office, keeping proper minutes, exactly at 9.30 AM and Telephonic conference with Branch Managers, to discuss on topics of daily funds positions (balance of cash, cash with banks), target for deposits, position of loans, Gold loan particularly and review of yesterday plus-minus positions.
2. Monthly managers meeting (with proper minutes), to evaluate the performance of the bank and branches. It is to review aspects such as deposits, loans, NPA position, interest earned and plans and programmes for the next month in advance. These are reviewed in the next month's meeting and variation if any analyzed and reasons, if any, are identified and assigned.
3. Monthly branch level meetings invariably attended by two directors in charge of the branch (properly minuted) and the records are sent to the board meeting.
4. Quarterly, all staff meeting (properly minuted) where the general manager presents the overall position, followed by discussion of staff members.
5. Weekly meeting of the Board of Directors (to review of performance indicators) where in among other things the performance indicators

- already generated, month wise and discussion on items that require special consideration of the Board of Directors.
6. Induction of professionals like practicing or retired bankers chartered accountants, legal experts etc. in the board (exclusively from the members of the bank).
 7. Monthly branch level inspection by Assistant Secretary or second level CEO. The report of the inspection is to be sent to the General Manager, rectify errors if identified. The inspection should cover systems and procedures. Listed format may be used for the purpose of the inspection.
 8. Constitution of development committee consisting of directors, at the most two and General Manager to consider policy matters and future programmes which is to be met quarterly.
 9. Monthly 'information system inspection' by computer in charge or System Administrator, with in the organisation and reporting to the General Manager, covering inspection of PC, logo stock, CD, backup, software supplier contact, hardware problems etc.
 10. Information system audit conducted by nationally accredited agencies for modification of systems and process.
 11. Strictly implement Securitisation Act to recover dues and errors.
 12. Introduce special schemes for selected groups who are neglected by other agencies as innovative programmes – e.g. Special saving banks schemes for young generation customers who are expected to go to new generation banks, special schemes for salaried class of the lower strata, one month gold loan at low rates etc.
 13. Associate social and cultural activities in the area of operation of the bank.

14. Training programs to employees, by sending every staff for atleast one programme, with in a span of three years and regular staff rotation at all levels, wherever possible.
15. Motivate the staff members, monetarily, for mobilising deposits and recovery of overdues. Promote cultural and social activities and taste of staff members by forming clubs, publishing magazines conducting tours etc.

9.0. Dual Control

- 9.1. UCBs are under dual control now. This is restrictive. They may be brought under the control of an apex body constituted for regulating UCBs on directions from the RBI.
- 9.2. There is a strong need to drastically amend the rules and regulations governing UCBs so as to give more operational freedom.

10.0. Market Related

- 10.1. The UCBs may form consortium or alliance to provide innovative products and services to customers such as ATM facility , e-banking, , Internet banking and credit card facility.
- 10.2. UCBs may diversified their products and services by including new products and services.
- 10.3. UCBs may modify their organisational culture to offer superior quality service to customers and to give importance to customer relationship management to exploit emerging business opportunities.

11.0. Investment Related

- 11.1. UCBs may utilise the service of experts and professionals to manage their investments and treasury activities.

11.2. The UCBs may avoid the present system of buying and selling of securities through intermediaries.

11.3. UCBs may jointly float another investment management entity to pool their surplus resources for investment in money market..

CONCLUSION

This chapter gives the summary, findings and recommendations. The recommendations suggested in the study may help the UCBs' management and executives in the process of funds mobilisation and deployment. The government of Kerala and the Department of co-operation may initiate appropriate policies for the congenial working of the UCBs.

The UCBs need to awake from the slumber to exploit the business opportunities which the fast growing economy is throwing up. They need to revamp their operations management, tactical and strategic, to survive in the fiercely competitive financial markets.

BIBLIOGRAPHY

BIBLIOGRAPHY

Books

- Arvind, G Deshpande, *A century of Cop-operative banking*, Banking Frontiers, November 2004, pp. 33.
- Basant Raja, A., *Corporate Financial Management*, TataMcGra Hill Publishing Company Limited, New Delhi, 1982.
- Bedi, R.D., *Law for the Co-operatives*, National Council for Co-operative Training, New Delhi, 1982.
- Bhalla, V.K., *Investment Management, Security Analysis and Portfolio Investment*, S Chand & Company, New Delhi, 2001.
- Bhatia, B.S., Verma, H.L., *et.al.*, *Encyclopaedia of Co-operative Management*, Deep and Deep Publications, New Delhi, 1998.
- Bhole, L.M., *Financial Institutions and Markets*, TataMagraw-Hill, New Delhi, 1999.
- Bowen, E.R., *The Co-operative Road to Abundance*, Henry Schumen, New York, 1953.
- Chabra, T.N., *Banking Theory and Practice*, Dhanpat Rai & Company, New Delhi, 2003, pp.1-2.
- Chandrayya, V., *Bank Credit in India*, Discovery Publishing House (published thesis), New Delhi, 1990.
- Devendra, Thakoor, *Indian Banking and money market*, Deep and Deep Publishers, New Delhi, 1993.
- Donald, E. Fischer and Ronald J. Jordan, *Security Analysis and portfolio management*, Prentice Hall India Private Limited, 1993, pp.637-665.
- Dwivedi, R.C., *Co-operative Identity Concepts and Reality*, Triveni Enterprises, New Delhi, 1977.
- Eleanor, M. Hough, *The Co-operative Movement in India*, Oxford University Press, London, 1969.
- Gerald, O. Hatler, *Bank investments and Funds Management*, Macmillan, Delhi, pp.30.

- Goel, B.B., *Dynamics of Co-operative Administration*, Deep and Deep Publication, New Delhi, 1988.
- Goel, B.B., *Re-Inventing Co-operatives— A 21st Century Vision*, Deep and Deep Publications Private Limited, New Delhi, 2001.
- Goel, S.L., Goel, B.B., *Principles, Problems and Prospects of Co-operative Administration*, Sterling Publishers Private Limited, New Delhi, 1979.
- Hanumappa, H.G., *Development Banking, Urban Co-Op Banks and the Urban Poor Some Conceptual and Implementation Issues*, Development Banks and Urban Co-operative Banks, Rainbow printers, Coimbatore, 1988.
- Jain, S.C., Kumar, A.P., Rao, D.S., *Practice and Law of Banking, New Heights*, Urban Co-operative Bank, New Delhi, 1985-86, pp. 2-3.
- James, C. Vanhorne, *Fundamentals of Financial Management*, Prentice Hall of India Private Limited, 1982.
- Jha, S. M., *Bank Marketing*, Hymalaya Publishing House, Mumbai, 2000.
- John Winfred, *Human Resource Development in Urban Co-operative banks: Strategy for Development of urban Co-operative banks*, Rainbow publishers, Coimbatore, 1988.
- Kamat, G.S., *New Dimensions of Co-operative Movement*, Prentice Hall of India, Bombay, 1978.
- Karim, N.A., *Sahakarana Actum Chattanglum* (Malayalam), State Institute of Languages, Thiruvananthapuram, 1991.
- Kishore, C. Rout, and Santhosh, K Das, *Commercial banks in India- Profitability growth and development*, Kanishka Publishers and distributors, 1996.
- Kothari, C. R., *Research Methodology*, Wiley Eastern Limited, New Delhi, 1991.
- Krishnaswami, O.R., *Methodology of Research in Social Sciences*, Himalaya Publishing House, Mumbai, 1998.
- Kulandaiswamy, V., *Principles and Practice of Co-operative Management*, Rainbow Publication, Coimbatore, 1987.

- Kulkarni, K. R., *Theory and Practice of Co-operation* (4 Vols), Co-operative Book Depot, Bombay, 1962.
- Kulkarni, P.V., *Financial Management*, Himalaya Publishing House, Bombay, 1994.
- Kulkarni, S. R., *Urban Co-op banks an appraisal*, Anmol publications, New Delhi, pp.1-2.
- Kulkundrikar, A. B., *Regional Rural Banks and Economic Development*, Daya Publishing House, 1990.
- Lawrence, D., Schall and Charles, W. Haley, *Introduction to Financial Management*, McGraw-Hill Book Company, New York, 1988.
- Madan, G. R., *Co-operative Movement in India*, Mittal Publications, New Delhi, 1994.
- Madhusudhanan Pillai, B., *Sahakarana Prasthanam Keralathil*, (Malayalam), Century Publications, Kottayam, 1986.
- Mathur, B. S., *Co-operation in India*, Sahitya Bhavan, Agra, 1981.
- Mathur, B.L., *Credit planning and management in Banking*, Arihant Publishing House, Jaipur, 1995.
- Mohanam, P. N., *The Kerala Co-operative Societies Act*, Cochin: 2000.
- Munish, K. G., *Financial management Technique, A Study of Urban Co-operative*, Anmol publications, New Delhi, 1990.
- Nakkiran S., *Urban Co Operative banking in India*, Rainbow publications Coimbatore, 1982.
- Nanda, K. C., *Credit and banking- what every small entrepreneur (and banker) must know*, Response books, Saga Publications, New Delhi.
- Pandey, I. M., *Financial Management*, Vikas Publishing House Pvt Ltd, New Delhi, 1995.
- Pantula Ramadas, *Year Book and Directory of Indian Co-operation*, Madras, 1942.
- Patil, M. B., *A swot Analysis On Urban Co-Operative Banks-Development Banks and Urban Co-operative Banks*, Rainbow printers, Coimbatore, 1987.

- Peter, Drucker F., *Management of Turbulent times*, Herr Per Collins, New York, 1993.
- Pillay, B. P., *Theory Practice and History of Co-operation*, Kottayam, 1989.
- Prasanna Chandra, *Financial Management – Theory and Practice*, Tata McGraw-Hill Publishing Company Limited, New Delhi, 1993.
- Prasanna Chandra, *Fundamentals of Financial Management*, TataMcGraw-Hill Publishing Company Ltd., New Delhi, 1994.
- Prasanna, G. Deshmukh, *Working of Co-operative banks in India, Overview and prospective*, Kanishka Publishers, Distributors, New Delhi, 2002.
- Rao, Ramahandra, B., *Current Trends in Indian Banking*, Deep & Deep Publishers, New Delhi, 1984.
- Reddy, C. R., *Overdues Management in Co-operative Banks*, Himalaya Publishing, New Delhi, 1993.
- Richard, A. Brealey; Stewart, C. Myers, *Principles of Corporate Finance*, Tata McGraw-Hill Publishing Company Ltd., New Delhi, 1997.
- Richard, I. Levny; David S. Dubin, *Statistics for Management*, Prentice Hall India Pvt. Ltd., New Delhi, 1992.
- Robert, M. W. Travers, *An introduction to Educational Research*, 4th ed., Mac Milan Publishing Company, New York, 1978, pp.235-37.
- Roussakis, E. N., *Managing Commercial bank Funds*, Pracgar Publishers, New York, 1977.
- Roy, P.P., *Management of Urban Co-operative Banks*, Himalaya Publishing House, New Delhi, 2001.
- Sah, A. K., *Functional Management for the Co-operatives*, Rainbow Publications, Coimbatore, 1986.
- Sahoo, S. K. and Sahoo, S. C., *Management of Co-operative banks in India*, Anmol Publications, New Delhi, 1991.
- Santhosh Minjal, *Performance evaluation and Budgeting*, RBSA Publishers, Jaipur.
- Selva Raju, R., *Co-operative in the new millennium*, Vikas Publishing House Pvt Ltd., New Delhi, 1999.

- Shah, A. K., *Professional Management of Co operatives*, Rain bow Publications, Coimbatore.
- Sharma, B. P., *The role of Banks in Indian Developing Economy*, S Chand & Company, New Delhi, 1974, pp.85, 88.
- Shirish, R. Kulkarni, *Urban Co Operative banks an appraisal*, Anmol Publications Pvt. Ltd, New Delhi, India, 1996.
- Shukla, M. C.; Grewal, T. S., *Advanced Accounts*, Tata McGraw-Hill Publishing Company Ltd., New Delhi, 2000.
- Singh, G. N., Singh; C.P, Singh, H. P., *Co-operative banking in India- An over view*, 1994, p.1-24.
- Suneja, *Bank lending to priority sectors, Principles and techniques*, Shakthi Publishers, New Delhi, 1979.
- Thankapan, E. O., *A guide on Kerala Co-operative Societies Act and Rules 1969 and Allied Laws*, Swamy Law House, Ernakulam, 2004, pp.3-7.
- Tokhi, M. R.; Sharma, D. P., *Rural Banking in India*, Oxford and I. B. H Publishing Company, New Delhi.
- Trpathi, P. C., *Research Methodology in Social Sciences*, Sulthan Chand & Sons, New Delhi, 2000.
- Tyagi, R. B., *Recent Trends in the Co-operative Movement in India*, Asia Publishing House, New Delhi, 1968.
- Vasant, C. Joshi; Vinay V. Joshi, (Paul S. Nadler), *Managing Indian banks - The challenges ahead*, 2 ed., Response Books, Sage Publications India Pvt. Ltd., New Delhi, 1998, p.226.
- Venugopal, V., *Approach to Audit of banks and verification of NPA's A practical reference Guide*, C Sitharam & Company, Chennai.
- Vipin Shah, *Cost and Efficiency in Banking*, Print well Publisher, Jaipur, India, 1987.

Journals

- Agarwal, Alok, World Bank to Rescue Suburban Railway? *Observer of Business and Politics*, 10.06.98.
- Akula, Rajagopalarao, Employees' Attitude Towards Organisations and Managements in Urban Co-Operative Banks; A Study, *Vinimaya*, XXIII (3), 2002-03 Selecting 500 employees of the UCBs in Bangalore city.
- Amaranda, Mohan, Risk, Credit Risk and Market Risk - a Conceptual Paradigm, *Journal of Indian Institute of Bankers*, 72(4), 2001, pp.3-13.
- Amardeep, Walia, Funds Management In Central Co-operative Banks-A Case Study of the Jalandhar Central Co-operative Bank Ltd., *Co-operative Perspective*, 37 (4), Jan-March 2003, p. 44.
- Anjanayalu; Dakshinamurthy, D, Profitability in Co-operative Banks", *The Co-operator*, XXXIII (17), Dec. 1985.
- Arun, Yeole, Co-operative Credit in Rural India, *Yojana*, 48(4), April 2004, pp.35-38.
- Asset Liability Management: A Task to Mandate, *Urban Credit*, XXI (3), September 1999, pp. 31-37.
- Auralandam; Namasivayam, Deposit Mobilisation by District Central Co-operative banks – A Challenging Task, *Journal of Co-operation*, Tamil Nadu, 29(3), September 1987.
- Bapana, Organisation and working of four Regional Rural Banks in Rajasthan, *Co-operative Perspective*, 34(4), January-March 2000
- .Bhagwati, Prasad, Some Dimensions of Co-operative governance, *The Co-operator*, 41(3), September 2003 p.85.
- Bhoria, K.S., Co-Operative Governance With Particular Reference To India, *The Co-operator*, 40(6), Dec 2002, pp.265-271.
- Bhoslae, Dangat, Repayment of Overdues of Medium Term Loans of Co-operative Society in Kolhapur District, *Indian Co-operative Review*, XXVI(3), January 1989.
- Capital Adequacy Norms & Urban Co-Operative Banks, *Urban credit*, XXII.(4), December 2000, p13.

- Capoor, Jagdish, Urban co-operative Banks: Problems and prospectus Inaugural Address delivered at Eighth All India Conference of Urban co-operative Banks and credit Societies at Delhi, *Reserve Bank of India Bulletin*, 7, 2000, pp.773-777
- Chinnappa, Problems of District Co-operative Banks, *Indian Co-operative Review*, XXVI, (3), January 1989.
- Cohen, K.J. ; Hammer, F. S., Linear and Optimal Bank Assets Management Decisions, *Journal of Finance*, 31 (5), May 1967, p.147-65.
- Daman, Prakash, Co-operative and Social Development, *Co-operative Perspective*, 37(4), March 2003,P5-12.
- Dash, D. K., Funds Management: Prime Agenda before Urban Co-operative, *Urban Credit*, XXII (3), September 2000, p.9.
- Dash, D.K., Funds management: Prime Agenda before Urban Co-operative management Banks, *Urban Credit*, XXII (3), September 2000.
- Dash, N. K., A practical Guide for UCBs on Income Recognition: Asset classification Norms & Reduction of NPAs, *Co-operative perspective* July-September 1997, p.1.
- Desnga, Rao, N., Co-operative credit movement in Andra Pradesh, after 1956, *Indian Co-operative Review*, XIV, April 1977, pp.229-240.
- Dharmarajan, S., Implementing Asset-Liability Management (ALM) System in Co-operative Banks, *Vinimaya*, September 2004, pp.21-27.
- Excerpts from FICCI Discussion paper: Urban Co-operative Banks -Future Reforms The Co-operator, *National Co-operative union of India*, XXXVIII (12), June 2001, pp.539.
- Gerald, O. Hatler, *Bank investments and Funds Management*, Macmillan, Delhi, pp.30.
- Girisha, B.N.; Muhadevap, B., Performance Evaluation of Sri. Kannikaparemesri Co-operative Bank Limited, Hassan, *Co-operative Perspective*, 36(3), October-December 2001, pp.40-49.
- Goyal, M.K., Deposit Mobilization by Apex Co operative Banks in India, *Indian Co-operative Review*, XVII (1), October 1979, pp. 13-17.

- Gupta, R.P., Appraisal of Working of Scheduled Urban Co-operative Banks in India—Problems and Prospects, *The Co-operator*, 40(8), February 2003, pp. 346-349.
- Guptha, Cost Benefit Analysis of Services provided by Commercial Banks, *The Chartered Accountant*, XXIX, (9), March 1981.
- Hasib, A., Making Urban Co-operative Banks Work, *Financial Express* 08.20.95.
- Hotta, S. K., Human resource development in Co-operatives (An analysis of objective and strategic suggestions), *Maharashtra Co-operative Quarterly*, LXXX (4), April June 2000.
- John Winfred A., Funds Management in Co-operatives, *Journal of Co-operation*, Tamil Nadu, 27(8), February 1986.
- Kausick, Saha, Can the Ordinance Recover NPAs? *Management Review*, IIMB, Bangalore, 15(1), March 2003, pp.19-27.
- Kaveri, V.S., Recovery From NPAs: Emerging challenges, *IBA Bulletin*, XXIV(3), 2002, pp.107-111.
- Krishna, D., Urban Co-operative Banks, Future Reforms, 10th May 2000, *The Co-operator*, XXXVIII (12), p 547 – 549.
- Krishna, Urban Co Operative banks-future reforms, Excerpts from presentations made on the occasion of the seminar on Urban Co-Operative Banks: Future reforms, 10th May 2000, *The Co-Operator*, XXXVIII (12), pp.547-549.
- Kulshreshtha, C. M., Urban Co-operative Banks Should Set their Own Houses in Order, *Pioneer*, 07.25.95.
- Lakshmi Narayana; Adinarayana, An Appraisal of Repayment Capacity of Crop Loans in Co-operative and Commercial Banks in Kashkotta Panchayath Samithi of Visakhapattanam District, *Indian Co-operative Review*, XXVII.(3), January 1990.
- Maasali, S.S., Performance of Co-operative banks: A study of Co-operative Urban banks in Belgaum, *Indian Co-operative review*, July 2004, pp. 66.

- Managing banks through Balance sheet-A theme for planning, *Vinimaya*, XX (4), 1999-2000, pp.5- 9.
- Masthan, D., Urban Co-operative Banks – Turning the Leadership Around, *Urban Credit*, XXIV (2), June 2002.
- Mishra, K.C.A., Clinical Approach to Asset liability management, *A SCI Journal of Management*, 29(1), 1999, pp.1-8.
- Modak, N. D., Whither Urban Co-operation Banks I, *Financial Express*, 03.29.94.
- Moonje, R.M., Challenges before Urban Co-operative Banks – Small is More Beautiful”, *IBA Bulletin*, March 2001, pp.34-37.
- Mukhopadhyay, B.K., Urban Bias in Indian Banking Development, *Observer of Business and Politics*, 04.25.94.
- Murthy, G.R.K., Branch Level of NPA-Credit Monitoring, *Vinimaya*, 4, 1999, 2000, pp.10-20.
- Nainta, R. P., Co-operatives in the New Millennium - Challenges and Opportunities, *Kurukshetra*, July 2001, pp.8-11.
- Nitin, Ghosh, Restructuring of the Co-operates and the Co-operatives: The Co-operator, *National Co-operative union of India*, XXXVIII (11), May 2001, pp.481.
- NPA Management: Experience of Co-operative Banks, *Urban credit*, XX(1), March 1999, p29-33.
- Pai, D.T., Indian Banking Changing Scenario, *IBA Bulletin*, March 2001, pp. 20-23.
- Pancras, The funds management in co-operative banks, *Indian Co-operative Review*, 15 (4), July 1978.
- Pandey, U.K; Muralidharan, M.A., Socio-Economic Factors influencing the Overdues in Co-operative Credit Societies, *Indian Co-operative Review*, XV (2), 1978.
- Pandnis, S.G., NPA Management: Experience of Co-operative Banks, *Urban Credit*, XX (1), March 1999, pp.29-33.

- Paranjothi, T; Sasi, P.B., Viability of a Service Co-operative Bank in Kerala – A Revisit, *Indian Co-operative Review*, XXVI (3), January 1989, pp. 270-277.
- Patel, R.J.; Patel, D.M., *et.al.*, Performance of Co-operative Agricultural Credit, *Indian Co-operative Review*, X(4), July 1977, pp. 360-372.
- Patil, A. R., Rural credit system, Need for Restructuring, *Kurukshetra*, July 2001, pp.16-211.
- Prabal K. Sen, Urban Co-operative Bank in India: past, present and Future, *Co-operative Perspective*, 2002.
- Promila, Goel, The Menacing problems of over dues in Co-operatives, *Indian Co-operative Review*, XXI (3), January 1983, pp.260-293.
- Puyalvannan, P, A Study of Overdues, Recovery performance and erosion of funds in Central Co-operative Banks, *Co-operative Perspective*, July-September 1997.
- Ramachandran, K, Changing bank branch network: an urban shift at work, *Business lines*, 05.07.97.
- Ramesh, B.; Patel, M.R., Growth of UCBs in Goa, A Time Series Analysis, *Co-operative perspective*, July-Sept, 1997, pp.60-66.
- Rautrao, R.L., Human resource development in Urban Co-operative Banks –An Indian perspective, *Maharashtra Co-operative Quarterly*, LXXXIII-(4), April June 2000
- Recovery-The Life Line of Co-operative Credit Institutions - An Experience of Kanara DCC bank, Sirsi, Karnataka*, National Seminar on Best performing Co-operative banks, conducted by NABARD at New Delhi, 199 May, pp.98-105.
- Reddy, C. R., Overdues appraisal and Management in Banking, *Indian Co-operative Review*, XXIII (1), July 1985, p. 81.
- Reddy, C. R., *Overdues Management in Co-operative Banks*, Himalaya Publishing, New Delhi, 1993.
- Roy, A.K.; Vardhaman, A.P. (Mahila), Co-operative Urban bank: A Case Study in Women Entrepreneurship, *Urban Credit*, XXI (3), September 1999, p.27.

- Sadare, A. M., A comment on Viability Norms related to Urban Co-operative Banks, *Prajana*, 22, 1993, pp.53-56.
- Sai Babu, P.C.; Naidu, M. R., A Critical review Of Urban Co-Operative Banks – A case study, *Co-operative Review*, July 2004, p.86.
- Samal, B., The NPA Overhang: Magnitude, Solution and Legal Reforms, *Vinimaya*, XXIII (3), 2002-03, pp.12-17.
- Sanapati, Mollica, Urban Co-operative Banks: Small Wonders, *Economic Times*, 07.21.99.
- Sanlib, Kumar Hota, Co-operatives in New Economy, *Kurukshetra*, July 2001, PP 2-6.
- Sarkar, A.N., *Urban Credit*, XXV, (4), Quarterly, December 2003.
- Sarkar, A.N.; Hanamashetty, J. S, Performance Appraisal of UCBs of Maharashtra, to Explore Diversification in Lending Portfolio, *Urban Credit*, XXIV,(1), March 2002.
- Sarkar, N.; Hanamashetty, F. S., Performance Appraisal of UCBs of Maharashtra to Explore Diversification in Lending Portfolio, *Urban Credit*, XXIV (1), March 2002, pp.7-14.
- Sarker, A. N.; Hanamashetty, F.S., The performance appraisal of UCBs of Maharashtra to explore the possibility of diversification of lending portfolios”, *Urban Credit*, XXVI (1), March 2002, pp.7-14.
- Satyanarayana, G.S., Challenges before Scheduled and large UCBs in the new millennium, *Urban Credit*,. 21 (4), Dec 1999, pp.27-29.
- Selvan, K.G.; Samwel, Kakuko Lopoyetum, A Study on Non-performing Assets Management in Dharmapuri Town Co-operative Bank- A Case Study, *Co-operative Perspective*, 34(4), January-March 2000, pp.45-55.
- Sethe, N B.; Kaveri, V. S, Management of Non performing Advances and risks in Co-operative banks: A viewpoint Preceding of National seminar on co-operative reforms, 21-25 January 2001, VAMNICOM, Puna,
- Shivamaggi, H.B., Policy for Urban Co-operative Banks: Need for New Approach, *Economic and Political Weekly*, 26(45), 1991, pp.25-56.

- Shivaprasad, V.V.S., Advantage Customer, *Vinimaya*, XXIII (4b), Jan-March, 2003, p.33.
- Silva John, D., Liberalised Licensing Policy for Urban Co-operative Banks, *Financial Express*, 06.10.92.
- Sisodia, S. S., Adding Value to Membership – A Challenge in the New Millenium for Urban Co-operative Banks, *Urban Credit*, September 1999, p.3.
- Sivachithappa, K., UCBs in the Contest of Economic Liberalisation, *Journal of Co-operation*, Tamilnadu, May 2003.
- Sood, R.K., Non Performing Assets in public sector bank: An analysis of causes and solutions there of, *IBA Bulletin*, XXII (7), 2001, p.16-21.
- Subash, Chandra Sarkar, Overdues of Co-operative Financial Institutions, *Journal of Indian Institute of Bankers*, 45 (3), 1974.
- Subash, T., Strategic Management for Co-operatives, *Co-operative Perspective*, 37(4), March 2003, p.1-5.
- Sudhir, Pandit, Corporate Governance: Relevance and Need for Urban Co-operative Banks, *Urban Credit*, XXIV (1), March, p.121.
- Tan Abby, Bank Loan to Stop Urban Decay, *Tribune*, 08.14.93.
- Taori, V.K., Strengthening Urban Co-operative Banks through Corporate Governance, *Urban Credit*, XXIV(2), June 2002.
- Teli, R.B., An Evaluation of the Working of Urban Co-operative Banking in India-Problems and Prospects, *Indian Co-operative Review*, 42(1), July 2004, p.87-88
- Thirupathy, Rao, V., Financial Management of District Central Co-operative Banks in Andra Pradesh, *Indian Co-operative Review*, XXXII (4), April 1991.
- Toomkuzhy, T.J., Professionalisation of Management in Co-operatives, *The Co-operator*, XXXII (11), May 1995.
- Tripadi, K.K., Co-operative Credit in Rural India, *Yojana*, 48 (4), April 2004, pp.23-27.

- Trivedi, A K, *Asset Liability Management: A Task to Mandate, Urban Credit*, XXI, (3), September 1999, p.31.
- Vasant, C. Joshi; Vinay V. Joshi, (Paul S. Nadler), *Managing Indian banks - The challenges ahead*, 2nd ed., Response Books, Sage Publications. India Pvt. Ltd., New Delhi, 1998, p.226.
- Venugopala Rao, Funds Management In Co-operative Banks- Need For New Approach, *Journal of Co-operation*, Tamilnadu, July, 2001.
- Vepakamesam, Co-operative Banks In India: Strengthening Through Corporate Governance. *Urban Credit*, XXIV (3), Sept 2002, p.3.
- Viragini, Murthy, Urban Banks Have Come of Age, *Financial Express*, 05.02.92.

Publications

- Genesis and Architecture of Urban Co-operative Banks*, Madhav Rao Committee Report. 1999, p.1.
- Government of India (1946), *Report of Committee on Co-operative in India*, Delhi: Government of India, p.116.
- Government of India, *Report of Committee on Co-operatives in India*, Government of India, Delhi, 1915.
- Government of India, *Report of the Co-operative Planning Committee*, New Delhi, 1951.
- Government of Kerala, *Handbook on Co-operative Movement in Kerala*, The Registrar of Co-operative Societies, Thiruvananthapuram, 1990-1999.
- Government of Kerala, *Kerala State Co-operative Societies Rules*, Trivandrum, 1969.
- Government of Kerala, *The Kerala Co-operative Societies Act*, 1969.
- Murthy, G.K.R., Credit Risk – Management in a Market Driven Economy: The Acid Test for Banks, *IBA Bulletin*, March 2001, p.105.

- Nafcub's View: Crisis of Madhavapura Mercantile Co-operative Banks Ltd., *The Co-operator*, National Co-operative union of India, Ahmedabad, XXXVIII, (11), May 2001 pp. 489.
- Ojha, P.D., Speech delivered at Fourth All India Conference of Urban Co-operative Banks and Credit Societies, *Reserve Bank of India Bulletin*, 40(11), 1986, pp. 693-96.
- Ojha, While delivering the key note address at the seminar of chairmen of UCBs in Maharashtra by the urban Co-operative banks federation at Bombay, 1985.
- Rangarajan, C, Growth of urban Banks: Some issues, *Reserve Bank of India Bulletin*, 51(10), 1996, pp.783-785.
- RBI Annual Report 1988-89*, p.131.
- RBI bulletin 2002,03,04* Report of trends and progress banking in India, Mumbai.
- RBI Bulletin Supplementary 2004-March* p.140.
- RBI Bulletin*, May, 1994.
- RBI Circular UBD* no. pt .cb 45/09.116/2000-01 dated 25.04.2001.
- RBI Circular*, UBDI & L-3 / J.1-92-93 dated 09.02.93.
- Report of Trend and Progress of Banking in India, *RBI Bulletin*, Mumbai, 1999.
- Report on the High Power Committee on Urban Co-operative Banks*, Reserve Bank of India, Mumbai, pp.19.
- Report on trends and progress of banking in India, 1999-2000, Supplement to *RBI bulletin*, Dec. 2000, p.95.
- Report on UCBs* (1979 RBI, Bombay, Agri Credit Dept).
- Reserve Bank of India, Report of the High Power Committee on UCBs, *Reserve Bank of India Bulletin*, 54 (1), 2000, pp.63-74.
- Reserve Bank of India, *To Study the Overdues of Co-operative Credit Institutions, Report*, Mumbai, 1974.

Reserve Bank of India, *Trend and Progress of Banking in India*, Report, Mumbai, 2001.

Resource Mobilization and Utilization –A study with reference to Central Co-operative banks A. John Winfred (page) Encyclopaedia of Co-operative Management –3, p.53.

The Indian Central Banking Enquiry Committee, 1931.

The Report of Indian Central Banking Enquiry Committee, Majority Report published by Government of India N. Delhi, 1931 pp.255.

The study group on credit co-operatives on Non Agricultural Sector in 1963, V. P. Vardhe Committee.

The Working Group of Industrial Financing set up by R.B.I in 1967, P.N. Damry Committee.

Ph.D. Thesis

Fery Thjomas Lee, *Optimal Asset Liability Decisions for a bank: Application of Multi period Linear Programming*, Ph.D. Thesis, Urbana_Champaign University of Illinois.

Jazeelam, *Consumer Perceptions Of Banking Products And Services In Kerala With Special Reference To Specific Customer Segments In The Urban Area*. Ph.D. Thesis, S.M.S., Cochin University of Science and Technology, 2001.

Kishanan Namboothiri, K., *A study on the Co-operative Banking system in Kerala*, Ph.D. Thesis, Cochin University of Science and technology, 1987.

Kshatrapati Shvaji, *Strategic Management in Co-operative banks- A case study of Kerala*", *State Co-operative Bank*, Ph.D. Thesis, University of Kerala, 1996.

Padmini, E.K., *Funds Management of District Central Co-operative Banks in Kerala*, Ph.D. Thesis, Cochin University of Science and Technology, 2001.

Satheesh, Chandran, S, *Management Of Co-operatives in Kerala with Emphasis On Primary Credit Societies*, Ph.D. Thesis, Kerala University, 2002.

- Shafiqur Rahman, A.F.M, *Management of Co-operative Banks in Bangladesh – A Study with reference to the role of primary credit societies in Agricultural Development*, Unpublished Ph.D. Thesis, University of Calicut, Kerala, 1996.
- Sudhakaran, *Performance Evaluation of Urban co-operative Banks in Kerala*, Ph.D. Thesis, University of Calicut, Kerala, 1996.
- Thampan, M.R., *Role of Co-operative Banks in the Upliftment of the Poor*, Ph.D. Thesis (Manuscript), University of Kerala, 1994.
- Venkiteswaran, S., *Performance of Co-operative Banks in Kerala A study on the Operational efficiency of Primary Agricultural Co-operative Societies (PACS) in Kerala*, Ph.D. Thesis, University of Kerala. 1984.
- Vinaykumar, *Funds Management of Urban Co-operative Banks in Kerala*, Ph.D. Thesis, Cochin University of Science and Technology, 2002.
- Walker, Michael Clande, *Deposit size, Deposit Mix and Commercial Bank Assets Portfolio Competition*, Ph.D. Thesis, Houston University, 1971.

APPENDICES

Appendix I

SUMMARY OF THE FOCUS GROUP DISCUSSION

Members present at the Focus Group Discussion held at Calicut on 26.01.2005.

1. Dr. P. Mohanan, Reader, Department of Commerce and Management Studies, Calicut University – The Moderator.
2. Abdul Nasar P., General Manager, Calicut Co-operative Urban Bank.
3. A. Ahmed, Retired Joint Registrar, Administrative Consultant, Kottakkal Urban Co-operative Bank.
4. Faisal K., Manager, Manjeri Urban Co-operative Bank.
5. Rasheed, General Manager, Nadapuram Urban Co-operative Bank.
6. Premachandran, Senior Accountant, Vadakara, Urban Co-operative Bank.
7. Rajesh, Senior Accountant, Feroke Urban Co-operative Bank.
8. Prakasan T., Manager, Nadakkavu Branch, Calicut Co-operative Urban Bank.
9. Valsalan K., General Manager, Payyoli Urban Co-operative Bank.
10. Jeejesh K., Senior Clerk, Calicut Co-operative Urban Bank.
11. Thampan P., Assistant Secretary, Payyannur Urban Co-operative Bank.
12. Raveendran P.V

SUMMARY OF THE FOCUS GROUP DISCUSSION

Urban Bank, as the very name indicate, are located in urban and Semi-Urban areas. As such, what should be the criteria for assessing the need for UCBs in an area?

Kerala is a mixture of towns and villages. The line of demarcation between them is very thin. Hence the name urban bank has no much relevance as in the case of developed states. This creates confusion among ordinary customers. The UCBs are located in urban and semi-urban areas. Many other banks are also working side by side with these institutions. They are also doing-banking business according to the RBI rules and guidelines.

The registration of the UCBs are manifested with the Registrar of co-operative societies. Unlike the primary agricultural credit societies, the UCBs have to satisfy certain criteria for getting registration and for opening new branches. This is called entry barrier for urban co-operative banks. The minimum share capital required to register a branch earlier was Rs one lakh. But now it has been enhanced to Rs 25 lakh. The area and population to be covered by a UCB is also stipulated by RBI. The criteria for assessing the need for the UCB on a given area are existence of credit gap, minimum average population per bank and minimum capital requirements.

There are five grades of entry point norms based on population size, capital required and number membership, both for banks with branches and without branches. Other conditions such as (i) professionals in the board of the UCBs, promoters should not be defaulters to any financial institution or bank and not associated with chit funds, (ii) other co-op-banks, in the capacity of director or the board of directors are also to be satisfied for setting up of the UCBs.

UCBs are fewer in Kerala state than in other states like Maharashtra, Gujarat, Karnataka, Tamil Nadu etc. Do you find any reason for it?

In Kerala, there were around 1680 primary agricultural credit societies (PACS) and 14 district co-operative banks, having 300 branches and many other agricultural and non-agricultural credit societies. So in Kerala we had a good network of co-operative credit institutions other than the UCBs. But in states like Maharashtra, Gujarat etc. the presence of PACS were scanty; and their size were also small. In industrially developed states, business family/ community formed the UCBs. There were banks for religious groups and they were all for economically elevated groups. The UCBs were located in urban and semi-urban areas. Agriculture financing was not in their portfolio. The UCBs in Kerala were small in size and their resource base was also limited. The number of the licensed UCBs in the districts of Kasargod, Wayanad, Idukky, and Alapuzha was one each. The UCBs in Calicut District had limited branches. Though urban credit requirements were high, the number of UCBs were less in Kerala.

Another thing to be noted was that the PACS (satisfying parameters of UCBs) are not willing to become UCBs in fear of RBI control. They felt that the freedom, which they were enjoying would be lost if RBI rules and regulations were put in to effect. They might lose the competitive advantage as a primary co-operative bank. All these led to less number of UCBs in Kerala state compared to other states like Maharashtra, Karnataka etc.

What are the constraints and hurdles experienced in the formation of a UCBs in our state?

The generally felt problems summarised by the panel members were as follows:

- a) Obtaining license from RBI.

- b) Minimum capital requirements (Capital adequacy) minimum membership.
- c) Competitive presence by a very good network of commercial banks (private and public sector), co-operative banks and their network.
- d) Co-operative department related problems like delay in decisions, red-tapism, bureaucratic set up and administrative constraints.
- e) Lack of proper human resource development ,untrained man power, unscientific recruitment
- f) Poor credit appraisal and credit delivery, increasing over dues and overhead expenses and poor recovery, lesser avenues for deployment of funds.
- g) The presence of weak and sick banks
- h) Over politicisation of board of directors and political intervention in regular activities and lending practices.
- i) Lack of operational efficiency and poor operating results
- j) Surplus funds, poor infra structure
- k) Excessive government control, dual control.

What are your views about the present system of branch licensing?

UCBs, unlike commercial banks are not entitled to much freedom. Commercial banks have to observe the guidelines of the RBI and BR Act. But UCBs are required to adhere the rules of the co-operative deposit also.

The conditions for branch licensing in UCBs are:

- a) To open a branch, a UCB should not have defaulted in any of the provisions of the B.R Act or RBI act or directives issued by RBI from time to time. Many UCBs found it very difficult to cope up with some

of the directives of RBI particularly related to capital adequacy and NPA.

- b) Its capital adequacy should not be lower than the minimum required level set by RBI.
- c) It should fully comply with the provisional norms specified by R.B.C, net NPA should not less than 10 percent, should have made profits in the last two years and priority sector advances are not less than 60 percent of total loans and advances.
- d) Another restriction is that the UCBs cannot open more than 2 branches within a period of two years.

In the present set up there exists a dual control by the state government and co-operative department on the one side and the Reserve Bank of India on the other side. What is your opinion about this dual control prevailing in UCBs?

The UCBs are controlled and regulated by co-operative. department of the respective states and Reserve Bank of India. Unlike other credit co-operatives, UCBs are to satisfy the requirements of these two agencies. Hence business performance, development and growth are put under higher pressures. Condition stipulated for commercial banks and co-operative banks are simultaneously made applicable to UCBs. The service co-operative banks are not controlled directly by the RBI. Commercial banks in no way come under the regulations of the state government. Hence UCBs are under dual control. Regulations of RBI are make the organisation financially strong and viable (For example, the deposit insurance scheme NPA norms, CRAR norms, categorisation of weak-sick banks).

When coming to co-operative department rules and regulations, together with the used red-tapism and bureaucratic set up, these organisations positively many rules are acting as hurdles, in the regular operations.

These Urban Co operative Banks are treated and measured in the same way as they treat poultry co-operatives, milk co-operatives or consumer co-operatives. Hence the co-operative rules may be amended according to recent developments taking place in and around.

What are your comments and views about the present norms of classifying banks as weak/sick?

The present system of categorising banks as weak / sick are theoretically sound. While coming to implementation side, there arise a number of problems. For e.g. the CRAR norms were made applicable to UCBs since 2002. But they are not permitted to raise share capital by open issue in the case of commercial banks. The non-performing asset criteria set for the UCBs are not in the reach of many UCBs. High NPAs in schematic lending resulted in huge over dues, consequent promising and loss of earnings and profits. All these make the UCBs weak /sick theoretically. The state government's policy of waiving of loans and one time settlement (OTS) interest subsidy etc are also causing loss of income of the UCBs. There should be some relaxation in fixing of the criteria for CRAR and NPA norms in the UCBs. The Panel members of the FGD also supplemented that these should not be considered as a privilege, but a relaxation to adjust with the recent changes occurring in the financial sector

Do you agree to the proposal of expansion of area of operation of UCBs beyond the district of registration?

Presently UCBs in Kerala are operating in the district of their registration. But there are certain UCBs with enormous surplus funds who are finding it difficult to lend profitably and safely. There are certain districts with little number of UCBs and with enormous credit requirements. Hence from the institutional and societal point of view, the UCBs may be permitted to operate across districts and even across states. At the same time, we should

take into account the fact that no UCB in Kerala has attained scheduled status. If scheduled status had been attained these obstacles may not surface. If UCBs are allowed to cross the borders of the district they can tap better and cheaper funds to deploy in diversified portfolio of assets.

The members cautioned also that the financial stability and local needs should be taken care of while going for inter district or inter state investment or lending programmes.

Government has planned to introduce the norms referred under prudential accounting standards in UCBs. How do you approach this proposal?

Many points discussed earlier come under prudential norms. UCBs are small banks within the co-operative control and doing business with poor and middle class people. They are finding it difficult to implement the various provisions of the prudential norms in their day to day management. It was evident in records of the co-operative departments that 37 UCBs in Kerala were not complying with the various provisions of the B.R Act .27 UCBs were graded as third and 10 banks in the fourth grade. 35 banks were with net. NPA was found to be more than 10 percent. The norms, in general, were good, but while applying this to small and weak banks, we have to think about other alternatives like consolidation, merges, acquisitions etc to make them stronger. In the opinion of panellists, discussion at various levels may help to find a suitable and appropriate solution .

How does the working of other banks in the same area affect your business?

The new generation banks, private banks and scheduled commercial banks, with latest technologies are working in the surroundings of UCBs. The commercial banks usually follow some rigid norms in lending and accepting deposits. They are interested in catering to the requirements of middle and

upper class customers with fixed income and good client culture. But for UCBs, most often, the customers are from the lower strata. No big business houses approach us for loans of 10 crore or like figures (we are unable to meet such demands).

The problem now is that some regular customers are coming with variety of needs, which we are bound to satisfy but cannot. To mention a few- facility of providing the ATM, credit cards etc. are not permitted to be operated by the controlling authorities. So the need of the day is innovation in business practice. The district co-operative banks and primary co-operative banks are encroaching to in our areas. We find it difficult to cross their boundaries. To the minimum, what we would like to say is that, every bank has a business and no bank need to close down for want of business and ours is a bank of common people. As far as the present business is concerned, there is no threat but for new customers and the new requirements of existing customers, we are in a stand still position.

How do you assess the credit requirements of your customers? What are the tools used for it?

Actually 60 percent of people of our country are without banking facilities. But many need money and they approach different agencies including moneylenders. So funds requirements are large. We know their requirements only when they come to us. Customers mostly state credit requirements in the application form. We go through the details rarely. Only some responses stated in the application form are taken care of. So the present system is not sufficient to protect the interest of the bank. Hence we require some scientific tools to a procedures assess credit requirements and credit worthiness of customers, both individuals and business houses.

Further the loan-processing department through personal interrogation will be helpful to trace out the genuineness of credit repayment capacity,

instalment amount, earning members in the family, personal security of such members etc. So a composite system should be evolved to assess loan requirements and credit worthiness. Studies like these must be encouraged to develop such tools for the favour of the UCBs.

What are the sources of funds at present in the UCBs? Do you believe that there are other sources yet to be tapped? If so, what prevents you from doing the same?

At present we are getting funds in the form of share capital from our members at the time of taking membership in the bank and at the time of availing loans. The major source of funds are deposits from members and non-members and borrowings made from apex institutions. Reserves and other funds created out of income and profit, to meet various contingencies and miscellaneous amounts received from staff, amounts unpaid for technical reasons such as interest unpaid, dividend unpaid etc are other important sources of funds in the UCBs.

Currently, the sources are sufficient to meet our requirements. Hence we rarely think about sources other than those that we now have. We are constrained to depend on these sources, as a result of co-operative restrictive rules and RBI guidelines. Many other sources of funds are also available at present in the money market.

‘UCBs are deploying their funds in only conventional avenues only’ is this statement true?

UCBs deployed their funds in avenues like loans and advances of varied types (house loans, gold loans, personal loans, marriage loans, educational loans, higher purchase, business etc). For statutory requirements, we have been retaining cash and balance with DCBs. The UCBs deposit funds in DCBs for short, medium and long -term periods. The UCBs also invested funds in government-approved securities. Some of the UCBs deposit funds in

commercial banks also. The UCBs have to set up own premises, furniture, vehicles and like things. We are having only limited avenues, for the deployment of funds. Loans and advances and investments as our main sources of income.

What criteria do you follow for issuing membership to people in the area of your operation? Are there any special considerations?

Just like any other co-operative institution, membership in the UCBs are open to all, residing in the jurisdiction of the bank. These are cases where the management body of certain UCBs give membership heavily to people who believe in their political ideology. A complaint that is often heard is that excessive political interference, in certain cases is affecting the operational and functional effectiveness of UCBs. In the appointment of staffs also political affiliation are considered. This may sometimes result in over staffing, demotivation, lower productivity and in decision-making efficiency.

Does your bank have professionals in the Board of directors? Are they elected or nominated? If nominated, how do you view such nominations?

Most of the participants responded positively to this question. According to them inclusion of professionals in BOD helps to achieve professional outlook, strategic planning and effective goal oriented decision-making. There are professionals in the management body of many UCBs. They also opined that professionals must be elected in the usual procedure. Nomination is not much preferable.

Do the UCBs have systematic investment plans and practice with bank level investment committee?

To this question many executives responded 'negatively'. Systematic investment plans or practices were not in existence in any of the ten UCBs' panel members represented in the group discussion. They neither have bank level investment committee nor have experts to manage investment

programmes. They buy and sell securities according to availability of funds and availability of scrips.

How do you view Asset-Liability management practice from the point of view of UCBs? Do you have ALM practice in your bank?

A L M is a new management practice in Banking. A Majority of executives were of the opinion that asset liability management is highly useful for planning business programmes and making good earnings. ALM will help to know the asset liability position, current funds required and investments that are to be made more effectively. The gap management helps in avoiding idle resources, prudent investment plans and thereby increasing spread – burden and net income. Since we are not accustomed to this thoroughly, a serious look into this area is required. Most of the banks have been already computerised and the application of ALM will be simple and effective.

What is your opinion about the practicability of the present ALM system?

To this question the panellist extremely optimistic. Their response was, “nothing is impossible”. Many experts pointed out the stage of computerisation they had already reached. Their employees were seen computer for the first time when they were installed in their banks. But within a couple of months, they were able to handle it effectively.

Now employees are even able to furnish the account position of cash balances, loans and other details, tallying the accounts etc. within fifty minutes of closing transactions.

Monthly position of NPA, over due accounts, profit/loss, and other details are available by the end of month.

Hence the implementation of ALM is only a matter of policy decision. Once decision is taken with new technology and equipment, we can do it at any time.

How do you perceive CRAR norms? Has it been achieved by the UCBs in Kerala? What problem do you face in this regard?

Only very few banks in Kerala achieved CRAR norms. CRAR norms are good since it helps to strengthen the financial base of the banks.

The attainment of CRAR is not a simple process. Either we have to enhance the share capital value or we have to increase the number of membership. We have increased the share value from 5/10 to 50/100. This together with creation of resource are now adding figures to CRAR. Some executives are of the opinion that reserves created for bad and doubtful debt (NPA) augments the owned funds. Some managers are finding it difficult to cope with the present provisioning norms introduced by RBI. But some have already achieved the target and above fixed for CRAR.

Have you ever attempted to identify the effective cost of your funds? If yes, how? If no, how will you price the various products that you sell?

For UCBs, there is no precise method to identify the effective cost of funds. "We issue loans to customers and the balance after CRR and SLR will be deposited in banks and invested in approved securities of the government. We need to consider cost mainly for lending and investment. For investments also we have very few options opened. There the rates are fixed by issuing authority mostly by government. They yield 5.7 percent returns. In 2001-2002 very few started in government securities and earned good profit in 2003 by selling the securities, since market price were much higher than the purchase price. During 2004 we lost some amount of money. But provision was made due to fall in market price. The only area where we have an upper hand is the loan portfolio. The current practice of pricing loans is interest rate

on fixed deposit plus 2 percent administrative charges. We felt it as a crude method and no scientific formula is there to calculate effective cost. Share capital, resource and other liabilities are not involving explicit cost to us”.

How do you manage your loans and advances?

“We never take care of loans and advances until they become overdue. Once loans are sanctioned we remind the customers after the expiry of the loan period. We never go into details about whether the fund had been diverted for purposes other than specified, whether the fund was adequate for the purpose including when the party is alive or business exists etc. So the question of loan arises only when the party defaults. Till default, it is like a wild elephant. We are not much concerned with maintaining customer relationship. We write letters when loans become overdue. In certain cases staff / management committee members may contact the loanees. Though there are many legal provisions, we hardly use it effectively.” Some managers reported that they started applying it in a small way. At the end of the discussion, we understood that loans are good sources of income and hence it should be treated as a milch – cow.

What are the reasons for loans becoming NPAs? What policy do you suggest for reduction of NPAs?

The various reasons cited by panellists for assets becoming NPA are put in points below.

- a) Poor credit appraisal.
- b) Diversification of funds
- c) Insufficiency of funds and unable to complete the project.
- d) Reckless advances to achieve the budgetary charges and poor liaison and follow up with borrowers.

- e) Delayed and untimely issue of loans.
- f) Improper valuation of securities and purposeful default by the borrowers.
- g) Other reasons, mostly external, like changing economic conditions, agriculture and business failure, loss of employment and natural calamities

“Now we are helpless in the management of over dues. Some have very high NPAs. Some effective procedures has to be undertaken in this regard. We are now providing for 100 percent provision. Hence profitability declines and we are sometimes threatened of even cancelling licenses”.

What are your proposals for controlling NPA?

After a serious discussion the panellists reached a consensus on two points about NPA management. They are 1) Preventing NPA 2) Controlling/management of NPA.

Prevention is better than cure. Hence measurement should be initiated to prevent NPA. A careful assessment of the character of the customer, past relationship, financial background, affordable instalment amount, adequate security etc. must be ensured at the time of disbursing loans. For business loans, technical, commercial, economic, organisational and financial aspects of loan requirements should be strictly looked into.

For controlling and management of NPA, they suggested multi-dimensional tools like

- 1) Determining a realistic repayment schedule based on income generation, harvesting period, instalment amount, period of repayment etc.

- 2) Classifying customers into different groups A, B, C, D, ---- and overseeing loan position and repayment position.
- 3) Monitoring loans at branch level, constitution of branch level, NPA monitoring committee to directly interact with overdue customers.
- 4) Fixing target for employees and directing them to contact customers personally, persuading to make repayment, motivating them with awards and awards
- 5) Making the board of directors accountable for recoveries of such over dues, which were recommended by them.

The reasons for the assets becoming NPAs were varied and the major causes were:

- Poor credit appraisal
- Reckless advances to achieve the budgetary targets
- Procedure delay in sanctioning loans
- Diversion of the funds for other purposes
- Poor documentation and improper evaluation of securities
- Lack of sustained loosening and the follow up with borrowers.
- Political interference and the general slow down in economy
- Favouritism on the part of the management in sanctioning loans
- Purposeful default.

Impact of the NPA: The impact of NPA were:

- It earned no interest and blocked the flow of funds.
- Funding costs have to be met by the banks
- Provisioning for the NPA reduces profit.
- Capital adequacy requirements have to be met on the basis of higher risk weight

Management of NPA: The measures to tide over the situation arising out of above mentioned impact were:

(a) Prevention

To prevent an asset from becoming NPA, proper planning and analysis of loan requirements of the applicants before disbursement are essential. Technical, commercial, organisational and financial aspects of the loan requirement are to be assessed carefully. A proper assessment of the credentials and credit worthiness of the customer is to be made to avoid the recurrence of NPA. Recovery of loan is to be given top priority and others secondary considerations only

(b) Control / management

Controlling and management of the NPAs occur at the post disbursement stage.

The proposals for the management of NPA are:

- 1) Plan a realistic repayment schedule based on harvesting, income generation, amount of repayment, period of recovery etc.
- 2) Use a selective approach by classifying the loans into different groups such as most preferable, moderate, less, least, never etc.
- 3) Proper documentation of securities by appropriate and authorised persons.
- 4) Pay greater attention to accounts involving high stakes in terms of outstanding balances and recovery potential.
- 5) Follow the technique of "A B C D" approach.
 - A'- high value accounts showing symptoms of distress - Direct attention of the CEO
 - B'- high value accounts with a potential for recovery - requiring constant follow up and steering attention of the CEO.

‘C’- medium size accounts - supervision by the next in command.

‘D’- all other accounts - manager to delegate power to the next for the follow up.

- 5) Monitoring loans at branch levels by constituting management committees and timely intervention, dialogue, rehabilitation packages, remedial measures and legal measures in accordance with the suggestions made by the committee.
- 6) The management committee is to be made accountable for the loan and the staffs are to be committed to the recovery of the same.
- 7) Motivate the staff with incentives for the timely recovery of the loans.

Strategy for NPA Recovery

1. Rebate for prompt repayment of dues
2. Conducting recovery camps
3. Updating data regarding collateral securities
4. Recovery planning - area wise approach,
5. Strict compliance with norms for granting advances, obtaining additional securities etc.
6. Approaching Recovery Tribunal and filing of suits

Can ‘Profits / Surplus’ be considered as the goal of UCBs? If yes, how and what policies do you suggest to strengthen the surplus / Profit?

This question was approached from two angles. Some viewed that the UCBs as a co-operative organisation shouldn’t work only for profit. They were to focus on social welfare and customer satisfaction. Profit or surplus is only a remnant concept. Others were of view that banks were dealing with others money and hence the interest safety requirements of depositors and growth aspects of the shareholders were to be given prime consideration. Hence UCBs should generate surplus/profit. This would help to strengthen the resource base and lending power. Hence from the social and institutional

point of view, profit or surplus should be given prime importance. At the end of the discussion, a consensus had been arrived on the topic. As a banking institution, UCBs were to generate surplus after meeting funds related expenses. It was an owned fund and no cost was associated in its connection. It would widen the lending power and helped to augment CRAR. Nevertheless profits yield dividends to shareholders and banks will be able to satisfy social requirements.

What are your comments on the introduction of high-level technology in banking operations?

Technology is a tool, which helps processing, recording and executing business operations smoothly and executing business operations smoothly. Technology has become an absolute necessity, the failure of which may now affect the existence of a bank. Computerisation and working with computers is common. By 1994 some of UCBs had completed their computerisation. And many others are investing huge amounts for computerising their office. Staffs are given training and human resource development is now progressing in line with latest technological developments.

UCBs are even now planning to develop ATM facilities and technology and developments are closely moving together. So to develop, the UCBs have to make efforts to get best of the technology both in the front and back office. Introduction of technology in banking will increase. Efficiency and banking function will be more effective.

What is your opinion about consolidation of the UCBs or formation of an apex exclusively for UCBs?

UCBs have individual identity and business contacts and we depend on Federal Bank for investment transactions. We don't have any ATM facilities or networking system. If we are able to pool our resources and a body corporate is formed exclusively for the purpose of managing investment

activities, under the control of RBI, with sharing of expenses, the UCBs in Kerala can fairly do investment business. Apex body seems to be a good idea, but it should be free from the present bureaucratic set up. It should include very few organisational members. Panel members agreed in to.

What is your opinion about professionalisation in UCBs?

Professionalisation of Management is the greatest challenge that the UCB is now facing Kerala. Our financial sector is changing day by day and our institutions are part of macro economic system. So the management should know and be ready to accept latest trends and transactions and face challenges. We should approach things openly and had to keep away narrow politics.

The interest should be the bank and its business. There shouldn't be any constraints. Instead of just inducting professionals in the management's body, the overall professionalisation of banking functions is the need of the day. Basic qualifications are to be determined in new recruitments. The existing staffs are to be upgraded appropriately by providing training facilities, in-service courses etc. Hurdles from the co-operative departments have to be changed.

Do UCBs expect any support, concession, facility or favour from the government / apex bodies?

As far as funds mobilisation is concerned, we usually pay high rate of interest. Now market has changed, lending has decreased and hence cannot give high rate of interest to deposits. The loss is to be made good by providing more personal services.

Deployment of Funds

Year	Loans and advances.	Cash in hand and at bank	Deposit with banks	Invest in Govt. and others	Fixed assets	Other assets
1994						
1995						
1996						
1997						
1998						
1999						
2000						
2001						
2002						
2003						
2004						

Deposits details

Year	Current deposits	Savings deposits	Fixed deposits	Total deposits
1994				
1995				
1996				
1997				
1998				
1999				
2000				
2001				
2002				
2003				
2004				

Loans and advances

Year	Short-term loans and advances	Medium-term loans and advances	Long-term loans and advances	Dividends paid
1994				
1995				
1996				
1997				
1998				
1999				
2000				
2001				
2002				
2003				
2004				

Employee/Office Details

Year	No of branches	No of employees	Staff salary and allowances	Membership	Membership
1994					
1995					
1996					
1997					
1998					
1999					
2000					
2001					
2002					
2003					
2004					

Income and Expenses

Year	Interest income	Non-interest income	Interest expense	Non-interest expenses	
				Staff salary	Other expenses
1994					
1995					
1996					
1997					
1998					
1999					
2000					
2001					
2002					
2003					
2004					

Cash Position

Year	Cash in hand	Cash at bank	Deposit with other banks	Total
1994				
1995				
1996				
1997				
1998				
1999				
2000				
2001				
2002				
2003				
2004				

Asset Details

Year	Fixed assets	Other assets	Total
1994			
1995			
1996			
1997			
1998			
1999			
2000			
2001			
2002			
2003			
2004			

Non Performing Assets

Year	NPA	Provision for NPA
1994		
1995		
1996		
1997		
1998		
1999		
2000		
2001		
2002		
2003		
2004		

APPENDIX III
Table A.1
Share capital of the Sample UCBs in Kerala from 1994 to 2004

(Rs. in lakh)						
Year	Group	A	B	C	Average	Sample Average
1994	1	12.99	12.14	40.08	21.74	38.60
	2	14.37	58.08	25.64	32.70	
	3	28.16	48.90	107.00	61.35	
1995	1	15.18	13.89	43.22	24.10	45.62
	2	24.57	63.26	32.57	40.13	
	3	39.97	62.90	115.00	72.62	
1996	1	17.71	16.38	52.45	28.85	55.25
	2	30.58	72.95	50.33	51.29	
	3	46.54	79.40	130.94	85.63	
1997	1	21.18	17.44	57.58	32.07	62.62
	2	31.51	86.80	64.30	60.87	
	3	53.20	88.09	143.44	94.91	
1998	1	25.68	19.85	63.90	36.48	71.86
	2	36.91	105.15	85.82	75.96	
	3	66.47	95.80	147.18	103.15	
1999	1	29.57	22.24	79.66	43.82	89.11
	2	55.53	140.86	116.73	104.37	
	3	91.40	106.20	159.81	119.14	
2000	1	30.40	25.86	95.36	50.54	108.02
	2	74.93	190.68	152.17	139.26	
	3	108.47	118.75	175.59	134.27	
2001	1	39.06	29.97	121.36	63.46	136.61
	2	110.31	259.52	227.59	199.14	
	3	117.53	148.13	176.06	147.24	
2002	1	45.81	41.93	128.14	71.96	161.16
	2	137.79	341.16	282.24	253.73	
	3	121.66	175.92	175.81	157.80	
2003	1	50.29	59.44	136.34	82.02	181.06
	2	176.19	371.88	319.13	289.07	
	3	141.93	192.01	182.29	172.08	
2004	1	53.00	119.94	143.57	105.50	206.00
	2	195.63	369.91	282.57	282.70	
	3	147.77	202.85	338.73	229.78	
CAGR 94-04	1	13.64	23.15	12.30	15.44	16.44
	2	26.79	18.33	24.38	21.67	
	3	16.27	13.81	11.04	12.75	
CAGR 94-99	1	14.69	10.62	12.13	12.40	14.97
	2	25.27	15.91	28.74	21.34	
	3	21.68	13.80	6.91	11.70	
CAGR 00-04	1	11.76	35.91	8.53	15.86	13.78
	2	21.16	14.17	13.18	15.21	
	3	6.38	11.30	14.04	11.34	

Source: Compiled from the annual reports and records of banks

Table A.2
Reserves and other funds of Sample UCBs in Kerala
for the period from 1994 to 2004 (Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	10.20	14.83	43.61	22.88	63.00
	2	56.14	83.72	55.64	65.17	
	3	128.45	96.50	77.93	100.96	
1995	1	10.89	18.62	56.51	28.67	78.62
	2	97.20	82.33	61.56	80.36	
	3	115.36	115.10	150.00	126.82	
1996	1	13.55	27.65	71.41	37.54	105.26
	2	150.62	99.21	74.88	108.24	
	3	124.32	160.40	225.28	170.00	
1997	1	23.45	35.33	78.85	45.88	147.44
	2	216.12	112.75	115.70	148.19	
	3	126.15	316.58	302.00	248.24	
1998	1	34.36	53.66	97.19	61.74	183.82
	2	275.24	142.64	139.64	185.84	
	3	163.63	401.00	347.00	303.88	
1999	1	46.93	55.10	107.06	69.70	250.10
	2	408.43	175.30	197.10	260.28	
	3	192.01	504.00	565.00	420.34	
2000	1	98.87	51.47	175.37	108.57	373.37
	2	554.20	219.89	333.36	369.15	
	3	465.31	692.00	769.87	642.39	
2001	1	82.05	61.56	202.59	115.40	488.57
	2	695.15	686.91	582.96	655.01	
	3	335.62	814.00	936.30	695.31	
2002	1	81.71	73.42	420.24	191.79	679.14
	2	929.37	1059.78	822.90	937.35	
	3	435.84	1020.79	1268.25	908.29	
2003	1	103.78	75.33	588.93	256.01	897.07
	2	1140.18	1431.55	1001.35	1191.03	
	3	879.58	1088.90	1764.05	1244.18	
2004	1	139.40	91.89	485.71	239.00	1019.13
	2	1419.17	2013.08	1300.50	1577.58	
	3	1111.05	1273.38	1338.03	1240.82	
CAGR 94-04	1	26.84	18.04	24.50	23.77	28.79
	2	34.13	33.52	33.18	33.60	
	3	21.67	26.43	29.49	25.62	
CAGR 94-99	1	28.97	24.45	16.15	20.40	25.83
	2	39.20	13.11	23.47	25.96	
	3	6.93	31.72	39.12	26.84	
CAGR 00-04	1	7.11	12.29	22.60	17.09	22.24
	2	20.69	55.72	31.29	33.71	
	3	19.01	12.97	11.69	14.07	

Source: Compiled from the annual reports and records of banks

Table A.3
Owned Funds of Sample UCBs in Kerala for the period from 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	26.20	34.57	90.00	50.26	111.41
	2	80.50	146.40	89.41	105.44	
	3	168.71	160.77	206.10	178.53	
1995	1	38.59	37.66	106.76	61.00	138.02
	2	132.40	148.02	108.67	129.70	
	3	168.91	195.15	306.00	223.35	
1996	1	34.76	45.07	130.50	70.11	171.58
	2	189.74	173.65	140.39	167.93	
	3	180.70	261.24	388.13	276.69	
1997	1	55.08	54.70	144.36	84.71	226.40
	2	257.51	209.42	200.51	222.48	
	3	194.33	438.33	483.40	372.02	
1998	1	62.56	70.34	168.22	100.37	274.31
	2	331.25	267.83	240.81	279.96	
	3	252.04	536.16	539.61	442.60	
1999	1	67.18	80.68	151.38	99.75	355.60
	2	496.87	318.77	357.84	391.16	
	3	307.23	645.25	775.19	575.89	
2000	1	102.92	77.83	246.51	142.42	499.05
	2	660.81	446.39	542.67	549.96	
	3	588.60	829.85	995.87	804.77	
2001	1	131.62	91.57	313.69	178.96	654.96
	2	865.44	983.13	875.16	907.91	
	3	463.78	1019.95	1150.32	878.02	
2002	1	103.78	108.35	401.58	204.57	832.22
	2	1107.89	1415.49	1176.47	1233.28	
	3	480.37	1210.99	1485.07	1058.81	
2003	1	152.66	160.63	828.68	380.66	1132.45
	2	1384.32	1819.21	1395.74	1533.09	
	3	1111.96	1346.51	1992.35	1483.61	
2004	1	155.85	237.34	722.28	371.82	1277.86
	2	1689.31	2439.21	1663.38	1930.63	
	3	1285.08	1567.20	1741.10	1531.13	
CAGR 94-04	1	17.60	19.14	20.84	19.95	24.83
	2	31.88	29.14	30.44	30.25	
	3	20.27	23.00	21.41	21.58	
CAGR 94-99	1	16.99	15.17	9.05	12.10	21.34
	2	35.44	13.85	26.00	24.42	
	3	10.51	26.06	24.71	21.55	
CAGR 00-04	1	8.65	24.98	23.99	21.16	20.69
	2	20.65	40.45	25.11	28.55	
	3	16.90	13.56	11.82	13.73	

Source: Compiled from the annual reports and records of banks

Tables A.4
Deposits of Sample UCBs in Kerala for the period from 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	381.14	379.62	897.70	552.82	1115.09
	2	987.91	938.91	843.62	923.48	
	3	1829.26	1780.10	1997.53	1868.96	
1995	1	420.22	462.82	1100.24	661.09	1370.33
	2	1152.36	1035.13	1259.37	1148.95	
	3	2022.66	2339.20	2541.00	2300.95	
1996	1	529.86	546.41	1414.20	830.16	1675.67
	2	1540.90	1247.83	1686.25	1491.66	
	3	2067.33	2939.00	3109.24	2705.19	
1997	1	589.44	666.73	1647.64	967.94	2076.55
	2	2183.72	1695.97	2372.32	2084.00	
	3	2850.15	3028.00	3655.00	3177.72	
1998	1	655.25	828.20	1866.03	1116.49	2612.24
	2	2617.55	2217.40	3326.18	2720.38	
	3	3853.51	3574.00	4572.00	3999.84	
1999	1	933.55	1161.66	2208.20	1434.47	3775.46
	2	3719.49	3358.51	5810.33	4296.11	
	3	6339.72	4670.00	5777.69	5595.80	
2000	1	1079.78	1440.47	2566.68	1695.64	4792.26
	2	4722.83	4835.53	8013.20	5857.19	
	3	8213.53	5897.98	6360.30	6823.94	
2001	1	1181.88	1588.72	3082.28	1950.96	5566.62
	2	5561.33	7020.00	8227.93	6936.42	
	3	8794.50	7249.70	7393.24	7812.48	
2002	1	1322.28	1688.39	3640.62	2217.10	6622.98
	2	7345.26	9694.57	9397.95	8812.59	
	3	9962.14	8390.25	8165.40	8839.26	
2003	1	1428.20	1929.52	3975.97	2444.56	7189.32
	2	7749.39	11064.71	9818.39	9544.16	
	3	9863.35	10307.84	8566.55	9579.25	
2004	1	1481.88	2262.54	4022.23	2588.88	7621.71
	2	9010.04	11110.33	10094.72	10071.70	
	3	10266.58	11361.42	8985.66	10204.55	
CAGR 94-04	1	13.14	17.62	14.61	15.07	19.09
	2	22.26	25.19	25.31	24.26	
	3	16.98	18.35	14.65	16.69	
CAGR 94-99	1	16.10	20.49	16.19	17.22	22.54
	2	24.73	23.67	37.94	29.20	
	3	23.02	17.44	19.36	20.05	
CAGR 00-04	1	6.54	9.45	9.40	8.83	9.72
	2	13.79	18.10	4.73	11.45	
	3	4.56	14.01	7.16	8.38	

Source: Compiled from the annual reports and records of banks

Table A.5
Current Deposit of Sample UCBs in Kerala for the period from 1994 to 2004
 (Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	3.41	0.33	5.74	3.16	41.58
	2	80.88	29.93	2.91	37.91	
	3	184.82	32.00	34.23	83.68	
1995	1	4.71	6.47	6.78	5.99	37.04
	2	42.29	79.81	3.65	41.92	
	3	115.65	40.87	33.12	63.21	
1996	1	3.81	2.17	14.45	6.81	37.94
	2	88.11	92.21	15.83	65.38	
	3	64.48	26.14	34.23	41.62	
1997	1	4.91	2.00	17.38	8.10	49.25
	2	164.11	69.84	16.20	83.38	
	3	97.69	38.02	33.12	56.28	
1998	1	4.92	1.83	19.61	8.79	56.17
	2	165.50	65.56	19.13	83.40	
	3	79.84	47.91	101.22	76.32	
1999	1	5.68	2.66	38.07	15.47	134.79
	2	233.74	131.25	28.87	131.29	
	3	147.10	77.90	547.81	257.60	
2000	1	6.55	6.06	21.96	11.52	135.01
	2	264.15	208.72	76.52	183.13	
	3	127.27	94.68	409.22	210.39	
2001	1	13.18	3.91	26.22	14.44	231.13
	2	574.43	275.27	285.32	378.34	
	3	133.38	125.55	642.91	300.61	
2002	1	32.48	3.67	21.24	19.13	284.32
	2	570.78	401.21	427.66	466.55	
	3	165.88	108.72	827.23	367.28	
2003	1	13.82	3.35	20.72	12.63	338.14
	2	496.91	389.25	761.11	549.09	
	3	136.39	117.84	1103.88	452.70	
2004	1	19.67	2.79	19.21	13.89	406.78
	2	585.06	432.06	721.05	579.39	
	3	206.97	166.30	1507.87	627.05	
CAGR 94-04	1	17.27	21.42	11.61	14.41	23.04
	2	19.71	27.47	65.06	28.13	
	3	1.03	16.16	41.08	20.09	
CAGR 94-99	1	8.88	41.60	37.07	30.31	21.65
	2	19.35	27.94	46.59	23.00	
	3	-3.73	15.98	58.75	20.61	
CAGR 00-04	1	24.60	-14.37	-2.64	3.81	24.68
	2	17.24	15.66	56.62	25.90	
	3	10.21	11.92	29.80	24.41	

Source: Compiled from the annual reports and records of banks

Table A.6
Savings Deposits of Sample UCBs from 1994 to 2004 (Rs in lakh)
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	113.28	76.01	126.84	105.38	202.99
	2	453.27	180.47	172.36	268.70	
	3	203.32	270.71	230.67	234.90	
1995	1	104.54	98.70	120.60	107.95	238.96
	2	508.96	192.94	198.32	300.07	
	3	263.27	400.93	262.34	308.85	
1996	1	118.06	120.65	129.18	122.63	285.49
	2	834.70	198.56	213.27	415.51	
	3	238.19	427.69	289.12	318.33	
1997	1	187.65	114.34	146.38	149.46	310.14
	2	689.60	223.47	308.54	407.20	
	3	370.13	392.54	358.64	373.77	
1998	1	134.75	101.13	167.20	134.36	333.90
	2	846.28	258.06	315.11	473.15	
	3	420.79	390.54	371.23	394.19	
1999	1	180.48	152.25	204.17	178.97	472.06
	2	1108.38	334.51	578.92	673.94	
	3	694.32	460.15	535.33	563.27	
2000	1	195.92	241.32	271.18	236.14	573.21
	2	1467.26	439.96	760.19	889.14	
	3	716.02	592.38	474.63	594.34	
2001	1	207.23	263.57	281.29	250.70	616.33
	2	1651.50	516.64	801.93	990.02	
	3	630.25	745.49	449.09	608.28	
2002	1	206.56	236.76	297.61	246.98	688.62
	2	1937.73	619.25	844.15	1133.71	
	3	741.99	784.35	529.14	685.16	
2003	1	244.10	298.09	371.84	304.68	838.67
	2	2106.31	766.61	1175.38	1349.43	
	3	807.64	1138.67	639.39	861.90	
2004	1	247.83	389.85	392.34	343.34	1010.06
	2	2457.29	832.09	1236.08	1508.49	
	3	945.21	1799.13	790.69	1178.34	
CAGR 94-04	1	7.38	16.02	10.81	11.34	15.70
	2	16.61	14.91	19.61	16.98	
	3	14.99	18.79	11.85	15.79	
CAGR 94-99	1	8.07	12.27	8.26	9.23	15.10
	2	16.07	10.83	22.38	16.56	
	3	22.71	9.24	15.06	15.69	
CAGR 00-04	1	4.81	10.07	7.67	7.77	12.00
	2	10.86	13.59	10.21	11.15	
	3	5.71	24.88	10.75	14.67	

Source: Compiled from the annual reports and records of banks

Table A.7
Fixed Deposits of Sample UCBs in Kerala for the period from 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	264.45	303.27	765.12	444.28	870.96
	2	453.76	728.80	668.18	616.91	
	3	1441.10	1477.46	1736.51	1551.69	
1995	1	311.51	357.65	972.86	547.34	1106.82
	2	587.88	763.22	1163.48	838.19	
	3	1642.86	1917.84	2244.08	1934.93	
1996	1	407.99	423.59	1270.39	700.66	1385.76
	2	918.12	957.04	1458.37	1111.18	
	3	1764.66	2485.79	2785.89	2345.45	
1997	1	406.12	550.38	1483.88	813.46	1714.32
	2	1330.00	1402.53	2048.86	1593.80	
	3	2372.31	2598.18	3236.58	2735.69	
1998	1	514.49	731.55	1679.22	975.09	2218.64
	2	1601.77	1892.93	2993.23	2162.64	
	3	3352.86	3109.42	4092.26	3518.18	
1999	1	747.37	1006.75	1966.01	1240.04	3168.73
	2	2377.38	2892.73	5204.04	3491.38	
	3	5498.28	4132.30	4693.68	4774.75	
2000	1	877.32	1253.08	2273.51	1467.97	4202.20
	2	2991.41	4186.81	7178.46	4785.56	
	3	7370.22	5212.52	6476.44	6353.06	
2001	1	937.31	1321.23	2774.77	1677.77	4716.73
	2	3335.40	6227.48	7142.55	5568.48	
	3	8030.84	6380.76	6300.23	6903.94	
2002	1	1083.24	1447.96	3321.77	1950.99	5654.43
	2	4826.76	8675.10	8128.05	7209.97	
	3	9052.24	7499.41	6855.32	7802.32	
2003	1	1170.27	1628.08	3183.41	1993.92	6189.75
	2	5146.16	9908.85	7874.89	7643.30	
	3	10919.30	9053.55	6823.27	8932.04	
2004	1	1214.38	1869.90	3610.66	2231.65	6205.22
	2	5967.69	9846.79	8137.58	7984.02	
	3	9114.40	9398.46	6687.10	8399.99	
CAGR 94-04	1	14.86	17.98	15.15	15.80	19.54
	2	26.39	26.70	25.51	26.21	
	3	18.26	18.32	13.04	16.59	
CAGR 94-99	1	18.90	22.14	17.03	18.66	24.02
	2	31.79	25.83	40.79	33.49	
	3	25.00	18.70	18.02	20.60	
CAGR 00-04	1	6.72	8.33	9.69	8.74	8.11
	2	14.81	18.65	2.54	10.78	
	3	4.34	12.51	0.64	5.74	

Source: Compiled from the annual reports and records of banks

Table A.8
Borrowings of Sample UCBs in Kerala for
the period from 1994 to 2004 (Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	0.12	0.00	0.00	0.04	16.63
	2	108.96	15.00	15.58	46.51	
	3	0.00	10.00	0.00	3.33	
1995	1	0.00	0.00	0.00	0.00	52.99
	2	414.25	46.69	16.01	158.98	
	3	0.00	0.00	0.00	0.00	
1996	1	0.00	2.12	0.00	0.71	71.40
	2	424.98	85.00	17.50	175.83	
	3	0.00	113.00	0.00	37.67	
1997	1	0.00	0.00	0.00	0.00	37.67
	2	0.00	90.00	18.92	36.31	
	3	0.00	230.10	0.00	76.70	
1998	1	0.00	0.00	0.00	0.00	10.11
	2	0.00	76.32	14.65	30.32	
	3	0.00	0.00	0.00	0.00	
1999	1	0.00	0.00	0.00	0.00	12.79
	2	0.00	91.84	13.24	35.03	
	3	0.00	10.00	0.00	3.33	
2000	1	0.00	0.00	0.00	0.00	16.20
	2	0.00	134.00	11.81	48.60	
	3	0.00	0.00	0.00	0.00	
2001	1	0.00	0.00	0.00	0.00	10.39
	2	0.00	83.13	10.40	31.18	
	3	0.00	0.00	0.00	0.00	
2002	1	0.00	0.00	0.00	0.00	15.60
	2	0.00	92.40	8.99	33.80	
	3	0.00	0.00	39.00	13.00	
2003	1	0.00	0.00	0.00	0.00	4.11
	2	0.00	0.00	0.00	0.00	
	3	0.00	0.00	37.00	12.33	
2004	1	0.00	2.50	0.00	0.83	0.96
	2	0.00	0.00	6.18	2.06	
	3	0.00	0.00	0.00	0.00	

Source: Compiled from the annual reports and records of banks

Table A.9
Other Liabilities of Sample UCBs from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	5.06	21.14	106.36	44.19	158.59
	2	21.29	106.50	428.58	185.46	
	3	74.10	100.02	564.24	246.12	
1995	1	28.91	21.52	86.97	45.80	175.31
	2	113.54	184.10	497.59	265.08	
	3	106.15	160.77	378.25	215.06	
1996	1	42.31	30.87	125.84	66.34	201.87
	2	71.96	200.74	568.15	280.28	
	3	132.54	217.98	426.43	258.98	
1997	1	63.89	40.72	148.30	84.30	308.30
	2	342.20	240.23	950.66	511.03	
	3	235.30	183.97	569.47	329.58	
1998	1	99.72	73.91	194.45	122.69	436.52
	2	513.99	212.63	1480.78	735.80	
	3	324.59	217.29	811.35	451.08	
1999	1	138.28	91.99	289.09	173.12	672.97
	2	902.55	501.53	2447.18	1283.75	
	3	582.07	279.16	824.87	562.03	
2000	1	63.56	173.88	282.82	173.42	732.23
	2	720.70	798.22	2750.59	1423.17	
	3	542.92	350.65	906.77	600.11	
2001	1	182.82	162.54	323.06	222.81	873.56
	2	377.63	741.81	3819.51	1646.32	
	3	833.76	427.50	993.42	751.56	
2002	1	185.84	156.66	414.45	252.32	1076.96
	2	1091.49	1051.48	4193.93	2112.30	
	3	983.17	569.22	1046.40	866.26	
2003	1	194.05	273.18	129.55	198.93	1059.80
	2	730.63	1327.39	4496.33	2184.78	
	3	482.45	791.83	1112.77	795.68	
2004	1	269.71	231.57	83.15	194.81	867.22
	2	288.63	517.93	4322.85	1709.80	
	3	309.73	280.80	1500.60	697.04	

Source: Compiled from the annual reports and records of banks

Table A.10
Working Capital of Sample UCBs in Kerala
for the period from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	399.93	372.68	948.28	573.63	1206.57
	2	1091.00	1032.02	887.23	1003.42	
	3	1848.27	1862.20	2417.48	2042.65	
1995	1	443.06	458.35	1149.88	683.76	1499.97
	2	1594.78	1168.78	1395.49	1386.35	
	3	2076.97	2464.40	2748.00	2429.79	
1996	1	558.39	560.27	1490.06	869.57	1765.94
	2	1585.45	1429.44	1759.15	1591.35	
	3	2113.87	3163.80	3233.00	2836.89	
1997	1	622.04	682.99	1712.35	1005.79	2231.12
	2	2247.32	1898.59	2512.18	2219.36	
	3	3196.33	3367.30	3841.00	3468.21	
1998	1	712.01	850.96	2110.54	1224.50	2820.75
	2	3191.31	2429.55	3432.94	3017.93	
	3	4254.47	3651.00	4754.00	4219.82	
1999	1	1004.00	1177.69	2378.83	1520.17	4030.31
	2	4485.94	3631.38	5930.73	4682.68	
	3	6938.11	4780.00	5946.09	5888.07	
2000	1	1183.00	1496.83	2824.15	1834.66	5024.43
	2	4834.55	5212.57	8178.72	6075.28	
	3	8916.75	6029.96	6543.34	7163.35	
2001	1	1218.17	1603.92	3363.11	2061.73	5808.33
	2	5697.07	7448.68	8450.04	7198.60	
	3	9525.06	7395.36	7573.59	8164.67	
2002	1	1352.73	1716.10	3751.52	2273.45	6880.13
	2	7551.77	10149.53	9704.70	9135.33	
	3	10693.40	8589.83	8411.57	9231.60	
2003	1	1452.84	1956.28	4132.62	2513.91	7488.74
	2	8009.37	11601.31	10169.08	9926.59	
	3	10680.58	10517.06	8879.48	10025.71	
2004	1	1542.00	2357.56	4607.64	2835.73	8159.71
	2	9332.21	13051.26	10457.26	10946.91	
	3	11173.19	11632.78	9283.48	10696.48	
CAGR 94-04	1	13.05	18.26	15.46	15.64	18.98
	2	21.55	25.94	25.14	24.26	
	3	17.77	18.12	13.01	16.24	
CAGR 94-99	1	16.58	21.14	16.57	17.64	22.26
	2	26.57	23.33	37.25	29.27	
	3	17.77	18.12	13.01	16.24	
CAGR 00-04	1	5.44	9.51	10.29	9.10	10.18
	2	14.06	20.15	5.04	12.50	
	3	4.62	14.04	7.25	8.35	

Source: Compiled from the annual reports and records of banks

Table A.11
Cash in Hand of Sample UCBs from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	5.73	4.89	7.68	6.10	19.31
	2	57.72	4.88	8.34	23.65	
	3	14.50	45.32	24.71	28.18	
1995	1	7.94	10.58	11.49	10.00	29.89
	2	55.89	8.46	13.26	25.87	
	3	40.42	78.50	42.50	53.81	
1996	1	8.46	12.80	14.02	11.76	36.64
	2	113.86	11.40	18.45	47.90	
	3	39.12	82.56	29.13	50.27	
1997	1	15.88	30.80	11.48	19.39	61.00
	2	156.79	22.13	39.73	72.88	
	3	82.46	103.48	86.26	90.73	
1998	1	16.64	48.45	14.28	26.46	85.01
	2	268.21	9.15	44.00	107.12	
	3	82.88	76.86	204.60	121.45	
1999	1	23.87	27.75	14.18	21.93	121.13
	2	243.00	36.27	87.06	122.11	
	3	148.55	140.63	368.89	219.36	
2000	1	21.40	84.27	13.46	39.71	106.13
	2	269.86	71.41	67.28	136.18	
	3	44.97	113.75	268.80	142.51	
2001	1	22.34	64.67	22.53	36.51	113.26
	2	271.53	25.45	51.17	116.05	
	3	61.63	172.41	327.57	187.20	
2002	1	61.97	54.38	23.38	46.58	127.81
	2	293.01	63.26	97.63	151.30	
	3	62.05	197.30	297.27	185.54	
2003	1	58.39	40.40	18.77	39.19	119.85
	2	198.96	56.82	79.89	111.89	
	3	65.19	312.85	247.36	208.47	
2004	1	51.02	42.90	22.79	38.90	173.85
	2	356.85	74.19	131.92	187.65	
	3	75.52	414.37	395.07	294.99	
CAGR 94-04	1	21.99	21.83	10.39	18.35	22.11
	2	18.01	28.07	28.53	20.72	
	3	16.19	22.28	28.66	23.80	
CAGR 94-99	1	26.85	33.55	10.76	23.77	35.81
	2	27.07	39.70	47.83	31.47	
	3	47.37	20.77	56.92	40.78	
CAGR 00-04	1	18.98	-12.63	11.11	-0.41	10.37
	2	5.75	0.77	14.42	6.62	
	3	10.92	29.51	8.01	15.66	

Source: Compiled from the annual reports and records of banks

Table A.12
Cash balance with other banks of Sample UCBs
in Kerala for the period from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	7.13	12.21	23.00	14.11	59.82
	2	23.53	30.51	292.57	115.54	
	3	48.13	41.31	60.01	49.82	
1995	1	12.82	8.42	27.98	16.41	66.04
	2	34.90	41.51	337.76	138.06	
	3	28.29	27.71	75.00	43.67	
1996	1	9.86	8.78	45.10	21.25	95.87
	2	108.39	55.35	462.93	208.89	
	3	30.64	31.81	110.00	57.48	
1997	1	12.85	5.41	52.90	23.72	140.13
	2	41.82	65.44	829.66	312.31	
	3	83.57	41.90	127.64	84.37	
1998	1	18.52	3.89	75.54	32.65	234.18
	2	273.96	81.20	1289.18	548.11	
	3	138.15	47.04	180.12	121.77	
1999	1	32.92	19.81	95.83	49.52	345.56
	2	415.77	99.63	2106.19	873.86	
	3	226.23	35.24	78.39	113.29	
2000	1	44.18	1.67	114.98	53.61	357.57
	2	402.44	148.12	2184.99	911.85	
	3	234.71	77.08	9.98	107.26	
2001	1	43.22	1.15	127.82	57.40	475.00
	2	140.52	240.87	3408.24	1263.21	
	3	259.65	52.32	1.24	104.40	
2002	1	10.35	17.19	153.94	60.49	538.11
	2	289.77	392.65	3582.69	1421.70	
	3	273.15	120.52	2.70	132.12	
2003	1	19.24	23.73	211.10	84.69	600.36
	2	109.50	397.99	3967.08	1491.52	
	3	311.13	273.92	89.52	224.86	
2004	1	24.03	20.26	218.09	87.46	627.50
	2	447.77	451.68	3987.12	1628.86	
	3	230.01	202.08	66.43	166.17	
CAGR 94-04	1	11.68	4.71	22.69	18.04	23.82
	2	30.71	27.76	22.96	27.19	
	3	15.28	15.53	0.93	11.57	
CAGR 94-99	1	29.04	8.40	26.85	23.27	33.95
	2	61.39	21.80	31.34	40.11	
	3	15.28	15.53	0.93	11.57	
CAGR 00-04	1	-11.47	64.73	13.66	10.28	11.91
	2	2.16	24.98	12.78	12.30	
	3	-0.40	21.26	46.10	9.15	

Source: Compiled from the annual reports and records of banks

Table A.13
Cash balance and deposits with other banks
of Sample UCBs from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	133.59	127.33	264.15	175.02	428.20
	2	253.07	321.98	418.64	331.23	
	3	962.82	663.28	708.97	778.36	
1995	1	147.89	172.88	378.33	233.03	466.53
	2	560.80	372.80	425.90	453.17	
	3	623.41	816.28	700.45	713.38	
1996	1	181.14	153.15	456.28	263.52	535.06
	2	367.80	444.48	537.44	449.91	
	3	776.27	757.80	1141.21	891.76	
1997	1	192.04	189.60	513.12	298.25	724.19
	2	660.64	573.69	942.54	725.62	
	3	1156.67	883.79	1405.59	1148.68	
1998	1	239.02	298.17	769.00	435.40	1103.18
	2	1074.72	654.22	1482.50	1070.48	
	3	1830.83	1190.72	2389.42	1803.66	
1999	1	533.69	626.12	1147.61	769.14	1819.67
	2	2082.85	1052.55	3223.39	2119.60	
	3	3210.82	1800.57	2699.42	2570.27	
2000	1	677.32	768.20	1293.16	912.89	2180.13
	2	2223.98	1481.59	4232.65	2646.07	
	3	4176.35	2306.63	2461.29	2981.42	
2001	1	566.63	818.71	1008.55	797.96	2150.33
	2	1762.78	2140.62	3689.49	2530.96	
	3	4328.30	2259.96	2777.89	3122.05	
2002	1	497.14	764.65	1451.64	904.48	2593.00
	2	3593.97	2504.59	4145.69	3414.75	
	3	5145.42	2367.12	2866.79	3459.78	
2003	1	493.60	547.01	1668.58	903.06	2580.15
	2	2262.33	2052.15	5536.28	3283.59	
	3	4778.35	3462.33	2420.75	3553.81	
2004	1	582.63	712.81	1530.65	942.03	2508.99
	2	2975.59	2498.41	5405.56	3626.52	
	3	3973.49	2996.52	1905.25	2958.42	

Source: Compiled from the annual reports and records of banks

Table A.14
Investments in Govt. Securities of Sample UCBs from 1994 to 2004
 (Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	0.50	2.38	0.00	0.96	6.96
	2	1.11	5.25	0.72	2.36	
	3	0.10	3.20	49.37	17.56	
1995	1	0.50	2.28	0.00	0.93	6.98
	2	0.61	2.75	0.15	1.17	
	3	0.10	3.20	53.24	18.85	
1996	1	0.50	2.18	0.00	0.89	12.93
	2	0.61	2.75	0.15	1.17	
	3	0.10	10.50	99.62	36.74	
1997	1	0.45	2.18	0.00	0.88	11.71
	2	0.61	2.75	0.15	1.17	
	3	0.10	3.80	95.37	33.09	
1998	1	0.45	1.08	0.00	0.51	32.24
	2	0.61	2.75	0.15	1.17	
	3	50.00	14.28	220.81	95.03	
1999	1	0.46	1.11	0.00	0.52	99.84
	2	300.61	2.17	100.15	134.31	
	3	200.00	103.27	190.75	164.67	
2000	1	0.46	1.12	0.00	0.53	154.45
	2	300.61	52.20	100.15	150.99	
	3	368.92	254.96	311.59	311.82	
2001	1	0.47	1.13	0.00	0.53	242.44
	2	300.61	115.00	200.15	205.25	
	3	468.92	600.63	495.07	521.54	
2002	1	0.48	1.15	0.00	0.54	642.47
	2	700.67	763.37	934.92	799.65	
	3	986.67	1172.63	1222.37	1127.22	
2003	1	105.41	151.15	0.00	85.52	1193.08
	2	1307.63	1904.76	1569.21	1593.87	
	3	1432.19	1858.45	2408.93	1899.86	
2004	1	121.94	338.11	0.00	153.35	1610.71
	2	1449.15	3616.69	1417.63	2161.16	
	3	2476.00	2259.99	2816.85	2517.61	
CAGR 94-04	1	64.82	56.92	-	58.60	64.04
	2	91.98	81.14	99.29	85.89	
	3	150.86	81.55	44.43	57.05	
CAGR 94-99	1	-1.38	-11.94	-	-9.62	55.88
	2	154.36	-13.69	127.62	96.12	
	3	254.95	78.43	25.27	45.22	
CAGR 00-04	1	205.27	213.31	-	211.05	59.83
	2	36.97	133.41	69.90	70.27	
	3	46.34	54.71	55.32	51.85	

Source: Compiled from the annual reports and records of banks

Table A.15
Loans and advances of Sample UCBs in Kerala from 1994 to 2004
 (Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	251.52	267.49	756.26	425.09	814.67
	2	659.91	818.24	513.91	664.02	
	3	1011.45	1221.80	1831.44	1354.90	
1995	1	305.52	305.22	832.60	481.11	1086.38
	2	1064.00	929.07	914.28	969.12	
	3	1548.23	1597.48	2281.00	1808.90	
1996	1	386.83	413.44	1121.51	640.59	1346.25
	2	1417.87	1129.80	1337.48	1295.05	
	3	1455.26	2393.08	2461.00	2103.11	
1997	1	450.28	484.95	1313.10	749.44	1600.71
	2	1689.75	1509.22	1678.50	1625.82	
	3	1893.29	2539.00	2848.30	2426.86	
1998	1	496.38	586.50	1300.16	794.35	1768.57
	2	1782.87	1973.35	2140.92	1965.71	
	3	2279.77	2603.11	2754.03	2545.64	
1999	1	503.72	636.12	1377.88	839.24	2289.92
	2	2136.12	2963.86	2943.99	2681.32	
	3	3411.52	2997.64	3638.44	3349.20	
2000	1	520.52	789.27	1663.81	991.20	3052.28
	2	2828.23	4346.43	4487.95	3887.54	
	3	4334.60	3797.40	4702.34	4278.11	
2001	1	792.26	907.65	2502.72	1400.88	3832.46
	2	3914.75	6191.37	5247.14	5117.75	
	3	4594.55	5012.13	5329.61	4978.76	
2002	1	884.01	1079.18	2706.01	1556.40	4275.90
	2	4342.80	8357.99	5551.28	6084.02	
	3	4388.83	5591.12	5581.87	5187.27	
2003	1	916.19	1506.45	2957.97	1793.54	4655.95
	2	5455.47	9488.49	5628.05	6857.34	
	3	4290.38	6029.03	5631.54	5316.98	
2004	1	949.75	1601.16	3143.26	1898.06	4793.29
	2	6059.85	7831.31	5563.05	6484.74	
	3	4404.06	7228.71	6358.47	5997.08	
CAGR 94-04	1	12.84	17.67	13.83	14.57	17.48
	2	22.33	22.79	24.18	23.02	
	3	14.31	17.54	11.98	14.48	
CAGR 94-99	1	12.27	15.53	10.52	12.00	18.80
	2	21.63	23.93	33.76	26.19	
	3	22.46	16.14	12.12	16.28	
CAGR 00-04	1	12.78	15.20	13.57	13.88	9.45
	2	16.46	12.50	4.39	10.78	
	3	0.32	13.74	6.22	6.99	

Source: Compiled from the annual reports and records of banks

Table A.16
Short term loans and advances of Sample UCBs from 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	140.99	193.92	72.83	135.91	273.18
	2	335.24	221.00	62.78	206.34	
	3	640.63	319.48	471.74	477.28	
1995	1	166.80	225.16	84.60	158.85	332.28
	2	452.39	233.56	97.64	261.20	
	3	950.56	330.54	449.23	576.78	
1996	1	207.63	325.61	107.90	213.71	415.56
	2	683.60	226.96	198.50	369.69	
	3	796.72	513.46	679.68	663.29	
1997	1	219.74	402.65	156.82	259.74	544.73
	2	965.43	275.65	378.73	539.94	
	3	1102.17	647.58	753.79	834.51	
1998	1	173.45	507.53	147.41	276.13	562.54
	2	945.09	230.47	335.04	503.53	
	3	1111.88	919.46	692.52	907.95	
1999	1	188.09	522.02	131.18	280.43	593.26
	2	840.25	380.14	410.71	543.70	
	3	1024.09	1077.78	765.04	955.64	
2000	1	190.49	607.36	335.62	377.82	791.21
	2	960.48	674.76	610.47	748.57	
	3	1238.59	1515.70	987.45	1247.25	
2001	1	250.92	690.33	724.68	555.31	1086.55
	2	1247.18	999.17	937.17	1061.17	
	3	1594.53	2047.90	1287.08	1643.17	
2002	1	206.14	786.93	835.60	609.56	1252.59
	2	1444.59	1531.13	1109.81	1361.84	
	3	1647.20	2336.50	1375.40	1786.37	
2003	1	359.74	941.42	734.62	678.59	1464.80
	2	2138.32	1739.87	1278.93	1719.04	
	3	1991.50	2490.84	1508.00	1996.78	
2004	1	205.80	986.24	1999.60	1063.88	1740.42
	2	2411.06	1603.71	1213.75	1742.84	
	3	2291.80	2881.28	2070.53	2414.54	
CAGR 94-04	1	3.50	15.93	35.14	20.57	18.33
	2	19.65	19.74	30.90	21.41	
	3	12.29	22.13	14.39	15.88	
CAGR 94-99	1	4.92	17.94	10.30	12.83	13.80
	2	16.55	9.46	36.76	17.52	
	3	8.13	22.47	8.39	12.27	
CAGR 00-04	1	1.56	10.18	42.90	23.00	17.08
	2	20.21	18.90	14.73	18.41	
	3	13.10	13.71	15.96	14.12	

Source: Compiled from the annual reports and records of banks

Table A.17
Medium term loans and advances of Sample UCBs from 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	107.84	73.57	656.00	279.14	479.78
	2	300.62	581.84	435.87	439.44	
	3	323.85	838.76	999.63	720.75	
1995	1	136.19	80.06	715.60	310.62	687.48
	2	584.34	680.11	799.29	687.91	
	3	518.79	1184.60	1488.33	1063.91	
1996	1	175.22	86.35	976.33	412.63	854.11
	2	704.50	882.63	1116.46	901.20	
	3	550.62	1714.40	1480.48	1248.50	
1997	1	230.54	81.04	1118.70	476.76	1006.93
	2	686.36	1214.06	1277.62	1059.35	
	3	681.01	1709.01	2064.07	1484.70	
1998	1	317.16	78.01	1120.38	505.18	1153.91
	2	797.18	1722.62	1760.28	1426.69	
	3	1022.88	1536.25	2030.40	1529.84	
1999	1	310.09	111.90	1219.35	547.11	1529.18
	2	1247.45	2564.95	2501.25	2104.55	
	3	2210.61	1767.10	1829.89	1935.87	
2000	1	324.54	179.62	1304.18	602.78	1916.59
	2	1793.89	3651.02	3847.41	3097.44	
	3	2873.79	1971.54	1303.29	2049.54	
2001	1	521.43	211.47	1731.38	821.43	2308.91
	2	2587.84	5174.06	4268.30	4010.07	
	3	2760.38	2597.07	928.24	2095.23	
2002	1	657.13	283.67	1774.01	904.94	2570.50
	2	2791.11	6807.39	4374.76	4657.75	
	3	2472.88	2884.23	1089.32	2148.81	
2003	1	522.58	533.36	2096.22	1050.72	2887.21
	2	3171.19	7740.50	4270.10	5060.60	
	3	2051.78	3095.88	2503.24	2550.30	
2004	1	691.35	576.85	1110.88	793.03	2850.26
	2	3534.43	6206.55	4248.15	4663.04	
	3	1886.24	3787.96	3609.92	3094.71	
CAGR 94-04	1	18.40	20.59	4.91	9.96	17.58
	2	25.11	24.01	23.00	23.95	
	3	17.37	14.69	12.38	14.16	
CAGR 94-99	1	19.25	7.24	10.88	11.87	21.31
	2	26.77	28.05	33.80	29.83	
	3	37.73	13.22	10.60	17.90	
CAGR 00-04	1	16.33	26.28	-3.16	5.64	8.26
	2	14.53	11.20	2.00	8.53	
	3	-8.08	13.95	22.60	8.59	

Source: Compiled from the annual reports and records of banks

Table A.18
Long term loans and advances of Sample UCBs from 1994 to 2004
 (Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	2.69	0.00	27.43	10.04	61.71
	2	24.05	15.40	15.26	18.24	
	3	46.97	63.56	360.07	156.87	
1995	1	2.53	0.00	32.40	11.64	66.62
	2	27.27	15.40	17.35	20.01	
	3	78.88	82.34	343.44	168.22	
1996	1	3.98	1.48	37.28	14.25	76.58
	2	29.77	20.21	22.52	24.17	
	3	107.92	165.22	300.84	191.33	
1997	1	0.00	1.26	37.58	12.95	49.05
	2	37.96	19.51	22.15	26.54	
	3	110.11	182.41	30.44	107.65	
1998	1	5.77	0.96	32.37	13.03	52.12
	2	40.60	20.26	45.60	35.49	
	3	145.01	147.40	31.11	107.84	
1999	1	5.54	2.20	27.35	11.70	167.49
	2	48.42	18.77	32.03	33.07	
	3	176.82	152.76	1043.51	457.70	
2000	1	5.49	2.29	24.01	10.60	344.48
	2	73.86	20.65	30.07	41.53	
	3	222.22	310.16	2411.60	981.33	
2001	1	19.91	5.85	46.66	24.14	437.01
	2	79.73	18.14	41.67	46.51	
	3	239.64	367.16	3114.29	1240.36	
2002	1	20.74	8.58	96.40	41.91	452.81
	2	107.10	19.47	66.71	64.43	
	3	268.75	370.39	3117.15	1252.10	
2003	1	33.87	31.67	127.13	64.22	303.94
	2	145.96	8.12	79.02	77.70	
	3	247.10	442.31	1620.30	769.90	
2004	1	52.60	38.07	32.78	41.15	202.61
	2	114.36	21.05	101.15	78.85	
	3	226.02	559.47	678.02	487.84	
CAGR 94-04	1	31.03	-	1.63	13.68	11.41
	2	15.23	2.88	18.76	14.24	
	3	15.35	21.86	5.92	10.87	
CAGR 94-99	1	12.80	-	-0.05	2.58	18.10
	2	12.37	3.35	13.15	10.43	
	3	24.72	15.74	19.40	19.54	
CAGR 00-04	1	57.14	75.45	6.42	31.17	-10.07
	2	9.14	0.38	27.46	13.68	
	3	0.34	12.52	-22.41	-13.05	

Source: Compiled from the annual reports and records of banks

Tables A.19
Fixed assets of the of Sample UCBs from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	2.82	5.00	14.99	7.60	17.44
	2	36.90	10.50	6.39	17.93	
	3	19.40	22.63	38.34	26.79	
1995	1	3.45	4.79	17.04	8.43	17.74
	2	36.54	10.27	7.58	18.13	
	3	15.35	28.87	35.80	26.67	
1996	1	3.82	4.89	16.69	8.47	19.81
	2	44.17	10.88	8.98	21.34	
	3	16.70	35.12	37.08	29.63	
1997	1	3.54	7.00	17.45	9.33	22.20
	2	47.36	12.88	12.44	24.23	
	3	15.38	48.47	35.30	33.05	
1998	1	3.24	8.70	16.58	9.51	31.17
	2	55.10	13.04	33.52	33.89	
	3	25.10	92.56	32.68	50.11	
1999	1	4.27	10.27	15.96	10.17	35.48
	2	60.90	13.27	53.90	42.69	
	3	32.79	105.55	22.43	53.59	
2000	1	3.91	11.70	15.23	10.28	47.80
	2	59.53	13.84	64.70	46.02	
	3	60.61	119.48	81.17	87.09	
2001	1	3.45	11.06	43.13	19.21	55.02
	2	61.25	14.19	64.73	46.72	
	3	123.40	133.09	40.87	99.12	
2002	1	8.70	10.88	43.12	20.90	59.80
	2	64.01	9.87	85.98	53.29	
	3	138.18	142.84	34.61	105.21	
2003	1	18.21	89.99	43.98	50.73	74.72
	2	75.17	6.02	95.05	58.75	
	3	163.19	151.25	29.62	114.69	
2004	1	11.07	17.87	43.95	24.30	81.69
	2	71.20	9.12	108.21	62.84	
	3	150.05	163.74	159.98	157.92	
CAGR 94-04	1	13.24	12.28	10.27	11.14	15.07
	2	6.16	-1.27	29.33	12.08	
	3	20.44	19.71	13.87	17.50	
CAGR 94-99	1	7.16	12.75	1.05	4.96	12.57
	2	8.71	3.98	42.68	15.56	
	3	9.14	29.26	-8.55	12.25	
CAGR 00-04	1	23.14	8.84	23.61	18.77	11.31
	2	3.65	-8.00	10.83	6.43	
	3	19.88	6.51	14.53	12.64	

Source: Compiled from the annual reports and records of banks

Table A.20
Other assets of Sample UCBs from 1994 to 2004

(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	18.36	28.24	50.98	32.53	64.81
	2	147.37	45.96	18.87	70.73	
	3	63.80	94.66	115.04	91.17	
1995	1	22.42	26.25	54.51	34.39	74.40
	2	94.71	90.59	27.87	71.06	
	3	70.21	170.79	112.26	117.75	
1996	1	26.18	38.01	62.04	42.08	102.38
	2	139.35	107.91	46.87	98.04	
	3	93.12	252.16	155.76	167.01	
1997	1	46.22	47.62	85.15	59.66	139.30
	2	228.28	114.95	60.67	134.63	
	3	131.88	301.86	237.05	223.60	
1998	1	61.80	29.55	128.68	73.34	169.78
	2	281.28	121.67	72.15	158.37	
	3	161.56	349.92	321.42	277.63	
1999	1	73.00	32.96	93.04	66.33	216.75
	2	295.43	202.53	113.90	203.95	
	3	225.34	456.75	457.82	379.97	
2000	1	22.65	37.62	110.35	56.87	256.17
	2	422.13	248.67	180.53	283.78	
	3	359.60	486.26	437.75	427.87	
2001	1	111.17	39.61	142.10	97.63	333.34
	2	493.48	341.44	272.08	369.00	
	3	515.24	518.93	565.97	533.38	
2002	1	159.60	43.16	232.50	145.09	450.71
	2	550.18	554.86	379.14	494.73	
	3	704.53	699.45	732.96	712.31	
2003	1	183.11	28.33	244.90	152.11	495.50
	2	564.78	703.07	404.10	557.32	
	3	728.46	632.27	970.47	777.07	
2004	1	191.03	21.10	86.03	99.39	191.03
	2	75.34	37.75	407.36	173.48	
	3	162.81	146.09	591.74	300.21	
CAGR 94-04	1	23.73	-2.61	4.87	10.69	10.33
	2	-5.92	-1.77	32.22	8.50	
	3	8.89	4.02	16.05	11.44	
CAGR 94-99	1	25.87	2.61	10.55	12.61	22.29
	2	12.29	28.04	34.94	19.30	
	3	23.41	29.99	25.89	26.86	
CAGR 00-04	1	53.18	-10.92	-4.86	11.81	-5.70
	2	-29.15	-31.41	17.68	-9.37	
	3	-14.66	-21.38	6.21	-6.84	

Source: Compiled from the annual reports and records of banks

Table A.21
Core Deposits to total funds of Sample UCBs in Kerala
for the period 1994 to 2004 (per cent)

Year	Group	A	B	C	Average	Sample Average
1994	1	30.83	19.83	13.29	18.49	14.01
	2	59.98	18.87	18.78	31.30	
	3	20.15	16.39	10.47	15.16	
1995	1	24.77	22.28	10.77	16.31	14.46
	2	34.66	21.59	14.53	24.18	
	3	17.68	18.49	9.98	14.90	
1996	1	21.82	21.93	9.37	14.65	11.87
	2	55.00	19.11	12.22	28.43	
	3	13.75	14.50	9.00	12.10	
1997	1	30.57	17.33	9.23	15.37	11.40
	2	36.97	14.52	12.39	21.17	
	3	15.77	12.72	9.28	12.20	
1998	1	19.47	11.68	9.37	11.95	10.55
	2	39.15	12.70	9.22	19.07	
	3	12.45	11.66	9.11	10.89	
1999	1	18.52	12.46	9.97	12.47	13.87
	2	32.70	11.88	9.70	16.90	
	3	12.76	11.06	16.79	13.75	
2000	1	17.54	15.89	10.31	13.38	11.19
	2	34.98	11.32	9.49	16.49	
	3	9.75	10.94	11.84	10.78	
2001	1	16.75	15.49	9.09	12.38	11.50
	2	38.13	9.65	11.90	17.71	
	3	8.36	11.14	12.70	10.67	
2002	1	17.43	13.15	7.96	11.08	11.62
	2	30.05	9.08	11.96	15.89	
	3	8.86	9.91	14.03	10.91	
2003	1	17.24	13.82	8.89	11.76	13.54
	2	29.20	8.86	17.35	17.19	
	3	9.26	11.34	16.81	12.47	
2004	1	16.41	14.92	9.24	12.29	17.61
	2	30.31	9.37	17.09	17.90	
	3	10.85	16.00	20.87	15.97	

Source: compiled from the financial statements of Sample UCBs

Table A.22
Time deposits to working funds of Sample UCBs in Kerala
for the period 1994 to 2004 (per cent)

Year	Group	A	B	C	Average	Sample Average
1994	1	90.82	92.59	85.61	88.26	82.32
	2	86.58	76.70	84.52	82.18	
	3	82.20	90.25	75.03	81.68	
1995	1	87.21	90.42	89.38	89.16	86.73
	2	59.36	71.12	93.70	74.11	
	3	85.24	92.02	82.03	86.13	
1996	1	87.83	90.72	88.79	88.99	86.18
	2	89.54	72.03	85.74	82.88	
	3	87.75	89.00	83.20	86.35	
1997	1	85.32	93.91	89.46	89.58	84.18
	2	78.50	77.17	86.40	81.09	
	3	88.70	84.88	82.61	85.05	
1998	1	84.87	90.98	90.10	89.27	87.22
	2	84.91	81.34	88.69	85.44	
	3	90.68	89.94	83.95	87.77	
1999	1	86.94	89.53	86.80	87.56	85.56
	2	76.84	79.79	89.50	83.20	
	3	90.72	91.54	78.58	86.57	
2000	1	87.90	91.33	86.68	88.24	90.49
	2	81.18	78.41	87.41	83.19	
	3	91.05	89.58	91.21	90.69	
2001	1	82.24	87.22	87.83	86.52	83.74
	2	76.94	80.30	84.32	81.04	
	3	92.77	88.26	76.90	86.05	
2002	1	89.54	88.29	88.17	88.46	83.32
	2	74.07	81.09	82.01	79.47	
	3	93.40	89.32	74.74	85.89	
2003	1	89.65	84.22	77.99	81.83	83.15
	2	74.26	80.06	77.91	77.77	
	3	112.71	88.94	70.10	90.42	
2004	1	85.13	81.42	87.20	85.07	78.03
	2	76.60	77.28	78.61	77.52	
	3	92.02	86.77	65.74	81.59	

Source: compiled from the financial statements of Sample UCBs

Table A.23
Liquid Assets to Net Demand and Time Liabilities of Sample
UCBs in Kerala for the period 1994 to 2004 (per cent)

Year	Group	A	B	C	Average	Sample Average
1994	1	36.54	34.83	30.28	32.76	43.57
	2	28.33	34.27	97.45	50.69	
	3	53.43	39.58	36.73	43.08	
1995	1	37.08	39.64	35.43	36.76	38.72
	2	39.36	35.24	73.06	49.18	
	3	32.82	38.25	29.24	33.34	
1996	1	35.78	30.25	33.26	33.13	35.67
	2	24.50	34.20	59.80	39.11	
	3	39.44	27.53	37.64	34.34	
1997	1	35.27	33.06	31.84	32.82	41.39
	2	37.43	33.36	74.88	50.37	
	3	43.48	30.30	40.82	38.08	
1998	1	39.02	41.85	41.98	41.37	50.77
	2	51.30	28.92	84.28	58.43	
	3	49.66	35.47	56.74	48.13	
1999	1	59.72	56.29	52.61	55.15	57.41
	2	62.53	31.56	93.01	67.97	
	3	52.99	41.48	53.11	49.82	
2000	1	64.71	59.18	50.91	56.18	52.60
	2	52.80	31.25	80.81	59.44	
	3	51.39	41.04	42.92	45.78	
2001	1	49.83	55.60	33.45	42.77	47.38
	2	36.58	30.49	86.78	54.30	
	3	49.92	33.55	42.00	42.36	
2002	1	42.28	48.51	40.52	42.90	46.98
	2	52.92	26.24	83.19	53.81	
	3	52.27	30.56	38.57	41.18	
2003	1	38.65	30.44	42.44	38.54	41.24
	2	31.76	19.06	81.62	43.95	
	3	49.11	36.62	31.01	39.22	
2004	1	42.76	33.36	38.62	37.88	39.65
	2	36.99	23.16	85.05	47.97	
	3	39.44	30.02	25.60	31.88	

Source: compiled from the financial statements of Sample UCBs

Table A.24
Liquid Assets to Total Assets of Sample UCBs in Kerala
for the period 1994 to 2004 (per cent)

Year	Group	A	B	C	Average	Sample Average
1994	1	33.77	30.37	24.85	27.98	35.30
	2	26.88	27.08	60.80	39.44	
	3	47.17	34.55	26.51	35.11	
1995	1	31.95	35.15	30.13	31.65	31.74
	2	34.02	26.96	49.52	37.78	
	3	28.89	33.20	23.04	28.01	
1996	1	31.24	26.57	28.15	28.46	29.61
	2	23.12	26.70	42.23	31.54	
	3	34.25	23.80	29.83	28.73	
1997	1	29.35	28.92	27.04	27.94	33.03
	2	29.37	26.65	50.55	37.42	
	3	37.78	25.44	31.69	31.33	
1998	1	31.27	35.64	35.15	34.48	39.94
	2	38.78	23.91	55.62	42.67	
	3	43.20	29.29	43.80	39.34	
1999	1	48.95	49.00	43.86	46.33	45.15
	2	45.44	25.50	62.78	49.01	
	3	46.47	34.64	41.59	41.41	
2000	1	56.07	50.38	42.20	47.36	41.87
	2	40.85	24.99	57.30	44.56	
	3	45.17	34.19	33.04	37.96	
2001	1	39.36	47.94	27.72	35.47	37.19
	2	29.90	24.54	55.28	39.73	
	3	43.50	27.97	32.56	35.05	
2002	1	34.69	41.93	33.10	35.57	36.49
	2	40.72	20.96	52.96	39.04	
	3	45.58	25.21	29.47	33.82	
2003	1	31.10	24.86	34.20	31.16	31.61
	2	24.95	14.84	51.01	31.63	
	3	42.27	30.33	22.79	31.69	
2004	1	33.22	27.64	32.18	31.08	31.16
	2	30.33	18.29	53.40	35.23	
	3	36.02	25.82	18.81	26.61	

Source: compiled from the financial statements of Sample UCBs

Table A.25
Demand Liabilities to Total Liabilities of Sample UCBs
in Kerala for the period 1994 to 2004 (per cent)

Year	Group	A	B	C	Average	Sample Average
1994	1	10.29	10.17	13.72	12.20	18.69
	2	20.60	15.79	35.09	24.38	
	3	15.44	10.40	24.12	17.43	
1995	1	13.32	11.03	10.04	10.96	16.36
	2	17.02	22.76	29.80	23.32	
	3	13.09	11.94	15.19	13.54	
1996	1	13.43	11.09	10.72	11.37	15.46
	2	19.70	20.65	26.86	22.75	
	3	11.28	10.55	13.95	12.08	
1997	1	17.66	10.11	10.80	12.07	17.01
	2	25.62	16.87	29.91	25.11	
	3	13.54	8.76	15.08	12.59	
1998	1	17.74	10.91	11.86	12.82	17.79
	2	26.95	12.82	31.50	25.52	
	3	11.98	8.84	17.29	13.19	
1999	1	17.39	10.52	14.66	14.19	19.71
	2	28.69	17.17	30.71	26.93	
	3	12.97	8.83	20.78	14.67	
2000	1	10.34	14.91	12.47	12.72	17.21
	2	23.34	18.33	26.99	23.77	
	3	9.47	8.80	17.65	12.02	
2001	1	17.25	13.32	11.66	13.28	18.15
	2	21.27	13.28	33.60	24.38	
	3	11.46	8.93	18.57	13.08	
2002	1	17.39	11.84	11.78	12.92	18.34
	2	23.51	13.37	32.99	23.94	
	3	12.00	8.98	18.93	13.35	
2003	1	15.84	15.48	5.31	10.02	17.58
	2	18.85	13.70	35.71	23.67	
	3	7.52	10.05	20.57	12.69	
2004	1	19.07	12.85	4.56	9.88	16.26
	2	14.66	8.53	33.66	19.99	
	3	7.12	7.47	26.54	13.72	

Source: compiled from the financial statements of Sample UCBs

Table A.26
Liquid assets to Net Demand and Time Liabilities (Percent)

Year	Group	A	B	C	Average	Sample Average
1994	1	36.54	34.83	30.28	32.76	43.57
	2	28.33	34.27	97.45	50.69	
	3	53.43	39.58	36.73	43.08	
1995	1	37.08	39.64	35.43	36.76	38.72
	2	39.36	35.24	73.06	49.18	
	3	32.82	38.25	29.24	33.34	
1996	1	35.78	30.25	33.26	33.13	35.67
	2	24.50	34.20	59.80	39.11	
	3	39.44	27.53	37.64	34.34	
1997	1	35.27	33.06	31.84	32.82	41.39
	2	37.43	33.36	74.88	50.37	
	3	43.48	30.30	40.82	38.08	
1998	1	39.02	41.85	41.98	41.37	50.77
	2	51.30	28.92	84.28	58.43	
	3	49.66	35.47	56.74	48.13	
1999	1	59.72	56.29	52.61	55.15	57.41
	2	62.53	31.56	93.01	67.97	
	3	52.99	41.48	53.11	49.82	
2000	1	64.71	59.18	50.91	56.18	52.60
	2	52.80	31.25	80.81	59.44	
	3	51.39	41.04	42.92	45.78	
2001	1	49.83	55.60	33.45	42.77	47.38
	2	36.58	30.49	86.78	54.30	
	3	49.92	33.55	42.00	42.36	
2002	1	42.28	48.51	40.52	42.90	46.98
	2	52.92	26.24	83.19	53.81	
	3	52.27	30.56	38.57	41.18	
2003	1	38.65	30.44	42.44	38.54	41.24
	2	31.76	19.06	81.62	43.95	
	3	49.11	36.62	31.01	39.22	
2004	1	42.76	33.36	38.62	37.88	39.65
	2	36.99	23.16	85.05	47.97	
	3	39.44	30.02	25.60	31.88	

Source: compiled from the financial statements of Sample UCBs

Table A.27
Rate sensitive assets to Rate sensitive Liabilities of Sample
UCBs in Kerala for the period 1994 to 2004 (per cent)

Year	Group	A	B	C	Average	Sample Average
1994	1	95.30	88.99	98.84	95.90	93.22
	2	145.68	112.99	77.02	108.02	
	3	70.19	82.91	108.31	88.45	
1995	1	98.24	85.98	85.58	88.07	93.98
	2	181.09	122.09	78.59	115.76	
	3	94.25	83.46	104.02	94.46	
1996	1	94.94	98.12	88.28	91.56	93.28
	2	154.50	118.34	91.72	116.65	
	3	82.47	96.69	91.91	91.23	
1997	1	110.98	88.51	88.49	92.24	92.91
	2	127.09	107.80	81.93	102.08	
	3	79.81	97.87	90.95	89.92	
1998	1	96.57	80.32	77.43	81.52	77.31
	2	111.34	104.39	71.53	90.95	
	3	69.49	84.18	72.69	75.06	
1999	1	67.46	63.30	70.09	67.72	76.74
	2	102.50	102.53	58.50	80.65	
	3	65.68	75.04	81.58	73.59	
2000	1	59.38	63.08	73.18	67.56	75.80
	2	104.59	105.06	63.91	84.39	
	3	63.82	77.74	77.42	72.25	
2001	1	84.58	68.78	90.20	83.53	86.69
	2	126.38	101.27	76.27	95.59	
	3	63.05	87.96	92.45	79.67	
2002	1	81.65	74.61	81.46	79.80	90.12
	2	104.49	105.14	79.80	95.47	
	3	59.38	90.19	99.25	80.93	
2003	1	87.30	101.81	92.92	94.24	95.25
	2	131.42	114.98	91.40	110.57	
	3	52.41	87.12	117.84	80.80	
2004	1	88.25	103.71	87.05	91.92	113.18
	2	125.83	116.26	85.78	108.29	
	3	75.49	100.96	137.21	101.37	

Source: compiled from the financial statements of Sample UCBs

Table A.28
Net profits of Sample UCBs in Kerala for the period between 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	3.01	7.60	6.31	5.64	9.81
	2	9.99	4.60	8.13	7.57	
	3	12.10	15.37	21.17	16.21	
1995	1	12.52	5.15	7.03	8.23	13.78
	2	10.63	2.43	14.54	9.20	
	3	13.58	17.15	41.00	23.91	
1996	1	3.50	1.04	6.64	3.73	11.06
	2	8.54	1.49	15.18	8.40	
	3	9.84	21.44	31.91	21.06	
1997	1	10.45	1.93	7.93	6.77	16.35
	2	9.88	9.87	20.51	13.42	
	3	14.98	33.66	37.96	28.87	
1998	1	2.52	-3.17	7.13	2.16	18.63
	2	19.10	20.04	15.35	18.16	
	3	21.94	39.36	45.43	35.58	
1999	1	-9.32	3.34	-35.34	-13.77	16.38
	2	32.91	2.61	44.01	26.51	
	3	23.82	35.05	50.38	36.42	
2000	1	-26.35	0.50	-24.22	-16.69	17.66
	2	31.68	35.82	57.14	41.55	
	3	14.82	19.10	50.41	28.11	
2001	1	10.51	0.04	-10.26	0.10	29.78
	2	59.98	36.70	64.61	53.76	
	3	10.63	57.82	37.96	35.47	
2002	1	-23.74	-7.00	-146.80	-59.18	-8.09
	2	40.73	14.55	71.33	42.20	
	3	-77.13	14.28	41.01	-7.28	
2003	1	-1.41	25.86	103.41	42.62	54.32
	2	67.95	15.78	75.26	53.00	
	3	90.45	65.60	46.01	67.35	
2004	1	-36.55	25.51	93.00	27.32	52.73
	2	74.51	56.22	80.31	70.35	
	3	26.26	90.97	64.34	60.52	
CAGR 94-04	1	-225.48	11.64	27.71	15.42	16.52
	2	20.04	25.55	23.15	22.46	
	3	7.30	17.54	10.63	12.72	
CAGR 94-99	1	-	-12.81	-	-	8.93
	2	21.98	-9.01	32.51	23.22	
	3	11.95	14.73	15.55	14.44	
CAGR 00-04	1	6.76	119.56	-230.88	-210.36	24.46
	2	18.65	9.43	7.04	11.11	
	3	12.12	36.64	5.00	16.58	

Source: Compiled from the annual reports and records of banks

Table A.29
Net profit to Total funds of Sample UCBs in Kerala for the
period between 1994 to 2004 (percentage)

Year	Group	A	B	C	Average	Sample Average
1994	1	0.74	1.83	0.64	0.87	0.70
	2	0.85	0.42	0.86	0.61	
	3	0.61	0.79	0.96	0.71	
1995	1	2.73	1.03	0.58	1.07	0.79
	2	0.63	0.20	1.05	0.54	
	3	0.62	0.68	1.44	0.87	
1996	1	0.62	0.18	0.43	0.39	0.53
	2	0.40	0.10	0.82	0.41	
	3	0.44	0.65	0.91	0.64	
1997	1	1.62	0.27	0.44	0.60	0.62
	2	0.40	0.49	0.79	0.47	
	3	0.49	0.91	0.92	0.73	
1998	1	0.35	-0.35	0.35	0.16	0.56
	2	0.65	0.78	0.43	0.48	
	3	0.53	0.96	0.89	0.73	
1999	1	-0.93	0.27	-1.50	-0.81	0.34
	2	0.78	0.07	0.71	0.44	
	3	0.36	0.66	0.77	0.54	
2000	1	-2.23	0.03	-0.86	-0.83	0.29
	2	0.59	0.66	0.67	0.53	
	3	0.17	0.28	0.69	0.34	
2001	1	0.80	0.00	-0.30	0.00	0.42
	2	0.93	0.45	0.71	0.56	
	3	0.11	0.70	0.44	0.38	
2002	1	-1.66	-0.39	-3.63	-2.21	-0.09
	2	0.48	0.13	0.67	0.35	
	3	-0.74	0.15	0.42	-0.07	
2003	1	-0.09	1.24	2.15	1.41	0.58
	2	0.74	0.12	0.67	0.40	
	3	0.82	0.56	0.43	0.57	
2004	1	-2.23	1.02	1.96	0.87	0.54
	2	0.70	0.41	0.68	0.51	
	3	0.23	0.70	0.60	0.50	

Source: Compiled from the annual reports and records of banks

Table A.30
Net profit to Earning Assets of Sample UCBs in Kerala for
the period between 1994 to 2004(percentage)

Year	Group	A	B	C	Average	Sample Average
1994	1	0.80	1.97	0.63	0.96	0.80
	2	1.12	0.41	0.87	0.77	
	3	0.63	0.83	0.84	0.77	
1995	1	2.84	1.09	0.59	1.18	0.90
	2	0.67	0.19	1.05	0.65	
	3	0.63	0.72	1.39	0.96	
1996	1	0.63	0.19	0.43	0.42	0.60
	2	0.51	0.10	0.81	0.50	
	3	0.45	0.69	0.89	0.71	
1997	1	1.66	0.29	0.45	0.66	0.71
	2	0.43	0.49	0.78	0.58	
	3	0.50	0.99	0.90	0.82	
1998	1	0.35	-0.36	0.36	0.18	0.66
	2	0.74	0.79	0.42	0.62	
	3	0.55	1.05	0.88	0.82	
1999	1	-0.93	0.27	-1.45	-0.88	0.40
	2	0.80	0.07	0.70	0.56	
	3	0.36	0.72	0.78	0.61	
2000	1	-2.28	0.03	-0.85	-0.90	0.33
	2	0.64	0.62	0.65	0.64	
	3	0.17	0.30	0.68	0.38	
2001	1	0.80	0.00	-0.30	0.00	0.49
	2	1.03	0.45	0.71	0.70	
	3	0.12	0.74	0.44	0.42	
2002	1	-1.73	-0.38	-3.67	-2.46	-0.11
	2	0.49	0.13	0.67	0.42	
	3	-0.75	0.16	0.42	-0.08	
2003	1	-0.09	1.19	2.34	1.58	0.67
	2	0.76	0.12	0.67	0.48	
	3	0.89	0.59	0.44	0.64	
2004	1	-2.24	0.97	2.09	0.94	0.61
	2	0.74	0.42	0.70	0.60	
	3	0.25	0.74	0.58	0.54	

Source: Compiled from the annual reports and records of banks

Table A.31
Net profit to owned funds of Sample UCBs in Kerala
for the period between 1994 to 2004 (percentage)

Year	Group	A	B	C	Average	Sample Average
1994	1	11.49	21.98	7.01	11.22	8.80
	2	12.41	3.14	9.09	7.18	
	3	7.17	9.56	10.27	9.08	
1995	1	32.44	13.67	6.58	13.50	9.99
	2	8.03	1.64	13.38	7.09	
	3	8.04	8.79	13.40	10.71	
1996	1	10.07	2.31	5.09	5.32	6.45
	2	4.50	0.86	10.81	5.00	
	3	5.45	8.21	8.22	7.61	
1997	1	18.97	3.53	5.49	7.99	7.22
	2	3.84	4.71	10.23	6.03	
	3	7.71	7.68	7.85	7.76	
1998	1	4.03	-4.51	4.24	2.15	6.79
	2	5.77	7.48	6.37	6.49	
	3	8.70	7.34	8.42	8.04	
1999	1	-13.87	4.14	-23.35	-13.81	4.61
	2	6.62	0.82	12.30	6.78	
	3	7.75	5.43	6.50	6.32	
2000	1	-25.60	0.64	-9.83	-11.72	3.54
	2	4.79	8.02	10.53	7.55	
	3	2.52	2.30	5.06	3.49	
2001	1	7.99	0.04	-3.27	0.05	4.55
	2	6.93	3.73	7.38	5.92	
	3	2.29	5.67	3.30	4.04	
2002	1	-22.88	-6.46	-36.56	-28.93	-0.97
	2	3.68	1.03	6.06	3.42	
	3	-16.06	1.18	2.76	-0.69	
2003	1	-0.92	16.10	12.48	11.20	4.80
	2	4.91	0.87	5.39	3.46	
	3	8.13	4.87	2.31	4.54	
2004	1	-23.45	10.75	12.88	7.35	4.13
	2	4.41	2.30	4.83	3.64	
	3	2.04	5.80	3.70	3.95	

Source: Compiled from the annual reports and records of banks

Table A.32
Interest income of Sample UCBs in Kerala for the period 1994 to 2004
(Rs. in Lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	49.45	54.19	134.16	79.27	154.01
	2	116.65	162.66	86.94	122.08	
	3	243.44	182.20	356.37	260.67	
1995	1	59.18	59.74	148.36	89.09	187.17
	2	154.47	210.12	143.63	169.41	
	3	283.55	258.00	367.47	303.01	
1996	1	66.47	73.98	194.09	111.51	224.74
	2	165.02	208.08	214.36	195.82	
	3	308.29	324.77	467.56	366.87	
1997	1	99.98	92.38	256.36	149.57	291.30
	2	295.27	271.79	317.38	294.81	
	3	390.25	397.65	500.67	429.52	
1998	1	117.25	124.37	307.94	183.19	369.33
	2	346.58	402.77	420.73	390.03	
	3	526.43	470.58	607.30	534.77	
1999	1	137.40	159.16	343.10	213.22	511.73
	2	450.10	554.27	699.50	567.96	
	3	784.01	583.92	894.10	754.01	
2000	1	147.75	197.84	394.47	246.69	675.67
	2	551.26	826.00	1069.95	815.74	
	3	1042.85	723.29	1127.63	964.59	
2001	1	171.89	250.58	477.85	300.11	809.54
	2	667.38	1110.20	1237.96	1005.18	
	3	1183.63	925.95	1260.43	1123.34	
2002	1	151.33	255.82	503.37	303.51	931.40
	2	917.97	1529.80	1320.05	1255.94	
	3	1178.22	1082.53	1443.50	1234.75	
2003	1	152.86	269.73	533.14	318.58	992.12
	2	934.87	1810.39	1413.20	1386.15	
	3	1258.77	989.34	1566.76	1271.62	
2004	1	132.56	296.01	462.66	297.08	1000.53
	2	1105.10	1963.69	1503.27	1524.02	
	3	1083.95	1172.04	1285.51	1180.50	
CAGR 94-04	1	9.38	16.69	11.91	12.76	18.54
	2	22.68	25.41	29.58	25.80	
	3	14.54	18.44	12.37	14.72	
CAGR 94-99	1	18.57	19.67	16.94	17.93	22.16
	2	25.24	22.67	41.56	29.20	
	3	14.54	18.44	12.37	14.72	
CAGR 00-04	1	-2.15	8.39	3.24	3.79	8.17
	2	14.92	18.91	7.04	13.32	
	3	0.78	10.14	2.66	4.12	

Source: Compiled from the annual reports and records of banks

Table A.33
Non Interest Income of Sample UCBs in Kerala for the period 1994 to 2004
 (Rs. in Lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	2.01	2.27	23.85	9.38	39.49
	2	31.45	17.50	53.77	34.24	
	3	43.36	88.66	92.57	74.86	
1995	1	2.54	2.74	23.11	9.46	
	2	11.63	11.16	50.22	24.34	
	3	42.52	116.31	79.48	79.44	
1996	1	2.69	4.17	23.91	10.26	57.18
	2	16.12	20.46	47.62	28.07	
	3	62.20	207.75	129.70	133.22	
1997	1	14.54	3.25	21.57	13.12	67.33
	2	16.34	76.79	47.62	46.92	
	3	62.77	267.35	95.76	141.96	
1998	1	17.90	4.60	24.93	15.81	83.26
	2	24.63	12.82	80.09	39.18	
	3	69.04	346.96	168.35	194.78	
1999	1	30.63	3.58	50.96	28.39	99.18
	2	27.60	19.77	100.03	49.13	
	3	66.46	384.31	209.24	220.00	
2000	1	52.76	9.85	46.82	36.48	123.19
	2	37.91	10.52	113.41	53.95	
	3	121.24	459.42	256.76	279.14	
2001	1	110.00	23.67	54.53	62.73	174.61
	2	37.34	65.49	152.16	85.00	
	3	210.53	552.25	365.54	376.11	
2002	1	112.70	32.31	25.99	57.00	210.51
	2	42.98	12.35	226.55	93.96	
	3	244.98	635.14	561.61	480.58	
2003	1	67.34	98.60	33.91	66.62	306.23
	2	61.13	58.23	390.46	169.94	
	3	338.62	915.92	791.87	682.14	
2004	1	75.76	95.91	177.03	116.23	403.87
	2	52.66	629.89	481.01	387.85	
	3	439.03	704.80	978.77	707.53	
CAGR 94-04	1	39.09	40.54	19.99	25.72	23.54
	2	4.80	38.51	22.04	24.69	
	3	23.42	20.74	23.91	22.65	
CAGR 94-99	1	57.46	7.89	13.49	20.28	16.59
	2	-2.15	2.05	10.90	6.20	
	3	23.42	20.74	23.91	22.65	
CAGR 00-04	1	7.50	57.65	30.47	26.08	26.80
	2	6.79	126.70	33.51	48.37	
	3	29.35	8.94	30.69	20.44	

Source: Compiled from the annual reports and records of banks

Table A.34
Total Expenses of Sample UCBs in Kerala
for the period between 1994 to 2004

(Rs. in Lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	45.23	48.84	140.26	78.11	147.36
	2	138.02	143.31	99.89	127.07	
	3	220.71	208.76	281.19	236.89	
1995	1	49.36	57.31	165.98	90.88	167.85
	2	116.75	154.21	159.58	143.51	
	3	243.09	235.36	329.02	269.16	
1996	1	65.76	74.72	194.17	111.55	226.25
	2	181.40	204.92	214.98	200.43	
	3	290.01	358.70	451.56	366.76	
1997	1	83.59	93.25	235.90	137.58	264.72
	2	242.72	262.97	278.45	261.38	
	3	359.29	442.95	383.35	395.20	
1998	1	83.67	132.10	276.59	164.12	339.70
	2	263.41	335.87	393.46	330.91	
	3	480.90	493.62	597.72	524.08	
1999	1	120.96	158.61	325.87	201.81	454.29
	2	352.89	458.67	620.44	477.33	
	3	696.34	604.79	750.04	683.72	
2000	1	146.34	206.11	354.46	235.64	584.57
	2	446.06	634.04	900.17	660.09	
	3	955.74	696.54	921.66	857.98	
2001	1	270.66	274.97	428.34	324.66	731.69
	2	564.82	941.41	999.48	835.24	
	3	1143.99	896.99	1064.54	1035.17	
2002	1	262.90	233.86	473.84	323.53	787.54
	2	602.31	1186.12	1054.85	947.76	
	3	1117.38	1012.02	1144.62	1091.34	
2003	1	219.81	246.26	512.86	326.31	856.33
	2	760.12	1487.75	1146.84	1131.57	
	3	1129.55	1105.84	1097.93	1111.11	
2004	1	184.48	278.99	490.28	317.92	881.13
	2	810.70	1598.59	1107.40	1172.23	
	3	1128.85	1132.47	1198.42	1153.25	

Source: Compiled from the annual reports and records of banks

Table A.35
Interest Expenses of Sample UCBs in Kerala
for the period between 1994 to 2004 (Rs. in Lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	28.96	33.01	82.46	48.14	106.98
	2	65.58	93.02	74.16	77.59	
	3	182.36	162.63	240.66	195.22	
1995	1	30.22	36.83	108.33	58.46	126.09
	2	76.01	94.96	125.33	98.77	
	3	199.73	182.17	281.24	221.05	
1996	1	43.08	49.22	130.29	74.20	169.67
	2	113.64	130.64	157.84	134.04	
	3	224.99	287.14	390.22	300.78	
1997	1	55.95	62.87	168.02	95.61	204.32
	2	171.91	180.86	218.66	190.48	
	3	282.89	365.79	331.95	326.88	
1998	1	63.24	86.40	203.53	117.72	271.62
	2	174.57	260.47	336.20	257.08	
	3	391.57	404.45	524.13	440.05	
1999	1	87.64	125.97	246.46	153.36	376.01
	2	254.80	363.72	547.30	388.61	
	3	591.32	503.44	663.41	586.06	
2000	1	106.87	149.92	262.24	173.01	486.11
	2	308.78	523.76	811.30	547.95	
	3	827.52	573.04	811.57	737.38	
2001	1	120.98	168.45	302.66	197.36	575.13
	2	385.68	776.52	873.23	678.48	
	3	968.27	703.61	876.75	849.54	
2002	1	129.48	178.57	350.82	219.62	652.55
	2	448.33	1045.28	934.26	809.29	
	3	958.21	836.47	991.57	928.75	
2003	1	120.02	189.11	395.69	234.94	714.15
	2	590.76	1328.09	989.49	969.45	
	3	975.42	911.43	927.38	938.08	
2004	1	129.89	207.32	364.43	233.88	719.31
	2	621.26	1412.97	939.78	991.34	
	3	896.87	882.91	1018.32	932.70	
CAGR 94-04	1	14.62	18.18	14.46	15.45	18.91
	2	22.68	28.06	25.97	26.06	
	3	15.58	16.63	14.01	15.28	
CAGR 94-99	1	20.27	25.01	20.02	21.30	23.30
	2	25.38	25.52	39.53	30.80	
	3	15.58	16.63	14.01	15.28	
CAGR 00-04	1	3.98	6.70	6.80	6.21	8.15
	2	15.01	21.96	2.98	12.59	
	3	1.62	9.03	4.64	4.81	

Source: Compiled from the annual reports and records of banks

Table A.36
Non Interest Expenses of Sample UCBs in
Kerala for the period 1994 to 2004

(Rs. in Lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	16.27	15.83	57.80	29.97	40.37
	2	72.44	50.29	25.73	49.49	
	3	38.35	46.13	40.53	41.67	
1995	1	19.14	20.48	57.65	32.42	
	2	40.74	59.25	34.25	44.75	
	3	43.36	53.19	47.78	48.11	
1996	1	22.68	25.50	63.88	37.35	56.57
	2	67.76	74.28	57.14	66.39	
	3	65.02	71.56	61.34	65.97	
1997	1	27.64	30.38	67.88	41.97	60.40
	2	70.81	82.11	59.79	70.90	
	3	76.40	77.16	51.40	68.32	
1998	1	20.43	45.70	73.06	46.40	68.09
	2	88.84	75.40	57.26	73.83	
	3	89.33	89.17	73.59	84.03	
1999	1	33.32	32.64	79.41	48.46	78.28
	2	98.09	94.95	73.14	88.73	
	3	105.02	101.35	86.63	97.67	
2000	1	39.47	56.19	92.22	62.63	98.46
	2	137.28	110.28	88.87	112.14	
	3	128.22	123.50	110.09	120.60	
2001	1	149.68	106.52	125.68	127.29	156.56
	2	179.14	164.89	126.25	156.76	
	3	175.72	193.38	187.79	185.63	
2002	1	133.42	55.29	123.02	103.91	134.99
	2	153.98	140.84	120.59	138.47	
	3	159.17	175.55	153.05	162.59	
2003	1	99.79	57.15	117.17	91.37	142.17
	2	169.36	159.66	157.35	162.12	
	3	154.13	194.41	170.55	173.03	
2004	1	54.59	71.67	125.85	84.04	161.83
	2	189.44	185.62	167.62	180.89	
	3	231.98	249.56	180.10	220.55	

Source: Compiled from the annual reports and records of banks

Table A.37
Spread of Sample UCBs in Kerala for the period between 1994 to 2004
(Rs. in lakh)

Year	Group	A	B	C	Average	Sample Average
1994	1	20.49	21.18	51.70	31.12	47.02
	2	51.07	69.64	12.78	44.50	
	3	61.08	19.57	115.71	65.45	
1995	1	28.96	22.91	40.03	30.63	
	2	78.46	115.16	18.30	70.64	
	3	83.82	75.83	86.23	81.96	
1996	1	23.39	24.76	63.80	37.32	55.06
	2	51.38	77.44	56.52	61.78	
	3	83.30	37.63	77.34	66.09	
1997	1	44.03	29.51	88.34	53.96	86.98
	2	123.36	90.93	98.72	104.34	
	3	107.36	31.86	168.72	102.65	
1998	1	54.01	37.97	104.41	65.46	97.71
	2	172.01	142.30	84.53	132.95	
	3	134.86	66.13	83.17	94.72	
1999	1	49.76	33.19	96.64	59.86	135.72
	2	195.30	190.55	152.20	179.35	
	3	192.69	80.48	230.69	167.95	
2000	1	40.88	47.92	132.23	73.68	189.56
	2	242.48	302.24	258.65	267.79	
	3	215.33	150.25	316.06	227.21	
2001	1	50.91	82.13	175.19	102.74	234.41
	2	281.70	333.68	364.73	326.70	
	3	215.36	222.34	383.68	273.79	
2002	1	21.85	77.25	152.55	83.88	278.84
	2	469.64	484.52	385.79	446.65	
	3	220.01	246.06	451.93	306.00	
2003	1	32.84	80.62	137.45	83.64	277.96
	2	344.11	482.30	423.71	416.71	
	3	283.35	77.91	639.38	333.55	
2004	1	2.67	88.69	98.23	63.20	281.23
	2	483.84	550.72	563.49	532.68	
	3	187.08	289.13	267.19	247.80	
CAGR 94-04	1	-16.91	13.90	6.01	6.65	17.66
	2	22.68	20.68	41.09	25.32	
	3	10.71	27.74	7.90	12.87	
CAGR 94-99	1	15.94	7.77	10.99	11.52	19.32
	2	25.05	18.27	51.12	26.15	
	3	10.71	27.74	7.90	12.87	
CAGR 00-04	1	-42.06	13.10	-5.77	-3.02	8.21
	2	14.82	12.75	16.85	14.75	
	3	-2.77	13.99	-3.30	1.75	

Source: Compiled from the annual reports and records of banks