CHAPTER – III

MANAGEMENT OF FUNDS INFLOW
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3.1 Meaning of ‘Funds’

The term ‘funds’ may be defined in three directions-namely (a) in a narrow sense (b) in a broader sense & (c) in popular sense.

(a) In a narrow sense: It means cash only. All the business transactions are enumerated on cash and takes into account receipts and payments of cash. The statement prepared is known as cash flow statement.

(b) In a broader sense: Here, the term fund refers to money values in whatever form it may exist. It may be all financial resources, used in business whether in the form of men, material, money, machinery and others.

(c) In a popular sense: Fund means working capital of a concern / organisation. Here working capital is the excess of current assets over current liabilities. The working capital concept of funds has emerged due to the fact that total resources of a business are invested partly in the form of fixed capital and partly in the form of working capital.

One of the most acceptable definitions of fund is working capital and a funds flow statement as a statement of sources and applications of funds.

3.2 Concept of flow of funds

The word ‘flow’ means movement or change. The movement or change occurs when something comes in and the something goes out. The term ‘flow of funds’ mean transfer of economic values from one asset of equity to another. Flow of funds is said
to have taken place when any business transactions increase the funds while others decrease the funds. Some may not make any change in the fund position. If the effect of business transaction results in the increase of funds, it is called a source of funds and if it results in the decrease of funds, it is known as an application of funds.

3.3 Definition of fund flow statement

In the words of Foulke, "a statement of sources and application of funds is a technical device designed to analyse the changes in the financial condition of a business enterprise between two dates."

Anthony defines the Fund flow statement as, "the sources from which additional funds were derived and used to which these sources were put."

I.C.W.A. in glossary of management accounting terms defines funds flow statement as, "a statement either prospective or retrospective, setting out the sources and applications of funds of an enterprise. The purpose of the statement is to indicate clearly the requirement of funds and how they are proposed to be raised and the efficient utilisation and application of the same."

Thus, "fund flow statement is called by various names such as sources and application of funds; statement of changes in financial position; sources and uses of funds; summary of financial operations; where came in and where gone out statement; where got, where gone statement; movement of working capital statement; movement of funds statement; funds received and disbursed statement; funds generated and expended statement; sources of increase and application of decrease; funds statement, etc."
3.4 Uses of funds flow statement

Funds flow statement helps the financial analyst in having a more detailed analysis and understanding of changes in the distribution of resources between two balance sheet dates. Now a day, it is being widely used by the financial analysts, credit granting institutions and financial managers.

The uses of a funds flow statement are as follows:

(1) Business operations - The Trading A/c, Profit and Loss A/c and Balance Sheet show the net effect of various business transactions on the operational and financial position of a concerned unit. The balance sheet depicts a constant picture of the resources of a business and the uses to which these resources have been put at a certain point of time. It explains the financial consequences of business operations. The fund flow statement explains causes for such changes and also the effect of these changes on the liquidity position of the company. It gives a clear answer to such a situation explaining what has happened to the profits of the concerned firm.

(2) Intricate queries: It is used by financial analyst for finding out answers to a number of intricate questions such as:

(a) What is the overall credit worthiness of the enterprise?
(b) Why more dividends could not be declared in spite of available profit?
(c) What are the sources of the repayment of loan taken?
(d) What happened to the sale proceeds of fixed assets?
(e) What happened to the issue of shares or debentures?

(1) Future guide: The management of an organisation know the various problems to be faced in the near future. For this, a projected fund flow statement is made in
advance. The firm can arrange to finance these needs more effectively and can solve the future problems.

(2) Dividend policy: In a firm, there is sufficient profit to pay off dividend to the shareholders but yet it may not be advisable to distribute dividend for lack of liquid or cash resources. In this situation, a fund flow statement helps in the formation of realistic dividend policy.

(3) Working capital: A fund flow statement helps in explaining how efficiently the management has used its working capital. The fund flow statement suggests ways to improve working capital position of the concerned organisation.

(4) Credit worthiness: The banks and financial institutions are asked for funds flow statement constructed for a number of years before granting loans to know the credit worthiness and paying capacity of the firm. Hence, concerned units/firms, which are seeking financial assistance from such banks and financial institutions have no alternative but prepare funds flow statements.

The uses of funds flow statement of urban co-operative bank is presented in the diagram no.3.1.
Diagram No 3.1
Uses of Funds Flow Statement

1. Business Operations
2. Intricate Queries
3. Future Guide
4. Dividend Policy
5. Working Capital
6. Credit Worthiness

Uses of Funds Flow Statement
3.5 Proforma of a funds flow statement

Sources:

(a) Issue of equity share capital
(b) Issue of preference share capital
(c) Issue of debentures
(d) Institutional / bank loans
(e) Sale of fixed assets
(f) Sale of investment
(e) Trading profit or fund from operations
(f) Non-trading items e.g. dividend received

Total

Applications:

(a) Redemption of preference share capital
(b) Redemption of debentures
(c) Repayment of intuitional loans
(d) Redemption of fixed deposits
(e) Purchase of fixed assets
(f) Purchase of investments
(g) Non-trading payments e.g. payment of dividend

Total
3.6 Source of finance

Co-operative institutions perform business organisations smoothly with their finance. The urban co-operative bank, too, like other business organisations, need finances to establish, operate, expand and maintain their production, distribution and other allied functions. Their financial needs can be met by inflow of funds just as the funds uses can be known by out-flow of funds.

Firstly, let us discuss inflow of funds. It provides through internal and external source. A chart regarding source of finance is given in the Diagram No. 3.2.
Diagram No.3.2
Sources of Finance

- **Share Capital**
  - Individual
  - Government
  - Others
- **Reserve and Surplus**
  - Statutory Reserve
  - Bad Debts
  - Overdue Interest Reserve
  - Other Reserves etc.
- **Deposits**
  - Fixed Deposits
  - Saving Deposits
  - Current Deposits
  - Other Deposits
- **Borrowings**
  - Short Term Borrowings
  - Medium Term Borrowings
  - Long Term Borrowings
  - Cash Credit
  - Overdrafts
  - Conversions, etc.
From the above Diagram No.3.2, it is confirmed that the source of finance is divided into two sections. The 1st section is known as internal sources of finance and the 2nd section, as external sources of finance. The internal sources of finance refer to the funds contributed by the shareholders known as ‘Share Capital’ and its earnings, which are not distributed in the form of profits and reserves. Generally, it is known as ‘Reserve and Surplus.’ They constitute share capital and reserve & surplus. Another source of finance is known as external sources. The external sources of finance are the combination of ‘Deposits and Borrowings.’ The deposits are from general public, local bodies, trusts, etc. The borrowings are from higher financing agencies like Reserve Bank of India, NABARD, ICICI, IDBI, etc.

3.6.1 Section 1: Internal sources of finance

The internal source of finance is sub divided into two i.e. share capital and reserve and surplus.

3.6.2 Share capital

For the Imphal Urban Co-operative Bank Ltd., the primary source of internal finance is share capital. It is contributed by individuals and state government. This is one of the convenient and cheap sources of finance for the concerned organisation. There is no interest borne by the firm. “The size of the share capital of co-operative organisation indicates the stake of members and their eventual loyalty to the organisation.” Nay, the size of the share capital also constitutes the most important determinant for establishment of new urban co-operative banks in metropolitan, urban, semi-urban centres as also for attaining viability standards of the urban co-operative banks already established.
3.6.3 Ways of augmenting share capital base

The face value of share of an urban co-operative bank as suggested by Reserve Bank of India is ordinarily not more than Rs. 25. It means that all the poor persons can become members of the bank. Share capital base requires to be strengthened in order to raise the borrowing power. Share capital base can be strengthened in two directions:

(1) By increasing membership – making it broad – based on all eligible aspirants; and
(2) By introducing a suitable linking of share-holding to borrowings.

During the study periods of ten years i.e. 1999-00 to 2008-09, the sample of membership has been collected from the Balance Sheet of IUCBL. The authorised share capital is Rs.500,00,000. Out of this, the subscribed and paid up capital was Rs. 332,77,600 in the year 2008-09. This total capital consists of two groups – one collection from individual and another collection from state Government of Manipur. Out of the total capital contributed by IUCBL, the individual contribution is the largest share capital by showing an amount of Rs. 323,33,760 and whereas the state government bears Rs. 9,40,000 only. The state government’s contribution towards the Imphal Urban Co-operative Bank Ltd. is too low. It is a very nominal amount as compared with individual’s contribution. The amount of contribution by state government amount is fixed up to the year 2006-07 at Rs.7,40,000 and increased to Rs.9,40,00 in the next year i.e. 2007-08 throughout the year under the study period.

The percentage of state capital to individual’s capital is 2.90. It shows that the greater bulk of contribution to the bank is from the individuals.
3.6.4 Contribution from individuals as a share capital

The bank has been collecting money from the public or from the individual members by selling of shares from time to time. During the ten years period the capital of individual was Rs. 83,20,650/- (rupees eighty three lakhs twenty thousands six hundreds and fifty only) in the year 1996-97 and Rs. 273,20,400/- (rupees two crores seventy three lakhs twenty thousands and four hundred only) in the year 2005-06. The numbers of members increased year by year. The members of the IUCBL were 1,66,413 at the beginning of study period i.e. 1996-97 and 5,46,408 at the end of study period i.e.2005-06. During the ten year period there was an increase of 3.28 times in the share capital of individual contribution.

3.6.5 Contribution from State Government of Manipur as a share capital

“One of the ways to strengthen the equity base of urban banks is by way of state participation in their share capital.”\(^1\) According to Dammy Committee (1968) report, the Reserve Bank was providing loans to state governments out of the National Agricultural Credit Fund (long-term operations) from 1969-70 onwards, to enable them to contribute to the share capital of urban co-operative banks. The co-operative banks may either finance or had a concrete programme to finance small scale and cottage industries. Now a day, the said function has been handed over from Reserve Bank of India to NABARD. So far as IUCB Ltd, is concerned, the state government contributes to share capital to the extent of Rs. 9,40,000 only. It has contributed 2.82 % to the total capital as on 31\(^{st}\) March 2009. The contribution remained fixed in the last two years under study period i.e, increased to Rs.9,40,000. The IUCBL has been financing small scale and cottage industries also.

After clubbing of share capital i.e. from individual collection and from state government collection, it shows an increase in membership as shown in Table No.3.1
and Diagram No. 3.3. From the Table No.3.1, it can be noticed that the number of membership has been increased from Rs. 2,71,821 in 1999-00 to Rs. 6,65,552 in 2008-09. It is about 2.45 times increase in membership during this period.

From the Table No.3.1, it shows the trends in growth of capital for the period of 1999-00 to 2008-09. In this Table, a trend value is calculated based on 1999-00 as a base year, the amount of share capital relating to the base year is taken equal to 100, and index numbers are calculated for the forthcoming years based on the amount of that item in those years. The trend analysis makes easier to understand the changes in an item or a group of items over a period of time and to draw conclusions regarding the changes in the data and to make a forecast for the future. For the IUCBL, the trend value goes upward. The number of equity share kept increasing year by year from 2.72 lakhs in 1999-00 to 6.66 lakhs in 2008-09. The total number of equity share was increased by 3.94 lakhs. The percentage kept slightly decreasing year by year during first three years under study period. In the fourth and fifth year, the percentages were 16.02 and 18.62 and it began downward trend up to 2006-07. The calculation of average annual growth rate of IUCBL was 10.54% by showing Rs. 22.45 lakhs during study period. From another view, i.e. the average annual p.c. growth in share capital of IUCBL was 12.42 on an average during the period under study.
### Table No. 3.1
Growth of membership (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Share Capital</th>
<th>State Government's Share Capital</th>
<th>Total Share Capital</th>
<th>No. of Equity Share</th>
<th>Index number based on 1999-00</th>
<th>P.C. of Actual Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999 - 00</td>
<td>129.51</td>
<td>6.40</td>
<td>135.91</td>
<td>2.72</td>
<td>100</td>
<td>11.96</td>
</tr>
<tr>
<td>2000 - 01</td>
<td>145.76</td>
<td>6.40</td>
<td>152.16</td>
<td>3.04</td>
<td>111.96</td>
<td>11.96</td>
</tr>
<tr>
<td>2001 - 02</td>
<td>161.42</td>
<td>6.40</td>
<td>167.82</td>
<td>3.36</td>
<td>123.48</td>
<td>10.29</td>
</tr>
<tr>
<td>2002 - 03</td>
<td>176.74</td>
<td>6.40</td>
<td>183.14</td>
<td>3.66</td>
<td>134.75</td>
<td>9.13</td>
</tr>
<tr>
<td>2003 - 04</td>
<td>206.09</td>
<td>6.40</td>
<td>212.49</td>
<td>4.25</td>
<td>156.34</td>
<td>16.02</td>
</tr>
<tr>
<td>2004 - 05</td>
<td>245.65</td>
<td>6.40</td>
<td>252.05</td>
<td>5.04</td>
<td>185.45</td>
<td>18.62</td>
</tr>
<tr>
<td>2005 - 06</td>
<td>273.20</td>
<td>6.40</td>
<td>279.60</td>
<td>5.59</td>
<td>205.73</td>
<td>10.93</td>
</tr>
<tr>
<td>2006 - 07</td>
<td>287.98</td>
<td>7.40</td>
<td>295.38</td>
<td>5.91</td>
<td>217.33</td>
<td>5.64</td>
</tr>
<tr>
<td>2007 - 08</td>
<td>302.76</td>
<td>9.40</td>
<td>312.16</td>
<td>6.24</td>
<td>229.68</td>
<td>5.68</td>
</tr>
<tr>
<td>2008 - 09</td>
<td>323.38</td>
<td>9.40</td>
<td>332.78</td>
<td>6.66</td>
<td>244.85</td>
<td>6.61</td>
</tr>
<tr>
<td>AAGR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10.54</td>
</tr>
</tbody>
</table>

**Source**: IUCBL Audited Annual Report (1999-00 - 2008-09)

AAGR = Average Annual Growth Rate

### Diagram No.3.3
Growth in Total Share Capital
The second method of raising share capital base is the linking of shareholding to borrowings. For different types of advances, the Reserve Bank of India has advised to adopt the following ratios as shown in Table No.3.2.

**Table No. 3.2**

<table>
<thead>
<tr>
<th>Type of borrowings</th>
<th>Granted by UCB having owned funds</th>
<th>Linking of shareholding to borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>In term of ratio</td>
</tr>
<tr>
<td>1. Unsecured</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Less than</td>
<td>1:20</td>
</tr>
<tr>
<td>(b)</td>
<td>Equal to Rs. 1 Crore</td>
<td>1:40</td>
</tr>
<tr>
<td>(c)</td>
<td>Exceeding</td>
<td>1:66</td>
</tr>
<tr>
<td>2. Secured</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Less than</td>
<td>1:40</td>
</tr>
<tr>
<td>(b)</td>
<td>Equal to Rs. 1 Crore</td>
<td>1:100</td>
</tr>
<tr>
<td>(a)</td>
<td>Exceeding</td>
<td>1:66</td>
</tr>
<tr>
<td>(c)</td>
<td>Exceeding Rs. 1 Crore of which to be collected initially and in the course of next year</td>
<td>1:100</td>
</tr>
<tr>
<td>3. Secured for SSI Units</td>
<td>Less than Rs. 1 Crore of which to be collected initially and in the course of next two years</td>
<td>1:200</td>
</tr>
</tbody>
</table>

Under the study the bank has the authorised capital of Rs. 5 (five) crores. The value of per share is Rs.50/- (fifty) only. Considering that urban co-operative banks are basically institutions for persons of small means, the fixing of a share value is higher than the normal rate of Rs. 25 (twenty-five only).

Further, it has been observed that the IUCBL was allowed to borrow “its maximum borrowing power at 25 times of the owned funds minus the bad debts reserve and accumulated losses as recommended by the Committee on Urban Co-operative Banks (1978).” By fixing maximum borrowing power, the IUCBL aims at strengthening the owned funds of the bank as well as providing adequate security to
the creditors. But unluckily the IUCBL cannot utilise the maximum borrowing power because there were no borrowings during the study period.

3.7 Reserve fund and other reserves

Reserve fund and other reserves are earned by the bank which is not distributed to the shareholders as a dividend. Bank creates their requirements of reserve by transferring it to the profit and loss appropriation account.

3.7.1 Needs for reserves fund

The reserve fund is necessary in business because business is uncertain. "The importance and purpose of reserves is to meet unforeseen losses, to supply a source of income which may be drawn in lean years and to fortify outside confidence." Hence, there is a need for the co-operative institutions to build up adequate reserves for meeting unforeseen losses just like others business. The Imphal Urban Co-operative Bank Ltd. created reserve fund from profit and loss appropriation A/c by charging or debiting the required amount of reserves. The bye-laws of urban co-operative banks in conformity with the Co-operative Societies Act / Rules specifying the manner in which the net profits are to be appropriated towards the various reserves, provisions, etc. After deducting, the reserves whatever left are to be invested internally and externally. Generally, statutory reserve fund is created up to 25% from the annual net profit. The statutory reserve, dividend equalisation fund, building fund, bad and doubtful debt fund, investment depreciation reserve, interest remission, non-performing assets reserves, contingent provision against standard assets, other funds & reserves, net profit reserves are created by the IUCBL.
3.7.2 Trend values in reserve & surplus funds

There is a growth in the total reserve & surplus funds. Table No. 3.3 and Diagram No.3.4 are shown in connection with reserve & surplus funds. The total reserve has been increasing year by year. The total reserve and surplus fund has been divided into six components. They are (1) statutory reserve (2) building fund (3) non-performing assets reserve (4) bad and doubtful debts reserve (5) others and (6) net profit. The table shows the growth in percentage share of each of the above components to the total reserve and surplus and an index value of each component including total reserve and surplus based on 1999-00. From the Table No. 3.3, it can be seen that there was increasing value in the total reserve and surplus. During 1st year of the study period, Rs. 208.02 lakhs was registered but in last year of study period, there was Rs. 1390.83 lakhs. It was found that there had been 6.69 times increase during the 10 years. It shows that the financial position of the IUCBL was sound.

Net profit: It was also a part of total reserve and surplus in the range of 2.86% to 10.81%. It was higher contribution to total reserve and surplus in the beginning year of study period. The p.c. decreased year by year up to 2001-02 and in the remaining year under the study period it was up and down.

Statutory reserve: It was taking a share to the total reserve and surplus in the range of 4.51% to 8.95%. The index value was 118.24% in the year 2000-01 and 447.22 in 2008-09. The mean p.c. was 6.40.

Building fund: It was increasing year by year during 10 years study period. It was registered in the range of 4.29% to 10.68% in the total contribution. There was an increase of Rs. 55.94 thousand by showing 3.52 times increase. The mean p.c. was 6.71.
Non-performing assets reserve: It is the largest contribution to the total reserve and surplus giving in the range of 53.73% to 65.05%. Rs. 793.02 lakhs was increased about 8.10 times during 10 years of study period.

Bad and doubtful debts reserve: It was also an increasing trend under the study period. In 1999-00, the value of bad and doubtful debt reserve was Rs. 15.52 lakhs but in the 2005-06, its value was Rs. 78.35 lakhs. It was shown 5.05 times increased carrying an average annual growth of 24.70%.

Others: It was also a part of total reserve and surplus contributing a range of 8.63% to 15.67%. The value was Rs. 23.34 lakhs in the year 1999-00 and in the 2008-09, its value was Rs. 206.55.

The overall performance of reserve and surplus of Imphal Urban Co-operative Bank Ltd. is quite good. The time series of total reserve and surplus is plotted in Diagram No. 3.4. This Diagram is showing an increase in the total.

Diagram No. 3.4
Trend in Reserve and Surplus
Table No. 3.3  
Growth of Reserve and Surplus  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>16.57</td>
<td>20.30</td>
<td>20.27</td>
<td>43.33</td>
<td>54.70</td>
<td>38.54</td>
<td>54.29</td>
<td>87.21</td>
<td>124.50</td>
<td>39.74</td>
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<tr>
<td>Index No.</td>
<td>100.00</td>
<td>122.49</td>
<td>99.88</td>
<td>213.73</td>
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<td>70.47</td>
<td>140.84</td>
<td>160.65</td>
<td>142.76</td>
<td>31.92</td>
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<tr>
<td>P.C. to A to G</td>
<td>7.97</td>
<td>7.44</td>
<td>5.00</td>
<td>9.20</td>
<td>10.36</td>
<td>6.32</td>
<td>7.03</td>
<td>8.93</td>
<td>10.81</td>
<td>2.86</td>
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<td>Statutory Reserve</td>
<td>18.62</td>
<td>22.01</td>
<td>27.15</td>
<td>27.19</td>
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<td>41.71</td>
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<td>8.07</td>
<td>6.70</td>
<td>5.78</td>
<td>5.19</td>
<td>6.84</td>
<td>6.67</td>
<td>5.30</td>
<td>4.51</td>
<td>5.99</td>
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<td>Building Fund</td>
<td>22.21</td>
<td>25.56</td>
<td>28.95</td>
<td>29.71</td>
<td>30.42</td>
<td>41.67</td>
<td>47.69</td>
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<td>49.39</td>
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<td>Non-Performing Assets Reserve</td>
<td>111.77</td>
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<td>260.30</td>
<td>301.84</td>
<td>345.87</td>
<td>386.84</td>
<td>434.75</td>
<td>565.20</td>
<td>698.28</td>
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<td>346.11</td>
<td>388.97</td>
<td>505.69</td>
<td>624.75</td>
<td>809.51</td>
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<td>P.C. to D to G</td>
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<td>56.99</td>
<td>64.23</td>
<td>64.13</td>
<td>65.53</td>
<td>63.41</td>
<td>56.32</td>
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<td>60.63</td>
<td>65.05</td>
<td>60.79</td>
<td></td>
</tr>
<tr>
<td>Bad and Doubtful Debts Reserve</td>
<td>15.52</td>
<td>18.84</td>
<td>23.91</td>
<td>23.91</td>
<td>23.91</td>
<td>37.58</td>
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Source: IUCBL – Annual Audited Report from 1999-00 to 2008-09
3.7.3 Operation of reserve requirements in India

From the foregoing discussion, it is obvious that reserve requirements are mandatory if the liquidity in the banking system is to be preserved, and if even a single instance of default in repayment to depositors is to be avoided.

According to RBI\(^8\) these legal reserve requirements in India, all financial institutions, which are into lending and investment operations, are required to maintain a specified amount of reserves as cash / bank balances with the central bank and as investment in approved securities. All such reserves that are to be maintained as legal requirement are termed ‘primary reserves.’ In the Indian context, these reserve requirements are categorised as follows.

1. Cash reserve ratio (CRR)
2. Statutory liquidity ratio (SLR)

3.7.4 Cash reserve ratio

The cash reserve ratio is maintained as cash reserves from the cash balance. The aim of the CRR is to take care of immediate liquidity needs.

3.7.5 Statutory liquidity ratio

The statutory liquidity ratio is maintained in liquidity, near cash instruments. The aim of SLR is a twofold objective. They are: (1) to give profitability along with liquidity, since the funds would be parked in interest yielding government and other approved securities; and (2) to augment the government’s borrowing program. It is to be noted that any cash maintained as reserves over and above the required minimum is also eligible to earn interest, albeit at lower than market rates (beginning 24\(^{th}\) June 2006, Reserve Bank of India will not pay any interest on the CRR balance, consequent upon the amendment made in the Reserve Bank of India Act, 1934, section 42 (IB)).
In the simplified version in the example X, it is seen that the fractional reserve requirement (the equivalent of CRR / SLR) is determined by the central bank as a percentage of deposits collected by the bank. Actually, banks have varied sources of funds. Hence, the CRR and SLR are prescribed as a minimum percentage of NDTL of each Bank. It is necessary to understand the constituents of NDTL, and the method of calculating the actual reserves because the actual maintenance of the CRR and SLR is based on the NDTL.

3.7.6 Net demand and time liabilities

Bank liabilities can be broadly classified into two categories. The first category is known as external liabilities and the second category is known as internal liabilities. While equities, reserves, and provisions are the internal liabilities, external liabilities are those that the bank owes to outsiders. Again, external liabilities can be further classified into two groups i.e. (1) liabilities to the banking system and (2) liabilities to others.

More or less, NDTL is those liabilities of banks, which have been sourced from the two heads namely (1) banking system and (2) others. Here liabilities of overseas branches will be excluded because these branches operate under the jurisdiction of the countries in which they are located. Hence, to know the concept and computation of NDTL, it is necessary to know what constitutes the banking system, assets with the banking system, and demand and time liabilities to be reckoned for the NDTL.

3.7.7 Banking system in India

In India, the system of banking constitutes the State Bank of India and its subsidiaries, the nationalised banks, the regional rural banks, co-operative banks, all
private sector banks, foreign banks operating in India, and any financial institution notified by the central government such as primary dealers (PDs). But, the banking system does not include the Reserve Bank of India, SIDBI, NABARD, Export Import Bank (EXIM), and other similar financial institutions, and primary credit societies, co-operative land mortgage / development banks, and foreign banks which has no branches in India.

3.7.8 Constitutions of the assets with the banking system

Assets with the banking system means that
i. balances with the banking system in current accounts;
ii. funds made available to the banking system by way of loans or deposits repayable at call or short notice of a fortnight or less; and
iii. loans other than money at call and short notice made available to the banking system.

Any other amounts due from banking system which cannot be classified under any of the above items are also to be taken as assets with the banking system.

3.7.9 Demand and time liabilities for calculation of NDTL

NDTL includes two terms i.e. demand liabilities and time liabilities. Demand liabilities include all liabilities, which are, payable on demand and they are:

- Balances in overdue fixed deposits, cash certificates and cumulative / recurring deposits;
- Unclaimed deposits;
- Outstanding telegraphic transfers, mail transfer, demand drafts;
- Deposits held as security for advances which are payable on demand;
- Demand liabilities portion of savings bank deposits;
Margins held against letter of credit / guarantees;
Current deposits; and
The cash credit account of credit balances.

Time liabilities are those which are payable otherwise than on demand. They are:

- Recurring and cumulative deposits, fixed deposits, cash certificates;
- Margin held against letters of credit if not payable on demand;
- Time liabilities portion of savings bank deposits;
- Security deposits of staff;
- Deposits held as securities for advances which are not payable on demand;
- Gold deposits and India millennium deposits.

3.7.10 Other demand and time liabilities

Other demand and time liabilities (ODTL) include the following:

- Unpaid dividends, interest accrued on deposits, net credit balances in branch adjustment account, bills payable, suspense account balances demonstrating amounts due to other banks or public, any amounts due to the ‘banking system’ which are not in the nature of deposits or borrowing. Such liabilities may happen due to items like collection of bills on behalf of other banks, interest due to other banks and so on. If a bank cannot set aside from the total of ODTL the liabilities to the banking system, the entire ‘other demand and time liabilities’ may be shown against ‘other demand and time liabilities and average CRR is required to be maintained on it by all scheduled commercial banks.

- Participation certificate issued to other banks.
The balances outstanding in the blocked account pertaining to separate outstanding credit entries for more than 5 years in the inter-branch adjustment account.

The margin money on bills purchased / discounted.

Gold borrowed by banks from abroad.

3.7.11 Liabilities not to be included for DTL / NDTL computation

In generally, the following are not a part of liabilities for the purpose of the CRR:

- Paid-up capital, reserves, any credit balance in the profit and loss account, refinanced amount from the Reserve Bank of India, and apex financial institutions like EXIM Bank, NABARD, NHB, and SIDBI.

- The liabilities arising on account of consumption of limits under banker’s acceptance facility.

- Provision for income tax amount in excess of the actual / estimated liabilities.

- Claim amount received from DICGC and held by banks pending adjustments, claim amount received from ECGC by invoking the guarantee.

- Money realised from the court receiver.

- Claim amount received from insurance company on ad-hoc settlement of pending judgment of the court.

- Inter-bank term deposits / term borrowing liabilities of original maturity of 15 days and above and upto 1 year with effect from fortnight beginning 11 August, 2001.
3.7.12 Liabilities exempted from maintenance of reserve requirement

Banks are exempted from maintaining CRR on the following liabilities:

- Liabilities to the banking system in India as calculated under Clause (d) of the explanation to Section 42(1) of Reserve Bank of India Act, 1934.
- Credit balances in ACU (US$) accounts.
- Transactions in collateralized borrowing and lending obligation with Clearing Corporation of India Ltd.
- Demand and time liabilities in respect of their offshore banking units.

Inter-bank term deposits / term borrowing liabilities of original maturities of 15 days and above and up to 1 year are not required to be included in liabilities to the banking system. Likewise their inter-bank assets term deposits and term lending of original maturity of 15 days and above and up to 1 year, banks should prohibit in 'assets with the banking system' for the purpose of maintenance of the CRR. This concession is not available for maintenance of the SLR.

Under section 18(2) of the Banking Regulation Act, in case of doubt or dispute or argument in classification of liabilities, the Reserve Bank of India has the power to decide on the classification. Conceptually, NDTL is the combination of liabilities to others and net inter-bank liabilities, where, a net inter-bank liability is equal to liabilities of the banking systemless assets with the banking system.

Here, there are three different cases that may arise: inter-bank assets are equal to, greater than or less than inter-bank liabilities. If NIBL is a positive figure, it will be added to the liabilities to others only where inter-bank assets are less than inter-bank liabilities. In case they are equal, the net result is zero, and in case the difference
is negative, i.e., inter-bank assets are greater than inter-bank liabilities, the net effect will not be included in computing NDTL.

Let us take an example, Manipur State Co-operative Bank has computed its ‘liabilities to other’ at Rs. 1000 crore. What will its NDTL be if its inter-bank liabilities are at Rs. 300 crore, but its inter-bank assets stand at Rs. 300 crore; Rs. 400 crore; and Rs. 200 crore?

Solution:

NDTL = liabilities to others + NIBL (inter-bank liabilities – inter-bank assets)

(a) \[ \text{NDTL} = 1000 + (300 - 300) = 1000 \]

(b) \[ \text{NDTL} = 1000 + (300 - 400) = 1000 \] (NIBL is negative, hence ignored)

(c) \[ \text{NDTL} = 1000 + (300 - 300) = 1000 + 100 = 1100 \] (NIBL is positive, hence it is included

3.7.13 The legal aspects of CRR

Under section 42(1) of the Reserve Bank of India Act 1934, banks are required to maintain with the Reserve Bank of India an average cash balance. The amount of which shall not be less than 3 per cent of the total of the net NDTL, on a fortnightly basis and the CRR may be increased by the RBI in exercising their power to a higher rate not exceeding 20 (twenty) per cent of the NDTL under the Reserve Bank of India Act, 1934.

However, the Reserve Bank of India (amendment) Bill, ⁹ which took effect from 22 June, 2006, has done away with the floor and ceiling rate of the CRR to be maintained by banks, by amending sub section (1) of section 42 of the Reserve Bank of India Act. Accordingly, the statutory minimum CRR of 3 percent is no longer exists.
3.7.14 Maintenance of incremental CRR

In terms of Section 42 (IA) of Reserve Bank of India Act 1934, the banks are required to maintain, the addition to the balances prescribed under Section 42(I) of the act, an additional average daily balance, the amount of which shall not be less than the rate specified by the Reserve Bank of India in the notification published in the Gazette of India, such additional balance being computed with reference to the excess of the total of the NDTL of the bank as shown in the return referred to in section 42 (2) of the Reserve Bank of India Act, 1934 over the total of its NDTL at the close of the business on the date specified in the notification. At present no incremental CRR is required to be maintained by scheduled commercial banks.

3.8 Section 2: external sources of finance

The external finance of IUCBL constitutes deposits, borrowings and other liabilities. In the category of external source of finance, deposits constitute the lion share. “Deposits are the mainstay of a bank and they constitute its life-blood.”

Bank is an industry. So, as an industry, certainly there should be some raw materials and their finished products. The raw materials are the sources of finance viz. deposits, money call and short notice, borrowings, bills for collection etc. The finished products are investments, loans and advances, drafts, bills, cheques, ATM services etc. So bank needs customers.

3.8.1 Meaning of a customer

In simple language, any person or entity transacting with a bank through a deposit or borrowing account is considered as a customer of the particular bank. But there is no statutory definition of customer either in Indian law and British law.
According to Sir John Paget, there are two conditions to be fulfilled in order to become a customer. They are:

1. There must be some identifiable course of habit of dealing between the bank and its customer; and

2. Naturally, the regular transactions must be in the nature of banking business.

The first statement is, broadly, known as ‘duration theory’ of dealing between the bank and its customer. According to this first statement, the mere opening of a bank account did not make a person or entity the bank’s customer. There used to be continuous dealing of the entity with the bank were necessarily for being termed as a ‘customer’. It is considered to be not essential in the modern banking context.

The second statement by Sir John Paget is that a person does not become a customer when the bank furnishes him a casual service such as the issuing of demand draft or acceptance of his valuable for safe custody. It is necessary that he should open some class of account in order to become a customer. In this condition, it implies that the person cannot become a customer unless the bank is willing to accept the offer to become a customer after satisfactory references before opening an account. Sometimes, the banker may close the account if the account and the customer are unsatisfactory. In the case, Landbroke Vs Todd, justice Bailhache said that the relation of banker and customer starts as soon as the first cheque is paid in and received for collection, and not merely when it is paid. This opinion was further supported in Commissioners of Taxation v. English, Scottish and Australian Bank Ltd. But there is a slight dissimilarity in the Privy Council. They said that “the word customer signifies a relationship of which duration is not of the essence. The contrast is not between habits and a newcomer, but between a person for whom the bank
performs a casual service and a person who has an account of his own at the bank.” In modern banking, the vital determinant of the ‘customer’ status of a person or entity is the nature of dealings with the bank. Such dealings should be in the nature of ‘banking business.’

So, to represent a customer the following are the requirements:

1. An offer by a person to open some sort of account either saving or current fixed deposit account.\[11\]
2. Bank’s willingness to accept such an offer ultimately resulting in the opening of an account.

From the above two points, the primary relationship between banker and customer is therefore of debtor and creditor.

3.8.2 Eligibility of a customer

In the development of financial intermediaries of the society, banks are bound to accept public savings as deposits. However, they can enter into legally valid contracts for this purpose only with certain sections of the society.

Thus, deposit accounts can be opened only by the public who has fulfilled the following conditions (a) capable of entering into a valid contract; (b) following the banks’ approved procedures while entering into the contract; and (c) accepting the banks’ terms and conditions while doing so. Otherwise the bank will refuse an application for opening deposit accounts.

3.8.3 General relationship between banker and customer

The relationship between a banker and its customer fundamentally flows from the contract. There is primarily the relationship of debtor and creditor, the respective positions being determined by the state of account. So, in relation to other services
rendered by banker the bank sometimes acts as an agent of the customer, for example, in collection of cheques, sale of securities, etc., bailee in relation to the safe custody of valuables; and trustee when he is entrusted with property to be administered for the benefit of a named beneficiary.

3.8.4 Debtor and creditor

This concept of debtor and creditor relationship is a departure from the original view that the banker is a mere depository / storehouse of the funds of the customer. It was enunciated in Foley v. Hill, where it was observed that the money, when paid into bank, ceases altogether to be the money of the principal; it is then the money of the banker who is bound to return an equivalent by paying a similar sum to that deposited with him when he is asked for it.

Usually, the customer is the creditor and the banker is the debtor. But when the account is overdrawn the roles are overturned. Though, there are certain disparity between the ordinary commercial debts and the debts due from bankers.

(1) The demand for paying must be made by the creditor. In ‘Joachimson v. Swiss Bank Corporation’ it was held that where money was standing to the credit of a customer on current account at a bank, an earlier demand was necessary before an action could be taken up against the bank for money. The ordinary rule in the case of release of debts is that a debtor must seek out the creditor and make the payment. If this rule is applied in relation to deposits with banks it can lead to a complex situation. The Banker can close the customer’s account at any time and this naturally results in the dishonour of cheques, thereby affecting his prestige. Therefore, it was laid down that the demand of the customer is necessary in case of debts due from a bank. In addition, an obligation is enforced on the banker not to repay the debt unless the
demand is made correctly, at a proper place and at a proper time. Demand is to be made in proper manner. It means that it should be made by means of a cheque or order and not orally or by phone. Proper place refers to the branch where he has already opened the account and proper time refers to the official banking hours for the purpose.

(2) The period of limitation starts from the time the demand is made. Since the debt becomes due only when a demand is made by a customer the period of limitation starts not from the date on which it is demanded by the customer. Therefore, in the absence of any claim made by the customer there is no fear of sums deposited with bankers becoming time-barred even if they are done a century ago.

3.8.5 Banker as a trustee

Under some agreement the banker may become in the position of a trustee. There are some bankers who have separated departments for discharging the trusteeship functions. Those banks are named as the trustees when trusts are created. He is also trustee when customer deposits securities or other valuables with the banker for safe custody. The legal position of banker as a trustee is quite dissimilar from that as a debtor. In the event of liquidation of bank, securities and valuables held as trustee are not available for distribution to general creditors. As a debtor he is free to use the funds in any manner he likes. But funds flowing or coming into his hands in the trustee capacity must be applied for specific purpose. However, in the lack of any specific instructions it is presumed that the banker has received the funds in the ordinary course and not as a trustee.

To show the distinction between the two positions still better, let us take an example of cheques collected by a banker. Till the cheque is collected the position of
the banker is that of a trustee, but once collection is over and the amount is credited
the banker is in the position of a debtor. Therefore, if the bank is unsuccessful before
the cheque is collected, the amount represented by the cheque is not available for
allocation amongst creditors.

3.8.6 Banker as an agent

A modern banker performs numerous functions as the agent of his customer
and for his convenience. Some functions of the agency are buying and selling
securities, collection of cheques, payment of bills and periodic payments. In this
position, the banker and customer relationship is supervised by the law relating to
principal and agent and in turn is subject to all the obligations that flow from agency.

3.8.7 Rights and duties (obligations) of banker

The following points are the rights of banker:

1. It takes pleasure in a general lien over customer’s securities in his possession.

2. It has an implied right to charge a reasonable commission for his service and
   interest upon loans.

3. It has the right of set-off like any other debtor.

4. It has the right to appropriate payment as per the rules laid down in Clayton’s
   case.

5. It is not necessary to seek out the creditor to make the payment. The creditor
   should demand payment.

The following points are the duties of banker:

1. To receive his customer’s money, cheques, and other bills, drafts, decall for
   collection.
2. To be ready to pay the customer's deposit money on the presentation of customer's mandate known as the cheque.

3. To keep secrecy in respect of customer's account and affairs.

4. To send proper notice before closing a customer's account.

5. To update customer's pass book from time to time.

3.8.8 General guidelines for opening deposit accounts

The significance of proper introduction and verification of new deposit accounts has been personified in the 'Know Your Customer' (KYC) guidelines of the Reserve Bank of India. These guidelines direct the bank to put in place systems and procedures to prevent financial frauds, identify money laundering and suspicious or criminal activities, and for scrutiny / monitoring of large value cash transactions, including transactions in foreign currency.

The KYC guidelines of the Reserve Bank of India are based on international best practices best. The World Bank and the IMF have been included in international. It makes efforts to strengthen financial sector supervision and promote good governance, in an effort to reducing financial crime and enhancing the integrity of the international financial system. Since 2001, anti money laundering (AML) and Combating the Financing of Terrorism measures have came into existence to look after financial crime. Both the World Bank and the IMF have worked closely with the financial action task force on money (FATF). They have a body in this area for setting a standard, to develop a methodology for assessing the observance of international standards on the legal, institutional, and operational framework for AML-CFT.
3.8.9 Anti-money laundering and know your customer

The banker should also take precautions while opening and operating accounts in the name of a Joint Hindu Family. The banker should be familiar with the provisions of the Hindu Law and Succession Act while doing so.

3.8.10 Ill-effects of money laundering on the economy

"Money laundering can have potentially negative consequences for a country’s macro-economic performance, can impose welfare losses, and may also have negative cross-border externalities. It can distort allocation of economic resources and distribution of wealth." In most cases, it is costly and difficult to detect and eradicate.

Some manifestations of the economic impact of money laundering could be:

♦ Impaired banking system soundness;
♦ Potentially large fiscal liabilities;
♦ Reduced ability to attract foreign investment;
♦ Increased volatility of international capital flows and exchange rates;
♦ Difficulty in national tax collection and law enforcement.

3.8.11 International standards to deal with money laundering and terrorism financing

Money laundering can be simply defined as ‘transfer of illegally obtained money or investments through an outside party, to conceal the true source.’ Money launderers may also operate outside financial systems, for example, through alternative remittance systems.

The World Bank and the IMF have been working closely since 2001 with the financial action task force on money laundering (FATF), the standard setting body in
this area, to develop a methodology for assessing the observance of international standards on the legal, institutional, and operational framework for anti-money-laundering (AML) and combating financing on terrorism (CFT).

The FATF standards draw on and complement a wide range of United Nations (UN) conventions and resolutions that promote international co-operation in preventing and containing drug trafficking, organised crime, corruption, and efforts to fiancé terrorism.

In addition, all financial supervisory standards have core principles to enhance KYC rules, suspicious transactions reporting, and other due diligence requirements that help to support AML-CFT regimes.

3.8.12 Customer due diligence for banks

This paper provides extensive guidance on appropriate standards for banks to be used in identifying their customers. The paper was issued in response to a number of deficiencies noted on a global basis with regard to the KYC procedures noted above. In addition, the standards go beyond the fight against money laundering and are intended to help protect banks in terms of safety and soundness.

3.8.13 International Organisation of Securities Commissioner guidelines

International Organisation of Securities Commissioner (IOSCO), in its ‘Resolution on Money Laundering’ proposes specific seven areas for securities regulators in individual countries to consider while establishing requirements for firms under their jurisdiction.

♦ The extent of customer identifying information with a view to enhancing the ability of authorities to identify and prosecute money launderers.
The adequacy of record-keeping requirements to reconstruct financial transactions.

Whether an appropriate manner is used to address the reporting of suspicious transactions.

What procedures are in place to prevent criminals from obtaining control of securities businesses and to share information with foreign counterparts?

Whether means are appropriate for monitoring compliance procedures designed to deter and detect money laundering.

The use of cash and cash equivalents in securities transactions, including documentation to reconstruct transactions.

Whether means are appropriate to share information to combat money laundering.

Central banks of most countries, including the Reserve Bank of India, have been reiterating the need for banks to 'know' their customers. In November 2004, the Reserve Bank issued revised know your customer guidelines in line with the recommendations made by the Financial Action Task Force on anti-money laundering standards and combating financing of terrorism. "Banks were required to frame their KYC policies with the approval of their boards and ensure compliance with its provisions by 31 December, 2005."13

The salient features of the policy relate to the procedure prescribed with regard to customer acceptance, customer identification, risk management, monitoring as required under Prevention of Money Laundering Act 2002. Additionally, banks had to follow the provisions of the Foreign Contribution (Regulation) Act, 1976 in respect of acceptance of foreign donations on behalf of associations / organisations maintaining accounts with them.

The KYC principle has the following objectives:

To enable proper identification of depositors and other customers.
To help institute systems and procedures that would enable prevention of financial frauds, identification of money laundering and other suspicious and anti-social activities.

To enable monitoring large value cash transactions and foreign currency transactions.

3.8.14 Introduction of new depositors

The banker-customer relationship begins from the opening of an account in a bank. The special characters of this relationship compel obligations and responsibilities on both parties. Under Section 131 of the Negotiable Instruments Act, 1881 (NIA), more so in the case of bankers, whose watchfulness in opening of an operations in the accounts would entitle them to legal protection.

While opening a deposit account the due conscientiousness process will involve verifying the person's identity, address, occupation and source of income. An important part of the process is obtaining introduction of the potential depositor from a person acceptable to the bank.

3.8.15 Procedures for opening deposit accounts

The procedures for opening deposit accounts in a bank are given below:

- Usually, bank takes a recent passport of the deposit account holders at the time of opening almost all new accounts, except where exempted by the guidelines in force. The photographs have to be attached on the account opening forms submitted by the new customers.

- Specimen signatures of the person, who is authorised to operate the accounts and sign cheques and other instruments, have to be obtained and kept properly. Every transaction in the account has to be examined by the bank to make sure that it is the account holder who is authorised for the transaction. In case the
signature on the instrument authorising a transaction is dissimilar from the specimen signature, the bank can refuse the transaction.

- Actual address of the account holders should be authenticated at the time of opening the account and updated from time to time.

- For safeguard, it is required to take PAN / GIR number of the new customer and completion of account opening documentation of official procedure at the bank.

- An individual person can open the deposit accounts in his own name. It is known as an account in a single name. Deposit accounts can be opened by more than one individual in their own names. It is known as a joint account. A minor can open saving deposit account with natural guardian or with mother as the guardian (known as a minor’s account). Minors who are above the age of 14 will also be allowed to open and operate savings bank account independently.

- When a bank opens a ‘joint account’, in the bank any of the following mandates will have to be provided to the bank for disposal of the balance in the deposit accounts –‘either survivor’ or ‘anyone or survivor / s.’ Any amendment in the mandate can be carried out only with the approval of all the account holders. In the ‘either survivor’ accounts, there will be held by two persons, and if one account holder is dead, the balance amount will be paid to the survivor. Where the account is held by more than two persons, ‘anyone or survivor / s’ mandate will manage. The exception to this is the joint deposit account on behalf of a minor, where only the natural guardian can control the account.
3.8.16 Nomination facility for deposit accounts

The Banking Regulation Act, 1949 under the amendment in 1983 inserted a new section 45ZA. This section provides for nomination by account holder of the bank at the time of opening the account.

3.8.17 Legal status of nominee

If principal depositor is dead at that time, will the nominee become the absolute owner and the deposited amount be received? What are the legal heirs' statuses in the face of nomination?

These are some of the questions that arise when depositors are necessitated to make a nomination in respect of the deposit amounts held by them with banks.

A Supreme Court judgement (Sarbati Devi Vs Usha Devi, AIR1984 SC 346) makes clarification about the nominee's position:

'A mere nomination made does not have the effect of conferring on the nominee any beneficial interest in the amount payable. The nomination only indicates the hand, which is authorised to receive the amount. The amount, however, can be claimed by the heirs in accordance with the law of succession governing them.'

From the above case decision, it is clear that the nominee cannot become the only owner of the amount received by him. The law of succession will have to ultimately prevail.

3.8.18 Termination of banker-customer relationship

The banker-customer relationship is established by the contract between them. The relationship can be terminated by any one of them, by giving a proper notice of
willingness to terminate the other party. Apart from for the stated intention, compulsions of law may also force the banker to terminate the relationship. The rights and obligations of the banker in this respect are summarised below. A banker can terminate his relationship with the customer (with due notice) under the following circumstances:

♦ When the customer instructs the banker in writing to close his deposit and other accounts with the bank.

♦ When the account has malfunction for a long time, and the customer is not traceable in spite of the banker’s efforts. Such deposit balances are usually kept in an ‘unclaimed deposit’ account, and the account is closed. If the depositor is traced later on, the balance can be paid after authentication.

♦ When the banker finds the customer’s dealings unsatisfactory – for example, the customer is proved guilty for forgery, or fails to keep up commitments to repay loans, overdrafts, etc.

♦ When the banker finds that the customer is dead.

♦ When the banker finds that the customer is insane / mad / lunatic.

♦ When the customer is insolvent or goes into liquidation.

♦ When the banker obtains a garnishee order from the court. This case is settled under Order 21, Rule 46 of the Code of Civil Procedure, 1908.

3.8.19 Customers of the bank?

The various types of customers of bankers are as follow:

♦ Individuals
♦ Joint account
♦ Various office of government and non government office
♦ Business
♦ Partnership firms
• Private and public limited companies
• Joint Hindu family system
• Specified associates
• Societies
• Trusts etc.

3.9 Types of deposit accounts

There are various types of bank accounts. They are term deposits, current deposit, saving deposit, certificate deposits, non-resident Indian deposit, cash certificates etc. The detailed are discussed in the following paragraphs:

3.9.1 Term deposit accounts

At the time of entering into the deposit contract, the customer agrees to keep the deposit amount for a fixed period with the bank. This type of deposit is called a ‘term’ deposit. There are different types of term deposit. Such deposit is chosen by the depositor according to his convenience. Term deposit accounts can be opened by individuals / partnership firms / private and public limited companies / HUFs / specified associates / societies / trusts.

Such term deposit gives interest to the depositors. The interest is higher than other deposit. The rate of interest on such deposits would vary from bank to bank in the present deregulated environment. The interest rates on these deposits can be ‘fixed’ or ‘floating’. Banks offer various innovative schemes to suit the needs of the customer segments they serve. They design these deposit schemes to attract the customers.

The term deposit account is opened on a written request from the depositor in a specified format. The term deposit ‘receipt’ from the bank recognizes receipt of the depositors’ funds into the bank.
3.9.2 Current deposits

Current deposits are part of the demand deposit portfolio of the bank. The main objective of the current deposit is providing 'convenience' in operation. It is basically a running and actively operated account, with very little control on the number and amount of drawings. They are part of 'demand deposits,' since the banker is required to pay back these liabilities on claim from the customer.

The IUCBL gives facilities to open current account from the public as an individual, sole traders, partnership firms, private and public limited companies, HUFs, specified associates, societies, trusts, etc. Now, the current deposit account may be opened with cheque facilities. But, no interest is allowed to their deposited amount.

The primary objective of functioning a current deposit for these categories of customers is 'convenience', since it administers with the risk of managing cash. Since, the bank gratifies the 'convenience' requirement of such depositors by undertaking payment and collection services on a daily basis, the 'transaction costs' for the bank are quite significant. Let us take an example, the numerous transactions in the current account would involve personnel and system costs of a high order. Therefore, it is traditionally for banks not to pay any interest to current account balances. In fact, the Reserve Bank of India exclusively restricts also the disbursement of any interest on current account balances.

3.9.3 Savings deposits

Saving bank is another name of saving deposit. It is directly aimed at those customers who desire to save a part of their current income. Those customers also earn some interest from such savings amount. Savings bank accounts can be opened
by any eligible person / persons and certain organisations / agencies (as advised by the Reserve Bank of India from time to time). Since the scheme is meant for a major part of the country’s populace, the central bank continues to control the interest rates given by banks on such deposits. This account may be opened with a minimum balance of Rs.300/- with withdrawal slip or Rs.500/- with cheque book by the IUCBL. Frequent withdrawals are restricted and the amounts of withdrawals are not exceeding Rs.2 or 3 lakhs in a week. The bank gives interest @ 3.50% for general categories and senior citizen also.

3.9.4 Certificates of deposit

In India, certificates of deposits were launched in 1989. The objective of certificates of deposit is further, widening the range of money market instruments. Certificates of deposit give investors greater flexibility in operation of their short-term surplus funds. Certificates of deposits are negotiable money market instruments, which are issued in dematerialised form or assurance promissory notes, for funds deposited at a bank (or at certain designate financial institutions) for a stipulated period. The Reserve Bank of India gives guidelines for issue of certificates of deposit, which are governed by periodic directives.

Bank issues certified deposit to individuals, corporation, companies, trusts, funds, associations and also to non-resident Indians (non-repatriable) with a minimum amount of Rs.1 per subscriber, and can be issued in multiples of Rs. 1 lakh.

3.9.5 Deposit schemes for non-resident Indians

Under this scheme, banks attract non-resident Indians persons to deposit their money. As a depositor, he should be an Indian citizen who is residing in a foreign country either for employment or for carrying on business or vocation, or for any
other purpose, under circumstances indicating an uncertain periods of residing outside India or any condition which is allowed by the law.

3.9.6 Recurring deposit scheme

Under this scheme, a fixed is amount agreed with the banker. The customer shall deposit every month for a particular period. At the end of the deposit period, the depositor will be paid the total amount of deposit instalments together with interest. Generally, the minimum deposit period is 12 months. The maximum deposit period is 120 months. This is intended to be a variant of the savings deposit account, with the objective of inculcating regular savings habit. Usually, recurring deposit scheme gives advantages to the depositor.

3.9.7 Cash certificates

This is a variation form of the re-investment deposit scheme. Under this scheme, the maturity value will be a pre-determined lump sum amount. In another language, the deposit amount is less than face value. The amount of initial deposit will be the issue price of the cash certificate, and it will be calculated based on the maturity amount or the face value of the cash certificate as well as the time holding of the deposit. The interest is re-invested quarterly and hence there will be interest on interest. The minimum and maximum maturity periods are generally similar to the re-investment scheme.

3.9.8 Call deposit scheme

This deposit may be opened with a minimum amount of Rs. 10,000/-. Interest at 0.5% p.a. is allowed on three day’s clear notice only or as per RBI directive issued from time to time.
3.9.9 Other deposit

It includes home saving safe deposit, social security deposit, children’s welfare security deposit, automatic extension deposit, shopkeeper’s saving deposit, member’s special savings, monthly pension plan, triple benefit deposit plan, award special deposit, deposit link loan scheme, senior citizen deposit, etc.

3.9.10 Categories of deposits and others

From the above types of deposits, it may be classified into four categories e.g. (1) fixed deposits (2) saving deposits (3) current deposits, and (4) money at call and short notice.

1. Fixed deposits: “There is a form of debt investment’ for a customer, who is willing to lend money to the bank for a specified period of time.” The bank mobilizes their deposits through fixed deposit. During this stipulated time, money cannot be withdrawn from Bank. It bears interest. The interest is changing from time to time. But these deposits typically pay higher interest as compared to other deposits.

2. Saving deposits: The Imphal Urban Co-operative Bank Ltd. mobilizes the deposit through saving deposits because interest bearing demand deposits are preferred by individuals or certain types of organisations. The rate of interest is low as compared with fixed deposit.

3. Current deposits: The IUCBL collects large deposits through current deposit. Such deposits do not bear any interest. Such type of deposit is suitable to the business, firm, institutions, rich persons, etc. A wise manager tries to collect money large share through current deposit because there is no cost for it but from these it is likely to generate some income if it is invested.
4. Money at call and short notice: It is shown on the both side of balance sheet of the urban co-operative bank. When money at call and short notice is shown on the asset side it means that “it includes funds lent to discount houses, money brokers, the stock exchange, bullion brokers, corporate customers, and increasingly to other banks. ‘At Call’ money is repayable on demand whereas ‘short notice’ money implies that notice of repayment of up to 14 days will be given. After cash, money at call and short notice are banks’ most liquid assets.” Usually, urban co-operative banks can earn some interest because it is treated as a secured loans but their importance lies in providing the banks with an opportunity to use their surplus funds and to adjust their cash and liquidity position in the day to day requirements. Call money is included as part of the commercial bank’s reserve assets ratio. When money at call and short notice is appeared on the liability side of the balance sheet it is liable to pay for the customer of the bank during a very short period.

3.10 Protecting the depositor-deposit insurance

Generally, in most countries bank gives protection to depositors with help of Insurance Company. Bank pays some premium to Insurance Company. It is known as Deposit Insurance. In another language, deposit insurance is a measure taken by banks in most countries to ‘protect small depositors’ savings, either fully or in part, against any possible risk of a bank not being able to return their savings to these depositors. Deposit insurance institutions are mostly government established one and they managed it. They may or may not form part of a country’s central bank.

The United State of America was the first country to initiate an official deposit insurance scheme. The United State of America established deposit insurance during the Great Depression in 1934 by a banking crisis. Now-a-days more than 80 countries have such schemes in operation.
Whole countries make an association of Deposit Insurance. The name of association is called International Association of Deposit Insurers. Many of the deposit insurance agencies are members of the International Association of Deposit Insurers.

Deposit insurance in each country can explicitly include or exclude certain features. The following table presents a concise view of the number of countries in various regions of the world in which specific features are covered by insurance.

Number of countries in a region with each feature covered by insurance

<table>
<thead>
<tr>
<th>Feature</th>
<th>Asia Pacific</th>
<th>Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East and North Africa</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency deposits covered</td>
<td>5</td>
<td>19</td>
<td>12</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Inter bank deposits covered</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Co-operation-insurance exists</td>
<td>0</td>
<td>9</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Payment per depositor</td>
<td>6</td>
<td>16</td>
<td>14</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Scheme is permanently funded</td>
<td>6</td>
<td>20</td>
<td>16</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Premiums are risk adjusted</td>
<td>2</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Membership is compulsory</td>
<td>3</td>
<td>19</td>
<td>16</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Source of funding:-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>2</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Joint</td>
<td>4</td>
<td>14</td>
<td>9</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Public</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Administration:-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official</td>
<td>6</td>
<td>12</td>
<td>12</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Joint</td>
<td>0</td>
<td>7</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Private</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

* Regional breakdown excludes high-income countries


Note: Australia and New Zealand are the only OECD countries without explicit deposit insurance mechanism
Here, a question may arise that what happens when an insured bank fails? The insuring agency typically has the following options in the event of bank failure, it can invite bids from health banks for sale of the failed bank in which case the insured depositors' accounts will be shifted to the new bank rather than being paid off by agency; it can give financial assistance to the bank interested in acquiring the failed bank, so that depositors of the failed bank can start having accounts with acquiring bank; it can transfer all insured deposits to a healthy bank; it can take charge and manage the operations of the failed bank till it finds a suitable buyer; or it can pay off the depositors up to the maximum allowed limit.

3.11 Deposit insurance and credit guarantee corporation (DICGC) in India

The Deposit Insurance Scheme of India was established in 1962 following two bank failures in 1961. The two banks were the Luxmi Bank and the Palai Central Bank. India was the second country in the world to introduce this scheme. The first that introduced this scheme was the United States in 1934. Initially, the system exclusively covered only commercial banks.

DICGC is a wholly owned subsidiary of the Reserve Bank of India. Since 1962, it engaged in providing deposit insurance for depositors of banks against loss of part or all of their deposits arising from bank failures. Deposit insurance is compulsory and no bank can remain uninsured by the DICGC except those Cooperative banks where the concerned state governments are yet to pass the required legislation and those banks which have been deregistered by the corporation due to default in payment of premium. Each depositor in a bank is insured up to maximum of Rs. 1,00,000 (rupees one lakh) for both principal and interest amount held by him in the same right and capacity as on the date of liquidation / cancellation of bank's
license or the date on which the scheme of amalgamation / merger/ reconstruction comes in force.

All funds held in the same type of ownership at the same bank are added together before deposit insurance is determined. If the funds are in different types of ownership or are deposited into separate banks they would then be separately insured. Deposit insurance coverage limit is applied separately to the deposits in each bank. Deposit insurance premium is borne entirely by the insured bank.

3.12 Importance of deposit mobilisation

The development of banks is influenced more by their ability to attract deposits from different people than by the volume of other capital resources. If the bank has higher volume of deposits, it has larger business transactions and more for development. “Deposit mobilisation is a challenge to all banks, particularly to the cooperative banks because the urban banks are situated in rural areas. The efficiency of a bank depends upon the effective mobilization of deposits.”\(^{19}\) So one of the most important things for the bank is deposit mobilisation from the public. There were 1,941 UCBs and their deposits were to the tune of Rs.1,01,546 crores in 2003. But “as on March 2009, there were 1,721 UCBs with Rs.1,58,733 crores worth deposit, of which 53 were scheduled commercial banks.”\(^{20}\)

Deposit mobilisation is one of the primary functions of a bank. Thus, IUCBL is also performing their primary function of deposit mobilisation. If there is increase in deposit mobilisation, it will help the bank to reduce its dependence on external source of finance. The IUCBL has succeeded in mobilising the idle cash with rural poor by way of giving a 0.5 percent higher rate of interest than other commercial banks to other deposits.
The activities of a bank move in two things viz. (1) mobilisation of deposits and (2) proper deployment / utilization of deposits. Deposits (i.e. collection of money) and advances (i.e. loan paid to needy person) from public are, therefore, the main products of banking industry. The term banking includes accepting, for the purpose of lending or investment, deposits of money from the public repayable on demand or otherwise, corroborates the fact. Both deposit and advances are interdependent in the sense that without deposits, advances are least possible. In other words, where there is no advance, there is no question of mobilising the deposits. If the size of the deposits is large, the bank decides a large lending activity of the bank when the lending activity is increased the internal resources viz. share capital and reserves are naturally augmented. Further, a deposit serving as a cushion in absorbing the shocks of overdue enables the bank to keep up continuous flow of credit, which in turn, sustains an accelerated growth rate in an economy in the society. Mobilisation of deposits promotes social well being of the depositors as also the public at large by introducing to them the habit of savings. "Banks, therefore, can discharge their socio-economic responsibilities only if they accelerate the pace of deposit mobilisation."[21] Generally, the Imphal Urban Co-operative Bank can attract more mobilisation of deposits from the public in a better way than average commercial banks because the depositors are local and familiar as also residing in compactness in the area of operations and offering higher interest than the commercial banks.

3.13 Problems of deposit mobilisation

Deposit mobilisation is a challenge to all bankers and banking institutions in India. It is not easy task. Banks face some problems regarding deposit mobilisation. They are mass poverty, higher rate of interest for the borrowed money, higher rate of interest offered by the companies / financial institute for deposits, lack of quality and
variety for deposits, lack of quality and variety for consumer's services, lack of new
machine and more specialised type of bank staff at all levels, less competition among
banks.

3.14 Trends in growth of deposits

The sources of deposits of Imphal Urban Co-operatives have been broadly
classified as (1) fixed deposits (2) saving deposits (3) current deposits and (4) money
at call & short notice.

1. Fixed deposits may be divided into (a) individuals deposits (b) firms &
institutions deposits (c) cash certificates deposits & (d) miscellaneous
deposits.

2. Saving deposits may be divided into (a) individuals deposits (b) firms &
institutions deposits and (c) miscellaneous deposits.

3. Current deposits may be divided into (a) individuals deposits (b) firms &
institutions deposits (c) other societies.

4. Money at call & short notice may be divided into (a) short deposits / bankers
cheque deposits (b) deposits at call and (c) miscellaneous deposits.

After clubbing the data, the trend value shows a growth in deposits and others
both source wise and type wise in respect of IUCBL, under the study period i.e.
during 1999-00 to 2008-09.

Deposit mobilization of Imphal Urban Co-operative Bank Ltd. comprises
fixed deposits, saving deposits current deposit and money call and short notice. Table
No. 3.5 shows the progress deposit mobilisation.
3.15 Analysis of deposit

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Rs. in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>5680.69</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>5263.26</td>
<td>-7.35</td>
</tr>
<tr>
<td>2001-02</td>
<td>5590.20</td>
<td>6.21</td>
</tr>
<tr>
<td>2002-03</td>
<td>6084.67</td>
<td>8.85</td>
</tr>
<tr>
<td>2003-04</td>
<td>6924.91</td>
<td>13.81</td>
</tr>
<tr>
<td>2004-05</td>
<td>7678.67</td>
<td>10.88</td>
</tr>
<tr>
<td>2005-06</td>
<td>10229.71</td>
<td>33.22</td>
</tr>
<tr>
<td>2006-07</td>
<td>10573.46</td>
<td>3.36</td>
</tr>
<tr>
<td>2007-08</td>
<td>13789.83</td>
<td>30.42</td>
</tr>
<tr>
<td>2008-09</td>
<td>17554.22</td>
<td>27.30</td>
</tr>
<tr>
<td>AAGR</td>
<td></td>
<td>14.08</td>
</tr>
</tbody>
</table>

Source: IUCBL – Annual Audited Report from 1999-00 to 2008-09

AAGR = Annual Average Growth Rate

From the Table No.3.5, it reveals that the total deposits were Rs. 5680.69 lakhs in 1999-00 and Rs.17,554.22 lakhs in 2008-09. So, there was an increase by Rs. 11,863.53 lakhs in the total amount of deposit during ten years under study. The growth rate of deposit has increased from 6.21% in 2001-02 to Rs.13.81% in 2003-04. But after 2003-04 the growth rate in p.c. was up and down. The highest growth rate in the p.c. was 33.22 in 2005-06 and its total deposits were Rs.10,229.71 lakhs. But the average annual growth rate was 14.08%.
Table No. 3.6
Trend value of deposits

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Trend value of y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>5680.69</td>
<td>3597.53</td>
</tr>
<tr>
<td>2000-01</td>
<td>5263.26</td>
<td>4665.42</td>
</tr>
<tr>
<td>2001-02</td>
<td>5590.20</td>
<td>5733.30</td>
</tr>
<tr>
<td>2002-03</td>
<td>6084.67</td>
<td>6801.19</td>
</tr>
<tr>
<td>2003-04</td>
<td>6924.91</td>
<td>7869.08</td>
</tr>
<tr>
<td>2004-05</td>
<td>7678.67</td>
<td>10004.85</td>
</tr>
<tr>
<td>2005-06</td>
<td>10229.71</td>
<td>11072.73</td>
</tr>
<tr>
<td>2006-07</td>
<td>10573.46</td>
<td>12140.62</td>
</tr>
<tr>
<td>2007-08</td>
<td>13789.83</td>
<td>13208.51</td>
</tr>
<tr>
<td>2008-09</td>
<td>17554.22</td>
<td>14276.39</td>
</tr>
</tbody>
</table>

Source: IUCBL – Annual audited report from 1999-00 to 2008-09

\[ y = Rs.8936.96 + Rs.1067.89 \times x \]

The Table No.3.6 consider about liner trend to find out the trend value in deposits by using “Liner Equation” in the form of –

\[ Y = a + bx \]

Where,  
- \( a \) = intercept or constant  
- \( b \) = trend co-efficient of ‘x’  
- \( x \) = time  
- \( y \) = dependent variables of deposits

By applying the above formula, the calculated value of ‘a’ is Rs. 8936.96 lakhs and ‘b’ is Rs.1,067.89 lakhs. It is observed from this table that the deposit mobilization of IUCBL has been satisfactory bearing Rs. 3,597.53 lakhs in 1999-00 and it was an increase of Rs. 14,276.39 lakhs in 2008-09. From this table, it can be seen that the trend value shows an upward trend, and the total amount of deposit has increased to a considerable extent. When comparing between original deposits and
trend value of ‘y’ the original deposit was higher than the trend value of ‘y’ during the study period in the year 1999-00, 2000-01, 2007-08 and 2008-09. Table No.3.6 shows that the deposit mobilisation of the bank has been satisfactory. The predicted trend value of deposits for the year 2011-12 will be Rs.17,480.05 lakhs.

3.16 Components of deposits analysis

The total deposits can be viewed in two angles. They are (1) type wise deposits and (2) source wise deposits. The type wise deposits are fixed deposits, saving deposits, current deposits and money at call and short notice. The source wise deposits has various sources like deposits from individuals, firms and institution, cash certificate, recurring deposit at call, call deposit, children’s welfare security deposits, retirement surety certificate, monthly pension plan, etc.

Source wise deposit is analysed in Table No. 3.7, 3.8, 3.9, and 3.10. The said tables are analysed for fixed deposit or term deposits, saving deposits, current deposits and money at call short notice respectively.
<table>
<thead>
<tr>
<th>Year</th>
<th>Individuals</th>
<th>P.C. to total</th>
<th>Firms and Institutions</th>
<th>P.C. to total</th>
<th>Cash Certificates</th>
<th>P.C. to total</th>
<th>Miscellaneous</th>
<th>P.C. to total</th>
<th>Total</th>
<th>P.C. in Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>1066.64</td>
<td>38.4</td>
<td>846.31</td>
<td>30.47</td>
<td>608.24</td>
<td>21.9</td>
<td>256.16</td>
<td>9.22</td>
<td>2777.34</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>1013.96</td>
<td>34.02</td>
<td>817.2</td>
<td>27.42</td>
<td>839.92</td>
<td>28.18</td>
<td>309.07</td>
<td>10.37</td>
<td>2980.14</td>
<td>6.81</td>
</tr>
<tr>
<td>2001-02</td>
<td>1040.8</td>
<td>38.39</td>
<td>378.82</td>
<td>13.97</td>
<td>935.43</td>
<td>34.51</td>
<td>355.92</td>
<td>13.13</td>
<td>2710.97</td>
<td>-9.93</td>
</tr>
<tr>
<td>2002-03</td>
<td>1166.85</td>
<td>39.09</td>
<td>411.65</td>
<td>13.79</td>
<td>1022.2</td>
<td>34.25</td>
<td>384</td>
<td>12.87</td>
<td>2984.69</td>
<td>9.17</td>
</tr>
<tr>
<td>2003-04</td>
<td>1222.41</td>
<td>40.66</td>
<td>442.24</td>
<td>14.71</td>
<td>986.61</td>
<td>32.81</td>
<td>355.35</td>
<td>11.82</td>
<td>3006.6</td>
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<tr>
<td>2004-05</td>
<td>1238.18</td>
<td>40.57</td>
<td>452.94</td>
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<td>1063.61</td>
<td>34.85</td>
<td>297.57</td>
<td>9.75</td>
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<td>2005-06</td>
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<td>33.42</td>
<td>1572.96</td>
<td>33.86</td>
<td>1251.73</td>
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<td>268.28</td>
<td>5.77</td>
<td>4645.61</td>
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<td>2006-07</td>
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<td>12.04</td>
<td>4372.22</td>
<td>-6.25</td>
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<td>2007-08</td>
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<td>26.12</td>
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<td>12.37</td>
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<td>2008-09</td>
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<td>45.35</td>
<td>1976.02</td>
<td>28.01</td>
<td>1236.62</td>
<td>17.53</td>
<td>642.02</td>
<td>9.1</td>
<td>7053.76</td>
<td>29.26</td>
</tr>
<tr>
<td>Mean</td>
<td>40.14</td>
<td>20.58</td>
<td></td>
<td>28.69</td>
<td></td>
<td></td>
<td>10.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AAGR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.66</td>
</tr>
</tbody>
</table>

**Source:** IUCBL – Annual Audited Report from 1999-00 to 2008-09  
AAGR = Annual Average Growth Rate
The components of fixed deposits for the year 2008-09 were Rs. 3,199.11 lakhs for individuals, Rs. 1,976.02 lakhs for firms and institutions, Rs. 1,236.62 for cash certificates and Rs. 642.02 lakhs for miscellaneous which is presented in the Diagram No. 3.6.

Diagram no. 3.6
Components of Fixed Deposit for the year 2008-09

The researcher regrouped the fixed deposits / term deposits in four heads. They are (1) individuals (2) firms and institutions (3) cash certificates and (4) miscellaneous. As per the No 3.7, individual deposits contributes the p.c. to the total fixed deposit in the range of 33.42% to 46.74% during the study period. The highest p.c. is represented in 2007-08. The average p.c. is 40.14% representing the first position among the mean. For firms and institutions the p.c to total firms and institutions has in the range of 13.44% to 33.86% during 10 years study period and the average p.c. is 20.58%. The cash certificates represent upward trend of 21% in 1999-00 to 34% in 2002-03 and after this it represents the second position among the mean. The miscellaneous represents upward trend during first three years and next four years, it begins downward trend in p.c. The p.c. in growth of total fixed deposits
during the study period moves up and down in p.c. The highest p.c. of growth was 34.30 and the average annual growth rate was 8.66%.

Table No. 3.8
Components of saving deposit

<table>
<thead>
<tr>
<th>Year</th>
<th>Individuals</th>
<th>P.C. in total</th>
<th>Firms and Institutions</th>
<th>P.C. in total</th>
<th>Misc.</th>
<th>P.C. in total</th>
<th>Total</th>
<th>P.C. in Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>926.72</td>
<td>90.35</td>
<td>98.77</td>
<td>9.63</td>
<td>0.25</td>
<td>0.02</td>
<td>1025.74</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>833.85</td>
<td>88.04</td>
<td>113.04</td>
<td>11.93</td>
<td>0.25</td>
<td>0.03</td>
<td>947.14</td>
<td>-8.3</td>
</tr>
<tr>
<td>2001-02</td>
<td>915.19</td>
<td>89.32</td>
<td>109.11</td>
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<td>0.32</td>
<td>0.03</td>
<td>1026.42</td>
<td>7.56</td>
</tr>
<tr>
<td>2002-03</td>
<td>1143.22</td>
<td>90.75</td>
<td>116.25</td>
<td>9.23</td>
<td>0.31</td>
<td>0.02</td>
<td>1259.79</td>
<td>18.67</td>
</tr>
<tr>
<td>2003-04</td>
<td>1232.26</td>
<td>88.16</td>
<td>165.24</td>
<td>11.82</td>
<td>0.31</td>
<td>0.02</td>
<td>1397.92</td>
<td>9.88</td>
</tr>
<tr>
<td>2004-05</td>
<td>1599.81</td>
<td>88.3</td>
<td>211.88</td>
<td>11.69</td>
<td>0.18</td>
<td>0.01</td>
<td>1811.86</td>
<td>22.85</td>
</tr>
<tr>
<td>2005-06</td>
<td>1730.77</td>
<td>81.66</td>
<td>388.6</td>
<td>18.33</td>
<td>0.07</td>
<td>0</td>
<td>2119.45</td>
<td>14.51</td>
</tr>
<tr>
<td>2006-07</td>
<td>2049.57</td>
<td>86.06</td>
<td>320.9</td>
<td>13.89</td>
<td>1.13</td>
<td>0.05</td>
<td>2381.61</td>
<td>11.01</td>
</tr>
<tr>
<td>2007-08</td>
<td>2049.72</td>
<td>86.47</td>
<td>319.71</td>
<td>13.49</td>
<td>1.13</td>
<td>0.05</td>
<td>2370.56</td>
<td>-0.47</td>
</tr>
<tr>
<td>2008-09</td>
<td>3085.57</td>
<td>89.99</td>
<td>339.18</td>
<td>9.89</td>
<td>4.17</td>
<td>0.12</td>
<td>3428.92</td>
<td>30.87</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>87.91</td>
<td></td>
</tr>
<tr>
<td>AAGR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12.06</td>
<td>63.56</td>
</tr>
</tbody>
</table>

Source: IUCBL – Annual Audited Report from 1999-00 to 2008-09
AAGR = Annual Average Growth Rate

The Table No. 3.8 is also rearranged from the original data in three heads i.e.(1) individual (2) firms and institutions and (3) miscellaneous. From the Table No.3.8, the component of individuals is sharing a lion share. It represents in the range of 81.66% to 90.75% to the total saving bank deposits during 10 years study period and the average p.c. was 87.91. Firms and institutions shows in the range of 9.23% to 18.33% to the total saving deposits during study period and its average was 12.06%.

Lastly, the miscellaneous saving deposit shares a nominal amount with the total saving carrying in the range of 0.00% to 0.12% during the study period and its average was 0.04%. The growth trend of saving bank deposit was up and down during the study period representing an annual average growth rate of 10.66%.
Table No. 3.9  
Components of current deposits  

<table>
<thead>
<tr>
<th>Year</th>
<th>Individuals</th>
<th>P.C. in total</th>
<th>Firms and Institutions</th>
<th>P.C. in total</th>
<th>Misc.</th>
<th>P.C. in total</th>
<th>Total</th>
<th>P.C. in Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>1047.22</td>
<td>73.11</td>
<td>377.78</td>
<td>26.37</td>
<td>7.49</td>
<td>0.52</td>
<td>1432.49</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>498.28</td>
<td>58.12</td>
<td>336.33</td>
<td>39.23</td>
<td>22.76</td>
<td>2.65</td>
<td>857.37</td>
<td>-67.08</td>
</tr>
<tr>
<td>2001-02</td>
<td>863.64</td>
<td>65.84</td>
<td>433.08</td>
<td>33.02</td>
<td>15.04</td>
<td>1.15</td>
<td>1311.77</td>
<td>34.64</td>
</tr>
<tr>
<td>2002-03</td>
<td>908.28</td>
<td>63.02</td>
<td>340.74</td>
<td>23.64</td>
<td>192.25</td>
<td>13.34</td>
<td>1441.27</td>
<td>8.99</td>
</tr>
<tr>
<td>2003-04</td>
<td>727.56</td>
<td>50.19</td>
<td>709.29</td>
<td>48.93</td>
<td>12.75</td>
<td>0.88</td>
<td>1449.6</td>
<td>0.57</td>
</tr>
<tr>
<td>2004-05</td>
<td>1056.03</td>
<td>66.49</td>
<td>525.39</td>
<td>33.08</td>
<td>6.87</td>
<td>0.43</td>
<td>1588.29</td>
<td>8.73</td>
</tr>
<tr>
<td>2005-06</td>
<td>1459.85</td>
<td>66.38</td>
<td>724.02</td>
<td>32.92</td>
<td>15.22</td>
<td>0.69</td>
<td>2199.09</td>
<td>27.78</td>
</tr>
<tr>
<td>2006-07</td>
<td>1886.27</td>
<td>74.43</td>
<td>620.75</td>
<td>24.49</td>
<td>27.34</td>
<td>1.08</td>
<td>2534.36</td>
<td>13.23</td>
</tr>
<tr>
<td>2007-08</td>
<td>3672.7</td>
<td>73</td>
<td>1353.07</td>
<td>26.89</td>
<td>5.28</td>
<td>0.1</td>
<td>5031.05</td>
<td>49.63</td>
</tr>
<tr>
<td>2008-09</td>
<td>4634.24</td>
<td>80.18</td>
<td>1141.48</td>
<td>19.75</td>
<td>3.82</td>
<td>0.07</td>
<td>5779.53</td>
<td>12.95</td>
</tr>
<tr>
<td>Mean</td>
<td></td>
<td>67.08</td>
<td>30.83</td>
<td>2.09</td>
<td></td>
<td></td>
<td></td>
<td>9.94</td>
</tr>
</tbody>
</table>

**Source:** IUCBL – Annual Audited Report from 1999-00 to 2008-09  
AAGR = Annual Average Growth Rate

The components of current deposit are (1) individuals (2) firms and institutions and (3) miscellaneous. From the above Table No 3.9, the individuals of current deposit were showing a largest share to the total current deposits. It represents in the range of 50.19% to 80.18% and its average is 67.08%. Current deposit of individuals in the total current deposit was showing in the range of 50.19% to 80.18% and its average p.c. was 67.08%. The firms and institutions had shared with the total current deposit. It was showing an up and down formed during the study period. The average p.c. was 30.83. The miscellaneous of current deposit was sharing a minimum amount with the total current deposit. The p.c. in growth of total current deposit was also up and down and its average annual growth rate was 9.94%.
### Table No. 3.10
**Components of money at call and short notice**

<table>
<thead>
<tr>
<th>Year</th>
<th>Short Deposits/ Bankers Cheque</th>
<th>P.C. in total</th>
<th>Deposits at-call</th>
<th>P.C. in total</th>
<th>Misc.</th>
<th>P.C. in total</th>
<th>Total</th>
<th>P.C. in Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>118.34</td>
<td>26.59</td>
<td>312.67</td>
<td>70.24</td>
<td>14.11</td>
<td>3.17</td>
<td>445.12</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>188.39</td>
<td>39.36</td>
<td>145.63</td>
<td>30.43</td>
<td>144.57</td>
<td>30.21</td>
<td>478.6</td>
<td>6.99</td>
</tr>
<tr>
<td>2001-02</td>
<td>427.2</td>
<td>78.7</td>
<td>110.94</td>
<td>20.44</td>
<td>4.7</td>
<td>0.87</td>
<td>542.84</td>
<td>11.83</td>
</tr>
<tr>
<td>2002-03</td>
<td>296.26</td>
<td>74.27</td>
<td>97.76</td>
<td>24.51</td>
<td>4.88</td>
<td>1.22</td>
<td>398.92</td>
<td>-36.08</td>
</tr>
<tr>
<td>2003-04</td>
<td>772.07</td>
<td>72.1</td>
<td>129.06</td>
<td>12.05</td>
<td>169.67</td>
<td>15.84</td>
<td>1070.79</td>
<td>62.75</td>
</tr>
<tr>
<td>2004-05</td>
<td>902.48</td>
<td>73.6</td>
<td>99.13</td>
<td>8.08</td>
<td>224.62</td>
<td>18.32</td>
<td>1226.23</td>
<td>12.68</td>
</tr>
<tr>
<td>2005-06</td>
<td>682.56</td>
<td>53.93</td>
<td>496.63</td>
<td>39.24</td>
<td>86.36</td>
<td>6.82</td>
<td>1265.56</td>
<td>3.11</td>
</tr>
<tr>
<td>2006-07</td>
<td>731.61</td>
<td>56.92</td>
<td>395.34</td>
<td>30.76</td>
<td>158.33</td>
<td>12.32</td>
<td>1285.27</td>
<td>1.53</td>
</tr>
<tr>
<td>2007-08</td>
<td>772.3</td>
<td>55.22</td>
<td>367.07</td>
<td>26.24</td>
<td>259.3</td>
<td>18.54</td>
<td>1398.67</td>
<td>8.11</td>
</tr>
<tr>
<td>2008-09</td>
<td>590.56</td>
<td>45.71</td>
<td>311.72</td>
<td>24.13</td>
<td>389.72</td>
<td>30.16</td>
<td>1292</td>
<td>-8.26</td>
</tr>
<tr>
<td>Mean</td>
<td>57.64</td>
<td>28.61</td>
<td>13.75</td>
<td></td>
<td></td>
<td></td>
<td>6.96</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** IUCBL – Annual Audited Report from 1999-00 to 2008-09

AAGR = Annual Average Growth Rate

Money at call and short notice are clubbed together from the original data in three heads. They are (1) short deposits / bankers cheque (2) deposit-at-call and (3) miscellaneous. From the above Table No.3.10, the major share was short deposit / banker’s cheque. It was representing in the range of 26.59% to 78.70% in the total money at call and short notice and its average p.c. to the total was 57.64 during the 10 years study period. The deposit at call was moderately sharing with the total money at call and short notice. It was in the decreasing trend to the total of 70.24% in 1999-00 to 8.08% in 2004-05 except in the year 2002-03. The average p.c. was 28.61 to the total. The miscellaneous was also sharing a minimum amount with the total. The average p.c. to the total money at call and short notice was 13.75%. The annual average growth rate was 6.96% during the ten years study period.
## Table No. 3.11
Type wise deposits analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed Deposits</th>
<th>Saving Bank Deposits</th>
<th>Current Deposits</th>
<th>Money at call and Short Notice</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>Value 2777.34</td>
<td>1025.74</td>
<td>1432.49</td>
<td>445.12</td>
<td>5680.69</td>
</tr>
<tr>
<td></td>
<td>P.c. to total 48.89</td>
<td>18.06</td>
<td>25.22</td>
<td>7.84</td>
<td>100.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>Value 2980.14</td>
<td>947.14</td>
<td>857.37</td>
<td>478.60</td>
<td>5263.26</td>
</tr>
<tr>
<td></td>
<td>P.c. to total 56.62</td>
<td>18.00</td>
<td>16.29</td>
<td>9.09</td>
<td>100.00</td>
</tr>
<tr>
<td>2001-02</td>
<td>Value 2710.97</td>
<td>1024.62</td>
<td>1311.77</td>
<td>542.84</td>
<td>5590.20</td>
</tr>
<tr>
<td></td>
<td>P.c. to total 48.50</td>
<td>18.33</td>
<td>23.47</td>
<td>9.71</td>
<td>100.00</td>
</tr>
<tr>
<td>2002-03</td>
<td>Value 2984.69</td>
<td>1259.79</td>
<td>1441.27</td>
<td>398.92</td>
<td>6084.67</td>
</tr>
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<td>P.c. to total 49.05</td>
<td>20.70</td>
<td>23.69</td>
<td>6.56</td>
<td>100.00</td>
</tr>
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<td>Value 3006.60</td>
<td>1397.92</td>
<td>1449.60</td>
<td>1070.79</td>
<td>6924.91</td>
</tr>
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<td>P.c. to total 43.42</td>
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<td>15.46</td>
<td>100.00</td>
</tr>
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<td>Value 3052.29</td>
<td>1811.86</td>
<td>1588.29</td>
<td>1226.23</td>
<td>7678.67</td>
</tr>
<tr>
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<td>P.c. to total 39.75</td>
<td>23.60</td>
<td>20.68</td>
<td>15.97</td>
<td>100.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>Value 4645.61</td>
<td>2119.45</td>
<td>2199.09</td>
<td>1265.56</td>
<td>10229.71</td>
</tr>
<tr>
<td></td>
<td>P.c. to total 45.41</td>
<td>20.72</td>
<td>21.50</td>
<td>12.37</td>
<td>100.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>Value 4372.22</td>
<td>2381.61</td>
<td>2534.36</td>
<td>1285.27</td>
<td>10573.46</td>
</tr>
<tr>
<td></td>
<td>P.c. to total 41.35</td>
<td>22.52</td>
<td>23.97</td>
<td>12.16</td>
<td>100.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>Value 4989.55</td>
<td>2370.56</td>
<td>5031.05</td>
<td>1398.67</td>
<td>13789.83</td>
</tr>
<tr>
<td></td>
<td>P.c. to total 36.18</td>
<td>17.19</td>
<td>36.48</td>
<td>10.14</td>
<td>100.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>Value 7053.76</td>
<td>3428.92</td>
<td>5779.53</td>
<td>1292.00</td>
<td>17554.22</td>
</tr>
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<td>P.c. to total 40.18</td>
<td>19.53</td>
<td>32.92</td>
<td>7.36</td>
<td>100.00</td>
</tr>
<tr>
<td>Mean</td>
<td>44.94</td>
<td>19.88</td>
<td>24.52</td>
<td>10.67</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** IUCBL - Annual Audited Report from 1999-00 to 2008-09
**AAGR = Annual Average Growth Rate**

The total deposits are components of four heads. They are (1) fixed deposits (2) saving bank deposits (3) current deposit and (4) money at call and short notice. From the Table No 3.11, it is learnt that the fixed deposit contributed a lion share to total deposit in the range of 36.18% to 56.62%. The average p.c. to the total deposit was 44.94. The saving bank deposit has also contributed to the total deposit. It was an increasing from 18% in 1999-00 to 23% in 2004-05 and thereafter the trend percentage was up and down in the remaining years during the study period. The
current deposit has the second largest share contributing to the total. It was up and down in p.c. of total deposit during 10 years study period. The average mean was 24.52. Money at call and short notice also contributed some amount to the total deposit. It has an increasing trend from 7.84 p.c. in 1999-00 to 15.97 p.c. in 2004-05 except 2002-03 and thereafter, it was a decreasing trend up to the end of the study period. The overall deposits were found to be satisfactory at all.

As stated in the above table, total deposit are comprised of four components viz. (1) fixed deposit / term deposit (2) saving deposit (3) current deposit and (4) money at call and short notice. Among the four types of deposit, the saving deposit account has lower interest than fixed deposit account and current deposit account has no interest at all. So, low cost deposit is the combination of current deposit account and saving deposit account and low cost deposit give more benefit to the bank. Money at call and short notice is ignored because such deposits are for very short period and such money cannot be invested for loan and advances.

Large amount of expenditures of the bank is interest paid out on deposits. It constitutes a major part of the total expenses. In order to increase profitability of the bank, it should cut down the interest expenditures. There would be a significant reduction under this head if more emphasis is given to low interest deposit accounts. The banks should reorient its priorities in low cost deposits.
Table No. 3.12
Low cost deposit

<table>
<thead>
<tr>
<th>Year</th>
<th>Total of Low Cost Deposit</th>
<th>Increase or Decrease (-)</th>
<th>P.C. Increase or Decrease</th>
<th>Total Deposit</th>
<th>P.C. of low cost deposit to total deposit</th>
</tr>
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<tbody>
<tr>
<td>1999-00</td>
<td>2,458.23</td>
<td></td>
<td></td>
<td>5,235.57</td>
<td>46.95</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,804.52</td>
<td>-653.71</td>
<td>-26.59</td>
<td>4,784.66</td>
<td>37.71</td>
</tr>
<tr>
<td>2001-02</td>
<td>2,336.38</td>
<td>531.87</td>
<td>29.47</td>
<td>5,047.36</td>
<td>46.29</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,701.05</td>
<td>364.67</td>
<td>15.61</td>
<td>5,685.74</td>
<td>47.51</td>
</tr>
<tr>
<td>2003-04</td>
<td>2,847.52</td>
<td>146.47</td>
<td>5.42</td>
<td>5,854.12</td>
<td>48.64</td>
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<td>2004-05</td>
<td>3,400.15</td>
<td>552.63</td>
<td>19.41</td>
<td>6,452.44</td>
<td>52.70</td>
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<td>2005-06</td>
<td>4,318.54</td>
<td>918.39</td>
<td>27.01</td>
<td>8,964.15</td>
<td>48.18</td>
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<td>2006-07</td>
<td>4,915.97</td>
<td>597.43</td>
<td>13.83</td>
<td>9,288.19</td>
<td>52.93</td>
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<td>2007-08</td>
<td>7,401.62</td>
<td>2,485.65</td>
<td>50.56</td>
<td>12,391.16</td>
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<td>2008-09</td>
<td>9,208.46</td>
<td>1,806.84</td>
<td>24.41</td>
<td>16,262.22</td>
<td>56.62</td>
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<tr>
<td>AAGR</td>
<td></td>
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<td>17.68</td>
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Source: IUCBL – Annual Audited Report from 1999-00 to 2008-09
AAGR = Annual Average Growth Rate

Table No. 3.12 shows that the low cost deposit of IUCBL was increased from Rs.2,458.23 lakhs to Rs. 9,208.46 lakhs in 2008-09. It represents an increase of nearly four times during the periods of study. The p.c. of trend value is the range of -26.59 to 50.56. It represents an annual average growth rate of 17.68%.

It can be seen from Table No. 3.12 that the proportion of low cost deposits to total deposits had decreased from 46.95% in 1999-00 to 47.51% in 2002-03 and afterwards the proportion of p.c. of low cost deposit to total deposits was like a see-saw position. But the average proportionate p.c. of low cost deposit to total deposits was 49.73. It should be noted that greater the proportion of low cost deposits to total deposits, the greater is the scope for improved profitability. The increasing trend in low cost deposits has led to a good earning capacity of the bank under study.
References:


