Chapter -6

ANALYSIS AND EVALUATION THROUGH PROFITABILITY

- Return on investment
- Percentage ratio of spread to working funds
- Issues and Suggestions
CHAPTER-6
ANALYSIS AND EVALUATION THROUGH PROFITABILITY

Profitability of urban cooperative banks can be evaluated through the pointing of the scheduled urban co-operative banks because these banks are the leader of this group. According to data available for the year 1998-1999, the outstanding deposits of 29 scheduled PCBs at Rs. 616429 crore as on March 1999, posted a lower annual growth of 28.9 per cent as compared to that of 32.9 per cent during the 1998. The outstanding credit of scheduled PCBs at Rs. 10112 crore recorded a growth of 20.7 per cent in 1998-99, which was lower than that of 33.1 per cent in 1997-98. The Credit-Deposit ratio of scheduled PCBs declined from 65.7 per cent as at the end of March 1998 to 61.5 per cent in end-March 1999. Position of Deposit in respect of U.P. Scheduled UCB for the year 2001 was noted Rs. 14, 285.85 crore & Loans & Advances were recorded Rs. 4770.99 crore. Total Turnover of the bank was over Rs. 500 crore.¹

It needs to be recognised that deposits are the major source of funds for the scheduled PCBs and their share in total liabilities was well over 70 per cent as at the end of March 1999. Capital and reserves constituted about 9 per cent of the total liabilities of the scheduled PCBs. On the asset front, loans and advances constituted

¹ Reports of Scheduled UCBs - 31st March 2001
the most significant component, followed by investment. During the year 1998-99, the composition of assets of scheduled PCBs did not show any appreciable change. The share of loans and advances declined from 46.6 per cent to 44.2 percent, while that of investments increased from 25.3 per cent to 26.4 percent.

The total income of the scheduled PCBs increased significantly by 24 per cent to Rs. 2,535 crore during 1998-99. The greater share of the total income come from interest income (95 per cent). Total of interest and other operating expenses, however, grew at a higher rate of 28 per cent to Rs. 2,140 crore causing the spread (i.e., net interest income), as a percentage to total assets, to decline from 3.78 per cent in 1997-98 to 3.25 per cent in 1998-99. In absolute terms, the operating profits amounted to Rs. 395 crore and recorded a growth of 5 per cent during 1998-99. As a percentage to total assets, operating profits declined from 2.03 per cent in 1997-98 to 1.67 percent in 1998-99. The provisioning requirements in 1998-99 declined by 26 per cent from Rs. 290 crore in 1997-98 to Rs. 214 crore in 1998-99. As a result, the scheduled PCBs as a group posted much higher net profits of Rs. 181 crore during 1998-99 as compared with that of Rs. 86 crore in the previous year. As a percentage to total assets, net profits of scheduled PCBs increased from 0.46 per cent in 1997-98 to 0.76 per cent in 1998-99. I must mention here that in view of the increasing competition being currently witnessed in the banking segment, PCBs would need to go in for increased customer orientation and greater product sophistication in order to sustain and increase their market share in the medium to long run.1

Lest it be felt that UCBs as a group are totally segregated from the commercial banking sector, let me draw your attention to a number of commonalities in the operating environment between the scheduled PCBs and Scheduled Commercial Banks (SCBs). In essence, and attempt is made to compare the performance of these groups. By virtue of their retail market orientation and identified customer groups, the scheduled PCBs were able to achieve higher growth rates in deposits and credit than the scheduled commercial banks. A comparison of the financial performance of these two groups reveals that in relation to total assets, the spread of scheduled PCBs was higher and the operating expenses were lower than those of SCBs. However, the gap in the operating profit ratios of scheduled PCBs and SCBs narrowed down due to higher share of 'other income' for SCBs. Still the profitability of scheduled PCBs was higher than that of SCBs. While comparing the expenditure pattern of PCBs and SCBs, it was also observed that the interest expenses accounted for a higher share of the total expenses in the case of PCBs but their establishment.

RETURN ON INVESTMENT

U.P. Urban Banks use most of their available funds to make loans, but they also place funds in investment securities to obtain interest income, to provide for unexpected liquidity needs, and to diversify credit risk. The demand for bank loans is cyclical, and at times banks have excess funds because of a decline in demand for new loans. Seasonal increases in deposits also produce excess funds. Investing excess funds in marketable securities allows urban banks to earn interest, rather than hold non earning, idle cash reserves. In addition to providing earnings, marketable securities are purchased to provide liquidity. Urban Bank’s available funds can’t be put into loans because the banks flow of deposits can’t be predicted with certainty; some funds must be held available in marketable securities that can
be sold in the secondary market to provide additional funds as needed. These Banks also invests in securities to diversify credit risk among its portfolios of loans and investments. The assumption of greater credit risk in one portfolio can be balanced with lower risk assets in another portfolio. Urban banks are not allowed to purchase corporate stock, but they may invest in corporate bonds, as well as debt issues of other financial institutions. Their various debt obligations differ in terms of their maturities, degree of credit risk liquidity and marketability, Tax treatment, yields, methods of issue, and ownership.

Here researcher is deviding the areas of investment by urban-banks to know about the return on investment in the following way-

**SLR investment in the Government and approved securities**

Urban-banks has increased proportion of S.L.R. holdings in the form of Govt. and other approved securities as percentage of NDTL in the following manner, which has achieved by the urban Co-op. Banks by the end of March 2002.

Table (6.I)- Scoring pattern of investment in Govt. and other approved securities

<table>
<thead>
<tr>
<th>Category of UCBs</th>
<th>Investment in Govt. and other approved securities as percentage of net demand and time liabilities (NDTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Present</td>
</tr>
<tr>
<td>Scheduled UCBs</td>
<td>15%</td>
</tr>
<tr>
<td>Non Scheduled UCBs</td>
<td></td>
</tr>
<tr>
<td>i- UCBs with NDTL of Rs. 25 Crore and above</td>
<td>10%</td>
</tr>
<tr>
<td>ii. UCBs with NDTL of less than Rs. 25 crore</td>
<td>Nil</td>
</tr>
</tbody>
</table>
From April 01, 2003 some scheduled urban co-op. Banks have their entire SLR assets of 25% of NDTL only Govt and other approved securities.

Some Scheduled UCBs and non scheduled UCBs with NDTL of Rs. 25 crore and above are required to maintain investments in Govt. securities only in SGL Accounts with Reserve bank of India or in constituent SGL Accounts of Public sector or Banks and Primary dealers (PDs) RBI by its circular No. B/R 16.26.00/2000-01 date 9-8-2001 has advised that UCBs Can also hold securities in constituent SGL accounts maintained by other scheduled commercial bank, state co-operative Banks, depositories and stock holding corporation of India Ltd.. Non scheduled UCBs with NDTL of less than Rs. 25 crore may maintain Govt-securities in Physical or scrip form.

Graph (6.A) : Scoring pattern of SLR investment in Govt. and approved securities.

(i) Scheduled UCBs
(ii) Non Scheduled UCBs with NDTL of Rs. 25 Crores & above

![Graph showing percentage comparison between Present and Revised for Series 1.]

(iii) Non Scheduled UCBs with NDTL of less than Rs. 25 Crores and above

![Graph showing a cone-like distribution for Present and Revised for Series 1.]

*Note:* Violation or circumvention of above instruction will be liable for penal action against banks which could include raising of reserve requirements, withdrawal of refinance from the reserve Bank of India and denial of access to money market as also such other penalty under the provisions of the Banking regulation act as may deem fit.
SLR Investment

The deadline for achieving the stipulated level of SLR holding in Government and other approved securities as a percentage of NDTL has been extended from 31st March 2002 to September 30, 2002. (Banks which have already achieved the target as on 20th October 2001 or were nearer to the target for end March or end September 2002, are advised not to bring down their present level of SLR holdings) (1)

Deposit of funds by urban Co-op. Banks as deposits with other institutions and Urban Co-operative Banks-

Urban Co-operative Banks essentially being Purveyors of credit to persons with small means and as parking of funds/keeping deposits with other urban co-operative Banks, poses systemic i.e. risk and affect depositing banks financials, in the event of any financial problems afflicting the deposit accepting bank. It has therefore been decided to prohibit for meeting their clearing and remittance requirements.

Such of those UCBs which are maintaining these funds in the form of fixed deposits or term deposits with other UCBs ae required to unwind the outstanding deposits before the end of June 2002. The banks are also required to report their position to respective regional offices.

Investment of funds by urban Co-operative Banks as deposits with Public sector undertakings / Companies / Corporations / Co-operative institutions

Urban Co-operative Banks are enjoying various concessions such as higher rates of interest on deposits lower liquidity ratio, exclusion of
borrowings from higher financing agencies from outside liabilities etc, with the objective among others to promote thrift and mobilisation of resources, from the Community of area of operation, for the purpose of provision of credit at a reasonable rate to small borrowers. In this context, if the urban co-operative banks choose to divert such surplus funds as deposits with institutions/Companies/ etc., it amounted to grant of unsecured advances to the concerned institutions/Companies thereby attracting the provisions of the Reserve Bank directive on interest rates on advances as well as maximum limit on advances.

**Investment of funds by banks in PSUs**

- Urban banks invest their surplus fund (i.e. upto 10% of the Demand and time liabilities) in public sector undertaking bonds. Conditions in respect of it are as follows -
  - Investments already made in PSU bond plus such fresh investments are not exceed the limit of 10% as stipulated above. The limit includes the investments made in such bonds out of statutory reserve fund etc.
  - A provision exists for such investments in respective state co-operative societies/Multi state Co-operative societies act and a specific permission is obtained from the concerned Registrar of Co-operative Societies of the state.
  - Some banks of Uttar Pradesh are complying with instructions contained in circular UBD No. (Plan) 12/UB. 81/92-93 dated 15th September 1992, regarding investment policy and the dealing in securities transactions.
  - Now the urban banks of U.P. are complying with the reserve bank of India’s instructions regarding non assets, income recognition, Assets classification and provisioning.
- There is no excessive investment in one or two public sector bonds has made. The bank also assess the soundness of the investment, relative to pricing, maturity, rate, security, liquidity and yield etc. aspects while investing in PSU Bonds. These banks also keep in mind that necessary depreciation has to be fully provided for in the investment depreciation reserve, against the erosion in the value.

- Primary Co-op. Banks also invest their surplus funds in PSU Bonds and also in equity, subject to the ceiling of 10% of their deposits in the following all India financial institutions.

IDBI, IFCI, ICICI, 
Exim Bank, IRBI, NABARD, 
SIDBI, NHB, UTI, 
LIC, GIC, RCTC, 
TDJCI, TFCI, SCICI, 
DFHI, STCI

**Investment portfolio of Banks - Transaction in Government Securities.**

Investment portfolio of urban co-operative Banks compare only a small proportion of Govt. and other securities.

Researcher indicates that there is no prohibition to deal in Govt. and other approved securities in case a bank has a large surplus, which it would like to profitably invest, Subject to bank observing the following instructions:

- The transaction undertaken by banks in government and other approved securities or in any other securities such as PSU
Bonds and units should be only on their own investment account.

- The banks should not undertake securities transactions only on outright basis.

**Role of Broker**

Urban banks of U.P. has been permitted on November 1997 to undertake transactions in securities among themselves or with non-bank clients through members of the National Stock Exchange and OTC exchange of India respectively. Banks are now permitted to undertake transactions through the members of the stock exchange, Mumbai (BSE). In case any transactions in securities are not undertaken on the NSE, OTC Exchange be of India or stock exchange, Mumbai (BSE) the same may be undertaken by banks directly without the use of brokers.

*Note* - Violation or circumvention of the above instruction will be liable for penal action against banks which could include raising of reserve requirements, withdrawal of re-finance from the reserve Bank of India and denial of access to money market as also such other penalty under the provision of the Banking Regulation act.

**Investment in small scale Industries**

Urban banks of U.P. invest their money in small scale industries but the return on investment is not good because most of the borrower are not in a good condition so they are not able to return money to these banks.

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1. Circular UBD No. plan Cir/22/09-29-00/2000-01 dated 30-12-2000
Banks has been fixed limits for the Investment in plant and machinery in respect of industry related business (Industry related) Enterprises (SSSEES). The limit has been increased to Rs. 10 lakhs as against Rs. 5 lakhs at present. An illustration list of small scale service Business (Industry related) Enterprises is as under :-

**Illustrative list of Small Scale Service and Business (Industri Related) Enterprises (SSSBES):**

- Advertising Agencies
- Marketing Consultancy
- Industrial Consultancy
- Equipment Rental & Leasing
- Typing Centres
- Xerox
- Industrial Photography
- Industrial R & D Labs
- Industrial Testing Labs
- Computerised Design and Drafting
- Creation of Databases Suitable for foreign/Indian Markets
- Software development
- Auto repair, Services and garages
- Documentary films on themes like family planning
- Social Forestry, Energy Conservation and Commercial advertising
- Laboratories engaged in Testing of Raw materials, finished Products

"Servicing Industry" undertaking engaged in maintenance, repair, testing or electronic/electrical equipment/instruments i.e. measuring/Control instruments servicing of all types of vehicles and machinery of any description including televisions, tape recorders, VCRs, Radios, Transformers, Motors, Watches etc.
Laundry and dry cleaning
X-ray clinic
Tailoring
Servicing of agriculture farm equipment e.g. Tractor, Pump, Rig,
Boring Machine, etc.
Weight Bridge
Photographic lab
Blue printing and enlargement of drawing/designs facilities
ISD/STD Booths for industries
Teleprinter/fax services (Software servicing & Data Processing
including Computer graphics) and Printing press which were earlier
registerable as SSBEs have since have been recognized as industrial
activity registerable as small scale Industry (SSI).

Sub Contracting Exchanges established by Non-Government industry
associations.
Coloured, and Black and white studios equipped with processing
laboratory.
Ropeways in hilly areas
Installation and operation of Cable TV network
Operating EPABX under franchises
Beauty Parlors and creches

List of activities which are not recognised as small scale
Industry/Business (Industry Related) Enterprises (SSSBES):

Transportation
Storage (except Cold Storage Which is recognized as SSI)
Retail/Wholesale Trade establishments
General Marchandized Stores.
Sales outlets of industrial Components.
Urban banks of U.P. get lower average return on their investments. Normally they have a low CD Ratio because of risk of NPAS and limited avenues for investment. So, they invest the remaining available funds in risk-free Govt. Securities and fixed deposits with commercial banks and state and central cooperative banks, that yield a relatively lower rate of return.

PERCENTAGE RATIO OF SPREAD TO WORKING FUNDS

Working capital structure is concerned with the problems that rise in attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them. The term "Current assets" refers to those assets which in the ordinary course of business can be, or will be, turned into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm. "Current liabilities" are those liabilities which are intended at their inception to be paid in a ordinary course of business with in a year, out of the current Assets or earning of the concern.

The goal of working capital management is to manage the urban-bank's current assets and current liabilities in such a way that "Satisfactory level of working capital" is maintained. A notable feature of Short term assets is the question of Profitability versus liquidity and the related aspects of risk. If the size of such assets is large, the liquidity position would improve, but profitability would be adversely
affected as funds will remain idle, conversely, if the holdings of such assets are relatively small, the overall profitability of Bank will no doubt increase, but it will have an adverse effect on the liquidity position and make the bank more risky. If the bank cannot maintain a satisfactory level of working - Capital, it is likely to become insolvent and may even be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must be managed efficiently in order to maintain the liquidity of the Bank, while not keeping to high a level of any one of them. The financial managers of Bank spend a great deal of time in managing current assets and current liabilities. Arranging Short-term financing, negotiating favourable credit terms, controlling the movement of cash, administering accounts receivable and maintaining the investment in inventories consume a great deal of time of Bank’s managers (financial Mangers). The basic ingredients of the theory of working capital structure and the variable affecting the level of difference of components may be said to include its definition, need optimum level of current assets, the trade off between profitability and risk associated with a firm’s level of current assets and liabilities, financing, raised strategies and so on.

Urban-banks studie the working capital under two heads:
- Fixed, regular or permanent working Capital
- Variable, seasonal, or Special or temporary working capital.

The distinction between regular and variable working capital is important in arranging the finance for a Bank. It is unrealiable to bring regular working capital into bank by on a short-term basis because a creditor can seriously handicap the bank, refusing to continue lending. The distinction between permanent and temporary workign cipital is illustrated in the next page.
Figure (6.a): Showing the permanent and temporary working capital of UCBs

The figure shows that the permanent level is fairly constant, while temporary working capital is fluctuating - sometimes increasing and sometimes decreasing in accordance with reasonable demands. In the case of expansion of Bank, the permanent working cap. line may not be horizontal. This is because the demand for permanent current assets might be increasing (or decreasing) to support a rising (or declining) level of activity. In that case the line would be a rising one as shown in the next page.
In Uttar Pradesh the working capital of urban banks is based on "Temporary as fluctuating" because these banks are not in a good position and because of insufficient working capital they are unable to fulfil their requirement.

Both kinds of working capital are necessary to facilitate these banks. Temporary working capital is created to meet liquidity requirements that are of a purely transient nature.

These banks are basically cater the credit needs of people of small means. It is added that the modalities of financing leasing
and hire purchase companies in meeting their working capital requirements are quite complex and many urban co-operative banks are yet to acquire necessary expertise for entering into these areas. However, the reserve Bank has decided that for the present, urban Co-operative Banks, with working capital funds aggregating Rs. 25 crores and above, may take up the financing of leasing/hire purchase companies only in consortium with scheduled commercial Banks, as it would give them a feel of this type of banking activity, as also on experience to the staff in the area.

- Banks lending including bills discounted/rediscounted to hire purchase and leasing companies should be within the overall working capital credit limits, sanctioned to such companies after proper appraisal of their genuine working needs and that in any case such credit limits do not exceed 3 times the net owned funds of such companies. In case where the banks lending to hire purchase and equipment leasing companies, is in excess of the stipulated norm of 3 times the net owned funds, the bank should in the first stage to allow further drawls and the outstanding should be brought down within the stipulated norm, in a phased manner.

- In case of credit limits of over Rs. 10 lacs and below Rs. 50 lacs, first method of lending be adopted. Such units may be provided working capital limits, computed on the basis of a minimum of 20% of their projected annual turnover for new as well as existing units. These SSI units will be required to bring in 5% of their annual turnover as margin money. In other words, 25% of the output value should be computed as working capital requirements, of which atleast four-fifths should be provided from the banking sector. The working of the units should be
measured through verification of monthly stock statement, receivable etc. and other statements.

- The imposition of penalty of at least 1% p.a. for a period of 1 quarter on the outstanding, under various working capital limits, Sectioned to a borrower, who fails to submit any of the statements within the prescribed time limit, is compulsory.

- Quarterly information system discipline has enforced on all borrowers, enjoying working capital limits of Rs. 50 lacs and over from the banking system, irrespective of whether they are exporters or otherwise.

- U.P. urban banks are advised that as instances of diversification of funds, provided for working capital by the banks to the borrowers, for financing their investment transactions have been observed, specially U.P. urban banks are advised to assure that drawls on cash credit/overdraft accounts are strictly for the purpose for which the credit limits were sanctioned by them. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/Subsidiaries, and acquisition of shares, debentures, units of unit trust of India and other mutual funds, and other investments in the capital market. This has to be so, even if there is sufficient drawing power/undrawn limit for the purpose of effecting drawls, from the cash credit account. (Bank, are advised to fix a suitable cutoff point for credit limits, with the approval of their Board of Directors, requiring such detailed scrutiny on an ongoing basis)

Operational instructions issued by R.B.I. on certain aspects of working capital finance.
(Adopted from reserve Bank circulars for urban banks)

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Circular No.</th>
<th>Instructions Issued</th>
</tr>
</thead>
</table>
| 1.   | UBD No. PCB.2/DC. R.1/90-91 dated 20 July 1990 forwarding /ECD circular IEC No. CAD. 201 and 205/C. 446 (LF)-87-88 dated 12 April and 28 April 1998 respectively. | (i) Bank finance to leasing concerns should be restricted only to "full pay out" leases i.e. these leases where the cost of the asset Period itself and further it should Cover Purchases of only new equipment.  
(ii) As a prudent policy lease rentals during the period of next five years should alone be taken into account for the purpose of lending. |
| 2.   | UBD No. DS Cir. PCB. 18/13-05-00/94-95 dated 19th Sept. 1994. | (i) Review of all borrowal accounts enjoying fund based working capital credit limits of Rs. 10 lakh and above should be undertaken at least once a year.  
(ii) every borrower enjoying aggregate fund based working capital credit limit of Rs. 1 crore and above from the banking system should submit statement under quarterly information system/monthly cash budget system to enable a bank to fix and monitor the operative limits. |
| 3.   | UBD No. DS PCB Cir 28 / 13 / 05.00 / 94-95 dated 31st October 1994 | Stipulated minimum NWC may be reckoned after excluding from current assets, receivables arising out of domestic/inland sales by drawing of bills of exchange under letters of credit |
| 4.   | UBD No. DS PCB Cir 54 / 13.05.00 / 95-96 dated 23 March 1996 | (i) Banks must exclude, for the purpose of build-up current assets to be financed, investment made by the borrower in shares, debentures, etc of a current nature, units of UTI/other mutual funds and in associates companies/Subsidiaries as well as investments/loans in the form of inter-corporate deposits etc.  
(ii) As the current Ratio 1:33:1 is only the minimum required to be maintained by a borrower in respect of working capital |
Financial position of the CHANDGAD URBAN Co. Operative.
Bank Ltd., Distt. Kolhapur and BRAHMAWART COMMERCIAL CO.
OP. BANK LTD. Kanpur in respect of working capital (As on 31st
march 2001) was as follows -

<table>
<thead>
<tr>
<th>Working Capital</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUCB Ltd. = 1807.42 Rs. Lakhs</td>
<td>CUCB Ltd. = 11.64 Rs. Lakhs</td>
</tr>
<tr>
<td>BCCB Ltd = 1993.99 Rs. Lakhs</td>
<td>BCCB Ltd. = 12.98 Rs. Lakhs</td>
</tr>
</tbody>
</table>

Graph (6.B) : Scoring Pattern of working capital of two Banks.
The classification of the Survey of the banks may thereafter be arrived at on the basis of the aggregate marks secured by it, as indicated blow:

8 Marks

Working Results

- Bank has earned Profit (On net worth Profitability) 3 marks

<table>
<thead>
<tr>
<th>Range</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 0/5</td>
<td>1</td>
</tr>
<tr>
<td>0.5 to 0.75</td>
<td>2</td>
</tr>
<tr>
<td>0.75 to 1 or above</td>
<td>3</td>
</tr>
</tbody>
</table>

- The bank has made appropriate allocations to the various reserves/ Provision. 1 Mark
- The bank has declared dividend at least 9% 2 Marks
- The Bank's cost of management was not more than 2% of its working capital or 20% of its gross profit which ever is less 2 Marks

ISSUES & SUGGESTIONS

After a deep research on Urban Bank's return on investment and working funds, researcher found many solution related with it, which may help to improve the conditions of the Banks. These suggestions are as follows -

* In regard to subsidiary General ledger facility, researchers suggesting the following precautions to be taken by banks, which should be complied scrupulously:

- Transfers through SGL accounts, by such banks can be only if they maintain a regular current account with Reserve Bank.
Before issue of SGL transfer from covering their sale transaction, banks should ensure that they have sufficient balances in their respective SGL accounts.

SGL transfer form received by purchasing bank should be deposited in their SGL account immediately.

SGL form should be signed by two authorised officials of the bank whose signature should be recorded with the respective public debt office (PDO) of RBI and other Banks.

SGL forms should be in the standard format and serially numbered.

* For the overall development in the banking sector and improvement in securities market, some instructions on the classification and valuation of the investments portfolio are as follows.

The banks are required to classify their entire investment portfolio as on 31st March 2004 under three categories viz. "Held to maturity", 'available for sale and held for trading'.

In the Balance sheet, the investment will continue to be disclosed as per the existing classification.

The investments under the '"available for sale" held for trading categories should be marked to market periodically or at more frequent intervals.

The investment under the 'Held to Maturity' category need not be marked to market as in the case of "Permanent" securities at present.

Banks should formulate an investment policy with the approval of their Board of directors to take care of the requirements on classification, shifting and valuation of investments under the revised guidelines. Besides, the policy should adequately address risk-management aspects, ensure that the procedure to be adopted by the banks under the revised guidelines are
consistent, transparent and well documented to facilitate easy verification by inspectors and statutory auditors.

**Shares of co-operative institutions**

If urban Co-Op. Banks have regularly received dividends from such institutions the shares should be valued at face value. In a number of cases, the Co-operative institutions in whose shares the urban Co-op. Banks have made investments have either gone into liquidation or have not declared dividend at all. In such cases, the banks should make full provision in respect of their investments in shares of such co-operative institutions. In cases where the financial position of Co-operative institutions in whose shares PCBs have made investments is not available, the shares have to be taken at Rs. 1/- per co-operative institution.

**Small Scale Service and Business Enterprises**

It is advised that all service oriented enterprises, which would personal and household services such as laundry, Xeroxing, repair and maintenance of consumer durables etc. and having investment in plant and machinery in each case not exceeding Rs. 2 lacs, with their location in rural areas/towns with a population of 1 lac or less where to be registered as small scale industries. The said investment amount has now been increased to Rs. 5 lacs in fixed assets, excluding land and building without any locational restriction. for computation of fixed assets, the original price paid by the first owner will be considered, irrespective of the price paid by the subsequent owners.

* Urban-Banks should charge interest on the Agricultural advances with yearly rests and compound if the loan/installment
become overdue, as the agriculturists get the income for the sale proceeds of their crops once a year.

* The Builders / contractors who generally require huge funds, take advance payments from prospective buyers or from those on whose behalf construction is undertaken, and as such they may not normally require bank finance for the purpose. If any financial assistance is extended to such builders / contractors, it may result in dual financing. Banks are advised to normally refrain from such kind of investments to these category of borrowers.

**Loan against Shares and debentures**

- Before accepting Shares as security, the banks should put in place a risk management system. It should also have audit committee of the board and all the approved loan proposals should be placed before the audit committee at least once in two months.

- Loans against Shares / debentures may be granted to individuals to meet contingencies and personal needs or for subscribing to rights or new issues of Shares / Debentures or for purchase in the secondary market. The borrower should not be connected with any stock broking activity or entity.

- There should be no direct investment by the bank in either primary or secondary market under any circumstances.

* No urban Co-op. Bank Should finance a borrower, Who is already enjoying credit facilities with another UCBs, without obtaining a No objection certificate from such financing bank and where the aggregate of the credit facilities enjoyed by the borrower exceeds the ceiling stipulated in directive for a single party.
* Banks are suggested to introduce computerised information and monitoring system, in respect of small scale industrial unit having fund based borrowing exceeding Rs. 10 lacs from the banking system.

* Banks are advised to use there working funds in a appropriate manners.

**Monitoring of flow of funds**

It is advised that banks should ensure that the finance is extended only against genuine trade bills within their legitimate requirement while discounting bills. Secondly should ensure that the funds from cash credit / Overdraft accounts are strictly used for the purpose for which the facilities are sanctioned and not diverted for acquisition of fixed assets or for any unauthorised purpose. Banks are also advised to meeting the requirements of their account holders, some of whom have resorted to heavy cash withdrawals which seem to be disproportionate to their normal trade / business requirements, particularly in case of heavy cash withdrawals from newly opened accounts.

* Banks are advised that they should not consider the applications received from the defaulting borrowers, either exclusively or jointly with the other banks/financial institutions for sanction of fresh term loan finance (including deferred payment Guarantee facilities), either for setting up of new units or for expansion of the existing units, since the default in payment in interest/installment of term loans or meeting the obligation under the Deferred payment Guarantee facility indicates some serious lacunae in the financial management on the part of the borrowers. Banks are further advised that whenever any party applies for sanction of term finance
(Including Deferred payment Guarantee Facility) the position relating to overdues in respect of interest / installment if any should be ascertained from the other lending institution concerned. The Banks are also advised to furnish similar information whenever other financial institutional approach them for such information.

In regard to the working Cap. finance banks have been advised that such assistance should be withhold, only in those cases where there is season to believe that the management of the units are indulging in some malpractices, such as siphoning of the funds of the units, which resulted in the default. Only in case where these are persistent defaults, banks may consider with holding fresh sanction and release of funds, or even freezing of operation of the account, for bringing around the management to comply with the financial discipline. Banks may also consider changing of management if necessary.

Banks are required to furnish a progress report for the calendar year, before 31st January of the following year, in respect of the units enjoying working capital limits of Rs. 30 lacs and above and persistently defaulting in the payment of interest / installment, under the loans or deferred payment guarantee extended by the banks, indicating the action taken. Banks are also required to furnish, within 15 days from the close of the quarter to which the report relates, quarterly reports indicating the names of the borrowers against whom action has been taken.