<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Essence of the financial statements/disclosure</td>
</tr>
<tr>
<td>5.2</td>
<td>Parts of financial statements</td>
</tr>
<tr>
<td>5.3</td>
<td>Three basic financial statements</td>
</tr>
<tr>
<td>5.4</td>
<td>Fundamental of Basic accounting concepts &amp; conventions</td>
</tr>
<tr>
<td>5.5</td>
<td>Characteristics of financial statements</td>
</tr>
<tr>
<td>5.6</td>
<td>Limitations of financial statements</td>
</tr>
<tr>
<td>5.7</td>
<td>Methods of financial analysis</td>
</tr>
<tr>
<td>5.8</td>
<td>Terms used in analysis of Bank’s performance</td>
</tr>
<tr>
<td>5.9</td>
<td>Indicators of Productivity</td>
</tr>
<tr>
<td>5.10</td>
<td>Analysis of Profit and loss Account</td>
</tr>
<tr>
<td>5.11</td>
<td>Financial Performance analysis on the basis of Profit &amp; Loss A/c</td>
</tr>
<tr>
<td>5.12</td>
<td>Explanation of Ratios</td>
</tr>
<tr>
<td>5.13</td>
<td>Critical Analysis of Balance sheet</td>
</tr>
<tr>
<td>5.14</td>
<td>Contingent Liabilities</td>
</tr>
<tr>
<td>5.15</td>
<td>Explanation of Ratios</td>
</tr>
<tr>
<td>5.16</td>
<td>Effects of Non-Performing assets</td>
</tr>
<tr>
<td>5.17</td>
<td>RBI Guidelines for NPA</td>
</tr>
<tr>
<td>5.18</td>
<td>Types of NPA</td>
</tr>
<tr>
<td>5.19</td>
<td>Causes of NPA</td>
</tr>
<tr>
<td>5.20</td>
<td>Early warning signals</td>
</tr>
<tr>
<td>5.21</td>
<td>Management of NPAs</td>
</tr>
<tr>
<td>5.22</td>
<td>Remedies available for NPA</td>
</tr>
<tr>
<td>5.23</td>
<td>Revised guidelines for compromise settlement of chronic non-performing assets of urban cooperative banks</td>
</tr>
<tr>
<td>5.24</td>
<td>Conclusion</td>
</tr>
</tbody>
</table>
CHAPTER FIVE

FINANCIAL PERFORMANCE ANALYSIS OF THE BANK

5.1 Essence of the financial statements/disclosure

Financial statements are important reports. They show how a bank is doing and are very useful internally for a bank's stakeholders and to its board of directors, its managers and employees. Externally, they are important to prospective investors, to government agencies responsible for taxing and regulating credit rating agencies, and to investment analysts and stockbrokers.

All banks are required to prepare documents showing the bank's financial performance at regular periodic intervals. Most banks prepare annual statements. This shows the financial wealth of a company (how much it owes and owns) but can be manipulated. It is often required that statements for external consumption be audited by independent accounting firms.

1. An organization can examine its own financial performance over a certain period through looking at financial statements. This enables the managers to have a better comprehension of the bank and identify situations or trends that might be disadvantageous.

2. Potential customers of bank may demand information to assist them better comprehend your bank. In the present business climate, a potential customer can come along at any time, and if you are not ready to back the alleged worth of your bank with financial information, you might miss the chance.

3. The other major advantage of financial statements is that it helps lower the vulnerability of a bank to fraud. Since they offer an insight into a bank’s operating results, financial statements can easily detect irregularities that might be linked to fraud. Furthermore, the act of investigating and preparing the financial statements tells employees and managers that they are accountable for their actions.

4. It should provide information with the units of financial accounting.
5. To help investors and conditions to assess the prospects of receiving cash from dividends or interests.

6. To provide information about the economic resources of an organization.

5.2 Parts of Financial Statements

The three basic parts of financial statements are: a balance sheet, which basically lists all of the assets and liabilities of the bank at the end of the period, the difference between the two being the bank’s net worth; a profit-and-loss statement, which answers the question of how the bank did from the beginning to the end of the accounting period; and a cash flow statement, which says where the cash of the bank went and where it came from during the accounting period.

**Balance Sheet:** Analysis of balance sheets can tell whether the bank owes too much or is lending too much its detailed attachments detail who is owed and who owes the bank and what properties it owns, if any.

**Income Statements:** Analysis of income statements can tell whether business is not high enough to give sufficient profits and what the big and small costs of the business are.

**Cash / Fund flow Statements:** Analysis of cash flows can tell whether most needs are met through internally generated funds or whether some come from borrowings.

5.3 Three Basic financial Statements

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Liabilities + Owners Equity = Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Statements</td>
<td>Sales Revenue – Expenses = Profit</td>
</tr>
<tr>
<td>Cash/Fund Flow Statement</td>
<td>Sources and uses of capital</td>
</tr>
</tbody>
</table>

5.4 Fundamental Basic Accounting Concepts & Conventions:

Accounting concepts and conventions as used in accountancy are the rules and guidelines by which the accountant lives. All accounts and accounting statements should be created, preserved and presented according to the concepts and
conventions. There are some basic concepts and conventions on which the accountant bases all of his accounting work. We can see evidence of such work in the published annual reports and accounts that all publicly quoted companies are required to prepare and publish. The concepts and conventions also apply to the millions of businesses worldwide that do not publish their accounts.

➤ **Accruals Concept**

The Accruals concept assumes that revenue and expenses are taken account of when they occur and not when the cash is received or paid out. The purpose of this concept is to make sure that all revenues and costs are recorded in the appropriate statement at the appropriate time. The accrual concept under accounting assumes that revenue is realized at the time of sale of goods or services irrespective of the fact when the cash is received. Similarly, expenses are recognized at the time of services provided, irrespective of when cash is paid.

In brief, accrual concept requires that revenue is recognized when realized, and expenses are recognized when they become due and payable without regard to the time of cash receipt or cash payment. Thus, when a profit statement is compiled, the cost of goods sold relevant to those sales should be recorded accurately and in full in that statement. Costs concerning a future period must be carried forward as a prepayment for that period and not charged in the current profit statement. For example, payments made in advance such as the prepayment of rent would be treated in this way. Similarly, expenses paid in arrears must, although paid after the period to that they relate, also be shown in the current period’s profit statement: by means of an accruals adjustment.

➤ **Consistency Concept**

Because the methods employed in treating certain items within the accounting records may be varied from time to time, the concept of consistency has come to be applied more and more rigidly. Because of these sorts of effects, it is now accepted practice that when an entity chooses to treat items such as depreciation in a particular way in the accounts it should continue to use that method year after year. If it is necessary to change the accounting method being employed then an explanation of
the change and the effects it is having on the results must be shown as a note to the accounts being presented.

➢ **Separate Entity Concept**

The business entity concept states that a business and the owner(s) are two separate Legal Entities. Being an artificial person, a company has an existence independent of its members. It can own property, enter into contract and conduct any lawful business in its own name. It can sue and can be sued in the court of law. A shareholder cannot be held responsible for the acts of the company.

The best example here concerns that of the sole trader or one man business: in this situation you may have the sole trader taking money by way of ‘drawings’: money for his own personal use. Despite it being his business and apparently his money, there are still two aspects to the transaction: the business is ‘giving’ money and the individual is ‘receiving’ money. So, the affairs of the individuals behind a business must be kept separate from the affairs of the business itself. This concept restrains accountants from recording of owner’s private/personal transactions. It also facilitates the recording and reporting of business transactions from the business point of view.

➢ **Going Concern Concept**

Going concern is one the fundamental assumptions in accounting on the basis of which financial statements are prepared. Financial statements are prepared assuming that a business entity will continue to operate in the foreseeable future without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities. Therefore, it is assumed that the entity will realize its assets and settle its obligations in the normal course of the business.

It is the responsibility of the management of a company to determine whether the going concern assumption is appropriate in the preparation of financial statements. If the going concern assumption is considered by the management to be invalid, the financial statements of the entity would need to be prepared on break up basis. This means that assets will be recognized at amount which is expected to be realized from its sale (net of selling costs) rather than from its continuing use in the ordinary course.
of the business. Assets are valued for their individual worth rather than their value as a combined unit. Liabilities shall be recognized at amounts that are likely to be settled.

 Prudence Concept

In financial accounting, there are basic concepts that govern the preparation of financial statements. Prudence is one of several basic concepts used for that purpose. It suggests that assets or revenue should not be overstated. On the flip side, liabilities and expenses should not be understated either.

The aim of the prudence concept is to reflect the least favorable position of a business. To those unfamiliar with the concept, it might seem strange to want to do this. After all, a healthy position can work in a business’ favor sometimes. This principle is important in facilitating faithful representation – ensuring that financial statements do not mislead or give false optimism to their various users. As such, the prudence concept is a fundamental accounting principle, with the first International Accounting Standard (IAS 1) outlining its role.

 Stable Monetary Unit Concept

The stable monetary unit concept assumes that the value of the dollar is stable over time. This concept essentially allows accountants to disregard the effect of inflation a decrease, in terms of real goods, of what a dollar can purchase. Because of this assumption, past financial statements are usually not updated even if the value of money substantially changes. The concept is generally a practical necessity, even though the assumption can present some serious challenges if the currency is either deflating or inflating quickly.

In everyday use, the concept means that accountants treat records from different periods as if they are substantially the same. The values of accounts or purchases are not adjusted for inflation, and balances may be changed by adding new purchases to past purchases, as if the value of money had never changed. As a result, a purchase that takes place after significant inflation might appear more expensive in the record, though the difference is mainly due to the diminished purchasing power of
the dollar. This allows for the practical convenience of using one continuous accounting record throughout time.

➤ **Money Measurement Concept**

Money Measurement Concept in accounting, also known as Measurability Concept, means that only transactions and events that are capable of being measured in monetary terms are recognized in the financial statements.

All transactions and events recorded in the financial statements must be reduced to a unit of monetary currency. Where it is not possible to assign a reliable monetary value to a transaction or event, it shall not be recorded in the financial statements. However, any material transactions and events that are not recorded for failing to meet the measurability criteria might be disclosed in the supplementary notes of financial statements to assist the users in gaining a better understanding of the financial performance and position of the entity.

➤ **Objectivity Concept**

Objectivity Concept states that accounting will be recorded on the basis of objective evidence. Objective evidence means that different people looking at the evidence will arrive at the same values for the transaction. Simply put, this means that accounting entries will be based on fact and not on personal opinion or feelings.

➤ **Materiality Concept**

Financial statements are prepared to help the users with their decisions. Hence, all such information which has the ability to affect the decisions of the users of financial statements is material and this property of information is called materiality.

In deciding whether a piece of information is material or not requires considerable judgment. Information is material either due to the amount involved or due to the importance of the event.

➤ **Realization Concept**

The realization concept and convention is an important concept in accounting. It basically means that accounts recognize transactions and any profits arising from it.
at the point of sale or transfer of legal ownership. They do not just recognize the transactions when cash exchanges hands, but also when the transaction occurs at the point of sale and this is when the transaction becomes legal, as it does not just become legal when the money is transferred. Therefore if a big client of yours just signs a business contract, it can be realized as a legal transaction. Even though you might receive cash months later, the contract here act as a confirmation that the sales will occur and therefore the realization concept here allows the creation of such transaction. ³

5.5 Characteristics of Financial Statements

The qualitative characteristics of financial statements are as follows-

- **Understandability:** The information must be readily understandable to users of the financial statements.

- **Relevance:** The information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevant information, or information whose omission or misstatement could influence the economic decisions of users.

- **Reliability:** The information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.

- **Comparability:** The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performance and financial position of the reporting entity.⁴

5.6 Limitations of Financial Statements

The limitations of the financial statements are as follows-

- Past financial performance, good or bad, is not necessarily an accurate predictor of future performance.
• Financial statements do not tell you about changes in senior management.

• Financial statements do not tell you about the loss of major customers.

• Financial statements do not tell you about the competitive environment in which the company operates.

• Financial statements do not disclose the bank’s future prospects, or the results of its expenditures on Research and Development, or new product introductions, or new marketing campaigns, or new pricing strategies, or the customer’s recent decision to enter or exit a particular market segment.

• The more out-of-date a customer’s financial statements are, the less reliable they are as a risk management tool.

• Without reading the Notes to the financial statements, credit managers cannot get a clear idea of the risk they are evaluating.

• Unaudited statements may or may not follow Generally Accepted Accounting Principles, and if they do not follow GAAP relying on them could be a serious mistake.

• Financial statements can be altered legally by adjusting certain types of reserves.

• Financial results can be improved by reducing or eliminating discretionary expenditures - even if this cost cutting is at the expense of long term growth and profits.

• Foreign financial statements do not follow GAAP. In some cases, local accounting rules are so different from GAAP accounting rules that it is easy to make the wrong decision after reviewing the foreign financial data.

• Unaudited statements may be inaccurate, misleading, or even deliberately fraudulent - and if they seem too good be true, they may be just that.

• To see the big picture, it is necessary to have at least two consecutive periods of financial statements for comparison. Trends will only become
apparent this way. The corollary is that it is not enough to know a
customer’s financial weaknesses. It is also important to know whether the
customer’s financial performance is weak but improving or weak and
deteriorating.

- Audited statements do not guarantee accuracy.
- Even audited financial statements are subject to a degree of manipulation.
- Off balance sheet financing is lawful, but can have a devastating effect on
  a customer’s financial health.
- The fact that a company is publicly traded and its financial statements are
  readily available does not guarantee that the company in question is
  financially stable and creditworthy.5

5.7 Methods of Financial Analysis

- Comparative Statements
- Common Size Statements
- Trend Analysis
- Ratio Analysis

1. Comparative Statements

Comparative Financial Statement analysis provides information to assess the
direction of change in the bank. Financial statements are presented as on a particular
date for a particular period. The financial statement Balance Sheet indicates the
financial position as at the end of an accounting period and the financial statement
Income Statement shows the operating and non-operating results for a period. But
financial managers and top management are also interested in knowing whether the
business is moving in a favorable or an unfavorable direction. For this purpose,
figures of current year have to be compared with those of the previous years. In
analyzing this way, comparative financial statements are prepared.

Comparative Financial Statement Analysis is also called as Horizontal
analysis. The Comparative Financial Statement provides information about two or
more years' figures as well as any increase or decrease from the previous year's figure and it's percentage of increase or decrease. This kind of analysis helps in identifying the major improvements and weaknesses. For example, if net income of a particular year has decreased from its previous year, despite an increase in sales during the year, is a matter of serious concern. Comparative financial statement analysis in such situations helps to find out where costs have increased which has resulted in lower net income than the previous year.

2. **Common Size Statement**

Common size financial statements are different from the customary financial statements. Where the traditional financial statements are used for the reporting purposes and to report the monetary position of the company, the common size financial statements are used for the decision-making purposes. If an investor wants to compare the financial statements of two banks, there have to be some sort of scale to overcome the limitations of the comparisons and match the two unrelated business for investment purposes. Since the sizes of banks are not same, this usually leads to misleading and wrongful comparisons that affect the investments of the investors. To overcome these problems, many methods of comparing the financial statements of different size of companies were devised.

3. **Trend Analysis**

Trend analysis is one of the tools for the analysis of the bank’s monetary statements for the investment purposes. Investors use this analysis tool a lot in order to determine the financial position of the bank. In a trend analysis, the financial statements of the bank are compared with each other for the several years after converting them in the percentage.

4. **Ratio Analysis**

Ratio Analysis is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. The ratios are categorized as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios.
Ratio Analysis as a tool possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas where performance has improved or deteriorated over time.

Because Ratio Analysis is based upon accounting information, its effectiveness is limited by the distortions which arise in financial statements due to such things as Historical Cost Accounting and inflation. Therefore, Ratio Analysis should only be used as a first step in financial analysis, to obtain a quick indication of a firm's performance and to identify areas which need to be investigated further.

**Ratio Analysis is made under six broad categories as follows**

- Long term solvency Ratio
- Short term solvency Ratio
- Profitability Ratio
- Activity Ratio
- Operation Ratio
- Market test Ratio

**A) Long term solvency Ratio**

**a) Debt Equity Ratio:** This ratio expresses the relationship between the external equities and internal equities of the bank or the relationship between borrowed capital and owned capital of the bank.

**b) Shareholders Equity Ratio:** This ratio expresses the relationship between shareholders and the bank for a certain period of time.

**c) Debt to Net worth Ratio:** This Ratio expresses the relation between the total debt and the net worth of the bank for a certain period of time.

**d) Capital Gearing Ratio:** This ratio bring out the relationship between two types of capital of the bank i.e. Capital carrying fixed rate of interest or fixed dividend and
capital that does not carry rate of interest or fixed dividend. This ratio indicates the
degree to which capital has been geared in the capital structure of a company.

e) Fixed Assets to Long term Funds: This ratio expresses the relationship between
fixed assets and the long term funds of the bank for a certain period of time.

f) Proprietary Ratio: It is also known as “Worth Debt Ratio”, “Net Worth to total
assets Ratio”, “Net worth Ratio”. It is a test of the financial and credit strength of the
business. It relates shareholder fund to total assets i.e. total funds. This ratio
determines the long term or ultimate solvency of the company.

B) Short Term Solvency Ratio

a) Current Ratio: It is one of the balance sheet ratios. Working capital ratio or
solvency ratio are the other terms that are in use. This ratio expresses relation between
the current assets and current liabilities. This ratio is obtained by dividing total assets
by the total current liabilities.

b) Quick Ratio/Liquid Ratio/Acid Test Ratio: This ratio is designed to indicate the
liquid financial position of the bank. It measures the relationship between quick assets
and quick liabilities.

c) Absolute Liquid Ratio: It extends the logic further and eliminates accounts
receivable (sundry debtors and bills receivables) also. Though receivables are more
liquid as comparable to inventory but still there may be doubts considering their time
and amount of realization. Therefore, absolute liquidity ratio relates cash, bank and
marketable securities to the current liabilities.

C) Profitability Ratio

a) Return on capital employed/ return on investment: This ratio is also known as
Net Profit to Assets Ratio. This ratio explains the relationship between total profits
earned by the bank and total investments made by the bank. This ratio measures the
overall efficiency of the business operations.

b) Earnings per share: The earnings per share are a good measure of profitability
and when compared with EPS of similar banks, it gives a view of the comparative
earnings or earnings power of the firm. EPS ratio calculated for a number of years indicates whether or not the earning power of the bank has increased.

c) Cash earnings per share: Cash earnings per share indicate the amount of operating cash flow per share. This ratio is similar to EPS. The only difference is that in this formula cash flow is used instead of net income. Cash earnings per share are a common indicator of a bank's financial performance. Data to calculate this ratio is collected from the statement of retained earnings and cash flow statement.

d) Gross Profit Margin: The gross profit margin ratio is used as one indicator of a bank's financial health. It shows how efficiently a business is using its materials and labour in the production process and gives an indication of the pricing, cost structure, and production efficiency of the bank.

e) Net Profit Margin: The net profit margin ratio is a profitability ratio that is a margin ratio. It can be calculated by using numbers off the bank's income statement. Net profit margin is the number of rupees of after-tax profit a firm generates per rupee of sales. If a firm generates Rs. 100 of sales revenue, for example and has a 5 percent net profit margin that means it generated 5 cents of profit.

f) Cash Profit Ratio: It means profit earned on the basis of cash basis. book profit are shown in the profit and loss a/c for the purpose of income tax and cash profit are for banks men with help of this they known about what the standard of cash inflow and outflow.

g) Return on Assets: Return on Assets shows how many dollars of earnings result from each dollar of assets the bank controls. Return on Assets ratio gives an idea of how efficient management is at using its assets to generate profit.

Return on Assets can vary substantially across different industries. This is the reason why it is recommended to compare it against bank's previous values or the return of a similar bank. The only common rule is that the higher return on assets is, the better, because the bank is earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of bank's assets. Return on Assets is one of the profitability ratios and is usually expressed as a percentage.
h) Return on Net worth: It reveals how—is used in finance as a measure of a bank’s profitability. Much profit a bank generates with the money that the equity shareholders have. Therefore, it is also called ‘Return on Equity’ (ROE). It is useful for comparing the profitability of a bank to that of other firms in the same industry.

D) Activity Ratio

a) Inventory Turnover Ratio: It is a measure of the number of times inventory is sold or used in a given time period such as one year. It is a good indicator of inventory quality (whether the inventory is obsolete or not), efficient buying practices, and inventory management. This ratio is important because gross profit is earned each time inventory is turned over. It is also called stock turnover ratio.

b) Debtors Turnover Ratio: It indicates the velocity of debt collection of a firm. In simple words it indicates the number of times average debtors (receivable) are turned over during a year.

c) Bad debts to sales Ratio: This ratio indicates the relationship between bad debts and the sales during the year of the bank.

d) Assets Turnover Ratio: It indicates how successful a bank is in utilizing its assets in generation of sales revenue. A high ratio is considered desirable, but what is considered high in one industry may be low for another. Asset turnover ratios are computed for specific assets, such as 'cash to sales' (cash ÷ sales revenue), 'inventory to sales' (value of inventory ÷ sales revenue), 'fixed assets to sales' (fixed assets ÷ sales revenue). When computed as total 'assets-to-sales' ratio (total assets ÷ sales revenue).

E) Operating Ratio

a) Material Cost Ratio: It expresses the relationship between material cost & sales of the company during the year.

b) Labour Cost Ratio: This ratio expresses the relationship between labour cost and production activities.
c) Factory Overhead Ratio: This ratio expresses the relationship between factory overhead and production activities.

d) Administrative Expenses Ratio: It expresses the relationship between Administrative expenses and production activities of the industry during the year.

e) Selling & Distribution expenses Ratio: This ratio expresses the relationship between selling and distribution expenses and production activities of the industry for the year.

F) Market Test Ratio

a) Dividend Payout Ratio: The part of the earnings not paid to investors is left for investment to provide for future earnings growth. Investors seeking high current income and limited capital growth prefer companies with high Dividend payout ratio. However investors seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to return more of the earnings back to investors. Note that dividend payout ratio is calculated as DPS/EPS.

b) Dividend Yield Ratio: The dividend yield or the dividend-price ratio of a share is the bank's total annual dividend payments divided by its market capitalization, or the dividend per share, divided by the price per share. It is often expressed as a percentage.

Dividend yield is used to calculate the earnings on investment (shares) considering only the returns in the form of total dividends declared by the company during the year.

c) Book Value Ratio: Price/book value ratio is an investment valuation ratio used by investors or finance providers to compare market value of a company’s shares to its book value (Shareholder Equity). This ratio indicates how much shareholders are contributing / paying for a company’s net assets.

Book value provides an estimated value of a company if it is to be liquidated. It is the value of a company’s assets expressed in the Statement of Financial Position (B/S). It is calculated by subtracting company’s liabilities from its assets (Assets-
Liabilities). In simple words it shows what shareholders will get after the company is sold and all its debts are paid off. Low ratio represents a good sign for the company.

d) **Price Earnings Ratio:** The price-to-earnings ratio, or P/E ratio, is an equity valuation measure defined as market price per share divided by annual earnings per share. It can be simplified as the ratio of total market capital value over earnings.

Considering the above ratios one can analyze the financial position of any institution or organization. So far bank financial analysis is concern the following ratios are important for the present study.

- Earnings Ratio
- Expenses Ratio
- Profit Ratio
- Liquidity Ratio
- Current Ratio
- Capital Adequacy Ratio
- Credit Deposit Ratio
- Percentage of Net Profit with Deposits
- Percentage of Net Profit with Advances
- Net worth to total assets

The above ratios can be explained in any one of the following forms-

- Proportion – e.g. 2:1
- Pure number – e.g. 2 times
- Percentage – e.g. 10%, 15%, 20%

The Profit and Loss Account of the bank is analyzed on the basis of following ratios.

**I. Earnings Ratio**

- Interest & Discount as a percentage of total income
- Commission as a percentage of total income
- Other income as a percentage of total income
II. Expenses Ratio

- Operating expenses as percentage of total assets
- Interest Expenses as percentage of total assets
- Wages bill as percentage of total assets
- Provision and contingencies as percentage of total assets

III. Profitability Ratio

- Return on investment / Capital employed
- Return on Equity
- Operating profit to advances ratio

IV. Liquidity Ratio

V. Current Ratio

5.8 Terms used in analysis of Bank’s Performance

- **Aggregate Deposits**
  
  When we deposit money in a bank, we expect that money to be safe. At federally insured institutions, our money is indeed safe up to certain deposit levels. The aggregate banking deposit is a calculation that determines whether all your money is federally insured against loss or whether some of your money is at risk with that financial institution.

- **Average working funds**
  
  The Working funds of a Bank are arrived at by subtracting the aggregate amount of contra items (Bills Lodged, Bills for collection, guarantees etc.) from the total liabilities of the balance sheet.

- **Working Fund**
  
  These are total resources (total liabilities or total assets) of a bank as on a particular date. Total resources include capital, reserves and surplus, deposits, borrowings, other liabilities and provision. A high AWF shows a bank’s total resources strength. There is a school of theory which maintains that working funds are equal to aggregate deposits plus borrowing. However, more
pragmatic view in consonance with capital adequacy calculations is, to include all resources and not just deposits and borrowings.

- **Net Profit**
  The total revenue of an accounting period minus all expenses during the same period is called as profit. If income taxes and interest are not deducted, it is called operating profit (or Loss, as the case may be). It is also called earnings, net earnings, or net profit.

- **Total Debts**
  Bank debt represents a group of loans that a corporation must repay to a bank. A bank debt is usually a secured loan—that is, a borrower must provide collateral or financial guarantees, before receiving loan proceeds. In case of bankruptcy, bank debt is repaid before other lender claims.

- **Net worth**
  Equity capital (common stock) of a bank, less goodwill and other intangibles is called as Net worth. It is also called total net worth. It is an indication of the borrowing capacity or strength of a bank or a savings institution. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 required savings and loan associations to maintain tangible capital (common stock plus retained earnings) equal to 1.5% of total assets.

- **Total debts to Net worth**
  Measure used in the analysis of financial statements to show the amount of protection available to creditors. The ratio equals total liabilities divided by total stockholders' equity; also called debt to net worth ratio. A high ratio usually indicates that the business has a lot of risk because it must meet principal and interest on its obligations. Potential creditors are reluctant to give financing to a company with a high debt position.

- **Gross Advances**
  Gross advances these include overdraft, bills purchased, and cash credit, loans and term loans including food credit. From a different angle, aggregate advances include advances inside India and advances outside India. When the food credit is reduced from the gross advances, it amounts to non-food credit.
Investment
The total amount invested by the bank in different schemes and plan outside the banking business is called as Investment. Investments include investments in government securities, shares, bonds, commercial papers and debentures and other approved securities.

Interest Income
The amount received by the bank in the form of interest and other than interest is called as Interest income of the bank. The sum total of discount, interest from loans, advances and investment and from balance with RBI and other interest flows is called as Interest income.

Interest Income to Average Working Funds
It is expressed as a percentage; this ratio shows a bank’s ability to leverage its average total resources in enhancing its main stream of operational interest income.

Non-Interest Income
This is other income of a bank. It includes items such as exchange commission, brokerage, gains on sale and revaluation of investments and fixed assets and profits from exchange transactions.

Non-Interest Income to Average Funds
This ratio denotes a bank’s ability to earn from non-conventional sources. In a liberalized environment, this ratio assumes significance. For, it mirrors a bank’s ability to take full advantage of its operational freedom.

Operating Expenses
It equals the non-interest expenses. The operating expenses to AWF ratio explain the overall operational efficiency of a bank. In fact, this ratio is one of the indictors of profitability of a bank.

Interest Spread
This is the excess of total interest earned over total interest expended. The ratio of interest spread to AWF shows the efficiency of bank in managing and matching interest expenditure and interest income effectively. Interest spread is critical to a bank’s success as it exerts a strong influence on its bottom line.
- **Risk Weighted Assets**
  The cumulative risk weighted value of assets plus risk weighted credit converted contingent liabilities, which is used as the denominator for computing the capital adequacy ratio of a bank.

- **Capital Adequacy Ratio**
  This ratio relates a bank’s core net worth to its risk-weighted assets. The ratio is internationally accepted risk-driven measure of a bank’s degree of capitalization. A higher ratio indicates that a bank is well capitalized vis-a-vis its perceived risks. It is an excellent indicator of a bank’s long term solvency.

- **Business**
  It is equal to aggregate deposits plus aggregate advances.

- **NPA Ratio**
  It is divided by total or net advances X 100. An increasing trend implies gradual increase in bad credit portfolio.

- **Equity multiplier**
  It measures financial leverage and represents both a profit and risk measurement. It compares assets with equity and large values indicate a large amount of debt financing in comparison to equity. It has impact on return on assets. A critical scrutiny of EM helps to evaluate whether capital support is proportionate to the risks assumed in the balance sheet.

5.9 **Indicators of Productivity**

- Deposit Account Per Employees
- Deposit Per Employee
- Loan Account per employee
- Advances Per employee
- Profit Per employee

Above productivity indicators are helpful to shareholders and outsiders those who are interested to know the performance of a bank.
5.10 Analysis of Profit & Loss Account

The end on working results of banks are reflected in Profit and Loss Account wherein are summarized various income and expenditure heads. Profitability of bank is primary concern to all to keep banking activity ongoing as profitable venture. The banks making more profits and distribution of it by way of dividend are preferred by investors. However restrictions on dividend distribution as per as an impediment on cooperative banks, a profit makes more funds available to those banks for strengthening/ widening assets base. More profit leads attracting more business to bank. Recovery of loans and interest on them also has vital impact on banks profitability. Therefore non- performing assets (NPA) management also becomes an important part of prudent banking and banks are encouraging borrowers for one time settlement of these NPAs. Banks cannot afford to keep its money blocked for longer time such assets which have bearing on banks profitability.

Profit and Loss Account is an important financial statement as it represents snapshot of the organizational activities at the end of a year. In other words, Profit and loss Account reveal how the bank has prospered under the leadership of the then existing management. In short it is a statement which is the medium of management performance. It is important for all those who are concerned with the management of the bank. The profit and loss account shows net results of the banks operation during an accounting period. The basic purpose of preparation of profit and loss account is to ascertain the results of bank’s operations during an accounting year.

It is prepared and presented with a view to recording, reporting and reviewing the progress made or the results achieved by the bank, It reflects or focuses the combination of facts and figures, which are based on the recording the business transaction accounting principles, conventions, competence, integrating, honesty and sincerity of persons involved in the preparation and presentation of such statements. One can know the financial position and soundness of the bank business from these statements.

Profit and loss accounts takes into account those revenue and expenditure items which are related to management of the bank. These expenses relate to conduct of the bank. The items which are taken into account in a profit and loss account and
which would increase or decrease the quantum of Net profit or Net Loss, which are as under.

**Debit Side**

- Interest paid on Deposits & Borrowings
- Salary & Allowance and other welfare expenses for the staff
- Directors & local committee members fees and allowance
- Rent, taxes, Insurance and lighting
- Legal Charges
- Postage, Telegram and telephone charges
- Audit fees
- Depreciation
- Stationery, Printing & Advertisement
- Loss from sale or dealing with non banking assets
- Other expenditure
- Provisions
- Net profit transferred to Balance sheet

**Credit Side**

- Interest and discount on loans & Investments
- Commission, Exchange and Brokerage
- Subsidies and Donations
- Income from non banking assets
- Other assets
- Net loss

**Closure**

The profit and loss A/c is closed by transferring available balance to Balance sheet after appropriation.\(^{10}\)
5.11 Financial Performance Analysis on the basis of Profit & Loss Account

The researcher has tried to analyze the Profit & Loss Account i.e. Income statement of the Cosmos Cooperative Bank Ltd. Pune. For the purpose of analysis the following tools and techniques are used.

- Trend analysis
- Ratio Analysis
- Common Size Statement

Bank Profit & Loss Account is analyzed with the help of following ratio.

- Net Profit to total income
- Operating profit to working
- Operating expenses to total income
- Provisions to total income

**Table 5.1 Bank Performance: Cosmos Cooperative Bank Ltd. Pune**

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</thead>
<tbody>
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<td>1</td>
<td>Members</td>
<td>35910</td>
<td>38919</td>
<td>40863</td>
<td>42969</td>
<td>45566</td>
<td>50473</td>
<td>53251</td>
<td>56160</td>
<td>60968</td>
<td>75520</td>
</tr>
<tr>
<td>2</td>
<td>Branches + Ext. Counters</td>
<td>41+5</td>
<td>41+5</td>
<td>41+7</td>
<td>44+7</td>
<td>65+7</td>
<td>77+7</td>
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<td>96+8</td>
<td>106+9</td>
<td>110+9</td>
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<tr>
<td>3</td>
<td>Total Employee</td>
<td>1237</td>
<td>1242</td>
<td>1269</td>
<td>1265</td>
<td>1571</td>
<td>1670</td>
<td>1832</td>
<td>1994</td>
<td>2212</td>
<td>2461</td>
</tr>
<tr>
<td>5</td>
<td>Employees Productivity</td>
<td>2.79</td>
<td>2.43</td>
<td>3.49</td>
<td>4.22</td>
<td>4.27</td>
<td>5.11</td>
<td>5.76</td>
<td>4.94</td>
<td>5.02</td>
<td>5.57</td>
</tr>
<tr>
<td>6</td>
<td>% of Change of Members over the base year</td>
<td>---</td>
<td>8.37%</td>
<td>13.76%</td>
<td>19.66%</td>
<td>26.88%</td>
<td>40.55%</td>
<td>48.29%</td>
<td>56.40%</td>
<td>69.78%</td>
<td>103.03%</td>
</tr>
<tr>
<td>Table 5.1</td>
<td>Shows that the numbers of members of the bank is increasing year by year. In the year 2003 there were 35910 members in the bank but the number of members is increased to 75520 in 2012. It showed that the members are increased by 103.03% at the end of 2012 over the base year i.e. 2003 without any exception in the increase rate. Whereas the branches and extension counters are also increased continuously from the date establishment. In 2003 there were 41 branches and 5 extension counters but 2012 it has gone up to 110 branches and 9 extension counters which is 168.20% over the base rate. The numbers of employees in the bank are also increasing day by day, in 2003 there were 1237 employee but in 2012 it has gone up by 98.94% over the base year and settled to 2461 employees. But the employee’s productivity is showing fluctuating growth in it. It shows that in 2003 it was 2.79 whereas it is 5.57 in 2012 which is 99.64% over the base year. But in the year 2004 it has been negative impact and it is decreased by 14.81% over the base year. The bank is continuously getting ‘A’ Grade from the auditor from its date of establishment to till the last financial year.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>% of Change of Branches over the base year</th>
<th>7</th>
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<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>0.00</td>
<td>0.00</td>
<td>07.3</td>
</tr>
<tr>
<td>0.00</td>
<td>0.00</td>
<td>07.3</td>
</tr>
<tr>
<td>14.81</td>
<td>25.00</td>
<td>51.25</td>
</tr>
</tbody>
</table>

### Table 5.2 Analytical Table of Profit & Loss Account

(Amounts in cores)

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</thead>
<tbody>
<tr>
<td><strong>A) Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Interest Received</td>
<td>323.34</td>
<td>268.24</td>
<td>268.31</td>
<td>305.72</td>
<td>347.09</td>
<td>476.45</td>
<td>630.60</td>
<td>727.56</td>
<td>819.39</td>
<td>1181.91</td>
</tr>
<tr>
<td>ii) Other income</td>
<td>8.66</td>
<td>80.33</td>
<td>22.59</td>
<td>36.90</td>
<td>26.94</td>
<td>33.79</td>
<td>75.14</td>
<td>71.40</td>
<td>86.39</td>
<td>86.39</td>
</tr>
<tr>
<td>iii) Other credits</td>
<td>------</td>
<td>9.90</td>
<td>------</td>
<td>------</td>
<td>52.36</td>
<td>---</td>
<td>8.21</td>
<td>0.91</td>
<td>4.14</td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>332.34</td>
<td>358.47</td>
<td>290.90</td>
<td>342.62</td>
<td>426.39</td>
<td>510.24</td>
<td>705.14</td>
<td>805.01</td>
<td>891.70</td>
<td>1272.44</td>
</tr>
<tr>
<td><strong>B) Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Interest Paid</td>
<td>196.60</td>
<td>194.30</td>
<td>174.60</td>
<td>193.95</td>
<td>222.31</td>
<td>322.75</td>
<td>431.46</td>
<td>538.57</td>
<td>540.23</td>
<td>860.24</td>
</tr>
<tr>
<td>ii) Establishment Exp.</td>
<td>25.79</td>
<td>27.21</td>
<td>28.32</td>
<td>32.18</td>
<td>37.10</td>
<td>42.78</td>
<td>48.63</td>
<td>68.07</td>
<td>82.14</td>
<td>94.84</td>
</tr>
<tr>
<td>iii) Other expenditures</td>
<td>20.25</td>
<td>26.90</td>
<td>32.42</td>
<td>33.02</td>
<td>41.64</td>
<td>47.14</td>
<td>59.90</td>
<td>70.82</td>
<td>86.79</td>
<td>95.74</td>
</tr>
<tr>
<td>iv) Provisions &amp; Contingencies</td>
<td>59.64</td>
<td>39.37</td>
<td>15.77</td>
<td>33.35</td>
<td>65.02</td>
<td>24.64</td>
<td>77.07</td>
<td>72.18</td>
<td>71.41</td>
<td>108.08</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>302.28</td>
<td>287.78</td>
<td>251.11</td>
<td>292.50</td>
<td>366.07</td>
<td>437.31</td>
<td>615.26</td>
<td>749.64</td>
<td>780.57</td>
<td>1158.90</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>30.06</td>
<td>70.69</td>
<td>39.79</td>
<td>50.12</td>
<td>60.32</td>
<td>72.93</td>
<td>90.48</td>
<td>55.37</td>
<td>113.13</td>
<td>137.03</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>1.01</td>
<td>2.62</td>
<td>0.65</td>
<td>0.82</td>
<td>0.60</td>
<td>1.17</td>
<td>0.12</td>
<td>0.75</td>
<td>0.15</td>
<td>2.27</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>29.05</td>
<td>68.07</td>
<td>39.14</td>
<td>49.30</td>
<td>59.72</td>
<td>71.76</td>
<td>90.36</td>
<td>54.62</td>
<td>112.98</td>
<td>134.76</td>
</tr>
<tr>
<td>% of change of Total Income</td>
<td>--</td>
<td>07.86</td>
<td>-</td>
<td>12.47%</td>
<td>3.09%</td>
<td>28.29%</td>
<td>53.52%</td>
<td>112.17%</td>
<td>142.22%</td>
<td>168.31%</td>
</tr>
<tr>
<td>% of change of Total Income</td>
<td>--</td>
<td>-</td>
<td>-</td>
<td>11.20%</td>
<td>11.03%</td>
<td>103.54%</td>
<td>147.99%</td>
<td>158.22%</td>
<td>283.38%</td>
<td></td>
</tr>
<tr>
<td>% of change of Net Profit</td>
<td>--</td>
<td>135.16%</td>
<td>32.36%</td>
<td>66.73%</td>
<td>100.66%</td>
<td>142.61%</td>
<td>200.90%</td>
<td>84.19%</td>
<td>276.34%</td>
<td>355.85%</td>
</tr>
<tr>
<td>% of change of Operating Profit</td>
<td>--</td>
<td>159.40%</td>
<td>35.64%</td>
<td>44.6%</td>
<td>18.81%</td>
<td>40.00%</td>
<td>15.84%</td>
<td>88.11%</td>
<td>25.74%</td>
<td>85.15%</td>
</tr>
<tr>
<td>% of change of Operating Expenses over the base year</td>
<td>--</td>
<td>134.32%</td>
<td>34.7%</td>
<td>69.7%</td>
<td>105.57%</td>
<td>147.02%</td>
<td>211.04%</td>
<td>88.02%</td>
<td>288.91%</td>
<td>363.89%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Cosmos Cooperative Bank Ltd. Pune 2003-2012
Table 5.2 Indicates that the total income is increasing every year. It has been noticed that the total income is decreased by 12.47% in year 2004 over the base year 2003. Thereafter it has shown an increasing trend and at the end of the year 2012 it has been increased by 182.87% over the base year 2003.

Whereas the total expenditure of the bank is increased every year except first three year, it has been observed that the percentage of total expenditure is decreased by 11.20%, 11.03% and 03.24% respectively over the base year 2003. But thereafter the percentage of total expenditure is increased every year; it has been observed that it has been increased by 283.38% over the base year 2003.

The net profit of the bank showed very uncommon trend. It was 135.16% in the year 2004 which is increased in rest of the years with exception of 2004, 2005 and 2010 respectively. But the net profit is increased by 355.85% in 2012 over the base year 2003.

The operating profit of the bank is showed decreasing trend with some exception of the year 2004, 2008 and 2012. It has been an increase by 124.75% in the year 2012 over the base year 2003. And the operating expenses of the bank have also showed an increase during the last ten years with slight exception in 2005, 2006 and 2010.

Apart from this the bank has showed the increasing trend every year. The operating expenses have been increased by 363.89% in the year 2012 over the base year 2003.
Graph 5.1 Total Income

Source: Annual Reports of the Cosmos Cooperative Bank Ltd. Pune (2003-2012)

Graph 5.2 Division of Income for 2003

Graph 5.2 Shows that the division of Income for the year 2003. During the year the bank has earned Rs. 332.34 corers as an income. Out of this 97% (Rs.323.34 Corers) is collected through Interest Received and only 3% (Rs.8.66 Corers) is collected through other income sources
Graph 5.3 Shows that the division of Income for the year 2004. During the year the bank has earned 75% (Rs.268.24Corers) through the Interest Received, 22% (Rs. 80.33Corers) through other income sources and 3% (Rs. 9.90Corers) through other credits.

Graph 5.4 Shows that the division of Income for the year 2005. During the year the bank has earned 89% (Rs. 268.31Corers) through interest received and 11% (Rs. 22.59Corers) through other income sources.

Graph 5.5 Shows that the division of Income for the year 2006. During the year the bank has earned 89% (Rs. 305.72Corers) through interest received and 11% (Rs. 36.90Corers) through other income sources.
Graph 5.6 Shows that the division of Income for the year 2007. During the year bank has earned 82% (Rs. 347.09 Corers) through the interest earned, 12% (Rs. 52.36 Corers) through other credits and 6% (Rs. 26.94 Corers) through other incomes.

Graph 5.7 Shows that the division of Income for the year 2008. During the year the bank has earned 89% (Rs. 476.45 Corers) through interest earned and 11% (Rs. 33.79 Corers) through other incomes.

Graph 5.8 Shows that the division of Income for the year 2009. During the year the bank has earned 89% (Rs. 630.60 Corers) through interest received and 11% (Rs. 75.14 Corers) through other income.
Graph 5.9 Shows that the division of income for the year 2010. During the year the bank has earned 90% (Rs.727.56 Corers) through interest received, 9% (Rs. 69.24 Corers) through other income and 1% (Rs.8.21 Corers) through other credits.

Graph 5.10 Shows that the division of income for the year 2011. During the year the bank has earned 92% (Rs.819.39 Corers) through Interest received, 8% (Rs.71.4 Corers) through other incomes and Rs. 0.91 Corers through other credits.

Graph 5.11 Shows that the division of the income for the year 2012. During the year the bank has earned 93% (Rs. 1181.91 Corers) through interest earned 7% (Rs.86.39) through other incomes and Rs.4.14 Corers through other credits.
**Graph 5.12 Division of Expenditure for 2003**

Graph 5.12 Shows that the division of expenditure for the year 2003. During the year the bank has spent 65% (Rs. 196.60 Crores) on Interest Paid, 20% (Rs. 25.79 Crores) on Provisions & Contingencies, 8% (Rs. 59.64 Crores) on Establishment Expenses and 7% (Rs. 20.25 Crores) on other expenditure.

**Graph 5.13 Division of Expenditure for 2004**

Graph 5.13 Shows that the division of expenditure for the year 2004. During the year the bank has spent 68% (Rs.194.30 Crores) on Interest Paid, 14% (Rs.39.37 Crores) on Provision of Contingencies, 9% (Rs.27.21 Crores) on Establishment Expense and 9% (Rs.26.90 Crores) on other expenditures.

**Graph 5.14 Division of Expenditure for 2005**

Graph 5.14 Shows that the division of expenditure for the year 2005. During the year the bank has spent 70% (Rs.174.60 Crores) on Interest Paid, 11% (Rs.28.32 Crores) on Establishment, 13% (Rs.32.42 Crores) on other expenditure and 6% (Rs.15.77 Crores) on Provisions and contingencies.
Graph 5.15 Shows that the division of expenditure for the year 2006. During the year the bank has spent 66% (Rs.193.95 Crores) on interest paid, 12% (Rs.32.18 Crores) on Provision & Contingencies, 11% (Rs.33.02 Crores) on other expenditures and 11% (Rs.33.35 Crores) on Establishment expenses.

Graph 5.16 Shows that the division of expenditure for the year 2007. During the year the bank has spent 61% (Rs.222.31 Crores) on Interest paid, 10% (Rs.37.10 Crores) on Establishment Expenses, 11% (Rs.41.64 Crores) on other expenditures and 18% (Rs.65.02 Crores) on Provisions and Contingencies.

Graph 5.17 Shows that the division of expenditure for the year 2008. During the year the bank has spent 74% (Rs.322.75) on Interest Paid, 10% (Rs.42.78) on Establishment Expenses, 11% (Rs.47.14) on other expenditure and 5% (Rs.24.64) on Provisions and contingencies.
Graph 5.18 Shows that the division of expenditure for the year 2009. During the year the bank has spent 70% (Rs.431.46) on Interest Paid, 8% (Rs.46.83) on Establishment Expenses, 10% (Rs.59.90) on other expenses and 12% (Rs.24.64) on Provisions and contingencies.

Graph 5.19 Shows that the division of expenditure for the year 2010. During the year the bank has spent 72% (Rs.538.57) on Interest paid, 9% (Rs.68.07) on Establishment expenses, 9% (Rs.70.82) on other expenditure and 10% (Rs.72.18) on Provisions and contingencies.

Graph 5.20 Shows that the division of expenditure for the year 2011. During the year the bank has spent 69% (Rs.540.23) on Interest paid, 11% (Rs.82.14) on Establishment expenses, 11% (Rs.86.79) on other expenditure and 9% (Rs.71.41) on Provision and contingencies.
Graph No. 20 Division of Expenditure for 2012

Graph 5.21 shows that the total expenditure of the bank for the year 2012 which is Rs. 1158.90 Crores. Out of which bank has spent 74% (Rs.860.24) spent on interest paid, 10% (Rs.94.84) paid on Establishment Expenses and 8% (Rs.95.74) on other expenditure and 8% (Rs.108.08) Provisions and Contingencies each.

Table 5.3 Ratio Analysis

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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net profit to total Income</td>
<td>9.04%</td>
<td>19.7%</td>
<td>24.3%</td>
<td>14.6%</td>
<td>14.1%</td>
<td>14.2%</td>
<td>12.8%</td>
<td>6.87%</td>
<td>12.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2</td>
<td>Operating profit to working fund</td>
<td>3.37%</td>
<td>3.71%</td>
<td>1.64%</td>
<td>2.07%</td>
<td>1.48%</td>
<td>1.60%</td>
<td>2.22%</td>
<td>1.51%</td>
<td>1.72%</td>
<td>1.60%</td>
</tr>
<tr>
<td>3</td>
<td>Operating expenses to total income</td>
<td>8.74%</td>
<td>18.9%</td>
<td>13.4%</td>
<td>14.3%</td>
<td>14.0%</td>
<td>14.0%</td>
<td>12.8%</td>
<td>6.78%</td>
<td>12.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>4</td>
<td>Provision to total income</td>
<td>17.9%</td>
<td>10.9%</td>
<td>5.44%</td>
<td>9.73%</td>
<td>15.2%</td>
<td>4.83%</td>
<td>10.9%</td>
<td>8.97%</td>
<td>8.0%</td>
<td>8.49%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Cosmos Cooperative Bank Ltd. Pune (2003-2012)
5.12 Explanation of Ratios

1. Net profit shows the stability in profit of the bank. The percentage of Net profit to total income is marginally declining. The declining in the ratio due to increase in provision ratio. Though the bank controlled its operating expenses ratio still it could not maintain its profit ratio due to provision. It shows continuous increase for first three years but from 2006 to 2012 it shows decreasing trend in the bank.

2. The percentage of operating profit to work fund shows increasing trend for first two years, whereas from 2005 onwards it shows very uncommon trend.

3. The percentage of operating expenses to total income shows increasing trend for first two years. In the year 2005 it shows 13.4% and thereafter it shows increasing trend up to 2008 and again it falls down in 2009 and 2010. But it is increased in 2011 and decreased in 2012. It means it shows decreasing trend it is positive signal for the bank which shows that bank has kept good control on its operating expenses.

4. The percentage of Provision to total income shows decreasing trend from 2003 to 2005 and from 2006 onwards it shows that increasing trend for one year and it falls again in 2007 and same type of trend is observed. This is due RBI guidelines for NPAs.

5.13 Critical Analysis of Balance Sheet

Balance sheet can be defined ad a statement of assets and liabilities/ financial position of a bank on a given date i.e. 31st March. The assets are the tools with the help of which income in a bank is earned. Assets are the property, owned by the bank and are acquired to use them for generation of income to operations. Some of the assets are meant to remain in the bank for longer time periods, while the others may be there for short times. They are also called application or use of fund and have debit balance. Assets, which are longer period called fixed assets because they are relatively permanent nature and not disposed off within a short period. These are carried out from year to year and put to use a small portion of these assets is return of every year in the shape of the depreciation. For example such assets could be land, Building, furniture etc.
There are some current assets which are required by the bank for the purpose of re-circulating and arise out of usual business dealings. They are held temporarily for subsequent conversion into cash. The financing of current assets is partly being from long term funds and partly the current liabilities. The following types of assets could be classified as current assets such as cash and bank balances, investments in tradable securities, fixed deposits with the banks, receivables for bills, pre-paid expenses etc.

The liabilities are the resources, which the bank mobilized to acquire assets for earning income. Like assets, liabilities may also be of a long term nature of short term nature. The total of liabilities would always be equal to the total of assets. There are long term liabilities as well as current or short term liabilities. Long term liabilities may be long term fixed deposits. Whereas current liabilities include short term borrowing, a bill discounted and purchase, deposits less than one year, provision for taxation and other obligation, which are statutory etc. 11

5.14 Contingent Liabilities

These liabilities are not shown in the body of balance sheet but are recorded as a foot note. These are also called off balance sheet items because of this reason. They are called contingent liabilities because there possibility of becoming of funded liability or not depend upon the fulfillment or non-fulfillment of certain conditions.

These Liabilities are as follows-

- Bills for collection
- Taxes and duties under dispute with the Govt.
- Overdue interest
- Pending law suits
- Guarantee given by the bank on behalf of customers
- Letter of credit issued by the bank on behalf of customers
- Bills and cheques discounted by the bank etc.

The assets and liabilities are divided in certain groups for the purpose of proper analysis of the statement as follows-
**Capital**

- Share capital (Authorized and Paid up)
- Reserve Fund and other reserves
- Deposits
- Borrowings & Overdrafts
- Provisions for NPA
- Interest payable
- Other Liabilities
- Profit & Loss A/c

**Assets**

- Cash and Bank Balance with RBI
- Balance with other banks & Money at call and short notice
- Investments
- Advances
- Fixed Assets
- Non-Banking Assets
- Profit & Loss A/c (If there is a loss)

---

**Table 5.4 Analysis of Balance Sheet**

(Amounts in corens)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Capital</td>
<td>3437.21</td>
<td>37.05</td>
<td>39.75</td>
<td>72.09</td>
<td>76.64</td>
<td>81.97</td>
<td>86.91</td>
<td>91.92</td>
<td>121.11</td>
<td>290.94</td>
</tr>
<tr>
<td>2</td>
<td>Reserve</td>
<td>23351.58</td>
<td>314.65</td>
<td>388.14</td>
<td>420.28</td>
<td>432.10</td>
<td>503.68</td>
<td>613.35</td>
<td>786.85</td>
<td>931.09</td>
<td>1040.08</td>
</tr>
<tr>
<td>3</td>
<td>Deposits</td>
<td>226282.80</td>
<td>2482.75</td>
<td>2851.28</td>
<td>3367.02</td>
<td>4265.56</td>
<td>5342.66</td>
<td>6655.63</td>
<td>7212.96</td>
<td>9136.68</td>
<td>12059.69</td>
</tr>
<tr>
<td>4</td>
<td>Investments</td>
<td>123525.53</td>
<td>1278.88</td>
<td>1507.18</td>
<td>1707.59</td>
<td>1916.55</td>
<td>2066.10</td>
<td>2869.22</td>
<td>2943.98</td>
<td>3003.79</td>
<td>3989.22</td>
</tr>
<tr>
<td>5</td>
<td>Loans &amp; Advances</td>
<td>119336.52</td>
<td>1402.18</td>
<td>1581.27</td>
<td>1965.97</td>
<td>2448.38</td>
<td>3200.71</td>
<td>3896.54</td>
<td>4621.96</td>
<td>6384.27</td>
<td>8510.14</td>
</tr>
<tr>
<td>6</td>
<td>Fixed Assets</td>
<td>32813717</td>
<td>33696.31</td>
<td>35370.09</td>
<td>51630.83</td>
<td>78257.62</td>
<td>78710.66</td>
<td>745910.73</td>
<td>797780.43</td>
<td>11910.65</td>
<td>28473.84</td>
</tr>
<tr>
<td>Year</td>
<td>Amounts in crores</td>
<td>Increase in % over the previous year</td>
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<tr>
<td>2002-2003</td>
<td>34.37</td>
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<tr>
<td>2003-2004</td>
<td>37.05</td>
<td>07.79%</td>
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<tr>
<td>2004-2005</td>
<td>39.75</td>
<td>07.29%</td>
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<td></td>
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<tr>
<td>2005-2006</td>
<td>72.09</td>
<td>81.35%</td>
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<td></td>
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<tr>
<td>2006-2007</td>
<td>76.64</td>
<td>06.31%</td>
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<td></td>
<td></td>
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<tr>
<td>2007-2008</td>
<td>81.97</td>
<td>06.95%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2008-2009</td>
<td>86.91</td>
<td>06.02%</td>
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<tr>
<td>2009-2010</td>
<td>91.92</td>
<td>05.76%</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-2011</td>
<td>121.11</td>
<td>31.76%</td>
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<td></td>
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<td></td>
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<tr>
<td>2011-2012</td>
<td>290.94</td>
<td>240.22%</td>
<td></td>
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</tbody>
</table>
Table 5.5 & Graph 5.22 Indicate that the changes in Share capital of the bank. Share Capital is the main source of funds for any type of the bank. Most of the amount of fund is generated by the bank from the source of Share Capital. It means that it is the main source of fund generation, which bank can use as a source of own capital. Actually share capital is called as own capital. Share capital is the best way of generating fund for the bank for the long term.

It is observed that there is a continuous growth in the share capital of the bank during the last 10 years. In the year 2003 it was Rs. 34.37 Corers which is continuously increased up to Rs. 290.94 Corers in 2011-2012. The share capital of the bank showed a tremendous growth in the year 2005-2006 and 2011-2012 by 81.35% and 240.22% respectively over the base year. But in rest of the years it showed a slight increase in share capital every year. Continuous increase in share capital is an indicator of growth of the bank. It means that day by day bank is getting more trust of the public and it is a sign of trust worthy cooperative bank in Pune city. The trend of increase in Share Capital is shown in the above graph clearly.
### Table 5.6 Reserves

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts in crores</th>
<th>Increase in % over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>233.51</td>
<td>--</td>
</tr>
<tr>
<td>2003-2004</td>
<td>314.65</td>
<td>34.74%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>388.14</td>
<td>23.35%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>420.28</td>
<td>08.28%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>432.10</td>
<td>02.81%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>503.68</td>
<td>16.56%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>613.35</td>
<td>21.77%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>786.85</td>
<td>28.28%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>931.09</td>
<td>18.33%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>1040.08</td>
<td>11.70%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012

### Graph 5.23 Reserves

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012
Table 5.6 & Graph 5.23 Shows that the changes in Reserves of the bank during the last 10 years. The Reserves and Surplus of the bank has showed a continuous but slow increase in the Reserves and Surplus. Basically bank creates various types of Reserves for the purpose of meeting future challenges and plans. Reserves and Surplus show the savings of the bank. Sometimes Reserves are made to meet specific challenges and execute plan of the bank and accordingly various types of reserves are created and utilized in future.

During the span of ten years of the graph and table show that continuous growth from the year 2003 to 2012. The reserves of the bank showed slow and steady increase in it. In the year 2004 - 2005 it has been increased by 23.35% and in 2008-2009 it has been increased by 28.28%. Apart from these two exceptions in rest of the years it was very uncommon nature.

Table 5.7 Deposits

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts in crores</th>
<th>Increase in % over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>2262.82</td>
<td>--</td>
</tr>
<tr>
<td>2003-2004</td>
<td>2482.75</td>
<td>9.71%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>2851.28</td>
<td>14.84%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>3367.02</td>
<td>18.08%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>4265.56</td>
<td>26.66%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>5342.66</td>
<td>25.24%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>6655.63</td>
<td>24.57%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>7212.96</td>
<td>08.37%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>9136.68</td>
<td>26.67%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>12059.69</td>
<td>31.99%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012
Table 5.7 & Graph 5.24 Show that the growth of the deposits of the bank. Deposit is the one of the source of receiving fund from the public. Bank gets maximum fund through deposits. Deposits are the main source of fund which can be utilized by the bank to raise funds for its use. Bank offers various schemes to attract public to deposit money in the bank. Sometimes bank offers attractive interest on the various types of deposits to attract general public to deposit the money.

During the span of ten years the bank showed the continuous growth in deposits. It was Rs. 2262 Corers in 2003 which is increased up to Rs. 12060 Corers in 2012. It has been observed that deposits are increased year by year; the amount of deposit is increased in the year 2012 by 31.99% as compared to 2011. In rest of the years it showed a slow and steady growth in bank deposits. Growth of the bank deposits shows that the trust and faith of customers have been achieved by the bank during the ten years.
**Table 5.8 Investments**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts in crores</th>
<th>Increase in % over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>1235.25</td>
<td>--</td>
</tr>
<tr>
<td>2003-2004</td>
<td>1278.88</td>
<td>03.35%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>1507.18</td>
<td>17.85%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>1707.59</td>
<td>13.30%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>1916.55</td>
<td>12.23%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>2066.10</td>
<td>07.80%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>2869.22</td>
<td>38.87%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>2943.98</td>
<td>02.60%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>3003.79</td>
<td>02.03%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>3989.22</td>
<td>32.80%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012

**Graph 5.25 Investments**

![Bar Graph showing Investments](source)

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012
Table 5.8 & Graph 5.25 Show that the growth of Investment of the bank. Basically banks make investments for the purpose of future utilization and meeting future challenges. It means that when bank invest some amount of money for a specific purpose, which is called as “Investment”. Basically Investments are made to fulfill future challenges and need of the banking business. Banks can create investments in various sectors according to the needs of the bank.

During the span of 10 years the bank has showed the huge growth in the investment of the bank. In the year 2003 it was observed that the amount of investment was Rs. 1235.2 Corers which is increased up to Rs. 3989.2 Corers in 2012. The trend of Investment is very uncommon in nature. The bank showed higher increase in the year 2008-2009 and 2011-2012 by 32.87% and 32.80% respectively. Apart from these two years in rest of the year it has been very uncommon. During the short span of 10 years the amount of Investment is touched the figure of Rs. 3989.20 Corers in 2012. It shows that how the bank is taking care of investments for itself. The money which is invested in various forms of investments can be used for the purpose of bank.

### Table 5.9 Loans & Advances

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts in crores</th>
<th>Increase in % over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>1193.36</td>
<td>--</td>
</tr>
<tr>
<td>2003-2004</td>
<td>1402.18</td>
<td>17.49%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>1581.27</td>
<td>12.77%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>1965.97</td>
<td>24.32%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>2448.38</td>
<td>24.53%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>3200.71</td>
<td>30.72%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>3896.54</td>
<td>21.73%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>4621.96</td>
<td>18.61%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>6384.27</td>
<td>38.12%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>8510.14</td>
<td>33.30%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012
Table 5.9 & Graph 5.26 Show that the changes in Loans & Advances of the bank during the last ten years. Generally banks collects fund from the way of deposits and the same amount is given as a loan to the customers. Basically banks deals with the deposits and loans and advances. Banks gives loans and advances to the customers/ borrowers and charge interest on the same.

During the span of last ten years the loans and advances are increased in a very good manner. It is observed that the loans & Advances in 2003 was Rs. 1193.3 Corers which is increased up to Rs. 8510.1 Corers in 2012. During the last ten years it has been increased gradually. It has been observed that loans & advances are increased by 33.30% in the year 2012 as compared to previous year 2011. It also shows that the continuous increase in loans & advances in the last ten years. The growth of the bank loans & advances is tremendous which is helpful to increase the banking business. The progress of the bank is depending on the loans & advances of the bank.
Table 5.10 Fixed Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts in crores</th>
<th>Increase in % over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>328137.17</td>
<td>--</td>
</tr>
<tr>
<td>2003-2004</td>
<td>336963.19</td>
<td>02.69%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>353703.09</td>
<td>04.96%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>516300.83</td>
<td>45.97%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>782576.27</td>
<td>51.57%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>787106.65</td>
<td>0.58%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>745910.73</td>
<td>-05.52%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>797780.43</td>
<td>06.95%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>1191065.65</td>
<td>49.29%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>2847348.84</td>
<td>139.05%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012

Graph 5.27 Fixed Assets

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012
Table 5.10 & Graph 5.27 Show that the growth in fixed Assets of the bank. During the span of ten years the amount of fixed assets are increased continuously. Fixed assets show the financial position of the bank. It is also shows that how many fixed assets bank has owned on a particular date and how much amount bank has invested in the fixed assets during the period.

During the span of ten years from 2003 to 2012 it is observed that the investments in fixed assets are increasing year by year. In the year 2003 it was Rs. 1193.3 Corers which is increased up to Rs. 8510.10 Corers in 2012. It has been observed that the bank showed the continuous growth in the fixed assets during the last ten years except 2007-08, 2008-09 and 2009-10. In the year 2008-2009 it has been decreased by 5.52% as compared to previous year 2007-2008. In 2011-2012 the bank showed tremendous growth in fixed assets by 139.05% over the previous year 2011. If the investment in the fixed assets is huge it means the financial position of the bank is sound.

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</tr>
</thead>
<tbody>
<tr>
<td>Net Profit to Total Assets</td>
<td>0.106%</td>
<td>0.022%</td>
<td>0.010%</td>
<td>0.011%</td>
<td>0.011%</td>
<td>0.011%</td>
<td>0.011%</td>
<td>0.006%</td>
<td>0.023%</td>
<td>0.009%</td>
</tr>
<tr>
<td>Working Capital to Total Assets</td>
<td>0.94%</td>
<td>0.93%</td>
<td>0.93%</td>
<td>0.93%</td>
<td>0.95%</td>
<td>0.95%</td>
<td>0.95%</td>
<td>2.18%</td>
<td>0.094%</td>
<td></td>
</tr>
<tr>
<td>Advances to Working Capital</td>
<td>44.79%</td>
<td>47.28%</td>
<td>46.54%</td>
<td>48.67%</td>
<td>49.68%</td>
<td>52.57%</td>
<td>51.52%</td>
<td>54.80%</td>
<td>60.23%</td>
<td>61.56%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank Ltd. Pune 2003-2012

5.15 Explanation of Ratio:

1. The Net Profit to Total Assets ratio shows the declining trend. In the year 2003 it was 0.106% which is 0.009% in 2012. In between it shows that stability in the ratio but at the end of the year it is declined to 0.009% in 2012.
It is happened because percentage of increase of total assets is more than the percentage of increase in net profit in the year 2003 and 2004.

2. Working capital to total assets shows that the decreasing trend with slight exception. In 2003 it was 0.94% but thereafter it was constant for next three years i.e. 0.93%. It shows bit increase for next three years and so on. But decrease rate is negligible.

3. The advances to working capital ratio show the continuous growth during the last ten years with slight exception. It was 44.79% in 2003 which is increased up to 61.56% in 2012. This ratio expresses the relationship between Advances and working capital of the bank. It also shows that out of total working capital, the percentage utilized for giving advances is reducing every year and non banking business of the bank is increased.

**Table 5.12 Statement showing particulars of Loans & Advances to Directors & Directors Relatives outstanding during last ten years**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount of Loans &amp; Advances Outstanding (Amounts in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Director</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2594.32</td>
</tr>
<tr>
<td>2. Directors Relatives</td>
<td>6819.89</td>
</tr>
<tr>
<td>Total</td>
<td>9414.21</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012
Table 5.12 & Graph 5.28 Show that the amount of loans & Advances outstanding to Directors and their relatives. It indicates that the amount outstanding to directors is unstable. It was Rs. 2594.32 lakhs in the year 2003 whereas it is Rs. 477.73 Lakhs in 2012. In between of these years it showed very different amounts and they are unstable. In the year 2009 it showed Rs. 80.98 lakhs which is very less amount as compared to other years. Except this in other years it shows increasing and decreasing trend of the loans and advances to directors.

It is also showed that the amount of loans & advances to director’s relatives showed more or less increase and decrease in it, except 2007 which was Rs. 78.13 lakhs only. It is noticed that in the year 2003 the amount was Rs. 6819.89 lakhs but it is Rs. 872.80 lakhs in the year 2012. It is an good indication of the bank which shows that bank is not only granting to directors and directors relatives only but also they are giving preference to the outside customers also. The trends are shown in the following graphs.
Table 5.13 Classification of over dues

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Year</th>
<th>Short term advances %</th>
<th>Medium term Advances %</th>
<th>Long term advances %</th>
<th>Total %</th>
<th>% of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003</td>
<td>7.50</td>
<td>4.48</td>
<td>0.58</td>
<td>12.56</td>
<td>--</td>
</tr>
<tr>
<td>2</td>
<td>2004</td>
<td>7.80</td>
<td>4.14</td>
<td>0.64</td>
<td>12.58</td>
<td>0.15%</td>
</tr>
<tr>
<td>3</td>
<td>2005</td>
<td>7.21</td>
<td>3.91</td>
<td>0.86</td>
<td>11.98</td>
<td>- 04.76%</td>
</tr>
<tr>
<td>4</td>
<td>2006</td>
<td>6.13</td>
<td>3.58</td>
<td>0.82</td>
<td>10.53</td>
<td>- 12.10%</td>
</tr>
<tr>
<td>5</td>
<td>2007</td>
<td>4.09</td>
<td>3.03</td>
<td>0.47</td>
<td>7.59</td>
<td>- 27.92%</td>
</tr>
<tr>
<td>6</td>
<td>2008</td>
<td>2.76</td>
<td>2.05</td>
<td>0.40</td>
<td>5.21</td>
<td>- 31.35%</td>
</tr>
<tr>
<td>7</td>
<td>2009</td>
<td>2.77</td>
<td>1.95</td>
<td>0.70</td>
<td>5.42</td>
<td>04.03%</td>
</tr>
<tr>
<td>8</td>
<td>2010</td>
<td>2.15</td>
<td>1.80</td>
<td>0.70</td>
<td>4.65</td>
<td>- 14.20</td>
</tr>
<tr>
<td>9</td>
<td>2011</td>
<td>2.49</td>
<td>1.35</td>
<td>0.59</td>
<td>4.43</td>
<td>- 04.73%</td>
</tr>
<tr>
<td>10</td>
<td>2012</td>
<td>3.61</td>
<td>1.30</td>
<td>0.90</td>
<td>5.64</td>
<td>27.31%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012

Graph 5.29 Classification of over dues

Table 5.13 and Graph 5.29 Show that the classification of over dues of last ten years. It shows that the trend of short term advances over dues percentage during the
last ten years is decreasing. It was 7.50% in 2003 whereas it is 3.61 in 2012. In case of Medium term advances over dues percentages also shows decreasing trend. It is 4.48% in the year 2003 whereas it is 1.30% in 2012. The percentage of Long term advances over dues shows varied trend. It is totally unstable.

But in all the cases the overall trend of over dues percentage shows decreasing trend which the sound financial position of the bank. The total percentage of over dues was 12.56% in 2003 which is decreased up to 5.64% in 2012.

The total percentage of total over dues is decreasing every year except 2004, 2009 and 2012. In these years the percentages of over dues is increased i.e. 0.15%, 04.03% and 27.31% respectively. Apart from these years, in rest of the years it has been showed decreasing trend in negative manner, which is a very good sign for the bank.

It also shows that the efficient and strong measures of the recovery which bank has been adopted. Therefore the percentages of the over dues is decreased year by year.

Table 5.14 Amount wise Classification of Deposits

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>00.00 to 10000 (%)</th>
<th>10000.01 to 50000 (%)</th>
<th>50000.01 To 100000 (%)</th>
<th>100000.01 &amp; Above (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003</td>
<td>51.72</td>
<td>38.53</td>
<td>6.66</td>
<td>3.09</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>2004</td>
<td>48.60</td>
<td>40.04</td>
<td>8.02</td>
<td>3.34</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>2005</td>
<td>47.18</td>
<td>39.40</td>
<td>9.43</td>
<td>3.99</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>2006</td>
<td>49.06</td>
<td>36.32</td>
<td>9.88</td>
<td>4.74</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>2007</td>
<td>50.05</td>
<td>35.37</td>
<td>9.43</td>
<td>5.15</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>2008</td>
<td>48.24</td>
<td>34.77</td>
<td>10.85</td>
<td>6.14</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>2009</td>
<td>47.47</td>
<td>33.72</td>
<td>12.05</td>
<td>6.76</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>2010</td>
<td>49.08</td>
<td>30.69</td>
<td>12.65</td>
<td>7.58</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>2011</td>
<td>50.56</td>
<td>28.53</td>
<td>12.62</td>
<td>8.29</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>2012</td>
<td>48.91</td>
<td>27.65</td>
<td>13.46</td>
<td>9.96</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank Ltd. Pune from 2003 to 2012

190
Table 5.14 & Graph 5.30 Show that the deposits are classified into four categories. Basically the percentage of first category (i.e. Rs.00 to Rs. 10000) is very huge. The percentage of this category is higher than other categories. In 2003 it was 51.72% whereas it is 48.91% in 2012. The second category of deposits has also played a vital role in the bank’s deposits contribution. This category (i.e. Rs. 10000.01 to Rs.50000) is having second place in deposits percentage.

In case of third category (i.e. Rs. 50000.01 to Rs.100000) it also showed the increasing trend. In the year 2003 it was 6.66% which is reached to 13.46% in 2012. And the last category of deposits the percentage of deposits is very less as compared to other categories. But its amount is ten times than first category.
But the overall percentage of the deposits is very sound which is enough to present the financial position of the bank. The deposits position of the bank is sound and good enough as compared to other cooperative banks.

**Table 5.15 Outstanding amount wise classification of Loans**

**Percentage to Total loans**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>1 to 50000 %</th>
<th>50001 to 100000 %</th>
<th>100001 to 1000000 %</th>
<th>1000001 to 2500000 %</th>
<th>2500001 to 5000000 %</th>
<th>5000001 &amp; above %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003</td>
<td>65.69</td>
<td>10.89</td>
<td>19.55</td>
<td>2.01</td>
<td>0.87</td>
<td>0.99</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>2004</td>
<td>53.96</td>
<td>14.19</td>
<td>26.11</td>
<td>2.81</td>
<td>1.30</td>
<td>1.63</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>2005</td>
<td>58.26</td>
<td>14.02</td>
<td>22.37</td>
<td>2.64</td>
<td>1.16</td>
<td>1.55</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>2006</td>
<td>54.17</td>
<td>15.05</td>
<td>24.68</td>
<td>3.02</td>
<td>1.30</td>
<td>1.78</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>2007</td>
<td>49.64</td>
<td>15.08</td>
<td>29.02</td>
<td>3.12</td>
<td>1.39</td>
<td>1.75</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>2008</td>
<td>46.83</td>
<td>15.45</td>
<td>31.16</td>
<td>3.26</td>
<td>1.35</td>
<td>1.95</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>2009</td>
<td>45.54</td>
<td>14.82</td>
<td>32.61</td>
<td>3.48</td>
<td>1.49</td>
<td>2.06</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>2010</td>
<td>44.20</td>
<td>14.32</td>
<td>33.74</td>
<td>3.91</td>
<td>1.53</td>
<td>2.30</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>2011</td>
<td>39.61</td>
<td>13.81</td>
<td>36.82</td>
<td>5.00</td>
<td>1.92</td>
<td>2.84</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>2012</td>
<td>36.52</td>
<td>13.43</td>
<td>38.51</td>
<td>6.15</td>
<td>2.05</td>
<td>3.34</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank Ltd. Pune from 2003 to 2012

**Table 5.15** Shows that the outstanding amount wise classification of loans percentages to total loans. It is observed that loans are classified into six categories. In category one the percentage of it shows decreasing trend from 2003. It was 65.69% in 2003 but it was 36.52% in 2012. There is a bit increase in category number two up to 2008 but after 2009 it has showed slow growth in the same field. Whereas the category number three showed that the continuous increase in its percentage. It was 19.55 in the year 2003 which is increased to 38.51%.

The category number four, five and six also show that the continuous increase from 2003 to 2012. In 2003 it was 2.01%, 0.87% and 0.99% which is increased to 6.15%, 2.05% and 3.34% in 2012 respectively.
It is also observed that the bank has targeted the first category of loans and concentrated on it. Most of loans granted to small cost borrowers instead of huge cost borrowers and therefore the percentage of over dues and NPA is less.

**Table 5.16 Purpose wise Classification of Loans**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Industrial %</th>
<th>Consumption %</th>
<th>Construction Housing &amp; Repairs %</th>
<th>Trade %</th>
<th>Transport Operators %</th>
<th>Professional &amp; Self Employed %</th>
<th>Allied to Agri. %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003</td>
<td>43.91</td>
<td>15.98</td>
<td>18.77</td>
<td>14.15</td>
<td>2.42</td>
<td>1.47</td>
<td>3.30</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>2004</td>
<td>49.55</td>
<td>16.98</td>
<td>13.74</td>
<td>14.02</td>
<td>1.43</td>
<td>1.02</td>
<td>3.26</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>2005</td>
<td>53.27</td>
<td>9.22</td>
<td>17.58</td>
<td>14.56</td>
<td>0.94</td>
<td>0.95</td>
<td>3.48</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>2006</td>
<td>40.20</td>
<td>24.30</td>
<td>17.17</td>
<td>14.08</td>
<td>0.78</td>
<td>0.93</td>
<td>2.54</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>2007</td>
<td>55.39</td>
<td>8.85</td>
<td>18.90</td>
<td>12.81</td>
<td>0.64</td>
<td>0.81</td>
<td>2.60</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>2008</td>
<td>50.22</td>
<td>13.73</td>
<td>20.82</td>
<td>11.92</td>
<td>0.54</td>
<td>0.65</td>
<td>2.12</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>2009</td>
<td>45.87</td>
<td>19.92</td>
<td>19.97</td>
<td>11.58</td>
<td>0.45</td>
<td>0.58</td>
<td>1.61</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>2010</td>
<td>39.63</td>
<td>14.73</td>
<td>30.68</td>
<td>11.26</td>
<td>0.39</td>
<td>0.65</td>
<td>2.64</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>2011</td>
<td>42.18</td>
<td>20.50</td>
<td>10.79</td>
<td>14.45</td>
<td>0.33</td>
<td>1.29</td>
<td>2.53</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>2012</td>
<td>37.56</td>
<td>14.45</td>
<td>12.26</td>
<td>14.81</td>
<td>1.14</td>
<td>0.74</td>
<td>3.17</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank ltd. Pune from 2003 to 2012

**Table 5.16** Shows that the purpose wise classification of loans to various sectors. The bank has focused on industrial sector. The bank has granted maximum amount loan to industries. It was averagely 40% in last ten years which is reached to 37.56% in 2012. Whereas the bank has granted loans to consumption as a second priority in year 2003 it was 15.98% to 14.45%. In the same proportion bank has granted loans to the construction, housing and repairs which has been showed increasing trend. It was 18.77% in 2003 which is 12.26% in 2012.

The bank granted loans to other sectors in the same manner such as Trade, Transport operators, Professional and self employed and allied to agricultural sector. But it is noticed that bank has granted loans to Professional and self employed sector as compared to other sector.
5.16 Effects of Non-Performing Assets

Non-Performing Assets are popularly known as NPA. Commercial Banks assets are of various types. All those assets which generate periodical income are called as Performing Assets (PA). While all those assets which do not generate periodical income are called as Non-Performing Assets (NPA). If the customers do not repay principal amount and interest for a certain period of time then such loans become non-performing assets (NPA). Thus non-performing assets are basically non-performing loans. In India, the time frame given for classifying the asset as NPA is 180 days as compared to 45 days to 90 days of international norms.

Knowing something peculiar and effective about the non performing assets definition helps us a lot in management and analysis of NPA assets. whatsoever are the causes and results, NPA assets seem to be destabilizing our economy at the earliest stage. NPA assets typically refer to any loan which is overdue and not in the status to fetch any income on regular intervals. There are a number of loan seekers and other people that have not yet paid the principal or interest to the lenders or banks.

Everything comes under the category of the non performing assets definition.

Non-Performing loan

Any type of loan either personal or commercial which is not given due interest of paying to the lenders will fall under the category of non-performing assets. As per the non performing assets definition given by International Monetary Fund, the loan which remains overdue or unpaid for over 90 days or the interests of the loan amount has been capitalized, delayed or refinanced with no future anticipation of the payment will be considered as NPA. This is really an alarming issue in most of the developing countries like India.

- Non-Performing Assets

The term asset usually refers to everything which has been taken on some preliminary conditions from the lender like cash, loan, property or real estate components. In fact, all types of assets that are not fetching considerable income to the banks, firms, lending institutions or lenders will be included in the category of
nonperforming assets. The actual nonperforming assets definition refers to the loans in complete loss for the lender which eventually but sadly is increasing day by day. Some of the banks and firms also consider the loans as NPA which has been partially paid but major portion of the principal amount is still unpaid.\textsuperscript{12}

5.17 RBI Guide lines for Non Performing Assets:

a) Interest and /or installment of principal remain overdue for a period of more than 180 days in respect of a term loan.

b) The accounts remain out of order for a period of more than 180 days in respect of an overdraft /cash credit.

c) The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted.

d) Interest and / or installment of principal remains overdue for two harvest seasons but for a period not exceeding two years in the case of an advanced granted for agricultural purpose.

e) Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

f) The period of 180 days shall be reduced to 90 days w.e.f from the year ending 31.03.2004.

g) Out of order cash credit/ over drafts.\textsuperscript{13}

5.18 Types of Non Performing Assets

NPA have been divided or classified into following four types:-

1. **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.
2. **Sub-Standard Assets**: All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.

3. **Doubtful Assets**: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.

4. **Loss Assets**: All those assets which cannot be recovered are called as Loss Assets.

   These assets can be identified by the Central Bank or by the Auditors.  

**5.19 Causes of Non Performing Assets**

NPA arises due to a number of factors or causes like:-

- **Speculation**: Investing in high risk assets to earn high income.
- **Default**: Willful default by the borrowers.
- **Fraudulent Practices**: Fraudulent Practices like advancing loans to ineligible persons, advances without security or references, etc.
- **Diversion of funds**: Most of the funds are diverted for unnecessary expansion and diversion of business.
- **Internal reasons**: Many internal reasons like inefficient management, inappropriate technology, labour problems, marketing failure, etc. resulting in poor performance of the companies.
- **External reasons**: External reasons like a recession in the economy, infrastructural problems, price rise, delay in release of sanctioned limits by banks, delays in settlements of payments by government, natural calamities, etc.  

**5.20 Early Warning Signals**

The early warning signals (EWS) are those which clearly indicate or show some signs of credit of deterioration in the loan account. They indicate the potential problems involved in the accounts so that remedial action can be initiated
immediately. In fact most banks have Early Warning Systems for identification of potential NPAs.

Classification of Early Warning Signals

The Early Warning Signals can be broadly classified into five broad categories as given below-

- Financial Signals
- Operational Signals
- Banking Signals
- Managerial Signals
- External Signals

1. Financial Warning Signals

Some of the warning signals are as follows-

- Default in Repayment
- Continuous irregularity in the account
- Development of L/C or invocation of guarantees
- Deterioration in working capital position or in liquidity
- Declining sales compared to previous period
- Substantial increase in long term debts in relation to equal
- Raising sales but falling profits
- Incurring operating losses or net losses
- Raising level of bad debt losses

2. Operational Warning Signals

The operational warning signals are as follows-

i) Underutilization of plant capacity
ii) Non – Payment of electricity, wages, etc.
iii) Frequent labour problem
iv) Poor diversification and frequent changes in plan for expansion or diversification or modernization.
v) Evidence of overstocking and aged inventory
vi)  Loss of important customers

3. Managerial Warning Signals

The managerial warning signals relates to –

- Division of funds and poor financial controls
- Lack of cooperation from key personal
- Changes in management or ownership pattern or key personnel
- Undertaking of undue risks
- Fudging of financial statements

4. Banking Signals

Banking related warning signals are –

- Frequent requests for further loans
- Delays in servicing of interests
- Reduction of operations in the accounts or reduction of bank balances
- Opening of accounts with other banks
- Dishonor of cheques or return of bills sent for collection
- Not in submitting stock statements and other data or non-submission of periodical statements
- Frequent excesses in the account

5. External Warning Signals

Signals relating to externals factors are-

- Economic recession
- Introduction of new technology
- Changes in government policies
- Emergencies of new competition
- Natural calamities
- Weakening of industry characteristics
5.21 Management of Non Performing Assets

The size of the NPA portfolio in the Indian banking Industry was Rs. 64786 crores in 2004. However, due to the active steps taken by the regulatory authorities and the bank, the gross NPA level has reduced from 13.2% of gross advances in 2000-2001 to 7.2% in 2004. To ensure long term profitability, banks have to manage NPA effectively by adopting the following techniques:

a) Ensuring that loans are diversified across several customers segments.

b) Introducing robust risk scoring techniques to ensure better quality of loans

c) Improving the quality of credit monitoring system by designating a separate credit manager or relationship manager for that purpose.

d) Raising the share of non- fund income by increasing service product offering by better use of technology.

e) Reducing operating expenses by upgrading the banking technology.

f) Monitoring early warning signals and taking immediate appropriate remedial action.

g) Adopting credit rating system to identify measure and monitor the credit risk of individual proposal.

h) Putting certain borrower’s accounts which exhibit certain distress signals under watch list and paying a close and special attention so that they may not become an NPA.

i) Reducing the impact of operational risks by measuring them and mitigating or insuring them.

j) Appraising credit proposal professionally and insisting on timely delivery of credit.\textsuperscript{17}
5.22 Remedies available for Non Performing Assets

In spite of better credit management in terms of appraising and monitoring of loan assets, NPA do occur. In such cases, various remedial measures are available to deal with such NPAs. The remedies may be broadly divided into two namely-

- Non-Legal Remedies
- Legal Remedies

Non-legal remedies may be in the form of compromise, mergers and takeover. The goods pledged or hypothecation may be sold without the intervention of the court. The debts can be assigned in favour of an agency which may come forward to collect debts for a service charge.

- Legal Remedies

The RBI has advised lenders to initiate legal measure including criminal actions. Some of the important legal measures are as follows.

a) Filing of civil suits for the recovery of debts or for the enforcement of the security.

b) Filing of suits under State Recovery Acts for the recovery of debts.

c) Referring the cases to Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunal (DRAT) set up under the recovery of Debts due to Banks and Financial Institution Act, 1993.

d) Referring cases to Lokadalats constituted under the legal services Authorities Act, 1987 which help in resolving dispute between the parties by conciliation, mediation, compromise or amicable settlement. Every award of the Lokadalat shall be deemed to be a decree of a civil court.

e) Resolving large loans via debt recovery mechanism, most notably the corporate Debt Restructuring (CDR) mechanism. One time settlement schemes have been tried with good results.
5.23 Revised guidelines for compromise settlement of chronic Non-Performing Assets of (Urban) Co-operative Banks

On a review, it has been decided that NPAs in all sectors irrespective of the nature of business/activity/purpose of advances, which have become doubtful or loss assets as on March 31, 2000 with outstanding balance of Rs. 10.00 crores and below on the cutoff date may be covered under a new scheme of One Time Settlement. The revised Scheme will also cover NPAs classified as substandard as on March 31, 2000, which have subsequently become doubtful or loss assets.¹⁹

➢ Draft Guidelines for One Time Settlement of Non-Performing Assets of Primary (Urban) Co-operative Banks

(A) Compromise settlement of chronic NPAs up to Rs. 10.00 crores

➢ Coverage

a. The revised guidelines will apply to all Non-Performing Assets (NPAs) in all sectors irrespective of the nature of business/activity/purpose of advance, which have become doubtful or loss as on March 31, 2000 with outstanding balance of Rs. 10.00 crores and below on the cutoff date.

b. The guidelines will also cover NPAs classified as Sub-Standard as on March 31, 2000, which have subsequently become doubtful or loss.

c. The following categories of loans will not be covered by the Scheme:

• Cases of willful default, frauds and malfeasance.

• Loans with tie-up arrangement for recovery (e.g. loans availed by salary earners).

• Loans availed of or guaranteed by Directors or by close relatives of Directors or by firms/companies/institutions in which the Directors are interested or by ex-Directors of respective Urban Co-operative Banks.

• Loans guaranteed by Government (including cases where Government guarantee has been invoked but not honored by the Government).
• Loans due from Government Departments / Undertakings.

• Loans under Government directed programmes.

d. The last date for receipt of applications from borrowers would be as at the
close of business on April 30, 2003. The processing of the applications
received under the revised guidelines should be completed by October 31,
2003.

e. These guidelines will also cover cases on which UCBs have initiated action
under the Securitization and Reconstruction of Financial Assets and
Enforcement of Security Interest Act, 2002, and also cases pending before
Courts / BIFR subject to consent decree being obtained from the Courts /
BIFR.

➢ Settlement Formula - Amount and Cutoff date

a. NPAs classified as Doubtful or Loss as on March 31, 2000

The minimum amount that should be recovered under the revised guidelines in
respect of compromise settlement of NPAs classified as doubtful or loss as on
March 31, 2000 would be 100% of the outstanding balance in the account as
on the date on which the account was categorized as doubtful or loss asset,
whichever happened earlier, as the case may be.

b. NPAs classified as Sub-Standard as on March 31, 2000 which became
doubtful or loss subsequently

The minimum amount that should be recovered in respect of NPAs classified
as Sub-Standard as on 31 March, 2000 which became doubtful or loss
subsequently would be 100% of the outstanding balance in the account as on
the date on which the account was categorized as doubtful asset, plus the
minimum interest rate fixed by the bank on advances as per Directive UBD.
No. DS.PCB. Cir.24 / 13.04.00 / 2002-03 dated October 29, 2002, from April
1, 2000 till the date of final payment.
c. Penal interest, other charges and payment of settlement amount in installments

The amount of settlement arrived at in both the above cases, should preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement should be paid upfront and the balance amount of 75% should be recovered in installments within a period of one year together with interest at the existing minimum lending rate fixed by the bank on advances as per Directive UBD. No. DS.PCB. Cir.24 / 13.04.00 /2002-03 dated October 29, 2002 from the date of settlement up to the date of final payment. Penal interest, legal charges and other charges could, however, be waived.

➢ Competent Authority

The scheme is to be approved by the Board of Directors of the banks concerned, within the provisions of the Co-operative Societies Act / Rules/ Notification / Administrative Guidelines issued by the Registrar of Co-operative Societies concerned. A Settlement Advisory Committee should be constituted by the banks to review all applications received and to recommend eligible cases to the Competent Authority for sanction. The powers to sanction waiver/ remission of penal interest / charges and to take all related decisions may be vested with the Board within the provisions of the Co-operative Societies Acts / Rules / Notifications / Administrative Guidelines issued by the RCS concerned.

➢ Non-discretionary and non-discriminatory treatment

The bank should follow the guidelines for compromise settlement of all NPAs covered, without discrimination among borrowers. The guidelines are non-discretionary in as much as the CEO/ Board of Directors should not deviate from the parameters indicated in the guidelines for compromise settlement of NPAs.
➢ Settlement Advisory Committee (SAC)

i. Constitution of SAC

The Board of Directors at the Head Office may constitute SAC comprising officials of the bank. The Committee may comprise of the Chairman, Directors, and Chief Executive Officer of the bank, another Senior Official and/or a Consultant who has experience in the field of banking, management or law. The official who had sanctioned the particular loan which has become NPA under his delegated authority should not participate in the SAC meeting where that loan account is under consideration for settlement. The SAC constituted as above may review requests for compromise settlements from eligible borrowers.

ii. Functioning of SAC

• The Boards of banks may draw broad guidelines and procedures for the functioning of SAC. The Committee may recommend eligible cases for approval of compromise settlements within the powers delegated under the Co-operative Societies Act / Rules / Administrative instructions. Powers for compromise proposals, wherever delegated to the Board of Directors of urban co-operative banks as per the Co-operative Societies Act / Rules should be exercised only on the recommendation of SAC.

• The Board should review the decisions taken by the SAC every month and ensure that the process of settlement is complete within the stipulated period.

(B) Compromise settlement of chronic NPAs over Rs. 10.00 crores

The Board of Directors and the Chief Executive Officer should personally supervise the compromise settlement of chronic NPAs on case to case basis, and should evolve policy guidelines regarding one time settlement of NPAs not covered under these guidelines as part of their loan recovery policy. Compromise settlement of such cases should be done only with the prior approval of the Registrar of Co-operative Societies.
➢ **Deviation only by RCS**

Any deviation from the above settlement guidelines for any borrower should be made only by the Registrar of Co-operative Societies.

➢ **Action against other defaulters**

In cases where restructuring is not feasible or defaulters have not come forward for compromise settlement, suits must be filed promptly for recovery of dues. Banks should follow up suit filed cases vigorously and effectively in the Courts to decide the cases and realization of dues at the earliest.

**Table 5.17 Comparative NPA Position of Cosmos Cooperative Bank Ltd. Pune**

<table>
<thead>
<tr>
<th>Year</th>
<th>Dues %</th>
<th>Gross NPA %</th>
<th>% of Change over the previous year</th>
<th>Net NPA %</th>
<th>% of Change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>12.56</td>
<td>14.91</td>
<td>--</td>
<td>3.60</td>
<td>--</td>
</tr>
<tr>
<td>2003-2004</td>
<td>12.58</td>
<td>14.31</td>
<td>-04.02%</td>
<td>2.14</td>
<td>-40.55%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>11.98</td>
<td>13.27</td>
<td>-07.26%</td>
<td>2.05</td>
<td>-04.21%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>10.53</td>
<td>12.48</td>
<td>-05.95%</td>
<td>2.71</td>
<td>32.20%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>5.21</td>
<td>6.96</td>
<td>-25.65%</td>
<td>2.29</td>
<td>-30.40%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>5.42</td>
<td>6.49</td>
<td>-06.75%</td>
<td>2.08</td>
<td>-09.17%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>4.65</td>
<td>5.91</td>
<td>-08.94%</td>
<td>1.78</td>
<td>-14.42%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>4.33</td>
<td>4.77</td>
<td>-19.29%</td>
<td>1.54</td>
<td>-13.48%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>5.64</td>
<td><strong>7.89</strong></td>
<td><strong>65.54</strong></td>
<td>4.79</td>
<td>211.03%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cosmos Cooperative Bank Ltd. Pune from 2003-2012
Table 5.17 & Graph 5.31 Show that the position of NPA of the bank. The above table indicates the collective position of NPA of the bank of last ten years. It reflects that the percentages of Gross NPA are increased in first four years but percentages of Net NPA are decreased in those years. Whereas the Gross NPA in 2012 is increased i.e. 7.89% but the Net NPA is decreased i.e. 4.79%. The percentage of change over previous is continuously decreasing from 2003 except 2005-2006 and 2011-2012 which was 32.20% and 211.03% over the previous year.

5.24 Conclusion

Due to liberalization formation of new banks turned to be easy, there by competitive atmosphere emerged in banking services for urban banks to stand in the competition. For financial suitability and workability it is necessary for banks to obtain the information about financial matters. Balance sheet and profit and loss account are not sufficient to express the financial status of the banks.

New financial models with scientific relations between financial units are to be adopted. For financial suitability, adoption of new financial models is necessary for understanding financial status of urban banks. For understanding whether urban
cooperative banks can stand in the atmosphere of liberalization, it is necessary to know whether urban banks provide modern services like other banks and whether urban banks can understand the problems of customers.

Regarding some issues in customers' services of urban cooperative banks and their financial progress, very few studies have been done at national and state level but in Maharashtra and especially in Pune only few studies are undertaken in this regard. So this study will bridge this gap.

It is seen that the bank has shown the greater efficiency in the financial performance during the last ten years. During the last ten years the bank has shown the increase in number of members, share capital. The bank has created and used its reserves in right directions. The deposits of the bank have shown the increasing trend during the last ten years.

The loans and advances are also increased during the last ten years whereas investment showed slow and gradual growth during the last ten years. The net profit of the bank showed increasing trend whereas the over dues showed the continuous decrease during the last ten years. The branches of the bank are increased year by year; the bank has its branches in different states such as Karnataka, Andhra Pradesh, Gujarat, Madhya Pradesh, and Rajasthan.

Similarly the number of employees of the banks is also increased during the last ten years. Productivity of the bank showed increasing trend during the last ten years. The NPA position of the bank showed satisfactory results during last ten years whereas the Capital Adequacy Ratio showed ups and downs during the last ten years. But the overall performance of the bank is noticeable and appreciable enough during the last ten years.
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208