Chapter One
Introduction

This chapter encompasses the conceptual basis describing the Indian banking industry, its influence on the economy and need for fund management. This chapter includes introduction of Management, Financial management, the financial appraisal techniques and the indicators of appraisal- internal and external.

‘UNITY AMIDST DIVERSITY’ is the chief characteristic feature of India’s developing economy. Our country from Kashmir to Kanyakumari and from Pune to Puri, compliment the government of India saying that in spite of regional difference of region, language, caste, colour and creed, there is an excellent difference of religion, language, caste, colour and there is an excellent emotional integrations, efficient exploitation of natural resources. A business develops in course of time with complexities and with the increasing of complexities, managing the business concern becomes a difficult one. The demand for management has increased tremendously. Management is not only essential to business concerns but also essential to banks, schools, colleges, hospitals, hotels, religions bodies, charitable trusts etc. Every business unit has objectives of its own with the objectives can be achieved with the cooperative efforts of several personnel. The work of a number of persons is properly coordinated to achieve the objective through the process of management.

According to E. Demock, “the management is not a matter of pressing a button, pulling a lever, issuing orders, scanning profit and loss statement, promulgating rules and regulations. Perter F. Drucker defines, “management is an organ; organ can be described and defined only through their functions”. Management plays a pivotal role in the operations of business enterprises. A business is comprised of several elements viz., men, materials, money, machines, methods,
markets, and management. Of these seven M’s ‘management’ stands at the Apex of the enterprise pyramid and it determines and control all other factors of business operation.

Management represents the entire body, while planning is the brain, organization constitutes its nervous system, direction makes –up its respiratory organs and control stands for the human mind. Management is a functional concept and covers a comprehensive and all pervading field. It links and puts together many things and many human facilities into one complete whole and creates an organization with allocation of authority, responsibility and accountability by exerting the leadership and control over one cohesive whole. The scope of functional areas of management include purchasing management, production management, maintenance management, transport management, distribution management, development management, information management, technology management, sales management human resource management, marketing management, and last but not the least tax management, and financial management.

Financial Management simply deals with management of money matters. Management of funds is a critical aspect of financial management. The process of financial management takes place: at the individual as well as organization levels. ‘Financial Management’ is a compound from two words, ‘Finance’ and ‘Management’. Finance is the lifeline of any business enterprise. Without finance, no business activity can be imagined. It has been rightly said, business needs money to make more money. However, money begets money, when it is properly managed. Efficient management of business is linked with efficient finance management. The procurement of finance in Financial Management is the specialized function of general management, which is related to effective utilization for the achievement of common goal for the organization.

Financial system

The financial system is a set or aggregation of financial institutions, financial instruments, financial markets and services. A Complex phenomenon of these components makes the financial system vibrant. As with any other system, the financial system too has a paramount objective, i.e to ensure smooth flow of money from those who have it (savers) to those who want
to use it (users), so that the latter can make an effective use of the same, in the process benefiting themselves, the savers and the economy as a whole.

**Figure no:-1**

*Structure of Financial system*

Source: Thesis on the role of financial ratio on disbursement of loan to companies. page no.6
FINANCIAL SYSTEM CONSTITUENT

Financial institutions are engaged in the business of money or fiancé. They can be further classified into three categories:

- Intermediaries
- Non-Intermediaries
- Regulatory Agency

INTERMEDIARIES

Intermediaries are the financial institutions that accept deposits from the savers and channelize the same as lending/investment to the users. In other words, financial intermediaries function as a bridge between the savers and the users in any economy. The financial intermediaries by their smooth functioning make the economy infinitely more efficient in the usage of money. Examples of financial intermediaries are: Banks, Investment Companies, Non-Banking Finance Companies (NBFCs), Insurance Companies, Mutual Funds, Stock Brokerage, Credit Card Companies.

NON INTERMEDIARIES

These are popularly known as Development Banks. These institutions do not accept deposits from ordinary savers but fund the users of money, as a matter of policy. They get funds from their owners or members as capital contribution/subscription and from depositors. Classic examples of such institutions in the international context are Asian Development Bank, World Bank, international Monetary Fund (IMF), and State Financial Corporation’s (In the Indian Context).
REGULATORY

These are agencies whose sole function is to monitor and regulate the functioning of the intermediaries and non-intermediaries and are referred to as ‘Regulatory Authorities’ they are like the traffic cops that lay down the “Do’s and Don’ts for the players in the market. To regulate their regulations enforceable, these agencies are generally armed with punitive powers, which can be exercised in case of non-compliance by any of the players.

FINANCIAL INSTITUTIONS

Financial institutions are business which offers multiple services in banking and finance. The services customers receiving may include saving and checking accounts, loan, investment, and financial counseling. The benefits consumers gain by using financial institutions include convenience cost saving, safety, and security. Institutions act as an agent that provides financial services for its clients or members. Financial institutions generally fall under financial regulations from government authority. Common types of financial institutions include banks, building societies, credit unions, stock brokerages, asset management firms and similar business.

TYPES OF FINANCIAL INSTITUTIONS

A financial institutions such as a bank, uses investors, depositors or its own funds to invest in financial assets such as equities or bonds to make profit. Types of institutions can be divided into depository and non-depository Institutions.

Financial non depository institutions; are financial intermediaries that do not accept deposits but do pools the payment of many people in the form of premiums or contributions and either invest it or provide credit to other non-depository institutions include pension funds, securities firms, government-sponsored enterprises, and finance companies.

- Insurance companies:-insurance companies may be classified as 1) life insurance companies, which sell life insurance, annuities and pensions products 2) non-life or general insurance companies, which sell other types of insurance.

There are also smaller non-depository institutions such as pawnshops that make loans based on the value of property such as jewelry, electronics or other valuable items. Pawnshops charge much higher fees than other lending institutions.
Mutual fund: - An investment which is comprised of a pool of funds collected from many investors for the purpose of investing in securities such as stock, bonds, money market securities and similar assets.

Brokerage House: - Stock brokers assist people in investing; online only companies are called discount brokerage, companies with a branch presence are called full service brokerages or private client services.

Investment company:- An investment company is a company (corporations, business trust, partnership, or limited liability company) that issues securities and primarily engaged of investing in securities

Depository Institutions: - where our money is deposited

Banks: - A bank is a commercial or State institution that provides financial services including issuing money in various forms, receiving deposits of money and processing transactions and the creating of credit.

Central bank:- A central bank, reserve bank or monetary authority, is an entity responsible for the monetary policy of its country or group of members state, such as European Central Bank(ECB) in the European Union, the Federal Reserve System in the United States of America,

Central Bank: - its primary responsibility is to maintain the stability of the national currency and money supply, but more active duties include controlling subsidized –loan interest rates, and acting as a “lender of last resort” to the banking sector during times of financial crisis.

Commercial Banks: - A commercial bank accepts deposits from customers and in turn makes loans, even in excess of the deposits, a process known as fractional-reserve banking. Some banks (called banks of issue) issue banknotes as legal tender.

MEANING OF FINANCE

**Finance is defined as the provision of money at the time, it is required.** Finance is the art and science of managing money. There is no human being, without blood. Similarly, there is no organization that does not require finance, irrespective of the activity, it is engaged in. The way blood is needed for a person to live, so is the requirement of finance to any firm for its survival and growth. Without adequate finance, no organization can possibly achieve its objectives
**Distinction between Money and Finance:** Money is expressed in currency. Money can be any country’s currency, which is in the hands of any person or organization. Finance is also money, any country’s currency, which is owned by any person or organization, but lent to others, used to buy an asset or make investment opportunities. The distinction between money and finance can be explained in another way.

“If you hold currency, it is money, while you lend it over to others for buying or investing in investment opportunities, it becomes finance.”

**FUNCTIONS AND IMPORTANCE OF FINANCE**

In general, the term “Finance” is understood as the provision of funds, as and when needed. Finance is the essential requirement for every organization. The way blood is required for a person to live, so be the finance to any firm for its survival and growth. Finance is regarded as life-blood of every business organization. All activities, be it production, marketing, human resources development, purchases and even research and development, depend on the adequate and timely availability of finance both for commencement and their smooth continuation to completion.

**Efficient Utilization—More Important:** Finance function is most significant function of all business activities. The efficient management of any organization is, closely, linked with the efficient management of its finances. The need of finance starts with the setting up of business; growth and expansion require more funds. Funds have to be raised from various sources. Receiving money, alone, is not important. Terms and conditions, while receiving money are more important. Cost of funds is a substantial element and its utilization is rather more important. If funds are effectively utilized, repayment would be possible and easier, too. Care has to be exercised to match the inflow and outflow of funds. As such, profitability of any firm is dependent on efficient utilization of its cost. This is era of the globalization and the business environment is very turbulent and it is changing drastically. In present environment nothing is permanent except changes, changes are likely to take place but with different pace at different time. External environmental factors like social,
cultural, economic, legal, government policies, technology and competition are uncontrollable. Due to this, it became very difficult to carry-out business activities effectively and efficiently. It is an uphill task to stabilize growth and excels in the business performance.

India has basically an agrarian economy with 72% of its total population. Most of Indians earn their living from agriculture. The performance of this sector has a major impact on overall economic development of the country. The financial institutions play a dominant role in mobilizing saving and then productive economic activities. Therefore, role of financial institution is crucial in the development of any sector and agriculture is no exception to it. Banks today are paramount from the point of view of economic growth, but also for financial stability. Rather the development of agriculture sector is more dependent on banking sector because 80% of farmers are small and marginal, who are unable to save, invest due to their low levels of income. The problem of agricultural finance was realized by the government since the last century, because there was a great discontentment among the peasants due to rising in debtiness and unscrupulous practice of money-lenders. Therefore the cooperative movement was started with a view to encourage the habit of credit movement is said to be started with the passing of Cooperative Societies Act 1904. As the main objective of the cooperative bank is to mobilize financial resources and make it available for provision of short and medium term loans to agriculturists through the mechanism of Cooperative Central Banks at the district level and Primary Agricultural Credit Societies (PACS) at the village level, and spearhead the extension of banking facilities in the rural areas. The process of evolution of the Cooperative Agricultural Credit structure, the first to be born were the Primary Agricultural Credit Societies after the launching of the Central act on Cooperative Societies in 1904. The primaries subsequently federated themselves and formed themselves into a District level Cooperative Bank to provide them the necessary financial support and guidance.

This was the second stage in the evolution of the Cooperative Banking structure in the country. With the increase in the number of Cooperative Central Banks, the problem of Cooperative finance become complicated and Central Cooperative Banks functioned in isolation as small deposit in their own way and at times felt helpless without a benevolent guardian to give them succor and help in distress. Without an Apex institution, the development of the Cooperative movement was lopsided and it sailed like ‘a ship without rudder’. The functions and the volume of business of the Cooperative Central Banks went on increasing. There must be an institution
which could attract deposits from the richer urban centre and more suitably equipped to serve as a channel between the Cooperative movement and the money market. That must be able to coordinate and control the working of Cooperative Central Banks forecast and arrange for provincial requirements as a whole and functions as the nerve centre for provincial cooperative finance. Today the Cooperative banking system is on very sound lines with a network of branch spread all over the country and serving all sections of the society with innovative banking programs. The financial institutions should carefully manage the resources available and distributed in order to maintain efficiency. Efficiency of funds management lies not only in the efficient mobilization of funds but also in the effective and optimum use of resources. Recovery mechanism of NPA includes calling up to advances and approaching to debt recovery tribunals, establishment of asset recovery branches and one-time settlement scheme by RBI. Banks should take advantage of mergers and acquisition of sick units in order to reduce the NPA’s. A large number of compromise proposals are being approved by the institutions with the view of reducing NPA’s and recycling of funds instead of restoring to expensive recovery proceedings spread over a long period of time.

The State Cooperative Banks, widely known as Apex Bank, occupies a cardinal position in the Cooperative Credit structure. They constitute an important link between the District Central Cooperative Bank and the Primary Agricultural Credit Societies. State Cooperative Banks are in fact a federation of District Cooperative Bank, Primary Agricultural Credit Societies and other types of societies working within their jurisdiction. State Cooperative Banks (SCBs) act as the leader of the Cooperative movement in a district and play an effective role in the all-round growth of the Cooperative movement. It has to undertake various promotional and developmental activities also. Being the social banker, it has to take banking facilities to the rural areas and un-banked centers. It is the spokesman for not only the Primary Agricultural Credit Societies, but also for other kinds of Cooperative Institutions in the state. A significant problem observed recently in Chhattisgarh state is management of funds and to conduct analysis on the non-performing assets Chhattisgarh State Cooperative Bank and its impact on the performance of Bank. Nonperforming assets are a major bane for the banks in India so as in the case of Chhattisgarh State District Cooperative Central Bank. The study has been undertaken to know the efficiency fund and impact of Non-performing Assets on the performance and profitability of the bank.
Fund Management - Loan disbursement & recovery has received only limited attention this has been brought out in the review of literature presented in the chapter. The above problem invites greater attention today especially because of the competition banking and liberalized economy which are likely to affect the loan Recovery and disbursement of working. The present study is an attempt to bring out the various facets of the workings efficiency & Non-Performing Assets (NPA) of District Cooperative Central Bank, (DCCB) Bilaspur and District Cooperative Central Bank, (DCCB) Raipur, of Chhattisgarh in relation to fund management. The study of Non-Performing Asset Management at Apex bank gives details of the Gross NPA and Net NPA of the bank, which is least among the present cooperative banks. The strategies of reducing nonperforming assets including prevention through better appraisals, prevention through better follow up, rephasement of loans, merger or acquisition of sick units by healthy units, recycling of funds, filing of civil suits, debt recovery tribunals and recovery of advances given under government sponsored programs or schemes. Banks should take advantage of mergers and acquisition of sick units in order to reduce the NPA’s. a large number of compromise proposals are being approved by the institutions with the view of reducing NPA’s and recycling of funds instead of restoring to expensive recovery proceedings spread over a long period of time.

In Chhattisgarh State, the District Cooperative Central Banks (DCCBs) Raipur and Bilaspur are nodal centers of financial institutions in the Cooperative sector in a District. They have to mobilize the available resources and utilize them in the most efficient and profitable manner. A significant problem observed recently in Chhattisgarh is the low deployment of funds mobilized by DCCBs compared to the volume of deposits. This is in sharp contrast with the DCCBs of other states, where deployment is far ahead compared to mobilization of funds. As a consequence of this situation, efficiency in funds management has come down considerably and consequently the profitability of the DCCBs in Chhattisgarh is found decreasing.

**Financial Appraisal Techniques**

Financial appraisal is a scientific evaluation of the profitability and financial position of any concern. The techniques of financial statement analysis are used for financial appraisal. The main endeavor of financial appraisal is to detect problems before they manifest themselves. It is a mechanism for critical analysis of financial health of bank to monitor its performance.
As the technique uses financial statement analysis, it relies mainly on the numerous sets of financial ratios which can be deduced. Financial statement analysis is defined ratios which can be deduced. Financial Statement analysis is the process of identifying financial strength and weakness of the institutions, by properly establishing relationship between the items of the balance sheet, profit and loss account. There are different techniques that are used in analyzing financial statement, such as comparative statement, schedule of changes in working capital, fund analysis, and ratio analysis. A brief description of some of the techniques is provided below:

**Financial Statement Analysis:**

Financial Statement is managerial activity in which financial manager is required to plan and control firm’s financial resources, meet external obligation and for decision making purpose through analysis and interpretation from the financial statement.

**Ratio Analysis**

A Ratio expresses relationship of one figure with any other relevant figure. It is simply defined as one number expressed in relation to another number. Thus, an accounting ratio expresses numerical or mathematical relationship between two relevant terms. It simplifies the comprehensive of financial statement ratio inter-firm and intra-firm comparison. The ratio analysis is one of the powerful tools of financial management. Ratio analysis measures the profitability, efficiency, and financial soundness of the business organizations. A physician never comes to any conclusion, based on one symptom. In similar manner, accounting ratios are indicators for further investigation. Analysis is the methodical classification of, data and presentation in a simplified form for easy understanding. Interpretation is assigning reasons for the behavior in respect of the data, presented in the simplified form. Analysis of ratio, without interpretation, is meaningless and interpretation, without analysis, is impossible. Ratio analysis is useful in judging various aspects of bank like efficiency, profitability, solvency, and financial soundness of the bank only when they are compared with past results of the bank. Such comparison provide glimpse of the past performance and forecast for future.

**Importance of Ratio Analysis**
The users of financial ratio analysis are: 1) to track individual bank/firms performance overtime, 2) to make comparative judgment regarding banks/firms performance. Banks performance is evaluated using trend analysis, calculating individual ratio on a period basis, and tracking their value over a time. This analysis can be used to meet the current obligations for concern. In this role, ratios serve as red flags for troublesome issue, and as benchmark for performance. Another usage of ratios is to make relative performance comparisons. Users of financial ratios include both internal and external parties of the bank. External users include creditors, commercial banks, current and potential investors, creditor’s, competitors and other industry observers. Internally, managers use ratio analysis to monitor the performance of the banks.

**CAMEL Model**

Ratios are to be interpreted by different people and it may be interpreted the same ratio in different way. Thus ratio analysis becomes confusing and misleading. Pertaining to these limitations, this study though has carried out financial appraisal through analyzing financial statement with ratios; it has deduced the set of ratios from the CAMEL model.

The globally accepted techniques for identifying the set of ratios which can measures the performance of bank on the parameters of financial strength and soundness is CAMEL Model. It is standardized method which allows the assessment the quality of banks according to standard criteria providing a meaningful rating. The standard criteria are identifying the set of ratios which form a part of the measure of capital adequacy, asset quality, management efficiency, earning quality, and liquidity.

Thus CAMEL Model provides the framework for identifying the sets of ratios. Ratios definition depicts only the impact of are not capable of assessing the bank performance unless they compared with some yardstick. Thus financial appraisal demands joint analysis where we measure one relative to another. Thus the whole analysis explains how different comparisons like internal, external and economy based are relevant to make the financial appraisal worthwhile.

CAMEL Model is composed of the following:
1) Capital Adequacy

2) Asset Quality

3) Management Efficiency

4) Earning Quality

5) Liquidity

With the help of above CAMEL parameters it becomes easy to know about the true financial position of the bank. The CAMEL Model is of utmost importance to bank appraisal as it means the following.

**Capital Adequacy**

Capital adequacy it is the most important parameter in judging the performance of bank in terms of capital. Bank needs capital for two reasons they are as follows:

1) To run business operations.

2) To safeguard against the losses.

In CAMEL Rating ‘C’ Stands for Capital Adequacy Ratios which come under it: CRAR (Capital to Risk Weighted Asset Ratio) Debt equity ratio Advance to assets ratio Government securities to Investment. Capital Adequacy helps in financial interpretation to survive even during substantial losses. It helps to re-establish the business/institutions and avoid any breaks in the operations. To ensure the good performance of bank, the regulatory authority, RBI has specified the minimum capital for the bank. This requirement is called the Capital Adequacy, and it is specified for Banks and Nonbanking Financial Corporations’ (NBFCs).

Capital base of financial institutions facilitates depositors in forming their risk perception about the institution and the key parameter for financial managers to maintain adequate levels of capitalization. Moreover, besides absorbing unanticipated shocks, it signals that the banking institutions will continue to honor its obligations. The widely used indicator of capital adequacy
is capital to risk-weighted assets ratio (CRWA). Capital adequacy ultimately determines how effectively financial institutions can cope with shocks to their balance sheets. Thus, it is useful to track capital adequacy ratio that take. A sound capital base strengthens confidence of depositors and thus, this ratio is used to protect depositors and promote the stability and efficiency of financial system around the world.

**Asset Quality:**

‘A’ stands for Asset Quality Ratios which come under it: NPA to Total Assets NNPA to Net Advances Total Investment to Total Assets. The Asset Quality includes much simply calculating past due and adverse classification ratios. In assessing to trends in classified form of assets, delinquent loans, and credit concentration, the asset quality component takes into account management’s ability to underwrite and administer credits in a prudent and sound manner. Assets quality is related to left hand side of the bank balance sheet.

**Management Efficiency**

‘M’ Stands for Management Efficiency Ratios, which come under it Total asset to Total deposit Business per employee Profit per employee Return on Net Worth. Management plays a big role in determining the future of the bank. The management has bird’s eye view on a bank’s operations, managing the quality of loans and has to ensure that the bank is profitable. The management sets the profitability objective and, in conjunction. Determines the risk level to be undertaken by the bank. The management quality of a bank can be measured by examining its operating efficiency in terms of it cost management.

**Earning Quality**

‘E’ stands for Earnings Quality Ratios which come under it: Operating profit to Average working fund Net Interest Margin Return on Equity Return on Assets. There are number of indicators used to evaluate to how earning relate to the performance of the banking industry. Performance
of a bank in terms of earning and profitability reflects the ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate capital base, finance its expansion and pay adequate dividends to its shareholders.

**Liquidity position**

‘L’ stands for Liquidity Ratios which come under it: Government securities to Total Asset Liquid Asset to Total Asset Liquid Asset to Total Deposit Liquid Asset to Demand Deposit. Banks require liquidity to meet deposit withdrawals and satisfy customer loan demand. Faced with liquidity risk, a bank may be forced to borrow emergency funds at an excessive cost to cover its immediate cash needs, hence reducing its earning. Banks need to have a sound liquidity management to avoid incurring a high liquidity risk and also ensure that immediate funds will be available at the lowest cost.

**Performance Indicators**

There are several ways of analyzing bank performance. The above performance measures are in global use. Yet none of this individuality is useful as a comprehensive measure of bank performance. The reason stems on their interdependency with the financial market and economy.

As evident from above, financial appraisal evaluates the financial statement on the basis of above ratios are further compared with performance indicators such as liquidity, solvency, profitability, capital adequacy etc, to depict the true financial position of DCCB Raipur and Bilaspur. Such analysis measures the bank performance internally and externally i.e. market based. The performance indicators are defined as those set of ratios which as a benchmark to appraisal the banks internally and externally.

**Internal Financial Performance Indicators**

Getting on top of financial measures of performance is an important part of running a growing bank, especially in the current economic climate. Many banks across the globe have failed because of poor financial management or planning. The success of bank can depend on
developing and implementing sound financial and management systems. A review of financial performance of the bank can help its management reassess its business goal and plan effectively for improving its efficiency. When conducting a financial review of banks, internal financial performance indicators can be used as benchmarks against which individual banks prior and present financial can be compared. It allows the bank to precisely position itself within their peer groups.

The universally accepted performance indicators for their valuable contribution in assessing the banks financial management are assets and return on equity (ROE).

**Return on Assets (ROA)**

The ROA is primarily and indicator of internal financial efficiency of a bank. It indicates how much profit a bank earns for every rupee of its assets. Assets includes like cash at bank, accounts receivable, property, equipment, inventory and furniture.

**Return on Equity (ROE)**

ROE, on the other hand, is a measure of the rate of return flowing to the bank’s shareholders. It is a basic test of how effectively a bank’s management uses investor’s money. ROE describes as the management is growing the company’s value at an acceptable rate or not.

**External Market Performance Indicators**

The external market performance indicators characterize the way the capital markets value the activity of the bank compared to its accounting value. These indicators can be used as a benchmark in assessing the market value created by the bank which can allow it to survive in the market for a long time. It helps the banks to shorten the gap between its financial and investment management decisions.
PROBLEM STATEMENT:-

“A COMPARATIVE STUDY ON FUND MANAGEMENT OF DISTRICT COOPERATIVE CENTRAL BANK LIMITED RAIPUR AND BILASPUR OF CHHATTISGARH STATE”

RATIONALE OF THE STUDY

Banking system occupies the central position in Indian Financial system. It is the backbone of Indian economy. It plays an important role in mobilizing savings and channelizing them into production activities etc. In India, Cooperative Banks are more than hundred years old. They came into existence with the enactment of Cooperative Credit Societies Act, 1904. Since their inception, these banks and their affiliated agencies have been playing a significant role in socio-economic development of the country. Cooperative Banks enjoyed the monopoly till 1969. They supplement the commercial banks to depend on the financial intermediation by bringing large number of small depositors/borrowers under the formal financial sector. They form an integral part of the banking system in India. They mobilize deposits and supply agricultural credit by an extensive network of their outlets (branches). Though the banking sector reforms did not leave
significant impact on the functioning of Cooperative banks, Cooperative banks are changing their banking facilities and products as per the changing environment. They are facing various types of problems and challenges in current competitive era; even then, they are equally important for making financial inclusion a success. More specifically, when we see the cooperative banking structure of our country, we find that State Cooperative Banks (StCBs) are important institutions in this structure. State cooperative banks, control, regulate and supervise the entire Cooperative movement in their concerned states. They are also known as Apex Banks.

The Banking System can be compared with the finest system in the whole world. Today Cooperative banking system is very sound network of branch spread all over the country and serving all sections of the society with innovative banking programs. The financial institutions should carefully manage the resources available with and distributed in order to maintain the efficiency. Efficiency of funds management lies not only in the efficient mobilization of funds but also in the effective and optimum use of resources. This argument is very much relevant for banking institutions, in the present context as the total resources of a good share is to be kept as reserves and to improve by efficiently managing the remaining resources. Recovery mechanism of NPA includes calling up to advances and approaching to debt recovery tribunals, establishment of asset recovery branches and one-time settlement scheme by RBI. Banks should take advantage of mergers and acquisition of sick units in order to reduce the NPA’s. A large number of proposals are being approved by the institutions with the view of reducing NPA and recycling of funds instead of restoring expensive recovery proceedings spread over a period of time.

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