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**CHAPTER - VI**

**THE OPERATING EXPENSES AND THE PROFITS**

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## CHAPTER-VI

## THE OPERATING EXPENSES AND THE PROFITS

## 6.1 INTRODUCTION :

In this chapter the changes in the level and structure of operational expenses, growth of profit, division of net profit among various funds, structure and growth of employment in the Bank under study alongwith branch expansion have been elaborated. To study the liquidity, profitability with security the investment structure of the Bank has been analysed.

## 6.2 MANAGEMENT OF THE BANK :

Success of every institution whether it may be private public or cooperative depends upon the efficiency of the management. In a broader sense the management of co-operative institution consists of the general body, board of directors and the top management personnel. If there is proper coordination in management it will be beneficial to the institution. The following chart shows the management structure of the Bank.

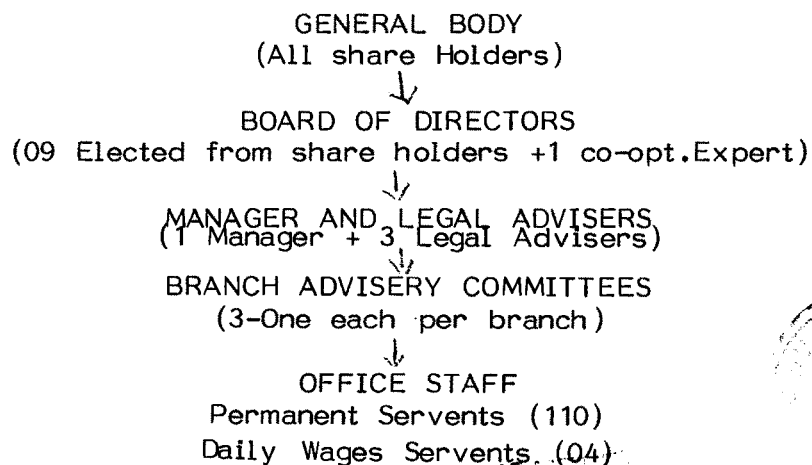
**MANAGEMENT STRUCTURE OF THE BANK**

Table - 6.1 : Office Staff of the Bank

Sr.No.	Branch	Permanent Staff			Staff on Daily Wages									
		Manager	Branch Manager	Incharge Asstt. Manager	Senior Officer	Sub-Acc-ountant	Clerk	Peon	Watchman	Driver	Clerk	Peon	Total	
1	Main Branch	1	-	1	7	9	32	15	4	4	3	1	77	
2	Industrial Estate Branch	-	1	-	1	2	09	02	4	-	-	-	19	
3	Hupari Branch	-	1	-	1	1	07	03	-	-	-	-	13	
4	Kavathegulang Branch	-	1	-	-	-	03	01	-	-	-	-	05	

Source : Collected from the office record of the Bank

**6.3 BOARD OF DIRECTORS :**

The Board of Directors of the Bank under study consists of ten directors. Out of them one is Chairman, one is Vice-Chairman and remaining other eight are members. If we observe the board of directors we find that most of the board directors belong to industrialists class, one of them is trader, one is farmer.

Apart from the board of directors, look after day-to-day working of the Bank the manager is appointed with three legal advisers.

**6.4 BRANCH ADVISORY COMMITTEES :**

Apart from the main branch of the Bank there are other three branches established as stated earlier in chapter three. For the sake of convenience three separate Branch Advisory Committees are formed in order to look after the working of every branch of the Bank. The members of these committees are the member of the board of directors. Every committee consists of five members. Out of these one acts as Chairman, Manager of the Bank is ex-officio member of every committee. Branch manager of every branch of the bank is member of the such committee. Hence, the formation of the Branch Advisory committee is as follows :

## BRANCH ADVISORY COMMITTEE

3	1	1
Directors (out of these 1 is Chairman)	Ex-officio (Manager of the Bank)	Branch Manager

**6.5 OFFICE STAFF :**

At present there are 114 servants are working in various branches of the banks in the various cadres .Out of these 114, 77 servants are working in the main branch of the bank. There are two types of the servants one is permanent staff and another is staff working on daily wages. Out of these 114 servants only four servants are on dailywages. There are 1 Manager, 1 Incharge Assist. Manager, 7 Senior officers, 9 sub Accountant, 32 clerks, 15 peons, 4 watchmen and 4 driver working in the main branch of the bank.

Out of 114, servants 19 are searving in industrial estate branch of the bank. Out of these 19 there are, Branch Manager, 1 senior officer, 2 sub accountants, 9 clerks, 2 peons and 4 watchmen working at the branch of Industrial estate of the Ichalkaranji.

There are 13 staff members out of which 1 is Branch Manager, 1 is senior officer, 1 is sub accountant, 7 are clerks and 3 are working as peons in the branch of the bank at Hupari.

Table-6.2 : Investment Structure of the Bank

Year	Government Debentures (face value)	National Savings Certificate	Share of Maharashtra State Finance Corporation	Share of Co-op. Societies	Fixed Deposits with Banks	Fixed Deposit with Kolhapur Dist. Central Co-op. Bank	Debentures of Land and Development Bank	Total
1981	80073.23 (54.98)	35200.00 (2.42)	-	120500.00 (8.27)	-	500000.00 (34.33)	-	1456437.23 (100)
1982	669137.23 (65.94)	175200.00 (17.26)	-	170500.00 (16.80)	-	-	-	1014837.23 (100)
1983	557837.23 (58.38)	200200.00 (20.95)	12000.00 (1.26)	185500.00 (19.41)	-	-	-	955537.23 (100)
1984	447912.23 (3.50)	200200.00 (1.57)	12000.00 (0.90)	185500.00 (1.45)	11935000.00 (93.39)	-	-	12780612.23 (100)
1985	203837.23 (1.61)	250200.00 (1.98)	12000.00 (0.90)	235500.00 (1.86)	11935000.00 (94.38)	-	9775.00 (0.08)	12646312.23 (100)
1986	173837.23 (1.13)	350200 (2.28)	12000.00 (0.08)	275500.00 (1.79)	14535000.00 (94.72)	-	-	15346537.23 (100)
1987	132610.00 (0.80)	400200.00 (2.40)	12000.00 (0.07)	315500.00 (1.90)	15785000.00 (94.83)	-	-	16645310.00 (100)
1988	55000.00 (0.24)	450200.00 (1.95)	12000.00 (0.05)	428100.00 (1.86)	22085000.00 (95.96)	-	-	23030300.00 (100)
1989	55000.00 (0.19)	325000.00 (1.10)	12000.00 (0.04)	595950.00 (2.01)	28585000.00 (96.66)	-	-	29572950.00 (100)
1990	55000.00 (0.18)	275000.00 (0.90)	12000.00 (0.04)	641700.00 (2.10)	29585000.00 (96.78)	-	-	30568700.00 (100)
1991	55000.00 (0.16)	250000.00 (0.71)	12000.00 (0.03)	967350.00 (2.73)	34085000.00 (96.37)	-	-	35369350.00 (100)
1992	55000.00 (0.14)	200000.00 (0.52)	12000.00 (0.03)	967350.00 (2.53)	37085000.00 (96.78)	-	-	38319350.00 (100)

Source : Compiled From Annual Reports of the Bank

Kavate Guland is one of the branches of the bank in which only 5 staff members are working. Out of these 5, 1 each is working as branch Manager and peon. While remaining 3 are clerks, from the Table 6.1 we can observe that the office staff of the bank under study is divided unevenly as per the requirement of the branches.

#### 6.6 INVESTMENT STRUCTURE OF THE BANK :

According to investment criteria of commercial banking the Bank under study has distributed its funds (investments) among various channels of the security as well on profitability. The Table No.6.2 shows that the distribution pattern of the investment has changed during the period under study. From the Table No.6.2 we can observe that.

1 In 1981 Rs. 800737.23 were invested in Govt. debentures. It accounts for 54.98% to total investment. The investment in this channel went on decreasing during the period under study. In 1992 the amount invested in this channel was Rs. 55000 which was merely 0.14% to total investment.

2 Another investment channel is National saving certificates. In 1981 Rs. 35200 were invested in this channel. It accounts for 2.42% of the total investment. The amount invested in this channel went on increasing for further two years. In 1983 percentage of investment done in this channel to total investment was 20.95%. But the share of investment done in this channel went on decreasing during the period

under study. In 1992 though, the investment done in this channel was Rs. 200000, its percentage share to total investment was only 0.52%.

3. The bank under study invested some funds in shares of Maharashtra State Finance Corporation in 1983 for the first instance. The amount invested in this channel increased from Rs. 2000 in 1983 to Rs. 12000 in 1992. But the percentage share of the amount invested in this channel decreased from 1.26% in 1983 to 0.03% in 1992 to the total investment.

4. Funds invested in shares of co-operative societies have increased during the period under study, but its percentage to total investment has decreased. In 1981 the investment done in this channel was Rs. 120500. Its percentage share to total investment was 8.27%. In 1992 the investment done in this channel increased upto Rs. 9673350 but its percentage share to total investment has decreased upto 2.53%.

5 Fixed Deposits with the Banks is an important channel of investment of the Bank under study. Initially upto 1983 investment done in this channel was nil. But in 1984 the Bank under study kept Rs. 1193500 as a fixed deposit in other commercial banks. It was accounted for 93.39% to total investment of the Bank. It has increased upto Rs. 37085000 which accounts for 96.78% to total investment.



Table-6.3 : Growth of Expenditure of the Bank

Year	Total Expenditure (Rs. in 000)	Maintenance Cost of the Bank (Rs. in 000)	% of Maintenance cost to total Expenditure
1981	3820	1138	29.79
1982	4911	1648	33.56
1983	6472	1209	18.68
1984	6965	2086	29.95
1985	7968	4470	56.10
1986	9102	5298	58.21
1987	10450	3393	32.47
1988	12627	3623	28.69
1989	17699	4242	23.97
1990	20683	4900	23.69
1991	25106	6029	24.01
1992	24382	5465	22.41

Source : Compiled from Annual Reports of the Bank

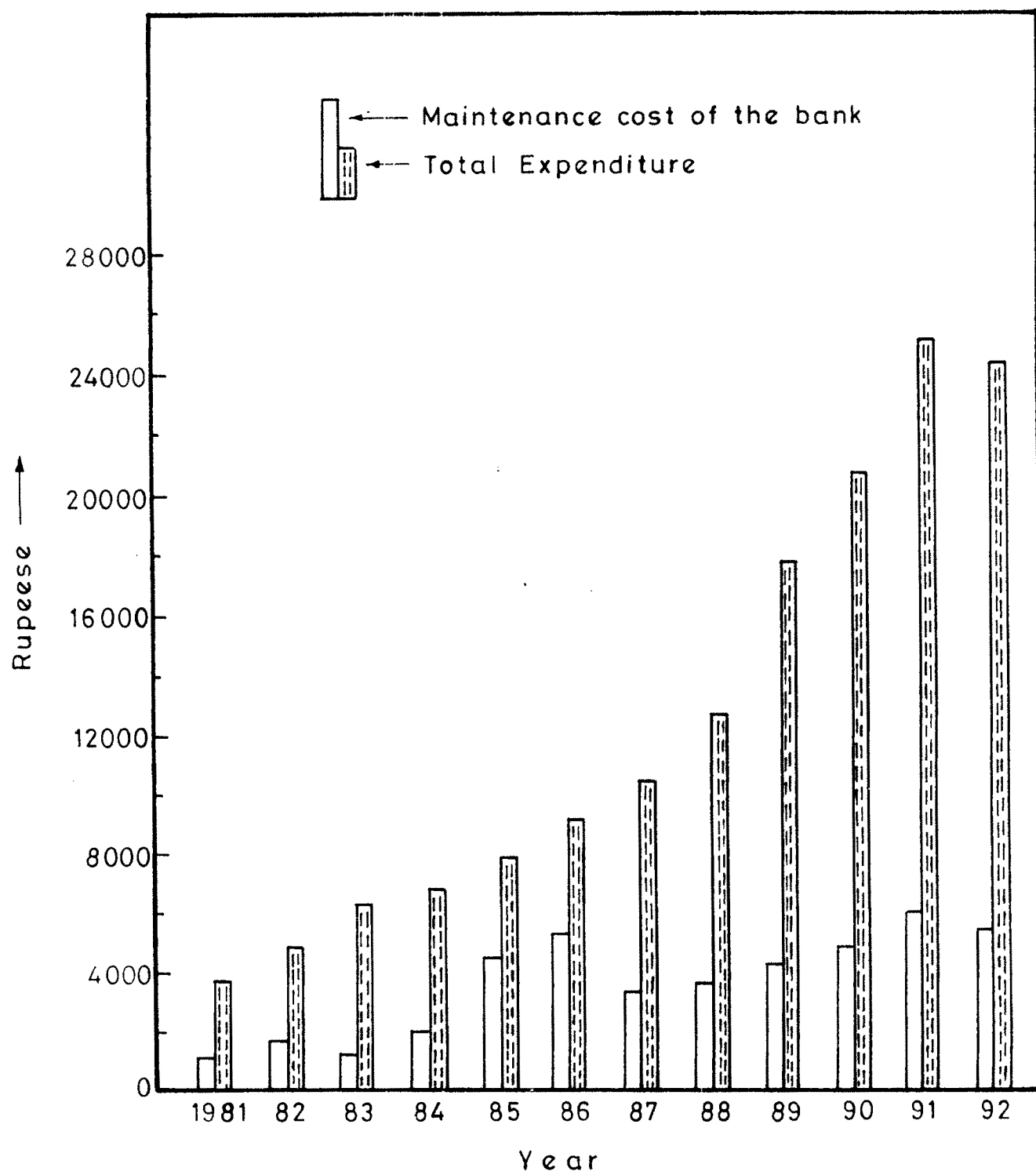


Fig.11 Growth of Expenditure of the bank ( 1981-92 ).

6 In 1981 the Bank under study was kept Rs. 500000 with the Kolhapur District Central Cooperative Bank as an investment purpose. Its percentage share to total investment was 34.33%.

7 In 1985 Rs. 9775 were invested in debentures of land Development Bank which accounts for 0.08% to total investment.

8 The investment of the Bank under study has increased from Rs. 1456437.23 in 1981 to Rs. 38319350 in 1992.

#### **6.7 EXPENSES OF THE BANK :**

The expenses of the Bank under study are divided into two heads, i.e. total expenditure and maintenance cost of the Bank. Total expenditure consists of interest payable on deposits, salary of employees, allowances of the meeting of the directors, rent, taxes, insurance premium, light bill, fees of legal adviser, correspondance, audit fee, repairy and depreciation of property, stationary, printing, advertisement, loss incurred by the bank from selling of bank property etc. while the maintenance costs of the Bank consists of the above costs items except interest payable on deposits.

The Table No.6.3 shows that in the year 1981 the Bank has incurred total expenditure upto Rs. 3820 thousands.. Out of these expenses Rs. 1138 thousands were spent on

maintenance of the Bank. It accounted for 29.79% to total costs. During the period under study the total expenditure of the Bank has increased alongwith the maintenance cost of the Bank. But the percentage share of the maintenance cost in total expenditure of the Bank has decreased. In 1992 it was 22.41%.

Though, the percentage share of maintenance costs of the Bank in total expenditure went on decreasing, it has increased noticeably in the years 1985 and 1986. In the year 1985 the Banks' total expenditure was Rs. 7968 thousands. Out of this Rs. 4470 were spent on maintenance of the Bank. Its percentage to total expenditure was 56.10%. In 1986 the Banks total expenditure was Rs. 9102 thousands, out of which Rs. 5298 thousands were spent on maintenance of the Bank. It accounted for 58.21% to total costs. It means that in the year 1986 the maintenance cost of the Bank has doubled as compared to the costs incurred in 1981. After 1986 it has went on decreasing. In 1992 the Bank has spent Rs. 24382 thousands. Out of these Rs. 5465 was spent on maintenance of the Bank.

#### **6.8 INCOME-EXPENDITURE RATIO OF THE BANK :**

Income-expenditure ratio is one of the indicators of measurement of bank efficiency. Efficiency of the bank is inversly related to the income-expenditure ratio of the bank. Higher the income-expenditure ratio lower will be the efficiency of the bank and vice versa. Unfortunately, the

Table-6.4 : Income-Expenditure Ratio of the Bank

Year	Income	Expenditure	% of expenditure to total Income
1981	4496	3820	84.96
1982	5374	4911	91.38
1983	7165	6472	90.33
1984	7644	6965	91.12
1985	8660	7968	92.01
1986	9803	9102	92.85
1987	11228	10450	93.07
1988	13436	12627	93.98
1989	18520	17699	95.57
1990	21953	20683	94.21
1991	26450	25106	94.92
1992	25575	24382	95.33

Source : Compiled From Annual Reports of the Bank

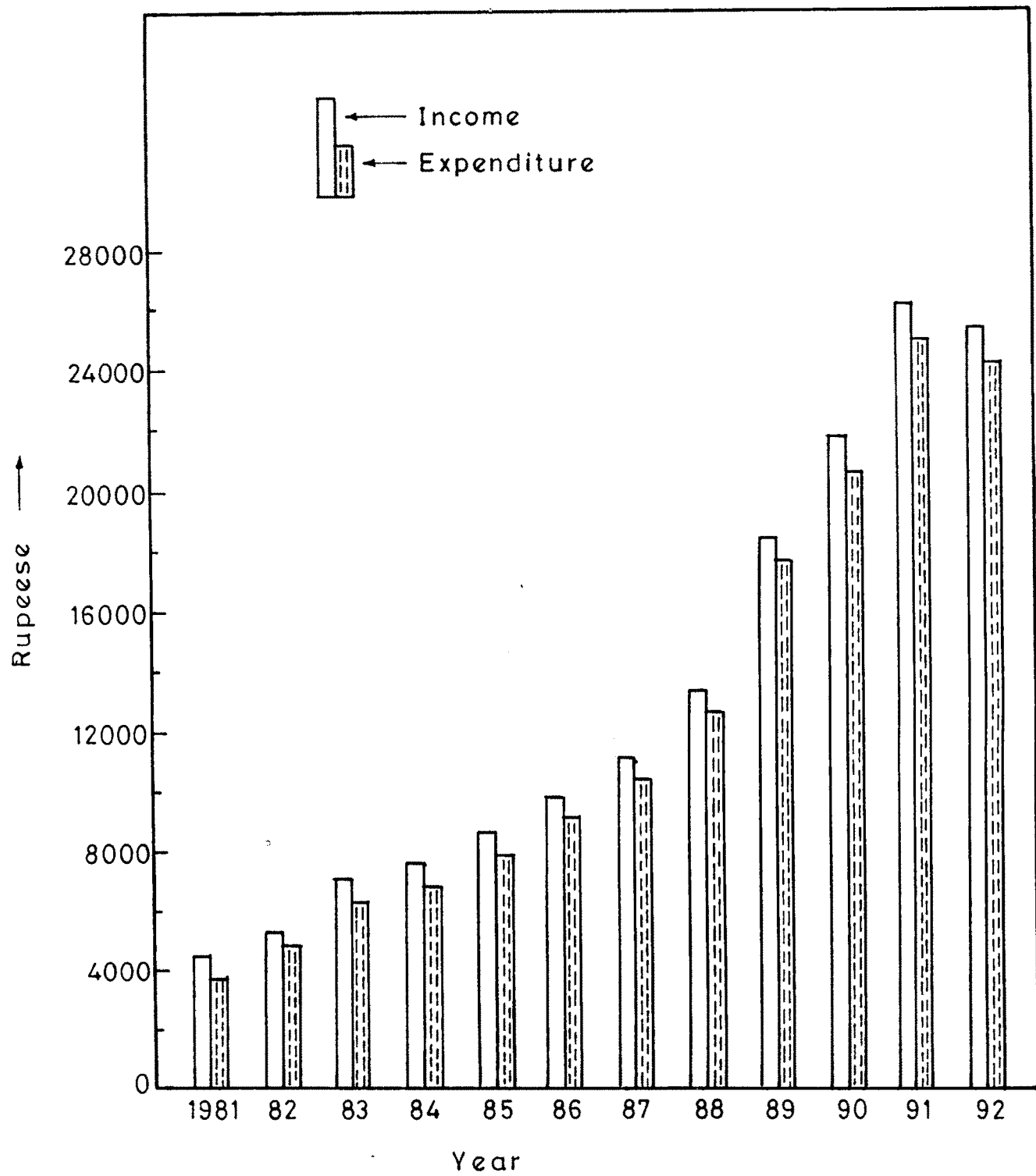


Fig.12 Income Expenditure ratio of the Bank (1981-92 )

Income-expenditure ratio of the Bank under study went on increasing. Hence, it is clear that, on the basis of this indicator the efficiency of the Bank went on decreasing during the period under study.

We can observe from the Table No.6.4 that,

1 The percentage of total expenditure to total income has increased from 84.96% in 1981 to 95.33% in 1992.

2 The percentage of total expenditure to total income was higher in the year 1989, i.e. 95.57%, while it was lower in the year 1981, i.e. 84.96%.

3 The range of the percentage of total expenditure to total income was between 84.96% to 95.57%. It means that, during the period under study the percentage of total expenditure to total income was more than 85%.

4 Though the total income of the Bank under study has increased from Rs. 4496 thousands in 1981 to Rs. 25575 thousands in 1992, the total expenditure has also increased from Rs. 3820 thousands to Rs. 24382 thousands during the reference period.

#### 6.9 NET PROFIT EARNED BY THE BANK :

Net profit of the Bank under study is calculated by deducting the total expenditure from the total income of the Bank. The Table No.6.5 shows that, in the year 1981 the total income earned by the bank was Rs. 4496 thousands and the net profit was Rs. 676 thousands. In the year 1982 the income of the bank increased upto Rs. 5374 thousands it means that, the



Table-6.5 : Net Profit Earned By The Bank  
(Rs. in 000)

Year	Income	Expenditure	Net Profit
1981	4496	3820	676
1982	5374 (19.53)	4911 (28.56)	463 (-31.51)
1983	7165 (33.33)	6472 (31.79)	693 (49.68)
1984	7644 (6.69)	6965 (7.62)	679 (-2.02)
1985	<del>8560</del> (13.29)	7968 (14.40)	692 (01.91)
1986	9803 (13.20)	9102 (14.23)	701 (01.30)
1987	11228 (14.54)	10450 (14.81)	778 (10.98)
1988	13436 (19.67)	12627 (20.83)	809 (3.98)
1989	18520 (37.84)	17699 (40.17)	821 (01.48)
1990	21953 (18.54)	20683 (16.86)	1270 (56.98)
1991	26450 (20.48)	25106 (21.38)	1344 (5.82)
1992	25575 (-3.31)	24382 (-2.88)	1193 (-11.24)

Source : Compiled From Annual Reports of the Bank.



total income of the bank was increased by 19.53% over the previous year but the expenditure of the bank in the same year increased by 28.56%. Hence, the net profit of the bank has decreased upto Rs. 463 thousands over the previous year, i.e. 31.51%. In the year 1983 the net profit of the bank has increased upto Rs. 693 thousands i.e. by 49.68% over the previous year 1982. After 1983 the net profit of the bank has increased upto the year 1989, but the increase in net profit is very meagre except in the year 1987. In the year 1987, the net profit of the bank has increased by 10.98%.

IN the year 1990 the net profit of the bank has increased to a greater extent over the previous year. In the year 1990, the total income of the bank was Rs. 21953 thousands i.e. by 18.54% over the previous year. But the total expenditure of the bank in the reference period was Rs. 20699 thousands. It has increased by 16.86% over the previous year. Hence, the net profit has increased by 56.98% in the year 1990 over the previous year. Again, after the year 1990 the net profit of the Bank went on decreasing. In the year 1991 it has decreased by 11.24% over the previous year.

From the Table No.6.5 we can conclude that,

- 1 Total income of the banks has increased continuously upto the year 1991 from the beginning.
- 2 Expenditure of the bank has increased alongwith the income of the bank but not in the same proportion.

Table-6.6 : Income-Net Profit Ratio of the Bank

Year	Income	Net Profit	(Rs.in 000)
			% of Net Profit to Total Income
1981	4496	676	15.04
1982	5374	463	8.62
1983	7165	693	9.67
1984	7644	679	8.88
1985	8660	692	7.99
1986	9803	701	7.15
1987	11228	778	6.93
1988	13436	809	6.02
1989	18520	821	4.43
1990	21953	1270	5.79
1991	26450	1344	5.08
1992	25575	1193	4.66

Source : Compiled From Annual Reports of the Bank.

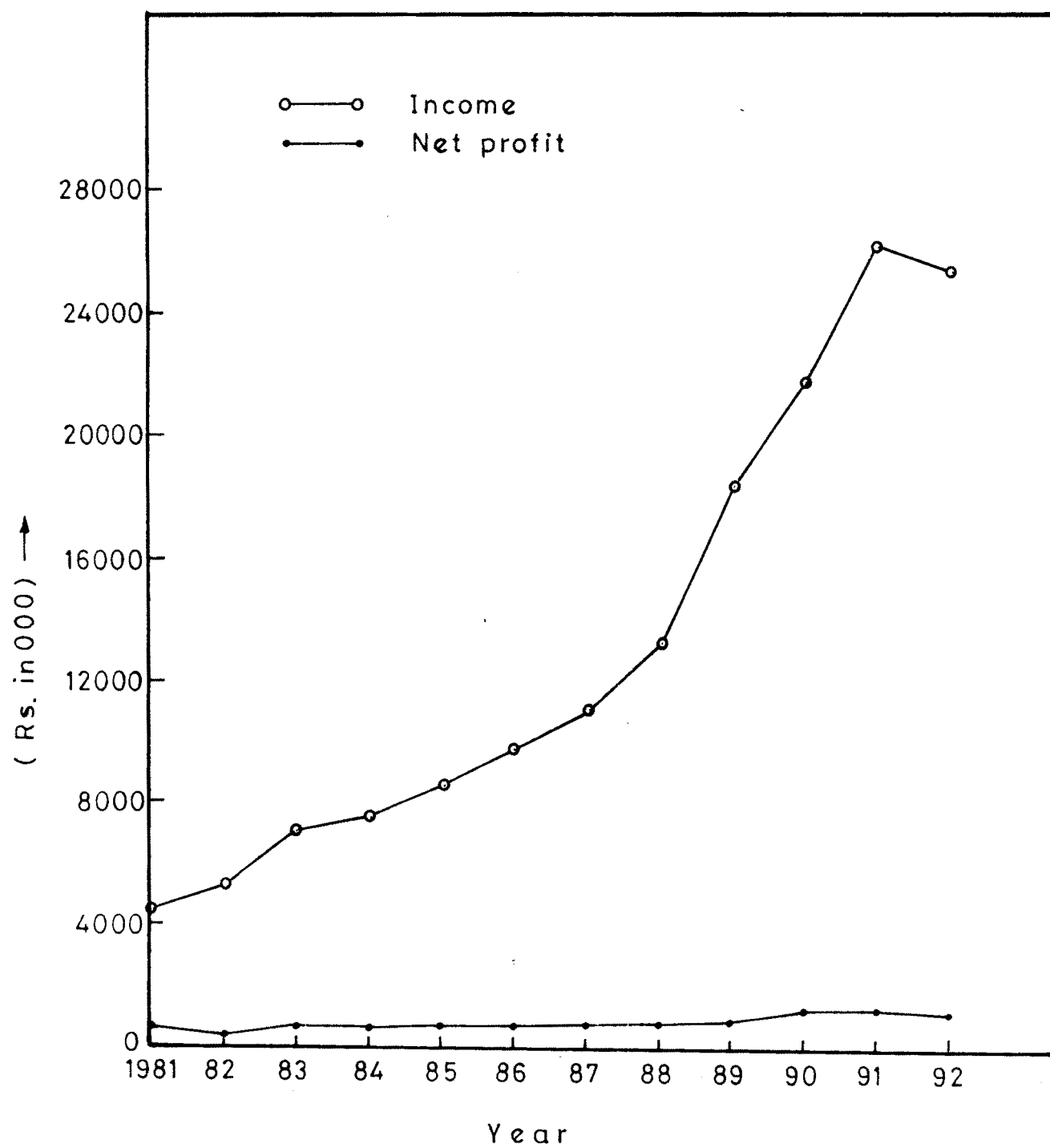


Fig. 13 Income-Net profit ratio of the bank (1981-92).

Table-6.7 : Division of Net Profit of the Bank  
(Rs.in 000)

Year	Net Profit	Reserve Fund	Dividend	Donation	Contingent Fund	Building Fund
1981	676	169	313	20 (2.96)	05	169
1982	463	90	334	11 (2.38)	05	23
1983	693	173	349	20 (2.37)	05	146
1984	679	170	357	10 (1.47)	05	137
1985	692	174	368	10 (1.45)	05	135
1986	701	176	378	11 (1.57)	05	131
1987	778	194	395	11 (1.41)	05	173
1988	809	202	417	14 (1.73)	05	171
1989	821	205	452	12 (1.46)	55	97
1990	1270	317	609	29 (2.28)	230	85
1991	1344	337	521	36 (2.68)	329	121
1992	1193	298	545	100 (8.38)	50	200

Source : Compiled From Annual Report of the Bank  
Note : Figures in the bracket indicate percentage to total net profit.

3 During the period under study the net profit of the bank has increased from Rs. 676 thousands to Rs. 1344 thousands. But the increase in net profit of the bank is uneven.

#### RATE

#### 6.10 INCOME -NET PROFIT /OF THE BANK :

The total income and net profit ratio of the bank is shown in the Table No.6.6. From the Table No.6.6 we can observe that,

1 Percentage of net profit of the bank to the total income of the bank was greater in the year 1981. It was 15.04%.

2 Percentage of net profit of the bank to the total income of the bank was less in the year 1989. It was 4.43%.

3 Though, the total income earned by the bank under study went on increasing, the percentage of net profit to the total income has decreased from 15.04% to 4.66% during the period under study.

#### 6.11 DIVISION OF NET PROFIT OF THE BANK :

Division of the net profit of the bank is in the Table 6.7. The net profit is divided into the reserve fund, dividend, donations, contingent fund and building fund. From the Table No.6.7 we can observe that,

1 Out of net profit 25% amount is diverted towards reserve fund of the bank. In the year the amount kept in reserve fund was Rs. 169 thousands. It was Rs. 298 thousands in the year 1992. The amount diverted from the net profit towards reserve fund was greater in the year 1991, while it was less in the

year 1982. It has happened due to changes in the amount of the net profit of the bank.

2 The bank has distributed 12% dividend to share holders of the bank except in the year 1990. In the year 1990 the amount distributed as a dividend was Rs. 609 thousands which was 15% of the net pfofit.

3 The bank has given donations to the Charitable <sup>trust</sup> / The percentage of donations given to the net profit varies from 1.41% to 8.38%. In the year 1987 it was 1.41%, while it was 8.38% in the year 1992.

4 The amounts diverted towards the contingent fund varied from Rs. 5 thousands to 329 thousands. In the year 1991 the amount diverted towards contigent fund was greater i.e. Rs. 329 thousands while it was Rs.230 thousands in 1990. Because the year 1990-1991 was the diamond jubilee year of the Bank. Hence, the more funds were allcted for the contingent fund. In the year 1990 Rs. 225 thousands and in 1991 Rs. 325 thousands were allotted for this fund as a diamond jubilee fund.

5 The bank has alloted not less than the remaining funds [(net profit-(Reserve Fund Dividend + Donations)] for the building fund. It was Rs. 169 thousands and Rs. 200 thousand in the years 1981 and 1992 respectively.

Table-6.8 : MEC of the Bank

Year	Net Profit (Rs. in 000)	Working Capital (Rs.in 000)	MEC
1981	676	45723	1.48
1982	463	58784	0.79
1983	693	62794	1.10
1984	679	73473	0.92
1985	692	76029	0.91
1986	701	86712	0.81
1987	778	94607	0.82
1988	809	121225	0.62
1989	821	169657	0.48
1990	1270	18817	6.75
1991	1344	231833	0.58
1992	1193	248760	0.48

Source : Compiled From Annual Report of the Bank.

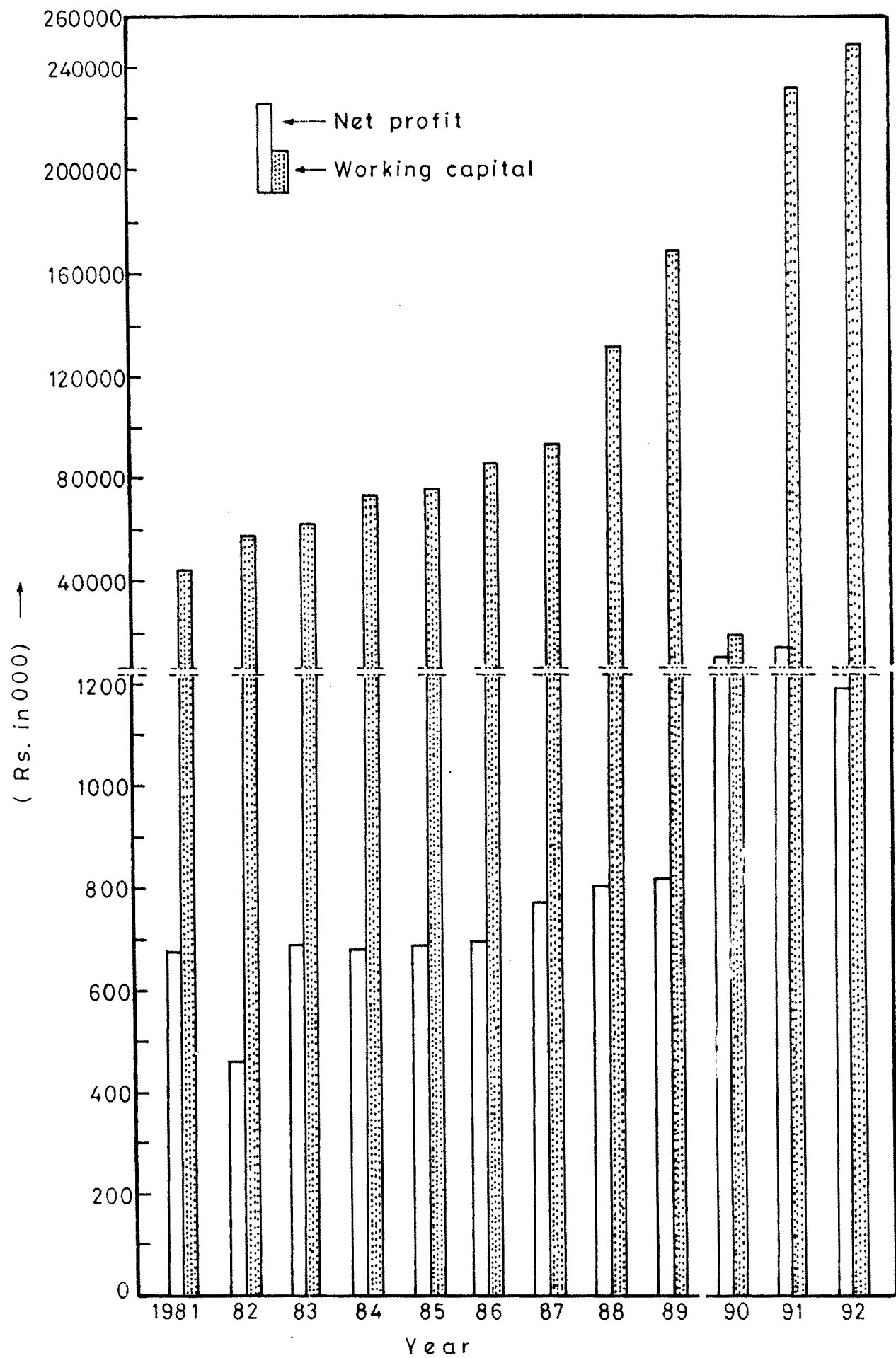


Fig.14 MEC of the bank ( 1981—92 ) .



Table-6.9 : Income Ratio of the Bank

Year	Working Capital	Change in working capital over previous year	Income	change in Income over previous year	Income Ratio
1981	45723	-	4496	-	-
1982	58784	13061	5374	878	14.88
1983	62794	4010	7165	1791	2.24
1984	73473	10679	7644	479	22.29
1985	76029	2556	8660	1016	2.52
1986	86712	10683	9803	1143	9.35
1987	94607	7895	11228	1425	5.54
1988	131225	36618	13436	2208	16.58
1989	169657	38432	18520	5084	7.56
1990	18817	-150840	21953	3433	-43.94
1991	231833	213016	26450	4497	47.37
1992	248760	16927	25575	-875	19.35

Source : Compiled From Annual Reports of the Bank.

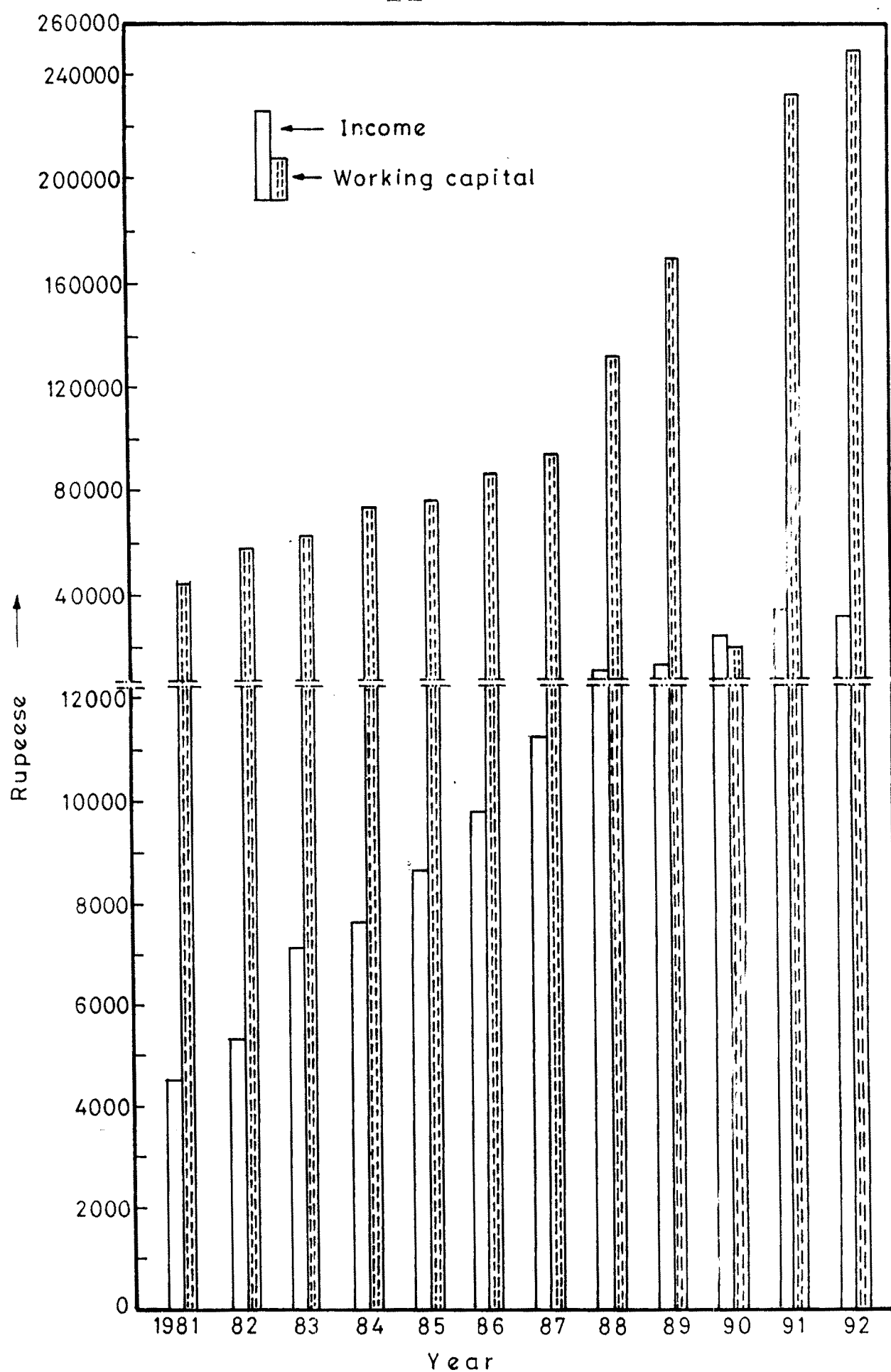


Fig.15 Income ratio of the Bank ( 1981-92 ).

**6.12 MARGINAL EFFICIENCY OF CAPITAL OF THE BANK :**

MEC of the bank is calculated of the bank per annum. In order to calculate the MEC of the bank the following formula is used,

$$\text{MEC} = \frac{\text{Net Profit}}{\text{Working Capital}} \times 100$$

From the Table 6.8 we can observe that in the year 1981 the MEC of the bank was 1.48. But it has decreased 0.48 in 1992. In the diamond jubilee i.e.1990 MES of the bank was the highest i.e. 6.75.

**6.13 INCOME RATIO OF THE BANK :**

Income ratio of the bank is calculated from the following formula,

$$\text{Income Ratio} = \frac{\Delta \text{ Working Capital}}{\Delta \text{ Income}}$$

The Table No.6.9 shows that in the year 1981 the income ratio of the bank was highest i.e. 47.37% while it was lowest in 1990 i.e. -43.94.