

PERFORMANCE ANALYSIS & EXAMINATION OF THE BANK

CHAPTER VI

6 PERFORMANCE ANALYSIS & EXAMINATION OF THE BANK

6.1 INTRODUCTION

General banking process can be viewed as following: People, companies, entities of the societies put their money in into various instruments called accounts. For Karad Urban Bank, the types of deposit accounts are mentioned in section 5. Bank then tries to put the money into various different money markets, development areas which it has prioritized and where it sees substantial growth. Ultimate business of bank is to earn interest (ROI) and pass on portion of the income as award- interest (ROI) to its depositors. For Karad Urban Bank, the focus is on various activities: First to provide a structured way of savings and earning interest to the people from rural and urban areas, second is to provide a structured way of financing to local enterprises, small scale industries, self employed persons, and agro-industry which is backbone of rural and urban India.

6.2 PERFORMANCE ANALYSIS OF THE BANK- PARAMETERS AND CONCLUSION

Looking at the banking function, it is required that the bank excels in reaching out to people and entities of societies that it targets to be its depositor. Also, in the same light, the bank also needs to reach out to prospective entities that can avail finances for better ROI. In this scenario it becomes necessary to look at bank's performance thru following parameters:

- ❖ Number of Branches opened / other innovative methods to reach to depositors.
- ❖ Growth of Deposits percentage-wise / money-wise
- ❖ Priority Sector Advances

With growth and globalization, it becomes challenging for the banks to perform for profitability and survival, in the sphere of government's policy of banking in globalization and also in regulated legal environment set by RBI. In this scenario, it becomes important to look at

- ❖ Income, expenditure,
- ❖ Profitability,
- ❖ Asset quality
- ❖ Capital adequacy.

Following table summarizes the key performance indicators as discussed in the above introduction section.

COMPARATIVE PROGRESS REPORT OF THE BANK					
PARTICULARS	1998-99	1999-00	2000-01	2001-02	2002-03
Members	18305	19573	20704	21260	22295
Branches	30	35	37	39	39
Staff	452	449	562	577	566
Audit Class	A	A	A	A	A
Dividend	15 %	15 %	15 %	15 %	15 %
Share Capital	407.73	516.13	613.33	670.93	770.28
Reserve Fund	162.11	193.32	229.06	288.83	430.47
Other Funds	435.46	569.74	709.96	1290.2	1984.26
Own Funds	1005.3	1279.19	1552.35	2249.96	3185.01
Deposits	16292.26	22507.9	26039.32	32281.25	34149.47
Growth Rate of Deposits	45.12 %	38.15 %	15.69 %	23.97 %	5.79 %
Loans & Advances	12354.06	16092.93	18155.63	18441.45	20484.79
Growth Rate of Loans and Advances	43.76%	30.26%	12.82%	1.57%	11.08%
Priority Sector Adv	7646.6	10119.12	11367.89	11378.73	13396.16
% of priority Sector	61.90 %	62.88 %	62.61 %	61.70 %	65.40 %
Investment	4246.37	5988.77	7342.93	13538.39	14607.97
Working Capital	18659.6	25992.36	298.0941	374.0629	397.5336
Net Profit	119.09	138.91	233.03	547.49	343.06

Over Dues	771.64	984.84	1324.39	1345.66	1735.56
% of Overdue to Loan	6.25 %	6.12 %	7.29 %	7.30 %	8.47 %
Doubtful & Loss Debt	51.80	51.65	53.10	56.74	68.02
Bad & Doubtful Debts	188.69	248.72	35.17	700.00	825.00

Table: COMPARATIVE PROGRESS REPORT OF THE BANK

BUSINESS RATIOS

Particulars	1998/99	1999/00	2000/01	2001/02	2002/03
Capital Adequacy Ratio	8.33%	8.01%		12.35%	14.76%
% of NPA to Total loans &adv.	7.77%	9.32%	11.73%	11.31%	13.35%
% of NPA to Net loans &adv.	6.34%	8.58%	9.32%	7.81%	9.72%
Interest Income as % to working fund	10.38%	10.40%	12.69%	11.59%	9.86%
Non Interest Income as % to working fund	0.34%	0.54%	1.18%	3.76%	3.83%
Cost of Funds	10.21%	9.99%	9.65%	9.63%	9.36%
Yield on Assets	15.31%	14.98%	14.66%	14.09%	11.45%
Financial Margin	5.10%	4.99%	5.01%	4.46%	2.09%
Prime Lending Rate				14.25%	13.50%
Operating Profit as % to Working Fund	1.28%	1.16%	1.51%	3.31%	1.90%
Net profit as % to working fund	0.75%	0.64%	0.85%	1.62%	0.90%
Business per employee(Rs. In lack)	63.10%	85.10%	78.64%	82.14%	91.39%
Profit per employee (Rs. In lack)	0.26%	0.31%		0.95%	0.61%
Transaction Cost as % to working fund	3.69%	3.64%	3.69%	3.51%	3.36%
Average Cost of deposits				9.55%	9.33%

Table: Business Ratios

Capital Adequacy Ratio:

One important parameter that essentially relates to the bank's ability to sustain the losses due to risk exposures is the bank's capital. The intermediation activity exposes the bank to a variety of risk. Cases of big banks collapse in due to their bank's inability to sustain the risk exposures are readily available. Considering this, it is highly essential to examine the capital vice-a vis the risk weighted assets. This is the capital to risk weighted assets ratio as given by the Basle Committee. The statutory prescription for CRAR is 9%.

Norms for Capital Adequacy

The growing concern of commercial banks regarding international competitiveness and capital ratios led to the Basle Capital Accord 1988. The accord sets down the agreement among the G-10 central banks to apply common minimum capital standards to their banking industries, to be achieved by year end 1992. The standards are almost entirely addressed to credit risk, the main risk incurred by banks. The document consists of two main sections, which cover (a) the definition of capital and (b) the structure of risk weights.

Based on the Basle norms, the RBI also issued similar capital adequacy norms for the Indian banks. According to these guidelines, the banks will have to identify their Tier-I and Tier-II capital and assign risk weights to the assets. Having done this they will have to assess the Capital to Risk Weighted Assets Ratio.

Tier-I Capital

Paid-up Capital

Statutory Reserves

Disclosed Free Reserve

Tier-II Capital

Undisclosed Reserves and Cumulative Perpetual Preference shares

Revaluation Reserves

General Provisions and Loss Reserves

Year	Capital Funds				%of capital funds to risk weighted assets		
	Tier-I	Tier-II	Total funds	Risk asset			
		(a)	(b)	(a) +(b)	(a)	(b)	(a)+(b)
31/03/02	1857.45	290.58	2148.03	17387.88	10.68%	1.67%	12.35%
Addition	344.14	200.92	545.06	855.9	0	0	0
Deduction	NIL	NIL	NIL	NIL	0	0	0
31/03/03	2201.59	491.5	2693.09	18243.78	12.07%	2.69%	14.76%

Table: Movement in CRAR

For the year 1998-99 and 1999-2000 Capital Adequacy Ratio for bank is 8.33% and 8.01% which is almost near to 9% and standard norm is 9%. Ratio above 9% is good sign. Here risk bearing asset is advances. In the year 2001-02 and 2002-03 it is 12.35% and 14.76%. That means Capital Adequacy Ratio of bank is satisfactory.

Prime Lending Rate:

Prime Lending Rate is determined taking into account all expenses that is management cost, expenses on staff, return on capital etc. Minimum expenses cost rate is minimum. Advances are assets of bank and to cover all these expenses bank has to determine the Prime Lending Rate. If the management cost is high the Prime Lending rate is high. So it is the task of management to minimize its expenses.

Prime Lending Rate of bank for 2001-02 is 14.25% which is decreased to 13.50% in the subsequent year, which means the management expenses are in control.

Margins lowered by subdued interest rate:

The ratio of the net interest income to the total assets gives the net interest margin of the bank. This ratio is actual measure of the banks performance as an intermediary as it examines the bank's ability in mobilizing lower cost funds and investing them as a reasonably higher interest. By borrowing short and lending long, banks can earn higher spreads nevertheless by doing so they will be exposed to greater risk. Hence bank's needed to be cautious and should not accept risk beyond their ability to control, manage them.

Net Interest Income / Total Assets

1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
.11:1	.11:1	.11:1	.10:1	.09:1

STAFF PRODUCTIVITY

Business per Employee:

The productivity of the staff will have a significant bearing on the banks overall performance. This is the one factor, which can be enabling the bank to develop a unique competitive advantage. Banking being in the service industry the staff efficiency becomes an imp. Factor for assessing the banks performance. Profit per employee is an appropriate measure for this.

$$\text{Business per employee} = (\text{Advances} + \text{Deposits}) / \text{No. of employees}$$

$$\text{Profit per employee} = \text{Net Profit} / \text{Number of employees}$$

For the bank business per employee is increased except for the year 2000/2001.

Financial Margin:

Banking is a service industry and its main business is making advances and deposit mobilization and its income is difference between loan rate and deposit rate. So more is the difference more is the income.

For the bank for the first four years financial margin is maintained but in 2002-03 its decrease to 2.09%. It could be because of management cost, expenses on employees and so prime lending rate is affected.

- ❖ **Deposits and Advances Comparison:** Deposits are already discussed in greater depth in Chapter IV.

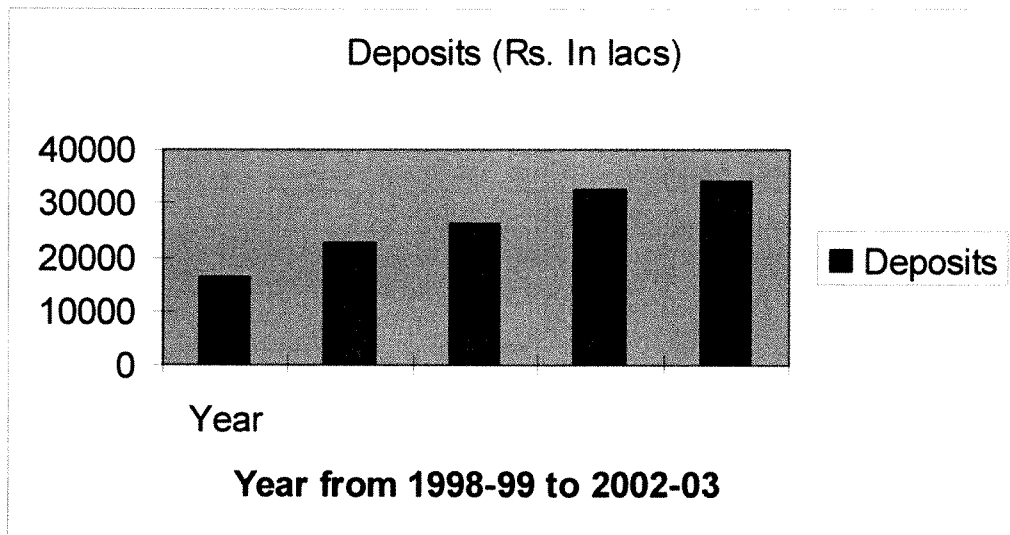


Chart: Histogram of deposits

This chart shows the histogram of deposits of the bank for each year starting from year 1998-99 till year 2002-03. We can see from the histogram that the deposits have been increasing each year with constant growth rate except the between year 2001-02 to 2002-03 where the growth rate is just 5.79% as compared with 24% rate for the previous year.

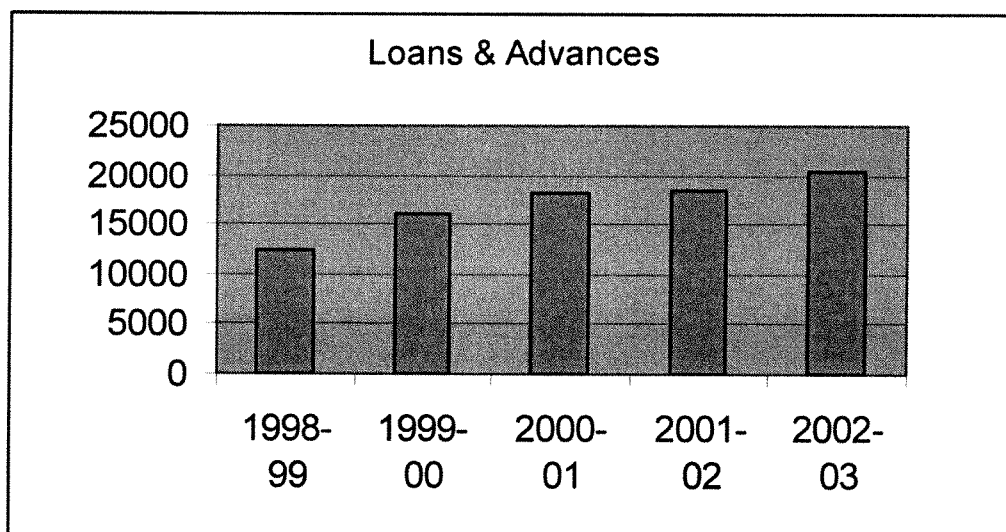


Chart: histogram of loans and advances

This chart shows the histogram of loans and advances of the bank for each year starting from year 1998-99 till year 2002-03. We can see from the histogram that the loans and advances have been increasing each year with constant growth rate except the between years 2000-01 to 2002-03. The growth rate of loans has stagnated after year 2001.

Following table shows the comparison of loans extended and deposits achieved and investments made by the bank each year.

Comparative Study Of Total Deposits & Loans Extended and Investments							
Year	Deposits (lack)	Loans & Advances	Growth Rate of deposits	Growth Rate of Advances	Credit/deposit Ratio	Investments	% Growth in Investments
1998-99	16292.26	12354.06	45.12	43.76	0.758277857	4246.37	39.67817
1999-00	22507.9	16092.93	38.15	30.26	0.714990292	5988.77	41.03269
2000-01	26039.32	18155.63	15.69	12.82	0.697239022	7342.93	22.61165
2001-02	32281.25	18441.45	23.97	1.57	0.571274347	13538.39	84.37313
2002-03	34149.47	20484.79	5.79	11.08	0.599856747	14607.97	7.900349

Table: Comparative Study Of Total Deposits & Loans Extended and Investments

The numbers clearly show that there was significant change in investment level in the year 2001-02. The bank raised the investment by 84%. This definitely has reflection on the loans and advances that the bank could extend to the customers. The numbers show that the change in loans was just marginal and was 1.57%. We can also infer from the numbers that the bank has done only marginal investment for following year (2002-03) and we see its reflection in lending.

One more interesting ration that we can see here is the Credit/Deposits ration. It essentially means, what portion of a Rupee that bank earns as deposit is spend in loans and advances.

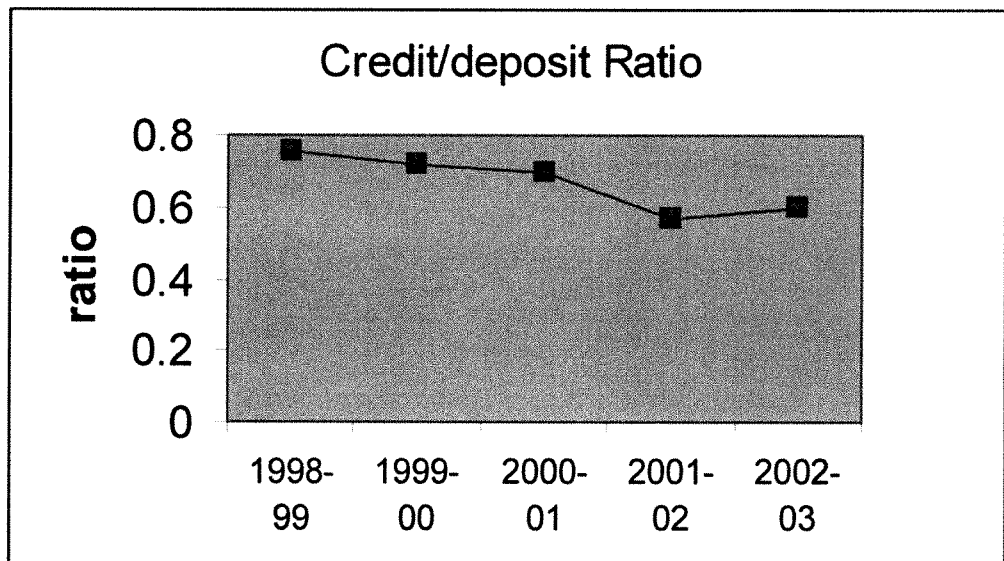


Chart: Movement of ratio of loans and advances to deposit

Above chart shows the movement of loans and advances to deposit ratio. In initial years it was as high as .8 and for last year that we look at, it is down to .6. The bank has preferred investments in various other institutions such as District Co-Operative banks to lending money in the form of loans and advance.

❖ **Advances to Priority Sector:**

Year	1998-99	1999-00	2000-01	2001-02	2002-03
Priority Sector Adv	7646.6	10119.12	11367.89	11378.73	13396.16
Loans advances	12354.06	16092.93	18155.63	18441.45	20484.79
% of Total advances	61.895442	62.87929	62.61358	61.70193	65.39564

Table: Advances to priority sector

Post the nationalization and increase in the credit co-operative banks advances to priority sectors has become a key parameter in bank's performance. It just shows how focused the bank is in advancing the "priority" sector that it has decided. For Karad Urban Bank the priority has been small scale industries along with the hi-tech agro industries. The bank has always maintained the ration of loans to priority sector to all the loans between 60 to 65%.

Sr. No	Name of the branch	Date of opening	Deposits (Rs.in lacs)		Deposits (Rs.in lacs)		Deposits (Rs.in lacs)	
			Relative percentage		Relative percentage		Relative percentage	
			2000-2001		2001-2002		2002-2003	
0	Head Office	2 Feb 85	NA	NA	NA	NA	NA	NA
1	Guruwar Peth	23/01/1917	2764.29	10.62	2599.77	8.05	2613.84	7.65
2	Tal Bhag	15-12-1964	2498.79	9.60	2715.66	8.41	2681.61	7.85
3	Satara City	29-04-1981	1830.22	7.03	1948.49	6.04	2210.89	6.47
4	Masur	7-Dec-72	675.1	2.59	803.75	2.49	854.5	2.50
5	Umbraj	28-06-1980	1637.22	6.29	1858.08	5.76	1938.42	5.68
6	Vidyanagar	23-07-1962	727.82	2.80	823.62	2.55	848.15	2.48
7	Sayam	21-04-1977	842.19	3.23	871.8	2.70	894	2.62
8	Koregaon	5-Jul-90	806.73	3.10	959.47	2.97	1055.37	3.09
9	Vaduj	28-02-1993	812.18	3.12	993.51	3.08	1083.96	3.17
10	Dahiwadi	24-03-1993	495.18	1.90	546.76	1.69	604.45	1.77
11	Malkapur	9-Apr-95	725.91	2.79	803.41	2.49	901.17	2.64
12	Malharpeth	9-Jul-95	359.68	1.38	411.09	1.27	433.64	1.27
13	Powai Naka	11-Sep-95	1130.15	4.34	1374.9	4.26	1502.5	4.40
14	Pusegaon	14-11-1995	649.25	2.49	739.91	2.29	751.08	2.20
15	Phaltan	28-02-1996	902.76	3.47	1030.93	3.19	1082.14	3.17
16	Nagthane	21-08-1996	421.01	1.62	501.71	1.55	547.7	1.60
17	Mhaswad	14-10-1996	293.05	1.13	341.5	1.06	407.11	1.19
18	Islampur	17-10-1996	408.48	1.57	513.96	1.59	581.83	1.70
19	Sangli	20-01-1997	466.28	1.79	601.77	1.86	552.76	1.62
20	Kale	14-08-1997	432.93	1.66	506.41	1.57	455.49	1.33
21	Rahimatpur	16-09-1997	317.87	1.22	453.65	1.41	454.25	1.33
22	Kolhapur	10-Oct-97	788.46	3.03	896.48	2.78	790.26	2.31
23	Gultekdi Pune	26-03-1998	1281.83	4.92	1044.5	3.24	942.71	2.76
24	Rukmininagar karad	29-03-1998	445.94	1.71	567.38	1.76	629.24	1.84
25	Bhosri Pune	30-07-1998	438.9	1.69	627.89	1.95	756.47	2.22
26	Mangalwar Peth	8-Dec-98	355.55	1.37	587.35	1.82	668.23	1.96
27	Solapur	3-Mar-98	207.07	0.80	273.72	0.85	304.27	0.89
28	Sadar Bazar Satara	21-12-1998	522.48	2.01	797.83	2.47	922.24	2.70
29	Karve Road Kothrud	3-Jul-99	1051.46	4.04	1927.63	5.97	2071.09	6.06
30	M.G. Road Karad	20-12-1999	269.54	1.04	366.49	1.14	414.83	1.21
31	Raviwar Peth Pune	25-01-2000	323.5	1.24	529.67	1.64	613.97	1.80
32	Chiplun	2-Oct-00	283.68	1.09	382.71	1.19	380.51	1.11
33	Market Yard Sangli	15-03-2000	224.82	0.86	375.85	1.16	348.32	1.02
34	Shahupuri Kolhapur	22-03-2000	414.09	1.59	645.77	2.00	772.4	2.26
35	Laxmi Road Pune	22-01-2001	143.46	0.55	637.13	1.97	726.42	2.13
36	Fort, Mumbai	2-Jul-01	91.44	0.35	434.73	1.35	258.99	0.76
37	Karve naka Karad	19-04-2001	0	0.00	310.98	0.96	416.24	1.22
38	Camp, Pune	27-04-2001	0	0.00	474.99	1.47	678.42	1.99
39	Staff Training & Research Centre							
	Total Deposits(B)		26039.31	100.00	32281.25	100.00	34149.47	100.00

Table: Branch wise deposits analysis