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A STUDY ON THE PERFORMANCE OF DEPOSITS AND LOANS AND ITS EFFECTS ON THE PROFITABILITY WITH REFERENCE TO THE PONDICHERRY CO-OPERATIVE URBAN BANK

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Abstract

A bank's primary job is to manage the spread between the rate it pays on deposits and the rate it gets on loans. In other words, when a bank earns more interest on loans than it pays on deposits, the interest rates produces income for the bank. The amount of this spread is a crucial predictor of a bank's earnings.

This study is based on how the deposits and the loans have grown in the Pondicherry Co-operative Urban bank and how it effects the profitability. This study is done for the period of 2018 to 2022. The secondary data is collected by the bank in the form of profit and loss account and balance sheet for the past five years.

The tools used for the analysis are ratios like Return on investment and Return on total assets. The result showed that there is an impact of the loans on the profit of the bank more than the deposits.

Keywords: Loan growth, Deposit growth, bank performance, Profitability.

1. INTRODUCTION

A deposit is a financial term for money kept in a bank. A deposit is a transaction in which money is transferred to another party for safekeeping. A deposit, on the other hand, might refer to a sum of money used as security or collateral for the delivery of an item.

A loan is a type of debt that an individual or other entity incurs. The lender, who is typically a corporation, financial institution, or government, lends money to the borrower. In exchange, the borrower agrees to a set of terms, which may include finance charges, interest, a payback date, and other conditions.

Like all businesses, banks get profit by earning more money than what they pay in expenses, the major portion of a bank's profit comes from the fees that it charges for its services and the interest that it earns on its assets. Its major expense is the interest paid on its liabilities

An increase in bank deposits and loans boosts bank profitability. When economic activity falls, so does demand for loans and deposits, which has a detrimental impact on profit margins.

1.1 OBJECTIVES

- To measure the performance level of The Pondicherry Co-operative Urban bank with regards to the deposits and loans
- To know the effects of the deposits and loans on the profitability of the bank

2. LITERATURE REVIEW

- Selvakumar. M has examined deposit mobilisation and lending performance of rrbs in tamilnadu. He also attempts to compare income, expenditure, advances, deposits and profits of rrbs operating in states level among themselves and with rrbs at national level. "regional rural banks – a performance review, 2006"
- Kannusamy K. and Gowri.K investigated the bank's numerous services. They remarked that the pallavan grama bank, which provides good and enough banking services in rural areas, is an urgent requirement. The article concludes that pallavan grama bank workers should have a good attitude when interacting with clients, that the pgb site in the villupuram district should be close to the consumers' reach, and that collection rates on outstation cheques should be decreased. "Customer Satisfaction with Pallavan Grama Bank Services, 2016"
- Soedarmono discovered that larger loan growth raises bank systematic risk, but the outcome varies by nation. The impact of lagged value of anomalous loan growth is negated in nations with higher credit information indexes and stronger private credit bureaus. (2017)

3. METHODOLOGY OF THE STUDY

This Study is based on the Secondary data. The secondary data is the Profit and Loss Account and the Balance Sheet which has been given by the Bank. The time period for this study is 5 years which is from 2018- 2022. And the data is also collected from the Research Papers, Websites, and Articles.

4. DATA ANALYSIS

Table1: showing the return on investment

YEAR	RETURN ON INVESTMENT
2018	-4.65
2019	-2.65
2020	-3.65
2021	-2.36
2022	-0.23

Table2: showing the return on total assets.

YEAR	RETURN ON TOTAL ASSETS
2018	1.96%
2019	7.51%
2020	10.92%
2021	8.04%
2022	9.34%

Table3: showing the significant difference in the group means of loans

F crit	3.478049691		
P-Value	0.998791752		

Source of variation	SS	Df	MS	F
Between groups	431502240153 673700	4	107875600384 18400	0.022919562
Within groups	470670426193 2910000	10	470670426193 291000	
Total	474985450208 6580000	14		

Table4: showing the significant difference in the group means of deposits

F	P-Value	F crit
0.011071652	0.999711805	3.478049691

Source of variation	SS	Df	MS
Between the groups	368889450795 97100	4	922223636698 99260
Within the groups	832960366652 3680000	10	832960366652 369000
Total	836649261160 3280000	14	

5. FINDINGS

- It is identified that the Pondicherry Co-operative Urban bank is not able to meet out the current generation needs like providing ATM, and other cards, etc.,
- It also lacks in the use of advancement of technology like the online banking platform.
- They have a huge NPA which stops them from giving out unsecured loans.
- Through the ANOVA test, it is found out that there is a huge difference among the group means of the loans.
- It is also found that there is no difference among the group means of the deposits
- There is a reduction in the total loan amount which in return increases the overall profitability

6. SUGGESTIONS

- The bank could start using the latest Online transaction platform, which is used by many youngsters in the society.
- They should reduce the rate of the interest for loans so that the customers would not switch over to the other banks.
- The NPA of the Unsecured loans are more than that of the Secured loans so the banks should be concentrating on collecting the money from the Unsecured Loan Holders.

7. CONCLUSION

In this study, The researcher has analyzed the performance of the loan and deposits and it had a direct effect on the overall profitability of the bank. The growth of loan volume has a negative and significant influence on the bank profitability in the same year and one year ahead. While the bank provides more loans, they earn more interest and profitability increases. Since non-performing loans are increasing significantly with the increase in the loan volume, there is increment in bad debts. The decrease in the deposits may have a small impact on the profitability has the interest to be paid to the deposit holders have been reduced.

REFERENCE

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