VOLUME - IV

VCB NEWS LETTER

(A QUARTERLY PUBLICATION)

Editor : A.V. Rama Krishna Rao

Date of Issue : 31-10-2022

Message of Chairman Emeritus:

Dear Colleagues,

I am happy to reach you all through the 4th Edition of VCB news letter.Now that half of the financial year is completed branches should re-dedicate themselves for business growth, recovery of NPA's and other compliance functions, so that bank can post good result at the end of the financial year.

As ours is a Cooperative institution all staff should have member focus. They should concentrate on clearing of members dividend, disposal of matured deposits and submission of claims of DEAF a/c's. Branches should also ensure that no account is transferred to DEAF.

With best wishes,
Manam Anjaneyulu.

Chairman's Message

Dear Colleagues,

I am away from the country from July'22 onwards, but I am in touch with branches through Phone, whatsapp, mails etc.,

You are aware that how serious our regulator with regard to compliance of RBI instructions. Hence, all branches are advised to understand the RBI guidelines & strictly comply with the same, so thar our bank may not attract criticism from RBI.

All branches should put in sincere efforts to register good growth in our business & reduce NPA to less than 3%.

With best wishes,
Ch. Raghavendra Rao.

CEO SPEAKS:

My dear VCBians,

It's a matter of pleasure, to reach all of you through VCB news letter. You are aware that bank is passing through a critical phase after introducing of daily NPA's. Though we have made a self-imposed target of 7% for September, we could not reach the same inspite of nest efforts put in by all field functionaries, We have to intensify our efforts to bring down the same to less than 3% by the financial year end,

With best wishes,
P. V. Narasimha Murthy

BANK BUSINESS

PARTICULARS	31.03.2021	31-03-2022	30-09-2022	GROWTH %	
				2021-2022	Upto 30-09-2022
DEPOSITS (incl. LTD)	3898.63	3934.42	3986.13	0.92%	1.31%
ADVANCES	2719.43	2863.54	2962.44	5.31%	3.45%
TOTAL BUSINESS	6618.06	6797.96	6948.57	2.72%	2.22%
SBCD (Low-cost Deposits)	783.37	788.62	774.12	0.67%	-1.84%
NPA's:					
Gross NPA	4.35%	4.02%	8.18%		
Net NPA	1.65%	0.47%	4.74%		

OTHER PARAMETERS

PARTICULARS	31-03-2021	31-03-2022	30.09.2022 (annualized)
cost of deposits	6.96%	6.35%	6.16%
Yield on loans	11.24%	10.65%	9.86%
yield on investments	6.93%	6.74%	7.14%
yield on earning assets	9.51%	9.27%	8.94%
spread	2.55%	2.84%	2.78%
cost of funds	6.53%	5.94%	5.75%

ACHEIVER'S CORNER

Branches Achieved the Advances Target as on 30/09/2022				(₹'in Crores)
Sl. No.	Name of the Branch	Name of the Branch Manager	Target	Achieved
1	Chandanagar	P. Prasada Rao	39.83	39.89
2	Tuni	K.V Chinna Rao	97.21	97.69
3	Pithapuram	R.Rama rao	42.84	43.84
4	Rajahmundry	R. Prakash	40.40	41.05
5	Bobbili	P.S. Kumar Patnaik	35.70	38.08
6	MVP Colony	V. Kalyani	51.74	53.61
7	Narsipatnam	G. Ravi Kumar	114.17	117.43
8	Kurmannapalem	A. Govinda Rao	84.82	85.40
9	Chodavaram	Ch. Vasu	33.32	33.41

Branches Achieved the SBCD Target as on 30/09/2022				(₹'in Crores)
Sl. No.	Name of the Branch	Name of the Branch Manager	Target	Achieved
1	Tuni	K.V Chinna rao	23.59	23.78
2	Eluru	L. Srinivasa Rao	6.68	6.85
3	Rajam	G.L.V Prakash Rao	3.96	4.01
4	Vijayawada 1 Town	Ch. Satyanarayana	2.31	2.39
5	Muralinagar	G. Raghu babu	10.91	10.96
6	Dilsukhnagar	M. Anil Kumar	2.91	2.98

Branches Achieved the Gross NPA Less than 1% as on 30/09/2022			(₹'in Crores)
Sl. No.	Name of the Branch	Name of the Branch Manager	Achieved
1	Chandanagar	P. Prasada Rao	0.15%
2	Atchutapuram	M. Ram Ganesh	0.27%

Top 3 Branches Achieved Growth in Advances as on 30/09/2022				
Sl. No.	Name of the Branch	Advances position as on 31/3/22	Advances position as on 30/9/22	Achieved in (%)
1	Dilsukhnagar	10.33	11.86	14.81 %
2	Bobbili	33.18	38.08	14.77 %
3	Pithapuram	38.82	43.84	12.93 %

Congratulations to all the above Branch Managers & their team

RISK MANAGEMENT IN UCBS

Introduction:

Un-certainty is the mother of Risk. Uncertainty prevails in every walk of life and business. Hence Risk is integral part of business including Banking business

Definition of Risk

Risk can be defined as probability of loss. Risk may result in expected loss or unexpected loss. Risk should be normally quantifiable. Risk has two dimensions- impact and frequency. For example, credit risk happens frequently but its impact will be low. But operational risk events like earthquakes do occur rarely, but they impact very high. Hence to understand the risk, we have to analyse impact and frequency. Risk can be estimated by analysing past data.

Risk management has the following components.

1. Risk identification
2. Risk measurement
3. Risk Monitoring
4. Risk mitigation.

Risk Identification:

Bank should identify the Risk in the business undertaken by it. When a loan is given, there is every possibility that the borrower may not pay the due dates as per time lines. Then Bank has to suffer risk of non-payment, interest loss and liquidity mismatch. Similarly, when the Bank invests in government Securities, their prices may fluctuate basing on market interest rates. Then Bank has to make huge provisions. Thus, Bank should identify the risk elements in all their business lines.

Risk Measurement:

Bank should quantify how much risk it is taking in each line of business. While giving loans, the risk can be measured by tracking the slippage ratios for last 5-6 years and assess the Probability of Default (PD). Similarly in the investment portfolio risk may be quantified by special methods like VaR, which is discussed latter.

Risk Monitoring:

Measure risk is to be revisited at frequent intervals to know whether risk is decreasing, increasing or stable. Basing the direction of risk, further protective measures are to be taken.

Risk Mitigation:

Risk Mitigation indicates the measures taken by the Bank to minimize the risk. For example, while sanctioning loans, Bank takes collateral security, rating of the borrowers, arranging ECS etc to reduce the risk. All these steps are called risk mitigation measures. In spite of taking all these measures, Bank will have some risk, which is called residual risk. Residual Risk will be addressed by making provisions and Capital.

Types of Risks:

Banks normally face the following risks while doing their business

1. Credit Risk
2. Liquidity Risk
3. Market Risk
4. Operational Risk
5. Reputation Risk.

Credit Risk:

Credit risk is the risk that money lent by the Bank is not repaid by the customer. It is the probability of default by the counter party in respect of principal, interest or time line. There is credit risk in investments also on account of failure of the issuer of a bond to pay interest or principal (ex: Amaravathi Bonds) Credit risk stems from concentration of portfolio, absence of sound appraisal systems and rating models, poor supervision and follow up etc. However external reasons like, economic down turn, natural calamities, ill health / death of the borrower, wilful default, etc may also cause credit risk.

Liquidity Risk:

Liquidity risk can be defined as the likely hood of not getting the desired funding at an appropriate cost or probability of loss in selling assets for meeting loan growth or funding off-balance sheet claims. A bank is said to have sufficient liquidity, when sufficient funds can be raised either by increasing liabilities, or converting assets promptly and at reasonable cost. Liquidity risk normally stems from funding of long-term assets by short term liabilities, thereby making the liabilities to roll over.

Market Risk:

Market risk is the risk to the bank's financial condition as a result of movement of market rates and prices. For example, at present the coupon rates on government securities are increasing. But Bank is having a pool of securities already purchased earlier, at lower coupons. Present increase in coupon rates will make the prices of existing pool of securities, which are purchased at lower coupon to fall. Hence bank has to make a provision for Investment Depreciation Reserve on the pool. Thus, market risk arises for Banks. Movement of rates may also lead to

reinvestment risk, premature closure of deposits and loans for re-pricing. Open positions, un-hedged exposures are subject to forex rate movement risk.

Operational Risk:

Operational Risk is the risk of loss arising out of inadequate or failed processes, people and systems and from external events. Examples for operational risk events are frauds, misappropriations / embezzlement by staff or outsiders, absence of professionalism in staff, IT attacks, Money laundering and external events like floods and earthquakes etc. Operational risk events will be normally of high impact and low frequency. It is very difficult to measure the operational risk.

Reputation Risk

Reputation risk can be defined as the probable loss of reputation of the organization. This risk is considered as a separate risk. This can be caused by any of the above risks. It is very difficult to measure reputation risk.

Risk Management measures:

Risk Management Policy:

The first step of Risk Management is to have a Risk Management policy owned and approved by the Board of the Bank. Risk Management Policy should clearly specify risk appetite of the Bank, Risk limits, Approval process, exposure limits, risk reporting process, Roles and responsibilities, Risk assessment, quantification etc

All Types of risk will be Discussed in detail in the forth coming editions.

…….to be continued in next edition.

Risk Management Team

Head Office.

NON-PERFORMING ASSETS – INDIAN BANKING

BACKGROUND

Indian banks play a very important and significant role in the growth of Indian Economy. The Banking activities in India are regulated by the Banking Regulations (BR) Act, 1949. Under section 5 (b) of BR Act, "Banking means the accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise". Thus, the Banks play a pivotal role as an intermediary between the savers of money and the users of money for various productive purposes. The banks lend and invest in a most prudential manner to ensure that their assets maintain their value to meet their liabilities at any point of time. The erosion of value of assets creates non-performing assets of the banks.

NON-PERFORMING ASSETS

Non-Performing Assets (NPAs) are defined as advances where payment of interest or repayment of instalment (in case of term loans) or both remains unpaid for a certain period. According to Reserve Bank of India (RBI), with effect from March, 2004, a NPA is a loan or advance where the interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of loan or advance.

The Non-performing assets have been classified into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

1. Sub-Standard assets: a sub-standard asset is one which has been classified as NPA for a period not exceeding 12 months

2. Doubtful Assets: a Doubtful asset is one which has remained NPA for a period exceeding 12 months

3. Loss Assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors.

REASONS FOR OCCURRENCE OF NPAs

NPAs result from what are termed as "Bad Loans" or defaults. That is the failure to meet financial obligations, say non-payment of loan installments. Those loans can occur mainly due to usual banking operations/bad lending practices or inadequate loan appraisal process. It may also occur due to any economic crises which erodes the value of assets or bad management policies or inadequate risk management procedures and so on.

LOAN APPRAISAL SHOULD FOCUS ON THE FOLLOWING:

1. The first and foremost is the Borrower's integrity and loan repaying capacity. This can be examined by interviewing the borrower personally and his account relationship with our bank or other banks.

2. The prime and collateral security has to be inspected as part of pre-sanction visit by the bank official, its accessibility, marketability and age of building etc., to be seen forward.

3. Legal aspects of the security in respect of land/building documents to be vetted by a panel advocate and latest tax receipt/copy of plan approval / EC etc to be examined.

4. Valuation of the security is to be done by the panel engineer by taking into consideration the registered value (from local Registrar office), market value, sufficient depreciated value in respect of building etc., are to be examined.

5. Borrower's occupation, his latest salary certificate/slip, his credit rating, in case of traders, his financial statements for the last 3 years, income tax assessments etc are to be taken care of.

6. Finally, timely recovery follows up, phone contact, personal visit to his place of work or activity is must.

The growth and profitability of a bank depends on the recovery mechanism adopted and reduction of Gross NPA vis –a-vis Net NPAs. Regular monitoring and follow up of borrowal accounts will yield good results in recovering the overdue. Due to Natural Calamities and bad performance of the industry in which the borrower is engaged, after proper counselling, the account should be recommended for restructuring / reschedule of instalments is to be done. Going to legal process is time consuming exercise, and banks are expected to take necessary precautions in the initial stages only to avoid slippage of account.

GODE SUDHAKARA RAO
M.Com. FCA, CAIIB, DISA
Advisor – Inspection, HO

ENSURE TRANSACTIONS IN YOUR BANK ACCOUNT

INOPERATIVE OR DORMANT ACCOUNTS:

An inactive or dormant account with a bank is termed as inoperative account. An account becomes inoperative if there are no transactions in the account for a period of over two years.

Once the account becomes inoperative, the account holder cannot transact in the account. It is possible to activate an inoperative account by following a procedure prescribed by the bank.

The account holder can search on the bank's website whether his account has become inoperative for long time. Banks are required to maintain a database of all accounts that have become inoperative available for easy search on their websites.

Application

A written application must be made to the branch manager, requesting for revalidation of the inoperative account. It should also carry the reason for not operating the account. The application needs to be signed by all joint holders of the account.

KYC documentation

Fresh KYC documents need to be submitted along with the request for revalidation of the inoperative account. This includes photograph, PAN, proof of address and proof of identity as acceptable by the bank.

Transaction

In order to make the account active, the account holder must carry out some transaction in the account such as depositing some amount.

Charges

According to RBI guidelines, no charges are to be levied by the bank to make the inoperative account active.

Points to note

- If interest on fixed deposit is credited to the savings account on a regular basis, then the account does not become inoperative.

- It is in the best interest of an account holder to close an account which one does not wish to use before it becomes inoperative.

- Interest on savings account is credited irrespective of whether the account is inoperative or active.

DEAF ACCOUNT:

The Reserve Bank of India has mandated banks to identify accounts where there has been no customer-initiated transaction for a period of more than 10 years. As per the regulation, banks are required to transfer credit balance in such accounts to Depositors Education and Awareness Fund (DEAF)

The Depositor Education and Awareness Fund Scheme, 2014 –Section 26A of Banking Regulation Act, 1949- Operational Guidelines

Banks shall transfer to the Fund the amounts becoming due in each calendar month (i.e. proceeds of the inoperative accounts and balances remaining unclaimed for ten years or more) as specified in the Scheme and the interest accrued thereon on the last working day of the subsequent month.

Crediting the Fund in Electronic form only

Banks shall remit the amounts due (as defined in the Scheme), in electronic form through portal facility of the E-Kuber (Core Banking Solution) of Reserve Bank of India (RBI), to a designated account created for the Scheme, viz. "DEAF Account 161001006009". All banks are advised to generate a single entry for remitting the amounts to the Fund. Accordingly, the amount required to be transferred to the Fund in terms of paragraphs 3(vi) and 3(vii) of the Scheme,

can be credited to the Depositor Education and Awareness Fund (DEAF) Account, specified above, maintained with RBI (within banking hours) on the last working day of the month. Further each bank has been allotted a unique "Bank DEAF Code" by the RBI, for operating the Fund. Every bank remitting amount to the DEAF Account should indicate its unique "Bank DEAF Code".

Procedure to be followed by banks for crediting the Fund

(I) Own Account – This facility is available under the service "DEAF Service" of the E-Kuber portal. When a bank is crediting its own amount due to the Fund it should furnish its DEAF code in the "Bank DEAF Code" field and the detailed breakup (number of accounts and amount) of the deposits viz. interest bearing, non-interest-bearing deposits and other credits (i.e., any amount other than deposits remaining unclaimed as defined in paragraph 3(iii) of the Scheme), in the fields provided for the same, of the aforementioned service in the portal. Other credits would be non-interest bearing.

(ii) Member's Account - In case of a bank remitting amounts due of member/ other banks (banks not having current account with RBI) who approach the bank for remitting such amounts to the Fund, the bank should not consolidate the amounts of all banks, instead they should separately remit the amount due bank-wise, for the amount to be credited to the Fund. In the Bank DEAF Code field available in the DEAF Service of E-Kuber, bank should provide appropriate Bank DEAF Code of the member/other bank, whose funds are being transferred.

Returns prescribed

Banks shall, furnish returns duly audited to RBI in the form and manner prescribed. In this regard, all banks are advised to furnish returns duly audited as per details given below: -

Form I- Banks shall submit a consolidated return on the date of transferring the amount to the Fund furnishing the total amount credited (indicating separately the number of interest-bearing deposits, non-interest-bearing deposits and other credits transferred). For each tranche transferred to the Fund, banks shall maintain complete details viz., name of customer, account number, amount, including interest accrued, transferred to the Fund, date of transfer to the Fund and other related documents, etc. These details/documents shall be maintained by the bank's tranche-wise.

Form II- A monthly return to be submitted by the bank for the total amount of funds transferred to the Fund (indicating interest bearing deposits, non-interest-bearing deposits and other credits). The return shall be forwarded by 15th of the succeeding month.

Form III- In case of demand from a customer/ depositor whose unclaimed amount/deposit had been transferred to Fund, banks shall repay the customer/depositor, along with interest, if applicable, and lodge a claim for refund from the Fund for an equivalent amount paid to the customer/depositor. In case of any claim for refund of the part amount by the depositor, whose unclaimed amount/inoperative deposit had been transferred to the Fund, the bank shall claim the entire amount transferred to the Fund in respect of such depositor along with interest payable, if any, from the Fund. The details of the refund made by a bank in each calendar month should be furnished in Form III by 15th of the subsequent month. Form III should give details i.e., the name of the customer/ depositor, date of transfer of the amount to the Fund, date of payment of the amount to the customer, rate of interest claimed from the Fund etc. The return may be forwarded by 15th of the succeeding month to which the claim pertains so as to enable the Reserve Bank to process the same and refund the amount on the last working day of the month. Any return received after 15th of the succeeding month to which the claim pertains, would be processed in the subsequent month.

Form IV– A monthly consolidated return for claims made by the bank from the Fund may be forwarded by 15th of the succeeding month.

Form V- A yearly return indicating item-wise details of amount due outstanding at the year-end may be submitted within thirty days after the close of each calendar year.

Audit

On the date of transferring the amount to the Fund, the bank should maintain customer-wise details verified by the concurrent auditors, including payment of up-to-date interest accrued, that has been credited to the deposit account till the date of transfer to the Fund, with respect to interest bearing deposits. With respect to non-interest-bearing deposits and other credits transferred to the Fund, customer-wise details, duly audited, should be maintained with the bank. The concurrent auditors should also verify and certify that, as per the banks' books, the returns have been correctly compiled by the bank in the monthly and yearly returns submitted to RBI. The above returns shall also be verified by the statutory auditors at the time of annual audit and an Annual Certificate shall be obtained from statutory auditors and forwarded to RBI, certifying that the returns have been correctly compiled by the bank.

Authorized Signatories

The banks are advised to furnish true copy of the Resolution of the Board of Directors authorizing two officials designated as authorized signatories, who would operate the account jointly, for the claims/

refund on behalf of the bank from the Fund. The specimen signatures of the authorized signatories may be duly attested by the Chairman, Executive Director or Chief Executive Officer.

Disclosure in Notes to Accounts

8. All such unclaimed liabilities (where amount due has been transferred to DEAF) may be reflected as "Contingent Liability – Others, items for which the bank is contingently liable" under Schedule 12 of the annual financial statements. Banks are also advised to disclose the amounts transferred to DEAF under the notes to accounts.

ASARI. GOVINDA RAO
MANAGER
KURMANNAPALEM BRANCH

AN OVERVIEW OF CYBER CRIMES IN BANKING SECTOR

Cyber crimes in the 22nd century has emerged to be one of the most lethal revengeful weapon that any person can use to threaten or cheat someone. The economy is among the foundations that determine the country's development and growth. The banking sector is regarded as the economy's backbone. To narrow down the landscape in today's globalised world, the banking industry offers many services to their clients such as online banking and credit card services and online payment with debit cards can access all types of bank facilities 24 hours a day and they conveniently transact and run their amount from anywhere in the world using internet and cell phones. As we all know the services are useful to customers, but they also have a dark side, which includes hackers and robberies. Cyber crime causes massive monetary losses that are borne not only by customers but also by banks, affecting the country's economy. Over 2.9 lakh cyber security incidents related to digital banking reported in recent years.

1. EFFECTS OF CYBER CRIMES: Cyber-crime may have long term consequences on those who are attacked. Cyber attackers' carryout cyber threats such as Intruding into personal information, attacking office accounts, phishing, hacking, and so on, which may have devastating effects in banking business.

A. Financial losses

B. Infringement of confidential information

C. Legal consequences

D. Exposed to reputation risks

E. Operational risks

F. Sabotage and theft to identifiable information

2. REASONS FOR CYBER CRIMES :

A. Easy access to data

B. user's negligence

C. Lack of internal control in organizations and banks

3. TYPES OF CYBER CRIMES CONNECTING WITH BANKING SECTOR :

A. Hacking: This is the attack by which the attacker sends an attachment in some type of media, clicking it results in the attacker entering into the computer's information and the files saved on it.

B. Key logging: it is referred to keyboard capturing. It is the process of secretly recording the keys pressed on the keyboard.

C. Viruses: it is a kind of self-replicating program that infects executable code or documents by inserting copies of itself. It causes file behave abnormal after infection.

D. SPYWARE: Spyware is the most common approach of stealing online banking credentials. Spyware operates by collecting or transmitting information between computers and websites. It is mostly installed by bogus 'pop up 'advertisements.

E. Phishing: This is where the attacker sends a fraudulent message which reveals the private information of the victim, like card details, ATM pin, by which he can use those to gain money illegally.

F. Pharming: Pharming is carried out through the internet. When a customer logs in to bank's website, the attackers hijack the URL in such a way that they are routed to another website that is false but appears like the bank's original website.

G. ATM skimming: Skimmers are the devices, these are successfully installed in ATM machines to retrieve personal identification number (PIN), and card numbers.

H. Malware based attacks: one of the most dangerous cyber threats to electronic banking services. A malicious code is created in such attacks. Zeus, Spy eye, Carbep, Kins are most well-known banking malware. It secures a back door entry in to the system and it steals a user's credential information.

CYBER ATTACKS IN BANKING SYSTEM IN INDIA:

A. Cosmos bank cyber-attack in pune - Hackers hacked in to the bank's ATM server and took all the card details and wiped off 94.42 crores from 28 countries.

B. ATM System hacked in canara bank: Hackers used skimming devices to steal information and stolen amount upto 20 lakh rupees.

C. UIDAI AADHAR SOFTWARE HACKED: 1.1 billion Indian aadhar card details were leaked and this is one of the massive breaches and 210 indian government websites are hacked.

D. SIM SWAP SCAM: 2 hackers from navi Mumbai fraudulently gained sim card information and illegally transferred money from bank accounts of 4 crores.

E. RBI Phishing scam: the phishing email which appeared to come from RBI, promised the recipient prize money of Rs 10 lakhs, if they clicked on a connection that took them to a website that looked exactly like RBI official website. After that the user is asked to disclose personal information such as pass word and savings account number.

What should be done to reduce Cyber Security Threats in the Banking Sector?

· **Assess Cloud Security:** Review your cloud infrastructure often to ensure it's up to date. Assess your cloud security's current state, best practices, and compliance standards. To secure cloud platforms and infrastructure one can use multifactor authentication.

· **Monitor Cloud Security:** To automate the threat detection and protect against potential threats one can use a vulnerability management tool before they become a problem.

· **Establish Strict Access Management Policies:** Restrict your access to employees who really need this information, instead of giving access to part-time workers, contractors, etc. By providing permissions to employees who require it, you're establishing Strict Access Management Policies to protect your organization from within.

· **Increasing awareness among employees:** Banks need to adopt a comprehensive training module to prepare their staff to handle cyber attacks.

· **Disaster Recovery Plan:** Having an alternate plan to protect the data, help you to minimize downtime after a disruption and avoid data loss. This can be applied only if you backup your data regularly.

· **Encrypt Your Data:** Cryptography is one of the methods to encrypt your data and ensures your most sensitive digital assets are always protected.

. **Cybersecurity training:** Cybersecurity training is a must for cybersecurity professionals to enhance their skills in relevant information and tests of their cyber-awareness by covering all aspects of data security and keeping them Up-to-date Conclusion:

While RBI and the Government are taking proactive steps to battle cyber-attacks, they are also evolving with newer technology trends like cryptocurrencies and blockchain. This gradually increases the need for cybersecurity as a part of the design architecture intending to detect the stemming attacks in real-time, rather than repairing the damage.

CH. Vasu
Branch manager,
Chodavaram

PLIGHT OF THE INDIAN COOPERATIVES AND NEED FOR UMBRELLA ORGANIZATION

India is home to a unique movement called 'cooperatives' which involves citizens and their democratic involvement at a grass-root level. Cooperatives are an organization owned and run by the people and for the people using its goods and services. As the name suggests, the people or members of the organization work in cooperation to pool resources for their common benefit and progress.

Cooperatives in India were first formally formed in late 1890s when farmers in western Maharashtra rebelled against money lenders' tyranny for agricultural loans. In 1904, the British government in India enforced the Cooperative Society Act, to safeguard interests of poor farmers in Maharashtra.

After Independence, this 'cooperative movement' in India gained momentum. The government realized that the cooperative sector plays a significant role in boosting the rural economy. It provisioned for plans for this sector in its Five Year Action Plans. Every village was encouraged to have at least one cooperative society. It also helped setting up cooperative farms. From agricultural markets, these Cooperative societies in India expanded to credit sector, and later to other large-scale sectors, housing and development, fishing markets, banking, etc.

The High Power Committee on Urban Cooperative Banks constituted by RBI in 1999, has aptly commented that the cooperative credit endeavor was the first ever attempt at micro credit dispensation in India. The type of reach cooperative banks has in our country and the type of customized services they can offer at the local level, the potential is tremendous.

Despite the large localized presence of UCBs, their clientele share is increasingly being taken away by SCBs, leveraging on banking correspondent networks and Fin-Tech. As a result, the total balance sheet size of UCBs as a proportion to that of SCBs has fallen from 5.6 per cent at end-March 2005 to 3.4 per cent at end- March 2021. Their share in deposits and advances has also fallen proportionately.

Chart 1: Balance sheet Indicators: UCBs versus SCBs

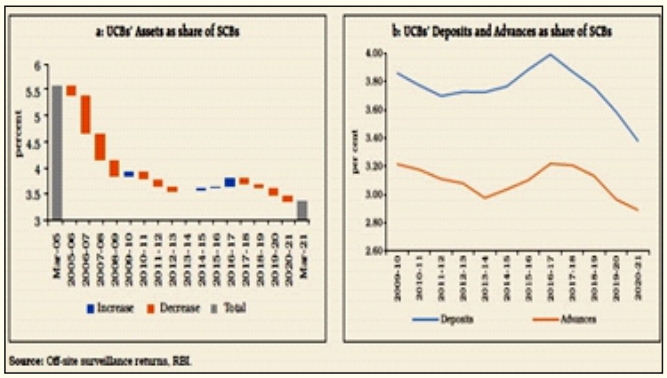
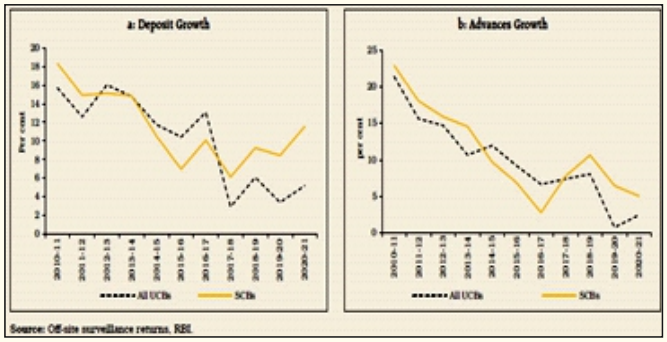


Chart 2: Deposits and Advances: SCBs Versus UCBs:



Until 2016-17, the deposit growth of UCBs was higher than SCBs but the former have been performing progressively worse than the latter in the last four years, partly owing to the entry of new-age banks which provide better returns on deposits with low risk exposure compared with Cooperatives.

Despite the phenomenal outreach and volume of operations, the health of a very large proportion of cooperatives has deteriorated significantly. The institutions are beset with problems like poor governance infrastructural weaknesses, operational inefficiencies and the consequent impairment of their financial health. Several factors such as low borrowing membership, low resource base, lack of democratization and professionalism, high incidence of over-dues and almost stagnant recovery performance have led to the deterioration in the financial soundness of cooperatives.

Even though Cooperatives have access to huge deposits from public but there is no system to ensure prudent deployment of these funds. They have not taken advantage of the freedom given to them to decide on the interest rates on deposits and advances. While deposits are accepted at unsustainably higher rates, loan pricing is done in imprudent manner without factoring in cost of funds. Many cooperatives are unable to generate enough revenue or surplus to sustain their operations and boost capital formation on account of very thin or negative margins. Cooperatives have been unable to adapt themselves to the rapid pace of changes in the financial sector. Cooperatives have lagged behind in designing of new products and services and in adoption of technology and advanced management practices that have changed the face of financial sector in the post economic-liberalization era. Moreover in recent time's public confidence in the Cooperatives have been shaken due to various banking frauds and also because of tightened regulatory supervision of RBI. As a result, they are unable to cope with the stiff competition posed by other banks.

Over the years, a number of UCBs have become weak and non-viable thus posing systemic risk to the UCB sector. They lack avenues for raising capital funds since they cannot go in for public issue of shares nor can they issue shares to members at a premium. At the same time, there are a number of UCBs in the sector that are financially strong and viable. There is, therefore, need for some sort of co-operative bonding and mutual support system, which could make the sector strong and vibrant.

A Working Group constituted to examine issues relating to augmenting of capital of primary (urban) co-operative bank (UCBs) had also observed that it may be necessary to facilitate emergence of umbrella organizations for UCBs to enhance public confidence in the sector. Payment and settlement services to commercial banks and to certain UCBs are provided by the Payments and Settlement Board under the Payments and Settlement System Act, 2007. However, as UCBs to whom such services are not provided generally do not have the necessary geographic spread in their branch network, they have to use the services of commercial banks for clearance of cheques and other payment and settlement services. For this purpose they are required to maintain large deposits with these banks thus blocking up their funds. The creation of an Umbrella Organization which provides these services could, therefore, be of considerable assistance to the smaller UCBs.

As the Das Committee has pointed out, a significant part of the UCBs sector lacks professionalism and is unable to keep pace with rapid advancements in IT, modern banking systems and financial products. They need to widen their range of services to run on professional lines and match the services provided by commercial banks. The Committee agrees that there is a need in our country for one or more organizations which can provide the services which internationally Umbrella Organizations provide to co-operative banks. There is no reason why given the rapid developments in technology, in the future, all UCBs cannot be integrated into the main Payments and Settlement

system. However, in the interim an Umbrella Organization for UCBs could function as a part of the main Payments and Settlement System and in turn provide these services to its members.

The precarious situation of Cooperatives which they have been in previously, have been slowly getting better with the Government of India, in July 2021, creating a new Ministry of Cooperation to strengthen the cooperative movement in India. The new ministry is created to realize the vision of 'Sahkar se Samriddhi' (Prosperity through cooperatives). Ministry of Cooperation was created by transferring the existing entries related to cooperation and cooperative in the business of the erstwhile Ministry of Agriculture, Cooperation and Farmers Welfare. The Ministry is responsible to provide a separate administrative, legal and policy framework for strengthening the cooperative movement in country. It aims to deepen co-operatives as a true people-based movement reaching up to the grassroots and develop a cooperative based economic model where each member works with a spirit of responsibility. The principal activities of the Ministry include streamlining processes for 'Ease of doing business' for co-operatives and enabling development of Multi-State Co-operatives. It lays emphasis on strengthening, bringing transparency, modernization, computerization, creating competitive cooperatives, working constantly to meet the challenge of accessibility to development for every underprivileged in rural areas and on connecting every village with cooperatives, making every village prosperous with the mantra of "Sahakar se Samriddhi" and through this making the country prosperous.

Conclusion: Thus, cooperatives as people's institutions have a long legacy and a rich tradition in India. The founders of Planning in India considered cooperation an instrument of economic development. There is an urgent need to find ways for strengthening the cooperative movement to meet the credit needs of India. The revitalization and strengthening of cooperative institutions at all levels should therefore be considered not only desirable but expedient. The thrust has to be four-fold, financial, operational, organizational and systemic.

C.Srinivas
Branch Manager,
Kukatpally.

ORIGIN AND DEVELOPMENT OF COOPERATIVES

Most scholars recognize the business of the Rochdale pioneers of England as the first coop. In 1844, this group of 28 men (weavers and skilled workers in other trades) formed a cooperative society. They created business principles to guide their work and established a shop in which to sell their goods.

In India cooperation has its origin in the last quarter of 19th Century in attempts to provide relief to the farmers from the clutches of money lenders. The cooperative movement was introduced in India as a State policy and owes its origin to the enactment of the Cooperative Societies Act, 1904 on 25/03/1904.

The Indian Famine Commission (1901) induced the government to set up a committee under the presidency of Sir Edward Law to report on the introduction of cooperative societies in India. The Committee reported favourably in 1903 and the first Cooperative Credit Societies Act was passed in 1904

Sir Frederic Nicholson was hailed as the pioneer of the cooperative movement in India and Vaikunthbhai Mehta (26 October 1891 – 27 October 1964) was a pioneer leader of Indian Cooperative Movement.

The Co-operative Movement in India took birth in 1904 by the enactment of Co-operative Societies Act 1904 and after making a long journey it has entered into the new millennium with lots of hopes and expectations.

As a result of this Cooperative Credit Societies Act,1904, which forms the basic structure for Cooperative Legislation in India. it was modelled on the English Friendly Societies Act.

1) They aim to provide goods and services.

2) They aim to eliminate the unnecessary profits of middlemen in trade and commerce.

3) They seek to prevent the exploitation of the weaker members of society.

4) They aim to protect the rights of people both as producers and consumers.

While the first co-operative society formed in Karnataka becoming the first co-operative of Asia. It was started by Siddanagauḍa Saṇṇa Rāmanagauḍa Pāṭīla.

Rao Bahadur Shripad Subrao Talmaki (25 December

1868 - 28 January 1948) was a social reformer and early pioneer of the Cooperative movement in India and is known as the father of India's cooperative movement.

The first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in the erstwhile Madras province in October, 1904.

An international movement that aims to encourage people to produce, buy and sell things together, and to share the profits. The movement started in northern England in the 19th century when poor working people started giving regular small amounts of money so that, as a group, they could buy food, clothes, etc.

The INTERNATIONAL COOPERATIVE ALLIANCE (ICA)

The ICA established seven standard principles for all cooperatives to follow. They help organizations flourish and operate successfully while encouraging all members to participate equally.

Cooperative Principles

- Open and Voluntary Membership. ...
- Democratic Member Control. ...
- Members' Economic Participation. ...
- Autonomy and Independence. ...
- Education, Training, and Information. ...
- Cooperation Among Cooperatives. ...
- Concern for Community.

Advantages of a co-operative include that:

There are equal voting rights for members. This structure encourages member contribution and shared responsibility. Liability for members is limited. There is no limit on the number of members.

- Types of Co-ops
- Consumer Cooperatives. Consumer cooperatives are owned by members who use the co-op to purchase the goods or services that they need. ...
- Worker Cooperatives. ...
- Producer Cooperatives. ...
- Purchasing or Shared Services Cooperatives. ...
- Multi-stakeholder Cooperatives.
- Agricultural Co-operatives
- Cooperative Credit Societies etc

Cooperatives are viewed as important tools for improving the living and working conditions of both women and men. Since the users of the services, they provide owned them, cooperatives make decisions that balance the need for profitability with the welfare of their members and the community, which they serve.

Advantages and Disadvantages of Cooperative Society

- Easy Formation: Compared to the formation of a company, formation of a cooperative society is easy. ...
- Limited Liability: ...
- Perpetual Existence: ...
- Social Service: ...
- Open Membership: ...
- Tax Advantage: ...
- State Assistance: ...
- Democratic Management:

In general, the main contribution of cooperative is to address the economic problems of the members. Thus, it develops prosperity. It raises fund for improvements of the members and the cooperative itself.

Its main advantage is that it exists and operates for the benefit of its patron members. At the same time, since the members are also the owners, they have a financial interest in the success of the cooperative which makes them toward giving it their full support and patronage.

As the vast majority of co-operative societies are operating only in one State, the State Government and the Registrar of Co-operative Societies appointed by the State are the main regulatory authorities for the co- operative societies.

In 1904, the British government in India enforced the Cooperative Society Act, to safeguard interests of poor farmers in Maharashtra. After Independence, this 'cooperative movement' in India gained momentum. The government realised that the cooperative sector plays a significant role in boosting the rural economy.

Multi State cooperative Society

Any society that is formed with the object of the economic and social improvement of its members by way of self-help groups with mutual aid, but is registered in more than one state is known as Multi State Cooperative Society

.....to be continued in next edition.

V. Bangaru Babu
Branch Manager
Ongole

PRIORITY SECTORS

Priority sector means the sectors which the government of India and the reserve bank of India considered as important for the development of basic needs of the nation.

Priority sector plays a major role for the development of our Indian economy. (Priority sector lending is undergoing several changes in rural households and small, micro enterprises.) Who were previously unable to receive credits from banks.

In 1972 the term priority sector was introduced to include the underserved areas of Indian economy. As on date the following sectors are identified as priority sector:

1. Agriculture & Allied activities
2. MSME (including trade)
3. Export credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Other priorities.

Now, Government of India and RBI has directed the banks to Channelize 75% of their ANBC to priority sectors by 31/03/2024.

Since, our bank was established keeping in mind to serve the lower income-based people. The reaching of target of priority sector may not be a problem to our bank.

Ms. MATHA MAANASA
Probationary Officer
Madhurawada Branch

Train your Brain

1. **Total Operating Income = Total Interest received + Other Operating income**

   Other operating income = Commission exchange & brokerage + profit on trading in securities + Dividend income + other miscellaneous income (except profit or loss on sale of assets but including profit/loss on sale of investments).

2. **Total Operating Expenses = Interest paid + Other operating expenses**

3. **Operating Profit/Loss = Total operating income – Total operating expenses**

   Operating Profit = (Interest + Discount earned + Commission + Exchange, Brokerage + Other Operating Income) - (Interest expended + Staff Expenses + Other overheads

4. **Net Operating Profit/Loss = Operating profit/loss – Provisions**

5. **Net profit/loss before Tax (NPBT)/(EBT) = Net operating profit/loss – Profit/loss on sale of assets (other than investments).**

6. **Net Profit/Loss after Tax = NPBT – Provision for Taxes**

7. **Net Interest income = Interest received on loans & advances – Interest paid on Deposits**

8. **Non – Interest income = Total Income - Interest received on loans & advances**

9. **Non – Interest Expenditure = Total Operating expenditure - Interest paid on Deposits**

10. **Net Margin = Net operating profit/Total Income**

.... to be continued in next edition.

M LAXMI SRAVANI
Accounts Department-HO

AVOID CASH FOR TAX ADVANTAGE

The Income tax Act-1961 has various provisions for discouraging cash transactions and encouraging electronic payments. The main provisions are explained hereunder

1. Section 40 A (3) Disallowance: -

This section provides that in case an assessee incurs an expenditure in respect of which he makes a payment in excess of Rs 10,000/- through cash or bearer cheque, the whole expenditure will be disallowed and cannot be claimed as business expenditure. This will increase the tax liability of the assessee and thus the assessee is discouraged from making cash payments

The Prescribed modes through which payment can be made include:

I. Account payee cheque/draft
ii. Credit card
iii. Debit card
iv. Net Banking
v. IMPS
vi. UPI
vii. RTGS/NEFT
viii. BHIM
ix. Aadhaar pay

The limit used to be Rs 20,000/- up to the financial year 2016-17, After demonetisation, the limit has been reduced to Rs 10,000/-vide Budget 2017 to discourage cash transactions being made by business assessee.

2. Penalty under section 269SS and 271D: -

Section 269SS of the Income tax act states that a person cannot accept a loan or deposit or any advance relating to transfer of immovable property from another person through cash or bearer cheque, if the amount of such loan or deposit or advance either individually or together equals or exceeds Rs 20,000/-

Any contravention of the provisions of section 269SS will lead to imposition of penalty under section 271D. The penalty is equal to the amount of loan or deposit accepted.

The restriction under section 269SS is not applicable if the loan or deposit is accepted from

a. Government

b. Banking company, post office savings Bank or cooperative Bank

c. Any corporation established by centrals, state or provincial act

d. Government company

e. Institution or association notified in official Gazette

3. Penalty under section 269ST and 271DA

After demonetisation, the central government with the intention of moving towards cashless economy inserted sections 269ST and 271DA in the income tax act through Budget 2017. These provisions came into force from financial year 2017-18.

Section 269ST provides that no person shall receive an amount equal to or exceeding Rs 2,00,000/- through cash or bearer cheque.

The aggregate amount received from the same person in a day through various transactions should not exceed Rs 2,00,000/-. The amount received in respect of the same event or occasion should also not exceed Rs 2,00,000/- even if the amount is received on different days.

Contravention of the provisions of section 269ST will lead to imposition of penalty under section 271DA. The penalty shall be equal to the amount received.

4. Deduction for medical insurance premium: -

Section 80D of the income tax act provides for deduction of expenditure incurred on medical insurance premium or health check-up. This section provides for a deduction up to Rs 25,000/- for medical insurance premium paid by the assessee for himself or his spouse and children. A further deduction of Rs 25000/- is available for medical insurance premium paid by the assessee for his parents. The limit of Rs 25,000/- for self has been increased to Rs 50,000/- where the assessee is a senior citizen. The limit of Rs 25,000/- for parents has also increased to Rs 50,000/- where the parents are senior citizens. Thus, the maximum amount of deduction is Rs 1,00,000/-. This deduction is permissible only if the payment is made otherwise than cash or bearer cheque.

5. Enhanced Tax Audit limit: -

Section 44AB of the income tax act provides that a person carrying on business should get his accounts audited if the total sales, turnover or gross receipts in business exceeds Rs 1.00 Crore.

This limit has now been enhanced. Tax audit needs to be done only if turnover or gross receipts in business exceeds Rs 5.00 Crore (for the FY 2019-20 or Rs 10.00 Crore from the FY 2020-21 onwards)

Provided that-

a) The aggregate of all receipts in cash does not exceed 5 percent of the total receipts in the financial year

b) The aggregate of all payments in cash does not exceed 5 percent of the total payments in the financial year

This provision acts as an incentive to the business assessee to reduce cash transactions.

K. Santosh Kumar
Accounts Officer - HO

BANK IN THE SERVICE OF COMMON MAN

Photo Corner....

CASH AWARDS FUNCTION CONDUCTED TO MERITORIOUS STUDENTS OF OUR SHARE HOLDERS

WALTAIR BRANCH OPENING

PARVATHIPURAM ATM OPENING

INDEPENDENCE DAY CELEBRATIONS AT HEAD OFFICE

IN FOUND MEMORY OF: *We are Sorry to Inform that the following Employees "Breathed their Last" during the Quarter.*

Sl. No.	Name of the Branch	Name of the Employee	Designation	Date of Demise
1	Vijayawada	R. Srinivas	Deputy Manager	13/09/2022

The Bank expresses Deep Condolence on his Demise.

REGULATORS PERSPECTIVE:

Sl. No.	RBI Circular No.	Date of issue	Contents of the Circular
1	RBI/2022-2023/79 DCM(NPD)No.S488/18.00.14/2022-23	01.07.2022	Note Sorting Machines - Authentication and Fitness Sorting Parameters
2.	RBI/2022-2023/82DOR.SOG (SPE).REC.No 53/13.03.000/2022-23	06.07.2022	Master Direction on Interest Rate on Deposits -Foreign Currency (Non- resident) Accounts (Banks) Scheme [FCNR(B)] and Non-Resident(External) Rupee (NRE) Deposit
3	RBI/2022-2023/83 DOR.RET.REC.54/12.01.001/2022-23	06.07.2022	Section 42 of the Reserve Bank of India Act, 1934 and Section 18 and 24 of the Banking Regulation Act, 1949 – FCNR (B)/NRE Term deposits - Exemption from maintenance of CRR/SLR
4	RBI/2022-2023/85 FIDD.CO.LBS.BC.No.8/02.08.001/2022-23	07.07.2022	Formation of new districts in the State of Andhra Pradesh – Assignment of Lead Bank Responsibility
5	RBI/2022-23/93 DOR.CRE.REC.56/13.05.000/2022-23	26.07.2022	Board approved Loan Policy – Management of Advances – UCBs
6	RBI/2022-23/103 DOR.RET.REC.59/12.01.001/2022-23	05.08.2022	Change in Bank Rate
7	RBI/2022-23/107 DOR.MRG.REC.64/00-00-005/2022-23	11.08.2022	Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines
8	RBI/2022-23/108 DOR.ORG.REC.65/21.04.158/2022-23	12.08.2022	Outsourcing of Financial Services - Responsibilities of regulated entities employing Recovery Agents
9	RBI/2022-23/113 DOR.STR.REC.67/21.06.201/2022-23	02.09.2022	Guidelines on Digital Lending
10	RBI/ 2022-23/113 DOR.STR.REC.67/21.06.201/2022-23	07.09.2022	Review of Prudential Norms–Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)
11	RBI/2022-2023/117 DOR.SOG (SPE). REC.No 68/13.03.00/2022-23	16.09.2022	Master Directions on Interest Rate on Deposits
12	RBI/2022-2023/118 Ref.No.DoS.CO.PPG/SEC.04/11.01.005/2022-23	19.09.2022	Compliance Function and Role of Chief Compliance Officer (CCO)- Urban Co-operative Banks
13	RBI/2022-23/123 DOR.RET.REC.70/12.01.001/2022-23	30.09.2022	Change in Bank Rate

KNOW YOUR CIRCULARS:

Sl. No.	Date of Issue	Circular No	Contents of the Circular
1	01-07-2022	417/2022	MODIFICATION IN REVISION OF INTEREST RATES
2	25-07-2022	424/2022	PRIOR APPROVAL FROM CEO BEFORE CLOSING IO & DEAF ACCOUNTS
3	26-07-2022	425/2022	DEPOSITS -DAILY DEPOSIT SCHEME-MODIFICATION-INCREASE OF TERM
4	03-08-2022	427/2022	CREDIT MONITORING-REVIEW OF CERDIT FACILITIES ON YEARLY BASIS-PREPARATION AND SUBMISSION OF REVIEW NOTES IN RESPECT OF ALL ADVANCE ACCOUNTS OF 50 LAKHS
5	05-09-2022	438/2022	DETAILS OF UNCLAIMED GOLD BAGS AS ON 31-03-2022
6	07-09-2022	441/2022	COLLECTION OF LATEST FINANCIAL STATEMENTS FOR LOANS
7	30-09-2022	443/2022	MEMBERS MEDI REIMBURSEMENT SCHEME 2022-23

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