EFFECTIVENESS OF RISK MANAGEMENT WITH REFERENCE TO CITY UNION BANK

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ABSTRACT- A financial analyst can adopt the following tools for analysis of the financial statement. These are also termed as methods of financial analysis.The baking sector is one of the core sectors in the economic development of India. So the purpose of the study is to concentrate on financial performance of City union bank.This study attempted to find out whether CUBhave performed well or not. The main objective of the study is to evaluate the risk exposure of the bank in the last five years and to predict the future performance of the bank. For this purpose a balance sheet of five years was analysed using ratio analysis and trend analysis. The conclusion is that the risk towards deposits of the bank is much higher when compared to the advances and as a whole the performance and profitability of the banks are satisfactory.

Keywords: Risk management, Nationalized bank and financial analysis.

I.   INTRODUCTION

Banks should provide a robust risk rating scheme that acts as a single point predictor of a counterpart's complex risk factors and clear credit decisions. To encourage this, a substantial degree of standardization is needed for debtor-to-debt comparisons. The chance score framework can be structured to recognize the global danger of loans, an important insight into pricing and non-pricing conditions of loans as well as significant knowledge on the analysis and administration of the mortgage portfolio. In short, the risk rating could display the loan reserve's secret credit hazard. The rating exercise must also allow the credit authorities to achieve a great deal of comfort in knowing the standard of their mortgages at all times. The chance score method can be implemented structurally, including monetary calculation, estimates and tenderness, market and management hazards. The mortgage brokers will use various economic proportions and comprehensive criteria and collateral as qualitative supervisory fields and sectorial features have to do with their creditworthiness. Loan companies may often take into account the percentages dependent on the years of which they have provided notoriety close to the progress of the word. Banking may also propose some criteria or perhaps important information in the rating system, which could not be accompanied by any recommendations. Banks should also recognize shoddy rating opportunities that differ in character and in risk, for big companies as well as small loan seekers, buyers, etc.

STATEMENT OF THE PROBLEM

The baking sector is one of the core sectors in the economic development of India. So the purpose of the study is to concentrate on financial performance of CUB. Earnings could be understood to be the power of provided expense to generate a comeback from its make use of. Profitability is usually among the primary requirements to guage the degree to which administration has prevailed in increasing its earnings or reducing its dangers. Profit and risk may be the measure which usually shows the effectiveness and effectiveness with that your organization has been managed. Therefore income and risk will be the check of performance and a way of measuring a control towards the administration and a way of measuring worth with their expense to its owner and traders, a way of measuring tax spending capability and the foundation of legislative actions to the federal government. Hence a businesses is usually likely to release its responsibilities to the many segments of society just through earnings. Furthermore, success and risk evaluation is important for task evaluation, intended for valuation of shares and goodwill, and also to evaluate the dynamism, energy and development potential of the lender. This kind of research tried to discover if selected nationalized lender possess performed very well or not really.

OBJECTIVES OF THE STUDY

- To evaluate the risk exposure of the bank in the last five years.

- To analyse the financial performance of the bank.
- To study about the impact of profitability towards performance of the bank.
- To predict the future performance of the bank.

SCOPE OF THE STUDY

This study helps to identify the overall performance of financial for the past five years. To know the business ethics followed by the bank in financial activity in garment sector. The liquidity and activity positions of the firm are analyzed using liquidity and turnover ratio using current liabilities. The solvency position of the bank is also analyzed using ratios.

II. RESEARCH METHODOLOGY

Research design: Descriptive research
Data collection: Secondary data was collected for the purpose of the study.
Period of study: The study was carried out from 2017-2020 for the period of five years.
Source of data: The present study is based on the secondary data only. The secondary data were those data collected from the published books, journals, magazines, and the like. To understand the lending and financial performance of the bank the researcher has used only secondary data. The researcher has made adequate care to test the reliability of the data. The relevant data is collected and analyzed for the fulfillment of the objectives of the study.
Data analysis: The tool used for calculation of financial performance analysis is following Statistical tools were applied to analyze the statistical data collected.

❖ Ratio analysis
❖ Trend regression

Ratios used for the study

- Risk measurement ratios
- Gap model and
- Altman's Z-Score Model

III. ANALYSIS AND INTERPRETATION

Table 1: Liquidity risk

Liquidity risk	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Loans	17,965.50	21,056.92	23,832.70	27,852.79	32,673.34
Deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio	0.75	0.78	0.79	0.85	0.85
Current assets	793.18	1,052.97	1,312.57	1,345.78	1,660.03
Total deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio	0.03	0.04	0.04	0.04	0.04
Liquidity risk ratio	22.65	20.00	18.16	20.70	19.68

The above table shows about the liquidity risk ratio of the bank for the past five years were the ratio was high in the year 2016 at 22.65 and was low in the year 2018 at 18.16. The ratio got declined and there was a gradual growth towards the liquidity of the bank. But further the bank has to increase their liquidity in future period of time which leads to increase in turnover with the bank.

Table 2:Credit risk ratio

Credit risk	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Earnings before tax	401.89	451.65	510.22	624.68	720.33
Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Ratio	0.01	0.01	0.01	0.02	0.02
Non-Performing assets	335.82	511.98	681.98	856.55	977.05

Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Ratio	0.01	0.02	0.02	0.02	0.02
Credit risk ratio	1.20	0.88	0.75	0.73	0.74

The above table shows about the credit risk ratio of the bank for the past five years were the ratio was high in the year 2016 at 1.20 and was low in the last financial year 2020 at 0.74. The ratio got declined in the last five years as a result the credit risk was increasing.

Table 3: Interest rate risk ratio

Interest rate risk	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Interest sensitive asset	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Liability	27,871.14	31,251.97	35,270.78	39,937.24	45,258.89
Interest rate risk ratio	0.10	0.09	0.09	0.09	0.08

The above table shows about the interest rate risk of the bank for the past five years were the ratio was high in the year 2016 at 0.10 and was low in the last financial year 2020 at 0.08. It reveals that the liability was increasing than the interest rate difference (difference between the lending rate and barrowing rate) as a result it may cause a higher risk towards liquidating the funds in future.

Table 4: Capital risk ratio

Capital risk	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Shareholders fund	2,695.52	3,052.00	3,570.20	4,163.24	4,840.76
Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Capital risk ratio	0.10	0.10	0.10	0.10	0.11

The above table shows about the capital risk of the bank for the past five years were the ratio was the same from 2016-2019 at 0.10 and it got increased to 0.11 in the last financial year. It reveals that the asset value towards the investment made by the share holders got increased which is a good sign towards development of the bank.

FINANCIAL PERFORMANCE

Table 5: Current ratio

Current ratio	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Current asset	793.18	1,052.97	1,312.57	1,345.78	1,660.03
Current liabilities	931.83	929.29	1,053.84	1,185.51	1,489.27
Current ratio	0.85	1.13	1.25	1.14	1.11

The above table shows about the current ratio of the bank for the past five years were the ratio was low at 0.85 in the year 2016 and was high in the year 2018 at 1.25. But the ratio got declined in the last two years to 1.11. It reveals that the current ratio of the bank is not as per the norms (2:1) in the last five years. For this, the bank has to increase the current asset and has to decrease the floating liabilities to stabilize the liquidity of the bank.

Table 6: Absolute liquidity ratio

Absolute liquidity ratio	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Cash and marketable securities	1,233.51	1,362.57	1,484.19	1,861.80	1,993.12
Current liabilities	931.83	929.29	1,053.84	1,185.51	1,489.27
Absolute liquidity ratio	1.32	1.47	1.41	1.57	1.34

The above table shows about the absolute liquidity ratio of the bank for the past five years were the ratio was low at 1.32 in the year 2016 and was high in the year 2019 at 1.57. It reveals that the bank is trying to stabilize the liquidity in the last four years and as a result a positive impact is there towards the liquidity of the bank.

PROFITABILITY RATIO

Table 7: Ratio of ROI

ROI	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Net profit	401.89	451.65	510.22	624.68	720.33
Investment	6,365.27	6,324.45	7,031.45	7,879.11	7,712.20
Ratio of ROI	0.06	0.07	0.07	0.08	0.09

The above table shows about the rate of interest ratio of the bank for the past five years were the ratio was low at 0.06 in the year 2016 and was high in the last financial year at 0.09. It reveals that the profitability of the bank is increasing as per the investment made by them.

Table 8: Ratio of profit to total deposits

Profit to total deposits	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Net profit	401.89	451.65	510.22	624.68	720.33
Deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio of profit to total deposits	0.02	0.02	0.02	0.02	0.02

The above table shows about the profit to total deposits ratio of the bank for the past five years were the ratio was the same in the last five years which shows that the profitability of the bank is as per the deposits of the bank which is a good sign for the bank.

Table 9: Net profit ratio

NP ratio	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Net profit	401.89	451.65	510.22	624.68	720.33
Total income	3,113.85	3,354.19	3,657.74	3,934.52	4,281.56
Net profit ratio	0.13	0.13	0.14	0.16	0.17

The above table shows about the net profit ratio of the bank for the past five years were the ratio was low at 0.13 in the year 2016 and was high at 0.17 in the last financial year which shows that the profitability of the bank has increased gradually in the last five years based on the income of the bank.

Table 10: Ratio of profit on spread

Ratio of profit on spread	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Net profit	401.89	451.65	510.22	624.68	720.33
Interest earned	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Interest paid	1,891.49	1,963.17	1,975.02	1,972.12	2,155.68
Spread	807.37	981.04	1,198.77	1,430.30	1,611.49
Ratio of profit on spread	0.50	0.46	0.43	0.44	0.45

The above table shows about the ratio of profit on spread of the bank for the past five years were the ratio was low at 0.43 in the year 2018 and was high at 0.50 in the last financial year which shows that the profitability of the bank has decreased when compared to 2016 and as a result the bank has to look after the lending rate and barrowing rate to stabilize the profitability and the bank may look after the operating cost to increase the profit as per the spread.

Table 11: Interest earned ratio

Interest earned ratio	**Mar '16**	**Mar '17**	**Mar '18**	**Mar '19**	**Mar '20**
Interest earned	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Total income	3,113.85	3,354.19	3,657.74	3,934.52	4,281.56
Interest earned ratio	0.87	0.88	0.87	0.86	0.88

The above table shows about the interest earned ratio of the bank for the past five years were the ratio was low at 0.86 in the year 2019 and was high at 0.88 in the last financial year and the same ratio was in the year 2017 which shows that the income of the bank was increasing as per the interest rate which is a good sign for the bank.

Table 12: Interest paid ratio

Interest paid ratio	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Interest paid	1,891.49	1,963.17	1,975.02	1,972.12	2,155.68
Total income	3,113.85	3,354.19	3,657.74	3,934.52	4,281.56
Interest paid ratio	0.61	0.59	0.54	0.50	0.50

The above table shows about the interest paid ratio of the bank for the past five years were the ratio was low at 0.50 in the last financial year 2020 and was high at 0.61 in the year 2016. It shows that the interest paid towards the total income was getting reduced in the last five years which is a good sign towards the bank.

Table 13: Ratio of return on equity

Ratio of return on equity	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Net profit	401.89	451.65	510.22	624.68	720.33
Net worth	2,695.53	3,052.00	3,570.20	4,163.23	4,840.76
Ratio of return on equity	0.15	0.15	0.14	0.15	0.15

The above table shows about the ratio of return on equity for the past five years were the ratio was the same at 0.15 in the last five years. It shows that the return on equity was stable in the last five years which is a good sign for the bank.

Table 14: Ratio of cash to deposits

Ratio of cash to deposits	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Cash	1,233.51	1,362.57	1,484.19	1,861.80	1,993.12
Deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio of cash to deposits	0.05	0.05	0.05	0.06	0.05

The above table shows about the ratio of cash to deposits for the past five years were the ratio was the same at 0.05 in the last five years. It shows that the cash with the bank and RBI and the deposits ratio was stable which is a good sign for the bank .

SOLVENCY RATIO

Table 15: Ratio of net worth to fixed assets

Ratio of net worth to fixed assets	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Networth	2,695.53	3,052.00	3,570.20	4,163.23	4,840.76
Fixed asset	210.41	217.56	215.08	223.13	250.03
Ratio of net worth to fixed assets	12.81	14.03	16.60	18.66	19.36

The above table shows about the ratio of net worth to fixed assets for the past five years were the ratio was low at 12.81 in the year 2016 and was high in the year 2020 at 19.36. It reveals that the net worth towards fixed asset got increasing gradually in the last five years.

Table 16: Ratio of investment to deposits

Ratio of investment to deposits	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Investment	6,365.27	6,324.45	7,031.45	7,879.11	7,712.20
Deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio of investment to deposits	0.26	0.23	0.23	0.24	0.20

The above table shows about the ratio of investment to deposits for the past five years were the ratio was low at 0.20 in the year 2020 and was high in the year 2016 at 0.26. It reveals that the investment made by the bank towards deposits got decreased in the last five years.

Table 17: Ratio of investment to total asset

Ratio of investment to total asset	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Interest earned	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Interest paid	1,891.49	1,963.17	1,975.02	1,972.12	2,155.68
Spread	807.37	981.04	1,198.77	1,430.30	1,611.49
Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Ratio of investment to total asset	0.10	0.09	0.09	0.09	0.08

The above table shows about the ratio of investment to total asset for the past five years were the ratio was low at 0.08 in the year 2020 and was high in the year 2016 at 0.10. It reveals that the investment made by the bank towards total assets got decreased in the last five years.

Table 18: Ratio of investment to total asset

Ratio of investment to total asset	**Mar '16**	**Mar '17**	**Mar '18**	**Mar '19**	**Mar '20**
Interest earned	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Interest paid	1,891.49	1,963.17	1,975.02	1,972.12	2,155.68
Spread	807.37	981.04	1,198.77	1,430.30	1,611.49
Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Ratio of investment to total asset	0.10	0.09	0.09	0.09	0.08

The above table shows about the ratio of investment to total asset for the past five years were the ratio was low at 0.08 in the year 2020 and was high in the year 2016 at 0.10. It reveals that the investment made by the bank towards total assets got decreased in the last five years.

MATURITY GAP MODEL

2016: The bucket wise distributions of maturity gaps depicts that in the financial year 2016 the bank has been following a positive gap strategy from 1 day to 15-28 days were the short term assets were higher than the liabilities. Meanwhile, the bank is following a negative gap strategy ,were long term assets are lesser than the liabilities from 3 months to 5 years.

2017: The bucket wise distributions of maturity gaps depicts that in the financial year 2017 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities over 5 years.

2018: The bucket wise distributions of maturity gaps depicts that in the financial year 2018 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years.

2019: The bucket wise distributions of maturity gaps depicts that in the financial year 2019 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years. And also in between the bank was following a negative strategy towards the bucket between 6 months to 1 year.

2020:The bucket wise distributions of maturity gaps depicts that in the financial year 2020 the bank has been following a positive gap strategy with all the time frames which includes from 1 day 6 months but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years. And also in between the bank was following a positive strategy between 1- 3 years and negative strategy towards the bucket between 6 monthsto 1 year.

Table 19: Altman's Z-Score model

Particulars	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20
Working capital	-138.65	123.68	258.73	160.27	170.76
Current asset	793.18	1052.97	1312.57	1345.78	1660.03
Current liabilities	931.83	929.29	1053.84	1185.51	1489.27
Total asset	27871.13	31251.97	35270.78	39937.26	45258.88
X1	0.69	0.49	1.90	0.64	0.64
X2					
	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net income	384.13	444.69	502.77	592.00	682.85
Equity Share Dividend	65.62	71.78	0.00	19.84	21.96
Tax On Dividend	13.36	20.71	0.00	4.04	4.51
Retained earning	305.15	352.20	502.77	568.12	656.38
Total asset	27871.13	31251.97	35270.78	39937.26	45258.88
X2	0.01	0.01	0.01	0.01	0.01
X3					
X3	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
EBIT	384.13	444.69	502.77	592	682.85
Total asset	27871.13	31251.97	35270.78	39937.26	45258.88
X3	0.01	0.01	0.01	0.01	0.02
X4					
X4	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Total book equity	28,255.27	31,696.67	35,773.56	40,529.27	45,941.75
Total liabilities	27,871.14	31,251.97	35,270.78	39,937.24	45,258.89
X4	1.01	1.01	1.01	1.01	1.02
Z Score	5.72	4.41	13.66	5.43	5.44

The above table shows that the banks Z score was at 5.72 in the year 2016, 4.41 in the year 2017, 13.66 in the year 2018, 5.43 in the year 2019 and 5.44 in the year 2020 were the Z score value is greater than 2.99. It reveals that the is in risk free zone for the past five years.

IV.   FINDINGS

Liquidity risk ratio
The ratio was high in the year 2016 at 22.65 and was low in the year 2018 at 18.16. The ratio got declined and there was a gradual growth towards the liquidity of the bank.
Credit risk ratio
The ratio was high in the year 2016 at 1.20 and was low in the last financial year 2020 at 0.74. The ratio got declined in the last five years as a result the credit risk was increasing.
Interest rate risk ratio
The liability was increasing than the interest rate difference (difference between the lending rate and barrowing rate) as a result it may cause a higher risk towards liquidating the funds in future.
Capital risk ratio
The asset value towards the investment made by the share holders got increased which is a good sign towards development of the bank.

Current ratio

The ratio was low at 0.85 in the year 2016 and was high in the year 2018 at 1.25. But the ratio got declined in the last two years to 1.11. It reveals that the current ratio of the bank is not as per the norms (2:1) in the last five years.

Absolute liquidity ratio

The bank is trying to stabilize the liquidity in the last four years and as a result a positive impact is there towards the liquidity of the bank.

Ratio of ROI

The ratio was low at 0.06 in the year 2016 and was high in the last financial year at 0.09. It reveals that the profitability of the bank is increasing as per the investment made by them.

Ratio of profit to total deposits

The ratio was the same in the last five years which shows that the profitability of the bank is as per the deposits of the bank which is a good sign for the bank.

Net profit ratio

The ratio was low at 0.13 in the year 2016 and was high at 0.17 in the last financial year which shows that the profitability of the bank has increased gradually in the last five years based on the income of the bank.

Ratio of profit on spread

The ratio was low at 0.43 in the year 2018 and was high at 0.50 in the last financial year which shows that the profitability of the bank has decreased when compared to 2016

Interest earned ratio

The ratio was low at 0.86 in the year 2019 and was high at 0.88 in the last financial year and the same ratio was in the year 2017 which shows that the income of the bank was increasing as per the interest rate which is a good sign for the bank.

Interest paid ratio

The interest paid towards the total income was getting reduced in the last five years which is a good sign towards the bank.

Ratio of return on equity

The return on equity was stable in the last five years which is a good sign for the bank.

Ratio of cash to deposits

The cash with the bank and RBI and the deposits ratio was stable which is a good sign for the bank .

Ratio of net worth to fixed assets

The ratio was low at 12.81 in the year 2016 and was high in the year 2020 at 19.36. It reveals that the net worth towards fixed asset got increasing gradually in the last five years.

Ratio of investment to deposits

The ratio was low at 0.20 in the year 2020 and was high in the year 2016 at 0.26. It reveals that the investment made by the bank towards deposits got decreased in the last five years.

Ratio of investment to total asset

The ratio was low at 0.08 in the year 2020 and was high in the year 2016 at 0.10. It reveals that the investment made by the bank towards total assets got decreased in the last five years.

Credit to deposit ratio

The ratio was low at 1.18 in the year 2019 and 2020 and was high in the year 2016 at 1.34. It reveals that the advances of the bank was increasing towards deposits which is not a good sign for the bank

Maturity gap model

In the financial year 2016 the bank has been following a positive gap strategy from 1 day to 15-28 days were the short term assets were higher than the liabilities. Meanwhile, the bank is following a negative gap strategy ,were long term assets are lesser than the liabilities from 3 months to 5 years.

In the financial year 2017 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities over 5 years.

In the year 2018 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years.

In the financial year 2019 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are

lesser than the liabilities from 3 years to more than 5 years. And also in between the bank was following a negative strategy towards the bucket between 6 months to 1 year.

In the financial year 2020 the bank has been following a positive gap strategy with all the time frames which includes from 1 day 6 months but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years. And also in between the bank was following a positive strategy between 1- 3 years and negative strategy towards the bucket between 6 months to 1 year.

Altman's Z-Score model

The banks Z score was at 5.72 in the year 2016, 4.41 in the year 2017, 13.66 in the year 2018, 5.43 in the year 2019 and 5.44 in the year 2020 were the Z score value is greater than 2.99. It reveals that the is in risk free zone for the past five years.

V.   SUGGESTIONS

- The bank has to increase their liquidity in future period of time which leads to increase in turnover with the bank.
- The bank has to increase the current asset and has to decrease the floating liabilities to stabilize the liquidity of the bank.
- The bank has to look after the lending rate and barrowing rate to stabilize the profitability and the bank may look after the operating cost to increase the profit as per the spread.
- The expenses of the bank has to controlled in future period of time.

VI.   CONCLUSION

The conclusion is that the risk towards deposits of the bank is much higher when compared to the advances and as a whole the performance and profitability of the banks are satisfactory.

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