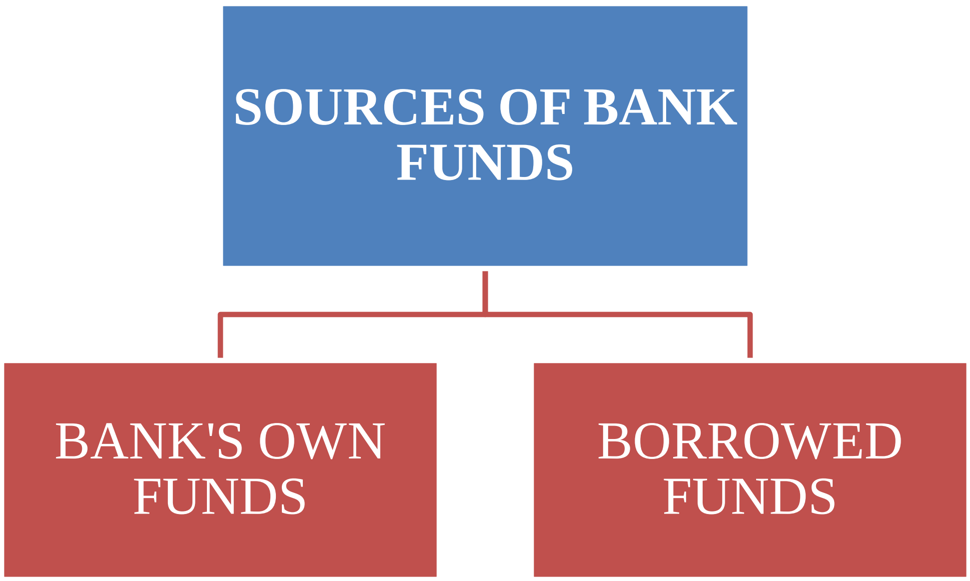
SOURCES OF BANK FUNDS

A bank is a business firm. Its main aim is to earn profit. In order to achieve this objective it provides services to the customers. It offers a variety of interest bearing obligations to the public. These obligations are the sources of funds for the bank and are shown on the liability side of the balance sheet of a commercial bank. The main sources which supply funds to a bank are as follows:



1. BANK'S OWN FUNDS

Bank’s own funds are mainly of three types:

a) **Paid up capital:** Bank’s own paid up capital. The amount with which a banking company is registered is called nominal or authorized capital. It is the maximum amount of capital which is mentioned in the capital clause of the memorandum of association of the company. Capital is further divided into (i) paid up capital and (ii) subscribed capital.

b) **Reserve fund:** Reserve is another source of fund which is maintained by all commercial banks. At the time of declaring dividend, a certain portion of the profit is transferred to the reserve fund. This reserve belongs to the .shareholders and at the time of liquidation, the Shareholders are entitled to these reserves along with the capital. The main purpose of setting aside part of profit is to meet unforeseen expenses of the bank.

c) **Profit:** Profit is another source to a bank for the purpose of business. Profits signify the credit balance of the profit and loss account which has not been distributed. The accumulated profits over the years increase the working capital of the bank and strengthen its financial position.

2. BORROWED FUNDS

The borrowed capital is a major and an important source of fund for any banking business. It mainly comes from deposits which are accepted on varying terms in different accounts.

Bank's borrowing is mostly in the form of deposits. The larger the deposits of bank, the larger will be its (use) fund for employment and so higher are its profit.

a) **Borrowing from central bank:** The commercial banks in times of emergency borrow loans from the central bank of the country. The central bank extends help as and when financial help is required by the commercial banks.

b) **Other sources:** Bank also raise funds by issuing bonds, debentures, cash certificates etc. etc. Though it is not common but is a dependable source of borrowing.

- **Bonds:** In finance, a bond is a debt security, in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) to use and/or to repay the principal at a later date, termed maturity. A bond is a formal contract to repay borrowed money with interest at fixed intervals

- **Debenture:** A type of debt instrument that is not secured by physical asset or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. Like other types of bonds, debentures are documented in an indenture.

- **Cash certificates:** Cash certificates and recurring deposits are similar types of banking investments. The terms are used most often in relation to the services that Indian banks provide their customers. These deposits are not directly related to stock market or bond speculation, but instead give investors a way to earn interest on money in a safer setting.

c) **Deposits:** Public deposits are a powerful source of funds to a bank. Bank collects three kinds of deposits from its customers: (i) current or demand deposits (ii) saving deposits and (iii) time deposits. Due to the spread of literacy, banking habits and growth in the volume of business operations, there is a marked increase in deposit money with banks.

- **Current Deposits:** The term Current Deposit refers to a deposit to a bank account or financial institution without a specified maturity date. These types of Current Deposit account generally only earn demand deposit interest. Interest is very low for current account.

- **Saving Deposits:** A deposit account held at a bank or other financial institution that provides principal security and a modest interest rate. Depending on the specific type of savings account, the account holder may not be able to write checks from the account (without incurring extra fees or expenses) and the account is likely to have a limited number of free transfers/transactions. Savings account funds are considered one of the most liquid investments outside of demand accounts and cash. In contrast to savings accounts, checking accounts allow you to write checks and use electronic debit to access your funds inside the account. Savings accounts are generally for money that you don't intend to use for daily expenses.

- **Time Deposits:** A time deposit also known as a term deposit is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time (unless a penalty is paid). When the term is over it can be withdrawn or it can be held for another term. Generally speaking, the longer the term the better the yield on the money. A certificate of deposit is a time-deposit product