

A COMPARATIVE ANALYSIS OF LOANS AND ADVANCES IN SELECTED URBAN CO-OPERATIVE BANKS

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ABSTRACT

'Co-operation' was born as a peaceful reaction against the mercantile economy and industrial revolution which had resulted in the concentration of wealth, mass poverty and degradation. It is a fact finding study aimed at analyzing the loans and advances and overdue of select (eight) Urban Co-operative Banks (UCBs) in Coastal Andhra region of Andhra Pradesh over a period of ten years (i.e. from 2002-03 to 2011-12), with the help of select indicators like loans and advances, credit deposit ratio(C-D ratio), overdues and ratio of overdues to loans and advances. This paper focuses on the growth and composition of loans and advances and impact of overdues on performance of sample UCBs in Coastal Andhra region of Andhra Pradesh. UCBs mobilize funds by accepting different types of deposits from its members and non-members also, but urban banks grant loans or cash credit to their members only against mortgage of immovable property or against the surety of one or more persons who are also members or against the pledge of goods, gold, silver, ornaments, Government securities or on the security of fixed deposits and insurance policies.

Keywords: Loans and Advances, C-D ratio and Overdues.

INTRODUCTION

In India, first urban credit society was started in 1889 in rest while Baroda State. However, the urban credit movement in India picked up momentum only after the Maclagan Committee drew attention to its potential. As a result of recommendations of Maclagan Committee and banking crisis of 1913-17 which saw the failure of many commercial banks, Urban Co-operative Banks (UCBs) began to grow in India. They grew both in numbers and size, and diversified their activities considerably. The utility of UCBs in financing artisans, small traders, businessmen, factory workers and salaried people with limited fixed income in urban or semi-urban areas middle classes was recognized by various committees and working groups. Thus UCBs were started in India to meet the chief object of catering to the banking and credit requirements of urban middle classes. Besides protecting the middle classes and persons of modest means from the clutches of the money lenders, the UCBs are also expected to inculcate the habit of thrift and savings amongst them.

In the context of rapid growth of UCBs, qualitative aspects of lending, such as adequacy of lending to meet credit requirements of their borrowers and effective supervision and monitoring of advances has assumed considerable importance. Earlier Registrar of Cooperative Societies used to lay down the lending policy of the UCBs but now the lending policy of banks is to be based on the directives of the RBI. However, consistent with the policy of liberalisation and financial sector reforms, several indirect measures to regulate the bank credit such as exposure norms for lending to individual/group borrowers, prudential norms for income recognition, asset classification and provisioning for advances, capital adequacy ratios, etc. were introduced by RBI and greater operational freedom has been provided to banks in dispensation of credit.

UCBs are expected to lay down through their Boards, transparent policies and guidelines for credit dispensation, in respect of each broad category of economic activity, keeping in view the credit exposure norms and various other guidelines issued by the RBI from time to time. UCBs provide finance mainly for trade, commerce and industry and to a limited extent for construction and repairs to houses, for the purchase of durable consumer goods and other consumption purposes. While making advances, the banks should satisfy about the normal safeguards, such as, source and adequacy of the income of the borrower for prompt repayment, the nature of security offered and the standing of the party. In the case of loans to artisans and entrepreneurs, they should satisfy about the economic viability and technical feasibility of the projects proposed to be financed.

UCBs are required to fix, with the approval of their Board of Directors, exposure ceiling in relation to bank's capital funds. The exposure limit is 15% of capital funds in case of individual borrower and 40% in case of group of borrowers. Banks may sanction loans to nominal members for short/temporary period and for purchase of consumer durables, subject to the following ceiling;

- For banks with deposits upto Rs. 50 crores; maximum Rs.50, 000 per borrower
- For banks with deposits above Rs.50 crores; maximum Rs. 1, 00,000 per borrower.

UCBs are prohibited from making, providing or renewing either secured or unsecured loans and advances or extending any other financial accommodation to their directors, or their relatives and the firms/concerns/companies in which they are interested with effect from 1 October 2003. The existing advances may be allowed to continue up to the date when they are due.

REVIEW OF LITERATURE

A number of Committees and Commissions appointed by the RBI, Central and State Governments have submitted their reports on UCBs incorporating therein several invaluable suggestions to improve the functioning of the UCBs in India. The first and foremost study with regard to urban co-operatives has been made by Maclagan Committee (1915) on Co-operation. The development of urban co-operative societies did not receive much attention until 1915 when the Maclagan Committee referred to the potentialities for the organization of such societies as a means of training the upper and middle classes in ordinary banking principles. The failure of local joint-stock banks in the country at that time gave an impetus to the growth of urban co-operative credit societies. It was felt by the Committee that urban

credit societies were eminently suitable institutional agencies for collecting local savings and to provide relief to those who were in the clutches of money lenders by providing them with financial accommodation.

All India Rural Credit Survey Committee (1954), while identifying the reasons for the failure of the co-operative credit, made an attempt to discuss the role of urban banks. The Committee pointed out that, in the matter of loans against pledge of gold and agricultural produce, urban banks may be allowed to extend their share of operations to villages within a radius of five miles of the area of towns in which they are located there are no primary agricultural credit societies in the villages concerned.

The Working Group on Industrial Finance through Co-operative Banks (1968), recognizing the key role of urban banks in providing finance to cottage and small industries, recommended that high priority to be given to the organization of such banks in areas where there was a sufficient concentration of cottage and small scale industries carried on by individuals as well as by firms and joint-stock companies

Government of Andhra Pradesh appointed an Expert Committee (2002) to review the functioning of UCBs in the state under the chairmanship of K.Narasimha Murthy. The suggestions of the Committee including co-opting six to seven directors from among the shareholders, three to five from among the depositors and three professionals from the banking, finance, auditing and legal fields to the Boards of Banks, limiting the term of each director to a maximum of eight years instead of an unlimited period, appointment of a qualified person as a chief executive and capping establishment expenditure up to 10 per cent. The panel also recommended that Committees be formed for dealing with the procedure on auditing, giving loans and asset liability management and suggested that no loans be given for real estate business, stock market operations, and film production. It also recommended payment of a maximum dividend of 25 per cent to the shareholders and also limiting the term of deposits to 10 years.

The RBI constituted an Expert Committee (2011) on Licensing of Urban Cooperative Banks under the Chairmanship of Sri. Y. H. Malegam, the Committee submitted its report to the RBI with many observations as well as very valuable recommendations. Reserve Bank followed liberal licensing policy between May 1993 and March 1999. However, many UCBs licensed during this period became financially weak. In the Annual Policy Statement for 2004-05, RBI announced licensing discontinuance and entered in to MOU with State Governments for co-ordination of regulatory policies. Since then, there has been considerable improvement in the functioning of UCBs. The signing of MOU between the State Governments and RBI and the setting up of TAFUCBs has resulted in a significant improvement in the health of the UCB sector.

The RBI has been conducting meetings of the Standing Advisory Committee (SAC) for UCBs annually. The first meeting was held on 23rd May, 1983. On various aspects of the UCBs' functioning such as organizational matters, mobilization of resources and their deployment in various aspects, modalities on the rehabilitation of weak banks, introduction of professional management, training and education of personnel of the UCBs. RBI issues from time to time instructions/guidelines regarding, operations and functioning of UCBs which are published in the form of Compendium of Instructions/Guidelines issued by RBI. In addition, some studies have been carried out by academicians at macro and micro level to

evaluate the performance of co-operative credit movement in general and urban co-operative banks in particular.

NEED FOR THE PRESENT STUDY

The foregoing review of literature indicates that several official and non-official studies have been carried out from time to time on the working of UCBs. These studies are either macro in nature covering the entire country or confined to a few areas or few aspects of UCBs. In a vast country like India with varied resources base and socio-economic conditions, there is a need for more micro level and area – specific studies to evaluate the performance of UCBs in a particular region and to throw light on the problems faced by these banks in their operations. Coastal Andhra region of Andhra Pradesh has been selected for the purposes of the present study due to its geographic, demographic and economic importance. It is hoped that the present research study on UCBs in Coastal Andhra will be a gap filling one and useful addition to the existing literature on the subject.

OBJECTIVES OF THE STUDY

This is a fact finding study dealing with the loans and advances of urban co-operative banks in Coastal Andhra region of Andhra Pradesh. The specific objectives of the study are:

- to examine the growth of loans and advances in sample UCBs;
- to analyze the pattern of loans and advances of select UCBs;
- to examine the bank's performance in the matter of deployment of credit;
- to study the effect of overdues on investment decisions of sample banks; and
- to suggest various measures for improving the performance of the banks.

HYPOTHESES

Based on the above objectives the following hypotheses are postulated for testing.

H₀₁: There is no significant growth in loans and advances of sample UCBs and period.

H₀₂: Inter-bank and inter-period variations with regard to loans and advances are not significant.

H₀₃: The year-wise and the bank-wise differences in the Credit-Deposit ratio under study period are not significant.

H₀₄: There is no significant difference among the UCBs with respect to overdues in the selected banks.

H₀₅: There are no significant variations between banks and years with regard to ratio of overdues to loans and advances

RESEARCH METHODOLOGY

Sources of Data

The study is based on secondary data. The data relating to loans and advances of UCBs in Coastal Andhra region are collected from the annual reports of these banks. Besides this,

discussions and consultations have also been held with the officials of these banks after preliminary analysis of data collected. Apart from these, data have also been collected from the publications of various institutions like RBI, Government of India, Bureau of Economics and Statistics and Registrar of Co-operatives of Government of Andhra Pradesh. Also published and unpublished reports, theses and individual works on the subject have been consulted.

Sample Frame

UCBs in Coastal Andhra region of Andhra Pradesh constitute the universe for the purpose of the study. Coastal Andhra region comprises nine districts, viz., Nellore, Prakasam, Guntur, Krishna, West Godavari, East Godavari, Visakhapatnam, Vizianagaram and Srikakulam. 8 oldest UCBs, representing one from each of the eight districts of Coastal Andhra except Srikakulam (Srikakulam Bank excluded for the sample due to the newly established bank) have been selected as samples for detailed analysis. All these eight UCBs have been in existence for more than 60 years. Thus, the Table 1 reveals that the sample banks for the study.

Table 1. Sample Frame

| Sr. | Name of the District | Name of the Bank Selected | Year of Establishment |
|-----|----------------------|---|-----------------------|
| 1. | Nellore | The Nellore Co-operative Urban Bank Ltd., Nellore | 1917 |
| 2. | Prakasam | The Ongole Co-operative Bank Ltd., Ongole. | 1908 |
| 3. | Guntur | The Guntur Co-operative Urban Bank Ltd., Guntur | 1948 |
| 4. | Krishna | The Durga Co-operative Urban Bank Ltd., Vijayawada | 1929 |
| 5. | West Godavari | The Bhimavaram Co-operative Urban Bank Ltd., Bhimavaram. | 1930 |
| 6. | East Godavari | The Aryapuram Co-operative Urban Bank Ltd., Rajahmundry | 1919 |
| 7. | Visakhapatnam | The Visakhapatnam Co-operative Bank Ltd., Visakhapatnam | 1916 |
| 8. | Vizianagaram | The Vizianagaram Co-operative Urban Bank Ltd., Vizianagaram | 1914 |

Tools of Analysis

The data collected from different sources are properly classified, tabulated and analyzed using appropriate statistical tools to draw meaningful conclusions. Simple statistical techniques such as ratios, percentages and averages are used in the study. Besides these, other statistical tools like linear growth rates and analysis of variance with F distribution are used for analysis and interpretation of data at appropriate places because of the values in each bank are normally distributed and the period of each bank should be equal.

FINDINGS OF THE STUDY

The lending policy of an UCB is laid down by its by-laws or rules framed by the bank and also to be followed RBI circulars/directives in this regard in giving loans to members. After meeting the demands of the members they may give loans to non-members on the security of their deposits. UCBs are giving loans and advances for various purposes, like for purchase of domestic appliances, for repayment of the past loans, for social purposes, for purchase or repair of house, for medical and educational expenses as well as commercial and professional requirements. UCBs are primarily expected to meet credit requirements of middle and lower income groups of urban and semi-urban areas.

The linear growth rates (in Table 3) of loans and advances are highest in Guntur Bank (29.04 per cent), and it is closely followed by Visakhapatnam Bank (27 per cent). Vizianagaram Bank registered lowest growth rate (11.91 per cent) in loans and advances. Thus the growth rates in advances showed a mixed trend. It is observed that trends in loans and advances of sample banks as revealed by linear growth rates are statistically significant. Hence, the first hypothesis that there is no significant growth in loans and advances of sample UCBs is rejected.

Table 2. ANOVA – Loans and Advances of Select UCBs

| Sources of Variation | Degree of Freedom(DF) | Sum of Squares(SS) | Mean Sum of Squares(MS) | F-Value |
|----------------------|-----------------------|--------------------|-------------------------|---------|
| Between Banks | 7 | 1.27 | 18098711 | 13.810 |
| Between Years | 9 | 1.06 | 11769846 | 8.981 |
| Error | 63 | 82564541 | 1310548 | -- |
| Total | 79 | 3.15 | -- | -- |

Source: Compiled from Annual reports of UCBs

ANOVA results suggest that inter-bank and inter-period variations in loans and advances are statistically significant at 1per cent level, because the calculated values are more than the table value implying wide variations across banks in lending operations. Hence, the second hypothesis that the inter-bank and inter-period variations with regard to loans and advances are not significant stands rejected.

Structure of Loans and Advances Bank-wise

Urban co-operative banks grant loans, cash credit and overdrafts to a borrower may be an individual, a group of individual, a partnership form, a Hindu undivided family, or a limited company. The amount and types of loans and advances depend on the stage and status of the bank. UCBs mainly provide mortgage loans, jewel loans, housing loans, deposit loans and surety loans. It follows growth and composition of loans and advances in select UCBs are analyzed separating for each bank.

For Nellore Bank mortgage loans constituted the major proportion of total advances accounting for about 70 per cent of total loans. Jewel loans are the next important component of total loans constituting about 17 per cent of total loans. The linear growth rates for different kinds of loans, with the exception of surety loans, are significant at 1% level. In the case of Ongole Bank mortgage, jewel and deposit loans were the most

important components accounting for more than 90 per cent of total loans disbursed by the bank. Mortgage loans showed highest liner growth rate of 23.68 per cent and the growth rate was least at 5.08 per cent for surety loans. But all the growth rates are statistically significant.

Guntur bank registered a phenomenal growth in total amount of loans and advances. This bank also mortgage and jewel loans constitute about 77 per cent of total loans and advances. Deposit, surety and other loans account for 23 per cent of total loans. The linear growth rates for different types of loans are high, varying between 28.5 and 39.88 per cent and all growth rates are significant. In Durga Bank mortgage and jewel loans are main components of total loans accounting for 70 and 17 per cent of total loans disbursed by this bank. All other types constitute 13 per cent of total loans. The linear growth rates for different types of loans varied between 9.45 and 22.77 per cent and growth rates of all loans, except other loans, are observed that statistically significant at 1 per cent level.

In the case of Bhimavaram Bank jewel, housing and mortgage loans are the main component of total loans, accounting for 37, 19 and 18 per cent of total loans respectively. The linear growth rates of different types of loans, ranged between (-) 1.19 and 28.86 per cent and statistically significant, the only exception being growth rates for jewel loans which is not significant. In Aryapuram Bank also mortgage and jewel loans formed major proportion of total loans accounting for about 67 and 13 per cent respectively. All other loans constituted 20 per cent of total loans. The highest and lowest linear growth rates were observed 21.32 and 6.18 per cent in mortgage and jewel loans respectively. Growth rates of all types of loans are statistically significant.

Visakhapatnam Bank also mortgage and jewel loans constituted major proportion of total loans, and with a share of 70 per cent of total loans. The linear growth rate was highest 38.64 per cent for other loans, lowest at 5 per cent for mortgage loans. With exception of mortgage loans, all growth rates are statistically significant. In the case of Vizianagaram Bank about 70 per cent of total loans were mortgage loans, followed by other loans (11 per cent), jewel loans (8 per cent), deposit loans (6 per cent) and surety loans (5 per cent). Growth rates for all types of loans, except jewel and other loans are observed to be statistically significant.

Table 3. Linear Growth Rates of Composition of Loans and Advances and C-D Ratios

| Name of the UCB | Surety Loans | Deposit Loans | Mortgage Loans | Jewel Loans | Other Loans | Total Loans | Overdues | Overall C-D ratio (%) |
|-----------------|--------------------|---------------|--------------------|---------------------|--------------------|-------------|----------|-----------------------|
| Nellore | 2.40 ^{NS} | 19.94** | 23.57** | -9.68** | 25.47** | 18.73** | 20.35** | 80 |
| Ongole | -5.08* | 16.74** | 23.68** | 6.40** | 22.82** | 15.96** | 8.76** | 63 |
| Guntur | 29.17** | 28.50** | 29.37* | 26.54** | 39.88** | 29.04** | 26.93** | 75 |
| Durga | -11.55** | 21.37** | 22.77** | 13.46** | 9.45 ^{NS} | 19.99** | 19.34** | 72 |
| Bhimavaram | 16.89** | 22.45** | 26.31** | -1.19 ^{NS} | 28.86** | 19.06** | 10.73** | 45 |
| Aryapuram | 14.89** | 14.28** | 21.32** | 6.18** | 21.44** | 18.68** | 10.21** | 74 |
| Visakhapatnam | 39.61** | 29.15** | 5.00 ^{NS} | 15.80** | 38.64** | 27.10** | 33.22** | 48 |
| Vizianagaram | 7.52** | 19.40** | 11.81** | 2.70 ^{NS} | 2.84 ^{NS} | 11.91** | 23.24** | 55 |

Note: **: Significant at 1 % level, *: Significant at 5 % level, NS: Not significant at 5 % level

Source: Compiled from Annual reports of UCBs

Credit-Deposit Ratio

The credit-deposit ratio (C-D ratio) has been regarded as an indicator of the bank's performance in the matter of deployment of credit. The ratio between credit and deposit reveals the utilization potentiality of the available resources. The C-D ratio is an important indicator of any financial institutions' contribution towards the development of its operational area.

Bank-wise analysis in Table 3 revealed mixed trend in respect of C-D ratio and it has been declining in all sample UCBs in Coastal Andhra, except in Nellore bank. Overall ratio for 10 years period was highest in Nellore Bank (80 per cent), followed by Guntur Bank (75 per cent), Aryapuram Bank (74 per cent) and Durga Bank (72 per cent). The ratio for all other banks ranged between 45 per cent (Bhimavaram Bank) and 63 per cent (Ongole Bank). It can be observed that in the recent past the growth of both advances and deposits was very high.

Table 4. ANOVA – Credit-Deposit Ratio of Select UCBs

| Sources of Variation | Degree of Freedom(DF) | Sum of Squares(SS) | Mean Sum of Squares(MS) | F-Value |
|----------------------|-----------------------|--------------------|-------------------------|---------|
| Between Banks | 7 | 12944.8 | 1849.257 | 52.759 |
| Between Years | 9 | 4117.8 | 457.533 | 13.053 |
| Error | 63 | 2208.2 | 35.051 | -- |
| Total | 79 | 19270.8 | -- | -- |

Source: Compiled from Annual reports of UCBs

It is observed from the Table 5 shows that the computed values of F are greater than the table values of F at 1 per cent level of significance, hence, it can be concluded that the difference in the size of C-D ratios of the sample banks and the year wise difference in the ratios of all eight UCBs in Coastal Andhra under the study are significant. Hence, the third hypothesis the year-wise and the bank-wise differences in the Credit-Deposit ratio under study are not significant is rejected.

Overdues

The existence of overdues in UCBs is attributed chiefly to the failure on the part of management to observe sound business principles in the sanction of loans. Lack of proper credit appraisal, improper assessment of borrower's repaying capacity etc., also contribute to mounting overdues. The sample UCBs in Coastal Andhra are taking necessary steps to collect the loans in time like sending registered notice. Fluctuating trends in overdues were observed in sample banks. While Visakhapatnam Bank registered highest increase percentage in overdues and Ongole Bank witnessed lowest increase percentage in overdues between study periods. The linear growth rates of overdues in all banks are found to be significant.

Table 5. ANOVA - Overdues of Select UCBs

| Sources of Variation | Degree of Freedom(DF) | Sum of Squares(SS) | Mean Sum of Squares(MS) | F-Value |
|----------------------|-----------------------|--------------------|-------------------------|---------|
| Between Banks | 7 | 1267273 | 181039.026 | 8.044 |
| Between Years | 9 | 1731832 | 192425.79 | 8.550 |
| Error | 63 | 1417885 | 22506.104 | -- |
| Total | 79 | 4416990 | -- | -- |

Source: Compiled from Annual reports of UCBs

Table 5 shows that there is significant difference between banks with regard to overdues. The corresponding F-values indicate that the variations are highly significant. The calculated values of F are more than the table values at 1 per cent level of significance. Hence, the fourth hypothesis is rejected.

It is evident that the percentage of overdues to loans and advances for sample banks during the study period showed an increasing trend in Nellore, Visakhapatnam and Vizianagaram banks. In the remaining sample banks the percentage showed a declining trend.

Table 6. ANOVA - Ratio of Overdues to Loans and Advances of Select UCBs

| Sources of Variation | Degree of Freedom(DF) | Sum of Squares(SS) | Mean Sum of Squares(MS) | F-Value |
|----------------------|-----------------------|--------------------|-------------------------|---------|
| Between Banks | 7 | 2127.805 | 303.972 | 12.456 |
| Between Years | 9 | 88.604 | 9.845 | 0.403 |
| Error | 63 | 1537.371 | 24.403 | -- |
| Total | 79 | 3753.779 | -- | -- |

Source: Compiled from Annual reports of UCBs

From the ANOVA Table 6 it is clear that significant variations exist between banks with regard to ratio of overdues to loans and advances. But the calculated F value is less than the table value regarding the years, so that, inter-period variations are not significant at 5 per cent level. Hence, the fifth hypothesis that there are no significant variations between banks and years with regard to ratio of overdues to loans and advances stands rejected between banks and accepted between years.

CONCLUSION AND SUGGESTIONS

The ideas of the co-operative movement are basically the same all over the world, its form and content varied from country to country. Co-operation took birth in different countries among people with different economic interests and for performing different economic functions. Everywhere, it originated as a defensive bulwark against exploitation of the weak by those in a stronger economic position. Based on the analysis of loans and advances and overdues the following inferences are drawn with regard to performance of sample banks. Visakhapatnam Bank occupied the top position with regard to overall increase in loans and advances, overdues and ratio of overdues to loans and advances, but which has recorded very less overall C-D ratio, similar trend followed by Guntur, Bhimavaram and Durga banks. The

performance of Nellore, Ongole and Aryapuram banks with regard to different parameters is mediocre. Vizianagaram Bank is satisfactory progress in all respects.

The following suggestions are made to create public confidence and strengthen the urban co-operative banking sector in Coastal Andhra as well as in Andhra Pradesh.

- Financial position of the borrower must be assessed properly and procedure for sanctioning loans should be fool-proof.
- While making advances, an UCB should keep in view the cardinal principles of banking such as, safety, security, liquidity and profitability of its investments.
- Proper legal and other measures have to be expedited to recover pending loans and overdue. This will ensure public confidence and avoid scams.
- Profitability of banks depends, inter alia, on reduction of costs, recovery of overdues, work reorganization and development of cost consciousness.
- Under liberalized regime UCBs are offering very high rates of interest on deposits compared to commercial banks to attract deposits. As a consequence they are charging high rates of interest on loans and advances. This is creating problem in recovery of loans.
- Proper documentation is important in ensuring the safety of a bank's advances.
- A medium-term nature of advances should remain within the medium-term resources of the bank.
- Post-sanction monitoring is the primary responsibility of banks to be vigilant and ensure proper end use of bank funds/monitor the funds flow.
- The banks should be no concentration of advances in the hands of a few borrowers or their families or the industries in which they or their families are interested, enabling them to corner a sizeable portion of the bank's advances.

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