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## A STUDY ON LENDING OPERATIONS OF TIRUCHENGODE COOPERATIVE URBAN BANK LTD.

**A.Menaka devi<sup>1</sup>**

<sup>1</sup>Assistant Professor,  
Department of B.Com. Cooperation,  
Vellalar College for Women,  
Erode, Tamil Nadu, India.

**S. Saravanambigadevi<sup>2</sup>**

<sup>2</sup>Assistant Professor,  
Department of Commerce,  
Vellalar College for Women,  
Erode, Tamil Nadu, India.

### ABSTRACT

*A sound and well-developed financial system is a pre-requisite for rapid and balanced development of an economy. In this regard, the role of banking sector is considered vital as banking service is backbone of the financial system. The Cooperative bank is an important constituent of the Indian Financial System. The sustainable development can be conceptually broken into three constituent parts: environmental sustainability, economic sustainability and socio-political sustainability. At present UCBs are contributing in economic sustainability of India. Urban Co-operative Bank is very important role for the sustainable development of India. UCBs through various facilities provided to the society. The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain. . This bank has also financially helped for various sectors i.e. Education, Health, Social Work, Agriculture, Rural Development, Cottage and Small Scale Industries, Retail Traders, Wholesale Trade etc. The banks also finance the weaker sections. This article highlights lending operations of Urban Cooperative Bank in Tiruchengode.*

**KEY WORDS:** Lending Operations, Over Dues, Recovery, Cash Credit, Deposit-Mix and Fund Management.

### INTRODUCTION

The cooperative movement was started in India to ameliorate the condition of the rural masses. However, it was soon realised that cooperation offers a solution to the difficulties encountered not only by the agricultural but also by the townsman in respect of credit as well as other aspects of his business and life. The Maclagan Committee on cooperation pointed out as early as 1915 that; "Urban Credit Society might serve useful purpose in training the upper and middle classes to understand ordinary banking principles". In 1931, the central banking enquiry committee recommended that "limited liability cooperative societies, generally known as urban banks. Should be established, wherever necessary facilities and condition exist, for the benefit of these classes of the population. We do not see any objection to special societies for salary earners if these societies are looked upon as thrift societies for collecting and investing the savings of their members. the

duty of these urban bank should be to try to do for the small trader, The small merchant and the middle class population what the commercial banks are doing for the big traders and the big merchant the urban cooperative credit movement originated in Germany when Herman Schultz started such societies for the benefits of artisans in the cities in Italy the credit of started such societies goes to luigi Luzzatti encouraged by the success of the urban credit institution in these countries social workers in India began to think in term of cooperation as a means of bringing succor to the middle classes as early as the close of the 19<sup>th</sup> century. The first urban credit society saw the light to the day in 1889 when a mutual aid society was registered at Baroda. Little attention was however, paid to the development of the urban credit movement until the maclagan committee draw attention to its potential. The failure of the swadeshi joint stock banks created on opportunity for cooperative banking to develop as a medium for

mobilizing the savings of persons of modest means and helping those whom financial distress caused by high living costs and unemployment had driven into the clutches of money lenders. The inter-war period did affect the urban credit movement as adversary as it affected the agriculture credit movement. This might be due to the fact that during the depression the fall in urban income was not as steep as the fall in rural incomes another contributory factor to the stability of movement in urban areas was the comparatively high standard of the managerial efficiency available in urban areas which urban cooperative could afford on account larger resources. The progress of urban cooperative credit societies and banks can be accessed from the following observations of the reserve bank made in purview of the cooperative in India, 1939 - 40.

Urban cooperative credit banks are most important feature of urban cooperative movement in India, and make up some extent for the absence of joint stock banking facilities in the smaller towns.

### STATEMENT OF THE PROBLEM

Cooperative Bank failures have been relatively high in recent years. While each bank failure is a somewhat a unique experience, recent studies have identified a few factors that most failing banks seems to have in common. Most banks that fail seem to do so because of problems in their loan portfolio. Nonperforming loans grow to such an extent that revenues fall off and loan loss expenses as well as operating costs, absorb all the earnings that remain. The bad loan situation usually arises from a combination of factors. Failing banks often have inadequate systems of spotting problem loan early. Finally, failing banks frequently have expense control problems. Management may invest the banks money in lavish offices and enjoy handsome fringe benefits that the banks earnings simply cannot support. When the banks troubles become evident to depositor, it must then pay higher interest rates to secure finding, further increasing its operating costs. Eventually expenses may erode what limited earnings are available and bank capital begins to fall.

Urban cooperative banks play a prominent role in fulfilling needs of the urban people. They cater to the credit requirement of small business and other industries activities situated in and around the catchment area of the bank. In spite of this there is always sum problem of lending operation in urban cooperative bank. Therefore, need to device sum suitable strategy for lending operation.

### TITLE OF STUDY

The title of study is "Lending operations of the Tiruchengode Urban Cooperative Bank Ltd".

### OBJECTIVES OF THE STUDY

The following objectives are formed for the purpose of the study

- i. To analyze the general functions of the bank.
- ii. To study the different kinds of loans and lending procedures of the bank.

### METHODOLOGY

#### TOOLS FOR DATA COLLECTION

Case study has been followed for this study. Secondary Data regarding Membership growth, Share capital, Reserve fund, Deposit, Loan operation, Lending operations etc., were collected from Audit reports, Annual reports of the bank and necessary clarifications were also obtained through personal discussion with the bank officials.

#### FRAME WORK OF ANALYSIS

In the process of analyzing the data collected were analyzed and presented in the form of tables, growth index and Annual Compound Growth Rate of lending operations for better understanding of the problem under the study.

#### PERIOD OF THE STUDY

The study covered a period of ten years from 2004 - 2005 to 2013 - 2014. The data presented in the research study pertains to the above said period.

#### AREA COVERED BY THE STUDY

The area covered by the study is confined to the whole, Tiruchengode Taluk.

#### LIMITATIONS OF THE STUDY

Time is the basic limitation if the researcher within a short period the researcher has to collect lots of information's, the area covered for the study was only one cooperative urban bank is another limitation. To spent the own money these are constraints in conducting details study.

#### REVIEW OF LITERATURE

Sujatha (2007) attempted to analyse the financial performance of Krishna Cooperative Central Bank Ltd. for a period of 11 years from 1995 to 2005. To analyse performance various liquidity, productivity and profitability ratios were used. It was found that the strength of the bank is: higher level of owned funds, reasonable cost of deposits & borrowings, low expense ratio, favourable burden ratio but the bank has the weakness of high level of liquid & cash assets, low credit to deposit ratio and low yield on advances. It was suggested that the bank should launch deposit mobilization campaign and there is need to diversify the loan portfolio. Also the bank should enforce the provisions to recover loans in order to reduce its NPAs.

Ramu (2008) made an attempt to analyse the performance of Urban Cooperative Banks in Tamil Nadu for a period of 6 years from 1999-2000 to 2004-05. An attempt was made to find out the breakeven level of business mix and examine the productivity of sample banks. It was found that loans and deposits are single largest portfolio of banks and the sample banks are earning profit since their inception. It was found that the sample banks

were able to mobilize high amount of deposits, achieving more business than the breakeven level of business and maintain the level of productivity, so they are able to survive in the globalised economy. It was suggested that to reduce the level of break even point, the banks should increase their interest income and non-interest income and reduce their interest and non-interest expenditure. There is also a need to train the executives of Urban Cooperative Banks.

**Samantaray (2008)** made an attempt to study the growth of performance indicators of Cuttak Credit Cooperative Ltd. for the period 1998-99 to 2005-06; and the performance indicators selected for the study include membership, working capital, investment, loans & advances and net profit. It was found that growth of performance indicators is found to be improving as compared to the previous years. It was suggested that efforts should be made to maintain stability in the growth to remain in the competitive market with increasing rate of productivity.

**Hooda and Chahal (2010)** made an attempt to study the growth of PACS in India for a period of ten years, i.e., 1998-99 to 2007-08. For the purpose of the study, several indicators, i.e., number of societies, membership, borrowers, employees, owned funds, deposits, advances, borrowings, working capital and recovery performance were analysed. It was found that there was not significant growth in terms of expansion of societies but number of members and borrowers showed an increasing trend. It was also found that owned funds, deposits, loans and working capital showed an increasing trend but at the same time overdues were also increasing. It was suggested that there is need of proper infrastructural facilities, close inspection and regular audit and loan policies should be framed according to the requirements of beneficiaries and steps should be taken to increase deposits from members.

**Raikar (2011)** made an attempt to study the performance of District Central Cooperative Banks (DCCBs) in India for the period 2002-03 to 2007-08. For analyzing the performance, ratio

analysis and Data Envelopment Analysis (DEA) were used. It was found that number of CCBs on efficient frontier and above efficiency score showed a fluctuating but declining trend, this indicates declining efficiency of CCBs over the study period. It was also found that there is significant growth of CCBs in terms of financial parameters, i.e., reserves, deposits, investments, loans & advances, income etc. But the performance was deteriorating due to weak capital base and huge NPAs. It was suggested that to improve the performance of CCBs, there was need to improve their recovery performance.

### OBJECTIVES OF THE BANK

- ◆ To encourage thrift, self –help and cooperative among the members.
- ◆ To provide jewel loan to the members, the jewel loan is the back bone for all poor and middle class people.
- ◆ To accepts deposits from members.
- ◆ To provide various types of loan to the members (i.e.,) Jewel loan, House mortgage loan, and House construction loan, Personal Scheme loan.
- ◆ To grant and issue of credit, traveler, cheques, and circular notes.
- ◆ They accepting deposit from the public and issued loan to the members.
- ◆ To provide safety locker facilities for the document, Jewels, and valuables.
- ◆ To collect and transmit money and securities.

### MEMBERSHIP

The membership of an Urban Cooperative Bank comprises of persons living in urban areas. Those who are residing within the area of operation they are eligible to joining as a member of the Tiruchengode Urban Cooperative Bank. The person should complete at the age of 18 years. They should have a sound mind person.

The bank consists of

- “A” class members; and
- Associate members.

**Table – 1. Membership**

S.NO	YEAR	MEMBERSHIP (No. of member)	GROWTH INDEX
1	2004 – 2005	18985	-
2	2005 – 2006	19330	101.8
3	2006 – 2007	19247	99.57
4	2007 – 2008	19064	99.04
5	2008 – 2009	18921	99.24
6	2009 – 2010	18787	99.29
7	2010 – 2011	18685	99.45
8	2011 – 2012	15823	84.68
9	2012 – 2013	18343	115.92
10	2013 – 2014	18472	100.70
<b>AVERAGE ANNUAL GROWTH INDEX</b>			<b>89.96</b>

The Table -1 it could be seen that the growth index of the membership of the Tiruchengode Urban Cooperative Bank, over ten years between 2004 – 05 to 2013 - 14. The Bank as still as higher as 89.96. Hence, the pace of growth of the Bank was repaid and impressive than the bank.

The Working capital is the main sources of fund of the Tiruchengode Urban Cooperative Bank. The Working capital of the bank is consisting of owned funds and borrowed funds. Owned Funds consisting of Share Capital and Reserve Fund. Borrowed Funds consisting of Deposits and Borrowings.

**WORKING CAPITAL**

**Table - 2 .Working Capital**

S.NO	YEAR	SHARE CAPITAL (Rs. in Lakhs)	GROWTH INDEX	RESERVE FUND (Rs. in Lakhs)	GROWTH INDEX	DEPOSIT (Rs. in Lakhs)	GROWTH INDEX	BORROWINS (Rs. in Lakhs)	GROWTH INDEX
1	2004 – 05	26.75	-	23.55	-	45.89	-	32.79	-
2	2005 – 06	25.75	96.26	25.19	106.96	44.63	99.35	30.95	94.38
3	2006 – 07	26.40	102.52	28.93	114.84	43.41	97.25	30.97	100.06
4	2007 – 08	26.65	100.94	31.96	110.47	50.36	97.26	25.93	83.72
5	2008 – 09	26.65	100.00	35.30	110.45	53.00	116.01	33.38	86.43
6	2009 – 10	25.00	93.80	39.30	111.33	61.00	105.24	38.62	115.69
7	2010 – 11	24.56	99.57	39.30	100.00	67.00	115.09	47.12	122.00
8	2011 – 12	45.57	178.56	45.57	115.95	76.95	114.85	31.66	67.19
9	2012 – 13	45.04	98.83	45.04	98.83	78.26	101.70	26.13	82.53
10	2013 – 14	53.46	118.69	51.60	114.56	78.82	100.71	29.95	114.6
<b>AVERAGE ANNUAL GROWTH INDEX</b>			<b>98.91</b>		<b>98.33</b>				<b>12.94</b>

**LENDING OPERATION**

The Bank grants different types of loan to its members as well as public. Namely Jewel loans and housing loan.

- ↪ Jewel loan; and
- ↪ House construction and House mortgage loan.

**Table - 3.Loans and Advances**

S.NO	YAER	LOANS AND ADVANCES (Rs. in lakhs)	GROWTH INDEX
1	2004 - 2005	81.6	-
2	2005 - 2006	62.74	76.88
3	2006 - 2007	114.93	183.18
4	2007 - 2008	61.12	53.08
5	2008 - 2009	15.03	25.81
6	2009 - 2010	67.6	42.50
7	2010 - 2011	103.15	15.58
8	2011 - 2012	30.52	29.58
9	2012 - 2013	32.07	105.07
10	2013 - 2014	39.55	123.32
<b>AVERAGE ANNUAL GROWTH INDEX</b>			<b>65.5</b>

The above Table - 3 it could be seen that the growth index of the loans and advances of the Tiruchengode Urban Cooperative Bank, over ten years between 2004 – 2005 to 2013 – 2014. Bank as still as higher as 65.5. Hence, the pace of growth of the Bank was repaid and impressive than the bank.

**ANNUAL COMPOUND GROWTH RATE**

Growth is very much essential for any firm and so also for a banking firm. The business of a commercial bank is primarily to hold deposits and make loans and investments with the object of securing profits for its shareholders. The Indian banking system had gone through a series of crises and consequent bank failures. Its growth was quite

slow prior to independence But after independence. The Indian banking system has recorded repaid progress.

**GROWTH INDICATORS**

To measure the growth rate of Tiruchengode Urban Cooperative Bank. The following growth indicators have been considered:

- ☒ Jewel loan
- ☒ Petty Traders Loan
- ☒ Mortgage Loan
- ☒ Housing Loan
- ☒ Self Help Group Loan
- ☒ Consumer Loan; and

**Annual Compound Growth Rate**

$$(r) = n \left[ \frac{P_n}{P_o} - 1 \right] \times 100$$

Where,  
 r = is the annual compound growth rate  
 n = is the number of years i.e. (n-1)  
 P<sub>n</sub> = is the value of current year  
 P<sub>o</sub> = is the value of base year.

The amount of these indicators along with the annual compound growth rate over ten years of study period between 2004 - 2005 to 2013 - 2014 has been presented in table

**Table - 4. Growth Rate of the Jewel Loan**

YEAR	JEWEL LOAN (Rs. in Lakhs)
2004 - 2005	2.00
2005 - 2006	3.00
2006 - 2007	3.00
2007 - 2008	2.50
2008 - 2009	5.00
2009 - 2010	5.00
2010 - 2011	8.00
2011 - 2012	2.44
2012 - 2013	2.16
2013 - 2014	2.44
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>	<b>2.23%</b>

Table – 4 Over the course of 9 periods your investment declined from Rs.2.00to Rs.2.44, and its compound annual growth rate or its overall return, is 2.23%.AACGR essentially smoothes out the progress of your investment over a period of time, providing a clearer picture of your annual return. However, although your investment started at Rs.2.00, and ended with Rs.2.44, its growth in

any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was extremely volatile, fluctuating a great deal from year to year.

**Table - 5. Growth Rate Of Petty Traders Loan**

YEAR	PETTY TRADERS LOAN (Rs. in lakhs)
2004 - 2005	3.02
2005 - 2006	5.84
2006 - 2007	2.03
2007 - 2008	4.20
2008 - 2009	24.3
2009 - 2010	4.56
2010 - 2011	21.8
2011 - 2012	7.9
2012 - 2013	6.7
2013 - 2014	5.2
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>	<b>6.22</b>

Table - 5 over the course of 9 periods the investment declined from Rs.3.02, to Rs.5.2, and its compound annual growth rate or its overall return, is 6.22%. AACGR essentially smoothes out the progress of the investment over a period of time, providing a clearer picture of your annual return. However, although the investment started at

Rs.3.02, and ended with Rs.5.2, its growth in any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was extremely volatile, fluctuating a great deal from year to year.

**Table - 6. Growth Rate of Mortgage Loan**

YEAR	MORTAGAGE LOAN (Rs. in lakhs)
2004 - 2005	8.54
2005 - 2006	7.23
2006 - 2007	1.82
2007 - 2008	5.03
2008 - 2009	1.25
2009 - 2010	1.80
2010 - 2011	8.29
2011 - 2012	2.6
2012 - 2013	1.7
2013 - 2014	2.6
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>	<b>-12.38%</b>

Table - 6 over the course of 9 periods the investment declined from Rs.8.54, to Rs.2.6, and its compound annual growth rate or its overall return, is -12.38%. AACGR essentially smoothes out the progress of the investment over a period of time, providing a clearer picture of your annual return. However, although the investment started at

Rs.8.54, and ended with Rs.2.6, its growth in any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was extremely volatile, fluctuating a great deal from year to year.

**Table - 7. Growth Rate of Housing Loan**

YEAR	HOUSING LOAN (Rs. in Lakhs)
2004 - 2005	8.08
2005 - 2006	7.54
2006 - 2007	21.8
2007 - 2008	32.43
2008 - 2009	10.00
2009 - 2010	12.84
2010 - 2011	11.28
2011 - 2012	19.10
2012 - 2013	21.28
2013 - 2014	13.01
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>	<b>5.44%</b>

Table - 7 over the course of 9 periods the investment declined from Rs.8.08, to Rs.13.01, and its compound annual growth rate or its overall return, is 5.44%.AACGR essentially smoothes out the progress of the investment over a period of time, providing a clearer picture of your annual return. However, although the investment started at

Rs.8.08, and ended with Rs.13.01, its growth in any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was extremely volatile, fluctuating a great deal from year to year.

**Table – 8 Growth Rate of Self Help Group Loan**

YEAR	SELF HELP GROUP LOAN (Rs. in Lakhs)
2004 - 2005	12.80
2005 - 2006	14.24
2006 - 2007	21.84
2007 - 2008	14.38
2008 - 2009	12.80
2009 - 2010	11.49
2010 - 2011	18.39
2011 - 2012	18.45
2012 - 2013	39.65
2013 - 2014	12.65
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>	<b>-0.13%</b>

Table - 8 over the course of 9 periods the investment declined from Rs.12.80, to Rs.12.65, and its compound annual growth rate or its overall return, is -0.13%.AACGR essentially smoothes out the progress of the investment over a period of time, providing a clearer picture of your annual return. However, although the investment started at Rs.12.80, and ended with Rs.12.65, its growth in

any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was extremely volatile, fluctuating a great deal from year to year.

**Table – 9 Growth Rate of Consumer Loan**

YEAR	CONSUMER LOAN (Rs. in Lakhs)
2004 - 2005	39.23
2005 -2006	14.89
2006 - 2007	36.73
2007 - 2008	50.91
2008 - 2009	83.54
2009 - 2010	3.01
2010 - 2011	17.59
2011 - 2012	11.03
2012 - 2013	11.82
2013 - 2014	11.03
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>	<b>-13.15%</b>

Table - 9 over the course of 9 periods the investment declined from Rs.39.23, to Rs.11.03, and its compound annual growth rate or its overall return, is -13.15%.AACGR essentially smoothes out the progress of the investment over a period of time, providing a clearer picture of your annual return. However, although the investment started at

Rs.39.23, and ended with Rs.11.03, its growth in any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was



extremely volatile, fluctuating a great deal from year to year.

**Table – 10 Average Annual Compound Growth Rate Of The Banks Over Ten Year between 2004 - 2014**

S.NO	GROWTH INDICATORS	ANNUAL COMPOUND GROWTH RATE
1	Jewel Loan	2.23%
2	Petty Traders	6.22%
3	Mortgage Loan	-12.38%
4	Housing Loan	5.44%
5	Self Help Group Loan	-0.13%
6	Consumer Loan	-13.15%
<b>AVERAGE ANNUAL COMPOUND GROWTH RATE</b>		<b>-11.77</b>

Table – 10 over the course of 9 periods your investment declined from Rs.2.23, to Rs.-13.15, and its compound annual growth rate or its overall return, is -11.77%. AACGR essentially smoothes out the progress of your investment over a period of time, providing a clearer picture of your annual return. However, although your investment started at Rs.2.23, and ended with Rs.13.15, its growth in any one year may have been quite a bit lower or even positive (if the investment gained money over that time). Consequently, the AACGR figure may give the impression that the investment has produced a stable return (or, in this case, a decline) throughout its life, even if the investment was extremely volatile, fluctuating a great deal from year to year.

#### SUGGESTIONS

- ✧ The bank should make arrangements to give attractive rate of interest for all loans
- ✧ With regard of lending operations more efforts should be taken to popularize Jewel loan and discrete loan.
- ✧ The bank must take necessary steps to popularize the various type of loans.
- ✧ Advertisement with regard of various type of loan can be made effective.

#### CONCLUSION

Now, it is very much clear that co-operative banks have very much importance in sustainable development. Without the help of co-operative banks, millions of people in India would be lacking the much needed financial support. Co-

operative banks take active part in local communities and local development with a stronger commitment and social responsibilities. These banks are best vehicles for taking banking to doorsteps of common people, unbanked people in urban and rural areas. Their presence in the social, economic and democratic structure of the country is essential to bring about harmonious development and that perhaps is the best justification for nurturing them and strengthening their base. These banks are sure to win the race because they are from the people, by the people and of the people. Urban Co-operative Bank is very important role for the sustainable development of India. UCBs through various facilities provided to the society. This bank has also financially helped for various sectors. i.e. Education, Health, Social Work, Agriculture, Rural Development, Cottage and Small Scale Industries, Retail Traders, Wholesale Trade etc. The banks also finance the weaker sections.

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