CHAPTER SEVEN
Chapter Seven

MAJOR FINDINGS, CONCLUSIONS AND SUGGESTIONS

The present study is an appraisal of the performance of the 14 Urban Co-operative Banks in the North Karnataka Districts of Karnataka State. The study has been based on the secondary data, on the UCBs collected from the published sources of the government and semi government institutions, the Reserve Bank of India, the periodicals published by the Karnataka State Urban Co-operative Banks Federation Ltd., etc. The data pertaining to the individual UCBs has been collected from the Annual Reports published by them. The major findings relate to the physical and financial dimensions of the UCBs at the national, state and local level. The important areas covered by the appraisal analysis of the UCBs relate to the:

(i) Number of UCBs and their branches at the national, state and district level.

(ii) The number of members of the UCBs and the growth trends therein.

(iii) The magnitude and growth trends of the paid up share capital of the UCBs covered by the study during the five year period.

(iv) The reserves and other funds of the UCBs and their growth trends during the five years.

(v) The 'own funds' of the UCBs.

(vi) The deposits of the UCBs, their components and their growth.

(vii) The loans and advances of the UCBs and their dimensions relating to the UCBs covered by the study.
(viii) The Non-performing Assets and overdues of the UCBs.

(ix) The working capital of the UCBs and its growth during the five years.

(x) The profit position and the financial performance of the 14 UCBs assessed through the Ratio Analysis.

The following major findings have emerged from the analysis of the above aspects of physical and financial performance of the UCBs, relevant conclusions have been arrived at and some useful suggestions have been made.

1.1 The urban co-operation banks occupy a strategic position and have played a vital role in meeting the consumption requirements of small man, in providing the credit input for industrial production and in strengthening the base of infrastructural facilities in urban and semi urban areas. They are basically the institutions of small persons, by the small persons and for the small persons. This aspect of the UCBs' functional role has been emphasized by various committees and commissions viz., The Indian Central Banking Enquiry Committee (1931), The Co-operative Planning Committee, The Rural Banking Enquiry Committee (1950), The Varde Committee (1963), The Banking Commission (1969), The Committee on Urban Co-operative Banks (Madhav Das Committee 1977), Marathe Committee (1991), The Narasimhan Committee (1991) and the Madhav Rao Committee on UCBs (1999), etc.

1.2 The urban banking sector is faced with problems of a formidable nature, important among these problems are (i) the duality of control, (ii) legislative rigidity flaws (iii) presence
of large number of weak and sick banks (iv) lack of professionalism and (v) financial unsoundness of the UCBs.

1.3 Success of many urban co-operative banks has been attributed to the efforts and services of enthusiastic and capable non-officials in the states like Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh, Karnataka and Madhya Pradesh.

1.4 Small UCBs have lower overheads and they are able to bear the additional interest burden for sometime. Large UCBs flush with surplus funds are finding it difficult to manage their funds judiciously.

2.1 The growth of UCBs has passed through 3 phases. The first phase of growth covers a period from 1904 to 1966, the second phase from 1966 to 1993 and the third phase encompasses the period from 1993 onwards. The number of UCBs rose from 815 in 1948-1949 to 1,108 in 1966-1967. During this period the deposits held by the UCBs rose from Rs.17 crores to Rs.153 crores registering a growth of 800 percent.

The deposits of the UCBs in the second phase (1966–93) rose from Rs.153 crores to Rs.13,531 crores in 1993. The credit base surged from Rs.167 crores to Rs.10,132 crores during this period. The number of reporting banks rose from 1,106 to 1,306 during the same period. Owned funds rose from Rs.58 crores to Rs.2,224 crores.

2.2 Maharashtra accounts for the maximum of 666 UCBs followed by Gujarat, Karnataka, Kerala, Tamil Nadu and Andhra Pradesh. The number of UCBs in these states varied between 136 and
The number of UCBs in other states is less than 100 as on 31st March 2002.

2.3 The period between 1966 and 1993 is considered as an over regulated regime. The licensing policy of RBI was too restrictive as it was governed by the dictum "one district one bank". The UCBs were not allowed to expand beyond municipal limits. There was an embargo on their entry into rural areas and on financing of agricultural operation. There were also restrictions on deployment of the UCBs' surplus resources outside the co-operative fold.

2.4 The third phase of the growth of the UCBs coincided with the recommendations of the Narasimhan Committee for liberalization of the banking sector. The Marathe Committee recommended for doing away with "one district one bank" policy. The RBI accepted the recommendations and issued new licenses for setting new banks. As a result the branch network of the UCBs rose from 3,691 in 1993 to 6,619 in 1999. The liberalized branch licensing policy stressed the banks' internal financial strength, the UCBs were allowed to extend their area of operations to the entire district without specific approval from RBI and banks with deposits of Rs.50 crores and above were permitted to cross the borders of the states of their registration.

2.5 The UCBs can invest 10 percent of their surplus funds outside the co-operative field. Ceiling on quantum of advances to nominal members has been increased substantially and the scheduled UCBs have been allowed to do merchant banking / forex operations. Effective from November 1996 the UCBs have been given freedom to finalise direct agricultural operations.
2.6 Heterogeneity of the UCBs is a discernible characteristic feature of the 2,070 UCBs at the end of March 2002. "Over 50 percent are unitary in nature (with single branch banking). The five states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu account for 78.79 percent of the total UCBs in the country. Of these Maharashtra alone with 666 banks accounts for 32.17 percent of total number of UCBs in the country. The heterogeneity in their size is another facet of the UCBs' structure. The UCBs organised by Mahilas was 113 of which the number of weak banks was 19 as on March 1999. Maximum number of 43 UCBs organised by Mahilas was in Maharashtra and Goa of which 10 UCBs were weak. A good number of 22 UCBs in Karnataka were organised by Mahilas. The number of UCBs organised by Mahilas was 16 in Gujarat, 15 in Madhya Pradesh, 8 in Andhra Pradesh and 6 in Rajasthan. Assam, Uttar Pradesh and West Bengal had minimum of 1 UCB each organised by Mahilas. There were no UCBs organised by Mahilas in Bihar, Kerala, Jammu and Kashmir, Orissa, Punjab, Haryana, Himachal Pradesh, Tamil Nadu and Pondichery. There were 9 UCBs organised by SCs/STs of which 5 were in Maharashtra and Goa, 2 in Gujarat, 1 each in Karnataka and Madhya Pradesh. The total number of UCBs organised in less/least developed areas was 48 of which 20 were in Assam, 19 in Gujarat, 4 each in Maharashtra and Goa, and Orissa and 1 in Uttar Pradesh.

2.7 The Scheduled UCBs account for 34.55 percent of the deposits of UCB sector. The UCBs with a deposit base below Rs.10 crores numbering about 779 held only 5.86 percent of the UCBs' deposits.
2.8 The Cottage and small scale industries accounted for a maximum of 31.98 percent of the total amount of credit deployment to priority sector in 1998 followed by housing with 16.22 percent, small business enterprises 14.17 percent, road and water transport 12.32 percent and private retail trade 10.29 percent.

2.9 Non-performing assets of 1,480 reporting banks of the 1,811 UCBs stood at Rs.3,309.66 crores amounting to 11.76 percent of the loans and advances as on 31 March 1998. Maximum of 28.17 percent of NPAs was reported by 16 UCBs from Assam and six other North Eastern States. The NPAs of the UCBs in Bihar amounted to a minimum of 2.22 percent of loans and advances of the UCBs.

2.10 The total number of 112 UCBs have been identified as 'weak' of which 24 UCBs were in Maharashtra and Goa, 21 in Gujarat, 12 in MP, 7 in UP, 5 in Manipur, 4 each in New Delhi, Jammu & Kashmir and Orissa, 3 in West Bengal, 2 each in Bihar, Haryana and Meghalaya and 1 each in Himachal Pradesh, Karnataka, Mizoram, Nagaland, Punjab and Tripura.

2.11 The total number of UCBs in Karnataka as on 31-3-2002 was 301 with 605 branches. The total number of members of the UCBs was 29,16,430 in 2001. The total number of staff was 13,984 of which the number of trained staff was 6,609 in 2001.

2.12 The paid up share capital of the UCBs in Karnataka rose from Rs.130 crores in 1998 to Rs.234 crores in 2001. Reserves and other funds rose from Rs.415 crores of 251 UCBs in 1998 to Rs.749 crores for 302 UCBs in 2001. Own funds of 251 UCBs
rose from Rs.545 crores in 1998 to Rs.968 crores for 301 UCBs in 2002.

2.13 Deposits of the 251 UCBs rose from Rs.2,550 crores in 1998 to Rs.6,597 crores for 301 UCBs in 2002. Borrowings of the 251 UCBs rose from Rs.1,552 lakhs in 1998 to Rs.3,520 lakhs of 293 UCBs in 2000.

2.14 Loans outstanding of the 251 UCBs rose from Rs.1,885 crores in 1998 to Rs.4,133 crores for 301 UCBs in 2002. The amount of working capital of all the UCBs in Karnataka has almost tripled during the three-year period from Rs.3,220 crores for 251 UCBs in 1998 to Rs.9,695 crores for 301 UCBs in 2002.

The amount of Overdues for 251 UCBs in 1998 rose from Rs.18,252 lakhs to Rs.24,908 lakhs for 293 UCBs in 2000. A minimum of 30 UCBs are working in five districts of Hyderabad Karnataka districts.

2.15 The net profit of 251 UCBs in Karnataka rose from Rs.85 crores in 1998 to Rs.164 crores for 302 UCBs in 2001.

2.16 The Investment of all 251 UCBs in 1998 rose from Rs.1,26,988 Lakhs to Rs.2,70,750 lakhs for 293 UCBs in 2000.

2.17 The priority sector advances of 251 UCBs in 1998 rose from Rs.1,414 crores to Rs.2,377 crores for 302 UCBs in 2001.

2.18 Bangalore leads the other districts in Karnataka with 53 UCBs followed by Belgaum with 46 UCBs, Bijapur 19, Dharwad 16, Bagalkot 15, Haveri 12, Davangere 12, Gadag 09, Mysore 10 and Uttar Kannada 12. The number of UCBs in other districts of Karnataka is less than 10. Bangalore, Belgaum and Dharwad lead the other districts in terms of number of branches with 196,
99 and 82 branches respectively. The other districts with good number of branches of UCBs are Uttar Kannada (53), Udupi (33), Dakshina Kannada (38), Bagalkot (37) and Davanagere (28) as on 31st March 2002.

2.19 Maximum number of 234 UCBs in different districts are placed under ‘A’ class as per Audit Classification. Maximum number of 126 UCBs are working in North Karnataka districts (former Bombay Karnataka).

2.20 There is an impressive growth of the UCBs in India in general and in Karnataka in particular during the last few decades. However, the urban banking sector in general is facing the problems of dual control, increasing incidence of weakness and low level of professionalism.

2.21 The analysis regarding the growth of Urban Co-operative Banks in the study area led to the affirmation of the hypothesis that the growth of UCBs in the study area has been substantial during the post-independence period.

2.22 The performance of the UCBs in the country has been largely impressive. The UCB structure is exemplified by its pronounced focus on needs of the small man and on micro credit sector. The clientele of the UCBs are predominantly engaged in the activities classified under priority sector. Priority sector discipline for the UCBs was introduced in 1983 and the UCBs were required to deploy not less than 60 percent of the advances to priority sector against 40 percent stipulation for commercial banks. Of the 1,241 banks which have reported the data regarding priority sector advances deployment, 1,044 banks (84.1 percent) have deployed 60 percent or more of their aggregate credit to priority sector.
Unlike their fellow segments such as Primary Credit Societies, District Central Co-operative Banks, and the State Co-operative Banks in the Co-operative fold this sector is not surviving on external assistance such as refinance from NABARD etc.

3.1 The 14 UCBs covered by the study have varied record of achievements in their physical and financial performance. However, all the 14 UCBs have been classified as 'A' grade by the Audit Classification.

3.2 It is significant to note that 8 of the 14 UCBs have opened their branches and expanded their operations while 6 of them have no branches and hence are of a unitary type.

3.3 The hypothesis that the distribution of branches of the UCBs has been uneven in the region is largely true.

3.4 The UCB at Bijapur had the maximum number of 32,728 members as on 31-12-2002. While, the UCB at Gajendragad had the minimum of 1,436 members. The UCB, at Katkol, Bagalkot, Hubli and at Sirsi had more than ten thousand members each during the year 2002. the UCBs at Athani, Mudhol and Gadag had less than ten thousand members while the UCBs at Sindgi, Alnavar, Gajendragad, Haveri, Shiggaon and Haliyal had less than five thousand members each.

3.5 The UCB at Bijapur had maximum amount of paid up share capital of Rs.553.42 lakhs in 2002, while the UCB at Gajendragad had the minimum amount of paid up share capital of Rs.24.81 Lakhs.
3.6 The UCB at Sirsi had the maximum amount of reserves and other funds of Rs.2,409.95 lakhs in 2002. The UCB at Shiggaon had the minimum of reserves and other funds of Rs.20.26 Lakhs.

3.7 The UCB at Sirsi had the maximum of own funds of Rs.2,926.93 lakhs in 2002. The UCB at Shiggaon had the minimum of own funds of Rs.50.18 lakhs.

3.8 The UCB at Sirsi again had the distinction of having the maximum amount of deposits of Rs.25,213.05 lakhs in 2002. The UCB at Shiggaon had the minimum of deposits of Rs.487.51 Lakhs.

3.9 The UCB at Sirsi led the other UCBs covered by the study in achieving the highest amount of investment of Rs.7,568.62 lakhs in the year 2002. The UCB at Shiggaon made the minimum investment of Rs.0.01 lakhs in the year 2002.

3.10 The dominant position of the UCB at Sirsi is vindicated by its maximum amount of loans and advances of Rs.17,563.06 lakhs in 2002. The minimum amount of loans and advances of Rs.319.09 lakhs were made by the UCB at Shiggaon.

3.11 Maximum amount of net profit of Rs.527.31 was made by the UCB at Sirsi while the minimum amount of net profit of Rs.3.65 lakhs was made by the UCB at Shiggaon. The UCB at Sirsi again declared the maximum of 18 percent dividend to the members while the UCBs at Katkol and Shiggaon distributed the minimum dividend of 8 percent for 2002.
3.12 The UCB at Sirsi had the maximum of working capital of Rs.28,969.55 lakhs in the year 2002. The UCB at Shiggaon had the minimum of working capital of Rs.554.70 lakhs during the year.

3.13 The non-performing assets (NPAs) varied between a minimum of 0.3 percent for the UCB, Sirsi and a maximum of 46.10 percent for the UCB, Haliyal during the five year period.

A Comparative analysis of the growth of deposits of the 14 UCBs provides some significant trends. Following are the major findings about the annual growth of deposits of the UCBs covered by the study.

4.1 The annual growth rate of deposits have declined continuously during the five years from 1997-98 to 2001-2002 in case of the UCBs of Athani, Katkol, Bagalkot and Sirsi. The annual growth of deposits of the UCB at Sindgi has gone up continuously during the five years. The annual growth rates of deposits of the other 9 UCBs have fluctuated during the period.

4.2 The UCBs at Athani, Katkol, Bagalkot, Mudhol, Hubli, Gadag, Haveri, Haliyal and Sirsi have achieved the highest annual growth rate of deposits in 1998-1999. The UCBs at Bijapur, Alnavar and Shiggaon had achieved highest annual growth rate of deposits in 1999-2000, while the UCB at Gadag had achieved the highest annual growth of deposits in 2000-2001. The UCB at Shiggaon had achieved the highest annual growth rate of deposits in 2001-2002 over the previous year.

4.3 The maximum annual growth rate of deposits was achieved by the UCB, Shiggaon (124.33 percent) in 1999-2000 during the five year period between 1997-98 and 2001-2002. The
minimum annual growth rate of deposits was recorded by the UCB, Athani (0.31 percent) during 2001-2002.

4.4 The deposits of majority of the UCBs constitute more than 80 percent of the working capital during each year of the five year period from 1997-98 to 2001-2002.

4.5 The UCB at Haveri is the only bank whose deposits have less than 70 percent share in the working capital during all the five years.

4.6 The deposits of the UCB of Athani and Haliyal had a share of less than 80 percent of their working capital during all the five years.

4.7 The deposits of the UCBs of Bijapur, Sindgi, Mudhol, Hubli, Gajendragad, Shiggaon and Sirsi had more than 80 percent share in the working capital of the respective banks.

4.8 The deposits of the UCB, Shiggaon constituted the maximum share of 88.96 percent in the working capital while the deposits of UCB at Haveri had the minimum share of 60.98 percent in the working capital of the bank.

4.9 The current deposits of the UCB, Haveri accounted for 4.35 percent of its total deposits of the five years from 1997-98 to 2001-2002. This is the highest percentage share of current deposits in total deposits compared to other banks. The current deposits of the UCB at Haliyal had the lowest share of 0.45 percent in the total deposits compared to the other banks during the five years period.
4.10 The savings deposits of the UCB, Katkol amounted to 16.30 percent of its total deposits during the five year period. This is the maximum share of savings deposits in total deposits compared to the other UCBs. The savings deposits of the UCB, Sirsi amounting to 9.58 percent to total deposits was the minimum compared to the savings deposits of the other UCBs.

4.11 The fixed deposits of the UCB, Sirsi amounting to 88.21 percent of total deposits were the maximum compared to the fixed deposits of the other UCBs. The fixed deposits of the UCB, Gajendragad amounting to 7.46 percent of the total deposits were the minimum compared to the fixed deposits of other the UCBs during the five years from 1997-98 to 2001-2002.

4.12 The cumulative deposits of the UCB, Sindgi amounting to 2.94 percent of the total deposits were the highest compared to the cumulative deposits of the other UCBs. The cumulative deposits of the UCB, Haliyal amounting to 0.13 percent of the total deposits were the lowest compared to the cumulative deposits of other UCBs during the five year period.

4.13 The Pigmy deposits of the UCB, Gadag amounting to 9.80 percent of the total deposits were the highest compared to pigmy deposits of other UCBs. The pigmy deposits of 3.77 percent of the total deposits of UCB, Alnavar were the lowest compared to the pigmy deposits of the other UCBs during the period from 97-98 to 2001-02.

4.14 The staff provident fund of 2.35 percent of the total deposits collected by the UCB, Alnavar was the highest compared to the collection of lowest staff provident fund of 0.18 percent by the UCB, Bijapur during the five year period.
4.15 The cash certificate deposits of 70.50 percent of the total deposits collected by the UCB, Athani were the maximum compared to the other UCBs, while the cash certificate deposits of 36.41 percent of the total deposits collected by the UCB, Shiggaon were the minimum during the five years from 1997-98 to 2001-2002.

4.16 The 'other deposits' of the 14 UCBs varied between a maximum of 2.06 percent of total deposits of the UCB, Alnavar and the minimum of 0.08 percent of total deposits of the UCB, Haliyal.

5.1 The 14 UCBs covered by the study advanced total loans of Rs.1,71,766.03 lakhs during the five years from 1997-98 to 2001-2002. The maximum amount of loans and advances of Rs.60,231.78 lakhs were made by the UCB, Sirsi and minimum amount of loans and advances of Rs.841.87 lakhs were made by the UCB, Shiggaon during the five years.

5.2 There has been a continuous growth in absolute terms of loans and advances of all the UCBs covered by the study except the UCB, Athani where a decline in the loans and advances in the year 2000-2001 is observed.

5.3 The annual growth rate of loans and advances over the previous year was the maximum at 94.17 percent and 118.37 percent in 1998-99 and 1999-2000 respectively of the UCB, Sirsi. The annual growth rate of loans was the maximum at 36.40 percent of the UCB, Haliyal in 2000-2001 while the annual growth rate of loans was maximum at 50.37 percent of the UCB, Bijapur in 2001-2002.

5.4 The annual rate of growth of loans was the minimum at 7.73 percent for the UCB, Alnavar in 1998-99. The annual rate of growth of loans was minimum at 5.01 percent for the UCB, Haveri and 0.95 percent
for the UCB, Hubli in 2001-2002. The annual growth rate of loans was minimum and negative at 1.84 of the UCB, Athani in 2001-2002.

5.5 The average annual growth rate of loans over the five years from 1997-98 to 2001-2002 was maximum at 67.96 percent of the UCB, Shiggaon while the annual growth rate was the minimum at -11.72 percent of the UCB, Haveri.

5.6 The average loan per member was the maximum at Rs.0.69 lakhs of the UCB, Sirsi. The average loan per member was the minimum at Rs.0.10 lakhs of the UCB, Shiggaon during the five year period from 1997-98 to 2001-2002.

5.7 The UCB, Sirsi had the distinction of having the maximum loan per member during all the five years from 1997-98 to 2001-2002.

5.8 The share of short-term loans in the total loans was the maximum at 84.06 percent for the UCB, Haliyal while the share of short-term loans in the total loans was the minimum at 26.25 percent for the UCB, Haveri. The share of medium-term loans was the maximum at 62.39 percent for the UCB, Sirsi while the share of medium-term loans in the total loans was the minimum at 7.75 percent for the UCB, Bagalkot. The share of long-term loans in the total loans was the maximum at 20.48 percent for the UCB, Bijapur, while the share of long-term loans in the total loans was the minimum at 0.34 percent for the UCB, Gadag.

5.9 The average credit supply to priority sector by all the 14 UCBs is much above the RBI stipulation of 60 percent. The credit supply to priority sector by the UCB, Athani was 72.22 percent of the total supply of credit. Credit supply to priority sector out of the total credit supply of other UCBs is; the UCB, Katkol 92.56 percent, the UCB, Bijapur 74.02 percent, the UCB, Sindgi 70.92, the UCB, Bagalkot.
66.85 percent, the UCB, Mudhol 86.78 percent, the UCB, Hubli 62.86 percent, the UCB, Alnavar 76.80 percent, the UCB, Gadag 85.38 percent, the UCB, Gajendragad 73.89 percent, the UCB, Haveri 74.09 percent, the UCB, Shiggaon 95.68 percent, the UCB, Haliyal 52.69 percent.

5.10 The average loan recovery of the 14 UCBs ranged from a minimum of 60.04 percent of the UCB, Haliyal to a maximum of 96.69 percent of the UCB, Haveri during the five years from 1997-98 to 2001-2002. The Average recovery of loans was more than 90 percent in case of the 7 UCBs covered by the study, while it was more than 80 percent in case of the 5 UCBs, more than 70 percent in case of 1 UCB and more than 60 percent in case of another UCB during the same period.

5.11 The average overdues of the UCBs ranged between a minimum of 3.31 percent in case of the UCB, Haveri and maximum of 39.96 percent in case of the UCB, Haliyal.

5.12 The hypothesis that the loan recovery by the selected UCBs has been satisfactory during the period covered by the study has been vindicated by the research study covering the 14 UCBs.

5.13 The UCB, Sirsi had maximum amount of average annual income from interest earnings, earnings from commission and income from other sources. The respective figures for the three sources of income are Rs.3,491.17 lakhs, Rs.28.92 lakhs and Rs.95.23 lakhs.

5.14 The UCB, Shiggaon had the minimum annual average income of Rs.32.82 lakhs from interest earnings compared to other UCBs during the five years from 1997-98 to 2001-2002.
5.15 The UCB, Haliyal had the minimum annual average income of Rs.0.59 lakhs from earnings of commission compared to other UCBs during the above period.

5.16 The UCB, Gajendragad had the minimum annual average income of Rs.0.45 lakhs from other sources compared to other UCBs during the five years.

5.17 A substantial annual average income from interest earnings was obtained by the UCB, Bijapur (Rs.2,520.67 lakhs), the UCB, Bagalkot (Rs.826.57 lakhs), the UCB, Hubli (Rs.587.34 lakhs) and the UCB, Katkol (Rs.426.37 lakhs) during the five years.

5.18 The substantial annual average income from commission was earned during the five years by the UCB, Mudhol (Rs.2.64 lakhs), the UCB, Bagalkot (Rs.9.33 lakhs), the UCB, Bijapur (Rs.7.63 lakhs), the UCB, Haveri (Rs.4.78 lakhs), and the UCB, Katkol (Rs.3.77 lakhs).

5.19 The substantial annual average income was earned by the UCB, Bijapur (Rs.29.67 lakhs), the UCB, Hubli (Rs.9.22 lakhs), the UCB, Katkol (Rs.8.37 lakhs), the UCB, Haliyal (Rs.7.05 lakhs) the UCB, Mudhol (Rs.6.55 lakhs) and the UCB, Bagalkot (Rs.5.49 lakhs).

5.20 In terms of percentage earnings of income from interest the UCB, Bijapur had the highest of 98.57 percent of interest earnings while the UCB, Shiggaon had the highest earnings of 7.42 percent of annual average income from commissions during the five years. The UCB, Haliyal had earned the highest of 10.73 percent of annual average income from other sources compared to other UCBs during the five years from 1997-98 to 2001-2002.
5.21. The maximum amount of annual average income of Rs. 3,615.32 lakhs was earned by the UCB, Sirsi while the minimum amount of annual average income of Rs. 35.16 lakhs was earned by the UCB, Shiggaon during the five years.

5.22. There has been a substantial increase in the growth of expenditure during the five years from 1997-98 to 2001-2002 in all the UCBs covered by the study. The average annual total expenditure of the 14 UCBs covered by the study has ranged between a minimum of Rs. 32.50 lakhs to a maximum of Rs. 3,150.35 lakhs.

5.23. Major part of the total expenditure of the 14 UCBs covered by the study has been on payment of interest and on borrowed funds. It has ranged between a minimum of Rs. 22.65 lakhs to a maximum of Rs. 2,836.53 lakhs per year.

5.24. Expenditure on payment of salary and allowances of the UCBs ranged between a minimum of Rs. 18.98 lakhs to a maximum of Rs. 1,136.23 lakhs per year. Average annual expenditure on 'other' heads ranged between a minimum of Rs. 30.29 lakhs to a maximum of Rs. 942.58 lakhs during the five years.

5.25. The UCB, Sirsi has recorded the maximum annual average expenditure while the UCB, Shiggaon had the minimum annual average expenditure.

    The UCB, Sirsi recorded the maximum annual average expenditure on payment of interest and expenditure on 'other' heads while the UCB, Bijapur had recorded the maximum
annual average expenditure on payment of salary and allowances.

The minimum annual average expenditure on interest payment and payment of salary and allowances was recorded by the UCB, Shiggaon while the UCB, Gajendragad had recorded minimum annual average expenditure on 'other' heads.

5.26 (a) Percentage-wise, the UCB, Sirsi has incurred the maximum of 90.04 percent of total expenditure on payment of interest while the UCB, Haliyal has incurred the minimum of 66.16 percent of the total expenditure on payment of interest.

(b) The UCB, Mudhol has incurred the maximum of 17.79 percent of total expenditure on payment of salary and allowances while the UCB, Sirsi has incurred the minimum of 3.98 percent of the total expenditure on payment of salary and wages.

(c) The UCB, Haliyal has incurred the maximum of 21.31 percent of total expenditure on 'other' heads while the UCB, Sirsi has incurred the minimum of 5.98 percent of the total expenditure on 'other' heads.

5.27. (a) The net profit of the 14 UCBs totalled Rs.6,121.73 lakhs between 1997-98 to 2001-2002 with an average profit of Rs.437.27 lakhs per bank. The UCB, Sirsi topped the list with maximum net average profit of Rs.464.97 lakhs per year compared to other UCBs covered by the study. The bank’s net profit during the five years amounted to 37.97 percent of the total profit of all the 14 UCBs during the five year which is the highest percentage of profit. The UCB, Shiggaon earned the minimum of
0.22 percent of the total net profit of all the 14 UCBs covered by the study.
(b) The total net profit of all the 14 UCBs rose from Rs.1,021.26 lakhs in 1997-98 to Rs.1,252.10 lakhs in 2001-2002.

There has been a continuous rise in the net profit of the UCBs at Bijapur, Sindgi, Mudhol, and Sirsi, while the net profit of other UCBs during the five years has fluctuated from year to year.

(c) The average annual profit of the UCBs was as follows the UCB, Athani Rs.79.21 lakhs, the UCB, Katkol Rs.34.03 lakhs, the UCB, Bijapur Rs.224.46 lakhs the UCB, Sindgi Rs.21.56 lakhs, the UCB, Mudhol Rs.58.13 lakhs the UCB, Bagalkot Rs.121.02 lakhs the UCB, Hubli Rs.95.69 lakhs, the UCB Alnavar Rs.23.05 lakhs, the UCB, Gadag Rs.18.08 lakhs, the UCB, Gajendragad Rs.7.05 lakhs, the UCB, Haveri Rs.66.37 lakhs, the UCB, Shiggaon Rs.2.66 lakhs, the UCB, Haliyal Rs.10.07 lakhs and the UCB, Sirsi Rs.464.97 lakhs.

5.28. (a) The total income, expenditure and profit of the 14 UCBs during the five years from 1997-98 to 2001-2002 were Rs.47,534.30 lakhs, Rs.41,412.57 lakhs and Rs.6,121.73 lakhs respectively. The average income, expenditure and profit of the 14 UCBs was Rs.3,395.30 lakhs, Rs.2,958.04 lakhs, and Rs.437.27 lakhs respectively.

(b) The total expenditure of the 14 UCBs amounted to 87.12 percent of the total income while total profit of the UCBs was 12.88 percent of the total income.

(c) The UCBs of Bijapur and Sirsi accounting for 18.33 percent and 37.97 percent of the total profit of all the 14 UCBs during the five years have been outstanding success in terms of their
financial performance. The UCBs of Gajendragad, Shiggaon and Haliyal accounting for 0.58 percent, 0.22 percent and 0.82 percent of the total profit of the 14 UCBs during the five years have proved their poor performance. The UCB, Athani (6.47 percent), the UCB, Mudhol (4.75 percent), the UCB, Bagalkot (9.88 percent), the UCB, Hubli (7.82 percent) and the UCB, Haveri (5.42 percent) have done well in achieving a good level of profit during the five years. The profit of these UCBs ranged between a minimum of 4.75 percent for the UCB, Mudhol and a maximum of 9.88 percent for the UCB, Bagalkot.

(d) The UCB, Sirsi has topped the list of 14 UCBs in terms of highest amount of income (Rs.18,076.58 lakhs) highest amount of expenditure (Rs.15,751.75 lakhs) and highest amount of profit (Rs.2,324.83 lakhs) during the five years from 1997-98 to 2001-2002. The UCB, Shiggaon is at the bottom of the list of 14 UCBs in terms of its lowest amount of income (Rs.175.81 lakhs), lowest amount of expenditure (Rs.162.51 lakhs) and lowest amount of profit (Rs.13.30 lakhs).

5.29. The total investments of the 14 UCBs rose from Rs.3,189.84 lakhs in 1997-98 to Rs.9,848.34 lakhs in 2001-2002—a threefold increase in five years. The total investments of the 14 UCBs amounted to Rs.31,289.95 lakhs during the five years. The average amount of investments per year was Rs.6,263.10 lakhs.

5.30. Bank-wise analysis revealed that the UCB, Sirsi made maximum amount of investments while the UCB, Athani made the minimum investment over the five years from 1997-98 to 2001-2002 amounting to 59.56 percent and 0.03 percent respectively.
5.31 The investment by the UCBs, of Athani, Sindgi, Alnavar, Gajendragad and Shiggaon was less than 1 percent of the total investment of Rs.31,289.95 lakhs made by all the 14 UCBs during the five years from 1997-98 to 2001-2002.

6.1 The operational ratios of the 14 UCBs indicated a high degree of dependence of the banks on interest income earned from their loans and advances. The average ratio of interest income earned to total income for the 14 UCBs ranged between a minimum of 0.71 in case of the UCB, Haliyal and a maximum of 0.99 in case of the UCB, Bijapur. The high ratio of interest earned to total income indicates that the UCBs have not been able to diversify their service product to earn income from non-loan sources. The banks are likely to face the risk of reduction in their income in case of default of payment and overdues on the part of the borrowers.

6.2 It is found that the ratio of interest payment to total income of the 14 UCBs also is at a higher side. The ratio ranged between a minimum average of 0.55 in case of the UCB, Sindgi and a maximum of 0.79 in case of the UCB, Sirsi. Such a high ratio indicates the severe burden of interest payment on the deposits and borrowed funds.

6.3 The total expenditure to total income ratio of the UCBs is also at a higher side ranging between a minimum of 0.73 in case of the UCB, Haveri and a maximum of 0.92 in case of the UCB, Katkol. The high ratio indicates the limited surplus being created by the UCBs for their future growth and expansion of their service operations.
6.4 The ratio of total income to working capital of the 14 UCBs ranged between an average of 0.11 in case of the UCB, Shiggaon and 0.17 in case of the UCB, Sirsi. The performance of the UCB with the ratio ranging between 0.11 to 0.12 could be considered non satisfactory. Higher ratio indicates a better earnings in relation to the working capital of the banks.

6.5 The ratio of salary expenditure to total expenditure of the 14 UCBs ranged between a minimum of 0.04 in case of the UCB, Sirsi to a maximum of 0.18 in case of the UCB, Mudhol. A lower ratio indicates a better performance of the banks in controlling the expenditure on salary. The ratio is at a lower side in case of majority of UCBs.

6.6 The ratio of other expenditure to total expenditure of the 14 UCBs is at a lower side in case of majority of them. The average ratio varied from a minimum of 0.06 in case of the UCB, Sirsi and a maximum of 0.23 in case of the UCB, Shiggaon. Lower ratio indicates the bank's efficiency in controlling the other expenditure and maintaining economy in administration.

6.7 Solvency ratios indicate the bank's strength and the efficiency with which the management has used its financial resources. The ratio of liquid assets to deposit has to be balanced to ensure good earnings and simultaneously to ensure safety of the funds. The ratios are indicative of a balance between the two parameters of liquid assets and deposits in majority of cases among the UCBs covered by the study.

6.8 The ratio of investment to deposits of the 14 UCBs covered by the study is low in majority of the cases. It ranged between a minimum of 0.001 to a maximum of 0.30. The lower ratio
indicates the lack of preference for investing deposit funds in the bonds and shares in other banks on the part of the UCBs covered by the study. Preference for loans and advances has resulted in this type of reduced investment of deposit funds.

6.9 The credit deposit ratio varied between a minimum of 0.60 in case of the UCBs of Bijapur and Bagalkot to a maximum of 0.95 in case of the UCB, Haliyal. It is generally assumed that credit deposit ratio of above 0.65 is preferred to ensure safety with good earnings. Majority of the UCBs have credit deposit ratios of 0.70 to 0.76.

6.10 The spread to total assets ratio of the UCBs has varied on an average from 0.03 in case of the UCBs at Gajendragad and Sirsi to 0.06 in case of the UCB, Athani. A higher ratio ensures a better earnings through interest received on loans and advances minus the interest paid on deposits and borrowings in relation to the bank's assets. The ratio is lower in case of majority of the UCBs covered by the study.

6.11 The ratio of networth to fixed assets varied between a minimum of 6.02 in case of the UCB, Mudhol to a maximum of 32.67 in case of the UCB, Sindgi. Higher ratio is indicative of the sound financial health of the bank. The ratio is lower at less than 10 in case of six of the 14 UCBs covered by the study.

6.12 The ratio of own funds to total deposits is lower in most of the 14 UCBs covered by the study. The ratio ranged from a minimum of 0.08 in case of the UCB, Mudhol to a maximum of 0.35 in case of the UCB, Haveri. A higher ratio is preferred on the grounds of less burden of interest in the form of deposits and borrowings.
6.13 The UCB, Katkol had the lowest average ratio of net profit to total income at 0.08 while the UCB, Haveri had the highest average ratio of net profit to total income of 0.27 among the 14 UCBs covered by the study during 1997-98 to 2001-2002.

6.14 The UCBs at Athani and Haveri had the higher average ratio of 0.05 of net profit to total deposits while the UCBs of Katkol and Shiggaon had the lowest average ratio of 0.01 of net profit to total deposits during the five years.

6.15 The UCB, Sirsi had the highest average ratio of 0.71 of net profit to spread while the UCB, Katkol and the UCB, Shiggaon had the lowest average ratio of 0.26 net profit to spread among the 14 UCBs covered by the study.

6.16 The UCBs at Katkol, Bijapur, Gajendragad and Shiggaon had the lowest ratio of 0.01 of net profit to total assets while the UCBs at Athani, Sindgi, and Haveri had the highest average ratio of 0.03 of net profit to total assets among the 14 UCBs covered by the study.

6.17 The UCBs at Mudhol and Sirsi had the highest average ratio of 0.26 of net profit to networth while the UCB, Shiggaon had the lowest average ratio of 0.09 of the net profit to networth among the 14 UCBs covered by the study.

6.18 The UCBs at Katkol, Bijapur and Shiggaon had the lowest average ratio of 0.01 of net profit to working capital while the UCB, Athani had the highest average ratio of 0.04 of net profit to working capital among the 14 UCBs covered by the study.
6.19 The hypothesis that the financial and physical performance of the UCBs covered by the study has been unsatisfactory, is proved partially true in case of the performance of some UCBs.

SUGGESTIONS

The following suggestions have been made for the improvement and streamlining of the working of the UCBs.

1. The resource base of the majority of the 14 urban co-operative banks covered by the study is weak. It is therefore expedient that the urban co-operative banks should explore non-conventional avenues for raising resources required for modernizing their operations and for meeting their working capital requirement. Issue of non-voting shares and borrowing from financial institutions and public are two such avenues.

2. The share of institutional savings and deposits of the UCBs is very meagre. These banks should try to attract savings from the institutions like Schools, Colleges, Associations, Trusts, etc. Such deposits will remain with the banks relatively for longer period without attracting high level of financial risk associated with other type of deposits.

3. The Urban Co-operative Banks should strive to maintain financial viability. Attaining financial viability requires professionalisation of management, increasing the volume of business, diversification of products / services, improvement in the quality of products / services, reduction in costs, ability and willingness to adopt their product and operating policies to the changing needs and expectations of the members and the changing national and international environment.
4. The Urban Co-operative Banks should seek the help of Self Help Groups to improve their processing, delivery and recovery systems and reduce their transaction costs.

5. The Urban Co-operative Banks should adopt state of art technology and computerise their operations. They should employ professional experts for managing their affairs and should introduce automation adopting latest technology.

6. There is a need for professional management of money, man power and material resources of co-operative banks. India has the largest network of co-operatives in the world and their resources are worth thousands of crores of rupees, which are wasted annually. The UCBs are grossly mismanaged, under managed or not managed at all.

7. The Urban Banks should find new avenues and expand existing areas where commercial banks may not like to enter particularly financing weaker section. The UCBs covered by the study have not given adequate finances to weaker sections though they have provided more than 60 percent of their total credit to priority sector in general. The weaker section comprises of a very large part of the population in the country and hence there is a tremendous scope for larger credit to this sector.

8. The Urban Co-operative Banks can devise innovative schemes for cottage and small-scale industries. They can provide marketing and counseling support wherever possible. They can consolidate their operations in areas with recognized business potential and can help their clientele in facing competition.
9. The Urban Co-operative Banks should be given the status of central co-operatives in urban and semi-urban areas and all Non-agricultural Credit Societies, Salary Earners Credit Societies and Consumers Co-operative Societies should be affiliated to the central urban co-operative bank at the district level. The UCBs should be allowed to function as higher financing agency for the above mentioned category of societies.

10. The Urban Co-operative Banks should attempt to reposition themselves against the backdrop of banking sector reforms and consequent co-operative environment as also the fast changing regulatory framework. The opening of the Indian economy to foreign financial and commercial enterprises and banks has brought a change in the Indian market. These changes are bound to affect co-operative banking sector. It is vital for the co-operative banks to reassess their position, streamline their operations and find out innovative ways and means to perform their functions. The entry of new banks and financial institutions with adequate capital adoption of latest technology, sophistication in techniques and development of new instruments of savings and investment is expected to take some of the business from the existing banking industry including urban banks. Thus, the urban banks which are comparatively conservative in their working will have to change according to the changing situations without giving up their co-operative character.