

December 06, 2005

ORDER

The Janata Co-operative Bank Ltd., Nadiad- Cancellation of licence to carry on banking business in India under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies)

The Janata Co-operative Bank Ltd., Nadiad (Gujarat) (hereinafter referred to as the 'bank') was registered as a co-operative society on August 26, 1974 and it was granted a licence by the Reserve Bank of India on December 9, 1986 to conduct banking business under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (hereinafter referred to as the 'Act').

2. In view of the bank's withdrawal from Clearing House from February 18, 2002 due to liquidity problem and run on the bank for withdrawal of deposits in the first half of 2002-03, the bank was issued directions under Section 35A of the Act with effect from close of business on September 24, 2002 prohibiting it from accepting fresh deposits and granting fresh loans and restricting repayment of deposits to Rs.10,000/- per deposit account.

3. An Inspection of the bank conducted by the Reserve Bank of India with reference to its financial position as on September 30, 2004 revealed the following deficiencies and irregularities:

- i) The real or exchangeable value of its paid up capital and reserves was assessed negative at (-) Rs.1454.75 lakh. Thus, the bank did not comply with the requirement of minimum share capital prescribed in terms of the provisions of Section 11(1) of the Act.
- ii) The erosion in the value of bank's assets had not only wiped out its owned funds but had also affected its deposits to the extent of 36.3% of the total deposits. Thus, the bank was not having adequate assets to meet its

liabilities and hence it did not comply with the provisions of Section 22(3)(a) of the Act. The bank's Capital to Risk-weighted Assets Ratio (CRAR) was assessed negative at (-) 94.4%.

- iii) The investments in Government Securities amounted to Rs 7.35 lakh constituting 0.2% of its net demand and time liabilities. Thus, the bank did not comply with RBI guidelines relating to investment in Government and other approved securities.
- iv) The management of the credit portfolio by the bank was highly unsatisfactory. The credit deposit ratio of the bank was high at 94.4% as on September 30, 2004, reflecting an over-extended credit portfolio.
- v) Despite restriction on repayment of deposits, the bank had not made any improvement in its liquidity position. The bank continued to default in the maintenance of Cash Reserve Ratio and Statutory Liquidity Ratio and thereby failed to comply with the provisions of sections 18 and 24 of the Act.
- vi) The gross and net non-performing assets were assessed at Rs.3618.80 lakh and Rs. 2866.05 lakh constituting 95.6% and 94.5% of total gross and net loans and advances respectively. There was a shortfall of Rs 1727.46 lakh in the provisions for loan losses as on September 30, 2004.
- vii) The bank had sanctioned advances in excess of the ceiling prescribed by the Reserve Bank of India for exposure to individual/group borrowers. The bank had also violated the guidelines of the Reserve Bank of India on the maximum permissible loans to nominal members.
- viii) The bank had not followed prudential norms/guidelines for classification, valuation and provisioning of investments.
- ix) The accumulated losses of the bank stood at Rs.381.45 lakh as on March 31, 2004.
- x) The bank had not submitted satisfactory compliance in respect of the previous inspection report on the bank.

4 The facts mentioned above revealed that the affairs of the bank were being conducted in a manner detrimental to the interests of the depositors, and therefore, the bank did not comply with the provisions of Section 22(3)(b) of the Act. In view of the aforesaid serious deficiencies/irregularities and the precarious financial position of the bank, the Reserve Bank of India issued a show cause notice to the bank on February 04, 2005 as to why the licence granted to it on December 09, 1986 to conduct banking business should not be cancelled. The bank submitted its reply to the show-cause notice vide its letter dated February 19, 2005. The reply of the bank was examined and a quick review of the latest financial position and the state of affairs of the bank as on January 31, 2005 was conducted. The review revealed that the financial position had been deteriorating continuously leaving no scope for revival as under:

- (a) The net worth of the bank was assessed negative at (-) Rs.1497 lakh, which had affected its deposits to the extent of 39.5% of its total deposits.
- (b) The CRAR continued to be negative and was assessed at (-) 72.7%.
- (c) Gross non-performing assets of the bank constituted 98.0% of gross advances and net non-performing assets constituted 97.5% of the net advances.
- (d) The bank had continued to default in maintenance of Cash Reserve Ratio/Statutory Liquidity Ratio.
- (e) It was further observed that the bank had violated directives referred to in paragraph 2 and repaid amounts in excess of the stipulated ceiling on withdrawal of Rs 10, 000/- to depositors on certain grounds by passing a Board resolution on October 8, 2002. The bank had also sanctioned loans in 75 accounts amounting to Rs. 14.92 lakh against fixed deposits in violation of the directions *ibid*.

The bank's reply to our show-cause notice was found to be not satisfactory.

5. It is, therefore, evident from the foregoing that:

- The bank does not comply with the provisions of Sections 11 (1), 18, 22 (3)(a), 22 (3)(b) and 24 of the B R Act, 1949(AACS).
- The bank is not in a position to pay its present depositors.
- The affairs of the bank are being conducted in a manner detrimental to the interests of the depositors.
- The financial position of the bank leaves no scope for its revival.
- In all likelihood public interest will be adversely affected if the bank is allowed to carry on its business.

6. Having regard to all these facts, the Reserve Bank of India is satisfied that allowing the bank to carry on banking business any further would be detrimental to the interests of the present and future depositors. Hence, the licence granted to the bank to conduct banking business deserves to be cancelled. Accordingly, the licence dated December 09, 1986 granted to the Janata Co-operative Bank Ltd., Nadiad (Gujarat) to conduct banking business in India under Section 22 of the Act read with Section 56 of the Banking Regulation Act, 1949 is hereby cancelled. This order makes it obligatory on the part of the bank to stop conducting 'banking business' within the meaning of Section 5(b) of the Act, including acceptance and repayment of deposits, with immediate effect.

7. Copy of this order be served on the Janata Co-operative Bank Ltd., Nadiad (Gujarat).

(V. S. Das)
Executive Director