

ORDER

Mahila Nagarik Sahakari Bank Maryadit, Khargone (Madhya Pradesh) – 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).

Mahila Nagarik Sahakari Bank Maryadit, Khargone (Madhya Pradesh) (hereinafter referred to as the 'bank') was registered as a co-operative society on 28 February 1997 and it was granted licence to carry on banking business in India by the Reserve Bank of India on 14 October 1997 under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (hereinafter referred to as the 'Act'). An inspection of the bank conducted by the Reserve Bank Of India with reference to its financial position as on March 31, 2003 revealed that the bank's assessed net NPA stood at 30.52% and its capital to Risk Weighted Assets Ratio (CRAR) was 5.34% against the stipulated minimum of 8%. The bank was classified as Grade III.

2. There was a run on the bank and deposits amounting to Rs. 71.94 lakh were withdrawn from the bank between October 24, 2003 and December 18, 2003. A scrutiny of the books of accounts of the bank conducted by the Reserve Bank of India revealed that the bank's liquidity position as on 18.12.2003 was severely impaired. The bank was observed to be defaulting in the maintenance of SLR and thereby failing to comply with the provisions of Section 24 of the Act. The net worth of the bank was assessed negative at (-) Rs. 0.13 lakh. The bank, therefore, failed to comply with Sections 11(1) and 22(3)(a) of the Act.

3. Considering its unsatisfactory financial position, the bank was placed under directions under section 35A of the Act, with effect from the close of business on February 25,2004, which, inter alia, restricted repayment of deposits to Rs.1000 per depositor. In view of the irregularities observed during the scrutiny of its accounts as above, the Registrar of Co-operative Societies, Madhya Pradesh (hereinafter referred to as 'RCS') was requisitioned to supersede the Board of

Directors of the bank under the provisions of the Madhya Pradesh Co-operative Societies Act, 1960, and appointment of an Administrator therefor. Accordingly, the Board of Directors of the bank was superseded by the RCS on March 31, 2004.

4. The fourth statutory inspection of the bank conducted with reference to its financial position as on 31/03/2005 revealed the following serious deficiencies / irregularities:

- i. The net worth of the bank was assessed negative at (-) Rs.75.90 lakh, which had not only wiped out the bank's paid-up share capital and reserves but also its entire deposits. The bank was thus not complying with the provisions of Section 11(1) and 22(3)(a) of the Act.
- ii. The CRAR of the bank was assessed negative at (-) 104.68 %.
- iii. The Gross NPAs and its percentage to total advances stood at Rs.56.43 lakh and 96.78%, respectively. The Net NPAs and percentage of net NPAs to net advances stood at Rs. 33.70 lakh and 94.72 %, respectively.
- iv. The system of credit appraisal and post-credit supervision obtaining in the bank was deficient in many respects. The bank had violated the prudential exposure ceiling norms for individual / group borrowers. The bank had not complied with prudential norms on income recognition, asset classification and provisioning.
- v. Funds management by the bank was unsatisfactory. The bank was not having any investments in government and other approved securities as on March 31, 2005. Hence, the bank did not comply with the requirement of investing at least 10% of its net demand and time liabilities in government and other approved securities prescribed by RBI.
- vi. The bank had been continuously defaulting in maintenance of SLR and CRR from October 10, 2003, and October 14, 2003, respectively. Thus the bank was not complying with Section 18 and 24 of the Act. The bank had neither paid nor provided for the sum of Rs.2.64 lakh imposed as penalty for such defaults.
- vii. The quality of systems and control in the bank suffered from several deficiencies. The compliance furnished with reference to the previous

inspection report was not found satisfactory and several deficiencies pointed out therein persisted unrectified. The important books and registers maintained in the bank were incomplete. The bank had not introduced systems of internal inspection and concurrent audit. Balancing of books of accounts was not up-to-date. The reconciliation of bank accounts was in arrears.

- viii. The bank had sanctioned loans to the directors (during the tenure of the Board before its supersession) in violation of RBI directives issued in this regard.

5. In view of the unsatisfactory financial position of the bank, the RCS was advised by the Reserve Bank of India vide letter dated May 21, 2005, to explore the possibility of the state government providing financial support to the bank or the feasibility of merging the bank with another sound bank in the region. Vide letter dated 06.06.2005, the RCS expressed the view that both the options were not feasible. As the financial position of the bank was deteriorating day-by-day, the bank management passed a resolution to approach RCS to bring the bank under liquidation. Consequently, the Joint Registrar of Co-operative Societies, Madhya Pradesh, vide letter dated August 08, 2005, requested the Reserve Bank of India to take the bank into liquidation. In order to provide a reasonable opportunity to explain its position, a show cause notice dated October 7, 2005 was issued to the bank asking it to show cause as to why the licence granted to it to carry on banking business in India under Section 22 of the Act should not be cancelled. The bank's reply dated October 28, 2005 was examined and it was observed that the bank did not have a concrete plan of action for improving its financial position. Hence, the bank's reply to the show cause notice was considered to be unsatisfactory.

6. Thus, as may be observed from the above facts, the operations of the bank were detrimental to the interest of its depositors and that of the public in general; thereby the bank did not comply with the provisions of Section 22(3)(b) of the Act. Its financial position was on the decline with no scope for revival in the foreseeable future.

7. From the facts and circumstances mentioned above it is observed that:

- a) the bank is not in a position to pay its present and future depositors in full, as and when their claims accrue;
- b) the affairs of the bank are being conducted in a manner detrimental to the interests of its present and future depositors;
- c) the general character of the management of the bank is prejudicial to the public interest and the interest of its depositors;
- d) the financial position of the bank leaves no scope for revival;
- e) in all likelihood, the public interest will be adversely affected if the bank is allowed to carry on banking business.

8. 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 interest of its present and future depositors and hence the licence granted to it to conduct banking business deserves to be cancelled. Accordingly, the licence dated 14 October 1997 granted to Mahila Nagarik Sahakari Bank Maryadit, Khargone to conduct banking business in India in terms of 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 Sec 5(b) of the Act including acceptance and repayment of deposits with immediate effect.

9. A copy of the order be served on Mahila Nagrik Sahakari Bank Maryadit, Khargone.

(V.S.Das)
Executive Director