

UBD.
May 08, 2006



CO.NSB/89/12.21.020/2005-06

ORDER

**The Baroda Mercantile Co-operative Bank Ltd, Vadodara, (Gujarat) -
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 Baroda Mercantile Co-operative Bank Ltd, Vadodara, (Gujarat) (hereinafter referred to as the 'bank') was granted a licence by the Reserve Bank of India for conducting banking business in India under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) (hereinafter referred to as the 'Act') on May 09, 1968.

2. The inspection of the bank carried out by the Reserve Bank of India under Section 35 of the Act, with reference to its financial position as on June 30, 2002 revealed that the bank's financial position was precarious. Thereafter, due to bank's inability to meet its clearing liability, the bank was suspended from the membership of Vadodara Bankers' Clearing House with effect from September 28, 2002. In view of the serious deficiencies in the working of the bank, directions were issued to it under section 35 A of the Act vide order dated October 8, 2002 and the bank was precluded from incurring fresh liabilities and was restricted from making repayment of deposits from any deposit account above Rs.1000/-. Despite issue of directions, the bank did not show any improvement in its financial position. Subsequent scrutiny of the books of accounts of the bank conducted with reference to its financial position as on March 31, 2003 revealed that the financial position of the bank continued to be precarious. The bank's networth was assessed negative at (-) Rs154.45 lakh eroding its deposits to the extent of 25.2% of the total deposits. However, in view of proposal from the Registrar of Co-operative Societies, Gujarat for merger of the bank with another bank namely,

Prime Co-operative Bank Ltd, Surat , it was decided to defer the decision on future set up of the bank. Subsequently, the bank vide its letter dated October 1, 2004 informed that it decided not to proceed for merger with Prime Co-operative Bank Ltd., Surat.

3. Meanwhile another scrutiny of the bank conducted with reference to its financial position as on June 30, 2004 revealed the following serious / major irregularities / deficiencies :

- (a) The assessed net worth of bank was negative at (-) Rs143.83 lakh as on 30.06.2004. 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. 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 46.6% 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 CRAR was estimated at (-) 99.5%.
- (b) Deposits had declined from Rs.611.92 lakh as on 31.03.2003 to Rs.308.56 lakh as on 30.06.2004.
- (c) Liquidity position was unsatisfactory.
- (d) Gross non-performing assets (NPAs) amounted to Rs.463.66 lakh forming 97.6% of total advances. The Net NPAs of the bank were assessed at Rs. 74.56 lakh forming 86.9% of net advances.
- (e) The accumulated losses of the bank stood at Rs.389.54 lakh as on March 31, 2004 which increased to Rs. 392.19 lakh as on 30.06.2004.
- (f) The bank had not complied with RBI guidelines relating to investment in Govt. and other approved securities.
- (g) There were serious concerns relating to Management aspects. The Board of Directors did not function in a cohesive manner. The Board also did not have professional directors with suitable banking experience or relevant professional qualification.

4. The deficiencies mentioned above revealed that the affairs of the bank were being conducted in a manner detrimental to the interests of the depositors. Hence the bank was not complying with the provisions of sections 11 (1) and 22(3) (a)& (b) of the Act. The financial position of the bank was so precarious that there was no scope for its revival. In view of the aforesaid serious irregularities and the deteriorating financial position of the bank, a show cause notice dated January 13, 2005 was issued to it to show cause as to why the licence granted to it to conduct banking business should not be cancelled. Further, the Board of Directors was superseded by RCS and a custodian was appointed with effect from February 1, 2005. The bank submitted its reply vide its letter dated February 14, 2005 signed by Custodian. He stated that he had assumed charge on February 1, 2005, started efforts for recovery of NPAs and was reworking on the merger proposal. He also sought 30 days time for submitting a detailed scheme of revival through merger procedure and action plan for recovery.

5. In the meantime, another scrutiny of the bank conducted with reference to its financial position as on June 30, 2005 revealed that the bank's net worth was negative at (-) Rs 168.32 lakh as on 30.06.2005. 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. 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 58.9% 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 CRAR, was estimated at (-)277.8 %.

6. It is evident from the foregoing that:

- i) The financial position of the bank leaves no scope for its revival;
- ii) The bank is not in a position to pay its present and future depositors in full, as and when their claims accrue;

- iii) The affairs of the bank are being conducted in a manner detrimental to the interests of its present and future depositors; and
- iv) In all likelihood the public interest will be adversely affected if the bank is allowed to carry on banking business.

7. 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 not serve any purpose and would be detrimental to the interest of its present and future depositors and hence the licence granted to The Baroda Mercantile Co-operative Bank Ltd, Vadodra, (Gujarat) on May 09,1968 under Section 22 of the Act read with Section 56 of the Banking Regulation Act, 1949 to carry on banking business in India, 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.

8. A copy of this order is served on the Baroda Mercantile Co-operative Bank Ltd, Vadodara, (Gujarat)

(V.S. Das)
Executive Director