

January 8, 2005

ORDER

**The Aurangabad Peoples' Cooperative Bank Ltd.-Aurangabad Maharashtra-
Cancellation of licence to carry on banking business in India under Section 22(2)
of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies)**

The Aurangabad Peoples' Cooperative Bank Ltd.,Aurangabad, Maharashtra - (hereinafter referred to as the 'bank') was registered on March 03, 1936 and was issued a licence to carry on banking business under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (hereinafter referred to as the 'Act') on October 25,1999. The bank was placed under the scheme of rehabilitation from March 29, 1983 owing to heavy erosion in the value of its assets.

2. The statutory inspection of the bank with reference to its financial position as on December 31, 2002 revealed its precarious financial position. The bank was classified in Grade IV and was issued instructions to improve its financial position.

3. The next statutory inspection with reference to its financial position as on December 31,2003 revealed further deterioration in the bank's financial position and brought out several deficiencies and irregularities the more important of which are

- I. The real or exchangeable value of paid-up share capital and reserves of the bank stood at (-) Rs.130.18 lakh as on December 31, 2003 indicating that not only its owned funds had been completely eroded but its deposits were also affected. Thus, the bank is not having adequate assets to meet its outside liabilities and hence does not comply with the provisions of Section 22(3) (a) of the Act. The bank also does not comply with the requirement of minimum share capital prescribed in terms of the provisions of Section 11(1) of the Act.

- II. The bank's CRAR stood at (-) 19.10% as on December 31,2003 as against the regulatory minimum capital standard of 7%.
- III. The erosion in the value of assets has not only wiped out the entire owned funds but the deposits of the bank have also been affected to the extent of 10.3% of its total deposits as on December 31,2003.
- IV. The Gross and Net NPAs of the bank were assessed at 67.17% and 60.41% of the gross and net advances of the bank respectively, as on the date of inspection.
- V. The bank incurred losses and the accumulated loss stood at Rs.254.43 lakh as on December 31, 2003.
- VI. The bank had defaulted in the maintenance of SLR on 85 days during the period of inspection, viz. 22 days in January,15 days in February, 16 days in March, 8 days in November and 24 days in December 2003.
- VII. The bank had violated prudential exposure ceiling norms for single borrowers in several cases. The loans and advances to directors and their relatives and the concerns in which they are interested stood at 10.84%.
- VIII. The bank had not framed any investment policy as required by RBI.
- IX. The bank had not nominated two professionals on its Board of Directors.
- X. The bank had violated provisions of section 9 of the B.R. Act 1949(AACS) by acquiring non banking assets without prior permission of the RCS.
- XI. The bank did not adhere to the guidelines contained in RBI circular UBD No. CO.BSD.I/PCB.44/12.05.05/2000-2001 dated April 23, 2001 pertaining to classification and valuation of investments by banks.
- XII. The bank did not have a panel of brokers and utilized the services of only one broker for transaction in securities.

4. From the foregoing it is evident that the bank is not complying with Section 11, 22(3) (a) & (b), and 24 of the Act *ibid*.

5. Being satisfied that in the interest of the public it is necessary to issue certain directions, in exercise of the powers vested in it under sub section (1) of Section 35A of the B.R.Act, 1949 (As Applicable to Cooperative Societies) Reserve Bank of India issued directions to the bank with effect from the close of business as on October 5, 2004.

6. The bank was issued a show cause notice for cancellation of licence under section 22 of B.R.Act 1949(AACS) on 26th October 2004. Bank's reply dated 9/11/2004 to the Show Cause Notice was examined and was not found satisfactory.

7. Thus, in view of the various serious violations of RBI guidelines and negative net worth, negative CRAR, Net NPAs at 60.41%, revealed during the inspection with reference to its position as on December 31, 2003 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 and hence licence granted to it to conduct banking business deserves to be cancelled. Accordingly licence granted to The Aurangabad Peoples' Cooperative Bank Ltd.-Aurangabad, Maharashtra on October 25,1999 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 in terms of the powers vested with the Reserve Bank under Section 22(4) of the Act. 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 repayment of deposits with immediate effect.

8. A copy of the order may be served on The Aurangabad Peoples' Cooperative Bank Ltd., Aurangabad, Maharashtra State.

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(A.V.Sardesai)
Executive Director