



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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Reserve Bank Cancels the Licence of Shri Shivaji Sahakari Bank Ltd., Gadhinglaj, Kolhapur, (Maharashtra)

In view of the fact that Shri Shivaji Sahakari Bank Ltd, Gadhinglaj, Kolhapur (Maharashtra), had ceased to be solvent, all efforts to revive it in close consultation with the Government of Maharashtra had failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India [RBI] delivered the order cancelling its licence to the bank and the same is effective from the close of business as on June 14, 2014. The Registrar of Co-operative Societies, Maharashtra has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank. It may be highlighted that on liquidation, every depositor is entitled to repayment of his/her deposits up to a monetary ceiling of ₹ 1,00,000/- (Rupees One lakh only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC) under usual terms and conditions.

The bank was granted a licence by RBI on January 06, 1995 to commence banking business. Based on the financial position as on March 31, 2005, operational instructions were first imposed on the bank by RBI vide letter dated January 09, 2006 and the same were amended/continued vide RBI letters dated October 29, 2006, April 22, 2008, March 12, 2009, September 10, 2009 and November 25, 2010. As per the operational instructions, the bank was, *inter alia*, prohibited from extending area of operations, opening of new branches or extension counters, acquiring new premises or shifting from existing premises without prior approval of RBI and declaring and paying dividend. The bank was also, advised: (i) to repay its borrowings and not enter into fresh borrowings, (ii) allow operations in and renew only those loan accounts which are classified as standard assets, (iii) to mobilize resources at market related rates, (iv) that accretion to deposits and proceeds of loan recoveries should be invested in government / SLR securities and (v) to step up recovery efforts and maintain CD ratio at sustainable level. The bank was also barred from fresh lending till further instructions.

The statutory inspection of the bank under section 35 of the B.R Act, 1949 (AACS)(hereinafter referred to as "the Act") with reference to its financial position as on March 31, 2007, *inter alia*, revealed that the gross and net NPAs were increasing and assessed at 36.3% & 26.4%, of the gross & net advances, respectively. The net losses were assessed at ₹ 31.20 lakh. The accumulated losses reported by the bank stood at ₹ 128.57 lakh. The financial indicators of the bank continued to deteriorate as revealed during subsequent inspections conducted with reference to its financial position as on March 31, 2008, March 31, 2009, March 31, 2010, March 31, 2011 and March 31, 2013.

The statutory inspection conducted with reference to March 31, 2010, *interalia*, revealed that the net worth had declined further to (-) ₹ 34.33 lakh & CRAR had reduced to (-) 3.4%, gross and net NPAs were at 37.9% & 26.0% of gross & net advances. The assessed net loss stood at ₹ 170.63 lakh. The accumulated losses reported by the bank stood at ₹ 283.77 lakh. The bank was defaulting in the maintenance of CRR / SLR since 2007-08 to 2009-10. The Board of Directors of the bank was responsible for the adverse financial position. The management, despite issue of operational instructions barring the bank from fresh lending and advice to invest accretions to deposits and loan recoveries in government & SLR securities, extended financial accommodation of ₹ 23.88 lakh in eight accounts by debiting Branch Adjustment Account. The bank had thus violated operational instructions issued by RBI. Since the Board of Directors was ineffective and responsible for the deterioration of the financial position of the bank, a requisition dated December 22, 2010 was issued by RBI to RCS for supersession of the Board pursuant to the recommendations of TAFCUB. Accordingly, RCS vide its Order dated December 27, 2010, superseded the Board of the bank and appointed a three-member Administrative Board. The term of the Board of Administrators was extended on various occasions.

The statutory inspection of the bank under section 35 of the Act with reference to the financial position as on March 31, 2011, *interalia*, revealed steep deterioration in the financial position of the bank. The CRAR was assessed at (-) 48.8%, net worth stood at (-) ₹334.62 lakh, gross and net NPAs at 70.5% & 60.8% of gross and net advances respectively, & net loss of ₹368.21 lakh. The deposits stood eroded at 31.3%. There was a run on the bank which led to reduction in its deposits by 24.1%. The bank had failed to maintain prescribed CRR and SLR continuously from the year 2007-08 to 2010-11. The bank had permitted withdrawal of a bulk FD amounting to ₹130.00 lakh having lien against one loan (Matoshri Ramabai Ambedkar Magasvargiya Sut Girani) which had an outstanding of ₹ 110.30 lakh as on March 31, 2011. Further, ₹ 49.50 lakh of the above amount was transferred in the name of 90 various individual depositors who were either employees or relatives of Chairman of Matoshri Ramabai Ambedkar Magasvargiya Sut Girani. This was done to raise insurance claims with DICGC in future. The above individual deposits were not placed under lien against the loan of Matoshri Ramabai Ambedkar Magasvargiya Sut Girani and hence the above loan became totally unsecured. Books pertaining to major accounts were not balanced and various entries in the inter branch account remained un-reconciled. Some of the vouchers were not authenticated. In view of the deteriorating financial position of the bank as observed during the statutory inspection of the bank with reference to its financial position as on March 31, 2011, it was placed under all inclusive directions under section 35 A of the BR Act, from the close of business as on October 25, 2011 vide directive UBD.CO.BSD-I/D-61/12.22.249/2011-12 dated October 24, 2011 for a period of six months. The directions were subsequently extended vide various directives, the latest vide directive UBD.CO.BSD-I/D-30/12.22.249/2013-14 dated April 16, 2014 for a period from April 25, 2014 to October 24, 2014.

Keeping in view the deposit erosion of 31.3% and deterioration in financial position, the bank was issued a show cause notice (SCN) vide letter dated November 24, 2011 for cancellation of its banking licence. The bank submitted its reply to the SCN vide its letter dated December 15, 2011 which was examined but not found satisfactory. Meanwhile, the bank advised that two UCBs had evinced interest in merger. However, the two UCBs did not proceed further in the matter. Another UCB had also conducted due diligence of the bank for merger and submitted its merger

proposal. However, the merger did not materialize as the members of the Shri Shivaji Sahakari Bank Ltd., passed a resolution against the merger.

Incidentally, the statutory inspection of the bank as on March 31, 2012 was not taken up in view of the pending merger proposal. As the merger did not fructify, it was decided to conduct the inspection of the bank with reference to its financial position as on March 31, 2013 to decide the future set up of the bank. It was, inter alia, observed during the inspection that the networth was assessed at (-) ₹ 819.16 lakh as on March 31, 2013, CRAR was assessed at (-) 415.7%, the deposits of the bank had been eroded to the extent of 82.6%, net loss of the bank was assessed at ₹ 645.80 lakh, the accumulated losses reported by the bank stood at ₹ 1013.75 lakh and the gross NPAs & net NPAs were assessed at ₹705.66 lakh (94.8%) & ₹ 58.00 lakh (59.9%) respectively. The bank had not paid penal interest of ₹ 78.36 lakh imposed on it for CRR/SLR defaults since 2007-08. The bank had violated the all inclusive directions imposed by RBI.

Serious deficiencies as mentioned above revealed that the affairs of the bank were being conducted in a manner detrimental to the interests of the depositors. The bank did not comply with the provisions of Sections 11(1), 22(3) (a) and 22(3) (b) of the Act. Based on the financial position of the bank as on March 31, 2013 the bank was issued a Show Cause Notice (SCN) vide letter UBD.CO.BSD-I.SCN.04/12.22.249/2013-14 dated January 28, 2014 to show cause as to why the licence granted to it on January 06, 1995 to carry on banking business under Section 22 of the Act should not be cancelled and the bank be taken into liquidation. The bank's replies to the SCN vide letters dated February 12, 14 and 25, 2014 were examined but not found satisfactory.

Therefore, RBI took the extreme measure of cancelling the licence of the bank in the interest of bank's depositors. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Shri Shivaji Sahakari Bank Ltd, Gadhinglaj, Kolhapur (Maharashtra) the amount insured as per the DICGC Act, will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Shri Shivaji Sahakari Bank Ltd., Gadhinglaj, Kolhapur (Maharashtra) is prohibited from carrying on 'banking business' as defined in section 5(b) of the Act.

For any clarifications, depositors may approach General Manager, Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, Mumbai, whose contact details are as below:

Postal Address: Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, 2nd Floor, Garment House, Dr. A.B. Road, Worli, Mumbai-400 018; Telephone Number: (022) 24824000, Fax Number: (022) 24935495; [Email](#) .