

**भारतीय रिज़र्व बैंक**
RESERVE BANK OF INDIAवेबसाइट : www.rbi.org.in/hindiWebsite : www.rbi.org.inइ-मेल email: helpdoc@rbi.org.in

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September 10, 2014

**Reserve Bank Cancels the Licence of
The Merchants' Co-operative Bank Ltd., Dhule (Maharashtra)**

In view of the fact that The Merchants' Co-operative Bank Ltd., Dhule (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 August 30, 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 July 11, 1986 to commence banking business. The latest statutory inspection of the bank conducted under Section 35 of the Banking Regulation Act, 1949 (AACS) with reference to its financial position as on March 31, 2013, *inter alia*, revealed that the real or exchangeable value of paid-up share capital and reserves of the bank was assessed at (-) ₹ 379.62 lakh with erosion in the deposits to the extent of 50.7%. The bank's CRAR was assessed at (-) 99.3% as against the regulatory requirement of 9%, accumulated losses reported by the bank as on March 31, 2013 stood at ₹ 739.78 lakh and gross NPAs & net NPAs as on March 31, 2013 were assessed at ₹ 797.96 lakh (99.7% of the gross loans and advances) & ₹ 160.46 lakh (98.7% of the net advances), respectively. The net loss of the bank was assessed at ₹ 327.21 lakh during 2012-2013. The bank had defaulted in maintenance of CRR. The bank had not paid penal interest of ₹ 35.62 lakh imposed for default in SLR & CRR for the earlier period from 2008 to 2011. The bank had not published Statutory Auditor's Report in the prescribed manner, for the years 2011-12 & 2012-13, violating Section 31 of the BR Act. The bank had not maintained any investment in SLR Government Securities and other approved securities as against the minimum requirement of 25% of NDTL. As on the date of inspection, loans outstanding to one of the ex-director and related parties aggregated to ₹ 454.66 lakh which formed 56.8% of the bank's outstanding advances. The overdue interest from these loan accounts amounted to ₹ 1225.75 lakh and accounted for 65.9% of the overdue interest reserve. In all the above cases, the ex-director was either a borrower or a guarantor. The performance of the Board was not satisfactory as it could not bring about any major improvement in the deteriorating financial position of the bank and failed to take initiative for revival of the bank and recover bank's dues.

The bank has been under rehabilitation since June 30, 2003 but has not been able to improve its financial position since then. The statutory inspection of the bank under Section 35 of the BR Act as on June 30, 2003 had brought out serious irregularities in sanctioning of loans to one of the director of the bank. Based on the above inspection, supervisory action was issued to the bank vide letter dated December 24, 2003 and the same were modified from time to time based on the findings of the

subsequent inspections. Major observations of the inspections from March 31, 2007 to March 31, 2012 include that the bank had not adhered to prescribed norms on share linking to borrowings; the bank was running a trust from its premises in violation of Section 6 of the Act, *ibid*; the bank had liquidated its entire holding in government securities during 2007-2008 and the bank failed to comply with RBI guidelines for minimum investment in government securities since then; the system of credit appraisal and post disbursement supervision in the bank was not satisfactory; the bank had granted unsecured advances exceeding ₹ 0.50 lakh to several nominal members violating RBI directive on unsecured advances; the bank also violated single borrower limit; despite being pointed out in every inspection report since June 30, 2003, the bank failed to recover loan amount from the ex-director and the recovery performance was not satisfactory; the bank was not adhering to IRAC norms; despite carrying accumulated losses, the bank had paid donation to two organizations in contravention of RBI circular dated October 20, 2005; the bank had not conducted concurrent/internal audit and EDP audit, the compliance submitted by the bank to the various inspection reports was not satisfactory; the Board had not taken required measures for the turnaround of the bank.

Based on the financial position of the bank as on March 31, 2012, all inclusive directions under Section 35A of the Act, *ibid*, were imposed on the bank with effect from close of business as on December 13, 2012. The directions were further extended for a further period of six months each on three occasions till December 12, 2014.

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), 18, 22(3) (a), 22(3) (b) and 31 of the Act, *ibid*. The bank was, therefore, issued a show cause notice vide letter dated May 15, 2014 to show cause as to why the licence granted to it to carry on banking business under Section 22 of the Act, *ibid*, on July 11, 1986 should not be cancelled and the bank be taken into liquidation. The bank submitted its reply to the SCN vide letters dated June 02 & 14, 2014 which was examined but was not found to be satisfactory. Not only are the bank's replies to the show cause notice untenable but also it has not made any satisfactory proposal for revival / improvement in the functioning of the bank. There is neither any concrete merger proposal nor a viable revival plan.

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 Merchants' Co-operative Bank Ltd., Dhule (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, The Merchants' Co-operative Bank Ltd., Dhule (Maharashtra) is prohibited from carrying on 'banking business' as defined in section 5(b) of the Act.

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

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