



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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November 16, 2011

**Reserve Bank Cancels the Licence of
Bhandari Co-operative Bank Ltd., Mumbai (Maharashtra)**

In view of the fact that Bhandari Co-operative Bank Ltd., Mumbai (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 delivered the order cancelling its licence to the bank as on the close of business on November 11, 2011. 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 Reserve Bank on October 26, 1987 to commence banking business. The bank was issued supervisory instructions on October 4, 2005 based on the inspections findings with reference to its financial position as on March 31, 2005 and these supervisory instructions were modified, from time to time, based on the findings of the subsequent inspection reports.

The statutory inspection of the bank under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) [the Act], with reference to its financial position as on March 31, 2009 revealed that the assessed networth of the bank was negative and the bank's deposits had eroded to the extent of 0.5%. Based on the inspection report as on March 31, 2009, the bank was advised on January 8, 2010 that, in addition to the existing supervisory action, fresh lending to be allowed only from accretions to deposits and proceeds from loan recoveries against FDs, NSC, KVP, LIC policies and Government Securities only. The bank was also advised to increase its net worth and raise CRAR to 9% by March 31, 2010. There was severe deterioration in the quality of loan assets during the period under review. The loan portfolio has excessive concentration of Auto loans, with grave irregularities.

The statutory inspection of the bank as on March 31, 2010 revealed that the financial position of the bank had further deteriorated. Its assessed net worth stood at (-) ₹ 999.98 lakh and assessed CRAR stood at (-) 2.5%. The erosion in deposits was to the extent of 9.5%. The gross and net NPAs formed 34.5% and 26.6% of the gross and net advances respectively. The inspection report was forwarded to the bank on October 1, 2010 for rectification of deficiencies and compliance. However, the compliance submitted by the bank vide letter dated November 11, 2010 was not considered satisfactory as the major deficiencies observed in the inspection report continued to persist.

The statutory inspection of the bank as on March 31, 2011 revealed that the financial position of the bank continued to deteriorate. The assessed net worth as on March 31, 2011 stood at (-) ₹ 2555.04 lakh, CRAR stood negative at (-) 29.8% deposits have also been eroded to the extent of 25.6%, gross NPAs constituted 54.5% of gross advances, net NPAs sharply increased from 26.6% as on March 31, 2010 to 42.3% as

on March 31, 2011 and the assessed loss increased from ₹ 1365.85 lakh in 2009-10 to ₹ 2498.23 lakh during 2010-11. The bank had sanctioned several 'auto-rickshaw'/ 'housing' loans that turned to be fraudulent transactions.

In view of the precarious financial position as revealed by the findings of the inspection with reference to its financial position as on March 31, 2011, and inability of the management to bring about any improvement, the bank has been placed under all-inclusive directions under Section 35A of the Act vide directive UBD.CO.BSD-I/D-50/12.22.021/2011-12 dated August 04, 2011, with effect from the close of business on August 11, 2011, for a period of six months.

The management had not displayed sufficient firmness/ seriousness in dealing with the recalcitrant officers responsible for the irregularities in auto/ housing loan accounts and also recovery of core NPAs. The Board of Directors was ineffective and was responsible for deterioration in the financial position of the bank and for conducting the affairs of the bank in a manner detrimental to the interest of the depositors. Based on a requisition for supersession of the Board of Directors issued by RBI vide letter dated August 11, 2011, RCS superseded the Board of Directors of the bank vide his orders dated August 17, 2011 and appointed a Board of Administrators to manage the affairs of the bank.

Serious deficiencies as mentioned above revealed that the affairs of the bank were being conducted in a manner detrimental to the interest of its depositors. The bank does not comply with the provisions of Section 11(1), 22(3) (a) and 22(3) (b) of the Act. It was observed that all the financial parameters of the bank had deteriorated. The assessed net worth which stood at (-)₹ 999.98 lakh as on March 31, 2010 further deteriorated to (-) ₹ 2555.04 lakh as on March 31, 2011 with deposit erosion increasing from 9.5% to 25.6% during the above period. There was no viable merger proposal by the bank. A show cause notice dated August 26, 2011 was issued to the bank requiring it to show cause as to why the licence granted to it under Section 22 of the Act, on October 26, 1987 to carry on banking business should not be cancelled and the bank be taken to liquidation. The bank's reply vide its letter dated September 21, 2011 was examined and not considered satisfactory as the bank had admitted to the precarious financial position. It has also stated that the gross and net NPAs have increased to Rs.3156.00 lakh and Rs.1981.00 lakh respectively as on August 31, 2011. The financial position continues to be precarious and the bank had not submitted documentary evidence for having brought out any improvement.

Therefore, Reserve Bank of India took the extreme measure of cancelling 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 Bhandari Co-operative Bank Ltd., Mumbai (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, Bhandari Co-operative Bank Ltd., Mumbai (Maharashtra) is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Act.

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

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