



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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October 22, 2013

**Reserve Bank Cancels the Licence of Vishwakarma Nagari Sahakari Bank
Maryadit, Aurangabad (Maharashtra)**

In view of the fact that Vishwakarma Nagari Sahakari Bank Maryadit, Aurangabad (Maharashtra) had ceased to be solvent & the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India on September 12, 2013 delivered its order dated September 10, 2013 to the bank cancelling its licence to carry out banking business and the same is effective from the close of business of September 12, 2013. The Registrar of Co-operative Societies, Maharashtra State has also been requested to issue an order for winding up of the bank and appoint a Liquidator therefor. 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 of India on October 28, 1999 to commence banking business. The statutory inspection of the bank carried out under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) [the Act] with reference to its financial position as on March 31, 2009 revealed that the bank defaulted in maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on various occasions and violated Reserve Bank of India guidelines on KYC/AML, sanctioned unsecured advances to housing sector in excess of prescribed limits, etc. The quality of management of the bank was not satisfactory. As per the recommendations of the Task Force for Urban Co-operative Banks (TAFUCB), operational instructions were issued to the bank vide Reserve Bank of India's letter dated November 25, 2009.

The statutory inspection of the bank conducted under Section 35 of the Act, with reference to its financial position as on March 31, 2010, revealed that the bank had failed to achieve the minimum regulatory prescription of Capital to Risk Assets Ratio (CRAR) of 9%. The bank's investment in Government and other approved securities was below the extant prescribed limit of 15% of Net Demand and Time Liabilities (NDTL). The bank had also violated the guidelines on KYC/AML, exposure limits prescribed for individual / group borrowers and granted unsecured advances. The quality of system & control and management of the bank was not satisfactory.

The statutory inspection of the bank conducted under Section 35 of the Act, with reference to its financial position as on March 31, 2011, revealed that its financial position further deteriorated as its networth declined from ₹ 5.46 lakh as on March 31, 2010 to (-) ₹ 52.69 lakh as on March 31, 2011 and its CRAR declined from 1.3% as on March 31, 2010 to (-) 9.4% as on March 31, 2011. Gross and net NPAs increased from 51.8% and 48.7% as on March 31, 2010 to 52.8% and 50.0% of

gross and net advances respectively as on March 31, 2011. The Net losses of the bank also increased to (-) ₹ 98.18 lakh as on March 31, 2011 from (-) ₹ 54.30 lakh as on March 31, 2010. Consequently, the bank's deposits were eroded to the extent of 6.5%. The bank defaulted in maintenance of SLR during the year under review and violated the limit prescribed for nominal members fixed at 20% of regular members. Managerial deficiencies relating to internal control persisted and there was no system of monitoring suspicious transactions and reporting CTR/STR to FIU-IND, New Delhi. The bank was issued operational instructions vide RBI's letters dated February 15, 2011 and October 13, 2012.

The statutory inspection of the bank conducted with reference to its financial position as on March 31, 2012 revealed that its financial position deteriorated even further. The bank's networth declined from (-) ₹ 52.69 lakh as on March 31, 2011 to (-) ₹ 171.67 lakh as on March 31, 2012, while its CRAR declined from (-) 9.4% as on March 31, 2011 to (-) 36.3% as on March 31, 2012. The Gross and Net NPAs increased from 52.8% and 50.0% as on March 31, 2011 to 56.4% and 54.2% of gross & net advances respectively as on March 31, 2012 resulting in increase of net losses from (-) ₹ 98.18 lakh as on March 31, 2011 to (-) ₹ 197.79 lakh as on March 31, 2012. Erosion of deposits of the bank increased from 6.5% as on March 31, 2011 to 24.2% as on March 31, 2012.

The bank defaulted in maintenance of CRR and SLR on 122 occasions during the year under review and paid ₹ 0.30 lakh as penal interest for the default. The bank did not compute its Demand and Time Liabilities (DTL) correctly and resorted to borrowings from Maharashtra State Co-operative Bank (MSCB) against the Fixed Deposit Receipts (FDRs) (including FDRs qualifying for Statutory Reserve) for funding its lending activities. The bank also violated the operational instructions issued to it on October 13, 2011 by sanctioning 20 cases of loans and advances exceeding ₹ one lakh each.

Directions under Section 35A of the Act was issued to the bank vide Directive UBD.CO BSD-II. No. D-07/12.22.781/2012-13 dated September 10, 2012 as per the recommendations of the TAF CUB in view of the deposit erosion at 24.2%. As per the recommendations of TAF CUB, a Special Scrutiny was conducted with reference to its financial position as on January 16, 2013, which revealed further deterioration in certain financial parameters viz., deposit erosion at 30.5%, increase in gross & net NPAs to 76.2% and 74.7% of gross and net advances respectively and net losses rising to ₹ 204.34 lakh. The Special Scrutiny further revealed violations in the provisions of the Directions issued by the RBI under Section 35A of the Act, by paying more than the stipulated amount to some depositors, settling loan accounts under compromise and splitting up deposit accounts, violations in bank's exposure at 12.3% to unsecured advances of its total assets exceeding the prescribed limit of 10%, continuous default by the bank in maintenance of CRR and SLR throughout the year and paying penal interest partially, etc. The bank's investments in Government Securities comprised only 10.4% of its NDTL, as against the regulatory requirement of minimum 25% of NDTL in Government Securities. The liquidity position of the bank continued to be precarious.

A Show Cause Notice for cancellation of licence under Section 22 of the Act was issued to the bank on April 23, 2013. The bank's reply dated May 4, 2013 was examined but not found to be satisfactory. In view of the bank's precarious financial position, chances of its revival were remote and continuation of the bank would have been against public interest.

In view of the foregoing, the Reserve Bank of India cancelled 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 amount insured as per the DICGC Act, 1961 to the depositors of the Vishwakarma Nagari Sahakari Bank Maryadit, Aurangabad (Maharashtra), will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Vishwakarma Nagari Sahakari Bank Maryadit, Aurangabad (Maharashtra), is prohibited from carrying on the business of 'banking' as defined in Section 5(b) of the Banking Regulation Act, 1949 (AACS).

For any clarifications, depositors may approach Shri Abhijit Majumdar, General Manager, Urban Banks Department, Reserve Bank of India, Nagpur. His contact details are as below:

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