



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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August 3, 2012

**Reserve Bank rejects the application for grant of licence of
The Premier Automobiles' Employees Co-operative Bank Ltd., Mumbai, (Maharashtra)**

The Reserve Bank of India [the Bank] delivered the order rejecting the application dated May 31, 1966 for grant of licence submitted by The Premier Automobiles' Employees Co-operative Bank Ltd., Mumbai (Maharashtra) [the bank], to carry on banking business in India under Section 22 of the Banking Regulation Act, 1949 (AACS) [the Act] after being satisfied that the bank does not fulfil the conditions as required in terms of Section 22 (3) of the Act. The order is effective from the close of business on July 23, 2012 and makes it obligatory on the part of the bank to stop conducting the business of "banking" within the meaning of Section 5(b) of the Act, with immediate effect. 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.

Based on the findings of the statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2006, the bank was *inter alia* advised in the post inspection meeting to explore the possibility of merger with another bank to safeguard the interests of its depositors or consider going out of the purview of the Act. This was also conveyed to the bank vide letter dated September 04, 2007. However, the bank did not take any action in this regard.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2007 revealed various deficiencies/ irregularities in its working. Based on the findings of the inspection as on March 31, 2007 the bank was imposed supervisory action vide letter UBD.MRO.BSS.II/3358/12.07.184/2007-08 dated March 25, 2008 restricting it from opening ATMs/ extension counters/ branches and extending the area of operation, declaration of dividend without permission of the Bank and acquiring or shifting its office premises.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2009 revealed that several deficiencies continued to persist in the bank. The gross and net NPA increased from 34.9% as on March 31, 2007 to 43.0% as on March 31, 2009. The bank, in its application dated May 31, 1966 to the Bank for grant of licence had stated that the membership would be restricted to permanent employees of Premier Automobiles Ltd. Bye-laws of the bank provide for membership to persons who are not employees of Premier Automobiles Ltd. in violation of paragraph 1(ii) of circular UBD.No.BL.(SEB) 5A/07.01.00/2001-02 dated August 8, 2001 of the Bank. As reported by the bank, out of a total membership of 3400 as on March 31, 2010 of which 1150 members were not employees of the parent company. The bank had given loans to several persons who were not employees of Premier Automobiles Ltd.

In view of the major deficiencies/ irregularities observed in its working and in public interest and in the interest of the depositors, to prevent preferential payment and alienation of assets of the bank, directions under Section 35A of the Act were imposed on the bank vide directive UBD.CO.BSD-1No.D-02/12.22.184/2010-11 dated July 28, 2010 by the Bank (effective from the close of business as on August 2, 2010). The directions, among others, prohibited acceptance of fresh deposits and further lending and restricted repayment of deposits up to a maximum of ₹1000/- per depositor.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2010 revealed that the financial position of the bank had further deteriorated. The assessed net worth of the bank had declined from ₹114.25 lakh as on March 31, 2009 to ₹83.71 lakh as on March 31, 2010. The gross NPAs of the bank had increased from 43.0% of gross advances as on March 31, 2009 to 49.3% as on March 31, 2010. The net NPAs of the bank had increased from 7.7% of net advances to 10.9% during the same period. Performance of the bank in recovery of NPAs was not satisfactory as additions to NPAs far exceeded recoveries. The bank could not contain accretion to NPAs. Assessed net loss of the bank increased from ₹15.70 lakh during 2008-09 to ₹25.35 lakh during 2009-10. The bank had heavily relied on high cost deposits thereby adversely affecting its profitability. Neither the Board nor the senior management took initiative in framing risk management policies of the bank. The performance of the committees of the Board was not satisfactory. The bank had violated RBI guidelines UBD.PCB.Cir.POT.39/ 09.103.01/2001-02 dated April 5, 2002 read with UBD.PCB.Cir.41/09.103.01/2007-08 dated April 21, 2008 on induction of professional directors on the Board of the bank.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2011 revealed that the financial position had further deteriorated. Assessed net worth further declined and stood at ₹62.49 lakh. Gross NPAs increased to ₹193.26 lakh (64.0%) and net NPAs increased to ₹40.19 lakh (27.0%) as on March 31, 2011. Recovery of NPA was not found to be satisfactory. As against recoveries of ₹5.90 lakh, fresh additions to NPAs during 2010-11 stood at ₹28.81 lakh. The assessed net loss incurred by the bank stood at (-)₹18.51 lakh as on March 31, 2011. The bank has been incurring losses continuously and all profitability ratios had turned negative. The bank had admitted as members employees of WIMCO, Ambarnath Nagar Parishad, ECK Haubod, etc. and had granted loans to some of them in violation of instructions contained in paragraph 1(ii) of circular UBD.No.BL.(SEB) 5A/ 07.01.00/2001-02 dated August 8, 2001 of the Bank. No procedure was laid down to identify, measure, monitor and control various risks to which the bank is exposed.

The deterioration in bank's financial position showed the inability of the management to bring about any major improvement and arrest the deteriorating financial position of the bank. The performance of the Board of the bank was not satisfactory as it could not take initiative in framing risk management policies of the bank. It is noted from the bank's letter dated April 27, 2012 that the bank had acquired immovable property from Kohinoor Planet Constructions Pvt. Ltd. in exchange of premises which was being developed by the company by virtue of an agreement, during the pendency of the all-inclusive directions imposed under Section 35A of the Act on the bank vide directive UBD.CO.BSD-1No.D-02/12.22.184/2010-11 dated July 28, 2010 and supervisory action imposed vide letter UBD. MRO.BSS-II/3358/12.07.184/2007-08 dated March 25, 2008 restraining the bank, *inter alia*, from acquiring or shifting its office premises.

The bank was issued a Show Cause Notice vide letter UBD.CO.BSD-I/SCN/67/12.22.184/ 2011-12 dated January 12, 2012 advising to show cause within thirty days from the date of receipt of the notice, as to why its application dated May 31, 1966 for grant of licence to carry on banking business under Section 22 of the Act should not be rejected and why steps should not be taken to wind up the bank. The bank's reply dated March 1, 2012 was examined but was not found to be satisfactory.

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. It was observed that all the major financial parameters of the bank had deteriorated. There was no viable merger proposal or for conversion into a society by the bank. The bank had not submitted documentary evidence for having brought out any improvement.

The bank did not fulfil the applicable EPN and had allowed outsiders to be members of the salary earner's bank in violation of extant instructions. The capital structure and earning prospects of bank has been declining and the bank is not complying with Section 22(3)(d) of the Act. The deterioration in bank's financial position showed the inability of the management in arresting the same. Thus, the affairs of the bank are being conducted in a manner detrimental to the interest of its present/ future depositors in violation of section 22(3)(b) of the Act and the general character of the management of the bank is prejudicial to the public interest or the interest of its depositors in violation of section 22(3)(c) of the Act.

Therefore, the Bank took the extreme measure of rejection of application of the bank for grant of licence, in the interest of bank's depositors. With the rejection of application for grant of licence and commencement of liquidation proceedings, the process of paying the depositors of the Premier Automobiles Employees' 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, Premier Automobiles Employees' 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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