

**PRESS RELEASE**



**RESERVE BANK OF INDIA**

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November 18, 2005

### **Reserve Bank Rejects the Licence of The Kotagiri Co-operative Urban Bank Ltd., Kotagiri , Tamil Nadu**

The Reserve Bank of India has on November 17, 2005 rejected the licence application of the Kotagiri Co-operative Urban Bank Ltd., Kotagiri, in view of the fact that it had ceased to be solvent. All efforts to revive it had failed and the depositors were being inconvenienced by continued uncertainty. The Registrar of Co-operative Societies, Chennai 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 deposits up to a monetary ceiling of Rs.1,00,000/- from the Deposit Insurance and Credit Guarantee Corporation (DICGC).

The Reserve Bank of India decided to reject the licence application of the Kotagiri Co-operative Urban Bank Ltd, Kotagiri, Tamil Nadu as a final step after examining all the options for revival of the bank and in order to protect the interest of the depositors. The bank was classified as weak on February 7, 1996. The financial position of the bank deteriorated considerably from 2001-2002 onwards and the bank was advised by the Reserve Bank of India to go out of the purview of the Banking Regulation Act 1949 (AACS) on October 26, 2002. However, no progress was made in this direction by the bank. The statutory inspection with reference to its position as on March 31, 2004 revealed further deterioration in its financial condition and its deposits were getting eroded as realisable value of paid-up capital and reserve was in the negative. In view of the bank's precarious financial position and considering that it was not in a position to repay its deposits, a show cause notice under Section 22 of the Act, *ibid*, was issued to the bank on November 4, 2004 calling upon it to show cause as to why its application for banking licence dated October 31, 1976 should not be rejected and the bank taken into liquidation. In the reply submitted by the bank to the show cause notice, the bank had projected to reduce the net NPAs and enhance its share capital by March 31, 2005. A scrutiny of the bank's books of accounts carried out by the Reserve Bank of India with reference to its position as on March 31, 2005 revealed that the bank had failed to achieve the targets projected by it for the year ended March 31, 2005 and its financial position was precarious. With a view to protecting the interests of the present and future depositors, the Reserve Bank of India issued directions on September 21, 2005 to the bank under Section 35A of the Act, *ibid*, restricting its operations. As the bank did not have a viable plan of action for revival and the chances of its revival were remote, the Reserve Bank of India took the extreme measure of rejecting the licence application of the bank in the interest of the bank's depositors. With the rejection of its application for licence and with the commencement of liquidation proceedings, the process of paying the depositors of the Kotagiri Co-operative Urban Bank Ltd., Kotagiri, the amount insured as per the DICGC Act would be set in motion.

Consequent to the rejection of its licence application, the Kotagiri Co-operative Urban Bank Ltd., Kotagiri, is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Act, *ibid*, including acceptance and repayment of deposits.

For any clarifications, depositors may approach Shri. K.M. Abraham, Deputy General Manager, Urban Banks Department, Reserve Bank of India, Chennai-600001. His contact details are as below:

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