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February 27, 2006

Non-adherence to KYC Norms and Directives/ Guidelines relating to Loans against Shares/ IPOs - Penal Action taken

The Reserve Bank of India, in exercise of powers vested in it under the provisions of Section 47 A (1)(b) of the Banking Regulation Act, 1949, has imposed monetary penalties on three more scheduled commercial banks for violation of its regulations on Know Your Customer (KYC) norms, for breach of prudent banking practices and for not adhering to its directives/ guidelines relating to loans against shares/ IPO.

The Reserve Bank had issued show cause notices to these banks. In response to the show cause notices, banks had submitted their written responses and the Chief Executive Officers had also sought personal hearing with the Reserve Bank, which was granted.

On careful examination of banks' submissions, the Reserve Bank has come to a conclusion that the aforesaid violations were substantiated and accordingly, the following monetary penalties are imposed.

- a) HDFC Bank Ltd. – Penalty of Rs. 25 lakh
- b) ING Vysya Bank Ltd. – Penalty of Rs. 10 lakh
- c) IDBI Ltd. – Penalty of Rs. 5 lakh

The quantum of the penalty has been decided on basis of the magnitude and enormity of the contravention/ violation observed in each bank. The details of the irregularities committed by each bank have been placed on the RBI website.

It may be recalled that on January 23, 2006 the Reserve Bank had penalised seven scheduled commercial banks including HDFC Bank for violation of RBI regulations on Know Your Customer (KYC) norms, for breach of prudent banking practices and facilitating misuse of IPO finance to ineligible borrowers.

In October 2004, as part of measures to improve the transparency of banks, the Reserve Bank had announced its decision to disclose in public domain information on penalties imposed on banks after due process of advising a bank and seeking its explanation so as to give reasonable opportunity to the bank for being heard.

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