

**RESERVE BANK OF INDIA**www.rbi.org.inwww.rbi.org.in/hindie-mail: helpprd@rbi.org.in

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Reserve Bank Cancels the Licence of Bangalore Mercantile Co-operative Bank Ltd., Bangalore

In view of the fact that the Bangalore Mercantile Co-operative Bank Ltd., Bangalore, (Karnataka) had ceased to be solvent, all efforts to revive it in close consultation with the Government of Karnataka had failed and the depositors of the bank were being inconvenienced by continued uncertainty, the Reserve Bank of India delivered the order, canceling its licence to the bank after the close of business on June 23, 2006. The Registrar of Co-operative Societies, Karnataka has also been requested to issue an order for winding up of 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 bank was granted a licence by Reserve Bank on October 08, 1998 to commence banking business. In response to the complaints lodged by certain members against the management of the bank, a special scrutiny of the books of accounts of the bank was conducted in August 2000. It was observed that the Board of Directors had flouted the norms/practices, which are usually observed while conducting banking business and had also violated guidelines/directives/exposure norms, etc. issued by the Reserve Bank. Hence, in public interest and in the interest of the depositors, the Board of Directors was superseded and an Administrator was appointed by RCS, Karnataka to take care of the affairs of the bank.

The statutory inspection of the bank, carried out under Section 35 of the Act, with reference to its financial position as on September 30, 2000 revealed that the bank's financial position had deteriorated and in order to protect the interest of the depositors, the bank was placed under directions issued under Section 35A of the Act with effect from the close of business on October 08, 2001.

A subsequent statutory inspection with reference to the bank's position as on June 30, 2003 revealed further deterioration in the financial position of the bank. The Reserve Bank issued a notice to the bank on February 17, 2004 asking it to show cause as to why the licence granted to it to conduct banking business should not be cancelled. In its reply, while the bank admitted all the irregularities/deficiencies pointed out in the notice, it expressed a desire to convert itself into a non-banking entity and register as a Co-operative credit society and thereby to go outside the purview of the Act. The bank was then advised to take necessary steps in this regard.

The last statutory inspection of the bank with reference to its financial position as on December 31, 2004 revealed that the financial position had become more precarious. The bank failed to show any improvement in its financial position as promised in its reply to the Show Cause Notice. The net worth continued to be negative and the deposits had eroded to the extent of 81.2% of total deposits. The bank had also not taken any steps to convert itself into a co-operative society.

Hence, after issuing a fresh notice dated June 24, 2005 and taking into consideration the reply submitted by the bank and after examining all options for its revival, the Reserve Bank of India took the extreme measure of canceling licence of the bank in the interest of the bank's depositors. With the cancellation of its licence and commencement of liquidation proceedings, the process of paying the depositors of the Bangalore Mercantile Co-operative Bank Ltd., the amount insured as per the DICGC Act will be set in motion.

Consequent to the cancellation of its licence, the Bangalore Mercantile Co-operative Bank Ltd., is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Banking Regulation Act, 1949(AACS) including acceptance and repayment of deposits.

For any clarifications, depositors may approach Shri R. G. K. Pillai, General Manager, Urban Banks Department, Reserve Bank of India, Bangalore. His contact details are as below:

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