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RESERVE BANK OF INDIA

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**Reserve Bank Cancels the Licence of The Bharat Mercantile
Co-operative Urban Bank Limited, Hyderabad (Andhra Pradesh)**

In view of the fact that the The Bharat Mercantile Co-operative Urban Bank Limited, Hyderabad (Andhra Pradesh) had ceased to be solvent, all efforts to revive it in close consultation with the Government of Andhra Pradesh had failed and the depositors of the bank were being inconvenienced by continued uncertainty, the Reserve Bank of India (RBI) delivered the order, cancelling its licence to the bank after the close of business on October 17, 2006. The Registrar of Co-operative Societies (RCS), Andhra Pradesh 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/- (Rupees One lakh only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC).

The statutory inspection of the bank conducted by RBI with reference to its financial position as on March 31, 2004 revealed that the bank was not complying with several provisions of the Banking Regulation Act 1949 (As applicable to Cooperative Societies) and had also violated several RBI guidelines / instructions. The bank was placed under directions under Section 35A of the Banking Regulation Act 1949 (As Applicable to Cooperative Societies) vide order dated September 8, 2004. The next statutory inspection of the bank carried out by RBI with reference to its financial position as on December 31, 2004 revealed deterioration in the bank's financial condition as also mismanagement of affairs of the bank by the Board of Directors. In view of this on a requisition by the RBI, the RCS superseded the Board of Directors of the bank with effect from May 18, 2005.

The subsequent Statutory Inspection with reference to the bank's financial position as on March 31, 2005 revealed further deterioration in the bank's financial condition. The deposits of the bank were fully eroded. Thereafter, the RBI issued a notice to the bank on July 25, 2006 asking it to show cause as to why the licence granted to it to conduct banking business should not be cancelled.

Based on the reply to the Show Cause Notice and after being satisfied that the chances of its revival were remote, the RBI took the extreme measure of cancelling the licence of the bank after examining all options for its revival, in the interest of the bank's depositors. With the cancellation of its licence and taking it into liquidation, the process of paying the depositors of The Bharat Mercantile Co-operative Urban Bank Limited, Hyderabad (Andhra Pradesh), the amount insured as per the DICGC Act will be set in motion.

Consequent to the cancellation of its licence, the The Bharat Mercantile Co-operative Urban Bank Limited, Hyderabad (Andhra Pradesh) is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) including acceptance and repayment of deposits.

For any clarifications, depositors may approach Shri M. Chandrashekar, Deputy General Manager, Urban Banks Department, Reserve Bank of India, Hyderabad. His contact details are as below:

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