



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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April 23, 2014

Reserve Bank rejects the application for grant of licence of Karnataka Rajya Kaigarika Vanijya Sahakara Bank Niyamitha, Bangalore, (Karnataka)

The Reserve Bank of India [the Bank] delivered the order rejecting the application dated May 23, 1966 for grant of licence submitted by Karnataka Rajya Kaigarika Vanijya Sahakara Bank Niyamitha, Bangalore (Karnataka) [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 March 25, 2014 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, Karnataka 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.

The Board for Financial Supervision (BFS), in its 171st meeting held on August 12, 2009, had directed that there should be no unlicensed bank as on March 31, 2010 and for this limited purpose, as a one-time measure and for a limited period, the Capital to Risk Assets Ratio (CRAR) was prescribed at a minimum of 2% as against the regulatory requirement of 9%. However, the bank was not able to achieve minimum CRAR of 2% as on March 31, 2010 for considering its application for grant of banking licence. The position was also brought to the notice of the State Government and concerns of RBI had been brought to the attention of various stakeholders, through the Task Force for Urban Co-operative Banks (TAFUCB).

The statutory inspection of the bank conducted under Section 35 of the Act with reference to its financial position as on March 31, 2010 revealed that the net worth of the bank was ₹ (-) 2212.25 lakh, the CRAR (-) 5.3% against the regulatory requirement of 9%, the deposits of the bank had eroded to the extent of 8.7 % over and above 100% erosion in the paid up capital and reserves.

The financial position of the bank with reference to its position as on March 31, 2011 revealed CRAR at (-) 9.2 % and assessed net worth at ₹ (-) 2956.86 lakh. The Gross NPAs of the bank were ₹ 2017.98 lakh forming 15.2% of its gross advances. The bank was not submitting CTR/STR reports to FIU (IND) New Delhi, and was not strictly adhering to KYC guidelines. A large number of frauds were reported at various branches. The financial position of the bank was reviewed in the 55th meeting of TAFUCB held on November 10, 2011. In view of the assurance given by the bank to make a turnaround and achieve minimum CRAR by selling its prime properties, it was decided to give it time upto March 31, 2012.

The financial position as on March 31, 2012 did not show any improvement. The bank's CRAR was assessed at (-) 3.4 % and net worth ₹ (-) 2603.16 lakh. The improvement in CRAR was on account of revaluation of assets but the bank could not achieve the desired CRAR to become eligible for issue of licence. The Gross NPA of the

bank was 12.6%. The bank had violated Operational Instructions issued by RBI by sanctioning unsecured loans. The bank had violated Sections 6 and 9 of the BR Act by letting out its premises and by holding non-banking assets for more than seven years without taking permission from the RBI. The bank was issued operational instructions vide letter dated October 19, 2012 under Supervisory Action Framework (SAF) including prohibiting it from increasing aggregate deposits beyond the level of deposits as on a specified date. In the TAFUCB meeting, RCS assured to explore all the possibilities of raising capital viz. infusion of capital by State Government, sale of immovable assets, conversion of deposits into shares etc. The bank was again advised to focus its attention on improving the CRAR to the minimum by the end of March 31, 2013.

The statutory inspection of the bank conducted with reference to its financial position as on March 31, 2013 revealed that the bank's financial position deteriorated further as evident from CRAR of (-) 3.3%, net worth of ₹ (-) 2813.47 lakh and deposit erosion at 8.8%. The bank's Gross NPA was at 10.4 % of its gross advances and assessed accumulated losses ₹ (-) 3765.91 lakh. The bank did not comply with the provisions of Sections 11(1), 22(3) (a), 22(3)(b) and 22(3)(d) of the Act. The bank continued to violate Section 6 of the Act, by letting out its premises at Bidar and Hassan. The bank was holding non-banking assets for more than seven years without taking permission from RBI and thereby violated section 9 of the Act. The bank had not adhered to Operational Instructions by accepting fresh deposits and allowing premature withdrawal of deposits. There was total disregard to the Operational Instructions by the Board. The bank had not made any efforts for closing six loss making branches for which special permission was granted by RBI. The bank was not able to sell any of its prime properties to improve its net worth. No infusion of capital by State Govt. has taken place and no efforts were made to explore the possibility of merger.

The financial position of the bank was also reviewed by TAFUCB in its meeting held on October 28, 2013, which recommended to issue show cause notice for rejection of application for licence of the bank. The bank was issued a Show Cause Notice on January 2, 2014 advising to show cause within thirty days from the date of receipt of the notice, as to why its application for grant of licence to carry on banking business in India under Section 22 of the Act should not be rejected and why the bank should not be taken into liquidation. The bank's reply dated January 31, 2014 was examined but not found to be satisfactory.

The Bank, therefore, took the decision 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 Karnataka Rajya Kaigarika Vanijya Sahakara Bank Niyamitha, Bangalore (Karnataka), the amount insured as per the DICGC Act, 1961 will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the rejection of application of the bank for grant of licence, Karnataka Rajya Kaigarika Vanijya Sahakara Bank Niyamitha, Bangalore (Karnataka) is prohibited from carrying on 'banking business' as defined in Section 5 (b) of the BR Act, 1949 (AACCS).

For any clarifications, depositors may approach Smt. Deepa D. George, Deputy General Manager, Urban Banks Department, Bangalore Regional Office, Reserve Bank of India, Bangalore whose contact details are as below:

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