



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S. Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

September 13, 2013

**Reserve Bank cancels the licence of
The Srikakulam Co-operative Urban Bank Ltd., Srikakulam – Andhra Pradesh.**

In view of the fact that The Srikakulam Co-operative Urban Bank Ltd., Srikakulam (Andhra Pradesh) had ceased to be solvent, all efforts to revive it had failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India delivered the order, canceling its licence, dated August 23, 2013 to the bank on August 27, 2013. The Registrar of Co-operative Societies, Andhra Pradesh has also been requested to issue an order for winding up the bank and to 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 bank was granted a licence under section 22 of the B.R Act, 1949 (AACS) by Reserve Bank of India on November 21, 1995 to conduct banking business.

The statutory inspection of the bank conducted under section 35 of the B.R. Act, 1949 (AACS) with reference to its financial position as on March 31, 2006 revealed that the important financial parameters viz. assessed net worth, CRAR, net profit etc. had deteriorated, resulting in deposit erosion of 0.53%, CRAR at (-) 0.71% vis-à-vis regulatory capital requirement of 9% and net worth at (-) ₹ 1.03 lakh. Further, the gross and net NPAs were assessed at 19.8% and 12.8% of the gross and net advances, respectively.

The financial indicators of the bank continued to deteriorate further as revealed during subsequent inspections conducted with reference to its financial position as on March 31, 2007 and March 31, 2008.

The statutory inspection conducted with reference to March 31, 2009, *interalia*, revealed marginal improvement in the deposit erosion, net worth and CRAR. However, profitability remained under stress and the bank suffered assessed loss of ₹18.66 lakh. The bank could not achieve the target under capital, net worth, CRAR etc under the action plan submitted by it.

The statutory inspection conducted with reference to March 31, 2010 revealed that deposit erosion had increased to 8% and the bank suffered a net loss of ₹(-) 13.56 lakh, CRAR stood at (-) 19.5% and net NPAs were 7.5% of net advances. Compliance furnished by the bank was not found to be satisfactory. A fraud committed by the Managing Director (MD) and the repercussions thereon led to modification in the Operational Instruction restricting, *interalia*, pre-mature withdrawal of term deposits.

The statutory inspection conducted with reference to March 31, 2011 revealed further deterioration in the financial position of the bank. Deposit erosion increased to 30.4%, net worth deteriorated to (-) ₹ 72.94 lakh, CRAR deteriorated to (-) 33.2% and assessed net loss increased to (-) ₹ 116.87 lakh. The bank also defaulted in maintenance of CRR for 21 days, violated KYC norms and operational instructions. Due to the above precarious financial position of the bank, all inclusive directions under section 35 A of the BR Act, 1949 (AACS) were imposed on March 08, 2012 restricting, *interalia*, withdrawal in excess ₹ 1000/ per deposit account. The directions were periodically reviewed and extended to September 08, 2013.

The statutory inspection of the bank under section 35 of the BR Act, 1949 (AACS) with reference to the bank's financial position as on March 31, 2012 revealed that the financial position of the bank had continued to deteriorate. The real and exchangeable value of the bank's paid up capital and reserves was negative at (-) ₹ 70.25 lakh and deposit erosion was at 28.9%, CRAR stood at (-) 32.1%, gross and net NPAs formed 57.2% and 54.8% respectively while net loss stood at (-) ₹ 122.15 lakh. The bank also defaulted in SLR maintenance thereby violating Section 24 of the Act. The Board did not take timely action against the M. D who committed fraud.

Due to the above serious irregularities, the board of the bank was superseded by RCS, Govt. of Andhra Pradesh, based on RBI's requisition dated September 04, 2012 and an administrator (Special officer) assumed charge w.e.f. September 24, 2012. The bank was also issued an SCN dated December 19, 2012. The reply to SCN dated January 23, 2013 was not found to be satisfactory. A scrutiny based on unaudited financial position as on March 31, 2013, indicated alarming increase in erosion in deposits to 34.2%, deterioration in CRAR to (-) 52.4%, and gross NPAs increasing to 78.6%.

From the facts and circumstances mentioned above it is observed that:

- i. The bank does not comply with the provisions of sections 11(1), 18, 22(3) (a), 22 (3) (b), 24, 29 and 31 of the Act.
- ii. The bank is not in a position to pay its present and future depositors in full as and when their claims accrue;
- iii. The affairs of the bank are being conducted in a manner detrimental to the interests of depositors.
- iv. The financial position of the bank is so precarious that there is no scope for its revival; and
- v. Public interest will be affected if the bank is allowed to carry on its business any further.

In view of the above, the licence dated November 21, 1995 granted to The Srikakulam Co-operative Urban Bank Ltd., Srikakulam, (Andhra Pradesh) under Section 22 of the Act *ibid* to conduct banking business in India has been cancelled. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of The Srikakulam Co-operative Urban Bank Ltd., Srikakulam, (Andhra Pradesh) will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

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

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

Postal Address: Urban Banks Department, Reserve Bank of India, Secretariat Road, Saifabad, Hyderabad – 500004. Telephone Number: (040) 23234920
Fax Number: (040) 23235891 [Email](#).

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Sucheta Vazkar
Manager