

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:377

ANSWERED ON:20.08.2004

GLOBAL TRUST BANK

Singh Shri Kirti Vardhan;Yadav Shri Anirudh Prasad (Sadhu)

Will the Minister of FINANCE be pleased to state:

- (a) whether RBI has recently frozen withdrawals from the Global Trust Bank;
- (b) if so, the circumstances under which the Government had ordered a moratorium for GTB deposits withdrawals alongwith the details thereof and the reasons therefor;
- (c) the number of account holders affected;
- (d) whether the Government has found some discrepancies in the Balance Sheets of Global Trust Bank for the years 2001-2002 and 2002-2003;
- (e) if so, the details of discrepancies found in the Balance Sheet;
- (f) whether Reserve Bank of India has worked out a scheme to protect the interests of the depositors of GTB;
- (g) if so, the details thereof;
- (h) whether the Government has decided to merge GTB with Oriental Bank of Commerce;
- (i) if so, by when; and
- (j) the other steps taken by the Government in safeguarding the money of investors in private banks?

Answer

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a) to (j): A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO.377 FOR 20TH AUGUST 2004 REGARDING GLOBAL TRUST BANK
TABLED BY SHRI KIRTI VARDHAN SINGH AND SHRI ANIRUDH PRASAD alias SADHU YADAV

(a) to (c) Yes, Sir. The financial health of GTB was causing concern to the Reserve Bank of India (RBI). The key indicators about the health of the bank were wrongly certified by the Statutory Auditors of the bank for the years 2001-02 and 2002-03. In view of the erosion of capital of the bank, RBI directed the bank to infuse capital so as to achieve a CRAR of 9%. However, in view of the bank's inability to raise the required capital from domestic investors or propose a voluntary merger with any domestic bank, on the recommendation of the RBI, Government placed GTB under an Order of Moratorium for the period from the close of business on 24th July, 2004 up to and inclusive of 23rd October, 2004. Around nine lakh depositors were affected by this.

(d) & (e): Yes, Sir. The statutory auditors appointed by GTB for the years 31 st March 2002 and 31 st March 2003 failed to identify the true position about net worth, assets, CRAR, Profit and Non-performing assets and this resulted in false certification by them which did not match with the data reported by inspecting officers of RBI. RBI has written to the Institute of Chartered Accountants to take action against the statutory auditors as it deems fit.

(f) to (i) : Yes, Sir. A scheme of amalgamation of Global Trust bank with Oriental Bank of Commerce has been notified with effect from August 14,2004 as per the scheme of the RBI drawn in the light of interest shown by OBC to takeover GTB. The details of the scheme are at Annexure.

(j) In order to avoid the recurrence of such failures in future and safeguard the interests of depositors, RBI has taken several steps which, inter-alia, include introduction of capital adequacy standards on the lines of the Basel norms, prudential norms on asset classification, income recognition and provisioning, introduction of valuation norms and capital for market risk for investments, enhancing transparency and disclosure requirements for published accounts, aligning exposure / Capital market exposure norms, introduction of off-site monitoring system and strengthening of the supervisory framework / introduction of Risk Based Supervision for banks and introduction of a framework for prompt corrective action.

ANNEXURE

DETAILS OF AMALGAMATION SCHEME OF GLOBAL TRUST BANK

(a) The business, properties, assets and liabilities of Global Trust Bank (GTB) shall stand transferred to Oriental Bank of Commerce (OBC);

(b) All contracts, deeds, bonds, agreements, powers of attorney etc. having effect immediately before the date of amalgamation, shall be effective and may be acted upon as if OBC had been a party thereto or as if it had been issued in favour of GTB;

(c) OBC shall, in consultation with GTB, value the assets and reckon the liabilities of GTB in the manner prescribed in the Scheme. OBC shall discharge the liabilities of GTB and make payment to the creditors and depositors in the manner specified in the Scheme. As regards payment to depositors, the Draft Scheme, inter-alia, provides that in respect of every savings bank account, current account or any other deposit account, including the interest to the extent payable under the scheme, the transferee bank shall open with itself a corresponding and similar account and credit the full amount including interest in respect of each of the accounts;

(d) Till payment in full against all the accounts has been made, no payment will be made to shareholders. Thereafter, payment in the first instance will be made, if due, to the accounts of the former preference shareholders of the transferor bank. After this if there is any surplus left, amount will be distributed among the former ordinary shareholders of the transferor bank on pro-rata basis:

(e) All the employees of GTB shall continue in service and be deemed to have been appointed in OBC at the same remuneration and on the same terms and conditions of service as were applicable to them before the amalgamation.

(f) Any suit, appeal or other legal proceedings of whatever nature by or against the transferor bank is pending, the same shall not abate, be discontinued or be in any way prejudicially affected, but shall, subject to the other provisions of the scheme, be prosecuted and enforced by or against the transferee bank.

(g) In case of contravention of any of the provisions of any act or of any rule, regulation, direction or order made thereunder has been committed by, or any proceeding for a criminal offence has been instituted against, a director or secretary, manager, officer or other employee of the transferor bank before the prescribed date, such director, secretary, manager, officer or other employee shall, without prejudice to the application of section 6 of the General Clauses Act, 1897, be liable to be proceeded against under such law and punished accordingly as if the transferor bank, being a banking company had not been dissolved.