

(PCB).Cir. 36/09.169.00/04-05

February 2, 2005

The Chief Executive Officers of all
Primary (Urban) Co-operative Banks

Dear Sir/ Madam,

Guidelines for merger / amalgamation of Urban Co-operative Banks (UCBs)

A copy of the guidelines for merger/ amalgamation of urban co-operative banks is enclosed for your information and necessary action. The guidelines may be placed before the Board of Directors of your bank.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager

Guidelines for merger / amalgamation of Urban Co-operative Banks (UCBs)

With a view to facilitating consolidation and emergence of strong entities and providing an avenue for non disruptive exit of weak/unviable entities in the co-operative banking sector, it has been decided to frame guidelines to encourage merger/amalgamation in the sector.

2. Although the Banking Regulation Act, 1949 (AACS) does not empower Reserve Bank to formulate a scheme with regard to merger and amalgamation of co-operative banks, the State Governments have incorporated in their respective Co-operative Societies Acts a provision for obtaining prior sanction in writing, of RBI for an order, inter alia, for sanctioning a scheme of amalgamation or reconstruction.

3. The request for merger can emanate from banks registered under the same State Act or from banks registered under the Multi State Co-operative Societies Act (Central Act) for takeover of a bank/s registered under State Act. While the State Acts specifically provide for merger of co-operative societies registered under them, the position with regard to take over of a co-operative bank registered under the State Act by a co-operative bank registered under the Central Act is not clear. Although there are no specific provisions in the State Acts or the Central Act for the merger of a co-operative society under the State Acts with that under the Central Act, it is felt that, if all concerned including administrators of the concerned Acts are agreeable to order merger/ amalgamation, RBI may consider proposals on merits leaving the question of compliance with relevant statutes to the administrators of the Acts. In other words, Reserve Bank will confine its examination only to financial aspects and to the interests of depositors as well as the stability of the financial system while considering such proposals.

Procedure for Merger

4. The procedure for merger either voluntary or otherwise is outlined in the respective state statutes/ the Multi State Cooperative Societies Act. The Registrars, being the authorities vested with the responsibility of administering the Acts, will be ensuring that the due process prescribed in the Statutes has been complied with before they seek the approval of the RBI. They would also be ensuring compliance with the statutory procedures for notifying the amalgamation after obtaining the sanction of the RBI.

5. An application for merger giving the proposed scheme will have to be submitted by the banks concerned to the Registrar of Co-operative Societies (RCS) / Central Registrar of Co-operative Societies (CRCS). The acquirer bank shall also forward a copy of the scheme to the Reserve Bank along with information as in Annexure I. The Reserve Bank will be examining the same with reference to the financial aspects and the interests of depositors based on the criteria/factors outlined in Annexure II and convey its decision to the concerned State RCS and in case the acquirer is a Multi-state Bank, to the CRCS and the RCS of the State in which the acquired bank is situated.

6. The State Acts also provide for compulsory amalgamation of the cooperative societies by the RCS. In such cases too, prior approval of RBI is necessary. The schemes received from RCS will be examined with reference to the financial aspects and the interests of depositors as well as the stability of the financial system, based on the criteria/factors outlined in Annexure II and decision conveyed to the RCS.

**Information and documents to be furnished by the acquirer UCB
along with the application of a Scheme of Amalgamation**

1. Draft scheme of amalgamation as approved by the Board of Directors of the acquirer bank.
2. Copies of the reports of the valuers appointed for the determination of realizable value of assets (**net of amount payable to creditors having precedence over depositors**) of the acquired bank.
3. Information which is considered relevant for the consideration of the scheme of merger including in particular:-
 - a) Annual reports of each of the UCBs for each of the three completed financial years immediately preceding the proposed date for merger.
 - b) Financial results, if any, published by each of the UCBs for any period subsequent to the financial statements prepared for the financial year immediately preceding the proposed date of merger.
 - c) Pro-forma combined balance sheet of the acquiring bank as it will appear consequent on the merger.
 - d) Computation based on such pro-forma balance sheet of the following:-
 - i. Tier I Capital
 - ii. Tier II Capital
 - iii. Risk-weighted Assets
 - iv. Gross and Net NPAs
 - v. Ratio of Tier I Capital to Risk-weighted Assets
 - vi. Ratio of Tier II Capital to Risk-weighted Assets
 - vii. Ratio of Total Capital to Risk-weighted Assets
 - viii. Tier I Capital to Total Assets
 - ix. Gross and Net NPAs to Advances
 - x. Cash Reserve Ratio
 - xi. Statutory Liquidity Ratio

4. Information certified by the valuers as is considered relevant to understand the net realizable value of assets of the acquired bank including in particular:-
 - a) The method of valuation used by the valuers
 - b) The information and documents on which the valuers have relied and the extent of the verification, if any, made by the valuers to test the accuracy of such information
 - c) If the valuers have relied upon projected information, the names and designations of the persons who have provided such information and the extent of verification, if any, made by the valuers in relation to such information
 - d) Details of the projected information on which the valuers have relied
 - e) Detailed computation of the realizable value of assets of the acquired bank

5. Such other information and explanations as the Reserve Bank may require.

Guidelines on merger/ amalgamation for UCBs

1. Reserve Bank of India may consider proposals for merger and amalgamation in the following circumstances:

(i) When the networth of the acquired bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank.

(ii) When the networth of acquired bank is negative and the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank.

(iii) When the networth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors of the acquired bank with financial support from the State Government extended upfront as part of the process of merger.

2. In all cases of merger/ amalgamation the financial parameters of the acquirer bank post merger should conform to the prescribed minimum prudential and regulatory requirement for urban co-operative banks.

3. The realizable value of assets has to be assessed through a process of due diligence.