

November 22, 2005

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

Dear Sir / Madam,

**Merger/ Amalgamation of UCBs-Amortisation of Losses**  
**Mid-Term Review of Annual Policy Statement for the year 2005-06**

Please refer to the circular UBD (PCB) Cir.36/09.169.00/2004-05 dated February 2, 2005 forwarding the guidelines on merger/ amalgamation of UCBs. In this connection, an extract of para 109 of the Mid-Term Review of the Annual Policy Statement for the year 2005-06 is attached. As mentioned therein, in order to smoothen the process of merger in the UCB Sector, the acquirer UCB is permitted to amortise the loss taken over from the acquired UCB over a period of not more than five years, including the year of merger.

2. The other instructions contained in our above circular shall remain unchanged.
3. Please acknowledge receipt of this circular to our concerned Regional Office.

Yours faithfully,

(N.S.Vishwanathan)  
Chief General Manager-in-Charge

**(b) Merger/ Amalgamation of UCBs**

109. Guidelines on merger/amalgamation in the UCB sector were issued by the Reserve Bank with a view to facilitating emergence of strong entities and for providing an avenue for non-disruptive exit of unviable entities. The major focus of the guidelines is on the financial aspects of the merger/amalgamation proposals with a view to protecting depositors' interests and avoiding systemic problems. So far, the Reserve Bank has conveyed 'no objection' to five merger proposals out of which two proposals have already materialised. In order to further smoothen the process of merger in the UCB sector, it is proposed:

- to permit the acquirer UCB to amortise the losses taken over from the acquired UCB over a period of not more than five years, including the year of merger.