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RBI issues Guidelines on Merger/Amalgamation for Urban Banks

The Reserve Bank of India has, in the recent past, received some interest for merger/amalgamation from among the urban cooperative banks (urban banks).

With a view to encouraging and 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, the Reserve Bank has decided to issue suitable guidelines to facilitate merger/amalgamation in the sector and place them in public domain. The guidelines have been sent to the chief executives of the urban cooperative banks with a request to place them before their board of directors. The guidelines have also been forwarded to the registrars of cooperative societies.

According to the guidelines, the Reserve Bank of India will consider proposals for merger and amalgamation in the urban banks sector 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 but the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank; and
- (iii) When the networth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.

The Reserve Bank has further stated that in all cases of merger/amalgamation, the financial parameters of the acquirer bank post merger will have to conform to the prescribed minimum prudential and regulatory requirement for urban co-operative banks. The realisable value of assets will have to be assessed through a process of due diligence.

While considering such proposals, the Reserve Bank will confine itself to the financial aspects of the merger and to the interests of depositors as well as the stability of the financial system.

Who can merge?

A cooperative bank can merge only with another cooperative bank situated in the same state or with a cooperative bank registered under Multi State Cooperative Societies Act.

Procedure for Merger

An application for merger giving the proposed scheme will have to be submitted by the banks concerned to the Registrar of Cooperative Societies/Central Registrar of Cooperative Societies (RCS/CRCS). The acquirer bank will also forward a copy of the scheme to the Reserve Bank along with the draft scheme, valuation report and other information relevant for consideration of the scheme of merger. The Reserve Bank will examine the scheme with reference to the financial aspects and the interests of depositors based on the criteria/factors and convey its decision to the concerned State RCS and in case the acquirer is a multi-state cooperative bank, to the CRCS and the RCS of the State in which the acquired bank is situated.

The registrars, being the authorities vested with the responsibility of administering the Acts, would ensure that the due process prescribed in the Statutes has been complied with before they seek the approval of the Reserve Bank. They would also ensure compliance with the statutory procedures for notifying the amalgamation after obtaining the sanction of the Reserve Bank.

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