PROJECT REPORT

ON

"STUDY ON MERGER AND ACQUISITION IN BANKING SECTOR OF INDIA"

SUBMITTED IN THE PARTIAL FULFILLMENT FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION

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CERTIFICATE

This is certify that the Final Project report entitled **"STUDY ON MERGER & ACQUISITION IN BANKING SECTOR OF INDIA"** Submitted in partial fulfilment of the requirement for the degree of MBA (Semester 4TH) affiliated to the Punjab Technical University, Jalandhar is a research work carried out by **JASPAL SINGH, Roll No. 81013317012** under my supervision and guidance.

Dr. SIMRANJIT KAUR

(Project Guide)

DECLARATION

I Jaspal Singh Roll No. 81013317012, student of Cordia Institute of Business Management, hereby declare that the project entitled **"Study on Merger & Acquisition in Banking Sector of India"** is an original work and the same has not been submitted to any other institute for the award of any degree.

Jaspal Singh

ACKNOWLEDGEMENT

In this present world of competition there is a race of existence in which those who are having will to come forward will succeed. Project is a bridge between practical and theoretical working , with this will I have joined the project . I really wish to express my gratitude towards all those people who have helped me.

I really indebted to **Dr. SIMRANJIT KAUR** FACULTY M.B.A. department Cordia Institute of Business Management for this kind hearted approach. Her timely guidance, supervision & encouragement have helped me to get this golden opportunity.

My project guide provided me her expert advice, inspiration & moral support in spite of her busy schedule & assignments, has mainly provided my understanding of this project. I am very grateful to her kind hearted approach & encouragement, which helped me immensely in completion of this project report.

Last , but not the least, I say only this much that all are not to be mentioned but none is forgotten and I will like to extend my special thanks and gratitude to my parents who always encourage me in pursuit of excellence.

(JASPAL SINGH)

PREFACE

MBA is a stepping-stone to the management career. In order to achieve practical, positive and concrete results, the classroom learning needs to be effectively fed to the realities of the situations existing outside the classroom. This is particularly true of management.

Management students have good conceptual knowledge of business activities is somewhat in adequate. Doing a project work on a particular topic needs a lot of detailed study. It gives a better understanding and knowledge. As a part of curriculum it is exigent for the students pursuing this course to do a research project in final semester. The study project undertaken was on the topic **"MERGER & ACQUISITIONS IN BANKING INDUSTRY OF INDIA"**. The research project has been a fruitful experience for me as I now have clear idea and knowledge about conducting a study in the field of finance.

Abstract

This project is all about mergers and acquisitions in banking sector of India. In this project I have included-

a) The process of mergers and its strategies

b) corporate governance in mergers

c) impact of bad governance

d) consumer reactions

e) factors forcing mergers

f) various risks related to mergers

g) And challenges and opportunities in banking sector.

I am doing full study on the merger of **" GLOBAL TRUST BANK AND ORIENTAL BANK OF COMMERCE"** including what were the reasons behind that merger and how it impacted the financial position as well as goodwill of OBC.

Comparative balance sheets i.e. balance sheets before and after merger and stock position helped me in deriving findings and results for this study.

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OVERVIEW OF THE INDUSTRY

- **BEGINNING OF BANKING IN THE WORLD**
- **BEGINNING OF BANKING IN INDIA**

BEGINNING OF BANKING IN THE WORLD

The word “bank” is derived from the word **“Bancus or Banque”** that is bench. Jews, who were considered to be the early bankers, transacted their business on benches in the market. Some people trace the origin of the word “bank” from the German word **“Back”** meaning a joint stock fund.

EARLY HISTORY OF BANKING

According to history, Babylonians had developed as banking system. The great temples were powerful of the Greek banking institutions. In ancient Greece & Rome, the practice of granting was widely prevalent. People used cheque & drafts to settle their accounts.

Manu, the ancient Hindu lawgiver has written exhaustive regulations governing credit. He talks about credit installments, interest on loans and commercial papers.

During the early periods, although banking business was mostly done by private individuals, many countries established in Barcelona in 1941. During 1407, the bank of Genoa was established. The bank of Amsterdam was established in 1609 to meet the needs of the merchants of the city. It accepted deposits, which could be drawn on demand.

BRITISH BANKING

The origin of modern banking in Britain can be traced back across four centuries and the history of the Royal Bank of Scotland Group's past constituents perfectly illustrates the story of the industry's development. English banking may correctly be attributed to the London gold smiths. The received their valuables and fund for safe custody and issued receipts. These notes, in the course of time, became payable to bearer of demand and hence enjoyed considerable circulation. However, in the course of time, gold smiths were ruined. This lead to the growth of private banking and establishment of "Banking of England" in 1694.

HISTORY OF INDIAN BANKING

According to Indian banking history, The British East India Company established "The Hindustan Bank" in Calcutta and Bombay in 1870, was the earliest Indian Bank banking in India on modern lines started with the establishment of three presidency banks under Presidency Bank's act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras.

IMPERIAL BANK OF INDIA

The first major event in the history of banking in India took place in 1919 when the presidency banks were amalgamated and "Imperial bank of India" was set up. Banking companies Inspection ordinance was passed in January, 1946 and in February, 1946 the Banking Company's restriction of Branches Act was passed. In 1949, the Banking companies Act was passed which was later amended to read as Banking Regulation Act.

RESERVE BANK OF INDIA

Reserve Bank of India Act was passed in 1934 & Reserve Bank of India (RBI) was constituted as an apex bank without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought Reserve Bank of India under government control. Under the act, RBI got wide ranging powers for supervision &control of banks. The Act also vested licensing powers & the authority to conduct inspections in RBI.

NATIONALIZATION OF BANKS

On 19 July 1969, the Government acquiring ownership and control of 14 major banks in the country an Ordinance. This was done to bring commercial banks in to the mainstream of economic development with definite social obligations and objectives. Later, on 5 April 1980, six more commercial banks were nationalized.

AUTOMATION IN BANKING SECTOR

In recent years there has also been considerable change in the functioning of banks. There has been an increase in the amount of technology used by these institutions e.g. some banks use cash dispensers and offer twenty four hours cash withdrawal facility, instant account details and money transfer through computer network.Because of much more competition in the banking sector, services have to be sold in ways never done earlier.

- Today, customers do all their banking transactions while sitting at home.
- Banks are introducing Automatic Teller Machine (ATM) cards.
- Debit and credit cards are used as well.

This promises to change the face of banking forever.

The organized banking system in India can be broadly divided into three categories:

(i) Commercial banks,

(ii) Regional Rural Banks and

(iii) Co-operative banks.

The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the reserves of all commercial banks and hence is known as the "Reserve Bank".

INTRODUCTION

This project is about the mergers and acquisitions in banking industry. A merger occurs when two companies combine to form a single company. A merger is very similar to an acquisition or takeover, except that in the case of a merger existing stockholders of both companies involved retain a shared interest in the new corporation. By contrast, in an acquisition one company purchases a bulk of a second company's stock, creating an uneven balance of ownership in the new combined company.

Recent years have also brought about a change in the nature and quality of employment in the sector. As far as retail banking is concerned, most of the Indian private sector banks are becoming more aggressive. They are following the acquisition route for getting more and more retail customers. During the last few years the Indian Banking system has witnessed some very high profile mergers, such as the merger of ICICI Ltd. with its banking arm ICICI Bank Ltd. the merger of Global Trust Bank with Oriental Bank of Commerce and more recently the merger of IDBI with its banking arm IDBI Bank Ltd.

Basically, a merger involves a marriage of two or more banks. It is generally accepted that mergers promote synergies. This project is all about the factors motivating mergers and acquisitions, its procedure, its impact on employment, working condition & consumer, its obstacles and the examples of mergers and acquisitions of banks in India.

OBJECTIVES OF THE STUDY

Primary objective: -

- The emerging scenario of Mergers and Acquisitions in banking sector.
- To identify various market leading banks in banking industry.

Secondary objective: -

- Understand the Merger procedure in banks
- The reasons of Mergers and Acquisitions of banks in India and
- Also to find the effects of Mergers and Acquisitions of banks.
- To know the impact of mergers and acquisitions on working and employment conditions.
- To know the impact of mergers and acquisitions on consumers.

SIGNIFICANCE & RELEVANCE OF STUDY

With the globalization of the world economy, companies are growing by merger and acquisition in a bid to expand operations and remain competitive. The complexity of such transactions often makes it difficult to assess all risk exposures and liabilities, and requires the skills of a specialist advisor.

Banks are facing an increasingly competitive business environment, which is driving them to constantly improve services and increase efficiency. Growth by cross-border Mergers and Acquisitions (M&A) is one way for them to respond to this challenge, but a number of serious obstacles still hamper this kind of expansion.

a) Mergers and acquisitions (M&As), joint ventures (JVs) and other forms of strategic alliances have recorded a tremendous growth in recent years.
b) Acquisitions have become a generic strategy for many companies.
c) To drive the global economy and control
d) Facilitate synergies between merged organizations,
e) Generate efficiency improvements and increase competitiveness.
f) The basic argument that M&As increase shareholder value through exploitation of synergies is based on the assumption that the combined organization can be operated in a way that generates greater value than would be the sum of the value generated by the "stand-alone" companies (the 2+2>4 equation).

Mergers and acquisitions (M&As) are driving most profit-making sectors towards consolidation and concentration and nowhere is this more true than in the financial services sector.

SCOPE & COVERAGE

The Scope of this study includes merger of Oriental Bank of Commerce and Global Trust Bank which took place in 2004. The merger happened as per the rules of Reserve Bank of India and after the merger the working of both banks came under one name i.e. Oriental Bank Of Commerce.

In terms of Coverage we took reference of all the mergers which have taken place since 1961. This reference gave more credibility to our project and set up a good comparative study. The study's

Main focus remained thr merger of OBC & GTB.

REVIEW OF LITERATURE

1. **Merger Review Process - A must for successful consolidation in the Banking Industry**

   By: Kishor Mundargi (*The Shamrao Vithal Co-operative Bank Ltd.)*

   Mumbai

While considering any proposal for merger of banks, it will be necessary to evaluate the impact of the merger on the safety and soundness of the banking system. There is a definite need to develop a merger review process and to identify the authority that will be responsible for conducting the merger review process.

2. **The Impact of Mergers and Acquisitions on the Stakeholders of Banking Sectors.**

   By: Dr. S. Hasan Banu,

   Reader

   H.K.R.H. College

   Uthamapalayam

Consolidation through mergers and acquisition is considered one of the best ways of restructuring for effectively facing the competitive pressures. Mergers are only one of the alternatives for restructuring of the financial sector and there could be better and more advantageous option to leverage optimum utilization of bank stakeholders.

RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done systematically. We study the various steps that are generally taken by the researcher in studying the research problem along with the logic behind it. The research methodology include over all research design, the sampling procedure, the data collection method and analysis procedure.

Steps of Methodology:

Collection of data

↓

Organization of data

↓

Presentation of data

↓

Analysis of data

↓

Interpretation of data

Research Design

Research design helps in proper collection and analysis of data. It makes research relevant to the objective of research and sees the proper process carried out The present study was mainly Exploratory study, which was concerned with finding the characteristics of a particular individual, group, and institution of findings.

CONCEPTUALIZATION

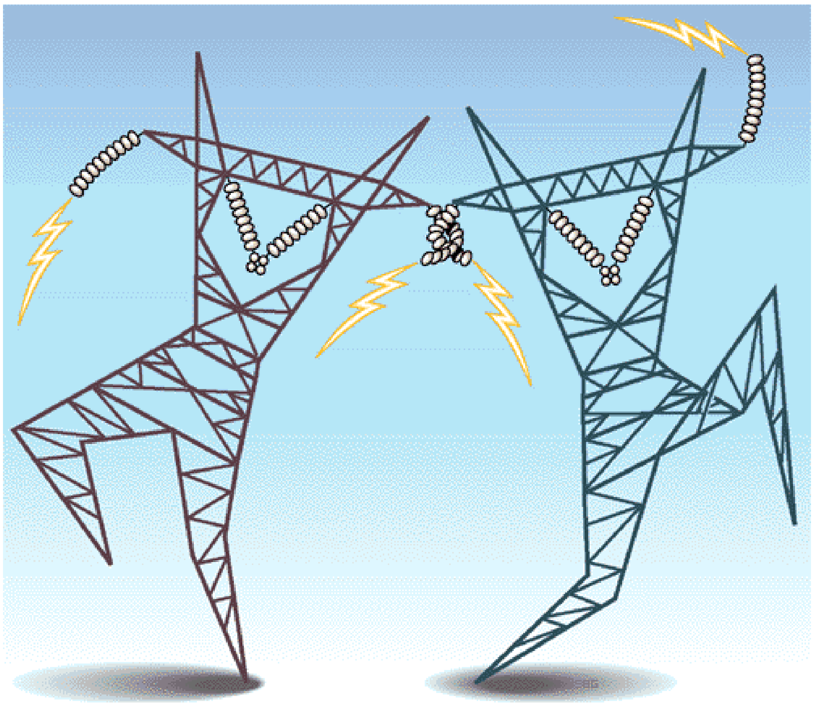
CONCEPTUALIZATION

The phrase mergers and acquisitions or M&A refers to the aspect of corporate finance strategy and management dealing with the merging and acquiring of different companies as well as other assets. Usually mergers occur in a friendly setting where executives from the respective companies participate in a due diligence process to ensure a successful combination of all parts. Historically, though, mergers have often failed to add significantly to shareholder value.

Although the economic consideration are similar for both Mergers & Acquisitions but the legal procedure involved in Mergers and Acquisitions are different

A) Mergers: The term merger or amalgamation refers to a combination of two or more corporate (in this case banks) into a single entity. Mergers are governed by companies Act, the court & law.

B) Acquisition: This may be defined as an act of acquiring effective control by one corporate over the assets or management of the other corporate without any combination of both of them. Acquisitions are a regulated activity by **SEBI**.



Difference between Merger and Acquisition

Basically, there is no difference between merger and acquisition. Both relate to an investment in acquisition of a bank/company. The difference lies only in the operational process of acquisition. In merger, one bank gets merged with the other losing its own identity by way of share transactions/asset/liability transfers. In acquisition/takeover, one company/a group of companies acquires the controlling interest on ownership of capital without making any corporation to lose its own individual identity.

But in the eyes of law, the operational process marks a big difference. While merger is covered regulated/covered by the Companies Act, 1856, the acquisition/takeover is regulated/covered by the takeover norms prescribed by SEBI. As such, the process is supervised by the High Court and the Registrar of Companies, while the process of acquisition/takeover is undertaken as per norms of SEBI.

"Merger refers to finding an acceptable partner, determining upon how to pay each other and ultimately creating a new company, which is a combination of both the companies."

"Acquisition refers to buying out another company and taking it into the fold of the acquiring company. This is done by paying the acquired company, the value of its capital and depending upon the circumstances, a premium over the capital amount."

Acquisitions and mergers both involve one or multiple companies purchasing all or part of another company. The main difference between a merger and an acquisition is how they are financed.

Basically, a merger involves a marriage of two or more banks. It is generally accepted that mergers promote synergies. The basic idea is that the combined bank will create more value than the individual banks operating independently. Economists refer to the phenomenon of the **"2+2 = 5"** effect brought about by synergy.

The resulting combined entity gains from operating and financial synergies.

MERGERS & ACQUISITIONS: VALUATION

Investors in a company that is aiming to take over another one must determine whether the purchase will be beneficial to them. In order to do so, they must ask themselves how much the company being acquired is really worth. Naturally, both sides of an M & A deal will have ideas about the worth of a target company: its seller will tend to value the company at as high of a price as possible, while the buyer will try to get the lowest price that he can. There are, however, many legitimate ways to value companies. The most common method is to look at comparable companies in an industry, but dealmakers employ a variety of other methods and tools when assessing a target company. Here are just a few of them:

1. **Comparative Ratios** - The following are two examples of the many comparative metrics on which acquiring companies may base their offers:

   Price-Earnings Ratio (P/E Ratio) - With the use of this ratio, an acquiring company makes an offer that is a multiple of the earnings of the target company. Looking at the P/E for all the stocks within the same industry group will give the acquiring company good guidance for what the target's P/E multiple should be.

Enterprise-Value-to-Sales Ratio **(EV/Sales)** - With this ratio, the acquiring company makes an offer as a multiple of the revenues, again, while being aware of the price-to-sales ratio of other companies in the industry.

2. **Replacement Cost** - In a few cases, acquisitions are based on the cost of replacing the target company. For simplicity's sake, suppose the value of a company is simply the sum of all its equipment and staffing costs. The acquiring company can literally order the target to sell at that price, or it will create a competitor for the same cost. Naturally, it takes a long time to assemble good management, acquire property and get the right equipment. This method of establishing a price certainly wouldn't make much sense in a service industry where the key assets - people and ideas - are hard to value and develop.

3) Discounted Cash Flow (DCF) - A key valuation tool in M&A, discounted cash flow.

WHY DOES ORGANIZATIONS GOES FOR MERGER & ACQUISITION

SYNERGY

Synergy is the magic force that allows for enhanced cost efficiencies of the new business.

Synergy takes form of revenue enhancement & cost saving.

STAFF REDUCTION

Merger tends to mean job losses from accounting, marketing & other departments.

ECONOMIES OF SCALE

A bigger company places a bigger order of various items & can save more cost & in better negotiation position.

ACQUIRING NEW TECHNOLOGY

To stay competitive , companies need to stay on top of technological development. By buying a smaller company with unique technology, a larger company can develop a competitive edge.

IMPROVED MARKET REACH & INDUSTRY VISIBILITY

A merge may extend two companies marketing & distribution opportunities. Capital can raise easily in a bigger company than a smaller company.

INCREASED MANAGERIAL SKILLS

Occasionally a firm will have good potential that is finds it unable to develop fully because of deficiencies in certain areas of management or an absence of needed product or production technology.

Synergy: The Premium for Potential Success

For the most part, acquiring companies nearly always pay a substantial premium on the stock market value of the companies they buy. The justification for doing so nearly always boils down to the notion of synergy; a merger benefits shareholders when a company's post-merger share price increases by the value of potential synergy. Let's face it, it would be highly unlikely for rational owners to sell if they would benefit more by not selling. That means buyers will need to pay a premium if they hope to acquire the company, regardless of what pre-merger valuation tells them. For sellers, that premium represents their company's future prospects. For buyers, the premium represents part of the post-merger synergy they expect can be achieved. The following equation offers a good way to think about synergy and how to determine whether a deal makes sense. The equation solves for the minimum required synergy:

$$\frac{\text{Pre} - \text{Merger Value of Both Firms} + \text{Synergy}}{\text{Post} - \text{Merger Number of Shares}} = \text{Pre} - \text{Merger Stock Price}$$

CLASSIFICATION OF MERGERS

- **HORIZONTAL MERGER**
- **VERTICAL MERGER**
  - **MARKET -EXTENSION**
  - **PRODUCT-EXTENSION**
- **CONGLOMERATE MERGER**
  - **PURCHASE MERGER**
  - **CONSOLIDATION MERGERS**

Horizontal Mergers

This type of merger involves **two firms that operate and compete in a similar kind of business**. The merger is based on the assumption that it will provide economies of scale from the larger combined unit.

Vertical Mergers

Vertical mergers take place between **firms in different stages of production/operation, either as forward or backward integration.** The basic reason is to eliminate costs of searching for prices, contracting, payment collection and advertising and may also reduce the cost of communicating and coordinating production. Both production and inventory can be improved on account of efficient information flow within the organization.

a) **Market-extension** occurs when two companies that sell the same products in different markets merge.

b) **Product-extension** occurs when two companies that sell the different but related products in the same market merge.

Conglomerate Mergers

Conglomerate mergers are affected among firms that are in different or unrelated business activity. Firms that plan to increase their product lines carry out these types of mergers. Firms opting for conglomerate merger control a range of activities in various industries that require different skills in the specific managerial functions of research, applied engineering, production, marketing and so on. This type of diversification can be achieved mainly by external acquisition and mergers and is not generally possible through internal development. These types of mergers are also called concentric mergers. Firms operating in different geographic locations also proceed with these types of mergers.

a) **Purchase mergers** occurs when one company purchase other company. The purchase is made either by cash or through the issue of some kind of debt instrument, and the sale is taxable.

b) **Consolidation mergers** occur when a brand new company is formed and both companies are bought & combined under the new entity. Tax terms are the same as those of a purchase merger.

WAYS OF ACQUISITION

CONSIDERATION BY ASSETS REVERSE MERGER

Consideration-

A company can buy another company with cash, with stock, or a combination of two.

By assets-

In a smaller deal, a company can acquire all the assets of another company

Reverse Merger-

In this type of acquisition, a deal that enables a private company to get publicly listed in a relatively short time period.

Mergers and Acquisitions in different sectors in India

Sector wise, large volumes of mergers and mergers and acquisitions in India have occurred in finance, telecom, FMCG, construction materials, automotives and metals. In 2005 finance topped the list with 20% of total value of mergers and acquisitions in India taking place in this sector. Telecom accounted for 16%, while FMCG and construction materials accounted for 13% and 10% respectively.

In the banking sector, important mergers and acquisitions in India in recent years include the merger between IDBI (Industrial Development bank of India) and its own subsidiary IDBI Bank. The deal was worth $ 174.6 million (Rs. 7.6 billion in Indian currency).

MERGERS & ACQUISITIONS IN BANKING SECTOR

As far as retail banking is concerned, most of the Indian private sector banks are becoming more aggressive. They are following the acquisition route for getting more and more retail customers, NPAs notwithstanding. So do you think you are fighting an uneven battle, because firstly the rules do not allow you to acquire Indian banks and secondly, there are restrictions on the number of branches you can open. The only way to expand in India will be to acquire a foreign bank overseas (which has operations in India).

During the last few years the Indian Banking system has witnessed some very high profile mergers, such as the merger of ICICI Ltd. With its banking arm ICICI Bank Ltd. The merger of Global Trust Bank with Oriental Bank of Commerce and more recently the merger of IDBI with its banking arm IDBI Bank Ltd.

Foreign banks are likely to succeed in their niche markets and be the innovators in terms of technology introduction in the domestic scenario. While their focused operations, lower but more productive employee force etc will stand them good, possible acquisitions of PSU banks will definitely give them the much needed scale of operations and access to lower cost of funds. These banks will continue to be the early technology adopters in the industry, thus increasing their efficiencies. Also, they have been amongst the first movers in the lucrative insurance segment. Already, banks such as ICICI Bank and HDFC Bank have forged alliances with Prudential Life and Standard Life respectively. This is one segment that is likely to witness a greater deal of action in the future. In the near term, the low interest rate scenario is likely to affect the spreads of majors. This is likely to result in a greater focus on better asset-liability management procedures. Consequently, only banks that strive hard to increase their share of fee-based revenues are likely to do better in the future.

Some of the past merged banks are -

Grind lay Bank merged standard charated Bank,

Times Bank with HDFC Bank,

Bank of Madura with ICICI Bank,

Nedungadi Bank Ltd. With Punjab National Bank
Global Trust Bank merged with Oriental Bank of Commerce

RISKS ASSOCIATED WITH MERGER

There are several risks associated with consolidation and few of them are as follows: -

1) When two banks merge into one then there is an inevitable increase in the size of the organization. Big size may not always be better. The size may get toowidely and go beyond the control of the management. The increased size may become a drug rather than an asset.

2) Consolidation does not lead to instant results and there is an incubation period before the results arrive. Mergers and acquisitions are sometimes followed by losses and tough intervening periods before the eventual profits pour in.

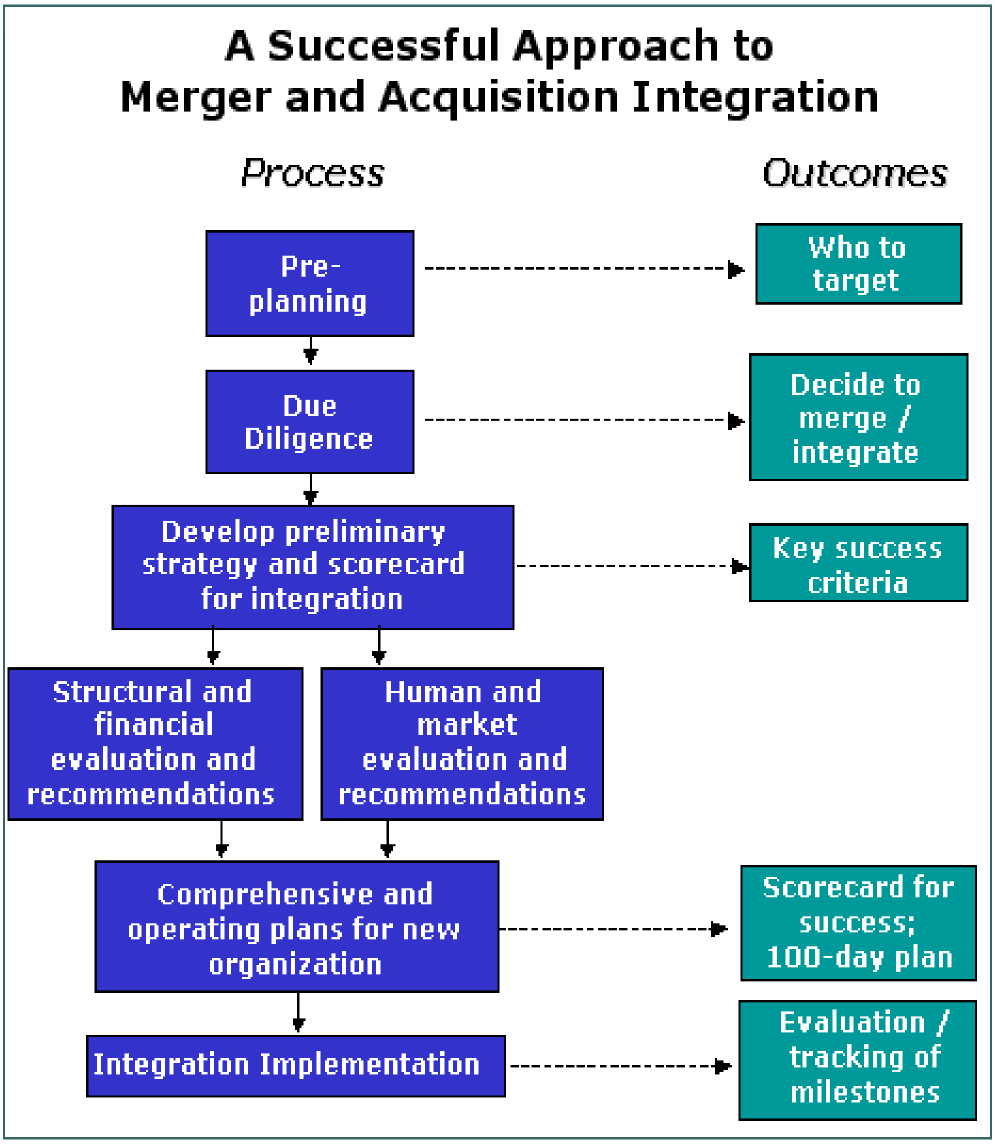
3) Consolidation mainly comes due to the decision taken at the top. It is a topheavy decision and willingness of the rank and file of both entities may not be forthcoming. This leads to problems of industrial relations, deprivation, depression and demotivation among the employees.

4) The structure, systems and the procedures followed in two banks may be vastly different, for example, a PSU bank or an old generation bank and that of a technologically superior foreign bank.

5) There is a problem of valuation associated with all mergers. The shareholder of existing entities has to be given new shares. Till now a foolproof valuation system for transfer and compensation is yet to emerge.

6) Further, there is also a problem of brand projection. This becomes more complicated when existing brands themselves have a good appeal. Question arises whether the earlier brands should continue to be projected or should they be submerged in favour of a new comprehensive identity.

PROCESS OF MERGER & ACQUISITION



The entire merger process is usually kept secret from the general public, and often from the majority of the employees at the involved companies. Since the majority of merger attempts do not succeed, and most are kept secret, it is difficult to estimate how many potential mergers occur in a given year. It is likely that the number is very high, however, given the amount of successful mergers and the desirability of mergers for many companies.

A merger may be sought for a number of reasons, some of which are beneficial to the shareholders, some of which are not. One use of the merger, for example, is to combine a very profitable company with a losing company in order to use the losses as a tax write-off to offset the profits, while expanding the corporation as a whole.

Increasing one's market share is another major use of the merger, particularly amongst large corporations. By merging with major competitors, a company can come to dominate the market they compete in, giving them a freer hand with regard to pricing and buyer incentives. This form of merger may cause problems when two dominating companies merge, as it may trigger litigation regarding monopoly laws.

Another type of popular merger brings together two companies that make different, but complementary, products. This may also involve purchasing a company which controls an asset your company utilizes somewhere in its supply chain. Major manufacturers buying out a warehousing chain in order to save on warehousing costs, as well as making a profit directly from the purchased business, is a good example of this. Pay Pal's merger with eBay is another good example, as it allowed eBay to avoid fees they had been paying, while tying two complementary products together.

A merger is usually handled by an investment banker, who aids in transferring ownership of the company through the strategic issuance and sale of stock. Some have alleged that this relationship causes some problems, as it provides an incentive for investment banks to push existing clients towards a merger even in cases where it may not be beneficial for the stockholders.

Merger Procedure

I. Accounting :-

When mergers and acquisitions take place, the combined entity's financial statements have to reflect the effect of combination. According to the Accounting Standard 14 (AS 14) issued by the Institute of Chartered Accountants of India, an amalgamation can be in the nature of pooling of interests, referred to as "amalgamation in the nature of merger', or acquisition. The conditions to be fulfilled for an amalgamation to be treated as an "amalgamation in the merger " are as follows:

1. All assets and liabilities of the "Transferor Company" before amalgamation should become assets and liabilities of the "Transferee Company".
2. Shareholders holding not less than 90% of shares (in value terms) of the "Transferor Company" should become the shareholders of the "Transferee Company".
3. The consideration payable to the shareholders of the "Transferor Company" should be in the form of shares of the "Transferee Company" only; cash can however, be paid in respect of fractional shares.
4. Business of the "Transferor Company" is intended to be carried on by the "Transferee Company."
5. The "Transferee Company" incorporates, in its balance sheet, the book values of assets and liabilities of the "Transferor Company" without any adjustment except to the extent needed to ensure uniformity of accounting policies. An amalgamation, which does not satisfy all the conditions stated above, will be regarded as an "Acquisition".

The accounting treatment of an amalgamation in the books of the "Transferee Company" is dependent on the nature of amalgamation. For a merger, the 'pooling of interest' method is to be used and for an Acquisition the 'purchase' method is to be used. Under 'the pooling of interest' method, the balance sheet of the combined entity is arrived at by a line-by-line addition of the corresponding items in the balance sheets of the combining entities. Hence, there is no asset write-up or write-down or even goodwill. Under the 'purchase' method, however, the "acquiring company" treats the "acquired company" as an acquisition investment and, hence, reports its tangible assets at fair market value. So, there is often an asset write-up. Further, if the consideration exceeds the fair market value of tangible assets, the difference is reflected as goodwill, which has to be amortized over a period of five years. Since there is often an asset write-up as well as some goodwill, the reported profit under the purchase method is lower because of higher depreciation as well as amortization of goodwill.

II. Legal/ Statutory approvals

The process of mergers or amalgamations is governed by sections 391 to 394 of the Companies Act, 1956 and requires the following approvals

Shareholder Approval:

The shareholders of the amalgamating and the amalgamated companies are directed to hold meetings by the respective High Courts to consider the scheme of amalgamation. The scheme is required to be approved by 75% of the shareholders, present and voting, and in terms of the voting power of the shares held.(in.value.terms).

Further, Section 395 of the Companies act stipulates that the shareholding of dissenting shareholders can be purchased, provided 90% of the shareholders, in value terms, agree to the scheme of amalgamation. In terms of section 81(IA) of the Companies Act, the shareholders of the "amalgamated company" also are required to pass a special resolution for issue of shares to the shareholders of the "amalgamating company".

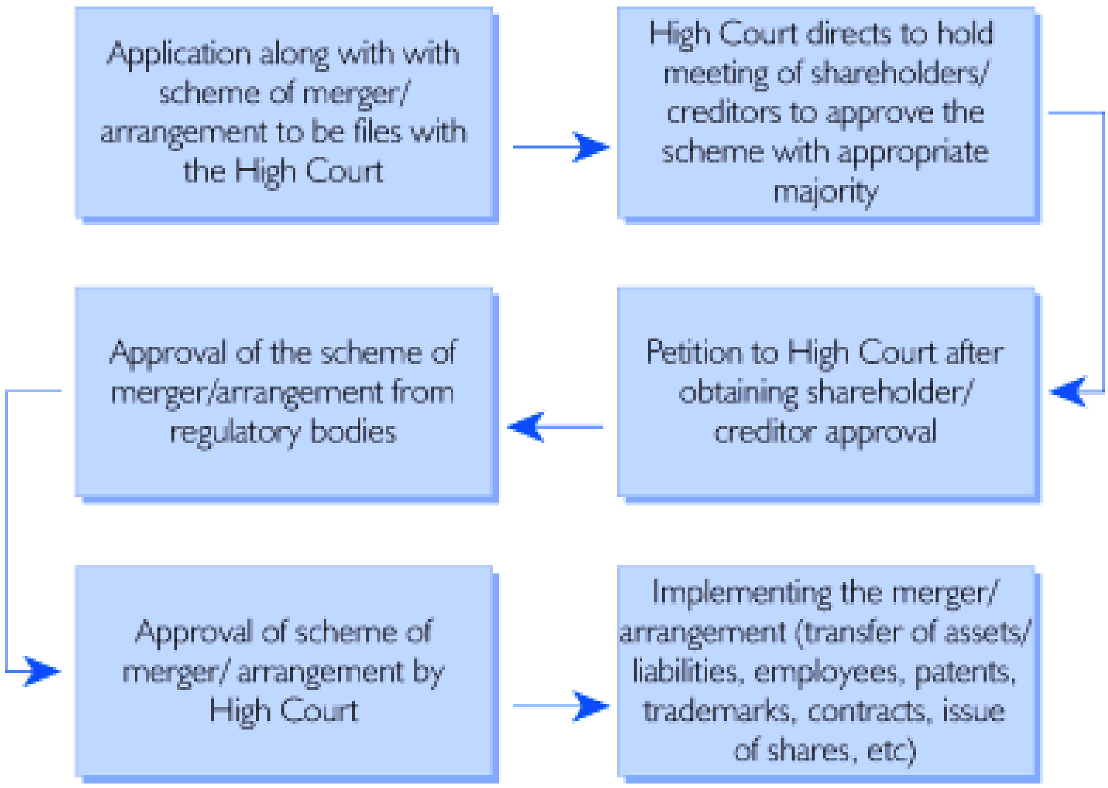
Creditors/Financial Institutions/Banks Approval: -

Approvals from these are required for the scheme of amalgamation in terms of the agreement signed with them.

High Court Approval: -

Approvals of the High courts of the States in which registered offices of the amalgamating and the amalgamated companies are situated are required.

High Court Approval



Reserve Bank of India Approval:-

In terms of section 19 of FERA, 1973 Reserve Bank of India permission is required when the amalgamated company issues shares to the nonresident shareholders of the amalgamating company or any cash option is exercised.

SEBI's Takeover Code for substantial acquisitions of shares in listed companies

In India take-over are controlled. On 4th November 1994, SEBI announced a take-over code for the regulation of substantial acquisition of shares, aimed at ensuring better transparency and minimizing the occurrence of clandestine deals. In accordance with the regulations prescribed in the code, on any acquisition in a company, which makes acquirers' aggregate shareholding exceed 15%, the acquirer is required to make a public offer.

III. Valuation

There are several approaches to valuation. The important ones are the discounted cash flow approach, the comparable company approach, and the adjusted book value approach. Traditionally, the comparable company approach and the adjusted book value approach were used more commonly. In the last few years, however, the discounted cash flow approach has received greater attention, emphasis, and acceptance.

The discounted cash flow approach to corporate valuation involves four broad steps:

Forecast the free cash flow

Compute the cost of the capital

Estimate the continuing value

Calculate and interpret results.

Merger Strategy

Various aspects of the M & A deal such as valuation, legal compliance, accounting and negotiation are highly specialized areas. The advisors are often investment and merchant bankers who are well versed with the M&A market players and have experience and knowledge. Advisors take fees for performing various tasks:

- Target identification
- Determination of appropriate price
- Structuring the finance
- Assisting in negotiation
- Advising on post-merger integration

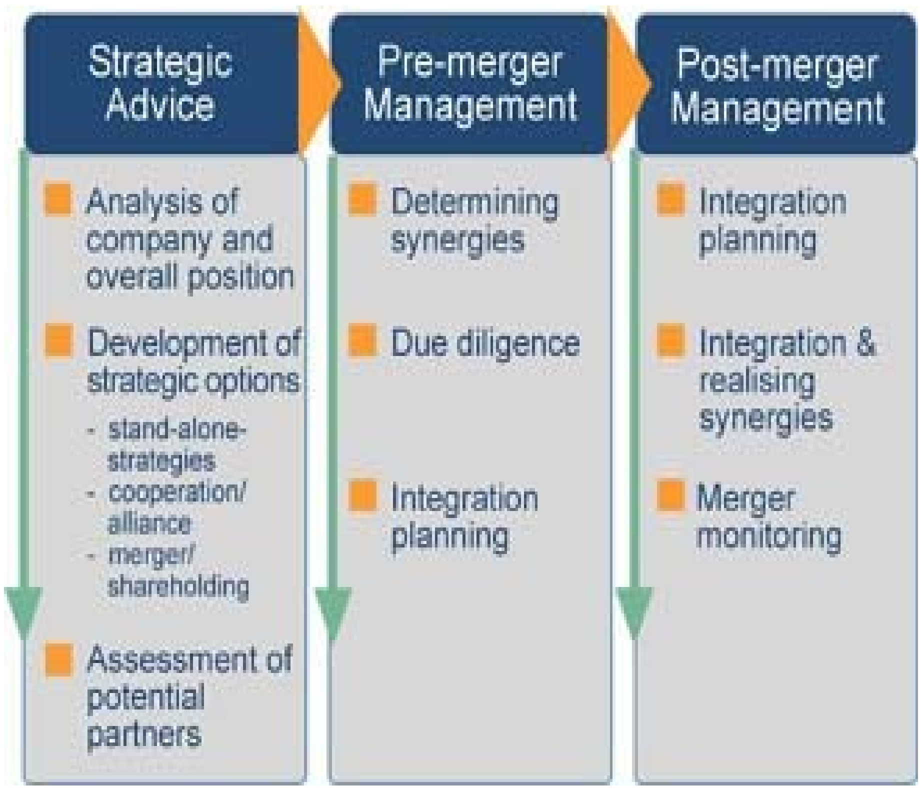
If the target is being sought, the seeker should carefully state the objectives. For example, the objective(s) may be one or more of:

- Increasing market share in domestic market,
- Eliminating a competitor,

- Enhancing production capacity,

- Entering fast growing markets abroad,

- Leveraging.distribution.channels,



FRAMEWORK OF CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

"Corporate governance deals with the way in which supplies of finance to corporations assure themselves of getting a return on their investment." Corporate governance is a system by which business corporations are directed and controlled.

Corporate governance is about promoting corporate fairness, transparency and accountability.

CORPORATE GOVERNANCE IN BANKING SECTOR

In the wake of recent corporate scandals, corporate governance practices have received heightened attention. Shareholder, creditors, regulators and academic are examining the decision-making process in corporations and other organizations, and are posing changes in governance structure to enhance accountability and efficiency. Therefore in order to evaluate reforms of the governance structure of banking firms, it is important to understand the current government practices.

BAD CORPORATE GOVERNANCE

Bad corporate governance can result in these various results-

a) Fraudulent and false accounting

b) Complicated financial systems

c) To create a false picture of financial health and misleading investors.

d) Hide its real financial position

e) Scandals have become the trend of times

f) Inflated profits and high debts

g) Complicated financial structure

ISSUED RAISED FROM BAD CORPORATE GOVERNANCE

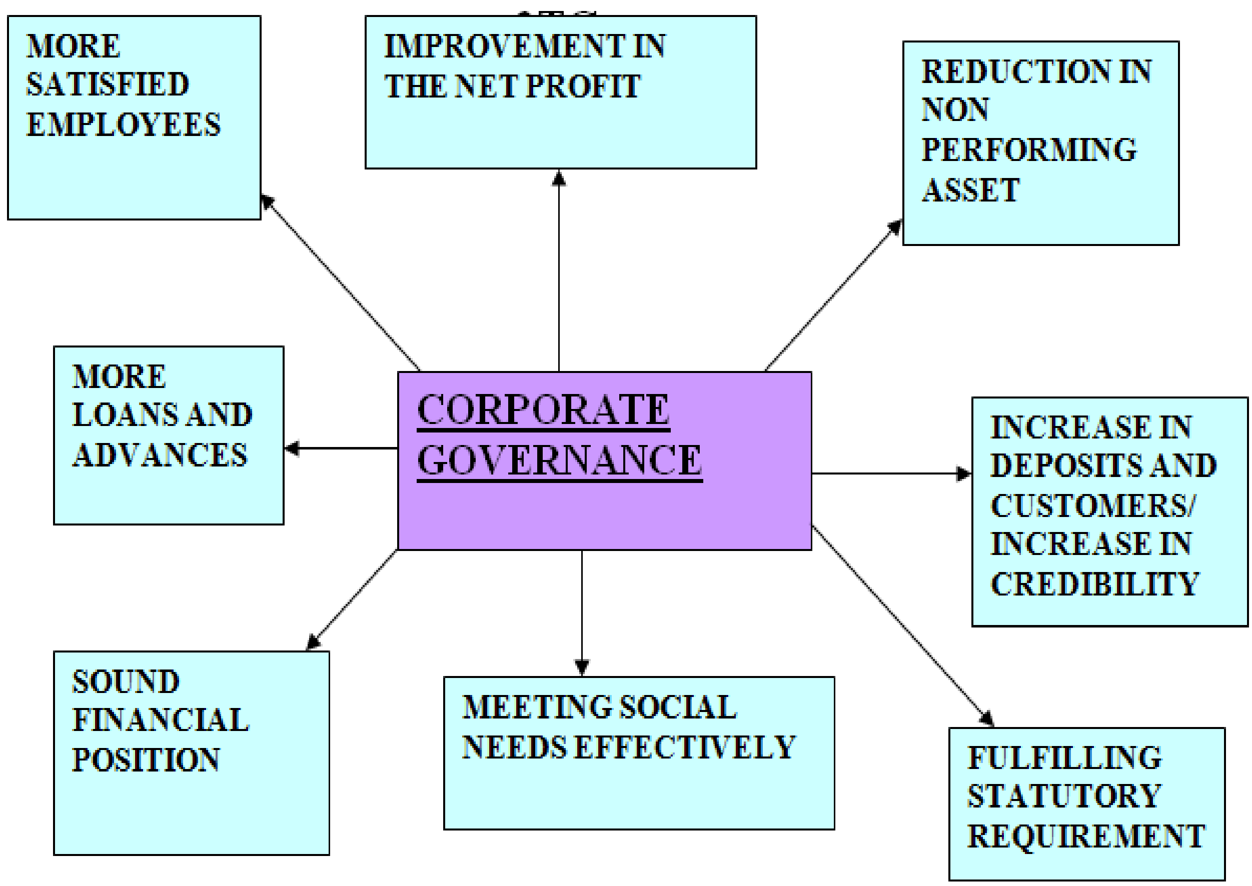
a) Bankruptcy

b) It's dealt a strong blow to those analysts who smugly claimed for something

c) It brought the role of auditors sharply into focus

d) It exposed the peculiarities of the Indian Banking Environment.

CORPORATE GOVERNANCE CAN BE SEEN IN THE FORM OF



IMPACT OF M&As ON WORKING AND EMPLOYMENT CONDITIONS

Most importantly, integrating differing company systems and procedures requires harmonization of various aspects of terms and conditions of employment: pay scales, job titles, entitlements and other benefits, job descriptions, reporting and supervisory lines are all subject to revision to ensure common practice in the newly combined organization.

a) M&As, remuneration and other compensation issues

a. Two conflicting aims appear to characterize current practices in

b. financial sector remuneration: the need to reduce labour costs within a context of increasing competition and decreasing profitability and the necessity to compensate and adequately reward employee performance and commitment within an environment of continuous and challenging change.

b) M&As and working time

a. Banks' adoption of the retailing model is encouraging them to adjust their hours to customer requirements, extending opening hours on at least one day a week and even opening some branches on traditionally closed days such as Sundays – a trend which has aroused strong trade union reactions in a number of countries. It goes without saying that M&As can provide an opportunity for management to opt for more customer-friendly working hours like ICICI Bank from 8am to 8pm.

c) M&As as factors of stress and demotivation

a. M&As generate high levels of staff anxiety and stress as their working world is turned upside down, their jobs come under threat and their career prospects and professional competence are called into question.Not surprisingly, it is much easier for managers to convince shareholders about the merits of proposed mergers than it is to persuade their own staff.

d) M&As and job security

a. Not surprisingly, empirical evidence shows that workers everywhere are feeling increasing insecurity in their employment. Companies are restructuring and downsizing more often, increasingly replacing full-time jobs with part time, casual or temporary jobs and outsourcing.

IMPACT OF M & As ON CONSUMERS

New technology and the increased ability of financial institutions to offer a wider range of products and services have benefited those with the means to access them. Consumers with a regular income and a good credit history are able to borrow money more readily and cheaply than ever before, although this has often lead to widespread debt encumbrance. Consumers of retail services with more restricted incomes, with poor credit histories or unstable social backgrounds, are finding it more difficult to get access to the mainstream financial services sector traditional banking services.

A process that has run in parallel to that of merger and acquisition activity within the financial services sector has been that of 'demutualization'. Insurance companies and building societies have been prominent mutual organizations, which are effectively 'owned' by their members, that is, by consumers who held policies or debt products and who have the right to vote on policy and other matters at Annual General Meetings.

Reactions by consumers to mergers

Again, it is virtually impossible to determine the exact impacts of specific mergers and acquisitions on levels of customer loyalty from the available evidence. This kind of information is highly sensitive, and is not easily released by firms. However, it is generally known that the industry sees declining levels of customer loyalty as a problem, although levels of customer mobility vary markedly between sectors. Levels of mobility are relatively high in price-sensitive sectors such as car and household insurance, whereas it is lower for more complex products such mortgages and lower still for banking services.In all product areas a growing number of consumers are prepared to move their business from one firm to another. Although on the whole financial service customers tend to be highly conservative, it tends to be the more affluent and financially literate customers that are most prepared to shop around for products and to relocate their financial activities if necessary.

Challenges and opportunities in Indian banking sector

In a few years from now there would be greater presence of international players in Indian financial system and some of the Indian banks would become global players in the coming years. Also competition is not only on foreign turf but also in the domestic field. The new mantra for Indian banks is to go global in search of new markets, customers and profits. But to do so the Indian banking industry will have to meet certain challenges. Some of them are –

I. **FOREIGN BANKS** –

India is experiencing greater presence of foreign banks over time. As a result number of issues will arise like how will smaller national banks compete in India with them, and will they themselves need to generate a larger international presence? Second, overlaps and potential conflicts between home country regulators of foreign banks and host country regulators: how will these be addressed and resolved in the years to come? It has been seen in recent years that even relatively strong regulatory action taken by regulators against such global banks has had negligible market or reputational impact on them in terms of their stock price or similar metrics.

II. **GREATER CAPITAL MARKET OPENNESS** –

An important feature of the Indian financial reform process has been the calibrated opening of the
capital account along with current account convertibility. It has to be seen that the volatility of capital inflows does not result in unacceptable disruption in exchange rate determination with inevitable real sector consequences, and in domestic monetary conditions. The vulnerability of financial intermediaries can be addressed through prudential regulations and their supervision; risk
management of non-financial entities. This will require market development,

III. **TECHNOLOGY IS THE KEY** –

IT is central to banking. Foreign banks and the new private sector banks have embraced technology right from their inception and continue to do so even now. Although public sector banks have crossed the 70%level of computerization, the direction is to achieve 100%.
Networking in banks has also been receiving focused attention in recent times. Most recently the trend observed in the banking industry is the sharing of ATMs by banks. This is one area where perhaps India needs to do significant 'catching up'. It is wise for Indian banks to exploit this globally state-of-art expertise, domestically available, to their fullest advantage.

IV. **CONSOLIDATION** –

We are slowly but surely moving from a regime of "large number of small banks" to "small number of large banks." The new era is one of consolidation around identified core competencies i.e., mergers and acquisitions. Successful merger of HDFC Bank and Times Bank; Stanchart and ANZ Grindlays; Centurion Bank and Bank of Punjab have demonstrated this trend. Old private sector banks, many of which are not able to cushion their NPA's, expand their business and induct technology due to limited capital base should be thinking seriously about mergers and acquisitions.

V. **PUBLIC SECTOR BANKS** -

It is the public sector banks that have the large and widespread reach, and hence have the potential for contributing effectively to achieve financial inclusion. But it is also they who face the most difficult challenges in human resource development. They will have to invest very heavily in skill enhancement at all levels: at the top level for new strategic goal setting; at the middle level for implementing these goals; and at the cutting edge lower levels for delivering the new service modes.

VI. **COST MANAGEMENT** –

Cost containment is a key to sustainability of bank profits as well as their long-term viability. In India, however, in 2003,operating costs as proportion of total assets of scheduled commercial banks stood at 2.24%, which is quite high as compared to in other economies. The tasks ahead are thus clear and within reach.

VII. **REACH AND INNOVATION** –

Higher sustained growth is contributing to enhanced demand for financial savings opportunities. Also industrial expansion has accelerated; merchandise trade growth is high; and there are vast demands for infrastructure investment, from the public sector, private sector and through public private partnerships. Thus, the banking system has to extend itself and innovate. Banks will have to innovate and look for new delivery mechanisms and provide better access to the currently under-served. Innovative channels for credit delivery for serving new rural credit needs will have to be found. Greater efforts will need to be made on information technology for record keeping, service delivery, and reduction in transactions costs, risk assessment and risk management.

VIII. **RISK MANAGEMENT** –

Banking in modern economies is all about risk management. The successful negotiation and implementation of Basel II Accord is likely to lead to an even sharper focus on the risk measurement and risk management at the institutional level. Sound risk management practices would be an important pillar for staying ahead of the competition. Banks can, on their part, formulate 'early warning indicators' suited to their own requirements, business profile and risk appetite in order to better monitor and manage risks.

IX. **GOVERNANCE** –

The quality of corporate governance in the banks becomes critical as competition intensifies, banks strive to retain their client base, and regulators move out of controls and micro-regulation. The objective should be to continuously strive for excellence. Improvement in policyframework, regulatory regime, market perceptions, and indeed, popular sentiments relating to governance in banks need to be on the top of the agenda – to serve our society's needs and realities while being in harmony with the global perspective.

ALL BANKING MERGERS SO FAR

MERGER STORY SO FAR		
YEAR	**BANK**	**MERGED WITH**
1969	Bank Of Bihar	State Bank Of India
1970	National Bank Of Lahore	State Bank Of India
1971	Eastern Bank Ltd.	Chartered Bank
1974	Krishnaram Baldeo Bank Ltd.	State Bank Of India
1976	Belgaum Bank Ltd.	Union Bank Of India
1984-85	Lakshmi Commercial Bank	Canara Bank
1984-85	Bank Of Cochin	State Bank Of India
1985	Miraj State Bank	Union Bank Of India
1986	Hindustan Commercial Bank	Punjab National Bank
1988	Trader's Bank Ltd.	Bank Of Baroda
1989-90	United Industrial Bank	Allahabad Bank
1989-90	Bank Of Tamilnad	Indian Overseas Bank
1989-90	Bank Of Thanjavur	Indian Bank
1989-90	Parur Central Bank	Bank Of India
1990-91	Purbanchal Bank	Central Bank Of India
1993-94	New Bank Of India	Punjab National Bank
1993-94	Bank Of Karad	Bank Of India
1995-96	Kasinath Seth Bank	State Bank Of India
1996	SCICI	ICICI
1997	ITC Classic	ICICI
1997	BARI Doab Bank	Oriental Bank of Commerce
1998	Punjab Co-operative Bank	Oriental Bank of Commerce
1998	Anagram Fianance	ICICI
1999	Bareilly Corporation Bank	Bank of Baroda
1999	Sikkim Bank ltd.	Union Bank
2000	Times bank	HDFC Bank
2001	Bank of Madura	ICICI
2002	Benaras state bank	Bank of Baroda
2003	Nedungadi Bank	Punjab national Bank
2004	South Gujarat Local Area Bank	Bank of Baroda
2004	Global Trust Bank	Oriental Bank of Commerce
2005	Bank of Punjab	Centurion bank
2005	IDBI bank	IDBI

MERGER STORY SO FAR		
YEAR	**BANK**	**MERGED WITH**
1969	Bank Of Bihar	State Bank Of India
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1989-90	United Industrial Bank	Allahabad Bank
1989-90	Bank Of Tamilnad	Indian Overseas Bank
1989-90	Bank Of Thanjavur	Indian Bank
1989-90	Parur Central Bank	Bank Of India
1990-91	Purbanchal Bank	Central Bank Of India
1993-94	New Bank Of India	Punjab National Bank
1993-94	Bank Of Karad	Bank Of India
1995-96	Kasinath Seth Bank	State Bank Of India
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1997	ITC Classic	ICICI
1997	BARI Doab Bank	Oriental Bank of Commerce
1998	Punjab Co-operative Bank	Oriental Bank of Commerce
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1999	Bareilly Corporation Bank	Bank of Baroda
1999	Sikkim Bank ltd.	Union Bank
2000	Times bank	HDFC Bank
2001	Bank of Madura	ICICI
2002	Benaras state bank	Bank of Baroda
2003	Nedungadi Bank	Punjab national Bank
2004	South Gujarat Local Area Bank	Bank of Baroda
2004	Global Trust Bank	Oriental Bank of Commerce
2005	Bank of Punjab	Centurion bank
2005	IDBI bank	IDBI
2008	HDFC bank	Centurion bank of punjab

MERGER OF GLOBAL TRUST BANK AND ORIENTAL BANK OF COMMERCE

GLOBAL TRUST BANK

ORIENTAL BANK OF COMMERCE
(A Government of India Undertaking)

1) COUNTDOWN TO COLLAPSE OF GLOBAL TRUST BANK

This was a crisis in the making for the last three years.

KETAN PAREKH SECURITIES SCAM OF 2001

The genesis of the GTB collapses lies in now ousted promoter Ramesh Gelli's involvement in the Ketan Parekh securities scam of 2001, when he gave huge unsecured loans to the stock broker and group companies of Zee Telefilms.

March 31, 2002

GTB's audited balance sheet for march 31,2002, showed net worth of Rs.400.4 cr. & a profit of Rs. 40 cr. However, RBI's inspection revealed that net worth is negative.

LARGE VARIANCE IN GTB'S FINANCIAL POSITION AS REPORTED BY AUDITORS

In view of very large variance in the assessment of GTB's financial position as reported by auditors and by RBI's inspectors, an independent chartered accountant was appointed to reconcile the position.

UNDESIRABLE ACTIVITIES

GTB was placed under directions relating to certain types of advances, certain premature withdrawl of deposits, declaration of dividend and its capital market exposure. RBI also started monitoring GTB on monthly basis.

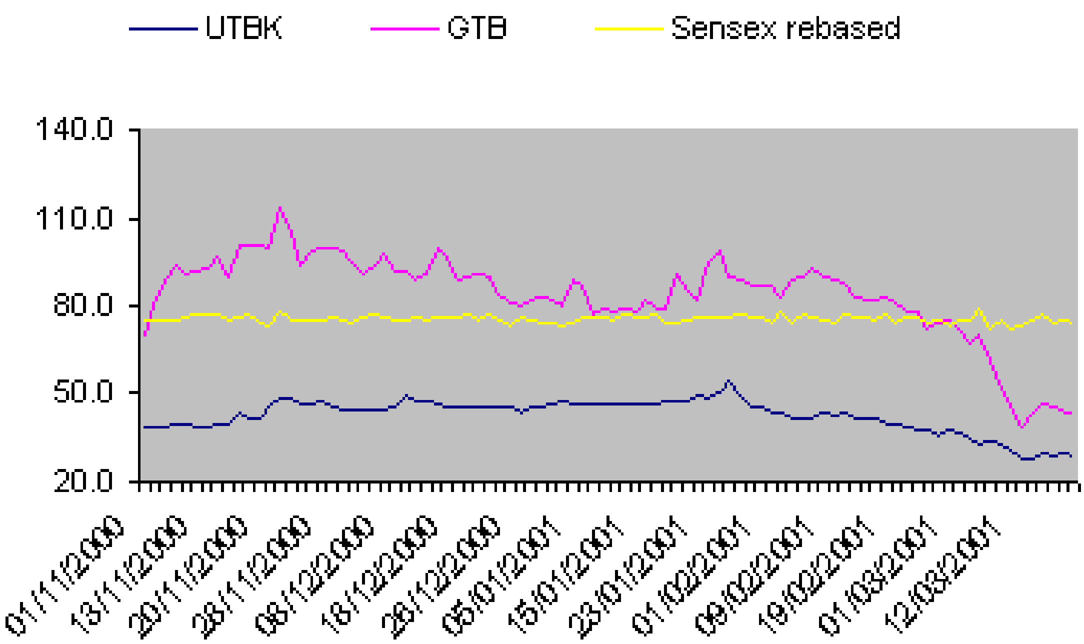
LOSSES IN ANNUAL ACCOUNTS

For statutory audit, RBI permitted GTB, time up to September 30, 2003 to publish the annual accounts.

STOCK PERFORMANCE

The two possible scenarios discussed above are calling off the merger and revision in the swap ratio. Both the cases seem to be positive for the stock of UTBK, which has already been hammered by over 40% since the merger announcement. All the negatives seem to be more or less factored in the current price levels. We are still positive on the fundamentals of UTI bank and expect the bank to achieve our projected growth rates. However, given the uncertainty over the ongoing developments, any fresh exposure to the stock shall be avoided.

Chart1: Price movements of UTBK, GTB and BSE Sensex over the last 4 months



Source: Indiainfoline

ON MARCH 31, 2005,

ITEMS	BALANCES (CR.)
Deposits	7342
Advances	3528
Gross NPA	1032
Provision (against bad loan)	298

RBI's INSPECTION

But RBI's inspection showed that bank's net worth has further eroded and capital adequacy ratio (CAR) was negative.Thereafter, government on the 24th July placed GTB under moratorium for three months on application from RBI.

Therefore sudden decision of RBI and government of India to place GTB under moratorium caught more than 8.5 lakh customers of the bank unaware and shocked.The moratorium is aimed at freezing the assets and liabilities of the bank in order to protect the bank's health from further deterioration.

2) RBI's SCHEME OF AMALGAMATION OF GLOBAL TRUST BANK WITH ORIENTAL BANK OF COMMERCE

a) Global Trust Bank Ltd., (GTB) was placed under of Moratorium on July 24, 2004. The option available with Reserve Bank was to compulsory merger under section 45 of the Banking Regulation Act, 1949.

b) The government of India has sanctioned the scheme for amalgamation of the global trust bank ltd. With the oriental bank of commerce. The amalgamation came into force on August 14, 2004.

c) Before the wide interest of the different parties had considered i.e.

   a. OBC interest was examined by the RBI keeping in view its financial parameters.
   b. Its retail network and its synergies
   c. Strategic advantages
   d. Considered the interests of the millions of depositors of GTB
   e. Evaluated the bank;s strengths and weaknesses, the RBI prepared draft scheme of amalgamation of GTB with OBC.

3) GLOBALTRUST BANK PLACED UNDER MORATORIUM- NOTIFICATION OF RESERVE BANK OF INDIA

On an application by the Reserve Bank of India, the Central Government has today issued an Order of Moratorium in respect of the Global Trust Bank Ltd. The Order of Moratorium has been passed by the Central Government in public interest, in the interest of depositors and the banking system. **The decision of the government to impose a moratorium on Global Trust Bank is not Liquidation of the bank. In a moratorium, government imposes a freeze on the bank's liabilities so that bank is not able to grant any loan or advances, incur any liability, make any investment or disburse any amount.**

PROVISIONS FOLLOWED DURING THE PERIOD OF MERGER:-

a) The moratorium will be effective from the close of business on Saturday, July 24,2004 up to and inclusive of October 23, 2004 or an earlier date.

b) During the period, the Reserve Bank of India will consider the various options, including amalgamation of the Global Trust Bank Ltd.

c) Finalize the plans in public interest and with a view to ensuring that the public deposits are protected.

d) During the period of moratorium, the bank will be permitted to make only those payments that have been specified in the Order of Moratorium and the depositors of the Global Bank.

e) Depositors were permitted to withdraw up to Rs.10000 (Rs.ten thousand only) from their savings bank account or current account or any other deposit account through any other of the branches of the bank.

f) For the present, withdrawals through ATMs of the bank/ATMs shared with other banks will not be permitted so as to give effect to the monetory ceiling prescribed in the moratorium, but the customers can make withdrawals upto the limit specified at any of the bank's branches.

g) Any requirement of cash at the branches of the bank for making permitted payments will be ensured in full by the Reserve Bank of India since cash balances are maintained with it by the Global Trust Bank Ltd.

4) CLARIFICATIONS ISSUED BY RESERVE BANK OF INDIA:-

RBI reiterates that the objective of the moratorium is to protect the interests and safety of funds of all depositors. Necessary actions are being initiated to ensure the return of normalcy.

a) All the branches of Global Trust Bank Ltd. will continue to remain open as per their normal working hours to help their customers and enable them to make the permitted withdrawals.

b) RBI stands by its assurance to meet any requirement of cash at the branches of the bank for making permitted payments under the Order of moratorium.

c) It is also clarified that the D-mat accounts and Safe Deposit Lockers of customers will be allowed to be operated as usual.

d) The Reserve Bank of India has set up help lines to assist the members of public at Mumbai and Hyderabad.

5) GLOBAL TRUST BANK IS NOW ORIENTAL BANK OF COMMERCE

The Government of India has sanctioned the scheme for amalgamation of the Global Trust Bank Ltd. With the Oriental Bank of Commerce. The amalgamation will come in to force on August 14, 2004. All the branches of Global Trust Bank Ltd with function as branches of Oriental Bank of Commerce with effect from this date.

CUSTOMERS/DEPOSITERS OF GTB

Customers, including depositors of the Global Trust bank Ltd. Will be able to operate their accounts as customers of Oriental Bank of Commerce with effect from August 14, 2004. Oriental Bank of Commerce is making necessary arrangements to ensure that service, as usual, is provided to the customers of the Global Trust bank Ltd.

PRO-DATA PAYMENT .IF ANY SURPLUS REMAINS

If any surplus remains after meeting all the liabilities out of the realization of the assets of the Global Trust bank Ltd., the shareholders may receive pro-data payment.

INCOME TAX EXEMPTIONS

As part of the merger proposal, the OBC would get income tax exemptions in transferring the assets of GTB in its book during the merger process, while all the bad debts of the merged entity would be adjusted against the cash balances and reserves of the Hyderabad-based bank.

THE MERGED BALANCE SHEET:-

Post write-offs, OBC's books will be stronger.

OBC GTB TOTAL OBC GTB

TOTAL

Capital	192.54	121.36	192.54	Cash/bank	2524.22	804.84	3329.06
Reserve/ surplus	1916.10	-118.91	1919.25	Investment	14780.54	2645.29	17425.83
Deposits	29809.10	6920.932	36730.02	Advances &Loans	15677.24	3276.11	18953.35
Borrowing	1166.02	302.06	1468.08	Deferred tax assets	5.00	93.36	98.36
Deferred tax liab.	N.A.	38.62	38.62	Receivables	833.18	465.68	1299.56
Current Liab.	914.42	168.20	1082.62	Net fixed assets	145.29	300.80	466.09
Provisions	N.A.	153.83	153.83	Intangible	32.17	N.A.	32.71
Total	33998.18	7586.08	41584.96	Total	33998.18	7586.08	41584.96

7) COST OF MERGING GLOBAL TRUST BANK

How much will GTB cost OBC?

	(Rs crore)
Possible write offs* (Net NPA-Recoverable)	632 (approx.)
(-) Tax benefit on write off	226
Cost after write off	406
(-) Tax benefit on write off of accumulated losses**	95
Net cost	**311**
OBC's tax provision for 03-04	459
Possible tax benefit as above	321
*Gross NPA (GTB)	1,500 (approx.)
Net NPA	1,232 [647^ + [1500 - 915^]
(-) Recoverable (The write off may be spread over a few years.)	40% (of Gross NPA)

** Accumulated losses of Rs 265 crore to be written off for tax purpose but will not hit the books. As per the draft scheme of amalgamation the capital and reserve of GTB will be treated as provision and this amount nearly equals the accumulated losses. ^ Net NPA: 647 crore, Gross NPA: 915 crore (as per 2002-03 balance sheet)

8) POSITION AFTER THE MERGER

ACCORDING TO BUSINESS TODAY JANUARY 2006

Experts and analyst had an opinion that OBC was a 58,000 cr company, one of the country's most successful public sector banks, had been sold a lemon , but this argument cut no ice

OBC is confident of turning around the GTB within one year. According to OBC chairman B.D. Narang, Gtb "suited it" because of synergies. While weaknesses of GTB has been bad assets, strength of OBC is recovery.

BENEFITS OF OBC

Since the GTB is a south-based bank, it would give OBC the much-needed edge in the southern part of the country.

Both the banks have a common core banking solution 'Finale', which will help in the consolidation.

a. GTB's 275 ATm's multiplied its strength of 72 by a factor of almost five folds & make it the 3rd largest ATM operator in PSU banks.
b. 103 branches are added to exixting 1013 branches
c. Larger customer base
d. After accounting for the tax gains the merger of GTB, the total losses come to Rs. 704.6 cr.

9) POST MERGER BALANCE SHEET

OBC: The combined balance sheet

Liabilities	(Rs crore)
Capital	192
Reserve & surplus	2,480
Deposits	42,590
Borrowings	1,400
Other liabilities & provisions	1,700
Total	**48,362**
Assets	
Cash & balances with RBI	4,400
Investments	19,300
Advances	22,957
Receivables	1,220
Fixed assets	445
VRS expenses not written off	16
Deferred tax asset (net)	24
Total	**48,362**

Notes: Based on OBC's 2003-04 balancesheet and GTB's 2002-03 balance sheet. Before any write offs in GTB's books for 2003-04. GTB's net worth has been taken as nil.

FINANCIAL POSITION OF ORIENTAL BANK OF COMMERCE

FROM 2008 to 2010

Directors Report of Oriental Bank of Commerce from 2008 to 2010

**** Because Annual Reports of OBC Bank from 2009-10 is still not declared, so that I include financial performance of 2008-09**

The Board of Directors has pleasure in presenting this Annual Report together with the Audited Balance Sheet and Profit & Loss account of the Bank for the Year ended 31st March, 2009.

Financial Highlight

FINANCIAL PERFORMANCE

The Bank has posted a total income of Rs. 9927.79 crore during the year as against Rs. 7454.84 crore last year thus registering an increase of Rs. 2472.95 crore (a growth of 33.17%) during the fiscal 2008-09. Operating Profit of the Bank went upto Rs.1684.98 crore as against Rs. 1219.04 crore last year showing a growth of 38.22%. The Bank has made a net profit of Rs. 905.42 crore, after making all requisite provisions showing an increase of Rs. 64.48 crore (growth of 7.67%) during the fiscal 2008-09. Appropriation from the Net Profit have been effected as per table given below:-

Table 1 : Financial Performance

(Rupees in crore)

	31.03.2009	31.03.2008
Interest Income	8856.47	6827.19
Other Income	1071.32	627.65
Total Income	9927.79	7454.84
Interest Paid	6859.97	5156.17
Operating Expenses	1382.84	1079.63
Total Expenses	8242.81	6235.80
Operating Profit	1684.98	1219.04
Provisions & Contingencies	779.56	378.10
Net Profit	905.42	840.94
Add-Profit brought forward	0.51	0.42
Less-Amalgamation adjustment Written-off —	487.72	
Net Profit available for appropriation		
APPROPRIATION	905.93	353.64
Transfer to Statutory reserve	227.00	89.00
Transfer to Revenue and Other reserves	21.00	111.36
Transfer to Special Reserve u/s 36(1) (viii)of l-TAct	86.00	0.00
Transfer to staff welfare fund	15.00	15.00
Transfer to capital reserve	342.12	0.00
Proposed Dividend	182.90	117.76
Tax on Dividend	31.08	20.01
Balance carried over to Balance Sheet	0.83	0.51

SECTORAL DEPLOYMENT OF CREDIT TO PRIORITY SECTOR

Banks advances to priority sector increased by Rs. 3555.24crore from Rs. 18759.83 crore in March 2009 rs. 22315.07. crore in March 2009 registering growth of 18.95%. The Priority Sector Advances constituted 40.90% of the Adjusted Net Bank Credit - (ANBC) against the stipulation of 40%. The comparative position of advances under various segments under Priority Sector as at the end of March 2008and March 2009 as follows:

(Amount Rs. in crore)

S. No.	Sectors	March 2008	March 2009
1.	Priority sector credit	18759.83	22315.07
2.	Agriculture	6930.05	8614.03
	Direct Agriculture	3463.91	4644.43
	Indirect Agriculture	3466.14	3969.60
3.	SSI/SE	5015.05	5576.33
4.	Educational Loan	568.75	767.97
5.	Housing Loan	5244.87	6197.17
6.	Other P.S.	1001.11	1159.57

Business Growth

Oriental Bank of Commerce declared its half-yearly results for the period ending Sep 2009, today, at New Delhi. Addressing the media Sh. T. Y. Prabhu , Chairman & Managing Director informed that the business-mix of the Bank has increased from Rs.148489 Crores (30.09.2008) to Rs. 1,84,425 crores as on 30th Sep 2009, registering a growth of 24.20% (YOY). Aggregate Deposits grew by 23.50% (YOY) from Rs.87368 Crores on 30.09.2008 to Rs. 107897 Crores, while Gross Advances showed growth of 25.21% (YOY) Rs.61121 Crores to (30.09.2009) to Rs. 76527 Crores.

The Bank has presently 1422 Branches and 59 Extension counters and 881 ATMs across the Country.

Sh. T.Y. Prabhu while announcing the financial results of the Bank for the half year ended (H1)30.09.2009 of FY2008-09 stated that Bank has posted encouraging financial results with its focused business strategy and continuing support of over 12 Million satisfied customers spread all over the country.

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Future Vision from 2010 to 2011 0f Oriental Bank of Commerce

The Bank has targeted to increase its customers base by 2 million and has already added 0.6 million accounts during the first half year. During 2009-10, the Bank plans to open more than 100 branches all over India and increase its Branch network to 1500 Branches with a total Business Mix of over Rs.2 Lac Crores by March 2011.

ANALYSIS

ANALYSIS

GLOBAL TRUST BANK/ ORIENTAL BANK OF COMMERCE

* REASONS BEHIND THE MERGER

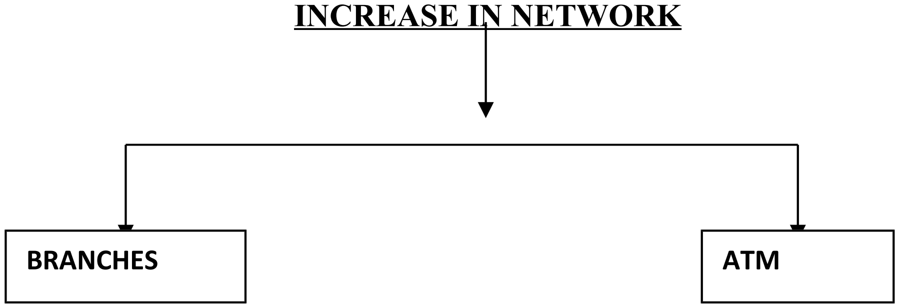
ketan Parekh Scam

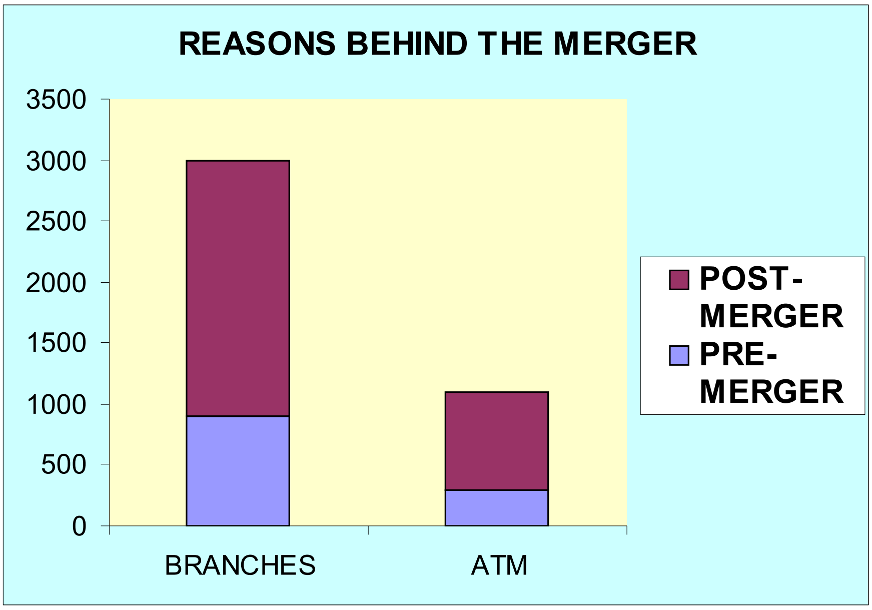
Huge NPA

Negative Net Worth

Inappropriate Audit

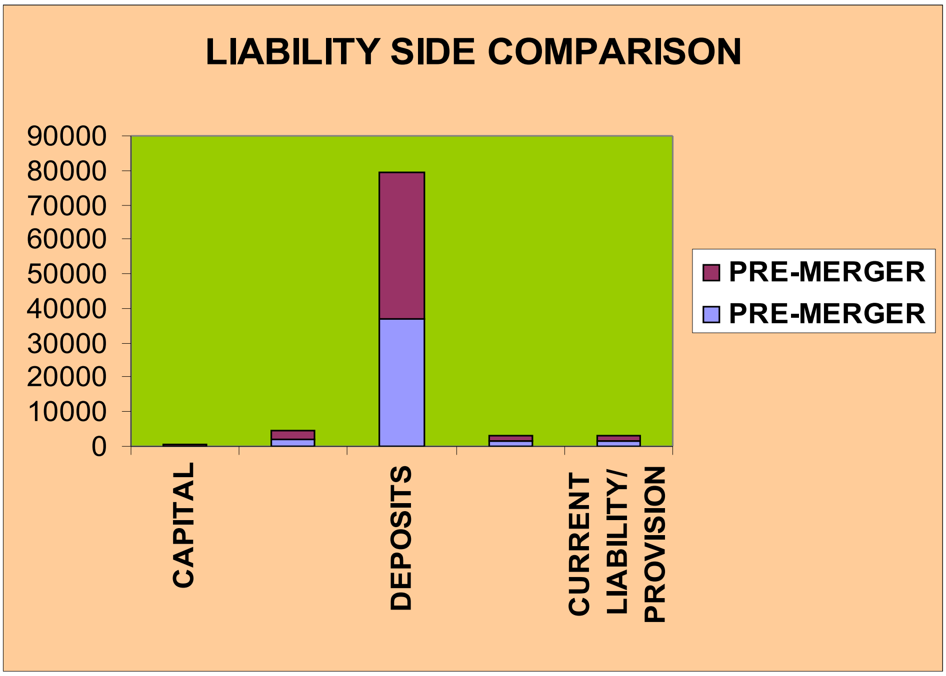
INCREASE IN NETWORK





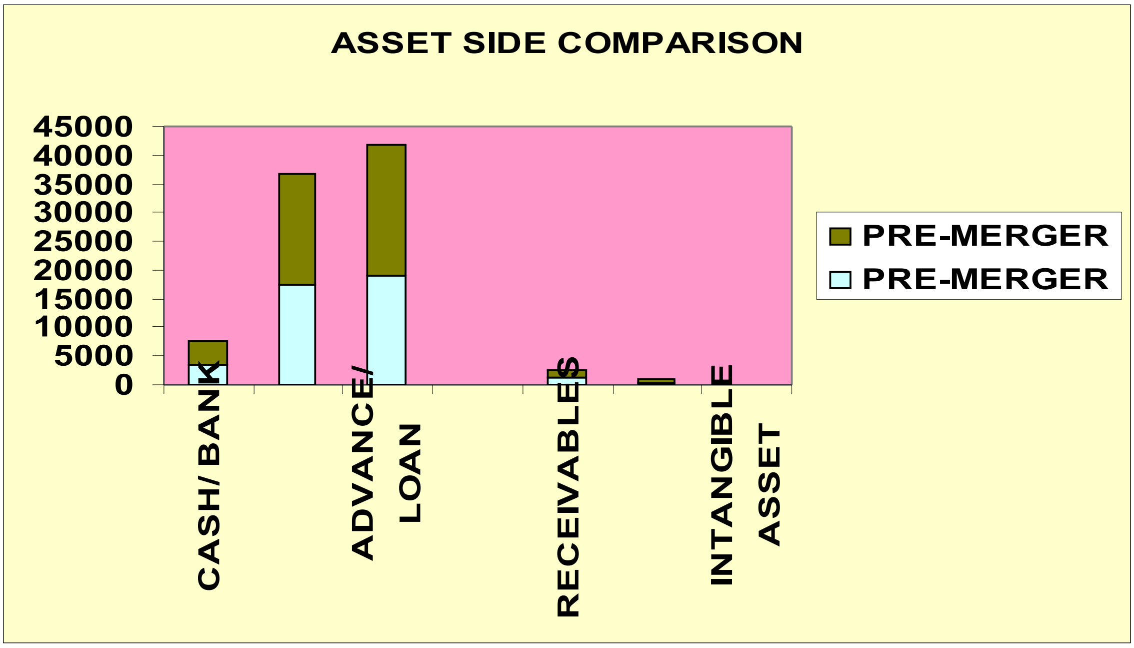
COMPARISON OF BALANCE SHEET

LIABILITY SIDE



	CAPITAL	RESERVE/ SURPLUS	DEPOSITS	BORROWING	CURRENT LIABILITY/ PROVISION
PRE-MERGER	192	1919	36730	1468	1270
POST-MERGER	192	2480	42590	1400	1700
% CHANGE	NIL	+29%	+16%	-5%	+39%

ASSET SIDE



	CASH/ BANK	INVESTMENTS	ADVAN-CE/ LOAN	DEFE-RRED TAX LIAB.	RECEI-VABLES	NET FIXED ASSET	INTAN-GIBLE ASSET
PRE-MERGER	3329	17426	18953	99	1300	446	32
POST-MERGER	4400	19300	22957	24	1220	445	16
% CHANGE	+32%	+11%	+21%	-76%	-6%	-0.3%	-50%

BENEFITS DERIVED FROM MERGER AND ACQUISITION

After studying various cases of mergers in the banking sector a large number of benefits can be seen which are as follows:

a) Better corporate governance.

(Global Trust Bank / Oriental Bank Of Commerce)

b) Increase in the network / branches.

(Bank Of madura / ICICI)

c) Increase in customer base.

Bank Of America / Fleet Boston)

d) Reduction in NPA.

(Nedungadi Bank / Punjab National Bank)

e) Compliance with statutory requirement.

(Global Trust Bank / Oriental Bank Of Commerce)

f) Fulfilling more responsibility towards society.

(Bank Of madura / ICICI)

g) Improvd financial position.

(Global Trust Bank / Oriental Bank Of Commerce)

CONCLUSION

After merger of the Global Trust Bank and Oriental Bank of Commerce following changes has been take place:

a) Change in management

b) New ways of providing services to customers. (e-payment-railway tickets)

c) Change in debt recovery policy.

After analyzing the whole case of merger of the Global Trust Bank with Oriental Bank of Commerce following conclusions can be drawned.

The quantitative factors thatare taken as the criteria for measuring the corporate governance after the consolidations can be achieved in a better manner, like:

a) Net profits
b) Increase in deposits / credibility
c) Increase in customer base / network
d) More loans and advances
e) Fulfilling statutory requirement
f) Sound financial position

ALL OF THESE SHOWN IMPROVEMENT

AFTER MERGER DUE TO BETTER PRACTICE OF CORPORATE GOVERNANCE

a) Reduction in Non Performing Assets

(ANNOUNCED AS A 0% NPA BANK-

ORIENTAL BANK OF COMMERCE

ACC. TO BUSINESS STANDARD)

SHOWN A GREAT

DECLINE IN NPA

FINDINGS

A combination of factors - increased global competition, regulatory changes, fast changing technology, need for faster growth and industry excess capacity - have fuelled mergers and acquisitions (M&A) in recent times.

The M & A phenomenon has been noticeable not only in developed markets like the US, Europe and Japan but also in emerging markets like India.

Major acquisitions have strategic implications because they leave little scope for trial and error and are difficult to reverse.

Moreover, the risks involved are much more than financial in scope. A failed merger can disrupt work processes, diminish customer confidence, damage the company's reputation, cause employees to leave and result in poor employee motivation levels. So the old saying, discretion is the better part of valour, is well and truly applicable here.

A comprehensive assessment of the various risks involved is a must before striking an M&A deal. Circumstances under which the acquisition may fail including the worst case scenarios should be carefully considered.

Even if the probability of a failure is very low but the consequences of the failure are significant, one should think carefully before rushing to complete the deal.

RECOMMENDATION

Nothing can guarantee that the shiny new company will bring with it untold riches, nor can you assure yourself that you won't be exposing your most sensitive information assets to risk by coupling your network infrastructures. What you can do is mitigate the risk of a costly and embarrassing security breach. Link it to your financial due diligence and make it happen.

- Assess the Business Risk
- Analyze the external perimeters
- Pay attention to attitude
- Review the company's security program
- Review critical applications
- Pay attention to antiviral efforts
- Learn how security intelligence is gathered and systems are monitored
- Look at emergency response processes

LIMITATIONS

- Mergers & Acquisitions are hard to occur, so the information about them is very less.
- It was not possible to cover every aspect .This poses to be a serious limitation.
- The information was collected from secondary data, so the limitation occurred in the exact interpretation.
- Also the information was collected from secondary data, so sometimes the results may be related to some specific area/aspect.
- As the process of mergers and acquisitions of banks is kept secrete with the general public, so the exact procedure and the reasons behind them are difficult to find.
- As the data has been taken form the books and various websites, the data available is not recent.
- Various financial terms related to mergers and acquisitions are the difficult to understand.
- It is difficult to explain specific impacts made on consumers from merger and acquisition activity within the financial services sector.

FUTURE SCENARIO

The future outlook of the Indian banking industry in 2010 to 2015 is that a lot of action is set to be seen with respect to M & A's, with consolidation as a key to competitiveness being the driving force. Both the private sector banks and public sector banks in India are seeking to acquire foreign banks. As an example, the State Bank of India, the largest bank of the country has major overseas acquisition plans in its bid to make itself one
of the top three Banks in Asia, and among the top 20 globally over next few years. Some of the PSU banks are even planning to merge with their peers to consolidate their capacities. In the coming years we would also see strong cooperative banks merging with each other and weak cooperative banks merging with stronger ones.

While there would be many benefits of consolidation like size and thereby economies of scale, greater geographical penetration, enhanced market image and brand name, increased bargaining power, and other synergies; there are also likely to be risks involved in consolidation like problems associated with size, human relations problems, dissimilarity in structure, systems and the procedures of the two organizations, problem of valuation etc which would need to be tackled before such activity can give enhanced value to the industry.

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