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Bank merger: How government worked out the marriage

BY [SANGITA MEHTA](#), ET BUREAU | UPDATED: SEP 19, 2018, 08.14 AM IST

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MUMBAI: The prospect of a bleak future for the 15,000-strong staff at the financially-crippled [Dena Bank](#) has led the government to hasten the consolidation process among state-run lenders, which it has been pushing for over a year, said three people familiar with the matter.

With no signs of a turnaround, even after being in the intensive care unit of the Reserve Bank of India for nearly two years under the Prompt Corrective Action (PCA) programme, Dena Bank management's articulation of its future did not convince top officials at the finance ministry.

When the government proposed the merger, [Bank of Baroda](#) declined it. So, the government sweetened the offer by adding [Vijaya Bank](#), the top performer among staterun banks. The three-way merger will create the nation's third largest commercial bank by assets, after State Bank of India and Punjab National Bank, displacing ICICI Bank to the fourth position.

Vijaya Bank is the only profit-making staterun bank and the only one that paid a dividend to the government in 2017-18. It has the lowest share of bad loans and a high buffer of capital. Dena Bank, on the other hand, is facing restriction on lending and expanding business under PCA, and is heavily dependent on the government for capital support.

Soon after the government began nudging banks on consolidation, the board of Bank of Baroda had approved a resolution that it would consider looking at acquisition targets which fall in line with its technology and culture. The Alternative Mechanism, set up to oversee amalgamation of banks among other things, suggested that a large bank acquire lossmaking Dena Bank and Bank of Maharashtra.

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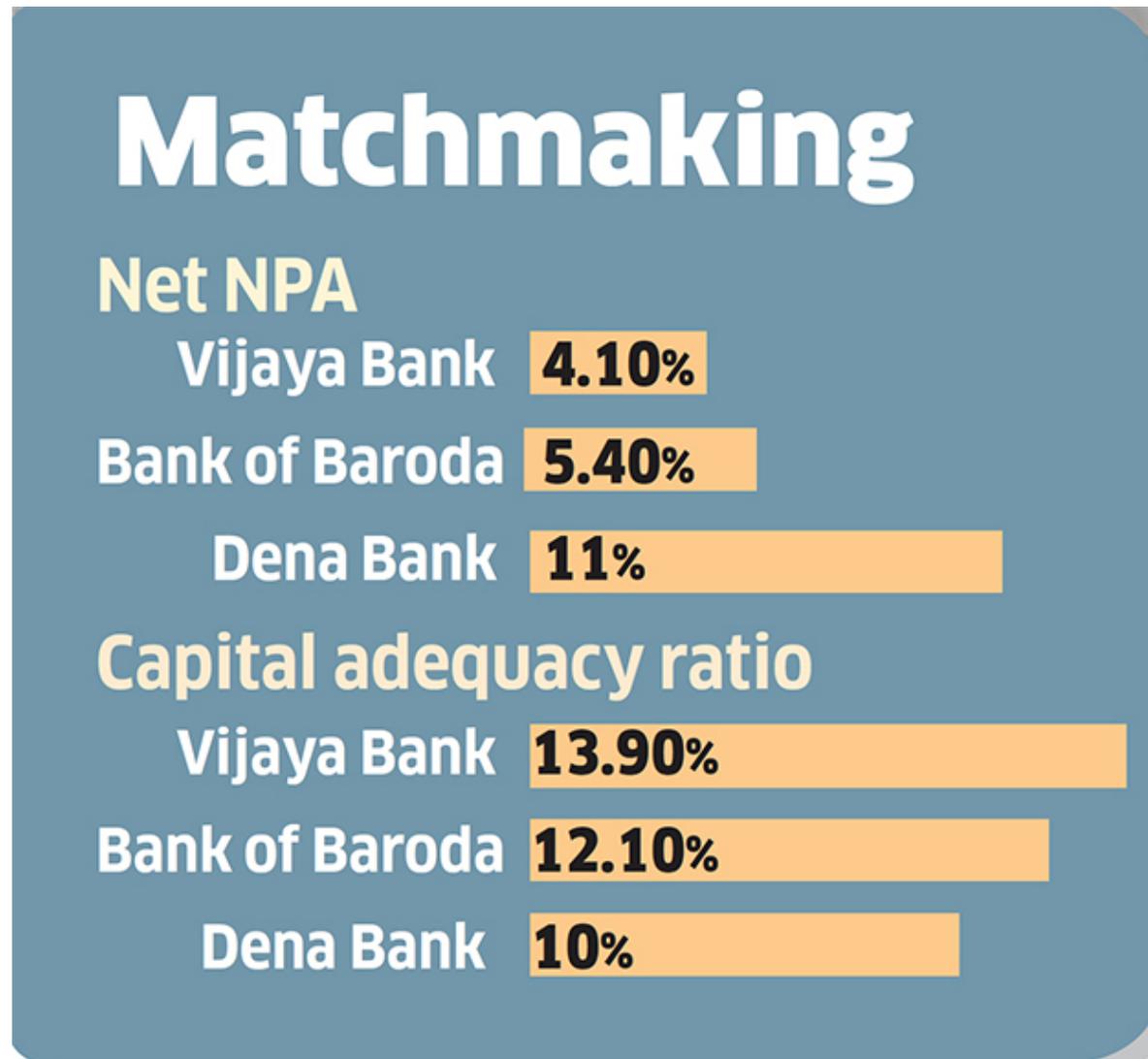
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Among the large banks, Bank of India was already facing PCA, while Punjab National Bank had suffered a Rs 13,000-crore blow due to the Nirav Modi scam and [Canara Bank](#) was headless after its CEO completed his term in July. SBI's associate banks had merged with it last year.



The only large bank remaining was Bank of Baroda. After considering several permutations and combinations, the government choose

to package Vijaya Bank along with Dena Bank to make it an attractive mix along with Bank of Baroda, said people familiar with the development. All three banks are on the same tech platform: Infosys' Finacle 10.

“Dena Bank was an ideal candidate because it did not have a CEO and that culturally it was similar to Bank of Baroda as both banks have strong presence in the western belt of India. Vijaya Bank, which has the best ratio among all three banks, was included to strengthen the combination,” said one of the people. “The top management of Dena Bank and Vijaya Bank, who were kept in the dark about the merger, were directed by the ministry on Monday evening to get the merger proposal approved by their board.”

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