



RBI/DOR/2020-21/75

Master Direction DOR.MAM.No.49/09.16.901/2020-21

March 23, 2021

Master Direction - Amalgamation of Urban Cooperative Banks, Directions, 2020

In exercise of powers conferred by Section 35A and Section 44A read with Section 56 of the Banking Regulation Act, 1949, as amended vide Banking Regulation (Amendment) Act, 2020 (39 of 2020), the Reserve Bank of India being satisfied that it is necessary and expedient in public interest so to do, hereby issues the Directions hereinafter specified.

**CHAPTER – I
PRELIMINARY**

1. Short Title and Commencement

(a) These Directions shall be called the Reserve Bank of India (Amalgamation of Urban Co-operative Banks) Directions, 2020.

(b) These directions shall come into effect on the day it is placed on the official website of the Reserve Bank of India (RBI).

2. Applicability

The provisions of these Directions shall apply to all Primary (Urban) Co-operative Banks.

3. Definitions

(i) In these Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below -

(a) "Amalgamated Bank" means the UCB which proposes to transfer its business to another UCB under the scheme of amalgamation.

(b) "Amalgamating Bank" means the UCB which is to acquire the business of the amalgamated bank under the scheme of amalgamation.

(c) "Amalgamation" means one or more UCBs amalgamating with another UCB under the procedure in accordance with Section 44A read with Section 56 of Banking Regulation Act, 1949.

(d) "Urban Co-operative Banks (UCBs)" means Primary Cooperative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949 and includes both uni and multi-State banks.

(ii) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or as used in commercial parlance, as the case may be.

4. Scope

(a) These guidelines shall cover amalgamation of two or more UCBs.

(b) Reserve Bank of India may consider proposals for merger and amalgamation in the following circumstances:

(i) When the net worth of the amalgamated bank is positive and the amalgamating bank assures to protect entire deposits of all the depositors of the amalgamated bank.

(ii) When the net worth of amalgamated bank is negative and the amalgamating bank on its own assures to protect deposits of all the depositors of the amalgamated bank.

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

5. Statutory Provisions

The Reserve Bank has discretionary powers to approve the voluntary amalgamation of UCBs under the provisions of Section 44A read with Section 56 of the Banking Regulation Act, 1949 as amended vide Banking Regulation (Amendment) Act 2020 (39 of 2020).

CHAPTER - II

APPROVAL BY BOARD OF DIRECTORS

6. Boards of the banks concerned shall play a crucial role in the process, while dealing with the amalgamation proposals of UCBs. The decision of amalgamation shall be approved by two-third majority of the total number of Board members of both amalgamating and amalgamated UCBs and not just of those present and voting.

7. While according this approval, the Boards of the UCBs shall give particular consideration to the following matters:-

- (a) The assets, liabilities and reserves of the amalgamated UCB are incorporated in the books of the amalgamating UCB at their existing carrying amounts and such incorporation does not result in a revaluation upwards or credit taken for unrealized gains.
- (b) Whether due diligence exercise has been undertaken in respect of the amalgamated UCB(s).
- (c) The nature and quantum of the consideration, which, the amalgamating UCB will pay to the shareholders of the amalgamated UCB.
- (d) Whether the swap ratio has been determined by independent valuers having required competence and experience and whether in the opinion of the Board such swap ratio is fair and proper.
- (e) The shareholding pattern in the concerned UCBs and whether as a result of the amalgamation and the swap ratio, the shareholding of any individual in the amalgamating bank will be violative of any guidelines prescribed by Reserve Bank or under the concerned co-operative societies act(s) requiring specific approval of any of the regulator.
- (f) The impact of the amalgamation on the profitability, net NPA and capital adequacy ratio, compliance with exposure norms of the amalgamating UCB. In all cases of amalgamation, CRAR of the amalgamating bank post-amalgamation should conform to the minimum regulatory requirement as prescribed by Reserve Bank.
- (g) The changes which are proposed to be made in the composition of the Board of Directors of the amalgamating UCB, consequent upon amalgamation shall be in conformity with the RBI directions/ guidelines on that behalf. These changes shall also be in conformity with the relevant provisions of the cooperative societies act(s) as applicable to the extent that they are not in conflict with the relevant RBI directions/ guidelines.

CHAPTER – III AMALGAMATION OF UCBs

8. In terms of Section 44A read with Section 56 of the Banking Regulation Act, 1949, as amended from time to time, the draft scheme of amalgamation shall be approved by the shareholders of each UCB by a resolution passed by a majority representing two-thirds of the shareholders both in number and value, present in person at a meeting called for the purpose.

9. Before convening the meeting for the purposes of obtaining the shareholders' approval, the draft scheme of amalgamation shall be approved by the Boards of Directors of the concerned UCBs separately in the manner mentioned in Paragraph 6 above.

10. After the scheme of amalgamation is approved by the requisite majority of shareholders in accordance with the provisions of the Section 44 A read with Section 56 of the Banking Regulation Act, 1949, it shall be submitted to the concerned Regional Office / Central Office of Reserve Bank for sanction.

CHAPTER – III A
PROCEDURE FOR APPLICATION FOR AMALGAMATION OF UCBs

11. To enable the Reserve Bank to consider the application for sanction, the amalgamating and the amalgamated UCBs shall submit to the Reserve Bank the information and documents specified in the Schedules A & B to these Directions.

CHAPTER III B
ENTITLEMENT OF DISSENTING SHAREHOLDERS

12. In terms of Section 44A (3) of the Act *ibid*, a dissenting shareholder is entitled, in the event of the scheme being sanctioned by the Reserve Bank, to claim within 3 months from the date of sanction, from the UCB concerned, in respect of the shares held by him in that UCB, the value as per the scheme of amalgamation sanctioned by Reserve Bank. However, if certain shareholders of either of the UCBs who have subscribed to shares as linkage with borrowing have outstanding dues in respect of credit facilities availed, such shareholders will become entitled for refund of the value only after full and final settlement of his/her dues to the UCB concerned.

13. Both the amalgamated and amalgamating UCBs shall submit the details in respect of the proposed treatment of shares held by shareholders of the amalgamated bank and the rationale/detailed computations for determination of the swap ratio.

CHAPTER IV
SANCTION OF SCHEME OF AMALGAMATION

14. Sanction of the scheme will be through an order in writing directing the date from which the properties / assets and liabilities of the amalgamated UCB will be transferred to and vest in the amalgamating UCB and thereby, the amalgamated UCB shall stand dissolved in terms of the provisions of Sub Section 6-A of Section 44A of the Act *ibid*. A copy of the order directing such dissolution will be transmitted to the RCS/Central Registrar under whom the amalgamated UCB is registered as a Cooperative Society and on receipt of such order, the RCS/Central Registrar shall strike off the name of the Society from its records in terms of the provisions of Sub Section 6-B of Section 44A of the Act *ibid*. A copy of the order shall also be transmitted to the RCS/Central Registrar under whom the amalgamating UCB is registered as a Cooperative Society, if the amalgamated and amalgamating UCBs are registered under different cooperative society acts. In case, the amalgamating bank is a uni-state bank and becomes multi-state bank as a result of the amalgamation with a uni-state bank registered in another State, a copy of the order will also be transmitted to the Central Registrar for registration of the UCB as a multi-state UCB under the Multi-State Co-operative Societies Act, 2002 and the amalgamation shall take effect only after the said registration.

CHAPTER – V
INCENTIVES TO AMALGAMATING UCBS

15. The Reserve Bank will consider the following additional incentives to the amalgamating bank in case of amalgamations:

i) The amalgamating UCB may be permitted to close down the loss incurring branches (net loss for last three years) of the amalgamated UCB or merge branches of the amalgamated UCB with its own. The amalgamating bank, if need be, may be permitted to use closed / merged branch licences for opening new branches in the expanded area of operation (i.e. the area of operations of the amalgamated and amalgamating bank put together). Similarly, shifting/relocation of the branches of the amalgamated bank may be permitted within the expanded area of operation of the amalgamating bank, subject to the condition that the existing clientele is provided banking facilities through the existing/relocated branches of the amalgamating/ amalgamated bank.

ii) The amalgamating bank may be permitted to retain the facilities such as AD category I licence issued under FEMA, etc. where higher level of CRAR at 12 % is required on an on-going basis, provided it maintains the benchmark CRAR of 9% for a period as may be specified by the Reserve Bank.

iii) The minimum entry point capital prescribed for multi-state UCBs will not be insisted upon in case the amalgamating UCB becomes multi-state UCB, only on account of the amalgamated UCB being registered in a different state.

CHAPTER – VI

REPEAL AND OTHER PROVISIONS

16. With the issue of these Directions, the circular PCB.Cir.36/09.169.00/04-05 dated February 2, 2005 on "Guidelines for Merger / Amalgamation of Urban Co-operative Banks" issued by the Reserve Bank stands repealed. Reserve Bank may, however, approve the proposals for voluntary amalgamation received before the date of issue of these directions and found viable under the aforesaid guidelines.

Encl: Schedule A and B

Schedule A

Indicative list of information to be sent with application for Amalgamation

1. **General information on amalgamated and amalgamating UCB** –Name, Registered Office address, date of registration as a cooperative credit society, date of granting licence, scheduling status, area of operation, etc.
2. **Operative date**- The date as fixed mutually proposed for amalgamation to be effective
3. **Information in respect of Board of Directors**, inclusions under Assets, inclusions under liabilities, etc.
4. **Capital** - Authorised and paid up capital of both banks, top 5 shareholders and holding of each as % of paid up capital,
5. **Reorganization of capital** - treatment of borrowing and non-borrowing members of amalgamated bank
6. **Deposits related**-manner of transfer, process to be adopted for repayment where sought by depositors of amalgamated bank, terms for renewal of deposits held with the amalgamated bank, etc
7. **Transfers and vesting** of Assets, liabilities, income, expenditure, rights, claims, lease, tenancy rights, contracts, deeds, bonds, securities, loans including BGs and LCs, security interest, legal proceedings, authority to execute deeds, etc.
8. **Issue of shares by amalgamating UCB:**
9. **Accounting treatment and valuations adopted**
10. **Employees (of amalgamated bank) related** - Absorption, remuneration, transfer of PF/gratuity/pension funds/Trusts of amalgamated bank to amalgamating bank, etc.
11. **Legal Proceedings:** Manner in which all the legal proceedings by or against the amalgamated UCB shall be dealt with by the amalgamating UCB upon the Scheme coming to effect.

To attach: Proforma combined balance-sheet of amalgamating bank as it is likely to appear on the operative date of amalgamation and key financials based thereon.

SCHEDULE B

SCHEME OF AMALGAMATION/MERGER AND DOCUMENTS TO BE FURNISHED ALONG WITH THE APPLICATION OF SCHEME OF AMALGAMATION

1. Draft scheme of amalgamation approved by the shareholders.
2. Certified copy of the minutes of Board meeting where a resolution in favour of scheme of amalgamation has been passed in accordance with Para 6 of this Master Direction.
3. Copies of the notices of every meeting of the shareholders called for such approval together with newspaper cuttings evidencing that notices of the meetings were published in newspapers at least once a week for three consecutive weeks in two newspapers circulating in the locality or localities in which the registered offices of the UCBs are situated and that one of the newspapers was in a language commonly understood in the locality or localities.
4. Certificates signed by each of the officers presiding at the meeting of shareholders certifying the following
 - (a) A copy of the resolution passed at the meeting.
 - (b) The number of shareholders present at the meeting.
 - (c) The number of shareholders who voted in favour of the resolution and the aggregate value of the shares held by them.
 - (d) The number of shareholders who voted against the resolution and the aggregate value of the shares held by them.
 - (e) The number of shareholders whose votes were declared as invalid and the aggregate value of the shares held by them.
 - (f) The names of shareholders who have given notice in writing to the Presiding Officer that they dissented from the scheme of amalgamation together with the number of shares held by each of them.
5. (a) Data on deposits held up to and above Rs 5 lakh by number of depositors and amount with segregated data of member and non-member depositors.
(b) Share-holding by number and amount by borrowers and non-borrowers.
6. The names, addresses and occupations of the Directors of the amalgamating bank, if proposed to be reconstituted after the amalgamation, and indicating how the composition will be in compliance with regulations of Reserve Bank and the concerned Cooperative Societies Act(s).
7. The details of the proposed/continuing Chief Executive Officer of the amalgamating bank after the amalgamation.
8. Copies of the reports of the valuers appointed for the determination of the swap ratio.

9. All relevant information for consideration of the scheme of amalgamation including the following particulars:

- (a)
 - (i) annual reports of each of the UCBs for each of the three completed financial years immediately preceding the Appointed Date for amalgamation
 - (ii) if statutory audit not yet completed, the unaudited financials of the last completed financial year with the last available annual reports along with copies of the Auditors' Reports highlighting any significant/adverse comments therein
 - (iii) tabular representation of key financials as at 9(d) below and data on deposits, advances, Investments in G-Sec, other investments, cash balance, bank balance (Current + SB + FD + Others), Net Profit/loss Audit rating and accumulated loss (if any).
- (b) pro-forma combined balance sheet of the amalgamating UCB as it will appear as on the appointed date of the amalgamation;
- (c) computation based on such pro-forma balance sheet of the following:
 - (i) Authorised Capital
 - (ii) Tier I, Tier II and total (Tier I+Tier II) Capital
 - (iii) Risk - Weighted Assets
 - (iv) Ratio of Tier I Capital to Risk-Weighted Assets
 - (v) Ratio of Tier II Capital to Risk Weighted Assets
 - (vi) Ratio of Total Capital to Risk Weighted Assets
 - (vii) Tier I Capital to Total Assets
 - (viii) Deposits
 - (ix) Investments total and of these, in Government Securities
 - (x) Cash and Bank balance (Current + FD+ others)
 - (xi) Advances
 - (xii) BDDR
 - (xiii) Net Advances
 - (xiv) Gross and Net NPAs
 - (xv) Ratio of Gross and Net NPAs to Gross and Net Advances respectively
 - (xvi) Net Profit
 - (xvii) Net -Worth
 - (xviii) compliance with CRR/SLR
- (d) Brief summary of any significant observation/adverse comments by Auditors in Notes on account/Auditor's reports and rating

10. Information certified by the valuers as is considered relevant to understand the proposed swap ratio including the following particulars:

- (a) the method of valuation of assets used by the valuers;
- (b) the information and documents on which the valuers have relied and the extent of the verification 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 computations of the swap ratio containing explanations for adjustments made to the published financial information for the purposes of the valuation;
- (f) if these adjustments are made based on valuations made by third parties, details regarding the persons who have made such valuations;
- (g) details of computation of realizable value of assets of the amalgamated bank

11. The Due Diligence Report (DDR) of the amalgamated bank shall be as per the below format:

- (i) Appointment and purpose of DDR
- (ii) Scope/Mandate of DDR
- (iii) Sources of information used (like Balance Sheet, Auditor's report, MIS, BOD meeting Minutes, Reserve Bank inspection, etc and limitations, if any, due to incomplete/not available data/information)
- (iv) Profile of bank and background (Registration as society, licence, area of operation, location, HO, branches, Credit Card/Debit Card business, Extension Counters/ATM on/offsite,
- (v) Nature of business being undertaken including Foreign Exchange, AD CAT I/II, BBPS, CPS, DP, etc., reasons for downfall and supervisory action, etc)
- (vi) Share capital and share holding pattern
- (vii) Management structure and organisational chart of holding Membership
- (viii) Accounting policies/practices and software in use
- (ix) Agreements and contracts (AMC, etc), and insurance in place
- (x) Audit and inspection conducted and compliance; penalty imposed if any
- (xi) Legal cases - by and against the bank
- (xii) Statutory liability assessment and compliance (IT, PF, TDS, etc); penalty imposed if any

- (xiii) Liability particulars (deposits, to staff, others) and contingent liabilities details
- (xiv) Asset particulars (cash, bank balance, investment-verification and valuation, advances along with its actual IRAC status as per RBI guidelines / inspection, fixed assets-valuation method, other assets)
- (xv) Contra items (bills for collection, etc)
- (xvi) Off balance sheet items and contingent liabilities, if any
- (xvii) Review of net assets and net liability including realisable value
- (xviii) Independent study of assets and pointers on erosion in assets, under provisioning (eg. on gratuity, leave encashment, income tax, depreciation, stamp duty, etc), understatement of liability (e.g. non-recognition of interest liability on matured term deposits, etc) and factoring these into net worth calculation
- (xix) Non-banking assets, if any
- (xx) Net worth statement
- (xxi) Attachments
- (xxii) Details of property owned and leased with market value.
- (xxiii) Confirmation that Auditors conducting the due diligence of the Amalgamated bank on behalf of the Amalgamating bank have discussed their findings with the Amalgamating bank.
- (xxiv) Loans etc. to Directors
- (xxv) Any signs of possible frauds or financial malfeasance.
- (xxvi) A tabular representation of data drawn from DDR on key financials covering financial parameters as stated at 9(d) above.
- (xxvii) Such other information and explanations as the Reserve Bank may require.