



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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May 24, 2021

All State and Central Cooperative Banks

Dear Sir/ Madam,

Amalgamation of District Central Co-operative Banks (DCCBs) with the State Co-operative Bank (StCB) - Guidelines

The Banking Regulation (Amendment) Act, 2020 (39 of 2020) has been notified for the State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) with effect from April 1, 2021 vide Notification dated December 23, 2020 issued by Government of India. With the issue of the notification, the amalgamations of the above banks have to be sanctioned by Reserve Bank of India in terms of the provisions of the Section 44-A read with Section 56 of the Banking Regulation Act, 1949.

In recent past, a few State Governments approached RBI for amalgamation of DCCBs with the StCB as a two-tier Short-term Co-operative Credit Structure (STCCS). In order to help the States contemplating delayering their STCCS, following guidelines are being issued to bring the requirements and indicative benchmarks for the amalgamation of DCCBs with the StCB to the notice of all stakeholders. These guidelines will also apply for amalgamation of one or more DCCBs in a State with the StCB or amalgamation of one DCCB with another.

2. The Reserve Bank of India will consider proposals for amalgamation if the following conditions are fulfilled:

- i. When the State Government of the State makes a proposal to amalgamate one or more DCCB/s in the State with the StCB after conducting a detailed study of the legal framework along with additional capital infusion strategy, assurance regarding financial support if required, projected business model with clear profitability and proposed governance model for the amalgamated bank.
- ii. When the scheme of amalgamation is approved by the requisite majority of shareholders in accordance with the provisions of Section 44A read with Section 56 of the Banking Regulation Act, 1949.

- iii. When such proposal of the State Government has been examined and recommended by NABARD.

3. The proposal for amalgamation of DCCBs with the StCB will be examined by Reserve Bank in consultation with NABARD and the sanction/ approval will be a two-stage process. In the first stage, an 'in-principle' approval will be accorded subject to fulfilment of certain conditions, following which the processes for amalgamation may be initiated by all concerned. After completion of the above processes, NABARD and Reserve Bank may be approached for final approval along with compliance report. To enable the Reserve Bank to consider the application for sanction, the State Government shall submit the information and documents specified in the Annex to the concerned Regional Office of Reserve Bank and NABARD.

Regulatory Criteria

4. The basic regulatory criteria for amalgamation shall be as under:

- a. The proposal should be in compliance with the legal requirements, past orders/ rulings of the Courts, if any. The State Government shall verify that there are no Court Orders prohibiting or staying the proposal for amalgamation.
- b. Financial parameters of the amalgamated entity based on notionally consolidated latest audited financial statements should be robust. It should have its CRAR above the prescribed regulatory minimum, Gross NPA below 7% and Net NPA below 5% and availability of adequate liquid assets. Post-amalgamation, it should be a profit making and financially viable entity on sustained basis.
- c. The StCB should have a satisfactory track record of regulatory and supervisory compliance.
- d. The StCB should have strong governance/ management practices.

General considerations governing the In-principle Approval

5. The general considerations governing the in-principle approval by RBI shall be as under:

- a. The scheme of amalgamation shall be presented to the shareholders of the StCB/ DCCBs. A resolution shall be passed by 2/3rd of the majority of the shareholders, both in number and value, present and voting at a General Body Meeting of StCB and each DCCB as required under section 44(A) read with section 56 of the Banking Regulation Act, 1949.
- b. An MOU shall be executed by the constituents i.e. amalgamating DCCBs, StCB and State Government covering issues of governance structure, management,

manpower/HR issues and the manner of arriving at the share swap ratio based on the net worth of DCCBs (Networth of the StCB/ DCCB to be computed as per the guidelines issued by NABARD in circular NB.DoS.HO.POL/2069/J-1/2012-13 Circular No.211/DoS 28/2012 dated August 24, 2012 and other circulars issued from time to time) which are proposed to be amalgamated with the StCB. A copy of the MOU shall be submitted to RBI / NABARD.

- c. Due diligence on the amalgamating entities shall be carried out by Chartered Accountants. Shares in the amalgamated entity will be allotted on the basis of the net worth of the amalgamating banks. Share swap ratios for allotment of shares will be required to be worked out on the basis of valuation of assets and liabilities done by a chartered accountant firm registered with IBB as valuers.
- d. If as a result of share swap ratio based on net worth, shareholders of some DCCBs cannot be allotted any shares, the State Government shall infuse sufficient capital in such DCCBs to ensure that the shareholders of such DCCBs are allotted at least one share each.
- e. In addition to compliance with extant income recognition, asset classification and provisioning norms, full provision shall be made for impairment of assets, if any, on account of frauds, misappropriation etc. while arriving at the value of net assets of the amalgamating banks.
- f. The StCB, post-amalgamation, shall be required to adhere to the CRAR norms prescribed by RBI from time to time. The shortfall in capital, if required, for meeting CRAR requirement shall be met by State Government on an ongoing basis.
- g. The StCB, post-amalgamation, shall meet with the regulatory requirements laid down for grant of various permissions/approvals given to the amalgamating banks so that none of the services currently extended by the banks under amalgamation get jeopardized. The required regulatory approvals for the said services shall be obtained, if required, before the amalgamated entity commences operations. In case the StCB is not eligible to continue with certain lines of business which the amalgamating banks have been permitted, such lines of business shall be phased-out non-disruptively within one year of grant of final approval.
- h. StCB shall ensure to appropriately configure its IT system to enable system integration with all DCCBs before applying for final approval. The migration audit on IT systems of all the DCCBs shall be completed before the amalgamation. System integrity shall be established and certified before the DCCBs can migrate onto the StCB platform.
- i. A new Board of the amalgamated bank shall be constituted within three months of amalgamation. The MD/ CEO who is to be appointed should meet the Fit & Proper criteria prescribed by RBI.

- j. In addition to the Board of Directors, a Board of Management (BoM) shall be set up for the StCB within three months of amalgamation as prescribed in terms of the circular DoR(PCB).BPD.Cir.No.8/12.05.002/2019-20 dated December 31, 2019 addressed to Urban Co-operative banks. For this purpose, the bye-laws of the StCB shall be amended for incorporating the provisions relating to guidelines on BoM issued by RBI.
- k. The banking licence issued to the StCB shall continue after the process of amalgamation. DCCBs which are being amalgamated into the StCB shall surrender their licences to RBI. The process of surrendering licences shall be completed within three months of amalgamation.
- l. Existing branches of the DCCBs shall be converted into branches of the StCB and will come under the purview of Section 23 of the BR Act, 1949 (AACS). Thus, the StCB will be required to apply for branch licence from RBI for all these existing branches of DCCBs within three months from the date of amalgamation. The StCB shall also seek prior approval of RBI for shifting of branches and opening of any new place of business including controlling offices. The granting of permission by RBI for shifting of branches/ opening of any new place of business shall be in accordance with the extant guidelines.
- m. DICGC clearance for the amalgamation shall be obtained by the StCB before applying for final approval.
- n. In case of divergence in interest rates offered on deposits by the StCB and the amalgamating DCCBs, the StCB shall provide sufficient notice period to the customers of DCCBs to enable them to take a decision with regard to continuing their deposits with the amalgamating bank. Depositors deciding to discontinue their deposits within the aforesaid notice period will not be levied any penalty for such premature withdrawal.
- o. RBI may prescribe any additional condition/s, as may be considered necessary.
- p. The proposals for amalgamation which meet the indicative benchmarks would be evaluated by NABARD and RBI on merits and would be subject to additional requirements/ conditions as deemed fit.

6. The assets and liabilities of the transferor DCCBs will be transferred to StCB on the date of the amalgamation as advised by Reserve Bank while according final approval for the amalgamation.

Post- amalgamation requirements

- 7. Post-amalgamation, the StCB will be required to take the following action:
 - a. A compliance report with reference to the conditions of the final approval for amalgamation shall be submitted within the prescribed timeframe.

- b. Licences of the transferor banks shall be surrendered. Applications for issue of branch licences shall be made by StCB within the given time frame as per the conditions of amalgamation.
- c. Steps initiated by the authority / institution responsible for settlement of claims of the transferor banks and their members in respect of allotment of shares shall be indicated. Details of the list of pending claims and the time frame to settle such claims should also be indicated.

Disclosures

8. The amalgamated entity shall make disclosures in its first annual accounts post-amalgamation as mentioned below. These disclosures shall continue in the subsequent annual accounts till they are resolved/ closed with concurrence of the Statutory Auditors:

- a. Pension liabilities pre and post-amalgamation. The methodology of valuation/ re-valuation of the pension liabilities shall be disclosed with details of the increase/ reduction in liabilities as a result of change in pension scheme, if any. This disclosure shall capture details of changes, if any, in pension schemes that are made applicable to the employees of amalgamating banks/ amalgamated bank.
- b. Status of vigilance cases and complaints pending in the amalgamating banks as on the date of amalgamation and details of cases that are closed during the year.
- c. Status of pending fraud cases, outstanding inter-bank adjustments (amalgamating/amalgamated) and inter-branch accounts and other intermediary accounts post-merger and their impact on the financial statements of the amalgamated bank.
- d. Outstanding claims of the amalgamating banks and their members in respect of allotment of shares and time frame for settlement of such claims.
- e. Such additional disclosures that may be required by the regulator/ supervisor

Yours faithfully

(Neeraj Nigam)
Chief General Manager in Charge

Documents to be furnished to the RBI and NABARD along with the Proposal**I. Documents to comply with the Regulatory requirements:**

- a) Feasibility Study.
- b) Formal approval of the State Government.
- c) Draft Scheme of Amalgamation along with duly certified resolution passed by the shareholders.

II. Managerial and Governance:

- a) 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 banks are situated and that one of the newspapers was in a language commonly understood in the locality or localities.
- b) Certificates signed by each of the officers presiding at the meeting of shareholders certifying the following
 - i. A copy of the resolution passed at the meeting;
 - ii. The number of shareholders present at the meeting
 - iii. The number of shareholders who voted in favour of the resolution and the aggregate value of the shares held by them
 - iv. The number of shareholders who voted against the resolution and the aggregate value of the shares held by them
 - v. The number of shareholders whose votes were declared as invalid and the aggregate value of the shares held by them
 - vi. 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.
- c) Proposed governance reforms enabling professional governance/ management in the amalgamated bank.

III. Financials:

- a) Audited Financial position of all the banks proposed to be amalgamated for preceding two financial years.
- b) Financial structure of the amalgamated entity post-merger.
- c) Areas of operational synergies and cost management.

- d) Due-diligence Report (DDR) from Chartered Accountants, which may generally include:
- i. Scope/Mandate of DDR
 - ii. Sources of information used and limitations, if any, due to incomplete/not available data/information
 - iii. Nature of business being undertaken including Foreign Exchange Business such as Authorized Dealer (Category 1 or 2), Bharat Bill Payment system (BBPS), Electronic Banking Channels etc.
 - iv. Share capital and share holding pattern
 - v. Management structure and organisational chart of holding Membership
 - vi. Accounting policies/practices and software in use
 - vii. Agreements, contracts and insurance in place
 - viii. Legal cases - by and against the bank
 - ix. Statutory liability assessment and compliance (IT, PF, TDS, etc); penalty imposed if any
 - x. Liability particulars (deposits, to staff, others) and contingent liabilities details
 - xi. Asset particulars along with its actual IRAC status as per RBI guidelines/ fixed assets-valuation method, other assets
 - xii. Contra items
 - xiii. Off balance sheet items and contingent liabilities, if any
 - xiv. Review of net assets and net liability including realisable value
 - xv. Independent study of assets and pointers on erosion in assets, under provisioning (e.g. 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
 - xvi. Non-banking assets, if any
 - xvii. Net worth statement
 - xviii. Details of property owned and leased with market value.
 - xix. Loans etc. to Directors
 - xx. Any signs of possible frauds or financial malfeasance.
- e) Report of the valuers appointed for determination of the swap ratio.

IV. Disclosures:

- a. Pension liabilities pre-amalgamation. The methodology of valuation/ re-valuation of the pension liabilities shall be disclosed with details of the increase/ reduction in liabilities as a result of change in pension scheme, if any. This disclosure shall capture details

of changes, if any, in pension schemes that will be made applicable to the employees of amalgamating banks/ amalgamated bank.

b. Status of vigilance cases and complaints pending in the amalgamating banks as on the date of application/proposal.

c. Status of pending fraud cases, outstanding inter-bank adjustments and inter-branch accounts and other intermediary accounts pre-merger.

V. Other Documents:

Additional information relevant for the consideration of the scheme of amalgamation.