

Draft Reserve Bank of India (Rural Co-operative Banks - Voluntary Amalgamation)

DRAFT FOR COMMENTS

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In exercise of the powers conferred by Section 44A and Section 35A of the Banking Regulation Act, 1949, as amended *vide* Banking Regulation (Amendment) Act 2020 (39 of 2020), read with Section 56 thereof; and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Rural Co-operative Banks: Voluntary Amalgamation) Directions, 2025.
2. These Directions shall come into force with immediate effect.

B. Applicability

3. These Directions shall be applicable to all Rural Co-operative Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

In this context, rural co-operative banks shall mean State Co-operative Banks (collectively referred to as 'StCBs' and individually as an 'StCB') and Central Co-operative Banks (collectively referred to as 'DCCBs' and individually as a 'DCCB'), as defined in the National Bank for Agriculture and Rural Development Act, 1981.

C. Definitions

4. In these directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:
 - (1) '**Amalgamated Entity**' means the entity which is proposed to transfer its business to another entity under the scheme of amalgamation.
 - (2) '**Amalgamating Entity**' means the entity which is to acquire the business of the amalgamated entity under the scheme of amalgamation.
 - (3) '**Amalgamation**' refers to one or more entities merging with another entity under the relevant statutes / regulations through a scheme of amalgamation (or whatever name called), which sets out the terms and modalities of the process.

5. All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934, or the Banking Regulation Act, 1949, or the National Bank for Agriculture and Rural Development Act, 1981, or any statutory modification or re-enactment thereto, or [Glossary](#) of Terms published by the RBI, or as used in commercial parlance, as the case may be.

D. Scope

6. The undernoted cases of amalgamation shall be covered under these Directions:
- (1) One or more DCCBs in a State with the StCB or
 - (2) One DCCB with another DCCB.

Chapter II – Approval by Shareholders

7. The draft scheme of amalgamation shall be approved by two-third of the majority of the shareholders, both in number and value, present and voting at a General Body Meeting of each bank concerned, in accordance with the provisions of Section 44A read with Section 56 of the BR Act, 1949.
8. The notices of every meeting of the shareholders called for approving the draft scheme of amalgamation shall be published in newspapers at least once a week for three consecutive weeks in not less than two newspapers circulating in the locality or localities where the registered offices of the banks are situated, and one of the newspapers shall be in a language commonly understood in the locality or localities.

Chapter III – Approval by RBI

9. The proposal for amalgamation shall be examined by RBI in consultation with National Bank for Agriculture and Rural Development ('NABARD') and the sanction / approval will be a two-stage process.
 - (1) In the first stage, an 'in-principle' approval will be given, after consideration of the proposal and supporting documents submitted by the State Government [through PRAVAAH portal (<https://pravaah.rbi.org.in>)], subject to fulfilment of eligibility conditions, regulatory criteria, and general considerations set out as under:
 - (i) Eligibility Conditions
 - (a) The State Government of the State shall make a proposal for amalgamation after conducting a detailed study of the legal framework, along with a strategy for additional capital infusion, assurance regarding financial support if required, a projected business model with clear profitability and the proposed governance model for the amalgamated bank.
 - (b) The proposal of the State Government should have been examined and recommended by NABARD before submission to RBI.
 - (c) The scheme of amalgamation shall be approved by the requisite majority of shareholders of the respective banks as set out in paragraph 7 of these Directions.
 - (ii) Regulatory Criteria
 - (a) The proposal shall be in compliance with the legal requirements and past orders or rulings of the Courts, if any. The State Government shall also verify that there are no Court Orders prohibiting or staying the proposal for amalgamation.
 - (b) The financial parameters of the entity post-amalgamation, based on notionally consolidated latest audited financial statements, shall be robust. The entity shall have CRAR above the prescribed regulatory minimum, Gross NPA below seven

percent and Net NPA below five percent, along with adequate liquid assets. Post-amalgamation, it shall be a profit making and financially viable entity on a sustained basis.

- (c) The amalgamating entity shall have a satisfactory track record of regulatory and supervisory compliance.
- (d) The amalgamating entity shall have strong governance / management practices.

(iii) General Considerations

- (a) An MOU shall be executed by the constituents i.e., the amalgamated DCCB(s), the amalgamating entity (StCB or another DCCB, as applicable) and the 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 the amalgamated entities. The net worth of both the amalgamated and amalgamating entities shall be computed in accordance with the guidelines contained in Reserve Bank of India (Rural Co-operative Banks – Miscellaneous) Directions, 2025 and other regulatory guidelines as may be applicable.
- (b) Due diligence on the amalgamated entities shall be carried out by Chartered Accountants. Shares in the amalgamating entity shall be allotted on the basis of the net worth of the amalgamated entities. Share swap ratios for allotment of shares shall be determined based on the valuation of assets and liabilities conducted by a chartered accountant firm registered with Insolvency and Bankruptcy Board of India (IBBI) as valuers.
- (c) 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.

- (d) In addition to compliance with extant income recognition, asset classification and provisioning norms, full provision shall be made for impairment of assets, if any, arising from frauds, misappropriation etc., while arriving at the value of net assets of the entities under amalgamation.
- (e) The amalgamating entity, post-amalgamation, shall be required to adhere to the CRAR norms prescribed by RBI from time to time. Any shortfall in capital required to meet the CRAR requirement shall be met by the State Government on an ongoing basis.
- (f) The amalgamating entity, post-amalgamation, shall meet with the regulatory requirements laid down for grant of various permissions / approvals given to the amalgamated entities so that none of the services currently extended by the entities under amalgamation get jeopardised. The required regulatory approvals for the said services shall be obtained before the entity commences operations post-amalgamation. In case the amalgamating entity is not eligible to continue with certain lines of business which the amalgamated entities have been permitted, such lines of business shall be phased out non-disruptively within one year of grant of final approval.
- (g) The amalgamating entity shall ensure that its IT system is appropriately configured to enable seamless integration with the IT systems of all entities under amalgamation before applying for final approval. A migration audit of the IT systems of all amalgamated entities shall be completed prior to amalgamation. System integrity shall be established and certified before the entities under amalgamation can migrate onto the platform of the amalgamating entity.
- (h) A new Board of the post-amalgamation entity shall be constituted within three months of amalgamation. The MD / CEO

who is to be appointed shall meet the ‘Fit & Proper criteria’ prescribed by RBI.

- (i) In addition to the Board of Directors, a ‘Board of Management’ (BoM) shall be set up for the post-amalgamation entity within three months of amalgamation, in accordance with the provisions of the Reserve Bank of India (Urban Co-operative Banks – Governance) Directions, 2025. For this purpose, the bye-laws of the amalgamating entity shall be amended to incorporate the provisions relating to the BoM as prescribed by RBI.
 - (j) In case of divergence in interest rates offered on deposits by the amalgamating entity and the amalgamated entities, the amalgamating entity shall provide a sufficient notice period to the depositors of the amalgamated entities to enable them to decide whether to continue their deposits. Depositors opting to discontinue their deposits within the aforesaid period shall not be levied any penalty for such premature withdrawal.
 - (k) Proposals for amalgamation that meet the indicative benchmarks shall be evaluated by NABARD and RBI on merit and may be subject to such additional conditions or requirements that may be deemed necessary.
- (2) Upon grant of in-principle approval, the processes for amalgamation shall be initiated by all concerned. After completion of the above processes, the State Government shall submit the following to RBI [through PRAVAAH portal (<https://pravaah.rbi.org.in>)] and NABARD for final sanction / approval:
- (i) a compliance report detailing adherence to the conditions stipulated in the in-principle approval, including the completion of all statutory, legal, and procedural formalities;
 - (ii) DICGC clearance obtained by the amalgamating entity in respect of the amalgamation; and

(iii) all information and documents as specified in Annex of these Directions.

Chapter IV – Implementation of Scheme of Amalgamation

10. The assets and liabilities of the amalgamated entities shall be transferred to the amalgamating entity on the date of amalgamation as advised by the RBI while giving final approval for the amalgamation.
11. The banking licence issued to the amalgamating entity shall continue after the amalgamation process.
12. Post-amalgamation, the amalgamating entity shall:
 - (i) submit a compliance report with reference to the conditions of the final approval for amalgamation within the prescribed timeframe;
 - (ii) surrender licences of the amalgamated entities to RBI within three months of amalgamation;
 - (iii) apply to RBI for branch licences for all existing branches of the amalgamated entities within three months from the date of amalgamation since all existing branches of the amalgamated entities shall be converted into branches of the amalgamating entity and shall come under the purview of Section 23 of the Banking Regulation Act, 1949 (AACB);
 - (iv) seek prior approval of RBI in case of shifting of branches and opening of any new place of business including controlling offices, provided that the granting of such approval shall be in accordance with the extant guidelines;
 - (v) submit details of steps initiated by the authority / institution responsible for settlement of claims of the amalgamated banks and their members in respect of allotment of shares together with details of the list of pending claims and the time frame to settle such claims; and
 - (vi) make disclosures as set out Reserve Bank of India (Rural Co-operative Banks – Financial Statements: Presentation and Disclosures) Directions, 2025 in its first annual accounts post-amalgamation.

Chapter V - Repeal and Other Provisions

A. Repeal and saving

13. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to voluntary amalgamation as applicable to Rural Co-operative Banks stands repealed, as communicated vide notification dated XX, 2025. The directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
14. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

15. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

16. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

**Documents to be furnished to RBI / NABARD along with the application of
Scheme of Amalgamation**

A. Documents to comply with eligibility conditions, regulatory criteria, and general considerations:

1. Formal approval of the State Government.
2. Feasibility Study.
3. Copy of MoU executed by the constituents as set out in paragraph 9(1)(iii)(a) of these Directions.
4. Draft Scheme of Amalgamation along with duly certified resolution passed by the shareholders.

B. Approval by Shareholders

5. Copies of the notices of every meeting of the shareholders called for such approval, together with newspaper cuttings evidencing compliance with the notice publication requirements set out in paragraph 8 of these Directions.
6. Certificates signed by each of the officers presiding at the meeting of shareholders certifying the following:
 - (1) A copy of the resolution passed at the meeting;
 - (2) The number of shareholders present at the meeting;
 - (3) The number of shareholders who voted in favour of the resolution, and the aggregate value of the shares held by them;
 - (4) The number of shareholders who voted against the resolution, and the aggregate value of the shares held by them;
 - (5) The number ____ of shareholders whose votes were declared as invalid, and the aggregate value of the shares held by them;
 - (6) The names of shareholders, if any, 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. Governance-related information

7. Proposed governance reforms enabling professional governance / management in the amalgamated bank.

D. Financial information and disclosures

8. Audited Financial position of all the banks proposed to be amalgamated for preceding two financial years.
9. Financial structure of the amalgamated entity post-merger.
10. Areas of operational synergies and cost management.
11. 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.
12. Status of vigilance cases and complaints pending in the amalgamating banks as on the date of application / proposal.
13. Status of pending fraud cases, outstanding inter-bank adjustments and inter-branch accounts and other intermediary accounts pre-merger.

E. Report of valuers

14. Report of the valuers appointed for determination of the swap ratio.

F. Due Diligence Report (DDR)

15. Due-diligence Report (DDR) from Chartered Accountants, which may generally include:

- (1) Scope / Mandate of DDR;
- (2) Sources of information used and limitations, if any, due to incomplete / not available data / information;
- (3) Nature of business being undertaken including Foreign Exchange Business such as Authorised Dealer (Category I or II), Bharat Bill Payment system (BBPS), Electronic Banking Channels etc;
- (4) Share capital and share holding pattern;
- (5) Management structure and organisational chart of holding Membership;

- (6) Accounting policies / practices and software in use;
- (7) Agreements, contracts and insurance in place;
- (8) Legal cases – by and against the bank;
- (9) Statutory liability assessment and compliance (IT, PF, TDS, etc); penalty imposed, if any;
- (10) Liability particulars (deposits, to staff, others) and contingent liabilities details;
- (11) Asset particulars along with its actual IRAC status as per RBI guidelines /fixed assets-valuation method, other assets;
- (12) Contra items;
- (13) Off-balance sheet items and contingent liabilities, if any;
- (14) Review of net assets and net liabilities including realisable value;
- (15) 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;
- (16) Non-banking assets, if any;
- (17) Net worth statement;
- (18) Details of property owned and leased with market value;
- (19) Loans etc., to Directors;
- (20) Any signs of possible frauds or financial malfeasance.

G. Other information and documents

16. Additional information relevant for the consideration of the scheme of amalgamation.
17. Such other information and documents as the RBI may require.