

RBI/2022-23/70

DOR.MRG.REC.46/00-00-011/2022-23

June 10, 2022

Madam / Dear Sir,

Punjab and Maharashtra Co-operative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022 - Provisioning on interbank exposure and valuation of Perpetual Non-Cumulative Preference Shares (PNCPS) and Equity Warrants

Please refer to [Punjab and Maharashtra Co-operative Bank Limited \(Amalgamation with Unity Small Finance Bank Limited\) Scheme, 2022](#) (hereinafter referred as 'the scheme') notified on January 25, 2022.

2. In terms of [circular DOR.\(PCB\).BPD.Cir.No.11/16.20.000/2019-20 dated April 20, 2020](#), Primary (Urban) Co-operative Banks (UCBs) were advised that the interbank exposures arising from deposits placed by UCBs with a UCB under All-inclusive Directions (AID) and their non-performing exposures arising from discounted bills drawn under LCs issued by a UCB under AID shall be fully provided within five years at the rate of 20 per cent annually. Further, if UCBs choose to convert such deposits into long term perpetual debt instruments (e.g. Innovative Perpetual Debt Instrument - IPDI) which may be recognised as capital instrument under a scheme of restructuring / revival of a UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.

3. The Scheme has provided for conversion of the outstanding uninsured deposits (which includes the interest accrued till March 31, 2021) to the credit of the institutional depositors into Perpetual Non-Cumulative Preference Shares (PNCPS) and Equity Warrants of the Unity Small Finance Bank (USFB) as on appointed date. However, it is observed that the actual receipt of PNCPS and Equity Warrants in the account of institutional depositors is yet to take place. In this connection, it is clarified that UCBs

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shall continue to make provisions on inter-bank exposures arising from outstanding uninsured deposits, as per [circular dated April 20, 2020](#) ibid until the actual allotment of PNCPS / Equity Warrants. After the allotment of PNCPS / Equity Warrants, the provisions made on exposures arising from deposits shall be reversed only if such provisions are in excess of loss, if any, due to treatment of PNCPS and Equity Warrants (provided in paragraph 4 and 5 below).

4. Equity Warrants shall be valued at a price of ₹1 per warrant. As and when the equity warrants are converted into equity shares, the valuation shall be done on market determined prices. Thus, at present, no provisions need to be made on investment in Equity Warrants.

5. UCBs shall fully provide for their investments in PNCPS. UCBs are allowed to spread the provisions for their investments in PNCPS, net of extant provisions made on exposures arising from outstanding uninsured deposits, equally over two financial years such that the entire loss is fully provided for by March 31, 2024.

6. Further, these PNCPS and Equity Warrants shall be classified as Non-SLR investments and shall be exempt from the limits prescribed in paragraph 12.1.2(a) and 12.1.2(b) of the [Master Circular on Investments by Primary \(Urban\) Co-operative Banks dated April 1, 2022](#).

Applicability

7. This circular is applicable to all Primary (Urban) Co-operative Banks.

8. These instructions shall come into force with immediate effect.

Yours faithfully

(Usha Janakiraman)
Chief General Manager