

No. 682 / Circular / 2016-17  
March 17, 2017

To

The Chairman / Vice Chairman / Chief Executive Officer  
All Urban Co-operative Banks in Maharashtra  
All District & Divisional Association of Urban Co-operative Banks in Maharashtra

**Sub: Data requirement – Shifting of G- sec Portfolio**

Dear sir / madam,

Member banks are aware that during the demonetization, there was surge on deposits of the banks due to cash inflows of SBNs. On one side where there was hardly any credit off take, the banks had no option but to invest the inflow of funds in to the safest investment of Government Securities. As the increased deposits during the demonization period were likely to be reduced after 31<sup>st</sup> Dec 2016, the banks had invested most of the fresh inflow of money in the AFS category of SLR securities, as investing in HTM category could have locked the funds.

While Inflation and Growth estimates for March 2017 have been revised downward in the said RBI policy of 8<sup>th</sup> Feb, the policy stance has been changed from Accommodative to Neutral. This surprise change in stance has reversed the fixed income market scenario suddenly and drastically depicting hardening of yields which resulted CRASH in the G-sec prices in the range of Rs 3 to Rs. 7 across various maturities. This crash in G-sec prices was so fast that the smaller banks like Urban Co-Operative Banks have found it very difficult to sell the securities by booking losses.

We as a Federation also observed that since 8th February onwards, there was high depreciation in the G-Sec (Short and Long Papers) by reduction of prices by even around Rs. 7 in some cases, with increase in yield of 55 basis points. This is a serious matter and will adversely affect on valuation of securities on 31<sup>st</sup> March 2017, since if the stock is liquidated, will cause heavy loss to the banks. If it is continued in the portfolio, high provisioning has to be marked particularly for the year March 2017. It is a fact that during 2016-17, the demonetization drive has left all the bankers not only increasing the cost of funds but there is also no buyer for the loan products.

Besides, increase in NPA has been miserably induced by demonetization causing high pressure on current year's profit, as huge amount of provisioning will also be required. We as a Federation therefore feel that there may be huge losses likely to be booked by the banks which may reduce their profitability to much extent while preparing the balance sheets of this year.

In this regard we have already made correspondence with the RBI to permit all Banks for the purpose of finding the support system which was implemented during the period 2004 and 2013 to shift all G-Sec. portfolio as amortization of losses by transferring the portfolio to Held to Maturity and write off the loss over the period to maturity of the bond. As per advice from the RBI, our member banks are requested to provide details of holding of government securities, over and above the mandatory SLR requirements, and the estimated losses within two days in the enclosed format. The details may be provided as on September 30, 2016, December 31, 2016 and February 28, 2017.

(Rs. in lacs)

| <b>Particulars</b>                                  | <b>30<sup>th</sup> September, 2016</b> | <b>31<sup>st</sup> December, 2016</b> | <b>28<sup>th</sup> February, 2017</b> |
|---|--|---------------------------------------|---------------------------------------|
| Govt. Securities over and above the SLR requirement |  |                                       |                                       |
| Estimated Losses                                    |  |                                       |                                       |

Thanking you

Yours faithfully

sd/-

(Sayali S. Bhoir)

Chief Executive & Secretary

The Maharashtra Urban Co-operative Banks' Federation Ltd

Wadala, Mumbai