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Dear Comrades,

5th November, 2016

News of Interest 5th Nov

QUOTE OF THE DAY

“PROBLEMS ARE NOT STOP SIGNS, THEY ARE GUIDELINES.”

ROBERT H. SCHULLER

- 1. CENTRAL BANK POSTS LOSS IN Q2**
- 2. INSURANCE MAY FALL UNDER 12% TAX SLAB IN GST, FROM 14% SERVICE TAX CURRENTLY**
- 3. CONCERN OVER SECURITIES TRANSACTION UNDER GST**
- 4. RBI MAY ALLOW FOREX HEDGING BY MNC SUBSIDIARIES**
- 5. VIJAYA BANK EYES 7-8% GROWTH THIS FISCAL**
- 6. UNION BANK Q2 NET SLUMPS 73% AS BAD LOAN PROVISIONING RISES**
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- 8. BUDGET LIKELY TO BE PRESENTED ON FEB 1: FINANCE MINISTRY**

Business Standard

1. Central Bank posts loss in Q2

Allahabad Bank, Union Bank report decline in net profit due to increase in provision for bad loans
Abhijit Lele & Namrata Acharya

A sharp rise in provisioning for bad loans has hit the bottom line of three public sector banks — Allahabad Bank, Central Bank of India and Union Bank — in the second quarter (Q2) of the current financial year.

Mumbai-based Central Bank of India posted a huge loss of Rs 641 crore against a net profit of Rs 112 crore in the year-ago period. Provisions for non-performing assets (NPAs or bad loans) swelled to Rs 1,661 crore from Rs 654 crore in Q2 of FY16. The provision coverage ratio (PCR) was 51.6 per cent. Gross NPAs were Rs 25,717 crore (13.7 per cent) against Rs 13,358 crore (6.38 per cent) earlier. Union Bank of India, another Mumbai-based lender, reported a 73.2 per cent drop in net profit to Rs 176 crore, from Rs 658 crore. Its net interest income in the quarter rose marginally to Rs 2,277 crore from Rs 2,107 crore in July-September 2015.

Union Bank's provisions for NPAs rose to Rs 1,598 crore from Rs 924 crore in the corresponding quarter a year ago.

The PCR, which shows the extent of funds a bank has kept aside to cover loan losses) stood at 50.45 per cent. The bank expects to improve PCR to 55 per cent by the end of March, said Arun Tiwari, chairman and managing director. Gross NPA stood at Rs 29,862 crore (10.73 per cent) at the end of September 2016 — up from Rs 15,541 crore (6.12 per cent) a year ago.

The lender plans to raise up to Rs 3,500 crore capital through equity and bond offering. The board has given a nod to the capital raising plan valid a year. This includes capital infusion of Rs 741 crore by the government.

Kolkata-based Allahabad Bank's net profit was Rs 65 crore in the quarter, against Rs 177 crore in the same period last year. In the first quarter, the bank had posted a loss of around Rs 565 crore. Total provisions (other than tax) and contingencies rose to Rs 814 crore, against Rs 703 crore in the year-ago period. The provisions cover for bad loans was 47.6 per cent. NPAs increased sharply to Rs 19,094 crore (12.28 per cent) against Rs 7,985 crore at the end of September 2015.

2. Insurance may fall under 12% tax slab in GST, from 14% service tax currently

While industry demand of 5% slab may be denied, unlikely govt will impose 18% as insurance is a protection/savings product

BS Reporter

Insurance industry is expected to come under the 12 per cent tax slab in the Goods and Services Tax (GST) regime that will be implemented from April 1, 2017. Currently, a service tax of 14 per cent is imposed.

Sources said that insurance services are likely to be out in the 12 per cent slab, even though the industry had sought a slab of 5 per cent or below, this has not been granted. Further, officials said that insurance being a protection/savings product, it is unlikely that 18 per cent rate will be applicable.

Sachin Menon, Partner and Head, Indirect Tax, KPMG explained that while there is no clarity on the rates, he added that there will not be any additional cess applicable on these services. Here, he said insurance will be classified as a service.

At present, apart from the 14 per cent service tax, Krishi Kalyan Cess and Swachh Bharat Cess is also applicable which makes the total service tax applicable to 15 per cent in products like term insurance, unit-linked insurance plan (Ulip) among others. The service tax rate for other products like annuity in case of single premium policies is at 1.5 per cent approximately.

Insurers, however, do not have any clarity on how the new GST tax structure will be implemented. "Different products attract different rates of service tax. If there is one rate proposed for insurance, the question is whether the lower tax structures for products like annuity will continue," said the chief executive officer of a private life insurance company.

Further, another area of concern whether the same rates of service tax will be applicable for the government-sponsored insurance schemes like the universal health insurance scheme and the Pradhan Mantri Jan Suraksha insurance schemes. "If it is a one-nation, one-rate system, all insurance products including those with focus on financial inclusion will have to be clubbed under one tax slab. We do not know how this will be done," said the appointed actuary at a mid-size private life insurer.

In 2014, service tax was made applicable on insurance premiums. Later, in 2015, Finance Minister Arun Jaitley raised the rate of service tax from 12.36 per cent to 14 per cent. Insurance premiums had come under the service tax ambit from 2014 when the government had made changes to the Finance Bill. After this, the service tax impositions were passed on to customers in the form of increased premiums.

This will provide a huge relief to policyholders who pay almost 15 per cent for insurance policies as a part of their total premiums in a year. Hence, if this is reduced to 12 per cent that will be all inclusive, it will mean that insurance premiums will also go down.

Earlier, the insurance industry, especially the largest player Life Insurance Corporation of India (LIC) had expressed their reservations about service tax being imposed on insurance premiums. They wanted insurance premiums to be excluded from the purview of service tax, however their demands were not considered.

3. Concern over securities transaction under GST

The government needs to improve the proposed definition and exclude securities from the definition of 'goods', according to tax experts

Shrimi Choudhary | Mumbai

The proposed model of goods and services tax (GST), which has included 'securities' in the definition of goods, has raised serious concerns on whether transactions in securities would attract GST or would be subject to an additional tax.

According to tax experts, the government needs to improve the proposed definition and exclude securities from the definition of 'goods'.

Currently, share transaction attracts securities transaction tax (STT) and Krishi Kalyan cess and Swachh Bharat cess, apart from exchange transaction charges, stamp duty, clearing member charges and Securities and Exchange Board of India turnover charges.

While the current model gives no clarity that securities would come under the ambit of the GST, the government's intent might not be to introduce yet another tax over and above STT of 0.1 per cent on delivery-based trades.

"Technically, the government cannot tax transaction in securities as it falls under direct tax but if it does happen, the whole stock market will crash down. Meanwhile, if you see the range of proposed tax rate which is up to 28 per cent — it's impossible to implement it on securities," said Sumit Lunker, executive director (tax and regulatory services) at PwC.

He added that in the indirect tax legislation scenario, securities being considered as activity of sale and purchase and has never been subjected to any service tax and value added tax. So, one cannot treat securities at par with normal goods and services used in the normal course.

Another controversy that might rise is on central and state governments' revenue. "Let us assume certain securities traded at the stock exchange in Mumbai. But, sellers and buyers are in different states while the servers are at various locations. Under such circumstance, which state will get revenue is an issue that needs to be addressed," he added.

Other section of experts, though, agrees with the current interpretation of law. "From state governments' perspective, they would want direct access to taxpayers' data as opposed to waiting for the Centre to perform assessments and verifications and trust the Centre to allocate funds to the state. If securities are taxed as goods, it allows the government to track its trading more efficiently under GST. Else, they would have

to build a complex place of supply rules for capturing all the various activities around trade in securities,” said Amit Kumar Sarkar, partner, Grant Thornton India.

Financial Express

4. RBI may allow forex hedging by MNC subsidiaries

The overseas parent of a company or its central treasury can hedge the currency risks arising from genuine current account exposures of the local subsidiary to better manage the latter's currency risk, the RBI said in a notification.

By: PTI

The Reserve Bank today came out with the draft guidelines for centralised hedging for local subsidiaries of foreign companies.

The overseas parent of a company or its central treasury can hedge the currency risks arising from genuine current account exposures of the local subsidiary to better manage the latter's currency risk, the RBI said in a notification.

The RBI, which had first announced the move in the October policy review, has invited comments on the draft rules by November 11.

The purpose of the new policy is “to provide greater flexibility for hedging the currency risks arising from current account transactions of domestic subsidiaries of multinationals by the parent or any non-resident group entity”, the central bank said.

It is proposed that such companies will be able to hedge in all foreign currency-rupee derivatives. But to avail of the facility, the foreign entity will have to be incorporated here, as India is member of the Financial Action Task Force (FATF), the draft guidelines said.

It may approach a registered investment bank which handles the forex transactions of its subsidiary for hedging the currency risk of and on the latter's behalf, the RBI said, adding the foreign entity can also approach the i-bank either directly or through its banker overseas.

Business Line

5. Vijaya Bank eyes 7-8% growth this fiscal

G NAGA SRIDHAR

Vijaya Bank is expecting 7-8 per cent growth in business this year, according to its Executive Director BS Rama Rao.

The growth will primarily be driven by the retail sector. “Our retail growth was the highest in the industry at 28 per cent in the second quarter ended September 30, and also accounted for 28 per cent of our total portfolio,” Rao said in an interaction here on Friday.

But corporate credit offtake, he said, has not picked up yet. “This depends on aggregate demand in the economy. Industrial production is down and infrastructure and energy sectors are also sluggish.”

The net interest margin (NIM) for the current fiscal could be around 2.75 per cent, he said. It was 2.61 per cent in the second quarter.

In the Q2 results announced last week, the bank reported a 34 per cent spurt in profit to ₹154 crore supported by a 20 per cent rise in net interest income to ₹828 crore and a doubling of its other income to ₹388 crore.

Tackling NPAs

To tackle non-performing assets (NPAs), Vijaya Bank is adopting a sector-specific approach. "For each segment of customers, such as farmers, micro, and small and medium entrepreneurs, we are rolling out one-time settlement schemes. There have been no serious issues of asset quality in the retail segment," Rao said.

Asset quality, though improving sequentially, is a concern for the bank as net NPAs rose to 5.1 per cent compared with 2.84 per cent in the year-ago quarter.

Going forward, Bangalore-based Vijaya Bank will focus on expanding its reach through brick-and-mortar model as well as technology products. "The number of branches will go up from 1980 now to 2050 by March 31, 2017. We are also seeing a huge jump in mobile and Internet banking," the Executive Director said.

The mobile banking user base expanded to nine lakh this year from 1.36 lakh last year, while net banking clients grew to 6.69 lakh from 3.33 lakh during this period.

The previously announced tier-I additional capitalisation of ₹750 crore is expected to be closed in a couple of weeks, Rao said.

6. Union Bank Q2 net slumps 73% as bad loan provisioning rises

OUR BUREAU

A huge jump in provisioning towards bad loans dragged down Union Bank of India's net profit 73 per cent in the July-September quarter to ₹177 crore from ₹658 crore in the year-ago quarter.

Net interest income (the difference between interest earned and interest expended) increased 8 per cent to ₹2,277 crore (₹2,102 crore in the year-ago period).

Non-interest income, which includes treasury income and profit on sale of investments, was up 19 per cent to ₹1,139 crore (₹959 crore). Operating profit in the reporting quarter rose 22 per cent to ₹1,820 crore (₹1,490 crore).

Provisions towards non-performing loans jumped 73 per cent year-on-year to ₹1,598 crore (₹924 crore in the year-ago quarter).

Gross non-performing loans (GNPLs) shot up to ₹29,862 crore as at September-end 2016 from ₹15,541 crore as at September-end 2015.

GNPLs as a percentage of gross advances were up at 10.73 per cent from 6.12 per cent as at September-end 2015.

Deposits increased 9 per cent year-on-year to ₹3,61,454 crore as at September-end 2016 from ₹3,30,665 crore as at September-end 2015.

The share of low-cost CASA (current account and savings account) deposits in total deposits improved to 29.4 per cent from 27.2 per cent.

Advances were up 8 per cent year-on-year to ₹2,65,205 crore from ₹2,46,217 crore as at September-end 2015. Meanwhile, the public sector bank said its board of directors gave approvals for: raising ₹3,500 crore of total capital, over and above the capital already raised, by way of equity and/or AT1 and/or Tier 2 capital during FY17; and for raising equity capital by way of public issue and/or rights issue and/or private placement.

Union Bank of India said it has raised ₹1,000 crore by issuing 10,000 non-convertible unsecured subordinated Basel-III compliant perpetual debt instruments eligible for inclusion in Additional Tier I capital.

Shares of the bank closed at ₹134.35 apiece, down 1.97 per cent over the previous close on the BSE.

7. More tax benefits sought for health insurance

OUR BUREAU

The Government has to double the income-tax benefits relating to health insurance for long-term benefits, according to Pratap C Reddy, Chairman of Apollo Hospitals.

The exemption limit should go up to ₹50,000 "so all can take care of their health better," he said. The society is facing a "tsunami of non-communicable diseases or lifestyle diseases" and preventive health check-ups are invaluable, he said.

It is also time for the medical forum to "need to practice medicine relevant for today." New concepts of health and well being are emerging and for instance, "the cardiologists need to look at reversal of heart diseases," he suggested.

Reddy was addressing the launch of "Apollo hospitals textbook of medicine" by Apollo Hospitals along with Apollo First Med hospitals. Edited by T V Devaraja, senior consultant, Department of General Medicine, Apollo Hospitals, it is the first textbook of corporate hospitals.

AS Ganesan, Chancellor, Vinayaka Missions University, said the book is of particular significance as it deals with medico-legal aspects and legal obligations of doctors in India.

8. Budget likely to be presented on Feb 1: Finance Ministry

PTI

The Finance Ministry is gearing up to present the Budget for the next fiscal around February 1, advancing the scheduled date by a month so as to complete the entire process by March 31, and preparations for it are "very much under control", says a top official.

"There are three major changes that we are undertaking for the next year (Budget). First, presentation of Budget is advanced by about a month. We expect the Budget to be presented around February 1," Economic Affairs Secretary Shaktikanta Das said in an interview to DD News.

Besides, doing away with Plan and non-Plan expenditure and replacing it with the new classification would be revenue and expenditure, he said, adding that the third is merger of the Railway Budget with the General Budget.

The pre-Budget meetings for the current year's revised expenditure estimates as well as for the next Budget's estimates have already started, he said.

"Revenue Department has also started the pre-Budget consultations with the various stakeholders and Finance Minister's consultation with major stakeholders are also planned to be held in advance," Das said.

"So, all the preparations have been roughly advanced by about a month. Preparations are very much under control and we will be able to present the Budget around February 1," he said.

The idea, he added, is to get the Budget passed by Parliament along with Appropriation Bill and the Finance Bill by the end of March as this would ensure implementation of the Budget proposals from April 1.

On the fiscal deficit hitting a 20-year high of 83.9 per cent of the Budget estimate, Das said, typically it looks very high in the first half of the year because revenues start coming in the second half of the year.

"Expenditures are evenly paced all through the year. So there is a mismatch between revenues and expenditure in the first. As we proceed in the second-half revenue starts coming in and expenditure gets evened out. Therefore, the fiscal deficit target of 3.5 per cent for the current fiscal will be met," he said.

For the current fiscal, he said, the growth would be upwards of 7.6 per cent as the agriculture sector has shown an improvement.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY