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Dear Comrades,

19th August , 2016

News of Interest 19th Aug

QUOTE OF THE DAY

“SUCCESS IS SIMPLE. DO WHAT'S RIGHT, THE RIGHT WAY, AT THE RIGHT TIME.”

ARNOLD H. GLASOW

1. INDIA TO SOON ALLOW BANKS TO PLEDGE CORPORATE BONDS TO BORROW FROM RBI
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Business Standard.

1. India to soon allow banks to pledge corporate bonds to borrow from RBI

This could spur more buying of the debt by lenders as now banks can only pledge government securities from RBI

Reuters

India will soon allow banks to pledge corporate bonds as collateral to borrow funds from the central bank's overnight repo window, although with some limitations, the country's capital market regulator said in a report on Thursday.

As of now, banks can only pledge government securities to borrow from the Reserve Bank of India, and allowing them to pledge corporate bond could spur more buying of the debt by lenders.

The report added it would impose some limits, including limiting the corporate bonds that can be pledged to top-rated securities.

It did not specify when the final approval would be given since it would require change in the RBI Act, while a clearing and settlement mechanism would also need to be developed.

Bankers have long called for this action as a way to develop the country's young corporate debt markets, at a time when many companies are shut out from loans because lenders are focused on cleaning up their portfolios from soured assets.

"Internationally, many central banks accept corporate bonds as collateral for their liquidity operation. It is not uncommon for central banks to take a lead with a view to developing the financial market," said the report issued by Securities and Exchange Board of India (SEBI).

Though issued by SEBI, the report reflects the joint views of the India's Finance Ministry and a slew of regulators, including the Reserve Bank of India and the country's pension and insurance regulators.

SEBI also proposed allowing insurance and provident fund companies to invest in hybrid capital debt instruments, including additional Tier I or perpetual bonds.

Banks are the main issuers of those securities and would benefit from an expanded buyer base.

The panel also proposed setting up a platform to guarantee and settle corporate bond trading, to make it similar to the one for government bonds.

2. Share swaps kick off SBI merger

Five associate banks, BMB will merge with SBI by Mar 2017

Abhijit Lele

The State Bank of India (SBI) on Thursday approved the share swap ratios for the merger of five associate banks and Bharatiya Mahila Bank with itself.

The bank's board had approved the scheme of acquisition, SBI informed stock exchanges in a notice. SBI will issue 28 shares of Rs 1 each for 10 shares of Rs 10 each for the State Bank of Bikaner and Jaipur, and 22 shares for 10 shares of the State Bank of Mysore. Likewise, shareholders of State Bank of Travancore (SBT) will also get 22 shares in SBI for every 10 shares held by them in SBT. SBI will also issue 44.2 million shares to the government for one billion shares of Bharatiya Mahila Bank, a Delhi-based bank started in 2013 and wholly-owned by the government.

As for the unlisted State Bank of Patiala and State Bank of Hyderabad, in which SBI holds 99 per cent each, it would be a line-by-line merger, SBI's Chief Financial Officer and Deputy Managing Director Anshula Kant said. All shares held by SBI in the five associate banks will stand cancelled after merger.

Kant said the bank would send the merger scheme to the Reserve Bank of India (RBI) for approval. After scrutiny, the RBI will forward the proposal to the

government. SBI is planning to consolidate operations and balance sheets by March 2017.

EY advised SBI for finalising the share swap, while JM Financial Services advised on fairness of merger swap ratios.

Most analysts believe the swap ratios are fair and expect the stocks to rise, except for State Bank of Mysore.

Brokerage Religare said, in a note, the share swap ratio was broadly even for all shareholders, barring those of the State Bank of Mysore. Even if the swap ratio is unfavourable for shareholders of an associate bank, it is unlikely to make any difference because SBI holds an overwhelming majority in each of them.

"While the market was expecting this merger in FY17, since it is happening sooner than expected the stocks will react positively to the swap ratio", says Siddharth Purohit of Angel Broking.

SBI's asset quality is better than its associate banks and there is unlikely to be any material improvement in SBI's asset quality after the merger, according to Religare. The clean-up exercise will continue for the associate banks in 2016-17, which will deteriorate their asset quality.

According to Bloomberg's list of the world's top 50 banks by assets, SBI's \$550 billion, after consolidation, will move it six notches to 44th slot. At the top of the heap is Chinese bank ICBC with \$3,423 billion in assets. SBI has maintained, besides making the group more efficient, the consolidation will be of huge value. The associate banks have fixed assets of around Rs 4,000 crore, which will add to the bank's capital. After the merger, SBI's cost-to-income ratio will come down by one percentage point in a year.

The SBI Group controls 22 per cent of the Indian banking system. The five associate banks have a market share 5.30 per cent in deposits and 5.33 per cent in advances. Their cumulative net profit was Rs 1, 368.7 crore at end of March.

SBI will face challenges in rationalising branches and in integrating employees from the associate banks. The bank will prepare a plan on rationalising the retail banking network. The SBI Group has 22,000 branches, of which SBI has 16,800.

Corporate finance branches of the associate banks will be absorbed by SBI because 60-70 per cent accounts are common.

3. India Post Payments Bank incorporated, to start ops

Operations to start by September 2017

BS Reporter

India Post Payments Bank would start its operations by September 2017, the government said on Thursday.

A certificate of incorporation came on Wednesday from the registrar of companies.

In June, communications minister Ravi Shankar Prasad asked the department of posts (DoP) to expedite the process of setting up as many as 650 payments bank branches by that date, sources said.

Initially, most of the workforce will be on deputation from DoP. Gradually, they'd be replaced by new recruits.

The Cabinet had earlier cleared a proposal to set up the Bank with a corpus of Rs 800 crore. It is to cover the country by the end of financial year 2018-19.

DoP will set up 50 bank branches by March, 125 by April, 200 in May, 300 in June, 400 in July, 525 in August and 650 by September 2017.

The board of directors is likely to be constituted soon and the bank will begin hiring of professionals. "This could be the fastest rollout for a bank anywhere in the world," went the official statement.

The stated aim is to become the most accessible bank in the world, riding on advanced banking and payments technology. Coupled with physical presence across 155,000 post offices and the reach of postmen, the Bank plan is for a powerful and effective vehicle of real financial inclusion.

"It is poised to create a national payments architecture, riding on a modern payments platform and ubiquitous information and communication technologies that can be accessed by all users and service providers like never before," said the government.

Prime Minister Narendra Modi, in his Independence day address, had stated that steps had been taken to convert all post offices into payments banks.

The Reserve Bank of India gave an in-principle nod in August 2015 for 11 entities to set up payments banks. Three have since opted out.

Business Standard

4. 10 points to consider in RBL Bank's IPO

It is very likely that the bank's IPO will sail through if the pricing is right and promoters leave something on the table for new investors

Shishir Asthana

Banking IPOs are rare, and when there's one in the offing, it generally catches everyone's attention. It is thus very likely that RBL Bank's IPO, the first in a decade, will also attract investors' interest.

In the current market scenario, where even relatively unknown companies managed to get a good response from investors, it is very likely that RBL Bank's IPO will sail through, provided the pricing is right and the promoters have left something on the table for the new investors.

We take a look at 10 salient points in the RBL IPO issue.

1. RBL Bank, formerly known as Ratnakar Bank, is coming out with issue of new shares as well as an 'offer for sale' where some of its earlier investors will get a chance to exit. The bank plans to raise Rs 1,216 crore through this issue, which will be in the price band of Rs 224-225 per share. Out of the amount raised through the people, the bank will be receiving only Rs 832.50 crore, while the rest is for the investors who are exiting.

2. The reason for raising money is to augment the capital base in a bid to support its growth plans and comply with Basel-III norms. The reported Tier-1 ratio of the bank stands at 11.1% at the end of March 2016, which is likely to increase to 14.1% post IPO.

ALSO READ: Pre-IPO market turns hot on RBL

3. RBL Bank has undergone a transformation when the new management took over the reins in 2010 and changed the focus of the bank. The lender has been around since 1943 when it was set up as a regional bank in Maharashtra with two branches.

4. The bank has come a long way since the change in management. It now specializes in five business verticals – large corporations, small and medium enterprises (SME), agriculture, retail customers and development banking and financial inclusion (low income) customers.

5. The change in RBL Bank took place when it took over the business banking, credit card and mortgage portfolio of Royal Bank of Scotland's India operations in FY14. Not only did this mean a jump in its financials but also brought with it respectability in the market. Along with the business, the bank took over the employees of RBS associated with these businesses. RBL Bank announced its arrival in the market through this business take over.

6. RBL Bank comes to the market as a modern private bank with offerings of digital banking services through various channels – phone, internet and mobile. The bank also has micro-payment and branchless banking solutions. Like a payments bank, it also employs business correspondent network to expand the customer reach beyond its service area.

7. The bank currently has 197 branches and 362 ATMs through which it serves 1.90 million customers. RBL Bank is still largely a Maharashtra based bank with 48% of its total presence coming from the state (11% from Mumbai). Apart from Maharashtra, the bank's presence is mainly in Karnataka, Gujarat, Madhya Pradesh and Tamil Nadu, though it gets business from 16 states. 29% of its business comes from metros followed by 16% from urban areas, 32% from semi-urban and 23% from rural.

8. Though RBL Bank has expanded its presence, the bank has not been able to garner low cost deposits. Current account at 11% and savings account at 7% taking the total CASA deposits to only 18%. These deposits have come down from 35% in FY11 on account of aggressive growth in term deposits. The higher cost of fund has resulted in the bank showing net interest margin in the range of 2.65%.

9. As for advances, RBL Bank has reduced its exposure of corporate and SME portfolio from 75% in FY13 to 60% in FY16. Its retail business has grown the fastest at 74% CAGR and accounts for 17% of advances as compared to 11% in FY13. The bank intends to focus more on the retail business, just like other private sector players.

10. Despite being an old bank, RBL has not accumulated too much non-performing assets. Growth has come with a proper checks and balances in place. Gross NPA stands at around 1.0% and net NPA at 0.6%, this despite having a high concentration of corporate and SME loans is creditable.

5. Changes in recovery law to expedite disposal of 70k NPA cases

Far-reaching changes in the loan recovery law will help expedite disposal of over 70,000 pending cases involving more than Rs 5 lakh crore and ease the NPA situation, official sources said.

By: PTI

Far-reaching changes in the loan recovery law will help expedite disposal of over 70,000 pending cases involving more than Rs 5 lakh crore and ease the NPA situation, official sources said.

The amendment law, which received presidential assent on August 16, sets time limit for disposal of debt recovery cases and seeks to improve ease of doing business by ensuring speedier resolution of defaulted loans.

The highlights of the Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016 are expansion of definition of security interest, inclusion of debenture trustees and strengthening of asset reconstruction companies (ARCs).

Besides, secured creditors like banks and financial institutions (FIs), ARCs and debenture trustees will get priority over any other dues, including taxation ones of central and state governments or any local bodies, the sources said.

Now, a district magistrate has to decide on applications by banks and FIs within a specific time limit of 30 days.

However, this period may be extended by another 30 days further in exceptional situations for reasons recorded.

The legislation provides stamp duty exemption on loans assigned by banks and financial institutions to asset reconstruction firms.

Around 70,000 cases involving more than Rs 5 lakh crore are pending in Debt Recovery Tribunals (DRT) and the proposed amendments will facilitate expeditious disposal of recovery applications.

The Act also proposes creation of a national database. Currently, security interests created in favour of banks and FIs are registered with the central registry CERSAI.

Now, all secured creditors and taxation authorities issuing attachment orders are enabled to register with CERSAI and this will help in creating a national database of encumbrances on property rights.

The Act, approved by Parliament earlier this month, amends four laws — the Sarfaesi Act, the DRT Act, the Indian Stamp Act and the Depositories Act.

“So far, the laws were in favour of the defaulters. We tried to correct the balance. There should be firmness, coupled with fairness in recovery of loans,” Finance Minister Arun Jaitley had said.

The move assumes significance as it comes against the backdrop of the episode involving liquor baron Vijay Mallya, who owes Rs 9,000 crore to banks, but has left the country to take refuge in England.

6. CVC seeks mechanism to check misconduct by banks' top brass

The Central Vigilance Commission (CVC) has sought a mechanism to look into rising cases of misconduct and instances of fraud by top officials of public sector banks.

By: PTI

The Central Vigilance Commission (CVC) has sought a mechanism to look into rising cases of misconduct and instances of fraud by top officials of public sector banks.

The CVC has written to the Department of Financial Services in this regard.

"The Commission, taking into account the rising misconduct and instances of frauds and irregular decisions pertaining to the Chairman and Managing Directors (CMDs) and Executive Directors of public sector banks, was of the considered view that there is a need for having a specific deterrent mechanism for initiation of disciplinary action against Whole Time Directors (WTDs) while in service and continuation of the same after completion of their tenure in office and demission of office," it said.

It has advised Financial Services Department to provide adequate provisions in the pension scheme for WTDs enabling initiation of punitive action within four years of demission of office or completion of tenure, the Commission said in its annual report tabled in Parliament recently.

It cited a provision regarding board-level appointments in Central Public Sector Enterprises (CPSEs).

The CVC has noted that the appointment of board-level officers in the CPSEs are of contractual nature and that the standard terms and conditions of their appointments provide for initiation of disciplinary proceedings against CMD and Functional Directors, while in service and also for continuation of the same after completion of their term of office.

"However, in the CPSEs, a pension scheme where a monthly pension is paid akin to the scheme for public sector bank employees or WTDs is not in place," the probity watchdog has said.

7. Jaitley: No decision yet on RBI governor

REUTERS

No decision has yet been reached to appoint the next central bank governor, Finance Minister Arun Jaitley said on Thursday amid mounting expectations that a replacement will be chosen soon to replace Raghuram Rajan.

"We will let you know when we decide," Jaitley told reporters as he returned to the finance ministry from what aides said was a meeting with Prime Minister Narendra Modi. "You will come to know the conclusion, not the process."

(This article was published on August 18, 2016)

8. PV Sindhu's performance is worth its weight in gold

Shuttler's dream run at the Rio Olympics could just have a fairytale ending

Aabhas Sharma

For people who have seen India struggle at the Olympics over the last two decades, it's extremely hard to describe PV Sindhu's performance in the semi final at Rio Olympics 2016. Here was a 21-year-old Indian girl dishing out badminton lessons to an opponent ranked higher than her. This isn't supposed to be a part of the script – this is the Olympics where Indians come, fight hard, come close to winning medals but agonizingly fall short. Not this time though – not with Sindhu in scintillating form and showcasing her talent to the world.

Indian sport fans over the years — especially at the Olympics — have come to expect a certain kind of performance, behavior and body language from Indian athletes at the highest level. But there was something different about Sindhu — she was different, aggressive, and assertive and went for the kill.

It's strange and uncanny as badminton is a sport that is not taken seriously in India. Partly because after cricket it is one sport which most of us have played — be it in the compound of our society, in school or perhaps a bit at amateur level. But it's a sport where there is a sense of discerning entitlement. It's a sport where there is a sense of familiarity and perhaps badminton is one sport where most Indian fans were expecting a medal — not because of Sindhu but because of Saina Nehwal.

Sindhu assuring herself of a medal is the biggest story to come out of Rio 2016 for India. Nehwal succumbed to an injury and couldn't deliver, but Sindhu has quietly done the business and earned a shot at winning a gold medal in the Olympics. No other Indian woman has done better in the history of Olympics and Sindhu has already surpassed that achievement as she is assured of a silver medal.

The last 24 hours have been a whirlwind for Indian sports fans. While most of us were in deep slumber, Sakshi Malik gave her countrymen a delightful surprise by winning a bronze in 58 kg wrestling category. But the main event, which people were waiting with bated breath, was Sindhu's quarterfinal. And she didn't disappoint — her performance against her Japanese opponent was nothing short of spectacular. Was it a shock victory or an upset? Not really — as Sindhu beat the world number 2 Yihan Wang in the quarterfinal.

Still, it was an uphill task as she was playing world number 5 Nozomi Okohura in the semi final. The odds weren't really in her favour as Okohura was the better ranked player. But Sindhu displayed a streak of aggression throughout the match that her opponent struggled to cope with and won 21-20 21-10. In the second set she won 11 straight points to seal her spot in the final of the Olympics.

Over the last few years, Sindhu's stock has quietly but confidently gone upwards. She is the natural heiress to Saina Nehwal's throne. Nehwal has been phenomenal in the last 10 years for Indian badminton and four years back even won the bronze medal in London Olympics.

Two years ago, this writer asked Sindhu about her so-called rivalry with Saina Nehwal, but she shrugged off by saying that "there isn't any rivalry but just intensity of competition". Even Nehwal has been complimentary about Sindhu's performance and it has been heartening to see two Indian women fighting for glory in the world of badminton.

While Saina did bring India laurels four years ago in London, Sindhu has already bettered her performance. However, this isn't between Saina and Sindhu as both women have been exceptional athletes for India. Rio 2016, however, has been the story of Sindhu – her talent, hard work and dedication. The entire country

will be hoping that she makes the impossible dream come true. An Indian woman winning a gold medal at the Olympics? That's what fairytales are made of.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY