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Dear Comrades,

25<sup>th</sup> July, 2016

**News of Interest 25th Jul**

**QUOTE OF THE DAY**

**“YOU ARE NEVER TOO OLD TO SET ANOTHER GOAL OR TO DREAM A NEW DREAM.”**

**C. S. LEWIS**

1. **AXIS BANK NET DOWN 21% AS BAD LOANS CLIMB IN Q1**
2. **MERGER ROADMAP: SBT TO KICK-START VALUATION EXERCISE**
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Business Line

**1. Axis Bank net down 21% as bad loans climb in Q1**

OUR BUREAU

Elevated stress level in the loan book affected Axis Bank's bottomline in the first quarter ended June 30. India's third-largest private sector bank reported a 21 per cent year-on-year decline in net profit at ₹1,556 crore for the first quarter of FY17 as against ₹1,978 crore in the year-ago period.

In a conference call on Friday, two of the bank's top executives — V Srinivasan, Deputy MD, and Jairam Sridharan, CFO — observed that stress levels in their wholesale loan book remained elevated.

Net interest income (NII) grew 11 per cent year-on-year to ₹4,517 crore in (₹4,056 crore in Q1 FY16), while net interest margin stood at 3.79 per cent (3.81 per cent). The net interest margin (NIM) in FY17 is likely to remain above 3.6 per cent levels, according to the bank's senior management.

Siddharth Purohit, Senior Equity Research Analyst – Banking, Angel Broking, said: "While the asset quality seems to have deteriorated, the management has reiterated its stand that the maximum credit cost for FY17 would be 150 basis points and this comes as a mild relief.

"While the bank looks confident, we believe the macro situation might result in a little more stress on the book in the near term. On the positive side, business growth remained decent with 21 per cent growth in loans."

The bank's balance sheet (total assets) grew 18 per cent y-o-y to over ₹5.34-lakh crore. Advances rose 21 per cent to over ₹3.44-lakh crore and deposits grew 16 per cent to over ₹3.57-lakh crore.

The proportion of current account and savings account (CASA) deposits to total deposits, also known as low-cost deposits, stood at 43 per cent.

Bad loans (gross NPAs as a percentage of gross advances) increased 116 basis points y-o-y to 2.54 per cent, while net NPA as a percentage of net advances increased 60 basis points to 1.08 per cent.

The cumulative value of net restructured assets of the bank on June 30 stood at ₹7,363 crore and constituted 1.99 per cent of net customer assets.

Capital adequacy ratio according to Basel-III norms stood at 15.67 per cent for Q1 FY17.

As on June 30, the bank had a network of 3,006 branches, 12,871 ATMs and 1,153 cash recyclers.

## **2. Merger roadmap: SBT to kick-start valuation exercise**

VINSON KURIAN

The State Bank of Travancore (SBT) has asked SBI Capital Markets to find a Category 1 merchant banker for valuing and fixing the share-swap ratio ahead of its merger with State Bank of India (SBI).

Once this is done, the bank will go through with normal SEBI formalities such as making an offer to shareholders, said CR Sasikumar, Managing Director, SBT.

"We're a listed bank, so is SBI. Shareholders would like to know what are the valuations involved, what is the share swap ratio...these things would need to be done transparently."

### **Specific teams**

The merger includes a fair number of actions on the part of the parent bank SBI as well as SBT in terms of systems, integration, records, registers and policies. There are specific teams working on these aspects.

The SBI Group chairman has already expressed the wish that the merger should be completed "at the earliest."

It should likely happen somewhere in the third quarter or definitely in the fourth quarter. The task is made easy since both the banks work on the same core banking platform, Sasikumar said.

Integration of systems should not be a big issue. There are minor technical details though, like some common account numbers that need to be sorted out. An entire team, called the Associate Banks Consolidation Department, is engaged in a very detailed exercise, Sasikumar said.

### **Detailed exercise**

Each associate bank's case is taken up individually and there will be a person looking for collecting required data. These relate to fixed assets, outstanding claims, and legal suits pending, if any, among others.

Asked about the value proposition that SBT brings to the table, Sasikumar said it has a branch-reach of 850. That's nearly double of SBI's network in Kerala.

"We've close to 22 per cent of the deposit share in the State and 15-16 per cent share of advances. We have a trained and dedicated staff of close to 15,000, some good assets including this (headquarters) building and real estate elsewhere."

Asked what the merger might cost SBT, he said he has not really put a number to it. "I frankly don't think it is going to cost us any. If anything, it will be beneficial for our stakeholders — customers, shareholders and employees."

### **3. All processes at NHB have been fully automated: MD**

LN REVATHY

The National Housing Bank (NHB) has surpassed its disbursement target of ₹20,000 crore envisaged for the current year, Sriram Kalyanaraman, Managing Director and Chief Executive Officer, said.

Stating that the bank has done well both on the rural and urban housing fronts, he said, "On rural housing, we have, from conception to date, done about 15 lakh houses. Our primary goal is to promote housing for all." The bank, which is the nodal agency for implementation of the Pradhan Mantri Awas Yojana, had disbursed about ₹120 crore last year and is looking to double it this year (June 2016 – July 2017).

The NHB chief, who assumed charge about a year ago, told *BusinessLine* that the bank has completely automated its processes, which to a large extent helped achieve its targets.

About 32 per cent of public sector banks' new loans and 33 per cent of housing finance companies' loans last year were for amounts below ₹10 lakh, signalling enough off-take and progress on the schemes.

Notwithstanding such government schemes, the Centre also plans to develop housing under the public-private partnership (PPP) model, and NHB is working towards developing a healthy, profitable and sustainable eco system.

"Some of the new HFCs (housing finance companies) that are focussed on the low-end housing segment have taken underwriting norms to a new level. They profile the customer based on their segment, their geography, and so on, even if such people did not have a credit track record and give them a loan," he explained and pointed out that in the past, it never used to be easy to get credit if one did not have a credit history.

Keeping in mind the health of the industry, NHB has promoted a private company — India Mortgage Credit Guarantee Company — for providing guarantee cover for both low-end and high-end housing.

The bank is also working with a couple of multilateral agencies to get funding for green and affordable housing. "This should work out very soon," the NHB MD said.

To a query on the inventory pile-up, he said, "There is no stagnation in the sub-  
□20 lakh housing market provided the buyer is assured of quality, transparency and timely delivery." A mobile app is being examined, he said. "But there are lot of challenges. We are at it though, trying to move all the processes online (end-to-end). It would be rolled out over time."

Economic Times

#### **4. State Bank of India to bear legal costs for retired staff**

By ET Bureau

While legal cost of loan recovery is huge, what is bigger is the fear of having to bear it after retirement. State Bank of India BSE 0.56 % as part of its recovery measures has decided to fund the legal costs even after retirement for its officers, in a signal to drive recovery.

"When decisions have been taken while the employee is serving the bank ... then we are not going to abandon our employees even if it is post retirement," Rajnish Kumar, MD, SBI told ET. "We will give a certain amount of comfort and protection to our people against any sort of harassment."

As part of the policy if retired State Bank employees have acted in good faith and they continue to fight legal battles against defaulters post retirement, the bank will bear all costs including legal and travel expenses. Kumar explained that the whenever an account goes bad the banks internal processes determine staff accountability and define whether a decision is bonafide or not.

"It is our job to know what is in good faith and what is in bad faith," Kumar pointed out. SBI chairman Arundhati Bhattacharya had recently said that the bank will use all available tools to recover loans. "Resolutions can happen through DRTs, can happen through one-time settlements, resolution can happen through restructuring, resolution can happen through ARCs," she had said.

SBI's gross bad loans touched Rs 98,173 crore or 6.5% of their total loans. Gross NPLs also rose 35% quarter-on-quarter. Loans worth Rs 30,313 crore slipped into the NPA category in fourth quarter of fiscal 2016, compared with `20,692 crore in the preceding 3 months. The lender had also identified Rs 31,352 crore worth of risky loans and kept them on a "special watch". The bank, following a conservative approach, expects 70% of these loans to slip into the bad loan category. SBI recovered loans worth Rs 1,627 crore during the quarter and reported upgrades worth `97 crore.

## **5. Union Bank reports cyber breach on offshore account**

By

PTI

State-owned Union Bank today said it has successfully averted an attempted cyber theft in its USD Nostro account and there has been no loss.

"There was an attempted cyber incidence in USD Nostro account of the bank. The money trail was promptly traced and movement of funds blocked. Resultantly, there is no loss caused to the Bank," the bank said in a regulatory filing.

Union Bank further said a cyber security forensic audit has been initiated to identify, plug any gaps and strengthen the system.

"There is no impact on the bank's operations. All authorities concerned have been kept informed," it added.

A Nostro account is a bank account established overseas usually in the currency of that country for the purpose of carrying out transactions there.

Most commercial banks maintain US dollar accounts with their correspondent banks in the US in order to facilitate settlement of inter-bank and customer transactions in the US dollar.

The stock closed 3.36 per cent down at Rs 126.50 on BSE.

## **6. SBI associates' staff will not be affected by merger: FM**

By PTI

Interest of the employees of five associate banks will be protected following their merger with the parent entity State Bank of India BSE 1.05 %, Finance Minister Arun Jaitley said today.

The central government has sanctioned the proposal of SBI to enter into negotiations with its subsidiary banks as well as Bhartiya Mahila Bank for acquiring them including their liabilities, he said in a written reply to the Lok Sabha.

The proposal for acquisition has been originated by respective boards, he added.

"SBI has informed that the interest of the employees of the subsidiary banks will not be affected. The pay and allowances offered to employees or officers of the merging banks will not be less than the overall pay and allowances as they would have drawn in the merging banks," he said.

SBI has five associate banks -- State Bank of Bikaner and Jaipur BSE 0.06 %, State Bank of Travancore BSE 0.84 %, State Bank of Patiala, State Bank of Mysore BSE 0.95 % and State Bank of Hyderabad.

In another reply, Jaitley said, gross non-performing assets (GNPAs) to the total advances of the PSU banks as on March, 2016 were Rs 4.76 crore (9.32 per cent).

The macro stress tests in the Financial Stability Report of RBI, June 2016 suggest that under the baseline scenario, the GNPAs for the public sector banks (PSBs) may rise to 10.10 per cent by March 2017, he said.

However, this level may not be reached in view of the recovery efforts by banks and steps taken by government and the Reserve Bank, Jaitley said.

As per the data received from PSBs, he said, frauds constituted 7.15 per cent of total GNPs as on March 2016.

In a separate reply, Minister of state for Finance Santosh Kumar Gangwar said out of 27 public sector banks, 14 have posted losses.

The main reason for such losses was Asset Quality Review (AQR) exercise initiative by RBI during 2015-16 due to which banks had to suddenly make provision for accounts categorised as NPA.

During 2015-16 public sector banks made recoveries of Rs 39,534 crore as compared to Rs 41,236 crore in the previous fiscal.

Replying to another question, Gangwar said the ministry is considering a proposal of LIC for approval of five-day working week for its employees.

## **7. Relief for borrowers; SBI chief says loan rates may fall**

At a time when inflows of deposits are slowing down, State Bank of India (SBI) chairman Arundhati Bhattacharya believes banks would be wary of trimming deposit rates for fear of wasting the franchise.

By: [Shobhana Subramanian](#) and [Shayan Ghosh](#)

At a time when inflows of deposits are slowing down, State Bank of India (SBI) chairman Arundhati Bhattacharya believes banks would be wary of trimming deposit rates for fear of wasting the franchise. Bhattacharya tells Shayan Ghosh and Shobhana Subramanian it could be a while before demand for corporate loans picks up but loan rates may come down a little if bankers look to create demand. The SBI chairman believes the bank's balance sheet could grow to R40 lakh crore over the next three years. Excerpts:

### **How do you read the demand for credit?**

The demand for corporate loans is very low and we aren't seeing a pick-up very soon. Maybe, in the second half of the year, as and when we have more projects and triggers — a good monsoon, good harvest and the seventh pay commission — they should create demand. This, in turn, will hopefully push up capacity utilisation and subsequently investments may come back. But this will take time since there is a lag between the trigger and the fallout. At the start of the year, I had said that loan growth will be 12-13% and I have not been anticipating more. At SBI, we are seeing traction in agri loans, SME loans and the retail portfolio is doing well.

### **So where is the growth in the corporate loan growth coming from?**

It's mainly through the refinancing and cannibalising lenders who had lent at higher rates; once projects are complete and the risks mitigated, lenders are willing to refinance them at lower rates. So banks that are able to lend at lower rates will have an advantage. We at SBI already offer the best rates, so we are not in a position to undercut. But there will always be some amount of undercutting given AAA and AA accounts are few and far between.

## **How do you assess the scheme for sustainable structuring of stressed assets (S4A)?**

It is difficult to say as of now since we haven't really started on them but there are some rules which we think are very stringent. For instance, considering only the current cash flows and current interest rates might make things a little difficult. That's because most of these companies are paying penal interest rates. And if you are going to take into account only current cash flows, you are not enabling companies to take advantage of the benefits of the lower interest burden and allowing them more working capital to be able to ramp up. That means the haircuts will be very large.

We will take some of these issues to the Reserve Bank of India (RBI) and show them how things look and see how it works. We are quite clear we will do forensic audits because you cannot be taking haircuts without first ensuring the account is otherwise in order. For an S4A both the techno economic viability (TEV) study and a forensic audit are a must.

## **What is the status on the strategic debt restructuring (SDR) accounts?**

We have already classified all the big SDR accounts non-performing asset (NPA). The watch list of accounts with an exposure of R31,000 crore is over and above these. It is important to resolve these accounts within the next year or so because while provisioning is only 15% in the first year, over the next three years we would be required to provide 100%. Some will definitely get resolved and we are working towards it. Our venture with Brookfield for the stressed assets fund should help bring in money from outside adding liquidity to the system.

## **Do you see deposit rates coming down?**

Actually deposit rates should come down but I don't see that happening because deposit accretion in the banking system is much lower than what it has been ever. No bank seems willing to lower rates. Despite a disinflationary situation, if you are not getting resources, why should you bring the rates down? SBI currently offers the lowest rates and we cannot keep leading the downward cycle. I'm waiting for others to join me before I go further down. The deposit franchise gets wasted if you become too aggressive. We have to be very balanced in our approach and can only bring down rates as the market comes down, it cannot be done unilaterally.

## **So, does this mean loan rates aren't really going to fall too much?**

Lending rates might come down a little more because on one hand while deposits are also low, lending is also low. So if you are not finding enough takers it will have some downward bias on the lending rate. If your treasury profits remain good there is a little space and we can look at that. But the problem is we have very large provisioning requirement and there's a bit of pressure on us to ensure we have enough of a margin to make the provisions. Credit costs are still very high.

We go to the corporate bond market when we do not have enough assets otherwise. Obviously the yields in the corporate bond market will be lower than those on advances.

## **Are public sector banks, other than SBI, ready for fintech or will they cede share to the private sector lenders?**

The other PSBs will definitely understand this and will start adopting because they have to adopt. At the end of the day fintech is a revolution or an evolution and unless you get there you will find it very difficult to keep up. We may not be seeing it so much because the PSBs do not much talk about it but there is a lot of adoption of technology going on. They may not be doing it at the pace one would like to see but it is not true that PSBs have their eyes and ears closed and do not understand what is happening.

I am sure they will work out collaborations and find ways to bring technology to their work. If you want to be a leader and to do it ahead of time then you really must have the ability to spend. Also if you are small in size it will be difficult for you to scale up unless you have that kind of spend on technology and R&D.

**Now that the merger with the subsidiaries is imminent, where do you see SBI's balance sheet in about three years?**

The merger will take the balance sheet to Rs 29 lakh crore and over the next two to three years we are looking at a balance sheet size of Rs 40 lakh crore.

**What are the signs from the rural economy? Do you believe consumption will get a boost if there is a good monsoon?**

I think, for the first time, loans in the agri area are showing a good uptick. That suggests the old loans are being repaid and fresh ones being taken for the new season. In the previous two years the repayments have been less, bad loans have gone up.

But rural consumption should get a boost post the monsoon since not all the income will be used to repay loans. Despite the not-so-good monsoon, the shortfall in output last year, compared to previous years, wasn't more than 5-6%. So while people produced more and repaid loans, they didn't have too much left over. This year that leftover amount could be higher because production maybe higher. What happens in a year when the monsoon is good is that it recharges groundwater and so the next year too will look better. I think that consumption in the rural areas will start going up.

**How difficult it is to deal with the trade unions?**

The fact of the matter is that they have still not opened discussions with us. We had gone to the labour commission but they say they will talk only when we put this decision on hold. It is not possible to put the decision on hold, they will have to talk to us. Only when they talk can we do something about it. We believe they should sit down with us and tell us what the problem is because, at the end of the day, they are not losing jobs. Their pay and perks are not going down so why are they striking? You are becoming part of a much larger organisation and your job security is going up.

**There should be some rationalisation of branches....**

Branch rationalisation will happen but we may not give up any licences. As a legacy bank many of our branches are in the older parts of the cities and towns and not so well spread out in the newer parts. So we will rationalise those branches and take them to newer parts.

So there will not really be any loss of jobs....

You have to understand that we are losing about 13,000 people every year to retirement. So 26,000 people will go in two years and I will not have 26,000 extra people.

Therefore it is not going to impact anybody anywhere and I don't think there is any issue and therefore the court had also given the injunction. Why should you unnecessarily create customer inconvenience when you are not getting impacted in any manner. If we were throwing a lot of people out of jobs, if we were saying that we will slash your pay and perks then you could talk about such a thing.

### **8. Non-PAN transactions: I-T dept seeks info on 7 lakh high-value deals; what you could face if you ignore letter**

#### **Tax dept seeks PAN for 7 lakh high-value deals: Experts believe that ignoring the communication and not providing the relevant detail can have long-term adverse consequences that could be tough to deal with**

By: [Sarbajeet K Sen](#)

The Income Tax Department is sending 7 lakh letters seeking PAN numbers for high-value value transactions that were undertaken between 2009-10 to 2016-17. This is part of 90 lakh such transactions being tracked by the department where PAN number was not tagged as required by income tax laws. If you are one of those to receive a reminder on this, what should you do? Tax experts believe that ignoring the communication and not providing the relevant detail can have long-term adverse consequences that could be tough to deal with.

Suresh Surana, Founder, RSM Consulting Group, said that ignoring the IT communication could lead to further trouble with the Income tax authorities. "If you continue to avoid providing your PAN details, the Income Tax department will send you a formal notice, followed by summons requiring personal attendance to explain the position. Continued defiance can also result in summons and penalty and in extreme cases the law also provides for imprisonment," Surana told FeMoney.

However, he said powers of search and prosecution are used only in select cases.

Amit Maheshwari, Managing Partner, Ashok Maheshwary & Associates also advises compliance with the tax department's requirements. "The move to seek PAN details where it was missing from high-value transactions is a clear indication that the government has become very serious on non-compliance with tax laws which lead to tax avoidance and revenue loss," Maheshwari said.

The I-T department on Thursday said it was "closely scrutinising" 7 lakh high-risk clusters with 14 lakh non-PAN transactions which are being scrutinised closely. This is part of 90 lakh high-value transactions undertaken between 2009-10 and 2016-17 without providing PAN details.

The transactions being tracked include cash deposits of Rs 10,00,000 or more in a saving bank account, sale or purchase of immovable property valued at Rs 30,00,000 or more.

Surana says the I-T Department's use of the electronic mode is speeding up the entire process. "There are two things happening. Firstly, the I-T department is using technology to dig up information and secondly asking the response also to be executed electronically. The entire process will be swift," Surana said.

Thus, the tax authorities have said that those who receive the letters can login in to their e-filing website and quoting a Unique Transaction Sequence Number in the letter and can link their transaction with their PAN. The parties involved will also have the option to own up the transaction or deny it as their own, all through electronic response

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**