



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)
163/4, Kutchery Road, Mylapore, Chennai - 600004
E mail i.d: aiubparf@gmail.com/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

Com. P.B. Thomas
Chairman
Thiruvananthapuram
M: 09447177456

Com. Nitin Desai
President
Ahmedabad
M: 097277 60641

Com. S. Bagchi
Working President
Kolkata
M: 0983081586

Com. N. Govindarajulu
General Secretary
Chennai
M: 09841089111

Dear Comrades,

27th October , 2016

News of Interest 27th Oct

QUOTE OF THE DAY

“IN ORDER TO SUCCEED, WE MUST FIRST BELIEVE THAT WE CAN. “

NIKOS KAZANTZAKIS

1. **AXIS BANK: AFTER RISE IN NPAS, RECOVERY HOPES SHIFT TO FY18**
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Business Standard

1. Axis Bank: After rise in NPAs, recovery hopes shift to FY18

In Q2, with loans turning into non-performing assets jumping to Rs 7,288 crore, concerns increase significantly

Hamsini Karthik

Axis Bank was among the few corporate lenders that won investors' trust two quarters ago, when it first announced a 'watch list' (loans which could potentially turn bad) of Rs 22,628 crore.

But, in the past two quarters, it is the watch list that is creating issues for Axis Bank. In the first quarter (Q1) of FY17, when Rs 2,680 crore of loans turned bad, representing 12 per cent of the total watch list, it raised concerns on the bank's asset quality picture. In Q2, with loans turning into non-performing assets jumping to Rs 7,288 crore, concerns have increased significantly.

Further, the bank has forecast higher pain from the watch list against the previous projection of 60 per cent of assets under watch list turning bad. Adding to the earnings trouble, credit costs at 300 basis points (earlier 150 bps) could remain elevated for most of FY17. And, the recovery in earnings and improvement in asset quality, earlier expected by the second half of FY17 has been deferred to FY18.

These developments explain why Axis Bank's stock tanked eight per cent on Wednesday's trade to Rs 485. This single-day fall has significantly reduced the year-to-date gain of the bank to 8.3 per cent.

Consequently, analysts are reducing their expectations from Axis Bank. JM Financial has sharply cut its FY17 earnings estimate by 40 per cent to build in the revised guidance. Jefferies expects the net interest margin at 3.5 per cent, with an expense ratio around 43 per cent, implying 8.9 per cent growth in FY16-19 earnings per share.

However, not all analysts are in a rush to downgrade their recommendation. Brokerages such as JP Morgan, Credit Suisse and Jefferies retain their 'buy' rating, as they say their expectation for FY18 remains largely unaffected for now.

2. Data breach: Banks must login for fully-encrypted ATM security solutions (Tech Trend)

It is time that magnetic-stripe cards issued by banks for ATM transactions are replaced at the earliest

IANS

While some of the country's premier banks are busy blocking debit cards that have been compromised (the numbers run into millions) in one of the financial sectors biggest data breaches, it's time for banks to adopt state-of-the-art, fully encrypted ATM security solutions to safeguard consumers, the country's top cyber experts have suggested.

The State Bank of India (SBI), HDFC Bank, ICICI Bank, Axis Bank and YES Bank are among banks which reported several of their customers' debit cards being compromised following a malware-related security breach in an ATM network. The SBI has blocked nearly 600,000 debit cards so far.

"This incident is a wake-up call for the Indian banking ecosystem to pause and realise that adopting extra-layered, state-of-the-art encryption security to minimise consumer financial data breach has become essential. The breach is attributable to malware which was introduced in ATM systems. The said malware has resulted in unauthorised access of data," Pavan Duggal, one of the nation's top cyber law experts, told IANS.

Malware attacks and cyber threats have affected countries like Japan and Bangladesh in the recent past and banks in India will have to make efforts to ensure that data is protected with multiple levels of authentication and industry-standard encryption, ensuring data security at all points of a transaction.

"It is time that magnetic-stripe cards issued by banks for ATM transactions are replaced at the earliest. While the affected banks are blocking debit cards to minimise

the impact, the already ongoing replacement of mag-stripe cards with EMV chip cards will help the banks and consumers," explained Atul Singh, Regional Director-Banking and Transport (India Subcontinent) at the digital security giant Gemalto.

Gemalto works with some of the world's leading enterprises, banks and telcos to help them deploy consumer-friendly technology solutions for payment, banking and other financial services on the mobile and securing confidential information.

EMV -- which stands for Euro pay, MasterCard and Visa -- is a global standard for credit cards that uses computer chips to authenticate (and secure) chip-card transactions.

"This is in line with the RBI directive to issue EMV chip- and PIN-enabled cards. According to industry estimates, around 400 million mag-stripe cards have to be migrated to EMV standard in the next two years while nearly 120 million cards would have been migrated this year," Singh told IANS.

Further, banks need to work towards gradually enabling EMV chip and PIN-enabled card acceptance and processing at ATMs to enhance the safety and security of transactions.

While the point of sale (POS) terminal infrastructure in the country has been enabled to accept and process EMV Chip and PIN cards, the ATM infrastructure, on the whole, continues to process the card transactions based on data from the magnetic stripe.

"As a result, ATM card transactions remain vulnerable to skimming and cloning, etc., even though the cards are EMV Chip and PIN-based. Therefore, in line with RBI's directive of May 26, 2016, to all banks to upgrade ATMs to accept chip and PIN by September 2017, banks must take immediate steps to implement this in a fast-track mode," Singh added.

Worryingly, Indian cyber laws do not talk specifically about banking frauds.

"The Information Technology Act, 2000, being the sector-specific legislation, was amended in 2008. By virtue of the 2008 amendments, certain cosmetic amendments concerning cyber security were made under the Information Technology Act, 2000. The said amendments are not sufficient and adequate in today's scenario," Duggal informed.

"Further, the ground realities for cyber security breach are distinctly different in 2016 as compared to 2008. As such, there is a distinct need for India to beef up its legal frameworks on cyber security when it comes to banking frauds," he told IANS.

According to Rakshit Tandon, consultant at the Internet and Mobile Association of India (IAMAI) and a cyber security expert, ATM cards are vulnerable, ATM machines are weak and banks' own servers are at hacking risk.

"Banks must introduce biometrics like retina scan, voice scan or fingerprint as double verification at ATMs. PIN numbers must be changed periodically. But the option is only in four-digit and so making strong PINs is out of question as of now," Tandon told IANS.

Watch bank statements closely and contact the bank in the event of any signs of unexpected charges or transfers. Consumers also need to be aware of phishing scams where cybercriminals hijack banking systems and send bogus emails that lure people into sharing personal information or clicking malicious URLs with malware.

"Make all new PIN and account passwords different and difficult to guess. Include upper and lower case letters, numbers and symbols to make passwords harder to crack online," suggested Sunil Sharma, Vice President-Sales and Operations (India & SAARC), Sophos, a global leader in network and endpoint security.

Further, "the Information Technology Act, 2000, needs to be amended to come up with stringent provisions pertaining to a variety of cybercrimes, including banking frauds," Duggal noted.

In the meantime, banks must take a serious note of this incident to concentrate on cyber security and help protect the interest of users and consumers, the experts advised.

3. Accept Rs 500, Rs 1,000 notes after scrutiny: RBI

The central bank has cautioned the public to subject notes that are accepted to careful scrutiny

Press Trust of India

Worried over circulation of fake currency notes of Rs 500 and Rs 1,000 denomination, the RBI on Wednesday asked the public to make it a habit to examine the notes before accepting them in the usual course of transactions.

"It has come to our notice that unscrupulous elements are putting into circulation Fake Indian Currency Notes of higher denominations in the course of normal transactions, taking advantage of the gullible and unsuspecting nature of some members of the public," the RBI said.

The central bank has cautioned the public to subject notes that are accepted to "careful scrutiny".

Genuine Indian Currency Notes of higher denominations have strong counterfeit resistant security features, it said, adding the fake notes can be identified on closer inspection.

Detailed information on the security features on the banknotes are available on RBI website.

"Members of public are requested to make it a habit of looking at the notes before accepting them in the usual course of daily transactions and help arrest the counterfeiting of Indian banknotes," the RBI said.

Reserve Bank is also considering additional identity requirements for the use of Indian banknotes in large numbers.

Counterfeiting of notes, or possession, exchange, acceptance, putting into circulation of counterfeit notes or in any way abetting such actions are offences under the Indian Penal Code and such actions are liable to be punished stringently.

Reserve Bank has appealed to the public for cooperation and also authorities in containing the menace of circulation of counterfeit notes.

Financial Express

4. RBI Deputy Governor's post: Some 70 candidates in fray for Urjit Patel's former job

Over 70 candidates have applied for a deputy governor post in the Reserve Bank of India (RBI) lying vacant after Urjit Patel's appointment as governor of the central bank on September 4.

By: [Prasanta Sahu](#)

Over 70 candidates have applied for a deputy governor post in the Reserve Bank of India (RBI) lying vacant after Urjit Patel's appointment as governor of the central bank on September 4.

About five candidates are likely to be shortlisted before a final choice is made in a month's time, an official said. It is expected that an academic will make the cut as the post is usually reserved for economists, the official said.

"The applicants are from diverse background — retired IAS officers/secretaries, professionals/economists, bank executive directors, managing directors as well as state government officials," another official said. He did not disclose the names of the candidates.

On September 29, the government had put out an advertisement inviting applications from prospective candidates for the deputy governor post. The last date for submission of application was October 21.

According to the advertisement, the applicants should have at least 25 years of experience in public administration, including secretary level posting in government of India or in Indian or international public financial institutions.

Applicants below 60 years of age as on September 4, could submit their application.

Patel, a PhD in economics from Yale University, was a deputy governor before taking up the new role of RBI chief after the end of Raghuram Rajan's tenure on September 4. RBI has four deputy governors — one is a former banker, one an economist and two from within RBI cadre.

5. Bank investments in MFs jump most in seven years

At Rs 86,423 crore, total investments hit over five-year high

By: [FE Bureau](#)

Banks' investments in mutual fund (MF) instruments jumped the most in over seven years in the fortnight ended October 14, data released by Reserve Bank of India (RBI) show. With an increase of R71,500 crore during the fortnight, banks' total investment in MF instruments also hit an over five-year high of R86,423 crore.

The rise in banks' investment in MF instruments is most likely due to fresh investments by public sector banks (PSBs) that are grappling with stressed loan books and low credit demand from the industry. Bank credit to the industry, for instance, fell 0.2% (y-o-y) — its first fall in at least eight years — in the month ended August 19. Banks' investment in commercial papers (CPs) and private sector bonds and debentures, on the other hand, are currently close to, if not at all time highs.

PSBs that have declared their September quarter results so far are only further validating such anaemic loan growth. Canara Bank, which announced its Q2FY17 results on Wednesday, for instance, reported just a 1.2% (y-o-y) rise in advances. Syndicate Bank reported an even lower 0.3% (y-o-y) rise in advances during the quarter ended September.

"Given the high credit costs of PSBs, it's only logical that they concentrate on high quality investments, instead of advances, until they get a grip on their ballooning non

performing assets (NPAs),” said an analyst at a leading foreign brokerage. Credit costs are the provisions set aside by banks for bad loans as a percentage of their total loan book.

Analysts are also of the opinion that such a strategy to invest funds instead of lending them, though not advisable in the long run, is at times a compulsion. “Most PSBs are continuing to see growth in deposits, but the entire focus of their top management is on recovery of bad loans. In such a scenario, I think it makes sense for them to invest in high quality corporate bonds and even equities and MF units, given the buoyancy in the market, instead of lending more to already stressed large corporates” said a banking analyst at another leading brokerage.

6. Federal Bank to buy more mortgage loans from markets

Having already bought Rs 1,400 crore of mortgage portfolio in the first half of this financial year, Federal Bank today said it will continue with such purchases and is closing in on another transaction.

By: PTI

Having already bought Rs 1,400 crore of mortgage portfolio in the first half of this financial year, Federal Bank today said it will continue with such purchases and is closing in on another transaction.

The bank purchased a Rs 100-crore portfolio from a non-banking lender in the June quarter and followed it up with another Rs 1,300-crore deal in the following quarter.

“We are working on another such transaction and the amount is meaningfully high, if not as big as the previous one,” managing director and chief executive Shyam Srinivasan told reporters here.

He explained that apart from giving a spread on the margin, such purchases of portfolios help the lender in building newer customer relationships.

He also said that the dearth of capital in many lending entities and the bank’s comparatively stronger buffers are resulting in such deals.

The bank bought the Rs 1,300-crore portfolio from a triple A-rated NBFC, which will minimise the risk of defaults.

It posted a retail loan growth of 21.7 per cent for the reporting quarter, which would shoot up to 27 per cent if the portfolio buy is also included.

The Kochi-based bank, which reported a 24.77 per cent rise in net income for the September quarter at Rs 201.24 crore, also hinted that the worst is over with NPAs as fresh slippages came down to a six-quarter low of Rs 268 crore.

Srinivasan said only two chunky accounts — a Rs 278 crore exposure to Air India and a Rs 150 crore to a metals company — will be coming out of a moratorium arrangement fixed as part of a restructuring exercise in the next few quarters.

Of the two accounts, he exuded confidence about Air India saying it is doing good and shall be able to meet its commitments.

Meanwhile, on the two-fold rise in provisions in the September quarter at Rs 168.40 crore, Srinivasan explained that it is due to a rise in standard asset provisioning on its book expansion and also due to a couple of S4A accounts which requires banks to set aside a fifth of the total exposure.

Going forward, the bank will focus on the mid corporate segment which is not able to get required funding from the lenders, Srinivasan said, adding, the book will be evenly split between the wholesale, SME and retail segments.

It is also gradually planning to increase its credit deposit ratio to 80 per cent, which it feels is the optimum utilisation of resources, executive director Ashutosh Khajuria said.

The bank scrip, which had gained by over 8 per cent following the results yesterday, closed today's session up 1.05 per cent at Rs 82 on the BSE as against a 0.91 per cent correction in the benchmark Sensex.

7. Canara Bank Q2 profit drops 33% to Rs 357 crore

Pulled down by provisioning for rising bad loans, Canara Bank today reported 32.5 per cent drop in net profit to Rs 356.9 crore for the second quarter ended September 30 of the current financial year.

By: PTI

The public sector bank had earned a net profit of Rs 528.8 crore in the same quarter previous fiscal. (PTI)

Pulled down by provisioning for rising bad loans, Canara Bank today reported 32.5 per cent drop in net profit to Rs 356.9 crore for the second quarter ended September 30 of the current financial year.

The public sector bank had earned a net profit of Rs 528.8 crore in the same quarter previous fiscal.

Total income also declined to Rs 12,187.1 crore during the quarter from Rs 12,477.9 crore earned in the year-ago period, Canara Bank said in a regulatory filing on stock exchanges.

The bank's asset quality slipped with gross non-performing assets (NPAs) or bad loans more than doubled to 9.81 per cent of gross advances during the reported quarter, from 4.27 per cent a year ago.

Net NPAs also increased to 6.69 per cent of net advances as against 2.9 per cent in the same quarter last year.

As a result, provisions and contingencies rose to Rs 1,585.37 crore during the period from Rs 1,212.31 crore a year ago. Out of the total, provisioning for bad loans rose to 1,558.37 during the quarter as compared to Rs 979.17 crore in the same period a year ago.

8. Syndicate Bank Q2 net slumps 75% to Rs 82 cr

PTI

Public sector lender Syndicate Bank today reported a 75.3 per cent decline in net profit at Rs 82.4 crore for the second quarter ended September 30, as provision for bad loans almost doubled.

The bank's net profit in the July-September quarter of the previous fiscal stood at Rs 332.37 crore.

Total income also declined to Rs 6,574.93 crore during the second quarter from Rs 6,670.19 crore earned in the year-ago period, the bank said in a regulatory filing on stock exchanges.

The bank's asset quality slipped with gross non-performing assets (NPAs) or bad loans more than doubling to 7.72 per cent of gross advances during the reported quarter, from 3.72 per cent a year ago.

Net NPAs also increased to 5.03 per cent of net advances as against 2.37 per cent in the same quarter last year.

As a result, provisions and contingencies rose to Rs 864.14 crore during the period from Rs 440.29 crore a year ago.

9. Karnataka Bank Chairman retires

OUR BUREAU

Karnataka Bank bid farewell to Ananthakrishna, non-executive chairman of the bank. He retired from the office as part-time non-executive chairman, on Wednesday. He was associated with the bank for more than 45 years. P Jayarama Bhat, Managing Director and CEO, said the bank witnessed all-round progress under the stewardship of Ananthakrishna.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY