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Dear Comrades,

30th November , 2016

News of Interest 30th Nov

QUOTE OF THE DAY

“WHEN SOMETHING IS IMPORTANT ENOUGH, YOU DO IT EVEN IF THE ODDS ARE NOT IN YOUR FAVOR. “

ELON MUSK

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BUSINESS STANDARD

1. RBI caps withdrawals from Jan Dhan accounts at Rs 10,000 a month

Move aimed at protecting account holders from being used for money-laundering and benami transactions

BS Web Team

In a move aimed at protecting “the innocent farmers and rural account holders of PMJDY (the Pradhan Mantri Jan Dhan Yojana) from activities of money launderers and legal consequences under the Benami Property Transaction & Money Laundering laws”, the Reserve Bank of India (RBI) has placed a limit of Rs 10,000 on monthly withdrawals from Jan Dhan bank accounts.

According to the new notification, the KYC (Know Your Customer)-complaint account holders might be allowed to withdraw Rs 10,000 a month from their account, while

branch managers could allow further withdrawals beyond Rs 10,000 within the current applicable limits only after ascertaining the genuineness of such withdrawals and duly documenting them on bank record.

On the other hand, the limited or non-KYC-compliant account holders might be allowed to withdraw only Rs 5,000 per month from the amount deposited through specified bank notes after November 9 within the overall ceiling of Rs 10,000.

While the RBI has said in its notification that the move is being taken in order to protect farmers and rural account holders, the step is also seen as a measure to contain demand for cash in the system, amid banks and ATMs running dry and people still queueing up to procure valid currency notes.

The Finance Ministry had earlier set an upper limit of Rs 50,000 for deposits into these accounts.

"Some people are using Jan Dhan accounts to deposit black money. Up to Rs 50,000 can be deposited in Jan Dhan accounts," the Economic Affairs Secretary Shaktikanta Das had said.

2. Gross NPAs of PSBs jump nearly Rs 80,000 cr in Jul-Sep

As on September 30, gross NPAs of public sector banks rose to Rs 6,30,323 crore as against Rs 5,50,346 crore by June end

[Press Trust of India](#) |

Public banks have seen nearly Rs 80,000 crore increase in gross non-performing assets (NPAs) in the three months ended September 2016.

As on September 30, gross NPAs of public sector banks rose to Rs 6,30,323 crore as against Rs 5,50,346 crore by June end. This works out to an increase of Rs 79,977 crore on quarter on quarter basis.

"The government has taken sector-specific measures (infrastructure, power, road textiles, steel etc) where incidence of NPA is high," Minister of State for Finance Santosh Kumar Gangwar said in a written reply to the Rajya Sabha.

He listed measures like enactment of the Insolvency and Bankruptcy Code (IBC) and amendment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) and the Recovery of Debt due to Banks and Financial Institutions (RDBFI) Act aimed at improving resolution or recovery of bank loans.

Besides, he said, RBI has come out with a number of tools such as corporate debt restructuring, formation of Joint Lenders' Forum, strategic debt restructuring scheme and sustainable structuring of stressed assets to fight NPAs.

In another reply, Gangwar said that out of Rs 2.80 lakh crore loans to the iron and steel sector at the end of June, Rs 1.24 lakh crore has gone bad, which works out to 44.54 per cent.

Replying to another question, Gangwar said no corporate loan waiver has been done by the government.

The loan write-off by banks is based on RBI guidelines and board-approved policy, he said, adding that loans are written off after appropriate provisions have been made to take advantage of tax benefits and capital optimisation.

In respect of technical write-offs, RBI has permitted so at the head office level while recovery efforts are still on at the branch level, he said.

During the first quarter ended June 2016, public sector banks have written off Rs 15,163 crore loans as against Rs 5,441 crore.

In the last fiscal, public sector banks had written off Rs 59,547 crore while private peers Rs 12,017 crore.

3. Queues outside ATMs ease, but customers throng banks

Nearly 20 days after the Centre's demonetisation move, the queues outside the ATMs have eased but customers have been crowding the banks in large numbers to withdraw and deposit money.

By: PTI

Nearly 20 days after the Centre's demonetisation move, the queues outside the ATMs have eased but customers have been crowding the banks in large numbers to withdraw and deposit money.

Providing a window to black money holders, the government had yesterday proposed to levy a total tax, penalty and surcharge of 50 per cent on the amount deposited post demonetisation while higher taxes and stiffer penalty of up to 85 per cent await those who don't disclose but are caught.

"The queues before banks started today in afternoon only, almost at all the bank branches here. But few people came here to enquire about the government's announcement yesterday... whether they should first to go to Income-Tax authorities or approach the banks first," an executive of a leading private sector lender at Fort in South Mumbai said.

People are not well aware of what to do to follow the government's announcement, he said.

Many people, especially who run businesses, stood in queues to withdraw money for distribution among their workers since it is almost month-end. "I need some money to give salary to my workers and this is why I am here," said a man standing in a queue outside a bank in Lower Parel area.

Economic Times

4. Associate banks' merger: SBI must understand the ABCD of customer retention

By Atmadip Ray

Firms operating at the world's leading shipbreaking yard in Gujarat's Alang had a horrid time after State Bank of Saurashtra (SBS) was merged with the State Bank of India in 2007. These shipbreaking units were premium SBS customers in their own right; yet, several of them had to fend for themselves after the merger.

"The process of getting loans was delayed while SBI's existing customers received preferential treatment," says an industrialist at Alang. Some industrialists have highlighted this to the administration in New Delhi.

The Union Cabinet in June 2016 cleared the plan to merge – State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Maharashtra, State Bank of Patiala and State Bank of Travancore BSE 0.97 % – with SBI, whose chairman Arundhati Bhattacharya said the exercise may be over by March 2017.

Another set of people is also worried – the employees of associate banks since the past experience are not a happy one. There has also been resentment across levels which made Finance Minister Arun Jaitley issue a statement allaying their fears.

It may be a coincidence that SBI has formed ABCD – the Associate Banks Consolidation Department – to deal with all pre-merger issues and to draft a business continuity plan after the effective date of merger. The banking behemoth, which has nurtured relationships for nearly two centuries, has realised that customers of associate banks may not necessarily feel comfortable to bank with SBI. A major task for this department is to address all the woes these customers may have.

SBI fears that depositors in associate banks who are used to communicating with officers in their mother tongue, in whichever corner of the country the branch is, may also leave. For instance, the Telugu diaspora tends to move to State Bank of Hyderabad anywhere in the country, and so is the case with Malayalis banking with State Bank of Travancore, but this connect may cease to exist soon.

“It’s an opportunity for us. Local customers of State Bank of Travancore may miss the local touch that the bank offered all these years,” says Ganesh Sankara, executive director at Federal Bank, the second-largest bank in Kerala after SBT. “Customers also don’t know what would be their pecking order in SBI. Several of its loan clients have approached us. There is a fair possibility that lots of them may gravitate to local banks.”

But SBI is firing on all cylinders to retain customer .. “The top management of SBI and associate banks have been meeting important customers in person to remove various apprehensions regarding their relationship with the bank,” SBI says in response to ET’s mail to the chairman’s office. “The senior team is travelling the distance and meeting customers to assure them best services.”

ABCD has co-ordination committees in five circles, where head offices of associate banks are located. Another key aspect of SBI merger is to eliminate the overlap of branches of itself and subsidiaries where there are more than four group branches in a 100-metre radius. Post-merger, SBI would have about 22,500 branches and 58,000 ATMs. It will have over 50 crore customers.

“It is not surprising that several customers with associated banks have expressed their willingness to leave the bank as they face the risk of losing their identity once they become SBI customers. A Rs 10-crore borrower is a sufficiently important customer for any associated bank and such people used to get personalised services. In SBI, the Rs 10-crore customer will be a marginal entity,” says Amitabha Guha, SBI’s former deputy MD, who also had headed two associate banks between 2002 and 2008. ..

As on September 30, the associate banks cumulatively have Rs 5,21,344 crore of deposits and Rs 3,92,436 crore of advances. This will get added to SBI’s Rs 18,58,999 crore of deposits and Rs 14,81,832 crore of advances, making the group’s total business nearly five times of ICICI Bank’s total business of Rs 9,03,371 crore.

However, what was once thought to be an exercise to strengthen SBI, may turn out to be a costly affair for several other reasons. Credit Suisse Securities (India) believes the cost of merging the associates would outweigh the benefits in the short term. The pension obligations may be higher than earlier estimates of Rs 3,500 crore while the doubling of non-performing assets ratios in associate banks over the last few quarters may put added strain on the parent after merger.

Gross NPAs at SBI’s associate banks have more than doubled to 13.8% as on September end from 6% in March, with 57% rise in NPAs in the first half of the fiscal as they have been aligning their bad loan recognition in line with the parent. This

translates to a 23% rise in SBI's consolidated NPAs just from the associates. "The merger is being done in a hurry. It will take at least two years to consummate a merger of this size," says Pratip Chaudhuri, former chairman and Bhattacharya's immediate predecessor. "SBI should have asked the associate banks to make the loan loss provision after the merger to make it tax efficient," Chaudhry .says.

Over the past six months, all associate banks have reported Rs 4,300-crore loss between them, leading to associate banks' tier-1 capital ratio falling 120-150 basis points to 8.67%. The next biggest challenge for SBI is managing the heterogeneous workforce in associate banks and keeping their morale high.

Times of India

5. I-T Act amendments upset calculations of cash hoarders

Prabhakar Sinha & Pradeep Thakur|

There was unusual rush at income tax offices in the capital on Tuesday, soon after a bill was passed by Lok Sabha clearing **amendments to the Income Tax (I-T) Act** which proposed enhanced tax liability of 82.5% of the total unaccounted amount.

The anxiety is easy to understand. For, the proposed amendments shut out one attractive option that holders of undeclared income had — of declaring the cash with them as income for the year and get away by paying 35.5% of tax. That most of the **declarations under the Income Disclosure Scheme (IDS)**, which closed in September, were about assets rather than cash only enhanced the appeal of the option which will be extinguished when the amendments enter the statute book. Not surprisingly, the last few days have seen many turning up at I-T offices across the country to persuade tax officials to let their hitherto undeclared income be included among their declaration under the IDS.

The tax department, it is learnt, refused to entertain such requests. The amendments passed on Tuesday will shut out the room for **the exercise of discretion**. According to a chartered accountant, one among the several bookkeepers who had been queuing up at the I-T office in the wake of the demonetisation decision on November 8, people did not declare their cash under IDS because they did not suspect that the government could change the I-T Act immediately after closure of the IDS.

As cash is a movable asset, holders have the leeway to declare the undeclared amount as windfall income in the current financial year, said chartered accountant Vivek Jain when approached by TOI to explain why the amendments might not be welcomed by those with undeclared cash. Disclosure of unaccounted income, under Section 115BBE of the unamended I-T Act, as sudden surge income during the year would have invited a flat tax rate of 30%. With cess and surcharge, the total liability would have come to a maximum of 35.54% of the total disclosed amount.

In fact, Jain said many hoarders of cash, clueless about PM Modi's November 8 bombshell, had planned to pay advance tax in December on their hoard. Even after being forced by demonetisation to bring out their cash, they had hoped to get away by paying 35.5%. The amendments have put paid to the plan. For, the changes in Section 115BBE of I-T Act for such disclosure of cash would now invite a total tax of 82.5% — a flat tax of 60% in addition to surcharge of 25% of tax i.e. 15% of such income. So, the total tax on such cash disclosure would be 75%.

In addition, the new amendment, according to the press statement issued by the government, provides for a penalty of 10% of this 75% tax. Thus, the total tax outgo would be 82.5%. As the window of Section 115BBE has now become hugely

punishing, the only option available to hoarders of black money is to opt for the PM's 'Garib Kalyan Yojana', under which a flat 49.9% tax is paid upfront and 25% of all such deposits go into the PM's welfare fund for the poor. In case the hoarders try to under-report or misreport, their tax liability will go up to 50.54% and 95.54% respectively, if caught in assessment.

The penalty on uncovered income also increased to upward of 60.90% up to 95.54% from 40.9% earlier.

6. Demonetisation exercise could hit banks' profits in third quarter

K RAM KUMAR

Banks' profitability could take a hit in the October-December quarter due to a host of factors linked to the high denomination ₹500 and ₹1,000 bank notes being rendered invalid.

The reasons include the requirement that banks park 100 per cent of their incremental deposits temporarily with the Reserve Bank of India at zero interest rate, slowdown in loan growth due to resources getting diverted for the ongoing demonetisation exercise, and operational expenses incurred in recalibrating ATMs.

To suck out the liquidity generated by copious inflow of deposits in the wake of the demonetisation exercise, which was kick-started with effect from November 9, the RBI has imposed an incremental cash reserve ratio (CRR) of 100 per cent on the increase in deposits between September 16 and November 11. However, this deposit with the RBI will not fetch banks any return though they will have to pay interest (4 per cent) on the savings bank deposits.

NS Venkatesh, Executive Director, Lakshmi Vilas Bank, said: "Liquidity-wise, I don't think there is any issue for banks in meeting the incremental CRR. But there will be some negative impact on profitability because of the fact that the banks will end up paying the savings bank rate on the deposits of ₹3.2 lakh crore (parked with RBI), whereas they don't get any interest on the CRR balance.

"To that extent this will have a negative impact on the net interest income (difference between interest earned and interest expended)."

CRR is the slice of deposits that banks are required to park with the RBI. It currently stands at 4 per cent of deposits.

Credit rating agency ICRA, in a report, observed that while banks were making some positive spread on the deposits garnered even by offering them under reverse repo window (deploying surplus liquidity with RBI), these gains will largely be offset by the RBI move to increase CRR as they will not earn anything on the additional CRR, though they continue to bear the cost of the increased deposits.

ICRA estimates that due to these changes, banks will lose ₹700-900 crore every fortnight till such time the RBI reverses its temporary measure.

Bankers feel that slowdown in booking new (loan) business too could impact the bottomline as the entire bank machinery has been pressed into the demonetisation exercise.

Then there are higher employee expenses too. According to BS Rama Rao, Executive Director, Vijaya Bank, expenses related to overtime remuneration of the bank's employees since the announcement of demonetisation amounted to about ₹12 crore.

Assuming a near-parity in salary structure of employees of different banks, staff overtime expenses alone could total around ₹200 crore for all banks.

Frequent replenishing of ATMs would involve more trips by cash management service vehicles, the cost of which have to be borne by banks, Rama Rao said.

ATM recalibration charge to provide for dispensing of new notes is around ₹2,000 per ATMs. There are 2.30 lakh ATMs in the country.

7. Share details of currency supply date wise and bank wise, AIBOC tells RBI

L N REVATHY

Bank unions have demanded that the Reserve Bank come out with details of the value of old notes deposited in the bank (by the public), the value of new notes released by the regulator (for old notes) and the value of soiled notes released to meet the demand, date wise, to each bank.

"There is a huge shortage of smaller denomination notes and this is contrary to the Reserve Bank's announcement of sufficient currency on several occasions. The situation has not eased even after 20 days of the announcement of demonetisation. The new Rs. 500 currency is still in short supply and at some branches, the banks are forced to pay Rs. 4,000 instead of Rs. 24,000 to a customer," said R Sekaran, Secretary, All-India Bank Officers' Confederation – Tamilnadu State Unit.

Meanwhile D Thomas Franco Rajendra Dev, President, AIBOC -TN, said there were reports that the Madurai branch of State Bank of India was supplied just Rs. 5 cr through ICICI Bank and asked to distribute the same in eight southern districts.

"While nationalised banks are not getting adequate number of the new Rs. 500 note for distribution, private banks such as ICICI Bank and HDFC have been getting sufficient supply of the notes from Day one – of Rs. 2,000 and Rs. 100 and now of Rs. 500 as well.

The Reserve Bank should, therefore, declare details of value of old notes deposited by the public, value of new notes and soiled notes released – date wise to each bank," he said.

"The situation is likely to worsen in the next two days as pension and salary payments start from December 1. In several branches, there is unrest with the public raising a hue and cry over being prohibited from withdrawing their money," Franco said and appealed to the Governor not to issue false statements and increase the pace of supply of Rs. 500 and Rs. 100 notes urgently.

AIBOC has also appealed for review of withdrawal limits taking into account the salaries to be paid and pension to be disbursed.

"The RBI Governor should announce the future road map for some clarity. The regular work of bankers, including follow-up of advances, has come to a standstill and we do not know how long this situation would continue," Franco said.

8. Bank of India is on the cusp of a turnaround, says MD

K RAM KUMAR

Bank of India (BoI) has turned the corner after posting four consecutive quarterly losses. MD and CEO Melwyn Rego said he is cautiously optimistic about his bank's performance. According to Rego, the three-pronged strategy that he outlined when he took charge is now bearing fruit. In an interview to *BusinessLine*, Rego touched upon a host of issues, including bad loan management, garnering more low-cost deposits, and increasing the share of retail loans in total loans. Excerpts from the interview:

How is your three-pronged strategy to improve the fortunes of your bank shaping up?

When I took over as MD and CEO of Bank of India (in August 2015), I had outlined a detailed three-pronged strategy — non-performance assets (NPA) management, augmentation of current account, savings account (CASA), and rebalancing of advances in favour of retail.

I had then mentioned that this strategy would bear fruit by March 2017. I am happy that the first green-shoots arising out of this strategy are clearly discernible. And, as a result, the bank has earned a profit before tax of ₹197 crore and a profit after tax of ₹127 crore in the second quarter.

A year back, the mood was rather sombre. Notwithstanding the apprehensions expressed in various quarters at that point in time and later on after the quarterly results, my resolve to turn around the fortunes of the bank became even stronger.

This was because I strongly believed in the bank's intrinsic financial strength, its strong customer base, the very cohesive board which gave very clear directions and guidance, and the determination of staff members.

How much capital infusion will BoI receive from the government this year?

I had really very serious apprehensions (on capital infusion) because we incurred a loss of ₹6,000-crore plus last year. If there is a loss of ₹6,000 crore, it means your net worth gets eroded by that amount.

And during the first quarter of this year also, the loss at the profit before tax level was ₹1,116 crore. So with all this, the government reposed faith and infused capital into our bank. Last year, the total capital infused was ₹3,650 crore. This year, the government has decided to infuse ₹1,784 crore as equity capital, of which, ₹1,338 crore was received in September and the balance ₹446 crore is expected to be infused in the fourth quarter of this fiscal.

What performance conditions are attached to the capital infusion?

Yes, the government has put certain conditions in terms of recovery and upgradation. We are confident we will achieve that because the numbers are showing (we are well on that path). I wouldn't like to get into the actual numbers but it mainly pertains to the recovery and the efficient use of capital, both of which we have taken care of.

Efficiency of capital refers to conservation of capital through appropriate means. In other words, funding better (rated) assets with less risk weight, cleaning up the data which we have in the system to ensure that capital does not get consumed.

And, as a result, the total capital to risk-weighted assets ratio of the bank as on September 30, 2016, stood at a comfortable 12.5 per cent. Now, when you compare this to any of the quarters in the last two years, this is a fairly comfortable position.

I can only say that at this juncture, I am cautiously optimistic that we are on the cusp of a turnaround.

Is the NPA situation showing any signs of improvement?

The entire staff of the bank was sensitised on the importance and criticality of NPA management by arresting slippages, increasing recovery, and upgradation of assets.

Now, these efforts have borne fruit and I see the NPA levels plateauing. The net accretion of NPAs during Q2 FY17 has reduced significantly to ₹338 crore as against ₹1,995 crore in Q1 FY17. So, it is very evident that there is a marked deceleration in the absolute NPA accretion.

Now, these numbers show very clearly that our strategy and concerted efforts at NPA management have started yielding results.

The change in mindset was brought about by holding town hall meetings at all the major centres to sensitise the staff that NPA management is the top most priority of the bank. And when you have dedicated staff, it bears results. I think we just put in our heart and soul into this and this will continue.

CASA deposits are going up....

I think the numbers talk for themselves. In percentage terms, CASA, which was 31 per cent of total deposits in September last year, is now a little over 36 per cent. By March 2017, CASA should move up to 38 per cent. I think when you focus on a certain activity, it just happens.

Term deposits of less than ₹1 crore have increased from 64 per cent of total deposits in September 2015 to 75 per cent in September 2016. Now, this shift in composition of deposits shows that we have significantly reduced our dependence on bulk deposits, which generally are at a higher rate. This is a very positive factor. Acquisition of salary accounts from assisted corporates has been one of the focus areas for cross-selling.

What is the position on portfolio rebalancing?

The retail portfolio (schematic or pure retail) has registered a growth of 14 per cent in September 2016 as compared to 12 per cent year-on-year. But when you look at the home loan and the loan against property (LAP) portfolio, it has grown by 15 per cent and 21 per cent, respectively.

As far as priority sector lending goes, we are at 40.10 per cent (of adjusted net bank credit), which is above the limit.

Home loans account for 70 per cent of the retail portfolio and LAP 15-18 per cent. The rest are personal, education and vehicle loans.

Now, if you look at the share of retail portfolio (pure retail, agriculture and MSME), this has grown from 46 per cent of total advances in September 2015 to 49 per cent in September 2016. Correspondingly, the corporate advances have reduced from 54 per cent to 51 per cent.

Obviously, we are endeavouring to continue with this effort at rebalancing in favour of retail. So, in the next 18-24 months, the share of retail could go up to 55 per cent and corporate could come down to 45 per cent.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY