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**Dear Comrades,**

**19th July , 2017**

**News of Interest 19th JULY**

**MOTIVATIONAL QUOTES**

**“LEADERSHIP AND LEARNING ARE INDISPENSABLE TO EACH OTHER. “**  
**JOHN F. KENNEDY**

**HIGHLIGHTS**

- 1. BANKS NEED RS 18,000 CR TO RESOLVE 12 NPA ACCOUNTS FLAGGED BY RBI: IND-RA**
- 2. IDBI BANK, INDIAN OVERSEAS BANK, 7 OTHER PSBS REPORTED LOSSES IN FY17**
- 3. GST IMPACT ON EMPLOYEES: HOW EMPLOYER, STAFF RELATIONSHIP HAS GOT COMPLICATED**
- 4. GOVT MOVE TO CREATE BIG BANKS THROUGH MERGERS RISKY, SAYS UNION**
- 5. DEMONETISATION HAS HELPED KARNATAKA BANK GROW LOW-COST DEPOSITS: MD**

Business Standard

**1. Banks need Rs 18,000 cr to resolve 12 NPA accounts flagged by RBI: Ind-Ra**

The extra provisioning needed would reduce the profits of creditor banks by 25%, ROA by 12 bps

Nikhat Hetavkar

Indian banks need to provide a bare minimum of Rs 18,000 crore additionally towards 12 big-ticket bad accounts identified for insolvency resolution, says India Ratings and Research (Ind-Ra).

In June 2017, the Reserve Bank of India (RBI) had asked lenders to refer 12 identified accounts to the National Company Law Tribunal (NCLT) under the Insolvency and Bankruptcy Code.

The ratings agency estimated the current average provisioning towards these accounts at 42 per cent. The extra provisioning needed would reduce the profits of creditor banks by 25 per cent and reduce the return on assets by 12 basis points in the current financial year.

Banks with average provisioning of 50 per cent on the 12 identified accounts may also need to provide additional funds to reach the new minimum required provisioning, which stands at 50 per cent towards each of the accounts. Some of the large bad loans being referred for insolvency include Essar Steel, Bhushan Steel, Alok Industries, Lanco Infratech, and Amtech Auto.

Ind-Ra's outlook towards medium-sized public sector banks (PSBs) is negative due to chances of the additional provision burden adding disproportionate pressure on their profit and loss accounts (P&Ls). The additional provision requirement may also stretch the profitability of a few large PSBs in FY18, stressing their standalone ratings.

Ind-Ra continues to highlight the increasing divide between large and smaller PSBs. The large PSBs have some access to growth capital, better market valuation, and also some non-core assets to divest, while smaller PSBs would only receive bailout capital if required. Thus, smaller PSBs would need to ration their capital consumption over the next two years.

Out of the total Rs 18,000 crore provisioning required, the stressed iron and steel sector contributes around Rs 10,500 crore and the infrastructure sector Rs 4,100 crore.

The weighted average provisioning towards the iron and steel sector exposure continues to be the highest across all sectors at 45 per cent as on March 2017. Provisioning towards infrastructure sector exposure stands at 36 per cent.

Ind-Ra highlights that much of the unrecognised stress forms a part of the infrastructure sector. The unorganised sector exposure stands at Rs 7, 70,000 crore as of September 2016, 35 per cent of which is expected to slip into the sub-standard category over the next 12-18 months.

## **2. IDBI Bank, Indian Overseas Bank, 7 other PSBs reported losses in FY17**

IDBI Bank reported loss of Rs 5,158 cr, while amount was Rs 3,417 cr in case of Indian Overseas Bank

Press Trust of India

Nine of the 21 public sector banks, including IDBI Bank and Indian Overseas Bank, reported losses during 2016-17, the parliament was informed Tuesday.

As many as 13 state-owned banks had reported losses during 2015-16 financial year.

In a written reply in Rajya Sabha, Minister of State for Finance Santosh Kumar Gangwar said IDBI Bank had reported a loss of Rs 5,158 crore in the last financial year, while the amount was Rs 3,417 crore in the case of Indian Overseas Bank.

Other loss making state-owned banks were Allahabad Bank, Bank of India, Bank of Maharashtra, Central Bank of India, Dena Bank, Oriental Bank and UCO Bank.

The minister further said all the public sector banks are maintaining a positive balance in revenue reserves.

Revenue reserves refer to undistributed revenue created for strengthening the financial position of a bank.

Replying to a question in relation to capitalisation of PSBs, Gangwar said the government under the Indradhanush Plan has earmarked Rs 70,000 crore for infusion in them between financial years 2016 and 2019.

"The government has already infused a sum of Rs 47,915 crore to PSBs during 2015-16 and 2016-17 based on quantitative analysis of growth and compliance levels," the minister said

## **Financial Express**

### **3. GST impact on employees: How employer, staff relationship has got complicated**

The GST laws have tried to address several ambiguities that prevailed under earlier tax laws leading to unnecessary litigation

By: Suraj Nangia

The Goods and Services Tax (GST) laws have tried to address several ambiguities that prevailed under earlier tax laws leading to unnecessary litigation. One such provision which has been penned down differently in GST is services flowing from employer to the employee. Overall, GST is being seen as a very positive move by the government. However, at the same time, the new GST rules may prove to be a dampener for the relationship between the employer and the employee.

Supply of goods from employer to employee

The introduction of GST on the supply of goods and services flowing from the employer to the employee, other than gifts not exceeding Rs 50,000 in value, may compel employers to take a fresh look at the structure of employee remuneration and benefits outside the wage contract. The GST law clearly states that GST would be payable if there is a supply of free goods or services to an employee exceeding the sum of Rs 50,000, also if an employee avails the assets of the company for personal use, it would trigger GST.

### **Tax on services by employers**

Employers generally provide certain facilities such as cafeteria, company vehicle, leave travel, gym, club membership, etc., free of charge and in arranging these supplies, employers are not permitted to avail input tax credit. Bringing in tax liability on such supply of goods and services without the facility of input tax credit is basically unfair and goes against fundamental VAT principles. GST inter-alia as a new "employee tax", albeit not on salary and wages but on the non-salary receipts of goods and services from employers may force the latter to reduce the value of such facilities or recover the tax cost from the employees. If the GST is recovered from employees, the government could cushion the tax blow by permitting GST rebate in the computation of income tax liability of such employees.

### **Reworking salary packages**

Another issue is that the term "gift" has not been defined in GST. The only relief in this regard is that input tax credit will not be denied in cases of services to be notified by the government, these will be where the employer is obligated under any law to provide the same to its employees.

The question that remains unanswered is whether provision of a certain facility like share cab used for dropping the employees back home or lunch provided at subsidised rate in the cafeteria or coffee provided during office hours is a 'supply of

goods and services' or is it a provision of a benefit to employees arising out of an employment contractual obligation. Provision of these benefits are obligations of the employer arising out of the employment arrangement, these should remain out of the purview of GST. However, Indian employers would have to be cautious while drawing up CTC packages of its employees to include benefits that are incidental to employment.

Business Line

#### **4. Govt move to create big banks through mergers risky, says union**

OUR BUREAU

The government's bid to consolidate public sector banks (PSBs) through mergers to create big banks is fraught with risks as many big private banks globally, including in the US, have failed, cautioned a trade union body.

Referring to the experience of failure of big banks worldwide, All India Bank Employees' Association General Secretary CH Venkatachalam said: "The myth that big banks are automatically strong banks has since been broken by such huge bank failures. But unfortunately, the government is pursuing this fatal policy, risking the hard-earned savings of the common people.

"Big banks would mean taking bigger risks which our country can hardly afford. Hence, we must oppose these pursuits of mergers and amalgamation of banks."

He alleged that the government is also weakening PSBs by allowing private corporate and business houses to start their own banks, and licences being given to open payments banks and small (finance) banks.

The whole idea, claimed Venkatachalam, is to emaciate PSBs and encourage private sector banking.

#### **Private bank focus**

"In a developing country like ours, weakening public sector banks and focussing on private banks will be disastrous and suicidal. Hence, we need to continue our struggle... and defend public sector banks at all cost in the national interest," said Venkatachalam.

He highlighted that on the one hand the government is rationing capital to PSBs in view of scarcity of resources, and on the other it is ready to allow the banks to convert huge loans given to corporate as equity capital in those defaulting companies under the debt to equity conversion scheme.

Underscoring that there is nothing extraordinary about the government extending \$17 billion worth of capital in the last seven years, he said in every country when a private bank collapses, the government uses taxpayers' money to rescue the bank by capitalising these banks.

#### **Capitalisation of banks**

In the US, the government has capitalised banks to the extent of \$2,270 billion after the 2008 global financial crisis.

In China, the government helped the banks with capital to the tune of more than \$120 billion when they faced problems. Two years ago, in Russia, the government

pumped \$15 billion into banks. In Greece, it was \$63 billion and in Spain \$51 billion when their banks were in trouble.

According to Venkatachalam, the only main challenge our banks are facing today is the alarmingly increasing bad loans, decorously called NPAs (non-performing assets).

"These have crossed all acceptable proportions and have reached dangerous levels, threatening the very sustainability and viability of our banks. Bad loans are today eating into the vitals and credibility of our banking system.

"But everyone knows that the main share of the burden of this danger is due to corporate defaulters who are taking our banks for a ride," he said.

### **Loot of people's money**

Banks are earning very good operating profits but are bleeding with net loss due to provision for bad loans (NPAs).

"Obviously, 95 per cent of the profits earned by the banks are going towards provisions for bad loans of corporate and big businesses. It is nothing but an open loot of people's money. To cover up these losses, customers and banking clients are made scapegoats by hike in all types of service charges, fees and penalties.

"Why should the general banking customers pay for the sins committed by the big defaulters? How can the banks punish the innocent customers? It is high time the government took stringent measures to recover these bad loans and take bold action against these big defaulters," said the trade union leader.

### **5. Demonetisation has helped Karnataka Bank grow low-cost deposits: MD**

#### OUR BUREAU

The demonetisation move by the Centre on November 8, 2016, has helped Karnataka Bank strengthen its CASA (current account, savings account) base.

Replying to a query by a shareholder on the impact of demonetisation on Karnataka Bank at the 93rd annual general meeting here on Monday, Mahabaleshwara MS, Managing Director and Chief Executive Officer, said it has helped the bank increase its share of CASA in total deposits, thus helping bring down the cost of deposits in the bank.

The share of low-cost deposits of the bank, which stood at around 25 per cent pre-demonetisation, increased to 29 per cent after demonetisation.

"We were under the impression that it was a temporary infusion to the banking sector, and once the demonetisation is over we were thinking that at least 50 per cent of this amount would go off. Fortunately, we were proved wrong as a majority of this remained in the banking sector," he said.

The bank's CASA deposits stood at 28.94 per cent at the end of June.

During the demonetisation period, there was currency inflow of around ₹4,000 crore.

### **Rights issue**

The bank, which had opened its rights issue for subscription on November 7, had to extend the date of closure by a week. Many small shareholders had cited difficulty in

subscribing to the rights issue because of a huge rush in bank branches following demonetisation. In spite of this, the rights issue got over-subscribed by 1.85 times, he said.

He also thanked the 8,000-strong employees of the bank for handling the situation in an effective and efficient way.

Terming demonetisation as a cleansing opportunity for the Indian economy, Mahabaleshwara said: "Whenever long-term gains are there, short-term pain is inevitable."

With kind regards,

Yours Comradely,



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