



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
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Dear Comrades,

26th October , 2017

News of Interest 26th OCT

MOTIVATIONAL QUOTES

“ALL YOU NEED IS THE PLAN, THE ROAD MAP, AND THE COURAGE TO PRESS ON TO YOUR DESTINATION. “
EARL NIGHTINGALE

HIGHLIGHTS

1. GOVT BANK STOCKS ON FIRE AFTER RECAPITALISATION PLAN
2. PSB CONSOLIDATION OFF THE TABLE FOR NOW
3. BLACK MONEY FIGHT: BEWARE! BANKS TAKE THIS BIG AADHAAR CARD STEP UNDER PMLA
4. RBI IMPOSES RS 6 CRORE PENALTY ON YES BANK, RS 2 CRORE ON IDFC BANK
5. 'INDIA SHOULD HAVE 5-7 LARGE BANKS IDEALLY'
6. RBL BANK PROFIT JUMPS 68% IN Q2

Business Standard

1. Govt bank stocks on fire after recapitalisation plan

Nifty PSU banks index jumps a record 30%; m-cap of these stocks zooms to Rs 1.2 lakh cr; Sensex crosses 33k-mark

Samie Modak |

An index of state-owned banks rallied an unprecedented 30 per cent — the biggest single-day spurt ever — and the benchmark indices climbed to record highs on Wednesday, reacting to the Cabinet nod a day earlier to Rs 2.11-lakh-crore bank recapitalisation plan and Rs 6.92-lakh-crore highway construction project.

The government announcements to spur the economy is being seen by many as a much-needed stimulus package, which could shore up the sluggish credit growth at public sector undertaking (PSU) banks and help kick-start the economy.

The benchmark Nifty gained 0.9 per cent to close at 10,295, while the Sensex added 1.3 per cent to close at a record 33,042. The Nifty PSU Bank index soared 29.6 per cent, with all state-owned banks (22) cumulatively adding Rs 1.18 lakh crore in market value, taking their total m-cap to Rs 5.48 lakh crore.

The finance ministry, after market close on Tuesday, said it would inject Rs 2.11-lakh-crore in PSU banks over two years. Analysts said the top-up plan was long-awaited for PSU banks that have been reeling under a pile of non-performing loans (NPLs), which was blocking their growth plans.

State Bank of India (SBI), India's largest lender, gained 27.6 per cent and added Rs 60,597 crore in market value. Punjab National Bank and Bank of Baroda gained 46.2 per cent and 31.5 per cent, respectively — each adding over Rs 10,000 crore in market value.

In contrast, private banks such as HDFC Bank, Kotak Mahindra Bank and YES Bank each fell nearly 5 per cent on concerns that recapitalisation plan would help public-sector lenders regain lost market share. Sixteen private banks saw their combined market cap fall by Rs 9,815 crore to Rs 12.39 lakh crore. ICICI Bank and Axis Bank, however, bucked the trend. ICICI Bank was up 14.7 per cent to Rs 305.60, while Axis Bank gained 4.6 per cent to Rs 472.70.

Non-banking finance companies such as Bajaj Finance, Indiabulls Housing and Edelweiss, which were gaining market share at the expense of capital-starved PSU banks, also fell between five per cent and eight per cent.

The total gain in m-cap for all the 38 banks (private and public) was Rs 1.1 lakh crore, taking the total m-cap to Rs 17.9 lakh crore. Until last week, the Nifty PSU Bank index was languishing at a nine-month low, even as the benchmark Nifty had gained 22 per cent this year with several private sector banks rallying much more.

"PSU banks' recapitalisation is a fiscal stimulus with a strong multiplier. With about 10 times loans-to-equity multiples, even if one assumes that Rs 90,000 crore of the Rs 2.1 lakh crore is growth capital (rest used for provisions), it enables banks to infuse Rs 9 lakh crore into the economy," said Neelkanth Mishra, equity strategist at Credit Suisse, in a note. The brokerage made significant changes to its model portfolio of stocks adding PSU banks and moving private banks from "overweight" to "neutral".

"Our view on the NPL cycle has been that the only way to break it was aggressive recapitalisation. The recapitalisation plan will break the five-year-plus cycle of NPLs," said a note by another foreign brokerage Morgan Stanley, which "double upgraded" SBI, ICICI Bank and PNB.

The government on Tuesday had also announced the Bharatmala scheme to construct 83,677 km of roads at an investment of Rs 6.92 lakh crore by 2022. The move fuelled a rally in infrastructure and cement companies, with Larsen and Turbo and Ultra Tech gaining six per cent each.

The government stimulus plan also helped reverse the selling by overseas investors. Foreign portfolio investors, who have been consistently pulling out money from domestic stocks, bought shares worth over \$500 million (Rs 3,582 crore) on Wednesday. The buying momentum was so strong that the

cash turnover on the National Stock Exchange was highest-ever at Rs 55,909 crore, compared to the previous best of Rs 45,012 crore in September last year.

2. PSB consolidation off the table for now

Focus of banks to shift towards enhancing recoveries, risk management and improving their liability profile

Abhijit Lele & PTI

The drive for consolidation among public sector banks will subside with the government announcing a Rs 2.11-lakh-crore capital infusion plan for them. Instead, the focus will shift to nursing ailing PSBs back to health.

Public sector bank executives said the government was over the past year engaged in an exercise for the merger of some banks. This was not an apt time for M&As with PSBs deep in the red due to a huge portfolio of bad loans and the obligation to provide for them, they added.

With a government assurance on infusing capital, the focus in the coming quarters will shift to enhancing recoveries, risk management and improving the liability profile. All this should eventually help banks to be ready for prudent lending when credit demand revived, the executives said.

Combining two weak banks or asking a strong one to acquire stressed rivals was unviable, sources said. Any action on that front would have complicated matters without any value addition, they added.

A functionary with Indian Banks' Association said a mere merging of balances sheets and integration of banks would not take away the challenges. The cultures and technologies of banks were distinct, which would have to be dealt with in a methodical manner to minimise disruption and ensure a healthy merger, he added.

Chief Economic Adviser Arvind Subramanian, however, made a case for consolidation in the banking industry, stating the country ideally should have five to seven large lenders.

In an ideal world, India needed both large public sector and private banks competing domestically and internationally, he said during a lecture in New Delhi. He cited the example of China, whose four big banks were now among the biggest in the world.

Quoting former Reserve Bank of India Governor YV Reddy, Subramanian said the aim must be to narrow the scope of unviable banks.

Financial Express

3. Black Money fight: Beware! Banks take this big Aadhaar card step under PMLA

The Government has made it mandatory for banks and financial institutions to check the original identification documents of individuals dealing in cash above the prescribed threshold, to weed out the use of forged or fake copies

By: PTI

The Government has made it mandatory for banks and financial institutions to check the original identification documents of individuals dealing in cash above the prescribed threshold, to weed out the use of forged or fake copies. The Department of Revenue in the Finance Ministry has issued a gazette notification making an amendment to the Prevention of Money-

laundering (Maintenance of Records) Rules. The new rule now requires the reporting entity to compare "the copy of officially valid (identification) document so produced by the client with the original and recording the same on the copy". The Prevention of Money Laundering Act (PMLA) forms the core of the legal framework put in place by India to combat money laundering and generation of black money. The PMLA and its rules impose obligation on reporting entities like banks, financial institutions and intermediaries to verify identity of clients, maintain records and furnish information to Financial Intelligence Unit of India (FIU-IND). As per Rule 9, every reporting entity shall at the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship.

Intermediaries like stock broker, chit fund company, cooperative bank, housing finance institution and non-banking finance companies are also classified as reporting entities. Biometric identification number Aadhaar and other official documents are required to be obtained by the reporting entities from anyone opening a bank account as well as for any financial transaction of Rs 50,000 and above. The same is also required for all cash dealing of more than Rs 10 lakh or its equivalent in foreign currency, cash transactions where forged or counterfeit currency notes have been used and all suspicious transactions. All cross border wire transfers of more than Rs 5 lakh in foreign currency and purchase and sale of immovable property valued at Rs 50 lakh or more also fall under this category, according to the reporting rules.

The Gazette notification said in case the officially valid document furnished does not contain updated address, a utility bill like electricity, telephone, post-paid mobile phone, piped gas or water bill which is not more than two months old can be considered as a proof of address. Also, property or municipal tax receipt, pension or family pension payment orders issued to retired employees by Government departments, or letter of allotment of accommodation from employer can be considered for the same purpose.

Economic Times

4. RBI imposes Rs 6 crore penalty on Yes Bank, Rs 2 crore on IDFC Bank

By *Saloni Shukla*, ET Bureau

The Reserve Bank of India has slapped a monetary penalty of Rs 6 crore on Yes Bank and Rs 2 crore on IDFC Bank for violating regulations issued by the regulator. Yes Bank has been fined for non-compliance with the directions issued by RBI on Income Recognition Asset Classification (IRAC) norms and delayed reporting of information security incident involving ATMs of the bank.

"The Reserve Bank of India has imposed on October 23, 2017, a monetary penalty of Rs 6 crore on Yes Bank for non-compliance with the directions issued by RBI on Income Recognition Asset Classification (IRAC) norms and delayed reporting of information security incident involving ATMs of the bank," RBI said in a statement.

A statutory inspection of Yes Bank with reference to its financial position as on March 31, 2016 revealed violations of various regulations issued by RBI in the assessment of non-performing assets. Apart from that a cyber-security incident involving ATMs of the bank," RBI said in a statement.

A statutory inspection of Yes Bank with reference to its financial position as on March 31, 2016 revealed violations of various regulations issued by RBI in the assessment of non-performing assets. Apart from that a cyber-security incident involving ATMs of the bank was also not reported by the bank within the prescribed timeframe.

"After considering the bank's replies, oral submissions made in the personal hearings, as also the additional information and documents furnished, RBI came to the conclusion that the aforesaid charges of non-compliance with RBI directions were substantiated and warranted imposition of monetary penalty," the regulator said.

Last year data of over 32 lakh debit cards used at about 80 ATMs were suspected to have been compromised. The suspected security breach happened through a malware in the systems of Hitachi Payments Services, which served Yes Bank.

The regulator also fined IDFC Bank for violating rules relating to loans and advances. As per the central bank, the status report of IDFC Bank based on its financial position as on December 31, 2016, revealed non-adherence with certain directions pertaining to sanction and renewal of loans and advances.

Business Line

5. 'India should have 5-7 large banks ideally'

PTI

A day after government announced a massive Rs 2.11 lakh crore capital support initiative, Chief Economic Adviser Arvind Subramanian today made a case for consolidation in the banking space saying the country ideally should have 5-7 large lenders.

In an ideal banking world of tomorrow, India needs to have both large public sector and private sector banks, competing domestically and being competitive internationally, he said in a lecture at SGTB Khalsa College here.

Citing example of China, he said that there are four big banks which are now amongst biggest in the world.

"The big question also going forward is should there be more majority private sector ownership in the banking system? What is a good banking structure for India 5-10 years from now and Basically India needs...we need about 5,6,7 reasonably big banks both public and private sector and to be able to compete domestically and to be competitive internationally," he said.

Quoting former RBI Governor YV Reddy, Subramanian said that the aim must be to shrink or narrow the scope of the unviable banks.

Talking about the recapitalisation, he said that it must be selective and incentive based, directing it to those banks where the bank for buck in terms of new credit creation will be maximum. "Since all banks must maintain a minimum capital adequacy, one possibility would be to recapitalise the unviable banks only to the extent necessary to finance their current balance sheet size while explicitly not providing for their growth," he said.

Yesterday, Finance Minister Arun Jaitley unveiled an unprecedented Rs 2.11 lakh crore two-year road map to bolster NPA-hit public sector banks, which includes recapitalisation bonds, budgetary support, and equity dilution.

Such bonds were first introduced by the government in the 1990s to recapitalise PSU banks.

Responding to a query on the Goods and Services Tax (GST), Subramanian said that there is a strong preference for having low rates, few slabs and put as many products in and leave few products out.

"Finance Minister also said that we need to move towards rationalising it and I am very encouraged that over the last month or so and going forward the GST Council will take up this matter and over time reduce the rate," he said.

He also expressed hope that eventually both rates and slabs would come down.

"Ideally we should have one rate like Singapore does but even if we get down to two plus luxury goods or demerit goods, I think that would not be a bad outcome at all...I think we will get there sooner rather than later," he said.

To a question on Direct Tax Code, he said that the government would be looking at it at some stage. Responding to a question on the emphasis on digital payments, the Chief Economic Adviser said that it would lead to formalisation of the economy.

6. RBL Bank profit jumps 68% in Q2

OUR BUREAU

RBL Bank reported a 68 per cent jump in second quarter net profit at ₹151 crore against ₹90 crore in the year-ago period.

Net interest income (interest earned less interest expended) was up 39 per cent year-on-year (y-o-y) at ₹420 crore.

Other income rose 43 per cent y-o-y to ₹241 crore.

Vishwavir Ahuja, MD and CEO, said "all guns were firing and firing well...interest income, non-interest income and all the various businesses have grown well and grown profitably.

"...Our recent capital raise also keeps us in good stead to capitalise on opportunities in expanding our scale and footprint through digital offerings and partnerships."

Net interest margin improved to 3.74 per cent in the reporting quarter against 3.41 per cent in the year-ago quarter.

Deposits grew 31 per cent to ₹36,569 crore.

The proportion of low-cost current account, savings account (CASA) deposits in total deposits improved to 23.67 per cent in the reporting quarter from 19.89 per cent in the year-ago quarter.

The private sector bank's net advances were up 35 per cent to ₹33,576 crore. The growth in the corporate and institutional segment and commercial banking (together termed as "wholesale portfolio") was 31 per cent, while that of other segments (retail assets, development banking and financial inclusion and agriculture (together termed as "non-wholesale portfolio") was 41 per cent.

The gross NPA ratio increased to 1.44 per cent as at September 30, 2017, from 1.10 per cent as at September 30, 2016.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY