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Dear Comrades,

27th October , 2017

**News of Interest 27th OCT**

### **MOTIVATIONAL QUOTES**

**“I BELIEVE IF YOU KEEP YOUR FAITH, YOU KEEP YOUR TRUST, YOU KEEP THE RIGHT ATTITUDE, IF YOU'RE GRATEFUL, YOU'LL SEE GOD OPEN UP NEW DOORS. “**  
JOEL OSTEEN

### **HIGHLIGHTS**

- 1. YES BANK UNDER-REPORTED RS 6K-CR NPAS IN FY17, Q2 PAT UP 25%**
- 2. BANK RECAP PLAN TO HELP PSUS DEAL WITH BLOATED BALANCE SHEETS: S&P**
- 3. RS 2.11 LAKH CR BANK RECAP PLAN SUFFICIENT TO TACKLE NPAS: SBI REPORT**
- 4. BANKS SHOULD'VE BEEN GIVEN MORE TIME TO PREPARE FOR NOTEBAN: ARUNDHATI BHATTACHARYA**
- 5. RECAPITALISATION PLAN POSITIVE FOR BANKS' RATINGS: FITCH**

### **Business Standard**

#### **1. YES Bank under-reported Rs 6k-cr NPAs in FY17, Q2 PAT up 25%**

Gross bad loans as a percentage of total loans stood at 1.82% at end-Sept, compared with 0.97% in Q1

[Nikhat Hetavkar & PTI](#)

While private sector lender YES Bank saw a 25 per cent rise in net profit, backed by growth in net interest income and fees, it saw a rise in non-performing assets (NPAs) by Rs 6,355 crore as the Reserve Bank of India (RBI) asked it to restate bad loan figures for FY17.

Net profit for the September quarter (Q2 of FY18) rose by 25.1 per cent to Rs 1,002 crore from Rs 965 crore in the year-ago quarter. The asset quality numbers worsened significantly on the RBI's assessment of the lender's numbers for FY17. According to rules, if the RBI's assessment of bad debt

numbers for a financial year differs from the bank's assessment by more than 15 per cent, the divergence should be disclosed. The bank saw a divergence of Rs 6,355 crore in gross NPAs in FY17. After factoring in the divergence in provisioning, the adjusted (notional) net profit for FY17 stood at Rs 2,316 crore. According to its FY17 results, YES Bank's net profit was Rs 3,330 crore.

This is the second time the lender has had to restate its gross NPAs on a missive from the banking regulator. It had understated bad loans by Rs 4,176 crore in FY16.

Besides YES Bank, two other private lenders — Axis Bank and Lakshmi Vilas Bank — had to rework bad loan numbers for FY17 and make provisions.

YES Bank's gross NPA ratio as of September 2017 stood at 1.82 per cent against 0.83 per cent as of September 2016.

Rana Kapoor, its managing director and chief executive officer, said the divergence constituted 19 accounts, belonging to seven groups, mainly infrastructure-related. Of these, 12 were upgraded in October as they "demonstrated no overdue and made standard payments", three have been sold and four accounts remain NPAs.

The total impact of the divergence stands at Rs 1,434.5 crore in the current quarter.

"There was very limited time between the review of FY16 and the commencement and the closure of the review for FY17. There has not enough curing time for the system," Kapoor said.

The bank currently has a total exposure of Rs 1,434 crore with the National Company Law Tribunal (NCLT) with two accounts from the first list and seven accounts from the second list. Its net interest income for Q2 rose by 33.5 per cent to Rs 18,885 crore. Other income, which includes fees and commissions rose by 35.4 per cent to Rs 1,248 crore.

Total deposits for the quarter rose by 23.4 per cent to Rs 1,57,989 crore with current and savings accounts ratio at 37.2 per cent. Total advances grew by 34.9 per cent to Rs 1,48,675 crore as of September 30, 2017.

The bank's total capital adequacy ratio (CAR) was at 17.8 per cent and Tier-I CAR was at 13.2 per cent as of September 30. The lender raised capital of Rs 6,915 crore through Tier-I and Tier-II bonds. Kapoor said the lender

Had "no visible need to raise capital for a couple of years".

### **Vijaya Bank net rises 20% at Rs 185.46 crore**

Vijaya Bank on Thursday reported 20 per cent increase in net profit at Rs 185.46 crore for the quarter ended September 30 (Q2), helped by lower expenses, a PTI report said. The public sector bank had registered a net profit of Rs 154.55 crore in the corresponding quarter of FY17.

Total income for Q2 fell marginally to Rs 3,501.31 crore from Rs 3,516.57 crore a year ago, the bank said in a regulatory filing. Total expenditure went down 6.05 per cent to Rs 2,767.35 crore for Q2 from Rs 2,945.7 crore in the year- ago period.

The lender's gross non-performing assets (NPAs) dipped slightly to 7.06 per cent of the gross advances as of September 30, from a level of 7.07 per cent a year ago. Likewise, net NPAs or bad loans were trimmed to 4.86 per cent as a percentage of net loans by September 30 from 5.1 per cent

earlier. Shares of Vijaya Bank were trading 0.08 per cent lower at Rs 66 on the BSE.

### **L&T Finance posts 45% increase in profit**

L&T Finance Holdings on Thursday said its consolidated profit increased to Rs 360 crore for the quarter ended September 2017 (Q2), registering a growth of 45 per cent year-on-year, PTI reported. This growth in profit after tax has been achieved after taking accelerated credit cost of Rs 277 crore, the company said in a regulatory filing. The company had posted a profit of Rs 248 crore in Q2 of FY17. Its gross non-performing assets (NPAs) increased marginally to 5.8 per cent of gross advances in Q2, compared with 5.71 per cent in the year-ago period. Net NPAs stood flat at 3.31 per cent on a yearly basis.

The company's shares last traded at Rs 196.45 apiece on the BSE, up 0.10 per cent over Wednesday's close.

### **2. Bank recap plan to help PSUs deal with bloated balance sheets: S&P**

The government plans to infuse capital totalling Rs 2.11 lakh crore (\$32.4 billion) into the banks

[Press Trust of India](#) | New Delhi

S&P Global Ratings on Thursday said the Rs 2.11 lakh crore capital infusion into PSU banks will help to deal with the bloated balance sheet and enable banks to take 'haircuts' on their non-performing loans.

The government plans to infuse capital totalling Rs 2.11 lakh crore (\$32.4 billion) into the banks. That's much larger than its previous infusions over the past few years.

This is around 35 per cent of the current Tier-1 capital of public sector banks.

"The government's proposed capital infusions step will help address the banks' bloated balance sheets, which are partly constraining the economy. We believe the government's efforts should enable banks to take necessary 'haircuts' on their corporate nonperforming assets," S&P Global Ratings credit analyst Amit Pandey said.

The non-performing loans in the banking sector are estimated to have touched Rs 10 lakh crore.

Stating that the recapitalisation move will have positive implications, S&P said its impact on credit profile of individual banks will depend on the capital allocated to each bank and the success of the resolution process for stressed assets.

"Our current ratings on public sector banks already benefit from a very high likelihood of government support in the event of distress," Pandey said.

Under the plan unveiled by the government on Tuesday, Rs 1.35 lakh crore of the total infusion will come from the recapitalisation bonds and Rs 76,000 crore from budgetary support and fund-raising in the capital markets over the next two years.

This amount is almost double the government's total infusions into public banks for the past seven years.

S&P had in August estimated that PSU banks would need about Rs 1.7-Rs 2.1 lakh crore capital by March 2019.

### **3. Rs 2.11 lakh cr bank recap plan sufficient to tackle NPAs: SBI report**

FM Jaitley had unveiled the roadmap for the strengthening of bad loans-hit public sector banks

Press Trust of India | New Delhi

The government's Rs 2.11 lakh crore recapitalisation plan for banks is sufficient to tackle the bad loan problem and will also give a push to economic growth, says an SBI research report.

On Tuesday, Finance Minister Arun Jaitley unveiled the roadmap for the strengthening of bad loans-hit public sector banks. The plan includes a Rs 1.35 lakh crore recapitalisation bonds.

"If the structure of the 1990s adopted, then this would not alter any fiscal maths," said SBI in its report 'Ecowrap'.

An interest cost of Rs 8,000 crore per year is only 0.07 per cent of GDP and 1.6 per cent of the total interest payment on revenue expenditure of the government, it said.

Recapitalisation of banks through recapitalisation bonds has precedence not only in India but also in many other countries including Chile, Philippines, Finland, Hungary, Argentina, Korea and Malaysia.

India had used this tool before during 1985-86 to 2000- 01, wherein the Government recapitalised PSBs with the total amount of Rs 20,446 crore.

"The cost is very negligible, given the current context and the huge multiplier impact. Gross Domestic Product (GDP) ratio will increase by 0.8 per cent (based on revised nominal GDP figures as released by CSO)," it said.

After provision of bad assets, the report believes there may still be around Rs 1 lakh crore available for lending.

"The resultant multiplier impact of Rs 1 lakh crore could unleash at least Rs 3.3 lakh crore and that could go up to Rs 10 lakh crore additional infusion in the economy. This could concomitantly push up the GDP," the report said.

As per latest figures by the finance ministry the NPAs have increased to the tune of Rs 4.55 lakh crore from 2014-15 till June 2017.

The increased provisioning in the time period 2014-15 to 2017-18 is pegged at Rs 3.79 lakh crore.

So the amount of banking sector recapitalisation to the tune of Rs 2.11 lakh crore seems sufficient for tackling the problem of stressed assets, the report said.

### **Economic Times**

### **4. Banks should've been given more time to prepare for noteban: Arundhati Bhattacharya**

PTI

Former chairman of State Bank of India, Arundhati Bhattacharya, today said the government should have given more time to banks to adequately prepare for demonetisation, which had put tremendous strain on lenders.

Last year on November 8, Prime Minister Narendra Modi had announced scrapping of Rs 500 and Rs 1,000 notes. The move was aimed at cracking down on black money, corruption and fake currencies.

"If we prepare extra for anything, then its fruit or result is better. Obviously, if there was more preparation (for demonetisation), then definitely it would have been less strenuous on us.

"If you want to move cash, there are rules, we need police, arrange the convoy, determine the route contiguity... it's a very large logistic exercise," Bhattacharya said at an India Today event here today.

According to Bhattacharya, who retired as the first chairman of the country's largest lender earlier this month, more time was needed to assess whether note ban was a correct step or not.

Spelling out some of the advantages of demonetisation, she said there has been a 40 per cent increase in the number of tax payers, lower reliance on high value currency and greater digitisation.

"I don't think people with black money will get scot-free. Technology will help analyse lakhs of accounts. People with black money now know that they are under scanner," she said.

On the recent plan of the government to infuse Rs 2.1 trillion capital into public sector banks, she said if the economy has to grow, capital has to be given to banks.

When asked whether she had received any phone call from any politician for giving loans to any company, Bhattacharya said in the current times nobody calls and even if politicians call pitching for any company, there is no provision for banks to lend.

"I can say with honesty that none of such calls came during my tenure. Today, the systems and processes in banks are such that one person alone cannot take a call (decision on lending). The decision has to be made through a committee," Bhattacharya added.

## **Business Line**

### **5. Recapitalisation plan positive for banks' ratings: Fitch**

PTI

The recent recapitalisation plan announced by the government for public sector banks will provide substantial funds to the lenders to address the capital shortages, that has a major negative impact on their ratings, says a report.

The government recently announced to infuse Rs. 2.1 trillion (USD 32 billion) in state-run lenders over a two-year period. Under the current plan, Rs. 1.35 trillion of the total amount will come from recapitalisation bonds and Rs. 0.76 trillion from budgetary support and fund-raising in the capital markets over the next two years.

"The recapitalisation plans for state banks is a significant change from the drip-feed approach pursued over the last few years and should help to address the capital shortages that are a major negative influence on the viability ratings of the banks," Fitch Ratings said in a report today.

Last month, the international rating agency estimated that Indian banks would require around USD 65 billion of additional capital to fully meet the new Basel III capital standards that will be implemented by end of March 2019. It also estimated that the state banks, which account for 95 per cent of the shortfall, would be dependent on the government to meet these requirements.

The banks' viability ratings would come under more pressure if the problem was not addressed, it had said. "The latest planned injections will go a long way in plugging the total capital gap. They also exceed the USD 6 billion-7 billion that we estimated the government would need to pump in on a bare minimum basis (excluding buffers) to address weak provision cover and aid in effective NPL resolution," the Fitch report said.

The lending growth, however, is still likely to remain weak, at least in the short term, as banks will prioritise asset resolution and provisioning over expansion, it said.

The government's plan to provide capital to all banks carries some risk of encouraging moral hazard, it said, "however, the size of capital allocations is to be determined by performance, which suggests the largest share will go to stronger banks, while some banks — particularly smaller, struggling ones — could still be swept up into the government's consolidation agenda," the rating agency said.

The report further said that recapitalisation bond if issued by the government could affect its target to reduce central fiscal deficit to 3.2 per cent of GDP this year. "The recapitalisation plans could make this target more difficult to achieve if recapitalisation bonds are to be issued by the central government, which might mean expenditure cuts elsewhere," the report said.

Recapitalisation bonds would still imply contingent liabilities for the government if they are instead issued by quasi-government institutions, it said. "From a sovereign rating perspective, the additional pressure on fiscal balances could be more than offset by the beneficial impact recapitalisation may have in eventually helping to return the banking sector to health, which would support the longer-term economic outlook and reduce uncertainty," the report added.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)  
GENERAL SECRETARY**