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Dear Comrades,

30th October , 2017

News of Interest 30th OCT

MOTIVATIONAL QUOTES

“WE SHOULD NOT GIVE UP AND WE SHOULD NOT ALLOW THE PROBLEM TO DEFEAT US.”

A. P. J. ABDUL KALAM

HIGHLIGHTS

1. ICICI BANK Q2 NET FALLS 34% TO RS 2,058 CR BUT BAD LOANS STABILISE
2. PSBS RECAPITALISATION IS A GAME-CHANGER MOVE BY MODI GOVERNMENT, SAYS NOMURA
3. LIC MAY PARTICIPATE IN BANK RECAPITALISATION PROGRAMME
4. NOTE BAN ANNIVERSARY: RBI SAYS STILL VERIFYING RETURNED NOTES
5. FOR BANKS, TECHNOLOGY IS NOW A KEY TOOL FOR IMPROVING CUSTOMER SERVICE

Business Standard

1. ICICI Bank Q2 net falls 34% to Rs 2,058 cr but bad loans stabilise

Gross bad loans as a percentage of total loans stood at 7.87% versus 7.99% q-o-q

Nikhat Hetavkar | Mumbai

Private lender ICICI Bank saw a 33.7 per cent year-on-year decline in net profit for the September quarter (Q2), but also saw some improvement in asset quality.

Net profit was Rs 2,058 crore for the quarter, against Rs 3,102 crore in July-September 2016. The profit is also lower than analysts estimates of Rs

2,570 crore, according to a *Bloomberg* poll. The decline was due to lower gains on sale of the bank's stake in its general insurance subsidiary during the quarter, as against that on sale of stake in their life insurance subsidiary in the second quarter last year, said its Managing Director and Chief Executive Chanda Kochhar in media conference call.

Non-interest income, comprising revenues from treasury, fees, commissions declined sharply to Rs 5,186 crore in Q2 from Rs 9,119 crore the year-ago quarter. Non-interest income included gains of Rs 2,012 crore sale of shareholding in ICICI Lombard General Insurance. The previous year's quarter included gain of Rs 5,682 crore on sale of shareholding in ICICI Prudential Life Insurance. If these one-time gains are excluded, the operating profit was up 0.4 per cent year-on-year at Rs 4,975 crore.

Net interest income rose by 9 per cent to Rs 5,709 crore in Q2, from Rs 5,253 crore in the corresponding period of the previous year. Net interest margin (NIM) was flat at 3.27 per cent for the second quarter over Q1FY18, but improved against 3.13 per cent in Q2FY17.

Fee income rose by 9 per cent year-on-year to Rs 2,570 crore. Asset quality slipped as the gross non-performing assets (NPAs) ratio at 7.87 per cent as of September 2017, against 6.12 per cent as of September 2016. However, compared to the June quarter (Q1FY18) figure 7.99 per cent, it was a slight improvement. The slippages (loans turning bad) also fell to Rs 4,974 crore, down from Rs 4,976 crore in Q1 and Rs 8,029 crore in year ago period.

While the results came after market hours with no negative surprises packed in, investors seem to be happy. ICICI Bank's American Depository Receipts listed on the NYSE was up 1.5 per cent, at 8 pm IST.

The provision coverage ratio (PCR) was 59.3 per cent in September 2017, marginally down from 59.6 per cent in September last year, but higher by 410 basis points over the quarter ended June 2017.

The bank has made a provision of Rs 651.17 crore for the 12 accounts referred to National Company Law Tribunal (NCLT). While bank had option to spread provisions burden over three quarters, it decided to make one-time provision in second quarter its self.

It has also made a provision of Rs 3,298 crore for the second consortium list, which works out to a provision coverage of 31.5 per cent of outstanding loans amount of Rs 10,337 crore.

Asked about the Reserve Bank of India's annual audit for FY17, Kochhar said, "We still await the final report from RBI. The inspection process is still going on." The outcome of the RBI assessment will be out in the December quarter for ICICI Bank. This has become crucial as banking regulator had asked many banks such as YES Bank, Axis Bank and Lakshmi Vilas Bank to restate their NPAs numbers for FY17 to reflect the divergence in estimates between those of banks and the RBI.

ICICI Bank's total advances increased by 6 per cent year-on-year to Rs 4,82,780 crore at September 30, 2017. Domestic advances grew by 13 per cent backed by 19 per cent expansion in retail loans portfolio. The domestic loan growth is expected to be about 15 per cent for FY18, Kochhar added.

Total deposits increased by 11 per cent year-on-year to Rs 4,98,643 crore for the quarter. Current and Savings Accounts (CASA) deposits increased by 20 per cent year-on-year to Rs 2,46,876 crore in September quarter, bringing the bank's CASA ratio to 49.5 per cent. The bank's total Capital

Adequacy Ratio (CAR) was at 17.89 per cent and Tier-I CAR was at 14.85 per cent as on September 30, 2017.

Financial Express

2. PSBs recapitalisation is a game-changer move by Modi government, says Nomura

The government's recapitalisation package takes care of not only provisioning needs but also growth capital; banks expected to see a re-rating; PNB likely to benefit the most

By: [Nomura](#) | Published:

The government has announced a recapitalisation package for PSU banks totalling Rs 2.1 trillion, with Rs 1.53 trillion from the government funded through (i) Rs 180 bn of announced infusion through the budget, and (2) Rs 1.35 trillion through recap bonds. We are positively surprised by the quantum of the recapitalisation and it matches our estimates of capital requirements for PSU banks for both NPA provisioning and some growth. Assuming the entire infusion is equity in nature (we are still unclear whether this is debt/equity), there would be significant dilution for minority investors, but given that current prices are higher than FY17 adjusted book values for most PSU banks, this recap package should drive a re-rating in PSU banks. Among our coverage stocks, we expect the highest positive impact on PNB (Buy rated).

The recap package – takes care of all requirements in one stroke

The recap package of Rs 2.1 trillion is in two parts: (i) Rs 760 bn of infusion, of which Rs 180 bn is the budgetary allocation for FY18-19 left under the old recap scheme, and Rs 580 bn is assumed to be raised through the market by banks directly, (ii) Rs 1.35 trillion of recap bonds to be issued by the government to PSU banks and then the money will be used to infuse capital into PSU banks. While it's unclear whether the infusion will be equity or debt, we assume all this infusion to be equity capital (CET-1 capital). Assuming (i) CET-1 of 9.5%, (ii) 60% provisioning on all stress, (iii) 7% CAGR in RWAs over FY18-19F, and (iv) current trends of PPOP for PSU banks, we estimate CET-1 capital requirements for PSU banks at `1.5-1.6 trillion and hence the announced package takes care of not only provisioning requirement on stressed assets, but also growth capital.

Infusion highly dilutive but very positive for FY19 adjusted books

We would again like to start with one caveat: that for all analysis we assume the Rs 1.35 trillion of infusion to all be equity capital. The Rs 1.5-1.6 trillion infusion will lead to 0-200% dilution for PSU banks. The dilution in most cases will be 50-125%. At first glance the quantum of this dilution would look high for minority investors, but in most PSU banks the current stock price is higher than the adjusted FY17 book value, and hence raising at current or higher prices will have a positive impact on FY19 adjusted book value. (i) There is an impact on reported book, which will be negative, as infusion will be below reported FY17 book, but (ii) There is a positive impact on adjusted book values as the static pool of stress provisions is spread over the expanded equity base and this more than nets off the negative impact. Among our coverage PSU bank universe, we expect re-rating in all names. The quantum of positive impact should be highest for PNB (Buy rated), as (i) Adjusted book multiples on FY17 basis are higher than for BOI/Union, and (ii) PNB is more sensitive to capital availability than SBI/BOB.

PSU recap takes care of all requirements in one stroke

Recap package of Rs 2.1 trillion is in two parts: (i) Rs 760 bn of infusion, of which Rs 180 bn is the budgetary allocation for FY18-19 left under the old recap scheme and Rs 580 bn is assumed to be raised by banks directly. (ii) Rs 1.35 trillion of recap bonds to be issued by the government to PSU banks and then the money will be used to infuse capital into PSU banks. We estimate capital requirement of Rs 1.5-1.6 trillion for PSU banks in FY18-19F: Assuming (i) CET-1 of 9.5%, (ii) 60% provisioning on all stress, (iii) 7% CAGR RWAs over FY18-19F, and (iv) current trend of PPOP for PSU banks, we estimate the CET-1 capital requirement for PSU banks at Rs 1.5-1.6 trillion and hence the announced package takes care of almost all of not only provisioning requirement but also growth capital.

Business Line

3. LIC may participate in bank recapitalisation programme

PTI

State-owned Life Insurance Corporation may be roped in to participate in the Rs. 2.11 lakh crore recapitalisation initiative for public sector banks (PSBs).

As part of the programme, LIC could also increase its stake in various PSBs which are required to raise Rs.58,000 crore from the capital market, sources said.

Besides, they said, LIC could participate in a non operating holding company (NOHC) structure to which the government may transfer its share in various PSBs.

NOHC could then issue recapitalisation bonds worth Rs. 1.35 lakh crore.

However, government has said that nature of bonds and who will issue them would be decided in the due course.

Finance Minister Arun Jaitley last week said that there were multiple options before the government for recap bonds and they are being examined and the best ones would be explored.

LIC in the past has pumped capital in PSBs through preference share allotment and Qualified Institutional Placement (QIP).

Earlier this year, Bank of India issued preference share to LIC worth Rs. 451 crore. Similarly, UCO Bank, IDBI Bank, United Bank of India, Dena Bank and Indian Overseas Bank also issued preference shares to LIC in the past few years as part of their effort to shore up their capital.

In the recent Rs. 15,000 crore QIP placement by the country's largest lender State Bank of India (SBI), LIC was one of the largest participants. It picked up shares worth over Rs. 5,800 crore or 38.6 per cent of the total.

Sources said that if there is LIC participation in the government recapitalisation initiative, it would be as per the regulatory investment

ceiling fixed by the Insurance and Regulatory Development Authority of India (IRDA).

4. Note ban anniversary: RBI says still verifying returned notes

PTI

Nearly a year after Prime Minister Narendra Modi announced demonetisation, the Rs. 500 and Rs. 1,000 bills returned to banks are still being "processed in all earnest" through a sophisticated currency verification system, the RBI has said.

In reply to an RTI query, the central bank said it has processed about 1,134 crore pieces of Rs. 500 notes and 524.90 crore pieces of Rs. 1,000 junked notes, having face value of Rs. 5.67 lakh crore and Rs. 5.24 lakh crore respectively, as on September 30.

The combined value of the processed notes is Rs. 10.91 lakh crore approximately, according to the reply.

"Specified Bank Notes are being processed in all earnest in double shift on all available machines (sophisticated counting machines)," the Reserve Bank of India (RBI) said in reply to the RTI query filed by a PTI correspondent.

The central bank was asked to provide details of demonetised notes counted so far.

Replying to a question on providing the deadline for completing the counting exercise, it said, "The verification of notes withdrawn from the circulation is an ongoing process".

The RBI said at least 66 Sophisticated Currency Verification and Processing (CVPS) machines were being used for counting of junked Rs. 500 and Rs. 1,000 notes that were deposited with various banks post demonetisation.

The government had on November 8 last year banned the use of old Rs. 500 and Rs. 1,000 notes and allowed the holders of these currency bills to deposit them with banks or use them at certain notified utilities.

The notes deposited or collected are being verified by the central bank at its offices to establish the total number of currency bills returned and to weed out those that are fake.

Black Day

Several opposition parties including the Congress and Mamata Banerjee's TMC have announced that they would observe November 8, the first anniversary of demonetisation, as 'Black Day' and would hold protests across the country to highlight its "ill-effects" on the economy.

Anti-black money day

To counter the opposition protest, the ruling BJP has decided to observe the note ban anniversary as "anti-blackmoney day".

In its annual report for 2016-17 released on August 30, the RBI had said Rs. 15.28 lakh crore, or 99 per cent of the demonetised Rs. 500 and Rs. 1,000 notes, have returned to the banking system.

In the annual report, which was for the year ended June 30, 2017, the central bank said only Rs. 16,050 crore out of the Rs. 15.44 lakh crore in old high-denomination notes have not returned.

As on November 8, 2016, there were 1,716.5 crore pieces of Rs. 500 and 685.8 crore pieces of Rs. 1,000 notes in circulation, totalling Rs. 15.44 lakh crore, it had said.

"Subject to future corrections based on verification process when completed, the estimated value of specified bank notes received as on June 30, 2017, is Rs. 15.28 trillion," RBI had said in the report.

While the counterfeit currency notes made for a minuscule number, RBI post-demonetisation spent Rs.7,965 crore on printing new Rs. 500 and Rs. 2,000 bills and notes of other denominations, more than double the Rs. 3,421 crore spent in the previous year, it said.

5. For banks, technology is now a key tool for improving customer service

LN REVATHY

If you were to compare the services that banks and financial institutions provided, say, 15-20 years ago with the present-day offerings, you will be amazed at the changing landscape in the financial services environment.

There is a sea-change even in the way banks engage with customers. Thanks to technology, banks are today striving to innovate and simplify complex problems in such a rapid pace to ensure customer loyalty.

Service providers and system integrators play a crucial role in helping banks cater to customer needs and demands.

Dimension Data, for instance, provides end-to-end capabilities for organisations in the BFSI vertical.

In a telephonic conversation with *Business Line*, KN Murali, Head (Solutions), Dimension Data – India, said that customer retention/loyalty is becoming a big challenge for banks.

"Brand loyalty has become very fragile. In order to maintain customer stickiness, banks will need to constantly strive to innovate and differentiate themselves. While technology adoption has become the in-thing, banks do it at varied speeds.

"Technology has a constant forward momentum. By the time a bank implements a certain technology, chances are that it may need an upgrade. It is, therefore, imperative for banks to ensure that they stay ahead of the curve and provide the best-in-class service," he said.

Focus areas

"Autonomics and security solutions are two big areas that we focus on for rendering service," he added.

Throwing light on some of the innovative services that the company provides for various banks — both in the public and private sectors — he said: "Use of 'remote expert' is what banks are considering. It is an integrated revenue-enablement platform that lets retail banking customers connect with banking experts anywhere in the organisation, using any channel and endpoint as per customer preference.

"This would be a video-enabled interactive platform, which is still nascent in India. Over time, the remote expert would be available on the mobile too. We are in talks with large banks to make this a reality," Murali said.

"There has been a dramatic increase in conversations via chatbots. This is helping customers make smart decisions. The company also offers networking solutions, speech analytics, managed and security services. Technology has become a core tool for banks," he added.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY