



**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](mailto:aiubparf@gmail.com)/ [ubioatnng@gmail.com](mailto:ubioatnng@gmail.com)/ [suryanarayananram@gmail.com](mailto:suryanarayananram@gmail.com)

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<b>Com. P.B. Thomas</b> Chairman Thiruvananthapuram M: 09447177456	<b>Com. Nitin Desai</b> President Ahmedabad M: 097277 60641	<b>Com. S. Bagchi</b> Working President Kolkata M: 0983081586	<b>Com. N. Govindarajulu</b> General Secretary Chennai M: 09841089111
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Dear Comrades,

1st June , 2018

### News of Interest 1st JUN

#### MOTIVATIONAL QUOTES

GRATITUDE IS THE FAIREST BLOSSOM WHICH SPRINGS FROM THE SOUL.  
HENRY WARD BEECHER

#### HIGHLIGHTS

1. BANK STRIKE: MORE PARTICIPATE ON LAST DAY, SERVICES HIT ALL OVER INDIA
2. KARNATAKA BANK TO KEEP ITS GROSS NPA LEVEL BELOW 5% AFTER PROVISIONING
3. NON-PERFORMING ASSETS: PSU BANKS NEED MORE RECAPITALISATION FUNDS
4. FINMIN LOOKS AT WAYS TO APPOINT TOP OFFICIALS AT ALLAHABAD BANK & PNB
5. DAY 1 OF BANK STRIKE IMPACTS MORE THAN 21,700 CR OF TRANSACTIONS

#### Business standard

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#### 1. Bank strike: More participate on last day, services hit all over India

The unions have opposed the Indian Banks' Association's offer of a 2% pay hike

Somesh Jha

The second day of the two-day strike by bank employees saw more of participation, even as branch-level services continued to be hit, with less ATMs functional on Thursday. Normal functioning should be resumed on Friday.

The proportion of workers who did not report to work in public sector banks (PSBs) was 82.8 per cent, estimated the managements and well above 90 per cent if one went by field offices of the labour units.

Around 70 per cent of ATMs were functional across the country, compared to 80 per cent on Wednesday, a government official said. Operations were most affected in Kolkata-based United Bank of India, where 96.6 per cent employees skipped work. Followed by Chennai-based Indian Overseas Bank (91.8 per cent) and Mumbai-headquartered Bank of India (91.1 per cent).

At the state-level, there appeared full strike participation from bank workers in Bihar, Jharkhand and all the north-eastern states on Thursday. Workers on strike were comparatively less in Delhi, Andhra and Telangana.

"The strike was a total success. If there is 80 per cent participation as per the IBA (management) figures, it effectively means 100 per cent. This is because we had exempted 'watch and ward' staff, senior executives (above scale-V) and the officers safeguarding information technology from the strike," said D Thomas Franco, general secretary, All India Bank Officers' Confederation. He said all 85,000 branches of PSBs were non-functional. Those who struck work will not be entitled to salary for these two days. PSB workers collectively forwent Rs 6 billion in pay, Franco added.

The United Forum of Banking Unions, an umbrella body of nine unions which called the strike, claimed around eight million cheques were not cleared. The unions have opposed the Indian Banks' Association's offer of a two per cent pay hike. Banks, saddled with high levels of bad loans, have said they cannot pay more.

## FIELD REPORT

Banks with highest participation in strike (%)		Banks with least participation in strike (%)		States with highest participation of workers(%)	
United Bank of India	96.6	Punjab & Sind Bank	63.8	Bihar	100
Overseas Bank	91.8	Bank of Baroda	68.7	Jharkhand	100
Bank of India	91.1	Bank of Maharashtra	73.3	North-east	100
UCO Bank	90.7	Vijaya Bank	75.3	Chandigarh	98
Allahabad Bank	89.2	Union Bank of India	75.4	Madhya Pradesh	97

Source: Indian Banks' Association, government

## 2. Karnataka Bank to keep its gross NPA level below 5% after provisioning

The private lender expects to have at least Rs 3 trillion of total business by 2020

Debases Mohapatra

At a time when the banking sector in India is reeling under a huge burden of rising bad loans, Mangaluru-based private sector lender Karnataka Bank is hopeful of containing its gross non-performing assets (NPA) below five per cent in the current financial year, and doesn't see further slippages from its corporate accounts going ahead.

The bank, with a healthy net interest margin (NIM) of above three per cent, is also planning to reduce its cost of capital to less than one per cent from the current level of around 1.25 per cent.

"As of now, even with the proactive disclosures of NPA, our gross NPA remains well below five per cent. Definitely, it will never cross

that level and gradually, the slippages could be in the range of less than one per cent and credit cost could be less than one per cent," CEO & Managing Director of Karnataka Bank, Mahabaleshwara MS told Business Standard.

Notably, net profit of the private sector lender slumped 92 per cent at Rs 110 million for the fourth (January- March) quarter of FY18 due to multi-fold jump in provisioning for bad assets. Gross NPA rose to 4.92 per cent by the end of March 2018, while its net NPA increased to 2.96 per cent.

Giving the rationale behind the higher provisioning, Mahabaleshwara said the bank didn't have many loan defaults from its corporate accounts, but took the opportunity to clean up its balance sheet in the wake of new RBI norms.

"There was actually no pain in the sense that we have exposure to some corporates through the consortium. With the change in NPA recognition norm, we had to recognise a few of those accounts as NPA because of default by these groups on loans from other banks. We took this opportunity to clean up our balance sheet and make adequate provisions," said Mahabaleshwara.

"We have declared more than Rs 5.90 billion as NPA and an equal amount, we have also provided for. So, we have further strengthened our balance sheet. The chance of further slippage appears to be very remote."

He also said that stress in its entire portfolio was over and the bank would see higher business growth in the current financial year. "We have already put a strong foundation for our future growth by cleaning up the balance sheet. If you see, in FY18, when the credit growth for the entire industry was around eight per cent, we grew by 28 per cent. So, for the current year also, I am optimistic about attaining a growth rate of 20 per cent in advances. And, overall bank deposits are also likely to grow by 18 per cent," Mahabaleshwara said.

MSME, housing finance, lease rental discounting, corporates with sound credit rating are some of the verticals on which the private sector lender is focussing on for credit growth this fiscal.

Meanwhile, the bank has appointed Boston Consulting Group (BCG) to improve overall efficiency. "With this tie-up, we want to emerge as a strong bank in the Indian banking system. By 2024, which is our centenary year, we want to improve our market share to one per cent from the present 0.54 per cent. We also want to double our business every three years. By 2020, we want to have at least Rs 3 trillion of total business," he said.

### **3. Non-Performing Assets: PSU banks need more recapitalisation funds**

If the planned recap is doubled to Rs 1.3 trillion, it can support a 6% loan growth at the non-PCA PSU banks

By: [FE Bureau](#)

Fourth quarter of FY18 was the worst quarter for Indian corporate lenders, as the PSU banks reported an aggregate loss of Rs 600 billion as another 3.5% of loans (Rs 1.9 trillion) turned into non-performing loans (NPLs) and banks made Rs 1.2 trillion of additional provisions. Operating performance

was also depressed for PSUs, with loans and deposits growing only 2% y-o-y. Operating expenditures (opex) rose 20% while pre-provision profits were down 22%. PSU banks saw some pick-up in loan growth this quarter, as gross loans grew 4% q-o-q, with loans from non-prompt corrective action (PCA) PSU banks growing ~5.5% q-o-q. As opex continues to increase and net interest income (NII) growth weakens, opex to NII for all PSU banks has reached >90% in Q4FY18, with apex to NII at >100% for several PSU banks.

Treasury losses were lower in Q4 at Rs 48 billion vs Rs 70 billion in Q3, as banks utilised RBI dispensation and deferred ~Rs40 billion of losses to FY19. With yields up 40bp since March 2018, losses are expected to be large in Q1FY19 as well. Overall losses have increased sharply, as banks increased provisions for NPAs. Credit costs were elevated at ~8% this quarter, resulting in coverage improving ~280 bp q-o-q.

Private banks' performance was also weaker in Q4, dragged down by Axis and ICICI, adjusting for which, profits grew 21% y-o-y. Profitability at the retail private banks remains strong, with pre-provision profitability improving to 3.5%. Loan growth was also strong at ~26% y-o-y. Private banks continue to gain market share.

With PSU banks constrained for capital and ~30% of PSU bank loans with banks under the PCA, private banks have continued to gain market share. They have accounted for ~40% of loans over the past six months and ~60% over the past year. Private banks have also started gaining market share on the deposit side, accounting for ~60% of incremental deposits over the past 6-12 months. Eleven of the 21 PSU banks are currently under the PCA framework. With net NPAs >8% and common equity tier (CET) levels down to <6%, Punjab National Bank (PNB) and Andhra Bank look like candidates to be added to the PCA framework.

If PNB and Andhra were to be added to the PCA framework, share of loans under PCA will likely increase to 26% from 19% currently. PSU banks under PCA have seen loans contract y-o-y, while non-PCA PSU banks have seen a 10% y-o-y growth in loans. Private banks continue to see strong loan growth (22% y-o-y). With RBI putting sanctions on further loan growth for Dena Bank and Allahabad Bank, loan growth for PCA banks is likely to contract further.

While private banks have gained market share on deposits as well, resulting in loans-to-deposits ratios (LDRs) declining for some of them, they remain high at 90-100%, and could be the constraining factor for further loan growth. Accelerating shift in deposit market share as well

Private banks have accounted for ~60% of deposits over the past 12 months, with deposits growing at ~17% y-o-y vs 5% for the non-PCA PSU banks and -4% for the PCA PSU banks. While PSU banks have been shedding higher cost deposits, given their low LDRs and weak loan growth, private banks have seen stronger growth in their ratio of deposits in current and saving accounts to total deposits (CASA) as well. Savings account (SA) growth at the private banks has outpaced growth seen at the PSU banks.

### **Sharp spike in slippages**

Slippages spiked this quarter, post the February 12 RBI circular that withdrew various dispensations. Nearly Rs 2.2 trillion (~3.3%) of loans slipped in Q4. However, a large share of the slippage was from "known" stress and given continued large write-offs (~0.8% of loans), overall stress declined q-o-q. Banks such as United, PNB, and IDBI witnessed the steepest rise in slippages, with nearly 7% of loans turning into NPAs. Even at other PSUs, 3-5% of loans turned into NPAs. Among the private corporate lenders, Axis saw 4.5% of its loans turn into NPAs, and ICICI 3%.

With high slippages sustaining over several quarters, corporate banks have now already witnessed 20-30% of their FY13 loan book turning NPA in the past five years and 15-20% in the past three years. On a gross of recoveries basis, slippage was even higher, at 20-30%, over the past three years and 30-40% over the past five years.

Given a large share of slippage came from "known" stress and ~Rs 500 billion of write-offs in Q4, overall impaired loans have declined q-o-q. Gross NPAs have now increased to 11.5% for the system and 14.5% for PSU banks. Residual stress is now down to >3% of loans, and with recoveries from List 1 under IBC coming in, NPA levels have likely peaked. PSU banks continue to write off a large share of their loans, with ~Rs 1.2 trillion (2.3% of loans) written off in FY 18 and Rs 500 billion in Q4. Aggregating the write-offs over the past five years, corporate banks have 15-30% of loans recognised as NPAs.

### **Planned capital infusion will not suffice**

The government infused ~Rs 800 billion of capital into PSU banks in Q4, resulting in CET-1 improving for most banks. However, given the large losses, CET-1 levels for many are still below the Basel III thresholds. Also, banks have recalled their AT-1 bonds (some recalled their bonds post March 2018), resulting in Tier-1 ratio declining q-o-q. In order to reach Basel III Tier-1 requirement of 9.5% by FY19, these banks will need to raise further equity capital of raise AT-1 bonds. Over the past three years, the government has infused Rs 1.4 trillion of capital in the PSU banks.

A large (Rs 810 billion) share of this has been to PCA banks (~60% of capital, with 27% of loans) that have incurred Rs 820 billion of losses in this period. It has infused ~Rs 590 billion in the non-PCA banks, which have had losses of Rs 310 billion over the same period. With core operating profitability remaining weak, as pre-provision operating profits to assets ratio remains low at ~1% for most PSU banks, even as credit costs normalise, they would require capital to fund growth.

With provision cover still at ~41% on their 14.5% NPLs and 3.3% residual stress, we estimate PSU banks still need an additional Rs 1.9 trillion of provisions (post tax). Even assuming no loan growth at PCA banks, the Rs 650 billion of budgeted recap will likely be needed just for these banks to reach a 65% provision cover and maintain CET-1 at 8%. If the planned recap is doubled to Rs 1.3 trillion, it can support a 6% loan growth at the non-PCA PSU banks.

### **Economic Times**

#### **4. Finmin looks at ways to appoint top officials at Allahabad Bank & PNB**

By *Dheeraj Tiwari*

The government is exploring ways to appoint top officials in two major public sector banks after existing officials were divested of their charge pending investigations into their involvement with financial irregularities, a top finance ministry official in the know said.

The managing director for Allahabad Bank NSE -0.12 % was divested of all powers as were two executive directors of Punjab National Bank for their alleged involvement in the multi-crore rupee scam centred on fugitive jeweller Nirav Modi.

“Since these senior officials have not been removed and just divested of their powers, it is not possible to appoint another MD or ED in these cases,” said official adding that the ministry is looking at all options including their removal under the Banking Regulation Act.

Earlier this month, the board of Allahabad Bank divested its managing director and CEO Usha Ananthasubramanian of all executive powers after the Central Bureau of Investigation named her in the \$2-billion Punjab National Bank scam. PNB’s board also took a similar decision in case of its two executive directors KV Brahmaji Rao and Sanjiv Sharan — of divesting them of all powers.

Ananthasubramanian was the MD and CEO of Punjab National Bank from 2015 to 2017 before she was moved out to Allahabad Bank.

“Since the finance ministry had sought explanation from the officials named in the charge-sheet, it will be difficult to remove them unless they have accepted the allegations,” said another government official.

#### **Business Line**

#### **5. Day 1 of bank strike impacts more than ₹21,700 cr of transactions**

SURABHI

Business as usual at private banks; strike likely to have a bigger impact today Banking services at state-owned banks will be hit on Thursday with PSU bank unions set to continue their two-day strike.

“We will continue our agitation as planned,” said CH Venkatachalam, General Secretary, All India Bank Employees Association.

Operations of private banks such as ICICI Bank and HDFC Bank were normal. But the strike at PSU banks on Wednesday is estimated to have held up over 39 lakh cheques involving ₹21,700 crore, according to Venkatachalam.

Industry body ASSOCHAM had estimated that as much as ₹20,000 crore of customer transactions would be hit by the two-day strike.

PSU banks had asked customers to use digital banking systems and had also promised sufficient cash in ATMs.

Banking transactions are expected to see a bigger hit on the second day of the strike as it coincides with the end of the month and could hold up salary withdrawals from ATMs.

Other activities, including deposits in bank branches, renewal of fixed deposits, government treasury operations and money market operations, are also expected to be impacted by the strike.

"Our intent was not to make the customers suffer but the strike has been successful," said Ashwini Rana, Vice-President, National Organisation of Bank Workers, adding that the unions will meet later to discuss the next phase of their agitation.

Over 10 lakh PSU bank employees are participating in the two-day strike, which was called by the United Forum of Bank Unions (UFBU) following failure of talks with the Indian Banks' Association for wage negotiation. The IBA had proposed a wage hike of 2 per cent, which the bank unions termed meagre.

### **Next wage negotiations**

Sources said the bank unions and IBA are likely to hold another round of wage negotiations in June.

"However, there has been no confirmation from the government or the IBA on whether they will agree to a higher revision in wages," said the source.

With kind regards,

Yours Comradely,



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