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Dear Comrades,

11th June , 2018

News of Interest 11th JUN

QUOTE OF THE DAY

'OPTIMISM IS THE FAITH THAT LEADS TO ACHIEVEMENT. NOTHING CAN BE DONE WITHOUT HOPE AND CONFIDENCE'. HELEN KELLER

HIGHLIGHTS

- 1. FRAUD-HIT PNB SIGNALS RECOVERY BY Q2; EYES RS 55 BILLION NET PROFIT**
- 2. SBI TO AUCTION 12 NPA ACCOUNTS ON JUNE 25 TO RECOVER DUES OF OVER RS 13 BN**
- 3. RS 87,000 CRORE LOSS TO PSU BANKS IN FY 2018: PNB, IDBI, SBI LEAD THE PACK OF 21**
- 4. 6 MORE STATE-RUN BANKS MAY COME UNDER PCA**
- 5. CONFIDENCE IN WORKING OF PSBS AT A HISTORICALLY LOW LEVEL: YV REDDY**

BUSINESS STANDARD

1. Fraud-hit PNB signals recovery by Q2; eyes Rs 55 billion net profit

Govt refuses bank's demand for additional capital of Rs 80 bn

Somesh Jha

Fraud-hit Punjab National Bank (PNB), which recently reported the highest-ever loss by any domestic bank in history, is aiming to clock its largest-ever quarterly profit of Rs 55 billion in the July-August period this financial year. However, the road to profitability has already hit some hurdles for the Delhi-based bank as the Union government has rejected its demand for an additional capital infusion of around Rs 80 billion in 2018-19, sources said.

Submitting its turnaround plan last month, PNB has told the department of financial services (DFS) and the Reserve Bank of India (RBI) that it is eyeing an ambitious net profit of Rs 55 billion in the second quarter, according to documents reviewed by Business Standard. This will mean a huge recovery from the Rs 134 billion net loss reported by the bank in fourth quarter of 2017-18, owing to the Rs 143-billion swindle on account of fraudulent loans to jewellery firms belonging to Nirav Modi and Mehul Choksi and the Reserve Bank of India (RBI)'s new provisioning norms.

The highest quarterly net profit reported by PNB stood at Rs 14.2 billion in January-March 2012. PNB had sought Rs 80 billion in the form of capital support from the Union government in 2018-19. However, the DFS is not keen on pumping in additional money into the fraud-hit bank and it has instead asked the management to focus on selling non-core assets, shedding risk-weight assets and improve recovery to clock profitability, sources said. PNB's demand for an additional capital comes on the back of the expected hit of Rs 100 billion in the present financial year due to the fraud-related provisions, mark-to-market losses (due to high yields impacting the market value of investment book), provision on insolvency and bankruptcy code, among others. In the fourth quarter of 2017-18, PNB had to make a provisioning of Rs 102 billion in its books because of the RBI's new stressed assets resolution norms and a sum of Rs 71.8 billion towards the fraud, which is half the amount involved in the scam. "Additional capital infusion, apart from the second round of recapitalization due this financial year, in PNB is unlikely," said a senior finance ministry official. Last year, PNB received Rs 54.7 billion from the Union government, under the first round of public sector bank recapitalization.

Recently, rating agency Moody's Investors Service said PNB will need Rs 120 billion-130 billion in 2018-19 to meet regulatory requirements, while downgrading its rating. PNB has planned to substantially bring down net non-performing assets (NPA) to 5.96 per cent by March 2019 from 11.24 per cent in March this year.

A net NPA of above six per cent is itself a trigger for the RBI to put PNB under its prompt corrective action (PCA) framework – to restore its health – that will somewhat restrict its ability to expand. Though the RBI may take a call on whether PNB's financial conditions warrants putting it under PCA, the Delhi-based bank is taking early steps to cut down expenses. For instance, it has put a freeze on fresh hiring and plans to close down 634 unviable ATMs across the country. In 2017-18, PNB had shut 506 unviable ATMs, as per the RBI data. Overall, the bank will aim to cut down operating expenses by 10 per cent, as per its roadmap for revival. Further, it plans to reduce the risk-weighted assets by Rs 230 billion and has targeted return on assets at 0.14 per cent by March 2019 from a negative return at end of March 2018. In a bid to prevent slippages, the amount of loans that turns from good to bad, PNB has strengthened its loan monitoring system and launched an internal mobile application known as PNB MTOUCH. The bank management has told branch officials to visit the borrower's residence or business premises regularly and persuade them to repay the overdue from day 1.

Turnaround plan

- Net profit of Rs 55 billion in July-August period from net loss of Rs 134 billion in January-March

- Bring down net non-performing assets (NPA) to 5.96% in March 2019 from 11.24% in March 2018
- Raise Rs 86 billion from sale of non-core assets in 2018-19
- Reduce risk-weighted assets by Rs 230 billion
- Cut operating expenses by 10%
- Freeze on fresh hiring
- Close down 634 unviable ATMs
- Rationalize overseas branches
- Return on assets of 0.14% by March 2019 from negative at present

2. SBI to auction 12 NPA accounts on June 25 to recover dues of over Rs 13 bn

SBI said interested bidders can conduct due diligence of these assets with immediate effect after submitting the expression of interest and executing a non-disclosure agreement

Press Trust of India

The e-auction of these accounts will take place on June 25, according to an SBI notice. The country's largest lender SBI will conduct auction of 12 non-performing accounts (NPAs) later this month to recover dues of over Rs 13.25 billion.

The NPA accounts that have been put under the hammer include Ankit Metal & Power Ltd (Rs 6.90 billion), Modern Steels Ltd (Rs 1.22 billion), Good Health Agrotech Pvt Ltd (Rs 1.09 billion), Amit Cottons Pvt Ltd (Rs 0.84 billion), and Ind-Swift Ltd (Rs 0.80 billion).

The remaining are Nikhil Refineries (Rs 528.5 million), Bhaskar Shrachi Alloys (Rs 514.8 million), Sri Ganesh Sponge Iron Pvt Ltd (Rs 389.6 million), Asmita Papers (Rs 372.3 million), Forel Labs (Rs 228.6 million), Karthik Agro Industries (Rs 208.2 million) and Abhinandan Interim (Rs 141.5 million).

State Bank of India (SBI) said interested bidders can conduct due diligence of these assets with immediate effect after submitting the expression of interest and executing a non-disclosure agreement with the bank.

The lender's gross non-performing assets or bad loans as on March 31, 2018, reached Rs 2.23 trillion, which was 10.91 per cent of gross advances by the end of 2017-18.

SBI reported a record net loss of Rs 77.18 billion in the fourth quarter ended March, and of Rs 65.47 billion for 2017-18 due to higher provisioning for bad loans.

The net NPAs were Rs 1108.55 billion (5.73 per cent of net loans) by end of March, 2018.

SBI said that the recovery in its written-off accounts improved to 21.18 per cent in March quarter and the losses during the past fiscal were mainly because it was required to make provisions at higher rates in respect of advances to stressed sectors of the economy.

The RBI's revised framework has earmarked specified norms for early identification of stressed assets, timeline for implementation of resolution plans and a penalty on banks for failing to adhere to the prescribed timeline.

These guidelines came after the banking sector regulator scrapped the previous mechanisms such as the Corporate Debt Restructuring Scheme, Strategic Debt Restructuring Scheme (SDR) and Scheme for Sustainable Structuring of Stressed Assets (S4A).

Financial Express

3. Rs 87,000 crore loss to PSU banks in FY 2018: PNB, IDBI, SBI lead the pack of 21

The 19 government-run banks collectively posted a net loss of Rs 87,357 crore during the fiscal, according to the latest quarterly numbers posted by these lenders

By: PTI

Losses of public sector banks crossed a whopping Rs 87,300 crore in 2017-18 fiscal, topped by scam-tainted Punjab National Bank which took a hit of nearly Rs 12,283 crore. Of the 21 state-owned banks, only two banks, Indian Bank and Vijaya Bank, posted profits during 2017-18. Indian Bank posted the highest profit of Rs 1,258.99 crore and Vijaya Bank's profit was Rs 727.02 crore in the fiscal.

So, the net loss posted by state-owned banks was about Rs 85,370 crore in 2017-18 as against a net profit of Rs 473.72 crore in the previous fiscal.

The 19 government-run banks collectively posted a net loss of Rs 87,357 crore during the fiscal, according to the latest quarterly numbers posted by these lenders. Punjab National Bank, which is reeling under more than Rs 14,000-crore scam allegedly perpetrated by Nirav Modi and associates, posted a net loss of Rs 12,282.82 crore last fiscal. In 2016-17, the Delhi-headquartered bank had posted a profit of Rs 1,324.8 crore. PNB was followed by IDBI Bank, whose net loss widened to Rs 8,237.93 crore in the fiscal ended March 2018 from Rs 5,158.14 crore in the previous year.

India's largest bank State Bank of India too added hugely to the combined losses of PSBs. SBI's net loss in 2017-18 stood at Rs 6,547.45 crore as against a net profit of Rs 10,484.1 crore in 2016-17. Indian banking sector is grappling with mounting non-performing assets (NPAs) and host of scams and frauds. The NPA in the banking sector stood at Rs 8.31 lakh crore as of December 2017. Weak financials due to mounting bad loans have already pushed 11 banks, out of 21 state-owned banks, under the Prompt Corrective Action (PCA) framework of the Reserve Bank.

The recent tight prudential norms released by the RBI on February 12 have added to the NPA woes. Interim Finance Minister Piyush Goyal has announced setting up of a committee to give recommendations in two weeks on formation of an Asset Reconstruction Company for faster resolution of stressed accounts. The committee under Sunil Mehta, non-executive chairman of PNB, will make recommendations in two weeks on setting up of an Asset Reconstruction Company or Asset Management Company for faster resolution of stressed accounts.

The finance minister said the committee will consider whether such an arrangement will be good for the banking system and, if any such suggestion is advisable, it will also consider the modalities by which such an ARC and/or and AMC should be set up.

Economic Times

4. 6 more state-run banks may come under PCA

By Dheeraj Tiwari

Six more state-run banks are at risk of entering the Reserve Bank of India's prompt corrective action (PCA) framework, officials said. These include Punjab National Bank, Union Bank of India and Syndicate Bank, they said, adding that this may reduce the chances of the finance ministry's plans to sell the good loans of weak banks to stronger lenders coming to fruition.

If the Reserve Bank of India imposes restrictions on these lenders in the next one month, it will bring the number of state-run banks under the PCA framework to 17. The central bank imposed PCA restrictions on Allahabad Bank in May, including a directive to reduce exposure to unrated and high-risk advances. Dena Bank was also asked to avoid taking fresh exposures.

A senior finance ministry official, however, said the banking regulator may give some relief given these lenders are not falling behind on all indicators. If the lenders don't come under PCA, there is a chance the plan to sell healthy loans may work, he said.

"The banks in various discussions with the government and also the Reserve Bank have said that they will be able to recover in the next one or two quarters. If the RBI imposes restrictions under PCA, it will be difficult for them to turn around quickly," he said, adding that RBI may be inclined to give them some leeway. "Some talks have been held."

Another official said that if even three banks are put under PCA, the idea to set up a consortium of banks that will take over good loans of banks under PCA will not work out. "It also does not make sense for these banks to take over these loans if there are lending restrictions," he added.

PCA involves imposition of various curbs such as stopping branch expansion, halting dividend payments, limiting loan limits, audits and restructuring if warranted. State-owned banks currently under PCA are Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Bank of India, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce, Dena Bank and Bank of Maharashtra.

"It is a bad idea to take performing loans out of the books of already struggling banks and saddle them with bad loans," said MP Shorawala, a former independent director with Central Bank of India. "This could have worked if the government had consolidation plans."

Last week, acting finance minister Piyush Goyal held a meeting with heads of public

sector banks based in the west and south. After the meeting, Goyal had said that Bank of Baroda chief PS Jayakumar will formulate a strategy regarding state-owned banks taking over good loans of banks under PCA. Goyal has charge of the finance portfolio pending Arun Jaitley's return from medical leave.

The government has also set up a committee under the chairmanship of Sunil Mehta, non-executive chairman of Punjab National Bank, to examine the setting up of an asset reconstruction company and/or asset management company for faster resolution of stressed assets involving multiple state-owned lenders.

Business Line

5. Confidence in working of PSBs at a historically low level: YV Reddy

OUR BUREAU

"Banks benefit from fiscal stimulus, monetary stimulus and regulatory forbearance"

The doubts about trust in banks that have arisen in recent months could be attributed, among others, to mounting non-performing assets on account of defaults by the very rich; a proposal to change the law relating to resolving the issues of problem banks by making depositors share the burden of insolvency; large criminal frauds committed in select banks; and the investigations launched and raids conducted on some Board members and CEOs, according to YV Reddy, former Reserve Bank of India Governor.

Referring to several policy actions taken by Government and RBI in response to the global financial crisis, Reddy observed that the banks benefitted from fiscal stimulus, monetary stimulus and regulatory forbearance including higher exposure limits to corporates, groups and industries.

"In retrospect, perhaps, the extra-ordinary measures taken were more than needed and, were continued for longer period than necessary. Banks had also been encouraged to lend to infrastructure, which was not the core competence of the banks, apart from creating asset and liability mismatch.

"Disclosures of real position were delayed. So, the accumulated problems came to the open in 2013-14 and in subsequent years," said Reddy, who was the RBI Governor from September 6, 2003 to September 5, 2008. He was also Deputy Governor at the central bank from 1996 to 2002.

This affects the depositors if a bank does not have enough money to pay the depositors, that is, when the capital is not adequate, he said in his speech on 'Keeping Banks Safe' at Shivaji University, Kolhapur last evening.

Reddy, however, emphasized that bank deposits continue to be as safe as they have ever been, as far as private sector banks are concerned. They have adequate capital. "The public-sector banks do not have adequate capital to take care of the depositors' interest, but since the majority ownership is that of the government, the deposits are safe. These are not limited liability companies, but institutions established under the law. However, the depositors are protected with the tax-payers money.

"People know this instinctively and, therefore, do not rush to withdraw deposits. The uncertainty and delay in Government's injecting of capital as required by the

RBI is a source of discomfort, no doubt. In any case, the tax payer has to pay for high NPAs since Government as owner has to bear the burden," he explained.

PSBs: confidence at a historic low

In this regard, the former RBI Governor observed that "the confidence in the working of the public-sector banks is at a historically low level. The future of the public sector banking which accounts for a major part of the banking system is uncertain. They are functioning without knowing where they would be."

The former RBI Chief opined that there should be clarity on the future of public sector banking towards which the government should move. The objective for public ownership of banks should be clarified and simplistic comparisons with the private sector banks avoided.

Bail-in proposal

Referring to the 2017 proposal to amend the law relating to resolution of banks and financial institutions, Reddy said the objective was to equate the bank depositor on par with other creditors.

He opined, "this caused nationwide concern, and rightly so. Fortunately, the law has been deferred or dropped. In any case, private sector banks are adequately capitalized and, therefore, there is no issue now. Yet the (bail-in) proposal has itself created a panic, and some withdrawal of deposits took place. To an extent, some permanent damage has been done to the trust in safety of bank deposits."

Bank Frauds: Owner should be worried

Referring to the PNB scam, the former RBI Chief said it is clear that it is a fraud. The focus of all institutions should be to punish those who indulged in fraud and benefited most from the fraud. It is a crime and investigation of the crime should be the top most priority.

"Who should be worried most about the fraud? The owner of the bank who stands to lose most. The owner is the Government. The owner should be worried about what the Directors it nominated in the Board, were doing. The owner should be worried about the Managers it appointed. The owner should be worried about the system of monitoring and control of its own investment. That should be the focus of the owner," he added.

Underscoring that tax payers end paying for the losses due to the fraud, Reddy felt that the tax payers who have entrusted their money to the Government owned banks should be asking the government to explain why as the custodian of their money it failed to prevent the fraud.

Is RBI responsible?

Though its main responsibility is financial system stability and the depositor's protection, the central bank cannot escape responsibility for maintaining the trust of the public in the banking system, emphasized Reddy. "The fraud is of such a magnitude that it affects the credibility of RBI in ensuring the trust of people in banking. To this extent, it has to review its own regulatory and supervisory practices," he said.

Despite criticisms in some segments of media, Reddy felt that RBI is held high in peoples' esteem. However, he underscored that actions taken by Government and official statements should ideally reinforce confidence in the RBI at this juncture.

RBI should be seen to command respect and backing of Government to continue to effect mergers to protect depositors interest...effectiveness of RBI will be enhanced with demonstrable support from the Government, he added.

Raids and Investigations

Terming the recent large scale operations undertaken by the Central Bureau of Investigation (CBI) as unprecedented, Reddy observed that most of them are based on conspiracy and implied loss to Government than bad motive or pecuniary gains.

"Raids and investigations may be intended to (a) punish the guilty, and (b) act as a deterrent. Whether the really guilty have been booked; whether they will be punished finally; and whether they act as a deterrent are questions that remain.

"But, what is certain is that there is loss of confidence in the integrity of the banking system. It is not clear whether this by itself enhances the trust and whether there is anything on the anvil to show that the future system will be different. But, depositors are safe, no doubt," he said, adding the government has shown determination in initiating punitive actions, but there is no confidence that they will end up with any convictions.

All punitive actions that are taken do not necessarily or by themselves result in positive outcomes. However, there should be a dual approach of simultaneous punitive action and system improvement, he added.

Reddy elaborated, "the government has shown determination in initiating punitive actions, but there is no confidence that they will end up with any convictions. An important initiative taken in regard to improvement of the system is the law relating to company insolvency. Some preliminary results are appearing."

He concluded by stating that confidence, coherence, consistency and clarity should be maintained in official pronouncement (read; banking regulator and Government) on banking recognizing that banks are special and deposits in banks are very special.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY