



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
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Dear Comrades,

13th June , 2018

### **News of Interest 13<sup>th</sup> 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. ADJUSTMENT OF RELIGARE FINVEST'S DEPOSITS LEGAL: LAKSHMI VILAS BANK**
- 2.PNB BOARD TO CONSIDER ESOP SCHEME OF UP TO 100 MILLION EQUITY SHARES**
- 3. INDIA'S BAD BANK BACKERS ARE BADLY WRONG**
- 4. NIIF MAY LEND A HAND TO RESOLVE STRESSED ASSETS**
- 5. RBI AGAIN SEEKS MORE POWER TO REIN IN PSBS**

#### **Business standard**

##### **1. Adjustment of Religare Finvest's deposits legal: Lakshmi Vilas Bank**

Shares of Lakshmi Vilas Bank closed flat at Rs 117.45 on BSE

Press Trust of India

Lakshmi Vilas Bank on Tuesday said the adjustment of over Rs 7.90 billion deposits of Religare Finvest, held as security for loans taken by two other firms, is legal and it is fighting the case in the court appropriately.

Further, the bank said that Religare Finvest had filed a suit against its Janpath Branch in the Delhi High Court, disputing the said adjustment and it is defending the same.

The bank, in its financial statement for 2017-18, had informed about adjustment of third party deposits of over Rs 7.90 billion.

"The said deposits relates to Religare Finvest and the same were held as security for the loans extended to RHC Holding and Ranchem Pvt Ltd. On account of default in clearing the loans, the said deposits were closed and the proceeds were adjusted to clear the said loan loans," the bank said in a regulatory filing. The lender said it had received legal opinion suggesting that adjustments of deposits against loans are "lawful".

"Now, Religare Finvest has filed a suit in CS. (COMM) .940/2018 against our Jan path Branch before the High Court Delhi, disputing the said adjustment and the same is being defended appropriately by the bank," it added.

In May-end, Religare Enterprises had informed about certain fixed deposits of its subsidiary Religare Finvest (RFL) with Lakshmi Vilas Bank (LVB) saying the lender through a letter had purported to allude to certain loans disbursed by the bank to third parties allegedly in consideration of security of the RFL's fixed deposits (FDs) with LVB.

"By means of this letter, LVB also purported to call upon RFL to execute the security documentation in connection with the alleged loans," it had said, adding it was informed expressly to the bank that RFL was not the party to any loans that were allegedly sanctioned by LVB to any third party.

Religare had also informed that the subsidiary RFL has filed a suit for recovery of the FDs aggregating to Rs 7.9 million appropriated by the bank before the Delhi High Court.

Shares of Lakshmi Vilas Bank closed flat at Rs 117.45 on BSE today, while Religare Enterprises ended 1.22 per cent down at Rs 52.55 apiece.

## **2.PNB board to consider ESOP scheme of up to 100 million equity shares**

The government in March 2017 had allowed public sector banks to offer stock options to their employees, aimed at retaining experienced hands and better incentives

### Press Trust of India

State-run Punjab National Bank (PNB) on Tuesday announced an ESOP scheme with a view to retaining its talent and incentivizing staff by issuing up to 100 million equity shares.

The bank said it will issue up to 100 million equity shares to its employees under 'Employee Stock Purchase Scheme (ESPS)'.

A note is being placed to board in its ensuing meeting dated June 15, 2018 regarding ESPS with a proposal for issuance of up to 100 million equity shares to its employees, the bank said in a regulatory filing.

"The members of nomination and remuneration committee will decide the total number of shares to be issued under the ESPS scheme along with the maximum number of shares to be issued to an employee," the bank said.

The government in March 2017 had allowed public sector banks to offer stock options to their employees, aimed at retaining experienced hands and better incentives besides a means of capital raise.

Allahabad Bank and United Bank earlier in December had announced to offer their employee stock option scheme.

Both the banks will offer 50 million ordinary shares to their staff.

The proceeds from share sale will be used to raise the badly needed core capital of the bank which has long ago been placed under the prompt corrective action by the Reserve Bank, Allahabad Bank had said in earlier in January.

"The price at which these shares will be issued would be decided by the board or committee of directors", it had said.

United Bank has also initiated process to make employees stakeholders by way of issuing employee stock option (ESOP).

## **Financial Express**

### **3. India's bad bank backers are badly wrong**

Bad ideas keep returning to the corridors of power in New Delhi with the unfailing regularity of migratory birds. This year is no exception

By: Bloomberg

Bad ideas keep returning to the corridors of power in New Delhi with the unfailing regularity of migratory birds. This year is no exception. According to media reports, some kind of a state-blessed asset manager to take over the distressed assets of Indian lenders is being considered again. The proposal to set up a bad bank looked senseless even when it was first mooted in early 2016. It looked downright silly when the finance ministry floated the idea of raiding the central bank's reserves to run the rehab clinic for toxic debt.

As much as 90 percent of nonperforming assets are with state-run banks. Suppose they're asked to unload the mess into something like Sareb, the Spanish bad bank whose shareholders include Banco Santander SA and Caixa Bank SA, among others. Sareb investors are set to lose 73 percent of their original investment. If the same happens to Indian lenders' equity, taxpayers might end up paying over and above the \$32 billion recapitalization for which they're already on the hook.

The whole point of having a bad bank is to discover and recover the steady-state economic value of assets that may be currently depressed. In Sareb's case, the

task was relatively easy because boom-bust cycles in real estate – the recipient of Spain’s lending binge – are fairly predictable, certainly more so than the economics of Indian power plants. (About 12 percent of the country’s total power generation capacity is in financial distress.)

Besides, Sareb assumed the loans of savings banks after a 45.6 percent reduction in their carrying value. To compensate the proposed Indian bad bank for under-recovery risk, exposing lenders to a haircut of even 50 percent may not be adequate, according to Jefferies analysts Nilanjan Karfa and Harshit Toshniwal. Given just how capital-starved some of the 21 state-run banks are, having them book steep upfront losses on sales would necessitate immediate consolidation or, in some cases, closure. That would mean taking on powerful unions.

The maneuver makes sense only if unclogging balance sheets restores lenders’ profitability to a point where they can absorb future losses on their bad-bank investment. With a respected former central bank governor saying that confidence in state-controlled lenders is at a historic low, miracles can’t be the base-case scenario.

Besides, for a decisive turnaround, there must be parallel efforts to improve governance, risk management and underwriting standards. The urgency with which politicians and bureaucrats are looking for a solution is directly proportional to the existential threat to India’s government-dominated banking sector. Take away the hanging sword, and the pressure to reform may also ebb.

So why then a bad bank? A year has elapsed, and bankruptcy resolution, which was supposed to take no more than 270 days, has so far been successful with only two large debtors out of an original list of a dozen. Meanwhile, the central bank – the regulator – has taken away lenders’ leeway to extend and pretend. They’re now being forced to make aggressive loan-loss provisions. But where’s the money? Hardening yields are inflicting mark-to-market losses on state-run banks’ outsize holdings of government debt, crimping their ability to climb out of the hole.

A bad bank will buy some time and give the impression something is being done. With general elections due next year, this looks like a politically expedient proposal of dubious economic merit.

## **Economic Times**

### **4. NIIF may lend a hand to resolve stressed assets**

*By Rajat Arora*

The National Investment and Infrastructure Fund (NIIF) may be roped in as an investor to set up an asset reconstruction company (ARC) that will take over the stressed loans of state-run banks, said a senior government official.

“Bankers are thinking to get NIIF as a sponsoring agency. They (banks) themselves can pitch in some capital,” the official said, adding that Asset Reconstruction Company of India Ltd, sponsored by public sector banks (PSBs), has legacy issues.

Acting finance minister Piyush Goyal had last week announced a committee under the chairmanship of Sunil Mehta, non-executive chairman of Punjab National Bank, to examine the idea of an ARC and/or asset management company (AMC) for faster

resolution of stressed assets involving multiple state-owned lenders. The committee is to give its recommendations in two weeks.

The government holds a 49% stake in NIIF, which has a proposed corpus of Rs 40,000 crore. It signed an agreement last October to raise \$1 billion from a wholly owned subsidiary of the Abu Dhabi Investment Authority. NIIF has a master fund and a permissible fund of funds below that, one of which could participate in the ARC. The official cited above said the proposal to set up an ARC came from the banks themselves "The government did not propose it as we don't want to interfere in their (banks') functioning," he said.

The resolution of bad loans has picked up pace through the Insolvency and Bankruptcy Code but the government feels an ARC can speed up the process. However, the government also does not view the proposed ARC as an alternative to the existing resolution system under IBC. "The ARC can deal with small non-performing assets (NPAs) for which there are no takers," the official said, adding that the government cannot allow small companies to flounder. "We have to resolve this. Small and medium enterprises cannot be sold to foreign firms." The proposed ARC would also refer cases for resolution through IBC, he said.

#### IMMEDIATE RELIEF FOR BANKS

Another official aware of the deliberations said only those cases where banks feel recovery is possible outside IBC may be transferred to such an entity. The idea behind such a structure is to provide immediate relief to banks and free up their capital for fresh lending

However, he feels some issues may need to be resolved before the ARC is set up. "There are multiple issues like what the haircut will be when these loans will be offloaded, and will there be vigilance issues if the recoveries are higher than the price at which the asset was sold off," he said.

#### **Business Line**

#### **5. RBI again seeks more power to rein in PSBs**

##### SHISHIR SINHA

The RBI has yet again made a strong case for more power to regulate public sector banks (PSB) effectively.

RBI Governor Urjit R Patel, who appeared before the Standing Committee on Finance on Tuesday, also submitted a detailed written response to questions that the members had raised.

The meeting was called to record the Governor's evidence on 'Banking Sector in India: Issues, Challenges and the Way Forward, Including Non-Performing Assets/Stressed Assets in Banks/Financial Institutions.'

Sources said the RBI, in a written submission, said Section 5(C) of the Banking Regulation (BR) Act defines a banking company as 'any company' which transacts the business of banking in India.

PSBs are not companies, but corporations formed by statutes. They are, therefore, not 'banking companies' and the BR Act does not apply to them in full.

"Only those provisions of the BR Act specifically enumerated in Section 51 of that Act or elsewhere in that Act apply to PSBs. This forms a great constraint for a regulator and supervisor," the RBI said. The regulator further said it has important powers under the BR Act to apply to private banks, but not to PSBs.

For example, in a PSB, the RBI can neither remove nor appoint a CMD or a whole-time director, grant licences and impose conditions, call a meeting of bank directors, depute its officers for board meetings or appoint observers.

Sources said that Patel, in his initial and concluding remarks, informed the committee that steps taken by the RBI are giving positive results and there are some improvements on the stressed assets front.

Nirav Modi scam

He did not reply to repeated queries from panel members on the Nirav Modi scam and the final quantum of old currency notes that had back to the system following demonetization. It is expected that RBI will give a detailed response in writing before the next meeting, scheduled for June 18.

The panel, headed by senior Congress leader M Veerappa Moily, counts former Prime Minister Manmohan Singh as a member. It is expected to table its report during the forthcoming Monsoon session.

With kind regards,

Yours Comradely,



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