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Dear Comrades,

9th May, 2018

News of Interest 15th MAY

MOTIVATIONAL QUOTES

IF YOU DO NOT THINK ABOUT YOUR FUTURE, YOU CANNOT HAVE ONE.

JOHN GALSWORTHY

HIGHLIGHTS

1. RBI PUTS FRESH LENDING RESTRICTIONS ON ALLAHABAD BANK
2. PNB FRAUD: CBI NAMES 2 EDS, EX-CEO USHA ANANTHASUBRAMANIAN IN CHARGE SHEET
3. DEALING WITH BANK NPA: FINANCE MINISTRY MULLS INNOVATIVE WAYS
4. PCA REVIEW OF 11 STATE-RUN BANKS ON MAY 17
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6. IDBI UNIONS TO GO ON FOUR-DAY DHARNA FROM TOMORROW

Business Standard

1. RBI puts fresh lending restrictions on Allahabad Bank

Recently, the RBI not only debarred Dena Bank from extending fresh credit in view of the deteriorating financial health, but also debarred the lender from recruiting staff

Namrata Acharya

After the Reserve Bank of India (RBI) debarred Dena Bank from fresh lending, it has placed additional restrictions on Kolkata-based Allahabad Bank, which is under prompt corrective action (PCA) since January this year. The regulator has debarred the bank from high-risk lending and raising high-cost deposits.

The RBI has advised the bank to restrict expansion of risk-weighted assets, reduce exposure to unrated and high-risk advances, Allahabad Bank said in a regulatory filing to the stock exchanges on Monday.

The RBI has also restricted the bank from creation of non-banking assets and has advised it to restrict from accessing or renewing wholesale or costly deposits or certificate of deposits. The board of directors of the bank, in its meeting on May 11, has already taken note of the same, the bank informed in the filing.

Last year, Allahabad Bank had reported 5.27 per cent growth in lending and 5.81 per cent growth in deposits. The deposit growth to large industries fell by 9.11 per cent, while retail loans grew by 25 per cent.

On account of more than threefold rise in provisioning, Allahabad Bank posted a net loss of Rs 35 billion for the quarter ended March 31, 2018, against a net profit of Rs 1.1 billion for the fourth quarter of the last financial year. For the whole year, the bank had reported a net loss of about Rs 47 billion, against Rs 3 billion in 2016-17.

In absolute terms, the gross NPA of the bank in the last quarter stood at Rs 266 billion at the end of last quarter, against Rs 207 billion in the same period last year.

Recently, the RBI not only barred Dena Bank from extending fresh credit in view of the deteriorating financial health, it also barred the lender from recruiting staff.

"We wish to inform that the RBI, vide its letter dated May 7, 2018, has restricted the bank from assuming fresh credit exposure and recruitment of staff," Dena Bank said in a notification to the stock exchanges recently.

As many as 11 of the 21 state-owned banks are under the PCA of the RBI.

2. PNB fraud: CBI names 2 EDs, ex-CEO Usha Ananthasubramanian in charge sheet

Central Bureau of Investigation (CBI) found their involvement in the Rs 140 billion fraud related to group of companies belonging to Nirav Modi and Mehul Choksi

Somesh Jha & Shrimi Choudhary

The Union government cracked the whip on three top former and incumbent Punjab National Bank (PNB) executives after the Central Bureau of Investigation (CBI) named them in its charge sheet in the Rs 65-billion fraud related to group of companies belonging to Nirav Modi.

While the government directed Allahabad Bank to "divest all the powers" of its managing director and chief executive officer Usha Ananthasubramanian, who was previously heading PNB, two executive directors at PNB — Sanjiv Sharan and K V Brahmaji Rao — have been removed from the board, Department of Financial Services (DFS) Secretary Rajiv Kumar said.

"This is a clear message that we have to be responsible for what we do. We will only take action when there is substantial proof. If there is deviation

from clean banking and there is an issue of integrity, we will take strong action," Kumar said.

Ananthasubramanian was MD and CEO of PNB between August 2015 and May 2017 and served as ED at the bank between July 2013 and November 2013. Allahabad Bank will hold a board meeting to pass the resolution on Tuesday.

The CBI has not named any other board-level executive of public sector banks in the case so far, but sources said the roles of other PNB CEOs and a few officials of the Reserve Bank of India were being investigated.

The agency will file a supplementary charge sheet on May 18, they said.

In January, PNB had reported the fraud related to letters of undertaking (LoUs) availed "fraudulently" by firms belonging to Nirav and Mehul Choksi.

The CBI has filed three separate cases and the total fraud in the Nirav Modi case — perpetrated by misusing SWIFT (Society for Worldwide Inter-bank Financial Telecommunications) systems — has been put at Rs 64.98 billion. The RBI has since then discontinued LoUs as a credit facility instrument. An LoU was a guarantee given by a bank to a foreign branch of an Indian bank to grant short-term credit to firms.

"Funds were siphoned off to purported overseas supplier firms that were set up and controlled by Nirav and associates," the CBI said in the 7,500-page charge sheet. Proceeds of buyers' credit were diverted to pay off outstanding liabilities of firms related to Nirav.

The CBI said PNB's top officials, including Ananthasubramanian, Rao and Sharan, did not implement the circular and action notices issued by the RBI in 2016 on safeguarding SWIFT operations. Reconciliation of SWIFT messages was not done despite repeated circulars and the top bank officials "misrepresented the factual position on LoUs" to the RBI, the CBI noted. The officials also failed to prevent the fraud despite being aware of its modus operandi, according to the CBI.

Nirav's companies, in collusion with bank officials, had allegedly exploited a loophole in the system, as PNB's core banking system was not integrated with SWIFT. As a result of which, the scam went undetected since 2011.

The CBI alleged that Ananthasubramanian was aware about a similar LoU fraud that took place at the Chandigarh branch of Indian Overseas Bank in 2016, where credits were issued by PNB's Dubai branch. As a follow-up, the RBI had written to PNB, asking whether such fraud took place in PNB and issued fresh guidelines to prevent the LoU frauds. In its response, PNB general manager Nehal Ahad (also named in the charge sheet), as instructed by Ananthasubramanian, told RBI that no such fraud had come to the bank's notice, sources said. PNB did not implement the RBI's fresh guidelines in its entirety.

The modus operandi in the Nirav Modi case was also similar to the Indian Overseas Bank's case.

Ananthasubramanian was questioned by the CBI on February 27 for several hours.

The charge sheet, submitted in Mumbai special court of CBI, has named 25 accused. Of them, 19 have already been arrested by the agency.

CBI has also charged Vipul Ambani, president, finance, Firestar International; Kavita Mankikar, executive assistant and authorised signatory of three firms of Nirav; and Arjun Patil, senior executive, Firestar Group. Sources said that Ambani was in the know of illegality aspect and was hiding the documents. Investigation revealed that unsecured loans of Rs 17 billion had been taken by Nirav's three companies each and never reflected in audit reports.

Before initiating action, under the Section 8 of the Nationalised Banks Scheme 1970, against the three bank executives, the government had issued a show cause notice to them almost 10 days back. "After it was confirmed that there is a substantiate problem, we initiated the action immediately," Kumar said.

Asked why no action was taken against other chief executives of PNB, Kumar said: "We will not take any action on rumours... The moment I have definite information either from the regulator (RBI) or the investigators (in other cases), the government will not hesitate in taking actions."

More action against executives involved in various fraud cases is expected soon, as the DFS has written to the CBI seeking its opinion on whether its first information report (FIR) in the Rs 6 billion IDBI Bank fraud case warrants an action against the present and past bank officials who were allegedly involved.

In its FIR filed last month, the CBI had named 15 senior executives, including Kishor Kharat, MD and CEO of Indian Bank, and Melwyn Rego, MD and CEO of Syndicate Bank. Kharat was MD and CEO of IDBI Bank between August 2015 and March 2017. Rego, who also served as the chief of Bank of India before heading Syndicate Bank, had served as deputy MD of IDBI Bank till August 2015. According to CBI, former Aircel promoter C Sivasankaran's firms had allegedly defaulted on loans worth Rs 6 billion from IDBI Bank. Sivasankaran is also an accused in the IDBI case.

The process of replacing bank executives on the boards of public sector banks has been initiated as the government has written to the Banks Board Bureau to convene a meeting soon. Kumar said that the problems related to "big non-performing assets" is not spread out across all the branches but is confined to corporate branches and assured that the "worst is over". "Only clean banking can take place now," Kumar said.

Financial Express

3. Dealing with Bank NPA: Finance ministry mulls innovative ways

The finance ministry is examining a proposal to find innovative ways for dealing with burden of NPA provisions by issuing provision shore-up certificates (PSC) to banks.

By: PTI

The finance ministry is examining a proposal to find innovative ways for dealing with burden of NPA provisions by issuing provision shore-up certificates (PSC) to banks. With the help of this instrument, the operating

profit of bank is saved from erosion and the lender would be able to focus on lending activities as being in financially good shape. Under this scheme, the bank concerned will get PSC to the extent of its provision against the bad loans and conserve its capital, sources said, adding that this capital can then be used for expanding core business of lending.

This is at the "idea stage" and various aspects of this model are being examined, sources said. This would be a kind of capital infusion not in one go but spread over various quarters. A special trust would take over the underlying provisioned assets for monitoring, recovery and unlocking value, using the Insolvency and Bankruptcy Code, they said. The instrument would be used only against NPAs and not for total provisions which also include those for employee benefit etc, sources added.

Besides, there is a fundamental difference between the proposal to set up a bad bank that takes over the entire stressed asset and the PSC mechanism. In the latter's case, the bank only assigns the stressed assets and will receive PSCs only to the extent of provisions made. The gross non-performing assets (NPAs) of all the banks rose to Rs 8,40,958 crore in December 2017, led by industry loans followed by services and agriculture sectors.

Gross NPAs of scheduled commercial banks as on December 31, 2017 due to loans to industry were at Rs 6,09,222 crore, accounting for 20.41 per cent of the gross advances. That was followed by Rs 1,10,520 crore (5.77 per cent) dues from services sector, Rs 69,600 crore (6.53 per cent) from agriculture and allied activities, Rs 14,986 crore from other non-food credit and Rs 36,630 crore (2.01 per cent) from retail loans.

The highest amount of gross NPAs was for country's largest lender SBI at Rs 2,01,560 crore. Among others, Punjab National Bank (PNB) was at Rs 55,200 crore, IDBI Bank Rs 44,542 crore, Bank of India Rs 43,474 crore, Bank of Baroda Rs 41,649 crore, Union Bank of India Rs 38,047 crore, Canara Bank Rs 37,794 crore and ICICI Bank Rs 33,849 crore.

Indian Overseas Bank bank had gross NPAs of Rs 31,724 crore, Central Bank of India Rs 32,491 crore, UCO Bank Rs 24,308 crore, Allahabad Bank Rs 23,120 crore, Andhra Bank Rs 21,599 crore and Corporation Bank Rs 21,818 crore.

Economic Times

4. PCA review of 11 state-run banks on May 17

ET Bureau

The government will hold a review meeting on May 17 of state-run banks that are under the Reserve Bank of India's prompt corrective action (PCA) framework. At present, there are 11 banks under PCA on account of poor performance.

"A review meeting has been called for some of the weak banks next week, where we will discuss their progress to catch up with their peers and impediments in their growth," said financial services secretary Rajiv Kumar.

Dena Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, IDBI Bank, Oriental Bank of Commerce, Indian Overseas Bank, Corporation Bank, Bank of India, Allahabad BankNSE -3.51 % and United Bank of India are under the RBI's PCA framework.

In January, the government had announced its Enhanced Access and Service Excellence (EASE) reform agenda under which banks will need to set up specialised monitoring agencies for loans above 250 crore and a separate vertical for non-performing assets (NPAs), apart from selling non-core assets and rationalising overseas businesses. They also need to have a minimum 10% exposure in consortium loans to prevent a situation in which too many lenders are involved when it comes to debt resolution.

GST on bank services

The Department of Financial Services (DFS) has also decided to approach the revenue department to clear confusion over levy of goods and services tax on some of the free services like free cheque books, ATM withdrawal offered by banks to its customers. - Our Bureau

"This issue of imposition of GST on some of the free services offered by banks to its customers will be taken up with the revenue department and we hope to resolve the issue soon," Kumar said.

The department is of the opinion that issuance of cheque book, account statements, certain ATM withdrawal and other free services are not commercial activities which can be brought under the ambit of GST, he added.

Indian Banks' Association on behalf of the management of banks have already made representation to the tax authorities.

Business Line

5. Dena Bank uses 70% of capital infused for NPA provisioning

RADHIKA MERWIN

Centre's incremental holding in the bank after infusion has nearly halved in value

BL RESEARCH BUREAU

Radhika Merwin

The stock of Dena Bank, one of the 11 banks placed under the RBI's Prompt Corrective Action (PCA) last year, has come under pressure, as the central bank imposed restrictions on fresh lending and hiring of staff recently. But what is also of concern is the fact that nearly 70 per cent of the ₹3,000 crore that the Centre infused into the bank, as part of its mega recap plan, has gone into absorbing bad loan provisioning in the March quarter alone.

Dena Bank reported a net loss of ₹1,225 crore in the March quarter, after providing for bad loan provisioning of ₹2,150 crore.

With the bank's net NPA at about 12 per cent as of March 2018, it is close to breaching the third risk threshold under the RBI's PCA framework.

The erosion in book value due to the abysmal valuation at which the infusion takes place has always been a worrisome trend. The massive recap plan of the Centre has only made it worse.

In many banks such as UCO Bank, Oriental Bank of Commerce, Dena Bank, Bank of Maharashtra and United Bank of India, the capital infusion has been higher than the corresponding market capitalisation at the time of infusion, leading to steeper erosion in book value.

Dena Bank had only in March approved the issue of 112 crore shares to the Government of India at a price of ₹26.9. The bank had an outstanding share base of about 113 crore shares as of December 2017 before the issue of shares. As of March 2018, the share base has doubled to 226 crore shares, leading to significant erosion in book value.

The Centre's holding in the bank has gone up to 80.7 per cent as of March 2018, from 61.5 per cent in December 2017. The recent sharp fall in the stock price of Dena Bank has only accentuated the problem. The Centre's incremental holding has already lost over ₹1,000 crore (or nearly 40 per cent) in value.

Interestingly, Canara Bank, one of the stronger banks (non-PCA), also reported a steep loss in the March quarter. The sharp bad-loan provisioning of ₹8,700 crore for the March quarter alone (up from ₹1,900 crore in the December quarter) led to a loss of ₹4,860 crore for the bank. The Centre had infused ₹4,865 crore of capital into the bank and was issued 13 crore shares at a price of ₹357. After the steep fall in the stock price, the Centre's incremental holding has shrunk 30 per cent in value.

Adding to the risk

The PCA framework has three risk threshold levels; and breach of capital, asset quality and profitability levels would lead to banks being bucketed in one of the three threshold levels.

Depending on the levels, there will be restrictions on dividend distribution, branch expansion, and management compensation.

Banks that have a net NPA of 6 per cent or more but less than 9 per cent fall under threshold 1, and those over 9 per cent but less than 12 per cent fall under the second level. Banks with net NPA of 12 per cent or more fall under the third threshold level.

Until last year, only IOB fell under threshold 3, with net NPA of more than 12 per cent. Dena Bank's net NPA, which was 10.7 per cent as of March 2017, has been steadily rising. In the latest March quarter, the bank's net NPA stood at 11.95 per cent.

UCO Bank has ended the fiscal 2018 with a net NPA of 13 per cent.

Other banks such as IDBI Bank and United Bank that had net NPA of 12-16 per cent as of December 2017, are yet to declare their March quarter results.

6. IDBI unions to go on four-day dharna from tomorrow

VINSON KURIAN

Officers and employees of IDBI Bank will revive an agitation programme under the banner of United Forum of IDBI Officers and Employees to protest the 'unreasonable delay' in the settlement of long-pending issue of wage revision.

Following a 'black day' on May 10, office-bearers of the constituent unions of the United Forum have proposed to stage a four-day dharna from Wednesday to Saturday in front of the IDBI Tower premises at the Corporate Office, Mumbai.

Participation of general members in the dharna is voluntary. Officer members have already proceeded on a work to rule from May 10, union leaders said.

They have been directed to strictly follow office timings and withdraw from extra efforts being put in for life insurance, general insurance and mutual fund businesses.

Further course of action, including sustained strike action, would be decided upon by the United Forum during the course of the dharna programme.

Wage revision in IDBI Bank, a government-owned bank, is due from November 1, 2012. Employees and officers are not party to the industry level wage settlement between Indian Banks' Association and United Forum of Bank Unions.

Twitter campaign

Repeated attempts mounted by All India IDBI Officers Association (AIIDBIOA) and All India IDB Employees Association (AIIDBEA) since July 2012 have proved futile.

Hence, the decision to resume the agitational path, said Ratnakar Wankhade, General Secretary, AIIDBEA, and Vithal Koteswara Rao, General Secretary, AIIDBIOA, both joint convenors of the United Forum.

The union leaders received good response from members to the request to observe the 'black day.' The agitation programme is being tweeted under two has tags, #WageRevisionIDBI2012 and #Recover Corporate NPAs.

The wage revision continues to remain unresolved despite AIIDBIOA and AIIDBEA having given 'sufficient time' to the bank management to settle it amicably.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY