



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/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

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

3rd October, 2018

News of Interest 3RD OCT

MOTIVATIONAL QUOTES

“PRESS FORWARD. DO NOT STOP, DO NOT LINGER IN YOUR JOURNEY, BUT STRIVE FOR THE MARK SET BEFORE YOU.” —GEORGE WHITEFIELD

HIGHLIGHTS

1. PNB WILFUL DEFAULTERS' DUES FALL MARGINALLY TO RS 150.75 BN AT AUG-END
2. HOME LOAN TO GET COSTLIER: HDFC RAISES RETAIL PRIME LENDING RATE BY 10 BPS
3. ROAD TO RESOLUTION: GOVERNMENT SUPERSEDES IL&FS BOARD
4. SUCCESS OR FAILURE OF A THREE-WAY MERGER WOULD DETERMINE THE FUTURE OF BANKING INDUSTRY
5. BANKS PLAN NEW PRODUCTS TO ENSURE CUSTOMERS MAINTAIN MINIMUM DEPOSITS

Business Standard

1. PNB wilful defaulters' dues fall marginally to Rs 150.75 bn at Aug-end

The bank's gross NPAs or bad loans as on June end stood at Rs 828.89 billion

Press Trust of India | New Delhi

Outstanding dues of big wilful defaulters of Punjab National Bank reduced marginally to Rs 150.7507 billion at end-August from Rs 151.75 billion at the July end, according to the bank's data.

According to the list of wilful defaulters who took loans of Rs 2.5 million and more, Kudos Chemie Ltd and Kingfisher Airlines were the major borrowers

with outstanding amount of Rs 13.0182 billion and Rs 5.9744 billion, respectively.

Jas Infrastructure had outstanding dues of Rs 4.1096 billion; VMC Systems Rs 2.9608 billion; MBS Jewellers Rs 2.6617 billion; Tulsi Extrusion Rs 1.754 billion; ICSA Ltd Rs 1.3476 billion; Vibha Agro tech Rs 1.25 billion; Arvind Remedies Rs 1.5816 billion; Bhawani Industries Rs 1.0666 billion; Indu Projects Ltd Rs 1.0283 billion; BBF Industries Rs 1.0099 billion and Rupana Papers Rs 1.0049 billion.

These are all part of a consortium lending, the PNB list showed.

Among those who took loans from PNB as a sole lender included Winsome Diamonds & Jewellery Rs 8.997 billion; Zoom Developers Rs 4.1018 billion; S Kumar Nationwide Rs 1.4682 billion; Rana Lohh Udyog Rs 1.2934 billion; Reid & Taylor Rs 944 million; Mahuaa Media Rs 1.0486 billion; Walia Traders Rs 923.6 million; MVL Telecom Rs 680 million; Surya Vinayak Industries Rs 1.3396 billion and Vishal Exports Overseas Rs 983.9 million.

The bank releases a list of borrowers who despite having the capacity do not make repayment of loans on monthly basis.

The public sector lender had posted a net loss of Rs 9.4 billion in the first quarter ended June of the current fiscal.

PNB earlier in February unearthed a scam of more than Rs 140 billion carried out by celebrity jeweller Nirav Modi and his associates.

In 2017-18, the lender had registered a net loss of Rs 122.83 billion - the highest ever by any bank in India so far, due to rising bad loans and parking huge sum to cover for losses due to the scam.

The bank made a recovery from bad loans to the tune of Rs 77 billion in the first quarter ended June 2018-19 as a result of its turnaround strategy it adopted last year.

The bank's gross NPAs or bad loans as on June end stood at Rs 828.89 billion -- 18.26 per cent of the gross advances.

2. Home loan to get costlier: HDFC raises retail prime lending rate by 10 bps

With the revision, PNB's overnight marginal cost of funds based lending rate (MCLR) now stands at 8.2 per cent as against 7.9 per cent

Press Trust of India

Ahead of the Reserve Bank's monetary policy announcement, mortgage lender HDFC Monday increased its retail prime lending rate (RPLR) by 10 basis points with immediate effect.

The new rates vary from 8.80 to 9.05 per cent on various slabs of loans.

On Saturday, state-run Punjab National Bank had increased its benchmark lending rates or MCLR for short-term loans by up to 0.2 per cent, effective Monday.

With the revision, PNB's overnight marginal cost of funds based lending rate (MCLR) now stands at 8.2 per cent as against 7.9 per cent.

The MCLR for a one-month tenor were raised to 8.10 per cent from 8.05 per cent earlier.

In the fourth monetary policy review to be announced on October 5, RBI is expected to raise repo rate by 25 bps.

An increase in the repo rate will be driven mainly on concerns over inflation and a weak rupee.

Financial Express

3. Road to resolution: Government supersedes IL&FS board

With the risk of contagion from the collapse of IL&FS threatening to derail the money markets, the government on Monday moved to supersede the board of the infrastructure financier

By: [Rouhan Sharma](#) and [Surya Sarathi Ray](#)

With the risk of contagion from the collapse of IL&FS threatening to derail the money markets, the government on Monday moved to supersede the board of the infrastructure financier. A six-member board, headed by Uday Kotak, MD & CEO, Kotak [Mahindra Bank](#), will attempt to resolve what is turning out to be a financial crisis of gigantic proportions.

IL&FS owes lenders a whopping Rs 91,000 crore and has defaulted on several of its commitments; rating agencies failed to spot the firm's fragile finances, down-grading the company to junk status in a matter of weeks. The stakeholders of IL&FS include Life Insurance Corporation, HDFC, State Bank of India and Orix Corporation.

The sale of assets could fetch an estimated Rs 60,000 crore but that might be an optimistic number. Meanwhile, the Special Fraud Investigation Office (SFIO) is believed to have initiated a probe into "alleged irregularities" at IL&FS.

Indeed, the government's petition invoking sections 241-242 of the Companies Act presented in the National Company Law Tribunal (NCLT), Mumbai, alleged the non-banking financial corporation (NBFC) was being run in a "manner prejudicial to the interest of the company and of the public" and "where the directors failed to discharge their duties".

While the move should calm the over-leveraged financial markets, it is unlikely corporate watchers, said a painless solution can be found. "There will be some haircuts and taxpayers' money could be used because too much has been lost," a senior financial sector executive observed. The newly-formed board meeting is to be held on October 8 and the government is hoping to be able to provide the firm with liquidity to ensure projects are not stranded.

The government's counsel on Monday referred to IL&FS as a 'parasite'. Highlighting the financial mismanagement at the firm, the counsel said it

was over-leveraged. IL&FS has 169 group companies, including subsidiaries, joint-ventures and associate companies. He also drew attention to the hugely inflated salaries drawn by the management at a time when the firm was in poor financial health, referring to the salaries of Hari Sankaran, VC and Arun Saha, joint MD and CEO. The annual report shows both Sankaran and Saha drew annual salaries in excess of Rs 7 crore. IL&FS has till October 31 to respond to any observations.

The new board comprises of former IAS and Tech Mahindra executive vice-chairman Vineet Nayyar, former Sebi chairman GN Bajpai, ICICI Bank non-executive chairperson GC Chaturvedi, IAS Malini Shankar and IA&AS (retired) Nand Kishore.

Arijit Basu, managing director, State Bank of India (SBI), told a leading business channel the market sentiment on the NBFC sector was turning negative and it was a concern since the sector is connected with the mutual fund sector. "There are clearly some liquidity mismatches and some resolution plan would be worked out," Basu said.

Economic affairs secretary Subhash Chandra Garg tweeted: "Government in public interest had moved NCLT to supersede the management of IL&FS on grounds of mismanagement. NCLT has allowed appointment of a new board comprising of people of the proven record of turn around and managing financial and infrastructure institutions. Not a takeover."

While LIC is the biggest shareholder in IL&FS with a 25% plus stake, Japan's ORIX has a 23.54% stake, the Abu Dhabi Investment Authority owns 12.56% and SBI has a 6.42% stake. The NCLT will hear the matter again on October 31, and in the meantime, the ministry of corporate affairs will appoint more members.

In its petition, the government said the restoration of confidence of the money, debt and capital markets, the banks and financial institutions in the credibility and financial solvency of the IL&FS Group is of utmost importance for the financial stability of capital and financial markets. There is an emergent need to immediately stop further financial defaults and also take measures to resolve defaulted dues to the claimants.

Economic Times

4. Success or failure of a three-way merger would determine the future of banking industry

By Atmadip Ray

Bank mergers are back on the agenda across the globe. With the economic recovery in Europe and the US from the clutches of global financial crisis and clean-up of bank balance sheets, Western banks are now looking to reap the benefits of stronger economy by growing in size and adding new products by way of mergers.

In the US, the number of bank mergers rose to 302 in 2017 from 296 the year before and this year, there could be more consolidation with the Trump administration incentivising it.

India has also set the ball rolling but the fundamental difference between the situation at home and that in the West is that New Delhi often faces the

compulsion of sweeping the management inadequacies and inefficient allocation of capital at weak banks under the carpet.

On paper, mergers create economies of scale and improve efficiency by cutting the flab in overlapping territories. The Indian government has just begun the long awaited process by pronouncing a three-way merger between Bank of Baroda, Vijaya Bank and Dena Bank as a test case.

The aim is to bring about operating efficiencies over time by lowering combined operating and funding costs while strengthening risk management practices. But here lies a risk because, as they say, a rotten apple can spoil the basket.

The challenges for the first set of merger would be to handle Dena Bank's books saddled with 22% gross NPA, which would have a 20% weightage on the combined balance sheet.

ANXIOUS STAKEHOLDERS

Shares of Bank of Baroda, the biggest of the three, tanked 16%, the highest in past 14 years, the day after the announcement.

"The three concerns expressed by investors are about the quality of Dena Bank's book, distraction from the growth journey for Bank of Baroda and Vijaya Bank, and whether the merged entity will be able to raise capital," Bank of Baroda chief executive PS Jayakumar said in an interview.

Jayakumar, essentially a private sector banker, has now been at the helm of Bank of Baroda for three years. "The issue is whether Bank of Baroda will get distracted to the point that growth and transformational journey that we have undertaken will come to a standstill. There is also a concern whether the merged entity will find it difficult to raise capital," Jayakumar said.

Unless the government infuses capital in the combined entity, it will face constraints terms of growth. Bank of Baroda would have to subsidise weak fund allocation of Dena Bank, which faced an erosion of capital. The merger exercise aims to bail out Dena Bank, the weakest amongst the three, with negative return on its assets.

"While mergers are a long awaited imperative, I think the plan lacks solidity unless there is a serious quantification of capital impairment. Also, one needs to know what is the clear Tier 1 capital, haircuts and what is the government's commitment toward further capital infusion.

These vital pieces of information are still awaited," said Dhananjay Sinha, banking analyst at Emkay Global Financial Services. The swap ratio is not known either and this keeps investors guessing.

These are possibly left to be answered by the merging banks themselves, but one is not so sure whether the public sector bank managements have the bandwidth to handle these.

They did nothing in terms of taking the consolidation exercise forward, perhaps prompting the government to take its most decisive step on banking reforms on the lines of the recommendations by the Narasimhan panel three decades back.

The government as the promoter of all three is within its right to force such a move, but will it yield result? Or is it going to derail the bigger and more

stable banks' journey? In this case, Bank of Baroda's turnaround plan is at stake.

"In the short term, the slippages could increase as recognition of non-performing assets is harmonised and accelerated.

The proposed amalgamation may require significant bandwidth of management along with deft handling, so that operational aspects such as business growth and resolution of large stock of delinquent assets continue receiving adequate attention," said Jindal Haria, associate director at India Ratings & Research.

FUTURE ROAD MAP

If the three-way merger gets success, it will set the tone for future and pave the revival path for other weak PSBs, mainly those under the prompt corrective action framework. It will lessen the government's capital burden over long term, and enable better management of a smaller group of large government-owned banks. If the number of PSBs comes down, capital allocation, performance milestones, and monitoring would become easier for the government.

"Such consolidation will engender economies of scale, and can structurally improve operating efficiencies and governance. It will also help the merged entity to participate in credit growth opportunities and defend turf.

In the past five years, PSBs have ceded about 10% market share of banking assets to private banks, and could lose another 10% over the next three years if capital constraints continue," said Krishnan Sitaraman, senior director at Crisil Ratings.

Precedence of previous mergers, especially those forced under compulsion to save depositors like in the case of Oriental Bank of Commerce and Global Trust Bank, has never been encouraging. Integration process of any merger takes almost years to complete as challenges of addressing the diverse pressure groups and human resource rationalisation take centre stage.

THE FINANCIAL MATRIX

Here is how the combined entity of Bank of Baroda, Vijaya Bank and Dena Bank would look like. It would have 9,489 domestic branches, Rs 6.4 lakh crore of loan book, CASA ratio of about 34% on Rs 8.4 lakh crore of deposits, ratio of gross bad loans over 12% and CRAR of 12.25%.

Based on the three banks' financials for Q1 of the fiscal year ending March 2019, key credit metrics of the merged entity, with the exception of profitability, will be broadly similar to that of BoB, said Moody's Investors Service. The gross and net non-performing assets ratio of the merged entity would be 12.4% and 5.7%, respectively, while that of BoB is 12.5% and 5.4%.

Similarly, the CET1 ratio of the proforma entity will register 9.3%, while that of BoB is also at 9.3%. Moody's, however, said that profitability of the proposed entity will compare poorly with BoB, going by the financials of the three banks in the first quarter.

The Q1 numbers were impacted by a particularly high level of provisioning at Dena Bank, with the credit costs at an annualised rate of 7.1%. At the same time, because the loan loss coverage at Dena and also at Vijaya were

lower than that for BoB, the profitability of the merged entity would be lower than what Moody's expects for BoB over the next 12-18 months.

CORPORATE GOVERNANCE

The need for incremental capital from the government may come down if the merger improves efficiencies and leads to stronger internal accruals. This will then act as a road map for further consolidations in the public sector banking space. But the government needs to address the issue of governance in Indian banking and that is more structural.

Indian banking system inherently suffered from inefficiency of dual control by Reserve Bank of India and the government.

The RBI regulates both governance and prudential norms of private banks. For public banking group, which covers two-third of banking business, the government exercises the powers relating to governance while leaving prudential regulation to RBI.

"The government is fully responsible for perpetuating the problem of dual control for over 25 years. There must be reasons for this state of affairs. They are called political economy considerations," former RBI governor YV Reddy said last month.

"Unless there are regulatory changes to enhance governance of the PSBs, these stories (of mergers) can at best create short-term excitement," says Sinha of Emkay.

Business Line

5. Banks plan new products to ensure customers maintain minimum deposits

SHISHIR SINHA

Lenders aiming to dispel negative perception about banking industry.

Public sector banks will look for alternative products to attract customers to keep minimum deposits in bank accounts.

At present, all savings bank accounts, except those under PM Jan Dhan Yojana, Basic Savings Bank Deposit (BSBD), salary accounts, kids' accounts and accounts of pensioners, attract charges if the minimum balance is not maintained.

In fact, at the recent meeting between Finance Minister Arun Jaitley and heads of public sector banks (PSBs), this issue received a lot of attention. Though it is yet to decide on the new products, some bankers feel that fixed deposits for various periods could be one alternative.

In fiscal 2017-18, ₹3,551 crore was collected by public sector banks as charges from saving bank account holders for non-maintenance of minimum balance. "A detailed analysis of five banks, having the major share of such charges in 2017-18, reveals that the amount collected through charges for non-maintenance of minimum balance is approximately 1 per cent or less of the interest income of the respective PSBs," said a government official who attended the meeting.

Negative perception

This means that minimum balance charges are neither a significant portion of the banks' interest income nor their interest expenditure; however, they do generate negative perception about the banking industry, especially from the perspective of a common man.

"There seems to be a case for banks to explore alternative banking products to attract customers to keep minimum deposit in banks," the official said.

On August 4, *BusinessLine* highlighted the fact that during the last four years (2014-15 to 2017-18), 21 PSBs and three big private sector banks (ICICI Bank, HDFC Bank and Axis Bank) collected over ₹11,500 crore from their customers for not maintaining minimum balance. This was based on the information provided by the Finance Ministry.

State Bank of India alone collected over ₹2,400 crore in 2017-18, while among the three private banks, HDFC Bank had the highest share (₹590 crore).

The Reserve Bank of India's Master Circular on 'Customer Services in Banks', dated July 1, 2015, provides that banks are permitted to fix services charges on various services rendered by them.

These charges should be in accordance with the policy approved by the bank boards, and not out of line with the average cost of providing these services.

Accordingly, various banks levy charges on not maintaining minimum account balance. These charges are collected primarily to recover a part of the cost incurred on servicing the accounts. For example, SBI charges between ₹5 and ₹15 (plus GST) for various levels of shortfall. Its customers are required to maintain an average monthly balance of ₹3,000 for savings bank accounts in metro and urban areas, ₹2,000 in semi-urban areas, and ₹1,000 in rural areas.

Similarly, HDFC Bank customers are required to maintain an average monthly balance of ₹10,000 in metro and urban areas, and ₹5,000 in semi-urban areas, while those in rural areas are required to maintain average quarterly balance of ₹2,500.

Penal charges are between ₹150 and ₹600 (plus GST) in metro/urban and semi-urban areas, while it is between ₹270 and ₹450 (plus GST) in rural areas.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY