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Dear Comrades,

25th October , 2018

## News of Interest 25<sup>th</sup> OCT

### MOTIVATIONAL QUOTES

'KNOWING IS NOT ENOUGH; WE MUST APPLY. WILLING IS NOT ENOUGH; WE MUST DO. JOHANN 'WOLFGANG VON GOETHE

### HIGHLIGHTS

1. RBI MAY AMEND PROMPT CORRECTIVE ACTION FRAMEWORK TO HELP BANKING SYSTEM
2. KOTAK MAHINDRA BANK'S NET PROFIT UP 21.3% YOY TO RS 17.47 BN IN Q2
3. FINANCE MINISTRY SET TO PUT PSB RECAPITALISATION PLAN ON FAST TRACK
4. RRB EMPLOYEES MAY HAVE TO WAIT ANOTHER SIX MONTHS TO GET THEIR DUES, ALBEIT PARTLY
5. KARUR VYSYA BANK Q2 NET UP 11%
6. LAKSHMI VILAS BANK NET LOSS WIDENS TO RS 132 CR

### Business Standard

#### 1. RBI may amend prompt corrective action framework to help banking system

As many as 11 out of 21 banks are under the RBI's watchlist. Of these, two banks, Dena Bank and Allahabad Bank, are facing restrictions on expansion of business

Press Trust of India

The Reserve Bank may make some changes in the Prompt Corrective Action (PCA) framework that put restrictions on financially weak banks, sources said.

The changes could be made in the next few weeks after taking into account various aspects and in the larger interest of the banking system, sources said, adding, the recent RBI board meeting had a discussion over the issue.

As many as 11 out of 21 banks are under the RBI's watchlist. Of these, two banks, Dena Bank and Allahabad Bank, are facing restrictions on expansion of business.

Last month, state-run banks had requested the government for relaxation in PCA guidelines as these were indirectly impacting their lending ability.

However, RBI Deputy Governor Viral V Acharya earlier this month said imposition of the PCA was essential for the revival of financially weak banks and deepening reforms in the banking space.

The PCA framework is an essential element for safeguarding overall financial stability, he had said.

With the resolution of large NPA cases getting closure to conclusion, the Finance Ministry expects that realisation from the proceeds may help some of the banks to come out of Prompt Corrective Action (PCA) framework this fiscal.

The successful resolution of some of large corporate default cases will be beneficial for banks and could help them come out of PCA in the next few quarters, sources said.

Two big NPA accounts Essar Steel and Bhushan Power and Steel Ltd are at the final stages of resolution.

Lenders are expecting to recover almost 86 per cent of the Rs 490 billion loan in case of Essar Steel. Arcelor Mittal has agreed to pay a total of Rs 500 billion, including a Rs 80 billion capital infusion, to acquire the firm.

In the initial round of bidding, Bhushan Power and Steel had got bids of Rs 110 billion from JSW Steel, Rs 170 billion from Tata Steel and Rs 185 billion from Liberty House. JSW Steel had subsequently revised its bid to Rs 197 billion, which has now won the approval of lenders.

Various measures taken by the government including implementation of Insolvency and Bankruptcy Code (IBC) will help banks to get good money from the resolution of large NPA cases, sources said.

Banks have made recovery of Rs 365.51 billion during the first quarter registering a 49 per cent growth over the last fiscal. At the same time, operating profit has risen by 11.5 per cent while losses fell 73.5 per cent on quarter on quarter basis.

The 11 banks under PCA are Dena Bank, 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 and Bank of Maharashtra.

## **2. Kotak Mahindra Bank's net profit up 21.3% yoy to Rs 17.47 bn in Q2**

Gross NPAs, fell to 1.91 per cent for the September quarter, against 2.14 per cent in the year-ago quarter

### Nikhat Hetavkar

Private lender Kotak Mahindra Bank reported a 21.3 per cent increase in its September 2018 quarter (Q2) consolidated net profit on account of higher interest and fee income. The asset quality of the bank's loan book also improved during the quarter.

Profit after tax at the consolidated level rose to Rs 17.47 billion in Q2 FY19, from Rs 14.41 billion in the year-ago period.

Total consolidated income rose 18.5 per cent year-on-year (YoY) to Rs 108.29 billion, said the bank in a filing to stock exchanges.

At the standalone level, which represents the banking operations, the net profit increased by 15 per cent to Rs 11.42 billion, against Rs 9.94 billion in the year-ago quarter?

Consolidated net interest margin or NIMs for September 2018 quarter were lower at 4.1 per cent compared to 4.2 per cent in the June 2018 quarter and 4.3 per cent in the year-ago quarter. "There will be improvement in margins going forward as it takes time to pass on rates under the MCLR (marginal cost based lending rate) regime," said Dipak Gupta, joint managing director, Kotak Mahindra Bank.

### ADVERTISING

Gross non-performing assets (NPAs), as a percentage of total advances on a consolidated basis, fell to 1.91 per cent for the September quarter, against 2.14 per cent in the year-ago quarter and 1.93 per cent in the previous June quarter.

Net NPAs as a percentage of net advances stood at 0.73 per cent for the September quarter, against 1.08 per cent in the year-ago quarter and 0.77 per cent in the June quarter. The decline in NPA ratios indicates an improvement in the asset quality.

The bank said that it was cautious on business banking as it was showing early signs of delinquency.

The bank's exposure to non-banking finance companies (NBFC) stood at Rs 130 billion, of which 90 per cent is AA+ rated. The total exposure also includes Rs 12 billion of exposure to its own subsidiaries. "We are comfortable with the size of the NBFC exposure," Jaimin Bhatt, president and group CFO, Kotak Mahindra Bank.

According to Basel III, the consolidated capital adequacy ratio (CAR) stood at 18.7 per cent as compared to 19.2 per cent in the year-ago period. For standalone operations, the CAR came in at 17.04 per cent in Q2 from 18.36 per cent a year ago.

For the standalone bank, net interest income increased by 16.3 per cent YoY to Rs 26.89 billion, while other income, which includes fee income, was up 26.3 per cent YoY to Rs 12.05 billion in the September quarter.

As a result, the ratio of current and savings accounts (CASA), which are low cost sources of funds, to total deposits grew from 47.8 per cent a year ago to 50.2 per cent as at the end of September 2018 quarter.

Gupta said the bank is still in talks with the Reserve Bank of India regarding the dilution of promoter stake, which is an ongoing process. He added that the bank was open to merger as a route to dilute promoter stake.

Kotak Mahindra Bank also said it had suspended the 811 account, which only required Aadhaar to open the account, for the time being due to the Supreme Court judgment.

## **Financial Express**

### **3. Finance ministry set to put PSB recapitalisation plan on fast track**

The finance ministry is set to expedite the issue of recapitalisation bonds worth around Rs 45,000 crore to public sector banks (PSBs) to shore up their capital base and enable them to support growth at a time when the lending ability of non-banking financial companies (NBFCs) has been severely impaired by a liquidity crunch

By: Banikinkar Pattanayak

The finance ministry is set to expedite the issue of recapitalisation bonds worth around Rs 45,000 crore to public sector banks (PSBs) to shore up their capital base and enable them to support growth at a time when the lending ability of non-banking financial companies (NBFCs) has been severely impaired by a liquidity crunch. The next round of bond allocation could be finalised by early December, an official source told FE. The regulator and the government would assess capital requirements of various PSBs once they declare their September quarter results.

Already, recap bonds worth close to Rs 20,000 crore have been issued to a clutch of PSBs, including fraud-hit Punjab National Bank (PNB), this fiscal. Almost all the 21 PSBs, especially the 11 banks that are under the central bank's prompt corrective action (PCA) framework, have sought capital from the government to boost lending and meet regulatory requirements.

PNB — which was hit by a Rs 14,357-crore fraud caused by jewellers Nirav Modi and Mehul Choksi — has already been provided the highest amount (Rs 8,247 crore) in two tranches so far this fiscal, followed by Corporation Bank (Rs 2,555 crore), Indian Overseas Bank (Rs 2,157 crore), Andhra Bank (Rs 2,019 crore) and Allahabad Bank (Rs 1,790 crore), said the source. Three of these banks — Corporation Bank, IoB and Allahabad Bank — are already under the PCA, which is aimed at nursing stressed banks back to health. The PCA banks are expected to get the capital to meet their regulatory requirements but non-PCA ones will be given primarily growth capital.

Losses on bond portfolio, strict provisioning norms (including the one that stipulates up to 50% provisioning for stressed assets under insolvency proceedings) and a string of scandals, such as the one at PNB, have starved PSBs of capital.

The government had committed to infuse `65,000 crore in the current fiscal via recap bonds, on top of the `80,000-crore securities issued last fiscal.

Of the recap bonds last fiscal, the 11 PCA-banks received as much as Rs 52,311 crore. As part of the already-approved Rs 2.11-lakh crore recapitalisation move, the government will issue recap bonds worth a total of Rs 1,45,000 crore over two years through 2018-19 and around Rs 58,000 crore will be mobilised through the dilution of government equity in various PSBs. Apart from the bonds, the government had provided budgetary support of Rs 10,000 crore to PSBs in 2017-18 under the Indradhanush plan.

As of March 2018, the gross non-performing asset (NPA) of all PSBs stood at a massive 15.6%, the Reserve Bank of India had said in its financial stability report in June. This was expected to worsen to 16.3% in the baseline scenario by March 2019 and could touch even 17.3% under the worst stress scenario, it had said. This means the PSBs have to be adequately capitalised.

Earlier this fiscal, some of the PSBs had sought capital urgently, as they were facing pressure due to interest payment to holders of their Additional Tier 1 (AT-1) bonds. Banks raise capital through AT-1 bonds, which are perpetual in nature and therefore provide higher interest rates to investors. Saddled with stressed assets, these banks had been finding it difficult to service these bonds from their own earnings.

PSBs are already planning to tap the markets to raise more than Rs 50,000 crore this fiscal. Of 21 public sector banks, over a dozen banks have already taken the approval of their boards or shareholders to raise capital through the equity market. As such, global rating agency Moody's said in August that the government's plan to infuse extra capital into PSBs in 2018-19 would be just about enough to meet only capital adequacy requirement and improve provisions for bad assets in loss-making banks, and that stress will still persist. The capital infusion will enable them to achieve Common Equity Tier 1 (CET1) ratios of at least 8% by March 2019, as required under the Basel III norms in India.

## **Economic Times**

### **4. RRB employees may have to wait another six months to get their dues, albeit partly**

*By Atmadip Ray*

The government has finally put its stamp on the long-awaited pension scheme for regional rural bank employees but they may have to wait at least another six months to get their dues.

The final shape of the scheme has failed to satisfy the retired employees as their demand for arrear payment has not been considered. The government approved revised pension only from April this year while RRB employees were demanding higher pension at par with their counterparts nationalized banks for the past two decades.

The employees were demanding pension parity with effect from November 1993.

Till date, they used to get a measly sum as pension (something between Rs 1000 and Rs 2500 a month) from Regional Provident Fund Commissioner.

Pensioners will first have to return the banks' contribution to Provident Fund to become eligible for the new scheme.

"We will urge the government to make ex gratia payment to pensioners before all the formalities are done which may take another six months," said Abdul Sayeed Khan, general secretary, National Federation of Regional Rural Bank Officers. About 30000 RRB employees, who were in service as on September 1, 1987 and joined before April 1 2018 can be considered for pension parity.

Newcomers who joined after March 31 this year will come under National Pension Scheme, which is the rule for nationalised bank employees since April 2010

The National Bank for Agriculture & Rural Development prepared A Model Regional Rural Bank (Employees') Pension Regulation 2018, a Model RRB (Officers and Employees) Service Amendment Regulations, 2018 and a Regional Rural Bank (Employees) Pension Scheme, 2018; in consultation with finance ministry. The schemes have been vetted by the Ministry of Law & Justice and approved by the government, according to a ministry communication to Nabard dated October 23.

ET has reviewed a copy of the letter.

The respective RRBs will have to place the model schemes before their board as the section 30(1) of RRBs Act 1976 empowers their boards to make regulations by notification in Official Gazette.

"This will be a lengthy process," Khan said.

RRB associations won the protracted legal battle for pension parity on April 25 this year by way of a Supreme Court verdict. The Court had directed the government to implement the pension scheme within three months from the date of verdict.

## **Business Line**

### **5. Karur Vysya Bank Q2 net up 11%**

#### PTI

Karur Vysya Bank has reported a 10.7 per cent increase in its standalone net profit at Rs 83.74 crore for the quarter ended September 30, 2018. It had posted a net profit of Rs 75.65 crore in the corresponding July-September period of the previous fiscal.

According to a BSE filing, total income however remained flat at Rs 1,632.50 crore in July-September 2018-19. There was deterioration on the assets front as gross non-performing assets (NPAs) as on September 30, 2018 rose to 7.70 per cent of gross advances from 4.83 per cent at the end of September 2017.

Net NPAs or bad loans too increased to 4.41 per cent of net advances from 3.24 per cent a year ago. In absolute terms, gross NPAs stood at Rs 3,707.41 crore at end-September 2018 from Rs 2,136.19 crore a year ago. Net NPAs were at Rs 2,051.51 crore against Rs 1,407.30 crore.

Provisions for bad loans and contingencies fell to Rs 213.14 crore during the quarter under review from Rs 321.36 crore in the corresponding period a year ago.

At the bank's annual general meeting held on August 9, the shareholders have approved issue of over 7.26 crore bonus shares to equity shareholders in the proportion of 1:1. Provision coverage ratio stood at 58.50 per cent as on September 30, 2018.

## **6. Lakshmi Vilas Bank net loss widens to Rs 132 cr**

PTI

Lakshmi Vilas Bank has recorded a net loss of Rs 132.30 crore for the second quarter ended September 30, 2018 due to "higher provisioning". The Tamil Nadu-based bank had recorded a net loss of Rs 10.50 crore during the corresponding quarter of the previous year.

Briefing reporters on the financial performance of the bank here on Wednesday, its Managing Director and CEO, Parthasarathy Mukherjee, said the bank had reported net loss on account of "higher provisioning".

"We are now in the midst of capital raising. Once we raise the capital, we will be back to normal (business). 2019-20 will be good year for us," Mukherjee said.

He said tht the bank was looking at raising Rs 2,000 crore capital in 'multiple tranches' and expects to complete the process by the end of current financial year.

For the half year ended September 30, 2018, the net loss stood at Rs 256.17 crore against Rs 76.61 crore in the year-ago period. Total income of the bank for the July-September quarter dipped to Rs 800.50 crore from Rs 902.75 crore.

With kind regards,

Yours Comradely,



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

