AIBEA's Banking News

8 to 15 FEBRUARY 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

PNB detects $1.77 bn worth of fraudulent transactions

PNB shares were trading 4.1 per cent lower by 0420 GMT, having fallen as much as 5.7 per cent in early trading.

Fraud reported to law enforcement agencies; to decide on potential liability

MUMBAI, FEB 14 BUSINESSLINE

Punjab National Bank said on Wednesday it had detected some "fraudulent and unauthorised" transactions worth about $1.77 billion at one of its branches in Mumbai.

The bank said in a regulatory filing the transactions were "for the benefit of a few select account holders with their apparent connivance" and that "based on these transactions, other banks appear to have advanced money to these customers abroad."

PNB, the country's second-biggest state-run lender and fourth-biggest overall by assets, did not name the people involved but said it had reported the deals to law enforcement agencies and would evaluate later whether it faces any liability arising out of the transactions.

"In the bank, these transactions are contingent in nature and liability arising out of these on the bank shall be decided based on the law and genuineness of underlying transactions," PNB said, without giving further details.

PNB shares were trading 4.1 per cent lower by 0420 GMT, having fallen as much as 5.7 per cent in early trading. The main Mumbai market index was little changed.

PNB is already dealing with other allegations of fraudulent transactions. Last week, Indian federal agents said they had launched an investigation into billionaire jeweller Nirav Modi, one of the country's richest men, over accusations that he and others defrauded PNB of $44 million.

It was not immediately known if the latest disclosure on fraudulent transactions was related to or separate from the previous incident. Four top PNB executives contacted by Reuters did not immediately respond requests seeking comment beyond the stock exchange filing.

PNB-NiravModi fraud: A replay of the Ketan Parekh scam of 2001?

PALAK SHAHT **MUMBAI, FEBRUARY 14 BUSINESSLINE**

The Punjab National Bank (PNB) scam has an uncanny similarity to the Ketan Parekh (KP) bank scam in 2001.

Nearly 18 years after KP, as Parekh is known in the stock markets, first used the modus operandi of discounting a pay-order deemed to be issued by one bank at another to raise money for trading in shares, it has come to light that a jewellery designer Nirav Modi used letter of undertaking (LoU) to the same effect.

To top it, Modi's associate, Mehul Choksey, whose name has also cropped up in the scam, is known to trade in the stock market and has had a brush with the National Stock Exchange for margin payment-related issues linked to his company, Gitanjali Gems.

Circa 2001

When stock markets were booming ahead of the dotcom crash, the Madhavpura Mercantile Cooperative Bank (MMCB) of Gujarat issued pay orders in favour of KP entities from time to time even when there were no sufficient credit or securities to cover these loans/overdrafts.

The KP entities then would then discount these pay orders with Bank of India (BOI). The stock exchange branch of BOI in Mumbai would present these pay orders for realisation to the clearing house in the normal course of their business.

According to a 2002 Joint Parliamentary Report, on February 8, 2000 and March 9, 2001, MMCB issued pay orders totalling ☐137 crore favouring KP entities, which were immediately discounted with BOI and the proceeds received were utilised by KP.

But when BOI presented these pay orders to the clearing house for realisation, MMCB showed its inability to pay, since sufficient funds were not available with the bank. This led to the breaking out of the KP scam.

"The PNB fraud comes dangerously close to the KP scam as the modus operandi involves discounting of a bank-issued letter and more similarities could emerge as investigations progress," said a promoter of one of the oldest brokerage houses in Mumbai.

Fraudulent issue

Akin to KP, Modi's too has been the fraudulent issue of LoUs by PNB to the ace jewellery designer and his associates that were encashed with overseas branches of Indian private and public sector banks. The amount this time is a staggering ☐11,000 crore ($1.77 billion).

Similar to a pay order, an LoU is a contract to perform the promise, or discharge the liability, of a third person in case of his default. Based on these LoUs, foreign branches offered buyers credit.

Like MMCB, PNB refused to honour the LOUs and one of the banks that discounted it reported the matter to the Hong Kong monetary authority, which is the local regulator, and also the Reserve Bank of India.

$3.6 billion in hidden bad loans spotlight Indian banking stress

Feb 12, 2018

THE ECONOMIC TIMES

India's regulator unearthed about $3.6 billion of bad loans in the books of the country's biggest bank, amplifying questions about distress in the financial sector given underreporting by some rivals as well.

State Bank of India on Friday said an audit by the central bank showed soured debt was about 232 billion rupees ($3.6 billion) higher than what the state-run lender reported for the end of March 2017. The biggest private lender HDFC Bank Ltd. had a 20.5 billion rupee divergence, while ICICI Bank Ltd. said -- without elaborating -- that it isn't required to make disclosures on the topic even as provisions for bad loans climbed. It had reported a divergence in the previous year.

Indian banks must disclose such discrepancies if the gap between reported numbers and the RBI's audit findings is more than 15 percent. State Bank of India's admission is particularly striking because the lender is often seen as a proxy for the nation's economy, where the ratio of bad loans has surged to be among the highest in the world. The problem has grabbed so many headlines that Prime Minister Narendra Modi cited it to attack the policies of his predecessor in parliament last week.

"If India's premier state-run bank is reporting such divergence it shows how deep the rot runs in the nation's banking system," said Hemindra Hazari, a Mumbai-based independent banking analyst who has covered the sector for two decades and publishes at Smartkarma.com. "Cleaning up this mess is going to take much more effort and time than what people expect."

State Bank of India's shares fell 1.7 percent to 296.4 rupees in Mumbai on Friday, extending this year's drop to 4.4 percent.

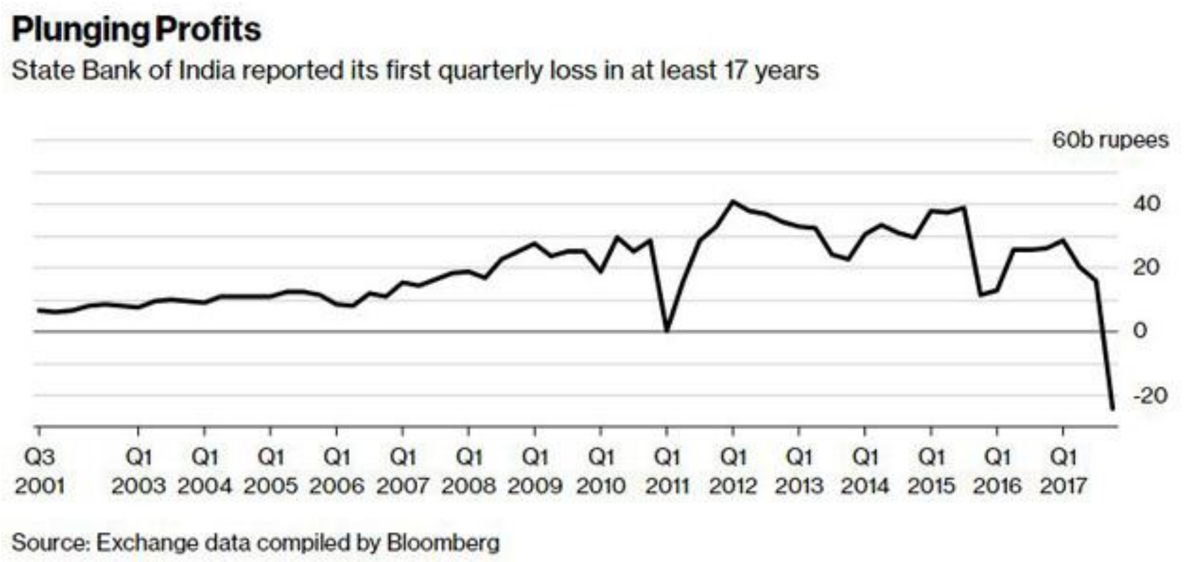
Most of the accounts identified by the RBI in its risk assessment were already on the stressed asset list "in one way or another," State Bank of

India Chairman Rajnish Kumar said in a conference call with reporters. The bulk of the divergence -- about 100 billion rupees -- came from the power sector, he said.

Divergences occurred earlier as well, though what's changed is the mandatory disclosure of the gaps, central bank Deputy Governor N S Vishwanathan said last month.

Unnerving Divergence

The regulator has also sought to reclassify loans given by a consortium as non-performing for all the lenders involved if it was considered non-performing on the books of one of them, as part of tighter asset classification norms that came into effect from 2016.



"The divergence in asset quality from numbers reported earlier is unnerving," said Asutosh Kumar Mishra, a Mumbai-based banking analyst at Reliance Securities Ltd. "While the loan growth is showing early signs of revival, provisions for bad loans will continue to weigh on profit growth in coming quarters."

State Bank of India on Friday reported a 24.2 billion rupee loss for the quarter ended Dec. 31, its first in at least 17 years. Analysts in a Bloomberg survey had predicted a 20.6 billion rupee profit.

The loss was due to hardening bond yields, treasury declines and provisions for payments to employees, Chairman Kumar said during the conference call.

"I don't want to be very optimistic about the March quarter, nor am I pessimistic," Kumar said. "We can hope for a much better performance in terms of most performance parameters" in the financial year starting April 1, he added.

RBI's new debt resolution framework could increase bank NPAs

MUMBAI, FEBRUARY 13 BUSINESSLINE

The RBI's new debt resolution framework could result in an increase in non-performing assets of banks, and consequently, in a heavier provisioning burden.

The reason: lenders will have to initiate insolvency proceedings if resolution plans for large stressed accounts, where aggregate exposure is Rs 2,000 crore and above, do not work out.

Under the RBI's revised framework for resolution of stressed assets, which was issued late on Monday evening, the banking regulator said banks will have 180 days to implement a resolution plan (RP) if a large account is in default as on the reference date (March 1, 2018).

If an RP is not implemented during the 180-day period, lenders will need to file an insolvency application under the Insolvency and Bankruptcy Code (IBC), within 15 days of the expiry of the timeline.

Referring to the failure of RPs of most borrowers from RBI's second-list of 28 large stressed borrowers, resulting in them being referred under IBC, credit rating agency ICRA said this is expected to lead to a spike the credit provisioning requirements for banks during FY19.

In the case of other accounts where the aggregate exposure of lenders is between Rs 100 crore and below Rs 2,000 crore, the RBI said it will announce, over a two-year period, reference dates for implementing the RP to ensure time-bound resolution of all such accounts in default.

"In our view, the revised framework on resolution of stressed assets is likely to increase the reported NPA levels of the banks in the coming quarter. This is likely to be an outcome of implementation of resolution plan for large borrowers that are currently under special mention account (SMA) categories," an ICRA statement said.

'SBI wrote off bad loans worth more than Rs. 20,000 crore last fiscal'

PTI/THE HINDU
NEW DELHI, FEBRUARY 11, 2018

It was the highest among all the public sector banks, according to govt. data

The country's largest lender SBI wrote off bad loans worth Rs.20,339 crore in 2016-17, the highest among all the public sector banks which had a collective write-off of Rs.81,683 crore for the fiscal.

The data pertains to the period when the associate banks of State Bank of India (SBI) were not merged with it. Public sector banks' (PSBs) write-off stood at Rs.27,231 crore in 2012-13, government data showed.

The figure has jumped almost three-fold in five years.

In 2013-14, the state-owned banks wrote off bad loans worth Rs.34,409 crore; Rs.49,018 crore in 2014-15; Rs.57,585 crore in 2015-16, hitting Rs.81,683 in the fiscal ended March 2017. In the current financial year, PSBs have written off loans worth Rs.53,625 crore in the six months to September.

As per data from the Reserve Bank, nine public sector banks, out of the total 21, had gross non-performing asset ratio of above 15% (the percentage of bad loans in terms of total loans outstanding) as of September 30, 2017. Fourteen PSBs have gross non-performing asset ratio of over 12%.

Mounting NPAs

PSBs face mounting non-performing assets (NPAs) or bad loans, putting the financial sector under stress. The government has unveiled a Rs.2.11 lakh crore capital infusion plan for the PSBs, including via bonds, in the next two years.

At State Bank of India, Bad Loans and Poor Governance Point to a Big Fiasco

BY HEMINDRA HAZARI ON 13/02/2018

SBI's massive restructuring of standard loans are finally coming home to roost with a vengeance.

On February 9, 2018, a sad day dawned in the history of Indian banking. The State Bank of India, the government's premier bank and India's most prestigious, reported that the Reserve Bank of India (RBI) had found that the bank had mis-reported its profits and non-performing assets (NPAs) for the year ended March 31, 2017.

The bank was found to have understated its gross NPAs by 21% and overstated its profits by 36%. It is a matter of shame that a bank tracing its roots to 1806 as the erstwhile Bank of Calcutta, and today accounting for around 20-22% of the banking industry's assets, had to suffer such ignominy more than two centuries later.

The RBI has a threshold limit for misreporting: if the central bank audit finds that the bank has understated NPAs by 15% or more and if the additional provisioning requirements assessed by RBI exceed 15% of the published net profits after tax is the bank forced to publicly report the divergence. This itself is a liberal threshold, as banks should have at best under 5% divergence. The RBI's purpose of disclosing the divergence was to name and shame the bank. For any bank to report gross NPA divergence exceeding 15% reflects poorly on the chief executive officer (CEO), the chief financial officer (CFO), the head of the audit committee of the board and the auditor.

In this hall of shame, SBI has joined the ranks of market-fancied banks such as HDFC Bank, Yes Bank, Axis Bank, ICICI Bank and Indusind Bank. Sadly, thanks to the abysmally poor corporate governance standards of corporate India, not a single high-ranking individual has been fired or had the decency to resign, owning responsibility for such a serious transgression. Nor does the Securities and Exchange Board of India

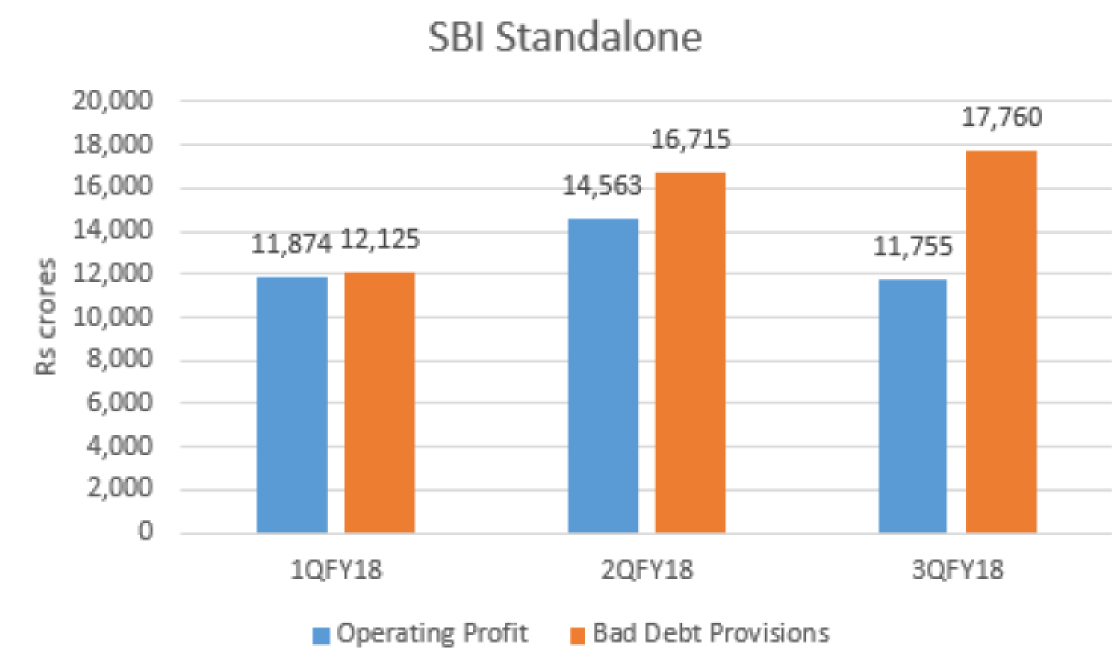
(SEBI) or the RBI believe in holding any senior executive to task for misinforming the public and distorting price discovery in the market.

In the media circus that constitutes business journalism, on January 25, 2018, a fortnight before SBI announced its results, Arundhati Bhattacharya, the former chairman, SBI and the individual responsible for FY’2017 accounts, was awarded the title of Business Standard Banker of the Year. The jury was headed by former economic affairs secretary C M Vasudev, and Anand Sinha, the former deputy governor, RBI, was one of its members.

This was by no means the only award the former chairman of SBI received. On December 5, 2017, she received the Financial Express Best Banker of the Year 2015-2016. Strangely, when SBI declared its FY’2017 results on May 19, 2017, it revealed massive losses at its former banking subsidiaries which required an immediate recapitalisation of SBI. Such issues, which are normally indicative of larger problems, did not deter the illustrious jury members from bestowing awards on a chairman who had presided over such losses. Apparently, in business media’s business model, getting independent and eminent individuals to hand out awards is highly lucrative. The juries of both media agencies, now have to explain to the public on how such awards stand up when the regulator detects significant fudging of the books. In future, it is best for media to avoid such farcical awards and stick to their profession of journalism and leave event management to event managers.

Divergence of gross NPAs in SBI reached Rs 23,239 crores in FY’2017. Around 50% of this was from two corporate accounts, Jindal Steel and Power (JSPL) and the Videocon concession in a joint offshore venture with BPCL and Petrobras. Many banks, including HDFC Bank and Axis Bank, suffered divergence on account of JSPL, and all banks in the consortium led by SBI claimed that JSPL was consistently servicing its dues within 90 days. However, Rajnish Kumar, the present SBI chairman who took charge on October 7, has accepted RBI’s finding and is not contesting the divergence.

Corporate NPAs have SBI in a vice-like grip. For three consecutive quarters, in standalone SBI, bad debt provisions exceed profit before provisions. This renders SBI's considerable standalone quarterly operating profit, ranging from Rs 11,700 crores to Rs 14,600 crores, redundant, and it is only through exceptional income and write-backs that SBI was able to report net profits in the first and second quarters of FY2018. The huge depreciation on investments as a result of rising bond yields also contributed to SBI's loss in the 3QFY2018. The continuous tidal waves of bad debt costs that are engulfing SBI are on account of the massive restructuring of standard loans that RBI permitted banks to indulge in so as not to report the accounts as non-performing earlier. It is these chickens that are finally coming home to roost with a vengeance.



Source: State Bank of India

In the third quarter of the present financial year, out of the total slippages to NPA of Rs 25,836 crores, corporate slippages accounted for Rs 21,823 crores, and 89% of the corporate slippages are from the restructured standard loans pool. What is indeed ominous is that at the end of the third quarter of the current financial year, standalone SBI has outstanding restructured standard loans of Rs 50,482 crores and net NPAs of Rs 102,370 crores, as against a 9 month operating profit (excluding exceptionals) of Rs 38,192 crores till December 31, 2017. Not only are a considerable component of the restructured loans likely to become NPA, requiring significant provisions, but the net NPAs, on account of ageing, will also require additional provisions. The corporate asset quality issue of SBI is likely to persist for some time.

While the focus of the media and analysts is riveted towards corporate NPAs, nobody, it appears, is paying attention to the huge growth in retail loans in recent years. The fate of these loans is linked to the employment and income of the borrowers, which in turn depends on the economy.

The economy has yet to come out of its slump, and individual sectors (IT, telecom) are set to experience huge job losses irrespective of any economic upturn and on account of digitalization in banking even HDFC Bank is reducing its headcount. Employees in these sectors were prominent among retail borrowers. SBI's gross NPAs in retail are only 1.3%; that figure has nowhere to go but up.

It is unlikely that the worst is over for SBI, as its chiefs have repeatedly insisted over the past several years

'Fertiliser subsidy hit by Aadhaar'

M Soundariya Preetha
COIMBATORE, FEBRUARY 10, 2018
THE HINDU

Companies and partnership firm plantations in the South, cultivating tea, coffee, rubber and spices, are finding it difficult to obtain fertiliser subsidy since January 1, 2018, as rules mandate production of Aadhaar for the same.

According to United Planters' Association of Southern India chairman T. Jayaraman, the Direct Benefit Transfer (DBT) scheme for fertiliser subsidy has led to problems for plantations as companies and partnership firms do not have Aadhaar.

The DBT scheme is implemented in all the three southern States that have plantations — Tamil Nadu, Karnataka and Kerala.

Companies and partnership firm plantations are unable to procure the fertilisers whenever there is a requirement. Some of the fertiliser manufacturers had suggested that the authorised representatives of the plantations provide their Aadhaar for purchase. However, it would be billed in the name of the representative.

The plantation sector, covering 18.3 lakh growers, is going through a tough phase due to several reasons, and non-availability of fertilisers at subsidised rate makes operations difficult, he said.

B. Radhakrishnan, director of UPASI Tea Research Institute, said the cost of fertilisers had increased manifold in the last seven years. Since tea is a foliage crop, fertiliser use is high compared to other plantations. On an average, in the total cost of cultivation, 9% is towards fertilisers for soil application and 4% for foliage application.

Without subsidy, the input costs will shoot up. For instance, the subsidised rate of MoP (Muriate of Potash) is Rs.11,200 a tonne and without subsidy it will be almost Rs.20,000, he said.

In a memorandum subsmitted to the Union Minister for Chemicals and Fertilisers, Mr. Jayaraman suggested that till the implementation of the Unique Identity Number of Enterprises announced in the Union Budget this year, the Government can take PAN, TIN or CIN (Company Identification Number) from companies instead of Aadhaar.

15 months after note ban, RBI still processing returned notes

PTI
NEW DELHI, FEBRUARY 11, 2018
THE HINDU

RBI said "specified bank notes are being processed in an expedited manner".

The RBI has said that Rs.500 and Rs.1,000 notes, returned to banks when the government demonetised high value currency 15-months ago, are still being "processed for their arithmetical accuracy and genuineness."

This is being done in an “expedited manner,” the central bank said. “Specific bank notes are being processed for their arithmetical accuracy and genuineness and the reconciliation for the same is ongoing. This information can, therefore, be shared on completion of the process and reconciliation,” the RBI said in reply to an RTI application.

To a query on the number of demonetised notes, it said, “..subject to future corrections if any, arising in the course of verification process, the estimated value of specified bank notes received as on June 30, 2017 is Rs.15.28 trillion (lakh crore).” Asked to provide the details of the deadline for finishing the counting of demonetised notes, the RBI said “specified bank notes are being processed in an expedited manner.” As on date, 59 sophisticated currency verification and processing (CVPS) machines are in operation in RBI for the purpose, it said. The reply did not specify the location of the machines.

The RBI will also soon have greater flexibility in terms of managing its liquidity operations with the addition of one more tool ‘Standing Deposit Facility Scheme’ to its kit. Finance Minister Arun Jaitley, in his Budget, had proposed to amend the RBI Act to empower the central bank to come up with an additional instrument for liquidity management. The proposal forms part of the Finance Bill 2018 which is scheduled to be approved by Parliament by March 31.

“That is to provide one more tool for liquidity management. There is no more MSS (market stabilisation scheme),” Economic Affairs Secretary S. C. Garg told PTI.

The RBI proposed in November 2015 the introduction of the SDF by suitably amending the RBI Act. This would provide the RBI a new tool for liquidity management, particularly in times when the money market liquidity is in excess to deal with post-demonetisation like scenario.

CRR hike

Post-demonetisation, the RBI ran out of securities to offer as collateral and had to temporarily hike its cash reserve ratio (CRR) to force banks to park extra deposits with it. The CRR is the portion of deposits that banks have to compulsorily park with the RBI. Currently, the CRR is pegged at 4%.

When the liquidity position under the Liquidity Adjustment Facility (LAF) is outside comfort zone, the RBI uses an array of instruments to absorb/inject durable liquidity from/into the financial system.

States of health

FEBRUARY 12, 2018

THE HINDU

The NITI Aayog Health Index shouldtrigger a wider public debate

Unsurprisingly, States with a record of investment in literacy, nutrition and primary health care have achieved high scores in NITI Aayog's first Health Index. Kerala, Punjab, and Tamil Nadu are the best-performing large States, while Uttar Pradesh, Rajasthan, Bihar, Odisha and Madhya Pradesh bring up the rear. Health-care delivery is the responsibility of States; the Centre provides financial and policy support. Being able to meet the Sustainable Development Goals over the coming decade depends crucially on the States' performance. Yet, health care is not a mainstream political issue in India, and hardly influences electoral results. The Index, with all its limitations given uneven data availability, hopes to make a difference here by encouraging a competitive approach for potentially better outcomes. For instance, it should be possible for Odisha to bring down its neonatal mortality rate, estimated to be the highest at 35 per thousand live births — worse than Uttar Pradesh. A dozen States with shameful under-five mortality rates of over 35 per 1,000 live births may feel the need for remedial programmes. What the Index shows for the better-performing States is that their continuous improvements have, overall, left little room to notch up high incremental scores, but intra-State inequalities need to be addressed.

Coming soon after the announcement of a National Health Protection Scheme in the Union Budget, the Index uses metrics such as institutional deliveries, systematic reporting of tuberculosis, access to drugs for people with HIV/AIDS, immunisation levels and out-of-pocket expenditure. The twin imperatives are to improve access to facilities and treatments on these and other parameters, and raise the quality of data, including from the private sector, to enable rigorous assessments. At the same time, as NITI Aayog points out, data on other key aspects lack the integrity to form part of a good composite index. Both the Centre and the States have the responsibility to scale up their investment on health as a percentage of their budgets, to be more ambitious in interventions. While the NHPS may be able to address some of the financial risk associated with ill-health, it will take systematic improvements to preventive and primary care to achieve higher scores in the Index. As the experience from countries in the West and now even other developing economies shows, socialisation of medicine with a reliance on taxation to fund basic programmes is the bedrock of a good health system. If the NITI Aayog Index leads to a mainstreaming of health on these lines, that would be a positive outcome.

Trade unions' federation to organise Working Women Congress in Panama City in March

LN REVATHYT COIMBATORE, FEB 12 BUSINESSLINE

The economic crisis of recent years, which had deteriorated workers' life in general, had made the life of working women even more difficult. The participation of working women in organised struggles by the trade unions was poor and this situation made it more difficult, observed C H Venkatachalam General Secretary, **All India Bank Employees' Association (AIBEA).**

"Women face a higher unemployment rate, even while they account for the majority of workers in informal employment. World over, women represent 40 per cent of the labour force and 57 per cent of part-time workers which, in turn, limits their access to social and maternity protection services. Such issues can be solved through organised struggle for their rights" he said and added that the forthcoming event would provide a platform for such women to exchange their experience as also help improve their work-life balance through discussions.

Lalita Joshi, Joint Secretary, AIBEA and Vice-President of the Maharashtra State Bank Employees' Federation and B Vijayal, Central Committee Member of the AIBEA and Vice-President of the Tamilnadu Bank Employees' Federation, are to participate in the event as AIBEA delegates, Venkatachalam said.

AIBEA THIS DAY – 14 FEBRUARY	
1970	**Government promulgates another ordinance renationalizing the 14 Banks, Providing more compensation to share holders.**
1981	**Foundation Conference of AIBOA – Nagpur. Com. Prabhatkar and P K Menon elected as President and General Secretary.**
1995	**6th Bipartite Agreement signed.**

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