



# Banking News

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## Urjit Patel appointed as next RBI Governor

K.R.Srivats businessline



Urjit Patel (file photo).

New Delhi, Aug 21:

India has a new Reserve Bank of India (RBI) Governor in Urjit Patel, a top Government official said.

52 year Patel was a RBI Deputy Governor prior to this elevation.

Patel has been appointed as RBI Governor for a period of three years with effect from September 4 this year.

This appointment has been made based on the recommendation of the Financial Sector Regulatory Appointments Search Committee (FSRASC) headed by Cabinet Secretary.

This committee had met twice to discuss all the possible names that can be considered for this assignment and had submitted a short panel of names to the Appointments Committee of the Cabinet (ACC).

The incumbent RBI Governor Raghuram Rajan demits office on September 3. It may be recalled that Patel was given a second-term of three years at the RBI this January.

Urjit Patel was Responsible for RBI's report on switching to retail inflation targeting. He is also in charge of the crucial monetary policy department.

A PhD from Yale University and an M. Phil from Oxford University, he has also worked with the International Monetary Fund and has experience in energy and financial sectors too.

Prior to his appointment as the Deputy Governor of the Reserve Bank, Patel was Advisor (Energy and Infrastructure) at The Boston Consulting Group.

### **FCNR OUTFLOWS, INFLATION**

Many bankers that BusinessLine spoke to see continuity of policies at the Reserve Bank of India and noted that Patel already enjoyed international acceptability.

Patel has been appointed as RBI Governor at a time when consumer price inflation was rearing its head and above the comfort zone of the RBI.

With the Government and RBI agreeing to inflation target of 4 per cent +/- 2 per cent, Patel will in the coming days be faced with some challenge on reining in inflation, they noted.

The other big challenge that Urjit Patel would face in the immediate months of his tenure as RBI Governor is the expected \$ 24 billion NRI deposit outflows between September and December this year.

It is widely expected that this Foreign Currency Non Resident Deposit (FCNR) outflows during the September-December 2016 period could cause some stress in three markets -- US dollar liquidity, Indian Rupee liquidity and banking sector statutory liquidity.

However, many bankers and economists still feel that the FCNR outflows are likely to come and go without too much pain.

### **WORKED AT IMF**

Patel has been Deputy Governor at the RBI in charge of monetary policy, economic research and financial markets operations since January 2013.

His first job after completing education was at the International Monetary Fund (IMF) where he worked on the India, US, Myanmar and Bahamas desks.

Patel was a consultant to the Finance Ministry for three years. He has also held other assignments in the public and private sectors.

He was Chairman of the Expert Committee to Revise and Strengthen the Monetary Policy Framework. He is currently a member of the Committee to Comprehensively Review the Fiscal Responsibility and Budget Management (FRBM) roadmap. He was a member of the Task Force on Direct Taxes (Kelkar committee).

Patel has authored (singly and jointly) about 40 scholarly publications/papers, and given lectures by invitation, in the areas of Indian macroeconomics, monetary policy, public finance, Indian financial sector, theory of international trade and regulatory economics.

### **Back to academics**

It may be recalled that the incumbent RBI Governor Raghuram Rajan had on June 18 announced that he will move back to the world of academics once his three-year term comes an end on September 4. The Governor notified RBI staff about his decision in a message posted on the central bank's website.

## Vacuum at top in IOB

Only one executive director to manage affairs for the bank

Abhijit Lele BUSINESS STANDARD

Chennai-based public sector lender Indian Overseas Bank (IOB) has remained headless in the absence of a full-time chief executive for almost two months now.

R Koteeswaran had retired as managing director (MD) and chief executive officer (CEO) at the end of June 2016. He had joined Indian Overseas Bank on December 31, 2014.

Prior to this assignment, Koteeswaran was executive director at Bank of India.

The second line of leadership at IOB is also thin. Executive director Atul Agarwal, who has been looking after operations of the public-sector lender, is due to retire next month.

Pawan Kumar Bajaj, another executive director, has moved to Kolkata-based United Bank of India as managing director and chief executive.

Vibha Batra, former co-head for financial ratings at ICRA, said: "This is the last thing one should expect for the bank, which is passing through a bad phase. It is matter of serious concern."

While Banks Board Bureau has recommended names for the post of MD & CEO, the government has cleared names for two banks - United Bank of India and Bank of Maharashtra. The government, which holds a 73.58 per cent stake in the bank, is yet to announce a new MD & CEO for IOB, which is reeling under losses and bad loans.

The bank reported a net loss of Rs 1,450.5 crore in the quarter ended June 2016, compared to a net profit of Rs 14.76 crore a year ago. IOB's gross non-performing assets (NPAs) stood at Rs 33,913.15 crore as on June 30, 2016 against Rs 16,451.2 crore as on March 31, 2016 and Rs 30,048.63 crore as on June 30, 2015.

The ratio of gross non-performing assets to gross advances stood at 20.48 per cent as on June 30, 2016 against 9.4 per cent as on March 31, 2016 and 17.4 per cent as on June 30, 2015.

The bank's provisions and contingencies (excluding tax provisions) rose 222.17 per cent to Rs 2,137.81 crore in the June 2016 quarter over June 2015 quarter. The provision coverage ratio of the bank was at 47.61 per cent as on June 30, 2016.

<b>FINANCIAL AND BUSINESS PERFORMANCE</b>						
<b>Quarter ended</b>	<b>Net interest income (₹)</b>	<b>Other income (₹)</b>	<b>Net profit (₹)</b>	<b>Provision coverage ratio (%)</b>	<b>CAR - Basel III</b>	<b>Gross NPA (%)</b>
Mar '15	1,255.7	944.2	35.50	50.92	10.11	8.33
Jun '15	1,329.0	534.8	14.76	50.79	9.75	9.40
Sep '15	1,398.0	944.2	-550.83	49.98	9.09	11.00
Dec '15	1,347.7	533.1	-1,425.06	50.36	9.73	12.64
Mar '16	1,307.8	686.0	-936.19	47.39	9.66	17.40
Jun '16	1,245.0	652.9	-1,450.50	47.61	9.47	20.48

Net Interest Income = Interest Earned - Interest Expenses  
 CAR = Capital Adequacy Ratio  
 Source: Capitaline

Compiled by BS Research Bureau

Rating agency ICRA in its recent review of IOB said the bank raised a substantial amount of equity — Rs 2,211 crore in FY16 from the government and Life Insurance Corporation, and Rs 261.9 crore in the June 2016 quarter from qualified institutional buyers.

The bank expects further equity infusion of Rs 3,101 crore from the government in the current year. Timely equity support from the government continues to be the key driver for the bank's credit profile. The rating is constrained by the deterioration in the lender's key asset quality indicators over the recent past, which adversely impacted its solvency and capitalisation profile, ICRA said.

## **Pace of new bad loan formation has decelerated, RBI Deputy Governor SS Mundra**

RBI Deputy Governor S S Mundra today said the pace of formation of new non-performing assets (NPAs) or bad loans has decelerated although some banks have posted losses for the first quarter of the current financial year due to higher provisioning.

By: PTI

RBI Deputy Governor S S Mundra today said the pace of formation of new non-performing assets (NPAs) or bad loans has decelerated although some banks have posted losses for the first quarter of the current financial year due to higher provisioning.

He also said most of the banks are adequately capitalised and the government has promised additional capital if they require.

In a bid to shore up cash-strapped public sector banks, the government last month announced infusion of Rs 22,915 crore capital in 13 lenders including SBI and Indian Overseas Bank to revive loan growth that has hit a two-decade low.

As far as bad loans are concerned, he said, they are showing a mixed trend.

“When I look at individual results, there are number of banks for whom it appears that the worst is over but then there are other banks...still they are in middle of it and they would need to do some work before they get out of it,” he said.

“It would be naive to believe that there won’t be any NPA formation but the pace of new NPA formation has clearly decelerated, that is what the major trend is,” he added.

Gross NPAs of the public sector banks had surged from 5.43 per cent (Rs 2.67 lakh crore) of advances in 2014-15 to 9.32 per cent (Rs 4.76 lakh crore) in 2015-16.

As per the latest Financial Stability Report by RBI, the Gross NPA ratio for public sector banks may go up to 10.1 per cent by March 2017 under the baseline scenario.

Many banks including Bank of India, Dena Bank, and Central Bank of India, reported losses for the quarter ended June 30, due to a sharp jump in provisions for NPAs on account of an asset quality review mandated by the RBI in December.

Talking about the recapitalisation, Mundra said the Finance Minister has indicated that if there is a need the government would be ready to provide additional capital.

“So, as far as the present situation is concerned I think most of the banks are adequately capitalised to take care of minimum regulatory requirements. We will keep a watch. As we move into the year we will see how things pan out,” he said.

On controversial virtual currency bitcoin, Mundra said: “This entire area fintech as we mentioned...you should not be stifling the innovation. Be mindful and what they call as regulator sand marks means you allow some of the experiments to happen under the control conditions so that the positive or the negative fallouts can be well understood and calibrated.”

## **Have the banking sector's losses bottomed out?**

Business Standard

While gross non-performing assets (NPAs) of the Indian banking system are expected to rise further in this financial year, the pace of deterioration is likely to moderate, as banks, prodded by the Reserve Bank of India (RBI), were aggressive in recognising bad loans in FY16.

According to a new report by India Ratings and Research, fresh slippages to the non-performing loans category are likely to be a minimum of 1.5 per cent of total bank credit in the current financial year. In large part, these slippages will come from loans turning out in the Infrastructure and construction sectors, followed by the power sector. But, it is possible that

actual slippages may turn out to be higher if companies find it difficult to service loans that were restructured in the earlier financial years. At the end of FY16, gross NPAs in the banking system stood at 7.2 per cent. (After asset quality review)

Banks' credit costs are likely to remain high, compared to the previous financial year, although these are expected to moderate. Credit costs are expected to drop to 170-180 basis points in 2016-17, as compared to 280 basis points for 2015-16, says India Ratings.

But, unlike the previous financial year, where recognition of bad loans led to higher costs, this time the increase will largely come from problems with servicing loans that have already turned bad. If companies fail to meet their interest obligations, existing loans in the substandard category are likely to be transferred to the doubtful category, where banks will have to provide higher provisioning. This will raise banks' credit costs, eating into profitability.

Ship-building followed by infrastructure and construction, iron and steel, power and textiles continue to be the most leveraged sectors among the companies analysed in the report, though the textiles sector has the highest interest coverage ratio, suggesting it is better placed to finance its interest obligations, as compared to the other sectors.

<b>21<sup>st</sup> April</b>	
1929	Com. P S Sundaresan, former Vice President of AIBEA (date of birth)
1959	Com. Prabhat Kar, M P delivers powerful speech in the Lok Sabha on Nationalisation of Banks.
1993	Workshop for Directors organised at Bombay. Dr. B R Mehta, former Deputy Governor, RBI inaugurates.
<b>22nd April</b>	
1954	Foundation of Assam Provincial Bank Employees' Association at Jorhat. Com. Sunil Gupta and Com. Narain Das elected President and General Secretary.
	National Convention of Co-op. Bankmen Hyderabad – A Bhagavanth Rao AP Finance Minister Inaugurates



1975	AIBEA Central Committee meets at Ludhiana.
<b>23rd April</b>	
1988	One day strike against mass transfers by Corporation Bank Employees' Union.
1996	Com. Tarakeswar Chakraborti, General Secretary, AIBEA attends 17 <sup>th</sup> triennial Conference of NUBE at Kuala Lumpur.
<b>24<sup>TH</sup> April</b>	
1948	Strike called off by Central Bank of India Employees' Union at Calcutta. Bank agrees for the demands.
1954	Government modifies certain aspects of LAT Award.
1964	AIBEA and Northern India Banks Association sign interim settlement on DA increase and other issues.
1985	AIBOA/AIBOA meet Finance Minister Shri V P Singh on Wage Demands.
2004	All India Strike by UFBU, AIBEA, AIBOA, on wage demands
2007	Ashis Sen (85) former MP, former General Secretary, AIRBEA, BEFI, passes away

## March on to NATIONAL GENERAL STRIKE

- ✓ **CONTROL PRICES OF ESSENTIAL COMMODITIES**
- ✓ **ENSURE JOB FOR ALL – ENSURE MORE RECRUITMENTS**
- ✓ **DO NOT ATTACK TRADE UNIONS & RIGHT TO STRIKE**
- ✓ **DO NOT ATTACK COLLECTIVE BARGAINING**
- ✓ **ENSURE DECENT MINIMUM WAGE TO ALL WORKERS**
- ✓ **DO NOT ADVERSELY CHANGE LABOUR LAWS**
- ✓ **EXTEND MATERNITY LEAVE BENEFIT TO ALL WOMEN WORKERS**
- ✓ **DO NOT PRIVATISE PUBLIC SECTOR BANKS**
- ✓ **DO NOT CLOSE BANKS IN THE NAME OF CONSOLIDATION**



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