

KHURDIA JAIN & CO.

CHARTERED ACCOUNTANTS

BANKING SNIPPETS FOR FEBRUARY 2018

- 1. NIRAV MODI FRAUD CASE MAY TRIGGER PCA ON PUNJAB NATIONAL BANK:** The Rs. 11,400 crore Nirav Modi scam detected by Punjab National Bank may trigger Prompt Corrective Action (PCA) by RBI, which may lead to stoppage of lending by it for some time. The bank may consider selling some stake in some of its subsidiaries and joint ventures to raise money but since they are contractual agreements it may take some time.
- 2. PUBLIC SECTOR BANKS TO TRANSFER OFFICERS COMPLETING 3 YEARS:** In the wake of Punjab National Bank fraud case, the Central Vigilance Commission has issued an advisory to all the public sector banks ordering them to transfer all officers who have completed 3 years term in their present respective posts as on December 31 2017. The advisory also says that all the clerical staff who have completed 5 years term as on December 31 2017 also should be transferred immediately. However, as per the Bank's transfer policy for officers, this rule (no officer shall be retained in the same post for 3 years and in the same station {same municipal limits} for a period in excess of 5 years) is already prevailing in banks but not strictly followed in all cases.
- 3. PNB INCIDENT SHOWS VULNERABILITY OF INDIAN BANKING SYSTEM:** The Associated Chamber of Commerce & Industry of India (ASSOCHAM) has criticised the functioning of Public Sector Banks in a first reaction to the \$ 1.8 billion fraud that took place in Punjab National Bank. The detailed statement says "Alleged fraudulent transactions worth Rs. 11,300 crore from a single branch of Punjab National Bank with connivance of the junior officials shows the vulnerability of public sector banks". ASSOCHAM further states " the said fraud shows how the risk management is lacking in these entities and how a chain of command system was not there or was not followed".

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4. CABINET APPROVES CHANGES IN CLASSIFICATION CRITERIA

FOR MSMEs: Cabinet has approved the changes in the basis of classifying Micro, Small & Medium Enterprises (MSMEs) from investment in Plant & Machinery requirement to ANNUAL TURNOVER. Now as per the new changes the classification will be as follows: A) Micro Enterprise- Annual turnover of less or equal to Rs. 5 crore. B) Small enterprise- Turnover more than Rs. 5 crore but does not exceed Rs. 75 crore. C) Medium Enterprise—Turnover more than Rs. 75 Crore but does not exceed Rs. 250 Crore. This will now encourage ease of doing business, will make norms of classification growth oriented and will align to the new regime revolving around GST.

5. MSME LOANS UP TO Rs. 25 CRORE GET MORE REPAYMENT

TIME: In a major relief to the Micro, Small & Medium Enterprises (MSMEs) sector, the RBI has said GST registered MSME borrowers, whose aggregate exposure does not exceed Rs. 25 crore will get a further 180 day window to pay their dues if their accounts were standard as on August 31, 2017. This move allowed to Banks and NBFCs will be applicable for dues between September 2017 and January 2018 and Banks need not be required to downgrade asset classification of these MSMEs.

6. RBI RELAXES PRIORITY SECTOR LENDING RULE FOR BANKS:

Reserve Bank of India has made priority sector norms more lenient. Henceforth all loans to Micro, Small & Medium Enterprises (MSMEs) will qualify as priority sector lending. Till date loans up to Rs 10 crore per MSME borrower was considered as priority sector lending.

7. INDIAN BANKS MAY LOSE MORE ON NEW ACCOUNTING RULE:

Indian Banks already struggling with \$210 billion of stressed assets may have to prepare for another hit in the coming financial year if new accounting norms are affected from April 1st 2018. The IndAS—based on IFRS9 standards, would require banks to make provisions for expected bad loans instead of the current system where presently they only cover actual losses incurred on bad loans.

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8. 17 PUBLIC SECTOR BANKS MAKE LOSSES IN DECEMBER'2017

QUARTER: Out of the 22 Public Sector Banks, 17 Public Sector Banks have made losses during the December' 2017 quarter. Provisions for bad loans have taken the toll on their profit margins. Provisions of these 17 banks almost doubled over the same quarter last year to Rs. 60,742 crore. These 17 banks put together have a total loss of Rs. 18,943 crore for December 2017 quarter. Whereas the remaining 5 banks have a cumulative total profit of Rs. 850 crore. Compared to this, 6 major private sector banks have made a cumulative total profit of Rs. 10,082.61 crores for the same period with HDFC Bank alone making a profit of Rs 4,642.60 crore.

9. 3.6 BILLION HIDDEN \$ BAD LOANS SPOTLIGHT INDIAN

BANKING STRESS: Reserve Bank of India in its audit has unearthed about 3.6 billion \$ (Rs. 232 billion) of bad loans in the books of State Bank of India. This shows the under reporting of bad loans in the financial sector.

10. RBI MONETARY POLICY—BANKS' BASE RATE AND MCLR TO BE

LINKED: Reserve Bank of India in its latest Monetary policy has said it is working on a framework to link the calculation of banks' base rates with their Marginal Cost of Lending rates(MCLR). This will come into effect from April 1st 2018.

11. BANKS RELUCTANT TO LEND TO REALTY SECTOR ON RISING

NPA: The share of bank credit to real estate sector has fallen sharply to 17% from over 68% in 2013. Banks are reluctant to provide credit to this sector due to rising NPAs and lower profit in property business. This is according to the economic survey.

12. PUBLIC SECTOR BANKS NEED Rs. 2.06 TRILLION CAPITAL FOR

8—9% CREDIT GROWTH IN FY 19: Public Sector Banks may need capital of Rs 2.06 trillion (or Rs 2.06 lakh Crore) for a credit growth of around 8 to 9% for the financial year 2019. This is as per a report released by India Ratings and Research.

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- 13. RBI'S NEW NPA RESOLUTION:** The Apex bank in a dramatic move has discontinued the existing programmes for banks to restructure their defaulted large loans, such as Corporate Debt Restructuring (CDR), Sustainable Structuring of Stressed Assets (S4A), and Strategic Debt Restructuring (SDR) and made the Insolvency & Bankruptcy Code as the main tool to deal with defaulters. Now the Banks have been asked to report credit information, including classification of an account as Special Mention Account (SMA) to Central Repository of Information on Large Credits (CRILC) on all borrowers having an aggregate exposure of Rs. 5 crore and above on a weekly basis.
- 14. BANK OF INDIA RECOVERS Rs. 3,000 CRORE BAD LOANS IN ONE MONTH:** Bank of India has recovered Rs. 3,000 crore of bad loans in the last one month. The said recovery was done by invoking standby letter of credit (SBLC) and guarantees of the respective defaulters. The Bank's official statement said that they will recover hefty amounts in this month also by invoking the remaining SBLC and guarantees.
- 15. USHA ANANTHASUBRAMANIAN BECOMES FIRST WOMAN CHAIRPERSON OF IBA:** Mrs. Usha Ananthsubramanian, Managing Director of Allahabad Bank has become the first woman Chairperson of Indian Banks' Association (IBA). She will be the Chairperson till August 31 St 2018 as she will be superannuating on August 31 ST. Earlier to this she was the Deputy Chairperson.
- 16. RBI DECLINES GOVERNMENT'S DEMAND FOR ADDITIONAL DIVIDEND:** Reserve Bank of India has reportedly declined government's demand for additional dividend. The government had asked an additional dividend of Rs. 13,000 crore. Reserve Bank of India has already transferred dividend of Rs. 30,659 crore to the government for the financial year 2016-17.

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17. NO LTCG TAX IF U SELL SHARES OR MUTUAL FUND UNITS

BEFORE 31ST MARCH 2018: The proposed Long-Term Capital Gains (LTCG) tax on equity in the union budget 2018 came as a blow to investors. However any LTCG earned till March 31, 2018 will not be taxed, as the provision of 2018 Budget are effective from 01/04/2018.

18. AFFORDABLE HOMES GET FURTHER BOOST AS GOVERNMENT

REDUCES GST: Affordable housing got further boost from the government as the Goods & Services Tax (GST) council has recommended reduction of GST from 12% to 8% for houses under the Pradhan Mantri Awas Yojana (PMAY) that provides credit linked subsidy scheme (CLSS).

19. RBI TO INITIATE CUSTOMER GRIEVANCE MECHANISM FOR

NBFCs: The Reserve bank of India has said it will soon roll out a customer grievance redressal mechanism for Non-Banking Finance Companies (NBFCs). With a view to providing customers of NBFCs a cost free and speedy grievance redress mechanism, RBI will introduce an Ombudsman Scheme for NBFCs.