

## CAG to audit banks getting money under recap scheme

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**Capital sucked by bad-loan spike**

	Capital infused (₹ cr)			Advances % GNP %	
	2014-15	2015-16*	2016-17	YoY (FY16)	YoY (FY16)
State Bank of India	2970	5393	7575	13.0	73.1
Indian Overseas Bank	0	2009	3101	-3.5	101.4
Punjab National Bank	870	1732	2816	8.3	117.2
Bank of India	0	2455	1784	-7.3	124.7
Central Bank of India	0		1729	-2.4	91.4
Syndicate Bank	460		1034	0.3	114.7
UCO Bank	0		1033	-10.7	103.7
Canara Bank	570	947	997	-1.6	142.6
United Bank of India	0		810	3.3	44.5
Union Bank of India	0	1080	721	5.6	85.5
Corporation Bank	0	857	677	-3.2	104.7
Dena Bank	140	407	594	6.4	94.9
Allahabad bank	320	283	44	3.0	84.1
Bank of Baroda	1260	1786		-10.3	149.2
Indian Bank	280			2.9	55.7
Andhra Bank	120	378		5.2	66.4
Bank of Maharashtra	0	394		9.9	62.2
IDBI Bank	0	2229		3.6	96.1
Oriental Bank of Commerce	0			3.8	91.8
Punjab & Sind Bank	0			0.7	37.2
Vijaya Bank	0			3.5	146.7

\* Based on answer to query in Parliament

Report likely to be submitted by 2017 Monsoon Session of Parliament

New Delhi/Chennai, September 4:

With the belief that “every penny counts, especially if it is public money”, government auditor Comptroller & Auditor General (CAG) is set to start scrutinising the public sector banks that have received financial aid from the government.

“The audit will essentially look at whether the money given by the government (Finance Ministry) to these banks as part of recapitalisation has been utilised correctly. Since it is government money, the CAG is within its rights to audit it. Besides, it also forms part of auditing the Finance Ministry’s accounts,” a senior government official told *BusinessLine*.

### NPA burden

One of the major challenges before Finance Minister Arun Jaitley and his team has been to improve the overall performance of public sector banks, which have suffered mainly due to the sharp rise in bad loan provisioning.

In the last five years, the Finance Ministry has infused over ₹85,000 crore (2011-16) in PSU banks.

An official in the know said the government auditor is at present working on internal guidelines to decide on the term of the audit, the process to be followed etc.

The CAG proposes to complete the audit and submit its report during the 2017 Monsoon Session of Parliament.

While it is true that the Centre has been committing funds to ensure that PSBs are sufficiently capitalised to meet Basel III norms, it is also a fact that in the last two years banks appear to have used the money mostly to absorb losses on account of the steep rise in bad-loan provisioning.

The Finance Ministry has been annually altering the criteria for deciding on the capital infusion into various banks, making it difficult to assess how effectively banks have deployed the capital.

For instance, this year it has decided to base it on the compound annual growth rate (CAGR) of credit for the last five years and banks’ own projections of credit growth as well as growth potential.

### Limited potential

SBI, Indian Overseas Bank, Punjab National Bank, Bank of India and Central Bank of India figured at the top of the list. But, barring SBI, which has delivered annual loan growth of 14 per cent in the last five years, others have not shown potential for growth.

Central Bank of India and Indian Overseas Bank, for instance, delivered only 7-8 per cent growth (annual) in loans over the past five years.

Under the Indradhanush plan, the Centre has proposed to infuse ₹70,000 crore of capital between 2015-16 and 2018-19. It arrived at the figure by assuming 12 per cent credit growth in 2015-16 and 12-15 per cent growth for the subsequent years.

But credit growth for the entire banking sector has been languishing at decadal low levels of 8-9 per cent for over two years now. For PSU banks, the growth has been even more abysmal, slipping to about 3 per cent in 2015-16.

### Following the money

“Questions were being raised on the utilisation of these funds. There are some who believe that the banks are not using the money for rightful purpose,” said another official.

Mostly, the infusion over the years has been need-based, in banks that are in dire need of capital to grow and meet their regulatory requirements.

Many PSU banks have been consolidating their loans and turning averse to corporate lending. The loan book has, in fact, shrunk for many lenders in the last one year.

Bank of Baroda, for instance, has seen its loan book shrink by 10 per cent in 2015-16 after registering modest growth of 7.8 per cent in 2014-15.

(This article was published on September 4, 2016)

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