

Indian Overseas Bank plans to write off its losses from reserves

Bank will utilise funds in its share premium account to write off accumulated losses of Rs 69.8 bn at the end of last fiscal year

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[Indian Overseas Bank](#) (IoB) on Thursday said it planned to write off its losses from reserves. In a notice to exchanges, the bank said its board has approved to “utilise the balance available in the share premium account amounting to Rs 76.5 billion as on March 31, 2017 to write off the accumulated losses aggregating to Rs 69.8 billion as on March 31, 2017 to present a true and fair view of the financial position of the bank and to take the same into account during 2017-18.”

The bank will convene an extraordinary general meeting of shareholders on January 30 for obtaining their approval, it said. The Chennai-based lender's loss had widened in the second quarter at Rs 12.23 billion compared with Rs 7.65 billion a year ago. The bank's gross [non-performing assets](#) (NPA) as a percentage of total advances stood at 21.77 per cent at the end of the second quarter.

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The bank is one of those for whom the government has put strict criteria before giving capital. One of those is cutting losses and shedding non-core assets. The [Reserve Bank of India](#) (RBI) has also imposed prompt corrective action plan on the lender, greatly limiting its lending exercise.

Analysts say writing off accumulated losses from reserves is allowed, but in normal course, the write-off should happen from revenue reserves. A share premium account is a [capital reserve](#) and is touched only when there is not much of clarity about future profits, or revenue reserves are not enough.

“In any case, since the bank is under prompt corrective action, nothing can happen without the RBI’s nod,” said an analyst.

Such write-offs won’t affect core equity ratios as accumulated losses are taken into account before arriving at those ratios. In some ways, it was important for the bank to clean up its books as coupon payment for its additional tier-1 bonds are due in February. Loss-making [banks](#) can decide not to pay the full coupon, but that affects investment psyche and therefore, cleaning up of books make sense, the analyst said.