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34,381 ▲ 225.19

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10,571 ▲ 70.45

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More Indian banks entangled in PNB fraud

BY N SUNDARESHA SUBRAMANIAN, ET ONLINE | UPDATED: FEB 14, 2018, 10.26 PM IST

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At least three more Indian banks – two from the public sector and one private – are likely to have been caught in the Rs 11,000-crore fraud that hit the [Punjab National Bank \(PNB\)](#) on Wednesday. Union Bank of India, Allahabad Bank and Axis Bank are said to have offered credit based on letters of undertaking (LOUs) issued by PNB.

An LOU is in effect a letter of comfort issued by one bank to branches of other banks, based on which foreign branches offer credit to buyers. Foreign branches of these banks, which had relationships with the outlets of a jewellery company, had taken significant exposures.

The exposures of the foreign bank branches are now under regulatory scanner following complaints lodged with the local regulators in their respective jurisdictions. In an earlier FIR, reported by PTI last week, PNB had told [CBI](#) that the fraudulent LOUs were first issued on January 16.

The jewellery company, which has shops in foreign locations such as Hong Kong, Dubai, and New York, had been availing buyers' credit based on such LOUs from as early as

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2010, according to banking sources. The arrangements continued to be honoured regularly over the years. Sources said the last such obligations were honoured on January 5. However, trouble began with the payment cycle that fell due on January 25.

Sources added that PNB officials had sought additional margin of around 10% on the jeweller's exposure for the facilities to continue. As the jeweller was unable to provide this, the facilities were withdrawn, leading to a collapse.

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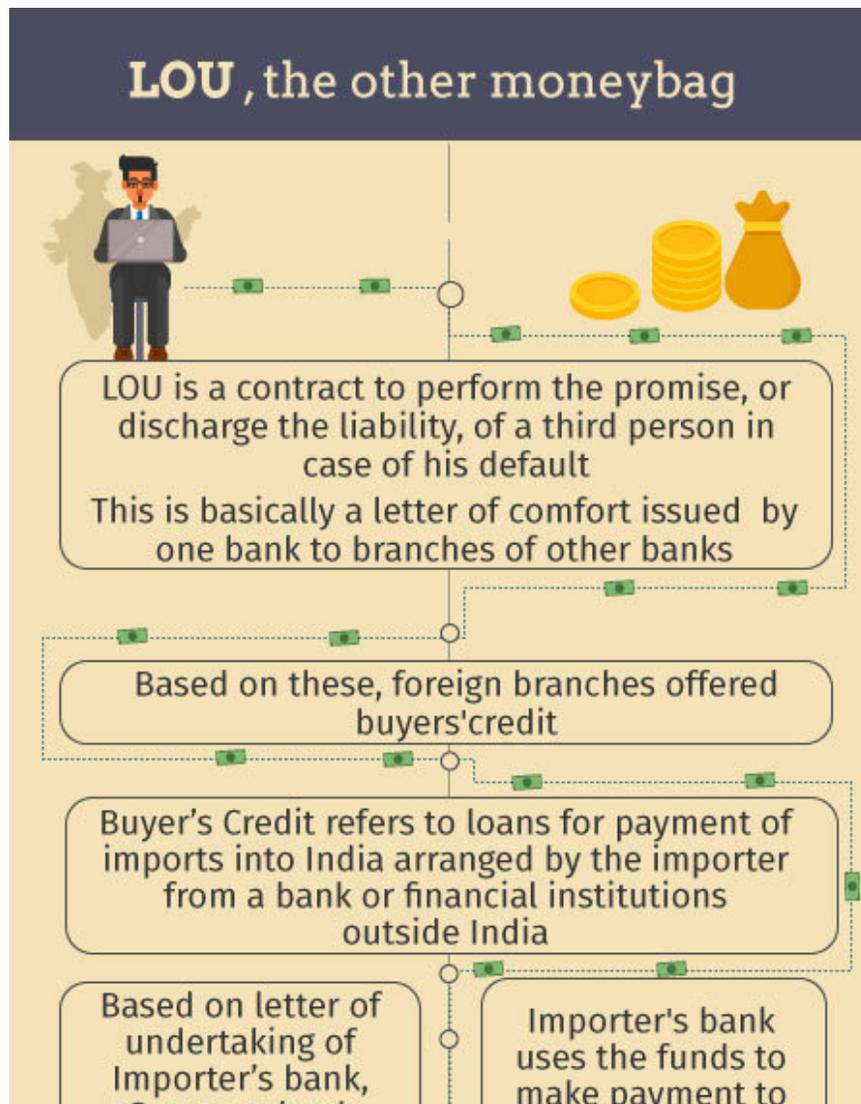
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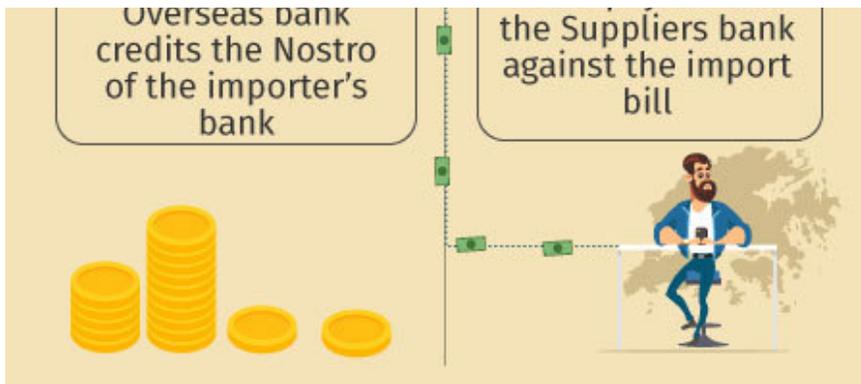
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As PNB refused to honour the LOUs, one of these banks had reported the matter to the Hong Kong monetary authority, which is the local regulator, and also the [Reserve Bank of India](#).

“Our exposure is against the bank, not on the client. Based on the LOU, we have remitted the amount to the Nostro account of the bank. We have already reported the matter to the regulators,” a senior banker, whose bank had an exposure of about Rs 2,000 crore to the account, told ET. “Following our complaint, the Hong Kong regulator had sought certain details, which we have provided.”

PNB 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".

Without giving further details, PNB said, "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.”

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