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PNB bank fraud likely to swell beyond \$2 billion mark

BY REUTERS | MAR 06, 2018, 11.07 PM IST

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The extent of the unravelling fraud at India's state-run [Punjab National Bank](#) could rise beyond the nearly \$2 billion mark so far outlined by the lender, according to a source involved in the probe and court documents reviewed by Reuters.

The source, who asked not to be named, said investigators had not yet recovered all the papers and loan guarantees allegedly issued by rogue employees of the bank, and consequently believed the bank's exposure could be greater than revealed so far.

In what has been dubbed the biggest fraud in India's banking history, Punjab National Bank (PNB) and police have accused two jewellery groups - one controlled by diamond tycoon [Nirav Modi](#) and the other by his uncle [Mehul Choksi](#) - of colluding with bank employees to get credit from overseas banks using fraudulent guarantees.

Both Choksi and Modi have denied the allegations and lawyers for the two key accused PNB employees in the case have also said they are innocent.

According to court filings, the exposure to three companies controlled by Modi has been estimated at 64.98 billion rupees (\$1 billion), while firms controlled by Choksi have been accused of defrauding the bank of 61.38 billion rupees.

India's federal police, the Central Bureau of Investigation (CBI), has told a Mumbai court that the amount involving Modi's companies was likely to go up, according to the source and court filings, copies of which have been reviewed by Reuters.

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The CBI told the court that its investigation had found that the fraudulent issuance of letters of undertaking (LoUs), or guarantees, through a Mumbai branch of the bank had been going on since 2010.

In papers filed on Monday, the CBI also said PNB did not have all the documents related to the LoUs, since those were returned to the borrower.

"Most of these documents are not yet recovered. The size of the fraud has now gone (up)...and the same is likely to go even higher," the CBI said in the court filing.

PNB did not respond to requests on Tuesday seeking comment on the risk of its exposure rising further.

The bank initially reported to authorities on Jan. 29 that the jewellery groups had defrauded it of 2.8 billion rupees, or about \$44 million. On Feb. 14 it said the fraud sum had reached \$1.77 billion after a detailed investigation.

It raised the amount further to nearly \$2 billion last week, saying it had discovered some \$200 million more in fraudulent letters of credit, another form of credit guarantee, issued to Choksi's Gitanjali group.

Investigators widened their probe on Tuesday with the government's Serious Fraud Investigation Office beginning to call senior executives from Gitanjali's creditor banks for questioning over their loan exposure, separate sources with direct knowledge of the probe said.

Police also arrested on Tuesday Vipul Chitalia, a vice president at Gitanjali, taking the total number of people arrested so far in the case to 19. Chitalia, who police say was the authorised signatory for Gitanjali for the allegedly fraudulent transactions, was detained by Indian immigration authorities on his arrival from Bangkok.

Jeweller Modi along with his family left India in January before PNB filed a police complaint, according to police, who also say Choksi is out of India. Their whereabouts are not known.

PNB shares fell 2.3 percent on Tuesday in a Mumbai market that slipped 1.1 percent. The stock has lost almost 40 percent of its market value since disclosing the fraud on Feb. 14.

Finance Minister [Arun Jaitley](#) told parliament on Tuesday that PNB had "sound fundamentals and strong growth potential" with its high share of low-cost current and savings accounts deposits, stabilising bad loans and scope to raise funds by selling non-core assets.

Axis Bank, a private sector lender, said in a stock exchange filing the Serious Fraud Investigation Office had sought information from it on the accounts of Nirav Modi and Gitanjali groups of companies, adding its exposure to both groups was about 2 billion rupees.

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