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# How PNB missed Nirav Modi's several elephants in the room

BY ET ONLINE | JUN 27, 2018, 08.09 PM IST

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NEW DELHI: There was enough suspicious activity at the [Brady House](#) branch of [Punjab National Bank](#) (PNB) in Mumbai to alert the top officials to the dealings of [Nirav Modi](#) and Mehul Choksi's companies. If the bank had not ignored several elephants in the branch, it won't have lost Rs 14,000 crore. That's what PNB's internal probe report says, according to a TOI report.

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The biggest elephant in the room the PNB missed—or ignored—was the “exponential” rise in the branch’s business with Nirav Modi and Mehul Choksi’s companies since 2010, when Gokulnath Shetty joined the branch.

Between March 2010 and September 2010, deposits and FDs at the branch more than doubled from around Rs 1,082 crore to Rs 2,269 crore, and hit a peak of Rs 2,550 crore in June 2011 before a downward slide started. It hit a low of Rs 750 crore on September 30, 2012, indicating that the margin money given for the issue of letters of undertakings — which is a sort of bank guarantee — by firms owned by Modi and Choksi was completely wiped out, the report says. In contrast, advances, after showing an initial rise, stabilised by December 2017, when payments related to LoUs became due.

There were several other elephants in the room. The internal reports points out that branch managers and their supervisors didn't pay attention to the numbers while several basic norms were not followed. For instance, for the “unauthorised business”, forex transaction vouchers were not maintained at the branch and SWIFT messages were not entered in the Core Banking System (CBS).

Similarly, PNB executives at the branch didn't prepare credit appraisal report for groups that had credit facilities and they did not insist

on payment of margin money to cover for potential losses.

The internal investigation also points out that LoUs were issued for companies owned by Modi and Choksi using SWIFT in favour of different exporters, mainly in Antwerp, Hong Kong and Dubai, “without setting up any limit”. SWIFT is a switch for global financial transactions. In any case, inspection of inventory of imports by Modi and Choksi were not undertaken and securities kept by them were not checked.



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The report found that the branch failed to verify if the income arising from forex business in the accounts (of Modi and Choksi companies) was correct. “Another pattern found was that even though branch was reporting high forex turnover numbers, commensurate commission was not being booked. This could have been one of the alarm signals which was missed continuously,” the report said.

The internal probe report says if all these suspicious activities were not ignored, the mega fraud could have been prevented.

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