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RBI affidavit details how it was 'cheated' by scam-hit PMC Bank

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MUMBAI: In a detailed affidavit filed before the Bombay High Court on Tuesday, the Reserve Bank of India (RBI) has virtually admitted that it was 'cheated' by the management of the scam-hit Punjab and Maharashtra Cooperative (PMC) Bank.

The affidavit, filed by Rajlaxmi Sethi, Assistant General Manager, Department of Co-operative Bank Supervision, RBI, states that PMC Bank had submitted fraudulently manipulated data to the central bank for sample checks, but "the sample of accounts picked for inspection did not contain undisclosed HDIL accounts."

While the HDIL accounts shown by PMC Bank were seen by the RBI inspection team, a majority of them were declared as non-performing assets.

It added that the PMC Bank had also sanctioned mortgage limits to a wholly-owned subsidiary of the HDIL when the bank's Chairman, the now arrested S. Waryam Singh, was also a director of the company -- a clear conflict of interests and violation of the RBI's Master Circulars to the effect of July 2010 and July 2012.

S. Waryam Singh also chaired a PMC Bank board meeting to approve the mortgage overdraft in which he was interested, again contravening RBI norms.

The RBI inspection team established the links between Waryam Singh and HDIL promoters/directors (now arrested), which could have helped them get credit facilities, and later to pay off one-time settlement of dues with other lenders, the affidavit said.

The scale of violation and the connected lending that was established, based on available records, was much lesser due to the 'camouflaging' resorted to by the PMC Bank, and hence what was noted was 'flagged', though it was not found to be significantly affecting the bank's financial health.

On September 19, 2019, the RBI sent a team for the annual financial inspection of the PMC Bank and a thorough scrutiny of the HDIL accounts, with specific focus on the dealings and/or exposure of the bank with the HDIL group, besides other aspects.

The inspection was completed on November 2, 2019 and the report is currently being prepared, the affidavit said.

As per the preliminary findings, due to various financial irregularities, the PMC Bank's networth had turned negative, with a significant erosion in deposits.

Detailing the "modus operandi of hiding the information related to HDIL exposure" employed by the PMC Bank, the RBI affidavit said they tampered with Management Information Systems and NPC Identification Process.

In this, the bank had given special access codes to the HDIL accounts with restricted visibility to less than 25 out of PMC Bank's 1,800 staffers.

While running the script for system identification of the NPAs, it deliberately excluded the HDIL accounts which were thus omitted from the system generated reports of NPA accounts, and ditto with the Overdrawn Accounts list.

The PMC Bank's own MIS software called 'Opine' had a script for generating lists of newly sanctioned/disbursed accounts, but the undisclosed loan accounts were missing from this list.

These irregularities were not highlighted by the PMC Bank's concurrent auditors at the Sion Branch, where all these undisclosed accounts were parked though concurrent audits were carried out every month, the affidavit pointed out.

Besides, the undisclosed loan accounts to HDIL group, sanctioned and renewed by then PMC Bank Managing Director K. Joy Thomas (now arrested), were not recorded in the minutes of the Loan Committee, Recovery Committee, or the Board of Directors, though they constituted a vital source of information during inspection.

The affidavit said taht PMC Bank falsified information of offsite returns submitted to the RBI, false indent information provided to the RBI inspection team, and resorted to fictitious booking of profits, etc.

However, following a tip-off by an insider, a senior PMC Bank official, the RBI moved at top speed to arrest the slide and protect depositors/customers interests by slapping sanctions on the bank on September 23. It suspended its BoD and appointed an Administrator to evaluate the securities/collaterals provided by HDIL to auction them to recover the dues.