

Fake LoUs: PNB agrees to honour Rs 65 bn of other banks' pending claims

The decision came after the finance ministry's meeting on Tuesday with a few bankers, including those from Punjab National Bank, to break the stalemate between banks

Punjab National Bank (PNB) on Wednesday decided to clear all other banks' dues, amounting to Rs 65 billion, to be paid before March 31 in relation to the Rs 140-billion fraud case.

“The board of PNB, in a meeting held on Wednesday, has approved payment related to letters of undertaking (LoUs) and foreign letters of credit (FLCs) issued by the bank which mature on or before March 31, 2018,” PNB said in a statement.

The decision will help the bank settle claims worth Rs 65 billion against LoUs issued to seven banks — Union Bank of India, Allahabad Bank, Bank of India, Canara Bank, State Bank of India (SBI), Axis Bank, and UCO Bank.

PNB will also honour all the subsequent LoUs and FLCs as and when they are due, the Delhi-based bank said. The move will ensure that the loss against the fraud will not be reported in the books of around dozens of banks to which fraudulent LoUs were issued by PNB for group companies of diamantaire Nirav Modi and his uncle Mehul Choksi.

However, PNB will still have to make provision for the losses in its balance sheet, as it has yet to recover money from these two groups of companies.

PNB's decision to repay came after the finance ministry's meeting on Tuesday with some bankers, including those from PNB, to break the stalemate between banks.

Other banks have given an undertaking to PNB to refund the money against the fake LoUs wherever the involvement of the former's officials is established by investigative agencies, sources said.

“In essence, PNB stood by its commitment to honour all bona fide LoUs. This decision of the board sends out a strong message that PNB takes its obligations seriously but does it in a manner that is compliant with the law. PNB board's decision will help restore confidence and stability in the larger banking system,” PNB's non-executive chairman Sunil Mehta said.

Before this, PNB has been reiterating that it will honour claims made against “genuine” LoUs. This has been an area of contention among the banks involved in the scam. PNB sources said a clarification had come from the ministry to discharge all pending dues to banks for the LoUs issued since 2017.

They add PNB has to clear dues worth around Rs 60 billion to other banks, including Union Bank of India, UCO Bank, and SBI, by March 31.

Through the LoUs, PNB issued an undertaking to these banks that it would repay the amount borrowed by the companies involved in case of any default after a fixed period of time. The other banks deposited the foreign currency loans in the account abroad of PNB, known as a nostro

account. These were transferred to the companies dealing with the Nirav Modi and Mehul Choksi groups.

PNB had partly passed the blame on the foreign branches of Indian banks for lack of due-diligence on the fraudulent LoUs. PNB said the LoUs were not issued by Reserve Bank of India (RBI) guidelines and the other banks did not raise any alarm. The other banks have said all the LoUs issued by PNB were genuine and none of their foreign branches violated any RBI guideline.

PNB's board also reviewed the progress of integration of SWIFT messaging system with the bank's core banking system — a loophole that led to the scam going undetected. The bank said that the first phase of integration will begin from April 3 — the first working day of the next financial year.

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