

RESERVE BANK OF INDIA

REPORT OF THE CENTRAL BOARD OF DIRECTORS FOR THE YEAR ENDED THE 30TH JUNE, 1941.

To be presented to the Shareholders at the Seventh Annual General Meeting to be held on Monday, the 11th August, 1941, at Delhi in the Meeting Room of the Delhi Municipality in the Town Hall Building, opposite the Clock Tower, Chandni Chowk, at 3 p.m. (Standard Time).

Report of the Central Board of Directors of the Reserve Bank of India

For the year 1st July, 1940—30th June, 1941.

In accordance with section 14 of the Reserve Bank of India Act, 1934, the Central Board of Directors presents to the Shareholders this Annual Report and the Accounts of the Bank for the year ended the 30th June, 1941.

ANNUAL ACCOUNTS.

After payment of expenses of administration and provision for sundry liabilities and contingencies the net profit amounts to Rs. 2,79,26,447-3-3

Of this amount, the sum of Rs. 17,50,000-0-0 will be utilised for payment to shareholders of a dividend at the rate of 3½ per cent. per annum being the cumulative rate fixed by the Central Government in accordance with section 47 of the Reserve Bank of India Act, 1934,

leaving a surplus of Rs. 2,61,76,447-3-3

for payment to the Central Government in accordance with the said section.

The increased profits are due to an increase in the Bank's assets, corresponding to an increase in its note issue liabilities as a result of expansion of currency, and to the fact that some of them were held in the form of securities yielding a higher rate of interest.

The accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Mr. P. K. Ghosh of Calcutta and Messrs. Sastri & Shah of Madras who were duly elected as auditors of the Bank by the shareholders at their meeting held at Bombay on the 5th August, 1940, in accordance with section 50 (1) of the Reserve Bank of India Act, 1934. The present auditors being eligible offer themselves for re-appointment.

Sir P. Raghavendra Rau continued as the Director nominated by the Central Government in pursuance of the Central clause (d) of sub-section (1) of section 8 of the Board. Reserve Bank of India Act for the larger part of the year. The Hon'ble Mr. C. E. Jones, C.S.I., C.I.E., I.C.S., was nominated in his place from September to November, 1940 and January to March, 1941 and in June, 1941.

On the expiry of the term of the Directors representing the Western (Bombay) Area Local Board under sub-section (4) of section 8 of the Act, an election of the members of the Local Board was held in November, 1940. Subsequently at a meeting of the elected members of the Local Board held in Bombay on the 3rd January, 1941, Sir Purshotamdas Thakurdas, C.I.E., M.B.E., and Mr. Chunilal Bhaichand Mehta were elected as Directors of the Central Board in terms of sub-section (7) of section 9 of the Act.

During the year under report six meetings of the Central Board were held, of which two were held in Bombay, two in Calcutta and one each in Madras and Delhi. Meetings of the Central Board and its Committee. The Committee of the Central Board met 29 times in Bombay, 22 times in Calcutta and once in Delhi.

As stated above, there was one Local Board election during the year in the Western (Bombay) Area in November preliminary to the election of Directors for that area and the new members of the Local Board assumed office in December. Local Boards.

In the Northern (Delhi) Area, the Central Board, in July, 1940, nominated Mr. W. Roberson Taylor to be a member of the Local Board in terms of section 12 (3) of the Act in place of Mr. P. H. Guest, who ceased to be a member of the Board in April, 1940, in terms of section 11(5) of the Act, on his election to the Punjab Legislative Assembly. In the same month, Mr. R. Ramanathan Chettiar was nominated by the Central Board to be a member of the Southern (Madras) Area Local Board in the vacancy caused by the resignation

(3)

of Mr. S. Rm. Ar. Rm. Ramanathan Chettiar. Mr. J. W. Maofarlane, a nominated member of the Southern (Madras) Area Local Board, resigned in December, 1940, on his retirement from India and in January, 1941, the Central Board nominated Mr. Herbert Ison Wonfor in the vacancy.

The accompanying table shows the distribution of the Bank's Distribution of shares as on the 30th June, 1940 and the 30th Shares between the various June, 1941. Areas.

	Distribution of shares as on the 30th June, 1940.	Distribution of shares as on the 30th June, 1941.
Bombay	1,19,671	1,21,501
Calcutta	91,063	87,168
Madras	60,249	59,826
Rangoon	18,602	18,682
Total . . .	5,00,000	5,00,000

	Number of shareholders on the 30th June, 1940.	Number of shareholders on the 30th June, 1941.
Bombay	19,815	19,072
Calcutta	12,349	12,246
Delhi	13,719	12,813
Madras	8,237	7,973
Rangoon	1,437	1,364
Total . . .	56,057	53,468

	30th June, 1940.	30th June, 1941.
Average number of shares held by each shareholder	8.9	9.4

It will be seen that the total number of shareholders declined from 56,057 to 53,468 during the year. The effects of the amendment

of the Reserve Bank of India Act referred to in the last report, limiting the maximum holding of shares acquired after the 26th March, 1940, were more than offset by the continued tendency of the shares to become concentrated in fewer hands, so that the average number of shares held by each shareholder rose further from 8·9 to 9·4 during the period.

No new denominations of India or Burma bank notes were Bank and Currency Notes. issued during the year nor was there any change in the existing patterns. Under the stimulus of the war the country's currency requirements continued to grow and the note circulation expanded further during the year, the total amount in circulation in India and Burma (apart from one-rupee notes) at the end of June, 1941, being Rs.278.27 crores as compared with Rs.247.74 crores a year ago.

On the 24th July, 1940, the Government of India, in exercise of the power conferred upon them by section 72 of the Government of India Act, 1935, issued an Ordinance (Ordinance IV of 1940) to provide for the issue of Government of India one-rupee notes. These notes are equivalent to rupee coin for all purposes of the Reserve Bank of India Act, and not being bank notes, can be issued by the Bank in exchange for its own notes. The object of the measure was to lessen the inconvenience felt by the public as a result of the large withdrawals of rupee coin from circulation after the fall of Prance and the consequent scarcity of a medium of exchange smaller in value than the lowest denomination of Reserve Bank notes, viz., five rupees.

By the Indian Coinage (Amendment) Act, 1940, and the Indian Coinage (Amendment) Ordinance, 1940, the coinage. Government of India reduced the fineness of the silver in the quarter rupee and half rupee coins from eleven-twelfths to one half, and coin of the reduced fineness was first issued by the Bank in June and August 1940 respectively. This was followed later by the issue of rupee coin of the reduced fineness by an Ordinance issued on the 23rd December, 1940, and the new rupee coin was first issued by the Bank on that date.

Under the Government of India notification No. **D/C.1861-F** dated the 11th October, 1940, issued in terms of the Indian Coinage Act as amended by the Indian Coinage (Amendment) Ordinance, 1940, Victoria rupees and half rupees ceased to be legal tender from the 1st April, 1941, but continue to be receivable at all Government treasuries and Post Offices till the 36th September, 1941, and thereafter until further notice only at the **offices** of the Issue Department of the Reserve Bank at Bombay and Calcutta.

The Bank's Report on Currency and Finance for the year ended the 31st March, 1941, was published in **Publication of the Currency Report.** July, 1941. This report deals with economic and financial conditions in the country and with Government finances during the financial year in greater detail than the Annual Report of the Central Board to the **shareholders**, which is primarily a review of the Bank's working during the accounting year.

World economy during the year under review continued to be overshadowed by the war and with the **International Economic Situation.** extension of the zone of hostilities the various economic controls in the sphere of production, consumption, prices, foreign trade, exchange, etc., instituted after the outbreak of war in the belligerent as well as in certain neutral countries were further intensified. In the main the essential problem of war economy continued to be the same as in the war of 1914-18, namely, the necessity for the mobilisation of all economic resources for the prosecution of war at a time when the real output of goods and services was reduced by the diversion of men to the forces. Though the introduction of the various control measures immediately after the outbreak of the war facilitated the economic mobilisation, the increased cost of waging war on a highly mechanised scale created financial problems of unprecedented magnitude which were reflected in the enormous increases in Government expenditure during the year.

In the United States the recession in economic activity, which was noticed after the passing of the initial boom immediately

after the outbreak of the war, was arrested in May, 1940, when industrial production began to assume an upward trend due principally to the increased volume of war orders received from the British Empire and the vast increase in domestic defence expenditure and reached a new record in March, 1941. The outstanding event was the passing of the ' Lease and Lend Act' on the 11th March, 1941, empowering the President to transfer at his discretion defence articles to the Government of any country whose defence he deemed vital to the defence of the United States. In Great Britain, the dominant feature of the economic situation was the intensification of the economic and financial effort necessitated by the war with a view to mobilising, to the fullest extent, all the available resources in materials and labour. Some idea of the magnitude of the financial effort of the war may be obtained from the fact that the daily expenditure on war rose from £4.7 millions in the first month of the war to about £14 millions in March, 1941. In the financial markets the prominent features were the continued maintenance of cheap money conditions and the steadiness of gilt-edged securities. An important development in the exchange market was the recovery of the quotation for free sterling in the New York market, as a result mainly of the payment agreements entered into by the Bank of England with the principal banks in the United States and other countries in the course of the year.

In India the setback to business conditions caused by the fall Situation in of France in June, 1940, continued to exercise India. a depressing influence over the markets generally during the earlier part of the year under review ; from September, however, signs of a more hopeful outlook were in evidence owing mainly to the improvement in the war situation and the receipt of large Government orders for the supply of raw materials in connection with the war. Commodity prices recovered rapidly, the Calcutta index number of wholesale prices (1914=100) rising from 114 in June, 1940, to 138 in June, 1941, as compared with the peak of 137 in December, 1939, reached in the first upswing after the commencement of the war. The developments in the field of supply not only acted as a great stimulus to existing Indian

industries generally but also led to the establishment of new industries. Available figures show that production in the cotton, iron and steel, paper and certain chemical industries was maintained at a higher level than during the corresponding period of the preceding year, though certain important industries such as lute and sugar remained depressed. Although owing to the loss of important European export markets as a result of war developments, war-time controls of exports and imports and the scarcity of freight, India's foreign trade position as revealed by the published figures showed deterioration, this was offset by increased purchases by His Majesty's Government in India which are paid for in sterling and which are not therefore included in these figures. The financial and the currency system of the country as a whole continued to stand well the strain of war conditions, and signs were visible occasionally of an optimism which cannot be regarded as justified in view of the essentially artificial nature of any war prosperity.

Owing mainly to the loss of important European markets for India's staple export commodities, referred to above, trade demand for funds was generally slack and monetary conditions remained easy throughout the year. The Reserve Bank of India rate continued to be maintained at 3 per cent. during the period.

At the beginning of the year, the call money rate in Bombay stood at $\frac{1}{2}$ per cent., but with the advance of the slack season the downward tendency of money rates became more pronounced and the rate eased to $\frac{1}{4}$ per cent, by the close of July. Fixed deposit rates also tended to lower levels, those for three and six months declining in Bombay from $1\frac{3}{4}$ per cent. to 1 per cent. and $1\frac{1}{4}$ per cent. respectively. Towards the close of August the three months rate receded further to $\frac{3}{4}$ per cent. but the inter-bank call rate and the six months' fixed deposit rate remained unaltered at their previous levels. In the succeeding two months trade demand was restricted owing to the slack season and money rates were largely nominal. From the beginning of November the seasonal demand for funds began to assert itself gradually but the banks had no difficulty in meeting it from their resources. Throughout the busy season from

November, 1940 to May, 1941, trade demand for funds was on a lower scale than in the previous season, the average advances and bills discounted of the scheduled banks during these months being **Rs.118.44** crores as compared with Rs.149.60 crores a year before. This was reflected in a rise in the scheduled banks' balances with the Reserve Bank which averaged **Rs.39.95** crores from November, 1940, to May, 1941 as against **Rs.17.46** crores in the corresponding period of the previous year. At the beginning of April, owing to the **financial** year-end requirements, the inter-bank call money rate in Bombay temporarily moved up from $\frac{1}{4}$ to $\frac{1}{2}$ per cent. but soon fell back to $\frac{1}{4}$ per cent. and remained at that level up to the end of the year. The three months' rate also moved up fractionally from $\frac{3}{4}$ per cent. to 1 per cent. at the commencement of April, and after remaining at that level up to the middle of June, receded to $\frac{3}{4}$ per cent. at the close as a result of a falling off in the seasonal demand.

As a result of the easy monetary conditions prevailing, the Central Government were able to float their treasury bills at rates considerably lower than in the previous year, the total amount sold to the public by tender and by intermediates during the year being **Rs.114.43** crores at an average rate of **Rs.0-12-9** per cent. per annum as compared with **Rs.120.75** crores at an average rate of **Rs.1-12-3** for the preceding twelve months.

The accompanying table shows the borrowings of Provincial Governments in the form of treasury bills during the year ended the 30th June, 1941.

Week ended	Issuing Government	Period	Face value	Average rate per cent. per annum
			Rs.	Rs. a. p.
1940 August 16..	Madras	3 months	1,00,00,000	0 13 0
„ September 6..	„	3 „	50,00,000	0 12 7
„ October 4..	Bengal	3 „	40,00,000	0 13 0
„ „ 25..	C. P. & Berar	3 „	50,00,000	0 15 0
„ „	Bengal	3 „	50,00,000	0 15 7
„ „	Madras	3 „	75,00,000	0 11 0
„ November 8..	C. P. & Berar	3 „	25,00,000	0 14 1
„ „ 15..	Madras	3 „	75,00,000	0 11 10
„ „	„	3 „	75,00,000	0 15 3
„ December 6..	Bengal	3 „	75,00,000	1 2 10
1941 January 10..	C. P. & Berar	3 „	50,00,000	1 0 6
„ June 6..	Bengal	3 „	40,00,000	0 15 9

As in previous years the rates at which the Provincial Governments were able to borrow continued to be generally above those on Central Government treasury bills, although there was a further narrowing down of the disparity between the two sets of rates. In one or two instances the rates paid by the Provincial Governments actually happened to be lower than those on Central Government treasury bills floated about the same time.

The gilt-edged market in India during the year continued to reflect the developments in the war situation and the trend of prices in London. After the heavy decline in prices towards the end of June, 1940 following the collapse of France, the market steadied in the first half of July and $3\frac{1}{2}$ per cent. rupee paper advanced gradually from Rs.85-14-0 at the close of June to Rs.90-0-0 by the middle of July. It declined temporarily to Rs.87-12-0, but recovered to Rs.89-6-0 on the Government announcement, on the 25th July, of a fresh issue of the Six-Year 3 per cent. Defence Bonds from the 1st August. In the succeeding two months, the undertone remained steady with minor variations in prices, the quotation ranging between Rs.88-12-0 and Rs.90-12-0. The announcement on the 23rd September, 1940, of the decision of the Governments of Madras, the Punjab, the United Provinces and Assam to float simultaneously on the 27th September, 3 per cent. medium-dated loans repayable in 1952 had a favourable effect and rupee paper rose to Rs.91-2-0 by the end of the month. From October onwards there was a gradual improvement in the prices of gilt-edged securities in the London market which had long remained at the minima fixed by the Committee of the London Stock Exchange in the middle of March, 1940, and this, coupled with some investment inquiry, accelerated the improvement in prices in the Indian market and the quotation for $3\frac{1}{2}$ per cent. rupee paper rose progressively to Rs.95-1-0 by the 24th January. The rising tendency gathered further momentum with the discontinuance of the sale of the 3 per cent. Defence Bonds, 1946 with effect from the 25th January and their replacement by a 3 per cent. Loan, 194962 (Second Defence Loan) on slightly less favourable terms and the announcement of the 8th February regarding the compulsory

repatriation of India's terminable sterling debt. $3\frac{1}{2}$ per cent. rupee paper touched **Rs.96-4-0** on the 11th February, the highest since the outbreak of war. Thereafter the market was steady with minor variations until the end of April when as a result of unfavourable developments in the Balkan and Middle East war theatres rupee paper declined to **Rs.94-1-0** but recovered again to **Rs.95-15-0** by the end of the first week of June owing to investment inquiry. On the 9th June, the Government of India announced their decision to offer to holders of $4\frac{1}{2}$ per cent. 1950-55 and 1958-68 Indian sterling loan rupee counterparts the option to convert their holdings into 3 per cent. 1951-54 and 1963-65 rupee loans respectively on terms based on the prevailing market price of the loans concerned. It was also announced that the right of conversion could be exercised only between the 16th and the 21st June. As the rupee counterparts held by private investors were comparatively few, the conversion offer had no appreciable effect on the gilt-edged market, and $3\frac{1}{2}$ per cent rupee paper closed at **Rs.96-1-0** for the year.

The loan programme of the Central Government during the first seven months of the year was a continuation of the Indian Defence Loans programme launched on the 4th June, 1940, with the issue of the Six-Year Defence Bonds, Ten-Year Defence Savings Certificates and Three-Year Interest Free Bonds, From the 1st August, 1940, the Government made the Six-Year Defence Bonds the mainstay of their loan programme and to this end removed the previous restriction on the maximum individual holding of **Rs.15,000**. The new Bonds known as the 3 per cent. Defence Bonds, (Second Issue), are redeemable on the 1st August, 1946, and were made available on tap from the 1st August, 1940, and were issued at par between the 1st and the 10th August and thereafter at prices which were increased every week by nine pies per cent. so as to cover the accrued interest. Holders of the 5 per cent. 1940-43 loan, which had previously been notified for repayment on the 1st October, 1940, were given the option to convert their holdings into the bonds at par together with interest from the date of surrender to the 30th September, 1940. The sale of those bonds

Central Govern-
ment Loans.

was discontinued from the 25th January and at the same time the Government announced that subscriptions to a 3 per cent. loan 1949-52 would be received without limit from the 1st February, 1941, until further notice. The new loan known as the 3 per cent. Loan, 1949-52 (Second Defence Loan) carries the same rate of interest as the 1946 Bonds, but has a longer maturity and is redeemable at par. It was also announced that rupee securities created as counterparts to the 3 per cent. Indian Sterling Loan 1949-52 in accordance with the Government scheme for the repatriation of the sterling debt announced on the 22nd February, 1940, could be consolidated with the new loan. Like the Defence Bonds, the new loan has been made available on tap at prices which increase by nine pies every week so as to cover the accrued interest.

The total balances of the following loans as on the 30th June, 1941, were as under :—

	Rs.
3% Defence Bonds, 1946	45,14,31,000
3% Loan, 1949-52 (Second Defence Loan)	18,34,70,000
3 Year Interest Free Defence Bonds.	2,41,63,000
	<hr/>
Rs.	65,90,64,000
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As stated above, the Governments of Madras, the Punjab, the United Provinces and Assam floated simultaneously on the 27th September, 1940, 3 per cent. **Provincial Government Loans.** medium-dated loans repayable at par on the 1st September, 1952. The amounts offered by the four Governments were Rs.70 lakhs, Rs.175 lakhs, Rs.100 lakhs and Rs.50 lakhs respectively, the corresponding issue prices being Rs.95-0-0, Rs.94-8-0, Rs.94-8-0 and Rs.94-0-0. Subscriptions were invited on the 27th and were kept open for one day only. The Madras Loan was oversubscribed in one hour and ten minutes while the remaining loans were fully subscribed after the transfer of options from the Madras Loan and a call on the underwriters for the balance.

Price movements in the gold market during the year were **Bullion Market.** on the whole narrower than during the previous twelve months' period. The decline noticed towards the close of the

last year was arrested at the opening of the year and ready gold which stood at **Rs.40-7-0** on the 29th June, 1940, improved to **Rs.42-2-0** on the 4th July. During July and the greater part of August the market remained steady, the ready rate moving between **Rs.42-2-6** and **Rs.41-10-6**. In the last week of August war developments led to speculative buying and the price rose to **Rs.43-0-0** on the 27th of the month but a gradual decline set in thereafter, ready gold falling to **Rs.41-12-6** on the 17th September. In the following four and a half months the market remained comparatively steady, the price moving between **Rs.42-2-6** and **Rs.41-9-6**. During this period the Exchange Banks **made** purchases for export purposes whenever freight was available. Thereafter the market was **firmer** for the remainder of the year and the ready rate fluctuated between **Rs.42-0-0** and **Rs.44-0-6**, the closing price for the year being **Rs.42-3-3**.

Prices in the silver market fluctuated narrowly during the year. After opening at **Rs.62-2-0** on the 1st July, the ready price ranged between **Rs.63-15-0** and **Rs.60-7-0** during the first half of the year. In the following three months, however, the market displayed a firmer tendency in sympathy with the rise in commodity markets, especially cotton, and anticipation of increased demand from upcountry, and the ready rate rose to **Rs.63-13-0** on the 24th March. At this stage the Reserve Bank sold silver in the Bombay market on Government account and this, together with the licences given by the Bank to import the metal from the U.S.A. eased the position and the quotation dropped to **Rs.62-10-0** by the 4th April. Thereafter the market was generally firm and the ready price, after ranging between **Rs.63-5-0** and **Rs.62-4-0**, closed at **Rs.63-1-0**.

The trend of commodity prices during the year under review reflected the repercussions of the war on Indian economy. Owing to the closure of important European markets, the prices of raw materials and foodstuffs which constituted the greater part of Indian exports prior to the outbreak of war remained at a comparatively low level. On the other hand, the prices of manufactured articles showed an upward trend owing

to the fall in imports. The Calcutta index number for wholesale prices (**July 1914=100**) rose from 114 in June, 1940, to 122 in November, and after moving between **119 and 121** during the succeeding three months, again assumed an upward trend and reached **138** in June, 1941.

Among food-grains, the index number for cereals improved from 95 in June, 1940, to 114 in June, 1941, and that for pulses from 97 to 99. The fall in the price of sugar from 165 to 139 reflected the difficulties of the sugar industry caused mainly by **overproduction**, especially in the United Provinces, while the rise of 96 points to 227 in the index for tea indicated the large purchases of that commodity by the United Kingdom. Owing to the loss of European markets, the downward tendency in the price of raw cotton noticed in the last report continued during the greater part of the year and after a temporary improvement from 68 in June, 1940, to 82 in July, the index fell to 66 in April, 1941. The downward tendency was, however, checked by the receipt of further large orders from Government for cotton piecegoods and the index recovered to 81 in June. For the same reason, the index number for cotton manufactures rose from 119 to 158. Raw jute showed a generally downward tendency during the greater part of the year but the decision of the Bengal **Government** to restrict the **acreage** in 1941 to one-third of **that in 1940**, the agreement between the Government and the industry to make purchases at **fixed** rates and the receipt of large orders from the British Government had a steadying effect during the last four months and the index number which had declined from 80 in June, 1940, to 51 in February, 1941, recovered to 73 in June. The beneficial effect of war orders for jute manufactures was also reflected in a rise in the index number for that commodity from 94 to 141 during the period under review. The indices for 'other textiles' (wool and silk) and metals also went up from 134 and 172 to 169 and 199 respectively.

The total value of merchandise exported from India and Burma **on private account** during the eleven months **ended May, 1941**, amounted to **Rs.179.48** crores as compared with **Rs.216.36** crores during the corresponding period.

ended May, 1940. On a similar comparison, the total value of merchandise similarly imported- was **Rs.132·13** crores against **Rs.136·21 crores**. The fall in exports was due mainly to the loss of important European markets as a result of war developments, while that in imports is to be attributed principally to the scarcity of freight. The balance of trade in merchandise on private account in favour of India and Burma thus declined from **Rs.80·15** crores to **Rs.47·35** crores. These figures, however, do not correctly indicate the balance of payments since they do not take into account the large and increasing purchases by His Majesty's Government which are paid for in sterling.

The rupee-sterling exchange was steady throughout the year. Exchange. The sellers' quotation for ready telegraphic transfers remained at lsh. 5-31/32d. till the 29th March, 1941, when it fell to lsh. 5-15/16d. on a sudden enquiry for remittance. To prevent the rate temporarily falling away the Reserve Bank announced that it was prepared to provide sterling cover at lsh. 5-31/32d. The announcement steadied the market and the rate for ready telegraphic transfers ruled at lsh. 5-15/16d. for the remainder of the year. The net sterling purchases of the Bank from the market in the year aggregated £54,074,993-6-7 as against £83,445,155-17-2 in the year ended June, 1940. The sterling requirements of the Central Government and the Government of Burma during the year amounted to £23,130,000 but these were more than offset by the repayments made by the Secretary of State to the Government of India on account of the purchases of war supplies in India on behalf of His Majesty's Government, the total amount of such repayments during the period being £48,675,000, leaving a net credit of £25,545,000.

The system of exchange control instituted by the Reserve Bank at the outbreak of the war continued during the year under review, and various modifications were made from time to time as necessity arose with a view to tightening up the regulations.

In the last report a reference was made to the extension of the export control scheme in June, 1940, under which exports to hard currency countries were only permitted provided a certificate had been furnished by an authorized dealer in foreign exchange that the proceeds of the goods would be disposed of in a manner

approved by the Reserve Bank of India. This reduced the volume of sterling that was passing to the free sterling market in New York. With a view to limiting this market still further, the Bank of England entered into various payment agreements during the year with the chief countries with which the Empire traded, whereby all sterling payments between the Empire and these countries passed through the official sterling accounts in London at fixed rates of exchange and no sterling payments were effected through the free markets.

With the occupation of a large part of Europe by Germany, it became necessary to prohibit the import into India of Bank of England notes in order to prevent the enemy disposing of their large holdings of notes captured in the occupied countries. The Government of India therefore issued a notification on the 22nd August, 1940, prohibiting the import into India except from Burma of Bank of England notes. Although this prohibition was a Customs measure, the Exchange Control Department collaborated by imposing severe restrictions on the purchase of Bank of England notes by banks in India.

On the 2nd November, 1940, the Government of India added a new rule, 90(B), to the Defence of India Rules forbidding the taking out of British India except to Burma of any money except with the approval of the Reserve Bank of India or under the authority of an authorized dealer in foreign exchange. Although strict regulations had always been enforced in India since the outbreak of war regarding the sale of foreign exchange by banks, no restrictions had been placed on the taking out of India by travellers of money in the form of currency notes either Indian or foreign and the new rule was intended to make good this omission.

In terms of the Defence of India Rules 92 and 94, the Government of India took over, in December, 1940, the U. S. dollar holdings of all residents in British India and the rupee equivalent of their dollar holdings was paid out by the Reserve Bank at the rate of Rs.330 per \$100 which was approximately the Exchange Banks' buying rate for T.Ts. on New York. Similarly on the 10th March, 1941, Government took over the holdings of residents in India of certain U.S. dollar securities at the market prices ruling in New York on the previous business day combined with the rupee-dollar rate of Rs.330 per \$100.

A development of interest during the year was the increase in the **entrepôt** trade of Bombay. Following the imposition of restrictions by the Japanese Government on the drawing of bills on places west of Bombay or in sterling against exports from Japan and cessation of the sailing of Japanese vessels up the Red Sea and Persian Gulf after the entry of Italy into the war, importers in the Middle East countries, Egypt, Sudan and East Africa were forced to make their purchases of Japanese goods in Bombay. Regulations were therefore issued prohibiting banks in India selling foreign exchange in payment of foreign goods that were being re-exported to other countries outside the sterling area except in certain cases where the Reserve Bank was satisfied that foreign exchange was received in payment of the re-exports. Permission was, however, given to Indian merchants who had financed **entrepôt** trade in **past** years up to the value of their pre-war shipments.

The scheme for the repatriation of India's terminable sterling debt announced on the 22nd February, 1940, which was referred to in the last report, was considerably advanced with the Government announcement on the 8th February, 1941, that in view of the rapid accumulation of sterling with the Reserve Bank as a result of war conditions they had taken action to repatriate practically the whole of their terminable sterling debt with the co-operation and assistance of the British Government. The British Government issued a vesting order under their special war powers requiring all residents in the United Kingdom to surrender their holdings of terminable loans, at prices based on the market prices as on the 7th February plus an allowance for the unavoidable delay in payment caused by the necessity of examining surrendered documents before acceptance. By a parallel and practically simultaneous order issued under the **Defence** of India Rules, the Government of India required persons subject to their jurisdiction to surrender their holdings of these loans, but they were given the option to receive in exchange either cash or rupee counterparts of the sterling loans at par. For those desiring payment in **cash** the price **fixed** was equivalent to the amount **fixed** in the British vesting order converted into rupees at the rate of **1sh. 6d.**

The operations connected with the scheme were virtually completed by the end of the year. The total sterling payment made was **£65** millions. The rupee finance required for the scheme was supplied partly by the sale of rupee counterparts to the Bank, the rest being found by Government from its balances with the help of a ways and means advance from the Bank which was later liquidated, the equivalent rupee counterparts being held on Government account. Altogether counterparts of the value of **Rs.94.88** crores were created and out of these counterparts of the aggregate face value of **Rs.13.14** crores were issued to the public who elected to receive them instead of cash and the balance was provisionally distributed approximately equally between Government and the Bank. The object of this distribution was to minimise the immediate administrative difficulties connected with the operation, and subsequently counterparts of the face value of **Rs.22.68** crores were taken over by the Government from the Bank for cancellation in exchange for treasury bills. At the same time Government cancelled **Rs.22.79** crores out of the stock of counterparts held on its account.

Government also offered conversion facilities to the holders of the $4\frac{1}{2}$ per cent. 1950-55 and $4\frac{1}{2}$ per cent. 1958-68 stock, into the existing 1951-54 and 1963-65 three per cent. loans, the total amounts converted being **Rs.15,16,31,400** and **Rs.13,40,10,200** respectively.

In accordance with the new procedure for inclusion of banks in the second schedule to the Reserve Bank Act referred to in the last report, under which the words 'aggregate value of paid-up capital and reserves' occurring in section 42(6) of the Act have to be interpreted to mean the real or exchangeable value and not the book value of the paid-up capital and reserves, four banks were included in the schedule by the Government of India during the period under review of which three were included after inspection by the Officer-in-Charge of the Banking Section of our Agricultural Credit Department. One bank was also included in the second schedule to the India and Burma (Burma Monetary Arrangements) Order. The total number of banks in the second schedule to the

Act and to the Order as on the 30th June, 1941, amounted respectively to 59 and 5. A list of these banks is appended to this report.

The table given below compares the position of the scheduled banks (including the Burma scheduled banks) as on the 28th June, 1940, and the 27th June, 1941.

(In thousands of rupees.)

	As on 28-6-1940.	As on 27-6-1941.	Difference.
1. Demand Liabilities in India and Burma	143,93,68	194,89,88	+ 50,96,20
2. Time Liabilities in India and Burma	107,76,30	107,40,63	— 35,67
3. Cash in India and Burma	11,01,84	12,03,10	+ 1,01,26
4. Balances with the Reserve Bank.	20,29,72	29,65,83	+ 9,36,11
5. Advances in India and Burma	140,23,84	127,80,04	— 12,43,80
6. Bills discounted in India and Burma	5,00,79	5,41,99	+ 41,20

During the year there was a steady increase in the total demand and time liabilities of the scheduled banks which rose from Rs.25170 crores on the 28th of June, 1940, to Rs. 302.31 crores at the close of the year under review. While demand liabilities showed an almost steady increase, time liabilities declined during the slack season owing to the reluctance of the scheduled banks to accept time deposits in view of their large balances with the Reserve Bank but recovered again in the last quarter of the year. The percentage of the scheduled banks' cash in hand and with the Reserve Bank to their total deposit liabilities which stood at 12.4 at the end of June, 1940, rose to 13.79 at the end of June, 1941. The highest level touched during the year was 22.00 per cent. on the 15th November, 1940, when the total of loans and advances and bills discounted stood at Rs.101.27 crores, and when the excess balances of the scheduled banks over the statutory minimum amounted to Rs.41.1 crores. With the commencement of the busy season, however, the advances and bills recorded a gradual increase until they reached the maximum of Rs.139.42 crores for the season on the 9th May, 1941, but declined to Rs.133.22 crores at the close of the year. The lower level of advances and bills of the scheduled banks as compared

with the previous year reflected partly the slackening of trade demand due to the loss of important European markets and partly the desire of the banks to keep their position liquid on account of the **uncertainties** of the war. The average balances maintained by the scheduled banks with the Reserve Bank amounted to Rs.38.53 crores as compared with **Rs.19.14** crores in the year before, the excess over the statutory minimum being **Rs.27.75** crores as against **Rs.9.44** crores. In view of the reduction in their advances, several of the larger scheduled banks increased their investments in Government securities as can be seen from the balance sheets as at the 31st December, 1940, of a number of Indian joint stock banks included in the schedule. Despite this, most of these Indian joint stock banks were able to maintain their profits for 1940, mainly because of their higher earnings in the first half of the year.

While large excess balances with the Reserve Bank over the statutory minimum were maintained by some of the larger scheduled banks, some of the smaller scheduled banks defaulted frequently in maintaining the statutory minimum deposits with the Reserve Bank during the first quarter of the year. There was then no provision in the Reserve Bank Act for preventing a scheduled bank from withdrawing its deposits from the Reserve Bank provided that it was prepared to accept the liability to pay the penal interest on the resulting deficiency. In the interest of the depositors and of sound banking in general it was thought necessary to remove this defect and a bill was introduced by the Government of India in the Central Legislative Assembly on the 5th November, 1940, and was passed by the Assembly on the 8th November, 1940, receiving the assent of the Governor-General on the 27th November. The amendment empowers the Reserve Bank to prohibit, if necessary, a scheduled bank from accepting fresh deposits during the period of default and prescribes heavy penalties for directors and other officers who are knowingly and wilfully a party to a default. It seems to have had a salutary effect and the defaults appreciably declined during the last quarter of the year.

Owing to the war developments in June, 1940, certain scheduled banks approached the Reserve Bank for financial assistance at

the beginning of the year and were granted loans aggregating Rs.11.46 lakhs against Government securities.

The total number of offices of scheduled and Burma scheduled banks in India and Burma including head offices, branches, pay offices, etc., increased from 1,322 last year to 1,404 during the year under review showing an increase of 82 offices. Ninety new offices were opened during the year of which 18 offices belonged to the 5 banks included in the schedule during the year while 8 of the existing offices were closed.

During the year under review, the Reserve Bank continued to keep in touch with the non-scheduled banks and to help them with advice and guidance whenever requested to do so. Detailed statistics with an explanatory analysis will be found in the "Statistical Tables relating to Banks in India" referred to below.

During the year the publication of the "Statistical Tables relating to Banks in India" was transferred by the Government of India to the Reserve Bank. The first issue covering the years 1939 and 1940 was published in July, 1941.

From the 1st October, 1940, the Reserve Bank of India has introduced a simplified scheme of remittance facilities with the concurrence of the Central and Provincial Governments. Under this scheme the general rates for remittances have been reduced and extended facilities have been provided ; remittance facilities throughout the country have also been standardized and the accounting procedure involved simplified. The issue of currency telegraphic transfers, supply bills and remittance transfer receipts has been discontinued and has been replaced by telegraphic transfers, Bank drafts, and Reserve Bank of India Government drafts. For the purpose of the scheme all Government treasuries and sub-treasuries in India and Burma having currency chest facilities, at places where the Reserve Bank is not represented, are regarded as the

Treasury **Agencies** of the Reserve Bank for the issue and payment of telegraphic transfers and drafts subject to certain limits on drawings. The scheme also offers concession rates to non-scheduled banks and indigenous bankers included in an approved list to be prepared by the Bank in consultation with the Provincial Governments. As on the 30th June, 1941, there were 37 non-scheduled banks and 3 indigenous bankers on the approved list.

In the report of the Board for the year ended the 31st December, **Reduction of Stamp Duty on Promissory Notes.** of 1939, a reference was made to the reduction of stamp duty chargeable on inland bills of exchange payable otherwise than on demand and having a **usance** not exceeding one year to two **annas** for every thousand rupees or part thereof, effected by the Central Government notification dated the 13th January, 1940. As it was not the intention of Government to differentiate between bills of exchange and promissory notes which are treated alike for purposes of taxation, they issued another notification on the 22nd November, 1940, reducing the stamp duty on promissory notes payable otherwise than on demand and having a **usance** not exceeding one year to the same extent as that on bills of exchange, with retrospective effect from the date of the original notification.

In the report of the Board for the year 1939, mention was **Banking Legislation.** made of the Bank's "Proposals for an Indian Bank Act" submitted to the Government of India which were subsequently circulated by Government for eliciting public opinion. The Government of India have now informed us that in the present abnormal conditions they do not consider it feasible to undertake immediately comprehensive banking legislation, which, in view of the lack of unanimity of opinion in the country which the replies received to the Reserve Bank's proposals have brought to light, might be controversial to a high degree. They have, therefore, decided that the question of undertaking comprehensive legislation should be held over for the present but that some interim measures involving the minimum of legislation might be considered in order to improve the administration of the

present law relating to banking, *i.e.*, Part XA of the Indian Companies Act.

In the last report mention was made of the training of officers of Co-operative Department⁸ deputed by certain province⁸ in the Agricultural Credit Department. During the year a further batch of officers was deputed for training in the Department ; the contacts thus established between the Provincial Co-operative Department⁸ and the Agricultural Credit Department appear to be leading to a better understanding of the position of the Bank *vis-a-vis* the co-operative movement.

The Department continued to examine problems of agricultural credit including the co-operative movement, debt legislation, schemes of rural reconstruction, land mortgage banking, etc., and to maintain personal contacts with the officials connected with the co-operative movement. During the year a number of problems relating to debt legislation, regulation of moneylending, rehabilitation of the co-operative movement, establishment and financing of land mortgage banks, establishment of licensed warehouses, investment of surplus funds of co-operative banks, organisation of multi-purpose societies, etc., were referred to us by the various Provincial Governments and the Government of Burma for our opinion and advice. All these problems were examined by the Department and detailed suggestions were made. In view of the increase in the research work of the Department, a new post of Director of Research was created during the period.

During the year two provincial co-operative banks approached the Bank for financial accommodation and appropriate credit limits were sanctioned.

The balance sheet of the Bank as at the 30th June, 1941, together with the Profit and Loss Account, is reproduced on pages 25-29 of this report. A comparison of this balance sheet with that on the 30th June, 1940 calls for the following observations. The total

of the balance sheet of the Issue Department has risen from **Rs.258·83 crores** to **Re.291.34 crores** owing to the rise in note circulation as a result of the increased currency requirements of the country under the influence of war conditions and the fillip provided by them to trade and industry. On the liabilities side, the total note circulation has shown an increase from **Rs.247·74 crores** to **Rs.278·27 crores**. On the assets side, it will be seen that the item of "Gold held in India" has risen from **Rs.41·54 crores** to **Rs.44·41 crores**, this being due to transfer of the gold held outside India to this country during the year. This transfer was effected shortly after the 39th June, 1940 by exchanging gold held in India by the Reserve Bank on behalf of the British Government with that held by the latter in London on behalf of the Reserve Bank. The total gold holdings of the Bank have remained unchanged.

The value of sterling securities held in the Issue Department has fallen from **Rs.131.50 crores** to **Rs.118·80 crores**. This reduction is to be attributed to the Government scheme for the repatriation of the sterling debt under which the Reserve Bank in March, 1941 effected a reduction in the balance of sterling securities to the extent of **Rs.38 crores** against a corresponding increase in the balance of rupee securities by taking over a considerable portion of the counterpart rupee securities created by the Government

"Rupee Coin," which item includes also the one-rupee notes of the Government of India issued during the year has shown a slight rise from **Rs.33·32 crores** to **Rs.36·81 crores**.

A large rise has occurred in the rupee securities in the Issue Department which have increased from **Rs.49·60 crores** to **Rs.91.32 crores** which is due principally to the operations connected with the repatriation of sterling debt referred to above. By an amendment to the Reserve Bank of India Act (Reserve Bank of India [Amendment] Ordinance, 1941) which came into force on the 8th February, 1941, the previous limitation on the maximum holdings of rupee securities in the Issue Department has been removed.

The total of the balance sheet of the Banking Department **has increased from Rs.45·09 crores to Rs.67·31 crores** during the year due mainly to the increased deposits of Governments and the scheduled banks with the Bank.

On the liabilities side the total of Government deposits has risen from **Rs.12·08** crores to **Rs.22·45** crores. These deposits showed large variations during the year reflecting the increased activities of Government consequent on the war and at one time reached a level as high as **Rs.39·72** crores.

For reasons already mentioned, bankers' deposits with the Reserve Bank have shown a rise from **Rs.20·98** crores to **Rs.30·03** crores. Throughout the year under review these deposits have been consistently higher than in the previous year.

On the assets side, "Balances held abroad" were higher at **Rs.47.33** crores as compared with **Rs.20·20** crores as on the 30th June, 1940. Under the influence of war conditions and the increasing purchases of raw materials for war by His Majesty's Government in India, sterling has tended to accumulate with the Bank. Since the beginning of the year the Reserve Bank added steadily to its holdings of "Balances held abroad," until they **reached Rs.78·35** crores on the 21st March, 1940, but fell thereafter in connection with the operations relating to the repatriation scheme.

Owing to the easy monetary conditions prevailing, "Bills Discounted" and "Other Loans and Advances," during the year have been on a smaller scale than in the previous year. "**Loans and Advances to Governments,**" however, have been slightly larger, especially during the months of March and April, 1941, owing to the increase in the ways and means advances of the Central Government for **financing** repatriation.

By Order of the
Central Board of Directors,
J. B. TAYLOR,
Governor.

RESERVE BANK OF INDIA

Balance Sheet as at 30th June, 1941.

ISSUE DEPARTMENT.

LIABILITIES.			ASSETS.		
	Rs. a. p.	as. a. p.		Rs. a. p.	Rs. a. p.
Notes held in the Banking Dept	13,07,07,926 8 0		L. Gold Coin and Bullion :-		
Notes in circulation :-			(a) Held in India	44,41,43,309 16 11	
(a) Legal Tender in India	2,60,01,13,762 0 0		(b) Held outside India	
(b) Legal Tender in Burma only	18,25,65,540 0 0		Sterling Securities	1,18,79,95,209 12 10	
Total Notes issued		1,91,33,87,228 8 0	Total of A		1,63,21,38,519 12 9
			3. Rupee Coin		36,80,93,504 16 9
			Government of India Rupee Securities		91,31,55,203 11 6
			Internal bills of exchange and other commercial paper		<i>Nil.</i>
TOTAL LIABILITIES		1,91,33,87,228 8 0	TOTAL ASSETS		2,91,33,87,228 8 0

Ratio of Total of A to Liabilities : 56.022 per cent.

BANKING DEPARTMENT.

LIABILITIES.				ASSETS.			
	Rs.	a.	p.		Rs.	a.	p.
Capital paid-up	5,00,00,000		0 0	NOTES :- (u) Legal Tender in India	12,96,22,461		8 0
Reserve Fund	5,00,00,000		0 0	(b) Legal Tender in Burma only	10,85,465		0 0
Deposits :-				Rupee Coin	7,82,686		8 0
(o) Government—				Subsidiary Coin	3,67,324		8 9
(1) Central Government of India	15,02,60,824		13 7	Bills Purchased and Discounted :-			
(2) Government of Burma	3,25,57,128		8 10	(a) Internal	Nil		
(3) Other Government Accounts	4,17,01,145		14 3	(b) External	Nil		
(b) Banks	30,02,75,942		8 6	(c) Government Treasury Bills	Nil		
(c) Others	2,36,81,964		11 3	Balances held abroad*	47,32,85,668		11 4
Bills Payable	38,80,650		2 8	Loans and Advances to Governments	15,00,000		0 0
Other Liabilities	2,07,05,959		10 7	Other Loans and Advances	Nil		
				Investments	5,27,54,794		11 11
				Other Assets	1,36,65,215		4 8
TOTAL LIABILITIES	67,30,63,616		5 8	TOTAL ASSETS	67,30,63,616		5 8

* Includes Cash and Short-term Securities.

C. R. TREVOR,
Chief Accountant.
Dated the 19th July, 1941.

J. B. TAYLOR,
Governor.
MANILAL B. NANAVATI,
Deputy Governor.

REPORT OF THE AUDITORS.

TO **THE** SHAREHOLDERS
OF THE RESERVE **BANK** OF **INDIA**.

We, the undersigned Auditors of the Reserve **Bank** of India, do hereby report to **the** shareholders upon the **Balance** Sheet and Accounts of the **Bank** as at 30th June, 1941.

We have examined the above **Balance** Sheet with the **Accounts**, Certificates and Vouchers relating thereto of the **Central Office** and of the Offices at **Calcutta**, Bombay, Madras and with the Returns submitted and certified by the Managers of the other **Offices and Branches, which** returns are incorporated in the above **Balance** Sheet, and report that where we have called for **explanations and** information from the Central Board such information and explanations have been given **and** have been satisfactory. In our opinion, the **Balance** Sheet is a full and fair Balance Sheet containing the **particulars prescribed** by, **and** in which the assets have been valued in accordance with, the Reserve **Bank** of **India** Act, 1934, and the Regulations framed thereunder **and** is properly drawn up so as to exhibit a true and correct view of the state of the **Bank's** affairs according to the best of our information and the explanations given to us, and as shown by the **Books** of the **Bank**. Owing to war conditions we have accepted telegraphic returns from London.

(27)

S. B. BILLIMORIA & CO.,
P. K. GHOSH,
SASTRI & SHAH,
Auditors.

Dated the 19th July, 1941.

RESERVE BANK OF INDIA
Profit and Loss Account for the year ended 30th June, 1941,

INCOME.	Rs.	a.	p.
Interest, Discount, Exchange, Commission, eta.	3,81,79,071	1	9
	3,81,79,071	1	9
EXPENDITURE.			
Establishment	36,38,690	16	0
Directors' and Local Board Members' fees and expenses	92,11,55	6	6
Auditors' fees	12,009	0	0
Rent, Taxes, Insurance, Lighting, etc.	4,32,204	0	1
Law Charges	5,363	14	9
Postage and Telegraph charges	93,266	2	4
Remittance of Treasure	20,73,753	7	9
Stationery, etc.	1,03,368	6	2
Security Printing-(Cheque, Note Forms, etc.)	5,95,346	11	10
Depreciation and Repairs to Bank property	3,56,964	11	11
Agency charges	25,05,340	13	3
Contribution to staff and superannuation funds	76,400	0	0
Miscellaneous expenses	2,68,817	5	11
Net available balance	2,79,26,447	3	3
TOTAL	3,81,79,071	1	9

Profit and Loss Account for the year ended 30th June, 1941—(contd.)

	Rs.	a.	p.
Amount set aside for payment of dividend at the rate of 3½ per cent. per annum	17,50,000	0	0
Amount transferred to the Reserve Fund	Nil		
Surplus available for payment of an additional dividend at the rate of per cent.	Nil		
Surplus payable to the Central Government	2,61,76,447	3	3
Balance carried forward ..	Nil		
TOTAL ..	2,79,26,447	3	-ii-

%

RESERVE FUND ACCOUNT.

By balance on 39th June, 1941	5,00,00,000	0	0
By transfer from Profit and Loss Account	Nil		
TOTAL ..	5,00,00,000	0	0

C. R. TREVOR,
Chief Accountant.

Dated the 19th July, 1941.

J. B. TAYLOR,
Governor.

MANILAL B. NANAVATI,
Deputy Governor.

APPENDIX

(a) Scheduled Banks.

1. Ajodhia Bank.
2. **Allahabad** Bank.
3. American Express Co. Inc.
4. **Banco Nacional Ultramarino.**
5. Bank of **Baroda.**
6. Bank of **Behar.**
7. Bank of Hindustan.
8. Bank of India.
9. Bank of Taiwan.
10. Bengal Central **Bank.**
11. Calcutta Commercial Bank.
12. Calcutta National Bank.
13. **Canara** Bank.
14. **Canara** Banking Corporation.
15. **Canara** Industrial & Banking Syndicate.
16. Central Bank of India.
17. Chartered Bank of India, **Australia & China.**
18. Comilla Banking Corporation.
19. Comilla Union Bank.
20. Comptoir National D' Esoompte de Paris.
21. **Devkaran** Nanjee Banking Co.
22. Dinajpore Bank.
23. Eastern Bank.
24. **Grindlay & Co.**
25. Hongkong & Shanghai Banking Corporation.
26. Imperial Bank of India.
27. Indian Bank.
28. Indian Overseas Bank.
29. **Indo-Commercial** Bank.
30. Industrial Bank of Western India.
31. International Bank of India.
32. **Jwala** Bank.
33. **Karnani** Industrial **Bank.**
34. Laxmi Bank.
35. **Lloyds** Bank.
36. Mercantile Bank of India.
37. Mitsui Bank.
38. Mohaluxmi Bank.
39. Nadar Bank.
40. Nath Bank.

41. National Bank of India.
42. National City Bank of New York.
43. **Nedungadi** Bank.
44. Netherlands India Commercial Bank N. V.
45. Netherlands Trading Society.
46. New Citizen Bank of India.
47. New Standard Bank.
48. Noakhali Union Bank.
49. Oudh Commercial Bank.
59. **Palai** Central Bank.
61. Pioneer Bank.
52. Punjab and Sind Bank.
53. Punjab Co-operative Bank.
54. Punjab National Bank.
65. Simla Banking & Industrial Co.
66. Thos. Cook & Son (Bankers).
67. Union Bank of India.
68. United Industrial Bank.
69. Yokohama Specie Bank.

(b) Burma Scheduled Banks.

60. Bank of China.
61. Bank of Communications.
62. Bank of Upper Burma.
63. **Oversea** Chinese Banking Corporation.
64. U Rai Gyaw Thoo & Co.

