

# TREND AND PROGRESS OF BANKING IN INDIA

1966



# CONTENTS

## CHAPTER I

### CREDIT POLICY AND BANKING TRENDS

	Page
The Economy in 1966 .. .. .	1
The 1965-66 Busy Season .. .. .	2
Policy for the 1966 Slack Season .. .. .	6
The 1966 Slack Season .. .. .	7
Policy for the 1966-67 Busy Season .. .. .	8
The 1966-67 Busy Season (November-December 1966) .. .. .	9
1966 : Sources and Uses of Funds .. .. .	10
Increase in Deposits .. .. .	11
Deposits by Types of Accounts .. .. .	11
Ownership of Deposits .. .. .	11
Credit-Expansion .. .. .	12
Security-wise Distribution of Advances .. .. .	12
Purpose-wise Distribution of Advances .. .. .	13
Distribution of Investments of Banks .. .. .	13
Bank Profits .. .. .	15
Co-operative Banking .. .. .	17

## CHAPTER II

### BANKING LEGISLATION AND ORGANISATION

Banking Legislation .. .. .	18
Non-Banking Companies : Regulation of Deposits and Hire-Purchase Business .. .. .	18
Bank Mergers .. .. .	19
Schemes of Arrangement .. .. .	20
Liquidation of Banks .. .. .	21
Licensing of Banks .. .. .	21

II

	Page
Bank Inspections .. .. .	21
Deposit Insurance .. .. .	21
Branch Expansion by Banks .. .. .	22
Branch Expansion of the State Bank of India and its Subsidiaries .. .. .	23
Branch Expansion of Other Banks .. .. .	23
Clearing Houses .. .. .	23
Indian Banks' Business Abroad .. .. .	23
Export Finance Facilities .. .. .	24
Refinance of Term Loans to Industrial Concerns .. .. .	24
Guarantee Scheme for Small-scale Industries .. .. .	25
Bank Finance for Small-scale Industries .. .. .	25
Refinance of Term Loans for Agricultural Development .. .. .	26
The Unit Trust of India .. .. .	26
Credit Information .. .. .	26
Bankers' Training College .. .. .	26
Employer-Employee Relations .. .. .	27

APPENDIX I

Particulars in respect of Banks granted Moratorium during 1966 under Section 45 of the Banking Regulation Act, 1949 .. .. .	28
---	----

APPENDIX II

Particulars regarding Licensing of Banks .. .. .	28
--	----

APPENDIX III

Particulars in respect of Amalgamations and Transfers of Assets and Liabilities of Banking Companies in 1966 .. .. .	29
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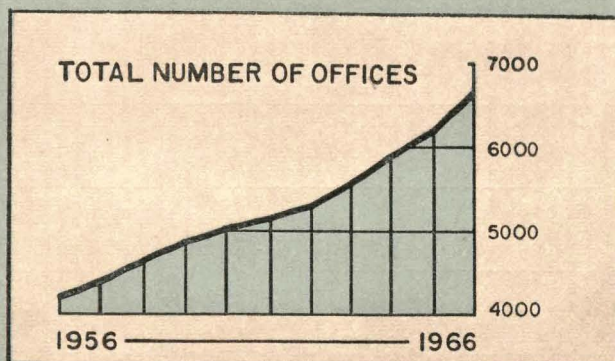
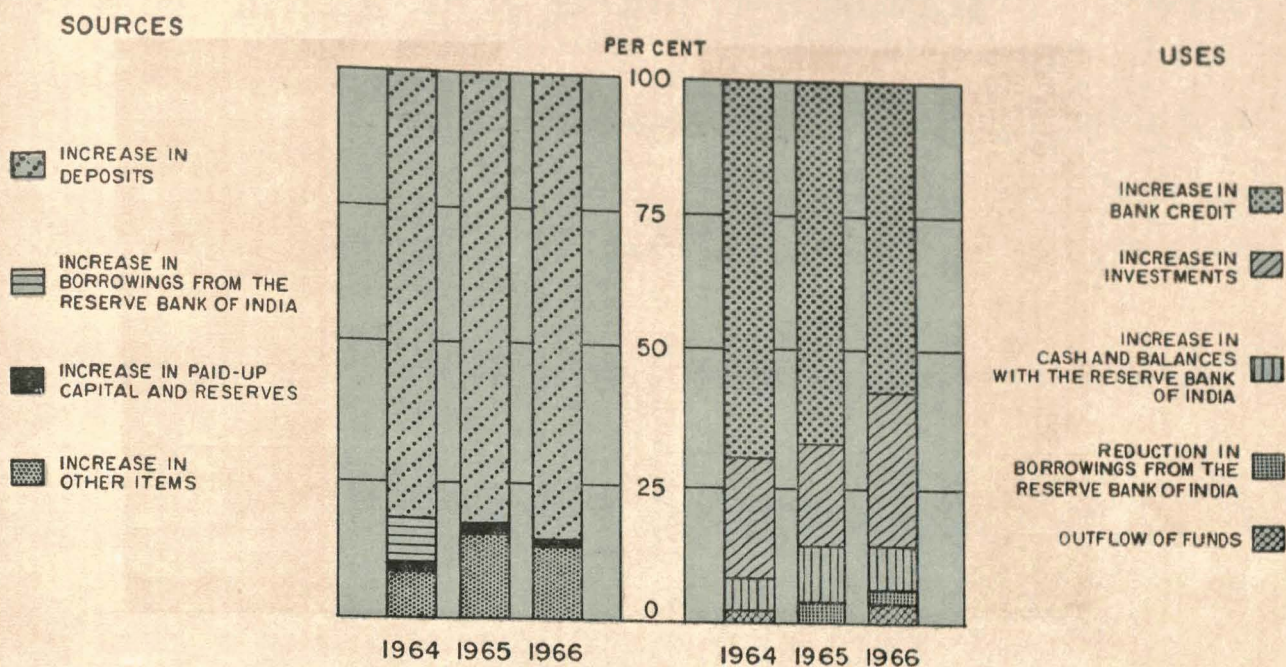
APPENDIX IV

List of Circulars included in Appendix IV .. .. .	30
Selected Circulars Issued to Banking Companies .. .. .	32 to 52

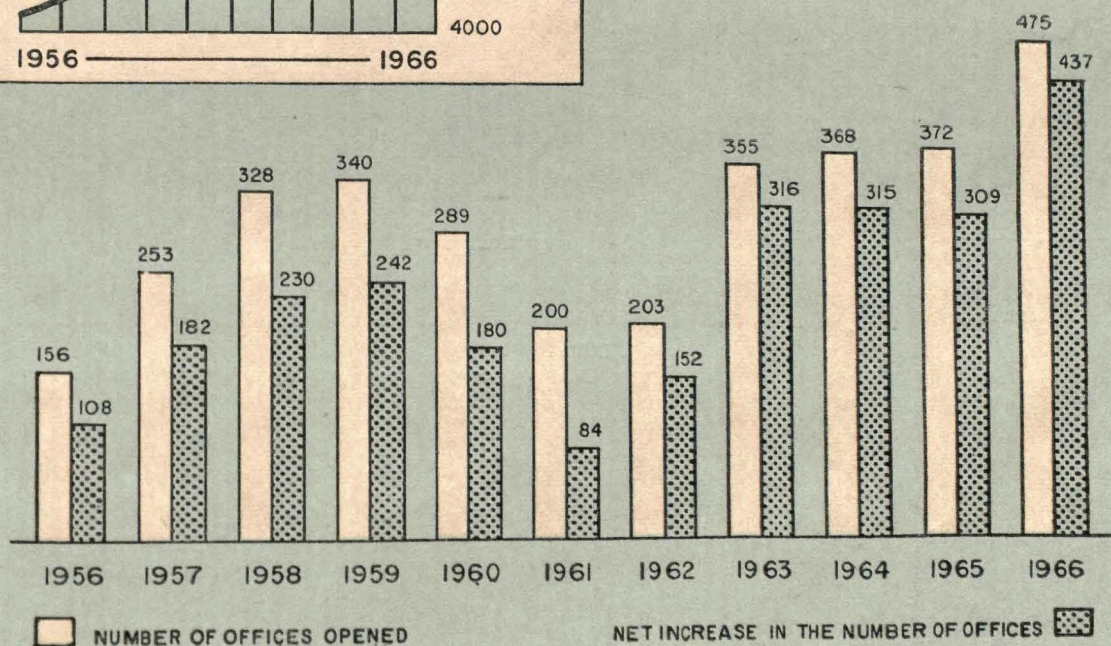
APPENDIX V

Notifications issued to Non-Banking Institutions under Section 45K, 45J and 45L of the Reserve Bank of India Act, 1934 .. .. .	53 to 71
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# SCHEDULED COMMERCIAL BANKS CHANGES IN SOURCES AND USES OF FUNDS



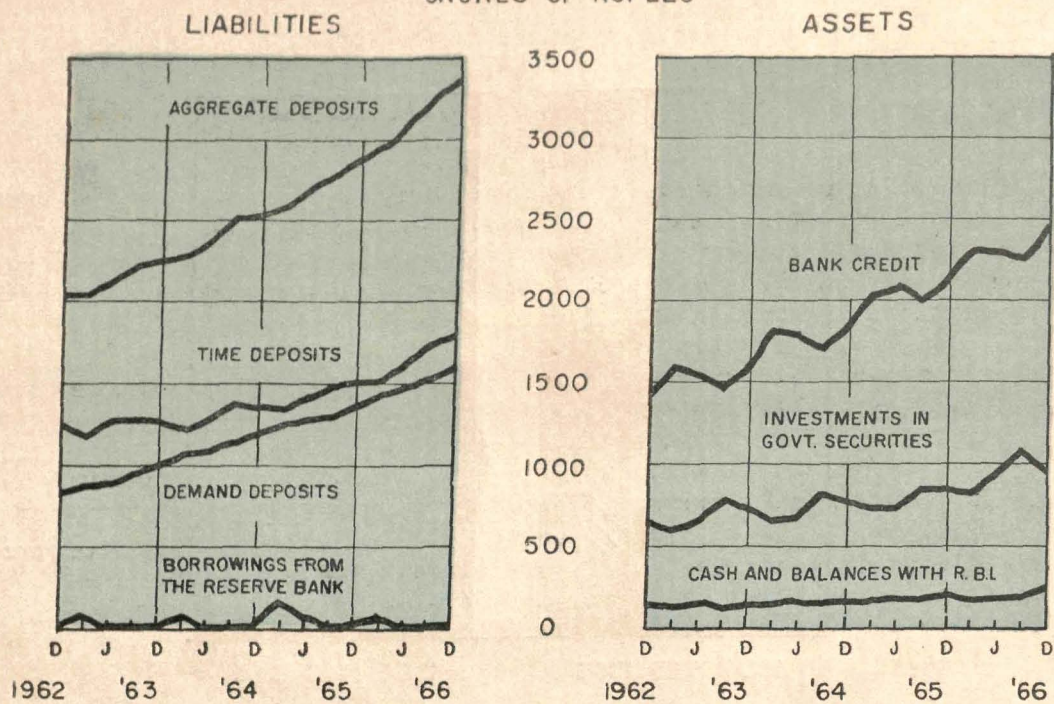
## GROWTH OF BANKING OFFICES 1956-1966





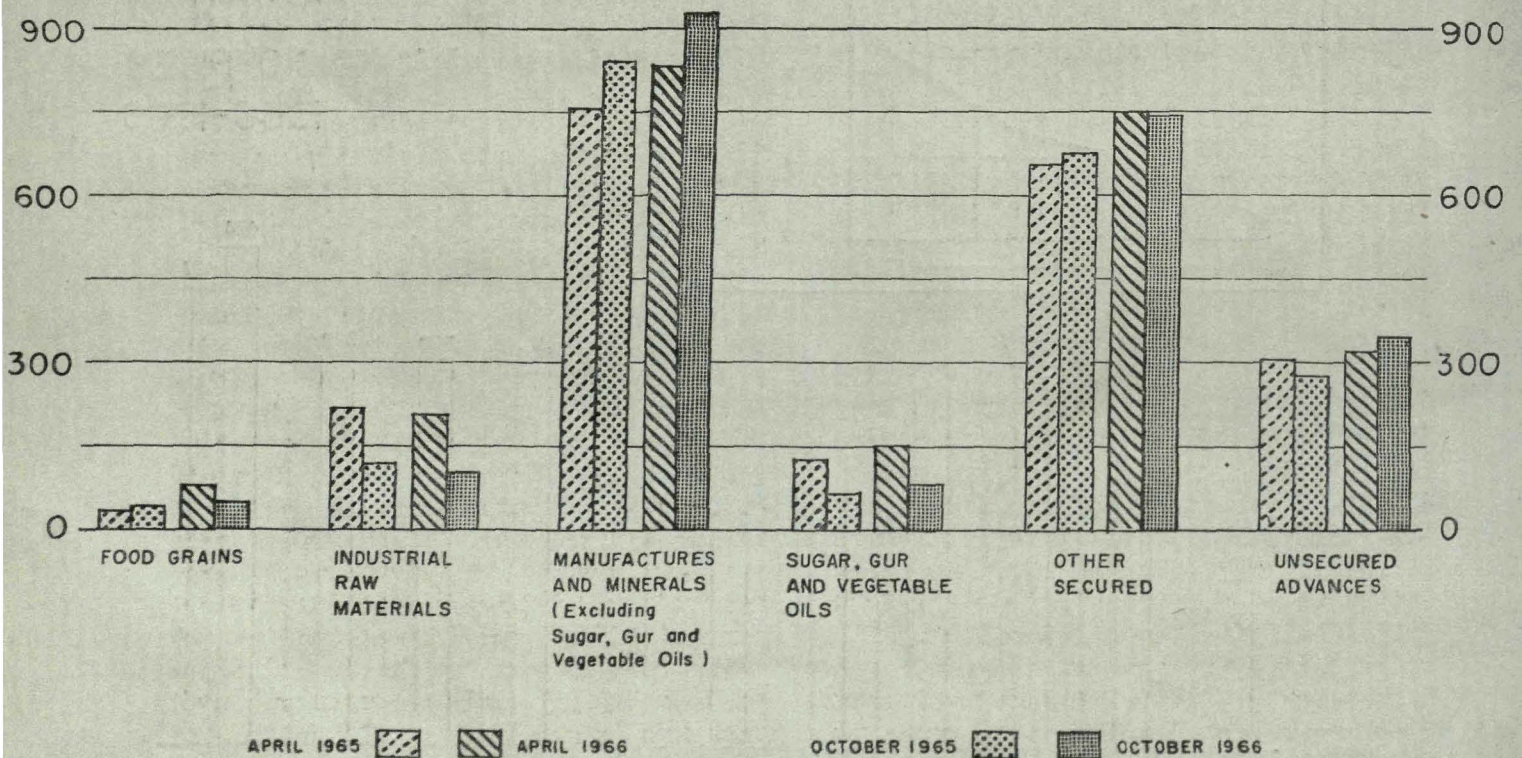
# PRINCIPAL LIABILITIES AND ASSETS OF SCHEDULED COMMERCIAL BANKS

CRORES OF RUPEES



# SECURITY-WISE PATTERN OF ADVANCES OF SCHEDULED COMMERCIAL BANKS

CRORES OF RUPEES



## CHAPTER I

### CREDIT POLICY AND BANKING TRENDS

The movements in the major banking variables in 1966 reflected the strains which the Indian economy was subjected to during the year. If 1965 was a difficult year for the economy, the year 1966 witnessed an accentuation of pressures affecting both price stability at home and the external payments position. The decline in national income arising largely from the shortfall in agricultural production coincident with an expansion of monetary volume resulted in severe inflationary pressures ; externally, the need to provide for additional imports in the face of stagnant export growth and curtailment of external assistance, meant revived pressures on the exiguous external reserves. The monetary expansion was reflected in a faster expansion of deposits than in earlier years, while the effort at credit control was designed to dampen inflationary pressures by holding back the pace of credit expansion.

2. The year opened against the backdrop of a severe fall in agricultural production in the *kharif* crop of 1965 ; this was followed by a poor *rabi* crop in the early months of 1966. Altogether, foodgrains output at 72 million tonnes in the agricultural year (July 1965—June 1966) was about 19 per cent lower than in the previous year ; of the major field crops, rice production was 22 per cent less and that of wheat 13 per cent less than in 1964-65. The decline in agricultural output was shared by some of the major cash crops as well. Raw jute output fell by over 25 per cent and that of oilseeds by 28 per cent and of raw cotton by 17 per cent. An important exception to this general decline was in respect of sugar where output went up by 8 per cent. The agricultural sector accounts for a little under half of total national income ; in addition, agriculture provides raw materials for several important industries, including three of the largest industries in the country, namely, cotton and jute textiles and sugar. The reduced availability of raw materials, therefore, affected industrial production which also suffered from inadequacy of imported raw materials, spares and components. Indus-

trial production thus recorded in 1966 an increase of only 2.5 per cent over the year as compared to 6.2 per cent in 1965 (revised). Thus, gross domestic production in 1966 was lower than in 1965. These shortages were aggravated by the continuing impact of dislocation caused by the conflict with Pakistan in September 1965. The progress of the Plan was adversely affected by the persistent pressure on domestic resources and the suspension for a period, of external assistance from several countries. The pressures in the economy were reflected on the one hand in the movement of the wholesale price index which over the year registered an increase of 16 per cent and on the other a marginal increase in the foreign exchange reserves by \$8 millions despite a net drawal from the International Monetary Fund equivalent to \$100 millions. The pressure on the external payments account was aggravated by the failure of the monsoon, as a result of which exports of important staples were affected while it was necessary to make up the domestic shortfall in food and fibre by imports on commercial terms. The increase in domestic prices and costs, together with the persistent pull of the domestic market reacted adversely on the growth of exports. Thus, as against export totals of Rs. 774 crores in 1963 and of Rs. 812 crores in 1964, exports in 1965 totalled Rs. 803 crores. With the internal price changes that had already occurred, it became necessary over the years to subsidise several of the country's exports through import entitlements. This system became more and more complex with the lapse of time, and, what was worse, the performance of exports still remained unsatisfactory. The stagnancy of exports in 1965 and in the first half of 1966 together with the urgent need for simplification of the complex schemes of import entitlements led to the decision to change the par value of the rupee and on June 6, 1966 the rupee was devalued from the existing rupee parity which was equivalent to U.S. 21 cents to a new parity of U.S. 13.3 cents. This move was accompanied by several corrective measures in respect of import and export duties and a substantial liberalisation of import policy



in the light of the non-project assistance available.

3. The monetary situation in 1966 was marked by a continuing pressure towards expansion. The total money supply with the public increased in 1966 by Rs. 363 crores which was slightly smaller than in the previous year. None-the-less, this order of expansion in the face of supply shortfalls engendered fresh inflationary pressures. While the pace of monetary expansion was less, the contributory factors to such expansion, however, underwent a change ; thus net bank credit to Government increased by Rs. 409 crores\* as against Rs. 372 crores in 1965 while the expansion in net bank credit to the private sector was Rs. 57 crores as against Rs. 144 crores in 1965. These figures of monetary expansion indicate the measure of liquidity that was pumped into the economy and the object of the credit policy was under the circumstances, to dampen down further the pace of monetary expansion. In the early months of the year, a tight credit policy was administered by the Reserve Bank. In the 1965-66 busy season the policy had limited the seasonal expansion in bank credit to relatively modest proportions in comparison with the expansion of earlier busy season ; this policy had to be continued in the slack season through efforts directed to mopping up the extra liquidity accruing to the banking system in these months while for the 1966-67 busy season the aim of policy was to permit a somewhat larger credit expansion in keeping with the enlarged need for it. Over the year, aggregate deposits of scheduled commercial banks increased by 17 per cent as against a little over 14 per cent in 1965 while bank credit expanded by less than 16 per cent as against slightly over 16 per cent in 1965 ; consequently the credit-deposit ratio at the end of 1966 was 0.8 percentage point lower than a year earlier. The position regarding the aggregates of major banking variables is referred to in some greater detail later on but the movement in the credit-deposit ratio indicates the expansion in the resources of the banking system set against the slower expansion in credit. In both respects the advice and action of the Reserve Bank have played a significant role. The aim of credit policy has continued to be

to make available credit for what may be regarded as genuine needs of the economy while seeking to curtail expansion to levels beyond what was considered adequate. The instruments employed, as in earlier years, have been those of both general and selective credit control, the former taking the form of regulating terms and conditions of the commercial banks' access to the Reserve Bank for refinance in the busy season and measures to mop up extra liquidity in the slack season. Selective credit controls continued to be operated through the prescription of ceiling levels and minimum margins in respect of advances against commodities in short supply. Advances against foodgrains, oilseeds and vegetable oils, were subject to both ceilings and margins while sugar and raw cotton and kapas were subject to margin restrictions only. Given the seasonal character of the economy and credit and banking trends in particular, developments in this field and the efforts of the authorities to control the monetary and credit situation are best viewed on a seasonal basis as is done in the following paragraphs.

4. As indicated in the last Report, the first two months of the 1965-66 busy season, *i.e.*, November-December 1965, showed a moderate credit expansion in comparison with the year before, coupled with a substantial rise in deposits in place of a small fall in the previous year. These trends held good for the rest of the busy season. Thus, in the 1965-66 busy season, as a whole, credit expansion of scheduled commercial banks amounted to Rs. 309 crores which was 24 per cent less than in 1964-65 busy season (Table 1). In terms of the rate of expansion, bank credit increased by 15.3 per cent as against 23.8 per cent in the 1964-65 busy season (Table 2). Deposits, on the other hand, increased by Rs. 216,5 crores, more than twice the amount of growth in the previous busy season, with a substantial contribution from the National Defence Remittance Scheme. In consequence, in place of the sharp rise in the credit-deposit ratio from 67.5 per cent to 80.2 per cent in the 1964-65 busy season, the ratio went up by only 5.1 points to 76.9 per cent in the 1965-66 busy season. Consequently both the banks' recourse to the Reserve Bank (Table 3) as well as liqui-

\* This figure is arrived at after excluding the effect of revaluation of the assets of the Reserve Bank following the devaluation of the rupee.

TABLE 1.—SEASONAL VARIATIONS IN SCHEDULED COMMERCIAL BANKS' DATA

	(Rs. Crores)					
	Busy Season		Slack Season		Last Friday of	
	1964-65	1965-66	1965	1966	December 1965 over October 1965	December 1966 over October 1966
	1	2	3	4	5	6
1. Aggregate Deposits .. .. .	+107.2	+216.5	+178.5	+266.2	+ 72.4	+ 81.1
(i) Demand .. .. .	+ 44.1	+122.9	+ 79.6	+ 85.3	+ 47.5	+ 54.7
(ii) Time .. .. .	+ 63.1	+ 93.6	+ 98.9	+180.9	+ 24.9	+ 26.4
2. Borrowings from the Reserve Bank of India ..	+124.5	+ 28.4	-122.8	- 29.7	+ 16.0	+ 5.4
3. Cash in Hand and Balances with the Reserve Bank of India .. .. .	+ 8.3	+ 5.7	+ 21.7	+ 9.9	+20.6	+ 50.2
4. Investments in Government Securities .. ..	-150.9	- 27.0	+137.7	+298.3	- 30.2	-175.7
5. Money at Call and Short Notice .. .. .	- 25.2	- 9.8	+ 29.6	+ 7.2	- 19.1	- 8.2
6. Total Bank Credit .. .. .	+406.9	+309.2	- 92.2	- 85.7	+ 84.5	+189.6

Note:—Data are based on monthly returns submitted by banks of Form XII (Form XIII upto June 1965) except in respect of borrowings from the Reserve Bank of India which are based on weekly returns submitted by banks.

TABLE 2.—SEASONAL PATTERN OF PRINCIPAL RATIOS OF SCHEDULED COMMERCIAL BANKS

	(Rs. Crores)											
	April 30, 1965		Oct. 29, 1965		April 29, 1966		Oct. 28, 1966		Dec. 31, 1965		Dec. 30, 1966	
	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage
1. Aggregate Deposits	2636.1	100.0	2314.6	100.0	3031.1	100.0	3297.3	100.0	2887.0	100.0	3378.4	100.0
(i) Demand ..	1240.1	47.0	1319.7	46.9	1442.6	47.6	1527.9	46.3	1367.2	47.4	1582.6	46.8
(ii) Time ..	1396.0	53.0	1494.9	53.1	1588.5	52.4	1769.4	53.7	1519.8	52.6	1795.8	53.2
2. Borrowings from the Reserve Bank of India .. ..	126.2	—	3.4	—	31.8	—	2.1	—	19.4	—	7.5	—
3. Cash in Hand and Balances with the Reserve Bank of India .. ..	161.5	6.1	183.2	6.5	188.9	6.2	198.8	6.0	203.8	7.1	249.0	7.4
4. Investments in Government Securities	718.7	27.3	856.4	30.4	829.4	27.4	1127.7	34.2	826.2	28.6	952.0	28.2
5. Money at Call and Short Notice ..	45.1	1.7	74.7	2.7	64.9	2.1	72.1	2.2	55.6	1.9	63.9	1.9
6. Total Bank Credit	2113.3	80.2	2021.1	71.8	2330.3	76.9	2244.6	68.1	2105.6	72.9	2434.2	72.1

Note: The percentages are ratios to aggregate deposits.



TABLE 3.—PEAK LEVELS OF SCHEDULED COMMERCIAL BANKS' BORROWINGS FROM THE RESERVE BANK

(Amount in Rupees Crores)

Date	Amounts Borrowed at various Rates of Interest							Total Borrowings Outstanding	Weighted Average Rate of Interest (Per cent)
	4%	4.5%	5%	6%	6.5%	7%	Over 7%		
	1	2	3	4	5	6	7		
April 1, 1961 (1960-61 Busy Season)	.. 17.44	—	15.12	61.03	—	—	—	93.59	5.47
March 17, 1962 (1961-62 Busy Season)	.. .. 23.34	—	14.43	29.92	—	—	—	67.69	5.10
March 8, 1963 (1962-63 Busy Season)	.. .. —	26.05	—	11.98	45.37	—	—	83.40	5.80
March 6, 1964 (1963-64 Busy Season)	.. .. —	59.86	—	47.08	—	—	—	106.94	5.16
April 2, 1965 (1964-65 Busy Season)@	.. .. —	—	—	26.03	4.67	8.22	124.00	162.92	7.86
May 7, 1965	.. .. —	—	—	29.15	—	3.64	131.66	164.45	8.14
March 11, 1966 (1965-66 Busy Season)	.. .. —	—	—	89.82	—	2.70	14.13	106.65	6.38

@ The maximum was in fact recorded on May 7, 1965 when borrowings amounted to Rs. 165 crores.

dation of their holdings of Government securities were smaller in comparison to the previous year. Scheduled commercial banks' borrowings from the Reserve Bank increased by Rs. 28.4 crores only as compared to the growth of Rs. 124.5 crores in the 1964-65 busy season. Similarly, banks' dis-investment of Government securities amounted to Rs. 27.0 crores only as compared with the previous season's dis-investment of Rs. 150.9 crores. Correspondingly, therefore, the money market was generally easy over the busy season, the highest rates on call money recorded during the season were 7.3 per cent in Bombay and 9.9 per cent in Calcutta, both in the week ending December 10, 1965.

5. The major factor in the lower credit expansion in the 1965-66 busy season in comparison with its predecessor was a much smaller growth of non-seasonal advances (Table 4). Though seasonal advances also showed a smaller rise, the increase in advances against seasonal commodities accounted for 80 per cent of the busy season expansion in secured advances, as compared to 64 per cent and 57 per cent in the previous two busy seasons. Among the major seasonal commodities, only paddy and rice, reflecting the operations of the State Governments and the Food Corporation of India financed by sche-

duled commercial banks, and raw jute were responsible for larger expansion than in the 1964-65 busy season. Advances against paddy and rice increased by Rs. 35.2 crores as against the growth of Rs. 15.9 crores in the previous busy season. On the other hand, advances against wheat declined by Rs. 4.7 crores reflecting a fall in output coupled with price control whereas they had increased nominally in the previous busy season. The smaller rate of expansion in sugar advances in the 1965-66 busy season *vis-a-vis* the previous busy season reflects the considerably higher level of outstanding advances at the commencement of the 1965-66 season (Rs. 51 crores as against Rs. 19 crores) coupled with a somewhat smaller expansion during the season (Rs. 78 crores as against Rs. 86 crores). A much sharper fall in the expansion was recorded by advances against cotton and kapas as a result of depletion of stocks with the mills. Non-seasonal advances which increased by Rs. 82 crores less than in the previous busy season reflected mainly a slowing down of the rate of growth in industrial production due to the growing paucity of imported raw materials and components and the liquidation of stocks of cotton textiles. Advances against cotton textiles declined by Rs. 16.6 crores whereas they were up in the 1964-65 busy season by Rs. 24.9 crores when there was an accumula-

TABLE 4.—SEASONAL TRENDS IN BANK CREDIT : SECURITY-WISE CLASSIFICATION

Security	(Rs. Crores)										
	Busy Season		Slack Season		Novem- ber— Decem- ber 1965	Novem- ber— Decem- ber 1966	Calendar Year		Outstanding as on		
	1964-65	1965-66	1965	1966			1965	1966	Decem- ber 31, 1965	Decem- ber 30, 1966	
<b>Seasonal Advances</b>	..	+234.6	+217.4	-149.7	-203.9	+ 37.1	+ 38.6	+ 71.6	+ 15.0	333.6	348.5
Paddy and Rice ..	..	+ 15.9	+ 35.2	- 5.3	- 30.6	+ 1.2	- 4.4	+ 8.2	- 0.9	16.0	15.0
Wheat ..	..	+ 0.2	- 4.7	+ 11.5	+ 3.0	+ 1.9	- 0.5	+ 13.1	- 4.1	15.5	11.5
Other Foodgrains ..	..	+ 6.0	+ 5.1	+ 1.5	- 5.1	- 1.4	+ 1.5	+ 5.2	+ 3.0	13.1	16.1
Sugar ..	..	+ 86.5	+ 78.5	- 53.9	- 60.2	+ 3.4	- 4.6	+ 24.2	+ 10.3	54.5	64.9
Groundnut ..	..	+ 12.7	+ 11.9	- 11.9	- 13.0	+ 11.8	+ 19.1	+ 1.1	+ 6.1	14.5	20.7
Cotton and Kapas ..	..	+ 71.2	+ 52.1	- 60.5	- 70.5	+ 18.8	+ 11.6	+ 9.4	- 25.6	104.9	79.3
Raw Jute ..	..	+ 7.5	+ 9.3	- 15.6	- 5.6	+ 5.6	+ 13.6	- 5.9	+ 11.7	25.4	37.0
Tea ..	..	- 3.5	- 4.7	+ 8.6	+ 8.4	- 7.9	- 10.2	+ 5.1	+ 1.4	44.4	45.8
<b>Non-Seasonal Advances</b> ..		+134.5	+ 52.9	+ 96.1	+ 89.9	+ 38.1	+117.7	+228.3	+122.4	1483.5	1705.9
Cotton Textiles ..	..	+ 24.9	- 16.6	+ 10.4	+ 9.2	- 1.9	+ 1.0	+ 21.2	- 4.4	185.3	180.9
Jute Textiles ..	..	- 2.3	- 0.5	+ 5.8	+ 8.4	- 0.4	+ 5.4	+ 0.8	+ 13.7	43.0	50.7
Iron, Steel & Engineering Goods ..	..	+ 29.4	+ 12.0	+ 44.5	+ 54.2	+ 14.6	+ 26.8	+ 80.6	+ 78.3	331.9	400.2
Shares of Joint Stock Companies ..	..	+ 3.9	+ 3.1	- 9.8	- 8.9	+ 1.3	+ 4.9	- 6.3	- 2.2	87.6	85.4
Debentures of Joint Stock Companies ..	..	+ 0.7	+ 2.6	+ 2.1	+ 0.1	+ 3.5	+ 2.2	+ 5.9	+ 1.5	29.3	30.8
Government and other Trustee Securities ..	..	- 9.3	- 4.8	- 0.1	+ 4.7	- 1.9	- 3.0	- 4.6	- 1.3	25.2	23.9
Gold and Silver bullion and Ornaments ..	..	- 0.2	- 1.2	+ 0.5	+ 3.2	-	+ 2.1	- 0.5	+ 4.2	20.9	25.1
Assets of Industrial concerns		+ 28.8	+ 8.0	+ 13.5	- 3.6	+ 1.7	+ 2.4	+ 36.2	+ 5.2	159.0	164.2
<b>Total Secured Advances</b>		+369.1	+270.2	- 53.7	-114.0	+ 75.3	+156.4	+299.9	+237.3	1817.1	2054.4
<b>Unsecured Advances</b> ..		+ 20.1	+ 41.5	- 30.5	+ 27.1	+ 8.0	+ 27.7	- 12.0	+ 88.3	284.7	373.0

Source : Fortnightly Survey of Bank Advances.

tion of inventories ; it will be recalled that the Bank had to introduce a special scheme at the end of 1965 to help the textile mills in the difficulties arising from such accumulation as alluded to in the last Report. Advances against assets of industrial concerns increased by only Rs. 8 crores as against Rs. 28.8 crores and those against iron and steel and engineering goods by Rs. 12 crores against Rs. 29.4 crores. On the other hand, unsecured advances and advances against

debentures of joint stock companies showed a larger expansion than in the 1964-65 busy season. In the face of the fast deteriorating food situation, organisation of distribution of major foodgrains on an official basis was undertaken on an enlarged scale. To enable banks to provide the needed bank finance to State governments the Reserve Bank granted a concession on March 26, 1966, which took the form of refinance for the excess of credit to State Governments and governmental

agencies for food procurement and allied operations over the previous year's level not being included in borrowings from the Reserve Bank in the computation of the bank's net liquidity ratio to determine the rate of interest applicable to its borrowings. To assist officially organised foodgrains distribution in the context of the rapidly developing shortages in Kerala, ceiling control was removed and the minimum margins required were reduced from 50% to 25% on January 31, 1966, in respect of advances against paddy and rice, and against wheat granted by offices of scheduled commercial banks operating in Kerala to wholesale dealers, and fair price shop dealers authorized by the Government of Kerala to deal in these commodities. In view of the decision of the Government of Maharashtra to procure and distribute paddy and rice, jowar and *nagli (ragi)* on a monopoly basis, scheduled commercial banks were prohibited from April 20, 1966, from maintaining or granting advances against these commodities in the State of Maharashtra. Certain official agencies like the co-operative societies acting as agents of the Government were completely exempted from these restrictions. Advances to dealers in these foodgrains licensed by the Government of Maharashtra for distribution of these commodities in the State were not prohibited but continued to be subject to the existing margin and ceiling controls. On January 3, 1966 ceiling restrictions applicable to advances against stocks of indigenous cottonseed oil were removed to encourage its production and export of oilcakes. When the Government of U.S.S.R. made a gift of sunflower oil to alleviate the serious situation in regard to edible oils, a modification in selective controls on advances against oils and oilseeds was effected on April 20, in terms of which ceiling and margin restrictions were removed in respect of advances to vanaspati manufacturers against stocks of such sunflower oil.

6. In the context of the continuing price pressures and the prospects of adverse developments in industrial production, there was clearly a need for continuing restraint in respect of credit operations during the slack season and accordingly banks were advised to make more active efforts to induce the return flow of the

**Policy for the  
1966  
Slack Season**

credit expansion in the 1965-66 busy season and to collect more deposits and conserve them for subsequent use rather than apply them towards further credit expansion. With the resources thus accruing being invested in Treasury bills, this course of action would shore up their liquidity position to deal with the demands of the following busy season, in addition to restraining demand in the season of lean supplies. Accordingly on May 26, 1966, banks were advised in a circular letter to strive for the return flow into the system of the earlier credit extended especially against seasonal securities and also to invest in Treasury bills their deposit accretion and the funds flowing back into the system.

7. With the announcement of devaluation, a fresh review of the slack season policy was made. There were apprehensions that the immediate impact of devaluation would be to add to the strain on banks' liquidity. In the course of discussion held with representatives of banks and industry the Reserve Bank indicated its view that there was no occasion to fear such liquidity pressures but that on the contrary banks' liquidity position would improve as a result of substantial deposit accretion. In fact the situation indicated the need for mopping up some of the excess liquidity arising in the banking system. Further, liberalised licensing of imports together with their higher rupee cost following devaluation was expected to result in a sharp increase in credit demand in 1966-67 busy season, in addition to the normal seasonal requirements on the basis of the hopes for recovery of agricultural production from the previous year's low level. Banks were, therefore, called upon to strive for a reduction in credit totals and to invest the entire increase in their deposits during the slack season in Government securities so that the twin objectives of mopping up liquidity in the slack season and conserving banks' resources for use in the impending busy season would both be served. In making the request to banks in a communication sent on June 30, 1966, the Bank indicated that while it was its objective that banks should finance as large a proportion as possible of the additional credit demand in the following busy season out of their own resources, it recognised that this by itself may not be sufficient, and that accordingly the Bank would be prepared to supplement



banks' resources provided they themselves utilised the maximum of their own resources to finance priority sectors. At the same time to allow adequate financing of official procurement and distribution activities in foodgrains to continue unhampered, the Bill Market Scheme—which is normally suspended at the end of June—was kept going for providing refinance for banks' advances to State Governments and their agencies, and the Food Corporation of India for food procurement.

8. In the slack season of 1966, money supply with the public declined by Rs. 126 crores. This decline was nearly three times the amount of contraction in the 1965 slack season (Rs. 43 crores).

There was a substantial decline in currency of Rs. 220 crores as compared with Rs. 101 crores in the 1965 slack season. Deposit money which is the other constituent of money supply increased, on the other hand, by Rs. 94 crores which was Rs. 36 crores more than in the 1965 slack season. Consequently, the proportion of currency in total money supply recorded a further fall from 66.7 per cent at the end of October 1965 to 64.3 per cent at the end of October 1966. The decline in money supply was due entirely to the contraction of Rs. 215 crores (as compared to Rs. 163 crores in the 1965 slack season) in net bank credit to the private sector brought about mainly by a fall in scheduled commercial banks' credit and a sharp rise in their time deposits. Net bank credit to Government, on the other hand, increased by Rs. 127\* crores or Rs. 15 crores more than in the 1965 slack season.

9. The major changes in liabilities and assets of scheduled commercial banks may now be reviewed. Scheduled commercial bank credit showed a contraction of Rs. 85.7 crores, or 3.7 per cent, as against that of Rs. 92.2 crores or 4.4 per cent in the 1965 slack season (Table 1). On the other hand, aggregate deposits increased by Rs. 266 crores or by 8.8 per cent as against Rs. 178.5 crores or 6.8 per cent. As advised by the Reserve Bank, the entire deposit accretion plus some portion of the return flow of

credit went to build up the banks' investment portfolios. Scheduled commercial banks' holdings of Government securities increased by Rs. 298.3 crores or 36.0 per cent, as against the increase of Rs. 137.7 crores or 19.2 per cent in the 1965 slack season. In both the years, the banks had nearly wiped out as usual their indebtedness to the Reserve Bank by the end of the slack season. At the end of the 1966 slack season the banks' credit-deposit ratio stood at 68.1 per cent as compared to 71.8 per cent a year ago, having declined over the season by 8.8 points compared with the fall of 8.4 points in the 1965 slack season (Table 2). The investment-deposit ratio improved over the season by 6.8 points to 34.2 per cent as compared to the rise of 3.1 points to 30.4 per cent in the 1965 slack season. With the discount rate on the Treasury bills at 3.50 per cent, the call money rate also remained at or below 4 per cent in Bombay during the entire season, except for the first two weeks. In Calcutta, it fluctuated within wider margins, more often near or below 4 per cent than otherwise.

10. The season's credit contraction consisted of a decline in secured advances equal to 42 per cent of their expansion in the preceding busy season partly offset by a continuing rise in unsecured advances (Table 4). Advances against seasonal commodities contracted by a larger amount (Rs. 203.9 crores as against Rs. 149.7 crores in 1965) though their expansion in the preceding busy season was smaller than that in the 1964-65 busy season. Only wheat and tea advances showed expansion whereas in the 1965 slack season advances against other foodgrains had also risen marginally. Moreover, the expansion in tea advances was slightly lower, and that in wheat advances was only one-fourth of that in the 1965 slack season. Advances against raw jute declined by an amount only one-third of that in the 1965 slack season reflecting the rise in prices following devaluation. The sharpest decline in seasonal advances was recorded by paddy and rice, nearly six times that in the 1965 slack season, following continued distribution from stocks through officially approved dealers. The larger decline under sugar also reflected more liberal releases from the factories than a

\* The figure for 1966 is arrived at after excluding the effect of revaluation of some of the assets of the Reserve Bank mentioned in the footnote on Page 2.

year ago. The contraction of advances against cotton and kapas accompanied diminution in stocks with the mills. In tune with the movement in seasonal advances, non-seasonal advances expanded by a smaller amount than in the 1965 slack season. There was an element of contrast with the previous slack season in that whereas the smaller rise had followed a much smaller expansion in the preceding busy season, the larger rise in the 1965 slack season had followed a very substantial expansion in the 1964-65 busy season. Advances against jute textiles increased more than a year ago, due, as in the case of raw jute advances, to the rise in prices. The larger expansion in advances against iron, steel and engineering goods, however, implied a certain piling up of stocks due to an easing of the demand for the products. Advances against assets of industrial concerns which had expanded in the preceding busy season by much smaller amount than in the 1964-65 busy season showed a contraction of Rs. 3.6 crores in the 1966 slack season as compared to expansion of Rs. 13.5 crores in the 1965 slack season. The total secured advances thus contracted by more than twice the amount of reduction in May-October 1965. In contrast, however, unsecured advances increased by Rs. 27.1 crores; a year ago, they had declined by Rs. 30.5 crores.

11. The selective control measures taken during 1966 slack season related to advances against foodgrains in the (old) Punjab. On June 14, 1966, additional limits of Rs. 2 lakhs, for each office or branch of scheduled commercial banks operating in the six border districts of the State in respect of advances against paddy, rice, wheat and other foodgrains were extended to December 1966. A similar extension of the time period was also announced in the concessional margin requirements of 25 per cent in respect of advances against wheat and other foodgrains to licensed dealers and millers in the State. In view, however, of an evidence of considerable hoarding of foodgrains, especially wheat, noticed particularly after the widening of the Punjab wheat zone to include the U.P. and certain non-rationed areas of the Union Territory of Delhi, the margin concession in respect of advances against foodgrains was withdrawn on August 16.

12. At the end of the slack season, the banking system appeared to be fairly well placed to meet the ensuing busy season's demand, with the reasonable refinance assistance from the Reserve Bank. The net liquidity ratio for the banking system as a whole touched 39.3 per cent on October 28, 1966 indicating the extent of the liquidity cushion they had to finance the seasonal demands on them. At the same time, estimates of likely credit requirements indicated that banks on their own might not be able to meet such credit demands. The credit policy for the busy season was, therefore, devised with the object of enlarging refinance facilities from the Reserve Bank to meet the increase in the genuine productive needs of the economy based on expectations regarding agricultural recovery and larger quantum of imports. The credit policy that was formulated also fulfilled the assurances given to the banking system at the end of June, when they were called upon to invest their entire deposit accretion in Government securities. It took into account the fact that some of the banks met some genuine contra-seasonal demand necessitated by the production cycle, such as in the case of tea. In the process, the system of regulating Reserve Bank accommodation almost exclusively through the variation of its cost was modified. In terms of the new policy, the Reserve Bank on October 28, 1966 announced that scheduled commercial banks would get accommodation at the Bank rate—(a) so long as the borrowing bank's net liquidity ratio remained at or above 30 per cent and (b) under the Rupee Export Bills Scheme, as in the past; and in addition (c) for an amount equivalent to 10 per cent of the bank's net liquidity ratio at the end of the 1966 slack season, as also (d) for an amount equivalent to the excess of the bank's food procurement advances to State Governments and government approved agencies over the level of October 28, 1966. A penal rate of 10 per cent was prescribed for borrowings from the Reserve Bank exceeding the amounts that could be borrowed at the Bank rate under the foregoing provisions, so long as the excesses were occasional and moderate. Banks were warned that the Reserve Bank retained the discretion of charging the higher deterrent penalty rate on excess borrowings which were either continuous or large. A

**Policy for the  
1966-67  
Busy Season**

significant departure from the earlier system was, however, in the levy of the penalty rate only on the excess of borrowings from the Reserve Bank over what the banks were entitled to do at the Bank rate and not on the entire amount of a bank's borrowing as hitherto. It was also impressed on the banks that agricultural development was basic to the country's growth effort and that they had not taken sufficient interest in financing agriculture; they were therefore urged to assist agricultural operations by both direct extension of short-term credit and indirect assistance such as through investment in the debentures of land mortgage banks. In the matter of deposit rates, without disturbing its basic policy in this regard, the Bank effected some adjustments with a view to imparting some flexibility. Thus, the minima prescribed for interest rates payable on bank deposits for 3 months and 6 months were rescinded while the minima for 1 year (6 per cent) and for savings deposits (at 4 per cent) were continued.

13. The major change thus lay in giving an additional Bank rate tranche of 10 per cent of the actual net liquidity ratio as at the end of the slack season; this was available to all banks irrespective of whether their net liquidity ratio was 30 per cent or below so that every bank would have some volume of Bank rate refinance. There was thus a clear indication regarding the larger availability of refinance. An essential counterpart to the liberalisation was the need to ensure that the additional credit went to the sectors for whom the liberalisation was intended. Accordingly, all Indian banks with deposits of Rs. 50 crores and above and all foreign banks were enjoined by a directive issued on October 28, 1966 to devote at least 80 per cent of their seasonal credit expansion to industry, and/or against export/import bills, industry being so defined as to cover all manufacturing industry and plantations, mining, transport and power.

14. The policy was a necessary modification of the earlier one so as to take care of the much larger quantum of imports expected during the season and a recovery in the agricultural output from the very low levels of the previous year. In the event, however,

**1966-67 Busy  
Season (No-  
vember-De-  
cember 1966)**

the expected additional flow of imports did not materialise till well into 1967, while the 1966 *kharif* crop showed barely a marginal recovery from the earlier year. Even so, the net bank credit to the private sector increased in the last two months of 1966 by more than double the amount of the rise during the corresponding months of 1965 because of larger bank advances and holdings of private securities coupled with a smaller growth of time deposits. Net bank credit to Government, on the other hand, declined by Rs. 17 crores, in contrast to the expansion of Rs. 91 crores in November-December 1965. Money supply with the public increased by only a slightly higher amount than in November-December 1965, with, however, a reversal of the earlier trends regarding currency/deposits proportions with deposit money increasing by a smaller amount.

15. Aggregate deposits of scheduled commercial banks rose by Rs. 81.1 crores which was by Rs. 8.7 crores more than in November-December 1965, though the rate of increase at 2.5 per cent was slightly lower than that during the corresponding period of 1965. Total bank credit increased by Rs. 189.6 crores as compared to Rs. 84.5 crores last year, the rate of expansion having exactly doubled. In absolute magnitude, the credit expansion was roughly in tune with the earlier expectations, but this has developed without the earlier expectations of a recovery in the agricultural output and a substantial increase in imports being fulfilled. The credit-deposit ratio at 72.1 per cent at the end of 1966 was 0.8 point lower than a year ago, but with a somewhat larger increase in deposits it had moved up full 4 points during the last two months, while it had gone up only by 1.1 points in the last two months of 1965 (Table 2). Given the liquidity with which scheduled commercial banks started the busy season, they financed the credit expansion by disinvesting their holdings of Government securities to the extent of Rs. 175.7 crores as compared to the disinvestment of Rs. 30.2 crores in November-December 1965; the rate of disinvestment was 15.6 per cent as against 3.5 per cent last year. In the result, banks' recourse to the Reserve Bank increased by a much smaller amount of Rs. 5.4 crores as compared to that of Rs. 16 crores last year. The inter-bank call money rates effectively



had a ceiling of 6 per cent so long as most banks remained within the Bank rate tranche of Reserve Bank refinance. The rate hovered around 4 per cent in Bombay in November and moved up in December to close the month at 5½ per cent. In Calcutta also, it closed for the year at 5½ per cent and except for the last week of November it ruled higher than in Bombay.

16. The larger rise in bank credit was almost entirely due to advances against non-seasonal commodities, seasonal advances having recorded only a nominally higher expansion (Table 4). Amongst the seasonal commodities, only raw jute and groundnut were responsible for higher increases than a year ago. Imports along with higher prices were responsible for the larger growth in raw jute advances and advances against groundnut reflected the price rise in the context of somewhat lower domestic output. Advances against cotton and kapas recorded a smaller increase mainly because of a fall in stocks. Advances against sugar recorded a fall as against an increase last year, following reduced output and higher releases from the factories. The fall in advances against paddy and rice and against wheat, in comparison with additions in the last year, also reflected lower stocks, with official distribution agencies having to release supplies for consumption. The trebling of the increase in the non-seasonal advances over the year was mainly brought about by an expansion against iron, steel and engineering goods which was larger by Rs. 12.2 crores or 84 per cent. Advances against jute and cotton textiles increased by Rs. 6 crores as against a contraction of Rs. 2 crores; and the expansion in advances against shares of joint stock companies was Rs. 3.6 crores higher than in November-December 1965. Advances against iron, steel and engineering goods reflected the accumulations of stocks because of a fall in demand. Unsecured advances increased during the last two months of 1966 by Rs. 27.7 crores as compared to the expansion of Rs. 8.0 crores in the corresponding period of 1965. The movement in 1966 may be attributed partly to the increasing recourse to these advances by industrial borrowers. In view of the rapid rise in clean credit in the 1966-67 busy season in the context of a larger absolute credit expansion than in the 1965-66 busy

season without commensurate addition to physical supplies, the Reserve Bank drew the attention of banks to the implication of this trend. On March 8 and again on March 31, 1967, the Bank through circular letters requested banks to exercise strict control over unsecured advances, as also on advances against all domestic commodities in short supply, to keep them to the minimum level required to meet genuine needs of trade and industry.

17. Over the year, the total resources of the banking system showed an increase of Rs. 573.2 crores or by 30.4 per cent as compared to Rs. 439.5 crores or by 32.8 per cent in 1965 (Table 5). The growth in deposits accounted for 85.8

TABLE 5. CHANGES IN SOURCES AND USES OF SCHEDULED COMMERCIAL BANKS' FUNDS

	(Rs. crores)	
	1965(R)	1966(P)
<b>I. SOURCES</b>		
(a) Increase in paid-up capital and reserves .. .. .	8.2	2.0
(b) Increase in deposits .. .. .	363.0	491.4
(c) Increase in borrowings from the Reserve Bank of India@	—	—
(d) Inflow of funds from abroad*	0.6	—
(e) Increase in miscellaneous items	67.7†	79.8†
<b>Total</b> .. .. .	<b>439.5</b>	<b>573.2</b>
<b>II. USES</b>		
(a) Reduction of borrowings from the Reserve Bank of India@	16.0	11.9
(b) Increase in bank credit .. .. .	294.6	328.6
(c) Increase in cash and balances with the Reserve Bank of India	43.5	45.2
(d) Increase in investments .. .. .	85.4	163.9
(e) Outflow of funds* .. .. .	—	23.6
<b>Total</b> .. .. .	<b>439.5</b>	<b>573.2</b>

@ Based on weekly returns of scheduled commercial banks; data for 1965 are revised and for 1966 are preliminary.

\* Based on Exchange Control records. Figures exclude changes in rupee balances maintained by non-resident bank branches/correspondents, individuals and firms with authorised dealers since changes in these balances are already reflected in the item "Increase in deposits" and hence differ from those shown in the balance of payment statistics.

† Derived figures. (R)—Revised (P)—Provisional

per cent of the total rise in resources ; in 1965 it accounted for 82.6 per cent. Reflecting the Reserve Bank's advice and actions, the addition to the resources went to enlarge banks' investment portfolios to a greater extent and to bank credit to a smaller extent than in 1965. Rs. 328.6 crores or 57.3 per cent of the total rise in resources was utilised for credit expansion as against 67.0 per cent in 1965 ; while Rs. 163.9 crores, or 28.5 per cent of the additional resources went to increase investments, in the place of Rs. 85.4 crores, or 19.5 per cent, in 1965. Rs. 11.9 crores, or 2.1 per cent, were utilised to bring down the borrowings from the Reserve Bank, in place of Rs. 16 crores, or 3.6 per cent, last year.

18. Deposits increased by 17.0 per cent as against 14.4 per cent in 1965. Adjusting for the transfers of P.L. 480 funds from the State Bank of India to the Reserve Bank of India, the rates of deposit accretion would work out to 18.0 per cent in 1966 and 14.6 per cent in 1965.

19. Data on distribution of deposits show that the apparent trend over a number of years in the past for the share of demand deposits to rise at the expense of time component was reversed in 1966 (Table 6). As has been pointed out in the previous Reports, however, the trend

TABLE 6. COMPOSITION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS, 1961-66

(Rs. Crores)

Last Friday of December	Aggregate Deposits	Demand Deposits (Excluding inter-bank deposits)	Percentage	Time Deposits (Excluding inter-bank deposits)	Percentage	Distribution by Type of Deposits							
						Current Deposits		Savings Deposits		Fixed Deposits		Cash Certificates & Recurring Deposits	
						Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1961 ..	1834.7	732.6	39.9	1102.1	60.1	538.6	29.4	313.1	17.1	937.1	51.1	45.9	2.5
1962 ..	2038.9	816.9	40.1	1222.0	59.9	578.9	28.4	379.1	18.6	1035.1	50.8	45.8	2.2
1963 ..	2252.8	997.2	44.3	1255.6	55.7	623.3	27.7	457.4	20.3	1129.4	50.1	42.7	1.9
1964 ..	2524.0	1178.3	46.7	1345.7	53.3	687.7	27.2	560.3	22.2	1237.2	49.0	38.8	1.5
1965 ..	2887.0	1367.2	47.4	1519.8	52.6	770.1	26.7	673.5	23.3	1410.5	48.9	33.0	1.1
1966 ..	3378.4	1582.6 <sup>1</sup>	46.8	1795.8	53.2	822.9	24.3	820.4	24.3	1699.3	50.3	35.9	1.1

Note : The percentages are ratios to aggregate deposits.

revealed by the published data in the past was itself the result of large transfers of P.L. 480 funds from the State Bank of India to the Reserve Bank and changes in classification of deposits by banks. The past data thus masked the true position in regard to the relative growths of time and demand deposits which has been that the time deposits account for a continually rising share of the total, with the share of demand deposits falling *pari passu*.

20. That the higher deposit growth in recent years has been strongly influenced by the extension of banking facilities in the country, and particularly through the opening of branches may be said to be supported by the fact that personal deposits have shown a further signal rise in their share of total deposits (Table 7). At the end of March 1966 personal deposits accounted for 55.1 per cent of the total deposits as against

TABLE 7. OWNERSHIP PATTERN OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS, 1964, 1965 AND 1966

(Accounts in thousands ;  
Amounts in Rs. crores)

Number of reporting banks	March 31, 1964			March 31, 1965			March 31, 1966@		
	76			75			75		
	Ac- counts	Amount	Per- centage	Ac- counts	Amount	Per- centage	Ac- counts	Amount	Per- centage
	1	2	3	4	5	6	7	8	9
I. Business .. .. .	7,45	674.9	28.5	8,18	773.3	28.5	8,79	800.9	25.7
(a) Industry .. .. .	85	193.4	8.2	90	243.6	9.0	85	225.1	7.2
(b) Trading .. .. .	6,17	271.5	11.5	6,78	299.5	11.0	7,39	325.3	10.5
(c) Financial .. .. .	30	189.5	8.0	33	208.8	7.7	32	226.9	7.3
(d) Others .. .. .	13	20.5	0.8	17	21.4	0.8	23	23.6	0.7
II. Personal (Individuals) ..	76,40	1166.1	49.2	90,67	1398.7	51.5	108,15	1714.2	55.1
III. Professional .. .. .	1,22	39.7	1.7	95	36.4	1.3	88	36.1	1.2
IV. Government and Quasi Govern- ment bodies .. .. .	27	197.6	8.3	32	195.0	7.2	31	226.3	7.3
V. Others .. .. .	1,89	291.6	12.3	2,22	310.3	11.5	2,43	334.8	10.7
VI. <b>Grand Total</b> .. .. .	<b>87,23</b>	<b>2370.1</b>	<b>100.0</b>	<b>102,34</b>	<b>2713.9</b>	<b>100.0</b>	<b>120,56</b>	<b>3112.3</b>	<b>100.0</b>

@ Provisional.

51.5 per cent a year ago and 49.2 per cent at the end of March 1964. The share of business deposits which was unchanged at 28.5 per cent in the previous two years on the other hand went down to 25.7 per cent at the end of March 1966. The number of accounts in the two categories, namely, professional, and Government and quasi-Government bodies, declined over the year, but whereas the share of professional deposits in the total as well as their absolute amount declined fractionally, deposits of Government and quasi-Government bodies increased in amount over 15 per cent and improved their share in the total fractionally.

21. The total of credit extended by scheduled commercial banks went up in 1966 by Rs. 328.6 crores. In 1965 it recorded a rise of Rs. 294.6 crores. In terms of rates of growth, however, the increase in 1966 was smaller than in 1965.

**Credit  
Expansion**

22. At the end of 1966 the total secured advances of the scheduled commercial banks were 13 per cent higher than a year ago (Table 4). Primarily because of the setback in agricultural output, but also because of the authorities' efforts to limit the rise in prices in the face of the reduced availabilities, advances against stocks of seasonal commodities—all products of agriculture—increased by only 4 per cent, while those against stocks of non-seasonal commodities were up by 15 per cent. The rise of almost a third in the unsecured advances may be partly attributed to an increased preference by industry to borrow on these terms, and should be viewed against the freeze imposed upon them during June-September 1965.

**Security-wise  
Distribution  
of Advances**



23. The emphasis of the Reserve Bank on bank credit financing genuine needs of production, the commercial banks' response to the Reserve Bank advice and growing importance of industry in the national economy were reflected in the continuing increase in the dominance of industrial advances in the total advances of scheduled commercial banks (Table 8). Their share which recorded a rise of 2.3 points between the end of March 1964 and March 1965 showed a further rise

of 2.8 points to 64.3 per cent at the end of March 1966. Indeed, even in terms of the number of accounts, it is only the industrial advances that have shown a rise between 1965 and 1966. Commercial, financial and personal advances have declined as regards the number of accounts and their share in the total amounts have also gone down. Agricultural advances despite the fairly significant fall in the number of accounts have maintained their share of about 0.2 per cent through a rise in amount.

TABLE 8—ADVANCES OF SCHEDULED COMMERCIAL BANKS ACCORDING TO PURPOSE, 1964, 1965 AND 1966

(Amounts in Rs. Crores)

	March 31, 1964			March 31, 1965			March 31, 1966*		
	75			75			75		
	Ac- counts	Amounts		Ac- counts	Amounts		Ac- counts	Amounts	
	Amount	Per- centage	Amount	Per- centage	Amount	Per- centage	Amount	Per- centage	
	1	2	3	4	5	6	7	8	9
I. Industry .. ..	53,859	1104.40	59.2	48,328	1287.32	61.5	49,345	1509.79	64.3
II. Commerce .. ..	197,366	486.83	26.1	174,124	536.78	25.6	160,671	572.97	24.4
III. Financial .. ..	16,365	99.19	5.3	15,340	94.23*	4.5	10,990	77.59	3.3
IV. Agriculture .. ..	120,870	8.69	0.4	57,808	3.95	0.2	45,586	4.65	0.2
V. Personal .. ..	595,742	101.77	5.5	728,206	109.22	5.2	671,485	107.79	4.6
VI. Professional .. ..	17,919	12.23	0.7	18,653	13.19	0.6	17,658	13.07	0.6
VII. All others .. ..	51,408	51.65	2.8	83,938	50.05	2.4	63,143	60.94	2.6
VIII. Total .. ..	10,53,529	1864.75	100.0	11,26,397	2094.74	100.0	10,18,883	2346.80	100.0

\* Adjusted to include 'due from banks' with a view to making the figures comparable with earlier years.

24. The relatively lower expansion of bank credit in the 1965-66 busy season may have been partly responsible for arresting the progressive decline in the share of Government securities in the total investments of banks which stood at the end of March 1966 at 81.5 per cent as against 80.7 per cent a year ago (Table 9). Other domestic investments declined over the year from 17.1 per cent to 16.6 per cent. The foreign securities re-

mained unchanged over the year. The share of the investments of Indian offices in total investments, however, rose fractionally from 98.2 per cent to 98.4 per cent with the complementary decline in the share of investments of foreign offices, reflecting mainly the taking over the business of Pakistan branches of the Indian banks by the Pakistan Custodian of Enemy Property at the outbreak of hostilities between India and Pakistan in September 1965.

TABLE 9—INVESTMENTS OF SCHEDULED COMMERCIAL BANKS, 1963-66

(Rs. Crores)

	March 31, 1963		March 31, 1964		March 31, 1965		March 31, 1966	
	79		79		75		76	
	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage
Number of reporting banks .. ..								
I. Investments of Indian Offices in								
(a) Indian Government Securities (in-cluding Treasury Bills) .. ..	626.97	83.4	669.14	80.9	755.12	80.7	820.27	81.5
(b) Other Domestic Investments .. ..	101.37	13.5	133.83	16.2	159.97	17.1	167.27	16.6
(c) Foreign Securities .. ..	2.99	0.4	2.80	0.3	2.97	0.3	2.89	0.3
Total of I .. ..	731.33	97.2	805.77	97.4	918.06	98.2	990.43	98.4
II. Investments of Foreign Offices .. ..	20.83	2.8	21.27	2.6	17.10	1.8	15.92	1.6
III. Total of I & II .. ..	752.16	100.0	827.04	100.0	935.16	100.0	1006.35	100.0

25. There were major changes in the distribution of maturity pattern of investments in Government securities of the Indian offices of scheduled commercial banks (Table 10). The share of securities maturing within 5 years made further impressive progress and at the end of March 1966 these investments accounted for more than two-thirds of the total. Similarly, the downtrend continued in case of securities maturing

between 5 and 10 years and their share declined to 21 per cent from 33.8 per cent over the year. Securities maturing after 15 years also recorded a lower share, while those maturing between 10 and 15 years showed a rise. Treasury bills, the share of which was less than 1 per cent in 1965 recovered to work out to 2.4 per cent, though this was still lower than their position two years before.

TABLE 10—MATURITY-WISE INVESTMENTS IN GOVERNMENT SECURITIES OF INDIAN OFFICES OF SCHEDULED COMMERCIAL BANKS, 1963-1966

(Rs. Crores)

	March 31, 1963		March 31, 1964		March 31, 1965		March 31, 1966	
	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage
	I. Treasury Bills .. ..	36.69	5.9	19.37	2.9	5.31	0.7	20.09
II. Securities maturing*								
1. Within 5 years .. ..	239.22	38.1	282.72	42.2	426.90	56.6	552.57	67.5
2. Between 5 & 10 years .. ..	279.13	44.5	304.58	45.5	255.50	33.8	172.59	21.0
3. Between 10 & 15 years .. ..	51.23	8.2	40.96	6.1	43.31	5.7	51.67	6.3
4. After 15 years .. ..	20.70	3.3	21.51	3.3	24.10	3.2	23.35	2.8
II. Total of I & II .. ..	626.97	100.0	669.14	100.0	755.12	100.0	820.27	100.0

\* Amount represents face value.

26. In the course of the discussion of mergers, amalgamations, etc. among banking companies, reference was made in the Report for 1964 to the long-term changes in the structure of the commercial banking system that official policies seek to promote. The point was also briefly alluded to in the Report for 1965 in terms of shares in the total bank deposits and credit of various groups of banks. It would appear from Table 11 that the largest banks have significantly improved their share in deposits as well as credit, sharply reversing the trend of earlier years. This

is entirely due to the fact that two banks from the next lower group joined in 1966 the group of banks with deposits of over Rs. 100 crores each, the composition of which was stable in the past over a number of years. Indeed if, the two new entrants to the group are excluded, banks with deposits exceeding Rs. 100 crores will be seen to have continued to lose a little as far as the share in bank credit is concerned, but gain slightly on deposits. Thus, the middle sized banks have continued to provide effective competition to the largest of the banks.

TABLE 11—PERCENTAGE SHARES OF GROUPS OF BANKS IN TOTAL SCHEDULED COMMERCIAL BANK DEPOSITS AND CREDIT

(As on last Friday)

Indian Scheduled Commercial Banks with deposits of	Number of Banks		Aggregate Deposits		Bank Credit	
	1965	1966	1965	1966	1965	1966
Over Rs. 100 crores .. .. .	6	8	54.8	61.3	57.0	62.5
Rs. 50 — 100 crores .. .. .	7	5	17.7	11.7	16.8	11.1
Rs. 15 — 50 crores .. .. .	11	11	10.9	11.2	9.0	9.6
Rs. 5 — 15 crores .. .. .	12	14	3.0	3.4	2.5	2.9
Below Rs. 5 crores .. .. .	25	23	1.9	1.5	1.5	1.3
Foreign Banks .. .. .	15	15	11.6	10.9	13.1	12.7
All Scheduled Commercial Banks .. .. .	76	76	100.0	100.0	100.0	100.0

27. The year's operations appear to have resulted in a smaller rise in the published profits than in the previous year, if results of 33 Indian scheduled commercial banks including all the major banks, whose accounts are available, provide a correct guide. Profits of these 33 banks rose over the year by 2.1 per cent, whereas they recorded an increase of 9.2 per cent in 1965. The diminution in the growth of profit reflected primarily a lower rate of increase in the total earnings, as the rate of increase in the total expenses also showed a decline. At Rs. 236 crores, total earnings of these banks increased by nearly the same amount as in 1965, to show a percentage rise of 24.5 in 1966 as against that of 32.8 in 1965. At the same time, total expenses increased by Rs. 46 crores or 26.3 per cent to Rs. 222 crores, as against the increase of Rs. 46 crores or 35.1 per cent. In the result, profits increased by Rs. 30 lakhs to Rs. 15 crores whereas they were up by Rs. 1.2 crores in 1965. Earnings from interest and discounts, which had benefited in 1965 from the increase in the interest rates following the rises in the Bank rate in September 1964 and

February 1965, went up by Rs. 37 crores in 1966 as against Rs. 42 crores in 1965. No doubt the average rate charged on the advances moved up though slightly during 1966, but the major reason for the higher earnings was the higher level of bank credit. Other earnings improved by Rs. 9 crores to Rs. 42 crores as against Rs. 5 crores last year, the rate of improvement being 27.7 per cent as against 18.6 per cent. A number of services provided by banks in India have traditionally been free, while in countries abroad similar services attract appropriate fees and charges. In the context of the rising expenses banks have increasingly sought to augment their other earnings. The increase in other earnings was 77 per cent more than that in 1965 which would suggest that the banks have an avenue of raising additional revenues. Total expenses of these 33 banks increased by an amount fractionally lower than the rise in their earnings and amounted to Rs. 222 crores as against Rs. 175 crores in 1965; the growth worked out to 26.3 per cent as compared to that of 35.1 per cent in 1965. The sharp decline in the rate of increase owed largely to the smaller growth in respect of interest payments on deposits and borrowings. These payments

TABLE 12—PRINCIPAL LIABILITIES AND ASSETS OF SCHEDULED COMMERCIAL BANKS, 1955-1966

Last Friday of December	No. of Reporting Banks	Demand Deposits (Excluding inter-bank deposits)	Time Deposits (Excluding inter-bank deposits)	Aggregate Deposits	Borrowings from Reserve Bank	Cash in hand and Balances with Reserve Bank	Percentage of (6) to (4)	Total Bank Credit*	Percentage of (8) to (4)	Investments			Percentage of (10) to (4)
										Investments			
										Government Securities <sup>(a)</sup>	Others	Total Investments	
	1	2	3	4	5	6	7	8	9	10	11	12	13
1955	..	571.8	403.9	975.7	30.3	100.2	10.3	593.6	60.8	382.8	30.2	413.0	39.2
1956	..	603.4	449.1	1052.5	79.1	90.5	8.6	744.9	70.8	364.2	30.6	394.8	31.6
1957	..	658.9	638.7	1297.5	23.6	107.6	8.3	819.5	63.2	432.9	50.8	483.7	33.4
1958	..	649.8	866.4	1516.2	11.0	119.4	7.9	830.6	54.8	637.0	54.9	691.9	42.0
1959	..	668.9	1097.9	1766.8	11.8	113.9	6.4	921.9	52.2	787.4	67.6	855.0	44.6
1960	..	721.0	1086.4	1807.3	61.5	162.0	9.0	1130.0	62.5	630.3	63.4	693.7	34.9
1961	..	732.6	1102.1	1834.7	18.7	155.8	8.5	1277.0	69.6	577.0	74.8	651.8	31.4
1962	..	816.9	1222.0	2038.9	20.7	132.7	6.5	1421.8	69.7	646.2	91.3	737.5	31.7
1963	..	997.2	1255.6	2252.8	8.1	141.4	6.3	1580.9	70.2	707.2	122.4	829.6	31.4
1964	..	1178.3	1345.7	2524.0	35.4	160.3	6.4	1811.0	71.8	764.4	140.3	904.7	30.3
1965	..	1307.2	1519.8	2827.0	19.4	203.8	7.1	2105.6	72.9	826.2	163.9	990.1	28.6
1966	..	1382.6	1795.8	3378.4	7.5	249.0	7.4	2434.2	72.1	952.0	202.0	1154.0	28.2

Note: (1) Figures are based on Form XII of the Banking Regulation Act, 1949 except those in Column 5 which are based on weekly returns submitted by scheduled commercial banks in terms of Section 42(2) of the Reserve Bank of India Act, 1934.  
 (2) Figures from December 1961 are on a revised basis and consequently are not strictly comparable with those for the earlier years.  
 \* Includes inland and import bills purchased and discounted upto December 1960 and all bills purchased and discounted thereafter.  
 (a) Includes Treasury Bills and Treasury Deposit Receipts.

increased by Rs. 27 crores or 29.5 per cent to Rs. 116 crores, whereas they had increased by Rs. 29 crores or 48.3 per cent last year. The major factor here would be the smaller borrowings from the Reserve Bank as compared to 1965. Establishment expenses increased by Rs. 16 crores to Rs. 79 crores, whereas they had gone up by Rs. 13 crores in 1965 as a result of the growth in staff and of the increase in dearness allowance payments following upward surge of the price level. The rate of increase under this head has, however, shown only a fractional rise to 24.8 per cent from 24.7 per cent. Like the interest payments on deposits and borrowings, other expenses too showed a lower rate of increase than in 1965, 17.4 per cent as against 20.3 per cent ; but in absolute amount they went up by Rs. 4 crores to Rs. 26 crores, the rise being fractionally higher than last year.

28. With the coming into force of the amending Act extending the provisions of the Banking Regulation Act to co-operative banks, on **Co-operative Banking** March 1, 1966, this Report is required to cover also the operations of co-operative banks. Data relating to co-operative banks are not available for the entire period under review and the time lag in receiving co-operative banks' data tends to be long. However, efforts are being made to expedite the collection and submission of these data by the agencies concerned. In this report, it is possible only to review the operations of the apex banks for which data are available for the year.

29. There were 27 State co-operative banks (including 3 State industrial co-operative banks), 381 central co-operative banks (including 25 district industrial co-operative banks) and 1227 primary co-operative banks (518 urban banks and 709 salary-earners'/employees' co-operative credit societies), which were under the purview of the Banking Regulation Act, 1949 as at the end of 1966.

30. The 12 scheduled State co-operative banks and 6 other State co-operative banks constitute the 18 reporting banks. The deposit resources of these banks rose by Rs. 9.6 crores to Rs. 74.0 crores during the year ended December 31, 1966. During this period, short-

term credit limits aggregating Rs. 203.7 crores were sanctioned by the Reserve Bank to all State co-operative banks for financing seasonal agricultural operations and marketing of crops at the concessional rate of interest of 2 per cent below the Bank rate. The outstandings as on 31-12-1966 on account of drawals on these limits were Rs. 158.5 crores. The Reserve Bank also sanctioned special short-term credit limits for financing the High-yielding Varieties Programme to 13 State co-operative banks aggregating Rs. 17.7 crores, the outstandings as on 31-12-1966 on these limits being Rs. 2.6 crores.

31. In addition to the above short-term accommodation for agricultural operations provided at a concessional rate of interest, the Reserve Bank has also been granting advances to State co-operative banks for the production and marketing of handloom cloth. As against the total limits sanctioned for the year of Rs. 5.6 crores the amount outstanding as on 31-12-1966 was Rs. 4.0 crores. This finance was also granted at a concessional rate of interest of  $1\frac{1}{2}$  per cent below the Bank rate. In addition to the above, limits totalling Rs. 1 crore were sanctioned against Government securities at Bank rate for the purchase of yarn. During the period under review, medium-term credit limits aggregating Rs. 14.1 crores were sanctioned at  $1\frac{1}{2}$  per cent below the Bank rate for financing approved agricultural purposes, outstandings at the end of the year being Rs. 13.3 crores. In addition, limits aggregating Rs. 4.8 crores were sanctioned from the National Agricultural Credit (Stabilisation) Fund for converting short-term dues to the Reserve Bank of India which could not be repaid in time by the State co-operative banks due to scarcity or drought conditions in certain States ; the outstanding amount at the end of the year was Rs. 3.8 crores.

32. With a view to facilitating co-operative banks to have sufficient share capital base for meeting the needs of their constituents, the Reserve Bank sanctioned during the period under review a sum of Rs. 2.5 crores from the National Agricultural Credit (Long-term Operations) Fund to 12 State Governments for contributing to the share capital of the State co-operative banks, central co-operative banks, central land mortgage banks and primary agricultural credit societies.



## CHAPTER II

### BANKING LEGISLATION AND ORGANISATION

33. The previous Chapter dealt with credit policy and major developments in the operations of commercial banks during 1966: This Chapter is concerned with changes in the legislative and organisational framework in which banks operate.

34. During the past several years the Reserve Bank has taken a number of steps to strengthen the commercial banking system, including reconstruction of weaker units and exercise of more effective control and supervision over the working of banks so as to ensure soundness of their operations and these have been reviewed in previous Reports. The process of strengthening, consolidating and reorienting the banking system in accordance with the needs of time is a continuous one and progress made in this direction in 1966 is briefly reviewed below.

35. An important and growing element in the overall banking system, namely, the co-operative banks, was brought within the ambit of the Reserve Bank's statutory control, under the Banking Laws (Application to Co-operative Societies) Act which came into force from March 1, 1966. Changes were also made during the year in the regulations governing the deposit acceptance business of non-banking companies. The last Report covered in some detail the extension under the Banking Laws (Application to Co-operative Societies) Act of the provisions of the Reserve Bank of India Act and the Banking Companies Act (except in respect of incorporation, management and winding up) to State co-operative banks, central co-operative banks and the more important primary non-agricultural

credit societies (including, in particular, urban co-operative banks). As a consequence, it also became necessary to amend the Reserve Bank of India Scheduled Banks' Regulations, 1951 so as to provide for the continuance of certain facilities already available to State co-operative banks even after their inclusion in the Second Schedule to the Reserve Bank of India Act, 1934 with its attendant privileges and obligations.\* At the same time opportunity was taken to further liberalise remittance facilities available to scheduled banks generally. Accordingly, with the previous sanction of the Central Government, the Central Board of Directors of the Bank amended on March 4, 1966 Regulations 6(i) and 8(1) and (2) of the Reserve Bank of India Scheduled Banks' Regulations 1951. Amendment to Regulation 6(i) prescribed a separate form of weekly return for submission by the State co-operative banks included in the Second Schedule to the Reserve Bank of India Act, 1934 and amendment to Regulation 8 made changes in the remittance facilities.

36. It was mentioned in the last Report that in January 1966 the Bank had issued two directives under the Banking Laws (Miscellaneous Provisions) Act, 1963, one to non-banking non-financial companies (other than insurance companies and companies receiving deposits only from their members) and the other to non-banking financial companies which carry on or finance hire-purchase business. The directives were amended, on April 4, 1966 in order to grant a concession to industrial and commercial companies through the exemption of inter-

\* On July 2, 1966, 12 State co-operative banks were included in the Second Schedule. These were :

1. The Andhra Pradesh State Co-operative Bank Ltd., Hyderabad.
2. The Bihar State Co-operative Bank Ltd., Patna.
3. The Gujarat State Co-operative Bank Ltd., Ahmedabad.
4. The Kerala State Co-operative Bank Ltd., Trivandrum.
5. The Madhya Pradesh State Co-operative Bank Ltd., Jabalpur.
6. The Madras State Co-operative Bank Ltd., Madras.
7. The Maharashtra State Co-operative Bank Ltd., Bombay (Incorporating the Vidarbha Co-operative Bank Ltd.)
8. The Mysore State Co-operative Apex Bank Ltd., Bangalore.
9. The Orissa State Co-operative Bank Ltd., Cuttack.
10. The Rajasthan State Co-operative Bank Ltd., Jaipur.
11. The Uttar Pradesh Co-operative Bank Ltd., Lucknow.
12. The West Bengal Provincial Co-operative Bank Ltd., Calcutta.

**Banking  
Legislation**

**Non-Banking  
Companies :  
Regulation of  
Deposits and  
Hire Purchase  
Business**

corporate investments in the form of deposits as between holding companies and subsidiaries, on June 29, 1966 in order to grant some relief to hire-purchase finance companies in respect of the minimum liquidity requirements, and on September 7, 1966 in order to permit inter-corporate investments in the form of deposits among Government companies.

37. On October 29, 1966 two new directives, viz., (1) The Non-Banking Financial Companies (Reserve Bank) Directions, 1966 and (2) The Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966 were issued providing broadly for (i) extension of the control also to non-banking financial companies other than hire-purchase finance companies, (ii) regulation of the terms and conditions on which deposits and the extent to which deposits can be accepted, (iii) restriction of the deposits that may be accepted by non-banking non-financial companies and non-banking financial companies other than housing finance and hire purchase finance companies to twenty-five per cent of their paid-up capital and free reserves, (iv) liquidity requirements to the extent of ten per cent of the deposits in the case of housing finance and hire-purchase finance companies, (v) collection of hire-purchase debts within a reasonable period and (vi) returns and information to be furnished by all financial companies regarding their operations in sufficient detail and by all non-financial companies regarding their deposits and their hire-purchase transactions, if any.

38. The new directives were issued because of unduly large commitments by smaller private companies and the reported failure of some companies in and around Delhi. During the year, a survey was conducted of the deposits of non-banking companies, based on the returns received from them as on March 31 for the years 1962 to 1965. It revealed that during the period from March 1962 to March 1965 the total number of deposit accounts in the non-banking corporate sector increased by about 1 lakh, and the total volume of deposits rose by about Rs. 75 crores to Rs. 209 crores. It also disclosed that the less well-managed and smaller-

sized private limited companies continued to rely on deposits to a very much larger extent than was justified by their capital base indicating, *prima facie*, overtrading preceded or followed by the acceptance by them of unduly large commitments having regard to their own financial position, liquid resources or ability to repay the deposits within relatively short-term periods by realising their assets.

39. The Non-Banking Financial Companies (Reserve Bank) Directions, 1966 are applicable to the companies specified, whether or not they accept deposits from the public, while the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966 are applicable only to those non-financial companies which have been accepting deposits from the public. Both the directions were brought into force with effect from January 1, 1967.

40. In the case of companies whose deposits as on December 31, 1966 were limited to a ceiling and were in excess of twenty-five per cent of their paid-up capital and free reserves, the new directives provide for a period of two years till the end of December 1968 within which the excess deposits should be adjusted.

41. The process of strengthening the banking structure through transfers of assets and liabilities, voluntary amalgamations and compulsory **Bank Mergers** mergers, slowed down during the year under review (Table 13) as most of the weak units had already been dealt with by the end of 1965. The total number of banks absorbed was only 7 as against 33 in 1965 and 79 in 1964, reducing the total number of commercial banks operating in the country at the end of 1966 to 100\* of which 73\* were scheduled banks.

42. As in the earlier years, transfers of agreed liabilities and assets continued in 1966 to be the most common method of promoting consolidation of the banking system. Five banks (2 in Mysore State and 3 in Madras State) transferred their liabilities and assets to other banks under Section 293 (i) (a) of

\* Excluding the Habib Bank Ltd. and the National Bank of Pakistan whose assets have been vested in the Custodian of Enemy Property and the Bank of Karnatak which has been merged with the Karnataka Bank with effect from December 29, 1966.

TABLE 13. BANK MERGERS, AMALGAMATIONS AND TRANSFERS OF ASSETS AND LIABILITIES

Year	Voluntary Amalgamations under Section 44A of the Banking Regulation Act, 1949	Compulsory Mergers under Section 45 of the Banking Regulation Act, 1949	Other Mergers*	Transfer of assets and liabilities under Section 293(i)(a) of the Companies Act, 1956	Total
1960 .. ..	2	—	—	5	7
1961 .. ..	1	30	2	3	36
1962 .. ..	3	1	2	5	11
1963 .. ..	2	1	4	15	22
1964 .. ..	7	9	1	62	79
1965 .. ..	5	4	3	21	33
1966 .. ..	—	—	2	5	7
<b>TOTAL ..</b>	<b>20</b>	<b>45</b>	<b>14</b>	<b>116</b>	<b>195</b>

\*Banks taken over by the State Bank of India and its subsidiaries.

the Companies Act, 1956 ; there were 21 such cases in 1965 and 62 in 1964.

43. In addition, the State Bank of Patiala acquired the business of the Himalya Bank Ltd. (New Fund business) and the State Bank of Bikaner and Jaipur that of the Govind Bank Private Ltd. with effect from March 1, 1966 and April 25, 1966, respectively in accordance with the schemes sanctioned by the Central Government under Section 38 of the State Bank of India (Subsidiary Banks) Act, 1959. The Central Government also sanctioned on October 15, 1966, schemes for acquisition of business of the Bengal Duars Bank Ltd., Jalpaiguri, the Raikut Industrial Bank Ltd., Jalpaiguri and the Kamala Bank Ltd., Cooch-Behar, by the State Bank of India under Section 35 of the State Bank of India Act ; January 14, 1967 was specified as the date of take-over.

44. During the year, there was no case of any compulsory merger under Section 45 of the Banking Regulation Act, 1949 ; in 1965, 4 banks were merged with other banks under this Section. Further, no bank was granted a moratorium by the Central Government during 1966. The total number of banks granted moratoria since September 1960, therefore, remained unchanged at 56. The Central Government framed during the year schemes of administration in respect of two

foreign banks, viz., the Habib Bank Ltd., and the National Bank of Pakistan, which were under moratoria at the end of 1965 and whose assets were subsequently vested in the Custodian of Enemy Property for India. According to these schemes, payments are being made to the depositors/creditors at stipulated rates.

45. It was indicated in the last year's Report that the depositors of 10 banks out of the 45 banks amalgamated with other banks had received at the end of 1965 credits in the books of the transferee banks in proportion to the readily realisable assets in addition to the preferential payments to each depositor of the sum standing to his credit or Rs. 250 whichever was less. Depositors of 3 out of these 10 have since received full payment.

46 The Punjab & Kashmir Bank Ltd., Delhi filed a petition on April 29, 1966 in the High Court of the Punjab seeking permission to negotiate for acquisition of its new fund business by the State Bank of Patiala. The matter is still pending before the Court. The Commercial Bank of India Ltd., Delhi, was notified under Section 36A (2) of the Banking Regulation Act., 1949 on June 18, 1966 as a result of which it ceased to be a banking company within the meaning of the said Act from that date. The Colony

Bank Ltd., Ludhiana was ordered to be wound up on April 22, 1966 by the Punjab High Court. The Trinity Bank Ltd., Tiruchirapalli, which had made provision for payment of its deposit liabilities in the new fund as well as the closed fund, has been issued a certificate under Section 44(1) of the Banking Regulation Act, 1949 to enable it to go into voluntary liquidation. On October 28, 1966, it was granted permission by the Madras High Court to amalgamate the accounts of the old and new funds.

47. During the year, 9 non-scheduled banks went into liquidation, of which, 3 were ordered to be wound up by the High Courts while the remaining 6 went into voluntary liquidation after obtaining certificates from the Reserve Bank under Section 44(1) of the Banking Regulation Act, 1949. One bank was treated as dissolved in 1959 but its name was restored in the Register of Companies under Section 560 (6) of the Companies Act, 1956, in terms of an order passed by the Mysore High Court. 16 banks which were in liquidation were dissolved during the year. As a result of the liquidation of the aforesaid 9 banks, restoration of one bank and dissolution of 16 banks, the number of banking companies in liquidation decreased from 240 to 234 as at the end of the year under review. The Bank scrutinised returns submitted by the liquidators of 163 banks under Section 45R of the Banking Regulation Act, 1949 with a view to ensuring that the legal requirements were complied with and that the liquidation proceedings were not unduly delayed.

48. Consequent on the merger of a licensed foreign scheduled commercial bank with another foreign commercial bank operating outside India, the licence granted to the former was cancelled and the new unit was granted a licence under Section 22 of the Banking Regulation Act, 1949 during the year. In addition, two other scheduled commercial banks were granted licences during the year and licences granted to 5 non-scheduled banks were cancelled. Two other non-scheduled banks were refused licences. Since the commencement of the Banking Regulation Act, 1949, 271 banks

have been refused licences and the licences granted to 30 banks have been cancelled. At the end of 1966, the number of licensed banks was 59 (53 scheduled and 6 non-scheduled); while in respect of 38 banks (15 scheduled and 23 non-scheduled), yet to be licensed, the position is under periodical review regarding their eligibility for licence. These 97 banks include one licensed scheduled bank and two unlicensed non-scheduled banks, the liabilities and assets of which were transferred to other banks in December 1966 but the licences in respect of which have yet to be cancelled/refused. The banks so far licensed and the banks not requiring a licence, i.e., the State Bank of India and its subsidiaries, accounted for 98 per cent of the deposits of commercial banks in India at the end of 1966 as against 97 per cent in 1965.

49. In accordance with its policy of periodical inspections, the Reserve Bank continued to carry out inspections of banks under Section 35 of the Banking Regulation Act, 1949. The intention is generally to inspect banks annually. Most of the smaller banks are being inspected every year while in the case of other banks the interval between two inspections is being narrowed so as to achieve the target of annual inspections. During 1966, 67 scheduled and 18 non-scheduled banks were inspected. Four banks were called upon to submit their representations, if any, in regard to the directions proposed to be issued to them by the Bank and/or to the deputation of an Observer.

50. The number of insured banks declined from 109 at the end of 1965 to 100 at the end of 1966 mainly as a result of voluntary amalgamations and transfers of deposit liabilities and equivalent assets to other banks. One new bank was registered as an insured bank during the year. As on the last Friday of September 1966, the latest date for which data are available, the total number of deposit accounts with insured banks was 135.64 lakhs, of which 103.64 lakhs (with balances not exceeding Rs. 1500) or 76.4 per cent of the total number of accounts, were fully insured by the Corporation. The Corporation's liability in re-

spect of insured deposits under Section 16 of the Deposit Insurance Corporation Act, 1961 arose during the year in case of the National Bank of Pakistan, Calcutta and Habib Bank Limited, Bombay, following the scheme of administration sanctioned by the Central Government in regard to them; the relative claims in the case of these banks were met in September and October, respectively. Since its inception upto the end of 1966, the Corporation has met claims aggregating Rs. 57.31 lakhs in respect of 11 banks. During the same period, repayments received by the Corporation in respect of claims met totalled Rs. 27.91 lakhs.

51. Continuing its policy of active encouragement to banks to increase the banking coverage of the country, the Reserve Bank granted permission to commercial banks in 1966 to open 547\* offices of which 232 were at unbanked centres. The number of offices actually opened during the year was 285 at banked centres and 190

at unbanked centres, as compared to 210 and 162, respectively, in 1965. Of the new offices opened in 1966, the State Bank of India and its subsidiaries accounted for 64 offices at banked centres and 91 offices at unbanked centres, as compared to 71 and 100, respectively in 1965. Scheduled commercial banks opened 458 offices in 1966 as compared to 368 in 1965. Allowing for the changes in the number of offices, due to amalgamations, mergers, transfers of assets and liabilities, closure of offices etc., the number of offices of scheduled commercial banks increased by 480 in 1966 as compared to 411 in 1965; the number of offices of non-scheduled banks, on the other hand, declined by 12 in 1966 as against a decline of 102 in 1965. The larger fall in the number of offices of non-scheduled banks in 1965 reflects the structural changes reducing the number of non-scheduled banks in that year as referred to earlier. At the end of 1966, the total number of offices of scheduled and non-scheduled commercial banks stood at 6,415 and 221, respectively, compared to 5,935 and 233, a year earlier (Table 14).

TABLE 14. VARIATIONS IN THE NUMBER OF OFFICES OF SCHEDULED AND NON-SCHEDULED COMMERCIAL BANKS IN 1965 AND 1966

	Scheduled Commercial Banks		Non-scheduled Commercial Banks		All Commercial Banks	
	1965	1966	1965	1966	1965	1966
1. New offices opened .. .. .	+ 368 (+ 128)	+ 458 (+ 113)	+ 4	+ 17	+ 372	+ 475
2. Changes due to amalgamations, mergers, transfers of assets and liabilities and inclusion in and exclusion from the second schedule to the R.B.I. Act, 1934 .. .. .	+ 60 (+ 1)	+ 28	- 60	- 28	-	-
3. Existing offices closed .. .. .	- 17 (- 1)	- 6	- 46	- 1	- 63	- 7
4. Overall variation in the number of offices ..	+ 411	+ 480	- 102	- 12	+ 309	+ 468
5. Number of offices at the end of the year ..	5,935	6,415	233	221	6,168	6,636

Note: 1. Figures within brackets relate to the State Bank of India. 2. Data exclude administrative, seasonal, temporary, non-banking offices and offices outside India. 3. Figures for 1965 are revised and those for 1966 are provisional.

\* Inclusive of 1 mobile office. Excluding permission granted for opening offices outside India, temporary and seasonal offices and for change of location of existing offices and for taking over the business of other commercial banks.



52. The special role of the State Bank of India and its subsidiaries in extending banking facilities in the country by launching planned expansion programmes has

**Branch Expansion of the State Bank of India and its Subsidiaries**

been mentioned in the previous Report. Under their second programme for branch expansion covering the period July 1960 — June 1965, the State Bank of India and its subsidiaries were to open 300 branches. In the event they opened 309 branches. Even with this overfulfilment the State Bank has been asked to proceed with branch expansion in order to ensure the continuity of that programme without any slackening of pace. For this purpose, important sub-treasury centres are selected from time to time in consultation with it. Accordingly, the State Bank opened 23 branches during the period July 1965 to December 1966. Under its third programme for opening 319 branches at non-banking treasury and sub-treasury centres within five years from January 1, 1964, the State Bank of India had opened 163 branches (including 78 in 1966) upto the end of December 1966, leaving 156 branches to be opened in the last two years of the programme. In addition, the State Bank opened 20 new branches in 1966 outside the expansion programmes, in pursuance of its policy of expanding banking facilities in metropolitan cities and big towns. Under their expansion programme for the period July 1965—June 1970, the subsidiaries of the State Bank of India had opened 61 offices by the end of 1966 (including 35 in 1966). They also opened 13 offices in 1966 outside the expansion programme. As on December 31, 1966 the total number of Indian offices of the State Bank and its subsidiaries stood at 1,377 and 701 as compared to 1,267 and 658, respectively, at the end of 1965.

53. The Bank's policy of promoting systematic expansion of banking facilities with particular reference to unbanked centres and under-banked regions in the

**Branch Expansion of Other Banks**

country gathered further momentum during the year. As indicated in the last Report, 47 banks were issued licences to open 616

new offices including 231 at unbanked centres and banks opened 573 offices, 216 at unbanked centres under the first three-year branch expansion programme of other Indian banks which concluded on July 31, 1965. By the end of 1966 the number of offices opened under this programme rose to 597, of which, 221 were at unbanked centres. Under the second expansion programme covering the two-year period August 1965 to July 1967, the Bank has approved opening of 656 offices, of which 233 are to be at unbanked centres. Upto the end of 1966 licences were issued for 418 new offices of which 146 are to be at unbanked centres. Against these licences, 280 offices have been opened, including 99 at unbanked centres.

54. During the year, further progress was made in widening the clearing house facilities as a part of the larger programme

**Clearing Houses**

of extension of banking facilities in the country. Five more clearing houses were established during the year, thus bringing the total number of clearing houses functioning in the country at the end of December 1966 to 87. Only 20 centres which have a population of one lakh and above according to the 1961 census are now without clearing facilities. Of the total number of clearing houses functioning at the end of 1966, 7 are managed by the Reserve Bank of India, 65 by the State Bank of India, 14 by the subsidiaries of the State Bank of India and one by another commercial bank.

55. With the opening of an office each in Kenya, Guyana, Fiji Islands and Sikkim during the year under Report, the

**Indian Banks' Business Abroad**

number of foreign offices of Indian banks rose to 61 at the end of the year from 57\* a year ago. Countrywise, Malaysia had as at the end of 1965, the largest number of Indian banks' offices, namely 11, having displaced Pakistan from that position when Indian banks' offices in Pakistan were taken over by the Government of that country at the outbreak of hostilities in September 1965. Kenya and U.K. followed behind Malaysia with 9 and 7, offices respectively. At the end of

\* The figure given in the 1965 Report was one less as the office opened in Singapore on October 30, 1965 was not then taken into account.

1966, total liabilities of Indian offices of foreign banks amounted to Rs. 216 crores, of which deposits accounted for Rs. 157 crores. On the assets side, loans and advances stood at Rs. 63 crores, bills purchased and discounted at Rs. 40 crores, money at call and short notice at Rs. 26 crores and investments at Rs. 22 crores. A year ago, the total liabilities amounted to Rs. 137 crores. Deposits then stood at Rs. 95 crores, loans and advances at Rs. 40 crores, bills purchased and discounted at Rs. 22 crores, money at call and short notice at Rs. 16 crores and investments at Rs. 15 crores. The comparison between the figures for the two years is however to be made only after adjusting the 1966 figures for the new rate of exchange at which they are arrived at. When so adjusted they still show a small improvement over 1965, in contrast to the decline of 14 per cent in 1965. But as noted in the last Report the 1965 figures themselves were largely influenced by the cessation of business of Pakistan offices of Indian banks. Deposits showed a rise in 1966 particularly in the U.K., East Africa and Malaysia. Bills purchased and discounted and money at call and short notice gained at the expense of loans and advances and investments. The ratio of liquid assets to deposits thus rose over the year from 50 per cent to 52 per cent.

56. The Reserve Bank has since March 1963 provided refinancing facilities to scheduled banks against declarations of eligible export bills under the Export Bills Credit Scheme.

**Export Finance Facilities**

During the year total advances made by the Bank under the Scheme amounted to Rs. 41.42 crores as against Rs. 49.69 crores in 1965. As last year, almost the entire amount (Rs. 39.43 crores) availed of in 1966 was against declarations of rupee export bills which are eligible for refinance at the Bank rate. The Industrial Development Bank of India also continued to provide refinance facilities to eligible credit institutions against their medium-term export credits to exporters in the private sector. Such refinance is provided at a concessional rate of interest, which has remained unchanged at 4½ per cent since December 1963, on condition that the borrowing institution does not charge the exporter more than 6 per cent; the rate charged is 5 per cent in other cases. During 1966,

the Industrial Development Bank of India sanctioned refinancing limits for Rs. 58.59 lakhs, of which Rs. 45.13 lakhs was disbursed. Since the inception of the Scheme, upto the end of December 1966, the total refinance sanctioned amounted to Rs. 1.43 crores and disbursements to Rs. 1.29 crores with outstandings at the end of 1966 at Rs. 54.97 lakhs.

57. The Industrial Development Bank of India provides refinance to banks also in respect of their medium term loans to industrial concerns for expansion and modernisation of plant and machinery and for setting up new units. Sanctions as well as disbursement of refinance to commercial banks declined to Rs. 14.55 crores and Rs. 11.44 crores in 1966 from Rs. 17.66 crores and Rs. 18.45 crores, respectively, in 1965. This was attributable in part to the policy pursued by the IDBI of limiting sanctions of proposals to those which fell within the priority sectors of the economy as well as of diverting relatively larger applications to direct lending by the IDBI in participation with banks so as to mitigate the risks of large medium term loans for commercial banks. The total outstanding for refinance disbursed to commercial banks stood at Rs. 50.53 crores as compared to Rs. 46.89 crores a year ago.

58. The participation in industrial loans referred to in the previous paragraph was embodied by the IDBI in a scheme introduced on April 1, 1966, under which, the IDBI joins financial institutions eligible for refinancing facilities in making direct loans to industry and thus shares the risk involved with them. Such participation is restricted ordinarily to public limited companies in the industries within the priority sectors of the economy, the maximum extent of participation being 75 per cent, increased to 80 per cent in exceptional cases. Under this scheme, the IDBI sanctioned in 1966 loans of Rs. 4.85 crores to 4 units, the extent of participation in individual cases varying between 56 per cent and 80 per cent of the total assistance. Disbursements were made during the year to 3 of these units and totalled Rs. 1.95 crores as at the end of the year.

59. The scheme introduced by the IDBI in April 1965 for rediscounting of bills arising out

of sales of indigenous machinery on deferred payments basis, noticed in the last Report was extended to cover all machine-making industries as from November 15, 1966. However, to prevent diversion of such assistance to large projects, and to maintain the medium size nature of the assistance, prior clearance from the IDBI has been made obligatory in cases involving rediscounting of bills for more than Rs. 25 lakhs relating to any single purchaser over the year. Further, in order to extend the benefit of the scheme to a larger segment of small purchasers, the minimum amount of a transaction for deferred payment sales has been reduced from Rs. 1 lakh to Rs. 50,000 generally and to Rs. 15,000 in the case of agricultural implements. In view of such substantial liberalisation of the scheme, the year under Report witnessed a significant increase in the rediscounting of bills arising out of sales of indigenous machinery on deferred payment basis. Upto the end of 1966, 7 banks rediscounted bills for Rs. 4.89 crores as against 5 banks rediscounting bills for Rs. 0.85 crore a year ago. Assistance outstanding under the scheme at the end of the year stood at Rs. 5.30 crores.

60. More wide-ranging and much larger assistance to small scale industry is, provided under the scheme, administered by the Reserve Bank on behalf of the Government of India since July 1960, for guarantee of advances granted to small-scale industries by specified banks and financial institutions.

**Guarantee Scheme for Small-Scale Industries**

61. With the approval of the Central Government, some measure of liberalisation was introduced in the scheme with effect from August 1, 1966. The more important aspects of this were: (1) inclusion of central co-operative banks and specified non-scheduled banks in the credit institutions eligible for seeking guarantee facility, (2) enhancement of (a) the extent of guarantee, (b) the maximum amount of loss recoverable from the Guarantee Organisation and (c) the maximum period for which a guarantee could be issued for term advances, (3) grant of option to the credit institutions to seek guarantee for term advances for one or more years or for the full period of advance (subject to a maximum period of 10 years) with the facility of pay-

ing fees annually on the basis of the amount outstanding at the commencement of each successive year of the period of guarantee, instead of on the amount originally guaranteed. Benefiting from this liberalisation, as also because of the general widening of the interest in the scheme, applications for guarantee received in 1966 recorded a substantial rise over the previous year. A total of 14,210 guarantees were issued for Rs. 52.74 crores during 1966 as compared to 10,325 guarantees for Rs. 41.93 crores in 1965. Since the inauguration of the scheme to the end of 1966, 43,838 applications were received for an amount of Rs. 182.95 crores and guarantees were issued in respect of 36,943 applications for a total sum of Rs. 144.20 crores. Guarantees in respect of 79 advances were invoked and a sum of Rs. 9.18 lakhs in respect of 72 advances was paid towards Government's share of the amount in default. The guarantee facility has been availed of by 41 credit institutions, including the State Bank of India and its subsidiaries.

62. In 1967, recourse to the scheme may be expected to show further significant rise as with effect from March 1, 1967, guarantees under the scheme are made available to advances to all industrial undertakings the value of whose investment in plant and machinery does not exceed Rs. 7.5 lakhs. Prior to this, only industrial units with investment in land, buildings and plant and machinery (including the capitalised value of the rented premises, if any, but excluding the amount spent on housing and amenities for workers) not exceeding Rs. 5 lakhs were eligible for receiving facilities under the scheme.

63. Scheduled commercial banks also continued to increase their advances to small-scale industries. These advances increased from Rs. 73.83 crores at the end of March 1965 to Rs. 90.76 crores at the end of March 1966, the latest date for which data are available. The share of small-scale industries in the total of scheduled commercial banks' advances to industry also rose slightly from 5.7 per cent to 6 per cent. The number of accounts increased from 26,144 to 28,472 and the average amount per account increased from Rs. 28,241

**Bank Finance for Small-Scale Industries**

to Rs. 31,876\*. The light engineering group continued to receive the largest share of the total bank credit to small-scale industries and accounted for Rs. 20.56 crores or 23 per cent out of the total outstandings of Rs. 90.76 crores as at the end of March 1966. Next in importance was the textiles group with outstanding advances of Rs. 10.66 crores, or 12 per cent of the total, followed by manufacture of metal products (including metal pipes, tubes, etc., but excluding machinery and transport equipment) which accounted for Rs. 7.54 crores or 8 per cent.

64. Reference is made in Chapter I to the Reserve Bank's exhortations to commercial

**Refinance of  
Term Loans  
for Agricultural  
Development**

banks to take more active interest in direct as well as indirect financing of agricultural activities. Commercial banks have also been urged to make greater use of the facilities extended by the Agricultural Refinance Corporation for the purpose. The Corporation makes refinance available to eligible institutions, including banks, for medium and long-term financing of agricultural development schemes. From its inception to the end of 1966, the Corporation has sanctioned refinance for Rs. 33.72 crores, against which total disbursements have amounted to Rs. 5.1 crores.

65. The Unit Trust of India declared during 1966 its second dividend to the unit-holders, which at 7.0 per cent was

**The Unit Trust  
of India**

0.9 points higher than the first dividend. Initial capital contributors received 4.25 per cent as against 3 per cent last year. Sales of units during the year ended June 1966 amounted to Rs. 2.15 crores, whereas last year they had amounted to Rs. 19.14 crores. This substantial decline was attributable mainly to the outbreak of the Indo-Pakistan hostilities and the difficult economic conditions during the year apart from the fact that the initial impetus was absent. The continued rise in the general price level and in the cost of living, the prevalence of high interest rates on competitive investments, especially rates offered by non-banking companies for deposits and the sluggishness in the stock markets, were the

other factors contributing to the decline in the sale of units. Of the total resources of Rs. 25.90 crores at the end of June 1966, investments in ordinary shares amounted to Rs. 10.7 crores, preference shares Rs. 2.5 crores and debentures Rs. 10.9 crores. Since July 1, 1966, the sales picture has improved significantly, the amount of units sold during the six months ended December 31, 1966 being Rs. 7.68 crores.

66. To enable the Trust to initiate further Unit Schemes/Savings Plans including Savings-cum-Insurance Plan with a view to catering to the varying preferences of investors, the Unit Trust of India Act, 1963 was amended during the year. The Unit Scheme 1964 was also amended with a view to (i) providing the facility to investors under which the sale price of units at the recommencement of sales in the new accounting year is kept at a fixed level for a specified period, and (ii) enabling the Trust to introduce the Reinvestment Plan, 1966 providing an automatic investment facility to the existing unit-holders to invest the income distribution due on their holdings of units in the units of the Trust in a convenient manner. The Reinvestment Plan, 1966 operated during the year.

67. The credit information division maintained by the Reserve Bank to collect information from banks and other notified financial institutions in respect of credit facilities allowed by them to individual customers and supply it in a consolidated form to the institutions which apply for it, furnished during the year, credit information in respect of 2320 applications to 28 banks and 1 notified financial institution.

**Credit Infor-  
mation**

68. The Reserve Bank continued to sponsor and organise training courses for the supervisory personnel of commercial banks in the Bankers' Training College, Bombay. During 1966, the College conducted

**Bankers' Train-  
ing College**

three senior courses, four intermediate courses and one course each in foreign exchange, industrial finance and personnel and organisation. The number of commercial bank officials who received training in the College

\* The figures for 1965 have been revised since the publication of the 1965 report.

was 309. Bank officials who have received training in the different courses conducted by the College since its inception in 1954 numbered 2433. As noted in the last year's Report, the Bank started in 1965 to organise training facilities for the managerial staff of co-operative banks in practices and procedures of modern banking. During 1966, two courses were conducted for this purpose at the College in which 50 officials of co-operative banks participated, bringing the total number of officials trained in this course to 79. In response to requests from representatives of some banks, the Bank organised at the College a two-week course covering techniques and procedures of inspections for the supervisory inspection staff of medium and small sized commercial banks; 25 bank officials attended the course.

69. One of the conclusions reached in the seminar of chief executives of commercial banks organised by the Bank in January 1965 to discuss the problems relating to employer-employee relations in the banking industry, was that there was need for a proper diagnosis of the causes of the existing state of affairs in this field, so as to assist bank management in formulating rational and long-term policies in this regard. It has, therefore, been decided to entrust two professors having experience in this field a survey of employer-employee relations in the banking industry in the country with a view to determining prevalence factors influencing conflict or harmony. The expenses of the survey are being shared equally by the participating banks.

70. Consequent upon the expiry at the end of July 1965, of the Award of the National Industrial Tribunal (Bank Disputes)

in respect of commercial banks, bipartite discussions were held between the representatives of the management of commercial banks and their employees' organisations to consider the demands of the employees for improvement in their wages and other conditions of service. A settlement was arrived at between the parties on October 19, 1966 covering practically all the issues. Its main features are: (i) increase in scales of pay, house rent allowance, halting allowance, etc. and special allowances prescribed under the Award; (ii) determination of superannuation benefits on the full amount of pay instead of the provision in the Award that these benefits should be calculated only on 80% and 75% of the pay of the clerical and subordinate staff, respectively, and (iii) raising of the age of retirement from 58 to 60 years. The settlement is binding on the parties for a period of three years from January 1, 1966 to December 31, 1968 and shall continue to be binding thereafter until either party gives to the other two months' notice in writing of its intention to terminate the settlement.

71. As mentioned in the last year's Report, the Award of the National Industrial Tribunal (Bank Disputes) relating to the workmen-employees of the Reserve Bank also expired on October 29, 1965. Following negotiations between the management of the Reserve Bank and the representatives of the workmen-employees in connection with the revision of their wages and other conditions of service, a settlement was signed on February 7, 1967 in respect of Class IV staff, while certain specific issues such as scales of pay and special pay, dearness allowance, leave rules, age of retirement, etc., in case of other workmen have been referred to Shri T. L. Venkatarama Aiyar, a retired Judge of the Supreme Court of India for arbitration under Section 10A of the Industrial Disputes Act, 1947.



## APPENDIX I

PARTICULARS IN RESPECT OF BANKS GRANTED MORATORIUM DURING 1966  
UNDER SECTION 45 OF THE BANKING REGULATION ACT, 1949.

Name of the bank	No. of Offices	Name of the transferee bank	Date on which scheme of amalgamation came into force
(1)	(2)	(3)	(4)
NIL			

## APPENDIX II

1. STATEMENT SHOWING THE POSITION IN REGARD TO LICENSING IN TERMS OF  
SECTION 23 OF THE BANKING REGULATION ACT, 1949.

No. of places in respect of which applications were received during 1966 and those pending at the end of 1965	No. of places in respect of which licences were granted/refused for opening new offices		For opening temporary/seasonal offices		For changing the location of existing offices		No. of applications treated as withdrawn by banks	Total	
	Granted	Rejected	Granted	Rejected	Granted	Rejected		Granted	Rejected
749@ (7)	613* (4)	5 (1)	18	—	1	—	6	632	5

*Note:*—Figures in brackets indicate the number of offices outside India and are included in the main figures.

@ Applications in respect of 90 offices of banks in the private sector and 14 offices of the State Bank of India and its subsidiaries were under consideration and 2 applications for opening offices outside India were pending as on the 31st December, 1966.

\* Include 44 licences issued to banks in order to enable them to take over the existing offices of the banks and 18 conditional licences.

## 2. STATEMENT SHOWING THE NUMBER OF OFFICES OPENED OR CLOSED IN FOREIGN COUNTRIES BY INDIAN BANKS DURING 1966.

	Guiana	Fiji Islands	Sikkim	Kenya
No. of offices opened	..	1	1*	1
No. of offices closed	..	—	—	—

\* Mobile office.

## APPENDIX III

## PARTICULARS IN RESPECT OF AMALGAMATIONS AND TRANSFER OF LIABILITIES AND ASSETS OF BANKING COMPANIES IN 1966

Name of the bank	No. of offices	Name of the transferee bank	Date of amalgamation or transfer
(1)	(2)	(3)	(4)

## I. List of banks amalgamated under Section 44A of the Banking Regulation Act, 1949.

— Nil —

## II. List of banks which have transferred their liabilities and assets to other banks

(i) Rajapalaiyam Commercial Bank (Pvt.) Ltd; Rajapalaiyam .. .. .	4	Tanjore Permanent Bank Ltd.	..	22-8-1966
(ii) Hubli City Bank Ltd., Hubli .. .. .	2	Vijaya Bank Ltd., Mangalore	..	27-8-1966
(iii) Salem Bank Ltd., Salem .. .. .	21@	Indian Bank Ltd. .. .. .	..	24-12-1966
(iv) Bank of Karnatak Ltd., Hubli .. .. .	14	Karnataka Bank Ltd., Mangalore	..	29-12-1966
(v) Srinivasaperumal Bank Ltd., Coimbatore ..	4	Indian Overseas Bank Ltd., Madras	..	30-12-1966

## III. List of banks amalgamated under section 45 of the Banking Regulation Act, 1949.

— Nil —

## IV. List of banks taken over by the State Bank of India or its Subsidiaries under section 38 of State Bank of India (Subsidiary Banks) Act, 1959.

(i) Himalya Bank Ltd., (Palampur) .. .. .	1	State Bank of Patiala .. .. .	..	1-3-1966
(ii) Govind Bank (Pvt.) Ltd. .. .. .	1	State Bank of Bikaner & Jaipur	..	25-4-1966

@ 20 offices have been taken over by the transferee bank.

## APPENDIX : IV

## LIST OF CIRCULARS INCLUDED IN THE APPENDIX

CIRCULAR NUMBER	DATE	SUBJECT
1. DBOD No. Leg. 31/C. 233C-66	February 3, 1966	The Banking Laws (Application to Co-operative Societies) Act, 1965
2. DBOD No. Sch. 324/46A-66	March 14, 1966	Amendments to the Reserve Bank of India Scheduled Banks' Regulations 1951
3. DBOD No. Leg. 20/C. 234-66	January 20, 1966	The Banking Companies Act, 1949
4. DBOD No. Leg. 291/C. 234-66	December 2, 1966	The Banking Regulation Act, 1949
5. DBOD No. Sch. 1688/C. 96-66	December 2, 1966	Intra-group lendings
6. DBOD. No. Ret. 303/C. 236-66	December 23, 1966	Section 18 of the Banking Regulation, Act, 1949-Return in Form III
7. DBOD No. Sch. 384/C. 96-66	March 26, 1966	Refinance from R.B.I. under Section 17(4)C
8. DBOD No. Sch. 752/C. 96-66	May 26, 1966	Governor's letter (Credit policy for 1966 Slack season)
9. DBOD No. Sch. 972/C. 96-66	June 30, 1966	Governor's letter (Post devaluation credit policy)
10. DBOD No. Sch. 1538/C. 96-66	October 28, 1966	Governor's letter. (Credit policy for 1966-67 Busy season)
11. DBOD No. Sch. 1539/C. 96-66	October 28, 1966	Credit to Industrial concerns and/or against export or import bills
12. DBOD No. Sch. 1540/C. 96-66	October 28, 1966	Amendment to DBO directive No. Sch. 217/C-96-65 (Interest rates on deposits)
13. DBOD No. Sch. 1624/C. 96-66	November 18, 1966	Refinance at Bank rate to Food Corporation of India
14. DBOD No. Sch. 158/C. 96-66	February 9, 1966	Amendment to D. B. O. directive No. Sch. 216/C-96-65 (Maximum Interest on loans)
15. DBOD No. Cre. 2/C. 218(8)-66	January 3, 1966	Advances against Vegetable Oils (including Vanaspati)

CIRCULAR NUMBER	DATE	SUBJECT
16. DBOD No. Cre. 249/C. 218(H)-66	April 20, 1966	Advances against Vegetable Oils (including Vanaspati)
17. DBOD No. Cre. 250/C. 218-66	April 20, 1966	Advances against "Other Food-grains" (i.e. other than Paddy, Rice and Wheat).
18. DBOD No. Cre. 383/C. 218-66	June 14, 1966	—do—
19. DBOD No. Cre. 550/C. 218-66	August 16, 1966	—do—
20. DBOD No. Cre. 79/C. 218-66	January 31, 1966	Advances against Paddy and Rice
21. DBOD No. Cre. 251/C. 218-66	April 20, 1966	Advances against Paddy and Rice
22. DBOD No. Cre. 381/C. 218-66	June 14, 1966	—do—
23. DBOD No. Cre. 854/C. 218-66	December 14, 1966	Advances against Paddy and Rice
24. DBOD No. Cre. 80/C. 218-66	January 31, 1966	Advances against Wheat
25. DBOD No. Cre. 382/C. 218-66	June 14, 1966	—do—
26. DBOD No. Cre. 549/C. 218-66	August 16, 1966	—do—
27. DBOD No. Sch. 1782/C. 96-66	December 24, 1966	Amendment to DBOD No. Sch. 1539/C. 96-66 (Credit to Industrial concerns and/or against export or import bills)
28. DBOD No. Sch. 1370/C. 96-66	September 21, 1966	Bank balances and other moneys held by Pakistani nationals.

## APPENDIX IV

### 1. DBOD. NO. Leg. 31/C. 233C-66 February 3, 1966—All Banking Companies

#### The Banking Laws (Application to Co-operative Societies) Act, 1965

As you are aware, the Banking Laws (Application to Co-operative Societies) Act, 1965 was passed by Parliament and received the assent of the President on the 25th September 1965. The Act has been published in the Gazette of India Extraordinary (Part II, section 1) dated the 27th September 1965. The Act seeks to extend certain provisions of the Reserve Bank of India Act and of the Banking Companies Act to State co-operative banks, central co-operative banks and the more important primary non-agricultural credit societies, including in particular urban co-operative banks. However, a few of its provisions affect the working of banking companies also and these are reproduced for your ready reference in Annexure I to this letter. The implications of some of these provisions are explained below :—

#### Section 1

The Act will come into force on such date as the Central Government may, by notification in the Official Gazette, appoint. The Government have (*vide* copy of their notification reproduced in Annexure II) appointed the *1st March 1966* as the date on which the said Act will come into force.

#### Section 6

From the appointed date, *i.e.* the 1st March 1966, scheduled banks will not be required to treat the amount of any loan taken by them from the Agricultural Refinance Corporation as “liabilities” for the purpose of section 42 of the Reserve Bank of India Act, 1934. The reference to the erstwhile Refinance Corporation for Industry Ltd. has been deleted from that section since that Corporation has been taken over by the Industrial Development Bank of India. It may be mentioned in this connection that the latter had already been notified, under clause (c) of the Explanation to section 42(1) of the Reserve Bank of India Act (*vide* our circular letter DBO. No. Ret. 55/C. 233C-64 dated the 30th October 1964) and as such the liabilities for the purpose of that section did not include loans taken by scheduled banks from it. The name of the Industrial Development Bank of India has now been specifically mentioned in the said clause.

In partial modification of the instructions contained in paragraph 2 of our circular letter DBOD. No. Sch. 1994/C. 96-65 dated the 11th December 1965 (addressed to all scheduled banks), the borrowings from the Agricultural Refinance Corporation will have to be *excluded*, from the 1st March 1966, from items (i) (b) and/or (ii) (b) of the weekly return. (Steps are being taken to amend the form of the weekly return). The other instructions contained in the aforesaid letter will, however, remain in force.

#### Section 11

With effect from the appointed date, *i.e.* the 1st March 1966, the Banking Companies Act, 1949 will be referred to as the Banking Regulation Act, 1949 and any reference to the former in any law for the time being in force, or in any instrument or other document will be construed as a reference to the Banking Regulation Act. Consequential amendments in the Banking Companies Rules, 1949 and the forms prescribed thereunder will be carried out in due course.

#### Section 13

For the purposes of sections 18 and 24 of the Banking Companies Act, 1949, any advance taken by a banking company from the Agricultural Refinance Corporation will not be treated as a liability from the 1st March 1966. The reference made to the erstwhile Refinance Corporation for



Industry Ltd. in section 18 *ibid* has also been deleted. It may be mentioned that even now banking companies are not required to treat any advance taken from the Industrial Development Bank of India as a liability for the purposes of the aforesaid sections in view of clause (b) of the Explanation to section 18 of the Act read with Government's notification No. S.O. 3671-F. 3(60)-BC/64 dated the 12th October 1964 (copy furnished with our circular letter DBO. No. Ret. 55/C. 233C-64 dated the 30th October 1964). The present amendment specifically includes the name of the Industrial Development Bank of India (along with that of the Agricultural Refinance Corporation) in the aforesaid Explanation.

As regards the returns in Forms III and X prescribed under sections 18 and 24 respectively, borrowings from the Agricultural Refinance Corporation also will have to be *excluded* from items A. 1 and A. 2 thereof, after the 1st March 1966. The necessary amendments to the aforesaid forms will be carried out in due course.

## ANNEXURE I

### EXTRACTS FROM THE BANKING LAWS (APPLICATION TO CO-OPERATIVE SOCIETIES) ACT, 1965.

An Act further to amend the Reserve Bank of India Act, 1934 and the Banking Companies Act, 1949 for the purpose of regulating the banking business of certain co-operative societies and for matters connected therewith.

BE it enacted by Parliament in the Sixteenth Year of the Republic of India as follows:—

#### CHAPTER I

##### 1. Short title and commencement.

(1) This Act may be called the Banking Laws (Application to Co-operative Societies) Act, 1965.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint, and different dates may be appointed for different provisions of this Act.

#### CHAPTER II

##### AMENDMENT OF THE RESERVE BANK OF INDIA ACT, 1934

\* \* \* \* \*

##### Amendment of section 42.

6. In Section 42 of the principal Act,—

(i) in sub-section (1), for clause (c) of the Explanation, the following clause shall be substituted, namely :—

(c) "liabilities" shall not include—

(i) the paid-up capital or the reserves or any credit balance in the profit and loss account of the bank,

(ii) the amount of any loan taken from the Bank or from the Development Bank or from the Agricultural Refinance Corporation or from the State Bank or from any other bank notified by the Central Government in this behalf, and

(iii) in the case of a State co-operative bank, also any loan taken by such bank from a State Government and any deposit of money with such bank representing the reserve fund or any part thereof required to be maintained with it by any co-operative society within its area of operation ;

(ii) in sub-section (6), in sub-clause (iii) of clause (a) for the words "is a company", the words "is a State co-operative bank or a company" shall be substituted.

### CHAPTER III

#### AMENDMENT OF THE BANKING COMPANIES ACT, 1949

##### **Amendment of long title and preamble.**

10. In the Banking Companies Act, 1949 (hereinafter in this Chapter referred to as the principal Act), in the long title and in the preamble, the word "companies" shall be omitted.

##### **Amendment of section 1.**

11. (1) In Section 1 of the principal Act, in sub-section (1), for the word "Companies", the word "Regulation" shall be substituted.

(2) Any reference to the Banking Companies Act, 1949 in any law for the time being in force, or in any instrument or other document, shall be construed as a reference to the Banking Regulation Act, 1949.

##### **Substitution of new section for section 3.**

12. For Section 3 of the principal Act, the following section shall be substituted, namely:—

##### **Act to apply to co-operative societies in certain cases.**

"3. Nothing in this Act shall apply to:—

(a) a primary agricultural credit society ;

(b) a co-operative land mortgage bank ; and

(c) any other co-operative society, except in the manner and to the extent specified in Part V."

##### **Amendment of section 18.**

13. In Section 18 of the principal Act, in clause (b) of the Explanation, for the words "the Refinance Corporation for Industry Limited," the words "the Industrial Development Bank of India or from the Agricultural Refinance Corporation" shall be substituted.

## ANNEXURE II

Government of India

Ministry of Finance (Department of Economic Affairs)

New Delhi, the 31st December 1965.

## NOTIFICATION

[NO. F. 10/16/65-SB]

S.O. 87—In exercise of the powers conferred by sub-section (2) of section 1 of the Banking Laws (Application to Cooperative Societies) Act, 1965 (23 of 1965), the Central Government hereby appoints the first day of March, 1966 as the date on which the said Act shall come into force.

## 2. DBOD. NO. Sch. 324/46A-66—March 14, 1966—All Scheduled Banks

## Amendments to the Reserve Bank of India Scheduled Banks' Regulations, 1951

Please refer to our circular letter DBOD. No. Leg. 31/C. 233C-66 dated the 3rd February 1966. The amendment of section 42 of the Reserve Bank of India Act, 1934 by section 6 of the Banking Laws (Application to Co-operative Societies) Act, 1965 has necessitated the amendments to regulation 6(i) of the Reserve Bank of India Scheduled Banks' Regulations, 1951 and the "Form of Return" prescribed thereunder. Regulation 8 of the aforesaid Regulations has also been amended so as to incorporate therein, the liberalised remittance facilities now available to scheduled banks and State Co-operative banks, in terms of the Reserve Bank of India Remittance Facilities Scheme Booklet. A copy each of regulations 6(i) and 8 and the "Form of Return" as amended in terms of sub-sections (1) and (2)(O) of section 58 of the Reserve Bank of India Act, 1934 is given in the Annexure. It has been decided to bring the revised form of the return into force with effect from the 1st April 1966. You may, therefore, submit to the Reserve Bank of India the weekly returns in the new form commencing from the return relating to the position of your bank as at the close of business on the 1st April 1966. The information that is being furnished in the footnote to the return relating to the net liquidity position etc. in terms of our circular DBO. No. Sch. 411/C. 96-64 dated the 25th November 1964 may be continued to be included therein.

## ANNEXURE

## RESERVE BANK OF INDIA SCHEDULED BANKS' REGULATIONS, 1951

1. For the existing Regulations 6(1) and 8(i) and (2) of the said Regulations, the following Regulations shall be respectively substituted, namely :-

6.(i) The weekly return submitted under sub-section (2) of section 42 of the Act shall be in the appropriate form appended to these regulations and the monthly return furnished under the second proviso to that sub-section shall be in such form as may be required by the Bank.

8. (1) A scheduled bank shall, with effect from a date to be intimated to it by the principal office of the Bank in this behalf, be entitled to remit money by draft, mail or telegraphic transfer through the offices, branches or agencies of the Bank as follows :—

- (a) an amount of Rs. 20,000.00 (minimum) or in multiples of Rs. 5,000.00 in excess thereof between its accounts at the offices and branches of the Bank, free of charge :

Provided that a State co-operative bank shall be entitled also to make such remittances free of charge from any of its accounts at the offices or branches of the Bank, to any of the accounts of any other State co-operative bank, maintained at the offices or branches of the Bank ;

- (b) four times a week free of charge, an amount of Rs. 10,000.00 (minimum) or multiples of Rs. 5,000.00 in excess thereof on each occasion,—
- (i) from any place at which there is an agency of the Bank, to any account which it maintains with the Bank, such remittance being permitted to each of its offices, branches, sub-offices or pay offices :

Provided that a State co-operative bank shall also be entitled to make such remittances from any such place to the Head Office accounts of the State co-operative bank maintained with an agency of the Bank ; and

- (ii) from any account which it maintains with the Bank, to any place at which there is an agency of the Bank and it has its office or branch ;
- (c) other remittances to an account which it maintains with the Bank, from any place at which there is an agency of the Bank at 2 paise for Rs. 100.00 subject to a minimum of Re. 1.00 and
- (d) all other remittances not covered by clauses (a), (b) and (c) of this sub-regulation, and made in favour of itself at the following rates:—

Up to Rs. 5,000— 3 paise per Rs. 100.00 (minimum 25 paise for a State co-operative bank and Re. 1.00 for other scheduled banks)

Over Rs. 5,000 — 2 paise per Rs. 100.00 (minimum Rs. 1.50)

**Explanation :** For the purposes of this sub-regulation :—

- (i) “agency of the Bank” means an office or branch of the State Bank or any other bank to which the sole custody of the currency chest of the Issue Department of the Bank has been entrusted at the centre by the Bank ;
- (ii) central co-operative banks shall be deemed to be branches of the State co-operative bank to which they are affiliated.

(1A) A State co-operative bank having its headquarters at any place where there is no office or branch of the Bank, shall also be entitled to remittances free of charge, from its principal account with the Bank to its Head Office account with an agency of the Bank to the extent covered by loans or advances granted to it by the Bank, subject to the condition that those loans or advances are credited to such principal account.

(2) If remittances under sub-regulation (1) or sub-regulation (1A) are made by telegram, a further amount shall be paid to cover the cost of the telegram and its acknowledgement.

II. With effect from the 1st April 1966, for the existing “Form of Return” appended to the said Regulations, the following form shall be substituted, namely :—

**FORM A**

(To be submitted by a scheduled bank which is a banking company)

**Name of bank :**

Statement of position at the close of business on Friday\*

(Rupees rounded off to the nearest thousand)

**(i) Demand Liabilities in India****(a) Demand deposits**

(1) from banks

(2) from others

**(b) Borrowings from banks (other than from the Reserve Bank of India, the State Bank of India, the Industrial Development Bank of India, the Agricultural Refinance Corporation and/or other notified banks)****(c) Other demand liabilities****(ii) Time Liabilities In India****(a) Time deposits**

(1) from banks

(2) from others

**(b) Borrowings from banks (other than from the Reserve Bank of India, the State Bank of India, the Industrial Development Bank of India, the Agricultural Refinance Corporation and/or other notified banks)****(c) Other time liabilities****(iii) Borrowings in India from the State Bank of India, the Industrial Development Bank of India, the Agricultural Refinance Corporation and/or other Notified Banks.****(1) Demand liabilities****(2) Time liabilities**

Total of items (i) to (iii)

**(iv) Cash in India****(v) Balances with the Reserve Bank in India**


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\* Where Friday is a public holiday under the Negotiable Instruments Act, 1881 (26 of 1881), for one or more offices of a scheduled bank, the return shall give the preceding working day's figures in respect of such office or offices but shall nevertheless be deemed to relate to that Friday.

- (1) Principal Office
- (2) Other offices and branches
- (vi) Balances with other banks in current Account In India
- (vii) Money at call and short notice in India
- (viii) Investments (at book value) in India in Central and State Government Securities including Treasury Bills, Treasury Deposit Receipts, Treasury Savings Deposit Certificates and Postal Obligations
- (ix) (a) Loans, Cash Credits and overdrafts in India (Excluding due from banks)
- (b) Due from Banks in India
- (x) Inland Bills Purchased And Discounted in India
- (xi) Foreign Bills Purchased And Discounted In India
- Total of items (iv) to (xi)

Notes—(1) Savings Bank Account (vide Regulation 7)

Demand liabilities in India

Time liabilities in India

Total

- (2) Amount of minimum deposit required under the Act (rounded off to the nearest rupee)

Station :  
Date :

(Signature of officers with designations)

1. *Borrowings in India from the Reserve Bank of India*

- (a) Against usance bills and/or promissory notes under section 17(4) (c) of the Reserve Bank of India, Act, 1934.
- (b) Others

Total Rs.

2. *Borrowings from the*

- (a) State Bank of India
- (b) Industrial Development Bank of India
- (c) Agricultural Refinance Corporation
- (d) Other notified banks.

3. **DBOD. NO. Leg. 20/C. 234-66—January 20, 1966—All Banking Companies****The Banking Companies Act, 1949**

Please refer to our circular letter DBOD. No. Leg. 353/C. 234-65 dated the 27th October 1965 regarding the provisions of Note (f) appended to Form A in the Third Schedule to the Banking Companies Act, 1949. We reproduce overleaf for your information a copy of notification No. S.O. 6-F. 15(21)-BC/65 dated the 20th December 1965 issued by the Government of India in exercise of the powers conferred by section 53 of the Banking Companies Act, 1949 ; the notification was published in the Gazette of India dated the 1st January 1966.

2. In terms of the aforesaid notification, the provisions of Note (f) in the Third Schedule to the Act would not apply until the 1st January 1966 to any banking institution notified under section 51 of the Act and any banking company in so far as they relate to the disclosure of the market value within brackets of their investments in Government and other Trustee securities. The banks are, however, advised that, in their own interests, they should make the maximum provision that may be possible for depreciation in the market value of their investments from their profits for the year 1965.

Government of India

Ministry of Finance (Department of Economic Affairs)

New Delhi, the 20th December 1965

[ NO. F. 15 (21) BC/65 ]

S. O. 6.—In exercise of the powers conferred by section 53 of the Banking Companies Act, 1949 (10 of 1949), the Central Government, on the recommendation of the Reserve Bank of India, hereby declares that the provisions of Note (f) appended to Form A in the Third Schedule to the said Act shall not apply, until the 1st January 1966, to any banking institution notified under section 51 of the said Act and any banking company which, when the value shown in the inner column against any of the sub-heads (ii), (iii), (iv) and (v) of item 4 on the Property and Assets side of the said Form exceeds the market value of the investments under that sub-head, shows separately within brackets the market value of the investments under that sub-head.

4. **DBOD. No. Leg. 291/C. 234-66—December 2, 1966—All Banking Companies****The Banking Regulation Act, 1949**

Please refer to our circular letter DBOD. No. Leg. 210/C. 234-66 dated the 11th August 1966 regarding the provisions of Note (f) appended to Form A in the Third Schedule to the Banking Regulation Act, 1949. We reproduce overleaf for your information a copy of the notification No. S. O. 3495 F. 15(8)-BC/66 dated the 7th November 1966 issued by the Government of India



in exercise of the powers conferred by section 53 of the Banking Regulation Act, 1949 ; the notification was published in the Gazette of India dated the 19th November 1966.

2. In terms of the aforesaid notification, the provisions of Note (f) in the Third Schedule to the Act would not apply until the 1st January 1967 to the State Bank of India, any banking institution notified under section 51 of the said Act and any banking company in so far as they relate to the disclosure of the market value, within brackets, of their investments in Government and other Trustee securities. We would, however, emphasise that it would be contrary to the spirit of the above exemption if any bank were to increase its dividend distribution while making inadequate provision for depreciation in its investments.

Government of India

Ministry of Finance (Department of Economic Affairs)

New Delhi, the 7th November 1966.

#### NOTIFICATION

[No. F. 15(8)-BC/66]

S. O. 3495—In exercise of the powers conferred by section 53 of the Banking Regulation Act 1949 (10 of 1949), the Central Government, on the recommendation of the Reserve Bank of India, hereby declare that the provisions of Note (f) appended to Form A in the Third Schedule to the said Act shall not apply, until the 1st January 1967 to the State Bank of India, any banking institution notified under section 51 of the said Act and any banking company, which, when the value shown in the inner column against any of the sub-heads (ii), (iii), (iv) and (v) of item 4 on the Property and Assets side of the said Form exceeds the market value of the investments under that sub-head, shows separately within brackets the market value of the investments under that sub-head.

#### DBOD. No. Sch. 1688/C. 96-66—December 2, 1966—All Scheduled Commercial Banks

The question has been raised whether the advice of the Governor of the Reserve Bank in his letter Ref. DBOD. No. Sch. 1538/C. 96-66 dated October 28, 1966 to scheduled banks that such banks as have surplus resources should apply such funds for their own credit operations and not use these funds to assist in the extension of credit by other banks through increasing their lending in the money market would apply to lendings amongst banks belonging to a group of banks under a common management. The Reserve Bank has considered this question and advises the scheduled banks that such intra-groups lending would be permissible provided it does not exceed reasonable limits.

The Bank has also considered the question whether it is possible to indicate what level of inter-bank lending would be regarded as normal for each bank. Obviously, it is neither desirable nor feasible to set a rigid quantitative ceiling for inter-bank lending, but banks are advised to follow the general principle that if they plan to borrow from the Reserve Bank they should not operate as regular lenders in the inter-bank market. Such banks are advised to place their temporary surplus funds in Treasury bills rather than in inter-bank lending. Banks with surplus resources should use them for their own credit operations and not for increased lending in the call market.

#### 6. DBOD. No. Ret. 303/C. 236-66—December 23, 1966—All Functioning Non-Scheduled Banks

##### Section 18 of the Banking Regulation Act, 1949—Return in Form III.

As you are aware, banks are at present required to furnish information relating to the demand and time liability portions of their savings deposits under items A. 4(b) and A. 5(b) respectively in the return in Form XII submitted by them. We shall be glad if you will please furnish similar

information as on the *last Friday* of the month in the return in Form III also by way of a footnote as indicated below :-

	(Rounded off to the nearest thousand)
<i>Savings deposits</i>	
(a) Demand liability portion	—
(b) Time liability portion	—
	—————
Total :	—————

#### 7. DBOD. No. Sch. 384/C. 96-66—March 26, 1966—All Eligible Scheduled Banks

Please refer to Governor's letter DBOD. No. Sch. 1882/C. 96-65 dated November 20, 1965, and letter DBOD. No. Sch. 1883/C. 96 of even date regarding the provision of refinance by the Reserve Bank at the Bank rate in respect of certain special sectors.

In the light of the present level of finance made available by the banking system for food procurement and allied operations and in view of the prospective increase in such demand, the Reserve Bank has now decided that the refinance under Section 17(4) (c) of the Reserve Bank of India Act, at the Bank rate in respect of such advances made to State Governments/their agencies/Food Corporation of India, for purposes of food procurement/storage/distribution, as are in *excess* of the *maximum level of such advances* attained by a bank in the year 1965, will *not* be included as part of the total borrowings of a scheduled bank from the Reserve Bank for the purpose of computing the net liquidity ratio of that bank. This should help to augment the funds available to banks to meet the pressure of seasonal demand on them.

#### 8. DBOD. No. Sch. 752/C. 96-66 May 26, 1966—All Scheduled Banks

##### GOVERNOR'S LETTER

Bank credit expansion in the busy season that ended recently was, at Rs. 306 crores, substantially below the order of expansion in the earlier two busy seasons. While the somewhat slower tempo of activity in the economy was the main reason for this, it was due also to the commendable restraint exercised by banks in their credit operations.

2. The slack season that has now commenced is traditionally also the lean season for agricultural supplies and for upward pressure on prices ; in the context of the severe shortfall in agricultural production that marked the 1965-66 harvest, the pressures on the price situation in the coming months would be more intense. It is all the more necessary therefore to continue to be vigilant in regard to the monetary situation so that the inflationary pressures in the economy are not strengthened.

3. In the next few months the credit earlier advanced in the 1965-66 season against what may be termed 'seasonal securities' such as foodgrains, sugar, cotton, jute, oilseeds and the like should flow back into the banking system in substantial measure. I would suggest that banks keep a watch over the situation and ensure that the earlier seasonal expansion in credit flows back into the system except in respect of commodities where bank finance will need to be provided for the maintenance of inventories in line with official policies.

4. The slack season is also generally the period when banks deposit totals build up. In view of the necessity to keep continued check on the inflationary situation I would seek your co-operation in following in the current slack season a policy similar to what you agreed to do in the last slack season *viz.*, of investing in Treasury bills the accretion to your resources by way of deposit increase and return flow of credit.

#### 9. DBOD. No. Sch. 972/C.96-66 June 30, 1966—All Scheduled Banks

##### GOVERNOR'S LETTER

I have had occasion earlier this week to discuss with the representatives of leading banks the prospective credit situation both in the current slack season and the next busy season. The banking system is likely to be faced with a large expansion in credit demand following the liberalisation of imports and fuller utilisation of productive capacity. It is expected that this large demand is likely to be felt from October onwards and would be superimposed on the normal seasonal financing requirements which also are likely to be larger this year assuming that agricultural production shows a substantial increase over the low levels of the current year. It is clear that this expansion of credit to finance genuine productive activity should be met. Equally it is necessary that the banks make every effort to prune down all unnecessary credit and also meet a substantial portion of productive credit requirements out of their own resources.

2. There will, of course, be a certain amount of deposit accretion to banks in the busy season. This expansion, after providing for the statutory liquidity cover, however, will not be adequate to meet the seasonal credit needs. Banks should, therefore, conserve to the maximum extent even during the slack season the resources that accrue to them so that these funds could be applied for credit expansion in the ensuing busy season. These resources would comprise firstly the return flow of credit. Banks should attempt to bring about an orderly reduction of advances against seasonal commodities and, even after providing for some increase in advances to non-seasonal sectors, should attempt to bring about a net contraction in their credit totals. The other main source of funds for the banks would be the deposits that would accrue to them in the current slack season. This deposit accretion would be surplus to the needs of the banks in the slack season and should in its entirety be invested in Government securities, so that these investments (subject to the maintenance of statutory liquidity cover) would be available in liquid form for use in the ensuing busy season.

While it is the objective of the Reserve Bank that the banks should finance as large a proportion as possible of the additional credit demand likely to be generated in the next busy season out of their own resources, the Bank recognises that this may not be entirely sufficient. Accordingly the Bank would be prepared to meet the banks' needs for funds arising out of credit expansion in the busy season to priority sector industries at Bank rate so long as the Bank is satisfied that banks themselves have made every effort to meet the needs of priority sectors out of their own resources. It is proposed to have a wider definition of 'priority sectors' and include in this definition advances to manufacturing industry and against export and import bills. The details in this regard will be communicated to you in due course. I would, however, like to make it clear that the intention of the Reserve Bank in widening the definition of priority sectors is to make it possible for all reasonable needs of this sector to be met by the banking system. It is also our intention that banks should themselves utilise the maximum of their own resources to financing priority sectors before approaching the Reserve Bank. It follows that if a bank were to use an unduly large proportion of its resources to finance the sectors other than the priority sectors it will have to pay a penal rate for assistance from the Reserve Bank necessitated by such diversion.

As regards the current slack season the Bill Market Scheme is being suspended with effect from close of business to-day, but the facilities of the Scheme will be kept open only in respect of refinance for banks' advances to State Governments/their agencies/Food Corporation of India

for financing food procurement and allied activities as at present. If owing to special reasons a bank anticipates any particular difficulty, the Reserve Bank would be willing to discuss such difficulties with the bank concerned.

### GOVERNOR'S LETTER

#### 10. DBOD. No. Sch. 1538/C. 96-66, October 28, 1966—All Scheduled Commercial Banks

In the busy season about to begin, the banking system is likely to be confronted with a level of credit demand much larger than has been the case in the recent past. Though it is yet somewhat early to comment on this year's agricultural outturn, the available indications are for some recovery in output compared to the levels of last year. At the same time, following the liberalisation of imports, there is likely to be a substantial increase in the import quantum; these imports would also mean larger rupee outlays following devaluation. With the increase in the availability of domestically produced raw materials and imported inputs, industrial production is set for sizeable expansion in the months ahead. This combination of import demand with the normal seasonal demand is likely to impose considerable pressures on the banking system.

2. It continues to be the objective of the Reserve Bank that banks should finance as large a proportion as possible of these credit demands out of their own resources. It was with this end in view that I had requested the banking system earlier in the slack season to conserve to the maximum extent during the slack season the resources that accrued to them either by way of an increase in deposits or return flow of credit so that such resources could be applied for credit expansion in the 1966-67 busy season. I am happy to note that banks have by and large taken appropriate action in this regard. The latest available data indicate that upto October 14, 1966 the aggregate liabilities of the banking system had increased by Rs. 254 crores, the deposit accretion alone amounting to Rs. 227 crores (net of inter-bank items). Although the volume of credit contraction this year has been slightly smaller at Rs. 88 crores compared to last year, the contraction against seasonal securities appears to have progressed well. As against this, scheduled commercial banks have added to their investments in Government securities Rs. 263 crores and in other approved securities by Rs. 9 crores. Consequently, the banking system today is somewhat more liquid than it was at the end of the slack season in 1965. Despite this, it seems clear that the resources available with the banking system may not be entirely sufficient to meet the additional credit demand that would be generated in the busy season and that would be occasioned by the need to finance genuine productive activity.

3. You will recall that I had indicated to you in my earlier letters and in the meetings that I have had with representatives of leading banks that the Reserve Bank would be prepared to meet banks' needs for funds arising out of credit expansion to priority sector industries at the Bank Rate as long as the Bank was satisfied that scheduled commercial banks themselves had made every effort to increase their lending to such priority sectors. The coverage of these sectors has now been widened to include all lending to industry and against export and import bills. The Reserve Bank has also given careful consideration to the manner in which liberalisation should be effected in the terms of its assistance to the scheduled commercial banks for this purpose. The Bill Market Scheme is being re-started with effect from November 1, 1966. The revised terms for refinance which will be available both under the Bill Market Scheme and against Government and other approved securities are detailed below :—

- (i) Every bank would, as now, obtain Bank Rate refinance as long as its net liquidity ratio is at or above 30 per cent.
- (ii) To take into account the position of banks with net liquidity ratio below 30 per cent and at the same time to give an additional benefit to banks with a net liquidity ratio position of over 30 per cent, an additional Bank Rate tranche would be granted equal to 10 per

cent of their net liquidity ratio at the end of the slack season, *i.e.*, on the last Friday of October 1966. In the case of banks with net liquidity ratio of 30 per cent or above, this would be an additional Bank Rate refinance facility, lowering their effective net liquidity ratio floor upto this extent. In the case of banks with a net liquidity ratio of below 30 per cent even at the end of the slack season the proposed concessional Bank Rate tranche represents the amount of refinance which they would be able to obtain at the Bank Rate. Thus if a bank has a net liquidity ratio position at the end of the slack season of 40 per cent, it would get an additional refinance facility of 10 per cent (of 40 per cent) of its net liquidity ratio, *i.e.*, 4 per cent of its aggregate demand and time liabilities. At the other end of the scale, if the net liquidity ratio of a bank is only 25 per cent it would be entitled to obtain 2.5 per cent of its aggregate demand and time liabilities as Bank Rate refinance whereas under the system operating hitherto it would not obtain any refinance at the Bank Rate, except under the special schemes in respect of lending to certain priority sectors.

- (iii) In respect of advances for the purpose of foodgrains procurement/distribution/storage to the State Governments/their agencies the entire increase in such advances from the level of October 28, 1966 would be eligible for refinance at Bank Rate in addition to such quantum of refinance as would be available in terms of paras 3(i) and 3(ii) above. Similarly, refinance at the Bank Rate will also be available in respect of rupee export bills. The concession in respect of packing credits and defence supply bills has been withdrawn in view of the widening of priority sectors to include all lending to industry.

4. The additional quantum of refinance at the Bank Rate which the above proposals entail should supplement banks' own resources in such a manner that the banking system as a whole should be able to meet the additional credit demands of the busy season with recourse to refinance at the Bank Rate though there are likely to be individual variations depending upon differences in net liquidity ratio position of various banks. I would, however, urge on such banks as are able to meet all their requirements of refinance at Bank Rate and banks with surplus resources that they should apply such funds for their own credit operations and not use these funds to assist in the extension of credit by other banks through increasing their lendings in the money market.

5. If any scheduled commercial bank should obtain refinance from the Reserve Bank of an amount in excess of what it would be entitled to do at the Bank Rate in terms of the above liberalisation, it is proposed to charge a penal interest rate of 10 per cent on the excess amount. This 10 per cent rate is designed to be applied for small and occasional excesses but if the excess is either continuous or of a large order the Reserve Bank retains the discretion to charge a special penalty rate warranted by the circumstances.

6. With the enlargement of the credit demand from industry and keeping in view the need for a further orientation of credit activity in favour of the productive sectors of the economy, the Reserve Bank considers the present to be an opportune moment for indicating to banks that a substantial portion of their credit expansion should be made to industry and against export and import bills. Accordingly, a directive is being issued today to those scheduled commercial banks incorporated in India and having aggregate demand and time liabilities of Rs. 50 crores or above as on September 30, 1966 and all scheduled commercial banks incorporated outside India that at least 80 per cent of the increase in their credit portfolio between the last Friday of October 1966 and the last Friday of April 1967 should be to industrial borrowers and/or against import and export bills. Though no specific directive is being issued to other banks in this regard, the Reserve Bank would advise such banks to strive towards the same objective to the extent possible. In this connection, I may add that our definition of industry is sufficiently wide as it includes not only manufacturing industry but also plantations, mining, transport and power. I would also urge that in extending credit to industry banks should pay particular heed to the needs of small industries in view of the importance assigned to this sector in our Plans.

7. I would also take this occasion to repeat my earlier request to scheduled commercial banks to increase their investment in the debentures of the land mortgage banks without prejudice to their normal investment in other approved securities. The response to my earlier request has not been satisfactory. The development of agriculture is basic to our growth effort and investment in this sector needs to be encouraged in every possible way. Commercial banks in general have hitherto not taken sufficient interest in financing agriculture nor have they made adequate use of the facilities provided by the Agricultural Refinance Corporation and I would therefore urge on you the need to assist agricultural operations both directly wherever possible by providing more short-term credit to this sector and indirectly and in particular by assisting the specialised financial institutions purveying credit to agriculture, *e.g.*, the land mortgage banks by subscribing to their debentures. The Reserve Bank attaches the greatest importance to this and will keep a continuous watch over banks' performance in this respect.

8. The Reserve Bank has also reviewed the present deposit rate structure. It does not consider it appropriate to make any basic changes in its policy in this regard. The minimum rate of 6 per cent for one year deposits and 4 per cent for savings bank account deposits will therefore continue. It has, however, been decided to rescind the minimum rate prescription in respect of 3 months and 6 months deposits. The present ceiling of 10 per cent on advance rate will also continue. A revised directive is being issued to this effect.

#### 11. Ref. DBOD. No. Sch. 1539/C. 96-66—October 28, 1966

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled bank incorporated in India (other than a State co-operative bank) having an aggregate demand and time liabilities of Rs. 50 crores or above as on September 30, 1966 and every scheduled bank incorporated outside India shall, in respect of any increase in the total credit granted by it to all customers as compared between the level of such credit as on the last Friday of October 1966 and as on the last Friday of April 1967, ensure that, not less than 80 per cent of such increase represents credit to industrial concerns and/or against export or import bills.

#### Explanation :

- (i) For purpose of this directive 'credit' means all loans, advances and bills purchased and discounted ;
- (ii) in calculating the increase in credit, advances to State Governments/their agencies for food procurements/storage/distribution will be excluded from the total of credit as on the last Friday of October 1966 and as on the last Friday of April 1967 ;
- (iii) 'industrial concern' means any concern engaged in the manufacture of goods or shipping or mining or the transport of passengers or goods by road or by water or by air or the generation or distribution of electricity or any other form of power ;
- (iv) 'liabilities' shall have the same meaning as given in clause (c) of the Explanation to subsection (1) of Section 42 of the Reserve Bank of India Act, 1934.

#### 12. Ref. DBOD. No. Sch. 1540/C. 96-66—October 28, 1966

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is in the public interest to do so, hereby directs that its directive Ref. DBO. No. Sch. 217/C. 96-65 dated February 17, 1965 shall with effect from October 28, 1966 be modified as follows : In the said directive, the following words and figures shall be omitted :—

“For deposits of 91 days and over but less than 6 months — Rate to be not less than 5 per cent per annum

For deposits of 6 months and over but less than one year — Rate to be not less than 5½ per cent per annum”

2. The Reserve Bank further directs that the provisions of the said directive shall not apply to State Co-operative Banks.

**13. DBOD. No. Sch 1624/C. 96-66—November 18, 1966—All Eligible Scheduled Commercial Banks**

Please refer to paragraph 3(iii) of Governor's letter DBOD. No. Sch. 1538/C. 96-66 dated the 28th October 1966. It will be observed that in respect of banks' advances for the purpose of foodgrains procurement/distribution/storage to the State Governments/their agencies, the entire increase in such advances from the level of October 28, 1966 would now be eligible for refinance at Bank Rate. It has been decided that such advances made by banks to the Food Corporation of India would also be eligible for refinance at Bank Rate.

2. In view of the foregoing, it has now been decided that the refinance under section 17(4)(c) of the Reserve Bank of India Act, at the Bank Rate in respect of such advances made to State Governments/their agencies/Food Corporation of India, for purposes of foodgrains procurement/distribution/storage, as are in *excess* of the *level of such advances* attained by a bank as on the 28th October 1966, will *not* be included as part of the total borrowings of a scheduled bank from the Reserve Bank for the purpose of computing the net liquidity ratio of that bank.

3. This supersedes the instructions contained in our letter DBOD. No. Sch. 384/C. 96-66 dated the 26th March 1966. You may, however, continue to furnish the information called for in our circular letter No. ED. BD. 2790/BR/107-A-66 dated the 15th April 1966 to the regional office of the Department of Banking Operations and Development, and the Director, Banking Division, Economic Department, Reserve Bank of India, Post Box No. 1036, Bombay.

**14. DBOD. No. Sch. 158/C. 96-66—February 9, 1966**

In exercise of the powers conferred by Section 21 of the Banking Companies Act, 1949 the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that its directive Ref. DBO. No. Sch. 216/C. 96-65 dated February 17, 1965 shall be amended in the following manner, namely :—

In the said directive, before the Explanation, the following proviso shall be inserted :—

“Provided that nothing contained in this directive shall apply to inter-bank transactions in the call-money market.”

**15. DBOD. No. Cre. 2/C218(H)-66—January 3, 1966—Advances against Vegetable Oils (including vanaspati)**

In exercise of the powers conferred by Section 21 of the Banking Companies Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 282/C. 218(H)-65 dated August 5, 1965, as amended by directive DBOD. No. Cre. 380/C. 218(H)-65 dated September 20, 1965 and by directive DBOD. No. Cre. 656/C. 218(H)-65 dated December 13, 1965, shall be amended in the following manner :—



For sub-clause (2) of Clause II, the following shall be substituted, namely :—

“(2) The provisions relating to restrictions on credit in clause I(2) above do not apply to credit limits granted (a) to vanaspati manufacturers against the stocks of soyabean oil and cottonseed oil imported under the P.L. 480 Agreement, subject to verification by the bank of necessary documents in this respect, and (b) against stocks of indigenous cottonseed oil.”

**16. DBOD. No. Cre. 249/C. 218(H)-66—April 20, 1966—Advances against Vegetable Oils (including vanaspati)**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 282/C. 218(H)-65 dated August 5, 1965, as amended by directives DBOD. No. Cre. 380/C. 218(H)-65 dated September 20, 1965, DBOD. No. Cre. 656/C. 218(H)-65 dated December 13, 1965, and DBOD. No. Cre. 2/C. 218(H)-66 dated January 3, 1966, shall be amended in the following manner :—

1. For sub-clauses (1) and (2) of Clause II, the following sub-clause shall be substituted, namely :—

“(1) The provisions relating to *margin* in clause I(1) above and the provisions relating to restrictions on credit in clause I(2) above do not apply to credit limits granted (a) to vanaspati manufacturers against the stocks of soyabean oil and cottonseed oil imported under the P.L. 480 Agreement, subject to verification by the bank of necessary documents in this respect, (b) against stocks of indigenous cottonseed oil, and (c) to vanaspati manufacturers against the stocks of sunflower oil imported as a gift from the Government of the U.S.S.R., subject to verification by the bank of necessary documents in this respect.”

2. Existing sub-clause (3) of Clause II shall be re-numbered as sub-clause (2) thereof.

**17. DBOD. No. Cre. 79/C. 218-66—January 31, 1966—Advances against Paddy and Rice**

In exercise of the powers conferred by Section 21 of the Banking Companies Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 177/C. 218-65 dated May 27, 1965, as amended by the directive DBOD. No. Cre. 556/C. 218-65 dated November 12, 1965, shall further be amended in the following manner :—

1. After the third proviso to Clause I the following shall be added as the fourth proviso to this Clause :—

“Provided further that in respect of credit limits granted by offices or branches in the State of Kerala against stocks of paddy and rice to the wholesale dealers and fair-price shop dealers in the State of Kerala, who are duly authorised by the Government of Kerala to deal in these commodities, the margin maintained shall not be less than 25 per cent of the value of the relative stocks ;”

2. At the end of Clause IV, the following sentence shall be added :—

“Further, advances granted by offices or branches in the State of Kerala to the wholesale dealers and fair-price shop dealers in the State of Kerala, who are duly authorised by the Government of Kerala to deal in paddy and rice shall be exempt from the provisions of Clause II of this directive.”

**18. DBOD. No. Cre. 250/C. 218-66—April 20, 1966—Advances against ‘Other Foodgrains’ (i.e., other than paddy, rice and wheat)**

In exercise of the powers conferred by section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 280/C. 218-65 dated August 5, 1965, as amended by directives DBOD. No. Cre. 509/C. 218-65 dated October 23, 1965, DBOD. No. Cre. 558/C. 218-65 dated November 12, 1965 and DBOD. No. Cre. 655/C. 218-65 dated December 13, 1965 relating to “other foodgrains” (excluding paddy and rice and wheat) shall be further amended in the following manner :—

1. For the words and figures “August—September 1965” wherever they occur, the words and figures “April—May 1966” shall be substituted.

2. In the first proviso to Clause I, after the words “to parties other than co-operative marketing and/or processing societies”, the words and figures “and in the State of Maharashtra, co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in *jowar* and *nagli*” shall be inserted.

3. In sub-clauses (1)(i) and (2) of Clause II for the words and figures “75 per cent”, the words and figures “65 per cent” shall be substituted.

4. After Clause III, the following clause shall be inserted namely :—

**III. A. “Prohibition against advances in Maharashtra”** Notwithstanding anything contained in clauses I, II and III above, no scheduled bank shall as from the date of receipt of the amending directive DBOD. No. Cre. 250/C. 218-66 dated April 20, 1966, grant or maintain in the State of Maharashtra, a credit limit, against the security of *jowar* and *nagli (ragi)*, and the provisions of those clauses shall be applied accordingly :

Provided that the prohibition contained in this clause shall not apply to advances made by offices and branches of scheduled banks to traders dealing in foodgrains who are licensed by Government of Maharashtra for distribution of *jowar* and *nagli* in the State of Maharashtra, and such advances shall be subject to the restrictions contained in Clauses I, II and III above.

**Explanation :** For the purpose of this clause “credit limit” includes credit provided by way of purchase or discount of demand documentary bills drawn in connection with the movement of *jowar* and *nagli (ragi)*, and also includes credit provided against warehouse receipts of any warehouse, covering these commodities.”

5. For Clause IV, the following clause shall be substituted, namely :—

**IV. “Exemptions” :** Advances against *jowar* and *nagli (ragi)* granted in the State of Maharashtra to Co-operative Societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in the above commodities shall be completely exempt from the provisions of this directive. Advances against “other foodgrains” granted to co-operative marketing and/or processing societies shall also be completely exempt from the provisions of this directive. Advances against warehouse receipts of those warehouses which were established by the Central and State Warehousing Corporations on or after January 1, 1961 shall be exempt from the provisions of Clause II of this directive except in the State of Maharashtra.

6. In sub-clause (c) of Clause V, for the words “other than”, the words “but does not include, except for purposes of Clause III A above as set out in the Explanation to that clause, purchase or discount of”, shall be substituted.

**19. DBOD. No. Cre. 383/C. 218-66—June 14, 1966—Advances against ‘Other Foodgrains’ (excluding paddy and rice and wheat)**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 280/C. 218-65 dated August 5, 1965, relating to ‘other foodgrains’ (excluding paddy and rice and wheat), as amended by directives DBOD. No. Cre. 509/C. 218-65 dated October 23, 1965, DBOD. No. Cre. 558/C. 218-65 dated November 12, 1965, DBOD. No. Cre. 655/C. 218-65 dated December 13, 1965 and DBOD. No. Cre. 250/C. 218-66 dated April 20, 1966, shall be further amended in the following manner :—

1. In the second proviso to Clause I, for the words and figures “upto the end of April 1966”, the words and figures “upto the end of December 1966”, shall be substituted.

2. In sub-clause (3) of Clause II, for the words and figures “upto the end of April 1966”, the words and figures “upto the end of December 1966”, shall be substituted.

**20. DBOD. No. Cre. 550/C. 218-66—August 16, 1966—Advances against ‘Other Foodgrains’ (excluding paddy and rice and wheat)**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the *second proviso* to Clause I of the directive DBOD. No. Cre. 280/C. 218-65 dated August 5, 1965, relating to ‘other foodgrains’ (excluding paddy and rice and wheat), as amended by directives DBOD. No. Cre. 509/C. 218-65 dated October 23, 1965, DBOD. No. Cre. 558/C. 218-65 dated November 12, 1965, DBOD. No. Cre. 655/C. 218-65 dated December 13, 1965, DBOD. No. Cre. 250/C. 218-66 dated April 20, 1966 and DBOD. No. Cre. 383/C. 218-66 dated June 14, 1966, shall be deleted.

**21. DBOD. No. Cre. 251/C. 218-66—April 20, 1966—Advances against Paddy and Rice**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 177/C. 218-65 dated May 27, 1965 as amended by the directives DBOD. No. Cre. 556/C. 218-65 dated November 12, 1965 and DBOD. No. Cre. 79/C. 218-66 dated January 31, 1966, shall be further amended in the following manner :—

1. For the words and figures “May-June 1965” wherever they appear, the words and figures “April-May 1966” shall be substituted.

2. In Clause I, after the words “to parties other than the Food Corporation of India” wherever they appear, the words “co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in paddy and rice in the State of Maharashtra” shall be inserted.

3. In Clause II(1)—

(i) the existing sub-clause (ii) shall be renumbered as sub-clause (iii) and the following shall be inserted as sub-clause (ii) :—

“(ii) in respect of its offices and branches in the State of Maharashtra exceed 50 per cent of the average aggregate level of credit maintained by such offices or branches in the corresponding two month periods during the year 1964 ;”

(ii) in clauses (a) and (b) of the proviso, for the words and figures "during the year 1965" the words and figures "during the year 1966" shall be substituted.

4. In Clause II(2), after the words and figures "in the case of Andhra Pradesh 75 per cent", wherever they occur, the words and figures "in the case of Maharashtra 50 per cent" shall be inserted.

5. After Clause III the following Clause shall be inserted, namely :—

**"IIIA. Prohibition against advances in Maharashtra :** Notwithstanding anything contained in Clauses I, II and III above, no scheduled bank shall, as from the date of receipt of the amending directive DBOD. No. Cre. 251/C. 218-66 dated April 20, 1966, grant or maintain, in the State of Maharashtra, a credit limit against the security of paddy and rice, and the provisions of those Clauses shall be applied accordingly :

Provided that the prohibition contained in this clause shall not apply to advances made by offices and branches of scheduled banks to traders dealing in foodgrains who are licensed by the Government of Maharashtra for distribution of paddy and rice in the State of Maharashtra, and such advances shall be subject to the restrictions contained in Clauses I, II and III above.

**Explanation :** For purposes of this Clause, "credit limit" includes credit provided by way of purchase or discount of demand documentary bills drawn in connection with the movement of paddy and rice, and also includes credit provided against warehouse receipts covering paddy and rice."

6. For Clause IV, the following Clause shall be substituted, namely :—

**"IV. "Exemptions" :** Advances against paddy and rice granted in the State of Maharashtra to co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in the above commodities shall be completely exempt from the provisions of this directive. Advances against paddy and rice granted to the Food Corporation of India (excluding advances granted to its duly appointed agents) as also to co-operative marketing and/or processing societies shall also be completely exempt from the provisions of this directive. Advances against warehouse receipts of those warehouses which were established by the Central and State Warehousing Corporations *on or after January 1, 1961*, shall be exempt from the provisions of Clause II of this directive except in the State of Maharashtra. Further, advances granted by offices or branches in the State of Kerala to the wholesale dealers and fair-price shop dealers in the State of Kerala who are duly authorised by the Government of Kerala to deal in paddy and rice, shall be exempt from the provisions of Clause II of this directive."

7. In sub-clause (b) of clause V, for the words "other than" the words "but does not include, except for the purposes of Clause IIIA above as set out in the Explanation to that Clause, purchase or discount of", shall be substituted.

8. In Clause VI—

(i) after the words "to parties other than the Food Corporation of India" wherever they appear, the words "co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in paddy and rice in the State of Maharashtra" shall be inserted.

(ii) after the words and figures "in the case of Andhra Pradesh 75 per cent," wherever they occur, the words and figures "in the case of Maharashtra 50 per cent" shall be inserted.

**22. DBOD. No. Cre. 381/C. 218-66—June 14, 1966—Advances against Paddy and Rice**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 177/C. 218-65 dated May 27, 1965, relating to advances against foodgrains (*i.e.*, paddy and rice), as amended by the directives DBOD. No. Cre. 556/C. 218-66 dated November 12, 1965, DBOD. No. Cre. 79/C. 218-66 dated January 31, 1966 and DBOD. No. Cre. 251/C. 218-66 dated April 20, 1966, shall be further amended in the following manner :—

In clause (c) of the proviso to sub-clause (1) of Clause II, for the words and figures “upto the end of April 1966”, the words and figures “upto the end of December 1966” shall be substituted.

**23. DBOD. No. Cre. 80/C. 218-66—January 31, 1966—Advances against Wheat**

In exercise of the powers conferred by Section 21 of the Banking Companies Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 281/C. 218-65 dated August 5, 1965, as amended by the directives DBOD. Nos. Cre. 557/C. 218-65 dated November 12, 1965 and Cre. 654/C. 218-65 dated December 13, 1965, shall be amended in the following manner :—

1. After the second proviso to Clause I the following shall be added as the third proviso to the clause :—

“Provided further that in respect of credit limits granted by offices or branches in the State of Kerala against stocks of wheat to the wholesale dealers and fair-price shop dealers in the State of Kerala, who are duly authorised by the Government of Kerala to deal in that commodity, the margin maintained shall not be less than 25 per cent of the value of the relative stocks ;”

2. At the end of Clause IV, the following sentence shall be added :—

“Further, advances granted by offices or branches in the State of Kerala to the wholesale dealers and fair-price shop dealers in the State of Kerala, who are duly authorised by the Government of Kerala to deal in wheat, shall be exempt from the provisions of Clauses II and III of this directive.”

**24. DBOD. No. Cre. 382/C. 218-66—June 14, 1966—Advances against Wheat**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 281/C. 218-65 dated August 5, 1965, relating to advances against wheat, as amended by the directives DBOD. No. Cre. 557/C. 218-65 dated November 12, 1965, DBOD. No. Cre. 654/C. 218-65 dated December 13, 1965 and DBOD. No. Cre. 80/C. 218-66 dated January 31, 1966, shall be amended in the following manner :—

1. In the second proviso to Clause I, for the words and figures “upto the end of April 1966”, the words and figures “upto the end of December 1966” shall be substituted.

2. In the proviso to Clause II, for the words and figures “upto the end of April 1966”, the words and figures “upto the end of December 1966” shall be substituted.

**25. DBOD. No. Cre. 549/C. 218-66—August 16, 1966—Advances against Wheat**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby

directs that the *second proviso* to Clause I of the directive DBOD. No. Cre. 281/C. 218-65 dated August 5, 1965, relating to advances against wheat, as amended by the directives DBOD. No. Cre. 557/C. 218-65 dated November 12, 1965, DBOD. No. Cre. 654/C. 218-65 dated December 13, 1965, DBOD, No. Cre. 80/C. 218-66 dated January 31, 1966 and DBOD. No. Cre. 382/C. 218-66 dated June 14, 1966, shall be deleted.

**26. DBOD. No. Cre. 854/C. 218-66—December 14, 1966—Advances against Paddy and Rice**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 177/C. 218-65 dated May 27, 1965 relating to advances against foodgrains shall be further amended in the following manner :

For the words and figures “corresponding two month periods during the year 1964” and “corresponding two month period in 1964”, wherever they appear in the said directive, the words, figures and brackets “corresponding two-month period during the year 1964-65 (from April 1964 to March 1965)” and “corresponding two month period in the year April 1964—March 1965” shall respectively be substituted.

**27. DBOD. No. Sch. 1782/C. 96-66—December 24, 1966**

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that at the end of Explanation (iii) to the directive DBOD. No. Sch. 1539/C. 96-66 dated October 28, 1966, the words ‘*or the cultivation or processing of plantation crops namely tea, coffee, rubber, cocoa, cashew, cardomom and cinchona*’ shall be added.

**28. DBOD. No. Sch. 1370/C. 96-66—September 21, 1966 — All banks.**

**Bank balances and other moneys held by Pakistani nationals.**

Please refer to our circular letter DBOD. No. Sch. 1510/C. 96-65 dated the 10th September 1965. We now enclose a copy of notification dated the 27th August 1966 issued by the Government of India for your information and necessary action.

**Government Of India, Ministry of Commerce**

**Notification**

New Delhi, dated the 27-8-1966.

No. 12/55/65-E. Pty : In exercise of the powers conferred by sub-rule (1) of rule 133-V of the Defence of India Rules, 1962, the Central Government hereby orders that the properties in India, detailed in the Schedule annexed hereto, belonging to, or held by, or managed on behalf of all Pakistan nationals shall vest in the Custodian of Enemy Property for India with immediate effect.

**The Schedule**

1. All balances (including fixed deposits) held by
  - (a) Commercial banks;
  - (b) Exchange banks ; and
  - (c) any body or person doing banking business.
2. All moneys including bonus, gratuity, provident fund and the like held by any person or firm residing or carrying on business in India.

**APPENDIX V**

**Notifications issued to Non-Banking Institutions under Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934.**

**1. NO. DNBC. 172/MRC. 95-66—April 4, 1966**

In exercise of the powers conferred by Sections 45J and 45K of the Reserve Bank of India Act, 1934, the Reserve Bank of India, being satisfied that it is necessary in the public interest to do so, hereby directs that the directive No. ED. DPPR. 1209/MRC. 95-66 dated 7th January 1966 shall be amended in the following manner :

1. **Clause (2) :** After the words “deposit is” in sub-clause (ii) delete the next word “made” and insert the following : “converted or renewed so as to make it”.

In clause (2)(ii)(a) for the words “date of the deposit” substitute the words “date of such conversion”.

Insert the following as the second proviso to clause (2)—

“Provided also that nothing in this clause shall be deemed to preclude the repayment, subject to the preceding proviso, of any deposit, as aforesaid, after the deposit has become repayable”.

2. **Clause (4) :** Insert the following as sub-clause (iii) in clause (4)—

“(iii) Where during any period in any financial year of a company, the company holds deposits accepted by it, the company shall deliver to the Reserve Bank of India, unless it has done so already, an audited balance sheet as on the last date of each such financial year and an audited profit and loss account in respect of that year as passed by the company in general meeting within fifteen days of such meeting; and shall also deliver to the Reserve Bank of India interim accounts, certified by the Manager or the Chief Executive Officer of the company, as on the last date of the half-year succeeding each such financial year and a profit and loss account in respect of that half-year, within three months from the expiry of the said half-year.”

3. **Clause (5) :** Insert the following as proviso to sub-clause (iv) of clause (5)—

“Provided that if the company keeps the books of accounts referred to in sub-section (1) of Section 209 of the Companies Act, 1956 (1 of 1956) at any place other than its registered office in accordance with the proviso to that sub-section, it shall be sufficient compliance with this clause if the register aforesaid is kept at such other place subject to the condition that the company shall deliver to the Reserve Bank of India a copy of the notice filed with the Registrar under the proviso to said sub-section, within seven days of such filing”.

4. **Clause (7) :** In sub-clause (d)(iii) of clause (7) for the words “by way of security” the words “by way of security or otherwise” shall be substituted.

Insert the following as new sub-clause (d) (iv) of clause (7)—

“(iv) any money received by a holding company from its subsidiary or by a subsidiary from its holding company or by a company from a holding company of its holding company”.

**Note :—**For the purposes of this sub-clause, the expressions “holding company” and “subsidiary company” shall have the same meaning as assigned to them under the Companies Act, 1956 (1 of 1956).



**5. New Clause to be added :**

“(8) The Reserve Bank of India may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, exempt any company or class of companies from all or any of the provisions of this directive either generally or for any specified period or subject to such conditions as the Reserve Bank may impose”.

**2. Ref. No. DNBC. 173/MRC. 95-66—April 4, 1966**

In exercise of the powers conferred by sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934, the Reserve Bank of India, being satisfied that it is necessary in the public interest to do so, hereby directs that the directive No. ED. DPPR. 1210/MRC. 95-66 dated 7th January 1966 shall be amended in the following manner :

**1. Clause (2) :** After the words “deposit is” in sub-clause (ii) delete the next word “made” and insert the following :

“converted or renewed so as to make it”.

In clause (2)(ii)(a) for the words “date of the deposit” substitute the words “date of such conversion”.

Insert the following as the second proviso to clause (2)—

“Provided also that nothing in this clause shall be deemed to preclude the repayment, subject to the preceding proviso, of any deposit, as aforesaid, after the deposit has become repayable”.

**2. Clause (4) :** Insert the following as sub-clause (iii) in clause (4)—

“(iii) Where during any period in any financial year of a company, the company holds deposits accepted by it from the public, the company shall deliver to the Reserve Bank of India, unless it has done so already, an audited balance sheet as on the last date of each such financial year and an audited profit and loss account in respect of that year as passed by the company in general meeting within fifteen days of such meeting, and shall also deliver to the Reserve Bank of India interim accounts, certified by the Manager or the Chief Executive Officer of the Company, as on the last date of the half-year succeeding each such financial year and a profit and loss account in respect of that half-year, within three months from the expiry of the said half-year.”

**3. Clause (5) :** Insert the following as proviso to sub-clause (iv) of clause (5)—

“Provided that if the company keeps the books of accounts referred to in sub-section (1) of section 209 of the Companies Act, 1956 (1 of 1956) at any place other than its registered office in accordance with the proviso to that sub-section, it shall be sufficient compliance with this clause if the register aforesaid is kept at such other place subject to the condition that the company shall deliver to the Reserve Bank of India a copy of the notice filed with the Registrar under the proviso to said sub-section within seven days of such filing”.

**4. New Clause to be added :**

“(10) The Reserve Bank of India may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, exempt any company or class of companies from all or any of the provisions of this directive either generally or for any specified period or subject to such conditions as the Reserve Bank may impose”.

**3. Ref. No. DNBC. 3336/MRC. 95-66—June 29, 1966**

In exercise of the powers conferred by Sections 45K and 45L of the Reserve Bank of India Act, 1934, the Reserve Bank of India hereby directs that its directive No. ED. DPPR. 1210/MRC. 95-66 dated January 7, 1966 shall be amended as follows :—

In the said directive, in paragraph (7), for the words “a sum equivalent to at least nine per cent of the assets in India of such company” the words “a sum which shall not at the close of business on any day be less than ten per cent of the deposits received by the company and outstanding on the books of such company on that day” shall be substituted.

**4. DNBC. 4559/MRC. 95-66—September 7, 1966**

In exercise of the powers conferred by Section 45J and 45K of the Reserve Bank of India Act, 1934, the Reserve Bank of India, being satisfied that it is necessary in the public interest to do so, hereby directs that the directive No. ED. DPPR. 1209/MRC. 95-66 dated 7th January 1966 as amended by the directive No. DNBC. 172/MRC. 95-66 dated 4th April, 1966 shall be further amended in the following manner.

Insert the following as new sub-clause (d)(v) of clause (7)—

“(v) any money received by a Government Company, as defined in Section 617 of the Companies Act, 1956 (1 of 1956) from any other such Government Company”.

**5. Notification No. DNBC.1/ED(S)-66—October 29, 1966**

The Reserve Bank of India having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to give the directions set out below, hereby, in exercise of the powers conferred by Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934, and of all the powers enabling it in this behalf, and in supersession of the earlier Orders No. ED. DPPR. 5631/MRC. 95-65 and 5632/MRC. 95-65 dated May 7, 1965 and No. ED. DPPR. 1210/MRC. 95-66 dated January 7, 1966, @ as amended from time to time, gives to every non-banking financial company the directions hereinafter specified.

**PART I—PRELIMINARY**

1. These directions shall be known as the Non-Banking Financial Companies (Reserve Bank) Directions, 1966. They shall come into force with effect from January 1, 1967 and any reference in these directions to the date of commencement thereof shall be deemed to be a reference to that date.

2.(1) In these directions, unless the context otherwise requires,

(a) “associate member” in relation to a mutual benefit financial company means any person who, on payment to the company of any sum of money, whether refundable to him or otherwise, is admitted to any or all of the rights and privileges of the members of the company and continues to be entitled to such rights ;

(b) “advertisement” means any matter published on behalf of the company in a newspaper and any other written or printed matter published in the form of a notice, prospectus,

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@ Please see Appendix V of the 1965 Report.

circular or other document or any other material or text appearing on posters, bill boards and hoardings and includes any matter appearing on lantern slides or exposed cinematograph films, but does not include any script broadcast on the radio ;

(c) "banking company" means a banking company as defined in Section 5(c) of the Banking Regulation Act, 1949 (10 of 1949) ;

(d) "chit fund company" means any company, not being a banking company, carrying on as its principal business the management, conduct or supervision as a foreman or agent of any transaction or arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe a certain sum by instalments for a definite period and that each subscriber in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement, shall be entitled to a prize amount ;

(e) "company" means a company as defined in Section 3 of the Companies Act, 1956 (1 of 1956) and includes a foreign company within the meaning of Section 591 of the said Act but does not include a company which is being wound up under any law for the time being in force ;

(f) "deposit" means any deposit of money with, and includes any amount borrowed by, a company, but does not include

(i) any loan received from Government ;

(ii) any loan raised on terms involving the issue of debentures or the creation of any mortgage, pawn, pledge or hypothecation, charge including floating charge, or lien on the assets of the company or any part thereof ;

(iii) any loan received from a banking company or from the State Bank of India or from a banking institution notified by the Central Government under Section 51 of the Banking Regulation Act, 1949 (10 of 1949) or from a co-operative bank as defined in Clause (bii) of Section 2 of the Reserve Bank of India Act, 1934 (2 of 1934) or from any person registered under any law relating to moneylending which is for the time being in force ;

(iv) any loan received from the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 or the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948 or a State Financial Corporation established under the State Financial Corporations Act, 1951 or the Industrial Credit and Investment Corporation of India Ltd. or the Madras Industrial and Investment Corporation Ltd. ;

(v) any loan received by a holding company from its subsidiary or by a subsidiary from its holding company or by a company from a subsidiary of any of its subsidiaries or from a subsidiary of its holding company or from a subsidiary of the holding company of its holding company or by a company from a holding company of its holding company ;

(vi) any loan received by a Government company from any other Government company ;

(vii) any loan received from a member of the company or any money received from a member by way of subscription to any shares, stock, bonds and debentures (including calls or deposits received in advance) ;

(viii) in the case of a chit fund company, or any other company carrying on chit or kuri business, any subscriptions received from the members of a chit or kuri series in terms of the

contract, variola or other arrangement relating thereto, and in the case of a stock exchange or stock-broking company, any money received in connection with the purchase or sale of securities ;

(ix) in the case of a mutual benefit financial company, any money received from its members or associate members by way of fixed, recurring, occasional or other deposits ;

(x) any loan received from, or guaranteed by, the managing agents, secretaries and treasurers or directors of the company ;

(xi) any money received from an employee of the company by way of security deposit ;

(xii) any money received from purchasing, selling or other agents in the course of or for the purposes of the business of the company or any advance received against orders for goods, properties or services ; and

(xiii) any money received in trust or any money in transit.

(g) "free reserves" shall include all sums shown or published in the balance sheet or in the profit and loss account of the company as being retained for any general or unspecified purpose, but shall not include depreciation, development rebate and renewal reserves or any other reserves which may be earmarked or declared by the company to be earmarked for any specified purpose ;

(h) "hire purchase finance company" means any company, not being a banking company, carrying on as its principal business hire purchase transactions or the financing of such transactions, but does not include any company which is an industrial concern or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which also undertakes hire purchase transactions or grants any loans or advances by way of financing hire-purchase transactions in the course of carrying on its business ;

(i) "housing finance company" means any company, not being a banking company, the principal business of which is the financing of the acquisition or construction of houses, including the acquisition or development of plots of land in connection therewith, but does not include any company, which is an industrial concern, or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which also finances the acquisition, construction or development of houses or of land as aforesaid ;

(j) "industrial concern" means any concern engaged or to be engaged in the manufacture, preservation or processing of goods or in shipping or in mining or in the hotel industry or in the transport of passengers and goods by road or by water or by air or in the generation or distribution of electricity or any other form of power ;

*Explanation :* The expression "processing of goods" includes any act or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation.

(k) "insurance company" means any company registered for any class of insurance business under Section 3 of the Insurance Act, 1938 (4 of 1938) ;

(l) "investment company" means any company, not being a banking company, carrying on as its principal business the acquisition of securities but does not include any company which is an industrial concern or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which also acquires in the course of its business any securities as aforesaid ;

(m) "loan company" means any company, not being a banking company, carrying on as its principal business the financing whether by making loans or advances or otherwise, of trade, industry, commerce or agriculture, but does not include a hire-purchase company or a housing finance company or any other company which is an industrial concern or which carries on mainly the business of the purchase or sale of any goods or commodities other than securities and which also grants any loans or advances in the course of carrying on its other business ;

(n) "miscellaneous financial company" means any company, not being a banking company, carrying on as a part of its business but not as its principal business, two or more classes of financial business such as the management, conduct or supervision as a foreman or agent of any transaction or arrangement which is referred to in clause (d), or the financing of hire-purchase transactions or the acquisition or construction of houses or the acquisition or development of plots of land or the investment of its funds in securities or the grant of loans and advances, but does not include a chit fund, hire-purchase, housing finance, insurance, investment, loan, stock exchange or stock-broking company, or any other company which is an industrial concern or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which is also engaged in any class of financial business as aforesaid ;

(o) "mutual benefit financial company" means any company the principal business of which is the acceptance of deposits from its members or associate members but not from any other persons and the grant of loans and advances (whether to its members or associate members or to any other persons) or the investment of its funds in securities or otherwise for the benefit of its members and associate members ;

(p) "non-banking financial company" means any chit fund, hire-purchase finance, housing finance, investment, loan, miscellaneous financial or mutual benefit financial company, but does not include an insurance company or a stock exchange or stock-broking company ;

(q) "securities" means shares, stock, bonds, debentures, debenture stock or securities issued by Government or by a local authority or other marketable securities of a like nature ;

(r) "stock exchange or stock-broking company" means any company which is a stock exchange notified under sub-section (3) of Section 4 of the Securities Contracts (Regulation) Act, 1956 or any other company the principal business of which is the purchase or sale of securities as a broker or as a jobber ;

(s) any other words or expressions used but not defined herein and defined in the Companies Act, 1956 (1 of 1956) shall have the meanings respectively assigned to them in that Act ;

(t) the date on which an advertisement is issued shall for the purpose of these directions be deemed—

(i) if the advertisement is published in any newspaper, to be the date on which it is so published, and

(ii) if the advertisement is not published in any newspaper, to be the date on which the text thereof has been approved by the manager of the company.

(2) If, any question arises whether the principal business of a company is such as is referred to in clause (d) or clause (h) or clause (i) or clause (l) or clause (m) or clause (o) or clause (r), or whether the company carries on mainly the business of purchase or sale of any goods other than securities, the Reserve Bank's decision thereon shall be final.

Provided that before arriving at a decision in regard to any such question, the Reserve Bank shall have regard to the following considerations and circumstances, namely :

(i) whether the value of the assets in the form of securities held by an investment company or the value of the assets in the form of loans and advances granted by and outstanding on the books of a loan company is in excess of the value of all the other assets of the investment company or the loan company as the case may be ;

(ii) whether the value of the assets in the form of loans and advances on hire-purchase terms or for financing hire-purchase transactions, in the case of a hire-purchase finance company, or the value of the assets in the form of loans and advances for financing the acquisition or construction of houses, including the acquisition or development of plots of land in connection therewith, in the case of a housing finance company, is in excess of all other assets of the hire-purchase or housing finance company as the case may be ; and

(iii) whether the income in the case of any other company is predominantly derived from such sources or the nature of its business is such as is referred to in any of the foregoing clauses.

## PART II—ACCEPTANCE OF DEPOSITS

### 3. *Acceptance of deposits by non-banking financial companies :*

On and from the date of commencement of these directions,

(a) no hire-purchase finance company shall receive any deposit repayable on demand, or on notice, or repayable after a period of less than six months from the date of receipt of such deposit, or renew any deposit received by it, whether before or after the date of commencement of these directions, unless such deposit, on renewal, is repayable not earlier than six months from the date of such renewal, and

(b) no other non-banking financial company shall receive any deposit repayable on demand, or on notice, or repayable after a period of less than twelve months from the date of receipt of such deposit or renew any deposit received by it, whether before or after the date of commencement of these directions, unless such deposit, on renewal, is repayable not earlier than twelve months from the date of such renewal, and

(c) no non-banking financial company not being a hire-purchase finance company or a housing finance company shall receive any deposit which together with any other deposits already received and outstanding on the books of the company is in excess of twenty-five per cent of the aggregate of its paid-up capital and free reserves.

### 4. *Provision in respect of existing deposits of non-banking financial companies :*

(1) Every hire-purchase finance company and every other non-banking financial company which, on the date of commencement of these directions holds any deposit repayable on demand, or on notice, or after a period of less than six months or twelve months as the case may be from the date of receipt of such deposit, shall

(i) within a period of six months from the date of commencement of these directions in the case of a deposit repayable on demand, or on notice, and

(ii) when the deposit becomes due for repayment, in the case of any other deposit, secure, by taking such steps as may be necessary, that the deposit is converted or renewed so as to

make it repayable not earlier than the expiry of six months or twelve months as the case may be from the date of such conversion or renewal.

(2) Nothing in clause (1) shall be applicable to or in relation to any deposit in respect of which the company is unable to trace the depositor, but no interest shall be payable,

(a) in respect of any such deposit as aforesaid, if it is repayable on demand, or on notice, after the expiry of six months or twelve months as the case may be from the date of commencement of these directions, and

(b) in respect of any such deposit as aforesaid, if it has matured for payment but has not been claimed or received by the depositor, after the date on which it has matured for payment.

(3) Every non-banking financial company, not being a hire-purchase finance company, or a housing finance company, which on the date of commencement of these directions holds deposits in excess of twenty-five per cent of its paid-up capital and free reserves shall secure before the expiry of a period of two years from the date of such commencement, by taking such steps as may be necessary for this purpose, that the deposits received by the company and outstanding on its books are not in excess of the aforesaid limit.

(4) For the avoidance of any doubt, it is hereby clarified that nothing in clause (1) or clause (2) shall be deemed to preclude the repayment, subject to the provisions in the said clauses, of any deposit after the deposit has become repayable.

5. *Particulars to be specified in advertisements soliciting deposits :*

No non-banking financial company and no other person on behalf of such a company shall issue or cause to be issued any advertisement soliciting or inviting deposits unless such advertisement is issued on the authority and in the name of the manager of the company and carries a reference to the date on which the said manager has approved of the text of the advertisement and contains, in addition, the following information, namely—

- (a) the date of incorporation of the company,
- (b) brief particulars of the management of the company,
- (c) the business actually carried on by the company and its subsidiaries,
- (d) profits of the company, before and after making provision for tax, for the three preceding financial years,
- (e) dividends declared by the company in respect of the said years,
- (f) the liabilities of the company as on the date of the latest audited balance sheet of the company (which date shall also be stated) under the following heads, that is to say—
  - (i) paid-up capital,
  - (ii) free reserves,
  - (iii) deposits,



(iv) any loan or advance obtained by the company and secured by a mortgage or charge including a floating charge or by any other lien on the property of the company, including temporary loans as defined in Section 293 of the Companies Act, 1956 (1 of 1956), and

(v) any other amount borrowed by the company, including temporary loans as aforesaid.

6. *Furnishing of receipts to depositors :*

(i) Every non-banking financial company, shall furnish to every depositor or his agent, unless it has done so already, a receipt for every amount which has been or which may be received by the company by way of deposit before or after the date of commencement of these directions.

(ii) The said receipt shall be duly signed by an officer entitled to act for the company in this behalf and shall state quite clearly in words and figures the amount received by the company by way of the deposit, the rate of interest payable thereon and the date on which the deposit is repayable.

7. *Register of deposits ;*

(i) Every non-banking financial company shall keep one or more registers in which shall be entered separately in the case of each depositor the following particulars, namely,

- (a) name and address of the depositor,
- (b) date and amount of each deposit,
- (c) date and amount of accrued interest or premium on each deposit,
- (d) date and amount of each repayment, whether of principal, interest or premium,
- (e) any other particulars relating to the deposit.

(ii) The register or registers aforesaid shall be kept at the registered office of the company and shall be preserved in good order for a period of not less than eight calendar years following the financial year in which the latest entry is made of the repayment or renewal of any deposit of which particulars are contained in the register.

Provided that if the company keeps the books of account referred to in sub-section (1) of Section 209 of the Companies Act, 1956 (1 of 1956) at any place other than its registered office in accordance with the proviso to that sub-section, it shall be sufficient compliance with this clause if the register aforesaid is kept at such other place, subject to the condition that the company delivers to the Reserve Bank a copy of the notice filed with the Registrar under the proviso to the said sub-section within seven days of such filing.

8. *Information to be included in the Board's report :*

(i) In every report of the Board of Directors laid before a company in general meeting under sub-section (1) of Section 217 of the Companies Act, 1956 (1 of 1956) after the date of commencement of these directions, there shall be included in the case of a non-banking financial company, the following particulars or information, namely :

(a) the total number of depositors of the company whose deposits have not been claimed by the depositors or paid by the company after the date on which the deposit became due for

repayment or renewal as the case may be according to the contract with the depositor or the provisions of these directions, whichever may be applicable, and

(b) the amounts due to the depositors and remaining unclaimed or unpaid beyond the dates referred to in clause (a) as aforesaid.

(ii) The said particulars or information shall be furnished with reference to the position as on the last day of the financial year to which the report relates and if the amounts remaining unclaimed or undisbursed as referred to in sub-clause (b) of the preceding clause exceed in the aggregate the sum of Rs. 10 lakhs, there shall also be included in the report a statement on the steps taken or proposed to be taken by the Board of Directors for the payment of the amounts due to the depositors and remaining unclaimed or undisbursed.

9. *General provision regarding repayment of deposits :*

On and from the date of commencement of these directions, a non-banking financial company shall not return or repay whether directly or indirectly, any deposit in advance of the date on which it is due to be repaid, except on condition that the amount so returned or repaid does not include any sum by way of interest.

Provided that the Reserve Bank of India may, if it considers it necessary so to do, authorise by general or special order in the case of any class or classes of depositors, the payment of interest at any rate or rates not exceeding the contracted rate or rates, on such terms and conditions as the Bank may specify.

PART III—SPECIAL PROVISIONS RELATING TO HIRE-PURCHASE  
AND HOUSING FINANCE

10. *Maintenance of a minimum percentage of liquid assets :*

Every hire-purchase finance company and every housing finance company shall maintain in India (a) by way of cash with itself, or (b) in a current account with a scheduled bank, or (c) in unencumbered securities of the Central Government or of a State Government or in other unencumbered securities in which a trustee is authorised to invest trust money (such securities being valued at their market value for the time being) or partly in cash, partly in such account or partly in such securities, a sum which shall not at the close of business on any day be less than ten per cent of the deposits received by the company and outstanding on the books of such company on that day.

11. *Provision in regard to recoveries under hire-purchase contracts of hire-purchase finance companies:*

Every hire-purchase finance company and every other non-banking financial company carrying on hire-purchase transactions or the financing of such transactions as a part of its business shall secure that the aggregate of the company's receipts by way of instalments due to the company under hire-purchase contracts during each of the two half years of each financial year shall not be less than twenty-five per cent of the amount outstanding under such contracts at the close of business on the last working day of the previous financial year.

Provided that where the financial year is longer or shorter than a period of twelve months—

(i) the first half-year shall be deemed to consist of a period of six months and the second half-year shall be deemed to consist of the remaining number of the completed months of the financial year,

(ii) the aggregate receipts in the first half-year shall not be less than twenty-five per cent of the amount outstanding at the end of the relevant previous financial year, and

(iii) the aggregate receipts in the second half-year shall bear, as far as possible, to the aggregate receipts in the first half-year the same proportion as the number of complete months in the second half-year bears to six.

Provided further that the Reserve Bank may, in regard to any company or class of companies or any goods or transactions or class of goods or transactions reduce or increase the amount required to be collected under this clause, having regard to the circumstances of the company or the class of the companies as the case may be, the nature of the goods, transactions or contracts and other relevant considerations.

#### PART IV—MISCELLANEOUS

##### 12. *Copies of balance sheet and accounts to be furnished to the Reserve Bank :*

Every non-banking financial company shall deliver to the Reserve Bank unless it has done so already, an audited balance sheet as on the last date of each financial year and an audited profit and loss account in respect of that year as passed by the company in general meeting within fifteen days of such meeting.

##### 13. *Returns to be made to the Reserve Bank :*

Without prejudice to the provisions of paragraph 12, every non-banking financial company shall submit to the Reserve Bank a return, furnishing the information specified in the First,<sup>1</sup> Second,<sup>2</sup> Third,<sup>3</sup> Fourth<sup>4</sup> or Fifth<sup>5</sup> Schedule, as may be applicable to it, with reference to its position as on the dates specified in the said Schedules.

##### 14. *Balance sheet, returns etc. to be submitted to the Department of Non-Banking Companies :*

Any returns or information required to be submitted or furnished to the Reserve Bank in pursuance of these directions shall be submitted or furnished to the Bank in its Department of Non-Banking Companies, 15, Netaji Subhas Road, Post Box No. 571, Calcutta-1.

##### 15. *Exemptions :*

The Reserve Bank may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extensions of time to comply with, or exempt any company or class of companies from, all or any of the provisions of this directive either generally or for any specified period subject to such conditions as the Reserve Bank may impose.

1. Applicable to all hire-purchase finance companies and to all mutual benefit financial companies which carry on hire-purchase transactions or the financing of such transactions as their main business.

2. Applicable to all investment companies and to all mutual benefit financial companies whose principal business is the acquisition of securities for purposes of investment.

3. Applicable to all loan companies and to all mutual benefit financial companies, which grant loans and advances as their main business.

4. Applicable to all housing finance companies and to all mutual benefit financial companies carrying on as their principal business the financing of the acquisition or construction of houses, including the acquisition or development of plots of land in connection therewith.

5. Applicable to all miscellaneous financial companies and to all mutual benefit financial companies other than those submitting returns in the First, Second, Third or Fourth Schedule.

### 6. Notification No. DNBC. 2/ED(S)-66 dated the 29th October, 1966

The Reserve Bank of India having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to give the directions set out below, hereby, in exercise of the powers conferred by Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934, and of all the powers enabling it in this behalf, and in supersession of the earlier Orders No. ED. DPPR. 5630/MRC. 95-65 dated May 7, 1965 and No. ED. DPPR. 1209/MRC. 95-66 dated January 7, 1966\*, as amended from time to time, gives to every non-banking non-financial company the directions hereinafter specified.

#### PART I—PRELIMINARY

1. These directions shall be known as the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966. They shall come into force with effect from January 1, 1967 and any reference in these directions to the date of commencement thereof shall be deemed to be a reference to that date.

2. (1) In these directions, unless the context otherwise requires,

(a) "associate member" in relation to a mutual benefit financial company means any person who, on payment to the company of any sum of money, whether refundable to him or otherwise, is admitted to any or all of the rights and privileges of the members of the company and continues to be entitled to such rights ;

(b) "advertisement" means any matter published on behalf of the company in a newspaper and any other written or printed matter published in the form of a notice, prospectus, circular or other document or any other material or text appearing on posters, bill boards and hoardings and includes any matter appearing on lantern slides or exposed cinematograph films, but does not include any script broadcast on the radio ;

(c) "banking company" means a banking company as defined in Section 5(c) of the Banking Regulation Act, 1949 (10 of 1949) ;

(d) "chit fund company" means any company, not being a banking company, carrying on as its principal business the management, conduct or supervision as a foreman or agent of any transaction or arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe a certain sum by instalments for a definite period and that each subscriber in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement, shall be entitled to a prize amount ;

(e) "company" means a company as defined in Section 3 of the Companies Act, 1956 (1 of 1956) and includes a foreign company within the meaning of Section 591 of the said Act but does not include a company which is being wound up under any law for the time being in force ;

(f) "deposit" means any deposit of money with, and includes any amount borrowed by, a company, but does not include

(i) any loan received from Government ;

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\* Please see Appendix V of the 1965 Report.

(ii) any loan raised on terms involving the issue of debentures or the creation of any mortgage, pawn, pledge or hypothecation, charge including floating charge, or lien on the assets of the company or any part thereof ;

(iii) any loan received from a banking company or from the State Bank of India or from a banking institution notified by the Central Government under Section 51 of the Banking Regulation Act, 1949 (10 of 1949) or from a co-operative bank as defined in Clause (b ii) of Section 2 of the Reserve Bank of India Act, 1934 (2 of 1934) or from any person registered under any law relating to moneylending which is for the time being in force ;

(iv) any loan received from the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964, or the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948 or a State Financial Corporation established under the State Financial Corporations Act, 1951 or the Industrial Credit and Investment Corporation of India Ltd. or the Madras Industrial and Investment Corporation Ltd. ;

(v) any loan received by a holding company from its subsidiary or by a subsidiary from its holding company or by a company from a subsidiary of any of its subsidiaries or from a subsidiary of its holding company or from a subsidiary of the holding company of its holding company or by a company from a holding company of its holding company ;

(vi) any loan received by a Government company from any other Government company ;

(vii) any loan received from a member of the company or any money received from a member by way of subscription to any shares, stock, bonds and debentures (including calls or deposits received in advance) ;

(viii) any loan received from, or guaranteed by, the managing agents, secretaries and treasurers or directors of the company ;

(ix) any money received from an employee of the company by way of security deposit ;

(x) any money received from purchasing, selling or other agents in the course of or for the purposes of the business of the company or any advance received against orders for goods, properties or services ; and

(xi) any money received in trust or any money in transit.

(g) "free reserves" shall include all sums shown or published in the balance sheet or in the profit and loss account of the company as being retained for any general or unspecified purpose, but shall not include depreciation, development rebate and renewal reserves or any other reserves which may be earmarked or declared by the company to be earmarked for any specified purpose ;

(h) "hire purchase finance company" means any company, not being a banking company, carrying on as its principal business hire-purchase transactions or the financing of such transactions, but does not include any company which is an industrial concern or which carries

on mainly the business of purchase or sale of any goods or commodities other than securities and which also undertakes hire-purchase transactions or grants any loans or advances by way of financing hire-purchase transactions in the course of carrying on its business ;

(i) "housing finance company" means any company, not being a banking company, the principal business of which is the financing of the acquisition or construction of houses, including the acquisition or development of plots of land in connection therewith, but does not include any company, which is an industrial concern, or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which also finances the acquisition, construction or development of houses or of land as aforesaid ;

(j) "industrial concern" means any concern engaged or to be engaged in the manufacture, preservation or processing of goods or in shipping or in mining or in the hotel industry or in the transport of passengers and goods by road or by water or by air or in the generation or distribution of electricity or any other form of power ;

*Explanation :* The expression "processing of goods" includes any act or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation.

(k) "insurance company" means any company registered for any class of insurance business under Section 3 of the Insurance Act, 1938 (4 of 1938) ;

(l) "investment company" means any company, not being a banking company, carrying on as its principal business the acquisition of securities but does not include any company which is an industrial concern or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which also acquires in the course of its business any securities as aforesaid ;

(m) "loan company" means any company, not being a banking company, carrying on as its principal business the financing whether by making loans or advances or otherwise, of trade, industry, commerce or agriculture, but does not include a hire-purchase company or a housing finance company or any other company which is an industrial concern or which carries on mainly the business of the purchase or sale of any goods or commodities other than securities and which also grants any loans or advances in the course of carrying on its other business ;

(n) "miscellaneous financial company" means any company, not being a banking company, carrying on as a part of its business but not as its principal business, two or more classes of financial business such as the management, conduct or supervision as a foreman or agent of any transaction or arrangement which is referred to in clause (d), or the financing of hire-purchase transactions or the acquisition or construction of houses or the acquisition or development of plots of land or the investment of its funds in securities or the grant of loans and advances, but does not include a chit fund, hire-purchase, housing finance, insurance, investment, loan, mutual benefit financial, stock exchange or stock-broking company, or any other company which is an industrial concern or which carries on mainly the business of purchase or sale of any goods or commodities other than securities and which is also engaged in any class of financial business as aforesaid ;

(o) "mutual benefit financial company" means any company the principal business of which is the acceptance of deposits from its members or associate members but not from any other persons and the grant of loans and advances (whether to its members or associate members or to any other persons) or the investment of its funds in securities or otherwise for the benefit of its members and associate members ;

(p) "non-banking non-financial company" means any company which is an industrial concern or which carries on mainly the purchase or sale of any goods or commodities other

than securities but does not include any chit fund, hire-purchase finance, housing finance, insurance, investment, loan, miscellaneous financial, mutual benefit financial, stock exchange or stock-broking company ;

(*q*) "securities" means shares, stock, bonds, debentures, debenture stock or securities issued by Government or by a local authority or other marketable securities of a like nature ;

(*r*) "stock exchange or stock-broking company" means any company which is a stock exchange notified under sub-section (3) of Section 4 of the Securities Contracts (Regulation) Act, 1956 or any other company the principal business of which is the purchase or sale of securities as a broker or as a jobber ;

(*s*) any other words or expressions used but not defined herein and defined in the Companies Act, 1956 (1 of 1956) shall have the meanings respectively assigned to them in that Act ;

(*t*) the date on which an advertisement is issued shall for the purposes of these directions be deemed—

- (*i*) if the advertisement is published in any newspaper, to be the date on which it is so published, and
- (*ii*) if the advertisement is not published in any newspaper, to be the date on which the text thereof has been approved by the manager of the company.

(2) If any question arises whether the principal business of a company is such as is referred to in clause (*d*) or clause (*h*) or clause (*i*) or clause (*l*) or clause (*m*) or clause (*o*) or clause (*r*) or whether the company carries on mainly the business of purchase or sale of any goods other than securities, the Reserve Bank's decision thereon shall be final.

Provided that before arriving at a decision in regard to any such question, the Reserve Bank shall have regard to the following considerations and circumstances, namely,

(*i*) whether the value of the assets in the form of securities held by an investment company or the value of the assets in the form of loans and advances granted by and outstanding on the books of a loan company is in excess of the value of all the other assets of the investment company or the loan company as the case may be ;

(*ii*) whether the value of the assets in the form of loans and advances on hire-purchase terms or for financing hire-purchase transactions in the case of a hire-purchase finance company, or the value of the assets in the form of loans and advances for financing the acquisition or construction of houses, including the acquisition or development of plots of land in connection therewith, in the case of a housing finance company, is in excess of all other assets of the hire-purchase or housing finance company as the case may be ; and

(*iii*) whether the income in the case of any other company is predominantly derived from such sources or the nature of its business is such as is referred to in any of the foregoing clauses.

## PART II

### 3. *Acceptance of deposits by non-banking non-financial companies :*

On and from the date of commencement of these directions, no non-banking non-financial company shall receive

(*a*) any deposit repayable on demand, or on notice, or repayable after a period of less than twelve months from the date of receipt of such deposit, or renew any deposit received by it,

whether before or after the date of commencement of these directions, unless such deposit, on renewal, is repayable not earlier than twelve months from the date of such renewal, and

(b) any deposit which together with any other deposits already received and outstanding on the books of the company is in excess of twenty-five per cent of the aggregate of its paid-up capital and free reserves.

4. *Provision in respect of the existing deposits of non-banking, non-financial companies :*

(1) Every non-banking non-financial company which, on the date of commencement of these directions, holds any deposit repayable on demand, or on notice, or after a period of less than twelve months from the date of commencement of these directions, shall

(i) within a period of one month from the date of commencement of these directions, in the case of a deposit repayable on demand, or on notice, and

(ii) when the deposit becomes due for repayment, in the case of any other deposit, secure by taking such steps as may be necessary, that the deposit is converted or renewed so as to make it repayable not earlier than

(a) the expiry of twelve months from the date of conversion of the deposit, if it is covered by the provisions of sub-clause (i) or

(b) the expiry of twelve months from the date of renewal of the deposit, if the deposit is covered by the provision of sub-clause (ii).

(2) Nothing in clause (1) shall be applicable to or in relation to any deposit in respect of which the company is unable to trace the depositor, but no interest shall be payable,

(a) in respect of any such deposit as aforesaid, if it is repayable on demand, or on notice, after the expiry of one month from the date of commencement of these directions, and

(b) in respect of any such deposit as aforesaid, if it has matured for payment but has not been claimed or received by the depositor, after the date on which it has matured for payment.

(3) Every non-banking non-financial company which on the date of commencement of these directions holds deposits in excess of twenty-five per cent of its paid-up capital and free reserves, shall secure before the expiry of a period of two years from the date of such commencement by taking such steps as may be necessary for this purpose that the deposits received by the company and outstanding on its books are not in excess of the aforesaid limit.

(4) For the avoidance of any doubt, it is hereby clarified that nothing in clause (1) or clause (2) shall be deemed to preclude the repayment, subject to the provisions in the said clauses, of any deposit after the deposit has become repayable.

5. *Particulars to be specified in advertisements soliciting deposits :*

A non-banking non-financial company shall not issue and shall not allow any person to issue or cause to be issued on its behalf any advertisement soliciting or inviting deposits unless such advertisement is issued on the authority and in the name of the manager of the company and carries a reference to the date on which the said manager has approved of the text of the advertisement and contains, in addition, the following information, namely—

(a) the date of incorporation of the company,

(b) brief particulars of the management of the company,



- (c) the business actually carried on by the company and its subsidiaries,
- (d) profits of the company, before and after making provision for tax, for the three preceding financial years,
- (e) dividends declared by the company in respect of the said years,
- (f) the liabilities of the company as on the date of the latest audited balance sheet of the company (which date shall also be stated) under the following heads, that is to say—
  - (i) paid-up capital,
  - (ii) free reserves,
  - (iii) deposits,
  - (iv) any loan or advance obtained by the company and secured by a mortgage or charge including a floating charge or by any other lien on the property of the company, including temporary loans as defined in Section 293 of the Companies Act, 1956 (1 of 1956), and
  - (v) any other amount borrowed by the company, including temporary loans as aforesaid.

6. *Furnishing of receipts to depositors :*

(i) Every non-banking non-financial company, shall furnish to every depositor or his agent, unless it has done so already, a receipt for every amount which has been or which may be received by the company by way of deposit before or after the date of commencement of these directions.

(ii) The said receipt shall be duly signed by an officer entitled to act for the company in this behalf and shall state quite clearly in words and figures the amount received by the company by way of the deposit, the rate of interest payable thereon and the date on which the deposit is repayable.

7. *Register of deposits :*

(i) Every non-banking non-financial company shall keep one or more registers in which shall be entered separately in the case of each depositor the following particulars, namely,

- (a) name and address of the depositor,
- (b) date and amount of each deposit,
- (c) date and amount of accrued interest or premium on each deposit,
- (d) date and amount of each repayment, whether of principal, interest or premium,
- (e) any other particulars relating to the deposit.

(ii) The register or registers aforesaid shall be kept at the registered office of the company and shall be preserved in good order for a period of not less than eight calendar years following the financial year in which the latest entry is made of the repayment or renewal of any deposit of which particulars are contained in the register.

Provided that if the company keeps the books of account referred to in sub-section (1) of Section 209 of the Companies Act, 1956 (1 of 1956) at any place other than its registered office in accordance with the proviso to that sub-section, it shall be sufficient compliance with this clause if the register aforesaid is kept at such other place, subject to the condition that the company delivers to the Reserve Bank a copy of the notice filed with the Registrar under the proviso to the said sub-section within seven days of such filing.

8. *Information to be included in the Board's report :*

(i) In every report of the Board of Directors laid before a company in general meeting under sub-section (1) of Section 217 of the Companies Act, 1956 (1 of 1956) after the date of commencement of these directions, there shall be included the following particulars or information, namely :

(a) the total number of depositors of the company whose deposits have not been claimed by the depositors or paid by the company after the date on which the deposit became due for repayment or renewal as the case may be according to the contract with the depositor or the provisions of these directions, whichever may be applicable, and

(b) the amounts due to the depositors and remaining unclaimed or unpaid beyond the dates referred to in clause (a) as aforesaid.

(ii) The said particulars or information shall be furnished with reference to the position as on the last day of the financial year to which the report relates and if the amounts remaining unclaimed or undisbursed as referred to in sub-clause (b) of the preceding clause exceed in the aggregate the sum of Rs. 10 lakhs, there shall also be included in the report a statement on the steps taken or proposed to be taken by the Board of Directors for the payment of the amounts due to the depositors and remaining unclaimed or undisbursed.

9. *General provision regarding repayment of deposits :*

On and from the date of commencement of these directions, a non-banking non-financial company shall not return or repay whether directly or indirectly, any deposit in advance of the date on which it is due to be repaid, except on condition that the amount so returned or repaid does not include any sum by way of interest.

Provided that the Reserve Bank of India may, if it considers it necessary so to do, authorise by general or special order in the case of any class or classes of depositors, the payment of interest at any rate or rates not exceeding the contracted rate or rates, on such terms and conditions as the Bank may specify.

### PART III

10. *Special provision relating to non-banking non-financial companies accepting deposits and financing hire-purchase transactions in addition to any other business :*

Every non-banking non-financial company which accepts or holds any deposits and which in addition to its other business carries on hire-purchase transactions or the business of financing such transactions, shall, in addition to complying with any other provisions in these directions secure that the aggregate of the company's receipts by way of instalments due to the company under hire-purchase contracts during each of the two half years of each financial year shall not be less than twenty-five per cent of the amount outstanding under such contracts at the close of business on the last working day of the previous financial year.

Provided that where the financial year is longer or shorter than a period of twelve months—

(i) the first half-year shall be deemed to consist of a period of six months and the second half-year shall be deemed to consist of the remaining number of the completed months of the financial year,

(ii) the aggregate receipts in the first half-year shall not be less than twenty-five per cent of the amount outstanding at the end of the relevant previous financial year, and

(iii) the aggregate receipts in the second half-year shall bear, as far as possible, to the aggregate receipts in the first half-year the same proportion as the number of complete months in the second half-year bears to six.

Provided further that the Reserve Bank may, in regard to any company or class of companies, or any goods or transactions or class of goods or transactions reduce or increase the amount required to be collected under this clause, having regard to the circumstances of the company or the class of companies as the case may be, the nature of the goods, transactions or contracts and other relevant considerations.

#### PART IV—MISCELLANEOUS

##### 11. *Copies of balance sheet and accounts to be furnished to the Reserve Bank :*

(i) Where during any period in any financial year of any non-banking non-financial company, the company retains any deposit accepted by it, the company shall deliver to the Reserve Bank, unless it has done so already, an audited balance sheet as on the last date of such financial year and an audited profit and loss account in respect of that year as passed by company in general meeting within fifteen days of such meeting.

(ii) Without prejudice to the provisions of clause (i),

(a) before any non-banking non-financial company issues or causes to be issued, any advertisement after the date of commencement of these directions soliciting deposits, it shall deliver to the Reserve Bank, unless it has done so already, an audited balance sheet dated not more than fifteen months before the date on which the advertisement is issued, and an audited profit and loss account for the period between the date of that balance sheet and the date of the earlier audited balance sheet, or where there is no such earlier audited balance sheet, the date of the certificate of commencement of business.

##### 12. *Returns to be made to the Reserve Bank :*

Without prejudice to the provisions of paragraph 11, every non-banking non-financial company which holds deposits as on the 31st March in any year, shall submit to the Reserve Bank a return, furnishing the information specified in the<sup>1</sup> First Schedule with reference to its position as on the 31st March and every non-banking non-financial company carrying on or financing hire-purchase transactions shall submit a return furnishing the information specified in the<sup>2</sup> Second Schedule.

##### 13. *Balance Sheet, returns etc. to be submitted to the Department of Non-Banking Companies :*

Any returns or information required to be submitted or furnished to the Reserve Bank in pursuance of these directions shall be submitted or furnished to the Bank in its Department of Non-Banking Companies, 15, Netaji Subhas Road, Post Box No. 571, Calcutta-1.

##### 14. *Exemptions :*

The Reserve Bank may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extensions of time to comply with, or exempt any company or class of companies from, all or any of the provisions of this directive either generally or for any specified period subject to such conditions as the Reserve Bank may impose.

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1. Applicable to all non-banking non-financial companies holding deposits.

2. Applicable to all non-banking non-financial companies which carry on or finance hire-purchase transactions.