

# BANKING COMPANIES



## CHAPTER OVERVIEW



Banks are vital to the prosperity and well-being of any society or country. Banks enable a society to create the platform for the satisfaction of wants of its people by managing and maintaining the flow of money to carry out transactions.

For smoothly meeting cash payment requirement, banks have to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

The capital adequacy norms given in this unit are as per existing Basel II norms. The RBI requires Banks to maintain minimum capital risk adequacy ratio at prescribed rate on an ongoing basis.

Capital is divided into two tiers according to the characteristics/qualities of each qualifying instrument. Tier I capital consists mainly of share capital and disclosed reserves and it is a bank's highest quality capital because it is fully available to cover losses. Tier II capital on the other hand consists of certain reserves and certain types of subordinated debt.

The Banks have to classify their advances into two broad groups: 1. Performing Assets; 2. Non-Performing Assets. These classification is done based on the principle laid down by the RBI in Income Recognition and Asset Classification(IRAC) norms.

Performing assets are also called as Standard Assets. The Non-Performing Assets is again classified into three groups and they are (i) sub-standard Assets (ii) doubtful assets & (iii) Loss Assets.

The banks have to maintain provisioning for Non-Performing Assets at the prescribed rates. A banking company also performs Discounting of bills; Collection of bills and Acceptances on behalf of customers

While preparing financial statements, banks have to follow various guidelines / directions given by RBI/Government of India governing the Financial Statements.

The chapter has been divided into 6 units for the purpose of convenience in understanding of the topic.

# UNIT 1 : SOME RELEVANT PROVISIONS OF THE BANKING REGULATIONS ACT, 1949

## LEARNING OUTCOMES

After studying this unit, you will be able to:

- ❑ Understand the legal definition of banking, the composition of management team of a bank and types of banks operating in India.
- ❑ Learn the conditions to be fulfilled for obtaining a license for banking activities in India.
- ❑ Learn the provisions relating to capital, reserve, liquidity norm (Capital Reserve Ratio & Statutory Liquidity Ratio), reserve fund, dividend payment and disposal of non-banking assets.
- ❑ Try to relate such provisions with the financial information obtained from any banking companies.

## 1.1 MEANING OF BANKING

Banks are vital to the prosperity and well-being of any society or country. Banks enable a society to create the platform for the satisfaction of wants of its people by managing and maintaining the flow of money to carry out transactions. The role of banks may be likened to the heart in a human being, circulating and managing money through the economy, thereby playing a crucial role for its good health.

Banks in India and their activities are regulated by the Banking Regulation Act, 1949.

**Banking:** Under Section 5(b) of the said Act "Banking" means,

- Accepting deposits of money from public for the purpose of lending or investing
- These deposits are repayable on demand or otherwise, and can be withdrawn by cheque, draft or otherwise.

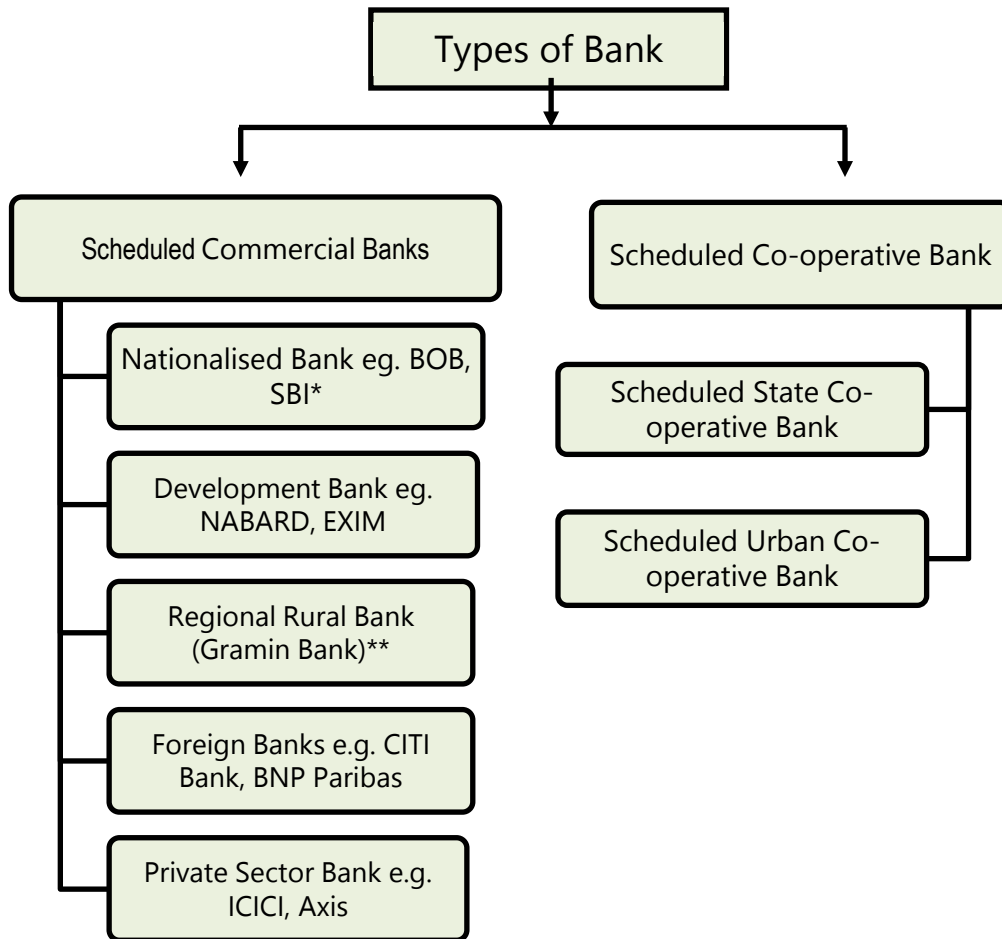
**Banking Company:** Any bank which transacts this business as stated in section 5 (b) of the act in India is called a banking company. However merely accepting public deposits by a company for financing its own business shall not make it a bank. It may be mentioned that the Banking Regulation Act, 1949 is not applicable to a primary agricultural society, a co-operative land mortgage bank and any other co-operative society.

### 1.1.1 Types of banks

There are two main categories of Commercial Bank in India namely:-

1. Scheduled Commercial Bank
2. Scheduled Co-operative Bank

Scheduled Commercial Banks are again divided into five types and the Scheduled Co-operative Banks into two as given in the following chart.



Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. After May 1997 there are no non-scheduled commercial banks existing in India. However, there are small to tiny non-scheduled Urban Co-operative Banks also known as Nidhiond Schedule ots of the country.

The banks included in this schedule list should fulfill following two conditions:

1. The paid up capital and reserves in aggregate should not be less than ₹ 5 lakhs.
2. Any activity of the bank will not adversely affect the interests of depositors.

The Reserve Bank includes a bank in this schedule if it fulfils certain other conditions too.

The RBI as the Central Bank is the 'Bank of Last Resort' i.e. when other commercial banks are in trouble RBI helps them out. The services provided by RBI to scheduled commercial banks include the following:

- (a) The purchase, sale, and re-discounting of certain bills of exchange, or promissory notes.
- (b) Purchase and sale of foreign exchange.
- (c) Purchase, sale and re-discounting of foreign bills of exchange.
- (d) Making of loans and advances to scheduled banks.
- (e) Maintenance of accounts of the scheduled bank in its banking department and issue department.
- (f) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of Reserve Bank free of cost or at nominal rates.

### **1.1.2 Banking Company Business**

Section 6 of the Banking Regulation Act, 1949 specifies the forms of business in which a banking company may engage. These are:

- (i) borrowing, raising or taking up of money, lending or advancing of money either upon or without security;
- (ii) the drawing, making, accepting, discounting, buying, selling collecting and dealing in bills of exchange, hundees, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not;
- (iii) the granting and issuing of letters of credit, traveller's cheques and circular notes;
- (iv) the buying, selling and dealing in bullion and species;
- (v) the buying and selling of foreign exchange including foreign bank notes;
- (vi) the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds;
- (vii) the purchasing and selling of bonds scrips or other forms of securities on behalf of constituents or, others the negotiating of loans and advances;

- (viii) the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise;
- (ix) the providing of safe deposit vaults;
- (x) the collecting and transmitting of money and securities;
- (ix) acting as agents for any government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a managing agent of a company;
- (x) contracting for public or private loans and negotiating and issuing the same;
- (xi) the effecting, issuing, guaranteeing underwriting, participating in the managing and carrying out of any issue public or private, of State, municipal or other loans or of shares, stocks, debentures, debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue.
- (xii) carrying on and transacting every kind of guarantee and indemnity business.
- (xiii) managing, selling and realising property which may come into the possession of the banking company in satisfaction of its claims.
- (xiv) acquiring and holding and generally dealing with any property or any right, title or interest in such property which may form the security for any loans and advances or which may be connected with any such security.
- (xv) underwriting and executing trusts.
- (xvi) undertaking the administration of estates as executor, trustee or otherwise;
- (xvii) establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object.
- (xviii) acquisition, construction, maintenance and alteration of any building and works necessary or convenient for the purpose of the banking company.

- (xix) selling, improving, managing, developing, or otherwise dealing with all or any part of the property and rights of the company.
- (xx) acquiring and undertaking whole or any part of the business of any person or company, when such business is of a nature enumerated or described in this subsection.
- (xxi) doing all such other things as are incidental or conducive to the promotion or advancement of the business of the banking company.
- (xxii) any other form of business which the Central Government may; by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.

No banking company shall engage in any form of business other than those referred to above.

To summarise all the above, the functions of Commercial Bank are:

### **Functions of a Commercial Bank**

Some of the main functions of modern commercial banks are:

- (a) Receiving of money on deposit and providing facilities to constituents for payments by cheque.
- (b) Dealing in securities on its own account and on account of customers.
- (c) Lending of money by -
  - (i) making loans and advances,
  - (ii) purchasing or discounting of bills.
- (d) Transferring money from place to place by -
  - (i) the issue of demand drafts, telegraphic transfers, traveller's cheques, etc.,
  - (ii) collection of bills.
- (e) Issuing letters of credit.
- (f) Safe custody of securities and valuables.
- (g) Issuing guarantees.
- (h) Acting as executors and trustees sometimes through subsidiary companies formed for that purpose.

- (i) Buying, selling and dealing in foreign exchange.
- (j) Acting as managers for issue of capital by companies and performing functions incidental thereto.

## 1.2 PROHIBITION OF TRADING (SECTION 8)

A banking company cannot directly or indirectly deal in the buying or selling or bartering of goods except in connection with the realization of security given to or held by it. However, it may engage in any trade, or buy, sell or barter goods in connection with the bills of exchange received for collection or negotiation or with such of its aforesaid business.

## 1.3 DISPOSAL OF NON-BANKING ASSETS (SECTION 9)

A banking company in the course of its business may have to take possession of certain asset charged in its favour on account of the failure of a borrower to repay the loan. A banking company can only acquire immovable property for its own use. However, other immovable properties acquired must be disposed off within seven years from the date of acquisition. The Reserve Bank of India at its discretion can extend this period not exceeding five years where it is satisfied that such extension would be in the interests of the depositors of the banking company. Income/loss from such an asset has to be shown separately in the profit and loss account of the banking company. It must be noted that the banking company can retain immovable property if it is meant for the banks own use. The bank need to make a separate disclosure of such Non-Banking Asset in their Financial Statement.

## 1.4 MANAGEMENT (SECTION 10)

Management of a Bank comes under its Board of Directors.

Under section 10A, not less than 51% of the total number of members of the board of directors of a banking company shall consist of persons having special knowledge or practical experience in one or more of the following fields:

1. Accountancy.
2. Agriculture and rural economy.
3. Banking.



4. Co-operation.
5. Economics.
6. Finance.
7. Law.
8. Small scale industry.
9. any other matter the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to the banking company.

It is also required not less than two directors should have special knowledge or practical experience in respect of agriculture and rural economy and co-operation or small-scale industry.

Under section 10(b)(1), every banking company shall have one of its directors as Chairman of its board of directors. The Chairman is entrusted with the management of the whole of the affairs of the banking company. Such Chairman is the whole-time employee of the banking company and can hold office for a period not exceeding five years. Other directors who are whole-time directors can hold office continuously for a period not exceeding eight years.



## 1.5 CAPITAL AND RESERVE

### **Requirement as to minimum paid-up capital and reserve (Section 11):**

- (1) No banking company in existence on the commencement of this Act, shall, after the expiry of three years from such commencement or of such further period not exceeding one year as the Reserve Bank, having regard to the interests of the depositors of the company, may think fit in any particular case to allow, carry on business in India, and no other banking company shall after the commencement of this Act, commence or carry on business in India unless it complies with such of the requirements of this section as are applicable to it.
- (2) In the case of a banking company incorporated outside India-
  - (a) the aggregate value of its paid-up capital and reserves shall not be less than fifteen lakhs of rupees and if it has a place or places of business in the city of Bombay or Calcutta or both, twenty lakhs of rupees; and
  - (b) The banking company shall deposit and keep deposited with the Reserve Bank either in cash or in the form of unencumbered approved securities, or partly in cash and partly in the form of such securities-

- (i) an amount which shall not be less than the minimum required by clause (a); and
- (ii) as soon as may be after the expiration of each year, an amount calculated at twenty percent of its profit for that year in respect of all business transacted through its branches in India, as disclosed in the profit and loss account prepared with reference to that year under section 29]

PROVIDED that any such banking company may at any time replace-

- (i) any securities so deposited by cash or by any other unencumbered approved securities or partly by cash and partly by other such securities, so however, that the total amount deposited is not affected;
  - (ii) any cash so deposited by unencumbered approved securities of an equal value.]
- (3) In the case of any banking company to which the provisions of sub-section (2) do not apply, the aggregate value of its paid-up capital and reserves shall not be less than-
- (i) if it has places of business in more than one State, five lakhs of rupees, and if any such place or places of business is or are situated in the city of Bombay or Calcutta or both, ten lakhs of rupees;
  - (ii) if it has all its places of business in one State none of which is situated in the city of Bombay or Calcutta, one lakh of rupees in respect of its principal place of business, plus ten thousand rupees in respect of each of its other places of business situated in the same district in which it has its principal place of business, plus twenty-five thousand rupees in respect of each place of business situated elsewhere in the State otherwise than in the same district. an aggregate value of fifty thousand rupees.
  - (iii) if it has all its places of business in one State, one or more of which is or are situated in the city of Bombay or Calcutta, five lakhs of rupees, plus twenty-five thousand rupees in respect of each place of business situated outside the city of Bombay or Calcutta, as the case may be.
- (4) Any amount deposited and kept deposited with the Reserve Bank by any banking company incorporated [outside India] shall, in the event of the company ceasing for any reason to carry on banking business [in India], be an asset of

the company on which the claims of all the creditors of the company [in India] shall be a first charge.

**Regulation relating to authorized capital, subscribed capital and paid-up capital (Section 12):** The subscribed capital of a banking company carrying on business in India shall not be less than one-half of the authorised capital and the paid-up capital shall not be less than one-half of the subscribed capital. The capital of the banking company consists of ordinary shares only; or of ordinary shares or equity shares and such preference shares which have been issued prior to the first day of July, 1944. The voting right of any single shareholder on a poll cannot exceed 10% of the total voting rights.

**Restriction on commission, brokerage, discount, etc., on sale of shares:** Under section 13 of the Banking Regulation Act, 1949, a banking company cannot pay out directly or indirectly commission, brokerage, discount, or remuneration in respect of any shares issued by it, an amount exceeding two and one-half per cent of the paid-up value of such shares.

## 1.6 RESERVE FUNDS (SECTION 17)

Every banking company incorporated in India is required to create a Reserve Fund and to **transfer at least 20% of its profit to the reserve fund**. The profit of the year as per the profit and loss account prepared under Section 29 is to be taken as base for the purpose of such transfer and transfer to reserve fund should be made before declaration of any dividend.

If any banking company makes any appropriation from the reserve fund or share premium account, it has to report to the Reserve Bank of India the reasons for such appropriation within 21 days.

## 1.7 RESTRICTION AS TO PAYMENT OF DIVIDEND (SECTION 15)

Before paying any dividend, a banking company has to **write off completely** all its capitalised expenses including preliminary expenses, organisation expenses, share-selling commission, brokerage, and amounts of losses incurred by tangible assets. However, a banking company may pay dividend on its shares without writing off -

1. the depreciation in the value of its investment in approved securities in any case where such depreciation has not actually been capitalised or accounted for as a loss.

2. the depreciation in the value of its investment in shares, debentures or bonds (other than approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company.
3. the bad debts in any case where adequate provision for such debts had been made to the satisfaction of the auditor of the banking company.



## 1.8 CASH RESERVE (SECTION 18)

For smoothly meeting cash payment requirement, banks have to maintain certain minimum ready cash balances at all times. This is called as Cash Reserve Ratio (CRR)

Cash reserve can be maintained by way of either a cash reserve with itself or as balance in a current account with the Reserve Bank of India or by way of net balance in current accounts or in one or more of the aforesaid ways.

Every Scheduled Commercial Bank has to maintain cash reserve ratio (i.e. CRR) as per direction of the RBI issued under Section 42(IA) of the Reserve Bank of India Act, 1934.

The current Cash Reserve Ratio (CRR) is 4% of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76 /12.01.001/2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

### Demand and Time Liabilities

Demand Liabilities of a bank are liabilities which are payable on demand. These include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit/guarantees, balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfers (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand. Money at Call and Short Notice from outside the Banking System should be shown against liability to others.

Time Liabilities of a bank are those which are payable otherwise than on demand. These include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held

against letters of credit, if not payable on demand, deposits held as securities for advances which are not payable on demand and Gold deposits.

### **Other Demand and Time Liabilities (ODTL)**

ODTL include interest accrued on deposits, bills payable, unpaid dividends, suspense account balances representing amounts due to other banks or public, net credit balances in branch adjustment account, any amounts due to the banking system which are not in the nature of deposits or borrowing. Such liabilities may arise due to items like (i) collection of bills on behalf of other banks, (ii) interest due to other banks and so on. If a bank cannot segregate the liabilities to the banking system, from the total of ODTL, the entire ODTL may be shown against item II (c) 'Other Demand and Time Liabilities' of the return in Form 'A' and average CRR maintained on it by all SCBs.

Participation Certificates issued to other banks, the balances outstanding in the blocked account pertaining to segregated outstanding credit entries for more than 5 years in inter-branch adjustment account, the margin money on bills purchased/ discounted and gold borrowed by banks from abroad, also should be included in ODTL.

Cash collaterals received under collateralized derivative transactions should be included in the bank's DTL/NDTL for the purpose of reserve requirements as these are in the nature of 'outside liabilities'.

## **1.9 LICENSING OF BANKING COMPANIES (SECTION 22)**

A banking company can function in India only if it holds a licence issued by the Reserve Bank of India and included in the Second Schedule of the RBI Act. Before granting any licence, the Reserve Bank of India has to be satisfied that the specified conditions have been complied:

### **Financial Requirement of:**

#### **Minimum capital requirement is to be complied with.**

In addition to the financial requirement the Reserve Bank of India would need to satisfy the other additional requirements:

- (a) That the company is or will be in a position to pay its present or future depositors in full as their claims accrue.

- (b) That the affairs of the company are not being conducted or are not likely to be conducted in a manner detrimental to the interest of its present or future depositors.
- (c) That the general character of the proposed management of the company will not be prejudicial to the public interest or the interest of its depositors.
- (d) That the company has adequate capital structure and earning prospects.
- (e) That the public interest will be served by the grant of a licence to the company to carry on banking business in India.
- (f) That having regard to the banking facilities available in the proposed principal area of operations of the company, the potential scope for expansion of banks already in existence in the area and other relevant factors, the grant of the licence would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth.

Similarly, prior permission of the Reserve Bank of India is necessary to open a new branch of bank in India or to change the existing place of business situated in India. Also, no banking company incorporated in India can open a branch outside India or change the existing place of business without prior permission of the Reserve Bank of India.

Provided that the provision mentioned in above paragraph shall not apply to the opening for a period not exceeding one month of a temporary place of business within a city, town or village or the environs thereof within which the banking company already has a place of business, for the purpose of affording banking facilities to the public on the occasion of an exhibition, a conference or a mela or any other like occasion.

## 1.10 LIQUIDITY NORMS (SECTION 24)

Banking companies have to maintain sufficient liquid assets in the normal course of business called as Statutory Liquidity Ratio (SLR). This safeguards the interest of depositors and prevents banks from over-extending their resources, liquidity norms have been settled and given statutory recognition. Every banking company has to maintain the SLR in the form of:

1. cash
2. gold
3. unencumbered approved securities.

The above assets have to be held at the close of business on any day and shall be valued at a price not exceeding the current market price of the above assets.

The percentage of SLR is changed by the Reserve Bank of India from time to time considering the general economic conditions. This is in addition to the Cash Reserve Ratio balance which a scheduled bank is required to maintain under Section 42 of the Reserve Bank of India Act.

### **Maintenance of Statutory Liquidity Ratio (SLR)**

In exercise of the powers conferred by sub-section (2A) of Section 24 read with Section 51 and Section 56 of the Banking Regulation Act, 1949 (10 of 1949) and in supersession of the notifications [DBR.No.Ret.BC.14/12.02.001/2016-17 dated October 13, 2016](#) BR.N[DBR.No.Ret.BC.91/12.02.001/2017-18 dated October 04, 2017](#), the Reserve Bank hereby specifies that:

- (i) 19.25 per cent from January 5, 2019
- (ii) 19.00 per cent from April 13, 2019
- (iii) 18.75 per cent from July 6, 2019
- (iv) 18.50 per cent from October 12, 2019
- (v) 18.25 per cent from January 4, 2020
- (vi) 18.00 per cent from April 11, 2020

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time; and Such SLR assets shall be maintained by Scheduled Commercial Banks (Including Regional Rural Banks), Local Area Banks, Small Finance Banks and Payments Banks, as -

- (a) cash; or
- (b) gold as defined in Section 5(g) of the Banking Regulation Act, 1949 (10 of 1949) valued at a price not exceeding the current market price: or
- (c) unencumbered investment in any of the following instruments [hereinafter referred to as Statutory Liquidity Ratio securities (arket price: or Payments Ban Dated securities of the Government of India issued from time to time under the Market Borrowing Programme and the Market Stabilization Scheme ; or Treasury Bills of the Government of India; or State Development Loans (SDLs) of the State Governments issued from time to time under the market borrowing programme:

- (d) the deposit and unencumbered approved securities required, under sub-section (2) of section 11 of the Banking Regulation Act, 1949(10 of 1949), to be made with the Reserve Bank by a banking company incorporated outside India;
- (e) any balance maintained by a scheduled bank with the Reserve Bank in excess of the balance required to be maintained by it under section 42 of the Reserve Bank of India Act, 1934 (2 of 1934);

Following securities shall not be treated as encumbered for the purpose of maintenance of SLR assets, namely:-

- (a) securities lodged with another institution for an advance or any other credit arrangement to the extent to which such securities have not been drawn against or availed of;
- (b) securities offered as collateral to the Reserve Bank for availing liquidity assistance under Marginal Standing Facility (MSF), up to the permissible percentage of the total NDTL in India, carved out of the required SLR portfolio of the bank concerned; and
- (c) securities offered as collateral to the Reserve Bank for availing liquidity assistance under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR).

## 1.11 RESTRICTION ON ACQUISITION OF SHARES IN OTHER COMPANY

A banking company **cannot form any subsidiary** except for one or more of the following purposes:

1. The undertaking of any business permissible for banking company to undertake.
2. Carrying on business of banking, exclusively outside India with previous permission in writing, of the Reserve Bank.
3. The undertaking of such other business consider to be conducive to the spread of banking in India or to be otherwise useful or necessary in the public interest, which the Reserve Bank of India may permit with prior approval of the Central Government.

Other than formation of such subsidiary companies as mentioned above, a banking company cannot hold shares in any company either as pledge, mortgage, or absolute



owner of an amount not exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less.

## 1.12 RESTRICTION ON LOANS AND ADVANCES

Under Section 20 of the Banking Regulations Act, a banking company shall not grant any loans or advances on the security of its own shares. Further, it cannot enter into any commitment for granting any loan or advance to or on behalf of -

- (i) any of its directors.
- (ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor.
- (iii) any company other than the subsidiary of the banking company, or a company which is entitled to dispense with the use of the word Ltd in its name under the Companies Act, or a Government company of which any of the directors of the banking company is a director, manager, employee or guarantor or in which he holds substantial interest.
- (iv) any individual in respect of whom any of its directors is a partner or a guarantor.

## 1.13 PROHIBITION OF CHARGE ON UNPAID CAPITAL AND FLOATING CHARGE ON ASSETS

Under Section 14 of the Banking Regulation Act, no banking company shall create any charge upon any unpaid capital of the company, and any charge if created shall be invalid. A banking company also cannot create a floating charge on the undertaking or any property of the company or any part thereof unless the creation of such floating charge is certified in writing by the Reserve Bank as not being detrimental to the interest of the depositors of such company (Section 14A). Any charge created without obtaining the certificate from the RBI as above shall be invalid (Sec 14 A (2)).

## 1.14 UNCLAIMED DEPOSITS

Under Section 26 of the Banking Regulations Act, every banking company is required to submit a return in the prescribed form and manner, to the Reserve Bank of India at the end of each calendar year, of all accounts in India which have not

been operated for 10 years. This report is to be submitted within 30 days after the close of each calendar year. In case of fixed deposit, such 10 years are to be reckoned from the date of expiry of the fixed deposit period.

Under Section 26A of the Banking Regulation Act, the Reserve Bank of India has established a Fund to be called the "Depositor Education and Awareness Fund". Every Banking Company needs to credit to the Fund the amount to the credit of any account in India with a banking company which has not been operated upon for a period of ten years or any deposit or any amount remaining unclaimed for more than ten years, within a period of three months from the expiry of the said period of ten years.

## 1.15 ACCOUNTS

At the end of each calendar year or at the expiration of twelve months ending on such date as the Central Government may specify in this regard, every banking company incorporated in India, in respect of business transacted by it, and every banking company incorporated outside India, in respect of business transacted by its branches in India, shall prepare with reference to that year or period, a Balance Sheet (Form A) and Profit and Loss Account (Form B) as on the last working day of that year or the period in the forms set out in the Third Schedule of Banking Regulation Act.

The Balance Sheet and the Profit and Loss Account must be signed by the manager or principal officer and by at least three directors or all directors if there are not more than three directors in case of a banking company incorporated in India. In case of a banking company incorporated outside India, the statement of accounts must be signed by the manager or agent of the principal office of the company in India. In addition to the above, the Reserve Bank of India has also issued Master Circular on Disclosures to be made in the Financial Statement of these Companies.

## 1.16 RESOLUTION OF STRESSED ASSETS (SECTION 35AA AND 35AB)

In light of recent significant increase in the Non-Performing Assets, the Banking Regulation Act, 1949 has been amended to give power to the Reserve Bank of India to issue directions to any banking company or banking companies to initiate insolvency resolution process in respect of a default, under the provisions of the Insolvency and Bankruptcy Code, 2016.

Further, the Reserve Bank may, from time to time, issue directions to any banking company or banking companies for resolution of stressed assets.