

Confidential

STATE BANK OF INDIA

REPORT OF THE
SUB-COMMITTEE ON
BRANCH EXPANSION PROGRAMME

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C O N T E N T S

CHAPTER		Page
I	Introduction	1
II	Review of Branch Expansion Programmes	3
III	Need for Branch Expansion	9
IV	Finance and Organization	15
V	Conclusion	22
APPENDICES:		
I	Working Results of the Branches Opened Under the Expansion Programmes	24
II	Particulars of non-banking sub-treasury centres in former Part "A" and "C" States considered to be centrally situated and in a position to serve contiguous sub-treasury centres.	28
III	Integration and Development Fund.	31

**Report of the Sub-Committee of the Central Board
of the State Bank of India on the Expansion
Programme of the State Bank of India and its
Subsidiaries.**

C H A P T E R - I

INTRODUCTION

The State Bank of India was established on the 1st July 1955.

The statutory obligation of opening 400 branches within a period of five years from that date has been fulfilled by it. In fact, on June 30, 1960, the total number of branches opened during the quinquennium thus ended was 416. With a view to examining the effects of the expansion programme already implemented and making suggestions for the branch expansion of the State Bank of India and its subsidiaries during the next quinquennium, 1960-1965, in the light of all relevant considerations, a sub-committee of the Central Board of the State Bank of India was constituted consisting of the following members:-

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|------------------------------|----------|
| (1) Prof. D. G. Karve | Chairman |
| (2) Shri B. Venkatappiah | Member |
| (3) Shri K. P. Mathrani | " |
| (4) Prof. D. I. Gadgil | " |
| (5) Shri M. H. Hasham Premji | " |

Shri N.A. Krishnan, Secretary and Treasurer, Bombay and Shri G. B. Kulkarni, Economic Adviser, also attended the Meetings and generally assisted the Sub-Committee.

2. The following were the terms of reference:

(a) Review of the working of branches already established in pursuance of -

- (i) the Imperial Bank programme commencing in 1951 and
- (ii) the State Bank programme commencing in 1955

with reference to matters such as deposits, advances, profit/loss etc., as also the effect on the economy of the areas of their operation.

(b) Need for branches in different areas from the point of view of banking, remittance, treasury (cash work) and other facilities for the public and Government.

(c) Position regarding the Integration and Development Fund and other funds or sources from which losses may be met.

- (d) Possibility of effecting reduction in overheads or working expenses/
- (e) Examination of the Bank's existing staff resources for manning the supervisory posts at branches to be opened and at other offices.
- (f) Recruitment and training of staff with a view to ensuring a phased supply of suitable personnel for manning the new branches.

The first meeting of the Sub-Committee was held on the 10th August 1960. Thereafter there have been 8 meetings.

CHAPTER - II

REVIEW OF BLANCH EXPANSION PROGRAMMES

According to the terms of reference we are concerned mainly to review the working of the branches of the Imperial Bank and the State Bank opened under their respective expansion programmes, to assess the difficulties that have been encountered by them in the matter of recruitment and training of staff, to examine the bank's existing staff resources, to suggest ways of effecting economy in the running of branches and thereafter determine whether it would be desirable to launch a fresh expansion programme, and if so, of what size. Such a programme would include branches to be opened by the subsidiary banks also.

We may first review the expansion programmes already carried out by the Imperial Bank of India, the State Bank of India and the subsidiaries of the State Bank of India.

(1) Imperial Bank of India.

In the context of the extension of banking facilities in the rural areas, the Rural Banking Enquiry Committee (1950) had observed that in view of the services which the Imperial Bank, as the agent of the Reserve Bank, would be able to offer to other banks and co-operative institutions in respect of remittance of funds, keeping of accounts and exchange of notes and coin, an increase in the number of its offices would be desirable in the interest of the rural areas as well as of the banking system as a whole. The Committee's recommendations in regard to the expansion programme of the Imperial Bank were as follows:-

".... there are at present 274 centres where the turnover on Government account exceeds Rs.64 lakhs per annum but where the Government cash work is not being managed by the Imperial Bank. At fifty of these centres the Imperial Bank has already got an office. In addition there are six places where the Imperial Bank is managing the cash work of the treasuries but not that of the sub-treasuries. At these centres there should not be much difficulty for the Imperial Bank to take over the cash work. At the remaining centres, we suggest that the Imperial Bank and the Reserve Bank should jointly investigate the business potentialities and if sufficient general business is available to enable the Imperial Bank to cover from one-third to one-half of its overheads, arrangements should be made with the

Imperial Bank to open branches or treasury pay offices and take over the cash work within the next five years. There may also be other places where the treasury turnover may not be large, but the potentialities of general banking business may be sufficient to warrant the opening of an office of the bank. The feasibility of opening branches or offices at these centres should also be examined in the light of the representations made by the Provincial Governments and business interests."

Following these recommendations series of discussions were held between the Reserve Bank and the Imperial Bank with a view to exploring the possibilities of opening additional branches of the latter on the lines proposed by the Rural Banking Enquiry Committee. As a result of the discussions, it was agreed by the Imperial Bank of India, that, having regard to administrative and financial implications of the expansion programme, it would open 114 additional branches within a period of five years (from the 1st July 1951 to the 30th June 1956) at district treasury centres and sub-treasury centres which were relatively important from the point of view of population and turnover on Government account. To enable the bank to open the branches as expeditiously as possible, the State Governments and the Central Government were requested to render all possible assistance to it by way of accommodation, police guards, security arrangements, etc. As it was not expected that most of the branches opened under the programme would be self-supporting within a short time, it was agreed to offer by way of incentive to the bank a special rate of turnover commission i.e. 1/16th of 1% in respect of the cash transactions conducted by these branches on behalf of Government. During the first four years from the 1st July 1951 to the 30th June 1955, the Imperial Bank opened only 63 branches out of the stipulated 114. The balance of 51 was taken over by the State Bank when it came into existence on the 1st July 1955.

(ii) State Bank of India.

The whole question of extension of banking facilities to rural and semi-urban areas was once again examined by the Committee of Direction of the All-India Rural Credit Survey in 1954. The Committee considered that the expansion programme of the Imperial Bank by itself

represented only a small part of the task which yet remained to be achieved and recommended

"the creation of one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which, by further expansion (including further, but minor, amalgamation where necessary) can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for co-operative and other banks, thus stimulating the further establishment of such banks, and, generally, in their loan operations, in so far as they have a bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the Central Government and the Reserve Bank."

Following these recommendations, which were generally accepted by the Reserve Bank of India and the Government of India, the State Bank of India Act was passed, the preamble to which says that

".....for the extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for divers other public purposes it is expedient to constitute a State Bank of India, and to transfer to it the undertaking of the Imperial Bank of India....."

The State Bank of India was accordingly constituted on July 1, 1955. Section 16(5) of the Act lays down the requirements already mentioned, viz. that the State Bank of India should open not less than 400 branches within a period of five years beginning from the 1st July 1955 or such extended period as the Central Government may specify in that behalf. Moreover, it was stipulated that the places where such additional branches were to be established should be determined in accordance with programmes drawn up by the Central Government from time to time in consultation with the Reserve Bank and the State Bank. Following this statutory obligation, the State Bank, as stated before, opened 416 branches within the specified time schedule.

Working results of the branches: We have reviewed the working of the branches opened in these different places on the basis of the material readily available and to the extent it has a bearing on our terms of reference. This is given in Appendix I. The broad trends revealed are as follows:-

(i) The net working results of the 63 branches opened by the Imperial Bank of India in pursuance of the Rural Banking Enquiry Committee's Report show gradual improvement on the whole. At the end of 1959 the net profit on account of 61 of these branches was Rs.1.67 lakhs.

(ii) The State Bank of India opened 416 branches during the years 1955-60.

(a) 1st July 1955 to 31st December 1955 -	20
(b) 1st January 1956 to 31st December 1956 -	46
(c) 1st January 1957 to 31st December 1957 -	91
(d) 1st January 1958 to 31st December 1958 -	105
(e) 1st January 1959 to 31st December 1959 -	97
(f) 1st January 1960 to 30th June 1960 -	57

416

The 416 branches opened by the State Bank of India comprise

- (i) 79 branches opened at district treasury centres,
- (ii) 305 branches opened at sub-treasury centres, and
- (iii) 32 branches where there are no treasuries or sub-treasuries.

There were 1014 non-banking sub-treasury centres in Part 'A' and 'C'

States at the time the Rural Credit Survey Committee Report was published and the Committee recommended in effect that, for the time being and subject to review after the initial period, one out of every 5 non-banking sub-treasury centres should be covered by a branch of the State Bank. It is of interest to note that the number of new branches opened by the State Bank of India at the sub-treasury centres works out to about one branch for every 3 non-banking centres. All the non-banking district-treasury centres, except 13 (which include a few newly created District headquarters after the reorganisation of States), have also been covered by the branch expansion programme of the State Bank of India. Out of the 422 new branches opened till September 30, 1960, 382 were in places with a population of less than 50,000 and out of these 274 were in places with a population of less than 25,000. While the branch expansion programme has thus been quantitatively satisfactory in terms of the initial phase contemplated in the Act, in matters of staffing and organisational reform much has yet to be done both to

consolidate the present position and to prepare for a further programme of expansion.

The total deposits of the new branches opened by the State Bank of India which were located mostly in rural and semi-urban areas increased from Rs.0.56 crore on the 31st December 1955 to Rs.29.32 crores at the end of 1959. At the same time, the credit extended by the new branches increased from Rs.0.13 crore as on the 31st December 1955 to Rs.9.04 crores at the end of 1959. There has been a progressive increase in the deposits at the branches opened by the State Bank of India in the rural and semi-urban areas and with the increase in the rate of interest on the savings bank deposits, it would be possible for the branches of the bank to attract more deposits. Moreover, the economic development which is likely to take place in these areas as a result of the Plan will imply not only increasing need for credit from the new branches but increasing local response in the form of deposits. Owing to the short time at our disposal, it was not possible to undertake a detailed survey of the effect of the working of these branches on the economy of their area of operation. We consider that continued and sustained efforts should be made to ensure full development of the business potentialities of these branches.

The profits and losses of these branches since their inception were as follows:

	(In lakhs of rupees)		
	<u>Total profits of profit making branches</u>	<u>Total losses of loss making branches</u>	<u>Net loss*</u>
1955 (July to December)	---	2.89	2.89
1956	0.51	9.13	8.87
1957	4.77	28.68	26.19
1958	11.78	53.03	47.96
1959	25.95	70.22	56.18
Total:	<u>43.01</u>	<u>163.95</u>	<u>142.09</u>

* Allowance being made for reduction in profits of neighbouring branches.

(iii) Subsidiary banks

The expansion programme of the State Bank of India was confined mostly to the former Part 'A' and 'C' States because it was thought that the increase in banking facilities in the territories of the former Part 'B' States should be achieved through an increase in the number of branches of the State-associated banks mostly operating in those areas. On the 4th March 1959 when the State Bank of India (Subsidiary Banks) Bill was introduced in the Lok Sabha, there were 16 district treasury centres and 508 sub-treasury centres in the former Part 'B' States which were not served by either the branches of the State Bank of India or any of the State-associated banks. Since then up to the 30th June 1960 these subsidiary banks have opened branches at 3 district treasury centres and 42 sub-treasury centres.

As on the 1st July 1960 there were 317 branches mostly in the territories of the former Part 'B' States and since then and up to the 31st December 1960 the subsidiaries have opened 19 branches thus bringing the total number of branches to 333 (three branches were closed during this period). As most of these branches were opened in the year 1960 and have not yet completed a full year of their working, it is not possible at this stage to state anything about their earning capacity.

The two major difficulties which the Imperial Bank and the State Bank as well as the subsidiaries have had to encounter in the matter of opening branches were the shortage of suitable premises and the dearth of experienced supervisory staff who could be entrusted with the charge of the branches. For these reasons the pace of expansion was rather slow in the beginning but it gained momentum during the later years when efforts were made to get over the difficulties. These features will have to be kept in view while chalking out the programmes of expansion for the next five years.

C H A P T E R - III

NEED FOR BRANCH EXPANSION

Our approach to the question is set out in the terms of reference themselves. Term (b) mentions the considerations which necessitate branch expansion and terms (c) to (f) indicate the factors which have a bearing on the number of branches to be actually opened in the sense that the programme might have to be modified or curtailed in the light of those factors. In other words, branch expansion is needed for certain definite reasons but is limited on account of financial, administrative and other considerations.

While assessing the need for opening more branches various criteria are to be taken into consideration and due weight has to be given to one or more of the several factors. The first point, of course, is that the State Bank would normally expand where business immediately available in the form of deposits, advances, etc., would justify such a course. Apart from this, there are certain other considerations of public interest which would have to be taken into account in determining the pace of the expansion programme of the State Bank of India and its subsidiaries. In addition to the usual criteria, viz., population, turnover on Government account, adequacy or otherwise of banking facilities, etc., the following factors will also have to be taken into account:

- (i) Extension of remittance facilities,
- (ii) the need to establish branches of the State Bank of India at "sub-divisional" centres in the sense in which the term has been used in the Rural Credit Survey Committee Report,
- (iii) providing suitable banking services to co-operative marketing and processing societies,
- (iv) offering financial services to small scale industries, and
- (v) mobilization of savings.

(i) Extension of remittance facilities:

The need for adequate and enlarged remittance facilities cannot be over-emphasised. This was recognised by the Rural Banking

Enquiry Committee and subsequently stressed by the Rural Credit Survey Committee. Following the recommendations of the Rural Banking Enquiry Committee the rates of remittance charged to scheduled banks and co-operative banks have been reduced considerably. Facilities for free remittances have been enlarged from once to thrice a week in respect of transfer of funds by the banks from up-country centres to their head offices. Further, with a view to encouraging the flow of funds from the bigger towns and cities to the rural areas, the State Bank and some of its subsidiaries have also been extending to co-operative institutions remittance facilities in the "reverse direction". The total amount of remittances issued and encashed by the new branches of the Imperial Bank of India increased from Rs.0.49 crore in 1951 to Rs.126.69 crores in 1955 and to Rs.228.76 crores in 1959. The total remittances issued as well as encashed by the new branches of the State Bank also increased from Rs.6.31 crores in the second half of 1955 (Rs.12.62 crores annually) to Rs.49.75 crores in 1956, Rs.155.95 crores in 1957, Rs.318.25 crores in 1958 and Rs.567.43 crores in 1959. Remittance facilities are available only from places where currency chests have been established. It has, therefore, been the policy of the Reserve Bank to establish currency chests at all the new branches of the State Bank of India and its subsidiaries so that remittance facilities on a vastly extended scale could be provided to the banks and the public. All the 63 branches opened by the Imperial Bank, the 416 branches of the State Bank of India and quite a large number of the branches of the subsidiaries which have adequate strong-room and security arrangements have been provided with currency chests. Establishment of currency chests and consequently the extension of facilities for remittance obviate the need for physical transfer of cash from one centre to another. This process helps commercial banks to go to centres where otherwise they would not have gone. Provision of cheap and adequate remittance facilities is, therefore, one of the considerations which should be taken into account in the determination of the expansion programme of the State Bank of India and its subsidiaries.

(ii) Need to establish branches of the State Bank of India at the sub-divisional centres:

In regard to the extension of banking facilities to district treasury centres and sub-treasury centres where there were no branches of the Imperial Bank or any of the State-associated Banks, the Rural Credit Survey Committee recommended that all the non-banking district treasury centres should be covered by the expansion programme of the State Bank of India. As regards the sub-treasury centres the Committee recommended that one branch should be established at each of the "sub-divisional" centres for every five non-banking sub-treasury centres in such a way that it might serve five contiguous Talukas and, therefore, five sub-treasury centres which are not far distant from one another. The expansion programme of the State Bank of India carried out so far has covered almost all district treasury centres of Part A and C States. Further a large number of sub-treasury centres which are relatively important from the point of view of population and Government's cash business etc. have been covered. It is observed, however, that there are still a few sub-treasury centres (about 50) in Part A and C States which from the point of view of their location could be regarded as centrally situated with reference to a group of Talukas but where the branches of the State Bank of India have not been opened so far. It is important that these centres should be covered by the future expansion programme of the State Bank of India. The names of these centres are given in Appendix II.

(iii) Providing suitable banking services to co-operative marketing and processing societies:

The State Bank has been rendering valuable service in meeting the financial requirements of commerce and industry. It has also been performing the important function of providing finance to banking, processing and marketing institutions in the co-operative sector. While the co-operative institutions depend primarily on their own financing agencies, the varied demands of co-operative societies are increasing so fast that co-operative central financing agencies can no longer meet them.

This is true especially in regard to the working capital needs of co-operative processing and marketing societies whose number and financial requirements are steadily increasing. This fact has been fully recognised by the Ad Hoc Committee on the "Role of the State Bank of India vis-a-vis Co-operative and Agricultural Finance" set up by the Reserve Bank of India in March 1957. The Committee recommended that -

"..... in those States where co-operative banks are able to command sufficient resources for financing co-operative marketing and processing units, e.g., Andhra, Madras and Bombay, and where the financing of these activities is already taking place without much difficulty, it is only natural that the State Bank's role in this context need not be as large as in other co-operatively less developed States. In other words the State Bank's participation will be for the definite purpose of adding to the resources hitherto available to the sectors of co-operative marketing and processing; and the need for such supplementing of resources arises particularly in States where the co-operative banking structure is weak and unable to meet the needs of agricultural production credit as well as marketing credit adequately."

Following these recommendations, the State Bank which had already adopted a policy of responsiveness to co-operatives, put into operation a special scheme for financing co-operative marketing and processing societies under which the limits sanctioned and the amounts outstanding have steadily risen from Rs.1.45 crores and Rs.1.20 crores as on the 30th June 1958 to Rs.7.57 crores and Rs.3.58 crores respectively as on the 28th February 1961. It has also granted advances against warehouse receipts, the outstandings as on the 28th October 1960 being Rs.56.44 lakhs. The relative significance of these figures will be properly appraised if it is compared to the figure of Rs.1.41 crores which is the total of advances against warehouse receipts made by all other scheduled banks. It is expected that during the Third Five Year Plan period the number of co-operative borrowers, and the size and variety of their demands will go on increasing. In future, the need for the State Bank to make loans to co-operatives will thus increase much faster in the Third Five Year Plan period. The programme of branch banking to be chalked out for the next few years must necessarily take into account this prospect. Obviously, the existence of a branch of the State Bank within

a reasonable distance from a centre of co-operative marketing and processing societies, would greatly assist their progress.

It may be added that advances against paddy and rice, wheat and other food grains granted to co-operative marketing and processing societies are exempted from the directives of the Reserve Bank which impose a ceiling on such advances made by the bank.

(iv) Offering financial service to small-scale industries:

Small scale industries have an important place in the economy of the country. With the rise in the tempo of development, the growth of small scale industries has also gathered considerable momentum and in the Third Plan period, the scale of effort will clearly be further broadened and intensified. In April 1956, the State Bank of India introduced, at a few selected centres, a pilot scheme for assisting small scale industries, under which the lending rules and practices of the bank were considerably liberalised in favour of these industries. Since the 1st January 1959, the scheme has been operating at all the branches of the bank. During 1960, the bank instructed its subsidiary banks also to adopt the broad principles evolved in the liberalised scheme. The State Bank of India has assisted 2,451 small industrial units by sanctioning credit limits up to Rs.7.82 crores, the amount outstanding being Rs.3.66 crores at the end of December 1960. The subsidiary banks have sanctioned credit limits amounting to Rs.2.67 crores to 384 small industrial units, the amount outstanding being Rs.1.14 crores as on that date.

During the Third Plan period, it is proposed to set up 300 new industrial estates of varying sizes in small and medium-sized towns and selected rural areas. Out of the total outlay of Rs.250 crores in the public sector provisionally suggested in the Third Plan for the development of village and small scale industries, estimates in regard to small scale industries and industrial estates stand at Rs.107 crores. It is quite likely that at many of these places, they will find it difficult to get the necessary banking and remittance facilities. Branches of the

State Bank of India and its subsidiaries must therefore continue to be opened wherever a reasonable prospect of being of use to a sufficiently large number of industrial units justifies the setting up of a branch.

(v) Savings:

The mobilization of savings is an integral part of the formation of capital. As a result of the increase in the national wealth there is, we believe, a larger capacity on the part of the community to save. If it is necessary, as a deliberate aim of the rural development policy, to encourage industrial growth in as many areas as possible, it is also essential that savings in the rural and semi-urban areas should be mopped up to the farthest extent possible and channelled into industries through the banking system. In the initiation and fulfilment of this effort, the State Bank and its subsidiaries through their branches must play an increasingly important part.

C H A P T E R - I V

FINANCE AND ORGANIZATION

Position regarding Integration and Development Fund:

The State Bank of India Act provides that the bank shall maintain a Fund to be known as the Integration and Development Fund into which shall be paid the dividends payable to the Reserve Bank on such shares of the State Bank held by it as do not exceed 55 per cent of the total issued capital and such contribution as the Reserve Bank or the Central Government may make from time to time. As most of the branches to be opened under the expansion programme would be at centres where it would take some time for these branches to be self-supporting, it is also provided that the amount in this Fund shall inter alia be applied for meeting the losses in excess of such yearly sum as may be agreed upon between the Reserve Bank and the State Bank and attributable to the branches opened under the expansion programme of the State Bank of India. Under the existing arrangement agreed upon between the Reserve Bank of India and the State Bank of India, out of the net loss (i.e. total loss less profits of the profit earning branches) of the new branches opened since the 1st July 1955, the State Bank of India bears losses every year equal to a sum of Rs.15 lakhs plus 20 % of such losses in excess of that amount. The rest of the losses are met from the Integration and Development Fund. The net losses incurred by the new branches of the State Bank of India from the 1st July 1955 up to the end of 1959, amounted to Rs.142.09 lakhs of which Rs.68.27 lakhs were debited to the Integration and Development Fund. The balance in the Fund at the end of 1960 stood at Rs.1.98 crores.

With the constitution of the subsidiary banks it has been agreed that the losses that may be incurred by the subsidiary banks in the opening of branches under their planned expansion programmes should also be met from out of the Fund. Under the agreed arrangement the losses of these branches are to be met in their entirety from the Integration and Development Fund initially for a period of 5 years from the dates of their opening and thereafter on a tapering basis for the next four years

so that from the tenth year of their opening the branches concerned will not be entitled to any subsidy from the Fund. The details of the arrangements with the State Bank of India and the subsidiary banks are given in Appendix III.

We would emphasise that the subsidy from the Integration and Development Fund to the State Bank of India should not, in the interest of a sound programme, be envisaged as continuing indefinitely. This implies that in the selection of new places for branch expansion one of the main considerations should be that the branch is likely to show improvement at the end of, say, 5 years and to be self-supporting by the end of the 9th year. While we appreciate that it will not be possible to apply this formula in strict quantitative terms, it gives a good enough indicate of one of the important criteria which in our view should govern the composition of the next programme of branch expansion.

Possibility of effecting reduction in the overheads
of the working expenses of branches:

The State Bank of India has been making efforts to bring about a reduction in the overheads or the working expenses of its new branches. The major item of cost in the running of a branch is the establishment charges which for a new branch used to be of the order of Rs.45,000 per annum in the Bengal Circle. As a result of various measures, the cost per new branch should come down to Rs.32,000 per annum as detailed below:

Agent	..	Rs. 8,700
Head Cashier	..	Rs. 6,900
Clerks (3)	..	Rs. 6,500
Cashiers (2)	..	Es. 3,900
Messengers (5)	..	Rs.5,600
Part-time sweeper	..	Es. 400

		Rs.32,000
		=====

We trust that these efforts to ensure the utmost economy in the management of branches without impairing their efficiency will continue to be steadily pursued.

Examination of the Bank's existing Staff resources
for manning the supervisory posts:

As a result of the branch expansion programme undertaken by the Imperial Bank of India from the 1st July 1951 and by the State Bank of India from the 1st July 1955, the requirements of the Bank for employees in the supervisory grades increased considerably and there was an overall shortage of experienced hands. The number of Staff Assistants who were working as Agents alone, for example, went up from 107 on the 31st December 1950 to 177 on the 31st December 1954 and to 525 on the 1st January 1960. The increasing demand for experienced supervisory staff was met by the Imperial Bank of India during the period of its branch expansion programme partly by promoting experienced persons from the lower ranks and partly by fresh recruitment. The State Bank of India's branch expansion programme, on the other hand, was on a much larger scale and therefore the problem of manning new branches was more serious and difficult. To meet this situation the State Bank of India had to resort to direct recruitment of Probationary Assistants to a certain extent, and promotion of suitable staff from the lower ranks to Assistant's grade for being placed in charge of the branches. After a short period of training, which was not commensurate with the training given in such cases in the past, the persons so selected were sent to the new branches opened under the expansion programme. Experience has shown that such an arrangement has not in all cases been conducive to the efficient working of the branches. Moreover, the expansion programme has also placed a heavy strain on the Local Head Offices and the Central Office of the Bank.

For meeting the shortage of experienced staff, training schools have been opened by the State Bank of India to give necessary training to its staff. At present there are 3 such schools in the Bengal Circle and one each in the other 3 Circles. These schools provide training facilities only to selected clerical staff with 5/6 years' experience and to members of the supervisory staff. This training has no doubt helped in improving the quality of the staff and in

equipping them with the necessary knowledge about sound banking principles and procedures, but quite a large lee-way remains to be made up in this respect and the present arrangements do not appear to be adequate. The Bank will have to take vigorous steps to give necessary training to its personnel and it is suggested that the number of training schools should be increased so as to make available adequate training facilities to all categories of staff, viz., clerks, Sub-Accountants, Head Cashiers, Probationary Assistants, Agents, etc. The training should not be confined to the existing staff alone. The staff recruited for the new branches to be opened under the expansion programme should receive practical training in one of the existing branches for a period of about 3 months before they are sent out to the branches. Adequate arrangements should also be made for their training in one of the training schools as soon as possible, after confirmation. Supervisory staff, either recruited afresh or promoted from junior ranks should, as a rule, undergo a specially prepared and centrally organized course of training before they are sent to take charge of branches. As it may not be possible for the subsidiary banks to establish their own training schools, arrangements should be made by the State Bank of India with its subsidiaries for the training of their staff. This aspect of the problem should not be lost sight of. Besides, the State Bank of India and the subsidiary banks should take the maximum possible advantage of the training facilities such as those afforded by the Reserve Bank at its Bankers Training College, Bombay.

In view of the acute shortage of trained personnel and the ever-increasing need for such staff at various levels, the State Bank of India should also consider relaxing the age limit for retirement of its supervisory staff. To this end, we recommend that the retiring age of the supervisory staff which is 55 at present, should be raised to 58 years, which is now the retiring age for what is usually described as the "award" staff.

Recruitment of staff: The posts in the Staff Assistants grade are filled both by direct recruitment and by promotion from the lower categories of employees. Direct recruitment to the Assistants' cadre is made by selection of Probationary Assistants by a Central Recruitment Board. Normally, the vacancies of Sub-Accountants and Head Cashiers are filled by promotion from among the clerks and the Cashiers respectively. The vacancies in the case of Clerks are generally notified to the appropriate Employment Exchanges and an adequate number of suitable candidates in relation to the number of vacancies to be filled are called through the Exchanges for a written test. On the basis of the academic qualifications and certificates and on the result of the written test and interview, the most deserving candidates are listed and their names and other particulars are reported to the Local Head Offices for their final approval. The minimum educational qualification prescribed is a Secondary School Leaving Certificate or its accepted equivalent, the age limit being between 18 and 24 years and in the case of scheduled castes/retrenched employees of certain Government establishments up to 27 years.

We feel that the recruitment policy of the Bank needs certain adjustments so as to obtain the best available material. In suggesting this we have in mind the necessity of providing a strong base, from which future promotion for higher cadres can be made within the bank. All the vacancies in the clerical grade should be advertised and while the minimum prescribed qualifications should continue to be as at present, preference should be given to candidates who possess a degree in Commerce or Economics. Selection from among such applicants and others recommended by employment exchanges should be made, as is being done now, after a written test and a personal interview. Both the test and the interview should be completely objective and based entirely on merits. For this purpose a group of about 20 contiguous branches may be taken as one unit or "district" and selection should be made by a suitably constituted committee for all these branches after

written and oral tests. The names and other particulars of the candidates so selected, together with the written test papers, should be forwarded to the Local Head Offices for final approval. As regards Probationary Assistants, the existing arrangements for recruitment may continue. The Committee considers that there is need to review the present system of recruitment of cashiers.

The recruitment policy of the subsidiary banks should also be examined with a view to ensure that the strength and efficiency of their staff continue to be adequate in terms of the needs of their existing and proposed branches.

Other organisational matters:

With a view to improving the control over branches the feasibility of having one or two additional Circle/Circles should be explored. In this connection it may be noted that with a view to providing more effective control and supervision over the growing number of offices the State Bank opened in 1958 a new Circle with its Head Office at New Delhi and abolished the post of the District Manager at Kanpur, which thereby became redundant. If it is felt that a further increase in the number of Circles is not possible under the existing circumstances, the system of appointing regional managers in each Circle should be considered. These regional managers should be given adequate authority, particularly in respect of advances.

Another aspect of the bank's working which deserves attention is mechanisation. With the growing volume of business and the larger number of returns etc. that are being received by the Head Offices and the Central Accounts Office, the time has come when the bank should ascertain how far mechanisation of its transactions is feasible. We understand that it is intended to install in the new office building at Calcutta machines which have been imported to carry on the work relating to reconciliation of inter-branch transactions at the Central Accounts Office.

The existing Book of Instructions meant for the guidance of the branch agents is too elaborate and too comprehensive for the agents

who would be incharge of branches in rural and semi-urban areas. It is, therefore, suggested that a special manual for the use of these agents detailing therein procedural matters relating to the business which they are expected to handle should be prepared.

At present the inspection team is concerned with the working of the branches and the inspecting and auditing of their accounts. In our opinion the inspection procedure should be remodelled in such a way that the Inspectors will be able, during the course of inspections, to guide the branch agents and also help them in resolving difficulties which they might be experiencing.

With a view to evaluating the effect on the economy of a particular place due to the opening of a branch of the State Bank of India a pilot survey of one of the branches of the State Bank of India was undertaken by the Economic and Statistical Research Department of the Bank. It is recommended that this Department should continue to conduct such surveys of the new branches opened by the State Bank. Similarly they may continue to tabulate data regarding the working of the branches on the same lines as was done while furnishing the relative material to this Committee.

C H A P T E E - V

CONCLUSION

As on the 30th June 1960 there were 648 branches and 233 pay offices of the State Bank of India and 317 branches and 48 pay offices of the subsidiary banks in India. There were still 13 non-banking district treasury centres and 766 non-banking sub-treasury centres, within the area of operation of the State Bank of India and 13 non-banking district treasuries and 466 non-banking sub-treasuries within the area of operation of the subsidiary banks. After taking into consideration all the relevant factors, we are of the view that the programmes of expansion of the State Bank of India together with that of the subsidiary banks should be of the order of 300 for the five year period from the 1st July 1960 to the 30th June 1965. These centres should be selected from the rural and semi-urban areas.

From the 1st July 1960 to the 31st December 1960 the State Bank of India had opened 13 branches and had on hand 23 centres where branches remained to be opened. Similarly the subsidiary banks had opened 19 branches during this period and had on hand 62 centres for the opening of branches. In addition there are 51 sub-divisional centres, i.e., centrally located sub-treasury centres referred to earlier, where in our opinion branches of the State Bank of India should be opened. The balance to be selected will therefore be 132. This figure may be divided more or less equally between the State Bank of India and the subsidiaries for their branch expansion programme, but the actual division may remain flexible and branches may be opened in a manner convenient to all the banks.

The State Bank of India and its subsidiaries will, according to the present indications, open about 80 branches during 1960-61. For the next 4 years the pace of expansion for the State Bank and its subsidiaries should be such as will ensure a relative respite during the first two years, and accelerated progress in the last two years. Illustrating, the figures might be 30, 40, 70 and 80 for

1961-62, 1962-63, 1963-64, 1964-65 respectively. We have deliberately recommended a lower pace during the second and third years so that effective steps may be taken during this period to improve the organisational methods, and to recruit and train up the personnel that may be required to man the old as well as the new branches. The State Bank of India and its subsidiaries would require about 300 supervisory staff to be in-charge of the new branches, about 300 Head Cashiers, 600/700 Cashiers and 600/700 Clerks to manage the branches. Progress in respect of the strength, training and organisation of staff is an essential accompaniment of a programme of expansion.

(Sd.) D. G. Karve. 26/4

" B. Venkatappiah

" K. P. Mathrani.

" D. R. Gadgil.

" M.H.Hasham Premji.

APPENDIX 1

Working Results Of The
Branches Opened Under The Expansion Programmes.

Imperial Bank of India

The total deposits of 61 of the new branches of the Imperial bank of India rose from Rs.0.20 crore on December 31, 1951 to Rs.8.57 crores at the end of 1955 and Rs.12.57 crores at the end of December 1959. The average deposits for each new branch also increased continuously from Rs.6.75 lakhs at the end of 1952 to Rs.14.05 lakhs and Rs.20.61 lakhs at the end of 1955 and 1959 respectively.

The total credit extended by 61 of the new branches of the Imperial Bank increased continuously from Rs.0.18 crore on the 31st December 1951 to Rs.3.11 crores at the end of 1954 and Rs.6.84 crores at the end of 1959.

The total amount of remittances issued and encashed by these branches of the Imperial Bank increased at an accelerated rate from Rs.0.49 crore in 1951 to Rs.126.69 crores in 1955 and Rs.228.76 crores in 1959. The average remittances per new branch also rose sharply from Rs.49 lakhs in 1951 to about Rs.2.08 crores in 1955 and Rs.3.75 crores in 1959.

The total Government business handled by these 61 new branches of the Imperial Bank of India increased from Rs.10.2 crores in 1952 to Rs.244.6 crores in 1959.

Through some of the individual new branches of the Imperial Bank made losses, its branch expansion programme as a whole was in profit. Net loss of Rs.39,000 in 1952 on this account was completely wiped out in the following year when its new branches made a nominal total profit of Rs.1,000. Their profit position improved in subsequent years and the net total profit of the new branches of the Imperial Bank increased from Rs. 1.72 lakhs

in 1954 to Rs.4.45 lakhs in 1955 and Rs.12.05 lakhs in 1956. In 1957 the new branches of the Imperial Bank however incurred a net total loss of Rs.2.66 lakhs from which they improved and made a net total profit of Rs.4.68 lakhs and Rs. 1.67 lakhs in 1958 and 1959 respectively. The profit earning ability however declined in the last few years mainly because of the withdrawal of the special concess-
ionary rates on the turnover of the Government account after the completion of the 5 year period.

State Bank of India

The total deposits of the new branches opened by the State Bank of India also increased from Rs.0.56 crore on 31st December 1955 to Rs. 2.94 crores at the end of 1956, Rs.7.89 crores at the end of 1957, Rs.20.01 crores at the end of 1958 and Rs.29.32 crores at the end of 1959.

The total credit extended by the new branches of the State Bank of India also increased continuously from Rs. 0.13 crore on the 31st December 1955 to Rs.1.63 crores at the end of 1956, Rs.2.99 crores at the end of 1957, at the end of 1958, Rs.5.13 crores at the end of 1958, Rs.9.04 crores and Rs.21.47 crores at the end of 1959 and 1960 respectively.

The total remittances issued as well as encashed by the new branches of the State Bank also increased at a very rapid rate from Rs. 6.31 crores in the second half of 1955 to Rs.49.75 crores in 1956, Rs.155.95 crores in 1957 Rs.318.25 crores in 1958 and Rs.567.43 crores in 1959. The average amount of remittances per new branch went up from about Rs.32 lakhs in the second half of 1955 giving an annual rate of about Rs.64 lakhs to Rs.75 lakhs in 1956, Rs.99 lakhs in 1957, Rs.1.21 crores in 1958 and Rs.1.58 crores in 1959. The remittances issued by the new branches of the State Bank of India at par and at premium to

scheduled banks amounted to Rs.91.5 crores and Rs. 16.3 crores respectively during the year ended the 31st March 1960. During the same period the remittances issued to co-operative banks at par and at premium amounted to Rs.22.2 crores and Rs.13.4 crores respectively. The total turnover of Government business of the new branches of the State Bank of India also increased from Rs.42.5 crores in 1956 to Rs.521.9 crores in 1959.

The new branches of the State Bank incurred continuous losses and their total losses increased from Rs.2.89 lakhs in the second half of 1955 to Rs.8.87 lakhs in 1956, Rs.26.19 lakhs in 1957, Rs.47.96 lakhs in 1958 and Rs.56.18 lakhs in 1959. This was mainly a result of very rapid increase in the number of loss making new branches which increased from 17 in 1956 to 54 in 1957, 132 in 1958 and 222 in 1959. The number of profit making branches on the other hand rose slowly from 3 in 1956 to 12 in 1957, 25 in 1958 and 38 in 1959. Out of the 20 branches opened by the State Bank in 1955, 11 branches did not make any profit continuously up to the end of 1959. Only 3 branches made profit in all the years up to 1959. 2 branches made profit in 3 years and loss in one year and 3 branches made profit in 2 years and loss in the other 2 years. Only one branch made profit only in one year and loss in 3 years. Similarly out of the 46 new branches opened in 1956, 35 did not make any profit up to the end of 1959 while 4 branches showed profit during all the years. 74 out of the 91 branches opened during 1957 also did not show profit up to the end of 1959. Only 10 branches from that group made profit continuously up to the end of 1959. Only 7 out of 105 new branches opened in 1958

showed profit in 1959; all others incurred loss during that year.

Subsidiary Banks

As almost all the branches of the subsidiary banks under their expansion programme were opened in 1960 and have not completed even one full calendar year, it is not possible to review the working results of these branches.

APPENDIX II

Particulars of non-banking sub-treasury centres in former Part "A" & "C" States considered to be centrally situated and in a position to serve contiguous sub-treasury centres.

State	District	Name of the centre	S.T.	Popula- tion (1951 Census)	Turnover on Govt. a/c during 1959- 60 (Rs. in lakhs)	Whether selected head- quarters for set- ting up of C.D./ warehouse P.L. Central/ State.	Whether of C.D./ N.E.S. Block.	Banking facilities			Remarks
								Scheduled (Name of the bank)	Non- scheduled	Co-op- erative	
Andhra Pradesh	Anantapur	1. Rayadrug	S.T.	19,738	91.42 (1958-59)	No.	-	Canara Banking Corporation (B) S.B.I. (P.O.)	-	-	-
	Kurnool	* 2. Atmakur	S.T.	10,960	32.12 (1958-59)	No.	P.I. (1952-53)	-	-	-	-
	Nellore	3. Koilkuntla	S.T.	6,758	25.04 (58-59)	No.	-	-	-	-	-
		* 4. Kanigiri	S.T.	8,321	31.98	"	No.	-	-	-	-
		5. Udayagiri	S.T.	4,395	23.08	"	No.	N.E.S. (1956-57)	-	-	-
	Srikakulam	* 6. Sompeta	S.T.	9,558	93.70	"	No.	-	-	-	-
		7. Tekkali	S.T.	10,036	46.93	"	No.	N.E.S. (1959-60)	S.B.I. (P.O.)	-	-
Bihar Gujarat	Banchi	* 1. Gumla	S.T.	N.A.	106.43	"	No.	-	-	-	1
	Banaskantha	1. Kadhampur	S.T.	11,970	45.66	No.	-	Bank of Baroda	(B)	-	-
		* 2. Tharad	S.T.	6,584	35.54	No.	-	-	-	-	-
	Bhuj	* 3. Kappar	S.T.	3,587	19.28	No.	-	-	-	-	1
		* 4. Nali	S.T.	N.A.	22.43	No.	-	-	-	-	1
	Baroda	* 5. Jambugaon (Pavijetpur)	S.T.	N.A.	25.89	No.	-	-	-	-	-
	Surat	6. Banasda	S.T.	4,455	47.50 (58-59)	No.	-	-	-	-	1
7. Mangrol		S.T.	N.A.	21.15	"	No.	N.E.S. (1958-59)	-	-	-	-
Maharashtra	Ahmednagar	8. Valud	S.T.	N.A.	37.50	"	No.	-	-	-	-
		1. Shevgaon	S.T.	7,269	31.04	No.	-	-	-	-	1
	Kolaba H.Q. at Alibag	2. Jamkhed	S.T.	7,025	15.26	No.	-	-	-	-	1
		3. Kaha	S.T.	6,880	52.47	No.	N.E.S. (1957-58)	S.B.I. (T.P.O.)	-	-	1

State	District	Name of the Centre	S.T.	Population	Turnover on Govt. a/c during 1959-60 (Rs. in lakhs)	Whether selected for setting up warehouse Central/ State.	Whether head-quarters of C.D./ P.L. N.E.S. Block.	Banking facilities			Remarks	
								Scheduled (Name of the bank)	Non-scheduled	Co-operative		
Maharashtra (Contd.)	Kolhapur	* 4. Gandhinglaj	S.T.	8,546	30.28	No.	-	Belgaum Bank (B)	-	2	-	
	South Satara	* 5. Valva (Islampur)	S.T.	16,118	1,21.15	No.	-	-	1	1	-	
	North Satara	* 6. Wai	S.T.	16,099	1,03.08	No.	C.D. (1954-55)	-	-	-	2	-
	Sholapur	7. Karmala	S.T.	8,206	2,21.13	No.	N.E.S. (1957-58)	Miraj State Bank (B)	1	-	-	-
		8. Sangola	S.T.	7,697	58.26	No.	-	-	-	-	-	-
Madhya Pradesh	Bastar H.Q. at Jagdalpur	1. Dantewara	S.T.	N.A.	24.84	No.	N.E.S. (1956-57)	-	-	-	-	-
	Kaigarh	* 2. Jashpurnagar	S.T.	4,388	47.78	No.	--do--	-	-	-	-	-
		3. Sarangarh	S.T.	7,721	39.29	No.	N.E.S. (1959-60)	S.B.I. (P.O.)	-	-	1	-
	Surguja	4. Surajpur	S.T.	N.A.	26.61	No.	-	-	-	-	1	-
	Bhopal	5. Silwani	S.T.	N.A.	21.84	No.	N.E.S. (1954-55)	-	-	-	-	-
Madras	Kamanathapuram H.Q. at Mathurai	* 1. Devakottai	S.T.	25,949	79.07 (1958-59)	No.	N.E.S. (1956-57)	Indian Bank (B) Indian Overseas Bank (B)	3	-	-	-
Orissa	Cuttack	1. Banki	S.T.	4,956	44.43	No.	-	-	-	-	1	-
Uttar Pradesh	Allahabad	1. Karchana	S.T.	N.A.	43.22	No.	N.E.S. (1956-57)	-	-	-	-	-
	Azamgarh	2. Ghosi	S.T.	N.A.	81.72	No.	P.L. (1952-53)	-	-	-	-	-
	Barabanki	* 3. Fatehpur	S.T.	8,142	39.99	No.	-	-	-	-	-	-
	Basti	* 4. Domariaganj	S.T.	N.A.	84.61	No.	N.E.S. (1956-57)	-	-	-	-	-
	Budaun	* 5. Sahaswan	S.T.	21,107	40.46	No.	N.E.S. (1957-58)	-	-	-	-	-

State	District	Name of the Centre	S.T.	Population (1951 Census)	Turnover on Govt. a/c during 1959-60 (Rs. in lakhs)	Whether selected for setting up warehouse Central/State.	Whether head-quarter of C.D./ P.L. N.E.S. Block.	Banking facilities			Remarks	
								Scheduled (Name of the bank)	Non-scheduled	Co-operative		
Uttar Pradesh (Contd.)	Etah	* 6. Jalesar	S.T.	13,491	31.83	No.	N.E.S. (1957-58)	S.B.I. (P.O.)	-	-	-	
	Garhwal H.Q. at Pauri	* 7. Lansdowne	S.T.	4,419	1,28.91	No.	-	-	-	-	-	
	Gorakhpur	8. Pharenda	S.T.	N.A.	62.95	No.	N.E.S. (1956-57)	-	-	-	-	
	Hamirpur	9. Kath	S.T.	13,852	79.68	No.	C.D. (1954-55)	-	-	1	-	
	Jaunpur	10. Mariahu	S.T.	4,478	39.57	No.	-	-	-	-	-	
	Kanpur	11. Bhognipur	S.T.	3,769	46.40	No.	-	-	-	-	-	
	Kheri (Lakhimpur Kheri)	*12. Muhamdi	S.T.	8,442	42.84	No.	N.E.S. (1956-57)	-	-	-	-	
	Lucknow	*13. Malihabad	S.T.	7,604	53.61	No.	-	-	-	-	-	
	Mathura	*14. Chhata	S.T.	7,514	61.65	No.	-	-	-	-	-	
	Pratapgarh	15. Kunda	S.T.	N.A.	64.95	No.	N.E.S. (1956-57)	-	-	-	-	
	Unnao	16. Safipur	S.T.	6,792	26.80	No.	-	-	-	-	-	
	Varanasi	17. Chakia	S.T.	3,798	37.06	No.	-	-	Banaras State Bank (B)	-	-	
	West Bengal	Cooch Bihar*	1. Dinhat	S.T.	5,848	88.99 (1958-59)	State	P.I. (1953-54)	-	-	-	-
	Himachal Pradesh	Mahasu	1. Kotkhai	S.T.	N.A.	11.07	-	N.E.S. (1956-57)	-	-	-	-
	Tripura	Agartala	1. Amarpur	S.T.	N.A.	14.40	-	-	-	-	-	-

* These centres are included in the list of 150 centres forwarded to the State Bank of India.

APPENDIX 111
Integration & Development
Fund

Section 36 of the State Bank of India Act which governs the provision relating to the Integration and Development Fund reads as follows:-

36. (1) The State Bank shall maintain a special fund to be known as the Integration and Development Fund into which shall be paid -
- (a) the dividends payable to the Reserve Bank on such shares of the State Bank held by it as do not exceed fifty-five per cent of the total issue capital; and
 - (b) such contribution as the Reserve Bank or the Central Government may make from time to time.
- (2) The amount in the said Fund shall be applied exclusively for meeting -
- (a) losses in excess of such yearly sum as may be agreed upon between the Reserve Bank and the State Bank and attributable to the branches established in pursuance of sub-section (5) of section 16;
 - (aa) subsidies granted by the State Bank to a subsidiary bank with the approval of the Reserve Bank; and
 - (b) such other losses or expenditure as may be approved by the Central Government in consultation with the Reserve Bank.
- (3) Subject to the provisions of sub-section (2), the said Fund shall be the property of the Reserve Bank and no shareholder of the State Bank or any other person shall have any claim to the amount held in the said Fund.
- (4) No amount applied for any of the purposes specified in sub-section (2) shall, for the purposes of the Indian Income-tax Act, 19 be treated as income, profits or gains of the State Bank.

The manner in which the fund should be operated upon was discussed in 1957 between the Reserve Bank and the State Bank and certain arrangements were agreed upon in this regard to meet losses in respect of additional branches opened by the State Bank pursuant to the statutory obligation imposed upon it under section 16 (5) of the State Bank of India Act, to open not less than 400 additional branches

within five years from the 1st July 1955. Briefly stated, the arrangements stipulate that out of the losses of its new offices opened since the 1st July 1955 the State Bank should bear losses every year equal to a sum of Rs.15 lakhs plus 20 per cent of such losses in excess of that amount. The rest of the losses is to be met out from the Integration & Development Fund. The operations of the Fund so far are given below:-

Year	Total No. of new branches as on 31st Dec.	Credit to the Fund for the year	Net loss at the branches (after taking into account profits at profit earning branches)	Loss borne by the			
				Fund		State Bank	
		Rs.	Rs.	For the year	Progressive total	For the year	Progressive total
				Rs.	Rs.	Rs.	Rs.
1955 (half year)	20	24,75,005	2,88,849	-	-	2,88,849	2,88,849
1956	66 *(46)	49,50,000	8,87,044	-	-	8,87,044	11,75,893
1957	157 (91)	49,50,000	26,18,526	8,94,821	8,94,821	17,23,705	28,99,598
1958	262 (105)	49,50,000	47,96,360	26,37,088	35,31,909	21,59,272	50,58,870
1959	359 /- (97)	61,87,500	56,18,318	32,94,654	68,26,563	23,23,664	73,82,534

*Figures in brackets in column (2) show the number of branches opened during the year.

-The increase in the amount credited to the Fund is due to the payment of a higher dividend (@ 20%) for 1959, which is, so far as Reserve Bank is concerned, free of tax.

It will be seen that out of the total losses of Rs.1,42,09,097, the Fund has borne Rs.68,27 lakhs up to the end of 1959. The balance in the Fund after meeting losses for 1959 stood at Rs.1,66,85,937.

The arrangements are due for review now.

On the question whether losses on agreed basis in respect of branches opened after 30th June 1960 could be met out of the Fund, the legal opinion is that losses at such branches could be so met after obtaining the

approval of the Central Government under section 36 (2) (b) of the Act and no amendment in the State Bank of India Act is necessary for the purpose. There is no restriction in the State Bank of India Act and in the existing arrangements in regard to the operation of the Fund as to the period up to which losses on these branches are to be met from the Fund.

In terms of clause (a) of sub-section (1) of section 48 of the State Bank of India (Subsidiary Banks) Act, 1959 a subsidiary bank may accept any subsidy offered by the State Bank of India to meet cost of whole or any part of any specific programme of development undertaken by that subsidiary bank with the approval of the State Bank of India. Further under section (aa) or sub-section (2) of section 36 of the State Bank of India Act, 1955 the amount in the Integration and Development Fund ~~maintained~~ maintained under that section may be applied for meeting subsidies granted by the State Bank of India to a subsidiary bank with the approval of the Reserve Bank.

In the context of the extension of banking facilities on a large scale more particularly in the rural and semi-urban areas of the former Part B States through the branch expansion programme of the subsidiary banks, it was considered necessary to settle the general criteria to be adopted for granting subsidies out of the Integration and Development Fund for meeting the cost of the whole or any part of any specific programme of development undertaken by subsidiary banks with the approval of the State Bank. In view of the financial position of the subsidiary banks arrangements, in a way somewhat different from those in respect of the subsidy payable to the State Bank of India have been determined in regard to payment of subsidies to these banks in respect of losses incurred by

the new branches opened under their expansion programme. Briefly the arrangements stipulate that the losses in respect of each new branch opened pursuant to the development programmes of the subsidiary banks could be met entirely out of the Integration and Development Fund for the first five years from the date of opening of such branches and thereafter ^{they} ~~it~~ would be shared between the subsidiary banks and the Fund in the next four years on a tapering scale as under:-

	<u>the Fund</u>	<u>the subsidiary bank</u>
For the sixth year	4/5th of the amount of loss	1/5th of the amount of loss
For the seventh year	3/5th of the amount of loss	2/5th of the amount of loss
For the eighth year	2/5th of the amount of loss	3/5th of the amount of loss
For the ninth year	1/5th of the amount of loss	4/5th of the amount of loss

From the tenth year of the opening of a branch no subsidy will be granted out of the Fund. Only the losses attributable to the branches opened by a subsidiary bank after the date of introduction of the State Bank of India (Subsidiary Banks) Bill, 1959 in the Lok Sabha (i.e. the 4th March 1959) will be taken into account for purposes of the subsidy. The arrangement agreed upon in the case of each subsidiary bank in regard to the provision of subsidy will be reviewed at the end of five years from the commencement of the arrangement i.e. after March 1964.