

Section 42(1) in The Reserve Bank Of India Act, 1934

(1) 1[Every bank included in the Second Schedule shall maintain with the Bank an average daily balance the amount of which shall not be less than 2[three per cent. of the total of the demand and time liabilities] in India of such bank as shown in the return referred to in sub-section (2): 3[Provided that the Bank may, by notification in the Gazette of India, increase the said rate to such higher rate as may be specified in the notification so however that the rate shall not be more than 13[twenty percent] of the total of the demand and time liabilities.]
Explanation.-- For the purposes of this section,--

(a) " average daily balance" shall mean the average of the balances held at the close of business on each day 10[of a fortnight];

(b) 10[" fortnight" shall mean the period from Saturday to the second following Friday, both days inclusive]

(c) 4[" liabilities" shall not include--

(i) the paid- up capital or the reserves or any credit balance in the profit and losses account of the Bank.

(ii) the amount of any loan taken from the Bank or from the Development Bank 8[or from the Exim Bank] or from the 9[National Bank] 11[or from the Reconstruction Bank] 12[or from the National Housing Bank] 14[or from the small Industries Bank] 6[;

(iii) in the case of a State co- operative bank. also any loan taken by such bank from a State Government 14[or from the National Co- operative Development Corporation established under the National Co- operative Development Corporation Act, 1962] and any deposit of money with such bank representing the reserve fund or any part thereof 13[maintained with it by any co- operative society within its area of operation;]

(iv) 14[in the case of a State co- operative bank, which has granted an advance against any balance maintained with it, such balance to the extent of the amount outstanding in respect of such advance;]

(v) 16[in the case of a Regional Rural Bank, also any loan taken by such bank from its Sponsor Bank;]

(d) 15[the aggregate of the " liabilities" of a scheduled bank which is not a State co- operative bank, to,--

(i) the State Bank;

1. Subs. by Act 38 of 1956, s. 5, for the former sub- section (1) (w. e. f. 6- 10- 1956). 2. Subs. by Act 35 of 1962, s. 4, for certain words. 3. Subs. by s. 4, *ibid.*, for the proviso. 4. Subs. by Act 9 of 1991 s. 2, for " fourteen per cent." (w. e. f. 25- 1- 1991). 5. Subs. by Act 1 of 1984, s. 6, for cl. (b) (w. e. f. 29- 3- 1985). 6. Subs. by s. 6, *ibid.*, for cl. (b) (w. e. f. 29- 3- 1985). 7. Subs. by Act 23 of 1965, s. 6, for cl. (c) (w. e. f. 1- 3- 1966). 8. Ins. by Act 28 of 1981 s. 40 and Sch II (w. e. f. 1- 1- 1982). 9. Subs. by Act 61 of 1981 s. 61 and Sch II, for certain words (w. e. f. 12- 7- 1982). 10. Ins. by Act 53 of 1987, s. 56 and Sch. II (w. e. f. 9- 7- 1988). 11. Ins. by Act 62 of 1984, s. 71 and Sch III (w. e. f. 20- 3- 1985). 12. Ins. by Act 39 of 1989, s. 53 and second Sch (w. e. f. 7- 3- 1990). 13. Certain words omitted by Act 51 of 1974, s. 11. 14. Subs. by Act 10 of 1984, s. 6, for certain words (w. e. f. 29- 3- 1985). 15. Ins. by Act 51 of 1974 s. 11, *ibid.* 16. Ins. by Act 1 of 1984 s. 6, (w. e. f. 29- 3- 1985).

(ii) a subsidiary bank as defined in section 2 of the State Bank of India (Subsidiary Banks) Act 1959 (38 of 1959);

(iii) a corresponding new bank constituted by section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);

(iiia) 1[a corresponding new bank constituted by section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980);]

(iv) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

(v) a co- operative bank; or

(vi) any other financial institution notified by the Central Government in this behalf, shall be reduced by the aggregate of the liabilities of all such banks and institutions to the scheduled bank;

(e) the aggregate of the " liabilities" of a scheduled bank which is a State Co- operative Bank, to,--

(i) the State Bank;

(ii) a subsidiary bank as defined in section 2 of the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959);

(iii) a corresponding new bank constituted by section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);

(iiia) a corresponding new bank constituted by section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980);]

(iv) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949) or

(v) any other financial institution notified by the Central Government in this behalf, shall be reduced by the aggregate of the liabilities of all such banks and institutions to the State co- operative bank.]