CHAPTER-4

ORGANIZATION, MANAGEMENT AND ADMINISTRATION OF
THE NAINITAL BANK LTD. AND ITS FINANCIAL IMPLICATIONS

(i) MEANING AND CONCEPT

Meaning and Concept of Organisation

Organization embraces, the duties of designing the departments and the personnel that are to carry on the work, defining their functions and specifying the relations which are to exist between the departments and individuals.

In its broad sense organization refers to the relationship of various factors present in The Nainital Bank Ltd. Economic activities of this bank involve various factors like, financial resources and human resources. These various factors are brought together in some definite relationship in order to achieve the best result.

In the narrower sense organization of a bank means such structure of duties and activities which are necessary for the conduct of banking business efficiently. The need for organization arises only when there is a group of people working towards a common goal. In The Nainital Bank Ltd. all activities have been grouped properly. The principle of division of labour has been applied to determine as to what are the various parts of the job and who can do a particular part best. Steps have been taken to see that each one is doing his job well and is working in tune with the rest of the people. The Nainital Bank Ltd. is a registered company.
Meaning and Concept of Management

Management is planning, organising, staffing, controlling, motivating and coordinating the activities of an enterprise. The Nainital Bank Ltd. is owned by shareholders. The Board of Directors and other officials of the Bank are known as Management of The Nainital Bank Ltd. The Board of Directors constitutes the top administrative organ. The directors are not always whole time officials of the bank. Some of them may be only part time directors. The Chairman of the Board of Directors serves as a link between the Board of Directors on one side and operating organization on the other, his work consists of implementing the policy decisions. The Board of Directors deals with the important problems of the bank.

The Chairman receives instructions from Board of Directors of the bank and conveys them to the Senior Officers who are incharge of various departments.

Meaning and Concept of Administration

Administration refers to the higher and policy determining levels. Administration is concerned with the determination of overall corporate objectives, policies and master strategies it concentrates on the coordination of finance, production and distribution.

Administration of The Nainital Bank Ltd. refers the activities of “The higher level of the management group who determine major aims and policies, lay down the principles, prepares the frame work under which the employees
are instructed to perform the duties". Administrative wing of The Nainital Bank Ltd. consists of managerial group i.e. Chairman, General Manager, Assistant General Managers, Chief Manager and other officials who are entrusted with the duties of administration.

(ii) ORGANISATIONAL STRUCTURE

Organization is the process of dividing work into different tasks and duties as planned by the management of the bank within its objectives.

Organizational structure of The Nainital Bank Ltd. is the framework within which managerial and operating tasks are performed.

The Registered Office of the bank is situated at Nainital, Uttar Pradesh. The liability of the members of the company i.e. The Nainital Bank Ltd. is limited. The authorised share capital of the bank is Rs. 1,00,00,000 which is divided into 1,00,00,000 equity shares of Rs. 10/- each. Its issued, subscribed, called up and paid up capital is Rs. 1,00,00,000 which is divided into 10,00,000 equity shares of Rs. 10/- each.

The objectives of The Nainital Bank Ltd. according to its Articles of Association are as under:

- "a) To make advances to customers and others with or without security and upon such terms as the Company may approve and generally to act as Bankers for customers and others.

- "b) To make advances on cash credit accounts to persons giving proper security or giving a guarantee of one or more sufficient parties or on mortgage of real and immovable property or on the movable property of any description.

1 Source: Business Administration and Management, Dr. S.C. Saksena, Sahitya Bhawan, Agra, 1992, p. 12.
c) To make, purchase, accept, endorse, execute and discount, promissory notes, bills-of-exchange, hundies and other negotiable instruments.

d) To receive deposit in cash and allow interest thereon at such rate as from time to time shall be fixed by the Board of Directors.

e) To purchase and sell coin, bullion and Government securities.

f) To invest and deal with the money of the Company not immediately required in or upon such securities and in such manner as may from time to time be determined.

g) To carry out other business as is usually transacted by Bankers including money Agency (subject always to such rules and restrictions as the members at any ordinary meeting or at any extraordinary meeting may from time to time direct or sanction) but the Company shall not engage in mercantile speculations, or in the purchase of real estate, except when the Company is compelled to do, so as a mortgagee or pledgee of property or in the execution of its own decree or under a private contract with a mortgagor or debtor to the Company and to sell, improve, manage, develop or exchange, the said property, provided always that nothing herein contained shall be held to preclude the Company from taking on a term of years premises suitable for the purpose of their business, or from purchasing and selling securities of the Government of India, or Gold or Silver billion or approved shares, bills or debentures.

h) (i) To Borrow, raise or take up money for the purpose of the Company’s business.

i) The doing all such other things as are incidental or conductive to the attainment of the above objects.

j) To amalgamate, sell or in any other manner deal with or dispose of the property, assets or undertaking of the company, or any part thereof for such consideration as the company may think fit and in particular for shares, debentures and other securities of any other company having objects altogether or in part similar to those of this company and in the event of amalgamation with or absorption in any such other company to have such shares, securities or debentures issued or allotted to the share holders of this company1.

1 Source : Memorandum and Articles of Association of The Nainital Bank Ltd.
Branches of the Bank

The Nainital Bank Ltd. has opened 51 branches of the bank; the details of such branches are as under:

<table>
<thead>
<tr>
<th>State</th>
<th>No. of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uttar Pradesh</td>
<td>44</td>
</tr>
<tr>
<td>Haryana</td>
<td>1</td>
</tr>
<tr>
<td>Delhi</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>

Besides above, the bank has opened two extension counters at the following centers:

a) M.B. Degree College, Haldwani  
b) Indraprastha Extension, Delhi

The branches discharge the banking functions by accepting deposits from the public for the purpose of lending to the public for trade and commercial activities or investing the same.

Structure of Staff

The branches are managed by branch manager/officer. In the branch, the structure of the staff usually comprises as under:

- Branch Manager: 1
- Asstt. Manager: 1 (If required)
- Head Cashier: 1
- Special Assistant: 1 (If required)
- Clerk/Typist: As per size of the branch
- Daftary: 1
- Peon: As per size of the branch
There are two Head Offices working in the bank one is situated at Nainital and another at Haldwani. The structure of staff in the Head Office of the bank comprises as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman and Chief Executive Officer</td>
<td>1</td>
</tr>
<tr>
<td>General Manager</td>
<td>1</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>1</td>
</tr>
<tr>
<td>Asstt. General Managers</td>
<td>2</td>
</tr>
<tr>
<td>Chief Manager</td>
<td>1</td>
</tr>
<tr>
<td>Sr. Managers</td>
<td>As per requirement</td>
</tr>
<tr>
<td>Manager</td>
<td>As per requirement</td>
</tr>
<tr>
<td>Officers</td>
<td>As per requirement</td>
</tr>
<tr>
<td>Clerks/Typists</td>
<td>As per requirement</td>
</tr>
<tr>
<td>Peons</td>
<td>As per requirement</td>
</tr>
</tbody>
</table>

The managers/officers are responsible for their duties relating to their departments. The Head Office located at Nainital comprises following departments:

- Personnel Department
- Accounts Department
- Advances/Recovery Department
- Premises Department
- Legal Department
- P.F./Gratuity/Pension Department
- Services Department/Hindi Department

The Head Office located at Haldwani comprises the following departments:

a) Inspection Department
b) Reconciliation Department

In every department there is one head of the department other than Sr. Manager/Manager/Officers, Clerks and Peons for the controlling/monitoring.

The bank does not deal in Foreign Exchange/Foreign Trade hence no department has been created for this purpose.
The total strength of the staff of the bank is 585 as on 31-3-1997. The bank has its own training center at Haldwani for provision of facilities for training of its staff. Besides this bank is deputing, its officers for various training programmes to Northern India Banks' Staff Training Center, New Delhi, Banker Training College, Bombay, etc.

(iii) MANAGEMENT AND ADMINISTRATION

The management of The Nainital Bank Ltd. is vested in a Board comprising eleven Directors. Reserve Bank of India nominates two Directors and two Directors are nominated by Bank of Baroda (who has major holding in the bank) while the remaining Directors are selected by the shareholders from different categories. "Section 10 A of The Banking Regulation Act, 1949 prescribes the eligibility of persons who may be appointed as Directors of a Bank. Every banking company is required to constitute its Board of Directors in such a way that not less than 51% of the total number of members of the board shall consist of persons who satisfy the following conditions:

a) They have special knowledge or practical experience in respect of one or more of the following matters, namely (i) accountancy, (ii) agriculture and rural economy, (iii) banking, (iv) cooperation, (v) economics, (vi) finance, (vii) law, (viii) small scale industry or any other matter which, in the opinion of Reserve Bank of India would be useful to the banking company.

They do not have substantial interest in, or be connected with, (whether as employee, manager or managing agent) any company not being a company registered under section 25 of The Companies Act, 1956 or any firm which carries on any trade, commerce or industry and which in either case is not a
small scale industrial concern or proprietor of any trading commercial or industrial concern not being a small scale industrial concern”¹.

The another qualification of a Director of The Nainital Bank Ltd. is that he is also holding equity shares in the company of the nominal value of Rs. 1000/- . The Nainital Bank Ltd. has constituted its Board of Directors in accordance with above provisions.

The Chairman of the bank has been appointed in accordance with provisions of section 10 B of the Banking Regulation Act, 1949. He is entrusted with the management of whole of the affairs of the bank, he exercises his powers subject to the superintendence, control and direction of the Board of Directors, a person is disqualified for appointment as Chairman if he:

a) is a director of a company other than a subsidiary company of the banking company or a company registered under section 25 of The Companies Act, 1956; or

b) is a partner of any firm which carries on any Trade, business or industry; or

c) has substantial interest in any other company or firms; or

d) is engaged in other business or vocation.

The appointment of the chairman is made with the satisfaction of Reserve Bank of India. "Section 12 A of the Banking Regulation Act, 1949 confers on Reserve Bank of India the power to require any banking company to call a general meeting of the share holders of the company within the prescribed time to elect, in accordance with the voting rights permissible under the Act, fresh directors. The banking Company shall be bound to comply with such

¹ Source: The Banking Regulation Act, 1949.
order. The director thus elected will continue for the unexpired period of office of his predecessor”. Prior approval of the Reserve Bank of India is necessary for the appointment, re-appointment or termination of the appointment of a chairman, or a whole time director, or chief executive officer.

“A Director, other than the Chairman of the Board, may at any time resign from his office by giving a notice in writing to the Bank of his intention to do so, and there upon his office shall be vacated.

The Chairman of the Board of Directors may, by writing under his hand addressed to the Bank, resign from his office but shall continue in office until his successor assumes office.

The powers and duties of Directors are as under:

a) To purchase or otherwise acquire for the company any property rights or privileges necessary.

b) To erect, construct or otherwise provide any offices, building, furniture and effects necessary or convenient for the purpose of company.

c) To appoint such officers, clerks and servants for permanent, temporary or special services as they may from time to time think fit and to determine their duties and fix and vary their salaries or emoluments, and to require security in such instances and to such amount as they think fit and at their discretion to remove or suspend him.

d) To institute, conduct, defend, compound or abandon any legal proceedings by and against the company or its officers or otherwise concerning the affairs of the company and also to compound and allow time for payment or satisfaction of any debts due and of any claims or demands by or against the company.

e) To determine who shall be entitled to sign on the company’s behalf bills, notes, receipts, acceptances, endorsement, cheque releases, contracts and documents.

f) To make and give receipts, releases and other discharges for money payable to the company and for claims and demands of the company.
g) To refer any claims or demands by or against the company to arbitration and to observe and perform and enforce performance of the awards.

h) To liquidate the company.

i) At any time and from time to time, by power of Attorney under company's seal to appoint any person or persons to be the Attorney or Attorneys of the company for such purposes as the Directors think fit.

j) To invest and deal with any of the moneys of company in such shares and securities and such manner as they may think fit and from time to time vary or realise such investments.

k) To borrow or raise such sums of money as they think necessary from time to time for the purposes of the company's business.

l) To maintain a provident fund/gratuity fund for the benefit of the Bank's employees”.

The Directors comply with the provisions of The Companies Act, 1956. The Directors cause minutes to be made in books provided for the purpose and every Director present at any meeting of the Directors signs his name in a book to be kept for that purpose at the ordinary meeting and in every subsequent meeting, one third of the Directors for the time being, or, if their number is not three or a multiple of three then the number nearest to one third retire from office. The retiring Director is eligible for re-election. The quorum necessary for transaction of the business of the Directors is fixed by the Directors, and unless so fixed is three.

According to Section 166 of The Companies Act, 1956 every company shall in each year hold in addition to any other meeting a general meeting as its annual general meeting and shall specify the meeting as such in the notices.

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calling it and not more than 15 months shall elapse between the date of one annual general meeting of a company and that of the other.

Registrar may, for any special reason, extend the time of annual, general meeting (not being the first annual general meeting) by a period not exceeding three months.

The annual general meeting is called by giving not less than twenty one days notice in writing to every member of the company and auditor/auditors. The Nainital Bank Ltd. holds the annual general meeting in accordance with the provisions of The Companies Act, 1956.

The annual general meeting is held for consideration of adoption of annual accounts together with the report of Directors and Auditors, for declaration of dividend, appointments of Directors in place of those retiring and fixing of remuneration of Auditors. No business can be transacted at any general meeting unless a quorum of five members is present. The Chairman of the Board of Directors preside as Chairman at every general meeting of the bank.

All general meetings other than annual general meetings of the bank are called extraordinary general meetings. Directors of the bank may whenever think fit, call an extraordinary. General meeting of the company as provided by Section 169 of The Companies Act, 1956.

"Administration refers to general administration of the bank. It includes functions relating to staff viz., recruitment, remuneration, placements, training, promotions, transfers, discipline, termination of service, appeals, retirement, and
vigilence"¹. The Nainital Bank Ltd. has a department for the overall administration which functions under the overall charge of the General Manager/Assistant General Manager.

Two methods for recruitment of employees are adopted in this bank.

a) Direct recruitment
b) Promotion from lower cadre to higher one

For recruitment of staff vacancies are advertised in Regional/National Newspapers. A written test is conducted latter on. Those candidates who qualify the written test are called for personal interview. After interview the candidates are selected according to merit and after completion of satisfactory probation period of service the employees are confirmed in the bank service. The employees are upgraded after completion of few years’ service fixed by the bank for this purpose. Written tests/interviews are also conducted in this connection.

The remuneration is paid to the employees as per guidelines of Indian Banks’ Association for services rendered by them. The staff department of The Nainital Bank Ltd. is responsible for policy matters concerning the training strategy for all categories of employees and assessment of training need etc.

The staff department of the bank is deputing its staff members for various training programmes to NIBSTC, BTC, NIBM, Bank of Baroda Training Centers and Nainital Bank Staff Training Center. The vigilence cell is looking into the matters relating to complaints.

The advances department is entrusted with the duties of sanctioning, recovery and overall supervision, monitoring of loans granted by the branches. The department controls over the advances through various informations supplied by branches vide various periodical returns. Different circulars are issued by the advances department to all branches for any change in the policy/rules of lending, made by Reserve Bank of India from time to time.

Inspection department of the bank conducts inspection of the books and accounts of the branches to detect violation/contravention of legal requirement to protect the interest of depositors/customers, to check whether lending norms are followed correctly and to appraise management policies.

The inspection is carried out by inspecting officers of the department. After completion of inspection, the inspectors suggest the possible scope for development of business of the branch along with comments on function and working of the branches.

**Financing Implications**

The financial statements of the bank have been prepared on the historical cost basis and according to statutory provisions and practices prevailing in the banking sector of the country. The financial implications of the bank are as under:

1. **Classification of Advances**

   The important financial implication is classification of advances into performing and non performing categories. During the years 1995-96, 1996-97 performing and non performing categories of advances were based on the
record of recovery of interest/instalments as against advances for Rs. 25000/- and above only has been segregated between performing and non-performing categories during last year.

2. **Classification of Non-performing Advances**

Non-performing advances are classified into substandard, doubtful and loss assets according to Reserve Bank of India guidelines.

Identification of all non-performing advances has been done as per the Reserve Bank of India guidelines with reference to non-recovery of interest/instalments for two quarters.

3. **Provisions on Advances**

   a) Provision for non-performing advances are quantified in accordance with various circulars, and guidelines of Reserve Bank of India and on the basis of review of individual accounts.

   b) While calculating the advances other than sub standard accounts covered by DICGCI, preference is given for DICGCI cover available over tangible securities as per the option given in Reserve Bank of India guidelines. Another implication is determination of provisions for non-performing advances outstanding below Rs. 25000/- during the year 1996-97 has been made on case to case basis as per Reserve Bank of India norms as against adhoc provision @10% made in the previous year on the aggregate of all advances outstanding below Rs. 25000/- without distinguishing between performing and non-performing advances.

   c) While arriving at provisions required for substandard non-performing advances, the availability of securities and DICGCI cover has been ignored as per Reserve Bank of India guidelines advised during the year 1996-97 as against taking part cognizance of such factor during 1995-96.

   d) All provisions for advances have been deducted from advances and the reserve created under Section 36(l), (vii) (a) of the Income Tax Act, 1961, which is over and above the said provisions has been shown under the head reserve and other reserves.
4. Financial Implications in Respect of Revenue Recognition

a) Interest on advances is accounted for an accrual basis except in case of Non-performing Assets (NPA) ascertained in accordance with SAP 3(b). (i) Where as per Reserve Bank of India guidelines, the interest is accounted for on realisation basis.

b) Interest on investment is accounted for on accrual basis while dividend income is recognised on receipt basis.

c) Commission, exchange and commission and brokerage are accounted or as income on realisation.