CORPORATE GOVERNANCE DISCLOSURE PRACTICES: A CASE STUDY OF J&K BANK LTD

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ABSTRACT

The increasing number of corporate scandals, frauds and failures in the last few years has raised a big question mark on the effectiveness of current corporate governance (CG) structures of businesses, financial institutions and banks. Consequently, CG disclosure practices have received much attention and have become a fundamental theme of the modern corporate regulatory system. This is also envisaged by the recent provisions of the SEBI's "Revised Clause 49 of the Listing Agreement", which encompasses providing information by a company to the public in a variety of ways. Growing importance is also being accorded to governance in banks by the Reserve Bank of India in recent years. In view of the importance of the banking system for financial stability, sound corporate governance and disclosure practices are not only relevant at the level of individual banks, but are also critical ingredients at the system level. Effective risk management systems determine the health of financial system and its ability to survive shocks. This paper is an attempt to look into some important aspects relating to corporate governance disclosure practices in banks with special reference to the Jammu and Kashmir Bank Limited. The paper is essentially a descriptive study the basic foundation of which comes from the Annual Report 2011-12 of the bank and various websites .The paper reveals that disclosure practices of the bank are very much in line with the guidelines as prescribed by the RBI and Clause 49 of the Listing Agreement of the SEBI. An examination of the financial statements reveals that J&K Bank has performed well and is in the forefront of implementation of best CG practices in the Indian banking sector.

Key words: Corporate Governance, Disclosure Practices, Risk Management, J&K Bank.

Introduction

Banking system and the Financial Institutions play a significant role in the economic development of a country. The modern economies have developed primarily by making best use of the banking systems. An efficient banking system must cater to the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units. Rural sector in a country like India can grow only if cheaper credit is available to the farmers for their short and medium term needs. Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and adequate credit for infrastructure projects. The banks and the financial institutions also cater to another important need of the society i.e. mapping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds. In addition to the above traditional role, the banks and the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of

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various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the service provided by the banks is commendable. Thus, fundamentally, banking system is about creating value for stakeholders. But, unfortunately, corporate scandals/banking frauds in the recent past shook the confidence of stakeholders and the wave of these scandals/frauds has had long-lasting and far-reaching impacts on the global economy. The impacts of scandals/frauds are not limited to the investors and employees of those companies involved. The externalities of this misbehavior spill over to the entire world, affecting both publicly traded companies and privately held ones as well. Thus, economic scandals and the recent financial crisis made it essential to investigate the role of Corporate Governance on bank performance.

In the context of India, the Reserve Bank is continuously striving to ensure compliance with international standards and best practices of corporate governance in banks as relevant to India. RBI is also interacting closely with the Government and the SEBI in this regard. Increasing regulatory comfort in regard to standards of governance in banks gives greater confidence to shift from external regulation to internal systems of controls and risk-management. Each of the directors of the banks has a role in continually enhancing the standards of governance in banks through a combination of appropriate knowledge and values. Further, with the revised SEBI guidelines (Clause 49) demanding the listed Indian companies to adopt and follow the CG norms, it becomes necessary for every organization to ensure higher shareholder and stakeholder values. It may be stated here that provisions of the SEBI's "Revised Clause 49 of the Listing Agreement", among other things, deals with composition of the board of directors, the composition and functioning of the audit committee, governance and disclosures regarding subsidiary companies, disclosures by the company, CEO/CFO certification of financial results, and reporting on CG as part of the Annual Report, etc.

Need of Corporate Governance in Banking:

Though banks form a crucial link in a country's financial system and their well-being is imperative for the economy yet economic scandals and recent financial crisis made it essential to investigate the role of Corporate Governance on bank performance.In the Indian context, banks and financial institutions have been making pivotal contributions over the years to nation's economic growth and development.Further, cross-border flows and the entry of new products have significantly influenced the domestic banking sector, forcing banks to adjust the product mix, as also to effect rapid changes in their processes and operations in order to remain competitive in the globalized environment. These developments have facilitated greater choices for consumers who have become more discerning and demanding compelling banks to offer a broader range of products through diverse distribution channels. In such a scenario, implementation of good corporate governance practices in banks can ensure them to cope with the changing environment. As we will notice in the paras that follow, corporate governance means to do everything better and provide for risk assessment, risk cover, early warning systems against failure, frauds, scandals as well as prompt corrective action.

Objectives:

This paper examines the corporate governance practices and their adherence in banking sector with special reference to a sample bank (J&K Bank Ltd). The following are some of the broad objectives of this paper:

1. Examining the meaning of CG and the RBI initiatives;
2. Examining the provisions of the 'Revised Clause 49 of the Listing Agreement';
3. Examining the existing CG Practices of the sample bank;
4. Examining whether the practices in vogue bring changes in the bank in terms of transparency and economic growth; and
5. Examining whether the existing practices ensure protection of stakeholders' rights and interests.

Scope, Period and Methodology:

For the purpose of this paper, a sample bank-the Jammu and Kashmir Bank Limited-has been selected for the case study as it has contributed significantly to the state economy. The bank is a part of both the BSE Sensex and the NSE Nifty. This bank has been selected on the ground that it is the largest private-sector bank where ownership of the state government is dominant (53.17 per cent J&K Government equity shareholdings), and also its share prices (face value being Rs 10) touched a record of Rs 1413.30 in the BSE and Rs 1413.75 in the NSE respectively on 10th December, 2012 where some lakh shares of the Bank were traded. The study pertains to the financial year 2011-12. The reason for selection of the said period is that the easy availability of the Annual Report for the said financial year which was obtained from the corporate headquarters of the bank. This report has been analyzed on the basis of various key parameters required for good corporate governance practices for its compliance with the revised clause 49 of the Listing Agreement with Stock exchange, Corporate Governance Voluntary Guidelines 2009, OECD 2004, Provisions required by the Companies Act, 1956 and Monetary Measures initiated by RBI and its Guidelines on ownership of governance. It is in place to mention here that the transparency in decision making, accountability and responsibility, disclosure of important information, share price movements, and mandatory requirements under Clause 49 are taken as indicators of good corporate governance.

Corporate Governance: Meaning

With the rapid change in the business environment and emergence of new regulations by world bodies like EEC, WTO, OECD, World Bank, etc. the concept of CG is gaining momentum. Corporate governance is a concept rather than an instrument. It focuses on appropriate management and control structure of a company. Also included in the concept are power relations between owners, the board of directors,, management and the stakeholders. Most definitions relate to control of company or managerial conduct. The Cadbury Report (UK) states, 'CG is the system by which businesses are directed and controlled". CG is not just corporate management; it is something much broader to include a fair, efficient and transparent administration to meet some well-defined objectives. It relates to a code of conduct, the management of a company observes while exercising its powers. 'Corporate governance is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors'. In a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various roles/rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. In a broader sense, however, good corporate governance- the extent to which companies is run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare. It is important to note that in both the narrow as well as in the broad definitions, the concepts of disclosure and transparency occupy centre-stage. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders. It is in place to mention here that corporate governance is a subject of significance for both public policy and markets. It is useful to recognize that it is a dynamic concept, in terms of scope, thrust and relevance. For example, the issue is approached very differently today compared to original view of the Cadbury Committee on the subject. East-Asian crisis gave a new dimension to corporate governance in the context of financial stability. In U.S.A., the regulatory regimes, post-corporate scandals, are very different from those of the early 90's. The OECD set out its corporate governance principles in 1999 but revised them in 2004. Basel Committee on Banking Supervision (under the aegis of the BIS) published guidelines on corporate governance in banks in 1999. As an update, in July 2005, the Basel Committee has issued a Consultative Document on enhancing corporate governance for banking organizations, seeking comments by end October 2005.Banking has become complex and it has been recognized that there is a need to attach more importance to qualitative standards such as internal controls and risk management, composition and role of the board and disclosure standards. Corporate Governance has become very important for banks to perform and remain in competition in the era of liberalization and globalization. The corporate governance framework, however, should ensure that timely and accurate disclosure is made on all material matters regarding the corporation/bank, including the financial situation, performance, ownership, and governance of the company.

RBI Initiatives

The formal policy announcement in regard to corporate governance was first made by RBI in the Mid-Term Review of the Monetary and Credit Policy on October 21, 2001. Pursuant to this announcement, a Consultative Group was constituted in November 2001 under the Chairmanship of Dr A.S Ganguly: basically, with a view to strengthen the internal supervisory role of the Boards. As a follow-up of the Ganguly Committee Report, in Mid-Term Review of the Monetary and Credit Policy in November 2003, the concept of 'fit and proper' criteria for directors of banks was formally enunciated, and it included the process of collecting information, exercising due diligence and constitution of a Nomination Committee of the board to scrutinize the declarations made by the bank directors. In this regard, it will be useful to refer to the RBI guidelines on ownership and governance in the private sector banks released recently. It is heartening to note that based on the guidelines issued by RBI, all the banks in the private sector have carried out, through their nomination committees, the exercise of due diligence in respect of the directors on their Boards. The Reserve Bank has withdrawn its nominee directors from almost all the private sector banks. Observers have been appointed as transitional measures mostly in respect of those banks which are yet to fully comply with the Reserve Bank's guidelines of ownership of governance.RBI has suggested bringing public sector banks on par with the private sector banks in this regard. The Government has been requested to keep in view the policy framework for governance in private sector banks. Uniformity in regulatory framework between different categories of banks is formally established. Several amendments to the Banking Regulation Act have been proposed which would enhance RBI's capacity to ensure sound governance especially relevant to the banks, consistent with global best practices. Thus, Reserve Bank is continuously striving to ensure compliance with international standards and best practices of corporate governance in banks as relevant to India. RBI is also interacting closely with the Government and the SEBI in this regard. Increasing regulatory comfort in regard to standards of governance in banks gives greater confidence to shift from external regulation to internal systems of controls and risk-management. Each of the directors of the banks has a role in continually enhancing the standards of governance in banks through a combination of appropriate knowledge and values.

Disclosure of CG and Revised Provisions of Clause 49:

It is an admitted fact that any institution should have a character, culture and interest that are worth pursuing even if they appear to be at variance from the sum of the interests of the individual, or the minority or the majority stakeholders. This naturally speaks of the significance of sound governance in an institution. The major players in the area of corporate governance, within the corporation are corporate board, shareholders and employees. Externally, the pace of corporate governance is set by the government as the regulator, customer and lenders of finance and social ethos of our times. The scope and extent of corporate governance are set by the legal, financial and business framework. Because of the reforms brought about by the regulating authorities in India, Indian companies shall have to comply with the legal framework. This has a favourable impact on corporate disclosure in India. As stated above, provisions of the SEBI's "Revised Clause 49 of the Listing Agreement", among other things, deals with composition of the board of directors, the composition and functioning of the audit committee, governance and disclosures regarding subsidiary companies, disclosures by the company, CEO/CFO certification of financial results, and reporting on CG as part of the Annual Report, etc. Some important aspects of disclosure in CG Report under the Listing Agreement are:-

1. ***Board of Directors:***
   - (i) Composition of Board;
   - (ii) Non-Executive Director's Compensation and Disclosures;
   - (iii) Other Provisions as to Board and Committees; and
   - (iv) Code of Conduct.
2. ***Audit Committee:***
   - (i) Qualified and Independent Audit Committee;
   - (ii) Meeting of Audit Committee;
   - (iii) Powers of Audit Committee;
   - (iv) Role of Audit Committee; and
   - (v) Review of Information by Audit Committee.
3. ***Subsidiary Company:***
4. ***Disclosures:***
   - (i) Basis of Related Party Transactions;
   - (ii) Disclosure of Accounting Treatment;
   - (iii) Risk Management Procedures;
   - (iv) Proceeds from Public Issues, Rights Issues, and Preferential Issues;
   - (v) Remuneration of Directors;
   - (vi) Management; and
   - (vii) Shareholders.

It may be indicated here that the Ministry of Corporate Affairs, has issued Corporate Governance Voluntary Guidelines, 2009. The main provisions of the guidelines are as under:

1. ***Board of Directors:***
   - (i) Appointments of Directors;

(ii) Independent Directors; and
(iii) Remuneration of Directors.

2. ***Responsibilities of the Board:***
   (i) Training of Directors;
   (ii) Enabling quality decision making;
   (iii) Risk Management;
   (iv) Evaluation of Performance of Board of Directors, committees thereof and of individual directors; and
   (v) Board to place systems to ensure compliance with laws.
3. ***Audit Committee of Board:***
   (i) Audit Committee – Constitution;
   (ii) Audit Committee - Enabling powers; and
   (iii) Audit Committee - Role and Responsibilities.
4. ***Auditors:***
   (i) Appointment of Auditors;
   (ii) Certificate of Independence;
   (iii) Rotation of Audit partners and firms;
   (iv) Need for clarity for information to be sought by auditor and/or provided by the company to him/it; and
   (v) Appointment of Internal Auditor.
5. ***Secretarial Audit:***
6. ***Institution of Mechanism for Whistle Blowing.***

Disclosure Practices at J&K Bank

J&K Bank: A Brief Profile

The Jammu and Kashmir Bank Limited, popularly known as J&K Bank started its journey in the year 1938 and in the year 2013 the bank will be celebrating its platinum jubilee. In all these years, the bank has progressed from strength to strength, despite challenges and hardships and continues to make significant strides in all important areas of operation. The total number of branches of the bank as on 31st March 2012 stood at 603. The business strategy of the bank is focused on the socio-economic development of the home state through an exhaustive need-based credit dispensation and selective pan-India quality lending. The process was initiated with a slew of re-engineering processes. The objective is to attain a healthy balance sheet, better asset liability management, optimal asset utilization and redefined systems and procedures to achieve higher efficiency, TQM, better compliance and risk management and real-time monitoring to accelerate decision making. The bank's aggregate business breached a psychological mark and stood at Rs 86,424.32 Crores at FY 2011-12 end from the previous year's figure of Rs 70,869.57 Crores, registering a 22 per cent growth. The total deposits of the bank have grown by Rs 8,670.97 Crores from Rs 44,675.93 Crores as on 31st March 2011 to Rs 53,346.90 Crores as on 31st March 2012, registering a growth of 19.41per cent. The bank continued its prudent approach in expanding quality credit assets in line with its policy on Credit Risk Management. The net advances of the bank increased by Rs 6,883.78 Crores from Rs 26,193.64 Crores as on 31st March 2011 to Rs 33,077.42 Crores as on 31st March 2012, a growth of 26.28 per cent. The bank's performance in the recovery of NPA's during the year continued to be good and robust. Investment portfolio of the bank increased by Rs 1,928.55 Crores from Rs 19,695.77 Crores as 31st March 2011 to Rs 21,624.32 Crores as on 31st March 2012. As far as the income of the bank is concerned, interest income recorded a growth of Rs 1,122.45 Crores during the year 2011-12. The net income from operations (Interest spreads plus non-interest income) has registered a growth of 13.84 per cent. The gross profit for the FY2011-12 stood at Rs 1,370.33 Crores as compared to Rs 1,149.49 Crores in the FY 2010-11, registering a growth of 19.21per cent. The bank registered highest ever Net Profit of Rs 803.25 Crores for the FY2011-12 compared to Rs 615.20 Crores for the FY 2010-11, registering an impressive growth of 30.57 per cent. It is for the first time in the history of J&K Bank that a dividend of 335 per cent has been declared in its 74thAGM held at SKICC on 14th July 2012.It may be indicated here that J&K Bank's vision and endeavour for being a developmental institution, central to the socio-economic development of J&K State, has reaped rich dividends for the bank. The policy enabled the mobilization of low-cost deposits and their deployment in highly productive, but credit-starved sectors of the J&K economy. These sectors, apart from being high-yielding, accelerate the desired diversification of the Bank's credit portfolio and also help fulfil the bank's priority sector obligations. It is a matter of satisfaction that J&K Bank has established a tradition of exemplary practice in Corporate Governance. It encompasses not only regulatory and legal requirements but also several voluntary practices, aimed at a high level of business ethics, effective supervision and enhancement of shareholder value.

Vision:

"To catalyze economic transformation and capitalize on growth". Bank's vision is to engender and catalyze economic transformation of Jammu and Kashmir and capitalize from the growth induced financial prosperity thus engineered. The Bank aspires to make Jammu and Kashmir the most prosperous state in the country, by helping create a new financial architecture for the J&K economy, at the center of which will be the J&K Bank. At the same time, bank wants to expand its existing network in other states of the country which offer better potential for the Banking.

Mission:

Bank's mission is two-fold: i) to provide the people of J&K international quality financial service and solutions; and ii) to be a super-specialist Bank in the rest of the country. "The two together will make us the most profitable Bank in the country".

Corporate Governance Disclosures:

Effective and timely disclosure enhances a bank's reputation for integrity and gives investors and others confidence in its financial reporting. Shareholders and potential investors require reliable, consistently presented information in order to assess management performance and strategy, and from there to make informed decisions when they vote their shares. There are three key areas of disclosure:

- ✓ Financial performance;
- ✓ Financial and non-financial risk exposure; and
- ✓ Corporate governance standards.

From the Annual Report, it is observed that J&K Bank has been committed to all the basic tenets of good Corporate Governance well before the Securities and Exchange Board of India and the Stock Exchanges pursuant to Clause 49 of the Listing Agreement mandated these. Now, it is bank's endeavour to go beyond the letter of Corporate Governance codes and apply it innovatively in a more meaningful manner, thereby making it relevant to the organization that is operating in a specific environment.

In line with its vision, J&K Bank wants to use Corporate Governance innovatively in a transitional economy like Jammu and Kashmir. The Bank wants to use Corporate Governance as an instrument of economic and social transformation. But in due course, bank must set its self-targets of social and economic reporting as a part of annual disclosures. This will help it conceptualize and contextualize the form and content of Corporate Governance in a developing state. Given the fact that J&K Bank is and is seen as a great success of "public-private partnership", the Bank as a business is expected to play a role in social transformation of the economy. This lends urgency to implementation of good governance practices which go beyond the Corporate Governance code.

The bank, as the prime corporation of Jammu and Kashmir, has a focused interest in making the state a safe place for business. J&K Bank has a key role to play in providing public and private services, financial infrastructure and employment. As such, the efficiency and accountability of the corporation is a matter of both private and public interest and the Governance, therefore, comes at the top of the agenda. The fact that the bank is state owned but professionally managed, having a large size of international investors, governance is critical. For the bank, Corporate Governance is concerned with the systems of laws, regulations and practices, which will promote enterprise, ensure accountability and trigger performance. The J&K Bank, for one, stands for being more accountable, practice self-policing and make financial transactions transparent and constitutional.

Board of Directors

The responsibility for good governance rests on the Corporate Board which has the primary duty of ensuring that principles of Corporate Governance, both as imbibed in law and regulations and those expected by stakeholders, are religiously and voluntarily complied with and the stakeholder's interests are kept at utmost high level. The Bank's Board of Directors comprises a judicious mix of Executive, Non-Executive and Independent Directors as per the Corporate Governance requirements. Appreciating the fact that Board Composition is key to Corporate Governance, the Board of Directors of the Bank consists of eminent persons with considerable professional experience and expertise in Banking, Finance, Economics, Industry, Law etc., combining their wide ranging experiences to impart values and provide direction to Bank's development. The Board is professional and an active Board which meets frequently during the year to chart out policies and practices. The present strength of the Board is eight comprising of Chairman/CEO and seven Non- Executive Directors.

The Bank's Board plays a pivotal role in ensuring good governance. Its style of functioning is democratic. The Members of the Board always have complete freedom to express their opinion and decisions are taken on the basis of a consensus arrived at after detailed discussion. The members are also free to bring up any matter for discussion at Board Meetings with the permission of Chairman. The day-to-day management of the Bank is conducted by the Chairman & CEO, subject to the supervision and control of the Board of Directors. The functions performed by the Board of the Bank for efficient and effective utilization of resources at their disposal to achieve the goals visualized, inter-alia, include setting Corporate Missions, laying down Corporate Philosophy, formulation of Strategic and other Business Plans, laying down of Control Measures and compliance with Laws and Regulations.

It is in place to mention here that all the major issues included in the agenda for discussion in the Board, are backed by comprehensive background information to enable the Board to take informed decisions. Agenda papers are generally circulated seven working days prior to the meeting of the Board. Also the Board agenda contains the Compliance Report of all the decisions taken at the previous Board Meeting. The Members of the Board exercise due diligence in performance of the functions as Directors of the Bank and follow highest degree of business ethics, transparent practices and code of good governance amidst cordial environment. During the year under review, eleven Board Meetings were held, in due compliance with statutory provisions. It is pertinent to note that the Board of the Company has in all its endeavour ensured that true and fair disclosures are made to its constituents through various publications regarding plans, strategies and performance. The Board disclosed that:-

- The Executive Management of Bank regularly places various reviews before the Board on the performance of the Bank so as to enable it to exercise effective control and check over the working of the Bank;
- Bank has not entered into any materially significant transaction with its Directors, Management or with their Relatives, other than the normal course of business of the Bank;
- All Directors of Bank except State Govt nominees are Non-Executive and Independent Directors within the meaning of clause 49 of Listing Agreement;
- The Bank did not enter into any material related party transaction with its Directors or Management or their Relatives that would potentially conflict with and adversely affect interests of the Bank;
- The Directors did not incur any disqualification under Section 274(l) (g) of the Companies Act, 1956 or under any other law applicable to the Bank;
- None of the Directors of the Bank are holding positions as Chairman of more than five and as a Member of more than ten Audit, Remuneration and Shareholders Grievance Committees;
- The Bank has complied with Corporate Governance norms as stipulated by SEBI; and
- The Bank has complied with all applicable accounting standards and related RBI guidelines.

Audit Committee

Bank has constituted an Audit Committee of the Board (ACB) comprising of 4 Non-Executive Independent Directors. The main functions of the Audit Committee are to assess and review the financial reporting system of the Bank, to ensure that the Financial Statements of the Bank are correct, sufficient and credible. It addresses itself to matters pertaining to adequacy of internal controls, reliability of financial statements / other management information, adequacy of provisions, whether the audit tests are appropriate and scientifically carried out. It follows up on all issues raised in the Long Form Audit Report and interacts with External Auditors before finalization of Annual Financial Accounts and Reports focusing primarily on accounting policies and practices, major accounting entries and compliance with the Accounting Standards. The Committee also reviews the adequacy of Internal Control System and holds discussions with Internal Auditors / Inspectors on any significant finding and follow up action thereon. It also reviews the financial and risk management policies of the Bank and evaluates the findings of any internal investigation where there is any suspected fraud or irregularity or failure of Internal Control System of material nature and reports to the Board. ACB also focuses on the follow up of inter-branch adjustment accounts and other major areas of Balancing of Books and House Keeping. The Audit Committee of the Board consists of four members, one acting as chairman.

The Audit Committee met fourteen times during the year in due compliance with RBI and Listing Agreement requirements.

Management Committee

The Management Committee of the Board considers various business matters of material significance like sanctioning of loan proposals, compromise / write-off cases, sanction of capital and revenue expenditures, etc. It comprises CEO/Chairman and 5 members. The Management Committee met nine times during the year.

Integrated Risk Management Committee

Bank has constituted an Integrated Risk Management Committee to manage market risk, credit risk and operational risk in an integrated and efficient manner and the Committee performs the following essential functions:

- Identify, monitor and measure the risk profile of the Bank;
- Develop policies and procedures, verify the models that are used for pricing complex products and also identify new risks;
- Develop policies that clearly spell out the quantitative prudential limits on various segments of Bank's operations; and
- Effectively communicate the risk strategy and policies throughout the organization Composition, Meetings and Attendance. The Committee consists of: Chairman and three members.
  The Integrated Risk Management Committee met three times during the year

Shareholders / Investors Grievance Committee

Bank has constituted a Committee designated as Shareholders Investors Grievance Committee which looks into redressing of Shareholders and Investors Complaints.All Shareholders' / Investors' Grievances / Correspondence are expeditiously attended to and the replies sent generally within a period of 7 days of receipt. No share transfer beyond 30 days was pending as on 31st March, 2012. All requests for dematerialization of shares are likewise processed and confirmation communicated to Investors and Depository Participants within five working days.During the year 396 service requests / complaints were received and all these service requests / complaints stand redressed.Shareholders / Investors Grievance Committee consists of three directors, one acting as chairman.Shareholders / Investors Grievance Committee met three times during the year.

Other Committees

Monitoring of Large Value Frauds Committee

This Committee has been constituted pursuant to RBI directions to monitor the fraud cases involving an amount of Rs 1 Crore and above.The Committee consists of: chairman of the Bank and 4 members. This committee met three times during the year;

Nomination Committee

The Nomination Committee of the Board has been constituted in pursuance to the directions of RBI, for implementation of Ganguly Committee Recommendations with a view to decide the fit and proper person criteria for appointment / continuing to hold office of Director in the Bank. The Committee consists of Chairman/CEO and two members. The Committee met three times during the year;

Customer Service Committee

The Committee has been constituted with a view to look into matters relating to customer complaints and speedy redressal thereof. The Committee consists of: Bank Chairman and three members. The Committee met three times during the year;

Information Technology Committee

Bank has constituted IT Committee, with a view to monitor the progress of effective assimilation and speedy implementation of Information Technology in the Bank. The Committee consists of Chairman/CEO and two members. The Committee met three times during the year.

Legal Committee

Bank has constituted a Legal Committee to take review of legal and suit filed cases. The Committee consists of four members, one acting as chairman. It met five times during the year

Estates Committee

Bank has constituted the Estates Committee to evaluate, negotiate and finalize purchase and lease of premises for Bank's branches/offices and staff quarters, within and outside the state. The Committee consists of three persons one acting as chairman. This Committee met three times during the year; and

Compensation Committee

Bank has constituted the Compensation Committee to consider and approve the amount of performance linked incentives to be paid to Chairman and Senior Executives of the Bank and framing the guidelines for the introduction and management of Employee Stock Option Scheme. The Committee consists of three members one acting as chairman.

Remuneration Policy

(a) Chairman/CEO: Monthly Remuneration being paid to the Chief Executive Officer / Whole-time Directors is subject to approval of Reserve Bank of India in terms of Section 35B of the Banking Regulation Act, 1949; and

(b) Non - Executive Directors: Non - Executive Directors other than the State Govt, and RBI nominated Directors are paid only sitting fees for the meetings attended.

Other Disclosures

(a) Code of conduct for Board members and Senior Management Personnel: The Board of directors has approved a code for board members and senior management personnel of J&K bank. In terms of Revised clause of 49 of the Listing agreement, a confirmation from the Chairman and CEO regarding compliance with the code by all the Directors and senior management has been furnished by the Chairman and CEO;

(b) CEO/CFO Certification: In terms of Revised Clause of 49 of the Listing Agreement, the certification by the CEO/CFO on the financial statements and internal controls relating to financial reporting has been obtained;

(c) Insider Trading Code: Bank has formulated a code for prevention of Insider Trading pursuant to SEBI (Prohibition of Insider Trading) Amendment Regulations 2002 to prevent practices of Insider Trading;

(d) Ethical Corporate policy for Acceptance of Gifts: Bank has introduced Corporate Ethical policy for setting forth code of accountability of J&K Bank's Directors, officers and Employees in the discharge and performance of their responsibilities; and

(e) Ethical Standards Employed by the Bank: The bank has formulated service manual for its employees. This manual contains comprehensive regulations on ethical standards to be mandatorily observed by all the employees of the bank.

Concluding Remarks

Banks and financial institutions have been making pivotal contributions over the years to a nation's economic growth and development. The banking industry in developing, emerging and transitional economies is mostly owned by government. This being so, banks are mostly guided by government bodies and many laws based on stereotype procedures. The accountability idea is less apparent as the concept of government job discourages the spirit of competition. The need for corporate governance in such economies not only arises from resolving problems of ownership and control, but also from ensuring transparency in achieving the desired goal of corporate governance. However, economic scandals and the recent financial crisis made it essential to investigate the role of Corporate Governance on bank performance. The concept of corporate governance is centuries old but it has gained a lot of momentum in last two decades in India. In essence, corporate governance is the system by which companies are directed and controlled. J&K Bank has established a tradition of exemplary practice in Corporate Governance. It encompasses not only regulatory and legal requirements, but also several voluntary practices, aimed at a high level of business ethics, effective supervision and enhancement of shareholder value.

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